UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	Lead Case No. 02-C-5893 (Consolidated) CLASS ACTION Honorable Jorge L. Alonso

DECLARATION OF LUKE O. BROOKS IN SUPPORT OF PLAINTIFFS' OPPOSITION TO DEFENDANTS' MOTION TO EXCLUDE THE TESTIMONY OF PLAINTIFFS' EXPERT PROFESSOR DANIEL R. FISCHEL

I, Luke O. Brooks, declare as follows:

1. I am an attorney duly licensed to practice before all of the courts of the State of California and I am also admitted *pro hac vice* in this Court for this action. I am a member of the law firm of Robbins Geller Rudman & Dowd LLP, Lead Counsel of record for plaintiffs in the above-entitled action. I have personal knowledge of the matters stated herein and, if called upon, I could and would competently testify thereto.

2. Attached are true and correct copies of the following exhibits:

Exhibit 1: Second Rebuttal Report of Daniel R. Fischel dated November 23, 2015;

Exhibit 2: Second Supplemental Report of Daniel R. Fischel dated September 22, 2015;

Exhibit 3: Report of Daniel R. Fischel dated August 15, 2007;

Exhibit 4: Excerpts from the Testimony of Daniel R. Fischel from the *Household Int'l* trial;

Exhibit 5: Rebuttal Report of Daniel R. Fischel dated February 1, 2008;

Exhibit 6: Excerpts from the Transcript to the deposition of Daniel R. Fischel taken March 21, 2008;

Exhibit 7: Excerpt from Defendants' Trial Demonstrative 799-0;

Exhibit 8: Household International's Investor Relations Report, May-August 2002 [Plaintiffs' Trial Ex. 198];

Exhibit 9: Household International's Investor Relations Report, November-December 2001 [Plaintiffs' Trial Ex. 820];

Exhibit 10: August 30, 2002 e-mail from Donna L. Taillon to Craig Streem and Thomas Detelich re: Tom [Plaintiffs' Trial Ex. 1156];

Exhibit 11: Excerpt from the Testimony of Craig Alan Streem from the *Household Int'l* trial dated April 9, 2009;

Exhibit 12: Table of arguments previously raised by defendants;

Exhibit 13: Exhibit 2 to Second Supplemental Report of Daniel R. Fischel, dated September 22, 2015;

Exhibit 14: Fischel, Daniel, R., *Use of Modern Theory in Securities Fraud Cases Involving Actively Traded Securities*, 38 Bus. Law 1 (Nov. 1982); and

Exhibit 15: Supplemental Report of Daniel R. Fischel dated February 10, 2009.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed this 23rd day of November, 2015 at San Diego, California.

s/ Luke O. Brooks

LUKE O. BROOKS

CERTIFICATE OF SERVICE

I hereby certify that on November 23, 2015, I authorized the electronic filing of the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the e-mail addresses denoted on the attached Electronic Mail Notice List.

I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on November 23, 2015.

s/ Luke O. Brooks

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EXHIBIT 1

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

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LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	)	Lead Case No. 02-C-5893 (Consolidated) CLASS ACTION Honorable Jorge L. Alonso

SECOND REBUTTAL REPORT OF DANIEL R. FISCHEL

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I. INTRODUCTION

1. On September 22, 2015, I submitted the Second Supplemental Report of Daniel R. Fischel ("Fischel 2nd Supplemental") which comprised over 800 pages of text, exhibits, and appendices, and referred to over 15,000 pages of market evidence consisting of Company statements, news articles, and analyst reports.[1] In that report, I explained the basis for my opinion that beginning on March 28, 2001, no adjustment is required to the Quantification Including Leakage analysis of inflation that I presented at trial due to *significant* firm-specific, nonfraud related information.[2] Fischel 2nd Supplemental § III. More specifically, I identified 27 days that were not included in my Quantification Using Specific Disclosures on which Household experienced a statistically significant stock price decline during the Leakage Period. For these 27 days, I explained the fraud related information disclosed on these days that was consistent with leakage. I also evaluated the nonfraud related information contained in the more than 15,000 pages of market evidence for these days, referred to this evidence, and after reviewing it concluded that with the exception of January 11, 2002,[3] significant firm-specific, nonfraud related information could not reasonably explain any of these price declines.[4]

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1. The Fischel 2nd Supplemental incorporates by reference all three of my prior reports and my trial testimony in this matter. The reports define capitalized terms.
2. I also explained the basis for my opinion that for the three trading days prior to March 28, 2001, a reasonable estimate of the effect of predatory lending alone is at least $3.06 per share. Fischel 2nd Supplemental § IV.
3. With respect to January 11, 2002, I explained that the firm-specific, nonfraud related information that could reasonably explain the price decline on that date was canceled out by positive firm-specific nonfraud related information just two trading days later. *Id.* ¶¶ 6-8.
4. This approach follows the standard event study methodology discussed in the academic literature for analyzing price changes following information disclosures. *See*, e.g., M. Mitchell and J. Netter, "The Role of Financial Economics in Securities Fraud Cases," *The Business Lawyer*, February 1994 at 556-557, which states: "An event study is a statistical technique that estimates the stock price impact of occurrences such as mergers, earnings announcements, and so forth. The basic notion is to disentangle the effects of two types of information on stock

2. In response to the Fischel 2nd Supplemental, Defendants submitted three different expert reports: the Expert Report of Professor Allen Ferrell (the "Ferrell Report"); the Expert Report of Professor Christopher M. James (the "James Report"); and the Expert Report of Professor Bradford Cornell (the "Cornell Report").

3. Professor Ferrell opines, among other things, that his "review of the available market evidence documents the presence of *significant* firm-specific, nonfraud information, which Professor Fischel fails to address, let alone account for, throughout the leakage period...." Ferrell Report ¶ 15 (emphasis added). Professor Ferrell first defines firm-specific, nonfraud information as: "information that impacts narrower segments of the financial services industry important to Household and that is not captured by Professor Fischel's industry index"; "statistical (or random) noise"; or "factors specific to Household alone." *Id.* ¶¶ 28-29. He then broadly discusses certain information he claims is firm-specific, nonfraud information, such as "the economic downturn" which was "particularly hard on financial institutions, such as Household, serving primarily subprime customers" and caused "concerns regarding credit quality [that] plagued Household throughout the leakage period." *Id.* ¶¶ 44-47. Professor Ferrell also claims that "the funding environment was volatile during the leakage period" and that "Household felt increasing regulatory pressure directed at firms with subprime exposure." *Id.* ¶¶ 49-54.

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prices—information that is specific to the firm under question (e.g., dividend announcement) and information that is likely to affect stock prices marketwide (e.g., change in interest rates)…. The execution of an event study is quite simple. It involves the identification of an event that causes investors to change their expectations about the value of a firm." *See also* M.S. Thorsen et al., "Rediscovering the Economics of Loss Causation," 6 *J. Bus. & Sec. Law* (2006) at 110, an article specifically cited by the District Court (*see infra* ¶126 n.68), which states: "An event study can be thought of as involving three interrelated stages. The first is [a] review of all available public information, on a qualitative basis, to identify what investors would find 'material.' This stage is guided by economic principles, literature, and the experience of the researcher. This information can come from analysts' reports, press releases, securities filings, news articles (newspapers and daily publications, as well as more general publications) ….."

Professor Ferrell then proceeds to provide examples of purported "firm-specific, nonfraud information that *could have* affected Household's stock price" on the 27 dates I discussed in detail in the Fischel 2nd Supplemental and on six of the 14 dates in my Quantification Using Specific Disclosures. *Id.* ¶¶ 56-111 (emphasis added). Professor Ferrell also opines that my Quantification Including Leakage improperly includes days on which there was not a statistically significant stock price return because "firm-specific random noise could be the reason for the price movement." *Id.* ¶ 112.

4. Professor James purports to identify in his report "factors that were especially important ... that *may have* disproportionately affected Household relative to indices such as the S&P 500 Index or the S&P Financials Index" during the Leakage Period. James Report ¶ 9 (emphasis added). Specifically, Professor James opines that "the economic downturn and regulatory changes affecting financial institutions with subprime customers" were nonfraud factors "that *could have* affected, and based on my industry experience, likely did affect, the stock price of Household and similar subprime lenders …." *Id.* ¶¶ 11 & 58 (emphasis added).

5. Professor Cornell previously submitted an affidavit in this matter (the "Cornell Affidavit") in support of Defendants' pre-trial Daubert Motion in which he criticized my Quantification Including Leakage.[5] I understand that the original Daubert challenge was rejected by the District Court. Professor Cornell's latest report repeats his previously rejected criticisms of my Quantification Including Leakage that he originally advanced in the Cornell Affidavit. In particular, the Cornell Report again claims my Quantification Including Leakage "does not take account of firm-specific factors" because "it attributes any decline in the security price that is not

5. The Cornell Affidavit is dated October 30, 2008. Professor Cornell submitted an additional affidavit in this matter dated October 13, 2011.

due to the movements in the market or the industry to disclosure of the fraud." Cornell Report ¶ 16.[6]

6. I have been asked by counsel for Plaintiffs to review and respond to these reports.[7] Based on my review and analysis, I have reached the following principal conclusions:

- Professor Ferrell's conclusion that no leakage date is properly considered in calculating inflation under the Quantification Including Leakage is implausible on its face given the massive evidence of leakage of the fraud by Household as acknowledged by market participants, admitted by the Defendants, found by the jury, and affirmed by the 7th Circuit Court of Appeals. Moreover, Professor Ferrell's analysis of specific dates (including the dates in my Quantification Using Specific Disclosures) is fundamentally flawed because, among other reasons, he misunderstands the difference between industry information (which is controlled for via regression analysis) and firm-specific information, and he incorrectly characterizes fraud-related disclosures as unrelated to the fraud.

- Professor James' analysis is nothing more than a series of speculations about industry-related developments (that he too mischaracterizes as firm-specific information), which even if taken at face value, prove nothing as he himself recognizes.

- Professor Cornell's criticisms of my Quantification Including Leakage are also fundamentally flawed because he ignores the massive evidence of leakage and fails to identify any significant firm-specific, nonfraud related information that can reasonably explain Household's stock price underperformance.

Consequently, none of Defendants' new experts identify any firm-specific, nonfraud related information that "significantly distorted" my Quantification Including Leakage, the test identified by the Appellate Court.[8] I elaborate below, but first begin with a discussion of the substantial evidence of leakage in this case.

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6. *Compare with* Cornell Affidavit at 5.
7. I have been assisted by Compass Lexecon's staff. The materials I have relied upon in reaching the conclusions contained in this report are cited herein and in the prior Fischel Reports.
8. Appellate Opinion at 22 & 24.

II. EVIDENCE OF LEAKAGE

7. As Professor Cornell acknowledges in his published work, the existence of leakage is widely recognized in the academic literature.[9] For example, Ragothaman and Bublitz state: "… market agents learn about valuation-relevant events from many sources over a long period of time. Specifying a date when information reaches the market is not always feasible; information can reach the market gradually through many sources."[10]

8. This is precisely such a case. As I explained in the Fischel 2nd Supplemental and documented in my prior reports and trial testimony, there is substantial evidence of leakage of the fraud in this matter, including a continuous flow of information about the fraud that occurred in the face of ongoing Company denials.[11] In fact, consistent with a continuous flow of fraud-related leakage and as I testified at trial, Defendants themselves produced an analysis at trial identifying 93 days on which fraud-related information was disclosed during the Leakage Period.[12] As this leakage occurred, Household's stock substantially underperformed the market and industry indexes to which the Company compared its own stock price performance. Fischel Report ¶ 29. I also documented that market participants attributed Household's stock price underperformance to the

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9. B. Cornell and R.G. Morgan, "Using Finance Theory to Measure Damages in Fraud on the Market Cases," *UCLA Law Review*, Vol. 37, 1990 ("Cornell & Morgan") at 905, citing Jarrell, "Stock Trading Before the Announcement of Tender Offers: Insider Trading or Market Anticipation," 5 *J. Law Econ. & Org.* 255 (1989) and Malatesta & Thompson, "Partially Anticipated Events: A Model of Stock Price Reactions with an Application to Corporate Acquisitions," 14 *J. Fin. Econ.* 237, 240 (1985).
10. S. Ragothaman and B. Bublitz, "An Empirical Analysis of the Impact of Asset Writedown Disclosures on Stockholder Wealth," *Quarterly Journal of Business and Economics*, June 1996, at 33.
11. For example, information about the WA Report leaked out in mid-2002 despite Household winning a temporary injunction suppressing its release, while at the same time calling the report a "draft" with "factual errors." Fischel Report ¶¶ 16-18.
12. Defendants' analysis includes 166 dates, 93 of which are in the Leakage Period. 79 of the 93 dates are not included in my Specific Disclosures analysis. If I include the additional 79 dates (93 dates identified by Defendants minus the 14 specific disclosure dates) as specific disclosures, my estimate of inflation under the Specific Disclosures Model increases by more than $7 per share, as I testified at trial. Trial Transcript 2628:22-2629:12.

fraud. *See*, e.g., *id.* ¶ 28. In addition, I understand Defendants themselves attributed the stock price underperformance to the fraud. For example, Defendant Aldinger admitted after the end of the Leakage Period that fraud allegations caused Household's weak share price and higher borrowing costs.[13] *See* Exhibit 1.

A. Defendants' New Experts Incorrectly Rely on Market and Industry Factors to Explain Household's Underperformance

9. In its opinion, the 7th Circuit Court of Appeals stated that "the defendants haven't identified any firm-specific, nonfraud related information that could have *significantly distorted* [my] model." Appellate Opinion at 22 (emphasis added). Defendants' new experts likewise fail to identify firm-specific, nonfraud related information that "significantly distorted" my model. Rather, they speculate that Household's underperformance is explained by various market and industry factors which they claim are not captured by my model, specifically the effects of macroeconomic factors on consumer finance firms, including those with subprime customers.[14] Ferrell Report ¶¶ 33-55 & James Report ¶¶ 21-57.

10. Defendants' new experts' reliance on market and industry factors to explain leakage and Household's relative stock price underperformance is flawed for multiple reasons. First, these factors cannot possibly demonstrate the existence of "firm-specific, nonfraud related information that significantly distorted [my] model" precisely because market and industry factors

13. As another example, I understand that Defendant Aldinger testified at trial that "Clearly, the concerns about regulatory issues were dragging our stock price down…." Trial Transcript 3331:16-22. I also note that the Appellate Court stated that plaintiffs "introduced e-mails and reports from Household executives attributing the entirety of the stock's decline to the fraud-related disclosures, and the record contains various reports from market analysts primarily focused on this information." Appellate Opinion at 18.

14. Significantly, Defendants' prior expert Mukesh Bajaj already made this exact argument at trial but the jury rejected it. Bajaj Report at 80-82 & Trial Transcript 4138:6-4139:13. I also note that the Appellate Court stated that "Fischel's models controlled for market and industry factors and general trends in the economy—the regression analysis took care of that." Appellate Opinion at 20.

are by definition not firm-specific. I specifically tested whether market and industry factors can explain Household's underperformance by including these factors in the regression analysis underlying my event study. The industry index that I used in my model, the S&P Financials Index, was the index that the Company itself identified as the appropriate industry index. Fischel Report ¶ 29 n.10 citing Household's Proxy Statement dated April 9, 2002 at 16. By contrast, the groups of consumer finance firms presented in the Ferrell and James Reports were nowhere identified by Household as appropriate peer indexes against which its stock price performance should be compared.

11. Moreover, Professor Ferrell's and Professor James' analyses of market and industry factors, even on their own terms, cannot explain the Company's underperformance. Professor Ferrell states that "Household's peers comprised other consumer or specialty finance companies, particularly those with a subprime customer focus" and lists the firms in the "Credit Suisse First Boston (CSFB) Specialty Finance Universe." Ferrell Report ¶ 42. Similarly, Professor James singles out four firms (other than Household) in the consumer finance subsector of the S&P Financials Index, half of which are firms that Professor Ferrell identified as having "engaged in substantial subprime lending and/or targeted subprime customers." *Id.* & James Report Exhibit 4. To test the relevance of these additional industry indexes, I first analyzed whether Household's stock price underperformed these groups of firms during the Leakage Period. Exhibit 2 shows that the Company's stock substantially underperformed these indexes during this period; Household's stock fell 53 percent while indexes of the firms identified by Professors Ferrell and James declined by 19 percent and 16 percent, respectively.[15] This exhibit also shows

15. Professor Ferrell identifies nine firms in the CSFB Specialty Finance Universe. Ferrell Report ¶ 42. One of these firms, The CIT Group, was not publicly traded for much of the Leakage Period; it was spun-off by Tyco International ("Tyco") in July 2002. Excluding this firm from

that both of these indexes outperformed the S&P Financials Index (which fell 21 percent), indicating that the peer index identified by the Company that I employed in my model appropriately captures the effects of macroeconomic conditions on consumer finance firms, including those that Professor Ferrell states were engaged in substantial subprime lending.

12. I then analyzed whether inclusion of either of these indexes in the event study underlying the leakage model significantly distorts the results. Specifically, I separately added each index to my leakage model and recalculated the true value line. Exhibit 3 presents the results and shows that for most of the Leakage Period, the true value line is *lower* when I include either index; hence, the amount of artificial inflation (the difference between Household's stock price and the true value line) – and thus damages – is *higher*. In fact, if I had incorporated indexes of the peer firms in the Ferrell Report or the James Report into my model, the amount of capped artificial inflation prior to the Leakage Period would have been $27.52 and $27.60, respectively, substantially higher than the $23.94 cap under my model. Consequently, I find that my model was not "significantly distorted" by failing to account for these additional industry indexes, which were never identified by Household and are not firm-specific in any event.

B. Defendants' New Experts Incorrectly Characterize Fraud Related Disclosures as Firm-Specific Disclosures Unrelated to the Fraud

13. Professors Ferrell and James claim that liquidity, capital access, and widening bond spread issues constitute significant firm-specific, nonfraud related information that was revealed during the Leakage Period.[16] However, they fail to establish that any of these issues resulted from firm-specific, nonfraud factors. To the contrary, market participants and Defendants

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the index of firms identified by Professor Ferrell produces results that are substantially similar to those reported in the text.

16. Ferrell Report ¶ 49 and James Report ¶¶ 38-42. Professor Cornell also claims that liquidity issues are not related to the fraud. Cornell Report ¶ 22.

themselves linked these issues directly to the fraud. For example, a press release dated October 11, 2002 issued by Moody's Investors Service states: "the cloud of uncertainty surrounding Household's potential legal liability for alleged 'predatory lending' abuses pushed the company's bond spreads out to unprecedented levels and raised market concerns about funding access over time. The rating agency said that the agreement should enable the company to take the issue off the table and enable investors to focus on Household's operating fundamentals, which remain sound despite the challenges of a soft economic environment." *See* Exhibit 4.[17] And, as noted *supra* ¶ 8, Defendant Aldinger specifically attributed the Company's higher borrowing costs to the fraud.[18]

14. Professors Ferrell and James also claim that regulatory changes were nonfraud related events that may have negatively impacted Household's stock price during the Leakage Period. Ferrell Report ¶¶ 50-55 and James Report ¶¶ 43-57. But both experts ignore that the Defendants themselves denied that the regulatory changes had any effect on the Company's business.[19, 20] Moreover, neither expert establishes that, even if market participants believed the

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17. *See also* Exhibits 5 & 6, which discuss the decrease in Household's bond spreads following the October 11, 2002 announcement of Household's settlement with state attorneys general over the Company's predatory lending practices and further demonstrate that the prior widening of the bond spreads was caused by the fraud.
18. I discuss Household's liquidity issues further *infra* ¶¶ 24-25.
19. For example, when asked about state predatory lending laws during a conference call with analysts, Household CEO Bill Aldinger stated:

    > A number of states in the last year have enacted what they call predatory lending statutes that were really, [in] some cases, appropriate. … We expect more states to do it. The impact on us of those changed laws has been virtually nill [*sic*] or minimal. … our growth rate is tremendous in the branch[es], looking at 15% annualized growth rate, high revenue growth and roas [*sic*] in the 2%. So, we would say that state legislation to date has not impacted the returns or the business model. … We would expect more states to follow on because it is a great political issue, but we don't think that it's going to impact our model because of the way we've positioned our best practices and because of the 124-year history.

    See Exhibit 7.

regulatory changes had an effect on Household's business, the changes were firm-specific and unrelated to the fraud. For example, Professors Ferrell and James ignore that, as I described in the Fischel 2nd Supplemental, the Bernstein Research report that both quote from (*see supra* n.20) also stated that "the new laws increase the risk of settlement costs for new and ongoing complaints." Fischel 2nd Supplemental ¶ 24. Further, both experts ignore that following the disclosure of the WA Report, these same Bernstein Research analysts wrote that the WA Report "indicates that confusing sales practices in the Household branch system are more widespread than a few renegade loan officers, and quite possibly systemic," the necessary sales practice reforms will force Household "to reset is long-run EPS growth target of 13-15% to 10-12%," and the Company's problems could become even more severe if, among other things, "Household faces waves of prepayment as … heightened publicity alerts customers to the high cost of their loans." *See* Exhibit 8.

C. Household's Business Performance Cannot Explain Leakage

15. Professors Ferrell and James claim that the deteriorating credit quality of Household's loan portfolios was significant firm-specific, nonfraud information that may have negatively impacted Household's stock price during the Leakage Period. Ferrell Report ¶¶ 47-48 and James Report ¶¶ 31-37. Yet, they ignore all of the positive announcements Household made

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20. There is also no reason to believe that these statutes had any effect on Household's stock price during the Leakage Period. Professors Ferrell and James use the same quote from a Bernstein Research report that "[a]s states like North Carolina, California and Georgia pass progressively more restrictive [predatory lending] laws, lenders face an increasing need for the protection of uniform standards in preemptive federal legislation." Ferrell Report ¶ 54 & James Report ¶ 51. However, both ignore that James Report Exhibit 14 shows predatory lending laws in North Carolina and California were passed before the Leakage Period began and so were already incorporated into Household's stock price before my leakage analysis began. Moreover, Georgia passed a law relating to predatory lending in April 2002 but neither expert provides any evidence to show that this (or any other) law had an effect on Household's stock price during the Leakage Period.

during the Leakage Period, which demonstrate that the Company did not disclose negative firm-specific, nonfraud related information about its business performance that can explain its underperformance.[21] For example:

- On January 16, 2002, Household issued a press release touting the "Highest Quarterly and Annual Net Income in Company History" which quoted Defendant Aldinger: "Household's fourth quarter results were simply outstanding … Receivable and revenue growth exceeded our expectations while credit indicators weakened only modestly in a tough economic environment. … In 2001, we demonstrated that our business model generates superior results in a weak economy as well as in the strong economic periods of previous years. Exceptional revenue growth of 18 percent more than offset the increases in credit losses during the year." *See* Exhibit 9.

- In an April 17, 2002 press release, Household reported "Record First Quarter Net Income," and Defendant Aldinger stated: "Household turned in a very strong first quarter … Our credit quality performance was well within our expectations in light of the continued weakness in the economy." *See* Exhibit 10.

- In a press release dated July 17, 2002 touting the Company's "Sixteenth Consecutive Record Quarter," Defendant Aldinger stated: "[t]he company's operating performance has been very strong in the first half of 2002, and, although the economic environment is likely to remain uncertain, we believe our businesses are well-positioned for the remainder of the year." *See* Exhibit 11.

- Household's press release dated October 16, 2002 stated: "'Household's operating results this year have been strong, even as the economic environment remains challenging,' said William F. Aldinger, chairman and chief executive officer. 'In the third quarter, receivable and revenue growth were solid, credit performance was within our expectations and we further strengthened our reserves in the face of the prolonged weakness in the U.S. economy.'" *See* Exhibit 12.

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21. Professors Ferrell and James also fail to establish that the purportedly deteriorating credit quality of Household's loan portfolios was both firm-specific information not controlled for by my event study (*see supra* ¶¶ 9-12) and nonfraud information unrelated to Household's re-aging practices. As explained *infra* ¶ 115, CIBC analysts explained that "mounting credit quality concerns related to Household's loan workout and re-aging practices have also been a drag on the stock." I also note that the Appellate Court stated that the Company's "growth was driven by predatory lending practices. This in turn increased the delinquency rate of Household's loans, which the executives then tried to mask with creative accounting. Their technique was to 're-age' delinquent loans to distort a popular metric that investors use to gauge the quality of loan portfolios: the percentage of loans that are two or more months delinquent." Appellate Opinion at 3.

16. Moreover, each of the Company's quarterly earnings announcements during the Leakage Period met or exceeded analysts' consensus earnings estimates.[22] This strong business performance was also discussed by market participants. For example:

- A November 2, 2001 *Investor's Business Daily* article stated: "today, pure credit card companies such as MBNA, Capital One Financial Co. and Providian Financial Corp. face mounting credit losses. Household, with its more stable portfolio of loans, is projecting 15% earnings growth this year and next." *See* Exhibit 16.

- A July 18, 2002 report by analysts at Deutsche Bank stated: "the fundamentals at the company remain solid. Company guidance remains the same even in the tough economic environment. We continue to rate the shares Strong Buy." *See* Exhibit 17.

- A September 22, 2002 CIBC analyst report stated: "We have lowered our price target for HI to $36 from $57 given persistent headline risk which may further pressure the valuation, *despite the strong outlook*." *See* Exhibit 18 (emphasis added).

Further, analysts at Prudential Financial acknowledged in a report dated April 12, 2002 that Household's fundamentals were good but recognized that the fraud was affecting the Company's stock price:

> HI Fundamentals Fine Yet Political/Headline Issues Remain … recent results help support management's claim that Household's business model is largely 'recession proof' … disclosures appear to be getting better …. However, new information on account re-aging lacks historical and comparative context and could be a misleading indicator of HI's approach to managing credit losses. Over all, given financial momentum and a lower risk profile we nudged up our 2002 and 2003 EPS estimates a dime each to $4.70 and $5.25. We also trimmed our price target to $70, given our belief that valuation improvement may prove challenging as political/regulatory/accounting issues could stay around for a while.

See Exhibit 19.

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22. On January 16, 2002, Household announced fourth quarter 2001 earnings that met analysts' mean estimate. *See* Exhibit 13. On April 17, 2002, Household announced first quarter 2002 earnings that exceeded analysts' mean estimate. *See* Exhibit 14. On July 17, 2002, Household announced second quarter 2002 earnings that met analysts' mean estimate. *See* Exhibit 15.

III. PROFESSOR FERRELL'S ANALYSIS OF SPECIFIC DATES FAILS TO ESTABLISH THAT FIRM-SPECIFIC, NONFRAUD RELATED INFORMATION SIGNIFICANTLY DISTORTED MY QUANTIFICATION INCLUDING LEAKAGE OR MY QUANTIFICATION USING SPECIFIC DISCLOSURES

17. Professor Ferrell's conclusion that no leakage date is properly considered in calculating inflation under the Quantification Including Leakage is implausible on its face given the massive evidence of leakage of the fraud. As explained above and further described below, his analysis of specific dates is also fundamentally flawed because, among other reasons, he misunderstands the difference between industry information (which is controlled for via regression analysis) and firm-specific information, and he incorrectly characterizes fraud-related disclosures as unrelated to the fraud. Consequently, he fails to establish that firm-specific, nonfraud related information "significantly distorted" my Quantification Including Leakage or my Quantification Using Specific Disclosures.[23]

A. 27 Dates Analyzed in the Fischel 2nd Supplemental

1) January 11, 2002

18. Professor Ferrell agrees with my assessment that significant firm-specific, nonfraud information could reasonably explain the price decline on this date. Ferrell Report ¶ 57. He also points to other purportedly firm-specific, nonfraud information – rumors that Household might acquire a stake in Providian – that he claims I did not account for in my analysis. *Id.* ¶ 58. However, the Fischel 2nd Supplemental did address this information and explained that it was not significant. Fischel 2nd Supplemental ¶ 7 n.8. Nevertheless, even if rumors that Household might

23. Although Professor Ferrell fails to identify any firm-specific, nonfraud related information that "significantly distorted" my calculations, if the jury finds any days on which significant firm-specific, nonfraud information affected Household's stock price there is a simple solution: exclude those days from the Quantification Including Leakage by replacing the predicted return on those days with the actual return. A similar adjustment can be made to the Quantification Using Specific Disclosures by excluding any such days.

acquire a stake in Providian was additional firm-specific nonfraud information that contributed to the stock price decline on January 11, 2002 and the subsequent increase on January 15, 2002, it does not change my conclusion that the negative firm-specific, nonfraud information on January 11, 2002 was canceled out by the positive firm-specific, nonfraud information two days later.[24, 25]

2) January 28, 2002

19. Professor Ferrell does not dispute my conclusion that fraud related information consistent with leakage was disclosed on this date. Ferrell Report ¶¶ 62-63. He points to several pieces of purportedly firm-specific, nonfraud related information on this date and claims that this information "*may have* contributed" to Household's stock price decline. *Id.* (emphasis added). However, Professor Ferrell fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes market and industry information as firm-specific information and does not establish that my event study did not control for this market and industry information.

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24. Professor Ferrell argues that the net effect of the stock price decline on January 11, 2002 and the stock price increase on January 15, 2002 does not cancel out because "the leakage model attributes a larger price decline on the date of Fitch's announcement [January 11, 2002] than the price increase it attributes to Credit Suisse's announcement [on January 15, 2002]." Ferrell Report ¶ 57. However, as explained in the Fischel 2nd Supplemental, the net effect of these two price movements is not statistically significant, and hence there is no reliable evidence that the net effect of this firm-specific, nonfraud related information caused any "significant distortion" of my Quantification Including Leakage. Fischel 2nd Supplemental ¶ 8. Moreover, Household's stock price increased by a statistically significant amount on June 11, 2002, the same day it was announced that Household planned to sell $1.3 billion in asset-backed securities supported by home equity loans. *See* Fischel 2nd Supplemental Exhibit 1 & Exhibit 20. As explained in its report dated January 11, 2002, Fitch was concerned that Household had "securitized relatively less of its real estate secured and unsecured consumer loan portfolios." *See* Exhibit 21.
25. Professor Ferrell also claims that a Ventana Capital analyst report on January 15, 2002 "took a contradictory stance" in evaluating the January 11, 2002 Fitch Report relative to the Credit Suisse report I cited. Ferrell Report ¶ 59. However, because Household's stock price increased in the face of this contradictory stance, it does not affect my conclusion.

20. First, Professor Ferrell claims that discussion of a "rotten economy" and "rising delinquency rates at Household and its peers" in the *Barron's* article that both he and I cite is firm-specific, nonfraud related information. *See id.* ¶ 62 & Exhibit 22. However, he mischaracterizes this market and industry information as firm-specific information and does not establish that my event study did not control for this market and industry information.

21. Second, Professor Ferrell points to a *Reuters* article which reported that "[s]hares of credit card companies slid on Monday, as Metris Cos Inc. was downgraded by analysts amid worries that the subprime lender's growing exposure to bad loans may signal an *industrywide* trend." Ferrell Report ¶ 63 (emphasis added). The *Reuters* article also reported that "[c]oncerns about Metris spilled over into other credit card lenders, including MBNA Corp., the largest stand alone credit card lender which focuses on relatively wealthy customers with good credit histories." *See* Exhibit 23. However, Professor Ferrell again mischaracterizes this industry information as firm-specific information and does not establish that my event study did not control for this industry information.

22. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

3) <u>February 6, 2002</u>

23. Professor Ferrell does not dispute my conclusion that fraud related information consistent with leakage was disclosed on this date. Ferrell Report ¶¶ 64-65. He points to several pieces of purportedly firm-specific, nonfraud related information on this date and claims that this information "*may have* contributed" to Household's stock price decline. *Id.* (emphasis added). However, Professor Ferrell fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes industry information as firm-specific information and does not establish that my

event study did not control for this industry information. In addition, Professor Ferrell mischaracterizes fraud related information as nonfraud related information.

24. First, Professor Ferrell claims that "unsubstantiated claims regarding liquidity issues" may have affected Household's stock price in addition to fraud related "issues with…accounting, and lawsuits." *Id.* ¶ 64. However, he disregards that the concerns about Household's liquidity on this date were connected to accounting concerns about the Company. The rumors about Household's liquidity on February 6, 2002 followed Tyco's liquidity event earlier that week which was attributed to Tyco's accounting practices.[26] After Tyco's liquidity event, market participants drew a link between Tyco and other companies that were accused of accounting improprieties, including Household.[27] Indeed, Defendant Schoenholz linked

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26. For example, Standard & Poor's stated:

> [Tyco's] decision to draw down these facilities indicates the company's uncertainty regarding its continued access to commercial paper markets as well as the possible erosion of bank support to renew the $3.9 billion credit facility…This is occurring after a significant decline in the company's stock price and an increase in spreads on its bonds during the past several weeks. One reason for the volatility in Tyco's stock and bond prices is market uncertainty regarding the company's accounting practices.

See Exhibit 24. Similarly, the *Associated Press* reported that "[o]n a conference call with investors, Tyco Capital officials acknowledged they have been shut out of the corporate bond market in recent days on accounting worries." *See* Exhibit 25.

27. For example, the Bear Stearns report cited by Professor Ferrell mentioned that "Household shares remained under pressure Wednesday, reflecting the residual effect of concerns about the possibility of liquidity problems for finance companies in the wake of Tyco Capital's downgrade and funding challenges." *See* Exhibit 26. Similarly, a *Chicago Sun-Times* article about Household reported:

> [I]nvestors generally are skittish whether companies will have accounting problems similar to those of Enron. Analysts noted that bond market watchers became nervous from an unrelated development: Investors earlier in the week feared Tyco International Ltd. was going to have trouble selling commercial paper after the company's bond ratings were cut earlier in the week…Some [Household] investors became concerned back in December, after a Barron's newspaper story quoted an analyst as saying Household may have been using "aggressive accounting" to downplay loan losses--which the company denies.

See Exhibit 27.

Household to other companies that committed accounting fraud, saying: "[y]ou have an exceptionally skittish market that has been pummeled by negative news whether it was Enron, Tyco, or the Barron's article in our case." *See* Exhibit 28. Hence, Professor Ferrell mischaracterizes Household's "severe bout of accounting *and liquidity panic*" as nonfraud information. Ferrell Report ¶ 65 (emphasis in original).

25. Further, Professor Ferrell ignores that on February 7, 2002, Household held a conference call to dispel these liquidity rumors and its stock rebounded.[28] For example, the *National Post* reported that "Household International Inc. publicly denied it was nearing a liquidity crunch and its stock jumped 8%." *See* Exhibit 29.[29] Hence, even if Professor Ferrell were correct that firm-specific, nonfraud related information may have affected Household's stock price on February 6, 2002 – which he is not – the subsequent increase on February 7, 2002 would represent yet another example of positive nonfraud related information canceling out negative nonfraud related information.[30]

26. Second, Professor Ferrell cites an A.G. Edwards report on February 6, 2002 that attributed "weakness in HI shares to *industry* credit quality concerns and accounting-related concerns." *See* Ferrell Report ¶ 65 (emphasis added) & Exhibit 31. However, he mischaracterizes "industry credit quality concerns" as firm-specific information and does not establish that this industry information is not controlled for by my event study.

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28. My event study finds that Household's residual return of 6.61 percent on this date was both positive and statistically significant at the 95 percent confidence level with a t-statistic of 4.78. *See* Fischel 2nd Supplemental Exhibit 1.
29. *See also* Exhibit 30, a *Dow Jones* article which states "Household International gained 7.4% Thursday, after company executives said it wasn't experiencing problems raising capital to fund its loans."
30. The cumulative residual price change for these two days under my Quantification Including Leakage is positive \$0.62 (= -\$2.38 + \$3.01), and the cumulative t-statistic for these two days is 0.76 (= (-3.71 + 4.78) / √2), which is not statistically significant at the 95 percent confidence level.

27. Third, Professor Ferrell claims in a footnote that a "recent Fed survey" purportedly released on February 5, 2002 contained firm-specific, nonfraud information, and further claims that because the timing of this disclosure "is not clear," this information *may have* contributed to Household's stock price decline on February 6, 2002. Ferrell Report ¶ 64, n.108. Contrary to his assertion, the survey was released on February 4, 2002 as demonstrated by a *Dow Jones* article that discusses the survey. *See* Exhibit 32. Household's stock price did not decline by a statistically significant amount on either February 4, 2002 or February 5, 2002. *See* Fischel 2nd Supplemental Exhibit 1.

28. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

4) February 21, 2002

29. Professor Ferrell points to several pieces of purportedly firm-specific, nonfraud related information on this date and claims that this information "*may have* impacted" Household's stock price. Ferrell Report ¶¶ 66-67 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information.

30. First, Professor Ferrell cites an *American Banker* article published on February 21, 2002 titled "Consumer Finance Firms' Outlook Bleak, Fitch Says." *See id.* ¶ 66 & Exhibit 33. However, he does not establish that any of this information was significant. The article discusses statements made by a Fitch analyst "on Wednesday [February 20, 2002 at 11:00

AM]… in a conference call with analysts and reporters." *See* Exhibit 33.[31] Because Household's stock traded in an efficient market, its price reacted to this information on February 20, 2002, not February 21, 2002 as Professor Ferrell suggests. Household's stock price did not decline by a statistically significant amount on February 20, 2002. *See* Fischel 2nd Supplemental Exhibit 1. In addition, the purpose of the conference call was "to discuss the outlook for the finance, leasing and credit card company industries." *See* Exhibit 34. Professor Ferrell mischaracterizes this market and industry information as firm-specific information and does not establish that my event study did not control for this market and industry information.

31. Second, Professor Ferrell cites an article in *The Wall Street Journal* "discussing rising credit card interest rates, particularly for subprime credit card issues [*sic*]." *See* Ferrell Report ¶ 67. However, he again mischaracterizes this industry information as firm-specific information and does not establish that my event study did not control for this industry information. The fact that Household is not even mentioned once in this article further indicates that this is not firm-specific information. *See* Exhibit 35.

32. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

5) <u>April 25, 2002</u>

33. Professor Ferrell points to several pieces of purportedly firm-specific, nonfraud related information on this date and claims that this information "*may have* impacted" Household's stock price on April 25, 2002. Ferrell Report ¶¶ 69-70 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also ignores fraud related information that

31. *Business Wire* reported that this conference call was scheduled to begin at 11:00 AM on February 20, 2002. *See* Exhibit 34.

was disclosed on this date. In addition, he mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information.

34. First, Professor Ferrell points to a Ventana Capital report published on April 25, 2002 "commenting on the increase in Household's stock price following its first quarter 2002 earnings announcement the week prior." *Id.* ¶ 69. He states that the Ventana Capital analyst "noted that, although Household announced better-than-expected earnings, earnings per share were basically in line with expectations when stripping out the year-over-year positive impact from securitization gain-on-sale revenues and lack of goodwill amortization, and further noted that Household implicitly gave downward earnings guidance to the next three quarters of earnings." *Id.* However, Professor Ferrell fails to establish that any of this was significant new information. For instance, analysts had previously discussed the positive impact from gain-on-sale revenues and lack of goodwill amortization a week earlier,[32] and my event study finds that this discussion was not accompanied by a statistically significant reaction in Household's stock price. *See* Fischel 2nd Supplemental Exhibit 1.

35. Professor Ferrell also ignores the fraud related information in the Ventana Capital report he cites. For example, the Ventana Capital report states "the massive amount of reaging at Household signifies to us that there is an underwriting problem," and "reported delinquencies, charge-offs, reserves, cash flow and earnings mean absolutely nothing when taking

32. For example, on April 18, 2002, Bear Stearns analysts, commenting on Household's better than expected earnings, said that the "benefit from securitization gains and less goodwill amortization were responsible for the upside surprise." *See* Exhibit 36. Similarly, a Salomon Smith Barney analyst said "[w]e credit the upside surprise to larger-than-normal securitization activity in the quarter, as well as stronger performance from the company's tax refund business. There was also a $0.02-$0.03 benefit to EPS from a reduction in goodwill amortization dictated by new accounting rules." *See* Exhibit 37.

into consideration the massive amount of reaging in Household's portfolio." *See* Exhibit 38. The report also discusses legal issues surrounding Household's predatory lending practices, including that "certain consumer groups remain skeptical that many of the ['best practices'] reforms may not have been put in place" and that "some of the 'changes' may have been more for 'PR' purposes." *See id.*

36. Second, Professor Ferrell points to an article from *Credit Card Management* which "discussed increasing challenges for subprime credit card issuers." *See* Ferrell Report ¶ 70 & Exhibit 39. He states that the article (which doesn't even mention Household) "highlighted the recent problems of two of Household's peers…NextCard Inc. and Providian Financial Corp." *Id.* However, Professor Ferrell mischaracterizes this industry information as firm-specific information and does not establish that my event study did not control for this industry information.

37. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

6) <u>April 29, 2002</u>

38. Professor Ferrell points to purportedly firm-specific, nonfraud related information on this date and claims that this information "*may have* impacted" Household's stock price. Ferrell Report ¶ 71 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes market and industry information as firm-specific information and does not establish that my event study did not control for this market and industry information.

39. First, Professor Ferrell cites to a *Business Wire* article discussing Fitch's annual review of finance company risk-based capitalization and highlights Fitch's discussion that "many consumer finance companies' risk-adjusted capitalization[s] were negatively affected by

the modifications that took place with this year's study." *See id.* & Exhibit 40. However, the changes Fitch made to its risk-based capital model that it applied to many financial institutions is not firm-specific information unique to Household and, in any event, Professor Ferrell does not establish that my event study did not control for this industry information.

40. Second, Professor Ferrell cites to a *CNN* article that noted that "late payments on credit card bills hit a five-year high" in March and discussed that subprime "consumers are now struggling." *See* Ferrell Report ¶ 71 & Exhibit 41. Professor Ferrell, however, mischaracterizes this market and industry information as firm-specific information and does not establish that my event study did not control for this information. Moreover, the fact that this article lists several affected firms but does not even mention Household further indicates that this is not information specific to the Company. *See* Exhibit 41.

41. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

7) <u>May 10, 2002</u>

42. Professor Ferrell does not dispute my conclusion that fraud related information consistent with leakage was disclosed on this date. Ferrell Report ¶ 72. He points to purportedly firm-specific, nonfraud related information on this date and claims that this information "*could have* affected" Household's stock price. *Id.* ¶¶ 56 & 72 (emphasis added). However, Professor Ferrell fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information. In addition, he mischaracterizes fraud related information as nonfraud related information.

43. Professor Ferrell cites a Bernstein Research analyst report that states:

> …legal risk for both predatory and legitimate subprime lenders. Aside from the potential legal costs, the need to manage legal risk will lead to changes in subprime lending practices even more far-reaching than those adopted by Household. These will, in turn, erode the profitability of business models because either returns are reduced or it simply becomes uneconomical to lend to higher-risk customers (and so the addressable market shrinks).

See Ferrell Report ¶ 72 & Exhibit 42. To the extent Professor Ferrell is focused on "legal risk" for "legitimate subprime lenders," he has mischaracterized this industry information as firm-specific, nonfraud information and has failed to establish that my event study did not control for this industry information. To the extent Professor Ferrell is focused on "legal risk" for "predatory … lenders," he has mischaracterized this fraud related information as firm-specific, nonfraud information.

44. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

8) <u>May 15, 2002</u>

45. Professor Ferrell fails to identify significant, firm-specific, nonfraud related information that could have affected Household's stock price on this date. Ferrell Report ¶ 73. Hence, there is no evidence of any "significant distortion" of my Quantification Including Leakage.

9) <u>July 1, 2002</u>

46. Professor Ferrell points to several pieces of purportedly firm-specific, nonfraud related information on this date and claims that this information "*may have* impacted" Household's stock price. *Id.* ¶ 74 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information.

47. First, Professor Ferrell points to a *Dow Jones News Service* article titled "Card Cos 2Q EPS Produce Mixed Bag; Trends Mostly Stable," which states that "companies that issue cards to those with checkered credit histories – which have been operating under regulatory scrutiny given concern over rising losses from uncollectable loans – won't fare as well." *Id.* He mischaracterizes this industry information as firm-specific, nonfraud information and does not establish that my event study did not control for this industry information. In addition, Professor Ferrell fails to mention that the discussion in this article about Household specifically reads: "Operating trends should remain healthy, with continued strength coming from its home-equity business, analysts said. However, the investment community says it will be looking for updates regarding legal claims against the company alleging predatory lending." *See* Exhibit 43. This is further evidence that information about the fraud can explain Household's underperformance during the Leakage Period, while Household's "healthy" operating trends cannot.

48. Second, Professor Ferrell includes a footnote in his report pointing to a JP Morgan report published on Friday, June 28, 2002, and states "it is not clear whether the information was released after market hours, and as a result this information *may have* contributed to Household's stock price decline that occurred on July 1, 2002. Ferrell Report ¶ 74 n.127 (emphasis added). However, contrary to his assertion, it is clear that this analyst report was not published "after market hours" on June 28, 2002.[33]

49. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

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33. Capital IQ lists a time stamp associated with this report of 12:01 AM on Friday, June 28, 2002. *See also* Exhibit 44, which is a JP Morgan report dated June 28, 2002 titled "Equities *Morning Meeting Notes*" (emphasis added) that contains the purportedly firm-specific, nonfraud information cited by Professor Ferrell.

10) July 9, 2002

50. Professor Ferrell fails to identify significant, firm-specific, nonfraud related information that could have affected Household's stock price on this date. *Id.* ¶ 75. Hence, there is no evidence of any "significant distortion" of my Quantification Including Leakage.

11) July 10, 2002

51. Professor Ferrell fails to identify significant, firm-specific, nonfraud related information that could have affected Household's stock price on this date. *Id.* ¶ 76. Hence, there is no evidence of any "significant distortion" of my Quantification Including Leakage.

12) July 17, 2002

52. Professor Ferrell points to several pieces of purportedly firm-specific, nonfraud related information on this date and claims that this information "*may have* impacted" Household's stock price. *Id.* ¶¶ 77-79 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes market and industry information as firm-specific related information and does not establish that my event study did not control for this market and industry information. In addition, he mischaracterizes fraud related information disclosed on this date as nonfraud related information.

53. First, Professor Ferrell mischaracterizes the Capital One announcement regarding its Memorandum of Understanding with regulators as firm-specific, nonfraud related information. *Id.* ¶¶ 77-78. However, the information that was disclosed was specific to Capital One, not Household, and analysts and Defendants both drew distinctions between Capital One and

Household.[34] As discussed in the Fischel 2nd Supplemental, Defendants themselves said there was "nothing analogous" to the Capital One news at Household. Fischel 2nd Supplemental ¶ 36.[35]

54. Further, Professor Ferrell claims there was "substantial…market commentary that…attributed Household's stock price decline on this date to Capital One's announcement." Ferrell Report ¶ 78. However, the market commentators that he cites discuss the impact of the Capital One news on industrywide stock prices. For example, *Reuters News* reported that "[s]hares of credit card issuers and consumer finance firms were hammered on Wednesday after regulators asked issuer Capital One to increase its loan loss reserves." *See* Exhibit 48.[36] Hence, Professor Ferrell has mischaracterized news relating to the credit card industry generally as firm-specific information and, in any event, fails to establish that this information is not controlled for by my event study.

55. Professor Ferrell also mischaracterizes the information that was firm-specific – i.e., "regulatory concerns" regarding Household – as nonfraud related information. Capital One's announcement on July 17, 2002 regarding its own regulatory issues caused investors to reassess the risk of Household's predatory lending practices. This is evident in the Fox-Pitt

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34. For example, a Stephens analyst opined, "[w]e do not think any of those issues would be applicable to Household." *See* Exhibit 45. Similarly, a Deutsche Bank analyst wrote that "Household's subprime exposure in its MC/Visa portfolio is minuscule… [t]his represents less than 1% of the total managed portfolio." *See* Exhibit 17.
35. Analysts also incorporated Defendants' statements into their analyses. For example, analysts from Credit Suisse wrote that "[a]s far as being subject to any kind of agreement with the regulators, management stated that there was nothing analogous to the case at Capital One and that it is expecting nothing along those lines in the future." *See* Exhibit 46. Similarly, Fox-Pitt Kelton analysts wrote that "the company disclosed… that nothing analogous to the COF is in the works at HI." *See* Exhibit 47.
36. *See also* Exhibit 49 (an article in *The Wall Street Journal* that reported "[o]ther credit-card and lending stocks also fell in Big Board trading"); Exhibit 50 (an *American Banker* article that reported that Household's shares declined "amid a credit card stock fallout"); and Exhibit 51 (a Bear Stearns report that stated "HI shares appear to have suffered along with those of other financials").

Kelton report that both Professor Ferrell and I cite, which attributes this announcement to the fraud:

> While HI may be less directly affected by the potentially regulatory changes of capital levels, the overhang of regulatory hostility does impact the stock. Accusations of predatory lending, however baseless they may be, gain additional currency in a market, seized by fear of events outside of management's control. Whether legislators jump on the bandwagon that the trial lawyers and regulators and [*sic*] riding is a rising risk for HI. Additionally, as HI goes further down the rode [*sic*] to securitization, additional questions regarding the quality of earnings arise. When investors pay attention to key fundamental drivers like loan growth, margin, credit quality, and cost control, HI does fine, because it delivers. When the focus moves away from the fundamentals towards unquantifiable factors like litigation and regulatory risk, the upside on the stock will be capped. We do not see HI trading at better than 12 times earnings in this charged environment, and thus have lowered our target price to $63.

See Fischel 2nd Supplemental ¶ 36 & Exhibit 52.

56. Second, Professor Ferrell claims that firm-specific, nonfraud information contained in Household's earnings announcement "*may have* impacted" Household's stock price. Ferrell Report ¶ 79. He points to a CIBC report that notes that managed assets rose "*modestly* owing to portfolio seasoning and the challenging economic environment" and that a "potential economic double-dip could adversely impact credit quality and growth trends." *See id.* & Exhibit 53 (emphasis added). However, Professor Ferrell ignores the positive statements by the Company and market participants about its earnings (which I discuss in Fischel 2nd Supplemental ¶ 35 and *supra* ¶¶ 15-16) and so he fails to establish that the negative information he points to was significant or resulted in any "significant distortion" of my Quantification Including Leakage. In addition, he mischaracterizes macroeconomic concerns about a "potential economic double-dip" as firm-specific information and he does not establish that my event study did not control for this information.

57. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

13) July 19, 2002

58. Professor Ferrell does not dispute my conclusion that fraud related information consistent with leakage was disclosed on this date. Ferrell Report ¶ 80. He points to several pieces of purportedly firm-specific, nonfraud related information on this date and claims that this information "*may have* impacted" Household's stock price on July 19, 2002. *Id.* (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information.

59. First, Professor Ferrell points to an article in *Mortgage Servicing News* that states "[t]he weak economy is causing the risk of default on newly originated, nonprime credit quality mortgages to rise again." *Id.* But, he mischaracterizes this industry information as firm-specific information and does not establish that my event study did not control for this industry information. The fact that Household is not even mentioned once in this article further indicates that this is not firm-specific information. *See* Exhibit 54.

60. Second, Professor Ferrell includes a footnote in his report pointing to a Deutsche Bank report published on July 18, 2002 and claims that "it is not clear whether the information was released after market hours, and as a result this information may have contributed to Household's stock price decline that occurred on July 19, 2002." Ferrell Report ¶ 80 n.141.

Contrary to Professor Ferrell's assertion, it is clear that this Deutsche Bank report was published in the morning on July 18, 2002 at precisely 6:11 am.[37] *See* Exhibit 17.

61. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

14) July 25, 2002

62. Professor Ferrell points to purportedly firm-specific, nonfraud related information on this date and claims that this information "*may have* impacted" Household's stock price. Ferrell Report ¶ 81 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes fraud related information as firm-specific, nonfraud information.

63. Professor Ferrell points to a Credit Suisse fixed income report titled "The Most Puzzling Bond of All: Household Finance Hits Historic Wides On No News—Look No Further Than Capital One." *Id.* ¶ 81. This report explains:

> [O]ne name has been swept out to historic wides for no good reason in our opinion—Household Finance.
> In 2002, Household generated the following headlines:
> Reported its 15th and 16th consecutive quarters of record earnings
> Significantly improved its disclosure procedures…
> Increased its use of the asset-backed and retail MTN markets…
> Provided encouraging guidance about asset quality trends
> Kept growth to highly manageable levels
> And yet HI 10-year paper has widened to +330 bps on the bid side…
> So what's happened? Capital One's MOU and the power of the Shorts. We believe that Household paper has widened because short sellers can draw a line, however, vague, between Capital One… and Household. … We have long felt that Household's biggest vulnerability is a competitor's fall from grace. Capital One's

37. My event study finds that Household's residual return of 3.02 percent on July 18, 2002 was positive and statistically significant at the 95 percent confidence level with a t-statistic of 2.17. *See* Fischel 2nd Supplemental Exhibit 1.

> announcement a couple of weeks ago that it expects to be subject to greater regulatory scrutiny has spilled over into Household's story.

See Exhibit 55 (original emphasis excluded). However, he mischaracterizes market concerns about "greater regulatory scrutiny" that "spilled over into Household's story" as firm-specific, nonfraud information. As explained previously (and in Fischel 2nd Supplemental ¶ 36), Capital One's announcement on July 17, 2002 regarding its own regulatory issues caused investors to reassess the risk of Household's predatory lending practices. *See supra* ¶ 55. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

15) <u>August 5, 2002</u>

64. Professor Ferrell does not dispute my conclusion that fraud related information consistent with leakage was disclosed on this date. Ferrell Report ¶¶ 82-83. He points to several pieces of purportedly firm-specific, nonfraud related information on this date and claims that this information "*may have* contributed" to Household's stock price decline. *Id.* (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information. In addition, he mischaracterizes fraud related information as firm-specific, nonfraud information.

65. First, Professor Ferrell points to the Portales Partners report, which I discussed in the Fischel 2nd Supplemental, but mischaracterizes fraud related information as firm-specific, nonfraud information. *Id.* ¶ 82. He cites to the report's discussion of Household's "willingness to extend…high loan-to-value ratios to subprime customers where there is significantly greater credit risk." *Id.* However, he ignores the Portales Partners analyst's

conclusion that this was related to Household's predatory lending practices: "[a]t most, the rising loan-to-value ratios would suggest a strategy on the part of the company to increase loan-to-value ratios to a point where consumers would be unable to refinance any mortgage away from Household, a practice that is increasingly consider [*sic*] predatory." *See* Exhibit 56.

66. Second, Professor Ferrell points to an article in *The Wall Street Journal* titled "Cox Communications Falls 19%, Comcast 14% as Market Slides." Ferrell Report ¶ 83. The article discusses a market-wide decline in stock prices on August 5, 2002 and attributes Capital One's 14 percent stock price decline on that date to a Salomon Smith Barney report. *See* Exhibit 57. The article also mentions that AmeriCredit fell 17 percent and MBNA fell 5.8 percent, but not once does it mention Household. *See id.* Professor Ferrell mischaracterizes this market and industry information as firm-specific information and does not establish that my event study did not control for this information.

67. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

16) <u>August 7, 2002</u>

68. Professor Ferrell points to several pieces of purportedly firm-specific, nonfraud related information on this date and claims that this information "*may have* impacted" Household's stock price. Ferrell Report ¶¶ 84-85 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information.

69. First, Professor Ferrell misstates my opinion by claiming that I "appear[] to conclude that Household's stock price decline was caused by the revelation of the fraud because

the buyback of zero-coupon bonds on August 7, 2002 resulted from Household's depressed stock price…." *Id.* ¶ 84. As I explained, which Professor Ferrell does not dispute, stock investors were aware before August 7, 2002 that holders of these bonds could force the Company to repurchase them on August 2, 2002, and that the repurchase price substantially exceeded the conversion value.[38] Fischel 2nd Supplemental ¶ 46. Professor Ferrell also claims that because I attributed Household's depressed stock price "in substantial part" to revelation of the fraud, I "acknowledged that other information contributed to the decline" but did not "identify such information or attempt to account for it." *Id.* & Ferrell Report ¶ 84. This claim represents a fundamental misunderstanding of my analysis. The decline in the conversion value of these bonds was the result of Household's stock price decline between their issuance on July 31, 2001 and the August 2, 2002 repurchase date. Under my Quantification Including Leakage, Household's entire stock price decline from July 31, 2001 to November 14, 2001 is attributed to nonfraud factors. Beginning November 15, 2001, fraud and nonfraud factors caused the price to decline, the nonfraud portion of which was captured and controlled for by my event study and additional analysis as described in the Fischel 2nd Supplemental. Therefore, contrary to Professor Ferrell's claim, my analysis identified the other information as unrelated to the fraud and accounted for it.

70. Second, Professor Ferrell points to a *Reuters News* article which reported that AmeriCredit shares fell due to concerns about "credit losses and its exposure to continuing

38. Indeed, the Company had previously disclosed at an analyst conference on April 9, 2002 that its "[c]urrent funding plans include the put of our $1 billion convertible debt." *See* Exhibit 58. Household's stock did not decline by a statistically significant amount on April 9, 2002. *See* Fischel 2nd Supplemental Exhibit 1. In addition, analysts incorporated Defendants' statements into their analysis. For example, on June 14, 2002, a Lehman Brothers analyst stated that "in its April investor conference the company stated that its plans to issue $23-26 billion in debt in 2002 incorporated the belief that [its] $1 billion convertible [bonds] would be put to the company." *See* Exhibit 59. Likewise, Salomon Smith Barney analysts stated that "[w]e do not believe this will affect the company from a capital standpoint as it ended the quarter with excess liquidity in anticipation of this event." *See* Exhibit 60.

weak, used car prices." *See* Ferrell Report ¶85 & Exhibit 61. He mischaracterizes this information about AmeriCredit (a financial company primarily engaged in auto lending) as firm-specific, nonfraud information and, to the extent it is relevant, does not establish that my event study did not control for this industry information. To support his flawed argument, Professor Ferrell cites to a UBS analyst report on September 18, 2002 and claims that "analysts during the leakage period explicitly noted that announcements by Household peers such as AmeriCredit are relevant in assessing Household." Ferrell Report ¶ 85. However, he fails to mention that this same UBS report highlights a number of differences between Household and AmeriCredit, including that "[a]uto loans currently represent only 6.5% of [Household's] managed portfolio, whereas AmeriCredit is primarily an auto lender." *See infra* ¶ 84 n.42.

71. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

17) <u>August 9, 2002</u>

72. Professor Ferrell fails to identify significant, firm-specific, nonfraud related information that could have affected Household's stock price on this date. Ferrell Report ¶ 86. Hence, there is no evidence of any "significant distortion" of my Quantification Including Leakage.

18) <u>August 13, 2002</u>

73. Professor Ferrell fails to identify significant, firm-specific, nonfraud related information that could have affected Household's stock price on this date. *Id.* ¶ 87. Hence, there is no evidence of any "significant distortion" of my Quantification Including Leakage.

19) <u>August 23, 2002</u>

74. Professor Ferrell points to several pieces of purportedly company-specific nonfraud related information on this date and claims that this information "*may have* impacted"

Household's stock price. *Id.* ¶ 88 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information.

75. First, Professor Ferrell points to an article published on August 23, 2002 in the *Australian Financial Review* that "discussed rising challenges for subprime lenders given the U.S. credit environment." *Id.* However, he mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information. In fact, the article primarily discusses market and industry conditions affecting financial institutions generally and fails to even mention Household. *See* Exhibit 62. Professor Ferrell also fails to establish that this article contained significant new information. With regard to the subprime market, the article states that "the federal Government has begun pressuring lenders in the booming sub-prime market… *A month ago*, guidelines were announced pushing lenders to increase reserves and more quickly disclose defaults." *See id.* (emphasis added).

76. Second, Professor Ferrell includes a footnote in his report pointing to a Fox-Pitt Kelton U.S. Specialty Finance industry report published on August 22, 2002 and states "it is not clear whether the information was released after market hours, and as a result this information *may have* contributed to Household's stock price decline that occurred on August 23, 2002. Ferrell Report ¶ 88 n.151 (emphasis added). Contrary to his assertion that this report may have been released after market hours on August 22, 2002, I have seen no evidence to suggest that in fact was the case. Moreover, the only information Professor Ferrell cites to in this report as purportedly firm-specific, nonfraud information is, in fact, market and industry information. Specifically, he cites that Fox-Pitt Kelton's "recent cautious stance on the US Specialty Finance group reflects, in part, our concern that stock market volatility and loss of investor confidence in corporate America

has damaged consumer confidence and, thus, the economy." *See id.* & Exhibit 63. Professor Ferrell does not establish that my event study did not control for this market and industry information.

77. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

20) September 10, 2002

78. Professor Ferrell fails to identify significant, firm-specific, nonfraud related information that could have affected Household's stock price on this date. Ferrell Report ¶ 89. Hence, there is no evidence of any "significant distortion" of my Quantification Including Leakage.

21) September 16, 2002

79. Professor Ferrell does not dispute my conclusion that fraud related information consistent with leakage was disclosed on this date. *Id.* ¶¶ 90-92. He points to several pieces of purportedly firm-specific nonfraud related information on this date and claims that this information "*may have* impacted" Household's stock. *Id.* (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information.

80. First, Professor Ferrell claims that an announcement by MGIC, a provider of private mortgage insurance, about lower-than-expected earnings was firm-specific, nonfraud

related information that *may have* impacted Household's stock price on this date.[39] *Id.* ¶ 90. However, the information disclosed by MGIC cannot reasonably explain Household's underperformance on this date because the disclosed information was specific to MGIC and the market and industry in general; it was not firm-specific information pertaining to Household. Indeed, Professor Ferrell himself notes that an *American Banker* article, which does not even mention Household, "discussed the implications of MGIC's announcement for the mortgage industry, stating that 'the weak economy had led many industry insiders to the conclusion that mortgage insurers might be in for a rough spell.'" *See id.* & Exhibit 64.[40] Moreover, he does not establish that my event study did not control for this industry information.

81. Second, Professor Ferrell points to an *Asset Securitization Report* article discussing research updates by Fitch and Credit Suisse on the auto loan sector of the asset-backed security market. Ferrell Report ¶ 92. He highlights Credit Suisse's and Fitch's discussions of "'rising unemployment and weaker job creation combined with an anticipated rise in bankruptcy filings'" as well as their predictions that "'delinquency and loss performance - and therefore spreads - will remain under pressure until the economy turns around.'" *Id.* However, he mischaracterizes this market and industry information as firm-specific information, and again does not establish that my event study does not account for this information. The fact that Household is not even mentioned once in the article further indicates that this is not firm-specific information. *See* Exhibit 66.

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39. Professor Ferrell does not even list MGIC in his discussion about Household's peers. *See* Ferrell Report ¶ 42. The S&P Financials industry index used in my model, however, does include MGIC.
40. Professor Ferrell further attempts to link this MGIC announcement to Household by citing an A.G. Edwards analyst report that purportedly "discussed the impact of MGIC's announcement on Household" by relating Household to other sub-prime lenders, but in the same sentence, Professor Ferrell admits that this A.G. Edwards analyst "distinguished Household from these lenders." *See* Ferrell Report ¶ 91 & Exhibit 65.

82. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

22) September 17, 2002

83. Professor Ferrell points to purportedly firm-specific nonfraud related information on this date and claims that this information "*may have* impacted" Household's stock. Ferrell Report ¶ 93 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information. In addition, he fails to address fraud related information consistent with leakage on this date.

84. Professor Ferrell claims that an AmeriCredit announcement was firm-specific, nonfraud related information that "*may have* impacted" Household's stock price on this date. *Id.* (emphasis added). The information disclosed by AmeriCredit, however, cannot reasonably explain Household's stock price underperformance on this date because the disclosed information was specific to AmeriCredit, not Household. Specifically, *Dow Jones* reported that: "[s]hares of AmeriCredit Corp. (ACF) sank after the subprime lender said it would change a controversial accounting method for loans. AmeriCredit's decision to eliminate gain-on-sale accounting and keep securitization transactions on its books follows a review by the Securities and Exchange Commission of the company's financial statement." *See* Exhibit 67.[41] In fact, the analyst reports cited by Professor Ferrell distinguished AmeriCredit from Household.[42]

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41. A UBS analyst cited by Professor Ferrell summarizes AmeriCredit's disclosure:

> AmeriCredit announced late Monday that it was changing its accounting method for auto securitizations… The company subsequently reduced its earnings guidance for the next six quarters. In addition to this, the company announced that it reached an agreement with its bond insurance guarantor to raise the delinquency triggers levels from September 2002 through February 2003 on its current securitizations. Lastly,

85. Professor Ferrell also ignores the fraud related information consistent with leakage on this date. The September 18, 2002 UBS report cited by Professor Ferrell explains that "the preannouncement by AmeriCredit (ACF) yesterday [September 17, 2002], along with continued *concern over potential regulatory action related to predatory lending* contributed heavily to the weakness." *See* Exhibit 68 (emphasis added). This fraud related information consistent with leakage is particularly relevant because Professor Ferrell fails to establish that my event study did not control for the nonfraud industry-related information he discusses.

86. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

23) September 27, 2002

87. Professor Ferrell fails to identify significant, firm-specific, nonfraud related information that could have affected Household's stock price on this date. Ferrell Report ¶ 94. Hence, there is no evidence of any "significant distortion" of my Quantification Including Leakage.

> the company announced its plan to issue up to $575 million in common stock (its market cap is currently under $800 million) with the proceeds to be used towards credit enhancements for future securitizations.

See Exhibit 68.

42. The A.G. Edwards analyst report cited by Professor Ferrell stated "the majority of HI's securitization pools are significantly different than the insurance 'wrapped' pools at ACF." *See* Exhibit 65. Similarly, the UBS analyst report cited by Professor Ferrell pointed to a number of differences between Household and AmeriCredit, including that: (1) "[a]uto loans currently represent only 6.5% of [Household's] managed portfolio, whereas AmeriCredit is primarily an auto lender"; (2) "Household's credit trends apear [*sic*] generally better than AmeriCredit's"; and (3) "Household's chargeoffs… appear to have stabilized, whereas AmeriCredit's continue to deteriorate"; (4) Household "indicated that it does not anticipate any changes in the economics of its securitizations…[t]his contrasts with the announcement made yesterday by ACF." *See* Exhibit 68.

24) October 1, 2002

88. Professor Ferrell points to purportedly firm-specific nonfraud related information on this date and claims that this information "*may have* contributed" to Household's stock price decline. *Id.* ¶ 95 n.162 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also fails to address the fraud related information consistent with leakage disclosed on this date.

89. In a footnote to his report, Professor Ferrell points to a Lehman Brothers report dated September 30, 2002 and states that "it is not clear" whether this report was released after market hours on September 30, 2002 and as a result *may have* contributed to Household stock price decline on October 1, 2002. *Id.* However, it is clear that the information in the September 30, 2002 Lehman Brothers report was released in the morning of September 30, 2002.[43] Moreover, the purportedly firm-specific, nonfraud information cited by Professor Ferrell is a statement by Lehman Brothers analysts that "[o]ur lower estimates in 2002 are driven in part due to our belief that [Household's] wider bond spreads could have an impact on margins." Professor Ferrell, however, fails to establish that Household's wider bond spreads resulted from firm-specific, nonfraud factors. As discussed *supra* ¶ 13, market participants attributed Household's widening bond spreads to predatory lending concerns. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

43. *See* Exhibit 69, which is a Lehman Brothers report dated September 30, 2002 titled "*Monday Morning* Notes" (emphasis added), which contains the purportedly firm-specific, nonfraud information cited by Professor Ferrell.

25) October 7, 2002

90. Professor Ferrell points to several pieces of purportedly firm-specific, nonfraud related information on this date and claims that this information "*may have* impacted" Household's stock price. Ferrell Report ¶¶ 96-98 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information. In addition, he fails to address fraud related information consistent with leakage disclosed on this date.

91. First, Professor Ferrell identifies a *Reuters News* article stating that shares of financial companies "dropped on Monday on growing concerns a weak economy would leave banks and credit card issuers with unpaid loans and also dent stock businesses at Wall Street firms." *Id.* ¶ 96. However, this news is industry-related, not firm-specific as Professor Ferrell asserts. With respect to Household specifically, he points out that this article also explains that Goldman Sachs cut its rating on Household in a report that stated: "[g]iven the weaker economic backdrop including a more pessimistic intermediate-term outlook on credit, housing and growth, we are adjusting estimates downward." *Id.* Once again, he mischaracterizes this industry information as firm-specific and does not establish that my event study did not control for this information. Moreover, Professor Ferrell fails to mention the immediately prior sentence of this *Reuters News* article which discusses fraud related information consistent with leakage: "Goldman's Hottensen also cited uncertainty surrounding predatory lending litigation as a reason behind his Household downgrade." *See* Exhibit 70.

92. Second, Professor Ferrell cites a *Dow Jones News Service* article providing commentary on market participants' expectations for third-quarter earnings at credit-card

companies. *See* Ferrell Report ¶ 98 & Exhibit 71. He fails to note, however, that this article merely summarizes market participants' pre-existing expectations for the upcoming third-quarter earnings season, which cannot reasonably be construed as significant new information. Moreover, he mischaracterizes the discussion in this article that "certain subprime consumer finance companies 'will continue to suffer' in light of 'concern[s] about new regulations and the cloudy economic outlook'" as firm-specific, nonfraud information and fails to establish that this market and industry information is not controlled for by my event study. *Id*.

93. Professor Ferrell also ignores the fraud related information in the article he cites. With respect to Household specifically, this same *Dow Jones News Service* article states:

> Household International Inc. … is expected to earn $1.17 a share, up from $1.03 last year and $1.07 in the second-quarter. While Household executives have said they are in compliance with most potential regulatory changes, investors will be looking for updates regarding legal claims against the company alleging predatory lending. It is reportedly close to a settlement with state attorneys general that one analyst estimates could total $350 million to $500 million.
> Meanwhile, its home equity lending operation remains strong, while credit losses are expected to rise modestly. Also of concern: the spreads on Household's bonds expiring early next year have widened significantly, which could increase its funding costs and thus pressure the net interest margin, analysts said. They'll also be looking for progress made on the company's plans to build capital levels to 8.5%.

See Exhibit 71. This quote summarizes the fraud-related information plaguing Household during the Leakage Period, while simultaneously explaining that, contrary to the assertions of Professors Ferrell and James, the rest of Household's operations were performing well. First, the article notes the continued growth in Household's earnings, characterizes the Company's home equity lending operations as "strong," and explains that credit losses were only expected to rise "modestly," which is further evidence that Household's financial performance cannot explain its stock price underperformance. Second, the statement by Household executives that they were "in compliance" with potential regulatory changes is another example of denials by the Company

regarding their predatory lending practices, which I have discussed in my prior reports and trial tesimony. *See*, e.g., Fischel Report ¶ 18 & Trial Transcript 2837:22-2845:21. Third, the article highlights widening bond spreads, which market participants attributed to predatory lending concerns. *See supra* ¶ 13. Lastly, the article discusses Household's efforts to rebuild its capital levels to 8.5 percent, a step the Company itself explained it was taking as a result of its August 14, 2002 financial restatement, and is therefore directly related to the fraud.[44]

94. Third, Professor Ferrell cites to a CIBC report as purportedly firm-specific nonfraud information that *may have* impacted Household's stock price on this date. Ferrell Report ¶ 97. However, this report was not available to market participants during trading hours on October 7, 2002 and therefore did not affect Household's stock price on October 7, 2002.[45] Hence, I discuss Professor Ferrell's claims regarding this report in the following section relating to October 8, 2002.

95. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

26) <u>October 8, 2002</u>

96. Professor Ferrell does not dispute my conclusion that fraud related information consistent with leakage was disclosed on this date. *Id.* ¶¶ 99-100. He points to several pieces of purportedly firm-specific, nonfraud related information on this date and claims that this

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44. On its August 14, 2002 conference call Defendant Schoenholz stated: "The next subject I'd like to discuss is the implication of the restatement on our capital. Specifically, our key capital ratios are impacted by about 30 basis points. We are absolutely (ph) committed to our rating, and will boost our capitals [*sic*] [ratios] to more than offset the impact in [*sic*] equity from this restatement. We are targeting a tangible equity to a tangible managed asset ratio of 8.5 percent…." *See* Exhibit 72.
45. Capital IQ lists a time stamp associated with this report of 5:42 PM on October 7, 2002, while a *Bloomberg* article titled "Household International Cut to 'Sector Underperform' at CIBC was published at 7:35 AM on October 8, 2002. *See* Exhibit 73.

information "*may have* contributed" to Household's stock price decline. *Id.* (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of my Quantification Including Leakage. He also mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information. In addition, he mischaracterizes fraud related information as nonfraud related information.

97. First, Professor Ferrell discusses a UBS report published on this date. *Id.* ¶ 99. He does not dispute that these analysts reduced their 2003 EPS estimates to $3.75 from $5.13 and reduced their price target to $30 from $41 due to the impact of possible fines and changes to the Company's business model as a result of its predatory lending practices, information that is consistent with leakage on this date. *See* Exhibit 74. Instead, Professor Ferrell notes that UBS "lower[ed] [its] 2002 estimate to $4.44 from $4.56 to reflect slower receivable growth as a result of the company's capital constraints, wider spreads on the company's debt, higher credit losses and continued reserve building, and limited ability to further reduce costs." *See* Ferrell Report ¶ 99. However, as discussed above, market participants attributed the Company's widening debt spreads to concerns about predatory lending, and the Company itself attributed its capital building actions to the restatement. *See supra* ¶¶ 13 & 93 n.44. Moreover, as explained *supra* ¶ 15 n.21, Professor Ferrell fails to establish that concerns regarding "higher credit losses and continued reserve building" were unrelated to Household's re-aging practices.

98. Second, Professor Ferrell cites to a *Financial Times* article on October 8, 2002 discussing that "[c]redit spreads for specialty US finance companies have widened sharply this week as concern grows over their ability to continue accessing the capital markets." Ferrell Report ¶ 100. However, this article discusses industrywide concerns, not firm-specific information unique to Household. *See* Exhibit 75. Indeed, the article explains that analysts attributed the

widening in bond spreads at CIT Group, Capital One, MBNA, the finance divisions of Ford and General Motors, and Household to "negative sentiment in the corporate bond market as well as investor nervousness over the health of the financial sector." *Id.* Moreover, as discussed *supra* ¶ 13, market participants also attributed Household's bond spread widening during this period to predatory lending concerns.

99. Although he incorrectly dates the report,[46] Professor Ferrell also discusses the CIBC report noted *supra* ¶ 94 which downgraded Household to "Sector Underperformer" from "Sector Performer." *See* Ferrell Report ¶ 97 & Exhibit 76. These CIBC analysts explained that "[t]he combination of greater concern regarding prepayment speeds, credit quality trends within the auto finance and credit card portfolios, and the overhang of pending predatory lending lawsuits, has raised growing fundamental concerns regarding HI's ability to sustain earnings." *Id.* The "overhang of pending predatory lending lawsuits" is additional fraud related information consistent with leakage on this date. Further, prepayment speeds are closely tied to interest rate movements,[47] a general macroeconomic factor that Professor Ferrell fails to establish is not controlled for by my event study. In any event, to the extent concern regarding increased prepayment speeds was a direct result of Household's changes to its prepayment fee policies under its revised "best practice" initiatives announced on February 27, 2002, this is fraud-related information. Finally, as explained *supra* ¶ 15 n.21, Professor Ferrell fails to establish that concerns regarding Household's "credit quality trends" were unrelated to its re-aging practices.

100. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of my Quantification Including Leakage.

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46. *See supra* ¶ 94 n.45.
47. *See, e.g.*, Linda Lowell and Michael Corsi, "Mortgage Pass-Through Securities," in Frank J. Fabozzi, *The Handbook of Mortgage-Backed Securities* (McGraw-Hill, 2006) at 63-64.

27) October 9, 2002

101. Professor Ferrell fails to identify significant, firm-specific, nonfraud related information that could have affected Household's stock price on this date. Ferrell Report ¶ 101. Hence, there is no evidence of any "significant distortion" of my Quantification Including Leakage.

B. Six Specific Disclosures

1) December 12, 2001

102. Professor Ferrell does not dispute that fraud related information caused Household's stock price to decline on this date.[48] *Id.* ¶ 102. Instead, he points to purportedly firm-specific, nonfraud related information on this date and claims that this information also "*may have* contributed" to Household's stock price decline. *Id.* ¶¶ 102-103 (emphasis added). However, Professor Ferrell fails to establish that any of this information was significant or resulted in any "significant distortion" of either my Quantification Using Specific Disclosures or my Quantification Including Leakage. He also mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information.

103. Professor Ferrell points to a *Business Wire* article titled "Credit Card Charge-Offs Increased in October," which noted that "delinquency trends—combined with the recent increase in unemployment rates—point toward higher charge-off rates in the upcoming

48. As I explained at trial, after the close of trading on December 11, 2001, analysts at Legg Mason issued a report detailing their criticisms of Household's re-aging policies: "We find this lenient reaging policy disturbing as it undermines the analytical value of the reported asset quality statistics. … We are not asking for HI to discontinue its flexible collections practices, just report asset quality problems more conventionally (a late is a late until repaid in full)." *See* PDEM 140 & Exhibit 77.

months." *Id.* ¶ 103. However, he mischaracterizes the industry information contained in this article as firm-specific information. Indeed, this article does not even mention Household. *See* Exhibit 78. Moreover, Professor Ferrell fails to establish that my event study did not control for this industry information. Thus, despite his assertions of what "may have" had an effect on this date, there was no "significant distortion" of either my Quantification Using Specific Disclosures or my Quantification Including Leakage.

2) July 26, 2002

104. Professor Ferrell does not dispute that fraud related information caused Household's stock price to decline on this date.[49] Ferrell Report ¶ 102. Instead, he points to purportedly firm-specific, nonfraud related information on this date and claims that this information also "*may have* contributed" to Household's stock price decline. *Id.* ¶¶ 102 & 104 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of either my Quantification Using Specific Disclosures or my Quantification Including Leakage. He also mischaracterizes fraud related information as nonfraud related information.

105. Specifically, Professor Ferrell points to the same Credit Suisse fixed income report that he discussed previously as purported "firm-specific, nonfraud information that may

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49. As I explained in the Fischel Report:

> On July 26, 2002, *The Bellingham Herald* reported that "[f]or the first time, Household International has acknowledged that its employees may have misrepresented mortgage loan terms to some Whatcom County homeowners who refinanced their homes at the Bellingham office of Household Finance Co., a subsidiary." … The article stated that "[u]ntil now, company spokesmen have portrayed Household as an industry leader in consumer protection, with elaborate safeguards to make sure borrowers understand the deals they are signing" but "this week, [a company spokesperson] said an internal company probe of the complaints had uncovered some serious problems."

See Fischel Report ¶ 18 & Exhibit 79.

have impacted Household's stock price on July 25, 2002" (*see supra* ¶ 63), and claims this same information "may [also] have impacted Household's stock price on July 26, 2002." Ferrell Report ¶¶ 81 & 104. As discussed above, however, he mischaracterizes fraud related information in this report as firm-specific information. *See supra* ¶ 63. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of either my Quantification Using Specific Disclosures or my Quantification Including Leakage.

3) August 14, 2002

106. Professor Ferrell does not dispute that fraud related information caused Household's stock price to decline on this date.[50] Ferrell Report ¶ 102. Instead, he points to several pieces of purportedly firm-specific, nonfraud related information on this date and claims that this information also "*may have* contributed" to Household's stock price decline. *Id.* ¶¶ 102 & 105-106 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of either my Quantification Using Specific Disclosures or my Quantification Including Leakage. He also mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information. In addition, he mischaracterizes fraud related information as nonfraud related information.

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50. As I explained in the Fischel Report:

> On August 14, 2002, Household announced that it was restating its prior reported financial results downward. … Market participants were surprised by the announcement. … Analysts at Morgan Stanley commented that the restatement "suggests to us that returns in the credit card business are lower than we previously thought," which caused them to reassess the profitability of the credit card business and reduce their earnings forecasts and price target. … CIBC World Markets analysts also reduced their 2002 and 2003 earnings estimates and lowered their price target to $57 from $65.

Fischel Report ¶ 27.

107. First, Professor Ferrell cites to JP Morgan, William Blair, Bear Stearns, and Salomon Smith Barney analyst reports that discuss (in addition to the restatement) concerns about "the broader economic picture, namely the U.S. economy," "higher funding costs and fewer share buybacks," "slower loan growth," "regulatory and political scrutiny," and "jittery debt markets."[51] *See* Ferrell Report ¶ 105 & Exhibits 80-83. But, even if there were new concerns about "the broader economic picture" on this date, this would be market and industry information, not firm-specific information, and Professor Ferrell fails to establish that my event study does not control for it. Moreover, concerns about "regulatory and political scrutiny" relate directly to Household's fraudulent predatory lending activities. Similarly, concerns about "higher funding costs and fewer share buybacks" and "slower loan growth" were a direct consequence of Household's incorrect accounting and financial restatement as explained by Defendant Schoenholz on the Company's conference call that day:

> The next subject I'd like to discuss is the implication of the restatement on our capital. Specifically, our key capital ratios are impacted by about 30 basis points. We are absolutely (ph) committed to our rating, and will boost our capitals [*sic*] [ratios] to more than offset the impact in [*sic*] equity from this restatement. … We intend to achieve these ratios by suspending our share repurchase program, by portfolio sales to fulfill balance sheet growth, and by issuing capital securities and/or common stock as necessary.

See Exhibit 72.[52] Further, Professor Ferrell fails to demonstrate that debt markets were "jittery" for firm-specific, nonfraud reasons. As discussed above, in February 2002, Household was the

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51. Professor Ferrell also highlights that in addition to the restatement, Bear Stearns lowered its earnings estimates to reflect "the whole loan sales we expect this year." Ferrell Report ¶ 105. However, he ignores that Bear Stearns stated that "demand appears to be very strong for home equity loans and we understand that the premiums being paid currently are similar to the high levels seen back in 1998." *See* Exhibit 82.
52. This was also discussed in a Fitch report cited by Professor Ferrell discussing the restatement: "management is committed to replenishing capital ratios to levels above what were originally reported at June 30, 2002 (raise TETMA to 8.50%) by year-end 2002. Management will achieve this through a suspension of the company's stock buyback program, targeted portfolio

subject of liquidity rumors due to concerns surrounding its accounting practices, and in October 2002 market participants attributed the Company's credit spread widening to concerns around its predatory lending practices. *See supra* ¶¶ 13 & 24.

108. Second, Professor Ferrell points to a Fitch report in which Household's credit ratings were affirmed following the restatement, and he specifically highlights Fitch's concerns regarding portfolio liquidity in times of economic stress. Ferrell Report ¶ 106. However, this was not new information; it was the very concern that resulted in Fitch revising its long-term Rating Outlook on Household to Negative from Stable on January 11, 2002. *Compare* Exhibit 84 *with* Exhibit 21. Indeed, the Fitch report cited by Professor Ferrell notes that this information was "mentioned earlier this year." *See* Exhibit 84.

109. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of either my Quantification Using Specific Disclosures or my Quantification Including Leakage.

4) <u>August 16, 2002</u>

110. Professor Ferrell does not dispute that fraud related information caused Household's stock price to decline on this date.[53] Ferrell Report ¶ 102. Instead, he points to

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sales to control growth, and the issuance of additional capital, common or preferred, if necessary." *See* Exhibit 84.

53. On August 15, 2002, *Forbes* posted an article on its website after the market closed that accused Household of improper lending practices:

> In addition to the bait-and-switch on interest rates, [Household] charges high prepayment penalties and service fees; it lures clients with proposals showing monthly savings that at times fail to materialize; and it structures mortgages to include last-minute second loans that make it difficult for borrowers to defect and get refinancing elsewhere. Household agents call it "closing the back door."

See PDEM 144 *and* Exhibit 85. The article also reported that these practices were not isolated instances as Household claimed, stating "authorities from more than a dozen states descended on Household to demand refunds and reforms," and quoting the Minnesota Commerce Commissioner: "Household encourages, or at least tolerates, these abuses…. It's not just an occasional rogue officer or a rogue office. It has to do with the corporate culture." *Id.*

purportedly firm-specific, nonfraud related information on this date and claims that this information also "*may have* contributed" to Household's stock price decline. *Id.* ¶¶ 102 & 107 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of either my Quantification Using Specific Disclosures or my Quantification Including Leakage. He also mischaracterizes industry information as firm-specific information and does not establish that my event study did not control for this industry information.

111. Professor Ferrell points to an A.G. Edwards report in which the analysts reduced their price target and earnings estimates "to reflect the restatement and slightly lowered expectations based on a weaker than expected macro-economic environment." *See* Ferrell Report ¶ 107 and Exhibit 86. He also cites to discussion in this report regarding "the market[']s low appetite for consumer exposure and the uncertainty concerning the timing of an economic recovery" and the risk that if "the U.S. economy would sustain a downturn that would significantly weaken the credit quality of the U.S. consumer." *See id.* However, with the exception of the restatement which is fraud related information, all of the other information cited by Professor Ferrell is market and industry information that he mischaracterizes as firm-specific information, and which he fails to demonstrate was not captured by my event study. Thus, despite his assertions of what "may have" had an effect on this date, there was no "significant distortion" of either my Quantification Using Specific Disclosures or my Quantification Including Leakage.

5) August 27, 2002

112. Professor Ferrell does not dispute that fraud related information caused Household's stock price to decline on this date.[54] Ferrell Report ¶ 102. Instead, he points to purportedly firm-specific, nonfraud related information on this date and claims that this information also "*may have* contributed" to Household's stock price decline. *Id.* ¶¶ 102 & 108 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of either my Quantification Using Specific Disclosures or my Quantification Including Leakage. He also mischaracterizes fraud related information as nonfraud related information.

113. Professor Ferrell cites to a Keefe, Bruyette & Woods ("KBW") report on this date in which KBW initiated coverage of Household with a Market Perform rating in a report titled "Yet Another Un-Investable Situation." *Id.* ¶ 108. In describing why they believed Household was in an "un-investable situation," KBW listed two factors not mentioned by Professor Ferrell: (1) "Predatory lending concerns: Are the issues systemic and will the amelioration of such issues reduce future profitability?;" and (2) "Accounting practices/philosophy of the company have never been considered conservative." *See* Exhibit 88. Both of these factors ignored by Professor Ferrell relate directly to the fraud. The other three factors he mentions include: (3) "Right side of the balance sheet is a major issue. $19 billion of notes are maturing by year end 2003;" (4) "Company has placed fixed income investors ahead of equity investors;" and (5) "Credit costs remain a concern, particularly in auto and unsecured lending." *See id.* & Ferrell Report ¶ 108. The fact that Household had $19 billion of notes maturing by year end 2003,

54. On this date, *The Bellingham Herald* published an article that called the WA Report a "blistering assessment" of Household mortgage loan practices in the state that "found evidence of 'a pattern of intentional deception' of homeowners." *See* Fischel Report ¶ 16 & Exhibit 87.

however, was not new information that reasonably could have contributed to Household's stock price decline on this date, while the remainder of the "right side of the balance sheet" issues described by Professor Ferrell concern liquidity and bond spreads, which as explained previously were attributed to fraud-related accounting and predatory lending concerns. *See* Ferrell Report ¶ 108 & *supra* ¶¶ 13 & 24. Similarly, KBW explained that "Household has placed fixed income investors ahead of equity investors," because of "increased liquidity risk and widening spreads in the term debt market." *See* Exhibit 88. Further, in discussing credit cost concerns, KBW downplayed this risk: "[w]hile we do not put credit costs at the top of the KBW risk list, it is a risk nonetheless. Going forward, we expect charge-offs to rise from current levels, but nothing to sound-off the alarms." *See id.* In addition, as explained *supra* ¶ 15 n.21, Professor Ferrell fails to establish that concerns regarding credit quality trends were unrelated to Household's re-aging practices. In any event, as he notes, KBW stated that the credit cost issue was industrywide ("'credit costs for the industry are at or near peak levels'"), and he has not demonstrated that my event study does not control for it. Ferrell Report ¶ 108. Thus, despite his assertions of what "may have" had an effect on this date, there was no "significant distortion" of either my Quantification Using Specific Disclosures or my Quantification Including Leakage.

6) <u>September 23, 2002</u>

114. Professor Ferrell does not dispute that fraud related information caused Household's stock price to decline on this date. Ferrell Report ¶ 102. Instead, he points to several pieces of purportedly firm-specific, nonfraud related information on this date and claims that this information also "*may have* contributed" to Household's stock price decline. *Id.* ¶¶ 102 & 109-111 (emphasis added). However, he fails to establish that any of this information was significant or resulted in any "significant distortion" of either my Quantification Using Specific Disclosures or my Quantification Including Leakage. He also mischaracterizes industry information as firm-

specific information and does not establish that my event study did not control for this industry information.

115. First, Professor Ferrell cites to a September 22, 2002 CIBC report which, as I explained in the Fischel Report, states:

> Headline risk has been unrelenting, and we see no clear sign that it will abate. We have lowered our price target for Household International to $36 from $57 as persistent headline risk should continue to pressure Household's valuation. Over the past several months, scrutiny of sub-prime lenders has intensified among regulators and investors alike, which has placed unrelenting pressure on Household's market valuation. In particular, building concerns regarding the company's lending practices, which have been accused of being predatory in nature and is [*sic*] currently the subject of an investigation by the Washington Department of Financial Institutions, have dampened price performance. Moreover, skepticism regarding the company's rapid portfolio growth, particularly within the auto business, and mounting credit quality concerns related to Household's loan workout and re-aging practices have also been a drag on the stock.

See Exhibit 18 (original emphasis excluded). While ignoring this evidence supporting leakage of the fraud, he instead highlights market and industry-related information scattered throughout this CIBC report about the "potential for higher interest rates" and the "uncertain economic outlook," and mischaracterizes this information as firm-specific information that *may have* contributed to Household's stock price decline. *See* Ferrell Report ¶ 102 & Exhibit 18. He once again fails to establish that this market and industry-related information was not controlled for by my event study.

116. Second, Professor Ferrell cites a *Dow Jones Capital Markets* article discussing "[c]oncerns about companies with high levels of debt and exposure to sub-prime borrowers as well as general concerns about the health of the economy…." *See* Ferrell Report ¶ 111 & Exhibit 89. Yet again, he mischaracterizes this market and industry information as firm-specific information and fails to establish that my event study did not control for this information.

117. Thus, despite Professor Ferrell's assertions of what "may have" had an effect on this date, there was no "significant distortion" of either my Quantification Using Specific Disclosures or my Quantification Including Leakage.[55]

IV. PROFESSOR FERRELL'S OTHER CRITICISMS OF MY QUANTIFICATION INCLUDING LEAKAGE ARE MISPLACED

118. Professor Ferrell criticizes my Quantification Including Leakage for including 171 days where there were no statistically significant price movements. Ferrell Report ¶¶ 112-118. In making this claim, Professor Ferrell ignores the academic support for the existence of leakage in stock prices as well as the substantial amount of evidence supporting leakage in this case, described above, that was recognized by the Defendants themselves, market participants, the jury, and the Appellate Court. Obviously, as here, if leakage is affecting stock prices, there is a need to measure it. This is exactly what I have done.

119. On the 171 days with no statistically significant price movement, there were in excess of a thousand disclosures about Household (e.g., company statements, news articles, analyst reports, etc.),[56] many of which contain both fraud related and nonfraud related

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55. Contrary to my opinions above, Defendants' assert that I conceded at my deposition that there were "a bunch" of statistically significant stock price movements "not attributable to fraud related disclosures" and that there were "more things going on with respect to Household than just the things that are related to plaintiffs' allegations" during the Leakage Period. Defendants' Memorandum of Law in Support of Their Motion to Exclude the Testimony of Plaintiffs' Expert Professor Daniel R. Fischel ("Defendants' Memo") at 9-10. Defendants Memo, however, mischaracterizes this testimony as pertaining solely to the Leakage Period. As the transcript makes clear, this testimony related to my event study presented in Fischel Report Exhibit 49, an analysis that includes not just the Leakage Period, but covers the entire original class period beginning July 30, 1999. Fischel Deposition Transcript 51:10-57:16 & 144:22-147:9. Consistent with this testimony, and by construction, my inflation calculations do not attribute any of the numerous statistically significant stock price movements outside of the Leakage Period to fraud related disclosures.
56. For example, there are over 1,800 news articles in the Dow Jones Factiva database mentioning Household International on these 171 days. Additional disclosures about Household can be

information.[57] Because the price movements on these days are not statistically significant, it would not ordinarily be possible, absent the overwhelming evidence of leakage in this case, using standard methodology to attribute the price movement on any day or combination of days to any particular cause.[58] But leakage, by definition, and as widely recognized in the academic literature, occurs when there is external evidence to explain price movements, as there is here (i.e., the stock price underperformance coupled with the Company's and market participants' attribution of that underperformance to leakage of the fraud), even though it is not possible to identify precisely when information leakage enters the market.[59] Because of the overwhelming evidence of leakage and the absence of any showing of firm-specific, nonfraud related information that "significantly distorted" my Quantification Including Leakage, I included these 171 days in my inflation calculation by cumulating the residual returns on these days. The result of this calculation is that the positive and negative returns for the most part cancel each other out,[60] but with the net amount

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found on the SEC's EDGAR database, LexisNexis, Bloomberg, and Thomson Research's Investext Investment Research, among other sources.

57. *See* Exhibit 90 for examples of such days.
58. *See*, e.g., M. Mitchell and J. Netter, "The Role of Financial Economics in Securities Fraud Cases," *The Business Lawyer*, February 1994, at 564; D. Tabak and F. Dunbar, "Materiality and Magnitude: Event Studies in the Courtroom" in *Litigation Services Handbook* (3rd ed.), 2001, at 19.9; *and* D.R. Fischel, "Use of Modern Finance Theory in Securities Fraud Cases Involving Actively Traded Securities," 38 *The Business Lawyer*, Vol. 38, November 1982 ("Fischel (1982)"), at 19. Defendants' Memo claims that I "acknowledged" in Fischel (1982) that "statistically insignificant residual price movements cannot be attributed to the revelation of any particular event," but disregards the footnote to the sentence in Fischel (1982) that they cite, which reads: "This statement assumes that there has been no leakage of information…." *Compare* Defendants' Memo at 18 *with* Fischel (1982) at 19 n.50.
59. *See supra* ¶ 7 and authorities cited therein.
60. Contrary to Defendants' and Professor Ferrell's mischaracterizations of my trial testimony (*see* Defendants' Memo at 10-11 & Ferrell Report ¶¶ 9-11 & 35-36), the evidence above plus the fact that the significant firm-specific, nonfraud decline on January 11, 2002 was canceled out by the increase two trading days later (*see* Fischel 2nd Supplemental ¶¶ 5-8) is entirely consistent with my prior testimony that:

    > I noticed that there were a lot of disclosures that had some fraud-related information in it and some other… part of the disclosure… dealt with something other [than that which] was fraud related.

still negative because the $52.19 of negatives outweighs the $45.44 of positives.[61] *See* Fischel 2nd Supplemental Exhibit 1.

120. Moreover, if one focuses on the 203 days in Professor Ferrell's Exhibit 1 on which he claims I provided no information consistent with leakage (including the 171 non-significant days) the cumulative residual price change on these days is a positive $0.31.[62] Consequently, excluding these 203 days from my Quantification Including Leakage as Professor Ferrell advocates would *increase*, not decrease, my estimate of inflation.

121. Professor Ferrell also claims that I failed to address purportedly firm-specific, nonfraud related information disclosed on four of the 171 nonsignificant days during the Leakage Period. Ferrell Report ¶¶ 114-118. However, on each of these days, Professor Ferrell mischaracterizes market and industry information as firm-specific, nonfraud information[63] and

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> There were some… disclosures that had a positive effect, some had a negative effect; but overall it was impossible to conclude that the difference between the true value line and the actual price would have been any different had there been no disclosures about non-fraud-related information during this particular period. Some positive, some negative. They cancel each other out.

Trial Transcript 2683:17-2684:6.

61. The cumulative residual price change on these 171 days was a negative $6.75. *See* Fischel 2nd Supplemental Exhibit 1 & Ferrell Report Exhibit 1.
62. Specifically, the total Cumulative Residual Price Changes under the Leakage Model column of Ferrell Report Exhibit 1 for the one day labeled "Positive and Negative News 'Canceled Out,' the 15 days labeled "No Negative, Firm-specific, Nonfraud News, No Information Consistent with Leakage," the 16 days labeled "Not Analyzed in Second Supplemental Report," and the 171 days labeled "Non-Statistically Significant Days" is $0.31 (= -$1.66 + -$21.40 + $30.12 + -$6.75).
63. Professor Ferrell mischaracterizes discussion in a November 30, 2001 Ventana Capital report about "[w]aning consumer demand in light of the current economic downturn" as firm-specific information. *See* Ferrell Report ¶ 115 & Exhibit 91. He also cites to a January 16, 2002 Piper Jaffray report that maintained its "Outperform" rating following Household's fourth quarter 2001 earnings announcement that "was in-line with [Piper Jaffray] and the Street estimates," and mischaracterizes discussion in this report about "consumer finance trends" and "rising unemployment" as firm-specific information. *See* Ferrell Report ¶ 116 & Exhibit 92. Further, Professor Ferrell mischaracterizes discussion in a February 13, 2002 Bernstein Research report about issues at AmeriCredit as firm-specific information, even though this report differentiated Household from AmeriCredit as he himself recognizes. *See* Ferrell Report ¶ 117 & Exhibit 93.

ignores that Household's stock price reaction was not statistically significant on these days after controlling for market and industry factors.[64] Furthermore, Professor Ferrell ignores fraud related information consistent with leakage disclosed on these dates.[65]

122. Professor Ferrell further claims that "a portion of [my] inflation and damages per share estimates is due to nonfraud information according to [my] own event study" because I do not cap damages on each day during the Leakage Period by the total subsequent price decline as I did prior to the Leakage Period. *Id.* ¶¶ 15.b & 20-24. Professor Ferrell misconstrues the rationale for the cap and incorrectly conflates the Leakage Period with the pre-Leakage Period. To the extent that on any day *prior* to the Leakage Period inflation estimated using the Cornell and Morgan leakage model exceeded the cumulative residual price decline *during* the Leakage Period of $23.94, I limited the inflation on that day to $23.94 and adjusted the true value line accordingly.

123. Finally, Professor Ferrell claims that "[a]nother *potentially important* firm-specific nonfraud factor … that *can impact* a stock's price is firm-specific statistical (or random) noise." *Id.* ¶ 29 (emphasis added). Once again, he provides no evidence that this issue significantly distorts my model and its results or is biased in one direction or the other. Moreover, attempting to blame Household's relative stock price performance on random noise ignores the substantial evidence of leakage documented above and in my prior reports and testimony, which, again, was widely acknowledged including by the Defendants themselves.

Finally, Professor Ferrell cites a May 31, 2002 Wachovia report that initiated coverage on Household with a "Buy" rating, and mischaracterizes a statement in this report about "modestly rising credit losses and general uncertainty regarding the outlook for the U.S. economy" as firm-specific information. *See* Ferrell Report ¶ 118 & Exhibit 94.

64. *See* Fischel 2nd Supplemental Exhibit 1.

65. For example, the focus of the November 30, 2001 Ventana Capital report he cites is the aggressive underwriting tactics used by Household to advance its growth strategy coupled with concerns that "[a]ggressive accounting embellishes earnings" and that "[a]sset quality issues may be masked by liberal chargeoff policies." *See* Exhibit 91.

V. PROFESSOR JAMES' SPECULATIONS ABOUT MARKET AND INDUSTRY CONDITIONS IN NO WAY ESTABLISH THAT FIRM-SPECIFIC, NONFRAUD RELATED INFORMATION SIGNIFICANTLY DISTORTED MY QUANTIFICATION INCLUDING LEAKAGE

124. Professor James claims to have "found numerous types of nonfraud information [that] were released during Fischel's Observation Window [i.e., the Leakage Period] that could have affected, and based on my industry experience, likely did affect, the stock price of Household and similar subprime lenders more negatively than such information would have affected the stock prices of the broader set of financial institutions represented by the S&P Financials Index." James Report ¶ 58. Even taken at face value, none of this is firm-specific, nonfraud related information. Moreover, as he himself admits, his entire opinion that my model may have been significantly distorted by nonfraud information is just speculation based on his "industry experience" rather than on any objective test. As I explained *supra* ¶ 12, an objective test of whether Professor James' claim has any merit based on his own identification of consumer finance firms demonstrates that my model was not significantly distorted. He also ignores the substantial evidence demonstrating leakage and the positive announcements by the Company regarding its business performance. *See supra* ¶¶ 8 & 15-16.

125. In addition, Professor James' claim regarding my use of the S&P Financials Index to control for industry-related movements is contradicted by Household in the very document he cites. He opines that this index "is a broad index that is heavily weighted towards companies with businesses that differ substantially from Household's—banks, insurers, investment services companies, and asset managers." James Report ¶ 11. However, Professor James ignores Household's statement in its 2001 10-K that it competed with banks, insurance companies and

investment services companies such as securities brokers and dealers,[66] as well as the fact that Household chose to compare its stock price performance to the S&P Financials Index in its annual Proxy Statements filed with the SEC during the Class Period. Fischel Report ¶ 29 n.10.

VI. PROFESSOR CORNELL MERELY REPEATS HIS PREVIOUSLY REJECTED CRITICISMS AND AGAIN FAILS TO ESTABLISH THAT FIRM-SPECIFIC, NONFRAUD RELATED INFORMATION SIGNIFICANTLY DISTORTED MY QUANTIFICATION INCLUDING LEAKAGE

126. Professor Cornell merely repeats his criticisms of my Quantification Including Leakage that I previously responded to in the Fischel Supplemental[67] and that I understand were rejected prior to the Household trial.[68] Specifically, Professor Cornell claims that my Quantification Including Leakage is "unsupported by… financial economics literature" and does not "take account of firm-specific factors." Cornell Report ¶ 16. Yet the leakage model Professor Cornell criticizes comes directly from his own article, which specifically discusses the

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66. "The consumer financial services industry in which we operate is highly fragmented and intensely competitive. We generally compete with banks, thrifts, insurance companies, credit unions, mortgage lenders and brokers, finance companies, securities brokers and dealers, and other domestic and foreign financial institutions in the United States, Canada and the United Kingdom." Household International, Inc. Form 10-K for the year ended December 31, 2001, filed on March 13, 2002 ("2001 10-K") at 10. Professor James cites Household's 2001 10-K in ¶ 12 n.7, ¶ 15 n.14, and ¶ 18 n.18 of the James Report.
67. I incorporate herein by reference all of my previous responses to Professor Cornell's criticisms that were detailed in the Fischel Supplemental.
68. Minute Order denying *Daubert* motion to exclude the testimony of Daniel Fischel, March 23, 2009 (stating that Fischel used a "well-established" method with a basis in the academic literature, and specifically citing: M.S. Thorsen et al., "Rediscovering the Economics of Loss Causation," 6 *J. Bus. & Sec. Law* (2006); S. Bhagat & R. Romano, "Event Studies and the Law: Part II: Empirical Studies of Corporate Law," 4 *Am. Law & Econ. Rev.* (Fall 2002); G.N. Pettengill & J.M. Clark, "Estimating Expected Returns in an Event Study Framework: Evidence from the Dartboard Column," 40 *Quarterly Journal of Bus. & Econ.* (2001); A.C. MacKinlay, "Event Studies in Economics and Finance," 35 *J. Econ. Lit.* (March 1997); M.L. Mitchell & J.M. Netter, "The Role of Financial Economics in Securities Fraud Cases: Applications at the Securities and Exchange Commission," 49 *Bus. Law.* (1994); B. Cornell & R.G. Morgan, "Using Finance Theory to Measure Damages in Fraud on the Market Cases," 37 *UCLA Law Rev.* (1990)).

concept of leakage and the need to measure it.[69] Importantly, like Defendants' new experts, Professor Cornell ignores the extensive evidence of leakage in this case and fails to establish that firm-specific, nonfraud related information in any way significantly distorted my Quantification Including Leakage.

127. Instead, Professor Cornell claims that "even a cursory review of the information that Prof. Fischel himself cites in his September 2015 Report demonstrates that firm-specific, nonfraud information affected Household's stock price on days that he identifies as having a statistically significant decline during the [Leakage Period]." *Id.* ¶ 21. His "cursory review" of the thousands of pages of material I analyzed yielded two quotes from analysts and an unsupported contention that "[c]oncerns regarding Household's liquidity and generally depressed market multiplies [*sic*] for financials are not related to the alleged fraud in this matter." *Id.* ¶ 22. However, as explained *supra* ¶¶ 24-25, the Company's liquidity issues were related to the fraud, and regardless, the liquidity issues he points to were temporary issues that were reversed the following day. Moreover, Professor Cornell ignores that generally depressed market multiples for financial firms are not firm-specific information and, in any event, are accounted for by my industry index.[70]

---

69. Cornell & Morgan at 899 & 903-907. The District Court cited this article of Professor Cornell's when rejecting his criticisms of my Quantification Including Leakage. *See* n.68 *supra*.
70. While Professor Cornell claims that compounding error terms (a part of the regression equation underlying every event study) "*can* produce significant errors in measured inflation" (Cornell Report ¶ 16 (emphasis added)), this is true for any lengthy window under his leakage model (and certainly for the multi-year case study he presents in his article), yet he did not retract his article or disclaim its general use. Moreover, his Exhibit 1 demonstrates leakage within the 95 percent confidence interval he presents. Professor Cornell also ignores the adjustments I made to his model that substantially reduces the amount of inflation it estimates: (1) I adjusted the predicted returns from his model, which reduced the cumulative residual price decline over the Leakage Period by $12.53 or 34 percent; and (2) I placed a cap on damages incurred prior to the Leakage Period.

Daniel R. Fischel

November 23, 2015

Exhibit 1

DOW JONES

Chicago Tribune

SE
News

HD
HSBC adds Household to holdings

London bank to pay $15 billion

BY
By Janet Kidd Stewart, Tribune staff reporter.

WC 1,028 words
PD 15 November 2002
SN Chicago Tribune
SC TRIB
ED North Sports Final
PG 1
LA English

CY
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LP

One of Chicago's most familiar business names, Household International Inc., agreed Thursday to be acquired by Europe's biggest bank, ending a 108-year local run and renewing concerns about the city's dimming prominence as a financial center.

London-based HSBC Holdings PLC, the world's third-largest financial institution, will pay an estimated $15.4 billion, almost all of it in HSBC stock, to acquire the Prospect Heights-based consumer lender. The exchange, valued at $30.04 a share, represents a 34 percent premium over where Household's shares traded before the announcement, but less than half the company's 52-week high of $63.25.

TD

Household shares recently hit a seven-year low but rallied 22 percent Thursday on the merger news to close at $27.50. The actual value of the deal would depend on the value of both stocks when the purchase closes.

Despite picking up the headquarters of Boeing Co., the skyline of well-known Chicago business names has been crumbling for a decade. Companies from Ameritech Corp. to Amoco Corp. to Quaker Oats Co. all have become pieces of bigger companies based in other cities.

The Household acquisition moves HSBC to fifth from 11th among U.S. lenders. The deal is the largest financial services merger this year.

Under the agreement, which still must be approved by shareholders and regulators, Household stockholders will get 2.675 HSBC shares for each share of Household stock. The deal is expected to close in the first quarter of next year.

Founded in the back of a Minneapolis jewelry store in 1878, Household moved to Chicago in 1894 to consolidate its Midwest operations. It remained in the city until moving to the suburbs in the late 1970s.

Once an owner of the Ben Franklin retail chain and National, the car rental company, Household has focused its businesses since the mid-1990s, as Chairman and Chief Executive William Aldinger emphasized credit card, auto finance and mortgage lending to middle-income consumers.

Household also was the largest independent lender to people with troubled credit histories, and its lending practices have come under scrutiny in recent months amid allegations of egregious behavior, including socking consumers with hidden fees. At the same time, Household's credit quality has come under fire from bond investors as the economy worsened, sparking fears of mass loan defaults.

The fact that Aldinger and Household's board agreed to a deal at such a low share price raised fears that the firm's problems are growing.

"Bondholders were very happy when they woke up this morning because this takes the pressure off the funding issue. But $30 a share is pretty disappointing" to owners of the company's common stock, said Kathleen Shanley of Gimme Credit, a north suburban credit analysis firm.

While the deal was portrayed as a steal for the European bank, swooping in to pick up a troubled but profitable firm on the cheap, not all observers think this will be the last word.

"You have to wonder why [Household executives] accepted a deal that was rather lukewarm," said Thomas Lys, an expert in mergers and acquisitions and a professor at Northwestern University. "Maybe their balance sheet is a lot weaker than it seems. The people who ought to be worried are the buyers, because they could be heading for some buyer's remorse."

Aldinger has signed a three-year deal to remain with the combined firm. He is expected to join HSBC's board of directors and lead its U.S. operations. He vowed that cost savings will come from Household's improved credit costs, not layoffs.

Household employs about 5,200 people in Illinois--at its headquarters, an e-commerce unit downtown and in branch offices statewide. It has 32,000 employees worldwide and about 1,400 U.S. consumer lending branches.

"One of the things I want to assure everyone is that HSBC has asked management to stay fully involved in the company," Aldinger said.

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Just last month, Household agreed to a $484 million settlement with state attorneys general aimed at capping its legal exposure over predatory lending allegations involving its subprime mortgage business.

Aldinger said the company's weak share price and higher borrowing costs as a result of those allegations helped spur the deal. But he said an acquisition was inevitable.

"The capital markets being what they were and our cost of funding being up a lot accelerated our thinking," he said.

Strategically, he said, Household was becoming so large that a merger with a larger firm had to occur to continue the company's growth rate.

"Long term, this improves our ability to go international with a strong brand," which ultimately could boost employment levels here, he said.

Veteran observers of big mergers had their doubts, suggesting that in most deals there are job losses in the executive suites, even if the merging firms don't have overlapping businesses in shared geographies.

By combining with HSBC, analysts said, Household also shores up its financial resources.

The London bank views the takeover as creating a U.S. beachhead that will balance the bank's international presence among North America, China and Western Europe, said Youssef Nasr, president and chief executive of HSBC USA, who will report to Aldinger.

HSBC is the world's third-largest financial institution by market capitalization. It has $56 billion in U.S. deposits and $90 billion in U.S. assets.

Aldinger said being the only stand-alone company left in the business of making loans to higher-risk consumers--and thus the most likely target for consumer-lending advocates--was becoming too costly.

The merger may not end those woes. Consumer groups vowed to pursue additional lawsuits alleging predatory lending.

"Their failure to recover [in share price] since the settlement is due in large part to their outstanding liability," said David Swanson, a spokesman in Chicago for ACORN, an activist group with three pending lawsuits against Household. "In fact, it may encourage more suits now that the company has deeper pockets."

CO ametec : Ameritech Corp | boeing : The Boeing Company | hfc : HSBC Finance Corp | hksbc : HSBC Holdings PLC | sbcatt : AT&T Inc

IN i364 : Aerospace Products/Parts | i3640010 : Civil Aircraft | i7902 : Telecommunications | i79021 : Wired Telecommunications Services | i7902101 : Local Telephone Services | i814 : Banking | i81402 : Commercial Banking | i81501 : Credit Types/Services | i8150105 : Consumer Lending | iaer : Aerospace/Defense | ibnk : Banking/Credit

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IPD	CHICAGO
PUB	Chicago Tribune
AN	Document trib000020021115dybf000e6

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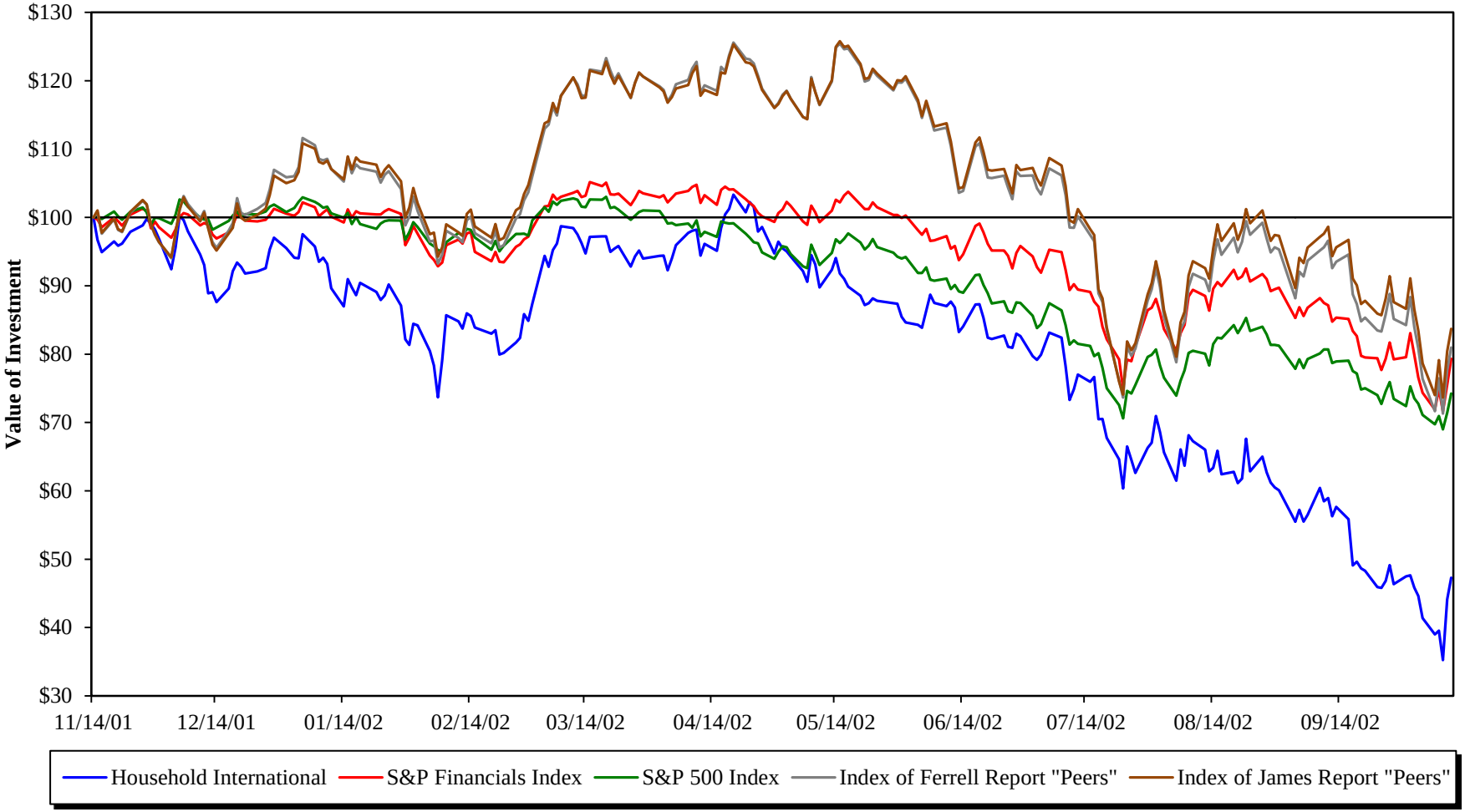
Exhibit 2

Value of $100 Invested in Household International, the S&P Financials Index, the S&P 500 Index, and Indexes of "Peer" Firms Identified in the Ferrell and James Reports November 14, 2001 - October 11, 2002



Note: Index of Ferrell Report "Peers" is a value-weighted index of the stock total returns of American Express, AmeriCredit Financial, Capital One Financial, The CIT Group, CompuCredit, MBNA, Metris Companies, Providian Financial, and WFS Financial. *See* Ferrell Report ¶42. Index of James Report "Peers" is a value-weighted index of the stock total returns of American Express, Capital One Financial, MBNA, and Providian Financial. *See* James Report Exhibit 4. One of the firms identified in the Ferrell Report, The CIT Group, was not publicly traded for much of the Leakage Period; it was spun-off by Tyco in July 2002. Excluding this firm from the index of "peer" firms identified by Professor Ferrell produces substantially similar results.

Exhibit 3

Household International Common Stock Price and True Values For Quantification Including Leakage and Recalculated Leakage Model Including Indexes of "Peer" Firms Identified in the Ferrell and James Reports March 28, 2001 - October 11, 2002

Note: Vertical line denotes November 15, 2001. Index of Ferrell Report "Peers" is a value-weighted index of the stock total returns of American Express, AmeriCredit Financial, Capital One Financial, The CIT Group, CompuCredit, MBNA, Metris Companies, Providian Financial, and WFS Financial. *See* Ferrell Report ¶42. Index of James Report "Peers" is a value-weighted index of the stock total returns of American Express, Capital One Financial, MBNA, and Providian Financial. *See* James Report Exhibit 4. One of the firms identified in the Ferrell Report, The CIT Group, was not publicly traded for much of the Leakage Period; it was spun-off by Tyco in July 2002. Excluding this firm from the index of "peer" firms identified by Professor Ferrell produces substantially similar results.

Exhibit 4

Moody's Investors Service

Global Credit Research
Rating Action
11 OCT 2002
Save as PDF

Rating Action: HSBC Finance Corporation

MOODY'S AFFIRMS THE RATINGS OF HOUSEHOLD INTERNATIONAL, INC. AND ITS RATED SUBSIDIARIES, INCLUDING HOUSEHOLD FINANCE CORPORATION

COMPANY REACHES BROAD AGREEMENT WITH STATES ON LENDING PRACTICES

COMPANY REACHES BROAD AGREEMENT WITH STATES ON LENDING PRACTICES

New York, October 11, 2002 -- Moody's today affirmed the ratings of Household International, Inc. ("Household", senior long-term debt at A3) and those of its rated subsidiaries, including Household Finance Corporation ("HFC", senior long-term debt at A2.). Moody's also affirmed the Prime-1 short-term rating of HFC, Household's principal commercial paper issuer. The outlook for Household remains stable. The affirmation is in response to Household's announcement that it has reached a preliminary agreement with a multi-state group of state attorneys general and regulatory agencies, representing a nationwide resolution of issues related to the company's non-prime consumer lending businesses, Household Finance Corporation and Beneficial Finance Corporation. The agreement will take effect when agreed to by states representing 80 percent of Household's real estate business.

Moody's noted that the cloud of uncertainty surrounding Household's potential legal liability for alleged "predatory lending" abuses pushed the company's bond spreads out to unprecedented levels and raised market concerns about funding access over time. The rating agency said that the agreement should enable the company to take the issue off the table and enable investors to focus on Household's operating fundamentals, which remain sound despite the challenges of a soft economic environment. Moody's also expects that Household will take the necessary steps, including the issuance of new common equity if needed, to meet its stated leverage targets of 8.50% tangible equity to managed assets and 6.70% tangible common equity to managed assets.

In Moody's opinion, the settlement, which would be in the form of a restitution fund, should substantially lower Household's exposure to continuing civil litigation risk, while the changes made to operating practices and compliance monitoring should lower the risk of "predatory lending" missteps in the future. Under the terms of the agreement, Household will provide up to $484 million, which will be recognized in the third quarter, to resolve consumer complaints. Moody's noted that although substantial, the immediate financial cost of the settlement is well within Household's current earnings generation capacity. The revenue opportunity costs for Household related to changes in business practices, many of which have already been implemented, should be modest. The most notable operating changes with revenue implications are the capping of loan origination fees and points to 5%, and the reduction of prepayment fee provisions to two years from the current three within the HFC/Beneficial branch based business.

Household International is a holding company for several consumer financial services companies, including Household Finance Corporation, long a leader in branch-based consumer finance. The company ended June with managed assets of almost $120 billion, common equity of $8.66 billion and year-to-date pre-tax income of $1.5 billion.

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Exhibit 5

ABN·AMRO

Monday, 14 October 2002

Daily Credit Notes

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HIGHLIGHTS

- BOI offers a sweetener for **Abbey**
- **Household** has a good day and a downgrade
- **GE** reaffirms 2002 earnings guidance
- **Birka Energi** bonds on the move

Recent supply (principal issues only)

Date	Issuer	Cpn/Mat.	Size (mn)	Spread
11 Oct	EIB	5.500 04/25	GBP 625	
11 Oct	KFW	5.500 12/15	GBP 1,373	
10 Oct	Freddie Mac	5.125 07/12	USD 9,003	+77.5
10 Oct	L Bank Foerderbk	3.5 04/06	EUR 1,000	+21.1
9 Oct	Northern Nat Gas	5.375 10/12	USD 300	+180
9 Oct	FMC Corp	10.25 11/09	USD 355	+728
9 Oct	L-Bank Foerderbk	WI 04/06	EUR 1,000	
9 Oct	KFW Intl Finance	2.5 10/05	USD 3,000	+77
8 Oct	Austria Rep of	3 10/06	USD 650	+100
8 Oct	Freddie Mac	3.25 11/04	USD 8,000	
8 Oct	Lloyds Bank Plc	6.9 11/49	USD 850	
8 Oct	KFW Intl Fin	0 10/05	USD 3,000	
8 Oct	Bank of England	Zero 01/03	EUR 899.3	
8 Oct	Bank of England	Zero 04/03	EUR 300	
04 Oct	General Valencia	FRN 10/05	EUR 500	
04 Oct	SM Investments	8 10/07	USD 300	+531
04 Oct	Compal Electroni	Zero 10/07	USD 300	
03 Oct	EIB	5.625 06/32	GBP 1,000	
03 Oct	Compal Electroni	Zero 10/07	USD 300	
02 Oct	ING Bank	5.25 01/13	EUR 500	+97

Source: Bloomberg (NIM4) Note: Spread is over benchmark

Recent rating actions

Date	Issuer	Agency	Rating		Outlook
11 Oct	AES Corp	MDY	B3	▼	Negative
11 Oct	Edison SpA	S&P	BBB	A	Stable
11 Oct	Household International	FII	A	W	Negative
10 Oct	Royal & Sun Alliance	MDY	A3	▼	RFD
10 Oct	Standard Life	S&P	AAA	**O**	Negative
10 Oct	TXU Europe	S&P	BBB-	▼	Watch neg.
10 Oct	Fortum OYJ	MDY	Baa2	**N**	Stable
10 Oct	General Mills	MDY	Baa2	▼	Stable
09 Oct	Prudential Property & Casualty	MDY	A2	▼	Negative
09 Oct	TXU Europe	MDY	Baa3	▼	RFD
09 Oct	J.P. Morgan	MDY	A1	▼	Stable
09 Oct	Allegheny Energy	S&P	BB	▼	W negative
09 Oct	Dresdner Bank	S&P	A+	▼	Negative
09 Oct	Dresdner Bank	MDY	Aa3	▼	Stable
09 Oct	Allianz Group	S&P	AA	▼	Negative
09 Oct	Allianz Group	MDY	Aa2	▼	Stable
08 Oct	Lehman Brothers	MDY	A2	**O**	Positive
08 Oct	Renault	S&P	BBB	**O**	Stable
08 Oct	HVB	S&P	A	**O**	Negative

▲ Upgrade ▼ Downgrade **A** Affirmed **O** Outlook change **N** New **W** Watch

Source: Bloomberg

Data

Monday: UK PPI. **Tuesday:** France Industrial & Manufacturing production. Germany ZEW survey. UK RPI. **Wednesday:** UK earnings & unemployment. EUR CPI. **Thursday:** UK BCC quarterly economic survey. US Housing starts, capacity utilization, Industrial production and Philidelphia Fed. **Friday:** UK money supply, US CPI, Trade deficit.

Results

Monday: Maytag, Unisys. **Tuesday:** Applied Micro Circuits Corporation, *Bank of America*, Bank One, Capital one Financial, Delta Airlines, *General Motors*, *Intel*, Johnson & Johnson, Mellon Financial, Motorola, *State Street* corporation, US Bancorp, Washington Mutual, Wells Fargo. **Wednesday:** Advanced Micro Devices, AMR, Boeing, Caterpillar, Coca-Cola Enterprises, Delphi, FleetBoston Financial, Ford Motor company, General Dynamics, Honeywell, Household International, IBM, JP Morgan, Merrill Lynch, Northrop Grumman, Reuters group, The Coca-Cola company, TRW, Wachovia, Whirlpool. **Thursday:** Baxter International, Burlington Resources, Dominion Resources, Hershey foods, Keycorp, Liz Claiborne, MBNA, Microsoft, Nokia, Nortel networks, Novartis, Philip Morris, Sears Roebuck, Sprint (FON Group), Sun Microsystems. **Friday:** Avon Products, Ericsson, Merck, United States Steel corp.

Overnight Credit News

- US markets are closed today.
- Geo-political tensions have been heightened by the bomb blast in Bali, Indonesia.
- Japanese PM Koizumi says that the government will inject public funds in the embattled domestic banks.

New issues

Gaz de France EUR 1bn

OAT 2.5bn+ 30yr Index Linked Note

USD FNMA 2/3yr and 30yr

USD Export Finance Bank 5yr

EUR AHBR 4yr Pfand

Credit Strategy

Outlook for the week ahead

Graham McDevitt graham.mcdevitt@uk.abnamro.com +44 20 7678 3141

This week we expect the US Q3 earnings season to dominate. The list is long, see above, with several banks, financial institutions (Household Int), auto makers (GM and Ford), technology benchmarks (Intel and IBM) and others (including Phillip Morris and Ericsson). With companies and analysts having aggressively revised down earnings in the past four weeks we expect the delivery of actual figures to meet or even exceed these lowered expectations. This should be good news for the embattled equity market.

From a technical perspective, the S&P briefly traded to a new cycle low last week (of 768) before closing the week back above support at 800. This move was accompanied by a spike in volatility to above 50% before closing the week below 44%. We alluded in our 2 October Credit Strategy Monthly that a technical rally in equities was likely as the earnings season kicked in and the seeds have now been sown. Levels on the S&P to watch for are 850, but the more important resistance area is 900-925.

Credit markets continue to follow equities, with the EUR iBoxx 50series note hitting a high of E+264bp during last week before closing out at E+249bp.

We believe a number of short positions were taken off at the tail end of last week. We agree with this move as all our Trading Portfolio short positions are 'in-the-money', even using Friday closing levels: GECC (+10bp); Siemens (+13bp); iBoxx50 (+43bp); Swiss Re (+40bp); and, JPMChase (+20bp). We recommend locking in these profits.

However, we do not recommend replacing these shorts with long positions. On the contrary, we are even more convinced of our defensive/negative outlook for credit given Friday's US economic numbers. September retail sales ex-autos were soft and the outlook does not look good as the October preliminary University of Michigan consumer confidence survey showed sharp declines in both current conditions and expectations. The main data to watch this week are the German ZEW survey (Tuesday) and the US Philly Fed survey (Thursday).

We therefore recognise the potential for a corrective rally in credit markets over the coming week or two, but in reality the deteriorating economic outlook should again weigh on both equity prices and credit spreads. Thus, maintain a strategic defensive view of credit. We will be looking to re-initiate shorts on the back of any

Overnight markets

iboxx note: The EUR iBoxx50 Series I note tightening by 15bp on Friday to close 249/244bp. The CHF iBoxx40 note tightened by 3bp on Friday to 100/95bp. Thus, the rating curve (BBB-A) has flattened 12bp.

Equities: Dow +4.2%, S&P 3.9% and Nasdaq 4.05%. The Nikkei was up 1.1%%.

Volatility: The CBOE calculation of volatility from implied options on the S&P closed at 43.44, after posting a high of 50.48 during trading on Thursday.

Rates: US Treasury yields rose sharply in response to stronger equity markets. 2yr yields rose almost 10bp and 10yrs rose 16bp. USD swap spreads were 3bp tighter.

rally in spreads, looking to target weak credit names such as Deutsche Bank and Ford.

Banks

A sweetener for Abbey from BOI

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Press reports over the weekend have indicated that Bank of Ireland (BKIR Aa3/A+/AA-) will be revealing its bid proposal to Abbey National (ABBEY Aa2/AA-/AA) and the market at some stage this week (though various reports offer conflicting evidence on the timing). The proposal is not expected to have changed materially since it was presented to the Abbey board in mid-September.

The reports reveal that Abbey shareholders will be offered 750p under the BOI proposal, with a part cash consideration of EUR 1.6bn, which would equate to 70p of the 750p total (about 9%). We estimate that this cash element is three times the excess capital in the BOI balance sheet, so what is happening is that the cash will be taken from the Abbey balance sheet after the deal completes - in effect, Abbey's balance sheet will be used to pay its own shareholders (bringing Abbey's own Tier 1 ratio from an estimated 9.3% to 8.1%). Proposed cost savings, according to the media reports, are about 6.5% of the combined cost base.

At the reported 750p share price for Abbey and the current BOI share price, our equity research analysts estimate that the proposal, based on the limited amount of information in the media reports, would enhance BOI earnings by a high single digit percentage pre-goodwill amortisation, but would lead to low single digit dilution post goodwill amortisation. However, the key point here to remember is that these numbers are based on the current BOI share price. Earlier last week, the stock collapsed to a low of EUR8.70 on concerns about the deal. At those lower levels, our equity research colleagues estimate that EPS pre-goodwill amortisation would be enhanced by only low single digit levels, while there would be very high single digit dilution post goodwill amortisation. We would strongly remind investors that the BOI share price bounced at the end of last week on the belief that the deal would not happen.

The cash element of the consideration is obviously meant to sweeten the deal for Abbey shareholders and to make it more palatable for existing BOI shareholders by reducing the value transfer from the BOI balance sheet since it will be mostly funded from the Abbey balance sheet. As such, this probably amounts to an attempt to get the Abbey to board work through the offer a second time and so the merger process is now likely to drag out. However, remember that Abbey has already rebuffed this proposal previously and has also apparently rejected a 750p offer from NAB, which has more firepower than BOI. The BOI share price fell at the start of last week, on announcement of the offer because of concerns at the proposed change in the BOI strategy that this deal would result in. We still believe that this point holds true now, irrespective of the proposed financing of the deal and that Abbey is the wrong deal for BOI.

Insurance

Household has a good day and a downgrade

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Bond spreads for Household International, Inc. (HI A3/A-/A RWN) and Household Finance Corp. (HI A2/A-/A RWN) should continue to tighten, we believe, following the 11 October announcement that HI has reached a settlement with state attorneys general regarding predatory lending allegations. Our indicative spread on the HI 5.75% 01/07 issue versus the five-year US Treasury narrowed from 540bps on 10 October to 470bps on 11 October.

HI agreed to pay USD 484mn pre-tax (USD 330mn after-tax) to resolve various consumer complaints. The company also agreed to refine its lending "Best Practices" to better educate and protect non-prime borrowers. HI has already introduced/enhanced consumer protections over the past two years in the areas of disclosure, fees, interest rates, loan cancellation rights and tangible borrower benefit requirements. The settlement agreement is subject to acceptance by states representing 80% of HI's real estate business, although HI expects concurrence from all 50 states plus the District of Columbia. HI also announced plans to sell its thrift operation, Household Bank, fsb, causing an expected after-tax write-down of USD 250-300mn but also freeing up capital for other businesses. HI plans to book the predatory lending settlement in Q3 2002 and the thrift write-down in Q4 2002. Including these charges, the company expects to report net income of about USD 1.5bn for 2002, versus USD 1.8bn for 2001.

HI's announcement prompted three different reactions from rating agencies: a confirmation with stable outlook from Moody's, a one-notch downgrade with stable outlook from S&P, and a shift to Rating Watch Negative from negative outlook by Fitch. We believe that the predatory lending settlement resolves a nagging uncertainty and that HI should remain a leader in non-prime consumer finance. We maintain a rating of A on the Household Finance Corp. senior debt.

HI forecasts solid results for 2003 despite the negative actions from S&P and Fitch and despite continuing weakness in the economy. The company provided 2003 EPS guidance in the range of USD 4.65 to USD 4.90, versus our estimate of USD 3.25 for 2002 and the actual result of USD 3.91 for 2001.

Diversified Industrials

GE reaffirms 2002 earnings guidance

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On 11 October 2002 General Electric Company (GE AAA/Aaa) reported Q3 2002 net income of USD 4.1bn on revenues of USD 32.6bn, representing yoy growth of 25% and 11%, respectively. On the conference call, CEO Jeffrey Immelt and CFO Keith Sherin highlighted double-digit profit growth in segments of both industrial operations and financial services. Power Systems operating profit was up 16% to

USD 1.4bn; NBC operating profit was up 59% to USD 330mn; Commercial Finance net profit was up 17% to USD 881mn; and Consumer Finance net earnings were up 11% to USD 501mn. GE Capital Services assets grew by 21% to USD 473bn. The GE executives reaffirmed guidance for full year 2002 of USD 1.65 per share, at the lower end of previously issued guidance of USD 1.65-1.67.

In contrast to the positive sentiment expressed last July, CEO Immelt noted that the US economic situation remains tougher than expected. GE's Q3 US short-cycle orders were down 2% yoy, excluding acquisitions. The economically sensitive Plastics business experienced yoy revenue growth of 6% and an operating profit decline of 19%, as input costs rose while plastics prices declined 5% (though sales volumes were up 8%). For Q4 2002 GE is projecting Plastics operating profit to exhibit positive growth, with volume increasing 20%, as pricing remains stable. In planning for next year, GE is forecasting US economic growth of 2%.

As in the last quarter, GE met its earnings target with an assortment of non-operating items. The sale of the e-commerce business closed on 27 September, netting an after-tax gain of USD 317mn. GE also recorded a USD 38mn benefit from termination of Power Systems contracts and a USD 75mn benefit on a tax settlement with the IRS. Those gains offset an Employers Re insurance unit loss of USD 156mn, GE Private Equity loss of USD 167mn, and a Power Systems restructuring charge of USD 68mn.

The seriousness of the decline of the Power Systems business is evident in the effect on cash flow from operations. For the nine months ending 30 September 2003, GE recorded a cash outflow of USD 3.9bn, as the pipeline of Power Systems projects are completed and the shrinking pipeline of new projects results in declining progress payments. Excluding progress collections, yoy cash flow from operations grew 16%, from USD 8.3bn to USD 9.6bn, but including the effect of progress collections, cash flow fell 51% from USD 11.7bn to USD 5.7bn. The run-off in the Power Systems business appears to indicate that the segment's positive contribution to operating profit growth is likely to dissipate.

CEO Immelt said on the call that GE would maintain triple-A ratings. Although we are concerned about the implications for earnings quality of rising earnings and falling cash flow from operations, the rating agencies appear comfortable. The only point of concern from a rating agency perspective appears to be the rising importance of GE Capital Services (GECS). So far, the rating agencies have exhibited tolerance for the growth of the highly levered financial units, as they have come to account for about 40% GE's consolidated earnings. We expect that GE will manage acquisitions and divestitures so that GE does not become obviously dominated by GECS.

GE stock closed up 7.1% on the day in New York at USD 24.21/share. Five-year credit default swaps were tighter by about 13bps. Indicative bid spreads to US Treasuries for GE 5.375% due 15 March 2007 were tighter by about 5bps.

Utilities

Birka Energi bonds on the move

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Moody's has reaffirmed its Baa1 rating with a stable outlook for Fortum Power & Heat, formerly known as Birka Energi (BIRKA Baa1 / BBB+), in line with S&P's rating action on 4 October. However, the holding company Fortum Oyj has been rated Baa2 with a positive outlook as a result of structural subordination, but an upgrade is expected once Fortum relocates the bulk of the group's debt at the holding company level. Unusually, Moody's specifically anticipates the off-balance sheet debt structure at Fortum Capital being left unchanged, meaning leaving EUR 1.2bn of quasi-debt at the subsidiary level. S&P has taken a contrary position, as it has indicated to us that effectively all debt (therefore including that of Fortum Capital) should be relocated by early 2003. We conservatively estimate that, based on H1 2002 numbers, the ratio of group's priority claims at the subsidiary level to assets would amount to 21% after reducing debt by EUR 1bn from the sale of the Norwegian oil assets, and relocating all debt except for Fortum Capital. This would be shaving the 20% threshold for structural subordination set by S&P (although this a somewhat superfluous calculation given S&P's stated position). The relocation of bank debt should not be problematic, but the BIRKA bonds could either be novated to Fortum Oyj or bought back, in both cases offering upside potential for bondholders. Fortum appears to have painted itself into a corner with a limited amount of time to find a solution. A key date to look out for will be 24 October when there will be a special conference call for bondholders following the Q3 2002 results announcement.

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Exhibit 6

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Non-Bank Financial and Broker/Dealer SpreadWatch

http://research-and-analytics.csfb.com/

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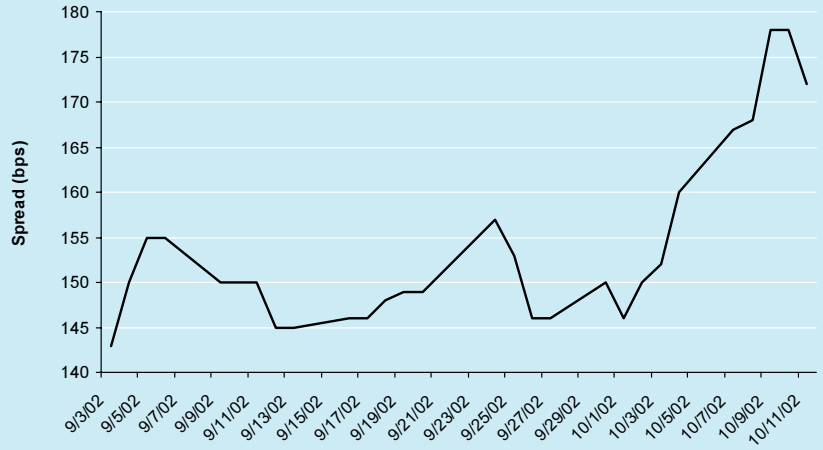
PLENTY OF FODDER FOR THE SHORTS

- The perfect storm that just won't go away: weak economy, rising geo-political risk, earnings warnings elsewhere in financials, and S&P aggressively downgrading ratings; short sellers in nonbanks have much to lean on.
- The so-called "High Beta" Finance names (CIT, Household, Capital One and MBNA) all widened significantly on the week in advance of third quarter results.
- Household's 7.0% of 2012 went as wide as +530 bps midweek; news of the company's settlement with state regulators over its business practices, drove spreads more than 100 bps tighter by today's (Tuesday) close, despite S&P's surprising downgrade.
- GE reported third quarter earnings as expected, although its cautionary tone toward the future caused spreads to widen.
- Give them credit: Moody's remains a lone voice of optimism in the brokerage sector, raising—that's right, raising (!)--its outlook on Lehman Brothers to Positive.

Cheapening up: Citigroup's 5.625% of 2012



Source: Credit Suisse First Boston

Trade Idea

Citigroup: Still the Juggernaut

In these murkiest of economic times, Citigroup once again proved the durability of its diversified global franchise. Through all of the headline risk one can imagine, Citi still generated $3.8 *billion* in net income, good enough for a 19.4% return on its massive ($81 billion at period-end) equity base. Citi's subordinated 5 5/8% of 2012 paper (rated Aa2/A+) is currently bid +155 bps, still trading closer to the broker/ dealers (the best of whom earned 13% ROE this quarter) than the big banks, and still cheap to GE. We believe the bonds are cheap, particularly when you consider that 10-year Citi senior bonds (C 6% of 2012) are bid 25 bps tighter.

In an increasingly uncertain world, complete with economic lethargy, investor crises, waning consumer and executive confidence and geo-political instability, the corporate bond market has become a short-seller's dream. Although the overall trend in credit spreads is wider (especially for market-reliant financials), volatility is as high as one can remember, which only adds to the uncertainty. Last week, spreads widened radically, before snapping back somewhat by week's end. Primary issuance slowed to a trickle in advance of third quarter earnings.

In spite of some positive fundamental news the prior week, nonbank spreads hit their widest levels in some time. Household hit its historic wides just prior to news of its $484 million settlement of predatory lending complaints Friday. Its ten-year benchmark reached +530 bps midweek, before rocketing back in to +420 Friday morning, eventually settling at +455 bps by Friday's close. We see the settlement as a strong positive for the company and find management's guidance as to its impact to be highly credible. Nevertheless, in our view, the real reason Household paper trades as wide as it does is more technical in nature (issuance has outstripped demand) than fundamental, and that will likely take some time to clean up. We see S&P's surprising and overly conservative (in our opinion) downgrade to be of little consequence in the scheme of things.

Other finance companies also widened out in advance of the third quarter earnings season. Commercial names like CIT (50 bps wider in 5 year paper), GE (25 bps wider) and ILFC (75 bps) all widened out significantly, as investors became increasingly worried as to the strength of the economic recovery. GE, while meeting third quarter earnings expectations, did little to ease these concerns, commenting on how challenging the current environment has become.

Consumer names fared little better, as the consumer confidence index hit a nine-year low on Friday, and September retail sales were below expectations. Capital One, Household and MBNA were all much wider on the week. Overall, finance names were 15 bps to 85 bps wider. That lagged the CSFB 4-7 year index, which was only 16 bps wider on the week.

Brokers fared slightly better. Ten-year spreads were generally 5-25 bps wider on the week, while CSFB's 7-10 year LUCI index was 20 bps wider. The mood remains somber in the securities business, as further headcount reductions dominated the news.

Ever the contrarians (at least when it comes to financials), Moody's raised its outlook on Lehman Brothers to Positive from Stable. We were a bit perplexed by the timing of the move, given the current operating environment for the securities business as well as Lehman's recent performance. Lehman's third quarter (ended August) net income was 34% lower than the previous quarter (and 64% below its peak of $541 million reached in the first quarter of 2000), good enough for an ROE of 8.9% in the latest period, well behind those of its peers. Meanwhile, the very next day, Moody's lowered its rating on J.P. Morgan Chase to A1 from Aa3. That was more predictable, but hard, nonetheless, to reconcile with the Lehman move. (See our piece dated October 9).

In the News	**Consumer Confidence Hits 9 Year Low**
	The University of Michigan Consumer Confidence Index hit a 9 year low in its preliminary reading on Friday, registering in at 80.4. Concerns about war with Iraq, plunging stock markets and unemployment seem to have combined to make consumers uneasy. More ominously, this time the index is backed up by actual results. Recall last month, the drop in sentiment flew in the face of August retail sales data, which were up. September's retail sales dropped 1.2% from August, the biggest drop since last November. That should give consumer finance investors some pause. One thing to keep in mind, though, as we've pointed out before, is that the sentiment index does not necessarily translate into action. We think that the card issuers should still post solid results for the third quarter.

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Company	Date	Title
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Morgan Stanley	9/19/02	*When Having a Credit Card Business is a Good Thing*
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Ratings & Recommendations

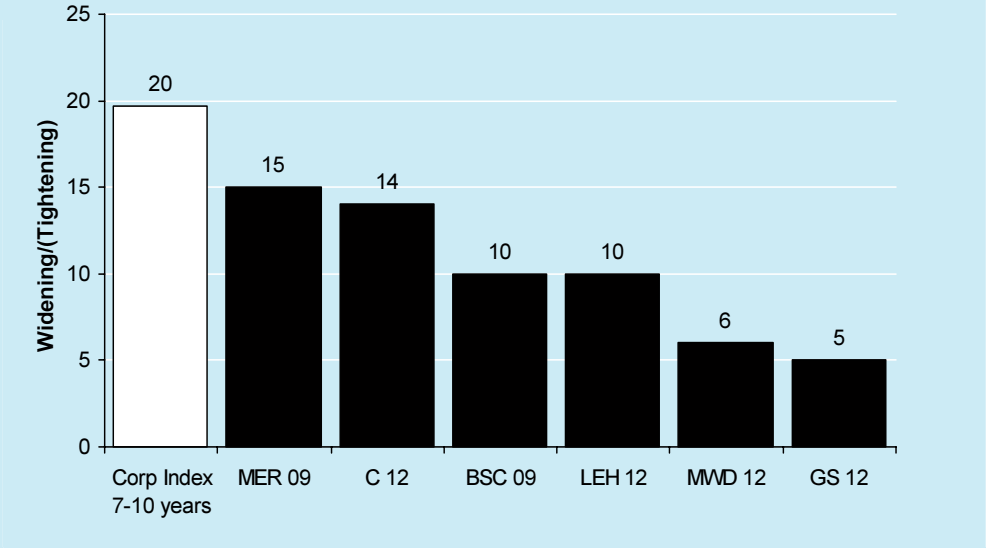
	Ticker	CSFB Rating	CSFB Outlook	CSFB Inv. Rec.	Moody's Rating	Moody's Outlook	S&P Rating	S&P Outlook	Fitch Rating	Fitch Outlook
Finance Companies										
American Express	AXP	High single A	Stable	ATTRACTIVE	A1	Stable	A+	Negative	A+	Stable
American General Finance	AIG	High single A	Stable	HOLD	A1	Stable	A+	Stable	A+	Stable
Associates First Capital	C	Triple A	Stable	ATTRACTIVE	Aa1	Stable	AA-	Stable	AA+	Stable
Block Financial	HRB	High triple B	Stable	HOLD	A3	Stable	BBB+	Stable	A	Negative
Capital One Financial Corp.	COF	Mid triple B	Stable	BUY	Baa3	Stable	BB+	Negative	BBB	Negative
CIT Group	CIT	Mid single A	Stable	BUY	A2	Stable	A	Stable	A	Stable
Countrywide Home Loans	CCR	Mid single A	Stable	ATTRACTIVE	A3	Stable	A	Stable	A	Stable
GATX Financial Corp.	GMT	Mid double B	Stable	UNATTRACTIVE	Baa3	Stable	BBB	Negative	BBB-	Negative
GE Capital Corporation	GE	Triple A	Stable	ATTRACTIVE	Aaa	Stable	AAA	Stable	NR	NA
Household International	HI	High single A	Stable	BUY	A2	Stable	A-	Stable	A	Rev. Down
MBNA Corporation	KRB	High triple B	Stable	ATTRACTIVE	Baa2	Stable	BBB	Negative	A-	Negative
Providian Financial	PVN	Mid double B	Negative	HOLD	Ba3	Rev. Down	BB-	Stable	B+	Rev. Down
SLM Corp.	SLM	High single A	Stable	BUY	A2	Stable	A	Stable	A+	Stable
Washington Mutual Finance	WM	Low single A	Stable	HOLD	A3	Stable	A-	Stable	A	Stable
Wells Fargo Financial	WFC	Mid single A	Stable	HOLD	Aa2	Stable	A+	Stable	AA	Stable
Securities Firms										
Alliance Capital	AC	NR	NA	NR	A2	Stable	A+	Stable	A+	Stable
Bear Stearns Companies	BSC	High triple B	Stable	HOLD	A2	Stable	A	Negative	A+	Negative
Charles Schwab Corp.	SCH	Mid single A	Negative	HOLD	A2	Stable	A-	Stable	A	Stable
Citigroup	C	Triple A	Stable	ATTRACTIVE	Aa1	Stable	AA-	Stable	AA+	Stable
FMR Corp.	FIDINV	NR	NA	NR	Aa3	Stable	AA	Stable	NR	NA
Goldman Sachs Group	GS	High single A	Stable	HOLD	Aa3	Stable	A+	Negative	AA-	Negative
Legg Mason Inc.	LM	NR	NA	NR	Baa1	Positive	BBB	Stable	NR	NA
Lehman Brothers	LEH	Mid single A	Stable	HOLD	A2	Positive	A	Negative	A+	Stable
Merrill Lynch & Co.	MER	High single A	Negative	UNATTRACTIVE	Aa3	Negative	AA-	Watch Neg.	AA-	Negative
Morgan Stanley Dean Witter	MWD	Low double A	Negative	HOLD	Aa3	Stable	AA-	Watch Neg.	AA-	Stable
Stilwell Financial	SV	NR	NA	NR	Baa1	Stable	BBB+	Stable	NR	NA

Source: Credit Suisse First Boston

	BUY	ATTRACTIVE	HOLD	UNATTRACTIVE	SELL	RESTRICTED
Finance Companies						
	Capital One	American Express	American General Finance	GATX Financial Corp.		
	CIT Group	Associates First Capital	Block Financial			
	Household International	Countrywide Home Loans	Providian Financial			
	SLM Corp.	GE Capital Corp.	Washington Mutual Finance			
		MBNA	Wells Fargo Financial			
Securities Firms						
		Citigroup	Bear Stearns Companies	Merrill Lynch & Co.		
			Charles Schwab Corp.			
			Goldman Sachs Group			
			Lehman Brothers			
			Morgan Stanley			

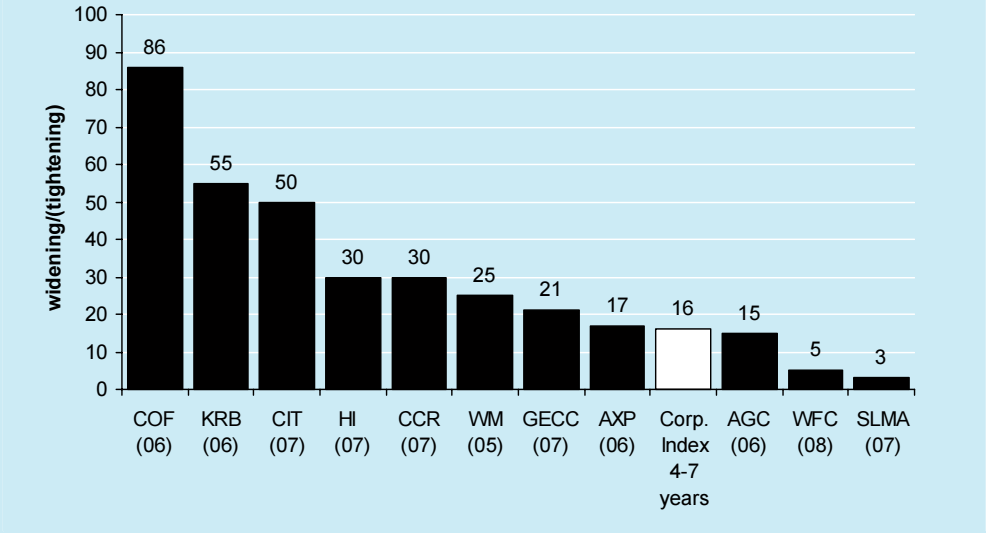
Relative Spread Movements

Securities Firms: One-Week Spread Movement



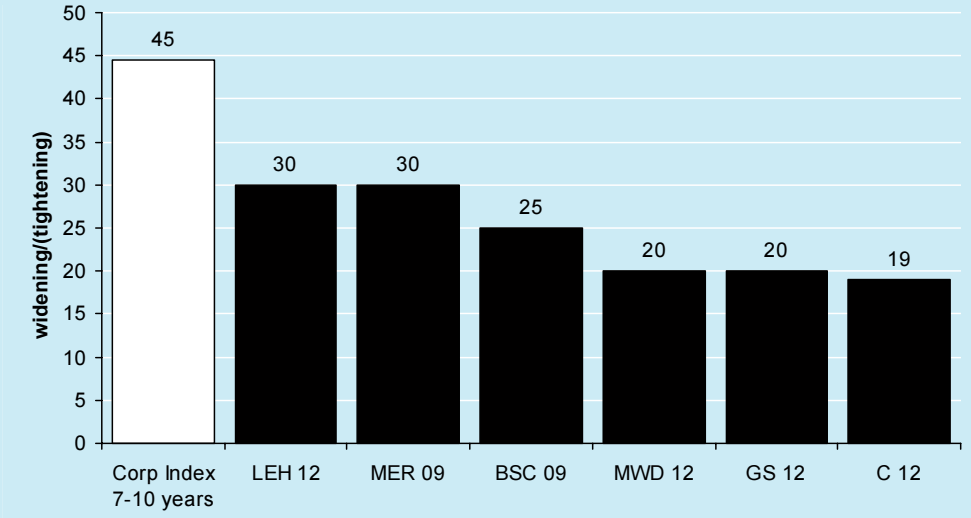
Source: Credit Suisse First Boston

Finance Companies: One-Week Spread Movement



Source: Credit Suisse First Boston

Securities Firms: One-Month Spread Movement



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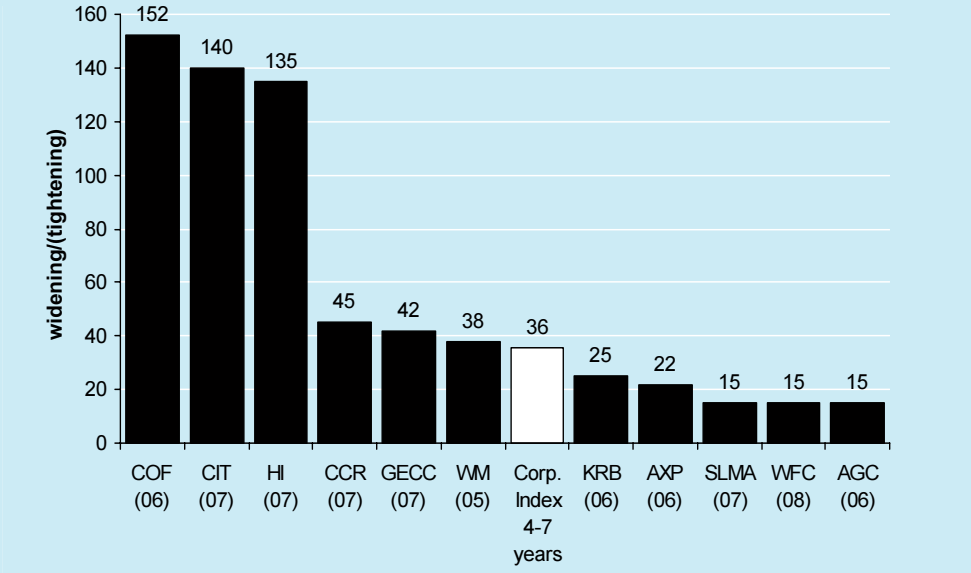
Finance Companies: One-Month Spread Movement



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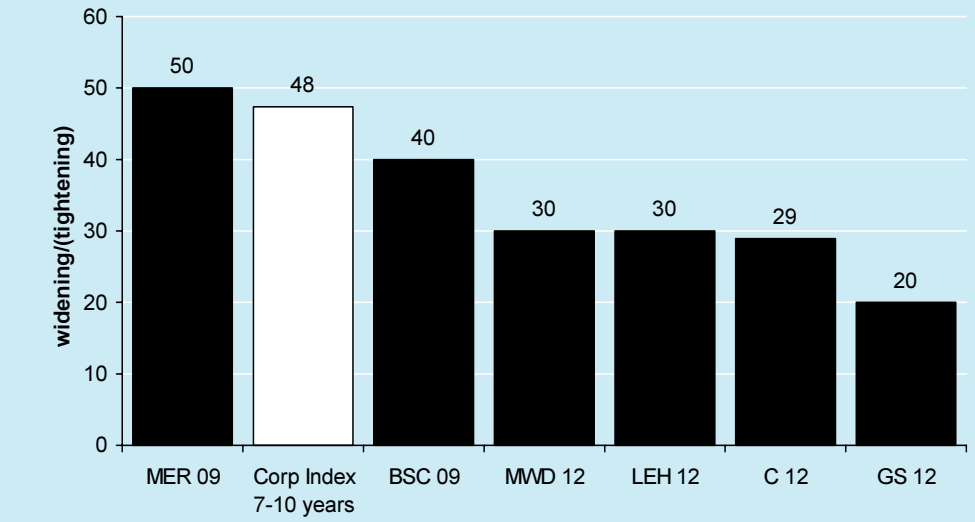
Securities Firms: Three-Month Spread Movement



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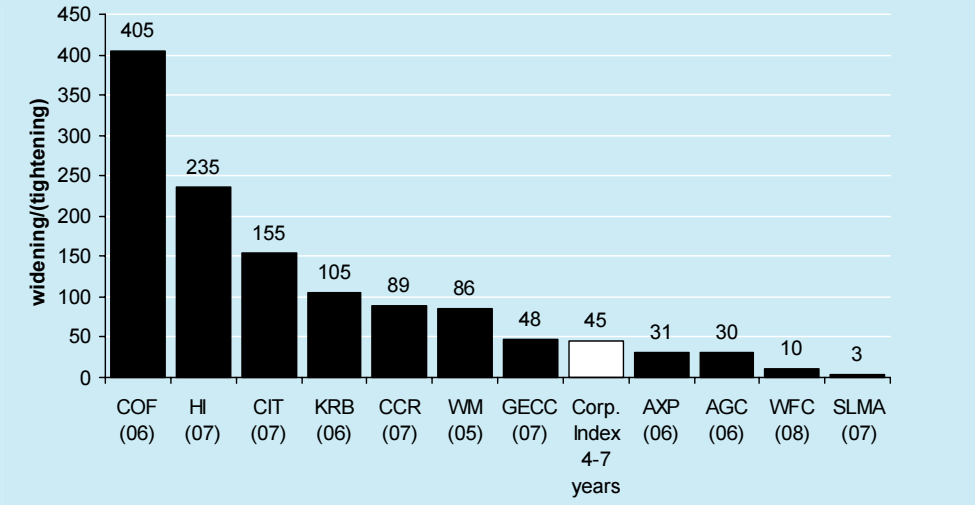
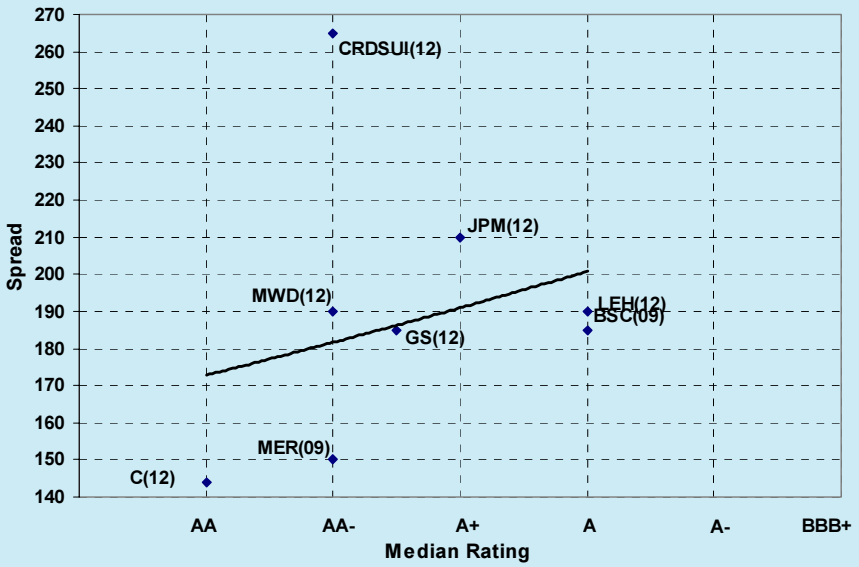
Finance Companies: Three-Month Spread Movement



Source: Credit Suisse First Boston

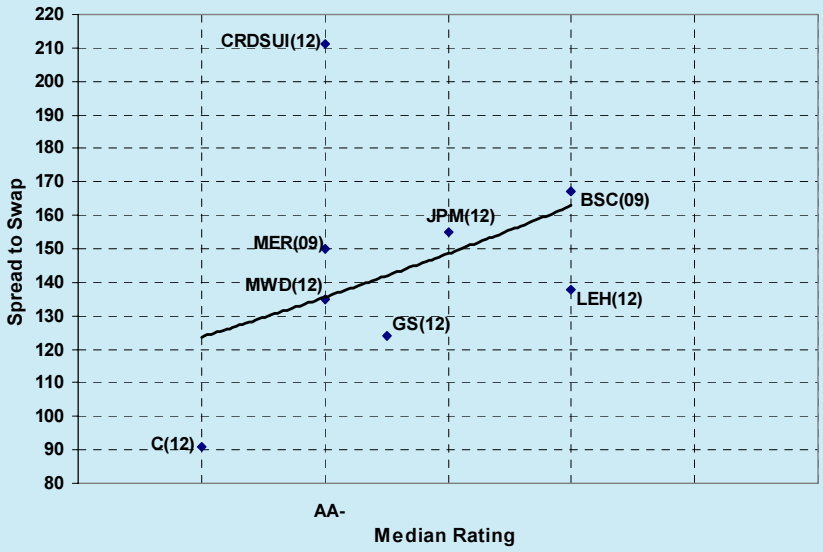
Relative Value Comparisons

Ten-Year Securities Firms Spread Matrix



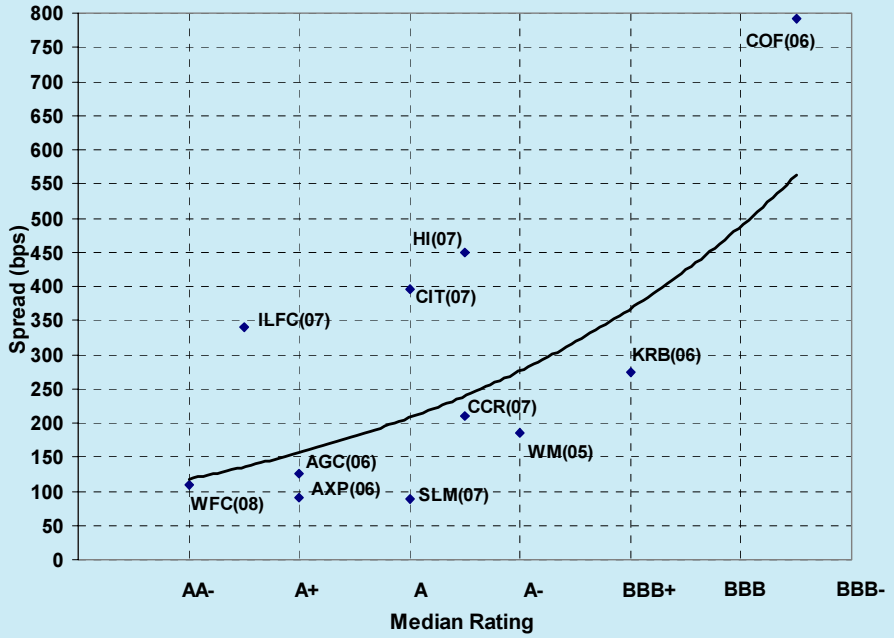
Source: Credit Suisse First Boston

Ten-Year Securities Firms Swap Spread Matrix



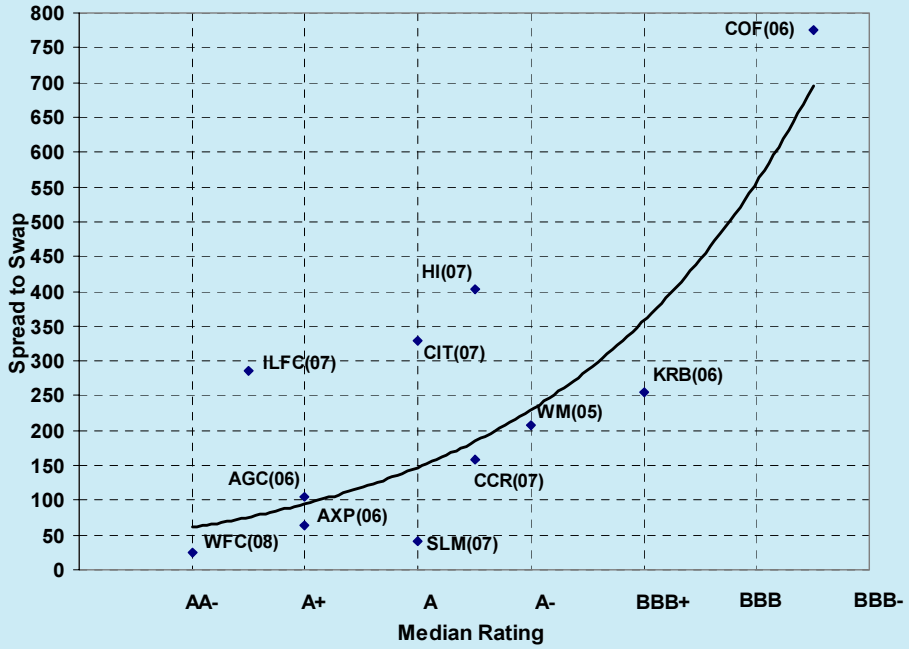
Source: Credit Suisse First Boston

Five-Year Finance Company Spread Matrix



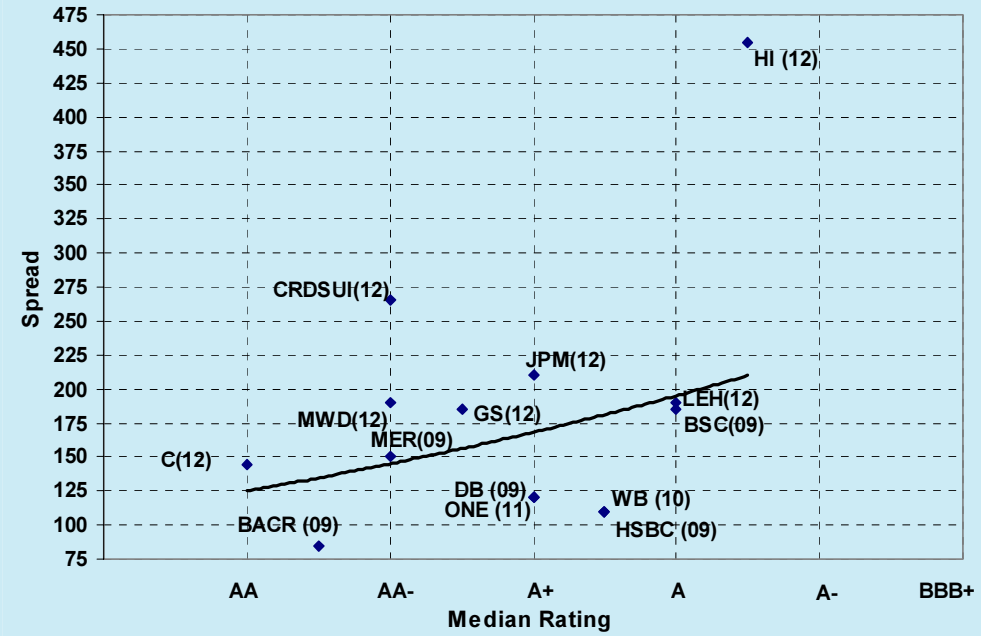
Source: Credit Suisse First Boston

Five-Year Finance Company Swap Spread Matrix



Source: Credit Suisse First Boston

Selected Financial Institutions Ten-Year Spread Matrix



Source: Credit Suisse First Boston

Three-Month Securities Firms Performance Matrix

Current/Three Months Ago

From \ To	BSC 09	C 12	GS 12	LEH 12	MER 09	MWD 12	LUCI 7-10 Index
BSC 09	-	(41) / (30)	(5) / 15	5 / 15	(35) / (45)	5 / 15	68 / 60
C 12	41 / 30	-	36 / 45	46 / 45	6 / (15)	46 / 45	109 / 90
GS 12	5 / (15)	(36) / (45)	-	10 / -	(30) / (60)	10 / -	73 / 45
LEH 12	(5) / (15)	(46) / (45)	(10) / -	-	(40) / (60)	- / -	63 / 45
MER 09	35 / 45	(6) / 15	30 / 60	40 / 60	-	40 / 60	103 / 105
MWD 12	(5) / (15)	(46) / (45)	(10) / -	- / -	(40) / (60)	-	63 / 45
LUCI 7-10 Index	(68) / (60)	(109) / (90)	(73) / (45)	(63) / (45)	(103) / (105)	(63) / (45)	-

Source: Credit Suisse First Boston

Three-Month Finance Companies Performance Matrix

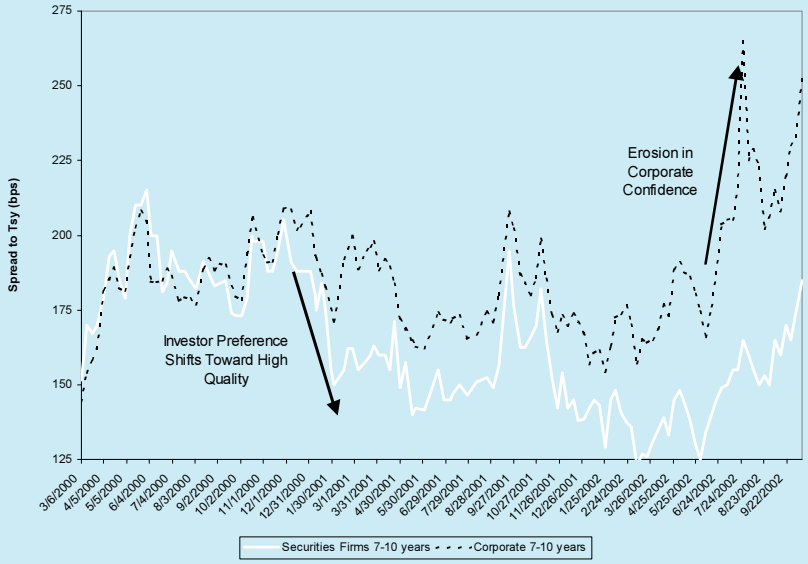
Current/Three Months Ago

From \ To	AGC 06	AXP 06	CCR 07	CIT 06	COF 06	GECC 07	HI 07	KRB 06	SLMA 07	WFC 08	WM 05	LUCI 4-7 Index
AGC 06		(35) / (36)	80 / 21	275 / 150	667 / 292	5 / (13)	325 / 120	150 / 75	(37) / (10)	(15) / 5	60 / 4	83 / 68
AXP 06	35 / 36		115 / 57	310 / 186	702 / 328	40 / 23	360 / 156	185 / 111	(2) / 26	20 / 41	95 / 40	118 / 104
CCR 07	(80) / (21)	(115) / (57)		195 / 129	587 / 271	(75) / (34)	245 / 99	70 / 54	(117) / (31)	(95) / (16)	(20) / (17)	3 / 47
CIT 06	(275) / (150)	(310) / (186)	(195) / (129)		392 / 142	(270) / (163)	50 / (30)	(125) / (75)	(312) / (160)	(290) / (145)	(215) / (146)	(192) / (82)
COF 06	(667) / (292)	(702) / (328)	(587) / (271)	(392) / ###		(662) / (305)	(342) / (172)	(517) / (217)	(704) / (302)	(682) / (287)	(607) / (288)	(584) / (224)
GECC 07	(5) / 13	(40) / (23)	75 / 34	270 / 163	662 / 305		320 / 133	145 / 88	(42) / 3	(20) / 18	55 / 17	78 / 81
HI 07	(325) / (120)	(360) / (156)	(245) / (99)	(50) / 30	342 / 172	(320) / (133)		(175) / (45)	(362) / (130)	(340) / (115)	(265) / (116)	(242) / (52)
KRB 06	(150) / (75)	(185) / (111)	(70) / (54)	125 / 75	517 / 217	(145) / (88)	175 / 45		(187) / (85)	(165) / (70)	(90) / (71)	(67) / (7)
SLMA 07	37 / 10	2 / (26)	117 / 31	312 / 160	704 / 302	42 / (3)	362 / 130	187 / 85		22 / 15	97 / 14	120 / 78
WFC 08	15 / (5)	(20) / (41)	95 / 16	290 / 145	682 / 287	20 / (18)	340 / 115	165 / 70	(22) / (15)		75 / (1)	98 / 63
WM 05	(60) / (4)	(95) / (40)	20 / 17	215 / 146	607 / 288	(55) / (17)	265 / 116	90 / 71	(97) / (14)	(75) / 1		23 / 64
LUCI 4-7 Index	(83) / (68)	(118) / (104)	(3) / (47)	192 / 82	584 / 224	(78) / (81)	242 / 52	67 / 7	(120) / (78)	(98) / (63)	(23) / (64)	

Source: Credit Suisse First Boston

Sectoral Relative Performance

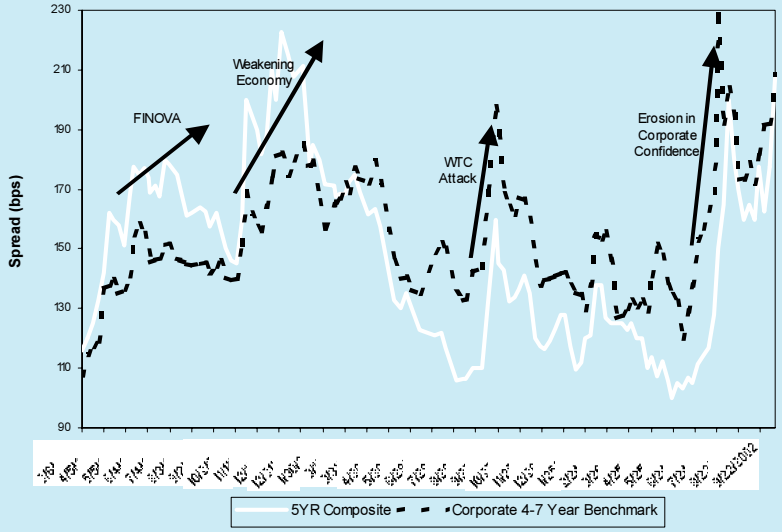
Ten-Year Credit Spread Comparison: Securities Composite [(a)] vs. Corporate Index



(a) The Securities Composite is composed of issuers Bear Stearns, Goldman Sachs, Citigroup, JP Morgan Chase, Lehman Brothers, Morgan Stanley and Merrill Lynch, with maturities ranging from 7-10 years. The Corporate Index is CSFB's Liquid U.S. Index (LUCI) for 7-10 year maturities.

Source: Credit Suisse First Boston

Five-Year Credit Spread Comparison: Finance Composite [(a)] vs. Corporate Index



(a) The Finance composite is composed of issues from American General Finance, American Express, Capital One, MBNA, CIT, Heller, Household International, GE Capital, USA Education, Wells Fargo Financial and Washington Mutual Finance, with maturities ranging from 4-7 years. The Corporate Index is CSFB's Liquid U.S. Index (LUCI) for 4-7 year maturities.

Source: Credit Suisse First Boston

Finance Company Spread History

	Ticker	Current Rating Mdy's	Current Rating S&P	Rating Outlook Mdy's	Rating Outlook S&P	Coupon	Maturity	Issue Level	Size ($mm)	Issue Spread	Current 10/11/02	Absolute Change from 1 Wk	4 Wks	3 Mths	6 Mths	1 Yr	Over Life Min	Max	Spread to Swap
Benchmark																			
4-7 Year LUCI Index											208	16	36	45	75	43	120	228	138
4-7 Year LUCI Financials Index											188	19	44	69	82	44	98	188	121
American Express Co	AXP	A1	A+	Stable	Neg.	5.500	09/12/06	Senior	1,000	105	90	17	22	31	7	(50)	49	160	64
American General Finance	AIG	A1	A+	Stable	Stable	5.875	07/14/06	Senior	1,000	115	125	15	15	30	20	(5)	79	140	104
American General Finance	AIG	A1	A+	Stable	Stable	5.750	03/15/07	Senior	500	129	150	15	20	32	27	N/A	96	150	105
Capital One Bank	COF	Baa2	BBB-	Stable	Neg.	6.875	02/01/06	Senior	1,250	225	792	86	152	405	507	467	225	924	775
CIT Group	CIT	A2	A	Stable	Stable	6.500	02/07/06	Senior	1,000	169	375	30	135	130	180	232	108	534	365
CIT Group	CIT	A2	A	Stable	Stable	7.375	04/01/07	Senior	1,250	265	400	50	140	155	192	N/A	185	512	348
CIT Group	CIT	A2	A	Stable	Stable	5.750	09/25/07	Senior	850	284	395	50	N/A	N/A	N/A	N/A	285	395	329
Countrywide Home Loans Inc.	CCR	A3	A	Stable	Stable	5.500	08/01/06	Senior	1,625	114	195	30	45	95	81	48	90	195	171
Countrywide Home Loans Inc.	CCR	A3	A	Stable	Stable	5.500	02/01/07	Senior	1,000	120	205	30	45	89	85	N/A	93	205	163
Countrywide Home Loans Inc.	CCR	A3	A	Stable	Stable	5.625	05/15/07	Senior	1,000	108	210	30	47	94	N/A	N/A	100	210	159
GATX Financial Corp.	GMT	Baa3	BBB	Stable	Neg.	7.750	12/01/06	Senior	350	157	892	9	142	352	437	73	180	892	843
General Electric Capital Corp.	GE	Aaa	AAA	Stable	Stable	5.350	03/30/06	Senior	750	88	95	20	53	43	30	17	35	95	86
General Electric Capital Corp.	GE	Aaa	AAA	Stable	Stable	5.000	02/15/07	Senior	1,250	83	125	20	43	47	40	N/A	55	125	83
General Electric Capital Corp.	GE	Aaa	AAA	Stable	Stable	5.375	03/15/07	Senior	2,000	80	130	21	42	48	48	N/A	55	130	86
General Electric Capital Corp.	GE	Aaa	AAA	Stable	Stable	5.000	06/15/07	Senior	2,250	76	140	25	45	54	N/A	N/A	68	140	87
Household Finance Corp.	HI	A2	A-	Stable	Stable	6.500	01/24/06	Senior	2,000	170	440	30	135	260	280	302	108	440	431
Household Finance Corp.	HI	A2	A-	Stable	Stable	5.750	01/30/07	Senior	2,500	155	450	30	135	235	275	N/A	147	450	404
International Lease Finance Corp.	AIG	A1	AA-	Stable	Neg.	5.750	02/15/07	Senior	500	163	340	75	155	215	212	N/A	110	340	294
International Lease Finance Corp.	AIG	A1	AA-	Stable	Neg.	5.625	06/01/07	Senior	900	122	340	75	145	207	N/A	N/A	122	340	285
MBNA America Bank, N.A.	KRB	Baa1	BBB+	Stable	Neg.	6.500	06/20/06	Senior	600	188	275	55	25	105	120	50	130	300	254
MBNA Corp	KRB	Baa2	BBB	Stable	Neg.	6.250	01/17/07	Senior	300	225	325	60	45	130	135	N/A	150	330	282
SLM Corp.	SLM	A2	A	Stable	Stable	5.625	04/10/07	Senior	1,200	95	88	3	15	3	(3)	N/A	70	95	42
Washington Mutual Finance*	WM	A3	A-	Stable	Stable	8.250	06/15/05	Senior	450	193	185	25	38	86	121	50	60	200	207
Wells Fargo Financial	WFC	Aa2	A+	Stable	Stable	5.875	08/15/08	Senior	600	105	110	5	15	10	8	(10)	73	135	25
Benchmark																			
7-10 Year LUCI Index											253	20	45	47	75	68	154	265	177
7-10 Year LUCI Financials Index											197	16	33	51	52	31	129	204	135
American General Finance	AIG	A1	A+	Stable	Stable	5.375	10/01/12	Senior	600	172	190	0	N/A	N/A	N/A	N/A	172	190	128
Capital One Bank	COF	Baa2	BBB-	Stable	Neg.	6.700	05/15/08	Senior	200	106	678	(18)	38	353	408	298	165	723	689
CIT Group Holdings	CIT	A2	A	Stable	Stable	7.750	04/02/12	Senior	1,250	255	390	50	115	130	178	N/A	195	390	331
General Electric Capital Corp.	GE	Aaa	AAA	Stable	Stable	6.125	02/22/11	Senior	750	104	145	13	25	23	42	55	76	145	106
General Electric Capital Corp.	GE	Aaa	AAA	Stable	Stable	5.875	02/15/12	Senior	2,250	103	148	14	28	21	42	N/A	90	148	95
General Electric Capital Corp.	GE	Aaa	AAA	Stable	Stable	6.000	06/15/12	Senior	3,750	106	150	14	25	20	N/A	N/A	99	150	93
Household Finance Corp.	HI	A2	A	Stable	Stable	6.750	05/15/11	Senior	2,000	155	455	55	140	225	280	288	137	455	407
Household Finance Corp.	HI	A2	A	Stable	Stable	6.375	10/15/11	Senior	2,000	180	455	55	140	225	280	N/A	155	455	400
Household Finance Corp.	HI	A2	A	Stable	Stable	7.000	05/15/12	Senior	1,750	183	455	55	140	225	N/A	N/A	178	455	393
MBNA America Bank, N.A.	KRB	Baa2	BBB	Stable	Neg.	6.750	03/15/08	Sub.	250	119	325	(5)	50	140	130	50	165	330	346
MBNA America Bank, N.A.	KRB	Baa2	BBB	Stable	Neg.	6.625	06/15/12	Sub.	500	173	325	0	45	130	N/A	N/A	175	325	264
MBNA Corporation	KRB	Baa2	BBB	Stable	Neg.	7.500	03/15/12	Senior	500	220	350	15	65	150	150	N/A	175	350	292
SLM Corp.	SLMA	A2	A	Stable	Stable	5.125	08/27/12	Senior	600	105	105	3	3	N/A	N/A	N/A	102	108	46
Washington Mutual Finance	WM	A3	A-	Stable	Stable	6.875	05/15/11	Senior	500	157	170	(5)	15	50	40	20	110	180	128
Wells Fargo Financial	WFC	Aa2	A+	Stable	Stable	6.125	04/18/12	Senior	500	102	110	1	7	8	6	N/A	95	124	56

* Source: Credit Suisse First Boston

Securities Firms Spread History

	Ticker	Current Rating Mdy's	Current Rating S&P	Rating Outlook Mdy's	Rating Outlook S&P	Coupon	Maturity	Issue Level	Size ($mm)	Issue Spread	Current 10/11/02	Absolute Change from 1 Wk	4 Wks	3 Mths	6 Mths	1 Yr	Over Life Min	Max	Spread to Swap
Benchmark																			
4-7 Year LUCI Index											208	16	36	45	75	43	120	228	138
4-7 Year LUCI Financials Index											188	19	44	69	82	44	98	188	121
Bear Stearns Companies	BSC	A2	A	Stable	Neg.	6.500	05/01/06	Senior	1,000	160	125	5	20	36	11	(40)	82	190	112
Bear Stearns Companies	BSC	A2	A	Stable	Neg.	5.700	01/15/07	Senior	1,000	142	152	7	24	30	18	N/A	108	152	112
Citigroup	C	Aa1	AA-	Stable	Stable	5.500	08/09/06	Senior	1,500	96	110	10	25	55	46	13	37	130	87
Citigroup	C	Aa1	AA-	Stable	Stable	5.000	03/06/07	Senior	1,500	80	123	8	25	48	37	N/A	53	125	80
Salomon Smith Barney Hldgs	C	Aa1	AA-	Stable	Stable	5.875	03/15/06	Senior	1,000	145	110	12	20	39	32	0	60	150	102
Credit Suisse First Boston USA	CSFB	Aa3	AA-	Neg.	Neg.	5.875	08/01/06	Senior	2,250	127	245	50	133	145	155	104	75	245	220
Credit Suisse First Boston USA	CSFB	Aa3	AA-	Neg.	Neg.	5.750	04/15/07	Senior	1,750	113	260	45	120	138	144	N/A	96	260	210
Goldman Sachs Group*	GS	A1	A+	Rev. Up	Neg.	7.625	08/17/05	Senior	1,250	148	145	5	20	45	82	30	45	185	160
Lehman Brothers Holdings	LEH	A2	A	Pos.	Neg.	6.250	05/15/06	Senior	1,500	143	140	15	32	48	45	(10)	81	185	125
Merrill Lynch & Co.	MER	Aa3	AA-	Neg.	Rev. Dn	6.150	01/26/06	Senior	725	N/A	140	25	0	42	64	N/A	73	145	137
Morgan Stanley Dean Witter	MWD	Aa3	AA-	Stable	Rev. Dn	6.100	04/15/06	Senior	3,500	147	120	5	23	34	43	(5)	64	155	107
Morgan Stanley Dean Witter	MWD	Aa3	AA-	Stable	Rev. Dn	5.800	04/01/07	Senior	2,500	113	160	5	30	39	52	N/A	97	160	113
Benchmarks																			
7-10 Year LUCI Index											253	20	45	47	75	68	154	265	177
7-10 Year LUCI Financials Index											197	16	33	51	52	31	129	204	135
Bear Stearns Companies	BSC	A2	A	Stable	Neg.	7.625	12/07/09	Senior	800	147	185	10	25	40	40	5	125	255	167
J.P. Morgan Chase & Co.	JPM	A2	A	Stable	Neg.	6.750	02/01/11	Sub.	1,500	153	205	5	37	67	67	61	115	205	166
J.P. Morgan Chase & Co.	JPM	A2	A	Stable	Neg.	6.625	03/15/12	Sub.	1,000	135	210	5	38	68	71	N/A	120	210	155
Citigroup Inc.	C	Aa1	AA-	Stable	Stable	6.500	01/18/11	Senior	2,500	162	140	10	20	30	39	24	85	165	103
Citigroup Inc.	C	Aa1	AA-	Stable	Stable	6.000	02/21/12	Senior	1,500	109	144	14	19	29	40	N/A	90	145	91
Citigroup Inc.	C	Aa2	A+	Stable	Stable	5.625	09/04/12	Sub.	1,000	144	172	12	26	N/A	N/A	N/A	143	172	111
Credit Suisse First Boston (USA)	CRDSUI	Aa3	AA-	Neg.	Neg.	6.125	11/15/11	Senior	3,000	208	265	26	85	103	130	N/A	122	265	213
Credit Suisse First Boston (USA)	CRDSUI	Aa3	AA-	Neg.	Neg.	6.500	01/15/12	Senior	2,750	150	265	26	83	98	125	N/A	124	265	211
Goldman Sachs Group	GS	Aa3	A+	Stable	Neg.	6.875	01/15/11	Senior	2,850	165	180	7	20	22	33	10	130	200	141
Goldman Sachs Group	GS	Aa3	A+	Stable	Neg.	6.600	01/15/12	Senior	2,750	148	180	5	20	20	32	N/A	130	180	128
Goldman Sachs Group	GS	Aa3	A+	Stable	Neg.	5.700	09/01/12	Senior	1,500	156	185	5	17	N/A	N/A	N/A	155	185	124
Lehman Brothers Holdings	LEH	A2	A	Pos.	Neg.	6.625	01/18/12	Senior	1,000	158	190	10	30	30	40	N/A	137	190	138
Merrill Lynch & Co.	MER	Aa3	AA-	Neg.	Rev. Dn	6.000	02/17/09	Senior	2,000	120	150	15	30	50	60	25	80	197	150
Morgan Stanley Dean Witter	MWD	Aa3	AA-	Stable	Rev. Dn	6.750	04/15/11	Senior	3,500	155	185	5	20	30	51	18	115	195	144
Morgan Stanley Dean Witter	MWD	Aa3	AA-	Stable	Rev. Dn	6.600	04/01/12	Senior	2,500	135	190	6	20	30	51	N/A	130	190	135

*Movement in GS 7.625% of 2005 for four weeks and longer reflects shift to US benchmark 6.5% of August 2005.
Source: Credit Suisse First Boston

New Issue List — YTD

2002 New Issuance by Financial Institutions

Investment-Grade Financial Institution Issues with Maturities > 18 Months

Excluding Agencies and Supranationsl

Issuer	Ticker	Date	Mdy's	S&P	Amount	Coupon	Actual Mat	Maturity	Initial Spread
Astoria Financial	AF	10/08/02	Baa3	BBB-	200	5.750	10/15/12	10yr	+215.0
Wells Fargo & Co.	WFC	10/01/02	Aa2	A+	300	3.750	10/15/07	5yr	+109.0
American General Finance	AIG	09/26/02	A1	A+	600	5.375	10/01/12	10yr	+172.0
Royal Bank of Scotland Group Plc	RBOS	09/25/02	Aa3	A	750	5.000	10/01/14	12yr	+134.0
Sky Bank	SKYF	09/20/02	Baa1	BBB	65	6.125	10/01/12	10yr	N.A.
Golden West Financial Corp.	GDW	09/19/02	A1	A	500	4.750	10/01/12	10yr	+105.0
Bank of America	BAC	09/19/02	Aa2	A+	1,000	4.875	09/15/12	10yr	+112.5
General Electric Capital Corp.	GE	09/18/02	Aaa	AAA	1,250	4.625	09/15/09	7yr	+120.0
CIT Group Inc.	CIT	09/18/02	A2	A	850	5.750	09/25/07	5yr	+284.0
SLM Corp. (re-open)	SLMA	09/17/02	A2	A	350	5.625	04/10/07	5yr	+73.0
US Bancorp (re-open)	USB	09/09/02	Aa3	A	575	3.950	08/23/07	5yr	+80.5
BB&T Corp.	BBT	09/17/02	A2	A-	500	4.750	10/01/12	10yr	+101.0
Wells Fargo & Co.	WFC	09/04/02	Aa3	A	300	4.000	09/10/12	10yr	+110
Wells Fargo Corp.	WFC	08/28/02	Aa3	A	500	5.125	09/01/12	10yr	+102
Bank of New York Co.	BK	08/28/02	A1	A	250	4.250	09/04/12	10yr	+100
Bank One Corp.	ONE	08/22/02	Aa3	A	500	4.125	09/01/07	5yr	+83
American General Finance Corp.	AIG	08/22/02	A1	A+	500	5.375	09/01/09	7yr	+158
Bank of New York	BK	08/21/02	Aa3	A+	400	3.900	09/01/07	5yr	+70
US Bancorp	USB	08/21/02	Aa3	A	300	3.950	08/23/07	5yr	+73
Goldman Sachs Group Inc.	GS	08/20/02	Aa3	A+	1,500	5.700	09/01/12	10yr	+156
SLM Corp.	SLMA	08/20/02	A2	A	600	5.125	08/27/12	10yr	+105
Citigroup	C	08/19/02	Aa2	A+	1,000	5.625	08/27/12	10yr	+144
Marshall & Ilsley Bank	MI	08/19/02	A1	A	250	5.250	09/04/12	10yr	+105
Marshall & Ilsley Bank	MI	08/19/02	Aa3	A+	300	4.125	09/04/07	5yr	+78
Lehman Brothers Holdings Inc. (re-open)	LEH	01/03/02	A2	A	500	6.625	01/18/12	10yr	+160
Key Bank NA	KEY	08/06/02	A2	A-	300	5.700	08/15/12	10yr	+140
Golden West Financial	GDW	08/02/02	A1	A	300	4.125	08/15/07	5yr	+90
North Fork Bancorp Inc.	NFB	07/31/02	A2	BBB+	350	5.875	08/15/12	10yr	+145
Wells Fargo Financial	WFC	07/23/02	Aa2	A+	500	5.500	08/01/12	10yr	+115
Countrywide Home Loans	CCR	07/17/02	A3	A	750	5.625	07/15/09	7yr	+138
Credit Suisse First Boston USA	CRDSUI	07/12/02	Aa3	AA-	1,000	7.125	07/19/32	30yr	+185
Stilwell Financial Inc.	SV	06/27/02	Baa1	A-	200	7.750	06/15/09	7yr	+350
Sumitomo Mitsui Bank, NY	SUMIBK	06/18/02	Baa1	BBB-	750	8.000	06/15/12	10yr	+315
Citigroup	C	06/12/02	Aa1	AA-	1,250	4.125	06/30/05	3yr	+65
MBNA America Bank, NA	KRB	06/11/02	Baa2	BBB	500	6.625	06/15/12	10yr	+173
Wachivia Bank NA	WB	06/05/02	Aa3	A+	500	4.850	07/30/07	5yr	+56
Wells Fargo Financial	WFC	06/05/02	Aa2	A+	500	4.875	06/12/07	5yr	+68
Key Bank NA	KEY	06/05/02	A1	A	350	5.000	07/17/07	5yr	+75
Union Planters Bank	UPC	06/04/02	A1	BBB+	600	5.125	06/15/07	5yr	+87.5
Mellon Funding Corp.	MEL	06/03/02	A1	A+	400	4.875	06/15/07	5yr	+58
General Electric Capital Corp.	GE	05/31/02	Aaa	AAA	3,750	6.000	06/15/12	10yr	+106
General Electric Capital Corp.	GE	05/31/02	Aaa	AAA	2,250	5.000	06/15/07	5yr	+76
Citigroup	C	05/30/02	Aa2	A+	1,000	6.625	06/15/32	30yr	+114
Textron Financial Corp.	TXT	05/29/02	A3	A-	600	5.875	06/01/07	5yr	+144
GATX Financial Corp.	GMT	05/23/02	Baa3	BBB	250	8.875	06/01/09	7yr	+430
JP Morgan Chase	JPM	05/22/02	Aa3	AA-	2,000	5.250	05/30/07	5yr	+92
Suntrust Banks Inc.	STI	05/21/02	A1	A+	300	5.050	07/01/07	5yr	+59
International Lease Finance Corp.	AIG	05/21/02	A1	AA-	900	5.625	06/01/07	5yr	+122
Wells Fargo & Co.	WFC	05/16/02	Aa2	A+	500	5.250	12/01/07	5yr	+75
Household Finance Corp	HI	05/15/02	A2	A	1,750	7.000	05/15/12	10yr	+183
Household Finance Corp	HI	05/15/02	A2	A	750	7.625	05/17/32	30yr	+195
Bank of New York	BK	05/14/02	Aa3	A+	300	5.200	07/01/07	5yr	+59
Countrywide Home Loans	CCR	05/14/02	A3	A	1,000	5.625	05/15/07	5yr	+108
Charter One Bank	CF	05/13/02	A3	BBB+	400	6.375	05/15/12	10yr	+125
Regions Financial Corp.	RF	05/09/02	A2	A-	600	6.375	05/15/12	10yr	+125
Keycorp	KEY	05/07/02	A2	A-	300	4.625	05/16/05	3yr	+93
Hudson United Bank	HU	05/01/02	Baa3	BBB-	200	7.000	05/15/12	10yr	+200

Source: Credit Suisse First Boston

2002 New Issuance by Financial Institutions (continued)

Investment-Grade Financial Institution Issues with Maturities > 18 Months

Excluding Agencies and Supranationsl

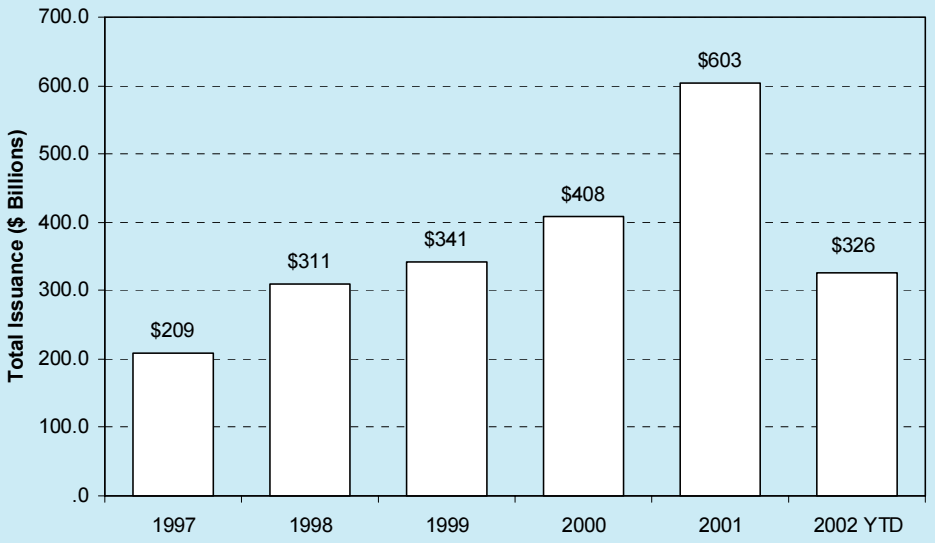
Issuer	Ticker	Date	Mdy's	S&P	Amount	Coupon	Actual Mat	Maturity	Initial Spread
Korea Development Bank	KDB	04/24/02	A3	BBB+	800	5.250	11/16/06	4yr	+95
Bank of America Corp.	BAC	04/17/02	Aa2	A+	1,000	6.250	04/15/12	10yr	+105
Wells Fargo Financial	WFC	04/11/02	Aa2	A+	500	6.125	04/18/12	10yr	+102
American General Finance Corp.	AIG	04/03/02	A1	A+	500	5.750	03/15/07	5yr	+129
Credit Suisse First Boston USA	CRDSUI	04/03/02	Aa3	AA-	1,750	5.750	04/15/07	5yr	+113
Credit Suisse First Boston USA (reopen)	CRDSUI	04/03/02	Aa3	AA-	750	6.500	01/15/12	10yr	+138
USA Education Inc.	SLM	04/03/02	A3	A	850	5.625	04/10/07	5yr	+95
Morgan Stanley Dean Witter	MWD	03/27/02	Aa3	AA-	2,500	5.800	04/01/07	5yr	+113
Morgan Stanley Dean Witter	MWD	03/27/02	Aa3	AA-	2,500	6.600	04/01/12	10yr	+135
Morgan Stanley Dean Witter	MWD	03/27/02	Aa3	AA-	1,000	7.250	04/01/32	30yr	+153
Wells Fargo & Co.	WFC	03/26/02	Aa2	A+	500	4.800	07/29/05	3yr	-
CIT Group Inc.	CIT	03/26/02	A2	A-	1,250	7.375	04/02/07	5yr	+265
CIT Group Inc.	CIT	03/26/02	A2	A-	1,250	7.750	04/02/12	10yr	+255
Landesbank Baden-Wurttemburg	LBW	03/20/02	Aaa	AAA	500	6.350	04/01/12	10yr	+100
MBNA Corp.	KRB	03/20/02	Baa2	BBB	500	7.500	03/15/12	10yr	+220
Bank One NA	ONE	03/19/02	Aa2	A+	1,500	5.500	03/26/07	5yr	+88
Bank of New York Co.	BONY	03/15/02	A1	A	300	6.375	04/01/12	10yr	+105
General Electric Capital Corp.	GE	03/14/02	Aaa	AAA	2,000	5.375	03/15/07	5yr	+80
General Electric Capital Corp.	GE	03/14/02	Aaa	AAA	5,000	6.750	03/15/32	30yr	+109
American General Finance	AIG	03/14/02	A1	A+	250	5.750	03/15/07	5yr	+95
J.P. Morgan Chase	JPM	03/08/02	A1	A+	1,000	6.625	03/15/12	10yr	+135
Jefferies Group	JEF	03/07/02	Baa3	BBB-	325	7.750	03/15/12	10yr	+290
Wells Fargo & Co.	WFC	03/04/02	Aa2	A+	1,500	5.125	02/15/07	5yr	+74
International Lease Finance Corp.	AIG	03/01/02	A1	AA-	750	6.375	03/15/09	7yr	+172
J.P. Morgan Chase	JPM	02/27/02	Aa3	AA-	1,500	5.350	03/01/07	5yr	+123
Citigroup	C	02/27/02	Aa1	AA-	1,500	5.000	03/06/07	5yr	+80
International Lease Finance	AIG	02/14/02	A1	AA-	500	5.750	02/15/07	5yr	+162.5
Citigroup	C	02/13/02	Aa1	AA-	1,500	6.000	02/21/12	10yr	+109
General Electric Capital Corp.	GE	02/12/02	Aaa	AAA	1,250	5.000	02/15/07	5yr	+83
General Electric Capital Corp.	GE	02/12/02	Aaa	AAA	2,250	5.875	02/15/12	10yr	+103
American Express Credit Corp	AXP	02/01/02	Aa3	A+	250	4.250	02/07/05	3yr	+120
Wells Fargo & Co.	WFC	01/29/02	Aa2	A+	1,000	5.125	02/15/07	5yr	+79
Asian Development Bank	ASIA	01/29/02	Aaa	AAA	2,000	4.875	02/05/07	5yr	+51
US Bank NA	USB	01/28/02	A1	A	1,000	6.300	02/04/14	12yr	+125
Bank of America Corp.	BAC	01/25/02	Aa2	A+	1,500	5.250	02/01/07	5yr	+89
Capital One Financial	COF	01/25/02	Baa3	BB+	300	8.750	02/01/07	5yr	+430
Countrywide Home Loans	CCR	01/24/02	A3	A	1,000	5.500	02/01/07	5yr	+120
Household Finance Corp	HI	01/23/02	A2	A	2,500	5.750	01/30/07	5yr	+155
KFW International Finance	KFW	01/17/02	Aaa	AAA	3,000	4.750	01/24/07	5yr	+58
MBNA Corp.	KRB	01/14/02	Baa2	BBB	300	6.250	01/17/07	5yr	+225
International Lease Finance Corp.	AIG	01/11/02	A1	AA-	200	4.750	01/18/05	3yr	+0
Bayerische Landesbank	BYLAN	01/09/02	Aaa	AAA	250	4.125	01/14/05	3yr	+115
Washington Mutual Inc.	WM	01/08/02	A3	BBB+	1,000	5.625	01/15/07	5yr	+133
Credit Suisse First Boston USA	CRDSUI	01/08/02	Aa3	AA-	2,000	6.500	01/15/12	10yr	+150
Bear Stearns Companies Inc.	BSC	01/08/02	A2	A	1,000	5.700	01/15/07	5yr	+142
General Electric Capital Corp.	GE	01/03/02	Aaa	AAA	1,000	4.250	01/28/05	3yr	+117
Lehman Brothers Holdings Inc.	LEH	01/03/02	A2	A	1,000	6.625	01/18/12	10yr	+158
Goldman Sachs Group Inc.	GS	01/03/02	A1	A+	2,750	6.600	01/15/12	10yr	+148

Source: Credit Suisse First Boston

Corporate Bond Supply

Yearly Issuance of Investment-Grade Corporate Bonds

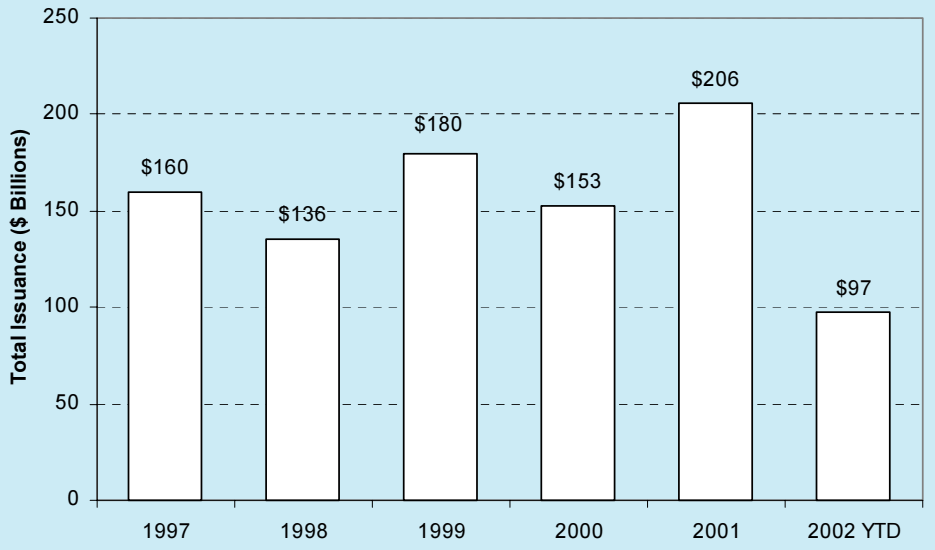
Maturities > 18 Months



Source: SDC

Yearly Issuance on Investment-Grade Financial Institution* Fixed-Rate Notes

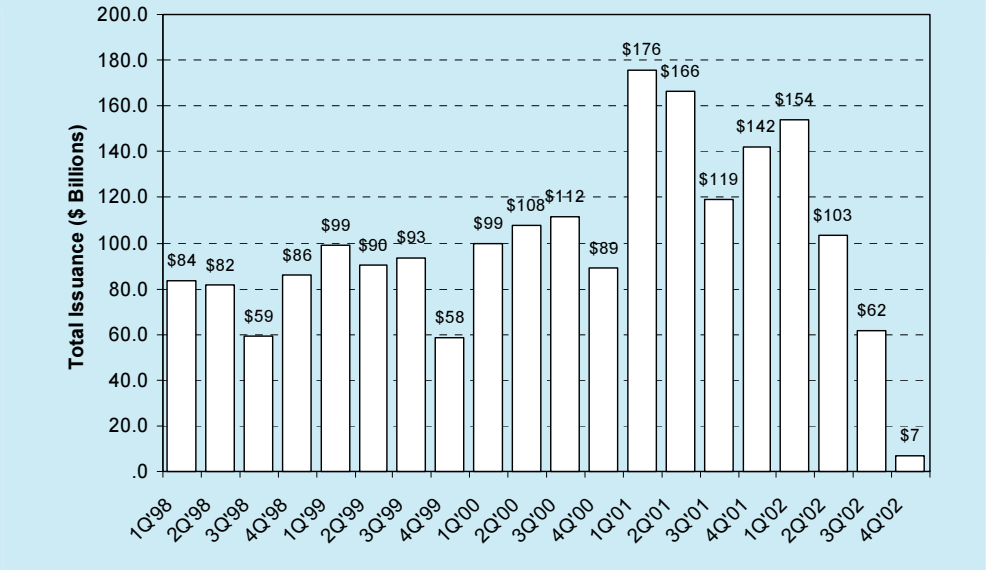
Maturities > 18 Months



Source: SDC

Quarterly Issuance of Investment-Grade Corporate Bonds

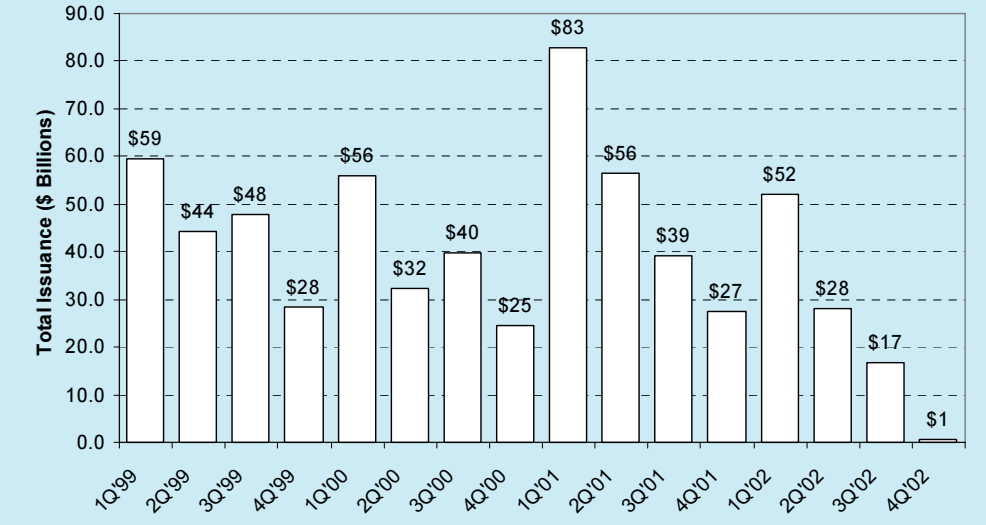
Maturities > 18 Months



Source: SDC

Quarterly Issuance of Investment-Grade Financial Institution* Fixed-Rate Notes

Maturities > 18 Months



* Excluding Agencies and Supranationals
Source: SDC

CREDIT SUISSE | FIRST BOSTON

AMSTERDAM	31 20 5754 890	JOHANNESBURG	27 11 343 22 00	SÃO PAULO	55 11 3841 6000
ATLANTA	1 404 656 9500	LONDON	44 20 7888 8888	SEOUL	82 2 3707 3700
AUCKLAND	64 9 302 5500	MADRID	34 91 423 16 00	SHANGHAI	86 21 6881 8418
BALTIMORE	1 410 223 3000	MELBOURNE	61 3 9280 1666	SINGAPORE	65 6212 2000
BEIJING	86 10 6410 6611	MEXICO CITY	52 5 283 89 00	SYDNEY	61 2 8205 4400
BOSTON	1 617 556 5500	MILAN	39 02 7702 1	TAIPEI	886 2 2715 6388
BUDAPEST	36 1 202 2188	MOSCOW	7 501 967 8200	THAILAND	66 2 614 6000
BUENOS AIRES	54 11 4131 2700	MUMBAI	91 22 230 6333	TOKYO	81 3 5404 9000
CAIRO	202 567 7600	NEW YORK	1 212 325 2000	TORONTO	1 416 352 4500
CHICAGO	1 312 750 3000	PALO ALTO	1 650 614 5000	VIENNA	43 1 512 3023
FRANKFURT	49 69 75 38 0	PARIS	33 1 40 76 8888	WARSAW	0114 434343
GENEVA	41 22 394 70 00	PASADENA	1 626 395 5100	WASHINGTON DC	1 202 354 2600
HOUSTON	1 713 220 6700	PHILADELPHIA	1 215 851 1000	WELLINGTON	64 4 474 4400
HONG KONG	852 2101 6000	PRAGUE	420 2 210 83111	ZUG	41 41 727 97 00
ISTANBUL	90 212 278 2500	SAN FRANCISCO	1 415 836 7600	ZURICH	41 1 333 55 55

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Exhibit 7

DOW JONES

HD **Q2 2002 Household International Earnings Conference Call - Final**

WC 5,224 words

PD 17 July 2002

ET 10:00

SN Financial Disclosure Wire

SC FNDW

LA English

CY

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LP

OPERATOR: Good day, everyone. Welcome to the Household International 2nd quarter, 2002 earnings results conference call. Today's call is being recorded. For opening remarks and introductions, I turn it over to Mr. Craig Stream, Vice President Corporate Relations and Communications. Go ahead, sir.

CRAIG STREAM, VP CORPORATE RELATIONS, HOUSHOLD INTERNATIONAL: Thank-you. Good morning, everyone. Welcome to our 2nd quarter conference call. Today's call is being webcast at the household.com website, will feature formal remarks from Bill Aldinger, our Chairman and CEO, and David Schoenholz, Vice Chairman and Chief Financial Officer.

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We will have a Q&A period and as has been our custom recently, given the other companies and other conference calls going on, we're going try to keep the call fairly short.

Our remarks this morning may contain certain estimates and projections that may be forward-looking in nature. A variety of factors may cause actual results to differ materially to the results discussed in the forward-looking statements. Factors that may cause such differences are discussed in the annual and quarterly filings with the SEC.

Now it is my pleasure to turn the call over to Bill.

WILLIAM ALDINGER, CHAIRMAN, CEO, HOUSHOLD INTERNATIONAL: Thanks, Craig. Good morning, everybody.

I want to start with saying I'm very pleased with the quarter. It is a very solid quarter. It also happens to be our 16th consecutive record quarter.

What is clear out there is that the consumer is holding up well. We're seeing very strong loan demand, we're also seeing stable credit quality. And the highlight of the quarter clearly is receivable growth.

Receivables were up 15% in the quarter and the best growth was in our mortgage portfolios where we had strong returns and the lowest charge-offs of any portfolio.

Speaking of charge-offs, they were up modestly in the quarter, our expectation is that they will be up modestly again in the 3rd quarter and we expect them to flatten out in the 4th quarter.

On the reserve front, we've added some reserves about, $85 million in the quarter, this is about the seventh quarter in a row where we've added reserves. Our ratios improved in the quarter. Our reserves to non-performs loans are up to 112%. To receivables at 4.14%. Expect to add to reserves as long as charge-offs continue to increase.

One other topic I want to mention before we turn it over to Dave and that is on stock options. We have made the decision to begin expensing stock options in the 4th quarter. The impact this year is very modest, we think less than one cent. And next year, the impact will be about 2 cents.

With that, I conclude my comments, we're well-positioned for the rest of the year. Now I turn it over to Dave for more color on the quarter. Thanks.

DAVID SCHOENHOLZ, CFO, HOUSHOLD INTERNATIONAL: Thanks, Bill. I'd like to really comment on four things before going to Q&A.

The first is to give more color on what's going on in the portfolio and growth. The second area is really to talk about credit. Third, talk about balance sheet management and then finally, particularly in light of cap 1's announcement yesterday, to have a brief discussion on bank regulatory matters.

So, if we start off with growth, as Bill said, it was really a great quarter for growth, great growth quarter. Receivables were up $4.3 billion. That translates to 17% annualized growth rate in the quarter, as Bill mentioned, we are 15% on a year-over-year basis.

During the quarter, we benefited from a stronger pound. So, we did have some effects for about $500 million. If you exclude that, we grew at a 15% annualized rate which is still very, very good.

Real estate product was the fastest grower. That grew at about a 23% annualized rate. And if you look at the absolute dollar amount of growth in the quarter, real estate product was about 60% of that total.

Year-over-year, Bill 2/3 of the dollar increase in the portfolio has

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come from real estate and we think that's really important when you look at the lost characteristics of that product versus some unsecured product.

We had good growth in both our branch-based consumer lending business and also in our mortgage business.

In each of those channels we had very strong in volume, we're continuing to see good EA account executive productivity in the branches and it was also good to see that in the quarter we had a little bit lower attrition in each of those portfolios.

If we take a look at the branch growth, which includes real estate and unsecured product,total we grew at about a 15% annualized growth rate in the quarter. We have good momentum in the branches. Auto grew about -- at a 16% annualized rate in the quarter.

Marketplace is -- we see reasonable pricing, we see -- continue to see good dealer acceptance of the highway platform and even though the 16% rate is a little lower than we've seen in other quarters, we are very happy with that growth rate going forward.

Visa Mastercard product grew by about 10% annualized rate in the quarter.

We're cautious about the whole sub prime area. Our portfolio sub prime visa Mastercard is about $1.3 billion that, compares to about $1.1 million a year ago. To put it in perspective, that's less than 1% of our total portfolio.

Now, the other thing, when you look at our supplement and look at visa and mastercard, you will see we're down year-over-year, just remember that last year we sold a $900 million goldfish portfolio.

Private label business grew 5% annually at an annualized rate in the quarter we had three new small merchants, we have other merchants, hopefully that are in the pipeline and expect that growth rate to pick up in the second half of the year.

And then finally on our unsecured product, you can see from the table that it grew at an 18% annualized rate.

Now, we also break out the pieces of that portfolio and I point out that the fastest-growing part is our union privilege loan portfolio which grew at a 33% rate, that's a prime-based portfolio, very good credit quality.

Our domestic unsecured product, which is probably of a lower credit quality, grew at less than a 6% rate. You can also see that in the foreign side this is where you're seeing a big part of the FX.

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So,summary, good consumer demand, credit and product mix is good. And really, the whole front end of the business right now is performing extremely well. We're very happy with that.

Let me switch to credit quality and to comment that generally we're very pleased. In the supplement, we give you a whole bunch of statistics, own-basis, management-basis.

I will focus on the managed basis, that's the truest picture of the portfolio. And also we will focus on sequential quarter changes.

We talked about delinquency, it was down 10 basis points that, was a little better than what we thought. The biggest improvements in visa mastercard and that biggest improvement was in the sub prime portfolio, delinquency was down very nicely. We had some increase in delinquency in auto Of that is seasonal and some of it was expected in that we've been working with McKinzy to develop some models that based on the customer's credit and behavioral characteristics and on the type of collateral that we may be able to work longer with the borrower.

Our outlook for delinquency going forward both in the auto portfolio and in total is to be kind of stable to down for the rest of the year.

Charge-offs, as Bill mentioned, were up modestly, 16 basis points. That was consistent with what we thought. About half of that increase was due to bankruptcy, which is really the reason we saw the increase in the credit card portfolio.

Going forward, as Bill indicated, probably some pickup in the 3rd quarter modestly and then probably trending downward in the 4th.

In the supplement, we indicated the consolidation of REO and product, you can see the combined loss rate of 1.23%. That was up 18 basis points in the quarter that was due to the aging of the portfolio. And we're seeing higher loss severities due to bankruptcy filings, but overall, that portfolio continues to behave extremely well.

We also included in the supplement, some re-age data. We introduced that in April based on December numbers. We said we would update it at mid-year. We presented it in a fashion to look at comparative trends.

The total portion of the portfolio that's being raised was 16.7% at the end of June versus 16.9 at the beginning of the year. I think what is significant is if you look at the re-age activity in the last six months, you can see it trending downward. That's what you would expect as the economy starts to improve and so forth. You would expect that.

Really no big differences by-product and really no big differences in any of our policies.

Finally, with respect to reserves, the increase in total, $225 million

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in the quarter. The reserve ratio was 4.14%. That was up from 4.10 in the prior quarter and up pretty nicely from the 3.78% a year ago.

Reserves to non-performing loans were also up in the quarter both compared to March and a year ago.

So, we're very comfortable with our reserving and really looking forward -- we currently have an outlook for stable reserve ratios.

Now, switching over to balance sheet management, this is obviously an important area and we continue to be conservative and take a cautious approach.

Let me comment first on liquidity. At June 30, our commercial paper outstanding was about $3 million, that's comparing to about $5.35 billion at the end of March and had an average life of 32 days. Now, that level is kind of artificially low.

In the 2nd quarter we were very active in the term markets. We thought the markets were attractive and wanted to take advantage of the funding based on market timing.

Going forward, we would expect that cp balance to be more in the 5 to $6 billion range. Cp backup lines were $10 billion and our undrawn conduit lines were about $6.7 billion versus $5.4 billion at the March quarter.

Now, we added another billion dollars in conduit lines in the quarter, which is on top of the $5 billion we added in the 1st quarter.

In addition, at June 30, we traded an investment portfolio of about $4 billion. That dpirs $1 billion at the beginning of the quarter -- compares to about $1 billion at the beginning of the quarter.

All of the liquidity management things are the right thing to do, but there is cost to that. We estimate that the cost of the liquidity portfolio, the cost of extending maturities and commercial paper outstandings was about 2 cents in the quarter.

Looking to the rest of the year, we expect that to be maybe around 3 cents in each of the respective quarters.

And quite honestly, it is this liquidity management which caused the slight decrease in the net income margin percent that you can see why we talked about funding, we were very active in the quarter. We had no problems in accessing the markets. Spreads were good. We did a $2.5 billion, U.S. Collar denominated global. $2.7 billion euro denominated global. Swap back to dollars were almost equal in the markets.

Also active on the securitization side, we did a $600 million U.K.,

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visa mastercard deal. We did a $925 million public auto deal, we did a $1.3 billion branch-based real estate deal.

I'd also comment that we did a billion-dollar wholesale securitization which closed in early July. Now, those real estate deals we account for as real estate secured financing.

I'd like to comment briefly on some of the concerns that fitch raised earlier about the opportunity monetize our collateral. For the first six months, we've done $2.3 billion in our watch-based product. A billion out of our wholesale product and a $900 million hold on sale. So, we're very comfortable in how the market has received our paper.

Let me switch to capital. If we focus on the [INAUDIBLE] it was 2.4% at the end of the quarter, versus 2.81 at the beginning of the quarter, but 7.6% a year ago.

Now, the 1st quarter was kind of artificially high because we had just done a preferred deal and as we indicated before, we're looking at a range of 8 to 8.25. During the quarter, we brought back $68 million in common, but slowed the common buyback program and are absolutely committed to maintaining the necessary capital targets.

Finally, let me comment briefly and kind of bank regulatory issues. And as I said, I think that's probably on people's minds given the announcement yesterday. There is no question that the national banking regulators are taking a more conservative view and we've seen that and we've been able to respond to that.

Now, as we disclosed in the 1st quarter in our SEC filings that, we had talked to them about capital requirements and that we put in an extra $1.2 billion of capital in the 1st quarter in our national banking subsidiaries. That translated into the higher capital ratios and higher capital targets we're seeing for the company overall.

And we've also enhanced the liquidity in the bank, you know, of the $4 billion liquidity portfolio behind june, we've dedicated $2 billion of that to enhanced liquidity in the banking subsidiaries. We had also indicated in the 1st quarter disclosures that we going to merge our three national credit card banks and we did that, effective July 1.

We merged the three into one. Two of them were subsidiaries of HFC. Was a subsidiary of Household Bank FSB. The one will now be a sub of HFC. We did it to really streamline and simplify some of the regulatory process, as always just to opt mist capital and liquidity management. We've maintained a constructive dialogue with all the regulators and are very comfortable that we're going to be able to continue to run our business the way we've always run our business and so we feel good about that.

Now, those conclude the overall comments was I going to make and operator, perhaps you could give the polling instructions for Q&A.

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OPERATOR: Thank-you. Sir. Our question and answer session will be conducted electronically.

If you would like to ask a question, firmly press the star key followed by the digit 1 on your touch-tone phone. We will come to you in the order you signal. And if you find your question has been asked and answered before you could ask it and would like to remove yourself from the question roster, please firmly press the star key followed by the digit 2.

Again, if you would like to ask a question, press the star key followed by the digit 1. And for our first question, we go to Bob Napoli with U.S. Bancorp piper Jaffray.

BOB NAPOLI, US BANCORP PIPER JAFFRAY: Good morning and nice quarter. I wonder if you could expand more on two issues that are on everybody's minds. The -- are there any other discussions going on with regulators? I mean are they looking for any other niche types of information or spending -- I wonder if you could talk about that a little more. Then, the second issue, you know, that frequently comes is that the predatory lending issue, can you just talk a little bit about what's going on with some of the lawsuits and the extent that you can help us out on that. Thanks.

WILLIAM ALDINGER: Well, Bob, we're going to split the question. Dave will talk about the regulatory. I will talk about --

DAVID SCHOENHOLZ: Let me quickly take the regulatory thing. We're always having conversations with the regulators. Part of it is to maintain an act of constructive dialogue, but there is nothing analogous to what was discussed yesterday.

WILLIAM ALDINGER: Let me talk about the predatory lending issue.

I hate that term, but it is now become synonymous with sub prime lending, unfortunately. We've been the poster child lately for the issue.

I think you need to look at it in a broader perspective, what's happening with state legislation, federal legislation, what is happening with the ACORN suits and what is happening with the ags?

So, we have three or four elements that combine to raise the question, what's going to be the impact on household, particularly on our long-term model?

Let me start with the states first. A number of states in the last year have enacted what they call predatory lending statutes that were really,some cases, appropriate. There are a lot of people who do act badly in the sector. That's been in place, California is one of those states. A number of big states have done that. We expect more states to do it.

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The impact on us of those changed laws has been virtually nill or minimal. That's because we already have in place our best practices and in many places, our best practices exceed what these states have been asking or are in line with what the states are asking.

So, that is evidence, by as Dave went through, our growth rate is tremendous in the branch, looking at 15% annualized growth rate, high revenue growth and roas in the 2%.

So, we would say that state legislation to date has not impacted the returns or the business model.

We would expect more states to follow on because it is a great political issue, but we don't think that it's going to impact our model because of the way we've positioned our best practices and because of the 124-year history. The next one is federal legislation. We don't think anything will pass this year.

Our preferred solution would be federal legislation because it would be consistent. We're going to work constructively with the federal regulators and legislators to hopefully get something next year.

So, again, even what sarbaines proposed is not that different from our model today.

Now let's talk about the lawsuits. We think, straight out, that the class action suits brought by acorn, in particular, are just baseless and we don't see any long-term impact there. We think they're wrong.

On the ags, obviously, again, it's a political issue. There's been lots of talk. We will, like we do on everything else, focus on resolving that issue over the next six months or so. But I can't go in any details except to say that I am confident that our best practices and our current model ultimately will prevail and will do what we do because we do not do predatory lending.

The final message is lots of moving parts, lots of headline issues, but, economically, we run a very strict model and a very good model for our customers and we don't think when we're sitting here talking to you next year there will be anything substantially different in the returns or practices. I'm sorry for such a long answer.

BOB NAPOLI: No, thank you.

OPERATOR: Our next question go to Mike Hughes with Merrill Lynch.

MIKE HUGHES, MERRILL LYNCH: Thank you. One fundamental question and one beat the dead horse question. The income was a little lighter this quarter. I wonder -- the impact of ralph, I hoped for some information there. And the beat the dead horse there, the regulatory scene is most focused on actions backed by deposits. I presume due to the capital

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additions you've made, you're probably already hitting the 200% risk-based capital, but I want confirmation that the regulars couldn't interpret you guys have "deposits-backing sub prime assets" and you're hitting capital ratios such as those.

UNIDENTIFIED: Mike, on the second one first, your assumption is absolutely right. We are, based their sub prime guidance, we are well capitalized already and that's what we accomplished in the 1st quarter. So, I think that issue we've dealt with and are done with. We would not expect anything more on that front.

On the fee side, they were down that, really relates to late limits. That's the flip side of an improving delinquency position. So, you know, as we see a little bit of compression on that revenue side, we're expecting to see the offset really on the credit side and also on the collector expense side. Going forward, you know, I think the run rate will pick up a little bit as volume picks up, but that's really what it's related to.

MIKE HUGHES: Is that anything particular behind the increase and charge-off rate on real estate securities?

UNIDENTIFIED: As I indicated, you have a portfolio that's grown rapidly and will continue to age a little bit, and so that's one point. And the other thing, we are particularly in second, in seconds where you have additional bankruptcy filings and are seeing additional loss severity. The combination of ROE and charge-offs at 120 basis points is still pretty darn good.

MIKE HUGHES: Yeah, okay, thank you.

OPERATOR: Our next question, we go to Bradley Ball with Prudential Securities.

BRADLEY BALL, PRUDENTIAL SECURITIES: Thanks. Bill, you mention that he did in light of the state's rules, you're still operating, sounds like as profitably state by state as you were prior to the new laws that are being put in place. I assume that it takes into consideration the adjustments that you began making about a year ago when you discontinued single premium life insurance as well as the other "best practices" that you put in place. Just acknowledge that if that's the case.

WILLIAM ALDINGER: That's right, Brad.

BRADLEY BALL: Thanks. And then, separately, just a quick question for Dave on credit quality. Can you dig down a little deeper on the increase in charge-offs in the other unsecured? It was a little sharper than we had expected. What's going on there and what's the forecast for the other unsecured charge-offs as the year progresses jairks well that, product type includes some of the branch base on secured product and so you have a customer who probably, the entire customer profile is the most exposed to kind of an economic downturn. That's what you're seeing there, increases in bankruptcy and I think that type of customer, who has less resilience, our expectation for that is consistent what we

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talked about in the portfolio in total. I think we probably will have a -- a little bit of a bump there in the 3rd and then our expectation is that is going to start to level out. Is that assuming that unemployment has peaked? If we see a higher level of unemployment here, does the forecast change?

DAVID SCHOENHOLZ: If unemployment continues to go up and the consumer starts to topple, obviously we'd have to reassess that.

BRADLEY BALL: Okay. Thank you.

OPERATOR: Our next question, we go to Matt Veto with Salomon Smith Barney.

MATT VETO, SOLOMON SMITH BARNEY: Hi, good morning, couple of questions. First, on the litigation front. It seems like we read something a while back that a court made a preliminary ruling preventing the enforcement of an arbitration clause. Did I read that right?

And secondly, the incremental cost of a couple of pennies for the liquidity portfolio build, would that be incremental to the earnings guidance you have talked about or is that baked into your forecast?

WILLIAM ALDINGER: Let me cover the second point, I think the -- as we did in the 2nd quarter, I mean the run rate of the business absorbed the liquidity costs and our expectations for the second half of the year is at the run rate of the business will absorb those costs, so that doesn't change where we were before. Yeah, on the arbitration clause, I think that was the California case. As we know, California tends to object the outer edges on most of the legal issues and the supreme court has upheld arbitration clauses in a number of cases, we are on appeal there and, you know, I think -- I think the entire financial services industry, in every part of the business, as you saw arbitration clauses effectively, are the right thing. We're going ton use them and appeal that jurisdiction. But it's been upheld in multiple jurisdictions.

MATT VETO: Great, thanks.

WILLIAM ALDINGER: Okay.

OPERATOR: For our next question, we go Michael Hodus with Goldman Sachs.

MICHAEL HODUS, GOLDMAN SACHS: Hi, good morning. I wondered if you could elaborate a little bit on the interplay you're seeing with the fixed income investment community.

Household has taken steps to improve liquidity, lower -- lower leverage -- quantify that to a certain extent. Can you just give us, you know, your sense of what kind of assumptions you're baking into the outlook for spreads to treasuries and how you see that evolving?

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WILLIAM ALDINGER: Well, our -- part of the reason we were such an acrite issuer in the term-debt market in the 2nd quarter is that we saw spreads being attractive. We had good demand for our product.

A good investor receptivity and which is why we issued -- now, having said that, spreads have been volatile because of the overall capital market environment and so, therefore, you need time when you're going to issue. Our spreads, compared to historical levels, are still pretty comparable.

The other point I would make is that spreads on the asset-backed side have really been more consistent and more stable than spreads on the unsecured product and which is why we've been pretty active in the asset-backed markets, including the real estate market. So, our expectation will be that as spreads might be a little bit higher, just given uncertainty, but we will issue opportunistically and it's relates to overall bofr yoshing costs, that's well under control.

MICHAEL HODUS: Great, thanks.

OPERATOR: Ladies and gentlemen, due to time constraints, we have time for only one additional question. That question comes from Joel Hauck with .

JOEL HAUCK: Thanks and congratulations for being ahead of the other companies in the space.

My question was why have you changed the securitization disclosure where you no longer break out the amortization of gains in the overlight provision? And can we get that put back in to the quarterly supplement?

DAVID SCHOENHOLZ: The question of securitization disclosure has been controversial and what we had disclosed previously was securitization information on a managed basis and our conclusion was, and I think we got feedback from people that they thought that that was confusing. So, what we've conclude is that we would disclose it on only an owned basis and that if somebody wanted to also understand the net people -- net impact relative to financial statements, we would simply disclose that amount and that's the approach we've taken. And to supplement, there is a footnote in there that talks about that and I think I would not want to go back and muddy the issue.

JOEL HAUCK: Okay, and perhaps it is a follow-up offline.

DAVID SCHOENHOLZ: That's fine.

JOEL HAUCK: Okay, great. Thanks, Dave.

OPERATOR: Mr. Stream, back to you for closing remarks.

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CRAIG STREAM: Thank-you. Thank-you for your attention today and I apologize for the questions I couldn't get to. We are constrained by time. Either me or celeste and we will try to get your questions answered as quickly as we can. Have a good day. Thanks.

OPERATOR: Ladies and gentlemen, this concludes our conference call for today. You may disconnect at this time.

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RE namz : North America | usa : United States

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Exhibit 8

BERNSTEIN RESEARCH CALL
U.S. CONSUMER FINANCE

SEE LAST PAGE OF THIS REPORT FOR IMPORTANT DISCLOSURES

SEPTEMBER 3, 2002

HI | Cutting Long-Run Growth Estimates on Impact of Sales Practice Reform in Branch-Based Real Estate Lending

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Ticker	Rating	8/30/02 Price	Absolute YTD Perf.	Relative YTD Perf.	2001A	SCB Estimates 2002E	SCB Estimates 2003E	Consensus 2002E	Consensus 2003E	SCB P/E 2002E	SCB P/E 2003E
HI	M	$36	-38%	-17%	$3.91	$4.48	$4.96	$4.57	$5.14	8.1	7.3
HI (old)					$4.08	$4.63	$5.36				
SPX		$916	-20%		$45.16	$50.00	$57.00	$48.81	$56.48	18.3	16.1

O – Outperform, M – Market-Perform, U – Underperform

Summary Table of Changes to EPS Estimates

	Original	After Accounting Adjustment* and Suspension of Stock Buyback	After Sales Practices Reform Adjustment	Consensus
2001A	4.08	3.91	na	na
2002E	4.63	4.51	4.48	4.57
2003E	5.36	5.14	4.96	5.14
5-Yr Forward EPS Growth (%)	13%	13%	10%	na

* - Refers to restatement of accounts related to co-branding and affinity credit relationships, and a third-party marketing agreement, as announced on August 14th..

- **The report of the Washington State Department of Financial Institutions (DFI) – made public by the media on Wednesday last week – indicates that confusing sales practices in the Household branch system are more widespread than a few renegade loan officers, and quite possibly systemic. The effect on earnings growth as Household responds to regulatory pressure for sales practice reform will be commensurate.**

- **Specifically, we believe that <u>as sales practice reform takes hold Household will need to reset its long-run EPS growth target of 13-15% to 10-12%</u> (with an intra-range swing factor being the stock buyback program that is presently on hold). The short-run effect is less because the earnings impact of the changes phases over time as current loans run-off and are replaced by new, less profitable loans originated under reformed sales practices.**
  - <u>The estimated impact of sales practice reform on 2002 and 2003 EPS estimates is 3 cents and 18 cents respectively</u>. The combined effect of this, the suspension of the stock buyback program, and the accounting restatement (related to the amortization of certain marketing expenses) announced by Household on August 14th is 15 cents and 40 cents respectively.

- **Reduced earnings growth arises as after-tax returns on the branch real estate portfolio fall over time from the currently estimated 2.5% to 1.9%. Driving factors are lower up-front points, reform of practices involving the misrepresentation of loan rates, and the elimination of single-premium credit life insurance. Sales practice reform will also tend to slow growth in the branch real estate portfolio (by about 3 percentage points in our estimates to a long-run rate of 10%[1]) for two reasons:**

[1] Currently, this portfolio is growing at near 20% on an annualized basis but this is boosted by the current refinancing cycle and is not a normalized growth rate.

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- First, the practice of up-selling – restructuring the entire mortgage debt of a customer looking only for a "top-up" home loan to refinance credit card and other unsecured debt – will become more difficult under tougher regulatory scrutiny and higher company hurdles for customer net tangible benefit. Second, it is impractical for Household to offer loans at the 7% rates that representatives promise to induce refinancing by borrowers with prime bank mortgages, and this business will be foregone.

- **Given this reduced growth rate, and the risk of a more serious breakdown in the real estate secured portfolio, we are lowering our target relative multiple to 50% from 57% (the 5-year historical average of 57%). This compares with a trough relative multiple of around 40% at a time of sector funding concerns in 1998, and reduces the absolute target multiple to 8.1x from 9.3x. The corresponding stock price is $40.**
  - In generating the $40 price, we have not included in our earnings impact the potential costs of settlement with the Attorneys General and consumer advocacy groups or of putative class action complaints. In addition, there is a risk that funding spreads will remain unattractive for an extended period so that Household eventually has to issue high-cost liabilities.

- **Finally, our assumption of a long-run growth rate of 10% for the branch-based real estate portfolio may prove a best case. Zero or even negative growth – with the portfolio shrinking and concentrating into lower quality credits under the winnowing action of adverse selection – could occur if:**
  - Household has violated Regulation Z (as the DFI alleges) through muddling required disclosures under the Truth-in-Lending Act with fictional benefits included in sales materials and, as a consequence, borrowers have rights to rescind their loans.
  - Household faces waves of prepayment as prepayment penalty periods (varying from 3-years to 5-years) expire and heightened publicity alerts customers to the high cost of their loans. The risk increases to the extent Household representatives become frustrated with a more procedural environment at the firm, leave for competitors, and cherry-pick refinancing prospects from the best credits in their left-behind Household book

Investment Conclusion

Household will likely need to abandon its target EPS growth rate of 13-15% to a range of 10-12% as a result of sales practice reform in its branch-based real estate lending business. The now-suspended stock buy-back program will be an intra-range swing factor moving the growth rate higher if it is re-activated. Sales practice reform – a necessary response to regulatory concerns with the misrepresentation by Household representatives of loan rates and other loan terms – will reduce loan profitability and growth in the portfolio. The reduction in profitability will phase in over the average life of loans (estimated at 5 years) as old loans run-off and are replaced with new, less profitable loans originated under new sales practices. We estimate the negative impact of sales practice reform on 2002 and 2003 EPS is 3 cents and 18 cents respectively.

The combined impact of sales practice reform, the suspension of the stock buyback program, and the accounting restatement announced on August 14th (and relating to the amortization period of certain marketing expenses), is an estimated 15 cents in 2002 and 40 cents in 2003. As a result, we are lowering our EPS estimate for 2002 to $4.48 from $4.63 (versus consensus of $4.57) and for 2003 to $4.96 from $5.36 (versus consensus of $5.14). Given this reduced growth rate, and the risk of a more serious breakdown in the real estate secured portfolio, we are lowering our target relative multiple to 50% from 57% (the 5-year historical average of 57%). This compares with a trough relative multiple of around 40% at a time of sector funding concerns in 1998, and reduces the absolute target multiple to 8.1x from 9.3x. The corresponding stock price is $40.

Our EPS estimates may turn out to be best case since they do include the potential costs of settlement with the Attorneys General and consumer advocacy groups or of putative class action complaints. In addition, there is a risk that funding spreads will remain unattractive for an extended period so that Household eventually has to issue high-cost liabilities. Finally, we assume there is an orderly reduction in the growth of the branch-based real estate portfolio from the current rate of approximately 20% to our estimated 10% as sales practice reform takes hold.

In practice, there is a risk of a more serious breakdown in the branch-based real estate portfolio. Zero or even negative growth – with the portfolio shrinking and concentrating into lower quality credits under the winnowing action of adverse selection – could occur if:

- Household has violated Regulation Z (as alleged by Household's regulator in Washington State) through muddling required disclosures under the Truth-in-Lending Act with fictional benefits included in sales materials and, as a consequence, borrowers have rights to rescind their loans.
- Household faces waves of prepayment as prepayment penalty periods (varying from 3-years to 5-years) expire and heightened publicity alerts customers to the high cost of their loans. The risk increases to the extent Household representatives become frustrated with a more procedural environment at the firm, leave for competitors, and cherry-pick refinancing prospects from the best credits in their left-behind Household book.

Details

The examination into Household's branch sales practices conducted by the Department of Financial Institutions ("DFI") in Washington State suggests that borrower confusion is more widespread than the actions of a few renegade loan officers. "The sameness of complaint allegations coupled with the wide diversity of complaint locales has made it evident to the Department that misrepresentations … are not relegated to specific transactions of loan officers but rather to the HFC organization as a whole including its affiliate Beneficial".

The report also suggests that confusing sales practices extend beyond Washington State. The DFI comments that one tactic to misrepresent interest rates – referred to as "selling on an equivalent rate basis" and described below – is "known and likely fostered by the corporation itself or at the least by corporate officers overseeing large segments of the country". The DFI goes on to say "it is important to note that these complaints are documented from varied locations including other states". In addition, given the pressures on account executives to meet production targets, it would be the natural course for effective (even if questionable) sales practices to spread through the branch network.

While Household has not yet commented on the DFI report and the findings are "apparent", we do not expect a substantive change in the conclusion that "HFC practices reflect a pattern of intentional deception while laying the foundation for a later defense." The firm has had the opportunity to comment on the complaints individually before they were compiled into the report, and has been delinquent. The DFI points out that Household took an average of over 97 days to respond to complaints in 2001 versus 28 days in 2000 (and an expected response time of 15 days).

Continued changes in sales practices – either as a result of voluntary action by Household or an eventual settlement with state Attorneys General around the country – will increasingly affect Household's business model and growth potential. The specific area of focus is the branch-based real estate lending business that accounts for 52% of the earnings from the Consumer Lending division (see ***Exhibit 3*** and ***Appendix*** for derivation) that, in turn, accounts for 67% of company profits (see ***Exhibit 4***). In other words, the branch-based real estate lending business generates approximately 35% of the firm's after-tax earnings (see ***Table***).

Table Assets and Earnings by Business Segment, Q2 02

Business Segment	Managed Assets ($bn)*	ROMA (%)*	Earnings ($mm)	% of Firm Earnings
Branch Businesses:				
Real Estate	30	2.5%	191	35%
Other	15	0.6%	23	4%
Sub-Total	45	2.0%	214	39%
Credit Cards:				
Private Label	13	1.7%	59	11%
Bankcards	18	1.5%	66	12%
Sub-Total	31	1.6%	125	23%
Correspondent	19	1.6%	73	13%
Auto Finance	7	1.1%	18	3%
International	9	2.5%	56	10%
Other	20	1.1%	56	10%
Firm Total	128	1.7%	542	100%

* - All figures based on receivables except for "Other" and firm total which are based on assets (and therefore include investment portfolio and other assets); total managed receivables = $105bn.

Source: Company reports, Bernstein estimates

Impact on Profitability:

Loan returns will fall as Household reduces up-front fees, tightens compliance around misrepresentation of rates, and changes sales practices for insurance products. The effect will phase in over time as loans booked under old sales practices roll-off and are replaced by new, less profitable loans originated under new sales practices. Specifically, we believe returns on branch-originated real estate secured loans will fall from 2.5% currently to 1.9% after tax (corresponding to a reduction in pre-tax return of 1%). Given the average life of a loan is an estimated 5 years, the after-tax reduction in returns will phase in at a rate of 12 basis points per year on a lagged basis. ***Exhibit 5*** shows that the denominator effect of portfolio growth of 10% does not materially change this impact. We develop our estimate for the reduction in pre-tax returns of 1% as shown in ***Table 1***.

Table 1 Quantifying the Impact on Returns of Changing Sales Practices

Sales Practice to be Changed	Long-Run Pre-Tax Impact on Returns (basis points)
Failing to Disclose Discount Points	40
Misrepresenting Rate and Payment Amounts	40
Changing Insurance Sales Practices	20
Total	100

Source: Bernstein estimates

Up-Front Fees:

After the announced reduction in maximum up-front fees from 7¼% to 5% (made up of 2% closing costs and up to 3% of buy-down points), Household expects average up-front fees to fall from 6½% to 4½%. As an accounting matter, up-front fees are treated as “pre-paid finance charges” and amortized into earnings over the expected life of the loan, that we take as five years. Therefore, the impact of the lower up-front fees is to reduce the annual return on newly originated loans by 40 basis points. In practice, the impact could be larger since the DFI makes a deeper challenge to the fee model. Specifically, the DFI alleges that Household policy – of indicating to borrowers a highest loan rate and then providing an opportunity to “buy-down” this rate through paying up-front points – is not followed in the branches.

Rather, borrowers are not informed the trade-off between rates and points but shown a lowest loan rate to generate favorable compares with existing financing. These borrowers, if they are aware at all of the up-front points, are confused about the offsetting impact of the fees on the favorable economics shown through the sales process. "All of the borrowers questioned stated that not only did they not know that the points they were paying were used to buy down the rate, they were never offered the option or informed that the discount points paid at closing would be as high as they were".

Misrepresentation of Rates and Payments:

The DFI describes two ruses used by HFC representatives to lead borrowers to believe that rates or payments are lower than they actually are:

- *Selling on an Equivalent Rate Basis*: Household offers customers 18-year loans at, for example, 12.7% but faces a challenge in convincing a borrower with an existing bank loan at, for example, 7.5% to make the switch. Household representatives respond by claiming that their high-rate loan "pays out like" a 7% loan. The 7% is entirely fictional rate but is supported based on amortization schedules showing that it is the rate on a pretend 30-year loan generating the same total interest cost over life as the actual high-rate 18-year loan being sold (see ***Table 2***). The DFI comments that it "does not understand the purpose of making a comparison between an 18-year loan at the real rate and a 30-year loan at a pretend rate" adding that "the sole purpose of the schedule was for simple deception of the consumer".

Table 2 Lifetime Interest Cost Comparison

Loan Rate (%)	7.0%	11.7%
Maturity (Years)	30	18
Lifetime Interest Cost ($)	$139,508	$139,508
Memo: Loan Amount ($)	$100,000	$100,000

Source: Bernstein analysis

- *Confusing Semi-Monthly and Biweekly Payments*: The tactic is to tell borrowers that they can reduce their loan rate by paying biweekly rather than monthly on the grounds that more frequent payments amortize a loan faster and so reduce the lifetime interest cost (true but not relevant to the loan rate). One variation is to explain that biweekly payments reduce the loan rate because interest is calculated through the month and so grows exponentially unless you "nip it in the bud on the low side of the curve" with an intra-month payment. The DFI's observation is as follows. "When an HFC representative makes an obvious truthful statement ("the biweekly payment will reduce the amount of interest you pay") with the intent of a false promise ("therefore your interest rate will be only 7%"), the representative has lied with the truth and caused harm to the consumer."

We quantify the impact of reform of these practices by calculating what terms Household would have to offer to make the promised benefits a reality rather than a fiction. For specificity, we draw from Household sales materials where a borrower, with an existing monthly payment of $1,859, is shown a refinancing into a 30-year loan at a rate of 11.7% and monthly payment of $1,657. The promise of the sales material is monthly savings of the $202 difference. The borrower is then informed (see ***Table 3***) that by switching to a biweekly program with a $828 payment the loan term can be reduced to 18 years (and, by the "equivalent rate" deception, that the loan rate falls to 7.15%). In other words, the borrower is led to believe that by increasing the frequency of payment, it is possible to reduce both the loan maturity and the loan rate.

Table 3 Effect of Biweekly Payment Plan

Loan Amount	164,999
Standard Monthly Loan	
Loan Rate	11.7%
Maturity	30
Monthly Payment	1,657
Biweekly Loan	
Loan Rate	11.7%
Maturity	19
Biweekly Payment	828
Equivalent Monthly Payment	1,794

Source: Bernstein analysis

Of course, this is financial alchemy. The borrower has missed the trick that a payment of $828 biweekly corresponds to a monthly payment of $1,794 ($828 x 26 x 1/12). In other words, the reduced maturity arises not by paying more frequently but just by paying more (and all but eliminating the monthly savings of $202 that were the original impetus for the transaction). In ***Table 4***, we calculate that for Household to deliver the promised benefit – an 18-year loan with a $1,657 monthly payment – the loan rate must fall by 1.2% from 11.7% to 10.5%. Of course, if Household were to deliver on the promise implied by the equivalent rate deception, the loan rate actually has to fall by 4.5% to 7.15% but we view this as impractical.

Table 4 Maintaining Monthly Payment Amount

Semi Monthly Plan	
Loan Rate	10.5%
Maturity	19
Semi-Monthly	765
Equivalent Monthly Payment	1,657

Source: Bernstein analysis

Given the comparison between monthly and biweekly payments is institutionalized in Household's sales materials for the E-Z Pay Plus program (in which payments are made biweekly), we assume borrower confusion arises in, for argument's sake, one-half of cases. E-Z Pay Plus itself accounts for 70% of branch originations so (if our example is representative) Household will see a yield reduction of approximately 1.2% on approximately one-third (one-half of 70%) of all branch originations. This is equivalent to yield compression of 40 basis points on aggregate originations.

Changing Practices for Insurance Sales (and Discontinuation of Single-Premium Credit Life Insurance):

The DFI has evidence that Household representatives suggest the purchase of insurance is necessary to obtain a loan, and falsify records indicating whether borrowers have elected insurance coverage. "The Department believes that HFC representatives may have actually forged borrower signatures making it appear as if the borrowers had requested insurance when in fact they had not".

In partial response to regulator concerns, Household discontinued single-premium credit life insurance (where the single, up-front premium is financed into the loan amount) in April 2002. Now only monthly pay products (where the premium is paid monthly and is identified separately from loan service payments) are available. Given monthly pay insurance is a harder and less profitable sell (precisely because the premium cannot be bundled into the loan amount), we expect the penetration and return from insurance to decline. Currently, we estimate that premiums from the single-premium product – that amortize into earnings over the typical 5-year term of the insurance – contribute 40

basis points of return to the branch-based real estate portfolio net of policy holder benefits (see ***Exhibit 6***). For illustrative purposes, we assume this falls by one-half as only the monthly-pay product is offered.

Impact on Loan Growth

In addition to the reduction in returns, sales practice reform at Household will tend to reduce growth in the branch-based real estate secured portfolio – by 3 percentage points to a long-run rate of 10% in our estimates (see ***Exhibit 1***) -- as sales practice reform takes hold. Note that the portfolio is currently growing at near 20% (see ***Table 5***) but this rate is boosted by the present refinancing cycle and is not a normalized number.

Table 5 Est. Growth in Branch-Based Businesses

Ending Balances ($bn)	2001	Q1 02	Q2 02	H1 02 Ann. Growth
Real Estate Secured				
Correspondent*	18	19	19	9%
Branch-originated	27	27	30	23%
Total	45	46	49	19%

* - Excludes approximately $1bn in correspondent loans sold in Q2 02.

Source: Company reports, Bernstein estimates

Two of the principal sales practice reforms will be around misrepresenting interest rates through use of a fictional "equivalent rate" bearing no relation to the actual loan rate, and up-selling customers into bigger loans than necessary to meet their objectives:

- *Selling on an Equivalent Rate Basis*: The equivalent rate deception has allowed Household to refinance customers with first mortgages at bank rates. Since it is impractical for Household to actually offer the 7% rates promised by the equivalent rate approach, business from confused bank borrowers will be foregone. The economics do not even work on a "blended rate" basis. For example, if a bank customer has a $100,000 mortgage at 8% and $25,000 of unsecured debt, the rate on this unsecured debt must be over 20% for the borrower to breakeven on a refinancing into a Household mortgage at 11% (and that is without any points).

- *Up-selling*: Up-selling – where a Household representatives sells a first mortgage refinancing to a customer whose objective is a second mortgage to refinance unsecured debt – will become more difficult under heightened regulatory scrutiny. The DFI reports on what must have been a somewhat alarming encounter when an examiner mystery-shopped at the Lakewood branch for a $40,000 loan. "Had the examiner been an untrained consumer rather than a mortgage enforcement specialist … the result may have been an unfavorable $100,000 transaction with HFC".

Dangers of Loan Rescission and Adverse Selection

In practice, our assumption of 10% portfolio growth may prove a best case. It is possible that the portfolio ceases to grow, or even shrinks, as heightened publicity around sales practices deters new customers and leads existing customers to consider their options including prepayment and even rescission. The risk increases to the extent Household representatives become frustrated with a more procedural environment at the firm, leave for competitors, and cherry-pick refinancing prospects from the best credits in their left-behind Household book.

- Prepayments: Household has created barriers to prepayment through prepayment penalties and through using second mortgages (including personal home loans struck at loan-to-value ratios of over 100%) to lever up

borrowers and so immunize them from competitive refinancing. Both these barriers are decreasing as Household reduces the period for prepayment penalties from 5 years to 3 years, and discontinues personal home loans. They are likely to fall further under pressure from politicians frustrated that, unlike bank customers, Household customers have not been able to refinance into lower rate loans in the current interest rate environment.

- Rescission: The DFI makes the observation that by muddling sales materials indicating fictional benefits with disclosures required under the Truth-in-Lending (TIL) Act, Household has apparently violated Regulation Z of the Federal Reserve Board. "Inclusion of certain material TIL disclosures on the E-Z Pay Plus disclosure is a deceptive practice in violation of Regulation Z". The DFI also comments that, under Regulation Z, if the required "disclosures are not delivered, the right to rescind shall expire three years after the occurrence giving rise to the right of rescission…. It is apparent to the Department that the borrower's right to rescind is still in effect at this time".

The danger is of adverse selection as borrowers with bank-financing alternatives cease to refinance with Household or, if they have already done so, refinance away as soon as prepayment penalties expire or they are able to rescind their loans. In a worst case, the portfolio will shrink and concentrate in higher-risk credits leading the loss ratio to rise from the current 0.9% towards the levels of 1.3-1.5%[2] more typical of sub-prime home equity lending or higher.

Risks to Analysis

The risk to our analysis is that Household can simply compensate for reduced up-front fees by increasing loan rates, and that there is little impact on loan demand because customers truly have limited financing alternatives. In this event, our reduction of EPS estimates and growth projections is overdone. Furthermore, if Household can reach a national agreement with State AGs by year-end including a manageable fine (say several hundred million) and an encore of previous "best practice" commitments, the stock will likely rally beyond our target price. However, we believe this is unlikely:

- HFC representatives have developed confusing sales practices precisely because loan demand is sensitive to borrowers' perceptions of the loan rate. If these perceptions are brought in line with reality (as a result of better disclosure) and the real rates become less favorable (as Household looks to offset lower points) there will be a material impact on demand.
  - Furthermore, customers do have a financing alternative – they can choose to continue with their existing financing arrangements and not to refinance with Household. If a customer truly has no alternative but to finance through you, the business is probably low quality.
- National agreement with state AGs will be difficult given the conflicting objectives of the participants, and the political and regulatory pressures that will likely be brought to bear as Household's sales approaches become widely known.
- Even if a national agreement is reached, a commitment by Household to more "best practices" is unlikely to be sufficient given the DFI's challenge to Household's credibility and the evidence of complaint volume.
  - *DFI Challenge to Management Credibility*. "In early complaints the Department gave HFC the benefit of the doubt in consumer claims and relied on HFC's adamant claims that no deception or misrepresentation had occurred. …These claims of no harm and no foul, however, began to ring hollow as more and more consumers continued to complain of the same practices."
  - *Complaint Volume*. ***Table 6*** shows that complaint volume has accelerated in 2001 and 2002 despite the promulgation of two sets of best practices in July 2001 and February 2002. The DFI comments that

[2] Bank One reports a loss ratio of 1.37% on its sub-prime home equity lending portfolio.

Household's "complaint activity relative to its peers is disproportionate, and a large increase in the last two years is a cause for concern".

- As a result, it is likely that any settlement in principle will be accompanied by on-site auditing of compliance procedures by an independent entity. Aside from the operational inconvenience, this will tend to eliminate any execution arbitrage effected by Household between corporate policy and branch practice.

Table 6 Washington State Complaint Volume History

Year	Number of Complaints
1995	1
1996	5
1997	12
1998	12
1999	8
2000	17
2001	22
2002 (annualized)*	60
Total	137

* - 15 through Q1 2002.

Source: WA DFI Report, as published in *Bellingham Herald*

Exhibit 1 Adjusting Earnings Estimates for Sales Practice Reform

Base Scenario	2000	2001	2002	2003	2004	2005	2006	2007	H1 02*	H2 02E*
Branch-Based RE Lending:										
YoY Growth in Loans (%)	-	21%	19%	16%	13%	13%	13%	13%	25%	12%
PE Loans	22.0	26.6	31.6	36.5	41.4	46.6	52.4	59.0	30.0	31.6
Avg Loans	-	24.3	29.1	34.1	39.0	44.0	49.5	55.7	28.3	30.8
ROA (%)	-	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Earnings ($mm)		619	716	834	958	1100	1243	1405	347	369
Total HI Earnings ($mm)	1631	1848	2098	2389	2707	3067	3456	3894	998	1100
- Earnings Growth (%)		13%	14%	14%	13%	13%	13%	13%	20%	8%
Shares Outstanding (mm)	476	468	462	462	462	462	462	462	462	462
Shares Outstanding (YoY Growth)	-1.2%	-1.7%	-1.4%	0.0%	0.0%	0.0%	0.0%	0.0%		
Total EPS ($)	$3.40	$3.91	$4.51	$5.14	$5.83	$6.61	$7.45	$8.40	$2.11	$2.40
- EPS Growth (%)	15%	15%	15%	14%	13%	13%	13%	13%	21%	11%

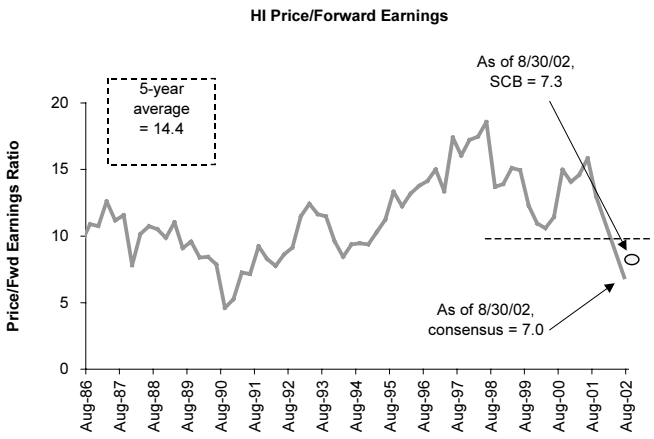
Adjusted Scenario	2000	2001	2002	2003	2004	2005	2006	2007	H1 02*	H2 02E*
Branch-Based RE Lending:										
YoY Growth in Loans (%)	-	21%	17%	14%	10%	10%	10%	10%	25%	8%
PE Loans	22.0	26.6	31.1	35.5	39.1	43.0	47.3	52.0	30.0	31.1
Avg Loans	-	24.3	28.9	33.3	37.3	41.0	45.1	49.6	28.3	30.6
ROA (%)	-	2.5%	2.4%	2.2%	2.1%	2.0%	2.0%	1.9%	2.5%	2.5%
Earnings ($mm)		619	702	733	787	839	898	937	347	355
Total HI Earnings ($mm)	1631	1848	2084	2288	2536	2806	3112	3427	998	1086
- Earnings Growth (%)		13%	13%	10%	11%	11%	11%	10%	20%	7%
Shares Outstanding (mm)	476	468	462	462	462	462	462	462	462	462
Shares Outstanding (YoY Growth)	-1.2%	-1.7%	-1.4%	0.0%	0.0%	0.0%	0.0%	0.0%		
Total EPS ($)	$3.40	$3.91	$4.48	$4.96	$5.49	$6.08	$6.74	$7.42	$2.11	$2.40
- EPS Growth (%)	15%	15%	14%	11%	11%	11%	11%	10%	21%	11%

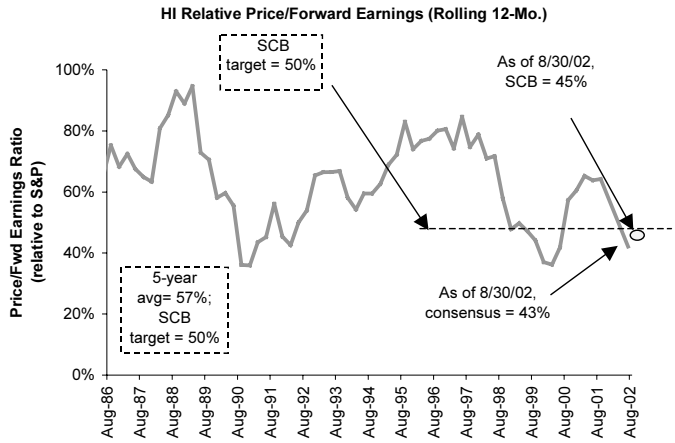
Memo:	2000	2001	2002	2003	2004	2005	2006	2007	H1 02	H2 02E
Other Businesses' Earnings ($mm)	1081	1228	1382	1554	1749	1967	2213	2490	651	730
- YoY Growth (%)	-	14%	13%	13%	13%	13%	13%	13%	13%	12%

* - Loan growth rates for half-year periods are annualized.

Source: Company reports, Bernstein estimates

Exhibit 2 HI Valuation





	Current Price	2002 Consensus	P/FE
HI	$36	$4.57	7.9
SPX	$916	$49.69	18.4
Relative P/FE:	43%		

	Current Price	2003 Consensus	P/FE
HI	$36	$5.14	7.0
SPX	$916	$56.13	16.3
Relative P/FE:	43%		

Source: FactSet, Bernstein estimates

Exhibit 3 Breakout of Consumer Lending Segment

	Branch-Based Real Estate	Branch-Based Other	Branch-Based Total	Correspondent	Private Label Cards	Auto Finance	Total
Net Income ($mm)	191	23	214	73	59	18	364
Managed Receivables ($bn)*	30.0	14.9	44.9	19	13	7	84
ROML (%)	2.5%	0.6%	2.0%	1.6%	1.7%	1.1%	1.8%
Sub-Segment Economics							
Weighted Average APR (%)	11%	19%	13%	10%	12%	16%	13%
Cost of Funds (%)	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
NIM (%)	6.5%	14.1%	9.0%	5.6%	7.6%	11.6%	8.4%
Loss Ratios (%)	0.8%	8.6%	3.4%	1.1%	5.4%	6.2%	3.4%
Provision Expense (%)	1.0%	10.3%	4.1%	1.3%	6.4%	7.4%	4.1%
Lending Margin (%)	5.5%	3.8%	4.9%	4.2%	1.1%	4.1%	4.3%
Noninterest Revenue (%)	1.8%	0.6%	1.4%	0.0%	3.1%	1.5%	1.3%
Operating Expense (%)	3.4%	3.4%	3.4%	1.9%	1.6%	4.0%	2.9%
Pre-Tax Income (%)	3.8%	0.9%	2.9%	2.3%	2.6%	1.6%	2.6%
After-Tax Income (%)	2.5%	0.6%	2.0%	1.6%	1.7%	1.1%	1.8%
ROE**	32%	8%	24%	19%	22%	13%	22%

* - Correspondent loans of $19 billion are based on management disclosure in August 14th conference call; private label, branch-based other, and auto finance managed receivables are from Q2 02 earnings release; branch-based real estate loans are netted from branch-based total. Sub-segment totals may not match exactly to reported segment total.

** - Assumes corporate-level equity-to-managed assets ratio of 8.0% across segments.

Source: Company reports, Bernstein estimates

Exhibit 4 Household Segment Disclosure, Q2 02

	Consumer	Credit Card Services	International	All Other	Total
Net Income ($mm)	364	66	56	56	542
Managed Receivables ($bn)	80	17	8	1	105
Managed Assets ($bn)	82	18	9	20	128
ROMA (%)	1.8%	1.5%	2.5%	1.1%	1.7%
Memo:					
Intersegment Revenues ($mm)	43	8	3	0	53

Source: Company report

Exhibit 5 Estimated Effect of Portfolio Growth on Returns

Returns Under 10% Growth Scenario
2001-2007E

	Beginning Balance ($bn)	Originations ($bn)	Run-Off ($bn)	Ending Balance ($bn)	Growth in End Balance (%)	Avg Balances ($bn) Old Loans	Avg Balances ($bn) New Loans	Pre-Tax ROA (%) Old Loans	Pre-Tax ROA (%) New Loans	Pre-Tax ROA (%) Total (Blended)	After-Tax ROA (%) Old Loans	After-Tax ROA (%) New Loans	After-Tax ROA (%) Total (Blended)
2001	22.0	6.1	-1.5	26.6	21%	21.3	3.0	3.8%	3.8%	3.8%	2.5%	2.5%	2.5%
2002	26.6	7.9	-3.4	31.1	17%	18.9	10.0	3.8%	3.3%	3.6%	2.5%	2.2%	2.4%
2003	31.1	7.8	-3.4	35.5	*14%*	15.5	17.8	3.8%	2.8%	3.3%	2.5%	1.9%	2.2%
2004	35.5	7.0	-3.4	39.1	*10%*	12.1	25.2	3.8%	2.8%	3.1%	2.5%	1.9%	2.1%
2005	39.1	7.3	-3.4	43.0	*10%*	8.7	32.3	3.8%	2.8%	3.0%	2.5%	1.9%	2.0%
2006	43.0	7.7	-3.4	47.3	*10%*	5.3	39.8	3.8%	2.8%	2.9%	2.5%	1.9%	2.0%
2007	47.3	8.1	-3.4	52.0	*10%*	1.8	47.8	3.8%	2.8%	2.8%	2.5%	1.8%	1.9%

No Material Change in Any Period

Returns Under 0% Growth Scenario
2001-2007E

	Beginning Balance ($bn)	Originations ($bn)	Run-Off ($bn)	Ending Balance ($bn)	Growth in End Balance (%)	Avg Balances ($bn) Old Loans	Avg Balances ($bn) New Loans	Pre-Tax ROA (%) Old Loans	Pre-Tax ROA (%) New Loans	Pre-Tax ROA (%) Total (Blended)	After-Tax ROA (%) Old Loans	After-Tax ROA (%) New Loans	After-Tax ROA (%) Total (Blended)
2001	22.0	6.1	-1.5	26.6	21%	21.3	3.0	3.8%	3.8%	3.8%	2.5%	2.5%	2.5%
2002	26.6	7.9	-4.5	31.1	17%	18.3	10.6	3.8%	3.3%	3.6%	2.5%	2.2%	2.4%
2003	31.1	3.4	-3.4	31.1	*0%*	14.4	16.8	3.8%	2.8%	3.3%	2.5%	1.9%	2.2%
2004	31.1	3.4	-3.4	31.1	*0%*	6.3	24.8	3.8%	2.8%	3.0%	2.5%	1.9%	2.0%
2005	31.1	3.4	-3.4	31.1	*0%*	0.0	31.1	3.8%	2.8%	2.8%	2.5%	1.9%	1.9%
2006	31.1	3.4	-3.4	31.1	*0%*	0.0	31.1	3.8%	2.8%	2.8%	2.5%	1.9%	1.9%
2007	31.1	3.4	-3.4	31.1	*0%*	0.0	31.1	3.8%	2.8%	2.8%	2.5%	1.9%	1.9%

Source: Company reports, Bernstein estimates

Exhibit 6 Estimated Contribution of Credit Life Insurance Revenue

	1998	1999	2000	2001	H1 02	H2 02E	2002E
Branch-Originated Volume ($bn)	5.5	6.5	7.6	6.1	3.8	4.1	7.9
Average Loan Size ($)*	100,000						
No. of Accounts Originated (000)	55	65	76	61	38	41	79
Penetration of Insurance (%)	60%						
Margin (%)	60%						
Average Premium ($)	5,000						
Premiums booked ($mm)	99	116	137	109	68	74	142
Contribution to 2002 Fees ($mm)***	20	23	27	22	14	15	28
Memo:							
YoY Growth in Branch Volume (%)	na	17%	18%	-21%	36%	25%	30%
Est. Fee Amortization Period (yrs)	5						

Total	
$mm	**% Branch Loans****
121	0.40%

* - Based on average loan size in the company's series 2002-1 home equity loan securitization (see prospectus supplement dated March 8, 2002)

** - Based on current branch-based real estate loans of $30 billion.

*** - Based on assumed amortization period of 5 years; this aligns with maximum term under which prepayment penalty is charged.

Source: Company reports, servicer reports, Bernstein estimates

Appendix: Analysis of Segment Returns

Overall Firm

Household reports on the following business segments:

- Consumer lending: This segment includes the branch-based businesses (real estate secured, personal home loans, and personal unsecured), mortgage services (i.e. correspondent lending), retail services (i.e private label cards), and auto finance. Segment receivables total approximately $80 billion, or 80% of the company-wide total.

- Credit Card Services: This consists of the $17 billion Visa/Mastercard portfolio which includes the General Motors and Union Privilege affinity programs, the Household Bank portfolio, and the Renaissance sub-prime portfolio of approximately $2 billion.

- International: This segment includes primarily Canada and UK operations, with $9 billion of Mastercard/Visa loans, real estate secured loans, and personal unsecured loans.

- All Other: This includes all other businesses including insurance services, tax refund lending, and small direct lending and commercial lending portfolios. Total receivables total just over $1 billion.

Table A1 shows the breakdown of managed receivables, net income, and return on managed receivables for these businesses for Q2 02 based on disclosures in the 10Q.

Table A1 Breakout of Consumer Lending Segment

	Consumer	Credit Card Services	International	All Other*	Total**
Net Income ($mm)	364	66	56	56	542
Managed Receivables ($bn)	80	17	8	1	105
ROML (%)	1.8%	1.6%	2.9%	20.3%	2.1%
Memo:					
Managed Assets ($bn)	82	18	9	20	128
ROMA (%)	1.8%	1.5%	2.5%	1.1%	1.7%

* - Includes investment portfolio along with small mixed loan portfolio (e.g., tax refund loans), which increases the relative ROML - we show ROMA as a counter-balance.

** - Before adjustments for intersegment revenues.

Source: Company reports

Sub-Segments of Consumer Lending

Household does not provide a full sub-segment analysis within consumer lending. However, we are able to construct estimates that calibrate to disclosures related to the normalized profitability of each business (with adjustments where necessary). Specifically, we believe that the Q2 02 after-tax return-on-loans:

- For the branch-based real estate business was approximately 2.0%. This is slightly lower than management indications of 2.2%. However, the sum of the returns indicated by management for the sub-segments is greater

than the whole and we make our adjustment here – note that this business includes both real estate secured and unsecured products (e.g., PHLs).

- For the auto business was 1.1% (lower than the run-rate of 2.0% on higher loss rates due in part to lower recovery rates in the used car after-market).
- For mortgage services was 1.6% (based on the required hurdle rate of 20% return-on-equity used to price new business and the company's current equity-to-managed assets ratio of 8%).
- For the retail services (private label) business was 1.8% (corresponding to a pre-tax return of 2.6% - this is lower than management indications of nearer 3.0% on seasonal declines in usage).

Table A2 provides the breakdown of the managed loans by sub-segment together with these estimates for the net income and returns on managed receivables.

Table A2 Breakdown of Consumer Lending Segment

	Branch-Based Real Estate	Branch-Based Other	Branch-Based Total	Correspondent	Private Label Cards	Auto Finance	Total
Net Income ($mm)	191	23	214	73	59	18	364
Managed Receivables ($bn)*	30.0	14.9	44.9	19	13	7	84
ROML (%)	2.5%	0.6%	2.0%	1.6%	1.7%	1.1%	1.8%

* - Correspondent loans of $19 billion are based on management disclosure in August 14th conference call; private label and auto finance managed receivables are from Q2 02 earnings release; branch-based receivables are based on earnings release disclosures. Our bottom-up total of $84 billion is 5% larger than the disclosed $80 billion.

Source: Company reports, Bernstein estimates

Detailed Assumptions

The detailed assumptions for the sub-segment analysis presented in ***Table A2*** are as follows:

- *Net Interest Margin*: We know the net interest margin for the consumer lending segment as a whole is 8.4% and the cost of funds for the firm is 4.4%. Assuming the consumer lending segment attracts the same cost of funds as the rest of the business (a reasonable approximation given that consumer lending is 80% of the managed portfolio), the average yield on consumer loans is therefore 13%. In addition, we have information from the company 10Ks for average yield and net interest margin on the sub-segments in 2001, 2000, and 1999 (***see Table A3***). Assuming the relative yields are unchanged in Q2 02 from 2001, we can estimate the average yields and net interest margin by sub-segment in Q2 02 for the private label, auto finance, and branch-based other ("personal non-card") portfolios. We then estimate the yield on the branch-originated real estate loans using the average of 11% on the portfolio in the most recently filed securitization prospectus. We assume a slightly lower yield of 10% on the correspondent portfolio because of the amortization of the premium at purchase that is currently 4-6 points (and so represents near 1% running over an estimated average life of 5 years – see ***Table A4***).

Table A3 Yield and Net Interest Margin History by Product

	Average Yield (%)			Net Interest Margin		
	2001	**2000**	**1999**	**2001**	**2000**	**1999**
Real Estate Secured	11.6%	12.0%	11.6%	5.7%	4.7%	5.7%
Auto Finance	17.5%	18.3%	19.0%	11.6%	11.0%	13.1%
Personal Non-Card	20.0%	20.5%	19.6%	14.1%	13.2%	13.7%
Private Label	13.5%	14.4%	13.6%	7.6%	7.1%	7.7%
HI Cost of Funds (%)	5.9%	7.3%	5.9%			

Source: Company reports, Bernstein analysis

Table A4 Estimates of Yield and NIM for Q2 02

Sub-Segment NIM Estimates	Branch-Based Real Estate	Branch-Based Other	Branch-Based Total	Correspondent	Private Label Cards	Auto Finance	Total
Weighted Average APR (%)	11%	19%	13%	10%	12%	16%	13%
Cost of Funds (%)	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
NIM (%)	6.5%	14.1%	9.0%	5.6%	7.6%	11.6%	8.4%
Memo:							
Managed Receivables ($bn)	30.0	14.9	44.9	19	13	7	84

Source: Company reports, Bernstein estimates

– *Loss Ratios*: From the 10Q, we have the Q2 02 loss ratios for the auto finance, private label, and branch-based other portfolios. We do not have loss rates for branch-based real estate secured loans versus those originated through the correspondent channel. We assume the loss ratio in the correspondent segment is 1.1% versus 0.8% for the branch portfolio to give the required average result for the real estate secured portfolio of 0.9% (as disclosed in the 10Q). Our results are summarized in ***Table A5***. On a weighted average basis, the segment loss ratio is 3.4% against reported provision expense of 4.1%. We assume the ratio of provision expense to net loss ratio for the total loan portfolio is constant across the sub-segments to develop the provision estimates shown in ***Table A5***.

Table A5 Credit Loss and Provision Estimates

Sub-Segment Credit Loss Rates	Branch-Based Real Estate	Branch-Based Other	Branch-Based Total	Correspondent	Private Label Cards	Auto Finance	Total
Loss Ratios (%)	0.8%	8.6%	3.4%	1.1%	5.4%	6.2%	3.4%
Provision Expense (%)	1.0%	10.3%	4.1%	1.3%	6.4%	7.4%	4.1%
Memo:							
Managed Receivables ($bn)	30.0	14.9	44.9	19	13	7	84

Source: Company reports, Bernstein estimates

Having completed this "horizontal" analysis for net interest margin and loss items – along with estimated sub-segment returns – we now move to a vertical analysis of each of the sub-segments to derive the remaining items: noninterest revenue and operating expenses

– Private Label Cards: As outlined above, we estimate a net interest yield of 12% for private label using the spread reported for 2001 in the 10K. ***Table A6*** presents further support of this estimate by deriving this finance charge as the blended APR of high (20%) go-to rates and teaser rates. Our estimate of noninterest revenue is 3.1% of balances, and is based on an average balance of approximately $1,200 (using 10K data that managed receivables were $11.6 billion and the number of active accounts was 9.9 million) and one $35 fee event per year per active account. We estimate the pre-tax return on managed receivables for the business at 2.6% corresponding to an after-tax return of 1.8%. Given these assumptions, operating expenses must represent 1.6% of managed receivables (corresponding to approximately $20/active account per year).

Table A6 Revenue Estimates for Private Label

Go-to APR	19.9%	Receivables Balance ($bn)	11.6
Teaser APR	0.0%	Active Accounts (mm)	9.9
% Portfolio at Teaser	40%	Balance/Active Account ($)	1172
Blended APR	11.9%	Fee Revenue (% Avg Balance)*	3.1%

* - Assumes two penalty events per year at $35 per event.

Source: Company reports, Bernstein estimates

– Auto Finance: From the securitization trust (see ***Exhibit A1***), we estimate the overall portfolio yield at 17.3% (assuming the securitized portfolio is representative of the managed portfolio). Given our estimate of the finance charge at 16%, this means fee income represents 1.3% of average balances. Fees are generated only when customers pay late or are offered extensions . We assume that Household's operating expenses are 4.0% of managed receivable (slightly above the 3.6% level reported at AmeriCredit). Together, these assumptions generate an after-tax return on loans of 1.1%. This is lower than the normalized after-tax return of nearer 2.0% (and the 2.6% return reported by AmeriCredit) but we believe this reflects recent credit challenges (particularly related to the disposal of repossessed cars) experienced at Household.

– Correspondent Lending: For real estate loans originated through correspondents, we assume no fee income since the originator retains up-front points. Premiums currently run at between 4 and 6 points and are amortized into finance income over the average life of the loan (that we estimate at 5 years). This is consistent with the yield (and net interest margin) on correspondent loans being approximately 1% less than the yield on branch loans. For total returns, we note that this is a wholesale business – with loans typically purchased in bulk – and is priced to achieve a 20% ROE or better. At the current equity-to-managed assets ratio for the company of 8%, this gives us an estimated ROMA for the business of 1.6% (see ***Exhibit A2***). This allows us to back into an estimate for operating expense of 1.9% for the business.

We now turn to the branch-based business for the remaining statement items – noninterest revenue and operating expense – and the split of each across the real estate secured and other unsecured products:

- *Noninterest revenue*. We can back out total noninterest revenue of 1.4% for the branch-based business using the segment total of 1.3% on receivables and our estimates for the other subsegments. We estimate the split of these revenues to branch-based real estate by assuming that these revenues consist entirely of amortizing fees – including both upfront "points" on mortgages and credit insurance products, and estimate the value of each as follows:
    - In ***Exhibit A3***, we estimate the upfront fees for full-year 2002 using annual origination volume data back to 1998. This assumes a five-year average life on these loans (which coincides with the outer range under which prepayment penalties are charged). Furthermore, we assume that half of new volume in the years 1998-2000 was originated in the branches, with one-third of 2001-2002 total volumes as Household has become more aggressive in the correspondent channel. We then apply an average upfront fee of 6.5% (based on management commentary) to these originations, and amortize these fees over the proceeding five-year period. For 2002, we calculate the cumulative value of these fees as $436 million, or 1.4% on the current $30 billion portfolio of managed branch-based loans.
    - In ***Exhibit A4***, we take a similar approach for credit insurance. However, we estimate these fees on an account basis. First, we estimate the number of originated loans each year using an average loan value of $100k. We then estimate the penetration rate using data disclosed in the Washington state DFI report, which presented penetration rates by branch (see ***Exhibit A5***); for conservatism, we use the average penetration rate of the bottom half of 60% and apply this uniformly to the entire period. We then estimate an average premium of $5,000 for each product sold, again using DFI report disclosures. We remove benefit costs by assuming a 60% margin, and total the estimated credit insurance net revenues per year (again, amortizing over the five-year period). Cumulating these amortized fees for 2002 gives a total for the year of $121 million, or 0.4% on the current branch-based portfolio.

The total of 1.8% in noninterest revenue margin on branch-based real estate lending implies a 0.6% noninterest margin on the other branch-based loans (given the branch-based total of 1.4% and the respective loan balances). This is in line with the lower average points charged on these loans (e.g., nearer 3 points versus 6-7 on the secured loans) and the fact that credit life insurance tends to be charged on first mortgages but not seconds.

- *Operating Expense*: On operating expense, we can back into a total of 3.4% for the branch-based business from both the horizontal approach (total consumer lending expenses net of the other sub-segment's expenses) and the vertical approach (total revenues net of pre-tax return and provision expense). This ratio is higher than the total segment ratio of 2.9% and reflects the cost of operating a large branch network. We equalize the expense across the secured and unsecured branch-based products since they share the branch infrastructure.

Exhibit A1 Auto Finance Trust Yield History

Household Automotive Trust
Series 2001-2

Month	Yield
Jul 2001	17.5%
Aug 2001	18.3%
Sep 2001	17.0%
Oct 2001	17.3%
Nov 2001	17.3%
Dec 2001	16.9%
Jan 2002	18.3%
Feb 2002	17.1%
Mar 2002	17.3%
Apr 2002	17.2%
May 2002	17.6%
Jun 2002	17.1%
Jul 2002	17.2%

Quarter	
Q3 01	17.6%
Q4 01	17.2%
Q1 02	17.6%
Q2 02	17.3%

Source: Company reports, Bernstein estimates

Exhibit A2 Estimated Returns in Correspondent Business

Hurdle Rate ROE on New Business (%)	20%
Equity/Managed Assets (%)	8%
Assumed ROMA	1.6%

Source: Company reports, Bernstein estimates

Exhibit A3 Estimated Contribution of Upfront Fee (Points) Revenue

	1998	1999	2000	2001	H1 02	H2 02E	2002E
Total Origination Volume ($bn)*	11.1	12.9	15.3	18.2	11.3	12.4	23.7
- Assumed % Through Branches	50%	50%	50%	33%	33%	33%	33%
Branch-Originated Volume ($bn)	5.5	6.5	7.6	6.1	3.8	4.1	7.9
Upfront Fees (% Loan Balance)	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Upfront Fees ($mm)	359	419	496	394	245	268	513
Contribution to 2002 Fees ($mm)***	72	84	99	79	49	54	103
Memo:							
YoY Growth in Branch Volume (%)	na	17%	18%	-21%	36%	25%	30%
Est. Fee Amortization Period (yrs)	5						

Total	
$mm	% Branch Loans**
436	1.4%

* - Based on reports from *Inside B&C Lending*.

** - Based on current branch-based real estate loans of $30 billion.

*** - Based on assumed amortization period of 5 years; this aligns with maximum term under which prepayment penalty is charged.

Source: Company reports, Bernstein estimates

Exhibit A4 Estimated Contribution of Credit Life Insurance Revenue

	1998	1999	2000	2001	H1 02	H2 02E	2002E
Branch-Originated Volume ($bn)	5.5	6.5	7.6	6.1	3.8	4.1	7.9
Average Loan Size ($)*	100,000						
No. of Accounts Originated (000)	55	65	76	61	38	41	79
Penetration of Insurance (%)	60%						
Margin (%)	60%						
Average Premium ($)	5,000						
Premiums booked ($mm)	99	116	137	109	68	74	142
Contribution to 2002 Fees ($mm)***	20	23	27	22	14	15	28
Memo:							
YoY Growth in Branch Volume (%)	na	17%	18%	-21%	36%	25%	30%
Est. Fee Amortization Period (yrs)	5						

Total	
$mm	% Branch Loans**
121	0.40%

* - Based on average loan size in the company's series 2002-1 home equity loan securitization (see prospectus supplement dated March 8, 2002)

** - Based on current branch-based real estate loans of $30 billion.

*** - Based on assumed amortization period of 5 years; this aligns with maximum term under which prepayment penalty is charged.

Source: Company reports, servicer reports, Bernstein estimates

Exhibit A5 Estimated Credit Life Insurance Penetration

WA Branch	Penetration of Credit Life (% Loans)
McLoughlin	100%
Federal Way	94%
Bellingham	92%
Burien	89%
Yakima	75%
Seattle	75%
Kennewick	74%
Tacoma	74%
Lynnwood	71%
Parkway	69%
Puyallup	61%
Renton	61%
Vancouver	60%
Bellevue	58%
Lakewood	56%
Edmonds	53%
Olympia	44%
Everett	37%
Average	69%
Median	70%
Bottom Half Average	60%

Source: WA DFI report

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- **Bernstein analysts are compensated based on aggregate contributions to the research franchise as measured by account penetration, productivity, and proactivity of investment ideas. No analysts are compensated based on performance in, or contributions to, generating investment banking revenues.**

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Exhibit 9

DOW JONES

PR Newswire

HD **Household Reports Record Quarterly and Full-Year Net Income**

WC 2,004 words

PD 16 January 2002

ET 08:21 AM

SN PR Newswire

SC PRN

LA English

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LP

Highest Quarterly and Annual Net Income in Company History
Fourteenth Consecutive Record Quarter
-- Fourth Quarter Earnings Per Share Rises 14%, to $1.17
-- Fourth Quarter Net Income Increases to $549 Million
-- Receivables Up $5.2 Billion in the Quarter, to $100.8 Billion
-- Full Year Earnings Per Share of $4.08, Up 15%
-- Full Year Net Income of $1.9 Billion
-- Revenues Grow 18% for the Year

PROSPECT HEIGHTS, Ill., Jan. 16 /PRNewswire-FirstCall/ -- Household International (NYSE: HI) today reported fourth quarter earnings per share of $1.17, its fourteenth consecutive record quarter. Fourth quarter earnings per share rose 14 percent from $1.03 the prior year. Net income in the fourth quarter increased 11 percent, to an all-time quarterly record of $549 million.

TD

For the full year, Household reported earnings per share of $4.08, representing a 15 percent increase from $3.55 in 2000. Net income for 2001 totaled $1.9 billion, also an all-time high, 13 percent above $1.7 billion earned in 2000.

"Household's fourth quarter results were simply outstanding," said William F. Aldinger, chairman and chief executive officer, "demonstrating the tremendous strength and earnings power of the Household franchise. Receivable and revenue growth exceeded our expectations while credit indicators weakened only modestly in a tough economic environment. Recognizing the importance of a strong balance sheet, we provided $154 million in excess of owned chargeoffs, bringing our reserves to their highest level ever."

Commenting on the full-year results, Aldinger added, "In 2001, we demonstrated that our business model generates superior results in a weak economy as well as in the strong economic periods of previous years.

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Exceptional revenue growth of 18 percent more than offset the increases in credit losses during the year. We further strengthened our balance sheet while investing in sales and marketing to position our franchise for sustainable growth in the future. We are well-positioned to deliver 13 to 15 percent EPS growth for 2002."

Fourth Quarter Review

Receivable Growth

At December 31, 2001, the company's managed portfolio reached $100.8 billion, up $5.2 billion, or 5.4 percent, from the third quarter. Growth was strong across all products. The real estate secured portfolio increased the most, up $2.8 billion in the quarter. This portfolio comprises over 44 percent of total managed receivables.

During the quarter, the company purchased a private label credit card portfolio totaling approximately $725 million at December 31, 2001. In addition, the company sold approximately $1 billion in MasterCard/Visa receivables in the United Kingdom to Centrica, its former partner in the Goldfish Card program, as part of a settlement agreement.

Revenues

Fourth quarter managed net revenues grew $506 million, or 21 percent, from a year ago. An expanded net interest margin and higher receivable volume drove the increase.

Household's managed net interest margin for the fourth quarter was $2.2 billion, an increase of $466 million, or 27 percent, compared to a year ago. The company's managed net interest margin percent widened to 8.85 percent from 8.01 percent a year ago. Lower funding costs were the primary reasons for the expansion.

Managed fee income increased $17 million, or 4 percent, compared to the fourth quarter of 2000, principally reflecting higher levels of credit card fees.

The company's risk adjusted revenue (managed net revenues less securitization revenues and chargeoffs) expanded to 7.79 percent from 7.60 percent a year ago.

Operating Expenses

Operating expenses rose 22 percent from a year ago, driven by higher payroll costs for sales personnel and collectors, higher sales incentives, and increased marketing and technology spending. Household's efficiency ratio was 31.2 percent in the fourth quarter, compared to 30.8 percent a year ago.

Credit Quality and Loss Reserves

At December 31st, the managed delinquency ratio (60+days) was 4.46 percent, up 3 basis points from 4.43 percent in the third quarter. The managed delinquency ratio was 4.20 percent a year ago. The annualized managed net

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chargeoff ratio for the fourth quarter was 3.90 percent, up 16 basis points from 3.74 percent in the third quarter. The managed net chargeoff ratio in the year-ago quarter was 3.41 percent.

Managed credit loss reserves increased by $256 million during the quarter, to $3.8 billion. Compared to year-end 2000, credit loss reserves were up $617 million. The ratio of reserves-to-managed receivables was 3.78 percent at December 31, 2001 compared to 3.72 percent at September 30th and 3.65 percent a year earlier. Reserves-to-nonperforming loans were 105 percent at December 31st, compared to 104 percent at September 30th and 107 percent a year ago.

Capital

The company strengthened its ratio of tangible equity to tangible managed assets to 7.87 percent at December 31st, from 7.82 percent at September 30th and 7.41 percent a year earlier.

In connection with its $2 billion share repurchase program, announced on March 9, 1999, Household bought back 2.2 million shares in the fourth quarter, totaling $140 million.

The company's new, two-year $2 billion share repurchase program went into effect on January 1, 2002. At December 31st, Household had agreements with third parties to purchase, on a forward basis, approximately 6.5 million shares of common stock at a weighted average price of $59.14 per share.

Full Year Highlights

- -- Managed receivables were up over $13 billion, or 15 percent, in 2001, with the most robust growth in real estate secured receivables.
- -- Managed revenues increased $1.6 billion, or 18 percent, driven by a strong net interest margin. The company's full-year net interest margin expanded 40 basis points, to 8.50 percent.
- -- Operating expenses grew 18 percent in 2001, as the company grew its sales and collection staff to support its growing portfolio. The company also invested in technology, e-commerce and marketing to strengthen its franchise for the future. Household's 2001 efficiency ratio was 34.0 percent compared to 34.2 percent for 2000.
- -- Credit losses grew moderately during 2001, with the full-year managed chargeoff ratio increasing 9 basis points, to 3.73 percent. The company strengthened its balance sheet throughout the year, providing $503 million to reserves in excess of owned chargeoffs.
- -- Risk adjusted revenue for 2001 improved to 7.78 percent from 7.55 percent in 2000.
- -- During 2001, the company repurchased 17.4 million shares, totaling $916 million.

Notice of Live Webcast

Household will broadcast its fourth quarter earnings teleconference call over the Internet on its website at www.household.com. The call will begin at 9:00 a.m. Central Standard Time on January 16, 2002. A replay will also be available shortly after the end of the call.

About Household

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Household's businesses are leading providers of consumer loan, credit cards, auto finance and credit insurance products in the United States, United Kingdom and Canada. In the United States, Household's largest business, founded in 1878, operates under the two oldest and most recognized names in consumer finance -- HFC and Beneficial. Household is also one of the nation's largest issuers of private label and general purpose credit cards, including The GM Card(R) and the AFL-CIO's Union Plus(R) card. For more information, visit the company's web site at www.household.com.

This press release contains certain estimates and projections that may be forward-looking in nature, as defined by the Private Securities Litigation Reform Act of 1995. A variety of factors may cause actual results to differ materially from the results discussed in these forward-looking statements. Factors that might cause such a difference are discussed in Household International's Annual Report on Form 10-K, filed with the SEC.

Household International, Inc.
Quarterly Financial Supplement
December 31, 2001 - Quarterly Highlights

Summary Managed Income Statement ($ millions)	Three Months Ended 12/31/01	09/30/01	12/31/00	% Change from Prior Qtr.	Year
Managed-basis net interest margin and other revenues (A)	$2,940.4	$2,635.7	$2,434.7	11.6%	20.8%
Managed-basis provision for credit losses (A)	1,184.0	966.8	917.0	22.5	29.1
Operating expenses	916.8	905.3	748.9	1.3	22.4
Income before income taxes	839.6	763.6	768.8	10.0	9.2
Income taxes	290.7	259.8	276.1	11.9	5.3
Net income	$548.9	$503.8	$492.7	9.0	11.4
Common Stock Data					
Basic earnings per common share	$1.18	$1.09	$1.05	8.3%	12.4%
Diluted earnings per common share	1.17	1.07	1.03	9.3	13.6
Average common shares (millions)	457.7	461.3	471.1	(0.8)	(2.8)
Average common and equivalent shares (millions)	463.2	467.7	476.1	(1.0)	(2.7)
Common stock price:					
High	$61.40	$69.49	$56.94	(11.6)	7.8
Low	51.29	48.00	43.88	6.9	16.9
Period end	57.94	56.38	55.00	2.8	5.3
Dividends declared per common share	$.22	$.22	$.19	-	15.8
Book value per common share	19.47	18.59	16.88	4.7	15.3
Key Ratios					
Return on average common shareholders' equity	24.8%	23.6%	25.4%	5.1%	(2.4)%
Return on average owned assets	2.51	2.42	2.61	3.7	(3.8)
Return on average managed assets	2.04	1.96	2.09	4.1	(2.4)
Managed efficiency ratio	31.2	34.3	30.8	(9.0)	1.3

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Managed net interest margin	8.85	8.57	8.01	3.3	10.5
Risk adjusted revenue	7.37	7.82	7.31	(5.8)	0.8
Total shareholders' equity as a percent of managed assets	9.37	9.39	9.07	(0.2)	3.3
Tangible equity to tangible managed assets	7.87	7.82	7.41	0.6	6.2

Full Year Highlights

Summary Managed Income

Statement ($ millions)	Twelve Months Ended 12/31/01	12/31/00	% Change
Managed-basis net interest margin and other revenues (A)	$10,544.8	$8,905.8	18.4%
Managed-basis provision for credit losses (A)	4,018.4	3,252.4	23.6
Operating expenses	3,587.9	3,042.9	17.9
Income before income taxes	2,938.5	2,610.5	12.6
Income taxes	1,015.0	909.8	11.6
Net income	$1,923.5	$1,700.7	13.1
Common Stock Data			
Basic earnings per common share	$4.13	$3.59	15.0%
Diluted earnings per common share	4.08	3.55	14.9
Average common shares (millions)	462.0	471.8	(2.1)
Average common and equivalent shares (millions)	468.1	476.2	(1.7)
Common stock price:			
High	$69.98	$57.44	21.8
Low	48.00	29.50	62.7
Period end	57.94	55.00	5.3
Dividends declared per common share	$.85	$.74	14.9
Key Ratios			
Return on average common shareholders' equity	22.9%	23.4%	(2.1)%
Return on average owned assets	2.34	2.44	(4.1)
Return on average managed assets	1.89	1.93	(2.1)
Managed efficiency ratio	34.0	34.2	(0.6)
Managed net interest margin	8.50	8.10	4.9
Risk adjusted revenue	7.59	7.23	5.0

(A) To aid analysis, net interest margin, other revenues, and provision for credit losses are presented on a pro forma managed basis as if receivables securitized and sold with limited recourse were held in the portfolio. Policyholders' benefits have been netted against other revenues.

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08:21 EST

CO hfc : HSBC Finance Corp

NS c01 : Profiles of Companies | c15 : Performance | c151 : Earnings | ccat : Corporate/Industrial News

RE namz : North America | usa : United States | usc : Midwest U.S.

AN Document prn0000020020116dy1g000es

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Exhibit 10

DOW JONES

PR Newswire

HD **Household Reports Record First Quarter Net Income**

WC 2,117 words

PD 17 April 2002

ET 07:24 AM

SN PR Newswire

SC PRN

LA English

CY

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LP

Fifteenth Consecutive Record Quarter
-- First Quarter Earnings Per Share Rises 20%, to $1.09
-- First Quarter Net Income Increases to $511 Million
-- Managed Receivables Up 14.5%, to $101.2 Billion

PROSPECT HEIGHTS, Ill., April 17 /PRNewswire-FirstCall/ -- Household International (NYSE: HI) today reported first quarter earnings per share of $1.09, its fifteenth consecutive record quarter. First quarter earnings per share rose 20 percent from $.91 the prior year. Net income in the first quarter increased 18 percent, to a record $511 million.

TD

"Household turned in a very strong first quarter," said William F. Aldinger, Household's chairman and chief executive officer, "resulting from excellent results in our seasonal tax refund loan business and solid profitability in our other businesses despite the relatively weak economy. In addition to delivering record results this quarter, we strongly added to our capital and reserve levels and further enhanced liquidity. We remain committed to maintaining a strong balance sheet and maximum financial flexibility.

"Our credit quality performance was well within our expectations in light of the continued weakness in the economy," Aldinger continued. "We anticipate a very manageable credit environment for the remainder of the year."

Aldinger concluded, "We are off to a great start, and I am comfortable with our ability to meet our 13 to 15 percent earnings per share growth target for 2002."

Receivable Growth

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At March 31, 2002, the company's managed basis portfolio, which includes loans that the company has securitized, grew $12.8 billion, or 14.5 percent, from a year ago, to $101.2 billion. The real estate secured portfolio grew the most, increasing $8.2 billion from a year-ago. Growth was balanced between the consumer lending and mortgage services businesses. In the first quarter, the company demonstrated the liquidity of this portfolio by selling approximately $900 million in whole loans and completing secured financing transactions for $1.5 billion, including a $500 million draw on a new real estate secured conduit facility.

Compared to the fourth quarter of 2001, managed basis receivables increased $355 million. Growth in the real estate secured book was offset by typical, seasonal runoff of credit card balances and the above mentioned whole loan sale.

The company's owned basis portfolio totaled $79.6 billion, at the end of the first quarter, an increase of $10.8 billion or 16 percent, from the level of a year ago. Growth in the real estate secured portfolio was strongest, with an increase of $8.9 billion. Compared to year-end 2001, the owned basis portfolio declined $280 million.

Revenues

Net revenues for the company's owned basis portfolio grew $442 million, or 19 percent, from a year ago. An expanded net interest margin and higher receivable volume drove the increase.

Household's owned basis net interest margin for the first quarter was $1.6 billion, an increase of $285 million, or 22 percent, compared to a year ago. An expanded net interest margin percentage and higher receivable volume drove the increase. The company's owned basis net interest margin percent widened to 7.87 percent from 7.60 percent a year ago. Lower funding costs were the primary reasons for the expansion, as the company received the full benefit of 2001 interest rate reductions.

The first quarter managed basis net interest margin rose $435 million from a year ago, to $2.3 billion. The managed basis net interest margin percentage widened to 8.79 percent in the first quarter from 8.22 percent in the prior year. The net interest margin on a managed basis is greater than on an owned basis because the managed basis portfolio includes relatively more unsecured loans, which have higher yields.

Fee income, on both an owned and managed basis, was unchanged compared to the first quarter of 2001. In the fourth quarter of 2001, Household sold $1 billion of MasterCard/Visa receivables in the United Kingdom.

Securitization revenue increased $115 million, or 28 percent, from the prior year. The company securitized over $2.4 billion of receivables in the quarter, compared to $900 million in the year ago quarter. The company accelerated its level of securitizations in the first quarter as part of a number of liquidity management actions to reduce reliance on short-term unsecured debt in potentially volatile markets.

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Other income increased $26 million, or 16 percent, driven by higher revenues from the company's seasonal tax refund lending business.

Operating Expenses

Operating expenses rose 12 percent from a year ago, driven by higher compensation and other costs to support the company's growing portfolio. Household's managed basis efficiency ratio was 31.6 percent in the first quarter, compared to 35.6 percent a year ago.

Credit Quality and Loss Reserves

At March 31st, the managed basis delinquency ratio (60+days) was 4.63 percent, up 17 basis points from 4.46 percent at year-end 2001 and up 38 basis points from 4.25 percent a year ago. The annualized managed basis net charge-off ratio for the first quarter of 4.09 percent increased 19 basis points from 3.90 percent in the fourth quarter of 2001. The managed basis net charge-off ratio in the year-ago quarter was 3.56 percent. The company monitors trends on a managed basis because the receivables that it securitizes are subjected to underwriting standards comparable to the owned basis portfolio, are serviced by operating personnel without regard to ownership and result in similar credit exposure for the company.

The owned basis delinquency ratio at March 31st was 4.77 percent, compared to 4.53 percent at December 31st and 4.36 percent a year ago. The annualized owned basis charge-off ratio for the first quarter was 3.61 percent compared to 3.43 percent in the previous quarter and 3.12 percent a year ago.

Managed basis credit loss reserves totaled $4.1 billion at March 31st. Managed basis credit loss reserves as a percent of managed basis receivables was 4.10 percent, compared to 3.78 percent at both year-end 2001 and a year ago. Managed basis-reserves-to-managed-nonperforming loans were 108 percent, up from 105 percent at year end and flat with a year ago. Managed basis credit loss reserves include a provision for estimated probable losses the company expects to incur under recourse provisions on securitized receivables.

Owned basis credit loss reserves increased by $214 million during the first quarter, to $2.9 billion. The ratio of owned basis reserves-to-owned receivables of 3.61 percent at March 31st was higher than 3.33 percent at December 31, 2001 and 3.32 percent a year earlier. Owned basis reserves-to-owned-nonperforming loans were 93 percent at March 31st, compared to 91 percent at both December 31st and a year ago.

Liquidity and Capital

During the quarter, Household accessed the debt capital markets to fund its operations in routine fashion. Recently, the company also took a number of steps to further improve liquidity management and provide additional flexibility in the event of potential future volatility in the financial markets. The company reduced its outstanding domestic commercial paper balance to $5.8 billion at March 31st, a $2.9 billion reduction from year-end levels. In addition, the company established a $1 billion investment liquidity portfolio, sold about $900 million of real estate loans and added $5

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billion of incremental conduit capacity for its real estate secured product. Currently, the company's total undrawn conduit capacity is $5.4 billion. Domestic commercial paper backstop facilities are $10.1 billion, none of which have ever been drawn.

The company substantially strengthened its ratio of tangible equity to tangible managed assets to 8.41 percent at March 31st, from 7.87 percent at December 31st and 7.54 percent a year earlier. During the quarter, Household issued $400 million of preferred stock.

The company's new, two-year $2 billion share repurchase program went into effect on January 1, 2002. In connection with this program, Household bought back 1.6 million shares in the first quarter, totaling $100 million.

At March 31st, Household had agreements with third parties to purchase, on a forward basis, approximately 6 million shares of common stock at a weighted average price of $57.11 per share.

Notice of Live Webcast

Household will broadcast its first quarter earnings teleconference call over the Internet on its website at www.household.com. The call will begin at 9:00 a.m. Central Daylight Time on April 17, 2002. A replay will also be available shortly after the end of the call.

About Household

Household's businesses are leading providers of consumer loan, credit cards, auto finance and credit insurance products in the United States, United Kingdom and Canada. In the United States, Household's largest business, founded in 1878, operates under the two oldest and most recognized names in consumer finance - HFC and Beneficial. Household is also one of the nation's largest issuers of private label and general purpose credit cards, including The GM Card(R) and the AFL-CIO's Union Plus(R) card. For more information, visit the company's web site at www.household.com.

This press release contains certain estimates and projections that may be forward-looking in nature, as defined by the Private Securities Litigation Reform Act of 1995. A variety of factors may cause actual results to differ materially from the results discussed in these forward-looking statements. Factors that might cause such a difference are discussed in Household International's Annual Report on Form 10-K, filed with the SEC.

Household International, Inc.
Quarterly Financial Supplement

March 31, 2002 - Quarterly Highlights
Summary Owned Income Statement

	Three Months Ended			% Change from Prior	
($ millions)	3/31/02	12/31/01	3/31/01	Qtr.	Year
Owned-basis net interest margin and other revenues	$2,771.6	$2,660.2	$2,329.8	4.2%	19.0%

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Owned-basis provision for credit losses	923.0	829.3	703.6	11.3	31.2
Total costs and expenses	1,071.5	991.3	960.6	8.1	11.5
Income before income taxes	777.1	839.6	665.6	(7.4)	16.8
Income taxes	266.1	290.7	233.8	(8.5)	13.8
Net income	$511.0	$548.9	$431.8	(6.9)%	18.3%
Common Stock Data					
Basic earnings per common share	$1.10	$1.18	$.92	(6.8)%	19.6%
Diluted earnings per common share	1.09	1.17	.91	(6.8)	19.8
Average common shares (millions)	456.8	457.7	466.0	(0.2)	(2.0)
Average common and equivalent shares (millions)	462.1	463.2	472.0	(0.2)	(2.1)
Common stock price:					
High	$60.90	$61.40	$62.00	(0.8)%	(1.8)%
Low	43.50	51.29	52.00	(15.2)	(16.3)
Period end	56.80	57.94	59.24	(2.0)	(4.1)
Dividends declared per common share	$.22	$.22	$.19	-%	15.8%
Book value per common share	20.23	19.47	17.23	3.9	17.4
Selected Financial Ratios					
Owned Basis					
Return on average common shareholders' equity	23.4%	26.5%	22.4%	(11.7)%	4.5%
Return on average owned assets	2.26	2.51	2.21	(10.0)	2.3
Net interest margin	7.87	8.21	7.60	(4.1)	3.6
Common and preferred equity as a percentage of owned assets	10.75	9.68	9.94	11.1	8.1
Common and preferred equity and trust preferred securities as a percentage of owned assets (A)	11.83	10.77	11.06	9.8	7.0
Managed Basis					
Return on average					

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managed assets	1.82%	2.04%	1.77%	(10.8)%	2.8%
Efficiency ratio	31.6	31.2	35.6	1.3	(11.2)
Net interest margin	8.79	8.85	8.22	(0.7)	6.9
Common and preferred equity as a percentage of managed assets	8.68	7.85	7.95	10.6	9.2
Common and preferred equity and trust preferred securities as a percentage of managed assets (A)	9.55	8.73	8.85	9.4	7.9
Tangible equity to tangible managed assets (A)	8.41	7.87	7.54	6.9	11.5

(A) Represents a non-GAAP measure which may differ from similarly named measures presented by other companies.

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CO hfc : HSBC Finance Corp

IN i81501 : Credit Types/Services | i8150105 : Consumer Lending | ibnk : Banking/Credit

NS c15 : Performance | c151 : Earnings | c17 : Funding/Capital | c171 : Share Capital | ccat : Corporate/Industrial News

RE namz : North America | usa : United States | usc : Midwest U.S. | usil : Illinois

AN Document prn0000020020417dy4h000a6

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Exhibit 11

DOW JONES

PR Newswire

HD **Household Reports Record Second Quarter Results on Strong Receivables Growth**

WC 2,385 words

PD 17 July 2002

ET 08:17 AM

SN PR Newswire

SC PRN

LA English

CY

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LP

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                 Sixteenth Consecutive Record Quarter
-- Second Quarter Earnings Per Share of $1.08, Up 16%
-- Managed Receivables of $105 Billion, Up 15%
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PROSPECT HEIGHTS, Ill., July 17 /PRNewswire-FirstCall/ -- Household International (NYSE: HI) today reported second quarter earnings per share increased 16 percent to $1.08, from $.93 the prior year. These results mark Household's sixteenth consecutive record quarter. Second quarter net income increased 17 percent, to a record $514 million.

TD

"Our results this quarter were fueled by ongoing strong demand for our loan products," said William F. Aldinger, Household's chairman and chief executive officer. "Growth this quarter was strong, while we have maintained our conservative underwriting criteria. Recognizing that the U.S. economy has yet to demonstrate a sustained rebound, we continued to maintain strong levels of reserves and capital. In addition, we continued our focus on liquidity management during the quarter, given the potential for volatility in the capital markets."

Aldinger concluded, "The company's operating performance has been very strong in the first half of 2002, and, although the economic environment is likely to remain uncertain, we believe our businesses are well-positioned for the remainder of the year."

Receivable Growth

At June 30, 2002, the company's managed basis portfolio, which includes loans that the company has securitized, totaled $105.5 billion, an increase of $13.9 billion, or 15 percent, from a year ago. The strongest growth came in

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the real estate secured portfolio, with an increase of $9.1 billion from a year ago. Growth was balanced between the company's branch-based consumer lending and mortgage services businesses.

Compared to the first quarter, managed basis receivables rose $4.3 billion, led by strong growth in the real estate secured product line.

The company's owned basis portfolio totaled $83.1 billion at June 30, 2002, an increase of $11.4 billion, or 16 percent, from a year ago and $3.5 billion, or 4 percent, compared to the end of the first quarter. Growth in the real estate secured portfolio drove the increase from both prior periods.

Revenues

Net revenues for the company's owned basis portfolio grew $393 million, or 17 percent, from the year-ago quarter.

Household's owned basis net interest margin for the second quarter increased $235 million, or 17 percent, to $1.6 billion. The increase was due to a larger receivable portfolio partially offset by a decrease in the company's owned basis net interest margin percent to 7.66 percent from 7.83 percent a year ago. The slight decrease was due to a relative increase in real estate secured receivables and a larger liquidity-related investment portfolio. Spreads on the investment portfolio are lower than those for the loan portfolio.

The second quarter managed basis net interest margin rose $395 million, or 21 percent, from a year ago, to $2.3 billion. The managed basis net interest margin percentage widened to 8.58 percent in the second quarter from 8.34 percent in the prior year. The net interest margin on a managed basis is greater than on an owned basis because the managed basis portfolio includes relatively more unsecured loans, which have higher yields. Lower funding costs benefited the net interest margin percentage on both an owned and managed basis.

Compared to the first quarter, the net interest margin on both an owned and managed basis declined primarily due to the above-mentioned increase in the company's portfolio of investments maintained for liquidity purposes.

Fee income, on both an owned and managed basis, was below the level of both the second quarter of 2001 and the first quarter of 2002. Improvements in early stage delinquencies resulted in lower late fees in the company's credit card businesses.

Securitization revenue, on an owned basis, increased $126 million, or 31 percent, from the prior year. The company continued to actively access the securitization market in the second quarter as part of liquidity management actions to limit reliance on short-term unsecured debt in potentially volatile markets. The company securitized nearly $2 billion of receivables in the quarter, compared to $1.4 billion in the year ago quarter. In addition, Household completed real estate secured financing transactions of $1.25 billion during the quarter.

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Other income, on both an owned and managed basis, increased $46 million, or 93 percent, from the prior year. Higher collections in the company's tax refund lending business as well as increased revenues from the company's mortgage banking subsidiary caused the increase. Other income was $93 million lower than the first quarter, which included seasonal revenues from the company's tax refund lending business.

Operating Expenses

Operating expenses rose 10 percent from a year ago, driven by higher compensation, marketing and other costs to support the company's growing portfolio. Household's managed basis efficiency ratio was 32.2 percent in the second quarter, compared to 35.5 percent a year ago.

Credit Quality and Loss Reserves

The company monitors trends on a managed basis because the receivables that it securitizes are subjected to underwriting standards comparable to the owned basis portfolio, are serviced by operating personnel without regard to ownership and result in similar credit exposure for the company.

At June 30th, the managed basis delinquency ratio (60+days) was 4.53 percent, down 10 basis points from 4.63 percent at the end of March, led by improvement in the MasterCard/Visa portfolio. The managed basis delinquency ratio was 4.27 percent a year ago. The annualized managed basis net charge-off ratio for the second quarter of 4.26 percent was 17 basis points higher than the first quarter and 55 basis points higher than a year ago.

The owned basis delinquency ratio at June 30th was 4.61 percent, compared to 4.77 percent at March 31st and 4.48 percent a year ago. The annualized owned basis net charge-off ratio for the second quarter was 3.76 percent compared to 3.61 percent in the previous quarter and 3.26 percent a year ago.

Managed basis credit loss reserves totaled $4.4 billion at June 30th. Managed basis credit loss reserves as a percent of managed basis receivables equaled 4.14 percent, up from 4.10 percent at March 31st and 3.78 percent a year ago. Managed basis reserves-to-managed-nonperforming loans were 112 percent, up from 108 percent at the end of March and 110 percent a year ago. Managed basis credit loss reserves include a provision for estimated probable losses the company expects to incur under recourse provisions on securitized receivables.

Owned basis credit loss reserves totaled $3.0 billion at June 30th, an increase from $2.9 billion at March 31st. The ratio of owned basis reserves-to-owned receivables was 3.59 percent at June 30th, compared to 3.61 percent at March 31st and 3.31 percent a year earlier. Owned basis reserves-to-owned-nonperforming loans were 96 percent at June 30th, compared to 93 percent at the end of March and 91 percent a year ago. Owned basis reserve ratios are somewhat lower than comparable managed basis ratios because of the greater mix of real estate secured receivables in the owned portfolio which have lower credit losses.

Liquidity and Capital

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During the quarter, Household continued to access the debt capital markets to fund its operations in routine fashion. The company also actively accessed the securitization markets, completing $1.25 billion in real estate secured financings and securitizing nearly $2 billion in other receivables. An additional $1 billion liquidity facility, backed by real estate secured loans, was established in the quarter. Additionally, the company increased its investment liquidity portfolio to $4.5 billion from $1 billion at the end of March which provides additional flexibility in the event of potential volatility in the financial markets.

The company maintained strong levels of capital. At June 30th, its ratio of tangible equity to tangible managed assets was 8.24 percent, compared to 8.41 percent at March 31st and 7.61 percent a year earlier.

In connection with its $2 billion share repurchase program, Household bought back 966,000 shares in the second quarter, totaling $60 million. At June 30th, Household had agreements with third parties to purchase, on a forward basis, approximately 6.1 million shares of common stock at a weighted average price of $55.63 per share.

Notice of Live Webcast

Household will broadcast a live teleconference call over the Internet on its website at
www.household.com
to discuss its second quarter results. The call
will begin at 9:00 a.m. Central Daylight Time on July 17, 2002. A replay will also be available shortly after the end of the call.

About Household

Household's businesses are leading providers of consumer loan, credit cards, auto finance and credit insurance products in the United States, United Kingdom and Canada. In the United States, Household's largest business, founded in 1878, operates under the two oldest and most recognized names in consumer finance - HFC and Beneficial. Household is also one of the nation's largest issuers of private label and general purpose credit cards, including The GM Card(R) and the AFL-CIO's Union Plus(R) card. For more information, visit the company's web site at
www.household.com.

This press release contains certain estimates and projections that may be forward-looking in nature, as defined by the Private Securities Litigation Reform Act of 1995. A variety of factors may cause actual results to differ materially from the results discussed in these forward-looking statements. Factors that might cause such a difference are discussed in Household International's Annual Report on Form 10-K, filed with the SEC.

Household International, Inc.
Quarterly Financial Supplement
June 30, 2002 - Quarterly Highlights

Summary Owned Income Statement	Three Months Ended			% Change from Prior	
($ millions)	06/30/02	03/31/02	06/30/01	Qtr.	Year
Owned-basis net					

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interest margin and other revenues	$2,675.5	$2,771.6	$2,282.6	(3.5)%	17.2%
Owned-basis provision for credit losses	850.9	923.0	657.1	(7.8)	29.5
Total costs and expenses	1,057.8	1,071.5	955.8	(1.3)	10.7
Income before income taxes	766.8	777.1	669.7	(1.3)	14.5
Income taxes	253.3	266.1	230.7	(4.8)	9.8
Net income	$513.5	$511.0	$439.0	0.5%	17.0%
Common Stock Data					
Basic earnings per common share	$1.09	$1.10	$.94	(0.9)%	16.0%
Diluted earnings per common share	1.08	1.09	.93	(0.9)	16.1
Average common shares (millions)	456.3	456.8	463.0	(0.1)	(1.4)
Average common and equivalent shares (millions)	461.2	462.1	469.6	(0.2)	(1.8)
Common stock price:					
High	$63.25	$60.90	$69.98	3.9%	(9.6)%
Low	47.06	43.50	57.45	8.2	(18.1)
Period end	49.70	56.80	66.70	(12.5)	(25.5)
Dividends declared per common share	$.25	$.22	$.22	13.6%	13.6%
Book value per common share	21.06	20.23	17.94	4.1	17.4
Selected Financial Ratios					
Owned Basis					
Return on average common shareholders' equity	22.2%	23.4%	22.4%	(5.1)%	(0.9)%
Return on average owned assets	2.20	2.26	2.21	(2.7)	(0.5)
Net interest margin	7.66	7.87	7.83	(2.7)	(2.2)
Common and preferred equity as a percentage of owned assets	10.16	10.75	9.95	(5.5)	2.1
Common and preferred equity, and trust preferred securities as a percentage of owned assets (A)	11.16	11.83	11.03	(5.7)	1.1
Managed Basis					
Return on average managed assets	1.79%	1.82%	1.78%	(1.6)%	0.6%
Efficiency ratio	32.2	31.6	35.5	1.9	(9.3)
Net interest margin	8.58	8.79	8.34	(2.4)	2.9
Common and preferred equity as a percentage of managed assets	8.26	8.68	8.00	(4.8)	3.3
Common and preferred equity, and trust preferred securities as a percentage of managed assets (A)	9.08	9.55	8.87	(4.9)	2.4
Tangible equity to tangible managed assets (A)	8.24	8.41	7.61	(2.0)	8.3

(A) Represents a non-GAAP measure which may differ from similarly named measures presented by other companies.

Year-to-Date Highlights

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Summary Owned Income Statement	Six Months Ended		
($ millions)	06/30/02	06/30/01	% Change
Owned-basis net interest margin and other revenues	$5,447.1	$4,612.4	18.1%
Owned-basis provision for credit losses	1,773.9	1,360.7	30.4
Total costs and expenses	2,129.3	1,916.4	11.1
Income before income taxes	1,543.9	1,335.3	15.6
Income taxes	519.4	464.5	11.8
Net income	$1,024.5	$870.8	17.7%
Common Stock Data			
Basic earnings per common share	$2.19	$1.86	17.7%
Diluted earnings per common share	2.17	1.84	17.9
Average common shares (millions)	456.6	464.5	(1.7)
Average common and equivalent shares (millions)	461.5	470.8	(2.0)
Common stock price:			
High	$63.25	$69.98	(9.6)%
Low	43.50	52.00	(16.3)
Period end	49.70	66.70	(25.5)
Dividends declared per common share	$.47	$.41	14.6%
Selected Financial Ratios			
Owned Basis			
Return on average common shareholders' equity	22.8%	22.4%	1.8%
Return on average owned assets	2.23	2.21	0.9
Net interest margin	7.77	7.72	0.6
Managed Basis			
Return on average managed assets	1.81%	1.77%	2.3%
Efficiency ratio	31.9	35.5	(10.1)
Net interest margin	8.68	8.28	4.8

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CT

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08:15 EDT

CO hfc : HSBC Finance Corp

IN i81501 : Credit Types/Services | i8150105 : Consumer Lending | ibnk : Banking/Credit

NS c15 : Performance | c151 : Earnings | ccat : Corporate/Industrial News

RE namz : North America | usa : United States | usc : Midwest U.S. | usil : Illinois

AN Document prn0000020020717dy7h000d4

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Exhibit 12

DOW JONES

PR Newswire

HD **Household Reports Operating Net Income of $1.17 Per Share for the Third Quarter**

WC 2,540 words

PD 16 October 2002

ET 08:07 AM

SN PR Newswire

SC PRN

LA English

CY

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LP

-- Net Income of $221 Million and Earnings Per Share of $.45, including Settlement Charge and Related Expenses of $333 Million (after tax)
-- Managed Receivables Up 12 Percent to $107.6 Billion

PROSPECT HEIGHTS, Ill., Oct. 16 /PRNewswire-FirstCall/ -- Household International (NYSE: HI) today reported third quarter net income of $221 million, or $.45 per diluted share. These results reflect a settlement charge and related expenses of $333 million, after tax. Excluding this charge, operating net income was $554 million, or $1.17 per diluted share. The company reported net income of $486 million, or $1.03 per diluted share, in the third quarter of 2001.

TD

"Household's operating results this year have been strong, even as the economic environment remains challenging," said William F. Aldinger, chairman and chief executive officer. "In the third quarter, receivable and revenue growth were solid, credit performance was within our expectations and we further strengthened our reserves in the face of the prolonged weakness in the U.S. economy."

Receivable Growth

At September 30, 2002, the company's managed basis portfolio, which includes loans that the company has securitized, totaled $107.6 billion, a 12 percent increase from the prior-year level. Growth was strongest in real estate secured receivables, coming from both the U. S. consumer lending branch and mortgage services businesses.

Compared to the second quarter, managed basis receivables grew 8 percent on an annualized basis. During the quarter, the company sold $1.6 billion of

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real estate loans. Excluding the loan sales, the portfolio grew an annualized 14 percent.

The company's owned basis portfolio totaled $84.2 billion at September 30th, 11 percent higher than the level of a year ago due to growth in the real estate and personal non-credit card portfolios. The owned basis portfolio was 1 percent higher than at June 30th due to growth in MasterCard/Visa and personal non-credit card loans.

Revenues

Net revenues for the company's owned basis portfolio grew $424 million, or 17 percent, from the year ago quarter.

Household's owned basis net interest margin for the third quarter was $1.7 billion, an increase of $225 million, or 15 percent. The increase resulted from growth in the loan portfolio partially offset by a decline in the company's owned basis net interest margin percent to 7.46 percent from 7.94 percent a year ago. This decline was due to the impact of the company's liquidity-related investment portfolio, which was not a factor in last year's third quarter.

Managed basis net revenues grew $678 million, or 25 percent, from a year ago due to increased fee income and higher receivable volume.

Compared to a year ago, Household's managed basis net interest margin grew $379 million, or 19 percent, to $2.4 billion. The company's managed basis net interest margin percentage equaled 8.35 percent, a decline from 8.51 percent in the year-ago quarter. Net interest margin on a managed basis is greater than on an owned basis because the managed basis portfolio includes relatively more unsecured loans, which have higher yields.

Fee income, on both an owned and managed basis, increased compared to the third quarter of 2001 due to higher levels of credit card fees from both card businesses.

Securitization revenue, on an owned basis, increased $105 million, or 23 percent, from the prior year. The company continued to actively access the asset backed securities market as part of its liquidity management plans to limit dependence on short-term unsecured debt in this time of volatile markets. Average receivables securitized were $22.6 billion during the quarter, compared to $19.6 billion in the year-ago quarter.

Other income, on both an owned and managed basis, increased $50 million from the prior-year quarter. Higher revenues from the company's mortgage operations and higher servicing fees contributed to the increase.

Operating Expenses

For the third quarter, the company's operating expenses totaled $1.6 billion, including a $525 million charge reflecting the costs of a settlement agreement and related expenses. The company announced on October 11th a

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preliminary agreement with a multi-state group of state attorneys general and regulatory agencies. Operating expenses, excluding the settlement charge and related expenses, increased 8 percent from a year ago, due to higher marketing and personnel costs. Household's managed basis efficiency ratio, excluding the settlement charge and related expenses, was 29.4 percent in the third quarter, compared to 34.6 percent a year ago.

Credit Quality and Loss Reserves

The company monitors credit quality trends on a managed basis because the loans that it securitizes are subjected to underwriting standards comparable to the owned basis portfolio, are serviced by operating personnel without regard to ownership and result in similar credit exposure for the company.

At September 30th, the managed basis delinquency ratio (60+days) was 4.82 percent, compared to 4.53 percent in the second quarter and 4.43 percent a year ago. Higher delinquency in the credit card and real estate secured portfolios drove the increase. The annualized managed basis net charge-off ratio for the third quarter was 4.39 percent, up from 4.26 percent for the second quarter and 3.74 percent for the year-ago quarter.

The owned basis delinquency ratio at September 30th was 5.01 percent, compared to 4.61 percent at June 30th and 4.58 percent a year ago. The annualized owned basis net charge-off ratio for the third quarter was 3.98 percent compared to 3.76 for the second quarter and 3.43 percent in the year-ago quarter.

Managed basis credit loss reserves totaled $4.7 billion at the end of the third quarter. At June 30th, managed basis credit loss reserves were $4.4 billion and totaled $3.6 billion at the end of the third quarter of 2001. The managed basis ratio of credit loss reserves to managed receivables equaled 4.36 percent at September 30th, compared to 4.14 percent at June 30th and 3.72 percent a year earlier. Managed basis reserves-to-nonperforming loans were 113.1 percent at September 30th, compared to 112.4 percent at June 30th and 103.9 percent a year ago.

Owned basis credit loss reserves totaled $3.1 billion at September 30th, an increase of $144 million from June 30th and up from $2.5 billion a year earlier. The ratio of owned basis reserves-to-owned receivables totaled 3.72 percent, an increase from 3.59 percent at June 30th and 3.28 percent a year earlier. Owned basis reserve ratios are somewhat lower than comparable managed basis ratios because there is a greater mix of real estate secured loans, which have lower credit losses than unsecured products, in the owned portfolio.

Liquidity and Capital

During the quarter, Household issued $350 million in perpetual preferred stock and continued to access the debt capital markets to fund its operations. The company also actively accessed the asset backed securities market, completing $3.4 billion in real estate secured financings and securitizing $2.5 billion in other receivables.

The company's tangible equity to tangible managed assets ratio was 7.95

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percent at September 30th. Excluding the settlement charge and related expenses, this ratio would have been 8.22 percent. A year ago, the company's tangible managed capital ratio was 7.52 percent.

Notice of Live Webcast

Household will broadcast its third quarter earnings teleconference call over the Internet on its website at www.household.com. The call will begin at 9:00 a.m. Central Daylight Time on October 16, 2002. A replay will also be available shortly after the end of the call.

About Household

Household's businesses are leading providers of consumer loan, credit cards, auto finance and credit insurance products in the United States, United Kingdom and Canada. In the United States, Household's largest business, founded in 1878, operates under the two oldest and most recognized names in consumer finance - HFC and Beneficial. Household is also one of the nation's largest issuers of private label and general purpose credit cards, including The GM Card(R) and the AFL-CIO's Union Plus(R) card. For more information, visit the company's web site at www.household.com.

This press release contains certain estimates and projections that may be forward-looking in nature, as defined by the Private Securities Litigation Reform Act of 1995. A variety of factors may cause actual results to differ materially from the results discussed in these forward-looking statements. Factors that might cause such a difference are discussed in Household International's Annual Report on Form 10-K/A, as it may be amended or supplemented, filed with the SEC.

Household International, Inc.
Quarterly Financial Statement
September 30, 2002 - Quarterly Highlights
Summary Owned Income

Statement	Three Months Ended			% Change from Prior	
($ millions)	9/30/02	6/30/02	9/30/01	Qtr.	Year
Owned-basis net interest margin and other revenues	$2,860.1	$2,659.5	$2,436.3	7.5%	17.4%
Owned-basis provision for credit losses	973.0	850.9	722.9	14.3	34.6
Costs and expenses, excluding settlement charge and related expenses	1,059.9	1,051.5	978.6	0.8	8.3
Settlement charge and related expenses (A)	525.0	-	-	100+	100+
Income before income taxes	302.2	757.1	734.8	(60.1)	(58.9)
Income taxes	81.0	249.7	249.2	(67.6)	(67.5)
Net income	$221.2	$507.4	$485.6	(56.4)%	(54.4)%
Operating net income, excluding settlement charge and related expenses	$554.4	$507.4	$485.6	9.3%	14.2%
Common Stock Data					

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Basic earnings per common share	$.45	$1.08	$1.05	(58.3)%	(57.1)%
Diluted earnings per common share	.45	1.07	1.03	(57.9)	(56.3)
Diluted earnings per common share, excluding settlement charge and related expenses	1.17	1.07	1.03	9.3	13.6
Average common shares (millions)	455.4	456.3	461.3	(0.2)	(1.3)
Average common and equivalent shares (millions)	459.6	461.2	467.7	(0.3)	(1.7)
Common stock price:					
High	$50.84	$63.25	$69.49	(19.6)%	(26.8)%
Low	26.10	47.06	48.00	(44.5)	(45.6)
Period end	28.31	49.70	56.38	(43.0)	(49.8)
Dividends declared per common share	$.25	$.25	$.22	-%	13.6%
Book value per common share	18.55	18.97	16.52	(2.2)	12.3
Selected Financial Ratios					
Owned Basis					
Return on average common shareholders' equity	9.5%	22.9%	25.0%	(58.5)%	(62.0)%
Return on average common shareholders' equity, excluding settlement charge and related expenses	24.7	22.9	25.0	7.9	(1.2)
Return on average owned assets	.88	2.18	2.34	(59.6)	(62.4)
Return on average owned assets, excluding settlement charge and related expenses	2.22	2.18	2.34	1.8	(5.1)
Net interest margin	7.46	7.62	7.94	(2.1)	(6.0)
Common and preferred equity as a percentage of owned assets	9.53	9.82	9.49	(3.0)	0.4
Common and preferred equity and trust preferred securities as a percentage of owned assets (B)	10.49	10.83	10.52	(3.1)	(0.3)
Managed Basis					
Return on average managed assets	.72%	1.78%	1.89%	(59.6)%	(61.9)%
Return on average managed assets, excluding settlement charge and related expenses	1.81	1.78	1.89	1.7	(4.2)
Efficiency ratio	45.6	32.1	34.6	42.1	31.8
Efficiency ratio, excluding settlement charge and related expenses	29.4	32.1	34.6	(8.4)	(15.0)
Net interest margin	8.35	8.55	8.51	(2.3)	(1.9)
Common and preferred equity as a percentage of managed assets	7.74	7.98	7.67	(3.0)	0.9
Common and preferred equity, and trust preferred securities as a percentage of managed					

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assets (B)	8.52	8.80	8.50	(3.2)	0.2
Tangible equity to tangible managed assets (B)	7.95	7.94	7.52	0.1	5.7

Year-to-Date Highlights

Summary Owned Income Statement ($ millions)	Nine Months Ended 9/30/02	9/30/01	% Change
Owned-basis net interest margin and other revenues	$8,255.6	$6,975.4	18.4%
Owned-basis provision for credit losses	2,746.9	2,083.6	31.8
Costs and expenses excluding settlement charge and related expenses	3,178.9	2,888.1	10.1
Settlement charge and related expenses (A)	525.0	-	100+
Income before income taxes	1,804.8	2,003.7	(9.9)
Income taxes	585.2	689.3	(15.1)
Net income	$1,219.6	$1,314.4	(7.2)%
Operating net income, excluding settlement charge and related expenses	$1,552.8	$1,314.4	18.1%
Common Stock Data			
Basic earnings per common share	$2.58	$2.82	(8.5)%
Diluted earnings per common share	2.56	2.78	(7.9)
Diluted earnings per common share, excluding settlement charge and related expenses	3.28	2.78	18.0
Average common shares (millions)	456.2	463.5	(1.6)
Average common and equivalent shares (millions)	461.0	469.7	(1.9)
Common stock price:			
High	$63.25	$69.98	(9.6)%
Low	26.10	48.00	(45.6)
Period end	28.31	56.38	(49.8)
Dividends declared per common share	$.72	$.63	14.3%
Selected Financial Ratios			
Owned Basis			
Return on average common shareholders' equity	18.5%	23.2%	(20.3)%
Return on average common shareholders' equity, excluding settlement charge and related expenses	23.7	23.2	2.2
Return on average owned assets	1.72	2.19	(21.5)
Return on average owned assets, excluding settlement charge and related expenses	2.19	2.19	-
Net interest margin	7.62	7.74	(1.6)
Managed Basis			
Return on average managed assets	1.40%	1.76%	(20.5)%
Return on average managed assets, excluding settlement charge and related expenses	1.78	1.76	1.1
Efficiency ratio	36.7	35.5	3.4
Efficiency ratio, excluding settlement charge and related expenses	31.1	35.5	(12.4)
Net interest margin	8.54	8.31	2.8

(A) On October 11, 2002, Household reached a preliminary agreement with a multi-state working group of state attorneys general and regulatory agencies to effect a nationwide resolution of alleged violations of consumer protection, consumer lending and insurance laws and regulations in its retail branch consumer lending operations.

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Household recorded a charge of $525 million (pretax) reflecting the costs of this settlement agreement and related matters.

(B) Represents a non-GAAP measure which may differ from similarly named measures presented by other companies.

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CT

/CONTACT: Craig A. Streem, Vice President - Corporate Relations and Communications, +1-847-564-6053, or Celeste M. Murphy, Director - Investor Relations, +1-847-564-7568, both of Household International/
08:06 EDT

CO hfc : HSBC Finance Corp

IN i81501 : Credit Types/Services | i8150105 : Consumer Lending | ibnk : Banking/Credit

NS c15 : Performance | c151 : Earnings | ccat : Corporate/Industrial News | e21 : Government Finance | e211 : Government Taxation/Revenue | e2111 : Direct Taxation | ecat : Economic News

RE namz : North America | usa : United States | usc : Midwest U.S. | usil : Illinois

AN Document prn0000020021016dyag000ff

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Exhibit 13

DOW JONES

REUTERS

UPDATE 1-Household profit up 11 pct on interest rate cuts.

230 words
16 January 2002
08:50
Reuters News
LBA
English
(c) 2002 Reuters Limited

PROSPECT HEIGHTS, Ill., Jan 16 (Reuters) - Household International , the No. 2 U.S. consumer finance firm, on Wednesday said quarterly net income rose 11 percent as falling interest rates spurred a mortgage refinancing boom and lowered the cost of raising funds.

The company forecast earnings per share growth of 13 percent to 15 percent for all of 2002, in line with a 14 percent rise in earnings per share it posted in the fourth quarter.

Household, based in Prospect Heights, Illinois, said net income was $548.9 million, or $1.17 per share, in the fourth quarter. That compares with $492.7 million, or $1.03 per share, a year earlier.

Wall Street had expected the company to earn between $1.14 per share and $1.19 per share, with a mean of $1.17, according to analysts polled by research firm Thomson Financial/First Call.

The U.S. Federal Reserve's 11 interest rate cuts last year, aimed at reviving the weakening economy, boosted profits.

Fourth-quarter net revenues grew 21 percent to $506 million from the year earlier period, it said.

Household's shares closed at $55.20 on Tuesday on the New York Stock Exchange. Its shares rose about 5 percent last year, outperforming the Standard & Poor's 500 index, which fell about 13 percent.

Document lba0000020020116dy1g00rmo

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Exhibit 14

DOW JONES

REUTERS

Household's posts higher profits on low rates.

213 words
17 April 2002
07:36
Reuters News
LBA
English
(c) 2002 Reuters Limited

PROSPECT HEIGHTS, Ill., April 17 (Reuters) - Household International Inc., the No. 2 U.S. consumer finance firm, on Wednesday said quarterly earnings rose 18 percent, as falling interest rates spurred a mortgage market boom and lowered the cost of raising funds.

Household, based in Prospect Heights, Illinois, said it earned $511 million, or $1.09 per share, in the first quarter. That compares with $431.8 million, or 91 cents per share, in the year-earlier period.

Wall Street had expected the company to earn between $1.03 per share and $1.06 per share, with a mean of $1.04, according to research firm Thomson Financial/First Call.

The U.S. Federal Reserve has slashed interest rates to historic lows, fueling a boom in the mortgage market and boosting profits at the company. Household, which also has a significant credit card and auto finance businesses, is a big lender to people with patchy or poor credit histories.

Household's shares closed at $59.52 on the New York Stock Exchange on Wednesday before the company released its results. Household's shares fell about 2 percent during the first quarter, underperforming the S&P 500 Index, which was essentially flat during the same period.

Document lba0000020020417dy4h00nbq

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Exhibit 15

DOW JONES

REUTERS

Household Int'l earnings up with mortgage volume.

204 words
17 July 2002
08:26
Reuters News
LBA
English
(c) 2002 Reuters Limited

PROSPECT HEIGHTS, Ill., July 17 (Reuters) - Household International Inc., the No. 2 U.S. consumer finance firm, on Wednesday said quarterly earnings rose, as low interest rates boosted mortgage volume while reducing its own borrowing costs.

Household, based in Prospect Heights, Illinois, said it earned $514 million, or $1.08 per share, in the second quarter, compared with $439 million, or 93 cents per share, a year earlier.

Wall Street had expected the company to earn between $1.05 per share and $1.11 per share, with a mean estimate of $1.08 per share, according to research firm Thomson First Call.

The U.S. Federal Reserve has slashed interest rates to historic lows, fueling a boom in the mortgage market and boosting profits at the company. Household, which also has significant credit card and auto finance businesses, is a big lender to people with poor credit histories.

Household's shares closed at $46.10 in Wednesday trading on the New York Stock Exchange. Household's shares fell about 14 percent during the first half of the year, underperforming the Standard & Poor's consumer finance index, which fell 3.3 percent during the same period.

Document lba0000020020717dy7h00okb

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Exhibit 16

11/2/01 Inv. Bus. Daily A07
2001 WLNR 8740569

Investor's Business Daily
Copyright 2001 Investor's Business Daily, Inc.

November 2, 2001

HOUSEHOLD INTERNATIONAL INC. Prospect Heights, Illinois Foresight Pays Off In Shift To Secured Loans.(THE NEW AMERICA)

Byline: CHRIS WOODARD

A couple of years ago, when it looked like the highflying economy would last forever, **Household** International Inc. was busy digging trenches to get ready for a recession.

The consumer finance company accelerated its shift from issuing unsecured credit card debt to secured home-equity loans, and began the task of doubling its collection staff from 2,500 to 5,000 employees.

Today, pure credit card companies such as MBNA, Capital One Financial Co. and Providian Financial Corp. face mounting credit losses. **Household**, with its more stable portfolio of loans, is projecting 15% earnings growth this year and next.

Chief Executive William Aldinger says if the company delivers as he expects in the fourth quarter, **Household** will have churned out 18% compounded earnings growth over the past seven years.

"When you look at the premier, quality financial institutions in the United States, we've managed to perform as well or even outperform them," he said.

Household provides consumer finance, private-label credit cards, auto finance and credit insurance products in the U.S., United Kingdom and Canada. The 123-year-old company provides consumer loans through its HFC and Beneficial brands at 1,600 branches in the U.S., mostly in working-class neighborhoods.

While the economy has hurt other financial institutions, **Household** manages to grow.

Its earnings grew 14% in the third quarter to $1.07 a share. Sales also rose 14% to $3.5 billion. Analysts polled by First Call expect earnings to increase by 15% to $4.08 this year and to reach $4.63 in 2002.

Aldinger attributes **Household's** growth to the company's clientele and continuing

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demand for consumer loans.

Household caters mostly to low- and moderate-income consumers who typically own their own homes but need help meeting everyday expenses, be it fixing the car or getting braces for little Timmy's teeth.

"Our customer demand is pretty consistent in a strong economy or a weak economy," said Aldinger, 54, who joined **Household** seven years ago.

Meanwhile, the industry has seen intense consolidation the last couple of years, with smaller, less-seasoned consumer lenders falling by the wayside. Citigroup Inc. acquired **Household's** biggest competitor, Associates First Capital, and Banc of America Corp. recently announced it is leaving the subprime lending market.

"We compete with some big competitors, but there are fewer people chasing the same universe of customers," Aldinger said.

Fewer competitors means more stability in the industry, not to mention a fatter profit margin for **Household**, says David Sochol, an analyst with Legg Mason.

"It creates a more rational environment and makes the competition a lot less fearsome," Sochol said. "**Household** has a little bit more power in terms of pricing and underwriting, while it's able to be more selective in terms of customers and new hires."

Household has stuck religiously to its 15% yearly earnings growth target, whether revenue growth stays high or not, says Moshe Orenbuch, analyst with CS First Boston.

That has helped the company use the added income to build its reserves, improve operations or to make acquisitions in good times. It also provides the company with resources to weather the storm during tougher times.

"If you go back a number of years, **Household** managed to produce 15% earnings growth on single-digit revenue growth," Orenbuch said.

In addition to Citigroup, the largest consumer finance company, **Household** competes with such players as American International Group Inc. in consumer finance and GE Capital in the credit card field.

Aldinger believes his company has several advantages over the competition. They include leading-edge technology and the lowest cost structure in the industry.

"Our culture is very performance-driven," he said. "We're very good at execution, and we can react quickly to changes."

As with all lenders, the biggest risk facing **Household** is the recession, Sochol says. Companies that misjudge the extent of the economic downturn or extend credit to the wrong customers will get hurt.

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However, **Household** has done a commendable job preparing for the economic downturn well in advance of many of its competitors, Sochol contends.

"They've been saying the economy would get uglier and weaker for a couple of years, and they've done a number of things internally to prepare for a recession," he said. "They're pretty forward-looking."

Orenbuch said the company has done a good job of controlling its credit losses.

"More than half of **Household's** loans are secured by something, usually a home," Orenbuch said. "Their losses are fairly low and fairly predictable. While the economy is weakening, and people have lost jobs, the housing market has been OK."

For his part, Aldinger believes the economic weakness will last at least two more quarters, and he expects loan delinquencies to increase as a result. However, he believes improved pricing will make up for those losses.

Aldinger noted that when the economy was strong, the company often was criticized for not growing fast enough. Now that the economy is in the doldrums, **Household's** consistent pace begins to stand out.

"When we're in tougher economic times, we do what we always do: deliver," he said.

---- INDEX REFERENCES ----

COMPANY: HSBC HOLDINGS PLC; COMMERCIAL CREDIT CO; WASHINGTON MUTUAL INC; CITIGROUP INC; EUROPEAN AMERICAN BANK CORP; TRAVELERS INC; AMERICAN INTERNATIONAL GROUP INC; LEHMAN INVESTORS FUND INC; LEGG MASON INC; HOUSEHOLD INTERNATIONAL INC; SALOMON BROTHERS INVESTORS FUND INC; PROVIDIAN FINANCIAL CORP; HSBC FINANCE CORP; SOLOMON BROTHERS; TRAVELERS GROUP INC; PRIMERICA CORP

NEWS SUBJECT: (Forecasts (1FO11); Economic Statistics (1EC52); Economics & Trade (1EC26); Economic Indicators (1EC19); Economic Forecasts (1EC64))

INDUSTRY: (Credit (1CR60); Theoretical Analysis (1TH79); Credit, Debit & Value Cards (1CR28); Mortgage Banking (1MO85); Retail Banking Services (1RE38); Banking (1BA20); Financial Services (1FI37); Consumer Finance (1CO55))

REGION: (Americas (1AM92); North America (1NO39); USA (1US73); Illinois (1IL01))

Language: EN

OTHER INDEXING: (AMERICAN INTERNATIONAL GROUP INC; CITIGROUP; CITIGROUP INC; CS; **HOUSEHOLD** INTERNATIONAL INC; LEGG MASON; MBNA CAPITAL ONE FINANCIAL CO; MOSHE ORENBUCH; ORENBUCH; PROVIDIAN FINANCIAL CORP; TIMMY; WOODARD) (Aldinger; Chief Executive William; David Sochol; Household; Illinois Foresight Pays; Prospect Heights; Sochol) (United States; United States)

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Exhibit 17

06:11am EDT 18-Jul-02 Deutsche Bank-North America (M. Alpert/R. St. Leger/) HI
HI: Solid 2Q Performance-Strong Buy-Part 1/2

Alpert, Mark C. CFA 212-469-8117
St. Leger, Randolf 212-469-7118
Swanberg, Garrett T. 212-469-5017
Deutsche Bank Securities Inc.

7/18/2002

HOUSEHOLD INTERNATIONAL INC. (HI) "STRONG BUY"
Solid 2Q Performance -Part 1/2

Date:	07/17/2002	EPS:	2001A	2002E	2003E
Price:	42.37	1Q	0.91	1.09	NE
52-Wk Range:	69 - 43	2Q	0.93	1.08A	NE
Ann Dividend:	1.0	3Q	1.07	1.19	NE
Ann Div Yld:	2.36%	4Q	1.17	1.29	NE
Mkt Cap (mm):	19,333	FY(Dec.)	4.08	4.65	5.25
3-Yr Growth:	14%	FY P/EPS	10.4X	9.1X	8.1X
		CY EPS	4.08	4.65	5.25
Est. Changed	Yes	CY P/EPS	10.4X	9.1X	8.1X

Industry: Specialty Finance
Shares Outstanding(Mil.): 456.3
Return On Equity (2001) : 22.0%

HIGHLIGHTS:

* Household reported 2Q02 EPS of $1.08 vs $0.93 (+16% Y/Y). EPS was $0.03 lower than our estimate, but in line with the consensus forecast.

* We reduced our '02E and '03E EPS targets by $0.05 each to $4.65 and $5.25 respectively. Given the lower market valuations and cloud overhanging all subprime lenders, we took our target price down to 12x our '03E EPS, or $63. We maintained our Strong Buy rating on the shares, as Household's diversified business model and fundamental outlook remain intact.

* Managed receivables rose to $105.5 bn (higher than our estimate of $103.3 bn), up 15% Y/Y, led by the real estate portfolio.

* The margin was 8.58% (20 bps lower than our forecast), down 21 bps on a sequential basis, as the company spent $0.02 in the quarter to shore up liquidity.

* Asset quality remain stable with some uptick in charge-offs to 4.26% from 4.09% in 1Q and 3.71% in the year ago period. Delinquencies came in better than expected falling 10 bps sequentially to 4.53%.

* Household bought back 966,000 shares in the quarter, spending $60 million as part of its $2 billion share repurchase program.

DETAILS:

Household reported 2Q EPS of $1.08 vs. $0.93 last year, a 16% increase. EPS came in $0.03 above our forecast mainly on stronger receivables growth. Managed receivables came in $2.2 billion above our forecast.

We reduced our 2002 and 2003 EPS targets. Our '02 EPS target is now $4.65 from $4.70 and our '03 EPS goes to $5.25 from $5.30. Given the lower market valuations, we reduced our price target on Household to $63 (one-year horizon), or 12x our 2003E EPS from 14x (our old EPS), or $74.

REGULATORY UPDATE

Household's share price has come under pressure following Capital One's announced MOU (memorandum of understanding) agreement with regulators. However, Household's subprime exposure in its MC/Visa portfolio is minuscule, totaling $1.3 billion at 2Q (versus $1.1 billion last year). This represents less than 1% of the total managed portfolio.

Household remains adequately capitalized based on the regulators' subprime capital guidelines. In 1Q, The company added $1.2 billion in capital at its

national bank subsidiaries. Household dedicated $2 billion (of $4 billion liquidity at June end) to enhance liquidity at its banking subsidiaries. Household also merged its three national credit card banks (effective as of July 1) into one. Two of the banks were subsidiaries of HFC and one was a subsidiary of Household Bank FSB. The consolidation brings the banks under HFC and effectively streamlines operations to facilitate the regulatory process and optimizes capital.

As one of the largest consumer financial concerns, Household will continue to be in the spotlight regarding predatory lending (fairly or unfairly), in our opinion. Household operates in all 50 states which exposes the company to various state laws. A number of states, led by California, have enacted predatory lending statues with other states expected to follow suit, as the issue remains a hot political topic. However, Household's "best practices" initiative exceeds or is in line with most state legislation. The company stands behind its lending policies and hopes to reach a resolution with Attorney Generals over the next six months. On a larger scale, Household prefers federal legislation which would make industry definitions more consistent, but doubts that legislation will be passed this year. The company will be working with federal regulators on legislation for next year.

2Q KEY METRICS

Revenue-- Household reported net interest income of $2.3 billion (before provision) vs. $1.6 billion last year driven by strong loan volume. Total revenue came in at $3.1 billion versus $2.6 billion, a 21% Y/Y increase. Fee income of $362.7 million was off from $396.3 million in the year ago period, as the drop in card delinquencies put a squeeze on late and over limit fees. Looking ahead, management expects fee income compression to be offset by lower collection expense and lower credit losses. Securitization gains were $126 million (owned basis), up 31% Y/Y. Household securitized $2.0 billion in the quarter compared to $1.4 billion a year ago.

Operating expenses were up 10% Y/Y to $970.4 million, compared to $882.7 million due to higher marketing and compensation expenses. The efficiency ratio improved to 32.2% from 35.5% in 2Q01, benefiting from strong top line growth. Beginning in 4Q, Household will expense stock options. The impact will be modest in 2002, at about $0.01 and next year, $0.02. ROE was 22.2%. Tangible equity to managed assets came in at 8.24%, down slightly from 8.41% last quarter (due to a preferred offering), but up from 7.61% a year ago. The ratio remains within company's guidance of 8.0%-8.25%.

Margin-- The margin fell 21 bps on a sequential basis to 8.58% (20 bps lower than our estimate). On a Y/Y basis, the margin was up 24 bps. The lower margin was due to liquidity improvement initiatives, which took $0.02 from EPS. Offsetting the margin was the stronger than expected loan growth.

Receivables-- Managed receivables rose 15.2% ($13.9 billion) Y/Y to $105.5 billion. The portfolio also benefited from a +$500 million in f/x translation. Most of the growth (60% based on absolute dollars) came from Household's real estate portfolio (46.4% of the total portfolio), which rose 22.8% Y/Y to $48.9 billion. Household saw good growth from its branch-based business and mortgage business driven by account executive productivity and lower attrition rates. Auto receivables rose 33.4% Y/Y to $6.9 billion. Private Label loan volume rose to $13.5 billion, a scant 1.2% Q/Q increase, but 12.5% Y/Y. Household added three smaller merchants in the 2Q, but expects a better 2H02. MC/Visa loan volume came in at $16.8 billion, down 1.5% Y/Y due to the sale of its Goldfish portfolio. Personal Loans rose to $18.9 billion, up 4.4% Q/Q and 11.5% Y/Y. The strongest growth came from the Union Privilege (prime based portfolio) product, up 33.5% Y/Y.

Asset quality-- Total credit losses rose to 4.26%, up from 4.09% last quarter and 3.71% in 2Q01. Half of the increase was due to bankruptcy. Management expects credit losses to peak in 3Q and level off in 4Q. Home equity losses rose to 86 bps, up from 65 bps on a linked basis, and 48 bps a year ago. The rise in credit losses reflects aging of the portfolio and a pick up in bankruptcies. Auto losses saw a 53 bps sequential improvement to 6.17%. Management expects auto charge-offs to remain stable in 2002. In the MC/Visa portfolio, charge-offs rose to 7.54%, a 37 bps Q/Q increase. We note some of the increase was due to runoff (denominator effect). Private Label losses improved by 19 bps to 5.38% compared to 5.57% last quarter. On a Y/Y basis Private Label charge-offs rose 29 bps. Credit losses on Personal Loans rose to 8.56% from 7.86% in 1Q and 6.82% in the year ago period.

Delinquencies improved by 10 bps to 4.53% from 4.63% in 1Q but up 26 bps Y/Y. The Q/Q result was driven by an improvement delinquencies in the MC/Visa portfolio, particularly in subprime. Auto delinquencies rose notably to 3.19% versus 2.51% in 1Q, and 2.09% last year. Some of the pick up was seasonal but was also due price versus risk testing. Looking ahead, management expect total delinquencies to be stable to down in 2H02. Household added $222.4 million its credit loss reserves (managed receivables) to $4.368.9 billion. Reserves to

managed receivables rose to 4.14%, up from 4.10% last quarter and 3.78% a year ago. Management expects stable reserve ratios in 2H02. The company will continue to build reserves in the soft economy.

As of 2Q, 16.7% of the total portfolio was re-aged vs. 16.9% at beginning of the year. The ratio has remained stable. Management expects the ratio to trend downwards as the economy improves.

Liquidity-- Household spent about $0.02 in EPS to shore up liquidity. The company expects to spend $0.03 in liquidity initiatives in the 3Q and 4Q. As of 2Q, Household has $3 billion in CP (average life of 32 days), down from $5.5 billion in 1Q. Household expects a CP level of $5-$6 billion. The CP level was artificially low this quarter, as Household took advantage of favorable spreads in the term debt markets. At 2Q, CP back up lines totaled $10.0 billion. Undrawn conduit lines rose to $6.7 billion versus $5.4 at 1Q02. Household established an additional $1.0 billion liquidity facility, bringing the total to $6 billion.

The company issued $2.5 billion in a U.S. dollar-denominated global debt offering and $2.7 billion in a Euro-denominated global offering. Household also securitized $1.25 billion in real estate receivables and an additional $2.0 billion in other assets. Management raised its liquid investment portfolio by $1.0 billion to $4.5 billion.

Share repurchases-- As part of Household's $2.0 billion share repurchase program, the company bought back 966,000, spending $60 million. At the end of the quarter, Household had forward purchase agreements to acquire 6.1 million

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]

EON

06:11am EDT 18-Jul-02 Deutsche Bank-North America (M. Alpert/R. St. Leger/) HI
HI: Solid 2Q Performance-Strong Buy-Part 2/2

Alpert, Mark C. CFA 212-469-8117
St. Leger, Randolf 212-469-7118
Swanberg, Garrett T. 212-469-5017
Deutsche Bank Securities Inc.

7/18/2002

HOUSEHOLD INTERNATIONAL INC. (HI) "STRONG BUY"
Solid 2Q Performance -Part 2/2

Date:	07/17/2002	EPS:	2001A	2002E	2003E
Price:	42.37	1Q	0.91	1.09	NE
52-Wk Range:	69 - 43	2Q	0.93	1.08A	NE
Ann Dividend:	1.0	3Q	1.07	1.19	NE
Ann Div Yld:	2.36%	4Q	1.17	1.29	NE
Mkt Cap (mm):	19,333	FY(Dec.)	4.08	4.65	5.25
3-Yr Growth:	14%	FY P/EPS	10.4X	9.1X	8.1X
		CY EPS	4.08	4.65	5.25
Est. Changed	Yes	CY P/EPS	10.4X	9.1X	8.1X

shares at a weighted average price of $55.63 per share.

BOTTOM LINE

While the issue of subprime loans, the hotbed for predatory lending debates, will continue to receive regulatory scrutiny, Household's diverse business model gives the company an edge, in our opinion. We note subprime card loans represent less than 1% of Household's total portfolio. Moreover, Household remains one of the best capitalized companies in the consumer financial space. We reduced our target price on the stock due to lower market valuations and the cloud overhanging all subprime lenders. As one of the largest consumer financial companies, Household should remain a magnet for consumer advocacy groups and political zealots. To this end, the shares may come under pressure. The stock is currently trading at just under 8x our 2003E EPS following negative announcements by two other card issuers. However, the fundamentals at the company remain solid. Company guidance remains the same even in the tough economic environment. We continue to rate the shares Strong Buy.

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06:11am EDT 18-Jul-02 Deutsche Bank-North America (M. Alpert/R. St. Leger/) HI
HI: Solid 2Q Performance-Strong Buy-Part 2/2

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Solid 2Q Performance -Part 2/2

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BOTTOM LINE

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Exhibit 18

CIBC

CIBC WORLD MARKETS

Equity Research

September 22, 2002

Company Update

Company Rating: *Sector Performer*

Sector Weighting: *Market Weight*

Household International

Lowering Price Target On Persistent Headline Risk, But Maintaining SP Rating

Specialty Finance

HI-NYSE (9/20/2002)	**$29.05**
12-18 mo. Price Target	$36.00
Key Indices: S&P 500, DJ Ind, S&PFincl	
3-5-Yr. EPS Gr. Rate (E):	15.0%
52-week Range	$63.25-$27.66
Shares Outstanding	461M
Float	356.1M shrs
Avg. Daily Trading Vol.	4,740,000
Market Capitalization	$13.4B
Dividend/Yield	$1.00/3.4%
Fiscal Year Ends	December
Book Value	15.31 per Shr
2002 ROE	20.3%
LT Debt	$60,536.2
Preferred	$1,818.20M
Common Equity	$7,057.20M
Convertible Available	Yes

- We have lowered our price target for HI to $36 from $57 given persistent headline risk which may further pressure the valuation, despite the strong outlook. We have also fine tuned our quarter estimates for 2002 and reduced our 2003 estimate to $5.12 from $5.18 per share.

- Despite the headline risk associated with the company, our confidence in HI's growth strategy and fundamental strength remains strong. Given the solid housing market, HI's home equity portfolio (which represents nearly 50% of the total) should further rise, while credit quality is manageable.

- Furthermore, we believe there could be upside to third quarter earnings owing to the low interest rate environment and robust refinancing activity. Although headline risk and low investor sentiment may continue to be an overhang, we believe fundamentals should remain relatively strong.

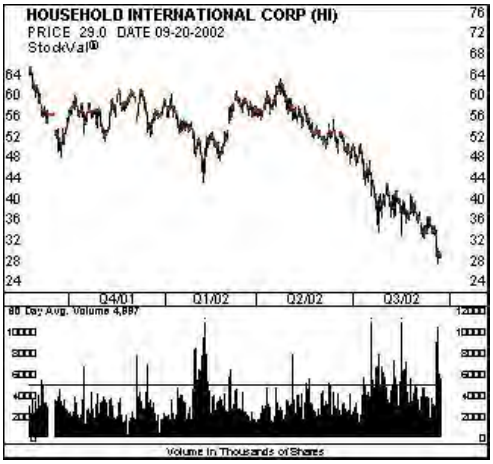
- Credit quality should remain in-check, even if loss rates rise further, as heavy loan loss provisioning has supported reserve levels without depressing earnings growth. At the end of the second quarter, loan loss reserves were at record high levels. HI is rated Sector Performer.

Company Description

Household International is a diversified financial services company focused primarily on consumer lending.

Earnings per Share	Prev	Current
2001A		$3.92A
2002E	$4.58E	$4.58E
2003E	$5.18E	$5.12E
P/E		
2001A		7.4x
2002E	6.3x	6.3x
2003E	5.6x	5.7x

Stock Price Performance



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Headline risk has been unrelenting, and we see no clear sign that it will abate

We have lowered our price target for Household International to $36 from $57 as persistent headline risk should continue to pressure Household's valuation. Over the past several months, scrutiny of sub-prime lenders has intensified among regulators and investors alike, which has placed unrelenting pressure on Household's market valuation. In particular, building concerns regarding the company's lending practices, which have been accused of being predatory in nature and is currently the subject of an investigation by the Washington Department of Financial Institutions, have dampened price performance. Moreover, skepticism regarding the company's rapid portfolio growth, particularly within the auto business, and mounting credit quality concerns related to Household's loan workout and re-aging practices have also been a drag on the stock.

While close scrutiny of HI is warranted in the current environment, recent concerns may be overblown

Although we believe there is reason for some concern given the uncertain economic outlook and recent troubles at the independent auto finance company Americredit (ACF), the scrutiny may be overblown. Despite our confidence in Household's growth strategy and fundamental strength, we believe that the headline risk associated with the company has intensified in recent weeks and could place downward pressure on the stock valuation in the near term. As such, we have reduced our price target on the stock given the lack of visibility as to a resolution of the highlighted investigations and pending lawsuits. We have also fine tuned our quarterly earnings progression for 2002 and trimmed our 2003 earnings estimates to $5.12 from $5.18 per share owing primarily to the likelihood of slower refinancing activity as interest rates begin to rise. Furthermore, given the potential for higher interest rates and greater securitization activity, the net interest margin could come under modest pressure in 2003.

At current levels, Household is trading at roughly 5.6X our 2003 estimate, which reflects more than a 50% discount to the company's historical price/forward earnings multiple since 1995, and more than half its long term earnings growth rate. Although we do not foresee any material catalyst for multiple expansion back into the historical average range of 11X-12X until the pending regulatory issues are resolved and the economy demonstrates clearer signs of improvement, we do believe the current discount is too sharp. Furthermore, given the potential for third quarter earnings to be strong because of the strength of refinancing activity and likelihood of robust gains in the home equity portfolio, we believe a more appropriate valuation would reflect a price/forward earnings of roughly 7X, or $36 per share. Based on the solid fundamentals but continuing headline risk, we have maintained our Sector Performer rating on the stock

Risks to our rating include the possibility of additional regulatory investigations, particularly on the heels of long-standing scrutiny. Adding fuel to the fire was the recent $215 million settlement of the investigation into The Associates by the Federal Trade Commission, which had been Household's closest independent peer and was acquired by Citigroup in September 2000. We believe that there could be a spillover effect on Household, as the regulatory witch-hunt among sub-prime lenders continues.

Moreover, the ongoing skittish market and investor sentiment could continue to punish the stock. Finally, should the economic recovery reverse or interest rates rise sharply, production could slow and adversely impact earnings growth. Given the current state of the economy, however, we do not believe that interest rates should move dramatically and may remain at low levels into 2003, which should continue to fuel heavy refinancing activity.

Home equity portfolio gains could surge and drive EPS upside in 3Q02

Despite our price target suspension, we believe there could be upside to third quarter earnings owing to the low interest rate environment and robust refinancing activity. As we have discussed in previous First Call notes, Household's third quarter earnings should be reduced by roughly five cents, according to our calculations, following the company's recent accounting revision prompted by Household's new auditors. We estimate third quarter earnings including the restatement should equal $1.16 versus $1.07 a quarter earlier and $1.02 in the prior year.

Overall, we believe that the low interest rate environment and burgeoning refinancing activity should drive robust portfolio gains, particularly within the home equity portfolio, bringing the total managed portfolio in excess of $110 billion for the quarter. Although Household's recent accounting adjustment and negative press left the company temporarily shut out of the corporate debt market, access to the ABS market remained high. Modest net interest margin pressure, however, could emerge in the third quarter as a result of the funding challenges.

Credit quality erosion is something to keep a close eye on, however

Although modest credit quality erosion may occur given the uncertain economy and portfolio seasoning, reserve levels should be more than adequate. At greatest risk, in our opinion, is the other unsecured and auto finance portfolios, which accounted for roughly 18% and 6.5% of the total managed portfolio, respectively, at the end of the second quarter. Despite the expectation of rising losses through year-end, we believe Household's reserves, which remained at all-time highs at the end of the second quarter, should be more than sufficient to insulate earnings from the effects of credit deterioration.

On a lighter note, the stock could receive a reprieve once capital ratios return to prior levels as recent initiatives begin to take hold. As was discussed in prior First Call notes , the accounting adjustments announced last month should also adversely affect Household's capital ratios by roughly 30 bps to bring the tangible equity/tangible managed asset ratio below 8% and management's target range of 8.5%. The company, however, has suspended its share repurchase program in order to drive the ratio back to prior levels, which could jump-start price performance.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2001A Actual	$0.85A	$0.90A	$1.02A	$1.15A	$3.92A
2002E Prior	$1.04A	$1.07A	$1.16E	$1.31E	$4.58E
2002E Current	$1.04A	$1.07A	$1.17E	$1.30E	$4.58E
2003E Prior	$1.15E	$1.24E	$1.32E	$1.47E	$5.18E
2003E Current	$1.17E	$1.20E	$1.30E	$1.45E	$5.12E

Companies Mentioned In This Report

Stock prices as of 9/22/2002:

Americredit Corp. (ACF-NYSE $6.36 Not Rated)
Household International (11, 4)(HI-NYSE $29.03 Sector Performer)
Citigroup (C-NYSE $27.10)

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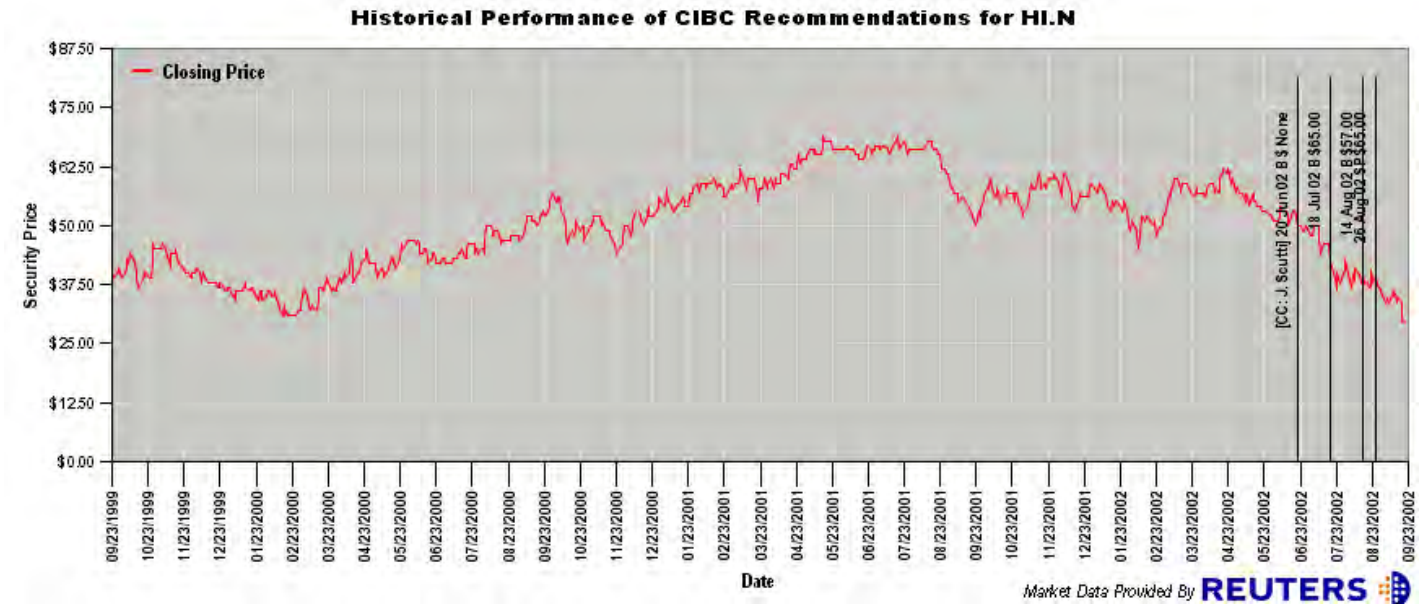
14) A member of the household of a CIBC World Markets research analyst that covers this company has a long position in the common equity securities of this company.

CIBCWM Price Chart



CIBCWM Stock Rating System

Abbreviation	Rating	Description
Company Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
NR	Not Rated	Stock is not covered by CIBCWM.
Company Rating Prior To August 26th 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
Sector Ratings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and TSX 300 in Canada.
"-S" indicates Speculative. An investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Stock Rating Distribution for CIBC World Markets Corp. Equity Research Universe

	Ratings		
	Sector Outperformer (Buy)	Sector Performer (Hold/Neutral)	Sector Underperformer (Sell)
Ratings Distribution: CIBC World Markets Corp. Coverage Universe	36.3%	40.8%	22.9%
Inv. Banking Relationships	45.9%	26.4%	19.6%
Ratings Distribution: Specialty Finance Coverage Universe	45.5%	31.8%	22.7%
Inv. Banking Relationships	70.0%	100.0%	60.0%

Specialty Finance Sector includes the following tickers: ADS, ALD, AXP, CCR, CIT, CKFR, COF, CORI, DGIN, DVI, EPAY, FIC, FIF, FNIS, FNM, FRE, HI, HYC, IMH, KRB, MFI, MXT, PVN.

Ratings Distribution: CIBC World Markets Corp. Coverage Universe					
(as of 20 Sep 2002)	**Count**	**Percent**	**Inv. Banking Relationships**	**Count**	**Percent**
Sector Outperformer (Buy)	266	36.3%	Sector Outperformer (Buy)	122	45.9%
Sector Performer (Hold/Neutral)	299	40.8%	Sector Performer (Hold/Neutral)	79	26.4%
Sector Underperformer (Sell)	168	22.9%	Sector Underperformer (Sell)	33	19.6%
Ratings Distribution: Specialty Finance Coverage Universe					
(as of 20 Sep 2002)	**Count**	**Percent**	**Inv. Banking Relationships**	**Count**	**Percent**
Sector Outperformer (Buy)	10	45.5%	Sector Outperformer (Buy)	7	70.0%
Sector Performer (Hold/Neutral)	7	31.8%	Sector Performer (Hold/Neutral)	7	100.0%
Sector Underperformer (Sell)	5	22.7%	Sector Underperformer (Sell)	3	60.0%

Specialty Finance Sector includes the following tickers: ADS, ALD, AXP, CCR, CIT, CKFR, COF, CORI, DGIN, DVI, EPAY, FIC, FIF, FNIS, FNM, FRE, HI, HYC, IMH, KRB, MFI, MXT, PVN.

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Exhibit 19

Financials
Specialty Finance

Prudential Financial

Household International

Company Update

Stock Rating:	**BUY**
Industry Rating:	**Market Perform**
Stock Risk:	**High**

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The senior analyst does not have a material position in HI.*

HI ($59.35)—NYSE April 12, 2002

	Earnings Per Share Fiscal Year Ending							
	12/01	12/02E	12/03E	P/E 12/02E	Ind. Div.	Yield	Shares O/S (Mil.)	52-Week Range
New	**$4.08**	**$4.70**	**$5.25**	**12.6X**	**$0.88**	**1.50%**	**457.1**	**70-44**
Old								

DJIA: 10,176.1
S&P 500: 1,103.7

Priced as of the close, April 11, 2002.

Household International (HI), located in Prospect Heights, Illinois, is a leading provider of consumer finance, credit card, auto finance, and credit insurance products in the U.S., the U.K., and Canada. In the U.S., Household operates under two widely recognized brand names—HFC and Beneficial.

HI Fundamentals Fine, Yet Political/Headline Issues Remain

Upbeat Onsite Meeting. At its 13th Annual Financial Relations Conference, senior management discussed recent results, strategies, and prospects for HI's major businesses, including consumer finance, mortgage services, auto lending, and credit cards.

EPS Growth Of 15% Appears Doable. Fundamentals remain solid with good loan growth, improving margins, and manageable credit. HI benefits from still healthy demand for debt-consolidation home equity products and from rational competition.

Capital Ratios Are Headed Higher. Renewed focus on risk protection by rating agencies and bond investors encourage a capital boost from 7.87% to 8.00%-8.25% (in 2002), potentially delaying planned share repurchases (we now expect less than $1 billion in buybacks this year).

Disclosures Are Getting Better. Management put to rest several recent "market issues"—e.g., transparency, securitizations, reserves, and liquidity. However, new information on account reaging lacks historical and comparative context and could be a misleading indicator of HI's approach to managing credit losses.

Mixed Review. Over all, given financial momentum and a lower risk profile, we nudged up our 2002 and 2003 EPS estimates a dime each, to $4.70 and $5.25, respectively. We also trimmed our price target to $70 (from $74), given our expectation that valuation improvement may prove challenging, as political/regulatory/accounting issues may persist.

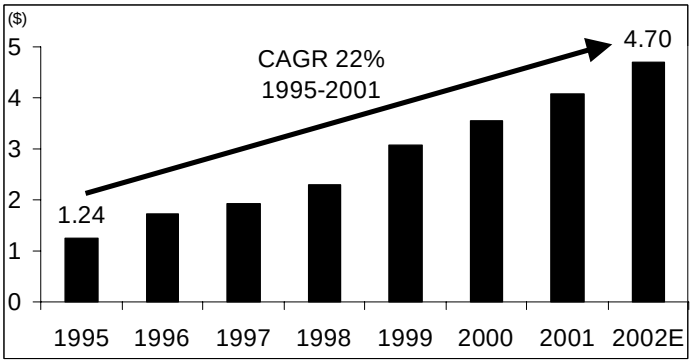
Annual Onsite Conference

At a well-attended onsite meeting (April 9, 2002), Household's senior management team discussed the prospects and strategies of the company's major businesses—including Consumer Lending (Gary Gilmer), Mortgage Services and the U.K. (Dave Schoenholz), Retail Services, Auto and Refund Lending (Rocco Fabiano), and Credit Cards and Canada (Bobby Mehta). The CFO (Dave Schoenholz) also spent about an hour reviewing 2001 results, the 2002 outlook, and recent issues in the market. The tone of the meeting was generally upbeat, as Household has demonstrated an ability to sustain mid-teen earnings growth and 20%-plus ROEs during various macro-economic scenarios. In fact, recent results help support management's claim that Household's business model is largely "recession proof."

The following are our three main takeaways from the conference:

- First, EPS growth of 15% appears doable. Fundamentals appear to remain solid, with good loan growth, improving margins, and manageable credit. HI benefits from still-healthy demand for debt-consolidation home equity loans and from relatively rational competition (see Figure 1).

Figure 1. Earnings Per Share

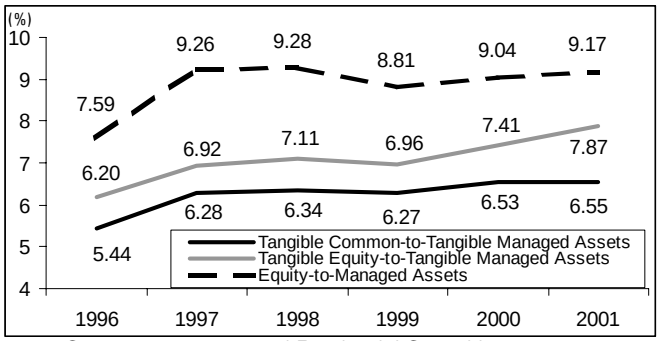


Source: Company reports and Prudential Securities.

- Second, capital ratios appear to be headed higher. Renewed focus on risk protection by rating agencies and bond investors encourage a capital boost from 7.87% (in 2001) to 8.00%-8.25% in 2002 (see Figure 2), potentially delaying planned share repurchases.

  Note: we now expect less than $1 billion in buybacks this year (versus $916 million in 2001).

Figure 2. Capital Ratios



Source: Company reports and Prudential Securities.

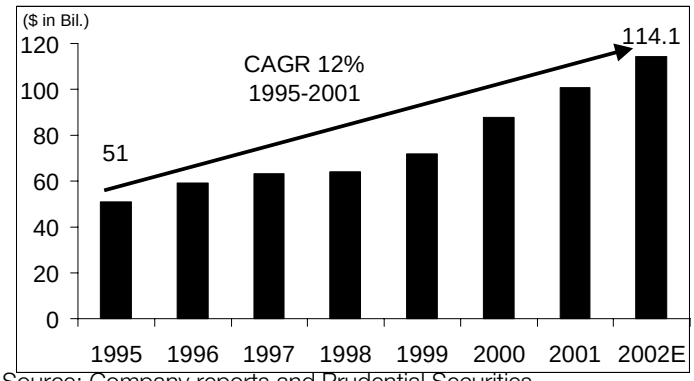
- Third, disclosures appear to be getting better. Management put to rest several recent "market issues"—e.g., transparency, securitizations, reserves, and liquidity. However, new information on account reaging lacks historical and comparative context and could be a misleading indicator of HI's approach to managing credit losses. Over all, given financial momentum and a lower risk profile we nudged up our 2002 and 2003 EPS estimates a dime each to $4.70 and $5.25. We also trimmed our price target to $70, given our belief that valuation improvement may prove challenging as political/regulatory/accounting issues could stay around for a while.

Overview Of Operations And 2002 Outlook

Household's CFO, Dave Schoenholz, described the company's business model as diverse, including multiple products (secured, unsecured, auto, credit card, and retail finance) delivered to 50 million middle-American customers through multiple channels (1,700 branches, partners, auto dealers, direct mail, and the Internet). Recent operating results have met targets, including 13%-15% EPS growth, 11%-14% receivables growth, and a mid-30s efficiency ratio (expenses to revenues). The outlook for 2002 is similarly solid, with expectations for achieving the high end of management's EPS growth goal (15%)—helped by about $0.10 per share of goodwill amortization benefit. Management expects receivables to grow at an 11%-14% pace, margins to improve, and expenses to grow at a 10% clip (see Figures 3-6). Credit losses should rise through the

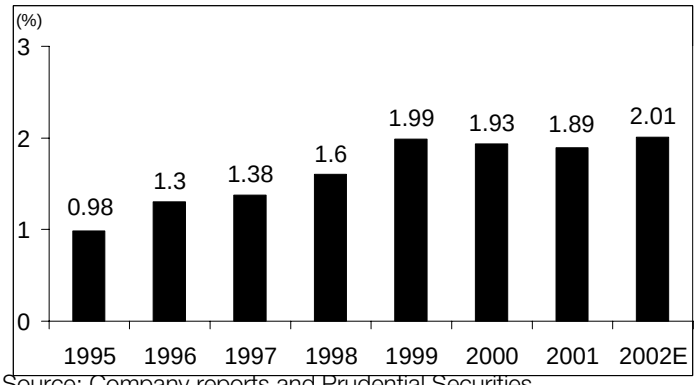
third quarter (and may improve in the fourth quarter), reflecting rising unemployment and higher bankruptcy levels. Loan loss reserves should increase in dollar amount yet may remain relatively flat as a proportion of charge-offs (currently 111%). Finally, share buybacks, which reached $916 million last year, may fall short of management's original goal of $1 billion, given an increased focus on raising capital levels (from 7.87% in 2001 to 8.00%-8.25% in 2002) during more challenging economic times.

Figure 3. Managed Receivables



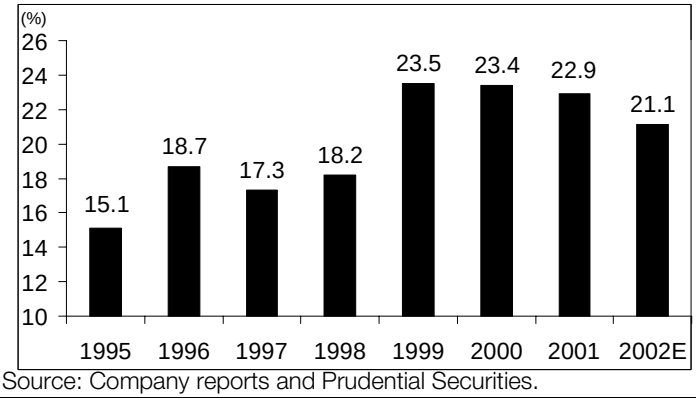
Source: Company reports and Prudential Securities.

Figure 4. Return On Managed Assets



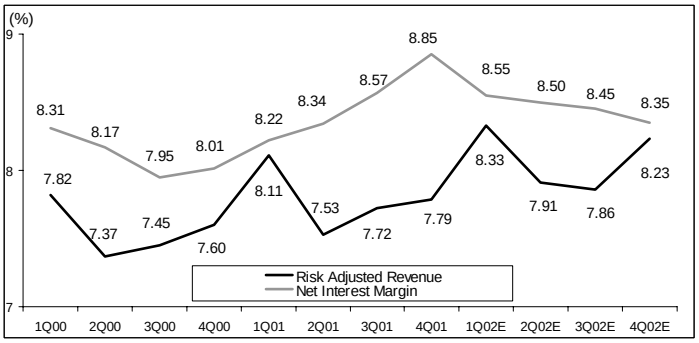
Source: Company reports and Prudential Securities.

Figure 5. Return on Average Common Equity



Source: Company reports and Prudential Securities.

Figure 6. Net Interest Margin And Risk Adjusted Revenue



Source: Company reports and Prudential Securities.

"Market Issues" Are Largely Addressed

The following is a brief description of Household's positioning vis-à-vis some recent investor issues in the marketplace—including questions about transparency, securitizations, reaging, and reserve adequacy.

- ☐ **Transparency.** HI will conform with SEC requirements by limiting managed basis reporting, such as by disclosing securitization revenues on an owned basis only. Other disclosures should include both managed and owned reporting—e.g., credit quality, margins, fees, and risk-adjusted revenue. Efficiency and capital ratios should be disclosed on a managed basis only.

- ☐ **Securitizations.** HI recognized $66 million (after tax) of securitization gains in 2001 ($0.14 per share), and gains in 2002 should be roughly equivalent. HI has structured recent real estate securitizations as financings in order to minimize the associated gains and therefore keep its IO strip relatively small. The bulk of HI's IO strip is related to shorter-duration assets and is therefore less vulnerable to impairment.

- ☐ **Credit policies.** HI's credit policies reflect the company's business mix and are structured to maximize the economics of each customer relationship. This includes working with customers who may have the potential to repay at least a portion of their borrowing. Below is a description of Household's charge-off policies by product (see Figure 7).

Figure 7. Charge-Off Policies By Product

Real Estate—Carrying values > Net Realized Value charged off at foreclosure or settlement with borrower

Auto Finance—Carrying values > Net Realized Value charged off at the earlier of these three scenarios:
- a vehicle repossessed and sold,
- 90 days after repo if not sold, or
- the entire balance charged off at 150 days delinquent

MasterCard/Visa—6 months delinquent

Private Label—9 months delinquent

Personal Non-Credit Card—9 months contractually delinquent and no payment for 6 mos.; not to exceed 12 mos. contractually delinquent

Note: Bankruptcy charge-off policies, in general, are the same as above or within 60-90 days of notification.
Source: Company reports and Prudential Securities.

☐ **Reaging policies.** HI provided some new information on account reaging. The intention of reaging is not to defer credit losses but to get customers through a challenging period ("bumps in the road"). This is consistent with HI's customer value proposition—including pricing that runs 300-400 basis points above comparable bank rates. According to HI's reaging disclosures, total reaged assets in 2001 were $15.6 billion (17% of total receivables), up from $11.4 billion (14%) in 2000 (see Figures 8, 9, and 10). Notably, three fourths of balances reaged in 2001 had been reaged only once, and only 0.05% had been reaged more than three times.

Note: Although 17% reaging appears high, this level reflects more challenging economic conditions and would not directly translate into higher loan losses. The portfolio with the greatest stress is (not surprisingly) the personal non-credit card portfolio, which experienced 27% reaging in 2001 (up from 22% in 2000).

Figure 8.Total Reaged Portfolio By Product

	2000	2001
Real Estate Secured	$6,015	$8,667
Auto Finance	392	958
MasterCard/Visa	409	512
Private Label	1,208	1,332
Personal Non-Credit Card	3,036	4,192
Total	$11,060	$15,661

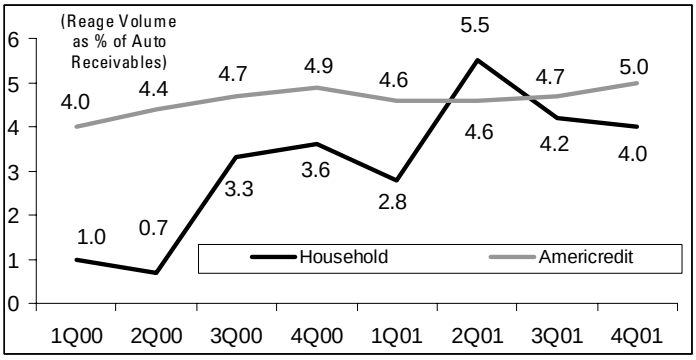
Note: Dollars are in millions.
Source: Company reports and Prudential Securities.

Figure 9. Recidivism

	Managed Portfolio	Percent Re-aged	Recividism	
RE secured	$44,719	19%	13%	$ 1,135
Auto finance	$6,395	15%	37%	$ 354
MC/Visa	$17,395	3%	42%	$ 212
Private label	$12,814	10%	36%	$ 473
Personal	$17,993	23%	42%	$ 1,756
Total				$ 3,930
% of Managed Portfolio				4%

Note: Recidivism reflects the proportion of accounts reaged that are ultimately (one year after reaging) two-plus days delinquent or charged off.
Source: Company reports and Prudential Securities.

Figure 10. Reaging Of Auto Portfolio Vs. AmeriCredit

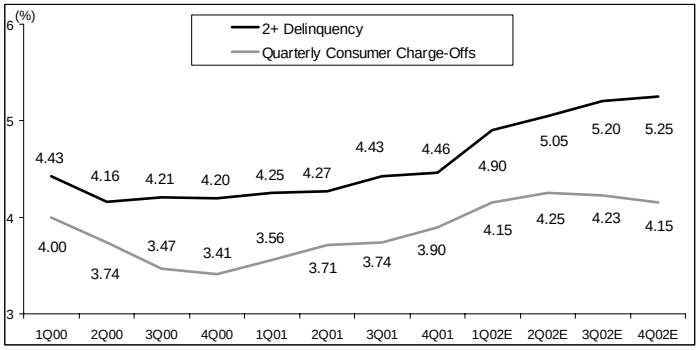


Source: Company reports and Prudential Securities.

☐ **Reserve adequacy.** HI has recently added to its loan loss reserves by provisioning in excess of current-period charge-offs ($500 million added to owned reserves in 2001). Total reserves now equal 3.3% of receivables and 110% of charge-offs, and they are sufficient to cover more than a year of loan losses (at current rates). We expect Household to continue to add to reserve balances in 2002; however, the reserve ratio

could flatten or decline, as charge-offs are likely to rise through the third quarter of 2002 (see Figure 11).

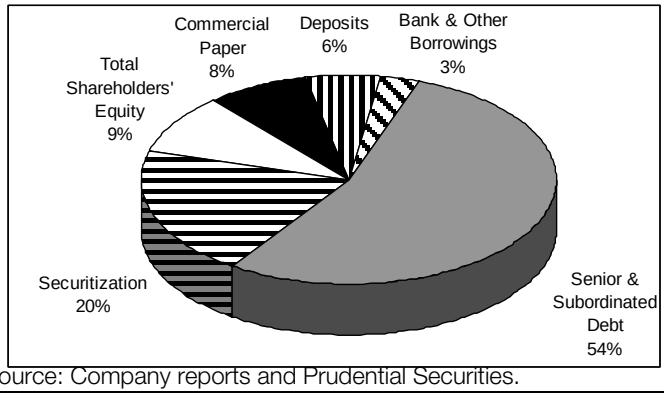
Figure 11. Delinquencies And Charge-Offs



Source: Company reports and Prudential Securities.

- **Liquidity.** HI's liquidity remains somewhat sensitive to the capital markets and rating agencies (see Figure 12). The company seeks a diversified funding structure (product, maturity). During the first quarter of 2002, HI further strengthened its liquidity position by adding to its conduit capacity, reducing CP (to $5 billion from $9 billion), and increasing securitization financing (real estate-secured receivables).

Figure 12. Funding Mix

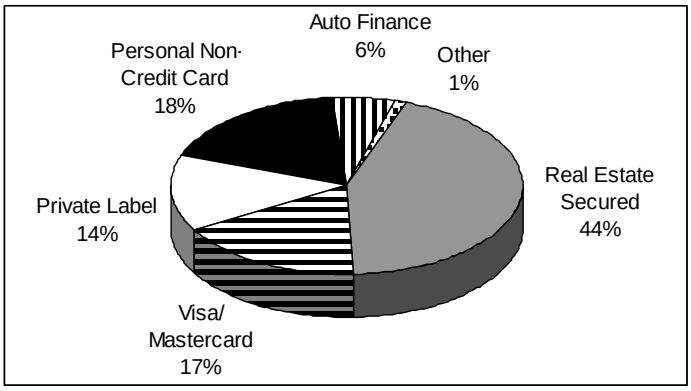


Source: Company reports and Prudential Securities.

HFC And Beneficial Thrive On Consumer Lending (44% Of Managed Receivables)

Gary Gilmer, Vice Chairman of Consumer Lending, and Tom Detelich, Managing Director of Consumer Lending, discussed Household's consumer lending business. HI's consumer lending is conducted through its HFC and Beneficial (HFC) subsidiaries, which provide primarily real estate-secured loans through a 1,400-branch network. The company generates 25,000 real estate-secured and personal loans every month. HFC's core customer is a middle-market consumer with a spotty credit history. Household has succeeded in this arena because of its focus on customer care, emphasizing service and flexibility. In 2001, consumer-lending receivables grew by $5.5 billion (18%). Real estate-secured products represented 99% of the growth, as it has over the last several years. The financial performance was driven by double-digit revenue growth (up 11%), good expense controls (efficiency ratio 29%), net interest margin expansion, and lower charge-offs (down 19 basis points)—resulting in ROMA and ROE that exceeded HI's consolidated returns.

Figure 13. Managed Portfolio By Loan Type



Source: Company reports and Prudential Securities.

HFC and Beneficial look to drive growth and profitability through the branch network, which consists of 933 Beneficial branches and 455 HFC branches. The company seeks to optimize the branch network by having the right branch in the right market, and it expects the number of branches to be flat in 2002 (having been flat since 1999). HI assesses branch operations and market opportunities to identify strong and weak markets. The company looks to open branches in strong markets not being served and to close poorly performing branches.

By focusing on strong markets and providing quality customer care, HFC achieved increased loan productivity per account executive by 12% in 2001 and expects to duplicate that success in 2002. Higher levels of productivity were achieved through improved sales training, better leads and lead management, and improved products. In 2001, HFC increased its sales by growing its sales force by 500 full-time employees. Most of the sales additions were placed in strong markets with high levels of production. Since 1999, the company has grown its sales force relative to fixed costs, such as management and branches. The growth in the sales force, along with improved productivity, appears to have resulted in improved efficiency. HFC has centralized the processing of non-core customers (customers with little potential for cross-selling) in order to free up personnel to concentrate on selling new products. In addition, the company developed lower-cost lead sources by mining partners' data and expanding cross-selling to customers of sister products (e.g., Union Plus cardholders). These initiatives improved the efficiency ratio by 70 basis points, and HFC expects to repeat this success in 2002, lowering the efficiency ratio to between 28.0% and 28.5%.

Part of the branch-optimization strategy includes a shift in focus from driving more customers into the branches to leveraging the branch network to expand relationships with current customers or expanding the network's share of wallet. The branch strategy is to leverage its relationships with existing partners, such as MBNA, Getsmart, and LendingTree. For example, HFC can use the branch system to originate home equity loans to MBNA customers. The company is also focusing on improving the cross-selling of affiliated products from sister companies. In 2001, retail services sold 59,000 loans through its cross-sales efforts, and the branches generated over 135,000 credit cards.

The outlook for 2002 is positive, in our view, as the company expects the economic outlook for its customers to improve throughout the year. HI does not expect competition to diminish, but views it as remaining rational. Growth opportunities should remain solid, and there has already been good demand in February and March; the

same is expected for April. The consumer-lending area should achieve double-digit increases in revenues and receivables in 2002. Margins should hold up, and the efficiency ratio should improve. Credit quality is expected to be mixed, with delinquencies staying relatively flattish and charge-offs expected to increase. Over all, management expects 2002 to be another record year.

HFC and Beneficial Were Ready For The Recession

In 1998, management began forecasting a recession. Although the timing was off slightly, the forecast was correct, and HFC was prepared. In 2000, the company began tightening underwriting criteria, focused more on homeowners versus renters, and added 675 collectors in its consumer-lending department.

Household Has Been At The Forefront Of Consumer Regulations

The recent increased scrutiny of consumer lenders is not new for HI. The company has consistently worked to improve consumer protection. Although most of the legislative initiatives are aimed at a handful of small, unscrupulous lenders, HI is always exposed to headline risk, given that it is one of the largest consumer-lending companies. Household published new "Best Practices" for consumer lending in July 2001 and enhanced them in February 2002. For the most part, very little has changed in HI's business model. The actual publishing of these best practices was just a formalization of HI's current practices with minor modifications. Household is now at the forefront of providing clear disclosures to its borrowers. It has also lowered the maximum amount of points on a loan to 5 from 7 (3 points for origination and 2 discount points), and implemented a rate reduction plan whereby customers who make 12 consecutive on-time payments receive a 25 basis point reduction in their interest rate.

California Lawsuit Update

In November 2001, Household was sued by the California Department of Corporations for overcharging customers. HI was overcharging its customers, but it was not done willfully or maliciously. There was a programming error that began assessing a 15% late fee versus a $15 late fee and increased the administrative fee to $75 from $50. Although this glitch caused HI to overcharge some customers, it also resulted in lower fees for thousands of others. HI refunded $3.5 million (less than 0.2% of 2001 net income) to customers to cover errors going back to 1998. In response to the lawsuit, HI hired additional compliance personnel, increased employee training, and changed its compensation to discourage compliance failures. The company does operate in 46 states under 46 different sets of rules, so there is always the potential for a similar type of action to occur in another state, but management noted that it is not aware of any at this time.

Mortgage Services

Dave Schoenholz, Vice Chairman and CFO, discussed the objectives and recent performance of the mortgage services group, which focuses on secondary-market purchases of non-conforming (primarily A and A-) residential mortgage loans. Household plans to use the group as an additional pipeline for growing the real estate-secured portfolio to enhance the portfolio mix and thus the overall credit quality. The company purchased 75% of all loans offered in 2001, with 90% having first liens and 69% having second liens and imbedded prepayment penalties (combined overall LTV of 88%). Mortgage services had solid growth in both managed receivables (up 25%) and net income (up 34%) in 2001 compared with 2000, while charge-offs and efficiency increased by 28 basis points and 154 basis points, respectively. Growth initiatives during 2001 included hiring collections staff (increased by 40%), expanding forward commitments with certain correspondents, opening two new branches, adding two more senior servicing and default management executives, and increasing purchases of higher FICO-based product. In 2002, the company looks to grow the division's portfolio by 14% ($18.3 billion in loans at December 31, 2001) and net income by 20%, while also maintaining credit quality, managing attrition, and improving retention through new retention scores.

Retail Finance Group (18% Of Managed Receivables)

Rocco Fabiano, Group Executive of Household's retail finance group, discussed the retail services (private label credit cards), auto finance, and refund lending divisions. Over all for 2001, the retail finance group showed strong income and managed receivables growth while credit quality and efficiency worsened. Compared with 2000 results, net income for the group increased to $523 million in 2001 (up 25%), while managed receivables grew to $18 billion (up 25%). Although 2001 charge-offs were unchanged compared with those of 2000 at 5.33%, managed delinquencies were 4.66%, up 200 basis points for the period. The efficiency ratio rose 300 basis points in 2001, to 26%.

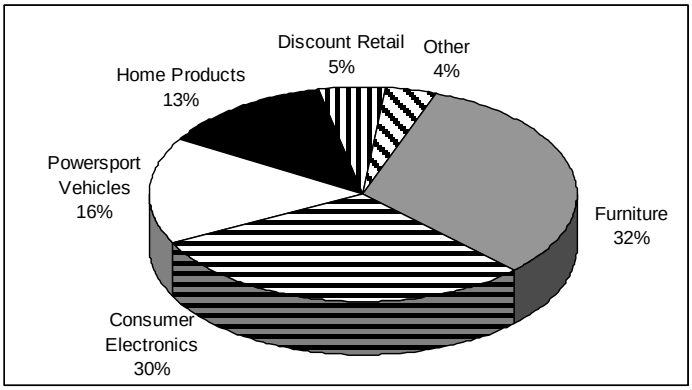
Retail Services: Private Label Credit Cards (13% Of Managed Receivables)

Household is the second-largest "third-party" private label credit card provider in the U.S. The private label market is an $85 billion market, and Household's share is 15%, with managed receivables of $13 billion. Household has over 9.5 million customers in the private label unit—and the broadest spectrum of customers. Although HI has over 60 merchant relationships (see Figure 14), the portfolio is concentrated in furniture store cards (32%, including Levitz, Seaman's), consumer electronics store cards (30%, including Best Buy, CompUSA), and powersport vehicles (16%, including Kawasaki, Yamaha). Household also has relationships with home product merchants (13%), discount retailers (5%) and other merchants (4%).

In the private label business, Household has two customers—the merchant and the cardholder. The partnership with the merchant is the company's primary business focus. HI provides its merchant partners with services across all POS channels, marketing support, flexible program structures, and underwriting to optimize approval rate. Household also focuses on the merchant's customers and offers financing, a quick and easy application process, and best-in-class customer service.

In 2001, the private label cards had strong net income and receivables growth, up 10% and 18%, respectively. Organic receivables growth was 12% and compared favorably with the industry growth rate of 7%-8%. The private label portfolio experienced improved credit quality, with net charge-offs and delinquencies declining 19 and 3 basis points, respectively. For 2002, Household looks to grow the portfolio through increased consumer penetration of its existing merchant network, the acquisition of additional market share, and the development of start-up programs. Recent share gains have been achieved as Household has partnered with QVC, Sears, and Microsoft in 2002. HI looks to control losses across all fronts, including underwriting, collections, and fraud.

Figure 14. Retail Services Portfolio By Type



Source: Company reports and Prudential Securities.

Auto Finance (6% Of Managed Receivables)

The majority of the auto finance business is conducted through the indirect channel (90%), with the rest coming through direct channels such as the Internet, direct mail, and partners. Although there are several main competitors (AmeriCredit, Capital One), the competition has maintained rational pricing and underwriting practices. Certain lenders have pulled back from subprime auto lending, with Ford being the most recent. The pullback has been beneficial for Household, because more customers are available to HI just as it is tightening its underwriting criteria and increasing its pricing. This trend, along with the successful launch of HAFCSuperhighway.com, has contributed to very strong receivables growth in 2001. In 2001, over 40% of application volume and 70% of loan volume were generated through HAFCSuperhighway.com.

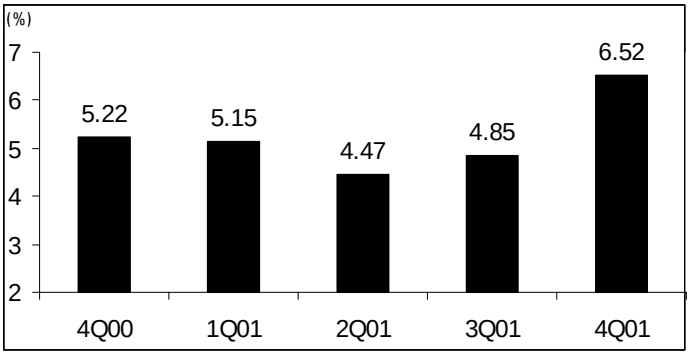
Underwriting trends were mixed in 2001. Although the average borrower was a better credit risk, HI underwrote more used car loans with higher mileage but fewer extended-term loans. Due to the credit tightening, the average borrower had a higher income and a higher FICO score in 2001 than in 2000, and 40% were homeowners, versus 37% in 2000. The push by the captives (GM, Ford), with their 0% financing, reduced the amount of new car loans that HI was able to underwrite. In 2001, Household underwrote more used car loans (76% versus 71% in 2000) but lowered the number of loans with extended terms (34% versus 42% in 2000), as the average age of the vehicles was higher.

Net charge-offs jumped by 167 basis points in the fourth quarter of 2001, primarily because of a decline in recovery rates. In the quarter, there were several events that depressed auction prices. As a result of the slowdown in business travel, rental companies sold fleets of vehicles to auction, creating a large supply of used vehicles. At the same time, consumers were trading up to get new cars at 0% financing, which increased the dealers' supply of cars to be sent to the auction market. All this excess supply caused the recovery rates on used vehicles at auction to decline significantly, increasing the severity of loss of HI's repossessed vehicles. Recovery rates have recovered some of the loss in recent months. The increase in net charge-offs was also attributed to the lack of attention paid to the efficient movement of repossessed cars. To correct this weakness and revitalize the auto business, HI brought in a new CEO of auto lending and a new head of collections. On a vintage basis, the trends of more recent loans still compare favorably to loans made in the late 1990s, reflecting tighter underwriting standards and improved credit scoring.

The company looks to improve collection capabilities by managing borrower payment habits via extensions and deferments, and a majority (63%) of borrowers were still paying 12 months after being granted extensions. HI analyzes the NPV of payments versus the expected depreciation to determine if an extension makes economic sense. For all accounts granted an extension in September 2000, the net benefit to HI was $18 billion as of February 2002. For accounts that subsequently were charged off, the net benefit was $3 billion.

Despite the credit quality deterioration in the auto portfolio (see Figure 15) in fourth-quarter 2001, net income grew by 28% and receivables jumped by 40%. The ROA declined due to the denominator effect of rapid receivables growth. Household looks to manage the growth of the auto loan business into 2002 while maintaining credit standards, improving collections, and building stronger asset disposition capabilities. The company looks to continue receivables growth (40% in 2001 versus 2000) by expanding the company's Web-based application and underwriting system (HFACsuperhwy.com).

Figure 15. Auto Finance Charge-Offs



Source: Company reports and Prudential Securities.

Refund Lending

In 2001, Household originated $13 billion in tax refund lending volume ($8.4 billion of Refund Anticipation Loans and $4.7 billion of Refund Anticipation Checks). HI's partnership with H&R Block accounts for 92% of HI's tax refund lending volume. HI expects this business to continue to grow, as the IRS has stated that its objective is having 80% of all returns filed electronically by 2007.

Household believes that its customers use the tax refund advances because it provides them with the needed cash to pay down other debts (holiday-related in some circumstances). The finance charge HI assesses to a refund advance is significantly less than other types of charges a customer might incur, such as late fees, cash advances on credit cards, or bounced check fees. HI tested the Advance RAL, which provides cash to borrowers to use during the holiday season and garners HI more income, as the loan is outstanding for a longer period of time. The company looks to add new distribution partners to increase refund volume in 2002 as well as introduce additional products.

Full-Spectrum Lending And Product Offering In Cards

Household has two business lines offering card products to its clients—a credit card services division, which offers affinity and owned Visa and MasterCard (Visa/MC) cards, and a significant private-label card business, which issues merchant cards (see Retail Finance Group, page 8).

Credit Card Services (17% Of Managed Receivables)

Bobby Mehta, Group Executive of Credit Card Services and Canada, discussed HI's Visa/MC business and products. Household's Credit Card Services offers Visa/MC products through several offerings, including the GM card, the Union Plus card, Household Bank card, and Orchard Bank card. Through these card offerings HI can provide credit cards across the full spectrum of credit quality. Each card product targets a particular point of the credit spectrum. The GM card is targeted to the superprime customers and represents 42% of the Visa/MC portfolio. The rest of the Visa/MC portfolio is the Union Plus card (prime, 29% of the portfolio), the Orchard Bank card (subprime, 10%), the Household Bank card (near-prime, 7%), Union Plus loans (prime, 6%) and non-strategic assets (subprime, 6%). The competition in the prime and superprime card arena is intense, owing in part to the industry consolidation that has taken place. The increased competition has resulted in lower direct mail response rates, which are below 1%. Household is successful in these markets because it has two products, each offering a differentiated value proposition—the GM card and the Union Plus card. HI expected competition in the near-prime and subprime categories to lessen in 2001, but that was not the case. HI acquired Renaissance to strategically target the subprime space and looks to differentiate itself by providing superior customer care, as these consumers tend to need financial counseling and reminders of their financial obligations. The company expects to keep these customers actively engaged with their obligations through the customer services platform.

The GM card is the largest automobile rewards program. The differentiated value proposition drives customer loyalty, resulting in lower attrition rates. The GM card rewards were used in 11%-12% of GM North American sales during 2001. In 2001, HI generated 650,000 new accounts, and new product offerings resulted in increased sales. HI markets the card through direct mailings, dealer channels, at marketing events and promotions, and on GM's Website.

The Union Plus card is associated with the largest affinity group in the U.S., the AFL-CIO, which has 13 million members. The Union Plus loans grew by 27% in 2001, and Union Plus receivables increased by 8%, generating 460,000 new accounts. HI has been able to segment this portfolio, utilizing proprietary analytics to generate industry-leading response rates. Household continues to strengthen the program by bolstering its relationships with other unions, including the top ten international unions.

In 2001, HI took several actions to improve the risk management of the credit card services portfolio. The company lowered credit lines on new accounts (which had the ancillary benefit of lowering contingent liabilities), implemented sophisticated scoring tools (better predicators of account activations and usage), improved its credit risk modeling (including forecasting bankruptcies), and increased its penetration of accounts in early delinquencies. In addition, Household has been using its enhanced collections process, and people like its customer care unit.

For 2002, the credit card services unit looks to continue its momentum in the Union Plus and GM cards and prudently grow the non-prime portfolios (with growth in near prime exceeding subprime). HI is also focusing its attention on increasing enhancement revenues and exploring avenues to increase its cross-sell opportunities with the company's other product offerings. HI management expects to continue to conservatively manage credit risk, noting that asset quality is job 1, 2, and 3.

As of year-end 2001, the Visa/MC portfolio totaled $17 billion and represented 17% of managed receivables. For 2001, card services net income increased by 71%, reflecting higher fees generated by the increase in the near-prime and subprime books, net interest margin expansion, and efficiency gains from the Renaissance acquisition. Credit quality deteriorated, with charge-offs increasing by 100+ basis points, of which 70 basis points were due to the seasoning of the near-prime and subprime portfolios and 30

basis points were due to the economic weakness. The deterioration in the lower-quality books was expected, and HI appropriately priced in the risks, as reflected in its ROA, which exceeded 2% and was above the targeted range of 1.75%-2.00% despite the increase in charge-offs.

Household Is Focusing On Its International Businesses

U.K. Operations

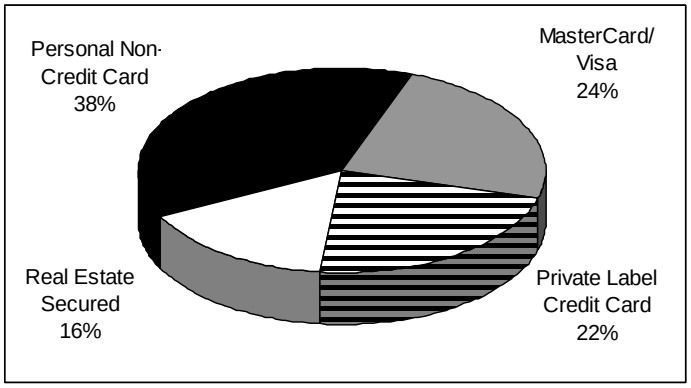
Dave Schoenholz made a presentation on Household's U.K. consumer finance business. Household is one of the largest consumer finance companies in the U.K. It has receivables totaling 4 billion pounds representing 3 million customers. The U.K. operations are a microcosm of the U.S. businesses, except that HI does not offer first mortgages. The company has 218 branches in the U.K. and Ireland, is the second-largest provider of broker-introduced second mortgages, and is a major credit card issuer. HI is also the second-largest provider of point-of-sale retail finance in the U.K.

The U.K. operations concentrate on selling unsecured products through the branch network, versus secured products in the U.S. Unsecured products are more viable in the U.K., given that real estate lending has the same tax advantages for the borrower in the U.K. that it does in the U.S. However, HI believes that there is a large opportunity to grow the real estate-secured product. As of year-end 2001, the company's U.K. portfolio consisted of personal non-credit cards (38%), Visa/MC (24%), private label credit cards (22%), and real estate-secured loans (16%). (See Figure 16.)

In the U.K., as in the U.S., HI offers numerous products that provide full coverage of the credit spectrum. There are also several products that cover most of the credit spectrum—including point-of-sale retail finance, credit cards, and credit protection insurance. Finally, the company offers products to specific credit-quality customers, such as the loans from Beneficial (subprime to near-prime), loans from HFC (near-prime to prime), and direct loans (prime to superprime). (HI offers the real estate-secured product to the subprime, near-prime, and prime segments.)

The U.K. operating environment was good in 2001, with low unemployment, inflation, and interest rates. Although there was competition and margin pressure in the mass markets because of U.S. monoline companies, there was less pressure in HI's core markets. Although the U.K. operations were profitable and generated good returns (ROA of 2.32%), net income was down year over year. Due to the sale of the Goldfish card receivables of 702 million pounds, total receivables declined 10% from 2000 results. In addition, the efficiency ratio worsened, to 43%, as HI invested in its Marbles credit card program. Barring the noise from the receivables sale and the Centrica settlement, HI did expand its branch network (opened 36 branches), expanded the secured product, and maintained solid credit quality. For 2002, Household looks to open five to ten new branches, continue the growth in the secured product, expand the credit card business by focusing on the Marbles brand, and grow the retail finance business through its Store card partnership. In addition, HI expects to establish a Central European start-up operation, given that it has already entered Hungary (February 2002) and plans to soon enter the Czech Republic (fourth-quarter 2002) and Poland (first-quarter 2003).

Figure 16. U.K.-Managed Receivables By Type



Source: Company reports and Prudential Securities.

Canadian Operations

Bobby Mehta, Group Executive of Credit Card Services and Canada, discussed Household's Canadian business model and strategy. Since 1922, HFC Canada has provided consumer finance products to middle-market consumers through its branches (109) and an indirect channel. The company distributes its lending products, including home equity loans, through its branch network. HFC Canada also offers private-label cards through 60 active merchants (e.g., Yamaha, Polaris). The Canadian economy is heavily influenced by the U.S. The consumer finance industry is dominated by three major companies—HFC Canada, Citifinancial, and Trans Canada (a Wells Fargo division). HI looks to grow by focusing on its core products and expanding its branch network (adding three to ten branches), growing its private-label merchant base (pipeline is good), developing the indirect lending channel, and increasing its product offerings (first mortgages). Household has an advantage over banks in the mortgage and home equity arena, in that because it is a consumer finance company it can lend at higher ratios than banks can. In order to manage the credit risk, HI is exporting its credit underwriting, analytics, and loss mitigation systems to its Canadian operations.

In 2001, the Canadian operations achieved strong growth in net income and receivables, improved profitability, and modest deterioration in asset quality. As of December 31, 2001, HFC Canada had receivables totaling C$7 billion, an increase of 19% over the prior-year amount.

Figure 17. Household International Annual Earnings Model

$ in millions

	1999		2000		2001		2002E		2003E	
	$	% Chg.	$	% Chg.	$	% Chg.	$	% Chg.	$	% Chg.
Income Statement Summary										
Net Interest Income	$5,539	8.7%	$6,490	17.2%	$7,941	22.4%	$9,206	15.9%	$10,219	11.0%
- Provision for Losses	2,782	2.4	3,252	16.9	4,018	23.6	4,663	16.0	5,086	9.1
Net Interest Income after Provisions	$2,757	16.0%	$3,238	17.4%	$3,922	21.1%	$4,543	15.8%	$5,133	13.0%
Non-Interest Income										
Insurance revenues	$535	8.5%	$561	5.0%	$662	18.0%	$735	10.9%	$797	8.5%
Investment income	169	4.7	174	3.2	168	-3.7	179	6.6	190	6.5
Fee income	1,205	2.0	1,470	22.0	1,619	10.1	1,749	8.1	1,906	9.0
Securitization related income	116	-46.5	243	NM	136	-44.1	148	9.1	166	12.0
Other income	224	-8.1	229	2.2	323	41.0	332	2.9	352	6.0
Total Non-Interest Income	$2,249	-2.0%	$2,678	19.1%	$2,907	8.6%	$3,142	8.1%	$3,411	8.6%
Non-Interest Expense										
Salaries and fringe benefits	$1,195	6.0%	$1,516	26.9%	$1,870	23.4%	$2,151	15.0%	$2,497	16.1%
Occupancy and equipment expense	271	-14.3	307	13.2	337	10.0	364	8.0	403	10.5
Other servicing and admin. expenses	950	-10.7	1,011	6.5	1,176	16.3	1,257	7.0	1,345	7.0
Other marketing expense	370	-8.2	471	27.3	507	7.7	548	8.1	584	6.5
Total Non-Interest Expense	$2,785	-4.3%	$3,304	18.6%	$3,891	17.7%	$4,320	11.1%	$4,828	11.7%
Income Before Taxes	$2,221	26.0%	$2,611	17.6%	$2,939	12.6%	$3,364	14.5%	$3,716	10.4%
After-Tax Non-recurring charges	0	-100.0	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!
Net Income	$1,486	28.6	$1,701	14.4	$1,924	13.1	$2,205	14.6	$2,435	10.5
EPS -Diluted	3.07	33.4	3.55	15.9	4.08	14.7	4.70	15.4	5.25	11.7
Core EPS (Diluted)	3.07	33.4	3.55	15.9	4.08	14.7	4.70	15.4	5.25	11.7
Avg. Shares (Diluted)	482	-2.9	476	-1.2	468	-1.7	462	-1.3	458	-0.9
Balance Sheet Summary										
Total Managed Receivables	$71,728	12.2%	$87,607	22.1%	$100,823	15.1%	$114,094	13.2%	$127,605	11.8%
Total Managed Receivables (Avg)	66,315	4.1	79,132	19.3	92,485	16.9	105,021	13.6	117,417	11.8
Average Earning Assets	69,443	3.8	82,391	18.6	96,066	16.6	108,484	12.9	122,456	12.9
Loan Loss Reserve	2,667	4.7	3,194	19.8	2,663	-16.6	4,261	60.0	4,516	6.0
Total Assets	60,749	14.9	76,736	26.3	89,416	16.5	104,920	17.3	120,679	15.0
Average Total Assets	56,821	14.1	68,742	21.0	83,076	20.9	104,920	26.3	112,800	7.5
Managed Assets	80,188	10.5	96,956	20.9	110,364	13.8	108,671	-1.5	119,538	10.0
Average Managed Assets	76,391	6.2	88,572	15.9	103,660	17.0	109,518	5.7	114,105	4.2
Total Deposits	4,980	NM	8,677	74.2	6,562	-24.4	8,086	23.2	10,425	28.9
Total Debt	45,665	13.2	55,841	22.3	68,848	23.3	79,021	14.8	90,594	14.6
Equity	6,990	3.4	8,791	25.8	9,634	9.6	11,404	18.4	13,409	17.6
Average Equity	6,325	-0.4	7,849	24.1	9,014	14.8	10,464	16.1	12,314	17.7
Key Performance Stats										
Profitability:										
ROMA	1.9%		1.9%		1.9%		2.0%		2.1%	
Risk-Adjusted Return	10.0		11.1		10.5		10.6		10.6	
ROAE	23.5		21.7		21.3		21.1		19.8	
NIM	8.23		8.10		8.28		8.48		8.40	
Risk Adjusted NIM	4.3		4.6		4.9		5.1		5.2	
Efficiency:										
Efficiency Ratio	33.6%		34.2%		34.0%		33.4%		34.0%	
Expense to Avg. Managed Receivables	4.2		4.2		4.2		4.1		4.1	
Capital:										
Adjusted Effective Leverage Multiple	10.3		9.8		10.5		8.4		7.7	
Book Debt to Book Equity	653.3%		635.2%		714.7%		692.9%		675.6%	
Credit Quality: (Managed)										
Delinquencies	$3,305	6.7%	$3,654	10.6%	$4,474	22.4%	$5,966	33.4%	$5,915	-0.9%
as a % of Avg. Managed Receivables	4.66%		4.20%		4.46%		5.25%		4.64%	
Loan Loss Reserve	2,667	465.1%	3,194	1978.5%	2,663	-1662.7%	4,261	5999.0%	4,516	598.6%
as a % of Avg. Managed Receivables	0	48.8%	0	38.3%	0	-2866.4%	0	4089.2%	0	-520.3%
Managed Credit Losses	$2,716	0.6	$2,885	6.2	$3,443	19.3	$3,879	12.7	$4,118	6.2
as a % of Avg. Managed Receivables	4.09%		3.65%		3.72%		3.69%		3.51%	

Source: Prudential Securities and company reports.

Prudential Financial

Figure 18. Household International Quarterly Earnings Model

$ in millions	2001								2002							
	1Q01A		2Q01A		3Q01A		4Q01A		1Q02E		2Q02E		3Q02E		4Q02E	
	$	% Chg.	$	% Chg.	$	% Chg.	$	% Chg.	$	% Chg.	$	% Chg.	$	% Chg.	$	% Chg.
Income Statement Summary																
Net Interest Income	$1,830	19.9%	$1,894	18.8%	$2,024	23.2%	$2,192	27.0%	$2,239	22.4%	$2,256	19.1%	$2,315	14.4%	$2,396	9.3%
- Provision for Losses	933	14.3	935	25.6	967	24.8	1,184	29.1	1,165	24.9	1,127	20.6	1,116	15.4	1,254	5.9
Net Interest Income after Provisions	$897	26.5%	$960	12.8%	$1,057	21.8%	$1,008	24.6%	$1,074	19.7%	$1,129	17.6%	$1,199	13.4%	$1,142	13.2%
Non-Interest Income																
Insurance revenues	$159	17.5%	$159	20.9%	$169	15.3%	$175	18.7%	$172	8.5%	$172	8.0%	$185	9.5%	$205	17.0%
Investment income	42	2.5	38	-11.1	42	-3.6	46	-2.6	$45	6.5	$40	5.0	$45	7.5	$49	7.0
Fee income	393	18.1	396	12.2	408	7.3	421	4.2	423	7.5	432	9.0	442	8.3	453	7.5
Securitization related income	(26)	NM	23	NM	18	-49.7	120	-13.7	(28)	6.5	24	4.0	19	7.0	132	9.9
Other income	162	21.3	49	54.9	52	71.1	60	78.8	163	1.0	50	2.0	55	6.0	63	6.0
Total Non-Interest Income	$729	3.2%	$666	18.5%	$689	8.1%	$823	6.6%	$775	6.3%	$718	7.8%	$746	8.3%	$903	9.7%
Non-Interest Expense																
Salaries and fringe benefits	$432	25.3%	$461	21.6%	$482	24.9%	$495	22.0%	$515	19.2%	$529	14.8%	$545	13.0%	$562	13.5%
Occupancy and equipment expense	84	10.6	84	10.7	86	9.8	84	9.1	92	10.0	91	9.0	91	6.0	90	7.0
Other servicing and admin. expenses	310	4.4	282	14.2	299	23.7	284	26.2	335	8.3	303	7.3	318	6.3	301	6.0
Other marketing expense	135	1.6	129	3.0	115	6.2	128	22.7	148	9.5	139	7.5	122	6.5	139	8.5
Total Non-Interest Expense	$961	13.0%	$956	15.6%	$983	20.6%	$991	22.0%	$1,090	13.5%	$1,062	11.1%	$1,077	9.6%	$1,092	10.1%
Income Before Taxes	$666	17.7%	$670	14.4%	$764	10.5%	$840	9.2%	$758	13.9%	$785	17.2%	$868	13.7%	$953	13.5%
After-Tax Non-recurring charges	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!
Net Income	$432	15.7	$439	14.4	$504	11.7	$549	11.4	$496	14.9	$515	17.3	$570	13.1	$624	13.7
EPS -Diluted	0.91	16.3	0.93	16.2	1.07	13.9	1.17	13.4	1.05	15.8	1.09	17.7	1.22	13.6	1.34	14.6
Core EPS (Diluted)	0.91	16.3	0.93	16.2	1.07	13.9	1.17	13.4	1.05	15.8	1.09	17.7	1.22	13.6	1.34	14.6
Avg. Shares (Diluted)	472	-0.4	470	-1.6	468	-2.1	463	-2.7	463	-1.9	463	-1.4	462	-1.3	460	-0.7
Balance Sheet Summary																
Total Managed Receivables	$88,373	17.1%	$91,539	14.5%	$95,655	14.6%	$100,823	15.1%	$101,400	14.7%	$103,287	12.8%	$107,941	12.8%	$114,094	13.2%
Total Managed Receivables (Avg)	88,103	21.8	89,927	16.6	93,634	14.5	98,277	15.2	101,111	14.8	102,343	13.8	105,614	12.8	111,018	13.0
Average Earning Assets	0	NM	93,398	16.2	97,334	14.4	0	NM	0	#DIV/0!	0	NM	0	NM	0	#DIV/0!
Loan Loss Reserve	0	NM	3,457	17.2	3,555	19.1	0	NM	0	#DIV/0!	0	NM	0	NM	0	#DIV/0!
Total Assets	78,253	20.4	80,978	14.9	85,178	15.5	89,416	16.6	90,190	15.3	93,846	15.9	97,996	15.0	104,920	17.3
Average Total Assets	0	#NAME?	0	#NAME?		NM		NM	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!
Managed Assets	97,820	16.1	100,761	13.2	105,244	13.7	110,364	13.8	101,174	3.4	103,614	2.8	106,112	0.8	108,671	-1.5
Average Managed Assets		NM		NM		NM		NM		#DIV/0!		#DIV/0!	0	#DIV/0!		#DIV/0!
Total Deposits	9,098	39.7	7,943	-2.0	7,545	-11.6	6,562	-24.4	6,832	-24.9	6,795	-14.5	0	NM	8,086	23.2
Total Debt	56,066	18.0	59,849	17.4	64,131	20.2	68,848	23.3	66,420	18.5	70,097	17.1	73,071	13.9	79,021	14.8
Equity	8,656	15.0	8,936	10.8	9,254	10.3	9,634	9.6	10,021	15.8	10,427	16.7	10,888	17.7	11,404	18.4
Average Equity	8,723	28.6	8,796	12.8	9,095	10.5	9,444	9.9	9,827	12.7	10,224	16.2	10,658	17.2	11,146	18.0
Key Performance Stats																
Profitability:																
ROMA	1.8%		1.8%		2.0%		2.0%		1.9%		2.0%		2.2%		2.3%	
Risk-Adjusted Return	11.2		10.6		10.4		9.9		11.1		10.7		10.4		10.3	
ROAE	19.8		20.0		22.2		23.2		5.0		5.0		5.3		5.6	
NIM	8.22		8.34		8.57		8.85		8.55		8.50		8.45		8.35	
Risk Adjusted NIM	8.10		7.72		7.89		7.37		8.33		7.91		7.86		8.23	
Efficiency:																
Efficiency Ratio	35.6%		35.5%		34.3%		31.2%		34.5%		34.1%		33.5%		31.6%	
Expense to AverageManaged Rec.	4.4		4.3		4.2		4.0		4.3		4.1		4.1		3.9	
Capital:																
Adjusted Effective Leverage Multiple	10.0		10.0		10.4		10.5		8.9		8.8		8.6		8.4	
Book Debt to Book Equity	648%		670%		693%		715%		663%		672%		671%		693%	
Credit Quality: (Managed)																
Delinquencies	$3,731	12.8%	$3,885	17.8%	$4,214	21.2%	$4,474	22.4%	4,944	32.5%	5,191	33.6%	5,589	32.6%	5,966	33.4%
as a % of Avg. Managed Receivables	4.25%		4.27%		4.43%		4.46%		4.90%		5.05%		5.20%		5.25%	
Loan Loss Reserve	3,340	1674.5%	3,457	1724.1%	3,555	1905.6%	2,663	-1662.7%	4,318	2927.7%	4,380	2671.0%	4,436	2477.4%	4,261	5999.0%
as a % of Avg. Managed Receivables	0	-413.1%	0	52.1%	0	401.3%	0	-2765.7%	0	1264.4%	0	1133.8%	0	1062.1%	0	4162.9%
Managed Credit Losses	$780	6.5	$829	15.8	$871	22.7	$963	32.5	914	17.2	955	15.2	990	13.7	1,020	5.8
as a % of Avg. Managed Receivables	3.56%		3.78%		3.74%		3.90%		4.15%		4.25%		4.23%		4.15%	

Source: Prudential Securities and company reports.

Prudential Financial

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* "Material" is defined as an equity or equity derivative position greater than $10,000 in any of the senior analyst's or household member's account(s).

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Additional information on the securities discussed herein is available upon request. **22-0242**

Exhibit 20

DOW JONES

REUTERS

HD	**Household plans to sell $1.3 bln home equity notes.**
WC	168 words
PD	11 June 2002
ET	01:10 PM
SN	Reuters News
SC	LBA
LA	English
CY	(c) 2002 Reuters Limited

LP

NEW YORK, June 11 (Reuters) - Consumer finance company

Household International Inc. plans to sell about $1.3

TD

billion in asset-backed securities this week, supported by home

equity loans, market sources said on Tuesday.

Bond insurer MBIA will guarantee the timely principal and

interest payments on the floating rate notes, they said.

Banc One Capital Markets and Credit Suisse First Boston

will jointly head the deal's underwriting team that will

include J.P. Morgan Securities, Morgan Stanley and Salomon

Smith Barney.

Prior to the latest home equity offering, Household, based

in Prospect Heights, Illinois, sold $1 billion in home equity

asset-backeds in early March.

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The following are the early terms and conditions of

"Household Home Equity Loan Trust 2002-2" (subject to change):

****

Class A

Issue Amount	$1.3 billion
Average Life	2.4 years
Spread	1-month Libor + low 30s bps
Ratings	Aaa (Moody's), AAA (S&P/Fitch)

****

Credit Enhancement	MBIA wrap.

CO hfc : HSBC Finance Corp

IN i81501 : Credit Types/Services | i8150105 : Consumer Lending | ibnk : Banking/Credit

NS c17 : Funding/Capital | c172 : Corporate Debt Instruments | ccat : Corporate/Industrial News

RE namz : North America | usa : United States

PUB Reuters Ltd.

AN Document lba0000020020611dy6b00xyd

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Exhibit 21

DOW JONES

Business Wire
A Berkshire Hathaway Company

HD

Fitch Affirms Household Int'l, Lowers HFC, Outlook To Neg

WC 900 words

PD 11 January 2002

ET 02:08 PM

SN Business Wire

SC BWR

LA English

CY

(Copyright (c) 2002, Business Wire)

LP

NEW YORK--(BUSINESS WIRE)--Jan. 11, 2002--Fitch affirms all its outstanding ratings on Household International, Inc. (Household). Simultaneously, Fitch lowers the senior debt rating of Household Finance Corp. (HFC), a wholly-owned subsidiary of Household, by one notch to 'A' from 'A+', equalizing the rating with that of its parent (For a full list of rating actions see list below).
The 'F1' commercial paper rating of both Household and HFC are affirmed. The long-term Rating Outlook of all entities of Household has been revised to Negative from Stable. Over $65 billion of rated debt is affected by these actions.

TD

The rating action on HFC reflects an evolution in our perspective with respect to ratings distinctions between a parent company and its subsidiaries. The perspective incorporates Fitch belief that due to the parent's typical control of the subsidiary and its resources, timely interest and principal payments are at best in a relatively equal position whether at the holding company or an operating subsidiary. As a result, today's action has equalized the ratings of HFC with Household. The change is not a result of underlying credit changes at HFC.

Household's ratings continue to reflect the strength of the company's diverse consumer lending franchise, solid financial performance over the past several years, and well developed funding profile. With $95.7 billion in managed receivables, Household maintains strong market positions in various consumer lending sectors, including near-prime/subprime real estate secured lending, MasterCard/Visa credit cards, private label credit cards, other unsecured consumer loans, and nonprime automobile lending.

During the last few years, profitability at Household has improved as a result of better operating efficiencies, stable asset quality, particularly in a challenging economy, and an overall strategic realignment of the company's business units during the last five years. Also, on an absolute and reported

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basis, Household has effectively built its equity base during the past two years, raising its tangible equity to tangible managed assets ratio to 7.82% at Sept. 30, 2001, from 6.96% at year-end 1999.

Notwithstanding these favorable developments, today's Rating Outlook revision centers on the growth of Household's real estate secured near-prime/subprime loans and the impact on balance sheet flexibility in times of stress. Fitch's analysis of the finance company universe has increasingly emphasized the importance of firm's demonstrating an ability to maintain continual financial accessibility, particularly in times of economic stress, be it a company specific event or a secular change in a given industry. Methods to gauge accessibility to alternative sources of capital would be participation in secondary market activity, such as whole loan sales and/or asset securitization.

Unlike other asset classes in its portfolio, namely bankcards, private label credit cards, and auto loans, Household has securitized relatively less of its real estate secured and unsecured consumer loan portfolios. Household has not engaged in whole loan sales. Fitch, therefore, believes that Household has not demonstrated adequate market accessibility in these portfolios, which could be tapped in the event of stress. Fitch recognizes that Household has successfully funded itself and has not emphasized securitization or sale of these asset types.

Because of the non-conforming nature of the real estate secured product and consumer finance customer segmentation of the portfolios, Fitch is uncertain if these portfolios would be as attractive as other asset types available to investors in times of potential stress. Accordingly, asset valuations may come under pressure in such scenarios with potential implications for future increased required levels of risk-based capital. As of Sept. 30, 2001, these two portfolio segments combined to account for 58% of Household's total managed receivables portfolio.

Future rating actions will factor in Household's demonstrating successful execution of securitizations of real estate secured loans in the future. Also, Fitch will monitor the company's commitment to continue building capital ratios to appropriate levels given its existing risk profile. If these actions are effectively demonstrated, the Rating Outlook could be revised back to Stable in the upcoming year.

Ratings Affirmed With Rating Outlook Revised to Negative:

Household International, Inc.

-- Senior debt 'A';

-- Subordinated debt 'A-';

-- Preferred stock 'A-';

-- Commercial paper 'F1'.

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Household Finance Corp.

-- Commercial paper 'F1'.

Household Capital Trust I-VI (1)

-- Preferred stock 'A-'.

Household Bank, FSB (1)

-- Certificates of deposit 'A+';

-- Senior debt 'A';

-- Short-term debt 'F1';

-- Individual Rating 'B'.

Household Bank (Nevada) N.A. (2)

-- Short-term debt 'F1';

-- Individual 'B'.

HFC Bank plc (1) (2)

-- Euro-medium-term notes 'A';

-- Commercial paper 'F1';

-- Individual 'B';

-- Support '3'.

Household Bank International Netherlands BV

-- Senior notes(1) 'A'.

Ratings Lowered, Rating Outlook Revised to Negative:

Household Finance Corp.

-- Senior debt to 'A' from 'A+';

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-- Subordinated debt to 'A-' from 'A';

-- Preferred stock to 'A-' from 'A'.

Household Bank (Nevada) N.A. (2)

-- Senior debt to 'A' from 'A+'.

Household Financial Corp., Ltd.

-- Senior debt(2) to 'A' from 'A+';

-- Senior debt shelf(2) to 'A' from 'A+'.

-- (1) Guaranteed by Household International, Inc.

-- (2) Guaranteed by Household Finance Corp.

CT

CONTACT: Fitch
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14:08 EST JANUARY 11, 2002

CO hfc : HSBC Finance Corp

IN i81501 : Credit Types/Services | i8150105 : Consumer Lending | ibnk : Banking/Credit

RE cana : Canada | caon : Ontario | namz : North America | usa : United States | usc : Midwest U.S.

AN Document bwr0000020020111dy1b00ecq

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Exhibit 22

DOW JONES

BARRON'S

HD **Doubting Tyco**

BY By Jonathan R. Laing

WC 939 words

PD 28 January 2002

SN Barron's

SC B

PG 19

LA English

CY (Copyright (c) 2002, Dow Jones & Company, Inc.)

LP

Jim Chanos finds no dearth of short-selling ideas in the post-Enron stock market. Wall Street's new-found abhorrence of opaque accounting, he says, will hasten the decline in the stocks of a number a firms that are using aggressive accounting methods to boost reported earnings.

TD

Among his current shorts are lenders with large exposures to the sub-prime credit market, including Household International, the consumer-finance giant ("Does It Add Up?" December 3, 2001), as well as Metris and Capital One, both credit-card firms. A rotten economy has exposed their borrower base to hard times, says Chanos, and high lending rates and fat lending margins won't be enough to insulate the firms from rising credit losses. Rapid growth in loan receivables at all three companies, can only mask the rising delinquency rates for so long, he says. The growing deterioration in sub-prime lending, it should be noted, has already laid low other former Chanos shorts, including AmeriCredit, Conseco and Providian. The sector has also engaged in aggressive accounting to burnish current results.

Chanos is also short the stock of Bally Total Fitness. The health-club concern, he says, is being hurt by flattening membership growth and high capital spending requirements to keep club equipment up-to-date. As a result, cash flow, including maintenance capital spending, remains negative even after the company recently slowed its expansion drive.

But his latest jihad is against the industrial- conglomerate Tyco International, which he began shorting late last year in the high 50s. The company's stock is now trading at around 45, hurt by a lowering in its guidance for earnings growth in the fiscal second quarter, ending March 30, 2002, and the Enron-inspired disaffection for companies with complicated financials.

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Chanos argues that the hyper-acquisitive Tyco has used accounting legerdemain to turbocharge earnings growth, which topped 40% annually for the five years through fiscal 2000, and came in at 28% last year. He claims, for example, that that the managements of several firms that Tyco acquired, including medical-supply company US Surgical, electronic-components maker AMP and finance-company CIT Group, all artificially depressed the operating results of their companies in the final months before the deals were completed. This was done by taking numerous charges, slowing down sales and pushing up expenses. As a result, he says, Tyco's operating results were "spring-loaded" for a quarter or two after the acquisition closed, as sales suddenly surged and profit margins exploded.

Chanos also contends that Tyco abused accounting rules by essentially writing down the net asset value to zero of some $30 billion in acquisitions made in the last three years. Thus, the purchase prices were all allocated to goodwill on the balance sheet. This intangible asset was amortized over a 40-year period as compared to, say, property, plant and equipment that must be expensed on the income statement over far shorter depreciation periods. Under new accounting regulations, the earnings hit from goodwill has all but disappeared.

This is the second holy war that Chanos and the other major shorts have waged against Tyco. In late 1999, they raised questions about other aspects of Tyco's acquisition accounting. The stock swooned for a time before smartly recovering in mid-2000 after the SEC gave the company a clean bill of health on the accounting issue. Tyco was only required to make a few minor adjustments to its acquisition reserves and restructuring charges from earlier years.

Barron's published a bullish cover story, "Tyco's Titan" in the April 12, 1999, issue, profiling Tyco's hard-charging chairman Dennis Kozlowski. Among other things, we examined Tyco's complicated financial reporting and concluded that their accounting appeared to pass muster. The company, then and since, has enjoyed strong growth in free cash flow, or cash flow after all required capital spending. That number, which reached nearly $5 billion in fiscal 2001, is a difficult one to fake. The stock ultimately rose to over 60 late last year from a split-adjusted 38 when the Barron's story appeared.

Yet Tyco stunned the investment community last week by announcing plans to break up the company into four pieces: security and electronic components; fire-protection and flow controls; health care and financial services. Moreover, Tyco hopes to cuts its $23 billion debt in its non-finance operations by $11 billion by using proceeds from the initial public offerings of three of the new units and the sale of Tyco's plastics business. Last week, Kozlowski told Barron's that the breakup grew out of management's dissatisfaction with the stock's low price-to-earnings ratio (now below 12 based on fiscal '02 estimates) and a post-Enron need to simplify financial reporting by simplifying business structures. "After being a fast-growing conglomerate over the past decade, it's clear now that we can deliver more value to the shareholder by breaking up," Kozlowski contends.

He puts the breakup value of Tyco at between 75 and 90. The sudden shift in Tyco's management philosophy didn't initially boost the stock,

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however. Late in the week, it was trading around 44, or nearly 21/2 points below where it had stood before the breakup announcement. Chanos says that he sold more Tyco short on the day of the announcement, during which the price initially spiked up more than four points before settling back.

It remains to be seen who's right, Kozlowski or Chanos. We should know within the next year, however, when the breakup is expected to be completed.

CO hfc : HSBC Finance Corp | hwly : Tyco International Ltd | intnth : Enron Creditors Recovery Corp.

IN i1 : Energy | i16 : Electricity/Gas Utilities | i162 : Gas Utilities | i81501 : Credit Types/Services | i8150105 : Consumer Lending | i81502 : Trusts/Funds/Financial Vehicles | i8150211 : Unit Trusts/Mutual Funds | i8396 : Diversified Holding Companies | ibcs : Business/Consumer Services | ibnk : Banking/Credit | iinv : Investing/Securities

NS c15 : Performance | c152 : Earnings Projections | c1521 : Analyst Comment/Recommendation | c17 : Funding/Capital | c171 : Share Capital | c173 : Financing Agreements | c18 : Ownership Changes | c181 : Acquisitions/Mergers/Takeovers | ccat : Corporate/Industrial News | m14 : Commodity Markets | m143 : Energy Markets | m16 : Fund Markets | mcat : Commodity/Financial Market News | ncat : Content Types | npag : Page-One Story

RE namz : North America | usa : United States | use : Northeast U.S. | usnh : New Hampshire | uss : Southern U.S. | ustx : Texas

PUB Dow Jones & Company

AN Document b000000020020126dy1s00015

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Exhibit 23

REUTERS

HD **Credit card stocks fall on Metris, sub-prime worries.**

WC 314 words

PD 28 January 2002

ET 12:19 PM

SN Reuters News

SC LBA

LA English

CY (c) 2002 Reuters Limited

LP

NEW YORK, Jan 28 (Reuters) - Shares of credit card companies slid on Monday, as Metris Cos Inc. was downgraded by analysts amid worries that the subprime lender's growing exposure to bad loans may signal an industrywide trend.

Analysts said they were worried about Metris' delinquency rate and how the firm would weather the slowing economy after an investment conference on Friday.

TD

Shares of Minnetonka, Minnesota-based Metris, which offers credit cards to customers with poor credit histories, fell $1.96, more than 12.05 percent, to $14.30 shortly after midday on the New York Stock Exchange.

Goldman Sachs on Monday cut its rating on Metris to "market underperformer" from "market performer." This follows a downgrade by Robertson Stephens no Friday from "market perform" to "buy."

"Metris failed to assuage concerns about deteriorating credit quality," said analyst Reilly Tierney of Fox-Pitt, Kelton in a research note.

"Metris endorsed significantly lower line item guidance in its 2002 forecasted income statement, yet did not bring down earnings per share guidance for the year.... We view this action as both disconcerting and potentially risky."

Concerns about Metris spilled over into other credit card lenders, including MBNA Corp. , the largest stand alone credit card lender which focuses on relatively wealthy customers with good credit histories. Its shares were off about 2.5 percent at $34.69.

Shares of No. 2 U.S. consumer finance firm Household International Inc. fell by 4.31 percent to $52.35.

Shares of Capital One Financial Corp. , a strong player in the subprime

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market which is shifting its focus to consumers with better-than-average credit histories, fell by about 4 percent to $51.10.

Moshe Orenbuch, analyst with Credit Suisse First Boston, said consumer finance companies such as Metris have for the most part outperformed other financial stocks in recent months.

CO feds : Macy's Incorporated | metris : Metris Companies Inc

IN i64 : Retail/Wholesale | i656 : Mixed Retailing | i6560002 : Department Stores | i81501 : Credit Types/Services | i8150108 : Credit Cards | ibnk : Banking/Credit

NS c15 : Performance | c152 : Earnings Projections | c1521 : Analyst Comment/Recommendation | c1522 : Share Price Movement/Disruptions | ccat : Corporate/Industrial News

RE namz : North America | usa : United States

AN Document lba0000020020128dy1s00xc1

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Exhibit 24

STANDARD & POOR'S RatingsDirect

RESEARCH

Tyco International Ltd. Ratings Lowered; On Watch Developing On Market Access Concerns

Publication date: 04-Feb-2002
Credit Analyst: Cynthia Werneth, New York (1) 212-438-7819

NEW YORK (Standard & Poor's) Feb. 4, 2002--Standard & Poor's today lowered its ratings on Tyco International Ltd. and its industrial subsidiaries (see list below) and placed them on CreditWatch with developing implications following the company's announcement that it intends to borrow under its $5.9 billion credit facilities ($3.9 billion maturing February 2003 and $2 billion February 2006) to repurchase its $4.5 billion commercial paper at its scheduled maturities. To date, these credit facilities had been used exclusively to back-up commercial paper (see related article on Tyco Capital Corp.). Developing implications means that ratings could be raised, lowered, or affirmed.

Standard & Poor's believes that the company's decision to draw down these facilities indicates the company's uncertainty regarding its continued access to commercial paper markets as well as the possible erosion of bank support to renew the $3.9 billion credit facility (originally due Feb. 6, 2002, under which the company has exercised its one-year term-out option). This is occurring after a significant decline in the company's stock price and an increase in spreads on its bonds during the past several weeks.

One reason for the volatility in Tyco's stock and bond prices is market uncertainty regarding the company's accounting practices. However, questions regarding the company's accounting practices have been answered to Standard & Poor's satisfaction.

Importantly, Tyco appears to no longer have the free access to capital markets enjoyed by single-'A'-rated companies. However, proceeds from the bank credit facilities, together with existing cash balances and expected free cash generation, should be sufficient to meet the company's liquidity needs for the next several months, even without receipt of proceeds from planned asset sales and the IPOs and spin-offs of three divisions. However, external financing would likely be required to meet debt maturities in 2003.

Tyco has revised its earnings guidance slightly for the current fiscal year to reflect higher interest costs. Based on current market conditions, the company still expects to generate free operating cash flow of about $4 billion, which would be more than adequate to support the lowered ratings in the absence of liquidity concerns. The company intends to use a majority of free cash flow to reduce debt. Tyco is not expected to announce any major acquisitions or undertake significant share repurchases while it proceeds with its plan to divide the company. Underlying business fundamentals appear unchanged, with weakness in the electronics segment offset to a large extent by strength in the company's other businesses.

The new ratings reflect Standard & Poor's assumption that the company will eventually regain access to capital markets. However, ratings could be lowered if liquidity is further constrained for any reason. Ratings could be raised if the company is successful in selling assets or using IPO proceeds to reduce debt and regains access to traditional funding sources.

RATINGS LOWERED AND PLACED ON CREDITWATCH DEVELOPING

	Ratings	
Tyco International Ltd.	To	From
Corporate credit rating	BBB	A
Short-term corporate credit rating	A-3	A-1

Senior unsecured debt	BBB	A
Commercial paper	A-3	A-1
Prelim. senior unsecured debt	BBB	A
Prelim. senior subordinated debt	BBB-	A-
Prelim. preferred stock rating	BB+	BBB+
Tyco International Group S.A.		
Corporate credit rating	BBB	A
Senior unsecured debt (gtd. by Tyco International Ltd.)	BBB	A
Commercial paper rating (gtd. by Tyco International Ltd.)	A-3	A-1
Prelim. senior unsecured debt (gtd. by Tyco International Ltd.)	BBB	A
Prelim. subordinated debt (gtd. by Tyco International Ltd.)	BBB-	A-
Tyco International (US) Inc.		
Corporate credit rating	BBB	A
Senior unsecured debt	BBB	A
ADT Operations Inc.		
Corporate credit rating	BBB	A
Senior unsecured debt	BBB	A
Subordinated debt	BBB-	A-
Raychem Corp.		
Corporate credit rating	BBB	A
Senior unsecured debt	BBB	A
Mallinckrodt Inc.		
Corporate credit rating	BBB	A
Senior unsecured debt	BBB	A
Preferred stock rating	BB+	BBB+

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The McGraw-Hill Companies

Exhibit 25

DOW JONES

Associated Press

HD **Tyco shares plunge again on accounting worries**

BY By JUSTIN POPE

CR AP Business Writer

WC 629 words

PD 4 February 2002

ET 06:08 PM

SN Associated Press Newswires

SC APRS

LA English

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LP

Shares of Tyco International plunged again Monday on accounting worries even as the company announced a debt restructuring plan to improve liquidity and refuted reports that it failed to disclose details on billions in acquisitions.

The Bermuda-based holding company's shares fell $5.74, or 16 percent, to $29.90 after ratings agencies Standard & Poor's and Fitch downgraded the debt of Tyco International and its wholly-owned financial subsidiary, Tyco Capital. Its shares have fallen by nearly half since December. In extended trading, shares were down another 45 cents.

TD

Tyco has faced questions since announcing earlier this months plans to break itself up into four, independent companies, in a bid to create more value for its shareholders.

The company strongly criticized a report in Monday's Wall Street Journal saying the company made more than $8 billion in acquisitions in the last three years, but failed to disclose them.

The Journal article concerned an e-mail the company sent to analysts last Thursday in which Tyco said more than a third of the $11.3 billion it spent on acquisitions last year was spent on unannounced deals. The Journal, which said it was provided with fresh information about the deals after questioning Tyco, said the company paid $4.19 billion in cash for unannounced deals in 2001.

Spokeswoman Maryanne Kane said the numbers were correct, but that the

company objected to any suggestions that they amounted to any kind of failure to disclose. She said Tyco followed proper accounting procedures, and that it would not make sense for a company with $36 billion in revenue to issue press releases on tiny acquisitions. All of the numbers, she said, showed up in the bottom line of Securities and Exchange Commission filings.

Also on Monday, Tyco International announced plans repurchase $4.5 billion of its commercial debts and improve liquidity, or its ability to meet its financial obligations.

On a conference call with investors, Tyco Capital officials acknowledged they have been shut out of the corporate bond market in recent days on accounting worries.

"It was extremely tight today, and I think with the ratings actions taken place, we have to go on the assumption that the market is not there for us," president and chief executive Albert R. Gamper Jr. said.

Commerzbank fixed-income analyst Steve Altman said Tyco Capital's credit remains stronger than that of the parent company, which is to blame for the downgrades, but like any finance company it faces problems if it's permanently kept of the commercial paper markets.

"I think they did their best to try to quell the concerns," Altman said. "I think as long as there's this period in between now and the divestiture the market is just going to trade very skittishly"

Tyco officials released copies of a letter demanding that TheStreet.com retract an article posted to its site Friday accusing Tyco of violating disclosure regulations and overstating cash flow.

"All of your assertions are factually incorrect and refuted by Tyco's public filings with the SEC," the letter from Tyco executive vice president and chief corporate counsel Mark Belnick said.

A spokeswoman for TheStreet.com and the Journal did not immediately return phone messages seeking comment.

Babson College accounting professor Robert F. Halsey said the company did not appear to have violated any accounting guidelines, but said there are reasonable doubts that whether the acquisitions, when taken as a whole, are immaterial, as the company claims.

Al Hartgraves, an accounting professor at Emory University in Atlanta, said rules like this one are likely to be revisited due to increased scrutiny of accounting guidelines.

"This is the Enron effect," he said.

RF Rush

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CO hwly : Tyco International Ltd

IN i8396 : Diversified Holding Companies | ibcs : Business/Consumer Services

NS mcat : Commodity/Financial Market News

IPD Financial/Business

IPC sldf0382

AN Document aprs000020020204dy2400n63

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Exhibit 26

08:36am EST 7-Feb-02 Bear Stearns (Hochstim, CFA,D./R. Coren, CFA,S.) HI HI.N
HI: More Bad Publicity...How Much Worse Ca...

David Hochstim, CFA 212 272-4243 dhochstim@bear.com 2/6/02
Scott R. Coren, CFA 212 272-5280 scoren@bear.com

Subject: Company Update
Industry: Specialty Finance Companies

BEAR, STEARNS & CO. INC.
EQUITY RESEARCH

Household International (HI $44.71) - Buy
More Bad Publicity...How Much Worse Can It Get?

Data
Last ROE 23% 52-Wk Range $63-$34 Shares Out 463 million
Target Price $75 Dividend/Yield $0.88/1.5% Market Cap (MM) $26 billion

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Key Points
*** HI shares fell another 6% on Wednesday, and have fallen by 19% from their close of $55 on Jan 22. The recent decline appears to reflect a severe bout of accounting and liquidity panic.
*** There was talk that Household was facing problems issuing commercial paper on Wednesday, which we believe is not true. Still, the company has substantial excess liquidity and back-up lines.
*** Also, on Wednesday, ACORN (community activists) filed a suit in California against Household, alleging that the company misleads its customers about the terms of new loans.
*** As a company that relies on the capital markets for funding, Household remains vulnerable to these crises of confidence; but the current panic does not appear to reflect the company's recent performance of strong revenue and earnings growth and very manageable credit deterioration.
*** We continue to rate HI shares Buy. Our 2002 estimate is unchanged at $4.60 for 2002 as is our $75 price target. The current valuation has put HI shares at the low end of its historical range; and while we continue to believe HI shares should be an attractive play on an economic recovery, investor skittishness seems likely to keep the shares under some pressure. For investors with a longer investment horizon, we believe HI shares could rise by more than 60% over the next year.

	Earnings Estimates					P/E
	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Year	Year
1999	$0.65	$0.67	$0.82	$0.92	$3.05	14.7x
2000	$0.78	$0.80	$0.94	$1.04	$3.56	12.6x
2001	$0.91	$0.93	$1.07	$1.17	$4.08E	11.0x
2002	$1.04E	$1.06E	$1.21E	$1.31E	$4.60E	9.7x
Previous	$1.04E	$1.06E	$1.21E	$1.31E	$4.60E	9.7x

Household shares remained under pressure Wednesday, reflecting the residual effect of concerns about the possibility of liquidity problems for finance

companies in the wake of Tyco Capital s downgrade and funding challenges.

Speculation that Household is facing problems in the commercial paper market too seem to have no basis, as the company issued CP on Wednesday and continues to have significantly more back up lines of credit than it does CP issuance. Currently, Household has about $6.7 billion CP outstanding with 33 day average maturities. This is actually a bit longer than the more normal less than 30 days and reflects the company s recent efforts to extend the average maturity recently. We believe Household currently has about $10.1 billion of bank issued backup lines, all without material adverse change clauses. In addition, the company also has the ability to issue another $1.5 billion to $2.0 billion through an asset backed short term (364 day) funding vehicle. In sum, Household seems to have plenty of short term liquidity.

Unfortunately, fixed income investors have been panicking a bit about the company s longer term debt, as spreads on the company s 5.75% coupon bonds maturing in 2007 have widened from 200 basis points over 5 year Treasuries on February 4 (before S&P s downgrade of CIT) to 270 basis points over 5 year Treasuries on February 6.

Another Lawsuit about Sub-prime Lending. On Wednesday, ACORN (Association of Community Organizations for Reform Now) filed a lawsuit, and seeks class action status, alleging that Household lends consumers too much money (noting the company s strategy of maximizing LTV to minimize the risk of refinancing) and that those loans are too expensive. It also suggests that the homeowners are persuaded to borrow from Household as a result of misleading, confusing, and unfair sales promotions. While the company has not responded to the suit, we believe the company does abide by all applicable laws in its business.

Current Valuation At Low End of Historical Range. The recent decline in Household s stock price (about 25% over the past month) has resulted in a P/E on current year estimates that is nearly the lowest in seven years. Currently, HI shares trade at 9.6x the 2002 consensus earnings forecast of $4.65. Since 1995, Household s P/E ratio has averaged 14.5x current year earnings, reaching a high of 21.7x in July, 1998 and a low of 8.7x in February, 2000 (Internet euphoria).

Despite the fact that the current operating environment is recessionary, we do not believe the recent decline in the stock price, and accordingly the valuation, reflects concerns about credit quality. In fact, HI shares were until recently viewed as a better way to play the credit cycle, relative to other consumer finance companies, given its high level of secured financings, excellent reserve coverage, and better credit performance generally.

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Exhibit 27

DOW JONES

CHICAGO SUN-TIMES

SE Financial

HD **Household says it can get capital for loans**

BY Tammy Williamson

WC 867 words

PD 8 February 2002

SN Chicago Sun-Times

SC CHI

LA English

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LP

Tagging recent market turmoil and a sagging stock price to investor "fear factor," Household International held an impromptu conference call with investors Thursday to assure them that Household was not having difficulty getting access to money to make loans.

The giant consumer finance company also said it has no problems with its auditing firm, Andersen LLP--the Chicago firm under congressional and legal scrutiny for its auditing of the now bankrupt Enron Corp.--though Household directors are closely monitoring Andersen.

TD

The investor meeting came amid fast and furious rumors this week that Household and other finance companies, which lend to higher- risk borrowers, could suffer losses as borrowers find it more difficult to repay loans in a recessionary economy. On top of that, investors generally are skittish whether companies will have accounting problems similar to those of Enron.

Analysts noted that bond market watchers became nervous from an unrelated development: Investors earlier in the week feared Tyco International Ltd. was going to have trouble selling commercial paper after the company's bond ratings were cut earlier in the week.

The combination of events punished Household's bonds, and by Wednesday had dragged down the stock to $44.71, its lowest level since November 2000.

The stock rebounded Thursday, climbing $3.30, or 7 percent, to $48.01.

"We've never seen so many rumors about so many companies coming so fast in such a short period of time," Robert Napoli, an analyst with ABN Amro in Chicago, told Household executives during the telephone conference.

Some investors became concerned back in December, after a Barron's newspaper story quoted an analyst as saying Household may have been using "aggressive accounting" to downplay loan losses--which the company denies.

Investors this week were concerned that Household will have difficulty selling commercial paper to raise money for future consumer loans. The company said it learned some hedge fund managers were "shorting" the company's bonds and stock, which pushed down the values of the bonds.

The fuss this week runs counter to Wall Street's typical view of Household, a 124-year-old company that has earned rave reviews by analysts as a company that's well run by a management team with a lot of tenure. Household's chairman and chief executive officer, William Aldinger, has been with Household since

1994. Chief Financial Officer David Schoenholz joined Household in 1985 as director of the company's internal auditing division, after spending nine years with Arthur Andersen.

Community banking activists, seeking to prevent companies like Household from making so-called predatory loans to consumers, are usually the only source of ruckus--and from time to time, litigation. Household was sued by two borrowers last week in California accusing the company of "fraud and misrepresentation," according to ACORN, a community activist group consistently critical of Household and other consumer finance companies. Household also last month settled a "predatory practices" lawsuit filed by California regulators and agreed to pay $11.9 million in fines.

Still, some long-term investors say the company is on the right track, and that the events of this week were an aberration.

"The only thing that swings around a lot is the stock price," said Michael Ancell, senior financial service analyst for Banc of America Capital Management, which owns Household stock. "It's not the management's fault. There have been a lot of other companies coming out (and) restating numbers, reporting that the (Securities and Exchange Commission) is asking questions, you see the press releases... That just scares the stuffing out of investors."

Ancell said Household is in strong shape, and in good hands. Last month Household said its profit for the first quarter rose 11 percent to $549 million, or $1.17 per share.

"We don't think there are any real fundamental problems at Household. Management is doing things right. I'm not surprised they would have this call. The bonds took it on the chin this week. It's something management has to address."

Company officials Thursday assured investors there was nothing to worry about, from Andersen to Household's ability to sell debt.

"We've had no problem issuing commercial paper," Schoenholz said. He also promised that investors won't be surprised with any new accounting revelations when the company files its annual 10-K with the SEC this spring. "No surprises."

As for its relationship with Andersen, Household for now intends to keep the auditor, Schoenholz said.

"They have provided good service to us. Clearly, we will have to evaluate and are continuing to evaluate our relationship with them," he told analysts. "To the extent that they have questions about their future viability or the ability to continue to provide client service ... or as all the facts become known, that there is some concern that there's something systemic within their structure that causes concern, I think we would consider making a change. That issue has been discussed at length by our audit committee and our full board. Our current posture is kind of, let's stay the course but continue to monitor that very closely."

ART GRAPH; See roll microfilm.

CO hfc : HSBC Finance Corp | hwly : Tyco International Ltd | intnth : Enron Creditors Recovery Corp.

IN i1 : Energy | i16 : Electricity/Gas Utilities | i81501 : Credit Types/Services | i8150105 : Consumer Lending | i8396 : Diversified Holding Companies | ibcs : Business/Consumer Services | ibnk : Banking/Credit

NS c12 : Corporate Crime/Legal/Judicial | ccat : Corporate/Industrial News

RE namz : North America | usa : United States | usc : Midwest U.S. | usil : Illinois

IPD BUSINESS

IPC 452990 5331

PUB Hollinger

AN Document chi0000020020213dy280004t

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Exhibit 28

DOW JONES

DOWJONES | Newswires

HD **Household CFO: No Problem In Raising Commercial Paper**

BY By Tara Siegel Bernard

WC 708 words

PD 7 February 2002

ET 11:42 AM

SN Dow Jones News Service

SC DJ

LA English

CY (Copyright (c) 2002, Dow Jones & Company, Inc.)

LP

Of DOW JONES NEWSWIRES

NEW YORK -(Dow Jones)- Household International Inc. (HI) executives cooled market speculation the subprime lender was having trouble raising capital to fund its loans. That helped resucitate the stock, which was up recently 8.3%.

TD

Ongoing fears about rising loan losses, a string of corporate bankruptcies and heightened concerns about dubious accounting after the Enron Corp. (ENRNQ) debacle have all conspired to damage the Prospect Heights, Ill., company's shares and bonds. The spotlight on accounting issues may have been particulary damaging for Household: in December, a Barron's article cited a bear that questioned whether aggressive accounting practices may have boosted earnings by, among other things, slowing the recognition of credit losses.

"You have an exceptionally skittish market that has been pummeled by negative news whether it was Enron, Tyco, or the Barron's article in our case," Household Chief Finanancial Officer David A. Schoenholz said during the call, adding the company has no problem issuing commercial paper and it maintains an established and diversified source of funding. "From a funding and liquidity point of view, it's business as usual," he added.

Schoenholz also assured investors the company has an ongoing dialogue with the credit ratings agencies; the agencies were criticized for being too slow to respond to Enron's financial troubles and are reportedly considering making more-frequenty ratings changes over a shorter period of time.

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Standard & Poor's rates Household's commercial paper A1, its senior unsecured debt A, and has the company's outlook rated as stable. Schoenholz added the firm is comfortable with Household's liquidity situation.

Household CFO Schoenholz said a number of hedge funds have been shorting both the stock and bonds, adding pressure on both fronts.

Indeed, independent research firm CreditSights.com touts both the stock and bonds as strong buys "given the recent technical pressures from the recent ripple effects from the Tyco difficulties," said CreditSights market strategist David Hendler.

Tyco International Inc. (TYC), which plans to split its company into four separate ones, has also been the subject of accounting and liquidity concerns.

Household CFO Schoenholz also noted that the company is a regular user of the MTN market, or medium term notes, and said it also has "ready access" to the asset-backed market.

"We have the ability to access different markets at different times to manage the volatility," he added.

When questioned about their confidence in their auditor Arthur Andersen - who has come under fire as Enron's auditor and for shredding documents even after an inquiry was underway - Household executives said they have a healthy check and balance system in place and believes they've exercised good judgment.

"They have provided good service," the CFO said, however, "If all the facts become known and there is concern that there is something systemic in their structure we would consider making a change."

Meanwhile, Household executives said the company wouldn't have to make any accounting adjustments in light of PNC Financial Services Group Inc.'s (PNC) situation: The Pittsburgh bank had to reduce 2001 earnings by $155 million after banking regulators disagreed with the practices it used to jettison troubled loans and other assets through off balance-sheet subsidiaries in which it holds stakes.

In other news, a community organization representing low-income borrowers filed a suit this week against Household charging that it misleads and defrauds its customers by, among other things, marketing its consolidated loans as a way to save money. While consolidation loans typically lower monthly payments, once fees are added on it can greatly increase the term of the payments and the overall indebtedness. The suit was filed by Acorn, or the Association of Community Organizations for Reform Now, in a Californian Superior Court; they seek to require Household to fully disclose the financial consequences and implications of their consolidation and revolving loans.

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Household isn't the only company catering to less creditworthy borrowers accused of deceiving its clients. Citigroup Inc. (C) came under fire for similar reasons after it purchased subprime financier Associates First Capital in late 2000.

By Tara Siegel Bernard, Dow Jones Newswires; 201.938.5288; tara.siegel@dowjones.com

CO andwld : Andersen Worldwide SC | hfc : HSBC Finance Corp | intnth : Enron Creditors Recovery Corp.

IN i1 : Energy | i16 : Electricity/Gas Utilities | i814 : Banking | i81501 : Credit Types/Services | i8150105 : Consumer Lending | iacc : Accounting/Consulting | ibnk : Banking/Credit

NS c17 : Funding/Capital | c172 : Corporate Debt Instruments | ccat : Corporate/Industrial News | e12 : Economic/Monetary Policy | e1202 : Interest Rates | ecat : Economic News | m13 : Money/Forex Markets | m131 : Money Markets | mcat : Commodity/Financial Market News

RE namz : North America | usa : United States | usc : Midwest U.S.

PUB Dow Jones & Company

AN Document dj00000020020207dy27001o2

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Exhibit 29

DOW JONES

NATIONAL POST

SE Financial Post

HD **'Attack mentality' has markets on the run: Another bad week**

BY Steve Maich

CR Financial Post with files from news services

WC 799 words

PD 9 February 2002

SN National Post

SC FINP

ED National

PG FP1 / Front

LA English

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LP

North American markets this week took their second-biggest weekly tumble since last September, as investors scrambled to escape spreading damage from the collapse of Enron Corp. and other major U.S. companies.

The markets were headed even deeper into negative territory until late Friday afternoon, when George W. Bush, the U.S. President, said his stalled multi-billion-dollar fiscal stimulus package may yet pass through Congress and boost the flagging U.S. economy.

TD

The broad Standard & Poor's 500 index dropped 2.3% on the week, the fourth decline in the past five weeks after a strong rally that began in late September. The Toronto Stock Exchange 300 composite index slid 2% on the week, while the Dow Jones industrial average dropped 1.6% and the tech-laden Nasdaq composite fell 4.8%.

Fallout from the Enron debacle is quickly developing into what investors have called a "crisis of confidence" in the state of financial disclosure and accounting in the United States.

Securities regulators have now launched an investigation into accounting practices at Global Crossing Ltd., which filed for bankruptcy protection in late January. It is the latest in a string of similar post-Enron probes unsettling investors, analysts said.

"There seems to be this attack mentality," said William Welch, managing director of Fiduciary Asset Management in Boca-Raton, Fla. "Fund managers are pretty much afraid to cross the street these days, for fear they'll get hit by a truck."

While yesterday's late-afternoon recovery reassured some, most analysts expect it to be just a short reprieve in a longer market retreat. The Dow gained 118.8 points yesterday's session after being down as much as 45.12. The TSE 300 closed up 51.9 points at 7535.36.

Institutional traders, which execute orders for large investors like pension plans and mutual funds, report that trading levels are down 40% to 50% in the past year and a half.

"This is not an investors' market right now," said Charles Johnson, head trader at institutional broker Blaylock & Partners. "It's a traders' market, so long-term investors are sitting on the sidelines waiting for some clarity before going back in."

That clarity is nowhere to be found right now. With corporate profits at their lowest levels in several years, and a record number of public companies filing for bankruptcy last month, rumours and speculation have become the primary driver for stocks.

This week, several major corporations were forced to hold public conference calls to dispel whisper campaigns driving down their stock.

Tyco International Inc.'s damage-control conference was followed by WorldCom Inc. dismissing rumours that the company is close to bankruptcy and might be dropped from the S&P 500. Household International Inc. publicly denied it was nearing a liquidity crunch and its stock jumped 8%.

One far-fetched but widely-spread rumour suggested world markets were sliding because investors fear a terrorist attack at the Salt Lake City Olympics beginning this weekend.

"This is by no means the end of accounting-related volatility, but it is at least encouraging that markets can be stabilized with the application of fact, at least temporarily," analysts at CreditSights Inc. wrote in a report to clients yesterday.

Gold generally acts as a haven investment in times of market turmoil and this week was no exception. The commodity price has surged 9% in the past two weeks driving gold mining stocks up 13% in that time, while the broad Canadian market has declined 1.6%

"When a U.S. president uses the word 'evil' no fewer than five times in a State of the Union address . . . gold will likely continue to be a top performer," said David Rosenberg, chief strategist at Merrill Lynch Canada.

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Underlying all the gloom are continued concerns about the health of the world economy and the timing of a recovery.

Canada's unemployment rate unexpectedly dropped to 7.9% in January, another in a series of encouraging pieces of economic data. But corporate spending is still shrinking and economic growth remains anemic on both sides of the border, George Vasic, chief Canadian economist and strategist at UBS Warburg, wrote in his weekly report yesterday.

This latest sell off has retraced much of the gains posted since Sept. 21, as money managers look to reduce their risk if the economy bounces back more slowly than originally hoped.

"While the recent spate of data suggests the economic clouds are lifting, we continue to believe we are not out of the woods yet," he said.

RF smaich@nationalpost.com

ART

Black & White Photo: Kevin Van Paassen, National Post / (GEORGE)
VASIC: business spending anemic

CO glocro : Global Crossing Ltd | intnth : Enron Creditors Recovery Corp. | spdrt : Standard and Poor's Depository Receipts

IN i1 : Energy | i16 : Electricity/Gas Utilities | i7902 : Telecommunications | i81502 : Trusts/Funds/Financial Vehicles | i8150206 : Investment Trusts/Funds | i831 : Financial Investments | i83102 : Security Brokering/Dealing | iinv : Investing/Securities

NS c31 : Marketing | ccat : Corporate/Industrial News | cusags : Usage Statistics | e11 : Economic Performance/Indicators | e1116 : Employment/Unemployment | ecat : Economic News | gcat : Political/General News | gjob : Labor Issues | gpol : Domestic Politics | m11 : Equity Markets | m14 : Commodity Markets | m142 : Metals Markets | m1421 : Gold Markets | mcat : Commodity/Financial Market News

RE cana : Canada | namz : North America

IPD Business

AN Document finp000020020209dy290004y

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Exhibit 30

DOW JONES

Dow Jones Newswires

HD **CFA Financials Wrap: Brokers Down After Estimates Cut**

WC 651 words

PD 7 February 2002

ET 05:58 PM

SN Dow Jones Corporate Filings Alert

SC FF

LA English

CY

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LP

ISSUER: DOW JONES CORPORATE FILINGS ALERT
SYMBOL: X.FFI

WASHINGTON -(Dow Jones)- Brokers drifted lower Thursday, on a day when most other financial services groups posted marginal gains. The Dow Jones Corporate Filings Alert Brokerage Index declined 0.4%, or 694.4, to 178,370.6.

TD

Broker Robertson Stephens Thursday cut its 2002 earnings per share estimate for the brokerage group to reflect flat mergers and acquisitions activity rather than a conservative rebound in the second half.

Robertson Stephens analyst Justin Hughes said he expects Bear Stearns Cos. to earn $4.03 a diluted share this year, down from his previous estimate of $4.30. Hughes trimmed his estimate for Goldman Sachs to $4.58 a diluted share, down from $4.75, and now expects Lehman Brothers Holdings to earn $5.10 a diluted share, down from $5.15.

Meanwhile, the DJ CFA Banking Index rose 0.6%, or 2,519.4, to 458,759.

Banking Index component BB&T Corp. said it expects to post net income of $1.3 billion, or $2.82 a diluted share, for 2002. The company expects capital expenditures of $255 million for 2002. BB&T closed Thursday at $34.59, up 0.3%, or 9 cents.

Financial services concern Household International gained 7.4% Thursday, after company executives said it wasn't experiencing problems raising capital to fund its loans. Household International closed at $48.01, up $3.30.

Overall, the DJ CFA Diversified Financial Index rose 1%, or 3886.4, to 380,238.5.

The Dow Jones Industrial Average fell 27.95 to 9,625.44, while the Standard & Poor's 500 Stock-Market index declined 3.34 to 1080.17. The Nasdaq Composite Index fell 30.60 to 1782.11.

COMPANY NEWS:

CONSECO INC.	Close	Net Change	Pct Change	EPS 02E	EPS 03E
	$3.22	+$0.06	+1.9%	$1.00	$1.40

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Donald Trump filed suit against Conseco Inc., alleging the insurance and finance company reneged on an agreement to sell its 50% stake in New York's General Motors Building to him. Trump said he filed a lawsuit seeking $500 million in actual damages plus $500 million in punitive damages. Conseco, Trump said, violated a agreement from July 3, 2001, to sell its stake in the building because the company allegedly needed more cash and believed its share was worth more. The sale was set to close Sept. 15, Trump said.

METLIFE INC.	Close	Net Change	Pct Change	EPS 02E	EPS 03E
	$28.99	+$0.06	+0.21%	$2.55	$2.90

MetLife Inc. will record a fourth quarter pretax charge of $250 million to cover costs of a lawsuit settlement that will pay nonwhite customers who allegedly were victims of past racial discrimination by the firm. The New York-based life insurer has been in talks in recent weeks about settling both a class-action lawsuit brought by African-American policyholders and an investigation by the New York State Insurance Department

AMERICAN INTERNATIONAL GROUP	Close	Net Change	Pct Change	EPS 02E	EPS 03E
	$71.11	+$0.36	+0.5%	$3.50	$4.03

American International Group's fourth quarter profits rose 3.5%, despite a drag from surety losses and investments related to Enron Corp. The company posted net income of $1.87 billion, or 70 cents a share, compared with earnings of $1.80 billion, or 68 cents a share, a year earlier. Fourth quarter results include $57.2 million, or 2 cents a share, in surety losses at AIG and its Transatlantic Holdings unit related to Enron, and a provision of $20.4 million, or 1 cent a share, for Northridge earthquake claims in its 21st Century unit. The insurer also reported realized capital losses of $181 million, including $69 million for the impairment of certain Enron investments.

17:58

NS c15 : Performance | c152 : Earnings Projections | c1521 : Analyst Comment/Recommendation | c17 : Funding/Capital | c171 : Share Capital | c172 : Corporate Debt Instruments | ccat : Corporate/Industrial News | m11 : Equity Markets | mcat : Commodity/Financial Market News | nrmf : Routine Market/Financial News

RE namz : North America | usa : United States

PUB Dow Jones & Company

AN Document ff00000020020207dy2700asx

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Exhibit 31

A.G. Edwards

Equity Research - FINANCE/SPECIALTY
February 6, 2002

Analyst: Joel J. Houck (314)955-4156
Associate: Troy Ward/Jim Shanahan

UPGRADING TO STRONG BUY FROM BUY

Household International Inc. (HI 45.69 - NYSE)
Strong Buy/Aggressive

Market Cap ($mil.): $20,789 Est. Long-Term EPS CAGR: 14%
Dividend: $0.88 Book Value/Share: $19.47
Yield: 1.9%

Fiscal Year Ends Dec

EPS	2001A	2002E	Prior	2003E	Prior	2004E	Prior
Qtr1	$0.91	$1.04					
Qtr2	$0.93	$1.06					
Qtr3	$1.07	$1.22					
Qtr4	$1.17	$1.33					
Year	$4.08	$4.65		$5.20			

Summary
We are upgrading the shares of Household International (HI) to Strong Buy from Buy. We believe investors should take advantage of weakness in the shares of the leading consumer finance company in the U.S. HI shares are off 18% year-to-date and touched a 52-week low this week. We attribute weakness in HI shares to industry credit quality concerns and accounting-related concerns. In our opinion, both credit quality concerns and accounting-related concerns will fade away throughout 2002 as management continues to build on its outstanding track record. To be sure, investor sentiment on the consumer finance sector is poor today. We believe investors who separate the wheat from the chaff will be richly rewarded in 12-18 months, probably sooner if sentiment improves. Near-term, if investor sentiment gets worse, we would be aggressive buyers of HI shares on any continued valuation pressure. Our price objective of $65, which assumes HI shares trade at 14X our 2002 estimate of $4.65, implies approximately 37% upside from current levels.

Details of Rating Upgrade

Bill Aldinger Scorecard - From 1996 to 2001, HI's return on managed assets improved from 1.0% to 1.9% while its return on average equity improved from 15.1% to 22.9%. HI's improved returns under Bill Aldinger were not merely one dimensional. From 1996-2001, HI generated prudent loan growth while shifting its mix to real estate secured products, expanded its net interest margin by 105 basis points to 8.50%, improved its managed efficiency ratio from 45.0% to 34.0%, and added a whopping 167 basis points to its tangible equity ratio (7.87% at 12/31/01). Skeptics might suggest that HI's returns were achieved by taking unreasonable risks. Our analysis suggests this is not the case. Since 1996, HI's managed receivables have grown at a compound annual rate of 11% to $100.8 billion, hardly out of control. Management also improved the

risk profile of HI by getting defensive much earlier than most of its peers. For example, in 1996, 33% of HI's portfolio was in credit cards and 27% in secured real estate. At the end of 2001, 44% of HI's portfolio was in secured real estate and only 17% in credit cards. In credit cards, HI reduced the line of credit on certain accounts because the first thing consumers do when they experience financial difficulty is max out their credit cards. Despite HI's improved risk profile in its loan portfolio, management has prudently added to reserves. HI's managed reserve ratio of 3.78% at 12/31/01 was 22 basis points above its level of 3.56% at 12/31/96.

Solid Earnings Outlook - We have a high degree of comfort in our 2002 estimate of $4.65, which represents 14% growth over $4.08 reported in 2001. We project 12% managed loan growth for HI with the majority of net new dollars generated in real estate secured loans. Our 2002 forecast assumes HI's net interest margin contracts to 8.55% in the fourth quarter of 2002 versus 8.85% in the fourth quarter 2001. For the full year 2002, our net interest margin assumption is 8.67%, 17 basis points higher than 8.50% reported in 2001. We estimate managed revenue growth of approximately 15% in 2002. Our model suggests a relatively stable managed efficiency ratio of 34.0% as management continues to prudently invest in its infrastructure (people and technology). Our model also incorporates rising dollar net charge-offs throughout 2002, which is consistent with unemployment peaking in mid-2002. In our model, we forecast a managed net charge-off ratio at or above 4.00% each quarter in 2002. We believe the rise in credit losses will continue to be both manageable and predictable for HI management. With respect to credit losses, we believe HI is likely to experience less sensitivity in the event the economic environment remains difficult. Our reasoning is that 44% of HI's managed receivables are real estate secured. The loss ratio in real estate secured in Q4-01 was 0.65%, significantly lower than HI's overall loss rate of 3.92% in Q4-01. Simple math dictates that HI's managed loss rate should be less sensitive relative to monoline consumer finance companies.

Strong Capital Base - With a tangible equity ratio of 7.87% at 12/31/01, HI is in enviable position of being able to repurchase its shares and still meet its targets for low double-digit loan growth in 2002. We estimate HI's capital formation rate is approximately 18%, 600 basis points above our 12% forecast for managed loan growth. We estimate that HI can repurchase $750 million to $1 billion in common stock (15-20 million shares at current prices) while maintaining a tangible equity ratio in the range of 7.50-7.75%. In our view share buybacks are a prudent use of corporate proceeds. In our view, most other consumer finance companies cannot repurchase their shares due to either capital constraints or growth rates exceeding their capital formation rates. The other advantage HI has with its strong capital base is being able to opportunistically purchase consumer loan portfolios at distressed prices if available. In our view, small add-on acquisitions make the most sense for HI, and could contribute an additional 100-200 basis points in EPS growth in 2002 and 2003.

Underpinnings of an economic recovery are beginning to take hold - The Index of Leading Economic Indicators, as reported by The Conference Board, has improved for three consecutive months, and the percentage improvement in December bested most analyst estimates. Eight of ten indicators improved in December, but the primary driver was the decline in initial jobless claims. Initial jobless claims are one of two primary economic indicators that we monitor to understand the state of the U.S. consumer. It appears from recently released initial jobless claims data that unemployment may be stabilizing and may not reach 6.5%, as we had once estimated. Ignoring the week-to-week volatility in initial claims, the four-week moving average in initial claims falling below 400,000 is quite significant. In prior recessions, initial jobless claims have typically peaked near the end of a recession, trending lower through the early stages of the recovery. The four-

week moving average of initial jobless claims has not been below 400,000 since a five-week period between July and August 2001. Note that the four-week moving average of initial jobless claims had climbed above 400,000 in April 2001 for the first time since the 1991-1992 recession. Also significant on the employment front is the apparent stabilization of continuing jobless claims from the cyclical high of 3,987,000 established the week of November 17. Continuing jobless claims are below 3.4 million for the second consecutive week, ending a streak of 16 consecutive weeks above 3.4 million, the longest (and only) such streak since the 1991-1992 recession.

We also monitor consumer confidence/sentiment for insight into the state of the U.S. consumer, with particularly attention paid to the expectations component. Consumer confidence/sentiment has improved considerably since the low readings of September 2001- November 2001, particularly with regards to expectations about the economy, reflecting optimism among consumers for a recovery in 2002. The University of Michigan Consumer Sentiment Index reading for January was the highest level in a year and 11.2 points higher than September. The expectations component of the index has led the rebound, increasing 17.8 points since September. The Conference Board Consumer Confidence Index appears to have bottomed in November, reaching a low of 84.9. The index rose to 97.3 this month, an increase of 12.4 points from November. As is the case with the University of Michigan Index, the primary area of improvement continues to be found in the expectations component, which has increased dramatically, now up 26.2 from October lows. Given that consumer spending represents over 2/3 of GDP, the consumer must be a part of any economic recovery in 2002, in our opinion.

Compelling Valuation - HI shares currently trade at 9.9X our '02 estimate of $4.65 and 8.8X our '03 estimate of $5.20. In our opinion, HI's valuation offers investors an excellent opportunity to buy the stock of one of the best-managed consumer finance companies at a meaningful discount to its growth rate. Our price objective of $65, which assumes HI shares trade at 14X our 2002 estimate of $4.65, implies approximately 40% upside from current levels. Our 14X P/E multiple assumption is at the mid-point of Household's historic trading range of 10X-18X on current year EPS.

Fourth Quarter Results

HI reported Q4 diluted EPS of $1.17, a 14% increase versus $1.03 a year ago. Diluted EPS was in line with our estimate and consensus. Managed receivables increased 15% from the prior year and 21% annualized from the linked quarter. Managed revenue grew 21% from a year ago led by an expanded net interest margin, increased fee income and higher receivable volume. Aggregate credit quality statistics were good with very little movement in delinquency and loss rates. In auto finance, delinquency and loss rates were higher than we had modeled due to seasonal issues and the impact from the recession. However, auto finance only comprises 6% of total receivables and Bill Aldinger has made a change in the leadership of the auto business.

We continue to believe that HI is a well-managed company and a leader in the consumer finance space. Management wisely began to re-position HI's portfolio towards more real estate secured product in 2000. The greater emphasis in real estate secured product has served to decrease the volatility in HI's overall loss rates. We also believe this mix-shift will continue to help protect HI's asset quality during the current economic environment. Our 2002 estimate for HI remains unchanged at $4.65, and represents 14% growth over 2000. We established a 2003 earnings estimate of $5.20, which represents 12% growth over our 2002 forecast.

Receivables Analysis - At December 31, 2001, HI's managed portfolio reached $100.8 billion, up $5.2 billion, or 5.4%, from the third quarter and up 15%

from December 2000. Growth was strong across all products. Real estate secured portfolio increased the most, up $2.8 billion in the quarter. This portfolio comprises over 44% of total managed receivables. During the quarter, HI also purchased a private label credit card portfolio totaling, and sold approximately $1 billion in MasterCard/Visa receivables in the United Kingdom to Centrica, its former partner in the Goldfish Card program. Excluding the $1 billion sale, MasterCard/Visa receivables increased $1.3 billion in the fourth quarter and 7% versus last year.

Revenue Analysis - Fourth quarter managed net revenue grew $506 million, or 21%, from a year ago. Excluding securitization related income, managed revenue increased 23% versus a year ago. An expanded net interest margin was the primary reason revenue growth exceeded receivable growth. HI's net interest margin was 8.85% in the fourth quarter, up 28 basis points versus the linked quarter and 84 basis points versus the year ago quarter. Lower funding costs were the primary reason for the expansion. Managed fee income increased $17 million, or 4%, compared to the fourth quarter of 2000, reflecting higher levels of credit card fees.

Operating Expense Analysis - Operating expenses rose 22%t from a year ago, driven by higher payroll costs for sales personnel and collectors, higher sales incentives, and increased marketing and technology spending. Household's efficiency ratio was 31.2% in the fourth quarter, compared to 30.8% a year ago. We believe HI's continued investment in its infrastructure is critical in keeping credit quality under control as well as generating future revenue growth.

Credit Quality Analysis - HI's annualized managed net charge-off ratio for the fourth quarter was 3.90%, up from 3.74% in the third quarter and 49 basis points higher than 3.41% in the year ago quarter. HI's managed loss rate was in-line with our expectations. However, the breakdown of the managed loss rate revealed greater than anticipated deterioration in the auto portfolio. The managed charge-offs by business line were: Real estate secured increased to 0.65% from 0.52% (up 13bps), MasterCard/Visa decreased to 6.69% from 6.75% (down 6bps), Private Label increased to 5.40% from 5.13% (up 27 bps), and Auto Finance increased to 6.52% from 4.84% (up 168 bps). The 168 basis point deterioration in Auto Finance credit quality was considerably higher than we expected. Management attributed the increase in auto to accelerated disposition of vehicles and was adamant that loss rates in auto would begin to decline after the first quarter of 2002. In any event, auto receivables only comprise 6% of total receivables.

The managed delinquency ratio (60+ days) was 4.46% at 12/31/01, compared to 4.43% at 9/30/01 and 4.20% at 12/31/00. The delinquency ratio was in line with our expectations. HI increased its credit loss reserves by $256 million during the quarter, to $3.8 billion. Compared to 12/31/00, credit loss reserves were up $617 million. The ratio of reserves-to-managed receivables was 3.78% at 12/31/01 compared to 3.72% at 9/30/01 and 3.65% a year earlier. Reserves-to-nonperforming loans were 105% at 12/31/01, compared to 104% at 9/30/01 and 107% a year ago.

Capital - HI strengthened its ratio of tangible equity to tangible managed assets to 7.87% at 12/31/01, from 7.82% at 9/30/01 and 7.41% a year earlier. In connection with HI's $2 billion share repurchase program announced March 1999, HI bought back 2.2 million shares in the fourth quarter, totaling $140 million. HI has announced a new, two-year $2 billion share repurchase program that went into effect on January 1, 2002. At December 31, Household had agreements with third parties to purchase, on a forward basis, approximately 6.5 million shares of common stock at a weighted average price of $59.14 per share. The forward contracts in place represent approximately 20% of the repurchase program total.

AGE has managed an underwriting.

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Exhibit 32

DOW JONES

HD

Fed Survey: Bks Saw Tigher Loan Standards, Less Demand

WC 335 words

PD 4 February 2002

ET 02:00 PM

SN Dow Jones Capital Markets Report

SC CM

LA English

CY

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LP

WASHINGTON -(Dow Jones)- U.S. banks generally reported tighter credit standards and lower demand for loans in the past three months, the Federal Reserve said Monday.

Business and household lending standards stiffened up, the Fed said in its latest senior loan officer survey. The report polled loan officers at 55 large domestic banks and 23 U.S. branches and agencies of foreign banks.

TD

Mortgage loans bucked the overall lending trend. The Fed said that standards mostly remained unchanged and that net demand for these loans actually grew somewhat.

"Respondents reported that significant fractions of customers seeking to refinance existing mortgages over the past six months extracted equity from their homes, typically increasing their outstanding balances 5% to 15%," the Fed said. "The most common use for the additional funds was said to be the repayment of other debt."

Banks generally tightened standards for consumer lending, particularly for non-credit card loans. About half of domestic banks reported lending to subprime borrowers, but most participating banks said these loans made up less than 5% of their total loans to households.

The Fed asked banks a set of special questions in its latest survey, including a section on actual consumer credit quality versus what banks expected a year ago.

"Household credit generally was somewhat worse than would have been predicted," the survey said. "The one exception is residential mortgage

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loans to standard (not subprime) customers, where loan quality was slightly better, on net, than would have been predicted.

"By contrast, about a third of respondents, on net, reported worse than expected performance for standard credit card and other consumer loans," the Fed said.

For banks that tightened their lending standards for businesses, the economic outlook was given as the primary reason for the change. Worsening conditions in some industries and lower tolerance for risk also were common reasons for stricter standards, the Fed said.

-By Rebecca Christie, Dow Jones Newswires; 202 862 9249; rebecca.christie@dowjones.com

IN i814 : Banking | i81401 : Central Banking | i81402 : Commercial Banking | ibnk : Banking/Credit

NS ccat : Corporate/Industrial News | e12 : Economic/Monetary Policy | e1201 : Central Bank Intervention | e1202 : Interest Rates | ecat : Economic News | gcat : Political/General News | gpol : Domestic Politics | gvbod : Government Bodies | gvexe : Executive Branch | m12 : Debt/Bond Markets | m13 : Money/Forex Markets | m131 : Money Markets | mcat : Commodity/Financial Market News | mgvdbt : Government Debt/Bond Markets | mntdbt : National Government Debt/Bond Markets | ncat : Content Types | nsur : Survey/Poll

RE namz : North America | usa : United States

PUB Dow Jones & Company

AN Document cm00000020020204dy2400ayh

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Exhibit 33

DOW JONES

AMERICAN BANKER
THE FINANCIAL SERVICES DAILY

SE
Mortgages

HD
Consumer Finance Firms' Outlook Bleak, Fitch Says

BY
BY ERICK BERGQUIST

WC 423 words
PD 21 February 2002
SN American Banker
SC AMB
PG 12
VOL Vol. 167, No. 35
LA English

CY
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LP

Prospects are still poor for consumer finance companies, Fitch Inc. officials said on Wednesday.

"Competitive pressures have changed the economic landscape" for the industry, said Thomas Abruzzo, a senior director for the New York ratings firm, in a conference call with analysts and reporters.

TD

With capital markets volatile, competition keen, and the economy slogging through its first recession in a decade, investors have turned against finance companies. Access to the capital markets could be hard for them to come by until the economy recovers and investors regain their confidence, Mr. Abruzzo said.

Finance companies have been hurting for years. Several have declared bankruptcy or closed their doors. Others have quit the business to cut their losses.

Mr. Abruzzo said he does not consider the sector "fundamentally troubled." However, he noted, some companies are having problems.

Fitch downgraded Conseco Inc. of Indianapolis late last year amid concerns that it would not be able to meet its debt obligations this year. The insurance and consumer finance company bought the finance and manufactured housing lender GreenTree Financial Corp. of St. Paul in 1998 and has had nothing but trouble since.

To raise capital from worried investors, consumer finance companies must demonstrate short-term liquidity, Mr. Abruzzo said. Fitch downgraded the senior debt of Household International Inc. in January, saying it had not issued enough securities backed by subprime loans to demonstrate adequate access to the secondary markets in tough times.

Investor skittishness has escalated recently with Enron Corp. and other high-profile companies declaring bankruptcy. CIT Group Inc.'s recent multibillion-dollar drawdown of its bank credit lines to repay outstanding obligations only made matters worse, he said.

If the current state of affairs persists, he said finance company ratings may drop further.

"Because many of the finance and leasing companies we follow rely exclusively on the capital markets, reduced accessibility to future financing effectively can strain a company's ability to conduct its business," he said. "If the markets remain less accommodating for an extended period of time, it could effectively have ratings consequences for a number of finance companies."

In such an environment, consumer finance companies must maintain a conservative funding profile with more emphasis on long-term maturities, Mr. Abruzzo said. In addition, he said they must rationalize their business lines, match their short-term assets and liabilities better, and demonstrate access to all kinds of third-party financing, including securitization, whole-loan sales, and syndication.

CT http://www.americanbanker.com

ART photo, Abruzzo

CO consci : CNO Financial Group Inc.

IN i814 : Banking | i82 : Insurance | i82002 : Life Insurance | ibnk : Banking/Credit

NS ccat : Corporate/Industrial News

RE namz : North America | usa : United States

IPD News article

AN Document amb0000020020221dy2l0000i

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Exhibit 34

DOW JONES

Business Wire
A Berkshire Hathaway Company

HD **Fitch Ratings Teleconference: Finance Companies**

WC 226 words

PD 19 February 2002

ET 10:18 AM

SN Business Wire

SC BWR

LA English

CY

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LP

NEW YORK--(BUSINESS WIRE)--Feb. 19, 2002--On Wednesday, Feb. 20, at 11:00 a.m. EST, Fitch Ratings' Finance Company Group will host a teleconference to discuss the outlook for the finance, leasing and credit card company industries.

Among the topics to be discussed in the teleconference are Fitch's rationale behind recent rating actions in the finance company universe, along with changes facing the industry following increased funding pressure brought on by financing troubles at several large issuers. A question and answer session will follow.

TD

Participants should call 1-888-542-8839 and international participants should dial 1-706-634-1731. All participants should dial in five minutes prior to the 11:00 a.m. EST start time and give the title of the call - 'Fitch'. The passcode is '3295587'.

Interested parties who are not available for the teleconference will be able to hear a replay of the call starting on Feb. 20 at 2:00 p.m. EST, and running until Feb. 25, 2002 at 12:00 a.m. EST. Domestic listeners should dial 1-800-642-1687 and international listeners should dial 1-706-645-9291 and use the access code '3295587'.

CT

CONTACT: Fitch Ratings
Thomas Abruzzo, 212/908-0793 (New York)
Media Relations:
James Jockle, 212/908-0547 (New York)
10:18 EST FEBRUARY 19, 2002

CO lbec : Fimalac

IN i814 : Banking | i8396 : Diversified Holding Companies | ibcs : Business/Consumer Services | ibnk : Banking/Credit

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NS c17 : Funding/Capital | c174 : Corporate Credit Ratings | ccat : Corporate/Industrial News | ncal : Calendar of Events | ncat : Content Types | nrgn : Routine General News

AN Document bwr0000020020219dy2j00ct7

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Exhibit 35

DOW JONES

THE WALL STREET JOURNAL.
U.S. EDITION

CLM Your Money Matters

HD

Credit-Card Companies Are Raising Rates

BY

By Ruth Simon

CR Staff Reporter of The Wall Street Journal

WC 998 words

PD 21 February 2002

SN The Wall Street Journal

SC J

PG C1

LA English

CY

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LP

Brace yourself: Credit-card costs are on the march.

With the Federal Reserve's interest-rate-cutting campaign apparently complete, some credit-card companies are quietly raising their rates. Citibank, the nation's biggest card issuer, is testing the waters with a new card carrying a rate nearly 13 percentage points over the prime rate (which means a rate of more than 17%), "probably the highest spread we've had," a bank spokeswoman acknowledges. Providian Financial Corp. is raising the rates paid by some of its less credit-worthy customers by as much as six percentage points. Other card companies are nailing customers who don't pay their bills on time with higher fees.

TD

The rate boosts come, in part, to cover the growing costs of deadbeats. Credit-card companies mailed a record five billion solicitations to consumers last year, according to Mail Monitor, a service of BAIGlobal Inc., a market research firm in Tarrytown, N.Y. But with the economy slowing, many cardholders are having trouble paying their bills. Credit-card charge-offs have climbed 18% since September 2000, according to Fitch Inc., a ratings agency. The losses have been greatest for issuers of subprime cards, which are targeted to borrowers with checkered credit records. Charge-offs for subprime issuers surged 54% during this same period, according to Fitch.

It is not just people with credit problems who are paying more. Some consumers with good credit also are getting hit with higher rates.

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All this may come as a surprise to the great shopping public who watched card rates slide rapidly during 2001 as the Federal Reserve repeatedly cut interest rates. Last April, for instance, the average rate on variable cards slid to 16.32% from 17.13% a month earlier, a drop of 0.81 percentage point, according to Bankrate.com, a consumer-finance Web site.

But even when rates were falling, credit-card holders weren't getting the full benefit. Credit-card issuers passed on just 85% of last year's rate cuts to customers who hold variable- rate cards, according to Bankrate.com. Nearly all variable-rate cards, which constitute more than half of all cards outstanding, have hit their interest-rate floor -- meaning their rates can't fall anymore.

Overall, card rates are still "trickling downward," but at a much slower rate, says Bankrate.com financial analyst Greg McBride. The average for variable-rate cards edged down to 13.22% from 13.49% between December and January, he says, a drop of just 0.27 percentage point. And Mr. McBride, who believes the Fed is done lowering rates for a while, forecasts that card rates will bottom out in March. "For some cards, we'll actually see rate increases."

Consumer advocates complain that many cardholders are paying more than they need to. Credit-card issuers "want to keep customers at the highest rates possible," says Ed Mierzwinski, a consumer advocate with the U.S. Public Interest Research Group in Washington, D.C.

The biggest rate boosts are likely to come at subprime issuers, which pitch high-rate cards to consumers with problematic credit records. Providian has raised the interest rates paid by 3.3 million of its 18 million customers, in many cases to 29.99% from 23.99%. "Our loss rates were high and they are growing," says Providian spokeswoman Laurel Munson. Ms. Munson says the increases are "based upon the individual performance of the cardholder and are in the highest risk segment."

Rates are also rising for some cardholders with good credit.

In January, Compass Bancshares Inc. boosted rates on standard and gold variable-rate cards by a full percentage point. Both cards now carry a rate 9.99 percentage points over the prime rate -- the rate banks use as a base for a wide range of loans to smaller businesses, as well as to individuals. Currently, that amounts to 14.74%. Until the boost, the rate was prime plus 8.99 points. "We adjust the pricing on these products and services based on the competitive landscape and our business judgment," says Compass spokesman Thomas Dingledy.

Some card issuers, instead of jacking up rates on existing cards, are introducing new cards with higher rates. The Citibank unit of Citigroup Inc., has test marketed a new standard card with a rate of prime plus 12.99 percentage points (instead of a high of 10.4). Citibank offers this rate on its Internet site to non-prescreened customers, says spokeswoman Maria Mendler. The rate is high "because we don't know anything about that customer coming to us through the Internet," she says. "Quite often a customer will qualify for a lower rate."

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Card issuers are also putting the squeeze on customers by boosting fees. A $29 late fee used to be "the gold standard," says Frank Martien, a principal with First Annapolis Consulting Inc. in Linthicum, Md. Now, he says, "$35 is the new frontier." Average late fees have climbed 146% since 1994, according to CardWeb.com.

Who Has the Lowest Rates?

Attractive deals on credit cards are still available if you shop around. The table below lists low-rate cards offered to people with good credit records.

ISSUER: Chase
TOLL-FREE NUMBER (800-): 413-5661
CURRENT ANNUAL PERCENTAGE RATE (APR): 4.75%
ANNUAL FEE: $85
ISSUER: Wachovia Bank*
TOLL-FREE NUMBER (800-): 347-7887
CURRENT ANNUAL PERCENTAGE RATE (APR): 4.75
ANNUAL FEE: 98
ISSUER: Pulaski Bank & Trust
TOLL-FREE NUMBER (800-): 980-2265
CURRENT ANNUAL PERCENTAGE RATE (APR): 5.50**
ANNUAL FEE: 35
ISSUER: Chase
TOLL-FREE NUMBER (800-): 413-5661
CURRENT ANNUAL PERCENTAGE RATE (APR): 6.40
ANNUAL FEE: 0
ISSUER: Metropolitan National Bank
TOLL-FREE NUMBER (800-): 883-2511
CURRENT ANNUAL PERCENTAGE RATE (APR): 7.00
ANNUAL FEE: 25
* Issued by First USA, a unit of Bank One Corp.
** As of March 1
Sources: Bankrate.com; the banks

CO cbss : Compass Bancshares Inc | ccred : Citigroup Inc. | prvfnc : Washington Mutual Card Services

IN i814 : Banking | i81402 : Commercial Banking | i81501 : Credit Types/Services | i8150108 : Credit Cards | i831 : Financial Investments | i83101 : Investment Banking | ibnk : Banking/Credit | iinv : Investing/Securities

NS ccat : Corporate/Industrial News | gcat : Political/General News | gcon : Consumer Affairs | gpersf : Personal Finance | ncat : Content Types | ntab : Table

RE namz : North America | usa : United States | usal : Alabama | use : Northeast U.S. | usky : Kentucky | usny : New York | uss : Southern U.S.

PUB Dow Jones & Company

AN Document j000000020020221dy2l0007g

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Exhibit 36

-- FIRST CALL --

09:31am EDT 18-Apr-02 Bear Stearns (Hochstim, CFA,D./R. Coren, CFA,S.) HI
HI.N
HI: Earnings Stronger Than Expected on Bet...

David Hochstim, CFA 212 272-4243 dhochstim@bear.com
4/17/02
Scott R. Coren, CFA 212 272-5280 scoren@bear.com

Subject: Analysis of Sales/Earnings
Industry: Specialty Finance Companies

BEAR, STEARNS & CO. INC.
EQUITY RESEARCH

Household International* (HI $60.70) - Buy
Earnings Stronger Than Expected on Better RAL, Securitization Gains, and FASB
142 Change

Data
Last ROE 23% 52-Wk Range $63-$34 Shares Out 463 million
Target Price $75 Dividend/Yield $0.88/1.5% Market Cap (MM) $26 billion

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Key Points
*** Household reported first quarter earnings of $1.09 up 20% from $0.91 a year ago. EPS were $0.03 better than our estimate (adjusted for the change in goodwill amortization) as a result of strong RAL earnings and securitization gains which were partially offset by additional reserving.
*** Real estate loans grew by 3.4% in the quarter and account for 46% of managed balances. This secured lending continues to provide a cushion against credit risk. The mix of the portfolio overall changed only slightly from Q4, as auto loans continued to grow rapidly, though a bit more slowly than in 2001 and seasonal paydowns in cards helped push auto lending's share to 6.5% of the total.
*** There was some net interest margin compression as the company lengthened its debt maturities to reduce its commercial paper issuance. The company

appears to have ample liquidity and is well positioned to weather a change
in interest rates should one occur.
*** Credit quality remains very manageable we believe. The 4.1% loss rate was
in line with our forecast and reserves were built substantially. The
balance sheet remains very strong. Stock repurchases are likely to
continue.
*** We continue to rate HI shares Buy. We are revising our 2002 estimate to
reflect the change in FASB . Our new estimate is $4.70 (up from $4.60).
We continue to expect earnings above the desired 13% to 15% trend to be
reinvested. We are also raising our 2003 estimate to $5.25 from $5.20.
Our $75 price target is unchanged.

Earnings Estimates

	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Year	P/E Year
2000	$0.78	$0.80	$0.94	$1.04	$3.56	17.1x
2001	$0.91	$0.93	$1.07	$1.17	$4.08E	14.9x
2002	$1.09	$1.07E	$1.22E	$1.33E	$4.70E	13.0x
Previous	$1.04E	$1.06E	$1.21E	$1.31E	$4.60E	13.2x
2003					$5.25E	11.6x
Previous					$5.20E	11.7x

Household reported first quarter earnings of $1.09 vs. $0.91 a year ago. Our
estimates excluded the roughly 2.5 cent per share benefit from the change in
goodwill amortization. EPS were still nearly $0.03 better than our estimate
and represented a year over year increase of about 20%. Better than expected
RAL revenues and some benefit from securitization gains and less goodwill
amortization were responsible for the upside surprise. We are maintaining our
$4.60 per share estimate, excluding the $0.10 benefit from the change in

goodwill amortization (FASB 142), but are increasing our estimate of reported
EPS to $4.70 per share to reflect the slightly better than expected first quarter and the benefit of the change in goodwill amortization.

Results for the first quarter were consistent with the trends indicated at the
company s annual Financial Relations meeting last week. Comparing the first
quarter to the year ago first quarter, receivable growth was very strong, the
margin widened substantially, and operating efficiency improved slightly
despite continued investment spending. These strengths offset the reserve
building that Household continues as a result of credit deterioration and
continued strong loan growth. In fact year over year, revenues rose 26% and
operating expenses only rose 12%. The managed loss provision increased 46%
from the first quarter last year while actual net charge-offs only rose about
32%. Capital increased faster than loans putting the tangible equity to
tangible managed assets ratio at 8.47% at 3/31 up from 7.87% at 12/31.

Household s managed loan portfolio, grew 15% year over year, with real estate
secured loans continuing to drive the growth of the company s overall
portfolio. Year over year managed home equity receivables grew by $8.3 billion
or 22% despite the recent $900 million whole loan sale (executed to demonstrate
the liquidity of the company s assets to the rating agencies). The total
portfolio grew by $12.8 billion over the last twelve months with the real
estate portfolio responsible for 64% of last years growth. Credit card
balances declined 1.3% over the last twelve months, slightly worse than the
industry which we believe grew just 1%-2% year over year as of April. On a
sequential basis, growth in the real estate secured portfolio and auto finance
continued at a very rapid pace. Visa/MasterCard and private label balances
declined in the first quarter as they normally do while other unsecured loans
rose only slightly.

In the first quarter, the margin narrowed slightly relative to the fourth
quarter because funding costs declined less than loan yields. This is in part
a reflection of the company s efforts to reduce its dependence on short term
fundings and to lengthen the duration of some its liabilities. Household s

portfolio remains largely match funded. For example since the third quarter of 2000, the margin only widened 90 bps despite the roughly 470 bp decline in short term interest rates. If rates rise this year, we would expect some contraction in spreads, but only a very modest amount. In 2002, the margin should still remain wider than it was on average for all of 2001 and so net interest income should grow faster than core receivables which we believe will increase by about 11% this year. Currently we are forecasting revenue growth of about 17% in 2002, expense growth of 11%, and a 25% increase in the loss provision.

Share repurchases should add about $0.04 to earnings this year and the change in goodwill amortization under FASB 142 will add about $0.10 per share. We expect earnings above the company s targeted 13% to 15% range to be offset by reserve building and additional investments in the businesses.

In general, we expect operating expense growth to continue at a modest pace to help offset the continued reserve building that we anticipate throughout the year. Reserves are likely to increase as a result of steady receivable growth and higher losses. Although we expect loss rates to increase, they will be very manageable we believe. Credit card (7.17% vs. 6.69% in Q4) and other unsecured loss ratios (7.86% vs. 7.05% in Q4) rose the most in the quarter, though for credit card at least this appears to in part reflect the fact that balances declined. Lagged losses suggest that credit card charge-offs were flat from Q4 to Q1 and down year relative to the third and second quarters of last year. The loss rate on the company s overall portfolio rose about 20 bps sequentially to 4.09%. This was a similar increase to the lagged loss rate. Delinquencies were up a similar amount sequentially. We had forecast a loss rate of 4.10% for the quarter.

Household continues to reserve conservatively. Reserves were maintained at 100% of managed losses during the quarter and increased to 108% of non-

performing loans from 105% in Q4. The roughly $335 million that the company
added to the reserve during the first quarter seems to in part reflect (in
addition to wanting to maintain a strong balance sheet) the company s desire to
offset a portion of the securitization gain which added to both GAAP and
managed portfolio basis earnings in the quarter. We don t expect reserves to
be built as significantly over the remainder of the year. Rather, we would
expect the 4.10% reserve ratio to decline back to the 3.8% to 3.9% level prior
to the first quarter.

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-> End of Note

Exhibit 37

09:16am EDT 18-Apr-02 Salomon Smith Barney (Matthew L. Vetto +1-212-816-3593) H
HI: 1Q02 Results Top Estimates; Blocking and Tackling (Part 1 of 2)

SALOMON SMITH BARNEY

Household International, Inc. (HI)#
HI: 1Q02 Results Top Estimates; Blocking and Tackling

2H (Outperform, High Risk)
Mkt Cap: $28,049.5 mil.

April 18, 2002

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SUMMARY

* HI reported 1Q02 EPS of $1.09 (+20%), $0.05 ahead of our and Street expectations. Upside was driven by more securitization activity, and stronger-than-expected contribution from the tax refund anticipation loan business.
* Loan growth was in line with our forecasts, though weighted more heavily towards the lower risk, real estate secured segment.
* Credit quality continued to deteriorate (DQs +16 bps, NCOs +19 bps), but in a controllable fashion consistent with our expectations.
* Capital ratios improved significantly, and the company boosted on-balance sheet loan loss reserves by $214 million.
* Reflecting surplus, we are raising our 2002 EPS estimate to $4.65 (+14%) from $4.60. We are also establishing a 2003 EPS estimate of $5.25 (+13%) and raising our price target to $70 from $67, which represents a reasonable 13.3x this new est, in line w/ long-term growth. Reiterate Outperform (2H)

FUNDAMENTALS

P/E (12/02E)	13.1x
P/E (12/03E)	11.6x
TEV/EBITDA (12/02E)	NA
TEV/EBITDA (12/03E)	NA
Book Value/Share (12/02E)	$20.17
Price/Book Value	3.0x
Dividend/Yield (12/02E)	$0.88/1.4%
Revenue (12/02E)	$12,187.6 mil.
Proj. Long-Term EPS Growth	13%
ROE (12/02E)	23.9%
Long-Term Debt to Capital(a)	NA

HI is in the S&P 500(R) Index.
(a) Data as of most recent quarter

SHARE DATA		RECOMMENDATION	
Price (4/17/02)	$60.70	Current Rating	2H
52-Week Range	$69.48-$44.71	Prior Rating	2H
Shares Outstanding(a)	462.1 mil.	Current Target Price	$70.00
Convertible	No	Previous Target Price	$67.00

EARNINGS PER SHARE

FY ends		1Q	2Q	3Q	4Q	Full Year
12/01A	Actual	$0.91A	$0.93A	$1.07A	$1.17A	$4.08A
12/02E	Current	$1.09A	$1.07E	$1.20E	$1.29E	$4.65E

	Previous	$1.04E	$1.06E	$1.15E	$1.35E	$4.60E
12/03E	Current	$1.19E	$1.22E	$1.40E	$1.44E	$5.25E
	Previous	NA	NA	NA	NA	NA
12/04E	Current	NA	NA	NA	NA	NA
	Previous	NA	NA	NA	NA	NA

First Call Consensus EPS: 12/02E $4.65; 12/03E $5.27; 12/04E NA

OPINION

Household International announced that 1Q02 EPS grew by 20% to $1.09 from $0.91 in 1Q01. This was $0.05 above both our and Street consensus estimates. We credit the upside surprise to larger-than-normal securitization activity in the quarter, as well as stronger performance from the company's tax refund business. There was also a $0.02-$0.03 benefit to EPS from a reduction in goodwill amortization dictated by new accounting rules. Loan growth was in line with our estimates, and while credit quality deteriorated somewhat, it was manageable and also consistent with our expectations. We also note that the company added considerably to its capital levels as well as its loan loss reserves, strengthening its balance sheet. Management also reiterated its view that it can grow EPS at the high end of its 13%-15% range goal.

Including gains, total net revenue growth increased by 26% year/year while operating expenses grew at a slower rate of 12 % year/year. Net income grew by 17% year/year and average shares outstanding declined by 2% year/year.

Reflecting the upside surprise in the quarter, we are raising our 2002 estimate to $4.65 (+14% yr/yr) from $4.60, and introducing a 2003 estimate of $5.25 (+13%). We are also raising our target to $70 from $67, which represents roughly 13.3x this new 2003 estimate, roughly in line with our view of the company's long-term growth rate, and well within its historical trading range. We maintain our Outperform rating.

REVENUE GROWTH

Total net revenues increased by 26% year/year including a 30% increase in fee income, 24% increase in net interest income, 7% increase in insurance revenues, 16% growth in other income (includes the tax refund business), 1% increase in fee income and higher securitization income. Securitization revenue, as reported on the income statement, was $145.8 million in first quarter 2002 compared to $120.4 million in the prior quarter and a "net loss" of $26.1 million in the first quarter a year ago.

According to management, the net change in the intangible interest-only securitization strip contributed to $0.04 to EPS compared to $0.01 in first quarter 2001. Household securitized $2.4 billion in loans in the quarter, significantly more than the $900 million in the year-ago quarter. Note that this excludes the securitization of real estate secured loans, since that was treated as a financing for accounting purposes and held on-balance sheet. As noted above, securitization activity was relatively heavy during the year, and we would expect to see the pace of new securitizations moderate over the rest of the year.

The contribution to EPS from the tax refund anticipation loan (RAL) business grew by 26% year/year to $0.19 per share in first quarter 2002 (after-tax) vs. $0.15 per share in first quarter 2001, topping our expectations. Increased traffic through the H&R Block offices drove the surprise. Credit quality on these loans remained solid.

Managed net interest margin contracted by 6 basis points to 8.79% in first

quarter 2002 versus 8.79% in the fourth quarter (and was up significantly from 7.60% a year ago due to lower interest rates). The modest margin contraction during the quarter reflected the modest mix shift in the portfolio towards real estate secured loans, which tend to be lower margin, but lower risk loans.

RECEIVABLES GROWTH

Managed receivables grew by $355 million during 1Q02 to $101.2 billion, up 14.5% year/year and in line with our expectations. There were no acquisitions in the current quarter, and the company sold a comparable amount of loans in both this quarter and the prior quarter. (HI sold $900 million in real estate receivables during 1Q02, and sold $1 billion Goldfish credit card receivables to its former co-brand partner, Centrica, a UK utility company in 4Q01.) The real estate loans were sold (in less than 30 days) to help reduce short-term funding needs/commercial paper (inspired by Fitch's desire to see less commercial paper reliance and improved liquidity). Household will continue to service the loans, earning a servicing fee.

It appears that management sought growth in business lines with relatively lower capital requirements and more predictable credit risk. The biggest component of loan growth in the quarter came from the real estate secured segment, which grew 21.7% year/year, adding net new loans of $1.5 billion. Approximately 1/3 of the real estate secured loan growth came from the correspondent channel, and 2/3 came through internal branch originations.

Compared to the fourth quarter, credit card balances (general purpose and private label) declined due to seasonal trends. The auto lending business grew by 38% year/year, but balance growth was a relatively light $220 million, primarily due to seasonality. Given varied results at other auto lenders this quarter, it appears that Household took its foot off the accelerator a bit in auto as sequential loan growth (in dollars) was lighter than that of past first quarters. This was likely due to moderating appetite for nonprime auto loans due to deteriorating credit trends over the past few months, as well as work to improve risk-weighted capital ratios. Growth in the personal non-credit card segment was also relatively light, which we also interpret as a function of moderating non-prime loan growth as well as a seasonal trend.

At the end of the quarter, 46% of managed receivables were real estate secured, 16% Visa/MasterCard, 18% other Unsecured, 13% Private Label and 7% auto finance.

EFFICIENCY

The first quarter 2002 efficiency ratio was relatively stable with the fourth quarter and remained 400 basis points better than it was a year ago. Operating expenses grew by 12% year/year (excluding the insurance business). The company added $20 million to marketing investment, which was up 10% year/year.

CREDIT QUALITY

Overall, credit quality results were in line with our expectations. The managed delinquency ratio expanded by 17 basis points sequentially to 4.63% in 1Q02 from 4.46% in the prior quarter. The managed net charge-off ratio expanded by 19 basis points sequentially to 4.09% from 3.90% in the prior quarter.

We expect that the charge-off ratio will continue to rise over the year, but believe it will remain manageable. We also continue to expect management to build reserve levels to the extent credit losses continue to rise. Losses on a

12-month lagged basis rose a bit in each business line, the most notable increases are in the personal non-credit card and auto lines -- areas that also have the highest rates of re-aging, as discussed at the recent investor day. (At year-end, approximately 17.7% of the company's managed receivables had been re-aged at least once, led by the personal non-credit card business line with 27% re-aged). There was also about a 20 basis point increase in the 12-month lagged real estate secured loss ratio over the past couple of quarters.

The managed net charge-off ratio for the personal non-credit card and auto segments expanded by 81 bps and 20 bps sequentially, respectively. After lagging the balances 12 months, we calculated a 9.3% loss ratio on the auto portfolio, and 8.7% on personal non-credit card. While the Visa/MasterCard net charge-off rate expanded by 50 bps, the increase in the nine-month lagged loss rate was only 20 bps. The company did note that it experienced higher loan losses in its non-prime Renaissance portfolio.

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Compared to the prior quarter, each business line experienced higher delinquency ratios, except the auto finance business. The auto finance business reported that the delinquency ratio improved by 65 basis points compared to the prior quarter. A meaningful portion of the improvement was likely due to seasonal trends, although given that delinquency rates improved at other companies in our sector, we believe there may be some modest industry-wide improvement in credit quality as well. Auto repossession levels improved during the quarter and extension rates improved to 3.5% vs. about 4% in the prior quarter.

Loan loss reserves as a percentage of owned receivables improved to 3.61% compared to 3.33% in the prior quarter and 3.32% in the first quarter last year. Managed reserves to managed receivables improved to 4.1% in first quarter 2002 from 3.8% last quarter and a year ago.

CAPITAL LEVELS

As highlighted in its recently filed 10K for 2001, Household took a variety of steps to improve capital levels and reduce reliance on short-term funding (somewhat driven by regulators' focus on the bank's capital levels and new subprime lending guidelines). More specifically, it: 1) securitized home equity loans, accounted for as an on balance sheet financing, 2) added to its investment portfolio, 3) reduced commercial paper usage, 4) slowed down the pace of its stock buyback plan, 5) sold $900 million in real estate loans, and 6) added $5 billion incremental conduit capacity for real estate receivables.

Approximately $2.4 billion in receivables were securitized (not including real estate secured loans still held on balance sheet) in the quarter to demonstrate liquidity and reduce the company's reliance on the short-term unsecured debt, (which has shown some volatility recently). Receivables securitized included auto finance, MasterCard/Visa, Private label and personal non-credit card. Domestic commercial paper balances have been reduced significantly to $5.8 billion (compared to $8.7 billion at the end of 2001). Further, the company issued $400 million preferred stock to build balance sheet strength during the first quarter.

The company established a $1 billion investment portfolio ("non-insurance investments") to improve liquidity. In addition, the tangible equity to tangible managed assets (TETMA) ratio increased to 8.41% at the end of the first quarter from 7.87% at the end of December. The company moderated its share-buyback in the quarter, however, given its plans to maintain a capital level of 8.00%-8.25%, we could see the pace of share buyback pick up later in the year - as capital levels allow.

Household bought 1.6 million shares back during the first quarter, totaling $100 million. At the end of the quarter, the company had forward agreements to purchase about 6 million shares of common stock back at a weighed average price of $57.11 per share.

2002 AND 2003 ESTIMATES AND ASSUMPTIONS

We are increasing our full year EPS estimate for 2002 to $4.65 from $4.60 (+14% yr/yr growth) and introducing our 2003 EPS estimate of $5.25 (+13% yr/yr growth). Below we outline some key assumptions:

* Managed loan growth of 10.5% yr/yr and 10.8% yr/yr for 2002 and 2003, respectively.

* Net interest margin of 8.72% and 8.31% in 2002 and 2003, respectively. We believe that a rising interest rates environment will apply moderate pressure on NIM mainly towards the end of the year and throughout 2003.

* Efficiency ratio modestly improving throughout 2002 to 31.7% (down about 200 bps yr/yr), and rising moderately throughout 2003 to 32.5%.

* Net managed charge-offs will continue to rise throughout the bulk of 2002, averaging 4.15% for the year, showing moderation thereafter.

* An additional $349 million added to reserves for the rest of 2002, and an additional $402 million added in 2003. We expect the owned reserves to owned receivables ratio to remain between 3.55%-3.60% for remainder of 2002 and 2003.

ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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Exhibit 38

VENTANA CAPITAL, LLC

April 25, 2002

William Ryan (212) 414-0211

Household International (HI-$60-SELL)

"Looking For Quality Earnings? You Won't Find It Here!"

It sure does not seem to take much to get investors excited these days. When Household reported 1Q2002 earnings last week, investors rapidly bid up the shares on this consumer finance giant without paying much attention to the earnings quality that was reported, nor the anticipated earnings quality looking forward. Investors simply focused on the fact that Household reported earnings of $1.09 per share versus consensus of $1.04. Investors ignored the fact that when stripping out the year-over year positive impact from securitization gain-on-sale revenues ($0.02), as well as the lack of goodwill amortization ($0.03), earnings per share were basically in line with expectations of $1.04. Further, Household did not provide upward guidance to earnings expectations despite beating expectations, implicitly giving downward guidance to the next three quarters of earnings. At a minimum, if earnings quality is to remain even flat with last year, upward guidance should be given by the company to at least account for the lack of goodwill amortization in 2002, which will positively impact earnings per share by $0.10 to $0.11. This would imply 2002 earnings in the area of $4.80 per share, versus current consensus of $4.70.

In the table below, we have highlighted the composition of Household's earnings per share growth over the last two years, as well as provided a projection for 2002. Earnings quality will be increasingly "polluted" in 2002 with the lack of goodwill amortization as well as incremental growth in gain-on-sale earnings. When adjusting for these items, "core" earnings growth at Household (excluding the effects of gain-on-sale and goodwill amortization), declined from 90% of total growth in 2000 to 70% in 2001. In 2002, we are projecting that earnings quality will decline once again, with only 60% of earnings growth coming from "core" operations. We also project that "core" earnings growth in 2002 will total only 9%, down from 14% in 2000. The decline in earnings quality is typically indicative of future earnings multiple contraction as it relates to the stock price.

Earnings Quality Is Declining

	2000	Percent of Growth	2001	Percent of Growth	2002E	Percent of Growth
Prior Year Earnings Per Share	$3.07		$3.55		$4.08	
Goodwill Amortization	(0.03)	-6.3%	0.02	3.8%	0.10	16.1%
Gain On Sale (1)	0.08	16.7%	0.14	26.4%	0.15	24.2%
"Core" Earnings Growth (2)	**0.43**	**89.6%**	**0.37**	**69.8%**	**0.37**	**59.7%**
Current Year Earnings Per Share	$3.55		$4.08		$4.70	
Core Earnings Per Share Growth Rate		**14.0%**		**10.4%**		**9.1%**

(1) Estimated for 2002.
(2) Includes impact from share buy-back.

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Even "Core" Earnings are Suspect

In the table above, we have given credit in "core" earnings growth for two factors: share buy-backs and reserve building. **However, Household has increasingly used fixed income type equity securities, including trust preferred and preferred stock, as a means to help facilitate the share buy-backs.** First, this lowers the quality of the equity capital structure of the company. Second, we believe Household is rapidly approaching the maximum amount of preferred and trust preferred securities that rating agencies and investors will be willing to accept in the company's capital structure and maintain its existing ratings. Presently, preferred and trust preferred securities represent 17% of the equity base of the company. We believe the limitation on the amount of these securities as a percent of the equity base is around 20%. Therefore, Household will be much more reliant on internal capital generation to facilitate the share buy-back program, and can ill afford any decline in credit quality which would impact capital generation. Perhaps this is why Household is reaging such a high percentage of its portfolio – to avoid taking the hit to capital generation, which would destroy the EPS growth model they have in place.

Running Out Of Room For Share Buy-Backs?

	1Q2002		FY2001		FY2000	
$ in millions	Dollars	Percent	Dollars	Percent	Dollars	Percent
Trust Preferred	$975	9.1%	$975	10.1%	$675	7.7%
Preferred Stock	843	7.9%	456	4.7%	164	1.9%
Common Equity	8,875	83.0%	8,203	85.1%	7,951	90.5%
Total	$10,694	100.0%	$9,634	100.0%	$8,791	100.0%

Not a quarter goes by that Household does not boast about the additions to reserve on an "owned" basis each quarter. Indeed, management has been quick to point out that they added $213 million of reserves in the first quarter of 2002, and $503 million added in 2001. However, consider the following:

- **Seasonality In Earnings Plays A Factor.** For some unexplained reason, Household's earnings always show a dramatic seasonal drop from the December quarter of any given year into the first quarter. The seasonality in earnings, prior to the Beneficial acquisition in 1998, was related to the credit card business which is always exceptionally strong in the fourth quarter due to holiday spending. However, after the acquisition of Beneficial, credit card earnings fell to a relatively small part of the company's overall earnings, mitigating (if not almost eliminating) the seasonal element to the earnings. Yet the seasonality in earnings estimates remained at Household. And, earnings expectations for Household are always the lowest in the first quarter of the year. As we have seen in prior years, reserve building at Household is typically the strongest in the March as Household uses the artificially low earnings hurdle rate it has set for itself to bolster reserves. However, you can expect reserve building and earnings quality to decline over the next three quarters as the company stretches to makes its earnings estimates.

Earnings Expectations Are Artificially Low In The March Quarter

	1999					2000					
	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY	1Q
Earnings Per Share	$0.65	$0.67	$0.83	$0.92	$3.07	$0.78	$0.80	$0.94	$1.03	$3.55	$0.91
Percent of Total Year's Earnings	21.2%	21.8%	27.0%	30.0%	100.0%	22.0%	22.5%	26.5%	29.0%	100.0%	22.3%
Percent: 1st Half vs 2nd Half		43.0%		57.0%	100.0%		44.5%		55.5%	100.0%	

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- **Special/Seasonal Events in 1Q Earnings.** First quarter earnings, in any given year, are always positively influenced by the earnings from Household's Refund Anticipation Loan (RAL) business. In the first quarter of 2002, RAL contributed $0.19 to earnings, or $135 million on a pre-tax basis. Further, gain on sale revenues totaled $29 million in 1Q02, and we estimate that the gain recognized on whole loan sales of home equity loans totaled $45 million in 1Q02. All told, these seasonal and special items totaled $209 million relative to the $213 million in reserves added in the quarter (summarized in the table below). In our analysis, we have even excluded the $19 million positive impact in the quarter from the reduction in goodwill amortization, which only further brings into question reserve building and earnings quality. Since RAL earnings will disappear in the second quarter, and no whole loan sales will likely be taking place, Household will begin to be much more stretched to make its earnings estimates.

Reserve Additions Not Impressive When Considering Seasonal/Special Items

$ in millions	1Q2002
RAL Earnings	$135
Gain on Whole Loan Sales	45
Gain on Sale from Securitization	29
Total	209
Reserve Additions	$213
Seasonal & Special Items/ Reserve Additions	**98.1%**

Do Reserves Mean Anything Anyway?

As its relates to the addition of $503 million to owned reserves in 2001, we have one comment/question: How do charge-offs and reserves even qualify as a performance metric if you have reaged 4x both the annualized charge off rate and reserve levels? Or if just the growth in the reaged portfolio in the year exceeds reported charge-offs and reserve levels? Further, what do reported earnings and the capital generation used for the stock buy-back program even mean? In our opinion, reported delinquencies, charge-offs, reserves, cash flow and earnings mean absolutely nothing when taking into consideration the massive amount of reaging in Household's portfolio. Reaging at Household is simply a tool for the company to make its earnings estimates – at least in the short-term. Simply stated, the $500 million addition to reserves in 2001 that management so frequently boasts about means absolutely nothing. The reserve additions are simply there because management wanted to create the perception of reserve building, yet hit its earnings estimates. Reaging was the tool to achieve the desired results.

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William Ryan (212) 414-0211

Reserves and Charge-Offs Statistics Have Little Meaning

	Year Ended 2001	Reaged Portfolio as Multiple Of
Reaged Portfolio(1)	16.90%	
Charge Off Ratio	3.73%	4.5 x
Reserve Ratio	3.78%	4.5 x
TETMA (2)	7.87%	2.1 x

(1) Reaged portfolio as % of total portfolio.
(2) Tangible equity/tangible managed assets.

An Underwriting Problem Masked By Reaging. At Household's analyst meeting in early April, investors seemed to dismiss the magnitude of the reaging of loans taking place in relation to reported delinquencies, credit losses, reserves, and earnings. In fact, some analysts even said a higher multiple on earnings was deserved given the additional disclosure. While information on reaging is somewhat hard to come by, we feel pretty comfortable saying that the reaging levels at Household appear to be as much as two times that of other consumer finance companies we polled. Household even makes Metris (MXT-$14-SELL) look good when it comes to reaging. Metris, which serves a somewhat similar customer base as Household, disclosed that the amount of loans reaged or in a forbearance program totaled 7% of receivables at year-end 2001 compared to 17% at Household.

What the massive amount of reaging at Household signifies to us is that there is an underwriting problem that needs to be fixed. As we have seen with other consumer finance companies, massive reaging is always the symptom of a much bigger problem – poor loan underwriting. One way or another, this issue will eventually be dealt with. Ask anyone in the industry, and they will tell you that reaged loans perform substantially worse from a credit quality perspective than loans that have never been reaged.

Multiple Reaged Loans Ballooning. My favorite expression in the financial services industry is that the rolling loan gathers no loss. At Household, this is exemplified by the ballooning amount of loans having been reaged multiple times. In 2001, the amount of loans reaged more that once soared 68%, or $1.6 billion, to over $4.0 billion at the end of the year. There is no question in our mind that a substantial part of this amount should have been charged off during the year. But then Household would not have made its earnings estimates, or created the perception of reserve building to its investors. So what does $500 million increase in reserves actually mean in light of these statistics? Absolutely nothing.

Multiple Reaged Loans Are Ballooning

$ in millions	Y-O-Y Growth	% of Portfolio	$ Amount	% of Portfolio	$ Amount
Reaged once					
-Last 12 months	29.9%	9.4%	$8,804	8.5%	$6,780
-Before	34.2%	3.2%	2,997	2.8%	2,233
Multiple reaged	**68.3%**	**4.3%**	**4,028**	**3.0%**	**2,393**
Total Reaged	38.8%	16.9%	$15,829	14.3%	$11,406

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"Other Unsecured" – A Re-write Portfolio. We have long had our suspicions that Household was rewriting some bad loans from other categories into this file to avoid recognizing loan losses. The reason that Household would want to do this is because super-liberal reaging and loss recognition policies are in place for this category of loan when compared to all other categories. Even the recently filed 10-K alluded to the fact that loans from other categories are rewritten into this file. Not only is "other unsecured" a re-write file to some extent, but it appears Household will aggressively attempt to slow the recognition of loan losses on this portfolio. A full 27% of this portfolio has been reaged at least once. Further, loans that have been reaged multiple times soared 81%, or by $800 million, in 2001 to $1.8 billion. So back to the $500 million of additional reserves added in 2001. It means absolutely nothing.

Multiple Reaged Loans Are Ballooning - Other Unsecured Portfolio

$ in millions	Y-O-Y Growth	% of Portfolio	$ Amount	% of Portfolio	$ Amount
Reaged once					
-Last 12 months	25.8%	11.1%	$1,711	9.9%	$1,360
-Before	-1.5%	4.3%	663	4.9%	673
Multiple reaged	**81.3%**	**11.8%**	**1,818**	**7.3%**	**1,003**
Total Reaged	38.1%	27.2%	$4,192	22.1%	$3,036

Gain On Sale, Briefly Revisited

In a research note published late last year, we stated that the interest-only strip created from gain-on-sale accounting increased by $177 million, which, on an after-tax earnings per share basis, translated into $0.24 per share. However, we made the "mistake" of not adjusting our assumed EPS impact for the mark-to-market on the interest-only strip (which does not run through the income statement), and appreciate the correction. We thought investors might find the following points of interest:

- The mark-to market adjustment to the interest-only strip was not disclosed until 2001, so there was no way to distinguish what the impact securitization activities had on reported earnings until the mark-to-market disclosures were made in the 2001 10-K.
- The recent disclosures revealed that an increasing percentage of earnings growth is coming from securitization gain-on-sale earnings, indicating that the quality of earnings is declining.
- For three years, the company reported that securitization activities were creating a drag on earnings. The company now reports that, in fact, the opposite is true – the activities had a positive impact on earnings. The reason for the recent disclosures is unclear.
- This new disclosure (reversal) on securitization accounting regardless of the origin or inspiration, is welcome and ensures a more accurate view of the company's earnings.

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The Impact Of Securitization Activities

	1999	2000					2001				
$ in Millions	FY	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY
Gross Gains	493.3	164.4	96.8	142.5	279.4	683.1	105.9	160.4	152.4	244.5	663.2
Amortization	(377.3)	(99.7)	(94.3)	(106.3)	(139.9)	(440.2)	(132.0)	(137.2)	(134.2)	(124.1)	(527.5)
Securitization Related Revenue	116.0	64.7	2.5	36.2	139.5	242.9	(26.1)	23.2	18.2	120.4	135.7
Over the Life Provision - New Transactions	(382.2)	(122.0)	(72.3)	(101.4)	(217.3)	(513.0)	(79.7)	(120.4)	(113.9)	(183.5)	(497.5)
Net Effect Of Securitization Activity	(266.2)	(57.3)	(69.8)	(65.2)	(77.8)	(270.1)	(105.8)	(97.2)	(95.7)	(63.1)	(361.8)
EPS Impact Initially Reported	**($0.37)**	**($0.08)**	**($0.10)**	**($0.09)**	**($0.10)**	**($0.37)**	**($0.15)**	**($0.13)**	**($0.14)**	**($0.09)**	**($0.51)**
Actual EPS Impact - New Disclosure	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**$0.08**	**N/A**	**N/A**	**N/A**	**N/A**	**$0.14**

Securitization Impact On GAAP EPS

$ in millions, except per share amounts	2000	2001	1Q2002
Pre-Tax Change in I/O Strip in P&L	$58.9	$100.5	$29.0
After Tax Impact	$38.4	$65.8	$19.1
EPS Effect	**$0.08**	**$0.14**	**$0.04**
% of Total EPS	2.2%	3.4%	3.7%
% of EPS Growth	**16.7%**	**26.4%**	**22.2%**

Legal Issues

After being taken to task by the California Department of Corporations, as well as consumer advocacy groups, Household announced several sweeping changes to its home equity loan underwriting practices. These changes, prompted by regulators and consumer activists, may or may not have been enough. According to a re-filed lawsuit by ACORN, and a suit in the state of Washington seeking class action status, both of which allege predatory lending practices, many issues remain despite the apparent changes to "best practices". Further, while Household may have announced sweeping reforms to its home equity loan underwriting practices, certain consumer groups remain skeptical that many of the reforms may not have been put in place. In other words, while the company may have implemented some of its announced reforms, some of the "changes" may have been more for "PR" purposes, according to certain sources.

Amended Acorn Suit. ACORN recently filed an amended suit against Household alleging that the way it calculates interest on home equity loans, namely revolving second mortgages, creates negative amortization on a loan for its borrowers. A reading of the suit shows that the company's interest rates are so high on second mortgages, that even a minor change in the number of days of paying interest on the home equity loan means the next monthly payment will be short (hence the term "interest short" in the lawsuit), resulting in negative amortization of the loan balance. The negative amortization of the loan balance can result whether the customer pays a few days early or a few days late. The addition of the "negative amortization" issue was the primary change in the amended lawsuit.

Suit Filed In Washington Seeks Class Action Status. Apart from the ACORN lawsuit, another lawsuit alleging that Household duped borrowers into refinancing away from low rate existing first mortgages into punitively priced first and second mortgages was filed in Washington, and is seeking class action status. The suit alleges a bait and switch sales effort on the part of Household in originating first and second mortgages.

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Exhibit 39

AN ccardm0020020503dy4p0000t
SE
Collections & Recovery

HD Keeping the Lid on Subprime Exposure
BY
By Burney Simpson

WC 1852 words
PD 25 Apr 2002
SN Credit Card Management
SC CCARDM
PG 20, 20
CY
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LP
Secured cards, the original subprime cards, are presenting issuers with challenges in this difficult economy, as is the subprime sector in general.
How can issuers avoid driving off a cliff?

The current economic slowdown seems to be proving that businesses that appeal to troubled consumers just might get into trouble themselves. Some card issuers that seek out subprime consumers have been overwhelmed with problems, leading many within and outside the card industry to question the viability of such programs.

TD
The recent problems of two San Francisco based card issuers-NextCard Inc. and Providian Financial Corp.-and the closing of Boca Raton, Fla.-based Net First National Bank has regulators concerned about subprime lending. Net First's secured cards didn't bust the bank, but critics blasted their high fees.

In response to the difficulties, federal banking regulators formed a task force in March to study the subprime market. The Office of the Comptroller of the Currency will lead the group that also will include representatives from the Federal Reserve Board, the Office of Thrift Supervision, and the

Federal
Deposit Insurance Corp.

Part of the subprime market includes issuers of secured credit cards. These
cards typically require that the cardholder put down a deposit with the
issuer, commonly $500 to $1,000, to collateralize the credit line. There's no
precise number of secured card issuers, though banking regulators estimated
there were about 150 to 170 last July.

Despite the fact that they've put up deposits, secured card holders are
risky because they frequently go over their credit limits, use
customer-service facilities frequently, often have been late in paying other
bills or gone bankrupt, or have no credit history.

The regulators' heightened concern about the subprime market comes as
American consumers set records for bankruptcy. In 2001, there were 1,492,129
bankruptcy filings, a 19% increase from 2000 and a 3.4% rise from 1998, the
previous record year, according to numbers from the Administrative Office of
the U.S. Courts. The American Bankruptcy Institute estimates that bankruptcies
account for up to 50% of credit card issuers' chargeoffs.

And more consumers are late in their card payments. According to the
Washington D.C.-based American Bankers Association, 4.67% of Visa/MasterCard
receivables were delinquent in 2001's fourth quarter compared with 4.25% in
the 2000 period.

To outsiders and contrarians, these numbers suggest that subprime card
issuers present a gold mine for collectors. After all, when things turn bad
for Joe Consumer, activity should be picking up for collections agencies.

But that's only part of the story. The number of overdue accounts may be
rising, but delinquent subprime borrowers require more work by collectors,
according to experts.

First, secured card holders usually are less sophisticated and, when a
collector comes calling, they may need some education regarding paying off the
debt, says Bryan Faliero, executive vice president of St. Louis-based
Outsourcing Solutions Inc. OSI is a receivables-management company with about
70 offices in 25 states and revenues of $542.6 million in fiscal 2000.

Further complicating matters is the way secured cards are often marketed,
says Faliero. The issuers tend to be smaller, lesser-known banks. And the card
may be marketed under a name unrelated to the bank. So the debtor can be
confused by the name on the bill when the collector calls.

"You have to get them to know they owe money and who they owe it to," says
Faliero. "You may have to conduct some credit counseling and show them how
much they can afford to pay."

In industry terminology, subprime consumers have a lower liquidity rate,
according to Faliero. The liquidity rate is a calculation that determines the
collectibility of an account, and is used to figure the money that can be
generated from each account by the collector. The liquidity rate drops as more
time is spent working the account.

"The unit yield for each subprime account is substantially lower than that
for prime debt," says Faliero. "So the collector must work a higher number of
accounts to earn the same amount of money."

Secured card holders account for more late payments in a card portfolio,
according to Peter Davidson, president of Atlanta-based consultant Speer &
Associates. The overall delinquency rate on secured cards is around 8% to 9%
compared to 3% to 4% for unsecured cards, he says.

Hand-Holding

And secured card holders make more calls and inquiries seeking updates on
their balances, whether a payment has gone through or if their credit limit
can be increased, he says. That means higher servicing costs.

Secured accounts also have a hidden danger for issuers-cardholders charging
over their credit limit. This occurs even though by definition the spending
should be tightly controlled.

Cardholders hurdle their credit limits in three ways, according to Davidson.
First, it's not uncommon for issuers to give cardholders a cushion of 5% to
20% over their stated limit. Late fees and other charges can push the balance
over the top. And authorization rules are looser beyond U.S. borders, so it's
easier for travelers to stretch the boundaries.

How many secured card holders are pushing their limits isn't known,
according to Davidson. "It's hard to gauge because issuing banks manage their
businesses in different ways," he says.

Collection agencies can hone in on subprime cardholders by using the OCC's
guidelines, which list definitions from organizations with influence in the
debt markets, such as securities rating agencies Standard & Poor's, Moody's

Investors Service, and others. The definitions rely on the FICO credit scores developed by San Rafael, Calif.-based Fair, Isaac and Co. According to Fair, Isaac, the median FICO score nationwide is 720.

S&P considers subprime borrowers those with a FICO score of 659 or below. Similarly, mortgage-loan backer Freddie Mac considers borrowers with a score in the 620 to 660 range to be risky.

Quiet Exits

The economic downturn coupled with rising costs of collection and regulatory pressures are driving some of the major issuers out of the subprime market, including secured cards. Some issuers, for competitive reasons, won't reveal if they've gotten out until after the fact. But since 1999, there's been a 60% reduction in subprime issuers in the client base of London Bridge Group, the Norcross, Ga.-based software developer of debt-recovery systems, according to a spokesperson. London Bridge claims the users of its Recovery Management System are the 100 largest credit issuers in North America.

One issuer that has gone public with its dissatisfaction with secured cards is Metris Companies Inc. It had been a heavy marketer of the products as it built its portfolio. But no more, says Joseph Hoffman, executive vice president of the Minnetonka, Minn.-based issuer. Hoffman concurs with Davidson that secured card holders are "higher maintenance. Typically they're not as savvy."

That made servicing the accounts more labor intensive, which drove up costs and lowered, or erased, profits. "There wasn't enough skin in the game," Hoffman says.

About nine months ago, Metris also retreated from a partially secured card where the consumer's deposit was less than the credit limit on the card. The cards attracted some solid borrowers who have since been issued unsecured cards, but the less creditworthy cardholders drove down the program's profitability, he says.

Today, Metris only offers a secured card to selected applicants who have been turned down for its unsecured card. The strategy targets consumers with FICO scores around 680, says Hoffman.

Metris appears to have been fortunate compared to other big subprime issuers that have suffered highly public blow-ups. Providian had built itself into the seventh-largest U.S. card issuer with a portfolio full of subprime accounts.

But last fall, the poor quality of the portfolio drove regulators to require Providian to change the way it reported bankruptcies. That revealed more damaging numbers, Providian's investors ran for the exits, the stock fell off a cliff, and senior management was overhauled.

Still a Market

Providian has since announced it will no longer play in the subprime market. Through already completed or planned sales of subprime and some platinum accounts, and its international businesses, Providian expects to lower its managed receivables from $32.6 billion last December to $22 billion by year's end, according to Vice Chairman of Planning and Marketing Warren Wilcox.

Speaking to a group of investors in March, Wilcox said Providian's riskiest cardholders could see higher interest rates as the issuer applies new scoring and underwriting criteria to their accounts.

Another major defection from the subprime ranks involves The Spiegel Group, the retailer that owns the struggling Eddie Bauer, Spiegel Catalog, and Newport News brands. The Downers Grove, Ill.-based company also was a pioneer in subprime lending through its First Consumers National Bank.

But in February, Spiegel announced that it would sell its bank card and private-label card business, including card-issuing subsidiary FCNB. The bank had booked many subprime cardholders in 1999 and 2000 in an effort to drive sales at Spiegel's retail divisions ("Spiegel's High-Risk Move Backfires," Card Watch, April).

NextCard was pushed before it could get out of the subprime market voluntarily. In February, the OCC closed NextBank NA, the Phoenix-based wholly owned subsidiary of the online card issuer, after determining that NextCard executives could not find a way to stem losses caused by the poor quality of its cardholder base.

One subprime card company that is slogging on despite being hit with bad news is Atlanta-based CompuCredit Corp. Its auditor, Ernst & Young, recently announced that it would resign after completing CompuCredit's 2001 annual report. The two firms had disagreed over how to classify a portfolio of securities backed by CompuCredit card receivables with a face value of $36 million that sold for $26 million ("The Auditor Shuffle," Card Watch, page 11).

CompuCredit eventually backed down and agreed that it should be categorized as a loss.

CompuCredit's chargeoffs are rising to Himalayan heights, reaching 15.3% of managed receivables in 2001's fourth quarter compared with 13.3% in the year earlier period.

In response, CompuCredit President Richard House says the firm is spending 40% more this year on its collections efforts. "We are hiring internally and external agencies. The expense is hurting, but long term it's best for the firm," House says.

These problems suggest that marketing to subprime consumers can be likened to crossing an Afghani field strewn with land mines. But with major issuers walking away from subprime market, there are still a variety of small to mid-sized issuers eager to cater to these consumers, says Speer's Davidson. And there will always be consumers that need some help either getting started or getting back on their financial feet.

"There will continue to be a market for this," he says.

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Exhibit 40

DOW JONES

Business Wire
A Berkshire Hathaway Company

HD

Fitch Ratings Report: Finance Company Capital Standards - 2002

WC 373 words

PD 29 April 2002

ET 10:53 AM

SN Business Wire

SC BWR

LA English

CY

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LP

NEW YORK--(BUSINESS WIRE)--April 29, 2002--Fitch Ratings has completed its annual review of Finance Company risk-based capitalization. The results of Fitch's analysis have been published in the report titled 'Finance CompanyCapital Standards - 2002'. This study illustrates Fitch's assessment of the adequacy of a finance company's capitalization relative to the risk profile of its managed assets and is one of many important factors considered in its ratings.

TD

The core methodology underlying Fitch's risk-based capital model remained relatively unchanged for 2002. However, over the past year, Fitch has been re-evaluating the underlying liquidity of many of the different asset classes to determine whether risk weights needed to be adjusted. The primary purpose was to better capture the inherent liquidity characteristics of a given asset class. This provides insight into a company's ability to effectively monetize a given loan in a reasonable time period in the event normal funding channels are unavailable or to hold assets prone to high delinquency or workout periods (such as equipment lending or commercial real estate).

Fitch has determined that most risk weights from last year's study appear to be appropriate, although some adjustments for 2002 were made. Changes were most prevalent in unsecured consumer assets, subprime real estate, and manufactured housing loans. In combination with concern over relative asset liquidity, noticeable deterioration in some consumer assets classes, mainly subprime unsecured and manufactured housing lending, caused a rise in those given risk weights for 2002.

According to Fitch, many consumer finance companies' risk-adjusted capitalization were negatively affected by the modifications that took place with this year's study. On the other hand, the risk-adjusted capitalization of Fitch's commercial finance and leasing company universe improved in 2001 due to lower asset growth and increased retained earnings.

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The report is available on Fitch Ratings' web site at ' www.fitchratings.com '
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CT

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Exhibit 41

DOW JONES

SE Business

HD **Credit Card Delinquency Soars**

BY Bruce Francis, Kathleen Hays

WC 857 words

PD 29 April 2002

ET 05:00 PM

SN CNNfn: Markets Impact

SC CPID

LA English

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LP

BRUCE FRANCIS, CNNfn ANCHOR, MONEY & MARKET: Well, returning to business
news, it seems that consumers are becoming increasingly reluctant to settle up when credit card bills roll in. According to industry tracker CardWeb.com, late payments on credit card bills hit a five-year high last month.

Here to discuss the findings of that report, Robert McKinley. He`s president and CEO of CardWeb.com.

TD

Robert, thanks for joining us.

ROBERT MCKINLEY, PRESIDENT AND CEO, CARDWEB.COM: Thank you.

FRANCIS: What does this mean?

MCKINLEY: Well, there`s a lot of things happening in the marketplace. One thing is that the industry has been lending money, issuing credit cards, to consumers with less than desirable credit for the last five, six years...

FRANCIS: That`s the so-called subprime market.

MCKINLEY: Exactly. And in some cases it`s not just people with low income, it`s also consumers, young consumers who have limited incomes, even older consumers. And what`s happening is, those consumers are now

struggling. We have never been through a recession with the subprime market, and so we`re beginning to see the effects of that.

FRANCIS: How big is the exposure to the subprime market?

MCKINLEY: Well, subprime -- there`s a couple of issuers who have a large concentration in the subprime market, issuers like Providian, Metrus (ph), Capital One to some degree. Probably a ballpark figure, it`s about 15, maybe 20 percent of the market today. It is the fastest-growing segment in the credit card industry.

FRANCIS: So would you tend to discount this a little bit as an indication of consumer distress out there, since these credit cards have been extended to a whole new class of people?

MCKINLEY: That`s right. You know, most consumers are paying their bills on time. Consumers are continuing to spend and use credit cards. But we do have this segment, which is troubling.

And at the other side of it, we have the good customers, the prime consumers, who are not carrying as much debt. In fact, they`ve resolved to kind of pay it down. And when we`ve seen that dramatically this year, in the first two months, consumers only added $2 billion to revolving credit, compared to $18 billion one year ago.

So it`s been a real pullback. So card issuers are kind of getting it from both ends. I mean, their subprime issuers are -- card holders are not paying, and the prime card holders are not using their cards as much.

FRANCIS: We`ve had a big refinancing boom on home mortgages back in the
fall, because it looked like consumers used that refinancing money to pay down expensive credit card debt?

MCKINLEY: Apparently, there`s been some research that`s indicated a lot of consumers were doing that, consolidating it. Of course, unfortunately, consumers may be just handing themself more rope, if in fact they were in trouble prior to that.

FRANCIS: At what point when we track these numbers should we really raise the red flags? A five-year high is pretty bad, even -- but -- and so factor out some for the new subprime category weighting here, but at what point do we really get worried?

MCKINLEY: Well, I think once we start seeing charge-offs as a whole approach, the 8 percent level, we`re not there yet. In fact, I doubt that we`ll get there. But who knows? You know, the next five, six months, it really depends on the economy. If consumers continue to spend, continue to use their credit cards, we`ll pull out of it. And if the industry manages itself out of this risk problem with these subprime borrowers, I think they`ll be OK.

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FRANCIS: OK. We consumers do seem to like to spend these days.

MCKINLEY: Absolutely.

FRANCIS: No matter what the economy says. Robert McKinley, thanks for joining us. We appreciate it.

MCKINLEY: Thank you.

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RE namz : North America | usa : United States

IPD INTERVIEW

AN Document cpid000020020430dy4t00002

Exhibit 42

Household International: Legal Risk to Business Model Increasing

Howard K. Mason
Rick L. Biggs

- Second lawsuit filed by ACORN alleging predatory lending practices
- State laws becoming more rigorous, with federal relief unlikely

Our rating codes are:

O = Outperform
M = Market-Perform
U = Underperform

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Household International: Legal Risk to Business Model Increasing

Stock	5/9 Price	SCB Rating	YTD Rel. Perf.	52-Week Range	EPS 2001	EPS 2002E	EPS 2003E	P/E 2002E	P/E 2003E	Current Yield
HI	$56	M	4%	$43 - $69	$4.10	$4.65	$5.36	12.0x	11.0x	1.6%

Overview

ACORN — a community activist organization — has filed a second complaint against Household International, this time in Illinois, for alleged predatory lending activity. In addition to the recision of loans and actual and punitive damages, the complaint is seeking nationwide class action certification (the complaint previously filed in California is a statewide action).

More plaintiff-friendly state laws provide activists such as ACORN and lobbyists such as AARP increasing opportunities to pursue legal action against Household. For example, just last month, Governor Roy Barnes signed into law the "Georgia Fair Lending Act" containing extensive liability provisions for lenders.

As states like North Carolina, California and Georgia pass progressively more restrictive state laws, lenders face an increasing need for the protection of uniform standards in preemptive federal legislation. However, Senate Banking Committee Chairman Paul Sarbanes has been clear that he will consider federal preemption of state and local laws only under strict circumstances.

While negotiations around federal legislation continue, we expect additional restrictive state laws to be enacted. These will tend to reduce profitability in subprime lending and make lending to some high-risk segments uneconomic (thereby reducing the size of the addressable market). In addition, the new laws increase the risk of settlement costs for new and ongoing complaints.

We continue to expect action against Household by state attorneys general, possibly first in Minnesota. If successful, this will provide further support for the legal strategies of activist organizations such as ACORN.

Another ACORN Lawsuit

The putative class action complaint filed May 2 by the Association of Community Organizations for Reform Now (ACORN) against Household in the Circuit Court of Cook County, Illinois, follows the group's similar complaint filed earlier this year in the Superior Court of the State of California (that complaint has been removed to Federal Court). Both complaints attack the business model for subprime real estate lending at Household, characterizing it as "target, trick, and trap."

The complaints allege that Household "targets" customers who are home equity-rich through data gleaned from the company's credit card businesses and direct-mailing checks that provide immediate access to pre-approved loans. The firm then allegedly "tricks" customers by focusing on lower monthly payments while not disclosing that the overall debt amount and cost will increase because of, for example, up-front fees and credit life insurance that is embedded in the loan. Household then allegedly "traps" customers by selling add-on loans so that a high loan-to-value ratio, combined with prepayment fees, makes it difficult for competitors to offer refinancing alternatives.

In the Illinois complaint, ACORN has included out-of-state plaintiffs from Minnesota and Colorado and is seeking to involve "a class consisting of all individuals *nationwide*" (emphasis added). If such class status is granted, the legal threat to Household will be more serious than that posed by the California complaint, especially since that case was remanded to Federal court. The Illinois complaint notably relies on state law rather than the Home Owners' Equity Protection Act (HOEPA) or other federal laws. By doing so, ACORN has reduced the risk of removal to Federal court.

State Legislation Becoming More Restrictive

The ACORN complaint illustrates that activist organizations are ready to sue Household (despite its announcement of new best practices in February this year) under state laws. These state laws are becoming more restrictive over time (see Exhibit 1). The Georgia Fair Lending Act passed last month is the most restrictive yet. It covers any loans with an APR of 2% or more above a Fannie Mae loan or with points and fees exceeding 3% of the loan and contains extensive liability provisions.

This is part of a trend at state and local levels whereby both the definition of loans under restriction and the restrictions themselves are becoming more rigorous. For example, the 1999 North Carolina act covers those loans with an APR of more than 10 points above comparable-maturity Treasuries[1] (equivalent to about *15.7%* today). The 2001

[1] Later revised to 8 points above comparable-maturity Treasuries.

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California legislation has an APR trigger of 8 points over Treasuries (or about *13.7%*). In contrast, the Georgia act has an APR trigger of just *8.8%* (the maximum of Prime+4, Fannie+2, or Freddie+2).

The latest act (Georgia) not only covers a larger pool of loans, but also imposes many harsher requirements. For example, while credit insurance premiums (a frequent target of activists) are not addressed in the North Carolina law, the California statute allows this product to be financed into existing loans only after a 30-day period, and the Georgia act prohibits financing of the product entirely.

One of the more potentially onerous requirements is the mandate of credit counseling, which allows third parties to advise potential customers whether a loan product offering is suitable, thereby interfering in the sales process. While the North Carolina act requires that prospective borrowers receive credit counseling, and California requires notification advising borrowers to consult with an independent credit counselor, the Georgia act specifies that borrowers must receive certification from a third-party counselor approved by HUD or the state Finance authority.

We expect further state legislation with the recent spate of bill introductions (see Exhibit 2). While industry lobbying has weakened the proposed restrictions in some states (such as Florida and Connecticut), other states (such as Minnesota, New Jersey and New York) are evaluating more

Exhibit 1 Comparison of State Predatory Lending Laws Enacted Over Time

	North Carolina Predatory Lending Law Jul-99	California Residential Mortgage Lending Act Oct-01	Georgia Fair Lending Act Apr-02
Qualifying Criteria for Coverage as High-Cost Loan			
APR Minimum on First Lien	Comparable UST + 8%	Comparable UST + 8%	Greater of (Prime + 4%) or (Fannie/Freddie + 2%)
Memo: Equivalent Current (May 2002) Rate[1]	13.7%	13.7%	8.8%
APR Minimum on Second/Subordinate Lien	(Same as first lien)	(Same as first lien)	Greater of (Prime + 5.5%) or (Fannie/Freddie + 3%)
Memo: Equivalent Current (May 2002) Rate[1]	13.7%	13.7%	10.3%
Points/Fees Minimum	For loans >$20k, 5% For loans <$20k, lesser of 8% or $1,000	6%	3%[2]
Major Restrictions on Covered High-Cost Loans			
Prepayment Penalties	na	Must be less than 6 months of interest payments when sufficient principal remains	Prohibited after 2 years; in first year, max. of 2%; in second year, max. of 1%
Refinancing Limitations ("Loan Flipping")	No points/fees allowed with existing lender	Must provide "tangible net benefit" to borrower	In first 5 years, must provide "tangible net benefit"
Repayment Ability Consideration ("Equity Stripping")	Must be considered; debt/income ratio must be <50%	Must be considered; debt/income ratio must be <55%; data must be verified by 3rd party	Must be considered; debt/income ratio must be <50%
Financing of Credit Insurance Premiums ("Packing")	na	Prohibited for 30 days following origination of loan	Prohibited
Financing of Points/Fees	Prohibits financing of fees for third-party charges	Prohibited	Prohibited
Attachment of Mandatory Arbitration Clauses	na	na	Prohibited
Requirement of Independent Credit Counseling	Mandatory	Notification to borrower only	Mandatory; must be HUD-approved counselor
Balloon Payments	Prohibited (unless payment adjusted for irregular income)	Prohibited for loan terms less than 5 years	Limited to 2x the normal scheduled payment
Negative Amortization	Prohibited	Prohibited	Prohibited
Advance Payments	Prohibited	Prohibited	Limited to 2x the normal scheduled payment
Home Improvement Contracts	Restricted	Restricted, and lender may not pay contractor directly	Restricted, and lender may not pay contractor directly

1 Equivalent rates based on current rates as follows: Comparable UST (5.7% for 20-year), Comparable Fannie/Freddie (6.6%/6.8%), Prime (4.8%).
2 Up to two "discount points" (i.e., 2%) can be excluded from the calculation if the APR is less than 1% above either the comparable Fannie Mae or Freddie Mac rate, equivalent to about 7.6% and 7.8%, respectively).

Source: Legislation and Bernstein analysis.

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limiting bills. We expect a number of these to pass into law.

Limited Chance of Federal Preemption

As each more restrictive state law is enacted, the desire among lenders for a uniform federal standard increases. On May 1, 2002, Senator Sarbanes introduced a bill that would expand anti-predatory lending coverage beyond existing regulations (under HOEPA) and industry-sponsored (AFSA) proposals. Both HOEPA-based regulations and AFSA proposals cover first-lien loans with APRs more than 8 points above comparable-maturity Treasuries (or about *13.7%* today); the Sarbanes bill would lower this threshold to 6 points above Treasuries (or about *11.7%* today). The fee trigger would be lowered from 8% of the loan amount to 5% under the Sarbanes bill. For those loans covered, the bill is also more restrictive, as evidenced by its: (1) prohibition of prepayment penalties after two years, rather than the present five years; (2) limitation of financed fees and points to a maximum of 3% of the loan amount; (3) requirement of credit counseling by a HUD-approved third party, a new requirement; and (4) a new prohibition of mandatory arbitration clauses on loan agreements.

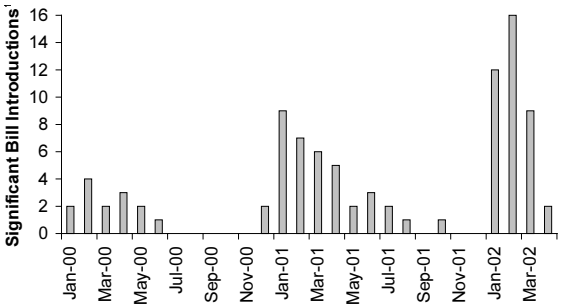
Potential Earnings Impact

At this point, it is not possible to estimate the likely impact on earnings of the changing legal environment. As a result, we are basing our argument for a market-perform rating on Household not on the reduction of EPS estimates below management guidance for growth of 13-15% but on the likelihood of multiple compression to reflect the legal uncertainty. The legal risks are sufficient for Household to have taken a more proactive approach to public relations (including, for example, recent television commercials targeted more at policy-makers than customers). Among other measures, the firm has set up a Consumer Advisory Board, made grants to promote financial literacy, and announced a series of "best practices," including, for example, the discontinuation of single-premium credit life insurance (see Exhibit 3).

To see how these pressures are affecting business economics at Household, we examine the impact of one of the new policies — the limitation on up-front fees to a maximum of 5 points. Household announced this reduction in maximum up-front fees (currently 7.5 points, *de facto*) in February and expects to complete implementation through the branch network by third-quarter 2002. We conclude that management's contention that the best practices have no net cost (because higher APRs will offset lower fees) is incomplete. Our core argument is that the return on customers who go bad is reduced because Household is less buffered by up-front fees. And the return on customers who build payment records is reduced as these customers have a greater incentive to refinance, given higher APRs (because of lower up-front fees). We specifically address the Pay Right Rewards program offering automatic rate reductions of 0.25% (up to a maximum of 3% in total) for each consecutive 12 payments that a customer makes on time.

Under Household's reduced maximum for up-front fees, a borrower's APR must rise if the new practices are to be truly return-neutral. Specifically, the Household rule-of-thumb for pricing is that each

Exhibit 2 Recent State/Local Bill Introductions by Month



1 Includes major revisions or amendments; companion bills (e.g., dual introduction to state House and Senate) excluded.

Source: MBA, American Banker and Bernstein analysis.

Exhibit 3 Timeline of Household Announcements and Surrounding Events

Date	Announcement/Event
2/2/01	HI forms consumer advisory board on responsible lending issues
3/5/01	Associates First (Citigroup) is subject of federal trade commission complaint regarding deceptive practices
6/28/01	Associates announces discontinuation of single-premium credit insurance product
7/11/01	HI announces discontinuation of single-premium credit insurance product
7/19/01	AIG announces discontinuation of single-premium credit insurance product
7/23/01	HI announces best-practice lending initiatives
8/14/01	HI announces grant to promote financial literacy
9/7/01	Associates settles with FTC for $20 million
9/25/01	HI is subject of class action lawsuit in New York filed by AARP
11/14/01	HI is subject of lawsuit filed by California Department of Corporations
1/3/02	HI settles California lawsuit for $12 million
2/6/02	HI is subject of class action lawsuit in California filed by ACORN
2/27/02	HI announces expansion of best-practice lending initiatives
5/1/02	HI is subject of class action lawsuit in Illinois filed by ACORN

Source: Bloomberg L.P. and *American Banker*.

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point up-front is equivalent to approximately 30-40 basis points of APR with the exact amount depending on the expected loan life. With high refinance activity, the current ratio is nearer the high end of this range: Reducing the up-front fee from 7.5 points to 5 points adds approximately 1% to the APR. This increases monthly payments, particularly on loans with a contractual maturity of 15 or 30 years (even though with fewer fees the loan amount is less). As a result, origination volumes will tend to decline, first because of resistance to higher APRs and second because the higher monthly payments reduce loan affordability (and therefore lead to reduced loan sizes, given Household's debt-service-to-income standards).

Household has addressed the sticker shock of higher APRs through its Pay Right Rewards program, which offers automatic rate reductions if borrowers maintain a track record of consecutive on-time payments. This allows Household to quote an APR assuming the borrower qualifies for the full relief offered by the program (even though many borrowers will fail to meet the requirements).[2] The reason is that, in specifying APR calculation rules, the Truth in Lending Act ("TILA") does not take into account the actuarial probabilities that a borrower will receive rate relief. Rather, TILA assumes that borrowers will meet their contractual obligations, including paying on time, and will therefore qualify for rate relief as stipulated in the contract.

Unfortunately, there is no similar finesse for the problem of loan affordability. Therefore, Household would expect lower origination volumes if it indeed increased the APR enough to offset fee reductions. In practice, we believe the firm will take a middle ground by increasing APRs to partially offset the fee reduction and so will see its economics affected by marginally lower returns and marginally depressed origination volumes. We think it is unlikely that this negative effect will be offset by improved customer persistence because of the impact of lower up-front fees on refinancing risk. If a customer pays fewer up-front fees, his APR is higher. The wider spread between this APR and that of rival offers generates an incentive to refinance, particularly if a customer builds a clean track record. Therefore, lowering up-front points tends to cause persistency to deteriorate, offsetting the benefit of the Pay Right Rewards program.

More specifically, a customer paying the maximum 5 points up-front (versus the previous 7.5 points) will have an APR that is approximately 1% higher (given the equivalence ratio of 1 point up-front to 40 basis points running). It will take two years of perfect payment for the customer to earn an automatic rate reduction equal to this 1% (assuming the customer pays biweekly). In the interim, the customer's APR will be higher than if the February best practices had not been introduced, and so the refinancing risk will be greater. This suggests that, from the standpoint of persistency, the Pay Right program is a wash for those customers with perfect biweekly payment records.

Risks

The upside risk to our investment thesis is that the legislative environment evolves more favorably to Household than we anticipate and, in particular, that: (1) state legislation does not get enacted or does not follow the restrictive models of California and Georgia or the AARP; and (2) lender-friendly federal legislation is passed. This is possible given that industry lobbyists will argue the restrictive laws run the risk of cutting off financing to borrowers with special credit needs. However, this argument has so far gained little traction, particularly when pitted against some of the more egregious cases of predatory lending unearthed by ACORN and AARP. Senator Sarbanes explicitly rejected the industry argument when he stated that the restrictions in his own proposed bill would "leave plenty of room for responsible lenders to make money."

Investment Conclusion

The conflicting legislative factors discussed above create legal risk for both predatory and legitimate subprime lenders. Aside from the potential legal costs, the need to manage legal risk will lead to changes in subprime lending practices even more far-reaching than those adopted by Household. These will, in turn, erode the profitability of business models because either returns are reduced or it simply becomes uneconomical to lend to higher-risk customers (and so the addressable market shrinks).

The company's recent relative multiple has been near its historical five-year average of 57%. Under these conditions, we rate Household market-perform on the grounds that this multiple is more likely to compress rather than expand from current levels to reflect an environment of higher legal risk.

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2 Household has said independently that the nature of its customer base means the average borrower is delinquent on one payment in twelve. The Pay Right Rewards program, by creating an important incentive for borrowers to pay on time, will improve delinquencies, but there is likely to remain a significant number of customers who do not qualify.

Exhibit 43

DOW JONES

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HD

Card Cos 2Q EPS Produce Mixed Bag; Trends Mostly Stable

BY

By Tara Siegel Bernard

WC 1,159 words

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Of DOW JONES NEWSWIRES

NEW YORK -(Dow Jones)- Though consumers have remained fairly resilient in these trying economic times, second-quarter results at the companies that put plastic in their pockets will run the vary widely.

TD

While credit-card companies with thus-far healthy track records, including Capital One Financial Corp. (COF) and MBNA Corp. (KRB) are expected to continue that course, a few companies that issue cards to those with checkered credit histories - which have been operating under regulatory scrutiny given concern over rising losses from uncollectable loans - won't fare as well.

"It's a tough quarter to generalize," said analyst Mark Alpert of Deutsche Bank Securities. "The companies in the subprime space are operating under (regulatory) constraints, particularly Metris and Providian."

Providian Financial Corp. (PVN), of San Francisco, saw a rapid erosion in its credit quality last year after growing at a quick clip by issuing cards to individuals with tarnished histories. Regulators stepped in, requiring Providian to bolster its capital base, loan loss reserves, and to exit certain businesses, as well as eliminate its dividend. It most recently sold a $2.4 billion portfolio of risky assets.

Meanwhile, at Metris Companies Inc. (MXT), investors will be looking for updates as to the initial impact of the agreement it struck with the

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Office of the Comptroller of Currency in April which, after a 15-month-review, imposed rules that require Metris to err on the side of conservatism given concerns over its risk management and credit line increase policies. Metris also warned at the time that its 2002 performance would be lighter-than-expected, given a drop-off in consumer spending and a rise in debt repayment rates.

The rest of the card-issuers should exhibit relatively decent loan growth, after a slow first-quarter, in the low- to mid-single-digits. The continued low cost of funds, thanks to the absence of interest rate increases, will keep net interest margins flat to slightly wider. Credit quality is expected to deteriorate modestly given the ongoing softness in the economy, in addition to loan portfolio seasoning.

"On balance, we believe (macroeconomic indicators) continue to paint a picture of a consumer that is perhaps somewhat more cautious, but still doing their part to reaccelerate economic growth," said analyst Matthew Vetto of Salomon Smith Barney in a research note.

Providian Could Miss Views, Analyst Says

Providian is expected to lose a penny a share this quarter, down from the 79 cents it earned a year ago, and its two-cent profit in the preceding first-quarter. However, SSB analyst Vetto said Providian runs the risk of missing forecasts, given a higher-than-expected loan loss rate so far in 2002. The $2.4 billion high-risk portfolio Providian recently sold is expected to produce a $6 million loss for the company, following the recognition of a $240 million loss during the first-quarter.

"Management has been able to execute on most of the initiatives it has set out to take...," Vetto noted, however, "We still view the company largely as a work in progress, with the challenges of stemming credit losses, cutting operating costs and reaccelerating growth."

At Metris, charge-offs, or monies lost on uncollectable loans, could hit about 14%-15% of total loans, analysts said, while receivables could be flat or decline modestly from the prior quarter. The Minnetonka, Minn., consumer-finance company is expected to earn 31 cents a share, half of last year's 63 cents, according to Thomson Financial/First Call's consensus projections. Metris earned 54 cents in the preceding first-quarter.

That said, analyst Reilly Tierney of Fox-Pitt Kelton expects second-profits of a dime, significantly below consensus, and is "surprised that consensus has remained so out of touch with the very guidance management has been providing for some time."

"It follows logically that lower balance growth, combined with a pressured margin and credit-card fees, and rising delinquencies (which trigger a need to keep reserves at 84% of delinquencies) were going to result in a substantial sequential reduction in earnings," Tierney noted.

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American Express Helped By Cost Controls

American Express Co. (AXP) said it expects to post second-quarter earnings in line with analysts' consensus estimate of 50 cents a share, despite taking an expected $75 million to $80 million pretax loss on its investments in WorldCom Inc. (WCOME), which translates into about 4 cents a share (aftertax). That means that American Express would have likely exceeded expectations had it not been for its exposure to the telecommunications company. That exposure, which includes directly-owned bonds and other securities held within various structured investments, stands at approximately $90 million.

Analysts suspect much of the quarter was driven by expense controls since most business trends - though improving - remain sluggish. AmEx earned 46 cents in the first quarter.

Capital One, of Falls Church, Va., is expected to earn 86 cents a share, up 23% from last year's 70 cents, according to Thomson Financial; it earned 83 cents in the first-quarter. Analysts expect the company to continue to benefit from better-than-expected credit losses thus far this year, though they will edge up slightly, as well as solid receivables and account growth.

"Areas to watch should include how much of the company's loan growth comes from the auto finance sector and management's outlook for the trajectory of credit losses resulting from portfolio seasoning over the remaining course of the year," Vetto said in a note.

MBNA, of Wilmington, Del., is seen posting profits of 51 cents a share, up 18% from 43 cents last year, and 42 cents in the preceding first-quarter, according to Thomson Financial.

Credit quality should continue to remain among the best in the industry, though charge-offs could rise modestly. The company is seen delivering healthy loan growth, with managed loans up 4%, or $3.7 billion, from the preceding quarter and up 10% from last year. Part of the growth is tied to the $1.3 billion credit-card portfolio MBNA acquired from Wachovia Corp. (WB) in April for an undisclosed amount. Moreover, the card-issuer declared a 3-for-2 stock split last month and expects to boost its dividend 5% on a post-split basis to 7 cents.

Household International Inc. (HI), a diversified consumer finance company based in Prospect Heights, Ill., that lends largely to the subprime segment, is expected to earn $1.08 a share, up from 93 cents a year-ago and down a penny from the preceding quarter's $1.09. Operating trends should remain healthy, with continued strength coming from its home-equity business, analysts said. However, the investment community says it will be looking for updates regarding legal claims against the company alleging predatory lending.

-By Tara Siegel Bernard, Dow Jones Newswires; 201-938-5288; tara.siegel@dowjones.com

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CO	amexpr : American Express Co | cptone : Capital One Financial Corp | feds : Macy's Incorporated | hfc : HSBC Finance Corp | mbnac : MBNA Corp | metris : Metris Companies Inc | prvfnc : Washington Mutual Card Services
IN	i64 : Retail/Wholesale | i656 : Mixed Retailing | i6560002 : Department Stores | i814 : Banking | i81402 : Commercial Banking | i81501 : Credit Types/Services | i8150105 : Consumer Lending | i8150108 : Credit Cards | ibnk : Banking/Credit
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Exhibit 44

US Equity Research
J.P. Morgan Securities Inc.
New York

Equities Morning Meeting Notes

Morning Meeting Line-Up: Friday, June 28, 2002

Broadcasting & Radio
Sell-off Ignores Improving Fundamentals

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- Yesterday, radio shares retreated sharply again as persistent speculation/concerns about potential accounting scandals, EBITDA valued stocks and leverage were exacerbated by new concerns about attempts to re-regulate the industry.
- We believe that these concerns more reflect the current negative sentiment resulting from deterioration in investor confidence and ignores improving fundamentals.
- Despite speculation, SEC has not launched any investigations into radio accounting practices, we believe radio stocks are attractive on a FCF basis, leverage is manageable and should decline with FCF from improving fundamentals.
- We believe that re-regulation bill is fairly benign, will not require radio operators to divest of any of its businesses nor will it have a material impact on operating results going forward and will be vigorously challenged.
- While issues will likely continue to be an overhang in near term, we would be buyers of Clear Channel (CCU/$31.20/Buy), Hispanic Broadcasting (HSP?$25.82/Buy), Entercom (ETM/$43.50/LTB) and Emmis (EMMS/$19.61/LTB) based on attractive valuations and improving fundamentals. We also like Univision (UVN/$31.25/Buy) at current levels.

The Credit Card Industry
Second Quarter Preview: Up Around The Bend

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- Credit costs for high quality issuers may turn the corner in the second half of 2002, given three consecutive monthly improvements in delinquency from trust data of the 10 largest card issuers.
- Net interest margins should firm from first quarter levels, as rates were unchanged. The JPMorgan economics team currently anticipates the first Fed tightening at the November FOMC meeting, delayed from August.
- Industry receivables growth has remained sluggish, rising only 2% from a year-ago during April and likely reflective of the continued high level of mortgage refinancing, estimated at 55% in the first quarter.
- Bankruptcy filing levels continue to track reduced expectations, with year-to-date levels up 2%.
- Credit card stocks endured some tough sledding in the second quarter, with our monoline index falling 16.8%, underperforming the broader market by 1.6% (through June 26).

Capital One Financial (BUY)
2Q02 Preview & Update

michael.freudenstein@jpmorgan.com

Ticker	*COF*
Price(06/27/02)	$59.10
52-Wk.Range	$36.40-67.25
Mkt.Cap(BN)	$13.00
Price Tgt(12 mo)	$72.00
Fiscal Year	Dec
Shares O/S(MM)	219.90

EPS	**2001A**	**2002E**	**2003E**
1Q (Mar)	$0.66	$0.83A	
2Q (Jun)	$0.70	$0.87	
3Q (Sep)	$0.75	$0.93	
4Q (Dec)	$0.80	$0.97	
FY	$2.91	$3.60	$4.30
P/E FY	20.3	16.4	13.7

- Capital One is scheduled to report second quarter results on July 16 (after 4 P.M. trading), for which we are estimating EPS of $0.87, $0.01 ahead of recent consensus and representing 24% year-over-year growth.
- Better than anticipated credit quality thus far in 2002 continues to fuel significant levels of excess earnings power.
- Compared with the previous quarter, our estimates assume healthy managed receivables growth, good account additions, a modest rise in credit losses, and a relatively stable net interest margin.
- We rate COF shares a Buy with a 12-month PT of $72. At 13.7 times our 2003 EPS estimate of $4.30, the stock trades at a 33% discount to its 5-year historical 12-month forward P/E average of 20.4 times.

American Express Co. (BUY)
2Q02 Preview & Update; Raising 2Q Estimate

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Ticker	*AXP*	*EPS*	**2001A**	**2002E (Old)**	**2002E (New)**	**2003E**
Price(06/27/02)	$37.08	**1Q (Mar)**	$0.40	$0.46A	$0.46A	
52-Wk.Range	$24.26-44.91	**2Q (Jun)**	$0.13	$0.49	$0.50	
Mkt.Cap(BN)	$49.72	**3Q (Sep)**	$0.22	$0.52	$0.52	
Price Tgt(12 mo)	$48.00	**4Q (Dec)**	$0.22	$0.54	$0.54	
Fiscal Year	Dec	**FY**	$0.98	$2.02	$2.02	$2.30
Shares O/S(MM)	1,340.90	**P/E FY**	37.8	18.4	18.4	16.1

*Note: 2001 EPS includes (1) $1,008 million of pre-tax charges ($669 million after-tax, $0.50 per share) related to AXP's high yield portfolio; (2) a 3Q/01 pre-tax charge of $352 million ($232 million after-tax, $0.17 per share) related to staff reductions; and (3) a 4Q restructuring charge of $179 million after-tax ($0.13 per share).

- American Express is scheduled to report second quarter results on July 22, for which we are estimating EPS of $0.50, in-line with recent consensus and the company's pre-announcement on June 27.
- We are raising our 2Q02 estimate from $0.49, incorporating higher levels of human resource expense savings. Our estimate includes a $0.04 loss per share stemming from AEFA's exposure to WorldCom (WCOM/$0.00/Market Performer) debt.
- Within Travel Related Services, billed business is expected to decline at a more modest rate than the first quarter, while credit losses are conservatively anticipated to rise a tad.
- Reengineering benefits, interest expense saves, and the re-emergence of share buybacks at the end of the second quarter are the key drivers of our 2002 EPS estimate of $2.02 ($0.02 above consensus).

Metris Companies (Market Underperformer)
2Q02 Preview & Update; Lowering Estimates

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Ticker	*MXT*	*EPS*	**2001A**	**2002E (Old)**	**2002E (New)**	**2003E (Old)**	**2003E (New)**
Price(06/27/02)	$8.45	**1Q (Mar)**	$0.57	$0.54A	$0.54A		
52-Wk.Range	$6.50-39.00	**2Q (Jun)**	$0.63	$0.40	$0.31		
Mkt.Cap(MM)	$525.59	**3Q (Sep)**	$0.70	$0.42	$0.32		
Fiscal Year	Dec	**4Q (Dec)**	$0.72	$0.49	$0.38		
Shares O/S(MM)	62.20	**FY**	$2.62	$1.85	$1.55	$2.00	$1.65
		P/E FY	3.2		5.5		5.6

- Metris Companies is scheduled to report second quarter results on July 17, for which we are estimating EPS of $0.31, versus recent consensus of $0.32, representing a year-over-year decline of 50%.
- We are lowering our 2Q, 2002, and 2003 EPS estimates to $0.31, $1.55, and $1.65 from $0.40, $1.85, and $2.00, respectively, owing to expectations of further loan portfolio declines and lower enhancement services revenues.
- Credit quality will likely be investors' focal point for current period earnings. Management continues to suggest that second quarter will be the peak in charge-offs. The Metris master trust seemingly makes this a challenge.
- Second quarter results should also provide some insight as to the initial impact of the agreement between Direct Merchants Credit Card Bank (DMCCB) and the OCC on April 15, 2002.

Household International (BUY)
2Q02 Preview & Update

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Ticker	*HI*	*EPS*	**2001A**	**2002E**	**2003E**
Price(06/27/02)	$49.90	**1Q (Mar)**	$0.91	$1.09A	
52-Wk.Range	$44.40-69.49	**2Q (Jun)**	$0.93	$1.05	
Mkt.Cap(BN)	$22.78	**3Q (Sep)**	$1.07	$1.21	
Price Tgt(12 mo)	$77.00	**4Q (Dec)**	$1.17	$1.34	
Fiscal Year	Dec	**FY**	$4.08	$4.69	$5.30
Shares O/S(MM)	456.50	**P/E FY**	12.2	10.6	9.4

- Household International is scheduled to report second quarter results on July 17, for which we are estimating EPS of $1.05, $0.03 below recent consensus and representing year-over-year growth of 13%.
- Year over year growth is expected to slow from the 20% posted in the first quarter owing to: (1) the lack of RAL; and (2) lower securitization benefits.
- We will be looking for progress made in addressing recent legal claims in CA, WA, IL, and NY centered on HI's lending practices in its consumer finance business.

Washington Mutual (Long Term Buy)
2Q Preview: Complex Quarter Likely, Raising Estimates

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Ticker	*WM*
Price(06/27/02)	$37.95
52-Wk.Range	$26.70-42.98
Mkt.Cap(BN)	$36.95
Price Tgt	NA
Fiscal Year	Dec
Shares O/S(MM)	973.60

EPS	**2001A**	**2002E (Old)**	**2002E (New)**	**2003E (Old)**	**2003E (New)**
1Q (Mar)	$0.77	$0.98A	$0.98A	NA	NA
2Q (Jun)	$0.91	NA	$0.99	NA	NA
3Q (Sep)	$0.94	NA	NA	NA	NA
4Q (Dec)	$0.97	NA	NA	NA	NA
FY	$3.60	$3.95	$3.97	$4.25	$4.30
P/E FY	10.5	9.6	9.6	8.9	8.8
Sales FY	NA	NA	NA	NA	NA

- Wamu quarterly earnings preview incorporating feedback from analyst/investor meeting
- Expect a complex and messy quarter but we are raising estimates for 2002 and 2003 owing to stronger mortgage originations offsetting higher MSR write-off
- Quarter should be highlighted by higher mortgage banking gains and stabilization of asset quality offsetting shrinkage in loan portfolio, declining net interest margin, and lower mortgage servicing revenues
- Wamu is selling servicing and likely to take a sizeable write-off for MSRs that should be offset by gains from securities sales
- Longer term, we think Wamu has to keep selling more excess servicing, which will be a challenge

Golden West Financial (Long Term Buy)
2Q Preview: Strong Mortgage Business, Raising Estimates

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Ticker	*GDW*
Price(06/27/02)	$68.70
52-Wk.Range	$45.49-70.75
Mkt.Cap(BN)	$10.65
Price Tgt	NA
Fiscal Year	Dec
Shares O/S(MM)	155.00

EPS	**2001A**	**2002E (Old)**	**2002E (New)**	**2003E (Old)**	**2003E (New)**
1Q (Mar)	$1.10	$1.51A	$1.51A	NA	NA
2Q (Jun)	$1.30	NA	$1.42	NA	NA
3Q (Sep)	$1.28	NA	NA	NA	NA
4Q (Dec)	$1.44	NA	NA	NA	NA
FY	$5.12	$5.57	$5.65	$5.80	$5.85
P/E FY	13.4	12.3	12.1	11.8	11.7
Sales FY	NA	NA	NA	NA	NA

- We expect Golden West to report 2Q EPS of $1.42, down 6% from 1Q owing to strong mortgage originations and solid loan growth offsetting lower net interest spread
- Mortgage originations are likely to approach $7 billion in 2Q, up from $5.4 billion last quarter, led by strong purchase mortgage originations.
- Higher loan growth of over 5% annualized as a result of a higher proportion of ARM loan originations at Golden West.
- Net interest margin will be lower than 1Q, but the decline is somewhat less than expected as a result of better than expected loan yields and lower funding costs.
- Credit quality remains good with almost no credit losses.
- Both stocks have been flattish recently, off slightly from recent highs
- Near-term, market nervousness and uncertainty, Fed tightening being pushed back, and rising near-term estimates should enable these stocks to outperform until there are clear signs of a recovery and Fed tightening
- Wamu's stock may also benefit from announcement of sale of servicing, but servicing is still a longer-term challenge

Computer Services: Transaction Processing (BUY)
Remain Positive on Payment Processors; Buy on Weakness

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- Recent underperformance of the Computer Services: Payment Processing group, coupled with a tech rally creates an attractive entry point into our payment processors with highly visible 15-30% EPS growth, in our opinion.
- Additionally, we feel our group is being unjustly painted with the same "fears of Worldcom" brush as its distant IT Services peers. This is a non-issue for the payment processors in our opinion.
- Finally, recent concerns about the consumer are overblown in our view. We reiterate our Buy ratings on our payment processing names—Alliance Data (ADS/$24.73/Buy), Concord EFS (CEFT/$29.40/Buy), Certegy (CEY/$36.23/Buy), and First Data (FDC/$36.58/Buy)—ahead of the 2Q earnings season.
- Our bullishness on these names is driven by the group's high visibility and strong earnings growth driven largely by the rising tide of electronic payment adoption.
- Favorable valuation, in our view; our TP Index is trading 5% below its historical relative P/E to the S&P 500 when visibility in earnings for the group should be priced at a premium. We expect the group's relative val. to expand through 2Q.

NIKE, Inc. (BUY)

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Marquee Malarky - NIKE Delivers; Raising Estimates

Ticker	*NKE*
Price(06/27/02)	$51.42
52-Wk.Range	$40.33-64.28
Mkt.Cap(BN)	$13.99
Price Tgt(12 mo)	$72.00
Fiscal Year	May
Shares O/S(MM)	272.00

EPS	**2002E (Old)**	**2002A (New)**	**2003E (Old)**	**2003E (New)**	**2004E**
1Q (Aug)	$0.75A	$0.75	$0.87	$0.83	NA
2Q (Nov)	$0.48A	$0.48	$0.55	$0.59	NA
3Q (Feb)	$0.46A	$0.46	$0.53	$0.54	NA
4Q (May)	$0.75	$0.77	$0.84	$0.88	NA
FY	$2.44	$2.46	$2.79	$2.84	$3.25
CY	$2.63	$2.65E	$3.00	$3.04	NA
P/E FY	19.6	19.4	17.1	16.9	NA
Revenue FY (MM)	$9,825.80	$9,893.00	$10,500.00	$10,525.00	$11,200.00

***CY02 EPS reflects the partial impact of SFAS 142 ($0.02); CY03 and the new FY03 EPS reflect the full year impact of $0.04.

- NIKE reported solid 4Q EPS of $0.77 (up 28%) and global futures growth of 7%. The company is optimistic for FY03, with its sales and margin guidance indicating mid-teens EPS growth is doable.
  1. 4QFY02 EPS of $0.77 beat our at-consensus estimate of $0.75, with strong sales and better than expected gross margin supporting our belief that the marquee footwear sluggishness does not present EPS risk to NIKE's business.
  2. Global futures growth of 7% was similar to last quarter and better than expected (up 4-6%), which we believe is sustainable owing to a more balanced mix and supports the outlook for high single digit sales growth in FY03.
  3. Fewer closeout sales, owing to better inventory control, hurt the sales comparison but helped the gross margin expand 260 basis points, just one example of better discipline by management, a trend we expect to continue.
- We believe NKE shares will react positively to the solid 4Q and futures result as well as the upbeat FY03 outlook, which is leading us to raise our EPS estimate to $2.84 for FY03. We reiterate our Buy rating and $72 price target.
- Given what will likely be market relief that sluggish high-priced marquee footwear is a manageable issue, we expect other athletic footwear stocks, particularly Reebok (RBK, $28.80, MP), to react positively as well.

Eclipsys Corp (ECLP, $12, LTB) – Lisa Gill

- ECLP announced last night that they would not meet Street expectation for the second quarter. Management now expects to deliver a $0.04 to $0.06 loss per share, versus our estimate of positive $0.13.
- The expected loss for the quarter is primarily related to a revenue shortfall of at least $10 million for the quarter. The previous range was $62 - $65 million, it is now $52 - $54 million. The company has also been spending incrementally to build its sales and marketing efforts. The combination of lower revenue and incremental costs for new management, increased sales people, and a marketing campaign are the drivers behind the lower earnings for the quarter.
- We are lowering our 2002 EPS estimate to $0.23 from $0.53. We are also lowering our 2003 estimate to $ 0.58 from $0.70.
- We are maintaining our Long-term Buy rating at this time for two reasons. First we believe that the recent pressure on the stock reflects investors beliefs that they would not meet expectations (or at least report revenue and earnings on the low end of the current range). We expect the stock to continue to sell off today and become a good buying opportunity for long-term shareholders. Second we expect the incremental investment they are making today to deliver incrementally throughout 2003.
- We are lowering our target price to $15 from $21. We calculate our new target price by applying a 26 multiple to our revised 2003 estimate of $0.58. Over the last four years Eclipsys has traded at an average multiple of 50.4 times forward-12 earnings.
- We believe this is a company specific problem for Eclipsys and would be buying shares of Cerner (CERN, $49.50, Buy).

Mentions:

Rogers Communications (RG, $9.35, Market Performer)

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- We are initiating coverage on Rogers with a Market Performer rating and a 2003 price target of C$17/US$12.
- Rogers operates in a competitive environment. Recent cable sub trends have hurt by the mature analog video market and aggressive DBS competitors.
- Advanced service results have been mixed, with data facing stiff competition from Bell's DSL service and digital video evolving slowly.
- Although the stock appears inexpensive relative to Rogers' U.S. peers, we believe its discount is warranted.
- We see few catalysts for multiple expansion until subscriber growth improves.

Allegheny Energy (AYE, $28.76, Long Term Buy)
Lowering Estimates and Price Target, Reiterate LTB

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- Weather and Higher Costs Hurt
- We are lowering our 2002 and 2003 EPS estimates for AYE to $3.00 a share and $3.40 a share, respectively, down from $3.65 and $3.90 a share previously.
- For 2002, our new estimate is driven by poor weather-related sales comparisons, higher operating costs, the removal of asset gains in our operating EPS forecast, and lower trading and marketing contributions.
- For 2003, we are including only those contributions - i.e. contract based - in our T&M projections, thereby lowering T&M by about one-half.
- Our revised price target is $35 a share (down from $42), reflecting: a 5% discount to the group average multiple of 10.8x on our revised 2003E. Our Long-term Buy recommendation remains.
- We expect AYE shares to remain choppy over the next several weeks primarily in anticipation of updated guidance and growth forecasts. A possible convertible security issuance remains a near-term, though transitory, overhang.

Global ADRenalin - Paolo Munafo

- This month's Global ADRenalin includes a sector piece concentrating on Gold, featuring our outlook on the gold price, some fundamental stock picks, which currently favor the Australians, as well as technical analysis.
- We also introduce the new S&P ADR Index, produced in association with JPM, a new benchmark for Investors to use in both the active and passive mgmt of their global investments.
- We feature stocks which specifically tie in with our Global Strategist's call in both Global and EM, picking strong non-cyclicals to outperform in Q3 as well as reflecting the downgrade of financials in EM, and the upgrades in Paper and Packaging and Industrials: Aracruz (ARA, LTB, $18.88), British American Tobacco (BTI, BUY, $21.90), Centrica (CNTCY, BUY, $30.90), Danone (DA, BUY, $27.20), Honda (HMC, MP, $19.73), Novartis (NVS, BUY, $39.38), PetroChina (PTR, BUY, $20.81), POSCO (PKK; BUY, $29.18), Unibanco (UBB, MP, $13.99).

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Exhibit 45

July 18, 2002

Stephens Inc.
Investment Bankers

Research Notes

Household International, Inc.

Company Rating: Overweight **Industry Fundamentals: Improving**

Ticker:	HI	Divi/Yld:	$0.88/2.1%	BVPS:	$21.06
Target (12-mo):	$60.00	Float (mil):	425.3	Price/BVPS:	201.2%
Price:	$42.37	Shrt Int (mil):	13.6	TBVPS:	$17.51
Mkt cap (mil):	$18,202	52-Week High:	$69.49	Price/TBVPS:	242.0%
Shrs out (mil):	429.6	52-Week Low:	$40.70	Dly Shr Vol (000):	3,485

Analyst: James M. Schutz (312) 775-3366
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EPS	Q1	Q2	Q3	Q4	FY Dec	P/E Ratio	ROE
2001A	**$0.91**	**$0.93**	**$1.07**	**$1.17**	**$4.08**	**10.4x**	**22.90%**
2002E	**$1.09 A**	**$1.08 A**	**$1.20**	**$1.30**	**$4.67**	**9.1x**	**23.49%**
Prior:		$1.11		$1.27			
2003E	**$1.19**	**$1.27**	**$1.37**	**$1.48**	**$5.31**	**8.0x**	**23.61%**
2004E	**$1.35**	**$1.43**	**$1.55**	**$1.67**	**$6.00**	**7.1x**	**22.93%**

Estimates for 2002 and beyond conform to "New GAAP." Prior results do not reflect "New GAAP."

Important disclosures regarding potential conflicts of interest for Stephens Inc. may be found at the end of this report.

Household International, Inc. is one of the leading providers of consumer loans, credit cards and auto finance in the United States, Canada and the United Kingdom. The Company operates through the HFC and Beneficial brands. Household, which is headquartered in Prospect Heights, Illinois, has total owned assets of $97.3 billion.

Household Reports Strong Quarter; Reducing Target Price

- Household reported 2Q02 EPS of $1.08 or three cents below our estimate but right in line with the consensus outlook.
- Receivables growth remained strong, with average managed receivables increasing 14.1% over the past year.
- Problem assets increased moderately over the past three months, and losses to average receivables also rose. Both increases were expected.
- We are reiterating our **Overweight/Improving Industry** rating. However, we are reducing our one-year target price to $60 from $84 due solely to recent stock price depreciation.

Household International reported second quarter earnings per share of $1.08, three cents below our estimate and right in line with the consensus outlook. The latest results represent a 16.1% increase over the number posted in the year-ago quarter or 13.1% if the impact of FAS 142 is excluded. Unless otherwise noted, our analysis below involves managed results.

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Net interest income rose 20.9% over the past 12 months reflecting both robust asset growth and an expanded margin. Average earning assets increased 17.6% with average receivables rising 14.1%. As has been the case for some time, the percentage growth in receivables has been largely concentrated in real estate secured and auto finance, although private label cards and personal unsecured posted decent increases. The margin expansion over the past year results from the rock-bottom level of short-term rates. Signs that margin improvement may soon be coming to a halt could possibly be seen in the change on a sequential quarter basis, where the margin slid over 20 basis points.

Fee revenues grew 22.2% largely on much higher securitization revenue. However, with the exception of the delinquency and late fees, all other major categories of fee revenues also showed solid growth. The drop in delinquency and late fees reflects lower delinquency rates (see below). We expect these fees to continue declining as asset quality improves. **Operating outlays** increased 10.7% over the past year. We estimate that, excluding FAS 142, operating outlays would have increased 12.8%. The higher costs reflect greater outlays for incentives, marketing and infrastructure to handle the Company's vigorous business growth.

Asset quality continued to show mild deterioration, which had been expected by management. Nonperforming assets (NPAs) increased 4.8% since the end of March. Net loan losses to average receivables came to 4.26% compared to 3.69% last year and 4.09% last quarter. On a more positive note, 60 day plus delinquencies fell to 4.53% from 4.63% at the end of March, although the rate remained above last year's 4.27%. Significantly, the delinquency rate on the Company's credit card portfolio (not including private label cards) dropped from March's 4.39% to 3.90% at the end of June. Management indicated that asset quality metrics will likely continue to worsen through the third quarter, after which trends could stabilize and possibly begin improving.

We are reiterating our **Overweight/Improving Industry** rating on Household's stock. However, after the recent collapse in the stock price, we have decided to lower our target price from $84 to $60. The lower target price should not be interpreted as a lessening of our enthusiasm for the stock's prospects. We simply recognize that a nearly doubling of the stock price over the next 12 months is unlikely, especially in this pessimistic and jittery market. The stock now trades at 9.1 times our 2002 estimate. We believe this valuation borders on the ridiculous, especially with the Company's earnings prospects of strong double-digit growth. We know the stock has been plagued by "headline" risk over predatory lending practices. However, the Company has managed so far to handle those risks with very little impact on the franchise's health or earnings power.

We also believe that yesterday's pricing action (down 8.1% on volume over three times normal) was basically in sympathy over the news that banking regulators had required a credit card company to allocate more capital, increase reserves and bolster controls with regard to the sub-prime portion of its card portfolio. We do not think any of those issues would be applicable to Household (especially since the vast bulk of its business is conducted outside the Company's regulated subsidiary and Household has already substantially increased capital in the bank). We have left our 2002 full year estimate unchanged. Likewise, we are keeping our 2003 and 2004 estimates unchanged.

Valuation Methodology

Our valuation methodology with respect to bank and thrift stocks combines a top-down with a bottom-up approach. From a top-down perspective, we employ peer groups as an important comparative metric (please see our *Prime Notes* dated June 28, 2002, for the complete composition of our peer groups). We compare the peer group multiples with the corresponding multiples of the general equity markets (with the S&P 500 Index used as a proxy for the equity market multiple). We also compare the individual bank or thrift stock's multiple to the average for its respective peer group. From a bottom-up perspective, we evaluate the quality of the Company's management team, the demographic characteristics of the geographic market, the mix of businesses, asset quality and overall risk management posture. We then combine the top-down and bottom-up analyses to form an opinion regarding the status of the stock's valuation.

Risks

We believe that holding bank or thrift stocks entails three major risks. The largest risk is credit risk, or the potential for large loan charge-offs due either to flawed underwriting processes, inadequate loan portfolio risk management or a general weakening in the economic environment. The second risk consists of interest rate sensitivity, which can be particularly important when credit markets are unusually volatile. This risk manifests itself when the level of rates and the shape of the yield curve change. The third risk involves the potential of banks and thrifts to significantly overpay for acquisitions or encounter difficulties in an acquisition's subsequent integration.

Household International, Inc. Quarterly Income Statement (Managed Basis)

($Millions, except per share data)

	MAR 1 Qtr A	JUNE 2 Qtr A	2001 SEPT 3 Qtr A	DEC 4 Qtr A	2001 Full Year	MAR 1 Qtr A	JUNE 2 Qtr A	2002 SEPT 3 Qtr E	DEC 4 Qtr E	2002 Full Year	MAR 1 Qtr E	JUNE 2 Qtr E	2003 SEPT 3 Qtr E	DEC 4 Qtr E	2003 Full Year	2004 Full Year
NET INTEREST INCOME (FTE)	$1,830	$1,894	$2,024	$2,192	$7,941	$2,265	$2,289	$2,364	$2,437	$9,355	$2,433	$2,472	$2,525	$2,563	$9,993	$10,351
INSURANCE REVENUE	159	159	169	175	662	170	178	182	186	715	189	193	197	201	780	803
INVESTMENT INCOME	42	38	42	46	168	46	44	45	46	181	45	46	47	47	185	203
FEE INCOME	393	396	408	421	1,619	396	363	374	381	1,514	392	402	412	423	1,630	1,812
SECURITIZATION REVENUES	(26)	23	18	120	136	146	134	156	157	593	139	139	161	161	599	643
OTHER FEE INCOME	162	49	52	60	323	188	95	96	97	477	99	101	103	106	409	446
TOTAL OPERATING FEE REVENUES	$729	$666	$689	$823	$2,907	$946	$814	$852	$867	$3,479	$865	$881	$920	$937	$3,604	$3,907
TOTAL OPERATING REVENUES	$2,559	$2,560	$2,713	$3,015	$10,847	$3,211	$3,103	$3,216	$3,304	$12,834	$3,298	$3,354	$3,445	$3,500	$13,596	$14,258
PROVISION FOR LOAN LOSSES	933	935	967	1,184	4,018	1,362	1,278	1,280	1,275	5,196	1,325	1,300	1,300	1,250	5,175	5,200
STAFF EXPENSE	432	461	482	495	1,870	499	521	541	563	2,125	586	606	624	649	2,465	2,669
OCCUPANCY & EQUIPMENT	84	84	86	84	337	92	93	96	98	380	100	102	104	106	412	437
AMORTIZATION OF INTANGIBLES	39	38	37	37	151	18	13	13	13	56	13	13	13	13	50	50
OTHER EXPENSES	406	374	377	375	1,532	462	431	436	440	1,769	444	453	465	469	1,832	1,954
TOTAL OPERATING EXPENSE	$961	$956	$983	$991	$3,891	$1,072	$1,058	$1,086	$1,114	$4,329	$1,143	$1,174	$1,205	$1,237	$4,759	$5,110
OPERATING PRE-TAX INCOME (FTE)	666	670	764	840	2,939	777	767	850	915	3,309	830	880	939	1,013	3,662	3,949
REPORTED INCOME TAXES	234	231	260	291	1,015	266	253	289	311	1,120	282	299	319	344	1,245	1,342
PREFERRED DIVIDENDS	2	2	3	8	16	9	16	8	8	40	8	8	8	8	32	32
OPERATING AFTER-TAX INCOME	$430	$437	$501	$541	$1,908	$503	$498	$553	$596	$2,150	$540	$573	$612	$660	$2,385	$2,574
DILUTED OPERATING EPS	**$0.91**	**$0.93**	**$1.07**	**$1.17**	**$4.08**	**$1.09**	**$1.08**	**$1.20**	**$1.30**	**$4.67**	**$1.19**	**$1.27**	**$1.37**	**$1.48**	**$5.31**	**$6.00**
OPERATING CASH FLOW/SHARE	$0.99	$1.01	$1.15	$1.25	$4.40	$1.12	$1.08	$1.23	$1.33	$4.76	$1.22	$1.30	$1.40	$1.51	$5.43	$6.12
NON-OPERATING AFTER-TAX INCOME	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PER SHARE	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

KEY RATIOS

NET INTEREST MARGIN	8.22%	8.34%	8.57%	8.85%	8.50%	8.79%	8.58%	8.37%	8.40%	8.53%	8.20%	8.15%	8.12%	8.08%	8.14%	7.88%
RETURN ON ASSETS	1.76%	1.77%	1.96%	2.03%	1.87%	1.79%	1.74%	1.82%	1.91%	1.82%	1.69%	1.76%	1.83%	1.94%	1.81%	1.82%
RETURN ON EQUITY	21.48%	21.29%	23.79%	25.00%	22.90%	23.01%	21.53%	24.11%	25.24%	23.49%	22.24%	23.02%	23.96%	25.10%	23.61%	22.93%
EFFICIENCY RATIO	37.54%	37.33%	36.22%	32.88%	35.87%	33.37%	34.09%	33.76%	33.71%	33.73%	34.65%	35.00%	35.00%	35.35%	35.00%	35.84%
CASH EFFICIENCY RATIO	36.02%	35.87%	34.84%	31.64%	34.47%	32.80%	34.09%	33.37%	33.33%	33.39%	34.27%	34.63%	34.63%	34.99%	34.64%	35.49%
FEES/REVENUES	28.50%	26.01%	25.40%	27.28%	26.80%	29.47%	26.22%	26.50%	26.23%	27.11%	26.23%	26.28%	26.70%	26.78%	26.50%	27.40%
EQUITY TO ASSETS	8.17%	7.84%	7.53%	7.43%	7.43%	7.93%	7.56%	7.55%	7.59%	7.59%	7.62%	7.63%	7.65%	7.78%	7.78%	8.15%
TANGIBLE EQUITY TO TANGIBLE ASSETS	6.58%	6.32%	6.11%	6.11%	6.11%	6.65%	6.37%	6.40%	6.48%	6.48%	6.54%	6.58%	6.64%	6.79%	6.79%	7.25%
RESERVE TO LOANS	3.78%	3.78%	3.72%	3.78%	3.78%	4.10%	4.23%	4.24%	4.19%	4.19%	4.20%	4.18%	4.15%	4.08%	4.08%	3.85%
RESERVE TO NPLs	150.9%	153.98%	146.33%	148.52%	148.52%	152.30%	151.82%	164.83%	168.68%	168.68%	176.76%	184.54%	190.05%	194.17%	194.17%	211.77%
NPAs TO LOANS + OREO	2.89%	2.84%	2.91%	2.93%	2.93%	3.13%	3.22%	3.05%	2.97%	2.97%	2.87%	2.76%	2.63%	2.51%	2.51%	2.14%
RISK ASSETS TO LOANS + OREO	3.89%	3.82%	3.94%	3.98%	3.98%	4.22%	4.19%	4.12%	3.98%	3.98%	3.83%	3.70%	3.54%	3.36%	3.36%	2.83%
PROVISION/NCOs	N.M.	112.75%	111.05%	122.91%	116.73%	132.07%	116.99%	114.67%	109.08%	117.84%	111.22%	109.95%	108.20%	105.02%	108.60%	104.96%
NCOs TO AVERAGE LOANS	3.54%	3.69%	3.72%	3.92%	3.72%	4.09%	4.26%	4.25%	4.30%	4.23%	4.25%	4.10%	4.05%	3.90%	4.07%	3.80%
STATED BOOK VALUE/SHARE	$17.24	$17.08	$17.27	$19.47	$19.47	$20.23	$21.06	$21.80	$22.65	$22.65	$23.36	$24.13	$24.98	$25.96	$25.96	$29.66
TANGIBLE BOOK VALUE/SHARE	$13.64	$13.55	$13.80	$15.78	$15.78	$16.72	$17.51	$18.26	$19.11	$19.11	$19.82	$20.59	$21.46	$22.44	$22.44	$26.15

Note: Intangible assets do not include mortgage servicing rights.

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Source: Company data and Stephens Inc. estimates

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Rating Definitions:

Company Stock Ratings: OVERWEIGHT (O) – The stock's total return is expected to be greater than the total return of the company's industry sector, on a risk-adjusted basis, over the next 12 months. EQUAL-WEIGHT (E) – The stock's total return is expected to be equivalent to the total return of the company's industry sector, on a risk-adjusted basis, over the next 12 months. UNDERWEIGHT (U) – The stock's total return is expected to be less than the total return of the company's industry sector, on a risk-adjusted basis, over the next 12 months. VOLATILE (V) – The stock's price volatility is potentially higher than that of the company's industry sector.

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Exhibit 46

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Finance Companies Market Flash

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Another Record Quarter at Household; Regulatory Risks Appear Low

16th Consecutive Quarterly Earnings Record Should Overpower Regulatory Risk--BUY

CSFB Recommendation: Buy
CSFB Rating:High A

Issuer	Level	Ratings	Coupon	Maturity	7/17/02 Bid Spread
Household Finance Corp.	Senior	A2/A	5.75%	01/30/07	230
Household Finance Corp.	Senior	A2/A	7.00%	05/15/12	245

Source: Credit Suisse First Boston

Summary and Investment Recommendation

Household International reported its **16th consecutive quarter of record earnings**, $514 million, 17% above the year ago quarter; results were in line with Street estimates

Asset quality remains manageable, with losses modestly higher, but delinquencies trending lower; management expects losses to bump higher again in the third quarter, before flattening out in the fourth

Balance sheet strength remains a highlight: tangible equity to tangible managed assets is north of 8%, and loan loss provisions again exceeded net charge-offs

We believe the **technical picture continues to improve**—over the balance of the year, we estimate that Household has "just" two dollar globals left to do, totaling $3 to $4 billion—we think fears of a much larger supply nut are unfounded

Management addressed regulatory risk on its conference call, saying that there is **"nothing analogous" to what has happened at Capital One**

Not surprisingly, bonds sold off in sympathy with Capital One, but the magnitude did surprise us and is unwarranted in our opinion. We believe that **HI paper trading within 10 bps of CIT paper will drive HI paper tighter**

We reiterate our **Buy** recommendation on HI paper

Quarterly Recap

What we've come to expect from Household

Household International reported net income of $514 million in the second quarter, 17% better than a year ago, and in line with Street estimates. The quarter was the 16th consecutive of record net income for the company.

This was a very Household-esque quarter: solid growth, driven by the real estate-secured product, manageable credit costs, positive operating leverage, and a strengthened balance sheet.

Growing comfortably *and* prudently

Driven by the continued strength and resilience of the U.S. consumer, Household grew receivables 15% on an annualized basis (excluding foreign exchange adjustments) to $105.5 billion on a managed basis. Most of the growth (roughly 60%) came in the real estate-secured product. Higher risk products, Domestic Personal Unsecured, Personal Homeowner Loans and Subprime Credit Cards, grew more modestly, and today represent just 15% of managed assets.

Credit quality holding in

As expected and telegraphed by the company, Household's net charge-off rate ticked up again in the quarter, but at 4.26%, it remains quite manageable, especially in the context of asset yields, which came in at 12.8%. Management expects losses to tick up again modestly in the third quarter, before flattening out in the fourth. Confidence for the turn in loan losses comes from delinquencies, which have been moderating. We remain highly confident that Household has its arms around its credit quality—growth has been comparatively modest over the years, and substantial resources have been allocated to credit risk management of late.

Fears of supply are overblown

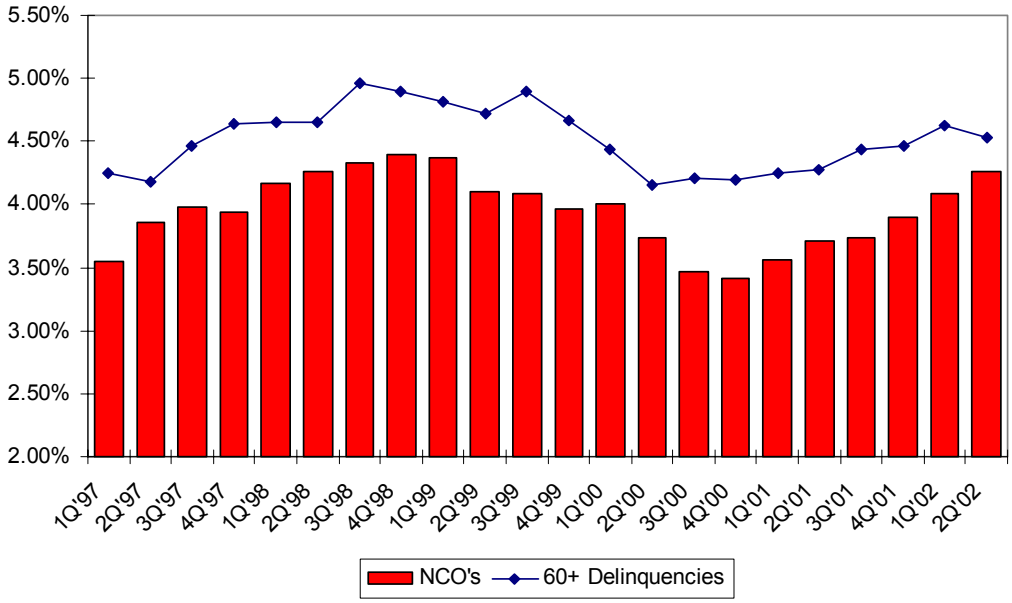
This year has been the year that investors have repriced the Household credit, due largely to headline risk (litigation, etc.) and fears of new issue supply. CEO Aldinger spent quite a bit of time on the call reviewing where the company stands on the litigation front—the upshot is that Household has done everything it can in terms of its business practices to mitigate litigation risk, but it remains difficult to remove from the story. On the supply front, Household has used the asset-backed market and the retail MTN market opportunistically to alleviate pressure on the unsecured buyer. In the second half of the year, we expect two more dollar globals from Household, totaling $3-4 billion. That's it. That strikes us as a manageable number. The balance of the company's funding needs will be met in a variety of markets, including the MTN market, foreign markets, and the asset-backed market.

Capital One risk

Capital One's release last night certainly indicates that the banking regulators may be examining those institutions that market to subprime customers while taking deposits. Household maintains an active dialogue with its regulators. In the first quarter, Household strengthened the financial position of its banks through a capital injection of $1.2 billion as well as enhancing the liquidity position. As far as being subject to any kind of agreement with the regulators, management stated that there was nothing analogous to the case at Capital One and that it is expecting nothing along those lines in the future.

Asset Quality Manageable

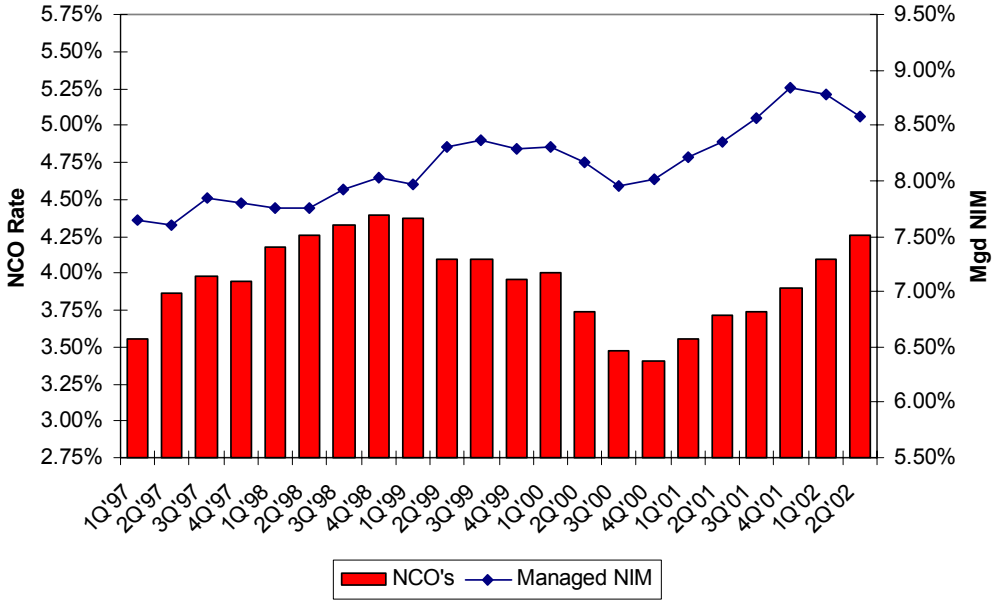
Household's Net Charge-offs Up Modestly, But Delinquencies Trending Down



Source: Company reports

More Than Compensated for the Risk

Household's Managed Net Interest Margin vs. Net Charge-offs



Source: Company reports

Household International – Second Quarter 2002 Earnings Recap

Dollars in Millions

	2Q 2002	1Q 2002	2Q 2001	Change From 1Q 2002	Change From 2Q 2001
Total Assets (Managed)	$119,668	$111,951	$100,761	6.9%	18.8%
Total Assets (Book)	97,346	90,368	80,978	7.7	20.2
Total Managed Receivables	105,461	101,178	91,539	4.2	15.2
Total Equity	9,891	9,719	8,061	1.8	22.7
Total Market Capitalization	22,689	25,913	30,834	(12.4)	(26.4)
Total Revenue	3,016	3,127	2,487	(3.5)	21.3
Operating Expense	971	988	883	(1.7)	10.0
Net Income	514	511	439	0.5	17.0
Profitability					
ROMA	1.79%	1.82%	1.78%		
ROE	22.20	23.40	22.40		
Net Interest Margin	8.58	8.79	8.34		
Risk-adjusted Margin (a)	7.79	8.60	7.70		
Efficiency Ratio (b)	32.20	31.60	35.50		
Asset Quality					
Delinquencies (c)	4.53%	4.63%	4.27%		
Net Charge-offs	4.26	4.09	3.71		
Capital and Funding					
Equity % Assets	8.26%	8.68%	8.00%		
Tangible Equity % Tangible Mgd. Assets	8.24	8.41	7.61		

(a) Total revenue less net charge-offs as a percentage of average earning assets
(b) Non interest expenses as a percentage of total revenues
(c) For 60+ days delinquent.

Source: Company reports

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AMSTERDAM	31 20 5754 890	JOHANNESBURG	27 11 884 67 41	SÃO PAULO	55 11 3841 6000
ATLANTA	1 404 656 9500	LONDON	44 20 7888 8888	SEOUL	82 2 3707 3700
AUCKLAND	64 9 302 5500	MADRID	34 91 423 16 00	SHANGHAI	86 21 6881 8418
BALTIMORE	1 410 223 3000	MELBOURNE	61 3 9280 1666	SINGAPORE	65 6212 2000
BEIJING	86 10 6410 6611	MEXICO CITY	52 5 283 89 00	SYDNEY	61 2 8205 4400
BOSTON	1 617 556 5500	MILAN	39 02 7702 1	TAIPEI	886 2 2715 6388
BUDAPEST	36 1 202 2188	MOSCOW	7 501 967 8200	THAILAND	66 2 614 6000
BUENOS AIRES	54 11 4131 2700	MUMBAI	91 22 230 6333	TOKYO	81 3 5404 9000
CAIRO	202 567 7600	NEW YORK	1 212 325 2000	TORONTO	1 416 352 4500
CHICAGO	1 312 750 3000	PALO ALTO	1 650 614 5000	VIENNA	43 1 512 3023
FRANKFURT	49 69 75 38 0	PARIS	33 1 40 76 8888	WARSAW	0114 434343
GENEVA	41 22 394 70 00	PASADENA	1 626 395 5100	WASHINGTON DC	1 202 354 2600
HOUSTON	1 713 220 6700	PHILADELPHIA	1 215 851 1000	WELLINGTON	64 4 474 4400
HONG KONG	852 2101 6000	PRAGUE	420 2 210 83111	ZUG	41 41 727 97 00
ISTANBUL	90 212 278 2500	SAN FRANCISCO	1 415 836 7600	ZURICH	41 1 333 55 55

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Exhibit 47

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US Specialty Finance
July 18, 2002

HI - $42.37 | Earnings Update | ATTRACTIVE

Disclosure information may be found at the end of the report.

Makes Numbers but Focus Has Changed

HI reported second quarter EPS of $1.08 for 16% year-over-year growth, in line with consensus yet $0.03 below our estimate. Receivables growth was a positive surprise, accelerating to an impressive 17% annualized run rate. While growth in the real estate secured portfolio continues to pace the overall results (in receivables as well as credit quality), HI posted solid loan growth in across all products. And while asset quality deteriorated modestly (losses rose 17 bps linked quarter to 4.26%), the results were well within management's guidance and our expectations. Further, delinquencies dropped 10 bps from 1Q02 to 4.53%, led by improvement in subprime Visa/MC borrowers. Similar to last quarter, the company was able to deliver on bottom-line results while adding aggressively to reserves, dispelling any concerns over earnings quality. The managed provision exceed charge-offs by $186 million, or $0.27 per share, bringing the reserve-to-managed receivables ratio up 4 bps to 4.14%.

HI shares were under pressure yesterday in sympathy with its consumer finance peers. Specifically, Capital One, the perennial leader in the card business, disclosed it is entering into a MOU with the national banking authorities. We think this bombshell announcement signals an era of lower returns, increased capital intensity, and heightened regulatory oversight for consumer lenders of all types. **While HI may be less directly affected by the potential regulatory changes to capital levels** (the company disclosed that its subprime card portfolio totaled $1.3 billion, or less than 1% of managed receivables, and that "nothing analogous" to the COF is in the works at HI), **the overhang of regulatory hostility does impact the stock.** Moreover, accusations of predatory lending, however baseless they may be, gain additional currency in a market seized by fear of events outside of management's control. Whether legislators jump on the bandwagon that the trial lawyers and regulators are riding is a rising risk for HI. Additionally, as HI goes further down the rode to securitization, additional questions regarding the quality of earnings may arise. When investors pay attention to key fundamental drivers like loan growth, margins, credit quality, and cost control, HI does fine because it delivers. When the focus moves away from the fundamentals toward unquantifiable factors like litigation and regulatory risk, the upside on the stock will be capped. **While we are maintaining our 2002 and 2003 EPS estimates, we do not see HI trading at better than 12 times earnings in this charged environment, and thus have lowered our target price to $63.**

Fundamental Data for Household International

Household International, Inc. (HI) — **ATTRACTIVE**

Date:	July 17, 2002		2001A	2002E	2003E
Price:	$42.37	Operating EPS:	$4.08	$4.70	$5.31
52 Week Range:	$70-$43	CASH EPS:	$4.43	$5.15	$5.76
		First Call Mean Estm:	NA	$4.65	$5.26
Dividend:	$1.00	Operating P/E:	10.4	9.0	8.0
Dividend Yield:	2.4%	CASH P/E:	9.6	8.2	7.4
Shares (MM):	457.7	FPK Cons Fin GAAP P/E:	12.7	13.6	11.3
Market Cap:	$19,393	Book/Share:	$19.44	$23.94	$28.01
		Price/Book:	218%	177%	151%

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FOX-PITT, KELTON

Figure 1: Household Second Quarter Earnings

(in millions, except per share data)

Household	2Q-01	1Q-02	2Q-02E	2Q-02A	Variance	YOY Change	Qtr / Qtr Change
Managed Receivables	91,539	101,178	104,354	105,461	1,107	15.21%	4.23%
Net Interest Margin	8.34%	8.79%	9.00%	8.58%	(42)	24	(21)
Charge-off Ratio	3.71%	4.09%	4.20%	4.26%	6	55	17
Charge-off $	834.1	1,031.5	1,079.0	1,092.70	13.7	31.00%	5.93%
Risk Adjusted Margin	7.50%	7.89%	7.92%	7.53%	-39 bps	3 bps	-36 bps
Efficiency Ratio	35.5%	31.6%	33.5%	32.20%	-130 bps	-330 bps	60 bps
ROA	1.76%	1.81%	1.80%	1.72%	-8 bps	-4 bps	-9 bps
ROE	21.74%	23.54%	22.54%	22.23%	-31 bps	49 bps	-131 bps
Net Interest Income	1,894.3	2264.5	2,333.2	2289.3	(44)	20.85%	1.10%
Non-Interest Income	666.0	946.4	797.8	813.7	16	22.18%	-14.02%
Total Revenue	2,560.3	3,210.9	3,131.0	3,103.0	(28)	21.20%	-3.36%
Loan Loss Provision	934.8	1362.3	1,240.9	1278.4	38	36.76%	-6.16%
Operating Expense	882.7	987.5	1,021.4	970.4	(51)	9.94%	-1.73%
Net Income	439.0	511.0	512.4	513.5	1	16.97%	0.49%
EPS	$0.91	$1.09	$1.11	$1.08	-$0.03	18.68%	-0.92%

Source: Company reports, FPK

Household reported second quarter EPS of $1.08 for 16% year-over-year growth, in-line with consensus yet $0.03 below our estimate. The quarter was characterized by:

- Solid loan growth, posting a 15% year-over-year increase and accelerating to a 17% annualized run rate;
- A modestly lower net interest margin, down 21 basis points linked-quarter, largely reflecting lower asset yields;
- Decent non-interest income growth, with fees lower than expected (driven by lower delinquencies levels, a trade-off we are happy to accept);
- Modestly higher losses, with charge-offs rising 17 bps to 4.26% from 4.09% in 1Q02.
- Impressive reserve additions, with the provision outpacing charge-offs by $158 million, or $0.27 per share;
- Continued excellent expense control, with the efficiency ratio coming in below our expectations at 32.2%; and
- Strong asset productivity measures – ROA 1.72% and ROE 22.2%.

Earnings Details

- **Upside Surprise on Loan Growth** – Managed receivables grew 15% year-over-year to end the quarter at $105.5 billion. The RE secured portfolio continues to pace results, increasing $2.6 billion sequentially and accelerating to 23% year-on-year growth (boosted by $500 million in currency translation). The RE portfolio has now captured 66% of the year-on-year growth in managed receivables. The other above average grower was auto finance, up $265 million sequentially (33% year-on-year growth growth). Household noted that competition in the auto arena remains rational and pricing is holding up well. We continue to believe that HI has a true competitive advantage in auto lending, derived from both its branches and HAFCSuperhwy.com platform delivering speedier application processing. Other unsecured loans grew $759 million linked quarter (11% year-on-year). The Visa/MC portfolio was up $438 million sequentially (-1.5% year-on-year, dulled by the sale of Goldfish portfolio) and private label receivables inched up $125 million (12.2% year-on-year). Commercial loans continue to run-off, falling $8 million to $482 million.

- **Lower net interest margin** – HI's NIM fell 21 bps linked quarter, largely reflecting lower asset yields (financing costs dropped 10 bps). The recent terming out of short-term debt is taking a toll, but we agree with management's assessment that it is money well spent. Commercial paper was reduced from $5 billion in 1Q02 to $3 billion currently. HI's current forecast includes higher interest rates and further margin compression in 2H02. The combination of the slightly lower margin yet solid receivables growth delivered $2.29 billion in managed net interest income (74% of revenues), up $24 million linked quarter and a strong 21% year-on-year.

- **Decent non-interest income, yet some weakness in fees** – Non-interest income advanced 22% year-on-year to $813.7 million (the linked-quarter drop is due to the seasonal tax-refund business). There appeared to be some weakness in fee income, which management explained as lower late and nuisance fees associated with the lower level of delinquencies. All else equal, we are happy to trade lower fees for a lower risk profile, as we believe the latter supports a higher valuation.

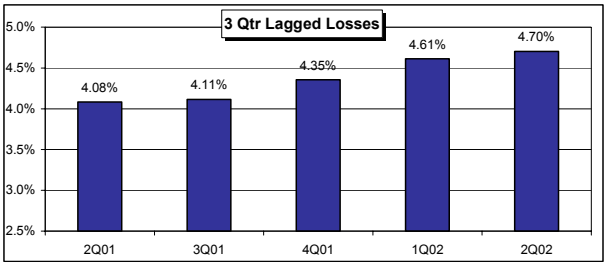
  After accelerating securitization activity in the first quarter to satisfy rating agency concerns, gains continued at an elevated level in the June quarter. The change in the I/O strip totaled $29.8 million or $0.04 per share (similar to the $29 million in 1Q02) versus a drag of $2.5 million in the year ago period. We expect these gains to fade as the year progresses and securitization activity returns to a more normal pattern.

- **Year-over-year revenue growth decelerated to a still strong 21% from 25% in 1Q02.** Excluding securitization revenue, the risk-adjusted margin inched up 3 bps year-on-year to 7.53%.

- **Expenses came in better than our expectations, with the efficiency ratio moving up linked-quarter (from 31.6% to 32.2%), but showed progress versus 2Q01 (35.5%).** Household remains one of the most efficient financial service institutions on the planet, a true, sustainable competitive advantage, in our view. The above revenue growth is a direct result of the company's efforts in 2001 to plow excess profitability back into the business, particularly in the sales and marketing departments. At the time, we viewed this as essentially prepaying future operating expenses. We expect further operating leverage in 2002 as this strategy continues to pay-off.

Figure 2: Three Quarter Lagged Losses

3 Qtr Lagged Losses	2Q01	3Q01	4Q01	1Q02	2Q02
Real estate secured	0.54%	0.59%	0.75%	0.77%	1.00%
Qtr / Qtr change (bps)	*2*	*5*	*16*	*1*	*24*
Auto finance	5.37%	5.98%	8.57%	8.84%	7.49%
Qtr / Qtr change (bps)	*(132)*	*61*	*259*	*27*	*(135)*
Visa/MasterCard	7.15%	6.96%	6.91%	7.14%	7.27%
Qtr / Qtr change (bps)	*33*	*(19)*	*(5)*	*23*	*13*
Private label	5.50%	5.41%	5.79%	6.34%	5.91%
Qtr / Qtr change (bps)	*(7)*	*(9)*	*38*	*55*	*(42)*
Other unsecured	7.53%	7.61%	7.64%	8.49%	9.12%
Qtr / Qtr change (bps)	*76*	*8*	*3*	*85*	*63*
Total	**4.08%**	**4.11%**	**4.35%**	**4.61%**	**4.70%**
Qtr / Qtr change (bps)	*6*	*3*	*24*	*26*	*9*



Source: Company Reports, FPK

- **Credit quality continued to deteriorate, but the increase was within management's guidance and our expectations.** Coincident charge-offs rose 17 bps to 4.26% from 4.09% in 1Q02, while delinquencies fell 10 bps linked quarter to 4.53%. HI noted an improvement in the asset quality of its subprime Visa/MC portfolio. Figure 2 holds lagged loss statistics.
- **Similar to last quarter, the company was able to deliver on bottom line results while adding aggressively to reserves, dispelling any concerns over earnings quality.** The managed provision exceed charge-offs by $186 million, or $0.27 per share, bringing the reserve-to-managed receivables ratio up 4 bps to 4.14%.
- **Tangible equity to tangible managed assets fell to 8.24% from 8.41% in 1Q02.** The measure remains at the high-end of management's current target of 8.0-8.25%. The company noted that it is unlikely to push this higher, but will grow into the ratio or increase share buyback activity with the excess capital.

HOUSEHOLD INTERNATIONAL (HI) **Fox-Pitt, Kelton Inc.**

1999	2000	2001	2002E	2003E	Managed Basis	Q1-02	Q2-02	Q3E-02	Q4E-02	Q1E-03	Q2E-03	Q3E-03	Q4E-03
					INCOME STATEMENT ($MN)								
9,375.7	11,702.7	13,153.4	14,390.9	16,566.2	Interest Income	3,388.5	3,426.8	3,708.3	3,867.3	3,953.2	4,052.9	4,199.5	4,360.6
3,836.5	5,212.7	5,212.8	4,903.1	6,020.3	Interest Expense	1,124.0	1,137.5	1,294.5	1,347.1	1,428.3	1,479.2	1,527.1	1,585.7
5,539.2	6,490.0	7,940.6	9,487.8	10,545.9	Net Interest Income	2,264.5	2,289.3	2,413.8	2,520.2	2,524.9	2,573.7	2,672.4	2,774.9
2,781.8	3,252.4	4,018.4	5,232.9	5,760.4	Provision for Loan Losses	1,362.3	1,278.4	1,236.0	1,356.2	1,483.4	1,384.1	1,378.8	1,514.0
2,757.4	**3,237.6**	**3,922.2**	**4,254.9**	**4,785.5**	**Net Adjusted Spread**	**902.2**	**1,010.9**	**1,177.7**	**1,164.0**	**1,041.5**	**1,189.6**	**1,293.6**	**1,260.9**
1,321.4	1,713.3	1,754.2	2,183.5	2,575.9	Fee Income	542.1	496.9	502.8	641.7	623.4	596.3	595.8	760.4
168.8	174.2	167.7	185.3	195.7	Investment Income	46.2	44.0	45.7	49.5	47.6	45.3	49.3	53.4
223.9	228.8	322.5	413.0	475.8	Other Income	188.0	95.3	60.8	68.9	210.6	114.4	71.7	79.2
534.6	561.2	662.4	726.6	795.8	Insurance Premiums	170.1	177.5	186.1	192.8	183.7	195.3	204.7	212.1
-	-	-	-	-	Non-Recurring Income	-	-	-	-	-	-	-	-
2,248.7	**2,677.5**	**2,906.8**	**3,508.3**	**4,043.2**	**Total Other Revenues**	**946.4**	**813.7**	**795.4**	**952.9**	**1,065.3**	**951.2**	**921.6**	**1,105.1**
1,194.6	1,515.7	1,870.4	2,126.3	2,425.2	Salaries & Employee Benefits	499.4	520.6	539.4	566.9	588.7	597.6	604.7	634.3
1,332.7	1,527.2	1,717.5	1,947.9	2,277.7	Other Operating Expenses	488.1	449.8	490.8	519.2	580.0	576.9	543.6	577.2
-	-	-	-	-	Non-Recurring Expenses	-	-	-	-	-	-	-	-
2,785.4	**3,304.6**	**3,890.5**	**4,419.8**	**5,081.1**	**Total Operating Expenses**	**1,071.5**	**1,057.8**	**1,115.2**	**1,175.4**	**1,258.1**	**1,266.2**	**1,244.6**	**1,312.3**
2,220.7	2,610.5	2,938.5	3,343.4	3,747.6	Pretax Income	777.1	766.8	857.9	941.5	848.6	874.7	970.6	1,053.7
734.3	909.8	1,015.0	1,149.2	1,311.7	Income Taxes	266.1	253.3	300.3	329.5	297.0	306.1	339.7	368.8
33%	35%	35%	35%	35%	Tax Rate	34.2%	33.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
1,486.4	**1,700.7**	**1,923.5**	**2,194.1**	**2,435.9**	**Net Income**	**511.0**	**513.5**	**557.7**	**612.0**	**551.6**	**568.5**	**630.9**	**684.9**
3.07	**3.55**	**4.08**	**4.70**	**5.31**	**EARNINGS PER SHARE (FD)**	**1.09**	**1.08**	**1.21**	**1.33**	**1.20**	**1.24**	**1.38**	**1.50**
9.2	9.2	15.5	29.2	10.4	Non-conv. Preferred Dividends	8.5	15.5	2.6	2.6	2.6	2.6	2.6	2.6
0.68	**0.74**	**0.85**	**0.97**	**1.09**	**DIVIDENDS PER SHARE**	**0.22**	**0.25**	**0.25**	**0.25**	**0.25**	**0.28**	**0.28**	**0.28**
22.1%	20.8%	20.8%	20.6%	20.5%	Dividend Payout	20.2%	23.2%	20.7%	18.8%	20.9%	22.6%	20.3%	18.7%
13.79	**16.88**	**19.30**	**23.94**	**28.01**	**BOOK VALUE PER SHARE**	**21.60**	**22.02**	**22.92**	**23.94**	**24.89**	**25.79**	**26.84**	**28.01**
481.8	476.2	468.1	460.3	456.9	Average Shares Outstg (FD)	462.1	461.2	459.5	458.5	458.0	457.5	456.5	455.5
					AVERAGE BALANCE SHEET ($MN)								
48,247.7	59,823.7	73,310.7	84,634.0	95,854.7	Average Owned Receivables	78,943.9	80,881.1	84,453.5	87,886.8	90,362.8	92,641.3	95,740.2	99,312.1
66,314.7	79,132.2	92,485.2	105,720.4	119,638.1	Average Managed Receivables	101,370.3	103,247.6	107,014.6	111,249.1	114,383.3	117,267.4	121,190.1	125,711.5
67,289.7	80,105.6	93,379.0	106,715.0	120,763.6	Avg Managed Earning Assets	103,087.2	106,756.3	107,877.6	112,259.4	115,422.1	118,332.4	122,167.5	126,853.2
56,821.1	68,727.9	83,061.2	94,592.5	106,254.0	Average Total Assets	89,892.0	93,856.7	96,453.6	97,665.4	100,710.3	105,155.2	108,321.7	110,361.9
74,888.1	**88,572.1**	**103,659.9**	**117,537.7**	**132,817.6**	**Avg Total Managed Assets**	**111,157.6**	**115,809.7**	**119,560.2**	**122,081.7**	**125,887.9**	**131,444.0**	**135,402.2**	**137,952.4**
6,500.6	7,365.5	8,507.1	9,932.0	11,854.2	Average Total Equity	9,428.6	10,044.6	10,325.6	10,743.1	11,182.7	11,593.9	12,013.0	12,490.6
					EOP BALANCE SHEET ($MN)								
52,289.4	67,357.9	79,263.5	90,004.4	101,705.0	Owned Receivables	78,624.3	83,137.9	85,769.1	90,004.4	90,721.3	94,561.2	96,919.1	101,705.0
71,728.3	87,411.2	100,822.7	113,929.7	128,740.5	Managed Receivables	101,178.0	105,460.6	108,568.5	113,929.7	114,837.0	119,697.8	122,682.4	128,740.5
60,749.4	76,706.3	89,416.0	99,769.1	112,739.0	Total Assets (owned)	90,367.9	97,345.5	95,561.7	99,769.1	101,651.6	108,658.7	107,984.8	112,739.0
80,188.3	96,955.8	110,364.0	124,711.3	140,923.8	Total Managed Assets	111,951.1	119,668.2	119,452.2	124,711.3	127,064.5	135,823.4	134,980.9	140,923.8
6,450.9	7,951.2	8,202.8	9,882.2	11,659.8	Common Equity	8,875.4	9,047.3	9,437.5	9,882.2	10,316.7	10,704.6	11,155.1	11,659.8
375.0	375.0	975.0	875.0	875.0	Trust Preferred Securities	975.0	975.0	875.0	875.0	875.0	875.0	875.0	875.0
164.4	164.4	455.8	843.2	843.2	Preferred Equity	843.2	843.2	843.2	843.2	843.2	843.2	843.2	843.2

HOUSEHOLD INTERNATIONAL (HI) **Fox-Pitt, Kelton Inc.**

1999	2000	2001	2002E	2003E		Q1-02	Q2-02	Q3E-02	Q4E-02	Q1E-03	Q2E-03	Q3E-03	Q4E-03
					PROFITABILITY & PRODUCTIVITY								
1.97%	**1.91%**	**1.84%**	**1.84%**	**1.83%**	**Return on Managed Assets (%)**	1.81%	1.72%	1.86%	2.00%	1.74%	1.72%	1.86%	1.98%
23.5%	**23.5%**	**23.62%**	**23.94%**	**22.52%**	**Return on Common Equity (%)**	23.54%	22.23%	24.02%	25.23%	21.74%	21.54%	22.99%	23.93%
8.23%	8.10%	**8.50%**	**8.89%**	**8.73%**	Net Interest Margin (%)	8.79%	8.58%	8.95%	8.98%	8.75%	8.70%	8.75%	8.75%
14.14%	14.79%	14.22%	13.61%	13.85%	Gross Yield on Managed Receivables (%)	13.37%	13.28%	13.86%	13.91%	13.82%	13.82%	13.86%	13.87%
33.56%	34.17%	34.03%	32.21%	33.09%	Managed Efficiency Ratio (%)	31.6%	32.2%	33.0%	32.1%	33.4%	34.2%	32.8%	32.1%
3.81%	3.85%	3.88%	3.85%	3.93%	Oper Exp./Avg Managed Receivables (%)	3.90%	3.76%	3.85%	3.91%	4.09%	4.01%	3.79%	3.85%
29.49%	29.31%	27.87%	26.43%	26.37%	Pretax Operating Margin (%)	24.9%	25.4%	27.5%	27.8%	24.2%	25.5%	27.7%	27.9%
					CREDIT QUALITY								
2,742.5	2,939.8	3,447.4	4,402.1	4,910.7	Total Net Credit Losses ($)	1,031.5	1,092.7	1,123.7	1,154.2	1,186.7	1,193.2	1,242.2	1,288.5
2,666.6	3,194.2	3,811.3	4,683.3	5,533.0	Reserve for Credit Losses ($)	4,146.5	4,368.9	4,481.3	4,683.3	4,979.9	5,170.8	5,307.5	5,533.0
4.14%	3.72%	3.73%	4.16%	4.10%	**NCOs / Avg.Managed Receivables (%)**	**4.09%**	**4.26%**	**4.20%**	**4.15%**	**4.15%**	**4.07%**	**4.10%**	**4.10%**
-	-	-	-	-	**Lagged Net Credit Losses (3-qrts)**	**4.59%**	**4.67%**	**4.57%**	**4.55%**	**4.60%**	**4.46%**	**4.47%**	**4.51%**
3.72%	3.65%	3.78%	4.11%	4.30%	**Reserve / EOP Managed Receivables (%)**	**4.10%**	**4.14%**	**4.13%**	**4.11%**	**4.34%**	**4.32%**	**4.33%**	**4.30%**
0.97	1.09	1.11	1.06	1.13	**Reserve / Net Credit Losses (x)**	**1.00**	**1.00**	**1.00**	**1.01**	**1.05**	**1.08**	**1.07**	**1.07**
9.22%	9.28%	8.83%	9.62%	9.90%	EOP Total Equity/Managed Receivables (%)	9.84%	9.61%	9.69%	9.62%	9.93%	9.85%	9.98%	9.90%
7.9	8.3	8.9	8.2	8.0	EOP Owned Receivables /Total Equity (x)	7.90	8.21	8.15	8.21	7.96	8.02	7.92	7.98
10.6	10.4	10.9	10.0	9.7	Debt / Total Equity (managed) (x)	7.48	8.14	7.70	7.80	7.52	7.58	7.48	7.58

Acquisitions / Notes

Beneficial Corp.- June 30, 1998
Decision One Mrtg. - July 1999
Announced the acquisition of Renaissance Holdings for $300MM on 12/2/99.

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Home Office	Prospect Heights, IL
# of Branches -12/2001	1700
# of FTE Employees - 9/2001	32000
Current Price - 07/17/2002	$ 42.37
Market Capitalization ($MN)	$ 19,300
Indicated Dividend	0.97
Management Contact:	Mr. Craig A. Streem
Telephone:	(847)-564-6053
Fax:	(847)-205-7490
Web Site:	www.household.com

Quarterly Operating Earnings

2002E	2003E	02/01 (%)	03/02(%)
1.09	1.20	19%	10%
1.08	1.24	15%	15%
1.21	1.38	13%	14%
1.33	1.50	14%	13%
4.70	5.31	15%	13%

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The compensation earned by the analysts on this report is based, in part, on the overall profitability of FPK, which includes investment banking revenues.

Analyst Disclosure Information

Disclosure Information for Household International

Analyst Questionnaire

- The valuation methods used to determine the price target for this company are: Relative P/E
- Risks that may impede achievement of this price target include: Legal or Regulatory Issues Leading to Significant Deterioration in Economic Returns
- To the knowledge of the research analyst principally responsible for the preparation of this report, no actual material conflict of interest of FPK, or any research analyst contributing to this report, or any member of such research analyst's household exists.

FPK Disclosure Information

Disclosure Information for Household International

Analyst Financial Interest

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- No research analyst contributing to this report or member of such research analyst's household serves as an officer, director, or advisory board member of the subject company.

Investment Banking

- FPK or its affiliates may seek compensation for investment banking services from this company during the next three months.
- Neither FPK nor its affiliates managed or co-managed a public offering of the securities of this company during the past 12 months.
- Neither FPK nor its affiliates received compensation for financial services from this company during the past 12 months.

Proprietary Trading

- FPK is not making a market in any company covered by this report at the time it was published.

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Ratings in the US are defined as follows:	
Buy	*Stocks, we believe will outperform the appropriate market index (the S&P 500) by a significant margin over the next 12 months. By significant we generally mean by at least 10 percentage points. Generally, these will be the analysts most favorite stocks; they are also the stocks that are expected to outperform the analysts universe*
Hold	*Stocks, where we do not have any conviction one way or another that the stock will outperform or underperform the benchmark index*
Attractive	*Stocks, we believe will outperform the appropriate market index (the S&P 500) by a significant margin over the next 12 months. Beyond the expectation of out-performance there is no other numerical requirement*
Sell	*Stocks where we have a strong conviction that there will be a meaningful decline in price*

Ratings in the UK are defined as follows:	
Buy	*Stocks which we are happy to buy immediately at the prevailing price in the expectation of significant near term absolute (20%) and relative (10%) price performance, and which are fundamentally attractive for the longer term*
Attractive	*Stocks which we would not buy immediately – because of the valuation*
Hold	*Stocks with limited fundamental attractions, or fundamentally good stock*
Overvalued	*Above fair value; likely to underperform*
Sell	*Stocks which are fundamentally unattractive and where there is a serious downside risk*

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Exhibit 48

DOW JONES

REUTERS

HD

UPDATE 2-Credit card stocks dive on consumer default fears.

BY

By Philip Klein

WC 699 words

PD 17 July 2002

ET 04:32 PM

SN Reuters News

SC LBA

LA English

CY (c) 2002 Reuters Limited

LP

NEW YORK, July 17 (Reuters) - Shares of credit card firms got hammered on Wednesday after regulators asked issuer Capital One Financial Corp to increase its loan loss reserves, awakening fears of a rise in consumer loan defaults.

In further negative news for the sector, Metris Cos. Inc. , a credit card issuer that focuses on customers with poor credit histories, reported a severe quarterly loss that was far beyond expectations, on rising default levels. The news pushed its stock down by as much as 45 percent.

TD

"I think (Capital One) has the biggest pull because of its higher market capitalization," said analyst Matthew Park of the sell-off in consumer finance stocks. "But in terms of magnitude of news, I think Metris is worse."

The stocks of credit card issuers and consumer finance companies are extremely sensitive to any news on the quality of credit, as widespread defaults by consumers would eat into profits and could lead to huge losses.

Last year, Providian Financial Corp. , which like Metris focused on consumers with patchy credit histories, racked up huge losses as consumer bankruptcy filings soared during the economic downturn and debtors discharged credit card debt. Its stock is off about 95 percent from this time a year ago and closed down 16 percent at $3.39 in Wednesday trading on the New York Stock Exchange.

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Regulators have since kept a more watchful eye on lenders, especially those with a significant amount of loans to people with troubled credit records, which is known as the sub-prime market.

On Tuesday, Capital One said it had entered into an agreement with regulators to increase the amount of reserves it would keep to cover losses. While the company said it already satisfied regulatory requirements, the stock tumbled 40 percent on fears there would be more bad news down the road.

WALL STREET DARLING

"It does impose certain uncertainties that need to be availed over time," Park said.

Capital One traditionally focused on customers with poor credit records, which still account for about 40 percent of its business, but has since made a play for a higher income clientele through an aggressive advertising strategy that includes television commercials.

With its rapid growth it became a darling of Wall Street. In a December research report Credit Suisse First Boston named the Falls Church, Virgina-based company as one of its top 20 stocks for 2002.

Its financial results have consistently exceeded Wall Street expectations, as they did late Tuesday, when it said its second quarter earnings rose 37 percent and it raised its profit forecasts for the year. But the news was overshadowed by the regulatory concerns.

Salomon Smith Barney analyst Matthew Vetto said in a report that the news revealed that Capital One was at greater risk for loan defaults than previously thought. He downgraded the stock to "neutral" from "buy."

Capital One's bonds on Wednesday traded at around 90 to 92 cents on the dollar, down from Tuesday's close of 97 cents.

"We find it hard to believe (Capital One) can be happy about the idea of taking marching orders from bureaucrats," fixed-income research service Gimme Credit said in a report. "We can't view the heightened level of regulatory scrutiny as a 'good thing' for Capital One, and would continue to avoid this credit."

Capital One shares closed down $20.12, or 40 percent, at $30.48 in late day trading on the New York Stock Exchange. Shares of MBNA Corp. , the largest independent credit card issuer, closed off $1.86, or 9 percent, at $18.50, though MBNA appeals to a higher clientele with its typical customer having a household income of $70,000 per year. Metris closed down 37 percent at $4.56.

The credit quality fears also spilled over to affect the broader

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consumer finance sector. Household International Inc. , the No. 2 U.S. consumer finance company, reported quarterly earnings that met expectations, but saw its shares decline $3.73, or 8 percent, to $42.37. The company, whose loans are mainly real estate related, also is a big lender to sub-prime borrowers.

CO cptone : Capital One Financial Corp | feds : Macy's Incorporated | hfc : HSBC Finance Corp | mbnac : MBNA Corp | metris : Metris Companies Inc | prvfnc : Washington Mutual Card Services

IN i64 : Retail/Wholesale | i656 : Mixed Retailing | i6560002 : Department Stores | i81501 : Credit Types/Services | i8150105 : Consumer Lending | i8150108 : Credit Cards | ibnk : Banking/Credit

NS ccat : Corporate/Industrial News | gcat : Political/General News | grisk : Risk News

RE namz : North America | usa : United States

PUB Reuters Ltd.

AN Document lba0000020020717dy7h00zyv

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Exhibit 49

DOW JONES

THE WALL STREET JOURNAL.
U.S. EDITION

HD **Capital One SeesShares Fall 40% On Fed Warning**

BY By Carrick Mollenkamp

WC 442 words

PD 18 July 2002

SN The Wall Street Journal

SC J

PG C11

LA English

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LP

Capital One Financial Corp. shares plunged 40% after government regulators, as part of an effort to shore up reserves at subprime lending companies, told Capital One to bolster reserves and improve the technology it uses to provide loans and credit cards to consumers with poor credit histories or low income.

Capital One, Falls Church, Va., disclosed late Tuesday that regulators at the Federal Reserve and the Office of Thrift Supervision had issued the requirements after a review of Capital One's operations. Yesterday, Capital One shares fell to $30.48, down $20.12, on the New York Stock Exchange Wednesday.

TD

Other credit-card and lending stocks also fell in Big Board trading. MBNA Corp. fell 9%, or $1.85, to $18.50, while Providian Financial Corp. dropped 16% to $3.39, down 66 cents. Metris Companies Inc. sank 37%, or $2.22, to $3.85; and Household International Inc. fell 8.1%, or $3.73, to $42.37.

The activity comes amid heightened scrutiny from federal regulators, who have become increasingly concerned that credit companies are too thinly capitalized to protect against customer defaults.

Last year, regulators imposed lending restrictions on Providian and NextCard Inc., both in San Francisco. Providian has since moved to exit the subprime business, and the government closed down NextCard this year when it was unable to find a buyer. Government regulators also cracked down on Metris, Minnetonka, Minn., this year by requiring the company to tighten its credit exposure.

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Separately, Metris yesterday announced an unexpected second-quarter loss of $36.4 million, or 74 cents a share, compared with net income of $62.8 million, or 63 cents, a year ago.

Analysts also said the news was noteworthy because federal regulators provided a clear definition of subprime loans, a segment that in the past has been only vaguely defined. As part of Capital One's so-called memorandum of understanding with the Fed and thrift regulators, subprime is defined as consumers with an FICO credit score of 660 or less, and who had been targeted by Capital One as a subprime consumer. The FICO score is a mathematical formula and credit rating written by credit company Fair, Isaac & Co.

Based on that subprime definition, 40% of Capital One's U.S. portfolio was judged to be subprime. That percentage surprised some analysts who had estimated the range to be 20% to 25%.

"We have implemented levels of capital and allowance and reserve that satisfy the understandings we expect to have with the regulators," Capital One's chairman and chief executive, Richard Fairbanks, told analysts.

CO cptone : Capital One Financial Corp | feds : Macy's Incorporated | hfc : HSBC Finance Corp | mbnac : MBNA Corp | metris : Metris Companies Inc | prvfnc : Washington Mutual Card Services

IN i64 : Retail/Wholesale | i656 : Mixed Retailing | i6560002 : Department Stores | i814 : Banking | i81401 : Central Banking | i81501 : Credit Types/Services | i8150105 : Consumer Lending | i8150108 : Credit Cards | ibnk : Banking/Credit

NS c13 : Regulation/Government Policy | c131 : Regulatory Bodies | c15 : Performance | c151 : Earnings | ccat : Corporate/Industrial News | e12 : Economic/Monetary Policy | e1201 : Central Bank Intervention | ecat : Economic News | gcat : Political/General News | gpol : Domestic Politics | gvbod : Government Bodies | gvexe : Executive Branch

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PUB Dow Jones & Company

AN Document j000000020020718dy7i00012

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Exhibit 50

DOW JONES

AMERICAN BANKER
THE FINANCIAL SERVICES DAILY

SE Markets

HD **2Q Earnings: Another Record at Household as 2Q Net Increases by 17%**

BY BY ERICK BERGQUIST

WC 676 words
PD 18 July 2002
SN American Banker
SC AMB
PG 20
VOL Vol. 167, No. 136
LA English

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LP

Household International Inc. on Wednesday reported its 16th consecutive quarter of record earnings.

Its second-quarter net income rose 17% from a year earlier, to $514 million. Earnings per share rose 16% from the second quarter of last year, to $1.08.

TD

Despite the strong results, Household's share price dropped 7.9% on Wednesday, to close at $42.46, amid a credit card stock fallout. A Household spokesman attributed the drop to Capital One Financial Corp.'s announcement Tuesday of its deal with regulators. (See related story, page one)

Second-quarter revenues from the company's owned receivables portfolio grew by 17%, to $393 million. Driven by the growth in real estate-secured products, Household's owned receivables portfolio rose 16%, to $83.1 billion at the end of the quarter. Household's managed receivables portfolio -- which includes loans that the company has securitized -- grew 15%, to $105.5 billion.

Company officials credited the earnings increase to strong demand for consumer finance loans. Some analysts noted that a significant portion of the earnings growth -- approximately one third -- came from Household's gain-on-sale securitization revenue.

William Ryan, an analyst with Portales Partners LLC, said that, after taxes, Household's securitization activities drove its year-over-year per-share

earnings up by 4.6 cents. This led him to question the quality of the company's earnings.

"I don't know that I would characterize (the earnings as) really high-quality when 4.6 cents of 15 cents in year-over-year earnings growth came from gain-on-sale accounting," Mr. Ryan said.

The Prospect Heights, Ill., consumer finance company securitized $2 billion of receivables in the quarter -- including $1.25 billion of real estate-secured securities -- compared with $1.4 billion in the same period last year.

In a Wednesday conference call, Household officials said the company securitized heavily in large part to improve its credit ratings. Citing concerns about the company's ability to get access to the capital markets in times of economic stress, Fitch Inc. downgraded Household in January to "negative" from "stable."

Household also closed a $1 billion issue of wholesale home equity securities on July 3.

The company's annual net chargeoff ratio for its managed assets climbed 55 basis points, to 4.26%. One sector that experienced a substantial increase in chargeoffs was Household's "other unsecured" category of loans, which includes branch-based unsecured loans.

Asked during the question and answer session of Household's earnings call why this was so, David Schoenholz, Household's chief financial officer, said that these borrowers are "the most exposed to an economic downturn, the type of customer who has less resilience."

Fee income on both the owned and managed portfolios dropped from the second quarter of last year and from the first quarter of this year because of reduced late fees from credit card customers, company officials said.

Household's continuing litigation woes also came up during the Q&A session in questions from two analysts, Robert Napoli of U.S. Bancorp and Matthew Vetto of Citigroup Inc.'s Salomon Smith Barney. Household is currently fighting lawsuits filed by the Association of Community Organizations for Reform Now in California and Illinois and by AARP in New York.

William Aldinger, Household's chief executive officer, said on the conference call that Household has colloquially become the "poster child for predatory lending" but that the consumer activist cases were without merit.

Meanwhile, Craig Streem, a Household spokesman, confirmed in an interview that one of its credit card rivals, MBNA Corp., told Household in discussions within the last month that it would sever its year-old home equity loan partnership with the company. Household had bought and serviced subprime home equity loans originated by MBNA.

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MBNA, which originates both prime and subprime home equity loans, wanted to sell the loans to and have them serviced by a single lender, Mr. Streem said.

CT http://www.americanbanker.com

CO hfc : HSBC Finance Corp

IN i81501 : Credit Types/Services | i8150105 : Consumer Lending | ibnk : Banking/Credit

NS c15 : Performance | c151 : Earnings | ccat : Corporate/Industrial News

RE namz : North America | usa : United States

IPD News article

AN Document amb0000020020718dy7i0000v

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Exhibit 51

BEAR STEARNS

Equity Research
Specialty Finance Companies
July 17, 2002

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Household International (HI-$46.10) - Buy

Solid Loan Growth, Increased Liquidity; Stock Weakness Not Reflective of Favorable Business Trends

**PLEASE REFER TO THE LAST PAGE OF THIS REPORT FOR IMPORTANT DISCLOSURE INFORMATION

Data					
Last ROE	23%	Dividend/Yield	$0.94/2.0%	Book Value	$21.06
Target Price	$75	Shares Out	429.6 million		
52-Wk Range	$69-$43	Market Cap (MM)	$19.8 billion		

Key Points

*** Household reported first quarter earnings of $1.08 up 15% from $0.93 a year ago. EPS were roughly $0.01 better than our estimate.

*** Real estate loans grew by 4.2% in the quarter and account for 46% of managed balances. This secured lending continues to provide a cushion against credit risk although loss rates rose on the real estate secured portfolio.

*** There was some net interest margin compression as the company lengthened its debt maturities and reduced its commercial paper issuance. The company's investment portfolio increased to $8.3 billion from $5.0 billion at the end of the March quarter which put pressure on the net interest margin. The higher level of liquidity should help protect Household against bond market volatility and facilitate the refinancing of the convert that may be put back to the company in August.

*** Credit quality remains good. The managed chargeoff rate increased to 4.26% in the second quarter, up from 4.09% in the first quarter and 3.71% year over year. We believe the company is well reserved with managed loss reserves at 112% of managed non-performing assets, up from 108% at the end of March and 110% a year ago.

*** We continue to rate HI shares Buy at only 8.8x our 2003 estimate and with EPS growth expected to continue at a roughly 12% annual pace. We are maintaining our 2002 estimate, 2003 estimate, and our $75 price target.

	Earnings Estimates					P/E
	Q1 Mar	**Q2 Jun**	**Q3 Sep**	**Q4 Dec**	**Year**	**Year**
2001	$0.91	$0.93	$1.07	$1.17	$4.08E	11.3x
2002	$1.09	$1.08	$1.22E	$1.32E	$4.70E	9.8x
Previous	$1.09	$1.07E	$1.22E	$1.32E	$4.70E	9.8x
2003					$5.25E	8.8x
Previous					$5.25E	8.8x

Household International reported its second quarter financial results today. The company reported portfolio-based EPS of $1.08 per share, one cent above our estimate. EPS reflected solid managed loan growth, modest margin compression and some additional reserve building. Our 2002 estimate of $4.70 is unchanged as is our 2003 estimate of $5.25. Our Buy rating and our $75 price target are unchanged.

Managed Loan Growth:

Household reported managed loans grew by 4.2% sequentially or $4.3 billion, bringing the ending managed portfolio to $105.4 billion. This was higher than the 2.8% sequential growth we were expecting for the quarter. The strong growth was primarily driven by growth in the real-estate secured portfolio which grew by $2.6 billion to $48.9 billion. The real-estate secured portfolio consists of home equity loans secured by the underlying property. We believe the combination of steadily appreciating home prices and low interest rates makes home equity loans an attractive option – especially for borrowers consolidating debt. This has resulted in robust loan growth that can be seen from the 20%+ rate of year over year growth in the real estate secured portfolio over the last three quarters. Growth in the personal-unsecured lending category also contributed to strong loan growth during the quarter, including Union Plus personal loans which are prime loans.

Credit Quality:
The portfolio-based chargeoff rate increased to 4.26% from 4.09% in the first quarter. The managed chargeoff rate is within expectations, although it has certainly benefited from effect of growth in managed receivables. The chargeoff rate in the real estate secured portfolio, which constituted 46.4% of total managed receivables at quarter end, increased from 65bp in the first quarter to 86bp in the second quarter. Including REO expense the managed chargeoff rate in the secured real estate portfolio increased from 1.05% to 1.23%. Chargeoffs in the real estate secured portfolio appear to be benefiting from home price appreciation on repossessed homes, which increases recoveries. The managed chargeoff rate increased from 7.17% to 7.54% on the MasterCard/Visa portfolio, with approximately half the increase resulting from bankruptcy filings. The chargeoff rate in the personal non-credit card category increased by 70bp sequentially, to 8.56%.

Delinquency trends appear to be positive overall as the managed delinquency rate (consumer only) declined from 4.63% at the end of the first quarter to 4.53% at the end of the second quarter. The auto-finance delinquency rate increased by 68 bp to 3.19%, up from 2.51% at the end of the first quarter. This increase is primarily attributable to seasonality in the second quarter. The company's consistent re-aging policy over the last six months gives us some comfort regarding the company's credit quality. Household disclosed that at the end of June, 83.3% of the managed domestic portfolio had never been re-aged, 7.4% had been re-aged in the past 6 months, 5.1% had been re-aged in the last 7-12 months and 4.2% had been re-aged previously. The loss provision declined from the first quarter, in line with seasonal trends to $1.3 billion from $1.4 billion in the first quarter. Managed reserves to managed non-performing assets were 112%, up from 108% at the end of March and 110% a year ago. We believe that the managed charge off rate could begin to stabilize after the third quarter assuming an improvement or at least no further deterioration in the unemployment picture.

Liquidity and Capital:
During the second quarter, Household actively accessed the securitization markets completing $1.25 billion in real estate secured financing and securitizing nearly $2 billion in other receivables. An additional $1 billion liquidity facility backed by real estate secured loans was established during the quarter. Additionally, the company increased its investment liquidity portfolio to $4.5 billion at the end of March providing flexibility if the financial markets become more volatile. The company refinanced short term commercial paper with longer term instruments effectively extending the maturity of its debt. At the end of June, the investment portfolio totaled $8.3 billion compared to $5.1 billion in the first quarter and $3.5 billion a year ago. This increase in investment securities partly contributed to the 21bp decline in the net interest margin. The company estimates that the cost of a larger liquidity portfolio and extending its debt maturities reduced the net interest margin, reducing earnings by about 2 cents per share in the quarter. The company estimates that going forward the impact should be about 3 cents per share each quarter. The remaining decline in the NIM was likely due to a greater mix of real estate secured loans (46.4% in the second quarter versus 45.7% last quarter).

On June 30, the ratio of tangible equity to tangible managed assets was 8.24%, compared to 8.41% at March 31st and 7.61% a year earlier. The company stated that as of June 30, based on the revised guidelines for subprime lending, its banks were well capitalized.

In connection with its $2 billion share repurchase program, Household bought back 966,000 shares in the second quarter. At June 30, Household had agreements to purchase, on a forward basis, approximately 6.1 million shares of common stock at a weighted average price of $55.63 per share.

Litigation and Legal Issues:
On its conference call management indicated that it has little difficulty meeting more stringent state regulations and is optimistic that some national legislation would standardize regulations. The company is a defendant in several lawsuits alleging predatory lending practices, but still appears optimistic that the lawsuits and preliminary decisions (Acorn suit, court finding prohibiting arbitration) will ultimately be resolved in Household's favor.

Investment Conclusion:
At $46.10, we believe Household's shares are significantly undervalued. HI shares appear to have suffered along with those of other financials in reaction to bank regulators imposing higher reserve and capital requirements on sub-prime lenders. This is not new.

Household added over $1 billion to capital in its banks in Q1 and currently only about 5.5% of its portfolio is held in its banks, limiting exposure to bank regulators. We continue to believe that Household's regulatory risk is negligible.

Our price target of $75 implies potential upside of 63%. We believe the company's ability to grow the managed portfolio, while keeping loss rates in line, gives the company significant earnings power. Our 2002 EPS estimate of $4.70, our 2003 estimate of $5.25 per share and our $75 price target are unchanged.

The Facts: Household International

	2Q02	1Q02	2Q01	4Q01/3Q01	4Q01/4Q00
$ in millions (except EPS)					
Net interest income	$2,289	$2,265	$1,894	1%	21%
Provision for credit losses	$1,278	$1,362	$935	-6%	37%
Other income	$3,103	$3,211	$2,560	-3%	21%
Operating expenses	$1,058	$1,072	$956	-1%	11%
EPS	$1.08	$1.09	$0.93	-1%	16%
Return on average equity	22.9%	24.0%	23.0%		
Return on average managed assets	1.77%	1.84%	1.77%		
Net interest margin	8.58%	8.79%	8.34%		
Operating expenses/Revenues	19.62%	19.58%	21.46%		
Operating expenses/Average managed receivables	4.10%	4.23%	4.25%		
Receivables (% of period-end managed portfolio):					
Real estate secured	46.4%	45.7%	43.5%		
Auto finance	6.5%	6.5%	5.6%		
MasterCard/Visa	15.9%	16.2%	18.6%		
Private label	12.8%	13.2%	13.1%		
Other unsecured	18.0%	17.9%	18.6%		
Commercial and other	0.4%	0.5%	0.6%		
Total	100.0%	100.0%	100.0%		
Managed receivables (end of period)	$105,461	$101,178	$91,539	4%	15%
Managed receivables (average)	$103,248	$101,370	$89,927	2%	15%
Managed interest-earning assets (average)	$106,756	$103,087	$90,802	4%	18%
Net chargeoffs	$1,093	$1,032	$829	6%	32%
Net chargeoff rate (based on average managed *consumer* receivables)	4.26%	4.09%	3.69%		
Lagged net chargeoff rate (9 mnths.)	4.67%	4.59%	4.05%		
Delinquency rate (60+days based on managed *consumer* receivables)	4.53%	4.63%	4.27%		

Valuation Method For Target Price: residual income model and P/E to growth

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HI, HI: Within the past twelve months, Bear, Stearns & Co. Inc. or one of its affiliates has performed, or is performing, investment banking services for which it has received a fee from this company.
HI, HI: The analyst(s) that prepared this report or a member of the analyst's household has a long position in the equity securities of this company.
Bear, Stearns & Co. Equity Research Rating System:
Buy(1) - Expected to outperform the local market by 20% in the next 12 months. Strong conviction and typically accompanied by an identifiable catalyst. Sectors with less volatility would anticipate lower total returns
Attractive(2) - Expected to outperform the local market by 10% or more in the next 12 months, it is usually more difficult to identify the catalyst
Neutral(3) - Expected to perform in line with the local market in the next 12 months
Unattractive(4) - Expected to Underperform the local market in the next 12 months
Sell(5) - Avoid the stock

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Exhibit 52

FPK

Credit Card Industry

US Specialty Finance

July 17, 2002

Industry Update

Disclosure information may be found at the end of the report.

Regulatory Uncertainty Causes Big Problems For Consumer Finance Group

Group Downgraded to Underperform. We believe that the announcement of the regulators' imposition of a Memorandum of Understanding on Capital One Financial represents a profoundly significant development for the consumer credit industry, the ramifications of which could lead to lower returns, increased capital intensity and greater regulatory uncertainty in the future. The news throws into question the long-term sustainability of the business model.

We are taking the following rating actions:

		Rating		Price Target		Target Multiple	
		Old	New	Old	New	Old	New
Capital One Financial	COF	BUY	ATTRACTIVE	$76	$64	18x	14x
Household International	HI	BUY	ATTRACTIVE	$75	$63	15x	12x
MBNA Corporation	KRB	ATTRACTIVE	HOLD	$29	$26	17x	15x

- **The regulators insistence that Capital One boost reserves held against credit card loans to individuals with FICO scores of less than 660 represents the regulators lack of comfort with the use of federally guaranteed deposits as a funding source for sub-prime lenders.** The decision to hold Capital One (viewed as a financially strong, high quality player, on a different level than Metris and Providian) to the toughest applications of that standard caught us off-guard, and potentially signals that such tough standards could be applied to other industry participants, including more diversified, financially stronger banks.

Fundamental Data for Credit Card Industry

Consumer Finance Stocks

Conventional Valuations

Company	Symbol	Rating	Price 7/16/2002	Target Price	Target Upside	YTD Perf	Market Cap	EPS 2002E	EPS 2003E	P/E 2002E	P/E 2003E	Price/ Book 03E
Capital One Financial	COF	Attractive	$50.60	$64	26%	-6%	10,677	3.78	4.54	13.4	11.1	2.03
Household Internationa	HI	Attractive	$46.10	$56	21%	-20%	21,100	4.70	5.31	9.8	8.7	1.72
MBNA Corp	KRB	Hold	$20.36	$26	28%	-42%	17,343	2.26	2.60	9.0	7.8	1.58
Metris Companies	MXT	Hold	$6.07	$12	98%	-76%	603	0.85	1.30	7.1	4.7	0.47
Providian Financial	PVN	Hold	$4.05	-	-	14%	1,151	-0.01	0.38	-	10.7	0.59

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- **The forcefulness of the unexpected move raises concerns that regulators may impose other tough interpretations of currently unresolved issues including:**

  1) the amount of capital securitizers must hold against lower-rated and un-rated securitization tranches and I/O strips;

  2) the accounting for reserves against uncollectable finance charges and fees; and,

  3) the overall treatment of securitization trusts as off-balance sheet liabilities. The regulators move in this instance is consistent with expectations that regulators may become increasingly risk averse in the post-Enron environment.

  It is concerns about the pending regulatory matters that compel us to downgrade MBNA (a mostly prime lender) not expected to be impacted much by the ruling on sub-prime risk weightings, but who achieves an acceptable ROE by running on low capital and reserves.

- **The higher capital standards for sub-prime lending has the potential for potentially cutting in half the return on equity of the highest margin business for credit card lenders.** This adverse development comes at a time when lenders are having difficulty achieving acceptable profitability levels in the highly competitive, saturated super-prime business. The timing is particularly unfortunate for COF as the sub-prime business has recently been made more attractive by the reduction of competition (mostly due to MXT's and PVN's pullbacks).

- **The greater capital intensity of sub-prime credit card lending could have the adverse macroeconomic impact of reducing the availability to lower income and credit impaired individuals.** A resulting liquidity crunch could potentially exacerbate the financial condition of consumers on the edge, pushing industry charge-off rates higher, at a time when the durability of the current economic bounce-back has come into question. The potential spillover impact on sub-prime consumer creditworthiness could have a negative impact on the portfolio of Household International, due to its concentration of sub-prime borrowers, despite its relatively small sub-prime credit card business.

- **We are growing increasingly frustrated with the lack of uniformity with an earnings presentation convention known as "managed income statement."** The quarterly impact of MBNA's managed non-interest income number has made its financial results difficult to forecast and raises questions about earnings management. MBNA's opaque disclosure is out of tune with the direction towards financial transperancy in the US stock market and is no longer tolerable.

Mitigating Factors

- **Some economic data continues to track well against our thesis of a strengthening economic recovery for the consumer.** Consumer finance stocks should do well in such a scenario. Recently, however, some of the data have shown cracks in this assumption; and, there is greater uncertainty now than earlier this year, before consumer confidence suffered the frontal blow caused by the corporate governance crisis.

- **One mitigating factor is the lower valuation at which the group now trades.** From a peak of 22x forward earnings in 2002, the group now trades at a much more sober 11.3x, 50% down from the peak. The group's current multiple is 37% below the five year average. However, when viewed versus the expected earnings growth in 2003, the group's P/E/G ratio stands at 41%, representing a level only 26% below the five year historical average, meaning the group's re-valuation is somewhat justified by expectations of lower earnings growth. We simply believe that, with all of the additional regulatory uncertainty, combined with the increased risk of the consumer rolling-over, it is unlikely that the group will recover to peak valuation levels of a few years ago, even if earnings growth expectations were achieved.

Ratings Actions

MBNA. Our reasons for downgrading MBNA are twofold: 1) MBNA runs with the lowest overall level of capital and reserves of any company in the group (and could thus be most adversely affected by any subsequent increases in required capital due to any regulatory change); and 2) we are growing increasingly uncomfortable with MBNA's earnings quality. With these concerns, we are lowering our target price for MBNA to $26.

During 2Q02, it became apparent to us that MBNA's changing securitization assumptions were having a major impact on the managed non-interest income numbers. It appears that MBNA's assumptions were more liberal in 3Q01 (mostly due to lower interest rate assumptions) and became more conservative in the following quarters, creating a drag on earnings. We believe that it is disingenuous to describe MBNA's number as "managed non-interest income" when such a convention should eliminate the effects of gain-on-sale accounting entirely. Additionally, we were concerned that MBNA added nothing to reserves during the quarter through excess provisioning (especially in light of the government's increasing demand for reserves). The purchase of a reserve from Wachovia simply means MBNA gets to amortize the reserve over the period that the excess purchase price is amortized (since they paid more for the portfolio that included a reserve than they would have from one that did not) rather than having the reserve build hit earnings during the 2Q02. Additionally, at yearend, MBNA increased the amortization period for excess purchase price, benefiting the acquisition driven growth strategy. Furthermore, they also increased the pension accounting return assumptions, during a period when the achievement of such returns is becoming increasingly speculative. None of these factors is, in and of themselves a reason to downgraded, but cumulatively, they represent a disposition towards less conservative accounting policies and are, thus, a source of concern.

Household International. While HI may be less directly affected by the potentially regulatory changes of capital levels, the overhang of regulatory hostility does impact the stock. Accusations of predatory lending, however baseless they may be, gain additional currency in a market, seized by fear of events outside of management's control. Whether legislators jump on the bandwagon that the trial lawyers and regulators and riding is a rising risk for HI. Additionally, as HI goes further down the rode to securitization, additional questions regarding the quality of earnings arise. When investors pay attention to key fundamental drivers like loan growth, margin, credit quality, and cost control, HI does fine, because it delivers. When the focus moves away from the fundamentals towards unquantifiable factors like litigation and regulatory risk, the upside on the stock will be capped. We do not see HI trading at better than 12 times earnings in this charged environment, and thus have lowered our target price to $63.

Disclosure Information

The compensation earned by the analysts on this report is based, in part, on the overall profitablility of FPK, which includes investment banking revenues.

Analyst Disclosure Information

Disclosure Information for Capital One Financial Corporation

Analyst Questionnaire

- Historical P/E Ratios
- Increased Regulatoy Scrutiny Leading to Lower than Expected Returns and Overall Weak Consumer Credit Pressuring Loss Ratios
- To the knowledge of the research analyst principally responsible for the preparation of this report, no actual material conflict of interest of FPK, or any research analyst contributing to this report, or any member of such research analyst's household exists.

Disclosure Information for MBNA Corporation

Analyst Questionnaire

- Historical P/E Ratios
- Increased Regulatoy Scrutiny Leading to Lower than Expected Returns and Overall Weak Consumer Credit Pressuring Loss Ratios
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Disclosure Information for Metris Companies

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Disclosure Information for Household International

Analyst Questionnaire

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Disclosure Information for Capital One Financial Corporation

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Disclosure Information for Metris Companies

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Disclosure Information for Household International

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Ratings Definition Information

Ratings in the US are defined as follows:	
Buy	*Stocks, we believe will outperform the appropriate market index (the S&P 500) by a significant margin over the next 12 months. By significant we generally mean by at least 10 percentage points. Generally, these will be the analysts most favorite stocks; they are also the stocks that are expected to outperform the analysts universe*
Hold	*Stocks, where we do not have any conviction one way or another that the stock will outperform or underperform the benchmark index*
Attractive	*Stocks, we believe will outperform the appropriate market index (the S&P 500) by a significant margin over the next 12 months. Beyond the expectation of out-performance there is no other numerical requirement*
Sell	*Stocks where we have a strong conviction that there will be a meaningful decline in price*

Ratings in the UK are defined as follows:	
Buy	*Stocks which we are happy to buy immediately at the prevailing price in the expectation of significant near term absolute (20%) and relative (10%) price performance, and which are fundamentally attractive for the longer term*
Attractive	*Stocks which we would not buy immediately – because of the valuation*
Hold	*Stocks with limited fundamental attractions, or fundamentally good stock*
Overvalued	*Above fair value; likely to underperform*
Sell	*Stocks which are fundamentally unattractive and where there is a serious downside risk*

Exhibit 53

CIBC

CIBC WORLD MARKETS

Equity Research

July 17, 2002

Earnings Update *Buy*

Household International

In-Line 2Q02 EPS Offer No Surprises; Maintain Buy

Diversified Financial Services

HI-NYSE (7/17/02)	**$42.37**
12-18 mo. Price Target	$65.00
Key Indices: S&P 500, DJ Ind, S&PFincl	
3-5-Yr. EPS Gr. Rate (E):	15.0%
52-week Range	$69.49-$42.37
Shares Outstanding	461M
Float	356.1M shrs
Avg. Daily Trading Vol.	3,600,000
Market Capitalization	$19.5B
Dividend/Yield	$1.00/2.4%
Fiscal Year Ends	December
Book Value	$15.31 per Shr
2002 ROE	20.3%
LT Debt	$60,536.2
Preferred	$1,818.20M
Common Equity	$7,057.20M
Convertible Available	Yes

- Household reported in-line 2Q02 EPS of $1.08, fueled by robust portfolio gains. Our 2002 and 2003 estimates remain unchanged at $4.70 and $5.30, respectively. Based on the solid results, we are maintaining our Buy rating on the stock and a $65 price target.

- The managed portfolio advanced 4.2% sequentially and 15.2% year-over-year to $105.5 billion, led by home equity gains. Gains were recorded across the board, with the exception of commercial receivables, which are being wound down as the company exits the business.

- Enhanced liquidity management dampened the net interest margin, but tight cost controls sustained profitability. The net interest margin fell 21 bps from the prior quarter to 8.58%, but still remained 23 bps higher than the year ago owing to reduced funding costs.

- Credit quality remained in-check, despite a modest uptick in the managed loss rate. The managed loss rate advanced 17 bps from the first quarter to 4.26% and was driven by deterioration in the non-credit card unsecured, bankcard and home equity portfolios.

Company Description

Household International is a diversified financial services company focused primarily on consumer lending.

Earnings per Share	Prev	Current
2001A		$4.08A
2002E		$4.70E
2003E		$5.30E
P/E		
2001A		10.4x
2002E		9.0x
2003E		8.0x

Stock Price Performance

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Exhibit 1. Household International Statistical Review
(Dollars in millions, except where noted)

	Year Ago 2Q01	Last Quarter 1Q02	Estimate 2Q02E	Actual 2Q02
Net Interest Margin	$1,894.3	$2,264.5	$2,330.1	$2,289.3
Total Net Revenues	1,625.5	1,848.6	1,803.8	1,824.6
Earnings Per Share	**$0.93**	**$1.09**	**$1.08**	**$1.08**
Managed Profitability Analysis				
Net Interest Margin	8.34%	8.79%	8.86%	8.58%
Pretax Margin Ex. Charges	17.25%	17.93%	18.20%	18.08%
Net Margin Ex. Charges	11.31%	11.79%	11.97%	12.11%
Total Managed Portfolio	91,539	101,178	104,719	105,461
Total Managed Delinquency Rate	4.27%	4.63%	4.45%	4.53%
Total Managed Charge-Off Rate	3.71%	4.09%	4.22%	4.26%
Reserve Coverage	3.78%	4.10%	4.12%	4.14%

Source: Company reports and CIBC World Markets Corp.

Household reported in-line EPS equaling $1.08, with no surprises

Household reported in-line second quarter results equaling $1.08 that were fueled by robust portfolio gains. Strong demand for loans occurred across all product lines and was led by the home equity portfolio, which continued to benefit from the healthy housing market and low interest rates. The hefty portfolio growth also offset modest net finance margin compression that occurred during the quarter to drive solid revenue growth. Further, cost containment remained a priority at Household, as total expenses moderated sequentially. Finally, credit quality remained in check, although managed losses did rise modestly owing to portfolio seasoning and the challenging economic environment.

Separately, management did announce that it would begin expensing stock option-related costs beginning in the fourth quarter of 2002. Management estimates that this change will reduce 2002 earnings per share by a penny and roughly two cents in 2003. The accounting change, however, should improve Household's earnings quality and transparency.

Our estimates remain unchanged, and we are maintaining our Buy rating and $65 price target

Overall, we believe Household's second quarter results were positive and held few surprises. As such, we have maintained our 2002 and 2003 estimates of $4.70 and $5.30 per share, respectively. Based on the solid results and upbeat outlook for the second half, we have also maintained our Buy rating on the stock and a $65 price target, which represents roughly a 12X multiple on our 2003 estimate. Although we are becoming increasingly optimistic about the prospects for the second half of the year, a potential economic double-dip could adversely impact credit quality and growth trends, which would represent a risk to our price target.

The managed portfolio advanced 4.2% sequentially and 15.2% year-over-year to $105.5 billion and was led by home equity gains. Gains were recorded across all product lines with the exception of commercial receivables, which are being wound down as the company exits the commercial lending business. Home equity demonstrated the strongest growth, as mortgage receivables grew 5.7% from a quarter ago and 22.8% over the prior year to $48.9 billion. New loan volume was derived nearly evenly from Mortgage Services and the branches, which continue to benefit from improving attrition rates and sales force productivity.

We believe the home equity portfolio should continue to demonstrate solid growth throughout the remainder of 2002 and into 2003 as interest rates remains stable and branch optimization continues. With the average mortgage rate holding at the 6.5% level, which has been cited as a potential trigger for a second refinancing boom, Household could be a beneficiary and enjoy sustained home equity portfolio gains through 2003.

Personal non-credit card receivables also demonstrated healthy growth, rising 4.4% sequentially and 11.5% year-over-year, owing to solid gains within the Union Plus program. The auto portfolio followed closely behind, rising 4.0% from the prior quarter and 33.4% over the year-ago period, as auto demand remained robust and pricing held firm. Although auto finance is currently a small contributor to earnings, we believe the building dealer network and growing acceptance of the HAFCSuperhwy.com channel should continue to drive rapid growth within this portfolio.

Finally, the bankcard and private label credit card portfolios posted more modest sequential gains during the quarter equaling 2.7% and 1.2%, respectively. Within the bankcard portfolio, the slower growth reflects management's cautious approach to the sub-prime credit card market in light of recent industry turmoil and rapid credit quality deterioration among other sub-prime card issuers. At the end of the second quarter, sub-prime receivables totaled $1.3 billion, or less than one percent of total managed receivables. We believe Household will remain conservative in its growth of the sub-prime card portfolio until the economy is more clearly on the road to recovery. The private label portfolio, however, should demonstrate accelerating growth in the seasonally stronger second half of 2002 as the company generates new merchant relationships.

The NIM contracted as liquidity increased, but we believe it is worth the added cost

Enhanced liquidity management dampened the net interest margin, but tight cost controls sustained profitability. Household has sought to improve its liquidity and reduce its reliance on commercial paper as a source of funds given the volatile capital market conditions. Although the company has been successful in its effort to boost liquidity, the lower spreads on investment assets relative to the loan portfolio resulted in modest margin compression on a sequential basis. As such, the net interest margin fell 21 bps from the prior quarter to 8.58%, but still remained 23 bps higher than the year-ago period owing to reduced funding costs. Household securitized roughly $2.0 billion of receivables during the quarter as part of its effort to broaden its funding structure.

Strict expense management should sustain solid profit trends

Offsetting some of the lower net interest margin was ongoing cost containment efforts and lower goodwill amortization that drove a modest sequential decline in operating expenses. Operating expense declined 1.7% from a quarter ago and rose 9.9% year-over-year to $970.4 million to support improvement in the pretax and net margins, which rose to 18.1% and 12.1%, respectively. Overall, we believe Household will continue to reduce its use of commercial paper funding as well as build its investment portfolio through the second half of the year. Although the enhanced liquidity could reduce earnings by roughly two cents per quarter, we believe the improved balance sheet strength and broader capital access are worth the cost, particularly in light of economic uncertainty.

Credit quality stabilization could occur in 4Q02

Credit quality remained in check, despite a modest uptick in the managed loss rate. Importantly, the increase was not unexpected, given the lagged effect of last year's recession and portfolio seasoning. The managed loss rate advanced 17 bps from the first quarter to 4.26% and was driven by deterioration in the non-credit card unsecured, bankcard and home equity portfolios. The auto finance and private label lines, however, demonstrated modest sequential improvement to offset some of the impact on the consolidated loss rate.

Overall, we believe the blended managed loss rate could further erode in the third quarter as the portfolio continues to season, before potentially stabilizing at year end. Reserves should remain more than adequate, however, at over 4.1% of the managed portfolio. On a positive note, the managed delinquency rate decreased 10 bps to 4.53% to remain largely in-line with the historical range, albeit at the high end given the challenging environment. Although we do not suggest the second quarter is indicative of an improving trend, it does reinforce our confidence in pending stabilization in the coming months.

Re-aging efforts should also continue to maximize returns on seriously delinquent accounts, although the proportion of re-aged accounts should remain relatively flat, in our opinion. At the end of the quarter, roughly 16.7% of the domestic portfolio had been re-aged at some point in time, of which 27.1% were personal non-credit card receivables.

Exhibit 2. Household International Earnings Model

(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QP	3Q	4Q	2001	2002E	2003E
Finance Income	$3,304.8	$3,385.0	$3,388.5	$3,426.8	$3,664.4	$3,836.6	$13,153.4	$14,316.2	$16,652.7
Interest Expense	1,280.7	1,192.6	1,124.0	1,137.5	1,260.9	1,324.0	5,212.8	4,846.4	5,838.6
Net Interest Margin	**2,024.1**	**2,192.4**	**2,264.5**	**2,289.3**	**2,403.4**	**2,512.6**	**7,940.6**	**9,469.8**	**10,814.2**
Provision For Credit Losses	966.8	1,184.0	1,362.3	1,278.4	1,257.7	1,297.6	4,018.4	5,195.9	5,439.1
Interest Margin After Losses	**1,057.3**	**1,008.4**	**902.2**	**1,010.9**	**1,145.8**	**1,215.0**	**3,922.2**	**4,273.9**	**5,375.0**
Insurance Revenue	169.2	175.3	170.1	177.5	180.7	184.3	662.4	712.6	757.9
Investment Income	42.3	45.8	46.2	44.0	48.1	51.7	167.7	190.0	223.4
Fees Income	407.9	421.1	396.3	362.7	382.8	401.9	1,618.5	1,543.7	1,785.4
Securitization Income (Expense)	18.2	120.4	145.8	134.2	143.3	126.9	135.7	550.2	196.9
Other Income	51.5	59.9	188.0	95.3	98.4	97.6	322.5	479.3	397.3
Total Other Operating Revenue	**689.1**	**822.5**	**946.4**	**813.7**	**853.3**	**862.4**	**2,906.8**	**3,475.8**	**3,360.9**
Total Net Revenues	**1,746.4**	**1,830.9**	**1,848.6**	**1,824.6**	**1,999.0**	**2,077.4**	**6,829.0**	**7,749.7**	**8,736.0**
Salaries And Benefits	408.3	424.1	445.3	453.0	489.8	504.8	1,597.2	1,892.9	2,144.2
Sales Incentives	74.1	71.0	54.1	67.6	80.0	81.0	273.2	282.7	324.9
Occupancy And Equipment	86.1	84.1	92.2	93.3	100.0	95.6	337.4	381.0	434.2
Other Marketing	127.1	128.0	148.4	141.5	149.9	145.4	519.3	585.2	668.8
Other Servicing And Administrative	172.3	172.2	229.3	202.5	215.9	214.0	709.6	861.7	966.9
Amor. Of Intangibles And Goodwill	37.4	37.4	18.2	12.5	20.0	20.8	151.2	71.5	87.4
Total Expenses	**905.3**	**916.8**	**987.5**	**970.4**	**1,055.5**	**1,061.6**	**3,587.9**	**4,075.0**	**4,626.3**
Policyholders' Benefits	77.5	74.5	84.0	87.4	84.0	83.1	302.6	338.5	370.1
Exp. & Policyholders' Benefits	**982.8**	**991.3**	**1,071.5**	**1,057.8**	**1,139.5**	**1,144.7**	**3,890.5**	**4,413.4**	**4,996.4**
Pretax Income	**763.6**	**839.6**	**777.1**	**766.8**	**859.6**	**932.8**	**2,938.5**	**3,336.3**	**3,739.5**
Income Tax Expense	259.8	290.7	266.1	253.3	284.0	308.1	1,015.0	1,111.5	1,235.3
Net Income	**503.8**	**548.9**	**511.0**	**513.5**	**575.6**	**624.6**	**1,923.5**	**2,224.8**	**2,504.2**
FD EPS Ex. Charges And Gain	**$1.07**	**$1.17**	**$1.09**	**$1.08**	**$1.21**	**$1.32**	**$4.08**	**$4.70**	**$5.30**
Dividends Per Share	$0.22	$0.22	$0.22	$0.25	$0.25	$0.25	$0.85	$0.97	$1.06
Operating Analysis									
NIM As % Of AMIEA	8.57%	8.85%	8.79%	8.58%	8.66%	8.62%	8.50%	8.12%	8.09%
Provision For Losses As % Of AMR	1.0%	1.2%	1.3%	1.2%	1.2%	1.1%	4.3%	4.5%	4.1%
Fee Income As % Of AMR	0.44%	0.43%	0.39%	0.35%	0.35%	0.35%	1.75%	1.34%	1.36%
Total Expenses As % Of AMR	1.0%	0.9%	1.0%	0.9%	1.0%	0.9%	3.9%	3.5%	3.5%
Insurance Revenue Sequential Grov	6.2%	3.6%	-3.0%	4.4%	1.8%	2.0%	18.0%	7.6%	6.4%
Sec. Income As % Mgd. Portfolio	0.02%	0.12%	0.14%	0.13%	0.13%	0.11%	0.13%	0.48%	0.15%
Pretax Margin Ex. Charges	19.1%	20.0%	17.9%	18.1%	19.0%	19.9%	18.3%	18.8%	18.7%
Net Margin Ex. Charges	12.6%	13.0%	11.8%	12.1%	12.7%	13.3%	12.0%	12.5%	12.5%
Managed Receivables By Product									
Real Estate Secured	41,931	44,719	46,249	48,888	50,144	52,270	44,719	52,270	59,282
Auto Finance	5,869	6,396	6,616	6,881	7,163	7,500	6,396	7,500	8,958
Visa/MasterCard	17,304	17,395	16,349	16,787	17,964	19,039	17,395	19,039	22,132
Private Label	12,386	13,814	13,322	13,477	14,878	15,577	13,814	15,577	17,785
Other Unsecured	17,632	17,993	18,151	18,946	19,507	20,423	17,993	20,423	22,922
Commercial & Other	533	507	491	483	551	577	507	577	659
Total Managed Portfolio	**95,655**	**100,823**	**101,178**	**105,461**	**110,206**	**115,386**	**100,823**	**115,386**	**131,737**
Total Managed Delinquency Rate	4.43%	4.46%	4.63%	4.53%	4.50%	4.48%	4.25%	4.27%	4.42%
Total Managed Charge-Off Rate	3.74%	3.90%	4.09%	4.26%	4.40%	4.35%	3.55%	4.28%	4.28%

Source: Company reports and CIBC World Markets research.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2001A Actual	$0.91A	$0.93A	$1.07A	$1.17A	$4.08A
2002E Current	$1.09A	$1.08A	$1.21E	$1.32E	$4.70E
2003E Current	$1.20E	$1.25E	$1.37E	$1.48E	$5.30E

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11) CIBC World Markets Corp., or one of its affiliated companies, expects to receive or intends to seek compensation for investment banking services from Household International in the next 3 months.

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Buy	Expected total return over 12 months of at least 15%.
Hold	Expected total return over 12 months of 0%-15%.
Underperform	Expected negative total return over 12 months.

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Exhibit 54

AN msns000020020719dy7j0000o
SE
HD Subprime Forecast: Defaults Will Edge Up On Today's Loans
BY
By Ted Cornwell

WC 483 words
PD 19 Jul 2002
SN Mortgage Servicing News
SC MSNS
PG 8, 8
CY
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LP
Ann Arbor, MI -- The weak economy is causing the risk of default on newly originated, nonprime credit quality mortgages to rise again, according to University Financial Associates here.

UFA, which tracks the credit risk on new subprime mortgages on a quarterly basis, said that its index of default risk rose to 105 in the spring of 2002, up from a reading of 99 six months ago. A reading of 100 would reflect the average performance expectations for a loan originated in the 1990s.

TD
Lenders should expect defaults on nonprime loans currently being originated to be 20% higher than the average of loans originated in 1998 and 1999, according to UFA. Defaults will be 5% higher than the average default rate on mortgages originated throughout the 1990s, according to the report.

The analysis is based on a "constant quality" loan, so that the index is designed to take into account changes that market conditions would have on the same borrower with the same loan and collateral characteristics over time.

Economic conditions for the performance of subprime loans have been less favorable over the last two years than the prior two-year period,

according to
UFA.

"The risk is rising because the accommodating interest rate policy of the
Fed is not sufficient to offset the eroding prospects for both the consumer
and the underlying housing collateral," said Dennis Capozza, professor of
finance at the University of Michigan and a principal in UFA.

However, the risk remains well below the level reported amid the recession
of 1990 and 1991. At one point in 1990, the index approached a reading of
140.

Mr. Capozza told MSN that the recent recession has taken a smaller toll on
borrower and collateral characteristics than occurred in the early
1990s.

"That was a much more difficult period than we have today, when we have just
been through a mild recession," he said.

The index dropped sharply in 1992 and 1993, and again dropped during the
refinancing boom of 1998. However, it remained persistently at or near 100
during the 2001 refinancing boom.

UFA's quarterly report assesses how economic conditions will affect future
defaults, prepayments, loss recoveries and loan values for nonprime loans. Mr.
Capozza pointed out that the index is forward looking and predicts performance
over the life of a loan originated today.

The data from UFA seems to corroborate other evidence that the

performance
of lower credit quality loans has deteriorated.

For instance, LoanPerformance, San Francisco, said in a recent report that
the early performance of subprime loans originated in 2000 and 2001 "looks
troubling," noting a higher-than-typical incidence of early default. The UFA
index had showed a sharp rise in default risk on loans originated in 2000 and
2001 compared to 1998 and early 1999.

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Exhibit 55

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Finance Companies Market Flash

http://research-and-analytics.csfb.com/

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The Most Puzzling Bond of All

Household Finance Hits Historic Wides On No News—Look No Further Than Capital One

CSFB Rating: **High A**
Recommendation: **Buy**

Issuer	Level	Ratings	Coupon	Maturity	7/26/02 Bid Spread
Household Finance Corp.	Senior	A2/A	5.75%	1/30/07	350
Household Finance Corp.	Senior	A2/A	7.00%	05/15/12	335

Source: Credit Suisse First Boston

Summary and Investment Recommendation

This has been a tough couple of weeks for financials, with markets punishing investor perception of the brokers and regulators becoming more vigilant in their oversight of the banks. All of this has pushed spreads wider, although to be fair, financials have performed no worse than the broader market.

But one name has been swept out to historic wides for no good reason in our opinion—Household Finance.

In 2002, Household generated the following headlines:

Reported its 15th and 16th consecutive quarters of record earnings

Significantly improved its disclosure procedures to where it is best-in-class in our opinion and the information is far better than what we get from investment banks and mortgage banks

Increased its use of the asset-backed and retail MTN markets to help take some of the pressure off of the unsecured market

Provided encouraging guidance about asset quality trends

Kept growth to highly manageable levels

And yet HI 10-year paper has widened to +330 bps on the bid side, 155 bps back of the brokers, 200 bps back of Countrywide (in 5-years) and, perhaps most remarkably, at one point 10 bps back of CIT. The following table and charts illustrate where these relationships have been at various points of time in the past:

Chart 1: Wider and Wider: Why?

Spreads (bps) in Household Five and Ten-Year Maturities versus Peers

	5 Year Spreads				10 Year Spreads			
	HI	CCR	COF	CIT	HI	BAC	MWD	CIT
09/07/01	122	123	270	112	158	150	157	-
09/21/01	165	180	390	160	198	173	195	-
12/31/01	155	128	335	138	178	130	137	-
03/31/02	185	125	295	251	183	113	128	-
06/30/02	203	110	340	332	215	113	155	292
Current	350	150	775	365	335	125	178	340

Chart 2: Widening Out

Household's 5 Year Spread Performance Versus Peers

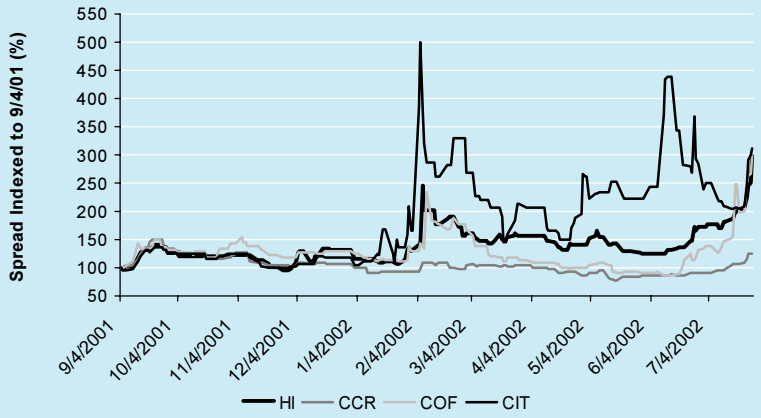
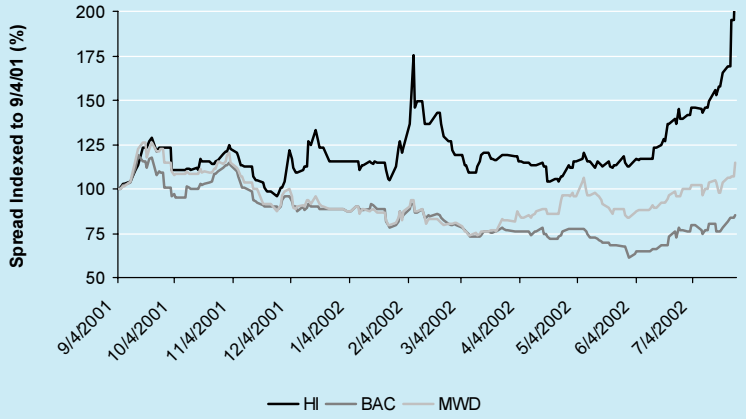


Chart 3: Widening Out

Household's 10 Year Spread Performance Versus Peers



Source: CSFB

So what's happened?

Capital One's MOU and the power of the Shorts.

We believe that Household paper has widened because short sellers can draw a line, however vague, between Capital One (Buy/Mid BBB) and Household. Both are full spectrum lenders and both have bank subsidiaries. We have long felt that Household's biggest vulnerability is a competitor's fall from grace. Capital One's announcement a couple of weeks ago that it expects to be subject to greater regulatory scrutiny has spilled over into Household's story. How meaningful is Capital One's MOU to Household? Let's look at the facts.

Household *does* have bank subsidiaries (now merged into one). In the late 1980s and early 1990s, it actually had aspirations to build a nationwide banking franchise. Eventually, that strategy was reversed. Over the past several years, Household has been consciously *reducing* the amount of business, lending and deposit-gathering, it has done out of its bank subsidiaries. A big part of the rationale for doing so was to reduce the regulatory scrutiny that naturally is drawn to full spectrum lenders. Today, we estimate that Household has just 7% of its assets in its bank. What caused Capital One to pop up so prominently on regulators' radar screens is (1) that the company aggressively used its banks to gather deposits and (2) that it has grown so quickly. The same cannot be said of Household, on either point. Household does not seem to be in the regulators' cross hairs. Indeed, on its recent earnings conference call, Household management stated emphatically that in its ongoing discussions with regulators, there is "nothing analogous" to the situation at Capital One.

But the facts become less meaningful when fear takes over the market. We saw similar moves in Household bonds in the first quarter (10-year paper widening out to +315 bps), after CIT drew down its bank lines. Again, guilt by association, in our view. Quickly, however, Household bonds snapped back, eventually riding an improving economic backdrop to much tighter levels (+165 bps).

We believe we will see HI bonds snap back from these levels, although the catalyst forward seems to be a bit more in the future than what took place in the first quarter. We need to see the economy shake off all of the malaise that pervades markets today and post solid, if unspectacular levels of growth. We need to see unemployment stabilize. And the lifting of Capital One's MOU (which we would expect by mid-year 2003), would be the final piece of the puzzle.

In the meantime, we do not have fundamental concerns about Household. We believe it can shift more of its near-term financing needs into the commercial paper, asset-backed and retail MTN markets. We believe it has some pricing power on the asset side, which will enable it to pass along some of the eventual impact of higher funding costs. And we believe its high level of profitability and strong balance sheet will keep its ratings intact.

We reiterate our Buy recommendation on Household bonds.

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AMSTERDAM	31 20 5754 890	JOHANNESBURG	27 11 884 67 41	SÃO PAULO	55 11 3841 6000
ATLANTA	1 404 656 9500	LONDON	44 20 7888 8888	SEOUL	82 2 3707 3700
AUCKLAND	64 9 302 5500	MADRID	34 91 423 16 00	SHANGHAI	86 21 6881 8418
BALTIMORE	1 410 223 3000	MELBOURNE	61 3 9280 1666	SINGAPORE	65 6212 2000
BEIJING	86 10 6410 6611	MEXICO CITY	52 5 283 89 00	SYDNEY	61 2 8205 4400
BOSTON	1 617 556 5500	MILAN	39 02 7702 1	TAIPEI	886 2 2715 6388
BUDAPEST	36 1 202 2188	MOSCOW	7 501 967 8200	THAILAND	66 2 614 6000
BUENOS AIRES	54 11 4131 2700	MUMBAI	91 22 230 6333	TOKYO	81 3 5404 9000
CAIRO	202 567 7600	NEW YORK	1 212 325 2000	TORONTO	1 416 352 4500
CHICAGO	1 312 750 3000	PALO ALTO	1 650 614 5000	VIENNA	43 1 512 3023
FRANKFURT	49 69 75 38 0	PARIS	33 1 40 76 8888	WARSAW	0114 434343
GENEVA	41 22 394 70 00	PASADENA	1 626 395 5100	WASHINGTON DC	1 202 354 2600
HOUSTON	1 713 220 6700	PHILADELPHIA	1 215 851 1000	WELLINGTON	64 4 474 4400
HONG KONG	852 2101 6000	PRAGUE	420 2 210 83111	ZUG	41 41 727 97 00
ISTANBUL	90 212 278 2500	SAN FRANCISCO	1 415 836 7600	ZURICH	41 1 333 55 55

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Exhibit 56

PORTALES PARTNERS, LLC

August 5, 2002

William Ryan (212) 414-0211

Household International (HI-$38-SELL)

"What is Wrong With This Picture"

Over the last several years, Household, as well as many other lenders, have increased loan-to-value ratios of home equity loans in the pursuit of growth. It would appear that lenders have been using above average inflation in home prices to relax lending standards, namely loan-to-value ratios (LTVs), to achieve overly ambitious growth targets. However, what we believe is unusual about Household is the company's willingness to extend such high loan-to-value ratios to subprime customers where there is significantly greater credit risk. This represents a substantial break in the lending profile that the company has maintained over its 100 plus year history. Further, after reviewing loan characteristics at several other lenders, it would appear that Household has been making loans at substantially higher loan-to-value ratios than most of its peers.

In the table below, we compiled data from various home equity securitizations to provide a snapshot of the changing risk profile of Household's home equity loans. The securitizations were all issued from "HFC Revolving Corp.", one of Household's securitization special purpose entities. We have also provided some thoughts about the increasing risk profile. At a minimum, we believe the changing risk profile could lead to substantially higher losses in the current weak economic environment. At most, the rising loan-to-value ratios would suggest a strategy on the part of the company to increase loan-to-value ratios to a point where consumers would be unable to refinance any mortgage away from Household, a practice that is increasingly consider predatory.

Rising Loan To Value Ratios Mean Slower Prepayments, But Greater Risk

	Household Revolving HEL Cert. 1996-1 5/17/1996	Household Home Equity Loan Trust 1999-1 11/16/1999	Household Home Equity Loan Trust 2002-2 6/19/2002
Combined Loan To Value Ratio - %	81.7%	93.3%	100.5%
% Of Pool Greater than 100% LTV	***1.4%***	***42.4%***	***67.8%***
% of First Mortgages in Pool - $	31.3%	85.8%	87.6%
% of Second Mortgages in Pool - $	68.7%	14.2%	12.4%

Observations:

Over the years, Household's combined loan-to-value ratios for home equity loans in securitizations issued from one of its securitization subsidiaries rose to a staggering 100.5% from 81.7%.

Similarly, the percentage of each securitization represented by loans having a combined LTV ratio in excess of 100% has increased from 1.4% of the 1996-1 securitization to 67.8% of the 2002-2 securitization.

What is highly unusual about the aforementioned portfolio attributes is that the percentage of each loan pool represented by first mortgages on a dollar basis has increased from 31.3% of the 1996-1 securitization to 87.6% of the 2002-2 transaction.

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Normally, one would expect loan-to-value ratios to decrease given the greater concentration of first mortgages within each securitization since LTVs tend to be much lower on first mortgages as opposed to second mortgages.

The simultaneous rise in first mortgages as a percentage of each pool, as well as LTV, would imply that Household has been increasingly using higher LTVs in first mortgages and/or placing a second mortgage on the first mortgage as a means to prevent prepayment of loans, a practice that has been viewed as predatory among regulators and consumer advocates.

The increase in LTV's has likely been exacerbated by the practice of rolling points and fees, which have historically been in excess of 7% on many loans, into the mortgage, thereby making it much more difficult for borrowers to refinance in the future.

At many investor meetings in the past, Household actively discussed its strategy of placing a second mortgage on top of a first in order to slow prepayment speeds.

Rising home prices in recent years have lowered loss severity on defaulted home equity loans, which may, at least in part, explain the phenomenal increase in loan-to value ratios over the years. However, slower home price appreciation, stability in prices, or an outright decline could substantially change the loss dynamics of the "new" home equity loan portfolio.

While Household continually defends its lending practices as non-predatory, it recently ceased offering the high LTV second mortgage at the time of closing of a Household first mortgage loan. In our opinion, the change is practically an admission of predatory lending.

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Exhibit 57

DOW JONES

THE WALL STREET JOURNAL.
U.S. EDITION

CLM Abreast of the Market

HD **Cox Communications Falls 19%, Comcast 14% as Market Slides**

BY By Robert O'Brien

CR Dow Jones Newswires

WC 830 words

PD 6 August 2002

SN The Wall Street Journal

SC J

PG C3

LA English

CY (Copyright (c) 2002, Dow Jones & Company, Inc.)

LP

NEW YORK -- If stock prices eventually fall to zero, it will be time to buy them. In the meantime, investors will be weighing risks -- economic risk, earnings risk, event risk -- and that seemed to be the case on Wall Street yesterday.

On the earnings front, Procter & Gamble lost $2.40, or 2.7%, to $87.44, after the consumer-products power reported fiscal fourth-quarter earnings that beat Wall Street's projections, but offered a dimmer view of its December-ending quarter than had been anticipated.

TD

Cisco Systems lost 53 cents, or 4.5%, to 11.36 in Nasdaq Stock Market trading, falling to near the 52-week low of 11.04 set Sept. 27. Lehman Brothers made cautious comments about the networking-equipment company before its release of quarterly results, due today after the close of regular trading. The numbers are expected to show the company's continuing recovery from a sales decline, still crimped by sluggishness in spending on information-technology products.

Meanwhile, economic woes continue to work against several market sectors with more cyclical, or economically sensitive, exposure. Parker Hannifin, the industrial manufacturer, fell 1.32, or 3.5%, to 36.84, after Salomon Smith Barney suggested there is little reason to get upbeat about the construction market. Fluor, an engineering and construction concern, lost 1.59, or 5.3%, to 28.16.

Softness in earnings and the economy pressure the stock market until

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its very decline becomes a drag on the economy in a neat, vicious cycle. For example, Citigroup fell 2.23, or 7.2%, to 28.65, while rival J.P. Morgan Chase lost 1.50, or 6.3%, to 22.35, after pessimistic comments out of Lehman Brothers. The firm reduced its rating on the stocks, citing the fallout that dwindling consumer confidence might have on banks' credit-card operations, and the impact that weakness in the market is having on their financial performance.

Pile onto all that the additional risks of corporate governance and accounting concerns, and it is clear why last week's dizzying euphoria has turned into another taste of strident pessimism.

Small cap Mirant lost 56 cents, or 16%, to 2.93, after the energy-trading concern said it has become the subject of a Securities and Exchange Commission investigation into accounting.

The Dow Jones Industrial Average fell 269.50 points, off 3.24%, to 8043.63, revisiting price levels that made stocks such screaming buys two weeks ago. Ditto the Nasdaq Composite Index, which fell 41.91, or 3.36%, to 1206.01.

"I think the smarter bet is on the long side here, as long as you can take the volatility that's coming," said Stephen Massocca, president of Pacific Growth Equities. "But the reason stocks are so cheap is the uncertainty. Investors have no idea what's going to happen next."

Cox Communications lost 4.83, or 19%, to 20.19. Credit Suisse First Boston cut its rating on the Atlanta cable-television operation, saying increasing expense will limit its margin growth. Several other cable-television operators also had sharp setbacks, with Cablevision Systems off 47 cents, or 5.9%, to 7.54, and Comcast (Nasdaq) down 2.76, or 14%, to 16.80.

Cox Radio, the Atlanta radio-broadcasting concern fell 2.27, or 11%, to 19.05, after Wachovia Securities cautioned weakness in the economy could brake any rebound in advertising expenditures.

Emmis Communications (Nasdaq), Indianapolis, fell 1.80, or 13%, to 12.4, hitting a 52-week low. Clear Channel Communications, San Antonio, fell 2.26, or 9.1%, to 22.62.

Media titan Walt Disney, which sagged to a low for the year last week, lost another 1.04, or 6.8%, to 14.27; Friday, Standard & Poor's put the company's debt on its credit watch for a possible downgrade.

Capital One Financial fell 3.90, or 14%, to 24.70, after Salomon Smith Barney warned of risks to the Falls Church, Va., credit-card lender's business model.

Other consumer lenders, such as Americredit, which fell 2.96, or 17%, to 14.35, and MBNA, which declined 1.03, or 5.8%, to 16.59, also retreated.

Philip Morris gained 2.29, or 5.1%, to 47.50, part of a rise in the

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tobacco sector. The industry won a critical court decision in California, after the state Supreme Court ruled cigarette makers are immune from product-liability lawsuits based on company activities between 1988 and 1998. R.J. Reynolds Tobacco added 1.54, or 2.8%, to 56.14.

Interpublic Group lost 4.69, or 24%, to 14.99, falling to a 52-week low. The New York advertising and marketing concern said it rescheduled the release of its second-quarter earnings statement in order to allow an audit committee an opportunity to review those results.

CO cabsy : Cablevision Systems Corp | ccred : Citigroup Inc. | ciscos : Cisco Systems Inc | clecom : Clear Channel Communications Inc | comcst : Comcast Corporation | coxc : Cox Communications Inc | coxen : Cox Enterprises Inc | coxrad : Cox Radio Inc | cptone : Capital One Financial Corp | dsnyw : The Walt Disney Company | embcst : Emmis Communications Corp | flurcp : Fluor Corporation | intpub : Interpublic Group of Companies Inc. | mbnac : MBNA Corp | philm : Altria Group, Inc. | prgml : The Procter & Gamble Company | prkhnf : Parker Hannifin Corp | rjrtob : Reynolds American Inc. | soener : Mirant Corp | sothco : Southern Company Inc | urcrco : General Motors Financial Company, Inc.

IN i1 : Energy | i16 : Electricity/Gas Utilities | i16101 : Electric Power Generation | i25 : Chemicals | i258 : Cosmetics/Toiletries | i32 : Machinery/Industrial Goods | i3302 : Computers/Electronics | i3303 : Networking | i3442 : Environmental Control Systems | i41 : Food/Beverages/Tobacco | i429 : Tobacco Products | i4291 : Cigarettes | i502 : Heavy Construction | i7902 : Telecommunications | i814 : Banking | i81402 : Commercial Banking | i81501 : Credit Types/Services | i8150104 : Sales Financing | i8150108 : Credit Cards | i831 : Financial Investments | i83101 : Investment Banking | i838 : Advertising | i8396 : Diversified Holding Companies | i971 : Motion Pictures/Sound Recording | i97101 : Cinema Film Production | i97411 : Broadcasting | i9741105 : Radio Broadcasting | i9741109 : Cable Broadcasting | iadv : Advertising/Public Relations/Marketing | ibcs : Business/Consumer Services | ibnk : Banking/Credit | icnp : Consumer Products | icomp : Computing | icre : Construction/Real Estate | ielec : Electronics | iinv : Investing/Securities | imed : Media

NS ccat : Corporate/Industrial News | m11 : Equity Markets | m14 : Commodity Markets | m143 : Energy Markets | mcat : Commodity/Financial Market News

RE namz : North America | usa : United States | usc : Midwest U.S. | usca : California | usde : Delaware | use : Northeast U.S. | usga : Georgia (US) | usin : Indiana | usny : New York | usoh : Ohio | uspa : Pennsylvania | uss : Southern U.S. | ustx : Texas | usva : Virginia | usw : Western U.S.

PUB Dow Jones & Company

AN Document j000000020020806dy860001q

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Exhibit 58

EX-99 116 treasury.htm TREASURY OPERATION PRESENTATION

Slide 1

HOUSEHOLD

Edgar Ancona

Managing Director - Treasurer

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Slide 2

HOUSEHOLD

TREASURY OVERVIEW

- **Interest Rate Risk Management**
- Liquidity Risk Management
- 2001 Funding Review
- 2002 Funding Objectives

2

Slide 3

HOUSEHOLD

INTEREST RATE RISK MANAGEMENT

- Household has a limited appetite for interest rate risk
- Consolidated IRR measured by:
  - Two standard deviation interest rate shock on existing balance sheet
  - Two standard deviation rate move on forecasted balance sheet
  - Gradual 200 bp rate increase over next 12 months
  - Additional "what if" analyses performed as needed
- Prime/LIBOR spread monitored

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Slide 4

HOUSEHOLD

INTEREST RATE RISK MANAGEMENT

- Gradual 200 bp rise in rates over a 12 month period = EPS impact ($0.17)
- 20 bp narrowing of Prime/LIBOR spread = EPS impact of ($0.05)
- Swaps utilized to adjust IRR position
  - Current derivative notional - $45.5 billion
  - Exposure to 38 banks - Top ten constitute 71%
  - 99% of counterparty exposure with banks rated A+ or better; 88% with banks rated AA or better

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Slide 5

HOUSEHOLD

USE OF DERIVATIVES

- Derivatives used:
  - Primarily interest rate swaps and foreign currency swaps
  - Manage exposure to fluctuations in interest rates and foreign currency exchange rates
- No exposure to leveraged or exotic derivatives
- Do not speculate on interest rates or foreign currency market exposure

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Slide 6

HOUSEHOLD

DERIVATIVE ACCOUNTING - FAS NO. 133

- FAS No. 133 adopted January 1, 2001
- Substantially all our derivative instruments qualify as effective hedges resulting in no material income statement volatility
- 71% of our swap portfolio represent cash flow hedges, where all critical terms of the derivative match the critical terms of the hedged item
- For cash flow hedges:
  - Equity volatility created as changes in the derivative value are included in equity (OCI)
  - Earning impact recognized in same period as the hedged item affects earnings

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HOUSEHOLD

DERIVATIVE ACCOUNTING - FAS NO. 133

- Negative unrealized equity mark of $700 million at 12/31/01
  - Direct result of decision to limit interest rate risk in a declining rate environment
  - $392 million of this unrealized loss will be reclassified to earnings within one year
  - The earnings impact of the unrealized loss will be offset by decreased interest expense on the hedged item

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HOUSEHOLD

TREASURY OVERVIEW

- Interest Rate Risk Management
- **Liquidity Risk Management**
- 2001 Funding Review
- 2002 Funding Objectives

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HOUSEHOLD

LIQUIDITY RISK MANAGEMENT

- Primary Treasury focus
- Traditional funding sources will meet current and future liquidity requirements
- However, as a result of 9/11 and recent market events, we are further diversifying funding through:
  - Alternative product offerings
  - Broadening investor base
  - Expanding geographic distribution

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HOUSEHOLD

CURRENT LIQUIDITY APPROACH

- Reduced commercial paper balances from $8.5 billion at 12/31/01 to $5.8 billion at 3/31/02
  - Lengthened average maturity to 33 days from 29 days at 12/31/01
- $1 billion in money market liquidity portfolio at 3/31/02
- Plan to maintain approximately $10 billion in committed backstops
- Supplemented backstop liquidity with additional undrawn ABS conduits
  - Current undrawn conduit capacity of $5.4 billion
  - Greater than 100% of CP outstanding, net of investments

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HOUSEHOLD

CURRENT LIQUIDITY APPROACH

- Balance sheet liquidity further strengthened through enhanced ABS activity
  - Planned ABS issuance of $11 - $14 billion vs $7 billion in 2001
  - Demonstrated liquidity of real estate portfolios
    - Securitized $1 billion of HFC branch-originated product in 1Q 2002 (financing transaction)
    - Completed 1Q sale of $0.9 billion in wholesale-originated product
    - Funded $0.5 billion of HFC branch-originated product with a conduit draw in 1Q
    - Conduit/warehouse facilities established for possible future use
- Will securitize all major asset classes

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HOUSEHOLD

CURRENT LIQUIDITY APPROACH

- Emphasize the hallmarks of HFC debt issuance programs: diversifying investor base, maturity extension and large liquid institutional deals
- In first quarter 2002:
  - Issued $2.5 billion 5-year Global to 246 investors
  - Issued $0.7 billion equivalent of 10-year Sterling to 50 investors
  - Issued $1.5 billion of retail MTNs
  - Issued $1.0 billion of institutional-placed MTNs
  - Issued $54 million equivalent of 3-year Czech Koruna

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HOUSEHOLD

RATING AGENCY RELATIONSHIPS

- Committed to maintaining current credit ratings
- Meet regularly with each agency
- Maintain frequent dialogue outside of meetings
- Currently addressing Fitch outlook issues through the demonstrated liquification of real estate secured receivables

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HOUSEHOLD

RETAIL NOTE PROGRAM

- Sustainable market
  - Increasing number of issuers generating more retail broker focus
  - Fixed coupon attractive to aging population
- Non-callable product introduced in April 2001
  - Issued $788 million in 2001
- Callable product introduced in 2002
  - Issued $1.5 billion as of 3/31/02
  - Average original maturity - 11 years
  - Average original maturity - 3 years if called
  - Greater A/L flexibility than traditional CDs or bullet MTNs

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HOUSEHOLD

LIQUIDITY RISK MANAGEMENT

- Managing liquidity risk begins with annual planning process
  - Legal vehicle funding plans developed
  - IRR position drives fixed/floating decision
  - Debt maturity schedule and market conditions drive maturity decision
  - Funding plans adjusted weekly to accommodate shifting product mix and market environment

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HOUSEHOLD

LIQUIDITY RISK MANAGEMENT

- Several analyses used to measure liquidity risk
  - Maximum Cumulative Outflow (MCO)
    - Analyzes balance sheet maturities and generates cumulative net cash outflow by time period over 5-year horizon
    - Limits reviewed by Finance Committee
  - Debt maturity profile
    - Limits rollover risk

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HOUSEHOLD

LIQUIDITY RISK MANAGEMENT

- **Maximum Cumulative Outflow (MCO)**

  Net cash outflow as a percent of managed funding declines in all periods measured

	Largest Monthly Outflow	Cumulative 12-Month Outflow				
Limit*	15%	20%				
		Yr. 1	Yr. 2	Yr. 3	Yr 4	Yr. 5
12/31/99	10.7%	8.1%	7.7%	5.6%	4.6%	2.1%
12/31/00	9.0%	5.0%	7.5%	5.6%	0.9%	(0.9%)
12/31/01	7.0%	3.0%	1.1%	(3.2%)	(4.9%)	(8.7%)
02/28/02	5.7%	1.1%	(1.8%)	(8.8%)	(11.1%)	(16.0%)
Net Cash Outflow ($ in Billions)	$5.7	$1.1	$1.8	($8.7)	($11.0)	($15.9)

**Limit based on percent of managed funding*

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HOUSEHOLD

LIQUIDITY RISK MANAGEMENT

- Liquidity Risk Analyses
  - Contingency funding scenarios
    - Short and long-term interruptions
    - General market and company-specific events
    - Under a wide variety of scenarios, Household continues to satisfy its funding objectives without utilizing backstops
  - Additional analyses performed as needed
    - Fund potential acquisitions

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HOUSEHOLD

TREASURY OVERVIEW

- Interest Rate Risk Management
- Liquidity Risk Management
- **2001 Funding Review**
- 2002 Funding Objectives

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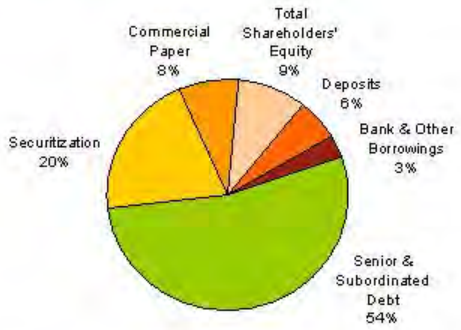
HOUSEHOLD

DIVERSIFIED FUNDING MIX



Consolidated as of December 31, 2001

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HOUSEHOLD

2001 Key Accomplishments

- Managed funding grew $12.9 billion
  - Issued $6.0 billion with maturities 5 years and longer
- Increased issuance of large, liquid debt transactions

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HOUSEHOLD

2001 Key Accomplishments

- Broadened investor base
  - Met with 444 debt/ABS investors
  - Continued issuing in the Japanese and Australian markets
  - Spoke at 8 fixed income/ABS conferences
- Increased public ABS issuance with nine transactions in four different asset classes

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HOUSEHOLD

TREASURY OVERVIEW

- Interest Rate Risk Management
- Liquidity Risk Management
- 2001 Funding Review
- **2002 Funding Objectives**

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HOUSEHOLD

2002 KEY FUNDING OBJECTIVES

- Maintain credit ratings
- Provide fairly priced transactions
- Continue to use large USD global issues
- Increase issuance of public ABS transactions
- Reduce reliance on commercial paper
- Broaden worldwide investor marketing programs
- Establish warehouse lines for real estate product

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HOUSEHOLD

2002 BANK LINES

HFC

- Launched new $4 billion, 364-day facility and new $900 million, 5-year facility to replace maturing facilities
  - $4.5 billion in 364-day facility (matures 4/26/02)
  - $0.93 billion in 5-year facility (matures 5/13/02)
- Asking banks to participate in new facilities based on relative amounts maturing in existing facilities and to consider commitment increases, as warranted
- 9 banks have already committed $2.2 billion to the 364-day facility and $550 million to the 5-year facility. Thank you!

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HOUSEHOLD

2002 BANK LINES

HFC Bank plc

- Launching new 5-year facility to replace £207 million in syndicated commitments maturing this year

HFC Limited

- Renewing C$695 million 364-day facility in 11/02

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HOUSEHOLD

2002 SHORT-TERM DEBT

HFC/HI

- Maintain backstop coverage in excess of 100%
- Current target of $5.5 - $6.0 billion, net of investments

HFC Bank plc

- Target average balance of £500 million

HFC Limited

- Target average commercial paper balance of C$450 million

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HOUSEHOLD

2002 SECURITIZATIONS

HFC

- $11 - $14 billion of public transactions
- Net gains comparable with prior year
  - No gains on real estate securitizations
- Diversify and increase conduit/warehouse capacity for real estate loans

Foreign Subsidiaries

- HFC Bank plc plans two public securitizations totaling £500 - £550 million

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HOUSEHOLD

2002 DEBT ISSUANCE

- Current funding plans include the put of our $1 billion convertible debt
- Full-year retail note issuance of $5 - $8 billion
- Full-year institutional debt issuance of $23 - $26 billion
  - As of 3/31/02 issued $4.2 billion
  - Total remaining needs of $19 - $22 billion
    - $7.5 - $10 billion in large USD transactions
    - $4 - $8 billion in USD MTNs
    - $1.5 - $2.5 billion in Euro transactions
    - $1.5 - $2.5 billion in other foreign offerings

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HOUSEHOLD

2002 DERIVATIVE ACTIVITY

Project $15 - $20 Billion in Derivative Activity

- Actively manage interest rate risk
- Hedge FX exposure from non-dollar debt issuance and subsidiary capital investments
- Use plain vanilla swaps, caps and floors
- Continue focus on managing FAS 133 risk

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HOUSEHOLD

BANK RESTRUCTURING

- Federal banking regulators adopted new capital guidelines for subprime lending activities in 2001
- In response to these guidelines, we contributed $1.15 billion to our bank subsidiaries in the 1Q 2002 to retain "well capitalized" designation
- Currently do not contemplate additional significant equity contributions
- To prospectively manage capital effectively, we will restructure our bank subsidiaries to streamline existing balance sheets and simplify the bank product mix
- Any changes will not materially impact how we operate or fund our businesses

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HOUSEHOLD

2002 FUNDING SUMMARY

Household Will Continue To:

- Provide access to senior management
- Be responsive to investor inquiry
- Consider proprietary/new ideas
- Award merit-based mandates
- Strengthen credit relationships

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HOUSEHOLD

RELATIONSHIP GOALS

Looking for full-service financial partners who provide the following products/services:

- Credit
- Debt, ABS and equity execution
- Research and active secondary market support
- Assistance in expanding investor base
- Merger and acquisition ideas
- Derivatives ideas and execution
- Competitively priced, fee-based services

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HOUSEHOLD

THANK YOU FOR YOUR SUPPORT

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HOUSEHOLD

SUPPLEMENTAL INFORMATION

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HOUSEHOLD

2001 BANK LINE STATISTICS

HFC (12/31/01)

- $10.1 billion in back-up lines; 48 banks
- 5 distinct syndicated credit facilities
  - $4.5 billion matures 4/02
  - $0.9 billion matures 5/02
  - $0.4 billion matures 6/03
  - $0.5 billion matures 5/04
  - $3.7 billion matures 4/05
- 76% of commitments from banks rated Aa3 or better
- $400 million shared with HI

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HOUSEHOLD

2001 BANK LINE STATISTICS

Foreign Subsidiaries (12/31/01)

HFC Bank plc

- £2.2 billion in credit lines
  - 23% of lines drawn
  - 9 distinct syndicated credit facilities
  - 65 banks
  - Various maturities to 2007

Household Financial Corporation Limited

- One C$695 million, 364-day revolver
- 8 banks; renews 11/02

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HOUSEHOLD

2001 SHORT-TERM DEBT

HFC/HI Commercial Paper

- Averaged $8.6 billion
- Maintained backstop coverage of $10.1 billion
- 318 investors
- Individual investor limit of $450 million

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HOUSEHOLD

2001 SECURITIZATIONS

- Public Transactions
  - $2.8 billion between four auto deals
  - $1.5 billion between two credit card deals
  - $1.5 billion between two real estate deals
  - $1.0 billion private label deal
- Conduits
  - $12.6 billion in facilities (12/31/01)

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HOUSEHOLD

2001 TERM DEBT ISSUANCE

	Millions
HI/HFC	
MTNs	$ 7,196
Underwritten	
USD	7,000
Euro	1,400
Samurai	322
Kangaroo	238
	$16,156
HFC Bank plc	
MTNs	£150
Underwritten	€500
HFC Limited	
MTNs	C$600

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Exhibit 59

LEHMAN BROTHERS

EQUITY RESEARCH

June 14, 2002

United States
Financial Services
Specialty Finance Companies

Bruce W. Harting
1.212.526.3007
bharting@lehman.com

Household International (HI - $50.30) 1 - Strong Buy

Company Update

Funding plans assume put of $1B convert

Investment conclusion

- We have recently received questions about Household's $1 billion convertible debt with put provisions for this August. We would noted that the in its April investor conference the company stated that its plans to issue $23-26 billion in debt in 2002 incorporated the belief that $1 billion convertible would be put to the company.

Summary

- In conversations with our convertible analyst team, we do not believe the recent weakness in Household's shares is due to short pressures from convert arbitrage. Our convert analyst noted that the arbitrage requires shorting 2 million shares, which is below the average daily volume.
- We believe the weakness in the shares reflects the general negative market sentiment.

EPS (FY Dec)

	2001		2002			2003		% Change	
	Actual	Old	New	St. Est	Old	New	St. Est	2002	2003
1Q	0.91	1.09A	1.09A	1.09A	NA	NA	1.19E	20	NA
2Q	0.93	1.07E	1.07E	1.08E	NA	NA	1.23E	15	NA
3Q	1.07	1.22E	1.22E	1.20E	NA	NA	1.37E	14	NA
4Q	1.17	1.33E	1.33E	1.32E	NA	NA	1.48E	14	NA
Year	4.08	4.70E	4.70E	4.68E	5.29E	5.29E	5.28E	15	13
P/E			10.7			9.5			

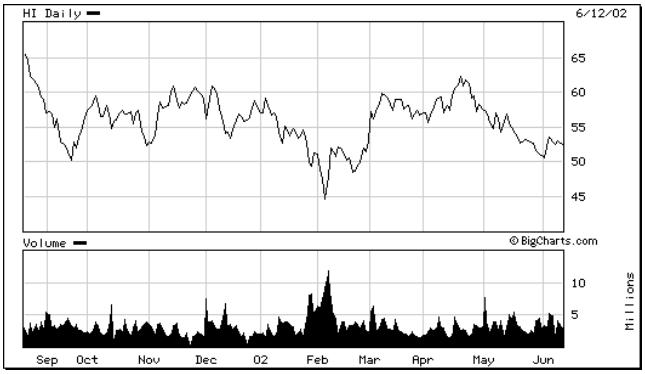
Market Data

Market Cap	22977.0M
Shares Outstanding (Mil)	456.8
Float	NA
Dividend Yield	1.99%
Convertible	Yes
52 wk Range	69.49 - 43.50

Financial Summary

Revenue FY02	$12.4B
Five-Year EPS CAGR	14.00
Return on Equity	23.0
Current BVPS	20.23
Debt To Capital	--
Disclosure(s)	A

Stock Overview



Rating	Target
New: 1 - Strong Buy	New: 75.00
Old: 1 - Strong Buy	Old: 75.00

Company Description :

Household is a major financial services company operating a number of consumer finance businesses.

Related Stocks :

Company Name	Ticker	Price (06-13-2002)	Rating
American Express - A	AXP	(37.14)	3 - Market Perform
Capital One Financial - A	COF	(57.00)	1 - Strong Buy
MBNA Corp - A	KRB	(33.12)	1 - Strong Buy
Providian Fin'l Corp	PVN	(7.15)	3 - Market Perform

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Key to Investment Rankings: This is a guide to expected total return (price performance plus dividend) relative to the total return of the stock's local market over the next 12 months. 1 = Strong Buy (expected to outperform the market by 15 or more percentage points); 2=Buy (expected to outperform the market by 5-15 percentage points); 3=Market Perform (expected to perform in line with the market, plus or minus 5 percentage points); 4=Market Underperform (expected to underperform the market by 5-15 percentage points); 5=Sell (expected to underperform the market by 15 or more percentage points).

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Exhibit 60

SALOMON SMITH BARNEY

See last pages for Important Disclosures

Industry Note

United States

Specialty Finance

SSB's Specialty and Mortgage Finance Weekly - August 9, 2002

August 12, 2002

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SUMMARY

- In a strong week for the market, our cap-weighted Cards index, rose 7% vs. the S&P 500's rise of 5%. The mortgage finance and diversified lenders indices also ended the week higher, up 4% and 6%, respectively.
- It was a positive week for economic data pertaining to our sector, led by a decline in initial jobless claims and better than expected rise in consumer credit.
- The 30-year mortgage rate fell to the lowest levels seen since Freddie Mac began its nationwide survey in April 1971. For the week ended 8/9, the rate fell to 6.31% from 6.43% last week.
- The FFIEC extended the deadline date for credit card issuers to comment on its draft guidance on account mgmt and loss allowances for credit card lending programs, from August 9th to September 23rd. We believe the change for card issuers was mainly due to timing constraints, and would not read much into it.

OPINION

Please see below.

GRAPHIC VERSION AVAILABLE BY E-MAIL

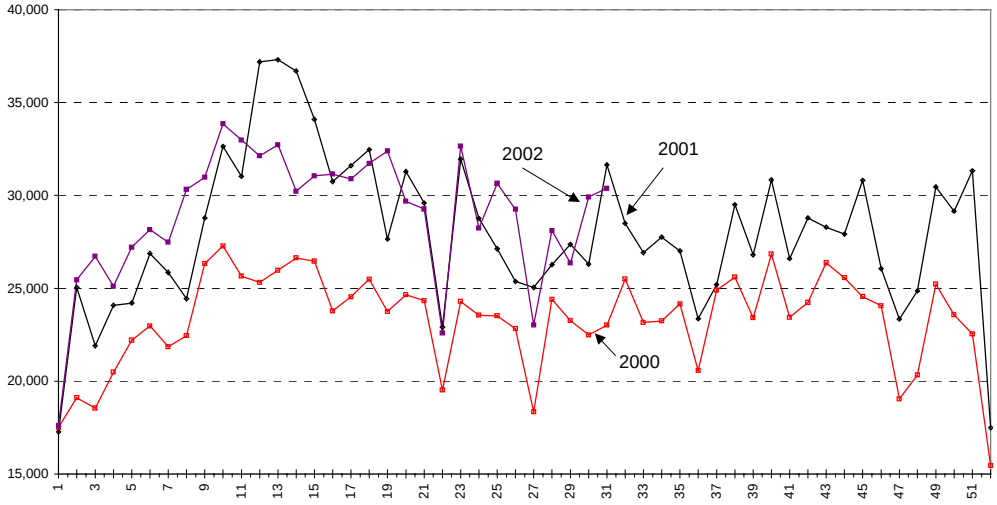
Institutional investors that would like to receive a graphic version of this publication via e-mail on a weekly basis, please contact Nicole Valentine at 212-816-1664 or nicole.valentine@citigroup.com and ask to be placed on our weekly distribution list.

PRICE PERFORMANCE

The top performer this week was Allied Capital, up 12%. The worst performing stock was Metris, down 33%, followed closely by AmeriCredit, down 31%.

YTD, the Cards index is our worst performing index, down 22% vs. the S&P 500 down 21%. Our market-cap weighted mortgage finance and diversified lenders indices are also down 3% and 5%, respectively.

WEEKLY BANKRUPTCY MONITOR



Source: NBKRC

Week 31

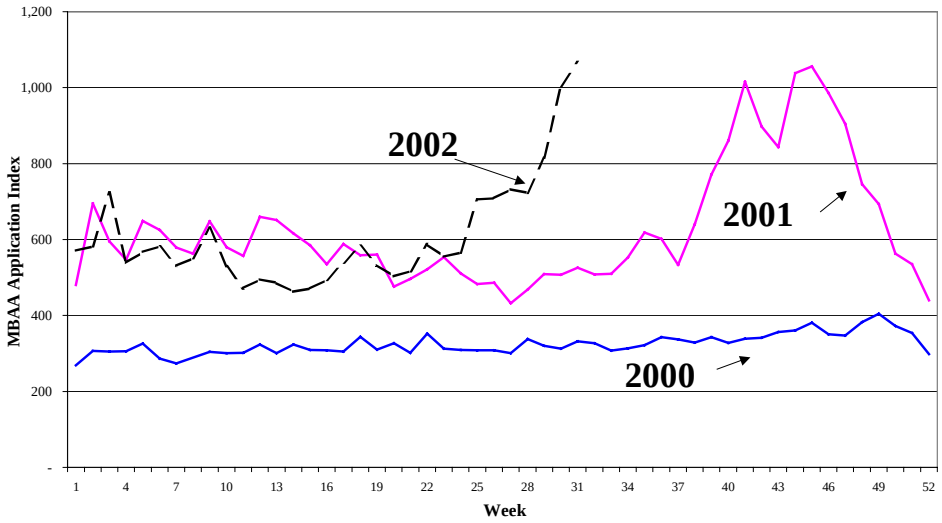
- In the first full week of data following the settlement of language discrepancies in the bankruptcy reform bill, weekly bankruptcy filings rose 1.5% sequentially, and are up 15% in the last two weeks.
- Year/year filings were down 4%.
- 2002 cumulative YTD bankruptcy filings continue to track ahead of last year's pace, up 1.7%.

* Note: percentages are not annualized

30 YEAR MORTGAGE RATES AND APPLICATIONS AT RECORD LEVELS

For the week ended August 9, the 30-year fixed-rate mortgage rate fell to 6.31% from 6.43% last week, and represented the lowest level since Freddie Mac began its nationwide survey in April 1971. This rate stood at 6.34% two weeks ago. For the week ended August 2, the Mortgage Bankers Association of America's market composite index of mortgage loan applications increased 6.2% to 1,066.9 from 1055.5, which also set a record. At the same time, mortgage refinancings were up 7.3% and purchases rose 3.7%. Refinancing activity represented 68.4% of total applications, up from 67.6% the previous week. ARM share decreased to 17.8% from 18.8%.

Figure 1: Mortgage Application Index



Source: MBAA

ECONOMIC DATA WATCH

- **Initial Jobless Claims (8/3/02) -** initial jobless claims fell by 15K to 376K for the week ended August 3. The four-week moving average also declined 7K to 379K, the lowest level since March of last year. Continued claims rose by 51K to 3.5 million.
- **Consumer Credit (June) -** Consumers kept spending in the month of June as consumer credit posted a larger-than-expected gain of $8.4 billion to $1.713 trillion. While the expansion was less than the $9.5 billion gain in May, it came in ahead of the Street's expectation for a $7.8 billion increase. Revolving credit, which mainly includes credit and charge cards, rose by $3.8 billion in June, following a $2.4 billion gain in May. Non-revolving credit, which mainly reflects auto loans and other closed-end loans, were up $4.5 billion, down from May's $7.1 billion increase.

FIXED AND IMPLIED VOLATILITY OASS ARE STARTING TO TELL DIFFERENT STORIES

For the week ended August 8, the current coupon 30-yr MBS Option Adjusted Spread (OAS) (current basis), based on market implied interest rate volatility, for Fannie and Freddie were less negative. Fannie's market implied OAS ended the week at (12.3) bps, slightly better than (12.5) bps the previous week. Freddie's market implied OAS improved to (10.0) bps from (10.3) bps the previous week. These market implied OASs, are currently implying higher volatility relative to OASs based on fixed (or historic) interest rate volatility. Higher volatility leads to a higher value for the option that is embedded in a mortgage, which lowers the value of an option-adjusted mortgage.

Historically, Fannie Mae has been willing to live with more interest rate risk than Freddie, believing that the costs of incremental hedging may offset the benefits. We suspect that Fannie is more likely to incorporate a fixed volatility OAS into its analysis of whether or not to buy mortgages, than Freddie, which is more likely to look primarily at implied volatility OAS.

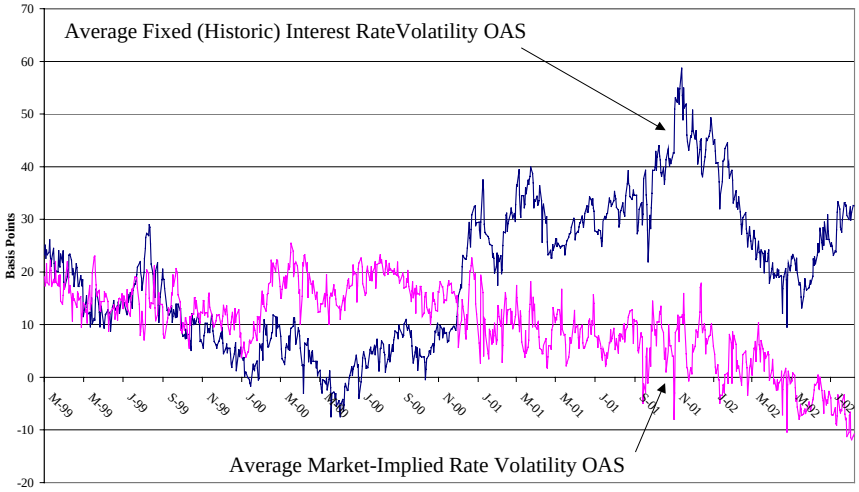
Fannie manages its interest rate risk to maintain a duration gap within plus or minus six months, which one third of the time moves beyond these boundaries. However, Freddie manages its interest rate risk to minimize the portfolio market value sensitivity (PMVS). For example, as of June 2002, if the yield curve shifted up 50 bps, 2.51% of the company's portfolio value (assets less liabilities) would be at risk. Also, a PMVS of 3% represents a duration gap of less than one month.

Based on fixed interest rate volatility, the current coupon 30-yr MBS OAS (current basis) for Fannie and Freddie were both wider. Fannie's OAS ended the week at 34.2 bps, up from 28.2 bps the previous week. Freddie's OAS also increased to 37.3 bps up from 31.3 bps the previous week.

The contraction in spreads based on either the implied or fixed volatility approach, make it less profitable for Fannie and Freddie to purchase mortgages, thus limiting their portfolio growth rates.

Given the diversion between implied and fixed volatility, we suspect that Fannie may be more willing to grow its portfolio in the current environment than Freddie. (See Figure 2)

Figure 2 :Option-Adjusted Current Basis



Source: Salomon Smith Barney

Note: Option Adjusted Current Basis is defined as the difference between the spreads on 30-year current coupon MBS, option adjusted, over Treasuries and the spread on 10-year benchmark agency debt over Treasuries.

HI BUYS BACK $1 BILLION IN CONVERTIBLE BONDS

This week Household bought back nearly $1 billion of its zero-coupon convertible senior bonds maturing in August 2021. The company bought back all but $1.6 million of the original issue, which carried a face value of $1.22 billion, at 81.914 cents on the dollar. Many companies have been forced to buy back the convertible bonds, which were sold in 2000 and 2001 to take advantage of the present low financing costs. Many issuers, including Household, sold convertibles with short "put" options, which allowed holders to sell the bonds back early (e.g., in one or two years). Issuers such as HI, hoped their shares would rise enough that bondholders would never want to exercise those options. Instead, present weak stock prices have made exercising the put options attractive, rather than waiting for the shares to rise, worthwhile. We do not believe this will affect the company from a capital standpoint as it ended the quarter with excess liquidity in anticipation of this event.

FFIEC EXTENDS COMMENT PERIOD FOR CARD ISSUERS

The FFIEC extended the deadline for credit card issuers to comment on its draft guidance on account management and loss allowances for credit card lending programs, from August 9th to September 23rd.

According to our conversations with the regulatory agencies, we believe the changes were made due to 1) a number of companies asking for more time to comment on the proposed changes, and 2) the realization that given the time of season, many decision makers at card issuers would be on vacation. Regulators also noted that part of the reason for the extension was to ensure that they “get it right.”

Further, our conversations lead us to believe that the regulators continue to be adamant about having these guidelines in place as soon as possible, and that they are firm on the new deadline. No specific time frame has been set for the issuance of the new rules (i.e. the week after, as in the previous issuance).

We view the extension as a positive for issuers since it gives them more time to respond to the changes, but also believe may perpetuate the overhang on the stocks stemming from uncertainty around the new rules.

JULY MASTER TRUST DATA - COF

Below we provide a summary master trust operating metrics released this week for the month of July.

- **Capital One** – On balance, solid metrics posted for the month. Portfolio yield expanded a modest 8 bps sequentially to 20.85%, while charge-offs declined a significant 68 bps to identical levels seen a year ago. Interestingly, a similar (yet more modest) sequential decline in net charge-offs of 33 bps was seen last year suggesting there could be some seasonality. Both these changes partially contributed to a 74 bp sequential increase in excess spread. On a less positive note, delinquencies increased 24 bps to 5.19%, similar to the trend seen last year.

Figure 3: Master trust Data

Capital One

	Jun-01	Jul-01	Jun-02	Jul-02	seq chg	(in bps) seq chg last yr	yr/yr chg
Capital One Master Trust (Series 1996-3)							
Portfolio Yield	23.28%	23.95%	20.77%	20.85%	8	67	(310)
Charge-offs	4.24%	3.91%	4.59%	3.91%	(68)	(33)	-
Delinquency Rate	5.30%	5.53%	4.95%	5.19%	24	23	(34)
Excess Spread	13.43%	14.52%	12.50%	13.24%	74	109	(128)

Source: Bloomberg

MXT MASTER TRUST DOWNGRADED BY FITCH

This week, Fitch downgraded the subordinated classes of several series in Metris' master trust. The class B notes were downgraded to A from A+, and the class C notes were lowered to BBB from BBB+. Fitch left the rating for the senior class A notes unchanged given the credit protection available on these notes. The ratings agency said the reason for the downgrade was on the ongoing weakness in the performance of the master trust, and more specifically cited the more than 200 bps increase in charge-offs in the trust YTD.

ACAS ISSUES $211 MILLION OF ABS

American Capital issued $157.9 million of asset backed securities this week, backed by $210.5 million of senior and subordinated loans. This was ACAS's third on-balance sheet securitization. The company had already securitized over $350 million prior to this deal. The note offering consisted of $105.3 million in class A notes and $52.6 million in class B notes.

FANNIE CEO AND CFO VOLUNTARILY CERTIFY REPORTS

Fannie Mae announced that Chairman and CEO, Franklin Raines and CFO, Tim Howard, voluntarily certified the company's most recent reports, consistent with the SEC's order no.4-460. Fannie provided copies of these certifications to the SEC and OFHEO. Fannie had previously announced that in 2002, it would register its common stock, which would require the company to file periodic disclosures with the SEC. The sworn certifications will cover Fannie's information dated April 1, 2002, information supplements dated May 15 and August 9, 2002, and the Proxy Statement for Fannie's 2002 annual meeting of stockholders. We view the move as a positive one for the company, and believe that it is has done a great job of increasing transparency.

NEW CHALLENGES FOR SUBPRIME ABS DEAL?

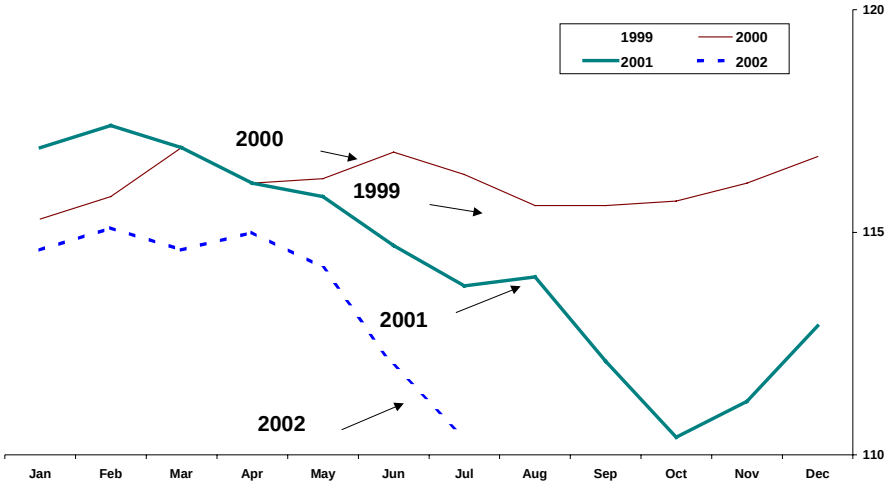
According to industry newsletter, *CardFlash*, in the wake of actions taken by the FDIC (as receiver for NextBank, the bank subsidiary of NextCard), credit card asset-backed securitization issuers may face new challenges. According to Fitch, changes may result in higher credit enhancement levels and potential rating actions for certain credit card ABS issuers going forward. The agency also said that the FDIC's decision not to fund purchases during early amortization and cease charging privileges of the cardholder base has the broadest and most significant ramifications on credit card securitizations. Fitch said the most obvious candidates for more severe purchase rate treatment are monoline credit card issuers with significant sub-prime exposure, regulated financial subsidiaries of retail issuers, and issuers currently operating under higher regulatory scrutiny including Providian, Metris and Capital One.

USED CAR RESALE VALUES LIKELY BACK NEAR LATE 2001 LOWS

- Our discussions with Manheim Auctions, the company that tracks auto auction resale prices, led us to believe that the index level for the month of July will be 110.4.
- This is a negative reading - down from 112.0 in June, 115.1 in February (the high for '02), and matches the record lows seen in October 2001, following the events of 9-11.
- Per our conversations, other color includes: 1) the sharpest declines seem to be on newer used cars, 2) vehicles are "flowing" - in contrast to last time, when there seemed to be a "disconnect" between buyers and sellers, 3) in contrast to the last round of 0% offers, this time captive finance companies seem to be capturing more of the overflow of potential buyers that do not qualify for 0% financing.
- Bottom line: negative implications for loss severity at companies with auto exposure, including COF (3H), HI (2H), WFSI (3H).

Please see our call note dated August 5th for more details.

Figure 4: Manheim Used Car Index



Source: Manheim Auctions

WHAT'S IN THE MAIL? – MAY 2002

Given the importance of direct mail in driving card growth, we believe it is important to keep tabs on the recent trends released by BAI Mail Monitor, an independent marketing research firm.

Below we summarize some key observations from BAI's May Mail Volume data:

- Mail volume increased 2.6% sequentially in May to 431.7 million offers. Industry response rates fell to 0.3% in May vs. 0.5% in April, and 0.4% from May 2001.
- Capital One remained as the top mailer in May. However, early estimates for June show that COF lost considerable market share, which is consistent with the company's statement that it will reduce marketing as a means of slowing down growth. Citi, MBNA, Providian, Discover and Household all gained share, while American Express and Banc One lost share.
- Consistent with April, 4% of total offers were Standard, while 6% of total offers were Gold, up from 5% in April. The remaining 79% of total offers were Platinum, down from 81% in April.
- Down from 18% in April, only 16% of offers this month were co-branded. The lead offer was Citibank/AT&T. About 8% of offers were affinity vs. 7% in April. The lead offer in this category was MBNA Platinum Plus/AAA. 11% were reward offers vs. 17% in April. The lead offer was Amex Blue. About 8% were rebate offers vs. 12% in April, of which the lead offer was Discover Platinum.
- In May, 46% offered an introductory rate for purchases vs. 53% in April. 75% offered an Intro APR for balance transfers, consistent with levels seen in April.
- About 34% of total offers provide an option for an online application. Of all online offers, 35% were from Capital One and 16% were from Fleet.
- 2% of total offers were Chip/Smart Card. About 49% of all Amex mailings were Chip card, 5% of all Fleet mailings were chip cards, and 1% of all Citigroup mailings were chip card related.
- 5% of total offers were Sub Prime, the same as April. Capital One has 47% of the Sub Prime market vs. 30% for Providian. Other Sub Prime mailers include Chase and Direct Merchants.
- We estimate that about 10% of COF's total offers were to subprime borrowers vs. 6% in April, and about 19% of Providian's offers were to subprime vs. 24% in April.

** Note: BAI's definition for a sub-prime account is any account whose APR is 19% and above.*

Figure 5: Annual Mail Volume (in millions)

Prior Month Rank	Current Month Rank		May '02	Apr. '02	Mar. '02	Feb. '02	Jan. '02	Dec. '01	Nov. '01	Oct.'01	Sept. '01
1	1	Capital One	104.3	107.0	101.7	103.1	94.5	123.0	125.7	123.0	102.6
3	2	Citigroup	70.9	60.6	56.6	48.0	49.2	35.4	52.2	43.5	44.0
4	3	MBNA	47.8	34.4	51.1	37.6	38.1	33.4	66.9	39.4	18.0
6	4	Providian	35.4	26.6	17.1	13.2	19.2	25.2	30.0	36.2	26.1
5	5	Chase	29.5	28.3	26.2	29.1	21.5	20.6	20.0	15.7	16.2
2	6	Banc One/First USA	29.3	72.7	56.6	107.5	32.7	100.3	79.6	87.5	62.9
7	7	Fleet	24.2	24.7	21.8	19.4	21.9	16.1	24.8	19.5	13.7
9	8	Discover	18.1	11.8	10.3	25.9	23.7	19.6	22.3	38.9	30.7
10	9	Household	15.3	7.8	17.2	6.8	21.8	3.6	6.1	10.8	16.6
8	10	American Express	12.5	13.8	8.3	6.0	12.3	7.8	16.8	12.0	13.7
		All Other	44.4	33.2	41.7	29.5	44.6	22.5	40.7	51.3	49.1
		Total	**431.7**	**420.9**	**408.6**	**426.1**	**379.5**	**407.5**	**485.1**	**477.8**	**393.6**

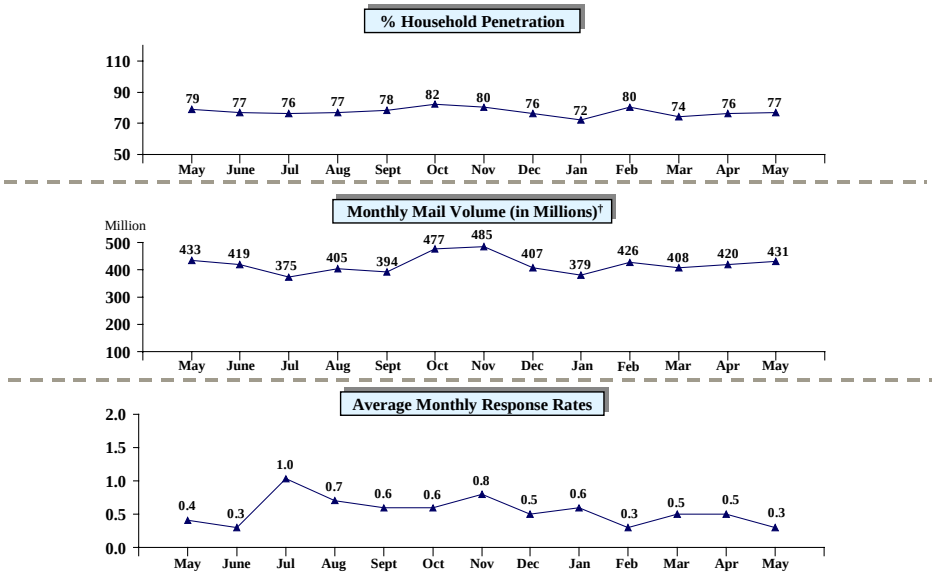
Market Share of Offers	June '02*	May '02	Apr. '02	Mar. '02	Feb. '02	Jan. '02	Dec. '01
Banc One/First USA	26%	7%	17%	14%	26%	8%	25%
Capital One	**16%**	**24%**	**25%**	**25%**	**25%**	**23%**	**30%**
Citigroup	14%	16%	17%	14%	12%	12%	9%
MBNA	8%	11%	8%	13%	9%	9%	8%
Chase	7%	7%	7%	6%	7%	5%	5%
Fleet	7%	6%	6%	5%	5%	5%	4%
Discover	7%	4%	3%	3%	6%	6%	5%
Household	3%	4%	4%	4%	2%	5%	1%
American Express	3%	3%	2%	2%	1%	3%	2%
Providian	3%	8%	6%	4%	3%	5%	6%
All Other	*6%*	*10%*	*5%*	*10%*	*7%*	*12%*	*6%*

* Early estimates

Source: BAIGlobal,

Figure 6: Historical Industry Metrics

U.S. Credit Card Solicitations - 2001-2002 Mailing Trends*



* Based on Mail Monitor® consumer mail panel of over 650 households each month, a service of BAIGlobal Inc.
† Effective 1/01 reflects increase in population from 106 million to 107 million.

Source: BAI Global

SPECIALTY FINANCE UNIVERSE

Company	Rating	Ticker	Price 8/09/02	Price Chg YTD	Price % of 52-wk Hi	# Shrs Dilutd mil.	Mkt Cap ($m)	Mgd Loans ($b)	Calendar EPS ** 2001	Calendar EPS ** 2002E	Calendar EPS ** 2003E	P/E '01	P/E '02E	P/E '03E	PE/G '03E	P/B	ROE	Div Yield	LT Grwth Rate
Auto Finance																			
AmeriCredit#	NR	ACF	$11.88	-62%	19%	91.2	$1,118	$14.8	$3.30	$4.25	NA	3.6x	2.8x	NA	NA	0.8x	27.8%	NA	25%
Credit Acceptance Corp.	NR	CACC	9.05	2%	61%	43.5	403	NA	0.68	0.79	0.85	13.3	11.5	2.7	0.15	NA	NA	NA	18%
WFS Financial#	3H	WFSI	18.71	-22%	59%	41.0	770	8.6	1.90	2.35	3.75	9.8	8.0	5.0	0.29	1.3	15.0%	NA	17%
Credit Card																			
Capital One#	3H	COF	29.10	-46%	44%	231.7	6,418	53.2	2.91	3.65	4.25	10.0	8.0	6.8	0.38	1.6	22.2%	0.4%	18%
CompuCredit	NR	CCRT	5.40	-54%	44%	46.7	250	1.7	0.89	0.28	0.65	6.1	19.3	8.3	0.33	0.6	11.0%	NA	25%
MBNA#	2M	KRB	19.24	-18%	73%	1,305.3	24,840	100.0	1.28	1.48	1.67	15.0	13.0	11.5	0.89	3.0	22.7%	1.5%	13%
Metris Companies#1	3S	MXT	2.25	-91%	6%	95.3	223	11.7	2.62	(0.23)	0.97	0.9	NA	2.4	0.48	0.2	NM	1.8%	5%
Providian Financial	3S	PVN	4.48	26%	9%	294.2	1,306	19.6	(0.06)	0.24	0.65	NA	18.7	6.9	0.86	0.6	NM	0.0%	8%
Diversified Consumer Finance																			
American Express#	1M	AXP	35.95	1%	80%	1,325.0	46,441	60.8	0.98	1.97	2.25	36.7	18.2	16.0	1.23	3.6	21.5%	0.9%	13%
Household International#	2H	HI	40.45	-30%	59%	461.2	18,891	105.5	4.08	4.60	5.20	9.9	8.8	7.8	0.60	2.1	22.2%	2.5%	13%
Ocwen Financial Corp.	NR	OCN	3.60	-58%	33%	67.3	239	NA	(1.89)	0.00	0.20	NA	NA	NA	NA	NA	NA	NA	NA
The Student Loan Corp	NR	STU	85.98	7%	88%	20.0	1,708	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	3.3%	NA
USA Education, Inc.	NR	SLM	92.74	10%	93%	158.6	14,542	75.6	3.75	4.54	5.27	24.7	20.4	17.6	1.26	7.6	36.0%	0.9%	14%
Mortgage Finance																			
Countrywide	NR	CCR	53.68	31%	98%	129.3	6,996	7.4	5.52	5.27	5.59	9.7	10.2	9.6	0.74	1.5	17.3%	0.8%	13%
Fannie Mae	1M	FNM	75.10	-6%	88%	1,000.4	73,249	740.6	5.20	6.15	6.95	14.4	12.2	10.8	0.83	3.5	26.2%	1.8%	13%
Freddie Mac	1M	FRE	62.11	-5%	87%	698.4	42,740	524.9	4.21	4.95	5.65	14.8	12.5	11.0	0.79	2.4	22.2%	1.4%	14%
IndyMac	NR	NDE	22.90	-2%	79%	62.0	1,396	4.3	2.00	2.39	2.69	11.5	9.6	8.5	0.57	1.6	16.9%	NA	15%
Washington Mututal	NR	WM	38.50	18%	90%	963.2	36,526	146.4	3.59	4.00	4.34	10.7	9.6	8.9	0.68	2.0	20.7%	2.8%	13%
Commercial Finance C-Corporations																			
CIT Group	1H	CIT	22.50	-2%	94%	211.6	4,712	48.1	3.33	3.49	3.67	6.8	6.4	6.1	0.68	1.1	10.0%	NA	9%
Financial Federal	2M	FIF	30.80	-1%	86%	16.7	509	1.4	1.75	2.13	2.45	17.6	14.5	15.1	1.08	2.1	16.3%	NA	14%
GATX	NR	GMT	25.78	-21%	64%	49.2	1,275	8.0	0.51	1.87	2.37	50.5	13.8	10.9	0.84	1.4	4.6%	5.0%	13%
Commercial Finance RIC/REIT Corporations																			
Allied Capital	NR	ALD	22.90	-12%	79%	100.7	2,300	2.3	2.16	2.38	2.66	10.6	9.6	8.6	0.57	1.7	16.4%	9.8%	15%
American Capital #	1H	ACAS	25.47	-10%	77%	38.7	993	1.0	2.24	2.55	2.92	11.4	10.0	8.7	0.58	1.6	15.8%	10.4%	15%
iStar Financial	2H	SFI	29.20	17%	92%	92.0	2,688	5.1	2.88	3.03	3.40	10.1	9.6	8.6	0.95	1.8	17.0%	8.6%	9%
Market Cap Weighted Averages (except for Total Mgd Loans = sum)																			
Auto Finance				**-37%**	**39%**			**$29**				**7.4x**	**6.1x**	**5.0x**	**0.2x**	**1.0x**	**22.3%**		**21%**
Credit Card Companies				**-22%**	**54%**			**186**				**13.8**	**12.3**	**10.3**	**0.8**	**2.6**	**22.5%**		**14%**
Diversified Consumer Finance				**-5%**	**77%**			**242**				**28.2**	**16.4**	**14.3**	**1.08**	**4.0**	**24.3%**		**13%**
Mortgage Finance				**2%**	**88%**			**1,424**				**13.4**	**11.6**	**10.3**	**0.78**	**2.8**	**23.4%**		**13%**
Commercial Finance C-Corps				**-6%**	**70%**			**58**				**16.2**	**8.5**	**7.8**	**0.74**	**1.3**	**9.4%**		**10%**
Commercial Finance RIC/REIT				**1%**	**84%**			**8**				**10.5**	**9.7**	**8.6**	**0.75**	**1.7**	**16.6%**		**12%**
Specialty Finance Universe (All Listed)				**-3%**	**82%**			**1,947**				**17.4**	**12.8**	**11**	**0.86**	**3.0**	**22.9%**		**13%**
S&P		**SPX**	**909**	**-21%**	**72%**			**NA**	**45.35**	**48.75**	**55.25**	**20.0x**	**18.6x**	**16.4x**	**3.73x**			**1.8%**	**5%**

**2002 (all) and 2003 (FNM/FRE) estimates are based on SSB estimates. NR companies use First Call consensus
[1] Valuation ratios include 3.4 million note-voting shares issued to pay dividend on PIK preferred stock issue

Source: Company reports, Salomon Smith Barney estimates.

MARK THE DATE!

August 12, 2002	Auction 3 & 6 Month		
		August 19, 2002	Leading Indicators (Jul)
August 13, 2002	Retail Sales (Jul)		
	Redbook	**August 20, 2002**	International Trade (Jun)
	Auction 1 Mth. Bill		Federal Budget (Jul)
			Redbook
	FOMC Meeting		Auction 1 Mth. Bill
August 14, 2002	Business Inv. (Jun)	**August 22, 2002**	Jobless Claims 8/17
August 15, 2002	Jobless Claims 8/10		2/3 Fannie Mae
	Industrial Prod. (Jul)		
	Philadelphia Business Survey (Aug)	**August 26, 2002**	Existing Home Sales (Jul)
	Housing Mkt Index (Aug)		
			New Home Sales (Jul)
	New 30-Yr. Freddie Mac		Auction 3 & 6 Month
August 16, 2002	CPI (Jul)	**August 27, 2002**	Durable Goods (Jul)
	Housing Starts (Jul)		Conference Board
	University of Michigan		Confidence (Aug)
	(August Preliminary)		Redbook
	Real Earnings (Jul)		Auction 1 Mth. Bill

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investors/traders with diversified portfolios that can withstand material losses. V (Venture): indicates a stock with venture capital characteristics that is appropriate for sophisticated investors with a high tolerance for risk and broadly diversified investment portfolios.

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

Exhibit 61

DOW JONES

THOMSON REUTERS

HD **AmeriCredit Corp. Shares Fall Sharply On Delinquency Concerns-DJ**

WC 78 words

PD 7 August 2002

SN Reuters Significant Developments

SC MULTI

LA English

CY (c) 2003

LP

Date Announced: 20020807

Dow Jones reported that AmeriCredit Corp. shares fell sharply on concerns about the Company's credit losses and its exposure to continuing weak, used car prices. In the fourth quarter of fiscal 2002, the Company's delinquency rates increased to 10.3% from 9.1% in the year-ago period. Fourth-quarter deferment rates increased 20 basis points to 5.1%.

RF Significant Development ID Number 335915

CO urcrco : General Motors Financial Company, Inc.

IN i81501 : Credit Types/Services | i8150104 : Sales Financing | ibnk : Banking/Credit

NS c18 : Ownership Changes | ccat : Corporate/Industrial News | ncat : Content Types | nfact : Factiva Filters | nfcpin : FC&E Industry News Filter

IPD Company Type; EQU

IPC Market Guide Industry Map Code; 0700

PUB Reuters America LLC (RSD)

AN Document MULTI00020050119dy870035c

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Exhibit 62

DOW JONES

FINANCIAL REVIEW

SE	News - International News
HD	**US puts screws on consumer credit**
BY	Luke Collins NEW YORK
WC	601 words
PD	23 August 2002
SN	The Australian Financial Review
SC	AFNR
ED	Late
PG	22
LA	English
CY	Copyright 2002. Fairfax Media Management Pty Limited.

LP

Financial institutions in the US are tightening credit conditions, clamping the loose lending environment that has fuelled the consumer spending binge keeping the world's biggest economy afloat.

A credit crunch has not yet hit. But with household debt at record levels, many view federal government moves to more tightly regulate lenders as the first link in a chain that could restrain overall spending if the economy continues to falter.

TD

The chief economist at Morgan Stanley, Stephen Roach, said: "In my view, the excesses of the American consumer will go down in history as a hallmark of the roaring 1990s. Those excesses have yet to be purged."

Consumer spending comprises about two-thirds of US economic activity and has single-handedly propped up the economy in the face of a business investment collapse.

Indeed, even with the economy faltering and jobs dwindling, Americans are getting more debt.

Federal Reserve figures show total consumer credit rose at an annualised rate of 5.9 per cent in June to $US1.713trillion ($3.146trillion).

Of that, revolving credit about 80 per cent of which is general credit card debt was the big mover, rising at an annualised rate of 6.2 per cent in the June quarter to $US714.9billion.

As consumers buy homes with bare minimum deposits, snap up cars under interest-free deals and spend excess cash from mortgage refinancing, delinquencies and bankruptcies are rising.

Delinquencies on non-mortgage consumer debt jumped from 1.4 per cent of debts to 1.86 per cent in the past year, while total bankruptcy filings breached 1.5million in the year to the end of June.

Standard & Poor's believes US consumers are "tapped out", with household debt at a record 104 per cent of annual household income.

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Economists insist the situation is not yet critical. The senior US institutional economist at Salomon Smith Barney, Tobias Levkovich, notes that about 70 per cent of household debt is tied to home mortgages, and housing prices are still appreciating.

However, as in Australia, there are concerns that as interest rates rise, overextended consumers will become forced property sellers, potentially pushing prices down.

"Debt is always a double-edged sword," Mr Levkovich said. "If asset prices decline and your debt doesn't, you're deeper in a hole."

A bigger concern among economists is that employment will not improve and that companies may undertake another round of job cuts. That would restrict income growth, squeezing highly leveraged households even tighter.

In an effort to head off more significant default problems, the federal Government has begun pressuring lenders in the booming sub-prime market, which caters to consumers with low incomes or poor credit ratings and comprises about a third of the total credit card sector.

A month ago, guidelines were announced pushing lenders to increase reserves and more quickly disclose defaults. Just as many corporations have been locked out of credit markets for having risky profiles, consumers face the same fate.

"If we get another slowdown in jobs growth or a big round of lay-offs ... you could get a deeper response in consumer spending because of debt levels," said a senior economist at Moody's Investors Service, John Puchalla.

Meanwhile, credit card companies are still inundating consumers with credit offers. More than 5 billion were distributed in the year to March 31, according to the Consumer Federation of America.

KEY POINTS

* American household debt is at record levels.

* Job cuts could squeeze highly leveraged households.

* Washington is moving to more tightly regulate lenders.

NS e1106 : Consumer Credit/Expenditure/Savings | e11 : Economic Performance/Indicators | ecat : Economic News

RE namz : North America | usa : United States

PUB Fairfax Media Management Pty Limited

AN Document AFNR000020111228dy8n00v83

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Exhibit 63

US SPECIALTY FINANCE

August 22, 2002

Industry Update

The current Disclosures for the companies covered in this report may be obtained by calling our Compliance Department at 1-800-FOX-PITT or clicking on the following link: www.foxpitt.com/library.

THE CARD GAME

Credit Card Monthly

- **Our recent cautious stance on the US Specialty Finance group reflects, in part, our concern that stock market volatility and loss of investor confidence in corporate America has damaged consumer confidence and, thus, the economy.**
- **While the level of total personal bankruptcy filings is elevated, the year-on-year growth trends have been rather benign relative to expectations.**
- **July Master Trust results again revealed relatively stable credit quality trends.**
  - The weighted average loss rate in the 12 trusts we follow fell 19 bps to 5.80%.
  - Further, forward-looking delinquencies rose a modest 5 bps to 4.74%.

Reilly Tierney, CFA

Ian McDonald, CFA

FOX-PITT, KELTON

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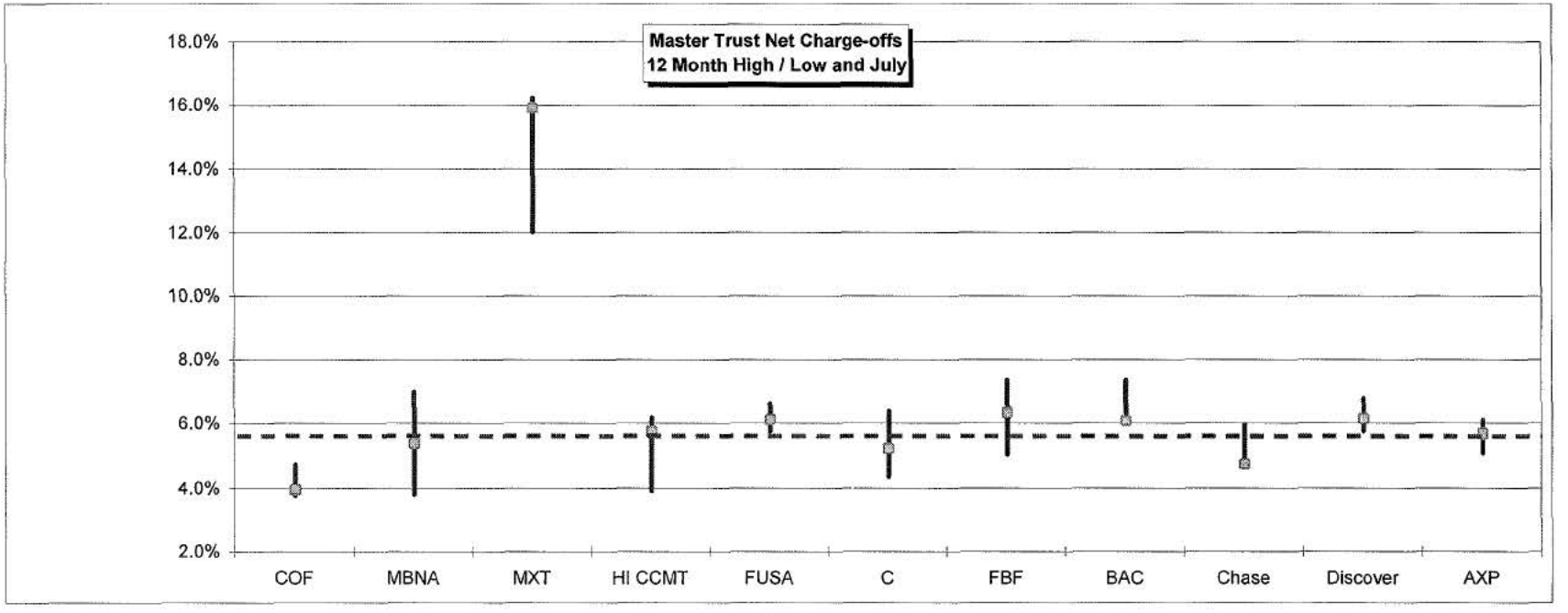
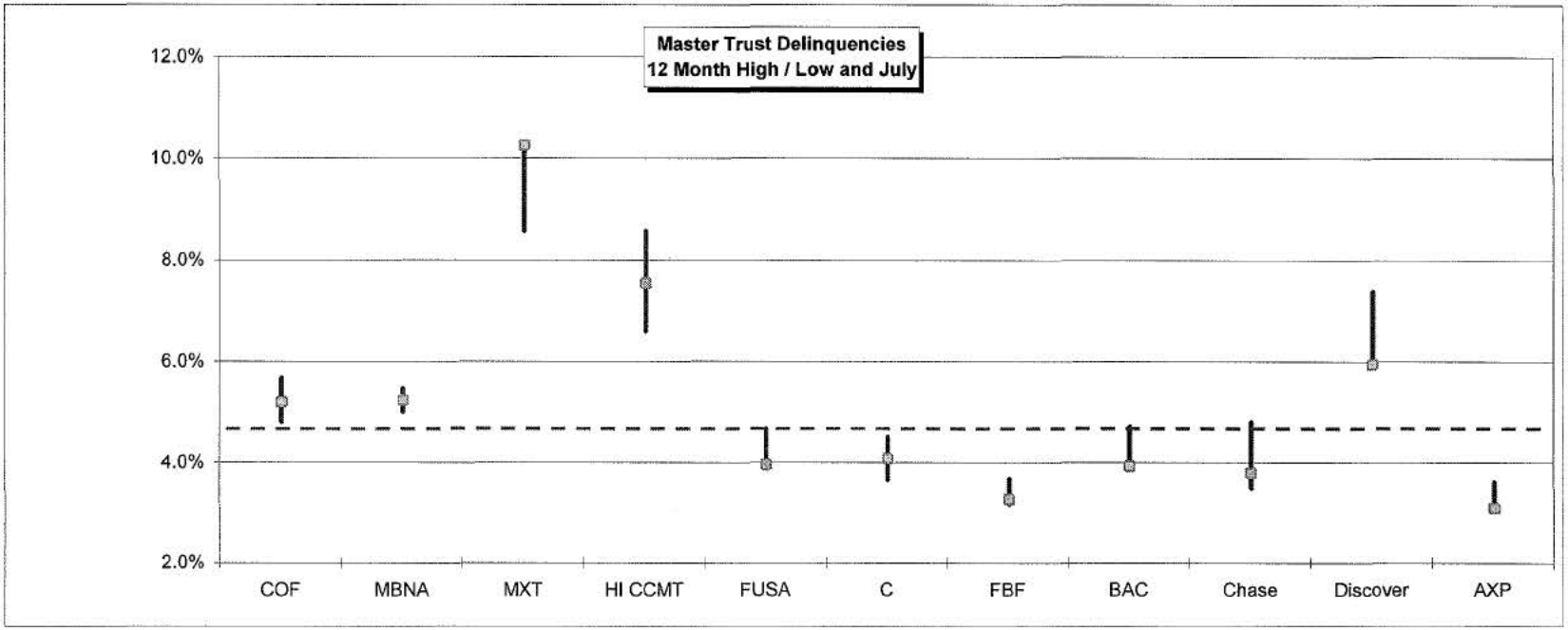


	COF	MBNA	MXT	HI CCMT	FUSA	C	FBF	BAC	Chase	Discover	AXP
Jul-02	3.91%	5.37%	15.87%	5.70%	6.07%	5.20%	6.29%	6.03%	4.72%	6.11%	5.65%
Jun-02	4.59%	5.62%	16.19%	6.15%	5.74%	5.63%	5.30%	6.59%	4.94%	6.54%	5.05%
May-02	4.02%	5.52%	15.81%	6.15%	6.21%	5.59%	5.34%	7.32%	4.75%	6.31%	5.76%
Apr-02	3.86%	5.45%	15.12%	5.27%	6.45%	6.35%	5.71%	6.70%	5.31%	6.49%	6.06%
Mar-02	3.92%	6.95%	15.65%	5.01%	6.58%	5.60%	5.95%	6.81%	5.92%	6.61%	5.73%
Feb-02	3.77%	3.76%	14.34%	4.57%	5.88%	5.38%	5.57%	6.79%	5.46%	6.39%	5.94%
Jan-02	3.75%	5.49%	12.63%	5.51%	5.71%	4.75%	5.62%	6.66%	5.87%	6.75%	6.07%
Dec-01	4.22%	5.23%	15.81%	5.50%	5.74%	4.88%	5.73%	6.47%	5.27%	6.55%	5.71%
Nov-01	4.71%	5.18%	12.58%	5.59%	5.70%	4.33%	5.01%	6.07%	5.11%	6.23%	5.60%
Oct-01	4.18%	5.49%	12.16%	5.63%	6.49%	4.90%	5.63%	7.06%	5.82%	6.02%	5.10%
Sep-01	4.27%	5.27%	13.81%	5.67%	6.12%	4.64%	6.29%	6.61%	5.80%	5.71%	5.08%
Aug-01	3.73%	5.35%	11.97%	3.87%	6.08%	4.75%	7.32%	6.67%	5.59%	5.90%	5.54%
12 Month High	4.71%	6.95%	16.19%	6.15%	6.58%	6.35%	7.32%	7.32%	5.92%	6.75%	6.07%
12 Month Low	3.73%	3.76%	11.97%	3.87%	5.70%	4.33%	5.01%	6.03%	4.72%	5.71%	5.05%
July-02	3.91%	5.37%	15.87%	5.70%	6.07%	5.20%	6.29%	6.03%	4.72%	6.11%	5.65%
Monthly Change	-0.68%	-0.25%	-0.32%	-0.45%	0.33%	-0.43%	0.99%	-0.56%	-0.22%	-0.43%	0.60%
Aggregate Data											
Wt Average Change	-0.19%										
Wt Average Losses	5.80%										



	COF	MBNA	MXT	HI CCMT	FUSA	C	FBF	BAC	Chase	Discover	AXP
Jul-02	5.19%	5.22%	10.25%	7.53%	3.94%	4.06%	3.25%	3.91%	3.77%	5.92%	3.08%
Jun-02	4.95%	5.32%	10.10%	7.45%	3.97%	3.91%	3.19%	4.09%	3.56%	5.92%	3.06%
May-02	4.79%	5.17%	10.16%	7.29%	4.08%	3.90%	3.15%	4.11%	3.46%	5.91%	3.11%
Apr-02	4.95%	5.13%	10.07%	7.24%	4.25%	3.92%	3.52%	4.38%	3.81%	6.30%	3.21%
Mar-02	5.11%	5.17%	9.75%	7.47%	4.45%	4.39%	3.51%	4.61%	4.13%	6.74%	3.28%
Feb-02	5.27%	5.46%	9.71%	6.58%	4.53%	4.49%	3.48%	4.67%	4.80%	7.29%	3.51%
Jan-02	5.42%	5.23%	9.49%	7.61%	4.50%	4.39%	3.66%	4.71%	4.76%	7.35%	3.60%
Dec-01	5.23%	5.16%	9.34%	8.57%	4.41%	4.10%	3.57%	4.67%	4.70%	7.25%	3.41%
Nov-01	5.43%	5.06%	9.01%	8.19%	4.66%	3.81%	3.51%	4.52%	4.63%	7.32%	3.48%
Oct-01	5.50%	5.06%	8.56%	7.16%	4.44%	3.63%	3.36%	4.42%	4.71%	7.39%	3.47%
Sep-01	5.66%	5.17%	8.88%	8.16%	4.30%	3.91%	3.62%	4.60%	4.42%	7.21%	3.30%
Aug-01	5.64%	4.99%	8.84%	7.26%	4.15%	3.80%	3.50%	4.42%	4.39%	6.74%	3.13%
Jul-01	5.53%	4.85%	8.60%	7.47%	4.07%	3.87%	3.72%	4.50%	4.24%	6.49%	3.17%
12 Month High	5.66%	5.46%	10.25%	8.57%	4.66%	4.49%	3.66%	4.71%	4.80%	7.39%	3.60%
12 Month Low	4.79%	4.99%	8.56%	6.58%	3.94%	3.63%	3.15%	3.91%	3.46%	5.91%	3.06%
July-02	5.19%	5.22%	10.25%	7.53%	3.94%	4.06%	3.25%	3.91%	3.77%	5.92%	3.08%
Monthly Change	0.24%	-0.10%	0.15%	0.08%	-0.03%	0.15%	0.06%	-0.18%	0.21%	0.00%	0.02%
Aggregate Data											
Wt Average Change	0.05%										
Wt Average Delinq	4.74%										

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CONSUMER ECONOMIC DATA

Stock market drop and crack in consumer confidence has increased risk of consumer pullback

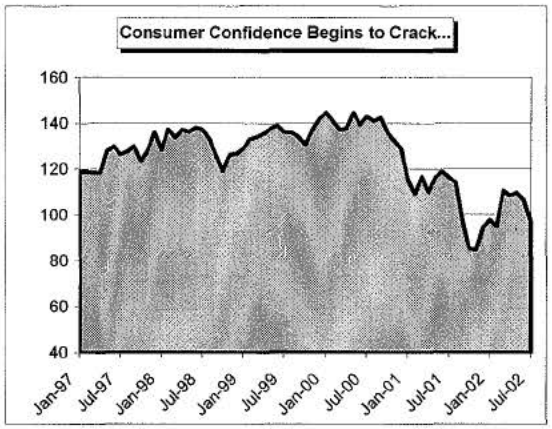
Our recent cautious stance on the US Specialty Finance group reflects, in part, our concern that stock market volatility and investor mistrust in corporate America has negatively affected consumer's propensity to spend and, thus, has increased risk in the economy. To be sure, the sheer number of reports of corporate wrongdoing has put a dent in consumer confidence. The latest data from the Conference Board showed the Consumer Confidence index falling more than 9 points to 97.1 in July versus 106.3 in June and 110.3 in May (see Figure 4 for relevant consumer data).

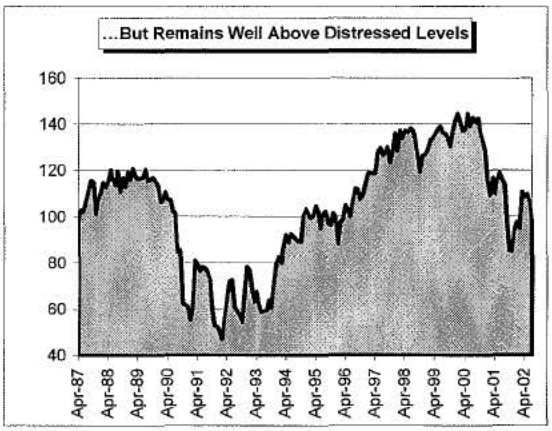
However, this is far from a truly distressed level (the index hit 84.9 in November 2001 and fell below 50 in 1992 – see Figure 3), and while households are rightfully upset over recent scandals, they continue to spend on high-ticket items. To wit, auto sales reached a seasonally adjusted 18.1 million units in July in another excellent response to 0% financing offers, and home buying remains robust.

And despite the labor market's weakness, low inflation, tax breaks, and productivity have propelled growth in real disposable income to levels far in excess of consumer spending. The result is that despite cries over rising debt levels, households have not had to spend in excess of their means to support the economy. In fact, the saving rate increased to 4% in the second quarter from just 1.9% in the year-ago period. Additionally, low mortgage rates have allowed consumers to refinance debt, improving their cash flow and, at least for the time being, the capability of repaying their loans.

For now, while the weak stock and labor markets are helping the argument for slower consumer spending to gain credibility, the data continue to point to spending growing at least as fast as after-tax income in the second half.

Figure 3: Consumer Confidence





Source: Conference Board, FPK

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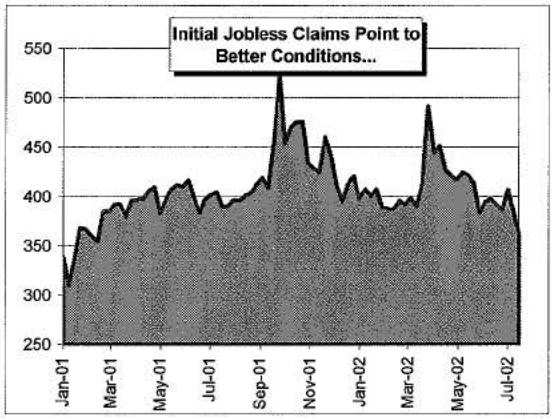
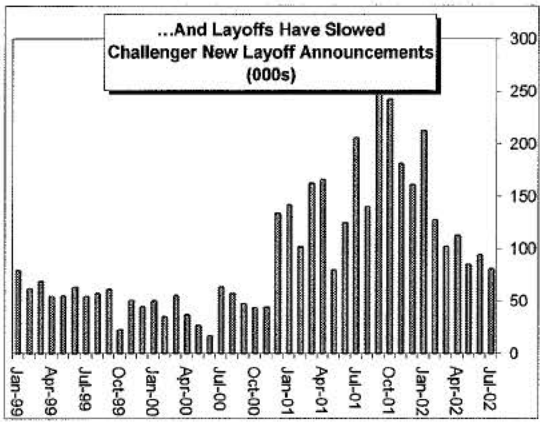
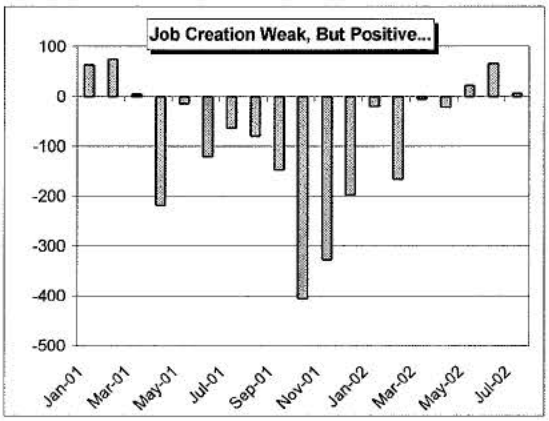
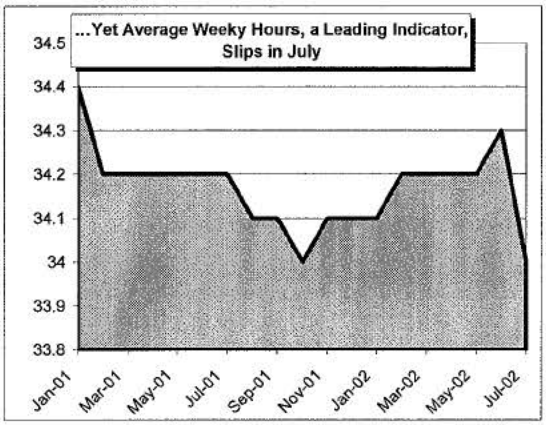
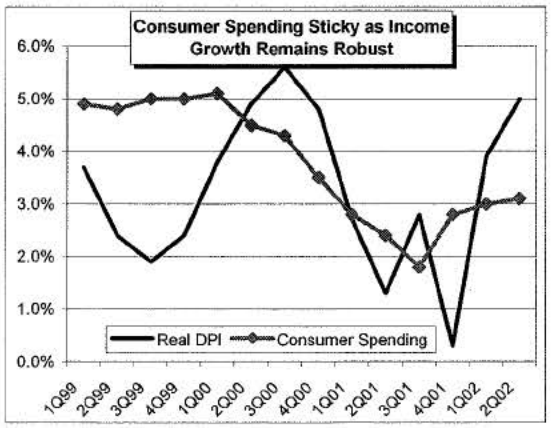
Figure 4: Recent Consumer Data

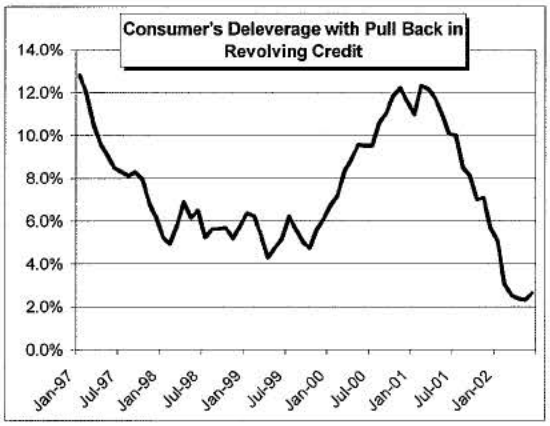












Source: U.S. Department of Labor, Challenger, BLS, BEA, FPK

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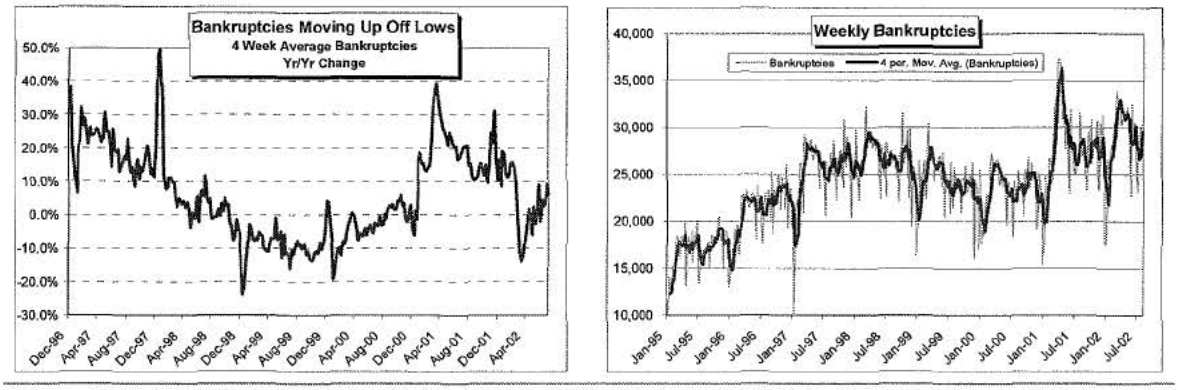
WEEKLY BANKRUPTCY FILINGS

Bankruptcy trends benign, but legislation remains wildcard

While the level of total personal bankruptcy filings has been elevated for some time, we have argued that the year-over-year growth trends to date have been rather benign relative to expectations. Year-to-date filings are now up 2.6% versus 4% in the March quarter and flat year-over-year growth in the second quarter due to easy comparisons with 2001's spring spike. More recently, however, filings have picked up, with week-33 bankruptcies reaching 28,557 (see Figure 5). And, although filings tend to moderate in the latter half of the year, we expect rumblings on the bankruptcy bill along with a still slow economy to keep bankruptcy volume relatively high.

Currently, there is little new to say about bankruptcy's biggest wildcard, the Reform Bill. Although house-senate conferees reached a compromise in late July, the final vote has been delayed until September, at the earliest. We continue to expect an increase in filings prior to enactment, and perhaps we are now seeing the beginnings of such a surge. We expect the rush to be on the order of last year's jump, but perhaps less severe and longer in duration. The ultimate impact of this rush-to-file phenomenon will be an increase in industry loss rates, with MBNA the most exposed in the monoline group given its higher credit-line sizes.

Figure 5: Weekly Bankruptcy Filings



Source: NBKRC

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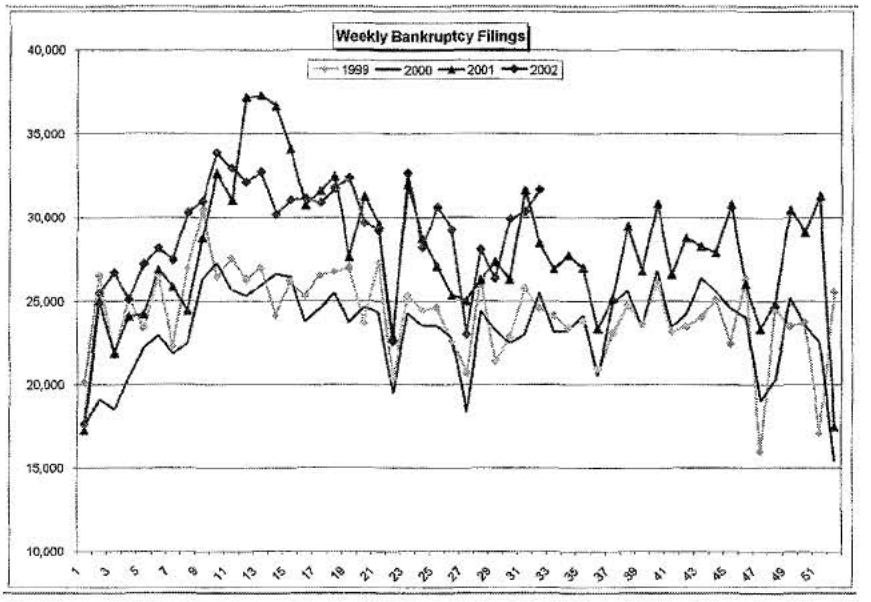
Figure 6: Weekly Bankruptcy Filings



Source: NBKRC

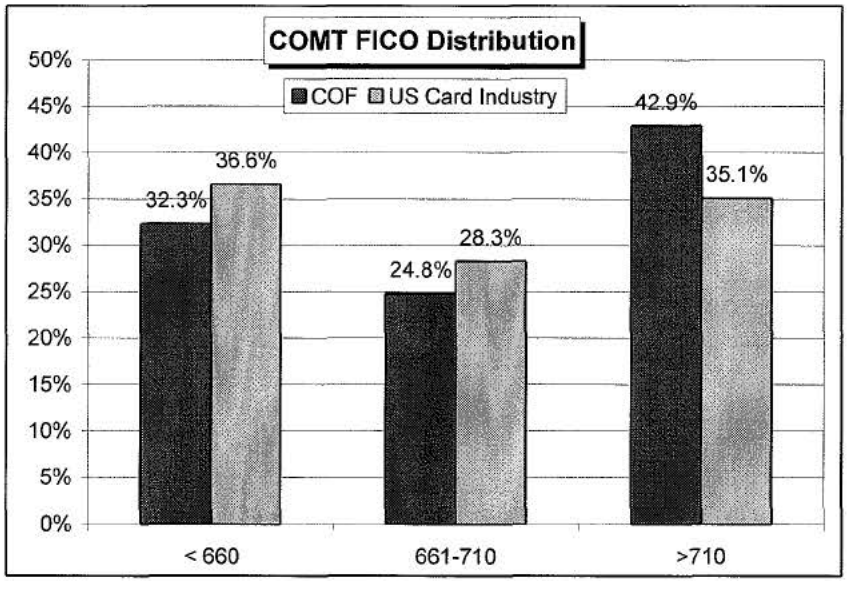
CAPITAL ONE FINANCIAL (CAPITAL ONE MASTER TRUST)

Despite sharp drop in July, losses heading higher in second-half 2002

- **Credit Losses** – Capital One's (COF-$35.28-ATTRACTIVE) July Master Trust data revealed sharply lower losses along with modestly higher delinquencies. Charge-offs fell 68 bps to 3.91% from 4.59% in June and from a second-quarter average of 4.16%. While the magnitude of the drop was a positive surprise (68 bps is the largest absolute move, in either direction, since COF added subprime accounts to the trust in April 2001), it can be explained, in part, by the same distortions that pushed the June data above expectations. As shown in Figure 10, the recovery rate dropped 465 bps from May to June, exaggerating net losses, only to bounce back in July. Further, Capital One added just $133 million (0.53%) to the trust in June, while July's addition was a more normal $653 million (2.58%). Figure 8 attempts to normalize the June data for comparability. Assuming the recovery rate in June equaled the two-year average of 30.6% and COF added a more traditional 2.2% to the trust, June losses would have totaled 4.19%. We think this smoothing scenario helps explain the recent volatility and reduces the June/July drop to a more believable 28 bps.

  Despite the recent strong performance in the trust, we continue to model for losses to rise through the end of the year as: 1) the mass of subprime accounts added in fourth-quarter 2001 approach peak charge-off levels; 2) loan growth slows from above 50% to 30% by year-end, optically pushing loss rates higher; and 3) losses rise in the auto portfolio, as the economic environment increases the frequency of losses and lower used-car prices increase severity.

Figure 7: Capital One Master Trust FICO Distribution



Source: Company Filings, FPK

FPK

- **Delinquencies** - Delinquencies increased across the board in July, with total past dues up 23 bps month-on-month to 5.18%. The late-stage bucket increased 10 bps to 2.27%, pointing to higher losses near term. The middle bucket, 30-60 days past due, increased 11 bps to 1.19% on top of last month's 8 bps rise and early stage delinquencies rose just 2 bps to 1.72%.

Large and stable excess spread should help appease nervous ABS market

- **Excess Spread** – The lower loss rate, along with stable funding costs and small uptick in yield (up 8 bps to 20.85%), led to a strong increase in profitability. We estimate the excess spread increased 84 bps to 11.18% from 10.34% in June, a data point that should help appease nervous ABS investors.

Figure 8: Normalized June Trust Data

Jun-02	Reported		Normalized	
	%	$ (MM)	%	$ (MM)
Gross Charge-Offs	6.07%	129.5	6.07%	129.5
Recovery Rate	24.38%	31.6	30.61%	39.6
Net Charge-offs	4.59%	97.9	4.26%	89.9
BOP Receivables		25,207		25,207
EOP Receivables		25,340		25,764
Change	0.53%	133	2.21%	557
Adjusted Net Charge-offs			**4.19%**	
July NCOs			**3.91%**	
Change			**0.28%**	

* Note: Normalized data reflect 2 year average recovery rate and additions to trust.

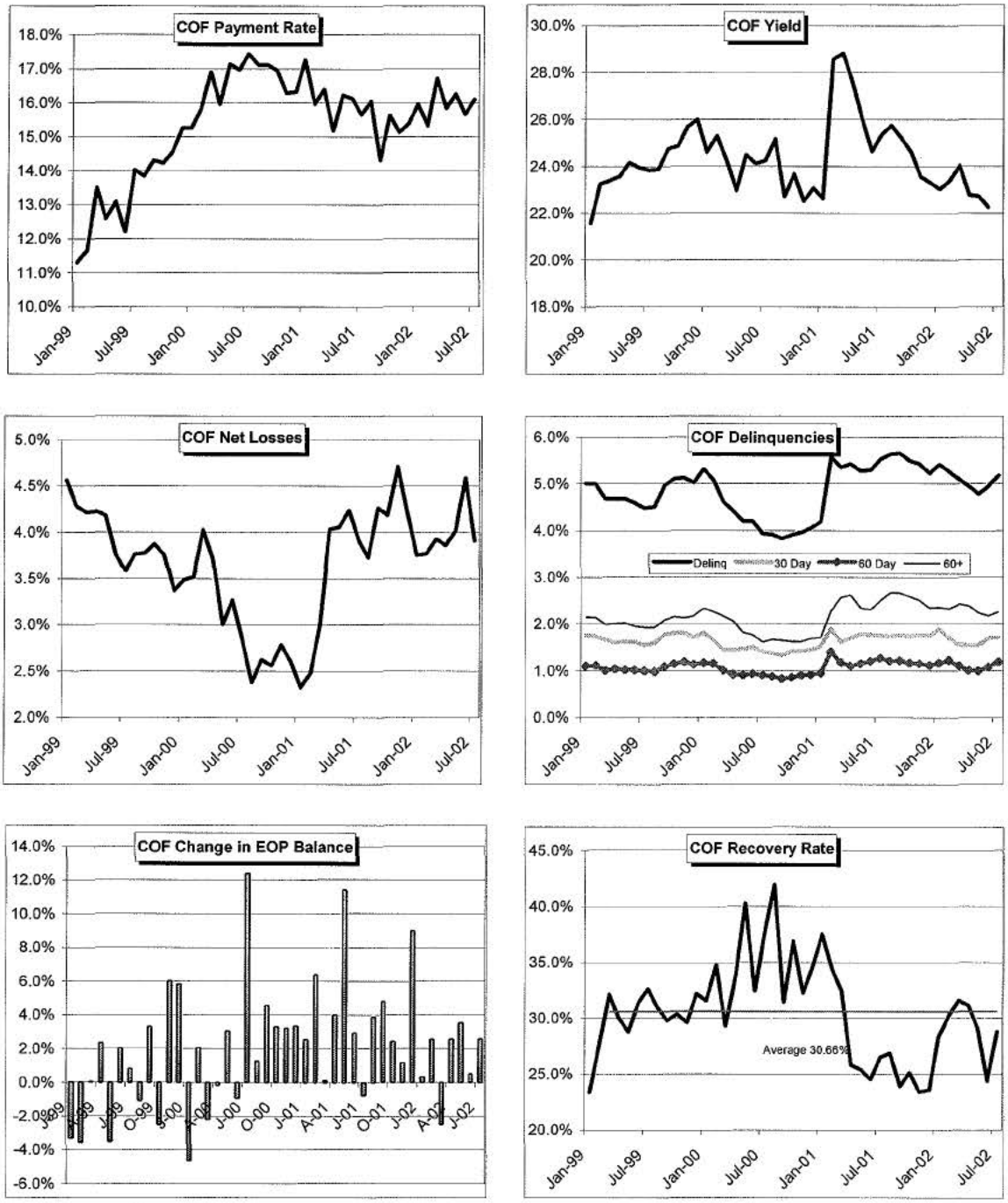
Source: Company Filings, FPK

Figure 9: Losses in Trust Mirror Managed Losses

	Net Losses	Change	Quarterly Average	Actual RPTD	Difference
Jul-02	3.91%	-0.68%			
Jun-02	**4.59%**	**0.57%**	**4.16%**	**4.36%**	**0.20%**
May-02	4.02%	0.16%			
Apr-02	3.86%	-0.07%			
Mar-02	**3.93%**	**0.16%**	**3.82%**	**4.00%**	**0.18%**
Feb-02	3.77%	0.02%			
Jan-02	3.75%	-0.46%			
Dec-01	**4.22%**	**-0.49%**	**4.37%**	**4.42%**	**0.05%**
Nov-01	**4.71%**	0.53%			
Oct-01	4.18%	-0.08%			
Sep-01	**4.27%**	**0.54%**	**3.97%**	**3.92%**	**-0.05%**
Aug-01	3.73%	-0.19%			
Jul-01	3.92%	-0.33%			
Jun-01	**4.24%**	**0.18%**	**4.11%**	**3.98%**	**-0.13%**

Source: Company Reports, FPK

Figure 10: Capital One Master Trust Data



* Note: Capital One added subprime assets to the Master Trust for the first time in February 2001.

Source: ABSnet, FPK

FPK

MBNA (MBNA MASTER CREDIT CARD TRUST II)

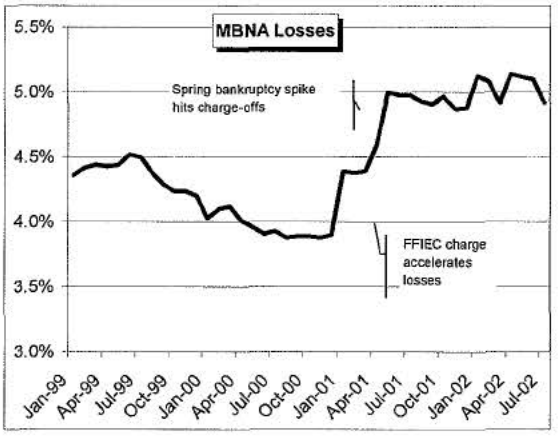
Stabilizing losses provides needed earnings flexibility in second-half 2002

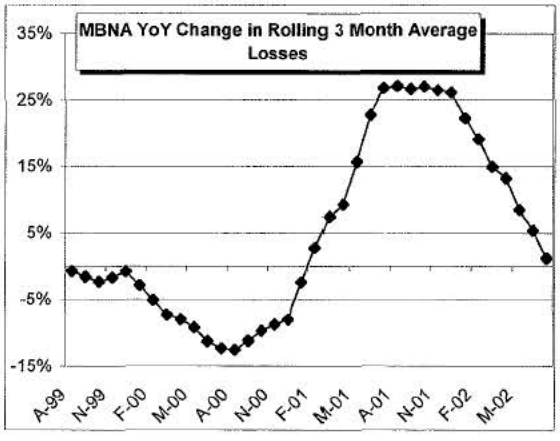
- **Credit** – Along with Master Trust statistics, MBNA (KRB-$20.00–HOLD) discloses loss and delinquency data for its entire managed portfolio in a monthly 8-k filing. **Managed losses fell for the third consecutive period, down 18 bps month-on-month in July to 4.92% (versus a 2Q average of 5.12%).** Bankruptcy legislation aside (MBNA's losses will suffer disproportionately from a second rush to file given its high credit lines), it appears that MBNA's losses are at or near peak (a scenario we expect MBNA agrees with given the company provisioned in line with charge-offs in second-quarter 2002). As we previously noted, a lower level of losses in second-half 2002 is critical to MBNA delivering on earnings expectations. While the ultra-low interest rate environment will keep the company's net interest margin at the current unsustainably high level longer than originally anticipated, we expect non-interest income to remain weak through the third quarter (where gain-on-sale assumption changes are lapped). We are modeling for stable losses (**supported by stable delinquency trends – up 7 bps in July to 4.91%)** and increased efficiency to provide the needed earnings flexibility over the next few quarters.

- **Yield** – The yield on the securitized portfolio increased 93 bps to 18.36%, recovering a large portion of the 74 bps drop in June.

- **Balance Growth** – Securitized assets increased in July (up $3 billion to $67 billion) after falling in each of the three previous periods. Year-over-year growth totaled 8.7%.

Figure 11: Losses Stabilizing at MBNA





Source: Company Filings, FPK

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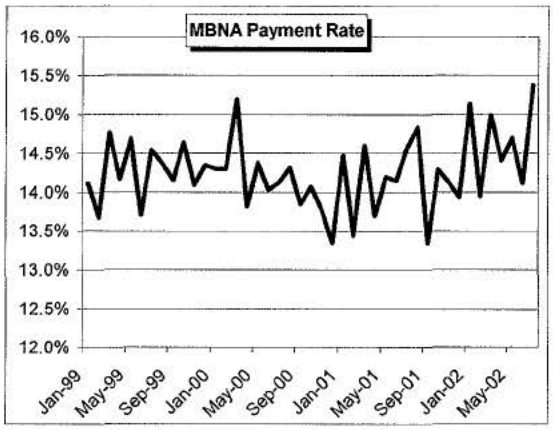
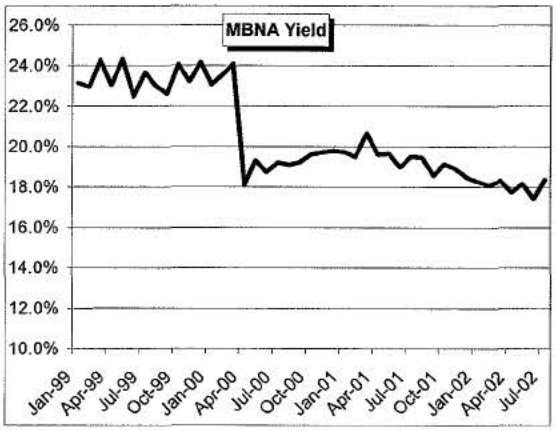
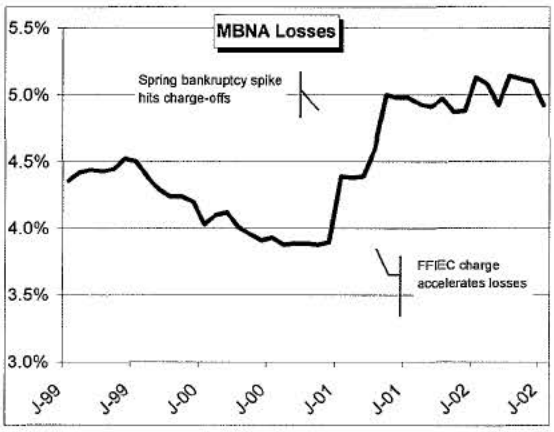
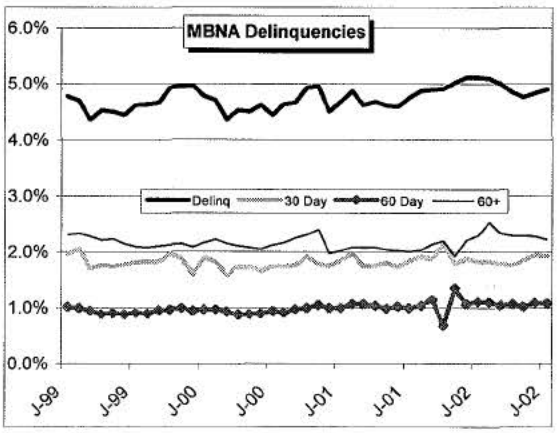
Figure 12: MBNA Master Trust



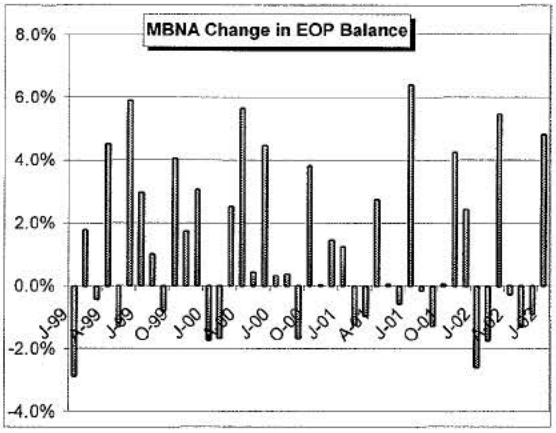


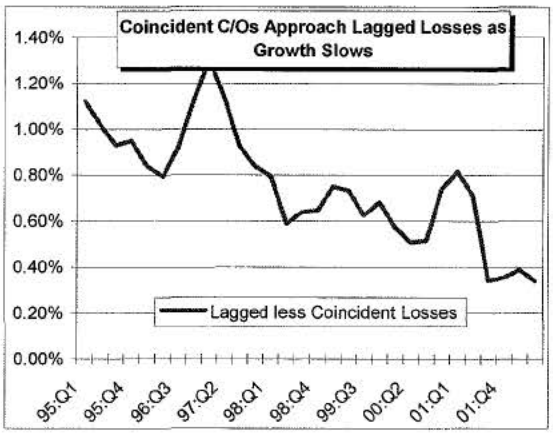


Note: Loss data for entire managed portfolio.



Note: Total Delinq. for managed portfolio. Buckets from Trust data.





Source: ABSnet, FPK

FPK

METRIS COMPANIES (METRIS MASTER TRUST)

Drop in losses overshadowed by additions to trust and higher delinquencies

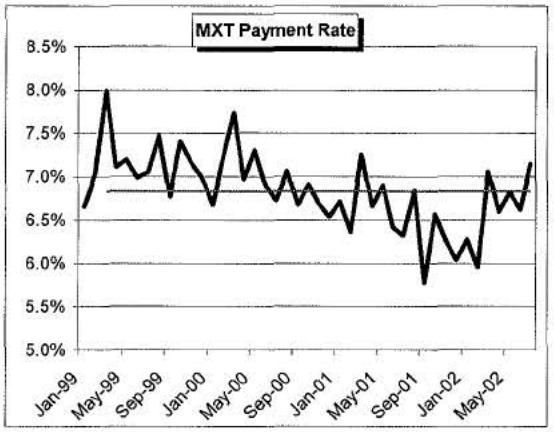
- **Credit –** Metris' asset quality metrics were mixed in July. While the market rejoiced at the reversal of the upward trend in losses (gross losses fell 32 bps to 15.87%), we find it hard to get excited by the data given 1) the drop is from an all-time high of 16.19% reported in June and up from 12.63% posted in January; 2) although lower month-on-month, July losses sit above the second-quarter average of 15.71%; 3) at near 16%, losses still remain at a level unacceptable to regulators and investors alike; and 4) Metris added $435 million to the trust or 4.4%, an above-average increase that helps paper over losses via a larger denominator (we estimate that with a more normal increase in trust assets – 2.2% is the two-year average – losses would have been flat with June).

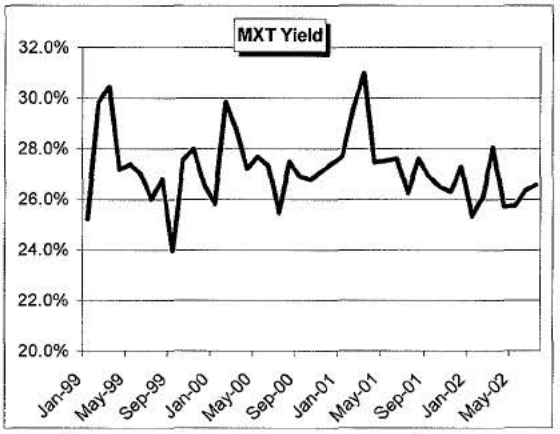
  While we are cognizant of the volatility in monthly data (particularity since Metris annualizes with an actual/365 factor as opposed to a smoother 30/360), we see two important trends. First, it appears that Metris continues to aggressively downsize its bank, moving assets from Direct Merchant's balance sheet to the holding company for securitization (securitized loans increased to 91.2% of managed receivables in second-quarter 2002, up from 84.8% in first-quarter 2002 and 80.4% in fourth-quarter 2001). As we have noted in the past, while this may crimp profitability in the near term via net interest margin compression, it is the right move to appease the nervous regulators (whose primary discomfort stems from funding subprime loans with government-insured deposits). Second, the increase in trust assets highlights the impact that loan growth can have on losses. Unfortunately, Metris's managed loan growth has come to a halt following its agreement with the OCC and the restrictions on credit-line increases. The result is coincident losses converging with lagged losses (at second-quarter 2002, coincident charge-offs were 15% and three-quarter lagged losses were 16.64%). Just as important to the credit picture, forward-looking delinquencies increased for the fourth consecutive period, up 45 bps to 16.61% (30+ DQs rose 15 bps to 10.26%), indicating that charge-offs have yet to peak. Recall that MXT has committed to holding reserves at 84% of delinquencies, a policy that will constrain profitability for some time, in our opinion.

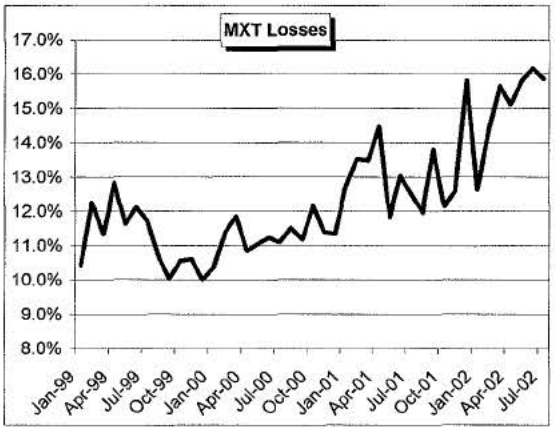
- **Yield** – The yield has recovered somewhat from the large drop seen in April (down -234 bps), increasing 23 bps in July on top of last month's 61 bps rise. Despite recent repricing initiatives, we expect weak fee income performance and sharply reduced over-the-limit fees to continue to pressure results (the yield in the trust is calculated on a cash basis and includes APRs, over-limit fees, returned check fees, annual fees, cash advance fees, and recoveries).

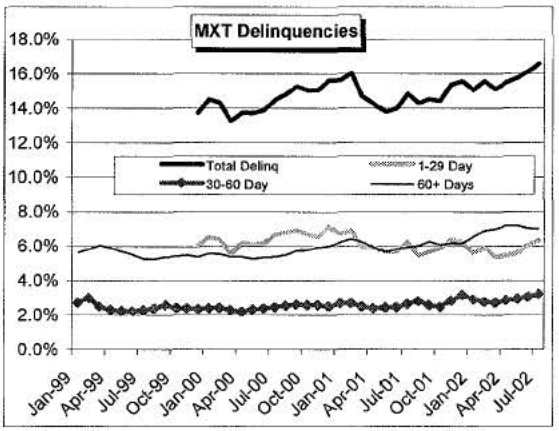
- **Excess Spread** – The higher yield and lower losses combined to increase the excess spread by 54 bps over June to 6.38%. However, the three-month moving average (what the data point trigger levels are measured against) increased just 5 bps to 5.95% as the stronger April figure rolled off (recall at the 5.5% level, cash is trapped in the trust for the benefit of bondholders, as opposed to being released to MXT).

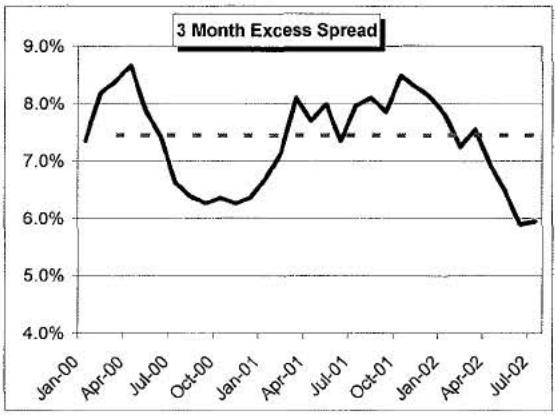
Figure 13: Metris Master Trust

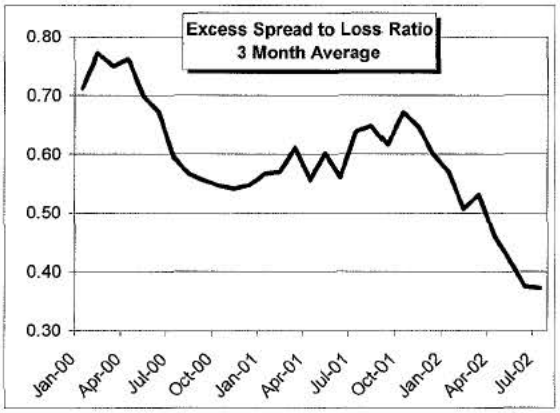












Source: ABSnet, FPK

FPK

PROVIDIAN FINANCIAL

Losses lower in July but should rise again in fourth-quarter 2002

- **Credit losses** – Managed losses at Providian (PVN-$5.50–HOLD) fell a solid 51 bps in July to 16.71% and now sit just over a 100 bps below the peak reached in April. And, while the lower level of charge-offs is certainly a positive and a necessary step for PVN to remain profitable, the July report is overshadowed by management's comments on the second-quarter earnings call that while losses may drift lower in third-quarter 2002, they would rise again by year-end. This guidance is supported by the uptick in delinquencies, which increased 33 bps in July to 10.49% (on top of a 59 bps increase in June), the highest level since PVN began disclosing data excluding discontinued operations and planned asset sales.

Figure 14: PVN Managed Losses

	Apr-02	May-02	Jun-02	Jul-02
Managed Losses	17.74%	17.63%	17.22%	16.71%
Change	*10 bps*	*-11 bps*	*-41 bps*	*-51 bps*
Managed Delinquencies	9.66%	9.57%	10.16%	10.49%
Change	*-56 bps*	*-9 bps*	*59 bps*	*33 bps*

Note: Data Exclude High Risk Loans

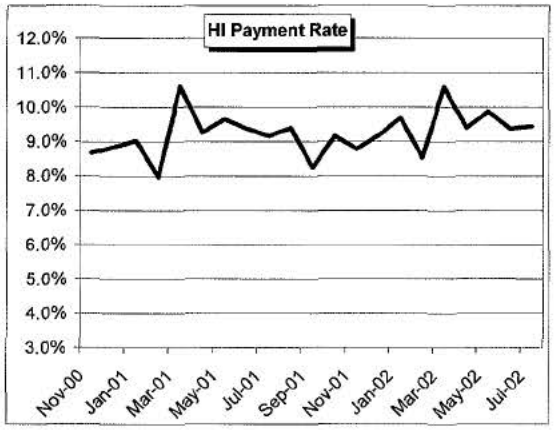
Source: Company Filings

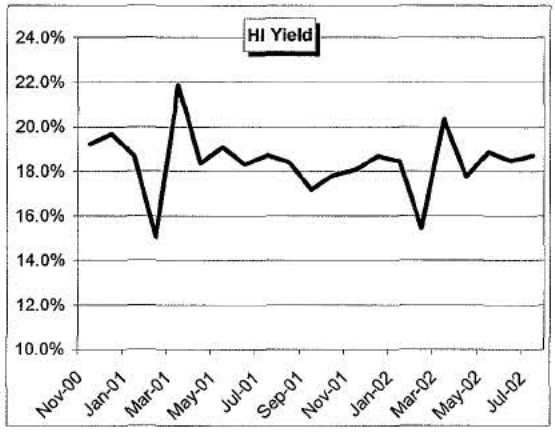
HOUSEHOLD INTERNATIONAL (CCMTN – UNION PLUS PROGRAM)

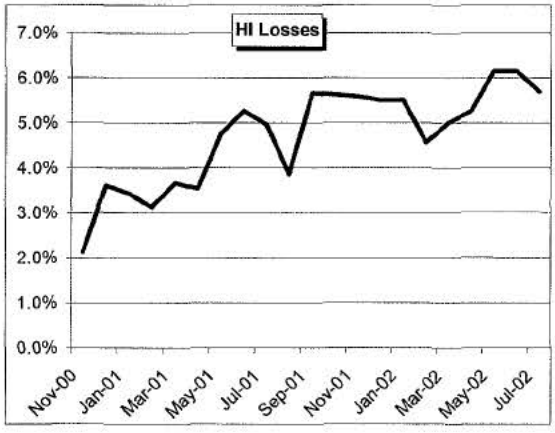
Losses rolling over and DQs stable at HI

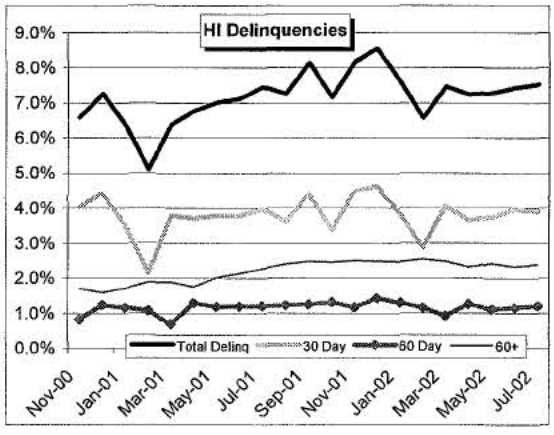
- **Credit Losses** – The Household Credit Card Master Trust Note I primarily consists of receivables generated under the Union Plus program, an affinity relationship with Union Privilege where Household (HI-$37.15–ATTRACTIVE) offers cards to members of unions affiliated with the AFL-CIO. As shown in Figure 15, after posting relatively stable losses in the 5% range in late 2001/early 2002, losses picked up somewhat in the spring (capped off by an 88 bps jump in May) but have since rolled over. Losses totaled 5.70% in July, down 45 bps month-on-month and below the second-quarter average of 5.86%.
- **Delinquencies** –Delinquencies rose modestly in July (up 8 bps sequentially to 7.53%), yet they remain well below the 8.57% posted at year-end and in line with the 7.47% registered in the year-ago period.

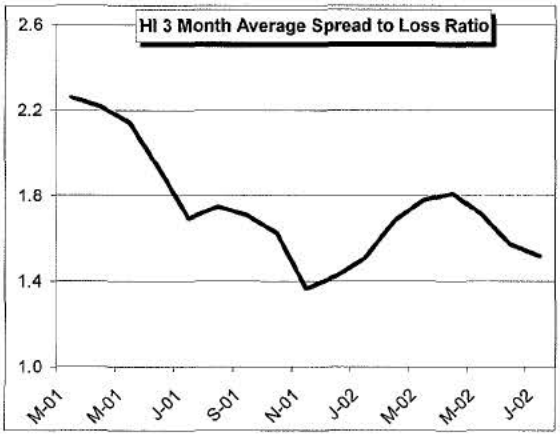
Figure 15: Household Master Trust Data

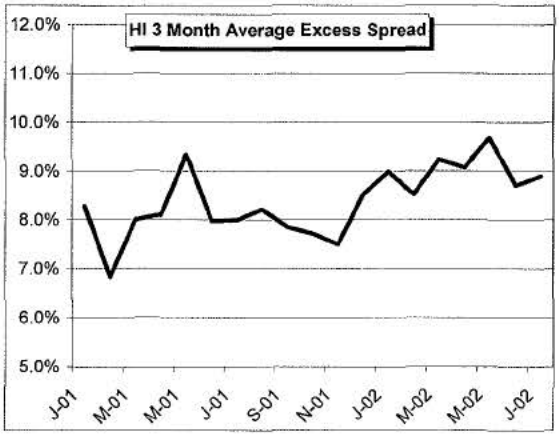












Source: ABSnet, FPK

FPK

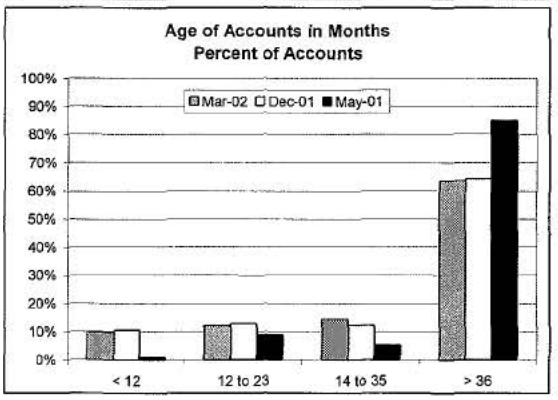
DISCOVER (DISCOVER CARD MASTER TRUST I)

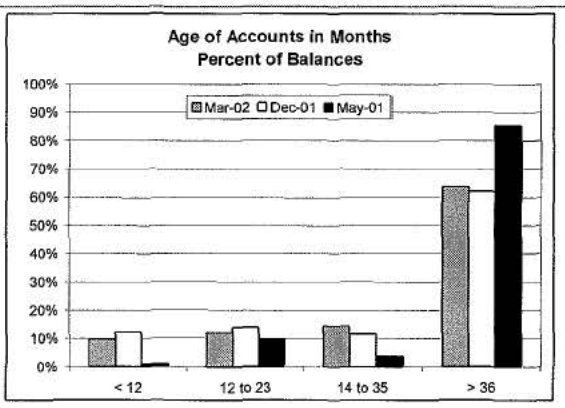
Pressure from seasoning eases and delinquencies continue to fall, boding well for future losses

- **Credit Losses** – Losses at Discover dropped 43 bps in July to 6.11% versus 6.54% in June and 6.45% in the second quarter. As shown in Figure 17, losses have been trending higher over the last year and a half following the company's aggressive marketing in 2001 (see Figure 16 for account seasoning). While the trust is not nearly as mature as it was just 12 months ago, it does appear that the bulk of the account additions have passed the seasoning hump (accounts less than 12 months old decreased from 10.6% in December 2001 to 9.8% in March 2002), easing the pressure on losses.

- **Delinquencies** – July data show stable delinquencies. Total past dues have fallen steadily from a peak of 7.35% in January to the current 5.92% (flat with June), the lowest level in more than two years. (Note that Discover reported better-than-expected second-quarter 2002 managed delinquencies of 5.63%, down 112 bps from first-quarter 2002's 6.75%).

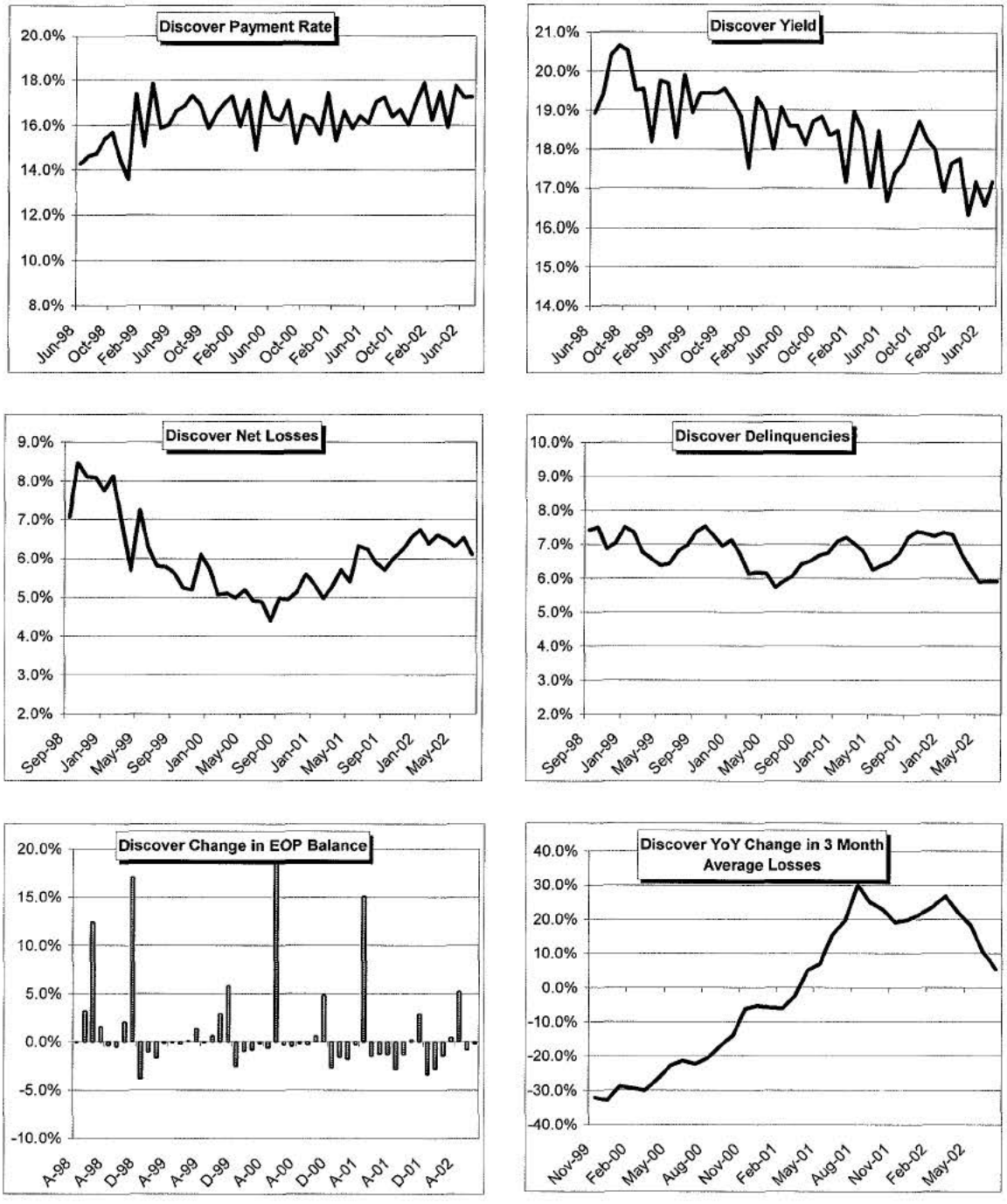
Figure 16: Discover Account Seasoning





Source: Company Filings, FPK

Figure 17: Discover Master Trust Data



Source: ABSnet, FPK

FPK

AMERICAN EXPRESS (CREDIT ACCOUNT MASTER TRUST)

Credit appears to have stabilized at AXP

- **Credit Losses** – Asset quality appears to have stabilized at American Express (AXP-$37.03–Not Rated), with gross losses rising a modest 11 bps to 6.46% following three periods of decline (see Figure 18). Net losses increased 59 bps in July, taking back a good deal of last month's 79 bps improvement. The recovery rate returned to a more normal 14% after spiking to a two-year high of 21.25% in June. On top of pressure from a stressed consumer, credit at AXP has suffered over the past several months from the seasoning of the Blue Card portfolio. However, these accounts are likely past the peak hump, and loss trends at AXP should begin to benefit from the other side of seasoning.

- **Delinquencies** – Forward-looking delinquencies are pointing to lower losses as well, with the total inching up just 1 bps sequentially to 3.07% (June past dues were the lowest since December 2000). The early bucket (30 days delinquent) has stabilized after falling for five consecutive months while the 60+ day bucket continues to drop (down 3 bps to 1.13%, the sixth consecutive decrease).

JP MORGAN CHASE (CHASE CC OWNER TRUST)

Credit data tracking exceptionally well, yet large additions to trust bring quality into question

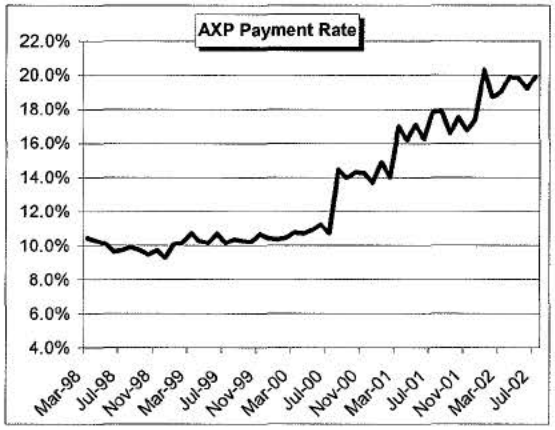
- **Credit Losses** – Net losses for JP Morgan (JPM-$26.88–ATTRACTIVE) fell 22 bps to 4.72% in July versus 4.94% in June and 5.00% in the second quarter. As Figure 19 highlights, while not immune to the 2001 spring surge in bankruptcies, the portfolio has held up extremely well relative to its peers. In fact, looking at industry master trust data in Figure 1, not only are losses in the Chase portfolio at a 12-month low but on an absolute basis, they trail only Capital One. We would note that the balance of the trust surged in the spring, growing from $23.4 billion in February to just over $30 billion in July. To be sure, the growth helps paper over losses and optically lowers charge-offs and delinquencies.

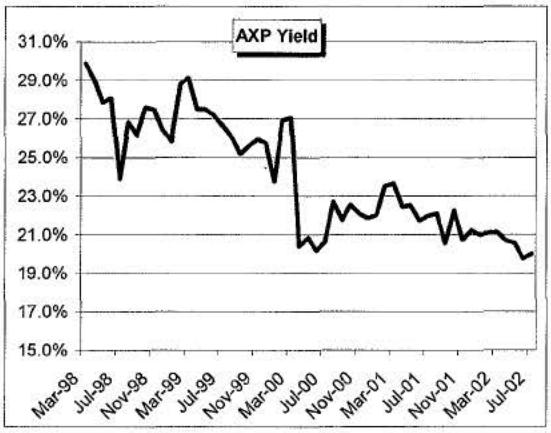
- **Delinquencies** – After falling dramatically for several months and hitting two-year lows, delinquencies appear to have bottomed. Total past dues increased 27 bps in July to 3.77%.

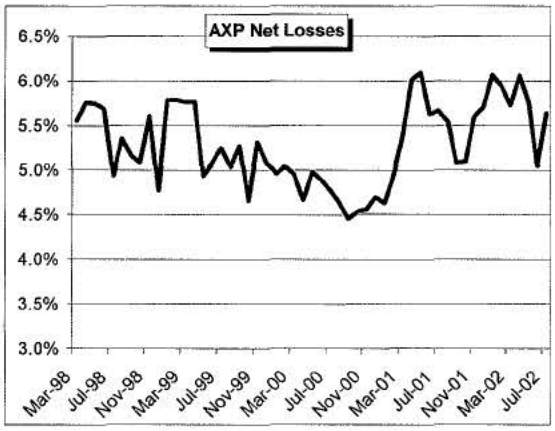
Move to less conservative accounting for bankruptcies in PMT will artificially lower losses

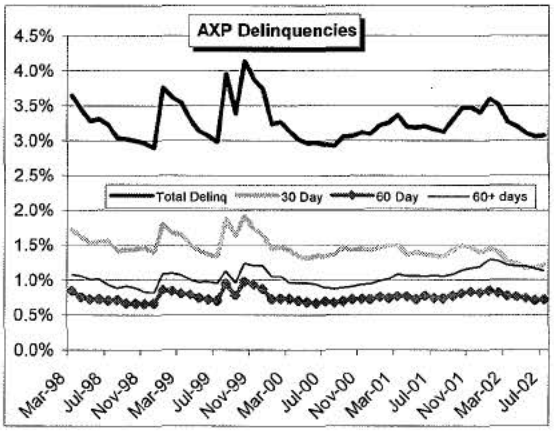
- **Providian Master Trust** (purchased in January 2002) - The conversion of the PMT to the Chase platform was completed on August 17. At that time, the charge-off policy for accounts in bankruptcy proceedings was changed from Providian's practice of charging-off upon notification to Chase's policy of charging-off with 60 days of notification. Although still within the FFIEC guidelines (which call for accounts in bankruptcy to be charged-off within 60 days of notification or at the 180-day delinquency point), the move to a less conservative basis stands out given recent high-profile accounting scandals and regulatory unease in credit card lending. The effect will be to lower temporarily net losses in the trust in the September and October periods.

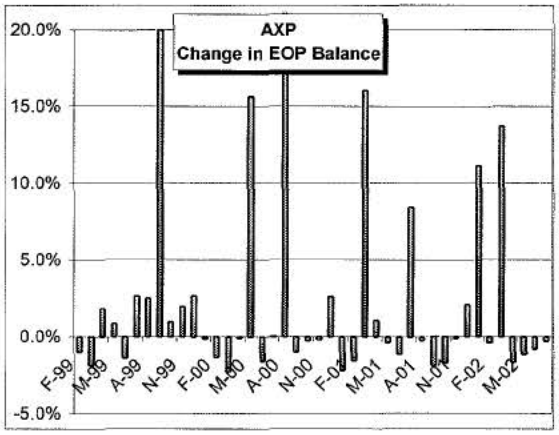
Figure 18: American Express Master Trust Data

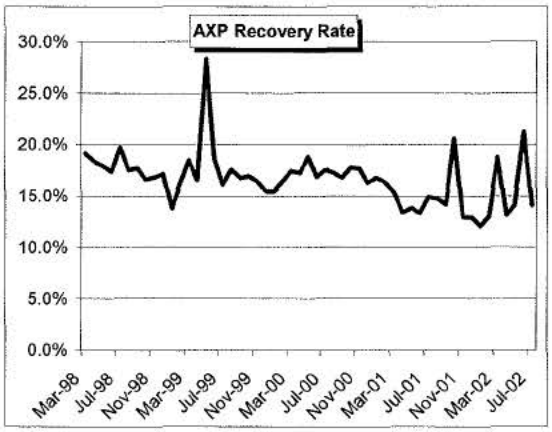












Source: ABSnet, FPK

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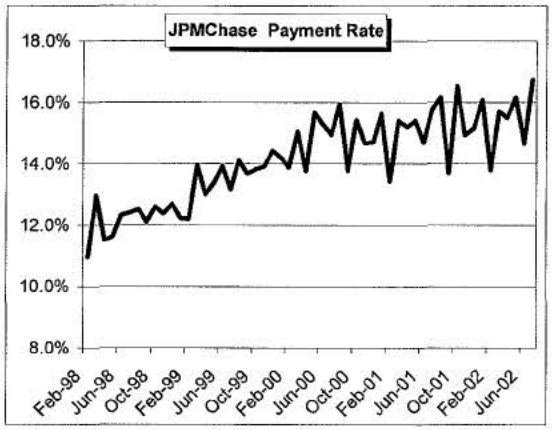
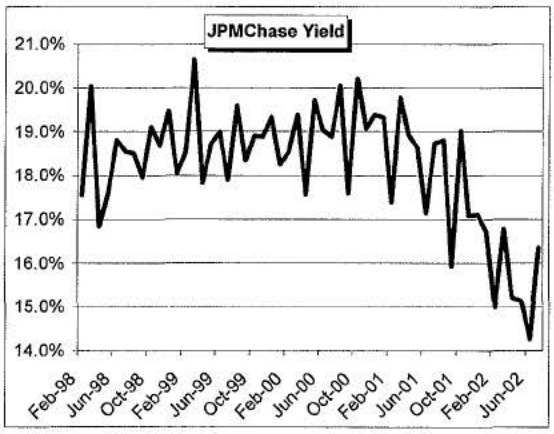
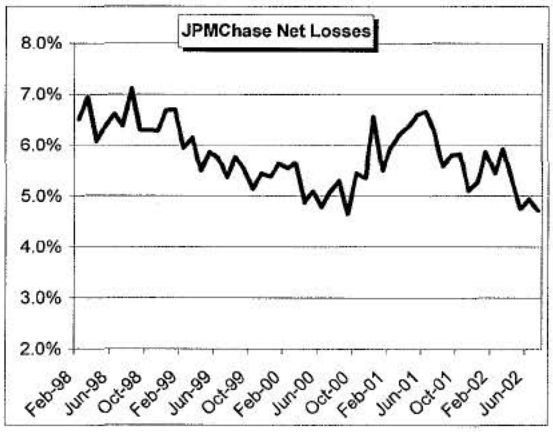
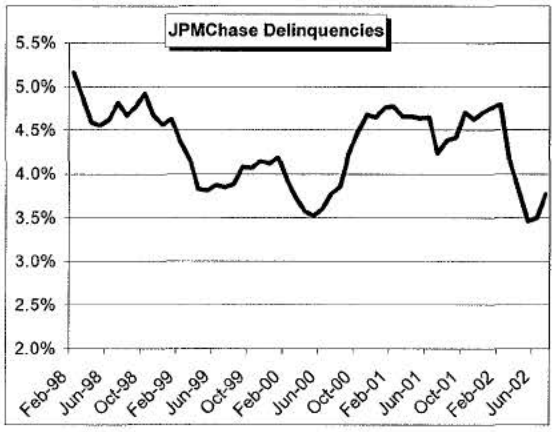
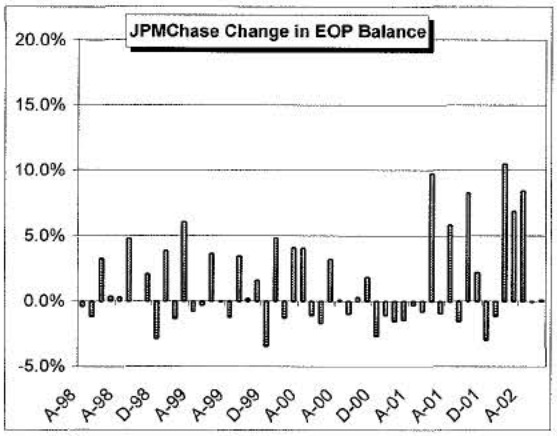
Figure 19: Chase Master Trust Data

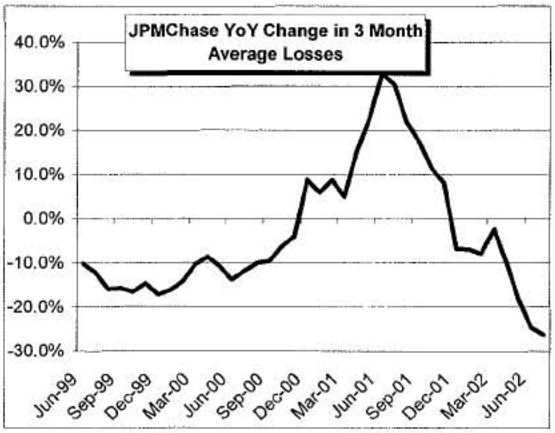












Source: ABSnet, FPK

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CITIGROUP (CITIBANK CREDIT CARD ISSUANCE TRUST)

- **Credit** - July data for Citi's (C-$34.35–BUY) securitized pools continued the positive trends that began to emerge in May (where losses fell 76 bps after several months of deterioration - see Figure 20). Specifically, losses fell a sizable 43 bps to 5.20%, well below the 6.35% posted just three months ago and down from the second-quarter average of 5.86%. In addition, delinquencies appear to have stabilized around 4.0%. For now, while the data are certainly encouraging, we are hesitant to get too excited as the loss performance is now middling (where Citi once rivaled COF for the industry low) and excess spreads, an excellent proxy for profitability, remain near multi-year lows.

Credit trends positive, yet profitability remains strained

BANK ONE/FIRST USA (FUSA, FIRST CHICAGO, AND BANK ONE)

- **Credit** - Bank One's (ONE-$40.22–HOLD) securitized pools continue to perform well (we look at the weighted average of the FUSA, First Chicago, and Bank One trusts). Specifically, weighted average losses increased 17 bps sequentially in July to 5.97% after dropping over 80 bps in the prior three periods (charge-offs decreased 45 bps in June and 29 bps in May, see Figure 21). More positively, total delinquencies fell for the fifth consecutive month, dropping 3 bps in July to 3.87% (down from 3.90% in June and a high of 4.64% last November) pointing to stable losses down the line.

Bank One continues to perform in line with industry averages

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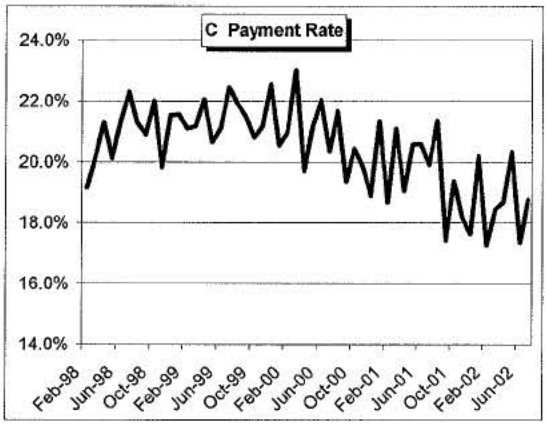
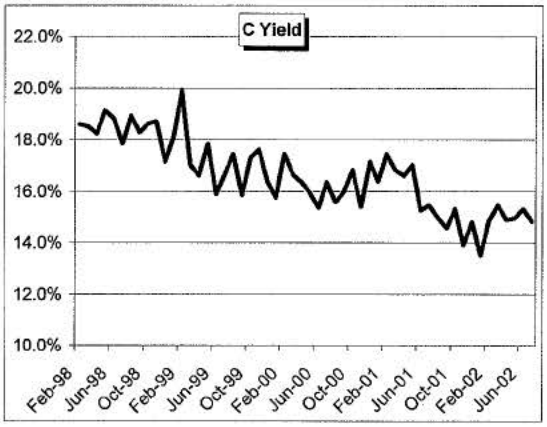
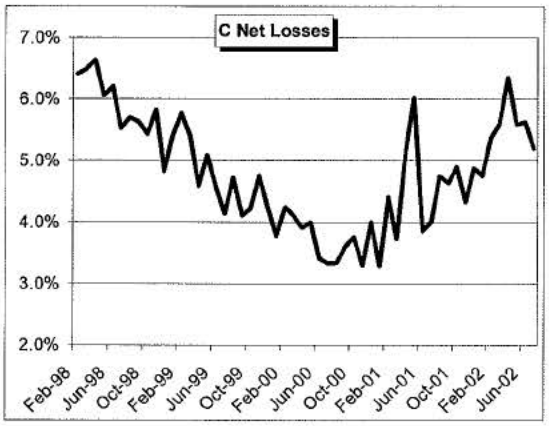
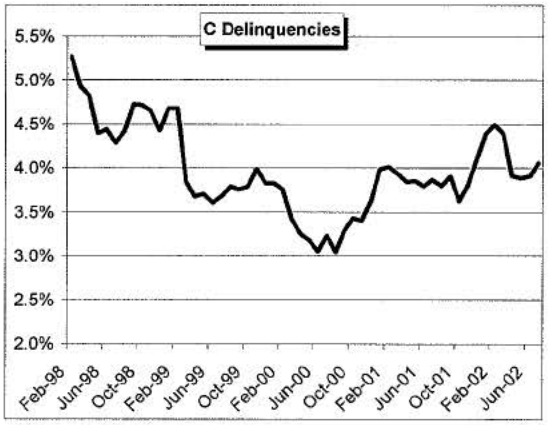
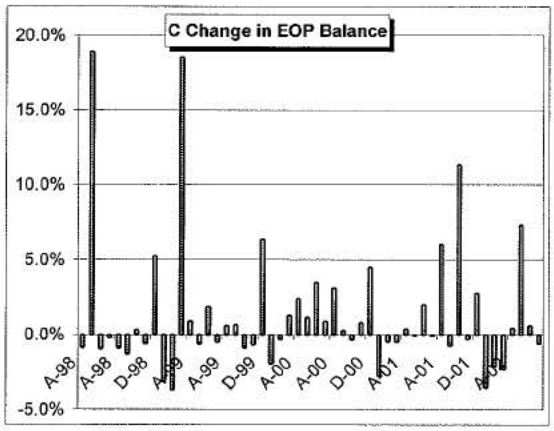
Figure 20: Citibank Master Trust Data

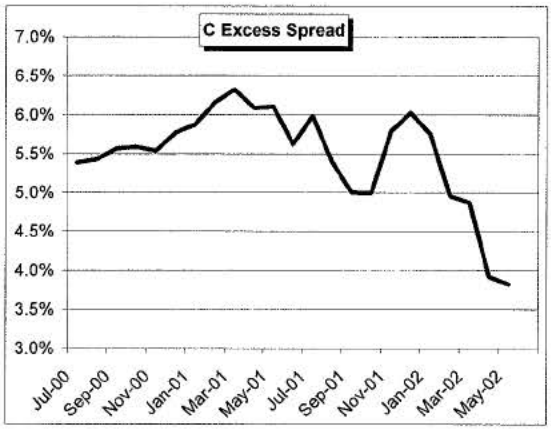












Source: ABSnet, FPK

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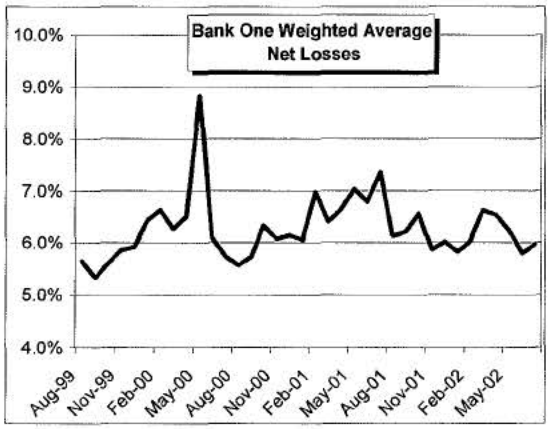
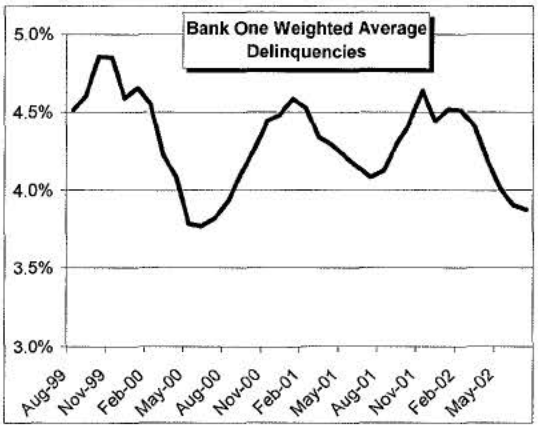
Figure 21: Bank One Master Trust Data





	Net Losses			Delinquencies			Weighted Average			
	FUSA	First Chicago	Bank One	FUSA	First Chicago	Bank One	NCOs	Change	Delinq.	Change
Jul-02	6.07%	5.55%	6.73%	3.94%	3.47%	4.91%	5.97%	0.17%	3.87%	-0.03%
Jun-02	5.74%	5.75%	6.61%	3.97%	3.50%	4.91%	5.80%	-0.45%	3.90%	-0.11%
May-02	6.21%	6.08%	7.30%	4.08%	3.60%	5.06%	6.25%	-0.29%	4.01%	-0.18%
Apr-02	6.45%	6.44%	7.75%	4.25%	3.79%	5.26%	6.53%	-0.09%	4.19%	-0.22%
Mar-02	6.58%	6.57%	7.31%	4.45%	4.05%	5.43%	6.62%	0.60%	4.41%	-0.11%
Feb-02	5.88%	6.18%	6.79%	4.53%	4.21%	5.63%	6.02%	0.20%	4.51%	0.00%
Jan-02	5.71%	5.85%	6.86%	4.50%	4.28%	5.71%	5.82%	-0.20%	4.52%	0.07%
Dec-01	5.74%	6.38%	7.40%	4.41%	4.23%	5.74%	6.02%	0.16%	4.44%	-0.19%
Nov-01	5.70%	6.05%	6.58%	4.66%	4.31%	5.71%	5.86%	-0.71%	4.64%	0.21%
Oct-01	6.49%	6.53%	7.50%	4.44%	4.15%	5.49%	6.57%	0.35%	4.43%	0.13%
Sep-01	6.12%	6.17%	7.32%	4.30%	4.03%	5.40%	6.22%	0.08%	4.30%	0.18%
Aug-01	6.08%	6.07%	6.88%	4.15%	3.81%	5.17%	6.13%	-1.23%	4.12%	0.04%
Jul-01	7.37%	7.02%	8.64%	4.07%	3.85%	5.21%	7.36%	0.57%	4.08%	-0.07%
Jun-01	6.64%	6.87%	7.88%	4.14%	3.90%	5.36%	6.79%	-0.25%	4.15%	-0.07%
May-01	6.79%	7.32%	8.31%	4.19%	3.98%	5.44%	7.04%	0.39%	4.22%	-0.07%
Apr-01	6.22%	7.39%	7.91%	4.22%	4.15%	5.61%	6.65%	0.25%	4.29%	-0.05%
Mar-01	5.96%	7.20%	7.60%	4.21%	4.32%	5.69%	6.41%	-0.57%	4.34%	-0.19%
Feb-01	6.52%	7.69%	8.58%	4.35%	4.60%	6.02%	6.98%	0.92%	4.53%	-0.06%
Jan-01	5.49%	7.12%	7.39%	4.36%	4.76%	6.10%	6.06%	-0.09%	4.59%	0.10%
Dec-00	5.68%	6.91%	7.62%	4.25%	4.66%	6.04%	6.15%	0.07%	4.48%	0.04%
Nov-00	5.51%	7.17%	7.32%	4.18%	4.72%	5.94%	6.08%	-0.25%	4.44%	0.18%
Oct-00	5.78%	7.23%	8.12%	3.98%	4.58%	5.66%	6.33%	0.60%	4.26%	0.15%
Sep-00	5.19%	6.60%	7.46%	3.84%	4.40%	5.49%	5.73%	0.16%	4.11%	0.18%
Aug-00	5.01%	6.69%	6.53%	3.67%	4.23%	5.22%	5.57%	-0.17%	3.93%	0.11%
Jul-00	5.15%	6.69%	7.54%	3.57%	4.09%	5.11%	5.74%	-0.34%	3.82%	0.05%

Source: ABSnet, FPK

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FLEETBOSTON FINANCIAL (FLEET CC MASTER TRUST II)

Forward-looking measures point to stable losses at Fleet

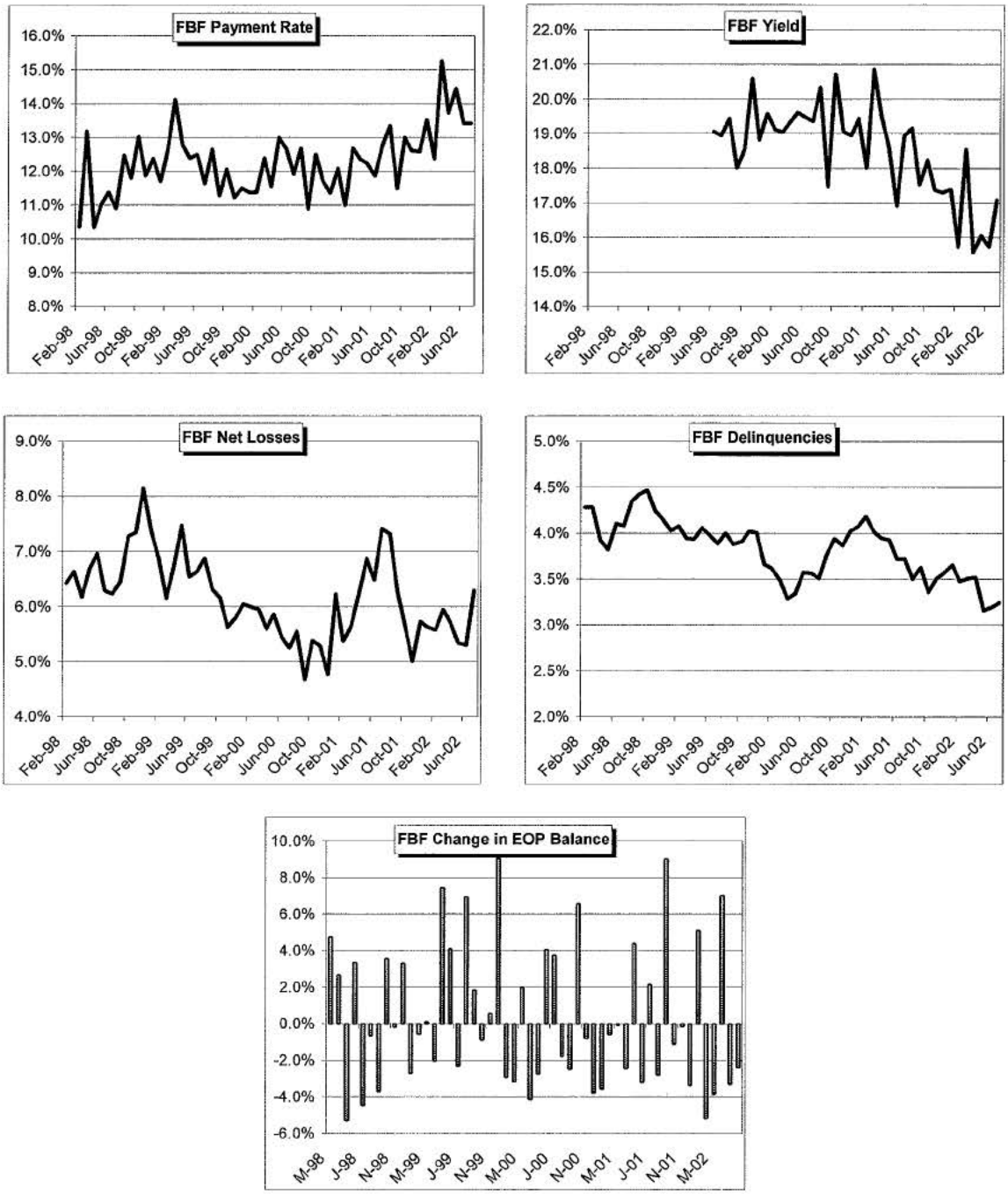
- **Losses at FleetBoston (FBF-$24.87–BUY) jumped 99 bps in July to 6.29%, the largest absolute month-on-month gain in nearly two years.** However, given the volatility from FBF's sporadic large additions to the trust, the three-month moving-average loss rate paints a more telling picture. This measure shows relatively stable losses, falling 2 bps in July to 5.64% versus 5.66% in June and 5.67% in May. Total delinquencies moved up a modest 5 bps month-on-month to 3.25%, but remain near the 12-month low of 3.16% set in May (and well below recent peak of 4.18% in February '01).

BANK OF AMERICA (BA MASTER CC TRUST)

Losses finally follow delinquencies lower at BAC

- **After rising throughout the first half of the year, losses have finally started to follow delinquencies lower at Bank of America (BAC-$69.54–BUY).** Charges-offs in the company's securitized pools fell 56 bps in July on top of a large 73 bps drop in June, putting the loss rate at the lowest level in 17 months. More impressively, the delinquency data point to more of the same in the second half. Total delinquencies fell for the sixth consecutive period in July, down 17 bps to 3.91%, the lowest level in over four years, with early stage delinquencies (30+ days contractually delinquent), a leading indicator of losses, dropping 7 bps to 1.20% versus 1.27% in June and 1.62% at year-end.

Figure 22: Fleet Master Trust Data



Source: ABSnet, FPK

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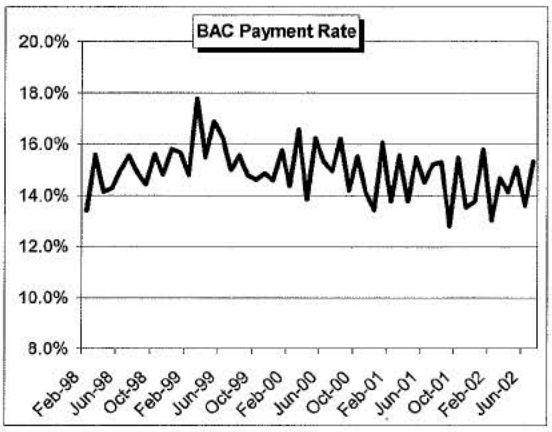
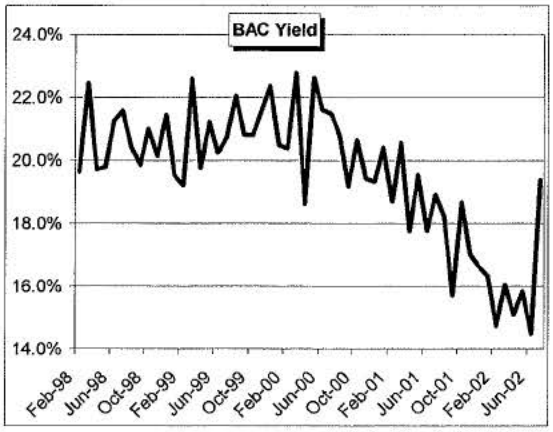
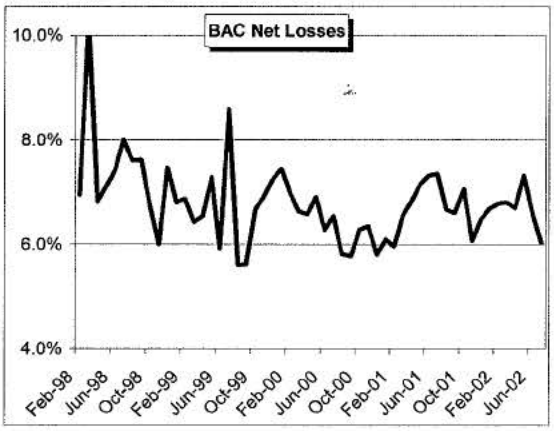
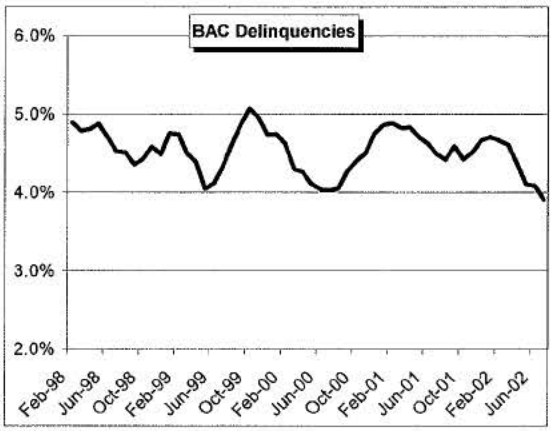
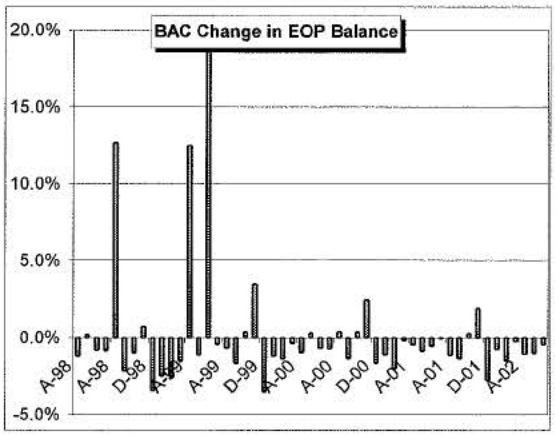
Figure 23: BAC Master Trust Data











Source: ABSnet, FPK

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Exhibit 64

DOW JONES

AMERICAN BANKER
THE FINANCIAL SERVICES DAILY

SE Mortgages

HD **MGIC Warning Spurs an Industrywide Stock Drop**

BY BY TOMMY FERNANDEZ

WC 780 words

PD 17 September 2002

SN American Banker

SC AMB

PG 11

VOL Vol. 167, No. 178

LA English

CY

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LP

The weak economy had led many industry insiders to the conclusion that mortgage insurers might be in for a rough spell.

MGIC Investment Corp.'s earnings warning late Friday showed just how rough it might get.

TD

The Milwaukee mortgage insurer said it expected to report diluted earnings of $1.40 to $1.45 per share for the third quarter and $1.30 to $1.40 for the fourth quarter. According to Thomson Financial FirstCall, the company had been expected to post earnings of $1.58 per share for the third quarter and $1.61 for the fourth.

In a press statement, MGIC attributed the lowered expectations to a continued increase in policy cancellations and higher expenses caused by heavy refinance activity and higher loan delinquencies. The percentage of its insured loans that were delinquent at the end of last month rose 28 basis points from a month earlier, to 3.88%, while the delinquency rate on its prime loans rose 22 basis points, to 2.77%.

The comments reinforced a recent announcement by the Mortgage Bankers Association that the industry saw an uptick in both loan delinquency and foreclosure rates during the second quarter.

The seasonally adjusted delinquency rate for all fixed-rate mortgages rose 11 basis points, to 4.03%, while delinquent adjustable-rate loans rose 34

basis points, to 6.06%. The delinquency rate for conventional loans climbed 6 basis points, to 3.1%. Meanwhile, the industrywide the percentage of loans in the process of foreclosure rose 13 basis points, to a record high of 1.23%.

The MBA attributed these increases to continued weakness in the economy, especially in employment.

Mortgage insurance stocks took a beating as a result of the announcement. MGIC's shares were trading Monday afternoon at $49.03, down falling 11.2% from the closing price on Friday. Radian Guaranty Inc. of Philadelphia dropped 12.8%, to $34.85, and Triad Guaranty Insurance Corp. of Winston-Salem, N.C., fell 8.4%, to $37.09.

PMI Group of Walnut Creek, Calif., announced Monday that the 2002 earnings per share forecast it announced during the second quarter, $3.83 to $3.95 would remain unchanged. However, that announcement did not spare PMI from the industrywide decline; its stock price fell 8.9%, to $28.90 Monday afternoon.

MGIC's announcement prompted Gary Gordon, a managing director of UBS Warburg, to lower his 12-month stock price targets not only for MGIC but also for Radian and Triad. He lowered his targets for all three companies by $5, to $70 for MGIC, $55 for Radian, and $50 for Triad.

However, Mr. Gordon kept PMI's target unchanged, at $45, and argued in a research note that the four companies have "different business drivers that will make their earnings paths diverge over time."

For example, PMI has diversified by entering overseas markets such as Australia, New Zealand, and Europe, while Radian has diversified by buying a stake in the New York-based Enhance Financial Services Group, which has holdings in various loan workout firms, he wrote.

Triad "is the only <mortgage insurer> gaining material share in U.S. prime quality mortgage insurance, because its unique position as the smallest MI has allowed it to gain share through aggressive risk-sharing deals with lenders," Mr. Gordon wrote.

However, MGIC's strategy for diversification, which includes a heavy investment in nonprime mortgage insurance, "appears to be under stress at the moment," he wrote. For example, its 2.77% prime delinquency rate, higher than those of its competitors, indicates that the company has included some slightly subprime loans in this category of coverage, he wrote.

"MGIC's strategy is clearly the most problematic" of the four insurance companies, according to Mr. Gordon.

MGIC officials did not return phone calls and e-mails requesting comment.

Patrick Flood, the chief executive officer of the Atlanta-based HomeBanc Mortgage Corp., said that in the last quarter mortgage delinquencies have risen "to the highest level in 50 years."

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Because of rising claims, Mr. Flood said that he would not be surprised if mortgage insurers' earnings are volatile. However, he also said that the industry has not yet had major concerns with rising delinquencies and foreclosures.

"From our vantage point, in new originations, the credit markets have yet to change from what I would consider to be the most liberal credit structures in the industry for 17 years," he said.

Credit standards are still very liberal, but if the economy continues to have problems, "there could very well be a tightening of credit standards down the road," he said.

CT http://www.americanbanker.com

CO mgic : MGIC Investment Corp | nmli : Northwestern Mutual Life Insurance Co

IN i82 : Insurance | i82002 : Life Insurance | i82003 : Non-life Insurance | imoins : Mortgage Insurance

NS ccat : Corporate/Industrial News | m11 : Equity Markets | mcat : Commodity/Financial Market News

RE namz : North America | usa : United States

IPD News article

AN Document amb0000020020917dy9h0000f

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Exhibit 65

A.G. Edwards

Equity Research - FINANCE/SPECIALTY
September 18, 2002

Analyst: J. Jeffrey Hopson, CFA 314-955-2639
Associate: Troy Ward

Lowering Rating on HI to Hold From Buy

Household International Inc. (HI 29.52 - NYSE)
Hold/Aggressive

Disclosure Information. Please refer to the final pages of this report for important disclosure information.

Market Cap ($mil.):	$13,579	Est. Long-Term EPS CAGR:	12.0%
Dividend:	$1.00	Book Value Per Share:	$21.06
Yield:	3.4%	Price Objective:	

Fiscal Year Ends Dec

EPS	2001A	2002E	Prior	2003E	Prior	2004E	Prior
Qtr1	$0.91	$1.04A					
Qtr2	$0.93	$1.07A					
Qtr3	$1.07	$1.20					
Qtr4	$1.17	$1.30					
Year	$4.08	$4.62		$5.15			
P/E		6.4X		5.7X			

We are lowering our rating on the shares of Household International (HI) from Buy to Hold. Of the six companies in the consumer finance sector, HI was our only positive rating. Our previous investment premise was that HI's diversified business model with a high percentage of mortgage-backed assets would help support the shares until an economic recovery materialized. We are lowering our rating at this time due to numerous "secondary" issues that have emerged and, in our opinion, increased the uncertainty of HI's ability to outperform in the near term. In our opinion, the valuation of HI shares could continue to be depressed over the next 2-3 quarters as issues continue to weigh on the shares.

Why Now?
During the past several months headline risk has caused the shares of HI to react unfavorably, yet we continued to believe that the overall risk based on each individual headline was relatively low. However, with the announcement of additional negative press regarding the performance of sub-prime mortgages at MGIC and the credit related problems with the securitization portfolio at AmeriCredit (ACF) we believe that the uncertainty in the near term environment does not favor investors making additional investments in HI at this time.

Why is a Hold Appropriate?
With our rating downgrade to Hold from Buy we are attempting to convey our belief that the near-term environment for HI is not likely to materially

improve. At current levels, we do believe that the majority of the above issues are already priced in, but do not like the risk/reward of purchasing new shares at this time. In our opinion, the valuation of HI shares could continue to be depressed over the next 2-3 quarters as issues continue to weigh on the shares. In our opinion, a likely catalyst for an upturn in HI shares would be stabilization in consumer credit and/or evidence that the macro-economy is set for a meaningful recovery. Recall that from February 1 to April 1, when the economic indicators pointed to a recovery in 2002, the consumer finance sector performed very well while the S&P 500 was basically flat. With the recent macro-economic data trends related to jobless claims, bankruptcy trends, manufacturing sector and consumer confidence all down or flat at best, we believe the place to be is on the sidelines in this name.

Valuation
Shares of HI are currently trading 5.7X our 2003 estimate of $5.15. On a historical basis, the 5-year average forward multiple of 13.8X and a 2-year average is 12.6X, with the trough valuation prior to July of 2002 of 8.7X in February 2000. While the current valuation represents a significant discount to historical valuation, in our opinion the shares are discounted due to uncertainty regarding several issues related to the shares and are not trading on an earnings multiple.

Consumer Credit Securitization Model
ACF released information yesterday that its sub-prime auto finance securitization pools are performing worse than expectations, and its insurer, FSA, has agreed to make adjustments necessary to adjust for the deteriorating credit. In our opinion, the market is likely to continue to discount consumer securitization models until consumer trends are helped by an economic recovery. We believe this will likely dampen the near-term potential upside in HI shares. While the majority of HI's securitization pools are significantly different than the insurance "wrapped" pools at ACF, we believe the risk / reward associated with consumer lending and consumer securitization at this time is unfavorable.

Securitizations represent 20% - 25% of the funding associated with the managed portfolio. HI recourse in the securitization structure is limited to the rights of future cash flow in excess of the contractual rate due the investors, and any subordinated interest that HI retains in the deal. The right to potential income generated above the contract rate is recorded on HI's balance sheet as an interest-only receivable. At June 30, 2002 HI's interest only receivable was approximately $1 billion, which represents less than 1% of total managed receivables.

Performance of Sub-prime Credit
Also recently released was the announcement that MGIC Investment Corp. (MTG) expected third and fourth quarter earnings per share to suffer due to higher than expected credit losses on their insured loans. MTG provides insurance to originators and the secondary market for lenders that have less than 20% down payment.

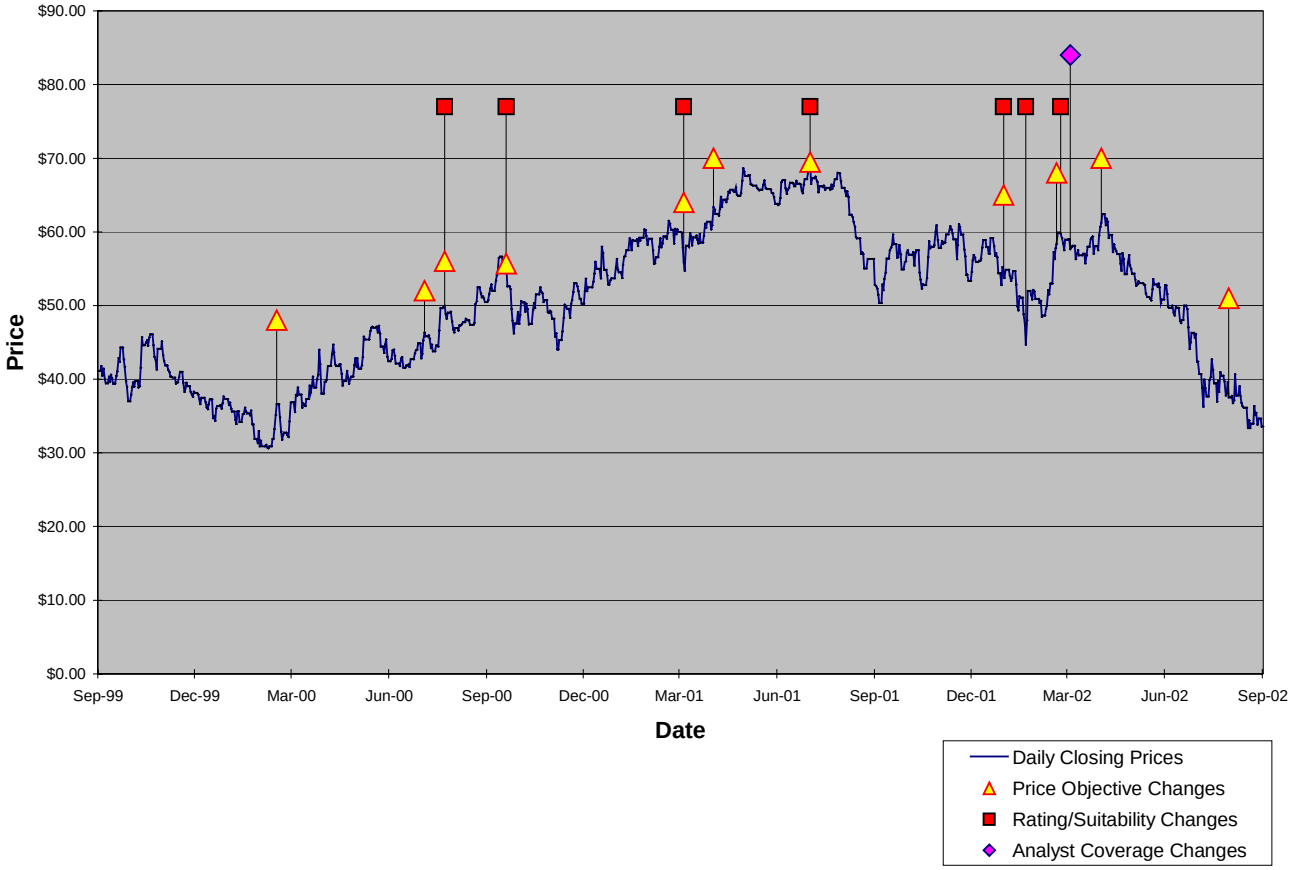
The market is quick to discount shares related to sub-prime exposure following high profile sub-prime credit catastrophes at Providian Financial (PVN), Metris Cos. (MXT) and NextCard (NXCD). While we do not believe that HI is on the course of these ill-fated lenders, we do believe that the shares will likely remain compressed until an economic recovery materializes or one or more of the external issues are lifted.

Political and Legal Risk

The political and legal environment for HI has been miserable for much of the last 12 months. HI is the last, biggest issuer of consumer credit lender outside of the prime consumer segment, and has had a "bulls-eye" on its back since the merger of Citigroup and Associates First Capital in 2000. Also unfortunate is once it became the only player, the economy sank into a recession and the natural cycle of borrowers, lawyers and politicians looking for a culprit all had their sights set on HI. A group, Association of Community Organizations for Reform Now (ACORN), has filed suit against HI in multiple states, and while, in our opinion, the net sum of the likely losses is not material, the effect the negative press has on the shares could be very material. The most high profile of the legal battles in the State of Washington is currently in recess, the headline risk will likely return as we near the fall elections. Again we do not believe that any of these Political/Legal issues are material by themselves, however we do believe that the aggregate issues facing HI in the near-term warrants a Hold rating.

June 30, 2002	**June 30, 2001**
Managed Receivables - $105.5 bil.	Managed Receivables - $91.5 bil.
Real Estate Secured – 46%	Real Estate Secured – 43%
Auto Finance – 6.5%	Auto Finance – 5.6%
MasterCard/Visa – 16%	MasterCard/Visa – 19%
Private Label – 13%	Private Label – 13%
Personal Non-Credit Card – 18%	Personal Non-Credit Card – 19%
Commercial and Other – 0.5%	Commercial and Other – 0.6%

The above breakdown of managed receivables at HI at June 2002 and June 2001 represents in part our prior positive thesis for the company. While a rotation away from consumer exposure is expected during periods of economic stress, our thesis was that the diversity and the increased focus on Real Estate Secured assets would help HI outperform the consumer finance space. (Real Estate Secured Assets represented 37% in 1999, 42% in 2000, 44% in 2001, and 46% at June 2002) However the aggregate weight of the issues outlined above (consumer securitization, performance of sub-prime credit, political risk and legal risk) make it necessary, in our opinion, to go to a Hold rating.



Price Objective (PO) Changes *								
Date	**Closing Price**	**PO**	**Date**	**Closing Price**	**PO**	**Date**	**Closing Price**	**PO**
		60.00	03/21/2001	55.85	64.00	04/18/2002	61.20	70.00
03/03/2000	36.63	48.00	04/18/2001	63.38	70.00	08/16/2002	37.54	51.00
07/20/2000	46.38	52.00	07/18/2001	69.48	NA	09/18/2002		NA
08/08/2000	50.00	56.00	01/16/2002	54.45	65.00			
10/05/2000	55.69	NA	03/07/2002	58.36	68.00			

* NA: Positive rating removed; no price objective supplied.

Rating/Suitability Changes					
Date	**Closing Price**	**Rating/Suitability**	**Date**	**Closing Price**	**Rating/Suitability**
		Buy/Aggressive	01/16/2002	54.45	Buy/Aggressive
08/08/2000	50.00	Accumulate/Aggressive	02/06/2002	44.71	Strong Buy/Aggressive
10/05/2000	55.69	Maintain/Aggressive	03/11/2002	59.73	Buy/Aggressive
03/21/2001	55.85	Accumulate/Aggressive	09/18/2002		Hold/Aggressive
07/18/2001	69.48	Maintain/Aggressive			

Analyst Coverage Changes					
Analyst	**From**	**To**	**Analyst**	**From**	**To**
Joel J. Houck	03/03/1999	03/20/2002	J. Jeffrey Hopson	03/20/2002	

Household International Inc.

September 18, 2002

Hold/Aggressive

HI/NYSE/29.52

			Past 12 months	
Rating	**Master List Companies**	**Current Rating Distribution**	**Investment Banking Clients**	**% of Investment Banking Clients ***
Buy	293	42%	55	19%
Hold/Neutral	385	55%	29	8%
Sell	20	3%	2	10%

* Percentage of Investment Banking Clients on Master List by rating.

OUR 3-TIER RATING SYSTEM (12-18 month time horizon)
Buy: A total return is anticipated in excess of the market's long-term historic rate (approximately 10%). Total return expectations should be higher for stocks which possess greater risk.
Hold: Hold the shares, with neither a materially positive total return nor a materially negative total return is anticipated.
Sell: Stock should be sold, as a materially negative total return is anticipated.

RISK SUITABILITY (Relates to fundamental risk, including earnings predictability, balance sheet strength and price volatility)
Conservative: Fundamental risk approximates or is less than the market.
Aggressive: Fundamental risk is higher than the market.
Speculative: Fundamental risk is significantly higher than the market.

On 9/28/01 AGE changed its rating system from 5 tiers to 4 tiers. "Strong Buy" replaced the previous "Buy" rating, "Buy" replaced the previous "Accumulate" rating, and "Hold" replaced the previous "Maintain" rating. We compressed the previous ratings of "Reduce" and "Sell" into one rating, "Sell".

On 9/13/02 AGE changed its rating system from 4 tiers to 3 tiers. We eliminated the "Strong Buy" rating, and we changed the rating on all stocks with that rating to "Buy". All other ratings and their definitions remained in place.

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Exhibit 66

DOW JONES

Asset Securitization report

HD

Delinquencies rising, but auto ABS structures sound

BY

Kevin Donovan

WC 565 words

PD 16 September 2002

SN Asset Securitization Report

SC ASRE

LA English

CY

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LP

With rising unemployment and weaker job creation combined with an anticipated rise in bankruptcy filings, both Credit Suisse First Boston and Fitch Ratings issued research updates on the auto loan sector of the ABS market. While both concur that delinquency and loss performance - and therefore spreads - will remain under pressure until the economy turns around, structures are fundamentally sound.

Boosted by incentive loans that have seeped back into the strategies of captive lenders, auto sales have been strong thus far in 2002, simultaneously creating concern in the used car market. DaimlerChrysler N.A. Holdings was the only one of the Big-Three U.S. auto manufacturers with a dip (-4%) in sales, reports Fitch, and all of the Asian captives had a strong sales month in July. CSFB adds that the Big Three have outperformed the industry as a whole.

TD

For prime collateral, the industry average for annualized losses came in at 1.02% in the most recent period, up from the 0.95% seen in July, with cumulative losses at 0.84% for both August and July. Thirty-day delinquencies were at 1.96%, with 60-day delinquencies at 0.61%. For subprime loans, annualized net losses came in at 7.52%, up 68 basis points from July; 60-day delinquencies, however, increased 17 basis points, to 3.60%.

Spreads continued to widen throughout August, notes Credit Suisse First Boston in the most recent Auto Performance Overview. CSFB says it had expected as much, as annualized net losses rose in all three segments of the credit spectrum. Two-year, triple-A rated auto loan ABS is currently trading in line with its 52-week averages, but CSFB adds that three-year subprime auto paper is currently cheap versus historical levels.

Despite the widening, spreads versus Treasurys have remained stable, thanks to swap tightening at the front end of the yield curve, CSFB adds. CSFB recommends investors keep auto ABS product as a core short-duration holding, noting 35 upgrades of various Ford subordinated ABS tranches - due to collateral performance - since January 2001, the most recent on Aug. 21.

"We feel enhancement levels are adequate - excess spreads are at all-time highs in auto-loan transactions, with two-year Treasurys hovering right over 2.00% - and the wraps prevalent in the nonprime sectors should give investors comfort as well," said CSFB research head Neil McPherson.

Fitch also feels enhancement is sufficient, noting the lessons learned in the mid-1990's. Thomas Nieliwocki, a director in the Fitch auto group who worked on the report entitled In The Auto ABS Driver's Seat, adds that while delinquencies have risen, they are relatively low on a historical basis. "If you have been following the auto sector for the last five years, you remember the subprime market in 1996 and 1997 and the troubles experienced. Currently there are far fewer players, each with more stringent underwriting standards."

As for volume going forward, wider spreads in the unsecured market for auto manufacturers, combined with the return of zero-percent financing for consumers, should spur ABS issuance through year-end past the $85 billion predicted by CSFB. Through the first eight months of the year, auto loan ABS volume is at $64 billion, according to Thomson Financial. The sector is on pace to top $96 billion, which may further pressure spreads.

CO damb : Daimler AG | lbec : Fimalac | sk : Credit Suisse Group

IN i351 : Motor Vehicles | i64 : Retail/Wholesale | i651 : Automobile Dealing | i654 : Specialty Stores | i814 : Banking | i81402 : Commercial Banking | i8396 : Diversified Holding Companies | iaut : Automobiles | ibcs : Business/Consumer Services | ibnk : Banking/Credit

NS c17 : Funding/Capital | c174 : Corporate Credit Ratings | ccat : Corporate/Industrial News

RE namz : North America | usa : United States | weurz : Western Europe

AN Document asre000020020916dy9g00006

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Exhibit 67

DOW JONES

Dow Jones Business News

HD **AmeriCredit Drops Use of Controversial Accounting Method after SEC Review**

WC 672 words
PD 17 September 2002
ET 10:24 AM
SN Dow Jones Business News
SC DJON
LA English

CY

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LP

Shares of AmeriCredit Corp. (ACF) sank after the subprime lender said it would change a controversial accounting method for loans.

AmeriCredit's decision to eliminate gain-on-sale accounting and keep securitization transactions on its books follows a review by the Securities and Exchange Commission of the company's financial statement, AmeriCredit management said Tuesday.

TD

Under gain-on-sale accounting, lenders book earnings from loans as soon as they are made, rather than having to wait for them to be paid off, as banks typically do.

Gain-on-sale accounting in the loan business tends to pump up near-term profit but can subject companies to charges in future periods if assumptions about interest rates or borrowers' behavior turn out to be wrong.

AmeriCredit said that to explain to investors how gain-on-sale accounting is reflected in actual cash flows, it had been using a pro forma earnings presentation.

But the SEC asked the Fort Worth, Texas, lender to discontinue its use of the pro forma numbers, AmeriCredit management said during a conference call Tuesday.

Without the pro forma presentation, management felt that investors would be confused by gain-on-sale accounting, AmeriCredit said. As a result, the company decided to bring future securitizations on balance sheet and to discontinue gain-on-sale accounting.

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"On-balance-sheet accounting will make it easier for investors to understand our business over time," said Michael Barrington, chief executive of AmeriCredit.

AmeriCredit said that the SEC hasn't requested any other changes to its financial statements or accounting as a result of the review.

Because of the accounting change, however, AmeriCredit expects to report a net loss between $5 million to $10 million in the fiscal second quarter ending Dec. 31, 2002. Profitability, the company said, is expected to come back in soon after, with a total between $160 million to $170 million in profits projected by Dec. 31, 2003.

At 4 p.m. EDT on the New York Stock Exchange, shares of AmeriCredit were down $5.16, or 38%, to $8.46.

Analyst Robert McMillan at Standard & Poor's said that the accounting change will "only have a one-time impact" on AmeriCredit's bottom line.

"Investors are overreacting to the news," said Mr. McMillan, who expects the stock to outperform S&P 500-stock index over the next six months. The analyst said he doesn't own shares in AmeriCredit.

AmeriCredit also said late Monday it is seeking to boost its capital structure and preserve its credit rating through the issuance of $500 million in common stock.

"We believe the dilution as a result of this transaction will be more than offset by a more sound capital structure," Daniel Berce, AmeriCredit's chief financial officer, said during Tuesday's conference call.

The company, which had been pursuing a rapid growth strategy, also will further slow its growth rate to a more sustainable level, management said.

In addition, the company renegotiated delinquency triggers with Financial Security Assurance, the bond-insurance company which guarantees payment on AmeriCredit securitization transactions. In exchange for raising the delinquency triggers on AmeriCredit auto-loan securitization, FSA will receive warrants to purchase about 1.3 million shares of common stock.

Delinquency levels are on the rise both due to regular seasonal factors and due to a worsening of the economy, Mr. Berce said.

AmeriCredit also plans to add three independent directors to its board, and will recruit external candidates to enhance its independent governance and oversight.

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AmeriCredit, which makes loans to customers who typically are unable to obtain financing from traditional sources, has more than one million active loan customers throughout the U.S. and Canada and more than $14 billion in managed auto receivables, according to the company's Web site.

-Christine Richard; Dow Jones Newswires; 201 938-2189; Lingling Wei; Dow Jones Newswires; 201-938-2089; and Diana Rosenberg; Dow Jones Newswires; 609-520-7817

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Exhibit 68

Global Equity Research

UBS Warburg

September 18, 2002 | **Specialty Finance** | **United States**

Household International (HI)[2,37,81] — Buy

Key Statistics

Price	$29.52
52-Wk Range	$62-30
Price Target	$41.00
Return Pot'l.	42.3%
Mkt. Cap(MM)	$13,426
Sh. Out.(MM)	454.8
Float	100%
Inst. Hldgs.	81.8%
Avg. Volume(K)	4,629
Curr.Div./Yield	$1.00/3.4%
Sec.Grwth.Rate	7%
Convertible?	Yes
ROE LTM	23.0%
Book Value/Share	$18.97
Price/Book	1.6x

Quarterly Earnings Per Share (fiscal year ends December)

	2001A	2002E	*Prev*	2003E	*Prev*
1Q	$0.91	$1.04A			
2Q	0.93	1.07A			
3Q	1.07	1.17			
4Q	1.17	1.29			
Year	**$3.91**	**$4.56**		**$5.13**	
FC Cons.:	$4.08	$4.57		$5.13	
P/E:	7.5x	6.5x		5.8x	
Revs.(MM):	$10,712	$12,900		$14,861	

Household International, through subsidiaries, provides consumer financial services, primarily offering consumer-lending products to middle market consumers in the U.S., Canada and the United Kingdom.

Source: UBS Warburg LLC and First Call consensus estimates

Household Int'L

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Household International: Reducing Price Target To $41

Summary

- HI shares have come under considerable pressure recently as investors fret over the company's capital levels, blowups at competitor companies and legal actions surrounding predatory lending.
- While we believe the fundamentals at Household remain strong, we expect predatory lending concerns to continue to weigh on the shares in the near term.

Action

- We are reducing our 12-month price target on the HI shares to $41 from $54 to reflect the negative sentiment that has surfaced recently surrounding HI shares specifically, as well as the financial sector in general.

Valuation

- On a P/E basis, our revised price target of $41 represents a multiple of 8 times our 2003 EPS estimate. On a price-to-book value basis, the new target price represents roughly 2.0 times our estimated 2002 book value.

Additional Information

- HI shares have come under considerable pressure recently, as the shares traded down over 12% yesterday and almost 15% so far this week. In our view, the preannouncement by AmeriCredit (ACF) yesterday, along with continued concern over potential regulatory action related to predatory lending contributed heavily to the weakness.

Companies mentioned and disclosures at end of note

In addition to the **UBS Warburg** web site, **www.ubswarburg.com/researchweb,** our research products are available over third-party systems provided or serviced by: Bloomberg, First Call, I/B/E/S, IFIS, Multex, QUICK and Reuters. **UBS Warburg is a business group of UBS AG**

- AmeriCredit announced late Monday that it was changing its accounting method for auto securitizations, electing to keep all future securitizations on-balance-sheet and not record a gain on sale. As a consequence to this, the company must hold a loan loss reserve against these loans and must recognize the income from these loans over their remaining life rather than upfront through the gain on sale. The company subsequently reduced its earnings guidance for the next six quarters. In addition to this, the company announced that it reached an agreement with its bond insurance guarantor to raise the delinquency triggers levels from September 2002 through February 2003 on its current securitizations. Lastly, the company announced its plan to issue up to $575 million in common stock (its market cap is currently under $800 million) with the proceeds to be used towards credit enhancements for future securitizations.
- The AmeriCredit news is relevant to Household since AmeriCredit is a major competitor of Household's in the subprime auto lending arena. However, we believe the negative reaction by investors regarding Household is exaggerated for the following reasons:
    1. Auto loans currently represent only 6.5% of the company's managed portfolio, whereas AmeriCredit is primarily an auto lender.
    2. Household currently records a gain on sale of 4% on auto securitizations. We are anticipating total auto securitizations of $2.3 billion for this year, which would translate into a pre-tax gain on sale of $92 million or $0.13 per share on an after-tax basis. This represents less than 3% on our 2002 EPS estimate of $4.56.
    3. We estimate that if the company had to reserve against the auto loans that they securitized, the cost would be roughly $115 million for the year, or $0.16 per share. This combined with the gain on sale would equate to roughly 6% of 2002 earnings. While this would be a negative, we do not believe it warrants a 12% decline the company's share price.
    4. Additionally, Household's credit trends apear generally better than Americredit's. Although Household's charge-offs are higher than Americredit's, they appear to have stabilized, whereas Americredit's continue to deteriorate. We attribute part of this stabilization to the fact that Household has recently been moving up the credit spectrum in its auto business, which should help mitigate increasing credit losses going forward.
    5. In speaking with Household management, it indicated that it does not anticipate any changes in the economics of its securitizations, such as requirements that it increase its credit enhancements or adjust the delinquency triggers with its bond guarantor Ambac. This contrasts with the announcement made yesterday by ACF.
- The effects of the announcement by AmeriCredit as well as the persistent predatory lending issues could increase the company's borrowing costs in the near term. However, we continue to maintain our EPS estimates for 2002 and 2003, as we believe there has been no fundamental change in the economics of Household's business. Nonetheless, while we expect the concerns regarding the company's auto business to lift shortly, we believe the predatory lending issues may continue to linger.
- On a separate issue, yesterday the company made an important stride in reaching its capital targets by raising $350 million in a cumulative preferred stock offering. The company has set capital targets of 8.5% tangible equity to total managed assets by the end of the year. This issuance should add roughly 30 basis points to the 7.9% ratio that the company had at the end of the second quarter.

Statement of Risk

- Investment risks include the following: continued competition for home equity and unsecured credit loans, higher than expected credit losses, higher funding costs, and increased regulatory and legal scrutiny.

Global ratings: Definitions and allocations

UBS rating	Definition	Rating category[1]	Coverage[2]	IB services[3]
Strong Buy	Greater than 20% excess return potential; high degree of confidence	Buy	51%	42%
Buy	Positive excess return potential			
Hold	Low excess return potential; low degree of confidence	Hold/Neutral	44%	28%
Reduce	Negative excess return potential			
Sell	Greater than 20% negative excess return potential; High degree of confidence	Sell	5%	19%

Excess return: Target price / current price – 1 + gross dividend yield – 12-month interest rate. The 12- month interest rate used is that of the company's country of incorporation, in the same currency as the predicted return.
1: UBS Strong Buy and Buy = Buy; UBS Hold = Hold/Neutral; UBS Reduce/Sell = Sell.
2: Percentage of companies under coverage globally within this rating category.
3: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS AG, its subsidiaries and affiliates; as of 30 June 2002.

Companies Mentioned

Company Name	Ticker	Price
Household International[2,37,81]	HI	$29.52

Price quoted on September 17, 2002 Source: UBS Warburg
2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company or one of its affiliates within the past three years.
37. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company.
81. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company or one of its affiliates within the past 12 months.

Household International (US$)

Source: UBS AG, its subsidiaries and affiliates; as of Monday, September 16 2002

Unless otherwise indicated, please refer to the Valuation and Risk sections contained within the body of this report.
For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Warburg LLC, 1285 Avenue of Americas, New York, New York, 10019, Attention: Publishing Administration.

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Exhibit 69

LEHMAN BROTHERS
EQUITY RESEARCH

September 30, 2002

United States of America
Financial Services
Specialty Finance

Specialty Finance

Industry Update

Monday Morning Notes

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Sector View:

New: 1-Positive

Old: 1-Positive

Investment conclusion

❑ In this week's Monday Morning Notes, we provide an update on bankruptcy, Household, and Capital One.

The week in review

With the exception of Household, the group outperformed the S&P 500, which was down another 2.1% on the week. The week was not eventful, as the general negative market and economic sentiment persisted. The biggest news of the week was AmeriCredit (ACF, Not rated) successfully completing its secondary offering, which came as a surprise to some.

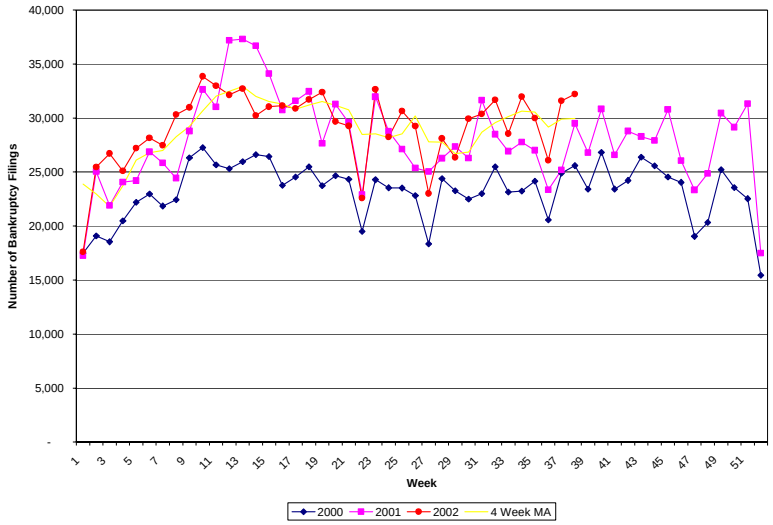
In speaking at a competitor's conference Capital One reiterated its guidance for 30% EPS growth in FY02 and 20% EPS growth for FY03. The company reiterated earlier guidance about the cosmetics of earnings for 2H02, noting that the company expected the marketing budget to slightly exceed last year's $1.1 billion, for net credit losses to rise to near 5.50% in 4Q02, and for account growth to slow significantly in coming quarters. Despite the company's track record for outperforming management's loss guidance, CEO Rich Fairbank reiterated that the company's guidance for near 5.50% losses in 4Q02 was not "crying wolf." One question on investor minds is the impact of proposed FFIEC guidelines for over limit practices. CEO Fairbank also noted that he did not expect the impact from the new guidelines on over limit fees to have a material impact on earnings. Fairbank believes the company possesses the pricing flexibility to offset the lower over limit fees with higher APRs and still maintain the lowest APRs in the industry across all segments. While the earnings quality will be somewhat weaker relative of Capital One's own high standards, we believe that, at current valuation levels, the shares have discounted something significantly more negative than marginally weaker earnings quality.

Company	Ticker	Rating	Price 9/27/02	Weekly % Change	Mkt. Cap. (Mils)	2001 Stock Perf	YTD Stock Perf	2002E EPS	2003E EPS	EPS Growth 2002E	EPS Growth 2003E	P/E Ratio 2002E	P/E Ratio 2003E	PEG 2002E
American Express	AXP	1	31.48	-0.94%	41,931	-35%	-12%	2.02	2.20	106.12%	8.91%	15.58	14.31	14.69
Capital One Financial	COF	1	34.70	-0.43%	7,679	-18%	-36%	3.79	4.55	30.24%	20.05%	9.16	7.63	30.28
Household	HI	1	27.64	-4.85%	12,612	5%	-52%	4.59	5.00	17.39%	8.93%	6.02	5.53	34.63
MBNA	KRB	2	18.74	1.24%	23,944	-5%	-20%	1.52	1.75	18.75%	14.91%	12.33	10.73	65.75
Providian	PVN	3	4.93	-1.00%	1,425	-94%	39%	0.19	0.68	-87.66%	257.89%	25.95	7.25	N/A

Bankruptcy Update

According to the National Bankruptcy Research Center, bankruptcy filings were 32,217 for the week ending September 20, which was slightly above the four week moving average of 29,909, and in line with the previous week. Bankruptcy filings continue to reflect higher level of unemployment relative to year ago levels and the seasoning of the rapid consumer revolving credit growth in 4Q00 and 1Q01. We continue to believe that bankruptcies will reflect these factors through the end of 2002. Consistent with the trend in consumer revolving credit over the past year, we expect bankruptcy filings to decline in 2003.

Figure 9: Weekly Bankruptcy Filings 2000-2002



Source: National Bankruptcy Research Center

Household Update

We are reducing our EPS estimates to reflect refinements that we made to our model after HI's August earnings restatement. We are lowering our 3Q02 estimate by $0.02 to $1.18, which is in line with consensus and represents a 10% increase over 3Q01 levels. We are lowering our FY03 EPS estimate to $5.00. We believe our FY03 EPS estimate is conservative and reflects 9% EPS growth, which is well below the company's 13-15% EPS target for 2000-2002. Our lower estimates in 2002 are driven in part due to our belief that its wider bond spreads could have an impact on margins. We are also lowering our price target to reflect the decline in overall valuation in the market. Our new price target is $51 and reflects the decline in the market multiple. Our price target is based upon a target multiple of 10.2x our FY03 EPS estimate of $5.00. The target multiple is based upon the valuation returning to the seven-year average relative multiple of 0.60x the S&P 500 multiple.

Key model revisions - We have lowered our assumption of net interest margin for FY03 to 8.20% from our previous estimate of 8.23%. As a result of the company's targeting a TETMA ratio of 8.50%, we have lowered our estimate for loan growth in 2003. Our new estimate calls for 10% loan growth, which is down from our previous estimate of 11%. We now project HI to have $124 billion in managed receivables at 4Q02, which is down from our previous estimate of $126. We have fully updated our model for the impact of the earnings restatement.

Valuation - Aside from the traditional P/E valuation methodology, which we used to arrive at our price target, our DCF model would imply a range of values from $42 to $86 per share depending on the discount rate. Using a traditional 12% discount rate would imply a valuation of $60 per share, which highlights additional potential upside if the company is able to sufficiently deal with the predatory lending issue.

Discount Rate	Implied Value per share
10%	$ 85.87
11%	71.05
12%	60.48
13%	52.56
14%	46.41
15%	41.50

	Quarterly Data				Annual Data			Growth Rates		
	1Q02A	2Q02E	3Q02E	4Q02E	2001E	2002E	2003E	01/00	02E/01E	03E/02E
MANAGED INCOME STATEMENT:										
Net Interest Income	2,253	2,281	2,304	2,375	7,881	9,212	9,683	22%	17%	5%
Non Interest Income	922	806	779	824	2,831	3,332	3,334	10%	18%	0%
Total Revenue	3,175	3,087	3,083	3,198	10,712	12,544	13,018	19%	17%	4%
Provision	1,362	1,278	1,162	1,183	4,018	4,986	4,671	24%	24%	-6%
Non Interest Expense	1,068	1,052	1,050	1,061	3,875	4,230	4,665	18%	9%	10%
Total Expense	2,430	2,330	2,213	2,244	7,894	9,216	9,336	21%	17%	1%
Pre Tax Income	746	757	870	955	2,819	3,327	3,682	14%	18%	11%
Taxes	255	250	305	334	971	1,143	1,289	12%	18%	13%
Net Income	491	507	566	620	1,848	2,185	2,393	15%	18%	10%
Preferred Dividends	9	16	22	22	16	68	88	68%	340%	30%
Net Income to Common	483	492	544	598	1,832	2,116	2,305	14%	15%	9%
Earnings Per Share	1.04	1.07	1.18	1.30	3.91	4.59	5.00	16%	17%	9%
Operating Earnings Per Share	1.04	1.07	1.18	1.30	3.91	4.59	5.00	16%	17%	9%
Fully Diluted Shares	462.1	461.2	461.2	461.2	468.1	461.4	461.2	-2%	-1%	0%
Tax Rate	34%	33%	35%	35%	34%	34%	35%			
MANAGED RECEIVABLES:										
Period End:										
Real Estate Secured	46,248	48,888	49,898	52,455	44,719	52,455	58,750	22%	17%	12%
Auto Finance	6,616	6,881	6,925	7,547	6,396	7,547	8,679	40%	18%	15%
Master Card/Visa	16,349	16,787	17,650	17,743	17,396	17,743	18,453	-1%	2%	4%
Private Label	13,322	13,477	13,997	15,195	13,814	15,195	16,259	15%	10%	7%
Other Unsecured	18,151	18,946	19,395	19,792	17,993	19,792	21,771	11%	10%	10%
Commercial	491	483	539	512	507	512	517	-15%	1%	1%
Total Managed Receivables	101,177	105,460	108,403	113,244	100,823	113,244	124,428	15%	12%	10%
Securitized Receivables	21,583	22,323	25,453	27,282	20,948	27,282	29,582	3%	30%	8%
Percent of Receivables Securitized	21%	21%	23%	24%	21%	24%	24%	-10%	16%	-1%
Period Average:										
Average Managed Receivbles	101,370	103,248	106,932	110,824	92,485	105,593	116,628	17%	14%	10%
Average Managed Earning Assets	103,087	106,756	108,536	112,209	93,379	107,647	118,086	17%	15%	10%
KEY PERFORMANCE RATIOS:										
Return on Average Managed Loans	1.94%	1.97%	2.12%	2.24%	2.00%	2.07%	2.05%			
Net Interest Margin	8.74%	8.55%	8.49%	8.47%	8.44%	8.56%	8.20%			
Managed Risk Adjusted Margin (Earning Assets)	8.32%	7.47%	7.13%	7.23%	7.73%	7.52%	7.35%			
Managed Risk Adjusted Margin (Loans)	8.46%	7.72%	7.24%	7.32%	7.80%	7.67%	7.44%			
Return on Average Common Equity	21.60%	23.66%	25.53%	26.73%	23.63%	24.46%	23.06%			
Total Equity to Managed Assets	8.38%	7.98%	8.65%	8.64%	7.55%	8.64%	8.91%			
Marketing Expense/Avg Managed Loans	0.55%	0.52%	0.49%	0.48%	0.53%	0.51%	0.52%			
Year-over-Year Manged Loan Growth Rate	14.49%	15.21%	13.33%	12.32%	15.09%	12.32%	9.88%			
Annualized Sequential Quarter Loan Growth Rate	1.40%	16.93%	11.16%	17.86%	NA	NA	NA			
Fee Income Growth	0.79%	-8.48%	8.00%	8.00%	9.12%	7.24%	11.22%			
MANAGED CREDIT STATISTICS:										
Managed Net Credit Losses:										
Home Equity	0.65%	0.86%	0.93%	0.86%	0.55%	0.83%	0.68%			
Auto Finance	6.70%	6.17%	6.20%	6.00%	5.56%	6.26%	5.43%			
Master Card/Visa	7.17%	7.54%	7.80%	7.95%	6.63%	7.62%	6.90%			
Private Label	5.57%	5.38%	5.45%	5.60%	5.26%	5.50%	5.37%			
Other Unsecured	7.86%	8.56%	8.40%	8.10%	6.76%	8.23%	7.30%			
Net Credit Loss Rate	4.09%	4.26%	4.29%	4.23%	3.78%	4.21%	3.72%			
Delinquency:										
Home Equity	2.93%	2.82%	2.79%	2.66%	2.68%	2.66%	2.63%			
Auto/Other Secured	2.51%	3.19%	2.59%	2.69%	3.16%	2.69%	2.28%			
Master Card/Visa	4.39%	3.90%	3.99%	4.06%	4.10%	4.06%	4.02%			
Private Label	5.82%	5.85%	6.00%	5.43%	5.48%	5.43%	5.37%			
Other Unsecured	9.02%	9.06%	8.68%	8.79%	8.87%	8.79%	8.70%			
Managed Delinquency Rate (30+ Days)	4.62%	4.53%	4.45%	4.33%	4.46%	4.33%	4.24%			
Excess Provision As a Percent of Receivables	1.31%	0.71%	0.06%	0.04%	0.56%	0.51%	0.29%			
Reserve to OBS Receivables	5.27%	5.32%	5.30%	5.13%	4.81%	5.13%	5.02%			
Reserve/EOP Managed Receivables	4.10%	4.14%	4.05%	3.89%	3.80%	3.89%	3.83%			
Provision/Net Credit Losses	132%	117%	101%	101%	115%	112%	108%			
Net Credit Losses	1,031	1,094	1,147	1,171	3,497	4,444	4,336	22%	27%	-2%
PER SHARE DATA:										
Cash Earnings Per Share	$1.09	$1.09	$1.20	$1.31	$4.25	$4.69	$5.05	14%	10%	8%
Dividends Per Share	$0.22	$0.25	$0.30	$0.35	$0.85	$0.90	$0.95	15%	6%	6%
Book Value (Fully Diluted)	$20.21	$20.61	$22.22	$23.17	$17.73	$23.16	$26.27	4%	31%	13%
Tangible Book Value (Fully Diluted)	$16.84	$17.27	$18.90	$19.86	$14.41	$19.85	$23.04	7%	38%	16%

	Quarterly Data				Annual Data			Growth Rates		
	1Q02A	2Q02E	3Q02E	4Q02E	2001E	2002E	2003E	01/00	02E/01E	03E/02E
BALANCE SHEET:										
Total Owned Receivables	78,624	82,133	82,755	85,767	79,264	85,767	94,652	18%	8%	10%
Allowance For Loan Losses	4,147	4,368	4,387	4,403	3,811	4,403	4,755	45%	16%	8%
Total Assets	89,843	96,806	92,983	96,368	88,911	96,368	106,350	16%	8%	10%
Deposits	6,195	5,612	5,752	5,896	6,562	5,896	6,508	-24%	-10%	10%
C.P.	7,732	3,599	3,689	3,781	12,024	3,781	4,173	11%	-69%	10%
Debt	60,536	73,629	75,470	77,357	56,824	77,357	85,388	26%	36%	10%
Total Debt	74,463	82,840	84,911	87,034	75,410	87,034	96,069	17%	15%	10%
Total Liabilities	79,529	86,327	81,759	84,707	79,637	84,707	93,262	17%	6%	10%
Total Stockholders Equity	8,495	8,661	9,067	9,503	7,843	9,503	10,932	-1%	21%	15%
Key Balance Sheet Statistics:										
Deposits to Total Managed Receivables	6.12%	5.32%	5.31%	5.21%	6.51%	5.21%	5.23%			
Equity & Managed Reserves to Managed Assets	11.35%	10.94%	11.36%	11.25%	10.61%	11.25%	11.54%			
MANAGED NONINTEREST EXPENSE:										
Salaries & Benefits	499	521	541	547	1870	2108	2376	23%	13%	13%
Occupany & Equipment	92	93	93	91	337	369	399	10%	9%	8%
Marketing	140	134	130	132	490	537	606	11%	9%	13%
Servicing & Administrative	232	204	187	187	717	810	872	20%	13%	8%
Total G&A	964	952	951	958	3415	3824	4253	19%	12%	11%
Policyholders' Benefits	84	87	91	95	303	358	390	16%	18%	9%
Total Operating Expense	1048	1039	1043	1053	3718	4182	4643	19%	12%	11%
Amortization	20	13	8	8	158	48	22	-5%	-70%	-54%
Total Non Interest Expense	1068	1052	1050	1061	3875	4230	4665	18%	9%	10%
Managed Efficiency Ratio	32.7%	33.6%	33.8%	32.9%	34.8%	33.3%	35.7%			
Managed Efficiency Ratio (excluding marketing)	28.4%	29.3%	29.6%	28.8%	30.2%	29.0%	31.0%			

Related Stocks:	**Disclosures***	**Ticker**	**Price (9/27)**	**Rating**
Capital One Financial	A,D,E	COF	36.24	1-Overweight
Household International	E	HI	29.28	1-Overweight

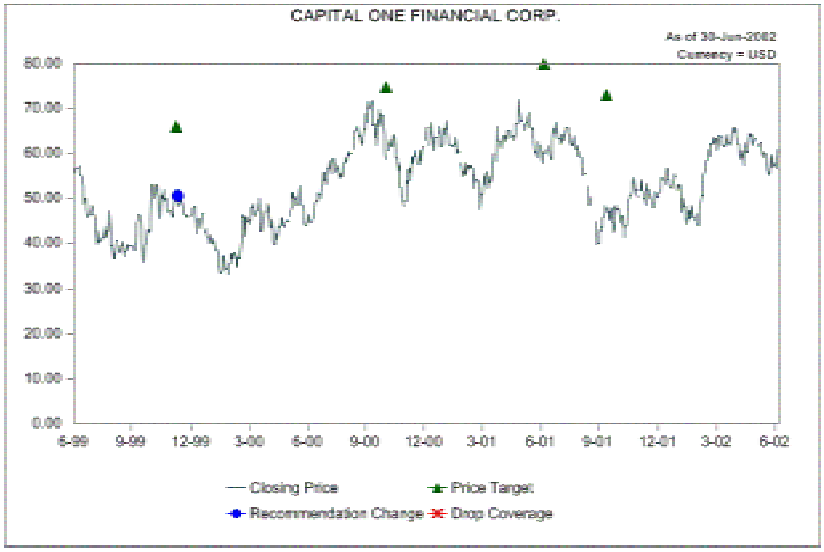
***PLEASE SEE DISCLOSURE LEGEND ON THE LAST PAGE**

--PLEASE SEE END OF DOCUMENT FOR IMPORTANT DISCLOSURES --

Other Team Members:

Michael D. Cohen 1.212.526.3307 micohen@lehman.com

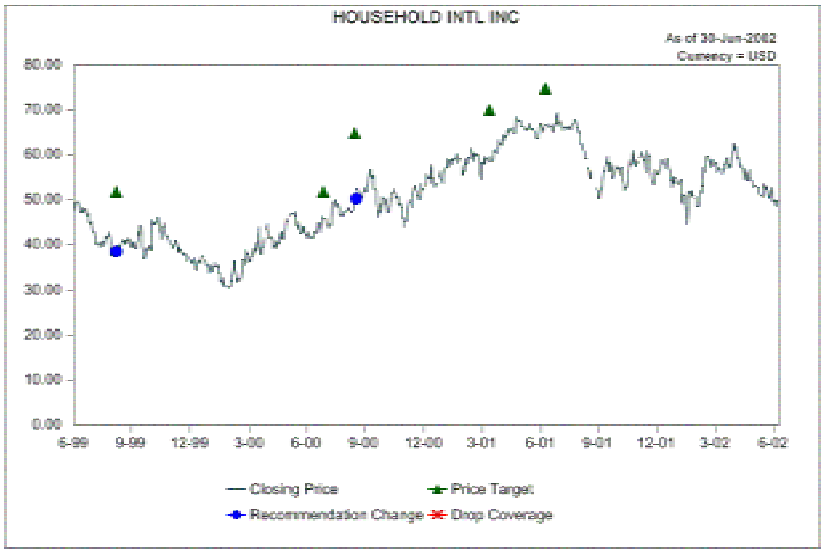
Rating and Price Target Chart: COF



Date	Closing Price	Rating	Price Target
03-Oct-01	$48.51		$73.00
29-Jun-01	$60.15		$80.00
26-Oct-00	$58.88		$75.00

Date	Closing Price	Rating	Price Target
06-Dec-99	$50.69	1-Buy	
06-Dec-99	$50.69		$66.00
02-Sep-99	$38.50	2-Outperform	

Rating and Price Target Chart: HI



Date	Closing Price	Rating	Price Target
28-Jun-01	$65.98		$75.00
04-Apr-01	$58.45		$70.00
07-Sep-00	$50.56	1-Buy	
07-Sep-00	$50.56		$65.00

Date	Closing Price	Rating	Price Target
20-Jul-00	$46.38		$52.00
02-Sep-99	$38.50	2-Outperform	
02-Sep-99	$38.50		$52.00

FOR EXPLANATION OF RATINGS PLEASE REFER TO THE STOCK RATING KEYS LOCATED AT THE END OF THIS DOCUMENT

Disclosures:
The analysts responsible for preparing this report have received compensation based upon various factors including the Firm's total revenues, a portion of which is generated by investment banking activities.

A - Lehman Brothers Inc. and/or an affiliate managed or co-managed within the past 12 months a public offering of securities for this company.
D - Lehman Brothers Inc. and/or an affiliate has received compensation for investment banking services from the subject company within the past 12 months.
E - Lehman Brothers Inc. and/or an affiliate expects to receive or intends to seek compensation for investment banking services from the subject company within the next 3 months.

Risk Disclosure:
COF: We have assumed a peak in industry credit losses in 4Q02, followed by a significant decline in 2003. Our 2003 projections assume modest improvement in COF's credit quality in 2003. We have assumed 30% loan growth in 2002 and 17% in 2003.

HI: We have assumed net credit losses peak in 3Q02 and begin to decline modestly thereafter. We have also assumed modest interest rate increases in 2002. Should interest rates rise precipitously without a corresponding improvement in credit quality, our projections for 2003 would be at risk.

Key to Investment Opinions:

Stock Rating
1-Overweight - The stock is expected to outperform the unweighted expected total return of the industry sector over a 12-month investment horizon.
2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the industry sector over a 12-month investment horizon.
3-Underweight - The stock is expected to underperform the unweighted expected total return of the industry sector over a 12-month investment horizon.
RS-Rating Suspended - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity on a merger or strategic transaction involving the company.

Sector View
1-Positive - sector fundamentals/valuations are improving.
2-Neutral - sector fundamentals/valuations are steady, neither improving nor deteriorating.
3-Negative - sector fundamentals/valuations are deteriorating.

Stock Ratings From February 2001 to August 5, 2002 (sector view did not exist):
This is a guide to expected total return (price performance plus dividend) relative to the total return of the stock's local market over the next 12 months.
1-Strong Buy - expected to outperform the market by 15 or more percentage points.
2-Buy - expected to outperform the market by 5-15 percentage points.
3-Market Perform - expected to perform in line with the market, plus or minus 5 percentage points.
4-Market Underperform - expected to underperform the market by 5-15 percentage points.
5-Sell - expected to underperform the market by 15 or more percentage points.

Stock Ratings Prior to February 2001 (sector view did not exist):
1-Buy - expected to outperform the market by 15 or more percentage points.
2-Outperform - expected to outperform the market by 5-15 percentage points.
3-Neutral - expected to perform in line with the market, plus or minus 5 percentage points.
4-Underperform - expected to underperform the market by 5-15 percentage points.
5-Sell - expected to underperform the market by 15 or more percentage points.
V-Venture – return over multiyear timeframe consistent with venture capital; should only be held in a well diversified portfolio.

Distribution of Ratings:
Lehman Brothers Equity Research has 1474 companies under coverage.
32% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating, 29% of companies with this rating are investment banking clients of the Firm.
40% have been assigned a 2-Equal weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating, 11% of companies with this rating are investment banking clients of the Firm.
28% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating, 37% of companies with this rating are investment banking clients of the Firm.

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Exhibit 70

DOW JONES

REUTERS

HD **UPDATE 1-U.S. financial stocks fall in weak economy.**

WC 562 words

PD 7 October 2002

ET 04:57 PM

SN Reuters News

SC LBA

LA English

CY (c) 2002 Reuters Limited

LP

NEW YORK, Oct 7 (Reuters) - U.S. financial shares dropped on Monday on growing concerns a weak economy would leave banks and credit card issuers with unpaid loans and also dent stock businesses at Wall Street firms.

Corporate borrowers are struggling to repay loans in a slack economy, while low U.S. interest rates have cut yields on banks' bond portfolios, the prolonged stock market slump has dented trading fees and rising bankruptcy and unemployment claims also signal stress on consumer borrowers, analysts said.

TD

The outlook has dimmed ahead of a slew of third-quarter earnings reports from U.S. banks, putting pressure on shares.

"Over the past three weeks, the (regional bank) group has been losing its defensive nature, due to a series of negative earnings preannouncements," Lehman Brothers analyst Jason Goldberg wrote in a research note, lowering his rating on regional bank shares.

"This, coupled with additional economic data points...and an increasingly challenging interest rate environment, make us more cautious."

Goldman Sachs analyst Robert Hottensen on Monday also cut his rating on finance firms Capital One Financial Corp. and Household International Inc. , and U.S. Bancorp Piper Jaffray analyst Robert Napoli downgraded Capital One, putting pressure on the shares.

"Until you see a clear improvement in the economy, it's going to be difficult for those consumer finance stocks to outperform," Napoli said.

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U.S. banks, brokers and consumer finance shares fell. Shares of No. 1 U.S. financial services firm Citigroup fell 4.5 percent, or $1.25, to close at $26.73 and Bank of America Corp. stock dropped 4 percent, or $2.40, to $55.60. Wachovia Corp. shares fell 4.8 percent, or $1.46, to $28.75.

MARGINS UNDER PRESSURE

"The third quarter is going to show loan growth is tough to come by and margins are coming under pressure," Janney Montgomery Scott analyst Claire Percarpio said.

Shares of top U.S. brokerage Merrill Lynch fell 5.8 percent, or $1.74, to $28.43, Goldman Sachs dropped 4 percent, or $2.52, to $59.53 and Morgan Stanley dropped 4 percent or $1.27 to $29.76.

Capital One stock fell 7.6 percent, or $2.32, to $28.06, Household International lost 5.7 percent, or $1.41, at $23.25, and AmeriCredit , which Goldman also downgraded, fell 1.5 percent, or 10 cents, to $6.80. American Express Co. fell 6.8 percent, or $1.93, to $26.60.

Goldman's Hottensen also cited uncertainty surrounding predatory lending litigation as a reason behind his Household downgrade.

"Given the weaker economic backdrop including a more pessimistic intermediate-term outlook on credit, housing and growth, we are adjusting estimates downward ...," Hottensen wrote.

U.S. retailer Sears, Roebuck & Co. also warned on Monday its quarterly profits would fall below Wall Street estimates as its credit card business shows signs of losing steam. Sears said on Friday it had replaced the head of its credit card division, though not for business performance reasons.

But not all analysts shared this outlook on the consumer finance industry.

"Card performance has been pretty good at these companies," Moshe Orenbuch, an analyst at CS First Boston, said. "I think the consumer's actually hung in there, and the data we look at suggests that's going to continue."

IN ibnk : Banking/Credit

NS c17 : Funding/Capital | c171 : Share Capital | ccat : Corporate/Industrial News | m11 : Equity Markets | mcat : Commodity/Financial Market News

RE namz : North America | usa : United States

PUB Reuters Ltd.

AN Document lba0000020021007dya7015ty

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Exhibit 71

DOW JONES

DOWJONES | Newswires

HD

Credit Cards 3Q Results Mixed; Focus On New Regulations

BY

By Tara Siegel Bernard

WC 1,208 words

PD 7 October 2002

ET 11:06 AM

SN Dow Jones News Service

SC DJ

LA English

CY

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LP

Of DOW JONES NEWSWIRES

NEW YORK -(Dow Jones)- Credit-card companies' third-quarter earnings will likely produce a mixed bag, though investors may be more concerned about new regulations and the cloudy economic outlook.

TD

The companies that have logged solid results thus far are expected to continue that path in the third quarter, including MBNA Corp. (KRB) and Capital One Financial Corp. (COF). However, a few subprime companies, including those that issue plastic to individuals with tarnished or limited credit histories and which have been operating under regulators' watch given concern over rising losses from soured loans, will continue to suffer.

For instance, Providian Financial Corp. (PVN) and Metris Cos. Inc. (MXT) "have continued to struggle with asset quality deterioration as their lower-income customer bases have had considerable more difficulty than their prime peers weathering the economic downturn," said analyst Chris Brendler, of Legg Mason, in a research report.

Regulators have addressed that struggle with a recent crackdown on the industry, while imposing certain requests on several specific companies, to crimp a rapid rise in consumer debt and defaults amid the economic downturn.

Indeed, the Federal Financial Institutions Examinations Council, an umbrella group representing five regulators of financial institutions,

issued a draft of new credit-card guidelines in July aimed at things such as cleaning up inconsistent accounting methods and ensuring issuers are sufficiently reserved to cover uncollectible loans. The new rules are expected to be finalized in the coming months.

The hardier credit-card issuers are expected to post healthy year-over-year income gains, thanks to stable to modestly improving credit quality, healthy loan growth, and a continued low-interest-rate environment.

"Although some growth may have slowed a bit from the first half of 2002, net interest margins should remain relatively strong and credit quality is likely to show some signs of stabilizing," noted Brad Ball of Prudential Securities Inc.

The absence of an interest rate increase by the Federal Reserve kept companies' cost of funds low, maintaining healthy net interest margins, or the profit pocketed on the difference between the companies' cost of funds and interest charged on loans. Given the uncertain economic outlook, however, it's hard to say what will unfold in future quarters.

"On one hand, the recent trends are stabilizing, indicating progress through the (downturn) - and valuations seem to reflect most of the fundamental bad news," Ball added. "On the other hand, there's currently no clear light at the end of the economic tunnel and consumer lenders appear set to face some headwinds through at least the rest of 2002."

Capital One, MBNA Seen Beating Last Year's 3Q

Capital One, Falls Church, Va., is expected to earn 98 cents a share, according to Thomson First Call, up from last year's 75 cents; it earned 92 cents in the preceding second-quarter. The company became a target of regulators in July, when it signed an informal agreement to bolster its loan-loss reserves and improve the technology and systems relating to risk management.

"Investors will likely be searching for initial signs of any long-term diminution in excess earnings power," said analyst Michael Freudenstein of J.P. Morgan Securities.

Though still strong, loan growth is expected to decelerate, as should account growth, given the shift away towards subprime accounts. Meanwhile, loan losses should rise modestly reflecting the "seasoning," or maturing, of balances, analysts said.

MBNA, of Wilmington, Del., is seen posting profits of 42 cents a share, according to First Call. The figure is up from 36 cents a share last year and 35 cents in the preceding second-quarter. The numbers reflect a 3-for-2 stock split effective July 16. The company has said it's in compliance with most regulators' new rules, though it will likely have to take a one-time pretax charge of $200 million to $300 million to establish a reserve for uncollectible accrued interest and fees.

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Credit costs are expected to improve modestly this quarter, while loan gains should be healthy, thanks to solid internal growth and the addition of a $1.2 billion portfolio it purchased.

Cost-Cutting At American Express

American Express Co. (AXP), the travel and financial services giant, is seen posting a profit of 51 cents a share, up from 24 cents a share in the year-ago quarter and even with the preceding quarter's results. Weak corporate spending and weak travel activity will continue to constrain results, though cost-cutting initiatives should help offset the weakness. Credit quality should remain relatively stable.

Stock market declines could cause its American Express Financial Advisors arm to post a charge tied to a deferred acquisitions cost adjustment. It might also have to write down the value of airline bonds in its investment portfolio, analysts said.

Spending trends will be watched closely to assess what might be in store next year.

"Fears of further cutbacks in corporate spending, coupled with general concerns about the sustainability of consumer spending levels, have led to investor uneasiness about 2003 earnings per share growth in a continued weak revenue environment," Freudenstein, the J.P. Morgan Securities analyst, said.

Providian is expected to earn 4 cents a share, down from 20 cents in the year-ago third-quarter and 9 cents in the preceding quarter. The company is still in the midst of repositioning its business, which could limit new account and balance growth, though expenses should improve. Credit quality, which is expected to improve modestly this quarter before rising again during the fourth quarter, will continue to be the focus, analysts said.

Household International Could See Legal Costs

Household International Inc. (HI), a diversified consumer finance company in Prospect Heights, Ill., that lends largely to the subprime segment, is expected to earn $1.17 a share, up from $1.03 last year and $1.07 in the second-quarter. While Household executives have said they are in compliance with most potential regulatory changes, investors will be looking for updates regarding legal claims against the company alleging predatory lending. It is reportedly close to a settlement with state attorneys general that one analyst estimates could total $350 million to $500 million.

Meanwhile, its home equity lending operation remains strong, while credit losses are expected to rise modestly. Also of concern: the spreads on Household's bonds expiring early next year have widened significantly, which could increase its funding costs and thus pressure

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the net interest margin, analysts said. They'll also be looking for progress made on the company's plans to build capital levels to 8.5%.

Metris, a Minnetonka, Minn., consumer-finance company, is expected to post a loss of 41 cents a share, compared with income of 70 cents in the year-ago quarter and a loss of 74 cents in the preceding second-quarter. The focus will continue to be on credit losses, which are expected to exceed 15.5% for the quarter, noted Jennifer Scutti of CIBC World Markets Corp.

"Profitability should remain under pressure owing to higher funding costs related to liquidity concerns and credit quality erosion," Scutti said.

-By Tara Siegel Bernard, Dow Jones Newswires; 201-938-5288; tara.siegel@dowjones.com

CO amexpr : American Express Co | cptone : Capital One Financial Corp | hfc : HSBC Finance Corp | mbnac : MBNA Corp | metris : Metris Companies Inc | prvfnc : Washington Mutual Card Services

IN i814 : Banking | i81402 : Commercial Banking | i81501 : Credit Types/Services | i8150105 : Consumer Lending | i8150108 : Credit Cards | ibnk : Banking/Credit

NS c15 : Performance | c152 : Earnings Projections | ccat : Corporate/Industrial News

RE namz : North America | usa : United States | usc : Midwest U.S. | usde : Delaware | use : Northeast U.S. | usil : Illinois | usky : Kentucky | usmn : Minnesota | usny : New York | uss : Southern U.S. | usva : Virginia

PUB Dow Jones & Company

AN Document dj00000020021007dya70016a

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Exhibit 72

DOW JONES

HD **Household International Investor Conference Call - Final**

WC 18,479 words

PD 14 August 2002

ET 08:30 AM

SN FD (FAIR DISCLOSURE) WIRE

SC FNDW

LA English

CY

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LP

OPERATOR: Please stand by. Good day everyone and welcome to this Household International conference call. Today's conference is being recorded. At this time for opening remarks and introductions, I'd like to turn the call over to Mr. Craig Streem, vice president, corporate relations and communications. Please go ahead, sir.

CRAIG STREEM, VICE PRESIDENT, CORPORATE RELATIONS AND COMMUNICATIONS, HOUSEHOLD INTERNATIONAL, INC.: Thanks, Wendy (ph) . Good morning everyone. Thanks for joining us. I'm going to keep my opening remarks very very brief just to say first of all that with me are Bill Aldinger, Dave Schoenholz and Tom Detelitch, who is our newly appointed group executive for our U.S. consumer lending business and each of them will have some remarks to make this morning. And then we will have a Q&A period. Also with us for purposes of Q&A and other information will be Edgar Ancone, our treasurer.

TD

Our call this morning may contain certain estimates and projections that may be forward-looking in nature as defined by the Private Securities Litigation Reform Act of 1995. A variety of factors might cause actual results to differ materially from the results discussed in these forward-looking statements. Factors that might cause such a difference are discussed in Household's quarterly report on Form 10-Q for the period ended June 30, 2002, filed with the SEC.

And with that I'll turn the call over to Dave.

DAVID SCHOENHOLZ, CHIEF FINANCIAL OFFICER, HOUSEHOLD INTERNATIONAL, INC.: Thanks, Craig. Earlier today Household announced that we filed our certifications which Bill Aldinger and I signed. We filed those with the SEC. The 10-Q that we filed includes certain disclosures that we'd like to discuss with you this morning and start with some background.

In connection with the engagement of KPMG as our new auditors we've

undergone a thorough review of our banking statements and related accounting policies. Part of this review we've adapted certain revisions to the accounting treatment of our Mastercard/Visa affinity (ph) and co-branded credit card relationship agreements as well as a related marketing agreement with a third party credit card marketing company. I'll give you some more detail on these in a moment.

These revisions have led us to restate our earnings and balance sheet from January 1, 1999 forward to modify the accounting for these agreements which date from 1993 to 1999. These agreements involve complicated (inaudible) accounting decisions which were discussed with and approved by our prior auditors, Arthur Andersen and with the concurrence of the company's audit committee. The changes arise from good faith differences of opinion with KPMG.

As you can see from the financial information included with the press release, the net income effect of the restatement is small relative to the results we recorded over the period 1993 through 2001. Net income for the second quarter of 2002 has been reduced by $6 million or one percent of the amount previously reported. This reduction amounts to one penny per share.

Net income for the first six months of 2002 has been reduced by $26 million or about two-and-a-half percent of the amount previously reported. This equates to six cents a share. Net income for 2001 has been restated by $76 million which is less than four percent of the amount originally reported.

I want to emphasize that our operating trends have not been impacted by the restatement. Importantly, over the affected period our earnings have grown at a compounded annual growth rate of 22 percent both prior to and after the restatement.

In terms of the finality of the decision to restate, KPMG signed off on our second quarter results on July 16th. On August 1st, they notified us that they had questions on our accounting for the agreements that we're discussing today and wanted to discuss them with us and our prior auditors.

On August 10th, this past Saturday, they advised us that they were not comfortable with the accounting and would require restatement, irrespective of materiality to the affected periods, pending discussion for their audit committee. Those discussions with the audit committee took place yesterday. KPMG will complete its audit of our restated financial statements by August 31st for the years 1999 through 2001. They advised our audit committee yesterday that they've completed their work in the most judgmental areas for all years of the re-audit with no disagreements.

These areas that have been signed off on include the type of partnership agreements we're discussing, the provision for credit losses and loan loss reserves, securitization accounting, income tax reserves, and litigation matters. I think this is very significant because these areas relate to the basic operations of the company. In addition, we

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know of no additional matters of concern which could lead to a further surprise.

And let me describe each of the agreements. In April, 1992, we entered into a major co-braining (ph) agreement which called for an up front payment to a partner for each new account booked. These up front payments were to be amortized over the term of the contract, in accordance with the accounting literature at that time. In May of 1993, the merging issues task force, in statement 93-1, said that up front payments related to acquired individual credit card relationships should be amortized over one year. Importantly, however, this change was to be applied prospectively, because our agreement was under (inaudible) prior EITF-93-1, the accounting for up front payments was grandfathered.

Our accounting decision was made after consultation with the senior technical person at Arthur Andersen, who had actually written the EITF 93-1 conclusion. KPMG is uncomfortable with this position from 1993, and further believes that actions taken by the management committee of the program in 1994 resulted in a contract modification for our accounting purposes. As a result, we'll restate the accounting for this contract.

Second issue. In 1996, Household entered into an exclusive contract with a large affinity group. Part of the program required a portfolio of $3.4 billion for premium. In addition, we agreed to pay our partner a royalty payment each year for use of their name and trademark. We began amortizing the premium for purchase credit card relationship, which we would call a PCCR over the contract life, and expensing our royalty payments as called for in the contract.

In 1999, two things happened. We modified the contract and extended the term. In addition, we did a new lifing (ph) study to the PCCR, which indicated slower attrition than originally believed. As a result of these two factors, Household revised the amortization of period for our financials, but maintained the original amortization period for our regulatory reporting. We retained the same accounting to the royalty payments. We made this change after consultation and with concurrence of our prior auditors. At the recommendation KPMG, we will now account for (ph) this contract from for financials as we do for regulatory purposes, in that we will restate accordingly.

The final item is the third-party credit card marketing agreement. In the 1998 to 1999 timeframe, the credit card industry was operating in a very difficult environment. Household was under-resourced in our Credit Card Unit, and needed help. Industry mail volumes (ph) were growing rapidly, while response rates were falling, and as many of you may recall, Household was in the midst of a major management transition at our Credit Card Unit. Bobby Mahab (ph) joined us in mid-1998, and was just in the process of assembling his new management team. In June of 1999 we entered into a credit card marketing agreement with an independent marketing company who provides credit card marketing services to the financial services industry. He has a number of industry bidding clients. Orgen (ph) has been very successful, and both we and our partner back this. Specifically, we were reimbursed for marketing expenses, mass collective mailings, in return for a share of revenue for those mailings over a three-year period. Then we accounted for this revenue-sharing expense over this three-year period. Our new auditors

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think we should restate our previous accounting to recognize these revenue-sharing payments as each mailing was dropped.

The next subject I'd like to discuss is the implication of the restatement on our capital. Specifically, our key capital ratios are impacted by about 30 basis points. We are absolutely (ph) committed to our rating, and will boost our capitals to more than offset the impact in equity from this restatement. We are targeting a tangible equity to a tangible managed asset ratio of 8.5 percent, and a tangible common ratio of 6.7 percent by year-end. These numbers are higher than our previous target of 8 to 8 1/4, 6.55 to 6.65 (ph) . We intend to achieve these ratios by suspending our share repurchase program, by portfolio sales to fulfill balance sheet growth, and by issuing capital securities and/or common stock as necessary.

I also want to comment on liquidity. As many of you know, we have worked hard to improve our liquidity position to reduce exposure to market-induced volatility. We have reduced our commercial paper outstandings (ph) , we've added conduit lines, we've blanked impurities (ph) , we've built an investment portfolio, we've increased access to the asset-backed market, and we've completed home-loan sales. We also took advantage of favorable markets early in the year to substantially complete much of this year's planned, unsecured debt issuance (ph) . Currently we are not looking to significantly access the unsecured wholesale markets until the fourth quarter. Instead, we will focus on several asset-backed deals for the rest of the third quarter. In addition, we are targeting home-loan sales of around $1 1/2 billion in September, which is comparable to the $900 million sale completed in the first quarter.

Currently, HFC Commercial paper outstandings (ph) , net of (ph) liquid investments, is $3.1 billion, with an average life of 53 days. This compares to about $9 billion, an average life of 20 days a year ago. Our backstops for commercial paper totaled $10.1 billion, have no material adverse change clauses. In addition, we have $4.3 billion of undrawn (ph) asset-backed conduit (ph) capacity, so we are extremely comfortable that we are well-positioned with conservative liquidity plans (ph) .

Now, at this point, I want to turn the call over to Tom Detelich so he can walk you through some of the latest responsible lending initiatives.

TOM DETELICH, GROUP EXECUTIVE, U.S. CONSUMER LENDING BUSINESS, HOUSEHOLD INTERNATIONAL, INC.: Thanks, Dave. My preference would be to talk today about the strong operating performance of the consumer lending business, at this my first opportunity to speak in front of this group. I understand many of you are concerned about the current discourse around responsible lending issues and I take those issues very seriously. And, therefore, I'll take my time today to address them as directly as I can.

First and foremost, Household's commitment to responsible lending, in every customer interaction always has been and always will be of the utmost importance. Most recently, within the past 18 months to be specific, Household has taken a number of steps to ensure that its current policies and procedures live up to this longstanding commitment.

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We learned that were some things, indeed, that we could do better and we have taken action to make sure that we did just that.

One example that is our net tangible benefits test - Household has always believed that we only make loans that provide significant tangible benefit values for our customers. With the introduction of this net tangible benefits test, we have created a formal standard that must realized in order for any first mortgage loans to be made.

Another area where we have made progress and we are doing drastically better is to improve the disclosure process we use when communicating with our customers about the terms and conditions of their contracts. For example, beginning in January of 2001, before every loan closing, all customers are encouraged to view a video that ensures that every customer gets a consistent education on the important terms of their loan. Better than 97 percent of all of our real estate loan customers view this video prior to the loan closing.

Beginning in February of 2001 and enhanced in July of 2001, all customers must complete a post-closing survey that confirms the customer's understanding of the terms of their loan, especially their understanding of the prepayment penalty to understanding of the optional nature of the credit insurance that they may have purchased and their general understanding of the terms of their loan.

More recently, beginning in May 1 of 2002, we began to provide an additional one-page disclosure to all customers that clearly, in plain, simple language, discloses all the terms, rate fees and costs of each loan. This is, of course, in addition to any federal or state mandated disclosures. We think these are important actions that help with the clarity of the loan transaction.

But more than just taking action, we've also been measuring our progress and how these revisions of new processes have improved the clarity. For example, we picked five of our largest states -California, Washington, New York, Florida and Michigan - and reviewed customer complaints from all sources, whether they came through the branches, through Better Business Bureau, through sales (ph) or any agencies and looked at all these complaints -- for example, from February 1 of 2001, when we introduced the survey. And what we found is though we made 450,000 loans since February 1, we've had just one complaint from all sources related to the knowledge of the optionality of credit insurance. Just one out of 450,000 loans. We think that these processes that we are putting into place indeed are working.

However, the market reality today is that you will likely, despite these moves, continue to see negative media coverage surrounding these issues. We have no doubt about that. Moreover, it does not mean that HFC or Beneficial employees will never make a mistake or sometimes do the absolute wrong thing. Take, for instance, the situation in Bellingham, Washington that I think many of you are familiar with. It came to our attention early 2001 through our internal complaint tracking system that we have some customers from Bellingham, Washington that were confused about their actual interest rate.

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In response to that we did a thorough investigation of that branch and the surrounding branches. Now where we believe the customer had a misunderstanding we made the appropriate modifications to the loan, pushed the changes to the terms and rate back to the date of origination of that loan. To put some scale around that we've made 33 adjustments to customer accounts, 31 of those in the Bellingham branch as a result of that investigation.

In addition, appropriate disciplinary action was taken with employees involved in those issues. In other words when things do go wrong we promptly investigate the issues, we make it right with the customer and we hold people accountable for violating our policies.

To be certain that this Bellingham issue did not exist in a more widespread case we did a nationwide review of the seller (ph) problems and we only found isolated cases of similar confusion.

Most of the problems at Bellingham and isolated problems that we identified in our nationwide review were with loans originated in the year 2000 and earlier with some in the early part of 2001. I think this is important because as I've discussed here since that time we've implemented a significant number of policies and practices that protect the customer and indeed Household from similar problems occurring. I believe that these issues have been isolated and largely behind us.

It's also important to put all this in context in terms of scale. What you must know is that ASB (ph) and Beneficial makes well over a million loans per year. In comparing the data that we have for a six to 12 month period, the most recent 12 months, the total complaints in contrast to total loans made equal just one-tenth of one percent.

Now to be sure I cannot guarantee you that ASB (ph) or Beneficial's best practices that we talked a lot about will prevent one more customer from ever having a complaint about their loan. However, I can guarantee you this. We're paying close attention to this issue. We're taking strong action when required and we're making sure that solutions we've put in place will work for our company and (inaudible) industry.

I'd now like to turn the call over to Bill Aldinger.

BILL ALDINGER, CHIEF EXECUTIVE OFFICER, HOUSEHOLD INTERNATIONAL, INC.: Thanks, Tom. Let me start by saying again I'm really extremely disappointed that we had to make any restatements even small ones. And I want to emphasize to all of you that KPMG has now done a thorough review of our financial statements and accounting policies. They have already completed the most sensitive judgmental (ph) areas including partnership and merchant accounting, provision and credit loss reserves, securitizations, tax reserves and litigation reserves.

So all of the areas that can have the biggest impact have been covered and as Dave mentioned they've told you they're comfortable with those. Now, while the audit won't be completed until August 31, we are comfortable that there will be no more surprises.

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And I'd like to say at this point we've now been struck by two accounting firms, two major accounting firms, all of our policies, all of our accounting approaches, all of our numbers and I think if people have to understand that you can't get a more thorough review than that.

Now let me just make a couple of other points. The changes here are not material to the earnings power of the company. The full impact this year is 35 million to $45 million on a projected net income of 2.2 to $2.3 billion.

I'd also point out that after the full restatement the compound EPS growth of the company is 22 percent over the last eight years. The model is intact. The business fundamentals are strong. We're glad to have this behind us and we're now focused on the future in delivering good results.

Thank you. We'll turn to questions.

OPERATOR: Thank you. The question and answer session will be conducted electronically, today. If you have a question, you may signal us by simply pressing the star key, followed by the digit one, on your touch-tone telephone. We'll take as many questions as time permits, and we'll take you in the order that you signal us. Once again, if you have a question, please press star, one, now. And we'll pause one moment.

Our first question comes from Dave McGowan (ph) with Salomon Smith Barney.

DAVE MCGOWAN (ph), SALOMON SMITH BARNEY: Good morning, gentlemen. Two quick questions. First of all, Dave, you mentioned you're still committed to the A2A ratings. If possible, can you give us a comment on what your expectations are in reaction to the restatement. Second question, can you give us a feel for what areas -- excuse me, what areas of focus KPMG still has remaining on the audit between now and August 31st.

DAVID SCHOENHOLZ: Dave, with respect to the rating, as I indicated, we are absolutely committed to that. We had conversations with the agencies. They are going to make their announcement, I believe, early this morning. I believe those will be reassuring, but they have to speak for themselves. I think with respect to the focus of other areas that KPMG has, you know, going through three years of work, starting a couple weeks ago, they just have some basic ticking and tying (ph) to do. They structured their work to look at the most judgmental areas. We've had discussions with them to point them in directions of anything we thought they might look at.

I think it's relevant to say that, you know, we had actually talked to them and said we needed them to look at some of these issues because they were very complex agreements. So I think -- I don't want to say it's just ministerial issues, but I believe they've got the tough judgmental things behind them, and I think we take great comfort in the fact that they also have committed to that position to our audit committee in writing at yesterday's meeting.

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DAVE MCGOWAN (ph): And David, just to clarify, did I hear you correctly in saying that you -- it's your expectation that you don't expect to visit the term debt markets until the fourth quarter?

DAVID SCHOENHOLZ: That's a true statement.

DAVE MCGOWAN (ph): Thank you.

OPERATOR: Our next question comes from Anne Masik (ph) with Deutsche Bank Securities.

ANNE MASIK (ph), DEUTSCHE BANK SECURITIES: Good morning. My question relates to the changes in credit card guidelines that are not expected to be finalized until September 23rd. I know that that is somewhat difficult to contemplate, given that we don't have final guidelines. But does the company have a sense for what, if any, impacts guidelines as currently written might have on results?

DAVID SCHOENHOLZ: Sure, I think I can take that question. For those of you who may not be familiar with that, there are some bank regulatory guidelines talking about credit management practices, including some issues relating to the sub-prime credit cards, and also talking about income and loss reserving types of things. To put it in context, our total domestic Visa/Mastercard portfolio is less than 15 percent of our total portfolio, and our sub-prime Visa/Mastercard portfolio is less than two percent of our total portfolio. So the scope of the business to which these potential changes apply is not large.

As it relates to the specific issues on income recognition and loss reserving, we've already accrued and have always, always accrued in our loan loss reserves for uncollectable interest and fees, and so that item will have no impact on us. I think the other issues, as it relates to loss reserve and (ph) policies, we are already in compliance, so they will--any potential changes will not have a significant impact. The other broad category really relates to the kind of credit line management changes, and as we understand the current guidelines, we would not think that would have a significant impact on the way we run the credit card business.

ANNE MASIK (ph): Great, thank you.

OPERATOR: Thank you. Our next question will come from Sam Coffer (ph) with City Group Asset Management.

SAM COFFER (ph), CITY GROUP ASSET MANAGEMENT: Good morning. I'm afraid I had to step out briefly during part of the call, and I fear I may be asking you to reiterate things you have already said, but Dave, taking a leave from your comment about stopping the buyback, possibly issuing additional capital securities, could you place that in context of the remaining funding to be done for this year, and indicate perhaps the degree to which that also driven by the desire to make up or more than make up the 30 basis points relative to tangible managed assets?

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DAVID SCHOENHOLZ: Sam, I'm going to-- Edgar Ancone (ph) is with us, and I'm going to ask him to comment on the funding plans.

EDGAR ANCONE (ph), TREASURER, HOUSEHOLD INTERNATIONAL, INC.: Sam, I think to the extent that we do additional capital securities, those are incremental, but as you are well aware, most of those appeal to a different marketplace than the traditional institutional debt market, so that $3 billion that we still want to do an either institutional debt or a (inaudible) that might be, but in the non-U.S. retail and KEN (ph) market, which as Dave I think said is (inaudible) none of that would include contemplating capital securities. And you were asking--which I think you were out of the room maybe for, is those capital securities would in fact be intended to make up the 30 basis point hole that's been created.

DAVID SCHOENHOLZ: Well, I would go beyond that, and Sam, if you--what we've indicated is that we're targeting a cap ratio of 8 1/2, previously our, kind of our guideline was 8 to 8 1/4, and we're targeting tangible common on a 6.70 (ph) which is above where our range was before, 6.55 to 6.65 (ph) , and so I think it's important to demonstrate our absolute commitment to the ratings and that we're going to put the capital underneath this to do that.

SAM COFFER (ph): Thank you very much.

OPERATOR: Moving on to Brad Ball (ph) with Prudential Securities.

BRAD BALL (ph), PRUDENTIAL SECURITIES: Thanks. Dave, could you go through and just give us a sense as to what the impact from each of the three components of adjustments are, again, 26 million in the first half, how is that divided up amongst the three, and also could you comment on the conversations that you've had with your regulators, relating to these adjustments, where do you stand with your bank regulators at this point in time?

DAVID SCHOENHOLZ: Brad, the combined effect of each of these issues is about equal, and so in evaluating that, I think you could take that as a rule of thumb. With respect to the bank regulators, we have had conversations with them, as these issues have unfolded. We had excess--and obviously, we will have some changes as it relates to bank call (ph) reports. We had excess capital in the banks prior to these issues, we will have excess capital in the banks after these issues, and so, don't view that, that there's no additional tag-along capital effect associated with that, I think the bank regulators have a good and thorough understanding of the nature of these items, that they are very technical. That they are contained to certain agreements and don't relate to the wider, broader scope of operations. That they relate to very old agreements that, in some cases, have been look at, reviewed and signed off in the past. And so I don't see any additional complexities arising from anything which related to the bank regulators.

BRAD BALL (ph): Thanks.

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OPERATOR: Thank you. From Goldman Sachs, we have Michael Hodes (ph) .

BOB HOBINSON (ph), GOLDMAN SACHS: It's actually Bob Hobinson (ph) . Just following up on that last question, with respect to the large affinity purchased premium and, you know, expensing the, you know, the premium, you mentioned that you had revised the accounting to conform to regulatory accounting. Is there an implication, in any way that the, you know, regulators have looked at your accounting and, you know, that there is some other agreement or anything beyond the change in this accounting as it reflects agreements or any developments with regulators whatsoever?

DAVID SCHOENHOLZ: Bob, the first point, in discussions with this issue, on the accounting aspects of it - and again, the technical accounting aspects of it - has been thoroughly discussed with the regulators and I believe that they have no issues with that, would consider that an issue to kind of get behind this. It doesn't have ongoing impact, no impact on capital.

As it - as it relates to other types of understandings or some competitors in the industry talking about informal MOUs or formal MOUs and so forth, we are operating under no such agreements. We were operating under no such agreements before. None of this is of a nature that would prompt that. And so, anything that could be construed as an MOU or enforcement action or something similar to that nature, we do not have that situation with any of our bank regulators.

BOB HOBINSON (ph): And, Dave, just for the record, who is your principal bank regulator and when did they complete their last exam?

DAVID SCHOENHOLZ: We are regulated by the OCC, as it relates to our credit card business. And so, to some extent, you know, that is probably - I can't say it's the principal regulator, but our credit card business is the bigger part of our business in regulated entities. We have a thrift that we have been de-emphasizing over the last several years. However, the OTS (ph) office of supervision still has regulatory oversight over that thrift. As I indicated, that has not been a major source of activity and ongoing operations. Clearly, the FDIC is a backup regulator in both cases, although we don't take - you know, we stopped taking FDIC insured deposits several years ago. And so, they are not - I don't want to say they're not as active, but they're - we just don't present the same types of issues to them as somebody else might do.

As far as audit exams, the OTS completed their most recent exam in the spring - spring of 2002. And the OCC has, actually, has completed their exam also in the spring, Bob (ph) .

BOB HOBINSON (ph): OK. Thank you.

DAVID SCHOENHOLZ: I'd like to just make a comment if I can. Somebody - I think Dave McGowen (ph) had earlier asked about ratings and so forth and obviously we need to respect the right of the agencies to make their own announcement and speak for themselves. But it just indicated that pitcher's (ph) announcement is on the wire reaffirming our ratings.

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OPERATOR: Thank you. We'll hear next from Mark Alpert (ph) with Deutsche Bank.

MARK ALPERT (ph), DEUTSCHE BANK: A couple of questions. Number one, why did you decide to increase the targeted capital as opposed to leaving it where it was? And, number two, among the areas of I guess some controversy in the past have been the charge off policies on some of your products and I was wondering if the KPMG review included a review of all your charge off policies?

DAVID SCHOENHOLZ: Let's take the latter question first. There has been questions about current accounting (ph) policies or reage (ph) issues or all that kind of stuff. There's also been questions about securitization accounting and that type of stuff.

As I indicated and as Bill reiterated KPMG has in fact looked at that very thoroughly and I can assure you that it has been very thorough. And they are completed satisfied with all of those issues including how we establish and maintain our loan (inaudible) . And so our hope would be that this - their thorough review and certainly so people can get a sense of how they have looked at this very thoroughly and can take those issues (inaudible) table.

With respect to capital issues I think it is an uncertain time in the markets and I think that there can be skittish markets and I think it's up to us to absolutely communicate to investors, fixed income investors and equity investors as we are committed to the ratings, that we stand by our commitments to all of our investors that we have we understand that the bond holders need to be protected.

And so our sense was that as a statement of support and as a statement of commitment in this marketplace the right thing to do (inaudible) more conservative and so (inaudible) make up a little bit more than we lost.

MARK ALPERT (ph): Thank you.

OPERATOR: Thank you. We'll now here from Trevor Bateman (ph) with CIBC World Markets.

TREVOR BATEMAN (ph), CIBC WORLD MARKETS: Hi. You said that your target for 2002 in terms of capital ratios was eight-and-a-half percent. Any thoughts to where you would like to see it in 2003? And are you able to comment on any operating trends in your consumer portfolio in the third quarter so far?

DAVID SCHOENHOLZ: I don't think we've looked beyond the 2002 targets. So it would be premature to comment on that. I think operating trends - you know the reality is the business is doing darn well. And I think growth is good, demand is good. As we've indicated before credit statistics have increased a bit but well within expectations.

And relative to the discussions of operating trends and credit trends

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we had when we announced second quarter earnings I would not deviate from any of the guidance or directions we gave at that time.

TREVOR BATEMAN (ph): Thank you.

OPERATOR: We'll hear next from Steve Eisman (ph) with Sylvan Asset Management (ph) .

STEVE EISMAN (ph), SYLVAN ASSET MANAGEMENT: Yes. My question's been answered already. Thank you.

OPERATOR: Thank you. From Circle T (ph) Partners, we have Meredith Whitney (ph) .

MEREDITH WHITNEY (ph), CIRCLE T PARTNERS: Hi, I have a couple of questions this morning. First of all, I just want to go over the capital raise. Is that going to be an internally generated capital raise statement in percent level. And then, my second question really is a larger issue, which is, I was concerned a few weeks ago with the management changes, and it looks as if not only is the auto portfolio called into question with Rocco's departure, but Rocco, as I understand, was managing these affinity and private label relationships, too.

Can you talk more broadly about -- is this -- was this a management problem and is that handled now, or -- was it not and did I just misunderstand the issue?

BILL ALDINGER: Hi, this is Bill, I'm going to take that question. Absolutely no management problem, issues in this process at all. As a company, we have a very well-defined process for succession review. I review the top 100 people with the senior management team twice a year, constantly asking the question, who's ready to move? How can we improve performance? And so forth. I also had with Rocco a talented executive who came on as part of an acquisition, very entrepreneurial guy, did a great job for us, but it was clear over the long run that he was not a guy who was going to be happy in a big, corporate environment forever. So we always knew it wouldn't be forever, and Rocco had talked to me many months ago about possibly stepping down. He also had some family issues which I'm not going to go into, but that built (ph) some of his decision.

So, there are no questions about the business there at all. I think we had told you we had issues last year and early part of this year, we thought it was getting back on track. As for the affinity group, that has been run for a couple of years, private label by Sandy Derickson (ph) , a very talented executive, and she has moved up to group executive level and taken on other parts of the company. So on Rocco's side, no issues. The other major change is sitting in the room here, Tom Dent (ph) , let you move up to take Gary Gilmer's place.

Gary has been with the company well north of 30 years, had told me over two years ago that he was going to retire at year end, he's sticking to that program. Fortunately, we have a lot of talent in place. And so I would say to you that all of you that when people make changes,

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people often worry, are there issues? The business is lagging? In this case, absolutely not. We're sticking to our projections for the year, and in many cases, when you make changes like this, it's a very energizing thing for the corporation, because a lot of people, layers below get to move up.

Also don't want to forget, and close with -- we also recognize David's performance by making him President of this company. So all done for positive reasons. We're not going to miss anything, not a beat, for the rest of the year.

MEREDITH WHITNEY (ph): Could I just follow up on that? Could you -- some of your competitors mentioned significant problems with their auto portfolio. Could you just update us on that and then finally on the injunction on Washington state?

BILL ALDINGER: Well, first of all, I mean, the injunction in Washington state, we put that in place because it was essentially a report that was -- as I understand it, on site at the time, we did not have a chance to put any response in place with that report. It was very inflammatory and highly inaccurate. And so we moved to have an injunction put in place. And my understanding is that that's been extended, and I believe with the support of Washington state as well. So I think that speaks for itself.

Now, your other question, with regard to auto, I'm going to turn to Dave.

DAVID SCHOENHOLZ: Let me just go back to one of your earlier comments, too. In the price of adjustments that we're talking about never related or reported up to Rocco, all of these agreements have been managed and under the responsibility of Bobby Maida (ph) , in the VISA MasterCard portfolio. With respect to the auto business, growth is reasonable, competition is rational, we have as we've indicated previously, we had moved to migrate some of the portfolio to more of a near-prime versus a sub-prime type of customer, and kind of improving the credit quality.

The underwriting has remained conservative and good. Earlier in the year, we did have some collection issues; I think, quite honestly, some of the growth that we had perhaps in 2000, 2001 caught up with some of the collections capabilities and capacity, we replaced the Operating heads, we've replaced the head of Collection, the people in there now, I think have that moving well, and so we remain comfortable with the type of auto business we're putting on the books, we remain comfortable with how we're collecting that business, and we remain comfortable with the growth for that. We have, as part of the overall portfolio, dialed down the growth a little bit in that business, just to make sure we've got the back end lined up in sync with the front end. I would just go back to the question; you also had a question about, where is the capital coming from.

When we generate a whole lot of capital from this business, I mean, as Bill mentioned, we are lucky to make this year by $2.2 to $2.3 billion, that's on a GAP basis, our cash earnings are higher than that. Where the capital is going to come from is by suspending the buy-back programs, so

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that will replenish itself fairly quickly. Where it will come from is by fine-tuning the balance sheet, as we had demonstrated before, market receptivity for our real estate product, both in terms of securitizations (ph) and home-loan sales, that we've got crossed out (ph) for bid now, in terms of home-loan sales, which will help those ratios, and finally, to the extent that it's appropriate and necessary to hit our targets, we will issue capital securities or common stock. But a lot of it will come from just the strong cash flows and capital generations and abilities of the business (ph) .

MEREDITH WHITNEY (ph): Okay, thanks very much.

OPERATOR: Thank you. Moving on to Vincent Daniel (ph) with KBW.

VINCENT DANIEL (ph), KBW: Question has been answered, thank you.

OPERATOR: Thank you, and if your question has been answered today, you can remove yourself from the queue by hitting the pound key. We will now hear from Joel Husk (ph) with Wachovia Securities.

JOEL HUSK (ph), WACHOVIA SECURITIES: Question has been answered, thanks.

OPERATOR: We will now move to Chris Blender (ph) with Legg Mason.

CHRIS BLENDER (ph), LEGG MASON: Hi, good morning, thank you. Couple questions. First, and this may be a better question for Ed, could you just talk about your access to securitization (ph) markets, maybe get a little more specific on what kind of securitization (ph) you're just planning on doing to offset your accessing the term markets, and what kind of products and what kind of response do you think you might be getting in the securitization (ph) market? Thanks.

EDGAR ANCONE (ph): Yes, glad to do that. We still have a number of securitizations (ph) , including, you know, about $2 1/2 billion still planned for this quarter. I think what we've seen is continued improvement in the demand for our ADS (ph) product, and I think that comes really from the resources, most importantly, that the market itself is looking for the kind of product that we provide, and clearly, as there have been concerns in general around unsecured bond market on all fronts. Like ABS (ph) product has become a more acceptable and more widely invested in asset class. Second, as I think, as we move to a third party guarantee as well as senior substructure, we broaden that number of investors that we appeal to. And I think, finally, as we become more and more of an issuer of ABS (ph) , there's become more and more of a following. And that's particularly true on the real estate side.

And we had talked awhile back, in response to Fitch's (ph) comments earlier this year, that we were going to be issuing something like $12 billion of ABS (ph) this year, some number in that area. And that's still the number that we're committed to doing - sort of equally spread, kind of throughout the rest of the year. You know, and clearly, the levels, if you're thinking about, just in a cost of funds sense, the

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levels are well inside of where we - not only we've come in today's market, but even where we would have come in even past (ph) markets on an unsecured side. So, see if - a lot of demand for ABS (ph) (inaudible) with our capabilities to actually even do more, if that were necessary - although we don't see that - and, really, what we're talking about it doing the $12 billion - the -give or take, that we committed to in funding plans we described as marketplace earlier this year and to Fitch (ph) .

CHRIS BLENDER (ph): OK. Great. That's helpful. Any products that would be, do you think, maybe a little prohibitively expensive in this market or is your ABS (ph) excess, you know ...

EDGAR ANCONE (ph): No, I think we have - I think we have access across the board on everything that would autos, various kinds of real estate, credit card, private label, consumer loans - I think all those can get done.

CHRIS BLENDER (ph): OK. Good. The second question is for Dave. I think I heard you correctly saying your sub-prime percent in the credit card portfolio was only two percent. Was that your own internal definition or is that sort of a 6-60 FICO (ph) cut, similar to what Capital One received? And the second part of this question is, in your first quarter 10-Q - or first quarter Q, I believe you said that you moved $1.4 billion of capital into the bank to comply with the sub-prime guidelines. I'm not sure that would, really, sort of float with a two-percent sub-prime number. Can you help me out there a little bit?

DAVID SCHOENHOLZ: The two percent is the percentage of the HI portfolio in total. And as - that number includes our Renaissance (ph) business that we had acquired a couple of years ago and is, in essence, would consist - be consistent with the 6-60 (ph) guidance. These are the cards that have been originated and targeted to sub-prime borrowers.

The capital that we talked about before included both into the national bank and into the thrift and that relates to - and that was done based on their guidance and their interpretation of that, including real estate product in the thrift. So the capital requirement did not relate just to the national bank.

CHRIS BLENDER (ph): OK. Great. That's helpful. Thanks.

OPERATOR: And once again, if your question has been answered, you may remove yourself from the queue by hitting the pound key. We'll now hear from Ari Shockett (ph) with Millenium Partners.

ARI SHOCKETT (ph), MILLENIUM PARTNERS: Hi. Good morning. Can we just review what the current earnings guidance is? I just want to make sure I understand. Because at the investor conference, the guidance was, for EPS growth of 13-15 percent, but that included a buyback of one billion. Maybe if you could just go through how much of the billion has already been used or how much share - could you review how much share repurchases have been done up to this point and, perhaps, when you would expect to be resuming the share repurchases. And then, how the EPS guidance may be affected by that.

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DAVID SCHOENHOLZ: Let me start with the EPS guidance. If you look at the impact this year on - from these items, it was six cents in the first six months. I think it will be a little bit less than that in the second six months but let's say you double that. Our current view is that nothing else has changed and so people can - wherever people were before they can take and make those mental adjustments.

ARI SHOCKETT (ph): That's even with the buyback being suspended?

DAVID SCHOENHOLZ: That's a true statement.

ARI SHOCKETT (ph): Right.

DAVID SCHOENHOLZ: With respect to the buybacks, order may - and I'm hesitating because I don't have the precise number but order of magnitude I think we had done year to date about 250 to $300 million. I think in terms of when those would be resumed, we'll have to take a look at that in the future and I think you know our commitment is to get to those capital ratios and then we'll go back and look at you know cabbing (ph) buybacks.

And I think that is an integral part of taking and running this business on a go forward basis. So, clearly as demonstrated in the past we have managed those in a way not to frontload those and to manage those in a way absolutely compatible with hitting our capital targets.

ARI SHOCKETT (ph): When would you expect that your second quarter queue would be released?

DAVID SCHOENHOLZ: It was filed today.

ARI SHOCKETT (ph): The second quarter was?

DAVID SCHOENHOLZ: Yes.

ARI SHOCKETT (ph): OK. Thank you.

OPERATOR: Thank you very much. We'll now hear from Steve Eisman (ph) with Sylvan Asset Management (ph) .

STEVE EISMAN (ph): Yes. Hi. Just a question on - I just want to make sure I understand correctly that you said that you were not going to access the term market until the end of the year. So does that mean over the next several months all new loans will be funded through securitizations? And if that's the case how much does - it is not -or doesn't that increase the gain on sales component in your earnings over the next six months?

DAVID SCHOENHOLZ: No . . .

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UNIDENTIFIED PARTICIPANT: Steve (ph) . . .

STEVE EISMAN (ph): No.

DAVID SCHOENHOLZ: Steve (ph) , let me comment. What I said is that we were looking to the fourth quarter and so that really we're talking is probably you know 45 days or so. We will also - also talked about that being wholesale product and that we will be in September (ph) doing some retail product which has been well received.

I think the gain on sale issue is a great question because all of the - we talked about securitizations and increasing net volume we're talking about real estate secured product. And I think as people may be aware if not we've accounted for those as asset back financings.

And so there is no (inaudible) with that. And to the extent that we're looking at access to the asset back market as a way of lower cost funding demonstrating market receptivity, balancing our liquidity position that has no impact as it relates to gain on sale accounting.

STEVE EISMAN (ph): OK. Thank you.

DAVID SCHOENHOLZ: If I could add one other thing. I mean we said that we had currently not planned to go until the fourth quarter. I mean clearly if the market is great or something in September or whatever, then I think we'd certainly be considerate but that . . .

STEVE EISMAN (ph): Well I mean right now your debt is trading at about 350 over the curve. I'm sure it will widen today. So I mean it must . . .

DAVID SCHOENHOLZ: No . . .

STEVE EISMAN (ph): . . . narrow you're not going to be accessing the term market for quite a while.

DAVID SCHOENHOLZ: I understand that. I understand that and that's once again in the term institution market that's correct.

STEVE EISMAN (ph): OK. Thank you.

OPERATOR: Thank you. Our next question comes from Ohio's Teachers, Torrell Armstrong (ph) .

TORRELL ARMSTRONG (ph), OHIO'S TEACHERS: In general are these basically items that should have been expensed but were previously amortized over time? Is that kind of a general summary of the restatement?

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DAVID SCHOENHOLZ: I think they relate to different amortization periods, in that going back to the co-branding (ph) agreement, the amortized overhead life of the contract, the new auditors feel it should have been amortized over 12 months. The affinity issue relates to a difference in amortization period, and the marketing agreement also relates to a difference in amortization period, where we were accounting for it over the revenue-sharing period, and the current auditors think it should be done over a shorter period.

TORRELL ARMSTRONG (ph): Could you comment on the amount of time that's different between the revenue-sharing period and what the auditors thought? Did the auditors think that it should have been perhaps a little more conservative and done within, say, a 12-month time frame, but the revenue-sharing was something, a multiple of that?

DAVID SCHOENHOLZ: Revenue sharing period is three years, auditors have talked about anywhere from four to 12 months. I think what we've indicated is that to take -- make this very straightforward, is that at the timing a mailing is dropped, we will just take it all day one, and just avoid any further question about whether it should be four months, twelve months, or anything like that.

TORRELL ARMSTRONG (ph): OK, so you even went more conservative than the auditors' recommendation.

DAVID SCHOENHOLZ: I think our view is just to get this done, simple, resolved, and as transparent as possible.

TORRELL ARMSTRONG (ph): Thank you.

OPERATOR: Our next question comes from Michael Fudenstein (ph) with J.P. Morgan.

MICHAEL FUDENSTEIN (ph), J.P. MORGAN: Hi, good morning. Just a couple of questions here, and some of it will be repetitive, but I want to make sure I understand your answers correctly. With respect to the FFIEC, I think you pointed out in terms of sub-prime credit card lending that you didn't expect any material issues to come out of those guidelines. And I'm just wondering if you can give us any sense of whether you think the next move by the regulators might be to any other sub-prime products, and where your lending products reside, and where those loans reside, and whether that could be any sort of an issue.

Have there been any indications from them on that? And then I have a follow up.

DAVID SCHOENHOLZ: Michael, there has been no indication. We've had absolutely no conversations with any of our regulators that would suggest that. Phoneco's (ph) a product that we have -- well, let's talk about what's in the regulated entities. We have some credit cards in the regulated entities, and we have some first mortgages in the thrift (ph) that are winding down. And so I'm not aware of any issues that would

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come to light there, and we have certainly had no conversations with anybody on that.

MICHAEL FUDENSTEIN (ph): OK, great. And then with respect to re-aging, this has come up on the call, I just want to hear your answer again. I think what you said is your re-aging policies have been thoroughly reviewed at this point by your auditors, and they had no changes for you as a result of looking at those policies. Is that correct?

DAVID SCHOENHOLZ: True.

MICHAEL FUDENSTEIN (ph): OK, great. I also want to just understand, in terms of the -- some of the changes related to credit card, I'm trying to understand why there's lumpiness there in terms of why it seems like the first quarter and second quarter numbers aren't even in terms of the impact. Could you explain that?

DAVID SCHOENHOLZ: It goes back to the prior question, Michael, in that it depends on timing of marketing expenses. So to the extent that we've said we're not going to amortize them, and just record them, you know you have seasonal variability in terms of when you will drop different campaigns, and so in the first quarter, we did more than in the second quarter.

MICHAEL FUDENSTEIN (ph): Okay, so then, in thinking about the, sort of the full year impact of it, you're saying you expect some similar (ph) seasonality, in fact, maybe it will be, you know, again, third quarter, fourth quarter seasonality that way as well?

DAVID SCHOENHOLZ: No, I think that I would go back to the comment that Bill made earlier that we've estimated a full-year impact of all this stuff, make good and sure that we understand that it's all of this stuff, to be $35 to $45 million for the full year, and as you can see in the disclosures, 26 million of that was year-to-date. Now, let's say we're off on the 35 or 45, and you double it, but it gives you some kind of sense of order of magnitude.

MICHAEL FUDENSTEIN (ph): Well I guess I'm trying to get to, since it's lumpy, I'm trying to get to whether a lot of it will show up in one quarter versus the other, based on when you dropped mail.

DAVID SCHOENHOLZ: Michael, I can't tell you that right now. I--off the top of my head, I can't remember what the exact timing is of the credit card mail drops between third and fourth quarter.

MICHAEL FUDENSTEIN (ph): And it also varies on success, Michael, so while we have a broad plan, if the mailings are more successful, we do more, if they're less successful, we back off, and do more testing. So it's really hard to be that precise. And just using a rule of thumb and just doubling it, is a pretty safe way to look at it.

DAVID SCHOENHOLZ: My directional sense, Michael, on that, is that it's going to be more of a fourth quarter than third, just to the extent

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that, you know, what you want to do is drop late in the year to kind of see early growth in your earning assets for the following year.

MICHAEL FUDENSTEIN (ph): Okay. And then I wanted just to make sure I heard something else you said before, Dave, which was, I think I heard you say your auditors, KPMG, have committed in writing to your audit committee a few days ago, I guess, that there were no other material changes coming from their audit. Is that correct?

DAVID SCHOENHOLZ: They indicated, in writing, to the audit committee yesterday that they had completed the most judgmental--and that they had--put it this way, that they had planned to do their work to aggress the most judgmental or sensitive issues first, and that included the things I talked about, credit loss policies, loss reserving, securitization (ph) accounting, income tax accounting, reserving for litigation matters, you know, all of this kind of stuff that comes from partnership agreements, and that they had finished that work, and that they have no other issues to talk about, so I take that as a pretty firm commitment on their part, and clearly, when they talked to our audit committee, our audit committee wanted a very firm assurance as having had to go through this situation once, that we don't want to go through this again.

MICHAEL FUDENSTEIN (ph): Okay, great. And then my last question is just, you know, you gave us a little bit of color on what you're doing with respect to lending practices, which I felt was helpful, and I'm just trying to get a sense if you can give us one, of what sort of litigation timetable that there is, are there any major decisions coming up that we need to be aware of, or any--so if you could give us an update on that?

BILL ALDINGER: Michael, this is Bill, I'm going to step in there, and I think that there are a couple of things that you're really hitting, and it's not just litigation, it's impact to the model based upon all that's going on in the state and the Federal Government and so forth, and I think--I think, let me tick off a couple of things. First of all, there were two Acorn (ph) suits, one in California, I think one in Illinois. Neither one has been certified as a class action. We think both are groundless. We think we're going to win both. Don't know what the timetable is, but we don't think there's any real issue there. And we're going to challenge that and win, I believe.

I think second thing is, with regard to states, we now have 21 states that have put in place so-called predatory lending legislation in the last year and that includes California and New York. And that has had virtually no impact on our operating model because of our best practices. And in some cases, it has actually helped up to do better because it gets rid of some of the bad actors, fringe players, people who do a lot of the things like loan flipping and so forth.

So, the legislation I would anticipate, will continue at a rapid pace. It's very topical. We could have 50 states do it. Again, because we believe we're well positioned and to date clearly have seen the model has not been impacted, we think we're OK there. Two other points - federal legislation is our goal next year. We don't think it can be done in this year. That would make it a lot easier to work with. One

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umbrella, one set of rules and, over time, we think we'll get there. Finally, with regard to other litigation, I would say there's no timetable that I can talk to and I probably can't be more specific than that.

DAVID SCHOENHOLZ: Bill, if I could just make one comment. I'd like to go back to the rim (ph) - there's a point that Tom Detelich made in that, you know, these issues that have been brought up and clearly, with community groups kind of stirring the pot and so forth - not to say that we haven't had some isolated issues. But the things we're talking about are isolated and they're old. And so, these are not new incidents. These are not new events. This is not new actions. This is, I believe, a rehashing of things. And the point that Tom made, that we had some loan problems - largely in 2000, a couple in early 2001 - I would hope people could understand that isolated, old - and we have worked significantly to get those issues behind us - and you know, shame on us for having some of those issues. But, going forward, we think we've got that pretty darn well boxed.

MICHAEL FUDENSTEIN (ph): OK. And then, if I could just follow up with one last question which would be have you had any outside firms come in and take a look at your lending practices across the company to see whether there were any changes that we would be required. I know you've hired, for example, somebody to be a compliance offer who's now reporting directly to Bill. Has there been anybody to come in and look at your practices across the organization?

DAVID SCHOENHOLZ: Michael, the new compliance has, very appropriately, has brought in some consultants to help him get up to speed very quickly and that process is underway.

BILL ALDINGER: And I would say that will be an ongoing part of our practice to get an outside evaluation of own - for our own purposes.

MICHAEL FUDENSTEIN (ph): OK. Thank you.

OPERATOR: Thank you. Now, from Banc of America Securities, we have Christina Clark (ph) .

CHRISTINA CLARK (ph), BANC OF AMERICA SECURITIES: Yes. Hi. Thanks so much. I was wondering if you could repeat again the undrawn credit facilities amount - the conduit facilities, I'm sorry. And then, also, what percentage of the total credit card exposure lies within the banks?

UNIDENTIFIED PARTICIPANT: Well, relative to the conduits, we've got a bit over $4 billion - over (ph) $3 billion of undrawn capacity with assets in place, which is, you know, much larger than the sort of the net - a CP (ph) net of liquid investments to be stand today, (inaudible) on a credit card.

UNIDENTIFIED PARTICIPANT: All of the Visa MasterCard products are originated in the bank and as we've disclosed the accounts are in the

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bank and then the balances are sold to 860 (ph) as the holding company of the bank.

CHRISTINA CLARK (ph): So are there any actual loans that the balances reside within the bank or it is just the account?

UNIDENTIFIED PARTICIPANT: Just the accounts.

CHRISTINA CLARK (ph): OK.

OPERATOR: our next question comes from Mike Wolgavero (ph) with Atlantic Asset Management.

MIKE WOLGAVERO (ph), ATLANTIC ASSET MANAGEMENT: Yes, hi. Given I guess the, you know, the hostile market for term debt, do you have, and your plans I guess to issue in the fourth quarter, what are your contingency plans if this market's closed to you?

UNIDENTIFIED PARTICIPANT: I think we've got ample capacity in the ABS side to do more public appeals and I think there's a market capacity to do that. And I also think I'll leave it to retail market to be very, very strong throughout the year. We, you know, without really stretching in terms of price, you know, sort of easily write $200 million a week, and I think that, and you know, and our current plans envision issuances less than those levels. So and we got weeks where we've been double that. So my only point I think is that I think there's a lot of options in the term market to replace all of the (inaudible) issuance and we expect that would prove necessary.

MIKE WOLGAVERO (ph): And one last thing. You know, I guess, this is probably all part of the same thing. I guess you're targeting, you know, maintaining a strong single A ratings. Do you think that's enough in this environment or do you need to do more? Is there, you know, some, you know, magic to that single A?

UNIDENTIFIED PARTICIPANT: Well obviously, the magic that a mid-single A is the A1, T1, F1 (ph) rating. That's one magical thing about it. I think that, in the longer haul and clearly, you know, we understand that it would be a good thing to get upgraded, but I think that, and I think that when we say upgrade, we're talking about a notch, sort of the A plus, A1, kind of, type thing. I don't believe in this environment, it's realistic to be focused on that today or to count on that as something that's going to happen. You know, clearly we're in an economic, you know, to start with, we're in an economic environment, in an economy that's, you know, out, it's unclear where the economy's going. I think everybody is conservative and rightfully so. So I think, you know, sitting today where we are, you know, I think the mid single A's, what we need to defend and this company is committed at all levels to doing that.

MIKE WOLGAVERO (ph): Thank you.

OPERATOR: Matt Bernell (ph) with Merrill Lynch has our next question.

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MATT BERNELL (ph), MERRILL LYNCH: Thank you. Most of my questions have been answered, but Edgar (ph) , let me ask another question on funding. In terms of CPXS (ph) , obviously, you have a great deal of open space between what your CP (ph) outstandings are now, relative to your bank line. What has been the receptivity of the market to your CP (ph) recently, and do you think there's, do you have plans to ramp that up in any sort of meaningful way over the next six months.

EDGAR ANCONE (ph): I think the answer is, there is a tremendous amount of receptivity. On days that we have light days, we literally are, you know, (inaudible) under priced relative to the market and still sort of trying to keep people away.

Having said that, I think, and given the fact that the market and as you're well aware, a lot of investors out there don't know what to do with their money, so they want to keep it short. The comment I would say is that despite that receptivity and the ability to place, you know, up to our bank back stops quite easily, is certainly something that we're not planning to do. I think that in this (inaudible) where (inaudible) , focused on it and the long-term, not that the term end of the market is naturally focused on over reliance on short-term, it's certainly not something that I plan to do.

MATT BERNELL (ph): Let me ask a follow-up question to Dave (ph) , on the 660 FICO (ph) , obviously Household doesn't use FICO (ph) as its only credit determinant when making loans, but I want to get a better sense of the sub-prime portfolio relative to that 660 FICO (ph) . You've said that, you said earlier that it's consistent. Could you put a little more meat on the bones of that comment in terms of, you know, what, you know, what the FICO's (ph) are relative to the regulators guidelines that have obviously come out recently?

DAVID SCHOENHOLZ: Matt, if we take the credit card program, I can't give you the exact statistics, but if you look, the regulator guidelines talk about programs that target customers that are in those categories, so it really does talk about targeting those customers.

For (inaudible) credit card portfolio is a prime, super prime portfolio to the extent that there are customers that there are customers who have migrated down and would be (inaudible) 660 (ph) I don't know, but that it not the primary focus of (inaudible) . The (inaudible) Affinity (ph) program is largely a prime portfolio that has collective pockets where you have apprentice programs start of credit programs, where you would have some 660 (ph) , but that is not primarily a sub-prime target (inaudible) program.

In credit cards states, where we're (inaudible) area to target it in largely in the Renaissance business and as I indicated it, you know, that order of magnitude is about two percent of the total HI (ph) portfolio.

Clearly in the auto space, we've said about roughly 40 percent of the auto portfolio would be sub prime with the rest near prime. Directionally that's about right.

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In terms of private label programs, the average (inaudible) that portfolio in total would probably be north of 700. And then you come back into the basic consumer lending portfolio originated in (inaudible) beneficial. And I mean, clearly, that (inaudible) 660 FICO (ph) is a big part of that portfolio. I think the important part (inaudible) , feedback here. I think the important part is that the sub prime guidelines also talk about mitigating issues including collateral and so the biggest part of our consumer lending brand-based business, which would be targeted to that type of borrower is secured by collateral and so I think that's the mitigating factor.

MATT BERNELL (ph): OK, that's good color, and one final question. Related to the private label business, you've had no regulatory with that related to the sub prime, the recent sub prime FFIZ (ph) guidelines. Have you?

DAVID SCHOENHOLZ: We have not.

MATT BERNELL (ph): Great, thanks very much.

OPERATOR: Thank you. Moving on to Steve Farley (ph) with Farley Capital.

STEVE FARLEY (ph), FARLEY CAPITAL: Yes, question for Bill Aldinger, which is I think it's the heart of this. Bill, since you've come to Household, you've made a lot of cultural change there and with the announcement today, there's issues that preceded you at Household and some that have happened during your watch, and I'm trying to reconcile your statement in this call, that basically you don't think you've got a cultural problem or a management problem with the fact that these financials, although approved by your accountant, were in fact prepared by your management team, and then just, could you reconcile that? I mean, I know a lot of companies out there are saying, basically, the auditors made me do it, on the restatement, but I think those of us who respect you as much as we do expect a little bit more than that from you.

BILL ALDINGER: Well, I have to tell you, I feel like we made the right decisions at the right time. I don't think there was any effort to gain (ph) the system, we clearly thought it out, discussed it with our prior auditors at length, we have a very sophisticated audit committee, headed by a former Vice Chairman of one of the big eight firms, who actively participated, and so there was--frankly, we're surprised, I guess reasonable people can differ. I am frustrated by this, but we have to take our lumps. I don't think there's any culture that says we're cutting corners; I'm very confident we have a great team with high ethics, and I think the record shows that, and when you look at all this, the difference after this restatement is that the actual numbers, 21.8 compound earnings growth for eight years, versus 22 percent before the restatement. So either way, we've delivered great results, and we wouldn't try to, quote, cook the books, to improve our rate by two-tenths of one percent. So, I'm embarrassed, I don't want to be in this position, it's been a tough few days for me, it's going to be a tough few weeks, probably, after the public as well, but the bottom line is, we're a good group of people, this is a high quality team, high

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ethics, and I can't say more than that. I do have much stronger feelings, that which I can't say right now. But in any event, I don't know if I've answered your questions yet.

STEVE FARLEY (ph): Yeah, thank you.

OPERATOR: Thank you. Now, from UBS Warburg, we have Eric Watherstrom (ph) .

ERIC WATHERSTROM (ph), UBS WARBURG: Thanks. Dave, there was just one--the one issue that I'm not quite clear on is, where does the 30-point dip in the total equity to total tangible match (ph) actually derive from?

DAVID SCHOENHOLZ: Yeah, it's part of this restatement. You go back to periods going back to 1994, and the cumulative effect of each period's income statement restatement adds up to $386 million, as indicated in the press release, and as also will be indicated in the 10Q, or is indicated in the 10Q. If you take that cumulative effect, as of June 30, and use that to run through the numbers on the June 30, 2002 balance sheet, that's how you would get the capital ratio impact.

ERIC WATHERSTROM (ph): Okay. So, in addition--in other words, in addition to the--or outside of the difference to retained earnings, there is no other item out there that's impacting the capital ratio?

DAVID SCHOENHOLZ: Correct.

ERIC WATHERSTROM (ph): Okay, thank you.

OPERATOR: Our next question will come from Henry Wong (ph) with John Hancock Financial, but before we take his question, I'd like to remind our audience, if you do have a question today, please press star one. Mr. Wong (ph) , please go ahead, your line is open.

JANICE MCDONOUGH (ph), JOHN HANCOCK FINANCIAL: Actually, this is Janice McDonough (ph) , good morning. Just a couple of questions please. With regard to the three components of your restatement, I was wondering if we could just get a little bit more detail? You gave us great detail on the last one, which was the third party marketing agreement, when you said that you previously had expensed them over three years. Your auditors required four to 12 months and you decided to do it immediately. Could you give us equally as good color on the co-branding component as well as the affinity group issue?

DAVID SCHOENHOLZ: On the co-branded, what we've indicated is that we have amortized it over the life of the contract.

JANICE MCDONOUGH (ph): Yes.

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DAVID SCHOENHOLZ: We've not disclosed the life of the contract, previously based on agreements with our partner.

JANICE MCDONOUGH (ph): Yes.

DAVID SCHOENHOLZ: So I don't think I think I can do that here.

JANICE MCDONOUGH (ph): OK. But though previous it was life of contract and the auditors required ...

DAVID SCHOENHOLZ: Twelve months.

JANICE MCDONOUGH (ph): And then you're going to do?

DAVID SCHOENHOLZ: Twelve months.

JANICE MCDONOUGH (ph): OK. And on the other one?

DAVID SCHOENHOLZ: The other one - it - the other one, I would say, can - related to saying that the - it relates to accounting for -conforming the accounting to what we do for regulatory accounting purposes.

JANICE MCDONOUGH (ph): Right.

DAVID SCHOENHOLZ: And probably, in the simplest terms, it would talk about amortization periods of shortening it up from roughly 12 years - or 13 years, I believe it is, to ten.

JANICE MCDONOUGH (ph): OK.

DAVID SCHOENHOLZ: That's a bit oversimplified because of - it's a bit oversimplified, but that would give you kind of the magnitude.

JANICE MCDONOUGH (ph): OK. And if I may, one additional question. With regard to your tapping of secure - you know, increasing your presence in the securitization market, what sort of limits, when you think of your entire funding program, do you put to your securitization activities and what have the rating agencies indicated that they are comfortable with?

EDGAR ANCONE (ph): Janice (ph) , if I can take it. It's Edgar.

JANICE MCDONOUGH (ph): Hi, Edgar.

EDGAR ANCONE (ph): I think that, as you're well aware, in fact, Fitch (ph) asked us to step up the base of securitization. And, if fact, I think when we talked earlier in the year to the market in general and, I know, in various meetings that we had back in the winter, we, in fact

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indicated we would securitizing something in the order of let's say $12 billion, give or take a few one way or the other, for this year. So, I think that's what we're going to continue to do. And that is the plan that we talked about this morning.

I think that we are well under levels that the agencies are concerned about, relative to securitization as a percentage of total funding. One of the main reasons for that is that we securitize all products and that we securitize and represent and sample the products. So you don't have the issue of cherry picking, which, you know, is we're very sensitive to as undermining the position beyond secured debt holder.

JANICE MCDONOUGH (ph): Right. I guess, Edgar, is it safe to say that you're going to be sort of in the 25 percent limit, then, for securitizations of total funding or ...

EDGAR ANCONE (ph): I think it - I think it - I think it could be a little bit higher than that. But I don't, you know, at one time, we were over 40. I don't think you're going to see us at that level.

JANICE MCDONOUGH (ph): Thank you very much.

OPERATOR: Thank you. We'll now hear from Barry Cohen (ph) with Maverick (ph) Capital.

BARRY COHEN (ph), MAVERICK CAPITAL: Hi. Just a couple of very quick simple questions. First off, can you tell me like what percentage of your portfolio is enrolled in your Easy Pay (ph) product?

DAVID SCHOENHOLZ: Tom, can you ...

TOM DETELICH: I believe it's - depending on the product, it's something less than 20 percent.

BARRY COHEN (ph): OK. And maybe you could tell me what's the dollar of excess capital that now resides at the bank.

DAVID SCHOENHOLZ: It is in the -- I can't give you the exact number, but it would be in the hundreds of millions.

BARRY COHEN (ph): OK. What percentage of your balance sheet funding, forgetting for a moment whether it's commercial paper or other, is less than 360 days?

DAVID SCHOENHOLZ: Think it's about -- it's something like 20 percent. I'm going to say it's about 18.5, something like that, including CP.

BARRY COHEN (ph): Now, is that net of swap agreements?

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DAVID SCHOENHOLZ: Net of swap -- I mean, so that's -- you asked for how much debt was maturing in the next year at HFC?

BARRY COHEN (ph): Yes.

DAVID SCHOENHOLZ: Yes, so that's sort of ...

BARRY COHEN (ph): On a net basis.

DAVID SCHOENHOLZ: On a -- I'm sorry, on a net basis?

BARRY COHEN (ph): Well, I didn't know how much of it may be coming from, like, longer durations that have been swapped out. I'm just trying to understand.

DAVID SCHOENHOLZ: I think the maturity profile over the next year of debt is something in the order of, you know, $12, $13 billion, coming off.

BARRY COHEN (ph): OK.

DAVID SCHOENHOLZ: But, I guess, I didn't understand the swap thing.

BARRY COHEN (ph): It's no big deal. I'll get into it with you guys later. I'm not going to ...

DAVID SCHOENHOLZ: OK.

BARRY COHEN (ph): It's been a long call and I don't want to belabor anything. Can you give a sense as to -- when we look at, like, let's say, if there such a thing as an average home equity loan, what the average points and fees are that are in the home equity loan for you guys?

DAVID SCHOENHOLZ: That depends on the state. Points and fees are regulated at the state level.

BARRY COHEN (ph): Right.

DAVID SCHOENHOLZ: So they're anywhere from zero to 7.5 today. But as you know, we announced in our best practices, which are effective beginning in September, in fact, September 8th, that we're reducing the total points to three origination points maximum, and two discount points. And that will be rolled out across the country by the end of this year.

BARRY COHEN (ph): OK, and so that's a total of five max, but where does it now stand in your portfolio?

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DAVID SCHOENHOLZ: It's somewhere in the six percent range, I believe.

BARRY COHEN (ph): OK. And the final question is, is that I know someone asked earlier in the call about your estimates and the changes in, essentially, the buy back program, and as for these changes for the accounting policies, you've kind of reconfirmed consensus. I was wondering, given that only about a third of the repurchase has taken place, can you give us a sense as to changes in the P&L structure that might be taking place in order to meet those earnings guidance? Whether it's a change in some of your expenses and what those may be, if it's expectations for a gain on sale, what might be happening to, you know, kind of offset some of the negative impact of no repo?

DAVID SCHOENHOLZ: Well, we had -- compared to some of the original expectations, the first thing you have to look at is that margins have been stronger from a -- the rate environment. Volumes have been stronger than what we thought, and credit has been better than what our expectations are. The other area, it relates to improved efficiency, where, as we've always indicated, that that is a lever that we can pull, depending on how the year unfolds. And what you'll be seeing is some -- or what we are seeing is some improved efficiency that is dropping to the bottom line. It is not related to gain on sale. I think we had talked about that issue earlier.

BARRY COHEN (ph): I guess then, maybe, one final question. Is there any discussion, or, you know, maybe you could discuss your lobbying efforts at the state level for essentially the, you know, the practice that -- I know it's somewhat widespread, and that's generally the defense of it. But essentially the back end points which guard against refinancing? And I was wondering if you could maybe kind of like discuss if there's any discussion about that.

BILL ALDINGER: Do you mean pre-payment penalties, there?

BARRY COHEN (ph): Yes I do.

BILL ALDINGER: Well, we use pre-payment penalties. Something we (ph) do to pre-payment penalties, we have for the last four or five years, and again, we think they're appropriate, because we have a cost up front to bring that customer in, and so -- and we also lock in the funds in terms of the funding for the loan. So we think they're appropriate. We're going to continue to use them as certainly as long as they're legal. And Tom, if you want to make any other comments, or Dave.

UNIDENTIFIED PARTICIPANT: Yes, I would like to comment. Bill pointed out that legislation has already been passed in 21 states. I'd say in the vast majority of those 21 states, the pre-payment penalty that we've announced in our best practices falls within the limits of the legislation of those 21 states have -- and in fact, I think our pre-payment penalty will stand up in most state legislation. We'd like to lobby in the federal legislation as well, but that remains to be seen.

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BARRY COHEN (ph): OK, great. Well, I appreciate your help. Thanks so much.

DAVID SCHOENHOLZ: Thanks.

OPERATOR: Thank you. We'll now hear from Vincent Daniel (ph) with KBW.

VINCENT DANIEL (ph): Question's been answered again, thanks.

OPERATOR: Thank you very much. Our next question comes from Sajid Ladiwallow (ph) Merrill Lynch.

SAJID LADIWALLOW (ph), MERRILL LYNCH: Hi, I just had a question on the fact that the $386 million is yet remaining despite the fact that the initial amortization was three years. So wouldn't it just be a timing issue that most of it would have been wiped by now in terms of the original agreement was 92 and there was another 96, I believe, in '99. So it seems that there's an ongoing -- new expenses being incurred that were also being amortized that are much longer time frame.

BILL ALDINGER: All of the program -- the initial accounting, for instance, for the co-branding programs starting back in '93, '94, was followed consistent with that. So to the point that there were new originations that were being amortized over the remaining life of the contract, that's absolutely a true statement.

SAJID LADIWALLOW (ph): OK. So the $386 million, to the extent it was a timing issue, represents most of the stuff that was -- most of the capitalization that took place over the last three years.

BILL ALDINGER: It -- of that amount, probably a little more than half was over the last three years, and the rest before. You can see the exact impacts of that are included in the press release table where we pushed the restatement effects by year, and you can calculate it from there.

SAJID LADIWALLOW (ph): OK, was just trying to understand the average length of the amortization, which would tell us, you know, how much of it would have been timing and would have been caught up as opposed to what extent was the amount being amortized even as recently as last year.

BILL ALDINGER: To the extent that you had had mail drops (ph) , and under the marketing agreement last year, you would have some of that issue. Your point on timing is a good point, though, is that to some extent there will be a benefit in the future periods to the extent that these items have now been written off and you won't have the effects of that amortization going forward.

SAJID LADIWALLOW (ph): OK, all right. Thank you.

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OPERATOR: Thank you. From Goldman Sachs, our next question comes from Maria Tangonibon (ph) .

MARIA TANGONIBON (ph), GOLDMAN SACHS: (inaudible) ... the CP side. If you could just tell us what kind of funding costs you're getting there. And then second, if you could review in terms of issuance how much you've issued so far this year in the ABS market versus the unsecured market, including the retail NPN (ph) market?

DAVID SCHOENHOLZ: Sure. CP (ph) market, we are kind of, you know, sub-libor, continue to be sub-libor, if not--you know, if anything, I've seen very strong pricing, I think in year-to-date, in terms of the retail, we've issued a little over $4 billion in retail NPN (ph) s in the United States. We've doing a bit over $13 billion in institutional debt worldwide, and on the ABS (ph) side, we've done, you know, $4 1/2 billion in public ABS (ph) .

MARIA TANGONIBON (ph): If you could just clarify, again, I know we've asked this question a number of times, but just in terms of issuance plans for the fourth quarter, if you could just talk about what you're thinking that amount may be in terms of the term-debt market.

DAVID SCHOENHOLZ: I think that in terms of the term-debt institution market, Europe and the U.S. and Asia, you know, is something around the order of $3 billion, and another couple of billion dollars in retail intents (ph) to the United States. And that's, you know, between September and on in the retail side, and the institution side we will see if the market develops.

MARIA TANGONIBON (ph): I mean, you know, thus far, I mean, as you mentioned earlier, the spreads have widened significantly, but this far, in terms of funding costs that you have currently, how much of an impact has that had on Household?

DAVID SCHOENHOLZ: Let me comment that that has had really no impact, as we indicated earlier, we had pre-funded, and I think that this environment, when the markets are attractive, that you want to pre-fund, and get some of that behind you. I think, if the current spread stays for the rest of the year, and we did the funding plans that Edgar talked about, you're tossing in a number somewhere around $10 million type of impact, so not a very large impact.

MARIA TANGONIBON (ph): I'm sorry, 10 million for the whole year?

DAVID SCHOENHOLZ: Correct.

EDGAR ANCONE (ph): For the remainder of this year.

DAVID SCHOENHOLZ: For the remainder of ...

MARIA TANGONIBON (ph): For the remainder of the year? Okay.

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EDGAR ANCONE (ph): Just to give people who are not followers of the ABS (ph) market some idea of differential, just to think about, in an auto deal, for instance, if you said today, we came into the unsecured market, we'd be, you know, libor plus, you know, 250 or something like that, and unsecured, we're going to be at, sort of, you know, libor plus 30s, you know, in autos, or in real estate or something like that, in a comparable thing, so there's more than 200 basis point differential in those funding costs, and I think that's an important expense (ph) to keep in mind. Also, while we're on the fixed income side, just to point out, S&P (ph) is also reaffirmed on the wire, for those of you that are not watching it.

MARIA TANGONIBON (ph): Okay, thank you.

EDGAR ANCONE (ph): Sure.

OPERATOR: Thank you. Our next question comes from Eric Sell (ph) with Kazan (ph) Capital.

ERIC SELL (ph), KAZAN CAPITAL: Hi. I just wanted to get a sense of the assets that you hold on your--on the books, what--can you quantify how much of those are interest-only receivables, and as well as residual interest in the master chart (ph) ?

DAVID SCHOENHOLZ: Off the top of my head--I'd like to get back to you. The number is in the 10Q that will have been filed today, and if you'd like, we can get back to you. I just--the number is not a large number, we're talking one or two percent of total assets would be in that category, I'm just not sure what the precise number, but order, directionally, it's going to be in that one to two percent range.

ERIC SELL (ph): Okay. So most of the receivables, you just own on your books? Only unmanaged (ph) ? Okay.

DAVID SCHOENHOLZ: (inaudible)

ERIC SELL (ph): And then, can you characterize, of the overall receivables, as a percentage, you know, how many are--what percentage are mortgages, what are auto, and what percentage are credit-card receivables?

DAVID SCHOENHOLZ: Total secured, of the total managed portfolio is probably a little of--about 50 percent order of magnitude. Visa/MasterCard order of magnitude is about 15, 16 percent. Unsecured is probably 11, 12 percent, somewhere in there. And auto is probably about seven percent, with the remainder being private label credit cards. So, the vast majority of it has real estate security attached to it.

ERIC SELL (ph): OK. And as you - as you issue more CDOs (ph) or ABS (ph) securities, you will retain an interest or an interest-only receivable, will you not? So, what do you see, assuming that's true,

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what do you see the percent of your assets going towards as you issue more securitizations, going forward?

DAVID SCHOENHOLZ: I don't see that changing much because, you know, what we're talking about in an accounting sense for these transactions is accounting for them as a secured financing.

EDGAR ANCONE (ph): Yes. I - it's Edgar (ph) . If I could jump in. On the real estate side, we account for those secured financings, even though, legally, they're not. So, therefore, there's no gain on sales taken. And the vast majority of what we're talking about is an increase in the ABS (ph) program. And, once again, I'd reference you to the Fitch (ph) discussions earlier this year - was a - you know, they're asking us to emphasize an increase in the real estate side, which makes sense, given that's our largest asset category. So all of - none of those create any gain.

And if you think about the traditional IO problems on long dated securities, the long amortization type securities are the real estate ones, which are the ones we do not take gains on. So, if you talk about, you know, Visa/MasterCard and some of these have very short lives - and, frankly, those portfolios - there's not going to be a tremendous amount of increase in securitization because those are slower growing portfolios as well.

ERIC SELL (ph): OK. Thanks.

EDGAR ANCONE (ph): Sure.

OPERATOR: Our next question comes from Erica Berklin (ph) with Advantis (ph) Capital Management.

ERICA BERKLIN (ph), ADVANTIS CAPITAL MANAGEMENT: Hello. I have a question about the line item that is real estate secured high TB (ph) loans. I think it's in your other category. And my question there is how many of those loans were done in conjunction with the first mortgage?

DAVID SCHOENHOLZ: I didn't hear the question.

ERICA BERKLIN (ph): I - can you hear me at all?

EDGAR ANCONE (ph): Yes.

DAVID SCHOENHOLZ: I cannot - I didn't hear how you characterized when you said in the other category. What was ...

ERICA BERKLIN (ph): In the other - the real estate secured stuff. But the way that I perceived that line item is high LTB (ph) . So, it's the portion of the loan that goes over 100 percent. You get it sort of as additional security, but it's not really worth something from a secured standpoint. My question is ...

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DAVID SCHOENHOLZ: We understand.

ERICA BERKLIN (ph): OK.

DAVID SCHOENHOLZ: All right, Tom?

TOM DETELICH: Yes. I'm just going to have the number directionally corrected. This won't be the exact thing. About 25 percent of that product, which we call the personal homeowner loan, is attached to a - or is made in conjunction with the first mortgage. And it amounts to about two percent of the total receivables in the consumer loaning business.

ERICA BERKLIN (ph): And can you talk about the regulatory risk associated with those loans in particular?

TOM DETELICH: Well, we no longer make as of, I believe, it's June, a secure loan in conjunction with a first mortgage loan. We do offer, we've always offered, in conjunction with a first mortgage loan, either an unsecured or secured what we call side loan, second loan. If a customer's needs aren't met with the first mortgage loan, then we offer either secured or unsecured. We remove the secured loan as an offering only to they (ph) offer the unsecured loan.

ERICA BERKLIN (ph): OK. Thank you.

TOM DETELICH: You're welcome.

OPERATOR: Thank you. Moving onto Sam Crawford (ph) with Citi (ph) Group Asset Management.

SAM CRAWFORD (ph), CITI GROUP ASSET MANAGEMENT: Yes. One brief follow up, if I could, please. One brief follow up, if I could, please, on the predatory lending issue. You all have made it clear in the past how important you regard arbitration as a standard loan contract clause. And I'm wondering, without discussing the success with which you may or may not be able to defend that clause going forward, if we take the premise that clause has eroded in major markets, what does that have -- what sort of impact do you see that having in terms of either settlement, expenses, litigation expenses, ongoing business costs, for your lending?

BILL ALDINGER: Well, let's respond by saying we don't expect that to go away. It's used in virtually every financial services company in the United States, not just in the lending business. It's been upheld in 49 of the 50 states, as I know, and we don't anticipate that turning around. The Supreme Court, in fact, has endorsed arbitration clauses in the past. I think it's a great thing to see in the press about how poor consumers are deprived of their opportunities. The reality is, it's cheaper, it's faster, and we pay for the arbitration.

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So we think we've got the right arbitration clauses, we're going to continue to stand by those, and by the way, we've been in business 125 years, and even when we didn't have them, the litigation expenses didn't go off the charge. I think we'll be just fine.

OPERATOR: Was there anything further, Mr. Crawford (ph) ?

SAM CRAWFORD (ph): No, that's fine, thank you.

OPERATOR: Thank you. Mitchell Caps (ph) with Endeavor Capital has our next question.

MITCHELL CAPS (ph), ENDEAVOR CAPITAL: Question's been asked. Thanks.

OPERATOR: Thank you very much. Third Point's Dan Bowles (ph) has our next question.

DAN BOWLES (ph), THIRD POINT: Hello. Yes, a lot of talk is being made of the income statement impact, but no one's really talked that much about the balance sheet. And I noticed there was a decline on your restated balance sheet of approximately $600 million in other assets. And I was wondering if you could just walk us through that.

DAVID SCHOENHOLZ: Excuse me. If you take the -- what we described as a reduction of equity was $386 million, and if you were to in essence take -- that would be an after-tax (inaudible) because clearly there's a tax basis in all of these. And if you gross that up, that's basically going to be the $600 million you're talking about on the asset side.

DAN BOWLES (ph): Particularly (ph) is it today's restatement, which you characterize as a minor issue of 30 basis points of something that was obviously a very big denominator is really a half-billion dollar hiccup, if you will.

DAVID SCHOENHOLZ: I would characterize ...

DAN BOWLES (ph): I mean, I don't see how, you know, when you talked about this thing being a small matter of a difference of opinion, you know, I've heard of -- you know, I've had differences of opinion, but they're usually not over half a billion dollars. And I'm wondering how -- you know, you guys have seemed to minimize a major error here that involves something of such huge magnitude. I'm just wondering how something like this can happen.

DAVID SCHOENHOLZ: Well first of all, you're looking back over 12 years, or 10 years, since 1992. And during that time, we earned something like $10 billion, and that's after tax. So on a relative basis, on a balance sheet of $120 or 30 billion, it is not a huge piece. And I stand by my comments at the beginning.

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DAN BOWLES (ph): OK, but if you looked at it as a percentage of your tangible book value, it really isn't such an insignificant amount, it's about a five percent hit to your tangible book value.

DAVID SCHOENHOLZ: It takes exactly one quarter for us to make that up

DAN BOWLES (ph): OK, thanks very much.

OPERATOR: And as a final reminder to our audience, if you have a question today, please press the star key, followed by the digit one, on your touch-tone telephone. We'll now hear next from Dave McGowan (ph) with a follow up question.

DAVE MCGOWAN (ph): Very quickly, David, is the 600 million referred to in the previous question, the extent, in terms of framing this issue on the balance sheet the extent of the intangibles related to these three issues? And can you give us a feel for what's on the balance sheet as far as intangibles related to those areas?

DAVID SCHOENHOLZ: The 600 million is the total impact on the balance sheet characterized in other assets. Put that in perspective, that probably is about 6/10ths of one percent of the total managed assets of the company. The equity component, as we've indicated, is $386 million, that's about 3.5 percent of the total equity of the company. Tangible ratios -- the ratios on capital, as we've described, are about 30 basis points. The impact on earnings over the period for 2002 is 2.6. For the other periods, is under four percent.

The impact on the compound growth rate, as Bill indicated, if we were to look at what the compound growth rate before, it was 22.2 percent, adjusted as 21.8 percent, and those are the total, complete, relevant metrics for what it is, and then people can evaluate for that. But there is -- those are the facts. I would just make one last comment here in that we've been informed, you can see it on the wire that Mode's (ph) is on the wire now and they have also reaffirmed their rating.

DAVE MCGOWAN (ph): I guess much like auditors, reasonable people can differ on the implications on the size of these issues. Thanks a lot, guys.

OPERATOR: Thank you. Our next question will come from Don Lamon (ph) with Criterion Investment Management.

JOHN LAYMAN (ph), CRITERION INVESTMENT MANAGEMENT: Hi, this is John Laymen (ph) . A real quick question on your real estate portion of your managed assets, you said it's about 50 percent. Is that correct?

BILL ALDINGER: Correct.

JOHN LAYMAN (ph): OK. Could you just for educational purposes -- of

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the real estate portfolio, it's all secured. How much of that's first mortgage, second mortgage?

BILL ALDINGER: I think if you were to -- it varies a little bit by channel, but probably a good rule would be -- I'm going to say about 70 to 80 -- 70 to 75 percent is probably first mortgage.

JOHN LAYMAN (ph): OK, and what's your typical loan to value --average loan to value on first mortgages?

BILL ALDINGER: We'll vary (ph) -- the correspondent business is probably high 80s, low 90s, in terms of the branch originated sector, probably low 90s, mid 90s.

JOHN LAYMAN (ph): OK, thanks so much.

OPERATOR: Thank you. Our next question will come from Roria Barlettano (ph) with Jay Lechner (ph) .

RORIA BARLETTANO (ph), JAY LECHNER: Hello, my question has already been answered. Thank you.

OPERATOR: Thank you very much. And we do have a follow up question with Mitchell Katz (ph) with Endeavor Capital.

MIKIGO KOLGRI (ph): Yes, it's Mikigo Kolgri. Regarding your new target for capital ratio, is that coming from the rating agency or regulator, or is it coming from yourself? And also, will there be any downgrading indication if you don't hit this target by year end?

DAVID SCHOENHOLZ: There are no directions from the rating agencies or from the regulators related to those. Those are the targets that we felt we should commit to. I think, with respect to the rating implications, I think the best thing you can do is -- all three of the major agencies are on the wire today with their comments about the situation, and I think really the fairest thing for--to do is to read those releases and let them speak for themselves. I would say that our commitment is to be there, and we will be there.

MIKIGO KOLGRI (ph): Okay, great, thank you.

OPERATOR: And we do have another follow-up question, from Erika Berklin (ph) .

ERICA BERKLIN (ph): Yes, I just wanted to clarify, on the correspondent-originated real estate lending that you do, are the same best practices policies in place, and how do you ensure that your correspondent partners are complying with your requirements?

DAVID SCHOENHOLZ: The--good question, the basic practices are in

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place, and we've indicated guidelines in terms of tangible benefit tasks (ph) , in terms of pre-payment penalties and so forth, as a condition for us buying loans from correspondents. A substantial portion of the volume that we originate through correspondents is done through forward-flow agreements with people that we are very familiar with, have had extensive due diligence on, and for whom we have our own underwriters on site in their shops, and so, it's a different type of business model than just kind of posting a rate and buying and buying it from somebody who happens to want to sell to you. So we are very careful about how we do business with. We re-underwrite every loan, and as part of re-underwriting it, you re-underwrite it, not just for credit, but also for soundness of the business practices, so we feel pretty comfortable that we've got the right controls and the right business model in place in that channel to ensure that we're following best practices.

ERICA BERKLIN (ph): How about the video and one-pager, and things like that? Are those also done ...

DAVID SCHOENHOLZ: Not yet.

ERICA BERKLIN (ph): And that was how much of your business in the first six months?

EDGAR ANCONE (ph): Total core signed (ph) and portfolio in total is about $19 billion.

ERICA BERKLIN (ph): And is that number growing? It seems to me that over the last few quarters, the number has grown.

DAVID SCHOENHOLZ: It has, indeed, it's been a very successful channel for us.

ERICA BERKLIN (ph): And what's the outlook for growth there?

DAVID SCHOENHOLZ: I think we're looking at probably somewhere around the 15 percent growth level, I mean, it has been a very attractive channel; pricing is very rational. As I indicated, we have developed a very stable core group of correspondents, so you have this as a sustainable distribution channel, and think that it is a very good complement to our retail own distribution.

ERICA BERKLIN (ph): Can you talk about how the collection specs (ph) differ for the correspondent business versus the branch-originated business?

DAVID SCHOENHOLZ: They really don't, I mean, they're in different centers, just logistically, but the--in terms of overriding collection practices, and including customer management, behavior scoring, bankruptcy scores, all of that is essentially the same, in terms of real estate own (ph) processing, that is done as a central utility for both of the businesses, so essentially the same.

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ERICA BERKLIN (ph): Okay, thank you.

OPERATOR: And gentlemen, it appears that we have no further questions. I'll go ahead and turn the call over to you for any closing or additional remarks.

DAVID SCHOENHOLZ: Okay. Well, this is Dave Schoenholz. We appreciate your taking all the time to understand this complicated, and admittedly embarrassing type of issue. I would just reiterate, I don't think it impacts the fundamentals of the business whatsoever. It's an issue that we feel we have got boxed. We've got it behind us. We are dealing with all the implications of it and our objective is to go forward.

BILL ALDINGER: Thank you, David. And I would echo Dave's comments and again add that we've now been looked at pretty thoroughly by two sets of accountants. I think the accounting issue should be behind us. Thank you all and look forward to talking to investors over the next few weeks.

EDGAR ANCONE (ph): Thank you.

OPERATOR: And that concludes today's conference call. Thank you for your participation. Have a good day.

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CO hfc : HSBC Finance Corp

IN i81501 : Credit Types/Services | i8150105 : Consumer Lending | ibnk : Banking/Credit

AN Document fndw000020020821dy8e000ze

Exhibit 73

BN Household International Cut to `Sector Underperform' at CIBC
Oct 8 2002 7:35:44

Princeton, New Jersey, Oct. 8 (Bloomberg Data) -- Household International Inc. (HI US) was downgraded to ``sector underperform'' from ``sector perform'' by analyst Jennifer S. Scutti at CIBC World Markets.

--Michael O. Donohue in Princeton, New Jersey, (+1)609-279-3756.

Story illustration:
To graph stock performance of Household International Inc.
: { HI US Equity GP <GO>}.
Analyst recommendations history: { HI US Equity ANR <GO> }.
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Exhibit 74

Global Equity Research

UBS Warburg

October 8, 2002 | **Specialty Finance** | **United States**

Household International (HI)[2,37,81] — Buy

Key Statistics

Price	$23.25
52-Wk Range	$62-25
Price Target	$30.00
Return Pot'l.	33.3%
Mkt. Cap(MM)	$10,574
Sh. Out.(MM)	454.8
Float	100%
Inst. Hldgs.	81.8%
Avg. Volume(K)	5,175
Curr.Div./Yield	$1.00/4.3%
Sec.Grwth.Rate	7%
Convertible?	Yes
Book Value/Share	$18.97
Price/Book	1.2x

Quarterly Earnings Per Share (fiscal year ends December)

	2001A	2002E	*Prev*	2003E	*Prev*
1Q	$0.91	$1.04A			
2Q	0.93	1.07A			
3Q	1.07	1.15	*1.17*		
4Q	1.17	1.18	*1.29*		
Year	**$3.91**	**$4.44**	***$4.56***	**$3.75**	***$5.13***
FC Cons.:	$3.91	$4.56		$5.10	
P/E:	5.9x	5.2x		6.2x	
Revs.(MM):	$10,712	$12,832		$14,370	

Household International, through subsidiaries, provides consumer financial services, primarily offering consumer-lending products to middle market consumers in the U.S., Canada and the United Kingdom.

Source: UBS Warburg LLC and First Call consensus estimates

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Household: Lowering Target; Still Creating Value Despite Lower Growth

Summary

- We are cutting our 2003 estimate to reflect the impact of a regulatory fine on HI's earnings and capital base. We believe the fine levied against Citi/Associates for predatory lending practices makes a fine against Household more likely, and we estimate this fine could exceed $500 million.
- Given HI's relatively thin capital base at present, we believe the company is likely to raise the money to pay any fine through an equity offering, perhaps even before any fine is levied, causing dilution to existing shareholders. Although it is possible that this regulatory action could occur in 4Q02, we believe it is more likely to occur next year.
- Irrespective of the size and timing of a fine, we continue to believe HI's business model, in terms of its marketing and pricing practices, is likely to change, resulting in a longer term earnings growth rate which we estimate of 7%. This outcome, however, is factored into our DCF valuation, and supports our rating.

Action

- We are lowering our 2003 EPS estimate for Household to $3.75 from $5.13. Our estimate assumes a $500 million fine related to predatory lending and subsequent dilution from a potential common equity offering. This translates into a $1.18 reduction in our 2003 EPS estimate.

Companies mentioned and disclosures at end of note

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- We are also lowering our 2002 estimate to $4.44 from $4.56 to reflect slower receivable growth as a result of the company's capital constraints, wider spreads on the company's debt, higher credit losses and continued reserve building, and limited ability to further reduce costs.
- We are lowering our price target to $30 from $41.

Valuation

- Our price target of $30 is derived from our DCF model, and translates into a P/E multiple of 8x our revised 2003 EPS estimate.

Additional Information

- We believe the $215 million fine levied by the FTC last month for predatory lending practices at the Associates, which Citi acquired in 2000, makes a similar regulatory action against Household increasingly likely. In fact, we believe the regulatory action could take any one of three forms:

  1. A fine levied by the FTC or another regulatory authority;
  2. A settlement with the Attorneys General of the fifty U.S. states; or
  3. A national predatory law that is more restrictive then--and pre-empts--existing state-level laws.

  In our view, the former two are more likely, since, although a national predatory lending law exists in draft form, we suspect it is a low legislative priority in the U.S. Congress right now.

- In terms of likelihood and timing of the other two possibilities, a fine by the FTC would probably be the most likely to have a speedy conclusion. Management has suggested, however, that it is pursuing an agreement with the fifty Attorneys General. In our view, this avenue is not likely to result in a quick conclusion for two reasons. First, as the Microsoft and Merrill Lynch agreements evidence, coming to terms with 50 different Attorneys General is a long process. Second, we believe the Attorneys General have little incentive to move toward a rapid resolution, but rather may prefer to postpone signing an agreement until after conducting a review of HI's business practices in their individual states, etc. As far as we're aware, only some states, including Washington State, have undertaken such a review. For this reason, we believe any such resolution with the Attorneys General will not likely occur until 2003.
- In terms of the magnitude of fines associated with any agreement or regulatory action, we believe the Citi/Associates figure of $215 million is a likely lower bound, but suspect that HI would likely face a fine of at least $500 million given its size. We believe the company would likely have difficulty paying a fine of this magnitude out of cash flow, and therefore may consider raising equity to do so, perhaps even in advance of reaching any such settlement.
- Complicating this situation is that HI is currently thinly capitalized. We estimate its tangible equity-to-tangible managed assets (TETMA) ratio is 8.0% and its tangible common equity-to-tangible managed assets (TCETMA) is 6.5%. This is below the TETMA and TCETMA target ratios management has set of 8.5% and 6.7%, respectively. We calculate that by suspending its share buyback program, slowing its receivable growth, and adding the $350 million in preferred equity it raised a few weeks ago, the company could achieve its target ratios by year-end assuming no payment of a regulatory fine.
- However, if we assume that Household must pay a fine related to predatory lending practices, the company would once again fall short of its capital ratio targets. In Table 1, we depict several different scenarios, which we believe could take place with regard to fines and subsequent capital raising to support the cash outflow from such a fine. We believe that, were a fine to be levied in the range of $250M-$750M, the company would more than likely have to issue additional common shares in order to meet its capital targets. We view common equity as a likely instrument over preferred because the company recently completed a preferred offering, and may not have the flexibility to issue more without risking criticism from the debt rating agencies. Nonetheless, the company would clearly prefer not to issue common shares at the current depressed prices.
- We believe that scenario 4B in Table 1 is the most likely scenario and have incorporated these assumptions into our earnings model. The adjusted EPS numbers are derived by including both the dilution from the additional shares as well as the reduction in earnings that result from the potential fine. We also took into account the timing of the fine which could take place as early as the fourth quarter, although we believe it would more likely occur later in 2003.
- It is important to note that in calculating the capital ratios for the remainder of 2002 and 2003, we kept the unrealized gain/loss on investments and the changes in cash flow hedges constant with 2Q02 levels of $360M. The reason for this is that it is very difficult to predict these items, despite that they can have a sizeable effect on the capital ratios.

- It is also important to note that in Scenario 2, we assume that the proceeds from an equity offering are used to pay down debt yielding 7% (4.62% net-of-tax) which reduces interest expense, thereby offsetting some of the dilution.

Table 1: UBS Warburg Scenario Analysis

	Assumptions						Adjusted EPS	
	Receiv. Growth ('02/'03)	Fine Levied?/When?	Size of Fine ($)	Comm. Equity Raised	Capital Required	% Share Dilution	2002	2003
Scenario 1	12%/11%	No	$0	No	$0	0%	$4.44	$4.93
Scenario 2	15%/14%	No	$0	Yes	$250M	2%	$4.42	$5.03
Scenario 3A	12%/11%	Yes/4Q02	$250M	Yes	$250M	2%	$4.00	$4.83
Scenario 3B	12%/11%	Yes/4Q02	$500M	Yes	$500M	4%	$3.33	$4.73
Scenario 3C	12%/11%	Yes/4Q02	$750M	Yes	$750M	7%	$2.79	$4.63
Scenario 4A	12%/11%	Yes/2003	$250M	Yes	$250M	2%	$4.44	$4.34
Scenario 4B	12%/11%	Yes/2003	$500M	Yes	$500M	4%	$4.44	$3.75
Scenario 4C	12%/11%	Yes/2003	$750M	Yes	$750M	7%	$4.44	$3.18

Source: UBS Warburg LLC estimates

Long-Term Outlook

- We also believe that any agreement with the FTC or the Attorneys General would also have a longer-term impact on HI's business model. Specifically, we suspect that HI would be forced to change certain of its marketing and pricing practices. In fact, this process has already begun to some extent, as HI has voluntarily reduced the number of points it charges on loans, thereby decreasing its pricing at the margin. Nonetheless, we believe an agreement with regulatory or legal authorities would require additional pricing and other concessions. As a consequence, we believe HI will not be able to sustain its current level of balance sheet growth or profit margins, and as a result, the earnings power of HI's model would be diminished to some extent.
- In particular, we are forecasting that HI's medium term earnings growth rate is about 7%, below the 12-15% it has posted over the past several years. Given this outlook, although we are forecasting that HI's 2004 EPS would spring back from 2003's depressed levels to some extent, we calculate that this level of earnings growth supports a P/E of 8x rather than its historical multiple of 12x-13x.
- Likewise, we believe the growing regulatory risk associated with HI relative to prior periods warranted a higher beta than the one the company has merited in the past. Therefore, we have increased the beta to 1.25 from 0.93. This, combined with our 7% medium-term earnings growth rate, and the prospect of a $500 million fine raised through an equity offering, results in a DCF value of $30. This corresponds with our P/E of 8x our revised 2003 EPS estimate of $3.75.

Additional Risks

- In addition to the factors discussed above, there are a number of other concerns floating about in the market place. We discuss these below, and should one or several of these scenarios occur, it would likely cause the stock price to fall from present levels. Nonetheless, we believe our earnings outlook and valuation appropriately reflects the likely balance sheet and earnings growth and credit loss scenarios for the near- to medium-term.

Mortgage/Home Equity Portfolio

- The primary risk in the mortgage and home equity portfolio, which account for about half of the company's managed assets, is surging charge-offs. Credit losses in this asset class, although they have deteriorated over the past few quarters, remain under 1%. If we model dramatic surges in credit losses in this portfolio, 2003 EPS impact would appear as follows:
  - Doubling charge-offs to 1.96%: $2.81 (-25%)
  - Tripling charge-offs to 2.94%: $1.88 (-50%)
  - Quadrupling charge-offs to 3.92%: $0.95 (-75%)
- We do not view this scenario as likely at present, since it assumes a significant deterioration in the economy or the bursting of a housing bubble, which our economists do not believe exists across the country as a whole. Additionally, the company has built substantial reserves over the past several quarters, with managed reserves-to-total managed assets of 4.14% in 2Q02, up from 3.77% in 2Q01. Therefore, although the company is anticipating some deterioration in this portfolio, we believe it is reserving at an appropriate level to absorb these losses.

Auto Portfolio

- Concerns about the auto portfolio have also surfaced following announcements made by rival subprime auto lender Americredit that it is bringing all its auto loans back on balance sheet. As we described in our September 18, 2002, note, we believe the impact of a similar action by HI, although a remote possibility, would have limited impact on its financials. Specifically:

  1. Auto loans currently represent only 6.5% of the company's managed portfolio, a relatively small portion.
  2. Household currently records a gain on sale of 4% on auto securitizations. We are anticipating total auto securitizations of $2.3 billion for this year, which would translate into a pre-tax gain on sale of $92 million or $0.13 per share on an after-tax basis. This represents only 3% of our revised 2002 EPS estimate of $4.44.
  3. We estimate that if the company had to reserve against the auto loans that they securitized, the cost would be roughly $115 million for the year, or $0.16 per share. This combined with the gain on sale would still equate to only about 7% of 2002 earnings.
  4. Further, if the company were forced to take an extreme action and write-down the entirely of the existing piece of the I/O strip that relates to auto receivables, we calculate the after-tax impact on EPS would be about $0.44. Although this is a reasonable chunk of near term earnings, it would have a relatively small impact in terms of reducing the company's estimated 2002 tangible book value of nearly $17.50 by $0.44.

Credit Card Portfolio

- Finally, there continues to be concern about a surging charge-off scenario in the company's credit card portfolio, which accounts for 16% of total managed assets. The current charge-off rate is 7.85%. Under the following credit loss assumptions, the 2003 EPS would be:
  - Up 10% to 8.64%: $3.51 (-6%)
  - Up 25% to 9.81%: $3.15 (-16%)
  - Up 50% to 11.78%: $2.54 (-32%)
- Again, as with the mortgage portfolio, although we continue to anticipate some level of deterioration, we do not believe these levels of credit losses are likely in the absence of a significant decline in the economy.

Statement of Risk

- Investment risks include the following: continued competition for home equity and unsecured credit loans, higher than expected credit losses, higher funding costs, and increased regulatory and legal scrutiny.

Global ratings: Definitions and allocations

UBS rating	Definition	Rating category[1]	Coverage[2]	IB services[3]
Strong Buy	Greater than 20% excess return potential; high degree of confidence	Buy	53%	40%
Buy	Positive excess return potential			
Hold	Low excess return potential; low degree of confidence	Hold/Neutral	42%	26%
Reduce	Negative excess return potential			
Sell	Greater than 20% negative excess return potential; High degree of confidence	Sell	5%	18%

Excess return: Target price / current price – 1 + gross dividend yield – 12-month interest rate. The 12- month interest rate used is that of the company's country of incorporation, in the same currency as the predicted return.
1: UBS Strong Buy and Buy = Buy; UBS Hold = Hold/Neutral; UBS Reduce/Sell = Sell.
2: Percentage of companies under coverage globally within this rating category.
3: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS AG, its subsidiaries and affiliates; as of 30 September 2002.

Companies Mentioned

Company Name	Ticker	Price
Household International[2,37,81]	HI	$23.25

Price quoted on October 7, 2002 Source: UBS Warburg
2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company or one of its affiliates within the past three years.
37. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company.
81. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company or one of its affiliates within the past 12 months.

Household International (US$)

Source: UBS AG, its subsidiaries and affiliates; as of Friday, October 04 2002

Unless otherwise indicated, please refer to the Valuation and Risk sections contained within the body of this report.
For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Warburg LLC, 1285 Avenue of Americas, New York, New York, 10019, Attention: Publishing Administration.

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Exhibit 75

FT.com FINANCIAL TIMES

HD **Finance company spreads widen.**

BY By JENNY WIGGINS IN NEW YORK.

WC 229 words

PD 8 October 2002

SN Financial Times (FT.Com)

SC FTCMA

LA English

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LP

Credit spreads for speciality US finance companies have widened sharply this week as concern grows over their ability to continue accessing the capital markets.

The five-year bonds of consumer finance company Household International have this week widened some 50 basis points to 475bp over Treasuries, their widest level to date. Similar maturity bonds at commercial finance company CIT Group were also 50bp wider to be bid at 415bp over on Tuesday.

TD

Bonds of the car finance offshoots of Ford and General Motors as well as credit card issuers Capital One and MBNA also saw heavy selling on Monday.

Analysts said the widening in spreads reflected negative sentiment in the corporate bond market as well as investor nervousness over the health of the financial sector.

"Companies that are dependent on the capital markets for funding are under pressure this year," said Van Hesser at Credit Suisse First Boston. "Right now, the unsecured markets are very selective."

The consumer finance companies' fundamental businesses remain relatively strong, according to analysts. Household recently strengthened its credit profile by increasing its weighting of real estate-secured loans and reducing leverage.

Still, they are active issuers of bonds, with Household having some $67bn in debt outstanding.

In addition, concern has begun to mount that consumer spending, and hence demand for credit, may be slowing.

CO hfc : HSBC Finance Corp

IN i81501 : Credit Types/Services | i8150105 : Consumer Lending | ibnk : Banking/Credit

NS c15 : Performance | c152 : Earnings Projections | c17 : Funding/Capital | c172 : Corporate Debt Instruments | ccat : Corporate/Industrial News

RE namz : North America | usa : United States

IPC Bonds

PUB The Financial Times Limited

AN Document FTCMA00020051014dya80020j

Exhibit 76

CIBC

CIBC WORLD MARKETS

Equity Research

October 7, 2002

Change in Recommendation

Company Rating: *Sector Underperformer*

Sector Weighting: *Market Weight*

Household International

Downgrading To SU On Downside Risk Related To Fundamentals And Valuation

Specialty Finance

HI-NYSE (10/7/02)	**$23.48**
12-18 mo. Price Target	None
Key Indices: S&P 500, DJ Ind, S&PFincl	
3-5-Yr. EPS Gr. Rate (E):	15.0%
52-week Range	$63.25-$23.48
Shares Outstanding	461M
Float	356.1M shrs
Avg. Daily Trading Vol.	4,740,000
Market Capitalization	$10.8B
Dividend/Yield	$1.00/4.3%
Fiscal Year Ends	December
Book Value	15.31 per Shr
2002 ROE	20.3%
LT Debt	$60,536.2
Preferred	$1,818.20M
Common Equity	$7,057.20M
Convertible Available	Yes

- We are downgrading Household Int'l to Sector Underperformer from Sector Performer, effective October 8, given the potential for further downside risk to the stock based on our growing fundamental concern and a relatively rich valuation based on a price/tangible book value.

- We believe the Specialty Finance sector is undergoing a secular revaluation to reflect more conservative price/book multiples. Although further adjustment could be experienced within the group, we believe HI could be at greater risk than its peers and may underperform.

- The combination of greater concern regarding prepayment speeds, credit quality trends within the auto finance and credit card portfolios, and the overhang of pending predatory lending lawsuits, has raised growing fundamental concerns regarding HI's ability to sustain earnings.

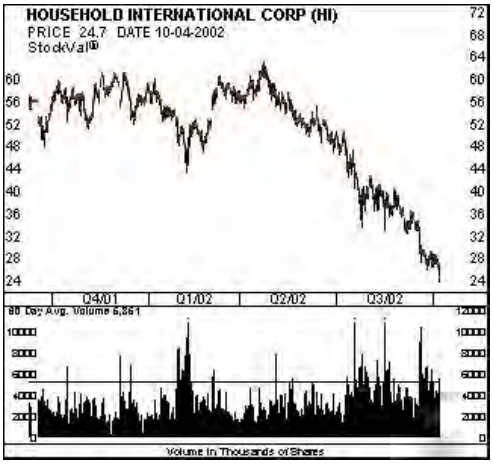
- Given the potential for greater than initially anticipated loan loss provisioning and lower net finance income as home equity yields have declined because of he ongoing refinancing boom, we have trimmed our 2002 and 2003 earnings estimates to $4.53 and $5.07, respectively.

Company Description

Household International is a diversified financial services company focused primarily on consumer lending.

Earnings per Share	Prev	Current
2001A		$3.92A
2002E	$4.58E	$4.53E
2003E	$5.12E	$5.07E
P/E		
2001A		6.0x
2002E	5.1x	5.2x
2003E	4.6x	4.6x

Stock Price Performance



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Downgrading HI to Sector Underperformer

Despite the dramatic decline in the share price of Household International, we have downgraded the stock to Sector Underperformer from Sector Performer, effective October 8, given the lack of confidence regarding the company's fundamental outlook and the subsequent impact on valuation. In addition to our downgrade on the stock related to concerns regarding valuation, we have also trimmed our 2002 and 2003 earnings estimates to reflect the potential for heavier than originally anticipated loan loss provisioning. Our 2002 and 2003 revised earnings estimates are $4.53 and $5.07 per share, respectively, down from $4.58 and $5.12 per share.

While we believe the combination of heavy origination growth and a greater focus on maintaining and/or improving internal efficiencies could largely offset the adverse impact from additional reserve building, the ongoing economic weakness and faster prepayment speeds could result in greater downward pressure on growth through 2003 than originally anticipated. Overall, the combination of slightly lower earnings estimates, growing concerns regarding prepayment trends and the potential for further credit deterioration has led to our belief that further downside risk could exist with the potential for the stock to underperform the broader Specialty Finance sector. As such, we have downgraded Household International to Sector Underperformer.

Beyond the predatory lending lawsuits, additional fundamental concerns have surfaced

Beyond the predatory lending lawsuits that have been filed against Household International, concerns regarding prepayment speeds and credit quality trends continue to plague the company. Although the record low interest rates have sparked dramatic growth in origination volume, fears regarding prepayment speeds and the subsequent impact on consolidated results (particularly following investors' concerns regarding Fannie Mae's duration gap) have further depressed the stock price. In addition, the overhang of pending predatory lending lawsuits as it pertains to the company's home equity lending practices continue to represent an uncertainty.

Importantly, any predatory lending settlement will be a one-time charge that we believe has been largely priced into the stock. Furthermore, we believe any long-term growth impact from a settlement and the method in which the company generates revenue from the home equity business may have already been largely felt following the company's implementation of its new business practices strategy earlier this year. Although fundamental uncertainty clearly exists, we believe that investor psychology has as much, if not more of an impact, on the valuation compression as it relates to the broader businesses and the litigation risk.

Credit quality trends within the credit card and auto finance portfolios may continue to plague HI

In addition to concerns related to the home equity operation, credit quality trends within the credit card and auto finance portfolios continue to plague the company. Although the bankcard and private label card portfolios have reported credit deterioration, the magnitude has been roughly as expected given the weak economy and consumer leverage. In general, we believe Household's steady addition to loan loss reserves through heavy provisioning should be adequate to manage future losses, but further reserve building is anticipated. Within the auto finance portfolio, the company reported sharp credit quality deterioration earlier this year and at the end of 2001.

Following the deterioration, management implemented several new underwriting and collections initiatives to improve the quality of the portfolio. As of the second quarter 2002, net charge-off levels had improved within the auto finance portfolio. Although we are pleased with the decline in the loss rate as of the last reporting period, the recent announcement by a rival within the auto finance industry (AmeriCredit) has sparked renewed concern. Furthermore, we believe the ongoing marketing promotions by the captives, namely 0% financing, should continue to adversely impact pricing and demand within the used car market, which could negatively impact Household International.

Although none of these issues is new to Household, the ongoing market weakness and economic uncertainty has resulted in a further pullback by investors. We believe that in the current market environment, investors are seeking high-quality, large, liquid companies in which to invest. Furthermore, given the nervousness within the market, we believe investors are unwilling to invest in companies with "issues" that have yet to be resolved. As such, valuations have collapsed across-the-board and Household International is no exception.

In conjunction with the potential fundamental erosion, the valuation could come under further pressure

As we highlighted in a First Call note earlier this week, we believe investors are increasingly using the more traditional price/book multiple in valuing companies within the Specialty Finance sector. Household's price/book multiple has dropped significantly over the past few months and is currently at roughly 1.10X compared to an average multiple of 3.08X since 1997. Although on the surface the price/book valuation appears depressed, we believe a more cautious view is necessary in appropriately valuing the stock. As of June 2002, the company's book value equaled $21.06. Household, however, had roughly $1.5 billion in goodwill and intangible assets on its balance sheet. By our calculations, the company's *tangible* book value (common equity less intangibles and goodwill) equaled $17.31 for the second quarter 2002. Based on a tangible book value, the stock is currently trading at 1.34X.

Taking our analysis one step further, the company has roughly $6.9 billion in auto finance receivables on its balance sheet, which investors have become increasingly concerned about given the difficulties at AmeriCredit. At the end of the second quarter, the net charge-off rate for the auto finance portfolio equaled 6.17%. Assuming the company steps up is reserve building in order to adequately absorb potentially greater losses within the auto finance portfolio, as well as the credit card portfolio, we believe the tangible book value could be trimmed to about $16.85-$17.00 per share.

Despite the dramatic stock price erosion to date, further downside risk may exist

Based on this adjusted, tangible book value, the stock is currently trading at roughly 1.7X compared to the current price/book valuation for the credit card/diversified finance composite average of 1.4X. Given the various uncertainties within Household International, even if the company is able to achieve better-than-expected third quarter and full year earnings on the strength of the refinancing market, we believe the valuation could remain under pressure and the stock could decline further. As such, we have downgraded Household International to Sector Underperformer from Sector Performer.

Exhibit 1. Household International Earnings Model

(Dollars in millions except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
Finance Income	$3,304.8	$3,385.0	$3,388.5	$3,426.8	$3,678.1	$3,845.2	$13,153.4	$14,338.7	$16,622.3
Interest Expense	1,280.7	1,192.6	1,124.0	1,137.5	1,265.4	1,347.4	5,212.8	4,874.3	5,837.3
Net Interest Margin	**2,024.1**	**2,192.4**	**2,264.5**	**2,289.3**	**2,412.8**	**2,497.8**	**7,940.6**	**9,464.4**	**10,784.9**
Provision For Credit Losses	966.8	1,184.0	1,362.3	1,278.4	1,290.5	1,343.5	4,018.4	5,274.7	5,921.9
Interest Margin After Losses	**1,057.3**	**1,008.4**	**902.2**	**1,010.9**	**1,122.3**	**1,154.3**	**3,922.2**	**4,189.7**	**4,863.0**
Insurance Revenue	169.2	175.3	170.1	177.5	180.7	184.3	662.4	712.6	757.9
Investment Income	42.3	45.8	46.2	44.0	48.1	51.7	167.7	190.0	223.4
Fees Income	407.9	421.1	396.3	362.7	382.8	401.9	1,618.5	1,543.7	1,725.4
Securitization Income (Expense)	18.2	120.4	145.8	134.2	143.3	126.9	135.7	550.2	621.4
Other Income	51.5	59.9	188.0	95.3	98.4	97.6	322.5	479.3	397.3
Total Other Operating Revenue	**689.1**	**822.5**	**946.4**	**813.7**	**853.3**	**862.4**	**2,906.8**	**3,475.8**	**3,725.4**
Total Net Revenues	**1,746.4**	**1,830.9**	**1,848.6**	**1,824.6**	**1,975.6**	**2,016.7**	**6,829.0**	**7,665.5**	**8,588.4**
Salaries And Benefits	408.3	424.1	445.3	453.0	484.0	490.1	1,597.2	1,872.4	2,103.5
Sales Incentives	74.1	71.0	54.1	67.6	79.0	78.7	273.2	279.4	318.9
Occupancy And Equipment	86.1	84.1	92.2	93.3	98.8	92.8	337.4	377.0	426.9
Other Marketing	127.1	128.0	148.4	141.5	148.2	141.2	519.3	579.2	657.9
Other Servicing And Admin.	172.3	172.2	229.3	202.5	213.4	207.7	709.6	852.9	961.8
Amor. Of Intang. And Goodwill	37.4	37.4	18.2	12.5	19.8	20.2	151.2	70.6	85.9
Total Expenses	**905.3**	**916.8**	**987.5**	**970.4**	**1,043.1**	**1,030.5**	**3,587.9**	**4,031.5**	**4,554.9**
Policyholders' Benefits	77.5	74.5	84.0	87.4	83.0	80.7	302.6	335.0	364.2
Exp. & Policyholders' Benefits	**982.8**	**991.3**	**1,071.5**	**1,057.8**	**1,126.1**	**1,111.2**	**3,890.5**	**4,366.6**	**4,919.1**
Pretax Income	**763.6**	**839.6**	**777.1**	**766.8**	**849.5**	**905.5**	**2,938.5**	**3,298.9**	**3,669.3**
Income Tax Expense	259.8	290.7	266.1	253.3	280.6	299.1	1,015.0	1,099.1	1,212.1
Net Income	**503.8**	**548.9**	**511.0**	**513.5**	**568.9**	**606.4**	**1,923.5**	**2,199.8**	**2,457.2**
Preferred Dividend	2.9	8.0	8.5	15.5	15.5	15.5	15.5	55.0	62.0
Net Income For Common	**500.9**	**540.9**	**502.5**	**498.0**	**553.4**	**590.9**	**1,908.0**	**2,144.8**	**2,395.2**
Restatement Amount	(23.4)	(9.3)	(20.0)	(6.1)	(23.1)	(4.6)	(75.9)	(53.8)	(55.3)
Net Income After Restatement	**477.5**	**531.6**	**482.5**	**491.9**	**530.3**	**586.3**	**1,832.1**	**2,091.0**	**2,339.9**
Fully Diluted Shares Outstanding	467.7	463.2	462.1	461.2	461.2	461.2	468.0	461.4	461.2
FD EPS Ex. Charges And Gain	**$1.07**	**$1.17**	**$1.09**	**$1.08**	**$1.20**	**$1.28**	**$4.08**	**$4.65**	**$5.19**
Restatement Impact	($0.05)	($0.02)	($0.05)	($0.01)	($0.05)	($0.01)	($0.16)	($0.12)	($0.12)
FD EPS Including Restatement	**$1.02**	**$1.15**	**$1.04**	**$1.07**	**$1.15**	**$1.27**	**$3.91**	**$4.53**	**$5.07**
Cumulative	$2.77	$3.92	$1.04	$2.11	$3.26	$4.53			
Dividends Per Share	$0.22	$0.22	$0.22	$0.25	$0.25	$0.25	$0.85	$0.97	$1.06
Gross Managed Receivables	**95,655**	**100,823**	**101,178**	**105,461**	**110,206**	**115,386**	**100,823**	**115,386**	**131,737**
NIM As % Of AMIEA	8.57%	8.85%	8.79%	8.58%	8.69%	8.57%	8.50%	8.12%	8.07%
Provision For Losses As % Of AMF	1.0%	1.2%	1.3%	1.2%	1.2%	1.2%	4.3%	4.6%	4.5%
Fee Income As % Of AMR	0.44%	0.43%	0.39%	0.35%	0.35%	0.35%	1.75%	1.34%	1.31%
Total Expenses As % Of AMR	1.0%	0.9%	1.0%	0.9%	1.0%	0.9%	3.9%	3.5%	3.5%
Managed Profitability Analysis									
Net Interest Margin	8.57%	8.85%	8.79%	8.58%	8.69%	8.57%	7.88%	8.20%	8.19%
Pretax Margin Ex. Charges	19.1%	20.0%	17.9%	18.1%	18.7%	19.2%	18.3%	18.5%	18.0%
Net Margin Ex. Charges	12.6%	13.0%	11.8%	12.1%	12.6%	12.9%	12.0%	12.3%	12.1%
Effective Tax Rate	34.0%	34.6%	34.2%	33.0%	33.0%	33.0%	34.5%	33.3%	33.0%

Source: Company reports and CIBC World Markets Corp.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2001A Actual	$0.85A	$0.90A	$1.02A	$1.15A	$3.92A
2002E Prior	$1.04A	$1.07A	$1.17E	$1.30E	$4.58E
2002E Current	$1.04A	$1.07A	$1.15E	$1.27E	$4.53E
2003E Prior	$1.17E	$1.20E	$1.30E	$1.45E	$5.12E
2003E Current	$1.16E	$1.20E	$1.28E	$1.43E	$5.07E

Companies Mentioned In This Report

Stock Prices as of 10/7/02:

AmeriCredit Corp. (ACF-NYSE $6.80 Not Rated)

Key to Footnotes:

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2) CIBC World Markets Corp. received compensation for investment banking services from this company in the past 12 months.
3) CIBC World Markets Corp., or one of its affiliated companies, managed or co-managed a public offering of securities for this company in the past 12 months.
4) This company has a convertible included in the CIBC World Markets convertible universe.
5) An employee of CIBC World Markets Corp., or one of its affiliated companies, is an officer, director or an advisory board member of this company.
6) The CIBC World Markets Corp. analyst(s) who covers this company also has a position in its securities.
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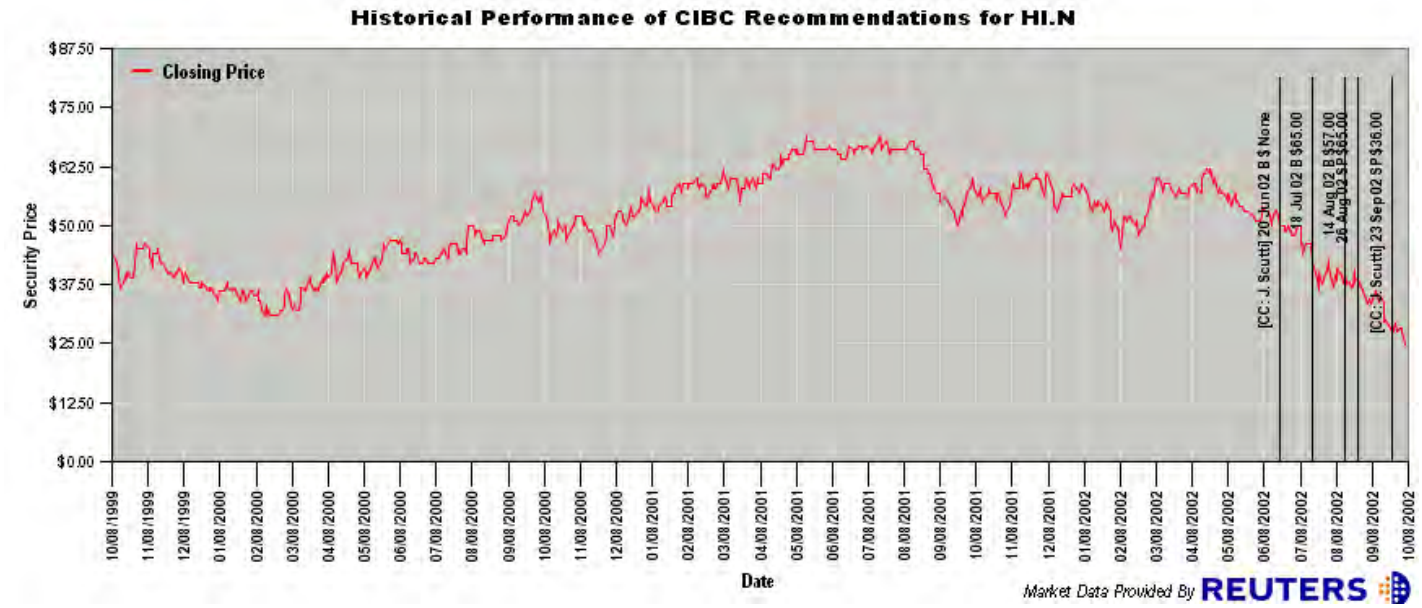
9) Solicitation of this company is allowed only in DC, GA, LA, PA and NY.
10) CIBC World Markets does not cover the underlying equity security into which the security is convertible and expresses no opinion with regard to this company.
11) CIBC World Markets expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
12) A member of the household of a CIBC World Markets research analysts that covers this company is an officer,director or an advisory board member of this company.
13) CIBC World Markets and its affiliates, in the aggregate, beneficially own more than 1% of a class of equity securities issued by this company.
14) A member of the household of a CIBC World Markets research analyst that covers this company has a long position in the common equity securities of this company.

CIBCWM Price Chart



CIBCWM Stock Rating System

Abbreviation	Rating	Description
Company Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
NR	Not Rated	Stock is not covered by CIBCWM.
Company Ratings Prior To August 26th 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and TSX 300 in Canada.
"-S" indicates Speculative. An investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Ratings Distribution: CIBC World Markets Corp. Coverage Universe

(as of 07 Oct 2002)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	267	35.8%	Sector Outperformer (Buy)	135	50.6%
Sector Performer (Hold/Neutral)	304	40.8%	Sector Performer (Hold/Neutral)	88	28.9%
Sector Underperformer (Sell)	174	23.4%	Sector Underperformer (Sell)	35	20.1%

Ratings Distribution: Specialty Finance Coverage Universe

(as of 07 Oct 2002)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	10	45.5%	Sector Outperformer (Buy)	6	60.0%
Sector Performer (Hold/Neutral)	6	27.3%	Sector Performer (Hold/Neutral)	4	66.7%
Sector Underperformer (Sell)	6	27.3%	Sector Underperformer (Sell)	1	16.7%

Specialty Finance Sector includes the following tickers: ADS, ALD, AXP, CCR, CIT, CKFR, COF, CORI, DGIN, DVI, EPAY, FIC, FIF, FNIS, FNM, FRE, HI, HYC, IMH, KRB, MFI, MXT, PVN.

Legal Disclaimers and Important Disclosure Footnotes

4) Household International has a convertible included in the CIBC World Markets convertible universe.

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Exhibit 77

LEGG MASON

Equity Research

Company Update

HOUSEHOLD INTERNATIONAL, INC. December 11, 2001

NYSE :HI

RATING: M/2 PR RATING: RS/1

David B. Sochol, CFA dsochol@leggmason.com (410) 454-4546
Chris Brendler, CFA ccbrendler@leggmason.com (410) 454-5505

HI : DOWNGRADING RATING TO MARKET PERFORMANCE

Price (12/11/01)	$57.60				
S&P 500 Index (12/11/01)	1,140	FY Ends Dec	2000	2001	2002
52-Week Range	70 - 48	Revenue(MM)	$9,167.5	$10,738.1	$12,289.4
Shares Outstanding(MM)	467.7				
Book Value/Share	$18.59	**Earnings**			
Float Outstanding(MM)	461.1	1Q	$0.78A	$0.91A	$1.03E
Market Capitalization(MM)	$26,939.5	2Q	$0.80A	$0.93A	$1.07E
Enterprise Value(MM)	$26,939.5	3Q	$0.94A	$1.07A	$1.24E
Avg. Daily Volume	2,921,061	4Q	$1.03A	$1.17E	$1.36E
Projected 3Yr CAGR	15.4%				
LT Debt / Total Cap.	0.00%	**Fiscal Year EPS**	**$3.55A**	**$4.08E**	**$4.70E**
Net Cash / Share	$0.00				
Dividend	$0.88	EV/Revenue	2.9x	2.5x	2.2x
Yield	1.5%	P/E	16.2x	14.1x	12.3x
Target Price	NA				

Price is intraday 12/11/01.

Key Points

- **Having completed our review, following the suspension of our investment rating on the shares last week, we are concerned that HI's asset quality policies understate the true level of portfolio delinquency and charge-offs, and thus make it difficult to interpret the company's financial performance.**
- **The company's surprisingly lenient asset quality policies and the wide variation in how these policies are implemented among HI's five major business lines (partial payments, delinquencies, reaging, rewrites, nonaccruals, charge-offs, BK-related losses) makes us question the company's impressive performance of solid earnings growth and stable asset quality and lowers our confidence going forward.**
- **With an aggressive, fairly easy and, in some cases, automatic reaging policy, in which delinquent loans are brought current by simply making the next payment, the reported contractual delinquency statistics would appear to have little meaning since, according to the company and as we understand it, the reaging brings the loan current and wipes out any contractual delinquency.**
- **Thus, how should we interpret HI's two-month-and-over delinquency statistics or charge-off ratios or loan loss reserve adequacy when an unsecured loan can be reaged and thus brought current three times in a single year (once every four months) with no fee, no penalty and no catchup or even partial payment required; or when a bankrupt account is not written off for anywhere from 2 months to 7 months depending on the business line; or when a charged-off loan is affirmed, rewritten and actually booked as a loan and as a recovery, lowering charge-offs; or other unsecured loans are generally not charged off until 12 months delinquency despite having an 80% roll rate at 6 months delinquent; or in private label where twice a year delinquent accounts are automatically restructured**

(made current) after one full payment.

- **Reaging and rewriting loans is not uncommon in the nonprime consumer finance world, but HI is far more aggressive than we had realized or believe is appropriate. In addition, having reviewed the policies of CitiFinancial, American General and Wells Fargo Finance, we believe that HI is substantially more aggressive than these firms as well.**
- **Without more data on the magnitude and performance of the reaged portfolios and the rewritten portfolios by line of business (loans that at present are reported as current despite having missed payments in the past), we find it difficult to assess HI's real performance.**
- **Since we don't know what loans we should be concerned about or how these loans perform post-reaging, we cannot even guess at the size of the restructuring charge required to true-up the portfolio (essentially accelerating the loss recognition) in order to make HI's asset quality policies more conservative and more in line with its peers.**
- **The lack of relevant information available on HI's portfolio quality (reaging, rewrites), and the aggressiveness of and the wide variation in its asset quality policies, restrict our ability to interpret HI's financial performance. This undercuts our investment thesis of strong, high-quality results driving meaningful P/E multiple expansion.**
- **Accordingly, we are lowering our rating to Market Performance and increasing our risk rating to Average from Low. We would need to see improved disclosures as well as the implementation of more conservative asset quality policies before becoming more positive on the stock again, all else being equal.**

Company Description

Household International, Inc. (HI), is one of the nation's leading branch-based consumer finance companies, with managed assets of $100 billion, more than 45 million customers, and 1,400 branches. The company serves primarily the nonprime (or working-class) consumer market and is a leading provider of home equity loans (43% of its total managed receivables) as well as complementary products that round out its offering and support successful cross-sell, including unsecured loans (19% of the portfolio), auto loans (5%), and credit cards - both bank card (19%) and private label (13%). Household has built industry-leading franchises in several large markets. While home equity is its largest business line with #2 market share, Household also holds the #2 position in private label (behind GECC), #3 in indirect auto finance, and #10 in general purpose credit cards. International operations, largely in the U.K., represent about 15% of owned receivables. The company has grown internally and through acquisitions, the latter serving to expand product lines (ACC Finance in auto finance and Renaissance Holdings in subprime credit cards) and add scale (Beneficial acquisition).

Investment Rating: SB-Strong Buy B-Buy M-Market Performance U-Underperform

Risk Rating: 1-Low 2-Average 3-Above-Average 4-Speculative

Additional Information Available Upon Request

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LEGG MASON

Equity Research

Company Update

HOUSEHOLD INTERNATIONAL, INC. December 11, 2001

NYSE :HI

RATING: M/2 PR RATING: RS/1

David B. Sochol, CFA dsochol@leggmason.com (410) 454-4546
Chris Brendler, CFA ccbrendler@leggmason.com (410) 454-5505

HI : DOWNGRADING RATING TO MARKET PERFORMANCE; PART 2

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Net Cash / Share	$0.00				
Dividend	$0.88	EV/Revenue	2.9x	2.5x	2.2x
Yield	1.5%	P/E	16.2x	14.1x	12.3x
Target Price	NA				

Price is intraday 12/11/01.

Key Points

Last week, we suspended our investment rating of Strong Buy on the shares of Household International based on the serious allegations made and questions raised in the Barron's and Business Week articles. Since then our goal had been to try to determine (i) if the risks raised are indeed real, (ii) how aggressive are the company's restructuring policies and is this a concern and relevant to the investment case or simply reflective of its customer base and thus supportive of the franchise, and (iii) if we could size the one-time restructuring charge necessary to uniform the policies and make their application more consistent across business lines, or better yet, bring them in compliance with the FFIEC.

After further investigation, we are more concerned that HI's accounting policies, as they relate to asset quality, understate the true level of portfolio delinquency and charge-offs, and thus make it difficult to interpret the company's financial results and performance. HI points to its impressive record of growth, profitability, stable asset quality, and absence of frequent large restructuring charges (other than for the Beneficial acquisition), particularly relative to commercial banks. However, we believe the company's lenient and aggressive asset quality policies and the wide variation in how these policies are implemented among HI's five major business lines call this record into question. Essentially, the restructuring occurs behind the scenes, quietly, without disclosure, as the company reages and rewrites the portfolio on a loan-by-loan basis as part of its long-standing approach of working with its customer base as problems arise.

We have found there are significant differences by business line in how HI determines if a loan is delinquent: when, how

and how often an account can be reaged (and brought current); what constitutes a full payment; when a loan goes on nonaccrual; how a loan returns to accruing status; how bankruptcy-related losses are recognized; and when a loan is charged off. We were surprised how easy it is to bring a delinquent loan current, how aggressive the reage policies are, and how easy they have become over time. We know very little about the rewrite policies, where a new loan is made to a delinquent borrower and the previous loan is paid off in the process.

As such, we are left wondering how we should interpret HI's reported asset quality statistics -- two-month-and-over delinquencies, loss ratio, reserve adequacy, etc. -- when an unsecured loan can be reaged and thus brought current three times in a single year (once every four months) with no fee, no penalty and no catch up or even partial payment required. Or that when a charged-off unsecured borrower reaffirms his debt in a payment plan with a reduced settlement, the result is a new loan being booked and the affirmation (after a provision) counts as a recovery, reducing gross charge-offs. (Under a reaffirmation, both Citifinancial and COF would only recognize a recovery as cash was received, and no loan would be booked, which is more conservative and appropriate, in our opinion.) Or a bankruptcy policy that provides different loss recognition, ranging from 2 months after notification for credit card loans, to 4 months for private label, to simply letting it roll through the delinquency buckets until mandatory charge-off is reached (at least 6 months) for the other unsecured portfolio, to 7 months for auto on non-repossessed vehicles. Charge-off policies on non-bankrupt accounts are equally broad, inconsistent, and aggressive, in our view, ranging from 6 months for credit card to 9-10 months for private label to essentially 12 months for other unsecured. While this actual practice of 12 months charge-off for other unsecured is better than the 18-19 months that the policy allows, management notes that roughly 80% of loans that are delinquent 6 months roll right through and are charged off within 12 months, suggesting that earlier loss recognition would be more appropriate.

In the end, we realize that we do not have a clue as to the size of the reaged or the rewritten portfolios, either by business line or in total. We don't know what to make of the reported delinquency statistics as they do not adequately capture those loans that have been reaged or rewritten, but at present are reported as current despite having missed payments in the past. How do we true-up the portfolio, essentially accelerating the loss recognition, when we don't know what loans we should be concerned about, or which loans have exhibited material weaknesses in the past.

Admittedly, we continue to wrestle with the question of does any of this matter? HI's policies have been in place for a few years, and most of the serious changes took place in the 1997-1999 time frame. Given its 100-year history, strong market share, healthy yields averaging 20% (on an accrual basis at least) in its non-real estate secured portfolio, and the particular requirements of its nonprime customer base, we wonder if we are missing the forest for the trees. Reaging and rewrite policies are not that unusual in the nonprime consumer finance world, but HI's practices seem overly aggressive to us, and in addition, given our review of the policies of CitiFinancial, American General and Wells Fargo Finance, we believe that HI is substantially more aggressive than these firms. HI clearly benefits from its position as a non-bank financial services company. HI is not examined by the OCC or the Federal Reserve, and the restrictive policies from the FFIEC do not apply to HI, and it does not appear likely that this is going to change soon.

Nevertheless, we have concluded this is material, particularly as it relates to our investment thesis and P/E multiple expansion story on HI that (i) HI was better than a bank, (ii) it possessed unique strengths in market presence and distribution, technology, and non-prime underwriting, (iii) it was well-positioned to leverage its position in this consolidating market, and (iv) this would continue to drive the superior results of strong earnings growth, high profitability and fairly stable and surprisingly good asset quality.

But the lack of information available on portfolio quality (the magnitude and performance of the reaged and rewritten loan portfolios by business line) and the wide variation in how the asset quality policies are implemented, and the aggressive nature of these policies relative to our expectations of what is appropriate and relative to other consumer finance companies all serve to undercut our investment thesis, reduce the likelihood of multiple expansion, in our view, and lower our confidence in our ability to understand and interpret HI's financial performance. While any type of one-time restructuring charge to bring HI's asset quality policies more in line with other finance companies or banks is unlikely in the nearterm, we think the odds will rise over time. Accordingly, we have lowered our rating to Market Performance and increased our risk rating to Average from Low.

We will have one more note out today that discusses HI's asset quality policies by business line.

Company Description

Household International, Inc. (HI), is one of the nation's leading branch-based consumer finance companies, with managed assets of $100 billion, more than 45 million customers, and 1,400 branches. The company serves primarily the nonprime

(or working-class) consumer market and is a leading provider of home equity loans (43% of its total managed receivables) as well as complementary products that round out its offering and support successful cross-sell, including unsecured loans (19% of the portfolio), auto loans (5%), and credit cards - both bank card (19%) and private label (13%). Household has built industry-leading franchises in several large markets. While home equity is its largest business line with #2 market share, Household also holds the #2 position in private label (behind GECC), #3 in indirect auto finance, and #10 in general purpose credit cards. International operations, largely in the U.K., represent about 15% of owned receivables. The company has grown internally and through acquisitions, the latter serving to expand product lines (ACC Finance in auto finance and Renaissance Holdings in subprime credit cards) and add scale (Beneficial acquisition).

Investment Rating: SB-Strong Buy B-Buy M-Market Performance U-Underperform

Risk Rating: 1-Low 2-Average 3-Above-Average 4-Speculative

Additional Information Available Upon Request

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Equity Research

Company Update

HOUSEHOLD INTERNATIONAL, INC. December 11, 2001

NYSE :HI

RATING: M/2

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HI : DOWNGRADING RATING TO MARKET PERFORMANCE; PART 3

Price (12/11/01)	$57.66				
S&P 500 Index (12/11/01)	1,137	FY Ends Dec	2000	2001	2002
52-Week Range	70 - 48	Revenue(MM)	$9,167.5	$10,738.1	$12,289.4
Shares Outstanding(MM)	467.7				
Book Value/Share	$18.59	**Earnings**			
Float Outstanding(MM)	461.1	1Q	$0.78A	$0.91A	$1.03E
Market Capitalization(MM)	$26,939.5	2Q	$0.80A	$0.93A	$1.07E
Enterprise Value(MM)	$26,939.5	3Q	$0.94A	$1.07A	$1.24E
Avg. Daily Volume	2,921,061	4Q	$1.03A	$1.17E	$1.36E
Projected 3Yr CAGR	15.4%				
LT Debt / Total Cap.	0.00%	**Fiscal Year EPS**	**$3.55A**	**$4.08E**	**$4.70E**
Net Cash / Share	$0.00				
Dividend	$0.88	EV/Revenue	2.9x	2.5x	2.2x
Yield	1.5%	P/E	16.2x	14.1x	12.3x
Target Price	NA				

Key Points

As a follow-up to our earlier notes, we review the asset quality policies for the major business lines. We focus most of our attention on the Other Unsecured portfolio, but also address the policies of the other business lines to the best of our knowledge.

Other Unsecured

This portfolio includes $13.0 billion of unsecured smaller balance loans (average size of $4,500 with an average yield of 24%) as well as $4.6 billion in larger balances (personal home loans) in which HI places a junior lien on the borrower's home (average size of $12,500 and an average yield of about 20%). At 3Q01, this portfolio had a reported NCO rate of 7.00% and delinquency rate of 8.51%.

Obviously, a big surprise to many, including us, was the 570-day charge-off policy, i.e. when a delinquent account in the Other Unsecured portfolio would finally be charged off. As HI states in its Annual Report, Other Unsecured loans are charged off at 9 months of contractual delinquency **and** no payments received in 6 months. This is the only business line to have both a contractual and a recency test to determine when delinquent accounts are charged off.

Delinquencies. The actual delinquency policy for other unsecured loans, according to the HI Consumer Loan Trust 1997-1 Securitization, is as follows:

A credit line is considered contractually delinquent **if less than 50%** of any minimum monthly payment due from a borrower has not been received or if the borrower has submitted **three consecutive payments** each of which are greater than 50% but less than 100% of the minimum monthly payment then due.

Beyond the tortured wording (should it be less than 50% has not been received or has been received), this raises the question of partial payments essentially counting as full payments. General industry practice requires at least 90% of a payment to be made for the loan to be considered current. But at HI, it would appear that sporadic partial payments of 60% would be okay, so long as interspersed with full payments (i.e. avoiding three consecutive partial payments of more than 50%), and thus the account would be considered current and accruing.

As such, we would like to know (i) what is the rationale for this confusing and, in our opinion, lax policy; (ii) do the collection officers have incentive to seek partial payments; (iii) what percent of the portfolio is not making full payments; (iv) how has this percentage trended over time; and (v) how do the partial payment borrowers perform relative to those borrowers making full payments.

Restructured (Reaged) Loans. The trust document continues:

Generally, credit lines that are in excess of 26 days delinquent may be restructured **once during a six month period after the borrower makes, in one or more payments, at least 95% of one minimum monthly payment in either the current or prior month.** When a credit line is restructured, it is no longer considered delinquent.

Surprisingly, the 95% of a payment does not represent an extra payment, just the regular payment due that month. Thus, a delinquent account can be restructured (brought to current) twice a year, and can be considered current by simply making one monthly payment despite the fact the account owes one or more past due payments. While this was the policy as detailed in the 1997 securitization, the company now informs us that the policy was changed in 1999 to allow for **three** (up from two) restructurings. Thus, a borrower can make 9 payments a year and be considered current, at least for the first year. The missed payments are moved to the back of the loan and, when a borrower finally reaches the end of the scheduled payments, HI negotiates a repayment plan with the borrower to payoff the remaining balance.

We find this lenient reaging policy disturbing as it undermines the analytical value of the reported asset quality statistics. While the company would argue that (i) this is a higher yielding, smaller balance, unsecured loan in which you have less recourse and obviously less security; (ii) it is a positive NPV transaction to get the customer to make additional payments, given the rich yield; and (iii) there is little incentive to force this borrower into bankruptcy, it doesn't change our desire to have the actual contractual delinquencies in the public financial statements (disregarding the reaging). We are not asking for HI to discontinue its flexible collections practices, just report asset quality problems more conventionally (a late is a late until repaid in full).

Without this conventional disclosure, we are left with many unanswered questions. What percent of the portfolio has been restructured and what is the trend; how has that portfolio subsequently performed; is there a maximum number of times that an account can be restructured; should we be concerned about asset quality trends in the portfolio beyond the reported (and understated, in our view) delinquency statistics.

Charge-offs. The next question is how accounts are charged-off. The trust states:

A credit line is generally charged off when it becomes 300 days contractually delinquent **and** the aggregate of all payments made in any two consecutive months during the last six calendar months was not greater than or equal to 50% of a minimum monthly payment, or in any event, when it becomes 570 days contractually delinquent, regardless of any partial payments received in prior months.

Once again, a few questions: Is it 300 days (10 months) or 270 days (9 months as stated in the annual report)? Is it no payments received (annual report) or two consecutive payments totaling half a full payment in the last six months? While maybe not realistic, an example shows the aggressiveness of this policy. A borrower's loan payment is $200 per month. In 6 months, he would owe $1,200, but if he makes payments for any two consecutive months during the last six calendar months equal to 51% of a minimum monthly payment (does this mean pay $51 a month for two months or a total of $102 which equals one-half the monthly payment, or pay $101 per month for two months), then he would not be charged-off. If he then made no additional payments, he would not be charged off until 6 months later, when both contractual and recency tests would kick in. In this case, it took a year to charge-off an account that only paid $102-$202 for the entire year when full payments for the year required $2400.

We are unclear as to why the policy requires both recency and contractual delinquency. Why is it two consecutive months? and why only 50%+ of a payment? The fairly small payments on an irregular basis override the 300-day delinquent automatic charge-off policy (note the and and not an or), thus pushing back the loss recognition. Again, can the collectors game the system, and get some minimum partial payments in order to keep the loan from charging-off?

Our concern was that a customer could make no payments for 4-5 months, then make a payment, make no payments for 4-5 months, then make a payment, make no payments for 4-5 months, and then make a payment, thus being 12-15 months

delinquent but still not charged off, because of the recency of the last payment. While the company agreed that this loophole exists (as defined by the annual report, but in conflict with the trust policy), they stated that it rarely occurred. For example, last month only 26 accounts, totaling $82,000, hit this safety net of 570 days of delinquency and were charged off. Over 98% of the charge-offs in the other unsecured line came from accounts that were less than 12 months delinquent, i.e. these accounts were not saved by a recent payment or two. Although it is nice to know this 570-day cap currently doesn't come in to play often, it could be more meaningful if asset quality got considerably worse (like in a recession) and investors would be left in the dark.

We would also note that a 12-months charge-off policy is twice the level HI's credit card policy, although both products are unsecured. Moreover, the company commented that 80% of the other unsecured loans that are 6 months delinquent roll directly to charge-off at 12 months, a fairly high percentage.

Private Label

HI completed two public securitizations of private label credit card loans in 2001. The PL portfolio had 3Q01-end managed receivables of $12.4 billion, a reported NCO rate of 5.13% in 3Q01, and a delinquency rate (two months and over) of 5.88%.

Payments. We could not find any information that discussed what constituted a full or partial payment.

Delinquency and Reaging. From the Trust document (page 27): Delinquent accounts may be restructured (deemed current) every six months. Accounts are **automatically** restructured if the customer has made the equivalent of one payment equal to at least 95% of a full standard payment. Once restructured, the account is deemed current; however, the credit limit is zero.

What we don't know: how many months delinquent can an account be (1 month, 4 months?) and still be brought current with just one payment. It would appear that if a customer makes four payments, misses one and then makes the next payment, he is automatically reaged and is now current. This is troubling, in our view, as most lenders we spoke with would re-underwrite an account before restructuring (and some also required more than one payment). Also, if he skips the next three payments, and then makes a payment in month 10, is he (i) once again current, or (ii) three months contractually delinquent, or (iii) four months contractually delinquent? In essence, under what circumstances is this loan considered delinquent and reported in HI's two-month-and-over contractually delinquent report? This should not be such a grey area, in our opinion.

These policies lead to more questions. What percentage of the portfolio has been reaged and how has it performed? What does equivalent mean? Can partial payments be aggregated over a time period exceeding one month and thus serve to bring the account current? Is there a maximum number of times that an account can be reaged?

Nonaccrual. It appears that private label credit card loans, like the Visa/MasterCard credit card loans, do not go on nonaccrual, but accrue until charged-off.

Charge-off. Accounts are charged-off when an account becomes 10 months contractually past due. This is more aggressive than the credit card policy which is to charge-off at 6 months delinquent. Note that this is also different than the Annual Report which states that private label is written off at 9 months contractually delinquent. While we thought this might be a recent change, it is probably not given the following text from the Trust (page S-15):

Prior to the merger (with Household), Beneficial Finance Corp charged off notified bankrupt receivables 30 days after notification, whereas the private label credit business (at HI) charged-off notified bankrupt receivables at 300 days past due. Beginning in October 1998, the merged private label credit business began charging-off notified bankrupt receivables at 120 days after notification. In addition, Beneficial Finance Corp's policy of charging-off receivables at six months contractually past due was changed to the private label credit's business's policy of charging-off at 10 months contractually past due."

Bankruptcy. An account generally is charged-off four months after receiving notice. Note that this is twice as long as the Visa/MasterCard portfolio which is within 60 days.

Credit Card

HI has completed several credit card securitizations over the past two years. The Visa/MasterCard portfolio totaled $17.3 billion at 3Q01-end and had a reported NCO rate of 6.75% in 3Q01 and delinquency rate (two months and over) of 3.91%.

Delinquency and Reaging. A credit card account is contractually delinquent if less than 90% of the minimum payment is made by the payment due date. From the Trust document (page S-14): Upon receipt of two consecutive payments on their

respective due dates, delinquent accounts may qualify to be redesignated as non-delinquent. At lower credit scores or more serious levels of delinquency, such consecutive payments would only allow for this reaging once every 12 months, although three consecutive payments would allow for a reaging back to current on these accounts once every six months.

Clearly, HI does not follow the FFIEC guidelines for reaging, in our opinion, which notes that (i) the account should exist for at least nine months before any reaging or deferment; (ii) the borrower should make at least three consecutive monthly payments; (iii) no reaging or any such modification should be done more than once in 12 months, and no more than two times in a five year period.

What we don't know: how many months delinquent can an account be (1 month, 4 months?) and still be brought current with just two consecutive payments. How often can an account (not seriously delinquent) be reaged? How is delinquency reported? What portion of the portfolio has been reaged and how has it performed? Is there a maximum number of times that an account can be reaged?

As part of its value proposition, qualified cardholders in the Union Plus program (open, current and not overlimit) are allowed two payment holidays (skip payments) over a 12 month period, and are considered current and finance charges continue to accrue.

Nonaccrual. Visa/MasterCard credit card loans do not go on nonaccrual, but accrue until charged-off.

Charge-off. The current policy is to charge-off an account at the end of the month in which that account becomes 180 days past due.

Bankruptcy. An account will be charged-off at the end of the month 60 days after notice has been received of the filing.

As an aside, we note that in the Trust documents, HI reports delinquency on an average basis, which we have never seen before, instead of at period-end. We were also surprised by the size of the credit limits 43% of the portfolio had credit limits in excess of $10,000, while two-thirds have credit lines in excess of $7,000. Average usage is much lower ($1,400) on an average credit limit of $6,700 (a 21% utilization rate), and the portfolio is fairly well seasoned with a principal weighted average age of 90 months.

Home Equity

HI's largest portfolio, Home Equity, had 3Q01-end managed receivables of $41.9 billion with a NCO rate of 0.52% and 60+ day delinquency rate of 2.74%.

HI did a securitization of closed end home equity loans in November 2001, the first such deal since 1999. There were a number of interesting developments since the 1999 deal. The average LTV of the loans increased from 93.3% to 99.3%. Indeed, 64% of the 2001 deal had a LTV in excess of 100% compared to 42% in 1999. The California concentration increased to 21% of the 2001 pool compared to 16% in 1999. Also, these loans were larger (35% had original principal balances of over $150,000 compared to 15% in the 1999 deal), had longer maturities (nearly 70% at 30 years for the 2001 deal compared to 58% in the 1999 deal), had reduced refi risk (79% had prepayment penalties compared to 57% for the 1999 deal), and only 12% were second mortgages compared to 14% for 1999 deal.

HI added an Optional Substitution section in 2001 that was not in the 1999 securitization as well as deferred interest comment arising from a skip-pay program. Under the substitution, HI can substitute home equity loans up to 30% of the aggregate principal balance of the loans as of the cut-off date.

Delinquencies. HFC may treat home equity loans as current if the customer has made **the equivalent of 95% of two standard payments in two consecutive months** and has demonstrated an ability to pay in the future. (page 16 11/2/01 prospectus). We are unclear as to how many months delinquent can an account be (1 month, 4 months?) and still be brought current with just two consecutive payments. While we believe that a delinquent home equity loan can only be reaged once a year, we could find no specific mention of this in the trust document

To cure the delinquency status of the home equity loan, the master servicer may, in its discretion, (i) waive various fees; (ii) arrange with the borrower a schedule for delinquent payments; (iii) sell the loan at fair market value (this is new for the 2001 securitization); and (iv) treat a home equity loan as current if the borrower has made **one scheduled payment** (same as 1999) which may be less than 100% of the scheduled payments. (This is new.) Page S-49 11/2/01 prospectus supplement. It is not clear how much less than 100% is acceptable, nor is it clear why only one scheduled payment cures a delinquency compared to requiring two payments in the prior paragraph. Is it related to the severity of the delinquency? Also, how often can a loan be reaged (brought current) in this manner?

Charge-Offs. At more than two months past due, HI will start the foreclosure process. HFC's charge-off policy is to

generally recognize losses on past due accounts when HFC takes title to the property in foreclosure proceedings. The charge-off period for the remaining balance may be extended for up to 24 months if HFC determines the remaining loan balance is collectible from the sale of the property. The trust document continues, to the extent that the indebtedness (including taxes, foreclosure expenses and other expenses) exceeds the appraised value HFC **may, but is not required to, writedown** the loan balance to the net value." There would appear to be some flexibility in loss recognition.

Auto

Similarly, we compared the auto securitization prospectus supplement dated 2/28/01 which updated the 12/28/99 prospectus to the 2001-3 prospectus dated 7/10/01. The maximum amount financed was increased to $40,000 from $30,000. The company had one central funding group and now has five regional funding centers. The company is now originating loans directly (mail, branches, Internet) and will charge-off the loan (assuming the car has not been repoed) at 150 days delinquent if originated indirectly, which we would consider to be higher risk given the dependence on the dealer, compared to 120 days delinquent if direct origination.

Delinquencies. Payments must equal or exceed 90% of the scheduled payment. Delinquency is recognized on a contractual basis only. A loan is considered contractually delinquent if less than 90% of the required payment has been received.

Extensions. The aggregate of all extensions on a contract may not exceed 6 months over the life of the contract and three months (it had been two months) in any contact in a consecutive 12 month period.

Previously, auto loans that are more than 31 days delinquent may be extended once during a six month period after the borrower makes in one or more payments, at least 90% of one required payment in either the current or prior month. If partial payments are aggregated, all these payments must be made within a 30 day period. This section is now gone. In its place it simply states When a loan is extended, it is no longer considered delinquent.

Similarly, the document had stated that HI repoes a vehicle when the collateral is at risk, when resolution of the delinquency is not likely, and when the borrower is 80 days delinquent. This last point has been removed in the latest prospectus.

Charge-offs. An auto loan is charged off at the earlier of (i) 90 days after repossession; (ii) when the repoed vehicle has been sold and the proceeds received, or (iii) if the vehicle has not been repoed, then either 150 or 120 days delinquent for a non-BK customer (depending on indirect or direct origination) or 210 days delinquent for BK customer.

Company Description

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Exhibit 78

DOW JONES

Business Wire
A Berkshire Hathaway Company

HD **Credit Card Charge-Offs Increased in October**

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PD 12 December 2001
ET 11:22
SN Business Wire
SC BWR
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LP

NEW YORK--(BUSINESS WIRE)--Standard & Poor's--Dec. 12, 2001-- Credit card charge-off rates increased in October 2001, according to Standard & Poor's Credit Card Quality Indexes (see list below). These indexes monitor the performance of approximately $373 billion in receivables held in trusts of rated credit card-backed securities, which make up nearly two-thirds of the total bankcard market. Issuers distributed October performance data on Nov. 15, 2001.

The monthly charge-off rate rose 30 basis points (bps), to 6.8% in October from 6.5% in September. The increase represents a 135 bps increase in charge-off levels compared with a year ago. Credit card charge-offs and delinquency rates have been rising for most of the year, reflecting the decline in consumer confidence and the effects of a slowing economy.

TD

Delinquencies averaged 5.3% in October, a 20 bps increase from September and a 70 bps increase from a year ago. Seventy-five percent of the trusts tracked by the indexes reported an increase in 30-plus day delinquencies this month, and almost 80% of the trusts reported an uptick in delinquencies in the 90-plus days bucket. Although the pace at which losses has increased slowed in recent months, the delinquency trends--combined with the recent increase in unemployment rates--point toward higher charge-off rates in the upcoming months.

Subprime lenders who have witnessed the most rapid growth over the past few years, and have yet to manage through a recession, will feel the increase in losses more directly. These same lenders suffered the greatest absolute increase in losses this month. The average increase in losses in October for prime issuers was relatively modest, less than 40 bps. The subprime section, however, averaged an increase in defaults of 165 bps. Congress has delayed its plan to proceed with the bankruptcy reform legislation. As a result, Standard & Poor's expects bankruptcy filing to ease from its current pace, helping push out losses in the future.

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The performance among the other trusts was mixed in October. Twenty-five trusts reported increases in their loss rates, and 11 reported declines compared with September's losses. For the major trusts (those with more than $5 billion in receivables), nine trusts reported increased loss rates and five reported an improvement or no change. All three of the largest trusts reported modest increases. First USA Credit Card Master Trust II charge-offs, Citibank Master Credit Card Trust losses, and MBNA Credit Card Master Trust II's defaults increased by 40 bps, 30 bps, and 20 bps to 6.50%, 4.9%, and 5.5%, respectively.

Other than delinquencies and charge-offs, performance trends for the other variables rebounded as expected this month. October did benefit from more collection days--23 business days in October compared with the disrupted 20 business days in September. Yield increased by 100 bps to help offset the increase in loss rates. The weighted average cost of funding dropped 100 bps to 4.7%. The Federal Reserve cut short-term borrowing costs again this month, leaving the lending rate at 2.0%, its lowest since 1962. Standard & Poor's expects rates to move further down following the next Federal Reserve meeting in December.

The gains in yield and the lower cost of funds helped excess spread levels. Average excess spread levels ballooned significantly, increasing by 190 bps to 8.5%, the highest point since the index was created.

Excess spread levels are healthiest among the subprime trusts, given the potential increase to volatility in losses. Even so, all trusts but one reported excess spread levels above 4.00% in October, with many of the prime issuers running three-month average excess spread levels of more than 6.50%.

In addition, payments rebounded, given the extra collections days. Payment rates for October jumped 130 bps to 16.2%, closer to its rolling three-month average. Despite growing concern over a softening economy, consumers are still paying down their credit card debt at a healthy pace, and payment rates continue to hold steady.

STANDARD & POOR'S CREDIT CARD QUALITY INDEXES

Distribution date	11/15/99	11/15/00	09/15/01	10/15/01	11/15/01
Performance month	Oct 99	Oct 00	Aug 01	Sept 01	Oct 01
Outstandings (Bil. $)	300.3	332.0	366.6	366.1	373.2
Yield (%)	20.0	20.3	20.0	18.9	20.0
Charge-offs (%)	5.5	5.4	6.5	6.5	6.8
Weighted base rate (%)	7.5	8.4	6.0	5.8	4.7
Excess spread (%)	6.9	6.5	7.5	6.7	8.5
Delinquencies (%)	4.8	4.6	5.1	5.1	5.3
Payment rate (%)	16.2	16.5	16.7	14.8	16.2

CT

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11:22 EST DECEMBER 12, 2001

IN i814 : Banking | ibnk : Banking/Credit

NS ccat : Corporate/Industrial News

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Exhibit 79

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The Bellingham Herald (Bellingham, WA)

July 26, 2002 Friday

SECTION: LOCAL; Pg. 1A

LENGTH: 1135 words

HEADLINE: Lender admits to violations; FINANCE: Household International says some policies may have been violated by Bellingham office.

BYLINE: John Stark, Staff

BODY:

BY JOHN STARK

THE BELLINGHAM HERALD

For the first time, Household International has acknowledged that its employees may have misrepresented mortgage loan terms to some Whatcom County homeowners who refinanced their homes at the Bellingham office of Household Finance Co., a subsidiary.

Household International spokeswoman Megan Hayden said the Bellingham office manager has been replaced as a result of the company's own investigation of consumer complaints.

But the departed manager told The Bellingham Herald that she's being made a scapegoat.

Local complaints

In recent months, nationwide lending giant Household has faced a rash of complaints from local homeowners who said they unwittingly refinanced their homes at higher interest rates after hearing misleading Household sales pitches.

The same homeowners have also complained of exorbitant loan fees and life insurance premiums added to the principal of their loans, plus high prepayment penalties that made it nearly impossible for them to refinance with another lender.

Four of the local homeowners have joined in a lawsuit against the company filed by Wenatchee attorney Bob Parlette.

Until now, company spokesmen have portrayed Household as an industry leader in consumer protection, with elaborate safeguards to make sure borrowers understand the deals they are signing.

But this week, Hayden said an internal company probe of the complaints had uncovered some serious problems.

"Those investigations did indeed show that there were some customers whom we believe had legitimate confusion on the interest rate on their loans," she said. "There may have been a miscommunication."

'Moved quickly'

Where problems were discovered, Hayden said Household has tried to make amends.

"We moved quickly to make it right with the customer and, frankly, apologized to the customer," Hayden said. "It is an absolute violation of our company policy and our employee training" to misrepresent loan terms.

Asked if anyone at the Bellingham office had violated that policy, Hayden replied, "Yes, we believe so, and those people have been held accountable for that."

Asked to elaborate, she replied, "We have a new branch manager working in the Bellingham branch. ? We take such violations very seriously."

Ex-manager upset

Hayden's comments didn't sit well with the former branch manager, Melissa Drury.

"They're just looking for a local scapegoat," Drury said.

Drury said she is a Western Washington University graduate who received high marks from her superiors during her 13 years with Household.

"I've always had excellent audits," she said. "I've been probably one of the best employees that they've had over the last 13 years. I've always done what I've been taught."

Drury said the sales pitches she used on potential borrowers came from the company.

"The bottom line is, they (the sales pitches) are Household programs," Drury said. "Nothing was done to intentionally mislead anybody. ? My number one interest would be never to hurt our customers."

High rates

More than two dozen local homeowners have contacted The Herald to tell similar stories of how they signed mortgage refinancing agreements with Household that saddled them with higher annual interest and higher payments than they started out with.

In nearly every case, the homeowners said they were shown loan repayment schedules with an "equivalent interest rate" of around 7 percent on a 30-year mortgage. But because the loans had to be paid back in a shorter period, usually 16 years, the actual annual percentage rate was often 12 percent or more.

In every case, the interest rate on the Household loans was much higher than what they had paid before refinancing, and probably far above the rate the same borrowers would have been charged elsewhere.

The complaining homeowners said they were rushed through the loan closing process and felt pressured into quickly signing things they had not read or understood. Some homeowners said they noticed the higher annual interest rate amounts spelled out on the documents they were signing, but company representatives reassured them that they were only going to have to pay the lower "equivalent" interest rate.

The aftermath pushed some homeowners into bankruptcy, and a few are facing foreclosure.

Denies firing

Drury denied that there was any scheme to take advantage of Household borrowers.

"The people that go to Household are people who are financially in trouble," she said. "The bottom line is to put people into a better position."

Asked to comment on Hayden's statements that borrowers may have been misled in the Bellingham office, Drury replied, "The bottom line is, everything has been Household's programs. Household's programs may have been misleading, then."

Drury also denied that Household had fired her. She said she departed on "mental disability due to their treatment." She described herself as still recovering from her split with the company, which she compared to a divorce.

Report on hold

Both attorney Parlette and state investigators agree that complaints about Household's practices are not confined to the Bellingham office. Couples from Stanwood and Spokane have joined in Parlette's lawsuit.

Chuck Cross, chief investigator with the state Department of Financial Institutions, has said his office has received complaints against Household from around the state.

The department's report on those complaints has been withheld from the public for several weeks because Household's lawyers convinced a Thurston County Superior Court judge to block its release. That matter will be back before the court in early August.

Bellingham carpenter Bob Penny, who has had his own problems with a second mortgage from Household, said he is part of an e-mail list of about 80 disgruntled Household customers who keep in touch and compare their experiences. Penny said some of the Household customers have been offered improved terms on their loans, but others have been rebuffed.

"There seems to be some inconsistency around what they're offering," he said. "People are getting offers when they haven't even made complaints. Other people who have made extensive complaints haven't gotten offers."

Penny said he doesn't believe the questionable practices are limited to the Bellingham office.

"I've gotten e-mails from people who had the exact same things happen in Spokane and Bellevue," he said.

HERALD FILE PHOTO

BORROWERS COMPLAIN: In this file photo, about 30 local homeowners holding loans with Household Finance and members of the Association of Community Organization for Reform Now, ACORN, protest against HFC lending practices at the Bellingham office in Sunset Square May 17. The company has acknowledged that it uncovered problems while investigating the complaints.

LOAD-DATE: October 30, 2002

Exhibit 80

-- FIRST CALL --

04:26pm EDT 14-Aug-02 J.P. Morgan (Michael J. Freudenstein (1-212) 62) HI
HI.N
Household International : Restating Financial Statements: Lo..

Household International : Restating Financial Statements: Lo..

August 14, 2002

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Household International (BUY)
Restating Financial Statements: Lowering Estimates

.Household International BUY
Ticker HI EPS 2001A 2002E (Old) 2002E (New)
2003E
(Old) 2003E (New)
Price(08/13/02) $37.80 1Q (Mar) $1.09A $1.04A
52-Wk.Range $33.80-68.60 2Q (Jun) $1.08A $1.07A
Mkt.Cap(BN) $17.26 3Q (Sep) $1.20 $1.16
Price Tgt(12 mo) $53.00 4Q (Dec) $1.32 $1.28
Fiscal Year Dec FY $3.91 $4.69 $4.55
$5.30
$5.00
Shares O/S(MM) 456.50 P/E FY 9.7 8.1 8.3
7.1
7.6

Household International announced this morning it has certified its
financial
statements with the SEC following the restatement of its earnings from
'94-02.
The reductions of net income are as follows: $26 MN YTD ($0.06), $76 MN
in '01
($0.17), $70 MN in '00 ($0.15), and $58 MN in '99 ($0.12).

* We are lowering our '02 and '03 estimates for HI to $4.55 and $5.00,
respectively, from $4.69 and $5.30 to incorporate the earnings
restatements,
the temporary suspension of the company's share buyback program, slower
loan

growth, and higher funding costs.

* Today's announcement was surprising but perhaps more surprising was that the
restatement did not relate to any of the areas that had been of greatest concern to investors, such as policies regarding the re-aging of charge-offs
or the impact of new FFIEC guidelines. In both cases, management stated they
do not expect any impact.

* HI's stated that its new auditors, KPMG (replaced Arthur Andersen), have
completed a review of the most judgmental areas of accounting including charge-
offs, provisioning, reserves, litigation accruals, income tax, and

securitization assumptions, and expect no further surprises.

* HI remains committed to it's A rating and all three agencies reaffirming the
company's ratings. The company intends to bolster the TETMA ratio to 8.5% (7.94% at the end of 2Q02 adjusted for charge, which was approximately 30 bps). HI is suspending its share buyback program and may raise capital later
this year. Our previous estimate assumed only $400-500 million in buybacks in
'02.

* While the stock appears attractively priced, at 7.7 times our 2003 estimate,
and with the worst accounting fears likely behind us (pending the release of
HI's audited restated financial reports on or around August 31, 2002), the
bigger concern for the stock, in our view, is the broader economic picture,
namely the U.S. economy.

Today, HI announced it would restate its financial statements from 1994-2002
following a financial review with its new auditors, KPMG (previous auditors
were Arthur Andersen). As part of the review, management determined that it
would adopt certain revisions of accounting treatments for: 1) deferred
acquisition costs related to a co-branding relationship, which had previously
been amortized instead of expensed, 2)an affinity relationship, which had
lower than estimated client attrition?HI extended the amortization period of
acquisition costs but KPMG revised amortization to the original schedule, and

3)a third party marketing agreement, which KPMG wanted the revenue sharing to
occur in current period earnings rather than amortized over 36 months.

Household International(HI/$37.80/BUY)

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affiliates expect to receive, or intend to seek compensation for investment
banking from the companies covered in this report in the next three
months.

J.P. Morgan Securities Inc. and/or its affiliates acted as lead or co-manager
in a public offering of equity and/or debt securities for Household Intl
within the past 12 months. J.P. Morgan Securities Inc. and/or its affiliates
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-- FIRST CALL --

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Exhibit 81

-- FIRST CALL --

04:22pm EDT 14-Aug-02 Blair, William & Co. (Joel Gomberg) HI HI.N
Household International Restates Financials for Credit Card Business

William Blair & Company, L.L.C. Joel Gomberg (312) 364-8913
JG4@wmblair.com

Household International, Inc. (HI)

Price 8/14	Earnings Per Share			P/E Ratio		Div.	Yield	LTGR	Rating
$38.27	12/01A	12/02E	12/03E	12/02E	12/03E	$1.00	2.6%	15%	2
($34-$69)	$4.08	$4.58	$5.10	8.4x	7.6x				

*** William Blair & Company, L.L.C. has received compensation for investment banking services from the company within the past 12 months, or expects to receive or intends to seek compensation for investment banking services in the next 3 months.***

Key Points:

* Household's CEO and CFO certified the accuracy of the company's financial results with the SEC. However, the company restated results dating back to 1994, reflecting revisions to the accounting treatment of MasterCard/Visa co-branding and affinity relationships and a credit card agreement with a third-party.

* The impact reduces EPS in the second quarter by $0.01, or 1%; and for the first six months $0.06, or 2.5%. The impact is less than 4% for each year dating back to 1994. The cumulative impact on net income is $386 million. As a result, capital is reduced by $386 million, or 3.6%, to $10.5 billion.

* The news is disappointing, as it appears management and previous auditor, Arthur Andersen, were taking a more liberal interpretation of specific accounting rules. The changes were judgmental and complex, and new auditor KPMG is taking a more conservative view on the amortization period of upfront expenses/intangibles in credit card business. As such, the concern is more of earnings quality. Importantly, in our view, there is no change on credit quality metrics, which would be more disturbing. No other restatements are

anticipated, according to management.

* Management reaffirmed its EPS guidance for 2002, excluding the restatement. We are reducing our EPS estimate to $4.58 from $4.69, reflecting the full year estimated impact of the change. Our 2003 EPS estimate is reduced from $5.30 to $5.10, reflecting the lower base off 2002 and concerns of higher funding costs and fewer share buybacks.

* We maintain our Long-term Buy rating. Shares trade at a highly depressed 8 times our 2002 EPS estimate. Fundamentals are tracking in line to better than expectations. However, the stock is likely to remain under pressure, as management continues to face a difficult period, operating the business under difficult economic conditions, regulatory and political scrutiny, and now heightened questions over the integrity of its accounting.

Details:
Household restated its earnings and financial statements dating back to 1994 through second quarter 2002. According to the company, the restatements are

limited to the accounting for co-branded, affinity credit card programs, and credit card marketing agreements with third parties. Household's previous auditor, Arthur Anderson, and HI's audit committee had signed off on the previous accounting methods; however, KPMG, Household's new auditor, indicated on August 14 that it was uncomfortable with the accounting methods in this segment and wanted to restate results.

The accounting in question is judgmental and complex, but relates to three agreements--one with a third-party marketing company and two related to specific co-branded relationships. In the first case, Household engages a third-party marketing company to originate accounts. The third party pays for the marketing expense itself and Household pays the company over a three-year period (based on historical performance of mailing programs). KPMG, however, wants Household to recognize these payments, which are considered marketing expense, over a 4- to

12- month period. Household plans on expensing the marketing immediately, meaning at the time each specific mail campaign is sent out, which is more conservative than KPMG requirement.

One of the co-branded relationships relates to the 1996 purchase of the AFL-CIO credit card portfolio ($3.6 billion) and ongoing co-branded marketing relationship. Household paid a premium for the portfolio and agreed to pay a royalty each year for use of the AFL-CIO name and trademark. Household amortized the premium over the life of the contract. The company expenses the royalty cost when paid. In 1999, Household extended this contract. In a study of the portfolio performance, the attrition of the account base was better than expected, according to management. As such, HI lengthened the GAAP amortization period for the premium and continued to expense the royalty payment immediately. Household also amortized the intangible differently for bank regulatory and GAAP purposes. KPMG asked Household to shorten the amortization period from 13 years to 10 years, and ensure the amortization period was the same for regulatory and GAAP purposes.

The final item relates to a successful launch of a new co-branded credit card program in April 1993. Household agreed to pay its partner an upfront fee for each account booked--amortizing the expense over the term of the contract. In May 1993, a new accounting taskforce (EIT-emerging issue task force) required upfront fees amortized over one-year on a prospective basis. Arthur Anderson/Household judged this contract to be grandfathered; however, KPMG judged the contract to be restated when it subsequently was extended with modifications in some terms. KPMG judged this a new contract. Thus, the expenses for new accounts must be amortized over one year rather than over the contract term with the partner.

The total effect of the changes equals $386 million in net income cumulative since 1994. The restatement reduces the first-half earnings for 2002 by $26 million, or $0.06 per share. Management suggested the total year impact for 2002 will be between $35 million and $45 million. As such, we are reducing our 2002

estimate by $0.10. Capital declines by $386 million, or 3.6%, to $10.5 billion.
As such, tangible equity to tangible managed assets declined 30 basis points
from 8.24% to 7.94%. Management is highly committed to supporting its credit
ratings. As such, it raised its targeted capital ratio from 8.25% to 8.50%. In
order to achieve this ratio, management suspended its current stock-buyback
program. It also will consider whole loan sales and, if need be, raising
capital. We believe that an equity raise would be very difficult in the current
environment. As such, retention of capital and loan sales will be the key

sources to reach capital targets.

Funding and liquidity are priority No. 1 for Household. Its term debt spreads
have widened considerably this year. Management does not expect to tap the term
debt market until the fourth quarter, indicating that if spreads remain at
current levels it would cost the company $10 million, which equals roughly $0.01
per share. Management believes it continues to enjoy good demand for
asset-backed issuance, reiterating its plan to issue $12 billion in ABS the rest
of the year to fund the portfolio. Management also pre-funded some amount of
its growth for the year, as evidenced by the company's excess liquidity. The
company had $4 billion in investment securities in the second quarter, up from
$1 billion the previous quarter. However, higher funding costs, through higher
debt spreads and excess liquidity, are likely to remain a drag into 2003.

Management indicated that current operating trends remain strong, as growth, net
interest margin, and credit quality have been in line to better than original
expectations. Management has not given specific guidance for 2003; however, we
are reducing our growth assumption to 10%-12% from 13%, largely due to higher
funding costs and fewer share buybacks. We also need to consider the lower base
for 2002 EPS with the restatement.

Additional information is available upon request.

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Exhibit 82

-- FIRST CALL --

06:57am EDT 15-Aug-02 Bear Stearns (Hochstim/ Coren, CFA/ Gokhale, CP)
HI HI.N
HI: Restatement Should Have Modest Impact ... PART 1

David Hochstim, CFA 212 272-4243 dhochstim@bear.com
8/14/02
Scott R. Coren, CFA 212 272-5280 scoren@bear.com
Sameer Gokhale, CPA212 272-6109sgokhale@bear.com

Subject: Analysis of Sales/Earnings
Industry: Specialty Finance Companies

BEAR, STEARNS & CO. INC.
EQUITY RESEARCH

Household International* (HI $38.09) - Buy
Restatement Should Have Modest Impact On Household. New Capital Ratio Targets
And Funding Challenges Likely to Impact EPS Next Year Though.

**PLEASE REFER TO THE LAST PAGE OF THIS REPORT FOR IMPORTANT DISCLOSURE INFORMATION

Data

Last ROE 23%	52-Wk Range $69-$33	Shares Out 429.6 million
Target Price $75	Dividend/Yield $1.00/2.6%	Market Cap (MM) $16.3 billion

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Key Points

*** Household announced it will restate earnings from 1994 to 1999, in response to discussions it has had with its new auditor, KPMG. In addition, the company indicated that it is committed to increasing its leverage ratios, will temporarily stop buying back stock, and may issue equity-like capital securities in the near-term.

*** The cumulative impact of the restatement over an 8.5 year period is about $386 million (or $0.84 per share), a relatively small amount when taken in context with the amount of earnings and equity that were generated over that time. We expect only a modest impact on future earnings as a result

of the accounting changes which were made to just three of the company's credit card arrangements.

*** More significant than the restatement, the company faces challenges with respect to spreads on its unsecured debt, leverage, and a regulatory crack-down on sub-prime lenders. We believe Household has the tools to deal with these issues, but there will be a cost.

*** We are lowering our 2002 estimate from $4.70 to $4.61 to account for the impact of accounting changes announced and the temporary halt of share repurchases. We are lowering our 2003 estimate from $5.25 to $5.05 to reflect the impact of the accounting changes, fewer share repurchases this year (we expect repurchases to resume in 2003), and the whole loan sales we expect this year.

*** Our Buy rating is unchanged as we believe most of the bad news is currently in the stock and the valuation, despite the reductions to estimates, is still low. There are few near-term catalysts however.

Earnings Estimates

	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Year	P/E Year
2001	$0.91	$0.93	$1.07	$1.17	$4.08E	9.3x
2002	$1.04	$1.07	$1.22E	$1.29E	$4.61E	8.3x
Previous	$1.09	$1.08	$1.22E	$1.32E	$4.70E	8.1x
2003					$5.05E	7.5x
Previous					$5.25E	7.3x

On Wednesday, Household announced it will restate earnings and its balance sheet from 1994 to 1999, in response to discussions it has had with its new auditor, KPMG. In addition, the company indicated that it is committed to increasing its leverage ratios, will temporarily stop buying back stock, and may issue equity-like capital securities in the near-term.

Restatement To Impact Earnings and Equity Modestly. Specifically the restatement relates to a change in the way the company accounted for three of its credit card arrangements. The company indicated that cumulatively these changes will reduce assets and equity by $386 million ($0.84 per share), the equivalent of about 4.2% of the common equity reported at June 30, 2002. For the first six months of 2002, earnings will be reduced by $26.1 million ($0.06 per share), relative to the roughly $1 billion of earnings ($2.17 per share) that the company reported over that period. In the second half of 2002, the prospective impact of the accounting changes is expected to be about $20 million or $0.045 per share.

The three credit card relationships that have created the controversy are the following:

*A major co-branded relationship in which Household pays its partner an up-front fee for each account booked. Previously the fees were amortized over the term of the contract. KPMG advised Household that in the future it should amortize the payments related to account acquisition over one year and should restate the accounting of this contract for prior periods.

*A major affinity portfolio, which Household acquired for a premium to the value of the receivables it purchased ($3.4 billion). The company had originally been amortizing the premium over a 10 year period (we believe); but after modifying and extending the contract term, it lengthened the amortization period to 13 years (we believe). For regulatory accounting purposes it maintained the original amortization period. KPMG advised Household to account for the contract on a GAAP basis the same way it does for regulatory purposes, which will result in a restatement and slightly higher amortization expense going forward (as the period is shortened again).

*A third party marketing agreement with an independent marketing company which reimburses Household for marketing expenses on selected mailings in return for a share of revenues from those mailings for a three year period. Household

accounted for the revenue sharing expense over a three year period. KPMG advised Household to restate previous accounting and fully expense the revenue sharing payments at the time a mailing occurred.

While we were disappointed with the restatement, we do believe it will

significantly impact the company's business or earnings outlook going forward (although there is likely to be some modest increase in expenses). There is no impact to cash flow, and the restatement relative to the earnings that have been generated over the last eight years is small. Further, none of the changes reflect problems with the company's core business practices (i.e. the way it accrues interest and fees, its accounting for provisions or reserve adequacy, securitization accounting, re-aging, etc.). In fact, it appears that all other aspects of the company's books have gotten a clean bill of health. Consequently, Household has certified the accuracy of its SEC filed documents. Also, as we see it, the restatement appears to reflect a difference in opinion between KPMG and Household's audit committee and its old auditor, Arthur Anderson, and is not an indication that Household acted improperly in the past. The company is committed to being on the same page as KPMG (particularly given the current regulatory environment) and as a result embraced the call for it to manage its books more conservatively.

Bigger Issues Near Term. We do not mean to make light of the restatement; however, the bigger issues, going forward, in our view, relate to liquidity, leverage, and of course the regulatory environment. All these things that have been on investors minds for some time now. Credit obviously remains an issue for all consumer lenders if the economy double dips (an event which Bear Stearns' Economists currently do not believe is likely). We think that Household has the tools and the flexibility to address the concerns we cite, though it seems reasonable to assume there will be some earnings impact from the steps that will need to be taken in order to pacify the rating agencies, fixed income investors, and consumer advocates. Still, it appears that the stock price already reflects the potential slowdown in EPS growth.

Unsecured Debt Spreads Unfavorable. Household's financing needs remain significant, given its receivable growth prospects; and while it has a variety of different funding alternatives, it is currently unable to cost effectively issue unsecured institutional debt, a major source of liquidity for the company historically (year to date it has done $13.2 billion). Household's five and ten year unsecured debt is currently trading at about 350 bps over comparable Treasuries, which compares very unfavorably to the roughly 175 bps over Treasuries that the bonds traded at earlier this year and does not seem to reflect the company's 'A' rating. Despite the fact that the company isn't likely to access this market under these conditions, we do not believe that the company will have to slow originations. There do not appear to be limitations on the amount of business Household could fund through the asset backed securities market. Investors' appetites for paper secured by the types of receivables that Household generates (particularly real estate secured) remain high. The company also seems confident that it can continue to cost effectively issue retail medium term notes in size. Further, whole loan sales of real estate assets remain an option (demand appears to be very strong for home equity loans and we understand that the premiums being paid currently are similar to the high levels seen back in 1998). The company still appears to have commercial paper capacity as its $10.1 billion of bank backstop lines (which have no material adverse change clauses) exceed the current roughly $6 billion of CP outstanding. It also has $3 billion of liquid investments and undrawn conduit capacity of $4.3 billion.

Although Household has financing alternatives, the company wants to get back into the term debt as quickly as possible (an event which seems unlikely at least until the fourth quarter of this year/first quarter of next year).

Household does not want to perpetually finance all of its business through the ABS market, as this may result in slightly lower quality earnings (to the

extent gains on sale are booked). Also, ABS, as a primary liquidity source, is not always perceived positively by equity and institutional fixed income investors. In terms of whole loan sales, they generate non-recurring gains but also eliminate the annuity-like revenues that they would generate for the company if they remained on the balance sheet. In addition, the longer the company remains out of the unsecured market, the more difficult it becomes to get good execution on deals once it gets back in.

Commitment To Reduce Leverage And Improve Capital Ratios Will Impact 2003 EPS.
In order to improve the spreads on its unsecured debt, Household is focused on catering to fixed income investors. Perhaps this will be at the expense of equity investors short-term; but this makes sense in the current environment, especially since debt (vs. equity) is much more critical to the company's ability to grow its business over time. Household has made a commitment to fixed income investors and the rating agencies (all of which reaffirmed the

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-> End of Note

-- FIRST CALL --

06:57am EDT 15-Aug-02 Bear Stearns (Hochstim/ Coren, CFA/ Gokhale, CP)
HI HI.N
HI: Restatement Should Have Modest Impact ... PART 2

company's ratings after the announcement about the restatement) to strengthen
its balance sheet and improve its capital ratios. Previously, the company had
targeted a tangible equity to tangible managed asset (TETMA) ratio of 8.00% to
8.25% and now plans to bring this ratio to 8.50% by year end from 7.94%
currently. Prior to the restatement that the company just announced its TETMA
ratio was 8.24%. Household also indicated it will target a tangible common
equity to tangible managed asset (TCETMA) ratio of 6.70% compared to the 6.55%
to 6.65% that it previously targeted. Currently, the TCETMA ratio is 6.39%
down from 6.69% before the restatement. Achieving these targets remains
critical to appeasing the rating agencies and significant spread narrowing we
believe.

We think these ratios are achievable by year end and easily attainable into
2003. Household continues to generate an extraordinary amount of excess
capital given its near 20% return on common equity, which compares very
favorably to the roughly 10% growth in managed assets we now forecast for this
year and next. Over the next six months, we believe Household will reach its
desired capital ratios through a combination of internally generated capital,
no stock repurchases, selective whole loan sales, and a capital raising event
(likely a couple $100 million of preferred stock). In 2003, based on our
estimate of the capital the company will generate through retained earnings, we
believe Household will be able to resume buying back stock (at least 15 million
shares we believe) and still easily exceed its new capital ratio targets.

The liquidity and leverage challenges the company faces and the fact that it
must take steps to reach its targets in the near-term are not without cost. We
estimate that not buying back any stock in the second half of 2002 will cost
the company $0.04 in earnings next year. In addition, the whole loan sales

that management indicated are likely (we estimate $1.5 billion in the third quarter and $500 million in the fourth quarter) will cost the company nearly $0.10 per share (assuming a 2%+ ROA on the assets $2 billion of assets being removed from the balance sheet), although they are likely to help results in the quarters they are sold given the gains on sale that will be recorded (we estimate premiums of 3% to 4% on the assets). Combined with the roughly $0.06 per share impact we expect on next year's earnings as a result of the changes in accounting policies that were announced (i.e. those that caused the restatements), this will reduce our 2003 EPS estimate by about $0.20 to $5.05 from $5.25.

Dealing With The Tougher Regulatory Environment - Costs Of Change Are Unclear.
At a meeting that Household hosted for fixed income investors, following its morning announcement about its earnings restatement, the company reviewed, among other things, the regulatory environment. This included a discussion new FFIEC proposals, capital requirements, and how Household is seeking to reduce headline risk by implementing best practices.

The company indicated that it is currently compliant with the major FFIEC proposals, including establishing a reserve for uncollectible accrued interest and fees. In addition, management said that Household has not received or does not expect to receive an MOU from its regulators. In terms of the stricter capital requirements that have recently been imposed on many sub-prime issuers that fund receivables with bank deposits, Household indicated that it already

added $1.25 billion of capital to its bank subsidiaries in the first quarter of 2002 based on prior discussions that it had with its regulators. The company does not expect to make any more infusions, and in fact stated that it has been deemphasizing its thrift. Ultimately, it hopes to pull capital out of that entity as it winds it down further.

The company talked extensively about the predatory lending issues it has been dealing with. Although there have been no specific allegations that Household has been in violation of the law, consumer activists and perhaps some regulators clearly do not like some of the business practices that seem inherent in sub-prime lending (like offering a secured loan to a borrower that is initially seeking an unsecured line, higher fees and points, prepayment penalties, the cost of credit insurance, arbitration). As a result the company appears to have been working diligently to improve its business model in an effort to improve its relationships with its customers and reduce the "business risk " that currently exists.

The company has made changes to three major facets of its lending business recently:

*Disclosure has been improved, in order to supplement the currently required state and local mandates which Household believes are not adequate. Borrowers are now encouraged to watch a video prior to the closing of a loan, which walks them through the most important loan terms. Borrowers are also presented with a single page of loan disclosures which are designed to be in plain English and are very simple to understand. Finally, the company offers borrowers a post-closing survey which asks the customers about their understanding of prepayment penalties, points and fees, the optionality of credit insurance, etc.

*There have been several product enhancements. All loans must create value for the customer and therefore are subject to a tangible net benefits test, which is reviewed by the underwriting group and documented. Two of four benefits must be met in order for the loans to be made (e.g. lower monthly payment, cash out benefit, lower rate). The company also lowered the maximum points it charges and will allow a borrow to finance to 5, and eliminated single premium insurance in all states. The company's pay-right rewards program reduces the customers' interest rate by 25 bps if they pay on time for 12 months in a row (on time is defined as within 30 days of the due date). The rate can be

lowered 12 times over the life of a contract. Prepayment penalties are waived
after two years if the customer pays on time for 12 consecutive months and all
prepayment penalties have been reduced to 3 years.

*Household has also established an audit committee which will monitor the loans
that are being originated. The company's complaint tracking system has been
updated so that it can analyze any and all complaints that have been made
against the company and aggregate them by source (BBB or regulator, for
example), state, or category (e.g. if they are over prepayment penalties).
Household indicated that the complaint tracker was used to search for loans
with an effective rate issue, which is what has sparked significant controversy
over the company's business practices in Bellingham, Washington. The company
found 42 such situations (mostly in Washington) and has adjusted the rate on 32
so far. Management indicated that we should expect to see several new stories
in the near future (including one in the New York Times) which showcase one-off
examples of customers that got bad loans from Household. Ultimately, the
company is hopeful that its new best practices initiatives will eliminate even
one-off situations where a bad loan is made.

It is unclear what the long-term ramifications will be on Household's returns
as a result of the best practices initiatives it is implementing. It would
seem that the company will have to give up some revenue as it is lowering fees,
reducing prepayment penalties, and eliminating highly profitable insurance
sales. However there are clear benefits which should provide at least some
offset, and these include, less pressure from regulators and consumer
activists, better credit quality, lower attrition, and perhaps more market
share as actual predatory lenders are shaken out of the market.

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Strong conviction and typically accompanied by an identifiable catalyst.
Sectors with less volatility would anticipate lower total returns
Attractive(2) - Expected to outperform the local market by 10% or more in the
next 12 months, it is usually more difficult to identify the catalyst
Neutral(3) - Expected to perform in line with the local market in the next 12
months
Unattractive(4) - Expected to Underperform the local market in the next 12
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Sell(5) - Avoid the stock

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Exhibit 83

SALOMON SMITH BARNEY

See last pages for Important Disclosures

Target Price Change ☑
Estimate Change ☑

United States

Household International, Inc. (HI)

HI: Certifies Statements, But Restates $386 million Past Income - Maintain 2H

2H *(Outperform, High Risk)*
Mkt Cap: **$17,567.1 mil.**

August 14, 2002

SPECIALTY FINANCE

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SUMMARY

- In conjunction with the certification of its financial statements, HI announced that it restated $386 million of prior income over the previous 8-year period.
- Restatements stem from new auditors' interpretation on amortization periods of credit-card related costs.
- Mgmt anticipates $9-$20 mil after tax impact in 2H02 ($0.02-$0.06/share).
- Hit to capital ratio is roughly 30 bps. HI plans to suspend stock buyback plan in 2H02 to rebuild capital ratios above previous targets by year-end 2002. S&P/Moody's and Fitch re-affirmed debt ratings today 8/14/02.
- We believe the company has ample access to liquidity, and think it will emphasize securitization markets over unsecured debt markets near-term.
- We are reducing our '02 and '03 estimates by $0.15 each to $4.45 and $5.05, respectively (though those could prove conservative). Adjusting price target to $45 from $52, this conservatively represents a historical low-end 9x '03 EPS.

FUNDAMENTALS

P/E (12/02E)	8.6x
P/E (12/03E)	7.5x
TEV/EBITDA (12/02E)	NA
TEV/EBITDA (12/03E)	NA
Book Value/Share (12/02E)	$18.78
Price/Book Value	2.0x
Dividend/Yield (12/02E)	$0.97/2.5%
Revenue (12/02E)	$12,499.1 mil.
Proj. Long-Term EPS Growth	13%
ROE (12/02E)	22.9%
Long-Term Debt to Capital(a)	92.4%

HI is in the S&P 500® Index.

(a) Data as of most recent quarter

SHARE DATA

Price (8/14/02)	$38.09
52-Week Range	$68.00-$36.29
Shares Outstanding(a)	461.2 mil.
Convertible	No

RECOMMENDATION

Current Rating	**2H**
Prior Rating	2H
Current Target Price	**$45.00**
Previous Target Price	$52.00

EARNINGS PER SHARE

FY ends		1Q	2Q	3Q	4Q	Full Year
12/01A	**Actual**	**$0.91A**	**$0.93A**	**$1.07A**	**$1.17A**	**$4.08A**
12/02E	**Current**	**$1.04A**	**$1.07A**	**$1.12E**	**$1.22E**	**$4.45E**
	Previous	$1.09A	$1.08A	$1.17E	$1.27E	$4.60E
12/03E	**Current**	**$1.17E**	**$1.18E**	**$1.27E**	**$1.43E**	**$5.05E**
	Previous	$1.21E	$1.22E	$1.31E	$1.46E	$5.20E
12/04E	**Current**	**NA**	**NA**	**NA**	**NA**	**NA**
	Previous	NA	NA	NA	NA	NA

First Call Consensus EPS: 12/02E $4.68; 12/03E $5.27; 12/04E NA

OPINION

Household International announced that its CEO and CFO have certified the company's financial statements. However, in doing so, management restated net income down by $386 million cumulatively over the preceding 8-year period (1994-to 2Q02). The restatement represents roughly 3%-4% of reported net income over that period, and a little over 4% of current total common equity. Included in the restatement is a $0.01 reduction to the 2Q02 reported EPS and $0.06 reduction to the 1H02 EPS (or $0.05 in 1Q02).

The changes result from Household's new auditor, KMPG, requiring it to use shorter amortization periods on certain credit card account acquisition costs than it has historically used. There are three issues where this arises:

- The company will shorten the amortization period on acquisition costs associated with its co-brand card to one year from "over the life of the contract".
- The company will shorten the amortization of costs associated with a third-party marketing relationship from three years to immediately upon the "drop" of related direct mailing pieces. This is now more conservative than the newly-required 4-10 month amortization period.
- The company will conform its GAAP amortization accounting with regulatory amortization accounting for affinity group acquisitions. This reduces the amortization period to 10-years from 13 years.

It appears to us that Household's previous accounting treatment was consistent with the rules at the time they were enacted, given that they were "blessed" repeatedly over the years by Household's previous auditor, Andersen. In one case, the company even received such a "blessing" from the senior technical person at Andersen that wrote the conclusion on the new accounting policy that suggested that the accounting practice would be "grand fathered" in under the old (then existing rules). While Household could have been more conservative by adopting the new accounting policies, even though it didn't have to, we believe a reasonable case can be made for the course of action it took.

While KPMG is expected to complete its audit of the restated financial statements by the end of the month (August), it has already provided Household's audit committee a written document saying it has already reviewed the more judgmental parts of the audit (e.g., loss provisioning, charge-off policies, securitization accounting, litigation reserves, etc) and has no issues. Thus, we do not expect any more material changes to come out of the audit.

We also take comfort from the fact that all three rating agencies S&P, Moody's and Fitch reaffirmed their single-A ratings for Household's debt this morning (8/14/02).

Household will suspend its stock buyback plan in the second half of 2002 to rebuild capital to above its previously-targeted levels. Management now plans to improve its tangible equity-to-managed assets (TETMA) ratio to 8.5% (vs. its previous 8.00%-8.25% target), and raise its common equity-to-managed assets ratio to 6.7% (vs. the previous 6.55%-6.65% target) by year-end 2002. And while management indicated that it could potentially issue equity as a component of the plan to improve capital ratios, we consider equity issuance to be unlikely given the company's ability to generate capital through internal means as well as relatively low level of the current stock price compared to historical trading ranges.

Household management indicated that that it expects the changes in the amortization periods to impact second half EPS be roughly $0.03-$0.06. Combined with the $0.06 of restatement of earnings in the first half of 2002, that would indicate a reduction in full-year 2002 guidance by $0.09-$0.12. We are taking a slightly more conservative approach; we are reducing our 2002 EPS estimate by $0.15 to $4.45 from $4.60, and taking our 2003 estimate down by $0.15 to $5.05 from $5.20. We have tried to err on the conservative side as we have considered that the company could experience higher funding costs near-term, if the company's debt spreads stay wider than they have been in recent weeks, or there are other distractions around these changes. We are reducing our price target to $45 from $52, which conservatively represents the low end of the company's historical valuation range of 9x our new 2003 estimate (see further discussion below).

Given the tone of the conference call this morning, it appears that management credibility may continue to be banged up a bit in the minds of investors. And with the continuing backdrop of predatory lending discussions, it is difficult to identify a near-term catalyst that will move the stock higher in the near-term. Nonetheless, with the stock currently trading at 7.2x our new 2003 EPS estimate, we believe our Outperform (2H) rating is still warranted from a risk/reward perspective.

In our mind, the biggest risk to the Household story is that jittery debt markets make the company's cost of funding prohibitive or mechanically difficult. Unsecured term debt spreads widened this morning 8/14/02 (by some 20-30 basis points) and over the last several weeks. That said, it appears that the company has ample access to funds for near-term liquidity in the form of its liquidity portfolio, the commercial paper market, ABS market, and the potential for whole loan sales. Thus, we do not believe a funding crisis is imminent, and think it is plausible that the term debt market could settle down in the intermediate term.

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VALUATION

We are reducing our target price to $45 from $52 to reflect our reduced level of EPS projected for 2002 and 2003. Our revised target price reflects our view that the stock can trade at 9x our $5.05 2003 EPS estimate. At 9x forward earnings, our target price is based on the low end of the stock's historical price/earnings range of 8x-19x, it is below the median valuation of 12x and represents a 30% discount to our projected long-term earnings growth rate for the company. We believe the lower end of the historical valuation range is reasonable given the fact that we are in a relatively more challenging economic cycle, whereas most of the past 10 years of trading history that we use as a guide was over a strong economic environment. The last time the stock traded in the 8x forward projected EPS area was 1994. While this target may prove conservative, we believe the stock could continue to trade around the levels of the last recession until we see improvement in the economy, improvement in credit quality trends, and/or some relief from predatory lending overhang. On a reported book value basis, the stock trades in line with its ten-year median and below the five-year median of 3.2x. Our target price suggests a price/book multiple in the area of 2.5x-2.7x which is somewhat in the middle of the more recent 5 year valuation and the ten year period that includes recession and changes in the business model.

RISKS

Given the uncertainty of the macro-economic picture, the risks that Household faces include: rising credit costs given its largely non-prime customer base in a slowing economy, slowing loan growth due to more cautious consumers, greater incidence in prepayments due to relatively low interest rates, and competition. The company is also exposed to interest rate risk, capital markets risk and legal risk. Recent political and media attention on the topic of predatory lending, as well as a number of lawsuits filed directly against the company by customers and consumer advocacy groups, increase the overall risk profile of the company. While we recognize headline risk as an ongoing risk, particularly in a weak consumer

economy, heightened "legislative" and investor scrutiny increases the stakes. We believe our High-risk rating assigned to the shares reflects the risks outlined.

ANALYST CERTIFICATION

I, Matthew Vetto, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company and its securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Exhibit 84

Fitch Affirms Household At 'A' Following Announcement

Fitch Ratings-New York-August 14, 2002: Fitch Ratings affirms the long-term rating of 'A' and commercial paper rating of 'F1' for Household International, Inc. (Household) and its subsidiaries (For a full list of rating actions see list below). The Rating Outlook for Household remains Negative. The company maintained over $70 billion in debt and preferred stock as of Mar. 31, 2002.

The ratings affirmation is in response to Household's announcement that it is restating its earnings and balance sheet from Jan. 1, 1999 forward to reflect more conservative accounting for three credit card related agreements after thorough review by their new auditor KPMG LLP. The matters in question related to decisions made from 1994 to 1999, involving judgments made on complex accounting decisions done in consultation with their prior auditor, Arthur Andersen LLP, and reviewed by Household's Audit Committee. These deals were related to the company's Mastercard/Visa co-branding and affinity credit card relationships, and a credit card marketing agreement with a third party.

In total, the restatement actions will result in Household showing reduced net income in prior periods, which will ultimately result in a decline in common equity of $386 million, lowering total equity to approximately $10.48 billion from a previously reported $10.87 billion. The adjustments will cause Household's tangible equity to tangible managed assets (TETMA) ratio to decline to 7.94% from a previously reported 8.24% at June 30, 2002.

While today's announcement is disappointing, it is understandable that accounting adjustments related to previous interpretations can occur in financial statements. Fitch recognizes the complexity of current accounting guidelines that leave significant room for interpretation and judgment, which can effectively change reported results. While the avoidance of restatements through use of more conservative accounting would clearly been preferable, similar restatements are not expected for Household in the future.

While the required equity reduction is concerning, Fitch believes that Household maintains the financial wherewithal to absorb this restatement and we are satisfied that management is committed to replenishing capital ratios to levels above what were originally reported at June 30, 2002 (raise TETMA to 8.50%) by year-end 2002. Management will achieve this through a suspension of the company's stock buyback program, targeted portfolio sales to control growth, and the issuance of additional capital, common or preferred, if necessary. Despite the financial restatements, Household still generates solid returns which will be used to bolster common equity.

Household's current ratings continue to reflect the strength of the company's diverse consumer lending franchise, solid financial performance over the past several years, and well developed funding profile. With over $105 billion in managed receivables at June 30, 2002, Household maintains strong market positions in various consumer lending sectors, including near-prime/subprime real estate secured lending, MasterCard/Visa

credit cards, private label credit cards, other unsecured consumer loans, and nonprime automobile lending.

Concerns with Household continue to center on the company's ability to demonstrate effective portfolio liquidity, particularly in times of economic stress. More directly, given the non-conforming nature of Household's real estate secured near-prime/subprime and some of its other unsecured products, Fitch has been uncertain as to whether the company would be able to effectively monetize these assets as effectively as it has with other asset types, as such asset valuations could come under pressure in more stressful economic scenarios. As of June 30, 2002, Household's real estate portfolio totaled $48.9 billion, a 23% increase from a year ago, or 46% of total managed receivables.

Fitch recognizes that Household has completed $3.4 billion of real estate term securitizations through the first six months of 2002 and it completed $900 million of whole loan real estate sales during that period as well, with more deals expected going forward. As mentioned earlier this year, Fitch will be assessing these transactions throughout the year to determine if this accessed liquidity will be sustainable.

Future rating actions could be predicated on the success of these secondary market transactions. Fitch also expects Household will effectively build and maintain the appropriate level of capital necessary to maintain its current rating. If these actions are effectively demonstrated, the Rating Outlook could be revised back to Stable late this year or early in 2003.

Ratings Affirmed with Negative Rating Outlook:

Household International, Inc.

--Senior debt 'A';

--Subordinated debt 'A-';

--Preferred stock 'A-';

--Commercial paper 'F1'.

Household Finance Corp.

--Senior debt 'A';

--Subordinated debt 'A-';

--Preferred stock 'A-';

--Commercial paper 'F1'.

Household Capital Trust I-VI *

--Preferred stock 'A-'.

Household Bank, FSB *

--Certificates of deposit 'A+';

--Senior debt 'A';

--Short-term debt 'F1';

--Individual Rating 'B'.

Household Bank (Nevada) N.A. **

--Senior debt 'A';

--Short-term debt 'F1';

--Individual Rating 'B'.

HFC Bank plc * **

--Euro-medium-term notes 'A';

--Commercial paper 'F1';

--Individual Rating 'B';

--Support Rating '3'.

Household Bank International Netherlands BV

--Senior notes* 'A'.

Household Financial Corp., Ltd.

--Senior debt** 'A';

--Senior debt shelf** 'A'.

-- *Guaranteed by Household International, Inc.
-- **Guaranteed by Household Finance Corp.

Contact: Thomas J. Abruzzo 1-212-908-0793 or John S. Olert 1-212-908-0793 New York, Peter J. Shimkus 1-312-368-2063 Chicago, or Peter Milne, London +44 (0)20 7417 4244 for HFC Bank plc.

Exhibit 85

HOUSEHOLD

Sandy L Derickson
08/16/2002 07:26 AM

To: Chuck A. Colip/Household International@HFN, Jody C. Berns/US/Household@HFN, Patrick R. Boney/US/Household@HFN, Jeanne E. Gruner/US/Household@HFN, James F Connaughton/US/Household@HFN, Brian W. Zempel/US/Household@HFN, Wilbert P. Noronha/Household International@HFN, Susan B. Jewell/US/Household@HFN, Joseph W. Hoff/US/Household@HFN, Richard C. Klesse/US/Household@HFN, Leigh F Hogan/US/Household@HFN
cc:
Subject: Forbes Article

FYI---- Forwarded by Sandy L Derickson/US/Household on 08/16/2002 07:25 AM ----

HOUSEHOLD

Megan E Hayden
08/15/2002 10:13 PM

To: William F. Aldinger/Household International@HFN, David A. Schoenholz/Household International@HFN, Gary D. Gilmer/Household International@HFN, Thomas M. Detelich/US/Household@HFN, Kenneth H. Robin/US/Household@HFN, Bobby N Mehta/US/Household@HFN, Colin P. Kelly/US/Household@HFN, Sandy L Derickson/US/Household@HFN, Larry N. Bangs/Household International@HFN, Ken Harvey/Household International@HFN, Douglas A. Friedrich/US/Household@HFN, James B Kauffman/US/Household@HFN, Craig A. Streem/US/Household@HFN, J. Denis O'Toole/Household International@HFN, Lisa M. Sodeika/US/Household@HFN, Sylvia S. Alston/US/Household@HFN
cc:
bcc:
Subject: Forbes Article

Attached please find the Forbes article about Household that appeared tonight on www.forbes.com. The same story will hit the news stands this coming Monday, August 19, 2002.

Clearly, this is not the kind of article that we would like to see about our company. It is sensationalized, sarcastic, and does not represent our side of the issue as much as we rightly feel we are owed. This is the sad reality of today's media.

But I'd also like to point out that some battles were won, as evidenced by what you don't read in this story. You do not see any quotes from ACORN, very little is said about the Washington State exam report, and only passing reference was made to multi-state regulatory concerns. Moreover, the reporter did not write about re-aging (which we explained and re-explained to him) and got off the point that we were "stealing" extra payments from customers through the biweekly payment (note: he tried to argue that customers didn't know they were making 13 payments/year).

Moreover, Tom's direct quote and the additional Household messaging at various places in the story helps put the allegations into perspective: we believe these are isolated issues and the company has taken strong action to ensure that it is truly living up to its Best Practices.

Hayden-Hakes
DEP. EXH. # 63
Date: 8/18/06 KD

Case # 02-C-5893
Jaffe v. Household
Plaintiffs' Exhibit
P0069

I do recommend a letter to the editor that shares the key messages that were shared with the reporter, but didn't make it into the story. We need to get our view on the record. This letter, which should go under Tom's signature, will include our 125 year history of helping people meet their financial goals, the overwhelming response we receive from customers who have benefitted from our products, the fact that we have careful controls in place to ensure compliance, and the fact that we are learning from any mistakes of the past and only becoming better for it.

Story.doc

Forbes.com

Companies, People, Ideas

Home Wrecker

Bernard Condon, 09.02.02

William Aldinger says he built one of the few successful lenders to bad credit risks by managing smarter. People suckered into his mortgages cite other tactics: lies and deceit.

William Myers paid off his credit card debt by refinancing his mortgage last year. But he says his new lender, Household International, charged him 11% interest, not 7.2% as promised. Then it added $14,400 in fees and insurance to his $80,100 loan and stuck him with a $15,000 second mortgage--at 20% interest. He didn't notice it until the first bill.

"They're nothing but a bunch of thieving, loan-sharking crooks," he says of Household, the nation's largest nonbank lender to borrowers of less than stellar creditworthiness. Myers, 66, was left owing a third more than his home was worth, scaring away rival lenders that might have come to the rescue. He sued Household in federal court, charging violation of disclosure laws; the case is pending.

Household is under fire for myriad tactics. In addition to the bait-and-switch on interest rates, it charges high prepayment penalties and service fees; it lures clients with proposals showing monthly savings that at times fail to materialize; and it structures mortgages to include last-minute second loans that make it difficult for borrowers to defect and get refinancing elsewhere. Household agents call it "closing the back door." In July, FORBES has learned, authorities from more than a dozen states descended on Household to demand refunds and reforms.

Household says such complaints represent a minuscule fraction of its $100 billion in outstanding loans. It also says gripes about the interest rate trick that fooled Myers are largely confined to its office in Bellingham, Wash. "If there was a pattern, this would be a massive complaint issue," says Thomas Detelich, the consumer lending chief who oversees Household's 1,400 branches and 8,000 loan officers. "We're scratching to find a handful." He says an internal probe turned up only 42 such complaints.

But Household's questionable practices seem to be in far wider use than that. For one thing, Myers lives in Dayton, Ohio, not Bellingham, Wash. The Household pitch was so effective it lured even customers with good credit, including Myers. Customers and some ex-employees tell of the same interest rate trick in a dozen states. "Household encourages, or at least tolerates, these abuses," says Minnesota Commerce Commissioner James Bernstein. "It's not just an occasional rogue loan officer or a rogue office. It has to do with the corporate culture."

Household's tougher tactics began in 1998, when Chief Executive William Aldinger, a serial acquirer who had just bought Beneficial Corp., ran out of targets and looked for internal growth by pushing mortgages instead of credit cards. The results are impressive. Household's net income rose 17% to $514 million in the second quarter, its 16th consecutive record quarter, and it kept default losses at an impressive 4.3% (annualized) of receivables. Household's return on assets is down but still remarkable at 1.9%. MBNA and Capital One, big players in mainstream credit card lending, returned 1.5% each.

"He squared the circle," Howard Mason of Sanford C. Bernstein & Co. says of Aldinger. "But there's always a price for doing the seemingly impossible."

The price was paid by customers. Mortgage lenders constantly raid rivals' customers by offering cheaper rates, cutting into everyone's profits. So in 1999 Household cracked down: It loosened standards to allow second mortgages on top of first ones even if that left customers owing more than the value of their homes. It also increased fees to levels that would eventually match the highest allowed in many states. These fees, or points, chip away at a homeowner's equity, making it tougher to switch lenders. Aldinger started telling Wall Street that his customers were less likely to bolt because their equity had been reduced by his loans, say several Wall Street analysts.

Household also began EZ Pay Plus, a program under which many borrowers, like Myers, were lured with lower interest rates but were really charged higher ones. EZ Pay Plus also hooked Corina Galindo, a teacher's assistant in Phoenix. In April 2000 Household offered to replace her $67,300 mortgage, a Chase Manhattan Bank loan at 8.5% interest, with a bigger but seemingly cheaper one: $86,300 at an "effective rate" of 7.6%, enough to pay off the old mortgage and a $12,200 personal loan she was paying off at 15.7%. At least, that is how she read a worksheet from a Household loan officer. Galindo signed up. Four days later, she says, she got nervous and reviewed the 80-page agreement--signed or initialed in two dozen places--and spotted the real interest rate: 12.2%.

How did it happen? Galindo says her agent, Jose Avila, handed her the worksheet, titled Bi-Weekly Payment Quote, with this sentence at the bottom: "If I can put together a loan that pays out like a 7.579%-a-year loan, but has a total term of 18.63 years ... would you be interested?" She was, though the claim wasn't exactly true. Her loan term would be reduced from 30 to 19 years, and payments would be automatically deducted from her checking account every two weeks. By paying off her mortgage faster, Galindo would pay lower total interest. Her new loan's payments would total $219,000 over 19 years. The Household pitch: Spread that over 30 years, and it's like a 30-year loan at 7.6%, lower than her Chase loan.

Never mind that her new mortgage wasn't a 30-year loan to begin with--and that 12.2% is 12.2%. The $86,300 loan included processing fees of $6,000, or 7%, plus other charges. Many lenders levy 1% to 2%.

At the closing on a Saturday, Galindo says, Avila also sprung on her a second mortgage--set up as a line of credit of $10,000 at 23.9%. At her closing, she was drawing down

$4,800 on this line to pay off yet another outstanding debt--a debt she had expected to be taken care of in the $86,300 first mortgage. Household structures many second mortgages as lines of credit, which lets it avoid federal rules that mortgage terms must be disclosed at least three days before closing.

She protested but signed anyway. "I felt a lot of pressure," she says. "Avila told us he never opens on Saturday and his family was waiting for him. But I can't do anything. I signed the papers." Galindo now works nights cleaning classrooms to help pay off the new loans. Household says her loan officer, Avila, is on disability leave; he couldn't be reached. The company won't comment on her complaint, but Galindo says it has offered to reduce her rate.

Household pressed its agents relentlessly for growth, raising targets several times in three years. "It was a pressure cooker," says Seth Callen, a former branch manager in Colorado. At times this led to deceptive tactics, former loan agents say. The EZ Pay worksheets weren't authorized by the company, but they were photocopied and passed from branch to branch. In May 2001 Household ordered the worksheets destroyed at all branches, ex-insiders say. Household says it was enforcing a policy barring unapproved sales materials.

But even Household's own materials were at times misleading. The Home Equity Loan Proposal sheet totes up a customer's current payments to creditors and mortgage lender and compares the total to a single monthly payment on a new Household loan. The Household figure doesn't include property taxes and home insurance, while the old mortgage often does; this understates the Household cost.

Mary Gaspers of New Brighton, Minn., an antiques dealer, was given a proposal showing she would save $202 a month by consolidating credit card debt into her home mortgage. "It sounded so wonderful," she says, "and it was right in front of me, in writing." But her old monthly payments included $195 in taxes and insurance; her new loan didn't. So her real saving was a meager $7--and her new interest rate was 10.7%, not the 7.15% her EZ Pay worksheet cited. She refinanced with another lender at 7.25% in April of last year. For her $165,000 Household loan, which lasted just four months, she paid fees and penalties totaling $22,000.

Household says when it talked to Gaspers, she never complained about the higher interest rates.

In April 2001 Household was sued by a couple who claimed they had been misled by the branch in Bellingham. The case was settled. A month later Household began visiting its 1,400 branches to look for deceptive EZ Pay practices. In July 2001 Household announced it would end single-premium credit insurance, a stiff charge often added to loans. It also eased prepayment penalties: Customers now can avoid a kill fee if they hold a loan for three years before paying it off early; previously they had to wait five years. By September 2001 Household began disclosing on the monthly comparison forms that monthly payments didn't include taxes and insurance.

Other legal battles dog Household. Early this year the company was sued in state court in California by Acorn, the advocacy group for low-income families. Near the infamous branch office in Bellingham, another borrower sued: Jeanie Luna says that at her closing, her husband, Joseph, spotted a 12.7% rate on a document, even though the branch manager, Melissa Drury, had cited a 7% rate. The Lunas say they confronted Drury, who told them the higher number was merely a "default rate." Within three months after the Lunas sued in state court and garnered local newspaper coverage, 90 other customers had called their lawyer, Robert Parlette, with similar complaints. He now is trying to combine the cases into a class action.

Household says it has since lowered the Lunas' interest rate; they say they haven't yet received notice. This spring, a year after abuses first surfaced at the Bellingham office, branch manager Drury left. She couldn't be reached.

In July last year Washington State regulators launched an investigation of Household's practices. Household has since gotten a state court to issue a restraining order delaying the release of the state's report. A judge will rule in October on whether to lift it. A 73-page draft cites 92 complaints in seven years, noting a pattern of misleading borrowers about the true interest rate and sticking them with "spurious" lines of credit. It concludes that "sales tactics intended to mislead" are too widespread to be blamed on just "specific transactions or loan officers." Household says the restraining order prevents it from commenting.

Household now is trying to move beyond the controversy. It recently named a new director of compliance. It killed secured sides, the secondary loans that have a bad image but are otherwise a "good" deal, the company says. And Household now requires loan officers at closings to hand borrowers a single sheet showing terms and fees, which it says will be lowered to no more than 5% of the loan total. It says it is "raising the bar" for the industry. If its past practices are typical for the industry, that's not saying much.

Exhibit 86

A.G. Edwards

Equity Research - FINANCE/SPECIALTY
August 16, 2002

Analyst: J. Jeffrey Hopson, CFA 314-955-2639
Associate: Troy Ward

HI Restates Earnings Due to Accounting Issues - Estimates and PO Change

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Household International Inc. (HI 39.60 - NYSE)
Buy/Aggressive

Disclosure Information. Please refer to the final pages of this report for important disclosure information.

Market Cap ($mil.):	$18,216	Est. Long-Term EPS CAGR:	12.0%
Dividend:	$1.00	Book Value Per Share:	$21.06
Yield:	2.5%	Price Objective:	51

Fiscal Year Ends Dec

EPS	2001A	2002E	Prior	2003E	Prior	2004E	Prior
Qtr1	$0.91	$1.04A	$1.09				
Qtr2	$0.93	$1.07A	$1.08				
Qtr3	$1.07	$1.20	$1.21				
Qtr4	$1.17	$1.30					
Year	$4.08	$4.62	$4.70	$5.15	$5.25		
P/E		8.6X		7.7X			

Summary of Restatement

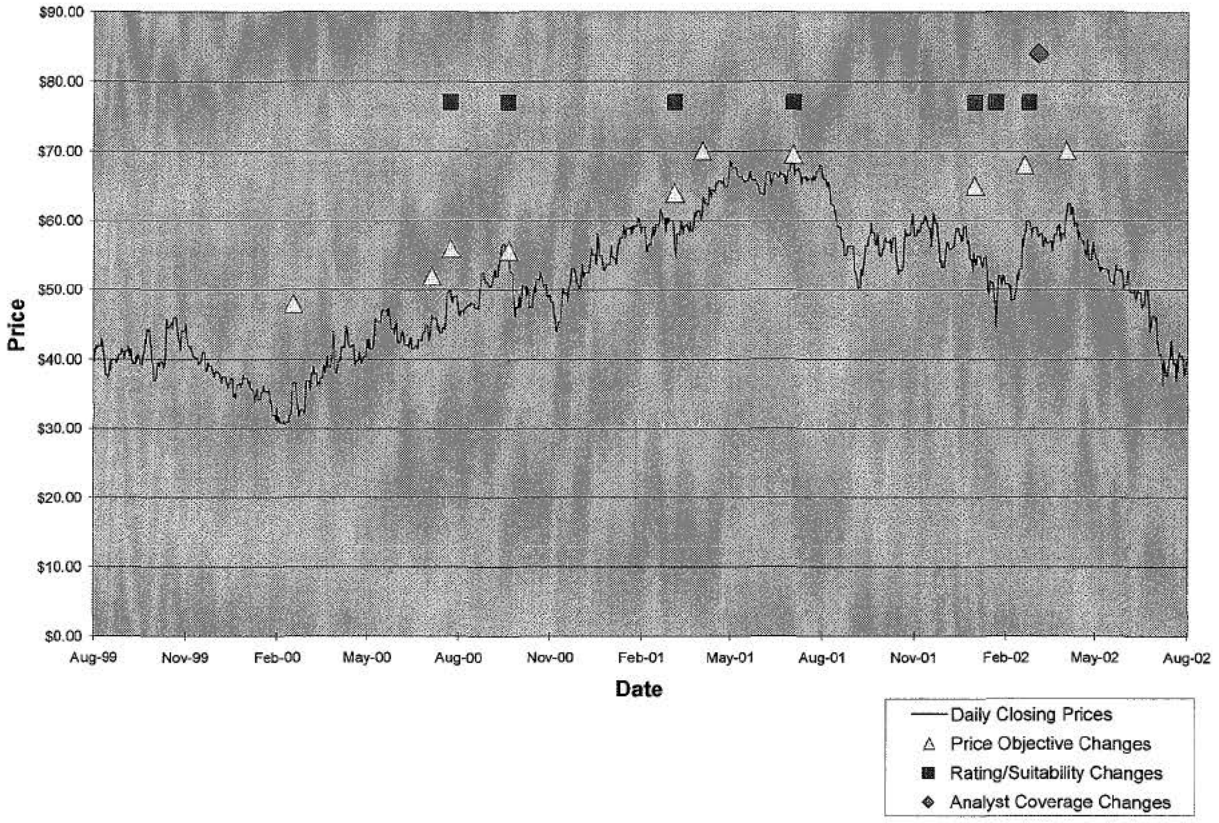
Household International Inc. (HI) announced on August 14 that the company has restated its net earnings for the last eight years. Total earnings for the eight-year time frame decreased $386 million, with the annual adjustments varying from 2.5% to 3.9% per year. In total, the restated impact on HI's financial performance is minimal. Earnings for the first quarter of 2002 were decreased by $0.05 per share and earnings for the second quarter were decreased by $0.01 per share. The full impact in 2002 equates to approximately $35 million, on projected income of $2.2 billion.

The restated earnings followed a decision by HI's new auditor, KPMG, to use more conservative guidelines expenses related to co-branding agreements with MasterCard/VISA. HI's previous auditor, Arthur Andersen, approved the amortization of the expenses. According to HI management, the previous accounting treatment was within appropriate accounting standards, however, the new auditors have chosen to use more conservative accounting assessments. The majority of the restatement was related to amortization schedules associated with certain expenses. KPMG is expected to complete its review August 31. HI's management indicated the auditors have already finished the most potentially controversial areas of its books. Following the announcement both Moody's and Fitch confirmed their previous ratings and outlooks for HI. Fitch affirmed their A long-term rating and F1 commercial

paper rating for HI and its subsidiaries, leaving its negative rating outlook unchanged. Moody's also affirmed its A3 senior long-term debt, its A2 senior long-term debt and its Prime-1 short-term commercial paper issuer ratings. Its outlook for the company remains stable. As a consequence of the earnings restatement, HI will not issue new debt until late August or early September when the financial audit is complete. Their absence from the debt markets over the next few weeks is not expected to adversely affect their capital needs.

Adjusting Estimates and Lowering Price Objective

Following the earnings restatement from HI, we are adjusting our earnings estimates to reflect the restatement and slightly lowered expectations based on a weaker than expected macro-economic environment. Our new 2002 earnings per share estimate for HI is $4.62, which reflects the $0.06 earnings restatement for the first and second quarter and an additional $0.02 to reflect a slower than expected economic recovery. Our new 2003 EPS estimate is $5.15. Based on our new earnings estimates and the current market environment related to consumer exposure we are also lowering our price target for HI shares to $51 from $70. Our previous price objective of $70 implied that HI shares would trade at 13X our previous 2003 EPS estimate $5.25. During the previous 5-year period, HI shares have traded at 14.1X forward earnings with a high multiple of 21.4X and a low multiple of 7.6X. Our revised $51 price objective assumes HI shares trade at 9.9X our 2003 earnings estimate of $5.15, near the low of the historic trading range. We view a 10X multiple on HI shares as conservative, but we believe this is a realistic target for the next 12-months given the markets low appetite for consumer exposure and the uncertainty concerning the timing of an economic recovery. We continue to rate the shares of HI as a Buy for aggressive investors and believe the shares represent the best risk/reward opportunity in the consumer space. A risk to HI reaching our $51 price objective is that the U.S. economy would sustain a downturn that would significantly weaken the credit quality of the U.S. consumer.



Price Objective (PO) Changes *								
Date	Closing Price	PO	Date	Closing Price	PO	Date	Closing Price	PO
03/03/2000	36.63	48.00	03/21/2001	55.85	64.00	03/07/2002	58.36	68.00
07/20/2000	46.38	52.00	04/18/2001	63.38	70.00	04/18/2002	61.20	70.00
08/08/2000	50.00	56.00	07/18/2001	69.48	NA	08/16/2002		51.00
10/05/2000	55.69	NA	01/16/2002	54.45	65.00			

* NA: Positive rating removed; no price objective supplied.

Rating/Suitability Changes					
Date	Closing Price	Rating/Suitability	Date	Closing Price	Rating/Suitability
08/08/2000	50.00	Accumulate/Aggressive	01/16/2002	54.45	Buy/Aggressive
10/05/2000	55.69	Maintain/Aggressive	02/06/2002	44.71	Strong Buy/Aggressive
03/21/2001	55.85	Accumulate/Aggressive	03/11/2002	59.73	Buy/Aggressive
07/18/2001	69.48	Maintain/Aggressive			

Analyst Coverage Changes					
Analyst	From	To	Analyst	From	To
Joel J. Houck	03/03/1999	03/20/2002	J. Jeffrey Hopson	03/20/2002	

			Past 12 months	
Rating	**Master List Companies**	**Current Rating Distribution**	**Investment Banking Clients**	**% of Investment Banking Clients ***
Buy	301	43%	55	18%
Hold/Neutral	380	54%	30	8%
Sell	23	3%	2	9%

* Percentage of Investment Banking Clients on Master List by rating.

OUR 4-TIER RATING SYSTEM (12-18 month time horizon)
Strong Buy: Positive total return (price appreciation plus dividend yield) and outperformance versus industry peers are anticipated. Total return expectations should be higher for stocks which possess greater risk.
Buy: A total return is anticipated in excess of the market's long-term historic rate (approximately 10%). Total return expectations should be higher for stocks which possess greater risk.
Hold: Hold the shares, with neither a materially positive total return nor a materially negative total return is anticipated.
Sell: Stock should be sold, as a materially negative total return is anticipated.

RISK SUITABILITY (Relates to fundamental risk, including earnings predictability, balance sheet strength and price volatility)
Conservative: Fundamental risk approximates or is less than the market.
Aggressive: Fundamental risk is higher than the market.
Speculative: Fundamental risk is significantly higher than the market.

On 9/28/01 AGE changed its rating system from 5 tiers to 4 tiers. "Strong Buy" replaced the previous "Buy" rating, "Buy" replaced the previous "Accumulate" rating, and "Hold" replaced the previous "Maintain" rating. We compressed the previous ratings of "Reduce" and "Sell" into one rating, "Sell".

COMPANY SPECIFIC DISCLOSURES:
AGE has managed/co-managed a public offering within the past 12 months.
AGE has managed/co-managed a public offering within the past three years.
AGE has received compensation for investment banking services within the past 12 months.

AGE's research analysts receive no direct compensation in connection with the firm's investment banking business. Analysts may be eligible for annual bonus compensation based on the overall profitability of the firm, which takes into account revenues derived from all of the firm's business activities, including its investment banking business.

Price objectives and recommendations contained in this report are based on a time horizon of 12-18 months, but there is no guarantee the objective will be achieved within the specified time horizon. Price objectives are determined by a subjective review of fundamental and/or quantitative characteristics of the issuer and the security that is the subject of this report. Specific information is provided in the text of the research report.

A.G. Edwards

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Exhibit 87

SE State; A
HD **State report details HFC lending abuse; FINANCE: Copy of suppressed report is leaked to several news organizations.**

BY John Stark
CR Staff
WC 1,193 words
PD 27 August 2002
SN Bellingham Herald
SC XBEL
PG 1
LA English
CY (c) Copyright 2002, Bellingham Herald. All Rights Reserved.

LP BY JOHN STARK

THE BELLINGHAM HERALD

TD A state investigative report on Household Finance Corp., suppressed by court order for more than three months, contains a blistering assessment of the nationwide lending giant's mortgage loan practices in Whatcom County and elsewhere in the state.

Among other things, the report accuses the company of a pattern of:

? "Misrepresentations" and "dishonest statements" about interest rates, monthly payments, loan fees, prepayment penalties, and insurance.

? Failing to provide its customers with the loan term disclosures required by state and federal consumer protection laws.

? Coaxing borrowers into signing documents without reading them.

? Talking borrowers into refinancing first mortgages at disadvantageous rates, based on misleading interest information, when borrowers originally sought only small consumer loans.

? Adding costly insurance premiums to loan amounts either without the borrower's knowledge, or by wrongly leading borrowers to believe they had to buy the insurance to get the loan.

HFC's attorneys went to Thurston County Superior Court in May and obtained a judge's restraining order blocking public release of the report. But in recent weeks, copies of the report have been leaked to every news organization that has been following the HFC story - including The New York Times, Forbes Magazine, American Banker magazine and The Bellingham Herald.

The state's report found evidence of "a pattern of intentional deception" of homeowners who obtained mortgages from HFC. In three cases, investigators said they found reason to believe that HFC employees forged borrowers' signatures to documents agreeing to pay thousands of additional dollars for credit insurance policies that Washington Insurance Commissioner Mike Kreidler has labeled "inherently predatory."

Summing up, the report says that all these activities are "part of HFC's practice of obtaining maximum revenue from consumers regardless of any actual benefit to the consumer."

The company pays its representatives "significant monthly incentives" for that kind of behavior, according to the report.

The report also characterizes HFC as being slow to respond to state requests for information - when the company responds at all.

The investigating agency - the Washington Department of Financial Institutions - was so concerned about widespread reports of predatory lending practices at HFC that it sent its examiners to three of the company's loan offices, in Bellingham, Lakewood and Olympia, to pose as would-be borrowers.

"In all three tests the department found that the HFC representatives misrepresented or withheld

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information, failed to comply with state and federal law and regulations, and did not follow the policy and practice that HFC corporate claimed," the report states.

Bellingham abuses

Megan Hayden, spokeswoman for parent company **Household International**, said she could not comment on the report because it is still under a court restraining order.

But she said the company now admits that "there clearly were issues in the state of Washington." The company is working with state agencies to resolve matters, and is also trying to set things right with its customers here, she added.

Cross, the report's author, said he too was barred from discussing the report because of the court's restraining order. But he said he was sure that the report had not been leaked by anyone in his department.

Both the company and the state agree that some of the worst abuses occurred in the Bellingham office. But the state report also says that the kinds of abuses practiced in Bellingham were also reported at other HFC offices inside and outside Washington.

Six of the 19 consumer complaints cited in the report originated in the Bellingham office of HFC, but the others were from offices elsewhere in the state. The report was completed in mid-May, and was based on complaints received by the Washington Department of Financial Institutions up to April 30 - before news reports about Household's lending practices triggered a new flood of complaints from Whatcom County and elsewhere.

Corporate practices

The report rejects any notion that the abuses are due to renegade local representatives who are violating corporate policies. As of April, the report states that corporate representatives were attempting to defend the practices uncovered in the state investigation by arguing that the letter of applicable laws had been observed.

"HFC has created a situation in which they can completely mislead and confuse the borrower, while later providing a plausible explanation of their actions to the Department or other regulatory agencies," the report states. "HFC practices reflect a pattern of intentional deception while laying the foundation for a later defense."

The report also notes that a similar number of complaints has been filed against Beneficial Finance Corp., a similar loan company that is owned by HFC's parent company, **Household International**. And both HFC and Beneficial have been slow to respond to the state's request for information on consumer complaints - so slow, in fact, that the state "found it necessary to serve HFC with a subpoena commanding production on 14 outstanding complaint responses," the report says.

As of mid-May, when the report was issued, HFC had yet to provide some of the documents the state had subpoenaed, the report said.

Payment sham

Perhaps the most serious abuse cited in the report was the use of a misleading schedule of interest payments showing an attractive "equivalent rate" of interest, to deceive borrowers into thinking they were refinancing their first mortgages with new loans bearing interest rates in the 7 percent range.

"The department believes the sole purpose of this schedule was for simple deception of the consumer," the report says.

In numerous cases reported to the state and to The Bellingham Herald, homeowners agreed to refinance their mortgages with Household in the belief that they were getting the lower "equivalent" interest rate shown on this schedule, when the actual annual rate was between 11 and 14 percent - much higher than the rate they had been paying before the refinance.

"The Department believes that the `equivalent rate' sham proffered by HFC representatives is known and likely fostered by the corporation itself or at the least, by corporate officers overseeing large segments of the country," the state report says.

In support of that belief, the report says that HFC corporate officials at company headquarters

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seemed to be quite familiar with the "equivalent rate" sales technique when state investigators questioned it.

The report also observes that when state regulators questioned the technique, HFC officials attempted to defend the company by arguing that the customers were "confused."

"What is incredible to assume, or propose, is that so many unrelated consumers have been confused by their own doing," the report says.

Jeanie Luna of Blaine, who was among the first to join Wenatchee attorney Bob Parlette's class action lawsuit against HFC, said she hopes that the state report is just the beginning.

"I think the state needs to prosecute them as having broken the law, and their licenses need to be pulled, to no longer do business in our state," Luna said.

On the Net

For the complete report by the Washington Department of Financial Institutions, go to http://www.belling-hamherald.com.

CO HFC : Household International Inc.

IN I81501 : Non-bank Credit | I8150105 : Consumer Lending | IBNK : Banking/Credit

RE NAMZ : North American Countries | USA : United States

PUB Gannett Company Inc.

AN Document xbel000020020828dy8r0000h

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Exhibit 88

Initiating Coverage of Household International With a Market Perform Rating

Yet Another Un-Investable Situation

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Raj Kommineni, ***(rkommineni@ kbw.com)*** *212-887-7719*

August 27, 2002

Please refer to important disclosure information at the end of this document.

Key Financial Data—Household International

Ticker	**HI**
Stock Price	**$39.08**
KBW Rating	**Market Perform**
Shares Outstanding (in millions)	**461.2**
Market Capitalization (in millions)	**$18,023.7**
KBW 2002 EPS Estimate	**$4.56**
Consensus 2002 EPS Estimate	
KBW 2003 EPS Estimate	**$5.05**
Consensus 2003 EPS Estimate	
2002 P/E Ratio	**8.58**
2003 P/E Ratio	**7.74**
Key Data As of 2Q02 (in millions)	
Managed Assets	**119,129.0**
ROE	**23.0%**
ROMA	**1.72%**
Tangible Leverage Ratio	**7.93%**
Risk Adjusted Revenues (in millions)	**1,867.4**
Risk Adjusted Revenue Growth, Annual	**11.2%**
Efficiency Ratio	**33.56%**

Source: Company reports and KBW Research.

What is Household International?

- One of the oldest (founded in 1878) and largest (approximately $120 billion of managed assets) consumer finance lenders in the United States.
- Company's bread and butter product is the debt consolidation home equity loan (also called real estate secured). Approximately $49 billion (46.5% of total managed receivables) of HI's assets are home equity-based loans. Origination sources include its 1,400 retail branches and 200 correspondent relationships (loans purchased from others).
- 10th largest issuer of VISA/MasterCard credit receivables ($16.8 billion or 16% of total managed receivables). Major co-branding relationships include Union Privilege and G.M.
- 3rd largest issuer of private label retail credit cards ($13.5 billion or 12.8% of total managed receivables). Major retail relationships include BestBuy, CompUSA and Levitz.
- One of the larger players in the sub-prime auto lending business ($6.8 billion of receivables or 6.5% of total receivables).
- Approximately $7.65 billion international receivables. Significant concentrations are in the United Kingdom and Canada.

Asset Composition

	Receivables	Composition
Home Equity	$48,887.5	46%
Auto Finance	6,880.8	7%
Credit Card	16,786.5	16%
Private Label	13,477.0	13%
Other Unsecured	18,946.0	18%
Non-Core Products	482.8	0%
Total Managed Receivables	$105,460.6	100%
% of Receivables Funded Off-Balance Sheet	20.5%	

Source: Company reports and KBW Research.

Why We Believe HI is an Un-Investable Situation

- Right side of the balance sheet is a major issue. $19 billion of notes are maturing by year end 2003.
- Company has placed fixed income investors ahead of equity investors.
- Predatory lending concerns: Are the issues systemic and will the amelioration of such issues reduce future profitability?
- Accounting practices/philosophy of the company have never been considered conservative.
- Credit costs remain a concern, particularly in auto and unsecured lending.
- On a positive note, the company has assets that are attractive (1,400 branches, leading market share in secured real estate and private label credit cards) to potential acquirers.

Right Side of the Balance Sheet is a Major Issue

- More than most financial institutions, the company is heavily dependent on the capital markets (Term Debt, Securitization, Commercial Paper) to fund its assets.
- Based on our analysis, in late 1999 and early 2000, HI management appeared to have made a bet on interest rates and increased bank regulatory scrutiny. HI increased the amount of short term debt issued, appears to have increased the percentage of short term floating debt and reduced bank deposits.
- In the short term, strategy appears to have worked. Based on our calculations, HI's cost of debt capital has declined by 250 bps since 3Q00. In contrast, gross interest margin declined by only 165 bps. Furthermore, the company appears to have avoided any direct hits (HI increased the amount of capital held for targeted sub-prime credit card assets at the bank in late 2000) from the bank regulators.
- Unfortunately, HI appears to be in a pickle. HI's…
  - Access to the commercial paper market has been reduced (CP debt has declined from $12 billion in 4Q01 to $4 billion in 1Q02);
  - Access to deposits has been reduced (in our view) as a result of the increased regulatory scrutiny of the funding of sub-prime consumer loans with FDIC insured deposits (deposits have declined from $9 billion in 1Q01 to $5.6 billion in 2Q02);
  - Debt maturity schedule (according to Bloomberg) indicates that approximately $19 billion (27% of term debt outstanding) of term debt is maturing in the next year and a half; and
  - Spreads (relative to treasuries) in the term debt market have increased, thereby increasing the company's cost of debt capital.

In our view, it appears the company's efforts to improve profitability and reduce regulatory risk, while beneficial in the short run, have increased liquidity risk at an inopportune time. In general, we have a difficult time recommending a stock with such funding risks.

Household Has Placed Fixed Income Investors Ahead of Equity Investors

- In tune with increased liquidity risk and widening spreads in the term debt market, management has implemented several steps to reduce such risks, including:

  - The reduction of share repurchase activity;
  - The use of asset-backed debt to fund asset growth;
  - Committing to stronger capital ratios (8.5% tangible capital by year end 2002 vs. initial expectations of 8%-8.25% by year end 2002);
  - Increasing whole loan sale activity to fund asset growth;
  - Not accessing the term debt market until 4Q02;
  - Maintaining back stops for CP debt totaling $10.1 billion;
  - Increasing the investment portfolio (from $3.3 billion in 4Q00 to $8.2 billion in 4Q02); and
  - Issuing preferred/common stock type of securities, if necessary.

- In many respects, we applaud the company's actions/intentions as they signal the need to emphasize fixed income investors over equity investors.

  Despite our praise of management's actions/intentions, a sizable portion of the company's initiatives are (in our view) not necessarily optional. If the company does not reduce its spreads in the term debt market, the company's ability to fund asset growth of any kind is substantially reduced, if not eliminated. Furthermore, we believe the company's actions/initiatives to reduce spreads should be more a function of slower receivable growth and less a function of reduced share repurchase activity.

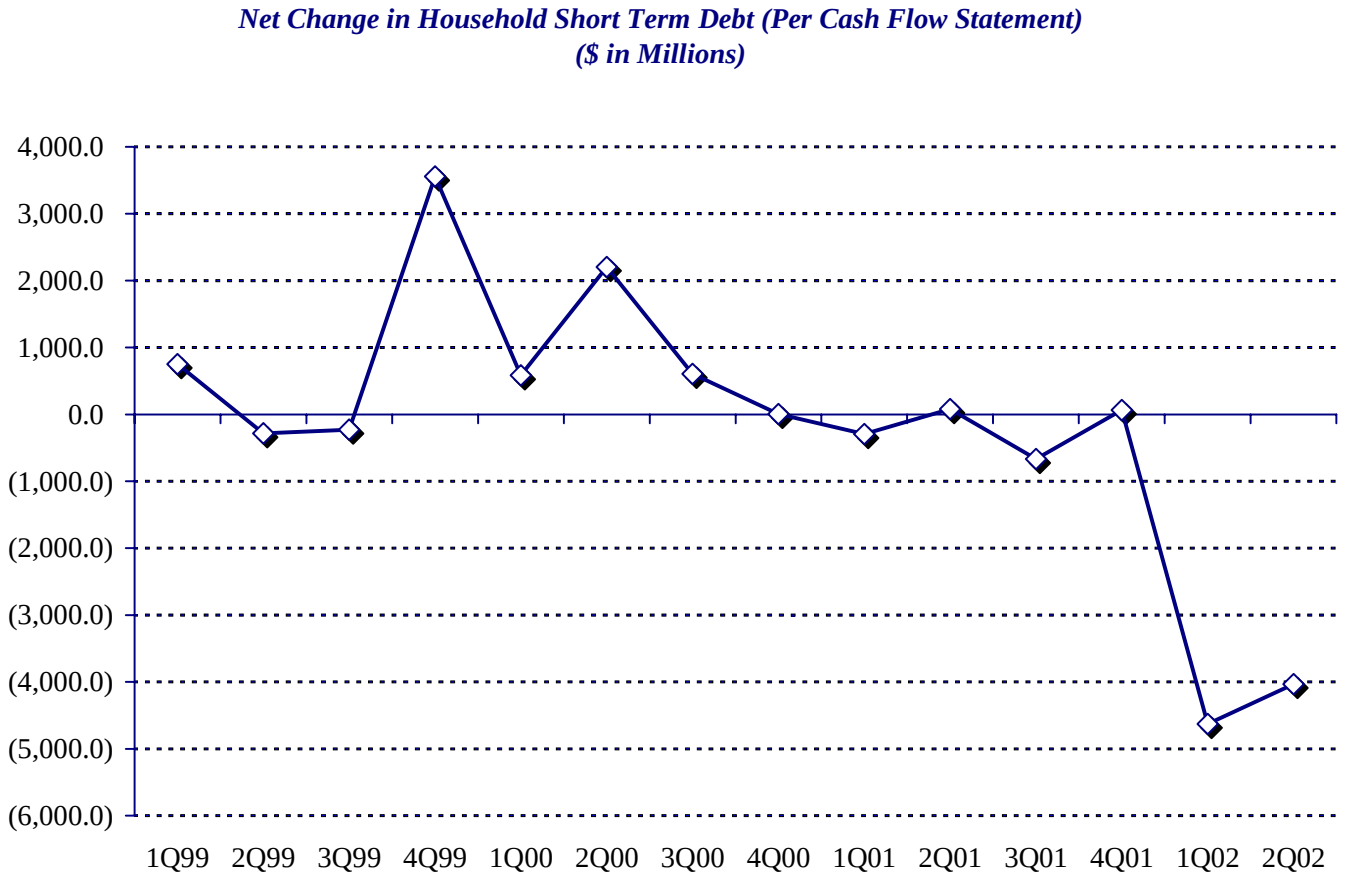
Capital Structure of HI- Heavily Dependent on Term Debt

	Balance (In Millions)	Composition
Managed Assets	**$119,129.0**	
Method of Funding		
Deposits	**5,611.8**	**4.71%**
Commercial, Paper and Other Short Term Debt Instruments	**3,958.7**	**3.32%**
Senior Notes and Sub Debt	**73,269.4**	**61.50%**
Off-Balance Sheet Debt (securitization)	**22,322.7**	**18.74%**
Other Debt	**3,487.0**	**2.93%**
Total Debt	**108,649.6**	**91.20%**
Equity (including preferred securities)	**10,479.4**	**8.80%**
Total Capital	**$119,129.0**	**100.00%**

***** Note the percentage of assets funded with commercial paper is down substantially as a result of widening spreads in the CP market. At the end 1Q01, 9.3% of the company's assets were funded with CP***

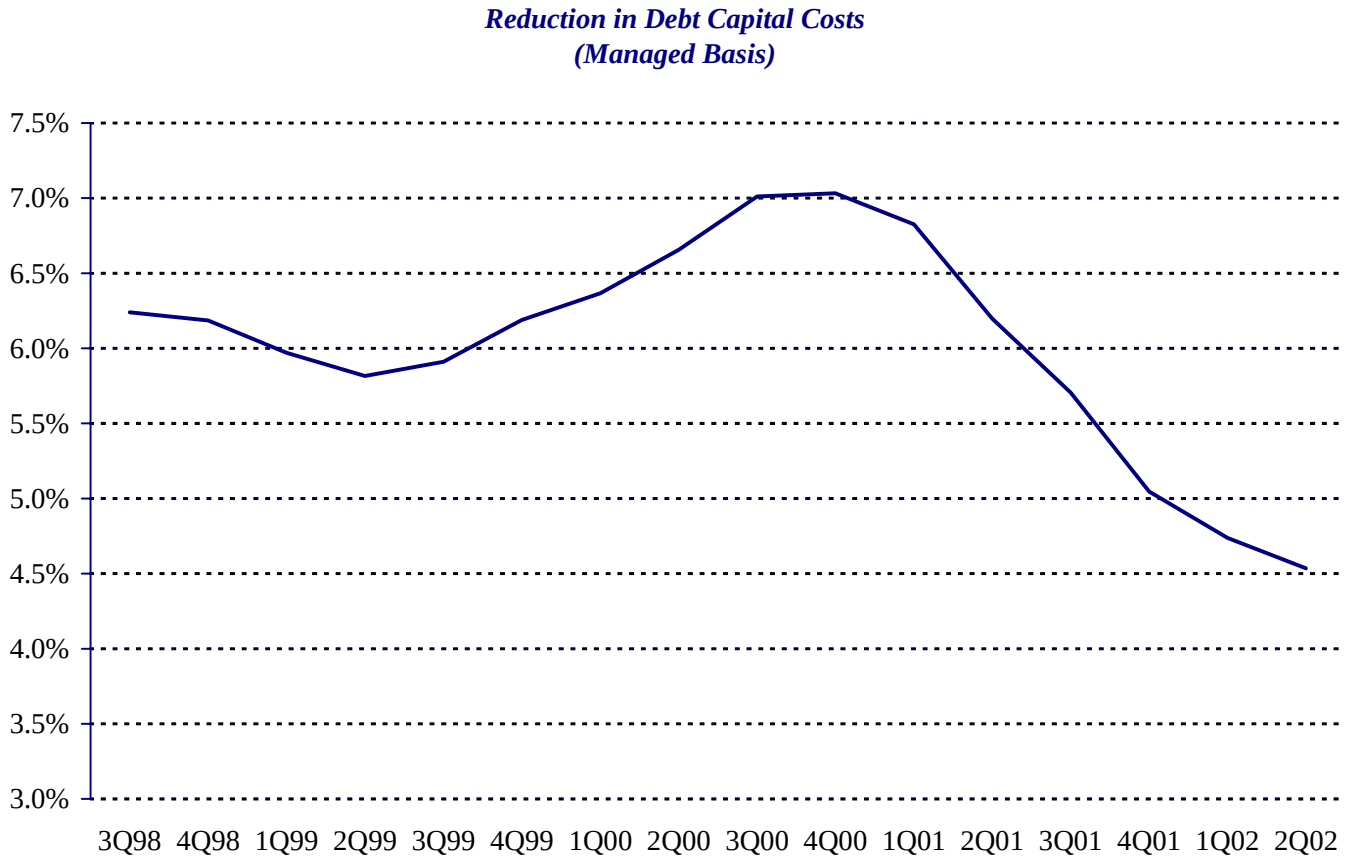
Source: Company reports and KBW Research.

Company Increased Short Term Debt Funding in Late 1999/Early 2000



Source: Company reports.

Initiatives (Coupled With Lower Rates) Improved Funding Costs



Source: Company reports and KBW Research.

Unfortunately, Household Has $19 Billion of Term Debt Maturing by Year-End 2003

Total Debt Outstanding & Maturing 2H02 - 2003 (in Millions)

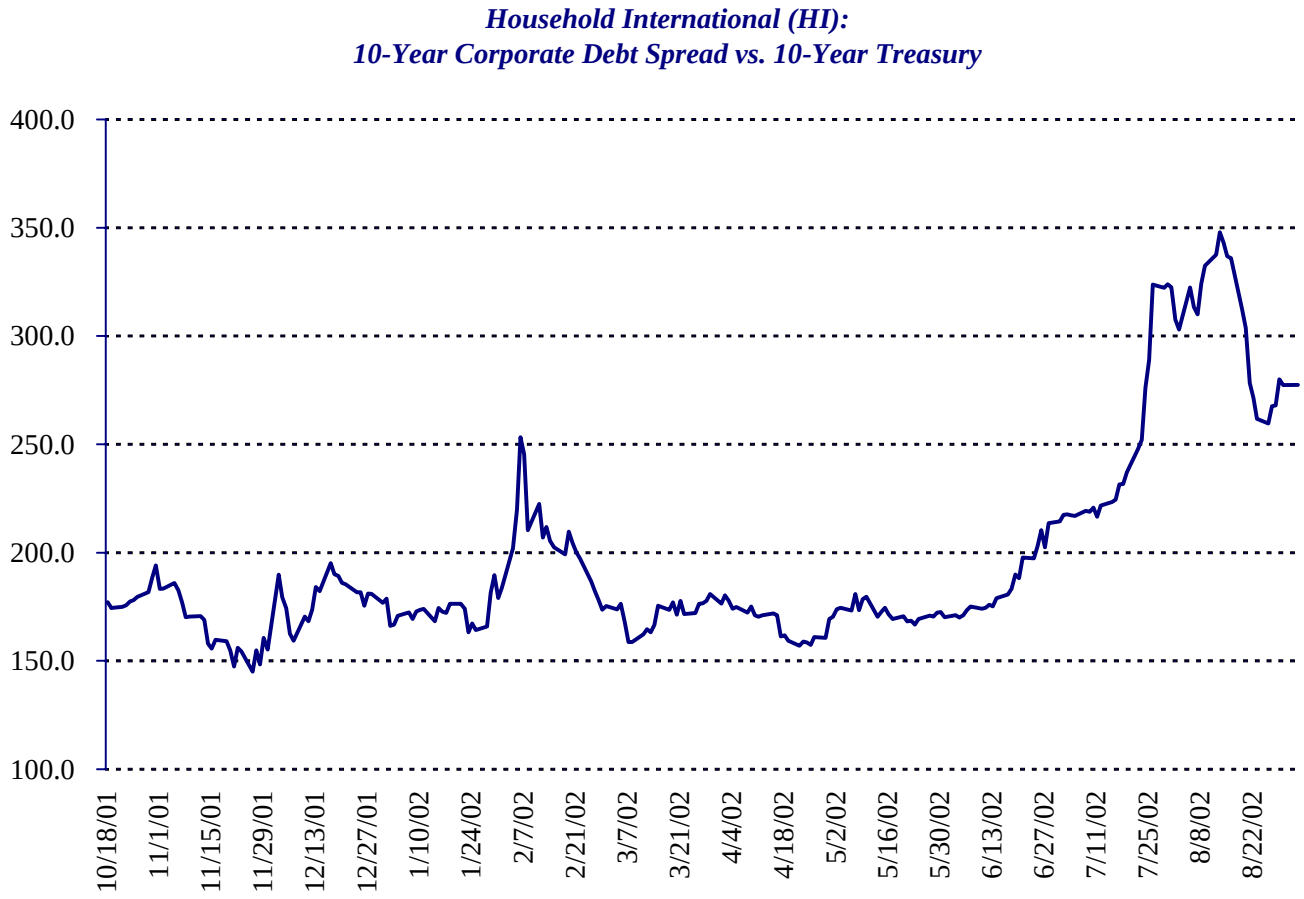
Summary by Year & Quarter

TOTAL: $19,335,186

	2002	2003	3Q02	4Q02	1Q03	2Q03	3Q03	4Q03
Total	$4,575,847	$14,759,339	$2,057,416	$2,518,431	$2,461,324	$3,464,705	$5,915,346	$2,917,965
% of Total	23.67%	76.33%	10.64%	13.03%	12.73%	17.92%	30.59%	15.09%
$ Fixed	$954,347	$3,726,085	$104,916	$849,431	$1,545,324	$423,153	$1,352,643	$404,965
Fixed Rate	4.94%	19.27%	0.54%	4.39%	7.99%	2.19%	7.00%	2.09%
$ Floating	$3,621,500	$11,033,255	$1,952,500	$1,669,000	$916,000	$3,041,552	$4,562,703	$2,513,000
% Floating	18.73%	57.06%	10.10%	8.63%	4.74%	15.73%	23.60%	13.00%

Source: Bloomberg and KBW Research.

Household's Debt Spreads Have Narrowed Recently But Remain Wide



Source: Bloomberg.

Predatory Lending Concerns— Are The Issues Systemic and Will The Amelioration of Such Issues Reduce Future Profitability?

- The sales practices of Household's franchise real estate secured business are currently being questioned by a variety of 'interested parties', including consumer advocacy groups (ACORN and, to a lesser extent, the AARP), politicians, the courts (in California and Illinois), and various state governments.

- Parts of the company's sales practices under question include the following:

  - The amount of points Household charges for debt consolidation loans (company charges on average six points per loan);
  - The amount of prepayment penalties fees Household charges for refinanced loans;
  - Use of deceitful marketing strategies, including the failure to disclose certain material loan terms, selling unnecessary credit insurance and inducing borrowers to take a second mortgage/loan (note these deceitful marketing strategies are allegations and are not necessarily fact); and
  - The act of consolidating a first mortgage (which has a rate at or near conforming mortgage rates at the time a loan is made) with a new debt consolidation loan that has a higher rate of interest.

- Management has already admitted (to a certain degree) that some of these practices have indeed occurred in certain branches (Bellingham, Washington). However, Household management believes it was an employee issue (employees who have since been reprimanded and/or terminated) and not a company-wide issue.

  In our view, one of the bigger questions surrounding the HI predatory lending issue is whether such sales tactics are indeed the product of aggressive local HI employees or whether it is inherent in HI's sales culture. Admittedly, we have not done enough work to answer this question adequately.

Predatory Lending Concerns—(cont'd)
Are The Issues Systemic and Will The Amelioration of Such Issues Reduce Future Profitability?

- To reduce the company's exposure to predatory lending practices, Household has created best practice guidelines for consumer finance lending. Some of the best practice policies include:
  - capping upfront origination fees at 3 percent (5 percent if the customer opts to buy down its rate);
  - employing a stringent tangible benefits test on whether to consolidate first mortgage loans;
  - providing customers with the ability to cancel insurance and provide adequate disclosure to ensure customers understand insurance is optional;
  - eliminating prepayment penalties fees if the loan is refinanced with Household;
  - limiting prepayment penalty fees to within 3 years of loan funding;
  - reducing a borrower's rate of interest if timely payments are made over a period of time; and
  - eliminating the use of balloon loans for less than 7 years.
- To our knowledge, Household's best practice guidelines are indeed best in class. In fact, management believes they are close to being fully compliant in the 21 states that have passed predatory lending laws.

  We can't help but think that the implementation of the company's best practices could reduce the future profitability of a Household home equity loan. Management contends this is not the case (meaning the best practices guidelines should not affect profitability). However, unless the company substitutes 'predatory revenues' (i.e., upfront fees) with 'non-predatory revenues', we do not see how profitability not being affected is possible.

Accounting Practices/Philosophy of the Company Have Never Been Considered Conservative

- The investment community has questioned the accounting practices of Household International whether it is the non-cash revenues from securitizing receivables, the relaxation of charge-off policies in the personal unsecured sector , the one-time charges related to the merger with Beneficial, the re-aging of loans, or the fact that REO expenses are reported separate from charge-offs.

- In our view, a sizable portion of the company's accounting practices are the nature of the beast. In our view, providing and servicing loans to middle market/sub-prime consumers are 'dirty' businesses (Household is not the only company engaged in the practice of modifying loans). In addition, Household has very little flexibility in the accounting for securitized loans. Furthermore, we believe disclosure at Household is as good if not better than its competitors.

  Although we believe 'the nature of the beast' argument is a viable defense, it is very difficult to defend the company's accounting practices when it discloses that it extended the useful lives of its Union Privilege purchased credit card relationships in 1999. While many consider the bottom line effect of such a change (about $0.02 per share for the first six months of 2002) immaterial, management's aggressive philosophy toward accounting is not immaterial, in our view.

Credit Costs Remain a Concern, Particularly in Auto and Unsecured Lending

- In general, we believe credit costs for the industry are at or near peak levels. However, due to the lack of receivable growth in the system (the denominator effect), we are not expecting a material drop in credit costs.
- In contrast to our general thesis on credit, we remain cautious on companies (or portfolios) that have experienced extremely strong growth and have been taking market share.
- With respect to Household, the two sectors where the company is experiencing stellar growth are auto and home equity. With respect to auto, due to stellar growth and the initiatives of the captive auto companies, we expect charge-offs to increase. In addition, we are seeing negative trends in the company's static pool data.
- With respect to home equity, we believe the trend in future credit costs is primarily a function of housing prices. We have been saying for some time that housing price growth needs to cool, however we have been proven wrong.
- Aside from home equity and auto, we remain cautious on the company's unsecured lending book. Approximately $18.4 billion in size, HI's unsecured lending book includes $5.2 billion of high LTV loans and $11 billion of personal unsecured loans. In our view, this represents the high beta portion of HI's portfolio.

While we do not put credit costs at the top of the KBW risk list, it is a risk nonetheless. Going forward, we expect charge-offs to rise from current levels, but nothing to sound-off the alarms.

On a Positive Note, Company Does Have Value

- While we are not comfortable with some of the issues surrounding Household International, we believe Household's franchise has tremendous value. Such positive attributes include the following:
  - HI is one of the only companies that lend and continue to lend to the middle market/subprime consumer. While we expect the business of lending to such consumers to be challenging in the near future, we do not believe such lending will be eliminated;
  - The company has real estate (in the form of branches) across the United States;
  - The company generates strong and somewhat stable cash flows;
  - The company is one the largest originators of real estate secured debt consolidation loans and private label credit card loans;
  - An employment staff that understands the positive benefits of cost control.
- Given the company's attributes, we believe Household could be an excellent acquisition target for a larger entity with access to cheaper debt funding.

Based on our analysis, we believe Household's stock is worth north of $50 on an acquisition basis. Unfortunately, we do not believe potential acquirers would be willing to take on the potential issues surrounding the company. While we view an acquisition as possible, we do not feel comfortable recommending a company solely based on acquisition potential.

Valuation Philosophy

- Our underlying valuation tool for all consumer finance companies is DCF. Our DCF models attempt to guesstimate the free cash flows after the necessary capital requirements of the company. Accordingly, any increase in capital requirements (whether internal or external) reduces the valuation calculated in our DCF models.

- We also perform a scenario analysis which attempts to model various outcomes. Our scenario analysis includes:

  - Household as a stand-alone company- Bear case argument;
  - Household as a stand-alone company- Bull case argument;
  - Household as a stand-alone company- KBW estimates; and
  - An acquired Household- KBW estimates.

Unless Household is acquired by another entity, we see very little fundamental upside in the stock.

Valuation Matrix

Assumptions	Bear Case Argument	Bull Case Argument	KBW Argument	HI if Acquired KBW Estimates
Equity Risk Premium	6.00%	6.00%	6.00%	6.00%
Tangible Cap. Requirments (Tang. Equity/Managed Assets)	10.00%	8.00%	8.75%	7.50%
Managed Assets (at year end 2006)	133,560.0	156,430.0	144,935.0	144,935.0
Cumulative Risk Adjusted Revenues (2Q02-2006)*	36,490.0	42,220.0	39,660.0	39,660.0
Cumulative Chargeoffs- (2Q02-2006)**	24,685.0	22,960.0	23,590.0	23,590.0
Avg. Chargeoff Rate (Very rough calculation)**	4.45%	4.05%	4.20%	4.20%
Cumulative Non-Interest Expenses (2Q02-2006)	19,450.0	20,560.0	20,250.0	18,980.0
Net Interest Margin (At Year End 2006)	8.05%	8.05%	8.20%	8.20%
Valuation Target	***$30.0***	***$48.0***	***$40.0***	***$52.0***

** Note our calculation of risk adjusted revenues EXCLUDES non-cash securitization revenues*

*** The lack of deviation between charge-offs in each scenario is a function receivable growth discrepancies. Accordingly, we attempt to show there exists a wide discrepancy in our charge-off estimates by providing an average charge-off ratio*

Source: KBW Research.

Trend Analysis

	1997	1998	1999	2000	2001	2002E	2003E	1Q02	2Q02	3Q02E	4Q02E
EPS, Core	$1.93	$2.30	$3.07	$3.41	$3.91	$4.56	$5.05	$1.04	$1.07	$1.18	$1.26
EPS Growth	11.59%	19.11%	33.46%	11.08%	14.94%	16.41%	10.83%	22.2%	19.9%	14.8%	10.8%
ROA	1.70%	1.58%	1.97%	1.83%	1.77%	1.79%	1.77%	1.76%	1.72%	1.80%	1.87%
ROE	0.00%	18.05%	23.54%	22.97%	23.09%	23.66%	22.03%	23.40%	22.98%	24.47%	24.67%
Tangible Leverage	7.63%	7.14%	6.87%	7.13%	7.80%	8.52%	9.11%	8.68%	7.93%	8.14%	8.52%
Risk Adjusted Revenue Margin	7.86%	7.05%	7.34%	7.38%	7.66%	7.43%	7.14%	8.09%	7.25%	7.29%	7.14%
Managed Receivables	63,920.1	63,907.7	71,728.3	87,607.4	100,822.1	111,746.7	120,592.0	101,177.7	105,460.6	109,109.3	111,746.7
Managed Receivable Growth, annual	7.5%	0.0%	12.2%	22.1%	15.1%	10.8%	7.9%	14.49%	15.21%	14.07%	10.86%
Home Equity Rec.	19,824.8	22,330.1	26,935.5	36,637.5	44,718.0	50,531.3	55,584.5	46,248.7	48,887.5	49,478.5	50,531.3
Home Equity as a % of total	31.0%	34.9%	37.6%	41.8%	44.4%	45.2%	46.1%	45.71%	46.36%	45.35%	45.22%
Home Equity Growth	22.1%	12.6%	20.6%	36.0%	22.1%	13.0%	10.0%	21.69%	22.81%	18.00%	13.00%
Risk Adjusted Revenues	4,866.4	4,472.8	4,864.6	5,880.3	7,106.3	7,848.4	8,296.5	2,022.3	1,867.4	1,971.4	1,987.3
Risk Adjusted Revenue Growth	0.0%	-8.1%	8.8%	20.9%	20.8%	10.4%	5.7%	14.81%	11.23%	8.06%	2.91%
Delinquencies	4.64%	4.90%	4.66%	4.20%	4.46%			4.63%	4.53%		
Chargeoff Rate	3.80%	4.24%	4.09%	3.63%	3.72%	4.20%	4.24%	4.07%	4.26%	4.22%	4.28%
Coverage Ratio	1.14	1.01	1.02	1.13	1.17	1.18	1.14	1.32	1.17	1.17	1.17
Reserves/Managed Receivables	3.95%	3.99%	3.72%	3.48%	3.78%	4.18%	4.43%	4.10%	4.14%	4.14%	4.18%
Non-interest expenses	2,884.8	2,672.3	2,527.3	3,027.3	3,572.6	3,951.4	4,251.8	1001.0	964.1	984.3	1002.0
Efficiency Ratio	35.05%	33.58%	32.23%	35.65%	34.87%	33.12%	33.15%	33.71%	33.56%	32.68%	32.58%

Source: Company reports and KBW Research.

Household International—Historical Price and Volume Chart

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DISCLOSURE:

Household International (HI)

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This information was last updated on August 27, 2002.

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Exhibit 89

DOW JONES

Dow Jones Newswires

HD **Finance Co. Bonds Slide Despite 41-Yr Low In Tsy Yields**

BY By Christine Richard

WC 366 words

PD 23 September 2002

ET 02:22 PM

SN Dow Jones Capital Markets Report

SC CM

LA English

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LP

Of DOW JONES NEWSWIRES

NEW YORK (Dow Jones)-Even as U.S. Treasury yields plumb new lows Monday, bonds issued by finance companies have been some of the worst performers in the corporate bond market.

TD

Concerns about companies with high levels of debt and exposure to sub-prime borrowers as well as general concerns about the health of the economy are overriding any enthusiasm over Treasury yields at their lowest levels in more than 40 years.

Spreads to comparable Treasurys on bonds issued by debt market giants Ford Motor Credit Co., the financing arm of Ford Motor Co. (F), and Household International (HI) have widened around 30 basis points on the day.

Low Treasury yields should be positive for finance companies, but spreads to comparable Treasurys on corporate bonds have been widening in recent weeks even as Treasury yields fall.

That means finance companies don't get the benefit of Treasury yield declines.

To make matters worse, worries about the prospects for a double-dip, consumer-lead recession are being concentrated on the finance companies, analysts said.

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"Household and Ford, because they are huge debt issuers, tend to be the first to go down on any bad news," said Vince Boberski, managing direct of fixed income research at RBC Dain Rauscher. "They also can be the first to go up on good news, but there's been a shortage of that lately," he added.

Concerns about consumer lending spiked last week on news that AmeriCredit Corp. (ACF) had re-negotiated certain agreements on its subprime auto loan securitizations, which were expected to see a rise in delinquency rates.

The pressure on financial companies continues from last week.

According to JP Morgan Chase, spreads on triple-B rated two-year finance company paper widened by eight basis points versus Treasurys last week for a year-to-date widening of 75 basis points.

That compares with a four basis point widening for similar maturity, triple-B bank spreads for the week and a 26 basis point widening year-to-date.

-By Christine Richard, Dow Jones Newswires; 201-938-2189; christine.richard@dowjones.com

CO frdmo : Ford Motor Company | hfc : HSBC Finance Corp

IN i351 : Motor Vehicles | i35101 : Passenger Cars | i814 : Banking | i81501 : Credit Types/Services | i8150105 : Consumer Lending | iaut : Automobiles | ibnk : Banking/Credit

NS c17 : Funding/Capital | c172 : Corporate Debt Instruments | ccat : Corporate/Industrial News | e12 : Economic/Monetary Policy | e1202 : Interest Rates | ecat : Economic News | m12 : Debt/Bond Markets | m13 : Money/Forex Markets | m131 : Money Markets | m15 : Derivative Securities | mcat : Commodity/Financial Market News | mgvdbt : Government Debt/Bond Markets | mntdbt : National Government Debt/Bond Markets | nrmf : Routine Market/Financial News

RE namz : North America | usa : United States | usc : Midwest U.S. | usil : Illinois | usmi : Michigan

PUB Dow Jones & Company

AN Document cm00000020020923dy9n008y9

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Exhibit 90

Examples of Leakage Period Dates Without Significant Residual Returns on Which Both Firm-Specific, Nonfraud Related Information and Fraud Related Information Were Disclosed

#	Date	Residual Return*	t-Stat*	Examples of Firm-Specific, Nonfraud Related Information	Examples of Fraud Related Information
1	12/18/01	1.79%	1.29	"Household Finance, a unit of Household International (HI), filed to offer $3 billion of debt securities from time to time." ("Household Finance Files $3B Debt Securities Shelf," *Dow Jones News Service* , December 18, 2001 at 12:10 PM)	"The bear case against Household is based on...questions about the company's accounting, and questions about increased regulatory scrutiny about predatory lending." (Lehman Brothers report, December 18, 2001)
2	03/14/02	-1.89%	-1.37	"Household International (HI) named KPMG LLP its independent auditor, replacing Arthur Andersen, subject to shareholder approval." ("Household Intl Appoints KPMG LLP as Independent Auditor," *Dow Jones News Service* , March 13, 2002 at 5:30 PM)	"Liberal reaging policies give the company significant flexibility to reset the chargeoff 'clock'. Recent changes in charge-off policies for some products do not mean anything unless the reaging policy is changed as well." (Ventana Capital report, March 14, 2002)
3	04/10/02	-0.03%	-0.02	"Household International, Inc., (NYSE: HI) today issued the following clarification regarding a $10 billion shelf registration of its wholly-owned subsidiary, Household Finance Corp., filed with the Securities and Exchange Commission on April 9, 2002. Household Finance filed the shelf registration to renew its ability to offer Internotes, a medium term note program for retail investors." ("Household International Clarifies Purpose of $10 Billion Shelf Registration," *PR Newswire* , April 10, 2002)	"Household International executives defended their accounting and lending practices at the company's annual financial services conference Tuesday and said it will post good 2002 results despite the economy." ("Household Defends Practices, Predicts Good 2002," *American Banker* , April 10, 2002) "The potential for further lawsuits and negative publicity from predatory lending is an enhanced risk, given the heightened regulatory environment and this an election year. Household has been subject to consumer advocate lawsuits (as have others) and recently settled a case of overcharging customers, due to a systems error in California." (William Blair report, April 10, 2002)
4	04/17/02	1.33%	0.96	"Household International (NYSE: HI) today reported first quarter earnings per share of $1.09, its fifteenth consecutive record quarter. First quarter earnings per share rose 20 percent from $.91 the prior year. Net income in the first quarter increased 18 percent, to a record $511 million." ("Household Reports Record First Quarter Net Income," *PR Newswire* , April 17, 2002 at 7:24 AM)	"HI's 10%~15% P/E multiple gap versus a peer subset of spread lenders such as banks like BAC has arisen through a combination of accounting issues (reaging, securitization, charge-off policies, etc.), the perception of reputational vulnerability related to fees and certain loan features, and its capital markets discount manifested through a widening in generic and company specific credit spreads. While these issues could have a residual effect on valuation, we believe company specific progress and/or a better understanding of these issues is likely to help narrow its valuation discount." (Goldman Sachs report, April 17, 2002 at 1:44 PM)

Examples of Leakage Period Dates Without Significant Residual Returns on Which Both Firm-Specific, Nonfraud Related Information and Fraud Related Information Were Disclosed

#	Date	Residual Return*	t-Stat*	Examples of Firm-Specific, Nonfraud Related Information	Examples of Fraud Related Information
5	05/14/02	0.49%	0.35	"Household Finance Corp., the mortgage lending unit of No. 2 U.S. consumer finance firm Household International Inc., plans to sell $2.5 billion to $3 billion of global debt, according to co-lead manager Credit Suisse First Boston." ("Household Finance to sell $2.5 bln-$3 bln bonds," *Reuters News* , May 14, 2002 at 10:47 AM)	"Two state government agencies and a large shareholder group are backing a resolution expected to be offered today at Household International Inc.'s annual meeting that will ask the Prospect Heights, Ill., company to alter its lending practices. The resolution, which seeks to tie executive compensation at Household to its efforts to curtail predatory lending, has received support from the Minnesota State Board of Investment Proxy Committee, the Connecticut Treasurer's Office, and the California Calpers fund. The Association of Community Organizations for Reform Now and Responsible Wealth, two activist groups, will offer the resolution. Acorn also plans to hold protests at the meeting site." ("In Brief: Resolution for Household," *American Banker* , May 14, 2002)
6	05/20/02	0.05%	0.04	"Consumer finance firm Household International Inc. plans to offer later this week $1 billion in asset-backed securities, supported by car loans it issued, market sources said on Monday. This will be Household's first car loan securitization to carry a financial guarantee, which will be offered by bond insurer MBIA, they said." ("Household plans $1 bln car loan asset-backed debt," *Reuters News* , May 20, 2002 at 10:26 AM)	"The increasing number of lawsuits filed against Household International has prompted shareholder concern and an unexpected 20%-30% vote in favor of a resolution that demands the company 'link executive pay to predatory lending practices.'" ("Shareholder Vote Puts Pressure on Household to Curb 'Predatory' Practices," *National Mortgage News* , May 20, 2002)
7	05/31/02	-1.42%	-1.03	"Moody's Investors Service has assigned ratings of Prime-1 to the Class A-1 notes and Aaa to classes A-2, A-3, and A-4 issued by Household Automotive Trust 2002-1." ("MOODY'S RATES HOUSEHOLD AUTO SERIES 2002-1 NOTES PRIME-1 AND Aaa, Moody's Investor Service Press Release, May 31, 2002) "Standard & Poor's assigned its ratings to Household Automotive Trust 2002-1's (Household) $1 billion auto receivable asset-backed notes (see list). The ratings reflect the credit support available to the notes, the performance of Household Finance Corp.'s (HFC) auto loan receivables portfolio, prior securitizations, and a sound legal structure." ("S&P Asgns Household Auto Tr 2002-1 Ser 2002-1 Nt Rtgs," *Business Wire* , May 31, 2002 at 11:21 AM)	"Its lending practices under fire on a number of fronts, Household International Inc. is fighting a new battle in Washington State. The Prospect Heights, Ill., company scored at least a temporary victory this week, getting an injunction against state regulators who had planned to release a report detailing 179 borrower complaints against its consumer finance units. Household argued that regulatory-exam information should not be made public." "For Household, New Fight and Small Victory," *American Banker* , May 31, 2002

Examples of Leakage Period Dates Without Significant Residual Returns on Which Both Firm-Specific, Nonfraud Related Information and Fraud Related Information Were Disclosed

#	Date	Residual Return*	t-Stat*	Examples of Firm-Specific, Nonfraud Related Information	Examples of Fraud Related Information
8	07/29/02	-0.09%	-0.07	"Household International Inc. (HI) made several executive management changes, including the appointment of David A. Schoenholz to the new position of president and chief operating officer." ("Household Intl Names Executives To New Positions," *Dow Jones News Service* , July 29, 2002 at 9:28 AM)	"Significantly, the compliance officer role is being promoted from a business line level to a group executive level, reflecting, in our opinion, the increased importance this role has taken on given renewed concerns about subprime and predatory lending in both regulatory and legislative circles...Investment risks include...increased regulatory and legal scrutiny." (UBS report, July 29, 2002 at 12:27 PM)
9	08/20/02	-1.45%	-1.05	"Household International Inc., the consumer finance giant, is planning to sell $1.2 billion in bonds backed by auto loans, market sources said Monday." ("Household said planning $1.2 billion auto bond," *Reuters News* , August 19, 2002 at 4:41 PM)	"Washington state prosecutors are working with other U.S. states to investigate possible lending abuses by Household International Inc., the No. 2 U.S. consumer finance firm, according to a spokesman in the Washington attorney general's office." ("Household probed by Washington prosecutors," *Reuters News* , August 20, 2002 at 10:27 AM)

* *See* Fischel 2nd Supplemental Exhibit 1.

Exhibit 91

November 30, 2001

William Ryan (212) 414-0211

Household International (HI-$59-SELL)

"Used Car Pile-Up"

Executive Summary

- **HI is growing its sub-prime auto finance portfolio at the wrong time in the cycle**
- **Growth is driven by relaxed underwriting more than organic demand**
- **Aggressive accounting embellishes earnings**
- **Asset quality issues may be masked by liberal chargeoff policies**

Used Car Pile-Up: Household Growing Subprime at the Wrong Time

While Household's sub-prime auto finance business remains small relative to the overall size of the managed portfolio (6.2% of the managed portfolio), it has once again become a significant driver of growth in recent quarters. After declining to 9.5% of total managed receivables growth in 2000, the auto finance business has surged to 16.1% of the growth in total managed loans for the nine months ended September 30, 2001. Like AmeriCredit, management at Household is trying to assure investors it knows what it is doing, and that the auto finance market is rational. However, as we recently stated in our AmeriCredit report, one has to recognize they are an irrational player before one can see an irrational market. While we have been extremely critical of AmeriCredit in recent months in regard to underwriting (among other things), we believe Household is equally aggressive. One industry source commented that AmeriCredit and Household have their "horns locked" in a bid to be the biggest (or most aggressive in this case) sub-prime auto finance company. We find this aggressiveness surprising in light of the current economic environment and, more specifically, the state of the auto finance market. We have found many of the same attributes in both Household's and AmeriCredit's underwriting, including a heavy use of extended term financing, low/no downpayments, high loan-to-value ratios, and even waiving stipulations (income and residence verification, references). From an extended term financing perspective, Household appears to be even more aggressive than AmeriCredit.

Macro Conditions Are Not In Anyone's Favor

Most financial institutions engaged in either prime or sub-prime auto finance are finding the current environment particularly challenging, with most companies reporting lower loan origination volumes. Several factors are cited from both supply and demand perspectives, including:

1) **Waning consumer demand** in light of the current economic downturn, rise in unemployment, and loss of jobs and/or lower incomes due to less overtime and bonuses.

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2) **Aggressive captive finance offers** (GMAC, Ford Motor Credit, and Chrysler Credit, among others), including low rate financing. Dealers have reported to us that the captives are buying further down the credit spectrum than they have in the past to stimulate sales. This creates a "crowding out" effect of non-prime/sub-prime finance companies in new the new car finance market, as well as the used car finance market as many "would be" used car buyers are enticed to buy new cars. Dealers have also told us that although non-prime borrowers may not receive 0% captive financing, they often qualify for high, single digit rates from the captives. This creates adverse selection for non-captive finance companies, particularly those that have accelerated loan volumes into the current environment.

3) **Used car prices are falling** due to waning consumer demand, liquidations of rental car fleets, heavy incentives on new cars (which depresses used car prices and entices more consumers to purchase a new car), vehicles coming off-lease hitting the auctions, and a massive amount of used cars which have been traded-in to purchase a new car. This leads to much higher loss severity (the dollar amount of loss relative to the loan size) on current repossessions, and the understatement of loan-to-value ratios on current originations. Loan-to-value ratios are based upon various used car guides, which tend to be lagging indicators of used car prices. Since these lenders are basing current loans off values in these guides, loan-to-value ratios on current production are understated, meaning loss severity will be higher in the future.

A Leader In Sub-Prime Extended Term Financing

Loan terms in excess of 60 months are generally considered an extended term loan by the industry, particularly as it relates to the financing of used cars. The competitive advantage of extended term loans from a finance company perspective is that it allows a dealer to "bake-in" more profit in a vehicle relative to the competition that may not be willing to offer extended terms, yet keep the monthly payment to the consumer very competitive. For example, lender "A" may offer 66 or 72 month financing with a 110-115% loan to value ratio, while lender "B" may only offer a 105% loan to value ratio at 60 months. Lender "A" would likely win the business since the dealer can generate more profit from the higher loan to value ratio loan, yet the payment to the consumer will be competitive with the extended terms. Table 1 below summarizes the degree to which Household's weighted average original term on its auto loans has increased over the last several years. Simply put, Household is financing more used cars at extended terms which is a risky business practice in the sub-prime market. Table 2 below gives the composition of extended term loans in Household's latest securitization. We would also note that loans with terms greater or equal to 60 months totaled 44% of the securitization by principal balance based on the ***remaining*** term of loans securitized. Approximately 2.07 months of seasoning had taken place on these loans, indicating that the actual percent of the pool balance with terms of 60 months or greater was probably slightly higher than 44%.

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Table 1

	Loan Mix New	Loan Mix Used	Weighted Average Original Term (Months)	WAC	Average LoanSize ($)
95a	23.57%	76.43%	56.25	19.82%	11,427.23
95b	18.33%	81.67%	57.28	19.77%	11,917.23
96a	13.25%	86.75%	58.25	20.30%	12,096.38
96b	10.79%	89.21%	57.99	20.50%	12,230.75
96c	9.90%	90.10%	57.66	20.62%	12,345.80
96d	13.32%	86.68%	57.99	20.40%	12,498.13
97a	7.72%	92.28%	58.18	20.59%	12,333.81
97b	14.35%	85.65%	59.61	20.31%	12,826.38
97c	8.84%	91.16%	59.16	20.35%	12,713.17
98-1	16.69%	83.31%	61.85	19.77%	13,760.00
99-1	23.00%	77.00%	63.10	19.61%	14,327.00
00-1	30.82%	69.18%	64.51	18.80%	15,391.82
00-2	28.70%	71.30%	64.75	18.53%	16,017.90
00-3	31.07%	68.93%	64.70	18.43%	16,422.72
01-1	29.99%	70.01%	63.97	18.35%	16,307.53
01-2	25.52%	74.48%	63.40	17.87%	16,093.83
01-3	23.78%	76.22%	63.20	18.13%	15,920.40

Source: Household International Securitization Documents

Table 2

2001-3 Securitization				
Remaining Term Range (In Months)	Number Of Auto Loans	% Of Auto Loans	Principal Balance	% of Pool By Principal Balance
6 to 11	10	0.01%	55,539.41	0.00%
12 to 17	20	0.03%	102,437.06	0.01%
18 to 23	255	0.34%	1,608,791.05	0.14%
24 to 29	226	0.30%	1,715,347.35	0.14%
30 to 35	1,358	1.79%	11,590,146.85	0.98%
36 to 41	818	1.08%	8,414,096.36	0.71%
42 to 47	4,353	5.73%	50,504,489.61	4.25%
48 to 53	1,992	2.62%	26,273,060.33	2.21%
54 to 59	38,357	50.52%	562,605,683.85	47.40%
60 to 65	9,694	12.77%	147,718,578.02	12.44%
66 to 71	15,374	20.25%	306,067,933.40	25.78%
72	3,462	4.56%	70,394,338.77	5.93%
Total	75,919	100.00%	1,187,050,442.06	100.00%

Source: Household 2001-3 Auto Securitization Prospectus

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Extended term financing was historically reserved for prime credits by financial institutions offering auto finance loans. Principal balances amortize more slowly with extended term loans leaving finance companies with higher loss severities for repossessions of cars financed at extended terms. Further, extended term loans, particularly on used cars, creates the risk that the term of the contract will exceed the maintenance inflection point of the vehicle financed, or, in other words, when the vehicle moves from low to high maintenance due to the age of the vehicle. One reason for default in sub-prime is maintenance; i.e., when a vehicle breaks down and either the consumer cannot afford the repair, or he owes way more than the vehicle is worth when it breaks down. These are the reasons why extended term loans have generally been reserved for prime credits. Prime credits are more concerned about their credit record and are more likely to continue to pay in the event of maintenance problems. Maintenance problems and a lack of equity in vehicles are also reasons why losses on extended term loans on sub-prime credits will tend to have a second spike of defaults and losses as loan pools mature.

Creating Volume Where None Exists

Relaxed Underwriting. Simply put, when loan volumes are more difficult to attain, or the competitive pressure builds, the most simple way to generate growth is to relax underwriting: extend loan terms, relax downpayment requirements, increase loan to value ratios, and waive stipulations (income residence verifications, as well as not checking references). We find Household competing in all the aforementioned ways. It is no different than what Conseco did in 1995 to stimulate loan volumes of manufactured homes: drop downpayments, extend loan terms to 30 years, and increase loan to value ratios. It is also why the market will look more rational; if you are the irrational player then other participants are not willing to compete with you (except another irrational player).

Other Aggressive Underwriting Practices – Mack Truck Anyone? In addition to a heavy use of extended term financing, Household has many other aggressive attributes in its auto finance underwriting. We have repeatedly heard from dealers and industry participants that the company underwrites with high loan to value ratios, low downpayments, and is more willing to finance older vehicles at longer terms. We will also cite Household's own underwriting guidelines which can be found in various securitization documents:

"Currently, the subservicer or its affiliate finances up to 115% of the dealer's invoice price for new vehicles or the wholesale value for used vehicles, plus taxes, license fees and any dealer handling or documentation charges. The total amount financed, including insurance or the cost of a service contract, may not exceed 150% of the invoice (if a new vehicle) or 150% of the wholesale value as quoted in the used car guide. The maximum amount financed per vehicle currently does not exceed $40,000. Financing is not offered for vehicles that are more than eight years old or that have been driven more than 90,000 miles."

As we would say, these guidelines are broad enough to drive a Mack Truck through! We would also cite Household's lax downpayment requirements as just another example of aggressive underwriting:

"The amount of the required downpayment varies by program. For qualifying borrowers with better credit profiles, no downpayment is currently required. Other programs require a minimum downpayment of the lesser of 10% of the vehicle cost or $1,000."

Simply put, a $1,000 dowpayment does not even cover the taxes on most vehicle sales.

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William Ryan (212) 414-0211

Liberal Accounting – In More Ways than One

When one states that a financial institution has aggressive accounting, most investors would assume it relates to charge-off policies. For Household, not only are the charge-off policies aggressive, but we also found the securitization assumptions and due date change policy to be very aggressive.

Aggressive Gain-On-Sale Assumptions. Household utilizes securitization as a primary funding vehicle for its auto financing business. Since an off-balance sheet securitization structure is utilized, the company recognizes "gain-on-sale" revenues when the loans are securitized, and a corresponding asset is created called the interest only strip (I/O), both of which represent the present value of the future cash flows expected from the loans that are securitized.

The key assumptions used to estimate future cash flows and calculate the gain and I/O strip include discount rates, prepayment speeds, and estimated losses. These assumptions are crucial to the integrity of the value of the interest-only strip created from gain-on-sale accounting. Material errors in estimation could result in impairment to the value of the interest-only strip, which would necessitate a write-down of the asset and negatively affect earnings.

We have one word for Household's assumptions used to calculate the I/O and gain-on-sale: aggressive. In 2000, Household used a measly 10% discount rate when present valuing the expected cash flows to arrive at the value of the interest-only strip and gain on sale. This compares with 14% at AmeriCredit. Further, Household's expected annualized credit losses used in the assumptions was 5.38%. Actual annualized credit losses were 4.80% in 2000. However, given Household's rapid growth in this business, current annualized losses are being understated due to a denominator effect. Six- and nine-month lag charge-offs were 5.55% and 5.84%, respectively, in the third quarter of 2001, indicating that losses could very well exceed the assumptions used to calculate the value of the I/O as the auto portfolio seasons. Further, it appears that Household maybe delaying loss recognition with a buildup of repossessed inventory (as losses are generally not recognized until repossessions are liquidated according to one of Household's documents). Increasing loss severity due to falling used car prices will only exacerbate the problem.

Unfortunately for Household, gains on auto finance securitiztions represent a large part of the total gains being recognized from securitization activities. According to the annual report, Household recognized $80.4 million in gains from auto securitizations, or 47% of all securitization gains taken in 2000. This would also imply that auto securitizations represent a growing portion of the I/O on the balance sheet. If the auto business takes the path of losses that we envision, Household will be forced to write-down the value of the I/O associated with its auto securitizations, impairing a source of revenues and earnings for the company, not to mention that the auto business has recently increased as a percent of the asset growth.

Extensions Disguised as Due Date Changes? Most finance companies will allow a consumer to change the payment due date once in the life of the loan, and is typically limited to a 15 day change. Household, however, will allow a 30 day due date change. We quote from one of their recent auto securitization prospectuses, "the Master Servicer may at any time agree to a modification or amendment of a Receivable in order to change the Obligor's regular due date to a date within 30 days of when such due date occurs...." Our position is quite simple, there is no reason for a customer to have a 30-day due date change, and virtually all auto finance companies limit it to 15 days. Customers will typically request due date changes so that loan payments for a mortgage and an auto loan will fall on a different pay periods; otherwise the two payments together would be overwhelming to the consumer. A customer will typically have their mortgage

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payment on the first of the month. The customer will then request a due date change on the auto loan to the 15th of the month so that it corresponds with the next payday. If you change the due date by 30 days (or even close to), it does not solve the customer's problem. Bottom line, there is no reason to change a payment from January 1 to February 1 other than the fact that the customer needs an extension. We are not saying that Household is abusing this policy, but that it is subject to abuse given the latitude in granting 30-day due date changes. Household does not disclose the amount of loans receiving due date changes or extensions.

Liberal Charge-Off Policies. On page 58 of Household's annual report, it states that "carrying values are written down to net realizable value when the loan becomes 5 months contractually delinquent" for loans secured by automobiles. In the securitization document, the 150-day contractually delinquent charge-off policy still applies, but it also states that "unless a determination is made to charge-off an auto loan contract earlier, upon sale of a repossessed vehicle, the subservicer records a net loss equal to the outstanding principal balance of the auto loan, less the proceeds from the sale of the vehicle." Based on the disclosure in the two documents and the differences that exist between the two, it is difficult to determine whether Household's charge off policies are just liberal, or really liberal. Most auto finance companies will charge-off auto loans at 120 days contractually delinquent versus Household at 150 days. Further, it is unclear whether Household can avoid recognizing losses for GAAP purposes by holding repossessed inventory. For securitization purposes, Household can repossess a car and hold it in inventory for 90 days, but it is unclear based on the disclosure in the annual report whether they can avoid recognizing losses past 150 days by holding the vehicle in repossession. Again, the GAAP charge-off policy is either just liberal (charge off to net realizable value at 150 days delinquent), or really liberal (recognizing the losses once repossessions are liquidated).

The Case Of The Disappearing Footnote – Understating Loan Losses?

In our analysis of Household's auto finance business, we reviewed the periodic prospectuses issued by the company when a new auto loan securitization comes to market. When examining the delinquency table in the prospectus dated July 19, 2001 (shown below), our attention was drawn to the amount in repossession. At March 31, 2001, the table shows Household having $64.9 million in repossessed car inventory, an amount totaling 1.36% of the $4.8 billion servicing portfolio. However, footnote number three is referenced in the table for "repossessions on hand." Footnote 3 states that "amounts shown under 'repossessions on hand' represent the expected net realizable value for repossessed vehicles that have not been sold." Quite simply, what Household is showing investors in the table is the amount in repossession as if the inventory of repossessed cars had already been written down.

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HISTORICAL DELINQUENCY
(DOLLAR AMOUNTS IN THOUSANDS)

	AT MARCH 31, 2001		AT DECEMBER 31, 2000		1999		1998		1997		1996	
	DOLLARS	PERCENT	DOLLARS	PERCENT	DOLLARS	PERCENT	DOLLARS	PERCENT	DOLLARS	PERCENT	DOLLARS	PERCENT
Principal Outstanding	4,762,644	100.00%	4,511,967	100.00%	2,949,854	100.00%	1,593,434	100.00%	607,802	100.00%	251,751	100.00%
Delinquencies (1) (2)												
31-60 Days	210,195	4.41%	296,082	6.56%	123,116	4.17%	65,220	4.09%	23,784	3.91%	8,297	3.30%
61-90 Days	41,554	0.87%	62,357	1.38%	45,141	1.53%	21,607	1.36%	8,498	1.40%	2,847	1.13%
Over 90 Days	43,364	0.91%	51,993	1.15%	26,055	0.88%	13,155	0.83%	3,939	0.65%	1,515	0.60%
Subtotal	295,113	6.20%	410,432	9.10%	194,312	6.59%	99,982	6.27%	36,221	5.96%	12,659	5.03%
Repossessions on Hand (3)	64,890	1.36%	60,687	1.35%	33,729	1.14%	17,746	1.11%	6,495	1.07%	2,241	0.89%
Total Delinquencies and Repossessions on Hand	360,003	7.56%	471,119	10.44%	228,041	7.73%	117,728	7.39%	42,716	7.03%	14,900	5.92%

(1) The period of delinquency is based on the number of days payments are contractually past due.
(2) Delinquencies include bankruptcies. Bankruptcies represent approximately 0.5% of outstanding principal for each period presented.
(3) Amounts shown under "repossession on hand" represent the expected net realizable value for repossessed vehicles that have not been sold.

If we assume that net realizable value for a repossessed car is fifty cents on the dollar, then the actual amount in repossession is 2.70% (2.45% in repossession at a 45% assumed loss severity). This compares with approximately 1% amount in repossession at AmeriCredit! At a loss severity of 50%, this would imply that Household is sitting on almost $40 million of unrecognized losses if the repossessed inventory were to be liquidated down to the 1% level, assuming that these losses have not already been recognized for GAAP purposes.

What is even more interesting is that footnote 3 in the delinquency table recently disappeared in the prospectus dated October 19, 2001, only after we began brining this up as a potential issue with investors. Footnote 3 had been included in Household's disclosure in its prospectuses since November 24, 1998, so we would find it difficult to accept that the disclosure was a mistake on the part of the company. Our bottom line is that it appears as though the company may be hiding credit loss problems in its auto finance division by building, but not liquidating, repossessed inventory. Theoretically, if the 1.36% amount in repossessed inventory had been written down for GAAP purposes, then there would be no need to sit on such a high level of repossessed collateral.

HISTORICAL DELINQUENCY
(DOLLAR AMOUNTS IN THOUSANDS)

	AT JUNE 30, 2001		AT DECEMBER 31, 2000		1999		1998		1997		1996	
	DOLLARS	PERCENT	DOLLARS	PERCENT	DOLLARS	PERCENT	DOLLARS	PERCENT	DOLLARS	PERCENT	DOLLARS	PERCENT
Principal Outstanding	5,126,936	100.00%	4,511,967	100.00%	2,949,854	100.00%	1,593,434	100.00%	607,802	100.00%	251,751	100.00%
Delinquencies (1) (2)												
31-60 Days	269,166	5.25%	296,082	6.56%	123,116	4.17%	65,220	4.09%	23,784	3.91%	8,297	3.30%
61-90 Days	73,578	1.44%	62,357	1.38%	45,141	1.53%	21,607	1.36%	8,498	1.40%	2,847	1.13%
Over 90 Days	33,603	0.66%	51,993	1.15%	26,055	0.88%	13,155	0.83%	3,939	0.65%	1,515	0.60%
Subtotal	376,347	7.34%	410,432	9.10%	194,312	6.59%	99,982	6.27%	36,221	5.96%	12,659	5.03%
Repossessions on Hand	61,423	1.20%	60,687	1.35%	33,729	1.14%	17,746	1.11%	6,495	1.07%	2,241	0.89%
Total Delinquencies and Repossessions on Hand	437,770	8.54%	471,119	10.44%	228,041	7.73%	117,728	7.39%	42,716	7.03%	14,900	5.92%

(1) The period of delinquency is based on the number of days payments are contractually past due.
(2) Delinquencies include bankruptcies. Bankruptcies represent approximately 0.5% of outstanding principal for each period presented.

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Exhibit 92

usbancorp Piper Jaffray

Company Note
January 16, 2002

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Senior Research Analyst
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Research Associate
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Reason for Report:
Earnings Announcement

Changes	From (Previous)	To (Current)
Rating	--	Outperform
Price Tgt	--	$65
FY01 EPS	--	$4.08
FY02E EPS	--	$4.65
FY01 NI (mil)	--	$1,915
FY02E NI (mil)	--	$2,130

Price:	$54.65
52-Wk Range:	$69.98-$48.00
Price Target:	$65
(14x FY02E EPS of $4.65)	
Shares Out (mil):	457.7
Market Cap (bil):	$25.0
Avg Daily Vol (000):	2,811
Book Value/Share:	$19.47
Cash Per Share:	NA
Debt to Total Capital:	NA
Div (ann) - Yield:	$0.88 – 1.6%
Est LT EPS Growth	14%-15%
P/E to LT Growth (2002):	81%
Est Next Rep Date:	Apr. 2002
FY End:	Dec. 2002

NI (mil)	2000	2001	2002E
Mar	$373	$430	$480
Jun	$384	$437	$487
Sep	$451	$501	$553
Dec	$493	$547	$610
FY	$1,701	$1,915	$2,130

EPS	2000	2001	2002E
Mar	$0.78	$0.91	$1.04
Jun	$0.80	$0.93	$1.06
Sep	$0.94	$1.07	$1.21
Dec	$1.03	$1.17	$1.34
FY	$3.55	$4.08	$4.65
FY P/E	15.4x	13.4x	11.8x

Disclosures (see last page for details):
(#) Market Maker
(^) Beneficial Interest
(>) Beneficial Interest/Pre-IPO
(@) Underwriter
(~) Employee/Director

Household International, Inc. (HI – $54.65)

Outperform **Volatility: Medium**

Margin Expansion Drives Quarter, While Credit Quality Only Slightly Deteriorates, But Something To Watch Closely; Headwinds Remain

KEY POINTS:

- Household International reported December quarter earnings of $547 million or $1.17 per share (14% increase over $1.03 in prior-year), which was in-line with U.S. Bancorp Piper Jaffray and the Street estimates.
- Net interest margin increased to 8.85% in December from 8.57% in September and 8.01% in the prior year. ROAA and ROE increased to 2.51% and 24.8% in the December quarter, respectively, from 2.42% and 23.6% in the September quarter. Asset growth was 5% for the December quarter.
- Nonperforming assets trended higher in the December quarter at $4.0 billion and the credit loss reserves as a percentage of total managed assets ticked up slightly to 3.78% from 3.72% in the September quarter and 3.65% in the prior-year period. We remain concerned by the sharp rise in charge-offs in the auto portfolio.
- We maintain our Outperform rating for long-term holders and believe consumer finance trends remain key to stock performance and with rising unemployment we remain a little cautious near term.

INVESTMENT RECOMMENDATION:

A Diversified Consumer Franchise But Keep An Eye On Consumer Trends. Household is a major consumer finance player. The Household lending platform is very diversified with home equity being the main driver (44% of book) and the technology investment deployed has been strong. However, investors need to be cognizant of individual consumer's balance sheet and trends affecting them such as higher unemployment, lower consumer confidence, and lower spending levels which can keep a lid on HI's shares in the near term. Our $65 price target is 14x our 2002E EPS of $4.65, the midpoint of the Company's growth target range. Our rating is Outperform.

COMPANY DESCRIPTION:

Household International (#), through its subsidiaries, is a major provider of consumer financial services in the United States, Canada, and the United Kingdom. Household's major consumer finance products include home equity (44%), MasterCard/Visa, and other private label credit cards (31%), other unsecured (19%), and auto finance (6%).

- Household International reported December quarter 2001 earnings of $1.17 per share, up 14% over the same period in the prior year. December quarter results were in-line with U.S. Bancorp Piper Jaffray estimates and in-line with the Street. The December quarter was driven by improving margins resulting from interest rate cuts, solid asset growth with strength in home equity and auto finance, and a modest decline in credit quality. We highlight that the return on managed assets increased consecutively, which gained 8 basis points in the quarter to 2.04%. Household's return on equity increased to 24.8% in the December quarter from 23.6% in the September quarter and 25.4% in the prior year. While the quarter was basically in-line, we believe a weaker outlook for consumer credit quality clearly creates a ceiling for the stock in the near term.

- Household's managed portfolio posted a solid gain of 5.4% in December to $100.8 billion, up from $95.7 billion in the September quarter, and $87.6 billion in the prior-year period. Managed receivables in home equity, auto finance, MasterCard/Visa, private label, and other unsecured business lines experienced significant year-over-year growth in the December quarter compared to the September quarter as illustrated in the table below.

	December YOY Growth	September YOY Growth
Real Estate Secured	22.1%	18.8%
Auto Finance	40.2%	35.6%
MasterCard/Visa	(1.1%)	5.7%
Private Label	15.1%	9.8%
Other unsecured	10.9%	13.5%

The auto finance and home equity lines had the strongest growth rates. We are somewhat concerned over the growth in the auto finance portfolio, as competition has picked up according to other auto finance companies, and because of the weak outlook for consumer credit in this slowing economy. We highlight home equity and auto finance, Household's primary growth engines, which has dramatically slowed from levels of 30%-40% and 50-60% year-over-year growth, respectively, that Household experienced over the past couple of years.

- Household's managed net interest margin in the December quarter expanded to 8.85%, an increase of 28 basis points over the September quarter. The Federal Reserve's 11 interest rate cuts have led to declines in short-term rates, as the 2-year Treasury note yield has dropped significantly from 5.6% in December 2000 to approximately 2.70% today. These lower rates have been the primary driver of Household's sequential improvement in its net interest margin. Importantly, improvement in margin will become more challenging from here, while the March margin may show a slight uptick, or remain flat due to the lag effect of lower rates, we believe generally lower margins will be a headwind over future quarters. As such, we believe the margin is close to a peak and psychology in the stock could change with a declining net interest margin.

	4Q 2001	3Q 2001	4Q 2000
Net interest margin	8.85%	8.57%	8.01%
Growth in managed receivables (YOY)	15.1%	14.6%	22.1%
Reserves for credit losses as a % of managed receivables	3.78%	3.72%	3.65%
Charge-offs, net of recoveries as a % of average managed receivables	3.90%	3.74%	3.41%
Managed delinquency ratio	4.46%	4.43%	4.20%
Managed efficiency ratio	31.2%	34.3%	30.8%
Ratio of tangible equity to tangible managed assets	7.87%	7.82%	7.41%
Earnings per share	$1.17	$1.07	$1.03
Return on average common shareholders' equity	24.8%	23.6%	25.4%
Return on average managed assets	2.51%	2.42%	2.61%

- **Credit quality remained fairly stable** in the December quarter, as charge-offs ticked up to 3.90% from 3.74% in September, while delinquencies rose to 4.46% from 4.43% in the September quarter. As expected, charge-off rates increased in auto finance to 6.52% from 4.84% in September, and private label increased from 5.13% to 5.40%. However, charge-off rates in the MasterCard/Visa improved to 6.69% from 6.75% in the September quarter. Home equity and other unsecured net charge-offs were up slightly. Auto finance delinquencies were up to 3.16% in the December quarter from 2.54% in September and 2.09% in June. Private label and home equity delinquencies showed modest improvement while MasterCard/Visa and other unsecured delinquencies trended higher. Overall reserve levels

were up slightly at 3.78% of managed receivables. Reserve coverage on nonperforming managed receivables was up sequentially to 105.0% from 103.9% in the September quarter. Going forward, we believe charge-offs and delinquency rates will continue to trend up into 2002, driven by higher unemployment and bankruptcy levels as the economy slows.

- **Household's efficiency ratio decreased** slightly to 31.2% in December from 34.3% in September and 30.8% in the same period a year ago. The increase was attributed to hiring an additional 200 sales executives in the December quarter in addition to an increase in marketing and technology spending. We look for the efficiency ratio to remain stable into 2002, but less than previously expected.
- Household completed the buyback of 2.2 million shares totaling $140 million in the December quarter in connection with the Company's $2 billion share repurchase program.

Rating Definitions

Investment Opinion: investment opinions are based on each stock's return potential relative to the overall market*, not an absolute return.

- **Strong Buy:** Expected to significantly outperform the relevant broader market index over the next 6 to 12 months. An identifiable catalyst is present to drive appreciation.
- **Outperform:** Expected to outperform the relevant broader market index over the next 12 to 18 months.
- **Market Perform:** Expected to perform in line with the relevant broader market index over the next 6 to 12 months.
- **Underperform:** Expected to underperform the relevant broader market index over the next 6 to 12 months.

* Broader market indices = Russell 2000 and S&P 500

Volatility Rating: Our focus on growth companies implies that the stocks we recommend are typically more volatile than the overall stock market. We are not recommending the "suitability" of a particular stock for an individual investor. Rather, we are identifying the volatility of a particular stock.

- **Low:** The stock price has moved up or down by more than 10% in a month in fewer than 8 of the past 24 months.
- **Medium:** The stock price has moved up or down by more than 20% in a month in fewer than 8 of the past 24 months.
- **High:** The stock price has moved up or down by more than 20% in a month in at least 8 of the past 24 months. All IPO stocks automatically get this risk rating for the first 12 months of trading.

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Additional information is available upon request.

Exhibit 93

BERNSTEIN RESEARCH CALL
FOR FAX PROBLEMS ONLY: 212-756-4283
U.S. CONSUMER FINANCE
FEBRUARY 13, 2002

HI: Collateral Damage

Howard K. Mason 212-756-4285 MasonHK@bernstein.com, Rick L. Biggs 212-756-4484 BiggsRL@bernstein.com

Ticker	Rating	02/12/02 Price	Absolute YTD Perf.	Relative YTD Perf.	2000A	SCB Estimates 2001E	SCB Estimates 2002E	Consensus 2001E	Consensus 2002E	SCB P/E 2001E	SCB P/E 2002E
HI	O	$51	-12%	-9%	$3.55	$4.10	$4.65	$4.08A	$4.65	12.4	10.9
COF	O	$48	-12%	-8%	$2.24	$2.91	$3.50	$2.91A	$3.51	16.4	13.6
SPX		$1,108	-4%		$55.12			$42.97	$49.61		

O – Outperform, M – Market-Perform, U – Underperform

Highlights

- **Household's stock price was down 1.3% yesterday, as collateral damage from the sharp sell-off of 6.5% in AmeriCredit. The sale is over-done since the issues affecting AmeriCredit – capital adequacy, funding access, and sustainability of earnings growth – do not apply to the same degree at Household.**
- **First, recourse assets generated from securitization activity represent 79% of stockholder's equity at AmeriCredit and 30% at Household. This means that a write-down of these recourse assets – due, for example, to increased credit losses in sub-prime auto-lending -- has less of an impact on capital adequacy at Household than at AmeriCredit.**
- **Second, Household is less dependent for continued earnings growth on auto-lending (which represents only 6.3% of managed receivables) whereas AmeriCredit is an auto-lending mono-line. Continued growth in Household's real estate portfolio will allow the firm to meet 2002 EPS targets of 13-15% growth even if auto-lending disappoints.**
- **And third, Household has a diversified funding base – and a variety of assets available for securitization – and so is less exposed to increased costs or reduced access in the market for auto-receivables backed securities. Access and funding costs in this market will deteriorate for issuers, particularly AmeriCredit, if AmeriCredit fails performance tests in some of its series and triggers early amortization.**
- **The January 2002 securitization data from AmeriCredit, reported Tuesday, indicates that the firm is close to failing delinquency performance tests on 6 of its 15 series. For example, in the 2000-A series, the 3-month average delinquency rate is 4.97% against a compliance limit of 5.00%.**

Investment Conclusion

We rate Household outperform with a price target of $62 because of the firm's diversified portfolio of lending businesses, and strategic edge in these businesses through advantaged distribution channels and strong, centralized control of risk. Given the stock is trading at a relative earnings multiple of 49% (versus a 5-year historical average of 57%), we view Household as undervalued and believe that sell-offs due to difficulties at less well-capitalized, funded, and diversified competitors such as AmeriCredit provide favorable entry. While we recognize that sentiment is against

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the consumer finance sector in general and Household in particular, we believe that the stock will provide significant out-performance for long-term investors as the economy improves despite possible short-run volatility.

While performance in auto-lending at Household is disappointing, we believe the relatively small size of the portfolio (at 6.3% of managed receivables) together with actions taken by the firm to contain the damage (including a change in management) will prevent it from de-railing target EPS growth of 13-15% in 2002.

Details

1. On Tuesday, AmeriCredit reported it the results from its securitization trusts for January, showing that the firm is close to failing performance tests. Specifically, the 3-month average of the 60+ days delinquency rates are within 3 or 4 basis points of the compliance limit for 6 of the 15 series (see ***Exhibit 2A***). For example, in the 2000-A series, the 3-month average delinquency rate is 4.97% against a compliance limit of 5.00%.

2. The impact of failing a performance test is that it triggers early amortization. In this event, the trust begins to trap cash – meaning that cash flows that would otherwise be made available to AmeriCredit are retained in the securitization trust to provide protection to senior creditors. This, in turn, can trigger a revaluation of the recourse assets generated by securitization activity and carried on AmeriCredit's balance sheet. ***Exhibit 3*** shows that these recourse assets – comprising an interest-only receivable of $376 million and retained, subordinated interests of $515 million – represent 79% of stockholder's equity as of last September. This high percentage means that a write-down of a portion of the recourse assets has a significant potential impact on capital adequacy.

3. AmeriCredit appears to have avoided triggering early amortization by making delinquent loans current through granting extensions – that is, allowing a borrower to skip a payment and pushing it to the back of the loan as an additional amount due after the original maturity date. For example, in the 2000-A series, the extension rate increased by 22% to 3.33% in January 2002 from 2.72% in December 2001. This is a large month-on-month increase for a relatively seasoned trust and suggests deterioration in reported asset quality. There is also a limit to this process since there are extension rate performance tests that also trip early amortization although AmeriCredit still has some room under these tests. For example, for the 2000-A series, the 3-month average extension rate is 2.94% versus a compliance limit of 4.00% (see ***Exhibit 2A***). The table below reports the increase in the extension rates for AmeriCredit's various series over the last three months.

Table A **Extension Rates at AmeriCredit**

	Extension Rate by Month		
Trust Series	Jan. 2002	Dec. 2001	Nov. 2001
1998-B	2.87%	2.44%	2.37%
1998-C	2.37%	2.40%	2.43%
1998-D	3.06%	2.45%	2.63%
1999-A	2.97%	2.75%	2.67%
1999-B	3.12%	2.66%	2.63%
1999-C	3.06%	2.61%	2.64%
1999-D	3.16%	2.60%	2.54%
2000-A	3.33%	2.72%	2.78%
2000-B	3.13%	2.59%	2.59%
2000-C	3.10%	2.60%	2.43%
2000-D	3.03%	2.41%	2.59%
2001-A	3.04%	2.67%	2.84%
2001-B	1.95%	1.00%	0.37%
2001-C	0.64%	0.37%	0.14%
2001-D	0.14%	0.07%	0.01%

Source: Servicer reports

4. AmeriCredit can also avoid triggering early amortization by repossessing cars and thereby writing off loans (down to the net realizable value of the car less selling costs) and so moving them out of the delinquency statistics. Apart from the impact on reported EPS, this approach also has a limit since there are performance tests on the cumulative default rate. The firm is coming close to these limits on some of the older series. For example, in the 1998-B series, the cumulative default rate is 19.6% versus a compliance limit of 20.8% (see ***Exhibit 2A*** again).

5. While AmeriCredit continues to have access to the securitization market – launching a 2002-A deal on Tuesday for $1.6 billion with price talk of libor less a basis point on a $250 million senior class and swaps plus 30 basis points on a $500m subordinated class – early amortization of some of the prior series would likely increase the cost of funds and lead to a capital hit through the write down of recourse assets. Both events would increase potential growth constraints. AmeriCredit's stock price fell 6.5% yesterday on the news.

6. Household experienced collateral damage with its stock price down 1.3%. This is over-done for several reasons:

   - Household has a higher quality capital base. Recourse assets at the firm represent 30% of stockholder's equity versus 79% at AmeriCredit (see ***Exhibit 3*** again). The impact of a write-down of recourse assets on capital adequacy is proportionately less. Furthermore, we believe the firm is not as close to failing performance tests in its securitization trusts (although less complete disclosure of compliance limits makes it more difficult to evaluate).

   - While the credit performance of the auto-loan portfolio at Household is disappointing – with the loss ratio up to 6.52% in Q4 01 from 4.84% in Q3 01 (see ***Exhibit 4***) – the problem is contained and we expect improvement from Q2 02 onwards. Furthermore, the auto-loan portfolio is only 6.3% of managed receivables and, given strong performance in the much larger real estate portfolio (comprising 44% of managed receivables), reduced growth would be unlikely to cause the firm to miss its target of an increase of 13-15% in EPS for 2002.

   - Household does not appear to have used extensions to distort reported payment behavior and asset quality. Rather, the firm has taken the hit to earnings of repossessing cars and writing down loans. Thus, for example, the cumulative default rate on Household's 1999-1 series is 11.34% (see ***Exhibit 2B***) versus the likely artificially depressed number of 10.01% for the equivalent series at AmeriCredit.

Risks

Our investment recommendation for Household is based on the thesis that growth in the real-estate business will more than compensate for likely disappointing results in auto-lending in 2002. The risk is that the economic environment or legal challenges threaten the growth model in the real estate business. Given we believe the economy is improving, that loss ratios will peak with unemployment in Q3 02, and that there will be no material reduction in property prices for the middle market customer base served by Household, the primary risk is legal.

While Household settled a lawsuit brought by the California Department of Corporations in relation to excessive administrative fees, the firm now faces a second legal challenge in California from ACORN – the Association of Community Organizations for Reform Now – which has filed a class action suit along with two private plaintiffs. The threat of this lawsuit is that it is not focused on excessive fees but on the lending practices employed by Household in its real estate business. Specifically, the complaint characterizes the firm's business model as target, trick, and trap – "targeting" customers from leads generated in the credit card businesses and through check-access mailings, "tricking" customers through quoting dollar interest payment amounts rather than all-in cost in terms of APR, add-on

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fees, and loan maturity, and “trapping” customers through offering additional loan products so that borrowers become too highly indebted to qualify for refinancing by competitors. The risk is that Household is unable to address the legal action through settlement alone but is ultimately forced to change its business practices in a way that adversely impacts earnings growth. We believe that, in fact, there is a good chance ACORN action is a nuisance lawsuit focused on obtaining a quick, monetary settlement following Household’s readiness to settle quickly with the California Department of Corporations. However, we are monitoring the legal action closely to identify whether there are likely to be broader ramifications.

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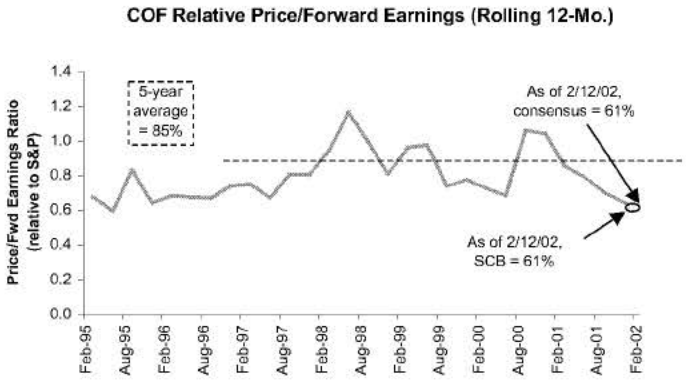
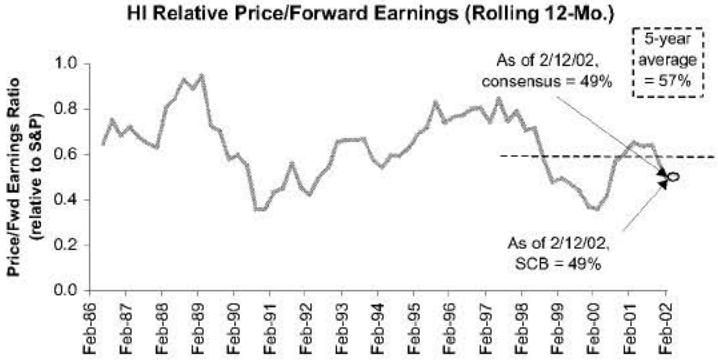
Exhibit 1A COF Valuation



	Price	Consensus	P/FE
COF	$48	$3.51	13.6
SPX	$1,108	$49.61	22.3
Relative P/FE	61%		

Source: FactSet, Bernstein estimates

Exhibit 1B HI Valuation



	Price	Consensus	P/FE
HI	$51	$4.65	10.9
SPX	$1,108	$49.61	22.3
Relative P/FE	49%		

Source: FactSet, Bernstein estimates

Exhibit 2A Auto Loan Trust Compliance – AmeriCredit and Capital One

AmeriCredit Automobile Receivables Trust

Compliance with Performance Tests
Reporting Date: February 2002

	Delinquency Rate (60+ Days, 3-Mo. Avg.)		Cumulative Net Loss Rate		Cumulative Default Rate		Extension Rate (3-Mo. Avg.)	
Trust Series*	Actual	Trigger	Actual	Trigger	Actual	Trigger	Actual	Trigger
1998-B	6.46%	6.50%	10.88%	11.90%	19.60%	20.83%	2.56%	4.00%
1998-C	6.44%	6.50%	10.17%	11.89%	18.39%	20.81%	2.40%	4.00%
1998-D	6.46%	6.50%	10.02%	11.88%	18.15%	20.79%	2.71%	4.00%
1999-A	5.97%	6.00%	10.01%	11.86%	17.76%	20.75%	2.80%	4.00%
1999-B	5.90%	6.00%	8.98%	11.84%	15.72%	20.72%	2.80%	4.00%
1999-C	5.21%	5.50%	8.54%	11.82%	14.76%	20.69%	2.77%	4.00%
1999-D	5.14%	5.50%	8.14%	11.80%	14.03%	20.64%	2.77%	4.00%
2000-A	4.97%	5.00%	8.03%	11.74%	13.23%	20.55%	2.94%	4.00%
2000-B	4.66%	5.00%	7.06%	11.35%	11.82%	19.87%	2.77%	4.00%
2000-C	4.80%	5.00%	6.70%	10.81%	11.17%	18.92%	2.71%	4.00%
2000-D	4.28%	5.00%	5.13%	7.45%	8.63%	13.60%	2.68%	4.00%
2001-A	3.98%	4.00%	4.38%	6.17%	7.10%	10.85%	2.85%	4.00%
2001-B	2.49%	4.00%	1.52%	4.80%	2.68%	8.24%	1.11%	4.00%
2001-C	2.00%	4.00%	0.68%	3.44%	1.28%	5.82%	0.38%	4.00%
2001-D	1.04%	4.00%	0.32%	2.13%	0.74%	3.53%	0.07%	4.00%

Capital One Auto Finance Trust

Compliance with Performance Tests
Reporting Date: January 2002

	Delinquency Rate (60+ Days, 3-Mo. Avg.)		Cumulative Net Loss Rate		Cumulative Default Rate		Extension Rate (3-Mo. Avg.)	
Trust Series*	Actual	Trigger	Actual	Trigger	Actual	Trigger	Actual	Trigger
2001-A	1.67%	3.00%	0.56%	3.13%	NA	NA	1.40%	4.00%

* - Includes all active public series with applicable trigger limits

Source: Servicer reports, Bernstein analysis

Exhibit 2B Household Auto Loan Trust Data

Household Automotive Trust

Comparative Statistics for Similar Series
Reporting Date: January 2002

Trust Series	Delinquency Rate (60+ Days, 3-Mo. Avg.)	Cumulative Net Loss Rate
1999-1	5.15%	11.34%
2000-1	4.57%	8.19%
2000-2	4.48%	7.45%
2000-3	4.41%	6.30%
2001-1	3.20%	3.21%
2001-2	2.17%	1.27%
2001-3	1.07%	0.01%

Source: Servicer reports, Bernstein analysis

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Exhibit 3 On-Balance Sheet Assets Related To Securitization (as of 9/30/01)

Recourse Assets (as % of Equity)

	Retained Interests	I/O Strip	Total Recourse Assets
Capital One*	17%	7%	26%
MBNA	15%	13%	28%
Household**	22%	9%	30%
Providian	48%	10%	58%
AmeriCredit	45%	33%	79%
CompuCredit	82%	7%	89%
Metris	113%	0%	113%

Recourse Assets ($mm)

	Retained Interests	I/O Strip	Total Recourse Assets	Total Equity
Capital One*	515	201	768	2,983
MBNA	1,106	946	2,052	7,406
Household**	702	1,719	2,421	7,923
Providian	1,144	241	1,385	2,390
AmeriCredit	515	376	891	1,133
CompuCredit	362	32	394	440
Metris	1,228	0	1,228	1,083

* - Capital One total does not reconcile because of additional recourse assets from thrift subsidiary

** - Household figures as of 12/31/2000

Source: Regulatory call reports, company reports

Exhibit 4A **Household International: Managed Net Loss Ratio Trends By Product**

	Q4 00	Q3 01	Q4 01	QoQ Change
Real estate secured	0.41%	0.52%	0.65%	25%
Auto finance	5.22%	4.84%	6.52%	35%
MasterCard/Visa	5.83%	6.75%	6.69%	-1%
Private label	5.06%	5.13%	5.40%	5%
Other unsecured	5.92%	7.00%	7.05%	1%
Commercial and other	7.21%	7.21%	7.91%	10%
Total	3.39%	3.72%	3.92%	5%

Source: Company reports

Exhibit 4B **Household International: Delinquency Trends By Product**

	Q4 00	Q3 01	Q4 01
Real estate secured	2.63%	2.74%	2.68%
Auto finance	2.55%	2.54%	3.16%
MasterCard/Visa	3.49%	3.91%	4.10%
Private label	5.48%	5.88%	5.48%
Other unsecured	7.97%	8.51%	8.87%
Total	4.20%	4.43%	4.46%

Source: Company reports

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Appendix A COF Auto Loan Securitization Data

Capital One Auto Finance Trust: Series 2001-A

							3-month moving average		Delinquency Rates			
Month	End Balance ($mm)	Portfolio Yield	Gross Charge-Offs ($mm)	Net Charge-Offs ($mm)	Cumulative Net Charge-Offs ($mm)	Cumulative Net Charge-Offs (%)	Net Charge-Offs	Recovery Rate	One-payment delinquent	Two-payments delinquent	Three-payments delinquent	Total
Aug-01	912	20.35%	0.0	0.0	0.0	0.00%			2.45%	0.22%	0.00%	2.67%
Sep-01	890	16.50%	0.3	0.1	0.1	0.01%			3.42%	0.73%	0.05%	4.20%
Oct-01	872	17.97%	1.9	1.0	1.1	0.12%	0.49%	62%	4.29%	0.86%	0.24%	5.38%
Nov-01	855	17.05%	2.6	1.9	3.0	0.32%	1.36%	50%	5.04%	1.34%	0.31%	6.68%
Dec-01	838	16.74%	3.6	2.3	5.2	0.56%	2.41%	37%	6.36%	1.85%	0.42%	8.62%

							3-month moving average		Delinquency Rates			
Quarter	End Balance ($mm)	Portfolio Yield	Gross Charge-Offs ($mm)	Net Charge-Offs ($mm)	Cumulative Net Charge-Offs ($mm)	Cumulative Net Charge-Offs (%)	Net Charge-Offs	Recovery Rate	One-payment delinquent	Two-payments delinquent	Three-payments delinquent	Total
Q4 2001	838	17.26%	8.1	5.2	5.2	0.56%	2.41%	37%	6.36%	1.85%	0.42%	8.62%

Source: Servicer reports, Bernstein analysis

Appendix B ACF (AmeriCredit) Auto Loan Securitization Data

AmeriCredit Auto Receivables Trust: Series 2001-1

							3-month moving average		Delinquency Rates		
Month	End Balance ($mm)	Portfolio Yield	Gross Charge-Offs ($mm)	Net Charge-Offs ($mm)	Cumulative Net Charge-Offs ($mm)	Cumulative Net Charge-Offs (%)	Net Charge-Offs	Recovery Rate	One-payment delinquent	Two or more payments delinquent	Total
May-01	1,078	26.44%	2.1	0.0	0.0	0.00%			3.01%	0.25%	3.26%
Jun-01	1,060	18.30%	0.8	0.1	0.2	0.02%			3.78%	0.89%	4.67%
Jul-01	1,043	18.77%	1.6	0.9	1.1	0.10%	0.42%	74%	5.63%	1.76%	7.39%
Aug-01	1,020	18.62%	3.3	2.3	3.4	0.31%	1.31%	52%	5.99%	2.39%	8.38%
Sep-01	996	17.97%	4.8	3.3	6.7	0.61%	2.55%	35%	6.58%	2.59%	9.17%
Oct-01	969	18.56%	7.1	4.8	11.5	1.05%	4.16%	31%	7.33%	2.51%	9.84%
Nov-01	944	17.91%	6.6	4.4	15.9	1.45%	5.10%	32%	7.50%	2.79%	10.29%
Dec-01	919	18.40%	7.8	5.1	21.0	1.91%	5.99%	33%	8.72%	3.32%	12.03%
Jan-02	892	18.33%	7.1	4.7	25.7	2.34%	6.11%	34%	8.06%	3.66%	11.72%

							3-month moving average		Delinquency Rates		
Quarter	End Balance ($mm)	Portfolio Yield	Gross Charge-Offs ($mm)	Net Charge-Offs ($mm)	Cumulative Net Charge-Offs ($mm)	Cumulative Net Charge-Offs (%)	Net Charge-Offs	Recovery Rate	One-payment delinquent	Two or more payments delinquent	Total
Q2 2001	1,060	22.62%	2.9	0.2	0.2	0.02%			3.78%	0.89%	4.67%
Q3 2001	996	18.49%	9.7	6.5	6.7	0.61%	2.55%	35%	6.58%	2.59%	9.17%
Q4 2001	919	18.28%	21.5	14.3	21.0	1.91%	5.99%	33%	8.72%	3.32%	12.03%

Source: Servicer reports, Bernstein analysis

Appendix C HI Auto Loan Securitization Data

Household Automotive Trust IV: Series 2001-1

							3-month moving average		Delinquency Rates			
Month	End Balance ($mm)	Portfolio Yield	Gross Charge-Offs ($mm)	Net Charge-Offs ($mm)	Cumulative Net Charge-Offs ($mm)	Cumulative Net Charge-Offs (%)	Net Charge-Offs	Recovery Rate	One-payment delinquent	Two-payments delinquent	Three-payments delinquent	Total
Mar-01	942	18.50%	0.0	0.0	0.0				1.93%	0.09%	0.01%	2.03%
Apr-01	928	17.04%	0.0	0.0	0.0	0.00%			2.95%	0.68%	0.04%	3.66%
May-01	913	17.81%	0.2	0.1	0.2	0.02%	0.07%	20%	3.72%	0.77%	0.29%	4.78%
Jun-01	897	16.77%	1.0	0.6	0.8	0.08%	0.34%	26%	3.99%	0.99%	0.48%	5.46%
Jul-01	875	12.01%	6.0	4.0	4.8	0.50%	2.13%	37%	4.77%	1.28%	0.62%	6.68%
Aug-01	851	13.04%	6.0	3.4	8.2	0.85%	3.65%	38%	5.15%	1.37%	0.85%	7.36%
Sep-01	827	10.38%	6.5	4.4	12.6	1.32%	5.50%	36%	5.47%	1.40%	1.08%	7.94%
Oct-01	797	7.07%	10.6	6.8	19.4	2.03%	7.06%	37%	6.27%	1.67%	1.05%	8.99%
Nov-01	769	8.23%	9.2	5.9	25.3	2.65%	8.48%	34%	6.58%	1.94%	1.36%	9.89%
Dec-01	745	8.32%	6.3	5.4	30.7	3.21%	9.20%	29%	6.96%	1.97%	1.62%	10.55%

							3-month moving average		Delinquency Rates			
Quarter	End Balance ($mm)	Portfolio Yield	Gross Charge-Offs ($mm)	Net Charge-Offs ($mm)	Cumulative Net Charge-Offs ($mm)	Cumulative Net Charge-Offs (%)	Net Charge-Offs	Recovery Rate	One-payment delinquent	Two-payments delinquent	Three-payments delinquent	Total
Q2 2001	897	17.21%	1.2	0.8	0.8	0.08%	0.34%	26%	3.99%	0.99%	0.48%	5.46%
Q3 2001	827	11.81%	18.5	11.8	12.6	1.32%	5.50%	36%	5.47%	1.40%	1.08%	7.94%
Q4 2001	745	7.87%	26.1	18.1	30.7	3.21%	9.20%	29%	6.96%	1.97%	1.62%	10.55%

Source: Servicer reports, Bernstein analysis

Exhibit 94

This report has been prepared by First Union Securities, Inc., Member NYSE, NASD, and SIPC, which is a subsidiary of Wachovia Corporation. "Wachovia Securities" is the trade name under which Wachovia Corporation conducts its investment banking, institutional securities, and capital markets businesses through its bank, non-bank and broker-dealer subsidiaries. First Union Securities, Inc. is an entity separate and distinct from its affiliated bank and thrifts, and its sister affiliate Wachovia Securities, Inc., Member NYSE, NASD and SIPC and also a separate broker-dealer subsidiary of Wachovia Corporation.

WACHOVIA SECURITIES ###

May 30, 2002

HI: Initiating Research Coverage With A Buy Rating

Initiation of Coverage

Household International, Inc. (HI-NYSE) Stock Rating: 2

Price: $51.65

52-Wk. Rng.: $69-44

Joel Houck, CFA / (443) 263-6545
Jim Shanahan / (443) 263-6546

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
SN 722317 G692-411-1 11-Mar-2009 16:33:51

Shares Out.:(MM) 456.2
Market Cap.:(MM) 23,562.7

[HI

EPS FY(Dec.)	2001A Current	2001A Prior	2002E Current	2002E Prior	2003E Current	2003E Prior	REV.2002	2003
Q1(Mar.)	$0.91		$1.09A		$1.23		$3,210.9MM	$3,290.7MM
Q2(June)	0.92		1.09		1.23		3,072.3	3,239.1
Q3(Sep.)	1.07		1.20		1.36		3,152.9	3,365.2
Q4(Dec.)	1.18		1.32		1.50		3,288.5	3,580.5
Full FY	$4.08		$4.70		$5.31		$12,724.7MM	$13,475.4MM
FY P/E	12.7x		11.0x		9.7x			
Full CY	$4.08		$4.70		$5.31			
CY P/E	12.7x		11.0x		9.7x			

]

Source: Company data and Wachovia Securities estimates.
NA = Not Available, NC = No Change; NE = No Estimate; NM = Not Meaningful

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Target Price:	$64	LT Debt:	$74.5
Float:(MM)	356.1	LT Debt/Total Cap.:	87.4%
Avg. Daily Vol.:	3,354,860	ROE:	23%
S&P 500:	1,064.66	3-5 Yr. Est. Grth. Rate:	12%
Div./Yield:	$1.00/1.9%	CY2002Est. P/E-to-Grth.:	0.9x

Key Points

* We are initiating research coverage of HI with a Buy rating on the shares. Our investment rating is based on HIs solid operating performance through the current credit cycle and our belief that HI can continue to deliver above average EPS growth (13-15%) through 2003.
* Household, with $101 billion in managed loans, is the leading diversified consumer finance company in the U.S. The companys good access to the capital markets during the current economic downturn is a function of maintaining prudent balance sheet leverage and disciplined credit risk management.
* HI has delivered steady, consistent EPS growth through the current cycle. HIs mix shift to real estate secured products has resulted in a net charge-off rate of 4.09% in Q1 of 2002 that is below 1998 and 1999 charge-off rates of 4.29% and

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4.13%, respectively (pre-recession).
* HI shares trade at 11.0x our 2002 estimate and 9.7x our 2003 estimate. Our $64 price target is based on an implied P/E multiple of 12x our 2003 estimate.

Investment Thesis

We rate the shares of Household International (HI) Buy. We believe investors should buy the shares of this well run, diversified consumer finance company. We are confident that HI can deliver 15% EPS growth in 2002 and 13% EPS growth in 2003. While modestly rising credit losses and general uncertainty regarding the outlook for the U.S. economy is likely to limit valuation expansion in HI shares near-term, we believe the risk/reward ratio is favorable for long-term investors. HI shares trade near the low end of its historic P/E range. Our $64 price target implies over 23% upside in the shares and only assumes HI shares trade at 12x our 2003 estimate, the mid-point of HI's historic P/E range.

Discussion

Investment Appraisal

We rate the shares of Household International (HI) Buy. We believe investors

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should buy the shares of this well run, diversified consumer finance company. We are confident that HI can deliver 15% EPS growth in 2002 and 13% EPS growth in 2003. While modestly rising credit losses and general uncertainty regarding the outlook for the U.S. economy is likely to limit valuation expansion in HI shares near-term, we believe the risk/reward ratio is favorable for long-term investors. HI shares trade near the low end of its historic P/E range. Our $64 price target implies over 23% upside in the shares and only assumes HI shares trade at 12x our 2003 estimate, the mid-point of HI's historic P/E range.

Investment Merits

Top Consumer Finance Franchise

With over $100 billion in managed receivables, Household is the largest diversified consumer finance company in the U.S. Household was the number one subprime mortgage originator in 2001 ($18.2 billion) and the top subprime residential mortgage servicer with $46.2 billion outstanding as of March 31, 2002. Household has the eighth largest credit card franchise in the U.S. (Visa/MasterCard) with $16.4 billion in outstandings as of March 31, 2002. Household is also a leading provider of consumer loans, retail finance and credit cards in the U.K. HI has continued to improve its franchise while lowering its risk profile. HI has consciously shifted the portfolio mix toward

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real estate secured loans, which typically experience much lower charge-offs than credit cards and unsecured loans. In 1996, only 27% of HI's managed portfolio was comprised of real estate secured loans, compared with 33% in credit cards. Today, 46% of HI's managed portfolio is secured by real estate, over 75% of which is first lien. Only 16% of HI's managed portfolio is now comprised of credit cards.

Solid Track Record Under Bill Aldinger

HI has delivered consistent EPS growth through the credit cycle. HI's Q1 2002 diluted EPS of $1.09 rose 20% and was the company's fifteenth consecutive record quarter. Under the leadership of Bill Aldinger, HI's diluted EPS has more than tripled from 1995, while ROE has increased 780 basis points to 22.4% in 2001. HI has achieved consistent and profitable growth while making several major acquisitions such as Transamerica, Beneficial, ACC Consumer Finance, and Renaissance Holdings over the past several years. HI's combination of good organic growth and success with integrating sizeable acquisitions stands out in the financial services industry. In addition to improved profitability, HI has dramatically strengthened its balance sheet as its tangible equity-to-tangible managed asset ratio improved to 8.41% at March 31, 2002 versus 6.20% at December 31, 1996.

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Flexible Business Model

Household performed well in both the strong economy in 2000 and the relatively weak economy of 2001. Despite six interest rate hikes by the Federal Reserve in 2000 over a 12-month period, HI delivered 15.6% EPS growth. Receivable growth of 22% outpaced revenue growth, as HI's net interest margin narrowed due to the rate hikes. The offset was improved credit quality throughout 2000 reflecting the strength of the economy. In 2001, with the U.S. economy in recession, HI delivered 14.9% EPS growth. HI's receivable growth was 15%. The Federal Reserve cut interest rates 11 times and HI's net interest margin increased significantly to offset rising credit losses. The bottom line was that EPS increased 15%, the high end of HI's target range of 13%, in a recessionary economy.

Home Equity Business is Effective Hedge against Rising Interest Rates

In 2000, the Federal Reserve raised interest rates six times. HI's real estate secured portfolio increased 36%, on a managed basis. Home equity lending tends to be counter cyclical to interest rates. When interest rates rise, home prices are typically rising. With higher interest rates, consumers tend not to refinance their first mortgage. To tap into increased home equity, many consumers take out a home equity loan. In 2000, HI's shares increased nearly 50% outperforming the S&P Financial Index by nearly a 2:1 margin. To the extent

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the Federal Reserve increases interest rates later in 2002 and into 2003, we believe HI is a good candidate to outperform in the financial services sector.

Valuation Suggest Current Risk/Reward of HI Shares is Favorable

HI shares trade at 11.0x our 2002 estimate of $4.70 and 9.7x our 2003 estimate of $5.31. HI shares are trading at the low end of their historic range of 10-15x. We believe the current risk/reward trade-off in HI shares is favorable for long-term investors. Near-term, we believe regulatory issues for the industry (i.e. predatory lending) and general uncertainty regarding the health of the U.S. economy could act as constraints on HI's valuation. Over the next 6-12 months, we believe HI shares can reach $64, better than 23% over current levels. Our $64 price target only assumes a 12x P/E multiple on our 2003 estimate of $5.31, which represents 13% growth over our 2002 forecast of $4.70.

Investment Concerns

Credit Quality - A risk to shareholders of HI is a slowdown in the domestic economy, or a double-dip recession. Another recession could adversely impact HI's earnings in the form of slower receivables growth and higher credit losses.

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We note that HI has some protection against an economic downturn by virtue of its strong capital and reserve levels. Also, HI's diversified nature of its operations does not leave the company over exposed in any one particular product line or geographic region. Nevertheless, investor concerns about HI's fundamentals in an economic downturn could constrain HI's valuation.

Regulatory Risk - The current regulatory environment is challenging. Without admission of any wrongdoing, Household has made refinements to its business model, which include standardization of certain fees. Household has also made contributions in the form of grants to various local charitable organizations. Household has been able to manage through the current regulatory environment quite well. While it is difficult to precisely measure the higher costs of increased regulatory scrutiny for the industry, we are confident that HI can continue to generate an ROE above 20% for the foreseeable future.

Recent Results

HI reported Q1 2002 diluted EPS of $1.09, its fifteenth consecutive record quarter. Diluted EPS increased 20% from $0.91 the prior year. First quarter earnings were aided by strong results in HI's tax refund loan business and solid profitability in its other businesses despite a relatively weak economy. HI's

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tax refund loan business (RAL) contributed $0.19 per share versus $0.15 per share a year ago. HI also strengthened its capital and reserve levels and further enhanced liquidity. At March 31, 2002, HI's tangible equity ratio was 8.41%, up from 7.87% at year-end and 7.54% at March 31, 2001. HI's managed reserve ratio was 4.10% at March 31, 2002 compared to 3.78% at year-end and March 31, 2001. Total managed revenue (excluding securitization revenue) increased 18.6% versus a year ago. Net interest income growth of 23.8% was driven by a 15.7% increase in average managed earning assets and a 57 basis point expansion in net interest margin. HI's net interest margin in Q1 2002 was 8.79% versus 8.22% in Q1 2001. Non-interest income (excluding securitization revenue) increased 6.0% versus a year ago. The slower growth rate in non-interest income was a function of fee income being essentially flat versus a year ago. The lack of fee income growth is attributed to lower volume in credit card transactions and the sale of $1 billion of MasterCard/Visa receivables in the U.K. in Q4 2001. Operating expenses grew 11.5% versus a year ago while HI's efficiency ratio improved to 31.6% versus 35.6% in the year ago quarter. HI's credit quality performance was within expectations considering the continued weakness in the economy. At March 31, 2002 the managed basis delinquency ratio (60+ days) was 4.63%, up 17 basis points from 4.46% at year-end 2001 and up 38 basis points from 4.25% a year ago. HI's managed net charge-off ratio for the Q1 of 4.09% increased 19 basis points from 3.90% in Q4 2001 and 3.56% in Q1

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2001. HI's delinquency and net charge-off ratios in Q1 of 2002 were still below 1998 and 1999 levels (pre-recession).

Earnings Outlook

Our 2002 and 2003 EPS estimates of $4.70 and $5.31, represent growth of 15% and 13%, respectively. We forecast managed receivable growth of 13.1% in 2002 and 10.5% in 2003, with approximately one-half of net growth in real estate secured. Our net interest margin assumption is 8.68% for 2002, an 18 basis point increase over 2001 and 8.44% for 2003, and a 24 basis point decrease over our 2002 estimate. Net interest income growth is 16.6% for 2002 and 8.1% for 2003. Non-interest income growth (excluding securitization gains) is 8.1% for 2002 and 10.0% for 2003. Total revenue growth (excluding securitization gains) is 14.3% for 2002 and 8.6% for 2003. Operating expense growth for 2002 and 2003 is 11.3% and 10.7%, respectively. HI's managed basis efficiency ratio is projected to be 32.3% for 2002 and 33.8% for 2003. We forecast HI's net charge-off rate at 4.24% in 2002 and 4.02% for 2003. The reserve ratio (managed basis) is forecast

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at 3.85% at December 31, 2002 and 3.68% for December 31, 2003.

Additional Information Available Upon Request

The (an) author(s) of this note/report has(have) a long position in the securities of HI.
First Union Securities, Inc. or a predecessor, managed or comanaged a public offering of securities for HI within the past three years.

Strong Buy: We believe substantial/meaningful upside potential exists. We have

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high visibility on estimates, and confidence in the company's business model and management's execution abilities. A near-term catalyst should be able to drive the stock higher. Buy aggressively

Buy: We believe the stock is attractively valued. The company has sound or improving fundamentals that should allow it to outperform the broader market. Buy

Hold: We believe the stock is fairly valued at the current price. The company may have issues affecting fundamentals that could take some time to resolve. Alternatively, company fundamentals may be sound, but this is fully reflected in the current stock price. Do not accumulate additional shares

Sell: We believe the stock is overpriced relative to the soundness of the company's fundamentals and long-term prospects. The company has significantly weak fundamentals or a flawed business model. Sell

As of: May 30, 2002

24.5% of companies covered by Wachovia Equity Research are rated Strong Buy.
42.9% of companies covered by Wachovia Equity Research are rated Buy.
30.8% of companies covered by Wachovia Equity Research are rated Hold.
1.9% of companies covered by Wachovia Equity Research are rated Sell.

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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	)	Lead Case No. 02-C-5893 (Consolidated) CLASS ACTION Honorable Jorge L. Alonso

SECOND SUPPLEMENTAL REPORT OF DANIEL R. FISCHEL

SECOND SUPPLEMENTAL REPORT OF DANIEL R. FISCHEL

I. INTRODUCTION

1. In this Second Supplemental Report,[1] I have been asked by counsel for the Plaintiffs to address three issues following the 7th Circuit Court of Appeals decision in *Glickenhaus & Co. v. Household International, Inc.*: (1) whether my analysis of the evidence and stock price movements demonstrates loss causation; (2) whether the Quantification Including Leakage I presented at trial and accepted by the jury to measure artificial inflation needs to be adjusted to account for significant, firm-specific, nonfraud related information; and (3) whether I can provide a reasonable estimate of the effect of predatory lending alone for the three trading days prior to March 28, 2001. In response to these questions, I have concluded that:

- My analysis of statistically significant stock price movements when the fraud was revealed and the evidence of leakage demonstrate loss causation.
- No adjustment to the Quantification Including Leakage analysis of inflation that I presented at trial due to significant, firm-specific, non-fraud related information is required.
- For the three trading days prior to March 28, 2001, a reasonable estimate of the effect of predatory lending alone is at least $3.06 per share.

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1. I previously submitted: a report dated August 15, 2007 (the "Fischel Report," attached as Appendix A); a rebuttal report dated February 1, 2008 which responded to criticisms of the Fischel Report by Defendants' expert Mukesh Bajaj (the "Fischel Rebuttal," attached as Appendix B); and a supplemental report dated February 9, 2009 which responded to criticisms by Defendants' expert Bradford Cornell of the Quantification Including Leakage presented in the Fischel Report (the "Fischel Supplemental," attached as Appendix C). The Fischel Report provides information on my qualifications and defines capitalized terms. Appendix D presents my current CV. My current hourly billing rate is $1,250. The Fischel Report, the Fischel Rebuttal, and the Fischel Supplemental are collectively referred to herein as the "Fischel Reports." The Fischel Reports and my trial testimony are incorporated herein by reference.

I provide the bases for these conclusions below.[2]

II. MY ANALYSIS OF STATISTICALLY SIGNIFICANT STOCK PRICE MOVEMENTS WHEN THE FRAUD WAS REVEALED AND THE EVIDENCE OF LEAKAGE DEMONSTRATE LOSS CAUSATION

2. In the Fischel Reports and as presented at trial, I concluded that the economic evidence demonstrates loss causation. Specifically, I used an event study to control for market and industry factors and establish that the revelation of the fraud caused Household's stock price to decline by statistically significant amounts on: November 15, 2001, the first trade day after the press reported on a lawsuit filed by the California Department of Corporations regarding abusive lending practices; December 3, 2001, the first trade day after a *Barron's* article was published that questioned Household's accounting and re-aging practices; December 12, 2001, the first trade day after Legg Mason published a report regarding the Company's re-aging practices; July 26, 2002, when an article published in *The Bellingham Herald* reported that the Company acknowledged its employees may have misrepresented mortgage loan terms to some homeowners; August 14, 2002, the day Household announced its restatement; August 16, 2002, the first trade day after a negative *Forbes* article titled "Home Wrecker" was available to the market; August 27, 2002, when Keefe, Bruyette & Woods published a report that described Household as "uninvestable;" September 3, 2002, when Bernstein Research published a report that discussed the analysts' belief that Household will need to lower its EPS growth target; September 23, 2002, the first trade day after CIBC published a report in which the analysts lowered their target price to $36 from $57 and reduced their earnings estimate for 2003; and October 4, 2002, the date an article concerning a forthcoming settlement with state attorneys

2. I have been assisted by Compass Lexecon's staff. The materials I have relied upon in reaching the conclusions contained in this report are cited herein and in Exhibit 2.

general over the Company's predatory lending practices was published in *The Wall Street Journal*.[3] Fischel Report § III & Trial Transcript, e.g., 2603:10-2671:13. In addition to these statistically significant stock price declines, I also presented in the Fischel Reports and testified at trial about other evidence supporting my conclusion of loss causation, including the long-run underperformance of Household's stock price relative to an industry index and market participants' attribution of this underperformance to the leakage of fraud-related information. Fischel Report § III, Fischel Rebuttal § II.A. & Trial Transcript, e.g., 2671:14-2678:17.

III. BEGINNING ON MARCH 28, 2001, NO ADJUSTMENT TO THE QUANTIFICATION INCLUDING LEAKAGE ANALYSIS OF INFLATION THAT I PRESENTED AT TRIAL IS REQUIRED

3. The Appellate Court stated:

> If the plaintiffs' expert testifies that no firm-specific, nonfraud related information contributed to the *decline* in stock price during the relevant time period and explains in nonconclusory terms the basis for this opinion, then it's reasonable to expect the defendants to shoulder the burden of identifying some significant, firm-specific, nonfraud related information that could have affected the stock price. If they can't, then the leakage model can go to the jury; if they can, then the burden shifts back to the plaintiffs to account for that specific information or provide a loss-causation model that doesn't suffer from the same problem, like the specific disclosure model. *One possible way to address the issue is to simply exclude from*

3. The residual return on November 15, 2001 was -3.06% and the t-statistic was -2.21; the residual price change was -$1.86. *See* Exhibit 1. The residual return on December 3, 2001 was -3.22% and the t-statistic was -2.33; the residual price change was -$1.90. *See id.* The residual return on December 12, 2001 was -4.22% and the t-statistic was -3.06; the residual price change was -$2.39. *See id.* The residual return on July 26, 2002 was -5.67% and the t-statistic was -4.08; the residual price change was -$2.20. *See id.* The residual return on August 14, 2002 was -2.49% and the t-statistic was -1.77; the residual price change was -$0.94. *See id.* The residual return on August 16, 2002 was -4.66% and the t-statistic was -3.37; the residual price change was -$1.84. *See id.* The residual return on August 27, 2002 was -3.06% and the t-statistic was -2.21; the residual price change was -$1.19. *See id.* The residual return on September 3, 2002 was -3.36% and the t-statistic was -2.39; the residual price change was -$1.21. *See id.* The residual return on September 23, 2002 was -5.24% and the t-statistic was -3.77; the residual price change was -$1.52. *See id.* The residual return on October 4, 2002 was -4.74% and the t-statistic was -3.41; the residual price change was -$1.26. *See id.*

> *the model's calculation any days identified by the defendants on which significant, firm-specific, nonfraud related information was released.*

Glickenhaus & Co. v. Household International, Inc., Case No. 13-3532, 7th Cir., May 21, 2015 ("Appellate Opinion") at 24 (emphasis added; footnote excluded). Accordingly, I analyzed whether there were any days on which "significant, firm-specific, nonfraud related information was released" that could reasonably explain the statistically significant residual declines in Household's stock price during the period from November 15, 2001 through October 11, 2002 (the "Leakage Period"). To perform this analysis, I used the event study presented in the Fischel Report, which controlled for market and industry factors and determined whether residual stock price changes were statistically significant.

4. For the reasons described below, I conclude that beginning on March 28, 2001, no adjustment to the Quantification Including Leakage analysis of inflation that I presented at trial is required.[4]

1) January 11, 2002

5. My event study finds that Household's residual return of -3.04 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -2.20. *See* Exhibit 1.[5]

6. We reviewed the available market evidence and found that negative firm-specific, nonfraud related information could reasonably explain the price decline. *See* Exhibit 2.[6]

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4. I also used my event study to perform an alternative calculation of artificial inflation in my Quantification Using Specific Disclosures, which analyzed statistically significant residual price decreases and increases caused by fraud-related information. The net effect of these decreases and increases is $7.97. Fischel Report ¶¶ 34-36. We did not find significant firm-specific, nonfraud related information that could reasonably explain these price movements. Fischel Rebuttal § II & Trial Transcript 4273:11-14.
5. Exhibit 1 presents the statistical results of my event study analysis for the Leakage Period, along with headlines from articles published by *Dow Jones News Service* and *The Wall Street Journal* that mention Household.

Specifically, debt ratings agency Fitch revised its long-term Rating Outlook of all Household entities to Negative from Stable, which affected $65 billion of rated debt.[7] *See* Exhibit 3. The agency stated that it "believes that Household has not demonstrated adequate market accessibility in [its real estate secured and unsecured consumer loan portfolios], which could be tapped in the event of stress." *See id.* In particular, Fitch noted that Household had securitized relatively less of these portfolios than other asset classes in its portfolio and had not engaged in whole loan sales. *See id.*

7. However, on January 15, 2002, two trading days later, Credit Suisse First Boston issued a report in which its analysts opined that "Fitch Outlook Change Unwarranted, In Our View" and explained the basis for their belief that Fitch is "giving [the funding element in the credit rating equation] too much weight in the case of HI."[8, 9] *See* Exhibit 4. The analysts concluded that "we believe funding vulnerability at HI is quite low and already factored into

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6. Exhibit 2 presents the Bates numbers for the materials we collected and reviewed from the trade day before through the trade day after each date on which a statistically significant residual price decline occurred during the Leakage Period. Specifically, we reviewed all news articles and analyst reports on these dates that were collected when the Fischel Reports were prepared as well as any additional news articles and analyst reports that have since been made available from the following vendors either explicitly regarding Household or that had the word "Household" within one word of variations on "International": Dow Jones Factiva; LexisNexis; Bloomberg; Thomson Research's Investext Investment Research; Reuters Knowledge; and S&P Capital IQ.
7. Fitch also lowered the senior debt rating of Household's wholly-owned subsidiary Household Finance Corp. "by one notch to 'A' from 'A+', equalizing the rating with that of its parent" to "reflect[] an evolution in our perspective with respect to ratings distinctions between a parent company and its subsidiaries." *See* Exhibit 3. Fitch stated: "The change is not a result of underlying credit changes at HFC." *See id.*
8. In the same Credit Suisse First Boston report, the analysts also addressed press reports from January 10, 2002 that indicated Household was taking a look at purchasing Providian Financial and opined that an acquisition was "highly unlikely." *See* Exhibit 4. My event study finds that Household's residual return was not statistically significant on January 10, 2002. *See* Exhibit 1.
9. We reviewed the available market evidence (as described in footnote 6) and did not find any positive firm-specific information that could reliably explain the price increase on January 15, 2002 other than the Credit Suisse First Boston analyst report.

current ratings, not only at Fitch, but more importantly, at Moody's and S&P as well." *See id.* My event study finds that Household's residual return of 2.53 percent on this date was both positive and statistically significant at the 95 percent confidence level with a t-statistic of 1.82. *See* Exhibit 1.

8. The cumulative t-statistic for these two days is -0.27 (= (-2.20 + 1.82) / √2), which is not statistically significant at the 95 percent level of confidence. Consequently, there is no reliable evidence that the net effect of this firm-specific, nonfraud related information had any significant impact on Household's stock price, i.e., the positive nonfraud information "canceled out" the negative nonfraud information. Trial Transcript 2683:17-2684:6.

2) January 28, 2002

9. My event study finds that Household's residual return of -2.77 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -2.00. *See* Exhibit 1.

10. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on January 28, 2002 was caused by significant firm-specific, nonfraud related information.

11. We did find information related to the fraud that is consistent with leakage on this date. A *Barron's* article reported that among short seller Jim Chanos' current shorts "are lenders with large exposures to the sub-prime credit market, including Household International …." *See* Exhibit 5. The article states that "[t]he sector has also engaged in aggressive accounting to burnish current results." *See id.*

3) February 6, 2002

12. My event study finds that Household's residual return of -5.13 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -3.71. *See* Exhibit 1.

13. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on February 6, 2002 was caused by significant firm-specific, nonfraud related information.

14. We did find information related to the fraud that is consistent with leakage on this date. On the next day, February 7, 2002, an ABN-AMRO analyst report stated:

> HI's stock has continued to be even weaker than most financials and was down 6% yesterday and is now down 25% over the past month despite reporting a solid, high quality, fourth quarter and reiterating a bright outlook. Bond spreads have also widened materially. We have never seen a market with as many different rumors about so many different companies as currently, and we think the rumors are having an effect as evidenced by HI's stock decline and widening of its bond spreads. Concerns around HI primarily involve accounting concerns, which appear to be unfounded, in our opinion. Adding fuel the fire, aggressive consumer activist group ACORN is at it again, leading a lawsuit by 3 California residents.

See Exhibit 6. Also on February 7, 2002, a Deutsche Banc Alex. Brown analyst report stated: "The shares of Household International continue to plummet on unsubstantiated claims, in our opinion, of issues with liquidity, accounting, and lawsuits." *See* Exhibit 7.

4) February 21, 2002

15. My event study finds that Household's residual return of -3.06 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -2.21. *See* Exhibit 1.

16. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on February 21, 2002 was caused by significant firm-specific, nonfraud related information.

17. We did find information related to the fraud that is consistent with leakage on this date. A *Banking Wire* article titled "Household Gets Rapped" discussed an agreement with California regulators and related Household to Providian, a company that "was fined hundreds of millions of dollars for bilking consumers." *See* Exhibit 8. The article also noted that "Household claims it made a mistake" in California and stated: "Only California has picked up on Household, but one must wonder whether the company has made similar mistakes elsewhere in the country." *See id.*

5) <u>April 25, 2002</u>

18. My event study finds that Household's residual return of -2.68 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -1.94. *See* Exhibit 1.

19. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on April 25, 2002 was caused by significant firm-specific, nonfraud related information.

6) <u>April 29, 2002</u>

20. My event study finds that Household's residual return of -3.36 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -2.43. *See* Exhibit 1.

21. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on April 29, 2002 was caused by significant firm-specific, nonfraud related information.

7) May 10, 2002

22. My event study finds that Household's residual return of -2.53 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -1.83. *See* Exhibit 1.

23. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on May 10, 2002 was caused by significant firm-specific, nonfraud related information.

24. We did find information related to the fraud that is consistent with leakage on this date. Bernstein Research issued a report a report titled "Household International: Legal Risk to Business Model Increasing" that stated: "While negotiations around federal legislation continue, we expect additional restrictive state laws to be enacted. These will tend to reduce profitability in subprime lending and make lending to some high-risk segments uneconomic (thereby reducing the size of the addressable market). In addition, the new laws increase the risk of settlement costs for new and ongoing complaints." *See* Exhibit 9.

8) May 15, 2002

25. My event study finds that Household's residual return of -2.28 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -1.65. *See* Exhibit 1.

26. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on May 15, 2002 was caused by significant firm-specific, nonfraud related information.

27. We did find information related to the fraud that is consistent with leakage on this date. *American Banker* reported that "[a]n activists' plan to tie executive compensation at Household International Inc. to its efforts to combat predatory lending won support from 25% to 27% of shares voted Tuesday … the plan won only 5% support last year." *See* Exhibit 10. The article also reported that "[a]lmost identical measures proposed to shareholders of Citigroup Inc. were less popular, winning only 5% of shares voted last year and 7.3% this year …." *See id.*

9) <u>July 1, 2002</u>

28. My event study finds that Household's residual return of -2.42 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -1.74. *See* Exhibit 1.

29. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on July 1, 2002 was caused by significant firm-specific, nonfraud related information.

10) <u>July 9, 2002</u>

30. My event study finds that Household's residual return of -2.75 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -1.98. *See* Exhibit 1.

31. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See*

Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on July 9, 2002 was caused by significant firm-specific, nonfraud related information.

11) July 10, 2002

32. My event study finds that Household's residual return of -3.74 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -2.68. *See* Exhibit 1.

33. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on July 10, 2002 was caused by significant firm-specific, nonfraud related information.

12) July 17, 2002

34. My event study finds that Household's residual return of -7.22 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -5.20. *See* Exhibit 1.

35. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. On this date, Household reported its "sixteenth consecutive record quarter" of financial results, stating '[t]he company's operating performance has been very strong in the first half of 2002, and, although the economic environment is likely to remain uncertain, we believe our businesses are well-positioned for the remainder of the year.'" *See* Exhibit 11. The *Associated Press* reported that "[e]arnings matched Wall Street expectations." *See* Exhibit 12. CIBC analysts said that "Household's second quarter results were positive and held few surprises." *See* Exhibit 13. Accordingly, there is no reliable basis to conclude that the significant stock price decline on July 17, 2002 was caused by significant firm-specific, nonfraud

related information.

36. We did find information related to the fraud that is consistent with leakage on this date. Capital One shares fell after "regulators required it to increase reserves for loan losses." *See* Exhibit 14. Although Defendants distinguished Household from Capital One saying there was "nothing analogous" to the Capital One news at Household, (*see* Exhibit 15), analysts from Fox-Pitt, Kelton related the announcement to the fraud and lowered their target price for the stock, stating:

> While HI may be less directly affected by the potentially regulatory changes of capital levels, the overhang of regulatory hostility does impact the stock. Accusations of predatory lending, however baseless they may be, gain additional currency in a market, seized by fear of events outside of management's control. Whether legislators jump on the bandwagon that the trial lawyers and regulators and [*sic*] riding is a rising risk for HI. Additionally, as HI goes further down the rode [*sic*] to securitization, additional questions regarding the quality of earnings arise. When investors pay attention to key fundamental drivers like loan growth, margin, credit quality, and cost control, HI does fine, because it delivers. When the focus moves away from the fundamentals towards unquantifiable factors like litigation and regulatory risk, the upside on the stock will be capped. We do not see HI trading at better than 12 times earnings in this charged environment, and thus have lowered our target price to $63.

See Exhibit 16.

13) <u>July 19, 2002</u>

37. My event study finds that Household's residual return of -2.55 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -1.81. *See* Exhibit 1.

38. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on July 19, 2002 was caused by significant firm-specific, nonfraud related information.

39. We did find information related to the fraud that is consistent with leakage on this date. Legg Mason issued a report titled "HI: Solid 2Q02; Remain Concerned" in which the analysts raised their EPS estimates but stated:

> More importantly, we remain concerned about the broader issues in this highly uncertain environment. Essentially, we think the level of scrutiny being applied to both companies with unclear accounting practices and companies with subprime lending activities puts HI at risk. As such, we simply don't find HI's valuation compelling enough in this market environment. Accordingly, despite better-than-expected asset quality trends and a decent quarter, we are maintaining our Hold rating on the shares until the environment improves.

See Exhibit 17.

14) July 25, 2002

40. My event study finds that Household's residual return of -2.83 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -2.05. *See* Exhibit 1.

41. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on July 25, 2002 was caused by significant firm-specific, nonfraud related information.

15) August 5, 2002

42. My event study finds that Household's residual return of -3.08 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -2.21. *See* Exhibit 1.

43. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See*

Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on August 5, 2002 was caused by significant firm-specific, nonfraud related information.

44. We did find information related to the fraud that is consistent with leakage on this date. Portales Partners issued a report which stated: "While Household continually defends its lending practices as non-predatory, it recently ceased offering the high LTV second mortgage at the time of closing of a Household first mortgage loan. In our opinion, the change is practically an admission of predatory lending." *See* Exhibit 18. In addition, Bernstein Research issued a report that stated: "… there will be some earnings impact from the reform of sales practices whose extent will depend on whether borrower confusion has arisen because of the work of a few rogue loan officers, as the firm has suggested, or because of wider systemic factors such as training and compensation. Either way, it is almost sure that Household will have to compensate borrowers who have been confused as a result of private lawsuits and a likely national settlement with State Attorneys General." *See* Exhibit 19.

16) <u>August 7, 2002</u>

45. My event study finds that Household's residual return of -4.89 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -3.52. *See* Exhibit 1.

46. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. On this date, *Reuters* reported that Household "paid about $1 billion in cash to buy back nearly all of its zero-coupon convertible senior bonds maturing in August 2021." *See* Exhibit 20. However, stock investors were aware that holders of these bonds could force Household to repurchase the securities at a prescribed price on August 2, 2002 and that by this date, the repurchase price of $827.36 substantially exceeded the conversion value of only

$372.25.[10] *See* Household International SEC Form 424(b)(5) dated July 31, 2001 at S-16 & S-17 *and*, e.g., Exhibit 21 ("In the next 18 months, almost $30 billion in convertible securities issued by companies such as … Household … could come due …."). The divergence between the repurchase and conversion values (the latter of which was established on or around July 31, 2001 when the Company's stock price was artificially inflated) was in substantial part driven by the decline in Household's stock price due to the revelation of the fraud.

17) August 9, 2002

47. My event study finds that Household's residual return of -2.50 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -1.81. *See* Exhibit 1.

48. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on August 9, 2002 was caused by significant firm-specific, nonfraud related information.

18) August 13, 2002

49. My event study finds that Household's residual return of -2.76 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -1.99. *See* Exhibit 1.

50. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See*

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10. Holders of the convertible bonds had the right to convert them into shares of Household common stock at a conversion ratio of 9.022 per bond, subject to certain conditions. Household International SEC Form 424(b)(5) dated July 31, 2001 at cover. Based on the closing price of the Company's stock on August 1, 2002 of $41.26 (*see* Exhibit 1), the conversion value of each bond was $372.25 (= $41.26 x 9.022). In addition, the zero coupon bonds only yielded about one percent per year. *Id.* at S-16.

Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on August 13, 2002 was caused by significant firm-specific, nonfraud related information.

19) August 23, 2002

51. My event study finds that Household's residual return of -5.41 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -3.90. *See* Exhibit 1.

52. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on August 23, 2002 was caused by significant firm-specific, nonfraud related information.

20) September 10, 2002

53. My event study finds that Household's residual return of -2.37 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -1.70. *See* Exhibit 1.

54. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on September 10, 2002 was caused by significant firm-specific, nonfraud related information.

21) September 16, 2002

55. My event study finds that Household's residual return of -2.98 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -2.16. *See* Exhibit 1.

56. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on September 16, 2002 was caused by significant firm-specific, nonfraud related information.

57. We did find information related to the fraud that is consistent with leakage on this date. *Reuters* reported that a Merrill Lynch analyst cut his price target for Household stating "'[w]e are lowering our price objective to reflect the general depressed market multiples for financials, and to reflect that it appears Household's current legal concerns aren't going to go away anytime soon.'" *See* Exhibit 22. In addition, an editorial in *National Mortgage News* titled "Worst Practices" stated: "The practices alleged against Household by the DFI, and the practices alleged against Associates by the FTC, could be ginned together to form a 'worst practices' of predatory lending, a primer on how to be an abusive lender." *See* Exhibit 23.

22) September 17, 2002

58. My event study finds that Household's residual return of -10.41 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -7.50. *See* Exhibit 1.

59. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price

decline on September 17, 2002 was caused by significant firm-specific, nonfraud related information.

23) September 27, 2002

60. My event study finds that Household's residual return of -3.15 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -2.26. *See* Exhibit 1.

61. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on September 27, 2002 was caused by significant firm-specific, nonfraud related information.

24) October 1, 2002

62. My event study finds that Household's residual return of -3.70 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -2.63. *See* Exhibit 1.

63. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on October 1, 2002 was caused by significant firm-specific, nonfraud related information.

25) October 7, 2002

64. My event study finds that Household's residual return of -2.69 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -1.93. *See* Exhibit 1.

65. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on October 7, 2002 was caused by significant firm-specific, nonfraud related information.

26) October 8, 2002

66. My event study finds that Household's residual return of -2.76 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -1.96. *See* Exhibit 1.

67. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on October 8, 2002 was caused by significant firm-specific, nonfraud related information.

68. We did find information related to the fraud that is consistent with leakage on this date. UBS issued a report in which its analysts wrote "[w]e are cutting our 2003 estimate to reflect the impact of a regulatory fine on HI's earnings and capital base. We believe the fine levied against Citi/Associates for predatory lending practices makes a fine against Household more likely, and we estimate this fine could exceed $500 million." *See* Exhibit 24. The UBS analysts also wrote:

> We also believe that any agreement with the FTC or the Attorneys General would also have a longer-term impact on HI's business model. Specifically, we suspect that HI would be forced to change certain of its marketing and pricing practices. In fact, this process has already begun to some extent, as HI has voluntarily reduced the number of points it charges on loans, thereby decreasing its pricing at the margin. Nonetheless, we believe an agreement with regulatory or legal

> authorities would require additional pricing and other concessions. As a consequence, we believe HI will not be able to sustain its current level of balance sheet growth or profit margins, and as a result, the earnings power of HI's model would be diminished to some extent.

Id.

27) October 9, 2002

69. My event study finds that Household's residual return of -6.99 percent on this date was both negative and statistically significant at the 95 percent confidence level with a t-statistic of -4.98. *See* Exhibit 1.

70. We reviewed the available market evidence and did not find negative firm-specific, nonfraud related information that could reasonably explain the price decline. *See* Exhibit 2. Accordingly, there is no reliable basis to conclude that the significant stock price decline on October 9, 2002 was caused by significant firm-specific, nonfraud related information.

IV. FOR THE THREE TRADING DAYS PRIOR TO MARCH 28, 2001, A REASONABLE ESTIMATE OF THE EFFECT OF PREDATORY LENDING ALONE IS AT LEAST $3.06 PER SHARE

71. My Quantification Using Specific Disclosures provides a reliable minimum estimate of the effect of predatory lending alone during the three trading days prior to March 28, 2001 because I can isolate explicit amounts of artificial inflation caused solely by predatory lending. The specific disclosures on the following dates relate solely to this issue: November 14, 2001, February 27, 2002, July 26, 2002, August 15, 2002, August 27, 2002, September 3, 2002, October 4, 2002, October 10, 2002 and October 11, 2002; artificial inflation

related to these disclosures totals $3.06. Fischel Report ¶¶ 7, 12, 16-18, 20-21 *and* notes 16 & 19-21.[11]

72. This estimate understates the full effect of predatory lending alone because a substantial portion of the Quantification Including Leakage is attributable to predatory lending. As documented in the Fischel Report, the cascade of incomplete information related to Defendants' fraud principally regarded predatory lending. *Compare id.* ¶¶ 12-21 (regarding predatory lending) *with* ¶¶ 22-26 (regarding re-aging) *and* ¶ 27 (regarding the restatement). Moreover, market participants predominantly attributed Household's stock price decline to concerns regarding predatory lending. *Id.* ¶ 28. In addition, I understand that a Household internal e-mail attributed a decrease in the Company's stock price from May 2002 to August 2002 to the gradual leakage of contents of the Washington DFI Report and that a Defendant testified that market concerns about the regulatory response to Household's predatory-lending scheme dragged down the Company's stock price. Likewise, Defendants' expert Mukesh Bajaj specifically tied Household's stock price underperformance to "headline risk" about predatory lending. *See*, e.g., Bajaj Report at 67. Additionally, the artificial inflation related to the specific disclosures solely regarding re-aging and the restatement (December 1, 2001, December 5, 2001, December 11, 2001, and August 14, 2002) totals only $3.39.[12] Fischel Report ¶¶ 22-23, 27 *and* notes 16 & 19. All of the above further supports my conclusion that a reasonable estimate is at

11. Note that on September 22, 2002, information about both predatory lending and re-aging was disclosed; artificial inflation related to this disclosure totals $1.52. Fischel Report ¶ 28 & note 19. I do not include any of this amount in my analysis of artificial inflation related solely to predatory lending. In addition, the sum of the residual price changes presented in the cited notes of the Fischel Report is slightly lower due to rounding.
12. The sum of the residual price changes presented in the cited notes of the Fischel Report is slightly lower due to rounding.

least $3.06 because, given the leakage about the predatory lending fraud, the entire amount related to this aspect of the fraud is likely much greater.

73. Exhibit 25 lists Household's stock price and the true value and artificial inflation estimates on each day from March 23, 2001 through October 11, 2002 under my Quantification Using Specific Disclosures and my Quantification Including Leakage. Exhibit 26 is a graph of the stock price and estimated true value lines under these analyses.

Daniel R. Fischel

September 22, 2015

Exhibit 1

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
11/15/01	$58.90	3,700,100	-3.28%	0.10%	-0.30%	-0.23%	-3.06%	-$1.86	-2.21	***	Household Responds to Calif.Department Lawsuit (Dow Jones News Service 1:40 PM)
											News Highlights: Alcoa Names Ricardo Belda Exec VP (Dow Jones News Service 2:00 PM)
											News Highlights: Alcoa Names Ricardo Belda Exec VP (Dow Jones International News 2:14 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											Dividends Reported November 15 (Dow Jones News Service 4:58 PM)
11/16/01	$57.80	2,102,800	-1.87%	-0.31%	-1.16%	-1.06%	-0.80%	-$0.47	-0.58		Stock Rating Reiterations: DELL MRX APHT WFHC (Dow Jones News Service 10:38 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
11/19/01	$58.75	1,501,500	1.64%	1.10%	1.48%	1.46%	0.18%	$0.11	0.13		Best Buy, Household Intl Sign Credit Card Alliance (Dow Jones News Service 9:00 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
11/20/01	$58.37	1,512,300	-0.65%	-0.72%	-0.55%	-0.32%	-0.32%	-$0.19	-0.23		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
11/21/01	$58.56	2,161,100	0.33%	-0.49%	-0.67%	-0.51%	0.83%	$0.49	0.60		Insider Selling Remained Mild Last Month (The Wall Street Journal)
											Companies In Dow Jones Industry Group Indexes -3- (Dow Jones News Service 5:02 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
11/22/01											NYSE Short Interest: Foster Wheeler - Kemet Corp (Dow Jones News Service 11:03 PM)
11/23/01	$59.62	355,600	1.81%	1.18%	1.63%	1.61%	0.20%	$0.12	0.15		New York Closing Stocks -1- (Dow Jones International News 1:14 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
11/25/01											Household Finance/A$250 Mln MTN -2: Pricing Tuesday (Dow Jones International News 7:24 PM)
11/26/01	$60.18	1,561,700	0.94%	0.62%	0.89%	0.93%	0.01%	$0.01	0.01		Providian Names Fleet's Saunders to Replace Mehta as CEO, President (Dow Jones Business News 9:42 AM)
											WRAP: Providian Names Fleet's Saunders As CEO, President (Dow Jones News Service 11:48 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
11/27/01	$60.76	1,881,200	0.96%	-0.68%	-0.36%	-0.13%	1.10%	$0.66	0.79		Providian Taps Fleet's Saunders As New CEO (The Wall Street Journal)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
11/28/01	$60.34	2,454,600	-0.69%	-1.82%	-2.48%	-2.16%	1.47%	$0.89	1.06		CFA Financials: Monthly Insider Review For October (Dow Jones Corporate Filings Alert 11:04 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
11/29/01	$59.80	1,930,400	-0.89%	1.04%	0.98%	0.94%	-1.83%	-$1.11	-1.32		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
11/30/01	$58.99	1,706,300	-1.35%	-0.06%	-0.82%	-0.75%	-0.60%	-$0.36	-0.43		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
12/01/01											BARRON'S: Does It Add Up? A Look At Household's Accounting (Dow Jones International News 12:02 AM)
											BARRON'S: Does It Add Up? A Look At Household's Accounting (Dow Jones Capital Markets Report 12:02 AM)
12/03/01	$56.29	7,643,800	-4.58%	-0.83%	-1.54%	-1.35%	-3.22%	-$1.90	-2.33	***	Hot Stocks To Watch In Barron's: AOL CVC HI MKSI LRCX (Dow Jones News Service 8:55 AM)
											Stock Rating Reiterations: LBRT INTC MU PLCM SCOR HI AXL (Dow Jones News Service 10:35 AM)
											Retail Demand Surges For Corporate Bonds On Yld Pick-Up (Dow Jones Capital Markets Report 2:55 PM)
											CFA Financials Wrap: Morgan Stanley Pulls Brokers Lower (Dow

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Jones Corporate Filings Alert 5:39 PM)
											Treasury Rise as Stocks Slide Despite Good Economic News (Dow Jones Business News 6:58 PM)
12/04/01	$58.23	3,903,900	3.45%	1.32%	1.25%	1.17%	2.27%	$1.28	1.64		Household Finance A$ Bond Blowout May Be Chance To Buy (Dow Jones International News 12:03 AM)
											Stock Rating Reiterations: SNPS RFMD AHMH GMH (Dow Jones News Service 10:36 AM)
											New York Closing Stocks -1- (Dow Jones International News 11:32 AM)
12/05/01	$61.00	4,219,000	4.76%	2.24%	1.81%	1.58%	3.18%	$1.85	2.29	+++	Home Depot and Caterpillar Rise, As Bellwether Sectors Show Gains (The Wall Street Journal)
											New York Closing Stocks -1- (Dow Jones International News 4:12 PM)
12/06/01	$60.66	3,458,400	-0.56%	-0.27%	0.58%	0.79%	-1.35%	-$0.82	-0.97		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
12/07/01	$59.66	2,744,000	-1.65%	-0.75%	-0.20%	0.06%	-1.71%	-$1.04	-1.23		Best Interests: How Big Lenders Sell A Pricier Refinancing To Poor Homeowners --- People Give Up Low Rates To Pay Off Other Debts, Putting... (The Wall Street Journal)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
12/10/01	$57.60	2,755,300	-3.45%	-1.58%	-1.58%	-1.25%	-2.21%	-$1.32	-1.59		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
12/11/01	$56.66	4,226,200	-1.63%	-0.27%	0.37%	0.56%	-2.20%	-$1.26	-1.59		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
12/12/01	$54.15	6,885,500	-4.43%	0.03%	-0.29%	-0.21%	-4.22%	-$2.39	-3.06	***	US Late Market Comment -2- NYSE Volume At 1.40B Shares (Dow Jones News Service 4:45 PM)
											New York Closing Stocks -1- (Dow Jones International News 5:00 PM)
											New York Closing Stocks -1- (Dow Jones International News 9:07 PM)
12/13/01	$54.23	3,299,200	0.15%	-1.55%	-1.43%	-1.09%	1.24%	$0.67	0.89		Stocks Overcome Early Torpidity As P&G, Toll Brothers See

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Gains (The Wall Street Journal)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
12/14/01	$53.35	3,536,400	-1.62%	0.34%	-0.57%	-0.57%	-1.05%	-$0.57	-0.76		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											BARRON'S: Barron's Mailbag: Analytical Breed (Dow Jones Energy Service 11:23 PM)
											BARRON'S: Barron's Mailbag: Analytical Breed (Dow Jones Capital Markets Report 11:23 PM)
											BARRON'S: Barron's Mailbag: Analytical Breed (Dow Jones International News 11:23 PM)
12/17/01	$54.57	2,795,900	2.29%	1.01%	0.90%	0.86%	1.42%	$0.76	1.03		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
12/18/01	$56.12	3,269,700	2.84%	0.76%	1.03%	1.05%	1.79%	$0.98	1.29		Household Intl Unit Files $3B Debt Securities Shelf (Dow Jones Corporate Filings Alert 12:08 PM)
											Household Finance Files $3B Debt Securities Shelf (Dow Jones News Service 12:10 PM)
											Household/Shelf -2: Proceeds For General Corp Uses (Dow Jones International News 12:28 PM)
											News Highlights: Household Finance Files $3B Debt Shelf (DJNS 1:00 PM)
											News Highlights: Suiza, Dean Foods To Sell 11 Plants (DJNS 2:00 PM)
											News Highlights: Duke Energy 'Committed' To Growth Goals (DJNS 3:00 PM)
											News Highlights: Archer-Daniels-Midland President Resigns (DJNS 4:00 PM)
											CORPORATE FILINGS ALERT: THE AFTERNOON'S TOP NEWS (Dow Jones Corporate Filings Alert 4:00 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											News Highlights: Alcoa To Take 4Q Charge Of $225M (DJNS 5:03 PM)
											Recap Of Dow Jones Special Reports For Tuesday, Dec. 18 (DJNS 5:55 PM)
12/19/01	$56.87	2,339,900	1.34%	0.59%	1.63%	1.73%	-0.39%	-$0.22	-0.28		Stock Rating Reiterations: C COMS SYMC CTEC ALKS (Dow Jones News Service 10:30 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
12/20/01	$56.50	1,556,000	-0.65%	-0.83%	-0.40%	-0.14%	-0.51%	-$0.29	-0.37		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											NYSE Short Interest: Foster Wheeler - Kemet Corp (Dow Jones News Service 11:03 PM)
12/21/01	$55.90	2,117,000	-1.06%	0.44%	-0.50%	-0.51%	-0.55%	-$0.31	-0.40		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
12/24/01	$56.09	441,100	0.34%	-0.02%	-0.11%	0.00%	0.34%	$0.19	0.25		CFA Converts Yr In Review: 'Unprecedented' New Issuance (Dow Jones Corporate Filings Alert 9:14 AM)
											New York Closing Stocks -1- (Dow Jones International News 1:20 PM)
											Stocks Ex-Dividend December 27 (Dow Jones News Service 2:41 PM)
12/26/01	$56.38	1,707,100	0.52%	0.42%	0.26%	0.30%	0.22%	$0.12	0.16		Stocks Ex-Dividend Dec. 27 (The Wall Street Journal)
											CFA Converts Yr In Review: 'Unprecedented' New Issuance (Dow Jones Corporate Filings Alert 8:08 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
12/27/01	$57.83	1,677,300	2.96%	0.68%	0.67%	0.68%	2.28%	$1.28	1.65	+++	Bank of Montreal Says It Has Found Its Footing in the U.S. --- Purchase of CSFB Unit Is Seen as Boost for Discount Brokerage, Wealth Management (The Wall Street Journal)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											CFA Financials Wrap: Indexes Rise Along With Broad Mkt (Dow

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Jones Corporate Filings Alert 5:53 PM)
12/28/01	$58.88	2,347,100	1.82%	0.34%	0.93%	1.04%	0.78%	$0.45	0.56		CFA Financials Wrap: Indexes Rise Along With Broad Mkt (Dow Jones Corporate Filings Alert 8:00 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
12/31/01	$57.94	2,071,500	-1.60%	-1.11%	-0.73%	-0.43%	-1.17%	-$0.69	-0.84		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
01/02/02	$57.09	2,033,700	-1.47%	0.58%	-0.31%	-0.34%	-1.12%	-$0.65	-0.81		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
01/03/02	$57.05	2,192,200	-0.07%	0.92%	0.54%	0.50%	-0.57%	-$0.32	-0.41		CFA Financials Index - Company Constituents List (Dow Jones Corporate Filings Alert 12:44 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											Credit-Card Issuers Seen Posting Mixed 4Q Results (Dow Jones News Service 8:05 PM)
01/04/02	$59.19	1,687,900	3.75%	0.63%	1.44%	1.51%	2.24%	$1.28	1.62		Household Intl To Launch $12M National Ad Campaign (Dow Jones News Service 8:48 AM)
											News Highlights: Dec Nonfarm Payrolls -124K; View -125K (Dow Jones News Service 9:00 AM)
											News Highlights: Dec Nonfarm Payrolls -124K; View -125K (Dow Jones International News 9:03 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:15 PM)
01/07/02	$58.10	3,547,200	-1.84%	-0.64%	-0.71%	-0.51%	-1.33%	-$0.79	-0.96		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
01/08/02	$56.74	2,290,500	-2.34%	-0.35%	-1.29%	-1.19%	-1.15%	-$0.67	-0.83		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
01/09/02	$57.10	1,670,600	0.63%	-0.48%	0.51%	0.76%	-0.13%	-$0.07	-0.09		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
01/10/02	$56.54	2,203,400	-0.98%	0.13%	0.46%	0.58%	-1.56%	-$0.89	-1.13		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
01/11/02	$54.38	4,743,300	-3.82%	-0.94%	-1.02%	-0.78%	-3.04%	-$1.72	-2.20	***	Household Responds To Rating Change Issued By Fitch Inc (Dow Jones News Service 2:03 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											US Stocks Find Greenspan's Economic Reading Unwelcome (Dow Jones News Service 4:27 PM)
01/13/02											Household Intl Units Settle Calif. Lending Allegations (Dow Jones News Service 4:45 PM)
01/14/02	$52.78	3,763,200	-2.94%	-0.62%	-0.88%	-0.70%	-2.24%	-$1.22	-1.62		Calendar Of Earnings Expected; First Call Estimates (Dow Jones News Service 7:00 AM)
01/15/02	$55.20	3,982,800	4.59%	0.69%	1.96%	2.06%	2.53%	$1.33	1.82	+++	New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
01/16/02	$54.45	4,023,900	-1.36%	-1.62%	-1.23%	-0.86%	-0.50%	-$0.28	-0.36		News Highlights: JP Morgan 4Q Op Earnings Misses Views (Dow Jones News Service 8:01 AM)
											Household Intl 4Q Net $1.17 A Share (Dow Jones News Service 8:21 AM)
											Calendar Of Corporate Conference Calls For Jan. 16 (Dow Jones News Service 9:46 AM)
											Stock Rating Reiterations: SRDX CPS CVG UNH PCS (Dow Jones News Service 10:30 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
01/17/02	$53.76	3,481,700	-1.27%	1.01%	0.96%	0.93%	-2.19%	-$1.19	-1.59		Calendar Of Corporate Conference Calls For Jan. 17 (Dow Jones News Service 9:25 AM)
											Stock Rating Reiterations: DNA CPQ CPN JPM (Dow Jones News Service 10:32 AM)
											Fidelity's Magellan Ups Cash To 6.5% As Of Dec. 31 (Dow Jones News Service 12:17 PM)
											Fidelity's Magellan -3: Other Big Funds Cautious On Tech (Dow Jones News Service 3:11 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
01/18/02	$54.85	3,216,500	2.03%	-0.99%	-0.30%	0.00%	2.03%	$1.09	1.47		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
01/22/02	$54.05	1,772,000	-1.46%	-0.73%	-0.16%	0.10%	-1.55%	-$0.85	-1.12		News Highlights: Kmart Files For Chapter 11 (DJNS 10:00 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											NYSE Short Interest: Foster Wheeler - Kemet Corp (Dow Jones News Service 11:03 PM)
01/23/02	$53.35	2,249,700	-1.30%	0.80%	0.00%	-0.05%	-1.24%	-$0.67	-0.90		Chargeoffs Increase In Dec. Credit Card Data - Analyst (Dow Jones Capital Markets Report 1:38 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
01/24/02	$53.75	2,868,100	0.75%	0.36%	0.45%	0.51%	0.24%	$0.13	0.17		New Securities Issues (WSJ)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
01/25/02	$54.71	1,738,300	1.79%	0.11%	0.32%	0.43%	1.35%	$0.73	0.98		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
01/26/02											BARRON'S: Doubting Tyco (Dow Jones International News 12:45 AM)
											BARRON'S: Doubting Tyco (Dow Jones Capital Markets Report 12:45 AM)
01/28/02	$52.85	4,616,600	-3.40%	-0.01%	-0.70%	-0.63%	-2.77%	-$1.51	-2.00	***	Hot Stks To Watch In Barrons: TYC COF BFT HI MXT (Dow Jones News Service 8:52 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
											US Stocks End Marginally Higher; Mood Turns Cautious (Dow Jones News Service 4:30 PM)
											ODJ DJ US Stocks End Marginally Higher; Mood Turns Cautious (Dow Jones Commodities Service 5:22 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
01/29/02	$49.85	8,237,100	-5.68%	-2.86%	-4.54%	-4.14%	-1.54%	-$0.81	-1.10		Roadway, Navistar, Other Cyclicals Rise on Hope That Economy Is Well (The Wall Street Journal) Select High-Grade Bonds Smacked By Heightened Skepticism (Dow Jones Capital Markets Report 1:31 PM) Treasurys Up Amid Falling Stocks, Weaker Corporate Bonds (Dow Jones Capital Markets Report 2:00 PM) Treasurys Skyrocket As Faith Wanes In Lesser Credits (Dow Jones Capital Markets Report 4:00 PM) New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
01/30/02	$49.35	8,440,000	-1.00%	1.18%	1.14%	1.08%	-2.09%	-$1.04	-1.51		Insider Trading Spotlight (The Wall Street Journal) New York Closing Stocks -1- (Dow Jones International News 4:13 PM) CFA Financials Wrap: Group Recoups Some Of Tue Losses (Dow Jones Corporate Filings Alert 5:42 PM)
01/31/02	$51.24	5,451,300	3.83%	1.50%	1.76%	1.68%	2.15%	$1.06	1.55		CFA Financials Wrap: Group Recoups Some Of Tue Losses (Dow Jones Corporate Filings Alert 8:05 AM) New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
02/01/02	$51.10	6,376,900	-0.27%	-0.70%	-1.13%	-0.95%	0.67%	$0.34	0.49		TIP SHEET: Tice's Prudent Bear Fund Bets On Bad News (Dow Jones News Service 3:00 PM) On Groundhog Day Eve, Corporate Bond Market Sees Shadows (Dow Jones Capital Markets Report 4:01 PM) New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
02/04/02	$48.80	6,262,500	-4.50%	-2.47%	-3.32%	-2.92%	-1.58%	-$0.81	-1.14		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
02/05/02	$47.53	7,783,600	-2.60%	-0.40%	-0.65%	-0.50%	-2.10%	-$1.03	-1.52		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
02/06/02	$44.71	9,456,000	-5.93%	-0.59%	-0.97%	-0.80%	-5.13%	-$2.44	-3.71	***	Household A$ Bonds Blowout As Enronitis Contagion Hits (Dow Jones International News 4:05 AM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Options Report: Defensive Puts Trade In Energy, Fincls (Dow Jones News Service 3:30 PM) Options Report: Defensive Puts Trade In Energy, Fincls (Dow Jones Capital Markets Report 3:31 PM) WSJ:Household International Sued For Loan Practices (Dow Jones News Service 4:03 PM) New York Closing Stocks -1- (Dow Jones International News 4:14 PM) Household International Faces Lawsuit for Loan Practices (Dow Jones Business News 4:28 PM) News Highlights: Cisco Posts 2Q Net Of 9 Cents A Share (Dow Jones News Service 5:00 PM) News Highlights: Cisco Posts 2Q Net Of 9 Cents A Share (Dow Jones International News 5:01 PM)
02/07/02	$48.01	12,103,800	7.38%	-0.30%	0.56%	0.77%	6.61%	$2.96	4.78	+++	Defensive Trades Dominate Options Market, Investor Jitters Push Volatility Index Above 28 (The Wall Street Journal) Business Brief -- Household International Inc.: Acorn Suit Says Borrowers Are Misled and Defrauded (The Wall Street Journal) Hot Stocks To Watch: CSCO JWN JHF CD BCR TYC HI (Dow Jones News Service 7:47 AM) HOT STOCKS TO WATCH (Dow Jones News Service 8:32 AM) Household CFO: No Problem In Raising Commercial Paper (Dow Jones News Service 11:42 AM) Household Intl-3: Short-Sellers Have Pressured Stk, Bonds (Dow Jones News Service 2:03 PM) New York Closing Stocks -1- (Dow Jones International News 4:14 PM) Stock Rating Reiterations Closing Update: NWBT ICTG GPS (Dow Jones News Service 4:25 PM) US Stocks Wobbled Again; Nasdaq Falls To 3-Month Low (Dow

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Jones News Service 4:37 PM)
											Overnight Market Commentary (Dow Jones International News 5:23 PM)
											CFA Financials Wrap: Brokers Down After Estimates Cut (Dow Jones Corporate Filings Alert 5:58 PM)
02/08/02	$52.00	7,904,500	8.31%	1.49%	2.72%	2.70%	5.61%	$2.69	4.04	+++	Jittery Investor Mood Sinks Indexes But Cendant, WorldCom Group Rise (The Wall Street Journal)
											CFA Financials Wrap: Brokers Down After Estimates Cut (Dow Jones Corporate Filings Alert 8:07 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
											US Stocks Reverse Course; Late Rally Lifts Nasdaq 2% (Dow Jones News Service 4:29 PM)
											ODJ US Stocks Reverse Course; Late Rally Lifts Nasdaq 2% (Dow Jones Commodities Service 5:56 PM)
02/10/02											Overnight Market Commentary (Dow Jones International News 4:36 PM)
02/11/02	$51.45	5,330,400	-1.06%	1.44%	0.88%	0.75%	-1.81%	-$0.94	-1.31		AXA Financial Opens Stakes In Several Financial Svcs Cos (Dow Jones Corporate Filings Alert 2:38 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
02/12/02	$50.80	4,447,800	-1.26%	-0.39%	-0.61%	-0.46%	-0.80%	-$0.41	-0.58		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
02/13/02	$52.15	2,290,300	2.66%	1.00%	1.54%	1.55%	1.11%	$0.56	0.80		New York Closing Stocks -1- (Dow Jones International News 4:16 PM)
02/14/02	$51.92	3,897,500	-0.44%	-0.18%	0.21%	0.37%	-0.81%	-$0.42	-0.59		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
02/15/02	$50.89	4,004,300	-1.98%	-1.10%	-2.96%	-2.81%	0.83%	$0.43	0.59		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
02/19/02	$50.35	2,502,800	-1.06%	-1.88%	-1.46%	-1.05%	-0.01%	-$0.01	-0.01		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
02/20/02	$50.65	3,312,000	0.60%	1.36%	1.48%	1.41%	-0.81%	-$0.41	-0.59		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
02/21/02	$48.50	3,370,000	-4.24%	-1.55%	-1.52%	-1.18%	-3.06%	-$1.55	-2.21	***	New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
											NYSE Most Actives- Composite Trades 4-6:30 p.m. EST (Dow Jones News Service 6:47 PM)
02/22/02	$48.65	3,886,200	0.31%	0.83%	-0.11%	-0.17%	0.48%	$0.23	0.35		Options Report: Defensive Puts, TRW Options Are Active (Dow Jones News Service 3:32 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
02/24/02											NYSE Short Interest: Foster Wheeler - Kemet Corp (Dow Jones News Service 11:03 PM)
02/25/02	$49.58	3,560,300	1.91%	1.80%	2.45%	2.35%	-0.44%	-$0.21	-0.31		Shareholder Scoreboard (A Special Report) --- The 100 Biggest Companies in This Year's Scoreboard (The Wall Street Journal)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
02/26/02	$49.98	2,961,600	0.81%	0.00%	0.35%	0.49%	0.32%	$0.16	0.23		CFA Financials: Monthly Insider Review for January (Dow Jones Corporate Filings Alert 12:30 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
02/27/02	$52.08	4,127,000	4.20%	0.05%	0.76%	0.92%	3.29%	$1.64	2.38	+++	New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
02/28/02	$51.50	2,553,400	-1.11%	-0.28%	0.41%	0.61%	-1.72%	-$0.90	-1.24		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
03/01/02	$53.00	2,478,700	2.91%	2.27%	1.24%	0.96%	1.95%	$1.00	1.40		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
03/04/02	$57.25	5,679,200	8.02%	1.95%	3.29%	3.22%	4.80%	$2.54	3.44	+++	Summary Of New International Debt Issues For Mar 04 (Dow Jones Capital Markets Report 12:11 PM)
											Eurobonds: GMAC Plans Benchmark As Primary Mkt Revives (Dow Jones Capital Markets Report 12:46 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											US Stocks Rally Again; On Second Thought, More Is Better (Dow Jones News Service 4:36 PM)
03/05/02	$56.28	6,430,000	-1.69%	-0.66%	0.07%	0.32%	-2.02%	-$1.16	-1.46		New Securities Issues (WSJ)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
03/06/02	$57.77	2,683,800	2.65%	1.46%	1.60%	1.52%	1.13%	$0.64	0.82		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
03/07/02	$58.36	3,108,600	1.02%	-0.44%	-0.73%	-0.57%	1.59%	$0.92	1.15		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
03/08/02	$59.90	4,414,600	2.64%	0.59%	0.44%	0.46%	2.18%	$1.27	1.58		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
03/11/02	$59.73	4,531,900	-0.28%	0.34%	0.56%	0.64%	-0.92%	-$0.55	-0.66		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
03/12/02	$59.16	2,700,700	-0.95%	-0.22%	0.26%	0.43%	-1.39%	-$0.83	-1.00		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
03/13/02	$58.40	2,759,000	-1.28%	-0.98%	-0.85%	-0.59%	-0.70%	-$0.41	-0.50		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											Dividends Reported March 13 (Dow Jones News Service 5:09 PM)
											Household Intl Appoints KPMG LLP as Independent Auditor (Dow Jones News Service 5:30 PM)
											Deloitte Touche Tohmatsu Won't Pursue Andersen Deal (Dow Jones News Service 8:17 PM)
											Deloitte Touche Tohmatsu Won't Pursue Andersen Deal (Dow Jones Business News 8:37 PM)
03/14/02	$57.48	2,642,500	-1.58%	-0.09%	0.17%	0.31%	-1.89%	-$1.10	-1.37		Andersen's Hopes to Avoid Indictment Dim --- Deloitte, Ernst & Young End Merger Discussions Over Liability Concerns (The Wall Street Journal)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Calendar Of Investment-Grade Debt: Deere $1B 10Y (Dow Jones Capital Markets Report 4:24 PM)
											Bankruptcy May Be An Option For Andersen - Sources (Dow Jones Energy Service 5:25 PM)
											SouthTrust Board's Audit Committee Requests Audit Proposals (Dow Jones News Service 6:58 PM)
03/15/02	$58.95	4,348,400	2.56%	1.14%	1.94%	1.94%	0.62%	$0.35	0.45		Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 2:08 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											Calendar Of Investment-Grade Debt: Household $300M Pfd (Dow Jones Capital Markets Report 4:36 PM)
03/18/02	$58.98	2,500,000	0.05%	-0.05%	-0.56%	-0.47%	0.52%	$0.31	0.38		Deals & Deal Makers: The Pipeline / Securities Offering Calendar (The Wall Street Journal)
											New York Closing Stocks -1- (Dow Jones International News 4:15 PM)
03/19/02	$58.98	2,465,500	0.00%	0.41%	0.51%	0.57%	-0.57%	-$0.34	-0.41		Investors Come to the Defense of Securitization, Special-Purpose Entities Tainted by Enron's Fall (The Wall Street Journal)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
											Moody's Liquidity Reports Make Early Mark On Corporates (Dow Jones Capital Markets Report 4:22 PM)
											Moody's Liquidity Reports Make Early Mark On Corporates (Dow Jones International News 4:22 PM)
											Moody's Liquidity Reports Make Early Mark On Corporates (Dow Jones News Service 4:22 PM)
											Moody's Liquidity Reports Make Early Mark On Corporates (Dow Jones Capital Markets Report 4:30 PM)
											Moody's Liquidity Reports Make Early Mark On Corporates (Dow Jones News Service 4:30 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Moody's Liquidity Reports Make Early Mark On Corporates (Dow Jones International News 4:30 PM)
03/20/02	$57.61	2,104,100	-2.32%	-1.57%	-1.67%	-1.34%	-0.98%	-$0.58	-0.71		Treasurys End Mostly Higher After Interest Rates Are Left Untouched at Federal Reserve Meeting (The Wall Street Journal)
											Eurobonds: Primary Mkt Sizzles;Vattenfall Sells Euro Bond (Dow Jones Capital Markets Report 12:42 PM)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones Energy Service 1:51 PM)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 1:51 PM)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones Capital Markets Report 1:52 PM)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones International News 1:52 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
03/21/02	$57.90	2,044,800	0.50%	0.16%	-0.01%	0.07%	0.43%	$0.25	0.31		New Securities Issues (WSJ)
											CFA Financials: Monthly Insider Review For February (Dow Jones Corporate Filings Alert 4:10 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											NYSE Short Interest: Foster Wheeler - Kemet Corp (Dow Jones News Service 11:03 PM)
03/22/02	$58.14	1,589,800	0.41%	-0.42%	0.13%	0.34%	0.07%	$0.04	0.05		Short Interest Highlights (The Wall Street Journal)
											Stocks Ex-Dividend March 26 (Dow Jones News Service 4:10 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
03/25/02	$56.30	2,388,400	-3.16%	-1.46%	-1.62%	-1.31%	-1.85%	-$1.08	-1.34		Stocks Ex-Dividend March 26 (The Wall Street Journal)
											New York Closing Stocks -1- (Dow Jones International News 4:15

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											PM)
03/26/02	$57.00	1,765,500	1.63%	0.59%	0.97%	1.02%	0.61%	$0.35	0.44		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
03/27/02	$57.50	1,723,900	0.88%	0.54%	1.05%	1.12%	-0.24%	-$0.14	-0.18		New York Closing Stocks -1- (Dow Jones International News 4:15 PM)
03/28/02	$56.80	1,362,100	-1.22%	0.25%	-0.34%	-0.30%	-0.92%	-$0.53	-0.66		Cash Drought: A Dwindling Supply Of Short-Term Credit Plagues Corporations --- Market in Commercial Paper Is Hurt by Enron Fears, Dealing... (The Wall Street Journal)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											Summary of Cos. With Audit-Related Andersen News (Dow Jones News Service 5:19 PM)
03/29/02											Summary of Cos. With Audit-Related Andersen News (Dow Jones News Service 3:07 PM)
04/01/02	$57.03	1,752,700	0.40%	-0.07%	-0.56%	-0.47%	0.87%	$0.50	0.63		Summary of Cos. With Audit-Related Andersen News (Dow Jones News Service 4:14 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:31 PM)
04/02/02	$57.05	1,749,600	0.04%	-0.85%	0.31%	0.62%	-0.59%	-$0.34	-0.42		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:32 PM)
04/03/02	$55.75	2,312,100	-2.28%	-0.99%	-1.02%	-0.77%	-1.51%	-$0.86	-1.09		Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 1:52 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:31 PM)
04/04/02	$56.83	2,962,200	1.94%	0.09%	0.62%	0.75%	1.19%	$0.66	0.86		New York Closing Stocks -1- (Dow Jones International News 4:13

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:30 PM)
											Credit-Card Cos' 1Q Seen Stable With Economy On Mend (Dow Jones News Service 7:19 PM)
											Credit-Card Companies' 1st Quarter Seen Stable With Economy on Mend (Dow Jones Business News 7:34 PM)
04/05/02	$57.98	2,663,300	2.02%	-0.31%	0.61%	0.83%	1.19%	$0.68	0.86		Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 3:24 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:30 PM)
04/08/02	$59.06	3,048,600	1.86%	0.23%	0.37%	0.46%	1.41%	$0.81	1.02		Eurobonds: DT In Focus After S&P Cut; Heavy Supply Ahead (Dow Jones Capital Markets Report 12:56 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:31 PM)
04/09/02	$59.25	4,657,800	0.32%	-0.66%	0.57%	0.86%	-0.54%	-$0.32	-0.39		Household International Chmn Aldinger's 01 Pay Was $6.5M (Dow Jones Corporate Filings Alert 10:14 AM)
											CORPORATE FILINGS ALERT: THE MORNING'S TOP NEWS (Dow Jones Corporate Filings Alert 12:00 PM)
											CFA Financials Index - Company Constituents List (Dow Jones Corporate Filings Alert 12:21 PM)
											Household International Files $10B Debt Sec Shelf (Dow Jones Corporate Filings Alert 3:50 PM)
											News Highlights: Household Intl Files $10B Debt Shelf (Dow Jones News Service 3:59 PM)
											CORPORATE FILINGS ALERT: THE AFTERNOON'S TOP NEWS (Dow Jones Corporate Filings Alert 4:00 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 4:23 PM)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 4:25 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:30 PM)
											News Highlights:Nortel Bank Grp Seen Renewing $1.8B Credit (Dow Jones News Service 5:00 PM)
04/10/02	$59.35	3,189,000	0.17%	1.14%	0.31%	0.20%	-0.03%	-$0.02	-0.02		Power Play: Deals That Took Enron Under Had Many Supporters --- Big-Name Lobbying Stymied FASB Push to Disclose Off-Balance-Sheet Entities... (The Wall Street Journal)
											Household Intl: $10B Shelf To Support Internotes Program (Dow Jones News Service 9:10 AM)
											Household International: $10 Billion Shelf To Support Internotes Program -2 (Dow Jones International News 10:17 AM)
											Household International:$10 Billion Shelf To Support Internotes Program -2 (Dow Jones International News 10:17 AM)
											Stock Rating Reiterations: SONS WEBX SEAC CSR (Dow Jones News Service 10:30 AM)
											Stock Rating Reiterations: SONS WEBX SEAC CSR (Dow Jones International News 10:45 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:31 PM)
04/11/02	$57.05	2,894,600	-3.88%	-2.36%	-2.55%	-2.11%	-1.76%	-$1.05	-1.27		CFA Busted Convertibles Table: Additions For March (Dow Jones Corporate Filings Alert 10:24 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											New York Closing Stocks -1- -4 (Dow Jones International News 4:31 PM)
04/12/02	$58.10	1,572,600	1.84%	0.67%	1.14%	1.18%	0.66%	$0.37	0.47		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:31 PM)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 5:21 PM)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 5:23 PM)
											BARRON'S: Bottom Feeder: In Fishing For Small-cap Value, Money Manager Casts For Clues From Insiders (Dow Jones Commodities Service 11:10 PM)
											BARRON'S: Bottom Feeder: In Fishing For Small-cap Value, Money Manager Casts For Clues From Insiders (Dow Jones Capital Markets Report 11:10 PM)
											BARRON'S: Bottom Feeder: In Fishing For Small-cap Value, Money Manager Casts For Clues From Insiders (Dow Jones International News 11:10 PM)
											BARRON'S: Bottom Feeder: In Fishing For Small-cap Value, Money Manager Casts For Clues From Insiders (Dow Jones Energy Service 11:10 PM)
											BARRON'S: Home Groan: Rising Housing Prices Have Kept The Economy Afloat; What Happens If The Bubble Bursts? (Dow Jones Capital Markets Report 11:23 PM)
											BARRON'S: Home Groan: Rising Housing Prices Have Kept The Economy Afloat; What Happens If The Bubble Bursts? (Dow Jones Commodities Service 11:23 PM)
											BARRON'S: Home Groan: Rising Housing Prices Have Kept The Economy Afloat; What Happens If The Bubble Bursts? (Dow Jones International News 11:23 PM)
											BARRON'S: The Trader (Dow Jones Capital Markets Report 11:36 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											BARRON'S: The Trader (Dow Jones Commodities Service 11:36 PM)
											BARRON'S: The Trader (Dow Jones International News 11:36 PM)
04/15/02	$57.48	1,382,300	-1.07%	-0.76%	-1.36%	-1.18%	0.11%	$0.06	0.08		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:30 PM)
04/16/02	$59.52	2,004,400	3.55%	2.35%	2.13%	1.90%	1.65%	$0.95	1.19		Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 12:32 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:30 PM)
04/17/02	$60.70	4,668,400	1.98%	-0.20%	0.47%	0.65%	1.33%	$0.79	0.96		Household Intl 1Q EPS $1.09 (Dow Jones News Service 7:24 AM)
											Household International 1st Quarter EPS $1.09 -2 (Dow Jones International News 9:34 AM)
											Household International 1st Quarter EPS $1.09 -3 (Dow Jones International News 9:41 AM)
											Calendar Of Corporate Conference Calls For April 17 (Dow Jones News Service 10:00 AM)
											Summary Of Corporate Outlooks Wednesday (Dow Jones News Service 3:42 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:30 PM)
04/18/02	$61.20	3,336,400	0.82%	-0.14%	-0.42%	-0.30%	1.13%	$0.68	0.82		Business Brief -- Household International Inc.: First-Period Profit Rose 18% Amid Higher Number of Loans (The Wall Street Journal)
											Stock Rating Reiterations: BRCM WM SEIC ACMR MXT CD TZIX (Dow Jones News Service 10:30 AM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Stock Rating Reiterations: BRCM WM SEIC ACMR MXT CD TZIX (Dow Jones International News 10:45 AM)
											New York Closing Stocks -1- (Dow Jones International News 4:15 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:32 PM)
04/19/02	$62.44	2,614,800	2.03%	0.07%	0.04%	0.14%	1.89%	$1.16	1.37		News on Household Finance Corp. Ltd. Now Under Symbol HI (DJNS 4:09 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:31 PM)
04/21/02											NYSE Short Interest: Forest Oil Corp - Kemet Corp (Dow Jones News Service 11:03 PM)
04/22/02	$60.90	2,803,900	-2.47%	-1.54%	-1.40%	-1.06%	-1.40%	-$0.88	-1.01		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:32 PM)
04/23/02	$61.80	2,567,800	1.48%	-0.61%	-0.51%	-0.30%	1.78%	$1.09	1.29		Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 2:16 PM)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones Energy Service 2:26 PM)
											REPEAT: Summary Of Cos. With Audit-Related Andersen News (Dow Jones Australia and New Zealand Report 2:26 PM)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones International News 2:26 PM)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones Asian Equities Report 2:26 PM)
											Summary Of Cos. With Audit-Related -2- (Dow Jones News Service 2:26 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:30 PM)
04/24/02	$61.36	1,671,400	-0.71%	-0.70%	-0.48%	-0.25%	-0.46%	-$0.28	-0.33		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:31 PM)
04/25/02	$59.18	2,095,700	-3.55%	-0.15%	-0.95%	-0.87%	-2.68%	-$1.64	-1.94	***	American Closing Stocks -1- (Dow Jones International News 4:13 PM)
											American Closing Stocks -1- -7 (Dow Jones International News 4:32 PM)
04/26/02	$59.60	3,505,700	0.71%	-1.38%	-0.50%	-0.13%	0.84%	$0.50	0.61		New Securities Issues (WSJ)
											American Closing Stocks -1- (Dow Jones International News 4:13 PM)
											American Closing Stocks -1- -8 (Dow Jones International News 4:31 PM)
											Higher Rate Spreads Help Offset March Credit Card Losses (Dow Jones Capital Markets Report 4:55 PM)
											Summary of Cos. With Audit-Related Andersen News (Dow Jones News Service 6:19 PM)
											Summary of Cos. With Audit-Related Andersen News (Dow Jones International News 6:19 PM)
											Summary of Cos. With Audit-Related Andersen News (Dow Jones International News 6:20 PM)
											REPEAT: Summary of Cos. With Audit-Related Andersen News (Dow Jones Capital Markets Report 6:21 PM)
04/29/02	$57.25	3,423,500	-3.94%	-1.00%	-0.84%	-0.58%	-3.36%	-$2.00	-2.43	***	New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:31 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
04/30/02	$58.29	2,950,000	1.82%	1.08%	1.30%	1.27%	0.55%	$0.31	0.40		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:30 PM)
05/01/02	$57.70	3,137,200	-1.01%	0.89%	0.55%	0.51%	-1.53%	-$0.89	-1.10		Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 3:00 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:31 PM)
05/02/02	$57.43	7,814,100	-0.47%	-0.17%	1.09%	1.31%	-1.77%	-$1.02	-1.28		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:30 PM)
05/03/02	$57.00	3,503,200	-0.75%	-1.02%	-0.58%	-0.29%	-0.45%	-$0.26	-0.33		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:31 PM)
05/06/02	$55.68	2,323,100	-2.32%	-1.93%	-2.20%	-1.83%	-0.48%	-$0.27	-0.35		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:31 PM)
05/07/02	$54.75	4,012,700	-1.67%	-0.30%	-0.54%	-0.41%	-1.26%	-$0.70	-0.91		Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 1:03 PM)
											New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:30 PM)
05/08/02	$57.11	3,940,000	4.31%	3.76%	2.87%	2.39%	1.92%	$1.05	1.37		New York Closing Stocks -1- (Dow Jones International News 4:14 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											New York Closing Stocks -1- -4 (Dow Jones International News 4:31 PM)
05/09/02	$56.29	2,850,800	-1.44%	-1.45%	-0.97%	-0.62%	-0.82%	-$0.47	-0.59		New York Closing Stocks -1- (Dow Jones International News 4:13 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:31 PM)
05/10/02	$54.25	4,141,000	-3.62%	-1.67%	-1.46%	-1.09%	-2.53%	-$1.43	-1.83	***	New York Closing Stocks -1- (Dow Jones International News 4:14 PM)
											New York Closing Stocks -1- -4 (Dow Jones International News 4:31 PM)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 6:34 PM)
											Stockholders Meetings For Week Of May 13 (Dow Jones News Service 9:13 PM)
											Dividend Meetings For Week Of May 13 (Dow Jones News Service 9:17 PM)
05/12/02											Hot Stocks On 'Wall $treet Week' (Dow Jones News Service 9:23 PM)
											Hot Stocks On 'Wall $treet Week' (Dow Jones International News 9:38 PM)
05/13/02	$55.82	1,739,800	2.89%	1.86%	1.70%	1.54%	1.36%	$0.74	0.98		New York Closing Stocks (Dow Jones International News 5:44 PM)
05/14/02	$56.85	3,338,800	1.85%	2.12%	1.58%	1.36%	0.49%	$0.27	0.35		Today's Calendar - Tuesday, May 14 (Dow Jones News Service 7:00 AM)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 3:36 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											On Top Of The WorldCom: $7 Bln In Corporate Deals Arise (Dow Jones Capital Markets Report 4:53 PM)
											Protesters At Household Intl Mtg Complain About Lending (Dow Jones International News 5:31 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
05/15/02	$55.47	5,091,300	-2.43%	-0.56%	-0.36%	-0.15%	-2.28%	-$1.29	-1.65	***	Treasury Prices Fall on Positive Retail-Sales Data (WSJ)
											Today's Calendar - Wednesday, May 15 (Dow Jones News Service 7:00 AM)
											CFA Busted Convertibles Table: Additions For April (Dow Jones Corporate Filings Alert 8:55 AM)
											News Highlights: CalPERS CEO To Leave This Fall (Dow Jones News Service 4:01 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											NYSE Most Actives- Composite Trades 4-6:30 p.m. EDT (Dow Jones News Service 6:53 PM)
05/16/02	$55.00	4,539,200	-0.85%	0.66%	0.97%	1.00%	-1.85%	-$1.03	-1.34		S&P Draws Up List Of Firms That May Face Cash Shortfall (The Wall Street Journal)
											TSX Venture Pres. Hohol Wants Strategy In Place By July (DJNS 12:32 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
05/17/02	$54.31	5,539,700	-1.25%	0.77%	0.54%	0.53%	-1.79%	-$0.98	-1.29		Adelphia's Problems Weaken Other Cable Bonds (The Wall Street Journal)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 1:44 PM)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 1:46 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
05/20/02	$53.51	3,335,300	-1.47%	-1.32%	-1.79%	-1.53%	0.05%	$0.03	0.04		Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 4:03 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
05/21/02	$52.69	3,119,800	-1.53%	-1.09%	-0.66%	-0.36%	-1.17%	-$0.62	-0.84		Tax Credit Is Financial Bonanza For Big Tax Preparers-NYT (Dow Jones International News 2:33 AM)
											New York Closing Stocks (Dow Jones International News 4:25 PM)
											NYSE Short Interest: Forest Oil Corp - Kemet Corp (Dow Jones

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											News Service 11:03 PM)
05/22/02	$52.85	2,602,500	0.30%	0.57%	0.01%	0.00%	0.31%	$0.16	0.22		New York Closing Stocks (Dow Jones International News 4:23 PM)
											SMARTMONEY.COM: The Data Mine: Finer Side Of Financials (Dow Jones News Service 8:07 PM)
05/23/02	$53.27	2,419,800	0.79%	1.02%	0.96%	0.93%	-0.13%	-$0.07	-0.10		Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 9:51 AM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
05/24/02	$53.07	2,048,300	-0.38%	-1.20%	-0.71%	-0.40%	0.02%	$0.01	0.01		DaimlerChrysler Sets $2B ABS Sale For Post Holiday Week (Dow Jones Capital Markets Report 12:30 PM)
											New York Closing Stocks (Dow Jones International News 4:25 PM)
05/28/02	$52.85	2,658,800	-0.41%	-0.85%	-1.09%	-0.87%	0.46%	$0.24	0.33		Household Intl To Provide GM's Corvette MasterCard (Dow Jones News Service 9:00 AM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
05/29/02	$52.80	2,193,900	-0.09%	-0.64%	-0.01%	0.23%	-0.32%	-$0.17	-0.23		Summary Of Cos. With Audit-Related Andersen News -3- (Dow Jones News Service 3:21 PM)
											New York Closing Stocks (Dow Jones International News 4:23 PM)
											SMARTMONEY.COM: The Data Mine:The Dividend Is Your Friend (Dow Jones News Service 5:44 PM)
											NYSE Most Actives- Composite Trades 4-6:30 p.m. EDT (Dow Jones News Service 6:44 PM)
05/30/02	$51.65	4,146,700	-2.18%	-0.28%	-0.43%	-0.29%	-1.89%	-$1.00	-1.37		Who Are Winners at Andersen's Yard Sale? --- Ernst & Young, Deloitte, KPMG Look to Hire 200 Partners Each; Pricewaterhouse Focuses on Clients (The Wall Street Journal)
											TIP SHEET: Choice Manager Adjusts Strategy To Limit Risk (Dow Jones News Service 3:00 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
05/31/02	$51.15	4,426,600	-0.97%	0.24%	0.36%	0.45%	-1.42%	-$0.73	-1.03		New York Closing Stocks (Dow Jones International News 4:24 PM)
06/03/02	$50.94	2,974,300	-0.41%	-2.47%	-2.16%	-1.68%	1.27%	$0.65	0.91		New York Closing Stocks (Dow Jones International News 4:24 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
06/04/02	$50.69	3,446,300	-0.49%	0.01%	-0.66%	-0.59%	0.10%	$0.05	0.07		New York Closing Stocks (Dow Jones International News 4:24 PM)
											Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 5:35 PM)
06/05/02	$52.19	3,115,200	2.96%	0.89%	0.87%	0.85%	2.11%	$1.07	1.52		New York Closing Stocks (Dow Jones International News 4:23 PM)
06/06/02	$53.60	5,208,200	2.70%	-1.97%	-1.78%	-1.38%	4.08%	$2.13	2.94	+++	New York Closing Stocks (Dow Jones International News 4:23 PM)
06/07/02	$52.87	4,941,700	-1.36%	-0.15%	0.09%	0.24%	-1.61%	-$0.86	-1.16		Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 3:26 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											Summary Of Cos. With Audit-Related Andersen News (DJNS 5:35 PM)
06/10/02	$52.59	2,086,400	-0.53%	0.32%	0.63%	0.71%	-1.24%	-$0.66	-0.90		Credit Window: Alternative Lenders Buoy the Economy But Also Pose Risk --- Manufacturers, Other Nonbanks Fund Ever More Business, With Little (The Wall Street Journal)
											Stock Rating Reiterations: HI ANPI RFMD TUNE (Dow Jones News Service 10:30 AM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
06/11/02	$52.99	4,228,800	0.76%	-1.66%	-1.89%	-1.55%	2.31%	$1.22	1.67	+++	New York Closing Stocks (Dow Jones International News 4:59 PM)
06/12/02	$52.48	3,068,200	-0.96%	0.66%	0.43%	0.43%	-1.39%	-$0.74	-1.01		Summary Of Cos. With Audit-Related Andersen News (Dow Jones News Service 10:11 AM)
											Summary Of Cos. With Audit-Related Andersen News (DJNS 3:26 PM)
											New York Closing Stocks (Dow Jones International News 4:26 PM)
06/13/02	$50.30	2,687,600	-4.15%	-1.04%	-2.16%	-1.97%	-2.18%	-$1.15	-1.57		New York Closing Stocks (Dow Jones International News 4:25 PM)
06/14/02	$50.80	4,104,100	0.99%	-0.22%	0.89%	1.11%	-0.11%	-$0.06	-0.08		New York Closing Stocks (Dow Jones International News 4:26 PM)
06/17/02	$52.74	2,620,700	3.82%	2.88%	4.38%	4.19%	-0.37%	-$0.19	-0.26		New York Closing Stocks (Dow Jones International News 4:24 PM)
06/18/02	$52.75	2,172,700	0.02%	0.10%	0.38%	0.50%	-0.48%	-$0.25	-0.35		New York Closing Stocks (Dow Jones International News 4:23 PM)
06/19/02	$51.55	3,122,900	-2.27%	-1.65%	-1.30%	-0.93%	-1.34%	-$0.71	-0.97		New York Closing Stocks (Dow Jones International News 4:24 PM)
06/20/02	$49.80	3,338,200	-3.39%	-1.34%	-1.72%	-1.44%	-1.96%	-$1.01	-1.41		New York Closing Stocks (Dow Jones International News 4:23 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											NYSE Short Interest: Forest Oil Corp - Kemet Corp (Dow Jones News Service 11:03 PM)
06/21/02	$49.68	2,704,200	-0.24%	-1.70%	-1.03%	-0.64%	0.39%	$0.20	0.28		
06/24/02	$50.00	2,467,000	0.64%	0.37%	0.00%	0.03%	0.61%	$0.30	0.44		Bond Issuers Find Favor, Good Pricing, In Retail Market (Dow Jones Capital Markets Report 3:38 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
06/25/02	$49.00	2,546,700	-2.00%	-1.66%	-0.82%	-0.42%	-1.58%	-$0.79	-1.14		Technology Contract Announcements: SNDT DMCX (Dow Jones News Service 12:06 PM)
											New York Closing Stocks (Dow Jones International News 4:23 PM)
06/26/02	$48.65	4,172,000	-0.20%	-0.26%	-1.94%	-1.91%	1.70%	$0.83	1.22		New York Closing Stocks (Dow Jones International News 4:23 PM)
06/27/02	$49.90	2,206,300	2.57%	1.76%	2.43%	2.34%	0.23%	$0.11	0.16		New York Closing Stocks (Dow Jones International News 4:24 PM)
06/28/02	$49.70	2,476,600	-0.40%	-0.08%	1.10%	1.30%	-1.70%	-$0.85	-1.23		New York Closing Stocks (Dow Jones International News 4:25 PM)
07/01/02	$47.93	2,847,200	-3.56%	-2.13%	-1.59%	-1.14%	-2.42%	-$1.20	-1.74	***	Card Cos 2Q EPS Produce Mixed Bag; Trends Mostly Stable (Dow Jones News Service 12:29 PM)
											New York Closing Stocks (Dow Jones International News 4:25 PM)
07/02/02	$47.60	3,270,200	-0.69%	-2.12%	-1.66%	-1.22%	0.53%	$0.25	0.38		New York Closing Stocks (Dow Jones International News 4:25 PM)
											Credit Card Trust Performance Posts Small May Improvement (Dow Jones Capital Markets Report 6:18 PM)
07/03/02	$48.05	2,336,500	0.95%	0.63%	-0.91%	-1.00%	1.94%	$0.92	1.39		CFA Financials Index - Company Constituents List (Dow Jones Corporate Filings Alert 11:44 AM)
											New York Closing Stocks (Dow Jones International News 4:25 PM)
07/05/02	$50.00	1,396,100	4.06%	3.68%	3.66%	3.25%	0.81%	$0.39	0.58		New York Closing Stocks (Dow Jones International News 5:32 PM)
											New York Closing Stocks (Dow Jones International News 7:42 PM)
07/08/02	$49.54	2,129,500	-0.92%	-1.21%	-0.37%	-0.03%	-0.89%	-$0.45	-0.64		New York Closing Stocks (Dow Jones International News 4:24 PM)
07/09/02	$47.05	4,030,700	-5.03%	-2.47%	-2.72%	-2.28%	-2.75%	-$1.36	-1.98	***	New York Closing Stocks (Dow Jones International News 4:24 PM)
07/10/02	$44.07	5,661,300	-6.33%	-3.39%	-3.20%	-2.60%	-3.74%	-$1.76	-2.68	***	New York Closing Stocks (Dow Jones International News 4:26 PM)
07/11/02	$45.00	4,942,700	2.11%	0.76%	0.95%	0.97%	1.14%	$0.50	0.82		New York Closing Stocks (Dow Jones International News 4:24 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
07/12/02	$46.30	4,043,500	2.89%	-0.64%	-0.85%	-0.66%	3.55%	$1.60	2.57	+++	New York Closing Stocks (Dow Jones International News 4:24 PM)
07/15/02	$45.67	4,319,800	-1.36%	-0.37%	-0.40%	-0.24%	-1.12%	-$0.52	-0.81		New York Closing Stocks (Dow Jones International News 4:26 PM)
07/16/02	$46.10	3,859,600	0.94%	-1.83%	-1.60%	-1.21%	2.15%	$0.98	1.55		New York Closing Stocks (Dow Jones International News 4:23 PM)
07/17/02	$42.37	11,480,800	-8.09%	0.56%	-0.81%	-0.87%	-7.22%	-$3.33	-5.20	***	Household Intl 2Q Net $1.08 A Share (Dow Jones News Service 8:17 AM)
											Household International 2nd-Quarter Net Rose 17% on Loan Demand (Dow Jones Business News 9:42 AM)
											News Highlights: Honeywell Sees 2002 Net $2.25-$2.30/Share (Dow Jones News Service 12:00 PM)
											News Highlights: PSEG Sees 7% Earnings Growth In 2003 (Dow Jones News Service 1:00 PM)
											News Highlights: Aphton Gets Orphan-Drug Status From FDA (Dow Jones News Service 2:00 PM)
											Some Bid Lists For Capital One Card-Backed Bonds Emerge (Dow Jones Capital Markets Report 2:01 PM)
											News Highlights: AT&T Names David Dorman As Next Chmn, CEO (Dow Jones News Service 3:00 PM)
											News Highlights: AT&T Wireless Director Perry Resigns (Dow Jones News Service 4:00 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											News Highlights: IBM Posts 2Q Net 3c/Share On $1.4B Charge (Dow Jones News Service 5:00 PM)
											Recap Of Dow Jones Special Reports For Wednesday, July 17 (Dow Jones News Service 5:01 PM)
											Capital One Shares Fall 40% on Warning From Regulators (Dow Jones Business News 8:34 PM)
07/18/02	$42.41	5,402,900	0.09%	-2.70%	-3.38%	-2.93%	3.02%	$1.28	2.17	+++	Capital One Sees Shares Fall 40% On Fed Warning (The Wall Street Journal)
											Business Brief -- Household International Inc.: Net Jumps 17%

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											as Demand For Consumer Loans Increases (The Wall Street Journal)
											Stock Rating Reiterations: ATYT AMD PLNR INFS ATMI (Dow Jones News Service 10:30 AM)
											New York Closing Stocks (Dow Jones International News 4:25 PM)
07/19/02	$40.72	4,719,300	-3.98%	-3.83%	-2.20%	-1.43%	-2.55%	-$1.08	-1.81	***	New York Closing Stocks (Dow Jones International News 4:24 PM)
07/21/02											NYSE Short Interest: Foster Wheeler - Kemet Corp (Dow Jones News Service 11:03 PM)
07/22/02	$38.84	6,535,000	-4.62%	-3.29%	-3.59%	-3.03%	-1.59%	-$0.65	-1.14		New York Closing Stocks (Dow Jones International News 4:24 PM)
07/23/02	$36.29	6,642,400	-6.57%	-2.69%	-5.36%	-5.05%	-1.52%	-$0.59	-1.07		New York Closing Stocks (Dow Jones International News 4:24 PM)
07/24/02	$39.97	7,900,000	10.14%	5.74%	5.64%	4.93%	5.21%	$1.89	3.65	+++	New York Closing Stocks (Dow Jones International News 4:24 PM)
07/25/02	$38.80	4,955,700	-2.93%	-0.55%	-0.31%	-0.10%	-2.83%	-$1.13	-2.05	***	New York Closing Stocks (Dow Jones International News 4:23 PM)
07/26/02	$37.66	6,676,600	-2.94%	1.70%	2.79%	2.74%	-5.67%	-$2.20	-4.08	***	Saks Inc., Household International In Alliance >SKS HI (Dow Jones News Service 8:31 AM)
											Saks, Household International Enter $1.4 Billion Strategic Alliance (Dow Jones Business News 9:43 AM)
											New York Closing Stocks (Dow Jones International News 4:26 PM)
07/29/02	$39.85	6,143,800	5.82%	5.41%	6.49%	5.91%	-0.09%	-$0.04	-0.07		Business Brief -- Saks Inc.: Household International Buys Most of the Credit-Card Unit (The Wall Street Journal)
											Household Intl Names Executives To New Positions (Dow Jones News Service 9:28 AM)
											Metris Shares Soar as Bankruptcy Bill Creates Positive Market Mood (Dow Jones Business News 12:46 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
07/30/02	$40.30	5,729,700	1.13%	0.43%	0.38%	0.42%	0.71%	$0.28	0.51		Career Journal: Who's News (The Wall Street Journal)
											Corporate Bonds For the Little Guy --- Amid Market Turmoil, Companies Try to Sell Notes to Individual Investors; Weighing the Risks . (WSJ)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											New York Closing Stocks (Dow Jones International News 4:28 PM)
07/31/02	$42.67	4,675,600	5.88%	0.99%	1.51%	1.52%	4.36%	$1.76	3.15	+++	New York Closing Stocks (Dow Jones International News 4:25 PM)
08/01/02	$41.26	3,607,500	-3.30%	-2.95%	-2.26%	-1.68%	-1.62%	-$0.69	-1.17		New York Closing Stocks (Dow Jones International News 4:24 PM)
08/02/02	$39.45	3,225,100	-4.39%	-2.30%	-2.81%	-2.40%	-1.98%	-$0.82	-1.43		UBS Warburg Drops Coverage Of E-Finance Cos. (Dow Jones News Service 8:57 AM)
											New York Closing Stocks (Dow Jones International News 4:23 PM)
08/05/02	$36.98	4,490,700	-6.26%	-3.42%	-3.75%	-3.18%	-3.08%	-$1.22	-2.21	***	New York Closing Stocks (Dow Jones International News 4:24 PM)
08/06/02	$39.72	5,035,600	7.41%	3.00%	3.13%	2.82%	4.59%	$1.70	3.29	+++	New York Closing Stocks (Dow Jones International News 4:24 PM)
08/07/02	$38.28	7,345,300	-3.63%	2.01%	1.48%	1.27%	-4.89%	-$1.94	-3.52	***	Despite Greater Scrutiny, Subprime Lending Grows -Survey (Dow Jones Capital Markets Report 3:10 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
08/08/02	$40.96	5,762,500	7.00%	3.28%	4.90%	4.66%	2.34%	$0.90	1.66	+++	Subprime Lending Stays Strong Despite Fed Warnings, Poll Finds (The Wall Street Journal)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
08/09/02	$40.45	4,929,000	-1.25%	0.36%	1.14%	1.26%	-2.50%	-$1.02	-1.81	***	New York Closing Stocks (Dow Jones International News 4:24 PM)
08/12/02	$39.70	3,062,400	-1.85%	-0.53%	-1.03%	-0.88%	-0.97%	-$0.39	-0.70		New York Closing Stocks (Dow Jones International News 4:25 PM)
08/13/02	$37.80	5,290,900	-4.79%	-2.16%	-2.43%	-2.03%	-2.76%	-$1.10	-1.99	***	Leading the News: Big Banks to Expense Stock Options --- Insurers, Wall Street Firms Are to Jointly Announce Major Accounting Change (The Wall Street Journal)
											Big Financial Firms Announce Joint Move to Expense Options (Dow Jones Business News 12:57 AM)
											Leading Fincl Svcs Firms To Expense Employee Stk Options (Dow Jones News Service 10:27 AM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 12:08 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
08/14/02	$38.09	18,659,600	0.77%	4.01%	3.74%	3.26%	-2.49%	-$0.94	-1.77	***	Household Backs Outlook For Rest Of Year (Dow Jones News Service 7:28 AM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Fitch Affirms Household Intl At 'A' (Dow Jones News Service 9:14 AM)
											Hot Stocks To Watch: HI AGRA AMAT EE AVA PFE (Dow Jones News Service 9:35 AM)
											HOT STOCKS TO WATCH -2 (Dow Jones News Service 9:48 AM)
											Moody's Affirms Household Intl, Subsidiaries (Dow Jones Capital Markets Report 10:12 AM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 10:50 AM)
											Household International Lowers Restates Past Profits by $386 Million (Dow Jones Business News 11:22 AM)
											CORRECT: Household Intl Originally Reported 1H EPS $2.17 (Dow Jones News Service 1:16 PM)
											Corporate Bonds Lag Treasurys In Highly Illiquid Trade (Dow Jones Capital Markets Report 1:17 PM)
											As SEC Deadline Nears, Some Cos Restate, Wait To Certify (Dow Jones News Service 1:48 PM)
											As SEC Deadline Nears, Some Cos Restate, Wait To Certify (Dow Jones Corporate Filings Alert 2:02 PM)
											News Highlights: Eli Lilly Gets Dept of Justice Subpoena (Dow Jones News Service 4:00 PM)
											NYSE Most Actives 9:30-4:00 Composite Trade (Dow Jones News Service 4:17 PM)
											New York Closing Stocks (Dow Jones International News 4:25 PM)
											US Stks Surge On Futures Buying, Relief Over Certifications (Dow Jones News Service 4:40 PM)
											News Highlights: UAL Preparing For Possible Chapter 11 (Dow Jones News Service 5:01 PM)
											Recap Of Dow Jones Special Reports For Wednesday, Aug 14 (Dow Jones News Service 5:07 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											SEC Flooded With CEO, CFO Certifications, But No Firm Tally (Dow Jones News Service 6:40 PM)
											SEC Flooded With CEO, CFO Certifications, But No Firm Tally (Dow Jones Business News 6:55 PM)
08/15/02	$39.60	6,311,400	3.96%	1.16%	1.07%	1.01%	2.96%	$1.13	2.14	+++	Taking the Pledge: Household Revises Accounting Of Some Credit-Card Pacts (The Wall Street Journal)
											Taking the Pledge: Restatements Trickle In (The Wall Street Journal)
											Wal-Mart, Exxon, Microsoft Post Gains as Stocks Rebound (The Wall Street Journal)
											Under Gun From SEC, Bristol, Others Divulge Accounting Issues (The Wall Street Journal)
											WSJ.COM What's News: Business News From The US (Dow Jones International News 12:10 AM)
											EUROPEAN MORNING BRIEFING: Relief On Wall Street (Dow Jones International News 1:00 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 9:08 AM)
											WSJ.COM What's News - Business and Finance For Aug. 15 (Dow Jones News Service 9:15 AM)
											Stock Rating Reiterations: URBN TOO ADI AFC TTIL (Dow Jones News Service 10:30 AM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 11:14 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 12:03 PM)
											WSJ.COM What's News - Business and Finance For Aug. 15 (Dow Jones News Service 12:15 PM)
											Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 12:22 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											What's News - Business and Finance For Aug. 15 (Dow Jones Business News 12:30 PM)
											New York Closing Stocks (Dow Jones International News 4:23 PM)
											WSJ.COM What's News - Business and Finance For Aug. 15 (Dow Jones News Service 4:45 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:23 PM)
											What's News - Business and Finance For Aug. 15 (Dow Jones Business News 5:27 PM)
											Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 5:27 PM)
08/16/02	$37.54	6,467,700	-5.20%	-0.15%	-0.65%	-0.55%	-4.66%	-$1.84	-3.37	***	The Economy: Firms Rush to Meet Deadline By SEC to Certify Statements (The Wall Street Journal)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 9:10 AM)
											Status Of Co CEO, CFO Certifications Required By SEC - 2 (Dow Jones Corporate Filings Alert 10:38 AM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 11:03 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 12:08 PM)
											Trio Of Certification Standards Has Executives Guessing (Dow Jones Corporate Filings Alert 12:40 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											Status Of Co. CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:13 PM)
											Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 5:18 PM)
08/19/02	$37.75	7,094,200	0.56%	2.37%	2.67%	2.47%	-1.91%	-$0.72	-1.37		Hot Stocks To Watch In Barron's: PBI HI GE CEFT CAKE (Dow Jones News Service 8:21 AM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 9:35 AM)
											Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 10:14 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 12:02 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 12:09 PM)
											Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 12:10 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:06 PM)
											Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 5:10 PM)
											Household International Target Of Shareholder Suit (Dow Jones News Service 5:22 PM)
08/20/02	$36.75	4,331,200	-2.65%	-1.39%	-1.50%	-1.19%	-1.45%	-$0.55	-1.05		Status Of CEO, CFO Certifications Required By SEC (Dow Jones News Service 9:19 AM)
											Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 9:49 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 12:01 PM)
											Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 12:11 PM)
											New York Closing Stocks (Dow Jones International News 4:23 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:01 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 5:05 PM)
											No Drive In Park For Household's $1.2B Auto-Backed Bonds (Dow Jones Capital Markets Report 6:11 PM)
08/21/02	$37.15	3,254,700	1.09%	1.28%	0.45%	0.32%	0.77%	$0.28	0.55		Status Of CEO, CFO Certifications Required By SEC (Dow Jones News Service 9:02 AM)
											Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 9:29 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 12:02 PM)
											Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 12:10 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:09 PM)
											Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 5:16 PM)
											REPEAT:Status Of CEO, CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 6:12 PM)
											NYSE Short Interest: Fortune Brands - Kemet Corp (Dow Jones News Service 11:03 PM)
08/22/02	$40.65	5,621,800	9.42%	1.41%	1.25%	1.16%	8.27%	$3.07	5.97	+++	Status Of CEO, CFO Certifications Required By SEC (Dow Jones News Service 9:00 AM)
											Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 10:02 AM)
											Stock Rating Reiterations: OSI ALOY HUG WB BGFV HUG WB (Dow Jones News Service 10:30 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 12:14 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 12:27 PM) Table Of Companies Expensing Stock Options (Dow Jones News Service 4:14 PM) US Stocks Notch Another Victory; DJIA Back Over 9000 (Dow Jones News Service 4:20 PM) New York Closing Stocks (Dow Jones International News 4:24 PM) Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 4:45 PM) Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 5:05 PM)
08/23/02	$37.80	3,381,100	-7.01%	-2.26%	-2.05%	-1.60%	-5.41%	-$2.20	-3.90	***	General Motors, Microsoft Gain As Many Blue Chips Show Spark (The Wall Street Journal) Status Of CEO, CFO Certifications Required By SEC -3 (Dow Jones News Service 9:01 AM) Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones Corporate Filings Alert 10:00 AM) Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 12:01 PM) New York Closing Stocks (Dow Jones International News 4:24 PM) Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM) Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:01 PM)
08/26/02	$39.08	4,080,500	3.39%	0.76%	1.20%	1.23%	2.16%	$0.82	1.56		Status Of CEO, CFO Certifications Required By SEC (Dow Jones News Service 9:27 AM) Status Of CEO, CFO Certifications Required By SEC (Dow Jones News Service 12:05 PM) New York Closing Stocks (Dow Jones International News 4:24 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:01 PM)
08/27/02	$37.70	5,019,200	-3.53%	-1.38%	-0.82%	-0.47%	-3.06%	-$1.19	-2.21	***	New York Closing Stocks (Dow Jones International News 4:23 PM)
											US Stocks Weakened By Worrisome Consumer Data; DJIA Off 1% (Dow Jones News Service 4:36 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:00 PM)
08/28/02	$36.80	4,770,000	-2.39%	-1.81%	-1.92%	-1.56%	-0.82%	-$0.31	-0.59		Lastest Data on Consumer Mood Hurt Retailers Costco, Kohl's (The Wall Street Journal)
											Household Intl Reports Completion Of Audit By KPMG LLP (Dow Jones News Service 8:47 AM)
											News Highlights: Office Depot Confirms Year Guidance (Dow Jones News Service 9:00 AM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 4:42 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
08/29/02	$36.38	3,636,500	-1.14%	0.00%	0.33%	0.46%	-1.60%	-$0.59	-1.16		New York Closing Stocks (Dow Jones International News 4:23 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Status Of CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:00 PM)
08/30/02	$36.11	2,523,800	-0.74%	-0.18%	0.24%	0.40%	-1.15%	-$0.42	-0.83		New York Closing Stocks (Dow Jones International News 4:23 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 4:59 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
09/03/02	$33.36	3,921,100	-7.62%	-4.15%	-4.90%	-4.25%	-3.36%	-$1.21	-2.39	***	New York Closing Stocks (Dow Jones International News 4:23 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Status Of CEO, CFO Certifications Required By SEC -3 (Dow Jones News Service 5:01 PM)
09/04/02	$34.40	4,705,200	3.12%	1.76%	1.79%	1.66%	1.46%	$0.49	1.05		New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Status Of Company CEO,CFO Certifications Required By SEC (Dow Jones News Service 5:50 PM)
09/05/02	$33.36	4,710,600	-3.02%	-1.59%	-1.45%	-1.11%	-1.92%	-$0.66	-1.38		Household CEO Says Loan Losses Will Continue To Rise (Dow Jones News Service 2:52 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:06 PM)
09/06/02	$33.95	3,820,100	1.77%	1.69%	1.42%	1.28%	0.49%	$0.16	0.35		Citigroup Confirms Settlement Discussions With FTC on Alleged Predatory Lending (Dow Jones Business News 12:53 AM)
											Citigroup CFO Confirms Settlement Talks With FTC (Dow Jones News Service 10:51 AM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
09/09/02	$36.33	3,861,500	7.01%	1.02%	1.59%	1.60%	5.41%	$1.84	3.91	+++	New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Calendar Of Investment-Grade Debt: Teck Cominco $200M 10Y (Dow Jones Capital Markets Report 5:05 PM)
09/10/02	$35.15	3,756,000	-3.25%	0.74%	-0.79%	-0.88%	-2.37%	-$0.86	-1.70	***	New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:14 PM)
											Calendar Of Investment-Grade Debt: Freddie Mac $4B 5Y (Dow Jones Capital Markets Report 5:56 PM)
09/11/02	$35.43	1,887,600	0.80%	-0.01%	-0.40%	-0.31%	1.11%	$0.39	0.80		Anniversary of 9/11 Slows Bond Sales --- Treasurys Rise, As Investors Seek Their Relative Safety; Jefferson Smurfit Sells Notes (The Wall Street Journal)
											New York Closing Stocks (Dow Jones International News 4:23 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
09/12/02	$33.85	3,645,500	-4.46%	-2.47%	-2.74%	-2.30%	-2.16%	-$0.77	-1.56		Household Intl Under Washington State Probe - NY Post (Dow Jones International News 5:46 AM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											US Stocks Can't Escape New Uncertainties, Economic Fears (Dow Jones News Service 4:39 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Overnight Market Commentary (Dow Jones International News 5:45 PM)
09/13/02	$34.67	3,133,000	2.42%	0.33%	0.68%	0.77%	1.65%	$0.56	1.20		Maytag, La-Z-Boy Post Losses Amid Dismal Data, Uncertainty (The Wall Street Journal)
											New York Closing Stocks (Dow Jones International News 4:23 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
09/16/02	$33.59	2,983,600	-3.12%	0.15%	-0.20%	-0.13%	-2.98%	-$1.03	-2.16	***	New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Status Of CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:29 PM)
09/17/02	$29.52	9,053,100	-12.12%	-1.97%	-2.09%	-1.71%	-10.41%	-$3.50	-7.50	***	How to Get Free Money: Use Plastic --- Credit Cards Lure Customers With 0% Cash Advances, But Watch Out for High Fees (The Wall Street Journal)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											NYSE Issues, 4 pm Net Change Percentage Gainers & Losers (Dow Jones News Service 5:25 PM)
											Status Of CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:44 PM)
09/18/02	$29.85	10,493,800	1.12%	-0.46%	-0.89%	-0.74%	1.86%	$0.55	1.35		New York Closing Stocks (Dow Jones International News 4:23 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Status Of CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:50 PM)
09/19/02	$29.25	5,997,000	-2.01%	-3.00%	-3.50%	-3.00%	0.99%	$0.29	0.71		New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Status Of CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:37 PM)
											NYSE Short Interest: Forest Oil Corp - Kemet Corp (Dow Jones News Service 11:03 PM)
09/20/02	$29.05	5,543,900	-0.68%	0.25%	-0.31%	-0.28%	-0.41%	-$0.12	-0.29		New York Closing Stocks (Dow Jones International News 4:23 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Status Of CEO, CFO Certifications Required By SEC -3 (Dow Jones News Service 5:06 PM)
09/23/02	$27.61	6,619,600	-4.96%	-1.38%	-0.11%	0.28%	-5.24%	-$1.52	-3.77	***	Finance Co. Bonds Slide Despite 41-Yr Low In Tsy Yields (Dow Jones Capital Markets Report 2:22 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											US Corporates: Issuance Stalls, Finance Spreads Widen (Dow Jones Capital Markets Report 4:45 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Status Of CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:26 PM)
09/24/02	$27.55	6,765,900	-0.22%	-1.72%	-2.19%	-1.86%	1.64%	$0.45	1.18		Agency Bonds Are Facing Pressure --- Foreign Institutional Sales, Doubts About Fannie Mae Contribute to Volatility (The Wall Street Journal)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Status Of CEO, CFO Certifications Required By SEC (Dow Jones News Service 5:00 PM)
09/25/02	$28.15	4,437,100	2.18%	2.49%	2.13%	1.86%	0.31%	$0.09	0.23		CFA Financials: Monthly Insider Review For August (Dow Jones Corporate Filings Alert 11:09 AM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
09/26/02	$29.28	5,158,000	4.90%	1.83%	3.00%	2.93%	1.97%	$0.55	1.42		New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
09/27/02	$27.64	6,488,000	-5.60%	-3.22%	-3.03%	-2.45%	-3.15%	-$0.92	-2.26	***	New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Service 5:00 PM)
											NYSE Most Actives- Composite Trades 4-6:30 p.m. EDT (Dow Jones News Service 6:43 PM)
09/30/02	$28.31	5,179,400	2.42%	-1.45%	0.41%	0.85%	1.57%	$0.44	1.13		New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
10/01/02	$28.40	3,740,800	0.32%	4.01%	4.44%	4.01%	-3.70%	-$1.05	-2.63	***	New York Closing Stocks (Dow Jones International News 4:25 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
10/02/02	$27.32	4,395,800	-3.80%	-2.35%	-3.85%	-3.50%	-0.30%	-$0.09	-0.21		New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
10/03/02	$26.60	4,214,400	-2.64%	-1.07%	-4.13%	-4.08%	1.44%	$0.39	1.01		Cash-Rich Microsoft Tempts Buyers With Financing Deals (Dow Jones News Service 9:57 AM)
											New York Closing Stocks (Dow Jones International News 4:25 PM)
											US Stocks Fall, With The Nasdaq Hitting A Six-Year Low (Dow Jones News Service 4:28 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
10/04/02	$24.66	5,539,800	-7.29%	-2.23%	-2.94%	-2.55%	-4.74%	-$1.26	-3.41	***	Household International Inc. May Be Near Large Settlement (The Wall Street Journal)
											Household International May Forge Settlement on Subprime Lending Practices (Dow Jones Business News 12:31 AM)
											News Highlights: Fastenal Sells DIY Opers To Hillman Grp (Dow Jones News Service 8:01 AM)
											Hot Stocks To Watch: HI LH FDRY MONE WDHD (Dow Jones News Service 8:37 AM)
											News Highlights: US Sept Unemployment Rate 5.6% (Dow Jones News Service 9:01 AM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											HOT STOCKS TO WATCH -2- (Dow Jones News Service 9:25 AM)
											CFA Financials: Monthly Insider Review For September (Dow Jones Corporate Filings Alert 10:26 AM)
											New York Closing Stocks (Dow Jones International News 4:25 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
10/07/02	$23.25	6,894,300	-5.72%	-1.90%	-3.31%	-3.03%	-2.69%	-$0.66	-1.93	***	Table Of Companies Expensing Stock Options (Dow Jones News Service 8:00 AM)
											Credit Cards 3Q Results Mixed; Focus On New Regulations (Dow Jones News Service 11:06 AM)
											Hot Stocks -2: S SPWX AZPN BLI OMCL (Dow Jones News Service 2:35 PM)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											US Stks Drop Again; Indicators Of A Bottom Don't Line Up (Dow Jones News Service 4:44 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
10/08/02	$23.58	7,114,000	1.42%	1.70%	4.14%	4.18%	-2.76%	-$0.64	-1.96	***	Microsoft Uses Cash for Financing (The Wall Street Journal)
											Sears Falls on Profit Warning As Stocks Drop in Choppy Day (The Wall Street Journal)
											New York Closing Stocks (Dow Jones International News 4:24 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
10/09/02	$21.00	7,488,700	-10.94%	-2.72%	-4.34%	-3.95%	-6.99%	-$1.65	-4.98	***	New York Closing Stocks (Dow Jones International News 4:26 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
10/10/02	$26.30	14,595,700	25.24%	3.50%	5.50%	5.25%	19.99%	$4.20	14.13	+++	New York Closing Stocks (Dow Jones International News 4:28 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											NYSE Issues, 4 pm Net Change Percentage Gainers & Losers (Dow Jones News Service 5:27 PM)
10/11/02	$28.20	21,932,600	7.22%	3.91%	5.02%	4.65%	2.58%	$0.68	1.83	+++	Household May Pay $500 Million Over `Predatory' Loan Practices (The Wall Street Journal)
											Household Intl To Pay $484M Fine In Lending Case (Dow Jones International News 12:10 AM)
											Household to Pay Up to $484 Million To Settle 'Predatory' Loan Charges (Dow Jones Business News 12:25 AM)
											Australia Corp Bonds: Severe Volatility And More To Come (Dow Jones International News 2:20 AM)
											News Highlights: Lucent To Take $1B Restructuring Charge (Dow Jones News Service 8:01 AM)
											News Highlights: Lucent To Take $1B Restructuring Charge (Dow Jones International News 8:03 AM)
											Household Intl To Host Conference Call On Oct 11 (Dow Jones News Service 8:22 AM)
											Hot Stocks To Watch: LU JNPR HI C (Dow Jones News Service 8:33 AM)
											News Highlights: Nortel Puts 3Q Rev In Line With Views (Dow Jones News Service 9:01 AM)
											News Highlights: Nortel Puts 3Q Rev In Line With Views (Dow Jones International News 9:02 AM)
											HOT STOCKS TO WATCH -2- (Dow Jones News Service 9:15 AM)
											What's News - Business and Finance for October 11 (Dow Jones Business News 9:50 AM)
											WSJ.COM/Heard On The Net: H&R Block Makes A Bet On Loans (Dow Jones News Service 9:51 AM)
											Corporate Bond Market Tracks Equities To Broad Gains (Dow Jones Capital Markets Report 10:44 AM)
											Household Leads High-Grade Bond Mkt In Sharp Rebound (Dow

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Jones Capital Markets Report 10:51 AM)
											Mich. Office Of Fincl/Insur Svcs: Household Intl Settles (Dow Jones News Service 10:59 AM)
											News Highlights: Bank Of America Slashing 190 Jobs (Dow Jones News Service 11:02 AM)
											News Highlights: Bank Of America Slashing 190 Jobs (Dow Jones International News 11:10 AM)
											Household Intl Reaches Historic Consumer Protection Pact (Dow Jones News Service 11:46 AM)
											News Highlights: $50M Bail Package OK'd For Tyco's Ex-CFO (Dow Jones News Service 12:01 PM)
											WSJ.COM What's News - Business and Finance For Oct. 11 (Dow Jones News Service 12:15 PM)
											Household Intl:Business Changes To Cost 10c/Share In '03 (Dow Jones News Service 12:23 PM)
											What's News - Business and Finance For October 11 (Dow Jones Business News 12:30 PM)
											S&P Cuts Ratings On Household Intl, Units (Dow Jones Capital Markets Report 12:45 PM)
											News Highlights: S&P Cuts Ratings On Household Intl, Units (Dow Jones News Service 1:01 PM)
											News Highlights: S&P Cuts Ratings On Household Intl,Units (Dow Jones International News 1:01 PM)
											News Highlights: AT&T Gets Favorable Tax Ruling On Spinoff (Dow Jones News Service 2:00 PM)
											US Corporates: Household Leads Rally After Long Slide (Dow Jones Capital Markets Report 2:43 PM)
											News Highlights: Sirius Satellite Missed Sept Debt Payment (Dow Jones News Service 3:01 PM)
											News Highlights: Isle Of Capri Withdraws 4M-Share Offer (Dow Jones News Service 4:02 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											NYSE Most Actives 9:30-4:00 Composite Trades (Dow Jones News Service 4:22 PM)
											New York Closing Stocks (Dow Jones International News 4:28 PM)
											US Stks Break 6-Week Losing Streak; GE Powers Dow Friday (Dow Jones News Service 4:41 PM)
											WSJ.COM What's News - Business and Finance For Oct. 11 (Dow Jones News Service 4:47 PM)
											News Highlights: Raytheon Reaffirms 3Q Views For Cont Ops (Dow Jones News Service 5:00 PM)
											Table Of Companies Expensing Stock Options (Dow Jones News Service 5:00 PM)
											Recap Of Dow Jones Special Reports For Friday, Oct. 11 (Dow Jones News Service 5:02 PM)
											Surprise Rally in Stocks Hurls Treasurys Lower (Dow Jones Business News 5:21 PM)

Note: Predicted and residual returns were calculated using the equation: $R_{Household} = 0.00112 + -0.20929 \times R_{S\&P500} + 1.06738 \times R_{Financials}$, were $R_{Household}$ is Household's daily stock return, $R_{S\&P500}$ is the daily return of the S&P 500 index, and $R_{Financials}$ is the daily return of the S&P 500 Financials index. This equation was estimated using an estimation period of November 15, 2000 - November 14, 2001.

Sources: Fischel Report Exhibit 49; Any additional *Wall Street Journal* and *Dow Jones News Service* headlines from Factiva.

Exhibit 2

Bates Number Ranges

	Date	Beginning Bates #	Ending Bates #
[1]	January 11, 2002	DF0000001	DF0000594
[2]	January 28, 2002	DF0000595	DF0001339
[3]	February 6, 2002	DF0001340	DF0002165
[4]	February 21, 2002	DF0002166	DF0002612
[5]	April 25, 2002	DF0002613	DF0003151
[6]	April 29, 2002	DF0003152	DF0003732
[7]	May 10, 2002	DF0003733	DF0004177
[8]	May 15, 2002	DF0004178	DF0004862
[9]	July 1, 2002	DF0004863	DF0005454
[10]	July 9, 2002	DF0005455	DF0005884
[11]	July 10, 2002	DF0005885	DF0006208
[12]	July 17, 2002	DF0006209	DF0006803
[13]	July 19, 2002	DF0006804	DF0007362
[14]	July 25, 2002	DF0007363	DF0008062
[15]	August 5, 2002	DF0008063	DF0008546
[16]	August 7, 2002	DF0008547	DF0009028
[17]	August 9, 2002	DF0009029	DF0009511
[18]	August 13, 2002	DF0009512	DF0010913
[19]	August 23, 2002	DF0010914	DF0011574
[20]	September 10, 2002	DF0011575	DF0011962
[21]	September 16, 2002	DF0011963	DF0012387
[22]	September 17, 2002	DF0012388	DF0012819
[23]	September 27, 2002	DF0012820	DF0013235
[24]	October 1, 2002	DF0013236	DF0013611
[25]	October 7, 2002	DF0013612	DF0014250
[26]	October 8, 2002	DF0014251	DF0014765
[27]	October 9, 2002	DF0014766	DF0015167

Exhibit 3

DOW JONES

Business Wire
A Berkshire Hathaway Company

HD **Fitch Affirms Household Int'l, Lowers HFC, Outlook To Neg**

WC 900 words

PD 11 January 2002

ET 14:08

SN Business Wire

SC BWR

LA English

CY

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LP

NEW YORK--(BUSINESS WIRE)--Jan. 11, 2002--Fitch affirms all its outstanding ratings on Household International, Inc. (Household). Simultaneously, Fitch lowers the senior debt rating of Household Finance Corp. (HFC), a wholly-owned subsidiary of Household, by one notch to 'A' from 'A+', equalizing the rating with that of its parent (For a full list of rating actions see list below).
The 'F1' commercial paper rating of both Household and HFC are affirmed. The long-term Rating Outlook of all entities of Household has been revised to Negative from Stable. Over $65 billion of rated debt is affected by these actions.

TD

The rating action on HFC reflects an evolution in our perspective with respect to ratings distinctions between a parent company and its subsidiaries. The perspective incorporates Fitch belief that due to the parent's typical control of the subsidiary and its resources, timely interest and principal payments are at best in a relatively equal position whether at the holding company or an operating subsidiary. As a result, today's action has equalized the ratings of HFC with Household. The change is not a result of underlying credit changes at HFC.

Household's ratings continue to reflect the strength of the company's diverse consumer lending franchise, solid financial performance over the past several years, and well developed funding profile. With $95.7 billion in managed receivables, Household maintains strong market positions in various consumer lending sectors, including near-prime/subprime real estate secured lending, MasterCard/Visa credit cards, private label credit cards, other unsecured consumer loans, and nonprime automobile lending.

During the last few years, profitability at Household has improved as a result of better operating efficiencies, stable asset quality, particularly in a challenging economy, and an overall strategic realignment of the company's business units during the last five years. Also, on an absolute and reported basis, Household has effectively built its equity base during the past two

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years, raising its tangible equity to tangible managed assets ratio to 7.82% at Sept. 30, 2001, from 6.96% at year-end 1999.

Notwithstanding these favorable developments, today's Rating Outlook revision centers on the growth of Household's real estate secured near-prime/subprime loans and the impact on balance sheet flexibility in times of stress. Fitch's analysis of the finance company universe has increasingly emphasized the importance of firm's demonstrating an ability to maintain continual financial accessibility, particularly in times of economic stress, be it a company specific event or a secular change in a given industry. Methods to gauge accessibility to alternative sources of capital would be participation in secondary market activity, such as whole loan sales and/or asset securitization.

Unlike other asset classes in its portfolio, namely bankcards, private label credit cards, and auto loans, Household has securitized relatively less of its real estate secured and unsecured consumer loan portfolios. Household has not engaged in whole loan sales. Fitch, therefore, believes that Household has not demonstrated adequate market accessibility in these portfolios, which could be tapped in the event of stress. Fitch recognizes that Household has successfully funded itself and has not emphasized securitization or sale of these asset types.

Because of the non-conforming nature of the real estate secured product and consumer finance customer segmentation of the portfolios, Fitch is uncertain if these portfolios would be as attractive as other asset types available to investors in times of potential stress. Accordingly, asset valuations may come under pressure in such scenarios with potential implications for future increased required levels of risk-based capital. As of Sept. 30, 2001, these two portfolio segments combined to account for 58% of Household's total managed receivables portfolio.

Future rating actions will factor in Household's demonstrating successful execution of securitizations of real estate secured loans in the future. Also, Fitch will monitor the company's commitment to continue building capital ratios to appropriate levels given its existing risk profile. If these actions are effectively demonstrated, the Rating Outlook could be revised back to Stable in the upcoming year.

Ratings Affirmed With Rating Outlook Revised to Negative:

Household International, Inc.

-- Senior debt 'A';

-- Subordinated debt 'A-';

-- Preferred stock 'A-';

-- Commercial paper 'F1'.

Household Finance Corp.

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-- Commercial paper 'F1'.

Household Capital Trust I-VI (1)

-- Preferred stock 'A-'.

Household Bank, FSB (1)

-- Certificates of deposit 'A+';

-- Senior debt 'A';

-- Short-term debt 'F1';

-- Individual Rating 'B'.

Household Bank (Nevada) N.A. (2)

-- Short-term debt 'F1';

-- Individual 'B'.

HFC Bank plc (1) (2)

-- Euro-medium-term notes 'A';

-- Commercial paper 'F1';

-- Individual 'B';

-- Support '3'.

Household Bank International Netherlands BV

-- Senior notes(1) 'A'.

Ratings Lowered, Rating Outlook Revised to Negative:

Household Finance Corp.

-- Senior debt to 'A' from 'A+';

-- Subordinated debt to 'A-' from 'A';

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-- Preferred stock to 'A-' from 'A'.

Household Bank (Nevada) N.A. (2)

-- Senior debt to 'A' from 'A+'.

Household Financial Corp., Ltd.

-- Senior debt(2) to 'A' from 'A+';

-- Senior debt shelf(2) to 'A' from 'A+'.

-- (1) Guaranteed by Household International, Inc.

-- (2) Guaranteed by Household Finance Corp.

CT

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14:08 EST JANUARY 11, 2002

CO hfc : HSBC Finance Corp

IN i81501 : Credit Types/Services | i8150105 : Consumer Lending | ibnk : Banking/Credit

RE cana : Canada | caon : Ontario | namz : North America | usa : United States | usc : Midwest U.S.

AN Document bwr0000020020111dy1b00ecq

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Exhibit 4

CREDIT SUISSE | FIRST BOSTON

CREDIT SUISSE FIRST BOSTON LTD.

High Grade Credit Research — Americas 15 January 2002

Market Flash: *Finance Companies*

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Household International (Buy)—Headlines Hang Over Name

- We Think Acquisition of Providian Highly Unlikely
- Fitch Outlook Change Unwarranted, In Our View

Household International is having a difficult run of things of late. In December, both *Barron's* and *Business Week* highlighted research that raised questions (overblown, in our view) about the company's accounting standards. Thursday, press reports indicated the company was taking a look at low-rated Providian Financial (Hold). And Friday, word came out that Fitch had changed the outlook on its HI rating to Negative from Stable, as part, it seems, of its Negative outlook for the broader consumer finance business.

Let's go through last week's developments and try to put things in perspective.

Acquisition of Providian—Household and CitiFinancial (the merged successor to the former Associates First Capital and Commercial Credit) are the two 800-pound gorillas in the consumer finance business. We think investors should expect that almost any consumer portfolio or business of any size would be marketed to them. Will they take a look? Sure, it never hurts to take a look at a competitor's business, especially when it is as large as Providian's.

How interested might Household be? Not very, in our opinion. Remember, Household exited the undifferentiated Visa/MasterCard business a couple of years ago, which is a big part of Providian's portfolio.

Of course, what Providian is officially looking to sell is $3 billion of subprime card receivables. Will HI show interest? Although Household has a small subprime card business, management has indicated that "now is not the time to push" into subprime, no doubt referencing the taint subprime assets carry today in the markets (both debt and equity), as well as where we are in the economic cycle. We believe the negative treatment HI received in recent press articles is likely to reinforce that sentiment to Household management.

Still, could HI buy a piece of Providian's business? It's possible, something that management stated publicly in a conference presentation in December. We believe, however, that such a piece would be relatively immaterial and consistent with Household's strategic direction and core competencies. Such an occurrence would not impact our view of the credit. We see a *material* investment in Providian by HI as highly unlikely.

Fitch Revises its Outlook on HI to Negative—In a review of the US consumer finance industry, Fitch revised its industry outlook to Negative from Stable. Although the challenging economic environment is part of the reason, the agency seems to be focusing on what it perceives to be the industry's "aggressive balance sheet management." Specific to HI, the agency cited the company's "growth of [its] real estate secured near-prime/subprime loans and the impact on balance sheet flexibility in times of stress." Fitch is concerned that HI has "securitized relatively less" of these portfolios, and it "has not engaged in whole loan sales." The implication here is that these assets would be only of limited value in terms of providing financial flexibility in times of stress.

Concern that issuers *do not securitize enough* is a novel one from the rating agency perspective (both Moody's and S&P have the opposite view). And while we applaud Fitch's efforts to bring more attention to the funding element in the credit rating equation, we believe they are giving it too much weight in the case of HI.

From our perspective, funding flexibility becomes important (and sometimes, even critical) when a firm's (1) operating performance falls apart and/or (2) "natural" return is subpar. Point #1 is self-explanatory. Point #2 is the business model test—does the business model yield a sufficient return to keep shareholders happy. If it doesn't, managements are forced (assuming cost structures are lean and competition plentiful) to move out on the risk spectrum in order to generate sufficient returns. Let's look at how HI fares on these two tests.

On Point #1, HI seems well positioned. It is set to report what we believe will be their 14th consecutive record quarterly earnings later this week. Its loss rate has performed well within management's expectations and guidance and is easily absorbed within the firm's asset yields. HI offers its products from a competitively advantaged operating platform. Risks are granular and well diversified by geography. We are highly confident that HI's operating performance will remain very strong.

On Point #2, we think HI also excels. We believe it can produce returns on equity of better than 20% without reaching for earnings. Its growth guidance to the Street is relatively modest—13% to 15% earnings per share growth (a portion of which is achieved through share repurchases of *truly* excess capital). It can achieve its earnings guidance, in our opinion, simply by leveraging its core competitive strengths.

We are also a bit puzzled by Fitch's concern that HI's asset-backed access is questionable. In response to the outlook change, HI points out that it has successfully securitized $3.5 billion (23%) of its unsecured portfolio, and (since 1999) $2.2 billion of closed-end real estate loans. HI adds that in 2002, an already planned increase in the use of securitization will be grown further, in order to demonstrate access to the asset-backed market. Quality of earnings will be maintained—no gain on sale will arise from these financings.

So, we believe funding vulnerability at HI is quite low and already factored into current ratings, not only at Fitch, but more importantly, at Moody's and S&P as well.

We reiterate our Buy investment recommendation on HI bonds.

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AMSTERDAM	31 20 5754 890	JOHANNESBURG	27 11 884 67 41	SÃO PAULO	55 11 3841 6000
ATLANTA	1 404 656 9500	LONDON	44 20 7888 8888	SEOUL	82 2 3707 3700
AUCKLAND	64 9 302 5500	MADRID	34 91 423 16 00	SHANGHAI	86 21 6881 8418
BALTIMORE	1 410 223 3000	MELBOURNE	61 3 9280 1666	SINGAPORE	65 212 2000
BEIJING	86 10 6410 6611	MEXICO CITY	52 5 283 89 00	SYDNEY	61 2 8205 4400
BOSTON	1 617 556 5500	MILAN	39 02 7702 1	TAIPEI	886 2 2715 6388
BUDAPEST	36 1 202 2188	MOSCOW	7 501 967 8200	THAILAND	66 2 614 6000
BUENOS AIRES	54 11 4131 2700	MUMBAI	91 22 230 6333	TOKYO	81 3 5404 9000
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FRANKFURT	49 69 75 38 0	PARIS	33 1 40 76 8888	WARSAW	48 22 695 0050
GENEVA	41 22 394 70 00	PASADENA	1 626 395 5100	WASHINGTON DC	1 202 354 2600
HOUSTON	1 713 220 6700	PHILADELPHIA	1 215 851 1000	WELLINGTON	64 4 474 4400
HONG KONG	852 2101 6000	PRAGUE	420 2 210 83111	ZUG	41 41 727 97 00
ISTANBUL	90 212 278 2500	SAN FRANCISCO	1 415 836 7600	ZURICH	41 1 333 55 55

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Exhibit 5

DOW JONES

BARRON'S

HD **Doubting Tyco**

BY By Jonathan R. Laing

WC 939 words

PD 28 January 2002

SN Barron's

SC B

PG 19

LA English

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LP

Jim Chanos finds no dearth of short-selling ideas in the post-Enron stock market. Wall Street's new-found abhorrence of opaque accounting, he says, will hasten the decline in the stocks of a number a firms that are using aggressive accounting methods to boost reported earnings.

TD

Among his current shorts are lenders with large exposures to the sub-prime credit market, including Household International, the consumer-finance giant ("Does It Add Up?" December 3, 2001), as well as Metris and Capital One, both credit-card firms. A rotten economy has exposed their borrower base to hard times, says Chanos, and high lending rates and fat lending margins won't be enough to insulate the firms from rising credit losses. Rapid growth in loan receivables at all three companies, can only mask the rising delinquency rates for so long, he says. The growing deterioration in sub-prime lending, it should be noted, has already laid low other former Chanos shorts, including AmeriCredit, Conseco and Providian. The sector has also engaged in aggressive accounting to burnish current results.

Chanos is also short the stock of Bally Total Fitness. The health-club concern, he says, is being hurt by flattening membership growth and high capital spending requirements to keep club equipment up-to-date. As a result, cash flow, including maintenance capital spending, remains negative even after the company recently slowed its expansion drive.

But his latest jihad is against the industrial- conglomerate Tyco International, which he began shorting late last year in the high 50s. The company's stock is now trading at around 45, hurt by a lowering in its guidance for earnings growth in the fiscal second quarter, ending March 30, 2002, and the Enron-inspired disaffection for companies with complicated financials.

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Chanos argues that the hyper-acquisitive Tyco has used accounting legerdemain to turbocharge earnings growth, which topped 40% annually for the five years through fiscal 2000, and came in at 28% last year. He claims, for example, that that the managements of several firms that Tyco acquired, including medical-supply company US Surgical, electronic-components maker AMP and finance-company CIT Group, all artificially depressed the operating results of their companies in the final months before the deals were completed. This was done by taking numerous charges, slowing down sales and pushing up expenses. As a result, he says, Tyco's operating results were "spring-loaded" for a quarter or two after the acquisition closed, as sales suddenly surged and profit margins exploded.

Chanos also contends that Tyco abused accounting rules by essentially writing down the net asset value to zero of some $30 billion in acquisitions made in the last three years. Thus, the purchase prices were all allocated to goodwill on the balance sheet. This intangible asset was amortized over a 40-year period as compared to, say, property, plant and equipment that must be expensed on the income statement over far shorter depreciation periods. Under new accounting regulations, the earnings hit from goodwill has all but disappeared.

This is the second holy war that Chanos and the other major shorts have waged against Tyco. In late 1999, they raised questions about other aspects of Tyco's acquisition accounting. The stock swooned for a time before smartly recovering in mid-2000 after the SEC gave the company a clean bill of health on the accounting issue. Tyco was only required to make a few minor adjustments to its acquisition reserves and restructuring charges from earlier years.

Barron's published a bullish cover story, "Tyco's Titan" in the April 12, 1999, issue, profiling Tyco's hard-charging chairman Dennis Kozlowski. Among other things, we examined Tyco's complicated financial reporting and concluded that their accounting appeared to pass muster. The company, then and since, has enjoyed strong growth in free cash flow, or cash flow after all required capital spending. That number, which reached nearly $5 billion in fiscal 2001, is a difficult one to fake. The stock ultimately rose to over 60 late last year from a split-adjusted 38 when the Barron's story appeared.

Yet Tyco stunned the investment community last week by announcing plans to break up the company into four pieces: security and electronic components; fire-protection and flow controls; health care and financial services. Moreover, Tyco hopes to cuts its $23 billion debt in its non-finance operations by $11 billion by using proceeds from the initial public offerings of three of the new units and the sale of Tyco's plastics business. Last week, Kozlowski told Barron's that the breakup grew out of management's dissatisfaction with the stock's low price-to-earnings ratio (now below 12 based on fiscal '02 estimates) and a post-Enron need to simplify financial reporting by simplifying business structures. "After being a fast-growing conglomerate over the past decade, it's clear now that we can deliver more value to the shareholder by breaking up," Kozlowski contends.

He puts the breakup value of Tyco at between 75 and 90. The sudden shift in Tyco's management philosophy didn't initially boost the stock,

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however. Late in the week, it was trading around 44, or nearly 21/2 points below where it had stood before the breakup announcement. Chanos says that he sold more Tyco short on the day of the announcement, during which the price initially spiked up more than four points before settling back.

It remains to be seen who's right, Kozlowski or Chanos. We should know within the next year, however, when the breakup is expected to be completed.

CO hfc : HSBC Finance Corp | hwly : Tyco International Ltd | intnth : Enron Creditors Recovery Corp.

IN i1 : Energy | i16 : Electricity/Gas Utilities | i162 : Gas Utilities | i81501 : Credit Types/Services | i8150105 : Consumer Lending | i81502 : Trusts/Funds/Financial Vehicles | i8150211 : Unit Trusts/Mutual Funds | i8396 : Diversified Holding Companies | ibcs : Business/Consumer Services | ibnk : Banking/Credit | iinv : Investing/Securities

NS c15 : Performance | c152 : Earnings Projections | c1521 : Analyst Comment/Recommendation | c17 : Funding/Capital | c171 : Share Capital | c173 : Financing Agreements | c18 : Ownership Changes | c181 : Acquisitions/Mergers/Takeovers | ccat : Corporate/Industrial News | m14 : Commodity Markets | m143 : Energy Markets | m16 : Fund Markets | mcat : Commodity/Financial Market News | ncat : Content Types | npag : Page-One Story

RE namz : North America | usa : United States | use : Northeast U.S. | usnh : New Hampshire | uss : Southern U.S. | ustx : Texas

PUB Dow Jones & Company

AN Document b000000020020126dy1s00015

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Exhibit 6

~~~Breaking News

Household International, Inc.

Not Trading on Fundamentals

ABN·AMRO

Flashnote

USA
Diversified Finl. & Credit Cards

NYSE: HI - $44.710

Buy

February 7, 2002

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Laura E. Kaster, CFA	312/855-6024	laura.kaster@abnamro.com
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Market Profile

52-Week Range	$70 - $46	EPS Growth Rate (3-5 Yrs.)	15%
Avg. Daily Volume	3,437 M	ROAE (LTM)	24.8%
Shares Outstanding	463.2 MM	Debt to Total Capital	90%
Market Capitalization	20,710 MM	Book Value Per Share	$17.71
Floating Market Cap.	20,295 MM	Indicated Dividend/Yield	$0.88/1.97%
Institutional Owner.	70%	Revenue (LTM)	$10,847 MM
Insider Holdings	2%		

Earnings/Share

		1Q/Mar	2Q/Jun	3Q/Sep	4Q/Dec	Fiscal Year	Calendar Year	Calendar P/E Ratio
	2001	$0.91E	$0.93A	$1.07E	$1.17E	$4.08E	$4.08	11.0x
Current:	2002	$1.04E	$1.06E	$1.23E	$1.37E	$4.70E	$4.70	9.5x
Prior:			$1.07E		$1.36E			
	2003	-	-	-	-	$5.35E	$5.35	8.4x

Highlights

- HI's stock has continued to be even weaker than most financials and was down 6% yesterday and is now down 25% over the past month despite reporting a solid, high quality, fourth quarter and reiterating a bright outlook. Bond spreads have also widened materially.
- We have never seen a market with as many different rumors about so many different companies as currently, and we think the rumors are having an effect as evidenced by HI's stock decline and widening of its bond spreads. Concerns around HI primarily involve accounting concerns, which appear to be unfounded, in our opinion.
- Adding fuel the fire, aggressive consumer activist group ACORN is at it again, leading a lawsuit by 3 California residents.
- While we are frustrated and concerned by the price movement, the stream of negative rumors and the lawsuit, and find it difficult to pinpoint a catalyst to reverse the stock chart, we are sticking with the fundamental business trends and are maintaining our Buy rating. HI is to hold a conference call at 9 EST on Thursday, 2/7 to address current issues facing the company.

Summary: Household stock has continued to be weak and has been among a group of stocks with Enronitis. New lawsuit filed by 3 California residents and the ACORN consumer group adds fuel to fire.

HI's stock has continued to be even weaker than most financials and was down 6% yesterday and is now down 25% over the past month despite reporting a solid, high quality, fourth quarter and

reiterating a bright outlook. Bond spreads have also widened materially. The frustrating thing to us is that HI's fundamental trends appear excellent and earnings quality seems to be strong. However, the stock now has at least temporarily been Enronized and nothing the company does operationally seems to matter to the stock price.

HI has access to several funding sources should spreads remain wide. If HI's credit spreads remain wide, look for a higher degree of asset backed funding to be utilized. HI was able to comfortably weather the 1998 spread widening and we believe they should be able to work through current funding challenges.

We have never seen a market with as many different rumors about so many different companies as currently and the rumors are having an effect as evidenced by HI's stock decline and widening of its bond spreads. Rumors around HI involve primarily accounting concerns, which appear to be unfounded, in our opinion. Short-sellers are having a field day. Rumors have legs today and are flying. We have heard speculation of accounting issues, funding issues, management resignations and more for several companies in our group. Just discussing the concerns and refuting them gives even heightened concerns from the investment community.

Adding fuel to the fire, aggressive consumer activist group ACORN is at it again, leading a lawsuit by three California residents, alleging that HI attempted to mislead and defraud customers. ACORN (Association of Community Organizations for Reform Now) has been a thorn in the side of consumer lenders for years. They used to focus on Associates before it was acquired by Citigroup (NYSE: C, $44.00, Buy), but now Household is the biggest fish in the pond and the easiest target so they are under fire. The new lawsuit which was filed yesterday, is in our view clearly going to get some publicity and could negatively effect HI's stock price and/or bond spreads in the short term. Our initial reaction and expectation, is that it will have little to no effect on HI at the end of the day. The lawsuit, by three California residents, alleges that HI misled and defrauded customers by marketing home equity debt consolidation loans as a way to save money. Home equity loans are typically much less expensive than credit card, automobile or other unsecured loans and do typically save money for borrowers. Regarding the lawsuit, ACORN was involved with an Associates lawsuit in 1999, AFS stock was hit on the news and then doubled over the next year. The cost to AFS on the lawsuit turned out to be immaterial.

While we are frustrated and concerned by the stock/bond movement, the stream of negative rumors and now the lawsuit, and find it difficult to pinpoint a catalyst to reverse the stock chart, we are sticking with the fundamental business trends and are maintaining our Buy rating. HI's valuation is now at 8.4x our 2003 estimate, a 40% discount to HI's 13% to 15% growth rate. Fact nearly always wins over fiction, however it may take a while to play out. HI's stock went down to $25 in the fall of 1998 and buyers were rewarded with 100% upside in 12 months. Similar rewards are available to investors today, as we believe HI should move to at least $75 over the next year.

Companies Mentioned: Capital One Financial (NYSE: COF: $44.42, Buy), MBNA (NYSE: KRB, $31.16, Buy) Citigroup (NYSE: C, $44.00, Buy). American Express Company - (NYSE: AXP, $32.90, Add), Metris Companies, Inc. (NYSE: MXT , $13.65, Add), Providian (NYSE: PVN, $3.13, Hold), Enron (NYSE: ENE, $0.29, N/R)

Additional Companies Mentioned: AXP, C, ENE, KRB, MXT, PVN

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Additional information available upon request.

Household International, Inc. Quarterly Financial Information

($ in millions except per share amount)

	1999	2000	1Q 01	2Q 01	3Q 01	4Q 01	2001	1Q 02E	2Q 02E	3Q 02E	4Q 02E	2002E	2003E
Managed Income Statement:													
Finance income	$9,376	$11,703	$3,247	$3,217	$3,305	$3,385	$13,153	$3,529	$3,625	$3,741	$3,872	$14,767	$16,483
Interest expense	3,837	5,213	1,417	1,323	1,281	1,193	5,213	1,239	1,272	1,330	1,373	5,214	6,111
Managed net interest margin	5,539	6,490	1,830	1,894	2,024	2,192	7,941	2,290	2,352	2,411	2,498	9,552	10,373
Provision for credit losses	2,782	3,252	933	935	967	1,184	4,018	1,238	1,300	1,286	1,264	5,089	5,406
Net margin after provision	2,757	3,238	897	960	1,057	1,008	3,922	1,052	1,052	1,125	1,234	4,463	4,967
Other revenue:													
Insurance revenue	535	561	159	159	169	175	662	180	185	191	197	753	840
Investment income	169	174	42	38	42	46	168	48	49	51	53	200	224
Fee income	1,206	1,470	393	396	408	421	1,619	460	449	463	479	1,851	2,067
Securitization-related income	116	243	(26)	23	18	121	136	(87)	47	105	101	166	130
Other income	224	229	162	49	52	59	322	189	58	60	62	369	413
Total other revenue	2,249	2,678	729	666	689	822	2,906	789	788	870	892	3,340	3,674
Total revenue (excl. prov.-memo only)	**7,788**	**9,168**	**2,559**	**2,560**	**2,713**	**3,014**	**10,847**	**3,080**	**3,140**	**3,281**	**3,391**	**12,892**	**14,047**
Total Risk-Adjusted Revenue	5,006	5,915	1,626	1,626	1,746	1,830	6,829	1,841	1,840	1,995	2,127	7,803	8,641
Costs & expenses:													
Salaries & benefits	1,050	1,312	378	387	408	424	1,597	450	462	477	493	1,882	2,101
Sales incentives	145	204	55	74	74	71	273	77	79	82	85	323	360
Occupancy & equip. expense	271	307	84	84	86	84	337	94	96	99	103	393	438
Other marketing expense	370	471	135	129	127	128	519	154	145	150	155	604	672
Servicing & admin.	548	590	193	172	172	172	710	226	201	207	214	848	864
Sub Total - Operating Expenses	2,384	2,883	844	845	868	879	3,437	1,001	983	1,015	1,050	4,050	4,436
Amort. of acqu. intangible & goodwill	144	160	39	38	37	37	151	23	23	23	23	94	94
Policyholders' benefits	258	262	78	73	78	75	303	78	80	83	86	326	364
Total costs and expenses	**2,786**	**3,305**	**961**	**956**	**983**	**991**	**3,891**	**1,103**	**1,087**	**1,121**	**1,159**	**4,470**	**4,894**
Income before taxes	2,221	2,611	666	670	764	839	2,938	739	753	874	967	3,333	3,747
Income taxes	734	910	234	231	260	290	1,015	257	262	304	337	1,160	1,304
Effective tax rate	33.1%	34.9%	35.1%	34.4%	34.0%	34.6%	34.5%	34.8%	34.8%	34.8%	34.8%	34.8%	34.8%
Net income	$1,486	$1,701	$432	$439	$504	$548.90	$1,924	$482	$491	$570	$631	$2,173	$2,443
Preferred dividends	(9.2)	(9.2)	(2.3)	(2.3)	(2.9)	(8.0)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)
Net available to common	$1,477	$1,692	$430	$437	$501	$540.90	$1,921	$479	$489	$568	$628	$2,171	$2,441
Average shares	481.8	476.2	472.0	469.6	467.7	463.2	468.1	463.0	462.6	461.1	459.6	461.5	455.8
YoY Change	-2.9%	-1.2%	-0.4%	-1.6%	-2.1%	-2.7%	-1.7%	-1.9%	-1.5%	-1.4%	-0.8%	-1.4%	-1.2%
Fully diluted EPS	**$3.07**	**$3.55**	**$0.91**	**$0.93**	**$1.07**	**$1.17**	**$4.10**	**$1.04**	**$1.06**	**$1.23**	**$1.37**	**$4.70**	**$5.35**
YOY Growth	55.2%	15.9%	16.4%	16.2%	13.9%	13.4%	15.5%	13.8%	13.6%	14.9%	17.1%	14.6%	13.8%
Fully diluted cash EPS	**$3.36**	**$3.89**	**$0.99**	**$1.01**	**$1.15**	**$1.25**	**$4.43**	**$1.09**	**$1.11**	**$1.28**	**$1.42**	**$4.91**	**$ 5.56**

Source: Company reports and ABN AMRO Incorporated estimates.

Exhibit 7

08:04am EST 7-Feb-02 Deutsche Banc Alex. Brown Inc. (M. Alpert/R. St. Leger/)
HI: Unsubstantiated Claims Continue to Haunt Stock-Strong Buy

Alpert, Mark C. CFA 212-469-8117
St. Leger, Randolf 212-469-7118
Swanberg, Garrett T. 212-469-5017
Deutsche Banc Alex. Brown Inc.

2/7/2002

HOUSEHOLD INTERNATIONAL INC. (HI) "STRONG BUY"
Unsubstantiated Claims Continue to Haunt Stock

Date:	02/06/2002	EPS:	2000A	2001A	2002E
Price:	44.71	1Q	0.78	0.91	1.04
52-Wk Range:	70 - 44	2Q	0.80	0.93	1.08
Ann Dividend:	0.88	3Q	0.94	1.07	1.23
Ann Div Yld:	1.97%	4Q	1.03	1.17	1.35
Mkt Cap (mm):	20,464	FY(Dec.)	3.55	4.08A	4.70
3-Yr Growth:	14%	FY P/EPS	12.6X	11.X	9.5X
		CY EPS	3.55	4.08	4.70
Est. Changed	No	CY P/EPS	12.6X	11.X	9.5X

Industry: Specialty Finance
Shares Outstanding(Mil.): 457.7
Return On Equity (2000) : 25.0%

HIGHLIGHTS:
- The shares of Household International continue to plummet on unsubstantiated claims, in our opinion, of issues with liquidity, accounting, and lawsuits.

- We spoke with several members of management Wednesday evening, including CEO William Aldinger and Bruce Foster, VP Capital Markets, to discuss issues that have recently affected the stock.

- We note that Household will be hosting a conference call Thursday to discuss these issues (number and time to be announced).

- Our 12-month target price is $71, or 15x our 2002 estimate of $4.70. We believe an overemotional market can create buying opportunities. We reiterate our Strong Buy rating.

DETAILS:
The shares of Household International (HI-Strong Buy) continue to plummet on what we believe are unsubstantiated claims of issues with liquidity, accounting, lawsuits -- you name it. The stock closed at $44.70 on 2/6/02 vs. $51.10 on 2/1/02, off 12.5%. Yesterday, it fell $2.80 or 5.9%, to the lowest level since Nov. 2000. Many finance companies, and subprime issuers in particular, have been under pressure for all sorts of reasons. In Household's case, the most recent unsubstantiated claim revolved around commercial paper and liquidity issues. After the close, a consumer advocate group, ACORN, filed a predatory lending suit against Household in California.

We note that Household will be hosting a conference call Thursday to answer

questions (number and time TBA).

We spoke with several members of management Wednesday evening, including CEO William Aldinger and Bruce Foster, VP Capital Markets.

REGARDING CP AND LIQUIDITY

Household issues CP every morning. This morning Household issued 30 day CP at 178 bps, which is 1 bp above GE Capital Corp's (GECC) quote. It issued 150 day CP at 186 bps, also 1 bp over GECC. Household is rated A1/P1. Household has net $6.7 billion of CP outstanding (out of total debt of $75 billion) with an average maturity of 33 days. Its back up bank lines are $10.1 billion, with staggered maturities between 2002 and 2005.

However, we would note that Household's debt spreads have widened significantly. It issued 5 year debt 3 weeks ago at 150 bps over Treasuries. Today, the debt was quoted at between 250-310 bps over Treasuries. This appears, in our opinion, to be related to the unsubstantiated reports and possible arbitrage between other issuer debt. It does not affect Household's margin, as the debt was issued before spreads widened, but it could have an impact if spreads do not return to normal.

REGARDING LAWSUIT

ACORN filed a suit on behalf of three California residents in the Superior Court in California's Alameda County, alleging that Household violates state laws by, among other things, marketing its consolidation loans as a way to save money without fully disclosing fees.

All predatory lending lawsuits must be taken seriously and Household has been at the forefront of taking the "high road," in our opinion. It quickly settled a previous suit in California without admitting wrongdoing, for $12 million and taking corrective actions. We suspect that Household may have become more of a lightning rod for consumer groups as it is the only large public company in the space. Household set up a special advisory board to address lending practices and invited Acorn to express its views -- which Acorn apparently declined. We can't predict the outcome, but we expect Household to take the allegations seriously, without caving in to unreasonable monetary demands.

CONCLUSION

This market is extremely emotional and sensitive. There are serious issues heightened by well-publicized events of Enron and Tyco, among others. Household appears to have been caught up in the maelstrom. We are maintaining our 2002 EPS estimate of $4.70, giving a P/E multiple of 9.5x, or a 43% relative P/E to the S&P 500. The 10 year low was 37% and the average 65%. We believe the negative reaction has been exaggerated, and reiterate our Strong Buy rating. Our target price is $71, or 15x our 2002 estimate, on a one-year horizon.

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Exhibit 8

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Banking Wire

February 21, 2002

SECTION: Pg. 12

ACC-NO: 83133475

LENGTH: 219 words

HEADLINE: HOUSEHOLD GETS RAPPED.

BODY:

California has locked a ball-and-chain around Household International's leg in punishment for cheating the finance company's customers in California.

Household claims it made a mistake. That's what the ailing Providian claimed when the credit card issuer was fined hundreds of millions of dollars for bilking consumers. Only California has picked up on Household, but one must wonder whether the company has made similarmistakes elsewhere in the country.

Under its agreement with California, Household must set aside space in its Pomona office for state regulators, who might pop in at any moment to see what Household is up to.

On top of that, Household agreed to a $12 million settlement of the law-suit brought by the California Department of Corporations, which claimed that Household was illegally overcharging its customers through administration and late fees. Of the $12 million, $3 million was to reimburse Californians, while the other $9 million was a fine for the violations.

Howard Glaser, an ex-lobbyist for the Mortgage Bankers Association, says the Household situation may influence other state regulatorsto crack down on predatory lenders. "It's definitely a wake-up callto some lenders," says Glaser.

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LOAD-DATE: February 20, 2008

Exhibit 9

Household International: Legal Risk to Business Model Increasing

Howard K. Mason
Rick L. Biggs

- Second lawsuit filed by ACORN alleging predatory lending practices
- State laws becoming more rigorous, with federal relief unlikely

Our rating codes are:

O = Outperform
M = Market-Perform
U = Underperform

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Household International: Legal Risk to Business Model Increasing

Stock	5/9 Price	SCB Rating	YTD Rel. Perf.	52-Week Range	EPS 2001	EPS 2002E	EPS 2003E	P/E 2002E	P/E 2003E	Current Yield
HI	$56	M	4%	$43 - $69	$4.10	$4.65	$5.36	12.0x	11.0x	1.6%

Overview

ACORN — a community activist organization — has filed a second complaint against Household International, this time in Illinois, for alleged predatory lending activity. In addition to the recision of loans and actual and punitive damages, the complaint is seeking nationwide class action certification (the complaint previously filed in California is a statewide action).

More plaintiff-friendly state laws provide activists such as ACORN and lobbyists such as AARP increasing opportunities to pursue legal action against Household. For example, just last month, Governor Roy Barnes signed into law the "Georgia Fair Lending Act" containing extensive liability provisions for lenders.

As states like North Carolina, California and Georgia pass progressively more restrictive state laws, lenders face an increasing need for the protection of uniform standards in preemptive federal legislation. However, Senate Banking Committee Chairman Paul Sarbanes has been clear that he will consider federal preemption of state and local laws only under strict circumstances.

While negotiations around federal legislation continue, we expect additional restrictive state laws to be enacted. These will tend to reduce profitability in subprime lending and make lending to some high-risk segments uneconomic (thereby reducing the size of the addressable market). In addition, the new laws increase the risk of settlement costs for new and ongoing complaints.

We continue to expect action against Household by state attorneys general, possibly first in Minnesota. If successful, this will provide further support for the legal strategies of activist organizations such as ACORN.

Another ACORN Lawsuit

The putative class action complaint filed May 2 by the Association of Community Organizations for Reform Now (ACORN) against Household in the Circuit Court of Cook County, Illinois, follows the group's similar complaint filed earlier this year in the Superior Court of the State of California (that complaint has been removed to Federal Court). Both complaints attack the business model for subprime real estate lending at Household, characterizing it as "target, trick, and trap."

The complaints allege that Household "targets" customers who are home equity-rich through data gleaned from the company's credit card businesses and direct-mailing checks that provide immediate access to pre-approved loans. The firm then allegedly "tricks" customers by focusing on lower monthly payments while not disclosing that the overall debt amount and cost will increase because of, for example, up-front fees and credit life insurance that is embedded in the loan. Household then allegedly "traps" customers by selling add-on loans so that a high loan-to-value ratio, combined with prepayment fees, makes it difficult for competitors to offer refinancing alternatives.

In the Illinois complaint, ACORN has included out-of-state plaintiffs from Minnesota and Colorado and is seeking to involve "a class consisting of all individuals *nationwide*" (emphasis added). If such class status is granted, the legal threat to Household will be more serious than that posed by the California complaint, especially since that case was remanded to Federal court. The Illinois complaint notably relies on state law rather than the Home Owners' Equity Protection Act (HOEPA) or other federal laws. By doing so, ACORN has reduced the risk of removal to Federal court.

State Legislation Becoming More Restrictive

The ACORN complaint illustrates that activist organizations are ready to sue Household (despite its announcement of new best practices in February this year) under state laws. These state laws are becoming more restrictive over time (see Exhibit 1). The Georgia Fair Lending Act passed last month is the most restrictive yet. It covers any loans with an APR of 2% or more above a Fannie Mae loan or with points and fees exceeding 3% of the loan and contains extensive liability provisions.

This is part of a trend at state and local levels whereby both the definition of loans under restriction and the restrictions themselves are becoming more rigorous. For example, the 1999 North Carolina act covers those loans with an APR of more than 10 points above comparable-maturity Treasuries[1] (equivalent to about *15.7%* today). The 2001

[1] Later revised to 8 points above comparable-maturity Treasuries.

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California legislation has an APR trigger of 8 points over Treasuries (or about *13.7%*). In contrast, the Georgia act has an APR trigger of just *8.8%* (the maximum of Prime+4, Fannie+2, or Freddie+2).

The latest act (Georgia) not only covers a larger pool of loans, but also imposes many harsher requirements. For example, while credit insurance premiums (a frequent target of activists) are not addressed in the North Carolina law, the California statute allows this product to be financed into existing loans only after a 30-day period, and the Georgia act prohibits financing of the product entirely.

One of the more potentially onerous requirements is the mandate of credit counseling, which allows third parties to advise potential customers whether a loan product offering is suitable, thereby interfering in the sales process. While the North Carolina act requires that prospective borrowers receive credit counseling, and California requires notification advising borrowers to consult with an independent credit counselor, the Georgia act specifies that borrowers must receive certification from a third-party counselor approved by HUD or the state Finance authority.

We expect further state legislation with the recent spate of bill introductions (see Exhibit 2). While industry lobbying has weakened the proposed restrictions in some states (such as Florida and Connecticut), other states (such as Minnesota, New Jersey and New York) are evaluating more

Exhibit 1 Comparison of State Predatory Lending Laws Enacted Over Time

	North Carolina Predatory Lending Law Jul-99	California Residential Mortgage Lending Act Oct-01	Georgia Fair Lending Act Apr-02
Qualifying Criteria for Coverage as High-Cost Loan			
APR Minimum on First Lien	Comparable UST + 8%	Comparable UST + 8%	Greater of (Prime + 4%) or (Fannie/Freddie + 2%)
Memo: Equivalent Current (May 2002) Rate[1]	13.7%	13.7%	8.8%
APR Minimum on Second/Subordinate Lien	(Same as first lien)	(Same as first lien)	Greater of (Prime + 5.5%) or (Fannie/Freddie + 3%)
Memo: Equivalent Current (May 2002) Rate[1]	13.7%	13.7%	10.3%
Points/Fees Minimum	For loans >$20k, 5% For loans <$20k, lesser of 8% or $1,000	6%	3%[2]
Major Restrictions on Covered High-Cost Loans			
Prepayment Penalties	na	Must be less than 6 months of interest payments when sufficient principal remains	Prohibited after 2 years; in first year, max. of 2%; in second year, max. of 1%
Refinancing Limitations ("Loan Flipping")	No points/fees allowed with existing lender	Must provide "tangible net benefit" to borrower	In first 5 years, must provide "tangible net benefit"
Repayment Ability Consideration ("Equity Stripping")	Must be considered; debt/income ratio must be <50%	Must be considered; debt/income ratio must be <55%; data must be verified by 3rd party	Must be considered; debt/income ratio must be <50%
Financing of Credit Insurance Premiums ("Packing")	na	Prohibited for 30 days following origination of loan	Prohibited
Financing of Points/Fees	Prohibits financing of fees for third-party charges	Prohibited	Prohibited
Attachment of Mandatory Arbitration Clauses	na	na	Prohibited
Requirement of Independent Credit Counseling	Mandatory	Notification to borrower only	Mandatory; must be HUD-approved counselor
Balloon Payments	Prohibited (unless payment adjusted for irregular income)	Prohibited for loan terms less than 5 years	Limited to 2x the normal scheduled payment
Negative Amortization	Prohibited	Prohibited	Prohibited
Advance Payments	Prohibited	Prohibited	Limited to 2x the normal scheduled payment
Home Improvement Contracts	Restricted	Restricted, and lender may not pay contractor directly	Restricted, and lender may not pay contractor directly

1 Equivalent rates based on current rates as follows: Comparable UST (5.7% for 20-year), Comparable Fannie/Freddie (6.6%/6.8%), Prime (4.8%).
2 Up to two "discount points" (i.e., 2%) can be excluded from the calculation if the APR is less than 1% above either the comparable Fannie Mae or Freddie Mac rate, equivalent to about 7.6% and 7.8%, respectively).

Source: Legislation and Bernstein analysis.

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limiting bills. We expect a number of these to pass into law.

Limited Chance of Federal Preemption

As each more restrictive state law is enacted, the desire among lenders for a uniform federal standard increases. On May 1, 2002, Senator Sarbanes introduced a bill that would expand anti-predatory lending coverage beyond existing regulations (under HOEPA) and industry-sponsored (AFSA) proposals. Both HOEPA-based regulations and AFSA proposals cover first-lien loans with APRs more than 8 points above comparable-maturity Treasuries (or about *13.7%* today); the Sarbanes bill would lower this threshold to 6 points above Treasuries (or about *11.7%* today). The fee trigger would be lowered from 8% of the loan amount to 5% under the Sarbanes bill. For those loans covered, the bill is also more restrictive, as evidenced by its: (1) prohibition of prepayment penalties after two years, rather than the present five years; (2) limitation of financed fees and points to a maximum of 3% of the loan amount; (3) requirement of credit counseling by a HUD-approved third party, a new requirement; and (4) a new prohibition of mandatory arbitration clauses on loan agreements.

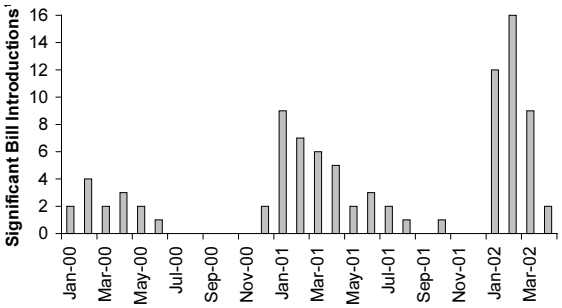
Potential Earnings Impact

At this point, it is not possible to estimate the likely impact on earnings of the changing legal environment. As a result, we are basing our argument for a market-perform rating on Household not on the reduction of EPS estimates below management guidance for growth of 13-15% but on the likelihood of multiple compression to reflect the legal uncertainty. The legal risks are sufficient for Household to have taken a more proactive approach to public relations (including, for example, recent television commercials targeted more at policy-makers than customers). Among other measures, the firm has set up a Consumer Advisory Board, made grants to promote financial literacy, and announced a series of "best practices," including, for example, the discontinuation of single-premium credit life insurance (see Exhibit 3).

To see how these pressures are affecting business economics at Household, we examine the impact of one of the new policies — the limitation on up-front fees to a maximum of 5 points. Household announced this reduction in maximum up-front fees (currently 7.5 points, *de facto*) in February and expects to complete implementation through the branch network by third-quarter 2002. We conclude that management's contention that the best practices have no net cost (because higher APRs will offset lower fees) is incomplete. Our core argument is that the return on customers who go bad is reduced because Household is less buffered by up-front fees. And the return on customers who build payment records is reduced as these customers have a greater incentive to refinance, given higher APRs (because of lower up-front fees). We specifically address the Pay Right Rewards program offering automatic rate reductions of 0.25% (up to a maximum of 3% in total) for each consecutive 12 payments that a customer makes on time.

Under Household's reduced maximum for up-front fees, a borrower's APR must rise if the new practices are to be truly return-neutral. Specifically, the Household rule-of-thumb for pricing is that each

Exhibit 2 Recent State/Local Bill Introductions by Month



1 Includes major revisions or amendments; companion bills (e.g., dual introduction to state House and Senate) excluded.

Source: MBA, American Banker and Bernstein analysis.

Exhibit 3 Timeline of Household Announcements and Surrounding Events

Date	Announcement/Event
2/2/01	HI forms consumer advisory board on responsible lending issues
3/5/01	Associates First (Citigroup) is subject of federal trade commission complaint regarding deceptive practices
6/28/01	Associates announces discontinuation of single-premium credit insurance product
7/11/01	HI announces discontinuation of single-premium credit insurance product
7/19/01	AIG announces discontinuation of single-premium credit insurance product
7/23/01	HI announces best-practice lending initiatives
8/14/01	HI announces grant to promote financial literacy
9/7/01	Associates settles with FTC for $20 million
9/25/01	HI is subject of class action lawsuit in New York filed by AARP
11/14/01	HI is subject of lawsuit filed by California Department of Corporations
1/3/02	HI settles California lawsuit for $12 million
2/6/02	HI is subject of class action lawsuit in California filed by ACORN
2/27/02	HI announces expansion of best-practice lending initiatives
5/1/02	HI is subject of class action lawsuit in Illinois filed by ACORN

Source: Bloomberg L.P. and *American Banker*.

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point up-front is equivalent to approximately 30-40 basis points of APR with the exact amount depending on the expected loan life. With high refinance activity, the current ratio is nearer the high end of this range: Reducing the up-front fee from 7.5 points to 5 points adds approximately 1% to the APR. This increases monthly payments, particularly on loans with a contractual maturity of 15 or 30 years (even though with fewer fees the loan amount is less). As a result, origination volumes will tend to decline, first because of resistance to higher APRs and second because the higher monthly payments reduce loan affordability (and therefore lead to reduced loan sizes, given Household's debt-service-to-income standards).

Household has addressed the sticker shock of higher APRs through its Pay Right Rewards program, which offers automatic rate reductions if borrowers maintain a track record of consecutive on-time payments. This allows Household to quote an APR assuming the borrower qualifies for the full relief offered by the program (even though many borrowers will fail to meet the requirements).[2] The reason is that, in specifying APR calculation rules, the Truth in Lending Act ("TILA") does not take into account the actuarial probabilities that a borrower will receive rate relief. Rather, TILA assumes that borrowers will meet their contractual obligations, including paying on time, and will therefore qualify for rate relief as stipulated in the contract.

Unfortunately, there is no similar finesse for the problem of loan affordability. Therefore, Household would expect lower origination volumes if it indeed increased the APR enough to offset fee reductions. In practice, we believe the firm will take a middle ground by increasing APRs to partially offset the fee reduction and so will see its economics affected by marginally lower returns and marginally depressed origination volumes. We think it is unlikely that this negative effect will be offset by improved customer persistence because of the impact of lower up-front fees on refinancing risk. If a customer pays fewer up-front fees, his APR is higher. The wider spread between this APR and that of rival offers generates an incentive to refinance, particularly if a customer builds a clean track record. Therefore, lowering up-front points tends to cause persistency to deteriorate, offsetting the benefit of the Pay Right Rewards program.

More specifically, a customer paying the maximum 5 points up-front (versus the previous 7.5 points) will have an APR that is approximately 1% higher (given the equivalence ratio of 1 point up-front to 40 basis points running). It will take two years of perfect payment for the customer to earn an automatic rate reduction equal to this 1% (assuming the customer pays biweekly). In the interim, the customer's APR will be higher than if the February best practices had not been introduced, and so the refinancing risk will be greater. This suggests that, from the standpoint of persistency, the Pay Right program is a wash for those customers with perfect biweekly payment records.

Risks

The upside risk to our investment thesis is that the legislative environment evolves more favorably to Household than we anticipate and, in particular, that: (1) state legislation does not get enacted or does not follow the restrictive models of California and Georgia or the AARP; and (2) lender-friendly federal legislation is passed. This is possible given that industry lobbyists will argue the restrictive laws run the risk of cutting off financing to borrowers with special credit needs. However, this argument has so far gained little traction, particularly when pitted against some of the more egregious cases of predatory lending unearthed by ACORN and AARP. Senator Sarbanes explicitly rejected the industry argument when he stated that the restrictions in his own proposed bill would "leave plenty of room for responsible lenders to make money."

Investment Conclusion

The conflicting legislative factors discussed above create legal risk for both predatory and legitimate subprime lenders. Aside from the potential legal costs, the need to manage legal risk will lead to changes in subprime lending practices even more far-reaching than those adopted by Household. These will, in turn, erode the profitability of business models because either returns are reduced or it simply becomes uneconomical to lend to higher-risk customers (and so the addressable market shrinks).

The company's recent relative multiple has been near its historical five-year average of 57%. Under these conditions, we rate Household market-perform on the grounds that this multiple is more likely to compress rather than expand from current levels to reflect an environment of higher legal risk.

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2 Household has said independently that the nature of its customer base means the average borrower is delinquent on one payment in twelve. The Pay Right Rewards program, by creating an important incentive for borrowers to pay on time, will improve delinquencies, but there is likely to remain a significant number of customers who do not qualify.

Exhibit 10

DOW JONES

AMERICAN BANKER
THE FINANCIAL SERVICES DAILY

SE Mortgages

HD **In Brief: Household Vote: Activists Gain**

BY By Erick Bergquist

WC 179 words

PD 15 May 2002

SN American Banker

SC AMB

PG 10

VOL Vol. 167, No. 93

LA English

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LP

LONDON, Ky. -- An activists' plan to tie executive compensation at Household International Inc. to its efforts to combat predatory lending won support from 25% to 27% of shares voted Tuesday, the company said.

The Washington-based Association of Community Organizations for Reform Now sponsored the proposal, along with Boston-based Responsible Wealth. Acorn said the plan won only 5% support last year.

TD

"It appears that a rapidly growing number of Household shareholders want their company to do the right thing," said Acorn's president, Maude Hurd, in a press release. "We'll be watching to see if the company listens."

A spokeswoman for Household, which is based in Prospect Heights, Ill., said it is "actively striving" to ensure that its "responsible lending policies and procedures not only meet but exceed expectations."

Almost identical measures proposed to shareholders of Citigroup Inc. were less popular, winning only 5% of shares voted last year and 7.3% this year, said Scott Klinger, a co-director of Responsible Wealth.

CT http://www.americanbanker.com

CO ccred : Citigroup Inc. | hfc : HSBC Finance Corp

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IN	i814 : Banking | i81501 : Credit Types/Services | i8150105 : Consumer Lending | i831 : Financial Investments | i83101 : Investment Banking | ibnk : Banking/Credit | iinv : Investing/Securities
NS	ccat : Corporate/Industrial News
RE	namz : North America | usa : United States
IPD	News article
AN	Document amb0000020020515dy5f0000p

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Exhibit 11

DOW JONES

PR Newswire

HD **Household Reports Record Second Quarter Results on Strong ReceivablesGrowth**

WC 2,385 words

PD 17 July 2002

ET 08:17

SN PR Newswire

SC PRN

LA English

CY

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LP

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                Sixteenth Consecutive Record Quarter
-- Second Quarter Earnings Per Share of $1.08, Up 16%
-- Managed Receivables of $105 Billion, Up 15%
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PROSPECT HEIGHTS, Ill., July 17 /PRNewswire-FirstCall/ -- Household International (NYSE: HI) today reported second quarter earnings per share increased 16 percent to $1.08, from $.93 the prior year. These results mark Household's sixteenth consecutive record quarter. Second quarter net income increased 17 percent, to a record $514 million.

TD

"Our results this quarter were fueled by ongoing strong demand for our loan products," said William F. Aldinger, Household's chairman and chief executive officer. "Growth this quarter was strong, while we have maintained our conservative underwriting criteria. Recognizing that the U.S. economy has yet to demonstrate a sustained rebound, we continued to maintain strong levels of reserves and capital. In addition, we continued our focus on liquidity management during the quarter, given the potential for volatility in the capital markets."

Aldinger concluded, "The company's operating performance has been very strong in the first half of 2002, and, although the economic environment is likely to remain uncertain, we believe our businesses are well-positioned for the remainder of the year."

Receivable Growth

At June 30, 2002, the company's managed basis portfolio, which includes loans that the company has securitized, totaled $105.5 billion, an increase of $13.9 billion, or 15 percent, from a year ago. The strongest growth came in the real estate secured portfolio, with an increase of $9.1 billion from a

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year ago. Growth was balanced between the company's branch-based consumer lending and mortgage services businesses.

Compared to the first quarter, managed basis receivables rose $4.3 billion, led by strong growth in the real estate secured product line.

The company's owned basis portfolio totaled $83.1 billion at June 30, 2002, an increase of $11.4 billion, or 16 percent, from a year ago and $3.5 billion, or 4 percent, compared to the end of the first quarter. Growth in the real estate secured portfolio drove the increase from both prior periods.

Revenues

Net revenues for the company's owned basis portfolio grew $393 million, or 17 percent, from the year-ago quarter.

Household's owned basis net interest margin for the second quarter increased $235 million, or 17 percent, to $1.6 billion. The increase was due to a larger receivable portfolio partially offset by a decrease in the company's owned basis net interest margin percent to 7.66 percent from 7.83 percent a year ago. The slight decrease was due to a relative increase in real estate secured receivables and a larger liquidity-related investment portfolio. Spreads on the investment portfolio are lower than those for the loan portfolio.

The second quarter managed basis net interest margin rose $395 million, or 21 percent, from a year ago, to $2.3 billion. The managed basis net interest margin percentage widened to 8.58 percent in the second quarter from 8.34 percent in the prior year. The net interest margin on a managed basis is greater than on an owned basis because the managed basis portfolio includes relatively more unsecured loans, which have higher yields. Lower funding costs benefited the net interest margin percentage on both an owned and managed basis.

Compared to the first quarter, the net interest margin on both an owned and managed basis declined primarily due to the above-mentioned increase in the company's portfolio of investments maintained for liquidity purposes.

Fee income, on both an owned and managed basis, was below the level of both the second quarter of 2001 and the first quarter of 2002. Improvements in early stage delinquencies resulted in lower late fees in the company's credit card businesses.

Securitization revenue, on an owned basis, increased $126 million, or 31 percent, from the prior year. The company continued to actively access the securitization market in the second quarter as part of liquidity management actions to limit reliance on short-term unsecured debt in potentially volatile markets. The company securitized nearly $2 billion of receivables in the quarter, compared to $1.4 billion in the year ago quarter. In addition, Household completed real estate secured financing transactions of $1.25 billion during the quarter.

Other income, on both an owned and managed basis, increased $46 million, or

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93 percent, from the prior year. Higher collections in the company's tax refund lending business as well as increased revenues from the company's mortgage banking subsidiary caused the increase. Other income was $93 million lower than the first quarter, which included seasonal revenues from the company's tax refund lending business.

Operating Expenses

Operating expenses rose 10 percent from a year ago, driven by higher compensation, marketing and other costs to support the company's growing portfolio. Household's managed basis efficiency ratio was 32.2 percent in the second quarter, compared to 35.5 percent a year ago.

Credit Quality and Loss Reserves

The company monitors trends on a managed basis because the receivables that it securitizes are subjected to underwriting standards comparable to the owned basis portfolio, are serviced by operating personnel without regard to ownership and result in similar credit exposure for the company.

At June 30th, the managed basis delinquency ratio (60+days) was 4.53 percent, down 10 basis points from 4.63 percent at the end of March, led by improvement in the MasterCard/Visa portfolio. The managed basis delinquency ratio was 4.27 percent a year ago. The annualized managed basis net charge-off ratio for the second quarter of 4.26 percent was 17 basis points higher than the first quarter and 55 basis points higher than a year ago.

The owned basis delinquency ratio at June 30th was 4.61 percent, compared to 4.77 percent at March 31st and 4.48 percent a year ago. The annualized owned basis net charge-off ratio for the second quarter was 3.76 percent compared to 3.61 percent in the previous quarter and 3.26 percent a year ago.

Managed basis credit loss reserves totaled $4.4 billion at June 30th. Managed basis credit loss reserves as a percent of managed basis receivables equaled 4.14 percent, up from 4.10 percent at March 31st and 3.78 percent a year ago. Managed basis reserves-to-managed-nonperforming loans were 112 percent, up from 108 percent at the end of March and 110 percent a year ago. Managed basis credit loss reserves include a provision for estimated probable losses the company expects to incur under recourse provisions on securitized receivables.

Owned basis credit loss reserves totaled $3.0 billion at June 30th, an increase from $2.9 billion at March 31st. The ratio of owned basis reserves-to-owned receivables was 3.59 percent at June 30th, compared to 3.61 percent at March 31st and 3.31 percent a year earlier. Owned basis reserves-to-owned-nonperforming loans were 96 percent at June 30th, compared to 93 percent at the end of March and 91 percent a year ago. Owned basis reserve ratios are somewhat lower than comparable managed basis ratios because of the greater mix of real estate secured receivables in the owned portfolio which have lower credit losses.

Liquidity and Capital

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During the quarter, Household continued to access the debt capital markets to fund its operations in routine fashion. The company also actively accessed the securitization markets, completing $1.25 billion in real estate secured financings and securitizing nearly $2 billion in other receivables. An additional $1 billion liquidity facility, backed by real estate secured loans, was established in the quarter. Additionally, the company increased its investment liquidity portfolio to $4.5 billion from $1 billion at the end of March which provides additional flexibility in the event of potential volatility in the financial markets.

The company maintained strong levels of capital. At June 30th, its ratio of tangible equity to tangible managed assets was 8.24 percent, compared to 8.41 percent at March 31st and 7.61 percent a year earlier.

In connection with its $2 billion share repurchase program, Household bought back 966,000 shares in the second quarter, totaling $60 million. At June 30th, Household had agreements with third parties to purchase, on a forward basis, approximately 6.1 million shares of common stock at a weighted average price of $55.63 per share.

Notice of Live Webcast

Household will broadcast a live teleconference call over the Internet on its website at
www.household.com
to discuss its second quarter results. The call
will begin at 9:00 a.m. Central Daylight Time on July 17, 2002. A replay will also be available shortly after the end of the call.

About Household

Household's businesses are leading providers of consumer loan, credit cards, auto finance and credit insurance products in the United States, United Kingdom and Canada. In the United States, Household's largest business, founded in 1878, operates under the two oldest and most recognized names in consumer finance - HFC and Beneficial. Household is also one of the nation's largest issuers of private label and general purpose credit cards, including The GM Card(R) and the AFL-CIO's Union Plus(R) card. For more information, visit the company's web site at
www.household.com.

This press release contains certain estimates and projections that may be forward-looking in nature, as defined by the Private Securities Litigation Reform Act of 1995. A variety of factors may cause actual results to differ materially from the results discussed in these forward-looking statements. Factors that might cause such a difference are discussed in Household International's Annual Report on Form 10-K, filed with the SEC.

Household International, Inc.
Quarterly Financial Supplement
June 30, 2002 - Quarterly Highlights

Summary Owned Income Statement	Three Months Ended			% Change from Prior	
($ millions)	06/30/02	03/31/02	06/30/01	Qtr.	Year
Owned-basis net					

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interest margin and other revenues	$2,675.5	$2,771.6	$2,282.6	(3.5)%	17.2%
Owned-basis provision for credit losses	850.9	923.0	657.1	(7.8)	29.5
Total costs and expenses	1,057.8	1,071.5	955.8	(1.3)	10.7
Income before income taxes	766.8	777.1	669.7	(1.3)	14.5
Income taxes	253.3	266.1	230.7	(4.8)	9.8
Net income	$513.5	$511.0	$439.0	0.5%	17.0%
Common Stock Data					
Basic earnings per common share	$1.09	$1.10	$.94	(0.9)%	16.0%
Diluted earnings per common share	1.08	1.09	.93	(0.9)	16.1
Average common shares (millions)	456.3	456.8	463.0	(0.1)	(1.4)
Average common and equivalent shares (millions)	461.2	462.1	469.6	(0.2)	(1.8)
Common stock price:					
High	$63.25	$60.90	$69.98	3.9%	(9.6)%
Low	47.06	43.50	57.45	8.2	(18.1)
Period end	49.70	56.80	66.70	(12.5)	(25.5)
Dividends declared per common share	$.25	$.22	$.22	13.6%	13.6%
Book value per common share	21.06	20.23	17.94	4.1	17.4
Selected Financial Ratios					
Owned Basis					
Return on average common shareholders' equity	22.2%	23.4%	22.4%	(5.1)%	(0.9)%
Return on average owned assets	2.20	2.26	2.21	(2.7)	(0.5)
Net interest margin	7.66	7.87	7.83	(2.7)	(2.2)
Common and preferred equity as a percentage of owned assets	10.16	10.75	9.95	(5.5)	2.1
Common and preferred equity, and trust preferred securities as a percentage of owned assets (A)	11.16	11.83	11.03	(5.7)	1.1
Managed Basis					
Return on average managed assets	1.79%	1.82%	1.78%	(1.6)%	0.6%
Efficiency ratio	32.2	31.6	35.5	1.9	(9.3)
Net interest margin	8.58	8.79	8.34	(2.4)	2.9
Common and preferred equity as a percentage of managed assets	8.26	8.68	8.00	(4.8)	3.3
Common and preferred equity, and trust preferred securities as a percentage of managed assets (A)	9.08	9.55	8.87	(4.9)	2.4
Tangible equity to tangible managed assets (A)	8.24	8.41	7.61	(2.0)	8.3

(A) Represents a non-GAAP measure which may differ from similarly named measures presented by other companies.

Year-to-Date Highlights

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Summary Owned Income Statement	Six Months Ended		
($ millions)	06/30/02	06/30/01	% Change
Owned-basis net interest margin and other revenues	$5,447.1	$4,612.4	18.1%
Owned-basis provision for credit losses	1,773.9	1,360.7	30.4
Total costs and expenses	2,129.3	1,916.4	11.1
Income before income taxes	1,543.9	1,335.3	15.6
Income taxes	519.4	464.5	11.8
Net income	$1,024.5	$870.8	17.7%
Common Stock Data			
Basic earnings per common share	$2.19	$1.86	17.7%
Diluted earnings per common share	2.17	1.84	17.9
Average common shares (millions)	456.6	464.5	(1.7)
Average common and equivalent shares (millions)	461.5	470.8	(2.0)
Common stock price:			
High	$63.25	$69.98	(9.6)%
Low	43.50	52.00	(16.3)
Period end	49.70	66.70	(25.5)
Dividends declared per common share	$.47	$.41	14.6%
Selected Financial Ratios			
Owned Basis			
Return on average common shareholders' equity	22.8%	22.4%	1.8%
Return on average owned assets	2.23	2.21	0.9
Net interest margin	7.77	7.72	0.6
Managed Basis			
Return on average managed assets	1.81%	1.77%	2.3%
Efficiency ratio	31.9	35.5	(10.1)
Net interest margin	8.68	8.28	4.8

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CT

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08:15 EDT

CO hfc : HSBC Finance Corp

IN i81501 : Credit Types/Services | i8150105 : Consumer Lending | ibnk : Banking/Credit

NS c15 : Performance | c151 : Earnings | ccat : Corporate/Industrial News

RE namz : North America | usa : United States | usc : Midwest U.S. | usil : Illinois

AN Document prn0000020020717dy7h000d4

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Exhibit 12

DOW JONES

Associated Press

HD **Household International 2Q net rose 17 percent on loan demand**

WC 186 words

PD 17 July 2002

ET 13:45

SN Associated Press Newswires

SC APRS

LA English

CY

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LP

PROSPECT HEIGHTS, Ill. (Dow Jones/AP) - Household International Inc.'s second-quarter net income rose 17 percent on stronger demand for consumer loans.

The Prospect Height, Ill.-based lender Wednesday said it earned $513.5 million, or $1.08 a share, up from $439 million, or 93 cents a share, in the year-earlier period. Earnings matched Wall Street expectations.

TD

Its U.S. units include HFC and Beneficial finance companies.

Net revenue from the company's owned-basis portfolio rose 17 percent to $2.68 billion from $2.28 billion.

The company's credit-loss provision rose to $850.9 million from $657.1 million a year earlier.

Household's managed portfolio totaled $105.5 billion, an increase of $13.9 billion, or 15 percent, from a year earlier.

The strongest growth came in the real-estate secured portfolio, with an increase of $9.1 billion from a year earlier.

The company's owned portfolio totaled $83.1 billion at June 30, an increase of $11.4 billion, or 16 percent, from a year earlier.

RF r

CO hfc : HSBC Finance Corp

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IN	i81501 : Credit Types/Services | i8150105 : Consumer Lending | ibnk : Banking/Credit
NS	c15 : Performance | c151 : Earnings | ccat : Corporate/Industrial News
RE	namz : North America | usa : United States | usc : Midwest U.S. | usil : Illinois
IPD	f
IPC	sldf0164
AN	Document aprs000020020717dy7h00upo

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Exhibit 13

CIBC

CIBC WORLD MARKETS

Equity Research

July 17, 2002

Earnings Update *Buy*

Household International

In-Line 2Q02 EPS Offer No Surprises; Maintain Buy

Diversified Financial Services

HI-NYSE (7/17/02)	**$42.37**
12-18 mo. Price Target	$65.00
Key Indices: S&P 500, DJ Ind, S&PFincl	
3-5-Yr. EPS Gr. Rate (E):	15.0%
52-week Range	$69.49-$42.37
Shares Outstanding	461M
Float	356.1M shrs
Avg. Daily Trading Vol.	3,600,000
Market Capitalization	$19.5B
Dividend/Yield	$1.00/2.4%
Fiscal Year Ends	December
Book Value	$15.31 per Shr
2002 ROE	20.3%
LT Debt	$60,536.2
Preferred	$1,818.20M
Common Equity	$7,057.20M
Convertible Available	Yes

- Household reported in-line 2Q02 EPS of $1.08, fueled by robust portfolio gains. Our 2002 and 2003 estimates remain unchanged at $4.70 and $5.30, respectively. Based on the solid results, we are maintaining our Buy rating on the stock and a $65 price target.

- The managed portfolio advanced 4.2% sequentially and 15.2% year-over-year to $105.5 billion, led by home equity gains. Gains were recorded across the board, with the exception of commercial receivables, which are being wound down as the company exits the business.

- Enhanced liquidity management dampened the net interest margin, but tight cost controls sustained profitability. The net interest margin fell 21 bps from the prior quarter to 8.58%, but still remained 23 bps higher than the year ago owing to reduced funding costs.

- Credit quality remained in-check, despite a modest uptick in the managed loss rate. The managed loss rate advanced 17 bps from the first quarter to 4.26% and was driven by deterioration in the non-credit card unsecured, bankcard and home equity portfolios.

Company Description

Household International is a diversified financial services company focused primarily on consumer lending.

Earnings per Share	Prev	Current
2001A		$4.08A
2002E		$4.70E
2003E		$5.30E
P/E		
2001A		10.4x
2002E		9.0x
2003E		8.0x

Stock Price Performance

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Exhibit 1. Household International Statistical Review
(Dollars in millions, except where noted)

	Year Ago 2Q01	Last Quarter 1Q02	Estimate 2Q02E	Actual 2Q02
Net Interest Margin	$1,894.3	$2,264.5	$2,330.1	$2,289.3
Total Net Revenues	1,625.5	1,848.6	1,803.8	1,824.6
Earnings Per Share	**$0.93**	**$1.09**	**$1.08**	**$1.08**
Managed Profitability Analysis				
Net Interest Margin	8.34%	8.79%	8.86%	8.58%
Pretax Margin Ex. Charges	17.25%	17.93%	18.20%	18.08%
Net Margin Ex. Charges	11.31%	11.79%	11.97%	12.11%
Total Managed Portfolio	91,539	101,178	104,719	105,461
Total Managed Delinquency Rate	4.27%	4.63%	4.45%	4.53%
Total Managed Charge-Off Rate	3.71%	4.09%	4.22%	4.26%
Reserve Coverage	3.78%	4.10%	4.12%	4.14%

Source: Company reports and CIBC World Markets Corp.

Household reported in-line EPS equaling $1.08, with no surprises

Household reported in-line second quarter results equaling $1.08 that were fueled by robust portfolio gains. Strong demand for loans occurred across all product lines and was led by the home equity portfolio, which continued to benefit from the healthy housing market and low interest rates. The hefty portfolio growth also offset modest net finance margin compression that occurred during the quarter to drive solid revenue growth. Further, cost containment remained a priority at Household, as total expenses moderated sequentially. Finally, credit quality remained in check, although managed losses did rise modestly owing to portfolio seasoning and the challenging economic environment.

Separately, management did announce that it would begin expensing stock option-related costs beginning in the fourth quarter of 2002. Management estimates that this change will reduce 2002 earnings per share by a penny and roughly two cents in 2003. The accounting change, however, should improve Household's earnings quality and transparency.

Our estimates remain unchanged, and we are maintaining our Buy rating and $65 price target

Overall, we believe Household's second quarter results were positive and held few surprises. As such, we have maintained our 2002 and 2003 estimates of $4.70 and $5.30 per share, respectively. Based on the solid results and upbeat outlook for the second half, we have also maintained our Buy rating on the stock and a $65 price target, which represents roughly a 12X multiple on our 2003 estimate. Although we are becoming increasingly optimistic about the prospects for the second half of the year, a potential economic double-dip could adversely impact credit quality and growth trends, which would represent a risk to our price target.

The managed portfolio advanced 4.2% sequentially and 15.2% year-over-year to $105.5 billion and was led by home equity gains. Gains were recorded across all product lines with the exception of commercial receivables, which are being wound down as the company exits the commercial lending business. Home equity demonstrated the strongest growth, as mortgage receivables grew 5.7% from a quarter ago and 22.8% over the prior year to $48.9 billion. New loan volume was derived nearly evenly from Mortgage Services and the branches, which continue to benefit from improving attrition rates and sales force productivity.

We believe the home equity portfolio should continue to demonstrate solid growth throughout the remainder of 2002 and into 2003 as interest rates remains stable and branch optimization continues. With the average mortgage rate holding at the 6.5% level, which has been cited as a potential trigger for a second refinancing boom, Household could be a beneficiary and enjoy sustained home equity portfolio gains through 2003.

Personal non-credit card receivables also demonstrated healthy growth, rising 4.4% sequentially and 11.5% year-over-year, owing to solid gains within the Union Plus program. The auto portfolio followed closely behind, rising 4.0% from the prior quarter and 33.4% over the year-ago period, as auto demand remained robust and pricing held firm. Although auto finance is currently a small contributor to earnings, we believe the building dealer network and growing acceptance of the HAFCSuperhwy.com channel should continue to drive rapid growth within this portfolio.

Finally, the bankcard and private label credit card portfolios posted more modest sequential gains during the quarter equaling 2.7% and 1.2%, respectively. Within the bankcard portfolio, the slower growth reflects management's cautious approach to the sub-prime credit card market in light of recent industry turmoil and rapid credit quality deterioration among other sub-prime card issuers. At the end of the second quarter, sub-prime receivables totaled $1.3 billion, or less than one percent of total managed receivables. We believe Household will remain conservative in its growth of the sub-prime card portfolio until the economy is more clearly on the road to recovery. The private label portfolio, however, should demonstrate accelerating growth in the seasonally stronger second half of 2002 as the company generates new merchant relationships.

The NIM contracted as liquidity increased, but we believe it is worth the added cost

Enhanced liquidity management dampened the net interest margin, but tight cost controls sustained profitability. Household has sought to improve its liquidity and reduce its reliance on commercial paper as a source of funds given the volatile capital market conditions. Although the company has been successful in its effort to boost liquidity, the lower spreads on investment assets relative to the loan portfolio resulted in modest margin compression on a sequential basis. As such, the net interest margin fell 21 bps from the prior quarter to 8.58%, but still remained 23 bps higher than the year-ago period owing to reduced funding costs. Household securitized roughly $2.0 billion of receivables during the quarter as part of its effort to broaden its funding structure.

Strict expense management should sustain solid profit trends

Offsetting some of the lower net interest margin was ongoing cost containment efforts and lower goodwill amortization that drove a modest sequential decline in operating expenses. Operating expense declined 1.7% from a quarter ago and rose 9.9% year-over-year to $970.4 million to support improvement in the pretax and net margins, which rose to 18.1% and 12.1%, respectively. Overall, we believe Household will continue to reduce its use of commercial paper funding as well as build its investment portfolio through the second half of the year. Although the enhanced liquidity could reduce earnings by roughly two cents per quarter, we believe the improved balance sheet strength and broader capital access are worth the cost, particularly in light of economic uncertainty.

Credit quality stabilization could occur in 4Q02

Credit quality remained in check, despite a modest uptick in the managed loss rate. Importantly, the increase was not unexpected, given the lagged effect of last year's recession and portfolio seasoning. The managed loss rate advanced 17 bps from the first quarter to 4.26% and was driven by deterioration in the non-credit card unsecured, bankcard and home equity portfolios. The auto finance and private label lines, however, demonstrated modest sequential improvement to offset some of the impact on the consolidated loss rate.

Overall, we believe the blended managed loss rate could further erode in the third quarter as the portfolio continues to season, before potentially stabilizing at year end. Reserves should remain more than adequate, however, at over 4.1% of the managed portfolio. On a positive note, the managed delinquency rate decreased 10 bps to 4.53% to remain largely in-line with the historical range, albeit at the high end given the challenging environment. Although we do not suggest the second quarter is indicative of an improving trend, it does reinforce our confidence in pending stabilization in the coming months.

Re-aging efforts should also continue to maximize returns on seriously delinquent accounts, although the proportion of re-aged accounts should remain relatively flat, in our opinion. At the end of the quarter, roughly 16.7% of the domestic portfolio had been re-aged at some point in time, of which 27.1% were personal non-credit card receivables.

Exhibit 2. Household International Earnings Model

(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QP	3Q	4Q	2001	2002E	2003E
Finance Income	$3,304.8	$3,385.0	$3,388.5	$3,426.8	$3,664.4	$3,836.6	$13,153.4	$14,316.2	$16,652.7
Interest Expense	1,280.7	1,192.6	1,124.0	1,137.5	1,260.9	1,324.0	5,212.8	4,846.4	5,838.6
Net Interest Margin	**2,024.1**	**2,192.4**	**2,264.5**	**2,289.3**	**2,403.4**	**2,512.6**	**7,940.6**	**9,469.8**	**10,814.2**
Provision For Credit Losses	966.8	1,184.0	1,362.3	1,278.4	1,257.7	1,297.6	4,018.4	5,195.9	5,439.1
Interest Margin After Losses	**1,057.3**	**1,008.4**	**902.2**	**1,010.9**	**1,145.8**	**1,215.0**	**3,922.2**	**4,273.9**	**5,375.0**
Insurance Revenue	169.2	175.3	170.1	177.5	180.7	184.3	662.4	712.6	757.9
Investment Income	42.3	45.8	46.2	44.0	48.1	51.7	167.7	190.0	223.4
Fees Income	407.9	421.1	396.3	362.7	382.8	401.9	1,618.5	1,543.7	1,785.4
Securitization Income (Expense)	18.2	120.4	145.8	134.2	143.3	126.9	135.7	550.2	196.9
Other Income	51.5	59.9	188.0	95.3	98.4	97.6	322.5	479.3	397.3
Total Other Operating Revenue	**689.1**	**822.5**	**946.4**	**813.7**	**853.3**	**862.4**	**2,906.8**	**3,475.8**	**3,360.9**
Total Net Revenues	**1,746.4**	**1,830.9**	**1,848.6**	**1,824.6**	**1,999.0**	**2,077.4**	**6,829.0**	**7,749.7**	**8,736.0**
Salaries And Benefits	408.3	424.1	445.3	453.0	489.8	504.8	1,597.2	1,892.9	2,144.2
Sales Incentives	74.1	71.0	54.1	67.6	80.0	81.0	273.2	282.7	324.9
Occupancy And Equipment	86.1	84.1	92.2	93.3	100.0	95.6	337.4	381.0	434.2
Other Marketing	127.1	128.0	148.4	141.5	149.9	145.4	519.3	585.2	668.8
Other Servicing And Administrative	172.3	172.2	229.3	202.5	215.9	214.0	709.6	861.7	966.9
Amor. Of Intangibles And Goodwill	37.4	37.4	18.2	12.5	20.0	20.8	151.2	71.5	87.4
Total Expenses	**905.3**	**916.8**	**987.5**	**970.4**	**1,055.5**	**1,061.6**	**3,587.9**	**4,075.0**	**4,626.3**
Policyholders' Benefits	77.5	74.5	84.0	87.4	84.0	83.1	302.6	338.5	370.1
Exp. & Policyholders' Benefits	**982.8**	**991.3**	**1,071.5**	**1,057.8**	**1,139.5**	**1,144.7**	**3,890.5**	**4,413.4**	**4,996.4**
Pretax Income	**763.6**	**839.6**	**777.1**	**766.8**	**859.6**	**932.8**	**2,938.5**	**3,336.3**	**3,739.5**
Income Tax Expense	259.8	290.7	266.1	253.3	284.0	308.1	1,015.0	1,111.5	1,235.3
Net Income	**503.8**	**548.9**	**511.0**	**513.5**	**575.6**	**624.6**	**1,923.5**	**2,224.8**	**2,504.2**
FD EPS Ex. Charges And Gain	**$1.07**	**$1.17**	**$1.09**	**$1.08**	**$1.21**	**$1.32**	**$4.08**	**$4.70**	**$5.30**
Dividends Per Share	$0.22	$0.22	$0.22	$0.25	$0.25	$0.25	$0.85	$0.97	$1.06
Operating Analysis									
NIM As % Of AMIEA	8.57%	8.85%	8.79%	8.58%	8.66%	8.62%	8.50%	8.12%	8.09%
Provision For Losses As % Of AMR	1.0%	1.2%	1.3%	1.2%	1.2%	1.1%	4.3%	4.5%	4.1%
Fee Income As % Of AMR	0.44%	0.43%	0.39%	0.35%	0.35%	0.35%	1.75%	1.34%	1.36%
Total Expenses As % Of AMR	1.0%	0.9%	1.0%	0.9%	1.0%	0.9%	3.9%	3.5%	3.5%
Insurance Revenue Sequential Grov	6.2%	3.6%	-3.0%	4.4%	1.8%	2.0%	18.0%	7.6%	6.4%
Sec. Income As % Mgd. Portfolio	0.02%	0.12%	0.14%	0.13%	0.13%	0.11%	0.13%	0.48%	0.15%
Pretax Margin Ex. Charges	19.1%	20.0%	17.9%	18.1%	19.0%	19.9%	18.3%	18.8%	18.7%
Net Margin Ex. Charges	12.6%	13.0%	11.8%	12.1%	12.7%	13.3%	12.0%	12.5%	12.5%
Managed Receivables By Product									
Real Estate Secured	41,931	44,719	46,249	48,888	50,144	52,270	44,719	52,270	59,282
Auto Finance	5,869	6,396	6,616	6,881	7,163	7,500	6,396	7,500	8,958
Visa/MasterCard	17,304	17,395	16,349	16,787	17,964	19,039	17,395	19,039	22,132
Private Label	12,386	13,814	13,322	13,477	14,878	15,577	13,814	15,577	17,785
Other Unsecured	17,632	17,993	18,151	18,946	19,507	20,423	17,993	20,423	22,922
Commercial & Other	533	507	491	483	551	577	507	577	659
Total Managed Portfolio	**95,655**	**100,823**	**101,178**	**105,461**	**110,206**	**115,386**	**100,823**	**115,386**	**131,737**
Total Managed Delinquency Rate	4.43%	4.46%	4.63%	4.53%	4.50%	4.48%	4.25%	4.27%	4.42%
Total Managed Charge-Off Rate	3.74%	3.90%	4.09%	4.26%	4.40%	4.35%	3.55%	4.28%	4.28%

Source: Company reports and CIBC World Markets research.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2001A Actual	$0.91A	$0.93A	$1.07A	$1.17A	$4.08A
2002E Current	$1.09A	$1.08A	$1.21E	$1.32E	$4.70E
2003E Current	$1.20E	$1.25E	$1.37E	$1.48E	$5.30E

4) Household International has a convertible included in the CIBC World Markets Corp. convertible universe.
11) CIBC World Markets Corp., or one of its affiliated companies, expects to receive or intends to seek compensation for investment banking services from Household International in the next 3 months.

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Strong Buy	Expected total return over 12 months of at least 25%.
Buy	Expected total return over 12 months of at least 15%.
Hold	Expected total return over 12 months of 0%-15%.
Underperform	Expected negative total return over 12 months.

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Exhibit 14

BN Capital One Shares Plunge After Regulators Step In (Update8)
Jul 17 2002 19:08:23

Capital One Shares Plunge After Regulators Step In (Update8)

(Adds previous reserve level in 10th paragraph.)

New York, July 17 (Bloomberg) -- Capital One Financial Corp. shares plunged, leading other credit-card stocks lower, after the fifth-largest U.S. issuer of Visa and MasterCard said regulators required it to increase reserves for loan losses.

Capital One shares fell $20.12, or 40 percent, to $30.48, the biggest drop since it went public in 1994. Providian Financial Corp. and Household International Inc. -- rivals that like Capital One have lent to clients with a history of unpaid bills -- also fell.

Federal regulators are scrutinizing lenders that expanded during the economic growth of the 1990s by going after customers with bad credit backgrounds and charging rates of 20 percent or higher. Some investors said they were surprised Capital One, which has had the lowest default rate among the top 10 U.S. issuers since a recession took hold early last year, was forced to boost reserves.

``I have a feeling that if it happens to Cap One, we've got a lot of others coming,'' said Donald Coxe, chairman and chief strategist for Chicago-based Harris Investment Management, which oversees $17 billion and owns Capital One shares. ``This is stunning. They have been so renowned for being able to manage this tough business.''

Regulators said they were concerned Capital One might be growing too fast. The Falls Church, Virginia-based company increased loans at an annual rate of 35 percent in the first six months of this year.

Citigroup

Credit card issuers that also sell mortgages, manage mutual funds or underwrite bond sales -- including Citigroup Inc., J.P. Morgan Chase & Co. and American Express Co. -- are big enough that higher reserves to cover unpaid bills are unlikely to lower profit, investors said. Shares of Citigroup, the world's largest credit card issuer, rose 80 cents, or 2.2 percent, to $37.00.

Shares of Providian, which last year lowered its profit 94 percent after a surge in unpaid bills, fell 75 cents, or 19 percent, to $3.30. Providian was forced to abandon high-risk customers last year as regulators demanded the company maintain a higher cushion against unexpected losses.

Household shares fell $3.73, or 8.1 percent, to $42.37. Shares of MBNA Corp., which says its typical new customer has an annual household income of $70,000, also dropped because its main business is issuing credit cards, analysts said. The stock fell $1.86, or 9.1 percent, to $18.50.

Capital One's 8.75 percent coupon notes maturing in 2007 dropped to as low as 95 cents from 98 cents, traders said.

More Reserves

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BN Capital One Shares Plunge After Regulators Step In (Update8)
Jul 17 2002 19:08:23

Capital One said yesterday it added $247 million to reserves in the second quarter to meet Office of Thrift Supervision and Federal Reserve Board requirements that it have enough to absorb 12 months of future loan losses. At the end of the first quarter, it had enough to cover nine months of future losses, said Capital One spokeswoman Tatiana Stead.

The second-quarter lift compares with an addition of $150 million in the first quarter and $313 million for all of 2001, according to Michael Freudenstein, an analyst at J.P. Morgan Chase & Co. who has a ``buy'' rating on the company.

About 40 percent of Capital One's outstanding loans were to customers with histories of defaulting on their debts as of June 30, according to a company filing with the U.S. Securities and Exchange Commission.

Capital One wrote off an annualized 4.36 percent of loans in the second quarter, up from 3.98 percent in the year-earlier quarter and 4 percent in the first quarter. Providian's rate was more than 17 percent in June.

Capital One, whose auditor is Ernst & Young LLP, has also promised to increase risk controls.

``Systems shortfalls are somewhat troubling and required investments may be significant,'' wrote Matthew Vetto, an analyst at Salomon Smith Barney, in a note to customers. Vetto lowered his rating on Capital One stock to ``neutral'' from ``buy'' after the announcement.

Slower Growth

After increasing loans to $53.2 billion in the first half, Capital One said it will slow loan growth to an annual rate of no more than 25 percent for the rest of 2002 and in 2003 and reduce marketing spending.

``The day they start cutting marketing, that's the day they start signaling the growth engine is done,'' said Alan Villalon, an analyst at Federated Investors, which owns Capital One convertible bonds.

Capital One, which said yesterday second-quarter profit rose 37 percent to $213.1 million, or 92 cents a share, said it has met all new reserve and capital requirements from regulators and plans to hire a senior executive to help manage risk.

``It's a good time to buy Capital One because 90 percent (of what regulators asked for) has been addressed,'' said Christopher Baggini, who manages the $800 million Gartmore Growth Fund, including Capital One shares. ``They are less exposed than others that have not been reviewed by regulators.''

Earnings

The demands will not prevent Capital one from boosting earnings per share 30 percent this year, Chief Executive Richard Fairbank told investors yesterday. He had previously projected a 20 percent increase.

Freudenstein raised his earnings estimates for 2002 to $3.79 from $3.60 and for 2003 to $4.55 from $4.30. Most of the changes

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required by regulators ``were actually desired by many investors,'' he wrote in a note to customers.

Metris Cos. tumbled $2.41, or 40 percent, to $3.66. The credit-card issuer had a second-quarter loss of 74 cents a share. The average estimate of analysts polled by Thomson First Call was for profit of 22 cents.

Household, the largest independent consumer finance company in the U.S., said today second-quarter earnings rose 17 percent to $513.5 million, or $1.08 a share, from $439 million, or 93 cents.

The company is ``not confronting the same sort of issues that Capital one seems to be dealing with,'' said spokesman Craig Streem.

In response to discussions with regulators, Household added $1 billion in capital to its bank subsidiary in January, and are ``deemed to be a well-capitalized institution based on their guidelines for (high-risk) lenders,'' he said.

Moody's Investors Service yesterday affirmed its Baa3 credit rating for Capital One and Standard & Poor's said it planned no change for its BB+ credit rating, which carries a negative outlook.

Fitch Inc. said it may lower Capital One's BBB+ senior debt rating because regulators are including the company among rivals that have had financial difficulty for lending to customers with credit problems.

--Helen Stock in the New York newsroom (212) 318-2315, or at hstock@bloomberg.net, with reporting by Scott Silvestri in New York. Editor: Hertling, Zelenko.

Story illustration: To see Capital One's earnings performance, type {COF US <Equity> ERN <GO>}.

Company news:

COF US <Equity> CN
MXT US <Equity>
KRB US <Equity>
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NI FIN
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Exhibit 15

DOW JONES

HD **Q2 2002 Household International Earnings Conference Call - Final**

WC 5,224 words

PD 17 July 2002

ET 10:00

SN Financial Disclosure Wire

SC FNDW

LA English

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LP

OPERATOR: Good day, everyone. Welcome to the Household International 2nd quarter, 2002 earnings results conference call. Today's call is being recorded. For opening remarks and introductions, I turn it over to Mr. Craig Stream, Vice President Corporate Relations and Communications. Go ahead, sir.

CRAIG STREAM, VP CORPORATE RELATIONS, HOUSHOLD INTERNATIONAL: Thank-you. Good morning, everyone. Welcome to our 2nd quarter conference call. Today's call is being webcast at the household.com website, will feature formal remarks from Bill Aldinger, our Chairman and CEO, and David Schoenholz, Vice Chairman and Chief Financial Officer.

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We will have a Q&A period and as has been our custom recently, given the other companies and other conference calls going on, we're going try to keep the call fairly short.

Our remarks this morning may contain certain estimates and projections that may be forward-looking in nature. A variety of factors may cause actual results to differ materially to the results discussed in the forward-looking statements. Factors that may cause such differences are discussed in the annual and quarterly filings with the SEC.

Now it is my pleasure to turn the call over to Bill.

WILLIAM ALDINGER, CHAIRMAN, CEO, HOUSHOLD INTERNATIONAL: Thanks, Craig. Good morning, everybody.

I want to start with saying I'm very pleased with the quarter. It is a very solid quarter. It also happens to be our 16th consecutive record quarter.

What is clear out there is that the consumer is holding up well. We're seeing very strong loan demand, we're also seeing stable credit quality. And the highlight of the quarter clearly is receivable growth.

Receivables were up 15% in the quarter and the best growth was in our mortgage portfolios where we had strong returns and the lowest charge-offs of any portfolio.

Speaking of charge-offs, they were up modestly in the quarter, our expectation is that they will be up modestly again in the 3rd quarter and we expect them to flatten out in the 4th quarter.

On the reserve front, we've added some reserves about, $85 million in the quarter, this is about the seventh quarter in a row where we've added reserves. Our ratios improved in the quarter. Our reserves to non-performs loans are up to 112%. To receivables at 4.14%. Expect to add to reserves as long as charge-offs continue to increase.

One other topic I want to mention before we turn it over to Dave and that is on stock options. We have made the decision to begin expensing stock options in the 4th quarter. The impact this year is very modest, we think less than one cent. And next year, the impact will be about 2 cents.

With that, I conclude my comments, we're well-positioned for the rest of the year. Now I turn it over to Dave for more color on the quarter. Thanks.

DAVID SCHOENHOLZ, CFO, HOUSHOLD INTERNATIONAL: Thanks, Bill. I'd like to really comment on four things before going to Q&A.

The first is to give more color on what's going on in the portfolio and growth. The second area is really to talk about credit. Third, talk about balance sheet management and then finally, particularly in light of cap 1's announcement yesterday, to have a brief discussion on bank regulatory matters.

So, if we start off with growth, as Bill said, it was really a great quarter for growth, great growth quarter. Receivables were up $4.3 billion. That translates to 17% annualized growth rate in the quarter, as Bill mentioned, we are 15% on a year-over-year basis.

During the quarter, we benefited from a stronger pound. So, we did have some effects for about $500 million. If you exclude that, we grew at a 15% annualized rate which is still very, very good.

Real estate product was the fastest grower. That grew at about a 23% annualized rate. And if you look at the absolute dollar amount of growth in the quarter, real estate product was about 60% of that total.

Year-over-year, Bill 2/3 of the dollar increase in the portfolio has

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come from real estate and we think that's really important when you look at the lost characteristics of that product versus some unsecured product.

We had good growth in both our branch-based consumer lending business and also in our mortgage business.

In each of those channels we had very strong in volume, we're continuing to see good EA account executive productivity in the branches and it was also good to see that in the quarter we had a little bit lower attrition in each of those portfolios.

If we take a look at the branch growth, which includes real estate and unsecured product,total we grew at about a 15% annualized growth rate in the quarter. We have good momentum in the branches. Auto grew about -- at a 16% annualized rate in the quarter.

Marketplace is -- we see reasonable pricing, we see -- continue to see good dealer acceptance of the highway platform and even though the 16% rate is a little lower than we've seen in other quarters, we are very happy with that growth rate going forward.

Visa Mastercard product grew by about 10% annualized rate in the quarter.

We're cautious about the whole sub prime area. Our portfolio sub prime visa Mastercard is about $1.3 billion that, compares to about $1.1 million a year ago. To put it in perspective, that's less than 1% of our total portfolio.

Now, the other thing, when you look at our supplement and look at visa and mastercard, you will see we're down year-over-year, just remember that last year we sold a $900 million goldfish portfolio.

Private label business grew 5% annually at an annualized rate in the quarter we had three new small merchants, we have other merchants, hopefully that are in the pipeline and expect that growth rate to pick up in the second half of the year.

And then finally on our unsecured product, you can see from the table that it grew at an 18% annualized rate.

Now, we also break out the pieces of that portfolio and I point out that the fastest-growing part is our union privilege loan portfolio which grew at a 33% rate, that's a prime-based portfolio, very good credit quality.

Our domestic unsecured product, which is probably of a lower credit quality, grew at less than a 6% rate. You can also see that in the foreign side this is where you're seeing a big part of the FX.

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So,summary, good consumer demand, credit and product mix is good. And really, the whole front end of the business right now is performing extremely well. We're very happy with that.

Let me switch to credit quality and to comment that generally we're very pleased. In the supplement, we give you a whole bunch of statistics, own-basis, management-basis.

I will focus on the managed basis, that's the truest picture of the portfolio. And also we will focus on sequential quarter changes.

We talked about delinquency, it was down 10 basis points that, was a little better than what we thought. The biggest improvements in visa mastercard and that biggest improvement was in the sub prime portfolio, delinquency was down very nicely. We had some increase in delinquency in auto Of that is seasonal and some of it was expected in that we've been working with McKinzy to develop some models that based on the customer's credit and behavioral characteristics and on the type of collateral that we may be able to work longer with the borrower.

Our outlook for delinquency going forward both in the auto portfolio and in total is to be kind of stable to down for the rest of the year.

Charge-offs, as Bill mentioned, were up modestly, 16 basis points. That was consistent with what we thought. About half of that increase was due to bankruptcy, which is really the reason we saw the increase in the credit card portfolio.

Going forward, as Bill indicated, probably some pickup in the 3rd quarter modestly and then probably trending downward in the 4th.

In the supplement, we indicated the consolidation of REO and product, you can see the combined loss rate of 1.23%. That was up 18 basis points in the quarter that was due to the aging of the portfolio. And we're seeing higher loss severities due to bankruptcy filings, but overall, that portfolio continues to behave extremely well.

We also included in the supplement, some re-age data. We introduced that in April based on December numbers. We said we would update it at mid-year. We presented it in a fashion to look at comparative trends.

The total portion of the portfolio that's being raised was 16.7% at the end of June versus 16.9 at the beginning of the year. I think what is significant is if you look at the re-age activity in the last six months, you can see it trending downward. That's what you would expect as the economy starts to improve and so forth. You would expect that.

Really no big differences by-product and really no big differences in any of our policies.

Finally, with respect to reserves, the increase in total, $225 million

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in the quarter. The reserve ratio was 4.14%. That was up from 4.10 in the prior quarter and up pretty nicely from the 3.78% a year ago.

Reserves to non-performing loans were also up in the quarter both compared to March and a year ago.

So, we're very comfortable with our reserving and really looking forward -- we currently have an outlook for stable reserve ratios.

Now, switching over to balance sheet management, this is obviously an important area and we continue to be conservative and take a cautious approach.

Let me comment first on liquidity. At June 30, our commercial paper outstanding was about $3 million, that's comparing to about $5.35 billion at the end of March and had an average life of 32 days. Now, that level is kind of artificially low.

In the 2nd quarter we were very active in the term markets. We thought the markets were attractive and wanted to take advantage of the funding based on market timing.

Going forward, we would expect that cp balance to be more in the 5 to $6 billion range. Cp backup lines were $10 billion and our undrawn conduit lines were about $6.7 billion versus $5.4 billion at the March quarter.

Now, we added another billion dollars in conduit lines in the quarter, which is on top of the $5 billion we added in the 1st quarter.

In addition, at June 30, we traded an investment portfolio of about $4 billion. That dpirs $1 billion at the beginning of the quarter -- compares to about $1 billion at the beginning of the quarter.

All of the liquidity management things are the right thing to do, but there is cost to that. We estimate that the cost of the liquidity portfolio, the cost of extending maturities and commercial paper outstandings was about 2 cents in the quarter.

Looking to the rest of the year, we expect that to be maybe around 3 cents in each of the respective quarters.

And quite honestly, it is this liquidity management which caused the slight decrease in the net income margin percent that you can see why we talked about funding, we were very active in the quarter. We had no problems in accessing the markets. Spreads were good. We did a $2.5 billion, U.S. Collar denominated global. $2.7 billion euro denominated global. Swap back to dollars were almost equal in the markets.

Also active on the securitization side, we did a $600 million U.K.,

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visa mastercard deal. We did a $925 million public auto deal, we did a $1.3 billion branch-based real estate deal.

I'd also comment that we did a billion-dollar wholesale securitization which closed in early July. Now, those real estate deals we account for as real estate secured financing.

I'd like to comment briefly on some of the concerns that fitch raised earlier about the opportunity monetize our collateral. For the first six months, we've done $2.3 billion in our watch-based product. A billion out of our wholesale product and a $900 million hold on sale. So, we're very comfortable in how the market has received our paper.

Let me switch to capital. If we focus on the [INAUDIBLE] it was 2.4% at the end of the quarter, versus 2.81 at the beginning of the quarter, but 7.6% a year ago.

Now, the 1st quarter was kind of artificially high because we had just done a preferred deal and as we indicated before, we're looking at a range of 8 to 8.25. During the quarter, we brought back $68 million in common, but slowed the common buyback program and are absolutely committed to maintaining the necessary capital targets.

Finally, let me comment briefly and kind of bank regulatory issues. And as I said, I think that's probably on people's minds given the announcement yesterday. There is no question that the national banking regulators are taking a more conservative view and we've seen that and we've been able to respond to that.

Now, as we disclosed in the 1st quarter in our SEC filings that, we had talked to them about capital requirements and that we put in an extra $1.2 billion of capital in the 1st quarter in our national banking subsidiaries. That translated into the higher capital ratios and higher capital targets we're seeing for the company overall.

And we've also enhanced the liquidity in the bank, you know, of the $4 billion liquidity portfolio behind june, we've dedicated $2 billion of that to enhanced liquidity in the banking subsidiaries. We had also indicated in the 1st quarter disclosures that we going to merge our three national credit card banks and we did that, effective July 1.

We merged the three into one. Two of them were subsidiaries of HFC. Was a subsidiary of Household Bank FSB. The one will now be a sub of HFC. We did it to really streamline and simplify some of the regulatory process, as always just to opt mist capital and liquidity management. We've maintained a constructive dialogue with all the regulators and are very comfortable that we're going to be able to continue to run our business the way we've always run our business and so we feel good about that.

Now, those conclude the overall comments was I going to make and operator, perhaps you could give the polling instructions for Q&A.

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OPERATOR: Thank-you. Sir. Our question and answer session will be conducted electronically.

If you would like to ask a question, firmly press the star key followed by the digit 1 on your touch-tone phone. We will come to you in the order you signal. And if you find your question has been asked and answered before you could ask it and would like to remove yourself from the question roster, please firmly press the star key followed by the digit 2.

Again, if you would like to ask a question, press the star key followed by the digit 1. And for our first question, we go to Bob Napoli with U.S. Bancorp piper Jaffray.

BOB NAPOLI, US BANCORP PIPER JAFFRAY: Good morning and nice quarter. I wonder if you could expand more on two issues that are on everybody's minds. The -- are there any other discussions going on with regulators? I mean are they looking for any other niche types of information or spending -- I wonder if you could talk about that a little more. Then, the second issue, you know, that frequently comes is that the predatory lending issue, can you just talk a little bit about what's going on with some of the lawsuits and the extent that you can help us out on that. Thanks.

WILLIAM ALDINGER: Well, Bob, we're going to split the question. Dave will talk about the regulatory. I will talk about --

DAVID SCHOENHOLZ: Let me quickly take the regulatory thing. We're always having conversations with the regulators. Part of it is to maintain an act of constructive dialogue, but there is nothing analogous to what was discussed yesterday.

WILLIAM ALDINGER: Let me talk about the predatory lending issue.

I hate that term, but it is now become synonymous with sub prime lending, unfortunately. We've been the poster child lately for the issue.

I think you need to look at it in a broader perspective, what's happening with state legislation, federal legislation, what is happening with the ACORN suits and what is happening with the ags?

So, we have three or four elements that combine to raise the question, what's going to be the impact on household, particularly on our long-term model?

Let me start with the states first. A number of states in the last year have enacted what they call predatory lending statutes that were really,some cases, appropriate. There are a lot of people who do act badly in the sector. That's been in place, California is one of those states. A number of big states have done that. We expect more states to do it.

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The impact on us of those changed laws has been virtually nill or minimal. That's because we already have in place our best practices and in many places, our best practices exceed what these states have been asking or are in line with what the states are asking.

So, that is evidence, by as Dave went through, our growth rate is tremendous in the branch, looking at 15% annualized growth rate, high revenue growth and roas in the 2%.

So, we would say that state legislation to date has not impacted the returns or the business model.

We would expect more states to follow on because it is a great political issue, but we don't think that it's going to impact our model because of the way we've positioned our best practices and because of the 124-year history. The next one is federal legislation. We don't think anything will pass this year.

Our preferred solution would be federal legislation because it would be consistent. We're going to work constructively with the federal regulators and legislators to hopefully get something next year.

So, again, even what sarbaines proposed is not that different from our model today.

Now let's talk about the lawsuits. We think, straight out, that the class action suits brought by acorn, in particular, are just baseless and we don't see any long-term impact there. We think they're wrong.

On the ags, obviously, again, it's a political issue. There's been lots of talk. We will, like we do on everything else, focus on resolving that issue over the next six months or so. But I can't go in any details except to say that I am confident that our best practices and our current model ultimately will prevail and will do what we do because we do not do predatory lending.

The final message is lots of moving parts, lots of headline issues, but, economically, we run a very strict model and a very good model for our customers and we don't think when we're sitting here talking to you next year there will be anything substantially different in the returns or practices. I'm sorry for such a long answer.

BOB NAPOLI: No, thank you.

OPERATOR: Our next question go to Mike Hughes with Merrill Lynch.

MIKE HUGHES, MERRILL LYNCH: Thank you. One fundamental question and one beat the dead horse question. The income was a little lighter this quarter. I wonder -- the impact of ralph, I hoped for some information there. And the beat the dead horse there, the regulatory scene is most focused on actions backed by deposits. I presume due to the capital

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additions you've made, you're probably already hitting the 200% risk-based capital, but I want confirmation that the regulars couldn't interpret you guys have "deposits-backing sub prime assets" and you're hitting capital ratios such as those.

UNIDENTIFIED: Mike, on the second one first, your assumption is absolutely right. We are, based their sub prime guidance, we are well capitalized already and that's what we accomplished in the 1st quarter. So, I think that issue we've dealt with and are done with. We would not expect anything more on that front.

On the fee side, they were down that, really relates to late limits. That's the flip side of an improving delinquency position. So, you know, as we see a little bit of compression on that revenue side, we're expecting to see the offset really on the credit side and also on the collector expense side. Going forward, you know, I think the run rate will pick up a little bit as volume picks up, but that's really what it's related to.

MIKE HUGHES: Is that anything particular behind the increase and charge-off rate on real estate securities?

UNIDENTIFIED: As I indicated, you have a portfolio that's grown rapidly and will continue to age a little bit, and so that's one point. And the other thing, we are particularly in second, in seconds where you have additional bankruptcy filings and are seeing additional loss severity. The combination of ROE and charge-offs at 120 basis points is still pretty darn good.

MIKE HUGHES: Yeah, okay, thank you.

OPERATOR: Our next question, we go to Bradley Ball with Prudential Securities.

BRADLEY BALL, PRUDENTIAL SECURITIES: Thanks. Bill, you mention that he did in light of the state's rules, you're still operating, sounds like as profitably state by state as you were prior to the new laws that are being put in place. I assume that it takes into consideration the adjustments that you began making about a year ago when you discontinued single premium life insurance as well as the other "best practices" that you put in place. Just acknowledge that if that's the case.

WILLIAM ALDINGER: That's right, Brad.

BRADLEY BALL: Thanks. And then, separately, just a quick question for Dave on credit quality. Can you dig down a little deeper on the increase in charge-offs in the other unsecured? It was a little sharper than we had expected. What's going on there and what's the forecast for the other unsecured charge-offs as the year progresses jairks well that, product type includes some of the branch base on secured product and so you have a customer who probably, the entire customer profile is the most exposed to kind of an economic downturn. That's what you're seeing there, increases in bankruptcy and I think that type of customer, who has less resilience, our expectation for that is consistent what we

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talked about in the portfolio in total. I think we probably will have a -- a little bit of a bump there in the 3rd and then our expectation is that is going to start to level out. Is that assuming that unemployment has peaked? If we see a higher level of unemployment here, does the forecast change?

DAVID SCHOENHOLZ: If unemployment continues to go up and the consumer starts to topple, obviously we'd have to reassess that.

BRADLEY BALL: Okay. Thank you.

OPERATOR: Our next question, we go to Matt Veto with Salomon Smith Barney.

MATT VETO, SOLOMON SMITH BARNEY: Hi, good morning, couple of questions. First, on the litigation front. It seems like we read something a while back that a court made a preliminary ruling preventing the enforcement of an arbitration clause. Did I read that right?

And secondly, the incremental cost of a couple of pennies for the liquidity portfolio build, would that be incremental to the earnings guidance you have talked about or is that baked into your forecast?

WILLIAM ALDINGER: Let me cover the second point, I think the -- as we did in the 2nd quarter, I mean the run rate of the business absorbed the liquidity costs and our expectations for the second half of the year is at the run rate of the business will absorb those costs, so that doesn't change where we were before. Yeah, on the arbitration clause, I think that was the California case. As we know, California tends to object the outer edges on most of the legal issues and the supreme court has upheld arbitration clauses in a number of cases, we are on appeal there and, you know, I think -- I think the entire financial services industry, in every part of the business, as you saw arbitration clauses effectively, are the right thing. We're going ton use them and appeal that jurisdiction. But it's been upheld in multiple jurisdictions.

MATT VETO: Great, thanks.

WILLIAM ALDINGER: Okay.

OPERATOR: For our next question, we go Michael Hodus with Goldman Sachs.

MICHAEL HODUS, GOLDMAN SACHS: Hi, good morning. I wondered if you could elaborate a little bit on the interplay you're seeing with the fixed income investment community.

Household has taken steps to improve liquidity, lower -- lower leverage -- quantify that to a certain extent. Can you just give us, you know, your sense of what kind of assumptions you're baking into the outlook for spreads to treasuries and how you see that evolving?

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WILLIAM ALDINGER: Well, our -- part of the reason we were such an acrite issuer in the term-debt market in the 2nd quarter is that we saw spreads being attractive. We had good demand for our product.

A good investor receptivity and which is why we issued -- now, having said that, spreads have been volatile because of the overall capital market environment and so, therefore, you need time when you're going to issue. Our spreads, compared to historical levels, are still pretty comparable.

The other point I would make is that spreads on the asset-backed side have really been more consistent and more stable than spreads on the unsecured product and which is why we've been pretty active in the asset-backed markets, including the real estate market. So, our expectation will be that as spreads might be a little bit higher, just given uncertainty, but we will issue opportunistically and it's relates to overall bofr yoshing costs, that's well under control.

MICHAEL HODUS: Great, thanks.

OPERATOR: Ladies and gentlemen, due to time constraints, we have time for only one additional question. That question comes from Joel Hauck with .

JOEL HAUCK: Thanks and congratulations for being ahead of the other companies in the space.

My question was why have you changed the securitization disclosure where you no longer break out the amortization of gains in the overlight provision? And can we get that put back in to the quarterly supplement?

DAVID SCHOENHOLZ: The question of securitization disclosure has been controversial and what we had disclosed previously was securitization information on a managed basis and our conclusion was, and I think we got feedback from people that they thought that that was confusing. So, what we've conclude is that we would disclose it on only an owned basis and that if somebody wanted to also understand the net people -- net impact relative to financial statements, we would simply disclose that amount and that's the approach we've taken. And to supplement, there is a footnote in there that talks about that and I think I would not want to go back and muddy the issue.

JOEL HAUCK: Okay, and perhaps it is a follow-up offline.

DAVID SCHOENHOLZ: That's fine.

JOEL HAUCK: Okay, great. Thanks, Dave.

OPERATOR: Mr. Stream, back to you for closing remarks.

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CRAIG STREAM: Thank-you. Thank-you for your attention today and I apologize for the questions I couldn't get to. We are constrained by time. Either me or celeste and we will try to get your questions answered as quickly as we can. Have a good day. Thanks.

OPERATOR: Ladies and gentlemen, this concludes our conference call for today. You may disconnect at this time.

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NS c12 : Corporate Crime/Legal/Judicial | ccat : Corporate/Industrial News | gcat : Political/General News | gpol : Domestic Politics | ncat : Content Types | ntra : Transcript

RE namz : North America | usa : United States

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Exhibit 16

FPK

Credit Card Industry

US Specialty Finance

July 17, 2002

Industry Update

Disclosure information may be found at the end of the report.

Regulatory Uncertainty Causes Big Problems For Consumer Finance Group

Group Downgraded to Underperform. We believe that the announcement of the regulators' imposition of a Memorandum of Understanding on Capital One Financial represents a profoundly significant development for the consumer credit industry, the ramifications of which could lead to lower returns, increased capital intensity and greater regulatory uncertainty in the future. The news throws into question the long-term sustainability of the business model.

We are taking the following rating actions:

		Rating		Price Target		Target Multiple	
		Old	New	Old	New	Old	New
Capital One Financial	COF	BUY	ATTRACTIVE	$76	$64	18x	14x
Household International	HI	BUY	ATTRACTIVE	$75	$63	15x	12x
MBNA Corporation	KRB	ATTRACTIVE	HOLD	$29	$26	17x	15x

- **The regulators insistence that Capital One boost reserves held against credit card loans to individuals with FICO scores of less than 660 represents the regulators lack of comfort with the use of federally guaranteed deposits as a funding source for sub-prime lenders.** The decision to hold Capital One (viewed as a financially strong, high quality player, on a different level than Metris and Providian) to the toughest applications of that standard caught us off-guard, and potentially signals that such tough standards could be applied to other industry participants, including more diversified, financially stronger banks.

Fundamental Data for Credit Card Industry

Consumer Finance Stocks

Conventional Valuations

Company	Symbol	Rating	Price 7/16/2002	Target Price	Target Upside	YTD Perf	Market Cap	EPS 2002E	EPS 2003E	P/E 2002E	P/E 2003E	Price/ Book 03E
Capital One Financial	COF	Attractive	$50.60	$64	26%	-6%	10,677	3.78	4.54	13.4	11.1	2.03
Household Internationa	HI	Attractive	$46.10	$56	21%	-20%	21,100	4.70	5.31	9.8	8.7	1.72
MBNA Corp	KRB	Hold	$20.36	$26	28%	-42%	17,343	2.26	2.60	9.0	7.8	1.58
Metris Companies	MXT	Hold	$6.07	$12	98%	-76%	603	0.85	1.30	7.1	4.7	0.47
Providian Financial	PVN	Hold	$4.05	-	-	14%	1,151	-0.01	0.38	-	10.7	0.59

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- **The forcefulness of the unexpected move raises concerns that regulators may impose other tough interpretations of currently unresolved issues including:**

  1) the amount of capital securitizers must hold against lower-rated and un-rated securitization tranches and I/O strips;

  2) the accounting for reserves against uncollectable finance charges and fees; and,

  3) the overall treatment of securitization trusts as off-balance sheet liabilities. The regulators move in this instance is consistent with expectations that regulators may become increasingly risk averse in the post-Enron environment.

  It is concerns about the pending regulatory matters that compel us to downgrade MBNA (a mostly prime lender) not expected to be impacted much by the ruling on sub-prime risk weightings, but who achieves an acceptable ROE by running on low capital and reserves.

- **The higher capital standards for sub-prime lending has the potential for potentially cutting in half the return on equity of the highest margin business for credit card lenders.** This adverse development comes at a time when lenders are having difficulty achieving acceptable profitability levels in the highly competitive, saturated super-prime business. The timing is particularly unfortunate for COF as the sub-prime business has recently been made more attractive by the reduction of competition (mostly due to MXT's and PVN's pullbacks).

- **The greater capital intensity of sub-prime credit card lending could have the adverse macroeconomic impact of reducing the availability to lower income and credit impaired individuals.** A resulting liquidity crunch could potentially exacerbate the financial condition of consumers on the edge, pushing industry charge-off rates higher, at a time when the durability of the current economic bounce-back has come into question. The potential spillover impact on sub-prime consumer creditworthiness could have a negative impact on the portfolio of Household International, due to its concentration of sub-prime borrowers, despite its relatively small sub-prime credit card business.

- **We are growing increasingly frustrated with the lack of uniformity with an earnings presentation convention known as "managed income statement."** The quarterly impact of MBNA's managed non-interest income number has made its financial results difficult to forecast and raises questions about earnings management. MBNA's opaque disclosure is out of tune with the direction towards financial transperancy in the US stock market and is no longer tolerable.

Mitigating Factors

- **Some economic data continues to track well against our thesis of a strengthening economic recovery for the consumer.** Consumer finance stocks should do well in such a scenario. Recently, however, some of the data have shown cracks in this assumption; and, there is greater uncertainty now than earlier this year, before consumer confidence suffered the frontal blow caused by the corporate governance crisis.

- **One mitigating factor is the lower valuation at which the group now trades.** From a peak of 22x forward earnings in 2002, the group now trades at a much more sober 11.3x, 50% down from the peak. The group's current multiple is 37% below the five year average. However, when viewed versus the expected earnings growth in 2003, the group's P/E/G ratio stands at 41%, representing a level only 26% below the five year historical average, meaning the group's re-valuation is somewhat justified by expectations of lower earnings growth. We simply believe that, with all of the additional regulatory uncertainty, combined with the increased risk of the consumer rolling-over, it is unlikely that the group will recover to peak valuation levels of a few years ago, even if earnings growth expectations were achieved.

Ratings Actions

MBNA. Our reasons for downgrading MBNA are twofold: 1) MBNA runs with the lowest overall level of capital and reserves of any company in the group (and could thus be most adversely affected by any subsequent increases in required capital due to any regulatory change); and 2) we are growing increasingly uncomfortable with MBNA's earnings quality. With these concerns, we are lowering our target price for MBNA to $26.

During 2Q02, it became apparent to us that MBNA's changing securitization assumptions were having a major impact on the managed non-interest income numbers. It appears that MBNA's assumptions were more liberal in 3Q01 (mostly due to lower interest rate assumptions) and became more conservative in the following quarters, creating a drag on earnings. We believe that it is disingenuous to describe MBNA's number as "managed non-interest income" when such a convention should eliminate the effects of gain-on-sale accounting entirely. Additionally, we were concerned that MBNA added nothing to reserves during the quarter through excess provisioning (especially in light of the government's increasing demand for reserves). The purchase of a reserve from Wachovia simply means MBNA gets to amortize the reserve over the period that the excess purchase price is amortized (since they paid more for the portfolio that included a reserve than they would have from one that did not) rather than having the reserve build hit earnings during the 2Q02. Additionally, at yearend, MBNA increased the amortization period for excess purchase price, benefiting the acquisition driven growth strategy. Furthermore, they also increased the pension accounting return assumptions, during a period when the achievement of such returns is becoming increasingly speculative. None of these factors is, in and of themselves a reason to downgraded, but cumulatively, they represent a disposition towards less conservative accounting policies and are, thus, a source of concern.

Household International. While HI may be less directly affected by the potentially regulatory changes of capital levels, the overhang of regulatory hostility does impact the stock. Accusations of predatory lending, however baseless they may be, gain additional currency in a market, seized by fear of events outside of management's control. Whether legislators jump on the bandwagon that the trial lawyers and regulators and riding is a rising risk for HI. Additionally, as HI goes further down the rode to securitization, additional questions regarding the quality of earnings arise. When investors pay attention to key fundamental drivers like loan growth, margin, credit quality, and cost control, HI does fine, because it delivers. When the focus moves away from the fundamentals towards unquantifiable factors like litigation and regulatory risk, the upside on the stock will be capped. We do not see HI trading at better than 12 times earnings in this charged environment, and thus have lowered our target price to $63.

Disclosure Information

The compensation earned by the analysts on this report is based, in part, on the overall profitablility of FPK, which includes investment banking revenues.

Analyst Disclosure Information

Disclosure Information for Capital One Financial Corporation

Analyst Questionnaire

- Historical P/E Ratios
- Increased Regulatoy Scrutiny Leading to Lower than Expected Returns and Overall Weak Consumer Credit Pressuring Loss Ratios
- To the knowledge of the research analyst principally responsible for the preparation of this report, no actual material conflict of interest of FPK, or any research analyst contributing to this report, or any member of such research analyst's household exists.

Disclosure Information for MBNA Corporation

Analyst Questionnaire

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- Increased Regulatoy Scrutiny Leading to Lower than Expected Returns and Overall Weak Consumer Credit Pressuring Loss Ratios
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Disclosure Information for Metris Companies

Analyst Questionnaire

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Disclosure Information for Providian Financial Corp

Analyst Questionnaire

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Disclosure Information for Household International

Analyst Questionnaire

- Historical P/E Ratios
- Increased Regulatoy Scrutiny Leading to Lower than Expected Returns and Overall Weak Consumer Credit Pressuring Loss Ratios
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- Neither FPK nor its affiliates received compensation for financial services from this company during the past 12 months.

Proprietary Trading

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Analyst Financial Interest

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Disclosure Information for Metris Companies

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Disclosure Information for Providian Financial Corp

Investment Banking

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Disclosure Information for Household International

Investment Banking

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- Neither FPK nor its affiliates managed or co-managed a public offering of the securities of this company during the past 12 months.
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Proprietary Trading

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Analyst Financial Interest

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Ratings Definition Information

Ratings in the US are defined as follows:	
Buy	*Stocks, we believe will outperform the appropriate market index (the S&P 500) by a significant margin over the next 12 months. By significant we generally mean by at least 10 percentage points. Generally, these will be the analysts most favorite stocks; they are also the stocks that are expected to outperform the analysts universe*
Hold	*Stocks, where we do not have any conviction one way or another that the stock will outperform or underperform the benchmark index*
Attractive	*Stocks, we believe will outperform the appropriate market index (the S&P 500) by a significant margin over the next 12 months. Beyond the expectation of out-performance there is no other numerical requirement*
Sell	*Stocks where we have a strong conviction that there will be a meaningful decline in price*

Ratings in the UK are defined as follows:	
Buy	*Stocks which we are happy to buy immediately at the prevailing price in the expectation of significant near term absolute (20%) and relative (10%) price performance, and which are fundamentally attractive for the longer term*
Attractive	*Stocks which we would not buy immediately – because of the valuation*
Hold	*Stocks with limited fundamental attractions, or fundamentally good stock*
Overvalued	*Above fair value; likely to underperform*
Sell	*Stocks which are fundamentally unattractive and where there is a serious downside risk*

Exhibit 17

-- FIRST CALL --

10:28am EDT 19-Jul-02 Legg Mason (Brendler, Chris(410)454-5505) HI HI.N
HI: Solid 2Q02; Remain Concerned part 1

Legg Mason Wood Walker, Inc.
Household International, Inc.
Company Note NYSE:HI Chris
Brendler, CFA
July 19, 2002
ccbrendler@leggmason.com
RATING: H/2 (410)
454-5505
Timothy B
Ferriter

tbferriter@leggmason.com
(410)
454-4546

Solid 2Q02; Remain Concerned

FUNDAMENTALS					
Price (07/18/02)	$42.41	FY End Dec	2001	2002	2003
S&P 500 Index (07/18/02)	882	Revenue(MM)	$10,847.	$12,942.	$14,214.5
52-Week Range	69-41	Prev (MM)		$12,542.	$13,862.0
Shares Out(MM)	457.7				
Float Outstanding(MM)	447.1	EPS			
Market Cap(MM)	$19,411.1	Q1	$0.91A	$1.09A	$1.20E
Enterprise Value(MM)	$19,411.	Q2	$0.93A	$1.08A	$1.25E
Avg Daily Vol(3mo)	3,482,29	Q3	$1.07A	$1.19E	$1.34E
Projected 3Yr. CAGR	15.4%	Q4	$1.17A	$1.29E	$1.46E
Debt/Total Cap.	NA	Fiscal Year	$4.08A	$4.65E	$5.25E
Net Cash/Share	NA				
Dividend	$0.88	P/E	10.4x	9.1x	8.1x
Yield	2.3%				
Book Value/Share	$19.47				
Target Price	NA				

All relevant disclosures appear on the last page of this report.

---

* HI reported fairly solid 2Q02 EPS of $1.08, in line with consensus estimates and $0.02 ahead of our estimates.
* Positives included slightly better-than-expected loan growth, and more importantly, impressive asset quality trends including falling delinquencies and a flat re-aged portfolio.
* However, we think it's too early to celebrate as we would like to see more sustained declines in the re-aged portfolio along with continued positive asset quality trends to become comfortable with HI's performance in this recession.
* In addition, we thought earnings quality was just average as large securitization gains offset our positive view of managed reserve building. In addition, with the weakness in the NIM and fee income this quarter, we believe HI needs continued strong securitization income to meet consensus estimates and it's not clear if reserve building will keep pace.
* Still, we think HI's asset quality trends and increasingly secured loan mix support more stable reserve levels and are comfortable raising our EPS estimates slightly, but remain marginally below consensus. Our new 2002 EPS

estimate is $4.65, up from $4.60 while our 2003 estimate is up to $5.25, representing 13% y/y growth. These new EPS estimates take into account the minimal impact of HI's decision to expense options in 4Q02 ($0.01 in 2002 and $0.02 in 2003).
* More importantly, we remain concerned about the broader issues in this highly uncertain environment. Essentially, we think the level of scrutiny being applied to both companies with unclear accounting practices and companies with subprime lending activities puts HI at risk. As such, we simply don't find HI's valuation compelling enough in this market environment. Accordingly, despite better-than-expected asset quality trends and a decent quarter, we are maintaining our Hold rating on the shares until the environment improves.

Discussion

HI reported fairly solid 2Q02 EPS of $1.08, in line with consensus estimates and $0.02 ahead of our estimates. Positives included slightly better-than-expected loan growth and good asset quality trends. However, earnings quality was only average as revenue growth (21.2% y/y) was driven by securitization gains and other income while the NIM and fee income were worse than our forecast. In addition, reserves were flat on an owned basis as all of the reserve building was due to the outsized securitization activity.

Still, we think HI's asset quality trends and increasingly secured loan mix support more stable reserve levels and are comfortable raising our EPS estimates slightly, but remain marginally below consensus. Our new 2002 EPS estimate is $4.65, up from $4.60 while our 2003 estimate is up to $5.25, representing 13% y/y growth. These new EPS estimates take into account the minimal impact of HI's decision to expense options in 4Q02 ($0.01 in 2002 and $0.02 in 2003).

Most importantly, we remain concerned about the broader issues in this highly uncertain environment. Essentially, we think the level of scrutiny being applied to both companies with unclear accounting practices and companies with subprime lending activities puts HI at risk. While some are worried about COF-type action at HI, we think this is a remote possibility given the small size of company's regulated bank (less than 10% of assets). As such, it is difficult to define the risk, but we simply don't find HI's valuation compelling enough in this market environment. We also note that predatory lending, while likely overblown, is likely to continue to create additional headline risk (also not treated well in this market) with little visible improvement over the near term. Accordingly, despite better-than-expected asset quality trends and a decent quarter, we are maintaining our Hold rating on the shares until the environment improves.

Details

We were impressed with HI's loan growth and asset quality trends in the quarter. First, loan growth was strong at $4.3 billion (4.2%) sequentially and up 15.2% y/y, although excluding foreign exchange effects, the growth was

only $250 million above our forecast. Versus our estimates, growth was strong in home equity (+5.7% q/q, +23% y/y) and other unsecured lending (+4.4% q/q, +12% y/y) while only auto finance (+4.0% q/q, +33% y/y) was slower than expected. We note that lending volumes seemed to have rebounded in the branches, as sales incentive expenses were up 25% sequentially although still down 8% y/y. We believe that unlike 1Q02, however, the y/y decline in incentives was due to the new compensation formulas rather than lower volumes.

More impressively, asset quality trends were quite good, particularly relative to the economy and the additional disclosure that the re-aged portfolio was flat in percentage terms from year-end levels. The delinquency rate dropped 10 bps to 4.53% (our estimate was 4.75%) as improvements in home equity and credit card more than offset the seasonal increase in auto delinquencies (+68 bps to 3.19%). The net loss rate was also somewhat better than forecast, up 17 bps to 4.26% vs. our estimate of 4.30%. HI did report seeing some impact from bankruptcy filings with the credit card (losses up 37 bps to 7.54%) and home equity (up 21 bps to 0.86%) feeling most of the impact. Unsecured lending was also weaker than expected with loss rate up 70 bps sequentially and 174 bps y/y to 8.56%. Not surprisingly in this economic environment, HI is seeing the most weakness in this lower-quality portfolio.

In our view, the combination of falling delinquencies and decent loss trends is a positive as it seems that HI's overall credit quality is holding up well despite the recession and weak trends at other subprime lenders. We also note that the re-aged portfolio - disclosed for the second time as promised - was flat from year-end in percentage terms (down 20 bps to 16.7% of the portfolio) and up only slightly in dollars. However, we think it's too early to celebrate HI surviving the recession without significant asset quality problems as we still would like to get more comfort on what HI's delinquency trends would look like with more conservative accounting practices. We note that a large portion of HI's portfolio was still re-aged recently (7.4% in 1H02, down from 9.0% in 2H01) and we think this re-age activity will likely increase in the seasonally weaker second half of the

year. We need to see more sustained declines in the re-aged portfolio along
with continued positive asset quality trends to become comfortable with HI's
performance in this recession.
For the rest of quarter's fundamentals, we found results to just be OK.
Despite the strong loan growth, revenue growth was only in line with our
estimates (up 21% y/y) as disappointing fee income and a lower NIM (down 21
bps to 8.87%, vs. our estimate of 9.15%) were offset by higher-than-expected
securitization gains and other income. While the NIM pressure was due to
additional liquidity on the balance sheet, we expected more out of the fee
income line. Although management indicated that lower delinquency rates are
hurting late and over-the-limit fees and fee income is primarily credit card
driven (branch loans don't have late fees - interest simply accrues from day
1), we note that 60+ day delinquencies in dollars outside the branch business
lines were up 18% y/y in dollars while fee income was down 16% y/y. Two
potential explanations would be an improvement in the early stages (less than
60-day delinquencies), which we don't see, and the lost interchange income
from the sale of the U.K. Goldfish portfolio. The bottom line is although we
expect fee income to improve seasonally in 2H02, we don't think it will be up
on a y/y basis this year.

As a result, we think earnings quality was just average as the revenue line
was helped by continued large securitization gains offsetting the positives
in the reserve building. Indeed, we note that the two are closely related.
Although managed reserves grew to 4.14% from 4.10% (with NPA coverage up to
112.4% from 108.3% at 1Q02), all of this increase was due to the reserve
against the I/O strip (up $115.7 million and 36 bps sequentially to 6.12%).
On an owned basis, reserves did grow $85 million sequentially, but were down
2 bps sequentially as a percentage of loans, 12 bps less than forecast. In
evaluating HI's earnings quality, we believe investors should focus on either
the net impact of securitization ($29 million this quarter) and owned

reserves levels or managed securitization income ($135 million) and managed
reserves. This is because the difference between these two securitization
numbers is roughly the change in the I/O strip reserves. We would prefer to
focus on the former as net securitization impact and owned reserve levels are
less volatile. However, managed credit quality statistics are more intuitive
and available by business line. Using a combination of both, we think
earnings quality was just OK as most of reserve building was due to
securitization activity.
More importantly, we have a little trouble getting to consensus estimates
without increasing net securitization income (after I/O strip reserves) or
dropping owned reserve levels. So far, under the new securitization
disclosure that began this year, we have significantly underestimated both
the securitization gain line item in the managed income statement in both
1Q02 and 2Q02 (by $105.6 million and $65.7 million, respectively) and related
increase in I/O strip reserves (by $121.6 million and $115.7 million,
respectively). For the rest of 2002, we think securitization volumes will
increase (about $5 billion securitized in 2H02 vs. $4.4 billion in 1H02) and
so will securitization income and relatedly I/O strip reserve building. What
is not clear, however, is if management's guidance of continued reserve
building this year is in dollars or as a % of receivables or is on an owned
or managed basis.

(continued...)
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-> End of Note

This distinction has a significant impact on our EPS model as falling owned reserve levels would be of lower EPS quality, in our opinion. We do note however, that this could be somewhat supported by the improving delinquency trends (if sustained in 2H02) and the increasingly secured real estate mix of the owned portfolio (up to 58.1% in 2Q02 from 57.3% last quarter and 53.8% a year ago). As a result, we are somewhat comfortable projecting both increased securitization gains and falling owned reserves, but remain marginally below consensus as a result. Our new 2002 EPS estimate is $4.65, up from $4.60 while our 2003 estimate is up to $5.25, representing 13% y/y growth. These new EPS estimates take into account the minimal impact of HI's decision to expense options in 4Q02 ($0.01 in 2002 and $0.02 in 2003).

Summary

Additional Information Available Upon Request.
Investment Rating: B-Buy, H-Hold, S-Sell
Risk Rating: 1-Low, 2-Average, 3-High

Legg Mason Wood Walker Inc. or an affiliate has received compensation for investment banking services from Household International, Inc. within the last 12 months.
The information contained herein has been prepared from sources believed reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. No investments or services mentioned are available in the European Economic Area to private customers or to anyone in Canada other than a Designated

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-> End of Note

Exhibit 18

PORTALES PARTNERS, LLC

August 5, 2002

William Ryan (212) 414-0211

Household International (HI-$38-SELL)

"What is Wrong With This Picture"

Over the last several years, Household, as well as many other lenders, have increased loan-to-value ratios of home equity loans in the pursuit of growth. It would appear that lenders have been using above average inflation in home prices to relax lending standards, namely loan-to-value ratios (LTVs), to achieve overly ambitious growth targets. However, what we believe is unusual about Household is the company's willingness to extend such high loan-to-value ratios to subprime customers where there is significantly greater credit risk. This represents a substantial break in the lending profile that the company has maintained over its 100 plus year history. Further, after reviewing loan characteristics at several other lenders, it would appear that Household has been making loans at substantially higher loan-to-value ratios than most of its peers.

In the table below, we compiled data from various home equity securitizations to provide a snapshot of the changing risk profile of Household's home equity loans. The securitizations were all issued from "HFC Revolving Corp.", one of Household's securitization special purpose entities. We have also provided some thoughts about the increasing risk profile. At a minimum, we believe the changing risk profile could lead to substantially higher losses in the current weak economic environment. At most, the rising loan-to-value ratios would suggest a strategy on the part of the company to increase loan-to-value ratios to a point where consumers would be unable to refinance any mortgage away from Household, a practice that is increasingly consider predatory.

Rising Loan To Value Ratios Mean Slower Prepayments, But Greater Risk

	Household Revolving HEL Cert. 1996-1 5/17/1996	Household Home Equity Loan Trust 1999-1 11/16/1999	Household Home Equity Loan Trust 2002-2 6/19/2002
Combined Loan To Value Ratio - %	81.7%	93.3%	100.5%
% Of Pool Greater than 100% LTV	***1.4%***	***42.4%***	***67.8%***
% of First Mortgages in Pool - $	31.3%	85.8%	87.6%
% of Second Mortgages in Pool - $	68.7%	14.2%	12.4%

Observations:

Over the years, Household's combined loan-to-value ratios for home equity loans in securitizations issued from one of its securitization subsidiaries rose to a staggering 100.5% from 81.7%.

Similarly, the percentage of each securitization represented by loans having a combined LTV ratio in excess of 100% has increased from 1.4% of the 1996-1 securitization to 67.8% of the 2002-2 securitization.

What is highly unusual about the aforementioned portfolio attributes is that the percentage of each loan pool represented by first mortgages on a dollar basis has increased from 31.3% of the 1996-1 securitization to 87.6% of the 2002-2 transaction.

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Normally, one would expect loan-to-value ratios to decrease given the greater concentration of first mortgages within each securitization since LTVs tend to be much lower on first mortgages as opposed to second mortgages.

The simultaneous rise in first mortgages as a percentage of each pool, as well as LTV, would imply that Household has been increasingly using higher LTVs in first mortgages and/or placing a second mortgage on the first mortgage as a means to prevent prepayment of loans, a practice that has been viewed as predatory among regulators and consumer advocates.

The increase in LTV's has likely been exacerbated by the practice of rolling points and fees, which have historically been in excess of 7% on many loans, into the mortgage, thereby making it much more difficult for borrowers to refinance in the future.

At many investor meetings in the past, Household actively discussed its strategy of placing a second mortgage on top of a first in order to slow prepayment speeds.

Rising home prices in recent years have lowered loss severity on defaulted home equity loans, which may, at least in part, explain the phenomenal increase in loan-to value ratios over the years. However, slower home price appreciation, stability in prices, or an outright decline could substantially change the loss dynamics of the "new" home equity loan portfolio.

While Household continually defends its lending practices as non-predatory, it recently ceased offering the high LTV second mortgage at the time of closing of a Household first mortgage loan. In our opinion, the change is practically an admission of predatory lending.

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Exhibit 19

BERNSTEIN RESEARCH CALL
U.S. CONSUMER FINANCE

SEE LAST PAGE OF THIS REPORT FOR IMPORTANT DISCLOSURES

AUGUST 5, 2002

HI: Taking Ownership of Confusing Sales Practices

Howard K. Mason 212-756-4285 MasonHK@bernstein.com, Rick L. Biggs 212-756-4484 BiggsRL@bernstein.com

Ticker	Rating	8/2/02 Price	Absolute YTD Perf.	Relative YTD Perf.	2001A	SCB Estimates 2002E	SCB Estimates 2003E	Consensus 2002E	Consensus 2003E	SCB P/E 2002E	SCB P/E 2003E
HI	M	$39	-27%	-6%	$4.08	$4.65	$5.36	$4.68	$5.28	8.5	7.4
SPX		$864	-21%		$45.16	$51.00	$58.50	$49.69	$56.33		

O – Outperform, M – Market-Perform, U – Underperform

Highlights

- **We hosted a conference call on Friday August 2nd with Household International, in which the firm addressed sales practices that have caused confusion among some borrowers. Tom Detelich, Group Executive for the consumer lending business, acknowledged that there were borrowers who misunderstood rates and loan terms, but added that cases of borrower confusion were not widespread.**
- **Tom added that the firm has undergone a review of training and controls and is committed to raising the bar for customer satisfaction, including (amongst other things) the development of a one-page disclosure document that breaks out pre-paid finance charges and points, disclosing pre-payment penalties, if any, and reminding consumers that credit insurance is optional.**
- **We believe Household is now committed to reducing the incidence of borrower confusion and that there is not a long-term strategy for the firm to engage in sales practices that deceive customers. However, there is the lingering headline risk from practices that have created confusion over the last 2 years. It is almost certain that Household will have to compensate borrowers who have been confused as a result of private lawsuits and possibly a national settlement with State Attorneys General.**

Investment Conclusion

Household International (HI) has near-term earnings flexibility created by the current environment of low interest rates and the shift in the portfolio mix towards low-loss ratio real estate loans (in addition, strong refinance activity is allowing the firm to grow its real estate secured book, which increased 18% year-over-year in Q2). The firm is using some of these surplus earnings to strengthen the balance sheet and specifically to increase liquidity and maintain higher capital ratios. Despite this flexibility, we are cautious on longer-term returns as the impact of recently announced and possible future changes to business practices on loan volumes, fee income, and profitability becomes clear. In the near-term, we believe that legal & headline risks in the real estate lending business are likely to continue compressing the stock's multiple below historical averages. We rate HI market-perform and believe the stock will continue to trade at or near its current relative multiple of 49% until longer-term return prospects become clearer (see ***Exhibit 1***).

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Details

Justifiable Borrower Confusion, But Not Widespread

On a conference call we hosted today, HI addressed sales practices that have caused confusion among some borrowers. Tom Detelich, recently named Group Executive for the 1400-branch US consumer lending business of HFC/Beneficial, acknowledged that some customers had misunderstood their interest rates and other loan terms – particularly in Washington State but also in other States. He added that cases of borrower confusion were not widespread. For example, the firm had identified 42 complaints nationwide over the last 3 years where borrowers were confused about the impact of more frequent payments on their interest rates and placed this in the context of the 1.2 million loans closed each year in the branch network.

Reforming Sales Practices

Tom noted that in some cases training approaches had been modified by middle managers so that some sales practices went from "potentially confusing to absolutely confusing". For example, some borrowers had been left with the impression that if they paid more frequently then somehow their interest rate would be lower and others had failed to understand that a bi-weekly payment schedule, unlike a semi-monthly schedule, means that in two months there are actually three payments. He added that, given this confusion, the firm had reviewed their training and controls and was committed to raising the bar for customer satisfaction. Specifically, Household has:

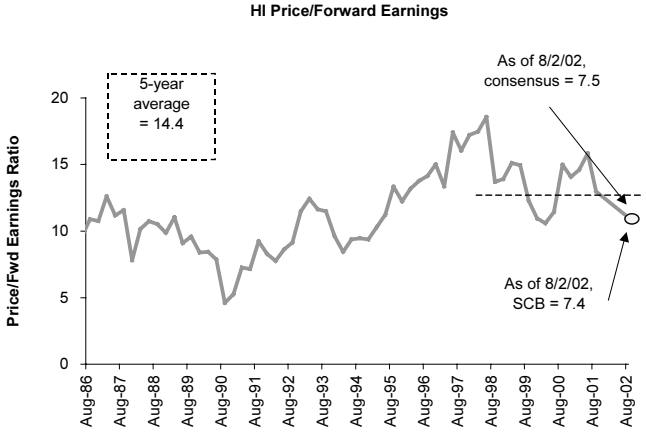
- Introduced computerized training so that it becomes harder for district and sales managers to introduce modifications to training approaches.
- Standardized training materials and sales materials and any variations from these standardized materials are forbidden.
- Developed a one-page disclosure document setting out pre-paid finance charges and points, disclosing pre-payment penalties, if any, and reminding customers that credit insurance is optional.
- Reduced the maximum amount of up-front fees to 5 points, ceased selling single-premium credit insurance, and discontinued "secured sides" (that is, secured personal home loans sold at the same time that a customer enters a first mortgage with Household). Unsecured revolving loans will be available for customers who need funds over and above those provided by their first mortgage.
- Improved customer education through a video that takes borrowers through the loan closing process and an after-closing "sign-off" questionnaire, signed by the customer, in which the customer confirms awareness of any prepayment penalties and of the optionality of credit insurance.
- Created checks and balances to alert senior management to possibly confusing sales practices. Triggers include if a branch is an outlier in terms of the penetration of credit insurance, if sign-off form are not filed, or if a customer's APR is more than 10 basis points away from a benchmark rate assigned by a central system (based on credit profile and debt-to-income level).
- Expanded branch audits to check for non-standard sales and training practices, and confirm that customers have seen the video, the one-page disclosure document, and the sign-off form.
- Upgraded an electronic complaint tracking system to monitor complaints from customers, the Better Business Bureau, Attorney Generals or regulators, and check for patterns suggestive of confusing sales practices.

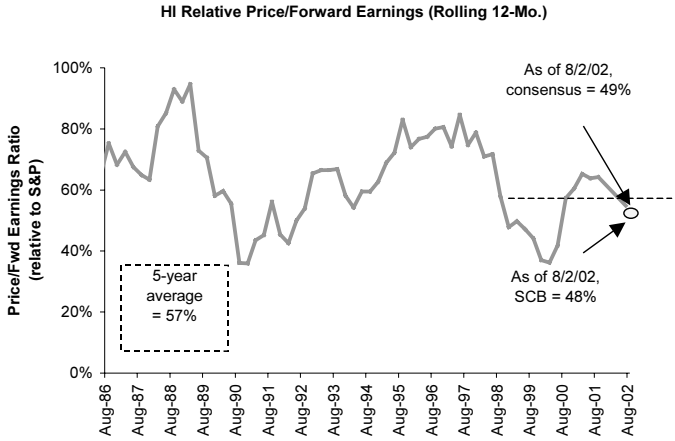
Headline and Settlement Risk Remains

We believe Household is now committed to reducing the incidence of borrower confusion and that there is no long-term strategy for the firm to have any sales practices at any level where customers can be deceived. That said, there remains headline risk from the practices that have created confusion over the last 2 years (particularly in relation to the E-Z Pay Plus product offering bi-weekly payments).

In addition, there will be some earnings impact from the reform of sales practices whose extent will depend on whether borrower confusion has arisen because of the work of a few rogue loan officers, as the firm has suggested, or because of wider systemic factors such as training and compensation. Either way, it is almost sure that Household will have to compensate borrowers who have been confused as a result of private lawsuits and a likely national settlement with State Attorneys General.

Exhibit 1 HI Valuation





	Current Price	2002 Consensus	P/FE
HI	$39	$4.68	8.4
SPX	$864	$49.69	17.4
Relative P/FE:	48%		

	Current Price	2003 Consensus	P/FE
HI	$39	$5.28	7.5
SPX	$864	$56.33	15.3
Relative P/FE:	49%		

Source: FactSet, Bernstein estimates

DISCLOSURES

- **Bernstein analysts are compensated based on aggregate contributions to the research franchise as measured by account penetration, productivity, and proactivity of investment ideas. No analysts are compensated based on performance in, or contributions to, generating investment banking revenues.**

- **Bernstein rates stocks based on forecasts of relative performance for the next 6-12 months versus the S&P 500 for US listed stocks and versus the MSCI Pan Europe Index for stocks listed on the European exchanges--unless otherwise specified. We have three categories of ratings:**

  Outperform: Stock will outpace the market index by more than 15p.p. in the year ahead

  Market perform: Stock will perform in-line with the market index to within +/- 15p.p. in the year ahead

  Underperform: Stock will trail the performance of the market index by more than 15p.p. in the year ahead

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Exhibit 20

DOW JONES

REUTERS

HD **Household Int'l says buys back $1.22 bln bonds.**

WC 214 words

PD 7 August 2002

ET 09:56

SN Reuters News

SC LBA

LA English

CY (c) 2002 Reuters Limited

LP

NEW YORK, Aug. 7 (Reuters) - Consumer finance company Household International Inc. said on Wednesday it paid about $1 billion in cash to buy back nearly all of its zero-coupon convertible senior bonds maturing in August 2021.

The company, based in Prospect Heights, Illinois, bought back all but $1.6 million of the original issue, which carried a face value of $1.22 billion, at 81.914 cents on the dollar, spokesman Craig Streem said.

TD

Household is one of many companies forced this year to buy back or sweeten the terms of convertible bonds, which are stock-bond hybrids, sold in 2000 and 2001 to take advantage of low financing costs.

Many issuers, including Household, sold convertibles with short "put" options. These allowed holders to sell the bonds back early, often in one or two years.

Issuers hoped their shares would rise enough that bondholders would never want to exercise those options. Instead, weak stock prices made exercising the options, rather than waiting for the shares to rise, worthwhile.

The put date on Household's bonds was Aug. 2.

Household shares traded Wednesday morning on the New York Stock Exchange at $38.95, down 77 cents. They closed one year ago at $66.44.

CO hfc : HSBC Finance Corp

IN i81501 : Credit Types/Services | i8150105 : Consumer Lending | ibnk : Banking/Credit

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NS c17 : Funding/Capital | c172 : Corporate Debt Instruments | ccat : Corporate/Industrial News

RE namz : North America | usa : United States

PUB Reuters Ltd.

AN Document lba0000020020807dy8700r0e

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Exhibit 21

BN Convertible Bonds May Haunt Their Issuers, Business Week Says
Feb 21 2002 21:52:08

New York, Feb. 21 (Bloomberg) -- Convertible bonds, which can be exchanged for equity if a certain share price is reached, may force some companies to buy back bonds they issued at the original value, Business Week reported.

Convertible bonds could become ``debt bombs'' for their issuers, the magazine said. Convertible bonds typically pay lower interest than debt that can't be changed into equity.

Companies such as Lucent Technologies Inc., WorldCom Inc. and Tyco International Ltd. are vulnerable, Business Week said.

In the next 18 months, almost $30 billion in convertible securities issued by companies such as Anadarko Petroleum Corp., Household International Inc. and Medtronic Inc. could come due, Business Week said. In 2003, Solectron Corp. could be on the hook for $2.5 billion, while Tyco may have to repay almost $6 billion in convertibles, the magazine said.

(Business Week 3-4)

For the Business Week Web site, see {WBWK <GO>}

--Samantha Zee in the San Francisco newsroom, (415) 743-3583 or szee@bloomberg.net. Editor: Reichl.

Story illustration: To see Lucent's historical volatility, see {LU US <Equity> HVG <GO>}.

LU US <Equity> CN

TYC US <Equity> CN
WCOM US <Equity> CN
MDT US <Equity>CN
HI US <Equity> CN
APC US <Equity> CN
SLR US <Equity> CN

NI COS
NI EQL
NI BON
NI NEWBON
NI INI
NI NEWSTK
NI STK
NI SCR
NI BNK
NI FIN
NI US
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Exhibit 22

DOW JONES

REUTERS

HD **RESEARCH ALERT-Merrill cuts Household Int'l target.**

WC 116 words

PD 16 September 2002

ET 09:32

SN Reuters News

SC LBA

LA English

CY (c) 2002 Reuters Limited

LP

NEW YORK, Sept 16 (Reuters) - Merrill Lynch said on Monday it cut its price target on consumer finance firm Household International Inc. , citing concerns on lower valuations of financial firms and Household's problems after restating its earnings.

Merrill analyst Michael Hughes dropped his price target on the stock to $42.50 from $64.

TD

"We are lowering our price objective to reflect the general depressed market multiples for financials, and to reflect that it appears Household's current legal concerns aren't going to go away anytime soon," Hughes wrote in his report.

Household's shares closed at $34.67 on the New York Stock Exchange on Friday.

CO hfc : HSBC Finance Corp

IN i81501 : Credit Types/Services | i8150105 : Consumer Lending | ibnk : Banking/Credit

NS c15 : Performance | c152 : Earnings Projections | c1521 : Analyst Comment/Recommendation | ccat : Corporate/Industrial News

RE namz : North America | usa : United States

PUB Reuters Ltd.

AN Document lba0000020020916dy9g00qes

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Exhibit 23

DOW JONES

NATIONAL MORTGAGE NEWS

HD **Editorial: Worst Practices**

WC 453 words
PD 16 September 2002
SN National Mortgage News
SC NMNW
PG 4
VOL Vol. 26, No. 50
LA English

CY

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LP

It always used to bother us, when The Associates was the largest subprime lender in the country, that allegations of predatory lending were constantly surfacing against it.

Now, with the (unofficial) release of a scathing report on its practices by the Washington state Department of Financial Institutions, the same thing is happening with its successor as the biggest B&C lender, Household International.

TD

Is it any wonder (and isn't it a shame) that subprime lending and predatory lending become entwined in the public's mind when the biggest firms in the niche are so publicly tarred with the predatory tag? And not just by the usual community activist groups and the class-action attorneys' bar, but by governmental groups such as the DFI and the Federal Trade Commission?

Talk about leading by example. The practices alleged against Household by the DFI, and the practices alleged against Associates by the FTC, could be ginned together to form a "worst practices" of predatory lending, a primer on how to be an abusive lender.

At Household shops in Washington, according to the DFI, tactics were

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used to
make borrowers take out first mortgages instead of the seconds they came in
for, and unnecessary insurance was either tacked on without the borrowers'
knowledge or represented as required. "Discount" points up to 7.25% allegedly
did not, in fact, buy down interest rates, and home equity lines of credit
extended allegedly were "shams" to finance points and fees on the firsts.

At The Associates, according to the FTC, there were "systematic and
widespread abusive lending practices." It said the company used "deceptive
marketing practices that induced consumers to refinance existing debts into
home loans with high interest rates, costs and fees, and to purchase high-cost
credit insurance."

Let's pause here to remember that not every allegation made turns out to be
true, and to note that Household and Citifinancial, the Citigroup unit that is
the new owner of The Associates, have made high-profile moves to reform any
allegedly abusive practices.

Let us also make it clear that our chagrin co-exists with an appreciation of
the opportunity subprime lending provides to expand mortgage markets and
homeownership, and our admiration for the countless mortgage brokers that work
hard and ethically to find loans for those with less-than-perfect credit.

But with the DFI report against Household, and with word in The Wall Street
Journal that Citigroup is about to settle the FTC Associates complaint for an
embarrassing $200 million, it irks us that the "few bad apples" spoiling
subprime lending for the rest may have been at the top of the barrel.

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CO hfc : HSBC Finance Corp

IN i81501 : Credit Types/Services | i8150105 : Consumer Lending | ibnk : Banking/Credit

RE namz : North America | usa : United States

IPD News article

AN Document nmnw000020020916dy9g0000c

Exhibit 24

Global Equity Research

UBS Warburg

October 8, 2002 | **Specialty Finance** | **United States**

Household International (HI)[2,37,81] — Buy

Key Statistics

Price	$23.25
52-Wk Range	$62-25
Price Target	$30.00
Return Pot'l.	33.3%
Mkt. Cap(MM)	$10,574
Sh. Out.(MM)	454.8
Float	100%
Inst. Hldgs.	81.8%
Avg. Volume(K)	5,175
Curr.Div./Yield	$1.00/4.3%
Sec.Grwth.Rate	7%
Convertible?	Yes
Book Value/Share	$18.97
Price/Book	1.2x

Quarterly Earnings Per Share (fiscal year ends December)

	2001A	2002E	*Prev*	2003E	*Prev*
1Q	$0.91	$1.04A			
2Q	0.93	1.07A			
3Q	1.07	1.15	*1.17*		
4Q	1.17	1.18	*1.29*		
Year	**$3.91**	**$4.44**	***$4.56***	**$3.75**	***$5.13***
FC Cons.:	$3.91	$4.56		$5.10	
P/E:	5.9x	5.2x		6.2x	
Revs.(MM):	$10,712	$12,832		$14,370	

Household International, through subsidiaries, provides consumer financial services, primarily offering consumer-lending products to middle market consumers in the U.S., Canada and the United Kingdom.

Source: UBS Warburg LLC and First Call consensus estimates

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Household: Lowering Target; Still Creating Value Despite Lower Growth

Summary

- We are cutting our 2003 estimate to reflect the impact of a regulatory fine on HI's earnings and capital base. We believe the fine levied against Citi/Associates for predatory lending practices makes a fine against Household more likely, and we estimate this fine could exceed $500 million.
- Given HI's relatively thin capital base at present, we believe the company is likely to raise the money to pay any fine through an equity offering, perhaps even before any fine is levied, causing dilution to existing shareholders. Although it is possible that this regulatory action could occur in 4Q02, we believe it is more likely to occur next year.
- Irrespective of the size and timing of a fine, we continue to believe HI's business model, in terms of its marketing and pricing practices, is likely to change, resulting in a longer term earnings growth rate which we estimate of 7%. This outcome, however, is factored into our DCF valuation, and supports our rating.

Action

- We are lowering our 2003 EPS estimate for Household to $3.75 from $5.13. Our estimate assumes a $500 million fine related to predatory lending and subsequent dilution from a potential common equity offering. This translates into a $1.18 reduction in our 2003 EPS estimate.

Companies mentioned and disclosures at end of note

In addition to the **UBS Warburg** web site, **www.ubswarburg.com/researchweb,** our research products are available over third-party systems provided or serviced by: Bloomberg, First Call, I/B/E/S, IFIS, Multex, QUICK and Reuters. **UBS Warburg is a business group of UBS AG**

- We are also lowering our 2002 estimate to $4.44 from $4.56 to reflect slower receivable growth as a result of the company's capital constraints, wider spreads on the company's debt, higher credit losses and continued reserve building, and limited ability to further reduce costs.
- We are lowering our price target to $30 from $41.

Valuation

- Our price target of $30 is derived from our DCF model, and translates into a P/E multiple of 8x our revised 2003 EPS estimate.

Additional Information

- We believe the $215 million fine levied by the FTC last month for predatory lending practices at the Associates, which Citi acquired in 2000, makes a similar regulatory action against Household increasingly likely. In fact, we believe the regulatory action could take any one of three forms:

  1. A fine levied by the FTC or another regulatory authority;
  2. A settlement with the Attorneys General of the fifty U.S. states; or
  3. A national predatory law that is more restrictive then--and pre-empts--existing state-level laws.

  In our view, the former two are more likely, since, although a national predatory lending law exists in draft form, we suspect it is a low legislative priority in the U.S. Congress right now.

- In terms of likelihood and timing of the other two possibilities, a fine by the FTC would probably be the most likely to have a speedy conclusion. Management has suggested, however, that it is pursuing an agreement with the fifty Attorneys General. In our view, this avenue is not likely to result in a quick conclusion for two reasons. First, as the Microsoft and Merrill Lynch agreements evidence, coming to terms with 50 different Attorneys General is a long process. Second, we believe the Attorneys General have little incentive to move toward a rapid resolution, but rather may prefer to postpone signing an agreement until after conducting a review of HI's business practices in their individual states, etc. As far as we're aware, only some states, including Washington State, have undertaken such a review. For this reason, we believe any such resolution with the Attorneys General will not likely occur until 2003.
- In terms of the magnitude of fines associated with any agreement or regulatory action, we believe the Citi/Associates figure of $215 million is a likely lower bound, but suspect that HI would likely face a fine of at least $500 million given its size. We believe the company would likely have difficulty paying a fine of this magnitude out of cash flow, and therefore may consider raising equity to do so, perhaps even in advance of reaching any such settlement.
- Complicating this situation is that HI is currently thinly capitalized. We estimate its tangible equity-to-tangible managed assets (TETMA) ratio is 8.0% and its tangible common equity-to-tangible managed assets (TCETMA) is 6.5%. This is below the TETMA and TCETMA target ratios management has set of 8.5% and 6.7%, respectively. We calculate that by suspending its share buyback program, slowing its receivable growth, and adding the $350 million in preferred equity it raised a few weeks ago, the company could achieve its target ratios by year-end assuming no payment of a regulatory fine.
- However, if we assume that Household must pay a fine related to predatory lending practices, the company would once again fall short of its capital ratio targets. In Table 1, we depict several different scenarios, which we believe could take place with regard to fines and subsequent capital raising to support the cash outflow from such a fine. We believe that, were a fine to be levied in the range of $250M-$750M, the company would more than likely have to issue additional common shares in order to meet its capital targets. We view common equity as a likely instrument over preferred because the company recently completed a preferred offering, and may not have the flexibility to issue more without risking criticism from the debt rating agencies. Nonetheless, the company would clearly prefer not to issue common shares at the current depressed prices.
- We believe that scenario 4B in Table 1 is the most likely scenario and have incorporated these assumptions into our earnings model. The adjusted EPS numbers are derived by including both the dilution from the additional shares as well as the reduction in earnings that result from the potential fine. We also took into account the timing of the fine which could take place as early as the fourth quarter, although we believe it would more likely occur later in 2003.
- It is important to note that in calculating the capital ratios for the remainder of 2002 and 2003, we kept the unrealized gain/loss on investments and the changes in cash flow hedges constant with 2Q02 levels of $360M. The reason for this is that it is very difficult to predict these items, despite that they can have a sizeable effect on the capital ratios.

- It is also important to note that in Scenario 2, we assume that the proceeds from an equity offering are used to pay down debt yielding 7% (4.62% net-of-tax) which reduces interest expense, thereby offsetting some of the dilution.

Table 1: UBS Warburg Scenario Analysis

	Assumptions						Adjusted EPS	
	Receiv. Growth ('02/'03)	Fine Levied?/When?	Size of Fine ($)	Comm. Equity Raised	Capital Required	% Share Dilution	2002	2003
Scenario 1	12%/11%	No	$0	No	$0	0%	$4.44	$4.93
Scenario 2	15%/14%	No	$0	Yes	$250M	2%	$4.42	$5.03
Scenario 3A	12%/11%	Yes/4Q02	$250M	Yes	$250M	2%	$4.00	$4.83
Scenario 3B	12%/11%	Yes/4Q02	$500M	Yes	$500M	4%	$3.33	$4.73
Scenario 3C	12%/11%	Yes/4Q02	$750M	Yes	$750M	7%	$2.79	$4.63
Scenario 4A	12%/11%	Yes/2003	$250M	Yes	$250M	2%	$4.44	$4.34
Scenario 4B	12%/11%	Yes/2003	$500M	Yes	$500M	4%	$4.44	$3.75
Scenario 4C	12%/11%	Yes/2003	$750M	Yes	$750M	7%	$4.44	$3.18

Source: UBS Warburg LLC estimates

Long-Term Outlook

- We also believe that any agreement with the FTC or the Attorneys General would also have a longer-term impact on HI's business model. Specifically, we suspect that HI would be forced to change certain of its marketing and pricing practices. In fact, this process has already begun to some extent, as HI has voluntarily reduced the number of points it charges on loans, thereby decreasing its pricing at the margin. Nonetheless, we believe an agreement with regulatory or legal authorities would require additional pricing and other concessions. As a consequence, we believe HI will not be able to sustain its current level of balance sheet growth or profit margins, and as a result, the earnings power of HI's model would be diminished to some extent.
- In particular, we are forecasting that HI's medium term earnings growth rate is about 7%, below the 12-15% it has posted over the past several years. Given this outlook, although we are forecasting that HI's 2004 EPS would spring back from 2003's depressed levels to some extent, we calculate that this level of earnings growth supports a P/E of 8x rather than its historical multiple of 12x-13x.
- Likewise, we believe the growing regulatory risk associated with HI relative to prior periods warranted a higher beta than the one the company has merited in the past. Therefore, we have increased the beta to 1.25 from 0.93. This, combined with our 7% medium-term earnings growth rate, and the prospect of a $500 million fine raised through an equity offering, results in a DCF value of $30. This corresponds with our P/E of 8x our revised 2003 EPS estimate of $3.75.

Additional Risks

- In addition to the factors discussed above, there are a number of other concerns floating about in the market place. We discuss these below, and should one or several of these scenarios occur, it would likely cause the stock price to fall from present levels. Nonetheless, we believe our earnings outlook and valuation appropriately reflects the likely balance sheet and earnings growth and credit loss scenarios for the near- to medium-term.

Mortgage/Home Equity Portfolio

- The primary risk in the mortgage and home equity portfolio, which account for about half of the company's managed assets, is surging charge-offs. Credit losses in this asset class, although they have deteriorated over the past few quarters, remain under 1%. If we model dramatic surges in credit losses in this portfolio, 2003 EPS impact would appear as follows:
  - Doubling charge-offs to 1.96%: $2.81 (-25%)
  - Tripling charge-offs to 2.94%: $1.88 (-50%)
  - Quadrupling charge-offs to 3.92%: $0.95 (-75%)
- We do not view this scenario as likely at present, since it assumes a significant deterioration in the economy or the bursting of a housing bubble, which our economists do not believe exists across the country as a whole. Additionally, the company has built substantial reserves over the past several quarters, with managed reserves-to-total managed assets of 4.14% in 2Q02, up from 3.77% in 2Q01. Therefore, although the company is anticipating some deterioration in this portfolio, we believe it is reserving at an appropriate level to absorb these losses.

Auto Portfolio

- Concerns about the auto portfolio have also surfaced following announcements made by rival subprime auto lender Americredit that it is bringing all its auto loans back on balance sheet. As we described in our September 18, 2002, note, we believe the impact of a similar action by HI, although a remote possibility, would have limited impact on its financials. Specifically:
    1. Auto loans currently represent only 6.5% of the company's managed portfolio, a relatively small portion.
    2. Household currently records a gain on sale of 4% on auto securitizations. We are anticipating total auto securitizations of $2.3 billion for this year, which would translate into a pre-tax gain on sale of $92 million or $0.13 per share on an after-tax basis. This represents only 3% of our revised 2002 EPS estimate of $4.44.
    3. We estimate that if the company had to reserve against the auto loans that they securitized, the cost would be roughly $115 million for the year, or $0.16 per share. This combined with the gain on sale would still equate to only about 7% of 2002 earnings.
    4. Further, if the company were forced to take an extreme action and write-down the entirely of the existing piece of the I/O strip that relates to auto receivables, we calculate the after-tax impact on EPS would be about $0.44. Although this is a reasonable chunk of near term earnings, it would have a relatively small impact in terms of reducing the company's estimated 2002 tangible book value of nearly $17.50 by $0.44.

Credit Card Portfolio

- Finally, there continues to be concern about a surging charge-off scenario in the company's credit card portfolio, which accounts for 16% of total managed assets. The current charge-off rate is 7.85%. Under the following credit loss assumptions, the 2003 EPS would be:
    - Up 10% to 8.64%: $3.51 (-6%)
    - Up 25% to 9.81%: $3.15 (-16%)
    - Up 50% to 11.78%: $2.54 (-32%)
- Again, as with the mortgage portfolio, although we continue to anticipate some level of deterioration, we do not believe these levels of credit losses are likely in the absence of a significant decline in the economy.

Statement of Risk

- Investment risks include the following: continued competition for home equity and unsecured credit loans, higher than expected credit losses, higher funding costs, and increased regulatory and legal scrutiny.

Global ratings: Definitions and allocations

UBS rating	Definition	Rating category[1]	Coverage[2]	IB services[3]
Strong Buy	Greater than 20% excess return potential; high degree of confidence	Buy	53%	40%
Buy	Positive excess return potential			
Hold	Low excess return potential; low degree of confidence	Hold/Neutral	42%	26%
Reduce	Negative excess return potential			
Sell	Greater than 20% negative excess return potential; High degree of confidence	Sell	5%	18%

Excess return: Target price / current price – 1 + gross dividend yield – 12-month interest rate. The 12- month interest rate used is that of the company's country of incorporation, in the same currency as the predicted return.
1: UBS Strong Buy and Buy = Buy; UBS Hold = Hold/Neutral; UBS Reduce/Sell = Sell.
2: Percentage of companies under coverage globally within this rating category.
3: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

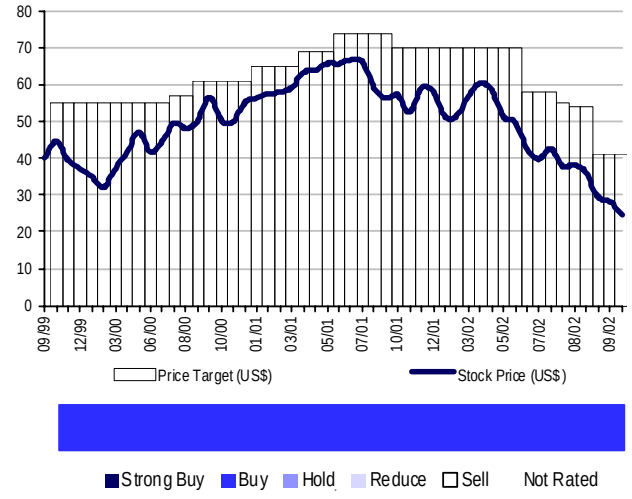
Source: UBS AG, its subsidiaries and affiliates; as of 30 September 2002.

Companies Mentioned

Company Name	Ticker	Price
Household International[2,37,81]	HI	$23.25

Price quoted on October 7, 2002 Source: UBS Warburg
2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company or one of its affiliates within the past three years.
37. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company.
81. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company or one of its affiliates within the past 12 months.

Household International (US$)



Source: UBS AG, its subsidiaries and affiliates; as of Friday, October 04 2002

Unless otherwise indicated, please refer to the Valuation and Risk sections contained within the body of this report.
For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Warburg LLC, 1285 Avenue of Americas, New York, New York, 10019, Attention: Publishing Administration.

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Exhibit 25

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation

		Quantification Using Specific Disclosures		Quantification Including Leakage	
Date	Stock Price	True Value	Artificial Inflation	True Value	Artificial Inflation
03/23/01	$58.12	$55.06	$3.06	At Most $55.06	At Least $3.06
03/26/01	$57.94	$54.88	$3.06	At Most $54.88	At Least $3.06
03/27/01	$59.85	$56.79	$3.06	At Most $56.79	At Least $3.06
03/28/01	$59.35	$51.38	$7.97	$35.41	$23.94
03/29/01	$58.15	$50.18	$7.97	$34.21	$23.94
03/30/01	$59.24	$51.27	$7.97	$35.30	$23.94
04/02/01	$59.50	$51.53	$7.97	$35.56	$23.94
04/03/01	$58.92	$50.95	$7.97	$34.98	$23.94
04/04/01	$58.45	$50.48	$7.97	$34.51	$23.94
04/05/01	$59.73	$51.76	$7.97	$35.79	$23.94
04/06/01	$58.54	$50.57	$7.97	$34.60	$23.94
04/09/01	$59.45	$51.48	$7.97	$35.51	$23.94
04/10/01	$61.12	$53.15	$7.97	$37.18	$23.94
04/11/01	$60.54	$52.57	$7.97	$36.60	$23.94
04/12/01	$61.40	$53.43	$7.97	$37.46	$23.94
04/16/01	$60.33	$52.36	$7.97	$36.39	$23.94
04/17/01	$60.91	$52.94	$7.97	$36.97	$23.94
04/18/01	$63.38	$55.41	$7.97	$39.44	$23.94
04/19/01	$63.05	$55.08	$7.97	$39.11	$23.94
04/20/01	$62.45	$54.48	$7.97	$38.51	$23.94
04/23/01	$62.23	$54.26	$7.97	$38.29	$23.94
04/24/01	$63.10	$55.13	$7.97	$39.16	$23.94
04/25/01	$64.75	$56.78	$7.97	$40.81	$23.94
04/26/01	$63.40	$55.43	$7.97	$39.46	$23.94
04/27/01	$64.38	$56.41	$7.97	$40.44	$23.94
04/30/01	$64.02	$56.05	$7.97	$40.08	$23.94
05/01/01	$64.46	$56.49	$7.97	$40.52	$23.94
05/02/01	$65.46	$57.49	$7.97	$41.52	$23.94
05/03/01	$65.29	$57.32	$7.97	$41.35	$23.94
05/04/01	$65.70	$57.73	$7.97	$41.76	$23.94
05/07/01	$65.50	$57.53	$7.97	$41.56	$23.94
05/08/01	$65.42	$57.45	$7.97	$41.48	$23.94
05/09/01	$66.05	$58.08	$7.97	$42.11	$23.94
05/10/01	$65.08	$57.11	$7.97	$41.14	$23.94
05/11/01	$64.91	$56.94	$7.97	$40.97	$23.94
05/14/01	$65.22	$57.25	$7.97	$41.28	$23.94
05/15/01	$66.94	$58.97	$7.97	$43.00	$23.94
05/16/01	$68.64	$60.67	$7.97	$44.70	$23.94
05/17/01	$68.20	$60.23	$7.97	$44.26	$23.94
05/18/01	$67.57	$59.60	$7.97	$43.63	$23.94
05/21/01	$67.67	$59.70	$7.97	$43.73	$23.94
05/22/01	$67.71	$59.74	$7.97	$43.77	$23.94
05/23/01	$66.48	$58.51	$7.97	$42.54	$23.94
05/24/01	$66.44	$58.47	$7.97	$42.50	$23.94
05/25/01	$66.27	$58.30	$7.97	$42.33	$23.94
05/29/01	$66.00	$58.03	$7.97	$42.06	$23.94

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation

		Quantification Using Specific Disclosures		Quantification Including Leakage	
Date	Stock Price	True Value	Artificial Inflation	True Value	Artificial Inflation
05/30/01	$65.80	$57.83	$7.97	$41.86	$23.94
05/31/01	$65.66	$57.69	$7.97	$41.72	$23.94
06/01/01	$65.74	$57.77	$7.97	$41.80	$23.94
06/04/01	$66.43	$58.46	$7.97	$42.49	$23.94
06/05/01	$66.98	$59.01	$7.97	$43.04	$23.94
06/06/01	$65.96	$57.99	$7.97	$42.02	$23.94
06/07/01	$65.82	$57.85	$7.97	$41.88	$23.94
06/08/01	$65.80	$57.83	$7.97	$41.86	$23.94
06/11/01	$65.78	$57.81	$7.97	$41.84	$23.94
06/12/01	$65.30	$57.33	$7.97	$41.36	$23.94
06/13/01	$65.25	$57.28	$7.97	$41.31	$23.94
06/14/01	$64.71	$56.74	$7.97	$40.77	$23.94
06/15/01	$63.80	$55.83	$7.97	$39.86	$23.94
06/18/01	$63.65	$55.68	$7.97	$39.71	$23.94
06/19/01	$63.82	$55.85	$7.97	$39.88	$23.94
06/20/01	$64.61	$56.64	$7.97	$40.67	$23.94
06/21/01	$66.71	$58.74	$7.97	$42.77	$23.94
06/22/01	$67.01	$59.04	$7.97	$43.07	$23.94
06/25/01	$65.95	$57.98	$7.97	$42.01	$23.94
06/26/01	$65.14	$57.17	$7.97	$41.20	$23.94
06/27/01	$65.70	$57.73	$7.97	$41.76	$23.94
06/28/01	$65.98	$58.01	$7.97	$42.04	$23.94
06/29/01	$66.70	$58.73	$7.97	$42.76	$23.94
07/02/01	$66.60	$58.63	$7.97	$42.66	$23.94
07/03/01	$66.23	$58.26	$7.97	$42.29	$23.94
07/05/01	$66.95	$58.98	$7.97	$43.01	$23.94
07/06/01	$66.54	$58.57	$7.97	$42.60	$23.94
07/09/01	$66.48	$58.51	$7.97	$42.54	$23.94
07/10/01	$65.55	$57.58	$7.97	$41.61	$23.94
07/11/01	$65.24	$57.27	$7.97	$41.30	$23.94
07/12/01	$66.40	$58.43	$7.97	$42.46	$23.94
07/13/01	$67.16	$59.19	$7.97	$43.22	$23.94
07/16/01	$68.11	$60.14	$7.97	$44.17	$23.94
07/17/01	$68.95	$60.98	$7.97	$45.01	$23.94
07/18/01	$69.48	$61.51	$7.97	$45.54	$23.94
07/19/01	$66.50	$58.53	$7.97	$42.56	$23.94
07/20/01	$67.28	$59.31	$7.97	$43.34	$23.94
07/23/01	$67.50	$59.53	$7.97	$43.56	$23.94
07/24/01	$67.01	$59.04	$7.97	$43.07	$23.94
07/25/01	$66.76	$58.79	$7.97	$42.82	$23.94
07/26/01	$65.38	$57.41	$7.97	$41.44	$23.94
07/27/01	$66.18	$58.21	$7.97	$42.24	$23.94
07/30/01	$66.09	$58.12	$7.97	$42.15	$23.94
07/31/01	$66.29	$58.32	$7.97	$42.35	$23.94
08/01/01	$65.75	$57.78	$7.97	$41.81	$23.94
08/02/01	$66.00	$58.03	$7.97	$42.06	$23.94

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation

		Quantification Using Specific Disclosures		Quantification Including Leakage	
Date	Stock Price	True Value	Artificial Inflation	True Value	Artificial Inflation
08/03/01	$65.99	$58.02	$7.97	$42.05	$23.94
08/06/01	$65.71	$57.74	$7.97	$41.77	$23.94
08/07/01	$66.44	$58.47	$7.97	$42.50	$23.94
08/08/01	$65.86	$57.89	$7.97	$41.92	$23.94
08/09/01	$66.24	$58.27	$7.97	$42.30	$23.94
08/10/01	$67.13	$59.16	$7.97	$43.19	$23.94
08/13/01	$68.01	$60.04	$7.97	$44.07	$23.94
08/14/01	$68.00	$60.03	$7.97	$44.06	$23.94
08/15/01	$67.95	$59.98	$7.97	$44.01	$23.94
08/16/01	$66.87	$58.90	$7.97	$42.93	$23.94
08/17/01	$65.99	$58.02	$7.97	$42.05	$23.94
08/20/01	$65.50	$57.53	$7.97	$41.56	$23.94
08/21/01	$64.86	$56.89	$7.97	$40.92	$23.94
08/22/01	$65.48	$57.51	$7.97	$41.54	$23.94
08/23/01	$64.72	$56.75	$7.97	$40.78	$23.94
08/24/01	$62.35	$54.38	$7.97	$38.41	$23.94
08/27/01	$61.96	$53.99	$7.97	$38.02	$23.94
08/28/01	$61.34	$53.37	$7.97	$37.40	$23.94
08/29/01	$60.70	$52.73	$7.97	$36.76	$23.94
08/30/01	$59.31	$51.34	$7.97	$35.37	$23.94
08/31/01	$59.10	$51.13	$7.97	$35.16	$23.94
09/04/01	$57.06	$49.09	$7.97	$33.12	$23.94
09/05/01	$57.22	$49.25	$7.97	$33.28	$23.94
09/06/01	$57.00	$49.03	$7.97	$33.06	$23.94
09/07/01	$55.04	$47.07	$7.97	$31.48	$23.56
09/10/01	$56.31	$48.34	$7.97	$32.37	$23.94
09/17/01	$52.83	$44.86	$7.97	$30.22	$22.61
09/18/01	$52.64	$44.67	$7.97	$30.11	$22.53
09/19/01	$52.30	$44.33	$7.97	$29.92	$22.38
09/20/01	$51.46	$43.49	$7.97	$29.44	$22.02
09/21/01	$50.34	$42.37	$7.97	$28.80	$21.54
09/24/01	$52.85	$44.88	$7.97	$30.23	$22.62
09/25/01	$52.08	$44.11	$7.97	$29.79	$22.29
09/26/01	$53.60	$45.63	$7.97	$30.57	$23.03
09/27/01	$54.49	$46.52	$7.97	$31.07	$23.42
09/28/01	$56.38	$48.41	$7.97	$32.44	$23.94
10/01/01	$57.50	$49.53	$7.97	$33.56	$23.94
10/02/01	$57.83	$49.86	$7.97	$33.89	$23.94
10/03/01	$58.20	$50.23	$7.97	$34.26	$23.94
10/04/01	$59.63	$51.66	$7.97	$35.69	$23.94
10/05/01	$58.35	$50.38	$7.97	$34.41	$23.94
10/08/01	$56.50	$48.53	$7.97	$32.56	$23.94
10/09/01	$56.59	$48.62	$7.97	$32.65	$23.94
10/10/01	$58.22	$50.25	$7.97	$34.28	$23.94
10/11/01	$56.95	$48.98	$7.97	$33.01	$23.94
10/12/01	$54.89	$46.92	$7.97	$31.30	$23.59

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation

		Quantification Using Specific Disclosures		Quantification Including Leakage	
Date	Stock Price	True Value	Artificial Inflation	True Value	Artificial Inflation
10/15/01	$55.91	$47.94	$7.97	$31.97	$23.94
10/16/01	$56.00	$48.03	$7.97	$32.06	$23.94
10/17/01	$57.16	$49.19	$7.97	$33.22	$23.94
10/18/01	$57.53	$49.56	$7.97	$33.59	$23.94
10/19/01	$56.91	$48.94	$7.97	$32.97	$23.94
10/22/01	$56.92	$48.95	$7.97	$32.98	$23.94
10/23/01	$57.25	$49.28	$7.97	$33.31	$23.94
10/24/01	$55.44	$47.47	$7.97	$31.61	$23.83
10/25/01	$57.19	$49.22	$7.97	$33.25	$23.94
10/26/01	$57.48	$49.51	$7.97	$33.54	$23.94
10/29/01	$54.49	$46.52	$7.97	$31.07	$23.42
10/30/01	$53.52	$45.55	$7.97	$30.52	$23.00
10/31/01	$52.30	$44.33	$7.97	$29.82	$22.48
11/01/01	$52.90	$44.93	$7.97	$30.17	$22.73
11/02/01	$52.76	$44.79	$7.97	$30.09	$22.67
11/05/01	$53.75	$45.78	$7.97	$30.65	$23.10
11/06/01	$56.53	$48.56	$7.97	$32.59	$23.94
11/07/01	$58.72	$50.75	$7.97	$34.78	$23.94
11/08/01	$57.79	$49.82	$7.97	$33.85	$23.94
11/09/01	$57.98	$50.01	$7.97	$34.04	$23.94
11/12/01	$58.21	$50.24	$7.97	$34.27	$23.94
11/13/01	$60.00	$52.03	$7.97	$36.06	$23.94
11/14/01	$60.90	$52.93	$7.97	$36.96	$23.94
11/15/01	$58.90	$52.79	$6.11	$34.96	$23.94
11/16/01	$57.80	$51.69	$6.11	$34.20	$23.60
11/19/01	$58.75	$52.64	$6.11	$34.81	$23.94
11/20/01	$58.37	$52.26	$6.11	$34.52	$23.85
11/21/01	$58.56	$52.45	$6.11	$34.62	$23.94
11/23/01	$59.62	$53.51	$6.11	$35.68	$23.94
11/26/01	$60.18	$54.07	$6.11	$36.24	$23.94
11/27/01	$60.76	$54.65	$6.11	$36.82	$23.94
11/28/01	$60.34	$54.23	$6.11	$36.40	$23.94
11/29/01	$59.80	$53.69	$6.11	$35.86	$23.94
11/30/01	$58.99	$52.88	$6.11	$35.05	$23.94
12/03/01	$56.29	$52.09	$4.20	$33.70	$22.59
12/04/01	$58.23	$54.03	$4.20	$34.29	$23.94
12/05/01	$61.00	$54.95	$6.05	$37.06	$23.94
12/06/01	$60.66	$54.61	$6.05	$36.72	$23.94
12/07/01	$59.66	$53.61	$6.05	$35.72	$23.94
12/10/01	$57.60	$51.55	$6.05	$34.30	$23.30
12/11/01	$56.66	$50.61	$6.05	$34.46	$22.20
12/12/01	$54.15	$50.49	$3.66	$34.35	$19.80
12/13/01	$54.23	$50.57	$3.66	$33.94	$20.29
12/14/01	$53.35	$49.69	$3.66	$33.71	$19.64
12/17/01	$54.57	$50.91	$3.66	$33.96	$20.61
12/18/01	$56.12	$52.46	$3.66	$34.28	$21.84

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation

		Quantification Using Specific Disclosures		Quantification Including Leakage	
Date	Stock Price	True Value	Artificial Inflation	True Value	Artificial Inflation
12/19/01	$56.87	$53.21	$3.66	$34.83	$22.04
12/20/01	$56.50	$52.84	$3.66	$34.75	$21.75
12/21/01	$55.90	$52.24	$3.66	$34.53	$21.37
12/24/01	$56.09	$52.43	$3.66	$34.49	$21.60
12/26/01	$56.38	$52.72	$3.66	$34.56	$21.82
12/27/01	$57.83	$54.17	$3.66	$34.53	$23.30
12/28/01	$58.88	$55.22	$3.66	$34.94	$23.94
12/31/01	$57.94	$54.28	$3.66	$34.66	$23.28
01/02/02	$57.09	$53.43	$3.66	$34.51	$22.58
01/03/02	$57.05	$53.39	$3.66	$34.64	$22.41
01/04/02	$59.19	$55.53	$3.66	$35.25	$23.94
01/07/02	$58.10	$54.44	$3.66	$34.91	$23.19
01/08/02	$56.74	$53.08	$3.66	$34.45	$22.29
01/09/02	$57.10	$53.44	$3.66	$34.68	$22.42
01/10/02	$56.54	$52.88	$3.66	$34.84	$21.70
01/11/02	$54.38	$50.72	$3.66	$34.53	$19.85
01/14/02	$52.78	$49.12	$3.66	$34.25	$18.53
01/15/02	$55.20	$51.54	$3.66	$34.92	$20.28
01/16/02	$54.45	$50.79	$3.66	$34.58	$19.87
01/17/02	$53.76	$50.10	$3.66	$34.86	$18.90
01/18/02	$54.85	$51.19	$3.66	$34.82	$20.03
01/22/02	$54.05	$50.39	$3.66	$34.81	$19.24
01/23/02	$53.35	$49.69	$3.66	$34.76	$18.59
01/24/02	$53.75	$50.09	$3.66	$34.89	$18.86
01/25/02	$54.71	$51.05	$3.66	$35.01	$19.70
01/28/02	$52.85	$49.19	$3.66	$34.75	$18.10
01/29/02	$49.85	$46.19	$3.66	$33.27	$16.58
01/30/02	$49.35	$45.69	$3.66	$33.59	$15.76
01/31/02	$51.24	$47.58	$3.66	$34.12	$17.12
02/01/02	$51.10	$47.44	$3.66	$33.76	$17.34
02/04/02	$48.80	$45.14	$3.66	$32.74	$16.06
02/05/02	$47.53	$43.87	$3.66	$32.54	$14.99
02/06/02	$44.71	$41.05	$3.66	$32.24	$12.47
02/07/02	$48.01	$44.35	$3.66	$32.45	$15.56
02/08/02	$52.00	$48.34	$3.66	$33.29	$18.71
02/11/02	$51.45	$47.79	$3.66	$33.51	$17.94
02/12/02	$50.80	$47.14	$3.66	$33.31	$17.49
02/13/02	$52.15	$48.49	$3.66	$33.79	$18.36
02/14/02	$51.92	$48.26	$3.66	$33.88	$18.04
02/15/02	$50.89	$47.23	$3.66	$32.89	$18.00
02/19/02	$50.35	$46.69	$3.66	$32.51	$17.84
02/20/02	$50.65	$46.99	$3.66	$32.93	$17.72
02/21/02	$48.50	$44.84	$3.66	$32.50	$16.00
02/22/02	$48.65	$44.99	$3.66	$32.41	$16.24
02/25/02	$49.58	$45.92	$3.66	$33.13	$16.45
02/26/02	$49.98	$46.32	$3.66	$33.26	$16.72

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation

		Quantification Using Specific Disclosures		Quantification Including Leakage	
Date	Stock Price	True Value	Artificial Inflation	True Value	Artificial Inflation
02/27/02	$52.08	$46.78	$5.30	$33.53	$18.55
02/28/02	$51.50	$46.20	$5.30	$33.69	$17.81
03/01/02	$53.00	$47.70	$5.30	$33.98	$19.02
03/04/02	$57.25	$51.95	$5.30	$35.04	$22.21
03/05/02	$56.28	$50.98	$5.30	$35.11	$21.17
03/06/02	$57.77	$52.47	$5.30	$35.60	$22.17
03/07/02	$58.36	$53.06	$5.30	$35.36	$23.00
03/08/02	$59.90	$54.60	$5.30	$35.96	$23.94
03/11/02	$59.73	$54.43	$5.30	$35.79	$23.94
03/12/02	$59.16	$53.86	$5.30	$35.79	$23.37
03/13/02	$58.40	$53.10	$5.30	$35.54	$22.86
03/14/02	$57.48	$52.18	$5.30	$35.61	$21.87
03/15/02	$58.95	$53.65	$5.30	$36.26	$22.69
03/18/02	$58.98	$53.68	$5.30	$36.05	$22.93
03/19/02	$58.98	$53.68	$5.30	$36.21	$22.77
03/20/02	$57.61	$52.31	$5.30	$35.68	$21.93
03/21/02	$57.90	$52.60	$5.30	$35.67	$22.23
03/22/02	$58.14	$52.84	$5.30	$35.75	$22.39
03/25/02	$56.30	$51.00	$5.30	$35.24	$21.06
03/26/02	$57.00	$51.70	$5.30	$35.34	$21.66
03/27/02	$57.50	$52.20	$5.30	$35.70	$21.80
03/28/02	$56.80	$51.50	$5.30	$35.55	$21.25
04/01/02	$57.03	$51.73	$5.30	$35.35	$21.68
04/02/02	$57.05	$51.75	$5.30	$35.53	$21.52
04/03/02	$55.75	$50.45	$5.30	$35.22	$20.53
04/04/02	$56.83	$51.53	$5.30	$35.44	$21.39
04/05/02	$57.98	$52.68	$5.30	$35.70	$22.28
04/08/02	$59.06	$53.76	$5.30	$35.82	$23.24
04/09/02	$59.25	$53.95	$5.30	$36.09	$23.16
04/10/02	$59.35	$54.05	$5.30	$36.12	$23.23
04/11/02	$57.05	$51.75	$5.30	$35.32	$21.73
04/12/02	$58.10	$52.80	$5.30	$35.70	$22.40
04/15/02	$57.48	$52.18	$5.30	$35.24	$22.24
04/16/02	$59.52	$54.22	$5.30	$35.87	$23.65
04/17/02	$60.70	$55.40	$5.30	$36.76	$23.94
04/18/02	$61.20	$55.90	$5.30	$37.26	$23.94
04/19/02	$62.44	$57.14	$5.30	$38.50	$23.94
04/22/02	$60.90	$55.60	$5.30	$36.96	$23.94
04/23/02	$61.80	$56.50	$5.30	$37.86	$23.94
04/24/02	$61.36	$56.06	$5.30	$37.42	$23.94
04/25/02	$59.18	$53.88	$5.30	$35.24	$23.94
04/26/02	$59.60	$54.30	$5.30	$35.66	$23.94
04/29/02	$57.25	$51.95	$5.30	$34.55	$22.70
04/30/02	$58.29	$52.99	$5.30	$34.95	$23.34
05/01/02	$57.70	$52.40	$5.30	$35.09	$22.61
05/02/02	$57.43	$52.13	$5.30	$35.51	$21.92

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation

		Quantification Using Specific Disclosures		Quantification Including Leakage	
Date	Stock Price	True Value	Artificial Inflation	True Value	Artificial Inflation
05/03/02	$57.00	$51.70	$5.30	$35.36	$21.64
05/06/02	$55.68	$50.38	$5.30	$34.68	$21.00
05/07/02	$54.75	$49.45	$5.30	$34.50	$20.25
05/08/02	$57.11	$51.81	$5.30	$35.28	$21.83
05/09/02	$56.29	$50.99	$5.30	$35.03	$21.26
05/10/02	$54.25	$48.95	$5.30	$34.61	$19.64
05/13/02	$55.82	$50.52	$5.30	$35.10	$20.72
05/14/02	$56.85	$51.55	$5.30	$35.54	$21.31
05/15/02	$55.47	$50.17	$5.30	$35.44	$20.03
05/16/02	$55.00	$49.70	$5.30	$35.76	$19.24
05/17/02	$54.31	$49.01	$5.30	$35.91	$18.40
05/20/02	$53.51	$48.21	$5.30	$35.32	$18.19
05/21/02	$52.69	$47.39	$5.30	$35.15	$17.54
05/22/02	$52.85	$47.55	$5.30	$35.11	$17.74
05/23/02	$53.27	$47.97	$5.30	$35.40	$17.87
05/24/02	$53.07	$47.77	$5.30	$35.22	$17.85
05/28/02	$52.85	$47.55	$5.30	$34.87	$17.98
05/29/02	$52.80	$47.50	$5.30	$34.91	$17.89
05/30/02	$51.65	$46.35	$5.30	$34.77	$16.88
05/31/02	$51.15	$45.85	$5.30	$34.89	$16.26
06/03/02	$50.94	$45.64	$5.30	$34.27	$16.67
06/04/02	$50.69	$45.39	$5.30	$34.03	$16.66
06/05/02	$52.19	$46.89	$5.30	$34.28	$17.91
06/06/02	$53.60	$48.30	$5.30	$33.77	$19.83
06/07/02	$52.87	$47.57	$5.30	$33.81	$19.06
06/10/02	$52.59	$47.29	$5.30	$34.01	$18.58
06/11/02	$52.99	$47.69	$5.30	$33.45	$19.54
06/12/02	$52.48	$47.18	$5.30	$33.56	$18.92
06/13/02	$50.30	$45.00	$5.30	$32.86	$17.44
06/14/02	$50.80	$45.50	$5.30	$33.18	$17.62
06/17/02	$52.74	$47.44	$5.30	$34.54	$18.20
06/18/02	$52.75	$47.45	$5.30	$34.67	$18.08
06/19/02	$51.55	$46.25	$5.30	$34.31	$17.24
06/20/02	$49.80	$44.50	$5.30	$33.78	$16.02
06/21/02	$49.68	$44.38	$5.30	$33.52	$16.16
06/24/02	$50.00	$44.70	$5.30	$33.50	$16.50
06/25/02	$49.00	$43.70	$5.30	$33.32	$15.68
06/26/02	$48.65	$43.35	$5.30	$32.40	$16.25
06/27/02	$49.90	$44.60	$5.30	$33.12	$16.78
06/28/02	$49.70	$44.40	$5.30	$33.51	$16.19
07/01/02	$47.93	$42.63	$5.30	$33.09	$14.84
07/02/02	$47.60	$42.30	$5.30	$32.66	$14.94
07/03/02	$48.05	$42.75	$5.30	$32.29	$15.76
07/05/02	$50.00	$44.70	$5.30	$33.31	$16.69
07/08/02	$49.54	$44.24	$5.30	$33.26	$16.28
07/09/02	$47.05	$41.75	$5.30	$32.47	$14.58

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation

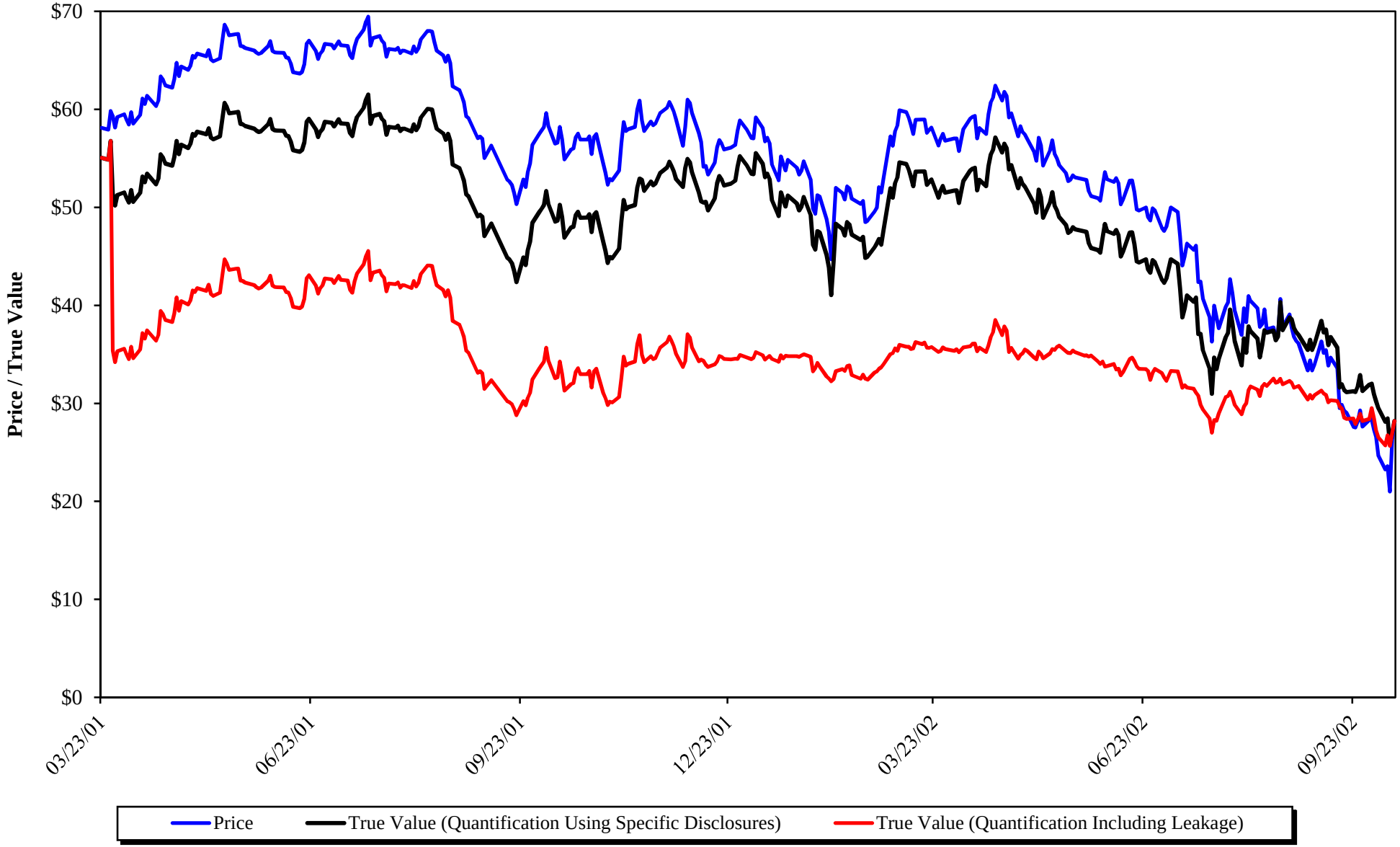
		Quantification Using Specific Disclosures		Quantification Including Leakage	
Date	Stock Price	True Value	Artificial Inflation	True Value	Artificial Inflation
07/10/02	$44.07	$38.77	$5.30	$31.59	$12.48
07/11/02	$45.00	$39.70	$5.30	$31.86	$13.14
07/12/02	$46.30	$41.00	$5.30	$31.61	$14.69
07/15/02	$45.67	$40.37	$5.30	$31.50	$14.17
07/16/02	$46.10	$40.80	$5.30	$31.09	$15.01
07/17/02	$42.37	$37.07	$5.30	$30.78	$11.59
07/18/02	$42.41	$37.11	$5.30	$29.85	$12.56
07/19/02	$40.72	$35.42	$5.30	$29.39	$11.33
07/22/02	$38.84	$33.54	$5.30	$28.46	$10.38
07/23/02	$36.29	$30.99	$5.30	$26.99	$9.30
07/24/02	$39.97	$34.67	$5.30	$28.29	$11.68
07/25/02	$38.80	$33.50	$5.30	$28.23	$10.57
07/26/02	$37.66	$34.56	$3.10	$28.98	$8.68
07/29/02	$39.85	$36.75	$3.10	$30.66	$9.19
07/30/02	$40.30	$37.20	$3.10	$30.75	$9.55
07/31/02	$42.67	$39.57	$3.10	$31.18	$11.49
08/01/02	$41.26	$38.16	$3.10	$30.63	$10.63
08/02/02	$39.45	$36.35	$3.10	$29.86	$9.59
08/05/02	$36.98	$33.88	$3.10	$28.87	$8.11
08/06/02	$39.72	$36.62	$3.10	$29.66	$10.06
08/07/02	$38.28	$35.18	$3.10	$30.00	$8.28
08/08/02	$40.96	$37.86	$3.10	$31.36	$9.60
08/09/02	$40.45	$37.35	$3.10	$31.72	$8.73
08/12/02	$39.70	$36.60	$3.10	$31.41	$8.29
08/13/02	$37.80	$34.70	$3.10	$30.74	$7.06
08/14/02	$38.09	$35.93	$2.16	$31.70	$6.39
08/15/02	$39.60	$37.44	$2.16	$31.99	$7.61
08/16/02	$37.54	$37.22	$0.32	$31.78	$5.76
08/19/02	$37.75	$37.43	$0.32	$32.53	$5.22
08/20/02	$36.75	$36.43	$0.32	$32.10	$4.65
08/21/02	$37.15	$36.83	$0.32	$32.17	$4.98
08/22/02	$40.65	$40.33	$0.32	$32.51	$8.14
08/23/02	$37.80	$37.48	$0.32	$31.95	$5.85
08/26/02	$39.08	$38.76	$0.32	$32.31	$6.77
08/27/02	$37.70	$38.58	-$0.88	$32.12	$5.58
08/28/02	$36.80	$37.68	-$0.88	$31.58	$5.22
08/29/02	$36.38	$37.26	-$0.88	$31.69	$4.69
08/30/02	$36.11	$36.99	-$0.88	$31.78	$4.33
09/03/02	$33.36	$35.45	-$2.09	$30.40	$2.96
09/04/02	$34.40	$36.49	-$2.09	$30.87	$3.53
09/05/02	$33.36	$35.45	-$2.09	$30.49	$2.87
09/06/02	$33.95	$36.04	-$2.09	$30.85	$3.10
09/09/02	$36.33	$38.42	-$2.09	$31.31	$5.02
09/10/02	$35.15	$37.24	-$2.09	$30.99	$4.16
09/11/02	$35.43	$37.52	-$2.09	$30.86	$4.57
09/12/02	$33.85	$35.94	-$2.09	$30.12	$3.73

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation

		Quantification Using Specific Disclosures		Quantification Including Leakage	
Date	Stock Price	True Value	Artificial Inflation	True Value	Artificial Inflation
09/13/02	$34.67	$36.76	-$2.09	$30.32	$4.35
09/16/02	$33.59	$35.68	-$2.09	$30.24	$3.35
09/17/02	$29.52	$31.61	-$2.09	$29.69	-$0.17
09/18/02	$29.85	$31.94	-$2.09	$29.44	$0.41
09/19/02	$29.25	$31.34	-$2.09	$28.52	$0.73
09/20/02	$29.05	$31.14	-$2.09	$28.41	$0.64
09/23/02	$27.61	$31.23	-$3.62	$28.46	-$0.85
09/24/02	$27.55	$31.17	-$3.62	$27.90	-$0.35
09/25/02	$28.15	$31.77	-$3.62	$28.39	-$0.24
09/26/02	$29.28	$32.90	-$3.62	$28.94	$0.34
09/27/02	$27.64	$31.26	-$3.62	$28.20	-$0.56
09/30/02	$28.31	$31.93	-$3.62	$28.41	-$0.10
10/01/02	$28.40	$32.02	-$3.62	$29.52	-$1.12
10/02/02	$27.32	$30.94	-$3.62	$28.45	-$1.13
10/03/02	$26.60	$30.22	-$3.62	$27.26	-$0.66
10/04/02	$24.66	$29.54	-$4.88	$26.53	-$1.87
10/07/02	$23.25	$28.13	-$4.88	$25.70	-$2.45
10/08/02	$23.58	$28.46	-$4.88	$26.75	-$3.17
10/09/02	$21.00	$25.88	-$4.88	$25.66	-$4.66
10/10/02	$26.30	$26.98	-$0.68	$26.98	-$0.68
10/11/02	$28.20	$28.20	$0.00	$28.20	$0.00

Exhibit 26

Household International, Inc. Common Stock Price and True Value
For Quantification Using Specific Disclosures & Quantification Including Leakage
March 23, 2001 - October 11, 2002



Appendix A

Lawrence E. Jaffe Pension Plan vs. Household International, Inc., et al.

REPORT OF DANIEL R. FISCHEL

I. QUALIFICATIONS

1. I, Daniel R. Fischel, am President of Lexecon, a consulting firm that specializes in the application of economics to a variety of legal and regulatory issues. I am also Professor of Law and Business at Northwestern University School of Law and Kellogg School of Management and the Lee and Brena Freeman Professor of Law and Business Emeritus at The University of Chicago Law School. I have served previously as Dean of The University of Chicago Law School, Director of the Law and Economics Program at The University of Chicago Law School, and as Professor of Law and Business at The University of Chicago Graduate School of Business.

2. Both my research and my teaching have concerned the economics of corporate law and financial markets. I have published approximately fifty articles in leading legal and economics journals and am coauthor, with Judge Frank Easterbrook of the Seventh Circuit Court of Appeals, of the book *The Economic Structure of Corporate Law* (Harvard University Press). Courts of all levels, including the Supreme Court of the United States, have cited my articles as authoritative. *See, e.g.*, *Central Bank v. First Interstate Bank*, 511 U.S. 164 (1994); *Basic Inc. v. Levinson*, 485 U.S. 224, 246 n. 24 (1988); and *Edgar v. MITE Corp.*, 457 U.S. 624, 643 (1982). My curriculum vitae, which contains a list of my publications, is attached hereto as Exhibit 1.

3. I have served as a consultant or adviser on economic issues to, among others, the United States Securities and Exchange Commission, The National Association of Securities Dealers, the New York Stock Exchange, the Chicago Board of

Trade, the United States Department of Labor, the United States Department of Justice, the Federal Deposit Insurance Corporation, the Resolution Trust Corporation, and the Federal Trade Commission.

4. I am a member of the American Economic Association and the American Finance Association. I am also a member of the Board of Directors of the Center for the Study of the Economy and the State at The University of Chicago, and former Chairman of the American Association of Law Schools' Section on Law and Economics. I have testified as an expert witness in multiple proceedings in federal and state courts across the country, as detailed in Exhibit 1. My hourly billing rate is $1,000.

II. INTRODUCTION AND SUMMARY OF CONCLUSION

5. Household International, Inc. ("Household" or the "Company") was principally a non-operating company with subsidiaries that primarily provided middle-market customers with several types of loan products in the United States, the United Kingdom, Canada, the Czech Republic, and Hungary.[1] Household Form 10-K for the fiscal year ended December 31, 2002 ("2002 10-K") at 2. The Company's operations were divided into three reportable segments: consumer (which included consumer lending, mortgage services, retail services, and auto finance businesses); credit card services (which included domestic MasterCard and Visa credit card businesses); and international. *Id.* at 5. Across these segments, Household generally served nonconforming and nonprime ("subprime") customers, *i.e.*, those who have limited credit histories, modest income, high debt-to-income ratios, high loan-to-value ratios (for real estate secured portfolios) or have experienced credit problems caused by occasional

1. Household was acquired by HSBC Holdings plc ("HSBC") on March 28, 2003. *See* Household Form 8-K dated March 28, 2003.

delinquencies, prior chargeoffs, or credit-related actions. *Id.* Household's continued success and prospects for growth were dependent upon access to the global capital markets. *Id.* at 8. The Company funded its operations using a combination of capital market debt and equity, deposits, and securitizations. *Id.* at 9.

6. On August 14, 2002, Household announced that it had restated its consolidated financial statements, including for the years ended December 31, 1999, 2000, and 2001 and for the quarter ended March 31, 2002. *Id.* at 25 & Household Form 10-Q for the quarterly period ended June 30, 2002 at 5. The restatement related to MasterCard/Visa co-branding and affinity credit card relationships and a marketing agreement with a third party credit card marketing company; all were part of its credit card services segment. *Id.* Retained earnings at December 31, 2001 were restated to reflect a retroactive after-tax charge of $359.9 million. *Id.*

7. On October 11, 2002, Household announced that it had reached a preliminary agreement with a multi-state working group of state attorneys general and regulatory agencies to effect a nationwide resolution of alleged violations of federal and state consumer protection, consumer financing and banking laws and regulations with respect to secured real estate lending from its retail branch consumer lending operations. 2002 10-K at 3. The Company agreed to pay up to $484 million and adopt a series of business practices to benefit borrowers.[2] *See* Exhibit 2. Household management said it expected the changes in business practices to cut earnings by 10 cents a share in 2003, by 20 cents in 2004, and by 30 cents in 2005.[3] *Id.*

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2. In the third quarter of 2002, the Company recorded a pre-tax charge of $525 million ($333.2 million after-tax) to reflect the costs of the settlement agreement and related matters. 2002 10-K at 3.
3. Household management also disclosed that it thought Wall Street's 2003 forecast of

8. On March 18, 2003, Household consented to the entry by the Securities and Exchange Commission ("SEC") of an order (the "Consent Order") relating to the sufficiency of certain disclosures in reports the Company filed during 2002. 2002 10-K at 4-5. The SEC found that Household's disclosures regarding its restructuring (or "re-aging") policies failed to present an accurate description of the minimum payment requirements applicable under the various policies or to disclose its policy of automatically restructuring numerous loans and were therefore false and misleading. *Id.* The SEC also found misleading Household's failure to disclose its policy of excluding forbearance arrangements in certain of its businesses from its 60+ days contractual delinquency statistics. *Id*. The SEC noted that the 60+ days contractual delinquency rate and restructuring statistics were key measures of the Company's financial performance because they positively correlate to charge-off rates and loan loss reserves. *Id.* The SEC stated that the false and misleading disclosures violated Sections 10(b) and 13(a) of the Exchange Act, and Rules 10b-5, 12b-20, 13a-1 and 13a-13 under the Exchange Act. *Id*.

9. In light of the above, several institutions ("Plaintiffs") have filed a securities class action against Household's CEO & Chairman of the Board William F. Aldinger, President, COO & Vice-Chairman of the Board David A. Schoenholz, Vice-Chairman of Consumer Lending & Group Executive of U.S. Consumer Finance Gary Gilmer, Household Finance Corp. ("HFC") director J.A. Vozar, and the Company (collectively, "Defendants").[4] [Corrected] Amended Consolidated Class Action

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$5.09 was too high and that it now expected 2003 earnings to fall in the range of $4.65 to $4.90, and that it expected to take another charge of between $250 million and $300 million after tax related to the sale of its thrift. *See* Exhibit 2.

4. I understand that defendant Arthur Andersen LLP has settled with Plaintiffs and that claims against the other defendants named in the Complaint have been dismissed.

Complaint for Violation of the Federal Securities Laws ("Complaint") ¶¶ 1, 6, 36 & 47. Plaintiffs bring this action on behalf of all persons who purchased or otherwise acquired Household securities during the period from July 30, 1999 to October 11, 2002 (the "Class Period").[5] *Id.* ¶ 1. I understand that a class has been certified as to the claims Plaintiffs bring under §10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

10. Plaintiffs allege that throughout the Class Period, Defendants engaged in a fraudulent scheme and wrongful course of business that rendered Household's financial statements materially false and misleading and caused the market prices of its securities to trade at artificially inflated levels. *Id.* ¶¶ 24 & 50. Plaintiffs principally allege that Defendants: 1) employed improper lending practices designed to maximize amounts lent to borrowers in the subprime market ("Predatory Lending") and denied that these practices were occurring; 2) misrepresented and manipulated defaults and delinquencies (metrics closely followed by analysts and investors) by artificially re-aging delinquent accounts ("Re-aging"); and 3) improperly accounted for expenses associated with certain of its credit card agreements, which led to a restatement going as far back as 1994 that lowered earnings throughout the Class Period (the "Restatement"). *Id.* ¶¶ 2, 50 & 83. Plaintiffs claim that the cumulative effect of the revelation of Defendants' alleged wrongful course of business caused the prices of Household's securities to plummet. *Id.* ¶¶ 6 & 29. Plaintiffs further claim that as a direct and proximate result of Defendants' allegedly wrongful conduct, they and other members of

5. The Class Period as pled began on October 23, 1997. Complaint ¶ 1. I understand that, as a matter of law, the Court dismissed claims on behalf of those who purchased or otherwise acquired Household securities prior to July 30, 1999.

the class suffered damages in connection with their purchases of Household securities during the Class Period. *Id.* ¶ 350.

11. I have been asked by counsel for Plaintiffs to analyze the economic evidence as it relates to their claims, determine whether it is consistent with these claims, and, if so, analyze the amount of alleged artificial inflation in Household's stock price during the Class Period attributable to such claims. I have been assisted by Lexecon's professional staff. The materials I relied upon in forming my opinions are included as exhibits or cited *infra*. Based on our review and analysis, I have concluded that the economic evidence is consistent with Plaintiffs' claim that the alleged wrongdoing caused investors in Household's common stock to incur losses.

III. THE RELATIONSHIP BETWEEN PLAINTIFFS' ALLEGATIONS AND INVESTORS' LOSSES

A. Predatory Lending

12. Beginning at least as early as November 15, 2001, Household's stock price was negatively impacted by concerns regarding the Company's alleged predatory lending practices. After the close of trading on November 14, 2001, *Bloomberg* reported that the California Department of Corporations ("CDC") filed suit for civil penalties in the amount of at least $8.5 million against Household's HFC and Beneficial subsidiaries as a result of their "engaging in joint, pervasive patterns of abusive lending practices consisting of routine, statewide imposition of excessive and improper fees, penalties, interest and charges" in violation of state consumer protection laws.[6] *See* Exhibit 3. A *Business Wire* article noted that the CDC "discovered 1,921

6. Household's residual stock price return on the next day, November 15, 2001, was -3.1%, which is statistically significant at conventional levels of significance. *See* Exhibit 49 *and infra* ¶¶ 31-3 for an explanation of residual stock price returns and

incidents of charging excessive administrative fees, the same category of violations that Household was required to correct in 1998." *See* Exhibit 4. On November 15, 2001, the Company issued a press release denying "any assertion that it has willfully violated the lending laws that regulate its business." *See* Exhibit 5. Analysts at Deutsche Banc Alex. Brown Inc. commented that although the amount of the civil penalties the CDC was seeking did not appear severe, "[t]he unanswered questions are 1) how much more in refunds might Household owe? 2) will the accusations escalate (within or beyond the state)? and 3) will there be any operational constraints?" and concluded that "there could be a cloud overhanging the stock in the short term." *See* Exhibit 6.

13. Household settled the CDC lawsuit in early January 2002, agreeing to pay $12 million of fines and refunds and be subject to "an unprecedented level of oversight from its California regulator." *See* Exhibit 7. The CDC stated that the settlement was "so tough" because Household was a "recidivist." *Id*. An industry consultant noted that "[t]his case is of particular interest because it marks what could be the start of increased oversight by state regulatory agencies of consumer finance companies" and that it could spark a trend in other states. *Id*.

14. On February 18, 2002, *National Mortgage News* provided detail on a class-action lawsuit alleging that Household's California subsidiaries "tricked" and "trap[ped]" customers into high-cost mortgages in amounts so large in relation to the value of their homes that the borrower could not refinance with a competitor. *See* Exhibit 8. The article quoted Defendant Schoenholz's reaction to the lawsuit: "Our first take on

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statistical significance.

this is that it is not a significant issue, not indicative of any widespread problem and certainly not a concern that will spread elsewhere." *Id*.

15. Defendant Schoenholz was wrong. Over the ensuing months, a number of newspaper articles appeared describing new accusations and lawsuits against Household over lending practices across the country. For example, on August 16, 2002, *The Boston Globe* reported that the Association of Community Organization for Reform Now ("ACORN") had filed a class-action lawsuit against Household in Massachusetts, and had previously filed class-action lawsuits in Illinois, California, and New York. *See* Exhibit 9. In addition, on June 2, 2002, the *Chicago Tribune* reported that the AARP "backs lawsuits against Household in New York and West Virginia that seek class-action status." *See* Exhibit 10.

16. Moreover, information leaked out about the contents of a report (the "WA Report") by Washington State's Department of Financial Institutions ("DFI") that detailed borrower complaints against Household and alleged the Company violated federal and state consumer protection laws by failing to make key disclosures and by using "sales tactics intended to mislead, misdirect, or confuse the borrower." *See* Exhibit 11. For example, on April 18, 2002, *The Seattle Post-Intelligencer* reported on the complaints and quoted the DFI's investigations supervisor as saying he believed that the Company's consumer finance subsidiaries "have the most complaints that we have on record." *See* Exhibit 12. In addition, *American Banker* reported on August 26, 2002 that the DFI had won permission to share the WA Report with other officials in Washington and in other states. *See* Exhibit 11. After identifying that Household had intentionally misused its good-faith estimate form in several branches in Washington and receiving reports from regulators in other states concerning this practice, the WA Report stated that

the DFI "does not believe the practice is isolated." *Id*. On August 27, 2002, *The Bellingham Herald* published an article calling the WA Report a "blistering assessment" of Household's mortgage loan practices in the state that "found evidence of 'a pattern of intentional deception' of homeowners." *See* Exhibit 13. The article also states that "in recent weeks, copies of the report have been leaked to every news organization that has been following the HFC story – including The New York Times, Forbes Magazine, American Banker magazine [sic] and The Bellingham Herald." *Id*.

17. As information was disseminated into the market about Household's lending practices, Defendants continued to deny the allegations of predatory lending. For example, the Company stated in its 2001 10-K filed on March 13, 2002: "Household has [] been named in purported class actions by consumer groups (such as AARP and ACORN) claiming that our loan products or our lending policies and practices are unfair or misleading to consumers. We do not believe that any of these legal actions has merit or will result in a material financial impact on Household." *See* 2001 10-K at 12. The 10-K further stated that "we do not believe, and we are not aware of, any unaddressed systemic issue affecting our compliance with any state or federal lending laws within any of our businesses." *Id*. Similarly, on May 3, 2002, a *Chicago Tribune* article stated that, in response to the lawsuit seeking class action status in Illinois, "Household quickly denied that it misleads customers." *See* Exhibit 14. In addition, on June 4, 2002, the *Chicago Defender* reported that Defendant Gilmer "described as unfounded the recent rash of lawsuits, advocacy organization complaints and accusations by politicians from Boston to California that accuse the company of predatory lending." *See* Exhibit 15. On February 27, 2002, Household announced an expansion of its "Best

Practice Initiatives" which "rais[ed] industry standards for responsibly serving middle-market borrowers."[7] *See* Exhibit 17.

18. But, as the year progressed, Defendants' denials became less credible.[8] Household fought the release of the WA Report, calling it "a draft" with "factual errors," and won a temporary injunction on May 30, 2002. *See* Exhibit 18. Upon learning of Household's temporary injunction, one market commentator indicated investors' concern regarding the allegations in the WA Report, stating: "I don't know what's in that report, but I bet it isn't complimentary to Household." *See* Exhibit 19. In Household's 2002 proxy filing, a shareholder proposal was initiated which requested that the board conduct a study on ways to link executive compensation to the prevention of predatory lending. *See* 2002 Company Proxy at 23-25. While Company management recommended shareholders vote "AGAINST" this proposal at the annual meeting because "the objectives of this Proposal have been implemented," Institutional Shareholder Services recommended that shareholders vote "FOR" this proposal. *Compare* 2002 Company Proxy at 25 *and* Exhibit 20. The proposal won support from 25% to 27% of shares voted, compared to only 5% support in the prior year. *See* Exhibit 21. Further, on May 23, 2002, the *Chicago Sun-Times* reported that Household "has hired a former Pennsylvania banking secretary to make sure the company doesn't take advantage of unsophisticated borrowers." *See* Exhibit 22. On July 26, 2002, *The*

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7. These initiatives were expanded further as part of the settlement announced on October 11, 2002. *See* Exhibit 2. On August 17, 2002, *The New York Times* reported that "Household said in February that it would begin adopting a fee cap and other changes immediately, but it said this week that the fee limit would be in place by the end of the year." *See* Exhibit 16.
8. The WA Report concluded that HFC's claims that no deception or misrepresentation had occurred "began to ring hollow as more and more consumers continued to complain." *See* Exhibit 11.

Bellingham Herald reported that "[f]or the first time, Household International has acknowledged that its employees may have misrepresented mortgage loan terms to some Whatcom County homeowners who refinanced their homes at the Bellingham office of Household Finance Co., a subsidiary." *See* Exhibit 23. The article stated that "[u]ntil now, company spokesmen have portrayed Household as an industry leader in consumer protection, with elaborate safeguards to make sure borrowers understand the deals they are signing" but "this week, [a company spokesperson] said an internal company probe of the complaints had uncovered some serious problems." *Id*. In addition, on August 17, 2002, *The New York Times* reported that two former Household loan officers who worked at a branch in the Northeast said that the Company's E-Z biweekly payment plan "was used to confuse borrowers into thinking that they would get a lower rate. 'It is the cornerstone of Household's sales pitch,' one said." *See* Exhibit 16. Moreover, in an article titled "Home Wrecker," *Forbes* reported that in July 2002, "authorities from more than a dozen states descended on Household to demand refunds and reforms." *See* Exhibit 24. The article quoted a Minnesota Commerce Commissioner as saying: "It's not just an occasional rogue loan officer or a rogue office. It has to do with the corporate culture." *Id*.

19. As information regarding Defendants' lending practices leaked out during the latter part of the Class Period, market participants reassessed the risks of investing in Household stock. For example, on May 7, 2002 *Newsday* reported that the New York State Comptroller was considering selling 2.5 million shares of Household stock held in a state pension fund due to his concerns about Household's lending practices. *See* Exhibit 25. The Comptroller stated: "Investors should be concerned about the real possibility of a negative impact on the company's performance in the future."

See Exhibit 26. On August 27, 2002, a Keefe Bruyette & Woods analyst initiated coverage on Household with a "neutral 'market perform' rating" and said that "its stock is in 'an uninvestable situation'" and that its earnings growth will likely be restrained by maturing debt and the potential cost of dealing with the lending allegations. *See* Exhibit 27.

20. In addition, analysts lowered their expectations of Household's future prospects. For example, on July 31, 2002 Morgan Stanley analysts wrote, "[t]o reflect predatory lending risks, we've reduced our 5-year EPS growth rate goes [sic] from 14% to 8% and cut our 2003 estimate from $5.26 to $5.02." *See* Exhibit 28. On August 12, 2002, Deutsche Bank analysts stated that "we are lowering our target price to $53 [from $63]" and "we are also lowering our long-term growth rate to 10%-12% from 14% … as we believe Household's loan growth will slow as lending restrictions gradually take hold." *See* Exhibit 29. On September 3, 2002, Bernstein Research analysts wrote, "we believe that as sales practice reform takes hold Household will need to reset its long-run EPS growth target of 13-15% to 10-12%." *See* Exhibit 30. On September 9, 2002, CSFB credit analysts explained that "the dollars committed to business practice control in the future will be significant." *See* Exhibit 31. On September 10, 2002, *American Banker* reported that Defendant Aldinger conceded that the Company's revenue growth had slowed as it instituted its Best Practices Initiatives. *See* Exhibit 32.

21. On October 4, 2002, the *Wall Street Journal* published a story that mentioned that Household was close to completing a $350-$500 million settlement with state attorneys general over its predatory lending practices. *See* Exhibit 33. On October 8, 2002, UBS Warburg analysts stated that "[w]e are cutting our 2003 estimate to reflect the impact of a regulatory fine on HI's earnings and capital base. … we estimate this fine

could exceed $500 million." *See* Exhibit 34. These analysts further noted that "the company would likely have difficulty paying a fine of this magnitude out of cash flow" and "[i]rrespective of the size and timing of a fine, we continue to believe HI's business model, in terms of its marketing and pricing practices, is likely to change, resulting in a longer term earnings growth rate which we estimate of 7%." *Id.* By no later than October 10, 2002, analysts believed the costs of a settlement had already been priced into the stock. *See, e.g.*, Exhibit 35.

B. Re-aging

22. Beginning at least as early as December 3, 2001, Household's stock price was negatively impacted by concerns regarding its accounting and re-aging practices. On December 1, 2001, *Barron's* published an article titled "Does It Add Up? A Look At Household's Accounting," which questioned these practices.[9] *See* Exhibit 36. Among other things, the article states that a securities analyst whose firm worked for Household "professes to be bothered by factors including the company's loan-loss reserve coverage, which seems somewhat skimpy, especially in light of the fact that non-performing (delinquent) assets grew by some $280 million in the last quarter." *Id.* According to the article, the analyst said: "Household's loss rate on subprime mortgages is close to that of the savings-and-loan industry, even though S&Ls generally have more affluent borrowers and issue fewer second mortgages which, by their nature, are shakier than first mortgages." *Id.*

9. Household's residual stock price return on December 3, 2001, the first trading day after the *Barron's* article was published, was -3.2%, which is statistically significant at conventional levels of significance. *See* Exhibit 49 *and infra* ¶¶ 31-2 for an explanation of residual stock price returns and statistical significance.

23. As reported on December 5, 2001, Defendant Aldinger rebutted and denied the criticisms in the *Barron's* article at an investor conference the day before. *See* Exhibit 37. However, market participants continued to question Household's accounting and re-aging practices. For example, on December 11, 2001, Legg Mason issued a report in which its analysts expressed their confusion regarding certain of the disclosures in the Company's reports concerning its accounting, in particular its re-aging policies. *See* Exhibit 38. After discussing these disclosures, the analysts listed numerous questions and concerns. *Id*. For instance, they found Household's "lenient reaging policy disturbing as it undermines the analytical value of the reported asset quality statistics" and asked the Company to "report asset quality problems more conventionally (a late is a late until repaid in full)." *Id*. The analysts stated that "[w]ithout this conventional disclosure, we are left with many unanswered questions." *Id*. After having suspended their investment rating on December 3, 2001, the analysts downgraded Household's stock two notches from SB (which they describe as "Strong Buy") to M (which they describe as "Market Performance") and increased their risk rating from 1 ("Low") to 2 ("Average"). *Compare id.* & Exhibit 39.

24. The Legg Mason analysts' confusion in December 2001 regarding Household's re-aging practices relates directly to the sufficiency of the Company's disclosures of its re-aging policies as of that time. So, although the SEC's Consent Order only covered reports filed by Household in 2002 (*see supra* ¶ 8), the reports available to the analysts on December 11, 2001 – *i.e.*, those reports filed by the Company prior to 2002 – also were deficient in disclosing its re-aging policies.

25. Even after Household disclosed more information regarding its re-aging practices in April 2002, market participants did not consider the disclosures to be

complete. At its annual investor conference on April 9, 2002 and in a Form 8-K filed with the SEC on the same day, Household provided more disclosure on its re-aging policies. *See* Exhibit 40 & Form 8-K filed on April 9, 2002 (the "4/9/02 8-K"). Following these disclosures, analysts at Prudential Securities commented that the "new info on account re-aging lacked historical and comparative context and could be a misleading indicator of HI's approach to managing credit losses." *See* Exhibit 40. An August 17, 2002 article in *The New York Times* stated that "Household has not supplied enough data on re-aged loans for a year earlier to show whether credit problems are rising sharply" and quoted a Credit Suisse First Boston analyst who said that "[i]t would be very helpful to have re-aging data disclosed on a regular basis." *See* Exhibit 16.

26. Further, in a report dated June 7, 2002, the Center for Financial Research and Analysis, Inc. ("CFRA") – the founder of which was described as "an important analyst for the buy-side community" – stated that Household's "reaging may obscure its credit quality picture" because "deferral of charge-offs occurs by definition upon reaging," therefore, "a company's true credit quality picture is obscured by reaging accounts." *See* Exhibit 41. After discussing the information disclosed in the 4/9/02 8-K, CFRA stated that "the Company's reaging policies cause these figures to understate HI's delinquency and charge-off experience." *Id*. In a report dated August 19, 2002, CFRA observed that "[i]n the June 2002 quarter, the Company changed the format for its disclosure of reaging." *See* Exhibit 42. CFRA noted that "whereas [Household] had previously broken out the percent of credits which had been reaged multiple times, the latest 10-Q details only whether the account has been reaged" and that the Company "refrained from disclosing the amount of recidivism, which reflect [sic] accounts that are delinquent or charged-off one year after having been reaged and (in retrospect, one could

argue) should have been charged-off at the time of reaging." *Id*. Again, the lack of disclosure regarding Household's re-aging practices was the basis for the Consent Order.

C. The Restatement

27. On August 14, 2002, Household announced that it was restating its prior reported financial results downward. *See supra* ¶ 6. Market participants were surprised by the announcement. *See, e.g.*, Exhibit 43. Analysts at Morgan Stanley commented that the restatement "suggests to us that returns in the credit card business are lower than we previously thought," which caused them to reassess the profitability of the credit card business and reduce their earnings forecasts and price target. *Id*. CIBC World Markets analysts also reduced their 2002 and 2003 earnings estimates and lowered their price target to $57 from $65. *See* Exhibit 44.

D. Investors' Losses

28. Beginning November 15, 2001 (the earliest date I found that Household's stock price was negatively affected by the alleged fraud (*see supra* ¶ 12)) through October 11, 2002, Household's stock price fell from $60.90 to $28.20, a decline of $32.70 or 53.2% adjusted for dividends. Market participants attributed the Company's stock price decline to concerns regarding the allegedly fraudulent practices. For example, on July 18, 2002, Stephens Inc. analysts noted the "collapse" in Household's stock price and stated that Household's stock "has been plagued by 'headline' risk over predatory lending practices." *See* Exhibit 45. Further, in a report dated September 22, 2002, CIBC analysts lowered their target price from $57 to $36 and commented that "building concerns regarding the company's lending practices, which have been accused of being predatory in nature and is [sic] currently the subject of an investigation by the Washington Department of Financial Institutions, have dampened price performance.

Moreover, skepticism regarding the company's rapid portfolio growth, particularly within the auto business, and mounting credit quality concerns related to Household's loan workout and re-aging practices have also been a drag on the stock." *See* Exhibit 46. Additionally, on September 12, 2002, Deutsche Bank analysts reported that "Household's stock has been under pressure due to concern about accusations of unfair and predatory lending practices." *See* Exhibit 47. The Deutsche Bank analysts added that "[p]redatory lending has not been Household's only cloud this year. It recently restated earnings for the way it accounts for certain marketing expenses, which reduced equity by $386 million. Household has pledged to the rating agencies to bring the capital ratio to 8.5% by year end compared to the previous target of 7.5% (it is in the market for preferred already). It will reduce asset growth, if necessary, to achieve that target. It would like to repurchase shares as soon as possible, but restoring capital in [sic] a priority." *Id.*

29. To further analyze Plaintiffs' claim that Household's stock price declined as investors learned of the Company's allegedly fraudulent practices and Defendants' denials became less credible in the latter part of the Class Period, I compared the stock's performance to an index of comparable stocks (the S&P Financials Index) and a market index (the S&P 500 Index) during the period from November 15, 2001 through October 11, 2002.[10] Exhibit 48 shows that the Company's stock underperformed the indexes during this period – Household's stock fell 53.2% while the comparable and market indexes declined by 20.7% and 25.8%, respectively, adjusted for dividends.

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10. In the annual Proxy Statements it filed with the Securities and Exchange Commission ("SEC") during the Class Period, Household compared its stock price performance to Standard & Poor's Composite Financial Stock Price Index ("S&P Financials Index") and the Standard & Poor's 500 Composite Stock Price Index (the "S&P 500 Index"). *See, e.g.*, Household's Proxy Statement dated April 9, 2002 at 16. According to Bloomberg, there were 81 firms in the S&P Financials Index on October 11, 2002.

Under the facts and circumstances of this case, this long-term relative underperformance is consistent with Plaintiffs' claim.

IV. QUANTIFICATION OF ALLEGED ARTIFICIAL INFLATION

30. To quantify the alleged artificial inflation in Household's stock price during the Class Period, I measured the price reaction to several disclosures related to the alleged fraud using a well-known and established technique in financial economics known as an "event study." This quantification likely understates the amount of inflation because it does not take into account the stock price effect of all of the information related to the alleged fraud (including the information detailed above) that leaked into the market in the latter part of the Class Period. To quantify alleged artificial inflation including the effect of leakage that is supported by the facts and circumstances of this case, I use a published method referred to as the "event study approach."

A. Event Study Methodology

31. In an efficient market, the market price of an actively traded stock reflects all publicly available information about the firm and its future prospects and represents the financial community's best estimate of the present value of those prospects.[11] As new information becomes available that changes investors' assessment of the firm's prospects, traders buy and sell the stock until its price reaches a level that reflects the new consensus view of the firm's prospects. Therefore, the change in the price of a

11. During the Class Period: 1) Household's stock was actively traded on the New York Stock Exchange, with average weekly share turnover of 2.5%; 2) each month, between 20 and 27 analysts provided estimates of the Company's earnings to IBES, and Thomson Financial lists 483 analyst reports on the Company; 3) Household filed Forms S-3 and regular public filings with the SEC; and 4) as demonstrated *infra* ¶¶ 34-5, the Company's stock price reacted to unexpected new information. Therefore, it is reasonable to presume that the market for Household's stock was efficient.

stock when new information becomes available measures the value of the new information to investors. This type of analysis is known as an event study and is widely used in finance.[12]

32. It is standard practice in event studies to take into account the effect of market factors on stock price returns. This is typically done by using regression analysis to estimate the historical relationship between changes in a company's stock price and changes in the performance of a market index (and possibly an industry index), using the historical relationship and the actual performance of the index(es) on the day in question to calculate a "predicted return," and subtracting the predicted return from the actual return to derive a "residual return" (sometimes referred to as an "abnormal return" or "market-adjusted return"). In this case, we estimated the relationship between Household's return and returns on the S&P 500 and S&P Financials Indexes during the period from November 15, 2000 to November 14, 2001 (*i.e.*, the calendar year prior to the earliest date I found that Household's stock price was negatively affected by the alleged fraud (*see supra* ¶ 12)).

33. In event studies, the statistical significance of the residual returns is typically assessed by calculating a standardized measure of the size of the residual return known as a "t-statistic."[13] A t-statistic with an absolute value of 1.96 or greater denotes statistical significance at the 5 percent level of significance (a conventional level

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12. *See, e.g.*, A.C. MacKinlay, "Event Studies in Economics and Finance," 35 *Journal of Economic Literature* (March 1997), 13-39.
13. *See, e.g.*, A.C. MacKinlay, "Event Studies in Economics and Finance," 35 *Journal of Economic Literature* (March 1997), 13-39; G.W. Schwert, "Using Financial Data to Measure Effects of Regulation," 24 *The Journal of Law and Economics* (1981), 121-57; D.R. Fischel, "Use of Modern Finance Theory in Securities Fraud Cases Involving Actively Traded Securities," 38 *The Business Lawyer* (1982), 1-20, at 18-19.

at which such assessments are made) in a "two-tailed" test of statistical significance (*i.e.*, testing for significance regardless of whether the residual return is positive or negative).[14] A t-statistic with an absolute value of 1.65 or greater denotes statistical significance at the 5 percent level of significance in a "one-tailed" test of statistical significance (*i.e.*, testing for significance where the residual return has a particular sign).[15] The data for and results of the event study, along with headlines from *Dow Jones News Service* and *Wall Street Journal* articles that mention Household, are presented in Exhibit 49.

B. Quantification Using Specific Disclosures

34. Beginning no later than November 15, 2001, Household's stock price declined significantly in response to disclosures related to the alleged fraud. For example, the stock price declined significantly following the November 14, 2001 disclosure of the CDC lawsuit, the December 1, 2001 *Barron's* article questioning Household's accounting and re-aging practices, the July 26, 2002 *Bellingham Herald* article reporting that the Company acknowledged its employees may have misrepresented mortgage loan terms to some homeowners, the announcement of the restatement, the publication of the *Forbes* "Home Wrecker" article after the market closed on August 15, 2002, and the October 4, 2002 *Wall Street Journal* article that leaked the news about Household's settlement with the state attorneys general.[16, 17, 18] *See supra* ¶¶ 6, 12, 18, 21

14. *See, e.g.*, W. Mendenhall, J.E. Reinmuth & R.J. Beaver, *Statistics for Management and Economics* (Duxbury Press, 1993), at 345-46 & 368-69.
15. *Id*.
16. The residual return on November 15, 2001, the first trade day after the press reported on the CDC lawsuit, was -3.1% and the t-statistic was -2.21; the residual price change was -$1.86. *See* Exhibit 49. The residual return on December 3, 2001, the first trade day after the *Barron's* article was published, was -3.2% and the t-statistic was -2.33; the residual price change was -$1.90. *Id*. The residual return on July 26, 2002, the date the *Bellingham Herald* article was published, was -5.7% and the t-statistic was -4.08; the residual price change was -$2.20. *Id*. The residual return on August 14,

& 27 *and* Exhibit 49. The stock price also declined significantly as analysts reassessed the risks of investing in the Company's stock due to the alleged fraud, including following the publication of the December 11, 2001 Legg Mason report regarding Household's re-aging policies, the August 27, 2002 Keefe, Bruyette & Woods report that described Household as "uninvestable," the September 3, 2002 Bernstein Research report that discussed the analysts' belief that Household will need to lower its EPS growth target, and the September 22, 2002 CIBC report in which the analysts lowered their target price to $36 from $57 and reduced their earnings estimate for 2003.[19] *See supra* ¶¶ 19, 20, 23 & 28 *and* Exhibit 49.

2002, the date the restatement was announced, was -2.5% and the t-statistic was -1.77; the residual price change was -$0.94. *Id*. The residual return on August 16, 2002, the first trade day after the *Forbes* article was available to the market (*see infra* Note 18), was -4.7% and the t-statistic was -3.37; the residual price change was -$1.84. *Id*. The residual return on October 4, 2002, the date the *Wall Street Journal* article was published, was -4.7% and the t-statistic was -3.41; the residual price change was -$1.26. *See* Exhibit 49.

17. Although Household's stock price increased significantly on August 15, 2002, the day after the restatement was announced, there is evidence that the restatement contributed to the cloud over the Company's stock after the announcement and to the subsequent decline in Household's stock price. *See, e.g., supra* ¶ 28 *and* Exhibit 50 ("The company's stock has been reeling while Household fights the [predatory lending] allegations and since it restated several years' worth of earnings in August.").
18. Although the *Forbes* article is dated September 2, 2002, an internal Household e-mail states that the article appeared on www.forbes.com on the evening of August 15, 2002. *See* Exhibit 24.
19. The residual return on December 12, 2001 was -4.2% and the t-statistic was -3.06; the residual price change was -$2.39. *See* Exhibit 49. The residual return on August 27, 2002 was -3.1% and the t-statistic was -2.21; the residual price change was -$1.19. *Id*. August 27, 2002 was also the date the *Bellingham Herald* reported on the contents of the WA Report. *See supra* ¶¶ 16. The residual return on September 3, 2002 was -3.4% and the t-statistic was -2.39; the residual price change was -$1.21. *Id*. The residual return on September 23, 2002 was -5.2% and the t-statistic was -3.77; the residual price change was -$1.52. *Id*.

35. Household's stock price also increased significantly due to disclosures related to the alleged fraud. The price increased significantly in response to Defendant Aldinger's rejoinder to the December 1, 2001 *Barron's* article, the Company's February 27, 2002 announcement that it would implement new "Best Practice Initiatives," and the settlement with the state attorneys general and regulatory agencies.[20, 21] *See supra* ¶¶ 7, 17 & 23 *and* Exhibit 49.

36. I quantify alleged artificial inflation related to the above disclosures based on the concomitant residual price changes reported *supra* Notes 16 & 19-21. The amount of artificial inflation on a particular day during the Class Period equals the sum of the subsequent residual price changes; therefore, as the price reacts to

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20. The residual return on December 5, 2001 was 3.2% and the t-statistic was 2.29; the residual price change was $1.85. *See* Exhibit 49. The residual return on February 27, 2002 was 3.3% and the t-statistic was 2.38; the residual price change was $1.64. *Id.*
21. As explained *supra* ¶ 7, Household's announcement on October 11, 2002 disclosed that the Company would pay hundreds of millions of dollars and change its business practices such that future earnings would be reduced. In response to the news, Standard & Poor's lowered its debt ratings, stating that "the charge, coming on the heels of the company's $386 million accounting adjustments, calls into question the managerial controls in place at the company as well as its appetite for risk taking," and Fitch placed its ratings on negative watch, stating: "… the bigger challenge for Household will be replenishing lost revenue resulting from the implementation of 'Best Practices.' An inability to offset these revenues streams could pressure future profitability, …." *See* Exhibits 2 & 51. Because this news had substantial negative implications for Household's market value, one would expect that it would have caused the Company's stock price to decline significantly. However, the stock price increased $1.90 on October 11, 2002 after increasing $5.30 on the previous day. Market commentators attributed the price increase on October 10, 2002 to "market talk that [Household] could reach an agreement as soon as Friday that would settle investigations by state attorneys general into its subprime consumer lending business." *See, e.g.*, Exhibit 52. The residual return over this two-day period was 23.1% [= (1 + 0.1999) x (1 + 0.0258) – 1] with a cumulative t-statistic of 11.29 [= (14.13 + 1.83) / (the square root of 2)]; the cumulative residual price change was $4.88. *See* Exhibit 49. The fact that the stock increased in value upon disclosure of such negative information is evidence that it had declined earlier by at least as much in anticipation of a larger payment and/or changes in Household's business practices that would have had a worse impact on the Company's future prospects.

each disclosure, inflation increases or decreases by the amount of the residual price change on that date. For example, on November 14, 2001 (the day before the price reacted to the earliest of the above disclosures), the artificial inflation equals $7.97, the sum of the subsequent residual price changes. *See supra* Notes 16 & 19-21 *and* Exhibit 53. On November 15, 2001, the artificial inflation declines by $1.86 (the amount of the residual price change on that day) to $6.11. *See supra* Note 16 *and* Exhibit 53.

37. Exhibit 53 presents Household's stock price, the quantification of total alleged artificial inflation, and the resulting estimate of the stock's true value (*i.e.*, the price at which the stock would have traded but for the alleged fraud, calculated as the difference between the stock price and artificial inflation) on each day of the Class Period. Exhibit 54 is a graph of the stock price and estimated true value.

C. Quantification Including Leakage

38. In their article titled "Using Finance Theory to Measure Damages in Fraud on the Market Cases," Cornell and Morgan state that "[b]y the time a public announcement occurs, often the market price already reflects some of the information contained in the announcement."[22] They further state that in cases where a prior information leak occurs, a residual price change following a disclosure "does not properly measure the economic impact of the disclosure" and that, as a result, using

22. B. Cornell and R.G. Morgan, "Using Finance Theory to Measure Damages in Fraud on the Market Cases," 37 *UCLA L Rev.* (1990), 905. In support of their statement, the authors reference a study which "found that the price of target companies ran up almost 30% on average, relative to the predictions of the market model, before the first announcement of a merger or tender offer." *Id*. They also reference a study finding "there were almost no large residuals for a portfolio of bank stocks on days when information about the Latin American debt crisis was publicly announced" and conclude that "[t]his may be attributable to the characterization of the crisis by a slow accumulation of bad news and not by a few unexpected announcements." *Id*.

residual price changes in these cases "only on disclosure days will understate damages."[23] The authors also cite examples of securities cases in which fraud was revealed slowly over time, including one in which "a slow flow of increasingly negative news fueled a rising tide of doubts and rumors" with the result that "only a few dramatic announcements were associated with large residual returns."[24]

39. Similarly, in the Household case, a steady stream and extensive amount of incomplete information related to Defendants' alleged fraud was disclosed beginning at least as early as November 15, 2001 (including the information detailed *supra* § III), but only some of these disclosures were associated with statistically significant residual returns. *Compare supra* § III *with* Exhibit 49. However, Household's stock lost more than half of its value during this period, which market participants attributed to concerns regarding Defendants' allegedly fraudulent practices. *See, e.g., supra* ¶ 28. Moreover, as explained *supra* ¶ 29, the stock substantially underperformed the market and comparable indexes over this period, indicating that under the facts and circumstances of this case, its decline cannot be fully explained by adverse market events. The combination of the significant stock price decline, the concurrent leakage of fraud-related information, and market participants' attribution of the decline to this fraud-related information is strong economic evidence that in this case, the long-run relative underperformance in Household's stock beginning November 15, 2001 was caused by leakage of artificial inflation from the price.

40. As a result of this leakage, my quantification of inflation using the specific disclosures described *supra* ¶¶ 34-5 likely significantly understates the amount of

23. *Id.*
24. *Id*. at 905-6.

artificial inflation in the stock price during the Class Period. Cornell and Morgan explain that one way to reduce the likely understatement in a case where fraud was revealed slowly over time is to extend the "observation window" (*i.e.*, the period over which a price reaction to an event is measured) surrounding the disclosure date and measure residual returns over time.[25] They explain that in such a case, "[t]he window begins far enough in advance of the disclosure for the analyst to be reasonably confident that no significant information leakage has occurred … [and] ends at a date when the analyst feels confident that most of the information is publicly available."[26] The authors state that for a case in which there is a continuous leakage of information, it may be necessary to expand the observation window to cover the entire class period.[27]

41. Under the facts and circumstances of this case explained above, I quantified the amount of artificial inflation in Household's stock price including the leakage of information related to the alleged fraud using the "event study approach" described by Cornell and Morgan.[28] The first step in this approach is to determine the observation window. Because I found that fraud-related information leaked out beginning no later than November 15, 2001, the observation window begins on this date; it ends on October 11, 2002, the last day of the Class Period. The next step is to use actual stock returns and predicted returns to construct a time series of daily stock price returns ("Constructed Returns") during the Class Period: for each day during the

25. *Id*. at 906. Cornell and Morgan note that "[t]he length of the window depends on the facts of each specific case." *Id*.
26. *Id*.
27. *Id*. at 906-7.
28. *Id.* at 899-900.

observation window, the Constructed Return equals the predicted return;[29, 30] for all other days, the Constructed Return equals the actual return.

42. The next step is to calculate a "true value line," *i.e.*, a daily series of the stock's estimated true value. This line was generated by setting its value equal to Household's stock price on October 11, 2002 (the last day of the Class Period) and working backwards in time according to the following formula: $\text{Value}_{t-1} = (\text{Value}_t + \text{Dividend}_t) / (1 + \text{Constructed Return}_t)$. I then computed daily artificial inflation as the difference between the Company's stock price and the true value line. If the resulting inflation on any day was greater than the cumulative residual price decline during the observation window of $23.94, I limited the inflation to $23.94 and adjusted the true value line accordingly. Exhibit 56 lists Household's stock price, the true value line, and the artificial inflation on each day during the Class Period. Exhibit 57 is a graph of the stock price and estimated true value line. This analysis represents a quantification of alleged artificial inflation taking leakage into account.

29. As explained *supra* ¶ 32, predicted returns account for the effects of market and industry movements on Household's stock price.
30. Because a bias can occur for long observation windows in the standard market model that underlies our event study, we used predicted returns calculated using the capital asset pricing model ("CAPM") for the event study approach. *See, e.g.*, G.N. Pettengill & J.M. Clark, "Estimating Expected Returns in an Event Study Framework: Evidence from the Dartboard Column," 40 *Quarterly Journal of Business & Economics* (2001), 19 *and* Exhibit 55.

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August 15, 2007

Exhibit 1

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TESTIMONY

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Deposition of Daniel R. Fischel in Re: Amos M. Ames, Helen M. Ames, Robert F. Bourke, Louise L. Bourke, Leo E. Corr, April C. Corr, Wence M. Horak, Ruth Horak, Robert T. Freas, Maurita Freas, Bruce Fink, Jr., William H. Jones, Candace A. Jones, Richard Paul, William L. Paul, Carole Paul, Steven J. Paul, Best Power Technology, Incorporated, and Best Power Technology Sales Corporation, in the State of Wisconsin, Circuit Court, Juneau County, Consolidated Case Nos. 92-CV-31, 92-CV-32 (January 26, 1993).

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Deposition of Daniel R. Fischel in Re: Trinity Ventures, et al. v. Federal Deposit Insurance Corporation, in its own capacity and as successor to the Federal Savings and Loan Insurance Corporation, United States District Court, for the District of Oregon, No. 90-103-PA (January 6, 1992).

Deposition of Daniel R. Fischel in Re: First Republicbank Securities Litigation, United States District Court, Northern District of Texas, Dallas Division, Civil Action No. 3-88-0641-H (January 2, and 3, 1992; November 26, 1991).

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Deposition of Daniel R. Fischel in Re: Capital Maritime Corporation v. Amfels, Inc., Far East Levingston Shipbuilding Ltd., John B. Allison and Patrick A. McDermid, United States District Court for the Southern District of Texas Houston Division, C.A. No. H-90-3417 (September 12, 1991).

Deposition of Daniel R. Fischel in Re: Thomas J. Caldarone, Jr. v. Isidore Brown, et al., and John E. Washburn, et al. v. Isidore Brown, et al., United States District Court, Northern District of Illinois, Eastern Division, Docket Nos. 80 C 6251 and 81 C 1475 (August 28, 29, and 30, 1991).

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Deposition of Daniel R. Fischel in Re: Apple Computer Securities, United States District Court Northern District of California, San Jose Division, No. C-84-20148 (a) JW (December 13 and 14, 1990).

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Deposition of Daniel R. Fischel in Re: Ellen Rudd, on behalf of herself and all others similarly situated, and Mayer Corporation on behalf of themselves, and all others similarly situated, and Louis Brandt, and Israel Baker, Jay R. Kuhne, Pininfarina Corp., and American Transfer Co., on behalf of themselves and all others similarly situated v. Kirk Kerkorian, et al., Superior Court of the State of California, County of Los Angeles, Nos. CA 000980, CA 000981, CA 001017, CA 620279 (June 21, 1990).

Testimony of Daniel R. Fischel in Re: City of San Jose v. Paine, Webber, Jackson & Curtis, Incorporated, et al., and related counter- and Third-Party Claims, United States District Court, Northern District, No. C-84-20601 RPA (May 23 and 24, 1990).

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Testimony of Daniel R. Fischel in Re: Tessie Wolfson, et al. v. Frederick S. Hammer, United States District Court for the Eastern District of Pennsylvania, Civil Action No. 87-8472 (April 13, 1989).

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Deposition of Daniel R. Fischel in Re: Susan Rothenberg, as Custodian for Stephen J. Rothenberg v. Charles E. Hurwitz, United Financial Corporation, United Savings Association of Texas, et al., United States District Court for the Southern District of Texas, Houston Division, Civil Action No. H-86-1435 (March 30, 1989).

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Deposition of Daniel R. Fischel in Re: Joseph Seidman, et al. v. Stauffer Chemical Company, et al, United States District Court for the District of Connecticut, No. B 84-543 (TFGD) (June 10, 1988 and May 5, 1987).

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Testimony of Daniel R. Fischel in Re: NVHomes, L.P. v. Ryan Homes, Inc.; and Ryan Homes, Inc. v. NVHomes, L.P., et al., United States District Court for the Western District of Pennsylvania, Civil Action No. 86-2139 (October 24, 1986).

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Deposition of Daniel R. Fischel in Re: John Mancino v. James A. McMaghan, et al., United States District Court for the Northern District of California, Civil No. C-84-0407-TEH (August 14, 1986).

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Deposition of Daniel R. Fischel in Re: Charles W. Leigh, et al. and George Johnson, et al. v. Clyde William Engle, et al., United States District Court for the Northern District of Illinois, Eastern Division, Case No. 78 C 3799 (July 1, 1986).

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Deposition of Daniel R. Fischel in Re: Kreindler v. Sambo's Restaurants, Inc., United States District Court for the Southern District of New York, Case No. 79 Civ. 4538 (December 17, 1985).

Affidavit of Daniel R. Fischel in Re: United States of America v. S. Richmond Dole and Clark J. Matthews II (March 19, 1985).

Deposition of Daniel R. Fischel in Re: Craig T. McFarland, et al. v. Memorex Corporation, United States District Court for the Northern District of California, No. C 79-2926-WAI, C 79-2007-WAI, C 79-241-WAI (February 26, 1985; January 29 and 30, 1985).

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Testimony of Daniel R. Fishel in Re: Telvest, Inc. v. Junie L. Bradshaw, et al. and American Furniture Company, United States District Court, for the Eastern District of Virginia Richmond Division, No. CA-79-0722-R (December 4, 1981).

OTHER ACTIVITIES

Member, American Economic Association, American Finance Association.

Member, Board of Directors, Center for the Economy and the State.

Former member, Mid-America Institute Task Force on Stock Market Collapse.

Have acted as a consultant and/or advisor to the New York Stock Exchange, the National Association of Securities Dealers, the Chicago Board of Trade, the Federal Trade Commission, the Department of Labor, the Securities and Exchange Commission, the Canadian Securities and Exchange Commission, the United States Department of Justice, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision.

Referee, Journal of Financial Economics, Journal of Law and Economics, Journal of Legal Studies.

Participant and speaker at multiple conferences on the Economics of Corporate, Securities and Commodities Law and the Regulation of Financial Markets.

Former Chairman, American Association of Law Schools' Section on Law and Economics.

Exhibit 2

HD Household Intl: Business Changes To Cost 10c/Share In '03
BY Tara Siegel Bernard
WC 969 words
PD 11 October 2002
ET 12:23 PM
SN Dow Jones News Service
SC DJ
LA English
CY (Copyright (c) 2002, Dow Jones & Company, Inc.)

LP of DOW JONES NEWSWIRES

NEW YORK - (Dow Jones)- Household International Inc. (HI), one of the nation's largest lenders to consumers with spotty credit histories, agreed to pay up to $484 million to settle allegations of deceptive lending practices to consumers.

TD "We could have litigated, but the headline risk and litigation risk would have been worse for the company," said William F. Aldinger, Household's chief executive, during a conference call with the investment community and media, "We really wanted to put this behind us quickly."

The multi-state settlement, in which Household doesn't admit any wrongdoing, apparently pleased investors as shares of the Prospect Heights, Ill., company recently jumped 8%, building on a 25% rise on Thursday, when the stock rose on speculation of a resolution. However, two of the major credit rating agencies weren't as sanguine: Standard & Poor's lowered its ratings, but maintained a stable outlook, while Fitch put its ratings on negative watch. "Despite this settlement, there is no guarantee that this settlement will completely eliminate other issues or concerns that may evolve out of the company's subprime lending practices - be it unfair lending practices or ineffective controls," said S&P credit analyst Lisa J. Archinow said.

Meanwhile, Household agreed to adopt a series of business practices to benefit borrowers, including reducing prepayment fees, capping fees for making a loan to 5% of the total, and giving borrowers clearer disclosures earlier in the loan application process, among a string of other reforms. This reforms build upon the implementation of what Household calls "best practices," an initiative installed earlier to placate critics of its lending practices, which some say could pressure profits.

"The bigger challenge for Household will be replenishing lost revenue resulting from the implementation of 'Best Practices,' said Fitch, which put Household's single-A long term and F1 short term ratings on negative watch, in a statement, "An inability to offset these revenue streams could pressure future profitability, which in turn could put pressure on the current rating."

Household management said it expects the changes in business practices to cut earnings by 10 cents a share in 2003, by 20 cents in 2004, and 30 cents in 2005. It will book the charge tied to the settlement - which amounts up to $484 million pretax - in the third quarter. Meanwhile, management said that while it expects 2003 profits to exceed this year's income, it thought Wall Street '03 forecasts of $5.09 were too high. It now expects 2003 earnings to fall in the range of $4.65 to $4.90.

Household management also said it expects to take another charge of between $250 million and $300 million after tax to cover the sale of its thrift. The sale will help the company meets its previously stated capital targets.

"We will continue to build loss reserve and capital next year, and that should, over time, tighten up some of the spreads on the funding side," CEO Aldinger said during the call.

Household's settlement comes just weeks after Citigroup Inc.'s (C) agreement to pay $215 million to settle similar allegations by the Federal Trade Commission over past practices at Associates First Capital, a subprime lender that Citigroup purchased in 2000.

Household also said during the call that "extraordinarily wide" spread levels on its bonds can be explained by the regulatory uncertainty surrounding the company. Fanning pressure on the bonds have been illiquid bond market conditions, short-selling activity and rumors, management added. Though both S&P and Fitch weighed in with negative reactions, news of the settlement has been a positive for bond prices. S&P cut Household's long-term debt to single-A-minus from single-A and its short-term debt to A-2 from A-1.

The news has already improved the pricing of its debt in the secondary market and should continue to do so, management said.

On Thursday, Household bonds were quoted at a spread over Treasuries of as much as 600 basis points in some maturities. Spreads had declined by around 150 basis points from that figure as of midday Friday. Even with a short-term debt rating from S&P that is considered second-tier, Household management said it believed it could issue around $3 billion in commercial paper. Most money market funds can only hold a small percentage of their assets in second-tier commercial paper, which reduces a company's access to commercial paper funding when it loses a top-tier rating.

Management said the rating agency decisions were a surprise, but executives didn't expect its changes in its business practices to hurt the company's credit standing.

S&P said its credit outlook, which remains stable, could be revised to negative if the company isn't able to continue to tap the capital markets as a source of wholesale funding and maintain satisfactory credit reserve and capital levels. A "material" deterioration in credit quality could also trigger a downgrade.

The company expects to issue an additional $5 billion in unsecured debt before the end of the year. Household expects to sell $1.5 billion to $2 billion in commercial paper, $2 billion in notes directed at the retail market, and $1.5 billion to $2 billion in unsecured debt aimed at the institutional market.

Responding to a question from an investor, Household management confirmed that it had bought back some of its unsecured debt in the secondary market recently and expected to make modest purchases of the debt.

-By Tara Siegel Bernard, Dow Jones Newswires; 201-938-5288;
tara.siegel@dowjones.com
-Christine Richard contributed to this article, 201-938-2189;
christine.richard@dowjones.com

Exhibit 3

BN Household Sued by California for Alleged Lending Violations
Nov 14 2001 17:16

Household Sued by California for Alleged Lending Violations

Los Angeles, Nov. 14 (Bloomberg) -- Household International Inc.'s Household Finance and Beneficial units were accused of overcharging consumers in a lawsuit by California regulators.

California's Department of Corporations claims both lenders have routinely charged excessive administrative, late and other fees to borrowers of $2,500 or less. Household spokeswoman Megan Hayden said it refunded money to consumers earlier this year after a state audit and was surprised by the lawsuit.

Regulators want a judge to order Household to pay at least $3.57 million in penalties and Beneficial to pay $4.99 million. The penalties are needed to remedy ``thousands of violations'' and protect the public from future violations, according to the lawsuit filed in Los Angeles Superior Court.

Household and Beneficial are ``engaging in joint, pervasive patterns of abusive lending practices consisting of routine, statewide imposition of excessive and improper fees, penalties, interest and charges'' in violation of state consumer protection laws, the lawsuit said.

California regulators claim that the lenders have routinely imposed $75 administrative fees, instead of the maximum $50 permitted by state law.

Household's Hayden said a regular state exam and its self-audit earlier this year found several accounting errors, and the company has already refunded money to customers.

``We made the necessary adjustments'' and hadn't heard from the department since, Hayden said.

The lawsuit claims that Household's recent self-audits were incomplete.

Prospect Heights, Illinois-based Household is the largest independent U.S. consumer finance company. It offers credit cards and auto and home loans to borrowers with imperfect credit. Household purchased Beneficial in 1998.

Household shares rose 90 cents to $60.90.

--Joyzelle Davis in Los Angeles (213) 617-0582, or joydavis@Bloomberg.net, through the Washington newsroom /ta

Story illustration: To see credit ratings on Household: {HI US <Equity> CRPR <GO>}

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Exhibit 4

BUS 11/14 Department of Corporations Seeks $8.5 Million Penalty for Predatory Practices; Household and Beneficial Cited for Thousands of Lending Law Violations

Business/News Editors

SACRAMENTO, Calif.--(BUSINESS WIRE)--Nov. 14, 2001--The Davis Administration today announced that the Department of Corporations has filed suit in the Superior Court of Los Angeles County for civil penalties in the amount of $8.5 million against Household Finance Corp. and its sister corporation, Beneficial, Inc., as a result of numerous violations of the laws and regulations intended to protect California loan consumers.

"Three years ago, the Department of Corporations directed Household Finance to stop charging excessive administrative fees to its borrowers," said Commissioner Demetrios A. Boutris. "Not only did Household fail to comply, but it began practicing even more abusive lending procedures and passed these practices on to its sister corporation, Beneficial, Inc. As a result, many African-Americans, Latinos and other economically disadvantaged Californians found themselves illegally nickeled and dimed by a $26 billion company. This enforcement action demonstrates our commitment to creating a marketplace free of predatory finance, lending and investment practices."

To date, Household and Beneficial have admitted about 36,000 instances in which they have violated one of California's lending laws or regulations. Furthermore, the Department discovered 1,921 incidents of charging excessive administrative fees, the same category of violations that Household was required to correct in 1998. The newer violations included charging more than one administrative fee a year, charging excessive late fees, failing to recast loans that were paid off before the due date and charging excessive prepayment penalties.

The Department of Corporations is California's Investment and Financing Authority, reporting to the Business, Transportation and Housing Agency and the Governor. The Department is responsible for the regulation, enforcement and licensing of securities, franchises, off-exchange commodities, investment and financial services, independent escrows, consumer and commercial finance lending and residential mortgage lending. For further information or to obtain a complaint form, see the Department's Web site at www.corp.ca.gov.

CONTACT: Department of Corporations Andre Pineda, 916/327-6696

KEYWORD: CALIFORNIA
INDUSTRY KEYWORD: GOVERNMENT LEGAL/LAW BANKING CONSUMER/HOUSEHOLD
SOURCE: Department of Corporations

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Exhibit 5

PRN Household Responds to California Department of Corporations'
Nov 15 2001 13:40

Lawsuit

PROSPECT HEIGHTS, Ill., Nov. 15 /PRNewswire/ -- Household International (NYSE: HI), the nation's oldest consumer lender, made the following statement today regarding a lawsuit filed against the company by the California Department of Corporations:

"Household was recently made aware that the California Department of Corporations has filed a lawsuit claiming that the company has engaged in 'willful' lending violations. The company is currently reviewing the specifics of the lawsuit, but vehemently denies any assertion that it has willfully violated the lending laws that regulate its business.

"During a routine examination by the Department of Corporations in 1998 it was discovered that some HFC customers were being overcharged up to $25 on the standard administrative fee. When this error was discovered, affected customers were reimbursed, and Household implemented manual controls to address this issue, pending a permanent systems solution.

"During a routine examination by the Department of Corporations in 2000 it was discovered that some HFC and Beneficial customers were being overcharged on certain fees.

"Household, in full compliance with the Department's instructions, conducted a thorough self-audit to identify any additional customers who may have also received incorrect charges. Following that review, the company promptly issued a full refund to affected customers in California, the vast majority of whom have small unsecured loans. This audit revealed that these errors were overwhelmingly caused by issues relating to the systems conversion during the Beneficial acquisition. Household immediately implemented systems and manual controls to prevent future errors.

"Household's corrective actions resulted in a June 19, 2001, press release issued by the Department of Corporations commending Household for its 'commitment to fully refund their customers.'

"Household is extremely surprised by the Department's recent actions, especially its assumption that ethnic minorities were disadvantaged as a result of these overcharges. In accordance with all fair lending laws, lenders cannot collect ethnic or racial data on loans of this type, thus the Department's assertion cannot be based on fact."

About Household

Household's businesses are leading providers of consumer loan, credit card, auto finance and credit insurance products in the United States, United Kingdom and Canada. In the United States, Household's largest business, founded in 1878, operates under the two oldest and most widely recognized names in consumer lending -- HFC and Beneficial. Household is also one of the nation's largest issuers of private-label and general-purpose credit cards, including The GM Card(R) and the AFL-CIO's Union Plus(R) card. For more information, visit the company's Web site at http://www.household.com .

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PRN Household Responds to California Department of Corporations'
Nov 15 2001 13:40

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SOURCE Household International
-0- 11/15/2001
/CONTACT: Megan Hayden, +1-847-291-2101, for Household International/
/Web site: http://www.household.com /
(HI)

CO: Household International
ST: Illinois, California
IN: FIN
SU: LAW

-0- Nov/15/2001 18:40 GMT

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Exhibit 6

05:29pm EST 15-Nov-01 Deutsche Banc Alex. Brown Inc. (M. Alpert/R. St. Leger/)
HI: California Dept of Corporations Files Complaint of Lending Abus-Strong Buy

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Deutsche Banc Alex. Brown Inc.

11/15/2001

HOUSEHOLD INTERNATIONAL INC. (HI) "STRONG BUY"
California Dept of Corporations Files Complaint of Lending Abuses

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Date:	11/15/2001	EPS:	2000A	2001E	2002E
Price:	58.9	1Q	0.78	0.91	NE
52-Wk Range:	70 - 44	2Q	0.80	0.93	NE
Ann Dividend:	0.88	3Q	0.94	1.07A	NE
Ann Div Yld:	1.49%	4Q	1.03	1.16	NE
Mkt Cap (mm):	27,171	FY(Dec.)	3.55	4.07	4.70
3-Yr Growth:	14%	FY P/EPS	16.6X	14.5X	12.5X
		CY EPS	3.55	4.07	4.70
Est. Changed	No	CY P/EPS	16.6X	14.5X	12.5X

Industry: SPECIALTY FINANCIAL SERVICES
Shares Outstanding(Mil.): 461.3
Return On Equity (2000) : 24.0%

HIGHLIGHTS:
- The California Department of Corporations filed a complaint of abusive lending practices against Household yesterday.

- The complaint stems back to a 1998 routine audit, in which Household was accused of charging excessive fees and was supposed to correct the problems and make refunds.

- In May 2000, another regulatory exam discovered both old and new practices. The Commission determined Household's self-audit was inadequate, is asking for civil penalties of $8.5 million, and wants an external audit on Household.

- Household contends that it fully cooperated with the previous audits, took corrective actions, and even referred to a press release from the Commissioner dated June 19, 2001, commending Household's actions.

- These days, any disputes between regulators and subprime lenders on lending practices has to be taken seriously. Household expects to meet with the Commissioner as soon as possible to understand and rectify the situation. We hope an agreement can reached quickly, lifting any cloud that may overhang the stock.

DETAILS:
The suit is very broad based. Highlights include:

- Household and Beneficial are being charged by the California Department of Corporations, Commissioner Demetrios Boutris, with abusive lending practices stemming back to a 1998 regulatory audit. The Department oversees consumer, commercial and mortgage lending in the state.

- In 1998, the Commissioner found Household charged $75 administration fees rather the statutory maximum of $50. Household's self-audit discovered 441 violations, and it made the appropriate refunds.

- In May 2000, the next exam discovered that rather than correcting the practice, Household was persisting. Household did another self-exam, and discovered another 1,051 violations. Moreover, the exam concluded that Household extended the practice to Beneficial, which merged with Household in 1998.

- Another 6 categories of violations were also discovered, none of which came out in the 1998 exam. These included charging duplicate fees, late fees of 15% rather than $15, miscalculating interest charges, charging unauthorized prepayment penalties, and other improper fees. In some samples, the exam discovered 30% or more violations within the sample category.

- Household's self-audit led to refunds of $1.6 million to date. And indeed, the Commissioner commended Household in a public letter dated June 19, 2001. "Furthermore, both Beneficial California, Inc., and Household Finance Corporation of California deserve praise for their commitment to fully refund their customers by the end of the month."

- The Department filed this suit November 9, 2001.

Conclusion

For some yet to be disclosed reason, the regulatory body has apparently decided the Household did not act in good faith and has filed this suit. The $8 million of civil penalties does not appear severe. The unanswered questions are
1) how much more in refunds might Household owe?
2) will the accusations escalate (within or beyond the state)? and
3) will there be any operational constraints?

Obviously, many financial institutions face regulatory issues and have made billing mistakes. However, it is particularly sensitive in today's regulatory environment. Household was caught by surprise, and has yet to respond. We believe Household will move quickly to meet with the regulator, discuss the disagreements, and reach a quick remedy. But, there could be a cloud overhanging the stock in the short term.

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Exhibit 7

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American Banker

January 8, 2002

SECTION: Pg. 1 ; ISSN: 0002-7561

IAC-ACC-NO: 81464211

LENGTH: 726 words

HEADLINE: Fines, Tight Scrutiny in Household Settlement; to be scrutinized by California Department of Corporations; Brief Article

BYLINE: Bergquist, Erick

BODY:

The subprime lending leader Household International Inc. agreed Friday to pay $ 12 million of fines and be subject to an unprecedented level of oversight from its California regulator to settle one of two high-profile lawsuits against its business practices there.

The Prospect Heights, Ill., finance company has three months to set up an office in Pomona, Calif., where examiners from the California Department of Corporations can view its files of loans made in the state.

The settlement is more stringent than those in which consumer finance lenders have merely agreed to exams. Household will face constant and ongoing scrutiny in California.

"This case is of particular interest because it marks what could be the start of increased oversight by state regulatory agencies of consumer finance companies," said Howard Glaser, a Washington industry consultant and a former chief lobbyist for the Mortgage Bankers Association.

Joseph Lynyak, a partner with the Buchalter, Nemer, Fields & Younger law firm in Los Angeles and the chairman of the California Mortgage Bankers Association's legal affairs committee, took a similar view. "This could be viewed as moving the level of scrutiny up a notch based on the DOC's view of the circumstances. It certainly does facilitate ongoing supervision," he said.

Andre Pineda, assistant commissioner of the Department of Corporations, said it is "yet to be determined" how often examiners will use the office. But, he noted, "we could do loan reviews as often as we see fit."

Household spokesman Craig Streem downplayed the impact of the settlement. "This does not add a layer of regulatory scrutiny, because we are giving them office space within an existing operating facility," he said. "We already have an operating facility in Pomona. We're just giving them access to the imaging system (there)."

The $ 12 million breaks down to about $ 9 million as payment to the state and about $ 3 million in restitution to customers hurt by the alleged state lending law violations. "That's a lot of money," said Leonard Bernstein, a partner with Reed Smith LLC in Princeton, N.J.

Mr. Pineda's agency, which regulates consumer finance companies, filed suit against Household on Nov. 9 in Los Angeles Superior Court, alleging that two of its California units -- Household Finance Corp. and Beneficial California Inc. -- engaged in a "statewide pattern of abusive lending practices." These practices, the complaint said, included overcharging borrowers on administrative fees, late fees, and interest fees.

The suit came less than two months after AARP filed a class action in New York against Household's Beneficial Homeowner Service Corp. unit. And it followed a series of image-building efforts by Household, notably the establishment of a high-profile consumer board to advise it on its practices.

Mr. Pineda said the settlement was so tough because Household was a "recidivist."

In the course of routine examinations, the Department of Corporations found in 1998 that Household Finance was overcharging borrowers on administrative fees, the state said in the lawsuit.

Though Household made refunds to the borrowers and implemented what it says was better system, the matter resurfaced in an examination in 2000, and the state alleged the problem had surfaced at Beneficial California, which Household picked up as part of its purchase of the giant finance company Beneficial in 1998.

In addition, Mr. Pineda said Household failed to do an accurate self-audit after the 2000 examination to find the various overcharges and identify all the borrowers it would refund.

"Our hope is this suit shows that we are paying attention," he said. "If as a lender you are being up-front with us, we are not going to need an office" for examiners to do their loan reviews.

Mr. Glaser said that the move could spark a trend in other states.

"The state regulators all watch each other closely, and California is a leader in the way they handle financial services oversight, so there could be some following the leader that takes place," he said.

"It would be a sea change if consumer finance companies were to begin to be subject to scrutiny similar to that of banks and thrifts."

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IAC-CREATE-DATE: January 8, 2002

LOAD-DATE: January 09, 2002

Exhibit 8

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National Mortgage News

February 18, 2002

SECTION: Vol. 26; No. 21; Pg. 25

LENGTH: 633 words

HEADLINE: ACORN Says Household 'Tricked' Clients

BYLINE: By kyriaki Venetis

DATELINE: PROSPECT HEIGHTS, IL

BODY:

In the latest blow to Household International Inc.'s California subsidiaries, Household Finance Corp. of California and Beneficial California Inc. are being sued in a class-action lawsuit led by the Association of Community Organizations for Reform Now.

Household International's vice chairman and chief financial officer, David A. Schoenholz, commented on the complaint in a investors' conference call saying, "We got the action late yesterday, so we haven't reviewed it in detail.

"Our first take on this is that it is not a significant issue, not indicative of any widespread problem and certainly not a concern that it will spread elsewhere."

The ACORN compliant alleges that the Household companies would "trick ... potential customers, by systematically telling them that they can save money by refinancing their debt, providing them with false information, and deliberately and systematically omitting from their sales promotions material information about the costs and terms of debt consolidation."

The complaint added that the final step would be to "trap" the potential borrowers into high-cost loans by "deliberately 'upselling' loans in amounts that are so high in relation to the value of the borrowers' home that the borrowers will not be able to sell or refinance their home, thus ensuring the borrowers will not be able to refinance with a competitor ..."

More specifically, ACORN's complaint alleges that the Household companies "falsely designate(d) some loans as revolving loans in order to facilitate the upselling of the loans and at the same time avoid federal disclosures required under the Home Owners Equity Protection Act."

David Swanson, ACORN's communications coordinator, said, "The class covers anyone in California who in the past four years has refinanced with Household." Mr. Swanson said as part of the restitution for the borrowers, "We hope to have all of those loans rescinded and everyone in the state of California who has refinanced with Household or Beneficial to get their interest back and their fees back, and get them into fair loans with a reasonable company."

In its complaint, ACORN also requests that the Household companies be prohibited from commencing on any foreclosure proceedings against the borrowers.

In addition, within its list of compensatory requests, the complaint also requests the voiding of any lien and/or any security interest obtained by the Household companies against the borrowers.

The latest attack on Household comes only a month after the two Household subsidiaries signed a settlement agreement with the California Department of Corporations, resolving the complaint the department brought against them late last year.

In that compliant, the subsidiaries were accused of, among other allegations, of inflating loan fees, some of which related to mortgages, in the complaint.

Megan Hayden, a spokesperson for Household International, commented at the time on the settlement, saying, "We certainly wish that this would not even have ever occurred. We are glad that we are able to resolve this issue with our regulator. We will work closely with our regulator in the coming years, as we believe we have to date, to make sure that the lending process for consumers in California is a transparent process."

In early January, the subsidiaries in compliance with the settlement agreement paid the department $8.9 million in civil penalties.

In addition, if further violations are found, according to the settlement agreement, the companies will pay in penalties "$2,500 per excessive administrative fee, plus three times the refund amount of all other excessive or improper fees, interest or charges prohibited by the California Finance Lenders Law."

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LOAD-DATE: February 15, 2002

Exhibit 9

671 of 1034 DOCUMENTS

Copyright 2002 Globe Newspaper Company
The Boston Globe

August 16, 2002, Friday ,THIRD EDITION

SECTION: BUSINESS; Pg. F3

LENGTH: 552 words

HEADLINE: HOUSEHOLD ACCUSED OF OVERCHARGING ON HOME LOANS ADVOCATES FILE SUIT OVER POINTS, FEES

BYLINE: By Thomas Grillo, Globe Correspondent

BODY:

Members of a grass-roots, antipoverty group filed suit yesterday in Suffolk Superior Court alleging that **Household International** and its subsidiaries, Household Finance Co. and Beneficial Massachusetts Inc., violated state banking regulations by overcharging customers points and fees on home loans.

"Borrowers all over Massachusetts are struggling to pay these overpriced loans and living in fear of losing their homes because of Household's abusive practices," said Nancy Cook, a member of the executive board of the Association of Community Organizations for Reform Now, or ACORN.

Five ACORN members who received mortgages from Household in 2001 and 2002 filed the class-action lawsuit seeking to cancel the loans and an unspecified amount of damages. Each of the plaintiffs paid Household between 7.25 and 8.25 percent of their loan principal in points, according to the suit.

Among the most egregious loans, according to the lawsuit, was given to Lou and Lisa Sullivan of East Bridgewater who borrowed $202,693 last fall. Before the couple refinanced with Wells Fargo Mortgage at 7.5 percent in April, they paid $25,974 in points, fees, and prepayment penalties to Household, making the seven-month loan's annual interest rate 34.28 percent, the lawsuit said.

Yesterday's action is the latest in a series of suits against Household, based in Prospect Heights, Ill. So far this year, ACORN has filed class-action lawsuits in Cook County, Ill., Sacramento, and New York claiming the company trapped customers in overpriced loans.

In May, Household agreed to refund $586,278 after Washington State's Department of Financial Institutions alleged violations during a routine examination. And in January, Household agreed to a $12 million settlement with the California Department of Corporations in response to alleged lending violations.

Current Massachusetts regulations do not limit the amount of points a lender can charge, according to the state Division of Banks. However, lenders who charge more than 5 percent of the borrowed amount for points and fees must tell applicants the loan "is not necessarily the least expensive," advise them "to shop around," and explain that nonprofit housing counseling is available.

Megan Hayden, Household's manager of corporate communications, said she had not read the lawsuit. But she said Household would investigate any consumer concerns.

"It's a little disconcerting that ACORN is behind all these lawsuits, but we will continue to focus on our best practices and their implementation," Hayden said.

Hayden acknowledged that earlier this year Household announced as part of its "best practices" that they would limit points to 5 percent. But she said the limit would not be implemented in Massachusetts until year's end.

Nathan Hagen, chairman of the Massachusetts Mortgage Bankers Association, said there's no doubt that some consumers who do not qualify for conventional loans benefit from alternatives in the subprime market.

"Subprime lenders expand homeownership opportunities and make mortgage money available and to that extent, subprime loans can be good," Hagen said. "Unfortunately, subprime has become associated with other practices, such as high fees and points that are not a required part of a subprime loan."

LOAD-DATE: August 17, 2002

Exhibit 10

Copyright 2002 Chicago Tribune Company
Chicago Tribune

June 2, 2002 Sunday
CHICAGOLAND FINAL EDITION

SECTION: BUSINESS; ZONE: C; Pg. 1

LENGTH: 1252 words

HEADLINE: Household fighting image of predator;
Suits, politicians put pressure on stock price

BYLINE: By Melissa Allison, Tribune staff reporter

BODY:

For Household International Inc., it's been one slap after another.

The nation's largest lender to people with spotty credit has come under increasing scrutiny in recent months for practices that some consumer advocates and politicians deem predatory--specifically, for making loans with high fees, interest rates, prepayment penalties and other terms that they claim create hardships for borrowers.

At first, Prospect Heights-based Household deflected the criticism with statements about its ongoing dedication to customers and ethics. Then it took the bold step of implementing a "best practices" policy that included eliminating certain products and fees that have become associated with predatory lending.

Still, the accusations mounted, and Household now faces an all-out image crisis, with articles appearing regularly across the country about new lawsuits and reprimands from politicians and regulators. The problem has put pressure on Household's stock price, which is down 12 percent this year despite strong earnings and a loan portfolio that so far has weathered the shaky economy better than many of its peers.

"Accusations of predatory lending, which we believe are unfounded and ungrounded, nevertheless affect the mindset of investors," said Craig Streem, Household's vice president of corporate relations and communications.

On top of implementing its "best practices" rules, Household has responded to the avalanche of criticism by doubling its compliance and quality assurance staff; reaching out to community leaders rather than simply writing them checks; and hiring Jim Kauffman, former secretary of banking in Pennsylvania, for the new post of director of compliance for consumer lending.

While Kauffman will have plenty to do in making sure that Household's computer systems and 8,000-some branch employees are abiding by state regulations and internal corporate policies, his presence also signals that the company takes seriously the accusations against it.

The volume and tone of criticism against Household has reached staggering proportions since last year, when it surpassed CitiFinancial as the nation's largest subprime lender.

No sooner had officials explained Household's hefty $12 million settlement in January of a lawsuit from California regulators than the Association of Community Organizations for Reform Now (Acorn) helped several California borrowers level a lawsuit against Household in February. The suit accused Household of deliberately misleading California borrowers into accepting overpriced loans and erroneously believing they would save money by consolidating their loans and refinancing.

That lawsuit was followed in May by another one, filed in Illinois, that seeks class-action status for borrowers nationwide who, the suit says, were systematically misled about the interest rates, fees and other terms of their mortgage loans.

The AARP also backs lawsuits against Household in New York and West Virginia that seek class-action status.

Also in May, New York State Comptroller Carl McCall, who is seeking the state's Democratic gubernatorial nomination, said Household needs to "take drastic steps to reform its predatory lending practices."

Two weeks ago, Washington state regulators said they discovered overcharges of more than half a million dollars on non-real estate loans from Household and its subsidiary, Beneficial. Household voluntarily refunded the money and is examining whether more refunds are necessary on real estate loans in Washington.

Boston investment

That same week, the Boston City Council passed a resolution asking the city's retirement board to reconsider its $1 million-plus investment in Household stock given allegations by area residents that the company is a predatory lender.

"I've heard enough to believe there really is a pattern of pressure salespersonship to encourage people to refinance, with the cost mounting for that and with the interest rate being very high and using the house as collateral," said Chuck Turner, the council member who sponsored the resolution.

Even Household's shareholders are piling on. At its annual meeting in May, 27 percent of voting shareholders supported a measure to tie executive pay to the company's efforts to prevent predatory lending. Last year, the shareholder proposal gained about 5 percent of votes. It requires more than 50 percent to pass.

The situation keeps Household officials constantly explaining themselves.

In the case of the overcharged customers in California who received average refunds of roughly $25, Household admits it was wrong.

'We screwed up'

"We did screw up," said spokeswoman Megan Hayden. "We know mistakes were made in California, and we worked very hard and closely with the department [of corporations] there to make sure an appropriate fix was put in place."

In California and Washington, computer glitches and employee errors caused fees to be charged erroneously, Hayden and regulators said.

That's part of the reason Household hired Kauffman and boosted its compliance staff.

"We need to look internally at ourselves to make sure things like California don't happen again," Hayden said.

But the Boston City Council resolution was "unjustified," she said. Household and others said the company is sometimes accused of making predatory loans that may include high interest rates and erroneous fees but nevertheless are not predatory.

High interest rates, for example, are standard among subprime lenders. Because the industry lends to people with bad credit histories who often cannot get bank loans, Household and others price their loans higher to offset the higher risk that the loans will not be paid on time or at all.

Other criticism involves Household's prepayment penalties, and allegations that it lends people more than they can afford to repay. To address those accusations, Household promised through new best practices initiatives to erase prepayment penalties on real estate loans after the loans have been held three years (instead of five), and to make no loans at an amount that exceeds a property's full value (excluding points paid to reduce an interest rate and fees).

Moshe Orenbuch, who follows the consumer finance industry for Credit Suisse First Boston, said he has "no doubt you could find instances where an individual was disadvantaged, but I don't think it's a systematic approach."

He also does not believe any reputation or "headline risk" problems will have a major financial impact on Household.

Regarding the California refunds, Orenbuch said, "No one is not putting food on the table because of $25. It's not predatory, so don't call it predatory."

Mark Thomson, acting director of the Washington Department of Financial Institutions, said Household's refunds in his state sprang from "a computer glitch and not a predatory lending problem."

Still, Thomson said, Household and Beneficial have been the subject of more complaints in the past three years than they were before. The nature of the complaints has changed as well, he said.

"They've become more about sales and origination practices and people not understanding the terms of loans they entered into," Thomson said.Household said that complaints from customers, attorneys general, regulators and Better Business Bureaus have increased, but that the number of complaints represented only one-tenth of 1 percent of all customers for the 12 months ended May 1.

That, along with measures Household has taken to resuscitate its reputation and prevent further lawsuits, is heartening to investors.

LOAD-DATE: June 2, 2002

Exhibit 11

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August 26, 2002

SECTION: Pg. 17 ; ISSN: 0002-7561

IAC-ACC-NO: 90727512

LENGTH: 1066 words

HEADLINE: Wash. State Report Slams Household's '99-'01 Tactics; Household International Inc. reportedly failed to disclose important financial information; Brief Article

BYLINE: Bergquist, Erick

BODY:

A controversial report on Household International Inc. alleges that the subprime lender violated federal and state consumer protection laws by failing to make key disclosures and by using "sales tactics intended to mislead, misdirect, or confuse the borrower."

The Washington Department of Financial Institutions' 74-page report was completed in April and covers 19 complaints on loans originated between July 1999 and March 2001. Household sued the state agency to prevent the report's release and in May won a temporary restraining order. However, copies have been leaked.

Officials at Household, of Prospect Heights, Ill., would not comment Friday on the report. However, in court documents the lender argued that, even though the report contains errors releasing it would reveal valuable "trade secrets" to its competitors.

The Washington courts have agreed to bar the report's release until at least October.

Despite the restraining order, the Department of Financial Institutions did win the court's permission to share the report with other officials in Washington and in other states.

Last week the Washington Attorney General's office announced that it is also investigating Household. David Huey, an assistant attorney general with the state, said that the attorney general's office was in contact with other states that are investigating the company.

Sources said that the Washington banking regulators are trying to negotiate a settlement with Household that would cover borrowers in a number of states. Agency officials would not say which other states are involved in the negotiations, nor would they comment on how much the report had changed as it moved from draft to final form.

Household officials confirmed that the company is in "communication" with Washington officials, but they explicitly refused to call the talks settlement negotiations. The lender also confirmed that it has hired the state's former governor, Booth Gardner, as an adviser.

Despite the heat the company is facing in that state, new lawsuits filed against it last week, and a number of critical news reports, investors bid up Household's stock price last week. The shares were trading Friday afternoon at $ 38.45, up 2.4% from the closing price the previous Friday.

The document identifies numerous "patterns of consumer abuse" that Household is alleged to have committed. For instance, the report claims that the lender misrepresented loan information to borrowers.

"These misrepresentation claims ranged widely, including dishonest statements about rates and fees, prepayment penalties, monthly payment amount, insurance or other loan terms."

The report also states that the agency was dissatisfied with the efforts by a Household subsidiary, Household Financial Corp., to respond to allegations.

"In virtually every case, HFC responded with a very aggressive and 'factual' defense of its branch representatives," the report states. "In early complaint filings the Department gave HFC the benefit of doubt in consumer claims and relied on HFC's adamant claims that no deception or misrepresentation had occurred. ... These claims of no harm and no foul, however, began to ring hollow as more and more consumers continued to complain."

According to the report, Household also intentionally misused its good-faith estimate form to confuse borrowers about the discount points charged on loans, and about their interest rates. Specifically, the report claims that borrowers were told that by accepting Household's biweekly payment program, EZ Pay Plus, they could have their interest rate cut in half, to 7%.

The agency raised the issue with Household last year but was told that the practice was isolated to one branch in Bellingham and was not a "corporate practice," the report says.

However, "the Department has identified the practice to other branches in Washington and has even received reports from regulators in other states concerning the practice," the report states. "The Department does not believe the practice is isolated."

According to the report, banking regulators identified instances in which good-faith estimates were not provided within three days of the mortgage application, as required by federal law, as well as failures to provide Truth-in-Lending disclosures.

In addition, one Household borrower, Georgia Smart of Seattle, is cited in the report as specifically telling the lender that she would not take out a loan with a prepayment penalty but was intentionally "misled" about the existence of one on her loan.

"Borrowers have recounted that the signing of documents was a hurried process in which very little if anything contained within the documents was pointed out to them," according to the report.

The report also notes that in mid-2001 Household's rate of insurance penetration -- the percentage of loans closed with insurance on them -- reached as high as 92% to 100% of loans at some branches. According to the agency, these high rates suggested that Household was illegally requiring borrowers to buy the product or was adding it to loans without their customers' knowledge.

"As stated under specific complaints analyzed in this report, the Department believes that some of this penetration may have been achieved through actual forgery of borrower signatures on insurance acceptance documents," the report states. "These insurance payments are so costly that it is inconceivable that such a high percentage of borrowers would willingly agree to the terms."

Household is facing a number of lawsuits on similar issues. In Washington, 35 to 40 customers are seeking class-action status for their complaints.

Separately, the Association of Community Organizations for Reform Now has filed three suits this year, in California, Illinois, and most recently in Massachusetts, alleging that Household's lending practices are "predatory."

The lender is also facing three separate suits filed by shareholder groups, who contend that Household misled them about their earnings and artificially drove up the company's stock price. Citing a change to its accounting for certain credit card assets, Household recently lowered its earnings for the period from 1994 through the second quarter of this year by $ 386 million.

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IAC-CREATE-DATE: August 26, 2002

LOAD-DATE: August 27, 2002

Exhibit 12

Copyright 2002 Seattle Post-Intelligencer
THE SEATTLE POST-INTELLIGENCER

April 18, 2002, Thursday , FINAL

SECTION: NEWS, Pg. B8

LENGTH: 1023 words

HEADLINE: COMPLAINTS ARE MOUNTING OVER HFC'S LENDING;
BORROWERS CLAIM COMPANY BOOSTS INTEREST RATES, FEES FOR HOME MORTGAGES

BYLINE: JANE HADLEY P-I consumer affairs reporter

BODY: The Web site of Household International describes the finance company's "customer commitment" in these glowing terms: "We earn our customers' trust by providing honest, caring, and helpful service."

But yesterday, angry customers of two well-known Household subsidiaries, HFC and Beneficial, had a different story to tell. They called the companies "predatory lenders" who were anything but upfront.

In a public display of frustration, about 20 customers turned in complaints to the state Attorney General's Office in Seattle, then protested at an HFC office.

The customers said HFC charged some of them interest rates far higher than they were promised, trapped them in loans with high prepayment penalties and sold them costly credit life insurance policies that were unnecessary.

Since January 2000, the Attorney General's Office has received 76 complaints about HFC and its affiliates and another 45 against Beneficial.

In addition, Chuck Cross, investigations supervisor for the state Department of Financial Institutions, said that agency has gotten 80 to 85 complaints against HFC since 1995 and about the same number against Beneficial. The complaints escalated sharply in 2000.

"These two companies, I believe, have the most complaints that we have on record," he said.

Most of those filing complaints tell a similar story, Cross said: Borrowers are promised loans with interest rates like 6.9 percent yet end up, without realizing it, with rates of 12 percent to 24 percent.

Also, they end up with single-premium credit life insurance - which benefits the lender - packed into their loan without realizing what it is. Loan origination fees, often 7 percent, are very high. And when they try to get rid of the loan, they find that it has a prepayment penalty of six months interest, which for most consumers, means they can't get out of the loan.

It's a consistent pattern, said Jenny Lawson of ACORN, organizer of yesterday's protest.

ACORN, a consumer organization based in Washington, D.C., says it has 600 neighborhood chapters of low- and moderate-income families in 45 cities across the country, including a chapter in Burien.

But Household International spokeswoman Megan Hayden says the company follows all state and federal regulations and goes out of its way to make sure borrowers know what they're getting. Borrowers have three days to change their minds about the loan and 60 days to rethink the single-premium credit life insurance.

The company, based near Chicago, has been in business for decades and has 45 million customers.

Among yesterday's protesters in Seattle was Lucille Rossmeier. She and her husband, Richard, are staggering under the $475 payments they make every week to Household Finance. The SeaTac couple, who have two children, were discouraged and shocked when they discovered that after six months of weekly payments, they were making little headway on their mortgage.

They had been told they could pay off the mortgage in 10 years, Rossmeier said.

They learned the loan has an interest rate of 12 percent rather than the 7 percent they said they were promised and includes thousands of dollars for origination fees and an insurance policy they say they now know they don't need.

"We've just tried the best way we can to make the payments," Rossmeier said, but the payments are so onerous, the couple has been forced to take on more debt to cover other living expenses.

The loan has high prepayment penalties, making it impossible to refinance elsewhere.

"We're never going to get out of it," she said.

In March, Wenatchee attorney Bob Parlette filed suit on behalf of four Whatcom County residents against HFC. He has been contacted by 18 others and plans to seek class-action status.

"This is the worst thing I have ever seen in 30 years of practicing law," Parlette said.

The suit alleges that HFC's "fraud constitutes predatory lending with the intent of inducing less knowledgeable borrowers into signing on HFC home equity loans at exorbitant interest rates."

The suit alleges that HFC failed to disclose upfront finance charges and packed the loan with expensive insurance policies, among other charges.

Hayden, the HFC spokeswoman, said she couldn't comment on pending litigation.

But speaking generally, she said, "Our number one goal is to ensure that we are clearly communicating the true terms and conditions of our loan contracts to our customers - no exceptions. We hold our people accountable for that and also uphold that through other means."

In January, HFC and Beneficial agreed to refund nearly $3 million to California borrowers and pay $8.9 million to the California Department of Corporations to settle a lawsuit alleging predatory lending.

Lawson of ACORN and Dave Huey, an assistant state attorney general, focused their questions on the training of Household agents.

"They're training them how they can get the best deal," Huey said. "That is fraught with problems for the unsophisticated, inexperienced (person), particularly for people who have or think they have little in the way of alternatives."

In some cases, Parlette and Lawson said, people go in seeking a single loan and end up with two loans, the second sometimes a line of credit charging as much as 25 percent interest.

The single-premium credit life insurance, which sometimes lasts just five years, costs more than $4,500. It makes sure the loan is paid off if the borrower dies or is disabled, protecting the lender. But consumer groups say it's much cheaper to use life or disability insurance to pay off a mortgage.

Rossmeier, a saleswoman for a food supplier, and her husband, a driver for a glass company, were presented with more than 20 pages of paperwork when they went to sign for their loan. She admits she understands little of what the paperwork meant.

"I didn't realize somebody was telling me one thing, but the paperwork reflected another thing," she said. "They prey on people that don't have access to lawyers."P-I reporter Jane Hadley can be reached at 206-448-8362 or janehadley§ seattlepi.com

GRAPHIC: Photo
MIKE URBAN/P-I: Assistant Attorney General Dave Huey, second from left, meets with members of a group protesting the mortgage lending practices of HFC.

LOAD-DATE: April 24, 2002

Exhibit 13

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SE State; A
HD **State report details HFC lending abuse; FINANCE: Copy of suppressed report is leaked to several news organizations.**

BY John Stark
CR Staff
WC 1,193 words
PD 27 August 2002
SN Bellingham Herald
SC XBEL
PG 1
LA English
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LP BY JOHN STARK

THE BELLINGHAM HERALD

TD A state investigative report on Household Finance Corp., suppressed by court order for more than three months, contains a blistering assessment of the nationwide lending giant's mortgage loan practices in Whatcom County and elsewhere in the state.

Among other things, the report accuses the company of a pattern of:

? "Misrepresentations" and "dishonest statements" about interest rates, monthly payments, loan fees, prepayment penalties, and insurance.

? Failing to provide its customers with the loan term disclosures required by state and federal consumer protection laws.

? Coaxing borrowers into signing documents without reading them.

? Talking borrowers into refinancing first mortgages at disadvantageous rates, based on misleading interest information, when borrowers originally sought only small consumer loans.

? Adding costly insurance premiums to loan amounts either without the borrower's knowledge, or by wrongly leading borrowers to believe they had to buy the insurance to get the loan.

HFC's attorneys went to Thurston County Superior Court in May and obtained a judge's restraining order blocking public release of the report. But in recent weeks, copies of the report have been leaked to every news organization that has been following the HFC story - including The New York Times, Forbes Magazine, American Banker magazine and The Bellingham Herald.

The state's report found evidence of "a pattern of intentional deception" of homeowners who obtained mortgages from HFC. In three cases, investigators said they found reason to believe that HFC employees forged borrowers' signatures to documents agreeing to pay thousands of additional dollars for credit insurance policies that Washington Insurance Commissioner Mike Kreidler has labeled "inherently predatory."

Summing up, the report says that all these activities are "part of HFC's practice of obtaining maximum revenue from consumers regardless of any actual benefit to the consumer."

The company pays its representatives "significant monthly incentives" for that kind of behavior, according to the report.

The report also characterizes HFC as being slow to respond to state requests for information - when the company responds at all.

The investigating agency - the Washington Department of Financial Institutions - was so concerned about widespread reports of predatory lending practices at HFC that it sent its examiners to three of the company's loan offices, in Bellingham, Lakewood and Olympia, to pose as would-be borrowers.

"In all three tests the department found that the HFC representatives misrepresented or withheld

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information, failed to comply with state and federal law and regulations, and did not follow the policy and practice that HFC corporate claimed," the report states.

Bellingham abuses

Megan Hayden, spokeswoman for parent company **Household International**, said she could not comment on the report because it is still under a court restraining order.

But she said the company now admits that "there clearly were issues in the state of Washington." The company is working with state agencies to resolve matters, and is also trying to set things right with its customers here, she added.

Cross, the report's author, said he too was barred from discussing the report because of the court's restraining order. But he said he was sure that the report had not been leaked by anyone in his department.

Both the company and the state agree that some of the worst abuses occurred in the Bellingham office. But the state report also says that the kinds of abuses practiced in Bellingham were also reported at other HFC offices inside and outside Washington.

Six of the 19 consumer complaints cited in the report originated in the Bellingham office of HFC, but the others were from offices elsewhere in the state. The report was completed in mid-May, and was based on complaints received by the Washington Department of Financial Institutions up to April 30 - before news reports about Household's lending practices triggered a new flood of complaints from Whatcom County and elsewhere.

Corporate practices

The report rejects any notion that the abuses are due to renegade local representatives who are violating corporate policies. As of April, the report states that corporate representatives were attempting to defend the practices uncovered in the state investigation by arguing that the letter of applicable laws had been observed.

"HFC has created a situation in which they can completely mislead and confuse the borrower, while later providing a plausible explanation of their actions to the Department or other regulatory agencies," the report states. "HFC practices reflect a pattern of intentional deception while laying the foundation for a later defense."

The report also notes that a similar number of complaints has been filed against Beneficial Finance Corp., a similar loan company that is owned by HFC's parent company, **Household International**. And both HFC and Beneficial have been slow to respond to the state's request for information on consumer complaints - so slow, in fact, that the state "found it necessary to serve HFC with a subpoena commanding production on 14 outstanding complaint responses," the report says.

As of mid-May, when the report was issued, HFC had yet to provide some of the documents the state had subpoenaed, the report said.

Payment sham

Perhaps the most serious abuse cited in the report was the use of a misleading schedule of interest payments showing an attractive "equivalent rate" of interest, to deceive borrowers into thinking they were refinancing their first mortgages with new loans bearing interest rates in the 7 percent range.

"The department believes the sole purpose of this schedule was for simple deception of the consumer," the report says.

In numerous cases reported to the state and to The Bellingham Herald, homeowners agreed to refinance their mortgages with Household in the belief that they were getting the lower "equivalent" interest rate shown on this schedule, when the actual annual rate was between 11 and 14 percent - much higher than the rate they had been paying before the refinance.

"The Department believes that the `equivalent rate' sham proffered by HFC representatives is known and likely fostered by the corporation itself or at the least, by corporate officers overseeing large segments of the country," the state report says.

In support of that belief, the report says that HFC corporate officials at company headquarters

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seemed to be quite familiar with the "equivalent rate" sales technique when state investigators questioned it.

The report also observes that when state regulators questioned the technique, HFC officials attempted to defend the company by arguing that the customers were "confused."

"What is incredible to assume, or propose, is that so many unrelated consumers have been confused by their own doing," the report says.

Jeanie Luna of Blaine, who was among the first to join Wenatchee attorney Bob Parlette's class action lawsuit against HFC, said she hopes that the state report is just the beginning.

"I think the state needs to prosecute them as having broken the law, and their licenses need to be pulled, to no longer do business in our state," Luna said.

On the Net

For the complete report by the Washington Department of Financial Institutions, go to http://www.belling-hamherald.com.

CO HFC : Household International Inc.

IN I81501 : Non-bank Credit | I8150105 : Consumer Lending | IBNK : Banking/Credit

RE NAMZ : North American Countries | USA : United States

PUB Gannett Company Inc.

AN Document xbel000020020828dy8r0000h

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Exhibit 14

Copyright 2002 Chicago Tribune Company
Chicago Tribune

May 3, 2002 Friday
NORTH SPORTS FINAL EDITION

SECTION: BUSINESS; ZONE: N; Pg. 1

LENGTH: 613 words

HEADLINE: Borrowers: Household misled us;
Lender denies suit's allegations

BYLINE: By Melissa Allison, Tribune staff reporter

BODY:

An advocacy group for low-income homeowners filed a lawsuit Thursday accusing Household International Inc. of systematically misleading borrowers about the interest rates, fees and other terms of their mortgage loans.

The suit was filed on behalf of five borrowers, including Murelin and James Bell of Chicago, and seeks class-action status to include all borrowers nationwide who took out secured loans from Household or its business units, Household Finance and Beneficial, to consolidate debt.

Although the lawsuit designates no time period, the advocacy group, Acorn, conservatively estimates that Household made more than $45 billion in such loans to at least 175,000 borrowers over the past three years.

Household quickly denied that it misleads customers. As the nation's largest independent consumer-finance company, Prospect Heights-based Household has become a lightning rod for consumer activists combating so-called predatory lending, a term that describes many types of allegedly deceptive mortgage lending.

Over the past two years, since Citigroup purchased Household's bigger rival, Associates First Capital Corp., and promised to strengthen its consumer safeguards, Household has seen a flurry of lawsuits and complaints about its practices.

Earlier this year, Household agreed to pay $12 million to settle a lawsuit from California regulators claiming the company intentionally bilked customers by overcharging on some fees. Household blamed technological problems.

Acorn also has filed a lawsuit in California seeking class-action status for Household borrowers there.

Household specializes in lending to people with spotty credit records, an industry that accepts more risk from borrowers and therefore charges higher interest rates than conventional lenders.

As they attempt to curb predatory lending practices, lawmakers, regulators and others have had trouble agreeing on where the line lies between trying to stop predatory practices while not curtailing acceptable lending to people with poor credit.

Generally, predatory lending includes mortgage lending practices that harm borrowers by charging onerous interest rates, lending people more than they can repay and tacking on unnecessary fees.

As more attention has been focused on predatory lending, Household has taken several steps to upgrade the practices of its subprime lending operations and reduce some costs.

In response to the latest suit, Household denied that it misleads customers. "Acorn continues to launch baseless accusations and lawsuits rather than work to enact real solutions to help eliminate predatory lending from the marketplace," the lender's statement said.

The Illinois lawsuit seeks to invalidate the terms of the named plaintiffs' loans, allow all class members to rescind their loan transactions, and extract actual and punitive damages, although no dollar amount is specified in the lawsuit.

At an Acorn news conference in Chicago on Thursday, Murelin Bell, who in 1999 consolidated her old mortgage and other debt into a loan from Household, said she has made all her payments.

"It's been a struggle," she said. "And it's been no thanks to Household."

Bell said she had to battle Household to remove credit life insurance from her loan, and has been denied refinancing opportunities from other lenders because of the difficult financial situation the Household loan has caused.

Household said it reviewed the loan to Bell and her husband and found "this loan is sound and provided real, tangible benefits to these customers."

Household spokeswoman Megan Hayden said the terms of the loan were made clear. "Everything was clearly disclosed to the Bells, signed for and dated," she said.

GRAPHIC: PHOTOPHOTO: Denise Dixon (left), president of the advocacy group Acorn, and borrower Murelin Bell at a news conference Thursday announcing a lawsuit against Household International Inc. Photo for the Tribune by Erik Unger.

LOAD-DATE: May 3, 2002

Exhibit 15

Copyright 2002 SOFTLINE INFORMATION, INC.
Ethnic NewsWatch
Chicago Defender

June 4, 2002

SECTION: Pg. 3

SLI-ACC-NO: 1202CXLS 202 000024

LENGTH: 1036 words

HEADLINE: Household International: It's no predatory lender

BYLINE: Ruklick, Joe

BODY:

Gary Gilmer, the second-highest ranking officer of the Household International, Inc., led a team of executives to the Chicago Defender's Editorial Board Monday to counter charges of unfair loan practices.

The Prospect Heights company's Vice Chairman for Consumer Lending described as unfounded the recent rash of lawsuits, advocacy organization complaints and accusations by politicians from Boston to California that accuse the company of predatory lending.

Lisa Sodeika, Household International, Inc. Consumer Lending Vice President said of lenders who talk unwary borrowers into excessively expensive loans, "We're here to differentiate ourselves from those guys."

Household is the nation's largest high-risk consumer lending company with assets last year of 89.4 billion, up from 76.7 billion in 2000.

Gilmer said allegations against his company by the Association for Community Organizations for Reform Now (ACORN) are false.

They include charges of "unconscionable" loan rates and fees, loan "lock-ins", deals with people who cannot afford loans, loan amounts that exceed the value of mortgaged real estate, "grossly overpriced insurance", and sales tactics targeting minorities and the elderly.

Another alleged abuse, expensive single-premium credit life insurance attached to real estate loans, has been stopped, Sodeika said.

ACORN Organizer Adam Lang said his organization filed a lawsuit seeking class-action status in Cook County Chancery Court in behalf of millions of Household borrowers throughout the U.S.

It alleges, he said, "Household mails live checks for 5,000 to homeowners for cashing at their bank. They want you to refinance with Household at a value higher than what your house is worth."

Lang said the deals, which become effective upon the checks' cashing, carry prepayment penalties and excessive loan-origination costs and excessive fees.

"In the lawsuit we charge the company tries to get as many people stuck in these loans as possible," he said.

Of subsequent borrower problems, Gilmer said:

"There has been a great deal of soul-searching. Some of it's embarrassing to learn it really did happen."

Household's literature says of predatory lending that "unethical lending practices of any type are abhorrent to our company. These practices undermine the integrity of the marketplace in which we compete."

Lang said ACORN considers Household "one of the biggest predatory lenders in the country," although the company says its "Reverse Foreclosure Policy" does everything in its power to help customers to avoid foreclosure.

"Household simply does not make loans to customers who cannot afford the payments," Household literature says and, it adds, its debt collectors are offered financial incentives to avoid foreclosure.

As of last December, only .36 percent of Illinois Household accounts were in foreclosure, the company said.

Gilmer said company policy is one of forbearance and generosity.

"You don't foreclose on someone's house. These people are going to repay us," is how he described its hopeful approach to helping borrowers.

"Our customers are the first to be hit by recession and the last to get out of it," he said.

"It costs us 10,000 every time we foreclose on a house," he said, adding that "It's a reputational thing. If you can keep a customer in the house, you lose less than you would otherwise.

"That is the good business thing to do, the right thing to do, the right business strategy."

Gilmer said of the company's 125,000 new consumer loans per month, "Several hundred are on hardship, customers who hit the rocks, who are out of work, who can't pay."

He said Household, whose net operating income last year was 1.9 billion, up from 820 million in 1996, has "specialists" who ask customers in trouble what and when they can pay.

"You would not believe the number of innovative ideas these kids come up with," he said of the loan specialists.

"The only way to get foreclosed on is for a customer to say to us, 'I'm not paying, I'm never going to pay.' It's a doing-business reputational thing to do," he said of Household's foreclosure policy.

Gilmer said customers of Household's 1,400 branches, seven of which are in Chicago, want to know what actually happened in the loan making process.

So, he said, the company created an eight-minute video and a survey form that helps borrowers understand their mortgage deal, including examples such as the optional loan-insurance feature and the terms of prepayment penalties.

"Why do I want a customer to have a loan with me that makes him unhappy forever?" Gilmer said.

Launched last May 1, the communication innovation found that of 25,000 responding customers, only 10 were not happy with their loans, he said.

Gilmer said one reason last year's state regulations fail to crack down on predatory lending is because "one of the problems is to define what predatory lending is."

"I admit I would engage in some vigorous debate on some things," he said of definitions, including prepayment penalties that can add up to six months' worth of loan interest.

"Almost no consumer activist thinks its good. I believe it is. It costs us 3,500 to make a real estate loan, and a customer comes in six months later and says I want out because interest rates have fallen.

"We say here's your payoff, and I'm stuck for 3,000," he said.

ACORN's Lang estimated that 10 percent of Household's subprime loans, or deals with risky borrowers, are made in the minority community, many in Englewood, Woodlawn, Chatham, Austin and North Lawndale.

His organization has been on "a campaign" against Household for two years, and now ACORN hopes its lawsuit and new regulations will see results, he said.

Gilmer agreed that outrageously expensive loan deals are onerous and offensive.

"Some of this stuff stinks to high heaven," he said.

"You know what predatory lending is. Let's give the regulators authority to weigh in. Right now they're trying to enforce stuff they can't find."
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JOURNAL-CODE: CX

LOAD-DATE: January 14, 2003

Exhibit 16

Copyright 2002 The New York Times Company
The New York Times

August 17, 2002 Saturday
Late Edition - Final

SECTION: Section C; Column 3; Business/Financial Desk; Pg. 1

LENGTH: 1903 words

HEADLINE: Lawsuits and Regulators Shadow Big Lender's Future

BYLINE: By PETER EAVIS

BODY:

Household International has dodged the problems that have felled many other lenders to people with poor credit and low incomes. Now, though, a set of challenges will test its battle-hardened management.

The threats include lawsuits claiming predatory lending, tougher lending laws in many states and greater regulatory scrutiny -- all at a time when a sagging economy could make it harder for many of its low-income customers to pay their bills.

Interviews with several Household borrowers and two former employees, as well as a critical report by a Washington State banking regulator that Household is trying to suppress, suggest that it will be hard to shake accusations of abusive loan practices despite the company's pledges of reform.

Concerns about its lending practices and the ability of its borrowers to repay their loans have sent Household shares down 35 percent this year, far more than the broad market. A $386 million downward restatement to earnings this week also cast a spotlight on the company's accounting, though investors quickly brushed off the modest revision.

"If Household significantly alters its sales practices, product mix and loan pricing because of legal and regulatory pressure -- and that is a possibility -- earnings could slow," said William Ryan, consumer finance analyst at Portales Partners, a boutique brokerage firm in New York.

Household, which is based outside Chicago in Prospect Heights, Ill., has extended $100 billion in loans to 50 million customers, many through two subsidiaries, Beneficial and the Household Finance Corporation. Its biggest business is making home loans at high interest rates to people with blemished credit histories, sometimes called the subprime market. In good times, and with careful selection, the business can be very profitable. But subprime loans can blow up quickly, and federal banking regulators are taking a tougher approach to the entire sector these days.

Providian, the nation's fifth-biggest credit card lender only two years ago, shrank rapidly after it spent more than $400 million to settle legal challenges and reported a sharp increase last year in loans past due. Conseco, the largest lender on mobile homes, has experienced a deterioration in credit quality and is fighting to avoid a bankruptcy filing. Metris, another credit card lender to people with low credit ratings, recently reported a loss, partly because of bad debts.

Despite the industry wreckage, though, Household is hanging tough. On a conference call with analysts this week, its chief executive, William F. Aldinger, dismissed as groundless two lawsuits filed by the Association of Community Organizations for Reform Now, or Acorn, a group that specializes in credit issues that affect low- and middle-income people.

Though nine states have enacted tougher laws against predatory lending in the last three years, Mr. Aldinger said these had had "virtually no impact" on Household because the company began two sets of changes in lending practices over the last 18 months. "We are a good group of people, a high-quality team with good ethics," Mr. Aldinger added.

Still, the complaints by Household borrowers suggest that the predatory lending storm will not blow over quickly.

On Sept. 12 last year, Lisa and Lou Sullivan of East Bridgewater, Mass., took out a $202,000 home equity loan at a Beneficial branch. The new loan was used to pay off a $153,000 Wells Fargo mortgage and $15,200 remaining on a previous Household loan.

In a suit filed this week with other borrowers in Superior Court in Suffolk County, Mass., the Sullivans say that Household violated state law by failing to make proper disclosures.

Ms. Sullivan says that loan representatives at the Beneficial branch in Raynham, Mass., used confusing presentations to sell a loan that carried a far higher interest rate than the couple thought they were getting. In the branch, the loan representative said "that if we paid biweekly on the E-Z pay plan we'd really be paying 7 percent," Ms. Sullivan said. The loan carried an annual percentage rate of 12.3 percent, according to the Sullivans' loan documents.

Paying biweekly, the borrower makes 26 payments a year and pays out more each year than with a monthly contract. In this way, a borrower can pay off a 30-year loan in perhaps 20 years.

According to Ms. Sullivan, the loan representatives led her to believe that the interest rate could be as low as 7 percent if she chose the biweekly payment plan.

Household said it could not comment on the Sullivans' loan because of the pending suit.

The E-Z biweekly payment plan crops up frequently in complaints by Household borrowers, and a report by the Washington State Department of Financial Institutions says that, when presented in certain ways, it is confusing to borrowers.

The report, completed in April and based on loans made from 1999 to 2001, says sales representatives of Household Finance "employed sales tactics intended to mislead, misdirect or confuse the borrower." The department said that Household complaints had increased markedly over the last two years. It also said that the reports of abuses were widespread but singled out a branch in Bellingham, Wash., as having more than 30 percent of the complaints.

Two former Household loan officers who worked in a branch in the Northeast said the biweekly payment plan was used to confuse borrowers into thinking that they would get a lower rate. "It is the cornerstone of Household's sales pitch," one said. Both men, who left the company earlier this year, spoke on the condition of anonymity because they are still working in the field.

When asked about the Washington report on the conference call, Mr. Aldinger described it as "very inflammatory and very inaccurate." Household obtained a temporary restraining order to prevent the report from being released. It did not respond to a request for comment on the accusations in the report.

The Sullivans had enough equity in their house to go back to Wells Fargo and get a loan to pay off the Household loan. They had to pay a prepayment penalty of $11,279 and were not refunded the $14,695 paid in points and fees to Household. But Wells Fargo charged them a rate almost five percentage points lower than on the Household loan, suggesting that Household was above market rates. At Household, "they tried to say we were high risk," Ms. Sullivan said.

According to the former loan representatives, Household staff members were guided in such practices. "We were trained to never tell people they have good credit," one loan officer said. "They have to feel like you're doing them a favor."

Lisa Sodeika, vice president for consumer affairs at Household, said, "That contradicts all the things I hear and talk to our salespeople about."

Sales practices are the focus of Acorn's two lawsuits, which are seeking certification as class actions. In one suit, Acorn obtained an important victory in June when a federal district judge in California denied Household's effort to exclude borrowers who had signed documents agreeing to settle disputes through arbitration. The other suit was filed in May, in Cook County, Illinois.

Acorn has compiled reports on nearly 300 aggrieved Household borrowers, said Lisa Donner, the New York-based director of the group's Financial Justice Center. "Based on our experience, Household is the worst of the large lenders in the market," she said.

Household, which reported $1.9 billion in profit last year, could be hurt significantly if the suits succeed. In March, the First Alliance Mortgage Company, a bankrupt subprime mortgage lender, agreed to pay $60 million to

settle a predatory lending case brought by the Federal Trade Commission involving 18,000 customers. Acorn's Illinois suit could be open to anyone who has taken out a secured loan from Household over the last three years. If 10 percent of Household's 3.2 million home-equity borrowers joined the suit and the payout was in line with the $3,300 paid to each First Alliance customer, damages could approach $1 billion.

Household has responded to critics by pledging a number of changes. Most recently, it said in February that it was going to limit points and fees to 5 percent of the mortgage. But some loans are still being made with higher points and fees. In April, Gregory Powe of Detroit refinanced a mortgage with Household Finance for $73,000, with $5,500 in origination fees, or more than 7 percent of the loan, according to his loan documents. It was used to pay off two previous Household loans and some small debts.

"They said my new loan would be at a lower rate," Mr. Powe said.

Loan documents show that the newest loan has a 13 percent rate, while the rate on one of the previous loans was 11.1 percent. "I was deceived, definitely," said Mr. Powe, who was also charged nearly $8,000 in single-premium credit insurance, nine months after the company said it was discontinuing the insurance product. Mr. Powe says Household refunded the $8,000 after Acorn took up his case.

Household said that even though Mr. Powe's loan documents showed a fee equivalent to 7 percent, he did not pay that much. Ms. Sodeika said fees were charged only on the difference between the new loan and the sum of the old ones. She was unable to say what fees were charged.

Household said in February that it would begin adopting a fee cap and other changes immediately, but it said this week that the fee limit would be in place by the end of the year.

When Household's top executives certified their financial results with the Securities and Exchange Commission this week, the company announced that it had restated net income since 1994, with a reduction of $386 million. The minor restatements, involving changes to the accounting treatment in the credit card business, arose from a review of Household's books by its new auditor, KPMG, which replaced Arthur Andersen this year.

Mr. Ryan, the Portales analyst and a longtime critic of Household's accounting, urges investors to study the company's reserves against bad loans.

One of the most common ways to gauge the adequacy of reserves is to compare them with loans that are past due. Mr. Ryan says such calculations are difficult because Household allows many borrowers in distress to skip payments without classifying their loans as past due. The company says it gives such breaks to maximize collections. These loans, often called re-aged loans, represented 16.7 percent of total loans at the end of June, far more than the loans listed as past due.

Household has not supplied enough data on re-aged loans for a year earlier to show whether credit problems are rising sharply. It said that bad loans written off rose to an annual rate of 4.26 percent of total loans at the end of June, from 3.71 percent a year earlier, and that loans with payments more than 60 days past due rose to 4.53 percent from 4.27 percent.

"It would be very helpful to have re-aging data disclosed on a regular basis," said Moshe Orenbuch, an analyst at Credit Suisse First Boston, who nevertheless has a strong buy on the stock.

When asked about re-aged loans and the reserve on the conference call, Mr. Aldinger and David A. Schoenholz, the chief operating officer and former chief financial officer, said their new auditors had found no problems with Household's reserve.

"Household's reserves are adequate," Megan E. Hayden, a spokeswoman, said in an e-mail message last Tuesday.

URL: http://www.nytimes.com

GRAPHIC: Photos: Lisa and Lou Sullivan of East Bridgewater, Mass., say that loan representatives at a Household subsidiary used confusing presentations to sell them a loan. William F. Aldinger, below, is chief executive. (Michael Dwyer for The New York Times)

LOAD-DATE: August 17, 2002

Exhibit 17

PRN Household Expands Best Practice Lending Initiatives, Creates
Feb 27 2002 8:31

Unprecedented
Protections for Borrowers

Company's Voluntary Responsible Lending Initiatives Are Unparalleled in the Industry, Offering Clearer Disclosures, More Choices and Improved Customer Rewards

PROSPECT HEIGHTS, Ill., Feb. 27 /PRNewswire-FirstCall/ -- Household International (NYSE: HI), one of the nation's oldest consumer lenders, announced today significant additions to its already extensive set of voluntary responsible consumer lending practices. Following on the heels of the company's Best Practice Initiatives announced in July 2001, Household is once again raising industry standards for responsibly serving middle-market borrowers.

Household will immediately begin the implementation of the following, unprecedented Best Practice Initiatives on new real estate loans originated in its 1,400 HFC and Beneficial branches in order to provide borrowers with clearer information, increased flexibility and better benefits:

-- Simplified one-page disclosure - A simplified, one-page disclosure that is written in "plain English" to help borrowers fully understand key loan provisions;

-- 100% satisfaction guarantee - A 100% satisfaction guarantee on all loans that allows borrowers to liquidate the loan at no cost within 10 days of that loan being made;

-- Added information/protections on direct mail loans - Additional verbal disclosure (via toll-free hotline) on direct mail loans to eliminate any confusion and help borrowers understand key terms/provisions before they accept the loan;

-- Clear choice on prepayment fees - An option allowing all new real estate customers the flexibility of choosing a lower-rate loan with a prepayment fee or a higher-rate loan without a prepayment fee. And, shortened prepayment fee coverage periods for customers with good payment patterns or for those customers who sell their homes;

-- Caps on points and fees - A three percent cap on origination fees and a reduction of the total amount of discount points available to two;

-- Significantly reduced rates for responsible borrowers - An unparalleled interest rate reduction of up to 300 basis points (three percent) for responsible borrowers. This potential rate reduction is awarded in increments of 25 basis points (.25 percent) after each set of 12 consecutive on-time loan payments. This program is available for qualified real estate borrowers after just one year and will

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continue to accrue up to a maximum of 12 rate reductions.

"NCRC has been engaged in meaningful dialogue with Household for some time now. The company has demonstrated a pattern of positive policy improvements and I challenge other lenders to follow suit," said John Taylor, president of the National community Reinvestment Coalition. "These steps are important initiatives that ensure borrowers are treated fairly. We look forward to working with Household to initiate further lending improvements."

Household's latest, industry-leading initiatives are designed to extend the positive impact of the groundbreaking practices the company unveiled last July, which included:

-- Reducing the prepayment fee duration from five years to three years on new real estate secured loans;
-- Rescuing victims of predatory lending from foreclosure by providing subsidized interest rates and no-fee loans;
-- Adopting more stringent standards to ensure every real estate loan made has numerous customer benefits;
-- Doubling customers' time to cancel insurance products.

"With two of the oldest and most trusted brands in the consumer lending industry -- HFC and Beneficial -- it has long been Household's commitment to continuously raise the bar in establishing 'best-in-class' lending principles and policies, " said William F. Aldinger, chairman and chief executive officer of Household. "This expanded set of responsible lending principles is a continuation of that commitment and we are proud of the meaningful benefits they -- along with the Best Practice Initiatives that came before them -- will provide middle market borrowers."

Initial implementation of the following new best practices is already underway on new loans originated in the company's HFC and Beneficial branches. Full implementation will be complete as soon as systems changes are made and employee training is completed.

Simplified/Improved Disclosures

Improving on its already-comprehensive disclosure process, Household will introduce a one-page disclosure for real estate loans, making it even easier for customers to understand their loan terms and provisions. The new disclosure, written in "plain English" with minimal financial jargon, will provide easy-to-understand information about key loan features such as APR, the total loan amount, the total amount financed, monthly payment amounts, payment due dates, and insurance costs.

Moreover, Household will provide an additional disclosure for borrowers accepting a loan offered via direct mail. Before activating a direct mail loan, customers will be directed to call a toll-free number to receive a "verbal disclosure" that provides detailed information about the terms and conditions of their loan. This is to ensure that all direct mail customers are provided with additional tools and information about the loan terms before

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they take it.

Household will also continue to encourage customers to review the company's loan closing video and complete a customer satisfaction survey in order to further ensure understanding of the loan terms and conditions. Household's 1-800 customer hotline will continue to be available to customers seeking answers to their questions or concerns.

100% Satisfaction Guarantee

In addition to following federally mandated rescission periods, Household will implement a 100% satisfaction guarantee program on all new HFC and Beneficial branch-originated loans. This guarantee allows borrowers who elect to liquidate the loan -- within 10 days of that loan being made -- to do so at no cost to them.

Prepayment Fee Option

Following on the company's announcement last year to cut the duration of prepayment fees by 40 percent (from five to three years) on new loans, Household will now offer borrowers the choice of accepting a loan with or without a prepayment fee. Household will provide new real estate loan customers the flexibility of choosing between a lower-rate loan with a prepayment fee or a higher-rate loan without a prepayment fee. In addition, Household will waive the prepayment fee on its branch originated real estate loans where 24 consecutive on-time payments are received. Household will also waive the prepayment fee for these loans after 24 months from when the loan is made if the customer sells their home.

Cap on Points and Fees

In an additional effort to provide real estate borrowers with the best products available, Household will cap origination fees on new loans at three percent. Moreover, Household will offer customers the option of utilizing up to two discount points should they elect to buy-down their rate.

Interest Rate Reductions

Household will also begin offering increased rewards to responsible real estate borrowers who make consistent, on-time payments. Further expanding its "Pay Right Rewards" program, Household will offer responsible borrowers an interest rate reduction of up to 300 basis points (three percent). Each time a borrower makes 12 consecutive on-time payments they will receive a .25 basis point reduction on their interest rate, for a maximum of 12 total interest rate reductions.

Furthermore, Household customers will now be eligible to receive these awards beginning after only one year instead of three years (as is the case in the current Pay Right Rewards program.) Even if a customer's payment performance falters, the customer will still be eligible for further rate reductions upon re-establishing consistent payment patterns. Also, interest rate reductions previously earned will never be reversed.

Under this expanded program, a typical real estate customer could save

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tens of thousands of dollars in interest costs over the life of the loan or cut several years off their loan payments.

"Since its founding Household has continued to seek input from respected community groups, government leaders, business partners and, of course, customers on ways to improve the lending products and services the company offers to millions of customers," said Gary Gilmer, vice chairman of Household and president of the company's consumer lending division. "We are particularly appreciative of the advice provided by groups, such as NCRC, as well as our own Consumer Advisory Board. We hope that others in the industry follow our lead and voluntarily set their own equally high standards for responsible lending."

About Household

Household's businesses are leading providers of consumer loan, credit card, auto finance and credit insurance products in the United States, United Kingdom and Canada. In the United States, Household's largest business, founded in 1878, operates under the two oldest and most widely recognized names in consumer lending - HFC and Beneficial. Household is also one of the nation's largest issuers of private-label and general-purpose credit cards, including The GM Card(R) and the AFL-CIO's Union Plus(R) card. For more information, visit the company's Web site at www.household.com .

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SOURCE Household International

-0- 02/27/2002

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/Web site: http://www.household.com /

(HI)

CO: Household International
ST: Illinois
IN: FIN
SU: PDT

-0- Feb/27/2002 13:31 GMT

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Exhibit 18

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May 31, 2002

SECTION: Pg. 1 ; ISSN: 0002-7561

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LENGTH: 1088 words

HEADLINE: For Household, New Fight and Small Victory; Household International Inc. blocks regulatory-exam report

BYLINE: Bergquist, Erick

BODY:

Its lending practices under fire on a number of fronts, Household International Inc. is fighting a new battle in Washington State.

The Prospect Heights, Ill., company scored at least a temporary victory this week, getting an injunction against state regulators who had planned to release a report detailing 179 borrower complaints against its consumer finance units. Household argued that regulatory-exam information should not be made public.

According to the injunction, Washington State's Department of Financial Institutions cannot disclose any report or examination of Household, any information or documents "obtained in connection with an examination," or any opinions expressed or "policies formulated" in connection with an investigation.

It was unclear Thursday how long Household could keep the report under wraps; the judge's 15-line decision merely says the injunction is temporary.

But the state's attorney general has already read the regulators' report.

"We have some serious allegations about misrepresentations that they made to people and potentially unfair practices that they engaged in," said David Huey, an official in the attorney general's consumer protection division. "We're looking into their activities and we may be doing something about it."

Megan Hayden, a Household spokeswoman, said the $ 90 billion-asset company sought the injunction because it did not want proprietary information released to competitors. She also called the report "a draft" with "factual errors" that Household wants to correct.

In an interview Thursday, the banking department's acting director, Mark Thompson, said 179 complaints have been filed since 1995 against Household Finance Corp. and Beneficial Washington, Household's two consumer finance units operating in the state.

But the volume started escalating in 1999, and by last summer the agency decided to investigate the complaints from borrowers claiming to be confused about rates and fees on their loans.

"Anytime we get that number of complaints against one of our licensees, we heighten our scrutiny," said Chuck Cross, a program manager for the the banking agency's consumer services division.

Mr. Thompson said that the agency wants aggrieved borrowers "made whole." He said Household is cooperating with the department, and he hopes for a settlement this summer.

"The company has engaged with us and we think over the summer we will be able to work that out," he said.

"If that's not the case, we will take appropriate legal action," he said.

Ms. Hayden tried to downplay what is happening in Washington as state officials merely doing their jobs.

"It is our regulators' and the attorney general's job to investigate any complaints brought forth by consumers in their state, and we don't find anything unique or surprising that they are doing their job," she said. "As part of that they, of course, bring forth those issues to us and we take proper steps to work with the department to uncover the facts and if necessary formulate an appropriate resolution for the borrower."

In fact, Household has reached out to some customers of its branch in Bellingham and lowered the interest rates on their loans. These customers had joined a potential class-action suit against Household that claims they were charged higher rates than lenders had promised.

"Some customers" in Bellingham "may indeed have been justified in their confusion about the rate of their loan," she said.

Ms. Hayden said Household "took full and prompt responsibility." Household, she said, is "satisfied that this situation was localized to the Bellingham branch."

But Wall Street analysts wonder if this is the tip of an expensive iceberg.

"Household has acknowledged that customers in Bellingham may have indeed been justified in their confusion about the rate of their loans," said Howard K. Mason, an analyst with Sanford C. Bernstein in New York. "The question arises about whether this confusion is limited to the Bellingham branch or extends to other branches in Washington state and in other states.

"If indeed they are more widespread, there is a material risk to Household's earnings as the firm moves to ensure compliance with its best-practices policy."

William Ryan, an analyst with Portales Partners in New York, said, "The more negative publicity Household receives about its lending practices, the more likely their own home equity loan customers in other states will begin reviewing their own personal situation, which could increase the company's litigation risk elsewhere."

And the move to suppress the report provided fuel for Household's harshest critic, the Association of Community Organizations for Reform Now, which has made reforming the company's lending procedures a top priority.

"There is a pattern with Household: Evidence about the abuses in their lending is overwhelming and keeps bubbling up," said Lisa Donner, the director of Acorn's financial justice center. "Household's response is to deny the problem and to do everything they can to squash the appearance of the problem rather than acknowledging it and doing something to change it."

Household has taken a hit in the markets, its stock falling from over $ 62 in late April to less than $ 52 during trading Thursday. Over that period, financial stocks have generally held their ground.

In the past nine months, several consumer groups, including Acorn and AARP, as well as the California Department of Corporations have sued Household. And New York State Comptroller H. Carl McCall in early May lit into Household, saying it had to "take drastic steps to reform its predatory lending practices."

And in Washington, late last week Household agreed to refund $ 586,000 after state officials said computer systems errors led to overcharges in 3,100 accounts.

Robert Parlette, a lawyer with Davis, Arneil Law Firm in Wenatchee, Wash., is representing the 35 to 40 Household customers seeking class-action status. Mr. Huey said the attorney general's office became interested in Household after Mr. Parlette filed his lawsuit and the Washington chapter of Acorn brought several complaints by Washington borrowers to his attention in April.

To be sure, Household has taken steps to quell criticism.

It has released to two sets of best practices for its lending activities, and it just last week it hired Pennsylvania Secretary of Banking James B. Kauffman Jr. to become its vice president of compliance.

IAC-CREATE-DATE: June 25, 2002

LOAD-DATE: June 26, 2002

Exhibit 19

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The New York Post

May 30, 2002, Thursday

SECTION: All Editions; Pg. 030

LENGTH: 624 words

HEADLINE: HOUSEHOLD BLOCKS REPORT IN SUIT OVER FINANCING PRACTICES

BYLINE: John Crudele

BODY:

WALL Street is concerned that Household International's profits won't be up to expectations - because the company might not be able to continue doing some nasty things it has been accused of doing.

What has created this odd concern is a case involving a Washington state borrower named Joe Luna, who refinanced a mortgage through Household. One thing led to another and Luna ended up as the lead plaintiff in a class action lawsuit alleging that Household was dishonest to its borrowers. Household just last week paid $586,000 under an agreement with Washington state's Department of Financial Institutions. The department said the violations were technical in nature, resulted from flaws in computer systems, and overcharges were paid back to consumers.

But I also learned that yesterday Household got a temporary injunction against the release of a report about the company done by the state's DFI.

I don't know what's in that report, but I bet it isn't complimentary to Household.

Household told me the report that was enjoined is "fraught with inaccuracies. Household wants to be able to allow the state to correct the report and we will give them our feedback so they can do so."

"In the state of Washington, we take our customer service and adherence to compliance very, very seriously," said a Household spokeswoman.

Wall Street hasn't had time yet to react to the Washington DFI report. But its comments on the Luna case are very interesting.

"Household makes financing available to people with special credit needs at higher than prime rates to compensate for borrower risk. The case of Joe Luna suggests that the firm also re-finances prime borrowers who become confused into high-cost first mortgages," analyst Howard K. Mason of Sanford C. Bernstein recently wrote.

Analyst Mason went on to say that "our point is not that these sales practices are unethical or illegal. Rather, we believe there is a risk they (the practices) will become less sustainable, along with the earnings that arise from them, as Household reforms its practices either voluntarily or as a legal requirement."

Luna's lawyer, Robert Parlette, alleged to me that "Household is fraudulently inducing people to enter into loans for refinancing purposes with the idea of generating additional income for Household through excessive fees."

He says 80 people have called him to complain of Household's practices.

Bernstein's analysts say it could turn out that the charges against Household are unfounded or just isolated instances. But the brokerage firm is concerned that reform in sales practices "will have a material impact on earnings sustainability at Household."

Let me add: that's just too damn bad.

*

Is the shakeup of J. P. Morgan Chase's investment banking operation already having an effect on the company's business?

Yesterday GE Capital announced the sale of $6 billion in global notes and J. P. Morgan Chase's name was absent from the team of underwriters. The deal is being led by Bank of America Corp., Credit Suisse First Boston and Morgan Stanley Dean Witter.

Jack Welch, ex-head of GE, is an advisor to J.P. Morgan. So J. P. Morgan's omission as an underwriter is curious.

It could simply be that GE is trying to spread its business around. J. P. Morgan recently did participate in a huge offering by the company.

But Geoff Boisi, who abruptly left as J. P. Morgan Chase's top investment banker last week, had bragged in the past about his close relationship with GE - especially during the unsuccessful deal for Honeywell Corp.

You have to wonder if Boisi's leaving had something to do with J. P. Morgan Chase's absence from the $6 billion deal.

* Please send e-mail to:

jcrudele@nypost.com

LOAD-DATE: May 30, 2002

Exhibit 20

Proxy Analysis:

Household International, Inc.

Ticker: HIPRM, HIPRO, HIPRJ, HI, HIPRN, HIPRZ

Annual Meeting: May 14, 2002

Record Date: March 15, 2002

Security ID: 2090849(SEDOL), 2090861(SEDOL), 2090883(SEDOL), 2411183(SEDOL), 2440273(SEDOL), 2764371(SEDOL), 2864527(SEDOL), 441815107(CUSIP), 441815404(CUSIP), 441815735(CUSIP), 441815743(CUSIP), 441815750(CUSIP), 441815768(CUSIP), 441815776(CUSIP), 441815792(CUSIP), 441815826(CUSIP), 441815842(CUSIP), 441815867(CUSIP), 5965308(SEDOL), US4418157354(ISIN), US4418157503(ISIN), US4418157768(ISIN), US4418157925(ISIN), US4418158428(ISIN), US4418158675(ISIN), US4418158758(ISIN), 441815784(CUSIP), 441815818(CUSIP), 441815834(CUSIP), 441815859(CUSIP), 441815875(CUSIP), US4418151076(ISIN), US4418157438(ISIN), US4418157685(ISIN), US4418157842(ISIN), US4418158345(ISIN), US4418158592(ISIN)

MEETING AGENDA

Item	Code	Proposals	Mgt. Rec.	ISS REC.
❑ 1	M0201	Elect Directors	For	FOR
		Shareholder Proposal		
❑ 2	S0510	Link Executive Compensation to Predatory Lending	Against	FOR
		Management Proposal		
❑ 3	M0101	Ratify Auditors	For	FOR

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PERFORMANCE SUMMARY

	1-Year	3-Year	5-Year
Annualized shareholder returns, company	6.84%	15.14%	15.21%
Annualized shareholder returns, index	-11.70%	-0.98%	10.67%
Annualized shareholder returns, peer group	-8.80%	6.09%	14.52%

Source: Proxy Statement

BUSINESS: Financial services provider

STATE OF INCORPORATION: Delaware

ACCOUNTANTS: Ernst & Young LLP

AUDIT FEES: Pursuant to the SEC's revised Auditor Independence Requirements and revised proxy disclosure rules, the company has reported fees paid to the auditors in the last fiscal year. These fees are reflected in the table below. Note, however, that the following table places all fees paid to the company's auditor into one of three categories designated by the SEC: audit fees, financial systems design and implementation, and all other fees. Many companies argue that the SEC's definition of "all other fees" is overly broad and covers many services that are closely related to the audit function and/or that should be performed by a company's auditor. The company provides a more detailed breakdown of the "other" line than SEC rules require. For further understanding of the fees paid to the company's auditors, we recommend shareholders review the company's proxy statement.

Audit fees:	$ 1,916,000.00
Financial information systems design and implementation fees:	$ 0.00
All other fees:	$ 2,690,000.00
Percentage of total fees attributable to nonaudit work:	58.40%

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CORPORATE GOVERNANCE PROFILE

GOVERNANCE PROVISIONS
Blank check preferred stock (Charter)
D&O indemnification and liability protection for acts made in good faith (Adopted: May 13, 1987)
Confidential voting policy and independent inspectors of election
Director term limits that provide for mandatory retirement at age 72 for nonemployee directors and 65 for employee directors
Poison pill with sunset provision greater than two years (Adopted: July 1996: Expires: July 31, 2006)
GOVERNANCE MILESTONES
Elimination of nonemployee director pension plan and requirement that accrued benefits be converted into stock
Comprehensive program to foster interaction between the board and management
Adoption of officer stock ownership requirements (two to six times annual base salary)
Adoption of "lead director" principle when applicable
SEVERANCE AGREEMENTS
Golden parachute executive severance agreements triggered by a change-in-control
Change-in-control provisions in executive stock option or other compensation plans
STATE STATUTES: Delaware
Labor contract provision
Three-year freezeout provision

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DIRECTOR PROFILES

Name	Classification	Term Ends	Dir. Since	No Stock
Anthea Disney	IO	2003	2001	
Larree M. Renda	IO	2003	2001	
William F. Aldinger	I	2003	1994	
Robert J. Darnall	IO	2003	1988	
Gary G. Dillon [1]	AO	2003	1984	
John A. Edwardson	IO	2003	1995	
Cyrus F. Freidheim, Jr.	IO	2003	1992	
James H. Gilliam, Jr. [2]	AO	2003	1998	
Louis E. Levy	IO	2003	1992	
James B. Pitblado	IO	2003	1994	
S. Jay Stewart	IO	2003	1994	
John D. Nichols	IO	2003	1988	
George A. Lorch	IO	2003	1994	
J. Dudley Fishburn [3]	AO	2003	1995	

Classified Board: No

CEO as chairman: Yes

Current Nominees: 14

Retired CEO on board: No

Notes

1. Mr. Dillon is a former executive officer of Household Manufacturing, Inc., a former subsidiary of the company. Source: Household International, Inc., 2002 Proxy Statement, p. 3.

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2. Mr. Gilliam was an executive officer of Beneficial Corp. until its merger with the company on June 30, 1998. Source: Household International, Inc., 2002 Proxy Statement p. 4.

3. Mr. Fishburn was compensated 94,992 British pounds (approximately $134,000 USD) for his services as chairman of the board of HFC Bank PLC, the company's primary United Kingdom subsidiary. Source: Household International, Inc., 2002 Proxy Statement, p. 8.

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COMPOSITION OF COMMITTEES

Audit	Type	Compensation	Type	Nominating	Type
Larree M. Renda	IO	Robert J. Darnall	IO	Anthea Disney	IO
Gary G. Dillon	AO	John A. Edwardson	IO	John D. Nichols	IO
John A. Edwardson	IO	S. Jay Stewart	IO	George A. Lorch	IO
Louis E. Levy	IO	George A. Lorch	IO	J. Dudley Fishburn	AO
James B. Pitblado	IO				

Committee Names Assigned by Company:

Audit: Audit Committee

Compensation: Compensation Committee

Nominating: Nominating & Governance Committee

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EQUITY CAPITAL

Type	Votes Per Share	Issued	Authorized	Par Value
Common stock	1.00	456,604,323	750,000,000	1.00
5% cumulative preferred stock	1.00	407,718	8,155,004	0.00
$4.50 cumulative preferred stock	1.00	103,976	8,155,004	0.00
$4.30 cumulative preferred stock	1.00	836,585	8,155,004	0.00

Ownership - Common stock	Number of Shares	% of Class
Officers & Directors	7,047,936	1.54
Institutions	388,159,335	85.01

Source: Proxy Statement, Bloomberg Business News

NOTE: The company has four types of voting stock: common stock, 5% cumulative preferred stock, $4.50 cumulative preferred stock, and $4.30 cumulative preferred stock. Each share of common and preferred stock entitles it holder to one vote.

❑ Item 1: Elect Directors

This proposal seeks election of 14 directors for one-year terms. Larree Renda and Anthea Disney are new director nominees.

The full board consists of one insider, three affiliated outsiders, and ten independent outsiders. The Audit Committee comprises one affiliated outsider and four independent outsiders. The Compensation Committee comprises four independent outsiders. The Nominating & Governance Committee comprises one affiliated outsider and three independent outsiders. John Nichols, Cyrus Freidheim, Jr., Louis Levy, Gary Dillon, and Robert Darnall, independent outside directors, have served on the board for a period of ten years or more.

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- ISS prefers that all key board committees include only independent outsiders.

We recommend a vote FOR the directors.

Vote FOR Item 1.

Shareholder Proposal

❑ Item 2: Link Executive Compensation to Predatory Lending

Note: Domini Social Investments has purchased goods or services from ISS in the past 12 months.

Northstar Asset Management, Inc., the beneficial owner of 1,100 shares, and Domini Social Investments LLC, the beneficial owner of 139,446, have submitted a proposal requesting the board conduct a special executive compensation review to study ways of linking a portion of executive compensation to predatory lending practices. Among the factors that could be considered in the report are: (1) implementation of policies to prevent predatory lending; (2) constructive meetings with community groups; and (3) reduction in the levels of predatory lending complaints filed with government agencies. A summary of the report would be included in the Compensation Committee's report to shareholders. A similar proposal was submitted last year.

The proponents argue that the subprime lending industry has come under public scrutiny for predatory lending and that eight states have adopted rules to curb predatory lending abuses. Also, the proponents contend that predatory lending is expensive to both financial institutions and borrowers. Also, the proponents point out that the company's "executive officers have made public statements committing to business practices free of predatory lending." Thus, the proponents believe that the company's corporate leaders should be evaluated on their success in meeting these public commitments. In addition, the proponents contend that while the company has publicly sated its desire to end predatory lending practices, it has lobbied again the adoption of strict predatory lending legislation. Finally, the proponents assert that the company is still a focus of predatory lending protests.

Management argues that it already has implemented the objectives of the proposal. Management points out that the company's executive compensation is administered by the board's Compensation Committee, which is composed solely of independent directors. According to management, each senior executive is evaluated on a combination of quantitative and qualitative measures, including the compliance with laws and the Statement of Business Principles of Household. Furthermore, management stipulates that the Statement of Business Principles "requires every employee to 'act honestly and fairly at all times'" and to "comply with all applicable laws and regulations." In addition, management notes that in July 2001, the company adopted its Best Practices Initiatives, which according to management is the broadest set of voluntary responsible lending initiatives in the banking industry. Also, management charges that the company has worked with legislators and regulators and supported bills that are intended to limit predatory lending practices in Pennsylvania. Finally, management states that the company has created a Responsible Lending Committee

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which evaluates and formulates the company's lending polices and, while ensuring effective communication of the company's position on predatory lending issues and practices.

Bank deregulation in the 1980s repealed most state laws that had previously restricted the interest rates banks could charge individuals for mortgages. Soon afterwards, financial institutions began marketing loans with higher interest rates to customers that could not qualify for normally priced mortgages because of poor credit histories or income limitations. Federal and state governments hailed these subprime loans as providing disadvantaged citizens their only opportunity for home ownership. According to data from the Home Mortgage Disclosure Act (HMDA), low-income and minority consumers have been taking out loans at record levels. Much of this rise in lending can be attributed to the development of the subprime mortgage market. Between 1993 and 1998, the industry's volume grew from $20 billion to $150 billion and is expected to reach $220 billion in 2001.

But with these positive developments came lending abuses, particularly aimed at female, elderly, and minority borrowers. Lured by the profits of higher interest loans, some subprime lenders have engaged in unscrupulous practices, such as exorbitant fees, that strip the equity from the homes of targeted groups and can result in foreclosure. Not all subprime lending is predatory in nature. Subprime lenders make higher rate loans to persons who are poor credit risks—what is traditional risk-based lending (the loans are priced to compensate for the higher repayment risk). Predatory lenders, however, charge fees and interest rates far beyond the risk assumed. Loans are asset-based, i.e., they are priced according to the borrower's assets (equity in a home) rather than on his ability to repay the debt. A predatory loan, however, is not necessarily illegal unless it involves fraud or deception.

According to a 2001 study by the Coalition for Responsible Lending, predatory lending practices cost U.S. borrowers $9.1 billion annually. However, the ultimate cost of predatory lending is the loss of borrowers' homes. Eighty percent of the subprime market consists of home equity loans used for debt consolidation and consumer credit. But often borrowers are unaware that they are replacing unsecured loans with secured debt using their homes as collateral. Because the loans are not based on the borrower's repayment ability, they are poised to fail.

In response to mounting evidence of predatory lending practices in the home-equity lending market, the Federal Reserve Board enacted the 1994 Home Ownership and Equity Protection Act (HOEPA), which imposes certain disclosure requirements and limitations on home-equity loans bearing rates or fees above a certain level. Regulation Z (the Truth in Lending Act), which implemented HOEPA, was expanded in December 2001 to further curb abuses. These amendments broaden the scope of mortgage loans that are covered by HOEPA.

States have historically limited abusive lending practices through usury laws, but financial industry deregulation and statutory loopholes have weakened their effectiveness over the years. In 2001, Connecticut, Texas, Virginia, Illinois, Massachusetts, and California enacted legislation to curb predatory lending, and 19 other states are considering new laws.

Subprime lending carries high risks, as shown by the number of insolvencies. Nearly 30 subprime financing companies went public between 1995 and 1997. Yet, by the latter part of the decade, over a dozen non-bank subprime lenders declared bankruptcy because a significant proportion of their loan portfolio went unpaid. With the slowing economy, subprime borrowers are having difficulties making their loan payments,

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increasing the degree of default risk. According to Moody's Investor Service, by mid-2001, one in ten subprime mortgage borrowers was in arrears by at least 60 days and six percent of all subprime loans were delinquent by over three months.

According to ISS' Social Investment Research Service:

* The company's Compensation Committee comprises four independent outside directors.

* Neither the Compensation Committee Report or the company's compensation plans specifically list predatory lending or compliance with the company's Statement of Business Principles as a measurement of executive performance.

* Household International, which earned $1.9 billion last year on nearly $12 billion in revenue, is one of the biggest lenders to consumers with poor credit or scanty credit histories—so-called subprime borrowers.

* The company has provided a section on its corporate Web site outlining its policies and procedures to prevent predatory lending. The company notes that "In the United States, while our company and many other subprime mortgage lenders and mortgage brokers conduct business in a fair and ethical manner, there are, regrettably, a few mortgage lenders that engage in improper practices that harm consumers and damage the reputation of responsible lenders." The company addresses many of the key predatory lending practices and states that it does not engage in these practices, including loan flipping, equity stripping, product packing. The company notes that it has a consumer hotline and provides credit management information to customers. There is no information in this section about how these policies are enforced within the company or its subsidiaries.

* On Feb. 2, 2001, Household formed a consumer advisory board to advise the company on our responsible lending initiatives.

* Household International announced on July 11, 2001, that it would discontinue the sale of single-premium credit insurance with real-estate-secured loans.

* Household International and its subsidiaries Household Finance and Beneficial have been involved in significant controversies in recent years regarding predatory lending practices. The company has been criticized for charging excessive fees, questionable refinancing practices, and using large prepayment penalties and mandatory arbitration cases.

* An advocacy group for poor and minority consumers filed a lawsuit on Feb. 6, 2002, accusing Household International Corp. of systematically cheating thousands of California residents who took out loans with the company. The suit, filed in Alameda County Superior Court, said the company and two units routinely roped customers into consolidating their home mortgages and other debts, taking out loans they would have great difficulty repaying because of high interest rates, penalties and other conditions. The lawsuit seeks to invalidate as much as $2 billion in loans issued to tens of thousands of borrowers in the last four years by Household, parent of the Beneficial and Household finance companies. Household is facing a similar lawsuit in New York state court filed by AARP. A spokeswoman for Household, based in Prospect Heights, Ill., said she was skeptical of the claims. She said ACORN, the organization that filed the suit has been involved in earlier complaints about Household that were "factually misleading" and did not result in lawsuits. (source: LA Times, Feb. 2, 2002)

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Heidi Brown, Analyst Phone: (301) 556-0500

* State attorneys have accused two of California's largest subprime lenders of systematically collecting millions of dollars in illegal fees and charges from largely poor and minority customers. Household Finance Corp. of California and its subsidiary, Beneficial California, Inc, already have admitted more than 36,000 violations of state law in connection with audits performed last year, according to a lawsuit filed by the state Department of Corporations. State investigators have been tracking what they considered a pattern of illegal practices at the Household's California offices since at least 1998. (source: Copley News Service, Nov. 14, 2001)

* Citigroup, whose subsidiary CitiFinancial Credit is the nation's biggest subprime lender, announced in June that it would stop selling single-premium credit insurance, a product that consumer advocates maintained was often sold and financed at huge costs in conjunction with predatory loans. Household International Inc., parent of No. 2 subprime lender Beneficial Mortgage, quickly followed suit. (source: LA Times, 9/10/01)

* During congressional hearings held July 26 and July 27, 2001, by Senate Banking Committee chairperson Paul Sarbanes (D-Md.), Household was singled out in testimony by victims of so-called predatory-lending practices.

When reviewing shareholder requests on linking executive compensation to social factors, ISS first considers whether the proposal is asking for a report on efforts to link executive compensation to social factors or whether the proposal also asks the company to take specific action to freeze or decrease executive pay. Some proposals are a combination of a report and a direct action request in that they may ask the company to decrease executive pay due to downsizing or link a specific social factor such as employee satisfaction or turnover to executive pay.

Generally, ISS supports proposals that seek greater disclosure of matters of importance to shareholders. As a practical matter, reports about company operations provide shareholders with more information about their company, and better position them to make choices regarding its governance. ISS also recognizes that the establishment of special committees to address key corporate issues can be helpful, particularly in cases where the company does not appear to have already addressed the issue in question. Because social issues can affect long-term shareholder value, it is generally in the interests of shareholders to ensure that management gives serious consideration to these issues. However, the benefits of additional disclosure must be weighed against any resulting costs or negative implications for the company and its shareholders.

ISS reviews proposals asking the company to review ways to link executive pay to social issues on a case-by-case basis. In proposals where a social factor is specified, ISS evaluates if the social issue requested is relevant and if the company or its peers already factors such an issue in its executive pay structure. Furthermore, ISS also considers the company's current compensation committee and whether or not it includes any insiders or affiliated outside directors. Also reviewed is the company's current pay level and if the company has any violations or complaints filed against it because of the particular social matter. Finally, ISS considers the artificial limits that maybe imposed as a result of approving this proposal.

In the case of Household International, although management's response to the shareholder proposal insinuated that the company already links its executive compensation to ethical lending practices, there is no specific mention of either ethical lending or the company's Statement of Business Principles in either the Compensation Committee Report or the company's compensation plan documents. However, in terms of its

peers, although one of its peers links executive compensation to responsible business practices, it does not appear that the company's main competitors specially ties any portion of executive compensation to predatory lending. We note that the company has a Compensation Committee, which comprises four independent outsider directors. In terms of the company's current pay level, the company does not have egregious pay levels, as measured by the cost of the company's plans that have been evaluated by ISS in the past. However, all of these factors must be weighed against the company's track record regarding predatory lending. Household International has been subject to violations, complaints, and controversy regarding its lending practices. The company is one of the major lending to subprime borrowers, which in and of itself is not bad, per se. However, the company and its subsidiaries, Household Financial Beneficial have been criticized for such practices as charging excessive fees, questionable refinancing, and large prepayment penalties. Furthermore, the company is facing lawsuits alleging that the company cheated borrowers in California and New York.

Moreover, this proposal is not asking the company to take any specific action. Rather, the proponent asks that the company prepare a report in which it outlines possible ways of linking the compensation of the company's executives to predatory lending practices. ISS generally supports requests for reports on a company's compensation practices, unless the compensation committee already has provided adequate disclosure in its report to shareholders. Given the serious concerns surrounding the company's predatory lending record, we believe that executives should be measured on their success in addressing this issue.

Given the controversy surrounding executive compensation at U.S. companies, the fact that preparation of this report could assist the company in aligning executives' interests with those of shareholders, and since the requested report could be prepared at a reasonable cost, ISS recommends that shareholders support this proposal.

Vote FOR Item 2.

Management Proposal

❑ Item 3: Ratify Auditors

The board recommends that Ernst & Young be approved as the company's independent accounting firm for the coming year. Note that the auditor's report contained in the annual report is unqualified, meaning that in the opinion of the auditor, the company's financial statements are fairly presented in accordance with generally accepted accounting principles.

In 2002, the company will change its audit firm from Arthur Andersen LLP. Note that audit fees indicated in our analysis were billed by Arthur Andersen LLP for the most recent fiscal year.

We prefer that companies do not engage their auditor for work unrelated to the audit function. This safeguards shareholders' interest by avoiding potential conflicts that might interfere with the auditor's independent judgment.

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Vote FOR Item 3.

Household International, Inc.
2700 SANDERS RD
PROSPECT HEIGHTS IL 60070
8475645000

Shareholder Proposal Deadline: December 4, 2002

Solicitor: Corporate Investor Communications, Inc.

This vote recommendation has not been submitted to, nor received approval from, the Securities and Exchange Commission. While ISS exercised due care in compiling this analysis, we make no warranty, express or implied, regarding the accuracy, completeness, or usefulness of this information and assume no liability with respect to the consequences of relying on this information for investment or other purposes.

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Vote Record Form:

Household International, Inc.

Ticker: HIPRM, HIPRO, HIPRJ, HI, HIPRN, HIPRZ

Annual Meeting: May 14, 2002

Record Date: March 15, 2002

Account ID Code:

Shares Held on Record Date:

Shares Voted:

Date Voted:

MEETING AGENDA

Item	Code	Proposals	Mgt. Rec.	ISS REC.	Vote Cast
❑ 1	M0201	Elect Directors	For	FOR	
		Shareholder Proposal			
❑ 2	S0510	Link Executive Compensation to Predatory Lending	Against	FOR	
		Management Proposal			
❑ 3	M0101	Ratify Auditors	For	FOR	

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Exhibit 21

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American Banker

May 15, 2002

SECTION: Pg. 10 ; ISSN: 0002-7561

IAC-ACC-NO: 85965662

LENGTH: 188 words

HEADLINE: In Brief: Household Vote: Activists Gain; Household International stockholders vote on compensation plan; Brief Article

BYLINE: Bergquist, Erick

BODY:

An activists' plan to tie executive compensation at Household International Inc. to its efforts to combat predatory lending won support from 25% to 27% of shares voted Tuesday, the company said.

The Washington-based Association of Community Organizations for Reform Now sponsored the proposal, along with Boston-based Responsible Wealth. Acorn said the plan won only 5% support last year.

"It appears that a rapidly growing number of Household shareholders want their company to do the right thing," said Acorn's president, Maude Hurd, in a press release. "We'll be watching to see if the company listens."

A spokeswoman for Household, which is based in Prospect Heights, Ill., said it is "actively striving" to ensure that its "responsible lending policies and procedures not only meet but exceed expectations."

Almost identical measures proposed to shareholders of Citigroup Inc. were less popular, winning only 5% of shares voted last year and 7.3% this year, said Scott Klinger, a co-director of Responsible Wealth.

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IAC-CREATE-DATE: June 17, 2002

LOAD-DATE: June 18, 2002

Exhibit 22

Copyright 2002 Chicago Sun-Times, Inc.
Chicago Sun-Times

May 23, 2002 Thursday

SECTION: FINANCIAL; Pg. 50

LENGTH: 477 words

HEADLINE: Household hires banking official for compliance role

SOURCE: Bloomberg News

BYLINE: Helen Stock

BODY:

Household International Inc., which has been accused of engaging in predatory lending, has hired a former Pennsylvania banking secretary to make sure the company doesn't take advantage of unsophisticated borrowers.

James Kauffman, 53, who will leave his state post next month, has been named to the newly created position of director of compliance, overseeing Household's home equity and personal loan businesses, the company said.

Prospect Heights-based Household, which caters to customers with less-than-perfect credit records, has been accused in lawsuits of gouging customers with high fees they don't understand. The Association of Community Organizations for Reform Now, or Acorn, filed a lawsuit this month in Illinois accusing the company of misleading customers about the terms of at least $45 billion in loans.

"I'll wait to see whether we see a difference in the lending," said Lisa Donner, director of Acorn's financial justice center.

Kauffman has been secretary of Pennsylvania's banking department since September 2000, regulating state-chartered banks, trust companies, thrifts and credit unions. The department also licenses 12,000 lenders who don't take deposits, including Household.

Last July, Household, whose HFC and Beneficial units have 1,400 branches, said it would stop selling a type of insurance whose cost is added to the amount of the loan, not paid for separately on a monthly schedule.

Critics said the insurance, which is bought to cover mortgage payments if a homeowner dies or becomes disabled, raised the debt burden too high, putting borrowers at a higher risk of defaulting and losing equity in their homes. It was eliminated as of April, said spokesman Craig Streem.

In the last year, the company has also started lowering rates for borrowers paying on time and distributing in branches a one- page "plain English" description of terms on its real estate loans. Household has promised by October to give customers the option of getting a higher-rate loan without a prepayment penalty.

"My role will be to uphold Household's commitment to meeting--and indeed surpassing--regulatory and legislative requirements and to assure absolute compliance into the future," Kauffman said.

Household, the largest independent U.S. consumer finance company, earlier this month defeated a shareholder proposal to study ways to link Chief Executive Officer Bill Aldinger's pay to "successfully addressing predatory lending practices."

The measure, supported by shareholders including the state pension funds of New York and California, garnered about 30 percent of the vote, the most support any attempt to curb predatory lending practices has

received since at least 1999, according to the Investor Responsibility Research Center. Last year, a similar proposal had 4.9 percent support.

Bloomberg News

LOAD-DATE: June 5, 2002

Exhibit 23

Copyright 2002 The Bellingham Herald (Bellingham, WA)
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The Bellingham Herald (Bellingham, WA)

July 26, 2002 Friday

SECTION: LOCAL; Pg. 1A

LENGTH: 1135 words

HEADLINE: Lender admits to violations; FINANCE: Household International says some policies may have been violated by Bellingham office.

BYLINE: John Stark, Staff

BODY:

BY JOHN STARK

THE BELLINGHAM HERALD

For the first time, Household International has acknowledged that its employees may have misrepresented mortgage loan terms to some Whatcom County homeowners who refinanced their homes at the Bellingham office of Household Finance Co., a subsidiary.

Household International spokeswoman Megan Hayden said the Bellingham office manager has been replaced as a result of the company's own investigation of consumer complaints.

But the departed manager told The Bellingham Herald that she's being made a scapegoat.

Local complaints

In recent months, nationwide lending giant Household has faced a rash of complaints from local homeowners who said they unwittingly refinanced their homes at higher interest rates after hearing misleading Household sales pitches.

The same homeowners have also complained of exorbitant loan fees and life insurance premiums added to the principal of their loans, plus high prepayment penalties that made it nearly impossible for them to refinance with another lender.

Four of the local homeowners have joined in a lawsuit against the company filed by Wenatchee attorney Bob Parlette.

Until now, company spokesmen have portrayed Household as an industry leader in consumer protection, with elaborate safeguards to make sure borrowers understand the deals they are signing.

But this week, Hayden said an internal company probe of the complaints had uncovered some serious problems.

"Those investigations did indeed show that there were some customers whom we believe had legitimate confusion on the interest rate on their loans," she said. "There may have been a miscommunication."

'Moved quickly'

Where problems were discovered, Hayden said Household has tried to make amends.

"We moved quickly to make it right with the customer and, frankly, apologized to the customer," Hayden said. "It is an absolute violation of our company policy and our employee training" to misrepresent loan terms.

Asked if anyone at the Bellingham office had violated that policy, Hayden replied, "Yes, we believe so, and those people have been held accountable for that."

Asked to elaborate, she replied, "We have a new branch manager working in the Bellingham branch. ? We take such violations very seriously."

Ex-manager upset

Hayden's comments didn't sit well with the former branch manager, Melissa Drury.

"They're just looking for a local scapegoat," Drury said.

Drury said she is a Western Washington University graduate who received high marks from her superiors during her 13 years with Household.

"I've always had excellent audits," she said. "I've been probably one of the best employees that they've had over the last 13 years. I've always done what I've been taught."

Drury said the sales pitches she used on potential borrowers came from the company.

"The bottom line is, they (the sales pitches) are Household programs," Drury said. "Nothing was done to intentionally mislead anybody. ? My number one interest would be never to hurt our customers."

High rates

More than two dozen local homeowners have contacted The Herald to tell similar stories of how they signed mortgage refinancing agreements with Household that saddled them with higher annual interest and higher payments than they started out with.

In nearly every case, the homeowners said they were shown loan repayment schedules with an "equivalent interest rate" of around 7 percent on a 30-year mortgage. But because the loans had to be paid back in a shorter period, usually 16 years, the actual annual percentage rate was often 12 percent or more.

In every case, the interest rate on the Household loans was much higher than what they had paid before refinancing, and probably far above the rate the same borrowers would have been charged elsewhere.

The complaining homeowners said they were rushed through the loan closing process and felt pressured into quickly signing things they had not read or understood. Some homeowners said they noticed the higher annual interest rate amounts spelled out on the documents they were signing, but company representatives reassured them that they were only going to have to pay the lower "equivalent" interest rate.

The aftermath pushed some homeowners into bankruptcy, and a few are facing foreclosure.

Denies firing

Drury denied that there was any scheme to take advantage of Household borrowers.

"The people that go to Household are people who are financially in trouble," she said. "The bottom line is to put people into a better position."

Asked to comment on Hayden's statements that borrowers may have been misled in the Bellingham office, Drury replied, "The bottom line is, everything has been Household's programs. Household's programs may have been misleading, then."

Drury also denied that Household had fired her. She said she departed on "mental disability due to their treatment." She described herself as still recovering from her split with the company, which she compared to a divorce.

Report on hold

Both attorney Parlette and state investigators agree that complaints about Household's practices are not confined to the Bellingham office. Couples from Stanwood and Spokane have joined in Parlette's lawsuit.

Chuck Cross, chief investigator with the state Department of Financial Institutions, has said his office has received complaints against Household from around the state.

The department's report on those complaints has been withheld from the public for several weeks because Household's lawyers convinced a Thurston County Superior Court judge to block its release. That matter will be back before the court in early August.

Bellingham carpenter Bob Penny, who has had his own problems with a second mortgage from Household, said he is part of an e-mail list of about 80 disgruntled Household customers who keep in touch and compare their experiences. Penny said some of the Household customers have been offered improved terms on their loans, but others have been rebuffed.

"There seems to be some inconsistency around what they're offering," he said. "People are getting offers when they haven't even made complaints. Other people who have made extensive complaints haven't gotten offers."

Penny said he doesn't believe the questionable practices are limited to the Bellingham office.

"I've gotten e-mails from people who had the exact same things happen in Spokane and Bellevue," he said.

HERALD FILE PHOTO

BORROWERS COMPLAIN: In this file photo, about 30 local homeowners holding loans with Household Finance and members of the Association of Community Organization for Reform Now, ACORN, protest against HFC lending practices at the Bellingham office in Sunset Square May 17. The company has acknowledged that it uncovered problems while investigating the complaints.

LOAD-DATE: October 30, 2002

Exhibit 24

HOUSEHOLD

Sandy L Derickson
08/16/2002 07:26 AM

To: Chuck A. Colip/Household International@HFN, Jody C. Berns/US/Household@HFN, Patrick R. Boney/US/Household@HFN, Jeanne E. Gruner/US/Household@HFN, James F Connaughton/US/Household@HFN, Brian W. Zempel/US/Household@HFN, Wilbert P. Noronha/Household International@HFN, Susan B. Jewell/US/Household@HFN, Joseph W. Hoff/US/Household@HFN, Richard C. Klesse/US/Household@HFN, Leigh F Hogan/US/Household@HFN
cc:
Subject: Forbes Article

FYI---- Forwarded by Sandy L Derickson/US/Household on 08/16/2002 07:25 AM -----

HOUSEHOLD

Megan E Hayden
08/15/2002 10:13 PM

To: William F. Aldinger/Household International@HFN, David A. Schoenholz/Household International@HFN, Gary D. Gilmer/Household International@HFN, Thomas M. Detelich/US/Household@HFN, Kenneth H. Robin/US/Household@HFN, Bobby N Mehta/US/Household@HFN, Colin P. Kelly/US/Household@HFN, Sandy L Derickson/US/Household@HFN, Larry N. Bangs/Household International@HFN, Ken Harvey/Household International@HFN, Douglas A. Friedrich/US/Household@HFN, James B Kauffman/US/Household@HFN, Craig A. Streem/US/Household@HFN, J. Denis O'Toole/Household International@HFN, Lisa M. Sodeika/US/Household@HFN, Sylvia S. Alston/US/Household@HFN
cc:
bcc:
Subject: Forbes Article

Attached please find the Forbes article about Household that appeared tonight on www.forbes.com. The same story will hit the news stands this coming Monday, August 19, 2002.

Clearly, this is not the kind of article that we would like to see about our company. It is sensationalized, sarcastic, and does not represent our side of the issue as much as we rightly feel we are owed. This is the sad reality of today's media.

But I'd also like to point out that some battles were won, as evidenced by what you don't read in this story. You do not see any quotes from ACORN, very little is said about the Washington State exam report, and only passing reference was made to multi-state regulatory concerns. Moreover, the reporter did not write about re-aging (which we explained and re-explained to him) and got off the point that we were "stealing" extra payments from customers through the biweekly payment (note: he tried to argue that customers didn't know they were making 13 payments/year).

Moreover, Tom's direct quote and the additional Household messaging at various places in the story helps put the allegations into perspective: we believe these are isolated issues and the company has taken strong action to ensure that it is truly living up to its Best Practices.

Hayden-Hakes
DEP. EXH. # 63
Date: 8/18/06 KD

I do recommend a letter to the editor that shares the key messages that were shared with the reporter, but didn't make it into the story. We need to get our view on the record. This letter, which should go under Tom's signature, will include our 125 year history of helping people meet their financial goals, the overwhelming response we receive from customers who have benefitted from our products, the fact that we have careful controls in place to ensure compliance, and the fact that we are learning from any mistakes of the past and only becoming better for it.

Story.doc

Forbes.com

Companies, People, Ideas

Home Wrecker

Bernard Condon, 09.02.02

William Aldinger says he built one of the few successful lenders to bad credit risks by managing smarter. People suckered into his mortgages cite other tactics: lies and deceit.

William Myers paid off his credit card debt by refinancing his mortgage last year. But he says his new lender, Household International, charged him 11% interest, not 7.2% as promised. Then it added $14,400 in fees and insurance to his $80,100 loan and stuck him with a $15,000 second mortgage--at 20% interest. He didn't notice it until the first bill.

"They're nothing but a bunch of thieving, loan-sharking crooks," he says of Household, the nation's largest nonbank lender to borrowers of less than stellar creditworthiness. Myers, 66, was left owing a third more than his home was worth, scaring away rival lenders that might have come to the rescue. He sued Household in federal court, charging violation of disclosure laws; the case is pending.

Household is under fire for myriad tactics. In addition to the bait-and-switch on interest rates, it charges high prepayment penalties and service fees; it lures clients with proposals showing monthly savings that at times fail to materialize; and it structures mortgages to include last-minute second loans that make it difficult for borrowers to defect and get refinancing elsewhere. Household agents call it "closing the back door." In July, FORBES has learned, authorities from more than a dozen states descended on Household to demand refunds and reforms.

Household says such complaints represent a minuscule fraction of its $100 billion in outstanding loans. It also says gripes about the interest rate trick that fooled Myers are largely confined to its office in Bellingham, Wash. "If there was a pattern, this would be a massive complaint issue," says Thomas Detelich, the consumer lending chief who oversees Household's 1,400 branches and 8,000 loan officers. "We're scratching to find a handful." He says an internal probe turned up only 42 such complaints.

But Household's questionable practices seem to be in far wider use than that. For one thing, Myers lives in Dayton, Ohio, not Bellingham, Wash. The Household pitch was so effective it lured even customers with good credit, including Myers. Customers and some ex-employees tell of the same interest rate trick in a dozen states. "Household encourages, or at least tolerates, these abuses," says Minnesota Commerce Commissioner James Bernstein. "It's not just an occasional rogue loan officer or a rogue office. It has to do with the corporate culture."

Household's tougher tactics began in 1998, when Chief Executive William Aldinger, a serial acquirer who had just bought Beneficial Corp., ran out of targets and looked for internal growth by pushing mortgages instead of credit cards. The results are impressive. Household's net income rose 17% to $514 million in the second quarter, its 16th consecutive record quarter, and it kept default losses at an impressive 4.3% (annualized) of receivables. Household's return on assets is down but still remarkable at 1.9%. MBNA and Capital One, big players in mainstream credit card lending, returned 1.5% each.

"He squared the circle," Howard Mason of Sanford C. Bernstein & Co. says of Aldinger. "But there's always a price for doing the seemingly impossible."

The price was paid by customers. Mortgage lenders constantly raid rivals' customers by offering cheaper rates, cutting into everyone's profits. So in 1999 Household cracked down: It loosened standards to allow second mortgages on top of first ones even if that left customers owing more than the value of their homes. It also increased fees to levels that would eventually match the highest allowed in many states. These fees, or points, chip away at a homeowner's equity, making it tougher to switch lenders. Aldinger started telling Wall Street that his customers were less likely to bolt because their equity had been reduced by his loans, say several Wall Street analysts.

Household also began EZ Pay Plus, a program under which many borrowers, like Myers, were lured with lower interest rates but were really charged higher ones. EZ Pay Plus also hooked Corina Galindo, a teacher's assistant in Phoenix. In April 2000 Household offered to replace her $67,300 mortgage, a Chase Manhattan Bank loan at 8.5% interest, with a bigger but seemingly cheaper one: $86,300 at an "effective rate" of 7.6%, enough to pay off the old mortgage and a $12,200 personal loan she was paying off at 15.7%. At least, that is how she read a worksheet from a Household loan officer. Galindo signed up. Four days later, she says, she got nervous and reviewed the 80-page agreement--signed or initialed in two dozen places--and spotted the real interest rate: 12.2%.

How did it happen? Galindo says her agent, Jose Avila, handed her the worksheet, titled Bi-Weekly Payment Quote, with this sentence at the bottom: "If I can put together a loan that pays out like a 7.579%-a-year loan, but has a total term of 18.63 years ... would you be interested?" She was, though the claim wasn't exactly true. Her loan term would be reduced from 30 to 19 years, and payments would be automatically deducted from her checking account every two weeks. By paying off her mortgage faster, Galindo would pay lower total interest. Her new loan's payments would total $219,000 over 19 years. The Household pitch: Spread that over 30 years, and it's like a 30-year loan at 7.6%, lower than her Chase loan.

Never mind that her new mortgage wasn't a 30-year loan to begin with--and that 12.2% is 12.2%. The $86,300 loan included processing fees of $6,000, or 7%, plus other charges. Many lenders levy 1% to 2%.

At the closing on a Saturday, Galindo says, Avila also sprung on her a second mortgage--set up as a line of credit of $10,000 at 23.9%. At her closing, she was drawing down

$4,800 on this line to pay off yet another outstanding debt--a debt she had expected to be taken care of in the $86,300 first mortgage. Household structures many second mortgages as lines of credit, which lets it avoid federal rules that mortgage terms must be disclosed at least three days before closing.

She protested but signed anyway. "I felt a lot of pressure," she says. "Avila told us he never opens on Saturday and his family was waiting for him. But I can't do anything. I signed the papers." Galindo now works nights cleaning classrooms to help pay off the new loans. Household says her loan officer, Avila, is on disability leave; he couldn't be reached. The company won't comment on her complaint, but Galindo says it has offered to reduce her rate.

Household pressed its agents relentlessly for growth, raising targets several times in three years. "It was a pressure cooker," says Seth Callen, a former branch manager in Colorado. At times this led to deceptive tactics, former loan agents say. The EZ Pay worksheets weren't authorized by the company, but they were photocopied and passed from branch to branch. In May 2001 Household ordered the worksheets destroyed at all branches, ex-insiders say. Household says it was enforcing a policy barring unapproved sales materials.

But even Household's own materials were at times misleading. The Home Equity Loan Proposal sheet totes up a customer's current payments to creditors and mortgage lender and compares the total to a single monthly payment on a new Household loan. The Household figure doesn't include property taxes and home insurance, while the old mortgage often does; this understates the Household cost.

Mary Gaspers of New Brighton, Minn., an antiques dealer, was given a proposal showing she would save $202 a month by consolidating credit card debt into her home mortgage. "It sounded so wonderful," she says, "and it was right in front of me, in writing." But her old monthly payments included $195 in taxes and insurance; her new loan didn't. So her real saving was a meager $7--and her new interest rate was 10.7%, not the 7.15% her EZ Pay worksheet cited. She refinanced with another lender at 7.25% in April of last year. For her $165,000 Household loan, which lasted just four months, she paid fees and penalties totaling $22,000.

Household says when it talked to Gaspers, she never complained about the higher interest rates.

In April 2001 Household was sued by a couple who claimed they had been misled by the branch in Bellingham. The case was settled. A month later Household began visiting its 1,400 branches to look for deceptive EZ Pay practices. In July 2001 Household announced it would end single-premium credit insurance, a stiff charge often added to loans. It also eased prepayment penalties: Customers now can avoid a kill fee if they hold a loan for three years before paying it off early; previously they had to wait five years. By September 2001 Household began disclosing on the monthly comparison forms that monthly payments didn't include taxes and insurance.

Other legal battles dog Household. Early this year the company was sued in state court in California by Acorn, the advocacy group for low-income families. Near the infamous branch office in Bellingham, another borrower sued: Jeanie Luna says that at her closing, her husband, Joseph, spotted a 12.7% rate on a document, even though the branch manager, Melissa Drury, had cited a 7% rate. The Lunas say they confronted Drury, who told them the higher number was merely a "default rate." Within three months after the Lunas sued in state court and garnered local newspaper coverage, 90 other customers had called their lawyer, Robert Parlette, with similar complaints. He now is trying to combine the cases into a class action.

Household says it has since lowered the Lunas' interest rate; they say they haven't yet received notice. This spring, a year after abuses first surfaced at the Bellingham office, branch manager Drury left. She couldn't be reached.

In July last year Washington State regulators launched an investigation of Household's practices. Household has since gotten a state court to issue a restraining order delaying the release of the state's report. A judge will rule in October on whether to lift it. A 73-page draft cites 92 complaints in seven years, noting a pattern of misleading borrowers about the true interest rate and sticking them with "spurious" lines of credit. It concludes that "sales tactics intended to mislead" are too widespread to be blamed on just "specific transactions or loan officers." Household says the restraining order prevents it from commenting.

Household now is trying to move beyond the controversy. It recently named a new director of compliance. It killed secured sides, the secondary loans that have a bad image but are otherwise a "good" deal, the company says. And Household now requires loan officers at closings to hand borrowers a single sheet showing terms and fees, which it says will be lowered to no more than 5% of the loan total. It says it is "raising the bar" for the industry. If its past practices are typical for the industry, that's not saying much.

Exhibit 25

Copyright 2002 Newsday, Inc.
Newsday (New York)

May 7, 2002 Tuesday QUEENS EDITION

SECTION: BUSINESS & TECHNOLOGY, Pg. A55

LENGTH: 426 words

HEADLINE: NY May Dump Lender's Stock;
Predatory accusations about Household concern McCall

BYLINE: By Tania Padgett; STAFF WRITER

BODY:
New York is considering dumping millions of shares of a leading consumer finance operation from a state retirement fund in response to accusations that the company engaged in predatory lending practices, Comptroller H. Carl McCall said yesterday.

McCall controls New York State's common retirement fund, a $112-billion-asset pension fund, which owns 2.5 million shares worth about $139.2 million of Prospect Heights, Ill.-based Household International Inc.

"I might possibly sell it," McCall told Newsday in an interview.

McCall said he told Household last Friday that it needed to "reform its predatory lending practices" and he would "be carefully monitoring the actions of the company to determine the common retirement fund's next steps."

Last week, Household, the largest U.S. independent consumer finance company, was accused in a lawsuit of misleading borrowers about the terms of at least $45 billion in loans. ACORN, a national advocacy group, is seeking class-action status for the suit.

Household's shares yesterday sank 2.32 percent to $55.68.

"Predatory lending is rearing its ugly head and it's tainting Household's stock and the stocks of other subprime lenders," said Reilly Tierney, analyst at Fox-Pitt Kelton in Manhattan.

Household spokeswoman Megan Hayden said yesterday that the company "was surprised and concerned by [the comptroller's] statement. We believe we have the highest standards for responsible lending, and we very much hope to speak directly with the comptroller to address his questions and concerns."

McCall also said he supports proposed anti-predatory lending legislation - the subject of a city council hearing yesterday.

The bill empowers City Comptroller William C. Thompson Jr. to go after companies that do business with mortgage lenders engaging in predatory lending and yank city contracts, subsidies and other benefits if they continue those relationships. Many large financial companies buy loans, turn them into securities and sell them to investors in a process called securitization. Advocates say many large firms do not sufficiently check the lending histories of the mortgage bankers they purchase loans from.

Financial institutions "should be very careful what paper they buy because it is contributing to this very, very obscene practice," McCall said.

Several council members gave the Housing Preservation and Development Department a thrashing after the agency's deputy commissioner offered opposition to the bill yesterday.

LOAD-DATE: May 7, 2002

Exhibit 26

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Origination News

June, 2002

SECTION: B&C NEWS; Vol. 11; No. 9; Pg. 47

LENGTH: 853 words

HEADLINE: Activists Call for Household To Tie CEO Pay to Practices

BYLINE: By Amilda Dymi

DATELINE: PROSPECT HEIGHTS, IL

BODY:

The increasing number of lawsuits filed against Household International has prompted shareholder concern and an unexpected 20%-30% vote in favor of a resolution that demands the company "link executive pay to predatory lending practices."

Filed jointly by NorthStar Asset Management of Boston, and Domini Social Investments of New York, the resolution was introduced at Household's annual shareholders' meeting on May 14. It received a surprisingly higher approval compared to the 5% vote a similar resolution received in 2001, or expectations at 7%-10%.

"Household's position is that this proposal is not necessary," said spokeswoman Megan Hayden before the vote. "We believe that the objectives that are outlined in the proposal have already been implemented."

"That is not true," rebutted Scott Klinger of United for a Fair Economy, an independent nonprofit that represents NAM and DSI.

"The proposal asks that they link a portion of the CEO pay to predatory lending, but they say nothing about it in their compensation report. Their CEO got more money last year than the year before, so one can conclude that their evaluation is that the company is improving its predatory lending record, when the evidence is to the contrary."

The resolution reminds shareholders that Household's executives have publicly stated their commitment "to business practices free of predatory lending," so they should be compensated "based on their success in meeting these commitments." It stresses that predatory lending practices in the subprime lending market are expensive to both the borrower and the lender. Household has paid fees and penalties to settle a number of lawsuits filed against it. Despite its stated commitment to end such practices, the document continues, "Household has also lobbied against adoption of strict predatory lending legislation at the state and local levels." Finally, the resolution calls on the Board to study ways to link at least "a portion" of executive level compensation to their success in addressing these practices.

"Following the Enron wake-up call, it's unacceptable and unethical to reward CEOs with enormous compensation while taking advantage of economically vulnerable Americans," said NAM president Julie Goodridge.

The issue here is not one of "setting up new rules," Ms. Hayden said. Household's existing compensation policies and business procedures that each employee has to sign and follow "already respond" to the concerns addressed by the proposal. Furthermore, she said, senior management "has actively followed" the issue of responsible lending, compliance, quality assurance and making sure that the company is abiding by policies and procedures that "indeed do represent the ethics of this company" as an industry leader.

As shown by the vote, NAM and DSI are not the only shareholders expressing concern.

The New York State Common Retirement Fund, owner of 2.5 million shares of Household, has joined in. In a statement following a recent lawsuit filed against Household by the Association of Community Organizations for Reform Now, New York state comptroller Carl McCall called on the directors of Household "to take drastic steps" to reform its predatory lending practices.

"Investors should be concerned about the real possibility of a negative impact on the company's performance in the future," Mr. McCall noted in his statement. "I will be carefully monitoring the actions of the company to determine the Common Retirement Fund's next steps."

Only a few days before the meeting, the Minnesota State Board of Investment Proxy Committee, which holds over $20 million in Household stock for the Public Employees Retirement Association, voted unanimously in support of the resolution.

However, expectations on the shareholders' approval rate were low from both sides.

"The same two shareholders filed a substantially similar proposal last year, but it did not pass," Ms. Hayden said, noting that Household applauds these shareholders for being actively involved, "as they should be."

Typically, these types of resolutions do not attract much support.

Mr. Klinger explained that such resolutions cannot really "pass" even if they get over 50% of the vote, because they are not legally binding. Nonetheless, he believes that they are important when it comes to educating people.

"We have also filed a similar resolution with Citigroup for the second year as well," he said. "This year it received 7% of the shareholders' vote, compared to 5% last year."

From Mr. Klinger's perspective, differently from Citigroup, Household "has not even been willing to talk" about it.

"They keep saying that we don't have a problem. We are the industry leader," he said.

He believes that Household does not have a method of tracking predatory lending complaints at the corporate level. Instead, problems are expected to be resolved at the local office level where there is not enough oversight to see that it actually happens.

"I would say they are in denial that they have a problem," he concluded.

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LOAD-DATE: May 24, 2002

Exhibit 27

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August 28, 2002

SECTION: Pg. 11 ; ISSN: 0002-7561

IAC-ACC-NO: 90830783

LENGTH: 382 words

HEADLINE: Battered Household Is Hit Again; securities analysts downgrade **Household International** Inc.; Brief Article; Statistical Data Included

BYLINE: Bergquist, Erick

BODY:

Wall Street is finally beginning to react to allegations of predatory lending against **Household International** Inc. -- which chairman and chief executive officer William F. Aldinger calls "headline risk."

Keefe, Bruyette & Woods Inc. analyst Vincent Daniel on Tuesday initiated coverage of the Prospect Heights, Ill., subprime lender with a neutral "market perform" rating.

His research note said that its stock is "in an uninvestable situation" and that its earnings growth will likely be restrained by its $ 19 billion of debt due by yearend and the potential cost of dealing with the lending allegations.

"We have very little comfort in the company's ability to reconcile" these two issues "without materially reducing future earnings growth," he wrote.

Mr. Daniel credited Household for developing best-practices guidelines in the wake of the allegations.

But the Keefe analyst was less supportive of Household's decision to stop buying back its stock.

"We would have preferred HI to reduce growth expectations and maintain share repurchase activity," his report said.

Household is also trying to boost its capital by trimming assets and issuing securities. Its problems are already reflected in its stock price, but "we prefer to sit on the sidelines," Mr. Daniel wrote.

"For the past two years, cynicism and caution have been rewarded in the specialty finance sector."

Household shares are off more than 30% this year and closed at $ 37.84 Tuesday, down 3.17%.

Bad news has piled up this year at Household: It has been hit with three class actions filed by the Association of Community Organizations for Reform Now, investigated by regulators in Washington State on charges of abusive lending, and paid two fines to settle state regulators' claims of overcharging consumers.

Then on Aug. 14 Household restated eight years of earnings, lowering profits by $ 386 million from 1994 to 2002 because of changes to its accounting for certain credit card assets. The restatement has sparked six separate shareholder suits, which were followed by negative articles in both Forbes and The New York Times.

Household officials had no comment on Mr. Daniel's report.

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IAC-CREATE-DATE: August 28, 2002

LOAD-DATE: August 29, 2002

Exhibit 28

Morgan Stanley

Comment | Page 1

Equity Research
North America

United States of America

Diversified Financials: Specialty Finance

Household International

Reuters: HI.N Bloomberg: HI NYSE: HI

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Change in Recommendation

July 31, 2002

Discounts the Risk: Upgrade

STOCK RATING	OVERWEIGHT–V
Price (July 30, 2002)	$40.55
Price Target	$55
52-Week Range	$68.87 - 40.55

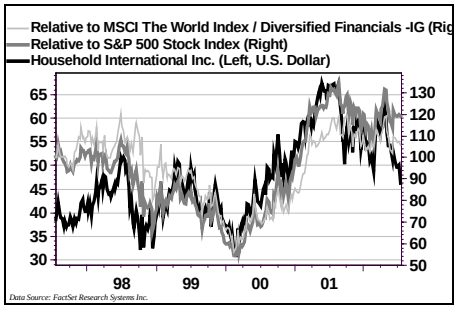
Stock ratings are relative to the analyst's industry (or industry team's) coverage universe.

MSCI SECTOR	FINANCIALS
US Strategist Weight	19.6%
S&P 500 Weight	19.6%

WHAT'S CHANGED	
Rating	*Equal to Overweight*
Earnings (2003)	*From $5.26 to $5.02*
Change of Target Price	*$76 to $55*
Volatility	*Add V*
LT EPS Growth Rate	*From 14% to 8%*

- **Upgrading to Overweight on attractive risk/return**
  Our $55 price target discounts a slowdown in consumer spending and the impact of predatory lending issues. With 38% potential upside, we think investors are being compensated to bear the risk.
- **Survey work supports strong demand in subprime lending**
  With the weak economy and stock market, Household's portfolio growth should be faster than many lenders because demand for debt consolidation loans is strong. See our report, "Channel check: surprisingly strong subprime growth," 7/31/02 for more.
- **Impact of predatory lending may be overblown**
  New lending practices could reduce the company's consumer finance margins from 2.0% to 1.5-1.75%, and we're factoring in $500 million in legal damages/regulatory fines in our price target. Even so, the stock looks undervalued.
- **Industry view: In-Line**
  Valuations look increasingly attractive. However, we need to weigh the risk to our growth forecasts of slower consumer spending and borrowing.

Stock Price Performance



Company Description

Household International provides consumer loans and credit cards in the US and UK and offers auto finance domestically. At year-end 2001, the company had over 1,500 branch offices, more than 40 million customer accounts, and $100 billion in managed consumer receivables.

FY ending Dec 31:	2001A	2002E	2003E	2004E
EPS ($)	4.07	4.65	5.02	–
Prior EPS Ests. ($)	–	–	5.26	–
Consensus EPS Ests. ($)	–	4.68	5.28	–
CEPS ($)	4.92	5.19	4.99	–
P/E	10.0	8.7	8.1	–
P/E Rel. to (S&P 500)	49.0	48.0	50.0	–
P/CE	8.2	7.8	8.1	–
Price/Book	2.1	1.8	1.5	–
Yield (%)	2.1	2.4	2.8	0.0

Market Cap ($ m)	18,572
Debt/Cap (06/02) (%)	90.2
Return on Equity (06/02) (%)	23.7
L-T EPS Grth ('02 - '06) (%)	8.0
P/E to Growth	1.09
Shares Outstanding (m)	458.0

Q'trly EPS	2001A actual	2002E curr	2002E prior	2003E curr	2003E prior
Q1	0.91	1.09A	–	–	–
Q2	0.93	1.08A	–	–	–
Q3	1.07	1.17E	–	–	–
Q4	1.17	1.31E	–	–	–

E = Morgan Stanley Research Estimate
Consensus is based on First Call.

Please see the important disclosures at the end of this report.

Discounts the Risk: Upgrade

Summary and Investment Conclusion

We're upgrading HI from Equal-weight to Overweight, thinking that the controversy surrounding predatory lending, combined with a general lack of appetite for risk among investors, has created a buying opportunity. That's not to say that the predatory lending storm doesn't contain some hail and lightning. As a result, we are adding a discretionary V to reflect the possibility of volatility in the stock given the likelihood of negative headlines related to predatory lending issues. We've cut our 5-year EPS growth forecast from 14% to 8% and our price target from $76 to $55 to account for several risks. New lending practices may impact profitability. The company is experiencing higher funding costs and capital requirements. We can't rule out substantial litigation damages and/or regulatory fines. However, with 38% upside potential to our reduced price target, investors are being compensated to bear the risk, in our view. Further, there may be a silver lining to this cloud. In the wake of the stock market selloff, many segments of retail finance, such as credit cards, may see weak demand, as consumers rebuild their portfolios by borrowing less and saving more. That's not the case in Household's core business, subprime home equity debt consolidation lending, as we recently verified in an extensive survey of subprime branch managers (see "Channel check: surprisingly strong subprime growth," 8/1/02). Strong portfolio growth is not discounted in Household's stock at this time, in our view, and it's part of the reason we see attractive upside to our price target.

The risk may be close to its peak, although we can't promise any near-term catalysts to lift the cloud. Predatory lending has captured a great deal of attention among activists, politicians, regulators, and investors. Bad press is widespread. However, Household and the industry have begun to address these issues by implementing new lending practice standards, which meet many, if not all, of the activists' goals. At Household, senior executive changes, including the promotion of the chief compliance officer, indicate a desire to manage these issues at the highest levels of the firm. Separately, the markets are nervously awaiting a report by Washington State regulators on Household's lending practices, and the content of that report, and its reception by investors, will give us an early read on our investment thesis. With the stock trading at only 8.0x our 2003 EPS forecast, we're inclined to think this report may not be as bad as is widely feared.

To reflect predatory lending risks, we've reduced our 5-year EPS growth rate goes from 14% to 8% and cut our 2003 estimate from $5.26 to $5.02. First, we assume slower growth in the company's credit card, private label, and auto finance businesses, consistent with the view that these businesses may see reduced demand, as consumers opt to save more and borrow less in the wake of the stock market selloff. Second, we factor in higher capital and funding costs for the company, as fixed-income investors and rating agencies continue to worry about Household's exposure to the predatory lending controversy. Third, we assume that new lending practices reduce the return on managed assets in Household's consumer finance business from 2.0% to 1.5-1.75%.

The reduced forecast may prove conservative. Our survey work indicates that subprime demand is strong and competition healthy. Higher capital standards for bank subprime activities is likely to put upward pressure on market pricing. Predatory lending laws and regulations are industry issues, and lenders may offset margin pressure from new practices by raising the interest rates on new loans or by not passing on the full benefit of lower funding costs. Household has built a very strong operating model, in our view. Our research suggests that Household will continue to grow faster than the industry because of superior lead generation systems, which are not part of the predatory lending controversy. In our recent survey, Household branch managers forecast 50% growth in new loan sales in 2002, statistically significantly higher than the subprime sample mean of 33%.

Even on our reduced earnings forecast, the valuation looks attractive. As a result of changes to our earnings forecast, the 12-month price target falls from $76 to $55, as detailed in Exhibit 1. As a partial offset, lower interest rates factor into our model in the form of a lower cost of capital. The $55 price target is generated by a residual income model which uses a 1.0 beta and a 4.5% equity risk premium and factors in 8% EPS growth through 2006 and a "maturity period," during which marginal returns gradually fall to the cost of capital, of 6 years.

Exhibit 1

Household International
Price Target Change

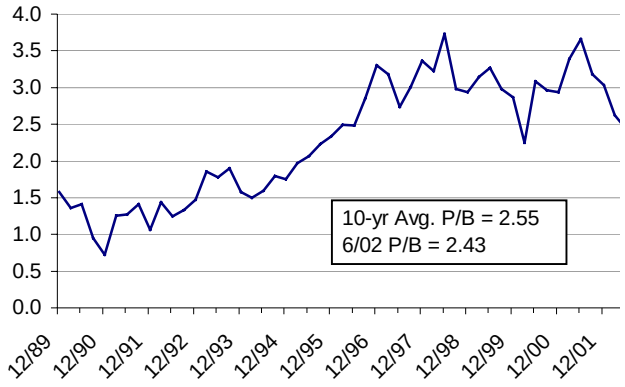
Old Target	$76.00
* Residual income model adjustments (1)	(1.78)
* Slower growth in credit cards, auto (2)	(3.62)
* Higher funding costs/capital (3)	(8.60)
* Increased securitization activity	0.00
* Expected litigation damages & resulting fines	(0.54)
* Impact of new lending practices on consumer finance margins	(6.81)
* Higher growth in home equity lending	0.33
New Target	**$54.98**

(1) Reflects changes to our cost of capital calculation used in our residual income valuation. Specifically, we lowered the 10-year UST rate from 4.9% to 4.5% and raised the beta from 0.84 to 1.00.
(2) Reflects reduced receivables growth forecast in cards (Visa/MC and private label) and auto finance in 2003-2004 We also reduced the maturity period from 7 years to 6 years.
(3) We assume that Households unsecured debt spreads will remain wider than historical levels, resulting in a higher cost of funding. We also assume that ratings agencies will continue to require Household to maintain high levels of capital to support subprime lending. We previously had capital trending down slightly.
Source: Morgan Stanley Research

The price target is in line with the stock's historic trading range. $55 equates to 2.6 times June 30 book value per share, whereas the stock has traded over the last 10 years between 1.2x and 3.7x, with an average of 2.5x over that period (Exhibit 2). $55 also equates to 10.9 times our revised EPS for next year, whereas the stock has traded historically between 7.6x and 16.2x, averaging 11.4x (Exhibit 3).

Exhibit 2

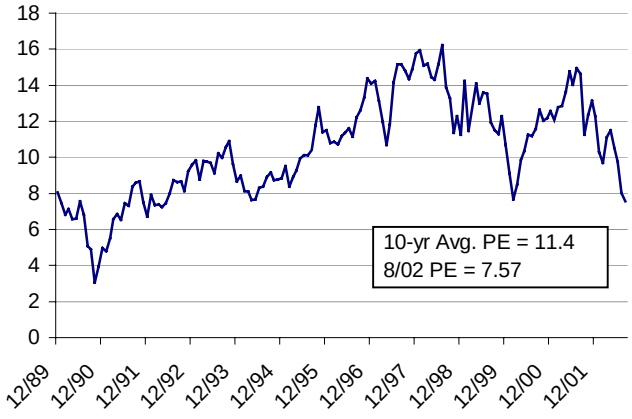
Household International
Historic Price/Book Multiple



Note: P/B ratios prior to June 1998 are based on pro forma book value for the pooling of interests of Household and Beneficial.
Source: FactSet, company reports, Morgan Stanley Research

Exhibit 3

Household International
Historic Price/Earnings Multiple



Source: FactSet, First Call

There are risks to our price target. For one, if new lending practices have a more severe impact on margins than we are presently estimating, the stock could be worth as little as $36 (down 11% from yesterday's level). Exhibit 4 presents different stock prices as a function of the severity of margin impact resulting from new lending practices. Also, our estimate of $500 million in legal damages and regulatory fines is an educated guess. If the amount turns out to be higher (or lower), then we will have to reduce (or increase) our target price.

Exhibit 4

Household International

Target Price Scenarios Assuming Immediate Pressure on Consumer Finance ROMA in 2003

	Consumer Finance ROMA (1)				
	2.00%	1.75%	1.50%	1.25%	1.00%
EPS % Change					
Yr. 2003	8.9%	-1.8%	-12.5%	-23.1%	-33.7%
Yr. 2004	8.9%	8.0%	6.8%	5.3%	3.3%
Yr. 2005	6.2%	5.1%	3.6%	1.8%	-0.6%
Yr. 2006	10.8%	10.2%	9.5%	8.7%	7.4%
CAGR, 2002–06	10.5%	7.8%	4.8%	1.5%	-2.3%
Consol. ROMA, 2003	1.70%	1.54%	1.38%	1.21%	1.05%
Consol. ROMA, 2006	1.60%	1.42%	1.25%	1.07%	0.90%
Consol. ROEE (2)	18.5%	16.5%	14.5%	12.5%	10.5%
Implied Target Price (3)	$64	$57	$50	$43	$37
Target Price, Adjusted to Include Risk of Litigation Payment (4)	**$63**	**$56**	**$50**	**$43**	**$36**

(1) Return on managed assets for the consumer finance division, which we define as home equity and other unsecured lending. We assume the return is constant from 2003-2006.
(2) Consolidated return on economic equity at the end of the 5-year development phase.
(3) Represents 12-month implied target based on residual income model.
(4) We assume a 75% probability that Household pays an aggregate $500 million pretax to settle litigation claims.
Source: Morgan Stanley Research

Relatively Robust Growth Potential

Household's growth should be fairly robust in coming years, despite the possibility of a weak economy. We think the outlook for subprime home equity debt consolidation loan growth is relatively strong compared to the outlook for other forms of consumer credit. We say this because debt consolidation does not involve the creation of new credit per se. Rather, it reflects the payoff of expensive credit card and other unsecured debt with a less expensive mortgage loan. As such, the constraints on growth include the level of interest rates and home values, as these variables drive transaction volumes. In contrast, weak consumer spending and an increase in the savings rate could reduce the demand for credit card debt.

Data from our recent survey of subprime branch managers appears to confirm this intuition (see "Channel Check: Surprisingly Strong Subprime Growth," dated July 31, 2002). In a poll of nearly 300 branch managers and brokers, we found average projected new loan growth of 33% for 2002. This compares with only 2.4% year-over-year growth in revolving credit, at least through June.

The growth outlook for Household's other businesses — credit card, private label, and auto finance — is possibly less robust. We've taken the recent selloff in the stock market and decline in interest rates as a cue to rethink long-term growth rates across the board in the specialty finance industry group. After thinking through possible macroeconomic scenarios, we will revise long-term growth forecasts for all of the companies in our coverage universe. For now, we've cut forecast growth in Household's auto finance unit from 12-15% in 2003-2004 to 8%, in credit cards from 8% to 4%, and in private label, from 7% to 3%. We assume return to trend-line in 2005.

New Lending Practices May Impact Margins

As we documented in our survey work, major subprime lenders, including Household, are in the process of changing lending practices in reaction to an outcry against predatory lending among activists, regulators, and politicians. Some of these practices may reduce margins, for example, limiting upfront points, doing away with single-premium credit life insurance, or reducing the size and duration of prepayment penalties. As Exhibit 5 illustrates, reducing upfront points can significantly impact margins. However, this pressure on margins can be offset by raising interest rates on new loans or by not passing on the full benefit of lower funding costs in an environment of falling interest rates. Our "Channel Check" report compares lending practices among the major subprime lenders to best practices recommended by consumer activists and others.

Please see the important disclosures at the end of this report.

Exhibit 5

Internal Rate of Return for Hypothetical Subprime Home Equity Loans as a Function of Points and Rates

	Upfront Points			
Rate	3%	5%	7%	9%
9%	12.2%	18.6%	26.7%	37.1%
10%	17.6%	24.9%	34.0%	46.1%
11%	23.4%	31.5%	41.9%	55.8%
12%	29.4%	38.6%	50.3%	66.3%

Morgan Stanley economic portfolio model. Assumes 2.5% acquisition costs, 5% servicing cost, 3% cost of funds, average balance $70,000, 1.3% charge-off rate, 30-month peak charge-offs.

Source: Morgan Stanley Research

We've attempted to bracket the impact at Household by illustrating several possible scenarios. Exhibit 4, above, presents several scenarios for earnings growth for the company, depending on how severe the margin impact from changed lending practices turns out to be.

At one extreme, we show that a decline in return on managed consumer finance assets from 2.0% to 1.0% would reduce Household's EPS growth over the next five years from 10.5% to -2.3%. The probability of this scenario is remote, in our view, because 1.0% ROMA would be a little bit low even for the prime mortgage industry. We think such low returns for the subprime market are unlikely because subprime demand appears to be strong and much less price-sensitive than prime mortgage lending. Also, very few firms have consumer finance retail branch franchises with the capability to generate debt consolidation marketing leads from credit card and sales finance files. Finally, regulatory pressure on banks to boost capital and reserves for subprime lending is likely to put upward pressure on rates in this industry so that banks can continue to earn reasonable risk-adjusted returns on capital. Even without regulatory intervention, we doubt that the equity markets would support low returns on capital for this business, given the credit risk profile; more likely, capital would withdraw until a new equilibrium emerged with higher interest rates. (Our earnings forecast is now based on a decline in the consumer finance return on assets from 2.0% to 1.50-1.75%.)

Litigation and Fine Risk

For subprime lenders, regulatory fines and legal damages are material risks in the current political climate. Perhaps they should even be thought of as costs of doing business. The Federal Trade Commission (FTC) has pursued lawsuits against a number of subprime lenders, including Associates and its parent, Citigroup. State attorney generals (AGs) and other regulatory bodies have assessed fines. Class action lawsuits are becoming more prevalent. The basis for these actions has typically been deceptive marketing practices (Exhibit 6). Other segments of the financial services industry, for example life insurance, have been subject to large dollar losses from similar lawsuits in past years.

Exhibit 6

Selected Subprime Regulatory and Legal Actions

• 5/02	• Class action lawsuit against Delta Financial for overcharging on defaulted loans	• Proposed $1.65 million settlement for 10,000 persons
• 3/6/02	• FTC lawsuit against Associates/Citifinancial for deceptive and predatory practices	• Pending
• 3/02	• FTC, numerous state AGs and AARP settled a lawsuit against First Alliance alleging misleading practices and overcharging	• Settled for $60 million for 18,000 persons
• 9/01	• Citigroup settled with state of North Carolina over claims of deceptive marketing of credit insurance	• $20 million to 9,000 former customers
• 3/00	• DOJ, HUD, and FTC sued Delta Funding for violations of HOEPA, RESPA, Fair Housing Act, and ECOA including improper underwriting and overcharging of minorities.	• Injunctive relief only
• 9/99	• New York state AG prosecuted claims against Delta Financial for fair lending and consumer protection issues	• $7.25 million fine and appointment of neutral monitor for three years
• 7/99	• FTC sued several small lenders for violations of HOEPA, TILA, and Section 5 of the FTC Act	• Settled for $572,000

Source: Morgan Stanley Research

Household has already been targeted in a number of regulatory and legal actions (Exhibit 7). Further, bad press doesn't help, as it often encourages more borrowers and activist groups to step forward with complaints. Household has been the subject of a great deal of bad press lately (Exhibit 8). To capture the likelihood of additional legal damages and/or regulatory fines, we subtract $1 per share from our target price, based on a probability of 75% applied to $500 million in damages. This estimate represents an educated guess; we cannot anticipate the outcome of ACORN's class action lawsuit, regulatory actions in the state of Washington, or other potential legal and regulatory issues.

Exhibit 7

Selected Regulatory and Legal Actions against Household

• 5/02	• ACORN files lawsuit seeking class action status accusing it of misleading borrowers about terms and conditions of $45 billion in loans	• Pending
• 2/02	• California Department of Corporations fines Household for late payment overcharges	• $3 mm refund and $8.9 mm fine
• 2/02	• Sued in state of California for deceptive refinancing practices	• Pending, motion to dismiss and compel arbitration denied

Source: Morgan Stanley Research

Funding costs and capital

A side-effect of legal controversy is higher capital and funding costs. We've adjusted our long-term EPS growth rate for Household by modeling the company maintaining higher capital ratios going forward. This reduces our stock repurchase forecast and impacts the residual income valuation because of a higher capital carrying charge implicit in our estimation of economic profits. Also, we've raised the company's funding costs in 2003 and 2004. In recent weeks, Household's 5-year debt spreads have widened out above 300 bps, compared to bank senior debt levels that range 90-145 bps. At present, there is little appetite among fixed-income investors for legal and regulatory risk. We model higher funding costs in 2003 and 2004 and assume they stabilize in 2005.

As a result of wide spreads in the unsecured market, we expect Household to avail itself of the securitization markets. This may boost earnings in the short term through increased gain-on-sale. However, securitization has no effect on our price target because we offset the gain-on-sale in early years with increased amortization in later years of our model.

Our target price doesn't discount a liquidity failure scenario. With the company having already cut back on commercial paper and increased its investment portfolio, the risks of liquidity problems seem remote. Further, virtually all of Household's loan production is suitable for the securitization markets. As such, the availability of funding for new business will depend on the quality of the loans Household produces as collateral, rather than the creditworthiness of the parent company.

Exhibit 8

Household's Lending Practices: Summary of Selected Negative Press

Date	Location	Comments
7/2/02	The Oregonian, OR	Article that focuses on predatory lending and initiatives the state is taking to educate customers about how to use home equity without losing their homes to debt. Household is cast in a negative light by referencing complaints against Household and Beneficial. Household admits making mistakes, but says it does not exhibit abusive lending practices company-wide.
7/1/02	Daily Herald, IL	More than 100 people, organized by ACORN, protested Household's lending practices at the company's headquarters in Prospect Heights, IL.
6/29/02	The Lexington Herald Leader, KY	Article focused on one family in Kentucky as victims of predatory lending by Beneficial. The Cooks nearly lost their home to foreclosure until Household rushed to make reparations.
6/2/02	The Boston Globe, MA	Boston City Council passed a resolution asking the Boston Retirement Board to investigate whether the city's pension fund should invest in HI shares because of its predatory lending practices. The article describing how a woman refinanced her mortgage to pay down high-rate debts and ended up with a loan twice the size of her original mortgage, a huge amount of additional fees, and paying high interest rates.
6/1/02	Mortgage Bankers Association of America	A national class-action suit was filed by three individuals in the Circuit Court of Cook County, IL against Household. The suit alleges that Household misled borrowers about the terms and conditions of their loans, including high interest rates and fees.
5/26/02	Connecticut Post, CT	Article that discusses predatory lending by telling the story of an individual with a prime loan and obtained additional home equity loans from Beneficial and Conseco, which stripped all the equity from the home.
5/14/02	Chicago Sun-Times IL	About 30 protesters stood outside a Household collections office in rural Kentucky during the company's annual shareholders' meeting on May 14.
5/7/02	The Seattle Post-Intelligencer, WA	Article discussing a predatory lending case at out of Household's Bellingham office. The story also refers to a study that shows a disproportionate number of blacks and Hispanics have subprime loans. An attorney in Bellingham, representing four families, hopes the case will grow to class action status.
5/7/02	San Antonio Express-News, CA	Story of a victim participating in a lawsuit filed against Beneficial in IL. There are 750 San Antonio borrowers included in the lawsuit. The borrower had been forced to purchase credit insurance in order to obtain a loan.
5/7/02	The American Banker	NY State Comptroller H. Carl McCall, sole trustee of NY's Common Retirement Fund, indicated that he will look for Household to take important steps to reform its lending practices. Mr. McCalls's comments came a day after a class action suit was filed against Household in IL.
5/4/02	The Pueblo Chieftan, CO	Notes that ACORN filed a class-action lawsuit on behalf of three homeowners, one of which obtained a loan from Beneficial in Denver and accuses the company of misreprenting her loan.
2/28/02	Sacramento Bee, CA	Notice that ACORN and two alleged victims of predatory lending filed a lawsuit and were asking to recover interest and fees that the borrowers paid, in addition to Hi's profits related to unfair lending.
2/7/02	Contra Costa Times, CA	ACORN filed a lawsuit against Household in East Bay, CA alleging that it was engaged in predatory lending. The group charges that Household misled borrowers. The article provides an example of one of the alleged victims, who was targeted with a live check offer from Household and ended up with multiple loans accruing interest at high rates and totaling more than the house was worth.
11/1/01	Thomson Financial's Origination News	AARP joined a class action suit against Beneficial that was filed in the Western District Court of NY. The complaint, which covers loan transactions dating back to late 1998, alleges that Beneficial misrepresented fees and points, failed to provide appropriate disclosures, and engaged in flipping, among other things.
9/12/01	Albuquerque Journal	Public Employees Retirement Association (PERA), an owner of Household stock and debt, received complaints from residents about Household. PERA was encouraged by members of ACORN to sell its investment in Household.

Source: Lexis/Nexis

Exhibit 9

Specialty & Mortgage Finance Valuation Comparables

Rat'g	Sym	Price 07/30	Div Yld	EPS # 01A	EPS # 02E	EPS # 03E	P/E Ratio 01A	P/E Ratio 02E	P/E Ratio 03E	Rel. P/E 01A	Rel. P/E 02E	Rel. P/E 03E	5-Yr Gr'wth	Mkt. Val. (Mil)	Pr/ Bk	Target Price	Upside
Specialty Finance Industry View: In-Line												**Market Cap Weighted Average**					**31%**
Consumer Finance																	
U	AXP	33.92	0.9	1.00	2.01	2.19	33.9	16.9	15.5	170%	93%	97%	14%	45,181	3.5	36	6%
NR	ACF (2, 4)	19.55	0.0	3.30	4.25	NA	5.9	4.6	NA	30%	25%	NA	25%	1,667	1.2	–	–
E	COF	29.93	0.4	2.91	3.78	4.55	10.3	7.9	6.6	51%	44%	41%	21%	6,624	1.7	57	90%
NR	CCRT (2)	6.90	5.8	1.08	0.28	0.65	6.4	24.6	10.6	32%	136%	66%	25%	276	0.7	–	–
O-V	HI	40.30	2.5	4.09	4.65	5.02	9.9	8.7	8.0	49%	48%	50%	8%	18,034	1.9	55	36%
O	KRB (6)	19.23	1.5	1.28	1.53	1.82	15.0	12.5	10.6	75%	69%	66%	18%	24,571	3.1	30	56%
NR	MXT (2)	3.92	1.0	2.60	(0.36)	0.28	1.5	NM	14.0	8%	NM	87%	25%	239	0.3	–	–
O-V	PVN (5)	3.75	3.2	1.82	0.34	1.55	2.1	11.0	2.4	10%	61%	15%	NA	1,068	0.6	10	167%
NR	SLM (2)	90.01	0.9	3.75	4.54	5.27	24.0	19.8	17.1	120%	109%	107%	15%	13,979	7.8	–	–
	Average		*1.8*				*12.1*	*13.3*	*10.6*	*61%*	*73%*	*66%*	*19%*		*2.3*		
Commercial Finance																	
NR	ALD (2)	20.43	11.0	2.16	2.29	2.43	9.5	8.9	8.4	47%	49%	52%	12%	2,059	1.5	–	–
U-V	CIT (1)	21.53	2.2	3.17	2.40	3.53	6.8	9.0	6.1	34%	49%	38%	5%	4,556	1.0	23	7%
NR	FIF (2, 3)	30.23	0.0	1.89	2.11	NA	16.0	14.3	NA	80%	79%	NA	15%	507	2.1	–	–
U	GMT	26.42	4.8	1.02	1.50	2.22	25.9	17.6	11.9	130%	97%	74%	13%	1,280	1.4	30	14%
	Average		*4.5*				*14.5*	*12.5*	*8.8*	*73%*	*69%*	*55%*	*11%*		*1.5*		
Mortgage Finance Industry View: Attractive												**Market Cap Weighted Average**					**32%**
Thrift & Mortgage Lenders																	
U	WM	36.70	2.9	3.59	3.95	4.14	10.2	9.3	8.9	51%	51%	55%	11%	35,753	1.8	44	20%
E	CCR	48.97	0.8	4.56	5.44	5.85	10.7	9.0	8.4	54%	50%	52%	13%	6,111	1.3	60	23%
E	GDW	63.83	0.5	5.11	5.72	5.57	12.5	11.2	11.5	63%	61%	72%	14%	10,028	2.1	72	13%
E	NDE	21.61	0.0	2.00	2.37	2.70	10.8	9.1	8.0	54%	50%	50%	13%	1,302	1.3	30	39%
U	GPT	46.90	2.1	3.83	3.91	NA	12.2	12.0	NA	61%	66%	NA	13%	4,165	NA	–	–
	Average		*1.3*				*11.3*	*10.1*	*9.2*	*57%*	*56%*	*57%*	*13%*		*1.6*		
Agency & Private MI																	
O	FNM	74.65	1.8	5.20	6.25	7.01	14.4	11.9	10.6	72%	66%	66%	15%	74,680	3.1	105	41%
O	FRE	61.36	1.4	4.21	5.32	5.68	14.6	11.5	10.8	73%	63%	67%	15%	42,579	3.2	84	37%
O	PMI	34.44	0.3	3.44	3.93	4.48	10.0	8.8	7.7	50%	48%	48%	6%	3,082	1.2	50	45%
U	MTG	62.99	0.2	5.70	6.29	6.95	11.1	10.0	9.1	55%	55%	57%	6%	6,658	2.0	70	11%
E	FNF	28.52	1.7	3.46	3.54	4.07	8.2	8.1	7.0	41%	44%	44%	8%	2,697	1.6	35	23%
O	LFG	31.49	0.9	3.25	3.50	3.02	9.7	9.0	10.4	49%	50%	65%	8%	583	0.8	43	37%
	Average		*1.0*				*11.3*	*9.9*	*9.3*	*57%*	*54%*	*58%*	*10%*		*2.0*		
	S&P 500	903	1.8	45.2	49.7	56.3	20.0	18.2	16.0				7%			1200	33%

O = Overweight E = Equal weight U = Underweight NR = Not Rated V = More volatile
A = Actual E = Morgan Stanley Research Estimates NA = Not Available NM = Not Meaningful
(1) EPS are pro forma and based on 211.6 million shares.
(2) EPS and growth estimates reflect First Call consensus forecasts.
(3) EPS estimates are on a calendar-year basis. Fiscal year ends July.
(4) EPS estimates are on a calendar-year basis. Fiscal year ends June.
(5) 2001 EPS includes one-time charges. We look for EPS of $0.38 from continuing operations and before restructuring charges.
(6) Share and per share data have been adjusted to reflect the 3-for-2 stock split effective on July 15, 2002.
Source: Morgan Stanley Research Estimates, First Call, Factset

Exhibit 10

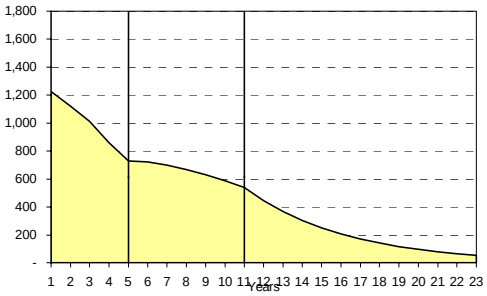
Household International
Residual Income Model

Assumptions

Share Information	
Expected 12 Month Dividend (2002)	$0.88
Current Stock Price (7-30)	39.85
Issued Shares (million) (2Q02)	448
Reported Book Value Per Share (2Q02)	21.06
Cost of Capital	
10-yr. Govt. Bond Yield (%) (7-30)	4.53
Beta	1.00
Market Risk Premium (%)	4.50
Cost of Common Equity (%)	9.03
Maturity Phase	
Number of Years	6
Target Equity/Mgd. Assets (%)	7.6
End of Phase RWA Growth Rate (%)	7.0
Decline Phase	
Decay Factor (0-10%)	10.0
Growth in RWA (%)	5.0
Goodwill	
Current Goodwill	1,227
BV Adjustment	2,415

Valuation Analysis

Present Value of Residual Income (%)



Key Valuation Measures

Stock Price	39.85
Est. Current Fair Value ($)	51.40
12 Month Target Price ($)	55.16
12 Month Total Return (%)	40.6
Price/Book Value	1.9
Price/Economic Book Value	1.5
2002E Return on Economic Equity (%)	20.5
Cost of Common Equity (%)	9.0
Current Operations Value™/Est. Fair Value (%)	115

Valuation Drivers

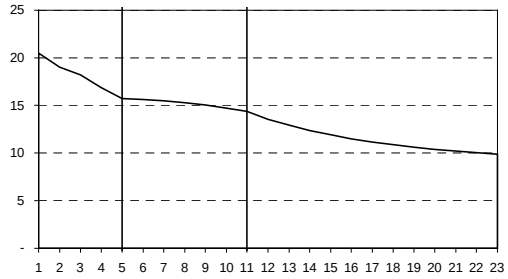
		CAGR (%)		End of Phase		% of Fair Value	
Phase	Years	Cash Earnings	RWA	ROEE (%)	Payout Ratio (%)	Phase	Cumulative
Economic BV	-	-	-	-	-	50.7	50.7
Development	5	2.6	9.5	15.7	44.9	21.5	72.2
Maturity	6	6.0	8.2	14.4	55.9	16.7	88.9
Decline	12	1.6	5.0	9.9	52.5	11.1	100.0

Valuation Parameters

	Est. Current Fair Value as a Multiple of			
	Bk Val	Econ Bk	Earnings	Cash Earn
2002	2.4	1.9	10.7	10.6
2003	2.2	1.8	10.1	9.9
2004	2.0	1.6	9.8	9.7
2005	1.8	1.5	9.8	9.7
2006	1.6	1.4	9.7	9.5

Return on Economic Equity

ROEE (%)



Distribution of Forecasted ROEE

ROEE Frequency (%)	ROEE Threshold (%)
75	10
65	11
55	12
50	12
45	13
35	15
25	15

Exhibit 11

Household International
Key Model Inputs, 2001A–2003E

(Millions)

	1Q01A	2Q01A	3Q01A	4Q01A	2001A
Growth Rates (Y/Y % Change)					
Home Equity	23.2%	17.2%	18.8%	22.1%	22.1%
Auto Finance	41.1%	34.0%	35.6%	40.2%	40.2%
Visa/MasterCard	6.8%	7.3%	5.7%	-1.1%	-1.1%
Private Label	7.9%	9.4%	9.8%	15.1%	15.1%
Other Unsecured	18.8%	16.4%	13.5%	10.9%	10.9%
Total Mgd. Receivables	17.1%	14.5%	14.6%	15.1%	15.1%
Interest Income/Avg Earning Assets	14.58%	14.17%	13.99%	13.66%	14.09%
Estimated Cost of Debt	6.69%	6.14%	5.71%	5.07%	5.85%
Net Interest Margin	8.22%	8.34%	8.57%	8.85%	8.50%
Fee Income/Avg Visa/MasterCard Receiv.	9.19%	9.34%	9.40%	9.53%	9.36%
Salaries & Benefits Exp./Avg. Mgd Receivables	1.96%	2.05%	2.06%	2.02%	2.02%
Mgd. Four-Qtr. Lagged Net Charge-Off Rate					
Home Equity	0.59%	0.58%	0.61%	0.78%	0.65%
Auto Finance	7.55%	6.14%	6.47%	9.01%	7.35%
Visa/MasterCard	6.84%	7.35%	7.24%	7.03%	7.11%
Private Label	5.46%	5.56%	5.63%	6.02%	5.67%
Other Unsecured	7.39%	8.04%	7.99%	7.87%	7.83%
Total	4.35%	4.34%	4.29%	4.50%	4.37%
Y/Y % Change	-4%	-3%	0%	8%	0%
Net Charge-Off Rate					
Home Equity	0.44%	0.48%	0.52%	0.65%	0.53%
Auto Finance	5.15%	4.47%	4.84%	6.52%	5.31%
Visa/MasterCard	6.27%	6.82%	6.75%	6.69%	6.63%
Private Label	5.08%	5.09%	5.13%	5.40%	5.18%
Other Unsecured	6.27%	6.82%	7.00%	7.05%	6.79%
Total	3.56%	3.71%	3.74%	3.90%	3.73%
Reserves/Managed Receivables	3.78%	3.78%	3.72%	3.78%	3.78%
Mgd. Reserve Ratio/Lagged NCO Rate	87%	87%	87%	84%	86%
Key Macro Assumptions (1)					
Real GDP (Chg) (2)	1.2%	0.3%	-1.3%	1.7%	1.2%
Personal Consumption Expend. (Chg) (2)	3.4%	2.5%	1.0%	6.1%	3.1%
Civilian Unemployment Rate	4.2%	4.5%	4.8%	5.6%	4.8%
Fed Funds Target Rate	5.00%	3.75%	3.00%	1.75%	1.75%
Change in Fed Funds Target Rate (bps)	(1.50)	(1.25)	(0.75)	(1.25)	(4.75)
Bankruptcy Filings/Capita (Y/Y Chg)	19%	36%	15%	17%	20%

(1) Estimates are based on discussions with Morgan Stanley US Economist team, as of April 5, 2002.
(2) Quarterly growth rates are annualized percent change from prior quarter.
Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations. NA = Not Available
AT = After tax A = Actual E = Morgan Stanley Research Estimates NA = Not Available

Exhibit 11 (continued)

Household International
Key Model Inputs, 2001A–2003E

(Millions)

	1Q02A	2Q02A	3Q02E	4Q02E	2002E	2003E
Growth Rates (Y/Y % Change)						
Home Equity	21.7%	22.8%	23.0%	21.0%	21.0%	18.0%
Auto Finance	37.8%	33.4%	23.0%	22.0%	22.0%	8.0%
Visa/MasterCard	-1.3%	-1.5%	-1.0%	4.0%	4.0%	4.0%
Private Label	12.2%	12.5%	12.0%	7.0%	7.0%	3.0%
Other Unsecured	9.7%	11.5%	11.0%	11.0%	11.0%	10.0%
Total Mgd. Receivables	14.5%	15.2%	14.7%	14.1%	14.1%	11.7%
Interest Income/Avg Earning Assets	13.15%	12.84%	12.94%	13.14%	13.02%	13.31%
Estimated Cost of Debt	4.68%	4.53%	4.43%	4.36%	4.48%	5.06%
Net Interest Margin	8.79%	8.58%	8.63%	8.90%	8.72%	8.42%
Fee Income/Avg Visa/MasterCard Receiv.	9.38%	8.67%	8.80%	9.00%	8.97%	9.00%
Salaries & Benefits Exp./Avg. Mgd Receivables	1.97%	2.02%	1.93%	1.90%	1.95%	1.95%
Mgd. Four-Qtr. Lagged Net Charge-Off Rate						
Home Equity	0.80%	1.05%	1.15%	1.15%	1.04%	1.10%
Auto Finance	9.34%	8.34%	8.50%	9.30%	8.88%	8.57%
Visa/MasterCard	7.07%	7.43%	7.60%	7.30%	7.35%	6.98%
Private Label	6.32%	6.02%	5.92%	6.02%	6.07%	5.76%
Other Unsecured	8.66%	9.43%	9.70%	9.50%	9.33%	9.19%
Total	4.71%	4.90%	5.00%	4.93%	4.89%	4.59%
Y/Y % Change	8%	13%	16%	10%	12%	-6%
Net Charge-Off Rate						
Home Equity	0.65%	0.86%	0.93%	0.94%	0.85%	0.91%
Auto Finance	6.70%	6.17%	6.64%	7.62%	6.81%	7.33%
Visa/MasterCard	7.17%	7.54%	7.78%	7.33%	7.45%	6.45%
Private Label	5.57%	5.38%	5.27%	5.41%	5.41%	5.28%
Other Unsecured	7.86%	8.56%	8.69%	8.52%	8.42%	8.27%
Total	4.09%	4.26%	4.34%	4.30%	4.25%	3.99%
Reserves/Managed Receivables	4.10%	4.14%	4.09%	4.04%	4.04%	3.93%
Mgd. Reserve Ratio/Lagged NCO Rate	87%	85%	82%	82%	83%	86%
Key Macro Assumptions (1)						
Real GDP (Chg) (2)	6.1%	2.5%	4.1%	4.2%	2.9%	3.8%
Personal Consumption Expend. (Chg) (2)	3.3%	2.3%	3.4%	2.9%	3.3%	2.8%
Civilian Unemployment Rate	5.6%	5.9%	5.8%	5.7%	5.8%	5.4%
Fed Funds Target Rate	1.75%	1.75%	1.75%	2.75%	2.75%	4.25%
Change in Fed Funds Target Rate (bps)	0.00	0.00	0.00	1.00	1.00	1.50
Bankruptcy Filings/Capita (Y/Y Chg)	2%	-5%	5%	0%	0%	-5%

(1) Estimates are based on discussions with Morgan Stanley US Economist team, as of April 5, 2002.
(2) Quarterly growth rates are annualized percent change from prior quarter.
Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations. NA = Not Available
AT = After tax A = Actual E = Morgan Stanley Research Estimates NA = Not Available

Exhibit 12

Household International

Summary Earnings Model, 2001A–2003E

($ Millions Except Per Share Data)

	1Q01A	2Q01A	3Q01A	4Q01A	2001A
Income Statement (Managed Basis)					
Net Interest Income	1,829.8	1,894.3	2,024.1	2,192.4	7,940.6
Non-Interest Income	729.2	666.0	689.1	822.5	2,906.8
Net Revenues	2,559.0	2,560.3	2,713.2	3,014.9	10,847.4
Provision for Loan Losses	(932.8)	(934.8)	(966.8)	(1,184.0)	(4,018.4)
Non-Interest Expense	(960.6)	(955.8)	(982.8)	(991.3)	(3,890.5)
Pretax Income	665.6	669.7	763.6	839.6	2,938.5
Net Income Applicable to Common	429.5	436.7	500.9	540.9	1,908.0
Diluted EPS	**$0.91**	**$0.93**	**$1.07**	**$1.17**	**$4.07**
Y/Y % Change	16%	16%	13%	13%	15%
Diluted Cash EPS (1)	$1.21	$1.10	$1.23	$1.38	$4.92
Dividends Per Share	$0.19	$0.22	$0.22	$0.22	$0.85
Avg. Diluted Shares Outstanding (Millions)	472.0	469.6	469.7	463.2	468.6
Selected Balance Sheet Data					
Home Equity	38,004.8	39,806.5	41,930.9	44,718.6	44,718.6
Y/Y % Change	23.2%	17.2%	18.8%	22.1%	22.1%
Total Managed Receivables	88,372.6	91,538.0	95,655.1	100,822.7	100,822.7
Y/Y % Change	17.1%	14.5%	14.6%	15.1%	15.1%
Book Value Per Share	$17.23	$17.94	$18.59	$19.47	$19.47
Tangible Book Value Per Share	$13.65	$14.41	$14.68	$15.46	$15.46
Total Securtized Receiv./Total Mgd. Receiv.	22%	22%	21%	21%	21%
Tangible Capital/Tangible Assets	7.6%	7.7%	7.7%	7.7%	7.7%
Credit Quality Statistics					
Mgd. Reserves/Mgd. Receivables	3.78%	3.78%	3.72%	3.78%	3.78%
Mgd. Reserve Ratio/Lagged NCO Rate	87%	87%	87%	84%	86%
Mgd. Provisions/Mgd. Net Chargeoffs	120%	113%	111%	124%	117%
Mgd. Consumer Delinquency Rate (60+ days)	4.25%	4.27%	4.43%	4.46%	4.46%
2-Qtr. Lagged Delinquency Rate	4.47%	4.43%	4.77%	4.89%	4.89%
Mgd. Consumer Net Charge-Offs Rate	3.56%	3.71%	3.74%	3.90%	3.73%
4-Qtr. Lagged Net Charge-Off Rate	4.35%	4.34%	4.29%	4.50%	4.37%
Profitability Metrics					
Return on Avg. Managed Assets (ROMA)	1.8%	1.8%	2.0%	2.0%	1.9%
Return on Avg. Common Equity	21.6%	21.4%	23.6%	24.8%	24.1%
Return on Avg. Tang. Common Equity	25.6%	26.0%	28.9%	30.4%	27.6%
Mgd. Net Interest Margin (Annualized)	8.2%	8.3%	8.6%	8.9%	8.5%
Risk-Adjusted Margin	8.0%	7.6%	7.8%	8.3%	7.9%
Efficiency Ratio (Normalized)	35.6%	35.5%	35.1%	31.2%	34.0%
Tax Rate	35.1%	34.4%	34.0%	34.6%	34.5%

(1) Cash EPS adds back non-cash charges of goodwill amortization, change in reserves, and net securitization gains.
Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations.
AT = After tax A = Actual E = Morgan Stanley Research Estimates NA = Not Available

Exhibit 12 (continued)

Household International

Summary Earnings Model, 2001A–2003E

($ Millions Except Per Share Data)

	1Q02A	2Q02A	3Q02E	4Q02E	2002E	2003E
Income Statement (Managed Basis)						
Net Interest Income	2,264.5	2,289.3	2,366.6	2,537.3	9,457.7	10,268.7
Non-Interest Income	946.4	813.7	786.1	778.9	3,325.0	3,613.1
Net Revenues	3,210.9	3,103.0	3,152.6	3,316.2	12,782.7	13,881.8
Provision for Loan Losses	(1,362.3)	(1,278.4)	(1,279.1)	(1,362.0)	(5,281.8)	(5,530.4)
Non-Interest Expense	(1,071.5)	(1,057.8)	(1,044.3)	(1,034.3)	(4,207.9)	(4,817.0)
Pretax Income	777.1	766.8	829.2	919.8	3,293.0	3,534.4
Net Income Applicable to Common	502.5	498.0	539.8	600.5	2,140.8	2,277.7
Diluted EPS	**$1.09**	**$1.08**	**$1.17**	**$1.31**	**$4.65**	**$5.02**
Y/Y % Change	20%	16%	10%	12%	14%	8%
Diluted Cash EPS (1)	$1.38	$1.17	$1.19	$1.45	$5.19	$4.99
Dividends Per Share	$0.22	$0.25	$0.25	$0.25	$0.97	$1.12
Avg. Diluted Shares Outstanding (Millions)	462.1	461.2	460.2	459.2	460.7	453.7
Selected Balance Sheet Data						
Home Equity	46,248.7	48,887.5	51,575.0	54,109.5	54,109.5	63,849.2
Y/Y % Change	21.7%	22.8%	23.0%	21.0%	21.0%	18.0%
Total Managed Receivables	101,177.7	105,460.6	109,741.9	115,009.1	115,009.1	128,410.6
Y/Y % Change	14.5%	15.2%	14.7%	14.1%	14.1%	11.7%
Book Value Per Share	$20.23	$21.06	$22.02	$23.13	$23.13	$27.31
Tangible Book Value Per Share	$17.05	$17.50	$18.32	$19.27	$19.27	$21.95
Total Securtized Receiv./Total Mgd. Receiv.	21%	21%	21%	21%	21%	22%
Tangible Capital/Tangible Assets	8.5%	8.1%	8.1%	8.1%	8.1%	8.1%
Credit Quality Statistics						
Mgd. Reserves/Mgd. Receivables	4.10%	4.14%	4.09%	4.04%	4.04%	3.93%
Mgd. Reserve Ratio/Lagged NCO Rate	87%	85%	82%	82%	83%	86%
Mgd. Provisions/Mgd. Net Chargeoffs	133%	117%	110%	113%	118%	108%
Mgd. Consumer Delinquency Rate (60+ days)	4.63%	4.53%	4.40%	4.50%	4.50%	4.45%
2-Qtr. Lagged Delinquency Rate	4.62%	4.72%	4.76%	4.90%	4.90%	0.00%
Mgd. Consumer Net Charge-Offs Rate	4.09%	4.26%	4.34%	4.30%	4.25%	3.99%
4-Qtr. Lagged Net Charge-Off Rate	4.71%	4.90%	5.00%	4.93%	4.89%	4.59%
Profitability Metrics						
Return on Avg. Managed Assets (ROMA)	1.8%	1.8%	1.8%	1.9%	1.8%	1.7%
Return on Avg. Common Equity	23.4%	22.2%	23.5%	25.2%	23.7%	22.4%
Return on Avg. Tang. Common Equity	25.7%	24.0%	25.2%	26.9%	25.5%	24.0%
Mgd. Net Interest Margin (Annualized)	8.8%	8.6%	8.6%	8.9%	8.7%	8.4%
Risk-Adjusted Margin	8.5%	7.5%	7.3%	7.4%	7.6%	7.2%
Efficiency Ratio (Normalized)	31.6%	32.2%	31.2%	29.2%	31.0%	32.8%
Tax Rate	34.2%	33.0%	33.0%	33.0%	33.3%	34.0%

(1) Cash EPS adds back non-cash charges of goodwill amortization, change in reserves, and net securitization gains.
Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations.
AT = After tax A = Actual E = Morgan Stanley Research Estimates NA = Not Available

Exhibit 13

Household International
Key Model Inputs, 2000A-2005E

(Millions)

	2000A	2001A	2002E	2003E	2004E	2005E	2006E
Growth Rates (Y/Y % Change)							
Home Equity	36.0%	22.1%	21.0%	18.0%	15.0%	12.0%	12.0%
Auto Finance	50.1%	40.2%	22.0%	8.0%	8.0%	12.0%	12.0%
Visa/MasterCard	11.3%	-1.1%	4.0%	4.0%	4.0%	8.0%	8.0%
Private Label	6.5%	15.1%	7.0%	3.0%	3.0%	6.0%	6.0%
Other Unsecured	16.9%	10.9%	11.0%	10.0%	10.0%	10.0%	10.0%
Total Mgd. Receivables	22.4%	15.1%	14.1%	11.7%	10.6%	10.4%	10.5%
Interest Income/Avg Earning Assets	14.61%	14.09%	13.02%	13.31%	13.15%	13.00%	12.82%
Estimated Cost of Debt	6.74%	5.85%	4.48%	5.06%	5.32%	5.32%	5.32%
Net Interest Margin	8.10%	8.50%	8.72%	8.42%	8.03%	7.90%	7.73%
Fee Income/Avg. Mgd Receivables	1.86%	1.75%	1.44%	1.36%	1.29%	1.25%	1.22%
Salaries & Benefits Exp./Avg. Mgd Receivables	1.92%	2.02%	1.95%	1.95%	1.98%	2.00%	2.00%
Mgd. Four-Qtr. Lagged Net Charge-Off Rate							
Home Equity	0.59%	0.65%	1.04%	1.10%	0.80%	0.65%	0.65%
Auto Finance	7.78%	7.35%	8.88%	8.57%	8.39%	8.39%	8.21%
Visa/MasterCard	5.88%	7.11%	7.35%	6.98%	6.98%	6.69%	6.41%
Private Label	5.84%	5.67%	6.07%	5.76%	5.52%	5.29%	5.07%
Other Unsecured	7.91%	7.83%	9.33%	9.19%	8.64%	8.64%	8.64%
Total	4.36%	4.37%	4.89%	4.59%	4.18%	3.90%	3.76%
Y/Y % Change	1%	0%	12%	-6%	-9%	-7%	-4%
Net Charge-Off Rate							
Home Equity	0.45%	0.53%	0.85%	0.91%	0.69%	0.57%	0.58%
Auto Finance	4.80%	5.31%	6.81%	7.33%	7.77%	7.62%	7.33%
Visa/MasterCard	5.58%	6.63%	7.45%	6.45%	6.72%	6.31%	5.94%
Private Label	5.35%	5.18%	5.41%	5.28%	5.36%	5.06%	4.78%
Other Unsecured	6.97%	6.79%	8.42%	8.27%	7.85%	7.85%	7.85%
Total	3.64%	3.73%	4.25%	3.99%	3.76%	3.53%	3.40%
Reserves/Managed Receivables	3.65%	3.78%	4.04%	3.93%	3.67%	3.47%	3.24%
Mgd. Reserve Ratio/Lagged NCO Rate	84%	86%	83%	86%	88%	89%	86%
Key Macro Assumptions (1)							
Real GDP (Chg) (2)	5.0%	1.2%	2.9%	3.8%	3.0%	3.0%	3.0%
Personal Consumption Expend. (Chg) (2)	5.3%	3.1%	3.3%	2.8%	3.0%	3.0%	3.0%
Civilian Unemployment Rate	4.0%	4.8%	5.8%	5.4%	5.0%	5.0%	5.0%
Fed Funds Target Rate	6.5%	1.75%	2.75%	4.25%	5.00%	5.00%	5.00%
Change in Fed Funds Target Rate (bps)		(4.75)	1.00	1.50	0.50	0.00	0.00
Bankruptcy Filings/Capita (Y/Y Chg)		20%	0%	-5%	0%	0%	0%

(1) Estimates are based on discussions with Morgan Stanley US Economist team, as of April 5, 2002.
(2) Quarterly growth rates are annualized percent change from prior quarter.
Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations. NA = Not Available
AT = After tax A = Actual E = Morgan Stanley Research Estimates NA = Not Available

Please see the important disclosures at the end of this report.

Exhibit 13 (continued)

Household International

Summary Earnings Model, 2000A–2005E

($ Millions Except Per Share Data)

	2000A	2001A	2002E	2003E	2004E	2005E	2006E
Income Statement (Managed Basis)							
Net Interest Income	6,490.0	7,940.6	9,457.7	10,268.7	10,754.4	11,702.0	12,562.1
Non-Interest Income	2,677.5	2,906.8	3,325.0	3,613.1	3,767.4	3,699.4	3,851.9
Net Revenues	9,167.5	10,847.4	12,782.7	13,881.8	14,521.8	15,401.4	16,414.1
Provision for Loan Losses	(3,252.4)	(4,018.4)	(5,281.8)	(5,530.4)	(5,498.4)	(5,759.0)	(6,069.7)
Non-Interest Expense	(3,304.6)	(3,890.5)	(4,207.9)	(4,817.0)	(5,396.6)	(6,004.8)	(6,664.1)
Pretax Income	2,610.5	2,938.5	3,293.0	3,534.4	3,626.7	3,637.7	3,680.3
Net Income Applicable to Common	1,691.5	1,908.0	2,140.8	2,277.7	2,338.7	2,345.9	2,374.0
Diluted EPS	**$3.55**	**$4.07**	**$4.65**	**$5.02**	**$5.21**	**$5.27**	**$5.37**
Y/Y % Change	16%	15%	14%	8%	4%	1%	2%
Diluted Cash EPS (1)	$3.97	$4.92	$5.19	$4.99	$4.81	$5.33	$5.59
Dividends Per Share	$0.74	$0.85	$0.97	$1.12	$1.26	$1.45	$1.67
Avg. Diluted Shares Outstanding (Millions)	476.2	468.6	460.7	453.7	448.6	444.9	442.3
Selected Balance Sheet Data							
Home Equity	36,637.5	44,718.6	54,109.5	63,849.2	73,426.6	82,237.8	92,106.3
Y/Y % Change	36.0%	22.1%	21.0%	18.0%	15.0%	12.0%	12.0%
Total Managed Receivables	87,607.4	100,822.7	115,009.1	128,410.6	142,004.9	156,799.4	173,221.4
Y/Y % Change	22.4%	15.1%	14.1%	11.7%	10.6%	10.4%	10.5%
Book Value Per Share	$16.88	$19.47	$23.13	$27.31	$31.63	$35.87	$40.04
Tangible Book Value Per Share	$14.02	$15.46	$19.27	$21.95	$25.10	$28.53	$32.20
Total Securtized Receiv./Total Mgd. Receiv.	23%	21%	21%	22%	23%	23%	23%
Tangible Capital/Tangible Assets	7.7%	7.7%	8.1%	8.1%	8.1%	8.1%	8.1%
Credit Quality Statistics							
Mgd. Reserves/Mgd. Receivables	3.65%	3.78%	4.04%	3.93%	3.67%	3.47%	3.24%
Mgd. Reserve Ratio/Lagged NCO Rate	84%	86%	83%	86%	88%	89%	86%
Mgd. Provisions/Mgd. Net Chargeoffs	114%	117%	118%	108%	103%	104%	103%
Mgd. Consumer Delinquency Rate (60+ days)	4.20%	4.46%	4.50%	4.45%	4.40%	4.35%	4.35%
Mgd. Consumer Net Charge-Offs Rate	3.64%	3.73%	4.25%	3.99%	3.76%	3.53%	3.40%
4-Qtr. Lagged Net Charge-Off Rate	4.36%	4.37%	4.89%	4.59%	4.18%	3.90%	3.76%
Profitability Metrics							
Return on Avg. Managed Assets (ROMA)	1.9%	1.9%	1.8%	1.7%	1.6%	1.4%	1.3%
Return on Avg. Common Equity	23.4%	24.1%	23.7%	22.4%	21.1%	19.2%	17.7%
Return on Avg. Tang. Common Equity	27.4%	27.6%	25.5%	24.0%	22.5%	20.4%	18.7%
Mgd. Net Interest Margin (Annualized)	8.1%	8.5%	8.7%	8.4%	8.0%	7.9%	7.7%
Risk-Adjusted Margin	7.9%	7.9%	7.6%	7.2%	6.9%	6.7%	6.5%
Efficiency Ratio (Normalized)	34.2%	34.0%	31.0%	32.8%	35.2%	37.0%	38.6%
Tax Rate	34.9%	34.5%	33.3%	34.0%	34.0%	34.0%	34.0%

(1) Cash EPS adds back non-cash charges of goodwill amortization, change in reserves, and net securitization gains.
Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations.
AT = After tax A = Actual E = Morgan Stanley Research Estimates NA = Not Available

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Hong Kong
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INDUSTRY COVERAGE: SPECIALTY FINANCE

Company	Ticker	Rating	as of	Price at 7/29/02
American Express Co.	AXP.N	U	3/18/02	$33.49
Capital One Financial Corp	COF.N	E	5/20/02	$29.35
GATX	GMT.N	U	3/18/02	$25.68
Household International	HI.N	O	7/31/02	$39.85
MBNA	KRB.N	O	3/18/02	$18.70
Providian Corp.	PVN.N	O	3/22/02	$3.64
The CIT Group	CIT.N	U	7/2/02	$20.75

Stock ratings are subject to change. Please see latest research for each company.

ANALYST STOCK RATINGS

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V). We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

ANALYST INDUSTRY VIEWS

Attractive (A). The analyst expects the performance of his or her industry coverage universe to be attractive vs. the relevant broad market benchmark over the next 12-18 months.

In-Line (I). The analyst expects the performance of his or her industry coverage universe to be in line with the relevant broad market benchmark over the next 12-18 months.

Cautious (C). The analyst views the performance of his or her industry coverage universe with caution vs. the relevant broad market benchmark over the next 12-18 months.

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Exhibit 29

06:02am EDT 12-Aug-02 Deutsche Bank-North America (M. Alpert/R. St. Leger/) HI
HI: Scrutiny Outpacing Reform- Lowering Growth Rate and Tar-Strong Buy-Part 1/2

Alpert, Mark C. CFA 212-469-8117
St. Leger, Randolf 212-469-7118
Swanberg, Garrett T. 212-469-5017
Deutsche Bank Securities Inc.

8/12/2002

HOUSEHOLD INTERNATIONAL INC. (HI) "STRONG BUY"
Scrutiny Outpacing Reform- Lowering Growth Rate and Target Price -Part 1/2

Date:	08/09/2002	EPS:	2001A	2002E	2003E
Price:	40.45	1Q	0.91	1.09	NE
52-Wk Range:	69 - 34	2Q	0.93	1.08A	NE
Ann Dividend:	1.0	3Q	1.07	1.19	NE
Ann Div Yld:	2.47%	4Q	1.17	1.29	NE
Mkt Cap (mm):	18,457	FY(Dec.)	4.08	4.65	5.25
3-Yr Growth:	11%	FY P/EPS	9.9X	8.7X	7.7X
		CY EPS	4.08	4.65	5.25
Est. Changed	No	CY P/EPS	9.9X	8.7X	7.7X

Industry: Specialty Finance
Shares Outstanding(Mil.): 456.3
Return On Equity (2001) : 22.0%

HIGHLIGHTS:

- We sponsored a conference call for investors to discuss predatory lending issues, state legislative initiatives, and Household International, in particular. Our guests were representatives of ACORN and Self-Help, two consumer activist groups at the forefront of lending reform.

- A big challenge for home equity lenders is that they must abide by legislation of each of the 50 states, which are often more restrictive than federal legislation (largely HOEPA). There is no federal legislation on the horizon that would override state laws and provide uniform nationwide regulation.

- ACORN has brought class action lawsuits against Household in Illinois and California. ACORN is representing borrowers who claim to have been misled by Household. While we believe ACORN's arguments are serious and worthy of merit, we are not convinced that Household acted systemically (as opposed to rogue brokers) or that the company's lending practices are worse than its competitors.

- Still, the problems that Household faces are not likely to go away quickly. Last year, Household adopted its "Best Practices" lending policies, but in today's environment, scrutiny is outpacing reform.

- While we are not changing our 2002 or 2003 EPS estimates of $4.65 and $5.25, respectively, we are lowering our target price to $53, or 10x our 2003 EPS estimate (our previous target was $63). We are also lowering our long-term growth rate to 10%-12% from 14% (Household's target is 13%-15%) as we believe Household's loan growth will slow as lending restrictions gradually take hold. Still, with about 30% upside (on a one year basis), we are maintaining our Strong Buy rating.

DETAILS:

The guest speakers on our call were Lisa Donner, Director ACORN Justice Center and Keith Ernst, Assistant General Counsel Self-Help. ACORN (Association of Community Organizations for Reform Now) is the nation's largest grass-roots consumer activist group. Self-Help is a low-to-middle income community home mortgage lending organization.

Ms. Donner presented several cases in which Household extended loans that appear to be misleading with respect to terms, or possibly in violation of federal legislation. Mr. Ernst discussed state legislative initiatives as well as holes he sees in Household's "Best Practices" standards, which Household has been implementing since last year in an attempt to stay ahead of the scrutiny. At the very least, the conference call illustrated that in today's market, scrutiny is outpacing attempts at reform in many areas.

Questions that weren't answered include 1) whether Household has acted systemically and knowingly in misleading borrowers (no lender is perfect afterall) and 2) whether Household is any worse than its competitors (e.g. CitiFinancial, Wells Fargo Financial, GE Capital, etc.). Certainly, even if the answers were "no," Household would not be exonerated from responsibility. Nor do we believe that merely not violating the letter of the law is sufficient in today's environment. Any lender that doesn't pass the "smell" test will find its stock valuation penalized, in our opinion. And frankly, the cases which Ms. Donner described probably would offend the olfactory senses of many investors.

From a credit risk standpoint, we've taken comfort in Household's large real estate-secured home equity exposure (particularly relative to unsecured subprime credit card lenders). However, we have probably underestimated the "social" and potential regulatory risk of subprime home equity lending, especially given that Household is something of a "bell weather" for the industry.

While we are not changing our 2002 or 2003 EPS estimates of $4.65 and $5.25, respectively, we are lowering our target price to $53, or 10x our 2003 EPS estimate. We are also lowering our long-term growth rate to 10%-12% from 14% (Household's target is 13%-15%) as we believe Household's loan growth will slow as lending restrictions gradually take hold. Still, with about a 30% upside (on a one year basis), we are maintaining our Strong Buy rating.

PREDATORY LENDING ACCUSATIONS

Ms. Donner gave several examples of borrower complaints against Household, which can probably be summarized into three categories as follows:

1) Misleading/Misrepresenting Terms. Household attempts to attract borrowers with the promise of savings on refis. However, in several examples, it was noted that Household's monthly payment quote did not include escrow for taxes and insurance (a service which first mortgage lenders often include in the loan), which effectively made the comparison apples-to-oranges. In one widely circulated case, a representative of Household clearly miscalculated an APR of 7.15%, even going so far as to cross out the real rate 10.7%. Household argues that it fired the agent who created the misleading APR document. As for escrow comparisons, Household argues that it includes the escrow amounts as long as the client supplies the information.

2) Excessive Points/LTVs. Other examples included loans where, upon closing, the borrower was required to pay high fees (e.g. $13,000 on a $165,000 loan), or where the loan plus fees exceeded the value of the home. Household argues that in the early stages of discussion, it doesn't include all the information that is required in the final document. Even when it provides a written "Good Faith Estimate," the document might include a range of options- for example, a lower APR with higher points upfront. Household also argues that within three days of closing, the borrower has the accurate terms. Moreover, beginning in May 2002, borrowers can reverse their decision within 10 days after the loan is made without cost. As for high LTV loans, Household argues that it looks at the borrowers ability to pay as well as collateral value.

3) HUD Violations. HUD (The Department of Housing and Urban Development) provides what little federal legislation there is primarily under the Fair Housing Act and HOEPA-1995 (Home Owners Equity Protection Act). There are several provisions pertaining to high APR home equity loans, including

additional disclosures and a means test on prepayment of existing loans. However, HOEPA applies to closed end home equity loans. ACORN gave examples of how Household could get around HOPA by writing the loans as "lines of credit" or "open ended" loans. Indeed, Household has a category of loans, Personal Home Loans, totaling $5.2 billion, which have similar characteristics to a "line of credit" home equity loans-- i.e. a high LTV product written on an open ended basis. While Household claims the loans have been in compliance with all federal laws, due to "headline" risk, it decided to stop making such loans last month. In the future, it will only write 2nd mortgages when another lender has the first. If Household already has the first, it will only extend additional credit on an unsecured basis. Household points out that this policy could actually end up costing borrowers more because interest payments on unsecured loans are not tax deductible.

STATE LEGISLATIVE ISSUES

With respect to state legislative issues, Mr. Ernst indicated that there were two general tracks:

1) Those close to federal legislation, such as in Pennsylvania.

2) Those which include additional protections on high rate home equity loans, such as those passed in North Carolina, Georgia, Illinois, California and Colorado. These usually prohibit single premium insurance (which is added to the value of the loan), provide that refis must have a reasonable basis to be made (e.g. a true reduction of interest rate), limit the number of late fees, limit points (usually to 5), prohibit balloon payments and negative amortization. Bills are pending in New York and New Jersey.

HOUSEHOLD'S BEST POLICIES

Last year, Household adopted general standards of conduct, known as Best Practices, which it claims go beyond federal and state initiatives. Mr. Ernst took issue with ambiguities in some of the practices, including:

1) Points and Fee Caps. Household will cap origination fees on new loans at three percent, and will allow borrowers to buy down the APR with two additional points. Mr. Ernst believes the standard should include appraisal fees, title search fees, etc. Household claims that upon the "good faith estimate," all fees are included.

2) Prepayment Fees. Beginning in May 2002, Household limits prepayment fees to within 36 months from the date the loan was funded. Mr. Ernst believes the standard is misleading because it doesn't say what the cost is. Household says its usually six month's interest (so why not say that in the policy?).

3) Tangible Benefit Requirement. Household claims that all first mortgage refis must meet two of four standards that provide a tangible benefit to a customer. Without going into detail of the four standards, suffice it to say Mr. Ernst believes that some combination of the four doesn't necessarily assure savings (e.g. "term reduction" doesn't necessarily result in a lower monthly payment).

Having reread Household's Best Policies document (available on its website), while there could be some improvement on the language, we actually believe that Household is acting in good faith.

Additional Information Available Upon Request

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06:02am EDT 12-Aug-02 Deutsche Bank-North America (M. Alpert/R. St. Leger/) HI
HI: Scrutiny Outpacing Reform- Lowering Growth Rate and Tar-Strong Buy-Part 2/2

Alpert, Mark C. CFA 212-469-8117
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Deutsche Bank Securities Inc.

8/12/2002

HOUSEHOLD INTERNATIONAL INC. (HI) "STRONG BUY"
Scrutiny Outpacing Reform- Lowering Growth Rate and Target Price -Part 2/2

Date:	08/09/2002	EPS:	2001A	2002E	2003E
Price:	40.45	1Q	0.91	1.09	NE
52-Wk Range:	69 - 34	2Q	0.93	1.08A	NE
Ann Dividend:	1.0	3Q	1.07	1.19	NE
Ann Div Yld:	2.47%	4Q	1.17	1.29	NE
Mkt Cap (mm):	18,457	FY(Dec.)	4.08	4.65	5.25
3-Yr Growth:	11%	FY P/EPS	9.9X	8.7X	7.7X
		CY EPS	4.08	4.65	5.25
Est. Changed	No	CY P/EPS	9.9X	8.7X	7.7X

RISKS- HEADLINE/ECONOMIC

Household's lending practices, for better or worse, expose it to economic and headline risk. The ACORN suits are pending in Californian and Illinois. The State of Washington has conducted an investigation, the report of which has been granted a restraining order until October. Already, Household has paid fines in California and Washington. Violations of HOEPA could result in penalties. And the list goes on. Headline risks include magazine and newspaper articles, and other media attention. Then, of course, there are equity research reports.

In responding to both regulatory and headline risks, Household will undoubtedly sacrifice profitability and potential growth in order to preserve its reputation. This is the right decision, in our opinion. The economic consequences of deliberately misleading borrowers in order to maximize profits would not only be short-sighted, but would ultimately destroy a franchise that has served the low-to-middle income market for over 100 years. At the same time, activist group's such as ACORN, which are also acting in good faith, must make certain that they don't drive legitimate lenders from the underserved marketplace. Certainly, there are more egregious lenders in the form of pawn shops, payday lenders, and check cashing storefronts. If the means to the end is to drive legitimate lenders, regulated by state and federal laws, from serving the low-to-middle income market, the consumer will have the most to lose, both in terms of availability and cost of credit.

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Exhibit 30

BERNSTEIN RESEARCH CALL
U.S. CONSUMER FINANCE

SEE LAST PAGE OF THIS REPORT FOR IMPORTANT DISCLOSURES

SEPTEMBER 3, 2002

HI | Cutting Long-Run Growth Estimates on Impact of Sales Practice Reform in Branch-Based Real Estate Lending

Howard K. Mason 212-756-4285 MasonHK@bernstein.com, Rick L. Biggs 212-756-4484 BiggsRL@bernstein.com

Ticker	Rating	8/30/02 Price	Absolute YTD Perf.	Relative YTD Perf.	2001A	SCB Estimates 2002E	SCB Estimates 2003E	Consensus 2002E	Consensus 2003E	SCB P/E 2002E	SCB P/E 2003E
HI	M	$36	-38%	-17%	$3.91	$4.48	$4.96	$4.57	$5.14	8.1	7.3
HI (old)					$4.08	$4.63	$5.36				
SPX		$916	-20%		$45.16	$50.00	$57.00	$48.81	$56.48	18.3	16.1

O – Outperform, M – Market-Perform, U – Underperform

Summary Table of Changes to EPS Estimates

	Original	After Accounting Adjustment* and Suspension of Stock Buyback	After Sales Practices Reform Adjustment	Consensus
2001A	4.08	3.91	na	na
2002E	4.63	4.51	4.48	4.57
2003E	5.36	5.14	4.96	5.14
5-Yr Forward EPS Growth (%)	13%	13%	10%	na

* - Refers to restatement of accounts related to co-branding and affinity credit relationships, and a third-party marketing agreement, as announced on August 14th..

- **The report of the Washington State Department of Financial Institutions (DFI) – made public by the media on Wednesday last week – indicates that confusing sales practices in the Household branch system are more widespread than a few renegade loan officers, and quite possibly systemic. The effect on earnings growth as Household responds to regulatory pressure for sales practice reform will be commensurate.**

- **Specifically, we believe that <u>as sales practice reform takes hold Household will need to reset its long-run EPS growth target of 13-15% to 10-12%</u> (with an intra-range swing factor being the stock buyback program that is presently on hold). The short-run effect is less because the earnings impact of the changes phases over time as current loans run-off and are replaced by new, less profitable loans originated under reformed sales practices.**
  - <u>The estimated impact of sales practice reform on 2002 and 2003 EPS estimates is 3 cents and 18 cents respectively</u>. The combined effect of this, the suspension of the stock buyback program, and the accounting restatement (related to the amortization of certain marketing expenses) announced by Household on August 14th is 15 cents and 40 cents respectively.

- **Reduced earnings growth arises as after-tax returns on the branch real estate portfolio fall over time from the currently estimated 2.5% to 1.9%. Driving factors are lower up-front points, reform of practices involving the misrepresentation of loan rates, and the elimination of single-premium credit life insurance. Sales practice reform will also tend to slow growth in the branch real estate portfolio (by about 3 percentage points in our estimates to a long-run rate of 10%[1]) for two reasons:**

[1] Currently, this portfolio is growing at near 20% on an annualized basis but this is boosted by the current refinancing cycle and is not a normalized growth rate.

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- First, the practice of up-selling – restructuring the entire mortgage debt of a customer looking only for a "top-up" home loan to refinance credit card and other unsecured debt – will become more difficult under tougher regulatory scrutiny and higher company hurdles for customer net tangible benefit. Second, it is impractical for Household to offer loans at the 7% rates that representatives promise to induce refinancing by borrowers with prime bank mortgages, and this business will be foregone.

- **Given this reduced growth rate, and the risk of a more serious breakdown in the real estate secured portfolio, we are lowering our target relative multiple to 50% from 57% (the 5-year historical average of 57%). This compares with a trough relative multiple of around 40% at a time of sector funding concerns in 1998, and reduces the absolute target multiple to 8.1x from 9.3x. The corresponding stock price is $40.**
  - In generating the $40 price, we have not included in our earnings impact the potential costs of settlement with the Attorneys General and consumer advocacy groups or of putative class action complaints. In addition, there is a risk that funding spreads will remain unattractive for an extended period so that Household eventually has to issue high-cost liabilities.

- **Finally, our assumption of a long-run growth rate of 10% for the branch-based real estate portfolio may prove a best case. Zero or even negative growth – with the portfolio shrinking and concentrating into lower quality credits under the winnowing action of adverse selection – could occur if:**
  - Household has violated Regulation Z (as the DFI alleges) through muddling required disclosures under the Truth-in-Lending Act with fictional benefits included in sales materials and, as a consequence, borrowers have rights to rescind their loans.
  - Household faces waves of prepayment as prepayment penalty periods (varying from 3-years to 5-years) expire and heightened publicity alerts customers to the high cost of their loans. The risk increases to the extent Household representatives become frustrated with a more procedural environment at the firm, leave for competitors, and cherry-pick refinancing prospects from the best credits in their left-behind Household book

Investment Conclusion

Household will likely need to abandon its target EPS growth rate of 13-15% to a range of 10-12% as a result of sales practice reform in its branch-based real estate lending business. The now-suspended stock buy-back program will be an intra-range swing factor moving the growth rate higher if it is re-activated. Sales practice reform – a necessary response to regulatory concerns with the misrepresentation by Household representatives of loan rates and other loan terms – will reduce loan profitability and growth in the portfolio. The reduction in profitability will phase in over the average life of loans (estimated at 5 years) as old loans run-off and are replaced with new, less profitable loans originated under new sales practices. We estimate the negative impact of sales practice reform on 2002 and 2003 EPS is 3 cents and 18 cents respectively.

The combined impact of sales practice reform, the suspension of the stock buyback program, and the accounting restatement announced on August 14th (and relating to the amortization period of certain marketing expenses), is an estimated 15 cents in 2002 and 40 cents in 2003. As a result, we are lowering our EPS estimate for 2002 to $4.48 from $4.63 (versus consensus of $4.57) and for 2003 to $4.96 from $5.36 (versus consensus of $5.14). Given this reduced growth rate, and the risk of a more serious breakdown in the real estate secured portfolio, we are lowering our target relative multiple to 50% from 57% (the 5-year historical average of 57%). This compares with a trough relative multiple of around 40% at a time of sector funding concerns in 1998, and reduces the absolute target multiple to 8.1x from 9.3x. The corresponding stock price is $40.

Our EPS estimates may turn out to be best case since they do include the potential costs of settlement with the Attorneys General and consumer advocacy groups or of putative class action complaints. In addition, there is a risk that funding spreads will remain unattractive for an extended period so that Household eventually has to issue high-cost liabilities. Finally, we assume there is an orderly reduction in the growth of the branch-based real estate portfolio from the current rate of approximately 20% to our estimated 10% as sales practice reform takes hold.

In practice, there is a risk of a more serious breakdown in the branch-based real estate portfolio. Zero or even negative growth – with the portfolio shrinking and concentrating into lower quality credits under the winnowing action of adverse selection – could occur if:

- Household has violated Regulation Z (as alleged by Household's regulator in Washington State) through muddling required disclosures under the Truth-in-Lending Act with fictional benefits included in sales materials and, as a consequence, borrowers have rights to rescind their loans.
- Household faces waves of prepayment as prepayment penalty periods (varying from 3-years to 5-years) expire and heightened publicity alerts customers to the high cost of their loans. The risk increases to the extent Household representatives become frustrated with a more procedural environment at the firm, leave for competitors, and cherry-pick refinancing prospects from the best credits in their left-behind Household book.

Details

The examination into Household's branch sales practices conducted by the Department of Financial Institutions ("DFI") in Washington State suggests that borrower confusion is more widespread than the actions of a few renegade loan officers. "The sameness of complaint allegations coupled with the wide diversity of complaint locales has made it evident to the Department that misrepresentations … are not relegated to specific transactions of loan officers but rather to the HFC organization as a whole including its affiliate Beneficial".

The report also suggests that confusing sales practices extend beyond Washington State. The DFI comments that one tactic to misrepresent interest rates – referred to as "selling on an equivalent rate basis" and described below – is "known and likely fostered by the corporation itself or at the least by corporate officers overseeing large segments of the country". The DFI goes on to say "it is important to note that these complaints are documented from varied locations including other states". In addition, given the pressures on account executives to meet production targets, it would be the natural course for effective (even if questionable) sales practices to spread through the branch network.

While Household has not yet commented on the DFI report and the findings are "apparent", we do not expect a substantive change in the conclusion that "HFC practices reflect a pattern of intentional deception while laying the foundation for a later defense." The firm has had the opportunity to comment on the complaints individually before they were compiled into the report, and has been delinquent. The DFI points out that Household took an average of over 97 days to respond to complaints in 2001 versus 28 days in 2000 (and an expected response time of 15 days).

Continued changes in sales practices – either as a result of voluntary action by Household or an eventual settlement with state Attorneys General around the country – will increasingly affect Household's business model and growth potential. The specific area of focus is the branch-based real estate lending business that accounts for 52% of the earnings from the Consumer Lending division (see ***Exhibit 3*** and ***Appendix*** for derivation) that, in turn, accounts for 67% of company profits (see ***Exhibit 4***). In other words, the branch-based real estate lending business generates approximately 35% of the firm's after-tax earnings (see ***Table***).

Table Assets and Earnings by Business Segment, Q2 02

Business Segment	Managed Assets ($bn)*	ROMA (%)*	Earnings ($mm)	% of Firm Earnings
Branch Businesses:				
Real Estate	30	2.5%	191	35%
Other	15	0.6%	23	4%
Sub-Total	45	2.0%	214	39%
Credit Cards:				
Private Label	13	1.7%	59	11%
Bankcards	18	1.5%	66	12%
Sub-Total	31	1.6%	125	23%
Correspondent	19	1.6%	73	13%
Auto Finance	7	1.1%	18	3%
International	9	2.5%	56	10%
Other	20	1.1%	56	10%
Firm Total	128	1.7%	542	100%

* - All figures based on receivables except for "Other" and firm total which are based on assets (and therefore include investment portfolio and other assets); total managed receivables = $105bn.

Source: Company reports, Bernstein estimates

Impact on Profitability:

Loan returns will fall as Household reduces up-front fees, tightens compliance around misrepresentation of rates, and changes sales practices for insurance products. The effect will phase in over time as loans booked under old sales practices roll-off and are replaced by new, less profitable loans originated under new sales practices. Specifically, we believe returns on branch-originated real estate secured loans will fall from 2.5% currently to 1.9% after tax (corresponding to a reduction in pre-tax return of 1%). Given the average life of a loan is an estimated 5 years, the after-tax reduction in returns will phase in at a rate of 12 basis points per year on a lagged basis. ***Exhibit 5*** shows that the denominator effect of portfolio growth of 10% does not materially change this impact. We develop our estimate for the reduction in pre-tax returns of 1% as shown in ***Table 1***.

Table 1 Quantifying the Impact on Returns of Changing Sales Practices

Sales Practice to be Changed	Long-Run Pre-Tax Impact on Returns (basis points)
Failing to Disclose Discount Points	40
Misrepresenting Rate and Payment Amounts	40
Changing Insurance Sales Practices	20
Total	100

Source: Bernstein estimates

Up-Front Fees:

After the announced reduction in maximum up-front fees from 7¼% to 5% (made up of 2% closing costs and up to 3% of buy-down points), Household expects average up-front fees to fall from 6½% to 4½%. As an accounting matter, up-front fees are treated as “pre-paid finance charges” and amortized into earnings over the expected life of the loan, that we take as five years. Therefore, the impact of the lower up-front fees is to reduce the annual return on newly originated loans by 40 basis points. In practice, the impact could be larger since the DFI makes a deeper challenge to the fee model. Specifically, the DFI alleges that Household policy – of indicating to borrowers a highest loan rate and then providing an opportunity to “buy-down” this rate through paying up-front points – is not followed in the branches.

Rather, borrowers are not informed the trade-off between rates and points but shown a lowest loan rate to generate favorable compares with existing financing. These borrowers, if they are aware at all of the up-front points, are confused about the offsetting impact of the fees on the favorable economics shown through the sales process. "All of the borrowers questioned stated that not only did they not know that the points they were paying were used to buy down the rate, they were never offered the option or informed that the discount points paid at closing would be as high as they were".

Misrepresentation of Rates and Payments:

The DFI describes two ruses used by HFC representatives to lead borrowers to believe that rates or payments are lower than they actually are:

- *Selling on an Equivalent Rate Basis*: Household offers customers 18-year loans at, for example, 12.7% but faces a challenge in convincing a borrower with an existing bank loan at, for example, 7.5% to make the switch. Household representatives respond by claiming that their high-rate loan "pays out like" a 7% loan. The 7% is entirely fictional rate but is supported based on amortization schedules showing that it is the rate on a pretend 30-year loan generating the same total interest cost over life as the actual high-rate 18-year loan being sold (see ***Table 2***). The DFI comments that it "does not understand the purpose of making a comparison between an 18-year loan at the real rate and a 30-year loan at a pretend rate" adding that "the sole purpose of the schedule was for simple deception of the consumer".

Table 2 Lifetime Interest Cost Comparison

Loan Rate (%)	7.0%	11.7%
Maturity (Years)	30	18
Lifetime Interest Cost ($)	$139,508	$139,508
Memo: Loan Amount ($)	$100,000	$100,000

Source: Bernstein analysis

- *Confusing Semi-Monthly and Biweekly Payments*: The tactic is to tell borrowers that they can reduce their loan rate by paying biweekly rather than monthly on the grounds that more frequent payments amortize a loan faster and so reduce the lifetime interest cost (true but not relevant to the loan rate). One variation is to explain that biweekly payments reduce the loan rate because interest is calculated through the month and so grows exponentially unless you "nip it in the bud on the low side of the curve" with an intra-month payment. The DFI's observation is as follows. "When an HFC representative makes an obvious truthful statement ("the biweekly payment will reduce the amount of interest you pay") with the intent of a false promise ("therefore your interest rate will be only 7%"), the representative has lied with the truth and caused harm to the consumer."

We quantify the impact of reform of these practices by calculating what terms Household would have to offer to make the promised benefits a reality rather than a fiction. For specificity, we draw from Household sales materials where a borrower, with an existing monthly payment of $1,859, is shown a refinancing into a 30-year loan at a rate of 11.7% and monthly payment of $1,657. The promise of the sales material is monthly savings of the $202 difference. The borrower is then informed (see ***Table 3***) that by switching to a biweekly program with a $828 payment the loan term can be reduced to 18 years (and, by the "equivalent rate" deception, that the loan rate falls to 7.15%). In other words, the borrower is led to believe that by increasing the frequency of payment, it is possible to reduce both the loan maturity and the loan rate.

Table 3 Effect of Biweekly Payment Plan

Loan Amount	164,999
Standard Monthly Loan	
Loan Rate	11.7%
Maturity	30
Monthly Payment	1,657
Biweekly Loan	
Loan Rate	11.7%
Maturity	19
Biweekly Payment	828
Equivalent Monthly Payment	1,794

Source: Bernstein analysis

Of course, this is financial alchemy. The borrower has missed the trick that a payment of $828 biweekly corresponds to a monthly payment of $1,794 ($828 x 26 x 1/12). In other words, the reduced maturity arises not by paying more frequently but just by paying more (and all but eliminating the monthly savings of $202 that were the original impetus for the transaction). In ***Table 4***, we calculate that for Household to deliver the promised benefit – an 18-year loan with a $1,657 monthly payment – the loan rate must fall by 1.2% from 11.7% to 10.5%. Of course, if Household were to deliver on the promise implied by the equivalent rate deception, the loan rate actually has to fall by 4.5% to 7.15% but we view this as impractical.

Table 4 Maintaining Monthly Payment Amount

Semi Monthly Plan	
Loan Rate	10.5%
Maturity	19
Semi-Monthly	765
Equivalent Monthly Payment	1,657

Source: Bernstein analysis

Given the comparison between monthly and biweekly payments is institutionalized in Household's sales materials for the E-Z Pay Plus program (in which payments are made biweekly), we assume borrower confusion arises in, for argument's sake, one-half of cases. E-Z Pay Plus itself accounts for 70% of branch originations so (if our example is representative) Household will see a yield reduction of approximately 1.2% on approximately one-third (one-half of 70%) of all branch originations. This is equivalent to yield compression of 40 basis points on aggregate originations.

Changing Practices for Insurance Sales (and Discontinuation of Single-Premium Credit Life Insurance):

The DFI has evidence that Household representatives suggest the purchase of insurance is necessary to obtain a loan, and falsify records indicating whether borrowers have elected insurance coverage. "The Department believes that HFC representatives may have actually forged borrower signatures making it appear as if the borrowers had requested insurance when in fact they had not".

In partial response to regulator concerns, Household discontinued single-premium credit life insurance (where the single, up-front premium is financed into the loan amount) in April 2002. Now only monthly pay products (where the premium is paid monthly and is identified separately from loan service payments) are available. Given monthly pay insurance is a harder and less profitable sell (precisely because the premium cannot be bundled into the loan amount), we expect the penetration and return from insurance to decline. Currently, we estimate that premiums from the single-premium product – that amortize into earnings over the typical 5-year term of the insurance – contribute 40

basis points of return to the branch-based real estate portfolio net of policy holder benefits (see ***Exhibit 6***). For illustrative purposes, we assume this falls by one-half as only the monthly-pay product is offered.

Impact on Loan Growth

In addition to the reduction in returns, sales practice reform at Household will tend to reduce growth in the branch-based real estate secured portfolio – by 3 percentage points to a long-run rate of 10% in our estimates (see ***Exhibit 1***) -- as sales practice reform takes hold. Note that the portfolio is currently growing at near 20% (see ***Table 5***) but this rate is boosted by the present refinancing cycle and is not a normalized number.

Table 5 Est. Growth in Branch-Based Businesses

Ending Balances ($bn)	2001	Q1 02	Q2 02	H1 02 Ann. Growth
Real Estate Secured				
Correspondent*	18	19	19	9%
Branch-originated	27	27	30	23%
Total	45	46	49	19%

* - Excludes approximately $1bn in correspondent loans sold in Q2 02.

Source: Company reports, Bernstein estimates

Two of the principal sales practice reforms will be around misrepresenting interest rates through use of a fictional "equivalent rate" bearing no relation to the actual loan rate, and up-selling customers into bigger loans than necessary to meet their objectives:

- *Selling on an Equivalent Rate Basis*: The equivalent rate deception has allowed Household to refinance customers with first mortgages at bank rates. Since it is impractical for Household to actually offer the 7% rates promised by the equivalent rate approach, business from confused bank borrowers will be foregone. The economics do not even work on a "blended rate" basis. For example, if a bank customer has a $100,000 mortgage at 8% and $25,000 of unsecured debt, the rate on this unsecured debt must be over 20% for the borrower to breakeven on a refinancing into a Household mortgage at 11% (and that is without any points).

- *Up-selling*: Up-selling – where a Household representatives sells a first mortgage refinancing to a customer whose objective is a second mortgage to refinance unsecured debt – will become more difficult under heightened regulatory scrutiny. The DFI reports on what must have been a somewhat alarming encounter when an examiner mystery-shopped at the Lakewood branch for a $40,000 loan. "Had the examiner been an untrained consumer rather than a mortgage enforcement specialist … the result may have been an unfavorable $100,000 transaction with HFC".

Dangers of Loan Rescission and Adverse Selection

In practice, our assumption of 10% portfolio growth may prove a best case. It is possible that the portfolio ceases to grow, or even shrinks, as heightened publicity around sales practices deters new customers and leads existing customers to consider their options including prepayment and even rescission. The risk increases to the extent Household representatives become frustrated with a more procedural environment at the firm, leave for competitors, and cherry-pick refinancing prospects from the best credits in their left-behind Household book.

- Prepayments: Household has created barriers to prepayment through prepayment penalties and through using second mortgages (including personal home loans struck at loan-to-value ratios of over 100%) to lever up

borrowers and so immunize them from competitive refinancing. Both these barriers are decreasing as Household reduces the period for prepayment penalties from 5 years to 3 years, and discontinues personal home loans. They are likely to fall further under pressure from politicians frustrated that, unlike bank customers, Household customers have not been able to refinance into lower rate loans in the current interest rate environment.

- Rescission: The DFI makes the observation that by muddling sales materials indicating fictional benefits with disclosures required under the Truth-in-Lending (TIL) Act, Household has apparently violated Regulation Z of the Federal Reserve Board. "Inclusion of certain material TIL disclosures on the E-Z Pay Plus disclosure is a deceptive practice in violation of Regulation Z". The DFI also comments that, under Regulation Z, if the required "disclosures are not delivered, the right to rescind shall expire three years after the occurrence giving rise to the right of rescission…. It is apparent to the Department that the borrower's right to rescind is still in effect at this time".

The danger is of adverse selection as borrowers with bank-financing alternatives cease to refinance with Household or, if they have already done so, refinance away as soon as prepayment penalties expire or they are able to rescind their loans. In a worst case, the portfolio will shrink and concentrate in higher-risk credits leading the loss ratio to rise from the current 0.9% towards the levels of 1.3-1.5%[2] more typical of sub-prime home equity lending or higher.

Risks to Analysis

The risk to our analysis is that Household can simply compensate for reduced up-front fees by increasing loan rates, and that there is little impact on loan demand because customers truly have limited financing alternatives. In this event, our reduction of EPS estimates and growth projections is overdone. Furthermore, if Household can reach a national agreement with State AGs by year-end including a manageable fine (say several hundred million) and an encore of previous "best practice" commitments, the stock will likely rally beyond our target price. However, we believe this is unlikely:

- HFC representatives have developed confusing sales practices precisely because loan demand is sensitive to borrowers' perceptions of the loan rate. If these perceptions are brought in line with reality (as a result of better disclosure) and the real rates become less favorable (as Household looks to offset lower points) there will be a material impact on demand.
  - Furthermore, customers do have a financing alternative – they can choose to continue with their existing financing arrangements and not to refinance with Household. If a customer truly has no alternative but to finance through you, the business is probably low quality.
- National agreement with state AGs will be difficult given the conflicting objectives of the participants, and the political and regulatory pressures that will likely be brought to bear as Household's sales approaches become widely known.
- Even if a national agreement is reached, a commitment by Household to more "best practices" is unlikely to be sufficient given the DFI's challenge to Household's credibility and the evidence of complaint volume.
  - *DFI Challenge to Management Credibility*. "In early complaints the Department gave HFC the benefit of the doubt in consumer claims and relied on HFC's adamant claims that no deception or misrepresentation had occurred. …These claims of no harm and no foul, however, began to ring hollow as more and more consumers continued to complain of the same practices."
  - *Complaint Volume*. ***Table 6*** shows that complaint volume has accelerated in 2001 and 2002 despite the promulgation of two sets of best practices in July 2001 and February 2002. The DFI comments that

[2] Bank One reports a loss ratio of 1.37% on its sub-prime home equity lending portfolio.

Household's "complaint activity relative to its peers is disproportionate, and a large increase in the last two years is a cause for concern".

- As a result, it is likely that any settlement in principle will be accompanied by on-site auditing of compliance procedures by an independent entity. Aside from the operational inconvenience, this will tend to eliminate any execution arbitrage effected by Household between corporate policy and branch practice.

Table 6 Washington State Complaint Volume History

Year	Number of Complaints
1995	1
1996	5
1997	12
1998	12
1999	8
2000	17
2001	22
2002 (annualized)*	60
Total	137

* - 15 through Q1 2002.

Source: WA DFI Report, as published in *Bellingham Herald*

Exhibit 1 Adjusting Earnings Estimates for Sales Practice Reform

Base Scenario	2000	2001	2002	2003	2004	2005	2006	2007	H1 02*	H2 02E*
Branch-Based RE Lending:										
YoY Growth in Loans (%)	-	21%	19%	16%	13%	13%	13%	13%	25%	12%
PE Loans	22.0	26.6	31.6	36.5	41.4	46.6	52.4	59.0	30.0	31.6
Avg Loans	-	24.3	29.1	34.1	39.0	44.0	49.5	55.7	28.3	30.8
ROA (%)	-	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Earnings ($mm)		619	716	834	958	1100	1243	1405	347	369
Total HI Earnings ($mm)	1631	1848	2098	2389	2707	3067	3456	3894	998	1100
- Earnings Growth (%)		13%	14%	14%	13%	13%	13%	13%	20%	8%
Shares Outstanding (mm)	476	468	462	462	462	462	462	462	462	462
Shares Outstanding (YoY Growth)	-1.2%	-1.7%	-1.4%	0.0%	0.0%	0.0%	0.0%	0.0%		
Total EPS ($)	$3.40	$3.91	$4.51	$5.14	$5.83	$6.61	$7.45	$8.40	$2.11	$2.40
- EPS Growth (%)	15%	15%	15%	14%	13%	13%	13%	13%	21%	11%

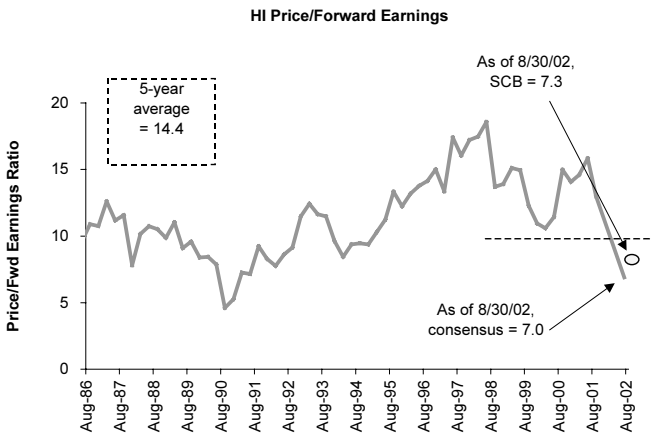
Adjusted Scenario	2000	2001	2002	2003	2004	2005	2006	2007	H1 02*	H2 02E*
Branch-Based RE Lending:										
YoY Growth in Loans (%)	-	21%	17%	14%	10%	10%	10%	10%	25%	8%
PE Loans	22.0	26.6	31.1	35.5	39.1	43.0	47.3	52.0	30.0	31.1
Avg Loans	-	24.3	28.9	33.3	37.3	41.0	45.1	49.6	28.3	30.6
ROA (%)	-	2.5%	2.4%	2.2%	2.1%	2.0%	2.0%	1.9%	2.5%	2.5%
Earnings ($mm)		619	702	733	787	839	898	937	347	355
Total HI Earnings ($mm)	1631	1848	2084	2288	2536	2806	3112	3427	998	1086
- Earnings Growth (%)		13%	13%	10%	11%	11%	11%	10%	20%	7%
Shares Outstanding (mm)	476	468	462	462	462	462	462	462	462	462
Shares Outstanding (YoY Growth)	-1.2%	-1.7%	-1.4%	0.0%	0.0%	0.0%	0.0%	0.0%		
Total EPS ($)	$3.40	$3.91	$4.48	$4.96	$5.49	$6.08	$6.74	$7.42	$2.11	$2.40
- EPS Growth (%)	15%	15%	14%	11%	11%	11%	11%	10%	21%	11%

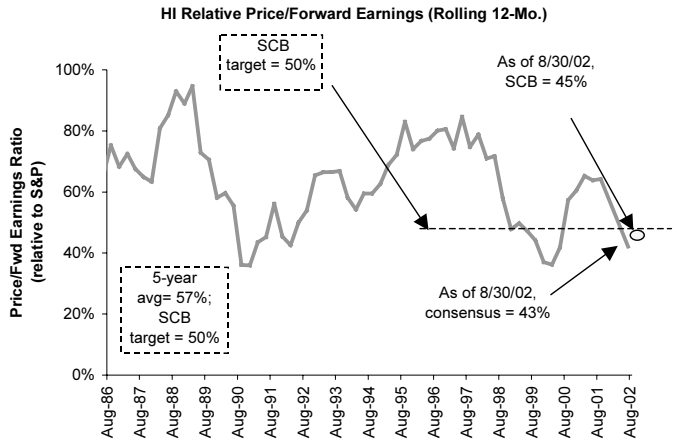
Memo:	2000	2001	2002	2003	2004	2005	2006	2007	H1 02	H2 02E
Other Businesses' Earnings ($mm)	1081	1228	1382	1554	1749	1967	2213	2490	651	730
- YoY Growth (%)	-	14%	13%	13%	13%	13%	13%	13%	13%	12%

* - Loan growth rates for half-year periods are annualized.

Source: Company reports, Bernstein estimates

Exhibit 2 HI Valuation





	Current Price	2002 Consensus	P/FE
HI	$36	$4.57	7.9
SPX	$916	$49.69	18.4
Relative P/FE:	43%		

	Current Price	2003 Consensus	P/FE
HI	$36	$5.14	7.0
SPX	$916	$56.13	16.3
Relative P/FE:	43%		

Source: FactSet, Bernstein estimates

Exhibit 3 Breakout of Consumer Lending Segment

	Branch-Based Real Estate	Branch-Based Other	Branch-Based Total	Correspondent	Private Label Cards	Auto Finance	Total
Net Income ($mm)	191	23	214	73	59	18	364
Managed Receivables ($bn)*	30.0	14.9	44.9	19	13	7	84
ROML (%)	2.5%	0.6%	2.0%	1.6%	1.7%	1.1%	1.8%
Sub-Segment Economics							
Weighted Average APR (%)	11%	19%	13%	10%	12%	16%	13%
Cost of Funds (%)	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
NIM (%)	6.5%	14.1%	9.0%	5.6%	7.6%	11.6%	8.4%
Loss Ratios (%)	0.8%	8.6%	3.4%	1.1%	5.4%	6.2%	3.4%
Provision Expense (%)	1.0%	10.3%	4.1%	1.3%	6.4%	7.4%	4.1%
Lending Margin (%)	5.5%	3.8%	4.9%	4.2%	1.1%	4.1%	4.3%
Noninterest Revenue (%)	1.8%	0.6%	1.4%	0.0%	3.1%	1.5%	1.3%
Operating Expense (%)	3.4%	3.4%	3.4%	1.9%	1.6%	4.0%	2.9%
Pre-Tax Income (%)	3.8%	0.9%	2.9%	2.3%	2.6%	1.6%	2.6%
After-Tax Income (%)	2.5%	0.6%	2.0%	1.6%	1.7%	1.1%	1.8%
ROE**	32%	8%	24%	19%	22%	13%	22%

* - Correspondent loans of $19 billion are based on management disclosure in August 14th conference call; private label, branch-based other, and auto finance managed receivables are from Q2 02 earnings release; branch-based real estate loans are netted from branch-based total. Sub-segment totals may not match exactly to reported segment total.

** - Assumes corporate-level equity-to-managed assets ratio of 8.0% across segments.

Source: Company reports, Bernstein estimates

Exhibit 4 Household Segment Disclosure, Q2 02

	Consumer	Credit Card Services	International	All Other	Total
Net Income ($mm)	364	66	56	56	542
Managed Receivables ($bn)	80	17	8	1	105
Managed Assets ($bn)	82	18	9	20	128
ROMA (%)	1.8%	1.5%	2.5%	1.1%	1.7%
Memo:					
Intersegment Revenues ($mm)	43	8	3	0	53

Source: Company report

Exhibit 5 Estimated Effect of Portfolio Growth on Returns

Returns Under 10% Growth Scenario
2001-2007E

						Avg Balances ($bn)		Pre-Tax ROA (%)			After-Tax ROA (%)		
	Beginning Balance ($bn)	Originations ($bn)	Run-Off ($bn)	Ending Balance ($bn)	Growth in End Balance (%)	Old Loans	New Loans	Old Loans	New Loans	Total (Blended)	Old Loans	New Loans	Total (Blended)
2001	22.0	6.1	-1.5	26.6	21%	21.3	3.0	3.8%	3.8%	3.8%	2.5%	2.5%	2.5%
2002	26.6	7.9	-3.4	31.1	17%	18.9	10.0	3.8%	3.3%	3.6%	2.5%	2.2%	2.4%
2003	31.1	7.8	-3.4	35.5	*14%*	15.5	17.8	3.8%	2.8%	3.3%	2.5%	1.9%	2.2%
2004	35.5	7.0	-3.4	39.1	*10%*	12.1	25.2	3.8%	2.8%	3.1%	2.5%	1.9%	2.1%
2005	39.1	7.3	-3.4	43.0	*10%*	8.7	32.3	3.8%	2.8%	3.0%	2.5%	1.9%	2.0%
2006	43.0	7.7	-3.4	47.3	*10%*	5.3	39.8	3.8%	2.8%	2.9%	2.5%	1.9%	2.0%
2007	47.3	8.1	-3.4	52.0	*10%*	1.8	47.8	3.8%	2.8%	2.8%	2.5%	1.8%	1.9%

No Material Change in Any Period

Returns Under 0% Growth Scenario
2001-2007E

						Avg Balances ($bn)		Pre-Tax ROA (%)			After-Tax ROA (%)		
	Beginning Balance ($bn)	Originations ($bn)	Run-Off ($bn)	Ending Balance ($bn)	Growth in End Balance (%)	Old Loans	New Loans	Old Loans	New Loans	Total (Blended)	Old Loans	New Loans	Total (Blended)
2001	22.0	6.1	-1.5	26.6	21%	21.3	3.0	3.8%	3.8%	3.8%	2.5%	2.5%	2.5%
2002	26.6	7.9	-4.5	31.1	17%	18.3	10.6	3.8%	3.3%	3.6%	2.5%	2.2%	2.4%
2003	31.1	3.4	-3.4	31.1	*0%*	14.4	16.8	3.8%	2.8%	3.3%	2.5%	1.9%	2.2%
2004	31.1	3.4	-3.4	31.1	*0%*	6.3	24.8	3.8%	2.8%	3.0%	2.5%	1.9%	2.0%
2005	31.1	3.4	-3.4	31.1	*0%*	0.0	31.1	3.8%	2.8%	2.8%	2.5%	1.9%	1.9%
2006	31.1	3.4	-3.4	31.1	*0%*	0.0	31.1	3.8%	2.8%	2.8%	2.5%	1.9%	1.9%
2007	31.1	3.4	-3.4	31.1	*0%*	0.0	31.1	3.8%	2.8%	2.8%	2.5%	1.9%	1.9%

Source: Company reports, Bernstein estimates

Exhibit 6 Estimated Contribution of Credit Life Insurance Revenue

	1998	1999	2000	2001	H1 02	H2 02E	2002E
Branch-Originated Volume ($bn)	5.5	6.5	7.6	6.1	3.8	4.1	7.9
Average Loan Size ($)*	100,000						
No. of Accounts Originated (000)	55	65	76	61	38	41	79
Penetration of Insurance (%)	60%						
Margin (%)	60%						
Average Premium ($)	5,000						
Premiums booked ($mm)	99	116	137	109	68	74	142
Contribution to 2002 Fees ($mm)***	20	23	27	22	14	15	28
Memo:							
YoY Growth in Branch Volume (%)	na	17%	18%	-21%	36%	25%	30%
Est. Fee Amortization Period (yrs)	5						

Total	
$mm	**% Branch Loans****
121	0.40%

* - Based on average loan size in the company's series 2002-1 home equity loan securitization (see prospectus supplement dated March 8, 2002)

** - Based on current branch-based real estate loans of $30 billion.

*** - Based on assumed amortization period of 5 years; this aligns with maximum term under which prepayment penalty is charged.

Source: Company reports, servicer reports, Bernstein estimates

Appendix: Analysis of Segment Returns

Overall Firm

Household reports on the following business segments:

- Consumer lending: This segment includes the branch-based businesses (real estate secured, personal home loans, and personal unsecured), mortgage services (i.e. correspondent lending), retail services (i.e private label cards), and auto finance. Segment receivables total approximately $80 billion, or 80% of the company-wide total.

- Credit Card Services: This consists of the $17 billion Visa/Mastercard portfolio which includes the General Motors and Union Privilege affinity programs, the Household Bank portfolio, and the Renaissance sub-prime portfolio of approximately $2 billion.

- International: This segment includes primarily Canada and UK operations, with $9 billion of Mastercard/Visa loans, real estate secured loans, and personal unsecured loans.

- All Other: This includes all other businesses including insurance services, tax refund lending, and small direct lending and commercial lending portfolios. Total receivables total just over $1 billion.

Table A1 shows the breakdown of managed receivables, net income, and return on managed receivables for these businesses for Q2 02 based on disclosures in the 10Q.

Table A1 Breakout of Consumer Lending Segment

	Consumer	Credit Card Services	International	All Other*	Total**
Net Income ($mm)	364	66	56	56	542
Managed Receivables ($bn)	80	17	8	1	105
ROML (%)	1.8%	1.6%	2.9%	20.3%	2.1%
Memo:					
Managed Assets ($bn)	82	18	9	20	128
ROMA (%)	1.8%	1.5%	2.5%	1.1%	1.7%

* - Includes investment portfolio along with small mixed loan portfolio (e.g., tax refund loans), which increases the relative ROML - we show ROMA as a counter-balance.

** - Before adjustments for intersegment revenues.

Source: Company reports

Sub-Segments of Consumer Lending

Household does not provide a full sub-segment analysis within consumer lending. However, we are able to construct estimates that calibrate to disclosures related to the normalized profitability of each business (with adjustments where necessary). Specifically, we believe that the Q2 02 after-tax return-on-loans:

- For the branch-based real estate business was approximately 2.0%. This is slightly lower than management indications of 2.2%. However, the sum of the returns indicated by management for the sub-segments is greater

than the whole and we make our adjustment here – note that this business includes both real estate secured and unsecured products (e.g., PHLs).

- For the auto business was 1.1% (lower than the run-rate of 2.0% on higher loss rates due in part to lower recovery rates in the used car after-market).
- For mortgage services was 1.6% (based on the required hurdle rate of 20% return-on-equity used to price new business and the company's current equity-to-managed assets ratio of 8%).
- For the retail services (private label) business was 1.8% (corresponding to a pre-tax return of 2.6% - this is lower than management indications of nearer 3.0% on seasonal declines in usage).

Table A2 provides the breakdown of the managed loans by sub-segment together with these estimates for the net income and returns on managed receivables.

Table A2 Breakdown of Consumer Lending Segment

	Branch-Based Real Estate	Branch-Based Other	Branch-Based Total	Correspondent	Private Label Cards	Auto Finance	Total
Net Income ($mm)	191	23	214	73	59	18	364
Managed Receivables ($bn)*	30.0	14.9	44.9	19	13	7	84
ROML (%)	2.5%	0.6%	2.0%	1.6%	1.7%	1.1%	1.8%

* - Correspondent loans of $19 billion are based on management disclosure in August 14th conference call; private label and auto finance managed receivables are from Q2 02 earnings release; branch-based receivables are based on earnings release disclosures. Our bottom-up total of $84 billion is 5% larger than the disclosed $80 billion.

Source: Company reports, Bernstein estimates

Detailed Assumptions

The detailed assumptions for the sub-segment analysis presented in ***Table A2*** are as follows:

- *Net Interest Margin*: We know the net interest margin for the consumer lending segment as a whole is 8.4% and the cost of funds for the firm is 4.4%. Assuming the consumer lending segment attracts the same cost of funds as the rest of the business (a reasonable approximation given that consumer lending is 80% of the managed portfolio), the average yield on consumer loans is therefore 13%. In addition, we have information from the company 10Ks for average yield and net interest margin on the sub-segments in 2001, 2000, and 1999 (***see Table A3***). Assuming the relative yields are unchanged in Q2 02 from 2001, we can estimate the average yields and net interest margin by sub-segment in Q2 02 for the private label, auto finance, and branch-based other ("personal non-card") portfolios. We then estimate the yield on the branch-originated real estate loans using the average of 11% on the portfolio in the most recently filed securitization prospectus. We assume a slightly lower yield of 10% on the correspondent portfolio because of the amortization of the premium at purchase that is currently 4-6 points (and so represents near 1% running over an estimated average life of 5 years – see ***Table A4***).

Table A3 Yield and Net Interest Margin History by Product

	Average Yield (%)			Net Interest Margin		
	2001	**2000**	**1999**	**2001**	**2000**	**1999**
Real Estate Secured	11.6%	12.0%	11.6%	5.7%	4.7%	5.7%
Auto Finance	17.5%	18.3%	19.0%	11.6%	11.0%	13.1%
Personal Non-Card	20.0%	20.5%	19.6%	14.1%	13.2%	13.7%
Private Label	13.5%	14.4%	13.6%	7.6%	7.1%	7.7%
HI Cost of Funds (%)	5.9%	7.3%	5.9%			

Source: Company reports, Bernstein analysis

Table A4 Estimates of Yield and NIM for Q2 02

Sub-Segment NIM Estimates	Branch-Based Real Estate	Branch-Based Other	Branch-Based Total	Correspondent	Private Label Cards	Auto Finance	Total
Weighted Average APR (%)	11%	19%	13%	10%	12%	16%	13%
Cost of Funds (%)	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
NIM (%)	6.5%	14.1%	9.0%	5.6%	7.6%	11.6%	8.4%
Memo:							
Managed Receivables ($bn)	30.0	14.9	44.9	19	13	7	84

Source: Company reports, Bernstein estimates

– *Loss Ratios*: From the 10Q, we have the Q2 02 loss ratios for the auto finance, private label, and branch-based other portfolios. We do not have loss rates for branch-based real estate secured loans versus those originated through the correspondent channel. We assume the loss ratio in the correspondent segment is 1.1% versus 0.8% for the branch portfolio to give the required average result for the real estate secured portfolio of 0.9% (as disclosed in the 10Q). Our results are summarized in ***Table A5***. On a weighted average basis, the segment loss ratio is 3.4% against reported provision expense of 4.1%. We assume the ratio of provision expense to net loss ratio for the total loan portfolio is constant across the sub-segments to develop the provision estimates shown in ***Table A5***.

Table A5 Credit Loss and Provision Estimates

Sub-Segment Credit Loss Rates	Branch-Based Real Estate	Branch-Based Other	Branch-Based Total	Correspondent	Private Label Cards	Auto Finance	Total
Loss Ratios (%)	0.8%	8.6%	3.4%	1.1%	5.4%	6.2%	3.4%
Provision Expense (%)	1.0%	10.3%	4.1%	1.3%	6.4%	7.4%	4.1%
Memo:							
Managed Receivables ($bn)	30.0	14.9	44.9	19	13	7	84

Source: Company reports, Bernstein estimates

Having completed this "horizontal" analysis for net interest margin and loss items – along with estimated sub-segment returns – we now move to a vertical analysis of each of the sub-segments to derive the remaining items: noninterest revenue and operating expenses

– Private Label Cards: As outlined above, we estimate a net interest yield of 12% for private label using the spread reported for 2001 in the 10K. ***Table A6*** presents further support of this estimate by deriving this finance charge as the blended APR of high (20%) go-to rates and teaser rates. Our estimate of noninterest revenue is 3.1% of balances, and is based on an average balance of approximately $1,200 (using 10K data that managed receivables were $11.6 billion and the number of active accounts was 9.9 million) and one $35 fee event per year per active account. We estimate the pre-tax return on managed receivables for the business at 2.6% corresponding to an after-tax return of 1.8%. Given these assumptions, operating expenses must represent 1.6% of managed receivables (corresponding to approximately $20/active account per year).

Table A6 Revenue Estimates for Private Label

Go-to APR	19.9%	Receivables Balance ($bn)	11.6
Teaser APR	0.0%	Active Accounts (mm)	9.9
% Portfolio at Teaser	40%	Balance/Active Account ($)	1172
Blended APR	11.9%	Fee Revenue (% Avg Balance)*	3.1%

* - Assumes two penalty events per year at $35 per event.

Source: Company reports, Bernstein estimates

– Auto Finance: From the securitization trust (see ***Exhibit A1***), we estimate the overall portfolio yield at 17.3% (assuming the securitized portfolio is representative of the managed portfolio). Given our estimate of the finance charge at 16%, this means fee income represents 1.3% of average balances. Fees are generated only when customers pay late or are offered extensions . We assume that Household's operating expenses are 4.0% of managed receivable (slightly above the 3.6% level reported at AmeriCredit). Together, these assumptions generate an after-tax return on loans of 1.1%. This is lower than the normalized after-tax return of nearer 2.0% (and the 2.6% return reported by AmeriCredit) but we believe this reflects recent credit challenges (particularly related to the disposal of repossessed cars) experienced at Household.

– Correspondent Lending: For real estate loans originated through correspondents, we assume no fee income since the originator retains up-front points. Premiums currently run at between 4 and 6 points and are amortized into finance income over the average life of the loan (that we estimate at 5 years). This is consistent with the yield (and net interest margin) on correspondent loans being approximately 1% less than the yield on branch loans. For total returns, we note that this is a wholesale business – with loans typically purchased in bulk – and is priced to achieve a 20% ROE or better. At the current equity-to-managed assets ratio for the company of 8%, this gives us an estimated ROMA for the business of 1.6% (see ***Exhibit A2***). This allows us to back into an estimate for operating expense of 1.9% for the business.

We now turn to the branch-based business for the remaining statement items – noninterest revenue and operating expense – and the split of each across the real estate secured and other unsecured products:

- *Noninterest revenue*. We can back out total noninterest revenue of 1.4% for the branch-based business using the segment total of 1.3% on receivables and our estimates for the other subsegments. We estimate the split of these revenues to branch-based real estate by assuming that these revenues consist entirely of amortizing fees – including both upfront "points" on mortgages and credit insurance products, and estimate the value of each as follows:
    - In ***Exhibit A3***, we estimate the upfront fees for full-year 2002 using annual origination volume data back to 1998. This assumes a five-year average life on these loans (which coincides with the outer range under which prepayment penalties are charged). Furthermore, we assume that half of new volume in the years 1998-2000 was originated in the branches, with one-third of 2001-2002 total volumes as Household has become more aggressive in the correspondent channel. We then apply an average upfront fee of 6.5% (based on management commentary) to these originations, and amortize these fees over the proceeding five-year period. For 2002, we calculate the cumulative value of these fees as $436 million, or 1.4% on the current $30 billion portfolio of managed branch-based loans.
    - In ***Exhibit A4***, we take a similar approach for credit insurance. However, we estimate these fees on an account basis. First, we estimate the number of originated loans each year using an average loan value of $100k. We then estimate the penetration rate using data disclosed in the Washington state DFI report, which presented penetration rates by branch (see ***Exhibit A5***); for conservatism, we use the average penetration rate of the bottom half of 60% and apply this uniformly to the entire period. We then estimate an average premium of $5,000 for each product sold, again using DFI report disclosures. We remove benefit costs by assuming a 60% margin, and total the estimated credit insurance net revenues per year (again, amortizing over the five-year period). Cumulating these amortized fees for 2002 gives a total for the year of $121 million, or 0.4% on the current branch-based portfolio.

The total of 1.8% in noninterest revenue margin on branch-based real estate lending implies a 0.6% noninterest margin on the other branch-based loans (given the branch-based total of 1.4% and the respective loan balances). This is in line with the lower average points charged on these loans (e.g., nearer 3 points versus 6-7 on the secured loans) and the fact that credit life insurance tends to be charged on first mortgages but not seconds.

- *Operating Expense*: On operating expense, we can back into a total of 3.4% for the branch-based business from both the horizontal approach (total consumer lending expenses net of the other sub-segment's expenses) and the vertical approach (total revenues net of pre-tax return and provision expense). This ratio is higher than the total segment ratio of 2.9% and reflects the cost of operating a large branch network. We equalize the expense across the secured and unsecured branch-based products since they share the branch infrastructure.

Exhibit A1 Auto Finance Trust Yield History

Household Automotive Trust
Series 2001-2

Month	Yield
Jul 2001	17.5%
Aug 2001	18.3%
Sep 2001	17.0%
Oct 2001	17.3%
Nov 2001	17.3%
Dec 2001	16.9%
Jan 2002	18.3%
Feb 2002	17.1%
Mar 2002	17.3%
Apr 2002	17.2%
May 2002	17.6%
Jun 2002	17.1%
Jul 2002	17.2%

Quarter	
Q3 01	17.6%
Q4 01	17.2%
Q1 02	17.6%
Q2 02	17.3%

Source: Company reports, Bernstein estimates

Exhibit A2 Estimated Returns in Correspondent Business

Hurdle Rate ROE on New Business (%)	20%
Equity/Managed Assets (%)	8%
Assumed ROMA	1.6%

Source: Company reports, Bernstein estimates

Exhibit A3 Estimated Contribution of Upfront Fee (Points) Revenue

	1998	1999	2000	2001	H1 02	H2 02E	2002E
Total Origination Volume ($bn)*	11.1	12.9	15.3	18.2	11.3	12.4	23.7
- Assumed % Through Branches	50%	50%	50%	33%	33%	33%	33%
Branch-Originated Volume ($bn)	5.5	6.5	7.6	6.1	3.8	4.1	7.9
Upfront Fees (% Loan Balance)	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Upfront Fees ($mm)	359	419	496	394	245	268	513
Contribution to 2002 Fees ($mm)***	72	84	99	79	49	54	103
Memo:							
YoY Growth in Branch Volume (%)	na	17%	18%	-21%	36%	25%	30%
Est. Fee Amortization Period (yrs)	5						

Total	
$mm	% Branch Loans**
436	1.4%

* - Based on reports from *Inside B&C Lending*.

** - Based on current branch-based real estate loans of $30 billion.

*** - Based on assumed amortization period of 5 years; this aligns with maximum term under which prepayment penalty is charged.

Source: Company reports, Bernstein estimates

Exhibit A4 Estimated Contribution of Credit Life Insurance Revenue

	1998	1999	2000	2001	H1 02	H2 02E	2002E
Branch-Originated Volume ($bn)	5.5	6.5	7.6	6.1	3.8	4.1	7.9
Average Loan Size ($)*	100,000						
No. of Accounts Originated (000)	55	65	76	61	38	41	79
Penetration of Insurance (%)	60%						
Margin (%)	60%						
Average Premium ($)	5,000						
Premiums booked ($mm)	99	116	137	109	68	74	142
Contribution to 2002 Fees ($mm)***	20	23	27	22	14	15	28
Memo:							
YoY Growth in Branch Volume (%)	na	17%	18%	-21%	36%	25%	30%
Est. Fee Amortization Period (yrs)	5						

Total	
$mm	% Branch Loans**
121	0.40%

* - Based on average loan size in the company's series 2002-1 home equity loan securitization (see prospectus supplement dated March 8, 2002)

** - Based on current branch-based real estate loans of $30 billion.

*** - Based on assumed amortization period of 5 years; this aligns with maximum term under which prepayment penalty is charged.

Source: Company reports, servicer reports, Bernstein estimates

Exhibit A5 Estimated Credit Life Insurance Penetration

WA Branch	Penetration of Credit Life (% Loans)
McLoughlin	100%
Federal Way	94%
Bellingham	92%
Burien	89%
Yakima	75%
Seattle	75%
Kennewick	74%
Tacoma	74%
Lynnwood	71%
Parkway	69%
Puyallup	61%
Renton	61%
Vancouver	60%
Bellevue	58%
Lakewood	56%
Edmonds	53%
Olympia	44%
Everett	37%
Average	69%
Median	70%
Bottom Half Average	60%

Source: WA DFI report

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Exhibit 31

9 September 2002

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Finance Companies Market Flash

http://research-and-analytics.csfb.com/

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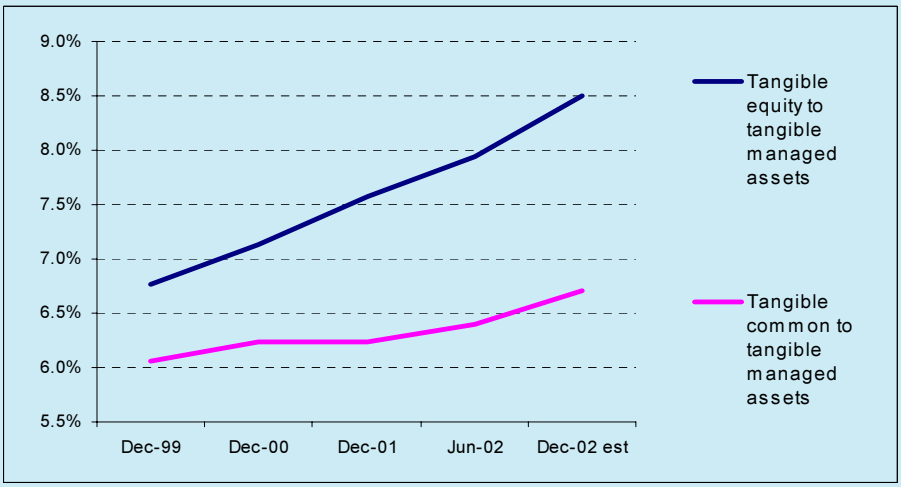
Household Finance
Latest Clarifications and Perspectives

The trials and tribulations of Household International (CSFB: Buy/High A) and its principal subsidiary, Household Finance continue. We thought it would be useful to highlight a few recent data points that should help with valuation.

Share Buybacks—We think that remarks made by CEO Bill Aldinger at a broker-sponsored conference yesterday may have been misinterpreted. On slide 16 titled "2002 Outlook" (available on HI's website), a bullet indicates "Buybacks of $300 million." In our view, this does not imply that HI intends to throw caution to the wind and pursue share buybacks as a means of increasing its stock price.

As part of its plan to ***build capital*** (see our piece dated August 15), announced as part of the company's accounting restatement August 14, Household has for all intents and purposes ***suspended share repurchases*** until it reaches its newly strengthened capital targets of 8.5% tangible equity to tangible managed assets (restated to 7.94% as of June 30) and 6.7% tangible common to tangible managed assets (restated to 6.39%). The $300 million figure refers to what has essentially been done this year already. This is not, in any way, shape or form, a move off of the August 14 announcement.

Chart 1: De-leveraging in the face of more challenging environment



Source: Company, Credit Suisse First Boston

When asked about share buybacks in 2003, management indicated that up to $1 billion is possible. Again, bondholders should not misinterpret that statement to be off management's message. Rather, we think it is a testament to the earnings power of HI's business. Assuming the rating agencies and investors, both bondholders and shareholders, are comfortable with the newly strengthened capital position, we see little harm to the credit if HI then goes out and repurchases ***truly excess*** capital. As we have written in the past, we take comfort in managements that commit to appropriately strong balance sheets and are ***disciplined*** enough to ***return*** excess capital. The alternative—forcing growth into a market that just isn't there—has always been problematic for lenders. ***Managing capital efficiently***, on the other hand, ***is bondholder-friendly***.

Predatory Lending—Highly charged and highly politicized, it is difficult to predict where all of this ends up. What makes reform tricky is that regulating the business comes at a cost to the very constituents that have suffered—low to middle-income borrowers. Finding the right balance will be challenging.

What we do know, however, is that Household has recognized how serious a strategic issue this is, and is working hard to minimize the impact to its business. The company has moved on several fronts.

The first is to take out the more incendiary elements in its products. Origination points on its mortgages are now limited to three (the borrower can buy down rates at his option by paying up to an additional two). Household no longer sells single-premium life insurance. Customers that remain current are rewarded with more favorable terms.

The second is to take steps to make certain that customers know what they are entering into. Customers are presented with a short video and a one-page summary that plainly explains their obligations.

The third is to start to commit more resources to surveillance. To that end, James Kauffman, formerly the Commonwealth of Pennsylvania's Banking Secretary, has been hired into a new position responsible for compliance throughout the Household organization, reporting directly to the CEO. We expect that the dollars committed to business practice control in the future will be significant.

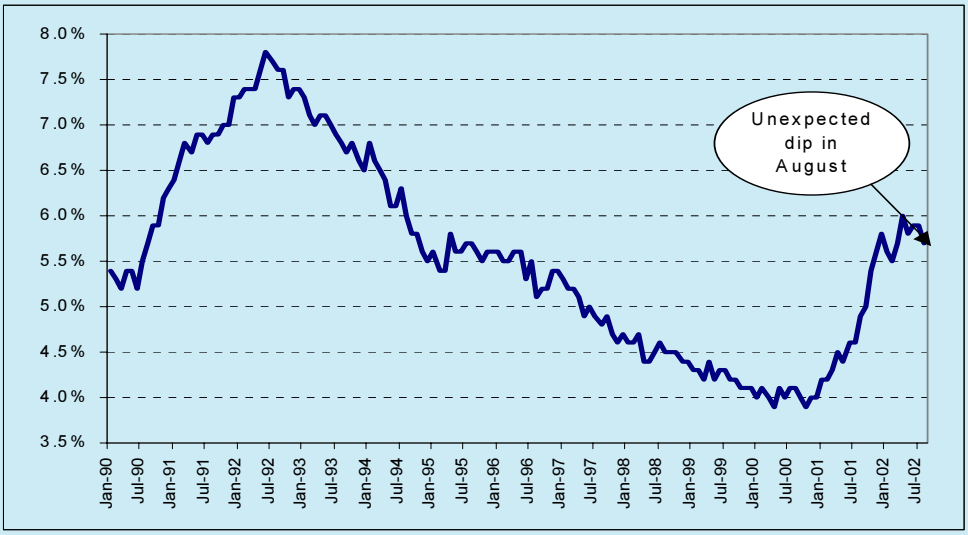
All of this reduces the risk of future problems. But what about legacy problems?

Although deceptive lending practices in one Household office, in Bellingham, Washington, have been the subject of high profile press reports, there is no evidence of similar practices elsewhere in the Household network. Indeed, an internal review turned up less than 50 problem loans nationwide, including those in Bellingham.

All of this is difficult to comprehend. One new data point apparently is on its way, if we believe press reports that have Citigroup settling its predatory lending issues with the Federal Trade Commission for an estimated $200 million pretax. We believe that Citigroup's problems, which are largely centered in, and arose before Citigroup acquired, the former Associates Corp. of North America, were far more pervasive than is the case currently at Household.

Unemployment—Indisputably one of the most important drivers of Household's fundamental performance, the latest unemployment data seems to have improved beyond expectations. The jobless rate unexpectedly fell in August to 5.7%, a five-month low. Expectations were for an increase from 5.9% in July to 6%. Jobs were created for the fourth consecutive month, also at a better-than-expected rate (39,000 vs. 30,000). While we are not saying we are out of the woods in terms of the threat of a double-dip, it does appear that the job situation has stabilized and that, in turn, gives us greater confidence that bad debt costs at Household are stabilizing.

Chart 2 Unemployment Rate (monthly)



Source: Bloomberg

Valuation--There's likely no need to remind investors that Household paper trades about as wide as any mid-single-A names with Stable outlooks that crosses our minds. Over the past month, trading has been volatile, to say the least. On the day (August 14) of the accounting restatement, bonds closed *tighter*. Over the next couple of weeks, bonds tightened in to +260 bps (in ten years), driven by the company's debt repurchases and probably a bit of short covering as well. Of late, bonds have slid out once again to +340 bps on the bid side.

Over the near term, we believe bonds are likely to remain range-bound. Headline risk, not only as it relates to Household, but also its competitors, remains part of the equation. Offsetting headline risk is limited supply--we expect Household to issue one more dollar global over the balance of the year, sized more modestly ($1 billion or so), than has been the company's recent practice. Retail MTNs, asset-backed, and foreign currency-denominated issuance will pick up the slack.

The catalysts forward for Household bonds remain: (1) an improving economic outlook and (2) reductions in the causes (litigation, competitors' woes) of headline risk. That said, the carry trade here still makes plenty of sense. Moreover, bond performance in the wake of the accounting restatement is a strong signal that a lot of adverse news is already priced in.

We reiterate our Buy recommendation on Household bonds.

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AUCKLAND	64 9 302 5500	MADRID	34 91 423 16 00	SHANGHAI	86 21 6881 8418
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GENEVA	41 22 394 70 00	PASADENA	1 626 395 5100	WASHINGTON DC	1 202 354 2600
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Exhibit 32

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September 10, 2002

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LENGTH: 565 words

HEADLINE: Reforms Seen Hurting Household's Profits; **Household International** Inc.'s lending troubles could reduce its earnings; Brief Article; Statistical Data Included

BYLINE: Bergquist, Erick

BODY:

For the first time, an equity analyst has put some hard numbers behind concerns that **Household International** Inc.'s lending troubles would reduce its earnings.

Howard K. Mason, an analyst at Sanford C. Bernstein & Co., cut his earnings per share growth projection for the company to 10% to 12%, from 13% to 15%, and said Household's sales reforms would trim earnings by 3 cents per share this year and 18 cents in 2003.

The company's announcement that it had lowered its 1994-2002 earnings by $ 386 million, and its decision to raise capital, could slice another 15 cents off earnings per share this year and 40 cents off next year's figure, Mr. Mason wrote in a Sept. 3 report.

Household's branch-based real estate lending division, which generates 35% of the company's after-tax earnings, will take the hardest hit, Mr. Mason wrote. He estimated that its annual originations growth rate might be cut in half, to 10%. Among the things expected to slow earnings are the decisions to stop selling single-premium credit insurance and to cap fees at 5%.

William F. Aldinger, the company's chairman and chief executive officer, concedes that Household's revenue growth has slowed as it has instituted a set of best practices, but he insists that its lower prices will boost loan volume and build market share.

"There are tradeoffs in life," he said at an investor conference hosted by Merrill Lynch & Co. last week. "In some of our best practices, we have given up points, spreads, and have had our revenue line come down, but there have been two positive things: Loan volume is going up, (and) we have fewer competitors," because some rivals have left the subprime sector.

"When all is said and done, best practices are not going to change" Household's business "dramatically," Mr. Aldinger said.

Yet the concerns over earnings growth are causing some analysts to question whether Household's debt will be downgraded.

"Regardless of Household's specific issues, credit ratings of consumer lenders are under more scrutiny now than they ever have been in the past because of accounting, regulatory, and credit quality concerns," William Ryan, an analyst with Portales Partners LLC in New York, said in an interview.

Citing "headline risk revolving around predatory lending issues" and a soft economy, David Hendler, a fixed-income analyst with CreditSights.com in New York, changed his "buy" rating on Household, which he had maintained for 15 months, to "negative" when the company restated its earnings on Aug. 14.

Household is being sued by activist groups such as the Association of Community Organizations for Reform Now. Also, Washington state officials are investigating its lending practices.

Analysts at Fitch Inc. and Standard & Poor's said that no rating changes are in store for Household but that they are following the predatory-lending headlines closely. "We are in the process of checking into litigation risks ... how heightened concern (among investors) would affect their ability to fund," said Lisa Archenow, an S&P analyst.

Thomas Abruzzo, an analyst with Fitch Inc., said that his focus is on Household's capital levels and business fundamentals, but investors will have to take a "wait-and-see" approach to the predatory-lending allegations.

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Exhibit 33

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THE WALL STREET JOURNAL.

HD **Household International Inc. May Be Near Large Settlement**

BY By Carrick Mollenkamp and Paul Beckett
WC 350 words
PD 4 October 2002
SN The Wall Street Journal
SC J
PG A6
LA English
CY (Copyright (c) 2002, Dow Jones & Company, Inc.)

LP **Household International** Inc., the big consumer-finance company under fire for its lending practices, may be near a settlement with state attorneys general that could total $350 million to $500 million, according to a report by a Wall Street analyst.

If a settlement that large is reached, it would eclipse the $215 million that Citigroup Inc. agreed to pay last month to settle the Federal Trade Commission allegations of deceptive marketing and lending practices.

TD A Household spokeswoman said the company doesn't comment on market speculation.

A task force of attorneys general, along with consumer advocates, has spent the past year investigating the way Household, of Prospect Heights, Ill., provided mortgages to subprime borrowers, or those with poor or no credit histories. Household is one of the nation's largest subprime lenders.

Howard Mason, an analyst at Sanford Bernstein Research in New York, raised the prospect of the settlement in a new research report, and said he believes Household has the cash to make a restitution payment of $350 million to $500 million. Mr. Mason arrived at his settlement estimate by calculating the fees, loan rates and credit insurance provided to Household clients.

In his report, Mr. Mason also said it may prove difficult to convince the attorneys general to agree to a settlement. If no deal materializes, Mr. Mason said, there is a danger that credit-rating agencies, "unnerved by chronic regulatory problems," could downgrade the company's debt.

"We believe that Household is making headway in settlement negotiations," Mr. Mason wrote.

A spokesman for the state of Washington attorney general's office declined to comment. Washington is one of the states believed to be part of the task force investigating Household. In April, the Washington Department of Financial Institutions issued a critical, 74-page report about Household's practices.

Household shares fell 72 cents, or 2.6%, to $26.60 in 4 p.m. composite trading on the New York Stock Exchange. They are off sharply from the 52-week high of $63.25.

CO CCRED : Citigroup Inc. | HFC : Household International Inc.

IN I81501 : Non-bank Credit | I8150105 : Consumer Lending | I831 : Financial Investments | I83101 : Investment Banking/Securities Dealing | IBNK : Banking/Credit | IINV : Investing/Securities

NS C12 : Legal/Judicial | CCAT : Corporate/Industrial News | GCAT : Political/General News | GPOL : Domestic Politics | GVBOD : Government Bodies | GVEXE : Executive Branch | GVJUS : Justice Department

RE NAMZ : North American Countries | USA : United States | USC : Midwest U.S. | USIL : United States - Illinois

PUB Dow Jones & Company

AN Document j000000020021004dya40002h

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Exhibit 34

Global Equity Research

UBS Warburg

October 8, 2002 | **Specialty Finance** | **United States**

Household International (HI)[2,37,81] — Buy

Key Statistics

Price	$23.25
52-Wk Range	$62-25
Price Target	$30.00
Return Pot'l.	33.3%
Mkt. Cap(MM)	$10,574
Sh. Out.(MM)	454.8
Float	100%
Inst. Hldgs.	81.8%
Avg. Volume(K)	5,175
Curr.Div./Yield	$1.00/4.3%
Sec.Grwth.Rate	7%
Convertible?	Yes
Book Value/Share	$18.97
Price/Book	1.2x

Quarterly Earnings Per Share (fiscal year ends December)

	2001A	2002E	*Prev*	2003E	*Prev*
1Q	$0.91	$1.04A			
2Q	0.93	1.07A			
3Q	1.07	1.15	*1.17*		
4Q	1.17	1.18	*1.29*		
Year	**$3.91**	**$4.44**	***$4.56***	**$3.75**	***$5.13***
FC Cons.:	$3.91	$4.56		$5.10	
P/E:	5.9x	5.2x		6.2x	
Revs.(MM):	$10,712	$12,832		$14,370	

Household International, through subsidiaries, provides consumer financial services, primarily offering consumer-lending products to middle market consumers in the U.S., Canada and the United Kingdom.

Source: UBS Warburg LLC and First Call consensus estimates

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Household: Lowering Target; Still Creating Value Despite Lower Growth

Summary

- We are cutting our 2003 estimate to reflect the impact of a regulatory fine on HI's earnings and capital base. We believe the fine levied against Citi/Associates for predatory lending practices makes a fine against Household more likely, and we estimate this fine could exceed $500 million.
- Given HI's relatively thin capital base at present, we believe the company is likely to raise the money to pay any fine through an equity offering, perhaps even before any fine is levied, causing dilution to existing shareholders. Although it is possible that this regulatory action could occur in 4Q02, we believe it is more likely to occur next year.
- Irrespective of the size and timing of a fine, we continue to believe HI's business model, in terms of its marketing and pricing practices, is likely to change, resulting in a longer term earnings growth rate which we estimate of 7%. This outcome, however, is factored into our DCF valuation, and supports our rating.

Action

- We are lowering our 2003 EPS estimate for Household to $3.75 from $5.13. Our estimate assumes a $500 million fine related to predatory lending and subsequent dilution from a potential common equity offering. This translates into a $1.18 reduction in our 2003 EPS estimate.

Companies mentioned and disclosures at end of note

In addition to the **UBS Warburg** web site, **www.ubswarburg.com/researchweb,** our research products are available over third-party systems provided or serviced by: Bloomberg, First Call, I/B/E/S, IFIS, Multex, QUICK and Reuters. **UBS Warburg is a business group of UBS AG**

- We are also lowering our 2002 estimate to $4.44 from $4.56 to reflect slower receivable growth as a result of the company's capital constraints, wider spreads on the company's debt, higher credit losses and continued reserve building, and limited ability to further reduce costs.
- We are lowering our price target to $30 from $41.

Valuation

- Our price target of $30 is derived from our DCF model, and translates into a P/E multiple of 8x our revised 2003 EPS estimate.

Additional Information

- We believe the $215 million fine levied by the FTC last month for predatory lending practices at the Associates, which Citi acquired in 2000, makes a similar regulatory action against Household increasingly likely. In fact, we believe the regulatory action could take any one of three forms:

  1. A fine levied by the FTC or another regulatory authority;
  2. A settlement with the Attorneys General of the fifty U.S. states; or
  3. A national predatory law that is more restrictive then--and pre-empts--existing state-level laws.

  In our view, the former two are more likely, since, although a national predatory lending law exists in draft form, we suspect it is a low legislative priority in the U.S. Congress right now.

- In terms of likelihood and timing of the other two possibilities, a fine by the FTC would probably be the most likely to have a speedy conclusion. Management has suggested, however, that it is pursuing an agreement with the fifty Attorneys General. In our view, this avenue is not likely to result in a quick conclusion for two reasons. First, as the Microsoft and Merrill Lynch agreements evidence, coming to terms with 50 different Attorneys General is a long process. Second, we believe the Attorneys General have little incentive to move toward a rapid resolution, but rather may prefer to postpone signing an agreement until after conducting a review of HI's business practices in their individual states, etc. As far as we're aware, only some states, including Washington State, have undertaken such a review. For this reason, we believe any such resolution with the Attorneys General will not likely occur until 2003.
- In terms of the magnitude of fines associated with any agreement or regulatory action, we believe the Citi/Associates figure of $215 million is a likely lower bound, but suspect that HI would likely face a fine of at least $500 million given its size. We believe the company would likely have difficulty paying a fine of this magnitude out of cash flow, and therefore may consider raising equity to do so, perhaps even in advance of reaching any such settlement.
- Complicating this situation is that HI is currently thinly capitalized. We estimate its tangible equity-to-tangible managed assets (TETMA) ratio is 8.0% and its tangible common equity-to-tangible managed assets (TCETMA) is 6.5%. This is below the TETMA and TCETMA target ratios management has set of 8.5% and 6.7%, respectively. We calculate that by suspending its share buyback program, slowing its receivable growth, and adding the $350 million in preferred equity it raised a few weeks ago, the company could achieve its target ratios by year-end assuming no payment of a regulatory fine.
- However, if we assume that Household must pay a fine related to predatory lending practices, the company would once again fall short of its capital ratio targets. In Table 1, we depict several different scenarios, which we believe could take place with regard to fines and subsequent capital raising to support the cash outflow from such a fine. We believe that, were a fine to be levied in the range of $250M-$750M, the company would more than likely have to issue additional common shares in order to meet its capital targets. We view common equity as a likely instrument over preferred because the company recently completed a preferred offering, and may not have the flexibility to issue more without risking criticism from the debt rating agencies. Nonetheless, the company would clearly prefer not to issue common shares at the current depressed prices.
- We believe that scenario 4B in Table 1 is the most likely scenario and have incorporated these assumptions into our earnings model. The adjusted EPS numbers are derived by including both the dilution from the additional shares as well as the reduction in earnings that result from the potential fine. We also took into account the timing of the fine which could take place as early as the fourth quarter, although we believe it would more likely occur later in 2003.
- It is important to note that in calculating the capital ratios for the remainder of 2002 and 2003, we kept the unrealized gain/loss on investments and the changes in cash flow hedges constant with 2Q02 levels of $360M. The reason for this is that it is very difficult to predict these items, despite that they can have a sizeable effect on the capital ratios.

- It is also important to note that in Scenario 2, we assume that the proceeds from an equity offering are used to pay down debt yielding 7% (4.62% net-of-tax) which reduces interest expense, thereby offsetting some of the dilution.

Table 1: UBS Warburg Scenario Analysis

	Assumptions						Adjusted EPS	
	Receiv. Growth ('02/'03)	Fine Levied?/When?	Size of Fine ($)	Comm. Equity Raised	Capital Required	% Share Dilution	2002	2003
Scenario 1	12%/11%	No	$0	No	$0	0%	$4.44	$4.93
Scenario 2	15%/14%	No	$0	Yes	$250M	2%	$4.42	$5.03
Scenario 3A	12%/11%	Yes/4Q02	$250M	Yes	$250M	2%	$4.00	$4.83
Scenario 3B	12%/11%	Yes/4Q02	$500M	Yes	$500M	4%	$3.33	$4.73
Scenario 3C	12%/11%	Yes/4Q02	$750M	Yes	$750M	7%	$2.79	$4.63
Scenario 4A	12%/11%	Yes/2003	$250M	Yes	$250M	2%	$4.44	$4.34
Scenario 4B	12%/11%	Yes/2003	$500M	Yes	$500M	4%	$4.44	$3.75
Scenario 4C	12%/11%	Yes/2003	$750M	Yes	$750M	7%	$4.44	$3.18

Source: UBS Warburg LLC estimates

Long-Term Outlook

- We also believe that any agreement with the FTC or the Attorneys General would also have a longer-term impact on HI's business model. Specifically, we suspect that HI would be forced to change certain of its marketing and pricing practices. In fact, this process has already begun to some extent, as HI has voluntarily reduced the number of points it charges on loans, thereby decreasing its pricing at the margin. Nonetheless, we believe an agreement with regulatory or legal authorities would require additional pricing and other concessions. As a consequence, we believe HI will not be able to sustain its current level of balance sheet growth or profit margins, and as a result, the earnings power of HI's model would be diminished to some extent.
- In particular, we are forecasting that HI's medium term earnings growth rate is about 7%, below the 12-15% it has posted over the past several years. Given this outlook, although we are forecasting that HI's 2004 EPS would spring back from 2003's depressed levels to some extent, we calculate that this level of earnings growth supports a P/E of 8x rather than its historical multiple of 12x-13x.
- Likewise, we believe the growing regulatory risk associated with HI relative to prior periods warranted a higher beta than the one the company has merited in the past. Therefore, we have increased the beta to 1.25 from 0.93. This, combined with our 7% medium-term earnings growth rate, and the prospect of a $500 million fine raised through an equity offering, results in a DCF value of $30. This corresponds with our P/E of 8x our revised 2003 EPS estimate of $3.75.

Additional Risks

- In addition to the factors discussed above, there are a number of other concerns floating about in the market place. We discuss these below, and should one or several of these scenarios occur, it would likely cause the stock price to fall from present levels. Nonetheless, we believe our earnings outlook and valuation appropriately reflects the likely balance sheet and earnings growth and credit loss scenarios for the near- to medium-term.

Mortgage/Home Equity Portfolio

- The primary risk in the mortgage and home equity portfolio, which account for about half of the company's managed assets, is surging charge-offs. Credit losses in this asset class, although they have deteriorated over the past few quarters, remain under 1%. If we model dramatic surges in credit losses in this portfolio, 2003 EPS impact would appear as follows:
  - Doubling charge-offs to 1.96%: $2.81 (-25%)
  - Tripling charge-offs to 2.94%: $1.88 (-50%)
  - Quadrupling charge-offs to 3.92%: $0.95 (-75%)
- We do not view this scenario as likely at present, since it assumes a significant deterioration in the economy or the bursting of a housing bubble, which our economists do not believe exists across the country as a whole. Additionally, the company has built substantial reserves over the past several quarters, with managed reserves-to-total managed assets of 4.14% in 2Q02, up from 3.77% in 2Q01. Therefore, although the company is anticipating some deterioration in this portfolio, we believe it is reserving at an appropriate level to absorb these losses.

Auto Portfolio

- Concerns about the auto portfolio have also surfaced following announcements made by rival subprime auto lender Americredit that it is bringing all its auto loans back on balance sheet. As we described in our September 18, 2002, note, we believe the impact of a similar action by HI, although a remote possibility, would have limited impact on its financials. Specifically:

  1. Auto loans currently represent only 6.5% of the company's managed portfolio, a relatively small portion.
  2. Household currently records a gain on sale of 4% on auto securitizations. We are anticipating total auto securitizations of $2.3 billion for this year, which would translate into a pre-tax gain on sale of $92 million or $0.13 per share on an after-tax basis. This represents only 3% of our revised 2002 EPS estimate of $4.44.
  3. We estimate that if the company had to reserve against the auto loans that they securitized, the cost would be roughly $115 million for the year, or $0.16 per share. This combined with the gain on sale would still equate to only about 7% of 2002 earnings.
  4. Further, if the company were forced to take an extreme action and write-down the entirely of the existing piece of the I/O strip that relates to auto receivables, we calculate the after-tax impact on EPS would be about $0.44. Although this is a reasonable chunk of near term earnings, it would have a relatively small impact in terms of reducing the company's estimated 2002 tangible book value of nearly $17.50 by $0.44.

Credit Card Portfolio

- Finally, there continues to be concern about a surging charge-off scenario in the company's credit card portfolio, which accounts for 16% of total managed assets. The current charge-off rate is 7.85%. Under the following credit loss assumptions, the 2003 EPS would be:
  - Up 10% to 8.64%: $3.51 (-6%)
  - Up 25% to 9.81%: $3.15 (-16%)
  - Up 50% to 11.78%: $2.54 (-32%)
- Again, as with the mortgage portfolio, although we continue to anticipate some level of deterioration, we do not believe these levels of credit losses are likely in the absence of a significant decline in the economy.

Statement of Risk

- Investment risks include the following: continued competition for home equity and unsecured credit loans, higher than expected credit losses, higher funding costs, and increased regulatory and legal scrutiny.

Global ratings: Definitions and allocations

UBS rating	Definition	Rating category[1]	Coverage[2]	IB services[3]
Strong Buy	Greater than 20% excess return potential; high degree of confidence	Buy	53%	40%
Buy	Positive excess return potential			
Hold	Low excess return potential; low degree of confidence	Hold/Neutral	42%	26%
Reduce	Negative excess return potential			
Sell	Greater than 20% negative excess return potential; High degree of confidence	Sell	5%	18%

Excess return: Target price / current price – 1 + gross dividend yield – 12-month interest rate. The 12- month interest rate used is that of the company's country of incorporation, in the same currency as the predicted return.
1: UBS Strong Buy and Buy = Buy; UBS Hold = Hold/Neutral; UBS Reduce/Sell = Sell.
2: Percentage of companies under coverage globally within this rating category.
3: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

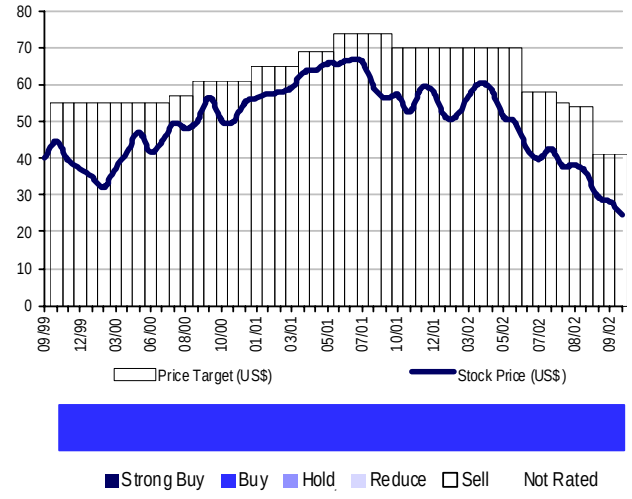
Source: UBS AG, its subsidiaries and affiliates; as of 30 September 2002.

Companies Mentioned

Company Name	Ticker	Price
Household International[2,37,81]	HI	$23.25

Price quoted on October 7, 2002 Source: UBS Warburg
2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company or one of its affiliates within the past three years.
37. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company.
81. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company or one of its affiliates within the past 12 months.

Household International (US$)



Source: UBS AG, its subsidiaries and affiliates; as of Friday, October 04 2002

Unless otherwise indicated, please refer to the Valuation and Risk sections contained within the body of this report.
For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Warburg LLC, 1285 Avenue of Americas, New York, New York, 10019, Attention: Publishing Administration.

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Exhibit 35

Morgan Stanley

Comment | Page 1

Equity Research
North America

United States of America

Diversified Financials: Specialty Finance

Household International

Reuters: HI.N Bloomberg: HI NYSE: HI

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Change in Price Target

October 10, 2002

Worth a Look

STOCK RATING	OVERWEIGHT–V
Price (October 9, 2002)	$21
Price Target	$34
52-Week Range	$63.25 - 21

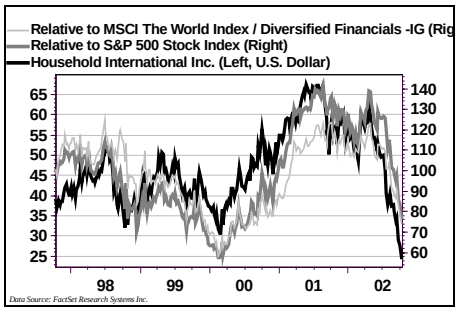
Stock ratings are relative to the analyst's industry (or industry team's) coverage universe.

MSCI SECTOR	FINANCIALS
US Strategist Weight	18.9%
S&P 500 Weight	19.9%

WHAT'S CHANGED	
Earnings (2002)	*To $4.51 from $4.56*
Earnings (2003)	*To $4.90 from $4.93*
Change of Target Price	*$53 to $34*
Q4 Earnings (2002)	*To $1.25 from $1.29*
LT EPS Growth	*To 6% from 8%*

- **Reiterate Overweight-V with revised $34 target price**
  While credit risk in a weak economy is a legitimate concern, the stock appears to discount the risk adequately, trading at just 1.0 times book value. Our colleagues in fixed income research rate the bonds as Buy.
- **Possible settlement as near-term catalyst**
  Our analysis of the Washington State DFI draft report on HI's lending practices suggest our $500 million settlement estimate is adequately conservative.
- **Credit profile does not warrant concern**
  The company's high LTV home equity loans are resulting in slightly higher credit losses, according to ABS data. However, our downside case requires an improbable doubling of both default frequency and loss severity. ABS data suggest subprime industry fundamentals are still healthy.
- **Industry View: In-Line**
  We believe investor concerns over the economy are adequately discounted in the group.

Stock Price Performance



Company Description

Household International provides consumer loans and credit cards in the US and UK and offers auto finance domestically. At year-end 2001, the company had over 1,500 branch offices, more than 40 million customer accounts, and $100 billion in managed consumer receivables.

FY ending Dec 31:	2001A	2002E	2003E	2004E
EPS ($)	4.07	4.51	4.90	–
Prior EPS Ests. ($)	–	4.53	4.93	–
Consensus EPS Ests. ($)	–	4.56	5.10	–
CEPS ($)	4.92	5.08	4.93	–
P/E	5.2	4.7	4.3	–
P/E Rel. to (S&P 500)	31.0	29.0	29.0	–
P/CE	4.3	4.1	4.3	–
Price/Book	1.1	1.0	0.8	–
Yield (%)	4.0	4.6	5.3	0.0

Market Cap ($ m)	9,618
Debt/Cap (06/02) (%)	90.4
Return on Equity (06/02) (%)	23.9
L-T EPS Grth ('02 - '06) (%)	6.0
P/E to Growth	0.78
Shares Outstanding (m)	458.0

Q'trly EPS	2001A actual	2002E curr	2002E prior	2003E curr	2003E prior
Q1	0.91	1.04A	–	–	–
Q2	0.93	1.07A	–	–	–
Q3	1.07	1.15E	–	–	–
Q4	1.17	1.25E	1.29E	–	–

E = Morgan Stanley Research Estimate
Consensus EPS is based on First Call.

Please see the important disclosures at the end of this report.

Worth a Look

Summary and Investment Conclusion

We're reiterating the Overweight-V rating on HI: we recommend risk-tolerant investors consider taking a look at the stock at current levels. Conversely, risk-averse investors intent on liquidating their specialty finance holdings should think about keeping a little bit of HI in light of the possibility that a settlement of predatory lending allegations might act as a catalyst for the shares.

Economic risk appears more than adequately discounted. Since upgrading the stock in August (see "Household International: Discounts the Risk; Upgrade", dated August 1, 2002), we've fine-tuned our analysis of several risk factors. First, we're now explicitly factoring in the risk of a "double-dip" recession into our price target, which as a result drops from $53 to $34. The principle reason for this decline is the possibility of higher credit losses. Even so, to warrant such a low price target, we have to push downside scenario home equity credit losses up from 80 bps at present to 3.5% — a level that makes sense only if both the economy tanks and Household's risk management controls prove woefully inadequate.

True, the recent up-tick in weekly unemployment claims signals the possibility of higher credit costs for Household and other lenders. But variations in weekly claims do not provide a basis for forecasting a massive surge in unemployment or major consumer credit problems. Hence, we conclude our risk-adjusted price target is more than adequately conservative.

Settlement costs appear more than adequately discounted. Second, we've analyzed a draft Washington State regulatory review of Household's lending practices. This report supports our existing views of the financial implications of settlement. Based on the regulatory document, we estimate a nationwide regulatory complaint rate of approximately 1% of total real estate lending accounts. This seems consistent with our previous estimate of $500 million in settlement damages and a 25-basis point impact to the margin resulting from revised lending practices.

Growth prospects do not appear discounted. Finally, we continue to believe that the company enjoys strong growth dynamics in its core subprime home equity business. As we pointed out in a recent survey of 300 branch managers in the subprime industry, business is booming, with new loan growth in 2002 upwards of 30% (see "Channel Check: Surprisingly Strong Subprime Growth," dated August 1, 2002). This finding shouldn't be surprising: home equity lending naturally benefits from low interest rates and stable home values, and debt consolidation lending plays naturally into the consumer delevering trend.

With 60%+ upside to our revised price target, and litigation settlement as a potential near-term catalyst, we're in favor of being long the stock. True, there is downside risk in the case of a weak economy; however, the economic outlook is never certain, and we think we've factored that risk into our target price. Further, the stock is trading just barely above book value ($19.87 at June 30), indicating that economic risk is already on the mind of many investors. More important, should Household settle its outstanding predatory lending allegations, the stock might recover nicely, and so might the bonds ('07s priced at 5.50 bps over USTs) according to our fixed-income research colleague, Susan Berliner, who rates them as a Buy (see "Diversified Financials: Newsworthy or Not?" dated September 16). With Citigroup having recently settled similar predatory lending allegations, we see no reason why Household shouldn't be able to settle over the next six months or so (Citigroup, $28, is rated Overweight with a $42 target by Henry McVey in the context of his In-Line rating for the Brokerage and Multinational Banks group).

Our $34 price target for Household is equivalent to 6.9 times our revised 2003 EPS estimate of $4.90 (discussed below) or 1.7 times June 30 book value (2.0 times tangible book). It is based on the weighted-average of two scenarios: an economic recovery scenario, which we weight at 60% probability, and under which HI is worth $47, and a downside case, which assumes a recession followed by two years of deflation, and under which HI is worth only $15. Each of these targets is generated by a residual income model; the downside case further discounts the possibility of poor credit controls and a restructuring of the company. Risks to our $34 price target would include a higher probability of the downside scenario.

Separately, we're trimming our base case EPS estimates to account for higher auto finance losses. Our EPS

estimates go to $4.51 from $4.56 in 2002 and to $4.90 from $4.93 in 2003, for 8.6% growth, down from 10% previously. With used car prices falling another notch (based on both the Mannheim index and the observations of our colleague, Steve Girsky, Morgan Stanley's auto analyst), we've raised our auto loss forecast from 9.30% to 9.50% in 4Q02 and from 8.57% to 8.62% in 2003.

Exhibit 1
Estimated Probability Distribution of Returns

	12-Mo Target	Return	Prob.
Upside	$47	123%	60%
Downside	15	-28%	40%
Weighted-avg.	34	62%	100%

Note: Return based on closing price of $21.00 as of October 9. Upside = economic recovery, Downside = recession/deflation. See our industry note, "Weighing the Downside," 10/2/02 for definitions of these scenarios as well as 5-yr earnings forecasts for Household under each scenario.
Source: Morgan Stanley Research

Predatory Lending Update — Assessing the Washington State Document

A draft regulatory report from the state of Washington supports our existing estimate of the financial impact on Household of settling predatory lending allegations. The draft report is a review of complaints by Washington State borrowers against Household. The report was prepared by the Washington Department of Financial Institutions (DFI) and was subsequently leaked to a number of news organizations, including the Bellingham Herald, which posted the entire document on its website. We do not know what changes if any will be made to the final report; nor do we know what kinds of actions the DFI will recommend or pursue. However, the detailed description and count of claims contained in the report provides a basis for us to extrapolate and thus take a stab at bracketing the potential consequences to Household across its entire US franchise.

We estimate the regulatory complaint rate at just over 1.6%. See Exhibit 2. The DFI report indicates that the company experienced 137 complaints in Washington state from 1995-2002 (this count annualizes the complaints received during January-March 2002). We estimate that the company has 435,000 real estate loan accounts (1st and 2nd lien) in its nationwide consumer finance business; based on securitization disclosures, we allocate 4.0% of those accounts to Washington state. Dividing complaints into accounts, we come to a state-wide complaint rate of 1.65%.

The Bellingham branch may have acted as a "rogue," thus biasing the results. A large portion of the complaints discussed in the DFI document originated with the Bellingham branch, whose sales people may have followed a practice of questionable marketing. We estimate that this single branch, which is one of 19 Household Finance (HFC) branches in Washington state, may have accounted for almost 25% of the state's total complaints. As such, the complaint rate at Bellingham might be as high as 7.5%. And the complaint rate for the rest of Washington State, excluding Bellingham, might be as low as 1.3%. Since we haven't heard of rogue branches in other parts of the country, we conclude that the US complaint rate is not likely much higher than 1%.

The complaint rate suggests ultimate damages of no more than $300 million. We come to this estimate by extrapolating complaint rates from Washington State to the US, then adding in the Beneficial branch system (Exhibits 3 and 4). Next, we considered the possibility that intensified media coverage would multiply the complaint rate by encouraging additional customers to step forward. Finally, we estimated different levels of damages per loan. A reasonable best guess would be to apply the Washington state complaint rate including Bellingham to the US, then multiply by three for potential media impact. This would result in an estimate of 21,578 complaints nationwide. If we assumed $5,000 to $10,000 in damages per complaint, then the total cost to settle all claims would come out at $60-$315 million. Of note, the subprime customer base includes, by its very nature, a high proportion of customers who are difficult to educate in financial matters. As such, our estimates of media impact may be conservative.

As an aside, this estimate of likely damages would appear consistent with or even conservative compared to Citigroup's recent experience. We estimate that Citi's $240 million settlement with the FTC and a group of class action plaintiffs came to about 0.73% per real estate loan in CitiFinancial's branch-based operation. This would imply damages of $200 million for Household. *In any case, the $500 million estimate of litigation damages discounted in our target price appears more than adequately conservative.*

Complaint rates are not likely high enough to imply meaningful pressure on margins. The complaint rate is important because it helps us estimate the impact on margins from cleaning up improper lending practices. For the purpose of this analysis, we assume that loans that prompted complaints have higher returns than others do. (If

Please see the important disclosures at the end of this report.

the returns on loans that generate complaints are the same as on other loans, then reducing the complaint rate will have no effect on margins.) As Exhibit 7 illustrates, complaint rates even as high as 7% (which would be more than 4x our estimate of the 1.6% complaint rate for Washington state), would indicate little impact on the margin if these loans were replaced. Put simply, unless the Bellingham branch complaint rate is the model for the nation, the complaint rates are too small to have an appreciable impact on total returns. *In our upgrade note of 8/1/02, we estimated that changes to Household's lending practices would compress the consumer finance business return on assets from 2.0% to 1.75%. The draft DFI report gives us no reason to change that estimate.*

Exhibit 2

Estimated Washington State Complaint Rates, HFC Only (1)

	Bellingham	Rest of Washington State	Total Washington State
Estimated No. of Complaints (2)	33	104	137
Estimated No. of Accounts (3)	437	7,860	8,297
Complaints per Account	7.53%	1.32%	1.65%
No. of Branches	1	18	19
Complaints per Branch	33	6	7

(1) Does not include Beneficial.
(2) 1995-2002, with 2002 annualized at January-March rate. Breakdown of Bellingham vs. rest of Washington is estimated and based on the relative proportion of comlaints discussed in the DFI report.
(3) We assume that total number of HFC accounts in Washington are split evenly among 19 branches. Estimate of total Washington state accounts assumes WA HFC real estate loans represents 4.0% of MS estimated total Household real-estate branch-based accounts of 435,580, and includes estimated PHL loans, which are classifed as "other unsecured" in Household's financial reports.
Source: The Bellingham Herald, Morgan Stanley Research

Exhibit 3

Projected US Complaints

	HFC Complaint Rate	Total HFC Complaints (1)	Total Household Complaints (2)
Worst case - US @ Bellingham rate	7.53%	15,618	32,798
Intermediate case - US @ Washington rate	1.65%	3,425	7,193
Best case - US @ Washington rate ex Bellingham	1.32%	2,748	5,770

(1) We apply the ratio of HFC/BNL branches (1:1.1) in WA to the estimated total number of Househould customers.
(2) Figures computed using estimated 435,580 HI real estate branch-based accounts in the US multiplied by the HFC complaint rate.
Source: Household, Morgan Stanley Research

Exhibit 4

Projected US Complaint Rates and Complaints Assuming Media Impact for Total HFC/BNL Customer Base

	Media Impact					
	2x		3x		4x	
	Total (1)	Rate	Total (1)	Rate	Total (1)	Rate
Worst case - US @ Bellingham rate	65,596	15.06%	98,393	22.59%	131,191	30.12%
Intermediate case - US @ Washington rate	14,385	3.30%	21,578	4.95%	28,770	6.60%
Best case - US @ Washington rate ex Bellingham	11,540	2.65%	17,310	3.97%	23,080	5.30%

(1) Total complaints computed by multiplying the complaint rate by an estimate of 435,580 total HI real estate branch-based accounts.
Source: Household, Morgan Stanley Research

Exhibit 5

Potential Litigation Damages per Loan

Product	Amount	Comments:
Credit life insurance	$1,341	Assumes single premium credit insurance charged to customer and financed at primary loan rate (12.0%). 100% complaints reimbursed for principal and interest.
Prepayment penalties	135	Assumes prepayment penalties assessed on 10% of complaints, costing customer 1% of loan amount.
Interest rate (1st lien) from bi-monthly payments	2,711	Assumes an effective interest rate was 12.0%. Customer reimbursed for amount above 7% rate promised. Assumes 25% customers enrolled in HI's Easy-Pay plan, which calls for bi-monthly payments of principal and interest at the effective interest rate.
Interest rate (2nd lien) from bi-monthly payments	3,629	Assumes an effective interest rate was 24%. Customer reimbursed for amount above 7% rate promised. Assumes 25% customers enrolled in Easy-Pay plan, which calls which calls for bi-monthly payments of principal and interest.
	$7,816	

(1) We use an average loan size of $96,000 for 1st lien real estate loans and $35,000 for 2nd lien real estate loans. We assume 30-year maturity for 1st lien real estate loans, 15 years for 2nd liens, and an average life of 2.5 years for both 1st and 2nd liens.
Source: Morgan Stanley Research

Exhibit 6

Potential Litigation Damages

($ Millions)

	Total Number of Complaints						
Damages per Loan	11,540	31,482	51,424	71,366	91,307	111,249	131,191
$500	6	16	26	36	46	56	66
$1,000	12	31	51	71	91	111	131
$2,000	23	63	103	143	183	222	262
$3,000	35	94	154	214	274	334	394
$4,000	46	126	206	285	365	445	525
$5,000	58	157	257	357	457	556	656
$7,500	87	236	386	535	685	834	984
$10,000	115	315	514	714	913	1,112	1,312

Most Likely

Source: Morgan Stanley Research, company

Exhibit 7

What would happen to Household's consumer finance ROA if complaints were eliminated?
Estimated Prospective ROA for Consumer Lending Business

	Complaint Rate						
Complaint ROA	2.65%	7.23%	11.81%	16.38%	20.96%	25.54%	30.12%
5%	1.92%	1.77%	1.60%	1.41%	1.20%	0.97%	0.71%
4%	1.95%	1.84%	1.73%	1.61%	1.47%	1.31%	1.14%
3%	1.97%	1.92%	1.87%	1.80%	1.73%	1.66%	1.57%
2%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

Most Likely

Note: We estimate Household's consumer finance ROA is 2%.
Source: Morgan Stanley Research

Downside Credit Risk Is Real, But Appears Adequately Discounted in the Stock Price

We've factored in the risk of a downside economic scenario and the possibility of weak credit controls at Household by reducing our target price from $53 to $34. Even so, the stock looks undervalued. The reduced price target factors in a 40% probability of a double-dip/deflationary scenario, as well as the possibility that Household's credit exposure is exacerbated by weak risk management and controls. To be clear, our $15 downside price target, equivalent to 0.75 times book value (0.89 times tangible book), represents a scenario where dramatically higher credit losses require a restructuring of the company. If this scenario comes to pass, then the stock would lose value from current levels; however, we don't see a basis to assert that the probability of this scenario is any higher than 40%.

The downside scenario consists of a "double-dip" recession followed by a deflationary period. We've run most of our stocks through this scenario, which we discuss in greater detail in our industry report "Weighing the Downside," dated October 2, 2002. Put simply, the downside scenario assumes the US economy slips back into recession. Unemployment rises to 7.5% in 2003 and peaks at 8% in 2004, leading to a 15% surge in bankruptcy filings. We would also expect home values to fall by around 2%. Clearly, this scenario would pose heightened credit risk for subprime lenders like Household, as well as impacting growth.

Our downside price target is based on loss rates that are more than double those of the last recession. In the downside scenario, we model Household's loss rate rising from 3.7% in 2001 to 4.3% in 2002 and 5.0% in 2003, peaking at 5.7% in 2004; this essentially cuts earnings in half. More specifically, we push up our home equity loss

rates to the highest level we can imagine. We project home equity losses jumping from 0.85% in 2Q02 (they were only 0.45% in 2000) to 2.1% in 2003, peaking at 3.2% in 2004. This would be more than twice the home equity loss rate in the wake of the last recession; then losses peaked at 1.31% in 1994. Loss rates of this magnitude would require massive increases in both severity and frequency (we estimate that both factors would need to double). In our projections, higher losses cause return on equity to fall to 9.4% in 2003 (down from 23% in 2002) and 2.6% in 2004, possibly creating the need for Household to raise capital or sell assets; in such a restructuring scenario, we would expect the stock to trade anywhere from 0.5–1.0 times current book value, or $10-$20 per share.

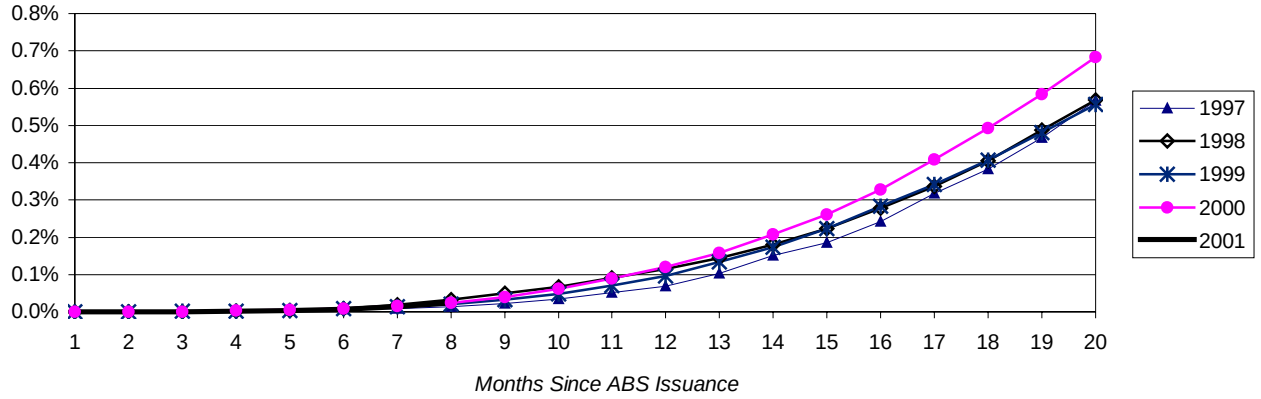
ABS data suggest that subprime industry is still relatively healthy. True, the subprime home equity industry has seen a modest deterioration in credit losses over the last two years (Exhibit 8). Cumulative loss rates for an index of 2000-vintage securitizations by major issuers have risen to 70 bps at month 20, compared to 60 bps for the 1997–1999 vintages. This is indicative of a higher risk profile in the industry, in our view. However, so far, this deterioration has been more than offset by wider margins. Thus, we observe that investment banks seem eager to purchase new production at wide premiums over par — a data point that suggests healthy fundamentals in the industry at present.

Similarly, ABS data point to a modest deterioration in Household's home equity credit performance; but, this should not be cause for panic. For example, 13-month delinquencies are now running at 3.5% for the 2001-1 series, compared to 2.5% for the 1999-1 series (Exhibit 9). This may reflect higher loan-to-values (LTVs), which have risen to 100% in the 2001 series from 93% in 1999. High LTVs are a reason to expect higher loss severities if home values decline. However, the credit scores in Household's securitization trusts have remained constant at around 620. This would generally be considered on the boundary of "prime" and "near-prime," rather than "BC" or "deep" subprime, and as such would not suggest massive increases in default frequency for minor variations in the unemployment rate.

The 1999 series showcases Household's cumulative loss rates as superior to the rest of the industry (Exhibit 10). Performance has deteriorated somewhat relative to the industry in 2001, to the tune of about 2 to 5 bps at month 8, possibly due to the increase in LTVs (Exhibit 11). While this deterioration warrants tracking, it does not support our downside case.

Exhibit 8

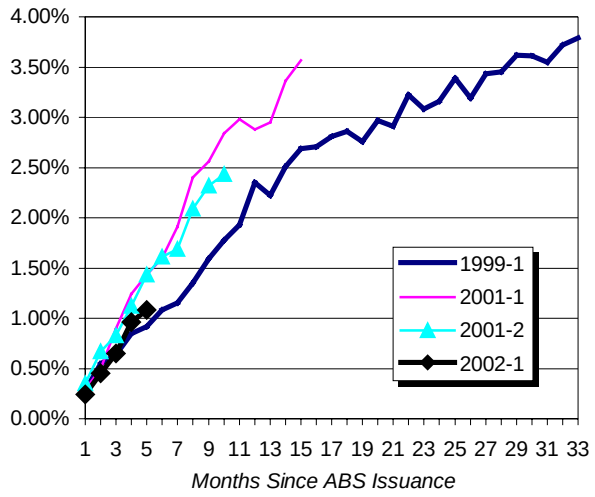
B&C Home Equity Industry
Cumulative Loss Ratio on Fixed Rate Home Equity ABS



Note: Index is comprised of home equity securitizations series of B&C lenders with loan-to-value ratios of less than 90%. Index excludes Household.
Source: Morgan Stanley Research

Exhibit 9

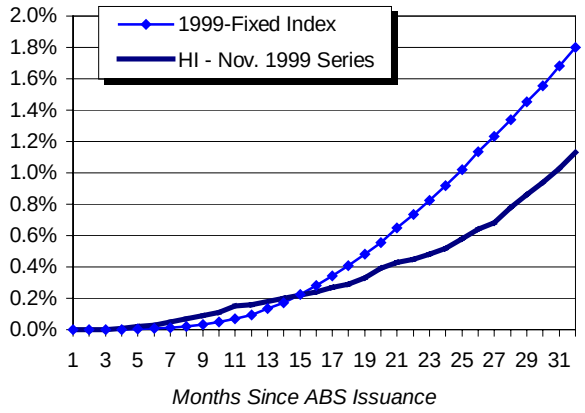
Household Closed End Home Equity Loans
Vintage Analysis: Delinquency Rate (60+ Days)



Source: Company reports, Morgan Stanley Research

Exhibit 10

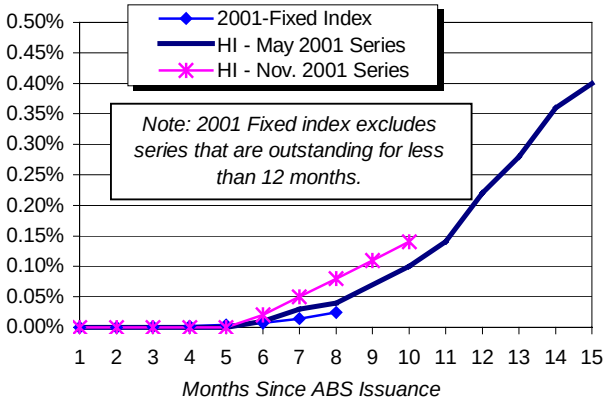
Household vs. Subprime Industry
Cumulative Loss Rates, 1999 Series



Note: Index is comprised of home equity securitizations from B&C lenders with LTVs less than 90%.
Source: Company reports, Morgan Stanley Research

Exhibit 11

Household vs. Subprime Industry
Cumulative Loss Rates, 2001 Series



Note: Index is comprised of home equity securitizations from B&C lenders with LTVs less than 90%.
Source: Company reports, Morgan Stanley Research

Exhibit 12

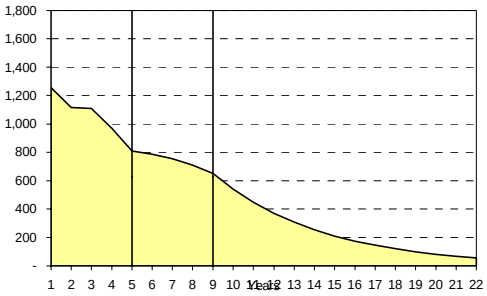
Household International
Residual Income Model: New Base Case

Assumptions

Share Information	
Expected 12 Month Dividend (2002)	$0.88
Current Stock Price (10-3)	26.60
Issued Shares (million) (2Q02)	448
Reported Book Value Per Share (2Q02)	19.87
Cost of Capital	
10-yr. Govt. Bond Yield (%) (9-27)	3.69
Beta	1.00
Market Risk Premium (%)	5.00
Cost of Common Equity (%)	8.69
Maturity Phase	
Number of Years	4
Target Equity/Mgd. Assets (%)	7.4
End of Phase RWA Growth Rate (%)	7.0
Decline Phase	
Decay Factor (0-10%)	10.0
Growth in RWA (%)	5.0
Goodwill	
Current Goodwill	1,225
BV Adjustment	2,415

Valuation Analysis

Present Value of Residual Income (%)



Key Valuation Measures

Stock Price	26.60
Est. Current Fair Value ($)	50.72
12 Month Target Price ($)	54.25
12 Month Total Return (%)	107.3
Price/Book Value	1.3
Price/Economic Book Value	1.0
2002E Return on Economic Equity (%)	20.7
Cost of Common Equity (%)	8.7
Current Operations Value[1]/Est. Fair Value (%)	119

Valuation Drivers

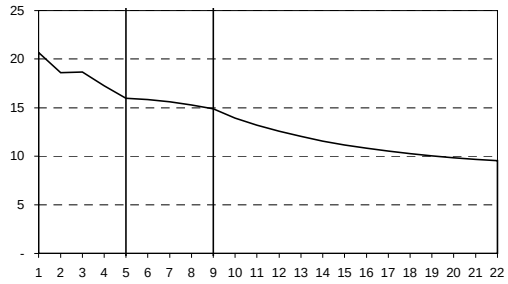
		CAGR (%)		End of Phase		% of Fair Value	
Phase	Years	Cash Earnings	RWA	ROEE (%)	Payout Ratio (%)	Phase	Cumulative
Economic BV	-	-	-	-	-	50.2	50.2
Development	5	3.4	9.5	16.0	54.2	23.2	73.3
Maturity	4	5.4	7.9	14.9	58.0	12.8	86.1
Decline	13	1.2	5.0	9.6	51.2	13.9	100.0

Valuation Parameters

	Est. Current Fair Value as a Multiple of			
	Bk Val	Econ Bk	Earnings	Cash Earn
2002	2.4	1.9	10.9	10.7
2003	2.2	1.8	10.4	10.2
2004	1.9	1.6	9.6	9.5
2005	1.8	1.5	9.4	9.3
2006	1.7	1.4	9.5	9.3

Return on Economic Equity

ROEE (%)



Distribution of Forecasted ROEE

ROEE Frequency (%)	ROEE Threshold (%)
75	10
65	10
55	11
50	12
45	12
35	14
25	15

Source: Morgan Stanley Research

Exhibit 13

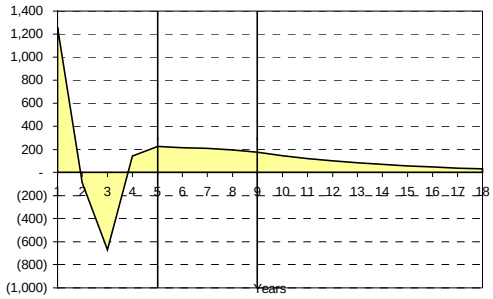
Household International
Residual Income Model: Downside Case

Assumptions

Share Information	
Expected 12 Month Dividend (2002)	$0.88
Current Stock Price (10-3)	26.60
Issued Shares (million) (2Q02)	448
Reported Book Value Per Share (2Q02)	19.87
Cost of Capital	
10-yr. Govt. Bond Yield (%) (9-27)	3.69
Beta	1.00
Market Risk Premium (%)	5.00
Cost of Common Equity (%)	8.69
Maturity Phase	
Number of Years	4
Target Equity/Mgd. Assets (%)	7.5
End of Phase RWA Growth Rate (%)	7.0
Decline Phase	
Decay Factor (0-10%)	10.0
Growth in RWA (%)	5.0
Goodwill	
Current Goodwill	1,225
BV Adjustment	2,415

Valuation Analysis

Present Value of Residual Income (%)



Key Valuation Measures

Stock Price	26.60
Est. Current Fair Value ($)	31.09
12 Month Target Price ($)	32.91
12 Month Total Return (%)	27.0
Price/Book Value	1.3
Price/Economic Book Value	1.0
2002E Return on Economic Equity (%)	20.7
Cost of Common Equity (%)	8.7
Current Operations Value™/Est. Fair Value (%)	195

Valuation Drivers

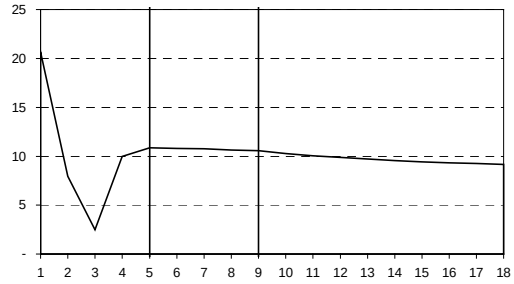
		CAGR (%)		End of Phase		% of Fair Value	
Phase	Years	Cash Earnings	RWA	ROEE (%)	Payout Ratio (%)	Phase	Cumulative
Economic BV	-	-	-	-	-	81.9	81.9
Development	5	(7.8)	6.7	10.9	39.7	6.2	88.1
Maturity	4	5.9	7.6	10.6	41.6	5.7	93.8
Decline	9	3.1	5.0	9.2	50.0	6.2	100.0

Valuation Parameters

	Est. Current Fair Value as a Multiple of			
	Bk Val	Econ Bk	Earnings	Cash Earn
2002	1.5	1.2	6.7	6.6
2003	1.4	1.1	15.2	14.6
2004	1.3	1.0	50.9	44.9
2005	1.2	1.0	10.6	10.3
2006	1.1	0.9	9.3	9.1

Return on Economic Equity

ROEE (%)



Distribution of Forecasted ROEE

ROEE Frequency (%)	ROEE Threshold (%)
75	8
65	9
55	9
50	9
45	9
35	10
25	10

Source: Morgan Stanley Research

Exhibit 14

Household International
Key Model Inputs, 2002E–2003E

	1Q02A	Restated 2Q02A	3Q02E	4Q02E	2002E	2003E
Growth Rates (Y/Y % Change)						
Home Equity	21.7%	22.8%	23.0%	21.0%	21.0%	18.0%
Auto Finance	37.8%	33.4%	23.0%	22.0%	22.0%	8.0%
Visa/MasterCard	-1.3%	-1.5%	-1.0%	4.0%	4.0%	4.0%
Private Label	12.2%	12.5%	12.0%	7.0%	7.0%	3.0%
Other Unsecured	9.7%	11.5%	11.0%	11.0%	11.0%	10.0%
Total Mgd. Receivables	14.5%	15.2%	14.7%	14.1%	14.1%	11.7%
Interest Income/Avg Earning Assets	13.10%	12.81%	12.94%	12.99%	12.96%	12.70%
Estimated Cost of Debt	4.68%	4.53%	4.43%	4.17%	4.43%	4.43%
Net Interest Margin	8.79%	8.55%	8.62%	8.93%	8.71%	8.42%
Fee Income/Avg Visa/MasterCard Receiv.	8.81%	8.50%	8.50%	8.70%	8.63%	8.80%
Salaries & Benefits Exp./Avg. Mgd Receivables	1.97%	2.02%	1.93%	1.90%	1.95%	1.95%
Mgd. Four-Qtr. Lagged Net Charge-Off Rate						
Home Equity	0.80%	1.05%	1.15%	1.15%	1.04%	1.10%
Auto Finance	9.34%	8.34%	8.50%	9.50%	8.94%	8.62%
Visa/MasterCard	7.07%	7.43%	7.60%	7.30%	7.35%	6.98%
Private Label	6.32%	6.02%	5.92%	6.02%	6.07%	5.76%
Other Unsecured	8.66%	9.43%	9.70%	9.80%	9.41%	9.27%
Total	4.71%	4.90%	5.00%	5.00%	4.91%	4.61%
Y/Y % Change	8%	13%	16%	11%	12%	-6%
Net Charge-Off Rate						
Home Equity	0.65%	0.86%	0.93%	0.94%	0.85%	0.91%
Auto Finance	6.70%	6.17%	6.64%	7.79%	6.85%	7.38%
Visa/MasterCard	7.17%	7.54%	7.78%	7.33%	7.45%	6.45%
Private Label	5.57%	5.38%	5.27%	5.41%	5.41%	5.28%
Other Unsecured	7.86%	8.56%	8.69%	8.79%	8.49%	8.34%
Total	4.09%	4.26%	4.34%	4.36%	4.27%	4.01%
Reserves/Managed Receivables	4.10%	4.14%	4.09%	4.05%	4.05%	3.98%
Mgd. Reserve Ratio/Lagged NCO Rate	87%	85%	82%	81%	83%	86%
Key Macro Assumptions (1)						
Real GDP (Chg) (2)	6.1%	1.1%	3.5%	1.5%	2.4%	3.0%
Personal Consumption Expend. (Chg) (2)	3.3%	1.9%	4.6%	0.8%	3.1%	2.4%
Civilian Unemployment Rate	5.6%	5.9%	5.9%	6.1%	5.9%	6.0%
Fed Funds Target Rate	1.75%	1.75%	1.75%	1.25%	1.25%	2.50%
Change in Fed Funds Target Rate (bps)	0.00	0.00	0.00	(0.50)	(0.50)	1.25
Revolving Credit, NSA (Y/Y Chg)	3%	3%	4%	4%	4%	5%
Bankruptcy Filings/Capita (Y/Y Chg)	2%	-5%	5%	0%	0%	-5%

(1) Estimates are based on discussions with Morgan Stanley US Economist team, as of July 8, 2002.
(2) Quarterly growth rates are annualized percent change from prior quarter.
Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations.
AT = After tax NSA = Not Seasonally Adjusted A = Actual E = Morgan Stanley Research Estimates

Source: Morgan Stanley Research

Exhibit 15

Household International
Income Statement, 2002E–2003E

($ Millions Except Per Share Data)	Restated 1Q02A	Restated 2Q02A	3Q02E	4Q02E	2002E	2003E
Income Statement (Managed Basis)						
Net Interest Income	2,253.2	2,280.6	2,359.5	2,535.3	9,428.6	10,247.1
Insurance Premium Revenues	170.1	177.5	188.3	196.7	732.6	827.6
Investment Income	46.2	44.0	46.5	50.4	187.1	205.8
Fee Income	372.0	355.4	360.4	383.0	1,470.8	1,624.1
Securitization Income	145.8	134.2	119.0	73.8	472.7	488.1
Other Non-Interest Revenues	188.0	95.3	59.2	61.8	404.3	430.9
Non-Interest Income	922.1	806.4	773.3	765.7	3,267.5	3,576.5
Net Revenues	3,175.3	3,087.0	3,132.8	3,301.0	12,696.1	13,823.6
Provision for Loan Losses	(1,362.3)	(1,278.4)	(1,279.1)	(1,392.8)	(5,312.6)	(5,592.6)
Insurance Benefits Expense	(84.0)	(87.4)	(90.4)	(94.4)	(356.2)	(397.3)
Salaries and Fringe Benefit Expense	(499.4)	(520.6)	(519.2)	(533.8)	(2,073.0)	(2,373.4)
Marketing Expense	(140.4)	(133.5)	(131.5)	(132.5)	(537.9)	(624.0)
Amortization of Acquired Intangibles	(19.8)	(12.6)	(12.6)	(12.6)	(57.6)	(55.7)
Other Non-Interest Expenses	(323.9)	(297.4)	(282.5)	(252.8)	(1,156.6)	(1,375.4)
Non-Interest Expense	(1,067.5)	(1,051.5)	(1,036.2)	(1,026.1)	(4,181.3)	(4,825.7)
Pretax Income	745.5	757.1	817.6	882.1	3,202.3	3,405.3
Income Taxes	(254.5)	(249.7)	(269.6)	(290.9)	(1,064.8)	(1,157.8)
Net Income	$491.0	$507.4	$547.9	$591.2	$2,137.5	$2,247.5
Net Income Applicable to Common	$482.5	$491.9	$532.4	$575.7	$2,082.5	$2,192.5
Diluted EPS	**$1.04**	**$1.07**	**$1.15**	**$1.25**	**$4.51**	**$4.90**
Avg. Diluted Shares Outstanding (Millions)	462.1	461.2	461.2	461.2	461.4	447.1
Dividends Per Share	$0.22	$0.25	$0.25	$0.25	$0.97	$1.12
Common Dividend Payout Ratio	21%	23%	22%	20%	21%	23%
Growth Rates (Y/Y % Change)						
Net Interest Income	23.1%	20.4%	16.6%	15.6%	18.7%	8.7%
Insurance Premium Revenues	7.3%	11.4%	11.3%	12.2%	10.6%	13.0%
Investment Income	10.5%	16.4%	10.0%	10.0%	11.6%	10.0%
Fee Income	-5.4%	-10.3%	-11.7%	-9.0%	-9.1%	10.4%
Other Non-Interest Revenues	16.3%	92.9%	14.9%	3.2%	25.4%	6.6%
Non-Interest Income	26.5%	21.1%	12.2%	-6.9%	12.4%	9.5%
Net Revenues	24.1%	20.6%	15.5%	9.5%	17.0%	8.9%
Provision for Loan Losses	46.0%	36.8%	32.3%	17.6%	32.2%	5.3%
Insurance Benefits Expense	8.4%	19.6%	16.6%	26.7%	17.7%	11.5%
Salaries and Fringe Benefit Expense	15.6%	13.0%	7.6%	7.8%	10.8%	14.5%
Marketing Expense	3.8%	3.5%	3.5%	3.5%	3.6%	16.0%
Other Non-Interest Expenses	17.0%	16.4%	9.3%	-1.3%	10.5%	18.9%
Non-Interest Expense	11.1%	10.0%	5.4%	3.5%	7.5%	15.4%
Pretax Income	12.0%	13.1%	7.1%	5.1%	9.0%	6.3%
Net Income	13.7%	15.6%	8.8%	7.7%	11.1%	5.1%
Diluted EPS	14.7%	14.7%	8.3%	6.9%	10.8%	8.6%

Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations.
AT = After tax A = Actual E = Morgan Stanley Research Estimates

Source: Morgan Stanley Research, Company data

Exhibit 16

Household International
Key Model Inputs, 2000A-2006E

	2000A	2001A	2002E	2003E	2004E	2005E	2006E
Growth Rates (Y/Y % Change)							
Home Equity	36.0%	22.1%	21.0%	18.0%	15.0%	12.0%	12.0%
Auto Finance	50.1%	40.2%	22.0%	8.0%	8.0%	12.0%	12.0%
Visa/MasterCard	11.3%	-1.1%	4.0%	4.8%	4.8%	5.8%	6.0%
Private Label	6.5%	15.1%	7.0%	3.0%	3.0%	6.0%	6.0%
Other Unsecured	16.9%	10.9%	11.0%	10.0%	10.0%	10.0%	10.0%
Total Mgd. Receivables	22.4%	15.1%	14.1%	11.8%	10.7%	10.1%	10.2%
Interest Income/Avg Earning Assets	14.61%	14.09%	12.96%	12.70%	12.85%	12.98%	12.92%
Estimated Cost of Debt	6.74%	5.85%	4.43%	4.43%	4.97%	5.22%	5.29%
Net Interest Margin	8.10%	8.50%	8.71%	8.42%	8.07%	7.99%	7.87%
Fee Income/Avg. Mgd Receivables	1.86%	1.75%	1.39%	1.34%	1.28%	1.22%	1.18%
Salaries & Benefits Exp./Avg. Mgd Receivables	1.92%	2.02%	1.95%	1.95%	1.98%	2.00%	2.00%
Mgd. Four-Qtr. Lagged Net Charge-Off Rate							
Home Equity	0.59%	0.65%	1.04%	1.10%	0.80%	0.60%	0.60%
Auto Finance	7.78%	7.35%	8.94%	8.62%	8.32%	8.02%	7.72%
Visa/MasterCard	5.88%	7.11%	7.35%	6.98%	6.70%	6.70%	6.70%
Private Label	5.84%	5.67%	6.07%	5.76%	5.56%	5.56%	5.56%
Other Unsecured	7.91%	7.83%	9.41%	9.27%	8.81%	8.81%	8.81%
Total	4.36%	4.37%	4.91%	4.61%	4.17%	3.92%	3.82%
Y/Y % Change	1%	0%	12%	-6%	-9%	-6%	-2%
Net Charge-Off Rate							
Home Equity	0.45%	0.53%	0.85%	0.91%	0.69%	0.53%	0.54%
Auto Finance	4.80%	5.31%	6.85%	7.38%	7.71%	7.29%	6.89%
Visa/MasterCard	5.58%	6.63%	7.45%	6.43%	6.40%	6.37%	6.33%
Private Label	5.35%	5.18%	5.41%	5.28%	5.40%	5.32%	5.25%
Other Unsecured	6.97%	6.79%	8.49%	8.34%	8.00%	8.00%	8.00%
Total	3.64%	3.73%	4.27%	4.00%	3.75%	3.55%	3.47%
Reserves/Managed Receivables	3.65%	3.78%	4.04%	3.93%	3.66%	3.43%	3.22%
Mgd. Reserve Ratio/Lagged NCO Rate	84%	86%	82%	85%	88%	88%	84%
Key Macro Assumptions (1)							
Real GDP (Chg) (2)	5.0%	1.2%	2.4%	3.0%	3.5%	3.5%	3.5%
Personal Consumption Expend. (Chg) (2)	5.3%	3.1%	3.1%	2.4%	2.5%	3.5%	3.5%
Civilian Unemployment Rate	4.0%	4.8%	5.9%	6.0%	5.6%	5.0%	5.0%
Fed Funds Target Rate	6.5%	1.75%	1.25%	2.50%	4.00%	4.50%	4.50%
Change in Fed Funds Target Rate (bps)		(4.75)	(0.50)	1.25	1.50	0.50	0.00
Revolving Credit, NSA (Y/Y Chg)		5%	4%	5%	5%	6%	6%
Bankruptcy Filings/Capita (Y/Y Chg)		20%	0%	-5%	-5%	0%	0%

(1) Estimates are based on discussions with Morgan Stanley US Economist team, as of July 8, 2002.
(2) Quarterly growth rates are annualized percent change from prior quarter.
Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations.
AT = After tax NSA = Not Seasonally Adjusted A = Actual E = Morgan Stanley Research Estimates

Source: Morgan Stanley Research, Company data

Exhibit 17

Household International
Summary Earnings Model, 2000A–2006E

($ Millions Except Per Share Data)

	2000A	2001A	2002E	2003E	2004E	2005E	2006E
Income Statement (Managed Basis)							
Net Interest Income	6,490.0	7,940.6	9,428.6	10,252.4	10,828.8	11,829.0	12,769.9
Non-Interest Income	2,677.5	2,906.8	3,267.5	3,583.3	3,750.5	3,666.8	3,776.4
Net Revenues	9,167.5	10,847.4	12,696.1	13,835.7	14,579.3	15,495.8	16,546.4
Provision for Loan Losses	(3,252.4)	(4,018.4)	(5,300.3)	(5,554.3)	(5,488.7)	(5,729.9)	(6,172.9)
Non-Interest Expense	(3,304.6)	(3,890.5)	(4,181.3)	(4,828.1)	(5,413.7)	(6,003.3)	(6,647.5)
Pretax Income	2,610.5	2,938.5	3,214.5	3,453.3	3,676.9	3,762.6	3,726.0
Net Income Applicable to Common	1,691.5	1,908.0	2,090.7	2,224.2	2,371.8	2,428.3	2,404.2
Diluted EPS	**$3.55**	**$4.07**	**$4.53**	**$4.98**	**$5.39**	**$5.64**	**$5.67**
Y/Y % Change	16%	15%	11%	10%	8%	5%	1%
Diluted Cash EPS (1)	$3.97	$4.92	$5.08	$4.95	$4.98	$5.62	$5.91
Dividends Per Share	$0.74	$0.85	$0.97	$1.12	$1.26	$1.45	$1.67
Avg. Diluted Shares Outstanding (Millions)	476.2	468.6	461.4	446.7	440.1	430.5	423.9
Selected Balance Sheet Data							
Home Equity	36,637.5	44,718.6	54,109.5	63,849.2	73,426.6	82,237.8	92,106.3
Y/Y % Change	36.0%	22.1%	21.0%	18.0%	15.0%	12.0%	12.0%
Total Managed Receivables	87,607.4	100,822.7	115,009.1	128,555.3	142,307.1	156,688.6	172,681.3
Y/Y % Change	22.4%	15.1%	14.1%	11.8%	10.7%	10.1%	10.2%
Book Value Per Share	$16.88	$19.47	$21.86	$26.07	$30.66	$35.51	$40.30
Tangible Book Value Per Share	$14.02	$14.66	$18.90	$22.25	$26.44	$30.46	$34.59
Total Securtized Receiv./Total Mgd. Receiv.	23%	21%	21%	22%	23%	23%	23%
Tangible Capital/Tangible Mgd. Assets	7.7%	7.4%	8.0%	8.0%	8.2%	8.1%	8.0%
Credit Quality Statistics							
Mgd. Reserves/Mgd. Receivables	3.65%	3.78%	4.04%	3.93%	3.66%	3.43%	3.22%
Mgd. Reserve Ratio/Lagged NCO Rate	84%	86%	82%	85%	88%	88%	84%
Mgd. Provisions/Mgd. Net Chargeoffs	114%	117%	118%	108%	103%	103%	103%
Mgd. Consumer Delinquency Rate (60+ days)	4.20%	4.46%	4.50%	4.45%	4.40%	4.35%	4.35%
Mgd. Consumer Net Charge-Offs Rate	3.64%	3.73%	4.27%	4.00%	3.75%	3.55%	3.47%
4-Qtr. Lagged Net Charge-Off Rate	4.36%	4.37%	4.91%	4.61%	4.17%	3.92%	3.82%
Profitability Metrics							
Return on Avg. Managed Assets (ROMA)	1.9%	1.9%	1.8%	1.7%	1.6%	1.5%	1.4%
Return on Avg. Common Equity	23.4%	24.3%	24.0%	22.4%	21.5%	19.9%	18.2%
Return on Avg. Tang. Common Equity	27.4%	27.9%	25.9%	24.0%	22.9%	21.1%	19.2%
Mgd. Net Interest Margin (Annualized)	8.1%	8.5%	8.7%	8.4%	8.1%	8.0%	7.9%
Risk-Adjusted Margin	7.9%	7.9%	7.6%	7.1%	6.9%	6.7%	6.5%
Efficiency Ratio (Normalized)	34.2%	34.0%	31.0%	33.0%	35.2%	36.7%	38.2%
Tax Rate	34.9%	34.5%	33.2%	34.0%	34.0%	34.0%	34.0%

(1) Cash EPS adds back non-cash charges of goodwill amortization, change in reserves, and net securitization gains.
Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations.
AT = After tax A = Actual E = Morgan Stanley Research Estimates

Source: Morgan Stanley Research, Company data

Exhibit 18

Household International: Downside Case
Key Model Inputs, 2000A-2006E

	2000A	2001A	2002E	2003E	2004E	2005E	2006E
Growth Rates (Y/Y % Change)							
Home Equity	36.0%	22.1%	21.0%	16.0%	6.0%	5.0%	10.0%
Auto Finance	50.1%	40.2%	22.0%	8.0%	8.0%	12.0%	12.0%
Visa/MasterCard	11.3%	-1.1%	1.5%	1.5%	1.5%	3.0%	6.0%
Private Label	6.5%	15.1%	5.0%	1.0%	1.0%	3.0%	6.0%
Other Unsecured	16.9%	10.9%	11.0%	10.0%	10.0%	10.0%	10.0%
Total Mgd. Receivables	22.4%	15.1%	13.4%	10.1%	5.6%	5.9%	9.2%
Interest Income/Avg Earning Assets	14.61%	14.09%	12.97%	12.60%	12.60%	12.60%	12.82%
Estimated Cost of Debt	6.74%	5.85%	4.43%	4.24%	4.41%	4.66%	5.29%
Net Interest Margin	8.10%	8.50%	8.72%	8.50%	8.37%	8.17%	7.80%
Fee Income/Avg. Mgd Receivables	1.86%	1.75%	1.38%	1.30%	1.24%	1.21%	1.17%
Salaries & Benefits Exp./Avg. Mgd Receivables	1.92%	2.02%	1.95%	1.97%	2.00%	2.05%	2.00%
Mgd. Four-Qtr. Lagged Net Charge-Off Rate							
Home Equity	0.59%	0.65%	1.04%	2.50%	3.50%	2.00%	1.25%
Auto Finance	7.78%	7.35%	8.94%	9.56%	9.90%	9.60%	8.96%
Visa/MasterCard	5.88%	7.11%	7.35%	8.09%	8.41%	8.41%	8.07%
Private Label	5.84%	5.67%	6.07%	6.67%	6.91%	6.91%	6.66%
Other Unsecured	7.91%	7.83%	9.41%	9.69%	10.03%	10.03%	9.68%
Total	4.36%	4.37%	4.91%	5.69%	6.22%	5.40%	4.88%
Y/Y % Change	1%	0%	12%	16%	9%	-13%	-10%
Net Charge-Off Rate							
Home Equity	0.45%	0.53%	0.85%	2.10%	3.16%	1.90%	1.16%
Auto Finance	4.80%	5.31%	6.85%	8.18%	9.16%	8.72%	8.00%
Visa/MasterCard	5.58%	6.63%	7.48%	7.73%	8.29%	8.23%	7.72%
Private Label	5.35%	5.18%	5.42%	6.28%	6.84%	6.77%	6.38%
Other Unsecured	6.97%	6.79%	8.49%	8.72%	9.12%	9.12%	8.80%
Total	3.64%	3.73%	4.27%	5.01%	5.77%	5.11%	4.53%
Reserves/Managed Receivables	3.65%	3.78%	4.07%	4.60%	5.05%	4.62%	4.09%
Mgd. Reserve Ratio/Lagged NCO Rate	84%	86%	83%	81%	81%	85%	84%
Key Macro Assumptions (1)							
Real GDP (Chg) (2)	5.0%	1.2%	2.9%	1.5%	1.5%	3.5%	3.5%
Personal Consumption Expend. (Chg) (2)	5.3%	3.1%	3.3%	1.0%	1.0%	2.5%	2.5%
Civilian Unemployment Rate	4.0%	4.8%	5.8%	7.5%	8.0%	7.0%	6.0%
Fed Funds Target Rate	6.5%	1.75%	1.25%	1.00%	1.00%	3.00%	4.50%
Change in Fed Funds Target Rate (bps)		(4.75)	(0.50)	(0.25)	0.00	2.00	1.50
Revolving Credit, NSA (Y/Y Chg)		5%	2%	2%	2%	3%	6%
Bankruptcy Filings/Capita (Y/Y Chg)		20%	0%	10%	5%	0%	-5%

(1) Estimates are based on discussions with Morgan Stanley US Economist team, as of July 8, 2002.
(2) Quarterly growth rates are annualized percent change from prior quarter.
Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations.
AT = After tax NSA = Not Seasonally Adjusted A = Actual E = Morgan Stanley Research Estimates

Source: Morgan Stanley Research, Company data

Exhibit 19

Household International: Downside Case
Summary Earnings Model, 2000A–2006E

($ Millions Except Per Share Data)

	2000A	2001A	2002E	2003E	2004E	2005E	2006E
Income Statement (Managed Basis)							
Net Interest Income	6,490.0	7,940.6	9,430.4	10,222.3	10,767.5	11,150.8	11,407.9
Non-Interest Income	2,677.5	2,906.8	3,262.0	3,503.9	3,582.2	3,415.5	3,488.5
Net Revenues	9,167.5	10,847.4	12,692.4	13,726.1	14,349.7	14,566.3	14,896.4
Provision for Loan Losses	(3,252.4)	(4,018.4)	(5,312.6)	(7,437.0)	(8,577.2)	(6,967.7)	(6,748.5)
Non-Interest Expense	(3,304.6)	(3,890.5)	(4,178.5)	(4,819.0)	(5,275.0)	(5,518.4)	(5,800.1)
Pretax Income	2,610.5	2,938.5	3,201.3	1,470.2	497.5	2,080.1	2,347.9
Net Income Applicable to Common	1,691.5	1,908.0	2,081.9	915.3	273.3	1,317.9	1,494.6
Diluted EPS	**$3.55**	**$4.07**	**$4.51**	**$1.98**	**$0.58**	**$2.86**	**$3.29**
Y/Y % Change	16%	15%	11%	-56%	-71%	394%	15%
Diluted Cash EPS (1)	$3.97	$4.92	$5.08	$2.98	$1.24	$2.23	$2.82
Dividends Per Share	$0.74	$0.85	$0.97	$1.00	$0.00	$0.00	$0.33
Avg. Diluted Shares Outstanding (Millions)	476.2	468.6	461.4	461.4	471.9	460.6	454.8
Selected Balance Sheet Data							
Home Equity	36,637.5	44,718.6	54,109.5	62,767.0	66,533.0	69,859.7	76,845.7
Y/Y % Change	36.0%	22.1%	21.0%	16.0%	6.0%	5.0%	10.0%
Total Managed Receivables	87,607.4	100,822.7	114,298.0	125,860.0	132,849.0	140,642.3	153,532.3
Y/Y % Change	22.4%	15.1%	13.4%	10.1%	5.6%	5.9%	9.2%
Book Value Per Share	$16.88	$19.47	$21.84	$22.89	$23.47	$26.43	$29.53
Tangible Book Value Per Share	$14.02	$14.66	$18.88	$20.05	$21.39	$23.77	$26.58
Total Securtized Receiv./Total Mgd. Receiv.	23%	21%	21%	22%	23%	23%	23%
Tangible Capital/Tangible Mgd. Assets	7.7%	7.4%	8.1%	7.9%	8.2%	8.2%	8.1%
Credit Quality Statistics							
Mgd. Reserves/Mgd. Receivables	3.65%	3.78%	4.07%	4.60%	5.05%	4.62%	4.09%
Mgd. Reserve Ratio/Lagged NCO Rate	84%	86%	83%	81%	81%	85%	84%
Mgd. Provisions/Mgd. Net Chargeoffs	114%	117%	118%	118%	112%	97%	97%
Mgd. Consumer Delinquency Rate (60+ days)	4.20%	4.46%	4.50%	4.45%	4.40%	4.35%	4.35%
Mgd. Consumer Net Charge-Offs Rate	3.64%	3.73%	4.27%	5.01%	5.77%	5.11%	4.53%
4-Qtr. Lagged Net Charge-Off Rate	4.36%	4.37%	4.91%	5.69%	6.22%	5.40%	4.88%
Profitability Metrics							
Return on Avg. Managed Assets (ROMA)	1.9%	1.9%	1.8%	0.7%	0.2%	0.9%	0.9%
Return on Avg. Common Equity	23.4%	24.3%	23.9%	9.4%	2.6%	11.7%	12.5%
Return on Avg. Tang. Common Equity	27.4%	27.9%	25.8%	10.4%	3.3%	12.7%	13.4%
Mgd. Net Interest Margin (Annualized)	8.1%	8.5%	8.7%	8.5%	8.4%	8.2%	7.8%
Risk-Adjusted Margin	7.9%	7.9%	7.6%	6.2%	5.2%	5.4%	5.4%
Efficiency Ratio (Normalized)	34.2%	34.0%	31.0%	33.2%	34.8%	35.9%	36.9%
Tax Rate	34.9%	34.5%	33.3%	34.0%	34.0%	34.0%	34.0%

(1) Cash EPS adds back non-cash charges of goodwill amortization, change in reserves, and net securitization gains.
Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations.
AT = After tax A = Actual E = Morgan Stanley Research Estimates

Source: Morgan Stanley Research, Company data

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Global Stock Ratings Distribution

(as of Sep 30, 2002)

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight	688	34%	272	41%	40%
Equalweight	949	46%	293	44%	31%
Underweight	414	20%	96	15%	23%
Total	2,051		661		

Data include common stock and ADRs currently assigned ratings. For disclosure purposes (in accordance with NASD and NYSE requirements), we note that Overweight, our most positive stock rating, most closely corresponds to a buy recommendation; Equal-weight and Underweight most closely correspond to neutral and sell recommendations, respectively. However, Overweight, Equal-weight, and Underweight are not the equivalent of buy, neutral, and sell but represent recommended relative weightings (see definitions below). An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

ANALYST STOCK RATINGS

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Ratings prior to March 18, 2002: SB=Strong Buy; OP=Outperform; N=Neutral; UP=Underperform. For definitions, please go to www.morganstanley.com/companycharts.

ANALYST INDUSTRY VIEWS

Attractive (A). The analyst expects the performance of his or her industry coverage universe to be attractive vs. the relevant broad market benchmark over the next 12-18 months.

In-Line (I). The analyst expects the performance of his or her industry coverage universe to be in line with the relevant broad market benchmark over the next 12-18 months.

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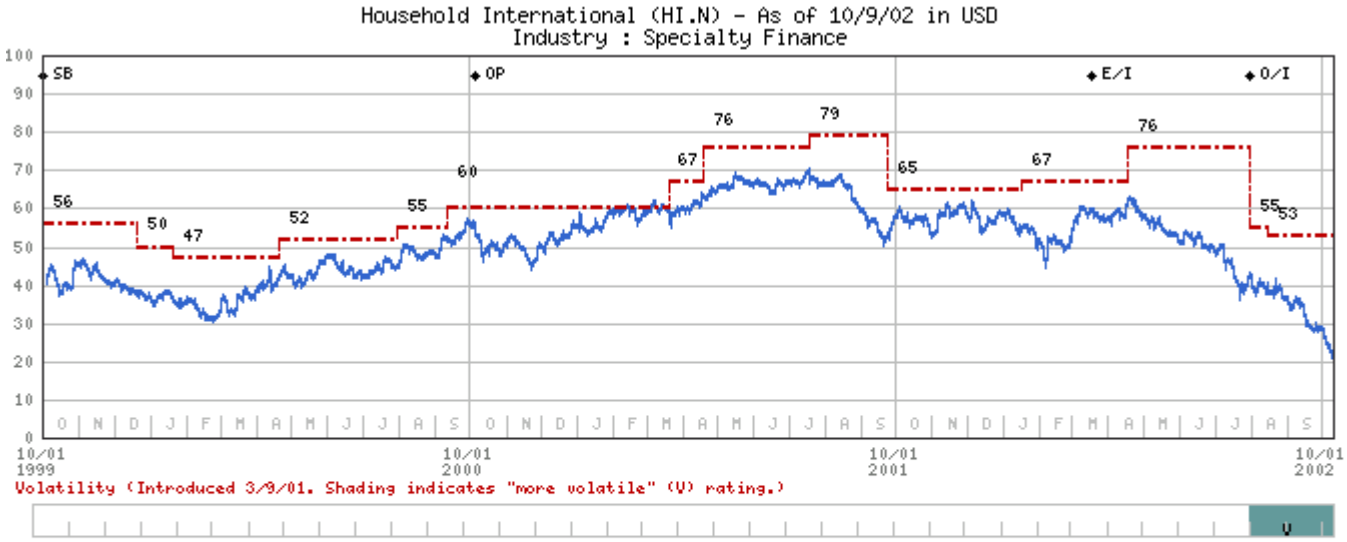
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 1/22/99 : SB; 10/6/00 : OP; 3/18/02 : E/I; 7/31/02 : O/I

Price Target History: 7/12/99 : 56; 12/21/99 : 50; 1/20/00 : 47; 4/20/00 : 52; 7/31/00 : 55; 9/12/00 : 60; 3/20/01 : 67; 4/19/01 : 76; 7/19/01 : 79; 9/24/01 : 65; 1/17/02 : 67; 4/18/02 : 76; 7/31/02 : 55; 8/15/02 : 53

Source: Morgan Stanley Research Date Format : MM/DD/YY Stock Price — Price Target -- No Price Target Available (NA)
Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAV)
Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAV)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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INDUSTRY COVERAGE: SPECIALTY FINANCE

Company	Ticker	Rating	as of	Price at 10/8/02
American Express Co.	AXP.N	U	3/18/02	$28.40
Capital One Financial Corp	COF.N	E	5/20/02	$29.69
GATX	GMT.N	U	3/18/02	$17.39
Household International	HI.N	O	7/31/02	$23.58
MBNA	KRB.N	O	3/18/02	$17.25
Providian Corp.	PVN.N	O	3/22/02	$4.08
The CIT Group	CIT.N	U	7/2/02	$14.60

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Dow Jones Capital Markets Report

December 1, 2001 Saturday 5:02 AM GMT

LENGTH: 3267 words

HEADLINE: BARRON'S: Does It Add Up? A Look At Household's Accounting

BYLINE: By Jonathan R. Laing

BODY:

During his seven years at Household International's helm, William Aldinger has done much to transform the more-than-century-old finance company into a cult stock.

As befits an alumnus of that accomplished financial chop-shop, Wells Fargo, Aldinger knows how to cut costs and boost efficiency with a vengeance. On his watch, earnings have compounded at 19% annually, based on 2001 estimates of $1.9 billion, or $4.08 a share. And Household's shares, which closed Thursday at 59.80, have been Wall Street darlings, increasing by more than fourfold.

But some critics wonder whether the company's aggressive accounting paints too rosy a picture. In particular, they worry that some of its shakiest loans are being put into a catch-all category on its balance sheet called Other Unsecured Receivables.

The changes that Aldinger, 54, has wrought are numerous. Out went much of the corporate art collection ("It apparently wasn't that terrific because we ended up losing money on the sale," Aldinger says with customary directness) and the curator who had put it together. Today, the walls of Aldinger's office in the company's suburban Chicago headquarters are festooned with charts of Household's sales and financial performance, rather than Impressionist landscapes.

Heavy spending on information technology has dramatically cut operating costs at Household's 1,700 branches in the U.S., Canada and the United Kingdom. "Our efficiency ratio [non-interest operating expense as a percentage of total revenues] has dropped from 53% in 1994 to 34% currently," Aldinger observed during a recent interview. "Not only have we been able to drop some 19 percentage points to our bottom line, but we've become the low-cost producer in our field."

Aldinger has earned high marks on Wall Street for taking Household back to its more profitable consumer- finance roots by dumping a bunch of more upscale businesses that previous management had embraced in an effort to diversify. Out went the Alexander Hamiliton life- insurance operation, an Australian finance subsidiary, a mortgage-origination company and a large interstate savings and loan. Says Aldinger: "We just didn't have the scale or profitability in any of these businesses. We were much better off allocating our capital to the basic consumer finance business, in which our clientele, the $45,000-a-year household, is always in recession and needs our service of debt consolidation and loans for unexpected expenses like braces and car-repair bills."

The bulls love Aldinger. They point to how Household has prospered in the subprime -- or least creditworthy -- sectors of consumer-finance businesses, such as credit cards, auto and home-equity loans. The subprime fields are littered with corpses, including the Money Store, Superior and First Plus in home equity, Jayhawk Acceptance and Mercury Finance in auto loans, and NextCard, CompuCredit and, most recently, Providian in subprime credit cards.

"Aldinger has kept Household from doing silly stuff like so many competitors do, like fishing in the skankiest portion of the subprime market or trying to compete in the upscale mass-market credit-card area, with its skyrocketing marketing costs and poor returns from rock-bottom teaser rates," says Keith Trauner of Fairholme Capital, a Short Hills, New Jersey, investment manager that has long had a major investment

position in Household. "Aldinger, in our estimation, is one of the best shareholder-focused managers around. He's in a class with Citigroup's Sandy Weill."

Whatever the case, Household boasts big-time numbers. At an expected $1.9 billion this year, the company's earnings are up 440%, from $350 million, in 1994. Likewise, Household over the past seven years has seen its return on equity jump from 15% to 23.6% and its return on assets move near the industry gold standard of 2% (actually 1.96% at the end of this year's third quarter) from 0.8% in 1994. All of this helped propel Household to the No. 2 position on the Barron's 500 ("Reality Check," April 23), just above Pfizer. Household scored high in three metrics, including stock-market performance, sales growth and cash-flow return on investment (inflation-adjusted cash-flow returns on total invested capital, debt and equity, as calculated by HOLT Value Associates, a Chicago investment consultant).

And Aldinger is forecasting earnings growth of 13%-15% over the next three years. The consensus analyst estimate for next year is $4.63 a share, according to Thomson/First Call.

Yet Household stock isn't immune to exogenous forces. After hitting a record 69.98 in August, it fell as low as 50 in the market rout after the September terrorist attacks. The consumer-finance industry was hit particularly hard at the time because of announcements from the likes of the credit-card company Providian and subprime auto loan company Ameri-Credit of spiraling credit losses and consequent earnings disappointments.

Though the stock has since bounced back to around 60, the clouds over the industry haven't dissipated. The U.S. is now officially in recession, and net chargeoffs have been rising at Household for four quarters, to 3.74% of receivables in the third quarter from 3.47% a year earlier. Delinquencies of 60 days or more jumped to 4.43% from 4.21%.

And at least a few observers contend that the luminous results in recent years may have resulted from more than just operating prodigies of Household's crack management team or the favorable secular environment of falling unemployment and interest rates and rising home-equity values. They suggest that the bottom line might also have benefited from aggressive accounting to, among other things, minimize net loan losses.

To be sure, the skeptics are few and far between, particularly among sell-side stock analysts. Household, after all, is the font of large underwriting fees for the Street with the company's frequent debt securitizations and other offerings. Buys outweigh Neutral (read: Sell) recommendations by a lopsided margin.

Company officials are thin-skinned when questioned about their accounting or operating philosophy. A recent civil suit by the California Department of Corporations accuses Household of abusive lending practices, including the padding of late fees and prepayment penalties. It provoked a public-relations broadside from the company, strongly denying the allegations and taking the state agency to task.

Household's managers certainly aren't shy about lashing out at critics. As a consequence, a securities analyst who has a less-than-enthusiastic Buy recommendation on Household expressed some reluctance even to discuss the company. "Look, we bank them, so please don't use my name in connection with your story," the analyst asseverates. "I just have a bad gut feeling about Household's model. . . ." So much for the value of one Wall Street Buy rating.

The analyst professes to be bothered by factors including the company's loan-loss reserve coverage, which seems somewhat skimpy, especially in light of the fact that non-performing (delinquent) assets grew by some $280 million in the last quarter. The analyst is puzzled by Household's statement that it had net chargeoffs of just 0.52% in that quarter on its huge $40.8 billion portfolio of secured-real-estate, or home-equity, loans. With joblessness sharply rising and home values leveling off, other subprime mortgage lenders have experienced losses at twice that level. And a number of lenders like BankOne and, most recently, Bank of America have exited the business because of poor profits. In fact, says the analyst, Household's loss rate on subprime mortgages is close to that of the savings-and-loan industry, even though S&Ls generally have more affluent borrowers and issue fewer second mortgages which, by their nature, are shakier than first mortgages.

The only unabashed sell on Household was recently penned by William Ryan of the New York research boutique Ventana Capital. Yet even he hardly predicts apocalypse, despite the many accounting

issues he raises in the report. "We believe Household, at a minimum, is set up for a dramatic decline in the quality of the company's earnings and, at most, a potential reduction in earnings estimates and/or a credit-related charge," his report asserts. Putting a finer point on it, Ryan told Barron's that he thinks Household's stock could be cut in half if his scenario comes to pass.

To be fair, there's been some bad blood between Ryan and the company in recent years, dating from when he toiled as a consumer-finance analyst at Prudential and later Salomon Smith Barney. Ryan's boss at Ventana, Charles Peabody, was well-known as a Wall Street analyst who warred with such major institutions as the former NationsBank and Citicorp. In the late 'Eighties, Hugh McColl, who headed what would later be called NationsBank at the time, banished Peabody from a company-sponsored analyst meeting. McColl awarded Peabody in absentia a hand grenade for being so errant in his analysis. Unfortunately for McColl, Peabody's bearish assessment of NationsBank was vindicated within nine months, when the bank-holding company had to take a major chargeoff on its interest-rate hedges and some other matters.

Household management is quick to dismiss Ryan's work. "Bill has been essentially negative and wrong about Household for the past five years," Aldinger observes with an air of pained resignation. "Sometimes, he bashes us for growing too slowly and other times for boosting receivables growth too much. He lacks credibility because of his lack of consistency." Chief Financial Officer David Schoenholz is even more blunt. Ryan, he says, "acts like a reporter for the National Enquirer more than a security analyst."

In reply to Household's complaints, Ryan claims he had a Buy on Household for several years, until the summer of 1999 when the stock was around 50. He may have been early pulling his Buy, but he expects to be vindicated ultimately.

Ryan's report is provocatively entitled, "When the Going Gets Tough . . . The Accounting Department Gets Going." In it, he lays out a number of accounting changes that Household has made under Aldinger, culled from filings. He says that all have boosted reported earnings by, among other things, slowing recognition of credit losses.

In the report, Ryan details the accounting changes in chronological order, followed by caustic commentary taking on first the persona of the company and then an omniscient observer. For example, in its first-quarter 1996 10-Q filing, Household disclosed: "Effective January 1, 1996, other unsecured receivables [italics ours] in the United States and Canadian consumer finance operations are charged off if an account is nine months contractually delinquent and minimum payments have not been received in six months. In any event, these receivables are charged off when the accounts are 18 months contractually delinquent. Previously, such accounts were charged off when they were nine months contractually delinquent."

While the wording might not be perfectly clear, Ryan's report pulls no punches in its interpretation: "Comments/Translation: Bankruptcies (i.e. personal) are on the rise and we have to find ways to offset bankruptcy-related chargeoffs by lowering non-bankruptcy chargeoffs [on unsecured loans]."

The report contends: "This is the most aggressive chargeoff policy we have found for any unsecured consumer lender. Further, we believe . . . Household will rewrite some of its loans that are going bad into the `other unsecured' file due to the lax chargeoff policies for this category of loans."

Historically, other unsecured loans were small loans of $3,000-$4,000 made in the branches and designed to self-amortize or pay down over five years. More and more, however, Household's personal homeowner loans, which come under the category of Other Unsecured, have grown to average $70,000 or more. And with personal homeowner loans, or PHLs, the lien on the home is more of a psychological hammer to induce payback rather than effective collateral. That's because often the loans are made to homeowners with little or no effective remaining equity in their home who've run into difficulty with existing home-equity or credit-card loans from Household. According to Ryan, Household appears to be lending shaky borrowers money to keep their payments current.

PHLs in the past two years have gone from 3.4% of Household's receivables to 4.8%. (As of September 30, receivables totaled $95.7 billion.) According to a securitization, chargeoffs in the Other Unsecured category can now be delayed as long as 570 days. Starting in 1996, the accounting changes came fast and furiously, according to Ryan. In the middle of that year, the chargeoff period for private-label

credit cards went from six to nine months after they became contractually past due. Household is the No. 2 third-party provider of such cards, boasting among its clients the retailer Best Buy. At the end of the third quarter, private-label cards accounted for $12.4 billion of Household's receivables.

In 1998, its new subprime auto-loan business benefited when Household pushed out the chargeoff term on its indirect dealer loans -- the bulk of its now $5.9 billion in auto receivables -- out to 150 from 120 days delinquent, or to 90 days from 60 after repossession if still unsold.

Household's $8.6 billion acquisition of rival Beneficial Corp. in 1998 was the occasion for other accounting changes. In the middle of that year, Household adopted Beneficial's policy of recognizing losses on uncollected finance charges and other fees on private-label receivables and reversing them against offsetting revenues. Previously, like the loan's principal balance, they had been charged off against the loan-loss reserve.

"We thought we had learned every trick in the books, but Beneficial taught us a new one," wrote Ryan in one of his acid "translations" of the footnotes to Household's financials. "We can lower our reported chargeoffs on private-label credit cards by reversing fees against revenues as opposed to having to report it through the credit loss line item. This can only make our reserve coverage ratios look better to investors." And investors pay a higher price/earnings ratio for finance companies with lower credit losses.

Then too, Household took advantage of pooling-of-interests accounting in its purchase of Beneficial to take some $291 million in "non-cash" charges of goodwill and other intangibles as part of its $1 billion in total charges for the deal. This increased its reported income the following year by cutting such expenses as goodwill amortization and depreciation charges on certain assets Household had acquired.

Ryan also noted a shift by Household of some $6.7 billion in credit-card receivables in 1999 to its finance subsidiary, Household Finance, from its banking unit. The change showed up in a footnote to a Household Finance financial statement. The change was more than cosmetic, according to Ryan; 1999 was to have been the year new federal banking regulations were scheduled to be implemented that materially stiffened credit chargeoff and delinquency requirements on consumer credit-card debt held by banks. A number of credit-card companies with bank cards ultimately suffered earnings hits from the new regulations.

But not, apparently, Household. After noting in its 1998 10-K that it had "not yet quantified its [the new guidelines'] impact on our financial statements," Household's 1999 10-K signaled the all-clear. "The application of the new rules will not have an impact on our financial statements," the filing says. Not when the company could stay with its old less-than-strict procedures.

It's easy to dismiss Ryan's criticisms as quibbles, as Household management is wont to do. After all, Household disclosed all the changes -- albeit often in the small print of financial filings -- and claimed to have sound business reasons for implementing them. For example, working with borrowers under various loss-mitigation programs is generally better than mechanically slamming them into bankruptcy, reporting them to the credit bureau and permanently alienating them. "We have a different clientele than banks, so we decided to treat our customers less rigidly," says Household CFO Dave Schoenholz.

Likewise, Household seems to have done nothing any other smart, stock-driven company wouldn't do. Wall Street pays a lot for earnings consistency. And Household is one of the few finance outfits to sell at a P/E ratio matching its current earnings growth rate, around 15.

Comments Bruce Berkowitz of Fairholme Capital, a longtime Household investor: "Look, you can fool people for a year or two by delaying chargeoffs and skimping on loan-loss provisions. But not for four or five years in a row. It will all catch up to a finance company eventually. And no company would've been able to put up the terrific numbers that Household has by playing games with the accounting."

However, subprime lenders like Providian were able to play the Sorcerer's Apprentice with accounting for at least four years before big chargeoffs became inevitable. In the process, Providian's shares crumbled from 64 to around 3.

Accounting rules offer finance companies much latitude and flexibility. For example, loans that go bad can be reworked in a myriad of ways to cure a delinquency and stop the clock ticking on a chargeoff.

Missed payments can be added to the principal balance, and the loan merely "extended" into the future. Or new money can be added to make a loan "current."

Indeed, a reworked loan actually boosts current income for finance companies, which are allowed to immediately take into income any late or over-limit fees from the old loan or underwriting fees on the new loan. This even though these fees are merely accrued, or rolled into the new loan, and will be collected only if the borrower ultimately pays off the loan. Rising loan balances sometimes give just the illusion of healthy receivables growth.

Ryan and some other skeptics claim that Household is using its Other Unsecured loan category as its primary repository for secured real-estate and unsecured credit-card loans gone bad. Recall that Other Unsecured has the longest chargeoff period of any loan category, extending as far as 570 days, or about 19 months, from initial delinquency.

Also, while Other Unsecured loans have remained at around 18.5% of Household's total receivables, the category's bigger-ticket portion, personal homeowner loans, has been growing like a weed in the past few years, as previously mentioned.

There are yet other indications that the Other Unsecured category exists as an intensive-care ward for truly stricken loans. Other Unsecured currently has both Household's highest net chargeoff -- 7.0% of receivables -- and 60-day delinquency rate -- 8.51%. In contrast, credit cards stand at 6.75% and 3.91%, respectively, at the end of the third quarter.

Of course, the big writedown at Household predicted by Ryan and others may prove a chimera. CEO Aldinger is adamant that he'll hit his target of 13%-15% earnings growth over the next three years.

Much will depend on how quickly the U.S. pulls out of recession. A swift recovery would help Household's customers on the job front, holding down chargeoffs and bolstering residential real estate, which secures some 44% of Household's loans. But if the recession drags on or deepens, the skeptics might triumph.

In any case, few stocks offer a more levered play on the the economy than Household's. The next year could be an interesting one for its holders.

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December 5, 2001

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HEADLINE: Aldinger Defends Household's Accounting; Brief Article

BYLINE: Kingson, Jennifer A.

BODY:

The chairman and chief executive of Household International stepped forward Tuesday with a rebuttal of accusations that his consumer finance company is playing accounting tricks to mask bad loans.

Saying repeatedly that his company has a "good balance sheet and conservative approach," William F. Aldinger used his time at a conference in New York to respond to criticisms of Household published in the past week in two national magazines.

"Our returns are almost double between 1995 and today, in both the ROA and ROE," Mr. Aldinger said at the 12th Annual Bank CEO Conference in New York, sponsored by Goldman, Sachs & Co. "Our equity levels are substantially higher today than they were in 1995. We've never really gotten the credit we deserve on our ability to be disciplined and focused and avoid the land mines."

Mr. Aldinger reiterated his financial projections for the fourth quarter and for next year. He intends to end this year with earnings growth of around 15%, and he predicted that he would have "a very good ability to deliver 13% to 15% earnings growth" next year.

"Net-net, the company has had 22% EPS growth for six years," he said. "We clearly have documented superior ROE. We believe we have built a fortress balance sheet."

Mr. Aldinger, who has headed Household for seven years, bristled at a characterization in the Dec. 3 issue of Barron's that his company's loan-loss reserves were "skimpy," and an article in the Dec. 10 issue of BusinessWeek that said that Household was thought to be masking chargeoffs and delinquencies.

"Let's talk about losses," Mr. Aldinger said. "One comment I hear out there is, 'We've got a weak economy. How could Household be immune to that? Their losses have to be off the chart.' "

The Prospect Heights, Ill., company is "not immune to that," he said. "Our losses have gone up for three consecutive quarters. We know it will be up in the fourth quarter. Our view is that this recession is going to last longer, that our losses will go up for the next two quarters, and possibly three. We've done better than some, but we're not immune to it."

Household's reserves "today in dollars are at an absolute all-time high of $ 3.56 billion," Mr. Aldinger said. "We've grown reserves by over $ 2.1 billion dollars since 1996. We have put more reserves up for nine consecutive quarters."

In six of those quarters consumer credit quality improved, and people were curious about the continued padding of reserves, he said.

"Ironically, I was getting the question 'How come you guys are reserving so much?' and now I'm getting, 'You haven't reserved enough,' " Mr. Aldinger said. "If you have any bank that comes in in the next 24 hours that has put up more than 430 in reserves in excess of losses out of cash flow, I'll buy you a bottle of wine. You just e-mail me to say if you want red or white."

He slammed a Barron's accusation that Household's weakest loans were shunted to a "catch-all category on its balance sheet called Other Unsecured Receivables."

"Is it a dumping ground for our bad loans? No," he said. The category includes branch-based non-real estate loans and other small, unsecured consumer loans, he said.

It also encompasses personal homeowner loans, or PHLs, a high loan-to-value equity product that Household introduced in the early 1990s. The average PHL loan is for $ 15,000, not the $ 70,000 printed in Barron's, Mr. Aldinger said. "This product is very profitable."

He also disputed another allegation in the Barron's article -- that Household used muddy language in a 10Q filing to obscure a change in accounting.

Mr. Aldinger said he was simply changing the way the company handled chargeoffs from the way his predecessor had changed it to the way the company had done it for years before, and the way most of the finance industry did as well.

The last five years have been dedicated to minimizing risk, he said. In 1996, 27% of Household's portfolio was home equity loans, and 33% was credit card loans, but today, in recognition of the increasing riskiness of unsecured loans, 44% of the portfolio is secured by real estate, and only 18% is credit card loans, he said.

"If we had just maintained the same ratio, our credit losses today would be up 20% from here," Mr. Aldinger said.

He also said that 72% of Household's real estate portfolio today is first mortgages, and the company's foreclosure rate is less than 1%. Among the measures that have helped stanch credit losses are a centralized underwriting system that makes credit quality more consistent, as well as centralized appraisals, he said.

"One of the things we did a few years ago was to take the appraisal process out of the branch," Mr. Aldinger said. "That has helped us avoid a lot of the appraisal fraud issues that a lot of the big branches have seen over the years."

Household does not allow broker loans in its branches, in contrast to some competitors, he said. "When Citi did the deal with Associates, they are now unwinding the broker component of that deal. That's a validation of our model." Household's stock rose 3.5% on Tuesday to close at $ 58.23 a share.

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IAC-CREATE-DATE: December 6, 2001

LOAD-DATE: December 07, 2001

Exhibit 38

06:04pm EST 11-Dec-01 Legg Mason (Sochol, David(410)454-4546) HI HI.N HI: Downgrading Rating to Market Performance; Part 3 part 1

Legg Mason Wood Walker, Inc.
Household International, Inc.
Company Note NYSE:HI
December 11, 2001
RATING: M/2

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Downgrading Rating to Market Performance; Part 3

FUNDAMENTALS

Price (12/11/01)	$57.66
S&P 500 Index (12/11/01)	1,137
52-Week Range	70-48
Shares Out(MM)	467.7
Float Outstanding(MM)	461.1
Market Cap(MM)	$26,939.5
Enterprise Value(MM)	$26,939.
Avg Daily Vol(3mo)	2,921,06
Projected 3Yr. CAGR	15.4%
Debt/Total Cap.	0.00%
Net Cash/Share	$0.00
Dividend	$0.88
Yield	1.5%
Book Value/Share	$18.59
Target Price	NA

FY End Dec	2000	2001	2002
Revenue(MM)	$9,167.5	$10,738.	$12,289.4
EPS			
Q1	$0.78A	$0.91A	$1.03E
Q2	$0.80A	$0.93A	$1.07E
Q3	$0.94A	$1.07A	$1.24E
Q4	$1.03A	$1.17E	$1.36E
Fiscal Year	$3.55A	$4.08E	$4.70E
P/E	16.2x	14.1x	12.3x

Key Points

As a follow-up to our earlier notes, we review the asset quality policies for the major business lines. We focus most of our attention on the Other Unsecured portfolio, but also address the policies of the other business lines to the best of our knowledge.

Other Unsecured This portfolio includes $13.0 billion of unsecured smaller balance loans (average size of $4,500 with an average yield of 24%) as well as $4.6 billion in larger balances (personal home loans) in which HI places a junior lien on the borrower's home (average size of $12,500 and an average yield of about 20%). At 3Q01, this portfolio had a reported NCO rate of 7.00% and delinquency rate of 8.51%. Obviously, a big surprise to many, including us, was the 570-day charge-off policy, i.e. when a delinquent account in the Other Unsecured portfolio would finally be charged off. As HI states in its Annual Report, Other Unsecured loans are charged off at 9 months of contractual delinquency and no payments received in

6 months. This is the only business line to have both a contractual and a recency test to determine when delinquent accounts are charged off.

Delinquencies. The actual delinquency policy for other unsecured loans, according to the HI Consumer Loan Trust 1997-1 Securitization, is as follows:

"A credit line is considered contractually delinquent if less than 50% of any minimum monthly payment due from a borrower has not been received . or if the borrower has submitted three consecutive payments each of which are greater than 50% but less than 100% of the minimum monthly payment then due."

Beyond the tortured wording (should it be "less than 50% . has not been received" or "has been received"), this raises the question of partial payments essentially counting as full payments. General industry practice requires at least 90% of a payment to be made for the loan to be considered current. But at HI, it would appear that sporadic partial payments of 60% would be okay, so long as interspersed with full payments (i.e. avoiding three consecutive partial payments of more than 50%), and thus the account would be considered current and accruing.

As such, we would like to know (i) what is the rationale for this confusing and, in our opinion, lax policy; (ii) do the collection officers have incentive to seek partial payments; (iii) what percent of the portfolio is not making full payments; (iv) how has this percentage trended over time; and (v) how do the partial payment borrowers perform relative to those borrowers making full payments.

Restructured (Reaged) Loans. The trust document continues:

"Generally, credit lines that are in excess of 26 days delinquent may be restructured once during a six month period after the borrower makes, in one or more payments, at least 95% of one minimum monthly payment in either the current or prior month. When a credit line is restructured, it is no longer considered delinquent."

Surprisingly, the "95% of a payment" does not represent an extra payment, just the regular payment due that month. Thus, a delinquent account can be restructured (brought to current) twice a year, and can be considered current by simply making one monthly payment despite the fact the account owes one or more past due payments. While this was the policy as detailed in the 1997 securitization, the company now informs us that the policy was changed in 1999 to allow for three (up from two) restructurings. Thus, a borrower can make 9 payments a year and be considered current, at least for the first year. The missed payments are moved to the back of the loan and, when a borrower finally reaches the end of the scheduled payments, HI negotiates a repayment plan with the borrower to payoff the remaining balance.

We find this lenient reaging policy disturbing as it undermines the analytical value of the reported asset quality statistics. While the company would argue that (i) this is a higher yielding, smaller balance, unsecured loan in which you have less recourse and obviously less security; (ii) it is a positive NPV transaction to get the customer to make additional payments, given the rich yield; and (iii) there is little incentive to force this borrower into bankruptcy, it doesn't change our desire to have the actual contractual delinquencies in the public financial statements (disregarding the reaging). We are not asking for HI to discontinue its flexible collections practices, just report asset quality problems more conventionally (a late is a late until repaid in full).

Without this conventional disclosure, we are left with many unanswered questions. What percent of the portfolio has been restructured and what is the trend; how has that portfolio subsequently performed; is there a maximum number of times that an account can be restructured; should we be concerned about asset quality trends in the portfolio beyond the reported (and understated, in our view) delinquency statistics.

Charge-offs. The next question is how accounts are charged-off. The trust states:

"A credit line is generally charged off when it becomes 300 days contractually delinquent and the aggregate of all payments made in any two consecutive months during the last six calendar months was not greater than or equal to 50% of a minimum monthly payment, or in any event, when it becomes 570 days contractually delinquent, regardless of any partial payments received in prior months."

Once again, a few questions: Is it 300 days (10 months) or 270 days (9 months as stated in the annual report)? Is it no payments received (annual report) or two consecutive payments totaling half a full payment in the last six months? While maybe not realistic, an example shows the aggressiveness of this policy. A borrower's loan payment is $200 per month. In 6 months, he would owe $1,200, but if he makes payments for any two consecutive months during the last six calendar months equal to 51% of a minimum monthly payment (does this mean pay $51 a month for two months or a total of $102 which equals one-half the monthly payment, or pay $101 per month for two months), then he would not be charged-off. If he then made no additional payments, he would not be charged off until 6 months later, when both contractual and recency tests would kick in. In this case, it took a year to charge-off an account that only paid $102-$202 for the entire year when full payments for the year required $2400.

We are unclear as to why the policy requires both recency and contractual delinquency. Why is it two consecutive months? and why only 50%+ of a payment? The fairly small payments on an irregular basis override the 300-day delinquent automatic charge-off policy (note the "and" and not an "or"), thus pushing back the loss recognition. Again, can the collectors game the system, and get some minimum partial payments in order to keep the loan from charging-off?

Our concern was that a customer could make no payments for 4-5 months, then make a payment, make no payments for 4-5 months, then make a payment, make no payments for 4-5 months, and then make a payment, thus being 12-15 months delinquent but still not charged off, because of the recency of the last payment. While the company agreed that this loophole exists (as defined by the annual report, but in conflict with the trust policy), they stated that it rarely occurred. For example, last month only 26 accounts, totaling $82,000, hit this "safety net" of 570 days of delinquency and were charged off. Over 98% of the charge-offs in the other unsecured line came from accounts that were less than 12 months delinquent, i.e. these accounts were not "saved" by a recent payment or two. Although it is nice to know this 70- day cap currently doesn't come in to play often, it could be more meaningful if asset quality got considerably worse (like in a recession) and investors would be left in the dark.

We would also note that a 12-months charge-off policy is twice the level HI's credit card policy, although both products are unsecured. Moreover, the company commented that 80% of the other unsecured loans that are 6 months delinquent roll directly to charge-off at 12 months, a fairly high percentage.

Private Label HI completed two public securitizations of private label credit card loans in 2001. The PL portfolio had 3Q01-end managed receivables of $12.4 billion, a reported NCO rate of 5.13% in 3Q01, and a delinquency rate (two months and over) of 5.88%.

Payments. We could not find any information that discussed what constituted a full or partial payment.

Delinquency and Reaging. From the Trust document (page 27): "Delinquent accounts may be restructured (deemed current) every six months. Accounts are automatically restructured if the customer has made the equivalent of one payment equal to at least 95% of a full standard payment. Once restructured, the account is deemed current; however, the credit limit is zero."

(continued...)

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-> End of Note <-

06:04pm EST 11-Dec-01 Legg Mason (Sochol, David(410)454-4546) HI HI.N HI: Downgrading Rating to Market Performance; Part 3 part 2

What we don't know: how many months delinquent can an account be (1 month, 4 months?) and still be brought current with just one payment. It would appear that if a customer makes four payments, misses one and then makes the next payment, he is automatically reaged and is now current. This is troubling, in our view, as most lenders we spoke with would re-underwrite an account before restructuring (and some also required more than one payment). Also, if he skips the next three payments, and then makes a payment in month 10, is he (i) once again current, or (ii) three months contractually delinquent, or (iii) four months contractually delinquent? In essence, under what circumstances is this loan considered delinquent and reported in HI's two-month-and-over contractually delinquent report? This should not be such a grey area, in our opinion. These policies lead to more questions. What percentage of the portfolio has been reaged and how has it performed? What does "equivalent" mean? Can partial payments be aggregated over a time period exceeding one month and thus serve to bring the account current? Is there a maximum number of times that an account can be reaged?

Nonaccrual. It appears that private label credit card loans, like the Visa/MasterCard credit card loans, do not go on nonaccrual, but accrue until charged-off.

Charge-off. "Accounts are charged-off when an account becomes 10 months contractually past due." This is more aggressive than the credit card policy which is to charge-off at 6 months delinquent. Note that this is also different than the Annual Report which states that private label is written off at 9 months contractually delinquent. While we thought this might be a recent change, it is probably not given the following text from the Trust (page S-15):

"Prior to the merger (with Household), Beneficial Finance Corp charged off notified bankrupt receivables 30 days after notification, whereas the private label credit business (at HI) charged-off notified bankrupt receivables at 300 days past due. Beginning in October 1998, the merged private label credit business began charging-off notified bankrupt receivables at 120 days after notification. In addition, Beneficial Finance Corp's policy of charging-off receivables at six months contractually past due was changed to the private label credit's business's policy of charging-off at 10 months contractually past due."

Bankruptcy. An "account generally is charged-off four months after receiving notice." Note that this is twice as long as the Visa/MasterCard portfolio which is within 60 days.

Credit Card HI has completed several credit card securitizations over the past two years. The Visa/MasterCard portfolio totaled $17.3 billion at 3Q01-end and had a reported NCO rate of 6.75% in 3Q01 and delinquency rate (two months and over) of 3.91%.

Delinquency and Reaging. A credit card account is contractually delinquent if less than 90% of the minimum payment is made by the payment due date. From the Trust document (page S-14): "Upon receipt of two consecutive payments on their respective due dates, delinquent accounts may qualify to be redesignated as non-delinquent. At lower credit scores or more serious levels of delinquency, such consecutive payments would only allow for this reaging once every 12 months, although three consecutive payments would allow for a reaging back to current on these accounts once every six months."

Clearly, HI does not follow the FFIEC guidelines for reaging, in our opinion, which notes that (i) the account should exist for at least nine months before any reaging or deferment; (ii) the borrower should make at least three consecutive monthly payments; (iii) no reaging or any such modification should be done more than once in 12 months, and no more than two times in a five year period.
What we don't know: how many months delinquent can an account be (1 month, 4 months?) and still be brought current with just two consecutive payments. How often can an account (not seriously delinquent) be reaged? How is delinquency reported? What portion of the portfolio has been reaged and how has it performed? Is there a maximum number of times that an account can be reaged?

As part of its value proposition, qualified cardholders in the Union Plus program (open, current and not overlimit) are allowed two payment holidays (skip payments) over a 12 month period, and are considered current and finance charges continue to accrue.

Nonaccrual. Visa/MasterCard credit card loans do not go on nonaccrual, but accrue until charged-off.

Charge-off. "The current policy is to charge-off an account at the end of the month in which that account becomes 180 days past due."

Bankruptcy. An account will be charged-off at the end of the month 60 days after notice has been received of the filing.

As an aside, we note that in the Trust documents, HI reports delinquency on an average basis, which we have never seen before, instead of at period-end. We were also surprised by the size of the credit limits - 43% of the portfolio had credit limits in excess of $10,000, while two-thirds have credit lines in excess of $7,000. Average usage is much lower (1,400) on an average credit limit of $6,700 (a 21% utilization rate), and the portfolio is fairly well seasoned with a principal weighted average age of 90 months.

Home Equity HI's largest portfolio, Home Equity, had 3Q01-end managed receivables of $41.9 billion with a NCO rate of 0.52% and 60+ day delinquency rate of 2.74%.

HI did a securitization of closed end home equity loans in November 2001, the first such deal since 1999. There were a number of interesting developments since the 1999 deal. The average LTV of the loans increased from 93.3% to 99.3%. Indeed, 64% of the 2001 deal had a LTV in excess of 100% compared to 42% in 1999. The California concentration increased to 21% of the 2001 pool compared to 16% in 1999. Also, these loans were larger (35% had original principal balances of over $150,000 compared to 15% in the 1999 deal), had longer maturities (nearly 70% at 30 years for the 2001 deal compared to 58% in the

1999 deal), had reduced refi risk (79% had prepayment penalties compared to 57% for the 1999 deal), and only 12% were second mortgages compared to 14% for 1999 deal.

HI added an Optional Substitution section in 2001 that was not in the 1999 securitization as well as deferred interest comment arising from a skip-pay program. Under the substitution, HI can substitute home equity loans up to 30% of the aggregate principal balance of the loans as of the cut-off date.

Delinquencies. HFC may treat home equity loans "as current if the customer has made the equivalent of 95% of two standard payments in two consecutive months and has demonstrated an ability to pay in the future." (page 16 - 11/2/01 prospectus). We are unclear as to how many months delinquent can an account be (1 month, 4 months?) and still be brought current with just two consecutive payments. While we believe that a delinquent home equity loan can only be reaged once a year, we could find no specific mention of this in the trust document To cure the delinquency status of the home equity loan, the master servicer may, in its discretion, (i) waive various fees; (ii) arrange with the borrower a schedule for delinquent payments; (iii) sell the loan at fair market value (this is new for the 2001 securitization); and (iv) "treat a home equity loan as current if the borrower has made one scheduled payment (same as 1999) which . may be less than 100% of the scheduled payments." (This is new.) Page S-49 - 11/2/01 prospectus supplement. It is not clear how much less than 100% is acceptable, nor is it clear why only one scheduled payment cures a delinquency compared to requiring two payments in the prior paragraph. Is it related to the severity of the delinquency? Also, how often can a loan be reaged (brought current) in this manner?

Charge-Offs. At more than two months past due, HI will start the foreclosure process. HFC's charge-off policy is to generally recognize losses on past due accounts when HFC takes title to the property in foreclosure proceedings. The charge-off period for the remaining balance may be extended for up to 24 months if HFC determines the remaining loan balance is collectible from the sale of the property. The trust document continues, to the extent that the indebtedness (including taxes, foreclosure expenses and other expenses) exceeds the appraised value "HFC may, but is not required to, writedown the loan balance to the net value." There would appear to be some flexibility in loss recognition.

Auto Similarly, we compared the auto securitization prospectus supplement dated 2/28/01 which updated the 12/28/99 prospectus to the 2001-3 prospectus dated 7/10/01. The maximum amount financed was increased to $40,000 from $30,000. The company had one central funding group and now has five regional funding centers. The company is now originating loans directly (mail, branches, Internet) and will charge-off the loan (assuming the car has not been repoed) at 150 days delinquent if originated indirectly, which we would consider to be higher risk given the dependence on the dealer, compared to 120 days delinquent if direct origination.

Delinquencies. Payments must equal or exceed 90% of the scheduled payment. Delinquency is recognized on a contractual basis only. A loan is considered contractually delinquent if less than 90% of the required payment
has been received.

Extensions. The aggregate of all extensions on a contract may not exceed 6 months over the life of the contract and three months (it had been two months) in any contact in a consecutive 12 month period. Previously, "auto loans that are more than 31 days delinquent may be extended once during a six month period after the borrower makes in one or

more payments, at least 90% of one required payment in either the current or prior month. If partial payments are aggregated, all these payments must be made within a 30 day period." This section is now gone. In its place it simply states "When a loan is extended, it is no longer considered delinquent."

Similarly, the document had stated that HI repoes a vehicle when the collateral is at risk, when resolution of the delinquency is not likely, and when the borrower is 80 days delinquent. This last point has been removed in the latest prospectus.

Charge-offs. An auto loan is charged off at the earlier of (i) 90 days after repossession; (ii) when the repoed vehicle has been sold and the proceeds received, or (iii) if the vehicle has not been repoed, then either 150 or 120 days delinquent for a non-BK customer (depending on indirect or direct origination) or 210 days delinquent for BK customer.

Summary

Additional Information Available Upon Request.

Investment Rating: SB-Strong Buy; B-Buy; M-Market Performance; U-Underperform
Risk Rating: 1- Low; 2-Average; 3- Above-Average; 4-Speculative

(continued...)

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06:04pm EST 11-Dec-01 Legg Mason (Sochol, David(410)454-4546) HI HI.N HI: Downgrading Rating to Market Performance; Part 3 part 3

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Exhibit 39

02:28pm EST 3-Dec-01 Legg Mason (Sochol, David(410)454-4546) HI HI.N HI: Are the Risks Real? Rating Suspended -part 1

Legg Mason Wood Walker, Inc.
Household International, Inc.
Company Note NYSE:HI
December 3, 2001
RATING: RS/1
PR RATING: SB/1

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Are the Risks Real? Rating Suspended -part 1

FUNDAMENTALS

Price (12/03/01)	$56.25
S&P 500 Index (12/03/01)	1,130
52-Week Range	70-47
Shares Out(MM)	467.7
Float Outstanding(MM)	461.1
Market Cap(MM)	$26,308.1
Enterprise Value(MM)	$26,308.
Avg Daily Vol(3mo)	2,914,83
Projected 3Yr. CAGR	15.4%
Debt/Total Cap.	0.00%
Net Cash/Share	$0.00
Dividend	$0.88
Yield	1.5%
Book Value/Share	$18.59
Target Price	NA
Previous Target Price	$75.00

Price is intraday 12/3/01.

FY End Dec	2000	2001	2002
Revenue(MM)	$9,167.5	$10,738.	$12,289.4
EPS			
Q1	$0.78A	$0.91A	$1.03E
Q2	$0.80A	$0.93A	$1.07E
Q3	$0.94A	$1.07A	$1.24E
Q4	$1.03A	$1.17E	$1.36E
Fiscal Year	$3.55A	$4.08E	$4.70E
P/E	15.8x	13.8x	12.0x

Key Points

* Both Barron's and Business Week Online use a very negative sell-side research report as the basis for scathing articles on Household International, questioning the quality of the company's accounting, earnings and asset quality.

* Some of the article deals with issues that we would consider known or immaterial, particularly given HI's non-prime customer base. HI has always said that its customers make 11 payments a year. If they could make 12, they would not be HI's customers, but would be at a bank or the agencies, and not paying the rates and points that HI charges for its higher risk clientele.

* There is much we like about HI, including its well-established franchise, market leadership in growth markets where competition is fairly rational, 100-year experience, relatively well-controlled growth, on-

balance sheet lending (only 20% securitized), real estate secured portfolio (about 50%), technology prowess and direct branch-based delivery, strong capital and buyback program, widening net interest margins, and efficiency expertise.

* Comparisons to Providian are not grounded in reality, in our view. PVN was a very fast growing, securitization-dependent, unsecured subprime lender with unsustainably high margins and 40% ROE, operating in a fairly new and untested space, which was increasingly competitive with deteriorating pricing. PVN had been severely fined by the OCC, and had to significantly change its operating practices and business model. HI is different on almost all fronts, in our view.

* But all is not rosy. The most disturbing allegation, in our opinion, is that HI purposely moves problem loans "into the 'other unsecured' file due to the lax chargeoff policies for this category of loans." Loans in 'other unsecured' can go 570 days delinquent before being charged off, whereas loans in other categories are charged-off at 6-9 months delinquent. The incendiary allegation that HI lends "shaky borrowers money to keep their payments current" may simply reflect HI's working relationships with its perma- recession customer base, and assuming prudent underwriting, this practice is
not necessarily a major risk.

* HI needs to address these accusations and answer three questions: (i) are loans (either existing or as part of a rewrite) moved from one category into the more lenient 'other unsecured' file for the purpose of deferring loss recognition? (ii) what are the policies for lending additional money to delinquent borrowers, whether secured or unsecured? and (iii) why are the restructuring policies apparently more lenient for unsecured borrowers than secured borrowers?

* It is true that delinquent loans in the 'other unsecured' file are not charged off (according to the annual report) until either (i) 9 months past due and no payments received for 6 months; or (ii) 570 days past due, regardless if any payments have been made recently. However, in actual practice (last month for example), 98% of unsecured chargeoffs occurred on loans that were less than 12 months delinquent. Thus the differential is not 570 vs. 180-270, but 570 vs. 360. Still, that is not immaterial. The question then centers on roll rates - the likelihood of a 180 day delinquent loan
going to charge-off vs.a 270 day delinquent loan. If a cure is no more likely on the more delinquent loan, then an earlier charge-off would be more appropriate.

* We view positively that real estate secured loans can only be restructured to current once a year (i.e. past due payment moved to the end of the loan term; no fee charged), and only after two full payments have been made. On accounts restructured a year ago, at present over 90% of such loans are not delinquent (2+ months). However, it is unclear why 'other unsecured' loans can be restructured twice a year, and only require one payment to be brought to current. That seems backwards to us.

* We would applaud any move by HI to further tighten and standardize its rewrite and charge-off policies among the lending portfolios, although the company would argue that given its customer base and the differing collateral, the type of flexibility it currently enjoys is not unreasonable. We would be more willing to agree if this is indeed supported by the roll rates.

* If the allegations raised in the articles are related only to a lack of uniform policies defining delinquencies, chargeoffs and bankruptcy treatments across all business lines, rather than a systematic approach to deferring losses and overstating earnings, then we think our investment thesis is valid.

* We think HI needs to go on the offensive and provide additional disclosure on the impact of these practices, beyond the slides offered as part of its analyst presentation. Ultimately, the best course of action, in our view, would be for HI to take a FFIEC-type one-time charge to implement a "truing- up" of the various different asset quality policies. HI could well afford this "uniforming," in our opinion, given that HI earned $500 million after- tax in 3Q01, after a managed loan loss provision of nearly $1 billion.

* While the stock would get hit in the nearterm, this would address some of the issues overhanging the stock and preventing it from achieving a valuation more in line with its performance, profitability and franchise. * HI's valuation, in our opinion, will depend largely on the accuracy of the accusations, the strength of management's response, and the materiality of any changes that HI implements as a result of this publicity and focus.

* Given the increased uncertainty, we are suspending our investment rating and removing HI shares from the Legg Mason Select List until we have more information and a better understanding as to (i) the charges that HI purposely rewrites loans into the 'other unsecured' category in order to defer recognizing losses; (ii) the roll rates for its longer delinquency loans and related charge-off policies; and (iii) the different restructuring practices for secured vs. unsecured loans, among other issues.

Summary

Additional Information Available Upon Request.

Investment Rating: SB-Strong Buy; B-Buy; M-Market Performance; U-Underperform
Risk Rating: 1- Low; 2-Average; 3- Above-Average; 4-Speculative

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-> End of Note <-

Exhibit 40

07:56am EDT 10-Apr-02 Prudential Securities, Inc. (B.BALL 212-778-1516) HI HI.N HI: FUNDAMENTALS ARE FINE IN OUR VIEW-RAISING ESTIMATES; YET, WE BELIEVE ...

HI: FUNDAMENTALS ARE FINE IN OUR VIEW-RAISING ESTIMATES; YET, WE BELIEVE POLITICAL/HEADLINE ISSUES REMAIN-LOWERING TARGET
PRUDENTIAL SECURITIES April 10, 2002

Household International (HI - $59.06) -- NYSE

----- ANALYST(S) ---------- -------- OPINION -------
Bradley Ball 212.778.1516 Current: Buy
Edwin G. Groshans 212.778.8078 Risk: High
William C. Keaten, CFA 212.778.2023 Target: $70.00
Industry: Market Perform

The senior analyst(s) does not have a material position in any of the stocks mentioned in this report.

----- EARNINGS ----------

	FY	EPS	P/E	1Q	2Q	3Q	4Q
Actual	12/01	$4.08A	14.5X	$0.91A	$0.93A	$1.07A	$1.17A
Current	12/02	$4.70E	12.6X	$1.05E	$1.09E	$1.22E	$1.34E
Prior		$4.60E	12.8X	$1.03E	$1.06E	$1.20E	$1.31E
Current	12/03	$5.25E	11.2X				
Prior		$5.15E	11.5X				

----- FUNDAMENTAL ----------
Avg. Volume: 3,000,000 Div/Yield:0.88/1.49% EPS Growth: 15.00%
Market Cap: $26,963 m 52w Range:70.00-43.50 P/E / Growth: .9x
Shares: 456.54 m

----- BUSINESS ----------
Household International (HI), located in Prospect Heights, IL, is a leading provider of consumer finance, credit card, auto finance, and credit insurance products in the U.S., the U.K., and Canada. In the U.S., Household operates under two widely recognized brand names--HFC and Beneficial.

----- HIGHLIGHTS ----------
* At its annual meeting yesterday, management discussed recent results, strategies and prospects for HI's major businesses.

* EPS growth of 15% appears doable. Fundamentals remain solid with good loan growth, improving margins, and manageable credit. HI benefits from still healthy demand for debt consol home equity products and rational comp.
* Capital ratios are headed higher. Renewed focus on risk protection by rating agencies and bond investors encourage a capital boost from 7.9% to 8% in 02,potentially delaying share repurch(expect less than $1 bil in repurch in 02).
* Disclosures are getting better. Mgmt put to rest recent "market issues"-eg transparency, securitizations, reserves, and liquidity. However, new info on acct reaging lacked historical and comparative context and could be a misleading indicator of HIs approach to managing credit losses.
* Given fin'l momentum and a lower risk profile we're nudging-up our 02 and 03 EPS ests a dime each to $4.70 and $5.25. We're also trimming our price target to $70 (from $74) given our exp that valuation improvement may prove challenging as political/regulatory/accounting issues may persist.

----- DISCUSSION ----------
ANNUAL ONSITE CONFERENCE At a well attended onsite meeting yesterday (4/9/02), Household's senior management team discussed the prospects and strategies of major businesses - including Consumer Lending (Gary Gilmer), Mortgage Services and the U.K. (Dave Schoenholz), Retail Services, Auto and Refund Lending (Rocco Fabiano), and Credit Cards and Canada (Bobby Mehta). The CFO (Dave Schoenholz) also spent about an hour reviewing 2001 results, 2002 outlook, and recent issues in the market. The tone of the meeting was generally upbeat, as Household has demonstrated an ability to sustain mid-teen earnings growth and 20%-plus ROEs during various macro-economic scenarios. In fact, recent results help support management's claim that Household's business model is largely "recession proof."

The following are our three main takeaways from the conference:

First, EPS growth of 15% appears doable. Fundamentals appear to remain solid with good loan growth, improving margins, and manageable credit. HI benefits from still healthy demand for debt consolidation, home equity products and relatively rational competition. Second, capital ratios appear to be headed higher. Renewed focus on risk protection by rating agencies and bond investors encourage a capital boost from 7.87% to 8-8.25% (in '02), potentially delaying planned share repurchases. Note: we now expect less than $1 billion in buybacks this year (versus $916 million in 2001). Third, disclosures appear to be getting better. Management put to rest several recent "market issues" - e.g., transparency, securitizations, reserves, and liquidity. However, new info on account re-aging lacked historical and comparative context and could be a misleading indicator of HI's approach to managing credit losses. Overall, given financial momentum and a lower risk profile we're nudging-up our '02 and '03 EPS estimates a dime each to $4.70 and $5.25. We're also trimming our price target to $70 given our belief that valuation improvement may prove challenging as political/regulatory/accounting issues could stay around for a while.

OVERVIEW CFO, Dave Schoenholz described Household's business model as diverse, including multiple products (secured, unsecured, auto, credit card, and retail finance) delivered to 50 million middle American customers through multiple channels (1,700 branches, partners, auto dealers, direct mail, and the internet). Recent operating results have met targets, including 13%-15% EPS growth, 11%-14% receivables growth, and a mid-30s efficiency ratio (expenses to revenues). The outlook for 2002 is similarly solid, with expectations for achieving the high end of management's EPS growth goal (15%) - helped by about $0.10 per share of goodwill amortization benefit. Management expects receivables to grow at an 11%-14% pace, margins to improve, and expenses to grow at a 10% clip. Credit losses should rise through the third quarter (and may improve in the fourth quarter 2002) reflecting rising unemployment and higher bankruptcy levels. Loan loss reserves should increase in dollar amount, yet may remain relatively flat as a proportion of charge-offs (currently 111%). Finally, share buybacks, which reached $916 million last year, may fall short of management's original goal of $1 billion given an increased focus on raising capital levels (from 7.87% in 2001 to 8-8.25% in 2002) during more challenging economic times.

The following is a brief description of Household's positioning vis-.-vis some recent investor issues in the marketplace - including questions about transparency, securitizations, re-aging, and reserve adequacy.

Transparency - HI will conform with SEC requirements by limiting managed basis reporting - such as by disclosing securitization revenues on an owned basis only. Other disclosures should include both managed and owned reporting - e.g., credit quality, margins, fees, and risk adjusted revenue. Efficiency and capital ratios should be disclosed on a managed basis only.

Securitizations - HI recognized $66 million (after tax) of securitization gains in 2001 ($0.14 per share) and gains in 2002 should be roughly equivalent. HI has structured recent real estate securitizations as financings in order to minimize the associated gains and therefore keep its IO strip relatively small. The bulk of HI's IO strip is related to shorter duration assets and it is therefore less vulnerable to impairment.

Credit Policies - HI's credit policies reflect the company's business mix and are structured to maximize the economics of each customer relationship. This includes working with customers who may have the potential to repay at least a portion of their borrowing. Below is a description of Household's charge-off policies by product.

FIGURE A - CHARGE-OFF POLICIES BY PRODUCT

Real Estate Carrying values > Net Realized Value charged off at foreclosure or settlement with borrower

Auto Finance
Carrying values > Net Realized Value charged off at earlier of: vehicle repossessed and sold, 90 days after repo if not sold, or entire balance charged off at 150 days delinquent

MasterCard/Visa 6 months delinquent

Private Label 9 months delinquent

Personal Non-Credit Card 9 months contractually delinquent and no payment for 6 mos.; not to exceed 12 mos. contractually delinquent.

Note: Bankruptcy charge-off policies, in general, are the same as above or within 60-90 days of notification.

Source: Company reports and Prudential Securities.

Re-Aging Policies - HI provided some new information on account re-aging. The intention of re-aging is not to defer credit losses, but to get customers through a challenging period ("bumps in the road"). This is consistent with HI's customer value proposition - including pricing that runs 300-400 basis points above comparable bank rates. According to HI's re-aging disclosures, total re-aged assets in 2001 were $15.8 billion (17% of total receivables) – up from $11.4 billion (14%) in 2000. Notably, 3/4ths of balances re-aged in 2001 had only been re-aged once, and only 0.05% had been re-aged more than three times. Note: while 17% re-aging appears high, this level reflects more challenging economic conditions and would not directly translate into higher loan losses. The portfolio with the greatest stress is (not surprisingly) the personal non-credit card portfolio, which experienced 27% re-aging in 2001 (up from 22% in 2000).

FIGURE B - TOTAL REAGED PORTFOLIO BY PRODUCT

(Receivables in $ Mil.)	2000	2001
Real Estate Secured	$6,015	$8,667
Auto Finance	392	958
MasterCard/Visa	409	512
Private Label	1,208	1,332
Personal Non-Credit Card	3,036	4,192

Total	$11,060	$15,661

Source: Company reports and Prudential Securities.
Recidivism reflects the proportion of accounts that are re-aged that are ultimately (one year after re-age) two-plus delinquent or charged-off.

FIGURE C - RECIDIVISM

	Managed Portfolio	Percent Re-aged	Recidivism	
RE secured	$44,719	19%	13%	$1,135
Auto finance	$6,395	15%	37%	$354
MC/Visa	$17,395	3%	42%	$212
Private label	$12,814	10%	36%	$473
Personal	$17,993	23%	42%	$1,756
			Total	$3,931
		Percent of Managed Portfolio		4%

Source: Company reports and Prudential Securities.

Reserve Adequacy - HI has recently added to its loan loss reserves by provisioning in excess of current period charge-offs ($500 million added to owned reserves in 2001). Total reserves now equal 3.3% of receivables and 110% of charge-offs and are sufficient to cover more that a year of loan losses (at current rates). We expect Household to continue to add to reserve balances in 2002; however, the reserve ratio could flatten or decline as charge-offs are likely to rise through the third quarter (2002).

Liquidity - HI's liquidity remains somewhat sensitive to the capital markets and rating agencies. The company seeks a diversified funding structure (product, maturity). During the first quarter of 2002, HI further strengthened its liquidity position by adding to its conduit capacity, reducing CP (to $5 billion from $9 billion), and increasing securitization financing (real estate secured receivables).

Please look for our detailed report on the annual meeting later this week. Prudential Securities Incorporated (or one of its affiliates or subsidiaries) or its officers, directors, analysts, employees, agents, independent contractors, or consultants may have positions in securities or commodities referred to herein and may, as principal or agent, buy and sell such securities or commodities. Prudential Securities Incorporated and/or its affiliates or its subsidiaries have managed or comanaged a public offering of securities for HI.
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* "Material" is defined as an equity or equity derivative position greater than $10,000 in any of the senior analyst's or household member's account(s).

-> End of Note <-

Exhibit 41

BILL ALDINGER

TO: Craig Streem

7/11/02

Craig,

For your information . . .

Bill Aldinger

Attachment

REPORTER: LORRIE L. MARCHANT, RPR, CRR, CSR NO. 10523

EXHIBIT: 100

Witness: Aldinger

Date: 1-30-2007 **# of pages:** 6

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This Message is to the Attention of WILLIAM F. ALDINGER
Chairman and CEO - HI

Craig

Fax Number	847-205-7515
Date	Thursday July 11, 2002
Number of Pages	5 *(including this cover sheet)*
From	Hank Boerner
Note	Bill –

Here is the CFRA report, issued internally to subscribers approximately one month ago. This is now made available to the public (this week), after having been in the hands of money managers, PMs, etc. for four weeks.

Please let me know if you need additional information on this. We do have the opportunity to respond (to add comment, correct the record, dispute the findings), and I could arrange a meeting by phone or in person with Dr. Schilit for discussion. (We have done this for other clients with very good results for all.)

He is an important analyst for the buy-side community.

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Household International, Inc.

2700 Sanders Road
Prospect Heights, Illinois 60070
(847) 564-5000

Ticker Symbol: HI
Exchange: NYSE
Website: www.household.com
2001 Fiscal Year-End: 12/31/01
Auditor: Arthur Andersen

6/6/02 Close: 53.60
52-Week: $43.50-$69.49
Price/Earnings: 12.4
Price/Book: 2.8
Mkt. Cap.: 24.5 billion

Household International ("HI") provides home equity loans, auto finance loans, and other unsecured loans as well as private label credit cards in the United States, United Kingdom, and Canada. The Company operates under the HFC and Beneficial brands in the US where it is the second largest subprime lender.

FINANCIAL SUMMARY

($ mils., except EPS & %)	3 Mos. 3/02	3 Mos. 3/01	% Change	Year 12/01	Year 12/00	% Change
Net Interest Income	1,608	1,324	*22%*	5,847	4,765	*23%*
Other Operating Income	1,163	1,006	*16%*	3,895	3,267	*19%*
Operating Income	2,772	2,330	*19%*	9,742	8,032	*21%*
Operating Expenses	1,072	961	*12%*	3,891	3,305	*18%*
Operating Profit Before Provisions	1,700	1,369	*24%*	5,851	4,727	*24%*
Loan Loss Provisions	923	704	*31%*	2,913	2,117	*38%*
Net Income to Common	503	430	*17%*	1,908	1,692	*13%*
EPS (Diluted)	1.09	0.91	*20%*	4.08	3.55	*15%*
Cash	436	272	*60%*	544	490	*11%*
Total Loans	78,624	68,363	*15%*	79,264	67,162	*18%*
Total Assets	90,368	78,253	*15%*	89,416	76,706	*17%*
Total Deposits	6,195	9,098	*(32%)*	6,562	8,677	*(24%)*
Total Debt	68,268	56,066	*22%*	68,848	55,841	*23%*
Stockholders' Equity	8,875	7,617	*17%*	8,203	7,951	*3%*

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Household International, Inc. ("HI"), 6/7/02:
Credit Loss Deferral Through Account Reaging and Other Concerns

Account Reaging Obscures True Credit Loss Experience

CFRA notes that HI's account reaging may obscure its credit quality picture and that account reaging increased in 2001 versus 2000.

Background. On April 9, 2002 HI filed an 8-K in conjunction with its annual financial relations conference. In its 8-K, the Company disclosed more detailed information regarding its account reaging policies than it had revealed previously. Account reaging refers to the practice of resetting to current, accounts that would otherwise be delinquent.

HI states in this filing that Company reaging policies are "not intended to defer credit loss recognition or to overstate net income." Furthermore, HI claims "loss reserves and income statement provisions are properly set." CFRA notes, however, that deferral of charge-offs occurs by definition upon reaging. Therefore, a company's true credit quality picture is obscured by reaging accounts. Absent an adjustment, the reserve ratio of non-performing assets and reserve ratio to charge-offs at HI are continually overstated because both non-performing assets and charge-offs are understated.

Account reaging increased at HI in 2001 relative to 2000. Specifically as shown in **Table 1a**, 16.9% of receivables were reaged in 2001, up from 14.3% in 2000. Comparative data has not been made available prior to 2000 nor on a quarterly basis. According to a Company representative HI is deliberating whether to make more information available at mid-year 2002.

With the exception of private label credit, each HI product line had a larger proportion of accounts reaged in 2001 compared to 2000. All product lines had a higher amount reaged in absolute terms. In the 8-K, HI also disclosed recidivism statistics by product line, which reflect accounts that are delinquent or charged-off one year after having been reaged and (in retrospect, one could argue) should have been charged-off at the time of reaging. In 2001 approximately 25% of the reaged accounts represented forestalled credit losses versus 23% in 2000. (See **Table 1b.**) At $3.9 billion versus $2.6 billion in 2000, the amount ultimately charged-off or delinquent in 2001 stood more than 50% greater than it did in the previous year.

Table 1a: Account Reaging, Annual Trend

($ millions, except %)	2001		2000		1999	
Reaged once within last 12 months	9.4%	8,804	8.5%	6,780	n/a	n/a
Reaged once beyond 12 months ago	3.2%	2,997	2.8%	2,233	n/a	n/a
Multiple reage	4.3%	4,028	3.0%	2,393	n/a	n/a
Total reaged	16.9%	15,829	14.3%	11,406	n/a	n/a

Source: HI 8-K filing April 9, 2002

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Table 1b: Estimated Credit Loss Deferral by Product, 2000-2001

($ millions, except %)	2001				2000			
	Reaged %	Reaged $	Recidivism %	Implied Credit Loss Deferral	Reaged %	Reaged $	Recidivism %	Implied Credit Loss Deferral
Real Estate	20.0%	8,667	13.1%	1,135	17.0%	6,015	13.1%	788
Auto	15.0%	958	36.9%	354	8.6%	392	36.6%	143
Mastercard / Visa	3.2%	512	41.5%	212	2.7%	409	42.0%	172
Private Label	11.1%	1,332	35.5%	473	11.7%	1,208	32.7%	395
Personal Non-Credit	27.2%	4,192	41.9%	1,756	22.1%	3,306	33.2%	1,098
Total Reaged	16.9%	15,829*	24.8%	3,931	14.3%	11,406*	22.8%	2,596

Source: HI 8-K filing April 9, 2002 and CFRA estimates
*CFRA notes that the given total reaged figures do not equal the sum of the given reaged figures by product line

Deteriorating Credit Quality in Q1

HI's credit quality deteriorated in the March 2002 quarter. Specifically, as shown in **Table 2** the managed delinquency ratio of 4.63% was up 17 basis points from year-end 2001 and 38 basis points from the year-ago period. Likewise the managed net charge-off ratio amounted to 4.09%, 19 basis points higher than year-end 2001 and 53 basis points higher than the year-ago period. As mentioned in the previous section, the Company's reaging policies cause these figures to understate HI's delinquency and charge-off experience.

Table 2: Managed Delinquency and Net Charge-Off Ratios, Quarterly Trend

(%)	Q1, 3/02	Q1, 3/01	Q4, 12/01	Q4, 12/00	Q3, 9/01	Q3, 9/00	Q2, 6/01	Q2, 6/00
Delinquency Ratio	4.63	4.25	4.46	4.20	4.43	4.21	4.27	4.16
Net Charge-Off Ratio	4.09	3.56	3.90	3.41	3.74	3.47	3.71	3.74

Fiscal 2001 Earnings Boost: Pension Income

HI continued the trend of receiving an earnings boost from pension income in fiscal 2001. Specifically, while companies typically record a periodic pension *expense* to reflect the amount of future employee benefits earned during a period (and sometimes as a result of under funded pension plans), HI has recorded *income* from the Company's pension plan in each of the past three years.

As shown in **Table 3a**, HI's pension assumptions led it to recognize approximately $38 million of pension income in fiscal 2001, compared with approximately $33 million of pension income in 2000, and $26 million of pension income in 1999. Absent this boost, reported earnings for 2001 would have been reduced by $0.05 per share, to $4.03 from the reported $4.08. (See **Table 3b**.) HI does not disclose pension expense on a quarterly basis.

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Table 3a: Pension Expense (Income) and Significant Pension Assumptions, Annual Trend ($ millions)

($ millions, except %)	2001	2000	1999
Pension Expense (Income)	(38.2)	(33.3)	(26.0)
Discount Rate Assumption	*7.50%*	*8.25%*	*8.00%*
Expected Rate of Return on Plan Assets	*10.0%*	*10.0%*	*10.0%*

Table 3b: Reported Earnings for 2001, Adjusted to Exclude Pension Income

($ millions, except EPS)	Reported	*Adjustment**	CFRA-Adjusted
Net Income	1,908	*(25)*	1,883
EPS	$4.08	*($0.05)*	$4.03

* Adjusted based on effective tax rate of 35.0%. EPS adjusted proportionately with net income.

EPS Boost: Share Repurchases

HI obtained a boost to reported EPS through share repurchases during both 2001 and the March 2002 quarter. Had the Company not bought back any shares during the past year, EPS would have been reduced in 2001 by approximately $0.15 per share to $3.93 from the forma reported $4.08 (See Table 4a.) and approximately $0.01 per share for the March quarter to $1.08 from the pro-forma reported $1.09. (See Table 4b.) A Company representative confirmed that buybacks will continue in 2002 but the repurchases will proceed at a slower pace due to a focus of maintaining capital ratios.

Table 4a: Pro-Forma EPS for 2001, Adjusted Based on Absence of Share Repurchases

Reported	*Adjustment*	CFRA-Adjusted
$4.08	*($0.15)*	$3.93

* Adjustment based on 485.5 million shares outstanding.

Table 4b: Pro-Forma EPS for Q1 (3/02), Adjusted Based on Absence of Share Repurchases

Reported	*Adjustment*	CFRA-Adjusted
$1.09	*($0.01)*	$1.08

* Adjustment based on 463.7 million shares.

Auditor Change

On March 13, 2002 HI's Board of Directors appointed auditor KPMG to replace Arthur Andersen for 2002. No disagreements with the accountants were reported.

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Exhibit 42

Household International, Inc.

2700 Sanders Road
Prospect Heights, Illinois 60070
(847) 564-5000

Ticker Symbol: HI
Exchange: NYSE
Website: www.household.com
2001 Fiscal Year-End: 12/31/01
Auditor: KPMG (changed from Arthur Andersen)

8/16/02 Close: $37.54
52-Week: $32.09 - $66.22
Price/Earnings: 8.3
Price/Book: 2.0
Mkt. Cap.: $17.1 billion

Household International ("HI") provides home equity loans, auto finance loans, and other unsecured loans as well as private label credit cards in the United States, United Kingdom, and Canada. The Company operates under the HFC and Beneficial brands in the US where it is the second largest subprime lender.

FINANCIAL SUMMARY

($ mils., except EPS & %)	6 Mos. 6/02	6 Mos. 6/01	% Change	Year 12/01	Year 12/00	% Change
Net Interest Income	3,226	2,694	*20%*	5,788	4,722	*23%*
Other Operating Income	2,170	1,845	*18%*	3,819	3,184	*20%*
Operating Income	5,396	4,539	*19%*	9,607	7,905	*22%*
Operating Expenses	2,119	1,910	*11%*	3,875	1,631	*138%*
Operating Profit Before Provisions	3,277	2,630	*25%*	5,731	6,275	*(9%)*
Loan Loss Provisions	1,774	1,361	*30%*	2,913	2,117	*38%*
Net Income to Common	974	824	*18%*	1,848	1,631	*13%*
EPS (Diluted)	2.11	1.75	*21%*	3.91	3.40	*15%*
Cash	347	302	*15%*	544	490	*11%*
Total Loans	82,133	71,210	*15%*	79,264	67,162	*18%*
Total Assets	96,806	NA	*NM*	88,911	76,309	*17%*
Total Deposits	5,612	7,943	*(29%)*	6,562	8,677	*(24%)*
Total Debt	76,868	59,849	*28%*	68,848	55,841	*23%*
Stockholders' Equity	8,661	NA	*NM*	7,843	7,667	*2%*

*Restated Company figures not yet audited by KPMG.

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Update – Household International, Inc. ("HI"), 8/19/02:
Continued Concerns in Q2 (6/02) Following Restatement

In our June 2002 report on HI, CFRA highlighted HI's practice of deferring credit loss recognition by "reaging" accounts, the Company's deteriorating credit quality, and its receipt of earnings boosts from pension income. We also noted HI's change in auditor from Arthur Andersen to KPMG. On August 14th, HI announced the restatement of its financial statements from 1994 through the present, as a result of the discovery of improper amortization policies in HI's credit card operations. After reviewing HI's June 2002 10-Q, CFRA remains strongly concerned with the aforementioned issues.

Restatement

On August 14th, the same day the Company CEO and CFO were required to certify the veracity of their financial statements, HI announced the restatement of its financial statements since 1994. Specifically, consultations with new auditor KPMG concerning the amortization of various credit card co-branding, marketing and affinity agreements led HI to restate earnings by $386 million. (See **Table 1.**) HI will now amortize its co-branding agreement over one year (previously over life of contract); expense marketing initiatives as incurred (previously over life of agreement); and will amortize affinity agreements over ten years (previously over thirteen years).

Table 1: Earnings Impact of Restatement by Period

($ millions, except %)	Q2, 6/02	Q2, 6/01	1H 2002	2001	2000	1999	1994-1998	Total
Restatement Amount	6.1	20.0	26.1	75.9	70.1	58.1	155.8	386.0
Restatement % of Period Net Income	1.2	3.9	2.5	3.9	4.1	3.9	3.8	

Account Reaging Obscures True Credit Loss Experience

CFRA noted in our June report that HI's policy of account reaging may obscure its credit quality picture. We also noted that account reaging increased in 2001 versus 2000. Account reaging refers to the practice of resetting to current, accounts that would otherwise be delinquent. Absent an adjustment, the reserve ratio of non-performing assets and reserve ratio to charge-offs at HI are continually overstated because both non-performing assets and charge-offs are understated.

In the June 2002 quarter, the Company changed the format for its disclosure of reaging. For instance whereas HI had previously broken out the percent of credits which had been reaged multiple times, the latest 10-Q details only whether the account has been reaged. This may be due to increased regulator scrutiny of credit card company workout plans. Furthermore, HI refrained from disclosing the amount of recidivism, which reflect accounts that are delinquent or charged-off one year after having been reaged and (in retrospect, one could argue) should have been charged-off at the time of reaging. (See **Tables 2a** and **2b.**)

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09/27/02 FRI 09:27 FAX 516 741 3131 ROWAN & BLEWITT 003

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Table 2a: Account Reaging, Annual Trend

($ millions, except %)	2001		2000	
Reaged once within last 12 months	9.4%	8,804	8.5%	6,780
Reaged once beyond 12 months ago	3.2%	2,997	2.8%	2,233
Multiple reage	4.3%	4,028	3.0%	2,393
Total reaged	16.9%	15,829	14.3%	11,406

Source: HI 8-K filing April 9, 2002

Table 2b: Estimated Credit Loss Deferral by Product, 2001-1H 2002

($ millions, except %)	1H 2002			2001		
	Reaged %	Recidivism %	Implied Credit Loss Deferral	Reaged %	Recidivism %	Implied Credit Loss Deferral
Real Estate	19.1%	NA	NA	20.0%	13.1%	1,135
Auto	15.9%	NA	NA	15.0%	36.9%	354
Mastercard / Visa	3.4%	NA	NA	3.2%	41.5%	212
Private Label	10.5%	NA	NA	11.1%	35.5%	473
Personal Non-Credit	27.1%	NA	NA	27.2%	41.9%	1,756
Total Reaged	16.7%	NA	NA	16.9%	24.8%	3,931

Source: June 2002 10-Q filing, 8-K filing April 9, 2002 and CFRA estimates

Year-Over-Year Credit Quality Deterioration in Q2

HI's reported credit quality deteriorated year-over-year in the June 2002 quarter. Specifically, as shown in Table 3, the managed delinquency ratio at 4.53% was up 26 basis points from the year-ago period while improving 10 basis points sequentially from the March 2002 period. The managed net charge-off ratio amounted to 4.26%, 55 basis points higher than the year-ago period and 17 basis points higher than the March 2002 quarter. As mentioned in the previous section, the Company's reaging policies cause these figures to understate HI's delinquency and charge-off experience.

Table 3: Managed Delinquency and Net Charge-Off Ratios, Quarterly Trend

(%)	Q2, 6/02	Q2, 6/01	Q1, 3/02	Q1, 3/01	Q4, 12/01	Q4, 12/00	Q3, 9/01	Q3, 9/00
Delinquency Ratio	4.53	4.27	4.63	4.25	4.46	4.20	4.43	4.21
Net Charge-Off Ratio	4.26	3.71	4.09	3.56	3.90	3.41	3.74	3.47

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Fiscal 2001 Earnings Boost: Pension Income

As noted in our June report, HI continued the trend of receiving an earnings boost from pension income in fiscal 2001. Specifically, while companies typically record a periodic pension *expense* to reflect the amount of future employee benefits earned during a period (and sometimes as a result of under funded pension plans), HI has recorded *income* from the Company's pension plan in each of the past three years.

As shown in Table 4a, HI's pension assumptions led it to recognize approximately $38 million of pension income in fiscal 2001, compared with approximately $33 million of pension income in 2000, and $26 million of pension income in 1999. Absent this boost, reported earnings for 2001 would have been reduced by $0.05 per share, to $3.86 from the reported $3.91. (See Table 4b.) HI does not disclose pension expense on a quarterly basis.

Table 4a: Pension Expense (Income) and Significant Pension Assumptions, Annual Trend ($ millions)

($ millions, except %)	2001	2000	1999
Pension Expense (Income)	(38.2)	(33.3)	(26.0)
Discount Rate Assumption	*7.50%*	*8.25%*	*8.00%*
Expected Rate of Return on Plan Assets	*10.0%*	*10.0%*	*10.0%*

Table 4b: Reported Earnings for 2001, Adjusted to Exclude Pension Income

($ millions, except EPS)	Reported	*Adjustment**	CFRA-Adjusted
Net Income	1,848	*(25)*	1,823
EPS	$3.91	*($0.05)*	$3.86

* Adjusted based on effective tax rate of 35.0%. EPS adjusted proportionately with net income.

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Exhibit 43

Morgan Stanley

Equity Research
North America

United States of America

Diversified Financials: Specialty Finance

Household International

Reuters: HI.N Bloomberg: HI NYSE: HI

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Change in Price Target

August 15, 2002

Price Target to $53 on Earnings Restatement

STOCK RATING	OVERWEIGHT–V
Price (August 14, 2002)	$37.09
Price Target	$53
52-Week Range	$68.60 - 33.80

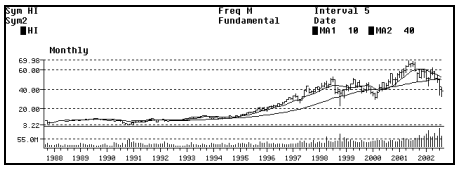
Stock ratings are relative to the analyst's industry (or industry team's) coverage universe.

MSCI SECTOR	FINANCIALS
US Strategist Weight	20.9%
S&P 500 Weight	20.9%

WHAT'S CHANGED	
Earnings (2002)	*To $4.56 from $4.65*
Earnings (2003)	*To $4.93 from $5.02*
Change of Target Price	*$55 to $53*

- **Price target reduction reflects earnings restatement**
  Our price target drops by $1 because of a $360 million reduction in equity and by $1 for the impact of accounting changes on future credit card profits.
- **We see little negative implications**
  While the restatement was a surprise, it does not cause us to change our forecast for profit growth in the company's core subprime lending business, where recent survey work confirms business is booming.
- **Attractive Risk/Return Trade-off**
  With over 40% upside to our revised price target, we believe that plenty of risk is discounted in the shares, but not the strong growth dynamics in the company's core business.
- **Industry View: In-Line**
  The potential for improvement in credit costs, offset by concerns of slower growth, appears to be adequately discounted in the group.

Stock Price Performance



Source: ILX

Company Description

Household International provides consumer loans and credit cards in the US and UK and offers auto finance domestically. At year-end 2001, the company had over 1,500 branch offices, more than 40 million customer accounts, and $100 billion in managed consumer receivables.

FY ending Dec 31:	2001A	2002E	2003E	2004E
EPS ($)	3.91[1]	4.56[1]	5.01	–
Prior EPS Ests. ($)	–	4.65	5.02	–
Consensus EPS Ests. ($)	–	4.63	5.20	–
CEPS ($)	4.92	5.10	4.90	–
P/E	9.5	8.1	7.4	–
P/E Rel. to (S&P 500)	48.0	45.0	47.0	–
P/CE	7.5	7.3	7.6	–
Price/Book	1.9	1.6	1.4	–
Yield (%)	2.3	2.6	3.0	0.0

Market Cap ($ m)	16,987
Debt/Cap (06/02) (%)	90.2
Return on Equity (06/02) (%)	23.7
L-T EPS Grth ('02 - '06) (%)	8.0
P/E to Growth	1.02
Shares Outstanding (m)	458.0

Q'trly EPS	2001A actual	2002E curr	2002E prior	2003E curr	2003E prior
Q1	0.91	1.04A[1]	1.09A	–	–
Q2	0.93	1.07A[1]	1.08A	–	–
Q3	1.07	1.15E	1.17E	–	–
Q4	1.17	1.29E	1.31E	–	–

E = Morgan Stanley Research Estimate
1) Historical EPS has been restated for accounting adjustments.

Please see the important disclosures at the end of this report.

Price Target to $53 on Earnings Restatement

Summary and Investment Conclusion

After adjusting our price target for Household to account for the company's earnings restatement, the shares continue to look attractive to us. The price target falls from $55 to $53, reflecting a $360 million reduction in equity, and a reassessment of the profitability of the credit card business, which causes to reduce our 2003 earnings forecast by 2%. With over 40% upside to the new price target, Household remains one of three Overweight-rated stocks in our specialty finance coverage group, which we rate as "In-Line." The restatement was required by KPMG, Household's new auditors, and has to do with the speed at which credit card marketing agreements have been amortized since the early 1990s. There is no change to our 5-year EPS growth forecast of 8%.

Most important, we don't see any negative implications for our investment thesis, namely the view that the shares adequately discount a number of legal and regulatory risk factors, but do not reflect the strong growth dynamics of the company's core subprime lending business (please see our recent note, "Discounts The Risks: Upgrade," dated July 31, 2002, for more detail).

Minor adjustments to 2002 and 2003 EPS. We're taking our 2002 EPS down to $4.56 from $4.65, reflecting the $0.06 per share restatement of 1H02 earnings and the likelihood of a similar impact in 2H02 results. We've lowered our 2003 results from $5.02 to $4.93, or by roughly the same proportion. Of note, we remain $0.27 below consensus, as we've taken an aggressive stance towards modeling in higher funding costs, slower growth in auto finance and credit cards, and reduced profit margins as a result of new lending practices. Hopefully we're being too conservative. Even if we're not, the stock looks attractive, as our below-consensus earnings forecast still supports the $53 target price.

The revised $53 price target is based on a residual income model, which uses a 1.0 beta and a 4.5% equity risk premium and factors in 8% EPS growth through 2006 and a "maturity period" of 6 years, during which marginal returns gradually fall to the cost of capital. For some perspective, the price target is, coincidentally perhaps, right in line with the mid-point of the stock's historic trading range. This is probably the case because our EPS growth forecast is much slower than what the company has generated in the past, while at the same time, interest rates are much lower than they have been, hence a lower cost of capital used to discount future earnings in our model. The $53 price target equates to 2.7 times restated June 30 book value per share (estimated at $19.87), whereas the stock has traded over the last 10 years between 1.2x and 3.7x, with an average of 2.5x over that period. $53 also equates to 10.7 times our revised EPS for next year, whereas the stock has traded historically between 7.6x and 16.2x, averaging 11.4x.

Risks to our price target. New lending practices may have a more severe impact on margins than we are presently estimating. Our price target would also be at risk if legal damages and regulatory fines resulting from predatory lending issues amount to more than the $500 million we have budgeted.

Details of Restatement

Household restated its historical earnings by a cumulative amount of $386 million (or $0.84 per share) to reflect a change in the accounting for the amortization of premiums related to certain credit card relationships. The change pertains to three separate contracts.

1) **HI has shortened the amortization period pertaining to its co-branded relationship.** Since 1992, Household has paid an up-front fee to its co-branded partner, GM, for each account it booked and amortized this payment over the life of the contractual relationship. Household's new auditors have required the company to reduce the amortization period to one year, which is consistent with the Emerging Issues Task Force (EITF) guideline published in 1993, from which Household's practices had previously been grandfathered.

2) **HI has also shortened the amortization period for its affinity relationship to conform GAAP accounting to the regulatory treatment.** In 1996, Household paid a $3.6 billion premium for the rights to use the Union Privilege name and market credit cards to AFL-CIO members. Household paid a royalty each year to its affinity partner and had amortized the premium as it acquired new accounts. In 1999, Household modified the contract with its affinity partner and, because of slower-than-expected attrition, lengthened the amortization period used to

calculate amortization expense on a reporting basis, although it maintained the original maturity schedule for regulatory accounting purposes. The new auditors apparently felt uncomfortable with inconsistent methodologies.

3) **HI is now expensing revenue sharing payments rather than amortizing them over a three-year period**. In June 1999, Household entered into a credit card marketing arrangement with an outside marketing consulting firm, which led to revenue sharing based on the successful booking of new credit card accounts. The revenue payment, which HI amortized over a three-year period, will now be expensed immediately at the time of each mailing. This treatment is apparently more conservative than the 4-12 month amortization period which the auditors recommended.

Implications for Equity and Capital Ratios

The restatement had a 30 bps impact on Household's capital ratio. The restatement of earnings in prior years had a cumulative negative impact on common equity of $360 million after tax. As a result, the ratio of tangible equity to tangible managed assets at 2Q02 now stands at 7.94%, down from a level of 8.24% as previously reported, and tangible common equity is at 6.39% down from 6.69%.

To signal its commitment to provide unsecured lenders with a strong equity cushion, Household raised its capital target ratios. The company is now targeting a ratio of tangible equity to tangible managed assets of 8.50%, up from 8.0-8.25% previously and a tangible common ratio of 6.70%. To get to those capital levels by year-end, the company announced the suspension of its share repurchase plan, and management indicated it would issue capital securities or common stock if necessary. This signal appears to have been successful, as our colleagues in fixed-income research reported that spreads, after initially widening on the announcement, subsequently pulled back in. Also, the major rating agencies reaffirmed the company's current ratings.

We see little issue with higher capital ratios. In fact, we were already modeling these ratios, figuring that the controversy surrounding litigation and new lending practices would require a more conservative stance. Making up for the $360 million equity reduction shouldn't be difficult, given the company's strong internal capital generation, although it will require the company to suspend its stock repurchase program in 2H02, according to our calculations. Our revised model shows a tangible common ratio of 6.62% by year-end 2002; we expect some modest portfolio sales or other adjustments would make up the difference.

Funding is likely to come from secured markets and whole loan sales in the near-term. Because of wide spreads in the unsecured corporate debt markets, Household intends to fund its business using the securitization markets and through whole loan sales (about $1.5 billion in September). However, securitization should not generate increased gain-on-sale revenues relative to our previous expectations ($190 million estimated in 2H02), as the company focuses on real estate secured transactions, which are treated as financings and kept on balance sheet for reporting purposes. We previously reduced our earnings forecast to reflect a higher cost of funding in 2003 and 2004, and our long-term growth rate assumes no improvement thereafter. Hopefully, this will prove conservative.

Credit Card Returns Now Appear Lower, But Still in Line with Industry

The restatement of earnings suggests to us that returns in the credit card business are lower than we previously thought (Exhibit 1). However, these levels, ranging 1.6-1.7%, appear to be in line with the industry.

Exhibit 1

Household International
Credit Card ROMA: Before and After

($ Millions)

	US Credit Card Services				ROMA	
	Original Net Income	Charge	Restated NI	Avg. V/MC Receiv. (1)	Orig. (2)	Restated
2Q02	72.0	6.1	65.9	16,730.6	1.72%	1.58%
2H02	163.3	20.0	143.3	16,810.7	1.94%	1.70%
2001	367.6	75.9	291.7	17,282.8	2.13%	1.69%
2000	214.7	70.1	144.6	16,118.7	1.33%	0.90%
1999	152.8	58.1	94.7	15,295.7	1.00%	0.62%

(1) Includes foreign credit card assets.
(2) Based on MS calculation using total V/MC receivables.
ROMA for US card business was 2.11% in 2001, 1.01% in 1999 according to Household.

Please see the important disclosures at the end of this report.

Exhibit 2

Specialty & Mortgage Finance Valuation Comparables

Rat'g	Sym	Price 08/14	Div Yld	EPS # 01A	EPS # 02E	EPS # 03E	P/E Ratio 01A	P/E Ratio 02E	P/E Ratio 03E	Rel. P/E 01A	Rel. P/E 02E	Rel. P/E 03E	5-Yr Gr'wth	Mkt. Val. (Mil)	Pr/ Bk	Target Price	Upside
Specialty Finance Industry View: In-Line												**Market Cap Weighted Average**					**26%**
Consumer Finance																	
U	AXP	36.37	0.9	1.00	2.01	2.19	36.4	18.1	16.6	179%	98%	102%	14%	48,445	3.7	36	-1%
NR	ACF (2, 4)	12.53	0.0	3.30	4.24	NA	3.8	3.0	NA	19%	16%	NA	25%	1,069	0.8	–	–
E	COF	31.05	0.3	2.91	3.78	4.55	10.7	8.2	6.8	52%	44%	42%	21%	6,871	1.7	57	84%
NR	CCRT (2)	6.73	5.9	1.08	0.28	0.65	6.2	24.0	10.4	31%	130%	63%	25%	270	0.7	–	–
O-V	HI	38.09	2.6	3.91	4.56	4.93	9.7	8.4	7.7	48%	45%	47%	8%	17,045	1.9	53	39%
O	KRB (6)	19.60	1.4	1.28	1.53	1.82	15.3	12.8	10.8	75%	69%	66%	18%	25,043	3.1	30	53%
NR	MXT (2)	3.34	1.2	2.60	(0.36)	0.28	1.3	NM	11.9	6%	NM	73%	25%	204	0.3	–	–
O-V	PVN (5)	4.90	2.4	0.58	0.38	1.12	8.4	12.9	4.4	41%	70%	27%	NA	1,396	0.7	10	104%
NR	SLM (2)	95.93	0.8	3.75	4.54	5.27	25.6	21.1	18.2	126%	114%	112%	15%	14,898	8.3	–	–
	Average		*1.7*				*13.0*	*13.6*	*10.8*	*64%*	*73%*	*66%*	*19%*		*2.4*		
Commercial Finance																	
NR	ALD (2)	23.00	9.7	2.16	2.29	2.43	10.6	10.0	9.5	52%	54%	58%	12%	2,318	1.7	–	–
U-V	CIT (1)	22.20	2.2	3.17	2.40	3.53	7.0	9.3	6.3	34%	50%	39%	5%	4,698	1.0	23	4%
NR	FIF (2, 3)	31.13	0.0	1.89	2.11	NA	16.5	14.8	NA	81%	80%	NA	15%	522	2.2	–	–
U	GMT	23.59	5.4	1.02	1.50	2.22	23.1	15.7	10.6	114%	85%	65%	13%	1,143	1.3	30	27%
	Average		*4.3*				*14.3*	*12.4*	*8.8*	*70%*	*67%*	*54%*	*11%*		*1.6*		
Mortgage Finance Industry View: Attractive												**Market Cap Weighted Average**					**28%**
Thrift & Mortgage Lenders																	
U	WM	37.81	2.9	3.59	3.95	4.14	10.5	9.6	9.1	52%	52%	56%	11%	36,835	1.8	44	16%
E	CCR	54.60	0.8	4.56	5.44	5.85	12.0	10.0	9.3	59%	54%	57%	13%	6,814	1.5	60	10%
E	GDW	67.17	0.4	5.11	5.72	5.57	13.2	11.7	12.1	65%	63%	74%	14%	10,552	2.2	72	7%
E	NDE	23.14	0.0	2.00	2.40	2.66	11.6	9.6	8.7	57%	52%	53%	12%	1,394	1.5	28	19%
U	GPT	49.51	2.0	3.83	3.91	NA	12.9	12.7	NA	63%	68%	NA	13%	4,396	NA	–	–
	Average		*1.2*				*12.0*	*10.7*	*9.8*	*59%*	*58%*	*60%*	*13%*		*1.8*		
Agency & Private MI																	
O	FNM	76.11	1.7	5.20	6.25	7.01	14.6	12.2	10.9	72%	66%	67%	15%	76,140	3.1	105	38%
O	FRE	63.88	1.4	4.21	5.32	5.68	15.2	12.0	11.2	75%	65%	69%	15%	44,328	3.3	84	31%
O	PMI	33.90	0.3	3.44	3.93	4.48	9.9	8.6	7.6	48%	47%	46%	6%	3,034	1.2	50	47%
U	MTG	60.50	0.2	5.70	6.29	6.95	10.6	9.6	8.7	52%	52%	53%	6%	6,395	1.9	70	16%
E	FNF	30.74	1.6	3.46	4.31	3.50	8.9	7.1	8.8	44%	39%	54%	8%	2,907	1.6	35	14%
O	LFG	35.10	0.8	5.06	5.74	3.82	6.9	6.1	9.2	34%	33%	56%	8%	642	0.8	43	23%
	Average		*1.0*				*11.0*	*9.3*	*9.4*	*54%*	*50%*	*58%*	*10%*		*2.0*		
	S&P 500	920	1.7	45.2	49.7	56.3	20.4	18.5	16.3				7%			1200	30%

O = Overweight E = Equal weight U = Underweight NR = Not Rated V = More volatile

A = Actual E = Morgan Stanley Research Estimates NA = Not Available NM = Not Meaningful

(1) EPS are pro forma and based on 211.6 million shares. EPS excludes goodwill charges, but includes special reserves.

(2) EPS and growth estimates reflect First Call consensus forecasts.

(3) EPS estimates are on a calendar-year basis. Fiscal year ends July.

(4) EPS estimates are on a calendar-year basis. Fiscal year ends June.

(5) EPS excludes one-time charges.

(6) Share and per share data have been adjusted to reflect the 3-for-2 stock split effective on July 15, 2002.

Source: Morgan Stanley Research Estimates, First Call, Factset

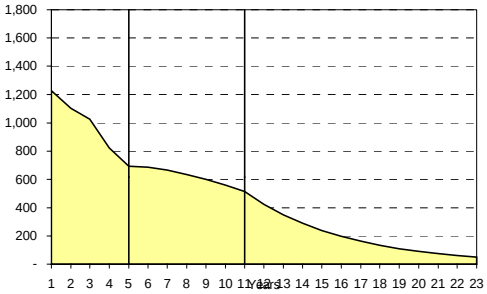
Exhibit 3

Assumptions

Share Information	
Expected 12 Month Dividend (2002)	$0.88
Current Stock Price (8-14)	38.09
Issued Shares (million) (2Q02)	448
Reported Book Value Per Share (2Q02)	19.87
Cost of Capital	
10-yr. Govt. Bond Yield (%) (7-30)	4.53
Beta	1.00
Market Risk Premium (%)	4.50
Cost of Common Equity (%)	9.03
Maturity Phase	
Number of Years	6
Target Equity/Mgd. Assets (%)	8.0
End of Phase RWA Growth Rate (%)	7.0
Decline Phase	
Decay Factor (0-10%)	10.0
Growth in RWA (%)	5.0
Goodwill	
Current Goodwill	1,225
BV Adjustment	2,415

Valuation Analysis

Present Value of Residual Income (%)



Key Valuation Measures

Stock Price	38.09
Est. Current Fair Value ($)	49.73
12 Month Target Price ($)	53.34
12 Month Total Return (%)	42.4
Price/Book Value	1.9
Price/Economic Book Value	1.5
2002E Return on Economic Equity (%)	20.9
Cost of Common Equity (%)	9.0
Current Operations Value™/Est. Fair Value (%)	117

Valuation Drivers

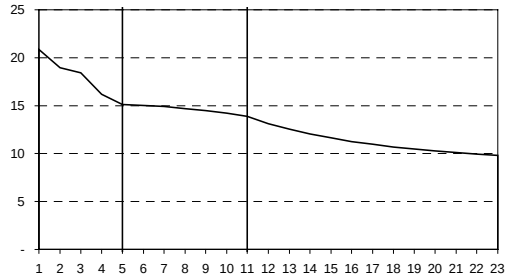
		CAGR (%)		End of Phase		% of Fair Value	
Phase	Years	Cash Earnings	RWA	ROEE (%)	Payout Ratio (%)	Phase	Cumulative
Economic BV	-	-	-	-	-	50.8	50.8
Development	5	3.1	9.6	15.1	41.9	21.9	72.7
Maturity	6	6.1	8.2	13.9	54.1	16.4	89.1
Decline	12	1.8	5.0	9.8	51.9	10.9	100.0

Valuation Parameters

	Est. Current Fair Value as a Multiple of			
	Bk Val	Econ Bk	Earnings	Cash Earn
2002	2.3	1.9	10.6	10.4
2003	2.2	1.7	9.9	9.8
2004	1.8	1.5	9.6	9.4
2005	1.7	1.4	9.5	9.3
2006	1.5	1.3	9.4	9.2

Return on Economic Equity

ROEE (%)



Distribution of Forecasted ROEE

ROEE Frequency (%)	ROEE Threshold (%)
75	10
65	10
55	12
50	12
45	13
35	14
25	14

Exhibit 4

Key Model Inputs, 2002E–2003E

	1Q02A	Restated 2Q02A	3Q02E	4Q02E	2002E	2003E
Growth Rates (Y/Y % Change)						
Home Equity	21.7%	22.8%	23.0%	21.0%	21.0%	18.0%
Auto Finance	37.8%	33.4%	23.0%	22.0%	22.0%	8.0%
Visa/MasterCard	-1.3%	-1.5%	-1.0%	4.0%	4.0%	4.0%
Private Label	12.2%	12.5%	12.0%	7.0%	7.0%	3.0%
Other Unsecured	9.7%	11.5%	11.0%	11.0%	11.0%	10.0%
Total Mgd. Receivables	14.5%	15.2%	14.7%	14.1%	14.1%	11.7%
Interest Income/Avg Earning Assets	13.10%	12.81%	12.94%	13.17%	13.01%	13.31%
Estimated Cost of Debt	4.68%	4.53%	4.43%	4.36%	4.48%	5.06%
Net Interest Margin	8.79%	8.58%	8.62%	8.93%	8.71%	8.42%
Fee Income/Avg Visa/MasterCard Receiv.	8.81%	8.50%	8.50%	8.70%	8.63%	9.00%
Salaries & Benefits Exp./Avg. Mgd Receivables	1.97%	2.02%	1.93%	1.90%	1.95%	1.95%
Mgd. Four-Qtr. Lagged Net Charge-Off Rate						
Home Equity	0.80%	1.05%	1.15%	1.15%	1.04%	1.10%
Auto Finance	9.34%	8.34%	8.50%	9.30%	8.88%	8.57%
Visa/MasterCard	7.07%	7.43%	7.60%	7.30%	7.35%	6.98%
Private Label	6.32%	6.02%	5.92%	6.02%	6.07%	5.76%
Other Unsecured	8.66%	9.43%	9.70%	9.50%	9.33%	9.19%
Total	4.71%	4.90%	5.00%	4.93%	4.89%	4.59%
Y/Y % Change	8%	13%	16%	10%	12%	-6%
Net Charge-Off Rate						
Home Equity	0.65%	0.86%	0.93%	0.94%	0.85%	0.91%
Auto Finance	6.70%	6.17%	6.64%	7.62%	6.81%	7.33%
Visa/MasterCard	7.17%	7.54%	7.78%	7.33%	7.45%	6.45%
Private Label	5.57%	5.38%	5.27%	5.41%	5.41%	5.28%
Other Unsecured	7.86%	8.56%	8.69%	8.52%	8.42%	8.27%
Total	4.09%	4.26%	4.34%	4.30%	4.25%	3.99%
Reserves/Managed Receivables	4.10%	4.14%	4.09%	4.04%	4.04%	3.93%
Mgd. Reserve Ratio/Lagged NCO Rate	87%	85%	82%	82%	83%	86%
Key Macro Assumptions (1)						
Real GDP (Chg) (2)	6.1%	2.5%	4.1%	4.2%	2.9%	3.8%
Personal Consumption Expend. (Chg) (2)	3.3%	2.3%	3.4%	2.9%	3.3%	2.8%
Civilian Unemployment Rate	5.6%	5.9%	5.8%	5.7%	5.8%	5.4%
Fed Funds Target Rate	1.75%	1.75%	1.75%	2.75%	2.75%	4.25%
Change in Fed Funds Target Rate (bps)	0.00	0.00	0.00	1.00	1.00	1.50
Bankruptcy Filings/Capita (Y/Y Chg)	2%	-5%	5%	0%	0%	-5%

(1) Estimates are based on discussions with Morgan Stanley US Economist team, as of July 8, 2002.
(2) Quarterly growth rates are annualized percent change from prior quarter.
Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations.
AT = After tax A = Actual E = Morgan Stanley Research Estimates

Exhibit 5

Household International

Income Statement, 2002E–2003E

($ Millions Except Per Share Data)	Restated 1Q02A	Restated 2Q02A	3Q02E	4Q02E	2002E	2003E
Income Statement (Managed Basis)						
Net Interest Income	2,253.2	2,280.6	2,359.5	2,534.7	9,428.0	10,257.4
Insurance Premium Revenues	170.1	177.5	188.3	196.7	732.6	827.6
Investment Income	46.2	44.0	46.5	50.4	187.1	205.8
Fee Income	372.0	355.4	360.4	383.0	1,470.8	1,660.8
Securitization Income	145.8	134.2	119.0	73.8	472.7	488.1
Other Non-Interest Revenues	188.0	95.3	59.2	61.8	404.3	430.9
Non-Interest Income	922.1	806.4	773.3	765.7	3,267.5	3,613.1
Net Revenues	3,175.3	3,087.0	3,132.8	3,300.4	12,695.5	13,870.5
Provision for Loan Losses	(1,362.3)	(1,278.4)	(1,279.1)	(1,362.0)	(5,281.8)	(5,530.4)
Insurance Benefits Expense	(84.0)	(87.4)	(90.4)	(94.4)	(356.2)	(397.3)
Salaries and Fringe Benefit Expense	(499.4)	(520.6)	(519.2)	(533.8)	(2,073.0)	(2,373.3)
Marketing Expense	(140.4)	(133.5)	(131.5)	(132.5)	(537.9)	(624.0)
Amortization of Acquired Intangibles	(19.8)	(12.6)	(12.6)	(12.6)	(57.6)	(55.7)
Other Non-Interest Expenses	(323.9)	(297.4)	(282.5)	(252.8)	(1,156.6)	(1,363.2)
Non-Interest Expense	(1,067.5)	(1,051.5)	(1,036.2)	(1,026.1)	(4,181.3)	(4,813.5)
Pretax Income	745.5	757.1	817.6	912.2	3,232.4	3,526.7
Income Taxes	(254.5)	(249.7)	(269.6)	(300.9)	(1,074.7)	(1,199.1)
Net Income	$491.0	$507.4	$547.9	$611.4	$2,157.7	$2,327.6
Net Income Applicable to Common	$482.5	$491.9	$532.4	$595.9	$2,102.7	$2,272.6
Diluted EPS	**$1.04**	**$1.07**	**$1.15**	**$1.29**	**$4.56**	**$5.01**
Avg. Diluted Shares Outstanding (Millions)	462.1	461.2	461.2	461.2	461.4	454.0
Dividends Per Share	$0.22	$0.25	$0.25	$0.25	$0.97	$1.12
Common Dividend Payout Ratio	21%	23%	22%	19%	21%	22%
Growth Rates (Y/Y % Change)						
Net Interest Income	23.1%	20.4%	16.6%	15.6%	18.7%	8.8%
Insurance Premium Revenues	7.3%	11.4%	11.3%	12.2%	10.6%	13.0%
Investment Income	10.5%	16.4%	10.0%	10.0%	11.6%	10.0%
Fee Income	-5.4%	-10.3%	-11.7%	-9.0%	-9.1%	12.9%
Other Non-Interest Revenues	16.3%	92.9%	14.9%	3.2%	25.4%	6.6%
Non-Interest Income	26.5%	21.1%	12.2%	-6.9%	12.4%	10.6%
Net Revenues	24.1%	20.6%	15.5%	9.5%	17.0%	9.3%
Provision for Loan Losses	46.0%	36.8%	32.3%	15.0%	31.4%	4.7%
Insurance Benefits Expense	8.4%	19.6%	16.6%	26.7%	17.7%	11.5%
Salaries and Fringe Benefit Expense	15.6%	13.0%	7.6%	7.8%	10.8%	14.5%
Marketing Expense	3.8%	3.5%	3.5%	3.5%	3.6%	16.0%
Other Non-Interest Expenses	17.0%	16.4%	9.3%	-1.3%	10.5%	17.9%
Non-Interest Expense	11.1%	10.0%	5.4%	3.5%	7.5%	15.1%
Pretax Income	12.0%	13.1%	7.1%	8.7%	10.0%	9.1%
Net Income	13.7%	15.6%	8.8%	11.4%	12.2%	7.9%
Diluted EPS	14.7%	14.7%	8.3%	10.6%	11.9%	9.9%

Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations.
AT = After tax A = Actual E = Morgan Stanley Research Estimates

Exhibit 6

Household International
Balance Sheet, 2002E–2003E

($ Millions Except Per Share Data)	1Q02A	Restated 2Q02A	3Q02E	4Q02E	2002E	2003E
Managed Assets						
Home Equity	$46,249	$48,888	$51,575	$54,110	$54,110	$63,849
Auto Finance	6,616	6,881	7,219	7,803	7,803	8,427
Visa/MasterCard	16,349	16,787	17,131	18,091	18,091	18,815
Private Label	13,322	13,477	13,873	14,781	14,781	15,224
Other Unsecured	18,151	18,946	19,571	19,972	19,972	21,969
Total EOP Core Managed Receivables	100,687	104,978	109,369	114,756	114,756	128,284
Total Managed Receivables	101,178	105,461	109,742	115,009	115,009	128,411
Total Owned Receivables	79,595	83,138	86,696	90,857	90,857	100,160
Total Owned Assets	90,368	96,806	100,552	104,644	104,644	112,045
Total Securitized Receivables	21,583	22,323	23,046	24,152	24,152	28,250
Total Managed Assets	111,951	119,668	123,598	128,796	128,796	140,295
Liabilities & Shareholders' Equity						
Total Debt	$74,463	$82,480	$85,405	$88,528	$88,528	$94,547
Total Liabilities	80,054	86,327	89,652	93,260	93,260	99,892
Preferred Beneficial Interest (Capital Securities)	975	975	975	975	975	975
Preferred Equity	843	843	843	843	843	843
Common Equity	8,495	8,661	9,082	9,566	9,566	10,334
Total Shareholders Equity	9,339	9,504	9,925	10,409	10,409	11,178
Shares Outstanding (Millions)	448.5	447.5	447.5	447.5	447.5	432.6
Book Value Per Share	$20.23	$21.06	$22.00	$23.08	$23.08	$27.22
Acquired Intangibles	1,225	1,122	1,110	1,097	1,097	1,041
Tangible Book Value Per Share	$16.21	$16.85	$17.81	$18.92	$18.92	$21.48
Growth Rates (Y/Y % Change)						
Home Equity	21.7%	22.8%	23.0%	21.0%	21.0%	18.0%
Auto Finance	37.8%	33.4%	23.0%	22.0%	22.0%	8.0%
Visa/MasterCard	-1.3%	-1.5%	-1.0%	4.0%	4.0%	4.0%
Private Label	12.2%	12.5%	12.0%	7.0%	7.0%	3.0%
Other Unsecured	9.7%	11.5%	11.0%	11.0%	11.0%	10.0%
Total Core Managed Receivables	14.7%	15.4%	15.0%	14.4%	14.4%	11.8%
Total Managed Receivables	14.5%	15.2%	14.7%	14.1%	14.1%	11.7%
Total Managed Assets	14.4%	18.8%	17.4%	16.7%	16.7%	8.9%
Total Debt	14.3%	21.7%	19.2%	17.4%	17.4%	6.8%
Total Shareholders Equity	20.0%	17.9%	18.5%	25.4%	25.4%	7.4%
Shares Outstanding (Millions)	-2%	-2%	-1%	-1%	-1%	-3%
Book Value Per Share	17%	17%	18%	19%	19%	18%
Other Balance Sheet Data						
Avg. Managed Earning Assets	103,087.2	106,756.3	109,469.9	113,577.5	108,222.7	121,764.0
Mgd. Net Interest Margin (Annualized)	8.79%	8.58%	8.62%	8.93%	8.71%	8.42%
Mgd. Net Interest Margin (% Receiv.)	8.89%	8.84%	8.77%	9.02%	8.88%	8.43%
Common Equity/Managed Assets	7.59%	7.24%	7.35%	7.43%	7.43%	7.37%
Tangible Capital/Tangible Mgd. Assets	8.2%	7.9%	8.0%	8.1%	8.1%	8.0%
Debt & Trust Sec./Total Equity	8.1	8.8	8.7	8.6	8.6	8.5
Total Securtized Receiv./Total Mgd. Receiv.	21%	21%	21%	21%	21%	22%

Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations.
AT = After tax A = Actual E = Morgan Stanley Research Estimates

Exhibit 7

Household International

Profitability Metrics & Other Key Statistics, 2002E–2003E

	1Q02A	Restated 2Q02A	3Q02E	4Q02E	2002E	2003E
As a % of Avg. Managed Assets (Annualized)						
Net Interest Income	8.1%	7.9%	7.8%	8.0%	7.9%	7.6%
Insurance Premium Revenues	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Investment Income	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Fee Income	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%
Securitization Income	0.5%	0.5%	0.4%	0.2%	0.4%	0.4%
Other Non-Interest Revenues	0.7%	0.3%	0.2%	0.2%	0.3%	0.3%
Non-Interest Income	3.3%	2.8%	2.5%	2.4%	2.8%	2.7%
Net Revenues	11.4%	10.7%	10.3%	10.5%	10.7%	10.3%
Provision for Loan Losses	4.9%	4.4%	4.2%	4.3%	4.4%	4.1%
Marketing Expense	0.5%	0.5%	0.4%	0.4%	0.5%	0.5%
Other Non-Interest Expense	1.2%	1.0%	0.9%	0.8%	1.0%	1.0%
Non-Interest Expense	3.8%	3.6%	3.4%	3.3%	3.5%	3.6%
Pretax Income	2.7%	2.6%	2.7%	2.9%	2.7%	2.6%
Return on Avg. Managed Assets (ROMA)	1.82%	1.78%	1.75%	1.89%	1.77%	1.67%
Return on Avg. Common Equity	23.4%	22.9%	24.0%	25.6%	24.1%	22.5%
Return on Avg. Tang. Common Equity	26.0%	24.8%	25.9%	27.4%	26.1%	24.1%
Mgd. Net Interest Margin (Annualized)	8.79%	8.55%	8.62%	8.93%	8.71%	8.42%
Risk-Adjusted Margin	8.34%	7.46%	7.20%	7.38%	7.58%	7.16%
Efficiency Ratio (Normalized)	31.6%	32.1%	31.1%	29.1%	31.0%	33.0%
Tax Rate	34%	33%	33%	33%	33%	34%

Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations.

A = Actual E = Morgan Stanley Research Estimates NM = Not Meaningful

Exhibit 8

Household International

Credit Quality Analysis, 2002E–2003E

($ Millions Except Per Share Data)

	1Q02A	2Q02A	3Q02E	4Q02E	2002E	2003E
Reserve Analysis						
Reserves (Managed)	$4,146.5	$4,368.9	$4,485.2	$4,641.9	$4,641.9	$5,051.5
Mgd. Reserves/Mgd. Receivables	4.10%	4.14%	4.09%	4.04%	4.04%	3.93%
Mgd. Reserve Ratio/Lagged NCO Rate	87%	85%	82%	82%	83%	86%
Delinquent Loans (Managed)	4,661.8	4,755.5	4,812.2	5,164.0	5,164.0	5,708.6
Y/Y % Change	25%	22%	14%	15%	15%	11%
Net Charge-Offs (Managed)	1,027.0	1,095.2	1,162.8	1,205.3	4,490.3	5,120.7
Y/Y % Change	32%	32%	34%	27%	31%	14%
Mgd. Consumer Delinquency Rate (60+ days)	4.63%	4.53%	4.40%	4.50%	4.50%	4.45%
Mgd. Two-Qtr. Lagged Delinquency Rate	4.62%	4.72%	4.76%	4.90%	4.90%	0.00%
Mgd. Consumer Net Charge-Offs Rate (Annuali	4.09%	4.26%	4.34%	4.30%	4.25%	3.99%
Mgd. Four-Qtr. Lagged Net Charge-Off Rate	4.71%	4.90%	5.00%	4.93%	4.89%	4.59%
Mgd. Provisions/Mgd. Net Chargeoffs	133%	117%	110%	113%	118%	108%
Segment Analysis						
Mgd. $ Net Charge-Offs (Estimated)						
Home Equity	74.4	102.3	117.2	124.5	418.4	538.7
Auto Finance	109.4	103.1	117.0	143.1	472.7	595.0
Visa/MasterCard	302.8	315.4	329.8	322.7	1,270.6	1,190.7
Private Label	189.7	180.0	180.1	193.9	743.7	792.5
Other Unsecured	354.3	393.6	418.6	421.2	1,587.7	1,733.9
Total	1,030.6	1,094.4	1,162.8	1,205.3	4,493.1	4,850.7
Net Charge-Off Rate						
Home Equity	0.65%	0.86%	0.93%	0.94%	0.85%	0.91%
Auto Finance	6.70%	6.17%	6.64%	7.62%	6.81%	7.33%
Visa/MasterCard	7.17%	7.54%	7.78%	7.33%	7.45%	6.45%
Private Label	5.57%	5.38%	5.27%	5.41%	5.41%	5.28%
Other Unsecured	7.86%	8.56%	8.69%	8.52%	8.42%	8.27%
Total	4.09%	4.26%	4.34%	4.30%	4.25%	3.99%
Mgd. Four-Qtr. Lagged Net Charge-Off Rate						
Home Equity	0.80%	1.05%	1.15%	1.15%	1.04%	1.10%
Auto Finance	9.34%	8.34%	8.50%	9.30%	8.88%	8.57%
Visa/MasterCard	7.07%	7.43%	7.60%	7.30%	7.35%	6.98%
Private Label	6.32%	6.02%	5.92%	6.02%	6.07%	5.76%
Other Unsecured	8.66%	9.43%	9.70%	9.50%	9.33%	9.19%
Total	4.71%	4.90%	5.00%	4.93%	4.89%	4.59%

Owned = Reported GAAP basis. Managed = Excludes the effects of securitizations.
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Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V). We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

ANALYST INDUSTRY VIEWS

Attractive (A). The analyst expects the performance of his or her industry coverage universe to be attractive vs. the relevant broad market benchmark over the next 12-18 months.

In-Line (I). The analyst expects the performance of his or her industry coverage universe to be in line with the relevant broad market benchmark over the next 12-18 months.

Cautious (C). The analyst views the performance of his or her industry coverage universe with caution vs. the relevant broad market benchmark over the next 12-18 months.

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Exhibit 44

CIBC

CIBC WORLD MARKETS

Equity Research

August 14, 2002

Earnings Update *Buy*

Household International

Restates EPS On Accounting Revisions Related To Old Credit Card Contracts

Diversified Financial Services

HI-NYSE (8/14/02)	**$34.78**
12-18 mo. Price Target	$57.00
Key Indices: S&P 500, DJ Ind, S&PFincl	
3-5-Yr. EPS Gr. Rate (E):	15.0%
52-week Range	$68.60-$33.80
Shares Outstanding	461M
Float	356.1M shrs
Avg. Daily Trading Vol.	3,600,000
Market Capitalization	$16.0B
Dividend/Yield	$1.00/2.9%
Fiscal Year Ends	December
Book Value	15.31 per Shr
2002 ROE	20.3%
LT Debt	$60,536.2
Preferred	$1,818.20M
Common Equity	$7,057.20M
Convertible Available	Yes

- Household International will restate earnings from 1994 to the present. The revision reflects a change in Household's previous accounting treatment of its Mastercard/Visa co-branding and affinity credit card relationships, and a marketing agreement with a third party.

- The restatement negatively affects second-quarter earnings by $0.01 and first half 2002 earnings by $0.06 per share, which generally relates to the company's amortization of upfront payments for new accounts booked and premiums paid on acquired accounts.

- The adjustment is in response to a review conducted by Household's new auditor, KPMG. The impact to 2002 EPS should be about $0.12 per share: we have trimmed our 2002 and 2003 estimates to reflect the adjustment. Our new estimates are $4.58 and $5.18, respectively.

- Despite the revision, the underlying business is strong, and Household reaffirmed guidance. While the revision adversely affects capital ratios by roughly 30 bps, all of the major rating agencies have re-affirmed ratings, which should return to previous, or higher levels, by year-end.

Company Description

Household International is a diversified financial services company focused primarily on consumer lending.

Earnings per Share	Prev	Current
2001A	$4.08A	$3.92A
2002E	$4.70E	$4.58E
2003E	$5.30E	$5.18E
P/E		
2001A	8.5x	8.9x
2002E	7.4x	7.6x
2003E	6.6x	6.7x

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The impact from the accounting revision is modest relative to earnings booked for the same period

Household will restate earnings, but the overall impact should be relatively small and should not affect the long-term growth forecast for the company. Household International announced that it has restated earnings from 1994 to the present to reflect accounting revisions related to the amortization of costs within several of the company's MasterCard/Visa co-branding and affinity credit card relationships, as well as a credit card marketing agreement with a third party. The total revision to net income since 1994 equals approximately $386 million, relative to the more than $10 billion the company earned over the same period. Second-quarter 2002 earnings will be negatively affected by $0.01, with earnings for the first half of the year lower by $0.06 per share given the accounting adjustment. Management said the full-year impact for the adjustment should be approximately $0.12 per share.

In addition to the announced restatement, the company also announced that it has certified the accuracy of its SEC filings for 2002 and previously declared that it would begin expensing the cost of stock options. The company stated that the expensing of options should not have a material impact on future earnings.

The accounting revision is in response to a change in auditors

The accounting revision is in response to an intensive review and subsequent recommendation by the company's new auditors, KPMG. Household previously used Arthur Andersen as its auditor, which was replaced by KPMG in March 2002. In simplest terms, the audit by KPMG determined the company should have been expensing certain costs related to new accounts booked within the company's co-branded and affinity credit card relationships over several months to one year, rather than the amortization over several years, as had been approved by the company's previous auditor. The company described the accounting revision as a "good faith difference of opinion" and did not admit to any historical errors in its previous treatment of costs related to new accounts booked.

The impact to 2002 earnings should be roughly $0.12 per share

As a result of the accounting adjustment, we have lowered our 2002 and 2003 earnings estimates to reflect roughly a $0.12 per share annual impact to our previous estimates. Our prior 2002 estimate of $4.70 per share has been revised to $4.58 per share, and our 2003 estimate of $5.30 has been lowered to $5.18. Although we have lowered our earnings estimates, we believe the fundamental outlook for the company remains strong, particularly given the ongoing low interest-rate environment and refinancing activity. As a result, we have maintained our Buy rating on the stock.

We have, however, lowered our price target on the stock to $57 from $65 to reflect the earnings adjustment and the negative investor sentiment typically attached to any accounting revisions. As a result of the market sentiment and low investor confidence, we believe the stock may not achieve the previous 12X-13X price/forward earnings multiple that we anticipated based on the solid operating environment and strong earnings growth. Our revised price target reflects a price/forward earnings multiple of roughly 11X our 2003 estimate, roughly 10% below the historical price/forward earnings multiple at which the stock has traded since 1995.

The risks to our price target reflect the ongoing skittish market and investor sentiment, which may continue to punish the stock for its accounting revision more severely than anticipated. In addition, should the operating environment change, interest rates move sharply higher and home equity production slow, earnings growth could be adversely affected. Given the current state of the economy, however, we do not believe that interest rates should move drastically higher, and should remain near low levels through 2002 and into 2003, which could continue to fuel heavy refinancing activity. Further, given the ongoing strength of the real estate market and continued home value appreciation, we believe the fundamental risk to our price target is limited.

Although capital ratios will be adversely impacted, the impact should be temporary

As a result of the accounting adjustments, Household's capital ratios should be adversely affected by roughly 30 bps. At the end of the second quarter, the company reported a tangible equity/tangible managed asset ratio of 8.24%—following the revisions, the ratio should fall to below 8%. The company, however, has implemented several initiatives, such as suspending its share repurchase program, that should drive the ratio back to prior levels and has raised its target range for the tangible equity ratio to 8.5% from 8%-8.25% currently. Although the company could experience some spread widening within the asset backed market until the ratio is returned to at least prior levels, Household does not intend to access the capital markets until the fourth quarter, and at that time, intends to pursue international and retail funding initiatives.

Despite the adverse impact to its tangible equity ratio, all of the major debt rating agencies have re-affirmed existing ratings, citing the recognition of the initial adverse impact, but also the company's dedication to improving capitalization over the next few quarters. Moody's did acknowledge that the earnings restatement could have an extended adverse impact on investor confidence and funding access until the company returns to prior capitalization levels.

While any accounting adjustment is unnerving, we believe the long-term growth prospects for Household remain intact

Overall, although it is unnerving any time historical earnings are restated to reflect accounting adjustments, particularly in the current environment, we believe the ultimate impact on Household, from both a financial and an growth perspective, should be minimal. We further believe it is important to note that the company had been in compliance with its previous auditors and has only made the change given the replacement of Arthur Anderson with KPMG. As a result, the implication is that the company did not "cook" the books or intentionally falsify earnings, but rather has made the adjustment related to a difference of opinion between auditing firms. As a result, we have maintained our Buy rating on the stock, because the fundamental outlook continues to be healthy.

Exhibit 1. Household International Earnings Model Including Accounting Adjustment
(Dollars in millions, unless otherwise noted)

	2001				2002E				Full Year
	1Q	2Q	3Q	4Q	1QA	2QP	3Q	4Q	2003E
Finance Income	$3,246.8	$3,216.8	$3,304.8	$3,385.0	$3,388.5	$3,426.8	$3,664.4	$3,836.6	$16,652.7
Interest Expense	1,417.0	1,322.5	1,280.7	1,192.6	1,124.0	1,137.5	1,260.9	1,324.0	5,838.6
Net Interest Margin	**1,829.8**	**1,894.3**	**2,024.1**	**2,192.4**	**2,264.5**	**2,289.3**	**2,403.4**	**2,512.6**	**10,814.2**
Provision For Credit Losses	932.8	934.8	966.8	1,184.0	1,362.3	1,278.4	1,257.7	1,297.6	5,439.1
Interest Margin After Losses	**897.0**	**959.5**	**1,057.3**	**1,008.4**	**902.2**	**1,010.9**	**1,145.8**	**1,215.0**	**5,375.0**
Insurance Revenue	158.6	159.3	169.2	175.3	170.1	177.5	180.7	184.3	757.9
Investment Income	41.8	37.8	42.3	45.8	46.2	44.0	48.1	51.7	223.4
Fees Income	393.2	396.3	407.9	421.1	396.3	362.7	382.8	401.9	1,785.4
Securitization Income (Expense)	(26.1)	23.2	18.2	120.4	145.8	134.2	143.3	126.9	196.9
Other Income	161.7	49.4	51.5	59.9	188.0	95.3	98.4	97.6	397.3
Total Other Operating Revenue	**729.2**	**666.0**	**689.1**	**822.5**	**946.4**	**813.7**	**853.3**	**862.4**	**3,360.9**
Total Net Revenues	**1,626.2**	**1,625.5**	**1,746.4**	**1,830.9**	**1,848.6**	**1,824.6**	**1,999.0**	**2,077.4**	**8,736.0**
Salaries And Benefits	377.6	387.2	408.3	424.1	445.3	453.0	489.8	504.8	2,144.2
Sales Incentives	54.5	73.6	74.1	71.0	54.1	67.6	80.0	81.0	324.9
Occupancy And Equipment	83.5	83.7	86.1	84.1	92.2	93.3	100.0	95.6	434.2
Other Marketing	135.2	129.0	127.1	128.0	148.4	141.5	149.9	145.4	668.8
Other Servicing And Administrative	193.4	171.7	172.3	172.2	229.3	202.5	215.9	214.0	966.9
Amor. Of Intangibles And Goodwill	38.9	37.5	37.4	37.4	18.2	12.5	20.0	20.8	87.4
Total Expenses	**883.1**	**882.7**	**905.3**	**916.8**	**987.5**	**970.4**	**1,055.5**	**1,061.6**	**4,626.3**
Policyholders' Benefits	77.5	73.1	77.5	74.5	84.0	87.4	84.0	83.1	370.1
Exp. & Policyholders' Benefits	**960.6**	**955.8**	**982.8**	**991.3**	**1,071.5**	**1,057.8**	**1,139.5**	**1,144.7**	**4,996.4**
Pretax Income	**665.6**	**669.7**	**763.6**	**839.6**	**777.1**	**766.8**	**859.6**	**932.8**	**3,739.5**
Income Tax Expense	233.8	230.7	259.8	290.7	266.1	253.3	284.0	308.1	1,235.3
Net Income	**431.8**	**439.0**	**503.8**	**548.9**	**511.0**	**513.5**	**575.6**	**624.6**	**2,504.2**
Preferred Dividend	2.3	2.3	2.9	8.0	8.5	15.5	15.5	15.5	62.0
Net Income For Common	**429.5**	**436.7**	**500.9**	**540.9**	**502.5**	**498.0**	**560.1**	**609.1**	**2,442.2**
Restatement Amount	(26.0)	(16.2)	(23.4)	(9.3)	(20.0)	(6.1)	(23.1)	(4.6)	(55.3)
Net Income After Restatement	**403.5**	**420.5**	**477.5**	**531.6**	**482.5**	**491.9**	**537.1**	**604.5**	**2,386.9**
Fully Diluted Shares Outstanding	472.0	469.0	467.7	463.2	462.1	461.2	461.2	461.2	461.2
FD EPS Ex. Charges And Gain	**$0.91**	**$0.93**	**$1.07**	**$1.17**	**$1.09**	**$1.08**	**$1.21**	**$1.32**	**$5.30**
Restatement Impact	($0.06)	($0.03)	($0.05)	($0.02)	($0.05)	($0.01)	($0.05)	($0.01)	($0.12)
FD EPS Including Restatement	**$0.85**	**$0.90**	**$1.02**	**$1.15**	**$1.04**	**$1.07**	**$1.16**	**$1.31**	**$5.18**
Cumulative	$0.85	$1.75	$2.77	$3.92	$1.04	$2.10	$3.27	$4.58	
Dividends Per Share	$0.19	$0.22	$0.22	$0.22	$0.22	$0.25	$0.25	$0.25	$1.06
Operating Analysis									
NIM As % Of AMIEA	8.22%	8.34%	8.57%	8.85%	8.79%	8.58%	8.66%	8.62%	8.09%
Provision For Losses As % Of AMR	1.1%	1.0%	1.0%	1.2%	1.3%	1.2%	1.2%	1.1%	4.1%
Fee Income As % Of AMR	0.45%	0.44%	0.44%	0.43%	0.39%	0.35%	0.35%	0.35%	1.36%
Total Expenses As % Of AMR	1.0%	1.0%	1.0%	0.9%	1.0%	0.9%	1.0%	0.9%	3.5%
Insurance Revenue Sequential Grov	7.4%	0.4%	6.2%	3.6%	-3.0%	4.4%	1.8%	2.0%	6.4%
Sec. Income As % Mgd. Portfolio	-0.03%	0.03%	0.02%	0.12%	0.14%	0.13%	0.13%	0.11%	0.15%
Pretax Margin Ex. Charges	16.7%	17.2%	19.1%	20.0%	17.9%	18.1%	19.0%	19.9%	18.7%
Net Margin Ex. Charges	10.9%	11.3%	12.6%	13.0%	11.8%	12.1%	12.7%	13.3%	12.5%
Effective Tax Rate	35.1%	34.4%	34.0%	34.6%	34.2%	33.0%	33.0%	33.0%	33.0%

Source: Company reports and CIBC World Markets Corp.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2001A Actual	$0.85A	$0.90A	$1.02A	$1.15A	$3.92A
2002E Prior	$1.09A	$1.08A	$1.21E	$1.32E	$4.70E
2002E Current	$1.04A	$1.07A	$1.16E	$1.31E	$4.58E
2003E Prior	$1.20E	$1.25E	$1.37E	$1.48E	$5.30E
2003E Current	$1.15E	$1.24E	$1.32E	$1.47E	$5.18E

4) Household International has a convertible included in the CIBC World Markets Corp. convertible universe.
11) CIBC World Markets Corp., or one of its affiliated companies, expects to receive or intends to seek compensation for investment banking services from Household International in the next 3 months.

Rating System: The formal rating system used by CIBC World Markets for equity securities is as follows:

Strong Buy	Expected total return over 12 months of at least 25%.
Buy	Expected total return over 12 months of at least 15%.
Hold	Expected total return over 12 months of 0%-15%.
Underperform	Expected negative total return over 12 months.

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Exhibit 45

July 18, 2002

Stephens Inc.
Investment Bankers

Research Notes

Household International, Inc.

Company Rating: Overweight **Industry Fundamentals: Improving**

Ticker:	HI	Divi/Yld:	$0.88/2.1%	BVPS:	$21.06
Target (12-mo):	$60.00	Float (mil):	425.3	Price/BVPS:	201.2%
Price:	$42.37	Shrt Int (mil):	13.6	TBVPS:	$17.51
Mkt cap (mil):	$18,202	52-Week High:	$69.49	Price/TBVPS:	242.0%
Shrs out (mil):	429.6	52-Week Low:	$40.70	Dly Shr Vol (000):	3,485

Analyst: James M. Schutz (312) 775-3366
Scott Alaniz, CFA (501) 377-3762

EPS	Q1	Q2	Q3	Q4	FY Dec	P/E Ratio	ROE
2001A	**$0.91**	**$0.93**	**$1.07**	**$1.17**	**$4.08**	**10.4x**	**22.90%**
2002E	**$1.09 A**	**$1.08 A**	**$1.20**	**$1.30**	**$4.67**	**9.1x**	**23.49%**
Prior:		$1.11		$1.27			
2003E	**$1.19**	**$1.27**	**$1.37**	**$1.48**	**$5.31**	**8.0x**	**23.61%**
2004E	**$1.35**	**$1.43**	**$1.55**	**$1.67**	**$6.00**	**7.1x**	**22.93%**

Estimates for 2002 and beyond conform to "New GAAP." Prior results do not reflect "New GAAP."

Important disclosures regarding potential conflicts of interest for Stephens Inc. may be found at the end of this report.

Household International, Inc. is one of the leading providers of consumer loans, credit cards and auto finance in the United States, Canada and the United Kingdom. The Company operates through the HFC and Beneficial brands. Household, which is headquartered in Prospect Heights, Illinois, has total owned assets of $97.3 billion.

Household Reports Strong Quarter; Reducing Target Price

- Household reported 2Q02 EPS of $1.08 or three cents below our estimate but right in line with the consensus outlook.
- Receivables growth remained strong, with average managed receivables increasing 14.1% over the past year.
- Problem assets increased moderately over the past three months, and losses to average receivables also rose. Both increases were expected.
- We are reiterating our **Overweight/Improving Industry** rating. However, we are reducing our one-year target price to $60 from $84 due solely to recent stock price depreciation.

Household International reported second quarter earnings per share of $1.08, three cents below our estimate and right in line with the consensus outlook. The latest results represent a 16.1% increase over the number posted in the year-ago quarter or 13.1% if the impact of FAS 142 is excluded. Unless otherwise noted, our analysis below involves managed results.

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Net interest income rose 20.9% over the past 12 months reflecting both robust asset growth and an expanded margin. Average earning assets increased 17.6% with average receivables rising 14.1%. As has been the case for some time, the percentage growth in receivables has been largely concentrated in real estate secured and auto finance, although private label cards and personal unsecured posted decent increases. The margin expansion over the past year results from the rock-bottom level of short-term rates. Signs that margin improvement may soon be coming to a halt could possibly be seen in the change on a sequential quarter basis, where the margin slid over 20 basis points.

Fee revenues grew 22.2% largely on much higher securitization revenue. However, with the exception of the delinquency and late fees, all other major categories of fee revenues also showed solid growth. The drop in delinquency and late fees reflects lower delinquency rates (see below). We expect these fees to continue declining as asset quality improves. **Operating outlays** increased 10.7% over the past year. We estimate that, excluding FAS 142, operating outlays would have increased 12.8%. The higher costs reflect greater outlays for incentives, marketing and infrastructure to handle the Company's vigorous business growth.

Asset quality continued to show mild deterioration, which had been expected by management. Nonperforming assets (NPAs) increased 4.8% since the end of March. Net loan losses to average receivables came to 4.26% compared to 3.69% last year and 4.09% last quarter. On a more positive note, 60 day plus delinquencies fell to 4.53% from 4.63% at the end of March, although the rate remained above last year's 4.27%. Significantly, the delinquency rate on the Company's credit card portfolio (not including private label cards) dropped from March's 4.39% to 3.90% at the end of June. Management indicated that asset quality metrics will likely continue to worsen through the third quarter, after which trends could stabilize and possibly begin improving.

We are reiterating our **Overweight/Improving Industry** rating on Household's stock. However, after the recent collapse in the stock price, we have decided to lower our target price from $84 to $60. The lower target price should not be interpreted as a lessening of our enthusiasm for the stock's prospects. We simply recognize that a nearly doubling of the stock price over the next 12 months is unlikely, especially in this pessimistic and jittery market. The stock now trades at 9.1 times our 2002 estimate. We believe this valuation borders on the ridiculous, especially with the Company's earnings prospects of strong double-digit growth. We know the stock has been plagued by "headline" risk over predatory lending practices. However, the Company has managed so far to handle those risks with very little impact on the franchise's health or earnings power.

We also believe that yesterday's pricing action (down 8.1% on volume over three times normal) was basically in sympathy over the news that banking regulators had required a credit card company to allocate more capital, increase reserves and bolster controls with regard to the sub-prime portion of its card portfolio. We do not think any of those issues would be applicable to Household (especially since the vast bulk of its business is conducted outside the Company's regulated subsidiary and Household has already substantially increased capital in the bank). We have left our 2002 full year estimate unchanged. Likewise, we are keeping our 2003 and 2004 estimates unchanged.

Valuation Methodology

Our valuation methodology with respect to bank and thrift stocks combines a top-down with a bottom-up approach. From a top-down perspective, we employ peer groups as an important comparative metric (please see our *Prime Notes* dated June 28, 2002, for the complete composition of our peer groups). We compare the peer group multiples with the corresponding multiples of the general equity markets (with the S&P 500 Index used as a proxy for the equity market multiple). We also compare the individual bank or thrift stock's multiple to the average for its respective peer group. From a bottom-up perspective, we evaluate the quality of the Company's management team, the demographic characteristics of the geographic market, the mix of businesses, asset quality and overall risk management posture. We then combine the top-down and bottom-up analyses to form an opinion regarding the status of the stock's valuation.

Risks

We believe that holding bank or thrift stocks entails three major risks. The largest risk is credit risk, or the potential for large loan charge-offs due either to flawed underwriting processes, inadequate loan portfolio risk management or a general weakening in the economic environment. The second risk consists of interest rate sensitivity, which can be particularly important when credit markets are unusually volatile. This risk manifests itself when the level of rates and the shape of the yield curve change. The third risk involves the potential of banks and thrifts to significantly overpay for acquisitions or encounter difficulties in an acquisition's subsequent integration.

Household International, Inc. Quarterly Income Statement (Managed Basis)

($Millions, except per share data)

	MAR 1 Qtr A	JUNE 2 Qtr A	2001 SEPT 3 Qtr A	DEC 4 Qtr A	2001 Full Year	MAR 1 Qtr A	JUNE 2 Qtr A	2002 SEPT 3 Qtr E	DEC 4 Qtr E	2002 Full Year	MAR 1 Qtr E	JUNE 2 Qtr E	2003 SEPT 3 Qtr E	DEC 4 Qtr E	2003 Full Year	2004 Full Year
NET INTEREST INCOME (FTE)	$1,830	$1,894	$2,024	$2,192	$7,941	$2,265	$2,289	$2,364	$2,437	$9,355	$2,433	$2,472	$2,525	$2,563	$9,993	$10,351
INSURANCE REVENUE	159	159	169	175	662	170	178	182	186	715	189	193	197	201	780	803
INVESTMENT INCOME	42	38	42	46	168	46	44	45	46	181	45	46	47	47	185	203
FEE INCOME	393	396	408	421	1,619	396	363	374	381	1,514	392	402	412	423	1,630	1,812
SECURITIZATION REVENUES	(26)	23	18	120	136	146	134	156	157	593	139	139	161	161	599	643
OTHER FEE INCOME	162	49	52	60	323	188	95	96	97	477	99	101	103	106	409	446
TOTAL OPERATING FEE REVENUES	$729	$666	$689	$823	$2,907	$946	$814	$852	$867	$3,479	$865	$881	$920	$937	$3,604	$3,907
TOTAL OPERATING REVENUES	$2,559	$2,560	$2,713	$3,015	$10,847	$3,211	$3,103	$3,216	$3,304	$12,834	$3,298	$3,354	$3,445	$3,500	$13,596	$14,258
PROVISION FOR LOAN LOSSES	933	935	967	1,184	4,018	1,362	1,278	1,280	1,275	5,196	1,325	1,300	1,300	1,250	5,175	5,200
STAFF EXPENSE	432	461	482	495	1,870	499	521	541	563	2,125	586	606	624	649	2,465	2,669
OCCUPANCY & EQUIPMENT	84	84	86	84	337	92	93	96	98	380	100	102	104	106	412	437
AMORTIZATION OF INTANGIBLES	39	38	37	37	151	18	13	13	13	56	13	13	13	13	50	50
OTHER EXPENSES	406	374	377	375	1,532	462	431	436	440	1,769	444	453	465	469	1,832	1,954
TOTAL OPERATING EXPENSE	$961	$956	$983	$991	$3,891	$1,072	$1,058	$1,086	$1,114	$4,329	$1,143	$1,174	$1,205	$1,237	$4,759	$5,110
OPERATING PRE-TAX INCOME (FTE)	666	670	764	840	2,939	777	767	850	915	3,309	830	880	939	1,013	3,662	3,949
REPORTED INCOME TAXES	234	231	260	291	1,015	266	253	289	311	1,120	282	299	319	344	1,245	1,342
PREFERRED DIVIDENDS	2	2	3	8	16	9	16	8	8	40	8	8	8	8	32	32
OPERATING AFTER-TAX INCOME	$430	$437	$501	$541	$1,908	$503	$498	$553	$596	$2,150	$540	$573	$612	$660	$2,385	$2,574
DILUTED OPERATING EPS	**$0.91**	**$0.93**	**$1.07**	**$1.17**	**$4.08**	**$1.09**	**$1.08**	**$1.20**	**$1.30**	**$4.67**	**$1.19**	**$1.27**	**$1.37**	**$1.48**	**$5.31**	**$6.00**
OPERATING CASH FLOW/SHARE	$0.99	$1.01	$1.15	$1.25	$4.40	$1.12	$1.08	$1.23	$1.33	$4.76	$1.22	$1.30	$1.40	$1.51	$5.43	$6.12
NON-OPERATING AFTER-TAX INCOME	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PER SHARE	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

KEY RATIOS

NET INTEREST MARGIN	8.22%	8.34%	8.57%	8.85%	8.50%	8.79%	8.58%	8.37%	8.40%	8.53%	8.20%	8.15%	8.12%	8.08%	8.14%	7.88%
RETURN ON ASSETS	1.76%	1.77%	1.96%	2.03%	1.87%	1.79%	1.74%	1.82%	1.91%	1.82%	1.69%	1.76%	1.83%	1.94%	1.81%	1.82%
RETURN ON EQUITY	21.48%	21.29%	23.79%	25.00%	22.90%	23.01%	21.53%	24.11%	25.24%	23.49%	22.24%	23.02%	23.96%	25.10%	23.61%	22.93%
EFFICIENCY RATIO	37.54%	37.33%	36.22%	32.88%	35.87%	33.37%	34.09%	33.76%	33.71%	33.73%	34.65%	35.00%	35.00%	35.35%	35.00%	35.84%
CASH EFFICIENCY RATIO	36.02%	35.87%	34.84%	31.64%	34.47%	32.80%	34.09%	33.37%	33.33%	33.39%	34.27%	34.63%	34.63%	34.99%	34.64%	35.49%
FEES/REVENUES	28.50%	26.01%	25.40%	27.28%	26.80%	29.47%	26.22%	26.50%	26.23%	27.11%	26.23%	26.28%	26.70%	26.78%	26.50%	27.40%
EQUITY TO ASSETS	8.17%	7.84%	7.53%	7.43%	7.43%	7.93%	7.56%	7.55%	7.59%	7.59%	7.62%	7.63%	7.65%	7.78%	7.78%	8.15%
TANGIBLE EQUITY TO TANGIBLE ASSETS	6.58%	6.32%	6.11%	6.11%	6.11%	6.65%	6.37%	6.40%	6.48%	6.48%	6.54%	6.58%	6.64%	6.79%	6.79%	7.25%
RESERVE TO LOANS	3.78%	3.78%	3.72%	3.78%	3.78%	4.10%	4.23%	4.24%	4.19%	4.19%	4.20%	4.18%	4.15%	4.08%	4.08%	3.85%
RESERVE TO NPLs	150.9%	153.98%	146.33%	148.52%	148.52%	152.30%	151.82%	164.83%	168.68%	168.68%	176.76%	184.54%	190.05%	194.17%	194.17%	211.77%
NPAs TO LOANS + OREO	2.89%	2.84%	2.91%	2.93%	2.93%	3.13%	3.22%	3.05%	2.97%	2.97%	2.87%	2.76%	2.63%	2.51%	2.51%	2.14%
RISK ASSETS TO LOANS + OREO	3.89%	3.82%	3.94%	3.98%	3.98%	4.22%	4.19%	4.12%	3.98%	3.98%	3.83%	3.70%	3.54%	3.36%	3.36%	2.83%
PROVISION/NCOs	N.M.	112.75%	111.05%	122.91%	116.73%	132.07%	116.99%	114.67%	109.08%	117.84%	111.22%	109.95%	108.20%	105.02%	108.60%	104.96%
NCOs TO AVERAGE LOANS	3.54%	3.69%	3.72%	3.92%	3.72%	4.09%	4.26%	4.25%	4.30%	4.23%	4.25%	4.10%	4.05%	3.90%	4.07%	3.80%
STATED BOOK VALUE/SHARE	$17.24	$17.08	$17.27	$19.47	$19.47	$20.23	$21.06	$21.80	$22.65	$22.65	$23.36	$24.13	$24.98	$25.96	$25.96	$29.66
TANGIBLE BOOK VALUE/SHARE	$13.64	$13.55	$13.80	$15.78	$15.78	$16.72	$17.51	$18.26	$19.11	$19.11	$19.82	$20.59	$21.46	$22.44	$22.44	$26.15

Note: Intangible assets do not include mortgage servicing rights.

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Scott Alaniz, CFA 501/377-3762

Source: Company data and Stephens Inc. estimates

IMPORTANT DISCLOSURES
Regarding Stephens Inc.'s Research Coverage of Household International

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Stephens Inc. expects to receive or intends to seek compensation for investment banking services from Household International in the next three months.

Rating Definitions:

Company Stock Ratings: OVERWEIGHT (O) – The stock's total return is expected to be greater than the total return of the company's industry sector, on a risk-adjusted basis, over the next 12 months. EQUAL-WEIGHT (E) – The stock's total return is expected to be equivalent to the total return of the company's industry sector, on a risk-adjusted basis, over the next 12 months. UNDERWEIGHT (U) – The stock's total return is expected to be less than the total return of the company's industry sector, on a risk-adjusted basis, over the next 12 months. VOLATILE (V) – The stock's price volatility is potentially higher than that of the company's industry sector.

Industry Fundamentals: IMPROVING (I) – The analyst believes that the fundamentals of the company's industry sector will improve over the next 12 months. STABLE (S) – The analyst believes that the fundamentals of the company's industry sector will be stable over the next 12 months. DETERIORATING (D) – The analyst believes that the fundamentals of the company's industry sector will deteriorate over the next 12 months.

Stephens' research rating system combines a company rating with an industry outlook. The company rating assumes the investor is managing a diversified equity portfolio with an equity asset allocation in that company's industry sector. The industry fundamentals reflect the analyst's opinion regarding the industry's attractiveness for investment relative to the market in general over the next 12 months. The company stock ratings may reflect the analyst's subjective assessment of risk factors that could impact the company's business. An investor should consider both the company stock rating and industry fundamentals in formulating an investment decision.

Exhibit 46

CIBC

CIBC WORLD MARKETS

Equity Research

September 22, 2002

Company Update

Company Rating: *Sector Performer*

Sector Weighting: *Market Weight*

Household International

Lowering Price Target On Persistent Headline Risk, But Maintaining SP Rating

Specialty Finance

HI-NYSE (9/20/2002)	**$29.05**
12-18 mo. Price Target	$36.00
Key Indices: S&P 500, DJ Ind, S&PFincl	
3-5-Yr. EPS Gr. Rate (E):	15.0%
52-week Range	$63.25-$27.66
Shares Outstanding	461M
Float	356.1M shrs
Avg. Daily Trading Vol.	4,740,000
Market Capitalization	$13.4B
Dividend/Yield	$1.00/3.4%
Fiscal Year Ends	December
Book Value	15.31 per Shr
2002 ROE	20.3%
LT Debt	$60,536.2
Preferred	$1,818.20M
Common Equity	$7,057.20M
Convertible Available	Yes

- We have lowered our price target for HI to $36 from $57 given persistent headline risk which may further pressure the valuation, despite the strong outlook. We have also fine tuned our quarter estimates for 2002 and reduced our 2003 estimate to $5.12 from $5.18 per share.

- Despite the headline risk associated with the company, our confidence in HI's growth strategy and fundamental strength remains strong. Given the solid housing market, HI's home equity portfolio (which represents nearly 50% of the total) should further rise, while credit quality is manageable.

- Furthermore, we believe there could be upside to third quarter earnings owing to the low interest rate environment and robust refinancing activity. Although headline risk and low investor sentiment may continue to be an overhang, we believe fundamentals should remain relatively strong.

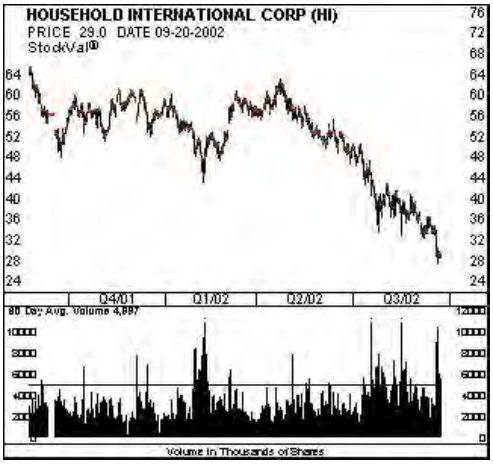
- Credit quality should remain in-check, even if loss rates rise further, as heavy loan loss provisioning has supported reserve levels without depressing earnings growth. At the end of the second quarter, loan loss reserves were at record high levels. HI is rated Sector Performer.

Company Description

Household International is a diversified financial services company focused primarily on consumer lending.

Earnings per Share	Prev	Current
2001A		$3.92A
2002E	$4.58E	$4.58E
2003E	$5.18E	$5.12E
P/E		
2001A		7.4x
2002E	6.3x	6.3x
2003E	5.6x	5.7x

Stock Price Performance



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Headline risk has been unrelenting, and we see no clear sign that it will abate

We have lowered our price target for Household International to $36 from $57 as persistent headline risk should continue to pressure Household's valuation. Over the past several months, scrutiny of sub-prime lenders has intensified among regulators and investors alike, which has placed unrelenting pressure on Household's market valuation. In particular, building concerns regarding the company's lending practices, which have been accused of being predatory in nature and is currently the subject of an investigation by the Washington Department of Financial Institutions, have dampened price performance. Moreover, skepticism regarding the company's rapid portfolio growth, particularly within the auto business, and mounting credit quality concerns related to Household's loan workout and re-aging practices have also been a drag on the stock.

While close scrutiny of HI is warranted in the current environment, recent concerns may be overblown

Although we believe there is reason for some concern given the uncertain economic outlook and recent troubles at the independent auto finance company Americredit (ACF), the scrutiny may be overblown. Despite our confidence in Household's growth strategy and fundamental strength, we believe that the headline risk associated with the company has intensified in recent weeks and could place downward pressure on the stock valuation in the near term. As such, we have reduced our price target on the stock given the lack of visibility as to a resolution of the highlighted investigations and pending lawsuits. We have also fine tuned our quarterly earnings progression for 2002 and trimmed our 2003 earnings estimates to $5.12 from $5.18 per share owing primarily to the likelihood of slower refinancing activity as interest rates begin to rise. Furthermore, given the potential for higher interest rates and greater securitization activity, the net interest margin could come under modest pressure in 2003.

At current levels, Household is trading at roughly 5.6X our 2003 estimate, which reflects more than a 50% discount to the company's historical price/forward earnings multiple since 1995, and more than half its long term earnings growth rate. Although we do not foresee any material catalyst for multiple expansion back into the historical average range of 11X-12X until the pending regulatory issues are resolved and the economy demonstrates clearer signs of improvement, we do believe the current discount is too sharp. Furthermore, given the potential for third quarter earnings to be strong because of the strength of refinancing activity and likelihood of robust gains in the home equity portfolio, we believe a more appropriate valuation would reflect a price/forward earnings of roughly 7X, or $36 per share. Based on the solid fundamentals but continuing headline risk, we have maintained our Sector Performer rating on the stock

Risks to our rating include the possibility of additional regulatory investigations, particularly on the heels of long-standing scrutiny. Adding fuel to the fire was the recent $215 million settlement of the investigation into The Associates by the Federal Trade Commission, which had been Household's closest independent peer and was acquired by Citigroup in September 2000. We believe that there could be a spillover effect on Household, as the regulatory witch-hunt among sub-prime lenders continues.

Moreover, the ongoing skittish market and investor sentiment could continue to punish the stock. Finally, should the economic recovery reverse or interest rates rise sharply, production could slow and adversely impact earnings growth. Given the current state of the economy, however, we do not believe that interest rates should move dramatically and may remain at low levels into 2003, which should continue to fuel heavy refinancing activity.

Home equity portfolio gains could surge and drive EPS upside in 3Q02

Despite our price target suspension, we believe there could be upside to third quarter earnings owing to the low interest rate environment and robust refinancing activity. As we have discussed in previous First Call notes, Household's third quarter earnings should be reduced by roughly five cents, according to our calculations, following the company's recent accounting revision prompted by Household's new auditors. We estimate third quarter earnings including the restatement should equal $1.16 versus $1.07 a quarter earlier and $1.02 in the prior year.

Overall, we believe that the low interest rate environment and burgeoning refinancing activity should drive robust portfolio gains, particularly within the home equity portfolio, bringing the total managed portfolio in excess of $110 billion for the quarter. Although Household's recent accounting adjustment and negative press left the company temporarily shut out of the corporate debt market, access to the ABS market remained high. Modest net interest margin pressure, however, could emerge in the third quarter as a result of the funding challenges.

Credit quality erosion is something to keep a close eye on, however

Although modest credit quality erosion may occur given the uncertain economy and portfolio seasoning, reserve levels should be more than adequate. At greatest risk, in our opinion, is the other unsecured and auto finance portfolios, which accounted for roughly 18% and 6.5% of the total managed portfolio, respectively, at the end of the second quarter. Despite the expectation of rising losses through year-end, we believe Household's reserves, which remained at all-time highs at the end of the second quarter, should be more than sufficient to insulate earnings from the effects of credit deterioration.

On a lighter note, the stock could receive a reprieve once capital ratios return to prior levels as recent initiatives begin to take hold. As was discussed in prior First Call notes , the accounting adjustments announced last month should also adversely affect Household's capital ratios by roughly 30 bps to bring the tangible equity/tangible managed asset ratio below 8% and management's target range of 8.5%. The company, however, has suspended its share repurchase program in order to drive the ratio back to prior levels, which could jump-start price performance.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2001A Actual	$0.85A	$0.90A	$1.02A	$1.15A	$3.92A
2002E Prior	$1.04A	$1.07A	$1.16E	$1.31E	$4.58E
2002E Current	$1.04A	$1.07A	$1.17E	$1.30E	$4.58E
2003E Prior	$1.15E	$1.24E	$1.32E	$1.47E	$5.18E
2003E Current	$1.17E	$1.20E	$1.30E	$1.45E	$5.12E

Companies Mentioned In This Report

Stock prices as of 9/22/2002:

Americredit Corp. (ACF-NYSE $6.36 Not Rated)
Household International (11, 4)(HI-NYSE $29.03 Sector Performer)
Citigroup (C-NYSE $27.10)

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4) This company has a convertible included in the CIBC World Markets convertible universe.
5) An employee of CIBC World Markets Corp., or one of its affiliated companies, is an officer, director or an advisory board member of this company.
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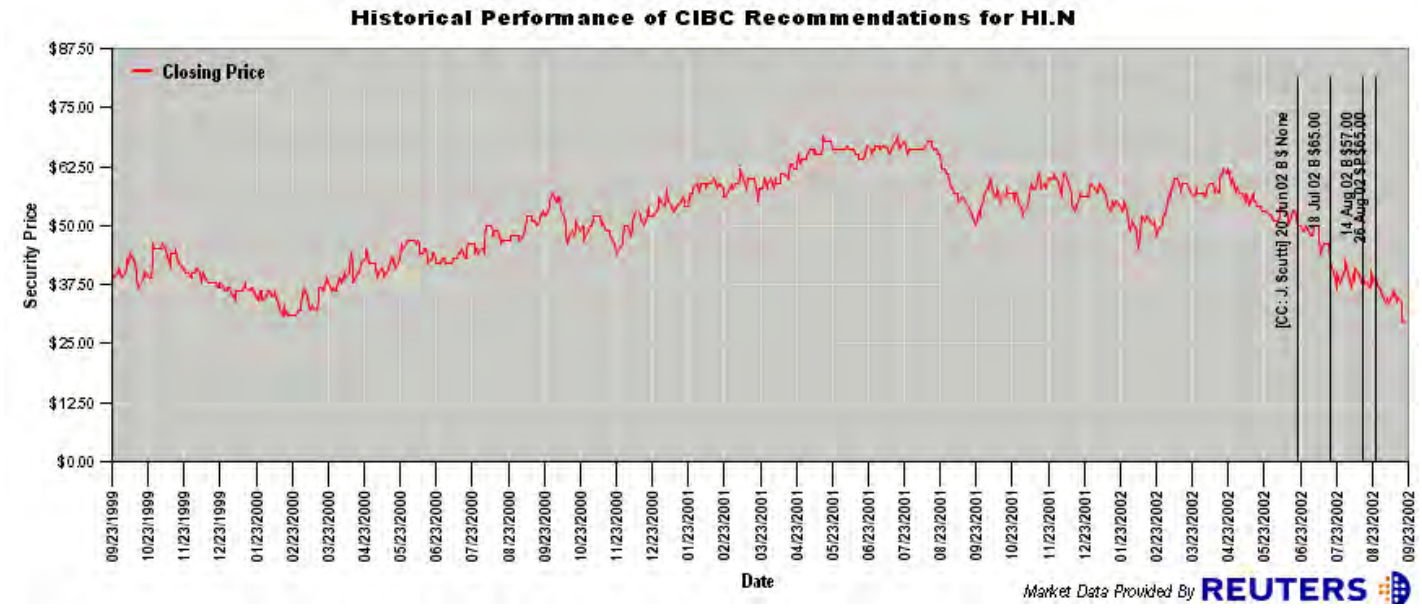
12) A member of the household of a CIBC World Markets research analysts that covers this company is an officer,director or an advisory board member of this company.
13) CIBC World Markets and its affiliates, in the aggregate, beneficially own more than 1% of a class of equity securities issued by this company.
14) A member of the household of a CIBC World Markets research analyst that covers this company has a long position in the common equity securities of this company.

CIBCWM Price Chart



CIBCWM Stock Rating System

Abbreviation	Rating	Description
Company Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
NR	Not Rated	Stock is not covered by CIBCWM.
Company Rating Prior To August 26th 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
Sector Ratings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and TSX 300 in Canada.
"-S" indicates Speculative. An investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Stock Rating Distribution for CIBC World Markets Corp. Equity Research Universe

	Ratings		
	Sector Outperformer (Buy)	Sector Performer (Hold/Neutral)	Sector Underperformer (Sell)
Ratings Distribution: CIBC World Markets Corp. Coverage Universe	36.3%	40.8%	22.9%
Inv. Banking Relationships	45.9%	26.4%	19.6%
Ratings Distribution: Specialty Finance Coverage Universe	45.5%	31.8%	22.7%
Inv. Banking Relationships	70.0%	100.0%	60.0%

Specialty Finance Sector includes the following tickers: ADS, ALD, AXP, CCR, CIT, CKFR, COF, CORI, DGIN, DVI, EPAY, FIC, FIF, FNIS, FNM, FRE, HI, HYC, IMH, KRB, MFI, MXT, PVN.

Ratings Distribution: CIBC World Markets Corp. Coverage Universe					
(as of 20 Sep 2002)	**Count**	**Percent**	**Inv. Banking Relationships**	**Count**	**Percent**
Sector Outperformer (Buy)	266	36.3%	Sector Outperformer (Buy)	122	45.9%
Sector Performer (Hold/Neutral)	299	40.8%	Sector Performer (Hold/Neutral)	79	26.4%
Sector Underperformer (Sell)	168	22.9%	Sector Underperformer (Sell)	33	19.6%
Ratings Distribution: Specialty Finance Coverage Universe					
(as of 20 Sep 2002)	**Count**	**Percent**	**Inv. Banking Relationships**	**Count**	**Percent**
Sector Outperformer (Buy)	10	45.5%	Sector Outperformer (Buy)	7	70.0%
Sector Performer (Hold/Neutral)	7	31.8%	Sector Performer (Hold/Neutral)	7	100.0%
Sector Underperformer (Sell)	5	22.7%	Sector Underperformer (Sell)	3	60.0%

Specialty Finance Sector includes the following tickers: ADS, ALD, AXP, CCR, CIT, CKFR, COF, CORI, DGIN, DVI, EPAY, FIC, FIF, FNIS, FNM, FRE, HI, HYC, IMH, KRB, MFI, MXT, PVN.

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4) Household International has a convertible included in the CIBC World Markets convertible universe.
11) CIBC World Markets expects to receive or intends to seek compensation for investment banking services from Household International in the next 3 months.
13) CIBC World Markets and its affiliates, in the aggregate, beneficially own more than 1% of a class of equity securities issued by Household International.

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Exhibit 47

Deutsche Bank Securities Inc.

US
Specialty Finance

Deutsche Bank

September 12, 2002

Household International Inc.

Household: Management Visit- Addressing The Challenges

Rating
Buy

Price at 9/11/02
US$ 35.43

Target Price
US$ 43

Exchange: Ticker
NYSE: HI

FY: (Dec.)	1Q	2Q	3Q	4Q	FY EPS	FY P/E	CY EPS	CY P/E	Rev MM
EPS (US$):									
2001A	$0.91	$0.93	$1.07	$1.17	$4.08	8.7x	$4.08	8.7x	$10,847.4
2002E	1.04R	1.07R	1.15	1.24	4.50	7.9	4.50	7.9	12,953.7
Old 2002E		*1.11*							
2003E	NE	NE	NE	NE	5.10	6.9	5.10	6.9	14,494.0

Source: Deutsche Bank Securities estimates and company data

52-Week Range:	**$63–$33**	ROE:	**22%**
Shares Outstanding: (MM)	**456.30**	Div./Yield:	**$1.00/2.82%**
Market Cap: (MM)	**$16,166.71**	3-5 Yr. Grth. Rate:	**11%**
Float: (MM)	**354.70**	CY 02 P/E-to-Grth:	**0.7x**
Avg. Daily Volume:	**5,034.49**		

- We met with Tom Detelich, Group Executive for Consumer Lending, at Household's headquarters in Chicago earlier this week. Mr. Detelich is responsible for Household's branches and home equity lending businesses.
- Household's energy is focused on resolving allegations of unfair lending practices, and Mr. Detelich addressed the issues directly and candidly.
- We believe the issues can be categorized into three questions: 1) What happened in the past to cause the problem? 2) How has Household addressed the issues? and 3) How will Household's business model be affected going forward?
- We came away feeling more comfortable with the likely resolution than we had anticipated. But resolution will take time. We expect additional negative publicity, and possibly other investigations from different state regulatory bodies (including Attorney Generals), particularly pre-November elections.
- In the long-run, we believe Household's business model will emerge stronger than before. Some profitability will be sacrificed (e.g. less fee income), but we expect the company to gain market share from 1) enhanced lending practices and 2) market share gains from competitors with less staying power.
- With the stock only 7x our 2002 EPS estimate of $5.10, we believe the valuation discounts much of the bad news. There may be more negative headlines in near future that could put pressure on the stock, but we believe the current valuation warrants at least a partial position.

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Household's stock has been under pressure due to concern about accusations of unfair and predatory lending practices, primarily from consumer groups (e.g. ACORN, AARP) and the State of Washington Department of Financial Institutions (DFI). There is the possibility that other authorities/regulatory bodies, including state Attorney Generals (29 are running for office this November, and Household makes an attractive target), and even a greater chance for additional negative headlines in the press.

We met with Tom Detelich, the Group Executive for Consumer Lending (i.e. the branch system which originates the home equity loans in question) in Chicago earlier this week for an in-depth, face-to-face discussion of these issues. We also met with CEO Bill Aldinger in NYC the previous week in which lending practices were also the focus of questions.

We came away from these meetings with more optimism that Household is addressing the issue more than meets the eye, and that its business model will remain intact going forward. Indeed, we are confident that over time, Household's P/E ratio will expand beyond the current 7x our $5.10 (2003) EPS estimate at which it currently trades. In today's market, in our opinion, the fundamentals warrant a P/E ratio three to four points above this level-suggesting a $51-$56 value. Having said that, we recognize it will take time for the issues to be resolved, the cost remains unknown, and there could be additional allegations and negative press in the meantime. Hence, in the next few months, the stock is likely to remain volatile and, over that time, there could be better buying opportunities, but investors objectively looking at the story should find the current valuation compelling for the long-term, in our opinion. We reiterate our Buy rating.

Three Key Questions

We believe the issues can be categorized into three questions:

1) What happened in the past to cause the problem?

2) How has Household addressed the issues?

3) How will Household's business model be affected going forward?

What Happened In the Past: Washington Department of Financial Institutions Report

By far the most damaging reports of unfair lending allegations are contained in the 74 page report released in May 2002, written by an examiner for the Washington DFI. Although the public release of the report is the subject of a Temporary Restraining Order (TRO), it has been widely circulated and reported upon in the press. Household has submitted an 80 page response to the DFI report, but because of the TRO, it has been constrained in making the response public. However, Household did try to clear up some misconceptions.

Before looking at issues in the report, there are questions about the number and timing of complaints. The report cited 92 complaints received by the DFI against HFC since 1995 (through the 1Q '02). The largest number of complaints were filed in 2001 (22) and 2002 (15, or 60 annualized). However, it is important, in our opinion, to note that virtually all of the complaints were on loans made in 2000 or earlier. Virtually none were on loans made in 2001 and 2002.

It is likely, in our opinion, that the negative press and possibly "word-of-mouth" enticed many borrowers from the 1990s to file their complaints belatedly. **We would also point out that 92 complaints over 8 years given 45 HFC offices in the state works out to be 1/4 of a complaint per branch per year (or one complaint per branch every four years).** Moreover, Household has 400,000 accounts in Washington, and HFC made an estimated 250,000 loans over the eight years. So 92 complaints represents a minuscule complaint ratio of .0004.

- **Misleading Rates**. Among the allegations of misleading sales practices in the report, one common complaint involves the marketing of rates on the Easy Pay Plus Plan. In particular, HFC's East Pay Plus Plan has been criticized for inaccurately depicting the contractual rate as artificially low, since payments are made bi-weekly. The primary advantage is a faster principal paydown, or amortization (customer decides frequency of automatic debit from checking account). The allegations arise when a salesperson takes the total interest payments on a faster amortizing loan and spreads them over 30 years, as if a 14% Easy Pay rate was "just like" 7% on a 30 year loan. Even though Household claims that all the info was clearly spelled out in the documentation, the salesperson should not have presented the loan as a saving or an artificially low rate. Household's Bellingham branch appears to have been where most of these complaints were generated, and Household has not found a "pattern" outside of that office, although clearly there could be other isolated instances. Household has reviewed such loans throughout the U.S. to make any necessary adjustments, and has done so in 50 instances (again, mostly in Washington).
- **Insufficient Points and Fees Disclosure**. By far, the greatest number of complaints in the DFI report were based upon allegations of misleading or insufficient disclosure on points and fees associated with loans. Here, Household believes the disagreement with the DFI is based upon legitimate differences. Household allows borrowers to "buy down" the APR with points. For example, if the "benchmark" rate is X% with 0 points, the borrower could reduce the APR by 40 bps for every 1 point (1% of the loan amount), up to 7.5 points, or 300 bps. Household does not offer the entire array of pts/APR to every borrower, but 93% of borrowers choose the lowest APR at the highest number of pts (points are added to the balance of the loan, and most customers are attracted to the lowest dollar monthly payment). Household now makes the array more specific, and has capped the number of points to 3 plus an additional 2 for buydown, and still finds 93% opting for the lowest APR regardless of points.
- **Inflating Loan Amount with PHLs.** Some borrowers complained that Household tacked on to the traditional home equity loan with additional, higher cost borrowers, known as Personal Home Loans (PHLs). PHLs are "open-ended" loans, which are secured by real estate,

but underwritten and priced as if unsecured. Typically, PHLs are used when borrowers want to borrow more than Household is willing to lend under a lower cost (lower LTV) home equity loan. Household has always offered such "side by side" loans, but historically as strictly an unsecured loan. It moved to PHLs in the late-90s because its lower cost than an unsecured loan, and interest payments might qualify for tax deduction. Critics claimed that Household was stripping equity from the borrowers and skirting HOEPA (Homeowners Equity Protection Act), which does cover open-ended loans. While Household believes that the PHL is preferential to the borrower, it has stopped offering "side by side" PHLs, and is going back to the unsecured product or requiring borrowers to borrow using a PHL down the road from the home equity loan.

- **Forgery, Credit Insurance, Etc**. There were several other allegations in the report, such as forging names or post-dating contracts, or forcing the sale of single premium life insurance (which Household no longer offers), but the case appear isolated.
- **Foot Dragging on Providing Information.** The DFI report chastised Household for deliberately delaying the delivery of requested info or in providing insufficient detail. Household claims that if this happened, it was due to multiple requests for info without the DFI extending the time frame for delivery, and the requests were not clear. Household admits that some branch system requests could have been handled more efficiently, and has now put in place a "rapid response" team to provide the information. However, these teams look into all requests in detail and contact the borrower, which also may add to the response time.

What Is Household Addressing the Issues?

- **Expanded Due Diligence.** Aside from some of the changes we mentioned above, Household has responded by 1) increasing full branch audits by 50%, from 2 to 3 per year 2) more doubling the number of customer follow-ups (after closing) from 23,000 to 56,000 3) supplying one page summary document at closing clearly spelling out the terms, 4) requiring borrowers to watch a video explaining the loan, including prepayment penalties, insurance (optional), fees, etc.- with a 97% viewing rate and 5) following up with a written survey of 7 questions, including awareness of the prepayment penalty, optionality of insurance, and awareness of APRs and fees. **In the last 18 months, there has not been a single complaint from a borrower in Washington who has seen the video and received the survey.**
- **Best Practices.** The most significant changes at Household have come from its "Best Practices" initiatives. Key attributes of the program include: 1) the simplified one-page disclosure 2) a 100% guarantee of satisfaction, allowing borrowers to return the proceeds at no cost within 10 days of closing (federal law is 3 days), 3) cutting the duration on prepayment fees from five years to three, or paying a higher APR to avoid any prepayment penalty 4) capping origination points to 3 plus an optional 2 to buy down the APR, or a total of 5 versus 7.5 points, and 5) reducing the APR for good credits with PayRight Rewards (by lowering the APR by 25 bps for each 12 months of timely payments, up to 300 bps).

- **Working With Regulators/Consumer Advocate Groups**. While Household admits a branch salesperson could overstep the bounds, it is not convinced that there is not a systemic problem throughout the organization (although a branch, such as Bellingham, may have shown a pattern). Household does not agree with most of the allegations, and when it finds a problem, it has quickly made changes (including firing people) when necessary. Nonetheless, in the words of CEO Aldinger, the issue is solely one of being "right or wrong." Household wants to get out of the spotlight, out of the press, and beyond reproach, not just in Washington, but throughout the country. It will do what is necessary without sacrificing the business model.

What Is The Impact On The Business Model? Since Household is still trying to resolve the issues and satisfy the critics where necessary, it's too early to estimate the full impact on profitability. But there are several important points:

1) Household does not believe the negative publicity has hurt employee morale or its overall customer image or confidence. The vast majority of borrowers are satisfied, and the repeat rate is high.

2) Household believes that its Best Practices initiatives go further than almost any regulations set by the 21 states that have passed legislation (and Household believes that all 50 states will do so eventually). North Carolina has among the toughest of the state regulations. Household has found that its market share is actually rising as smaller and less efficient companies are burdened even more than Household in complying with the law. Profits have continued to rise on a quarterly basis in North Carolina.

3) The reduction in total points from 7.5 to a maximum of 5 will hurt margins. However, Household believes it can make up the difference by improving productivity and increasing volume. Mr. Aldinger estimated any reduction in ROA as a "few basis points."

Bottom Line on Growth- Maybe Not 15%, But Still Double Digit

Household never expected home equity loan growth to keep the torrid pace (high teens) it has posted since the acquisition of Beneficial. Still, it thinks 13%-15% is reasonable given that subprime is growing faster than the economy and assuming that home equity continues to accumulate with housing appreciation (about 7% a year). Mr. Aldinger reiterated a 13%-15% earnings growth target and a double digit increase in 2003.

Predatory lending has not been Household's only cloud this year. It recently restated earnings for the way it accounts for certain marketing expenses, which reduced equity by $386 million. Household has pledged to the rating agencies to bring its capital ratio to 8.5% by year end compared to the previous target of 7.5% (it is in the market for preferred already). It will reduce asset growth, if necessary, to achieve that target. It would like to repurchase shares as soon as possible, but restoring capital in a priority.

In the long-run, even if 15% earnings growth is not sustainable, we believe 10% is the minimum achievable. Moreover, the quality of earnings should improve with a stronger balance sheet, more conservative accounting, and

industry leading lending practices. Even at 10% earnings growth, a 7 P/E multiple seems significantly too low, in our opinion.

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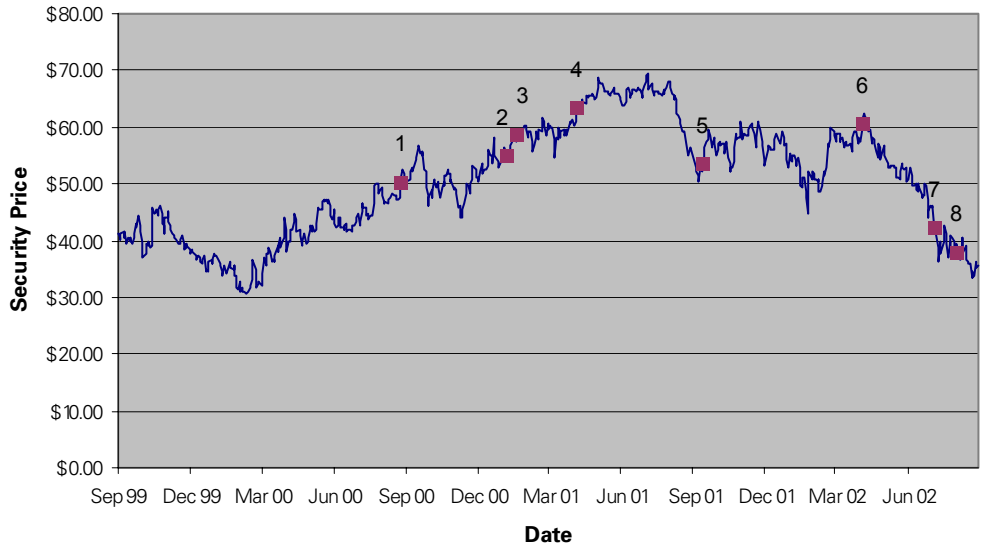
Historical Recommendations and Target Price: Household International Inc. (HI)

(as of 9/11/2002)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	9/7/2000:	Strong Buy, Target Price Change $60.00	5.	9/26/2001:	Strong Buy, Target Price Change $71.00
2.	1/18/2001:	Strong Buy, Target Price Change $69.00	6.	4/17/2002:	Strong Buy, Target Price Change $74.00
3.	2/1/2001:	Strong Buy, Target Price Change $70.00	7.	7/17/2002:	Strong Buy, Target Price Change $63.00
4.	4/18/2001:	Strong Buy, Target Price Change $74.00	8.	8/14/2002:	Strong Buy, Target Price Change $43.00

Rating Key

Buy: Total return expected to appreciate 10% or more over a 12-month period

Hold: Total return expected to be between 10% to –10% over a 12-month period

Sell: Total return expected to depreciate 10% or more over a 12-month period

Rating Dispersion and Banking Relationships

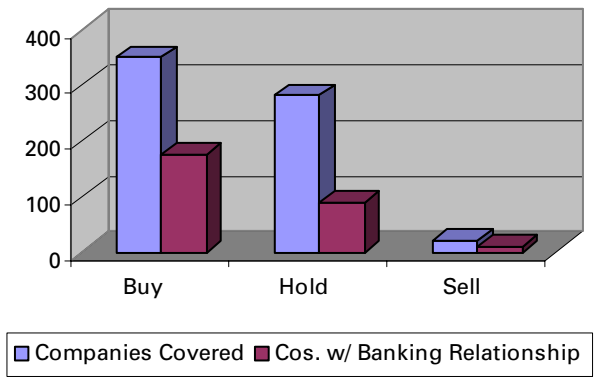


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Exhibit 48

Value of $100 Invested in Household International, the S&P Financials Index, and the S&P 500 Index
November 14, 2001 – October 11, 2002

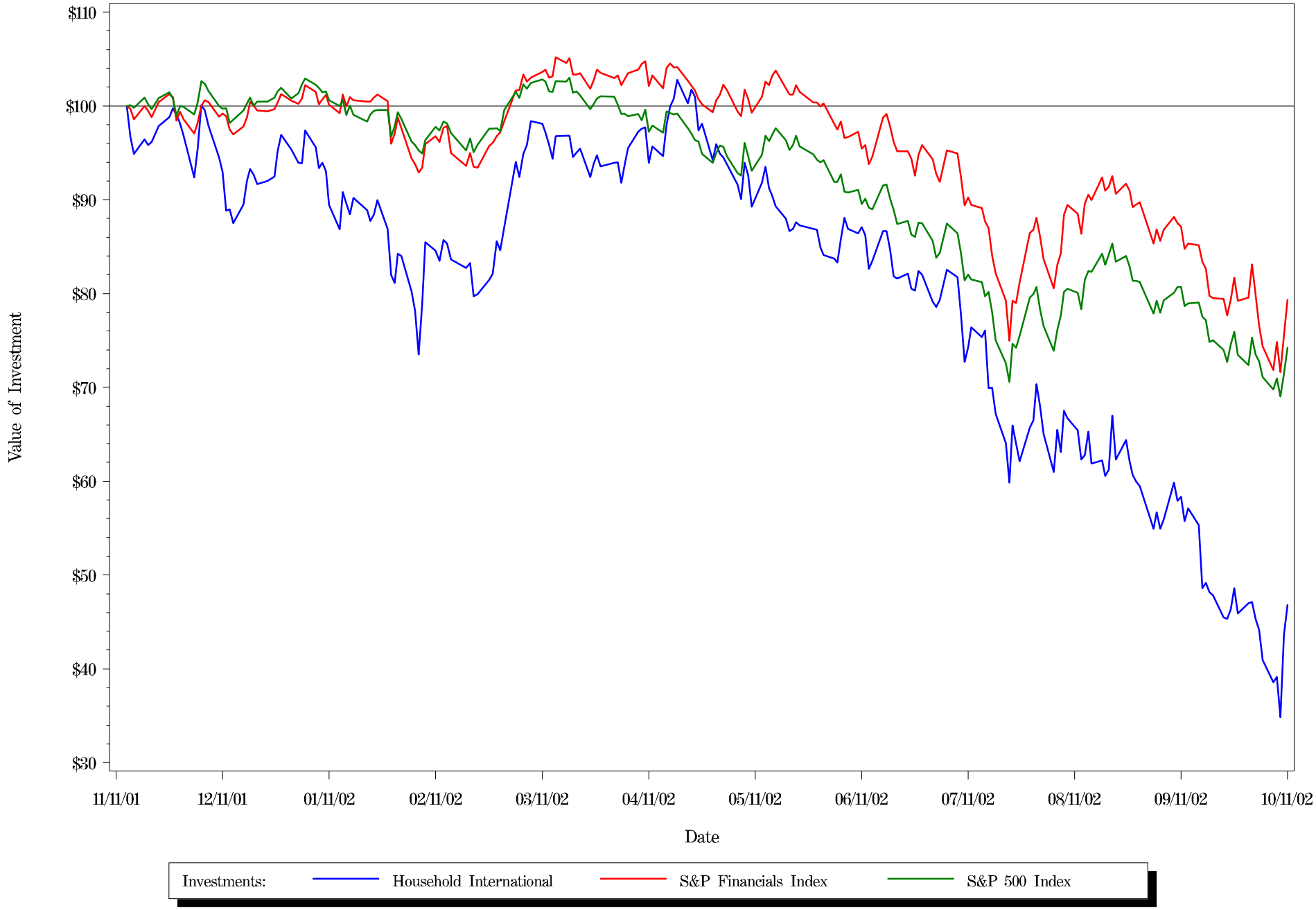

Exhibit 49

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
07/30/99	$42.94	1,517,500	-0.15%	-0.91%	-2.34%	-2.20%	2.05%	$0.88	1.47		New Securities Issues (WSJ)
08/02/99	$41.88	1,275,700	-2.47%	-0.05%	-0.19%	-0.08%	-2.39%	-$1.03	-1.73	***	CORPORATE PERFORMANCE 1999 REVIEW: 2ND QUARTER --- Second-Quarter 1999 Profits for 654 Companies . (WSJ)
08/03/99	$40.00	2,084,600	-4.48%	-0.44%	-1.35%	-1.24%	-3.24%	-$1.36	-2.34	***	
08/04/99	$40.31	1,938,800	0.78%	-1.27%	-1.70%	-1.44%	2.22%	$0.89	1.60		
08/05/99	$40.56	1,431,200	0.62%	0.65%	0.49%	0.50%	0.12%	$0.05	0.09		New Securities Issues (WSJ)
08/06/99	$40.25	1,144,100	-0.77%	-1.02%	-2.78%	-2.64%	1.87%	$0.76	1.34		
08/09/99	$40.88	1,294,400	1.55%	-0.19%	0.54%	0.72%	0.83%	$0.33	0.60		
08/10/99	$39.50	1,473,700	-3.36%	-1.26%	-1.62%	-1.35%	-2.01%	-$0.82	-1.45		
08/11/99	$40.25	1,220,800	1.90%	1.61%	1.98%	1.89%	0.01%	$0.00	0.00		
08/12/99	$40.19	819,200	-0.16%	-0.28%	-0.25%	-0.09%	-0.07%	-$0.03	-0.05		
08/13/99	$40.75	1,512,300	1.40%	2.28%	3.76%	3.65%	-2.25%	-$0.91	-1.61		
08/16/99	$39.75	1,347,800	-2.45%	0.24%	0.04%	0.10%	-2.56%	-$1.04	-1.85	***	
08/17/99	$41.50	2,313,600	4.40%	1.01%	3.07%	3.18%	1.22%	$0.49	0.87		
08/18/99	$42.00	1,247,400	1.20%	-0.84%	-0.61%	-0.37%	1.57%	$0.65	1.14		
08/19/99	$41.69	1,351,600	-0.74%	-0.69%	-1.44%	-1.28%	0.54%	$0.23	0.39		NYSE Short Interest: First Union Re Eqty - IMS Health Inc (DJNS 11:11 PM)
08/20/99	$41.88	939,000	0.45%	0.99%	1.30%	1.29%	-0.84%	-$0.35	-0.61		Companies In Dow Jones Industry Group Indexes -3- (DJNS 6:06 PM)
08/23/99	$42.94	1,169,000	2.54%	1.77%	2.36%	2.26%	0.28%	$0.12	0.20		
08/24/99	$42.44	1,498,500	-1.16%	0.25%	0.38%	0.47%	-1.64%	-$0.70	-1.18		
08/25/99	$41.19	2,720,400	-2.95%	1.35%	-0.90%	-1.13%	-1.81%	-$0.77	-1.29		
08/26/99	$39.81	2,192,100	-3.34%	-1.43%	-1.85%	-1.56%	-1.77%	-$0.73	-1.28		
08/27/99	$37.81	3,438,700	-5.02%	-1.00%	-1.46%	-1.24%	-3.79%	-$1.51	-2.74	***	
08/30/99	$37.44	2,934,700	-0.99%	-1.79%	-3.94%	-3.72%	2.73%	$1.03	1.94	+++	
08/31/99	$37.75	3,654,000	0.83%	-0.27%	-0.28%	-0.13%	0.97%	$0.36	0.70		
09/01/99	$39.56	1,937,299	4.80%	0.81%	0.89%	0.89%	3.91%	$1.48	2.83	+++	Insider Trading Spotlight (WSJ)
											Household Intl Hires ABN, Deutsche, For 5-Yr Euro Issue (DJNS 4:26 AM)
09/02/99	$38.50	2,852,500	-2.69%	-0.89%	-1.65%	-1.47%	-1.22%	-$0.48	-0.88		
09/03/99	$39.94	2,029,199	3.73%	2.90%	4.30%	4.09%	-0.36%	-$0.14	-0.25		
09/07/99	$39.94	1,521,000	0.00%	-0.50%	-2.13%	-2.06%	2.06%	$0.82	1.48		Household Bank Offers EUR500 Mln Eurobonds Due 2004 >HI (DJNS 5:00 AM)
											Hot Stocks To Watch: Cited On Wall $treet Week (DJNS 8:41 AM)
09/08/99	$39.56	973,500	-0.94%	-0.46%	-0.83%	-0.67%	-0.26%	-$0.11	-0.19		
09/09/99	$39.88	1,931,000	0.79%	0.27%	-1.28%	-1.31%	2.10%	$0.83	1.51		

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
09/10/99	$40.63	2,201,000	1.88%	0.30%	0.56%	0.65%	1.23%	$0.49	0.89		Dividend Meetings For Week Of Sept. 13 (DJNS 1:55 PM)
09/13/99	$41.50	1,531,199	2.15%	-0.55%	-0.57%	-0.38%	2.53%	$1.03	1.83	+++	
09/14/99	$41.13	1,161,500	-0.90%	-0.58%	-1.81%	-1.69%	0.79%	$0.33	0.57		Payless Cashways Earnings-2: In Pact With Household Intl (DJNS 6:39 PM)
09/15/99	$40.44	1,265,899	-1.67%	-1.37%	-0.62%	-0.26%	-1.41%	-$0.58	-1.02		Dividends Reported September 15 (DJNS 5:12 PM)
09/16/99	$40.25	1,195,799	-0.46%	0.04%	-0.37%	-0.29%	-0.17%	-$0.07	-0.12		Dividend Declarations: ANA, BOY, XRAY, FCF, GGC, HLGCF, HI, JXVL, KTCO, NCH, OHSL, PMFG, PTZ, SFBC . (DJNS 8:09 AM)
09/17/99	$41.13	776,600	2.17%	1.29%	1.50%	1.44%	0.73%	$0.30	0.53		
09/20/99	$41.75	737,200	1.52%	0.01%	-0.32%	-0.23%	1.75%	$0.72	1.26		New Securities Issues (WSJ)
											Hot Stocks To Watch In Forbes Streetwalker:ANN HI EZPW OMX (DJNS 10:38 AM)
09/21/99	$40.50	926,200	-2.99%	-2.09%	-2.25%	-1.85%	-1.14%	-$0.48	-0.82		NYSE Short Interest: Firstenergy Corp - Ingersoll-Rand Co (DJNS 11:03 PM)
09/22/99	$41.44	1,419,399	2.31%	0.23%	-0.11%	-0.05%	2.37%	$0.96	1.71	+++	
09/23/99	$40.00	1,399,699	-3.47%	-2.29%	-0.64%	-0.09%	-3.38%	-$1.40	-2.42	***	
09/24/99	$39.44	1,571,500	-1.41%	-0.23%	0.56%	0.75%	-2.16%	-$0.86	-1.56		Stocks Ex-Dividend September 28 (DJNS 4:46 PM)
09/27/99	$40.38	1,042,200	2.38%	0.47%	-1.69%	-1.79%	4.16%	$1.64	2.98	+++	Stocks Ex-Dividend September 28 (WSJ)
09/28/99	$39.69	1,653,099	-1.28%	-0.08%	0.29%	0.44%	-1.72%	-$0.70	-1.25		
09/29/99	$40.63	1,282,099	2.36%	-1.07%	-0.82%	-0.54%	2.90%	$1.15	2.10	+++	
09/30/99	$40.13	1,092,300	-1.23%	1.14%	1.72%	1.71%	-2.94%	-$1.20	-2.12	***	
10/01/99	$39.38	1,190,399	-1.87%	0.01%	-1.26%	-1.24%	-0.63%	-$0.25	-0.45		Clinton Fund-Raiser McAuliffe Cashed In on Labor Ties (WSJ)
10/04/99	$40.44	1,187,500	2.70%	1.70%	3.18%	3.15%	-0.45%	-$0.18	-0.32		
10/05/99	$41.06	1,347,399	1.55%	-0.24%	0.47%	0.67%	0.88%	$0.36	0.63		
10/06/99	$42.88	779,700	4.41%	1.85%	2.47%	2.36%	2.05%	$0.84	1.48		Household Intl U.K. Unit To Launch Internet Credit Card (DJNS 12:26 AM)
10/07/99	$42.38	1,249,299	-1.17%	-0.58%	-1.09%	-0.93%	-0.24%	-$0.10	-0.17		
10/08/99	$44.31	1,458,199	4.57%	1.40%	2.00%	1.95%	2.62%	$1.11	1.89	+++	
10/11/99	$42.69	979,500	-3.67%	-0.06%	-1.34%	-1.30%	-2.37%	-$1.05	-1.70	***	Healthy 3Q Seen At Credit-Card Cos; Assets Still Clean (DJNS 6:27 PM)
10/12/99	$41.69	1,579,500	-2.34%	-1.66%	-1.64%	-1.29%	-1.05%	-$0.45	-0.76		
10/13/99	$39.75	1,038,300	-4.65%	-2.09%	-3.17%	-2.83%	-1.81%	-$0.76	-1.30		
10/14/99	$38.94	906,600	-2.04%	-0.16%	-0.44%	-0.32%	-1.72%	-$0.68	-1.24		

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
10/15/99	$37.00	809,700	-4.98%	-2.80%	-3.99%	-3.57%	-1.41%	-$0.55	-1.01		
10/18/99	$37.88	1,199,299	2.36%	0.54%	2.22%	2.36%	0.00%	$0.00	0.00		
10/19/99	$38.94	1,823,299	2.81%	0.58%	2.52%	2.68%	0.13%	$0.05	0.09		Household International 3rd Quarter Net 83 Cents A Diluted Share Vs 63 Cents . (DJNS 8:11 AM) As Expected, First USA Snag Hurt Bank One's 3rd Quarter Profits (DJNS 3:36 PM)
10/20/99	$39.56	890,800	1.61%	2.23%	1.89%	1.66%	-0.05%	-$0.02	-0.04		
10/21/99	$39.00	1,605,199	-1.42%	-0.45%	0.19%	0.40%	-1.83%	-$0.72	-1.32		NYSE Short Interest: Florida Progress - Input/Output Inc (DJNS 11:03 PM)
10/22/99	$39.75	1,487,299	1.92%	1.41%	4.49%	4.60%	-2.68%	-$1.05	-1.89	***	
10/25/99	$38.88	816,500	-2.20%	-0.61%	-1.29%	-1.13%	-1.07%	-$0.42	-0.77		
10/26/99	$39.06	1,429,599	0.48%	-0.90%	-0.73%	-0.48%	0.96%	$0.37	0.70		
10/27/99	$41.56	1,633,899	6.40%	1.16%	4.75%	4.94%	1.47%	$0.57	1.02		
10/28/99	$45.69	2,608,399	9.92%	3.53%	6.72%	6.54%	3.38%	$1.40	2.35	+++	
10/29/99	$44.63	1,387,100	-2.33%	1.53%	0.12%	-0.08%	-2.24%	-$1.03	-1.61		
11/01/99	$45.00	1,227,699	0.84%	-0.64%	-1.51%	-1.37%	2.21%	$0.98	1.59		
11/02/99	$45.31	2,015,099	0.69%	-0.47%	0.17%	0.39%	0.30%	$0.14	0.22		
11/03/99	$44.56	1,187,299	-1.66%	0.54%	-1.00%	-1.07%	-0.59%	-$0.27	-0.42		
11/04/99	$45.63	1,523,099	2.38%	0.57%	1.51%	1.61%	0.78%	$0.35	0.56		
11/05/99	$46.06	1,207,199	0.96%	0.56%	1.79%	1.91%	-0.95%	-$0.43	-0.69		Congress Passes Financial-Services Bill --- Late Requests for Favors And Fixes Precede Votes On Landmark Overhaul . (WSJ) Mixing It Up: In Biggest Hostile Bid, Pfizer Offers $80 Billion For Warner-Lambert --- It Acts as Target Confirms Its Own Plan to Merge With . (WSJ) Dividend Meetings For Week Of Nov. 8 (DJNS 3:41 PM)
11/08/99	$44.63	1,103,500	-3.12%	0.50%	-0.58%	-0.62%	-2.50%	-$1.15	-1.81	***	
11/09/99	$43.06	1,837,000	-3.50%	-0.85%	-1.68%	-1.50%	-2.00%	-$0.89	-1.44		Anatomy of a Drug Merger: How Two Leaders Courted and Struck (WSJ) Today's Calendar - Tuesday, Nov. 9 (DJNS 7:00 AM) Dividends Reported November 9 (DJNS 4:58 PM)
11/10/99	$42.56	965,200	-1.16%	0.60%	-1.22%	-1.31%	0.15%	$0.06	0.11		
11/11/99	$41.31	2,028,399	-2.94%	0.59%	-0.75%	-0.81%	-2.13%	-$0.91	-1.53		Household International 'Fully Expects' To Achieve 4th Quarter Objectives . (DJNS 2:41 PM)
11/12/99	$44.13	1,239,500	6.81%	1.06%	4.16%	4.33%	2.47%	$1.02	1.75	+++	

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
11/15/99	$44.13	705,400	0.00%	-0.12%	0.06%	0.20%	-0.20%	-$0.09	-0.14		
11/16/99	$45.13	1,159,199	2.27%	1.85%	2.93%	2.86%	-0.59%	-$0.26	-0.42		
11/17/99	$43.25	1,060,399	-4.16%	-0.65%	-2.65%	-2.58%	-1.58%	-$0.71	-1.13		General Motors Unveils GM Card EasyPay Wallet (DJNS 8:09 AM)
11/18/99	$42.50	1,037,800	-1.73%	1.01%	-0.04%	-0.15%	-1.59%	-$0.69	-1.14		
11/19/99	$41.88	1,030,900	-1.47%	-0.20%	-0.83%	-0.73%	-0.74%	-$0.31	-0.53		
11/21/99											NYSE Short Interest: Fort James Corp - Intimate Brands Inc (DJNS 11:03 PM)
11/22/99	$41.25	879,300	-1.49%	-0.07%	-1.17%	-1.13%	-0.37%	-$0.15	-0.26		
11/23/99	$40.94	1,231,899	-0.76%	-1.14%	-1.74%	-1.51%	0.75%	$0.31	0.54		
11/24/99	$40.38	695,400	-1.37%	0.89%	-0.90%	-1.03%	-0.34%	-$0.14	-0.25		
11/26/99	$40.25	214,600	-0.31%	-0.03%	-0.20%	-0.10%	-0.21%	-$0.08	-0.15		
11/29/99	$39.38	1,144,199	-2.17%	-0.62%	-2.42%	-2.34%	0.17%	$0.07	0.12		Hot Stocks To Watch in Barron's: HI DELL CSCO FNM PYX (DJNS 8:57 AM)
											HOT STOCKS TO WATCH -2- (DJNS 9:17 AM)
11/30/99	$39.56	1,834,699	0.48%	-1.34%	1.22%	1.70%	-1.22%	-$0.48	-0.87		A Special News Report About Life On the Job -- and Trends Taking Shape There . (WSJ)
12/01/99	$39.56	1,864,899	0.00%	0.64%	-0.37%	-0.42%	0.42%	$0.17	0.30		
12/02/99	$40.31	1,695,099	1.90%	0.81%	-0.13%	-0.20%	2.09%	$0.83	1.51		Household International To Buy Credit Card Issuer For $300 Million (DJNS 8:29 AM)
											News Highlights: Kmart Nov. Same-Store Sales Rose 1.4% (DJNS 9:00 AM)
12/03/99	$41.00	1,280,299	1.71%	1.73%	2.70%	2.64%	-0.93%	-$0.38	-0.67		Business Brief -- HOUSEHOLD INTERNATIONAL INC.: Accord Is Set to Purchase Renaissance Holdings Inc. . (WSJ)
12/06/99	$39.50	1,413,099	-3.66%	-0.69%	-2.83%	-2.77%	-0.89%	-$0.37	-0.64		
12/07/99	$38.25	1,269,399	-3.16%	-0.99%	-0.90%	-0.64%	-2.53%	-$1.00	-1.83	***	
12/08/99	$38.69	1,119,199	1.14%	-0.37%	-1.55%	-1.46%	2.61%	$1.00	1.88	+++	
12/09/99	$39.50	846,500	2.10%	0.31%	1.14%	1.27%	0.83%	$0.32	0.60		
12/10/99	$39.06	964,800	-1.11%	0.64%	1.74%	1.83%	-2.94%	-$1.16	-2.12	***	
12/13/99	$38.25	865,200	-2.08%	-0.12%	-1.25%	-1.19%	-0.89%	-$0.35	-0.64		
12/14/99	$37.94	944,700	-0.82%	-0.85%	-1.88%	-1.72%	0.91%	$0.35	0.65		
12/15/99	$37.63	1,194,899	-0.82%	0.73%	-0.85%	-0.94%	0.12%	$0.05	0.09		
12/16/99	$38.31	1,940,399	1.83%	0.39%	-1.62%	-1.70%	3.52%	$1.33	2.52	+++	
12/17/99	$38.13	2,548,399	-0.49%	0.16%	-0.19%	-0.12%	-0.37%	-$0.14	-0.27		
12/20/99	$37.94	1,522,799	-0.49%	-0.20%	-0.54%	-0.43%	-0.07%	-$0.03	-0.05		
12/21/99	$37.25	2,411,599	-1.81%	1.09%	2.05%	2.08%	-3.89%	-$1.48	-2.80	***	NYSE Short Interest: Firstar Corp - Infinity Brdcst Corp (DJNS 11:03 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
12/22/99	$36.63	1,751,699	-1.68%	0.19%	-0.09%	-0.03%	-1.65%	-$0.61	-1.19		
12/23/99	$37.50	1,176,199	2.39%	1.55%	1.63%	1.52%	0.87%	$0.32	0.63		
12/27/99	$36.88	1,113,000	-1.67%	-0.08%	-1.29%	-1.25%	-0.42%	-$0.16	-0.30		Stocks Ex-Dividend December 29 -2- (DJNS 5:39 PM)
12/28/99	$36.19	1,101,099	-1.86%	0.04%	0.32%	0.45%	-2.31%	-$0.85	-1.67	***	Stocks Ex-Dividend December 29 (WSJ)
12/29/99	$35.94	975,300	-0.22%	0.40%	1.17%	1.28%	-1.50%	-$0.54	-1.08		
12/30/99	$36.56	1,042,000	1.74%	0.07%	0.65%	0.80%	0.94%	$0.34	0.68		
12/31/99	$37.25	607,900	1.88%	0.33%	0.10%	0.15%	1.73%	$0.63	1.25		
01/03/00	$34.69	2,439,599	-6.88%	-0.95%	-4.51%	-4.51%	-2.37%	-$0.88	-1.66	***	
01/04/00	$35.00	2,914,299	0.90%	-3.83%	-4.12%	-3.49%	4.39%	$1.52	3.13	+++	
01/05/00	$34.38	1,194,599	-1.79%	0.20%	-0.67%	-0.65%	-1.14%	-$0.40	-0.82		
01/06/00	$36.00	1,215,399	4.73%	0.10%	3.94%	4.30%	0.43%	$0.15	0.30		PRESS RELEASE:American Access Gets Order From Sun Microsys (DJNS 2:48 PM)
01/07/00	$36.38	1,030,400	1.04%	2.71%	2.18%	1.87%	-0.83%	-$0.30	-0.60		
01/10/00	$36.50	842,000	0.34%	1.12%	-1.78%	-2.03%	2.37%	$0.86	1.68	+++	
01/11/00	$36.00	1,267,199	-1.37%	-1.30%	-1.17%	-0.87%	-0.50%	-$0.18	-0.36		
01/12/00	$36.75	1,602,699	2.08%	-0.43%	1.41%	1.71%	0.38%	$0.14	0.27		
01/13/00	$37.69	2,279,199	2.55%	1.22%	2.63%	2.67%	-0.11%	-$0.04	-0.08		Early Antitrust Clearances Approved By FTC (DJNS 3:38 PM)
01/14/00	$37.31	1,678,299	-1.00%	1.07%	2.74%	2.82%	-3.81%	-$1.44	-2.73	***	Agency.com To Help With Household International Web Site Devt (DJNS 8:05 AM)
											Household International To Use Computer Assoc.'s Unicenter TNG (DJNS 2:04 PM)
01/18/00	$36.50	1,228,099	-2.18%	-0.68%	-3.27%	-3.23%	1.06%	$0.39	0.75		
01/19/00	$36.81	1,756,599	0.86%	0.06%	-0.52%	-0.46%	1.31%	$0.48	0.95		Household International 4th Quarter Net 92 Cents A Share Vs 71 Cents (DJNS 8:12 AM)
											Calendar Of Corporate Conference Calls Scheduled For Jan.19 (DJNS 9:01 AM)
01/20/00	$36.00	1,886,399	-2.21%	-0.71%	-2.07%	-1.95%	-0.26%	-$0.09	-0.18		
01/21/00	$35.63	1,487,399	-1.04%	-0.29%	-1.23%	-1.15%	0.10%	$0.04	0.07		
01/23/00											NYSE Short Interest: Fort James Corp - Intimate Brands Inc (DJNS 11:01 PM)
01/24/00	$34.50	1,845,899	-3.16%	-2.76%	-1.56%	-0.98%	-2.18%	-$0.78	-1.56		
01/25/00	$33.94	1,828,399	-1.63%	0.61%	1.16%	1.22%	-2.85%	-$0.98	-2.06	***	
01/26/00	$35.63	2,081,000	4.97%	-0.42%	3.52%	3.96%	1.01%	$0.34	0.71		
01/27/00	$35.69	1,341,000	0.18%	-0.39%	1.00%	1.26%	-1.09%	-$0.39	-0.78		PRESS RELEASE: American Access To Create Internet Portal (DJNS

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											2:58 PM)
01/28/00	$34.19	1,704,599	-4.20%	-2.74%	-3.73%	-3.29%	-0.91%	-$0.32	-0.65		
01/31/00	$35.25	994,000	3.11%	2.53%	3.39%	3.20%	-0.09%	-$0.03	-0.07		
02/01/00	$35.25	811,300	0.00%	1.07%	0.19%	0.09%	-0.09%	-$0.03	-0.06		Household International Names Margaret Sprude Unit Financial Chief (DJNS 2:40 PM)
02/02/00	$36.13	1,026,500	2.48%	-0.01%	-1.06%	-1.01%	3.50%	$1.23	2.52	+++	
02/03/00	$35.63	1,237,899	-1.38%	1.13%	-0.24%	-0.38%	-1.00%	-$0.36	-0.72		
02/04/00	$35.38	1,491,699	-0.70%	-0.04%	-1.53%	-1.51%	0.81%	$0.29	0.58		
02/07/00	$35.06	752,000	-0.88%	0.00%	-0.94%	-0.89%	0.01%	$0.00	0.01		
02/08/00	$35.75	1,217,699	1.96%	1.23%	1.16%	1.09%	0.87%	$0.30	0.63		
02/09/00	$33.88	2,161,599	-5.24%	-2.08%	-2.74%	-2.38%	-2.86%	-$1.02	-2.06	***	
02/10/00	$33.88	1,461,599	0.00%	0.37%	-2.10%	-2.21%	2.21%	$0.75	1.57		
02/11/00	$31.88	1,957,099	-5.90%	-2.09%	-0.07%	0.47%	-6.38%	-$2.16	-4.55	***	
02/14/00	$31.31	1,286,699	-1.76%	0.21%	-1.58%	-1.62%	-0.14%	-$0.05	-0.10		
02/15/00	$32.94	3,740,299	5.19%	0.88%	2.37%	2.46%	2.73%	$0.86	1.97	+++	
02/16/00	$30.88	2,639,199	-6.26%	-1.02%	-1.62%	-1.40%	-4.86%	-$1.60	-3.51	***	
02/17/00	$31.69	2,851,000	2.63%	0.05%	-1.66%	-1.67%	4.30%	$1.33	3.09	+++	
02/18/00	$30.88	2,465,500	-2.56%	-3.03%	-3.38%	-2.86%	0.30%	$0.09	0.21		
02/22/00	$31.06	1,877,500	0.61%	0.46%	0.71%	0.77%	-0.17%	-$0.05	-0.12		Treasury Market Fears Rocky Road This Week Amid Note Auction, Uncertainty About Stocks . (WSJ)
											NYSE Short Interest: Fleetwood Enter - Inacom Corp (DJNS 11:00 PM)
02/23/00	$30.69	1,294,599	-1.21%	0.63%	-0.50%	-0.55%	-0.66%	-$0.20	-0.47		Bond Traders in Wonderland: Typical Day Means Looking at an Upside-Down World . (WSJ)
02/24/00	$30.63	1,942,199	-0.20%	-0.53%	-1.33%	-1.20%	1.00%	$0.31	0.72		New Securities Issues (WSJ)
											Treasurys Post First Decline in Four Sessions As Corporate Debt, Rising Stocks Sap Demand . (WSJ)
											SMARTMONEY.COM: I Have Some Bad News, Dear... (DJNS 7:24 PM)
02/25/00	$30.88	1,565,399	0.82%	-1.48%	-1.03%	-0.68%	1.50%	$0.46	1.08		SMARTMONEY.COM: I Have Some Bad News, Dear... (DJNS 8:00 AM)
02/28/00	$31.88	1,375,600	3.24%	1.11%	3.02%	3.10%	0.13%	$0.04	0.10		
02/29/00	$31.94	2,156,500	0.20%	1.37%	1.00%	0.89%	-0.69%	-$0.22	-0.50		New Citigroup Strategy Aims for No. 1 Spot With Citibank Unit, Using GE Chief's Maxim . (WSJ)
03/01/00	$33.25	1,809,000	4.11%	0.94%	1.41%	1.42%	2.69%	$0.86	1.94	+++	
03/02/00	$35.13	2,666,599	5.64%	0.19%	-0.98%	-0.97%	6.61%	$2.20	4.76	+++	

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
03/03/00	$36.63	2,393,099	4.27%	1.99%	1.32%	1.10%	3.17%	$1.11	2.28	+++	
03/06/00	$34.81	1,191,099	-4.95%	-1.27%	-1.10%	-0.79%	-4.15%	-$1.52	-3.00	***	
03/07/00	$32.88	1,439,699	-5.57%	-2.56%	-3.34%	-2.91%	-2.65%	-$0.92	-1.90	***	Your Career Matters: The Jungle (WSJ)
03/08/00	$31.81	2,169,500	-3.23%	0.82%	-1.04%	-1.17%	-2.06%	-$0.68	-1.48		
03/09/00	$32.44	1,485,599	1.96%	2.56%	1.32%	0.98%	0.98%	$0.31	0.70		
03/10/00	$32.75	1,231,199	0.96%	-0.47%	0.13%	0.34%	0.62%	$0.20	0.45		
03/13/00	$32.44	960,100	-0.95%	-0.82%	0.59%	0.91%	-1.86%	-$0.61	-1.34		
03/14/00	$32.13	1,106,199	-0.96%	-1.76%	-0.58%	-0.14%	-0.82%	-$0.27	-0.59		TALES OF THE TAPE: CEO Search Keeps Bank One On Hold (DJNS 2:00 PM)
											Household International Declares 17 Cents Regular Quarterly Dividend (DJNS 4:59 PM)
03/15/00	$34.25	2,048,699	6.61%	2.43%	6.38%	6.42%	0.20%	$0.06	0.14		Dividends Reported March 15 (DJNS 4:44 PM)
03/16/00	$36.81	2,674,199	7.48%	4.77%	8.75%	8.45%	-0.97%	-$0.33	-0.66		
03/17/00	$36.88	1,930,399	0.17%	0.42%	0.15%	0.19%	-0.02%	-$0.01	-0.01		
03/20/00	$35.56	1,306,899	-3.56%	-0.53%	-2.24%	-2.17%	-1.39%	-$0.51	-1.00		
03/21/00	$37.88	1,747,899	6.50%	2.56%	3.76%	3.59%	2.92%	$1.04	2.09	+++	NYSE Short Interest: Financial Federal - Household International (DJNS 11:03 PM)
03/22/00	$37.75	1,344,099	-0.33%	0.46%	1.07%	1.15%	-1.48%	-$0.56	-1.07		Household International To Buy $2.15 Billion Banc One Rl Estate Portfolio . (DJNS 7:32 AM)
											News Highlights: US MBA Market Index Rises 0.2% To 301.3 (DJNS 8:00 AM)
											News Highlights: Microsoft, Reuters Form Web Initiatives (DJNS 9:00 AM)
											Hot Stocks To Watch: CYT PEP YHOO HI ONE (DJNS 9:08 AM)
											News Highlights: Goldman's Cohen Ups Year-End S&P Target (DJNS 10:00 AM)
											News Highlights: Wal-Wart Win In High Court Trademark Case (DJNS 11:02 AM)
											News Highlights: US To Pay $508 Million In Discrimination Case (DJNS 12:00 PM)
											News Highlights: OPEC: Can't Assume Oil Output Will Rise (DJNS 1:00 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											News Highlights: Quebecor World Gets $500 Million Pac Bell Pact (DJNS 2:00 PM)
											News Highlights:US Can Mgmt,Berkshire Offer Holders $21/Shr (DJNS 3:00 PM)
											News Highlights: GE's NBC Acquires Min Stake In Space.com (DJNS 4:01 PM)
											News Highlights:Laidlaw Inc:Some Fincls May Be Unreliable (DJNS 5:00 PM)
											Household International Unit Files To Offer $300 Million Of Preferred Shares . (DJNS 7:08 PM)
03/23/00	$38.88	1,257,899	2.98%	1.78%	4.09%	4.10%	-1.12%	-$0.42	-0.80		Business and Finance (WSJ)
											Household to Buy Subprime Portfolio From Bank One (WSJ)
											New Securities Issues (WSJ)
											Treasury Official's Warning Rocks Bond Market, Challenging Fannie Mae's Goal to Be Benchmark . (WSJ)
											GM Unveils New Versions Of GM Credit Card (DJNS 1:02 PM)
03/24/00	$37.94	1,310,500	-2.41%	0.01%	-0.02%	0.09%	-2.50%	-$0.97	-1.81	***	TIP SHEET: Salomon's Cohen Stands By Value Stocks (DJNS 3:00 PM)
											Household Finance Files $10 Billion Debt Securities Shelf (DJNS 3:33 PM)
03/27/00	$36.13	1,281,000	-4.78%	-0.23%	-2.57%	-2.58%	-2.20%	-$0.83	-1.57		Stocks Ex-Dividend March 29 (DJNS 4:20 PM)
											Stocks Ex-Dividend March 29 -2- (DJNS 4:20 PM)
03/28/00	$36.69	1,065,399	1.56%	-1.05%	0.65%	1.03%	0.53%	$0.19	0.38		Stocks Ex-Dividend March 29 (WSJ)
03/29/00	$36.50	1,351,699	-0.05%	0.06%	-0.71%	-0.66%	0.61%	$0.22	0.44		
03/30/00	$36.38	1,311,899	-0.34%	-1.36%	-0.63%	-0.28%	-0.07%	-$0.02	-0.05		
03/31/00	$37.31	1,674,500	2.58%	0.72%	1.29%	1.34%	1.24%	$0.45	0.89		Household International Names John Vella Auto Finance Unit CEO (DJNS 11:48 AM)
04/03/00	$39.13	1,466,199	4.86%	0.50%	4.85%	5.19%	-0.33%	-$0.12	-0.23		

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
04/04/00	$38.13	2,239,500	-2.56%	-0.74%	-3.76%	-3.75%	1.19%	$0.47	0.84		
04/05/00	$39.06	2,667,399	2.46%	-0.49%	-0.92%	-0.77%	3.23%	$1.23	2.34	+++	N.Y. Stocks End Mixed; Wall Street Barkers Stir Techs (DJNS 4:22 PM)
											SkyMall Unit, General Motors Division In Pact >SKYM GM (DJNS 7:07 PM)
04/06/00	$40.38	2,813,399	3.36%	0.94%	0.85%	0.82%	2.54%	$0.99	1.84	+++	VeriSign, Micron Rise as Investors Cautiously Approach Tech Stocks (WSJ)
											U.S. Credit-Card Companies 1st Quarter Earns Not Hurt By Rate Increases . (DJNS 1:03 PM)
04/07/00	$38.88	2,025,799	-3.72%	1.00%	-2.05%	-2.29%	-1.43%	-$0.58	-1.01		
04/10/00	$40.00	2,405,699	2.89%	-0.78%	2.66%	3.12%	-0.22%	-$0.09	-0.16		Deals & Deal Makers: The Pipeline / Securities Offering Calendar (WSJ)
04/11/00	$40.63	1,598,599	1.56%	-0.25%	0.46%	0.66%	0.91%	$0.36	0.65		
04/12/00	$44.00	4,559,099	8.31%	-2.22%	1.28%	1.94%	6.37%	$2.59	4.46	+++	
04/13/00	$42.06	1,854,199	-4.40%	-1.81%	-2.28%	-1.94%	-2.46%	-$1.08	-1.78	***	
04/14/00	$38.06	2,192,299	-9.51%	-5.82%	-7.73%	-6.92%	-2.59%	-$1.09	-1.80	***	
04/17/00	$39.63	1,500,299	4.11%	3.31%	0.82%	0.30%	3.81%	$1.45	2.69	+++	
04/18/00	$39.69	1,218,599	0.16%	2.87%	3.92%	3.69%	-3.54%	-$1.40	-2.53	***	WRAP: Bank One Net Slides, As Wells Fargo Posts Solid 1st Quarter (DJNS 2:39 PM)
04/19/00	$39.94	1,171,899	0.63%	-0.98%	-2.02%	-1.84%	2.47%	$0.98	1.78	+++	Household International 1st Quarter Net 78 Cents A Diluted Share Vs 65 Cents . (DJNS 8:08 AM)
											Calendar Of Corporate Conference Calls Scheduled For Apr. 19 (DJNS 9:00 AM)
04/20/00	$41.81	1,254,899	4.69%	0.50%	1.99%	2.13%	2.57%	$1.02	1.85	+++	NYSE Short Interest:Fila Hold (Ads) - Huntington Life Sci (DJNS 11:03 PM)
04/21/00											Deals & Deal Makers: Upstart Firm Rolls Out Commercial Paper on Web (WSJ)
											Companies In Dow Jones Industry Group Indexes -3- (DJNS 11:16 AM)
04/24/00	$43.38	1,878,099	3.74%	-0.32%	2.14%	2.46%	1.27%	$0.53	0.91		Deals & Deal Makers: The Pipeline / Securities Offering Calendar (WSJ)
											N.Y. Stocks End Mixed; Techs Battered With Microsoft (DJNS 4:20

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											PM)
04/25/00	$44.69	1,823,099	3.03%	3.33%	3.30%	2.93%	0.09%	$0.04	0.07		Microsoft Slides to Low for Year, Dragging Down the Tech Sector (WSJ)
04/26/00	$43.63	1,371,899	-2.38%	-1.11%	-1.86%	-1.64%	-0.73%	-$0.33	-0.53		
04/27/00	$42.00	1,955,299	-3.72%	0.27%	-2.10%	-2.18%	-1.54%	-$0.67	-1.10		
04/28/00	$41.75	1,990,800	-0.60%	-0.85%	-2.06%	-1.91%	1.32%	$0.55	0.95		
05/01/00	$42.00	2,039,899	0.60%	1.09%	1.52%	1.50%	-0.90%	-$0.38	-0.65		Household Finance To Sell $1 Billion 5-Yr Global This Week (DJNS 11:47 AM)
											News Highlights: Lehman Raises $1 Bln For Mezzanine Fund (DJNS 12:00 PM)
05/02/00	$42.06	2,633,299	0.15%	-1.49%	-0.29%	0.12%	0.03%	$0.01	0.02		Treasury Prices Fall as Investors Stay Worried About Further Tightening by Federal Reserve . (WSJ)
											US Corporates: Two Deals Price; Shorter Debt Is A Focus (DJNS 4:45 PM)
05/03/00	$40.75	2,834,899	-3.12%	-2.15%	-2.51%	-2.12%	-1.00%	-$0.42	-0.72		New Securities Issues (WSJ)
											Ring in a New Bond Bellwether: 10-Year --- Wall Street Journal Changes Its Measure, Reflecting End of 30-Year's Reign . (WSJ)
05/04/00	$39.13	1,853,599	-3.99%	-0.39%	-1.27%	-1.17%	-2.82%	-$1.15	-2.04	***	
05/05/00	$39.75	1,692,399	1.60%	1.64%	0.52%	0.33%	1.27%	$0.50	0.92		
05/08/00	$41.13	1,253,199	3.46%	-0.59%	2.06%	2.43%	1.03%	$0.41	0.73		
05/09/00	$40.25	1,372,000	-2.13%	-0.84%	-0.54%	-0.29%	-1.84%	-$0.76	-1.33		Corporate-Bond Issuance Slowed Markedly in April (WSJ)
05/10/00	$39.38	697,500	-2.17%	-2.06%	-1.97%	-1.56%	-0.61%	-$0.25	-0.44		Household International Boosts Quarterly Dividend To 19 Cents From 17 Cents . (DJNS 4:17 PM)
											Dividends Reported May 10 (DJNS 6:25 PM)
05/11/00	$39.94	2,405,599	1.43%	1.79%	2.47%	2.37%	-0.95%	-$0.37	-0.68		U.S. Treasury Bond Prices Continue to Advance On Steep Decline in Stocks and Strong Note Sale . (WSJ)
											Companies In Dow Jones Industry Group Indexes -3- (DJNS 12:37 AM)
05/12/00	$40.38	2,113,299	1.10%	0.94%	1.84%	1.88%	-0.78%	-$0.31	-0.57		
05/15/00	$41.94	1,830,699	3.87%	2.21%	3.91%	3.83%	0.04%	$0.02	0.03		
05/16/00	$42.81	1,046,900	2.09%	0.95%	-0.60%	-0.72%	2.81%	$1.18	2.02	+++	

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
05/17/00	$41.69	1,151,799	-2.63%	-1.24%	-1.16%	-0.86%	-1.76%	-$0.76	-1.27		
05/18/00	$42.81	1,065,799	2.70%	-0.73%	1.23%	1.57%	1.13%	$0.47	0.81		
05/19/00	$41.44	1,391,099	-3.21%	-2.10%	-2.48%	-2.10%	-1.11%	-$0.48	-0.80		
05/21/00											NYSE Short Interest: Fleming Companies - Input/Output Inc (DJNS 11:03 PM)
05/22/00	$41.88	961,200	1.06%	-0.44%	1.29%	1.58%	-0.53%	-$0.22	-0.38		
05/23/00	$43.00	808,200	2.69%	-1.91%	0.35%	0.89%	1.80%	$0.75	1.28		Technology Stocks, Led by Sun, Adobe, Recover From Day's Lows (WSJ)
05/24/00	$45.75	3,625,699	6.40%	1.84%	1.44%	1.26%	5.13%	$2.21	3.70	+++	
05/25/00	$45.38	2,302,500	-0.82%	-1.25%	-2.46%	-2.26%	1.44%	$0.66	1.03		
05/26/00	$45.38	1,177,599	0.00%	-0.25%	0.02%	0.19%	-0.19%	-$0.08	-0.14		
05/30/00	$46.56	2,278,500	2.62%	3.23%	2.06%	1.63%	0.98%	$0.45	0.70		
05/31/00	$47.00	2,346,899	0.94%	-0.13%	1.22%	1.44%	-0.50%	-$0.23	-0.36		
06/01/00	$47.13	1,216,000	0.27%	1.99%	2.66%	2.54%	-2.27%	-$1.07	-1.63		
06/02/00	$47.00	2,166,299	-0.27%	1.97%	4.37%	4.37%	-4.63%	-$2.18	-3.29	***	New Securities Issues (WSJ)
06/05/00	$47.13	1,820,599	0.27%	-0.65%	-2.29%	-2.20%	2.46%	$1.16	1.77	+++	NYSE Most Actives-Composite Trades 4-6:30 p.m. (DJNS 6:41 PM)
06/06/00	$46.38	1,051,399	-1.59%	-0.66%	-1.89%	-1.77%	0.17%	$0.08	0.13		
06/07/00	$47.25	1,027,100	1.89%	0.93%	1.58%	1.60%	0.29%	$0.13	0.21		N.Y. Stocks Finish Higher; Goldman Stirs IBM, Techs (DJNS 4:23 PM)
06/08/00	$46.19	677,700	-2.25%	-0.65%	-1.79%	-1.66%	-0.59%	-$0.28	-0.42		
06/09/00	$44.44	985,800	-3.79%	-0.32%	-1.82%	-1.77%	-2.02%	-$0.93	-1.45		
06/12/00	$43.56	1,699,000	-1.97%	-0.75%	0.43%	0.73%	-2.70%	-$1.20	-1.95	***	
06/13/00	$44.69	1,072,599	2.58%	1.63%	0.93%	0.76%	1.82%	$0.79	1.31		Bond Prices Rise Amid Hopes Economic Reports Due This Week Contain Signs of a Slowdown . (WSJ)
06/14/00	$45.38	1,530,799	1.54%	0.08%	1.48%	1.68%	-0.14%	-$0.06	-0.10		
06/15/00	$43.06	2,247,199	-5.10%	0.56%	-3.01%	-3.22%	-1.87%	-$0.85	-1.31		
06/16/00	$42.44	1,999,699	-1.45%	-0.96%	-4.46%	-4.44%	2.99%	$1.29	2.09	+++	
06/19/00	$42.75	1,379,799	0.74%	1.48%	2.23%	2.18%	-1.45%	-$0.61	-1.04		
06/20/00	$43.94	1,548,299	2.78%	-0.67%	-0.53%	-0.32%	3.09%	$1.32	2.24	+++	
06/21/00	$44.06	1,650,399	0.28%	0.22%	-1.43%	-1.46%	1.74%	$0.76	1.25		Anti-Fannie Mae Lobby Shapes Debate Behind The Scenes (DJNS 11:22 AM)
											REPEAT:Anti-Fannie Mae Lobby Shapes Debate Behind Scenes (DJNS 12:05 PM)
											NYSE Short Interest: Fila Holding (Ads) - Idex Corp (DJNS 11:03 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
06/22/00	$43.19	2,947,799	-1.99%	-1.82%	-0.24%	0.23%	-2.22%	-$0.98	-1.59		Household International: Not Subj Of DOJ Proceeding Vs Competitor (DJNS 2:46 PM)
											N.Y. Stocks End Weaker; Nasdaq Composite Fails Key Test (DJNS 4:27 PM)
06/23/00	$42.13	2,289,899	-2.46%	-0.73%	-0.05%	0.22%	-2.68%	-$1.16	-1.93	***	Intel, PMC-Sierra, Xilinx Drop As Chip Sector Spoils Nasdaq Run (WSJ)
06/26/00	$42.13	976,600	0.00%	0.96%	1.50%	1.51%	-1.51%	-$0.64	-1.09		Stocks Ex-Dividend June 28 (DJNS 4:55 PM)
06/27/00	$41.81	2,580,500	-0.74%	-0.32%	0.24%	0.44%	-1.18%	-$0.50	-0.85		Stocks Ex-Dividend June 28 (WSJ)
06/28/00	$42.81	1,943,599	2.85%	0.30%	-0.32%	-0.29%	3.14%	$1.31	2.27	+++	
06/29/00	$43.00	1,142,899	0.44%	-0.85%	-0.45%	-0.19%	0.63%	$0.27	0.45		
06/30/00	$41.56	2,111,699	-3.34%	0.85%	-3.02%	-3.29%	-0.05%	-$0.02	-0.03		Household International (HI) Market On Close Sell Imbalance: Shares 118300 f/te n/djwer . (DJNS 4:35 PM)
07/03/00	$41.88	1,203,799	0.75%	1.03%	2.62%	2.69%	-1.94%	-$0.81	-1.40		
07/05/00	$42.00	1,243,099	0.30%	-1.58%	1.00%	1.51%	-1.21%	-$0.51	-0.86		Credit Card Cos' 2nd Quarter Results Expected To Remain Favorable (DJNS 1:02 PM)
07/06/00	$41.63	1,611,399	-0.89%	0.73%	0.85%	0.87%	-1.76%	-$0.74	-1.28		
07/07/00	$42.75	1,622,599	2.70%	1.53%	2.18%	2.11%	0.59%	$0.25	0.42		New Securities Issues (WSJ)
07/10/00	$42.69	1,165,299	-0.15%	-0.22%	0.15%	0.32%	-0.47%	-$0.20	-0.34		Deals & Deal Makers: The Pipeline / Securities Offering Calendar (WSJ)
											U.S. Treasury Prices Finish Higher on Jobs Data; Some Analysts Say Bond Yields Could Go Lower . (WSJ)
07/11/00	$43.50	1,465,799	1.90%	0.36%	0.82%	0.91%	0.99%	$0.42	0.72		Strong Demand For Dlr Bonds While Euros Take a Breather (DJNS 8:16 AM)
07/12/00	$43.94	1,137,799	1.01%	0.82%	0.78%	0.77%	0.24%	$0.10	0.17		Fannie Mae, Freddie Mac Face Pressure --- Top Financial Executives To Seek Tighter Reins On Mortgage Lenders . (WSJ)
											New Securities Issues (WSJ)
											Treasury Bond Prices End Lower as Investors Turn to a Heavy Issuance of Corporate Bonds . (WSJ)
											Bank Chiefs Call For Curbs On Fannie Mae, Freddie Mac (DJNS 8:15 AM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
07/13/00	$44.00	693,100	0.14%	0.20%	-0.57%	-0.53%	0.68%	$0.30	0.49		
07/14/00	$44.88	923,700	1.99%	0.95%	1.89%	1.93%	0.06%	$0.03	0.04		
07/17/00	$42.81	1,475,599	-4.60%	0.04%	-1.93%	-1.95%	-2.64%	-$1.19	-1.89	***	
07/18/00	$43.44	975,000	1.46%	-1.10%	-0.68%	-0.39%	1.85%	$0.79	1.34		Media Barred From Household International 2nd Quarter Conf Call (DJNS 10:35 AM) News Highlights:Treasurys Steady After Near-Consensus CPI (DJNS 11:00 AM) News Highlights: Guidant 2nd Quarter Net 40 Cents/Diluted Share (DJNS 12:02 PM) News Highlights: FirstEnergy 2nd Quarter Net 60 Cents A Share Vs 55 Cents . (DJNS 1:00 PM) News Highlights: PNC Financial Exploring Sale Of Mortgage Co (DJNS 2:00 PM) News Highlights:Public Svc Enterprises 2nd Quarter Net 66 Cents Vs Operating Net 83 Cents . (DJNS 3:01 PM) News Highlights: US Reserve Assets Down $491 Million To $67.04 Billion (DJNS 4:00 PM) News Highlights: Microsoft 4th Quarter Net 44 Cents/Diluted Share Vs 40 Cents . (DJNS 5:04 PM) Recap of Dow Jones Special Reports For Tuesday, July 18 (DJNS 5:06 PM)
07/19/00	$45.25	2,150,000	4.17%	-0.78%	-0.10%	0.17%	4.00%	$1.74	2.89	+++	Household International 2nd Quarter Net 80 Cents/Diluted Share Vs 67 Cents . (DJNS 8:11 AM) Calendar Of Corporate Conference Calls Scheduled For Jul. 19 (DJNS 9:10 AM) Household International CEO: Could Exceed 15% EPS Growth in 2000 (DJNS 10:17 AM)
07/20/00	$46.38	1,776,500	2.49%	0.92%	3.16%	3.30%	-0.81%	-$0.37	-0.58		NYSE Short Interest: Financial Federal Corp - Idex Corp (DJNS 11:03 PM) NYSE Short Interest: Financial Federal Corp - Idex Corp (DJNS

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											11:34 PM)
07/21/00	$45.81	984,200	-1.21%	-1.02%	-0.48%	-0.18%	-1.03%	-$0.48	-0.74		
07/24/00	$45.94	719,700	0.27%	-1.07%	-0.07%	0.26%	0.01%	$0.01	0.01		
07/25/00	$45.50	775,700	-0.95%	0.70%	1.04%	1.08%	-2.03%	-$0.93	-1.47		
07/26/00	$44.25	876,400	-2.75%	-1.49%	-1.71%	-1.40%	-1.35%	-$0.61	-0.97		
07/27/00	$44.69	897,800	0.99%	-0.19%	1.56%	1.82%	-0.83%	-$0.37	-0.60		
07/28/00	$43.75	779,400	-2.10%	-2.05%	-2.19%	-1.80%	-0.30%	-$0.14	-0.22		
07/31/00	$44.56	957,100	1.86%	0.78%	1.60%	1.65%	0.20%	$0.09	0.15		
08/01/00	$44.56	1,161,099	0.00%	0.51%	0.73%	0.79%	-0.79%	-$0.35	-0.57		
08/02/00	$44.44	1,142,899	-0.28%	0.05%	-0.41%	-0.33%	0.05%	$0.02	0.04		
08/03/00	$46.63	1,609,599	4.92%	0.97%	2.38%	2.45%	2.47%	$1.10	1.78	+++	CBOE To List Options On 5 Companies >ADAP HI KBL MTHA R (DJNS 1:35 PM)
08/04/00	$49.63	3,656,199	6.43%	0.72%	3.66%	3.87%	2.56%	$1.20	1.81	+++	
08/07/00	$49.88	2,213,699	0.50%	1.12%	0.35%	0.25%	0.26%	$0.13	0.19		New Stock Listings (WSJ)
08/08/00	$50.00	1,461,299	0.25%	0.24%	-0.20%	-0.15%	0.40%	$0.20	0.29		Fannie Mae, Freddie Mac Building Broad Counteroffensive (DJNS 5:06 PM)
08/09/00	$48.88	1,660,599	-2.25%	-0.67%	-0.07%	0.18%	-2.43%	-$1.21	-1.75	***	
08/10/00	$48.19	679,100	-1.41%	-0.85%	-1.02%	-0.80%	-0.61%	-$0.30	-0.44		
08/11/00	$49.06	924,100	1.82%	0.80%	1.60%	1.65%	0.17%	$0.08	0.12		
08/14/00	$49.19	497,700	0.25%	1.34%	1.24%	1.16%	-0.90%	-$0.44	-0.65		
08/15/00	$47.88	1,243,099	-2.67%	-0.47%	-1.49%	-1.37%	-1.29%	-$0.64	-0.93		Companies In Dow Jones Industry Group Indexes -3- (DJNS 12:12 AM)
08/16/00	$46.75	2,245,000	-2.35%	-0.30%	-1.60%	-1.53%	-0.82%	-$0.39	-0.59		
08/17/00	$46.38	1,495,799	-0.80%	1.10%	1.44%	1.42%	-2.22%	-$1.04	-1.60		New Securities Issues (WSJ)
08/18/00	$46.94	1,094,799	1.21%	-0.29%	-0.66%	-0.53%	1.75%	$0.81	1.26		
08/21/00	$46.63	680,400	-0.67%	0.52%	1.17%	1.25%	-1.92%	-$0.90	-1.38		
08/22/00	$47.31	855,200	1.47%	-0.09%	0.78%	0.97%	0.51%	$0.24	0.37		AMEX Short Interest: Alterra Healthcare - Xcelera.Com Inc (DJNS 1:12 PM)
08/23/00	$47.25	789,100	-0.13%	0.53%	-0.92%	-0.98%	0.85%	$0.40	0.61		
08/24/00	$47.44	871,300	0.40%	0.16%	-0.73%	-0.70%	1.10%	$0.52	0.80		
08/25/00	$47.75	908,300	0.66%	-0.12%	-0.77%	-0.68%	1.34%	$0.64	0.97		
08/28/00	$48.25	1,010,100	1.05%	0.51%	1.43%	1.53%	-0.49%	-$0.23	-0.35		
08/29/00	$48.00	1,049,199	-0.52%	-0.28%	-0.62%	-0.49%	-0.02%	-$0.01	-0.02		
08/30/00	$48.00	1,717,099	0.00%	-0.48%	0.64%	0.89%	-0.89%	-$0.43	-0.64		
08/31/00	$48.00	1,309,399	0.00%	1.01%	2.24%	2.30%	-2.30%	-$1.10	-1.65	***	
09/01/00	$47.38	817,100	-1.30%	0.21%	-0.98%	-0.98%	-0.32%	-$0.16	-0.23		
09/05/00	$47.63	591,500	0.53%	-0.90%	0.53%	0.86%	-0.34%	-$0.16	-0.24		

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
09/06/00	$50.19	6,273,199	5.38%	-0.98%	0.68%	1.05%	4.33%	$2.06	3.11	+++	WRAP: Citigroup to Acquire Assoc First In Stock Deal (DJNS 12:12 PM)
											N.Y. Stocks End Mixed; Techs Sag Again; Financials Score (DJNS 4:22 PM)
09/07/00	$50.56	2,121,899	0.75%	0.69%	0.00%	-0.04%	0.78%	$0.39	0.57		Micron Technology and Intel Fall; Financials Lift Industrial Average (WSJ)
											Household International Names Derickson CEO Household Retail Svc (DJNS 4:31 PM)
09/08/00	$52.44	1,888,099	3.71%	-0.53%	1.97%	2.32%	1.39%	$0.70	0.99		Dividend Meetings For Week Of Sept. 11 (DJNS 4:12 PM)
09/11/00	$51.63	1,626,500	-1.55%	-0.35%	1.74%	2.04%	-3.59%	-$1.88	-2.57	***	
09/12/00	$51.13	1,855,699	-0.97%	-0.48%	0.02%	0.23%	-1.20%	-$0.62	-0.87		Today's Calendar - Tuesday, Sept. 12 (DJNS 7:00 AM)
											Dividends Reported September 12 (DJNS 6:13 PM)
09/13/00	$51.25	1,068,099	0.24%	0.20%	-0.76%	-0.74%	0.99%	$0.50	0.71		Insider Trading Spotlight (WSJ)
											New Securities Issues (WSJ)
											Household International Unit Files $10 Billion Debt Securities Shelf (DJNS 5:59 PM)
09/14/00	$51.00	800,200	-0.49%	-0.27%	-0.14%	0.02%	-0.51%	-$0.26	-0.37		
09/15/00	$50.50	1,690,399	-0.98%	-1.01%	-2.02%	-1.83%	0.85%	$0.44	0.62		Companies In Dow Jones Industry Group Indexes -3- (DJNS 12:46 AM)
09/18/00	$50.75	2,807,599	0.50%	-1.45%	-3.12%	-2.92%	3.41%	$1.72	2.44	+++	
09/19/00	$51.56	2,074,500	1.60%	1.07%	1.90%	1.92%	-0.32%	-$0.16	-0.23		
09/20/00	$52.31	1,310,899	1.45%	-0.58%	-1.00%	-0.84%	2.29%	$1.18	1.66	+++	
09/21/00	$52.88	2,033,899	1.08%	-0.15%	-1.12%	-1.05%	2.13%	$1.11	1.54		
09/22/00	$52.00	1,712,599	-1.65%	-0.02%	1.82%	2.06%	-3.71%	-$1.96	-2.67	***	
09/25/00	$53.38	1,501,399	2.64%	-0.66%	1.39%	1.73%	0.91%	$0.48	0.66		Stocks Ex-Dividend September 27 (DJNS 4:46 PM)
09/26/00	$54.13	1,767,899	1.41%	-0.82%	-0.78%	-0.55%	1.96%	$1.04	1.41		A Florida Hopeful Banks on His Role in Bankruptcy Bill (WSJ)
											Stocks Ex-Dividend September 27 (WSJ)
09/27/00	$54.69	1,784,199	1.39%	-0.04%	-0.03%	0.08%	1.31%	$0.71	0.95		Business Brief -- H&R BLOCK INC.: Offer of $25 Million to Settle Suit Is Accepted by Judge . (WSJ)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
09/28/00	$56.44	2,376,799	3.20%	2.23%	2.78%	2.61%	0.59%	$0.32	0.43		
09/29/00	$56.63	2,300,800	0.33%	-1.49%	-0.37%	0.03%	0.30%	$0.17	0.21		
10/02/00	$55.19	2,356,599	-2.54%	-0.02%	1.59%	1.81%	-4.35%	-$2.46	-3.13	***	
10/03/00	$55.63	1,186,899	0.79%	-0.68%	-0.14%	0.10%	0.69%	$0.38	0.50		
10/04/00	$54.88	1,029,400	-1.35%	0.56%	-1.54%	-1.65%	0.30%	$0.17	0.22		
10/05/00	$55.69	1,153,000	1.48%	0.14%	0.92%	1.07%	0.41%	$0.23	0.30		
10/06/00	$52.63	3,055,199	-5.50%	-1.90%	-4.16%	-3.93%	-1.57%	-$0.87	-1.11		N.Y. Stocks Felled Again;Financials Join Tech In Selloff (DJNS 4:27 PM)
											Clean Assets, Receivables Bolster Credit Card Companies 3rd Quarter EPS . (DJNS 7:12 PM)
10/09/00	$52.19	1,101,799	-0.83%	-0.49%	-1.21%	-1.08%	0.25%	$0.13	0.18		Can the Nasdaq's Biggest Techs Survive the Recent Bear Mauling? (WSJ)
											Credit-Card Companies Are Expected to Announce Solid Earnings (WSJ)
10/10/00	$49.50	2,511,000	-5.15%	-1.07%	-2.87%	-2.73%	-2.42%	-$1.26	-1.73	***	
10/11/00	$47.94	3,220,500	-3.16%	-1.61%	-0.73%	-0.33%	-2.83%	-$1.40	-2.04	***	
10/12/00	$46.25	2,704,899	-3.52%	-2.55%	-5.00%	-4.69%	1.17%	$0.56	0.83		
10/13/00	$47.56	1,767,899	2.84%	3.34%	4.94%	4.68%	-1.84%	-$0.85	-1.31		
10/16/00	$49.13	1,037,800	3.29%	0.04%	0.69%	0.84%	2.45%	$1.16	1.77	+++	
10/17/00	$47.50	1,262,599	-3.31%	-1.79%	-2.69%	-2.39%	-0.92%	-$0.45	-0.66		
10/18/00	$48.75	1,616,299	2.63%	-0.58%	-0.19%	0.03%	2.61%	$1.24	1.89	+++	Companies In Dow Jones Industry Group Indexes -3- (DJNS 1:01 AM)
											Household International 3rd Quarter Net 94 Cents A Share (DJNS 8:04 AM)
											News Highlights: US Sep Consumer Prices +0.5%; Tops View (DJNS 9:00 AM)
											Calendar Of Corporate Conference Calls Scheduled For Oct. 18 (DJNS 9:09 AM)
10/19/00	$50.63	1,485,500	3.85%	3.48%	3.95%	3.60%	0.25%	$0.12	0.18		PRESS RELEASE: Kana Commun Reports 3rd Quarter Results (DJNS .)
											PRESS RELEASE: Kana Commun Reports 3rd Quarter Results (DJNS 5:54 PM)
											NYSE Short Interest: Fortune Brands - Kemet Corp. (DJNS 11:03 PM)
10/20/00	$50.44	1,171,299	-0.37%	0.59%	-0.01%	-0.02%	-0.35%	-$0.18	-0.25		New Securities Issues (WSJ)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
10/23/00	$49.19	1,144,599	-2.48%	-0.08%	-1.17%	-1.12%	-1.36%	-$0.69	-0.98		
10/24/00	$50.25	931,300	2.16%	0.17%	2.86%	3.13%	-0.97%	-$0.48	-0.69		PRESS RELEASE:Avenue A Reports 3rd Quarter Results (DJNS 6:50 PM)
10/25/00	$49.50	1,209,899	-1.49%	-2.37%	-0.27%	0.32%	-1.81%	-$0.91	-1.29		
10/26/00	$47.44	3,877,000	-4.17%	-0.03%	-2.55%	-2.61%	-1.56%	-$0.77	-1.11		
10/27/00	$47.50	2,467,799	0.13%	1.11%	3.04%	3.12%	-2.99%	-$1.42	-2.14	***	
10/30/00	$49.38	1,021,300	3.95%	1.39%	3.88%	3.96%	-0.01%	-$0.01	-0.01		
10/31/00	$50.31	981,000	1.90%	2.20%	0.84%	0.54%	1.35%	$0.67	0.97		
11/01/00	$49.63	1,385,399	-1.37%	-0.57%	-0.90%	-0.73%	-0.64%	-$0.32	-0.46		
11/02/00	$51.50	2,478,000	3.78%	0.50%	0.25%	0.27%	3.51%	$1.74	2.54	+++	N.Y. Stocks Outlook: Bush Win Would Give Stocks A Boost (DJNS 3:40 PM)
											Tension Builds As Fannie Mae, Freddie Mac Go High Tech (DJNS 4:37 PM)
11/03/00	$51.50	1,314,899	0.00%	-0.11%	0.09%	0.23%	-0.23%	-$0.12	-0.17		
11/06/00	$52.50	928,800	1.94%	0.39%	1.23%	1.34%	0.60%	$0.31	0.44		
11/07/00	$51.88	1,289,199	-1.19%	-0.02%	-0.43%	-0.34%	-0.85%	-$0.45	-0.61		
11/08/00	$51.63	1,156,899	-0.48%	-1.57%	-1.59%	-1.26%	0.78%	$0.40	0.56		
11/09/00	$50.50	1,315,399	-2.18%	-0.64%	0.69%	0.98%	-3.16%	-$1.63	-2.28	***	
11/10/00	$50.75	1,960,099	0.50%	-2.44%	-1.49%	-0.97%	1.46%	$0.74	1.05		Dividend Meetings For Week Of Nov. 17 (DJNS 2:47 PM)
11/13/00	$49.13	1,231,000	-3.20%	-1.07%	-1.91%	-1.70%	-1.50%	-$0.76	-1.08		
11/14/00	$49.00	840,300	-0.25%	2.35%	0.58%	0.24%	-0.49%	-$0.24	-0.35		Dividends Reported November 14 (DJNS 5:11 PM)
11/15/00	$49.31	897,100	0.64%	0.50%	-1.25%	-1.33%	1.97%	$0.97	1.44		
11/16/00	$49.13	1,025,800	-0.38%	-1.25%	0.21%	0.60%	-0.98%	-$0.48	-0.71		
11/17/00	$48.19	1,281,000	-1.91%	-0.33%	-1.49%	-1.41%	-0.50%	-$0.25	-0.37		
11/20/00	$45.75	2,158,000	-5.06%	-1.83%	-2.45%	-2.12%	-2.94%	-$1.42	-2.14	***	Companies In Dow Jones Industry Group Indexes -3- (DJNS 11:23 AM)
11/21/00	$46.25	1,896,399	1.09%	0.36%	0.26%	0.31%	0.78%	$0.36	0.57		NYSE Short Interest: Fortune Brands - Kemet Corp (DJNS 11:03 PM)
11/22/00	$44.06	1,893,799	-4.73%	-1.85%	-2.70%	-2.39%	-2.34%	-$1.08	-1.71	***	
11/24/00	$45.31	504,600	2.84%	1.47%	0.76%	0.61%	2.23%	$0.98	1.62		
11/27/00	$46.50	1,061,299	2.62%	0.54%	1.03%	1.10%	1.52%	$0.69	1.10		
11/28/00	$48.38	1,213,299	4.03%	-0.95%	1.06%	1.44%	2.59%	$1.20	1.90	+++	
11/29/00	$50.13	1,492,800	3.62%	0.44%	2.42%	2.60%	1.01%	$0.49	0.75		
11/30/00	$49.88	1,410,500	-0.50%	-2.00%	-0.46%	0.04%	-0.54%	-$0.27	-0.40		
12/01/00	$49.56	1,350,200	-0.63%	0.03%	-0.19%	-0.10%	-0.53%	-$0.26	-0.39		
12/04/00	$48.38	1,844,200	-2.40%	0.75%	-0.86%	-0.96%	-1.44%	-$0.71	-1.05		
12/05/00	$50.19	1,871,100	3.75%	3.90%	5.04%	4.68%	-0.93%	-$0.45	-0.69		

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
12/06/00	$50.75	2,553,400	1.12%	-1.82%	-1.19%	-0.78%	1.90%	$0.95	1.39		
12/07/00	$51.81	1,453,700	2.09%	-0.58%	0.33%	0.59%	1.51%	$0.76	1.10		
12/08/00	$53.06	1,669,900	2.41%	1.97%	2.73%	2.61%	-0.20%	-$0.10	-0.15		
12/11/00	$52.63	1,252,500	-0.82%	0.76%	1.52%	1.58%	-2.40%	-$1.27	-1.75	***	Hot Stks To Watch On Wall $treet Week With Louis Rukeyser (DJNS 2:33 PM)
12/12/00	$51.94	1,173,200	-1.31%	-0.65%	-1.14%	-0.97%	-0.33%	-$0.18	-0.24		
12/13/00	$50.94	1,231,700	-1.93%	-0.81%	-0.66%	-0.42%	-1.51%	-$0.78	-1.10		
12/14/00	$50.94	1,152,500	0.00%	-1.40%	-2.21%	-1.95%	1.95%	$0.99	1.42		
12/15/00	$50.25	1,948,400	-1.35%	-2.14%	-1.08%	-0.59%	-0.75%	-$0.38	-0.55		
12/18/00	$52.00	1,682,000	3.48%	0.81%	3.42%	3.60%	-0.11%	-$0.06	-0.08		
12/19/00	$53.63	3,061,700	3.13%	-1.29%	-1.02%	-0.70%	3.83%	$1.99	2.79	+++	
12/20/00	$51.94	1,439,100	-3.15%	-3.13%	-1.47%	-0.81%	-2.34%	-$1.26	-1.73	***	
12/21/00	$52.44	1,606,200	0.96%	0.81%	2.42%	2.53%	-1.56%	-$0.81	-1.14		NYSE Short Interest: Fortune Brands - Kemet Corp (DJNS 11:03 PM)
12/22/00	$52.44	1,362,600	0.00%	2.45%	0.91%	0.57%	-0.57%	-$0.30	-0.42		Stocks Ex-Dividend December 27 -2- (DJNS 6:15 PM)
12/26/00	$53.25	1,055,800	1.55%	0.71%	1.45%	1.51%	0.04%	$0.02	0.03		Stocks Ex-Dividend Dec. 27 (WSJ)
12/27/00	$54.31	1,114,800	2.35%	1.05%	0.81%	0.76%	1.60%	$0.85	1.16		
12/28/00	$55.94	1,741,900	2.99%	0.40%	0.98%	1.07%	1.92%	$1.04	1.40		
12/29/00	$55.00	1,211,000	-1.68%	-1.04%	-0.86%	-0.59%	-1.09%	-$0.61	-0.79		
01/02/01	$53.69	1,508,800	-2.39%	-2.80%	-2.78%	-2.27%	-0.12%	-$0.06	-0.09		
01/03/01	$58.00	3,211,400	8.03%	5.01%	5.09%	4.50%	3.53%	$1.90	2.64	+++	
01/04/01	$57.13	4,169,800	-1.51%	-1.05%	-1.20%	-0.95%	-0.56%	-$0.33	-0.41		
01/05/01	$54.88	2,512,100	-3.94%	-2.62%	-2.65%	-2.17%	-1.77%	-$1.01	-1.30		
01/08/01	$54.06	1,432,000	-1.48%	-0.19%	-0.46%	-0.34%	-1.14%	-$0.63	-0.83		
01/09/01	$52.88	1,479,400	-2.20%	0.39%	-1.84%	-1.94%	-0.26%	-$0.14	-0.19		Credit Card Cos Seen Posting Solid 4Q Earnings (DJNS 3:05 PM)
01/10/01	$52.81	1,846,900	-0.12%	0.96%	1.57%	1.59%	-1.71%	-$0.90	-1.24		Insider Trading Spotlight (WSJ)
											Household Intl Options To Trade Thurs On Pacific Exchange (DJNS 3:28 PM)
01/11/01	$53.44	2,155,600	1.18%	1.04%	0.38%	0.31%	0.88%	$0.46	0.64		Canada Bonds Up Alongside Treasurys, Mkts Watching Stocks (DJNS 10:40 AM)
01/12/01	$53.69	1,138,700	0.47%	-0.64%	-1.88%	-1.76%	2.23%	$1.19	1.63		
01/16/01	$55.19	1,849,600	2.79%	0.64%	1.73%	1.83%	0.97%	$0.52	0.70		
01/17/01	$56.31	2,841,600	2.04%	0.22%	-0.36%	-0.32%	2.36%	$1.30	1.72	+++	GOP Visa Card? Party Study Sees Profit in Affinity (WSJ)
											More Worries About California's Electric Utilities Prompt Investors to Seek Safety in Treasurys . (WSJ)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Household Intl 4Q Net $1.03/Diluted Shr Vs 92c (DJNS 7:50 AM)
											Calendar Of Corporate Conference Calls Set For Jan. 17 (DJNS 9:00 AM)
											News Highlights:Boeing 4Q Op Net $1.01/Shr;First Call 91c (DJNS 9:00 AM)
01/18/01	$54.88	2,365,600	-2.55%	1.40%	-1.20%	-1.46%	-1.09%	-$0.62	-0.81		New Securities Issues (WSJ)
											Treasury Bond Prices Jump as More Indicators Continue to Point to Slower Economic Growth . (WSJ)
01/19/01	$54.50	1,689,600	-0.68%	-0.40%	-0.49%	-0.33%	-0.35%	-$0.19	-0.26		
01/21/01											NYSE Short Interest: Fortune Brands - Kemet Corp (DJNS 11:33 PM)
01/22/01	$53.75	1,571,000	-1.38%	0.03%	1.04%	1.22%	-2.60%	-$1.41	-1.89	***	US High Court Won't Revive RICO Claims Vs Pipe Makers (DJNS 10:39 AM)
01/23/01	$55.50	1,590,900	3.26%	1.31%	1.67%	1.62%	1.63%	$0.88	1.19		
01/24/01	$56.63	1,646,100	2.03%	0.29%	0.82%	0.92%	1.10%	$0.61	0.80		FASB Names Union Carbide Fincl Chief Wulff To Bd (DJNS 11:51 AM)
01/25/01	$56.69	1,193,100	0.11%	-0.49%	0.15%	0.38%	-0.26%	-$0.15	-0.19		
01/26/01	$57.50	1,091,500	1.43%	-0.18%	0.42%	0.60%	0.84%	$0.47	0.61		
01/29/01	$59.10	2,254,000	2.78%	0.68%	0.42%	0.42%	2.36%	$1.36	1.72	+++	
01/30/01	$58.59	1,725,800	-0.86%	0.71%	0.64%	0.64%	-1.51%	-$0.89	-1.10		
01/31/01	$57.48	2,273,600	-1.89%	-0.56%	-1.20%	-1.05%	-0.84%	-$0.49	-0.61		New Securities Issues (WSJ)
02/01/01	$58.92	2,155,600	2.51%	0.55%	0.67%	0.71%	1.80%	$1.03	1.31		
02/02/01	$58.80	1,832,700	-0.20%	-1.74%	-0.33%	0.12%	-0.33%	-$0.19	-0.24		
02/05/01	$58.98	1,272,200	0.31%	0.36%	0.79%	0.88%	-0.57%	-$0.34	-0.42		Gridlock May Be Loosening On Chicago Airport Expansion (DJNS 2:11 PM)
02/06/01	$58.11	1,456,100	-1.48%	-0.15%	-1.92%	-1.91%	0.44%	$0.26	0.32		
02/07/01	$59.20	2,511,100	1.88%	-0.84%	-0.54%	-0.29%	2.17%	$1.26	1.57		
02/08/01	$58.78	2,161,200	-0.71%	-0.62%	-0.19%	0.04%	-0.75%	-$0.44	-0.54		
02/09/01	$59.20	1,103,300	0.71%	-1.33%	0.46%	0.88%	-0.17%	-$0.10	-0.12		
02/12/01	$60.33	1,764,400	1.91%	1.19%	1.71%	1.68%	0.22%	$0.13	0.16		
02/13/01	$60.25	1,538,900	-0.13%	-0.86%	-1.00%	-0.78%	0.64%	$0.39	0.47		Household Intl: 1315% EPS Growth Over Next 3 Years (DJNS 1:56 PM)
											News Highlights: BP Amoco Cuts Capital Expenditure Plan (DJNS 3:01 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											News Highlights: Gates: PC Growth Slowing, Not Shrinking (DJNS 4:03 PM)
											News Highlights: ConAgra Sees 4Q Net Of 39c-41c/Share (DJNS 5:00 PM)
02/14/01	$59.45	1,031,200	-1.33%	-0.21%	-1.11%	-1.03%	-0.29%	-$0.18	-0.21		Insider Trading Spotlight (WSJ)
02/15/01	$58.26	1,946,700	-2.00%	0.82%	-0.24%	-0.31%	-1.69%	-$1.00	-1.23		
02/16/01	$59.09	1,679,900	1.42%	-1.89%	0.37%	0.90%	0.52%	$0.30	0.39		
02/20/01	$57.53	2,121,400	-2.64%	-1.73%	-3.30%	-3.04%	0.40%	$0.24	0.30		
02/21/01	$55.65	1,945,700	-3.27%	-1.85%	-3.02%	-2.72%	-0.54%	-$0.31	-0.40		
02/22/01	$55.76	2,390,300	0.20%	-0.19%	0.41%	0.59%	-0.39%	-$0.22	-0.28		NYSE Short Interest: Fortune Brands - Kemet Corp (DJNS 11:03 PM)
02/23/01	$56.58	1,992,300	1.47%	-0.55%	-0.47%	-0.27%	1.74%	$0.97	1.27		Household Intl Unit Files $1B Debt Securities Shelf (DJNS 6:06 PM)
02/26/01	$58.00	2,266,700	2.51%	1.75%	2.09%	1.97%	0.54%	$0.31	0.39		
02/27/01	$59.11	1,751,700	1.91%	-0.76%	0.88%	1.21%	0.70%	$0.41	0.51		
02/28/01	$57.92	2,547,800	-2.01%	-1.43%	-1.99%	-1.72%	-0.30%	-$0.18	-0.22		
03/01/01	$58.40	2,098,100	0.83%	0.11%	-0.05%	0.03%	0.79%	$0.46	0.58		SMARTMONEY.COM: Gateway's Silver Lining (DJNS 8:38 PM)
03/02/01	$59.41	1,778,200	1.73%	-0.56%	0.04%	0.27%	1.46%	$0.85	1.06		
03/05/01	$59.08	1,422,400	-0.56%	0.59%	-0.12%	-0.14%	-0.41%	-$0.24	-0.30		
03/06/01	$59.87	1,690,000	1.34%	1.00%	0.25%	0.17%	1.17%	$0.69	0.85		
03/07/01	$61.50	2,507,500	2.72%	0.65%	2.18%	2.31%	0.42%	$0.25	0.30		
03/08/01	$61.11	1,963,300	-0.63%	0.23%	0.24%	0.32%	-0.96%	-$0.59	-0.69		
03/09/01	$60.27	1,296,200	-1.37%	-2.47%	-2.45%	-1.98%	0.61%	$0.37	0.44		
03/12/01	$58.43	1,977,700	-3.05%	-4.31%	-4.82%	-4.13%	1.07%	$0.65	0.80		
03/13/01	$60.45	2,284,100	3.46%	1.49%	2.56%	2.54%	0.92%	$0.54	0.67		
03/14/01	$59.69	2,576,400	-1.26%	-2.58%	-4.52%	-4.17%	2.92%	$1.76	2.16	+++	Dividends Reported March 14 (DJNS 4:50 PM)
03/15/01	$60.36	2,093,200	1.12%	0.59%	2.84%	3.02%	-1.90%	-$1.13	-1.40		Bally Total Sells 8% Of Membership Receivables Portfolio (DJNS 10:25 AM)
											Nasdaq, Small-Cap Stocks Fall After Early Gains Fade (DJNS 4:29 PM)
03/16/01	$60.01	3,219,400	-0.58%	-1.96%	-1.40%	-0.98%	0.40%	$0.24	0.29		Small-Stock Focus: Mind CTI and Avistar Plummet, As Nasdaq, Small-Caps Slip Again . (WSJ)
03/19/01	$59.90	2,525,200	-0.18%	1.77%	1.18%	1.00%	-1.19%	-$0.71	-0.87		
03/20/01	$57.88	1,739,000	-3.37%	-2.40%	-2.66%	-2.23%	-1.15%	-$0.69	-0.84		
03/21/01	$55.85	3,069,400	-3.51%	-1.79%	-2.96%	-2.67%	-0.84%	-$0.49	-0.61		Household Finance Launches $1B InterNotes Offer (DJNS 8:45 AM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											NYSE Short Interest: Fortune Brands - Kemet Corp (DJNS 11:03 PM)
03/22/01	$54.72	3,557,800	-2.02%	-0.40%	-2.28%	-2.24%	0.22%	$0.12	0.16		
03/23/01	$58.12	2,998,300	6.21%	2.00%	3.85%	3.80%	2.41%	$1.32	1.78	+++	
03/26/01	$57.94	2,356,500	-0.31%	1.13%	1.59%	1.58%	-1.89%	-$1.10	-1.37		New Securities Issues (WSJ)
											Options Report: Stks Still Up But Traders Stay Cautious (DJNS 3:30 PM)
											Stocks Ex-Dividend March 28 (DJNS 5:08 PM)
											Stocks Ex-Dividend March 28 -2- (DJNS 5:11 PM)
03/27/01	$59.85	2,437,800	3.30%	2.56%	3.22%	3.01%	0.29%	$0.17	0.21		Some Buy Bullish Calls to Ride Stock Rally, As Others Warn of Higher Volatility Ahead . (WSJ)
											Household Intl Chmn's '00 Pay, Less Options, Was $13.4M (DJNS 11:57 AM)
											Stocks Ex-Dividend March 28 (WSJ)
03/28/01	$59.35	2,074,100	-0.52%	-2.44%	-0.87%	-0.30%	-0.21%	-$0.13	-0.16		Household CEO Saw Bonus Increase by 33% On Strong 2000 Results (WSJ)
											Insider Trading Spotlight (WSJ)
03/29/01	$58.15	1,889,500	-2.02%	-0.46%	-0.58%	-0.41%	-1.61%	-$0.96	-1.17		
03/30/01	$59.24	2,423,400	1.87%	1.08%	2.24%	2.28%	-0.40%	-$0.24	-0.30		
04/02/01	$59.50	2,097,600	0.44%	-1.24%	0.32%	0.71%	-0.27%	-$0.16	-0.20		
04/03/01	$58.92	2,723,200	-0.97%	-3.43%	-3.09%	-2.47%	1.49%	$0.89	1.10		
04/04/01	$58.45	2,536,300	-0.80%	-0.28%	-2.70%	-2.71%	1.91%	$1.13	1.41		
04/05/01	$59.73	3,224,500	2.19%	4.37%	3.72%	3.17%	-0.98%	-$0.57	-0.73		
04/06/01	$58.54	2,585,800	-1.99%	-1.99%	-2.56%	-2.20%	0.21%	$0.13	0.16		Credit Card Cos Enjoy Strong 1Q, But Credit Losses Rise (DJNS 7:09 PM)
04/09/01	$59.45	1,365,200	1.55%	0.82%	0.51%	0.48%	1.07%	$0.63	0.78		
04/10/01	$61.12	2,900,800	2.81%	2.71%	2.58%	2.30%	0.51%	$0.30	0.37		
04/11/01	$60.54	1,785,000	-0.95%	-0.21%	0.66%	0.86%	-1.81%	-$1.10	-1.32		
04/12/01	$61.40	1,644,300	1.42%	1.52%	0.95%	0.81%	0.61%	$0.37	0.45		New Securities Issues (WSJ)
04/16/01	$60.33	1,647,200	-1.74%	-0.32%	-0.54%	-0.40%	-1.34%	-$0.82	-0.97		Household Intl Names Gibson Oper Chief Of Mtge Svcs Unit (DJNS 12:38 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
04/17/01	$60.91	1,468,400	0.96%	1.03%	0.54%	0.47%	0.49%	$0.29	0.35		TALES OF THE TAPE: Household Intl Sees Steady Growth (DJNS 2:00 PM)
											News Highlights: Hughes Electronics Sees $2B In '01 Rev (DJNS 3:00 PM)
											News Highlights: NY Times Boosts Qtr Div 8.7%, To 12.5c (DJNS 4:01 PM)
											News Highlights: Intel 1Q Net Before Items 16c/Share (DJNS 5:01 PM)
											Recap of Dow Jones Special Reports For Tuesday, April 17 (DJNS 5:18 PM)
04/18/01	$63.38	3,347,000	4.06%	3.89%	4.37%	3.96%	0.10%	$0.06	0.07		Household Intl 1Q Net 91c/Diluted Shr Vs 78c (DJNS 7:59 AM)
											Calendar Of Earnings Conference Calls Set For April 18 (DJNS 9:00 AM)
											News Highlights:General Motors 1Q Oper Net 50c/Dil Shr (DJNS 9:00 AM)
04/19/01	$63.05	1,583,200	-0.52%	1.26%	0.46%	0.34%	-0.86%	-$0.54	-0.63		NYSE Short Interest: Fortune Brands - Kemet Corp (DJNS 11:03 PM)
04/20/01	$62.45	1,893,200	-0.95%	-0.85%	-1.75%	-1.58%	0.63%	$0.40	0.46		
04/23/01	$62.23	814,600	-0.35%	-1.49%	-1.28%	-0.94%	0.59%	$0.37	0.43		
04/24/01	$63.10	1,858,900	1.40%	-1.21%	-0.49%	-0.16%	1.56%	$0.97	1.13		
04/25/01	$64.75	1,938,900	2.61%	1.60%	1.01%	0.85%	1.76%	$1.11	1.29		
04/26/01	$63.40	2,580,100	-2.08%	0.47%	0.49%	0.54%	-2.63%	-$1.70	-1.91	***	
04/27/01	$64.38	1,421,800	1.55%	1.51%	2.16%	2.10%	-0.56%	-$0.35	-0.41		
04/30/01	$64.02	1,777,300	-0.56%	-0.28%	-1.45%	-1.38%	0.82%	$0.53	0.60		
05/01/01	$64.46	1,777,400	0.69%	1.36%	0.99%	0.88%	-0.19%	-$0.12	-0.14		
05/02/01	$65.46	2,484,800	1.55%	0.08%	0.55%	0.68%	0.87%	$0.56	0.64		WorldCom Inc. Plans Large Global-Bond Offering; Treasurys Rise on Signs Economy Remains Weak . (WSJ)
05/03/01	$65.29	2,009,200	-0.26%	-1.48%	-0.17%	0.25%	-0.51%	-$0.33	-0.37		New Securities Issues (WSJ)
											Treasury Plans Weekly Auction of 28-Day Bills; Fate of Inflation-Indexed Bonds Remains Unclear . (WSJ)
05/04/01	$65.70	1,538,300	0.63%	1.45%	1.26%	1.15%	-0.53%	-$0.34	-0.38		Stockholder Meetings For Week Of May 7 (DJNS 6:15 PM)
05/07/01	$65.50	1,200,300	-0.30%	-0.24%	-0.72%	-0.60%	0.30%	$0.20	0.22		

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
05/08/01	$65.42	2,008,100	-0.12%	-0.18%	-0.83%	-0.74%	0.62%	$0.40	0.45		Today's Calendar - Tuesday, May 8 (DJNS 7:00 AM)
05/09/01	$66.05	2,836,700	0.96%	-0.44%	-0.35%	-0.17%	1.13%	$0.74	0.82		Household Intl To Buy Back Up To $2B In Stk (DJNS 2:03 PM)
											Household Intl Boosts Qtrly Div To 22c From 19c (DJNS 2:05 PM)
											Household Intl Files $495.5M Mixed Securities Shelf (DJNS 7:42 PM)
05/10/01	$65.08	1,573,700	-1.47%	-0.02%	0.25%	0.39%	-1.85%	-$1.22	-1.35		Household to Buy More Stock (WSJ)
											Dividends Reported May 10 (DJNS 5:30 PM)
05/11/01	$64.91	1,389,200	-0.26%	-0.75%	-1.18%	-0.99%	0.73%	$0.47	0.53		Table Of Recent Stock Buyback Announcements (DJNS 10:00 AM)
05/14/01	$65.22	1,527,100	0.48%	0.27%	1.03%	1.15%	-0.68%	-$0.44	-0.49		Table Of Recent Stock Buyback Announcements (DJNS 10:00 AM)
05/15/01	$66.94	2,414,400	2.64%	0.05%	0.69%	0.84%	1.80%	$1.17	1.31		Table Of Recent Stock Buyback Announcements (DJNS 10:00 AM)
05/16/01	$68.64	2,652,500	2.54%	2.85%	2.59%	2.28%	0.26%	$0.18	0.19		Table Of Recent Stock Buyback Announcements (DJNS 10:00 AM)
05/17/01	$68.20	3,114,400	-0.64%	0.28%	-0.62%	-0.61%	-0.03%	-$0.02	-0.02		Table Of Recent Stock Buyback Announcements (DJNS 10:00 AM)
05/18/01	$67.57	1,985,800	-0.92%	0.27%	-0.31%	-0.27%	-0.65%	-$0.44	-0.47		Table Of Recent Stock Buyback Announcements (DJNS 10:00 AM)
05/21/01	$67.67	1,341,600	0.15%	1.62%	1.20%	1.06%	-0.91%	-$0.62	-0.66		Table Of Recent Stock Buyback Announcements -2- (DJNS 10:00 AM)
											NYSE Short Interest: Fortune Brands - Kemet Corp (DJNS 11:03 PM)
05/22/01	$67.71	2,010,000	0.06%	-0.26%	1.27%	1.52%	-1.46%	-$0.99	-1.07		Table Of Recent Stock Buyback Announcements (DJNS 10:00 AM)
05/23/01	$66.48	2,157,100	-1.82%	-1.55%	-0.74%	-0.36%	-1.46%	-$0.99	-1.07		New Securities Issues (WSJ)
											Treasury Official's Meetings With Firms Underscore a Gray Area in Ethics Rules . (WSJ)
											Table Of Recent Stock Buyback Announcements (DJNS 10:00 AM)
05/24/01	$66.44	1,525,300	-0.06%	0.32%	0.41%	0.48%	-0.54%	-$0.36	-0.39		Table Of Recent Stock Buyback Announcements (DJNS 10:00 AM)
05/25/01	$66.27	856,500	-0.26%	-1.18%	-1.10%	-0.81%	0.56%	$0.37	0.41		Table Of Recent Stock Buyback Announcements -2- (DJNS 10:00 AM)
05/29/01	$66.00	1,079,100	-0.41%	-0.77%	-0.04%	0.23%	-0.63%	-$0.42	-0.46		Table Of Recent Stock Buyback Announcements -2- (DJNS 10:00 AM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Prudential Securities Adopts New Stock Rating System (DJNS 2:00 PM)
05/30/01	$65.80	1,165,100	-0.30%	-1.56%	-0.85%	-0.47%	0.16%	$0.11	0.12		
05/31/01	$65.66	2,025,600	-0.21%	0.63%	0.52%	0.54%	-0.75%	-$0.49	-0.55		Household Finance Corp Files $15B Debt Securities Shelf (DJNS 3:36 PM)
06/01/01	$65.74	1,036,400	0.12%	0.39%	-0.23%	-0.22%	0.34%	$0.22	0.25		
06/04/01	$66.43	809,500	1.05%	0.52%	0.91%	0.98%	0.07%	$0.05	0.05		
06/05/01	$66.98	1,013,400	0.83%	1.30%	0.74%	0.63%	0.20%	$0.13	0.14		
06/06/01	$65.96	1,415,100	-1.52%	-1.05%	-1.06%	-0.80%	-0.72%	-$0.48	-0.52		
06/07/01	$65.82	1,536,900	-0.21%	0.55%	-0.36%	-0.39%	0.18%	$0.12	0.13		
06/08/01	$65.80	1,101,900	-0.03%	-0.94%	-0.85%	-0.60%	0.57%	$0.37	0.41		Household Intl Files $2.5B Mixed Securities Shelf (DJNS 8:32 PM)
06/11/01	$65.78	979,700	-0.03%	-0.83%	-0.52%	-0.27%	0.24%	$0.16	0.18		
06/12/01	$65.30	1,479,400	-0.73%	0.12%	-0.29%	-0.22%	-0.51%	-$0.33	-0.37		
06/13/01	$65.25	1,483,900	-0.08%	-1.13%	-0.62%	-0.31%	0.24%	$0.15	0.17		
06/14/01	$64.71	1,473,700	-0.83%	-1.75%	-1.63%	-1.27%	0.44%	$0.29	0.32		
06/15/01	$63.80	2,351,600	-1.41%	-0.45%	0.25%	0.47%	-1.88%	-$1.22	-1.37		
06/18/01	$63.65	1,864,100	-0.24%	-0.48%	0.34%	0.57%	-0.81%	-$0.52	-0.59		New Stock Listings (WSJ)
											AT&T, Vertical Networks Get Household Intl Pact >T HI (DJNS 8:11 AM)
06/19/01	$63.82	1,378,000	0.27%	0.35%	1.11%	1.23%	-0.96%	-$0.61	-0.70		
06/20/01	$64.61	2,074,600	1.24%	0.88%	0.90%	0.89%	0.34%	$0.22	0.25		
06/21/01	$66.71	2,378,800	3.25%	1.14%	3.28%	3.38%	-0.12%	-$0.08	-0.09		NYSE Short Interest: Fortune Brands - Kemet Corp (DJNS 11:03 PM)
06/22/01	$67.01	2,077,000	0.45%	-0.94%	-0.70%	-0.44%	0.89%	$0.60	0.65		
06/25/01	$65.95	1,281,000	-1.58%	-0.55%	-1.20%	-1.06%	-0.53%	-$0.35	-0.38		Consumer-Privacy Issue Turns a Retired Professor Into a Hot Item (WSJ)
											New Stock Listings (WSJ)
											Stocks Ex-Dividend June 27 -2- (DJNS 5:41 PM)
06/26/01	$65.14	1,514,800	-1.23%	-0.15%	-0.91%	-0.83%	-0.40%	-$0.26	-0.29		Stocks Ex-Dividend June 27 (WSJ)
06/27/01	$65.70	2,449,300	1.20%	-0.46%	-0.27%	-0.07%	1.27%	$0.83	0.92		
06/28/01	$65.98	2,098,200	0.43%	1.25%	1.29%	1.23%	-0.80%	-$0.53	-0.58		CitiFincl Stops Selling Single Prem Cdt Insur On MtgLoans (DJNS 12:28 PM)
06/29/01	$66.70	2,470,500	1.09%	-0.14%	-0.18%	-0.05%	1.14%	$0.75	0.83		Citigroup Will Halt Home-Loan Product Criticized by Some as Predatory Lending . (WSJ)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
07/02/01	$66.60	1,351,300	-0.15%	1.01%	0.88%	0.84%	-0.99%	-$0.66	-0.72		SMARTMONEY.COM: What Will the Second Half Bring? (DJNS 7:30 PM)
07/03/01	$66.23	556,100	-0.56%	-0.18%	-0.19%	-0.06%	-0.50%	-$0.33	-0.36		
07/05/01	$66.95	1,752,500	1.09%	-1.23%	-0.71%	-0.39%	1.48%	$0.98	1.08		
07/06/01	$66.54	1,196,500	-0.61%	-2.34%	-2.04%	-1.58%	0.97%	$0.65	0.71		Healthy 2Q Seen At Credit-Card Cos. Even As Losses Rise (DJNS 6:30 PM)
07/09/01	$66.48	1,078,300	-0.09%	0.69%	0.28%	0.27%	-0.36%	-$0.24	-0.26		
07/10/01	$65.55	883,700	-1.40%	-1.43%	-2.18%	-1.91%	0.51%	$0.34	0.37		
07/11/01	$65.24	1,493,800	-0.47%	-0.11%	-0.56%	-0.47%	-0.01%	$0.00	0.00		Household Intl To Stop Insur Sales On R.E. Secured Loans (DJNS 2:14 PM)
											Household Intl To Stop Single Premium Credit Insur Sales (DJNS 2:14 PM)
											Household Intl/Pdt Offering -2: To Roll Out New Pdt By 1Q (DJNS 3:09 PM)
07/12/01	$66.40	2,040,500	1.78%	2.37%	2.15%	1.91%	-0.13%	-$0.09	-0.10		
07/13/01	$67.16	2,398,700	1.14%	0.63%	0.82%	0.86%	0.28%	$0.19	0.21		
07/16/01	$68.11	1,904,100	1.41%	-1.08%	-0.94%	-0.67%	2.08%	$1.40	1.51		
07/17/01	$68.95	1,388,700	1.23%	1.00%	1.38%	1.38%	-0.15%	-$0.10	-0.11		
07/18/01	$69.48	1,979,500	0.77%	-0.55%	0.22%	0.46%	0.31%	$0.21	0.22		In Light Trading, Treasurys Slip on Stock Rally; Investors Await Inflation Report, News From Fed . (WSJ)
											Household Intl 2Q Net 93c A Share (DJNS 8:15 AM)
											Calendar Of Corporate Earnings Conference Calls For July 18 (DJNS 9:00 AM)
											Excerpts From Household Intl's 2Q Conference Call (DJNS 12:11 PM)
07/19/01	$66.50	2,920,000	-4.29%	0.61%	-1.00%	-1.09%	-3.20%	-$2.23	-2.35	***	NYSE Short Interest: Fortune Brands - Kemet Corp (DJNS 11:03 PM)
07/20/01	$67.28	2,142,400	1.17%	-0.34%	-0.65%	-0.52%	1.69%	$1.12	1.23		
07/23/01	$67.50	1,585,100	0.33%	-1.63%	-0.64%	-0.23%	0.56%	$0.37	0.41		Household Intl Adopts Responsible Lending Intiatives (DJNS 10:37 AM)
07/24/01	$67.01	2,225,600	-0.73%	-1.62%	-0.97%	-0.59%	-0.14%	-$0.09	-0.10		Subprime Lender Household Unveils Plan to Trim Fees (WSJ)
07/25/01	$66.76	1,415,300	-0.37%	1.61%	0.51%	0.32%	-0.69%	-$0.46	-0.50		Household Intl Begins Zero-Coupon Conv Debt Offering (DJNS 6:45 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
07/26/01	$65.38	3,839,900	-2.07%	1.05%	0.76%	0.70%	-2.77%	-$1.85	-2.02	***	
07/27/01	$66.18	2,520,500	1.22%	0.25%	0.57%	0.67%	0.55%	$0.36	0.40		New Securities Issues (WSJ)
											Senate Panel Seeks Methods to Reduce Predatory Lending (WSJ)
07/30/01	$66.09	1,664,100	-0.14%	-0.10%	-0.10%	0.03%	-0.16%	-$0.11	-0.12		
07/31/01	$66.29	1,667,400	0.30%	0.56%	0.76%	0.80%	-0.50%	-$0.33	-0.36		Subprime Players Not Likely To Go Way Of Superior >C FTU (DJNS 4:44 PM)
08/01/01	$65.75	1,603,300	-0.81%	0.39%	0.59%	0.66%	-1.48%	-$0.98	-1.07		Home Bound: Nasty Surprise Haunts Some Folks' Mortgage: A Prepayment Penalty --- It Stalls Refinancings, Sales For Subprime Borrowers, And . (WSJ)
08/02/01	$66.00	1,173,900	0.38%	0.40%	0.18%	0.22%	0.16%	$0.11	0.12		
08/03/01	$65.99	728,400	-0.02%	-0.52%	-0.21%	-0.01%	-0.01%	-$0.01	-0.01		
08/06/01	$65.71	1,312,100	-0.42%	-1.14%	-0.92%	-0.63%	0.21%	$0.14	0.15		Household Intl, Centrica Agree To Settlement Terms (DJNS 8:22 AM)
											News Highlights: Armstrong 2Q Net Cont Ops 81c/Diluted (DJNS 9:00 AM)
08/07/01	$66.44	1,431,500	1.11%	0.33%	0.46%	0.53%	0.58%	$0.38	0.42		SMARTMONEY.COM: Prime Time For Subprime (DJNS 7:04 PM)
08/08/01	$65.86	1,918,500	-0.87%	-1.73%	-1.10%	-0.70%	-0.17%	-$0.11	-0.13		
08/09/01	$66.24	2,246,600	0.58%	0.00%	-0.24%	-0.14%	0.72%	$0.47	0.52		
08/10/01	$67.13	1,340,900	1.34%	0.57%	0.28%	0.29%	1.05%	$0.70	0.76		
08/13/01	$68.01	1,841,000	1.31%	0.10%	-0.05%	0.04%	1.27%	$0.85	0.92		
08/14/01	$68.00	1,157,600	-0.01%	-0.38%	-0.16%	0.02%	-0.03%	-$0.02	-0.02		
08/15/01	$67.95	2,018,100	-0.07%	-0.73%	-0.16%	0.10%	-0.17%	-$0.11	-0.12		
08/16/01	$66.87	2,221,800	-1.59%	0.31%	-0.36%	-0.34%	-1.25%	-$0.85	-0.91		Banker Beware: As Economy Slows, `Subprime' Lending Looks Even Riskier --- Bank of America Bails Out, Citing Rising Uncertainty And Worries Over . (WSJ)
08/17/01	$65.99	1,508,000	-1.32%	-1.66%	-1.46%	-1.10%	-0.22%	-$0.15	-0.16		Deals & Deal Makers: A Frenzy of Big Deals; a String of Losses --- No, It's Not the IPO Market of 1999-2000 -- It's Convertibles . (WSJ)
08/20/01	$65.50	1,548,900	-0.74%	0.82%	0.78%	0.77%	-1.52%	-$1.00	-1.10		Household Intl To Manage Microsoft Credit Card Pgm (DJNS 9:01 AM)
08/21/01	$64.86	3,224,500	-0.98%	-1.20%	-0.81%	-0.50%	-0.48%	-$0.31	-0.35		NYSE Short Interest: Fortune Brands - Kemet Corp (DJNS 11:03 PM)
08/22/01	$65.48	3,034,700	0.96%	0.70%	0.42%	0.41%	0.54%	$0.35	0.40		

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
08/23/01	$64.72	1,853,200	-1.16%	-0.27%	-0.41%	-0.27%	-0.89%	-$0.58	-0.65		
08/24/01	$62.35	3,755,800	-3.66%	1.97%	0.22%	-0.07%	-3.60%	-$2.33	-2.64	***	
08/27/01	$61.96	2,308,700	-0.63%	-0.48%	-0.98%	-0.83%	0.21%	$0.13	0.15		
08/28/01	$61.34	3,497,100	-1.00%	-1.50%	-1.32%	-0.99%	-0.01%	-$0.01	-0.01		TALES OF THE TAPE: Bally Total Fitness Improves Physique (DJNS 2:00 PM)
08/29/01	$60.70	2,675,000	-1.04%	-1.11%	-0.95%	-0.67%	-0.38%	-$0.23	-0.27		
08/30/01	$59.31	3,971,600	-2.29%	-1.70%	-0.62%	-0.20%	-2.09%	-$1.27	-1.53		
08/31/01	$59.10	2,954,900	-0.35%	0.41%	0.43%	0.49%	-0.84%	-$0.50	-0.61		
09/04/01	$57.06	5,409,800	-3.45%	-0.05%	-0.50%	-0.41%	-3.04%	-$1.80	-2.21	***	
09/05/01	$57.22	5,015,500	0.28%	-0.10%	-1.17%	-1.12%	1.40%	$0.80	1.02		Treasury Prices Tumble on Manufacturing Data That Seem to Lower Chances of More Rate Cuts . (WSJ)
09/06/01	$57.00	3,268,100	-0.38%	-2.23%	-1.89%	-1.43%	1.05%	$0.60	0.77		Welcome Mat Is Rolled Out for Corporate Issues On Scent of Economy That May Have Bottomed . (WSJ)
09/07/01	$55.04	3,293,100	-3.44%	-1.86%	-2.19%	-1.83%	-1.61%	-$0.91	-1.17		
09/10/01	$56.31	2,792,000	2.31%	0.63%	0.38%	0.38%	1.92%	$1.06	1.40		
09/11/01											J.P. Morgan May Shop in the Retail Sector (WSJ)
											Hot Stocks To Watch: PRCS JPM HI EK PG SUNW RMBS (DJNS 9:35 AM)
09/17/01	$52.83	3,595,200	-6.18%	-4.92%	-5.10%	-4.30%	-1.88%	-$1.06	-1.40		
09/18/01	$52.64	3,410,100	-0.36%	-0.57%	-0.34%	-0.13%	-0.23%	-$0.12	-0.17		Dividends Reported September 18 (DJNS 5:05 PM)
09/19/01	$52.30	3,893,200	-0.65%	-1.61%	-1.63%	-1.29%	0.65%	$0.34	0.47		
09/20/01	$51.46	4,531,600	-1.61%	-3.10%	-3.72%	-3.21%	1.60%	$0.84	1.18		
09/21/01	$50.34	3,363,800	-2.18%	-1.90%	-1.48%	-1.07%	-1.10%	-$0.57	-0.80		
09/23/01											NYSE Short Interest: Foster Wheeler - Kemet Corp (DJNS 11:03 PM)
09/24/01	$52.85	2,982,400	4.99%	3.91%	5.21%	4.85%	0.13%	$0.07	0.10		Stocks Ex-Dividend September 26 (DJNS 4:57 PM)
											Stocks Ex-Dividend September 26 -2- (DJNS 4:57 PM)
09/25/01	$52.08	3,548,500	-1.46%	0.89%	1.55%	1.58%	-3.04%	-$1.61	-2.21	***	Household International Inc. (WSJ)
											Stocks Ex-Dividend Sept. 26 (WSJ)
											Household Intl Announces $1M Contribution to Relief Funds (DJNS 5:29 PM)
09/26/01	$53.60	2,656,000	3.34%	-0.51%	0.77%	1.04%	2.30%	$1.20	1.68	+++	
09/27/01	$54.49	2,543,700	1.66%	1.16%	1.67%	1.65%	0.01%	$0.00	0.00		
09/28/01	$56.38	2,277,400	3.47%	2.20%	2.69%	2.52%	0.95%	$0.52	0.69		

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
10/01/01	$57.50	2,414,700	1.99%	-0.22%	-0.14%	0.01%	1.98%	$1.11	1.44		
10/02/01	$57.83	1,992,200	0.57%	1.24%	1.48%	1.44%	-0.86%	-$0.50	-0.63		TIP SHEET: Stein Roe's Brady Casts For Consumer Havens (DJNS 3:00 PM)
10/03/01	$58.20	2,380,300	0.64%	2.00%	1.70%	1.51%	-0.87%	-$0.50	-0.63		
10/04/01	$59.63	3,909,000	2.46%	-0.24%	-1.13%	-1.05%	3.50%	$2.04	2.55	+++	
10/05/01	$58.35	3,339,000	-2.15%	0.17%	-2.55%	-2.64%	0.49%	$0.30	0.37		Card Cos.' 3Q Seen Solid, But '02 Views Matters Most (DJNS 1:44 PM)
10/08/01	$56.50	2,131,300	-3.17%	-0.83%	-2.48%	-2.36%	-0.81%	-$0.47	-0.60		Ad Notes.... (WSJ)
											Nestle Move on Fees Will Rattle Agencies (WSJ)
10/09/01	$56.59	1,839,900	0.16%	-0.53%	0.62%	0.88%	-0.72%	-$0.41	-0.53		
10/10/01	$58.22	2,188,200	2.88%	2.30%	1.72%	1.46%	1.42%	$0.80	1.04		
10/11/01	$56.95	3,633,900	-2.18%	1.53%	1.28%	1.15%	-3.34%	-$1.94	-2.43	***	Insurers Build Momentum For Federal Terrorism Insurance (DJNS 4:56 PM)
10/12/01	$54.89	6,686,900	-3.62%	-0.52%	-1.45%	-1.32%	-2.29%	-$1.31	-1.67	***	US Stocks Finish Mostly Lower, But Above Intraday Lows (DJNS 4:31 PM)
10/15/01	$55.91	1,287,700	1.86%	-0.15%	0.86%	1.06%	0.80%	$0.44	0.58		Rebound in Tech Stocks Prompts Skepticism on Rally's Durability (WSJ)
10/16/01	$56.00	2,610,300	0.16%	0.70%	1.52%	1.59%	-1.43%	-$0.80	-1.04		
10/17/01	$57.16	2,761,400	2.07%	-1.86%	-0.81%	-0.36%	2.43%	$1.36	1.78	+++	Insider Trading Spotlight (WSJ)
											Household Intl 3Q Net $1.07 A Shr (DJNS 8:06 AM)
											Calendar Of Earnings Conference Calls Set For October 17 (DJNS 9:30 AM)
											WRAP: Loan Growth Helps Household Intl 3Q Net Up 12% (DJNS 1:43 PM)
											News Highlights: McDonald's USA Unit To Streamline Ops (DJNS 2:00 PM)
											Summary Of Corporate Outlooks Wednesday (DJNS 2:39 PM)
											News Highlights: Teppco Partners 3Q Net 35c/Unit Vs 41c (DJNS 3:01 PM)
											3Q Shows Household International Poised For Downturn (DJNS 3:53

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											PM)
											News Highlights: Siebel Sys 3Q Net 7c/Shr Vs 13c (DJNS 4:00 PM)
											News Highlights: Sprint To Cut 6,000 Jobs (DJNS 5:22 PM)
10/18/01	$57.53	2,340,400	0.65%	-0.78%	-0.98%	-0.77%	1.42%	$0.81	1.03		
10/19/01	$56.91	4,248,100	-1.08%	0.46%	-1.16%	-1.22%	0.15%	$0.08	0.11		New Securities Issues (WSJ)
10/21/01											NYSE Short Interest: Foster Wheeler - Kemet Corp (DJNS 11:03 PM)
10/22/01	$56.92	2,714,700	0.02%	1.54%	2.63%	2.59%	-2.58%	-$1.47	-1.88	***	
10/23/01	$57.25	1,807,700	0.58%	-0.46%	0.00%	0.21%	0.37%	$0.21	0.27		
10/24/01	$55.44	3,208,200	-3.16%	0.04%	-0.08%	0.02%	-3.18%	-$1.82	-2.31	***	
10/25/01	$57.19	4,157,200	3.16%	1.38%	1.49%	1.42%	1.74%	$0.96	1.27		
10/26/01	$57.48	2,311,600	0.51%	0.42%	0.49%	0.55%	-0.04%	-$0.02	-0.03		
10/29/01	$54.49	3,249,000	-5.20%	-2.38%	-2.80%	-2.38%	-2.82%	-$1.62	-2.07	***	
10/30/01	$53.52	3,478,100	-1.78%	-1.71%	-0.90%	-0.49%	-1.29%	-$0.70	-0.94		
10/31/01	$52.30	3,863,200	-2.28%	0.01%	-1.08%	-1.04%	-1.24%	-$0.66	-0.90		
11/01/01	$52.90	3,557,800	1.15%	2.30%	1.91%	1.67%	-0.53%	-$0.28	-0.38		There's A New Game Book For Card Issuers, Analyst Says (DJNS 1:47 PM)
11/02/01	$52.76	3,257,100	-0.26%	0.29%	0.79%	0.89%	-1.16%	-$0.61	-0.84		Hot Stocks To Watch: HI ACDO (DJNS 8:53 AM)
											HOT STOCKS TO WATCH -2 (DJNS 9:17 AM)
11/05/01	$53.75	1,998,200	1.88%	1.44%	1.73%	1.65%	0.23%	$0.12	0.16		New Securities Issues (WSJ)
11/06/01	$56.53	3,630,600	5.17%	1.46%	1.51%	1.42%	3.75%	$2.02	2.73	+++	US Stocks Climb Wall Of Worry Again; DJIA Ahead 1.6% (DJNS 4:36 PM)
11/07/01	$58.72	3,703,600	3.87%	-0.27%	0.49%	0.69%	3.18%	$1.80	2.31	+++	Caterpillar, GE, DuPont Advance, As Markets Climb `Wall of Worry' (WSJ)
11/08/01	$57.79	2,978,100	-1.58%	0.25%	-0.01%	0.05%	-1.63%	-$0.96	-1.19		
11/09/01	$57.98	1,837,500	0.33%	0.16%	-0.52%	-0.48%	0.80%	$0.47	0.59		
11/12/01	$58.21	1,692,800	0.40%	-0.17%	-0.15%	-0.02%	0.41%	$0.24	0.30		
11/13/01	$60.00	1,970,300	3.08%	1.86%	2.01%	1.87%	1.21%	$0.70	0.88		Household, Bally Total Fitness Extend Credit Card Pact (DJNS 8:06 AM)
											Dividends Reported November 13 (DJNS 5:02 PM)
11/14/01	$60.90	3,280,600	1.50%	0.19%	0.50%	0.61%	0.89%	$0.53	0.65		Insider Trading Spotlight (WSJ)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
11/15/01	$58.90	3,700,100	-3.28%	0.10%	-0.30%	-0.23%	-3.06%	-$1.86	-2.21	***	Household Responds to Calif.Department Lawsuit (DJNS 1:40 PM)
											News Highlights: Alcoa Names Ricardo Belda Exec VP (DJNS 2:00 PM)
											Dividends Reported November 15 (DJNS 4:58 PM)
11/16/01	$57.80	2,102,800	-1.87%	-0.31%	-1.16%	-1.06%	-0.80%	-$0.47	-0.58		Stock Rating Reiterations: DELL MRX APHT WFHC (DJNS 10:38 AM)
11/19/01	$58.75	1,501,500	1.64%	1.10%	1.48%	1.46%	0.18%	$0.11	0.13		Best Buy, Household Intl Sign Credit Card Alliance (DJNS 9:00 AM)
11/20/01	$58.37	1,512,300	-0.65%	-0.72%	-0.55%	-0.32%	-0.32%	-$0.19	-0.23		
11/21/01	$58.56	2,161,100	0.33%	-0.49%	-0.67%	-0.51%	0.83%	$0.49	0.60		Insider Selling Remained Mild Last Month (WSJ)
											Companies In Dow Jones Industry Group Indexes -3- (DJNS 5:02 AM)
11/22/01											NYSE Short Interest: Foster Wheeler - Kemet Corp (DJNS 11:03 PM)
11/23/01	$59.62	355,600	1.81%	1.18%	1.63%	1.61%	0.20%	$0.12	0.15		
11/26/01	$60.18	1,561,700	0.94%	0.62%	0.89%	0.93%	0.01%	$0.01	0.01		WRAP: Providian Names Fleet's Saunders As CEO, President (DJNS 11:48 AM)
11/27/01	$60.76	1,881,200	0.96%	-0.68%	-0.36%	-0.13%	1.10%	$0.66	0.79		Providian Taps Fleet's Saunders As New CEO (WSJ)
11/28/01	$60.34	2,454,600	-0.69%	-1.82%	-2.48%	-2.16%	1.47%	$0.89	1.06		
11/29/01	$59.80	1,930,400	-0.89%	1.04%	0.98%	0.94%	-1.83%	-$1.11	-1.32		
11/30/01	$58.99	1,706,300	-1.35%	-0.06%	-0.82%	-0.75%	-0.60%	-$0.36	-0.43		
12/03/01	$56.29	7,643,800	-4.58%	-0.83%	-1.54%	-1.35%	-3.22%	-$1.90	-2.33	***	Hot Stocks To Watch In Barron's: AOL CVC HI MKSI LRCX (DJNS 8:55 AM)
											Stock Rating Reiterations: LBRT INTC MU PLCM SCOR HI AXL (DJNS 10:35 AM)
12/04/01	$58.23	3,903,900	3.45%	1.32%	1.25%	1.17%	2.27%	$1.28	1.64		Stock Rating Reiterations: SNPS RFMD AHMH GMH (DJNS 10:36 AM)
12/05/01	$61.00	4,219,000	4.76%	2.24%	1.81%	1.58%	3.18%	$1.85	2.29	+++	Home Depot and Caterpillar Rise, As Bellwether Sectors Show Gains (WSJ)
12/06/01	$60.66	3,458,400	-0.56%	-0.27%	0.58%	0.79%	-1.35%	-$0.82	-0.97		
12/07/01	$59.66	2,744,000	-1.65%	-0.75%	-0.20%	0.06%	-1.71%	-$1.04	-1.23		Best Interests: How Big Lenders Sell A Pricier Refinancing To Poor Homeowners --- People Give Up Low Rates To Pay Off Other Debts, Putting . (WSJ)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
12/10/01	$57.60	2,755,300	-3.45%	-1.58%	-1.58%	-1.25%	-2.21%	-$1.32	-1.59		
12/11/01	$56.66	4,226,200	-1.63%	-0.27%	0.37%	0.56%	-2.20%	-$1.26	-1.59		
12/12/01	$54.15	6,885,500	-4.43%	0.03%	-0.29%	-0.21%	-4.22%	-$2.39	-3.06	***	US Late Market Comment -2- NYSE Volume At 1.40B Shares (DJNS 4:45 PM)
12/13/01	$54.23	3,299,200	0.15%	-1.55%	-1.43%	-1.09%	1.24%	$0.67	0.89		Stocks Overcome Early Torpidity As P&G, Toll Brothers See Gains (WSJ)
12/14/01	$53.35	3,536,400	-1.62%	0.34%	-0.57%	-0.57%	-1.05%	-$0.57	-0.76		
12/17/01	$54.57	2,795,900	2.29%	1.01%	0.90%	0.86%	1.42%	$0.76	1.03		
12/18/01	$56.12	3,269,700	2.84%	0.76%	1.03%	1.05%	1.79%	$0.98	1.29		Household Finance Files $3B Debt Securities Shelf (DJNS 12:10 PM)
											News Highlights: Household Finance Files $3B Debt Shelf (DJNS 1:00 PM)
											News Highlights: Suiza, Dean Foods To Sell 11 Plants (DJNS 2:00 PM)
											News Highlights: Duke Energy 'Committed' To Growth Goals (DJNS 3:00 PM)
											News Highlights: Archer-Daniels-Midland President Resigns (DJNS 4:00 PM)
											News Highlights: Alcoa To Take 4Q Charge Of $225M (DJNS 5:03 PM)
											Recap Of Dow Jones Special Reports For Tuesday, Dec. 18 (DJNS 5:55 PM)
12/19/01	$56.87	2,339,900	1.34%	0.59%	1.63%	1.73%	-0.39%	-$0.22	-0.28		Stock Rating Reiterations: C COMS SYMC CTEC ALKS (DJNS 10:30 AM)
12/20/01	$56.50	1,556,000	-0.65%	-0.83%	-0.40%	-0.14%	-0.51%	-$0.29	-0.37		NYSE Short Interest: Foster Wheeler - Kemet Corp (DJNS 11:03 PM)
12/21/01	$55.90	2,117,000	-1.06%	0.44%	-0.50%	-0.51%	-0.55%	-$0.31	-0.40		
12/24/01	$56.09	441,100	0.34%	-0.02%	-0.11%	0.00%	0.34%	$0.19	0.25		Stocks Ex-Dividend December 27 (DJNS 2:41 PM)
12/26/01	$56.38	1,707,100	0.52%	0.42%	0.26%	0.30%	0.22%	$0.12	0.16		Stocks Ex-Dividend Dec. 27 (WSJ)
12/27/01	$57.83	1,677,300	2.96%	0.68%	0.67%	0.68%	2.28%	$1.28	1.65	+++	Bank of Montreal Says It Has Found Its Footing in the U.S. --- Purchase of CSFB Unit Is Seen as Boost for Discount Brokerage, Wealth Management . (WSJ)
12/28/01	$58.88	2,347,100	1.82%	0.34%	0.93%	1.04%	0.78%	$0.45	0.56		

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Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
12/31/01	$57.94	2,071,500	-1.60%	-1.11%	-0.73%	-0.43%	-1.17%	-$0.69	-0.84		
01/02/02	$57.09	2,033,700	-1.47%	0.58%	-0.31%	-0.34%	-1.12%	-$0.65	-0.81		
01/03/02	$57.05	2,192,200	-0.07%	0.92%	0.54%	0.50%	-0.57%	-$0.32	-0.41		Credit-Card Issuers Seen Posting Mixed 4Q Results (DJNS 8:05 PM)
01/04/02	$59.19	1,687,900	3.75%	0.63%	1.44%	1.51%	2.24%	$1.28	1.62		Household Intl To Launch $12M National Ad Campaign (DJNS 8:48 AM)
											News Highlights: Dec Nonfarm Payrolls -124K; View -125K (DJNS 9:00 AM)
01/07/02	$58.10	3,547,200	-1.84%	-0.64%	-0.71%	-0.51%	-1.33%	-$0.79	-0.96		
01/08/02	$56.74	2,290,500	-2.34%	-0.35%	-1.29%	-1.19%	-1.15%	-$0.67	-0.83		
01/09/02	$57.10	1,670,600	0.63%	-0.48%	0.51%	0.76%	-0.13%	-$0.07	-0.09		
01/10/02	$56.54	2,203,400	-0.98%	0.13%	0.46%	0.58%	-1.56%	-$0.89	-1.13		
01/11/02	$54.38	4,743,300	-3.82%	-0.94%	-1.02%	-0.78%	-3.04%	-$1.72	-2.20	***	Household Responds To Rating Change Issued By Fitch Inc (DJNS 2:03 PM)
											US Stocks Find Greenspan's Economic Reading Unwelcome (DJNS 4:27 PM)
01/13/02											Household Intl Units Settle Calif. Lending Allegations (DJNS 4:45 PM)
01/14/02	$52.78	3,763,200	-2.94%	-0.62%	-0.88%	-0.70%	-2.24%	-$1.22	-1.62		Calendar Of Earnings Expected; First Call Estimates (DJNS 7:00 AM)
01/15/02	$55.20	3,982,800	4.59%	0.69%	1.96%	2.06%	2.53%	$1.33	1.82	+++	
01/16/02	$54.45	4,023,900	-1.36%	-1.62%	-1.23%	-0.86%	-0.50%	-$0.28	-0.36		News Highlights: JP Morgan 4Q Op Earnings Misses Views (DJNS 8:01 AM)
											Household Intl 4Q Net $1.17 A Share (DJNS 8:21 AM)
											Calendar Of Corporate Conference Calls For Jan. 16 (DJNS 9:46 AM)
											Stock Rating Reiterations: SRDX CPS CVG UNH PCS (DJNS 10:30 AM)
01/17/02	$53.76	3,481,700	-1.27%	1.01%	0.96%	0.93%	-2.19%	-$1.19	-1.59		Calendar Of Corporate Conference Calls For Jan. 17 (DJNS 9:25 AM)
											Stock Rating Reiterations: DNA CPQ CPN JPM (DJNS 10:32 AM)
											Fidelity's Magellan Ups Cash To 6.5% As Of Dec. 31 (DJNS 12:17 PM)

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											Fidelity's Magellan -3: Other Big Funds Cautious On Tech (DJNS 3:11 PM)
01/18/02	$54.85	3,216,500	2.03%	-0.99%	-0.30%	0.00%	2.03%	$1.09	1.47		
01/22/02	$54.05	1,772,000	-1.46%	-0.73%	-0.16%	0.10%	-1.55%	-$0.85	-1.12		News Highlights: Kmart Files For Chapter 11 (DJNS 10:00 AM)
											NYSE Short Interest: Foster Wheeler - Kemet Corp (DJNS 11:03 PM)
01/23/02	$53.35	2,249,700	-1.30%	0.80%	0.00%	-0.05%	-1.24%	-$0.67	-0.90		
01/24/02	$53.75	2,868,100	0.75%	0.36%	0.45%	0.51%	0.24%	$0.13	0.17		New Securities Issues (WSJ)
01/25/02	$54.71	1,738,300	1.79%	0.11%	0.32%	0.43%	1.35%	$0.73	0.98		
01/28/02	$52.85	4,616,600	-3.40%	-0.01%	-0.70%	-0.63%	-2.77%	-$1.51	-2.00	***	Hot Stks To Watch In Barrons: TYC COF BFT HI MXT (DJNS 8:52 AM)
											US Stocks End Marginally Higher; Mood Turns Cautious (DJNS 4:30 PM)
01/29/02	$49.85	8,237,100	-5.68%	-2.86%	-4.54%	-4.14%	-1.54%	-$0.81	-1.10		Roadway, Navistar, Other Cyclicals Rise on Hope That Economy Is Well (WSJ)
01/30/02	$49.35	8,440,000	-1.00%	1.18%	1.14%	1.08%	-2.09%	-$1.04	-1.51		Insider Trading Spotlight (WSJ)
01/31/02	$51.24	5,451,300	3.83%	1.50%	1.76%	1.68%	2.15%	$1.06	1.55		
02/01/02	$51.10	6,376,900	-0.27%	-0.70%	-1.13%	-0.95%	0.67%	$0.34	0.49		TIP SHEET: Tice's Prudent Bear Fund Bets On Bad News (DJNS 3:00 PM)
02/04/02	$48.80	6,262,500	-4.50%	-2.47%	-3.32%	-2.92%	-1.58%	-$0.81	-1.14		
02/05/02	$47.53	7,783,600	-2.60%	-0.40%	-0.65%	-0.50%	-2.10%	-$1.03	-1.52		
02/06/02	$44.71	9,456,000	-5.93%	-0.59%	-0.97%	-0.80%	-5.13%	-$2.44	-3.71	***	Options Report: Defensive Puts Trade In Energy, Fincls (DJNS 3:30 PM)
											WSJ:Household International Sued For Loan Practices (DJNS 4:03 PM)
											News Highlights: Cisco Posts 2Q Net Of 9 Cents A Share (DJNS 5:00 PM)
02/07/02	$48.01	12,103,800	7.38%	-0.30%	0.56%	0.77%	6.61%	$2.96	4.78	+++	Business Brief -- Household International Inc.: Acorn Suit Says Borrowers Are Misled and Defrauded . (WSJ)
											Defensive Trades Dominate Options Market, Investor Jitters Push Volatility Index Above 28 . (WSJ)

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											Hot Stocks To Watch: CSCO JWN JHF CD BCR TYC HI (DJNS 7:47 AM)
											HOT STOCKS TO WATCH (DJNS 8:32 AM)
											Household CFO: No Problem In Raising Commercial Paper (DJNS 11:42 AM)
											Household Intl-3: Short-Sellers Have Pressured Stk, Bonds (DJNS 2:03 PM)
											Stock Rating Reiterations Closing Update: NWBT ICTG GPS (DJNS 4:25 PM)
											US Stocks Wobbled Again; Nasdaq Falls To 3-Month Low (DJNS 4:37 PM)
02/08/02	$52.00	7,904,500	8.31%	1.49%	2.72%	2.70%	5.61%	$2.69	4.04	+++	Jittery Investor Mood Sinks Indexes But Cendant, WorldCom Group Rise (WSJ)
											US Stocks Reverse Course; Late Rally Lifts Nasdaq 2% (DJNS 4:29 PM)
02/11/02	$51.45	5,330,400	-1.06%	1.44%	0.88%	0.75%	-1.81%	-$0.94	-1.31		
02/12/02	$50.80	4,447,800	-1.26%	-0.39%	-0.61%	-0.46%	-0.80%	-$0.41	-0.58		
02/13/02	$52.15	2,290,300	2.66%	1.00%	1.54%	1.55%	1.11%	$0.56	0.80		
02/14/02	$51.92	3,897,500	-0.44%	-0.18%	0.21%	0.37%	-0.81%	-$0.42	-0.59		
02/15/02	$50.89	4,004,300	-1.98%	-1.10%	-2.96%	-2.81%	0.83%	$0.43	0.59		
02/19/02	$50.35	2,502,800	-1.06%	-1.88%	-1.46%	-1.05%	-0.01%	-$0.01	-0.01		
02/20/02	$50.65	3,312,000	0.60%	1.36%	1.48%	1.41%	-0.81%	-$0.41	-0.59		
02/21/02	$48.50	3,370,000	-4.24%	-1.55%	-1.52%	-1.18%	-3.06%	-$1.55	-2.21	***	NYSE Most Actives- Composite Trades 4-6:30 p.m. EST (DJNS 6:47 PM)
02/22/02	$48.65	3,886,200	0.31%	0.83%	-0.11%	-0.17%	0.48%	$0.23	0.35		Options Report: Defensive Puts, TRW Options Are Active (DJNS 3:32 PM)
02/24/02											NYSE Short Interest: Foster Wheeler - Kemet Corp (DJNS 11:03 PM)
02/25/02	$49.58	3,560,300	1.91%	1.80%	2.45%	2.35%	-0.44%	-$0.21	-0.31		Shareholder Scoreboard (A Special Report) --- The 100 Biggest Companies in This Year's Scoreboard . (WSJ)
02/26/02	$49.98	2,961,600	0.81%	0.00%	0.35%	0.49%	0.32%	$0.16	0.23		
02/27/02	$52.08	4,127,000	4.20%	0.05%	0.76%	0.92%	3.29%	$1.64	2.38	+++	
02/28/02	$51.50	2,553,400	-1.11%	-0.28%	0.41%	0.61%	-1.72%	-$0.90	-1.24		
03/01/02	$53.00	2,478,700	2.91%	2.27%	1.24%	0.96%	1.95%	$1.00	1.40		

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03/04/02	$57.25	5,679,200	8.02%	1.95%	3.29%	3.22%	4.80%	$2.54	3.44	+++	US Stocks Rally Again; On Second Thought, More Is Better (DJNS 4:36 PM)
03/05/02	$56.28	6,430,000	-1.69%	-0.66%	0.07%	0.32%	-2.02%	-$1.16	-1.46		New Securities Issues (WSJ)
03/06/02	$57.77	2,683,800	2.65%	1.46%	1.60%	1.52%	1.13%	$0.64	0.82		
03/07/02	$58.36	3,108,600	1.02%	-0.44%	-0.73%	-0.57%	1.59%	$0.92	1.15		
03/08/02	$59.90	4,414,600	2.64%	0.59%	0.44%	0.46%	2.18%	$1.27	1.58		
03/11/02	$59.73	4,531,900	-0.28%	0.34%	0.56%	0.64%	-0.92%	-$0.55	-0.66		
03/12/02	$59.16	2,700,700	-0.95%	-0.22%	0.26%	0.43%	-1.39%	-$0.83	-1.00		
03/13/02	$58.40	2,759,000	-1.28%	-0.98%	-0.85%	-0.59%	-0.70%	-$0.41	-0.50		Dividends Reported March 13 (DJNS 5:09 PM)
											Household Intl Appoints KPMG LLP as Independent Auditor (DJNS 5:30 PM)
											Deloitte Touche Tohmatsu Won't Pursue Andersen Deal (DJNS 8:17 PM)
03/14/02	$57.48	2,642,500	-1.58%	-0.09%	0.17%	0.31%	-1.89%	-$1.10	-1.37		Andersen's Hopes to Avoid Indictment Dim --- Deloitte, Ernst & Young End Merger Discussions Over Liability Concerns . (WSJ)
											SouthTrust Board's Audit Committee Requests Audit Proposals (DJNS 6:58 PM)
03/15/02	$58.95	4,348,400	2.56%	1.14%	1.94%	1.94%	0.62%	$0.35	0.45		Summary Of Cos. With Audit-Related Andersen News (DJNS 2:08 PM)
03/18/02	$58.98	2,500,000	0.05%	-0.05%	-0.56%	-0.47%	0.52%	$0.31	0.38		Deals & Deal Makers: The Pipeline / Securities Offering Calendar (WSJ)
03/19/02	$58.98	2,465,500	0.00%	0.41%	0.51%	0.57%	-0.57%	-$0.34	-0.41		Investors Come to the Defense of Securitization, Special-Purpose Entities Tainted by Enron's Fall . (WSJ)
											Moody's Liquidity Reports Make Early Mark On Corporates (DJNS 4:22 PM)
											Moody's Liquidity Reports Make Early Mark On Corporates (DJNS 4:30 PM)
03/20/02	$57.61	2,104,100	-2.32%	-1.57%	-1.67%	-1.34%	-0.98%	-$0.58	-0.71		Treasurys End Mostly Higher After Interest Rates Are Left Untouched at Federal Reserve Meeting . (WSJ)
											Summary Of Cos. With Audit-Related Andersen News (DJNS 1:51 PM)
03/21/02	$57.90	2,044,800	0.50%	0.16%	-0.01%	0.07%	0.43%	$0.25	0.31		New Securities Issues (WSJ)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											NYSE Short Interest: Foster Wheeler - Kemet Corp (DJNS 11:03 PM)
03/22/02	$58.14	1,589,800	0.41%	-0.42%	0.13%	0.34%	0.07%	$0.04	0.05		Short Interest Highlights (WSJ)
											Stocks Ex-Dividend March 26 (DJNS 4:10 PM)
03/25/02	$56.30	2,388,400	-3.16%	-1.46%	-1.62%	-1.31%	-1.85%	-$1.08	-1.34		Stocks Ex-Dividend March 26 (WSJ)
03/26/02	$57.00	1,765,500	1.63%	0.59%	0.97%	1.02%	0.61%	$0.35	0.44		
03/27/02	$57.50	1,723,900	0.88%	0.54%	1.05%	1.12%	-0.24%	-$0.14	-0.18		
03/28/02	$56.80	1,362,100	-1.22%	0.25%	-0.34%	-0.30%	-0.92%	-$0.53	-0.66		Cash Drought: A Dwindling Supply Of Short-Term Credit Plagues Corporations --- Market in Commercial Paper Is Hurt by Enron Fears, . (WSJ)
											Summary of Cos. With Audit-Related Andersen News (DJNS 5:19 PM)
03/29/02											Summary of Cos. With Audit-Related Andersen News (DJNS 3:07 PM)
04/01/02	$57.03	1,752,700	0.40%	-0.07%	-0.56%	-0.47%	0.87%	$0.50	0.63		Summary of Cos. With Audit-Related Andersen News (DJNS 4:14 PM)
04/02/02	$57.05	1,749,600	0.04%	-0.85%	0.31%	0.62%	-0.59%	-$0.34	-0.42		
04/03/02	$55.75	2,312,100	-2.28%	-0.99%	-1.02%	-0.77%	-1.51%	-$0.86	-1.09		Summary Of Cos. With Audit-Related Andersen News (DJNS 1:52 PM)
04/04/02	$56.83	2,962,200	1.94%	0.09%	0.62%	0.75%	1.19%	$0.66	0.86		Credit-Card Cos' 1Q Seen Stable With Economy On Mend (DJNS 7:19 PM)
04/05/02	$57.98	2,663,300	2.02%	-0.31%	0.61%	0.83%	1.19%	$0.68	0.86		Summary Of Cos. With Audit-Related Andersen News (DJNS 3:24 PM)
04/08/02	$59.06	3,048,600	1.86%	0.23%	0.37%	0.46%	1.41%	$0.81	1.02		
04/09/02	$59.25	4,657,800	0.32%	-0.66%	0.57%	0.86%	-0.54%	-$0.32	-0.39		News Highlights: Household Intl Files $10B Debt Shelf (DJNS 3:59 PM)
											Summary Of Cos. With Audit-Related Andersen News (DJNS 4:23 PM)
											Summary Of Cos. With Audit-Related Andersen News (DJNS 4:25 PM)
											News Highlights:Nortel Bank Grp Seen Renewing $1.8B Credit (DJNS 5:00 PM)
04/10/02	$59.35	3,189,000	0.17%	1.14%	0.31%	0.20%	-0.03%	-$0.02	-0.02		Power Play: Deals That Took Enron Under Had Many Supporters --- Big-Name Lobbying Stymied FASB Push to Disclose Off-Balance-Sheet Entities . (WSJ)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Household Intl: $10B Shelf To Support Internotes Program (DJNS 9:10 AM)
											Stock Rating Reiterations: SONS WEBX SEAC CSR (DJNS 10:30 AM)
04/11/02	$57.05	2,894,600	-3.88%	-2.36%	-2.55%	-2.11%	-1.76%	-$1.05	-1.27		
04/12/02	$58.10	1,572,600	1.84%	0.67%	1.14%	1.18%	0.66%	$0.37	0.47		Summary Of Cos. With Audit-Related Andersen News (DJNS 5:21 PM)
											Summary Of Cos. With Audit-Related Andersen News (DJNS 5:23 PM)
04/15/02	$57.48	1,382,300	-1.07%	-0.76%	-1.36%	-1.18%	0.11%	$0.06	0.08		
04/16/02	$59.52	2,004,400	3.55%	2.35%	2.13%	1.90%	1.65%	$0.95	1.19		Summary Of Cos. With Audit-Related Andersen News (DJNS 12:32 PM)
04/17/02	$60.70	4,668,400	1.98%	-0.20%	0.47%	0.65%	1.33%	$0.79	0.96		Household Intl 1Q EPS $1.09 (DJNS 7:24 AM)
											Calendar Of Corporate Conference Calls For April 17 (DJNS 10:00 AM)
											Summary Of Corporate Outlooks Wednesday (DJNS 3:42 PM)
04/18/02	$61.20	3,336,400	0.82%	-0.14%	-0.42%	-0.30%	1.13%	$0.68	0.82		Business Brief -- Household International Inc.: First-Period Profit Rose 18% Amid Higher Number of Loans . (WSJ)
											Stock Rating Reiterations: BRCM WM SEIC ACMR MXT CD TZIX (DJNS 10:30 AM)
04/19/02	$62.44	2,614,800	2.03%	0.07%	0.04%	0.14%	1.89%	$1.16	1.37		News on Household Finance Corp. Ltd. Now Under Symbol HI (DJNS 4:09 PM)
04/21/02											NYSE Short Interest: Forest Oil Corp - Kemet Corp (DJNS 11:03 PM)
04/22/02	$60.90	2,803,900	-2.47%	-1.54%	-1.40%	-1.06%	-1.40%	-$0.88	-1.01		
04/23/02	$61.80	2,567,800	1.48%	-0.61%	-0.51%	-0.30%	1.78%	$1.09	1.29		Summary Of Cos. With Audit-Related Andersen News (DJNS 2:16 PM)
											Summary Of Cos. With Audit-Related -2- (DJNS 2:26 PM)
04/24/02	$61.36	1,671,400	-0.71%	-0.70%	-0.48%	-0.25%	-0.46%	-$0.28	-0.33		
04/25/02	$59.18	2,095,700	-3.55%	-0.15%	-0.95%	-0.87%	-2.68%	-$1.64	-1.94	***	
04/26/02	$59.60	3,505,700	0.71%	-1.38%	-0.50%	-0.13%	0.84%	$0.50	0.61		New Securities Issues (WSJ)
											Summary of Cos. With Audit-Related Andersen News (DJNS 6:19 PM)
04/29/02	$57.25	3,423,500	-3.94%	-1.00%	-0.84%	-0.58%	-3.36%	-$2.00	-2.43	***	

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
04/30/02	$58.29	2,950,000	1.82%	1.08%	1.30%	1.27%	0.55%	$0.31	0.40		
05/01/02	$57.70	3,137,200	-1.01%	0.89%	0.55%	0.51%	-1.53%	-$0.89	-1.10		Summary Of Cos. With Audit-Related Andersen News (DJNS 3:00 PM)
05/02/02	$57.43	7,814,100	-0.47%	-0.17%	1.09%	1.31%	-1.77%	-$1.02	-1.28		
05/03/02	$57.00	3,503,200	-0.75%	-1.02%	-0.58%	-0.29%	-0.45%	-$0.26	-0.33		
05/06/02	$55.68	2,323,100	-2.32%	-1.93%	-2.20%	-1.83%	-0.48%	-$0.27	-0.35		
05/07/02	$54.75	4,012,700	-1.67%	-0.30%	-0.54%	-0.41%	-1.26%	-$0.70	-0.91		Summary Of Cos. With Audit-Related Andersen News (DJNS 1:03 PM)
05/08/02	$57.11	3,940,000	4.31%	3.76%	2.87%	2.39%	1.92%	$1.05	1.37		
05/09/02	$56.29	2,850,800	-1.44%	-1.45%	-0.97%	-0.62%	-0.82%	-$0.47	-0.59		
05/10/02	$54.25	4,141,000	-3.62%	-1.67%	-1.46%	-1.09%	-2.53%	-$1.43	-1.83	***	Summary Of Cos. With Audit-Related Andersen News (DJNS 6:34 PM)
											Stockholders Meetings For Week Of May 13 (DJNS 9:13 PM)
											Dividend Meetings For Week Of May 13 (DJNS 9:17 PM)
05/12/02											Hot Stocks On 'Wall $treet Week' (DJNS 9:23 PM)
05/13/02	$55.82	1,739,800	2.89%	1.86%	1.70%	1.54%	1.36%	$0.74	0.98		
05/14/02	$56.85	3,338,800	1.85%	2.12%	1.58%	1.36%	0.49%	$0.27	0.35		Today's Calendar - Tuesday, May 14 (DJNS 7:00 AM)
											Summary Of Cos. With Audit-Related Andersen News (DJNS 3:36 PM)
05/15/02	$55.47	5,091,300	-2.43%	-0.56%	-0.36%	-0.15%	-2.28%	-$1.29	-1.65	***	Treasury Prices Fall on Positive Retail-Sales Data (WSJ)
											Today's Calendar - Wednesday, May 15 (DJNS 7:00 AM)
											News Highlights: CalPERS CEO To Leave This Fall (DJNS 4:01 PM)
											NYSE Most Actives- Composite Trades 4-6:30 p.m. EDT (DJNS 6:53 PM)
05/16/02	$55.00	4,539,200	-0.85%	0.66%	0.97%	1.00%	-1.85%	-$1.03	-1.34		S&P Draws Up List Of Firms That May Face Cash Shortfall (WSJ)
											TSX Venture Pres. Hohol Wants Strategy In Place By July (DJNS 12:32 PM)
05/17/02	$54.31	5,539,700	-1.25%	0.77%	0.54%	0.53%	-1.79%	-$0.98	-1.29		Adelphia's Problems Weaken Other Cable Bonds (WSJ)
											Summary Of Cos. With Audit-Related Andersen News (DJNS 1:44 PM)
											Summary Of Cos. With Audit-Related Andersen News (DJNS 1:46 PM)
05/20/02	$53.51	3,335,300	-1.47%	-1.32%	-1.79%	-1.53%	0.05%	$0.03	0.04		Summary Of Cos. With Audit-Related Andersen News (DJNS 4:03 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
05/21/02	$52.69	3,119,800	-1.53%	-1.09%	-0.66%	-0.36%	-1.17%	-$0.62	-0.84		NYSE Short Interest: Forest Oil Corp - Kemet Corp (DJNS 11:03 PM)
05/22/02	$52.85	2,602,500	0.30%	0.57%	0.01%	0.00%	0.31%	$0.16	0.22		SMARTMONEY.COM: The Data Mine: Finer Side Of Financials (DJNS 8:07 PM)
05/23/02	$53.27	2,419,800	0.79%	1.02%	0.96%	0.93%	-0.13%	-$0.07	-0.10		Summary Of Cos. With Audit-Related Andersen News (DJNS 9:51 AM)
05/24/02	$53.07	2,048,300	-0.38%	-1.20%	-0.71%	-0.40%	0.02%	$0.01	0.01		
05/28/02	$52.85	2,658,800	-0.41%	-0.85%	-1.09%	-0.87%	0.46%	$0.24	0.33		Household Intl To Provide GM's Corvette MasterCard (DJNS 9:00 AM)
05/29/02	$52.80	2,193,900	-0.09%	-0.64%	-0.01%	0.23%	-0.32%	-$0.17	-0.23		Summary Of Cos. With Audit-Related Andersen News -3- (DJNS 3:21 PM)
											SMARTMONEY.COM: The Data Mine:The Dividend Is Your Friend (DJNS 5:44 PM)
											NYSE Most Actives- Composite Trades 4-6:30 p.m. EDT (DJNS 6:44 PM)
05/30/02	$51.65	4,146,700	-2.18%	-0.28%	-0.43%	-0.29%	-1.89%	-$1.00	-1.37		Who Are Winners at Andersen's Yard Sale? --- Ernst & Young, Deloitte, KPMG Look to Hire 200 Partners Each; Pricewaterhouse Focuses on Clients . (WSJ)
											TIP SHEET: Choice Manager Adjusts Strategy To Limit Risk (DJNS 3:00 PM)
05/31/02	$51.15	4,426,600	-0.97%	0.24%	0.36%	0.45%	-1.42%	-$0.73	-1.03		
06/03/02	$50.94	2,974,300	-0.41%	-2.47%	-2.16%	-1.68%	1.27%	$0.65	0.91		
06/04/02	$50.69	3,446,300	-0.49%	0.01%	-0.66%	-0.59%	0.10%	$0.05	0.07		Summary Of Cos. With Audit-Related Andersen News (DJNS .)
06/05/02	$52.19	3,115,200	2.96%	0.89%	0.87%	0.85%	2.11%	$1.07	1.52		
06/06/02	$53.60	5,208,200	2.70%	-1.97%	-1.78%	-1.38%	4.08%	$2.13	2.94	+++	
06/07/02	$52.87	4,941,700	-1.36%	-0.15%	0.09%	0.24%	-1.61%	-$0.86	-1.16		Summary Of Cos. With Audit-Related Andersen News (DJNS 5:35 PM)
06/10/02	$52.59	2,086,400	-0.53%	0.32%	0.63%	0.71%	-1.24%	-$0.66	-0.90		Credit Window: Alternative Lenders Buoy the Economy But Also Pose Risk --- Manufacturers, Other Nonbanks Fund Ever More Business, With Little . (WSJ)
											Stock Rating Reiterations: HI ANPI RFMD TUNE (DJNS 10:30 AM)
06/11/02	$52.99	4,228,800	0.76%	-1.66%	-1.89%	-1.55%	2.31%	$1.22	1.67	+++	

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
06/12/02	$52.48	3,068,200	-0.96%	0.66%	0.43%	0.43%	-1.39%	-$0.74	-1.01		Summary Of Cos. With Audit-Related Andersen News (DJNS 10:11 AM)
											Summary Of Cos. With Audit-Related Andersen News (DJNS 3:26 PM)
06/13/02	$50.30	2,687,600	-4.15%	-1.04%	-2.16%	-1.97%	-2.18%	-$1.15	-1.57		
06/14/02	$50.80	4,104,100	0.99%	-0.22%	0.89%	1.11%	-0.11%	-$0.06	-0.08		
06/17/02	$52.74	2,620,700	3.82%	2.88%	4.38%	4.19%	-0.37%	-$0.19	-0.26		
06/18/02	$52.75	2,172,700	0.02%	0.10%	0.38%	0.50%	-0.48%	-$0.25	-0.35		
06/19/02	$51.55	3,122,900	-2.27%	-1.65%	-1.30%	-0.93%	-1.34%	-$0.71	-0.97		
06/20/02	$49.80	3,338,200	-3.39%	-1.34%	-1.72%	-1.44%	-1.96%	-$1.01	-1.41		NYSE Short Interest: Forest Oil Corp - Kemet Corp (DJNS 11:03 PM)
06/21/02	$49.68	2,704,200	-0.24%	-1.70%	-1.03%	-0.64%	0.39%	$0.20	0.28		
06/24/02	$50.00	2,467,000	0.64%	0.37%	0.00%	0.03%	0.61%	$0.30	0.44		
06/25/02	$49.00	2,546,700	-2.00%	-1.66%	-0.82%	-0.42%	-1.58%	-$0.79	-1.14		Technology Contract Announcements: SNDT DMCX (DJNS 12:06 PM)
06/26/02	$48.65	4,172,000	-0.20%	-0.26%	-1.94%	-1.91%	1.70%	$0.83	1.22		
06/27/02	$49.90	2,206,300	2.57%	1.76%	2.43%	2.34%	0.23%	$0.11	0.16		
06/28/02	$49.70	2,476,600	-0.40%	-0.08%	1.10%	1.30%	-1.70%	-$0.85	-1.23		
07/01/02	$47.93	2,847,200	-3.56%	-2.13%	-1.59%	-1.14%	-2.42%	-$1.20	-1.74	***	Card Cos 2Q EPS Produce Mixed Bag; Trends Mostly Stable (DJNS 12:29 PM)
07/02/02	$47.60	3,270,200	-0.69%	-2.12%	-1.66%	-1.22%	0.53%	$0.25	0.38		
07/03/02	$48.05	2,336,500	0.95%	0.63%	-0.91%	-1.00%	1.94%	$0.92	1.39		
07/05/02	$50.00	1,396,100	4.06%	3.68%	3.66%	3.25%	0.81%	$0.39	0.58		
07/08/02	$49.54	2,129,500	-0.92%	-1.21%	-0.37%	-0.03%	-0.89%	-$0.45	-0.64		
07/09/02	$47.05	4,030,700	-5.03%	-2.47%	-2.72%	-2.28%	-2.75%	-$1.36	-1.98	***	
07/10/02	$44.07	5,661,300	-6.33%	-3.39%	-3.20%	-2.60%	-3.74%	-$1.76	-2.68	***	
07/11/02	$45.00	4,942,700	2.11%	0.76%	0.95%	0.97%	1.14%	$0.50	0.82		
07/12/02	$46.30	4,043,500	2.89%	-0.64%	-0.85%	-0.66%	3.55%	$1.60	2.57	+++	
07/15/02	$45.67	4,319,800	-1.36%	-0.37%	-0.40%	-0.24%	-1.12%	-$0.52	-0.81		
07/16/02	$46.10	3,859,600	0.94%	-1.83%	-1.60%	-1.21%	2.15%	$0.98	1.55		
07/17/02	$42.37	11,480,800	-8.09%	0.56%	-0.81%	-0.87%	-7.22%	-$3.33	-5.20	***	Household Intl 2Q Net $1.08 A Share (DJNS 8:17 AM)
											News Highlights: Honeywell Sees 2002 Net $2.25-$2.30/Share (DJNS 12:00 PM)
											News Highlights: PSEG Sees 7% Earnings Growth In 2003 (DJNS 1:00 PM)
											News Highlights: Aphton Gets Orphan-Drug Status From FDA (DJNS 2:00 PM)
											News Highlights: AT&T Names David Dorman As Next Chmn, CEO (DJNS

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											3:00 PM)
											News Highlights: AT&T Wireless Director Perry Resigns (DJNS 4:00 PM)
											News Highlights: IBM Posts 2Q Net 3c/Share On $1.4B Charge (DJNS 5:00 PM)
											Recap Of Dow Jones Special Reports For Wednesday, July 17 (DJNS 5:01 PM)
07/18/02	$42.41	5,402,900	0.09%	-2.70%	-3.38%	-2.93%	3.02%	$1.28	2.17	+++	Business Brief -- Household International Inc.: Net Jumps 17% as Demand For Consumer Loans Increases . (WSJ)
											Capital One Sees Shares Fall 40% On Fed Warning (WSJ)
											Stock Rating Reiterations: ATYT AMD PLNR INFS ATMI (DJNS 10:30 AM)
07/19/02	$40.72	4,719,300	-3.98%	-3.83%	-2.20%	-1.43%	-2.55%	-$1.08	-1.81	***	
07/21/02											NYSE Short Interest: Foster Wheeler - Kemet Corp (DJNS 11:03 PM)
07/22/02	$38.84	6,535,000	-4.62%	-3.29%	-3.59%	-3.03%	-1.59%	-$0.65	-1.14		
07/23/02	$36.29	6,642,400	-6.57%	-2.69%	-5.36%	-5.05%	-1.52%	-$0.59	-1.07		
07/24/02	$39.97	7,900,000	10.14%	5.74%	5.64%	4.93%	5.21%	$1.89	3.65	+++	
07/25/02	$38.80	4,955,700	-2.93%	-0.55%	-0.31%	-0.10%	-2.83%	-$1.13	-2.05	***	
07/26/02	$37.66	6,676,600	-2.94%	1.70%	2.79%	2.74%	-5.67%	-$2.20	-4.08	***	Saks Inc., Household International In Alliance >SKS HI (DJNS 8:31 AM)
07/29/02	$39.85	6,143,800	5.82%	5.41%	6.49%	5.91%	-0.09%	-$0.04	-0.07		Business Brief -- Saks Inc.: Household International Buys Most of the Credit-Card Unit . (WSJ)
											Household Intl Names Executives To New Positions (DJNS 9:28 AM)
07/30/02	$40.30	5,729,700	1.13%	0.43%	0.38%	0.42%	0.71%	$0.28	0.51		Career Journal: Who's News (WSJ)
											Corporate Bonds For the Little Guy --- Amid Market Turmoil, Companies Try to Sell Notes to Individual Investors; Weighing the Risks . (WSJ)
07/31/02	$42.67	4,675,600	5.88%	0.99%	1.51%	1.52%	4.36%	$1.76	3.15	+++	
08/01/02	$41.26	3,607,500	-3.30%	-2.95%	-2.26%	-1.68%	-1.62%	-$0.69	-1.17		
08/02/02	$39.45	3,225,100	-4.39%	-2.30%	-2.81%	-2.40%	-1.98%	-$0.82	-1.43		UBS Warburg Drops Coverage Of E-Finance Cos. (DJNS 8:57 AM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
08/05/02	$36.98	4,490,700	-6.26%	-3.42%	-3.75%	-3.18%	-3.08%	-$1.22	-2.21	***	
08/06/02	$39.72	5,035,600	7.41%	3.00%	3.13%	2.82%	4.59%	$1.70	3.29	+++	
08/07/02	$38.28	7,345,300	-3.63%	2.01%	1.48%	1.27%	-4.89%	-$1.94	-3.52	***	
08/08/02	$40.96	5,762,500	7.00%	3.28%	4.90%	4.66%	2.34%	$0.90	1.66	+++	Subprime Lending Stays Strong Despite Fed Warnings, Poll Finds (WSJ)
08/09/02	$40.45	4,929,000	-1.25%	0.36%	1.14%	1.26%	-2.50%	-$1.02	-1.81	***	
08/12/02	$39.70	3,062,400	-1.85%	-0.53%	-1.03%	-0.88%	-0.97%	-$0.39	-0.70		
08/13/02	$37.80	5,290,900	-4.79%	-2.16%	-2.43%	-2.03%	-2.76%	-$1.10	-1.99	***	Leading the News: Big Banks to Expense Stock Options --- Insurers, Wall Street Firms Are to Jointly Announce Major Accounting Change . (WSJ)
											Leading Fincl Svcs Firms To Expense Employee Stk Options (DJNS 10:27 AM)
											Table Of Companies Expensing Stock Options (DJNS 12:08 PM)
08/14/02	$38.09	18,659,600	0.77%	4.01%	3.74%	3.26%	-2.49%	-$0.94	-1.77	***	Household Backs Outlook For Rest Of Year (DJNS 7:28 AM)
											Fitch Affirms Household Intl At 'A' (DJNS 9:14 AM)
											Hot Stocks To Watch: HI AGRA AMAT EE AVA PFE (DJNS 9:35 AM)
											HOT STOCKS TO WATCH -2 (DJNS 9:48 AM)
											Table Of Companies Expensing Stock Options (DJNS 10:50 AM)
											CORRECT: Household Intl Originally Reported 1H EPS $2.17 (DJNS 1:16 PM)
											As SEC Deadline Nears, Some Cos Restate, Wait To Certify (DJNS 1:48 PM)
											News Highlights: Eli Lilly Gets Dept of Justice Subpoena (DJNS 4:00 PM)
											NYSE Most Actives 9:30-4:00 Composite Trade (DJNS 4:17 PM)
											US Stks Surge On Futures Buying, Relief Over Certifications (DJNS 4:40 PM)
											News Highlights: UAL Preparing For Possible Chapter 11 (DJNS 5:01 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Recap Of Dow Jones Special Reports For Wednesday, Aug 14 (DJNS 5:07 PM)
											SEC Flooded With CEO, CFO Certifications, But No Firm Tally (DJNS 6:40 PM)
08/15/02	$39.60	6,311,400	3.96%	1.16%	1.07%	1.01%	2.96%	$1.13	2.14	+++	Taking the Pledge: Household Revises Accounting Of Some Credit-Card Pacts . (WSJ)
											Taking the Pledge: Restatements Trickle In (WSJ)
											Under Gun From SEC, Bristol, Others Divulge Accounting Issues (WSJ)
											Wal-Mart, Exxon, Microsoft Post Gains as Stocks Rebound (WSJ)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 9:08 AM)
											WSJ.COM What's News - Business and Finance For Aug. 15 (DJNS 9:15 AM)
											Stock Rating Reiterations: URBN TOO ADI AFC TTIL (DJNS 10:30 AM)
											Table Of Companies Expensing Stock Options (DJNS 11:14 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 12:03 PM)
											WSJ.COM What's News - Business and Finance For Aug. 15 (DJNS 12:15 PM)
											WSJ.COM What's News - Business and Finance For Aug. 15 (DJNS 4:45 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 5:23 PM)
08/16/02	$37.54	6,467,700	-5.20%	-0.15%	-0.65%	-0.55%	-4.66%	-$1.84	-3.37	***	The Economy: Firms Rush to Meet Deadline By SEC to Certify Statements (WSJ)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 9:10 AM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Table Of Companies Expensing Stock Options (DJNS 11:03 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 12:08 PM)
											Status Of Co. CEO, CFO Certifications Required By SEC (DJNS 5:13 PM)
08/19/02	$37.75	7,094,200	0.56%	2.37%	2.67%	2.47%	-1.91%	-$0.72	-1.37		Hot Stocks To Watch In Barron's: PBI HI GE CEFT CAKE (DJNS 8:21 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 9:35 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 12:02 PM)
											Table Of Companies Expensing Stock Options (DJNS 12:09 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 5:06 PM)
											Household International Target Of Shareholder Suit (DJNS 5:22 PM)
08/20/02	$36.75	4,331,200	-2.65%	-1.39%	-1.50%	-1.19%	-1.45%	-$0.55	-1.05		Status Of CEO, CFO Certifications Required By SEC (DJNS 9:19 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 12:01 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 5:01 PM)
08/21/02	$37.15	3,254,700	1.09%	1.28%	0.45%	0.32%	0.77%	$0.28	0.55		Status Of CEO, CFO Certifications Required By SEC (DJNS 9:02 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 12:02 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 5:09 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											NYSE Short Interest: Fortune Brands - Kemet Corp (DJNS 11:03 PM)
08/22/02	$40.65	5,621,800	9.42%	1.41%	1.25%	1.16%	8.27%	$3.07	5.97	+++	Status Of CEO, CFO Certifications Required By SEC (DJNS 9:00 AM)
											Stock Rating Reiterations: OSI ALOY HUG WB BGFV HUG WB (DJNS 10:30 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 12:14 PM)
											Table Of Companies Expensing Stock Options (DJNS 4:14 PM)
											US Stocks Notch Another Victory; DJIA Back Over 9000 (DJNS 4:20 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 4:45 PM)
08/23/02	$37.80	3,381,100	-7.01%	-2.26%	-2.05%	-1.60%	-5.41%	-$2.20	-3.90	***	General Motors, Microsoft Gain As Many Blue Chips Show Spark (WSJ)
											Status Of CEO, CFO Certifications Required By SEC -3 (DJNS 9:01 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 12:01 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 5:01 PM)
08/26/02	$39.08	4,080,500	3.39%	0.76%	1.20%	1.23%	2.16%	$0.82	1.56		Status Of CEO, CFO Certifications Required By SEC (DJNS 9:27 AM)
											Status Of CEO, CFO Certifications Required By SEC (DJNS 12:05 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 5:01 PM)
08/27/02	$37.70	5,019,200	-3.53%	-1.38%	-0.82%	-0.47%	-3.06%	-$1.19	-2.21	***	US Stocks Weakened By Worrisome Consumer Data; DJIA Off 1% (DJNS

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											4:36 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 5:00 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
08/28/02	$36.80	4,770,000	-2.39%	-1.81%	-1.92%	-1.56%	-0.82%	-$0.31	-0.59		Lastest Data on Consumer Mood Hurt Retailers Costco, Kohl's (WSJ)
											Household Intl Reports Completion Of Audit By KPMG LLP (DJNS 8:47 AM)
											News Highlights: Office Depot Confirms Year Guidance (DJNS 9:00 AM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 4:42 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
08/29/02	$36.38	3,636,500	-1.14%	0.00%	0.33%	0.46%	-1.60%	-$0.59	-1.16		Status Of CEO, CFO Certifications Required By SEC (DJNS 5:00 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
08/30/02	$36.11	2,523,800	-0.74%	-0.18%	0.24%	0.40%	-1.15%	-$0.42	-0.83		Status Of Company CEO, CFO Certifications Required By SEC (DJNS 4:59 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
09/03/02	$33.36	3,921,100	-7.62%	-4.15%	-4.90%	-4.25%	-3.36%	-$1.21	-2.39	***	Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Status Of CEO, CFO Certifications Required By SEC -3 (DJNS 5:01 PM)
09/04/02	$34.40	4,705,200	3.12%	1.76%	1.79%	1.66%	1.46%	$0.49	1.05		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Status Of Company CEO,CFO Certifications Required By SEC (DJNS 5:50 PM)
09/05/02	$33.36	4,710,600	-3.02%	-1.59%	-1.45%	-1.11%	-1.92%	-$0.66	-1.38		Household CEO Says Loan Losses Will Continue To Rise (DJNS 2:52 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 5:06 PM)
09/06/02	$33.95	3,820,100	1.77%	1.69%	1.42%	1.28%	0.49%	$0.16	0.35		Citigroup CFO Confirms Settlement Talks With FTC (DJNS 10:51 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
09/09/02	$36.33	3,861,500	7.01%	1.02%	1.59%	1.60%	5.41%	$1.84	3.91	+++	Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
09/10/02	$35.15	3,756,000	-3.25%	0.74%	-0.79%	-0.88%	-2.37%	-$0.86	-1.70	***	Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Status Of Company CEO, CFO Certifications Required By SEC (DJNS 5:14 PM)
09/11/02	$35.43	1,887,600	0.80%	-0.01%	-0.40%	-0.31%	1.11%	$0.39	0.80		Anniversary of 9/11 Slows Bond Sales --- Treasurys Rise, As Investors Seek Their Relative Safety; Jefferson Smurfit Sells Notes . (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
09/12/02	$33.85	3,645,500	-4.46%	-2.47%	-2.74%	-2.30%	-2.16%	-$0.77	-1.56		US Stocks Can't Escape New Uncertainties, Economic Fears (DJNS 4:39 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
09/13/02	$34.67	3,133,000	2.42%	0.33%	0.68%	0.77%	1.65%	$0.56	1.20		Maytag, La-Z-Boy Post Losses Amid Dismal Data, Uncertainty (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
09/16/02	$33.59	2,983,600	-3.12%	0.15%	-0.20%	-0.13%	-2.98%	-$1.03	-2.16	***	Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Status Of CEO, CFO Certifications Required By SEC (DJNS 5:29 PM)
09/17/02	$29.52	9,053,100	-12.12%	-1.97%	-2.09%	-1.71%	-10.41%	-$3.50	-7.50	***	How to Get Free Money: Use Plastic --- Credit Cards Lure Customers With 0% Cash Advances, But Watch Out for High Fees . (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Issues, 4 pm Net Change Percentage Gainers & Losers (DJNS 5:25 PM)
											Status Of CEO, CFO Certifications Required By SEC (DJNS 5:44 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
09/18/02	$29.85	10,493,800	1.12%	-0.46%	-0.89%	-0.74%	1.86%	$0.55	1.35		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Status Of CEO, CFO Certifications Required By SEC (DJNS 5:50 PM)
09/19/02	$29.25	5,997,000	-2.01%	-3.00%	-3.50%	-3.00%	0.99%	$0.29	0.71		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Status Of CEO, CFO Certifications Required By SEC (DJNS 5:37 PM)
											NYSE Short Interest: Forest Oil Corp - Kemet Corp (DJNS 11:03 PM)
09/20/02	$29.05	5,543,900	-0.68%	0.25%	-0.31%	-0.28%	-0.41%	-$0.12	-0.29		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Status Of CEO, CFO Certifications Required By SEC -3 (DJNS 5:06 PM)
09/23/02	$27.61	6,619,600	-4.96%	-1.38%	-0.11%	0.28%	-5.24%	-$1.52	-3.77	***	Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Status Of CEO, CFO Certifications Required By SEC (DJNS 5:26 PM)
09/24/02	$27.55	6,765,900	-0.22%	-1.72%	-2.19%	-1.86%	1.64%	$0.45	1.18		Agency Bonds Are Facing Pressure --- Foreign Institutional Sales, Doubts About Fannie Mae Contribute to Volatility . (WSJ)
											Status Of CEO, CFO Certifications Required By SEC (DJNS 5:00 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
09/25/02	$28.15	4,437,100	2.18%	2.49%	2.13%	1.86%	0.31%	$0.09	0.23		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
09/26/02	$29.28	5,158,000	4.90%	1.83%	3.00%	2.93%	1.97%	$0.55	1.42		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
09/27/02	$27.64	6,488,000	-5.60%	-3.22%	-3.03%	-2.45%	-3.15%	-$0.92	-2.26	***	Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Most Actives- Composite Trades 4-6:30 p.m. EDT (DJNS 6:43 PM)
09/30/02	$28.31	5,179,400	2.42%	-1.45%	0.41%	0.85%	1.57%	$0.44	1.13		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
10/01/02	$28.40	3,740,800	0.32%	4.01%	4.44%	4.01%	-3.70%	-$1.05	-2.63	***	Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
10/02/02	$27.32	4,395,800	-3.80%	-2.35%	-3.85%	-3.50%	-0.30%	-$0.09	-0.21		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
10/03/02	$26.60	4,214,400	-2.64%	-1.07%	-4.13%	-4.08%	1.44%	$0.39	1.01		Cash-Rich Microsoft Tempts Buyers With Financing Deals (DJNS

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											9:57 AM)
											US Stocks Fall, With The Nasdaq Hitting A Six-Year Low (DJNS 4:28 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
10/04/02	$24.66	5,539,800	-7.29%	-2.23%	-2.94%	-2.55%	-4.74%	-$1.26	-3.41	***	Household International Inc. May Be Near Large Settlement (WSJ)
											News Highlights: Fastenal Sells DIY Opers To Hillman Grp (DJNS 8:01 AM)
											Hot Stocks To Watch: HI LH FDRY MONE WDHD (DJNS 8:37 AM)
											News Highlights: US Sept Unemployment Rate 5.6% (DJNS 9:01 AM)
											HOT STOCKS TO WATCH -2- (DJNS 9:25 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
10/07/02	$23.25	6,894,300	-5.72%	-1.90%	-3.31%	-3.03%	-2.69%	-$0.66	-1.93	***	Table Of Companies Expensing Stock Options (DJNS 8:00 AM)
											Credit Cards 3Q Results Mixed; Focus On New Regulations (DJNS 11:06 AM)
											Hot Stocks -2: S SPWX AZPN BLI OMCL (DJNS 2:35 PM)
											US Stks Drop Again; Indicators Of A Bottom Don't Line Up (DJNS 4:44 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
10/08/02	$23.58	7,114,000	1.42%	1.70%	4.14%	4.18%	-2.76%	-$0.64	-1.96	***	Microsoft Uses Cash for Financing (WSJ)
											Sears Falls on Profit Warning As Stocks Drop in Choppy Day (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
10/09/02	$21.00	7,488,700	-10.94%	-2.72%	-4.34%	-3.95%	-6.99%	-$1.65	-4.98	***	Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
10/10/02	$26.30	14,595,700	25.24%	3.50%	5.50%	5.25%	19.99%	$4.20	14.13	+++	Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Issues, 4 pm Net Change Percentage Gainers & Losers (DJNS 5:27 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
10/11/02	$28.20	21,932,600	7.22%	3.91%	5.02%	4.65%	2.58%	$0.68	1.83	+++	Household May Pay $500 Million Over `Predatory' Loan Practices (WSJ) News Highlights: Lucent To Take $1B Restructuring Charge (DJNS 8:01 AM) Household Intl To Host Conference Call On Oct 11 (DJNS 8:22 AM) Hot Stocks To Watch: LU JNPR HI C (DJNS 8:33 AM) News Highlights: Nortel Puts 3Q Rev In Line With Views (DJNS 9:01 AM) HOT STOCKS TO WATCH -2- (DJNS 9:15 AM) WSJ.COM/Heard On The Net: H&R Block Makes A Bet On Loans (DJNS 9:51 AM) Mich. Office Of Fincl/Insur Svcs: Household Intl Settles (DJNS 10:59 AM) News Highlights: Bank Of America Slashing 190 Jobs (DJNS 11:02 AM) Household Intl Reaches Historic Consumer Protection Pact (DJNS 11:46 AM) News Highlights: $50M Bail Package OK'd For Tyco's Ex-CFO (DJNS 12:01 PM) WSJ.COM What's News - Business and Finance For Oct. 11 (DJNS 12:15 PM) Household Intl:Business Changes To Cost 10c/Share In '03 (DJNS 12:23 PM) News Highlights: S&P Cuts Ratings On Household Intl, Units (DJNS 1:01 PM) News Highlights: AT&T Gets Favorable Tax Ruling On Spinoff (DJNS 2:00 PM) News Highlights: Sirius Satellite Missed Sept Debt Payment (DJNS

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											3:01 PM)
											News Highlights: Isle Of Capri Withdraws 4M-Share Offer (DJNS 4:02 PM)
											NYSE Most Actives 9:30-4:00 Composite Trades (DJNS 4:22 PM)
											US Stks Break 6-Week Losing Streak; GE Powers Dow Friday (DJNS 4:41 PM)
											WSJ.COM What's News - Business and Finance For Oct. 11 (DJNS 4:47 PM)
											News Highlights: Raytheon Reaffirms 3Q Views For Cont Ops (DJNS 5:00 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Recap Of Dow Jones Special Reports For Friday, Oct. 11 (DJNS 5:02 PM)
10/14/02	$28.06	4,524,400	-0.50%	0.74%	0.49%	0.48%	-0.97%	-$0.27	-0.70		Household Settlement Boosts Stock (WSJ)
											The Economy: Do Predatory-Lending Laws Cut Mortgage Credit? (WSJ)
											WSJ.COM What's News - Business and Finance For Oct. 14 (DJNS 9:15 AM)
											WSJ.COM What's News - Business and Finance For Oct. 14 (DJNS 12:15 PM)
											Options Report:Stks Resilient, But Investors Hedge Still (DJNS 3:30 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
10/15/02	$31.25	4,614,100	11.37%	4.74%	7.32%	6.94%	4.43%	$1.24	3.08	+++	Stock-Market Success of Late Hasn't Eased Investors' Concerns (WSJ)
											Calendar Of Corporate Conference Calls For Oct 16 (DJNS 4:46 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
10/16/02	$27.75	8,207,700	-11.20%	-2.40%	-1.65%	-1.15%	-10.05%	-$3.14	-7.23	***	Table Of Companies Expensing Stock Options (DJNS 7:30 AM)
											Household Intl 3Q Net 45c/Shr On Settlement Charge (DJNS 8:07 AM)
											Calendar Of Corporate Conference Calls For Oct 16 (DJNS 9:00 AM)
											News Highlights: Boeing 3Q EPS In Line (DJNS 9:01 AM)
											Household Intl CEO: Will Continue To Build Reserves (DJNS 10:12 AM)
											News Highlights:Household Intl Continue Building Reserves (DJNS 11:00 AM)
											NEWS WRAP:Household Int 3Q Net Dn 54% On Legal Settlement (DJNS 12:12 PM)
											News Highlights: AMR Corp 3Q Loss Narrower-Than-Expected (DJNS 1:01 PM)
											News Highlights: Weyerhaeuser To Cut 750 Corporate Jobs (DJNS 2:01 PM)
											News Highlights: Ford Continues 0% Financing Indefinitely (DJNS 3:00 PM)
											Settlement Charge Hurts Household Intl's 3Q Results (DJNS 3:27 PM)
											News Highlights: Judge Fines Arthur Andersen $500,000 (DJNS 4:00 PM)
											News Highlights: IBM, Apple, Kraft, AMD Report (DJNS 5:05 PM)
											Recap of Special Reports For Wednesday, October 16 (DJNS 5:05 PM)
10/17/02	$28.10	6,541,300	1.26%	2.24%	2.86%	2.69%	-1.43%	-$0.40	-1.03		Household's Results For Quarter Are Hurt By Settlement Charge CR Dow Jones Newswires . (WSJ)
											GETTING PERSONAL: Insuring Your Mortgage In Down Economy (DJNS 3:30 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
10/18/02	$29.20	3,722,100	3.91%	0.60%	0.11%	0.10%	3.81%	$1.07	2.76	+++	Deals & Deal Makers: Bond Snapshot / Investment-Grade Borrowers (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 7:30 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
10/21/02	$28.40	4,756,600	-2.74%	1.74%	1.27%	1.10%	-3.84%	-$1.12	-2.77	***	Table Of Companies Expensing Stock Options (DJNS 7:30 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Short Interest: Fortune Brands - Kemet Corp (DJNS 11:23 PM)
10/22/02	$29.28	4,184,000	3.10%	-1.06%	-0.83%	-0.55%	3.65%	$1.04	2.64	+++	Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
10/23/02	$26.45	9,930,000	-9.67%	0.68%	0.13%	0.11%	-9.78%	-$2.86	-7.07	***	What's Behind the Big Charge? Take a Look at Household (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 7:30 AM)
											News Highlights:Beige Book:Economy Still Sluggish In Sept (DJNS 3:01 PM)
											News Highlights: Calif. Shippers: Dock Workers Output Falls (DJNS 4:01 PM)
											US Stks Rebound At Close; Hopes Fed Stays Accommodative (DJNS 4:24 PM)
											News Highlights: AOL To Restate Certain Fincl Info (DJNS 5:00 PM)
											Recap Of Dow Jones Special Reports For Wednesday, Oct. 23 (DJNS 5:00 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
10/24/02	$22.83	18,236,400	-13.69%	-1.51%	-1.72%	-1.41%	-12.28%	-$3.25	-8.87	***	Computer Associates Rises 22%; DuPont Drops (WSJ)
											Options Report: Puts Pick Up As Downside Fear Rises (DJNS 3:30 PM)
											NYSE Most Actives 9:30-4:00 Composite Trade (DJNS 4:17 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											NYSE Issues, 4 pm Net Change Percentage Gainers & Losers (DJNS 5:32 PM)
											NYSE Most Actives- Composite Trades 4-6:30 p.m. EDT (DJNS 6:44 PM)
											Household Issues $900 M In New Shrs (DJNS 7:14 PM)
10/25/02	$24.09	32,260,700	5.52%	1.72%	2.28%	2.18%	3.34%	$0.76	2.40	+++	Puts of QQQ, Household, GE Look Attractive to Fretful Traders (WSJ)
											Household Helps Assuage Investor Fears By Raising $900M (DJNS 11:48 AM)
											NYSE Most Actives 9:30-4:00 Composite Trades (DJNS 4:17 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Most Actives-Composite Trades 4-6:30 PM EDT (DJNS 6:43 PM)
10/28/02	$23.12	10,208,500	-4.03%	-0.82%	-0.35%	-0.09%	-3.94%	-$0.95	-2.85	***	Table Of Companies Expensing Stock Options (DJNS 7:36 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:01 PM)
10/29/02	$23.05	8,379,400	-0.30%	-0.90%	-0.93%	-0.69%	0.39%	$0.09	0.28		
10/30/02	$23.30	4,543,800	1.08%	0.98%	0.85%	0.82%	0.27%	$0.06	0.19		Household Bank Seeks OK To Transfer Some Debt Obligations (DJNS 9:01 AM)
10/31/02	$23.76	5,217,300	1.97%	-0.55%	-0.74%	-0.57%	2.54%	$0.59	1.84	+++	
11/01/02	$23.32	11,717,500	-1.85%	1.72%	1.43%	1.28%	-3.13%	-$0.74	-2.26	***	Table Of Companies Expensing Stock Options (DJNS 7:30 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
11/04/02	$24.38	5,585,200	4.55%	0.83%	0.85%	0.85%	3.70%	$0.86	2.67	+++	Litigation Worries Trigger 8% Decline In Shares of Block (WSJ)
											Will Treasurys Remain Favored? --- Shift From Corporate Bonds May Continue as Investors Become More Conservative . (WSJ)
11/05/02	$24.32	4,169,400	-0.25%	0.78%	0.51%	0.50%	-0.74%	-$0.18	-0.54		CIT Readies $2 Billion Issue Of Bonds for Small Investors (WSJ)
											Household May Be on the Hook For Expensive Share Buyback (WSJ)
											Rules of the Game: With Soft Money On Way Out, Firms Get In Last

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Binge --- They Also Lay Groundwork For Future of Lobbying; Employees as New . (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
11/06/02	$24.96	5,131,300	2.63%	0.92%	0.06%	-0.02%	2.65%	$0.64	1.91	+++	Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
11/07/02	$24.41	7,782,300	-2.20%	-2.28%	-3.27%	-2.90%	0.69%	$0.17	0.50		Saks Inc Oct Same-Store Sales Fell 0.7% (DJNS 8:30 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
11/08/02	$23.05	6,912,700	-5.57%	-0.87%	-0.60%	-0.34%	-5.23%	-$1.28	-3.78	***	
11/11/02	$23.07	3,344,900	0.09%	-2.07%	-1.31%	-0.86%	0.94%	$0.22	0.68		Hot Stocks On Wall Street Week With Fortune (DJNS 7:33 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
11/12/02	$22.25	3,789,000	-3.55%	0.78%	0.94%	0.96%	-4.51%	-$1.04	-3.26	***	Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
11/13/02	$22.46	5,519,800	0.94%	-0.04%	-0.45%	-0.36%	1.30%	$0.29	0.94		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
11/14/02	$27.50	76,720,900	22.44%	2.47%	2.98%	2.77%	19.67%	$4.42	14.13	+++	News Highlights: Bell Industries 3Q Loss 5c/Shr Vs Net 2c (DJNS 8:00 AM)
											Hot Stocks To Watch: HBC HI V RHHBY YHOO VFC PVH (DJNS 8:31 AM)
											HOT STOCKS TO WATCH (DJNS 8:34 AM)
											News Highlights: Target 3Q EPS 30c, Above 28c Views (DJNS 9:01 AM)
											WSJ.COM What's News - Business and Finance For Nov. 14 (DJNS 9:15 AM)
											News Highlights: Sprint To Cut 1,600 Employees (DJNS 10:01 AM)
											News Highlights: Delta Air Sees $42M 4Q Chg For Notes (DJNS 11:00 AM)
											News Highlights:Hughes Elec In Talks To Amend Credit Pacts (DJNS 12:00 PM)
											HSBC-Household Deal Shuffles Merger-Advisory Rankings (DJNS 12:07 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											WSJ.COM What's News - Business and Finance For Nov. 14 (DJNS 12:15 PM)
											HSBC Goes Consumer Finance Route, Unlike Other EU Banks (DJNS 12:31 PM)
											News Highlights: Adv Micro To Cut 15% Work Force By 2Q-End (DJNS 1:01 PM)
											News Highlights: Pakistan Intl Air Orders 8 Boeing 777s (DJNS 2:02 PM)
											News Highlights: Chertoff Approached For SEC Post - WSJ (DJNS 3:00 PM)
											Options Report: Calls Fly, Fear Gauge Falls, On Good Day (DJNS 3:30 PM)
											News Highlights: Lehman Bros To Cut 4% Of Work Force (DJNS 4:00 PM)
											NYSE Most Actives 9:30-4:00 Composite Trade (DJNS 4:14 PM)
											Small-Cap Stocks Rise; Nasdaq Gains 3.7% On Tech Surge (DJNS 4:41 PM)
											US Stocks Hold Rally, Aided By Big Household Deal (DJNS 4:41 PM)
											WSJ.COM What's News - Business and Finance For Nov. 14 (DJNS 4:45 PM)
											News Highlights: Dell 3Q EPS 21c Vs 16c (DJNS 5:00 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Recap Of Dow Jones Special Reports For Thursday, Nov. 14 (DJNS 5:05 PM)
											NYSE Issues, 4 pm Net Change Percentage Gainers & Losers (DJNS 5:25 PM)
											HSBC-Household Deal Not Viewed A Sign Of M&A Rebound (DJNS 5:35 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
11/15/02	$29.35	27,422,300	6.73%	0.62%	0.98%	1.03%	5.70%	$1.57	4.12	+++	A Global Journal Report --- Buying American: HSBC to Acquire Lender in Big Bet On U.S. Economy --- In Household Deal, U.K. Bank Sees Consumer . (WSJ) Ahead of the Tape (WSJ) Business and Finance (WSJ) Deals & Deal Makers: Bids & Offers (WSJ) Dow Industrials Recross 8500; Bonds Tumble (WSJ) Hong Kong Real-Estate Issues Rally (WSJ) Household's 22% Jump Buoys Financials; Tech Shares Rally (WSJ) Pent Up by Months of Gloom, Bulls Take Good News and Charge (WSJ) Small-Stock Focus: Tech Leads Stocks Higher; Kulicke, CNET Jump (WSJ) Yield on 10-Year Note Is Pushed Back Above 4% --- Retail-Sales Report Spurs Brisk Selling by Investors, Creating Big Price Declines . (WSJ) Table Of Companies Expensing Stock Options (DJNS 7:30 AM) Table Of Recent Mergers/Acquisitions Announcements (DJNS 11:00 AM) NYSE Most Actives 9:30-4:00 Composite Trades (DJNS 4:15 PM) NYSE Issues, 4 pm Net Change Percentage Gainers & Losers (DJNS 5:20 PM)
11/18/02	$28.40	16,419,000	-3.24%	-1.03%	-1.90%	-1.70%	-1.54%	-$0.45	-1.11		Do Restructuring Plays Pay Off? (WSJ) Wall Street Stock Pickers Stumble --- Just Eight of 15 Firms Beat A Minus 17.6% Return On S&P 500 for Quarter . (WSJ) Table Of Recent Mergers/Acquisitions Announcements (DJNS 11:00 AM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											H&R Block's Stock Drop Seen As An Overreaction (DJNS 3:26 PM)
											NYSE Most Actives 9:30-4:00 Composite Trade (DJNS 4:21 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Most Actives- Composite Trades (DJNS 6:47 PM)
11/19/02	$28.32	12,072,200	-0.28%	-0.39%	0.29%	0.50%	-0.78%	-$0.22	-0.57		Table Of Recent Mergers/Acquisitions Announcements (DJNS 11:00 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NEWS WRAP: Saks Posts Profit; Nordstrom Hits Lowered View (DJNS 5:07 PM)
11/20/02	$28.67	14,312,700	1.24%	1.95%	2.42%	2.29%	-1.05%	-$0.30	-0.76		Saks Swung to Profit in Period As New York Store Rebounded (WSJ)
											Table Of Recent Mergers/Acquisitions Announcements (DJNS 11:00 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											ITLA Cap Corp Announces Pact With Household Intl Inc. (DJNS 4:05 PM)
11/21/02	$29.14	10,683,100	1.64%	2.15%	2.20%	2.01%	-0.37%	-$0.11	-0.26		Cantor eSpeed Unit Faces Criticism --- Some Customers of Service Complain About Feature On Trumping of Trades . (WSJ)
											New Securities Issues (WSJ)
											Table Of Recent Mergers/Acquisitions Announcements (DJNS 11:00 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Short Interest: Fortune Brands - Kemet Corp (DJNS 11:03 PM)
11/22/02	$27.60	26,754,500	-5.28%	-0.34%	-0.42%	-0.27%	-5.02%	-$1.46	-3.63	***	Corporate-Debt Market Is Humming --- Looming Holiday Season, Rebounding Stocks Help To Boost Issuance Activity . (WSJ)
											Deals & Deal Makers: Bond Snapshot / Investment-Grade Issuance (WSJ)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Table Of Recent Mergers/Acquisitions Announcements (DJNS 11:00 AM)
											NYSE Most Actives 9:30-4:00 Composite Trades (DJNS 4:17 PM)
											US Stocks End Mixed; DJIA Posts 7th Straight Weekly Gain (DJNS 4:49 PM)
											LATE TRADING: Brocade, American Tower, Household Active (DJNS 4:54 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:05 PM)
11/25/02	$27.55	12,365,800	-0.18%	0.26%	-0.42%	-0.39%	0.21%	$0.06	0.15		December Forecast: a Blizzard of Key Data (WSJ)
											Table Of Recent Mergers/Acquisitions Announcements (DJNS 11:00 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
11/26/02	$26.93	6,516,700	-2.25%	-2.09%	-2.69%	-2.32%	0.07%	$0.02	0.05		GE Capital Begins $20 Billion Offer --- Household Finance, CIT Group Also Launch 10-Year Debt Securities . (WSJ)
											Table Of Recent Mergers/Acquisitions Announcements (DJNS 11:00 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
11/27/02	$28.29	6,103,000	5.05%	2.81%	2.98%	2.70%	2.35%	$0.63	1.68	+++	Table Of Recent Mergers/Acquisitions Announcements (DJNS 11:00 AM)
											Strong Tax Season, Mortgage Business Helping H&R Block (DJNS 12:45 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Most Actives-Composite Trades 4-6:30 PM EST (DJNS 6:45 PM)
11/29/02	$28.70	3,250,600	1.45%	-0.27%	-0.45%	-0.31%	1.76%	$0.50	1.27		European Stocks Manage to Carve Out Gains (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 7:20 AM)
											Table Of Recent Mergers/Acquisitions Announcements (DJNS 9:07 AM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											NYSE Most Actives-Composite Trades (DJNS 4:33 PM)
12/02/02	$28.47	5,417,200	-0.80%	-0.18%	-0.28%	-0.15%	-0.65%	-$0.19	-0.47		A Credit-Card Sector With a `Caution' Sign (WSJ)
											Table Of Recent Mergers/Acquisitions Announcements (DJNS 11:00 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
12/03/02	$28.32	7,567,000	-0.53%	-1.47%	-1.20%	-0.86%	0.33%	$0.09	0.24		Table Of Companies Expensing Stock Options (DJNS 7:30 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Most Actives- Composite Trades 4-6:30 p.m. ET (DJNS 6:40 PM)
12/04/02	$28.12	4,411,200	-0.71%	-0.34%	-0.31%	-0.15%	-0.55%	-$0.16	-0.40		Table Of Companies Expensing Stock Options (DJNS 7:20 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
12/05/02	$27.88	3,976,200	-0.85%	-1.19%	-1.71%	-1.47%	0.61%	$0.17	0.44		Deals & Deal Makers: A Market Backfires, and Investors Pay --- Though Greenspan Praised Idea, Credit-Derivative Trading Mutates; Instead of . (WSJ)
											GETTING PERSONAL: Pros And Cons Of Cash-Out Refinancing (DJNS 9:30 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
12/06/02	$28.45	4,598,500	2.04%	0.63%	0.75%	0.78%	1.26%	$0.35	0.91		Before More Bets On HSBC, Arbs Want To See M&A Agreement (DJNS 1:18 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
12/09/02	$27.55	3,755,100	-3.16%	-2.21%	-1.96%	-1.52%	-1.65%	-$0.47	-1.19		Deals & Deal Makers: Flurry in European M&A Market Fans Hopes (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
12/10/02	$28.07	2,963,500	1.89%	1.40%	1.76%	1.69%	0.19%	$0.05	0.14		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
12/11/02	$27.98	3,037,400	-0.32%	0.06%	0.07%	0.17%	-0.49%	-$0.14	-0.36		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
12/12/02	$27.77	2,192,400	-0.75%	-0.36%	-0.46%	-0.30%	-0.45%	-$0.13	-0.33		Weak Business For Invest Banks To Weigh On 4Q Earnings (DJNS 3:59 PM)
											Weak Business For Invest Banks To Weigh On 4Q Earnings (DJNS 4:00 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
12/13/02	$27.55	5,599,100	-0.79%	-1.34%	-1.22%	-0.91%	0.12%	$0.03	0.08		HSBC Still Tight-Lipped About Household Intl Merger Pact (DJNS 1:11 PM)
											News Highlights: Anadarko Backs 4Q EPS View (DJNS 2:00 PM)
											HSBC Discusses Merger Following Investor Complaints (DJNS 2:06 PM)
											News Highlights: Bush Calls Smallpox A Potential Threat (DJNS 3:00 PM)
											News Highlights:UAL CFO: Bookings Better Than Expected (DJNS 4:00 PM)
											News Highlights: WorldCom Settles With EDS (DJNS 5:00 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Recap Of Dow Jones Special Reports For Friday, Dec. 13 (DJNS 5:09 PM)
12/16/02	$28.55	7,476,400	3.63%	2.36%	2.83%	2.64%	0.99%	$0.27	0.71		Options Report: Volatility Slides As Stocks Post Gains (DJNS 3:30 PM)
											Table Of Companies Expensing Stock Options (DJNS 4:56 PM)
12/17/02	$28.25	5,310,900	-1.05%	-0.81%	-0.57%	-0.33%	-0.72%	-$0.21	-0.52		Investors Look to Defensive Puts To Protect Profits as Stocks Rise (WSJ)
											NY Official:Household Intl To Pay Max $484M Fine In Suit (DJNS 11:36 AM)
											News Highlights: Six WorldCom Board Members Resign (DJNS 12:01 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
12/18/02	$27.82	3,859,200	-1.52%	-1.31%	-1.62%	-1.35%	-0.18%	-$0.05	-0.13		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
12/19/02	$27.90	3,690,100	0.29%	-0.76%	-0.78%	-0.56%	0.85%	$0.24	0.61		Household Intl Settlement With Attorneys Genl Take Efect (DJNS 9:11 AM)
											News Highlights:Goldman CFO Sees Gradual Recovery In 03 (DJNS 10:02 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Short Interest: Forest Oil Corp - Kemet Corp (DJNS 11:03 PM)
12/20/02	$28.39	10,653,100	1.76%	1.31%	1.97%	1.94%	-0.18%	-$0.05	-0.13		HSBC Holdings Plc In Agreement To Buy Household Intl (DJNS 9:28 AM)
											Table Of Companies Expensing Stock Options (DJNS 4:53 PM)
12/23/02	$28.00	4,801,300	-1.37%	0.19%	-0.33%	-0.28%	-1.10%	-$0.31	-0.79		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
12/24/02	$27.98	1,258,900	-0.07%	-0.54%	-0.87%	-0.70%	0.63%	$0.18	0.46		Table Of Companies Expensing Stock Options (DJNS 2:00 PM)
											NYSE Most Actives- Composite Trades (DJNS 4:18 PM)
12/26/02	$27.95	2,121,700	-0.11%	-0.31%	-0.11%	0.06%	-0.17%	-$0.05	-0.12		Table Of Companies Expensing Stock Options (DJNS 7:30 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
12/27/02	$27.36	1,812,700	-1.22%	-1.60%	-1.97%	-1.66%	0.44%	$0.12	0.32		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
12/30/02	$27.85	3,161,000	1.79%	0.46%	0.77%	0.84%	0.95%	$0.26	0.69		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
12/31/02	$27.81	2,063,200	-0.14%	0.06%	0.32%	0.44%	-0.58%	-$0.16	-0.42		US Merger Volume Falls 41% To $458 Bln In '02 - Thomson (DJNS 2:03 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/02/03	$28.32	3,217,200	1.83%	3.33%	3.46%	3.11%	-1.27%	-$0.35	-0.91		Year-End Review of Markets & Finance 2002 --- A Year of Scandals & Sorrow . (WSJ)
											Year-End Review of Markets & Finance 2002 --- Merger Market Gets Year-End Jump-Start --- Bankers See Some Evidence Of a Turnaround, but . (WSJ)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Year-End Review of Markets & Finance 2002 --- Underwriting Sank Under Market's Woes --- Global Volume Fell by 5.1%, Disclosed Fees Dropped 21% . (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/03/03	$28.63	4,177,300	1.09%	-0.04%	0.00%	0.12%	0.98%	$0.28	0.71		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/06/03	$28.85	6,930,000	0.77%	2.25%	2.95%	2.79%	-2.02%	-$0.58	-1.45		Quarterly Mutual Funds Review --- Seeking an End to the Stock Storm --- Bears Hold On Tight To Cautious Outlook; One Major Risk: Iraq . (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/07/03	$28.50	5,192,400	-1.21%	-0.65%	-0.88%	-0.69%	-0.53%	-$0.15	-0.38		Table Of Companies Expensing Stock Options (DJNS 7:00 AM)
											H&R Block Says To Meet Or Exceed FY03 Financial Goals (DJNS 9:34 AM)
											Subprime Credit Card Cos. Saw More Credit Erosion In 4Q (DJNS 12:18 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/08/03	$28.48	3,440,600	-0.07%	-1.40%	-1.06%	-0.73%	0.66%	$0.19	0.48		Muni Bonds Shrug Off Bush Plan --- Effect of New Competitor In Tax-Exempt Market Is Still Being Weighed . (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/09/03	$28.50	5,999,800	0.07%	1.95%	1.89%	1.72%	-1.65%	-$0.47	-1.19		New Securities Issues (WSJ)
											Saks Dec Same-Store Sales Fell 2.1% (DJNS 8:44 AM)
											TIP SHEET: Simon Says, Back To Fundamental Investing (DJNS 3:00 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/10/03	$28.50	5,215,900	0.00%	0.01%	-0.09%	0.01%	-0.01%	$0.00	-0.01		New Securities Issues (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/13/03	$28.45	3,850,700	-0.18%	-0.13%	0.23%	0.38%	-0.56%	-$0.16	-0.40		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
01/14/03	$28.50	6,693,000	0.18%	0.59%	0.90%	0.95%	-0.77%	-$0.22	-0.56		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/15/03	$28.50	6,160,700	0.00%	-1.44%	-1.53%	-1.22%	1.22%	$0.35	0.88		Household Intl Year-ago 4Q EPS $1.13 (DJNS 8:04 AM)
											News Highlights: DuPont Sees 4Q EPS 31c-33c (DJNS 9:02 AM)
											Household Reports 4Q EPS 66c (DJNS 8:03 AM)
											Household Int'l Results Pose Little Threat To Merger (DJNS 10:56 AM)
											News Highlights: AOL Denies It Is Wooing Mel Karmazin (DJNS 11:00 AM)
											NEWS WRAP: Household Intl Net Falls 37% On Thrift Sale (DJNS 11:05 AM)
											News Highlights: Taubman To Advise Holders In 10 Days (DJNS 12:00 PM)
											News Highlights: Synovus Financial 4Q EPS 35c Vs 29c (DJNS 1:00 PM)
											News Highlights: Raymond James 1Q EPS 29c Vs 37c (DJNS 2:00 PM)
											News Highlights: Economy Remained Sluggish - Beige Book (DJNS 3:00 PM)
											News Highlights: McDonald's Names Alvarez US Opers Chief (DJNS 4:00 PM)
											News Highlights: Yahoo 4Q Net 8c A Share, Beats View (DJNS 5:00 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Recap Of Dow Jones Special Reports For Wednesday, Jan. 15 (DJNS 5:10 PM)
01/16/03	$28.47	3,831,600	-0.11%	-0.39%	-0.74%	-0.59%	0.49%	$0.14	0.35		Financial Services Brief -- Household International Inc.: Net Income in 4th Quarter Fell By 37% on Loss of Sale of Unit . (WSJ)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											New Securities Issues (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/17/03	$28.28	2,959,700	-0.67%	-1.40%	-0.35%	0.03%	-0.70%	-$0.20	-0.51		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/20/03											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/21/03	$27.87	5,886,900	-1.45%	-1.56%	-1.68%	-1.35%	-0.10%	-$0.03	-0.07		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/22/03	$27.21	5,218,400	-2.37%	-1.04%	-1.48%	-1.26%	-1.11%	-$0.31	-0.80		Table Of Companies Expensing Stock Options (DJNS 4:13 PM)
											NYSE Short Interest: Forest Brands - Kemet Corp (DJNS 11:04 PM)
01/23/03	$27.39	9,295,500	0.66%	1.03%	1.14%	1.11%	-0.45%	-$0.12	-0.33		New Securities Issues (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/24/03	$27.00	3,353,500	-1.42%	-2.92%	-3.58%	-3.10%	1.68%	$0.46	1.20		High Court To Rule On Venue For Interest Rate Fraud Case (DJNS 3:24 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/27/03	$26.44	3,369,700	-2.07%	-1.61%	-1.38%	-1.02%	-1.05%	-$0.28	-0.76		High Court Is to Weigh Venue For Lawsuit Over Loan Interest (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/28/03	$26.60	3,803,100	0.61%	1.31%	1.08%	0.99%	-0.39%	-$0.10	-0.28		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/29/03	$26.25	7,099,300	-1.32%	0.69%	0.16%	0.14%	-1.46%	-$0.39	-1.05		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/30/03	$26.05	4,236,600	-0.76%	-2.28%	-2.23%	-1.79%	1.03%	$0.27	0.74		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
01/31/03	$27.31	7,182,600	4.84%	1.32%	1.58%	1.53%	3.31%	$0.86	2.39	+++	Table Of Companies Expensing Stock Options (DJNS 3:00 PM)
02/03/03	$27.04	4,120,400	-0.99%	0.55%	0.55%	0.58%	-1.57%	-$0.43	-1.13		Gottschalks Sets Financial Positioning Plan (DJNS 6:31 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
02/04/03	$26.76	3,837,700	-1.04%	-1.40%	-2.44%	-2.20%	1.17%	$0.32	0.84		Retail Brief -- Gottschalks Inc.: Revamp Includes Closing Stores, Selling Credit-Card Operation . (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
02/05/03	$26.65	4,919,500	-0.41%	-0.54%	-0.70%	-0.52%	0.11%	$0.03	0.08		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
02/06/03	$26.45	3,615,800	-0.75%	-0.64%	-1.46%	-1.32%	0.57%	$0.15	0.41		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
02/07/03	$26.55	2,835,500	0.38%	-1.00%	-0.89%	-0.63%	1.01%	$0.27	0.73		Table Of Companies Expensing Stock Options (DJNS 4:39 PM)
02/10/03	$26.63	2,953,100	0.30%	0.76%	0.80%	0.81%	-0.51%	-$0.14	-0.37		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
02/11/03	$26.61	2,593,900	-0.08%	-0.80%	-1.29%	-1.09%	1.02%	$0.27	0.73		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
02/12/03	$26.81	4,086,400	0.75%	-1.26%	-1.17%	-0.87%	1.63%	$0.43	1.18		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
02/13/03	$27.03	5,351,800	0.82%	-0.15%	0.54%	0.72%	0.10%	$0.03	0.07		New Securities Issues (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
02/14/03	$27.20	3,783,500	0.63%	2.15%	2.26%	2.07%	-1.44%	-$0.39	-1.04		Subprime Bill Aims to Mute State Laws --- Republican's Proposal to Police Predatory Lending Would Set Weaker National Standards . (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
02/18/03	$27.57	1,925,700	1.36%	1.96%	1.63%	1.44%	-0.08%	-$0.02	-0.06		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
02/19/03	$27.68	3,051,500	0.40%	-0.70%	-0.49%	-0.27%	0.67%	$0.18	0.48		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
02/20/03	$27.51	2,718,700	-0.61%	-0.94%	-0.81%	-0.55%	-0.06%	-$0.02	-0.04		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
02/21/03	$27.70	2,398,200	0.69%	1.33%	1.21%	1.12%	-0.43%	-$0.12	-0.31		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
02/23/03											NYSE Short Interest: Forest Brands - Kemet Corp (DJNS 11:40 PM)
02/24/03	$27.49	3,218,300	-0.76%	-1.83%	-2.18%	-1.83%	1.07%	$0.30	0.77		News Highlights: White House To Introduce 2nd UN Resolution (DJNS 11:00 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											H&R Block CEO: Snow Hurt Tax Business Through Mid Feb. (DJNS 5:16 PM)
											NYSE Most Actives-Composite Trades (4-6:30 P.M. EST) (DJNS 6:50 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
02/25/03	$27.55	3,246,700	0.22%	0.73%	0.70%	0.71%	-0.49%	-$0.14	-0.36		Table Of Companies Expensing Stock Options (DJNS 4:00 PM)
02/26/03	$27.39	4,092,300	-0.58%	-1.31%	-1.30%	-1.00%	0.42%	$0.11	0.30		Spitzer Tangles Again With Federal Regulators --- New York Official Says Bank Overseer Hampers Predatory-Lending Probes . (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
02/27/03	$27.73	2,899,600	1.24%	1.18%	1.58%	1.55%	-0.31%	-$0.09	-0.23		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
02/28/03	$27.93	2,788,300	0.72%	0.47%	0.28%	0.32%	0.40%	$0.11	0.29		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
03/03/03	$28.10	2,911,500	0.61%	-0.75%	-0.69%	-0.47%	1.08%	$0.30	0.78		Deals & Deal Makers: New HSBC Chief Will Minister U.S.-Loan Foray (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
03/04/03	$27.87	2,679,300	-0.82%	-1.53%	-1.50%	-1.17%	0.35%	$0.10	0.25		How One Black Woman Lands Her Top Jobs: Risks and Networking (WSJ)
											HSBC's Pretax Profit Rises 21% As Loan-Loss Provisions Decline (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
03/05/03	$28.08	2,435,600	0.75%	0.96%	1.29%	1.29%	-0.53%	-$0.15	-0.38		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
03/06/03	$27.35	3,248,700	-2.60%	-0.93%	-1.44%	-1.24%	-1.36%	-$0.38	-0.99		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
03/07/03	$27.56	3,880,100	0.77%	0.83%	0.96%	0.96%	-0.19%	-$0.05	-0.14		HOT STOCKS TO WATCH (DJNS 8:31 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
03/10/03	$26.78	4,893,800	-2.83%	-2.58%	-3.70%	-3.30%	0.47%	$0.13	0.33		Fed's View Sought In Credit Card Over-The-Limit Fee Case (DJNS 4:45 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
03/11/03	$27.09	4,929,700	1.16%	-0.83%	-1.60%	-1.42%	2.58%	$0.69	1.86	+++	Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											Household Intl Declares 86.94c Div Based On HSBC Merger (DJNS 6:45 PM)
03/12/03	$27.29	4,878,900	0.74%	0.44%	-0.07%	-0.05%	0.79%	$0.21	0.57		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
03/13/03	$27.89	5,119,200	2.20%	3.45%	4.30%	3.98%	-1.78%	-$0.49	-1.27		Table Of Companies Expensing Stock Options (DJNS 7:00 AM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
03/14/03	$27.51	4,874,000	-1.36%	0.17%	0.39%	0.49%	-1.85%	-$0.52	-1.34		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
03/17/03	$28.16	8,931,800	2.36%	3.55%	3.41%	3.00%	-0.64%	-$0.18	-0.46		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Most Actives - Composite Trades 4-6:30 P.M. (DJNS 6:58 PM)
03/18/03	$28.20	5,529,200	0.14%	0.43%	0.27%	0.31%	-0.16%	-$0.05	-0.12		Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
03/19/03	$28.45	11,459,800	0.89%	0.88%	1.44%	1.46%	-0.58%	-$0.16	-0.42		Household Enters Into Consent Order With SEC>HI HBC (DJNS 10:50 AM)
											Household Intl Makes Announcement (DJNS 11:45 AM)
											NEWS WRAP: SEC Says Household Violated Securities Laws (DJNS 3:33 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
03/20/03	$27.76	11,220,100	-2.43%	0.20%	0.26%	0.35%	-2.77%	-$0.79	-2.01	***	Financial Services Brief -- Household International Inc.: Deal Is Reached With SEC In Probe of Finance Company . (WSJ)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Most Actives- Composite Trades 4-6:30 p.m. EST (DJNS 6:41 PM)
											NYSE Short Interest: Fortune Brands - Kemet Corp (DJNS 11:03 PM)
03/21/03	$28.35	16,243,900	2.13%	2.30%	2.58%	2.38%	-0.25%	-$0.07	-0.18		Stockholder Meetings For The Week Of March 24 (DJNS 12:50 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
03/24/03	$27.05	13,016,700	-4.59%	-3.52%	-3.43%	-2.81%	-1.77%	-$0.50	-1.27		At Fairholme, It's Business as Usual --- Fund Focuses on Research, Not the Market or the War, To Beat Others' Rankings . (WSJ)
											NYSE Most Actives 9:30-4:00 Composite Trade (DJNS 4:16 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											Symantec To Replace Household Intl In S&P 500 (DJNS 5:20 PM)
											NYSE Most Actives- Composite Trades (DJNS 6:52 PM)
03/25/03	$28.00	9,905,100	3.51%	1.22%	0.62%	0.52%	2.99%	$0.81	2.16	+++	Symantec to Get S&P 500 Listing (WSJ)
											Hot Stocks To Watch: SONC ASF SYMC HI ANTR GD (DJNS 7:31 AM)
											HOT STOCKS TO WATCH (DJNS 8:37 AM)
											US Stocks Rise As Positive Developments Take Precedence (DJNS 4:37 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Most Actives- Composite Trades 4-6:30 p.m. EST (DJNS 6:40 PM)
03/26/03	$28.20	13,809,600	3.82%	-0.54%	-0.41%	-0.21%	4.03%	$1.13	2.92	+++	JetBlue and Southwest Climb As Steel, Tobacco Stocks Slide (WSJ)
											NYSE Most Actives 9:30-4:00 Composite Trade (DJNS 4:24 PM)
											NYSE Disciplines 3 Firms, 11 Individuals >LM C (DJNS 4:34 PM)
											US Stocks Drop As Iraq, Profit Concerns Cause Caution (DJNS 4:52 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Most Actives- Composite Trades 4-6:30 p.m. EST (DJNS 6:41 PM)
03/27/03	$28.25	15,158,900	0.18%	-0.16%	-0.47%	-0.36%	0.54%	$0.15	0.39		Nvidia, Xcel See Gains as Stocks Slip (WSJ)
											Sears Pegs Revival on Sale of Credit Unit --- As Retailer Plans to Return to Core Operations, Stock Price Jumps 13% . (WSJ)
											NYSE Most Actives 9:30-4:00 Composite Trade (DJNS 4:18 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Most Actives - Composite Trades 4-6:30 P.M. (DJNS 6:40 PM)

Event Study for Household International, Inc.

Date	Price	Volume	Household Return	S&P 500 Index Return	S&P Financials Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	|t| > 1.65	Comment
											NYSE Most Actives - Composite Trades 4-6:30 P.M. (DJNS 6:41 PM)
03/28/03	$28.28	99,515,900	0.11%	-0.57%	-0.44%	-0.23%	0.34%	$0.10	0.25		Stockholder Meetings For Friday, March 28 (DJNS 7:00 AM)
											Household To Redeem Cumulative Preferred Stk (DJNS 11:38 AM)
											Dow Jones News Highlights Top Stories Of The Day (DJNS 1:00 PM)
											Dow Jones News Highlights Top Stories Of The Day (DJNS 2:00 PM)
											Dow Jones News Highlights Top Stories Of The Day (DJNS 3:00 PM)
											NYSE Most Actives 9:30-4:00 Composite Trades (DJNS 4:19 PM)
											News on Household International Inc. (HI) Now Under Symbol HBC (DJNS 4:57 PM)
											Table Of Companies Expensing Stock Options (DJNS 5:00 PM)
											NYSE Most Actives - Composite Trades 4-6:30 P.M. (DJNS 6:42 PM)

Note: Predicted and residual returns were calculated using the equation: $R_{Household} = 0.00112 + -0.20929 \times R_{S\&P500} + 1.06738 \times R_{Financials}$, where $R_{Household}$ is Household's daily stock return, $R_{S\&P500}$ is the daily return of the S&P 500 index, and $R_{Financials}$ is the daily return of the S&P 500 Financials index. This equation was estimated using an estimation period of November 15, 2000 - November 14, 2001.

Sources: Household stock price data from the 200512 and 200612 CRSP, Center for Research in Security Prices. Graduate School of Business, The University of Chicago used with permission. All rights reserved. www.crsp.chicagogsb.edu. S&P index returns from SunGard Data Management Solutions. *Dow Jones News Service* and *Wall Street Journal* articles from Factiva.

Exhibit 50

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October 11, 2002 Friday
NORTH SPORTS FINAL EDITION

SECTION: NEWS; ZONE: N; Pg. 1

LENGTH: 811 words

HEADLINE: Household may settle charges;
In plan, firm pays $475 million for predatory lending

BYLINE: By Janet Kidd Stewart, Tribune staff reporter

BODY:

Household International Inc. will pay nearly $500 million to resolve predatory lending charges in a settlement with Illinois and other states that could be announced as early as Friday, sources said.

Prospect Heights-based Household, the nation's largest lender to borrowers with spotty credit, faces several class-action lawsuits nationwide that involve allegations of excessive fees and prepayment penalties to consumers with blemished credit histories.

Illinois Atty. Gen. Jim Ryan and New York Atty. Gen. Eliot Spitzer are among those who will be announcing the settlement, a source said Thursday. Other states involved include Iowa, Minnesota, Washington, California, North Carolina and Arizona, the source said.

Household officials and aides to Ryan and several other attorneys general declined to comment Thursday on a potential settlement.

But sources familiar with the allegations against Household said as many as three news conferences, including one in Chicago, are planned Friday to announce a settlement with as many as 46 states for roughly $475 million.

It is unclear how consumers will be compensated in the arrangement. That is a key issue in determining Household's remaining liability in individual lawsuits.

A lawyer representing several plaintiffs in lending cases against Household said any settlement should directly compensate victims and impose new lending rules on Household.

"I'm keeping an open mind, but this looks like an attempt to cap their exposure," said Robert Parlette, a Washington attorney who is bringing a class-action lawsuit against the lender in that state. "I'm not sure what this means for people who have already lost their homes in foreclosure. It has been absolutely devastating for them."

Officials for a community watchdog group applauded word of the deal.

"If there is a settlement, we feel it is a good first step and appropriate that the attorneys general respond to the complaints," said Michael Shea, executive director of ACORN Housing, the community development arm of watchdog group Association of Community Organizations for Reform Now. "We hope the company will similarly attempt to settle the individual complaints and look forward to working with the attorneys general on that."

Last month, Citigroup Inc. agreed to pay $240 million to settle similar lending accusations against a Texas subsidiary, Associates First Capital. Those allegations were brought by the Federal Trade Commission and in a private class-action lawsuit in California.

Shares of Household soared 25 percent Thursday, to $26.30, on volume of more than 14 million shares, nearly double the previous day's activity.

It was a positive day on Wall Street in general, but an analyst who follows Household's stock said activity in that issue was especially heavy.

"The whole [financial services] group was under pressure from short sellers early in the day, and then [Household shares] started to run really hard," said Reilly Tierney, an analyst with Fox-Pitt, Kelton in New York.

A settlement would help the company put the negative headlines about its lending practices behind it, leaving credit rating agencies more comfortable about Household's unsecured debt, analysts said.

The company's stock has been reeling while Household fights the allegations and since it restated several years' worth of earnings in August.

Also in August, the Washington attorney general's office announced it was working with prosecutors in other states on an investigation into Household's lending practices.

A private class-action lawsuit with six named plaintiffs is also pending in Washington.

"If they reach a settlement, I hope it covers everybody," said Jeanie Luna, of Blaine, Wash., one of the plaintiffs. "I'm distrustful of anybody these days, but I'm hopeful the state and the attorneys general are working for the people and will be out to help us."

Luna claims in the lawsuit that when she refinanced her home in July 2000, she was told she would get an interest rate of 6.99 percent, when it was actually 12.76 percent. The lawsuit also claims that the company's other loan terms were confusing and misleading to consumers.

Washington's Department of Financial Institutions issued a 66-page report in April that outlined a flood of complaints and allegations of misleading lending practices against Household.

And in May, ACORN filed a lawsuit in Illinois against the company, accusing it of misleading customers on $45 million in loans.

Company officials have acknowledged publicly and in written statements that they are working with regulators to resolve complaints of predatory lending.

"Working together with reputable lenders, as well as state and federal regulatory authorities, we are striving to rid our industry of unscrupulous practices in order to protect our customers and the longevity of our business," the company said in a recent policy statement.

LOAD-DATE: October 11, 2002

Exhibit 51

STANDARD & POOR'S

RATINGSDIRECT®

October 11, 2002

Household International Inc. Ratings Lowered; Outlook Remains Stable

Credit Analyst:
Lisa J Archinow, CFA, New York (1) 212-438-7364

NEW YORK (Standard & Poor's) Oct. 11, 2002--Standard & Poor's Ratings Services said today that it lowered its ratings, including its long- and short-term counterparty credit ratings, to single-'A'-minus/'A-2' from single-'A'/'A-1' on Household International Inc. and its subsidiaries. The outlook remains stable.

The downgrade occurred following Household's announcement that it had reached a preliminary agreement with a multistate group of state attorneys general and regulatory agencies, representing a national resolution of issues related to the company's subprime lending practices. Under the terms of this agreement, Household will provide up to $484 million, which will be recognized in the third quarter, to resolve consumer complaints.

"Household's earnings generation capability for the full year 2002 of approximately $2 billion can absorb this sizable charge. Nevertheless, the charge, coming on the heels of the company's $386 million accounting adjustments, calls into question the managerial controls in place at the company as well as its appetite for risk taking," said credit analyst Lisa J. Archinow, CFA. Despite this settlement, there is no guarantee that this settlement will completely eliminate other issues or concerns that may evolve out of the company's subprime lending practices—be it unfair lending practices or ineffective controls. The current rating level assumes that Household will meet its tangible equity-to-tangible managed assets ratio of 8.50%, which management has committed to do. Household intends to sell the assets and the deposits at its thrift, Household Bank

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fsb, to meet its capital ratio. The financial impact of this will result in a $250 million-$300 million after-tax charge to earnings to be taken in the fourth quarter. Any further special charges (other than the sale of the thrift) or further deterioration in operating performance could put additional pressure on the rating.

Household has the capacity to absorb these nonrecurring charges. The continued occurrence of "unusual" charges could have an adverse effect on Household's funding and access to the capital markets. To date, Household has faced higher funding costs. Furthermore, while these events are generally nonrecurring, it highlights the higher operating risks inherent in Household's business model. The outlook could be revised to negative if the company is not able to demonstrate continued accessibility to the capital markets as a source of wholesale funding and maintain satisfactory credit reserve and capital levels. Material deterioration in asset quality measures could also trigger a downgrade in the ratings.

A complete list of the ratings is available to subscribers of RatingsDirect, Standard & Poor's web-based credit analysis system, at www2.ratingsdirect.com. They are also available on Standard & Poor's new Web site at www2.standardandpoors.com. Select Credit Ratings Actions under the Fixed Income heading.

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Exhibit 52

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October 11, 2002

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BYLINE: Rieker, Matthias

BODY:

Banks stocks recovered a bit Thursday, reversing some of the steep losses registered in several recent bloody sessions, but not enough to convince investors that the sector is out of the woods.

One standout was Household International Inc., which surged more than 25% on market talk that it could reach an agreement as soon as Friday that would settle investigations by state attorneys general into its subprime consumer lending business. Household declined to discuss the rumor, as did a representative of Washington's attorney general, who is believed to be coordinating the talks.

Household shares closed at $ 26.30, up $ 5.30 or 25.2% on the session.

Elsewhere the gains were more modest, and it was unclear whether they represented anything more than a respite from what has been a brutal selloff. The American Banker index of 225 banks rose 7.41%, while in the broader market the Standard & Poor's 500 rose 3.5%.

Two of the top 25 banking companies have reported third-quarter earnings -- SunTrust Banks Inc. and M&T Bank Corp. -- and neither presented a particularly bright outlook on credit quality. Both earnings reports came on the heels of a particularly busy period of earnings warnings, which have only served to heighten investor concerns about sluggish revenues and profits.

Signs from the economy are not encouraging, said Peter McCorry, a trader of listed stocks at Keefe, Bruyette & Woods Inc. Concerns about a possible slowdown in consumer spending and the recent dockworkers' strike kept fund managers on the sideline. "There is a total lack of conviction" among investors, he said.

The hit to bank stocks is all the more painful when measured against their outperformance of the broad market in recent months. For the year, the American Banker 225 is down 22.6% and the S&P 500 by 32.34%.

But the bank index has been falling consistently since early September. At the close of trading Wednesday it had sunk 17% in five trading days and 23% in four weeks, considerably more than the broader market.

Frank J. Barkocy, the director of research at Keefe Managers Inc., pointed to SunTrust's lack of top-line growth and its net interest margin compression as indicators of what to expect. The Atlanta banking company reported results Wednesday.

However, some observers say the recent selloff may have been triggered by perceptions rather than fundamentals. For example, while some investors interpreted the most recent Shared National Credit report, issued Tuesday, as a negative, it actually showed slower credit deterioration than last year's.

Some analysts said that bank stocks are unlikely to rise until the economy is improving more strongly than indicators currently show, the deterioration of credit quality is clearly over, and revenues pick up.

"We are not ready to jump in with both feet," Mr. Barckocy said, though the market has taken down shares of some companies with "good earnings stories," like Wells Fargo & Co. and Fifth Third Bancorp. As for J.P. Morgan Chase & Co., he said he lacks the confidence to buy its shares, though they are trading well below book value.

Erick Bergquist contributed to this story.

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IAC-CREATE-DATE: October 14, 2002

LOAD-DATE: October 15, 2002

Exhibit 53

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
07/30/99	$42.94	$7.97	$34.97
08/02/99	$41.88	$7.97	$33.91
08/03/99	$40.00	$7.97	$32.03
08/04/99	$40.31	$7.97	$32.35
08/05/99	$40.56	$7.97	$32.60
08/06/99	$40.25	$7.97	$32.28
08/09/99	$40.88	$7.97	$32.91
08/10/99	$39.50	$7.97	$31.53
08/11/99	$40.25	$7.97	$32.28
08/12/99	$40.19	$7.97	$32.22
08/13/99	$40.75	$7.97	$32.78
08/16/99	$39.75	$7.97	$31.78
08/17/99	$41.50	$7.97	$33.53
08/18/99	$42.00	$7.97	$34.03
08/19/99	$41.69	$7.97	$33.72
08/20/99	$41.88	$7.97	$33.91
08/23/99	$42.94	$7.97	$34.97
08/24/99	$42.44	$7.97	$34.47
08/25/99	$41.19	$7.97	$33.22
08/26/99	$39.81	$7.97	$31.85
08/27/99	$37.81	$7.97	$29.85
08/30/99	$37.44	$7.97	$29.47
08/31/99	$37.75	$7.97	$29.78
09/01/99	$39.56	$7.97	$31.60
09/02/99	$38.50	$7.97	$30.53
09/03/99	$39.94	$7.97	$31.97
09/07/99	$39.94	$7.97	$31.97
09/08/99	$39.56	$7.97	$31.60
09/09/99	$39.88	$7.97	$31.91
09/10/99	$40.63	$7.97	$32.66
09/13/99	$41.50	$7.97	$33.53
09/14/99	$41.13	$7.97	$33.16
09/15/99	$40.44	$7.97	$32.47
09/16/99	$40.25	$7.97	$32.28
09/17/99	$41.13	$7.97	$33.16
09/20/99	$41.75	$7.97	$33.78
09/21/99	$40.50	$7.97	$32.53
09/22/99	$41.44	$7.97	$33.47
09/23/99	$40.00	$7.97	$32.03
09/24/99	$39.44	$7.97	$31.47
09/27/99	$40.38	$7.97	$32.41
09/28/99	$39.69	$7.97	$31.72
09/29/99	$40.63	$7.97	$32.66
09/30/99	$40.13	$7.97	$32.16
10/01/99	$39.38	$7.97	$31.41
10/04/99	$40.44	$7.97	$32.47
10/05/99	$41.06	$7.97	$33.10

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
10/06/99	$42.88	$7.97	$34.91
10/07/99	$42.38	$7.97	$34.41
10/08/99	$44.31	$7.97	$36.35
10/11/99	$42.69	$7.97	$34.72
10/12/99	$41.69	$7.97	$33.72
10/13/99	$39.75	$7.97	$31.78
10/14/99	$38.94	$7.97	$30.97
10/15/99	$37.00	$7.97	$29.03
10/18/99	$37.88	$7.97	$29.91
10/19/99	$38.94	$7.97	$30.97
10/20/99	$39.56	$7.97	$31.60
10/21/99	$39.00	$7.97	$31.03
10/22/99	$39.75	$7.97	$31.78
10/25/99	$38.88	$7.97	$30.91
10/26/99	$39.06	$7.97	$31.10
10/27/99	$41.56	$7.97	$33.60
10/28/99	$45.69	$7.97	$37.72
10/29/99	$44.63	$7.97	$36.66
11/01/99	$45.00	$7.97	$37.03
11/02/99	$45.31	$7.97	$37.35
11/03/99	$44.56	$7.97	$36.60
11/04/99	$45.63	$7.97	$37.66
11/05/99	$46.06	$7.97	$38.10
11/08/99	$44.63	$7.97	$36.66
11/09/99	$43.06	$7.97	$35.10
11/10/99	$42.56	$7.97	$34.60
11/11/99	$41.31	$7.97	$33.35
11/12/99	$44.13	$7.97	$36.16
11/15/99	$44.13	$7.97	$36.16
11/16/99	$45.13	$7.97	$37.16
11/17/99	$43.25	$7.97	$35.28
11/18/99	$42.50	$7.97	$34.53
11/19/99	$41.88	$7.97	$33.91
11/22/99	$41.25	$7.97	$33.28
11/23/99	$40.94	$7.97	$32.97
11/24/99	$40.38	$7.97	$32.41
11/26/99	$40.25	$7.97	$32.28
11/29/99	$39.38	$7.97	$31.41
11/30/99	$39.56	$7.97	$31.60
12/01/99	$39.56	$7.97	$31.60
12/02/99	$40.31	$7.97	$32.35
12/03/99	$41.00	$7.97	$33.03
12/06/99	$39.50	$7.97	$31.53
12/07/99	$38.25	$7.97	$30.28
12/08/99	$38.69	$7.97	$30.72
12/09/99	$39.50	$7.97	$31.53
12/10/99	$39.06	$7.97	$31.10

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
12/13/99	$38.25	$7.97	$30.28
12/14/99	$37.94	$7.97	$29.97
12/15/99	$37.63	$7.97	$29.66
12/16/99	$38.31	$7.97	$30.35
12/17/99	$38.13	$7.97	$30.16
12/20/99	$37.94	$7.97	$29.97
12/21/99	$37.25	$7.97	$29.28
12/22/99	$36.63	$7.97	$28.66
12/23/99	$37.50	$7.97	$29.53
12/27/99	$36.88	$7.97	$28.91
12/28/99	$36.19	$7.97	$28.22
12/29/99	$35.94	$7.97	$27.97
12/30/99	$36.56	$7.97	$28.60
12/31/99	$37.25	$7.97	$29.28
01/03/00	$34.69	$7.97	$26.72
01/04/00	$35.00	$7.97	$27.03
01/05/00	$34.38	$7.97	$26.41
01/06/00	$36.00	$7.97	$28.03
01/07/00	$36.38	$7.97	$28.41
01/10/00	$36.50	$7.97	$28.53
01/11/00	$36.00	$7.97	$28.03
01/12/00	$36.75	$7.97	$28.78
01/13/00	$37.69	$7.97	$29.72
01/14/00	$37.31	$7.97	$29.35
01/18/00	$36.50	$7.97	$28.53
01/19/00	$36.81	$7.97	$28.85
01/20/00	$36.00	$7.97	$28.03
01/21/00	$35.63	$7.97	$27.66
01/24/00	$34.50	$7.97	$26.53
01/25/00	$33.94	$7.97	$25.97
01/26/00	$35.63	$7.97	$27.66
01/27/00	$35.69	$7.97	$27.72
01/28/00	$34.19	$7.97	$26.22
01/31/00	$35.25	$7.97	$27.28
02/01/00	$35.25	$7.97	$27.28
02/02/00	$36.13	$7.97	$28.16
02/03/00	$35.63	$7.97	$27.66
02/04/00	$35.38	$7.97	$27.41
02/07/00	$35.06	$7.97	$27.10
02/08/00	$35.75	$7.97	$27.78
02/09/00	$33.88	$7.97	$25.91
02/10/00	$33.88	$7.97	$25.91
02/11/00	$31.88	$7.97	$23.91
02/14/00	$31.31	$7.97	$23.35
02/15/00	$32.94	$7.97	$24.97
02/16/00	$30.88	$7.97	$22.91
02/17/00	$31.69	$7.97	$23.72

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
02/18/00	$30.88	$7.97	$22.91
02/22/00	$31.06	$7.97	$23.10
02/23/00	$30.69	$7.97	$22.72
02/24/00	$30.63	$7.97	$22.66
02/25/00	$30.88	$7.97	$22.91
02/28/00	$31.88	$7.97	$23.91
02/29/00	$31.94	$7.97	$23.97
03/01/00	$33.25	$7.97	$25.28
03/02/00	$35.13	$7.97	$27.16
03/03/00	$36.63	$7.97	$28.66
03/06/00	$34.81	$7.97	$26.85
03/07/00	$32.88	$7.97	$24.91
03/08/00	$31.81	$7.97	$23.85
03/09/00	$32.44	$7.97	$24.47
03/10/00	$32.75	$7.97	$24.78
03/13/00	$32.44	$7.97	$24.47
03/14/00	$32.13	$7.97	$24.16
03/15/00	$34.25	$7.97	$26.28
03/16/00	$36.81	$7.97	$28.85
03/17/00	$36.88	$7.97	$28.91
03/20/00	$35.56	$7.97	$27.60
03/21/00	$37.88	$7.97	$29.91
03/22/00	$37.75	$7.97	$29.78
03/23/00	$38.88	$7.97	$30.91
03/24/00	$37.94	$7.97	$29.97
03/27/00	$36.13	$7.97	$28.16
03/28/00	$36.69	$7.97	$28.72
03/29/00	$36.50	$7.97	$28.53
03/30/00	$36.38	$7.97	$28.41
03/31/00	$37.31	$7.97	$29.35
04/03/00	$39.13	$7.97	$31.16
04/04/00	$38.13	$7.97	$30.16
04/05/00	$39.06	$7.97	$31.10
04/06/00	$40.38	$7.97	$32.41
04/07/00	$38.88	$7.97	$30.91
04/10/00	$40.00	$7.97	$32.03
04/11/00	$40.63	$7.97	$32.66
04/12/00	$44.00	$7.97	$36.03
04/13/00	$42.06	$7.97	$34.10
04/14/00	$38.06	$7.97	$30.10
04/17/00	$39.63	$7.97	$31.66
04/18/00	$39.69	$7.97	$31.72
04/19/00	$39.94	$7.97	$31.97
04/20/00	$41.81	$7.97	$33.85
04/24/00	$43.38	$7.97	$35.41
04/25/00	$44.69	$7.97	$36.72
04/26/00	$43.63	$7.97	$35.66

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
04/27/00	$42.00	$7.97	$34.03
04/28/00	$41.75	$7.97	$33.78
05/01/00	$42.00	$7.97	$34.03
05/02/00	$42.06	$7.97	$34.10
05/03/00	$40.75	$7.97	$32.78
05/04/00	$39.13	$7.97	$31.16
05/05/00	$39.75	$7.97	$31.78
05/08/00	$41.13	$7.97	$33.16
05/09/00	$40.25	$7.97	$32.28
05/10/00	$39.38	$7.97	$31.41
05/11/00	$39.94	$7.97	$31.97
05/12/00	$40.38	$7.97	$32.41
05/15/00	$41.94	$7.97	$33.97
05/16/00	$42.81	$7.97	$34.85
05/17/00	$41.69	$7.97	$33.72
05/18/00	$42.81	$7.97	$34.85
05/19/00	$41.44	$7.97	$33.47
05/22/00	$41.88	$7.97	$33.91
05/23/00	$43.00	$7.97	$35.03
05/24/00	$45.75	$7.97	$37.78
05/25/00	$45.38	$7.97	$37.41
05/26/00	$45.38	$7.97	$37.41
05/30/00	$46.56	$7.97	$38.60
05/31/00	$47.00	$7.97	$39.03
06/01/00	$47.13	$7.97	$39.16
06/02/00	$47.00	$7.97	$39.03
06/05/00	$47.13	$7.97	$39.16
06/06/00	$46.38	$7.97	$38.41
06/07/00	$47.25	$7.97	$39.28
06/08/00	$46.19	$7.97	$38.22
06/09/00	$44.44	$7.97	$36.47
06/12/00	$43.56	$7.97	$35.60
06/13/00	$44.69	$7.97	$36.72
06/14/00	$45.38	$7.97	$37.41
06/15/00	$43.06	$7.97	$35.10
06/16/00	$42.44	$7.97	$34.47
06/19/00	$42.75	$7.97	$34.78
06/20/00	$43.94	$7.97	$35.97
06/21/00	$44.06	$7.97	$36.10
06/22/00	$43.19	$7.97	$35.22
06/23/00	$42.13	$7.97	$34.16
06/26/00	$42.13	$7.97	$34.16
06/27/00	$41.81	$7.97	$33.85
06/28/00	$42.81	$7.97	$34.85
06/29/00	$43.00	$7.97	$35.03
06/30/00	$41.56	$7.97	$33.60
07/03/00	$41.88	$7.97	$33.91

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
07/05/00	$42.00	$7.97	$34.03
07/06/00	$41.63	$7.97	$33.66
07/07/00	$42.75	$7.97	$34.78
07/10/00	$42.69	$7.97	$34.72
07/11/00	$43.50	$7.97	$35.53
07/12/00	$43.94	$7.97	$35.97
07/13/00	$44.00	$7.97	$36.03
07/14/00	$44.88	$7.97	$36.91
07/17/00	$42.81	$7.97	$34.85
07/18/00	$43.44	$7.97	$35.47
07/19/00	$45.25	$7.97	$37.28
07/20/00	$46.38	$7.97	$38.41
07/21/00	$45.81	$7.97	$37.85
07/24/00	$45.94	$7.97	$37.97
07/25/00	$45.50	$7.97	$37.53
07/26/00	$44.25	$7.97	$36.28
07/27/00	$44.69	$7.97	$36.72
07/28/00	$43.75	$7.97	$35.78
07/31/00	$44.56	$7.97	$36.60
08/01/00	$44.56	$7.97	$36.60
08/02/00	$44.44	$7.97	$36.47
08/03/00	$46.63	$7.97	$38.66
08/04/00	$49.63	$7.97	$41.66
08/07/00	$49.88	$7.97	$41.91
08/08/00	$50.00	$7.97	$42.03
08/09/00	$48.88	$7.97	$40.91
08/10/00	$48.19	$7.97	$40.22
08/11/00	$49.06	$7.97	$41.10
08/14/00	$49.19	$7.97	$41.22
08/15/00	$47.88	$7.97	$39.91
08/16/00	$46.75	$7.97	$38.78
08/17/00	$46.38	$7.97	$38.41
08/18/00	$46.94	$7.97	$38.97
08/21/00	$46.63	$7.97	$38.66
08/22/00	$47.31	$7.97	$39.35
08/23/00	$47.25	$7.97	$39.28
08/24/00	$47.44	$7.97	$39.47
08/25/00	$47.75	$7.97	$39.78
08/28/00	$48.25	$7.97	$40.28
08/29/00	$48.00	$7.97	$40.03
08/30/00	$48.00	$7.97	$40.03
08/31/00	$48.00	$7.97	$40.03
09/01/00	$47.38	$7.97	$39.41
09/05/00	$47.63	$7.97	$39.66
09/06/00	$50.19	$7.97	$42.22
09/07/00	$50.56	$7.97	$42.60
09/08/00	$52.44	$7.97	$44.47

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
09/11/00	$51.63	$7.97	$43.66
09/12/00	$51.13	$7.97	$43.16
09/13/00	$51.25	$7.97	$43.28
09/14/00	$51.00	$7.97	$43.03
09/15/00	$50.50	$7.97	$42.53
09/18/00	$50.75	$7.97	$42.78
09/19/00	$51.56	$7.97	$43.60
09/20/00	$52.31	$7.97	$44.35
09/21/00	$52.88	$7.97	$44.91
09/22/00	$52.00	$7.97	$44.03
09/25/00	$53.38	$7.97	$45.41
09/26/00	$54.13	$7.97	$46.16
09/27/00	$54.69	$7.97	$46.72
09/28/00	$56.44	$7.97	$48.47
09/29/00	$56.63	$7.97	$48.66
10/02/00	$55.19	$7.97	$47.22
10/03/00	$55.63	$7.97	$47.66
10/04/00	$54.88	$7.97	$46.91
10/05/00	$55.69	$7.97	$47.72
10/06/00	$52.63	$7.97	$44.66
10/09/00	$52.19	$7.97	$44.22
10/10/00	$49.50	$7.97	$41.53
10/11/00	$47.94	$7.97	$39.97
10/12/00	$46.25	$7.97	$38.28
10/13/00	$47.56	$7.97	$39.60
10/16/00	$49.13	$7.97	$41.16
10/17/00	$47.50	$7.97	$39.53
10/18/00	$48.75	$7.97	$40.78
10/19/00	$50.63	$7.97	$42.66
10/20/00	$50.44	$7.97	$42.47
10/23/00	$49.19	$7.97	$41.22
10/24/00	$50.25	$7.97	$42.28
10/25/00	$49.50	$7.97	$41.53
10/26/00	$47.44	$7.97	$39.47
10/27/00	$47.50	$7.97	$39.53
10/30/00	$49.38	$7.97	$41.41
10/31/00	$50.31	$7.97	$42.35
11/01/00	$49.63	$7.97	$41.66
11/02/00	$51.50	$7.97	$43.53
11/03/00	$51.50	$7.97	$43.53
11/06/00	$52.50	$7.97	$44.53
11/07/00	$51.88	$7.97	$43.91
11/08/00	$51.63	$7.97	$43.66
11/09/00	$50.50	$7.97	$42.53
11/10/00	$50.75	$7.97	$42.78
11/13/00	$49.13	$7.97	$41.16
11/14/00	$49.00	$7.97	$41.03

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
11/15/00	$49.31	$7.97	$41.35
11/16/00	$49.13	$7.97	$41.16
11/17/00	$48.19	$7.97	$40.22
11/20/00	$45.75	$7.97	$37.78
11/21/00	$46.25	$7.97	$38.28
11/22/00	$44.06	$7.97	$36.10
11/24/00	$45.31	$7.97	$37.35
11/27/00	$46.50	$7.97	$38.53
11/28/00	$48.38	$7.97	$40.41
11/29/00	$50.13	$7.97	$42.16
11/30/00	$49.88	$7.97	$41.91
12/01/00	$49.56	$7.97	$41.60
12/04/00	$48.38	$7.97	$40.41
12/05/00	$50.19	$7.97	$42.22
12/06/00	$50.75	$7.97	$42.78
12/07/00	$51.81	$7.97	$43.85
12/08/00	$53.06	$7.97	$45.10
12/11/00	$52.63	$7.97	$44.66
12/12/00	$51.94	$7.97	$43.97
12/13/00	$50.94	$7.97	$42.97
12/14/00	$50.94	$7.97	$42.97
12/15/00	$50.25	$7.97	$42.28
12/18/00	$52.00	$7.97	$44.03
12/19/00	$53.63	$7.97	$45.66
12/20/00	$51.94	$7.97	$43.97
12/21/00	$52.44	$7.97	$44.47
12/22/00	$52.44	$7.97	$44.47
12/26/00	$53.25	$7.97	$45.28
12/27/00	$54.31	$7.97	$46.35
12/28/00	$55.94	$7.97	$47.97
12/29/00	$55.00	$7.97	$47.03
01/02/01	$53.69	$7.97	$45.72
01/03/01	$58.00	$7.97	$50.03
01/04/01	$57.13	$7.97	$49.16
01/05/01	$54.88	$7.97	$46.91
01/08/01	$54.06	$7.97	$46.10
01/09/01	$52.88	$7.97	$44.91
01/10/01	$52.81	$7.97	$44.85
01/11/01	$53.44	$7.97	$45.47
01/12/01	$53.69	$7.97	$45.72
01/16/01	$55.19	$7.97	$47.22
01/17/01	$56.31	$7.97	$48.35
01/18/01	$54.88	$7.97	$46.91
01/19/01	$54.50	$7.97	$46.53
01/22/01	$53.75	$7.97	$45.78
01/23/01	$55.50	$7.97	$47.53
01/24/01	$56.63	$7.97	$48.66

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
01/25/01	$56.69	$7.97	$48.72
01/26/01	$57.50	$7.97	$49.53
01/29/01	$59.10	$7.97	$51.13
01/30/01	$58.59	$7.97	$50.62
01/31/01	$57.48	$7.97	$49.51
02/01/01	$58.92	$7.97	$50.95
02/02/01	$58.80	$7.97	$50.83
02/05/01	$58.98	$7.97	$51.01
02/06/01	$58.11	$7.97	$50.14
02/07/01	$59.20	$7.97	$51.23
02/08/01	$58.78	$7.97	$50.81
02/09/01	$59.20	$7.97	$51.23
02/12/01	$60.33	$7.97	$52.36
02/13/01	$60.25	$7.97	$52.28
02/14/01	$59.45	$7.97	$51.48
02/15/01	$58.26	$7.97	$50.29
02/16/01	$59.09	$7.97	$51.12
02/20/01	$57.53	$7.97	$49.56
02/21/01	$55.65	$7.97	$47.68
02/22/01	$55.76	$7.97	$47.79
02/23/01	$56.58	$7.97	$48.61
02/26/01	$58.00	$7.97	$50.03
02/27/01	$59.11	$7.97	$51.14
02/28/01	$57.92	$7.97	$49.95
03/01/01	$58.40	$7.97	$50.43
03/02/01	$59.41	$7.97	$51.44
03/05/01	$59.08	$7.97	$51.11
03/06/01	$59.87	$7.97	$51.90
03/07/01	$61.50	$7.97	$53.53
03/08/01	$61.11	$7.97	$53.14
03/09/01	$60.27	$7.97	$52.30
03/12/01	$58.43	$7.97	$50.46
03/13/01	$60.45	$7.97	$52.48
03/14/01	$59.69	$7.97	$51.72
03/15/01	$60.36	$7.97	$52.39
03/16/01	$60.01	$7.97	$52.04
03/19/01	$59.90	$7.97	$51.93
03/20/01	$57.88	$7.97	$49.91
03/21/01	$55.85	$7.97	$47.88
03/22/01	$54.72	$7.97	$46.75
03/23/01	$58.12	$7.97	$50.15
03/26/01	$57.94	$7.97	$49.97
03/27/01	$59.85	$7.97	$51.88
03/28/01	$59.35	$7.97	$51.38
03/29/01	$58.15	$7.97	$50.18
03/30/01	$59.24	$7.97	$51.27
04/02/01	$59.50	$7.97	$51.53

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
04/03/01	$58.92	$7.97	$50.95
04/04/01	$58.45	$7.97	$50.48
04/05/01	$59.73	$7.97	$51.76
04/06/01	$58.54	$7.97	$50.57
04/09/01	$59.45	$7.97	$51.48
04/10/01	$61.12	$7.97	$53.15
04/11/01	$60.54	$7.97	$52.57
04/12/01	$61.40	$7.97	$53.43
04/16/01	$60.33	$7.97	$52.36
04/17/01	$60.91	$7.97	$52.94
04/18/01	$63.38	$7.97	$55.41
04/19/01	$63.05	$7.97	$55.08
04/20/01	$62.45	$7.97	$54.48
04/23/01	$62.23	$7.97	$54.26
04/24/01	$63.10	$7.97	$55.13
04/25/01	$64.75	$7.97	$56.78
04/26/01	$63.40	$7.97	$55.43
04/27/01	$64.38	$7.97	$56.41
04/30/01	$64.02	$7.97	$56.05
05/01/01	$64.46	$7.97	$56.49
05/02/01	$65.46	$7.97	$57.49
05/03/01	$65.29	$7.97	$57.32
05/04/01	$65.70	$7.97	$57.73
05/07/01	$65.50	$7.97	$57.53
05/08/01	$65.42	$7.97	$57.45
05/09/01	$66.05	$7.97	$58.08
05/10/01	$65.08	$7.97	$57.11
05/11/01	$64.91	$7.97	$56.94
05/14/01	$65.22	$7.97	$57.25
05/15/01	$66.94	$7.97	$58.97
05/16/01	$68.64	$7.97	$60.67
05/17/01	$68.20	$7.97	$60.23
05/18/01	$67.57	$7.97	$59.60
05/21/01	$67.67	$7.97	$59.70
05/22/01	$67.71	$7.97	$59.74
05/23/01	$66.48	$7.97	$58.51
05/24/01	$66.44	$7.97	$58.47
05/25/01	$66.27	$7.97	$58.30
05/29/01	$66.00	$7.97	$58.03
05/30/01	$65.80	$7.97	$57.83
05/31/01	$65.66	$7.97	$57.69
06/01/01	$65.74	$7.97	$57.77
06/04/01	$66.43	$7.97	$58.46
06/05/01	$66.98	$7.97	$59.01
06/06/01	$65.96	$7.97	$57.99
06/07/01	$65.82	$7.97	$57.85
06/08/01	$65.80	$7.97	$57.83

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
06/11/01	$65.78	$7.97	$57.81
06/12/01	$65.30	$7.97	$57.33
06/13/01	$65.25	$7.97	$57.28
06/14/01	$64.71	$7.97	$56.74
06/15/01	$63.80	$7.97	$55.83
06/18/01	$63.65	$7.97	$55.68
06/19/01	$63.82	$7.97	$55.85
06/20/01	$64.61	$7.97	$56.64
06/21/01	$66.71	$7.97	$58.74
06/22/01	$67.01	$7.97	$59.04
06/25/01	$65.95	$7.97	$57.98
06/26/01	$65.14	$7.97	$57.17
06/27/01	$65.70	$7.97	$57.73
06/28/01	$65.98	$7.97	$58.01
06/29/01	$66.70	$7.97	$58.73
07/02/01	$66.60	$7.97	$58.63
07/03/01	$66.23	$7.97	$58.26
07/05/01	$66.95	$7.97	$58.98
07/06/01	$66.54	$7.97	$58.57
07/09/01	$66.48	$7.97	$58.51
07/10/01	$65.55	$7.97	$57.58
07/11/01	$65.24	$7.97	$57.27
07/12/01	$66.40	$7.97	$58.43
07/13/01	$67.16	$7.97	$59.19
07/16/01	$68.11	$7.97	$60.14
07/17/01	$68.95	$7.97	$60.98
07/18/01	$69.48	$7.97	$61.51
07/19/01	$66.50	$7.97	$58.53
07/20/01	$67.28	$7.97	$59.31
07/23/01	$67.50	$7.97	$59.53
07/24/01	$67.01	$7.97	$59.04
07/25/01	$66.76	$7.97	$58.79
07/26/01	$65.38	$7.97	$57.41
07/27/01	$66.18	$7.97	$58.21
07/30/01	$66.09	$7.97	$58.12
07/31/01	$66.29	$7.97	$58.32
08/01/01	$65.75	$7.97	$57.78
08/02/01	$66.00	$7.97	$58.03
08/03/01	$65.99	$7.97	$58.02
08/06/01	$65.71	$7.97	$57.74
08/07/01	$66.44	$7.97	$58.47
08/08/01	$65.86	$7.97	$57.89
08/09/01	$66.24	$7.97	$58.27
08/10/01	$67.13	$7.97	$59.16
08/13/01	$68.01	$7.97	$60.04
08/14/01	$68.00	$7.97	$60.03
08/15/01	$67.95	$7.97	$59.98

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
08/16/01	$66.87	$7.97	$58.90
08/17/01	$65.99	$7.97	$58.02
08/20/01	$65.50	$7.97	$57.53
08/21/01	$64.86	$7.97	$56.89
08/22/01	$65.48	$7.97	$57.51
08/23/01	$64.72	$7.97	$56.75
08/24/01	$62.35	$7.97	$54.38
08/27/01	$61.96	$7.97	$53.99
08/28/01	$61.34	$7.97	$53.37
08/29/01	$60.70	$7.97	$52.73
08/30/01	$59.31	$7.97	$51.34
08/31/01	$59.10	$7.97	$51.13
09/04/01	$57.06	$7.97	$49.09
09/05/01	$57.22	$7.97	$49.25
09/06/01	$57.00	$7.97	$49.03
09/07/01	$55.04	$7.97	$47.07
09/10/01	$56.31	$7.97	$48.34
09/17/01	$52.83	$7.97	$44.86
09/18/01	$52.64	$7.97	$44.67
09/19/01	$52.30	$7.97	$44.33
09/20/01	$51.46	$7.97	$43.49
09/21/01	$50.34	$7.97	$42.37
09/24/01	$52.85	$7.97	$44.88
09/25/01	$52.08	$7.97	$44.11
09/26/01	$53.60	$7.97	$45.63
09/27/01	$54.49	$7.97	$46.52
09/28/01	$56.38	$7.97	$48.41
10/01/01	$57.50	$7.97	$49.53
10/02/01	$57.83	$7.97	$49.86
10/03/01	$58.20	$7.97	$50.23
10/04/01	$59.63	$7.97	$51.66
10/05/01	$58.35	$7.97	$50.38
10/08/01	$56.50	$7.97	$48.53
10/09/01	$56.59	$7.97	$48.62
10/10/01	$58.22	$7.97	$50.25
10/11/01	$56.95	$7.97	$48.98
10/12/01	$54.89	$7.97	$46.92
10/15/01	$55.91	$7.97	$47.94
10/16/01	$56.00	$7.97	$48.03
10/17/01	$57.16	$7.97	$49.19
10/18/01	$57.53	$7.97	$49.56
10/19/01	$56.91	$7.97	$48.94
10/22/01	$56.92	$7.97	$48.95
10/23/01	$57.25	$7.97	$49.28
10/24/01	$55.44	$7.97	$47.47
10/25/01	$57.19	$7.97	$49.22
10/26/01	$57.48	$7.97	$49.51

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
10/29/01	$54.49	$7.97	$46.52
10/30/01	$53.52	$7.97	$45.55
10/31/01	$52.30	$7.97	$44.33
11/01/01	$52.90	$7.97	$44.93
11/02/01	$52.76	$7.97	$44.79
11/05/01	$53.75	$7.97	$45.78
11/06/01	$56.53	$7.97	$48.56
11/07/01	$58.72	$7.97	$50.75
11/08/01	$57.79	$7.97	$49.82
11/09/01	$57.98	$7.97	$50.01
11/12/01	$58.21	$7.97	$50.24
11/13/01	$60.00	$7.97	$52.03
11/14/01	$60.90	$7.97	$52.93
11/15/01	$58.90	$6.11	$52.79
11/16/01	$57.80	$6.11	$51.69
11/19/01	$58.75	$6.11	$52.64
11/20/01	$58.37	$6.11	$52.26
11/21/01	$58.56	$6.11	$52.45
11/23/01	$59.62	$6.11	$53.51
11/26/01	$60.18	$6.11	$54.07
11/27/01	$60.76	$6.11	$54.65
11/28/01	$60.34	$6.11	$54.23
11/29/01	$59.80	$6.11	$53.69
11/30/01	$58.99	$6.11	$52.88
12/03/01	$56.29	$4.20	$52.09
12/04/01	$58.23	$4.20	$54.03
12/05/01	$61.00	$6.05	$54.95
12/06/01	$60.66	$6.05	$54.61
12/07/01	$59.66	$6.05	$53.61
12/10/01	$57.60	$6.05	$51.55
12/11/01	$56.66	$6.05	$50.61
12/12/01	$54.15	$3.66	$50.49
12/13/01	$54.23	$3.66	$50.57
12/14/01	$53.35	$3.66	$49.69
12/17/01	$54.57	$3.66	$50.91
12/18/01	$56.12	$3.66	$52.46
12/19/01	$56.87	$3.66	$53.21
12/20/01	$56.50	$3.66	$52.84
12/21/01	$55.90	$3.66	$52.24
12/24/01	$56.09	$3.66	$52.43
12/26/01	$56.38	$3.66	$52.72
12/27/01	$57.83	$3.66	$54.17
12/28/01	$58.88	$3.66	$55.22
12/31/01	$57.94	$3.66	$54.28
01/02/02	$57.09	$3.66	$53.43
01/03/02	$57.05	$3.66	$53.39
01/04/02	$59.19	$3.66	$55.53

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
01/07/02	$58.10	$3.66	$54.44
01/08/02	$56.74	$3.66	$53.08
01/09/02	$57.10	$3.66	$53.44
01/10/02	$56.54	$3.66	$52.88
01/11/02	$54.38	$3.66	$50.72
01/14/02	$52.78	$3.66	$49.12
01/15/02	$55.20	$3.66	$51.54
01/16/02	$54.45	$3.66	$50.79
01/17/02	$53.76	$3.66	$50.10
01/18/02	$54.85	$3.66	$51.19
01/22/02	$54.05	$3.66	$50.39
01/23/02	$53.35	$3.66	$49.69
01/24/02	$53.75	$3.66	$50.09
01/25/02	$54.71	$3.66	$51.05
01/28/02	$52.85	$3.66	$49.19
01/29/02	$49.85	$3.66	$46.19
01/30/02	$49.35	$3.66	$45.69
01/31/02	$51.24	$3.66	$47.58
02/01/02	$51.10	$3.66	$47.44
02/04/02	$48.80	$3.66	$45.14
02/05/02	$47.53	$3.66	$43.87
02/06/02	$44.71	$3.66	$41.05
02/07/02	$48.01	$3.66	$44.35
02/08/02	$52.00	$3.66	$48.34
02/11/02	$51.45	$3.66	$47.79
02/12/02	$50.80	$3.66	$47.14
02/13/02	$52.15	$3.66	$48.49
02/14/02	$51.92	$3.66	$48.26
02/15/02	$50.89	$3.66	$47.23
02/19/02	$50.35	$3.66	$46.69
02/20/02	$50.65	$3.66	$46.99
02/21/02	$48.50	$3.66	$44.84
02/22/02	$48.65	$3.66	$44.99
02/25/02	$49.58	$3.66	$45.92
02/26/02	$49.98	$3.66	$46.32
02/27/02	$52.08	$5.30	$46.78
02/28/02	$51.50	$5.30	$46.20
03/01/02	$53.00	$5.30	$47.70
03/04/02	$57.25	$5.30	$51.95
03/05/02	$56.28	$5.30	$50.98
03/06/02	$57.77	$5.30	$52.47
03/07/02	$58.36	$5.30	$53.06
03/08/02	$59.90	$5.30	$54.60
03/11/02	$59.73	$5.30	$54.43
03/12/02	$59.16	$5.30	$53.86
03/13/02	$58.40	$5.30	$53.10
03/14/02	$57.48	$5.30	$52.18

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
03/15/02	$58.95	$5.30	$53.65
03/18/02	$58.98	$5.30	$53.68
03/19/02	$58.98	$5.30	$53.68
03/20/02	$57.61	$5.30	$52.31
03/21/02	$57.90	$5.30	$52.60
03/22/02	$58.14	$5.30	$52.84
03/25/02	$56.30	$5.30	$51.00
03/26/02	$57.00	$5.30	$51.70
03/27/02	$57.50	$5.30	$52.20
03/28/02	$56.80	$5.30	$51.50
04/01/02	$57.03	$5.30	$51.73
04/02/02	$57.05	$5.30	$51.75
04/03/02	$55.75	$5.30	$50.45
04/04/02	$56.83	$5.30	$51.53
04/05/02	$57.98	$5.30	$52.68
04/08/02	$59.06	$5.30	$53.76
04/09/02	$59.25	$5.30	$53.95
04/10/02	$59.35	$5.30	$54.05
04/11/02	$57.05	$5.30	$51.75
04/12/02	$58.10	$5.30	$52.80
04/15/02	$57.48	$5.30	$52.18
04/16/02	$59.52	$5.30	$54.22
04/17/02	$60.70	$5.30	$55.40
04/18/02	$61.20	$5.30	$55.90
04/19/02	$62.44	$5.30	$57.14
04/22/02	$60.90	$5.30	$55.60
04/23/02	$61.80	$5.30	$56.50
04/24/02	$61.36	$5.30	$56.06
04/25/02	$59.18	$5.30	$53.88
04/26/02	$59.60	$5.30	$54.30
04/29/02	$57.25	$5.30	$51.95
04/30/02	$58.29	$5.30	$52.99
05/01/02	$57.70	$5.30	$52.40
05/02/02	$57.43	$5.30	$52.13
05/03/02	$57.00	$5.30	$51.70
05/06/02	$55.68	$5.30	$50.38
05/07/02	$54.75	$5.30	$49.45
05/08/02	$57.11	$5.30	$51.81
05/09/02	$56.29	$5.30	$50.99
05/10/02	$54.25	$5.30	$48.95
05/13/02	$55.82	$5.30	$50.52
05/14/02	$56.85	$5.30	$51.55
05/15/02	$55.47	$5.30	$50.17
05/16/02	$55.00	$5.30	$49.70
05/17/02	$54.31	$5.30	$49.01
05/20/02	$53.51	$5.30	$48.21
05/21/02	$52.69	$5.30	$47.39

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
05/22/02	$52.85	$5.30	$47.55
05/23/02	$53.27	$5.30	$47.97
05/24/02	$53.07	$5.30	$47.77
05/28/02	$52.85	$5.30	$47.55
05/29/02	$52.80	$5.30	$47.50
05/30/02	$51.65	$5.30	$46.35
05/31/02	$51.15	$5.30	$45.85
06/03/02	$50.94	$5.30	$45.64
06/04/02	$50.69	$5.30	$45.39
06/05/02	$52.19	$5.30	$46.89
06/06/02	$53.60	$5.30	$48.30
06/07/02	$52.87	$5.30	$47.57
06/10/02	$52.59	$5.30	$47.29
06/11/02	$52.99	$5.30	$47.69
06/12/02	$52.48	$5.30	$47.18
06/13/02	$50.30	$5.30	$45.00
06/14/02	$50.80	$5.30	$45.50
06/17/02	$52.74	$5.30	$47.44
06/18/02	$52.75	$5.30	$47.45
06/19/02	$51.55	$5.30	$46.25
06/20/02	$49.80	$5.30	$44.50
06/21/02	$49.68	$5.30	$44.38
06/24/02	$50.00	$5.30	$44.70
06/25/02	$49.00	$5.30	$43.70
06/26/02	$48.65	$5.30	$43.35
06/27/02	$49.90	$5.30	$44.60
06/28/02	$49.70	$5.30	$44.40
07/01/02	$47.93	$5.30	$42.63
07/02/02	$47.60	$5.30	$42.30
07/03/02	$48.05	$5.30	$42.75
07/05/02	$50.00	$5.30	$44.70
07/08/02	$49.54	$5.30	$44.24
07/09/02	$47.05	$5.30	$41.75
07/10/02	$44.07	$5.30	$38.77
07/11/02	$45.00	$5.30	$39.70
07/12/02	$46.30	$5.30	$41.00
07/15/02	$45.67	$5.30	$40.37
07/16/02	$46.10	$5.30	$40.80
07/17/02	$42.37	$5.30	$37.07
07/18/02	$42.41	$5.30	$37.11
07/19/02	$40.72	$5.30	$35.42
07/22/02	$38.84	$5.30	$33.54
07/23/02	$36.29	$5.30	$30.99
07/24/02	$39.97	$5.30	$34.67
07/25/02	$38.80	$5.30	$33.50
07/26/02	$37.66	$3.10	$34.56
07/29/02	$39.85	$3.10	$36.75

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
07/30/02	$40.30	$3.10	$37.20
07/31/02	$42.67	$3.10	$39.57
08/01/02	$41.26	$3.10	$38.16
08/02/02	$39.45	$3.10	$36.35
08/05/02	$36.98	$3.10	$33.88
08/06/02	$39.72	$3.10	$36.62
08/07/02	$38.28	$3.10	$35.18
08/08/02	$40.96	$3.10	$37.86
08/09/02	$40.45	$3.10	$37.35
08/12/02	$39.70	$3.10	$36.60
08/13/02	$37.80	$3.10	$34.70
08/14/02	$38.09	$2.16	$35.93
08/15/02	$39.60	$2.16	$37.44
08/16/02	$37.54	$0.32	$37.22
08/19/02	$37.75	$0.32	$37.43
08/20/02	$36.75	$0.32	$36.43
08/21/02	$37.15	$0.32	$36.83
08/22/02	$40.65	$0.32	$40.33
08/23/02	$37.80	$0.32	$37.48
08/26/02	$39.08	$0.32	$38.76
08/27/02	$37.70	-$0.88	$38.58
08/28/02	$36.80	-$0.88	$37.68
08/29/02	$36.38	-$0.88	$37.26
08/30/02	$36.11	-$0.88	$36.99
09/03/02	$33.36	-$2.09	$35.45
09/04/02	$34.40	-$2.09	$36.49
09/05/02	$33.36	-$2.09	$35.45
09/06/02	$33.95	-$2.09	$36.04
09/09/02	$36.33	-$2.09	$38.42
09/10/02	$35.15	-$2.09	$37.24
09/11/02	$35.43	-$2.09	$37.52
09/12/02	$33.85	-$2.09	$35.94
09/13/02	$34.67	-$2.09	$36.76
09/16/02	$33.59	-$2.09	$35.68
09/17/02	$29.52	-$2.09	$31.61
09/18/02	$29.85	-$2.09	$31.94
09/19/02	$29.25	-$2.09	$31.34
09/20/02	$29.05	-$2.09	$31.14
09/23/02	$27.61	-$3.62	$31.23
09/24/02	$27.55	-$3.62	$31.17
09/25/02	$28.15	-$3.62	$31.77
09/26/02	$29.28	-$3.62	$32.90
09/27/02	$27.64	-$3.62	$31.26
09/30/02	$28.31	-$3.62	$31.93
10/01/02	$28.40	-$3.62	$32.02
10/02/02	$27.32	-$3.62	$30.94
10/03/02	$26.60	-$3.62	$30.22

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
10/04/02	$24.66	-$4.88	$29.54
10/07/02	$23.25	-$4.88	$28.13
10/08/02	$23.58	-$4.88	$28.46
10/09/02	$21.00	-$4.88	$25.88
10/10/02	$26.30	-$0.68	$26.98
10/11/02	$28.20	$0.00	$28.20

Exhibit 54

Household International, Inc. Common Stock Price and True Value
For Quantification Using Specific Disclosures
July 30, 1999 - October 11, 2002

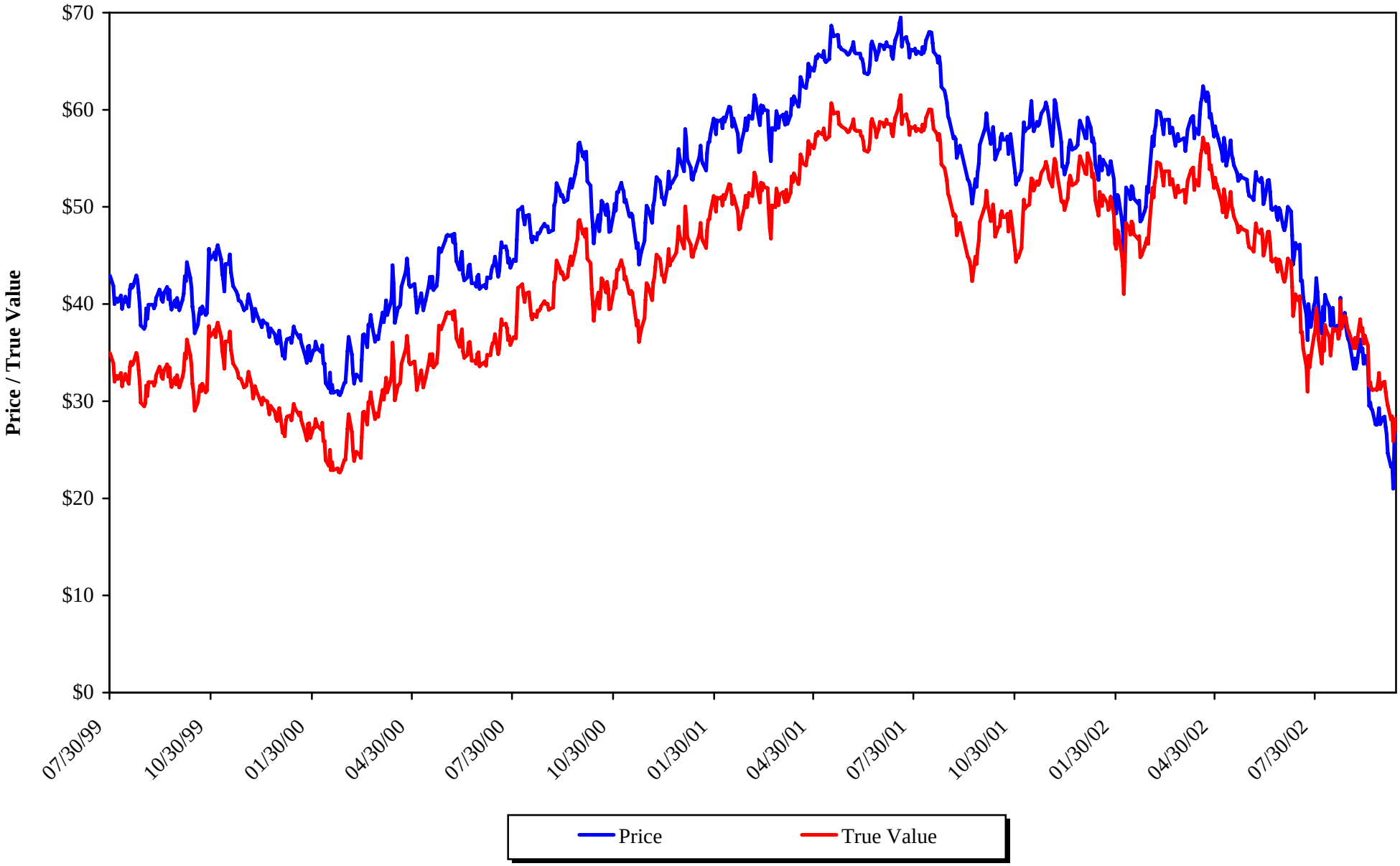


Exhibit 55

Estimation of Predicted Returns
For Quantification Including Leakage

Date	Price	Household Return	S&P 500 Index Return	S&P Financials Index Return	Annualized Risk-Free Return	Predicted Return	Residual Return	Residual Price Change
11/15/01	$58.90	-3.28%	0.10%	-0.30%	1.92%	-0.34%	-2.94%	-$1.79
11/16/01	$57.80	-1.87%	-0.31%	-1.16%	1.95%	-1.17%	-0.69%	-$0.41
11/19/01	$58.75	1.64%	1.10%	1.48%	1.94%	1.35%	0.29%	$0.17
11/20/01	$58.37	-0.65%	-0.72%	-0.55%	1.95%	-0.43%	-0.21%	-$0.13
11/21/01	$58.56	0.33%	-0.49%	-0.67%	1.96%	-0.62%	0.94%	$0.55
11/23/01	$59.62	1.81%	1.18%	1.63%	1.95%	1.50%	0.31%	$0.18
11/26/01	$60.18	0.94%	0.62%	0.89%	1.98%	0.82%	0.12%	$0.07
11/27/01	$60.76	0.96%	-0.68%	-0.36%	1.92%	-0.24%	1.21%	$0.73
11/28/01	$60.34	-0.69%	-1.82%	-2.48%	1.87%	-2.27%	1.58%	$0.96
11/29/01	$59.80	-0.89%	1.04%	0.98%	1.80%	0.83%	-1.72%	-$1.04
11/30/01	$58.99	-1.35%	-0.06%	-0.82%	1.78%	-0.87%	-0.49%	-$0.29
12/03/01	$56.29	-4.58%	-0.83%	-1.54%	1.78%	-1.46%	-3.11%	-$1.84
12/04/01	$58.23	3.45%	1.32%	1.25%	1.74%	1.06%	2.38%	$1.34
12/05/01	$61.00	4.76%	2.24%	1.81%	1.77%	1.47%	3.29%	$1.91
12/06/01	$60.66	-0.56%	-0.27%	0.58%	1.75%	0.68%	-1.23%	-$0.75
12/07/01	$59.66	-1.65%	-0.75%	-0.20%	1.69%	-0.05%	-1.60%	-$0.97
12/10/01	$57.60	-3.45%	-1.58%	-1.58%	1.71%	-1.36%	-2.09%	-$1.25
12/11/01	$56.66	-1.63%	-0.27%	0.37%	1.66%	0.45%	-2.08%	-$1.20
12/12/01	$54.15	-4.43%	0.03%	-0.29%	1.67%	-0.32%	-4.11%	-$2.33
12/13/01	$54.23	0.15%	-1.55%	-1.43%	1.69%	-1.20%	1.35%	$0.73
12/14/01	$53.35	-1.62%	0.34%	-0.57%	1.73%	-0.68%	-0.94%	-$0.51
12/17/01	$54.57	2.29%	1.01%	0.90%	1.74%	0.75%	1.53%	$0.82
12/18/01	$56.12	2.84%	0.76%	1.03%	1.71%	0.94%	1.90%	$1.04
12/19/01	$56.87	1.34%	0.59%	1.63%	1.69%	1.61%	-0.28%	-$0.16
12/20/01	$56.50	-0.65%	-0.83%	-0.40%	1.69%	-0.25%	-0.40%	-$0.23
12/21/01	$55.90	-1.06%	0.44%	-0.50%	1.71%	-0.62%	-0.44%	-$0.25
12/24/01	$56.09	0.34%	-0.02%	-0.11%	1.72%	-0.11%	0.45%	$0.25
12/26/01	$56.38	0.52%	0.42%	0.26%	1.75%	0.19%	0.33%	$0.19
12/27/01	$57.83	2.96%	0.68%	0.67%	1.74%	0.57%	2.39%	$1.35
12/28/01	$58.88	1.82%	0.34%	0.93%	1.72%	0.93%	0.89%	$0.51
12/31/01	$57.94	-1.60%	-1.11%	-0.73%	1.74%	-0.54%	-1.05%	-$0.62
01/02/02	$57.09	-1.47%	0.58%	-0.31%	1.74%	-0.46%	-1.01%	-$0.59
01/03/02	$57.05	-0.07%	0.92%	0.54%	1.73%	0.39%	-0.46%	-$0.26
01/04/02	$59.19	3.75%	0.63%	1.44%	1.72%	1.40%	2.35%	$1.34
01/07/02	$58.10	-1.84%	-0.64%	-0.71%	1.68%	-0.62%	-1.22%	-$0.72
01/08/02	$56.74	-2.34%	-0.35%	-1.29%	1.68%	-1.30%	-1.04%	-$0.60
01/09/02	$57.10	0.63%	-0.48%	0.51%	1.68%	0.65%	-0.01%	-$0.01
01/10/02	$56.54	-0.98%	0.13%	0.46%	1.68%	0.47%	-1.45%	-$0.83
01/11/02	$54.38	-3.82%	-0.94%	-1.02%	1.58%	-0.89%	-2.93%	-$1.66
01/14/02	$52.78	-2.94%	-0.62%	-0.88%	1.58%	-0.81%	-2.13%	-$1.16
01/15/02	$55.20	4.59%	0.69%	1.96%	1.60%	1.95%	2.64%	$1.39
01/16/02	$54.45	-1.36%	-1.62%	-1.23%	1.61%	-0.97%	-0.39%	-$0.21
01/17/02	$53.76	-1.27%	1.01%	0.96%	1.64%	0.81%	-2.08%	-$1.13
01/18/02	$54.85	2.03%	-0.99%	-0.30%	1.62%	-0.12%	2.14%	$1.15

Estimation of Predicted Returns
For Quantification Including Leakage

Date	Price	Household Return	S&P 500 Index Return	S&P Financials Index Return	Annualized Risk-Free Return	Predicted Return	Residual Return	Residual Price Change
01/22/02	$54.05	-1.46%	-0.73%	-0.16%	1.70%	-0.02%	-1.44%	-$0.79
01/23/02	$53.35	-1.30%	0.80%	0.00%	1.71%	-0.16%	-1.13%	-$0.61
01/24/02	$53.75	0.75%	0.36%	0.45%	1.72%	0.40%	0.35%	$0.19
01/25/02	$54.71	1.79%	0.11%	0.32%	1.72%	0.32%	1.46%	$0.79
01/28/02	$52.85	-3.40%	-0.01%	-0.70%	1.76%	-0.75%	-2.65%	-$1.45
01/29/02	$49.85	-5.68%	-2.86%	-4.54%	1.72%	-4.25%	-1.43%	-$0.76
01/30/02	$49.35	-1.00%	1.18%	1.14%	1.75%	0.97%	-1.98%	-$0.98
01/31/02	$51.24	3.83%	1.50%	1.76%	1.76%	1.57%	2.26%	$1.12
02/01/02	$51.10	-0.27%	-0.70%	-1.13%	1.76%	-1.06%	0.78%	$0.40
02/04/02	$48.80	-4.50%	-2.47%	-3.32%	1.77%	-3.03%	-1.47%	-$0.75
02/05/02	$47.53	-2.60%	-0.40%	-0.65%	1.76%	-0.61%	-1.99%	-$0.97
02/06/02	$44.71	-5.93%	-0.59%	-0.97%	1.74%	-0.92%	-5.02%	-$2.38
02/07/02	$48.01	7.38%	-0.30%	0.56%	1.73%	0.66%	6.72%	$3.01
02/08/02	$52.00	8.31%	1.49%	2.72%	1.73%	2.59%	5.72%	$2.75
02/11/02	$51.45	-1.06%	1.44%	0.88%	1.75%	0.64%	-1.70%	-$0.88
02/12/02	$50.80	-1.26%	-0.39%	-0.61%	1.75%	-0.57%	-0.69%	-$0.36
02/13/02	$52.15	2.66%	1.00%	1.54%	1.76%	1.43%	1.22%	$0.62
02/14/02	$51.92	-0.44%	-0.18%	0.21%	1.75%	0.26%	-0.70%	-$0.37
02/15/02	$50.89	-1.98%	-1.10%	-2.96%	1.74%	-2.92%	0.94%	$0.49
02/19/02	$50.35	-1.06%	-1.88%	-1.46%	1.76%	-1.16%	0.10%	$0.05
02/20/02	$50.65	0.60%	1.36%	1.48%	1.76%	1.30%	-0.70%	-$0.35
02/21/02	$48.50	-4.24%	-1.55%	-1.52%	1.76%	-1.29%	-2.95%	-$1.49
02/22/02	$48.65	0.31%	0.83%	-0.11%	1.76%	-0.29%	0.59%	$0.29
02/25/02	$49.58	1.91%	1.80%	2.45%	1.77%	2.24%	-0.32%	-$0.16
02/26/02	$49.98	0.81%	0.00%	0.35%	1.77%	0.38%	0.43%	$0.21
02/27/02	$52.08	4.20%	0.05%	0.76%	1.77%	0.80%	3.40%	$1.70
02/28/02	$51.50	-1.11%	-0.28%	0.41%	1.79%	0.50%	-1.61%	-$0.84
03/01/02	$53.00	2.91%	2.27%	1.24%	1.77%	0.85%	2.06%	$1.06
03/04/02	$57.25	8.02%	1.95%	3.29%	1.81%	3.11%	4.91%	$2.60
03/05/02	$56.28	-1.69%	-0.66%	0.07%	1.80%	0.21%	-1.91%	-$1.09
03/06/02	$57.77	2.65%	1.46%	1.60%	1.78%	1.41%	1.24%	$0.70
03/07/02	$58.36	1.02%	-0.44%	-0.73%	1.78%	-0.68%	1.71%	$0.99
03/08/02	$59.90	2.64%	0.59%	0.44%	1.81%	0.35%	2.29%	$1.34
03/11/02	$59.73	-0.28%	0.34%	0.56%	1.86%	0.52%	-0.81%	-$0.48
03/12/02	$59.16	-0.95%	-0.22%	0.26%	1.84%	0.32%	-1.28%	-$0.76
03/13/02	$58.40	-1.28%	-0.98%	-0.85%	1.82%	-0.70%	-0.59%	-$0.35
03/14/02	$57.48	-1.58%	-0.09%	0.17%	1.86%	0.20%	-1.78%	-$1.04
03/15/02	$58.95	2.56%	1.14%	1.94%	1.86%	1.83%	0.73%	$0.42
03/18/02	$58.98	0.05%	-0.05%	-0.56%	1.88%	-0.58%	0.63%	$0.37
03/19/02	$58.98	0.00%	0.41%	0.51%	1.85%	0.46%	-0.46%	-$0.27
03/20/02	$57.61	-2.32%	-1.57%	-1.67%	1.84%	-1.46%	-0.87%	-$0.51
03/21/02	$57.90	0.50%	0.16%	-0.01%	1.84%	-0.04%	0.54%	$0.31
03/22/02	$58.14	0.41%	-0.42%	0.13%	1.84%	0.23%	0.18%	$0.11
03/25/02	$56.30	-3.16%	-1.46%	-1.62%	1.85%	-1.42%	-1.74%	-$1.01

Estimation of Predicted Returns
For Quantification Including Leakage

Date	Price	Household Return	S&P 500 Index Return	S&P Financials Index Return	Annualized Risk-Free Return	Predicted Return	Residual Return	Residual Price Change
03/26/02	$57.00	1.63%	0.59%	0.97%	1.81%	0.91%	0.72%	$0.41
03/27/02	$57.50	0.88%	0.54%	1.05%	1.81%	1.01%	-0.13%	-$0.08
03/28/02	$56.80	-1.22%	0.25%	-0.34%	1.79%	-0.41%	-0.81%	-$0.46
04/01/02	$57.03	0.40%	-0.07%	-0.56%	1.79%	-0.58%	0.99%	$0.56
04/02/02	$57.05	0.04%	-0.85%	0.31%	1.80%	0.51%	-0.48%	-$0.27
04/03/02	$55.75	-2.28%	-0.99%	-1.02%	1.79%	-0.88%	-1.40%	-$0.80
04/04/02	$56.83	1.94%	0.09%	0.62%	1.78%	0.64%	1.30%	$0.72
04/05/02	$57.98	2.02%	-0.31%	0.61%	1.76%	0.72%	1.30%	$0.74
04/08/02	$59.06	1.86%	0.23%	0.37%	1.75%	0.35%	1.52%	$0.88
04/09/02	$59.25	0.32%	-0.66%	0.57%	1.73%	0.75%	-0.42%	-$0.25
04/10/02	$59.35	0.17%	1.14%	0.31%	1.71%	0.09%	0.08%	$0.05
04/11/02	$57.05	-3.88%	-2.36%	-2.55%	1.72%	-2.22%	-1.65%	-$0.98
04/12/02	$58.10	1.84%	0.67%	1.14%	1.71%	1.07%	0.77%	$0.44
04/15/02	$57.48	-1.07%	-0.76%	-1.36%	1.72%	-1.29%	0.22%	$0.13
04/16/02	$59.52	3.55%	2.35%	2.13%	1.74%	1.78%	1.77%	$1.01
04/17/02	$60.70	1.98%	-0.20%	0.47%	1.73%	0.54%	1.44%	$0.86
04/18/02	$61.20	0.82%	-0.14%	-0.42%	1.72%	-0.42%	1.24%	$0.75
04/19/02	$62.44	2.03%	0.07%	0.04%	1.73%	0.02%	2.00%	$1.23
04/22/02	$60.90	-2.47%	-1.54%	-1.40%	1.72%	-1.18%	-1.29%	-$0.81
04/23/02	$61.80	1.48%	-0.61%	-0.51%	1.73%	-0.42%	1.89%	$1.15
04/24/02	$61.36	-0.71%	-0.70%	-0.48%	1.72%	-0.36%	-0.35%	-$0.22
04/25/02	$59.18	-3.55%	-0.15%	-0.95%	1.74%	-0.99%	-2.57%	-$1.58
04/26/02	$59.60	0.71%	-1.38%	-0.50%	1.75%	-0.24%	0.95%	$0.56
04/29/02	$57.25	-3.94%	-1.00%	-0.84%	1.78%	-0.69%	-3.25%	-$1.94
04/30/02	$58.29	1.82%	1.08%	1.30%	1.77%	1.16%	0.66%	$0.38
05/01/02	$57.70	-1.01%	0.89%	0.55%	1.77%	0.40%	-1.41%	-$0.82
05/02/02	$57.43	-0.47%	-0.17%	1.09%	1.77%	1.19%	-1.66%	-$0.96
05/03/02	$57.00	-0.75%	-1.02%	-0.58%	1.76%	-0.41%	-0.34%	-$0.20
05/06/02	$55.68	-2.32%	-1.93%	-2.20%	1.78%	-1.95%	-0.37%	-$0.21
05/07/02	$54.75	-1.67%	-0.30%	-0.54%	1.76%	-0.52%	-1.15%	-$0.64
05/08/02	$57.11	4.31%	3.76%	2.87%	1.76%	2.28%	2.03%	$1.11
05/09/02	$56.29	-1.44%	-1.45%	-0.97%	1.77%	-0.73%	-0.71%	-$0.41
05/10/02	$54.25	-3.62%	-1.67%	-1.46%	1.77%	-1.20%	-2.42%	-$1.36
05/13/02	$55.82	2.89%	1.86%	1.70%	1.79%	1.43%	1.47%	$0.80
05/14/02	$56.85	1.85%	2.12%	1.58%	1.78%	1.24%	0.60%	$0.34
05/15/02	$55.47	-2.43%	-0.56%	-0.36%	1.76%	-0.26%	-2.17%	-$1.23
05/16/02	$55.00	-0.85%	0.66%	0.97%	1.75%	0.89%	-1.74%	-$0.97
05/17/02	$54.31	-1.25%	0.77%	0.54%	1.76%	0.42%	-1.67%	-$0.92
05/20/02	$53.51	-1.47%	-1.32%	-1.79%	1.77%	-1.64%	0.17%	$0.09
05/21/02	$52.69	-1.53%	-1.09%	-0.66%	1.75%	-0.48%	-1.06%	-$0.57
05/22/02	$52.85	0.30%	0.57%	0.01%	1.74%	-0.11%	0.42%	$0.22
05/23/02	$53.27	0.79%	1.02%	0.96%	1.74%	0.82%	-0.02%	-$0.01
05/24/02	$53.07	-0.38%	-1.20%	-0.71%	1.74%	-0.51%	0.13%	$0.07
05/28/02	$52.85	-0.41%	-0.85%	-1.09%	1.77%	-0.99%	0.57%	$0.30

Estimation of Predicted Returns
For Quantification Including Leakage

Date	Price	Household Return	S&P 500 Index Return	S&P Financials Index Return	Annualized Risk-Free Return	Predicted Return	Residual Return	Residual Price Change
05/29/02	$52.80	-0.09%	-0.64%	-0.01%	1.75%	0.12%	-0.21%	-$0.11
05/30/02	$51.65	-2.18%	-0.28%	-0.43%	1.75%	-0.40%	-1.78%	-$0.94
05/31/02	$51.15	-0.97%	0.24%	0.36%	1.74%	0.34%	-1.31%	-$0.67
06/03/02	$50.94	-0.41%	-2.47%	-2.16%	1.77%	-1.79%	1.38%	$0.71
06/04/02	$50.69	-0.49%	0.01%	-0.66%	1.76%	-0.70%	0.21%	$0.11
06/05/02	$52.19	2.96%	0.89%	0.87%	1.75%	0.74%	2.22%	$1.12
06/06/02	$53.60	2.70%	-1.97%	-1.78%	1.74%	-1.49%	4.19%	$2.19
06/07/02	$52.87	-1.36%	-0.15%	0.09%	1.74%	0.13%	-1.49%	-$0.80
06/10/02	$52.59	-0.53%	0.32%	0.63%	1.76%	0.60%	-1.13%	-$0.60
06/11/02	$52.99	0.76%	-1.66%	-1.89%	1.75%	-1.67%	2.43%	$1.28
06/12/02	$52.48	-0.96%	0.66%	0.43%	1.74%	0.32%	-1.28%	-$0.68
06/13/02	$50.30	-4.15%	-1.04%	-2.16%	1.72%	-2.08%	-2.07%	-$1.09
06/14/02	$50.80	0.99%	-0.22%	0.89%	1.71%	0.99%	0.00%	$0.00
06/17/02	$52.74	3.82%	2.88%	4.38%	1.74%	4.07%	-0.25%	-$0.13
06/18/02	$52.75	0.02%	0.10%	0.38%	1.73%	0.39%	-0.37%	-$0.19
06/19/02	$51.55	-2.27%	-1.65%	-1.30%	1.71%	-1.04%	-1.23%	-$0.65
06/20/02	$49.80	-3.39%	-1.34%	-1.72%	1.73%	-1.55%	-1.84%	-$0.95
06/21/02	$49.68	-0.24%	-1.70%	-1.03%	1.72%	-0.75%	0.51%	$0.25
06/24/02	$50.00	0.64%	0.37%	0.00%	1.74%	-0.08%	0.72%	$0.36
06/25/02	$49.00	-2.00%	-1.66%	-0.82%	1.73%	-0.53%	-1.47%	-$0.74
06/26/02	$48.65	-0.20%	-0.26%	-1.94%	1.70%	-2.02%	1.81%	$0.89
06/27/02	$49.90	2.57%	1.76%	2.43%	1.70%	2.23%	0.34%	$0.17
06/28/02	$49.70	-0.40%	-0.08%	1.10%	1.70%	1.19%	-1.59%	-$0.79
07/01/02	$47.93	-3.56%	-2.13%	-1.59%	1.72%	-1.25%	-2.31%	-$1.15
07/02/02	$47.60	-0.69%	-2.12%	-1.66%	1.72%	-1.33%	0.64%	$0.31
07/03/02	$48.05	0.95%	0.63%	-0.91%	1.72%	-1.11%	2.05%	$0.98
07/05/02	$50.00	4.06%	3.68%	3.66%	1.72%	3.14%	0.92%	$0.44
07/08/02	$49.54	-0.92%	-1.21%	-0.37%	1.73%	-0.14%	-0.78%	-$0.39
07/09/02	$47.05	-5.03%	-2.47%	-2.72%	1.72%	-2.39%	-2.64%	-$1.31
07/10/02	$44.07	-6.33%	-3.39%	-3.20%	1.72%	-2.71%	-3.63%	-$1.71
07/11/02	$45.00	2.11%	0.76%	0.95%	1.72%	0.86%	1.25%	$0.55
07/12/02	$46.30	2.89%	-0.64%	-0.85%	1.71%	-0.77%	3.66%	$1.65
07/15/02	$45.67	-1.36%	-0.37%	-0.40%	1.72%	-0.35%	-1.01%	-$0.47
07/16/02	$46.10	0.94%	-1.83%	-1.60%	1.72%	-1.32%	2.26%	$1.03
07/17/02	$42.37	-8.09%	0.56%	-0.81%	1.72%	-0.98%	-7.11%	-$3.28
07/18/02	$42.41	0.09%	-2.70%	-3.38%	1.72%	-3.04%	3.13%	$1.33
07/19/02	$40.72	-3.98%	-3.83%	-2.20%	1.71%	-1.54%	-2.44%	-$1.04
07/22/02	$38.84	-4.62%	-3.29%	-3.59%	1.70%	-3.14%	-1.47%	-$0.60
07/23/02	$36.29	-6.57%	-2.69%	-5.36%	1.70%	-5.16%	-1.41%	-$0.55
07/24/02	$39.97	10.14%	5.74%	5.64%	1.69%	4.82%	5.32%	$1.93
07/25/02	$38.80	-2.93%	-0.55%	-0.31%	1.70%	-0.21%	-2.72%	-$1.09
07/26/02	$37.66	-2.94%	1.70%	2.79%	1.69%	2.63%	-5.56%	-$2.16
07/29/02	$39.85	5.82%	5.41%	6.49%	1.72%	5.80%	0.02%	$0.01
07/30/02	$40.30	1.13%	0.43%	0.38%	1.72%	0.31%	0.82%	$0.33

Estimation of Predicted Returns
For Quantification Including Leakage

Date	Price	Household Return	S&P 500 Index Return	S&P Financials Index Return	Annualized Risk-Free Return	Predicted Return	Residual Return	Residual Price Change
07/31/02	$42.67	5.88%	0.99%	1.51%	1.71%	1.41%	4.47%	$1.80
08/01/02	$41.26	-3.30%	-2.95%	-2.26%	1.68%	-1.79%	-1.51%	-$0.65
08/02/02	$39.45	-4.39%	-2.30%	-2.81%	1.63%	-2.52%	-1.87%	-$0.77
08/05/02	$36.98	-6.26%	-3.42%	-3.75%	1.64%	-3.29%	-2.97%	-$1.17
08/06/02	$39.72	7.41%	3.00%	3.13%	1.65%	2.71%	4.70%	$1.74
08/07/02	$38.28	-3.63%	2.01%	1.48%	1.59%	1.16%	-4.78%	-$1.90
08/08/02	$40.96	7.00%	3.28%	4.90%	1.62%	4.55%	2.45%	$0.94
08/09/02	$40.45	-1.25%	0.36%	1.14%	1.62%	1.14%	-2.39%	-$0.98
08/12/02	$39.70	-1.85%	-0.53%	-1.03%	1.68%	-0.99%	-0.86%	-$0.35
08/13/02	$37.80	-4.79%	-2.16%	-2.43%	1.63%	-2.14%	-2.65%	-$1.05
08/14/02	$38.09	0.77%	4.01%	3.74%	1.64%	3.15%	-2.38%	-$0.90
08/15/02	$39.60	3.96%	1.16%	1.07%	1.62%	0.90%	3.07%	$1.17
08/16/02	$37.54	-5.20%	-0.15%	-0.65%	1.62%	-0.66%	-4.54%	-$1.80
08/19/02	$37.75	0.56%	2.37%	2.67%	1.67%	2.36%	-1.80%	-$0.67
08/20/02	$36.75	-2.65%	-1.39%	-1.50%	1.62%	-1.31%	-1.34%	-$0.51
08/21/02	$37.15	1.09%	1.28%	0.45%	1.63%	0.21%	0.88%	$0.32
08/22/02	$40.65	9.42%	1.41%	1.25%	1.65%	1.04%	8.38%	$3.11
08/23/02	$37.80	-7.01%	-2.26%	-2.05%	1.65%	-1.71%	-5.30%	-$2.15
08/26/02	$39.08	3.39%	0.76%	1.20%	1.68%	1.12%	2.27%	$0.86
08/27/02	$37.70	-3.53%	-1.38%	-0.82%	1.68%	-0.58%	-2.95%	-$1.15
08/28/02	$36.80	-2.39%	-1.81%	-1.92%	1.67%	-1.67%	-0.71%	-$0.27
08/29/02	$36.38	-1.14%	0.00%	0.33%	1.68%	0.35%	-1.49%	-$0.55
08/30/02	$36.11	-0.74%	-0.18%	0.24%	1.69%	0.29%	-1.04%	-$0.38
09/03/02	$33.36	-7.62%	-4.15%	-4.90%	1.64%	-4.36%	-3.25%	-$1.17
09/04/02	$34.40	3.12%	1.76%	1.79%	1.63%	1.55%	1.57%	$0.52
09/05/02	$33.36	-3.02%	-1.59%	-1.45%	1.61%	-1.22%	-1.80%	-$0.62
09/06/02	$33.95	1.77%	1.69%	1.42%	1.66%	1.17%	0.60%	$0.20
09/09/02	$36.33	7.01%	1.02%	1.59%	1.69%	1.49%	5.52%	$1.88
09/10/02	$35.15	-3.25%	0.74%	-0.79%	1.68%	-0.99%	-2.25%	-$0.82
09/11/02	$35.43	0.80%	-0.01%	-0.40%	1.69%	-0.42%	1.22%	$0.43
09/12/02	$33.85	-4.46%	-2.47%	-2.74%	1.69%	-2.41%	-2.05%	-$0.73
09/13/02	$34.67	2.42%	0.33%	0.68%	1.69%	0.66%	1.76%	$0.60
09/16/02	$33.59	-3.12%	0.15%	-0.20%	1.71%	-0.24%	-2.87%	-$1.00
09/17/02	$29.52	-12.12%	-1.97%	-2.09%	1.70%	-1.82%	-10.30%	-$3.46
09/18/02	$29.85	1.12%	-0.46%	-0.89%	1.68%	-0.85%	1.97%	$0.58
09/19/02	$29.25	-2.01%	-3.00%	-3.50%	1.65%	-3.11%	1.10%	$0.33
09/20/02	$29.05	-0.68%	0.25%	-0.31%	1.65%	-0.39%	-0.30%	-$0.09
09/23/02	$27.61	-4.96%	-1.38%	-0.11%	1.65%	0.17%	-5.13%	-$1.49
09/24/02	$27.55	-0.22%	-1.72%	-2.19%	1.65%	-1.97%	1.75%	$0.48
09/25/02	$28.15	2.18%	2.49%	2.13%	1.66%	1.75%	0.42%	$0.12
09/26/02	$29.28	4.90%	1.83%	3.00%	1.65%	2.82%	2.08%	$0.59
09/27/02	$27.64	-5.60%	-3.22%	-3.03%	1.63%	-2.56%	-3.04%	-$0.89
09/30/02	$28.31	2.42%	-1.45%	0.41%	1.57%	0.74%	1.69%	$0.47
10/01/02	$28.40	0.32%	4.01%	4.44%	1.59%	3.90%	-3.59%	-$1.01

Estimation of Predicted Returns
For Quantification Including Leakage

Date	Price	Household Return	S&P 500 Index Return	S&P Financials Index Return	Annualized Risk-Free Return	Predicted Return	Residual Return	Residual Price Change
10/02/02	$27.32	-3.80%	-2.35%	-3.85%	1.58%	-3.61%	-0.19%	-$0.05
10/03/02	$26.60	-2.64%	-1.07%	-4.13%	1.57%	-4.19%	1.55%	$0.42
10/04/02	$24.66	-7.29%	-2.23%	-2.94%	1.61%	-2.67%	-4.63%	-$1.23
10/07/02	$23.25	-5.72%	-1.90%	-3.31%	1.63%	-3.14%	-2.58%	-$0.64
10/08/02	$23.58	1.42%	1.70%	4.14%	1.61%	4.07%	-2.65%	-$0.62
10/09/02	$21.00	-10.94%	-2.72%	-4.34%	1.57%	-4.06%	-6.88%	-$1.62
10/10/02	$26.30	25.24%	3.50%	5.50%	1.58%	5.14%	20.10%	$4.22
10/11/02	$28.20	7.22%	3.91%	5.02%	1.58%	4.53%	2.69%	$0.71

Note: Predicted returns were calculated using the formula: $R_{predicted} = R_{rf} + -0.20929 \times (R_{SP500} - R_{rf}) + 1.06738 \times (R_{financials} - R_{rf})$, where $R_{predicted}$ is the daily predicted return, R_{rf} is the daily risk-free return, R_{SP500} is the daily return of the S&P 500 index, and $R_{financials}$ is the daily return of the S&P Financials index. Parameter estimates were estimated using the equation noted in Exhibit 49. Daily risk-free returns are the daily equivalent of the annualized three-month Treasury bill returns.

Sources: Household stock price data from the 200512 and 200612 CRSP, Center for Research in Security Prices. Graduate School of Business, The University of Chicago used with permission. All rights reserved. www.crsp.chicagogsb.edu. S&P index returns from SunGard Data Management Solutions. Daily risk-free returns calculated using a daily series of annualized three-month treasury bill returns available at: www.federalreserve.gov.

Exhibit 56

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
07/30/99	$42.94	$25.13	$17.81
08/02/99	$41.88	$24.51	$17.37
08/03/99	$40.00	$23.41	$16.59
08/04/99	$40.31	$23.59	$16.72
08/05/99	$40.56	$23.74	$16.82
08/06/99	$40.25	$23.56	$16.69
08/09/99	$40.88	$23.92	$16.95
08/10/99	$39.50	$23.12	$16.38
08/11/99	$40.25	$23.56	$16.69
08/12/99	$40.19	$23.52	$16.67
08/13/99	$40.75	$23.85	$16.90
08/16/99	$39.75	$23.27	$16.48
08/17/99	$41.50	$24.29	$17.21
08/18/99	$42.00	$24.58	$17.42
08/19/99	$41.69	$24.40	$17.29
08/20/99	$41.88	$24.51	$17.37
08/23/99	$42.94	$25.13	$17.81
08/24/99	$42.44	$24.84	$17.60
08/25/99	$41.19	$24.11	$17.08
08/26/99	$39.81	$23.30	$16.51
08/27/99	$37.81	$22.13	$15.68
08/30/99	$37.44	$21.91	$15.53
08/31/99	$37.75	$22.10	$15.65
09/01/99	$39.56	$23.16	$16.41
09/02/99	$38.50	$22.53	$15.97
09/03/99	$39.94	$23.38	$16.56
09/07/99	$39.94	$23.38	$16.56
09/08/99	$39.56	$23.16	$16.41
09/09/99	$39.88	$23.34	$16.54
09/10/99	$40.63	$23.78	$16.85
09/13/99	$41.50	$24.29	$17.21
09/14/99	$41.13	$24.07	$17.05
09/15/99	$40.44	$23.67	$16.77
09/16/99	$40.25	$23.56	$16.69
09/17/99	$41.13	$24.07	$17.05
09/20/99	$41.75	$24.44	$17.31
09/21/99	$40.50	$23.70	$16.80
09/22/99	$41.44	$24.25	$17.18
09/23/99	$40.00	$23.41	$16.59
09/24/99	$39.44	$23.08	$16.35
09/27/99	$40.38	$23.63	$16.74
09/28/99	$39.69	$23.16	$16.53
09/29/99	$40.63	$23.71	$16.92
09/30/99	$40.13	$23.41	$16.71
10/01/99	$39.38	$22.98	$16.40
10/04/99	$40.44	$23.60	$16.84
10/05/99	$41.06	$23.96	$17.10

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
10/06/99	$42.88	$25.02	$17.86
10/07/99	$42.38	$24.73	$17.65
10/08/99	$44.31	$25.86	$18.46
10/11/99	$42.69	$24.91	$17.78
10/12/99	$41.69	$24.33	$17.36
10/13/99	$39.75	$23.19	$16.56
10/14/99	$38.94	$22.72	$16.22
10/15/99	$37.00	$21.59	$15.41
10/18/99	$37.88	$22.10	$15.77
10/19/99	$38.94	$22.72	$16.22
10/20/99	$39.56	$23.09	$16.48
10/21/99	$39.00	$22.76	$16.24
10/22/99	$39.75	$23.19	$16.56
10/25/99	$38.88	$22.68	$16.19
10/26/99	$39.06	$22.79	$16.27
10/27/99	$41.56	$24.25	$17.31
10/28/99	$45.69	$26.66	$19.03
10/29/99	$44.63	$26.04	$18.59
11/01/99	$45.00	$26.26	$18.74
11/02/99	$45.31	$26.44	$18.87
11/03/99	$44.56	$26.00	$18.56
11/04/99	$45.63	$26.62	$19.00
11/05/99	$46.06	$26.88	$19.18
11/08/99	$44.63	$26.04	$18.59
11/09/99	$43.06	$25.13	$17.94
11/10/99	$42.56	$24.84	$17.73
11/11/99	$41.31	$24.11	$17.21
11/12/99	$44.13	$25.75	$18.38
11/15/99	$44.13	$25.75	$18.38
11/16/99	$45.13	$26.33	$18.79
11/17/99	$43.25	$25.24	$18.01
11/18/99	$42.50	$24.80	$17.70
11/19/99	$41.88	$24.43	$17.44
11/22/99	$41.25	$24.07	$17.18
11/23/99	$40.94	$23.89	$17.05
11/24/99	$40.38	$23.56	$16.82
11/26/99	$40.25	$23.49	$16.76
11/29/99	$39.38	$22.98	$16.40
11/30/99	$39.56	$23.08	$16.48
12/01/99	$39.56	$23.08	$16.48
12/02/99	$40.31	$23.52	$16.79
12/03/99	$41.00	$23.92	$17.08
12/06/99	$39.50	$23.05	$16.45
12/07/99	$38.25	$22.32	$15.93
12/08/99	$38.69	$22.57	$16.11
12/09/99	$39.50	$23.05	$16.45
12/10/99	$39.06	$22.79	$16.27

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
12/13/99	$38.25	$22.32	$15.93
12/14/99	$37.94	$22.14	$15.80
12/15/99	$37.63	$21.95	$15.67
12/16/99	$38.31	$22.35	$15.96
12/17/99	$38.13	$22.25	$15.88
12/20/99	$37.94	$22.14	$15.80
12/21/99	$37.25	$21.73	$15.52
12/22/99	$36.63	$21.37	$15.25
12/23/99	$37.50	$21.88	$15.62
12/27/99	$36.88	$21.52	$15.36
12/28/99	$36.19	$21.11	$15.07
12/29/99	$35.94	$20.90	$15.04
12/30/99	$36.56	$21.26	$15.30
12/31/99	$37.25	$21.66	$15.59
01/03/00	$34.69	$20.17	$14.52
01/04/00	$35.00	$20.35	$14.65
01/05/00	$34.38	$19.99	$14.39
01/06/00	$36.00	$20.93	$15.07
01/07/00	$36.38	$21.15	$15.22
01/10/00	$36.50	$21.23	$15.27
01/11/00	$36.00	$20.93	$15.07
01/12/00	$36.75	$21.37	$15.38
01/13/00	$37.69	$21.92	$15.77
01/14/00	$37.31	$21.70	$15.61
01/18/00	$36.50	$21.23	$15.27
01/19/00	$36.81	$21.41	$15.41
01/20/00	$36.00	$20.93	$15.07
01/21/00	$35.63	$20.72	$14.91
01/24/00	$34.50	$20.06	$14.44
01/25/00	$33.94	$19.73	$14.20
01/26/00	$35.63	$20.72	$14.91
01/27/00	$35.69	$20.75	$14.94
01/28/00	$34.19	$19.88	$14.31
01/31/00	$35.25	$20.50	$14.75
02/01/00	$35.25	$20.50	$14.75
02/02/00	$36.13	$21.01	$15.12
02/03/00	$35.63	$20.72	$14.91
02/04/00	$35.38	$20.57	$14.80
02/07/00	$35.06	$20.39	$14.67
02/08/00	$35.75	$20.79	$14.96
02/09/00	$33.88	$19.70	$14.18
02/10/00	$33.88	$19.70	$14.18
02/11/00	$31.88	$18.54	$13.34
02/14/00	$31.31	$18.21	$13.10
02/15/00	$32.94	$19.15	$13.78
02/16/00	$30.88	$17.95	$12.92
02/17/00	$31.69	$18.43	$13.26

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
02/18/00	$30.88	$17.95	$12.92
02/22/00	$31.06	$18.06	$13.00
02/23/00	$30.69	$17.85	$12.84
02/24/00	$30.63	$17.81	$12.82
02/25/00	$30.88	$17.95	$12.92
02/28/00	$31.88	$18.54	$13.34
02/29/00	$31.94	$18.57	$13.37
03/01/00	$33.25	$19.34	$13.91
03/02/00	$35.13	$20.43	$14.70
03/03/00	$36.63	$21.30	$15.33
03/06/00	$34.81	$20.24	$14.57
03/07/00	$32.88	$19.12	$13.76
03/08/00	$31.81	$18.50	$13.31
03/09/00	$32.44	$18.86	$13.57
03/10/00	$32.75	$19.04	$13.71
03/13/00	$32.44	$18.86	$13.57
03/14/00	$32.13	$18.68	$13.44
03/15/00	$34.25	$19.92	$14.33
03/16/00	$36.81	$21.41	$15.41
03/17/00	$36.88	$21.44	$15.43
03/20/00	$35.56	$20.68	$14.88
03/21/00	$37.88	$22.02	$15.85
03/22/00	$37.75	$21.95	$15.80
03/23/00	$38.88	$22.61	$16.27
03/24/00	$37.94	$22.06	$15.88
03/27/00	$36.13	$21.01	$15.12
03/28/00	$36.69	$21.33	$15.35
03/29/00	$36.50	$21.15	$15.35
03/30/00	$36.38	$21.08	$15.29
03/31/00	$37.31	$21.62	$15.69
04/03/00	$39.13	$22.68	$16.45
04/04/00	$38.13	$22.10	$16.03
04/05/00	$39.06	$22.64	$16.42
04/06/00	$40.38	$23.40	$16.98
04/07/00	$38.88	$22.53	$16.34
04/10/00	$40.00	$23.18	$16.82
04/11/00	$40.63	$23.54	$17.08
04/12/00	$44.00	$25.50	$18.50
04/13/00	$42.06	$24.38	$17.68
04/14/00	$38.06	$22.06	$16.00
04/17/00	$39.63	$22.97	$16.66
04/18/00	$39.69	$23.00	$16.69
04/19/00	$39.94	$23.15	$16.79
04/20/00	$41.81	$24.23	$17.58
04/24/00	$43.38	$25.14	$18.24
04/25/00	$44.69	$25.90	$18.79
04/26/00	$43.63	$25.28	$18.34

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
04/27/00	$42.00	$24.34	$17.66
04/28/00	$41.75	$24.20	$17.55
05/01/00	$42.00	$24.34	$17.66
05/02/00	$42.06	$24.38	$17.68
05/03/00	$40.75	$23.62	$17.13
05/04/00	$39.13	$22.68	$16.45
05/05/00	$39.75	$23.04	$16.71
05/08/00	$41.13	$23.83	$17.29
05/09/00	$40.25	$23.33	$16.92
05/10/00	$39.38	$22.82	$16.55
05/11/00	$39.94	$23.15	$16.79
05/12/00	$40.38	$23.40	$16.98
05/15/00	$41.94	$24.31	$17.63
05/16/00	$42.81	$24.81	$18.00
05/17/00	$41.69	$24.16	$17.53
05/18/00	$42.81	$24.81	$18.00
05/19/00	$41.44	$24.02	$17.42
05/22/00	$41.88	$24.27	$17.61
05/23/00	$43.00	$24.92	$18.08
05/24/00	$45.75	$26.52	$19.23
05/25/00	$45.38	$26.30	$19.08
05/26/00	$45.38	$26.30	$19.08
05/30/00	$46.56	$26.99	$19.58
05/31/00	$47.00	$27.24	$19.76
06/01/00	$47.13	$27.31	$19.81
06/02/00	$47.00	$27.24	$19.76
06/05/00	$47.13	$27.31	$19.81
06/06/00	$46.38	$26.88	$19.50
06/07/00	$47.25	$27.38	$19.87
06/08/00	$46.19	$26.77	$19.42
06/09/00	$44.44	$25.75	$18.68
06/12/00	$43.56	$25.25	$18.32
06/13/00	$44.69	$25.90	$18.79
06/14/00	$45.38	$26.30	$19.08
06/15/00	$43.06	$24.96	$18.10
06/16/00	$42.44	$24.60	$17.84
06/19/00	$42.75	$24.78	$17.97
06/20/00	$43.94	$25.46	$18.47
06/21/00	$44.06	$25.54	$18.53
06/22/00	$43.19	$25.03	$18.16
06/23/00	$42.13	$24.41	$17.71
06/26/00	$42.13	$24.41	$17.71
06/27/00	$41.81	$24.23	$17.58
06/28/00	$42.81	$24.73	$18.08
06/29/00	$43.00	$24.84	$18.16
06/30/00	$41.56	$24.01	$17.55
07/03/00	$41.88	$24.19	$17.68

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
07/05/00	$42.00	$24.26	$17.74
07/06/00	$41.63	$24.05	$17.58
07/07/00	$42.75	$24.70	$18.05
07/10/00	$42.69	$24.66	$18.03
07/11/00	$43.50	$25.13	$18.37
07/12/00	$43.94	$25.38	$18.55
07/13/00	$44.00	$25.42	$18.58
07/14/00	$44.88	$25.92	$18.95
07/17/00	$42.81	$24.73	$18.08
07/18/00	$43.44	$25.09	$18.34
07/19/00	$45.25	$26.14	$19.11
07/20/00	$46.38	$26.79	$19.58
07/21/00	$45.81	$26.47	$19.35
07/24/00	$45.94	$26.54	$19.40
07/25/00	$45.50	$26.29	$19.21
07/26/00	$44.25	$25.56	$18.69
07/27/00	$44.69	$25.82	$18.87
07/28/00	$43.75	$25.28	$18.47
07/31/00	$44.56	$25.74	$18.82
08/01/00	$44.56	$25.74	$18.82
08/02/00	$44.44	$25.67	$18.77
08/03/00	$46.63	$26.94	$19.69
08/04/00	$49.63	$28.67	$20.96
08/07/00	$49.88	$28.81	$21.06
08/08/00	$50.00	$28.89	$21.11
08/09/00	$48.88	$28.24	$20.64
08/10/00	$48.19	$27.84	$20.35
08/11/00	$49.06	$28.34	$20.72
08/14/00	$49.19	$28.42	$20.77
08/15/00	$47.88	$27.66	$20.22
08/16/00	$46.75	$27.01	$19.74
08/17/00	$46.38	$26.79	$19.58
08/18/00	$46.94	$27.12	$19.82
08/21/00	$46.63	$26.94	$19.69
08/22/00	$47.31	$27.33	$19.98
08/23/00	$47.25	$27.30	$19.95
08/24/00	$47.44	$27.41	$20.03
08/25/00	$47.75	$27.59	$20.16
08/28/00	$48.25	$27.88	$20.37
08/29/00	$48.00	$27.73	$20.27
08/30/00	$48.00	$27.73	$20.27
08/31/00	$48.00	$27.73	$20.27
09/01/00	$47.38	$27.37	$20.01
09/05/00	$47.63	$27.51	$20.11
09/06/00	$50.19	$28.99	$21.19
09/07/00	$50.56	$29.21	$21.35
09/08/00	$52.44	$30.29	$22.14

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
09/11/00	$51.63	$29.83	$21.80
09/12/00	$51.13	$29.54	$21.59
09/13/00	$51.25	$29.61	$21.64
09/14/00	$51.00	$29.46	$21.54
09/15/00	$50.50	$29.18	$21.32
09/18/00	$50.75	$29.32	$21.43
09/19/00	$51.56	$29.79	$21.77
09/20/00	$52.31	$30.22	$22.09
09/21/00	$52.88	$30.55	$22.33
09/22/00	$52.00	$30.04	$21.96
09/25/00	$53.38	$30.84	$22.54
09/26/00	$54.13	$31.27	$22.86
09/27/00	$54.69	$31.51	$23.17
09/28/00	$56.44	$32.52	$23.91
09/29/00	$56.63	$32.69	$23.94
10/02/00	$55.19	$31.80	$23.39
10/03/00	$55.63	$32.05	$23.57
10/04/00	$54.88	$31.62	$23.25
10/05/00	$55.69	$32.09	$23.60
10/06/00	$52.63	$30.33	$22.30
10/09/00	$52.19	$30.07	$22.11
10/10/00	$49.50	$28.52	$20.98
10/11/00	$47.94	$27.62	$20.31
10/12/00	$46.25	$26.65	$19.60
10/13/00	$47.56	$27.41	$20.15
10/16/00	$49.13	$28.31	$20.82
10/17/00	$47.50	$27.37	$20.13
10/18/00	$48.75	$28.09	$20.66
10/19/00	$50.63	$29.17	$21.45
10/20/00	$50.44	$29.07	$21.37
10/23/00	$49.19	$28.35	$20.84
10/24/00	$50.25	$28.96	$21.29
10/25/00	$49.50	$28.52	$20.98
10/26/00	$47.44	$27.34	$20.10
10/27/00	$47.50	$27.37	$20.13
10/30/00	$49.38	$28.45	$20.92
10/31/00	$50.31	$28.99	$21.32
11/01/00	$49.63	$28.60	$21.03
11/02/00	$51.50	$29.68	$21.82
11/03/00	$51.50	$29.68	$21.82
11/06/00	$52.50	$30.25	$22.25
11/07/00	$51.88	$29.89	$21.98
11/08/00	$51.63	$29.75	$21.88
11/09/00	$50.50	$29.10	$21.40
11/10/00	$50.75	$29.24	$21.51
11/13/00	$49.13	$28.31	$20.82
11/14/00	$49.00	$28.24	$20.76

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
11/15/00	$49.31	$28.42	$20.90
11/16/00	$49.13	$28.31	$20.82
11/17/00	$48.19	$27.77	$20.42
11/20/00	$45.75	$26.36	$19.39
11/21/00	$46.25	$26.65	$19.60
11/22/00	$44.06	$25.39	$18.67
11/24/00	$45.31	$26.11	$19.20
11/27/00	$46.50	$26.80	$19.70
11/28/00	$48.38	$27.88	$20.50
11/29/00	$50.13	$28.89	$21.24
11/30/00	$49.88	$28.74	$21.13
12/01/00	$49.56	$28.56	$21.00
12/04/00	$48.38	$27.88	$20.50
12/05/00	$50.19	$28.92	$21.27
12/06/00	$50.75	$29.25	$21.50
12/07/00	$51.81	$29.86	$21.95
12/08/00	$53.06	$30.58	$22.48
12/11/00	$52.63	$30.33	$22.30
12/12/00	$51.94	$29.93	$22.01
12/13/00	$50.94	$29.35	$21.58
12/14/00	$50.94	$29.35	$21.58
12/15/00	$50.25	$28.96	$21.29
12/18/00	$52.00	$29.97	$22.03
12/19/00	$53.63	$30.90	$22.72
12/20/00	$51.94	$29.93	$22.01
12/21/00	$52.44	$30.22	$22.22
12/22/00	$52.44	$30.22	$22.22
12/26/00	$53.25	$30.69	$22.56
12/27/00	$54.31	$31.22	$23.09
12/28/00	$55.94	$32.15	$23.79
12/29/00	$55.00	$31.61	$23.39
01/02/01	$53.69	$30.86	$22.83
01/03/01	$58.00	$34.06	$23.94
01/04/01	$57.13	$33.19	$23.94
01/05/01	$54.88	$31.54	$23.33
01/08/01	$54.06	$31.07	$22.99
01/09/01	$52.88	$30.39	$22.48
01/10/01	$52.81	$30.36	$22.46
01/11/01	$53.44	$30.71	$22.72
01/12/01	$53.69	$30.86	$22.83
01/16/01	$55.19	$31.72	$23.47
01/17/01	$56.31	$32.37	$23.94
01/18/01	$54.88	$31.54	$23.33
01/19/01	$54.50	$31.33	$23.17
01/22/01	$53.75	$30.89	$22.86
01/23/01	$55.50	$31.90	$23.60
01/24/01	$56.63	$32.69	$23.94

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
01/25/01	$56.69	$32.75	$23.94
01/26/01	$57.50	$33.56	$23.94
01/29/01	$59.10	$35.16	$23.94
01/30/01	$58.59	$34.65	$23.94
01/31/01	$57.48	$33.54	$23.94
02/01/01	$58.92	$34.98	$23.94
02/02/01	$58.80	$34.86	$23.94
02/05/01	$58.98	$35.04	$23.94
02/06/01	$58.11	$34.17	$23.94
02/07/01	$59.20	$35.26	$23.94
02/08/01	$58.78	$34.84	$23.94
02/09/01	$59.20	$35.26	$23.94
02/12/01	$60.33	$36.39	$23.94
02/13/01	$60.25	$36.31	$23.94
02/14/01	$59.45	$35.51	$23.94
02/15/01	$58.26	$34.32	$23.94
02/16/01	$59.09	$35.15	$23.94
02/20/01	$57.53	$33.59	$23.94
02/21/01	$55.65	$31.99	$23.66
02/22/01	$55.76	$32.05	$23.71
02/23/01	$56.58	$32.64	$23.94
02/26/01	$58.00	$34.06	$23.94
02/27/01	$59.11	$35.17	$23.94
02/28/01	$57.92	$33.98	$23.94
03/01/01	$58.40	$34.46	$23.94
03/02/01	$59.41	$35.47	$23.94
03/05/01	$59.08	$35.14	$23.94
03/06/01	$59.87	$35.93	$23.94
03/07/01	$61.50	$37.56	$23.94
03/08/01	$61.11	$37.17	$23.94
03/09/01	$60.27	$36.33	$23.94
03/12/01	$58.43	$34.49	$23.94
03/13/01	$60.45	$36.51	$23.94
03/14/01	$59.69	$35.75	$23.94
03/15/01	$60.36	$36.42	$23.94
03/16/01	$60.01	$36.07	$23.94
03/19/01	$59.90	$35.96	$23.94
03/20/01	$57.88	$33.94	$23.94
03/21/01	$55.85	$32.10	$23.75
03/22/01	$54.72	$31.45	$23.27
03/23/01	$58.12	$34.18	$23.94
03/26/01	$57.94	$34.00	$23.94
03/27/01	$59.85	$35.91	$23.94
03/28/01	$59.35	$35.41	$23.94
03/29/01	$58.15	$34.21	$23.94
03/30/01	$59.24	$35.30	$23.94
04/02/01	$59.50	$35.56	$23.94

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
04/03/01	$58.92	$34.98	$23.94
04/04/01	$58.45	$34.51	$23.94
04/05/01	$59.73	$35.79	$23.94
04/06/01	$58.54	$34.60	$23.94
04/09/01	$59.45	$35.51	$23.94
04/10/01	$61.12	$37.18	$23.94
04/11/01	$60.54	$36.60	$23.94
04/12/01	$61.40	$37.46	$23.94
04/16/01	$60.33	$36.39	$23.94
04/17/01	$60.91	$36.97	$23.94
04/18/01	$63.38	$39.44	$23.94
04/19/01	$63.05	$39.11	$23.94
04/20/01	$62.45	$38.51	$23.94
04/23/01	$62.23	$38.29	$23.94
04/24/01	$63.10	$39.16	$23.94
04/25/01	$64.75	$40.81	$23.94
04/26/01	$63.40	$39.46	$23.94
04/27/01	$64.38	$40.44	$23.94
04/30/01	$64.02	$40.08	$23.94
05/01/01	$64.46	$40.52	$23.94
05/02/01	$65.46	$41.52	$23.94
05/03/01	$65.29	$41.35	$23.94
05/04/01	$65.70	$41.76	$23.94
05/07/01	$65.50	$41.56	$23.94
05/08/01	$65.42	$41.48	$23.94
05/09/01	$66.05	$42.11	$23.94
05/10/01	$65.08	$41.14	$23.94
05/11/01	$64.91	$40.97	$23.94
05/14/01	$65.22	$41.28	$23.94
05/15/01	$66.94	$43.00	$23.94
05/16/01	$68.64	$44.70	$23.94
05/17/01	$68.20	$44.26	$23.94
05/18/01	$67.57	$43.63	$23.94
05/21/01	$67.67	$43.73	$23.94
05/22/01	$67.71	$43.77	$23.94
05/23/01	$66.48	$42.54	$23.94
05/24/01	$66.44	$42.50	$23.94
05/25/01	$66.27	$42.33	$23.94
05/29/01	$66.00	$42.06	$23.94
05/30/01	$65.80	$41.86	$23.94
05/31/01	$65.66	$41.72	$23.94
06/01/01	$65.74	$41.80	$23.94
06/04/01	$66.43	$42.49	$23.94
06/05/01	$66.98	$43.04	$23.94
06/06/01	$65.96	$42.02	$23.94
06/07/01	$65.82	$41.88	$23.94
06/08/01	$65.80	$41.86	$23.94

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
06/11/01	$65.78	$41.84	$23.94
06/12/01	$65.30	$41.36	$23.94
06/13/01	$65.25	$41.31	$23.94
06/14/01	$64.71	$40.77	$23.94
06/15/01	$63.80	$39.86	$23.94
06/18/01	$63.65	$39.71	$23.94
06/19/01	$63.82	$39.88	$23.94
06/20/01	$64.61	$40.67	$23.94
06/21/01	$66.71	$42.77	$23.94
06/22/01	$67.01	$43.07	$23.94
06/25/01	$65.95	$42.01	$23.94
06/26/01	$65.14	$41.20	$23.94
06/27/01	$65.70	$41.76	$23.94
06/28/01	$65.98	$42.04	$23.94
06/29/01	$66.70	$42.76	$23.94
07/02/01	$66.60	$42.66	$23.94
07/03/01	$66.23	$42.29	$23.94
07/05/01	$66.95	$43.01	$23.94
07/06/01	$66.54	$42.60	$23.94
07/09/01	$66.48	$42.54	$23.94
07/10/01	$65.55	$41.61	$23.94
07/11/01	$65.24	$41.30	$23.94
07/12/01	$66.40	$42.46	$23.94
07/13/01	$67.16	$43.22	$23.94
07/16/01	$68.11	$44.17	$23.94
07/17/01	$68.95	$45.01	$23.94
07/18/01	$69.48	$45.54	$23.94
07/19/01	$66.50	$42.56	$23.94
07/20/01	$67.28	$43.34	$23.94
07/23/01	$67.50	$43.56	$23.94
07/24/01	$67.01	$43.07	$23.94
07/25/01	$66.76	$42.82	$23.94
07/26/01	$65.38	$41.44	$23.94
07/27/01	$66.18	$42.24	$23.94
07/30/01	$66.09	$42.15	$23.94
07/31/01	$66.29	$42.35	$23.94
08/01/01	$65.75	$41.81	$23.94
08/02/01	$66.00	$42.06	$23.94
08/03/01	$65.99	$42.05	$23.94
08/06/01	$65.71	$41.77	$23.94
08/07/01	$66.44	$42.50	$23.94
08/08/01	$65.86	$41.92	$23.94
08/09/01	$66.24	$42.30	$23.94
08/10/01	$67.13	$43.19	$23.94
08/13/01	$68.01	$44.07	$23.94
08/14/01	$68.00	$44.06	$23.94
08/15/01	$67.95	$44.01	$23.94

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
08/16/01	$66.87	$42.93	$23.94
08/17/01	$65.99	$42.05	$23.94
08/20/01	$65.50	$41.56	$23.94
08/21/01	$64.86	$40.92	$23.94
08/22/01	$65.48	$41.54	$23.94
08/23/01	$64.72	$40.78	$23.94
08/24/01	$62.35	$38.41	$23.94
08/27/01	$61.96	$38.02	$23.94
08/28/01	$61.34	$37.40	$23.94
08/29/01	$60.70	$36.76	$23.94
08/30/01	$59.31	$35.37	$23.94
08/31/01	$59.10	$35.16	$23.94
09/04/01	$57.06	$33.12	$23.94
09/05/01	$57.22	$33.28	$23.94
09/06/01	$57.00	$33.06	$23.94
09/07/01	$55.04	$31.48	$23.56
09/10/01	$56.31	$32.37	$23.94
09/17/01	$52.83	$30.22	$22.61
09/18/01	$52.64	$30.11	$22.53
09/19/01	$52.30	$29.92	$22.38
09/20/01	$51.46	$29.44	$22.02
09/21/01	$50.34	$28.80	$21.54
09/24/01	$52.85	$30.23	$22.62
09/25/01	$52.08	$29.79	$22.29
09/26/01	$53.60	$30.57	$23.03
09/27/01	$54.49	$31.07	$23.42
09/28/01	$56.38	$32.44	$23.94
10/01/01	$57.50	$33.56	$23.94
10/02/01	$57.83	$33.89	$23.94
10/03/01	$58.20	$34.26	$23.94
10/04/01	$59.63	$35.69	$23.94
10/05/01	$58.35	$34.41	$23.94
10/08/01	$56.50	$32.56	$23.94
10/09/01	$56.59	$32.65	$23.94
10/10/01	$58.22	$34.28	$23.94
10/11/01	$56.95	$33.01	$23.94
10/12/01	$54.89	$31.30	$23.59
10/15/01	$55.91	$31.97	$23.94
10/16/01	$56.00	$32.06	$23.94
10/17/01	$57.16	$33.22	$23.94
10/18/01	$57.53	$33.59	$23.94
10/19/01	$56.91	$32.97	$23.94
10/22/01	$56.92	$32.98	$23.94
10/23/01	$57.25	$33.31	$23.94
10/24/01	$55.44	$31.61	$23.83
10/25/01	$57.19	$33.25	$23.94
10/26/01	$57.48	$33.54	$23.94

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
10/29/01	$54.49	$31.07	$23.42
10/30/01	$53.52	$30.52	$23.00
10/31/01	$52.30	$29.82	$22.48
11/01/01	$52.90	$30.17	$22.73
11/02/01	$52.76	$30.09	$22.67
11/05/01	$53.75	$30.65	$23.10
11/06/01	$56.53	$32.59	$23.94
11/07/01	$58.72	$34.78	$23.94
11/08/01	$57.79	$33.85	$23.94
11/09/01	$57.98	$34.04	$23.94
11/12/01	$58.21	$34.27	$23.94
11/13/01	$60.00	$36.06	$23.94
11/14/01	$60.90	$36.96	$23.94
11/15/01	$58.90	$34.96	$23.94
11/16/01	$57.80	$34.20	$23.60
11/19/01	$58.75	$34.81	$23.94
11/20/01	$58.37	$34.52	$23.85
11/21/01	$58.56	$34.62	$23.94
11/23/01	$59.62	$35.68	$23.94
11/26/01	$60.18	$36.24	$23.94
11/27/01	$60.76	$36.82	$23.94
11/28/01	$60.34	$36.40	$23.94
11/29/01	$59.80	$35.86	$23.94
11/30/01	$58.99	$35.05	$23.94
12/03/01	$56.29	$33.70	$22.59
12/04/01	$58.23	$34.29	$23.94
12/05/01	$61.00	$37.06	$23.94
12/06/01	$60.66	$36.72	$23.94
12/07/01	$59.66	$35.72	$23.94
12/10/01	$57.60	$34.30	$23.30
12/11/01	$56.66	$34.46	$22.20
12/12/01	$54.15	$34.35	$19.80
12/13/01	$54.23	$33.94	$20.29
12/14/01	$53.35	$33.71	$19.64
12/17/01	$54.57	$33.96	$20.61
12/18/01	$56.12	$34.28	$21.84
12/19/01	$56.87	$34.83	$22.04
12/20/01	$56.50	$34.75	$21.75
12/21/01	$55.90	$34.53	$21.37
12/24/01	$56.09	$34.49	$21.60
12/26/01	$56.38	$34.56	$21.82
12/27/01	$57.83	$34.53	$23.30
12/28/01	$58.88	$34.94	$23.94
12/31/01	$57.94	$34.66	$23.28
01/02/02	$57.09	$34.51	$22.58
01/03/02	$57.05	$34.64	$22.41
01/04/02	$59.19	$35.25	$23.94

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
01/07/02	$58.10	$34.91	$23.19
01/08/02	$56.74	$34.45	$22.29
01/09/02	$57.10	$34.68	$22.42
01/10/02	$56.54	$34.84	$21.70
01/11/02	$54.38	$34.53	$19.85
01/14/02	$52.78	$34.25	$18.53
01/15/02	$55.20	$34.92	$20.28
01/16/02	$54.45	$34.58	$19.87
01/17/02	$53.76	$34.86	$18.90
01/18/02	$54.85	$34.82	$20.03
01/22/02	$54.05	$34.81	$19.24
01/23/02	$53.35	$34.76	$18.59
01/24/02	$53.75	$34.89	$18.86
01/25/02	$54.71	$35.01	$19.70
01/28/02	$52.85	$34.75	$18.10
01/29/02	$49.85	$33.27	$16.58
01/30/02	$49.35	$33.59	$15.76
01/31/02	$51.24	$34.12	$17.12
02/01/02	$51.10	$33.76	$17.34
02/04/02	$48.80	$32.74	$16.06
02/05/02	$47.53	$32.54	$14.99
02/06/02	$44.71	$32.24	$12.47
02/07/02	$48.01	$32.45	$15.56
02/08/02	$52.00	$33.29	$18.71
02/11/02	$51.45	$33.51	$17.94
02/12/02	$50.80	$33.31	$17.49
02/13/02	$52.15	$33.79	$18.36
02/14/02	$51.92	$33.88	$18.04
02/15/02	$50.89	$32.89	$18.00
02/19/02	$50.35	$32.51	$17.84
02/20/02	$50.65	$32.93	$17.72
02/21/02	$48.50	$32.50	$16.00
02/22/02	$48.65	$32.41	$16.24
02/25/02	$49.58	$33.13	$16.45
02/26/02	$49.98	$33.26	$16.72
02/27/02	$52.08	$33.53	$18.55
02/28/02	$51.50	$33.69	$17.81
03/01/02	$53.00	$33.98	$19.02
03/04/02	$57.25	$35.04	$22.21
03/05/02	$56.28	$35.11	$21.17
03/06/02	$57.77	$35.60	$22.17
03/07/02	$58.36	$35.36	$23.00
03/08/02	$59.90	$35.96	$23.94
03/11/02	$59.73	$35.79	$23.94
03/12/02	$59.16	$35.79	$23.37
03/13/02	$58.40	$35.54	$22.86
03/14/02	$57.48	$35.61	$21.87

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
03/15/02	$58.95	$36.26	$22.69
03/18/02	$58.98	$36.05	$22.93
03/19/02	$58.98	$36.21	$22.77
03/20/02	$57.61	$35.68	$21.93
03/21/02	$57.90	$35.67	$22.23
03/22/02	$58.14	$35.75	$22.39
03/25/02	$56.30	$35.24	$21.06
03/26/02	$57.00	$35.34	$21.66
03/27/02	$57.50	$35.70	$21.80
03/28/02	$56.80	$35.55	$21.25
04/01/02	$57.03	$35.35	$21.68
04/02/02	$57.05	$35.53	$21.52
04/03/02	$55.75	$35.22	$20.53
04/04/02	$56.83	$35.44	$21.39
04/05/02	$57.98	$35.70	$22.28
04/08/02	$59.06	$35.82	$23.24
04/09/02	$59.25	$36.09	$23.16
04/10/02	$59.35	$36.12	$23.23
04/11/02	$57.05	$35.32	$21.73
04/12/02	$58.10	$35.70	$22.40
04/15/02	$57.48	$35.24	$22.24
04/16/02	$59.52	$35.87	$23.65
04/17/02	$60.70	$36.76	$23.94
04/18/02	$61.20	$37.26	$23.94
04/19/02	$62.44	$38.50	$23.94
04/22/02	$60.90	$36.96	$23.94
04/23/02	$61.80	$37.86	$23.94
04/24/02	$61.36	$37.42	$23.94
04/25/02	$59.18	$35.24	$23.94
04/26/02	$59.60	$35.66	$23.94
04/29/02	$57.25	$34.55	$22.70
04/30/02	$58.29	$34.95	$23.34
05/01/02	$57.70	$35.09	$22.61
05/02/02	$57.43	$35.51	$21.92
05/03/02	$57.00	$35.36	$21.64
05/06/02	$55.68	$34.68	$21.00
05/07/02	$54.75	$34.50	$20.25
05/08/02	$57.11	$35.28	$21.83
05/09/02	$56.29	$35.03	$21.26
05/10/02	$54.25	$34.61	$19.64
05/13/02	$55.82	$35.10	$20.72
05/14/02	$56.85	$35.54	$21.31
05/15/02	$55.47	$35.44	$20.03
05/16/02	$55.00	$35.76	$19.24
05/17/02	$54.31	$35.91	$18.40
05/20/02	$53.51	$35.32	$18.19
05/21/02	$52.69	$35.15	$17.54

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
05/22/02	$52.85	$35.11	$17.74
05/23/02	$53.27	$35.40	$17.87
05/24/02	$53.07	$35.22	$17.85
05/28/02	$52.85	$34.87	$17.98
05/29/02	$52.80	$34.91	$17.89
05/30/02	$51.65	$34.77	$16.88
05/31/02	$51.15	$34.89	$16.26
06/03/02	$50.94	$34.27	$16.67
06/04/02	$50.69	$34.03	$16.66
06/05/02	$52.19	$34.28	$17.91
06/06/02	$53.60	$33.77	$19.83
06/07/02	$52.87	$33.81	$19.06
06/10/02	$52.59	$34.01	$18.58
06/11/02	$52.99	$33.45	$19.54
06/12/02	$52.48	$33.56	$18.92
06/13/02	$50.30	$32.86	$17.44
06/14/02	$50.80	$33.18	$17.62
06/17/02	$52.74	$34.54	$18.20
06/18/02	$52.75	$34.67	$18.08
06/19/02	$51.55	$34.31	$17.24
06/20/02	$49.80	$33.78	$16.02
06/21/02	$49.68	$33.52	$16.16
06/24/02	$50.00	$33.50	$16.50
06/25/02	$49.00	$33.32	$15.68
06/26/02	$48.65	$32.40	$16.25
06/27/02	$49.90	$33.12	$16.78
06/28/02	$49.70	$33.51	$16.19
07/01/02	$47.93	$33.09	$14.84
07/02/02	$47.60	$32.66	$14.94
07/03/02	$48.05	$32.29	$15.76
07/05/02	$50.00	$33.31	$16.69
07/08/02	$49.54	$33.26	$16.28
07/09/02	$47.05	$32.47	$14.58
07/10/02	$44.07	$31.59	$12.48
07/11/02	$45.00	$31.86	$13.14
07/12/02	$46.30	$31.61	$14.69
07/15/02	$45.67	$31.50	$14.17
07/16/02	$46.10	$31.09	$15.01
07/17/02	$42.37	$30.78	$11.59
07/18/02	$42.41	$29.85	$12.56
07/19/02	$40.72	$29.39	$11.33
07/22/02	$38.84	$28.46	$10.38
07/23/02	$36.29	$26.99	$9.30
07/24/02	$39.97	$28.29	$11.68
07/25/02	$38.80	$28.23	$10.57
07/26/02	$37.66	$28.98	$8.68
07/29/02	$39.85	$30.66	$9.19

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

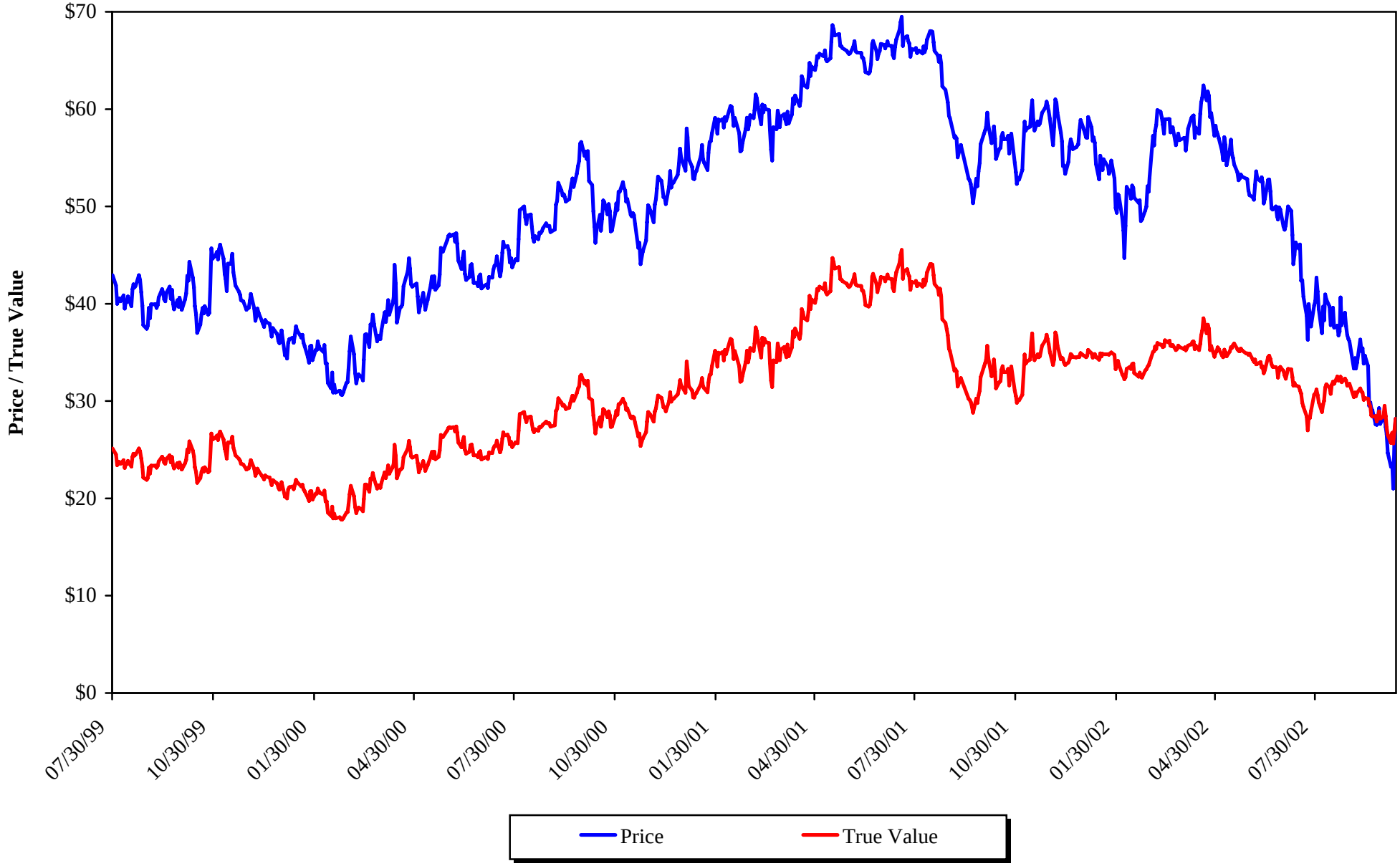
Date	Stock Price	True Value	Artificial Inflation
07/30/02	$40.30	$30.75	$9.55
07/31/02	$42.67	$31.18	$11.49
08/01/02	$41.26	$30.63	$10.63
08/02/02	$39.45	$29.86	$9.59
08/05/02	$36.98	$28.87	$8.11
08/06/02	$39.72	$29.66	$10.06
08/07/02	$38.28	$30.00	$8.28
08/08/02	$40.96	$31.36	$9.60
08/09/02	$40.45	$31.72	$8.73
08/12/02	$39.70	$31.41	$8.29
08/13/02	$37.80	$30.74	$7.06
08/14/02	$38.09	$31.70	$6.39
08/15/02	$39.60	$31.99	$7.61
08/16/02	$37.54	$31.78	$5.76
08/19/02	$37.75	$32.53	$5.22
08/20/02	$36.75	$32.10	$4.65
08/21/02	$37.15	$32.17	$4.98
08/22/02	$40.65	$32.51	$8.14
08/23/02	$37.80	$31.95	$5.85
08/26/02	$39.08	$32.31	$6.77
08/27/02	$37.70	$32.12	$5.58
08/28/02	$36.80	$31.58	$5.22
08/29/02	$36.38	$31.69	$4.69
08/30/02	$36.11	$31.78	$4.33
09/03/02	$33.36	$30.40	$2.96
09/04/02	$34.40	$30.87	$3.53
09/05/02	$33.36	$30.49	$2.87
09/06/02	$33.95	$30.85	$3.10
09/09/02	$36.33	$31.31	$5.02
09/10/02	$35.15	$30.99	$4.16
09/11/02	$35.43	$30.86	$4.57
09/12/02	$33.85	$30.12	$3.73
09/13/02	$34.67	$30.32	$4.35
09/16/02	$33.59	$30.24	$3.35
09/17/02	$29.52	$29.69	-$0.17
09/18/02	$29.85	$29.44	$0.41
09/19/02	$29.25	$28.52	$0.73
09/20/02	$29.05	$28.41	$0.64
09/23/02	$27.61	$28.46	-$0.85
09/24/02	$27.55	$27.90	-$0.35
09/25/02	$28.15	$28.39	-$0.24
09/26/02	$29.28	$28.94	$0.34
09/27/02	$27.64	$28.20	-$0.56
09/30/02	$28.31	$28.41	-$0.10
10/01/02	$28.40	$29.52	-$1.12
10/02/02	$27.32	$28.45	-$1.13
10/03/02	$26.60	$27.26	-$0.66

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
10/04/02	$24.66	$26.53	-$1.87
10/07/02	$23.25	$25.70	-$2.45
10/08/02	$23.58	$26.75	-$3.17
10/09/02	$21.00	$25.66	-$4.66
10/10/02	$26.30	$26.98	-$0.68
10/11/02	$28.20	$28.20	$0.00

Exhibit 57

Household International, Inc. Common Stock Price and True Value
For Quantification Including Leakage
July 30, 1999 - October 11, 2002



Appendix B

Lawrence E. Jaffe Pension Plan vs. Household International, Inc., et al.

REBUTTAL REPORT OF DANIEL R. FISCHEL

I. INTRODUCTION

1. I submitted a report dated August 15, 2007 (the "Fischel Report") in the above-captioned litigation.[1] In that report, I set forth and provided the bases for my principal conclusion that the economic evidence is consistent with Plaintiffs' claim that the alleged wrongdoing caused investors in Household's common stock to incur losses. Fischel Report ¶ 11. I also provided two alternative quantifications of the amount of alleged artificial inflation in Household's stock price during the Class Period, one based on the price reactions to specific fraud-related disclosures ("Quantification Using Specific Disclosures") and one that accounts for the stock price effect of fraud-related information that leaked into the market during the latter part of the Class Period ("Quantification Including Leakage"). *Id*. ¶ 30.

2. Defendants have submitted the Expert Report of Mukesh Bajaj dated December 10, 2007 (the "Bajaj Report"). In his report, Dr. Bajaj claims that "Professor Fischel's Analysis Suffers From Several Fundamental Flaws And Results In Incorrect And Unsupportable Conclusions." Bajaj Report at 8. He also provides multiple criticisms of my analysis and conclusions.

3. I have been asked by counsel for Plaintiffs to review and respond to Dr. Bajaj's criticisms as described in the Bajaj Report. I have been assisted by Lexecon's staff. Exhibit A describes the materials I have relied upon in forming my

1. The Fischel Report provides information on my qualifications and defines capitalized terms.

opinions contained in this report. Based on my review of these materials and our analysis, I have concluded that Dr. Bajaj's criticisms are incorrect and therefore do not affect my conclusion.

II. DR. BAJAJ'S CRITICISMS OF MY CONCLUSION ARE INCORRECT

A. Dr. Bajaj's Claim that I "Provided No Economic Evidence" to Support My Conclusion Is Incorrect

4. As I explained in the Fischel Report, Plaintiffs allege that the Defendants engaged in a fraudulent scheme and wrongful course of business, the components of which I refer to as Predatory Lending, Re-aging, and the Restatement. Fischel Report ¶ 10. Plaintiffs further claim that the cumulative effect of the revelation of Defendants' alleged wrongful course of business caused Household's stock price to decline. *Id*. Dr. Bajaj opines that "Professor Fischel Has Provided No Economic Evidence That Would Warrant His Conclusions That Economic Evidence Is Consistent With Plaintiffs' Claim." Bajaj Report at 11. Dr. Bajaj is incorrect because he ignores the extensive economic evidence in the Fischel Report that is consistent with Plaintiffs' allegations.

5. In my report, I used a well-known and established technique in financial economics known as an "event study" to establish that Household's stock price reacted significantly to disclosures related to the alleged fraud. Fischel Report ¶¶ 30 & 34-5. Using my event study, I accounted for the effect of market factors on the Company's stock price following each of these disclosures and demonstrated that net of market factors, the cumulative impact of the disclosures caused the stock price to decline. *Id*. ¶ 36. In addition, I provided numerous examples of news articles and commentary by

market participants which demonstrate that a steady stream and extensive amount of incomplete information related to Defendants' alleged fraud was disclosed beginning at least as early as November 15, 2001. *Id*. § III & ¶ 39. I also established that, although only some of these disclosures were associated with significant changes in Household's stock price, the stock lost more than half of its value beginning November 15, 2001 through the end of the Class Period and that market participants attributed this decline to concerns regarding Defendants' allegedly fraudulent practices. *Id*. ¶¶ 28 & 39. Moreover, I showed how the stock substantially underperformed the market and comparable indexes over this period, indicating that under the facts and circumstances of this case, Household's stock price decline cannot be fully explained by adverse market events and is on the contrary consistent with Plaintiffs' claim that the decline occurred as investors learned of the Company's allegedly fraudulent practices and Defendants' denials became less credible. *Id*. ¶¶ 29 & 39. I concluded that the combination of the significant stock price decline, the concurrent leakage of fraud-related information, and market participants' attribution of the decline to this fraud-related information is strong economic evidence that in this case, the long-run relative underperformance of Household's stock price beginning November 15, 2001 through the end of the Class Period was caused by leakage of artificial inflation from the price. *Id*.

6. Dr. Bajaj ignores this economic evidence and offers no compelling argument to otherwise explain Household's stock price underperformance in the latter part of the Class Period.[2] Instead, he mischaracterizes the Fischel Report[3, 4] and my

2. In fact, using his estimation period, Dr. Bajaj calculated substantial artificial inflation in Household's stock price during the Class Period. Bajaj Report at 83 & Exhibit 6.
3. Dr. Bajaj claims that "Professor Fischel anecdotally discusses events that occurred on 41 dates during the Class Period when the markets purportedly received information

report in another case,[5] falsely claims that my quantifications are internally inconsistent,[6] and presents a fundamentally flawed "illustration" that, contrary to his claim, does not

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related to the Plaintiffs' theories of alleged fraud" and that "such information did not collectively have a significant impact on HI's stock price on a market-adjusted basis." Bajaj Report at 17. But, he ignores that I acknowledged in my report that not all of the 41 "events" – some of which were newspaper articles describing past events (*see, e.g.*, Fischel Report ¶ 15) – were associated with statistically significant market-adjusted price changes and that I provided strong economic evidence to support my conclusion. *Id.* ¶ 39. This evidence included that analysts reacted negatively to the incomplete disclosures related to the alleged fraud on different dates. *Id.* ¶ 20. Based on all of the economic evidence, the fact that the market did not react significantly on every day that incomplete information related to Plaintiffs' allegations was disclosed is consistent with my conclusion that artificial inflation leaked out of Household's stock price in the latter part of the Class Period.

4. Dr. Bajaj claims that "Professor Fischel describes his Leakage model as an 'event study approach' when it is not." Bajaj Report at 16. However, as I explained in the Fischel Report, my Quantification Using Leakage uses "the 'event study approach' described by Cornell and Morgan." Fischel Report ¶ 41. According to these authors: "The event study approach assumes that the price and value of the security move in tandem except on days when fraud-related information is disclosed. … [I]f no fraud-related information is disclosed, set the [Constructed Return (*i.e.*, the stock price return underlying the estimate of the stock's value absent the fraud)] for that day equal to the actual return on the security; if fraud-related information is disclosed, or there is evidence that such information is leaking into the market, set the [Constructed Return] for that day equal to the return on the security predicted by the market model." B. Cornell and R.G. Morgan, "Using Finance Theory to Measure Damages in Fraud on the Market Cases," 37 *UCLA L Rev.* (1990) at 899. This is exactly what I did. Fischel Report ¶ 41. Dr. Bajaj also criticizes the event study approach by misquoting Cornell and Morgan's discussion of a limitation in an alternative approach – which I did not use – that they call the "comparable index approach." Compare, Bajaj Report at 72 *with* Cornell and Morgan (1990) at 903.
5. Based on his mischaracterization of my report in another case (*In re Blech Securities Litigation*, which he incorrectly refers to as *In re Bizch Securities*), Dr. Bajaj claims that "Professor Fischel now makes the same mistake for which he has criticized others in the past." Bajaj Report at 74. On the contrary, my reports in the two cases are entirely consistent. In *Blech*, I stated that it is a mistake to assume without more economic evidence that underperformance relative to an index constitutes inflation. Here, I explain why underperformance, in combination with the statistically significant stock price declines in response to specific disclosures and analyst and other commentary, all are consistent with Plaintiffs' claims.
6. Dr. Bajaj claims that "The Two Alternative Quantifications of Alleged Artificial Inflation That Professor Fischel Proposes Are Internally Inconsistent" and that this purported "internal inconsistency … demonstrates that his quantification of alleged inflation is fundamentally flawed and unreliable." Bajaj Report at 75-6. His claim is

show the purported "fallacy" in my analysis.[7] Consequently, Dr. Bajaj's arguments do not affect my conclusion.

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based on two declines in artificial inflation in my Quantification Using Specific Disclosures (on November 15, 2001 and December 5, 2001) that are not reflected in my Quantification Including Leakage. *Id*. However, in making this criticism, he ignores that I state in the Fischel Report that in the latter quantification "[i]f the resulting inflation on any day was greater than the cumulative residual price decline during the observation window of $23.94, I limited the inflation to $23.94 and adjusted the true value line accordingly." Fischel Report ¶ 42. To demonstrate that my quantifications of artificial inflation are consistent, Exhibit B presents my daily quantifications but without applying the limitation on the Quantification Including Leakage. As shown on page 14 of this exhibit, prior to employing the constraint, the artificial inflation in both quantifications declines on November 15, 2001 and December 5, 2001. Thus, the differences he notes are artifacts of the constraint, not an internal inconsistency in my calculations. Dr. Bajaj's claim is particularly disingenuous because he employs the limitation when he replicates my Quantification Including Leakage using his estimation period. Bajaj Report Exhibit 6.

7. Dr. Bajaj's misunderstanding of the Fischel Report and the event study approach leads him to create a fundamentally flawed "illustration" using stock price information for "all 30 members … of the Dow Jones Industrial Average ('DJIA')" during the Class Period to create "Pseudo-Damages" that purportedly show the "fallacy" in my analysis. Bajaj Report at 76. This illustration is flawed for at least three reasons. First, the illustration is based on the "comparable index approach" which assumes that "the observation window [where the leakage could have occurred] is expanded to cover the entire class period" (Cornell and Morgan (1990) at 906), not on the event study approach that I used in the Fischel Report. Second, unlike his analysis which he admits was performed "without any further factual analysis" other than the use of stock price data (Bajaj Report at 76), my Quantification Including Leakage was based on the analysis of the economic evidence presented in the Fischel Report. Third, because he did not conduct any factual analysis and thus has no reason to believe that the DJIA members' stock prices were inflated, had he used the event study approach that I used, Dr. Bajaj would have found zero "Pseudo-Damages." To see why, note that in his illustration, Dr. Bajaj "assumes that the difference between a DJIA Member's actual stock price and its True Value represents daily 'inflation.'" *Id*. As explained *supra* n. 4, the event study approach requires that if no fraud-related information is disclosed, the stock price return underlying the estimate of True Value for that day is set equal to the actual return on the security. Therefore, because he has no reason to believe that any fraud-related information was disclosed on any day during the Class Period for the DJIA members, he should have set their True Value returns equal to the actual returns on every day during this period. Had he done so, the True Value would have equaled the actual stock price for each DJIA member and thus he would have found zero daily inflation in these companies' stock prices and zero "Pseudo-Damages."

B. Dr. Bajaj's Analysis of Dates "Most Relevant to Plaintiffs' Three Distinct Theories of Alleged Fraud" Is Incorrect

7. Dr. Bajaj also claims that my "conclusion is factually incorrect" because "on the three days when new information most relevant to Plaintiffs' three distinct theories of alleged fraud was revealed, HI's stock price actually increased." Bajaj Report at 8. These "three days" are August 14, 2002, April 9, 2002, October 10, 2002, and October 11, 2002. *Id*. at 8-10. Once again, Dr. Bajaj is incorrect because, as explained above, he ignores the extensive economic evidence in my report concerning disclosures on days other than these "three" that is consistent with Plaintiffs' allegations. As I explain below, Dr. Bajaj is also incorrect because he ignores the economic evidence related to these "three days."

i. August 14, 2002

8. Dr. Bajaj states that "[o]n August 14, 2002, HI announced that it would restate its earnings back to 1994" and that "HI's price increased by 29 cents (or 0.77%) following this Restatement." *Id*. at 8-9. However, as I explained in the Fischel Report, after accounting for the effect of market factors on Household's stock price on August 14, 2002, I found that it declined by $0.94 (or 2.5%); I also found that this decline was statistically significant. Fischel Report n. 16. In addition, I explained that market participants were surprised by the announcement. *Id*. ¶ 27. Dr. Bajaj recognizes that "unless the market received new information about the alleged fraud, and the stock's market-adjusted price change following such news was statistically significant, there is no economic basis to claim that the observed price change should be attributed to a 'disclosure' related to the alleged fraud, nor to measure the Plaintiffs' harm based on such a price change." Bajaj Report at 7. But, he admits that the market received new

information about the alleged fraud on August 14, 2002 and recognizes that I found the market-adjusted price change to be statistically significant (*id*. at 14 & n. 15), yet he ignores this economic evidence. Dr. Bajaj's criticism is particularly disingenuous because his own analysis of Household's stock price movements demonstrates that on a market-adjusted basis, the stock price declined significantly on August 14, 2002. *Id*. at 82 & Exhibit 8 at 1055.

9. Moreover, market commentators attributed the Company's stock price decline early on August 14, 2002 to the Restatement, which was announced before trading began on August 14, 2002. *Reuters News* reported that "Household International tumbled after the consumer finance company said it would downwardly revise its net income due to accounting changes." *See* Exhibit C. Similarly, in an article dated August 14, 2002 at 11:22 AM, *Dow Jones Business News* reported that "Household International Inc.'s (HI) shares fell after the consumer-finance company announced that it restated profits downward by $386 million – for the period spanning from 1994 to the second-quarter of this year – to reflect a change in accounting tied to certain contracts within credit-card business." *See* Exhibit D.

10. In addition, Dr. Bajaj asserts that "[a]ccording to a large body of academic research, accounting changes that do not significantly affect investors' expectations about future cash flows or the risk associated with such cash flows, do not impact the stock price." *Id*. at 9. While generally true, this assertion is irrelevant in this case because there is evidence that the Restatement significantly affected investors' expectations about future cash flows. As I explained in the Fischel Report, analysts at Morgan Stanley commented that the restatement "suggests to us that returns in the credit card business are lower than we previously thought" and reduced their earnings forecasts

and price target while CIBC World Markets analysts also reduced their 2002 and 2003 earnings estimates and lowered their price target. Fischel Report ¶ 27.

11. Dr. Bajaj further asserts that I "fail[] to note that despite modest reductions in forecast earnings in the short term, these analysts continued to be very bullish on HI's stock, forecasting significant increases in HI's stock price." Bajaj Report at 25. This assertion is also irrelevant because, as I explained above, the analysts lowered their earnings forecasts and price targets. The fact that they did not change their recommendations or lower their price targets below the current price does not mean that investors did not lower their expectations about future cash flows or that the stock price did not decline on August 14, 2002 after accounting for market-related factors.

12. Dr. Bajaj also asserts that another Morgan Stanley report stated that "'Household's restatement does not materially affect future earnings, and the company has not changed guidance'" and that "'[a]ll three rating agencies affirmed Household's ratings on the news, reiterating that the restatement does not affect Household's future business, and included their expectations for capital levels to increase.'" Bajaj Report at 26. However, this report was issued by a fixed income analyst, not a stock analyst. *Id*. n. 92. Holders of fixed income (*i.e.*, debt) securities (which are the securities rated by the rating agencies) have claims on a company's assets that are senior to those of equity security holders and are thus less sensitive to changes in expectations about future cash flows. Therefore, the fact that fixed income analysts and ratings agencies did not consider the Restatement to materially affect Household's future earnings from the perspective of fixed income security holders does not mean that equity security holders did not lower their expectations about future cash flows or that the stock price did not decline on August 14, 2002 after accounting for market-related factors.

ii. April 9, 2002

13. Dr. Bajaj states that "Plaintiffs allege that the Company first 'broke out its reaging statistics' on April 9, 2002" and that "HI's stock price, however, increased insignificantly by 19 cents (or 0.32%) on that day, once again indicating that an event which Plaintiffs (and Professor Fischel) claim represented a 'disclosure,' was value-irrelevant."[8] *Id*. at 9. But, he ignores the economic evidence I presented in the Fischel Report that information related to Plaintiffs' Re-aging claim was disclosed on other dates (including earlier dates) and that several of these disclosures were associated with statistically significant price declines. Fischel Report ¶¶ 22-6, 34-5, n. 16, 19 & 20. In addition, Dr. Bajaj ignores that the stock price may not have reacted significantly on April 9, 2002 because investors had already adjusted the price to reflect information disclosed earlier that was related to Plaintiffs' Re-aging claim, thereby making the news on April 9, 2002 "value-irrelevant."

14. Dr. Bajaj also states that I "mention[] the SEC Cease-and-Desist Order ('SEC Order') dated March 18, 2003" and claims that I "fail[] to examine HI's stock price reaction to the SEC Order" as "[o]n March 19, 2003 (the date of the SEC Order Press Release) … increased insignificantly by 25 cents (or 0.89% from $28.20 to close at $28.45)." Bajaj Report at 39-40. However, contrary to Dr. Bajaj's claim, I did examine this reaction and found it to be inconclusive. On November 14, 2002, several months prior to the SEC Order announcement, Household and HSBC Holdings plc

8. I understand that Plaintiffs contend that Household's April 9, 2002 disclosure of its re-aging statistics is a false and misleading statement, not a corrective disclosure. Indeed, I noted in the Fischel Report that analysts at Prudential Securities commented that the "new info on account re-aging lacked historical and comparative context and could be a misleading indicator of HI's approach to managing credit losses." Fischel Report ¶ 25.

("HSBC") jointly announced that they entered into an agreement pursuant to which HSBC would acquire the Company; the merger was expected to be completed during the first quarter of 2003. *See* Household Finance Corporation SEC Form 8-K dated November 14, 2002. Under the terms of the agreement, a fixed ratio was established in which each Household share would be converted into the right to receive 2.675 HSBC ordinary shares or 0.535 HSBC American depositary shares.[9] *See id.* The merger was consummated on March 28, 2003. Fischel Report n. 1. Following announcements of acquisitions where the consideration is based on the acquirer's stock price, the stock prices of the target company typically are determined by the prices of the acquirer.[10] In these types of mergers, the target's price generally would deviate significantly from the acquirer's price only if there is a reason to believe that the acquisition would not be completed at the agreed-upon terms. In Household's instance, there was no reason to believe that following the announcement of the SEC Order the acquisition would not be completed at the agreed-upon terms. In fact, HSBC's March 19, 2003 press release

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9. In terms of market capitalization, HSBC was almost eight times larger than Household on March 18, 2003. According to their respective SEC filings, Household had 474.6 million common shares outstanding and HSBC had 9.5 billion ordinary shares outstanding as of December 31, 2002. According to *Bloomberg*, Household's stock price and HSBC's American depositary share ("ADS") price closed at $28.20 and $54.51 on March 18, 2003, respectively. Therefore, Household's market capitalization on March 18, 2003 was $13.4 billion. Because each HSBC ADS represents the right to receive five HSBC ordinary shares (*see* Household Finance Corporation SEC Form 8-K dated November 14, 2002), HSBC had 1.9 billion ADS-equivalent shares outstanding as of December 31, 2002 and its market capitalization on March 18, 2003 was thus $103.4 billion.
10. *See, e.g.*, E. Hutson and C. Kearney, "Merger arbitrage and the interaction between target and bidder stocks during takeover bids," 19 *Research in International Business and Finance* (2005) at 1 & 21 ("Interaction between bidder and target stocks is strong for stock-swap and mixed cases, where the bid price is transferred from bidder to target. … The interaction term in the target mean equations … shows considerable price transfer from bidder to target.").

regarding the SEC Order stated that "HSBC remains fully committed to completing the merger with Household subject to the terms and conditions contained in the merger agreement." *See* Exhibit E. Consequently, the fact that Household's stock price did not change significantly following the SEC Order announcement establishes nothing and does not affect my conclusions.

iii. October 10, 2002 and October 11, 2002

15. Dr. Bajaj states that "Professor Fischel attributes HI's price reaction on October 10, 2002 and October 11, 2002 to 'market talk' and the announcement of the terms of HI's nationwide settlement of investigations by various 'state attorneys general into its subprime consumer lending business' (the 'AG Settlement') on these two dates, respectively," and that "HI's stock price, however, increased significantly by $5.30 (or 25.24%) on October 10, 2002 and further by $1.90 (or by 7.22%) on October 11, 2002." Bajaj Report at 10-1. He notes that the Company "announced it would pay 'up to $484 million' to settle the investigations, and that it 'expected the changes in business practices to cut earnings by 10 cents a share in 2003, by 20 cents in 2004, and by 30 cents in 2005'" and that "[r]atings agencies lowered HI's debt ratings upon this news." *Id*. at 10. He also notes that I explained in the Fischel Report that the fact that the stock increased in value upon disclosure of this negative information is evidence that it had declined earlier by at least as much in anticipation of a larger payment and/or changes in Household's business practices that would have had a worse impact on the Company's future prospects. *Id*. at 66. Dr. Bajaj claims that my explanation contradicts "the facts surrounding the AG Settlement" and "Professor Fischel's theory that HI's stock price declined on the Alleged P[redatory] L[ending]

Disclosures because of curative disclosures that revealed a fraud related to the Plaintiffs' theory of 'Predatory Lending.'"[11] *Id*. Dr. Bajaj's claims are incorrect.

16. Dr. Bajaj claims that my explanation "is inconsistent with the facts" because "the announced settlement amount ($484 million) was within the range that investors and analysts had been expecting for several months." *Id*. at 68. But, he ignores the fact that if the announced settlement amount was within the expected range of the market consensus, there would have been no reason for Household's stock price to react positively or negatively to the settlement announcement. Instead, as I explained in the Fischel Report, analysts were concerned the fine could be higher; for example, analysts at UBS stated that "we estimate this fine could exceed $500 million." Fischel Report ¶ 21. In addition, Professor Bajaj ignores the fact that market participants were highly concerned that no settlement would be reached at all. For example, Howard Mason of Sanford Bernstein commented on October 3, 2002: "A more serious risk is that Household cannot reach agreement with the AGs and the rating agencies, unnerved by chronic regulatory problems, downgrade the outlook or rating on Household's senior debt. The impact could go beyond raising the cost of debt funding toward restricting access and creating liquidity challenges." *See* Exhibit F. Therefore, it is not surprising that when a settlement was reached, Household's stock price reacted positively.

17. Dr. Bajaj claims that if "price declines on the Alleged P[redatory] L[ending] Disclosures dates were in part caused by investors' expectations about larger

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11. Dr. Bajaj further claims that I "fail[] to consider whether HI's price reaction is explained by non-fraud related factors" and that in particular I "fail[] to exclude the possibility that HI's stock price had been depressed by headline risk regarding alleged 'predatory lending' …." Bajaj Report at 67. As I explain *infra* ¶¶ 26-9, his claim that Household stock price declines related to "headline risk" cannot be attributable to the alleged fraud is incorrect.

negative impacts of the impending AG Settlement than were subsequently announced, then such price declines cannot be entirely attributed to the 'alleged artificial inflation related to the above disclosures' as Professor Fischel claims in his event study methodology." Bajaj Report at 69. But, he ignores that by including the price increases on October 10, 2002 and October 11, 2002 in my Quantification Using Specific Disclosures, I net them against prior price declines caused by prior disclosures.[12] Fischel Report ¶ 36. Dr. Bajaj incorrectly assumes either that I do not net the price increases against the price decreases I measure or that the net effect on Household's stock price from the announcement that the Company would pay hundreds of millions of dollars and change its business practices such that future earnings would be reduced, which caused rating agencies to lower their ratings on Household's fixed income securities, was zero.

C. Dr. Bajaj's Analysis of Other Relevant Dates Is Incorrect

18. Dr. Bajaj also criticizes other dates relevant to the alleged fraud on which I base my Quantification Using Specific Disclosures. Bajaj Report at 30-7 & 40-65. His criticisms can be summarized as falling into five basic categories: 1) I "cherry-picked" these dates; 2) I did not adequately consider other non-fraud related reasons that could explain Household's stock price changes on some of these dates; 3) the information disclosed on some of these dates was "stale," *i.e.*, already publicly known; 4) stock price declines related to "headline risk" purportedly "cannot be attributable to the alleged fraud;" and 5) the stock price changes on some of these dates were not statistically

12. This also holds true for my Quantification Including Leakage in which I net the price increases on October 10, 2002 and October 11, 2002 against prior price declines caused by prior disclosures and leakage.

significant because my regression model is "flawed" and "mis-specified." I address each of these categories below.[13]

i. Dr. Bajaj's claim that I "cherry-picked" the Specific Disclosure dates is incorrect

19. Dr. Bajaj claims that "Professor Fischel has [] 'cherry-picked' his Specific Disclosures because he has ignored many dates (including dates that he himself has cited in his report, as well as numerous other dates that he has entirely ignored) when the markets did receive news related to Plaintiffs' theories of alleged fraud, but HI's stock price change was not significant, which indicates that such news was not value-relevant." Bajaj Report at 15-6. Once again, he mischaracterizes my report. The analysis used to identify the Specific Disclosures was comprehensive and consistent, not "cherry-picking."[14] In addition, the other dates in § III of my report, combined with the other economic evidence contained in my report, provided the basis for my conclusions that there was a significant relationship between Plaintiffs' allegations and investors' losses during the latter part of the Class Period, and that leakage of artificial inflation from the price caused Household's long-run relative stock price underperformance during this period. Fischel Report ¶¶ 28-9 & 39. As such, Fischel Report § III documented numerous instances where market participants explained how news related to Plaintiffs' allegations led them to revise downward their valuation of the Company's stock. For

13. In the attached Appendix, I provide additional examples of Professor Bajaj's flawed criticisms.
14. Specifically, we first identified dates on which news related to Plaintiffs' allegations became available to the market. We then examined each of these dates to determine whether the news related to Plaintiffs' allegations led the market to significantly alter its valuation of Household's stock. We only included in the Quantification Using Specific Disclosures those dates on which news related to Plaintiffs' allegations had a statistically significant effect on the Company's stock price.

example, it documented that on May 7, 2002, *Newsday* reported that as news of Household's lending practices came out, the New York State Comptroller became so concerned that he considered selling his 2.5 million shares of the Company's stock. *Id.* ¶ 19. The Comptroller's concerns did not provide the market with new information related to Plaintiffs' allegations that caused it to significantly change the stock's value and so this date was not included in the Quantification Using Specific Disclosures. However, the concerns demonstrate how the revelations of improper lending practices led market participants to revise their valuations of the stock.

ii. Dr. Bajaj's claim that the price changes on some Specific Disclosure dates may be due to other non-fraud related reasons is flawed

20. Dr. Bajaj argues that the price changes on some Specific Disclosure dates may be explained by non-fraud related events which affected Household's industry. For example, he claims that news of a decline in the 10-year Treasury note yield "may have adversely impacted HI's stock price" on September 23, 2002. Bajaj Report at 62. But, he ignores that, as I explained in my report, I controlled for such industry effects in my event study. Fischel Report ¶ 32. Dr. Bajaj criticizes my event study because the underlying regression model did not include the index of consumer finance company stocks he created. *See infra* ¶ 32. But, even if I include this index in my regression model, I still find that all of the market-adjusted stock price changes on the Specific Disclosure dates I identified are statistically significant. *See id.* & Exhibit G.

21. The specific non-fraud related events Dr. Bajaj offers to explain the changes in Household's stock price on Specific Disclosure Dates are implausible.[15] For example, he claims that the Company's stock price decline on November 15, 2001 (the date Household responded to the CDC lawsuit (Fischel Report ¶ 12)) may have been due to "Providian's statement that its default rates had increased," which he notes occurred after the market closed on November 14, 2001, the prior day. Bajaj Report at 50-1. But, Providian's stock opened down substantially on November 15, 2001 while Household's stock price was largely unchanged until the Company responded to the lawsuit at 1:40 PM.[16, 17] *See* Fischel Report Exhibit 5.

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15. In a number of instances, Dr. Bajaj's assertions regarding non-fraud related explanations of Household's performance involve mischaracterizations of the facts. For example, Dr. Bajaj criticizes the Fischel Report for attributing Household's price decline on September 23, 2002 to news regarding Household's alleged predatory lending in a report by analysts at CIBC. Bajaj Report at 62 & Fischel Report ¶ 34. Dr. Bajaj argues that the CIBC analysts "Downgraded HI's Stock Based On The Possible Adverse Impacts Of Macro-Economic Factors That Were Unrelated To The Alleged Fraud" and that "the CIBC report did not reveal any news related to the Plaintiff's claim of 'Predatory Lending.'" Bajaj Report at 61-2. But the analysts did not downgrade Household's rating (the title of the report is "Household International Lowering Price Target On Persistent Headline Risk, But Maintaining SP Rating") and their only reaction to macro-economic factors was to trim their 2003 earnings estimates by about one percent (from $5.18 to $5.12 per share). Fischel Report Exhibit 46. Dr. Bajaj ignores that the CIBC analysts reduced their price target by over thirty-five percent (from $57 to $36) due to concerns related to predatory lending. *Id.* ¶ 28. The analysts commented that "[i]n particular, building concerns regarding the company's lending practices, which have been accused of being predatory in nature and is currently the subject of an investigation by the Washington Department of Financial Institutions, have dampened price performance" and then stated that "we have reduced our price target on the stock given the lack of visibility as to a resolution of the highlighted investigations and pending lawsuits." *Id.* & Exhibit 46.
16. Providian closed at $3.68 on November 14, 2001, opened at $3.02 on November 15, 2001, and closed at $2.87 on this day. In contrast, Household closed at $60.90 on November 14, 2001, opened at $60.60 on November 15, 2001, traded at $60.39 at 1:40 PM, and closed at $58.90 on this day.
17. Dr. Bajaj also claims that the CDC lawsuit was "stale" information because it was filed on November 9, 2001 and reported in the press on the same day. Bajaj Report at

22. Moreover, the Salomon Smith Barney analysts Dr. Bajaj cites attributed Household's price decline on November 15, 2001 to concerns regarding the CDC's allegations, stating that "HI shares sold off almost 4% intra-day on news that the California Department of Corporations has filed an $8.5 million lawsuit against HI for lending law violations (i.e., predatory lending)."[18] *See* Exhibit H. These analysts' concerns included that "[t]he greater potential risk, in our view, is that this lawsuit turns into a larger development. … to the extent that there were further findings from another audit, or another regulatory body was interested in pursuing the matter, there could be further chapters in the story." *See id*. Further, as discussed in the Fischel Report, the Deutsche Bank Alex Brown Inc. report Dr. Bajaj cites stated that the CDC lawsuit raised the questions of "1) how much more in refunds might Household owe? 2) will the accusations escalate (within or beyond the state)? and 3) will there be any operational constraints?" Fischel Report ¶ 12.

23. In another example, Dr. Bajaj criticizes the Fischel Report for attributing the decline in Household's stock price on December 3, 2001 to questions about the Company's accounting raised by a *Barron's* article published on Saturday, December 1, 2001. Bajaj Report at 31 & Fischel Report ¶ 22. He suggests that the stock price may have fallen because the *Barron's* article "adversely affected investors' expectations in a post-Enron world for non-fraud related reasons."[19] Bajaj Report at 34.

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48. But, he ignores that, as I explained in my report, Household did not publicly respond to the lawsuit until November 15, 2001. Fischel Report ¶ 12. The decline in the Company's stock price following its press release (*see supra* n. 16) indicates that the market was reacting not only to the CDC's complaint but also to Household's response.

18. In fact, neither of the analyst reports Dr. Bajaj cites that were released on November 15, 2002 even mention Providian. *See* Exhibit H & Fischel Report Exhibit 6.

19. Dr. Bajaj also claims that "the *Barron's* article did not provide any new information

But the closest Dr. Bajaj comes to identifying these "non-fraud related reasons" is his assertion that "[i]n the post-Enron world the 'market … [became] extremely emotional and sensitive' to any allegations of questionable accounting."[20, 21] *Id*. The only support he provides for his assertion is a Deutsche Banc Alex. Brown Inc. report which was issued over two months later and does not even mention the *Barron's* article or December 3, 2001. *See* Exhibit I & *id.* n. 136.

24. In contrast to the tenuous support for Dr. Bajaj's non-fraud related explanation for Household's stock price decline on December 3, 2001, market commentators provided clear, unequivocal support that the stock price fell because the *Barron's* article raised concerns about the Company's accounting. For example, on the morning of December 3, 2001, *Reuters News* reported that "[s]hares of loan and credit card firm Household International Inc. fell 5 percent on Monday, amid heavy trade, following an article in business weekly *Barron's* which cited analysts' views that the firm

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to the market" because it was based on an analyst report by William Ryan which was published more than six weeks earlier. Bajaj Report at 32. But, he ignores that, as I explained in my report, the article also discusses the concerns of a securities analyst whose firm worked for Household. Fischel Report ¶ 22. According to the article, the analyst was "puzzled by Household's statement that it had net chargeoffs of just 0.52%" in the last quarter on its home equity loans when "other subprime mortgage lenders have experienced losses at twice that level." *Id*. Exhibit 36. The analyst went on to say that "Household's loss rate on subprime mortgages is close to that of the savings-and-loan industry, even though S&Ls generally have more affluent borrowers and issue fewer second mortgages which, by their nature, are shakier than first mortgages." *Id.* ¶ 22.

20. Dr. Bajaj also notes that Enron filed for Chapter 11 bankruptcy protection (Bajaj Report at 33) but does not explain why this coincidence matters to Household's stock price.

21. Dr. Bajaj's assertion is consistent with Plaintiffs' allegations that investors' expectations of Household's prospects were adversely affected by concerns of accounting fraud.

was underestimating bad loans." *See* Exhibit J. The following day, analysts at Sanford Bernstein wrote:

> [Household's] stock is reacting to concerns about management credibility. Specifically, is management using the latitude provided by its loss recognition policies to enhance economic returns by adopting a more flexible stance towards customers, or abusing this latitude to distort reported payment behavior by postponing the recognition of losses?

See Exhibit K.

iii. Dr. Bajaj's criticisms regarding the purportedly "stale" information are unfounded

25. Dr. Bajaj's criticisms regarding the purportedly "stale" information are unfounded because he ignores information related to the alleged fraud that was first disclosed on each Specific Disclosure date. For example, he claims that the July 26, 2002 *Bellingham Herald* article "Only Provided Stale Information" because "complaints regarding Household's lending practices in Whatcom County, Washington had emerged almost four months earlier!" Bajaj Report at 52. But, he ignores the first sentence of the article, quoted in the Fischel Report, which states: "For the first time, Household International has acknowledged that its employees may have misrepresented mortgage loan terms to some Whatcom County homeowners who refinanced their homes at the Bellingham office of Household Finance Co., a subsidiary." Fischel Report ¶ 18. This was particularly significant since, as noted in the Fischel Report, the article went on to report that: "'[U]ntil now, company spokesmen have portrayed Household as an industry leader in consumer protection, with elaborate safeguards to make sure borrowers understand the deals they are signing' but 'this week, [a company spokesperson] said an internal company probe of the complaints had uncovered some serious problems.'" *Id.* Dr. Bajaj also ignores that the article provided new information suggesting that the

problems were not limited to the Company's Bellingham office. It reported that the former Bellingham office manager "said the sales pitches she used on potential borrowers came from the company." *Id*. Exhibit 23.

iv. Dr. Bajaj's claim that Household stock price declines related to "headline risk" cannot be attributable to the alleged fraud is incorrect

26. Dr. Bajaj claims that I "fail[] to recognize that the purported 'disclosures' [I] identified could have adversely affected investors' beliefs about HI's 'headline risk' exposure, *i.e.*, increased the market's assessment of the unknown future costs of settling allegations of 'predatory lending' or complying with future regulations" and further claims that "[a]ny price decline caused by news that changed HI's headline risk exposure cannot be attributable to the alleged fraud." Bajaj Report at 47. His claim is incorrect for several reasons.

27. First, Dr. Bajaj fails to explain why "headline risk" is inconsistent with Plaintiffs' predatory lending allegations. Rather, Household's "headline risk" during the Class Period was directly related to the alleged wrongdoing. For example, as I noted in my report, Stephens Inc. analysts stated that the Company's stock "has been plagued by 'headline' risk over predatory lending practices." Fischel Report ¶ 28.

28. Second, Plaintiffs allege that Household was not complying with existing regulations, not the undefined future ones that Dr. Bajaj alludes to in his description of the Company's "headline risk" exposure. As I noted in my report, on July 26, 2002, *The Bellingham Herald* reported that "Household International has acknowledged that its employees may have misrepresented mortgage loan terms to some Whatcom County homeowners" after "an internal company probe of [] complaints had uncovered some serious problems." *Id*. ¶ 18.

29. Third, Dr. Bajaj ignores the fact that market participants revised their valuations to take into account Household's likely lower profits as it brought its lending practices into compliance. For example, on September 3, 2002, Sanford Bernstein wrote:

> The report of the Washington State Department of Financial Institutions (DFI) – made public by the media on Wednesday last week – indicates that confusing sales practices in the Household branch system are more widespread than a few renegade loan officers, and quite possibly systemic. The effect on earnings growth as Household responds to regulatory pressure for sales practice reform will be commensurate. Specifically, we believe that as sales practice reform takes hold Household will need to reset its long run EPS growth target of 13-15% to 10-12%. … Driving factors are lower up-front points, reform of practices involving misrepresentation of loan rates, and the elimination of single-premium credit life insurance. Sales practice reform will also tend to slow growth in the branch real estate portfolio […] for two reasons: First, the practice of up-selling – restructuring the entire mortgage debt of a customer looking only for a "top-up" home loan to refinance credit card and other unsecured debt – will become more difficult under tougher regulatory scrutiny and higher company hurdles for customer net tangible benefit. Second, it is impractical for Household to offer loans at the 7% rates that representatives promise to induce refinancing by borrowers with prime bank mortgages, and this business will be forgone."

See Exhibit L.

v. Dr. Bajaj's criticisms of my regression analysis are fundamentally flawed

30. Dr. Bajaj claims that my estimation period (*i.e.*, the period over which I estimated the relationship between Household's return and the returns on the S&P 500 and S&P Financials Indexes underlying my event study analysis) is "[a]rbitrary" and "[i]ncorrect," because there "is no basis to arbitrarily select a segment of the Class Period to determine the 'historical relationship between changes in a company's stock price and changes in the performance of a market index (and possibly an industry index).'" Bajaj Report at 82 & n. 319. Dr. Bajaj is incorrect. As I explained in my

report, I used the period from November 15, 2000 to November 14, 2001 as my estimation period, which is "the calendar year prior to the earliest date I found that Household's stock price was negatively affected by the fraud." Fischel Report ¶ 32. My choice of estimation period is supported by the academic literature. For example, Tabak and Dunbar note: "[O]ne would typically like to use an estimation window close to the event because the relation between the company's stock and an index changes over time. Therefore, the closer the estimation window is to the event, the more relevant the estimated relation will be … The most common choice places the estimation window before the event."[22] In addition, MacKinlay states: "Given the selection of a normal performance model, the estimation window needs to be defined. The most common choice, when feasible, is using the period prior to the event window for the estimation window."[23]

31. Dr. Bajaj claims that I "provide[] no explanation for using the S&P 500 and the S&P Financials indices as the market and industry benchmarks in [my] regression model."[24] Bajaj Report at 79. But, he ignores that, as I explained in my report, Household compared its stock price performance to the S&P 500 Index and S&P Financials Index in its annual Proxy Statements filed with the SEC during the Class Period. Fischel Report n. 10.

32. Dr. Bajaj also claims that my model suffers from the "Omitted Variable" problem, where "a mis-specified regression model which excludes an

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22. D.I. Tabak and F.C. Dunbar, "Materiality and Magnitude: Event Studies in the Courtroom," in R.L. Weil, M.J. Wagner, and P.B. Frank (eds), *Litigation Services Handbook* (Wiley, 2001) at 19.5.
23. The event window in this case is November 15, 2001 through October 11, 2002.
24. A.C. MacKinlay, "Event Studies in Economics and Finance," 35 *Journal of Economic Literature* (March 1997) at 15.

important explanatory variable can result in the results of a regression being spurious."[25] Bajaj Report at 80. He purportedly solves this problem by constructing a "daily value-weighted index of consumer finance companies" (the "Consumer Finance Index") and including this index in his regression analysis. *Id.* n. 316. I added this variable to my regression analysis and found that all of the price changes in my Quantification Using Specific Disclosures remained statistically significant at the 5 percent level of significance in a "one-tailed" test and that the true value lines in both of my quantifications were still below Household's stock price.[26] *See* Exhibits G & M. Therefore, Dr. Bajaj's claim that my model is "mis-specified" because it suffers from the "Omitted Variable" problem does not affect my conclusions. Moreover, he ignores the fact that Household's stock underperformed his Consumer Finance Index during the

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25. Because Household is part of both the S&P 500 Index and S&P Financials Index, Dr. Bajaj claims that "it is incorrect as a matter of statistical principles, to attempt to explain HI's stock returns by variables that are in part influenced by the same returns." Bajaj Report n. 317. However, as Dr. Bajaj notes, Household's stock only comprised "0.83% of the S&P Financials Index" as of October 11, 2002. *Id.* n. 315. Moreover, according to *Bloomberg*, the stock only comprised 0.17% of the S&P 500 Index on the same date. Because these weights are so small, there is no reason to believe that Household's stock substantially "influenced" the indices or that there would be significant changes to my results. Indeed, Dr. Bajaj does not claim that there would be significant changes if I had excluded the stock from the indices.
26. In testing for statistical significance, I note that the ten percent level of significance (*i.e.*, a t-statistic of 1.65 or greater in a "two-tailed" test of significance) is also commonly considered statistically significant. *See*, *e.g.*, M.L. Mitchell and J.M. Netter, "The Role of Financial Economics in Securities Fraud Cases: Applications at the Securities and Exchange Commission," 49 *Business Lawyer* (1994) at 564 ("A third commonly used decision rule is ten percent – here, the probability is ten percent that a randomly selected value will lie 1.65 standard deviations or more from the mean value.") *and* N.I. Crew, K.L. Gold and M.A. Moore, "Federal Securities Acts and Areas of Expert Analysis," in R.L. Weil, P.B. Frank, C.W. Hughes and M.J. Wagner (eds), *Litigation Services Handbook* (Wiley, 2007) at 18.11 ("Courts have not specified the level of statistical significance that corresponds to a legal definition of materiality. As with much academic research, they commonly use the 95 percent confidence level but also recognize the 90 percent and 99 percent levels as thresholds for statistical significance.").

period from November 15, 2001 to October 11, 2002 – the stock fell 53.2% while his index declined 29.6%, adjusted for dividends.

33. Dr. Bajaj also criticizes my estimation period because it includes September 11, 2001. He claims that the inclusion of September 11, 2001 in my estimation period "could result in an unreliable predictor for HI's future returns in the longer run." Bajaj Report at 83. But, he fails to provide any evidence to support this speculation or demonstrate that it affected my conclusions. Moreover, his estimation period also includes September 11, 2001. *Id*. at 81. Dr. Bajaj also claims that my use of a "narrow one-year horizon" is an additional reason why September 11, 2001 should not be included in the estimation period. *Id*. at 83. However, use of a one-year estimation period is common in the academic literature on event studies.`[27]

34. Dr. Bajaj further criticizes my regression model because it yields a negative coefficient for the S&P 500 Index. *Id*. at 79. But this is simply an artifact of my two-factor model. My regression model as a whole has substantial explanatory power. *Id*. To show that the returns on Household's stock and the S&P 500 Index were positively correlated during my estimation period, we ran a one-factor regression model

27. *See, e.g.,* MacKinlay (March 1997) at 17 ("For each announcement the 250 trading day period prior to the event window is used as the estimation window."). A calendar year has approximately 250 trading days. Dr. Bajaj "consider[s] the entire Class Period as the relevant estimation period because … it is inappropriate to measure the relationship between HI's stock return and that of various indices based on an arbitrarily-selected and truncated Estimation Period (November 15, 2000 – November 14, 2001) as Professor Fischel has done." *Id*. n. 318. However, Dr. Bajaj's estimation period is objectionable because it unnecessarily includes the period of price movements he is analyzing. As MacKinlay points out: "Generally the event period itself is not included in the estimation period to prevent the event from influencing the normal performance model parameter estimates." MacKinlay (March 1997) at 15.

with this index as the sole explanatory variable and found that the coefficient for the S&P 500 Index was positive at 0.81.[28]

III. DR. BAJAJ MISCHARACTERIZES PLAINTIFFS' ALLEGATIONS AND MY USE OF REGRESSION ANALYSIS TO QUANTIFY ALLEGED ARTIFICIAL INFLATION IN THIS CASE

35. I understand that in an order dated November 20, 2007, the Court stated: "Defendants [] claim that their expert requires more information as to the source of the pre-Class Period inflation Professor Fischel claims is present in the price of Household stock on the first day of the Class Period. The court expects that Professor Fischel will provide a regression analysis showing the date on which there was zero inflation in the stock price …." My response is below.

36. At the outset before discussing my analysis of the economic evidence, some background is necessary. I understand that the original class period as pled in the Complaint began on October 23, 1997 when Household issued a press release announcing its financial results for the third quarter of 1997 and Plaintiffs allege Household's stock price became artificially inflated because Defendants concealed adverse information related to the Company's business practices. I further understand that the Class Period was shortened to begin on July 30, 1999, making this date the first day that Plaintiffs allege the stock price was artificially inflated because they allege that Defendants failed to reveal the adverse information on July 22, 1999 when the Company announced its second quarter financial results. I also understand that Plaintiffs further allege that Defendants failed to reveal the adverse information in the Company's Form

28. We also re-ran our results using Dr. Bajaj's method (Bajaj Report Exhibit 8 at 1222) and found that it made no difference.

10-Q for the quarterly period ended June 30, 1999 filed on or about August 16, 1999. This is because, according to Plaintiffs, each time Household issued public statements regarding its business (such as its quarterly financial results) during the Class Period, it failed to disclose material facts. Thus, any shortening of the Class Period at the beginning would not change Plaintiffs' allegation that Household's stock price was inflated on later dates. My analysis is premised on my assumption that artificial inflation in Household's stock price began on July 30, 1999 or no later than August 16, 1999.

37. With this background, I now turn to my analysis of the economic evidence and specifically Dr. Bajaj's mischaracterizations. He claims that "in both his Specific Disclosures model as well as his Leakage model, Professor Fischel explicitly assumes that no inflationary events occurred prior to November 15, 2001 (and after July 30, 1999, the first day of the Class Period)" and further claims that "[t]his assumption contradicts the Plaintiffs' claim that HI's stock became inflated through various alleged misrepresentations and/or omissions ('inflationary events') during the Class Period prior to November 15, 2001." Bajaj Report at 12-3. He also claims that "it is crucial under [my Quantification Including Leakage] to at least demonstrate that inflation was introduced into HI's stock price as a result of specific misstatements and omissions at some point in time before information about such alleged inflation purportedly began to 'leak' into the market."[29] *Id.* at 85-6. Dr. Bajaj's claims are incorrect and misleading

29. Dr. Bajaj further claims that "[Plaintiffs] also include as damages any difference between the stock price and the True Value when the stock price drops below the True Value; a difference which cannot be attributed to the fraud, according to the Plaintiffs' theories of alleged fraud." Bajaj Report at 89. But the evidence that Household's stock price had dropped below its true value as a result of the alleged fraud was the stock's reaction to the Specific Disclosures on October 10, 2002 and October 11, 2002. Fischel Report Note 21. As explained in the Fischel Report, this interpretation of the stock's return on these dates is fully consistent with Plaintiff's

because he mischaracterizes Plaintiffs' allegations and the use of regression analysis to quantify alleged artificial inflation.

38. Plaintiffs claim that the alleged omissions were inflationary events because they prevented the price from falling to its true, uninflated value. Under this theory, the Company's stock price did not have to increase upon Defendants allegedly false statements (*e.g.*, quarterly financial results) in order to become inflated.[30] Consequently, the fact that I did not identify statistically significant price increases that resulted in the inflation increasing between the beginning of the Class Period and November 15, 2001 does not contradict Plaintiffs' allegations. Moreover, event studies (which are based on regression analysis) are intended to measure stock price movements upon disclosure of new information, not the non-disclosure of information. Therefore, no regression analysis can be used to identify the day on which the stock price became inflated in this case.

39. Regression analysis, however, can be used in this case to calculate the amount of artificial inflation resulting from an alleged omission on any day during the Class Period. Because Plaintiffs allege that Defendants failed to disclose new adverse information concerning Household's business practices until later in the Class Period,

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claims. *Id.* n. 21.

30. As Cornell and Morgan show in their Figure 1, the observed market price can become inflated even if it remains basically constant because, had adverse information been disclosed, the market price would have declined. Figure 1 of Cornell and Morgan (1990) at 887. Cornell and Morgan explain: "The price line and the value line coincide before a fraud or misrepresentation begins. Failure to disseminate information, or the dissemination of false or misleading information, then leads to an artificial inflation in the price of the security. Because the efficient market hypothesis states that the price of a security reflects publicly available information quickly and without bias, the price and value lines converge on the date that the fraud or misrepresentation is disclosed or corrected." *Id*. at 886.

investors in the Company's stock did not learn and therefore could not react to this information until then. Consequently, I used regression and event study analysis in this case to estimate the effect of corrective disclosures and leakage that dissipated the artificial inflation existing from the time of the first actionable non-disclosure.

Daniel R. Fischel

February 6, 2008

Appendix

Additional Examples of Dr. Bajaj's Flawed Criticisms

Dr. Bajaj's Claim	Response
December 12, 2001	
Dr. Bajaj criticizes the Fischel Report for attributing Household's price decline on December 12, 2001 to a report issued by analysts at Legg Mason at 6:04 PM on December 11, 2001. Bajaj Report at 36 & Fischel Report ¶¶ 23 & 34. He argues this report "largely repeated comments from the same analysts made in reports published" before the close on the same day. Bajaj Report at 37.	Dr. Bajaj ignores new information in the 6:04 PM report which is directly relevant to Plaintiff's claims. The Legg Mason analysts requested Household to "report asset quality problems more conventionally (a late is a late until repaid in full)" and expressed their concern that "[w]ithout this conventional disclosure, we are left with many unanswered questions." *Compare* Exhibits N & O *with* Fischel Report ¶ 23. The analysts stated in the 6:04 PM report that Household's disclosures raised specific concerns about three of its largest lines of business; these specific concerns were not discussed in the earlier reports. First, with regard to the Company's consumer loans, the analyst wrote: > We find this lenient reaging policy disturbing as it undermines the analytical value of the reported asset quality statistics. … We are not asking for HI to discontinue its flexible collections practices, just report asset quality problems more conventionally (a late is a late until repaid in full). Without this conventional disclosure, we are left with many unanswered questions. What percent of the portfolio has been restructured and what is the trend; how has that portfolio subsequently performed; is there a maximum number of times that an account can be restructured; should we be concerned about asset quality trends in the portfolio beyond the reported (and understated, in our view) delinquency statistics. *Compare* Exhibits N & O *with* Fischel Report Exhibit 38. Second, with regard to Household's private label credit loans, they noted: > What we don't know: how many months delinquent can an account be (1 month, 4 months?) and still be brought current with just one payment. It would appear that if a customer makes four payments, misses one and then makes the next payment, he is automatically reaged and is now current. This is troubling, in our view, as most lenders we spoke with would re-underwrite an account before restructuring (and some also required more than one payment). Also, if he skips the next three payments, and then makes a payment in

Additional Examples of Dr. Bajaj's Flawed Criticisms

Dr. Bajaj's Claim	Response
	> month 10, is he (i) once again current, or (ii) three months contractually delinquent, or (iii) four months contractually delinquent? In essence, under what circumstances is this loan considered delinquent and reported in HI's two-month-and-over contractually delinquent report? This should not be such a grey area, in our opinion. These policies lead to more questions. What percentage of the portfolio has been reaged and how has it performed? What does "equivalent" mean? Can partial payments be aggregated over a time period exceeding one month and thus serve to bring the account current? Is there a maximum number of times that an account can be reaged? … Clearly, HI does not follow the FFIEC guidelines for reaging, in our opinion, which notes that (i) the account should exist for at least nine months before any reaging or deferment; (ii) the borrower should make at least three consecutive monthly payments; (iii) no reaging or any such modification should be done more than once in 12 months, and no more than two times in a five year period. *Id.* Finally, with regard to Household's home equity loans, they wrote: > What we don't know: how many months delinquent can an account be (1 month, 4 months?) and still be brought current with just two consecutive payments. How often can an account (not seriously delinquent) be reaged? How is delinquency reported? What portion of the portfolio has been reaged and how has it performed? Is there a maximum number of times that an account can be reaged? … While we believe that a delinquent home equity loan can only be reaged once a year, we could find no specific mention of this in the trust document … It is not clear how much less than 100% [of the required payment] is acceptable [to cure the delinquency status of a home equity loan]. *Id.*

Additional Examples of Dr. Bajaj's Flawed Criticisms

Dr. Bajaj's Claim	Response
	Moreover, Dr. Bajaj offers no alternative explanation for the stock price decline on December 12, 2001.
February 27, 2002	
Dr. Bajaj criticizes the Fischel Report for attributing the increase in Household's stock price on February 27, 2002 to the Company's disclosure about its Best Practice Initiatives. Bajaj Report 70 & Fischel Report ¶¶ 17 & 35. He argues that: Household's return on February 27, 2002 could have been due to Federal Reserve Chairman Alan Greenspan indicating "an economic recovery was on its way;" "the markets already knew of the Company's Best Practices Initiatives, which had been first announced on July 23, 2001;" and "Professor Fischel has provided no support to conclude that the Company's disclosures about its Best Practices Initiatives were false or misleading." Bajaj Report at 70 & 71.	I controlled for and removed market and industry effects on the Company's stock price, such as comments regarding the economy from Federal Reserve Chairman Alan Greenspan, in my event study. Fischel Report ¶ 32. If I also control for Dr. Bajaj's Consumer Finance Index by including it in the regression model underlying my event study, I still find that on February 27, 2002 Household's market-adjusted stock price increase was statistically significant. *See* Exhibit G. On this date the Company announced an expansion of its Best Practice Initiatives which "rais[ed] industry standards for responsibly serving middle-market borrowers." Fischel Report ¶ 17. The Company's press release states that "Household will immediately begin the implementation of the following, unprecedented Best Practice Initiatives on new real estate loans originated in its 1,400 HFC and Beneficial branches in order to provide borrowers with clearer information, increased flexibility and better benefits." *See* Exhibit P. Plaintiffs allege that the Company's disclosure about its Best Practice Initiatives was false and misleading. Among the expanded initiatives announced on February 27, 2002 that was to be initiated "immediately" was a five percent cap on points and fees. *Id.* However, *The New York Times* reported on August 17, 2002 that the Company announced earlier in the week that the cap was not yet in place and that new loans were still being made with points and fees of more than seven percent. Fischel Report n. 7 & Exhibit 16. In any event, Household's stock price increased on a market-adjusted basis on February 27, 2002. Removal of this increase from my quantifications as Dr. Bajaj recommends would increase the inflation on every day during the Class Period prior to this date since the inflation that was removed later would have had to have been introduced earlier.
August 16, 2002	
Dr. Bajaj criticizes the Fischel Report because it "attributes HI's stock price	Dr. Bajaj ignores that the *Forbes* article went beyond simply cataloging complaints. It accuses Household of numerous improper practices:

Additional Examples of Dr. Bajaj's Flawed Criticisms

Dr. Bajaj's Claim	Response
decline on August 16, 2002 to the publication of an article in *Forbes* after trading hours on August 15, 2002." *Id.* at 53. He argues the *Forbes* article did not provide any new information because "numerous other complaints regarding HI's lending practices had been publicly discussed in the past." *Id.*	> In addition to the bait-and-switch on interest rates, [Household] charges high prepayment penalties and service fees; it lures clients with proposals showing monthly savings that at times fail to materialize; and it structures mortgages to include last-minute second loans that make it difficult for borrowers to defect and get refinancing elsewhere. Household agents call it "closing the back door." Fischel Report Exhibit 24. The article also provides new evidence that state regulators believed these practices were not isolated instances. *Id.* ¶ 18. As late as August 14, 2002, Household was claiming the problems being investigated by state regulators were isolated instances: > State regulatory agencies, including the attorney generals [sic] of certain states, have been focusing on the origination policies, procedures and practices of our consumer lending business. We have responded to all customer complaints brought to us by these authorities and believe those that may be valid have been limited to isolated situations. *See* Household Form 10-Q for the quarterly period ended June 30, 2002 (the "6/30/02 10-Q") at 22. Moreover, Dr. Bajaj offers no alternative explanation for the stock price decline on August 16, 2002.
September 3, 2002	
Dr. Bajaj criticizes the Fischel Report for attributing the decline in Household's stock price on September 3, 2002 to a report by analysts at Sanford Bernstein (the "Bernstein Report"). Bajaj Report at 60 & Fischel Report ¶¶ 20 & 34. He states "the Bernstein Research report	The Bernstein Report provided a 20-page analysis of the effect sales practice reforms (which Bernstein believed Household would have to institute in response to the WA report) would have on Household's earnings growth. Fischel Report Exhibit 30. An *American Banker* article on September 10, 2002 recognized the importance and novelty of Bernstein's analysis: > "For the first time, an equity analyst has put some hard numbers behind concerns that Household International Inc.'s lending troubles would reduce its earnings. Howard K. Mason, an analyst at Sanford

Additional Examples of Dr. Bajaj's Flawed Criticisms

Dr. Bajaj's Claim	Response
represented stale, value-irrelevant information to investors in an efficient market." Bajaj Report at 60. Dr. Bajaj also claims that any price change was more likely due to a downgrade of Citigroup which drove down the prices of financial services firms generally. *Id.* at 61.	C. Bernstein & Co., cut his earnings per share growth projection for the company to 10% to 12%, from 13% to 15%, and said Household's sales reforms would trim earnings by 3 cents per share this year and 18 cents in 2003." Fischel Report Exhibit 32. Dr. Bajaj quotes *The Wall Street Journal* as reporting that "diversified financial services were the poorest performing sector after Mike Mayo of Prudential Securities downgraded Citigroup to sell." However, Dr. Bajaj ignores that I controlled for and removed such market and industry effects on the Company's stock price in my event study. Fischel Report ¶ 32. If I also control for Dr. Bajaj's Consumer Finance Index by including it in the regression model underlying my event study, I still find that on September 3, 2002 Household's market-adjusted stock price decline was statistically significant. *See* Exhibit G.
October 4, 2002	
Dr. Bajaj criticizes the Fischel Report for attributing the decline in Household's stock on October 4, 2002 to an article in *The Wall Street Journal* which discusses a possible settlement between Household and state attorneys general. Bajaj Report at 63 & Fischel Report ¶¶ 21 & 34. Dr. Bajaj argues that: the Fischel Report ignores other dates when information about the settlement was disclosed, specifically July 31, 2002 (when a report by analysts at Morgan Stanley was released) and August 14, 2002 (when the Company's Form 10-Q for the fiscal quarter ended June 30, 2002 was filed); the change in Household's stock price is	The Morgan Stanley analysts did mention they were "factoring in $500 million in legal damages/regulatory fines" but they provided no analysis to support this figure and conceded it was only "an educated guess." Fischel Report Exhibit 28. In contrast, the settlement estimate discussed in *The Wall Street Journal* on October 4, 2002 was arrived at by "calculating the fees, loan rates and credit insurance provided to Household clients." Fischel Report Exhibit 33. Moreover, this article discusses that Household "may be near a settlement with state attorneys general." *Id.* Dr. Bajaj ignores that the 10-Q said nothing about the likelihood of a settlement or the settlement amount. News of Conseco's problems was stale information. At least as early as August 8, 2002, approximately two months prior to October 4, analysts commented that Conseco "will probably file for Chapter 11 bankruptcy protection or reach a bankruptcy deal pre-approved by creditors." *See* Exhibit Q. On August 9, 2002, Standard & Poor's revised Conseco's counterparty credit ratings to "'SD' (selective default) … because of Conseco's announcement that it is exercising a 30-day grace period on upcoming bond interest payments. … At the same time, Standard & Poor's revised its ratings on the five issues that will miss payment to 'D' (default)." *See* Exhibit R. By September 9,

Additional Examples of Dr. Bajaj's Flawed Criticisms

Dr. Bajaj's Claim	Response
more likely explained by Standard & Poor's ratings cut of Conseco to "default" as they saw CEO Gary Wendt's resignation as a "'prelude' to a Conseco bankruptcy;" and the article provides no new information because it only "summarized the conclusions of an analyst report from Bernstein Research the previous day." Bajaj Report at 63-5 and n. 267.	2002, almost a month before October 4, ratings agency Fitch lowered Conseco's rating to "Default" status, following "the expiration of the 30-day grace period on unpaid bond interest payments." *See* Exhibit S. In addition, if I control for Dr. Bajaj's Consumer Finance Index, I still find that Household's return on October 4, 2002 was negative and statistically significant. *See* Exhibit G. Dr. Bajaj's notes that an e-mail from Howard Mason of Bernstein Research to Household on October 3, 2002 at 7:39 A.M. attached the report (Bajaj Report n. 242), but this does not establish that the report was available to the market during the day on October 3, 2002.

Exhibit A

Materials Relied On

1. Report of Daniel R. Fischel and materials referenced therein

2. Expert Report of Mukesh Bajaj

3. Academic Articles:

    a. B. Cornell and R.G. Morgan, "Using Finance Theory to Measure Damages in Fraud on the Market Cases," 37 *UCLA L Rev.* (1990), 883-924.
    b. N.I. Crew, K.L. Gold and M.A. Moore, "Federal Securities Acts and Areas of Expert Analysis," in R.L. Weil, P.B. Frank, C.W. Hughes and M.J. Wagner (eds), *Litigation Services Handbook* (Wiley, 2007).
    c. E. Hutson and C. Kearney, "Merger arbitrage and the interaction between target and bidder stocks during takeover bids," 19 *Research in International Business and Finance* (2005), 1-26.
    d. A.C. MacKinlay, "Event Studies in Economics and Finance," 35 *Journal of Economic Literature* (March 1997), 13-39.
    e. M.L. Mitchell and J.M. Netter, "The Role of Financial Economics in Securities Fraud Cases: Applications at the Securities and Exchange Commission," 49 *Business Lawyer* (1994), 545-590.
    f. D.I. Tabak and F.C. Dunbar, "Materiality and Magnitude: Event Studies in the Courtroom," in R.L. Weil, M.J. Wagner, and P.B. Frank (eds), *Litigation Services Handbook* (Wiley, 2001).

4. SEC forms filed by Household International, Inc.

5. Various news articles from Factiva, LexisNexis, and Bloomberg

6. Various analyst reports from Thomson Financial and provided by counsel

7. Common stock price data for Household International, Inc. from CRSP, Center for Research in Security Prices. Graduate School of Business, The University of Chicago used with permission. All rights reserved. www.crsp.chicagogsb.edu.

8. S&P Index returns from SunGard Data Management Solutions

9. Common stock price data for Household International, Inc. and Providian from Bloomberg

10. Trade and Quote (TAQ) database

11. Report of Daniel Fischel dated September 7, 2001 *In Re Blech Securities Litigation*

12. All other items cited in the report

Exhibit B

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
07/30/99	$7.97	$17.81	$17.81
08/02/99	$7.97	$17.37	$17.37
08/03/99	$7.97	$16.59	$16.59
08/04/99	$7.97	$16.72	$16.72
08/05/99	$7.97	$16.82	$16.82
08/06/99	$7.97	$16.69	$16.69
08/09/99	$7.97	$16.95	$16.95
08/10/99	$7.97	$16.38	$16.38
08/11/99	$7.97	$16.69	$16.69
08/12/99	$7.97	$16.67	$16.67
08/13/99	$7.97	$16.90	$16.90
08/16/99	$7.97	$16.48	$16.48
08/17/99	$7.97	$17.21	$17.21
08/18/99	$7.97	$17.42	$17.42
08/19/99	$7.97	$17.29	$17.29
08/20/99	$7.97	$17.37	$17.37
08/23/99	$7.97	$17.81	$17.81
08/24/99	$7.97	$17.60	$17.60
08/25/99	$7.97	$17.08	$17.08
08/26/99	$7.97	$16.51	$16.51
08/27/99	$7.97	$15.68	$15.68
08/30/99	$7.97	$15.53	$15.53
08/31/99	$7.97	$15.65	$15.65
09/01/99	$7.97	$16.41	$16.41
09/02/99	$7.97	$15.97	$15.97
09/03/99	$7.97	$16.56	$16.56
09/07/99	$7.97	$16.56	$16.56
09/08/99	$7.97	$16.41	$16.41
09/09/99	$7.97	$16.54	$16.54
09/10/99	$7.97	$16.85	$16.85
09/13/99	$7.97	$17.21	$17.21
09/14/99	$7.97	$17.05	$17.05
09/15/99	$7.97	$16.77	$16.77
09/16/99	$7.97	$16.69	$16.69
09/17/99	$7.97	$17.05	$17.05
09/20/99	$7.97	$17.31	$17.31
09/21/99	$7.97	$16.80	$16.80
09/22/99	$7.97	$17.18	$17.18
09/23/99	$7.97	$16.59	$16.59
09/24/99	$7.97	$16.35	$16.35
09/27/99	$7.97	$16.74	$16.74
09/28/99	$7.97	$16.53	$16.53
09/29/99	$7.97	$16.92	$16.92
09/30/99	$7.97	$16.71	$16.71

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
10/01/99	$7.97	$16.40	$16.40
10/04/99	$7.97	$16.84	$16.84
10/05/99	$7.97	$17.10	$17.10
10/06/99	$7.97	$17.86	$17.86
10/07/99	$7.97	$17.65	$17.65
10/08/99	$7.97	$18.46	$18.46
10/11/99	$7.97	$17.78	$17.78
10/12/99	$7.97	$17.36	$17.36
10/13/99	$7.97	$16.56	$16.56
10/14/99	$7.97	$16.22	$16.22
10/15/99	$7.97	$15.41	$15.41
10/18/99	$7.97	$15.77	$15.77
10/19/99	$7.97	$16.22	$16.22
10/20/99	$7.97	$16.48	$16.48
10/21/99	$7.97	$16.24	$16.24
10/22/99	$7.97	$16.56	$16.56
10/25/99	$7.97	$16.19	$16.19
10/26/99	$7.97	$16.27	$16.27
10/27/99	$7.97	$17.31	$17.31
10/28/99	$7.97	$19.03	$19.03
10/29/99	$7.97	$18.59	$18.59
11/01/99	$7.97	$18.74	$18.74
11/02/99	$7.97	$18.87	$18.87
11/03/99	$7.97	$18.56	$18.56
11/04/99	$7.97	$19.00	$19.00
11/05/99	$7.97	$19.18	$19.18
11/08/99	$7.97	$18.59	$18.59
11/09/99	$7.97	$17.94	$17.94
11/10/99	$7.97	$17.73	$17.73
11/11/99	$7.97	$17.21	$17.21
11/12/99	$7.97	$18.38	$18.38
11/15/99	$7.97	$18.38	$18.38
11/16/99	$7.97	$18.79	$18.79
11/17/99	$7.97	$18.01	$18.01
11/18/99	$7.97	$17.70	$17.70
11/19/99	$7.97	$17.44	$17.44
11/22/99	$7.97	$17.18	$17.18
11/23/99	$7.97	$17.05	$17.05
11/24/99	$7.97	$16.82	$16.82
11/26/99	$7.97	$16.76	$16.76
11/29/99	$7.97	$16.40	$16.40
11/30/99	$7.97	$16.48	$16.48
12/01/99	$7.97	$16.48	$16.48
12/02/99	$7.97	$16.79	$16.79

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
12/03/99	$7.97	$17.08	$17.08
12/06/99	$7.97	$16.45	$16.45
12/07/99	$7.97	$15.93	$15.93
12/08/99	$7.97	$16.11	$16.11
12/09/99	$7.97	$16.45	$16.45
12/10/99	$7.97	$16.27	$16.27
12/13/99	$7.97	$15.93	$15.93
12/14/99	$7.97	$15.80	$15.80
12/15/99	$7.97	$15.67	$15.67
12/16/99	$7.97	$15.96	$15.96
12/17/99	$7.97	$15.88	$15.88
12/20/99	$7.97	$15.80	$15.80
12/21/99	$7.97	$15.52	$15.52
12/22/99	$7.97	$15.25	$15.25
12/23/99	$7.97	$15.62	$15.62
12/27/99	$7.97	$15.36	$15.36
12/28/99	$7.97	$15.07	$15.07
12/29/99	$7.97	$15.04	$15.04
12/30/99	$7.97	$15.30	$15.30
12/31/99	$7.97	$15.59	$15.59
01/03/00	$7.97	$14.52	$14.52
01/04/00	$7.97	$14.65	$14.65
01/05/00	$7.97	$14.39	$14.39
01/06/00	$7.97	$15.07	$15.07
01/07/00	$7.97	$15.22	$15.22
01/10/00	$7.97	$15.27	$15.27
01/11/00	$7.97	$15.07	$15.07
01/12/00	$7.97	$15.38	$15.38
01/13/00	$7.97	$15.77	$15.77
01/14/00	$7.97	$15.61	$15.61
01/18/00	$7.97	$15.27	$15.27
01/19/00	$7.97	$15.41	$15.41
01/20/00	$7.97	$15.07	$15.07
01/21/00	$7.97	$14.91	$14.91
01/24/00	$7.97	$14.44	$14.44
01/25/00	$7.97	$14.20	$14.20
01/26/00	$7.97	$14.91	$14.91
01/27/00	$7.97	$14.94	$14.94
01/28/00	$7.97	$14.31	$14.31
01/31/00	$7.97	$14.75	$14.75
02/01/00	$7.97	$14.75	$14.75
02/02/00	$7.97	$15.12	$15.12
02/03/00	$7.97	$14.91	$14.91
02/04/00	$7.97	$14.80	$14.80

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
02/07/00	$7.97	$14.67	$14.67
02/08/00	$7.97	$14.96	$14.96
02/09/00	$7.97	$14.18	$14.18
02/10/00	$7.97	$14.18	$14.18
02/11/00	$7.97	$13.34	$13.34
02/14/00	$7.97	$13.10	$13.10
02/15/00	$7.97	$13.78	$13.78
02/16/00	$7.97	$12.92	$12.92
02/17/00	$7.97	$13.26	$13.26
02/18/00	$7.97	$12.92	$12.92
02/22/00	$7.97	$13.00	$13.00
02/23/00	$7.97	$12.84	$12.84
02/24/00	$7.97	$12.82	$12.82
02/25/00	$7.97	$12.92	$12.92
02/28/00	$7.97	$13.34	$13.34
02/29/00	$7.97	$13.37	$13.37
03/01/00	$7.97	$13.91	$13.91
03/02/00	$7.97	$14.70	$14.70
03/03/00	$7.97	$15.33	$15.33
03/06/00	$7.97	$14.57	$14.57
03/07/00	$7.97	$13.76	$13.76
03/08/00	$7.97	$13.31	$13.31
03/09/00	$7.97	$13.57	$13.57
03/10/00	$7.97	$13.71	$13.71
03/13/00	$7.97	$13.57	$13.57
03/14/00	$7.97	$13.44	$13.44
03/15/00	$7.97	$14.33	$14.33
03/16/00	$7.97	$15.41	$15.41
03/17/00	$7.97	$15.43	$15.43
03/20/00	$7.97	$14.88	$14.88
03/21/00	$7.97	$15.85	$15.85
03/22/00	$7.97	$15.80	$15.80
03/23/00	$7.97	$16.27	$16.27
03/24/00	$7.97	$15.88	$15.88
03/27/00	$7.97	$15.12	$15.12
03/28/00	$7.97	$15.35	$15.35
03/29/00	$7.97	$15.35	$15.35
03/30/00	$7.97	$15.29	$15.29
03/31/00	$7.97	$15.69	$15.69
04/03/00	$7.97	$16.45	$16.45
04/04/00	$7.97	$16.03	$16.03
04/05/00	$7.97	$16.42	$16.42
04/06/00	$7.97	$16.98	$16.98
04/07/00	$7.97	$16.34	$16.34

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
04/10/00	$7.97	$16.82	$16.82
04/11/00	$7.97	$17.08	$17.08
04/12/00	$7.97	$18.50	$18.50
04/13/00	$7.97	$17.68	$17.68
04/14/00	$7.97	$16.00	$16.00
04/17/00	$7.97	$16.66	$16.66
04/18/00	$7.97	$16.69	$16.69
04/19/00	$7.97	$16.79	$16.79
04/20/00	$7.97	$17.58	$17.58
04/24/00	$7.97	$18.24	$18.24
04/25/00	$7.97	$18.79	$18.79
04/26/00	$7.97	$18.34	$18.34
04/27/00	$7.97	$17.66	$17.66
04/28/00	$7.97	$17.55	$17.55
05/01/00	$7.97	$17.66	$17.66
05/02/00	$7.97	$17.68	$17.68
05/03/00	$7.97	$17.13	$17.13
05/04/00	$7.97	$16.45	$16.45
05/05/00	$7.97	$16.71	$16.71
05/08/00	$7.97	$17.29	$17.29
05/09/00	$7.97	$16.92	$16.92
05/10/00	$7.97	$16.55	$16.55
05/11/00	$7.97	$16.79	$16.79
05/12/00	$7.97	$16.98	$16.98
05/15/00	$7.97	$17.63	$17.63
05/16/00	$7.97	$18.00	$18.00
05/17/00	$7.97	$17.53	$17.53
05/18/00	$7.97	$18.00	$18.00
05/19/00	$7.97	$17.42	$17.42
05/22/00	$7.97	$17.61	$17.61
05/23/00	$7.97	$18.08	$18.08
05/24/00	$7.97	$19.23	$19.23
05/25/00	$7.97	$19.08	$19.08
05/26/00	$7.97	$19.08	$19.08
05/30/00	$7.97	$19.58	$19.58
05/31/00	$7.97	$19.76	$19.76
06/01/00	$7.97	$19.81	$19.81
06/02/00	$7.97	$19.76	$19.76
06/05/00	$7.97	$19.81	$19.81
06/06/00	$7.97	$19.50	$19.50
06/07/00	$7.97	$19.87	$19.87
06/08/00	$7.97	$19.42	$19.42
06/09/00	$7.97	$18.68	$18.68
06/12/00	$7.97	$18.32	$18.32

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
06/13/00	$7.97	$18.79	$18.79
06/14/00	$7.97	$19.08	$19.08
06/15/00	$7.97	$18.10	$18.10
06/16/00	$7.97	$17.84	$17.84
06/19/00	$7.97	$17.97	$17.97
06/20/00	$7.97	$18.47	$18.47
06/21/00	$7.97	$18.53	$18.53
06/22/00	$7.97	$18.16	$18.16
06/23/00	$7.97	$17.71	$17.71
06/26/00	$7.97	$17.71	$17.71
06/27/00	$7.97	$17.58	$17.58
06/28/00	$7.97	$18.08	$18.08
06/29/00	$7.97	$18.16	$18.16
06/30/00	$7.97	$17.55	$17.55
07/03/00	$7.97	$17.68	$17.68
07/05/00	$7.97	$17.74	$17.74
07/06/00	$7.97	$17.58	$17.58
07/07/00	$7.97	$18.05	$18.05
07/10/00	$7.97	$18.03	$18.03
07/11/00	$7.97	$18.37	$18.37
07/12/00	$7.97	$18.55	$18.55
07/13/00	$7.97	$18.58	$18.58
07/14/00	$7.97	$18.95	$18.95
07/17/00	$7.97	$18.08	$18.08
07/18/00	$7.97	$18.34	$18.34
07/19/00	$7.97	$19.11	$19.11
07/20/00	$7.97	$19.58	$19.58
07/21/00	$7.97	$19.35	$19.35
07/24/00	$7.97	$19.40	$19.40
07/25/00	$7.97	$19.21	$19.21
07/26/00	$7.97	$18.69	$18.69
07/27/00	$7.97	$18.87	$18.87
07/28/00	$7.97	$18.47	$18.47
07/31/00	$7.97	$18.82	$18.82
08/01/00	$7.97	$18.82	$18.82
08/02/00	$7.97	$18.77	$18.77
08/03/00	$7.97	$19.69	$19.69
08/04/00	$7.97	$20.96	$20.96
08/07/00	$7.97	$21.06	$21.06
08/08/00	$7.97	$21.11	$21.11
08/09/00	$7.97	$20.64	$20.64
08/10/00	$7.97	$20.35	$20.35
08/11/00	$7.97	$20.72	$20.72
08/14/00	$7.97	$20.77	$20.77

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
08/15/00	$7.97	$20.22	$20.22
08/16/00	$7.97	$19.74	$19.74
08/17/00	$7.97	$19.58	$19.58
08/18/00	$7.97	$19.82	$19.82
08/21/00	$7.97	$19.69	$19.69
08/22/00	$7.97	$19.98	$19.98
08/23/00	$7.97	$19.95	$19.95
08/24/00	$7.97	$20.03	$20.03
08/25/00	$7.97	$20.16	$20.16
08/28/00	$7.97	$20.37	$20.37
08/29/00	$7.97	$20.27	$20.27
08/30/00	$7.97	$20.27	$20.27
08/31/00	$7.97	$20.27	$20.27
09/01/00	$7.97	$20.01	$20.01
09/05/00	$7.97	$20.11	$20.11
09/06/00	$7.97	$21.19	$21.19
09/07/00	$7.97	$21.35	$21.35
09/08/00	$7.97	$22.14	$22.14
09/11/00	$7.97	$21.80	$21.80
09/12/00	$7.97	$21.59	$21.59
09/13/00	$7.97	$21.64	$21.64
09/14/00	$7.97	$21.54	$21.54
09/15/00	$7.97	$21.32	$21.32
09/18/00	$7.97	$21.43	$21.43
09/19/00	$7.97	$21.77	$21.77
09/20/00	$7.97	$22.09	$22.09
09/21/00	$7.97	$22.33	$22.33
09/22/00	$7.97	$21.96	$21.96
09/25/00	$7.97	$22.54	$22.54
09/26/00	$7.97	$22.86	$22.86
09/27/00	$7.97	$23.17	$23.17
09/28/00	$7.97	$23.91	$23.91
09/29/00	$7.97	$23.99	$23.94
10/02/00	$7.97	$23.39	$23.39
10/03/00	$7.97	$23.57	$23.57
10/04/00	$7.97	$23.25	$23.25
10/05/00	$7.97	$23.60	$23.60
10/06/00	$7.97	$22.30	$22.30
10/09/00	$7.97	$22.11	$22.11
10/10/00	$7.97	$20.98	$20.98
10/11/00	$7.97	$20.31	$20.31
10/12/00	$7.97	$19.60	$19.60
10/13/00	$7.97	$20.15	$20.15
10/16/00	$7.97	$20.82	$20.82

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
10/17/00	$7.97	$20.13	$20.13
10/18/00	$7.97	$20.66	$20.66
10/19/00	$7.97	$21.45	$21.45
10/20/00	$7.97	$21.37	$21.37
10/23/00	$7.97	$20.84	$20.84
10/24/00	$7.97	$21.29	$21.29
10/25/00	$7.97	$20.98	$20.98
10/26/00	$7.97	$20.10	$20.10
10/27/00	$7.97	$20.13	$20.13
10/30/00	$7.97	$20.92	$20.92
10/31/00	$7.97	$21.32	$21.32
11/01/00	$7.97	$21.03	$21.03
11/02/00	$7.97	$21.82	$21.82
11/03/00	$7.97	$21.82	$21.82
11/06/00	$7.97	$22.25	$22.25
11/07/00	$7.97	$21.98	$21.98
11/08/00	$7.97	$21.88	$21.88
11/09/00	$7.97	$21.40	$21.40
11/10/00	$7.97	$21.51	$21.51
11/13/00	$7.97	$20.82	$20.82
11/14/00	$7.97	$20.76	$20.76
11/15/00	$7.97	$20.90	$20.90
11/16/00	$7.97	$20.82	$20.82
11/17/00	$7.97	$20.42	$20.42
11/20/00	$7.97	$19.39	$19.39
11/21/00	$7.97	$19.60	$19.60
11/22/00	$7.97	$18.67	$18.67
11/24/00	$7.97	$19.20	$19.20
11/27/00	$7.97	$19.70	$19.70
11/28/00	$7.97	$20.50	$20.50
11/29/00	$7.97	$21.24	$21.24
11/30/00	$7.97	$21.13	$21.13
12/01/00	$7.97	$21.00	$21.00
12/04/00	$7.97	$20.50	$20.50
12/05/00	$7.97	$21.27	$21.27
12/06/00	$7.97	$21.50	$21.50
12/07/00	$7.97	$21.95	$21.95
12/08/00	$7.97	$22.48	$22.48
12/11/00	$7.97	$22.30	$22.30
12/12/00	$7.97	$22.01	$22.01
12/13/00	$7.97	$21.58	$21.58
12/14/00	$7.97	$21.58	$21.58
12/15/00	$7.97	$21.29	$21.29
12/18/00	$7.97	$22.03	$22.03

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
12/19/00	$7.97	$22.72	$22.72
12/20/00	$7.97	$22.01	$22.01
12/21/00	$7.97	$22.22	$22.22
12/22/00	$7.97	$22.22	$22.22
12/26/00	$7.97	$22.56	$22.56
12/27/00	$7.97	$23.09	$23.09
12/28/00	$7.97	$23.79	$23.79
12/29/00	$7.97	$23.39	$23.39
01/02/01	$7.97	$22.83	$22.83
01/03/01	$7.97	$24.66	$23.94
01/04/01	$7.97	$24.29	$23.94
01/05/01	$7.97	$23.33	$23.33
01/08/01	$7.97	$22.99	$22.99
01/09/01	$7.97	$22.48	$22.48
01/10/01	$7.97	$22.46	$22.46
01/11/01	$7.97	$22.72	$22.72
01/12/01	$7.97	$22.83	$22.83
01/16/01	$7.97	$23.47	$23.47
01/17/01	$7.97	$23.94	$23.94
01/18/01	$7.97	$23.33	$23.33
01/19/01	$7.97	$23.17	$23.17
01/22/01	$7.97	$22.86	$22.86
01/23/01	$7.97	$23.60	$23.60
01/24/01	$7.97	$24.08	$23.94
01/25/01	$7.97	$24.10	$23.94
01/26/01	$7.97	$24.45	$23.94
01/29/01	$7.97	$25.13	$23.94
01/30/01	$7.97	$24.91	$23.94
01/31/01	$7.97	$24.44	$23.94
02/01/01	$7.97	$25.05	$23.94
02/02/01	$7.97	$25.00	$23.94
02/05/01	$7.97	$25.08	$23.94
02/06/01	$7.97	$24.71	$23.94
02/07/01	$7.97	$25.17	$23.94
02/08/01	$7.97	$24.99	$23.94
02/09/01	$7.97	$25.17	$23.94
02/12/01	$7.97	$25.65	$23.94
02/13/01	$7.97	$25.62	$23.94
02/14/01	$7.97	$25.28	$23.94
02/15/01	$7.97	$24.77	$23.94
02/16/01	$7.97	$25.13	$23.94
02/20/01	$7.97	$24.46	$23.94
02/21/01	$7.97	$23.66	$23.66
02/22/01	$7.97	$23.71	$23.71

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
02/23/01	$7.97	$24.06	$23.94
02/26/01	$7.97	$24.66	$23.94
02/27/01	$7.97	$25.13	$23.94
02/28/01	$7.97	$24.63	$23.94
03/01/01	$7.97	$24.83	$23.94
03/02/01	$7.97	$25.26	$23.94
03/05/01	$7.97	$25.12	$23.94
03/06/01	$7.97	$25.46	$23.94
03/07/01	$7.97	$26.15	$23.94
03/08/01	$7.97	$25.98	$23.94
03/09/01	$7.97	$25.63	$23.94
03/12/01	$7.97	$24.85	$23.94
03/13/01	$7.97	$25.70	$23.94
03/14/01	$7.97	$25.38	$23.94
03/15/01	$7.97	$25.67	$23.94
03/16/01	$7.97	$25.52	$23.94
03/19/01	$7.97	$25.47	$23.94
03/20/01	$7.97	$24.61	$23.94
03/21/01	$7.97	$23.75	$23.75
03/22/01	$7.97	$23.27	$23.27
03/23/01	$7.97	$24.71	$23.94
03/26/01	$7.97	$24.64	$23.94
03/27/01	$7.97	$25.45	$23.94
03/28/01	$7.97	$25.32	$23.94
03/29/01	$7.97	$24.80	$23.94
03/30/01	$7.97	$25.27	$23.94
04/02/01	$7.97	$25.38	$23.94
04/03/01	$7.97	$25.13	$23.94
04/04/01	$7.97	$24.93	$23.94
04/05/01	$7.97	$25.48	$23.94
04/06/01	$7.97	$24.97	$23.94
04/09/01	$7.97	$25.36	$23.94
04/10/01	$7.97	$26.07	$23.94
04/11/01	$7.97	$25.82	$23.94
04/12/01	$7.97	$26.19	$23.94
04/16/01	$7.97	$25.73	$23.94
04/17/01	$7.97	$25.98	$23.94
04/18/01	$7.97	$27.04	$23.94
04/19/01	$7.97	$26.89	$23.94
04/20/01	$7.97	$26.64	$23.94
04/23/01	$7.97	$26.55	$23.94
04/24/01	$7.97	$26.92	$23.94
04/25/01	$7.97	$27.62	$23.94
04/26/01	$7.97	$27.04	$23.94

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
04/27/01	$7.97	$27.46	$23.94
04/30/01	$7.97	$27.31	$23.94
05/01/01	$7.97	$27.50	$23.94
05/02/01	$7.97	$27.92	$23.94
05/03/01	$7.97	$27.85	$23.94
05/04/01	$7.97	$28.03	$23.94
05/07/01	$7.97	$27.94	$23.94
05/08/01	$7.97	$27.91	$23.94
05/09/01	$7.97	$28.17	$23.94
05/10/01	$7.97	$27.76	$23.94
05/11/01	$7.97	$27.69	$23.94
05/14/01	$7.97	$27.82	$23.94
05/15/01	$7.97	$28.55	$23.94
05/16/01	$7.97	$29.28	$23.94
05/17/01	$7.97	$29.09	$23.94
05/18/01	$7.97	$28.82	$23.94
05/21/01	$7.97	$28.87	$23.94
05/22/01	$7.97	$28.88	$23.94
05/23/01	$7.97	$28.36	$23.94
05/24/01	$7.97	$28.34	$23.94
05/25/01	$7.97	$28.27	$23.94
05/29/01	$7.97	$28.15	$23.94
05/30/01	$7.97	$28.07	$23.94
05/31/01	$7.97	$28.01	$23.94
06/01/01	$7.97	$28.04	$23.94
06/04/01	$7.97	$28.34	$23.94
06/05/01	$7.97	$28.57	$23.94
06/06/01	$7.97	$28.14	$23.94
06/07/01	$7.97	$28.08	$23.94
06/08/01	$7.97	$28.07	$23.94
06/11/01	$7.97	$28.06	$23.94
06/12/01	$7.97	$27.85	$23.94
06/13/01	$7.97	$27.83	$23.94
06/14/01	$7.97	$27.60	$23.94
06/15/01	$7.97	$27.21	$23.94
06/18/01	$7.97	$27.15	$23.94
06/19/01	$7.97	$27.22	$23.94
06/20/01	$7.97	$27.56	$23.94
06/21/01	$7.97	$28.46	$23.94
06/22/01	$7.97	$28.58	$23.94
06/25/01	$7.97	$28.13	$23.94
06/26/01	$7.97	$27.79	$23.94
06/27/01	$7.97	$28.12	$23.94
06/28/01	$7.97	$28.24	$23.94

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
06/29/01	$7.97	$28.55	$23.94
07/02/01	$7.97	$28.50	$23.94
07/03/01	$7.97	$28.35	$23.94
07/05/01	$7.97	$28.65	$23.94
07/06/01	$7.97	$28.48	$23.94
07/09/01	$7.97	$28.45	$23.94
07/10/01	$7.97	$28.05	$23.94
07/11/01	$7.97	$27.92	$23.94
07/12/01	$7.97	$28.42	$23.94
07/13/01	$7.97	$28.74	$23.94
07/16/01	$7.97	$29.15	$23.94
07/17/01	$7.97	$29.51	$23.94
07/18/01	$7.97	$29.74	$23.94
07/19/01	$7.97	$28.46	$23.94
07/20/01	$7.97	$28.79	$23.94
07/23/01	$7.97	$28.89	$23.94
07/24/01	$7.97	$28.68	$23.94
07/25/01	$7.97	$28.57	$23.94
07/26/01	$7.97	$27.98	$23.94
07/27/01	$7.97	$28.32	$23.94
07/30/01	$7.97	$28.29	$23.94
07/31/01	$7.97	$28.37	$23.94
08/01/01	$7.97	$28.14	$23.94
08/02/01	$7.97	$28.25	$23.94
08/03/01	$7.97	$28.24	$23.94
08/06/01	$7.97	$28.12	$23.94
08/07/01	$7.97	$28.44	$23.94
08/08/01	$7.97	$28.19	$23.94
08/09/01	$7.97	$28.35	$23.94
08/10/01	$7.97	$28.73	$23.94
08/13/01	$7.97	$29.11	$23.94
08/14/01	$7.97	$29.10	$23.94
08/15/01	$7.97	$29.08	$23.94
08/16/01	$7.97	$28.62	$23.94
08/17/01	$7.97	$28.24	$23.94
08/20/01	$7.97	$28.03	$23.94
08/21/01	$7.97	$27.76	$23.94
08/22/01	$7.97	$28.02	$23.94
08/23/01	$7.97	$27.70	$23.94
08/24/01	$7.97	$26.68	$23.94
08/27/01	$7.97	$26.52	$23.94
08/28/01	$7.97	$26.25	$23.94
08/29/01	$7.97	$25.98	$23.94
08/30/01	$7.97	$25.38	$23.94

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
08/31/01	$7.97	$25.29	$23.94
09/04/01	$7.97	$24.42	$23.94
09/05/01	$7.97	$24.49	$23.94
09/06/01	$7.97	$24.39	$23.94
09/07/01	$7.97	$23.56	$23.56
09/10/01	$7.97	$24.10	$23.94
09/17/01	$7.97	$22.61	$22.61
09/18/01	$7.97	$22.53	$22.53
09/19/01	$7.97	$22.38	$22.38
09/20/01	$7.97	$22.02	$22.02
09/21/01	$7.97	$21.54	$21.54
09/24/01	$7.97	$22.62	$22.62
09/25/01	$7.97	$22.29	$22.29
09/26/01	$7.97	$23.03	$23.03
09/27/01	$7.97	$23.42	$23.42
09/28/01	$7.97	$24.23	$23.94
10/01/01	$7.97	$24.71	$23.94
10/02/01	$7.97	$24.85	$23.94
10/03/01	$7.97	$25.01	$23.94
10/04/01	$7.97	$25.62	$23.94
10/05/01	$7.97	$25.08	$23.94
10/08/01	$7.97	$24.28	$23.94
10/09/01	$7.97	$24.32	$23.94
10/10/01	$7.97	$25.02	$23.94
10/11/01	$7.97	$24.47	$23.94
10/12/01	$7.97	$23.59	$23.59
10/15/01	$7.97	$24.03	$23.94
10/16/01	$7.97	$24.07	$23.94
10/17/01	$7.97	$24.56	$23.94
10/18/01	$7.97	$24.72	$23.94
10/19/01	$7.97	$24.46	$23.94
10/22/01	$7.97	$24.46	$23.94
10/23/01	$7.97	$24.60	$23.94
10/24/01	$7.97	$23.83	$23.83
10/25/01	$7.97	$24.58	$23.94
10/26/01	$7.97	$24.70	$23.94
10/29/01	$7.97	$23.42	$23.42
10/30/01	$7.97	$23.00	$23.00
10/31/01	$7.97	$22.48	$22.48
11/01/01	$7.97	$22.73	$22.73
11/02/01	$7.97	$22.67	$22.67
11/05/01	$7.97	$23.10	$23.10
11/06/01	$7.97	$24.29	$23.94
11/07/01	$7.97	$25.24	$23.94

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
11/08/01	$7.97	$24.84	$23.94
11/09/01	$7.97	$24.92	$23.94
11/12/01	$7.97	$25.02	$23.94
11/13/01	$7.97	$25.79	$23.94
11/14/01	$7.97	$26.17	$23.94
11/15/01	$6.11	$24.29	$23.94
11/16/01	$6.11	$23.60	$23.60
11/19/01	$6.11	$24.08	$23.94
11/20/01	$6.11	$23.85	$23.85
11/21/01	$6.11	$24.26	$23.94
11/23/01	$6.11	$24.80	$23.94
11/26/01	$6.11	$25.08	$23.94
11/27/01	$6.11	$25.75	$23.94
11/28/01	$6.11	$26.12	$23.94
11/29/01	$6.11	$25.30	$23.94
11/30/01	$6.11	$24.79	$23.94
12/03/01	$4.20	$22.59	$22.59
12/04/01	$4.20	$24.17	$23.94
12/05/01	$6.05	$26.44	$23.94
12/06/01	$6.05	$25.86	$23.94
12/07/01	$6.05	$24.88	$23.94
12/10/01	$6.05	$23.30	$23.30
12/11/01	$6.05	$22.20	$22.20
12/12/01	$3.66	$19.80	$19.80
12/13/01	$3.66	$20.29	$20.29
12/14/01	$3.66	$19.64	$19.64
12/17/01	$3.66	$20.61	$20.61
12/18/01	$3.66	$21.84	$21.84
12/19/01	$3.66	$22.04	$22.04
12/20/01	$3.66	$21.75	$21.75
12/21/01	$3.66	$21.37	$21.37
12/24/01	$3.66	$21.60	$21.60
12/26/01	$3.66	$21.82	$21.82
12/27/01	$3.66	$23.30	$23.30
12/28/01	$3.66	$24.03	$23.94
12/31/01	$3.66	$23.28	$23.28
01/02/02	$3.66	$22.58	$22.58
01/03/02	$3.66	$22.41	$22.41
01/04/02	$3.66	$24.06	$23.94
01/07/02	$3.66	$23.19	$23.19
01/08/02	$3.66	$22.29	$22.29
01/09/02	$3.66	$22.42	$22.42
01/10/02	$3.66	$21.70	$21.70
01/11/02	$3.66	$19.85	$19.85

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
01/14/02	$3.66	$18.53	$18.53
01/15/02	$3.66	$20.28	$20.28
01/16/02	$3.66	$19.87	$19.87
01/17/02	$3.66	$18.90	$18.90
01/18/02	$3.66	$20.03	$20.03
01/22/02	$3.66	$19.24	$19.24
01/23/02	$3.66	$18.59	$18.59
01/24/02	$3.66	$18.86	$18.86
01/25/02	$3.66	$19.70	$19.70
01/28/02	$3.66	$18.10	$18.10
01/29/02	$3.66	$16.58	$16.58
01/30/02	$3.66	$15.76	$15.76
01/31/02	$3.66	$17.12	$17.12
02/01/02	$3.66	$17.34	$17.34
02/04/02	$3.66	$16.06	$16.06
02/05/02	$3.66	$14.99	$14.99
02/06/02	$3.66	$12.47	$12.47
02/07/02	$3.66	$15.56	$15.56
02/08/02	$3.66	$18.71	$18.71
02/11/02	$3.66	$17.94	$17.94
02/12/02	$3.66	$17.49	$17.49
02/13/02	$3.66	$18.36	$18.36
02/14/02	$3.66	$18.04	$18.04
02/15/02	$3.66	$18.00	$18.00
02/19/02	$3.66	$17.84	$17.84
02/20/02	$3.66	$17.72	$17.72
02/21/02	$3.66	$16.00	$16.00
02/22/02	$3.66	$16.24	$16.24
02/25/02	$3.66	$16.45	$16.45
02/26/02	$3.66	$16.72	$16.72
02/27/02	$5.30	$18.55	$18.55
02/28/02	$5.30	$17.81	$17.81
03/01/02	$5.30	$19.02	$19.02
03/04/02	$5.30	$22.21	$22.21
03/05/02	$5.30	$21.17	$21.17
03/06/02	$5.30	$22.17	$22.17
03/07/02	$5.30	$23.00	$23.00
03/08/02	$5.30	$24.42	$23.94
03/11/02	$5.30	$24.06	$23.94
03/12/02	$5.30	$23.37	$23.37
03/13/02	$5.30	$22.86	$22.86
03/14/02	$5.30	$21.87	$21.87
03/15/02	$5.30	$22.69	$22.69
03/18/02	$5.30	$22.93	$22.93

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
03/19/02	$5.30	$22.77	$22.77
03/20/02	$5.30	$21.93	$21.93
03/21/02	$5.30	$22.23	$22.23
03/22/02	$5.30	$22.39	$22.39
03/25/02	$5.30	$21.06	$21.06
03/26/02	$5.30	$21.66	$21.66
03/27/02	$5.30	$21.80	$21.80
03/28/02	$5.30	$21.25	$21.25
04/01/02	$5.30	$21.68	$21.68
04/02/02	$5.30	$21.52	$21.52
04/03/02	$5.30	$20.53	$20.53
04/04/02	$5.30	$21.39	$21.39
04/05/02	$5.30	$22.28	$22.28
04/08/02	$5.30	$23.24	$23.24
04/09/02	$5.30	$23.16	$23.16
04/10/02	$5.30	$23.23	$23.23
04/11/02	$5.30	$21.73	$21.73
04/12/02	$5.30	$22.40	$22.40
04/15/02	$5.30	$22.24	$22.24
04/16/02	$5.30	$23.65	$23.65
04/17/02	$5.30	$24.64	$23.94
04/18/02	$5.30	$25.29	$23.94
04/19/02	$5.30	$26.52	$23.94
04/22/02	$5.30	$25.40	$23.94
04/23/02	$5.30	$26.45	$23.94
04/24/02	$5.30	$26.14	$23.94
04/25/02	$5.30	$24.31	$23.94
04/26/02	$5.30	$24.81	$23.94
04/29/02	$5.30	$22.70	$22.70
04/30/02	$5.30	$23.34	$23.34
05/01/02	$5.30	$22.61	$22.61
05/02/02	$5.30	$21.92	$21.92
05/03/02	$5.30	$21.64	$21.64
05/06/02	$5.30	$21.00	$21.00
05/07/02	$5.30	$20.25	$20.25
05/08/02	$5.30	$21.83	$21.83
05/09/02	$5.30	$21.26	$21.26
05/10/02	$5.30	$19.64	$19.64
05/13/02	$5.30	$20.72	$20.72
05/14/02	$5.30	$21.31	$21.31
05/15/02	$5.30	$20.03	$20.03
05/16/02	$5.30	$19.24	$19.24
05/17/02	$5.30	$18.40	$18.40
05/20/02	$5.30	$18.19	$18.19

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
05/21/02	$5.30	$17.54	$17.54
05/22/02	$5.30	$17.74	$17.74
05/23/02	$5.30	$17.87	$17.87
05/24/02	$5.30	$17.85	$17.85
05/28/02	$5.30	$17.98	$17.98
05/29/02	$5.30	$17.89	$17.89
05/30/02	$5.30	$16.88	$16.88
05/31/02	$5.30	$16.26	$16.26
06/03/02	$5.30	$16.67	$16.67
06/04/02	$5.30	$16.66	$16.66
06/05/02	$5.30	$17.91	$17.91
06/06/02	$5.30	$19.83	$19.83
06/07/02	$5.30	$19.06	$19.06
06/10/02	$5.30	$18.58	$18.58
06/11/02	$5.30	$19.54	$19.54
06/12/02	$5.30	$18.92	$18.92
06/13/02	$5.30	$17.44	$17.44
06/14/02	$5.30	$17.62	$17.62
06/17/02	$5.30	$18.20	$18.20
06/18/02	$5.30	$18.08	$18.08
06/19/02	$5.30	$17.24	$17.24
06/20/02	$5.30	$16.02	$16.02
06/21/02	$5.30	$16.16	$16.16
06/24/02	$5.30	$16.50	$16.50
06/25/02	$5.30	$15.68	$15.68
06/26/02	$5.30	$16.25	$16.25
06/27/02	$5.30	$16.78	$16.78
06/28/02	$5.30	$16.19	$16.19
07/01/02	$5.30	$14.84	$14.84
07/02/02	$5.30	$14.94	$14.94
07/03/02	$5.30	$15.76	$15.76
07/05/02	$5.30	$16.69	$16.69
07/08/02	$5.30	$16.28	$16.28
07/09/02	$5.30	$14.58	$14.58
07/10/02	$5.30	$12.48	$12.48
07/11/02	$5.30	$13.14	$13.14
07/12/02	$5.30	$14.69	$14.69
07/15/02	$5.30	$14.17	$14.17
07/16/02	$5.30	$15.01	$15.01
07/17/02	$5.30	$11.59	$11.59
07/18/02	$5.30	$12.56	$12.56
07/19/02	$5.30	$11.33	$11.33
07/22/02	$5.30	$10.38	$10.38
07/23/02	$5.30	$9.30	$9.30

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
07/24/02	$5.30	$11.68	$11.68
07/25/02	$5.30	$10.57	$10.57
07/26/02	$3.10	$8.68	$8.68
07/29/02	$3.10	$9.19	$9.19
07/30/02	$3.10	$9.55	$9.55
07/31/02	$3.10	$11.49	$11.49
08/01/02	$3.10	$10.63	$10.63
08/02/02	$3.10	$9.59	$9.59
08/05/02	$3.10	$8.11	$8.11
08/06/02	$3.10	$10.06	$10.06
08/07/02	$3.10	$8.28	$8.28
08/08/02	$3.10	$9.60	$9.60
08/09/02	$3.10	$8.73	$8.73
08/12/02	$3.10	$8.29	$8.29
08/13/02	$3.10	$7.06	$7.06
08/14/02	$2.16	$6.39	$6.39
08/15/02	$2.16	$7.61	$7.61
08/16/02	$0.32	$5.76	$5.76
08/19/02	$0.32	$5.22	$5.22
08/20/02	$0.32	$4.65	$4.65
08/21/02	$0.32	$4.98	$4.98
08/22/02	$0.32	$8.14	$8.14
08/23/02	$0.32	$5.85	$5.85
08/26/02	$0.32	$6.77	$6.77
08/27/02	-$0.88	$5.58	$5.58
08/28/02	-$0.88	$5.22	$5.22
08/29/02	-$0.88	$4.69	$4.69
08/30/02	-$0.88	$4.33	$4.33
09/03/02	-$2.09	$2.96	$2.96
09/04/02	-$2.09	$3.53	$3.53
09/05/02	-$2.09	$2.87	$2.87
09/06/02	-$2.09	$3.10	$3.10
09/09/02	-$2.09	$5.02	$5.02
09/10/02	-$2.09	$4.16	$4.16
09/11/02	-$2.09	$4.57	$4.57
09/12/02	-$2.09	$3.73	$3.73
09/13/02	-$2.09	$4.35	$4.35
09/16/02	-$2.09	$3.35	$3.35
09/17/02	-$2.09	-$0.17	-$0.17
09/18/02	-$2.09	$0.41	$0.41
09/19/02	-$2.09	$0.73	$0.73
09/20/02	-$2.09	$0.64	$0.64
09/23/02	-$3.62	-$0.85	-$0.85
09/24/02	-$3.62	-$0.35	-$0.35

Household International, Inc. Common Stock
Estimates of Alleged Artificial Inflation
For Quantification Using Specific Disclosures
And for Quantification Including Leakage

	Alleged Artificial Inflation		
	Quantification Using	Quantification Including Leakage	
Date	Specific Disclosures	Unadjusted	Adjusted for $23.94 Cap
09/25/02	-$3.62	-$0.24	-$0.24
09/26/02	-$3.62	$0.34	$0.34
09/27/02	-$3.62	-$0.56	-$0.56
09/30/02	-$3.62	-$0.10	-$0.10
10/01/02	-$3.62	-$1.12	-$1.12
10/02/02	-$3.62	-$1.13	-$1.13
10/03/02	-$3.62	-$0.66	-$0.66
10/04/02	-$4.88	-$1.87	-$1.87
10/07/02	-$4.88	-$2.45	-$2.45
10/08/02	-$4.88	-$3.17	-$3.17
10/09/02	-$4.88	-$4.66	-$4.66
10/10/02	-$0.68	-$0.68	-$0.68
10/11/02	$0.00	$0.00	$0.00

Exhibit C

REUTERS

HD **UPDATE 2-Before the Bell-Household, Nicor, Interpublic fall.**

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LP NEW YORK, Aug 14 (Reuters) - Shares of **Household International** Inc. , Nicor Inc. and Interpublic Group of Cos Inc. all fell in pre-open trading on Wednesday as investors continue to worry over accounting issues.

Household International tumbled after the consumer finance company said it would downwardly revise its net income due to accounting changes. It said it would trim its net income by a total of $386 million since 1994 because of a change in the way it accounts for its credit card business.

TD Its shares fell to $34 on the Instinet electronic brokerage system from $37.80 at Tuesday's close.

Credit card issuer Capital One Financial Corp. also slid, falling to $27 from $29.20 at the prior close.

Energy holding company Nicor plunged after it said it would restate its first-quarter 2002 financial results, to reflect certain items that were originally reported in its second-quarter results. It tumbled to $21 in pre-open trading from $26.16 at the prior close.

Advertising giant Interpublic fell after it said it would restate several years of financial results after uncovering $68.5 million in improperly recorded charges. It eased to $14.85 in pre-open trading from $15.78 at the prior close.

Shares of Applied Materials also fell after the chip equipment maker warned quarterly orders could sag, but Network Appliance Inc. rose on an upbeat outlook.

Applied Materials, the dominant maker of microchip production equipment, warned orders could drop as much as 15 percent in the next quarter. Its shares sagged to $13.03 on Instinet from $13.46 at the prior close.

Network Appliance, a data storage computer maker, posted a quarterly profit on Tuesday and projected a slight rise in revenue in the current quarter among muted signs of economic improvement. Its shares climbed to $8.06 in pre-open trading from $7.05 at Tuesday's close.

CO APLMAT : APPLIED MATERIALS INC. (USA) | CPTONE : CAPITAL ONE FINANCIAL CORP (USA) | HFC : HOUSEHOLD INTERNATIONAL INC (USA) | INTPUB : INTERPUBLIC GROUP OF COMPANIES INC (USA) | MCROST : MICROSOFT CORP (REDMOND, WA) (USA) | NICORR : NICOR INC (NAPERVILLE,IL) (USA) | NTAPL : NETWORK APPLIANCE INC (USA) | QCOM : QUALCOMM INC (USA)

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Exhibit D

Dow Jones Business News

HD **Household International Lowers Restates Past Profits by $386 Million**

BY By Tara Siegel Bernard
WC 641 words
PD 14 August 2002
ET 11:22 AM
SN Dow Jones Business News
SC DJON
LA English
CY (Copyright (c) 2002, Dow Jones & Company, Inc.)

LP Dow Jones Newswires

NEW YORK -- **Household International** Inc.'s (HI) shares fell after the consumer-finance company announced that it restated profits downward by $386 million -- for the period spanning from 1994 to the second-quarter of this year -- to reflect a change in accounting tied to certain contracts within credit-card business.

TD The revision came after its new auditors, KPMG LLP, reviewed its financial statements and suggested that they revise they way they accounted for its MasterCard/Visa co-branding and affinity card relationships, as well as a credit-card marketing agreement with a third party. KPMG replaced Arthur Andersen LLP in March.

The change shaves about one cent a share from second-quarter earnings, while reducing profits for the six-months ended June 30 by about six cents a share.

"The restatement, while disappointing, is small relative to the results we have reported over the period 1993 through 2001, as well as to the earnings growth trend we have recorded," Household Chief Executive William F. Aldinger said in a statement, adding that the company's compounded growth rate of 22% over the affected period remains the same.

Meanwhile, Mr. Aldinger and Household President and Chief Operating Officer David A. Schoenholz, the company' principal financial officer, certified the accuracy of company's most-recent Securities and Exchange filing, as required under a new rule that holds executives personally accountable for the veracity of financial reports.

Household said in a statement that it doesn't expect the accounting changes to have any significant impact on its future results or operations, while backing an earlier statement that its businesses are "well-positioned" for the remainder of 2002.

The company restated 2002 second-quarter earnings to $1.07 a diluted share from the originally posted $1.08 a share, and amended its net income for the first half of 2002 to $998.4 million, or $2.11 a share, from $1.02 billion, or $2.17 a share.

The accounting changes didn't overly alarm credit-rating agencies Moody's and Fitch Ratings, which both affirmed their ratings on Household. Moody's maintained its senior long-term debt rating on Household International at A3 with a stable outlook, while Fitch affirmed its long-term rating of A and a negative outlook.

"The accounting changes and cumulative restatements do not represent a systemic breakdown in Household's accounting policies or controls, or corporate governance," Moody's said in a statement. "On a go-forward basis, the direct financial impact on Household will likely be small." However, the rating agency expects that the Prospect Heights, Ill., company will take the necessary actions to improve its capitalization over the next several quarters.

Though Fitch said it found the announcement disappointing, it added that it recognizes the complexity of current accounting guidelines which leave "significant room for interpretation and judgment."

"While the avoidance of restatements through use of more conservative accounting would clearly been preferable, similar restatements are not expected for Household in the future," Fitch said in a statement.

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Fitch also said that while the required reduction in equity is "concerning" it believes Household "maintains the financial wherewithal to replenish capital ratios to levels above what were originally reported" at the end of the second quarter.

Household also announced that it would begin treating stock options as an expense, which isn't expected to have a significant impact on its "future results of operations."

At 4 p.m. EDT on the New York Stock Exchange, shares of Household International were up 29 cents at $38.09. The stock earlier hit a 52-week low of $32.90.

-By Tara Siegel Bernard; Dow Jones Newswires; 201-938-5288; tara.siegel@dowjones.com

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IN I814 : Banking | I81501 : Non-bank Credit | I8150105 : Consumer Lending | I8150108 : Credit Cards | I836 : Accounting | IACC : Accounting/Consulting | IBNK : Banking/Credit

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Exhibit E

RNS HSBC Holdings PLC HSBA Household International
Mar 19 2003 10:55

RNS Number:9550I
HSBC Holdings PLC
19 March 2003

HOUSEHOLD INTERNATIONAL

The following is extracted from the text of a press release issued today by Household International:

Household Announces Mailing of Supplemental Proxy Materials to Shareholders; Enters into Consent Order with SEC Without Admitting or Denying Wrongdoing

Household International, Inc. announced today that it is commencing the distribution of supplemental proxy materials relating to the special meeting of Household shareholders to be held on March 28, 2003 to approve Household`s merger with HSBC Holdings plc.

The supplemental proxy materials explain that, on March 18, 2003, Household agreed to the entry by the SEC of a consent order relating to prior public disclosures that describe certain of Household`s restructuring and other account management policies. The SEC`s findings in the order, which Household does not admit or deny, include findings that certain prior descriptions of Household`s restructuring and other account management policies were incomplete or inaccurate in violation of provisions of the federal securities laws. Under the order, Household has agreed to cease and desist from any further violations of these provisions. The order does not require Household to pay fines or monetary damages. Household will not be restating any of its financial statements.

The Commission`s investigation is continuing as to others. We can not predict the outcome of such investigation at this time. It is our understanding that this concludes the investigation as to the company.

To provide further clarity on these matters, the supplemental proxy materials being distributed to Household shareholders include a more detailed description of Household`s restructuring and other account management policies.

"We have agreed to the entry of the consent order to resolve the SEC`s disclosure concerns relating to Household," stated William F. Aldinger, Chairman and Chief Executive Officer of Household. "We continue to make significant progress towards completing our merger with HSBC, and we remain on track to be able to close the transaction shortly following the receipt of shareholder approvals at the meetings scheduled for 28 March 2003."

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RNS HSBC Holdings PLC HSBA Household International
Mar 19 2003 10:55

HSBC, which has been kept informed by Household of the ongoing enquiries by the US Securities and Exchange Commission (`SEC`), is pleased that the consent order between Household International, Inc. and the SEC relating to Household`s disclosures of its restructuring and other account management policies has been reached. The order does not require Household to pay fines or monetary damages. Household will not be restating any of its financial statements.

HSBC remains fully committed to completing the merger with Household subject to the terms and conditions contained in the merger agreement. The extraordinary general meeting of HSBC ordinary shareholders to vote with respect to the merger and related matters is scheduled for 28 March 2003.

Separately, Household had previously disclosed litigation by Household shareholders in relation to the proposed acquisition by way of merger. This litigation was referred to in the circular dated 26 February 2003 despatched to HSBC shareholders. Household has also disclosed in its supplemental proxy materials that the lawyers representing Household shareholders have agreed in principle to settle those shareholders` claims. Under the terms of the merger agreement in certain circumstances HSBC is entitled to a termination fee of US$550 million if the transaction does not close. The settlement in principle provides for HSBC to waive the right to receive US$55 million of that termination fee. The settlement will not result in any payments to Household shareholders. On approval by the court the settlement will preclude any further claims by Household shareholders in relation to the proposed acquisition by way of merger.

The supplemental proxy materials are being filed with the SEC. The supplemental proxy materials give information on both the SEC consent order and the settlement in principle of the litigation by shareholders in relation to the proposed acquisition by way of merger. Copies of this document will be available on the SEC`s website, www.sec.gov/edgar.shtml. Copies will also be available on HSBC`s and Household`s websites, www.hsbc.com and www.household.com respectively.

Notes to editors:

HSBC Holdings plc

With over 8,000 offices in 80 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa, and assets of US$759 billion at 31 December 2002, the HSBC Group is one of the world`s largest banking and financial services organisations.

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Exhibit F

BERNSTEIN RESEARCH CALL
U.S. CONSUMER FINANCE
SEE LAST PAGE OF THIS REPORT FOR IMPORTANT DISCLOSURES
OCTOBER 3, 2002

HI | Impact of AG Settlement on Earnings, Funding, and Capital

Howard K. Mason *+1-212-756-4285 MasonHK@bernstein.com*
Rick L. Biggs *+1-212-756-4484 BiggsRL@bernstein.com*

Ticker	Rating	10/2/02 Price	Absolute YTD Perf.	Relative YTD Perf.	2001A	SCB Estimates 2002E	SCB Estimates 2003E	Consensus 2002E	Consensus 2003E	SCB P/E 2002E	SCB P/E 2003E
HI	M	$27	-51%	-25%	$3.91	$4.48	$4.96	$4.56	$5.10	6.1	5.5
SPX		$828	-26%		$45.16	$50.00	$57.00	$48.66	$54.10	16.6	14.5

O– Outperform, M – Market-Perform, U – Underperform

Highlights

- **Both Household and the Attorneys General (AGs) have incentives to reach a settlement on sales practices. Household benefits from funding cost relief as the debt market will welcome reduced regulatory risk, and the AGs stand to gain political capital.**
- **We estimate a settlement will cost Household $350-500 million and the associated sales practice reform will reduce normalized earnings by approximately $1.00/share (that will phase into actual earnings over 3-4 years as loans under improved sales practices replace loans originated under the old regime).**
- **A risk is that not all borrower claims are extinguished by an AG settlement. To address this, Household may take the opportunity of agreement with the AGs to settle the putative national class action filed by ACORN in Illinois.**
  - Citi provided a precedent by settling last month with the FTC on sales practices at Associates (before the acquisition) for $215 million and settling related civil actions for $25 million.
  - If ACORN chooses not to participate in the settlement, Household will resort to the courts. Settlement with the AGs will be more important to the debt markets.
- **A more serious risk is that Household cannot reach agreement with the AGs and the rating agencies, unnerved by chronic regulatory problems, downgrade the outlook or rating on Household's senior debt. The impact could go beyond raising the cost of debt funding towards restricting access and creating liquidity challenges.**

Investment Conclusion

If Household can settle with the AGs, the stock will rally on reduced regulatory risk and a positive reaction in the debt markets that will provide funding cost relief. The firm has the capital to make a restitution payment of $300-500 million particularly if this can be phased over two years, and sales practice reform is unlikely to reduce normalized earnings by more than $1.00 per share.

The risk is that Household cannot reach a settlement, debt spreads remain wide, and one or both of the rating agencies respond to the delay by either downgrading the senior paper or moving the outlook to negative. While possible given the difficulty of bringing all the AGs into line, we believe that Household is making headway in settlement negotiations and that the AGs themselves have incentives to reach a deal. We are less concerned if Household is unable to settle the civil actions, including the putative national class action filed by ACORN in Illinois, since the debt market is more concerned with the regulatory actions.

Based on our EPS estimate of $4.96 for 2003 and a target relative multiple of 50% (below the historical average to reflect the drag effect of sale practice reform on earnings growth), we have a target price on Household of $40 (see ***Exhibit 1***).

Details

We believe Household is working to reach a settlement by year-end with a task force of Attorneys General ("AGs") around confusing branch sales practices for real estate loans. By reducing legal risk on this $30 billion portfolio (see ***Table 1***), a settlement would bring in debt spreads (that – at 350 off Treasuries for 10-year senior -- are close to all time wides). The costs of a settlement will be a financial payment of, say, $300-500 million (see ***Appendix***) to create a restitution fund for borrowers, and sales practice reform. Below we look at the possible impact of a settlement on normalized earnings, funding, and capital.

Table 1 Household Managed Loan Portfolio

Managed Loans ($bn)	**Q2 02**	**Notes**
Branch Businesses:		
Real Estate	30	Total RE Secured, net of Correspondent
Other	15	PHLs and Domestic Personal Unsecured
Sub-Total	45	
Credit Cards:		
Private Label	13	
Bankcards	17	
Sub-Total	30	
Correspondent	19	From Q2 02 Conference Call
Auto Finance	7	
Commercial and other	5	Commercial and Other Personal Unsecured
Firm Total	105	

Source: Company reports

Normalized Earnings

The impact of sales practice reform will phase in over time as loans originated under new practices replace the run-off of loans originated under the old regime. The phase-in period is 3 to 4 years corresponding to the estimated average life of a loan. Our calculations ignore this phase-in period to arrive at an estimate of "normalized" earnings – i.e. the earnings fully normalized for sales practice reform. With this disclaimer, we estimate the impact of sales practice reform on normalized earnings at near $1.00/share (see ***Table 2***).

Table 2 **Impact of Sales Practice Reform on Normalized Earnings**

	Pre-Tax $mm	Tax Adjusted cents/share
Reduce Up-Front Fees	280	41
Reduce Loan Rates	300	44
Reduce Penetration of Credit Insurance	80	12
Total	660	96
Tax Rate	33%	
Shares Outstanding (mm)	461	

Source: Bernstein Estimates

1. **Up-front fees**: Household currently charges an average up-front fee of 6½ %. Suppose this falls to 3% (the new maximum announced by CitiFinancial). We estimate Household's annual branch origination volume at approximately $8 billion (assuming the branch-based real estate portfolio of $30 billion turns every 4 years). A 3½ % reduction in up-front fees translates to $280 million per year.

2. **Reduced loan rates**: Household's average loan rate is 11½%. Some of Household's customers, confused by the firm's sales practices, have refinanced prime mortgages at 7½ %. Others could likely obtain mortgages from rival sub-prime lenders at 9½ %. Still others do not have better cheaper alternative sources of funds. Absent company information on the borrower mix, we assume a 20:40:40 split between these segments (see ***Table 3***) to derive a rate overage of 1.0% (after making some allowance for the convenience advantages borrowers derive from Household). This represents $300 million on the $30 billion branch-based real estate portfolio.

Table 3 **Estimated Overage on Loan Rates**

		Sub-Prime Credits	
	A Credits	With Several Alternatives	With Limited Alternatives
Competitive Rate	7.5%	9.5%	11.5%
Household Overage	4.0%	2.0%	0.0%
Proportion	20%	40%	40%
Weighted Average	1.6%		
Convenience Premium	0.6%		
Estimated Overage	1.0%		

Source: Bernstein Estimates

3. **Penetration of credit life insurance**: We estimate that Household's penetration of credit life insurance is approximately 70% and will fall to 40% as borrowers are made aware that insurance is optional. Since each year Household makes branch real-estate loans to 75,000 customers (assuming the total customer base for the business of 300,000[1] turns every 4 years), this means 22,500 fewer contracts. Given the average contract price is $4,500 and assuming the margin is 80%, the earnings impact is $80 million.

Funding

[1] $30 billion portfolio with an average loan size of $100,000.

Since end August – when Household talked of plans for $5.4 billion in unsecured and $5.5 billion in secured issues – the firm has completed a $350 million preferred deal (September 10th) and a $1 billion home-equity-loan-backed deal (August 27th). While Household can survive at these reduced issuance levels for the next few quarters, the firm will need to return to the unsecured market in 2003 given there is $16 billion of debt maturing (see ***Table 4***).

Table 4 Debt Maturity Schedule ($bn)

Q4 02	2.6
Q1 03	2.9
Q2 03	3.5
Q3 03	5.9
Q4 03	3.5
Total	18.4
Total 03	15.8

Source: Bloomberg

The firm is betting that, by then, debt spreads will have come in from current levels that are close to all-time wides. For example, 10-year senior paper is at 350 off Treasuries representing a total funding cost of 7.2% (with T10 at 370). The risk is that spreads widen further particularly if the rating agencies move the firm to negative outlook (from stable) or downgrade the senior debt – currently rated A2 by Moodys and A by S&P. If Household then has to issue into a weakened market, the problem may not be cost but access. An AG settlement reduces this risk.

Capital

To protect its debt ratings, Household increased its year-end target for tangible-equity-to-tangible-managed assets ("TETMA") to 8.5% from 8.25%. The firm announced the new target on the Q2 02 earnings call at the same time as it took a capital hit of $386 million following restatement of marketing expenses associated with co-brand affinity programs. Given the TETMA ratio now stands at 7.94% on tangible managed assets of $117 billion (see ***Exhibit 2***), the firm needed an additional $1.3 billion of capital as of end Q2 02 (see ***Table 5***).

Table 5 TETMA Ratio

$bn	Q2 02	Q4 02E
Tangible Equity	9.3	10.6
Tangible Managed Assets	117	125
TETMA	7.94%	8.50%

Source: Company reports and Bernstein Estimates

This reduces to $950 million after the $350 million preferred raised in September. With after-tax earnings of an expected $1.1 billion in H2 02, there looks to be a capital cushion of approximately $150 million. Assuming Household can agree to pay the settlement to AGs over two or three years, there is no need for new capital. If not, Household can meet a shortfall through whole-loan sales, by issuing additional preferred or, given that preferred securities are now 16% of tangible equity, completing a private placement of common stock. Alternatively, with an AG settlement completed, the firm can negotiate with the rating agencies for additional time to make the 8.5% TETMA target.

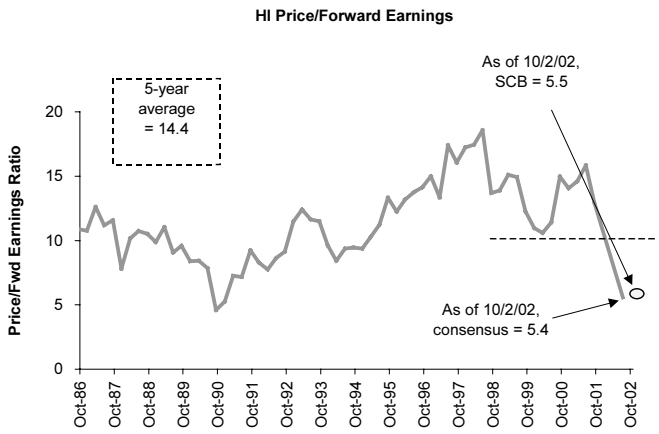
Risks

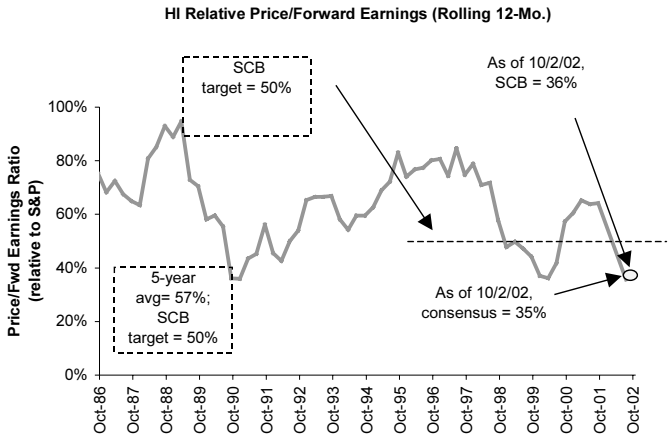
Household needs to access the unsecured debt market in 2003, and therefore needs a settlement with the AGs to reduce legal risk and tighten spreads. Ideally there would be an omnibus settlement extinguishing borrowers claims around the country. The risk is that this is difficult to achieve if ACORN attempts to extract too high a price for settlement of its putative national class action filed in Illinois.

In this event, Household settles with the AGs and then deals with the ACORN suit in the courts over three years or more. We believe the debt market will respond positively to a regulatory settlement, notwithstanding progress on the civil action, so that the firm's business model will be less constrained by a high cost of funds.

A more serious risk is that Household cannot reach agreement with the AGs and the rating agencies, unnerved by chronic regulatory problems, downgrade the outlook or rating on Household's senior debt. The impact could go beyond raising the cost of debt funding towards restricting access. However, we find this scenario unlikely given the incentives on all parties to settle and Household's moves to increase capital as a means to provide interim comfort to the rating agencies.

Exhibit 1 HI Valuation





	Current Price	2002 Consensus	P/FE
HI	$27	$4.56	6.0
SPX	$828	$48.66	17.0
Relative P/FE	35%		

	Current Price	2003 Consensus	P/FE
HI	$27	$5.10	5.4
SPX	$828	$54.10	15.3
Relative P/FE	35%		

Source: FactSet, Bernstein estimates

Exhibit 2 TETMA Ratio

($bn)	Q2 02
Tangible Shareholders' Equity	
Trust Preferred Securities	1.0
Preferred Equity	0.8
Common Shareholders' Equity	8.7
Subtotal	10.5
Net of:	
Unrealized Investment Gains/Losses	0.2
Unrealized CF Hedging Gains/Losses	-0.6
Acquired Intangibles	0.4
Goodwill	1.1
Subtotal	1.2
Equals Tangible Shareholders' Equity	**9.3**
Tangible Managed Assets	
Total Managed Assets	119
Net of:	
Acquired Intangibles	0.4
Goodwill	1.1
Derivative Assets	0.5
Subtotal	2.0
Equals Tangible Managed Assets	**117**
TETMA Ratio (%)	**7.94%**

Source: Company reports

Appendix: Estimating the Costs of Settlement

We estimate Household over-charged the average customer approximately $6,750 as follows:

- Up-Front Fees -- $2,250: We start with $4,500 as the difference between $6,500 points on a Household loan (6 ½% on an average loan size of $100,000) and an estimated $2,000 closing costs for a similar size sub-prime loan from a Fannie Mae sub-prime lender. Household characterizes the additional fees as buy-down points but, according to the Washington State report, they are not presented to customers as such and not disclosed in the sales process. We believe this practice to be widespread but not ubiquitous and assume it applies to 50% of borrowers to derive our estimate of $2,250 ($4,500 times 50%).

- Loan Rates -- $3,000: This is 1.0% running over 3 years on an average loan of $100,000. The rate overage is higher for E-Z Pay Plus customers that are sold 11 ½ % loans that "pay out as if" they are 7 ½ % loans. We arrive at our average estimate of 1.0% as follows. First, we assume that 20% of Household's customers are 'A' credits that could get a mortgage at 7 ½%, 40% are sub-prime credits with several financing alternatives and the opportunity to get a mortgage at 9 ½%, and the remaining 40% are fairly priced (see ***Table 3*** in main text). This gives a weighted-average rate overage of 1.6%. We attribute 0.6% of this to the convenience advantage borrowers derive from Household including fast turnaround times and branch proximity, to arrive at our estimate for the overage of 1.0%. We use a 3-year period because prepayment penalties then expire so that the customer can refinance.

- Credit Insurance -- $1,500: We estimate Household's penetration of credit insurance at 70% and believe 40% would be a more likely result with clear disclosure that the product is optional. WAMU, for example, considers 25% to be good penetration. So, approximately one third of customers have been confused into buying credit insurance at an average price of $4,500 translating into $1,500 across the entire customer base.

Household has approximately 300,000 customers in its branch-based real estate business. Some claims have been extinguished by the 3-year statute of limitations. Given the portfolio turns every 4 years by our estimates, we assume 250,000 borrowers (more than ¾ because of account growth) have claims. At an average of $6,750 per customer, the total amount is $1.7 billion. Assuming a settlement of between 20 and 30 cents on the dollar, we arrive at a range for the financial penalty to Household of roughly $350-500 million.

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- Bernstein rates stocks based on forecasts of relative performance for the next 6-12 months versus the S&P 500 for U.S. listed stocks and versus the MSCI Pan Europe Index for stocks listed on the European exchanges — unless otherwise specified. We have three categories of ratings:

  Outperform: Stock will outpace the market index by more than 15 pp in the year ahead.

  Market-Perform: Stock will perform in line with the market index to within +/-15 pp in the year ahead.

  Underperform: Stock will trail the performance of the market index by more than 15 pp in the year ahead.
- Bernstein currently makes or plans to make a market in every NASDAQ security contained within our coverage universe.
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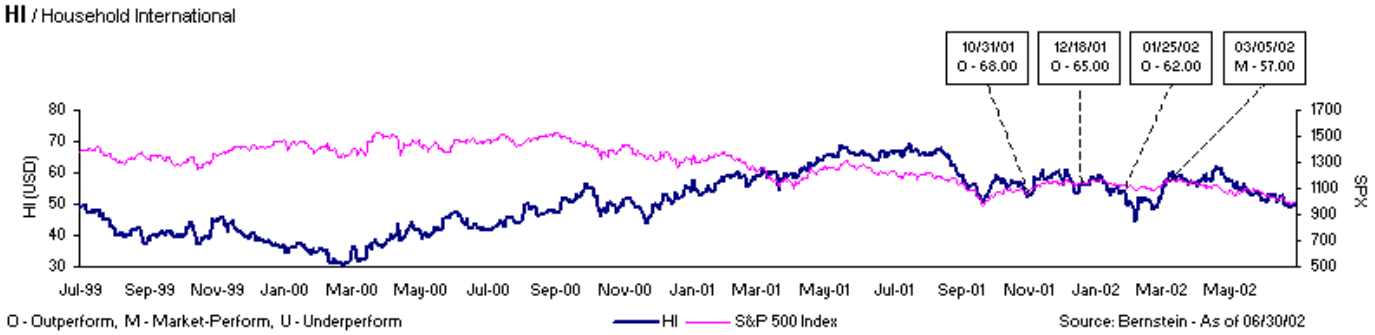

Bernstein Distribution of Ratings

Outperform	104	51.0%
Market-Perform	89	43.6%
Underperform	11	5.4%

Source: Bernstein - As of 6/30/02

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Exhibit G

Effect on Statistical Significance of Specific Disclosures After Including Dr. Bajaj's Consumer Finance Index in Fischel Report Regression Model

N	Date	Household Return	S&P 500 Index Return	S&P Financials Index Return	Dr. Bajaj's Consumer Finance Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	Still Statistically Significant?
1	11/15/01	-3.28%	0.10%	-0.30%	-1.49%	-0.60%	-2.68%	-$1.63	-2.19	Yes
2	12/03/01	-4.58%	-0.83%	-1.54%	-2.26%	-1.41%	-3.16%	-$1.87	-2.58	Yes
3	12/05/01	4.76%	2.24%	1.81%	2.33%	1.61%	3.15%	$1.83	2.56	Yes
4	12/12/01	-4.43%	0.03%	-0.29%	-2.20%	-0.85%	-3.58%	-$2.03	-2.92	Yes
5	02/27/02	4.20%	0.05%	0.76%	2.60%	1.55%	2.65%	$1.33	2.16	Yes
6	07/26/02	-2.94%	1.70%	2.79%	3.66%	2.77%	-5.71%	-$2.22	-4.64	Yes
7	08/14/02	0.77%	4.01%	3.74%	5.23%	3.44%	-2.67%	-$1.01	-2.15	Yes
8	08/16/02	-5.20%	-0.15%	-0.65%	-3.13%	-1.37%	-3.83%	-$1.52	-3.12	Yes
9	08/27/02	-3.53%	-1.38%	-0.82%	-2.13%	-0.85%	-2.69%	-$1.05	-2.19	Yes
10	09/03/02	-7.62%	-4.15%	-4.90%	-7.52%	-4.64%	-2.97%	-$1.07	-2.38	Yes
11	09/23/02	-4.96%	-1.38%	-0.11%	-2.46%	-0.57%	-4.39%	-$1.28	-3.56	Yes
12	10/04/02	-7.29%	-2.23%	-2.94%	-6.16%	-3.40%	-3.90%	-$1.04	-3.15	Yes
13	10/10/02	25.24%	3.50%	5.50%	11.02%	6.72%	18.52%	$3.89	14.63	Yes
14	10/11/02	7.22%	3.91%	5.02%	2.24%	3.06%	4.16%	$1.09	3.30	Yes

Exhibit H

07:42pm EST 15-Nov-01 Salomon Smith Barney (Matthew L. Vetto +1-212-816-3593) H
HI: California Lawsuit Likely More Bark Than Bite

SALOMON SMITH BARNEY

Household International, Inc. (HI)#
HI: California Lawsuit Likely More Bark Than Bite 2H (Outperform, High Risk)
Mkt Cap: $28,482.9 mil.

November 15, 2001

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SUMMARY

* HI shares sold off almost 4% intra-day on news that the California Dept. of Corporations has filed an $8.5 million lawsuit against HI for lending law violations (i.e., predatory lending).
* Certainly, an $8.5 million claim is immaterial. In addition, our conversations with the Dept. of Corporations lead us to preliminarily conclude that the likelihood of significant escalation of the claim is relatively low.
* In our view, two possible sources of further action are: 1) the Dept.'s request to subject HI's lending practices to an independent audit, and 2) possible referral of the case to other regulatory bodies.
* While we can't completely rule out the possibility of further developments, and we do recognize the potential for add'l headline risk (particularly in a weaker consumer economy), we think an immaterial financial settlement is most likely. We would use any related weakness as a buying opportunity.

FUNDAMENTALS

P/E (12/01E)	14.9x
P/E (12/02E)	13.4x
TEV/EBITDA (12/01E)	NA
TEV/EBITDA (12/02E)	NA
Book Value/Share (12/01E)	$17.65
Price/Book Value	3.4x
Dividend/Yield (12/01E)	$0.85/1.4%
Revenue (12/01E)	$10,391.7 mil.
Proj. Long-Term EPS Growth	14%
ROE (12/01E)	24.1%
Long-Term Debt to Capital(a)	NA

HI is in the S&P 500(R) Index.
(a) Data as of most recent quarter

SHARE DATA		RECOMMENDATION	
Price (11/14/01)	$60.90	Current Rating	2H
52-Week Range	$69.48-$44.06	Prior Rating	2H
Shares Outstanding(a)	467.7 mil.	Current Target Price	$67.00
Convertible	No	Previous Target Price	$67.00

EARNINGS PER SHARE

FY ends		1Q	2Q	3Q	4Q	Full Year
12/00A	Actual	$0.78A	$0.80A	$0.94A	$1.03A	$3.55A
12/01E	Current	$0.91A	$0.93A	$1.07A	$1.17E	$4.08E

	Previous	$0.91A	$0.93A	$1.07A	$1.17E	$4.08E
12/02E	Current	$1.04E	$1.03E	$1.15E	$1.33E	$4.55E
	Previous	$1.04E	$1.03E	$1.15E	$1.33E	$4.55E
12/03E	Current	NA	NA	NA	NA	NA
	Previous	NA	NA	NA	NA	NA

First Call Consensus EPS: 12/01E $4.08; 12/02E $4.63; 12/03E NA

OPINION

HI shares sold off almost 4% intra-day on Thursday on news that the California Department of Corporations has filed an $8.5 million lawsuit against HI for lending law violations (i.e., predatory lending). In the course of a routine investigation in 1998, it was discovered that some subset of Household/Beneficial customers was overcharged on some fees. The company agreed to perform an internal audit and in June 2001, it agreed to refund $1.5 million to customers as a result.

Our conversations with the Department of Corporations lead us to believe that it later determined it was not satisfied with the results of the internal audit performed by Household. Thus, it has filed suit for the maximum amount of damages possible - still only $8.5 million.

Clearly, an $8.5 million claim is immaterial (represents less than $0.02 per share pretax). The greater potential risk, in our view, is that this lawsuit turns into a larger development. In our opinion, there are two possible sources of such an escalation. First, the Department has indicated that it would like to sponsor an independent audit of HI's lending practices since it was not satisfied by the internal audit. Second, the Department has indicated that it will likely refer the case to other relevant regulatory bodies (e.g., the California Attorney General). Thus, to the extent there were further findings from another audit, or another regulatory body was interested in pursuing the matter, there could be further chapters in the story.

Consumer advocacy groups have long been active in the sub-prime lending arena, and we expect that trend to continue for the foreseeable future. Further, we acknowledge the possibility that headline risk from consumer advocacy groups could bring additional volatility (particularly in a weaker consumer economy). That said, while we cannot completely rule out the possibility of further developments in this case, our preliminary opinion is that the most likely outcome of this matter is a settlement of an immaterial financial amount. Thus, we would use any related weakness in the shares as a buying opportunity. We reiterate our Outperform rating.

INVESTMENT THESIS

Household has continued to strengthen its business model over the past several years. It has exited its low return businesses, and has added or accelerated higher return businesses. Household has also driven efficiencies by doubling its size with the 1998 Beneficial merger investing in technology and continued cost control. Household has built a franchise on lending to middle America , or what are commonly referred to as non-prime customers. We believe Household can deliver its promised 13%-15% EPS growth over the next few years, although a recession might limit growth to the low end of that range near-term. In a tough environment, investors are likely to find Household s resilience and solid balance sheet attractive, in our view.

COMPANY DESCRIPTION

Household International is a diversified consumer finance company, which offers

a variety of financial products such as home equity loans, unsecured personal loans, general purpose Visa or MasterCard credit cards, private label credit card, auto loans, and refund anticipation loans. Target customers are typically between 25 to 50 years old and have a household income of $15,000 to $50,000: Household is a lender to middle-America . Household has almost $100 billion in managed loans outstanding with roughly 40% of the portfolio represented by home equity loans (real estate-secured), 40% credit card receivables and 20% by other unsecured loans. Outside of the United States, Household operates in the United Kingdom and Canada. The company s corporate headquarters are located in Prospect Heights, Illinois.

ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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Exhibit I

08:04am EST 7-Feb-02 Deutsche Banc Alex. Brown Inc. (M. Alpert/R. St. Leger/)
HI: Unsubstantiated Claims Continue to Haunt Stock-Strong Buy

Alpert, Mark C. CFA 212-469-8117
St. Leger, Randolf 212-469-7118
Swanberg, Garrett T. 212-469-5017
Deutsche Banc Alex. Brown Inc.

2/7/2002

HOUSEHOLD INTERNATIONAL INC. (HI) "STRONG BUY"
Unsubstantiated Claims Continue to Haunt Stock

Date:	02/06/2002	EPS:	2000A	2001A	2002E
Price:	44.71	1Q	0.78	0.91	1.04
52-Wk Range:	70 - 44	2Q	0.80	0.93	1.08
Ann Dividend:	0.88	3Q	0.94	1.07	1.23
Ann Div Yld:	1.97%	4Q	1.03	1.17	1.35
Mkt Cap (mm):	20,464	FY(Dec.)	3.55	4.08A	4.70
3-Yr Growth:	14%	FY P/EPS	12.6X	11.X	9.5X
		CY EPS	3.55	4.08	4.70
Est. Changed	No	CY P/EPS	12.6X	11.X	9.5X

Industry: Specialty Finance
Shares Outstanding(Mil.): 457.7
Return On Equity (2000) : 25.0%

HIGHLIGHTS:
- The shares of Household International continue to plummet on unsubstantiated claims, in our opinion, of issues with liquidity, accounting, and lawsuits.

- We spoke with several members of management Wednesday evening, including CEO William Aldinger and Bruce Foster, VP Capital Markets, to discuss issues that have recently affected the stock.

- We note that Household will be hosting a conference call Thursday to discuss these issues (number and time to be announced).

- Our 12-month target price is $71, or 15x our 2002 estimate of $4.70. We believe an overemotional market can create buying opportunities. We reiterate our Strong Buy rating.

DETAILS:
The shares of Household International (HI-Strong Buy) continue to plummet on what we believe are unsubstantiated claims of issues with liquidity, accounting, lawsuits -- you name it. The stock closed at $44.70 on 2/6/02 vs. $51.10 on 2/1/02, off 12.5%. Yesterday, it fell $2.80 or 5.9%, to the lowest level since Nov. 2000. Many finance companies, and subprime issuers in particular, have been under pressure for all sorts of reasons. In Household's case, the most recent unsubstantiated claim revolved around commercial paper and liquidity issues. After the close, a consumer advocate group, ACORN, filed a predatory lending suit against Household in California.

We note that Household will be hosting a conference call Thursday to answer

questions (number and time TBA).

We spoke with several members of management Wednesday evening, including CEO William Aldinger and Bruce Foster, VP Capital Markets.

REGARDING CP AND LIQUIDITY

Household issues CP every morning. This morning Household issued 30 day CP at 178 bps, which is 1 bp above GE Capital Corp's (GECC) quote. It issued 150 day CP at 186 bps, also 1 bp over GECC. Household is rated A1/P1. Household has net $6.7 billion of CP outstanding (out of total debt of $75 billion) with an average maturity of 33 days. Its back up bank lines are $10.1 billion, with staggered maturities between 2002 and 2005.

However, we would note that Household's debt spreads have widened significantly. It issued 5 year debt 3 weeks ago at 150 bps over Treasuries. Today, the debt was quoted at between 250-310 bps over Treasuries. This appears, in our opinion, to be related to the unsubstantiated reports and possible arbitrage between other issuer debt. It does not affect Household's margin, as the debt was issued before spreads widened, but it could have an impact if spreads do not return to normal.

REGARDING LAWSUIT

ACORN filed a suit on behalf of three California residents in the Superior Court in California's Alameda County, alleging that Household violates state laws by, among other things, marketing its consolidation loans as a way to save money without fully disclosing fees.

All predatory lending lawsuits must be taken seriously and Household has been at the forefront of taking the "high road," in our opinion. It quickly settled a previous suit in California without admitting wrongdoing, for $12 million and taking corrective actions. We suspect that Household may have become more of a lightning rod for consumer groups as it is the only large public company in the space. Household set up a special advisory board to address lending practices and invited Acorn to express its views -- which Acorn apparently declined. We can't predict the outcome, but we expect Household to take the allegations seriously, without caving in to unreasonable monetary demands.

CONCLUSION

This market is extremely emotional and sensitive. There are serious issues heightened by well-publicized events of Enron and Tyco, among others. Household appears to have been caught up in the maelstrom. We are maintaining our 2002 EPS estimate of $4.70, giving a P/E multiple of 9.5x, or a 43% relative P/E to the S&P 500. The 10 year low was 37% and the average 65%. We believe the negative reaction has been exaggerated, and reiterate our Strong Buy rating. Our target price is $71, or 15x our 2002 estimate, on a one-year horizon.

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Exhibit J

REUTERS

HD **Household International stock falls after report.**

WC 210 words
PD 3 December 2001
ET 10:42 AM
SN Reuters News
SC LBA
LA English
CY (c) 2001 Reuters Limited

LP NEW YORK, Dec 3 (Reuters) - Shares of loan and credit card firm **Household International** Inc. fell 5 percent on Monday, amid heavy trade, following an article in business weekly Barron's which cited analysts' views that the firm was underestimating bad loans.

The company did not immediately respond to telephone calls from Reuters seeking comment on the article.

TD Household's shares fell $2.94 to $56.05 on the New York Stock Exchange. The stock was one of the biggest fallers in the Standard & Poor's financial index , which was down 1.6 percent.

According to the Barron's article, some observers said Household's profits might have "benefited from aggressive accounting to, among other things, minimize net loan losses."

Household has fared better than rival consumer loan firms recently, which have all been hit hard by a jump in bad loans as the economy sours.

"We believe Household, at a minimum, is set up for a dramatic decline in the quality of the company's earnings and, at most, a potential reduction in earnings estimates and/or a credit-related charge," said William Ryan, an analyst at research firm Ventana Capital, who rates the stock a "sell", in the Barron's article.

CO HFC : HOUSEHOLD INTERNATIONAL INC (USA)

IN I81501 : Non-bank Credit Institutions | I8150105 : Consumer Lending | IBNK : Banking/Credit

NS C15 : Performance | C152 : Earnings Projections | C1522 : Share Price Movement/Disruptions | CCAT : Corporate/Industrial News

RE NAMZ : North American Countries | USA : United States

AN Document lba0000020011203dxc301ud0

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Exhibit K

BERNSTEIN RESEARCH CALL
FOR FAX PROBLEMS ONLY: 212-756-4283
CONSUMER FINANCE
DECEMBER 4, 2001

HI: Loss Recognition Policies and the Other Unsecured Portfolio

Howard K. Mason 212-756-4285 MasonHK@bernstein.com, Rick L. Biggs 212-756-4484 BiggsRL@bernstein.com

Company	Rating	Current Price 12/3/01	Absolute YTD Perf.	Relative YTD Perf.	2000A	SCB Estimates (FY) 2001E	SCB Estimates (FY) 2002E	Consensus Estimates 2001E	Consensus Estimates 2002E	SCB P/E 2001E	SCB P/E 2002E
HI	O	$56	5%	17%	$3.55	$4.10	$4.65	$4.08	$4.63	13.7 x	12.1 x
SPX		$1,130	-12%		$55.12	$44.00	$48.50	$43.63	$49.50	25.9 x	22.8 x

O – Outperform, M – Market-Perform, U – Underperform

- **HI has not made material changes to its loss recognition policies since the merger with Beneficial in 1998, and provided disclosure on these changes at the time they were made.**
- **HI's loss recognition policies are less conservative than competitors. For example, loss recognition on other unsecured loans is on a contractual and recency basis allowing accounts that make some partial payments to be up to 570 days delinquent (albeit in somewhat exceptional circumstances), and this appears to have contributed to a deterioration in asset quality.**
- **However, credit quality is only half the picture. The economic issue is whether the change in loss recognition policies has allowed HI to improve returns by providing greater flexibility to work with borrowers experiencing temporary financial difficulty. For example, the risk-adjusted return on the other unsecured portfolio in the September quarter of 2001 is 7.4% comparable with the firm's overall risk-adjusted return of 7.7%**
- **The stock is reacting to concerns about management credibility. Specifically, is management using the latitude provided by its loss recognition policies to enhance economic returns by adopting a more flexible stance towards customers, or abusing this latitude to distort reported payment behavior by postponing the recognition of losses?**
- **We have general confidence in the credit culture and internal controls at HI, but are looking to management to clarify this specific issue and re-establish credibility at up-coming investor conferences. We are looking for assurances that the credit culture and internal controls are in place to ensure that accounts where there is no reasonable prospect of payment are charged off in a timely fashion.**

Investment Conclusion

HI has not made recent changes to its loss recognition policies and, in particular, has not made changes since the merger with Beneficial in 1998. The changes made in 1996 (moving the loss recognition policy for the other unsecured loan portfolio to a combined contractual and recency basis) and in 1997 (extending the contractual delinquency period for auto loans from 120 days to 150 days) were well disclosed. The directional bias of the changes is towards less conservative policies and appears to have led to a deterioration in asset quality over time. For example, the net loss ratio in the other unsecured portfolio has risen at an annualized rate of 13% from 4.3% in 1996 to 7.0% in the

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September quarter of 2001. And the net loss ratio in the auto finance business for the September quarter is 4.8% versus 3.8% at AmeriCredit.

However, the net loss ratio is only half the picture. The economic issue is whether the change in loss recognition policies has allowed HI to improve returns by providing greater flexibility to work with borrowers experiencing temporary financial difficulties. For example, in the September quarter of 2001, HI generated a risk-adjusted return on the other unsecured portfolio of 7.42% which is comparable with the 7.97% generated in 1996 and the firm's overall risk-adjusted return on interest bearing assets of 7.72%. The critical question, then, is whether management is using the latitude provided by its loss recognition policies to enhance economic returns by adopting a more flexible approach towards customers, or is abusing this latitude to distort reported payment behavior by postponing the recognition of losses. It is hard to tell from the numbers. The swing factor is whether management has the credit culture and internal controls to ensure that accounts where there is no reasonable prospect of payment are charged-off in a timely fashion regardless of whether the loss recognition policies would allow them to be maintained as delinquent. We are looking to management to clarify this specific issue in up-coming investor meetings, and until then maintain our outperform rating with a target price of $66.

Details

Recent attention has focused on the loss recognition policies at HI, and on asset quality of the other unsecured loan portfolio. At $17.6 billion, this portfolio represents approximately 18% of total managed loans of $95 billion and comprises branch based non-real estate loans, personal home loans, international loans, and a small loan program tied to HI's "Union Privilege" relationship with trades union. It excludes credit card loans – both the Visa/MasterCard bankcard loans and the private label loans. ***Exhibit 1*** shows the other unsecured loan portfolio in the context of HI's overall book of business.

Below we provide details on loss recognition policies at HI and on the other unsecured loan portfolio. First, however, it is worth reviewing briefly the ground rules for loss recognition in general. Consumer finance companies have more latitude than banks in how problem credits are reported, and there are a variety of approaches. Delinquencies are generally recorded as soon as a contractual payment is missed; the variety arises in how the delinquency is resolved. Under the most conservative "original contractual" approach, delinquencies cannot be cured until all payments under the terms of the original loan documentation are received. The "present contract" method allows delinquencies to be remedied through renewals and extensions, and such loan restructuring often provides the lender with the additional income benefit of fees. The least conservative method is "recency of payment" which allows a lender to postpone recognition of losses if a customer makes some partial payments. Many of the concerns with HI's other unsecured portfolio arise from a decision the firm made in 1996 to move their loss recognition policy in the portfolio from a pure contractual basis to a combined contractual and recency basis. The details are set out below.

Loss Recognition Policies at HI

HI charges off bankcards and private label cards after 6 and 9 months respectively of contractual delinquency. The firm charges off receivables in the other unsecured loan portfolio after 9 months of contractual delinquency if in addition *essentially no payment* has been received in the last 6 months (and in any event after 570 days of contractual delinquency). Auto loans are charged off after 150 days of contractual delinquency or 90 days after repossession of the vehicle, if unsold.

The credit card policies are in line with the industry. However, the policies for the unsecured loan portfolio and for auto loans are less conservative than competitors. For example, CitiFinancial charges off an unsecured personal loan after 6 months of contractual delinquency if in addition it is 6 months since *full payment* has been received. In other words the contractual delinquency period is shorter than at HI and the "recency provision" (allowing CitiFinancial to avoid charging off an account that is beyond the contractual delinquency period based on the current payment record) requires the customer to make a full payment, not a partial payment. Within auto loans, AmeriCredit charges off loans after 120 days of contractual delinquency (versus the 150 days at HI) or 90 days after repossession of the vehicle, if unsold. GMAC also has a 120-day contractual delinquency policy and typically sells repossessed vehicles within 30 days.

HI introduced the recency provision into its loss recognition policy for other unsecured loans in the January quarter of 1996. Previously loans were charged-off after 9 months of contractual delinquency regardless of the borrowers current payment record. ***Exhibit 2*** shows that since then the 2-month delinquency rate and net charge-off rate on this portfolio has increased at an annualized rate of 6% and 13% respectively. This is higher than the increases for both the card portfolios that are charged-off on a strictly contractual basis, and suggests that the move to a combined contractual and recency basis has led to a deterioration in asset quality. Since management does not break down the other unsecured loan portfolio by delinquency bucket, it is not possible to verify this directly.

There is an economic case for a recency policy and for helping customers cure delinquency by restructuring loans. The economic advantage is that it provides management with greater flexibility to work with a customer who is experiencing temporary financial stress and so improve recoveries and retain business. This can improve the overall risk-adjusted return on the portfolio even if the loss rate increases. After allowing for this effect, HI generated a risk-adjusted return on the other unsecured portfolio of 7.42% in the September quarter of 2001. This is comparable with the 7.97% generated in 1996 and with the firm's overall risk-adjusted return on interest-earning assets of 7.72%. From the numbers alone, we cannot draw a definitive conclusion about whether the benefits of the recency policy offset the increased loss ratio. The critical question, then, is whether management has the credit culture and internal controls to ensure that accounts where there is no realistic prospect of payment are charged-off in a timely fashion regardless of whether the recency policy would allow them to be maintained as delinquent. We have general confidence in the control and credit environment at HI but are looking for management to provide assurance on this specific issue in up-coming investor meetings.

HI extended the contractual delinquency period for auto loans from 120 days to 150 days in the December quarter of 1997. The 150-day policy is less conservative than the 120-days at AmeriCredit and this is reflected in the different net loss ratios of the two firms in the September quarter of 2001 – HI at 4.8% and ACF at 3.8% (***Exhibit 3***). Again, the economic advantage of the less conservative policy is to provide management with greater flexibility to work with troubled borrowers so that the increase in the loss ratio is offset by improved recoveries and account retention. However, we are looking to management to provide assurance that credit discipline is being maintained despite rapid growth in the auto loan portfolio (***Exhibit 4***). In particular, we hope management will provide disclosure on the inventory of repossessed cars so that we can determine that the loss rate is not being depressed by holding cars rather than selling them.

<u>The Other Unsecured Loan Portfolio</u>

Given concerns about the other unsecured loan portfolio, and particularly the personal home loan component, we provide below a brief description of the business. At $17.6 billion, the portfolio represents approximately 18% of total managed loans of $95 billion. It comprises branch based non-real estate loans, personal home loans, international loans, and a loan program tied to HI's "Union Privilege" relationship with trades union (***Exhibit 5***). Of these portfolios, branch based non-real estate is the largest at $9.8 billion. An important component of this sub-portfolio is the direct mailing of loan checks to prospective customers particularly home owners. Customers cashing loan checks are called

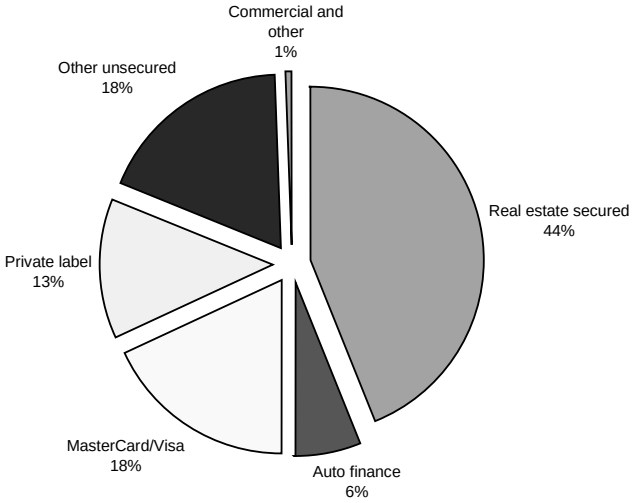
within 60 days to broaden the relationship and begin with the hope of cross-selling other HI loan products including home equity loans.

The personal home loan ("PHL") portfolio of $4.6 billion is the fastest growing component of other unsecured loans in part because the product is cross-sold to HI's real estate secured customers qualifying under debt-to-income eligibility criteria. Unlike real estate secured loans which allow a cash out of up to 100% of home value (although the LTV ratio can be higher after financing, for example, insurance and closing costs – ***Exhibit 6***), personal home loans allow cash-out of over 100% of home value. Furthermore, the personal home loans involve a "drive-by" appraisal of the home rather than the more rigorous underwriting standard for real estate secured loans (***Exhibit 7***). The average size of a personal home loan is $15,000 versus $150,000 for mortgages and, because of their small size, it rarely makes economic sense for HI to incur the costs of foreclosing if a borrower defaults on a personal home loan. Finally, personal home loans are typically check-accessed revolving lines of credit rather than the closed end loans used to refinance other debt, particularly credit card and auto loans, which comprise the real estate secured portfolio.

The business case for PHL is that the net write off rate is 40-50% less than that for unsecured personal loans because over half of PHL customers re-affirm their PHL's in bankruptcy. As a result, HI is able to offer an interest rate on PHL's of 19.9% through 21.9% versus the mid 20s for unsecured personal loans. Given that approximately one third of HI's real estate secured customers have PHLs, it is fair to ask whether the first mortgage performs worse after a PHL is extended and the customers total debt burden increases. HI insists they see no deterioration in the first mortgage for customers with PHLs. While this may sound counter-intuitive, there are two supporting reasons. First, HI is selective about the customers who qualify for a PHL with an underwriting process that focuses on debt-to-income criteria. Second, HI argues that qualifying customers are likely to obtain a PHL from a competitor if HI does not fill their needs and it is better for HI, as the holder of the first mortgage, to maintain the entire book of business. The first mortgage and PHL are not accounted for as a single high LTV loan because they do not get priced, underwritten, or documented that way, and they do not behave that way. The first mortgage is unaffected by the PHL. And the PHL for a real estate secured customer behaves the same as a PHL behind a competitor's first mortgage.

Exhibit 1: HI Loan Portfolio Mix

Current (Q3'01) HI Managed Loan Portfolio Mix



Source: Company reports

Exhibit 2: Delinquency Rates and Net Charge-off Rates

Consumer 2-Month-and-Over Contractual Delinquency Ratios

	1996	2000	Annualized % change	Q3 01
Real Estate Secured	3.04%	2.63%	-4%	2.74%
Auto Finance*	2.09%	2.55%	7%	2.54%
Mastercard/Visa	2.73%	3.49%	6%	3.91%
Private Label	4.60%	5.48%	4%	5.88%
Other Unsecured	6.21%	7.97%	6%	8.51%
Total Consumer	3.92%	4.20%	2%	4.43%

Consumer Net Charge-off Ratios

	1996	2000	Annualized % change	Q3 01
Real Estate Secured	0.60%	0.45%	-7%	0.52%
Auto Finance*	4.60%	4.80%	1%	4.84%
Mastercard/Visa	4.54%	5.58%	5%	6.75%
Private Label	3.42%	5.35%	12%	5.13%
Other Unsecured	4.29%	6.97%	13%	7.00%
Total Consumer	2.96%	3.64%	5%	3.74%

Period Managed Receivables

($bn)	1996	2000	Annualized % change	Q3 01
Real Estate Secured	16.2	36.6	23%	41.9
Auto Finance*	0.9	4.6	73%	5.9
Mastercard/Visa	19.5	17.6	-3%	17.3
Private Label	10.3	12.0	4%	12.4
Other Unsecured	11.6	16.2	9%	17.6
Commercial and other	1.8	0.6	-24%	0.5

* Prior to the acquisition of ACC in the fourth quarter of 1997, credit quality statistics for auto finance receivables were not significant and were included in other unsecured receivables. For comparison, 1997 Auto Finance data has been used.

Source: Company reports

Exhibit 3: Loss Ratio Comparison vs. AmeriCredit

Delinquency	Quarter ending:	
	Dec-97	Sep-01
AmeriCredit	3.6%	3.1%
HI	2.1%	2.5%
Net Charge-offs		
	Dec-97	Sep-01
AmeriCredit	5.5%	3.8%
HI	5.3%	4.8%

Source: Company reports

Exhibit 4: Portfolio Growth in Managed Receivables

($bn)	YoY %	Q3 01	Q2 01	Q1 01	Q4 00	Q3 00
Real estate secured	18.8%	41.9	39.8	38.0	36.6	35.3
Auto finance	35.6%	5.9	5.2	4.8	4.6	4.3
MasterCard/Visa	5.7%	17.3	17.0	16.6	17.6	16.4
Private label	9.8%	12.4	12.0	11.9	12.0	11.3
Other unsecured	13.5%	17.6	17.0	16.5	16.2	15.5
Commercial and other	-17.0%	0.5	0.6	0.6	0.6	0.6

Source: Company reports

Exhibit 5: Composition Of Other Unsecured Portfolio

($bn)	Dec-96	Sep-01	Growth
Branch Based Non Real Estate	6.9	9.8	8%
Personal Home Loans	1.2	4.6	33%
International	1.8	2.6	8%
Union Privilege Loan Program	1.7	0.6	-20%
	11.6	17.6	9%

Exhibit 6: Distribution of Home Equity Loans by LTV Ratio

Original Combined LTV Ratio (%)	Number of Loans	Aggregate Principal Balance ($mm)	% of Total Balance
0-30%	98	2.7	0.3%
30-40%	102	3.7	0.4%
40-50%	144	6.8	0.8%
50-60%	199	10.4	1.2%
60-70%	310	17.8	2.1%
70-80%	602	36.2	4.3%
80-90%	1,042	79.1	9.4%
90-100%	1,798	146.9	17.4%
100-110%	4,306	428.4	50.8%
110-115%	939	111.7	13.2%
Total	9,540	843.8	100%

Source: Prospectus Supplement for Closed-End Home Equity Loan Asset-Backed Certificates, Series 2001-2

Exhibit 7: HI Underwriting Standards for Home Equity Loans

Typical Items Included in HI Loan Application Review:
- Independent credit bureau report
- Verification of senior mortgage balance and payment history
- Verification of employment and income
- Title search on all liens
- Appraisal of property, with comparable property sales data

Typical Guidelines:
- Borrower debt-to-income ratio of 45% or less
- In limited cases, up to 60% ratio based on compensating factors

Source: Prospectus Supplement for Closed-End Home Equity Loan Asset-Backed Certificates, Series 2001-2

Exhibit L

BERNSTEIN RESEARCH CALL
U.S. CONSUMER FINANCE

SEE LAST PAGE OF THIS REPORT FOR IMPORTANT DISCLOSURES

SEPTEMBER 3, 2002

HI | Cutting Long-Run Growth Estimates on Impact of Sales Practice Reform in Branch-Based Real Estate Lending

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Ticker	Rating	8/30/02 Price	Absolute YTD Perf.	Relative YTD Perf.	2001A	SCB Estimates 2002E	SCB Estimates 2003E	Consensus 2002E	Consensus 2003E	SCB P/E 2002E	SCB P/E 2003E
HI	M	$36	-38%	-17%	$3.91	$4.48	$4.96	$4.57	$5.14	8.1	7.3
HI (old)					$4.08	$4.63	$5.36				
SPX		$916	-20%		$45.16	$50.00	$57.00	$48.81	$56.48	18.3	16.1

O – Outperform, M – Market-Perform, U – Underperform

Summary Table of Changes to EPS Estimates

	Original	After Accounting Adjustment* and Suspension of Stock Buyback	After Sales Practices Reform Adjustment	Consensus
2001A	4.08	3.91	na	na
2002E	4.63	4.51	4.48	4.57
2003E	5.36	5.14	4.96	5.14
5-Yr Forward EPS Growth (%)	13%	13%	10%	na

* - Refers to restatement of accounts related to co-branding and affinity credit relationships, and a third-party marketing agreement, as announced on August 14th..

- **The report of the Washington State Department of Financial Institutions (DFI) – made public by the media on Wednesday last week – indicates that confusing sales practices in the Household branch system are more widespread than a few renegade loan officers, and quite possibly systemic. The effect on earnings growth as Household responds to regulatory pressure for sales practice reform will be commensurate.**

- **Specifically, we believe that <u>as sales practice reform takes hold Household will need to reset its long-run EPS growth target of 13-15% to 10-12%</u> (with an intra-range swing factor being the stock buyback program that is presently on hold). The short-run effect is less because the earnings impact of the changes phases over time as current loans run-off and are replaced by new, less profitable loans originated under reformed sales practices.**
  - <u>The estimated impact of sales practice reform on 2002 and 2003 EPS estimates is 3 cents and 18 cents respectively</u>. The combined effect of this, the suspension of the stock buyback program, and the accounting restatement (related to the amortization of certain marketing expenses) announced by Household on August 14th is 15 cents and 40 cents respectively.

- **Reduced earnings growth arises as after-tax returns on the branch real estate portfolio fall over time from the currently estimated 2.5% to 1.9%. Driving factors are lower up-front points, reform of practices involving the misrepresentation of loan rates, and the elimination of single-premium credit life insurance. Sales practice reform will also tend to slow growth in the branch real estate portfolio (by about 3 percentage points in our estimates to a long-run rate of 10%[1]) for two reasons:**

[1] Currently, this portfolio is growing at near 20% on an annualized basis but this is boosted by the current refinancing cycle and is not a normalized growth rate.

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- First, the practice of up-selling – restructuring the entire mortgage debt of a customer looking only for a "top-up" home loan to refinance credit card and other unsecured debt – will become more difficult under tougher regulatory scrutiny and higher company hurdles for customer net tangible benefit. Second, it is impractical for Household to offer loans at the 7% rates that representatives promise to induce refinancing by borrowers with prime bank mortgages, and this business will be foregone.

- **Given this reduced growth rate, and the risk of a more serious breakdown in the real estate secured portfolio, we are lowering our target relative multiple to 50% from 57% (the 5-year historical average of 57%). This compares with a trough relative multiple of around 40% at a time of sector funding concerns in 1998, and reduces the absolute target multiple to 8.1x from 9.3x. The corresponding stock price is $40.**
  - In generating the $40 price, we have not included in our earnings impact the potential costs of settlement with the Attorneys General and consumer advocacy groups or of putative class action complaints. In addition, there is a risk that funding spreads will remain unattractive for an extended period so that Household eventually has to issue high-cost liabilities.

- **Finally, our assumption of a long-run growth rate of 10% for the branch-based real estate portfolio may prove a best case. Zero or even negative growth – with the portfolio shrinking and concentrating into lower quality credits under the winnowing action of adverse selection – could occur if:**
  - Household has violated Regulation Z (as the DFI alleges) through muddling required disclosures under the Truth-in-Lending Act with fictional benefits included in sales materials and, as a consequence, borrowers have rights to rescind their loans.
  - Household faces waves of prepayment as prepayment penalty periods (varying from 3-years to 5-years) expire and heightened publicity alerts customers to the high cost of their loans. The risk increases to the extent Household representatives become frustrated with a more procedural environment at the firm, leave for competitors, and cherry-pick refinancing prospects from the best credits in their left-behind Household book

Investment Conclusion

Household will likely need to abandon its target EPS growth rate of 13-15% to a range of 10-12% as a result of sales practice reform in its branch-based real estate lending business. The now-suspended stock buy-back program will be an intra-range swing factor moving the growth rate higher if it is re-activated. Sales practice reform – a necessary response to regulatory concerns with the misrepresentation by Household representatives of loan rates and other loan terms – will reduce loan profitability and growth in the portfolio. The reduction in profitability will phase in over the average life of loans (estimated at 5 years) as old loans run-off and are replaced with new, less profitable loans originated under new sales practices. We estimate the negative impact of sales practice reform on 2002 and 2003 EPS is 3 cents and 18 cents respectively.

The combined impact of sales practice reform, the suspension of the stock buyback program, and the accounting restatement announced on August 14th (and relating to the amortization period of certain marketing expenses), is an estimated 15 cents in 2002 and 40 cents in 2003. As a result, we are lowering our EPS estimate for 2002 to $4.48 from $4.63 (versus consensus of $4.57) and for 2003 to $4.96 from $5.36 (versus consensus of $5.14). Given this reduced growth rate, and the risk of a more serious breakdown in the real estate secured portfolio, we are lowering our target relative multiple to 50% from 57% (the 5-year historical average of 57%). This compares with a trough relative multiple of around 40% at a time of sector funding concerns in 1998, and reduces the absolute target multiple to 8.1x from 9.3x. The corresponding stock price is $40.

Our EPS estimates may turn out to be best case since they do include the potential costs of settlement with the Attorneys General and consumer advocacy groups or of putative class action complaints. In addition, there is a risk that funding spreads will remain unattractive for an extended period so that Household eventually has to issue high-cost liabilities. Finally, we assume there is an orderly reduction in the growth of the branch-based real estate portfolio from the current rate of approximately 20% to our estimated 10% as sales practice reform takes hold.

In practice, there is a risk of a more serious breakdown in the branch-based real estate portfolio. Zero or even negative growth – with the portfolio shrinking and concentrating into lower quality credits under the winnowing action of adverse selection – could occur if:

- Household has violated Regulation Z (as alleged by Household's regulator in Washington State) through muddling required disclosures under the Truth-in-Lending Act with fictional benefits included in sales materials and, as a consequence, borrowers have rights to rescind their loans.
- Household faces waves of prepayment as prepayment penalty periods (varying from 3-years to 5-years) expire and heightened publicity alerts customers to the high cost of their loans. The risk increases to the extent Household representatives become frustrated with a more procedural environment at the firm, leave for competitors, and cherry-pick refinancing prospects from the best credits in their left-behind Household book.

Details

The examination into Household's branch sales practices conducted by the Department of Financial Institutions ("DFI") in Washington State suggests that borrower confusion is more widespread than the actions of a few renegade loan officers. "The sameness of complaint allegations coupled with the wide diversity of complaint locales has made it evident to the Department that misrepresentations … are not relegated to specific transactions of loan officers but rather to the HFC organization as a whole including its affiliate Beneficial".

The report also suggests that confusing sales practices extend beyond Washington State. The DFI comments that one tactic to misrepresent interest rates – referred to as "selling on an equivalent rate basis" and described below – is "known and likely fostered by the corporation itself or at the least by corporate officers overseeing large segments of the country". The DFI goes on to say "it is important to note that these complaints are documented from varied locations including other states". In addition, given the pressures on account executives to meet production targets, it would be the natural course for effective (even if questionable) sales practices to spread through the branch network.

While Household has not yet commented on the DFI report and the findings are "apparent", we do not expect a substantive change in the conclusion that "HFC practices reflect a pattern of intentional deception while laying the foundation for a later defense." The firm has had the opportunity to comment on the complaints individually before they were compiled into the report, and has been delinquent. The DFI points out that Household took an average of over 97 days to respond to complaints in 2001 versus 28 days in 2000 (and an expected response time of 15 days).

Continued changes in sales practices – either as a result of voluntary action by Household or an eventual settlement with state Attorneys General around the country – will increasingly affect Household's business model and growth potential. The specific area of focus is the branch-based real estate lending business that accounts for 52% of the earnings from the Consumer Lending division (see ***Exhibit 3*** and ***Appendix*** for derivation) that, in turn, accounts for 67% of company profits (see ***Exhibit 4***). In other words, the branch-based real estate lending business generates approximately 35% of the firm's after-tax earnings (see ***Table***).

Table Assets and Earnings by Business Segment, Q2 02

Business Segment	Managed Assets ($bn)*	ROMA (%)*	Earnings ($mm)	% of Firm Earnings
Branch Businesses:				
Real Estate	30	2.5%	191	35%
Other	15	0.6%	23	4%
Sub-Total	45	2.0%	214	39%
Credit Cards:				
Private Label	13	1.7%	59	11%
Bankcards	18	1.5%	66	12%
Sub-Total	31	1.6%	125	23%
Correspondent	19	1.6%	73	13%
Auto Finance	7	1.1%	18	3%
International	9	2.5%	56	10%
Other	20	1.1%	56	10%
Firm Total	128	1.7%	542	100%

* - All figures based on receivables except for "Other" and firm total which are based on assets (and therefore include investment portfolio and other assets); total managed receivables = $105bn.

Source: Company reports, Bernstein estimates

Impact on Profitability:

Loan returns will fall as Household reduces up-front fees, tightens compliance around misrepresentation of rates, and changes sales practices for insurance products. The effect will phase in over time as loans booked under old sales practices roll-off and are replaced by new, less profitable loans originated under new sales practices. Specifically, we believe returns on branch-originated real estate secured loans will fall from 2.5% currently to 1.9% after tax (corresponding to a reduction in pre-tax return of 1%). Given the average life of a loan is an estimated 5 years, the after-tax reduction in returns will phase in at a rate of 12 basis points per year on a lagged basis. ***Exhibit 5*** shows that the denominator effect of portfolio growth of 10% does not materially change this impact. We develop our estimate for the reduction in pre-tax returns of 1% as shown in ***Table 1***.

Table 1 Quantifying the Impact on Returns of Changing Sales Practices

Sales Practice to be Changed	Long-Run Pre-Tax Impact on Returns (basis points)
Failing to Disclose Discount Points	40
Misrepresenting Rate and Payment Amounts	40
Changing Insurance Sales Practices	20
Total	100

Source: Bernstein estimates

Up-Front Fees:

After the announced reduction in maximum up-front fees from 7¼% to 5% (made up of 2% closing costs and up to 3% of buy-down points), Household expects average up-front fees to fall from 6½% to 4½%. As an accounting matter, up-front fees are treated as “pre-paid finance charges” and amortized into earnings over the expected life of the loan, that we take as five years. Therefore, the impact of the lower up-front fees is to reduce the annual return on newly originated loans by 40 basis points. In practice, the impact could be larger since the DFI makes a deeper challenge to the fee model. Specifically, the DFI alleges that Household policy – of indicating to borrowers a highest loan rate and then providing an opportunity to “buy-down” this rate through paying up-front points – is not followed in the branches.

Rather, borrowers are not informed the trade-off between rates and points but shown a lowest loan rate to generate favorable compares with existing financing. These borrowers, if they are aware at all of the up-front points, are confused about the offsetting impact of the fees on the favorable economics shown through the sales process. "All of the borrowers questioned stated that not only did they not know that the points they were paying were used to buy down the rate, they were never offered the option or informed that the discount points paid at closing would be as high as they were".

Misrepresentation of Rates and Payments:

The DFI describes two ruses used by HFC representatives to lead borrowers to believe that rates or payments are lower than they actually are:

- *Selling on an Equivalent Rate Basis*: Household offers customers 18-year loans at, for example, 12.7% but faces a challenge in convincing a borrower with an existing bank loan at, for example, 7.5% to make the switch. Household representatives respond by claiming that their high-rate loan "pays out like" a 7% loan. The 7% is entirely fictional rate but is supported based on amortization schedules showing that it is the rate on a pretend 30-year loan generating the same total interest cost over life as the actual high-rate 18-year loan being sold (see ***Table 2***). The DFI comments that it "does not understand the purpose of making a comparison between an 18-year loan at the real rate and a 30-year loan at a pretend rate" adding that "the sole purpose of the schedule was for simple deception of the consumer".

Table 2 Lifetime Interest Cost Comparison

Loan Rate (%)	7.0%	11.7%
Maturity (Years)	30	18
Lifetime Interest Cost ($)	$139,508	$139,508
Memo: Loan Amount ($)	$100,000	$100,000

Source: Bernstein analysis

- *Confusing Semi-Monthly and Biweekly Payments*: The tactic is to tell borrowers that they can reduce their loan rate by paying biweekly rather than monthly on the grounds that more frequent payments amortize a loan faster and so reduce the lifetime interest cost (true but not relevant to the loan rate). One variation is to explain that biweekly payments reduce the loan rate because interest is calculated through the month and so grows exponentially unless you "nip it in the bud on the low side of the curve" with an intra-month payment. The DFI's observation is as follows. "When an HFC representative makes an obvious truthful statement ("the biweekly payment will reduce the amount of interest you pay") with the intent of a false promise ("therefore your interest rate will be only 7%"), the representative has lied with the truth and caused harm to the consumer."

We quantify the impact of reform of these practices by calculating what terms Household would have to offer to make the promised benefits a reality rather than a fiction. For specificity, we draw from Household sales materials where a borrower, with an existing monthly payment of $1,859, is shown a refinancing into a 30-year loan at a rate of 11.7% and monthly payment of $1,657. The promise of the sales material is monthly savings of the $202 difference. The borrower is then informed (see ***Table 3***) that by switching to a biweekly program with a $828 payment the loan term can be reduced to 18 years (and, by the "equivalent rate" deception, that the loan rate falls to 7.15%). In other words, the borrower is led to believe that by increasing the frequency of payment, it is possible to reduce both the loan maturity and the loan rate.

Table 3 Effect of Biweekly Payment Plan

Loan Amount	164,999
Standard Monthly Loan	
Loan Rate	11.7%
Maturity	30
Monthly Payment	1,657
Biweekly Loan	
Loan Rate	11.7%
Maturity	19
Biweekly Payment	828
Equivalent Monthly Payment	1,794

Source: Bernstein analysis

Of course, this is financial alchemy. The borrower has missed the trick that a payment of $828 biweekly corresponds to a monthly payment of $1,794 ($828 x 26 x 1/12). In other words, the reduced maturity arises not by paying more frequently but just by paying more (and all but eliminating the monthly savings of $202 that were the original impetus for the transaction). In ***Table 4***, we calculate that for Household to deliver the promised benefit – an 18-year loan with a $1,657 monthly payment – the loan rate must fall by 1.2% from 11.7% to 10.5%. Of course, if Household were to deliver on the promise implied by the equivalent rate deception, the loan rate actually has to fall by 4.5% to 7.15% but we view this as impractical.

Table 4 Maintaining Monthly Payment Amount

Semi Monthly Plan	
Loan Rate	10.5%
Maturity	19
Semi-Monthly	765
Equivalent Monthly Payment	1,657

Source: Bernstein analysis

Given the comparison between monthly and biweekly payments is institutionalized in Household's sales materials for the E-Z Pay Plus program (in which payments are made biweekly), we assume borrower confusion arises in, for argument's sake, one-half of cases. E-Z Pay Plus itself accounts for 70% of branch originations so (if our example is representative) Household will see a yield reduction of approximately 1.2% on approximately one-third (one-half of 70%) of all branch originations. This is equivalent to yield compression of 40 basis points on aggregate originations.

Changing Practices for Insurance Sales (and Discontinuation of Single-Premium Credit Life Insurance):

The DFI has evidence that Household representatives suggest the purchase of insurance is necessary to obtain a loan, and falsify records indicating whether borrowers have elected insurance coverage. "The Department believes that HFC representatives may have actually forged borrower signatures making it appear as if the borrowers had requested insurance when in fact they had not".

In partial response to regulator concerns, Household discontinued single-premium credit life insurance (where the single, up-front premium is financed into the loan amount) in April 2002. Now only monthly pay products (where the premium is paid monthly and is identified separately from loan service payments) are available. Given monthly pay insurance is a harder and less profitable sell (precisely because the premium cannot be bundled into the loan amount), we expect the penetration and return from insurance to decline. Currently, we estimate that premiums from the single-premium product – that amortize into earnings over the typical 5-year term of the insurance – contribute 40

basis points of return to the branch-based real estate portfolio net of policy holder benefits (see ***Exhibit 6***). For illustrative purposes, we assume this falls by one-half as only the monthly-pay product is offered.

Impact on Loan Growth

In addition to the reduction in returns, sales practice reform at Household will tend to reduce growth in the branch-based real estate secured portfolio – by 3 percentage points to a long-run rate of 10% in our estimates (see ***Exhibit 1***) -- as sales practice reform takes hold. Note that the portfolio is currently growing at near 20% (see ***Table 5***) but this rate is boosted by the present refinancing cycle and is not a normalized number.

Table 5 Est. Growth in Branch-Based Businesses

Ending Balances ($bn)	2001	Q1 02	Q2 02	H1 02 Ann. Growth
Real Estate Secured				
Correspondent*	18	19	19	9%
Branch-originated	27	27	30	23%
Total	45	46	49	19%

* - Excludes approximately $1bn in correspondent loans sold in Q2 02.

Source: Company reports, Bernstein estimates

Two of the principal sales practice reforms will be around misrepresenting interest rates through use of a fictional "equivalent rate" bearing no relation to the actual loan rate, and up-selling customers into bigger loans than necessary to meet their objectives:

- *Selling on an Equivalent Rate Basis*: The equivalent rate deception has allowed Household to refinance customers with first mortgages at bank rates. Since it is impractical for Household to actually offer the 7% rates promised by the equivalent rate approach, business from confused bank borrowers will be foregone. The economics do not even work on a "blended rate" basis. For example, if a bank customer has a $100,000 mortgage at 8% and $25,000 of unsecured debt, the rate on this unsecured debt must be over 20% for the borrower to breakeven on a refinancing into a Household mortgage at 11% (and that is without any points).

- *Up-selling*: Up-selling – where a Household representatives sells a first mortgage refinancing to a customer whose objective is a second mortgage to refinance unsecured debt – will become more difficult under heightened regulatory scrutiny. The DFI reports on what must have been a somewhat alarming encounter when an examiner mystery-shopped at the Lakewood branch for a $40,000 loan. "Had the examiner been an untrained consumer rather than a mortgage enforcement specialist … the result may have been an unfavorable $100,000 transaction with HFC".

Dangers of Loan Rescission and Adverse Selection

In practice, our assumption of 10% portfolio growth may prove a best case. It is possible that the portfolio ceases to grow, or even shrinks, as heightened publicity around sales practices deters new customers and leads existing customers to consider their options including prepayment and even rescission. The risk increases to the extent Household representatives become frustrated with a more procedural environment at the firm, leave for competitors, and cherry-pick refinancing prospects from the best credits in their left-behind Household book.

- Prepayments: Household has created barriers to prepayment through prepayment penalties and through using second mortgages (including personal home loans struck at loan-to-value ratios of over 100%) to lever up

borrowers and so immunize them from competitive refinancing. Both these barriers are decreasing as Household reduces the period for prepayment penalties from 5 years to 3 years, and discontinues personal home loans. They are likely to fall further under pressure from politicians frustrated that, unlike bank customers, Household customers have not been able to refinance into lower rate loans in the current interest rate environment.

- Rescission: The DFI makes the observation that by muddling sales materials indicating fictional benefits with disclosures required under the Truth-in-Lending (TIL) Act, Household has apparently violated Regulation Z of the Federal Reserve Board. "Inclusion of certain material TIL disclosures on the E-Z Pay Plus disclosure is a deceptive practice in violation of Regulation Z". The DFI also comments that, under Regulation Z, if the required "disclosures are not delivered, the right to rescind shall expire three years after the occurrence giving rise to the right of rescission…. It is apparent to the Department that the borrower's right to rescind is still in effect at this time".

The danger is of adverse selection as borrowers with bank-financing alternatives cease to refinance with Household or, if they have already done so, refinance away as soon as prepayment penalties expire or they are able to rescind their loans. In a worst case, the portfolio will shrink and concentrate in higher-risk credits leading the loss ratio to rise from the current 0.9% towards the levels of 1.3-1.5%[2] more typical of sub-prime home equity lending or higher.

Risks to Analysis

The risk to our analysis is that Household can simply compensate for reduced up-front fees by increasing loan rates, and that there is little impact on loan demand because customers truly have limited financing alternatives. In this event, our reduction of EPS estimates and growth projections is overdone. Furthermore, if Household can reach a national agreement with State AGs by year-end including a manageable fine (say several hundred million) and an encore of previous "best practice" commitments, the stock will likely rally beyond our target price. However, we believe this is unlikely:

- HFC representatives have developed confusing sales practices precisely because loan demand is sensitive to borrowers' perceptions of the loan rate. If these perceptions are brought in line with reality (as a result of better disclosure) and the real rates become less favorable (as Household looks to offset lower points) there will be a material impact on demand.
  - Furthermore, customers do have a financing alternative – they can choose to continue with their existing financing arrangements and not to refinance with Household. If a customer truly has no alternative but to finance through you, the business is probably low quality.
- National agreement with state AGs will be difficult given the conflicting objectives of the participants, and the political and regulatory pressures that will likely be brought to bear as Household's sales approaches become widely known.
- Even if a national agreement is reached, a commitment by Household to more "best practices" is unlikely to be sufficient given the DFI's challenge to Household's credibility and the evidence of complaint volume.
  - *DFI Challenge to Management Credibility*. "In early complaints the Department gave HFC the benefit of the doubt in consumer claims and relied on HFC's adamant claims that no deception or misrepresentation had occurred. …These claims of no harm and no foul, however, began to ring hollow as more and more consumers continued to complain of the same practices."
  - *Complaint Volume*. ***Table 6*** shows that complaint volume has accelerated in 2001 and 2002 despite the promulgation of two sets of best practices in July 2001 and February 2002. The DFI comments that

[2] Bank One reports a loss ratio of 1.37% on its sub-prime home equity lending portfolio.

Household's "complaint activity relative to its peers is disproportionate, and a large increase in the last two years is a cause for concern".

- As a result, it is likely that any settlement in principle will be accompanied by on-site auditing of compliance procedures by an independent entity. Aside from the operational inconvenience, this will tend to eliminate any execution arbitrage effected by Household between corporate policy and branch practice.

Table 6 Washington State Complaint Volume History

Year	Number of Complaints
1995	1
1996	5
1997	12
1998	12
1999	8
2000	17
2001	22
2002 (annualized)*	60
Total	137

* - 15 through Q1 2002.

Source: WA DFI Report, as published in *Bellingham Herald*

Exhibit 1 Adjusting Earnings Estimates for Sales Practice Reform

Base Scenario	2000	2001	2002	2003	2004	2005	2006	2007	H1 02*	H2 02E*
Branch-Based RE Lending:										
YoY Growth in Loans (%)	-	21%	19%	16%	13%	13%	13%	13%	25%	12%
PE Loans	22.0	26.6	31.6	36.5	41.4	46.6	52.4	59.0	30.0	31.6
Avg Loans	-	24.3	29.1	34.1	39.0	44.0	49.5	55.7	28.3	30.8
ROA (%)	-	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Earnings ($mm)		619	716	834	958	1100	1243	1405	347	369
Total HI Earnings ($mm)	1631	1848	2098	2389	2707	3067	3456	3894	998	1100
- Earnings Growth (%)		13%	14%	14%	13%	13%	13%	13%	20%	8%
Shares Outstanding (mm)	476	468	462	462	462	462	462	462	462	462
Shares Outstanding (YoY Growth)	-1.2%	-1.7%	-1.4%	0.0%	0.0%	0.0%	0.0%	0.0%		
Total EPS ($)	$3.40	$3.91	$4.51	$5.14	$5.83	$6.61	$7.45	$8.40	$2.11	$2.40
- EPS Growth (%)	15%	15%	15%	14%	13%	13%	13%	13%	21%	11%

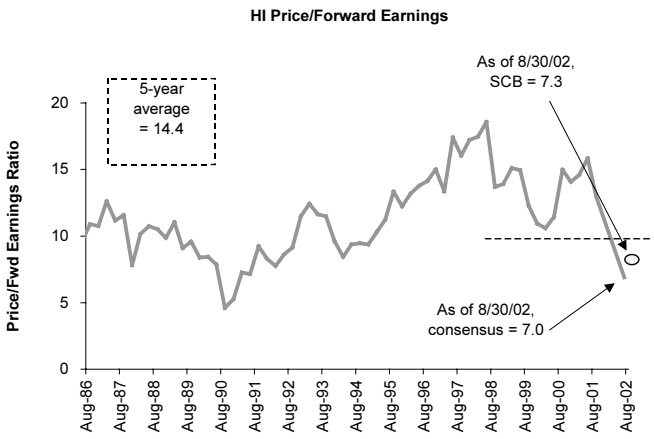
Adjusted Scenario	2000	2001	2002	2003	2004	2005	2006	2007	H1 02*	H2 02E*
Branch-Based RE Lending:										
YoY Growth in Loans (%)	-	21%	17%	14%	10%	10%	10%	10%	25%	8%
PE Loans	22.0	26.6	31.1	35.5	39.1	43.0	47.3	52.0	30.0	31.1
Avg Loans	-	24.3	28.9	33.3	37.3	41.0	45.1	49.6	28.3	30.6
ROA (%)	-	2.5%	2.4%	2.2%	2.1%	2.0%	2.0%	1.9%	2.5%	2.5%
Earnings ($mm)		619	702	733	787	839	898	937	347	355
Total HI Earnings ($mm)	1631	1848	2084	2288	2536	2806	3112	3427	998	1086
- Earnings Growth (%)		13%	13%	10%	11%	11%	11%	10%	20%	7%
Shares Outstanding (mm)	476	468	462	462	462	462	462	462	462	462
Shares Outstanding (YoY Growth)	-1.2%	-1.7%	-1.4%	0.0%	0.0%	0.0%	0.0%	0.0%		
Total EPS ($)	$3.40	$3.91	$4.48	$4.96	$5.49	$6.08	$6.74	$7.42	$2.11	$2.40
- EPS Growth (%)	15%	15%	14%	11%	11%	11%	11%	10%	21%	11%

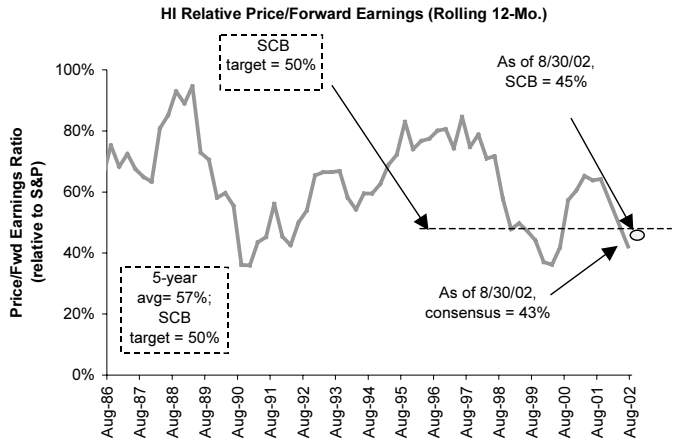
Memo:	2000	2001	2002	2003	2004	2005	2006	2007	H1 02	H2 02E
Other Businesses' Earnings ($mm)	1081	1228	1382	1554	1749	1967	2213	2490	651	730
- YoY Growth (%)	-	14%	13%	13%	13%	13%	13%	13%	13%	12%

* - Loan growth rates for half-year periods are annualized.

Source: Company reports, Bernstein estimates

Exhibit 2 HI Valuation





	Current Price	2002 Consensus	P/FE
HI	$36	$4.57	7.9
SPX	$916	$49.69	18.4
Relative P/FE:	43%		

	Current Price	2003 Consensus	P/FE
HI	$36	$5.14	7.0
SPX	$916	$56.13	16.3
Relative P/FE:	43%		

Source: FactSet, Bernstein estimates

Exhibit 3 Breakout of Consumer Lending Segment

	Branch-Based Real Estate	Branch-Based Other	Branch-Based Total	Correspondent	Private Label Cards	Auto Finance	Total
Net Income ($mm)	191	23	214	73	59	18	364
Managed Receivables ($bn)*	30.0	14.9	44.9	19	13	7	84
ROML (%)	2.5%	0.6%	2.0%	1.6%	1.7%	1.1%	1.8%
Sub-Segment Economics							
Weighted Average APR (%)	11%	19%	13%	10%	12%	16%	13%
Cost of Funds (%)	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
NIM (%)	6.5%	14.1%	9.0%	5.6%	7.6%	11.6%	8.4%
Loss Ratios (%)	0.8%	8.6%	3.4%	1.1%	5.4%	6.2%	3.4%
Provision Expense (%)	1.0%	10.3%	4.1%	1.3%	6.4%	7.4%	4.1%
Lending Margin (%)	5.5%	3.8%	4.9%	4.2%	1.1%	4.1%	4.3%
Noninterest Revenue (%)	1.8%	0.6%	1.4%	0.0%	3.1%	1.5%	1.3%
Operating Expense (%)	3.4%	3.4%	3.4%	1.9%	1.6%	4.0%	2.9%
Pre-Tax Income (%)	3.8%	0.9%	2.9%	2.3%	2.6%	1.6%	2.6%
After-Tax Income (%)	2.5%	0.6%	2.0%	1.6%	1.7%	1.1%	1.8%
ROE**	32%	8%	24%	19%	22%	13%	22%

* - Correspondent loans of $19 billion are based on management disclosure in August 14th conference call; private label, branch-based other, and auto finance managed receivables are from Q2 02 earnings release; branch-based real estate loans are netted from branch-based total. Sub-segment totals may not match exactly to reported segment total.

** - Assumes corporate-level equity-to-managed assets ratio of 8.0% across segments.

Source: Company reports, Bernstein estimates

Exhibit 4 Household Segment Disclosure, Q2 02

	Consumer	Credit Card Services	International	All Other	Total
Net Income ($mm)	364	66	56	56	542
Managed Receivables ($bn)	80	17	8	1	105
Managed Assets ($bn)	82	18	9	20	128
ROMA (%)	1.8%	1.5%	2.5%	1.1%	1.7%
Memo:					
Intersegment Revenues ($mm)	43	8	3	0	53

Source: Company report

Exhibit 5 Estimated Effect of Portfolio Growth on Returns

Returns Under 10% Growth Scenario
2001-2007E

						Avg Balances ($bn)		Pre-Tax ROA (%)			After-Tax ROA (%)		
	Beginning Balance ($bn)	Originations ($bn)	Run-Off ($bn)	Ending Balance ($bn)	Growth in End Balance (%)	Old Loans	New Loans	Old Loans	New Loans	Total (Blended)	Old Loans	New Loans	Total (Blended)
2001	22.0	6.1	-1.5	26.6	21%	21.3	3.0	3.8%	3.8%	3.8%	2.5%	2.5%	2.5%
2002	26.6	7.9	-3.4	31.1	17%	18.9	10.0	3.8%	3.3%	3.6%	2.5%	2.2%	2.4%
2003	31.1	7.8	-3.4	35.5	*14%*	15.5	17.8	3.8%	2.8%	3.3%	2.5%	1.9%	2.2%
2004	35.5	7.0	-3.4	39.1	*10%*	12.1	25.2	3.8%	2.8%	3.1%	2.5%	1.9%	2.1%
2005	39.1	7.3	-3.4	43.0	*10%*	8.7	32.3	3.8%	2.8%	3.0%	2.5%	1.9%	2.0%
2006	43.0	7.7	-3.4	47.3	*10%*	5.3	39.8	3.8%	2.8%	2.9%	2.5%	1.9%	2.0%
2007	47.3	8.1	-3.4	52.0	*10%*	1.8	47.8	3.8%	2.8%	2.8%	2.5%	1.8%	1.9%

No Material Change in Any Period

Returns Under 0% Growth Scenario
2001-2007E

						Avg Balances ($bn)		Pre-Tax ROA (%)			After-Tax ROA (%)		
	Beginning Balance ($bn)	Originations ($bn)	Run-Off ($bn)	Ending Balance ($bn)	Growth in End Balance (%)	Old Loans	New Loans	Old Loans	New Loans	Total (Blended)	Old Loans	New Loans	Total (Blended)
2001	22.0	6.1	-1.5	26.6	21%	21.3	3.0	3.8%	3.8%	3.8%	2.5%	2.5%	2.5%
2002	26.6	7.9	-4.5	31.1	17%	18.3	10.6	3.8%	3.3%	3.6%	2.5%	2.2%	2.4%
2003	31.1	3.4	-3.4	31.1	*0%*	14.4	16.8	3.8%	2.8%	3.3%	2.5%	1.9%	2.2%
2004	31.1	3.4	-3.4	31.1	*0%*	6.3	24.8	3.8%	2.8%	3.0%	2.5%	1.9%	2.0%
2005	31.1	3.4	-3.4	31.1	*0%*	0.0	31.1	3.8%	2.8%	2.8%	2.5%	1.9%	1.9%
2006	31.1	3.4	-3.4	31.1	*0%*	0.0	31.1	3.8%	2.8%	2.8%	2.5%	1.9%	1.9%
2007	31.1	3.4	-3.4	31.1	*0%*	0.0	31.1	3.8%	2.8%	2.8%	2.5%	1.9%	1.9%

Source: Company reports, Bernstein estimates

Exhibit 6 Estimated Contribution of Credit Life Insurance Revenue

	1998	1999	2000	2001	H1 02	H2 02E	2002E
Branch-Originated Volume ($bn)	5.5	6.5	7.6	6.1	3.8	4.1	7.9
Average Loan Size ($)*	100,000						
No. of Accounts Originated (000)	55	65	76	61	38	41	79
Penetration of Insurance (%)	60%						
Margin (%)	60%						
Average Premium ($)	5,000						
Premiums booked ($mm)	99	116	137	109	68	74	142
Contribution to 2002 Fees ($mm)***	20	23	27	22	14	15	28
Memo:							
YoY Growth in Branch Volume (%)	na	17%	18%	-21%	36%	25%	30%
Est. Fee Amortization Period (yrs)	5						

Total	
$mm	**% Branch Loans****
121	0.40%

* - Based on average loan size in the company's series 2002-1 home equity loan securitization (see prospectus supplement dated March 8, 2002)

** - Based on current branch-based real estate loans of $30 billion.

*** - Based on assumed amortization period of 5 years; this aligns with maximum term under which prepayment penalty is charged.

Source: Company reports, servicer reports, Bernstein estimates

Appendix: Analysis of Segment Returns

Overall Firm

Household reports on the following business segments:

- Consumer lending: This segment includes the branch-based businesses (real estate secured, personal home loans, and personal unsecured), mortgage services (i.e. correspondent lending), retail services (i.e private label cards), and auto finance. Segment receivables total approximately $80 billion, or 80% of the company-wide total.

- Credit Card Services: This consists of the $17 billion Visa/Mastercard portfolio which includes the General Motors and Union Privilege affinity programs, the Household Bank portfolio, and the Renaissance sub-prime portfolio of approximately $2 billion.

- International: This segment includes primarily Canada and UK operations, with $9 billion of Mastercard/Visa loans, real estate secured loans, and personal unsecured loans.

- All Other: This includes all other businesses including insurance services, tax refund lending, and small direct lending and commercial lending portfolios. Total receivables total just over $1 billion.

Table A1 shows the breakdown of managed receivables, net income, and return on managed receivables for these businesses for Q2 02 based on disclosures in the 10Q.

Table A1 Breakout of Consumer Lending Segment

	Consumer	Credit Card Services	International	All Other*	Total**
Net Income ($mm)	364	66	56	56	542
Managed Receivables ($bn)	80	17	8	1	105
ROML (%)	1.8%	1.6%	2.9%	20.3%	2.1%
Memo:					
Managed Assets ($bn)	82	18	9	20	128
ROMA (%)	1.8%	1.5%	2.5%	1.1%	1.7%

* - Includes investment portfolio along with small mixed loan portfolio (e.g., tax refund loans), which increases the relative ROML - we show ROMA as a counter-balance.

** - Before adjustments for intersegment revenues.

Source: Company reports

Sub-Segments of Consumer Lending

Household does not provide a full sub-segment analysis within consumer lending. However, we are able to construct estimates that calibrate to disclosures related to the normalized profitability of each business (with adjustments where necessary). Specifically, we believe that the Q2 02 after-tax return-on-loans:

- For the branch-based real estate business was approximately 2.0%. This is slightly lower than management indications of 2.2%. However, the sum of the returns indicated by management for the sub-segments is greater

than the whole and we make our adjustment here – note that this business includes both real estate secured and unsecured products (e.g., PHLs).

- For the auto business was 1.1% (lower than the run-rate of 2.0% on higher loss rates due in part to lower recovery rates in the used car after-market).
- For mortgage services was 1.6% (based on the required hurdle rate of 20% return-on-equity used to price new business and the company's current equity-to-managed assets ratio of 8%).
- For the retail services (private label) business was 1.8% (corresponding to a pre-tax return of 2.6% - this is lower than management indications of nearer 3.0% on seasonal declines in usage).

Table A2 provides the breakdown of the managed loans by sub-segment together with these estimates for the net income and returns on managed receivables.

Table A2 Breakdown of Consumer Lending Segment

	Branch-Based Real Estate	Branch-Based Other	Branch-Based Total	Correspondent	Private Label Cards	Auto Finance	Total
Net Income ($mm)	191	23	214	73	59	18	364
Managed Receivables ($bn)*	30.0	14.9	44.9	19	13	7	84
ROML (%)	2.5%	0.6%	2.0%	1.6%	1.7%	1.1%	1.8%

* - Correspondent loans of $19 billion are based on management disclosure in August 14th conference call; private label and auto finance managed receivables are from Q2 02 earnings release; branch-based receivables are based on earnings release disclosures. Our bottom-up total of $84 billion is 5% larger than the disclosed $80 billion.

Source: Company reports, Bernstein estimates

Detailed Assumptions

The detailed assumptions for the sub-segment analysis presented in ***Table A2*** are as follows:

- *Net Interest Margin*: We know the net interest margin for the consumer lending segment as a whole is 8.4% and the cost of funds for the firm is 4.4%. Assuming the consumer lending segment attracts the same cost of funds as the rest of the business (a reasonable approximation given that consumer lending is 80% of the managed portfolio), the average yield on consumer loans is therefore 13%. In addition, we have information from the company 10Ks for average yield and net interest margin on the sub-segments in 2001, 2000, and 1999 (***see Table A3***). Assuming the relative yields are unchanged in Q2 02 from 2001, we can estimate the average yields and net interest margin by sub-segment in Q2 02 for the private label, auto finance, and branch-based other ("personal non-card") portfolios. We then estimate the yield on the branch-originated real estate loans using the average of 11% on the portfolio in the most recently filed securitization prospectus. We assume a slightly lower yield of 10% on the correspondent portfolio because of the amortization of the premium at purchase that is currently 4-6 points (and so represents near 1% running over an estimated average life of 5 years – see ***Table A4***).

Table A3 Yield and Net Interest Margin History by Product

	Average Yield (%)			Net Interest Margin		
	2001	**2000**	**1999**	**2001**	**2000**	**1999**
Real Estate Secured	11.6%	12.0%	11.6%	5.7%	4.7%	5.7%
Auto Finance	17.5%	18.3%	19.0%	11.6%	11.0%	13.1%
Personal Non-Card	20.0%	20.5%	19.6%	14.1%	13.2%	13.7%
Private Label	13.5%	14.4%	13.6%	7.6%	7.1%	7.7%
HI Cost of Funds (%)	5.9%	7.3%	5.9%			

Source: Company reports, Bernstein analysis

Table A4 Estimates of Yield and NIM for Q2 02

Sub-Segment NIM Estimates	Branch-Based Real Estate	Branch-Based Other	Branch-Based Total	Correspondent	Private Label Cards	Auto Finance	Total
Weighted Average APR (%)	11%	19%	13%	10%	12%	16%	13%
Cost of Funds (%)	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
NIM (%)	6.5%	14.1%	9.0%	5.6%	7.6%	11.6%	8.4%
Memo:							
Managed Receivables ($bn)	30.0	14.9	44.9	19	13	7	84

Source: Company reports, Bernstein estimates

– *Loss Ratios*: From the 10Q, we have the Q2 02 loss ratios for the auto finance, private label, and branch-based other portfolios. We do not have loss rates for branch-based real estate secured loans versus those originated through the correspondent channel. We assume the loss ratio in the correspondent segment is 1.1% versus 0.8% for the branch portfolio to give the required average result for the real estate secured portfolio of 0.9% (as disclosed in the 10Q). Our results are summarized in ***Table A5***. On a weighted average basis, the segment loss ratio is 3.4% against reported provision expense of 4.1%. We assume the ratio of provision expense to net loss ratio for the total loan portfolio is constant across the sub-segments to develop the provision estimates shown in ***Table A5***.

Table A5 Credit Loss and Provision Estimates

Sub-Segment Credit Loss Rates	Branch-Based Real Estate	Branch-Based Other	Branch-Based Total	Correspondent	Private Label Cards	Auto Finance	Total
Loss Ratios (%)	0.8%	8.6%	3.4%	1.1%	5.4%	6.2%	3.4%
Provision Expense (%)	1.0%	10.3%	4.1%	1.3%	6.4%	7.4%	4.1%
Memo:							
Managed Receivables ($bn)	30.0	14.9	44.9	19	13	7	84

Source: Company reports, Bernstein estimates

Having completed this "horizontal" analysis for net interest margin and loss items – along with estimated sub-segment returns – we now move to a vertical analysis of each of the sub-segments to derive the remaining items: noninterest revenue and operating expenses

– Private Label Cards: As outlined above, we estimate a net interest yield of 12% for private label using the spread reported for 2001 in the 10K. ***Table A6*** presents further support of this estimate by deriving this finance charge as the blended APR of high (20%) go-to rates and teaser rates. Our estimate of noninterest revenue is 3.1% of balances, and is based on an average balance of approximately $1,200 (using 10K data that managed receivables were $11.6 billion and the number of active accounts was 9.9 million) and one $35 fee event per year per active account. We estimate the pre-tax return on managed receivables for the business at 2.6% corresponding to an after-tax return of 1.8%. Given these assumptions, operating expenses must represent 1.6% of managed receivables (corresponding to approximately $20/active account per year).

Table A6 Revenue Estimates for Private Label

Go-to APR	19.9%	Receivables Balance ($bn)	11.6
Teaser APR	0.0%	Active Accounts (mm)	9.9
% Portfolio at Teaser	40%	Balance/Active Account ($)	1172
Blended APR	11.9%	Fee Revenue (% Avg Balance)*	3.1%

* - Assumes two penalty events per year at $35 per event.

Source: Company reports, Bernstein estimates

– Auto Finance: From the securitization trust (see ***Exhibit A1***), we estimate the overall portfolio yield at 17.3% (assuming the securitized portfolio is representative of the managed portfolio). Given our estimate of the finance charge at 16%, this means fee income represents 1.3% of average balances. Fees are generated only when customers pay late or are offered extensions . We assume that Household's operating expenses are 4.0% of managed receivable (slightly above the 3.6% level reported at AmeriCredit). Together, these assumptions generate an after-tax return on loans of 1.1%. This is lower than the normalized after-tax return of nearer 2.0% (and the 2.6% return reported by AmeriCredit) but we believe this reflects recent credit challenges (particularly related to the disposal of repossessed cars) experienced at Household.

– Correspondent Lending: For real estate loans originated through correspondents, we assume no fee income since the originator retains up-front points. Premiums currently run at between 4 and 6 points and are amortized into finance income over the average life of the loan (that we estimate at 5 years). This is consistent with the yield (and net interest margin) on correspondent loans being approximately 1% less than the yield on branch loans. For total returns, we note that this is a wholesale business – with loans typically purchased in bulk – and is priced to achieve a 20% ROE or better. At the current equity-to-managed assets ratio for the company of 8%, this gives us an estimated ROMA for the business of 1.6% (see ***Exhibit A2***). This allows us to back into an estimate for operating expense of 1.9% for the business.

We now turn to the branch-based business for the remaining statement items – noninterest revenue and operating expense – and the split of each across the real estate secured and other unsecured products:

- *Noninterest revenue*. We can back out total noninterest revenue of 1.4% for the branch-based business using the segment total of 1.3% on receivables and our estimates for the other subsegments. We estimate the split of these revenues to branch-based real estate by assuming that these revenues consist entirely of amortizing fees – including both upfront "points" on mortgages and credit insurance products, and estimate the value of each as follows:
    - In ***Exhibit A3***, we estimate the upfront fees for full-year 2002 using annual origination volume data back to 1998. This assumes a five-year average life on these loans (which coincides with the outer range under which prepayment penalties are charged). Furthermore, we assume that half of new volume in the years 1998-2000 was originated in the branches, with one-third of 2001-2002 total volumes as Household has become more aggressive in the correspondent channel. We then apply an average upfront fee of 6.5% (based on management commentary) to these originations, and amortize these fees over the proceeding five-year period. For 2002, we calculate the cumulative value of these fees as $436 million, or 1.4% on the current $30 billion portfolio of managed branch-based loans.
    - In ***Exhibit A4***, we take a similar approach for credit insurance. However, we estimate these fees on an account basis. First, we estimate the number of originated loans each year using an average loan value of $100k. We then estimate the penetration rate using data disclosed in the Washington state DFI report, which presented penetration rates by branch (see ***Exhibit A5***); for conservatism, we use the average penetration rate of the bottom half of 60% and apply this uniformly to the entire period. We then estimate an average premium of $5,000 for each product sold, again using DFI report disclosures. We remove benefit costs by assuming a 60% margin, and total the estimated credit insurance net revenues per year (again, amortizing over the five-year period). Cumulating these amortized fees for 2002 gives a total for the year of $121 million, or 0.4% on the current branch-based portfolio.

The total of 1.8% in noninterest revenue margin on branch-based real estate lending implies a 0.6% noninterest margin on the other branch-based loans (given the branch-based total of 1.4% and the respective loan balances). This is in line with the lower average points charged on these loans (e.g., nearer 3 points versus 6-7 on the secured loans) and the fact that credit life insurance tends to be charged on first mortgages but not seconds.

- *Operating Expense*: On operating expense, we can back into a total of 3.4% for the branch-based business from both the horizontal approach (total consumer lending expenses net of the other sub-segment's expenses) and the vertical approach (total revenues net of pre-tax return and provision expense). This ratio is higher than the total segment ratio of 2.9% and reflects the cost of operating a large branch network. We equalize the expense across the secured and unsecured branch-based products since they share the branch infrastructure.

Exhibit A1 Auto Finance Trust Yield History

Household Automotive Trust
Series 2001-2

Month	Yield
Jul 2001	17.5%
Aug 2001	18.3%
Sep 2001	17.0%
Oct 2001	17.3%
Nov 2001	17.3%
Dec 2001	16.9%
Jan 2002	18.3%
Feb 2002	17.1%
Mar 2002	17.3%
Apr 2002	17.2%
May 2002	17.6%
Jun 2002	17.1%
Jul 2002	17.2%

Quarter	
Q3 01	17.6%
Q4 01	17.2%
Q1 02	17.6%
Q2 02	17.3%

Source: Company reports, Bernstein estimates

Exhibit A2 Estimated Returns in Correspondent Business

Hurdle Rate ROE on New Business (%)	20%
Equity/Managed Assets (%)	8%
Assumed ROMA	1.6%

Source: Company reports, Bernstein estimates

Exhibit A3 Estimated Contribution of Upfront Fee (Points) Revenue

	1998	1999	2000	2001	H1 02	H2 02E	2002E
Total Origination Volume ($bn)*	11.1	12.9	15.3	18.2	11.3	12.4	23.7
- Assumed % Through Branches	50%	50%	50%	33%	33%	33%	33%
Branch-Originated Volume ($bn)	5.5	6.5	7.6	6.1	3.8	4.1	7.9
Upfront Fees (% Loan Balance)	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Upfront Fees ($mm)	359	419	496	394	245	268	513
Contribution to 2002 Fees ($mm)***	72	84	99	79	49	54	103
Memo:							
YoY Growth in Branch Volume (%)	na	17%	18%	-21%	36%	25%	30%
Est. Fee Amortization Period (yrs)	5						

Total	
$mm	% Branch Loans**
436	1.4%

* - Based on reports from *Inside B&C Lending*.

** - Based on current branch-based real estate loans of $30 billion.

*** - Based on assumed amortization period of 5 years; this aligns with maximum term under which prepayment penalty is charged.

Source: Company reports, Bernstein estimates

Exhibit A4 Estimated Contribution of Credit Life Insurance Revenue

	1998	1999	2000	2001	H1 02	H2 02E	2002E
Branch-Originated Volume ($bn)	5.5	6.5	7.6	6.1	3.8	4.1	7.9
Average Loan Size ($)*	100,000						
No. of Accounts Originated (000)	55	65	76	61	38	41	79
Penetration of Insurance (%)	60%						
Margin (%)	60%						
Average Premium ($)	5,000						
Premiums booked ($mm)	99	116	137	109	68	74	142
Contribution to 2002 Fees ($mm)***	20	23	27	22	14	15	28
Memo:							
YoY Growth in Branch Volume (%)	na	17%	18%	-21%	36%	25%	30%
Est. Fee Amortization Period (yrs)	5						

Total	
$mm	% Branch Loans**
121	0.40%

* - Based on average loan size in the company's series 2002-1 home equity loan securitization (see prospectus supplement dated March 8, 2002)

** - Based on current branch-based real estate loans of $30 billion.

*** - Based on assumed amortization period of 5 years; this aligns with maximum term under which prepayment penalty is charged.

Source: Company reports, servicer reports, Bernstein estimates

Exhibit A5 Estimated Credit Life Insurance Penetration

WA Branch	Penetration of Credit Life (% Loans)
McLoughlin	100%
Federal Way	94%
Bellingham	92%
Burien	89%
Yakima	75%
Seattle	75%
Kennewick	74%
Tacoma	74%
Lynnwood	71%
Parkway	69%
Puyallup	61%
Renton	61%
Vancouver	60%
Bellevue	58%
Lakewood	56%
Edmonds	53%
Olympia	44%
Everett	37%
Average	69%
Median	70%
Bottom Half Average	60%

Source: WA DFI report

DISCLOSURES

- **Bernstein analysts are compensated based on aggregate contributions to the research franchise as measured by account penetration, productivity, and proactivity of investment ideas. No analysts are compensated based on performance in, or contributions to, generating investment banking revenues.**

- **Bernstein rates stocks based on forecasts of relative performance for the next 6-12 months versus the S&P 500 for US listed stocks and versus the MSCI Pan Europe Index for stocks listed on the European exchanges--unless otherwise specified. We have three categories of ratings:**

  Outperform: Stock will outpace the market index by more than 15p.p. in the year ahead

  Market perform: Stock will perform in-line with the market index to within +/- 15p.p. in the year ahead

  Underperform: Stock will trail the performance of the market index by more than 15p.p. in the year ahead

- **Bernstein currently makes, or plans to make, a market in securities covered in this report. A complete list of stocks in which Bernstein makes markets can be found on our public website at:** www.bernsteinresearch.com**.**

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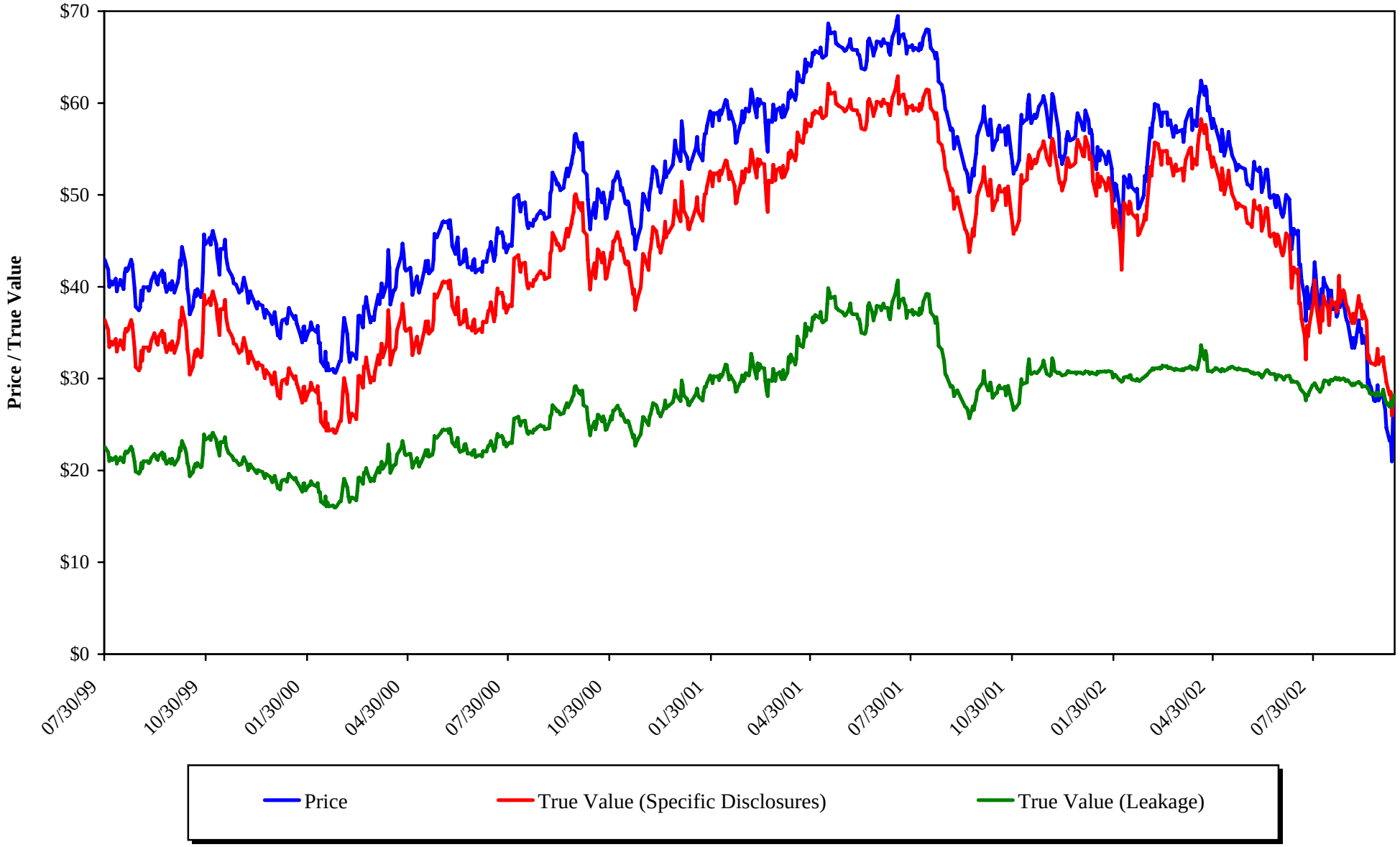
Exhibit M

Household International, Inc. Common Stock Price and True Values for Quantification Using Specific Disclosures and for Quantification Including Leakage After Accounting for Dr. Bajaj's Consumer Finance Index
July 30, 1999 - October 11, 2002



Sources: Center for Research in Security Prices; SunGard Data Management Solutions; Bajaj Report Exhibit 8.

Exhibit N

10:50am EST 11-Dec-01 Legg Mason (Sochol, David(410)454-4546) HI HI.N
HI: Downgrading Rating to Market Performance

Legg Mason Wood Walker, Inc.
Household International, Inc.

Company Note
December 11, 2001
RATING: M/2
PR RATING: RS/1

NYSE:HI

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(410) 454-5505

Downgrading Rating to Market Performance

FUNDAMENTALS

Price (12/11/01)	$57.60
S&P 500 Index (12/11/01)	1,140
52-Week Range	70-48
Shares Out(MM)	467.7
Float Outstanding(MM)	461.1
Market Cap(MM)	$26,939.5
Enterprise Value(MM)	$26,939.
Avg Daily Vol(3mo)	2,921,06
Projected 3Yr. CAGR	15.4%
Debt/Total Cap.	0.00%
Net Cash/Share	$0.00
Dividend	$0.88
Yield	1.5%
Book Value/Share	$18.59
Target Price	NA

FY End Dec	2000	2001	2002
Revenue(MM)	$9,167.5	$10,738.	$12,289.4
EPS			
Q1	$0.78A	$0.91A	$1.03E
Q2	$0.80A	$0.93A	$1.07E
Q3	$0.94A	$1.07A	$1.24E
Q4	$1.03A	$1.17E	$1.36E
Fiscal Year	$3.55A	$4.08E	$4.70E
P/E	16.2x	14.1x	12.3x

Price is intraday 12/11/01.

Key Points

* Having completed our review, following the suspension of our investment rating on the shares last week, we are concerned that HI's asset quality policies understate the true level of portfolio delinquency and charge-offs, and thus make it difficult to interpret the company's financial performance.
* The company's surprisingly lenient asset quality policies and the wide variation in how these policies are implemented among HI's five major business lines (partial payments, delinquencies, reaging, rewrites, nonaccruals, charge-offs, BK-related losses) makes us question the company's impressive performance of solid earnings growth and stable asset quality and lowers our confidence going forward.
* With an aggressive, fairly easy and, in some cases, automatic reaging policy, in which delinquent loans are brought current by simply making the next payment, the reported contractual delinquency statistics would appear to have little meaning since, according to the company and as we understand it, the reaging brings the loan current and wipes out any contractual delinquency.
* Thus, how should we interpret HI's two-month-and-over delinquency statistics or charge-off ratios or loan loss reserve adequacy when an unsecured loan can be reaged and thus brought current three times in a single year (once every four months) with no fee, no penalty and no catchup or even partial payment required; or when a bankrupt account is not written off for anywhere from 2 months to 7 months depending on the business line; or when a

charged-off loan is affirmed, rewritten and actually booked as a loan and as a recovery, lowering charge-offs; or other unsecured loans are generally not charged off until 12 months delinquency despite having an 80% roll rate at 6 months delinquent; or in private label where twice a year delinquent accounts are automatically restructured (made current) after one full payment.
* Reaging and rewriting loans is not uncommon in the nonprime consumer finance world, but HI is far more aggressive than we had realized or believe is appropriate. In addition, having reviewed the policies of CitiFinancial, American General and Wells Fargo Finance, we believe that HI is substantially more aggressive than these firms as well.
* Without more data on the magnitude and performance of the reaged portfolios and the rewritten portfolios by line of business (loans that at present are reported as current despite having missed payments in the past), we find it difficult to assess HI's real performance.
* Since we don't know what loans we should be concerned about or how these loans perform post-reaging, we cannot even guess at the size of the restructuring charge required to "true-up" the portfolio (essentially accelerating the loss recognition) in order to make HI's asset quality policies more conservative and more in line with its peers.
* The lack of relevant information available on HI's portfolio quality (reaging, rewrites), and the aggressiveness of and the wide variation in its asset quality policies, restrict our ability to interpret HI's financial performance. This undercuts our investment thesis of strong, high-quality results driving meaningful P/E multiple expansion.
* Accordingly, we are lowering our rating to Market Performance and increasing our risk rating to Average from Low. We would need to see improved disclosures as well as the implementation of more conservative asset quality policies before becoming more positive on the stock again, all else being equal.

Summary

Additional Information Available Upon Request.

Investment Rating: SB-Strong Buy; B-Buy; M-Market Performance; U-Underperform
Risk Rating: 1- Low; 2-Average; 3- Above-Average; 4-Speculative

The information contained herein has been prepared from sources believed reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. No investments or services mentioned are available in the European Economic Area to private customers or to anyone in Canada other than a Designated Institution. From time to time, Legg Mason Wood Walker, Inc. and/or its employees involved in the preparation or the issuance of the communication may have positions in the securities or options of the recommended issuer.
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Exhibit O

01:15pm EST 11-Dec-01 Legg Mason (Sochol, David(410)454-4546) HI HI.N
HI: Downgrading Rating to Market Performance; Part 2

Legg Mason Wood Walker, Inc.

Household International, Inc.

Company Note
December 11, 2001
RATING: M/2
PR RATING: RS/1

NYSE:HI

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Downgrading Rating to Market Performance; Part 2

FUNDAMENTALS

Price (12/11/01)	$57.60
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Market Cap(MM)	$26,939.5
Enterprise Value(MM)	$26,939.
Avg Daily Vol(3mo)	2,921,06
Projected 3Yr. CAGR	15.4%
Debt/Total Cap.	0.00%
Net Cash/Share	$0.00
Dividend	$0.88
Yield	1.5%
Book Value/Share	$18.59
Target Price	NA

Price is intraday 12/11/01.

FY End Dec	2000	2001	2002
Revenue(MM)	$9,167.5	$10,738.	$12,289.4
EPS			
Q1	$0.78A	$0.91A	$1.03E
Q2	$0.80A	$0.93A	$1.07E
Q3	$0.94A	$1.07A	$1.24E
Q4	$1.03A	$1.17E	$1.36E
Fiscal Year	$3.55A	$4.08E	$4.70E
P/E	16.2x	14.1x	12.3x

Key Points

Last week, we suspended our investment rating of Strong Buy on the shares of Household International based on the serious allegations made and questions raised in the Barron's and Business Week articles. Since then our goal had been to try to determine (i) if the risks raised are indeed real, (ii) how aggressive are the company's restructuring policies and is this a concern and relevant to the investment case or simply reflective of its customer base and thus supportive of the franchise, and (iii) if we could size the one-time restructuring charge necessary to "uniform" the policies and make their application more consistent across business lines, or better yet, bring them in compliance with the FFIEC.

After further investigation, we are more concerned that HI's accounting policies, as they relate to asset quality, understate the true level of portfolio delinquency and charge-offs, and thus make it difficult to interpret the company's financial results and performance. HI points to its impressive record of growth, profitability, stable asset quality, and absence of frequent large restructuring charges (other than for the Beneficial acquisition), particularly relative to commercial banks. However, we believe the company's lenient and aggressive asset quality policies and the wide variation in how these policies are implemented among HI's five major business lines call this record into question. Essentially, the restructuring

occurs behind the scenes, quietly, without disclosure, as the company reages and rewrites the portfolio on a loan-by-loan basis as part of its long-standing approach of working with its customer base as problems arise.

We have found there are significant differences by business line in how HI determines if a loan is delinquent: when, how and how often an account can be reaged (and brought current); what constitutes a full payment; when a loan goes on nonaccrual; how a loan returns to accruing status; how bankruptcy-related losses are recognized; and when a loan is charged off. We were surprised how easy it is to bring a delinquent loan current, how aggressive the reage policies are, and how easy they have become over time. We know very little about the rewrite policies, where a new loan is made to a delinquent borrower and the previous loan is paid off in the process.
As such, we are left wondering how we should interpret HI's reported asset quality statistics -- two-month-and-over delinquencies, loss ratio, reserve adequacy, etc. -- when an unsecured loan can be reaged and thus brought current three times in a single year (once every four months) with no fee, no penalty and no catch up or even partial payment required. Or that when a charged-off unsecured borrower reaffirms his debt in a payment plan with a reduced settlement, the result is a new loan being booked and the affirmation (after a provision) counts as a recovery, reducing gross charge-offs. (Under a reaffirmation, both Citifinancial and COF would only recognize a recovery as cash was received, and no loan would be booked, which is more conservative and appropriate, in our opinion.) Or a bankruptcy policy that provides different loss recognition, ranging from 2 months after notification for credit card loans, to 4 months for private label, to simply letting it roll through the delinquency buckets until mandatory charge-off is reached (at least 6 months) for the other unsecured portfolio, to 7 months for auto on non-repossessed vehicles. Charge-off policies on non-bankrupt accounts are equally broad, inconsistent, and aggressive, in our view, ranging from 6 months for credit card to 9-10 months for private label to essentially 12 months for other unsecured. While this actual practice of 12 months charge-off for other unsecured is better than the 18-19 months that the policy allows, management notes that roughly 80% of loans that are delinquent 6 months roll right through and are charged off within 12 months, suggesting that earlier loss recognition would be more appropriate.

In the end, we realize that we do not have a clue as to the size of the reaged or the rewritten portfolios, either by business line or in total. We don't know what to make of the reported delinquency statistics as they do not adequately capture those loans that have been reaged or rewritten, but at present are reported as current despite having missed payments in the past. How do we "true-up" the portfolio, essentially accelerating the loss recognition, when we don't know what loans we should be concerned about, or which loans have exhibited material weaknesses in the past.
Admittedly, we continue to wrestle with the question of "does any of this matter?" HI's policies have been in place for a few years, and most of the serious changes took place in the 1997-1999 time frame. Given its 100-year history, strong market share, healthy yields averaging 20% (on an accrual basis at least) in its non-real estate secured portfolio, and the particular requirements of its nonprime customer base, we wonder if we are missing the forest for the trees. Reaging and rewrite policies are not that unusual in the nonprime consumer finance world, but HI's practices seem overly aggressive to us, and in addition, given our review of the policies of CitiFinancial, American General and Wells Fargo Finance, we believe that HI is substantially more aggressive than these firms. HI clearly benefits from its position as a non-bank financial services company. HI is not examined by the OCC or the Federal Reserve, and the restrictive policies from the FFIEC do not apply to HI, and it does not appear likely that this is going to change soon.

Nevertheless, we have concluded this is material, particularly as it relates to our investment thesis and P/E multiple expansion story on HI that (i) HI was better than a bank, (ii) it possessed unique strengths in market presence and distribution, technology, and non-prime underwriting, (iii) it was well-positioned to leverage its position in this consolidating market, and (iv) this would continue to drive the superior results of strong earnings growth, high profitability and fairly stable and surprisingly good asset quality.
But the lack of information available on portfolio quality (the magnitude and performance of the reaged and rewritten loan portfolios by business line) and the wide variation in how the asset quality policies are implemented, and the aggressive nature of these policies relative to our expectations of what is appropriate and relative to other consumer finance companies all serve to undercut our investment thesis, reduce the likelihood of multiple expansion, in our view, and lower our confidence in our ability to understand and interpret HI's financial performance. While any type of one-time restructuring charge to bring HI's asset quality policies more in line with other finance companies or banks is unlikely in the nearterm, we think the odds will rise over time. Accordingly, we have lowered our rating to Market Performance and increased our risk rating to Average from Low.

We will have one more note out today that discusses HI's asset quality policies by business line.

Summary

Additional Information Available Upon Request.

Investment Rating: SB-Strong Buy; B-Buy; M-Market Performance; U-Underperform
Risk Rating: 1- Low; 2-Average; 3- Above-Average; 4-Speculative

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Exhibit P

Copyright 2002 PR Newswire Association, Inc.
PR Newswire

February 27, 2002 Wednesday

SECTION: FINANCIAL NEWS

DISTRIBUTION: TO BUSINESS EDITOR

LENGTH: 1535 words

HEADLINE: Household Expands Best Practice Lending Initiatives, Creates Unprecedented Protections for Borrowers; Company's Voluntary Responsible Lending Initiatives Are Unparalleled in the Industry, Offering Clearer Disclosures, More Choices and Improved Customer Rewards

DATELINE: PROSPECT HEIGHTS, Ill. Feb. 27

BODY:

Household International (NYSE: HI), one of the nation's oldest consumer lenders, announced today significant additions to its already extensive set of voluntary responsible consumer lending practices. Following on the heels of the company's Best Practice Initiatives announced in July 2001, Household is once again raising industry standards for responsibly serving middle-market borrowers.

Household will immediately begin the implementation of the following, unprecedented Best Practice Initiatives on new real estate loans originated in its 1,400 HFC and Beneficial branches in order to provide borrowers with clearer information, increased flexibility and better benefits:

-- Simplified one-page disclosure - A simplified, one-page disclosure that is written in "plain English" to help borrowers fully understand key loan provisions;

-- 100% satisfaction guarantee - A 100% satisfaction guarantee on all loans that allows borrowers to liquidate the loan at no cost within 10 days of that loan being made;

-- Added information/protections on direct mail loans - Additional verbal disclosure (via toll-free hotline) on direct mail loans to eliminate any confusion and help borrowers understand key terms/provisions before they accept the loan;

-- Clear choice on prepayment fees - An option allowing all new real estate customers the flexibility of choosing a lower-rate loan with a prepayment fee or a higher-rate loan without a prepayment fee. And, shortened prepayment fee coverage periods for customers with good payment patterns or for those customers who sell their homes;

-- Caps on points and fees - A three percent cap on origination fees and a reduction of the total amount of discount points available to two;

-- Significantly reduced rates for responsible borrowers - An unparalleled interest rate reduction of up to 300 basis points (three percent) for responsible borrowers.This potential rate reduction is awarded in increments of 25 basis points (.25 percent) after each set

of 12 consecutive on-time loan payments. This program is available for qualified real estate borrowers after just one year and will continue to accrue up to a maximum of 12 rate reductions.

"NCRC has been engaged in meaningful dialogue with Household for some time now. The company has demonstrated a pattern of positive policy improvements and I challenge other lenders to follow suit," said John Taylor, president of the National community Reinvestment Coalition. "These steps are important initiatives that ensure borrowers are treated fairly. We look forward to working with Household to initiate further lending improvements."

Household's latest, industry-leading initiatives are designed to extend the positive impact of the groundbreaking practices the company unveiled last July, which included:

-- Reducing the prepayment fee duration from five years to three years on new real estate secured loans;
-- Rescuing victims of predatory lending from foreclosure by providing subsidized interest rates and no-fee loans;
-- Adopting more stringent standards to ensure every real estate loan made has numerous customer benefits;
-- Doubling customers' time to cancel insurance products.

"With two of the oldest and most trusted brands in the consumer lending industry -- HFC and Beneficial -- it has long been Household's commitment to continuously raise the bar in establishing 'best-in-class' lending principles and policies, " said William F. Aldinger, chairman and chief executive officer of Household. "This expanded set of responsible lending principles is a continuation of that commitment and we are proud of the meaningful benefits they -- along with the Best Practice Initiatives that came before them -- will provide middle market borrowers."

Initial implementation of the following new best practices is already underway on new loans originated in the company's HFC and Beneficial branches. Full implementation will be complete as soon as systems changes are made and employee training is completed.

Simplified/Improved Disclosures

Improving on its already-comprehensive disclosure process, Household will introduce a one-page disclosure for real estate loans, making it even easier for customers to understand their loan terms and provisions. The new disclosure, written in "plain English" with minimal financial jargon, will provide easy-to-understand information about key loan features such as APR, the total loan amount, the total amount financed, monthly payment amounts, payment due dates, and insurance costs.

Moreover, Household will provide an additional disclosure for borrowers accepting a loan offered via direct mail. Before activating a direct mail loan, customers will be directed to call a toll-free number to receive a "verbal disclosure" that provides detailed information about the terms and conditions of their loan. This is to ensure that all direct mail customers are provided with additional tools and information about the loan terms before they take it.

Household will also continue to encourage customers to review the company's loan closing video and complete a customer satisfaction survey in order to further ensure understanding of the loan terms and conditions. Household's 1-800 customer hotline will continue to be available to customers seeking answers to their questions or concerns.

100% Satisfaction Guarantee

In addition to following federally mandated rescission periods, Household will implement a 100% satisfaction guarantee program on all new HFC and Beneficial branch-originated loans. This guarantee allows borrowers who elect to liquidate the loan -- within 10 days of that loan being made -- to do so at no cost to them.

Prepayment Fee Option

Following on the company's announcement last year to cut the duration of prepayment fees by 40 percent (from five to three years) on new loans, Household will now offer borrowers the choice of accepting a loan with or without a prepayment fee. Household will provide new real estate loan customers the flexibility of choosing between a lower-rate loan with a prepayment fee or a higher-rate loan without a prepayment fee. In addition, Household will waive the prepayment fee on its branch originated real estate loans where 24 consecutive on-time payments are received. Household

will also waive the prepayment fee for these loans after 24 months from when the loan is made if the customer sells their home.

Cap on Points and Fees

In an additional effort to provide real estate borrowers with the best products available, Household will cap origination fees on new loans at three percent. Moreover, Household will offer customers the option of utilizing up to two discount points should they elect to buy-down their rate.

Interest Rate Reductions

Household will also begin offering increased rewards to responsible real estate borrowers who make consistent, on-time payments. Further expanding its "Pay Right Rewards" program, Household will offer responsible borrowers an interest rate reduction of up to 300 basis points (three percent). Each time a borrower makes 12 consecutive on-time payments they will receive a .25 basis point reduction on their interest rate, for a maximum of 12 total interest rate reductions.

Furthermore, Household customers will now be eligible to receive these awards beginning after only one year instead of three years (as is the case in the current Pay Right Rewards program.) Even if a customer's payment performance falters, the customer will still be eligible for further rate reductions upon re-establishing consistent payment patterns. Also, interest rate reductions previously earned will never be reversed.

Under this expanded program, a typical real estate customer could save tens of thousands of dollars in interest costs over the life of the loan or cut several years off their loan payments.

"Since its founding Household has continued to seek input from respected community groups, government leaders, business partners and, of course, customers on ways to improve the lending products and services the company offers to millions of customers," said Gary Gilmer, vice chairman of Household and president of the company's consumer lending division. "We are particularly appreciative of the advice provided by groups, such as NCRC, as well as our own Consumer Advisory Board. We hope that others in the industry follow our lead and voluntarily set their own equally high standards for responsible lending."

About Household

Household's businesses are leading providers of consumer loan, credit card, auto finance and credit insurance products in the United States, United Kingdom and Canada. In the United States, Household's largest business, founded in 1878, operates under the two oldest and most widely recognized names in consumer lending - HFC and Beneficial. Household is also one of the nation's largest issuers of private-label and general-purpose credit cards, including The GM Card(R) and the AFL-CIO's Union Plus(R) card. For more information, visit the company's Web site at www.household.com .

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SOURCE Household International

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URL: http://www.prnewswire.com

LOAD-DATE: February 28, 2002

Exhibit Q

BN Conseco May File for Bankruptcy, Dow Jones Newswires Reports
Aug 8 2002 0:15

Conseco May File for Bankruptcy, Dow Jones Newswires Reports

Carmel, Indiana, Aug. 7 (Bloomberg) -- Conseco Inc., the insurance and finance company whose shares have traded below $1 for the past two weeks, will probably file for Chapter 11 bankruptcy protection or reach a bankruptcy deal pre-approved by creditors, Dow Jones Newswires said, citing analysts.

``We are increasingly skeptical that it will be able to avoid seeking formal protection from its creditors,'' Salomon Smith Barney analyst Colin Devine was quoted as saying.

Conseco, which has a $300 million bond issue due on Oct. 15, has said it probably can't meet all its debt obligations due by the end of next year, according to Dow.

Conseco spokesman Mark Lubbers had no comment, Dow said. He couldn't immediately be reached.

(Dow Jones Newswires 8-7)

For the Web site of Dow Jones Newswires, see {DOWJ <GO>}

--Vivien Lou Chen in the San Francisco newsroom, (415) 743-3506, or at vchen1@bloomberg.net. Editor: Siler.

Story illustration: To chart Conseco shares, enter {CNC US <Equity> GP <GO>}. To see descriptions of Moody's ratings, see {RATD <GO>}.

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Exhibit R

The McGraw-Hill Companies

STANDARD &POOR'S RatingsDirect®

RESEARCH

Research Update: Conseco Inc.

Publication date: 09-Aug-2002
Credit Analyst: Jayan U Dhru, New York (1) 212 438-7276; Mark Puccia, New York (1) 212-438-7233

	Local Currency
Credit Rating:	SD/--/NR

Rationale

Standard & Poor's Ratings Services revised its counterparty credit ratings on Conseco Inc. and CIHC Inc. to 'SD' (selective default) from triple-'C'-plus on Aug. 9, 2002, because of Conseco's announcement that it is exercising a 30-day grace period on upcoming bond interest payments. An 'SD' rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations but will continue to meet its payment obligations on other issues or classes of obligations in a timely manner.

At the same time, Standard & Poor's revised its ratings on the five issues that will miss payment to 'D' (default). The ratings on the remaining issues that do not have an interest payment due in the near future have been lowered to double-'C' from triple-'C'-plus. The preferred stock ratings on these issues remain double-'C'.

In addition, Standard & Poor's lowered its counterparty credit rating on Conseco Finance Corp. to triple-'C'-minus/single-'C' from triple-'C'-plus/single-'C'. The outlook is negative.

Standard & Poor's also placed its single-'B'-plus counterparty credit and financial strength ratings on Conseco Inc.'s insurance subsidiaries on CreditWatch with negative implications.

The single-'B'-plus financial strength ratings on Conseco Inc.'s life insurance subsidiaries will remain on CreditWatch negative until there is clarity about the respective insurance departments' actions. Although Standard & Poor's believes the operating subsidiaries' policyholders are obviously better positioned than the debt holders of Conseco Inc., they will, nevertheless, be adversely affected by the state of flux. Likewise, although Conseco Finance has been excluded from the announced restructuring, the uncertainty created by the parent's difficulties and the fact that the finance unit does not enjoy regulatory protection leave its creditors significantly more vulnerable than those of the insurance subsidiaries.

A complete list of the ratings is available to RatingsDirect subscribers at www.ratingsdirect.com, as well as on Standard & Poor's public Web site at www.standardandpoors.com under Ratings Actions/Newly Released Ratings.

Ratings List:

	TO	FROM
Conseco Inc.		
Counterparty credit rating	SD	CCC+/Neg
$200M 8.125% notes due Feb. 18, 2003	D	CCC+
$250M 6.4% notes due Feb. 10, 2003	D	CCC+
$800M 8.75% notes due Feb. 9, 2004	D	CCC+
$14.936M 6.4% notes due Feb. 10, 2004*	D	CCC+
$366.294M 8.75% notes due Aug. 9, 2006*	D	CCC+
Guaranteed by CIHC Inc.		
Ratings on issues that haven't defaulted	CC	CCC+
CIHC Inc.		

```
  Counterparty credit rating                SD            CCC+/Neg
  Ratings on issues that haven't defaulted  CC            CCC+
Conseco Finance Corp.
  Counterparty credit rating         CCC-/Neg/C        CCC+/Neg/C

Ratings Placed on CreditWatch Negative

Bankers Life & Casualty Co.
Conseco Annuity Assurance Co.
Conseco Direct Life Insurance Co.
Conseco Health Insurance Co.
Conseco Life Insurance Co.
Conseco Life Insurance Co. of NY
Conseco Medical Insurance Co.
Conseco Senior Health Insurance Co.
Conseco Variable Insurance Co.
Pioneer Life Insurance Co.
  Counterparty credit rating      B+
  Financial strength rating       B+
```

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Exhibit S

HD **Fitch Lowers Conseco Inc.'s Rtgs To 'D'**

WC 475 words
PD 9 September 2002
ET 05:32 PM
SN Business Wire
SC BWR
LA English
CY (Copyright (c) 2002, Business Wire)

LP CHICAGO--(BUSINESS WIRE)--Sept. 9, 2002--**Fitch** Ratings has lowered the corporate ratings of **Conseco** Inc. (**Conseco**) to 'Default' status. This action follows the expiration of the 30-day grace period on unpaid bond interest payments. Rating actions are listed below.

On August 9, 2002, **Conseco** missed interest payments on several of its public securities and exercised the 30-day grace period allowed by the bond indentures. **Conseco** has failed to cure the delayed interest payments within the grace period. Given the cross-default provisions within the company's securities agreements, all **Conseco** public debt and preferred stock is now in 'default'.

TD Insurer financial strength ratings remain on Rating Watch Negative at 'B'. Although **Fitch** believes the insurance companies have good capital adequacy and liquidity, **Fitch** cannot predict how regulators may act in this situation. Therefore, **Fitch** believes there is significant uncertainty as to the ultimate status of the insurance companies. The likelihood of policyholders being paid is higher than indicated by the rating level because the rating reflects the holding company condition. **Conseco** Variable Insurance Company (**Conseco** Variable) remains on Rating Watch Evolving pending completion of its sale to Inviva Inc.

The long-term rating of 'CC' and the short-term rating of 'C' of **Conseco** Finance Corp. (CFC), a wholly owned subsidiary of **Conseco**, remain on Rating Watch Negative. A 'CC' rating is indicative of high default risk and that default of some kind appears probable. Today's action reflects the announcement that **Conseco** and CFC have obtained a temporary waiver of a cross default provision from the one lender whose financing agreement contains a cross default to events of default under **Conseco**'s bond debt.

Entity/Issue/Type/Action/Rating/Watch

```
Conseco Inc.
   --Long-term rating, lowered to 'D' from 'C';
   --Senior debt issues lowered to 'D from 'C';
   --Preferred stock, lowered to 'D' from 'C'.
 Conseco Financing Trust I-VII
   --Preferred securities, lowered to 'D' from 'C'.
Insurer Financial Strength ratings remain on Rating Watch
   --Bankers Life & Casualty Co., 'B', Negative;
   --Conseco Annuity Assurance Co., 'B', Negative;
   --Conseco Direct Life Insurance Co., 'B', Negative;
   --Conseco Health Insurance Co., 'B', Negative;
   --Conseco Life Insurance Co., 'B', Negative;
   --Conseco Life Insurance Co. of New York, 'B', Negative;
   --Conseco Medical Insurance Co., 'B', Negative;
   --Conseco Senior Health Insurance Co., 'B', Negative;
   --Conseco Variable Insurance Co., 'B', Evolving;
   --Pioneer Life Insurance Co., 'B', Negative.
 Conseco Finance Corp. ratings remain on Rating Watch
   --Senior debt rating, 'CC', Negative;
   --Short-term rating 'C', Negative.
```

CT CONTACT: **Fitch** Ratings Julie A. Burke, CPA, CFA 312/368-3158, Chicago; or Michael J. Barry, 212/908-0621, (**Conseco**, Inc.) or Thomas J. Abruzzo, 212/908-0793 or Christopher D. Wolfe, 212/908-0771, (**Conseco** Finance), New York. Media Relations: James Jockle, 212/908-0547, New York. 17:32 EDT SEPTEMBER 9, 2002

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CO CONSCI : Conseco Inc. (Delisted 8/13/02)

IN I82 : Insurance | I82002 : Life Insurance

NS C17 : Funding/Capital | C173 : Financing Agreements | C174 : Corporate Credit Ratings | CCAT : Corporate/Industrial News

RE NAMZ : North American Countries | USA : United States | USC : Midwest U.S. | USIN : United States - Indiana

AN Document bwr0000020020909dy9900m84

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Appendix C

Lawrence E. Jaffe Pension Plan vs. Household International, Inc., et al.

SUPPLEMENTAL REPORT OF DANIEL R. FISCHEL

1. I submitted a report dated August 15, 2007 (the "Fischel Report") in the above-captioned litigation.[1] In that report, I set forth and provided the bases for my principal conclusion that the economic evidence is consistent with Plaintiffs' claim that the alleged wrongdoing caused investors in Household's common stock to incur losses. Fischel Report ¶ 11. I also provided two alternative quantifications of the amount of alleged artificial inflation in Household's stock price during the Class Period, one based on the price reactions to specific fraud-related disclosures ("Quantification Using Specific Disclosures") and one that accounts for the stock price effect of fraud-related information that leaked into the market during the latter part of the Class Period ("Quantification Including Leakage"). *Id*. ¶¶ 30-42. On February 1, 2008, I submitted a rebuttal report which responded to criticisms of the Fischel Report by Defendants' expert Mukesh Bajaj (the "Fischel Rebuttal Report").

2. Counsel for Defendants have submitted the Affidavit of Bradford Cornell dated October 30, 2008 (the "Cornell Affidavit"). In his affidavit, Professor Cornell criticizes the Quantification Including Leakage because "it attributes any decline in the security price that is not due to movements in the market or the industry to disclosure of the fraud." Cornell Affidavit ¶ 4.[2] Professor Cornell also criticizes the Quantification Including Leakage because it applies a regression model over an 11-

1. The Fischel Report provides information on my qualifications and defines capitalized terms.
2. All citations to the Cornell Affidavit refer to the paragraphs in section II of the Cornell Affidavit.

month-long portion of the Class Period; he states: "… when a model is used to predict returns over periods hundreds of days long the errors compound. Such compounding, in turn, can produce significant errors in measured inflation." *Id*. ¶ 8.

3. I have been asked by counsel for Plaintiffs to review and respond to Professor Cornell's criticisms as described in the Cornell Affidavit. I have been assisted by Compass Lexecon's staff. In forming my conclusions contained in this report, I have reviewed the Cornell Affidavit and the court's opinion in *In re Williams Securities Litigation* 496 F. Supp. 2d (N.D. Okla. July 6, 2007). Based on my review of these materials and our analysis, I have reached the following conclusions.

4. First, Professor Cornell's affidavit says nothing about my Quantification Using Specific Disclosures, the first measure of inflation discussed in my report. Fischel Report ¶¶ 34-7. The criticisms Professor Cornell makes of the Quantification Including Leakage are not relevant to the Quantification Using Specific Disclosures because the latter: 1) only attributes the price change on any day to the alleged fraud if there was a specific fraud-related disclosure and the price decline was statistically significant; and 2) does not use a model to predict returns over periods of more than one day.[3] *Id.*

5. Second, the leakage model Professor Cornell criticizes comes directly from him. As I explained in the Fischel Report, the Quantification Including Leakage, and the reasons for its use, are described in Professor Cornell's own article on measuring damages in fraud on the market cases.[4] *Id*. ¶¶ 38-41.

---

3. As Professor Cornell concedes, "if the models are used to calculate residual returns over intervals of no more than a few days, the errors are generally minor." Cornell Affidavit ¶ 8.
4. In his affidavit, Professor Cornell criticizes my Quantification Including Leakage as

6. Third, Professor Cornell asserts, without providing any supporting evidence, that firm-specific factors unrelated to the alleged fraud can fully explain the relative underperformance in Household's stock (*i.e.*, the decline in Household's stock price during the Class Period that was not related to the market or the industry). Cornell Affidavit ¶¶ 4-7. In doing so, he ignores the evidence presented in the Fischel Report that a steady stream and extensive amount of incomplete information related to Defendants' alleged fraud leaked into the market in the latter part of the Class Period and that contemporary observers attributed the decline in Household's stock price during this period to concerns regarding the allegedly fraudulent practices. Fischel Report ¶¶ 12-29 & 39. He also ignores the fact that Plaintiffs' allegations include the Company's agreement with the multi-state working group of state attorneys general and regulatory agencies, in which the Company agreed to pay up to $484 million and adopt a series of business practices that Household management expected would reduce future earnings. *Id*. ¶ 7.

7. Finally, Professor Cornell incorrectly claims that the Quantification Including Leakage suffers from the same flaws as the approach of Dr.

"identical to the comparable index approach described on page 898 of Cornell and Morgan." *Id*. ¶ 3. But he himself advocates use of this methodology in his article, stating that where there is "continuous leakage of information, it may be necessary to use the comparable index approach." B. Cornell and R.G. Morgan, "Using Finance Theory to Measure Damages in Fraud on the Market Cases," 37 *UCLA L Rev.* (1990) at 906-7. Moreover, although Professor Cornell argues in his affidavit that one should be skeptical of the Quantification Including Leakage because it uses a model to predict returns over an 11-month-long portion of the Class Period, his article recommends applying the comparable index approach over the entire class period in a case where the class period was several years long. *Compare* Cornell Affidavit ¶ 8 *with* Cornell & Morgan at 892-3 & 905-8. Finally, Professor Cornell also ignores the adjustments I made to the leakage model described in his article. Fischel Report ¶¶ 41-2 & note 30. These adjustments reduce the estimate of inflation that would result from unadjusted use of his model.

Blaine Nye in *Williams*.[5] Cornell Affidavit ¶ 7. The court in *Williams* criticized Dr. Nye because he provided no support for his leakage claim: "[A]s a practical matter, Dr. Nye assumes leakage of the relevant truth." *In re Williams Securities Litigation* 496 F. Supp. 2d at 1267. In contrast, as noted *supra* ¶ 6, the Fischel Report provided evidence of leakage. The court in *Williams* further criticized Dr. Nye because his analysis of inflation failed to fully account for industry conditions since "the trajectory of the share prices for the companies represented in the Nasdaq telecommunications index was remarkably similar" to that of Williams Communications Group's stock. *Id.* at 1255. In contrast, the Fischel Report demonstrated that Household's share price substantially underperformed market and comparable indices in the latter part of the Class Period, including Dr. Bajaj's "Consumer Finance Index." Fischel Report ¶ 29 & Exhibit 48 *and* Fischel Rebuttal Report ¶ 32.

8. Based on the above, I intend to testify, if asked, that the economic evidence demonstrates that Household's stock price became depressed during the Class Period as information about its allegedly fraudulent practices became known to market participants. I further intend to testify, if asked, that as a result, the Quantification Using Specific Disclosures that I described in the Fischel Report understates the effect of the alleged disclosure defects because of the existence of leakage.

Daniel R. Fischel

February 9, 2009

5. Under normal circumstances, I would not comment in an expert report on a court's reasoning in a judicial opinion. However, because Professor Cornell relied on his interpretation of the court's criticism of Dr. Nye in *Williams* in his affidavit, I have chosen to respond rather than allow his incorrect claims to go unrebutted.

Appendix D

DANIEL R. FISCHEL **July 2015**

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Lee and Brena Freeman Professor of Law and Business, University of Chicago Law School (7/89 – 12/2005, emeritus as of 1/1/2006); Dean of Law School (1/99 – 2/01); Professor of Law, University of Chicago Law School (1/84 - present); Visiting Professor of Law, University of Chicago Law School (7/82 - 6/83).

Professor of Law and Business, Northwestern University School of Law (1/1/2006 – 5/2011).

Professor, Kellogg School of Management (courtesy appointment, 1/1/2006 – 5/2011).

Jack N. Pritzker Distinguished Visiting Professor of Law, Northwestern University School of Law (6/02-6/03).

Professor of Law and Business, University of Chicago Graduate School of Business (7/87 - 6/90).

Director, Law and Economics Program, University of Chicago (1/84 - 6/91).

Assistant Professor of Law, Northwestern University School of Law (6/80 - 6/81); Associate Professor of Law, Northwestern University School of Law (6/81 - 6/82); promoted to full professor in 6/82.

Attorney with Levy and Erens, Chicago, Illinois (7/79 - 6/80).

Law Clerk for Associate Justice Potter Stewart of the United States Supreme Court (1978 - 1979).

Law Clerk for Judge Thomas E. Fairchild, Chief Judge of the Seventh Circuit Court of Appeals (1977 - 1978).

CONSULTING EXPERIENCE

President and Chairman, Compass Lexecon (formerly Lexecon).

AREAS OF SPECIALIZATION

Corporate Finance, Corporate Control Transactions, Corporations, Financial Institutions, Regulation of Financial Markets, Regulation of Investments, Economic Analysis of Law.

PUBLICATIONS

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EDUCATION

University of Chicago Law School, Chicago, Illinois; J.D. 1977, cum laude; Order of the Coif; Comment Editor, Vol. 44, University of Chicago Law Review; Approximately top 1% of the Class. Awarded Casper Platt Award for best paper written by a student of the University of Chicago Law School; awarded Jerome N. Frank Prize for excellence in legal writing while a member of the University of Chicago Law Review, 1975 - 1977. Studied law and economics with Richard Posner and other members of the faculty.

Brown University, Providence, Rhode Island; M.A. 1974 in American History.

Cornell University, Ithaca, New York; major-American History; minor-Economics; B.A. 1972.

TESTIMONY

Deposition of Daniel R. Fischel in Steven A. Stender, Harold Silver and Infinity Clark Street Operating, L.L.C., on behalf of themselves and all others similarly situated v. Archstone-Smith Operating Trust, et al., in the United States District Court for the District of Colorado, Case No. 07-CV-02503-WJM-MJW (July 24, 2015).

Testimony of Daniel R. Fischel In Re: Determination of Royalty Rates and Terms for Ephemeral Recording and Digital Performance of Sound Recordings (Web IV), in the United States Copyright Royalty Judges, The Library of Congress, Docket No. 14-CRB-0001-WR (2016-2020) (May 21 and 22, 2015).

Deposition of Daniel R. Fischel In Re: Determination of Royalty Rates and Terms for Ephemeral Recording and Digital Performance of Sound Recordings (Web IV), in the United States Copyright Royalty Judges, The Library of Congress, Docket No. 14-CRB-0001-WR (2016-2020) (April 1, 2015).

Deposition of Daniel R. Fischel in MacDermid, Incorporated vs. Cookson Group, PLC, Cookson Electronics and Enthone, Inc., in the Superior Court, Judicial District of Waterbury, Docket No. UWY-CV-12-6016356-S (January 21, 2015)

Testimony of Daniel R. Fischel in the Securities and Exchange Commission vs. Samuel E. Wyly and Donald R. Miller, Jr., in his capacity as the Independent Executor of the Will and Estate of Charles J. Wyly, Jr., in the United States District Court, Southern District of New York, 10 Civ. 5760 (SAS) (November 17, 2014).

Deposition of Daniel R. Fischel In Re: Activision Blizzard, Inc. Stockholder Litigation, In the Court of Chancery of the State of Delaware, Consolidated C.A. No. 8885-VCL (October 17, 2014).

Testimony of Daniel R. Fischel in Hugh M. Caperton, Harman Development Corporation, Harman Mining Corporation, and Sovereign Coal Sales, Inc. v. A.T. Massey Coal Company, Inc., In the Circuit Court for Buchanan County, Case No. 027CL10000771-00 (May 20 and 21, 2014).

Deposition of Daniel R. Fischel in Center Partners, Ltd., et al v. Urban Shopping Centers, L.P., et al., In the Circuit Court of Cook County, Illinois, County Department, Law Division, Case No. 04 L 012194 (April 24, 2014).

Deposition of Daniel R. Fischel in Third Point LLC v. William F. Ruprecht, et al and Sotheby's, In the Court of Chancery of the State of Delaware, C.A. No. 9469-VCP (April 19, 2014).

Deposition of Daniel R. Fischel in Hugh M. Caperton, Harman Development Corporation, Harman Mining Corporation, and Sovereign Coal Sales, Inc. v. A.T. Massey Coal Company, Inc., In the Circuit Court for Buchanan County, Case No. 027CL10000771-00 (March 14, 2014).

Deposition of Daniel R. Fischel in Corre Opportunities Fund, LP, Zazove Associates LLC, DJD Group LLLP, First Derivative Traders LP, and Kevan A. Fight vs. Emmis Communications

Corporation, United States District Court, Southern District of Indiana, Indianapolis Division, Case No. 1:12-cv-0491-SEB-TAB (October 4, 2013).

Testimony of Daniel R. Fischel In the Matter of the Application of The Bank of New York Mellon, (As Trustee Under Various Pooling and Servicing Agreements and Indenture Trustee under various indentures), Petitioner, for an order, pursuant to CPLR §7701, seeking judicial instructions and approval of a proposed settlement, Index No. 651786/11, Supreme Court of the State of New York, County of New York: Trial Term Part 39 (September 9 and 10, 2013).

Testimony of Daniel R. Fischel In Re: September 11 Litigation, Case No. 21 MC 97 (AKH), United States District Court for the Southern District of New York, (July 16, 2013)

Deposition of Daniel R. Fischel in Cantor Fitzgerald & Co., et al v. American Airlines, Inc., et al, Case No. 21 MC 101 (AKH), 04 CV 7318 (AKH), United States District Court, Southern District of New York (July 1, 2013).

Deposition of Daniel R. Fischel In Re: Pfizer Inc. Securities Litigation, Case No. 04 Civ. 9866 (RO) In The United States District Court for the Southern District of New York (June 28, 2013).

Testimony of Daniel R. Fischel in William T. Esrey, Julie C. Esrey, Ronald T. LeMay and Casondra C. Lemay v. Ernst & Young LLP Arbitration, Case No. 13 107 Y 02332 11 (May 29, 2013).

Deposition of Daniel R. Fischel in Christine Bauer-Ramazani and Carolyn B. Duffy, on behalf of themselves and all other similarly situated v. Teachers Insurance and Annuity Association of America – College Retirement and Equities Fund (TIAA-CREF), et al, in the United States District Court, District of Vermont, Docket No. 1:09-cv-190 (May 21, 2013).

Deposition of Daniel R. Fischel In Re: Google Inc. Class C Shareholder Litigation, In the Court of Chancery of the State of Delaware, Case No. 7469CS (May 17, 2013).

Deposition of Daniel R. Fischel In the Matter of the application of The Bank of New York Mellon (as Trustee under various Pooling and Servicing Agreements and Indenture Trustee under various Indentures), et al., Supreme Court of the State of New York, County of New York, Index No. 651786/2011 (May 9, 2013).

Deposition of Daniel R. Fischel in William T. Esrey, Julie C. Esrey, Ronald T. Lemay, and Casondra C. Lemay v. Ernst & Young, L.L.P., Before the American Arbitration Association, Case No. 1234 (May 7, 2013).

Deposition of Daniel R. Fischel in Archer Well Company, Inc. v. GW Holdings LLC and Wexford Capital LP, in the United States District Court, Southern District of New York, ECF Case No. 1 1:12-cv-06762-JSR (April 5, 2013).

Testimony of Daniel R. Fischel in Meso Scale Diagnostics, LLC , Meso Scale Technologies, LLC v. Roche Diagnostics GmbH, et al., In the Court of Chancery of the State of Delaware, Civil Action No. 5589-VCP (February 27, 2013).

Deposition of Daniel R. Fischel in Center Partners, Ltd. et al v. Urban Shopping Centers, L.P., et al, Circuit Court of Cook County, Illinois, No. 04 L 012194 (February 6 and 7, 2013).

Deposition of Daniel R. Fischel In Re: September 11 Litigation, United States District Court, Southern District of New York, Civil Action No. 21 MC 101 (AKH) (January 11, 2013).

Deposition of Daniel R. Fischel in Meso Scale Diagnostics, LLC, Meso Scale Technologies, LLC v. Roche Diagnostics GmbH, et al., In the Court of Chancery of the State of Delaware, Case No: 5589-VCP (November 12, 2012).

Testimony of Daniel R. Fischel in Stuart Bederman, et al. v. Archstone, f/k/a Archstone-Smith Operating Trust, Arbitration before the Honorable Bruce W. Kauffman (October 17, 2012).

Deposition of Daniel R. Fischel in David E. Brown, et al. v. Authentec, Inc. et al., In the Circuit Court of the Eighteenth Judicial Circuit in and for Brevard County, Florida, Civil Division, Case No. 05-2012-CA-57589 (September 18, 2012).

Deposition of Daniel R. Fischel in Stuart Bederman, et al. v. Archstone, f/k/a Archstone-Smith Operating Trust, Arbitration before the Honorable Bruce W. Kauffman (September 14, 2012).

Testimony of Daniel R. Fischel in Tronox, Incorporated, et al., v. Kerr-McGee Corporation, et al., United States Bankruptcy Court, Southern District of New York, Adversary Proceeding No. 09-10098(ALG) (August 7, 8 and 9, 2012).

Deposition of Daniel R. Fischel In re McAfee, Inc. Shareholder Litigation, Superior Court of the State of California, County of Santa Clara, Lead Case No. 1:10-cv-180413 (August 2, 2012).

Testimony of Daniel R. Fischel in Kraft Foods Global, Inc., v. Starbucks Corporation, Arbitration Before JAMS, Arbitration No. 1340008345 (July 31, 2012).

Deposition of Daniel R. Fischel in Altana Pharma AG, and Wyeth v. Teva Pharmaceuticals USA, Inc. and Teva Pharmaceutical Industries, Ltd., In the United States District Court, District of New Jersey, Consolidated Civil Action Nos. 04-2355 (JLL)(CCC), 05-1966 (JLL)(CCC), 05-3920 (JLL)(CCC) and 05-3672 (JLL)(CCC) (June 1, 2012).

Deposition of Daniel R. Fischel in Kraft Foods Global, Inc. v. Starbucks Corporation, Arbitration before JAMS, Arbitration No. 1340008345 (May 15, 2012).

Deposition of Daniel R. Fischel in Capital One Financial Corporation v. John A. Kanas and John Bohlsen, In the United States District Court for the Eastern District of Virginia, Alexandria Division, Civil Action No. 1:11-cv-750 (LO/TRJ) (May 10, 2012).

Deposition of Daniel R. Fischel In Re: Pfizer Inc. Securities Litigation, In the United States District Court, Southern District of New York, Case 1:04-cv-09866-LTS-HBP (May 3, 2012).

Deposition of Daniel R. Fischel In Re: Moneygram International Inc. Shareholder Litigation, In the Court of Chancery of the State of Delaware, C.A. No. 6387-VCL (April 26, 2012).

Deposition of Daniel R. Fischel in Chona Allison, et al v. CRC Insurance Services, Inc., In the United States District Court for the Northern District of Illinois, Eastern Division, Case No. 10-3313 (March 14 and 15, 2012).

Deposition of Daniel R. Fischel In Re: Tronox Incorporated, et al., Debtors, In the United States Bankruptcy Court, Southern District of New York, Chapter 11, Case No. 09-10156 (ALG) (February 24, 2012).

Testimony of Daniel R. Fischel In Re: BankAtlantic Bancorp, Inc. Litigation, In the Court of Chancery of the State of Delaware, Consolidated Civil Action No. 7068-VCL (January 27 and 30, 2012).

Deposition of Daniel R. Fischel in Hildene Capital Management, LLC et al v. BankAtlantic Bancorp, Inc., et al, In the Court of Chancery of the State of Delaware, C.A. No. 7068-VCL (January 19, 2012).

Deposition of Daniel R. Fischel in Advanced Analogic Technologies, Incorporated v. Skyworks Solutions, Inc. and Powerco Acquisition Corp., In the Court of Chancery of the State of Delaware, Arbitration No. 005-A-CS (November 18, 2011).

Testimony of Daniel R. Fischel in Prudential Retirement Insurance and Annuity Company v. State Street Bank and Trust Company and State Street Global Advisors, Inc., United States District Court, Southern District of New York, Case No. 07-CV-8488 (October 13, 2011).

Deposition of Daniel R. Fischel In re: Inkeepers USA Trust, et al v. Cerberus Series Four Holdings, LLC., et al, United States Bankruptcy Court, Southern District of New York, Case No. 10-13800 (SCC) (October 5, 2011).

Deposition of Daniel R. Fischel in Mary K. Jones, et al v. Pfizer, Inc., et al, United States District Court, Southern District of New York, Civil Action No. 10-cv-03864 (AKH) ECF (October 4, 2011).

Testimony of Daniel R. Fischel in Marina Del Rey Country Club Apartments, et al. vs. Archstone and Archstone Multifamily Series I Trust, Ruby/Archstone Arbitration (August 30, 2011).

Deposition of Daniel R. Fischel in Maher Terminals, LLC v. The Port Authority of New York and New Jersey, Before the Federal Maritime Commission, FMC Docket No. 08-03 (August 25, 2011).

Testimony of Daniel R. Fischel in Securities and Exchange Commission v. Joseph P. Nacchio, Robert S. Woodruff, Afshin Mohebbi, James J. Kozlowski and Frank T. Noyes, United States District Court for the District of Colorado, Civil Action No. 05-cv-480-MSK-CBS (August 16, 2011).

Affidavit of Daniel R. Fischel in Glenhill Capital LP, et al v. Porsche Automobil Holding, SE, f/k/a Dr. Ing. h.c. F. Porsche AG, Supreme Court of the State of New York, County of New York, Index Number 650678/2011 (August 15, 2011).

Deposition of Daniel R. Fischel in Fairfax Financial Holdings Limited and Crum & Forster Holdings Corp. v. S.A.C. Capital Management, LLC, et al., Superior Court of New Jersey, Law Division: Morris County, Docket No. MRS-L-2032-06 (July 27, 2011).

Deposition of Daniel R. Fischel In re: Lyondell Chemical Company, et al v. Leonard Blavatnik, et al., United States Bankruptcy Court, Southern District of New York, Chapter 11 Case No. 09-10023 – (REG) (Jointly Administered) (July 25, 2011).

Deposition of Daniel R. Fischel In Re Constar Int'l Inc. Securities Litigation, United States District Court, Eastern District of Pennsylvania, Master File No. 03cv05020 (June 28, 2011).

Affidavit of Daniel R. Fischel In Re Massey Energy Co. Derivative and Class Action Litigation, In The Court of Chancery of the State of Delaware, C.A. No. 5430-VCS (May 20, 2011).

Deposition of Daniel R. Fischel in Marina Del Rey Country Club, et al v. Archstone and Archstone Multifamily Series I Trust, Ruby/Archstone Arbitration (May 9, 2011).

Testimony of Daniel R. Fischel in The Dow Chemical Company v. Petrochemical Industries Company (K.S.C.), International Chamber of Commerce, International Court of Arbitration, ICC Case No. 16127/JEM/MLK (April 7, 2011).

Testimony of Daniel R. Fischel In Re: Tribune Company, et al., Debtors, In the United States Bankruptcy Court for the District of Delaware, Chapter 11, Case No. 08-13141 (KJC) (March 10, 2011).

Deposition of Daniel R. Fischel In Re: Tribune Company, et al., Debtors, In the United States Bankruptcy Court for the District of Delaware, Chapter 11, Case No. 08-13141 (KJC) (March 2, 2011).

Deposition of Daniel F. Fischel In Re: Genetically Modified Rice Litigation, In the United States District Court for the Eastern District of Missouri, Eastern Division, Case No. 4:06 MD 1811 CDP (February 15, 2011).

Deposition of Daniel R. Fischel in Riceland Food, Inc. v. Bayer Cropscience LP, et al, In the United States District Court, Eastern District of Missouri, Eastern Division, Case No. 4:09-cv-00433 CDP (January 18, 2011).

Deposition of Daniel R. Fischel In Re: Genetically-Modified Rice Litigation, In the United States District Court for the Eastern District of Missouri, Case No. 4:06-MD-1811 (November 11, 12, 2010).

Deposition of Daniel R. Fischel in Coleen Witmer, Individually, and on Behalf of All Others Similarly Situated v. Dynegy Inc., In the District Court of Harris County, Texas, 234th Judicial District (November 6, 2010).

Testimony of Daniel R. Fischel in Terra Firma (GP) 2 Investments Limited v. Citigroup Inc., United States District Court for the Southern District of New York, No. 1:09-CV-10459 (JSR) (November 2, 2010).

Testimony of Daniel R. Fischel in Terra Firma (GP) 2 Investments Limited v. Citigroup Inc., United States District Court for the Southern District of New York, No. 1:09-CV-10459 (JSR) (October 22, 2010).

Testimony of Daniel R. Fischel in Air Products and Chemicals, Inc. v. Airgas, Inc., Peter McCausland, et al, In the Court of Chancery of the State of Delaware, C.A. No. 5249-CC (October 5, 2010).

Deposition of Daniel R. Fischel in Air Products and Chemicals, Inc. v. Airgas, Inc., Peter McCausland, et al, In the Court of Chancery of the State of Delaware, C.A. No. 5249-CC (September 8, 2010).

Deposition of Daniel R. Fischel in Terra Firma (GP) 2 Investments Limited v. Citigroup Inc., United States District Court for the Southern District of New York, No. 1:09-CV-10459 (JSR) (July 28, 2010).

Deposition of Daniel R. Fischel in Citadel Investment Group, L.L.C. et al v. Mikhail Malyshev and Jace Kohlmeier, In the American Arbitration Association, Case No.AAA No. 51 166 00969 09 (July 13, 2010).

Testimony of Daniel R. Fischel In Re: United States of America v. Joseph P. Nacchio, in the United States District Court for the District of Colorado, Case No. 05-CR-00545-EWN (June 23, 2010).

Deposition of Daniel R. Fischel in Cantor Fitzgerald Securities, Cantor Fitzgerald & Co., Cantor Fitzgerald Partners v. The Port Authority of New York and New Jersey, in the Supreme Court of the State of New York, County of New York, Case No. 105447/94 (June 4, 2010).

Deposition of Daniel R. Fischel in Alaska Retirement Management Board on behalf of State of Alaska Public Employees' Retirement System and State of Alaska Teachers' Retirement System v. Mercer (US), Inc., Mercer Human Resources Consulting, Inc., and William M. Mercer, Inc., in The Superior Court for the State of Alaska, First Judicial District at Juneau, Case No. 1JU-07-974CI (April 29, 2010).

Deposition of Daniel R. Fischel In Re: ACS Shareholders Litigation, in The Court of Chancery of the State of Delaware, Consolidated Case No. 4940-VCP (April 26, 2010).

Testimony of Daniel R. Fischel in Securities and Exchange Commission v. Carl W. Jasper, in the United States District Court for the Northern District of California, San Jose Division, Case No. C-07-06122-JW (April 16, 2010).

Deposition of Daniel R. Fischel in Prudential Retirement Insurance and Annuity Company v. State Street Bank and Trust Company and State Street Global Advisors, Inc., in the United States District Court, Southern District of New York, Case No. 07 CIV 8488 (April 9, 2010).

Deposition of Daniel R. Fischel In re: Lyondell Chemical Company, et al., Debtors. Official Committee of Unsecured Creditors, on behalf of the Debtors' Estates v. Citibank, N.A., et al., in the United States Bankruptcy Court, Southern District of New York, Chapter 11 Case No. 09-10023 – (RED) (December 2, 2009).

Deposition of Daniel R. Fischel in Securities and Exchange Commission v. Carl W. Jasper, In the United States District Court, Northern District of California, San Jose Division, Case No. CV 07-6122 (HRL) (October 22, 2009).

Testimony of Daniel R. Fischel in Ventas, Inc. v. HCP, Inc., In the United States District Court of the Western District of Kentucky at Louisville, Civil Action No. 3:07-cv-00238-JGH (September 2, 2009).

Deposition of Daniel R. Fischel in Frank K. Cooper Real Estate #1, Inc., et al vs. Cendant Corporation f/k/a Hospitality Franchise Systems and Century 21 Real Estate Corporation, Superior Court of New Jersey, Law Division: Morris County, Docket No. MRS-L-377-02 (August 10, 2009).

Deposition of Daniel R. Fischel in Ventas, Inc. v. HCP, Inc., In the United States District Court of the Western District of Kentucky at Louisville, Civil Action No. 3:07-cv-00238-JGH (August 3, 2009).

Deposition of Daniel R. Fischel in U.S. Commodity Futures Trading Commission v. Amaranth Advisors, L.L.C., Amaranth Advisors (Calgary) and Brian Hunter, in the United States District Court, Southern District of New York, Case No. 07 CIV 6682 (July 8, 2009).

Declaration and Expert Surrebutal Report of Daniel R. Fischel in Ventas, Inc. v. HCP, Inc., In The United States District Court for the Western District of Kentucky at Louisville, Case No. 3:07-CV-00238-JGH (June 22, 2009).

Testimony of Daniel R. Fischel in NRG Energy, Inc. v. Exelon Corporation and Exelon Exchange Corporation, in the United States District Court, Southern District of New York, Case No. 09-CV-2448 (JGK) (DFE), (June 3, 2009).

Deposition of Daniel R. Fischel In Re: Delphi Corporation v. Appaloosa Management L.P., et al., In the United States Bankruptcy Court, Southern District of New York; Chapter 11, Case No. 05-44481(RDD) (Jointly administered), (June 2, 2009).

Deposition of Daniel R. Fischel in NRG Energy, Inc. v. Exelon Corporation and Exelon Exchange Corporation, in the United States District Court, Southern District of New York, Case No. 09-CV-2448 (JGK) (DFE), (May 31, 2009).

Deposition of Daniel R. Fischel in e-Bay Domestic Holdings, Inc. v. Craig Newmark and James Buckmaster and Craigslist, Inc., in the Court of Chancery of the State of Delaware, Case No. 3705-CC (May 29, 2009)

Testimony of Daniel R. Fischel In Re: Lawrence E. Jaffe Pension Plan, et al v. Household International, Inc., et al, in the United States District Court for the Northern District of Illinois, Eastern Division, No. 02-C-5893 (April 16, 20, 28 and 29, 2009).

Deposition of Daniel R. Fischel In Re: Rohm and Haas Company v. The Dow Chemical Company and Ramses Acquisition Corp., In the Court of Chancery of the State of Delaware, C.A. No. 4309-CC (March 4, 2009).

Deposition of Daniel R. Fischel In the Matter of Hoffman, et al. v. American Express Travel Related Services Company, Inc., et al., in the Superior Court of the State of California, in and for the County of Alameda, Case No. 2001-022881 (January 15, 2009).

Deposition of Daniel R. Fischel In Re: TyCom Ltd. Securities Litigation, in the United States District Court, District of New Hampshire, Docket No. 03-CV-1352 (September 22, 2008).

Deposition of Daniel R. Fischel In Re: Hexion Specialty Chemicals, Inc., et al v. Huntsman Corp., in the Court of Chancery of the State of Delaware, Civil Action No. 3841-VCL (September 4, 2008).

Deposition of Daniel R. Fischel In Re: Stone Energy Corp. Securities Litigation, in the United States District Court, Western District of Louisiana, Lafayette-Opelousas Division, Civil Action No. 6:05CV2088 (LEAD) (July 16, 2008).

Deposition of Daniel R. Fischel In Re: Initial Public Offering Securities Litigation, in the United States District Court, Southern District of New York, Master File No. 21 MC 92 (SAS) (April 3 and 4, 2008).

Deposition of Daniel R. Fischel In Re: Lawrence E. Jaffe Pension Plan, et al v. Household International, Inc., et al, in the United States District Court for the Northern District of Illinois, Eastern Division, No. 02-C-5893 (March 21, 2008).

Deposition of Daniel R. Fischel In Re: IAC/InteractiveCorp and Barry Diller v. Liberty Media Corporation, in the Court of Chancery of the State of Delaware in and for New Castle County, Consolidated Case Number 3486-VCL (February 29, 2008).

Testimony of Daniel R. Fischel In Re: Immunicon Corporation v. Veridex LLC, before the American Arbitration Association (Commercial Arbitration Rules), Case Number 50 180T 00192 07 (January 17, 2008).

Deposition of Daniel R. Fischel In Re: Unitedglobalcom Shareholders Litigation, in the Court of Chancery of the State of Delaware in and for New Castle County, Consolidated C.A. No. 1012-N (November 19, 2007).

Deposition of Daniel R. Fischel In Re: Cendant Corporation Litigation, in the United States District Court for the District of New Jersey, Master File No. 98-1664 (WHW) (November 15, 2007).

Deposition of Daniel R. Fischel In Re: Cendant Corporation Litigation, in the United States District Court for the District of New Jersey, Master File No. 98-1664 (WHW) (October 16, 2007).

Deposition of Daniel R. Fischel In Re Schering-Plough Corporation Securities Litigation, in the United States District Court for the District of New Jersey, Master File No. 01-CV-0829 (KSH/RJH) (October 12, 2007).

Deposition of Daniel R. Fischel In Re: Carpenters Health & Welfare Fund, et al. vs. The Coca-Cola Company, in the United States District Court, Northern District of Georgia, Atlanta Division, File No. 1:00-CV-2838-WBH (Consolidated) (September 26, 2007).

Deposition of Daniel R. Fischel In Re: Parker Freeland, et al., vs. Iridium World Communications, Ltd., et al., in the United States District Court for the District of Columbia, Civil Action No. 99-1002 (August 7, 2007).

Deposition of Daniel R. Fischel In Re: Chuck Ginsburg v. Philadelphia Stock Exchange, Inc., et al., In the Court of Chancery of the State of Delaware in and for New Castle County, C.A. No. 2202-N (June 12, 2007).

Testimony of Daniel R. Fischel In Re: Holcombe T. Green and HTG Corp. v. McKesson, Inc., et al, In the Superior Court for the County of Fulton, State of Georgia, Civil Action File No. 2002-CV-48407 (June 5, 2007).

Affidavit of Daniel R. Fischel In Re: Lear Corporation Shareholders Litigation, In the Court of Chancery of the State of Delaware, Consolidated C.A. No. 2728-VCS (May 30, 2007).

Affidavit of Daniel R. Fischel In Re: Aeroflex, Inc. Shareholder Litigation, in the Supreme Court of the State of New York, County of Nassau: Commercial Division, Index No. 07-003943 (May 23, 2007).

Deposition of Daniel R. Fischel In Re: Holcombe T. Green and HTG Corp. v. McKesson, Inc., HBO & Company, Albert Bergonzi, and Jay Gilbertson, in the Superior Court for the County of Fulton, State of Georgia, Civil Action File No. 2002W48407 (May 21, 2007).

Deposition of Daniel R. Fischel In Re: Adelphia Communications Corp. v. Deloitte & Touche LLP, et al, in the Court of Common Pleas, Philadelphia County, Pennsylvania, Case No. 000598 (May 3 and 4, 2007).

Testimony of Daniel R. Fischel In Re: United States of America v. Joseph P. Nacchio, in the United States District Court for the District of Colorado, Case No. 05-CR-00545-EWN (April 9, 2007).

Deposition of Daniel R. Fischel In Re: MK Resources Company Shareholders Litigation, in the Court of Chancery for the State of Delaware in and for New Castle County, C.A. No. 1692-N (February 22, 2007).

Deposition of Daniel R. Fischel In Re: Starr International Company, Inc. v. American International Group, Inc., In the United States District Court, Southern District of New York, Case No. 05 CV 6283 (January 26, 2007).

Written testimony of Daniel R. Fischel In Re: Verizon Communications Inc. and Verizon Services Corp. v. Christopher G. Pizzirani, In the United States District Court for the Eastern District of Pennsylvania, Case No. 2:06-cv-04645-MK (November 6, 2006).

Testimony of Daniel R. Fischel In Re: Northeast Savings, F.A. v. United States of America, In The United States Claims Court, Case No. 92-550 C (November 2 and 9, 2006).

Testimony of Daniel R. Fischel In Re: United States of America v. Sanjay Kumar and Stephen Richards, United States District Court, Eastern District of New York, 04 Civ. 4104 (ILG) (October 25, 2006).

Affidavit of Daniel R. Fischel In Re: Lionel I. Brazen and Nancy Hammerslough, et al v. Tyco International Ltd., et al, In the Circuit Court of Cook County, Illinois County Department, Chancery Division, No. 02 CH 11837 (September 18, 2006).

Deposition of Daniel R. Fischel In Re: Tele-Communications, Inc. Shareholders Litigation, in the Court of Chancery of the State of Delaware in and for New Castle County, Consolidated C.A. No. 16470 (September 15, 2006).

Affidavit of Daniel R. Fischel In Re: United States of America v. Sanjay Kumar and Stephen Richards, United States District Court, Eastern District of New York, 04 Civ. 4104 (ILG) (September 8, 2006).

Deposition of Daniel R. Fischel In Re: James Gilbert v. McKesson Corporation, et al., in the State Court of Fulton County, State of Georgia, Civil Action File No. 02VS032502C (September 7, 2006).

Supplemental Declaration of Daniel R. Fischel In Re: United States of America v. Jeffrey K. Skilling, in the United States District Court, Southern District of Texas, Houston Division, Crim. No. H-04-25 (Lake, J.) (August 25, 2006).

Affidavit of Daniel R. Fischel In Re: United States of America v. Sanjay Kumar and Stephen Richards, United States District Court, Eastern District of New York, 04 Civ. 4104 (ILG) (August 22, 2006).

Declaration of Daniel R. Fischel In Re: United States of America v. Jeffrey K. Skilling, in the United States District Court, Southern District of Texas, Houston Division, Crim. No. H-04-25 (Lake, J.) (August 3, 2006).

Deposition of Daniel R. Fischel In Re: Enron Corporation Securities Litigation, in the United States District Court, Southern District of Texas, Houston Division, Case Number: H-01-3624 (May 24, 2006).

Testimony of Daniel R. Fischel In Re: Guidant Corporation Shareholders Derivative Litigation, in the United States District Court, Southern District of Indiana, Indianapolis Division, Master Derivative Docket No. 1:03-CV-955-SEB-WTL (January 20, 2006).

Testimony of Daniel R. Fischel In Re. Hideji Jumbo Tanaka v. Cerberus Far East Management, L.L.C., et al., AAA Case No. 50 T 116 00284 03, (December 15, 2005).

Deposition of Daniel R. Fischel In Re: McKesson HBOC, Inc. Securities Litigation, in the United States District Court for the Northern District of California, No. C-99-20743-RMW (August 16, 2005).

Testimony of Daniel R. Fischel In the Matter of Visconsi Companies Ltd., et al. and Lehman Brothers, et al., National Association of Securities Dealers Department of Arbitration, Grievance No. 03-07606 (July 26, 2005).

Testimony of Daniel R. Fischel in re: John P. Crowley, as Receiver of Ambassador Insurance Company v. Doris June Chait, et al., in the United States District Court for the District of New Jersey, Case No. 85-2441 (HAA) (July 21 and 22, 2005).

Deposition of Daniel R. Fischel In re: Electronic Data Systems Corporation Securities Litigation, in the United States District Court for the Eastern District of Texas, Tyler Division, Case No. 6:03-MD-1512 (July 20, 2005).

Testimony of Daniel R. Fischel in re: United States of America v. Philip Morris, Inc., et al, in the United States District Court for the District of Columbia, Case No. 1:99CV02496 (May 26 and 27, 2005).

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Service, Inc., et al., for the Superior Court of the State of California, for the County of Los Angeles, No. C688487 (April 17, 1996).

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Deposition of Daniel R. Fischel in Re: Amos M. Ames, Helen M. Ames, Robert F. Bourke, Louise L. Bourke, Leo E. Corr, April C. Corr, Wence M. Horak, Ruth Horak, Robert T. Freas, Maurita Freas, Bruce Fink, Jr., William H. Jones, Candace A. Jones, Richard Paul, William L. Paul, Carole Paul, Steven J. Paul, Best Power Technology, Incorporated, and Best Power Technology Sales Corporation, in the State of Wisconsin, Circuit Court, Juneau County, Consolidated Case Nos. 92-CV-31, 92-CV-32 (January 26, 1993).

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Deposition of Daniel R. Fischel in Re: Martin Kaplan and Selma Kaplan, on Behalf of Themselves and All Others Similarly Situated v. VICORP Restaurants, Inc., Charles R. Frederickson, Robert S. Benson, Emerson B. Kendall, Robert T. Marto and Johyn C. Hoyt, United States District Court, District of Colorado, Civil Action No. 90-C-2182 (February 11, 1992).

Deposition of Daniel R. Fischel in Re: Interco Incorporated v. Wasserstein, Perella & Co., Inc., United States District Court, Eastern District of Missouri, Eastern Division, No. 91-0151-C-6 (February 3, 1992 and December 12, 1991).

Statement of Daniel R. Fischel in Re: Far West Federal Bank, S.B., et al. v. Director, Office of Thrift Supervision, et al., United States District Court for the District of Oregon, Civil Action No. 90-103 PA (February 3, 1992).

Deposition of Daniel R. Fischel in Re: Capital Bank of California v. Morgan Stanley & Co., Incorporated, United States District Court, Central District of California, No. 91-1650-R (January 24, 1992).

Deposition of Daniel R. Fischel in Re: Trinity Ventures, et al. v. Federal Deposit Insurance Corporation, in its own capacity and as successor to the Federal Savings and Loan Insurance Corporation, United States District Court, for the District of Oregon, No. 90-103-PA (January 6, 1992).

Deposition of Daniel R. Fischel in Re: First Republicbank Securities Litigation, United States District Court, Northern District of Texas, Dallas Division, Civil Action No. 3-88-0641-H (January 2, and 3, 1992; November 26, 1991).

Deposition of Daniel R. Fischel in Re: State of West Virginia v. Morgan Stanley & Co. Incorporated; Salomon Brothers Inc.; and Goldman Sachs & Co., in the Circuit Court of Kanawha County, State of West Virginia, Civil Action No. 89-C-3700 (December 19 and 20, 1991).

Deposition of Daniel R. Fischel in Re: The Regina Company, Inc. Securities Litigation, United States District Court, District of New Jersey, Civil Action No. 88-4149 (HAA) (October 31, 1991).

Affidavit of Daniel R. Fischel in Re: Gillette Securities Litigation, United States District Court, District of Massachusetts, Civil Action No. 88-1858-K (October 7 1991).

Deposition of Daniel R. Fischel in Re: Capital Maritime Corporation v. Amfels, Inc., Far East Levingston Shipbuilding Ltd., John B. Allison and Patrick A. McDermid, United States District Court for the Southern District of Texas Houston Division, C.A. No. H-90-3417 (September 12, 1991).

Deposition of Daniel R. Fischel in Re: Thomas J. Caldarone, Jr. v. Isidore Brown, et al., and John E. Washburn, et al. v. Isidore Brown, et al., United States District Court, Northern District of Illinois, Eastern Division, Docket Nos. 80 C 6251 and 81 C 1475 (August 28, 29, and 30, 1991).

Testimony of Daniel R. Fischel in Re: Apple Securities Litigation, United States District Court, Northern District of California, Northern Division, Docket No. C-84-20148 (May 20 and 21, 1991).

Testimony of Daniel R. Fischel in Re: The Stuart-James Co., Inc., et al. Litigation, United States of America before the Securities & Exchange Commission, in Denver, Colorado, Administrative Proceeding File No. 3-7164 (May 6, 1991).

Deposition of Daniel R. Fischel in Re: Jennie Farber on behalf of herself and all others similarily situated v. Public Service Company of New Mexico; Jerry D. Geist; John P. Bundrant and Albert J. Robison, United States District Court for the District of New Mexico, CIV 89-456 JB WWD (April 17 and 18, 1991).

Affidavit of Daniel R. Fischel in Re: Moise Katz, Frederick Rand, Elias Weissman, Richard D. Morgan, Marion R. Morgan and Mortimer Schulman v. Raymond A. Hay, United States District Court, Southern District of New York, No. 86 Civ. 5640 (JES) (March 29, 1991).

Deposition of Daniel R. Fischel in Re: Standard Chartered PLC., a United Kingdom corporation, et al. v. Price Waterhouse, a general partnership, Superior Court of the State of Arizona, in and for the County of Maricopa, CV 88-34414 (March 13 and 14, 1991).

Affidavit of Daniel R. Fischel in Re: United States of America v. AVX Corporation, and Commonwealth of Massachusetts v. AVX Corporation, United States District Court, District of Massachusetts, Civil Action Nos. 83-3882-Y and 83-3899-Y (January 29, 1991).

Deposition of Daniel R. Fischel in Re: Apple Computer Securities, United States District Court Northern District of California, San Jose Division, No. C-84-20148 (a) JW (December 13 and 14, 1990).

Deposition of Daniel R. Fischel in Re: Polycast Technology Corporation, and Uniroyal Plastics Acquisition Corp. v. Uniroyal, Inc., et al., United States District Court Southern District of New York, No. 87 Civ. 3297 (December 6, 1990 and November 28, 1990).

Deposition of Daniel R. Fischel in Re: Ellen Rudd, on behalf of herself and all others similarly situated, and Mayer Corporation on behalf of themselves, and all others similarly situated, and Louis Brandt, and Israel Baker, Jay R. Kuhne, Pininfarina Corp., and American Transfer Co., on behalf of themselves and all others similarly situated v. Kirk Kerkorian, et al., Superior Court of the State of California, County of Los Angeles, Nos. CA 000980, CA 000981, CA 001017, CA 620279 (June 21, 1990).

Testimony of Daniel R. Fischel in Re: City of San Jose v. Paine, Webber, Jackson & Curtis, Incorporated, et al., and related counter- and Third-Party Claims, United States District Court, Northern District, No. C-84-20601 RPA (May 23 and 24, 1990).

Deposition of Daniel R. Fischel in Re: City of San Jose v. Paine, Webber, Jackson & Curtis, Incorporated, et al., and related counter- and Third-Party Claims, United States District Court, Northern District, No. C-84-20601 RPA (May 22, 1990), No. RPA 84-20601 (November 16, 1989 and September 8, 1989).

Testimony of Daniel R. Fischel in Re: Kulicke and Soffa Industries, Inc. Securities Litigation, United States District Court for the Eastern District of Pennsylvania, No. 86-1656 (March 20 and 21, 1990).

Deposition of Daniel R. Fischel in Re: Kulicke and Soffa Industries, Inc. Securities Litigation, United States District Court for the Eastern District of Pennsylvania, No. 86-1656 (March 9, 1990; December 19 and 21, 1989).

Affidavit of Daniel R. Fischel in Re: Viacom International Inc. v. Carl C. Icahn, et al., v. Ralph M. Baruch, et al., United States District Court, Southern District of New York, No. 86 Civ. 4215 (RPP) (March 8, 1990).

Deposition of Daniel R. Fischel in Re: Technical Equities Coordination Litigation, Superior Court of the State of California for the County of Santa Clara, Master File No. 1991, Santa Clara County Superior No. 600306 (March 1, 1990).

Deposition of Daniel R. Fischel in Re: Amalgamated Clothing and Textile Workers Union, AFL-CIO, et al. v. David A. Murdock, et al., United States District court for the Central District of California, No. CV-86-6410 IH (February 8, 1990).

Deposition of Daniel R. Fischel in Re: Connecticut National Life Insurance Company, et al. v. Peter A.. Sprecher and Laventhol & Horwath, United States District Court, Central District of California, No. CV 87-1945 WJR (Tx) (January 30, 1990).

Deposition of Daniel R. Fischel in Re: Consolidated Capital Securities Litigation, United States District Court, Northern District of California, No. C-85-7332 AJZ (January 22, 1990).

Declaration of Daniel R. Fischel in Re Plaintiffs' Damages in Re: Liquidity Fund, et al. v. Southmark Corporation, et al. in the Superior Court of the State of California for the County of San Mateo, No. 332435 (January 18, 1990).

Deposition of Daniel R. Fischel in Re: Norman Kamerman, Shirley Brown, Edward Rosen, Lexim Investors Corp., and Dohsa Anstalt, on behalf of themselves and all others similarly situated, and Barnett Stepak v. Saul Steinberg, Reliance Group Holdings, Inc., Reliance Group, Inc., Reliance Financial Services corp., and Reliance Insurance Company, United States District Court, Southern District of New York, No. 84 Civ. 4440 (September 13, 1989).

Affidavit of Daniel R. Fischel in Re: Edward A. Taylor, et al. v. A. O. Smith Corporation et al., Circuit Court for Lincoln County, Tennessee, No. 098-84 (August 11, 1989).

Deposition of Daniel R. Fischel in Re: Container Products Inc. v. Pace Industries, United States District Court, Southern District of New York, No. 88-CIV. 3549 (KMW) (July 19, 1989).

Deposition of Daniel R. Fischel in Re: Joseph B. Moorman, et al. v. Southmark Corporation, et al., Liquidity Fund, et al. v. Southmark Corporation, et al., Superior Court of the State of California for the County of San Mateo, Nos. 322135 and 332435 (July 11, 1989).

Testimony of Daniel R. Fischel in Re: Tessie Wolfson, et al. v. Frederick S. Hammer, and Meritor Financial Group, United States District Court for the Eastern District of Pennsylvania, Civil Action No. 87-8471 (June 20, 1989).

Deposition of Daniel R. Fischel in Re: Richard J. Heckmann, et al. v. C. L. Ahmanson, et al., and Consolidated Cases, Superior Court of the State of California for the County of Los Angeles, Nos. CA000851 and C642081 (June 8, 1989).

Deposition of Daniel R. Fischel in Re: Tessie Wolfson, et al. v. Frederick S. Hammer, United States District Court for the Eastern District of Pennsylvania, Civil Action No. 87-8472 (May 11, 1989).

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Deposition of Daniel R. Fischel in Re: National Union Fire Insurance Company of Pittsburgh, PA v. Wells Fargo Bank, N.A., District Court of Harris County, Texas, 125th Judicial District, No. 88-49246 (April 10 and 11, 1989).

Deposition of Daniel R. Fischel in Re: Susan Rothenberg, as Custodian for Stephen J. Rothenberg v. Charles E. Hurwitz, United Financial Corporation, United Savings Association of Texas, et al., United States District Court for the Southern District of Texas, Houston Division, Civil Action No. H-86-1435 (March 30, 1989).

Deposition of Daniel R. Fischel in Re: Jose Nodar, et al. v. William Weksel, Albert Bromberg, Henry B. Turner, IV, Frank L. Bryant, Leo Kuperschmid, Bennett S. Lebow, Ernst & Whinney and Oppenheimer & Co., Inc., United States District Court, Southern District of New York, No. 84 Civ. 3870 (VLB) and consolidation case No. 84 Civ. 5132 (VLB) (December 15 and 16, 1988).

Deposition of Daniel R. Fischel in Re: William Steiner, et al. v. Whittaker Corporation, et al., Superior Court of the State of California for the County of Los Angeles, No. CA000817 (December 7, 1988).

Deposition of Daniel R. Fischel in Re: Arnold I. Laven, et al. v. Western Union Corporation, et al., United States District Court for the District, Western District of Washington, MDL No. 551 (August 30 and 31, 1988).

Deposition of Daniel R. Fischel in Re: Washington Public Power Supply System Securities Litigation, United States District Court, Western District of Washington, MDL No. 551 (August 16 and 22, 1988).

Affidavit of Daniel R. Fischel in Re: District Business Conduct Committee for District No. 3 v. Blinder, Robinson & Company Inc., et al., National Association of Securities Dealers, Inc. National Business Conduct Committee, Complaint No. DEN-666 (July 21, 1988).

Deposition of Daniel R. Fischel in Re: Joseph Seidman, et al. v. Stauffer Chemical Company, et al, United States District Court for the District of Connecticut, No. B 84-543 (TFGD) (June 10, 1988 and May 5, 1987).

Deposition of Daniel R. Fischel in Re: Edlin Cattle Co., Inc., and James Edlin v. A. O. Smith Harvestore Products, Inc., et al., United States District Court for the Northern District of Texas, Amarillo Division, No. CA-2-86-0122 (May 12, 1988).

Deposition of Daniel R. Fischel in Re: MicroPro Securities Litigation, United States District Court for the Northern District of California, No. C-85-7428-EFL (A) (May 2, 1988).

Affidavit of Daniel R. Fischel in Re: Pizza Time Theatre Securities Litigation, United States District Court for the Northern District of California, Civil File No. 84-20048-(A)-RPA (March 25, 1988).

Affidavit of Daniel R. Fischel and Robert A. Sherwin in Re: First National Bank of Louisville v. Brooks Farms, and George C. Brooks, et al., Third-Party Plaintiffs v. A. O. Smith Corporation, et al., Circuit Court for Maury County, Tennessee, No. 2058 (March 3, 1988).

Testimony of Daniel R. Fischel in Re: Nucorp Energy Securities Litigation, United States District Court for the Southern District of California, M.D.L. 514 (March 15, 16, 17, and 18, 1988).

Deposition of Daniel R. Fischel in Re: Nucorp Energy Securities Litigation, United States District Court for the Southern District of California, M.D.L. 514 (January 27, 1988).

Deposition of Daniel R Fischel in Re: Anheuser-Busch Companies, Inc. v. W. Paul Thayer, et al., United States District Court for the Northern District of Texas, Dallas Division, No. CA-3-85-0794-R (January 21, 1988; December 4, 1987; and November 5, 1987).

Testimony of Daniel R. Fischel in Re: Securities and Exchange Commission v. First City Finance Corporation Ltd., and Marc Belzberg, United States District Court for the District of Columbia, Civil Action No. 86-2240 (December 18, 1987).

Testimony of Daniel R. Fischel in Re. The Irvine Company v. Athalie Irvine Smith and Athalie R. Clarke, Trustee, State of Michigan Circuit Court for the county of Oakland, Civil Action No. 8327011-CZ (December 14, 15, and 16, 1987).

Deposition of Daniel R. Fischel in Re: Securities and Exchange Commission v. First City Finance Corporation, Ltd. and Marc Belzberg, United States District Court for the District of Columbia, Civil Action No. 86-2240 (December 11, 1987).

Affidavit of Daniel R. Fischel in Re: Gerald D. Broder and Constance D. Broder v. Alphonse H. Bellac and William B. Weinberger v. Combustion Equipment Associates, Inc., et al., and William B. Weinberger v. Coopers & Lybrand, United States District Court for the Southern District of New York, 80 CIV 6175 (CES) 80 CIV 6839 (CES) 84 CIV 8217 (CES) (July 22, 1987).

Deposition of Daniel R. Fischel in Re: The Irvine Company v. Athalie Irvine Smith and Athalie R. Clarke, Trustee, State of Michigan, Circuit Court for the County of Oakland, Civil Action No. 83270011-CZ (June 1, 1987).

Deposition of Daniel R. Fischel in Re: Fortune Systems Securities Litigation, United States District for the Northern District of California, Master File No. 83-3348A-WHO (May 7, 1987).

Deposition of Daniel R. Fischel in Re: Victor Technologies Securities Litigation, United States District Court for the Northern District of California, Master File No. C-83-3906(A)-RFP (FW) (January 8, 1987 and October 30, 1986).

Reply Declaration of Daniel R. Fischel in Support of the Motion by the Activision Defendants for Summary Judgment in Re: Activision Securities Litigation, United States District Court for the Northern District of California, Master File No. C-83-4639(A)-MHP (October 27, 1986).

Testimony of Daniel R. Fischel in Re: NVHomes, L.P. v. Ryan Homes, Inc.; and Ryan Homes, Inc. v. NVHomes, L.P., et al., United States District Court for the Western District of Pennsylvania, Civil Action No. 86-2139 (October 24, 1986).

Supplemental Affidavit of Daniel R. Fischel in Re: NVHomes, L.P. v. Ryan Homes, Inc.; and Ryan Homes, Inc. v. NVHomes, L.P. and NVAcquisition L.P., et al., United States District Court the Western District of Pennsylvania, Civil Action No. 86-2139 (October 24, 1986).

Affidavit of Daniel R. Fischel in Support of the Motion by the Activision Defendants for Summary Judgment in Re: Activision Securities Litigation, United States District Court for the Northern District of California, Master File No. C-86-2139 (October 20, 1986).

Declaration of Daniel R. Fischel in Support of the Motion by the Activision Defendants for Summary Judgment in Re: Activision Securities Litigation, United States District Court for the Northern District of California, Master File No. C-83-4639(A)-MHP (October 2, 1986).

Affidavit in Support of Defendants Motion for Summary Judgment in Re: MCorp Securities Litigation, United States Court for the Southern District of Texas, Civil Action No. H-85-5894 (September 25, 1986).

Deposition of Daniel R. Fischel in Re: Activision Securities Litigation, United States District Court for the Northern District of California, No. C 83 4639 (August 18 and 19, 1986).

Deposition of Daniel R. Fischel in Re: John Mancino v. James A. McMaghan, et al., United States District Court for the Northern District of California, Civil No. C-84-0407-TEH (August 14, 1986).

Testimony of Daniel R. Fischel in Re: Charles W. Leigh, et al. and George Johnson, et al. v. Clyde William Engle, et al., United States District Court for the Northern District of Illinois, Eastern Division, Case No. 78 C 3799 (August 1, 1986).

Reply Affidavit of Daniel R. Fischel in Re: The Amalgamated Sugar Company v. NL Industries, United States District Court for the Southern District of New York, 86 Civ. 5010 (VLB) (July 28, 1986).

Affidavit of Daniel R. Fischel in Re: The Amalgamated Sugar Company v. NL Industries, United States District Court for the Southern District of New York, 86 Civ. 5010 (VLB) (July 18, 1986).

Deposition of Daniel R. Fischel in Re: Charles W. Leigh, et al. and George Johnson, et al. v. Clyde William Engle, et al., United States District Court for the Northern District of Illinois, Eastern Division, Case No. 78 C 3799 (July 1, 1986).

Deposition of Daniel R. Fischel in Re: Seafirst Corporation v. William M. Jenkins, et al.; and Seafirst Corporation v. John R. Boyd, et al., United States District Court for the Western District of Washington at Seattle, Case No. C83-771R (February 27, 1986).

Deposition of Daniel R. Fischel in Re: Kreindler v. Sambo's Restaurants, Inc., United States District Court for the Southern District of New York, Case No. 79 Civ. 4538 (December 17, 1985).

Affidavit of Daniel R. Fischel in Re: United States of America v. S. Richmond Dole and Clark J. Matthews II (March 19, 1985).

Deposition of Daniel R. Fischel in Re: Craig T. McFarland, et al. v. Memorex Corporation, United States District Court for the Northern District of California, No. C 79-2926-WAI, C 79-2007-WAI, C 79-241-WAI (February 26, 1985; January 29 and 30, 1985).

Testimony of Daniel R. Fischel in Re: Robert J. Lawrence v. Grumman Corp. Pension Plan, et al., United States District Court for the Eastern District of New York, No. CV-81-3530 (December 19, 1983).

Testimony of Daniel R. Fishel in Re: Telvest, Inc. v. Junie L. Bradshaw, et al. and American Furniture Company, United States District Court, for the Eastern District of Virginia Richmond Division, No. CA-79-0722-R (December 4, 1981).

OTHER ACTIVITIES

Member, American Economic Association, American Finance Association.

Member of the Board of Overseers of the Becker-Friedman Institute at the University of Chicago.

Former Advisor to the Harvard Program on Corporate Governance at Harvard University.

Former Member, Board of Directors, Center for the Study of the Economy and the State.

Former Member, Mid-America Institute Task Force on Stock Market Collapse.

Have acted as a consultant and/or advisor to the New York Stock Exchange, the National Association of Securities Dealers, the Chicago Board of Trade, the Federal Trade Commission, the Department of Labor, the Securities and Exchange Commission, the Canadian Securities and Exchange Commission, the United States Department of Justice, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision.

Referee, Journal of Financial Economics, Journal of Law and Economics, Journal of Legal Studies.

Participant and speaker at multiple conferences on the Economics of Corporate, Securities and Commodities Law and the Regulation of Financial Markets.

Former Chairman, American Association of Law Schools' Section on Law and Economics.

EXHIBIT 3

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	Lead Case No. 02-C-5893 (Consolidated) CLASS ACTION Judge Ronald A. Guzman Magistrate Judge Nan R. Nolan

REPORT OF DANIEL R. FISCHEL

Lawrence E. Jaffe Pension Plan vs. Household International, Inc., et al.

REPORT OF DANIEL R. FISCHEL

I. QUALIFICATIONS

1. I, Daniel R. Fischel, am President of Lexecon, a consulting firm that specializes in the application of economics to a variety of legal and regulatory issues. I am also Professor of Law and Business at Northwestern University School of Law and Kellogg School of Management and the Lee and Brena Freeman Professor of Law and Business Emeritus at The University of Chicago Law School. I have served previously as Dean of The University of Chicago Law School, Director of the Law and Economics Program at The University of Chicago Law School, and as Professor of Law and Business at The University of Chicago Graduate School of Business.

2. Both my research and my teaching have concerned the economics of corporate law and financial markets. I have published approximately fifty articles in leading legal and economics journals and am coauthor, with Judge Frank Easterbrook of the Seventh Circuit Court of Appeals, of the book *The Economic Structure of Corporate Law* (Harvard University Press). Courts of all levels, including the Supreme Court of the United States, have cited my articles as authoritative. *See, e.g.*, *Central Bank v. First Interstate Bank*, 511 U.S. 164 (1994); *Basic Inc. v. Levinson*, 485 U.S. 224, 246 n. 24 (1988); and *Edgar v. MITE Corp.*, 457 U.S. 624, 643 (1982). My curriculum vitae, which contains a list of my publications, is attached hereto as Exhibit 1.

3. I have served as a consultant or adviser on economic issues to, among others, the United States Securities and Exchange Commission, The National Association of Securities Dealers, the New York Stock Exchange, the Chicago Board of

Trade, the United States Department of Labor, the United States Department of Justice, the Federal Deposit Insurance Corporation, the Resolution Trust Corporation, and the Federal Trade Commission.

4. I am a member of the American Economic Association and the American Finance Association. I am also a member of the Board of Directors of the Center for the Study of the Economy and the State at The University of Chicago, and former Chairman of the American Association of Law Schools' Section on Law and Economics. I have testified as an expert witness in multiple proceedings in federal and state courts across the country, as detailed in Exhibit 1. My hourly billing rate is $1,000.

II. INTRODUCTION AND SUMMARY OF CONCLUSION

5. Household International, Inc. ("Household" or the "Company") was principally a non-operating company with subsidiaries that primarily provided middle-market customers with several types of loan products in the United States, the United Kingdom, Canada, the Czech Republic, and Hungary.[1] Household Form 10-K for the fiscal year ended December 31, 2002 ("2002 10-K") at 2. The Company's operations were divided into three reportable segments: consumer (which included consumer lending, mortgage services, retail services, and auto finance businesses); credit card services (which included domestic MasterCard and Visa credit card businesses); and international. *Id.* at 5. Across these segments, Household generally served nonconforming and nonprime ("subprime") customers, *i.e.*, those who have limited credit histories, modest income, high debt-to-income ratios, high loan-to-value ratios (for real estate secured portfolios) or have experienced credit problems caused by occasional

1. Household was acquired by HSBC Holdings plc ("HSBC") on March 28, 2003. *See* Household Form 8-K dated March 28, 2003.

delinquencies, prior chargeoffs, or credit-related actions. *Id.* Household's continued success and prospects for growth were dependent upon access to the global capital markets. *Id.* at 8. The Company funded its operations using a combination of capital market debt and equity, deposits, and securitizations. *Id.* at 9.

6. On August 14, 2002, Household announced that it had restated its consolidated financial statements, including for the years ended December 31, 1999, 2000, and 2001 and for the quarter ended March 31, 2002. *Id.* at 25 & Household Form 10-Q for the quarterly period ended June 30, 2002 at 5. The restatement related to MasterCard/Visa co-branding and affinity credit card relationships and a marketing agreement with a third party credit card marketing company; all were part of its credit card services segment. *Id.* Retained earnings at December 31, 2001 were restated to reflect a retroactive after-tax charge of $359.9 million. *Id.*

7. On October 11, 2002, Household announced that it had reached a preliminary agreement with a multi-state working group of state attorneys general and regulatory agencies to effect a nationwide resolution of alleged violations of federal and state consumer protection, consumer financing and banking laws and regulations with respect to secured real estate lending from its retail branch consumer lending operations. 2002 10-K at 3. The Company agreed to pay up to $484 million and adopt a series of business practices to benefit borrowers.[2] *See* Exhibit 2. Household management said it expected the changes in business practices to cut earnings by 10 cents a share in 2003, by 20 cents in 2004, and by 30 cents in 2005.[3] *Id.*

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2. In the third quarter of 2002, the Company recorded a pre-tax charge of $525 million ($333.2 million after-tax) to reflect the costs of the settlement agreement and related matters. 2002 10-K at 3.
3. Household management also disclosed that it thought Wall Street's 2003 forecast of

8. On March 18, 2003, Household consented to the entry by the Securities and Exchange Commission ("SEC") of an order (the "Consent Order") relating to the sufficiency of certain disclosures in reports the Company filed during 2002. 2002 10-K at 4-5. The SEC found that Household's disclosures regarding its restructuring (or "re-aging") policies failed to present an accurate description of the minimum payment requirements applicable under the various policies or to disclose its policy of automatically restructuring numerous loans and were therefore false and misleading. *Id.* The SEC also found misleading Household's failure to disclose its policy of excluding forbearance arrangements in certain of its businesses from its 60+ days contractual delinquency statistics. *Id*. The SEC noted that the 60+ days contractual delinquency rate and restructuring statistics were key measures of the Company's financial performance because they positively correlate to charge-off rates and loan loss reserves. *Id.* The SEC stated that the false and misleading disclosures violated Sections 10(b) and 13(a) of the Exchange Act, and Rules 10b-5, 12b-20, 13a-1 and 13a-13 under the Exchange Act. *Id*.

9. In light of the above, several institutions ("Plaintiffs") have filed a securities class action against Household's CEO & Chairman of the Board William F. Aldinger, President, COO & Vice-Chairman of the Board David A. Schoenholz, Vice-Chairman of Consumer Lending & Group Executive of U.S. Consumer Finance Gary Gilmer, Household Finance Corp. ("HFC") director J.A. Vozar, and the Company (collectively, "Defendants").[4] [Corrected] Amended Consolidated Class Action

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$5.09 was too high and that it now expected 2003 earnings to fall in the range of $4.65 to $4.90, and that it expected to take another charge of between $250 million and $300 million after tax related to the sale of its thrift. *See* Exhibit 2.

4. I understand that defendant Arthur Andersen LLP has settled with Plaintiffs and that claims against the other defendants named in the Complaint have been dismissed.

Complaint for Violation of the Federal Securities Laws ("Complaint") ¶¶ 1, 6, 36 & 47. Plaintiffs bring this action on behalf of all persons who purchased or otherwise acquired Household securities during the period from July 30, 1999 to October 11, 2002 (the "Class Period").[5] *Id.* ¶ 1. I understand that a class has been certified as to the claims Plaintiffs bring under §10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

10. Plaintiffs allege that throughout the Class Period, Defendants engaged in a fraudulent scheme and wrongful course of business that rendered Household's financial statements materially false and misleading and caused the market prices of its securities to trade at artificially inflated levels. *Id.* ¶¶ 24 & 50. Plaintiffs principally allege that Defendants: 1) employed improper lending practices designed to maximize amounts lent to borrowers in the subprime market ("Predatory Lending") and denied that these practices were occurring; 2) misrepresented and manipulated defaults and delinquencies (metrics closely followed by analysts and investors) by artificially re-aging delinquent accounts ("Re-aging"); and 3) improperly accounted for expenses associated with certain of its credit card agreements, which led to a restatement going as far back as 1994 that lowered earnings throughout the Class Period (the "Restatement"). *Id.* ¶¶ 2, 50 & 83. Plaintiffs claim that the cumulative effect of the revelation of Defendants' alleged wrongful course of business caused the prices of Household's securities to plummet. *Id.* ¶¶ 6 & 29. Plaintiffs further claim that as a direct and proximate result of Defendants' allegedly wrongful conduct, they and other members of

5. The Class Period as pled began on October 23, 1997. Complaint ¶ 1. I understand that, as a matter of law, the Court dismissed claims on behalf of those who purchased or otherwise acquired Household securities prior to July 30, 1999.

the class suffered damages in connection with their purchases of Household securities during the Class Period. *Id.* ¶ 350.

11. I have been asked by counsel for Plaintiffs to analyze the economic evidence as it relates to their claims, determine whether it is consistent with these claims, and, if so, analyze the amount of alleged artificial inflation in Household's stock price during the Class Period attributable to such claims. I have been assisted by Lexecon's professional staff. The materials I relied upon in forming my opinions are included as exhibits or cited *infra*. Based on our review and analysis, I have concluded that the economic evidence is consistent with Plaintiffs' claim that the alleged wrongdoing caused investors in Household's common stock to incur losses.

III. THE RELATIONSHIP BETWEEN PLAINTIFFS' ALLEGATIONS AND INVESTORS' LOSSES

A. Predatory Lending

12. Beginning at least as early as November 15, 2001, Household's stock price was negatively impacted by concerns regarding the Company's alleged predatory lending practices. After the close of trading on November 14, 2001, *Bloomberg* reported that the California Department of Corporations ("CDC") filed suit for civil penalties in the amount of at least $8.5 million against Household's HFC and Beneficial subsidiaries as a result of their "engaging in joint, pervasive patterns of abusive lending practices consisting of routine, statewide imposition of excessive and improper fees, penalties, interest and charges" in violation of state consumer protection laws.[6] *See* Exhibit 3. A *Business Wire* article noted that the CDC "discovered 1,921

6. Household's residual stock price return on the next day, November 15, 2001, was -3.1%, which is statistically significant at conventional levels of significance. *See* Exhibit 49 *and infra* ¶¶ 31-3 for an explanation of residual stock price returns and

incidents of charging excessive administrative fees, the same category of violations that Household was required to correct in 1998." *See* Exhibit 4. On November 15, 2001, the Company issued a press release denying "any assertion that it has willfully violated the lending laws that regulate its business." *See* Exhibit 5. Analysts at Deutsche Banc Alex. Brown Inc. commented that although the amount of the civil penalties the CDC was seeking did not appear severe, "[t]he unanswered questions are 1) how much more in refunds might Household owe? 2) will the accusations escalate (within or beyond the state)? and 3) will there be any operational constraints?" and concluded that "there could be a cloud overhanging the stock in the short term." *See* Exhibit 6.

13. Household settled the CDC lawsuit in early January 2002, agreeing to pay $12 million of fines and refunds and be subject to "an unprecedented level of oversight from its California regulator." *See* Exhibit 7. The CDC stated that the settlement was "so tough" because Household was a "recidivist." *Id*. An industry consultant noted that "[t]his case is of particular interest because it marks what could be the start of increased oversight by state regulatory agencies of consumer finance companies" and that it could spark a trend in other states. *Id*.

14. On February 18, 2002, *National Mortgage News* provided detail on a class-action lawsuit alleging that Household's California subsidiaries "tricked" and "trap[ped]" customers into high-cost mortgages in amounts so large in relation to the value of their homes that the borrower could not refinance with a competitor. *See* Exhibit 8. The article quoted Defendant Schoenholz's reaction to the lawsuit: "Our first take on

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statistical significance.

this is that it is not a significant issue, not indicative of any widespread problem and certainly not a concern that will spread elsewhere." *Id*.

15. Defendant Schoenholz was wrong. Over the ensuing months, a number of newspaper articles appeared describing new accusations and lawsuits against Household over lending practices across the country. For example, on August 16, 2002, *The Boston Globe* reported that the Association of Community Organization for Reform Now ("ACORN") had filed a class-action lawsuit against Household in Massachusetts, and had previously filed class-action lawsuits in Illinois, California, and New York. *See* Exhibit 9. In addition, on June 2, 2002, the *Chicago Tribune* reported that the AARP "backs lawsuits against Household in New York and West Virginia that seek class-action status." *See* Exhibit 10.

16. Moreover, information leaked out about the contents of a report (the "WA Report") by Washington State's Department of Financial Institutions ("DFI") that detailed borrower complaints against Household and alleged the Company violated federal and state consumer protection laws by failing to make key disclosures and by using "sales tactics intended to mislead, misdirect, or confuse the borrower." *See* Exhibit 11. For example, on April 18, 2002, *The Seattle Post-Intelligencer* reported on the complaints and quoted the DFI's investigations supervisor as saying he believed that the Company's consumer finance subsidiaries "have the most complaints that we have on record." *See* Exhibit 12. In addition, *American Banker* reported on August 26, 2002 that the DFI had won permission to share the WA Report with other officials in Washington and in other states. *See* Exhibit 11. After identifying that Household had intentionally misused its good-faith estimate form in several branches in Washington and receiving reports from regulators in other states concerning this practice, the WA Report stated that

the DFI "does not believe the practice is isolated." *Id*. On August 27, 2002, *The Bellingham Herald* published an article calling the WA Report a "blistering assessment" of Household's mortgage loan practices in the state that "found evidence of 'a pattern of intentional deception' of homeowners." *See* Exhibit 13. The article also states that "in recent weeks, copies of the report have been leaked to every news organization that has been following the HFC story – including The New York Times, Forbes Magazine, American Banker magazine [sic] and The Bellingham Herald." *Id*.

17. As information was disseminated into the market about Household's lending practices, Defendants continued to deny the allegations of predatory lending. For example, the Company stated in its 2001 10-K filed on March 13, 2002: "Household has [] been named in purported class actions by consumer groups (such as AARP and ACORN) claiming that our loan products or our lending policies and practices are unfair or misleading to consumers. We do not believe that any of these legal actions has merit or will result in a material financial impact on Household." *See* 2001 10-K at 12. The 10-K further stated that "we do not believe, and we are not aware of, any unaddressed systemic issue affecting our compliance with any state or federal lending laws within any of our businesses." *Id*. Similarly, on May 3, 2002, a *Chicago Tribune* article stated that, in response to the lawsuit seeking class action status in Illinois, "Household quickly denied that it misleads customers." *See* Exhibit 14. In addition, on June 4, 2002, the *Chicago Defender* reported that Defendant Gilmer "described as unfounded the recent rash of lawsuits, advocacy organization complaints and accusations by politicians from Boston to California that accuse the company of predatory lending." *See* Exhibit 15. On February 27, 2002, Household announced an expansion of its "Best

Practice Initiatives" which "rais[ed] industry standards for responsibly serving middle-market borrowers."[7] *See* Exhibit 17.

18. But, as the year progressed, Defendants' denials became less credible.[8] Household fought the release of the WA Report, calling it "a draft" with "factual errors," and won a temporary injunction on May 30, 2002. *See* Exhibit 18. Upon learning of Household's temporary injunction, one market commentator indicated investors' concern regarding the allegations in the WA Report, stating: "I don't know what's in that report, but I bet it isn't complimentary to Household." *See* Exhibit 19. In Household's 2002 proxy filing, a shareholder proposal was initiated which requested that the board conduct a study on ways to link executive compensation to the prevention of predatory lending. *See* 2002 Company Proxy at 23-25. While Company management recommended shareholders vote "AGAINST" this proposal at the annual meeting because "the objectives of this Proposal have been implemented," Institutional Shareholder Services recommended that shareholders vote "FOR" this proposal. *Compare* 2002 Company Proxy at 25 *and* Exhibit 20. The proposal won support from 25% to 27% of shares voted, compared to only 5% support in the prior year. *See* Exhibit 21. Further, on May 23, 2002, the *Chicago Sun-Times* reported that Household "has hired a former Pennsylvania banking secretary to make sure the company doesn't take advantage of unsophisticated borrowers." *See* Exhibit 22. On July 26, 2002, *The*

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7. These initiatives were expanded further as part of the settlement announced on October 11, 2002. *See* Exhibit 2. On August 17, 2002, *The New York Times* reported that "Household said in February that it would begin adopting a fee cap and other changes immediately, but it said this week that the fee limit would be in place by the end of the year." *See* Exhibit 16.
8. The WA Report concluded that HFC's claims that no deception or misrepresentation had occurred "began to ring hollow as more and more consumers continued to complain." *See* Exhibit 11.

Bellingham Herald reported that "[f]or the first time, Household International has acknowledged that its employees may have misrepresented mortgage loan terms to some Whatcom County homeowners who refinanced their homes at the Bellingham office of Household Finance Co., a subsidiary." *See* Exhibit 23. The article stated that "[u]ntil now, company spokesmen have portrayed Household as an industry leader in consumer protection, with elaborate safeguards to make sure borrowers understand the deals they are signing" but "this week, [a company spokesperson] said an internal company probe of the complaints had uncovered some serious problems." *Id*. In addition, on August 17, 2002, *The New York Times* reported that two former Household loan officers who worked at a branch in the Northeast said that the Company's E-Z biweekly payment plan "was used to confuse borrowers into thinking that they would get a lower rate. 'It is the cornerstone of Household's sales pitch,' one said." *See* Exhibit 16. Moreover, in an article titled "Home Wrecker," *Forbes* reported that in July 2002, "authorities from more than a dozen states descended on Household to demand refunds and reforms." *See* Exhibit 24. The article quoted a Minnesota Commerce Commissioner as saying: "It's not just an occasional rogue loan officer or a rogue office. It has to do with the corporate culture." *Id*.

19. As information regarding Defendants' lending practices leaked out during the latter part of the Class Period, market participants reassessed the risks of investing in Household stock. For example, on May 7, 2002 *Newsday* reported that the New York State Comptroller was considering selling 2.5 million shares of Household stock held in a state pension fund due to his concerns about Household's lending practices. *See* Exhibit 25. The Comptroller stated: "Investors should be concerned about the real possibility of a negative impact on the company's performance in the future."

See Exhibit 26. On August 27, 2002, a Keefe Bruyette & Woods analyst initiated coverage on Household with a "neutral 'market perform' rating" and said that "its stock is in 'an uninvestable situation'" and that its earnings growth will likely be restrained by maturing debt and the potential cost of dealing with the lending allegations. *See* Exhibit 27.

20. In addition, analysts lowered their expectations of Household's future prospects. For example, on July 31, 2002 Morgan Stanley analysts wrote, "[t]o reflect predatory lending risks, we've reduced our 5-year EPS growth rate goes [sic] from 14% to 8% and cut our 2003 estimate from $5.26 to $5.02." *See* Exhibit 28. On August 12, 2002, Deutsche Bank analysts stated that "we are lowering our target price to $53 [from $63]" and "we are also lowering our long-term growth rate to 10%-12% from 14% … as we believe Household's loan growth will slow as lending restrictions gradually take hold." *See* Exhibit 29. On September 3, 2002, Bernstein Research analysts wrote, "we believe that as sales practice reform takes hold Household will need to reset its long-run EPS growth target of 13-15% to 10-12%." *See* Exhibit 30. On September 9, 2002, CSFB credit analysts explained that "the dollars committed to business practice control in the future will be significant." *See* Exhibit 31. On September 10, 2002, *American Banker* reported that Defendant Aldinger conceded that the Company's revenue growth had slowed as it instituted its Best Practices Initiatives. *See* Exhibit 32.

21. On October 4, 2002, the *Wall Street Journal* published a story that mentioned that Household was close to completing a $350-$500 million settlement with state attorneys general over its predatory lending practices. *See* Exhibit 33. On October 8, 2002, UBS Warburg analysts stated that "[w]e are cutting our 2003 estimate to reflect the impact of a regulatory fine on HI's earnings and capital base. … we estimate this fine

could exceed $500 million." *See* Exhibit 34. These analysts further noted that "the company would likely have difficulty paying a fine of this magnitude out of cash flow" and "[i]rrespective of the size and timing of a fine, we continue to believe HI's business model, in terms of its marketing and pricing practices, is likely to change, resulting in a longer term earnings growth rate which we estimate of 7%." *Id.* By no later than October 10, 2002, analysts believed the costs of a settlement had already been priced into the stock. *See, e.g.*, Exhibit 35.

B. Re-aging

22. Beginning at least as early as December 3, 2001, Household's stock price was negatively impacted by concerns regarding its accounting and re-aging practices. On December 1, 2001, *Barron's* published an article titled "Does It Add Up? A Look At Household's Accounting," which questioned these practices.[9] *See* Exhibit 36. Among other things, the article states that a securities analyst whose firm worked for Household "professes to be bothered by factors including the company's loan-loss reserve coverage, which seems somewhat skimpy, especially in light of the fact that non-performing (delinquent) assets grew by some $280 million in the last quarter." *Id.* According to the article, the analyst said: "Household's loss rate on subprime mortgages is close to that of the savings-and-loan industry, even though S&Ls generally have more affluent borrowers and issue fewer second mortgages which, by their nature, are shakier than first mortgages." *Id.*

9. Household's residual stock price return on December 3, 2001, the first trading day after the *Barron's* article was published, was -3.2%, which is statistically significant at conventional levels of significance. *See* Exhibit 49 *and infra* ¶¶ 31-2 for an explanation of residual stock price returns and statistical significance.

23. As reported on December 5, 2001, Defendant Aldinger rebutted and denied the criticisms in the *Barron's* article at an investor conference the day before. *See* Exhibit 37. However, market participants continued to question Household's accounting and re-aging practices. For example, on December 11, 2001, Legg Mason issued a report in which its analysts expressed their confusion regarding certain of the disclosures in the Company's reports concerning its accounting, in particular its re-aging policies. *See* Exhibit 38. After discussing these disclosures, the analysts listed numerous questions and concerns. *Id*. For instance, they found Household's "lenient reaging policy disturbing as it undermines the analytical value of the reported asset quality statistics" and asked the Company to "report asset quality problems more conventionally (a late is a late until repaid in full)." *Id*. The analysts stated that "[w]ithout this conventional disclosure, we are left with many unanswered questions." *Id*. After having suspended their investment rating on December 3, 2001, the analysts downgraded Household's stock two notches from SB (which they describe as "Strong Buy") to M (which they describe as "Market Performance") and increased their risk rating from 1 ("Low") to 2 ("Average"). *Compare id.* & Exhibit 39.

24. The Legg Mason analysts' confusion in December 2001 regarding Household's re-aging practices relates directly to the sufficiency of the Company's disclosures of its re-aging policies as of that time. So, although the SEC's Consent Order only covered reports filed by Household in 2002 (*see supra* ¶ 8), the reports available to the analysts on December 11, 2001 – *i.e.*, those reports filed by the Company prior to 2002 – also were deficient in disclosing its re-aging policies.

25. Even after Household disclosed more information regarding its re-aging practices in April 2002, market participants did not consider the disclosures to be

complete. At its annual investor conference on April 9, 2002 and in a Form 8-K filed with the SEC on the same day, Household provided more disclosure on its re-aging policies. *See* Exhibit 40 & Form 8-K filed on April 9, 2002 (the "4/9/02 8-K"). Following these disclosures, analysts at Prudential Securities commented that the "new info on account re-aging lacked historical and comparative context and could be a misleading indicator of HI's approach to managing credit losses." *See* Exhibit 40. An August 17, 2002 article in *The New York Times* stated that "Household has not supplied enough data on re-aged loans for a year earlier to show whether credit problems are rising sharply" and quoted a Credit Suisse First Boston analyst who said that "[i]t would be very helpful to have re-aging data disclosed on a regular basis." *See* Exhibit 16.

26. Further, in a report dated June 7, 2002, the Center for Financial Research and Analysis, Inc. ("CFRA") – the founder of which was described as "an important analyst for the buy-side community" – stated that Household's "reaging may obscure its credit quality picture" because "deferral of charge-offs occurs by definition upon reaging," therefore, "a company's true credit quality picture is obscured by reaging accounts." *See* Exhibit 41. After discussing the information disclosed in the 4/9/02 8-K, CFRA stated that "the Company's reaging policies cause these figures to understate HI's delinquency and charge-off experience." *Id*. In a report dated August 19, 2002, CFRA observed that "[i]n the June 2002 quarter, the Company changed the format for its disclosure of reaging." *See* Exhibit 42. CFRA noted that "whereas [Household] had previously broken out the percent of credits which had been reaged multiple times, the latest 10-Q details only whether the account has been reaged" and that the Company "refrained from disclosing the amount of recidivism, which reflect [sic] accounts that are delinquent or charged-off one year after having been reaged and (in retrospect, one could

argue) should have been charged-off at the time of reaging." *Id*. Again, the lack of disclosure regarding Household's re-aging practices was the basis for the Consent Order.

C. The Restatement

27. On August 14, 2002, Household announced that it was restating its prior reported financial results downward. *See supra* ¶ 6. Market participants were surprised by the announcement. *See, e.g.*, Exhibit 43. Analysts at Morgan Stanley commented that the restatement "suggests to us that returns in the credit card business are lower than we previously thought," which caused them to reassess the profitability of the credit card business and reduce their earnings forecasts and price target. *Id*. CIBC World Markets analysts also reduced their 2002 and 2003 earnings estimates and lowered their price target to $57 from $65. *See* Exhibit 44.

D. Investors' Losses

28. Beginning November 15, 2001 (the earliest date I found that Household's stock price was negatively affected by the alleged fraud (*see supra* ¶ 12)) through October 11, 2002, Household's stock price fell from $60.90 to $28.20, a decline of $32.70 or 53.2% adjusted for dividends. Market participants attributed the Company's stock price decline to concerns regarding the allegedly fraudulent practices. For example, on July 18, 2002, Stephens Inc. analysts noted the "collapse" in Household's stock price and stated that Household's stock "has been plagued by 'headline' risk over predatory lending practices." *See* Exhibit 45. Further, in a report dated September 22, 2002, CIBC analysts lowered their target price from $57 to $36 and commented that "building concerns regarding the company's lending practices, which have been accused of being predatory in nature and is [sic] currently the subject of an investigation by the Washington Department of Financial Institutions, have dampened price performance.

Moreover, skepticism regarding the company's rapid portfolio growth, particularly within the auto business, and mounting credit quality concerns related to Household's loan workout and re-aging practices have also been a drag on the stock." *See* Exhibit 46. Additionally, on September 12, 2002, Deutsche Bank analysts reported that "Household's stock has been under pressure due to concern about accusations of unfair and predatory lending practices." *See* Exhibit 47. The Deutsche Bank analysts added that "[p]redatory lending has not been Household's only cloud this year. It recently restated earnings for the way it accounts for certain marketing expenses, which reduced equity by $386 million. Household has pledged to the rating agencies to bring the capital ratio to 8.5% by year end compared to the previous target of 7.5% (it is in the market for preferred already). It will reduce asset growth, if necessary, to achieve that target. It would like to repurchase shares as soon as possible, but restoring capital in [sic] a priority." *Id.*

29. To further analyze Plaintiffs' claim that Household's stock price declined as investors learned of the Company's allegedly fraudulent practices and Defendants' denials became less credible in the latter part of the Class Period, I compared the stock's performance to an index of comparable stocks (the S&P Financials Index) and a market index (the S&P 500 Index) during the period from November 15, 2001 through October 11, 2002.[10] Exhibit 48 shows that the Company's stock underperformed the indexes during this period – Household's stock fell 53.2% while the comparable and market indexes declined by 20.7% and 25.8%, respectively, adjusted for dividends.

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10. In the annual Proxy Statements it filed with the Securities and Exchange Commission ("SEC") during the Class Period, Household compared its stock price performance to Standard & Poor's Composite Financial Stock Price Index ("S&P Financials Index") and the Standard & Poor's 500 Composite Stock Price Index (the "S&P 500 Index"). *See, e.g.*, Household's Proxy Statement dated April 9, 2002 at 16. According to Bloomberg, there were 81 firms in the S&P Financials Index on October 11, 2002.

Under the facts and circumstances of this case, this long-term relative underperformance is consistent with Plaintiffs' claim.

IV. QUANTIFICATION OF ALLEGED ARTIFICIAL INFLATION

30. To quantify the alleged artificial inflation in Household's stock price during the Class Period, I measured the price reaction to several disclosures related to the alleged fraud using a well-known and established technique in financial economics known as an "event study." This quantification likely understates the amount of inflation because it does not take into account the stock price effect of all of the information related to the alleged fraud (including the information detailed above) that leaked into the market in the latter part of the Class Period. To quantify alleged artificial inflation including the effect of leakage that is supported by the facts and circumstances of this case, I use a published method referred to as the "event study approach."

A. Event Study Methodology

31. In an efficient market, the market price of an actively traded stock reflects all publicly available information about the firm and its future prospects and represents the financial community's best estimate of the present value of those prospects.[11] As new information becomes available that changes investors' assessment of the firm's prospects, traders buy and sell the stock until its price reaches a level that reflects the new consensus view of the firm's prospects. Therefore, the change in the price of a

11. During the Class Period: 1) Household's stock was actively traded on the New York Stock Exchange, with average weekly share turnover of 2.5%; 2) each month, between 20 and 27 analysts provided estimates of the Company's earnings to IBES, and Thomson Financial lists 483 analyst reports on the Company; 3) Household filed Forms S-3 and regular public filings with the SEC; and 4) as demonstrated *infra* ¶¶ 34-5, the Company's stock price reacted to unexpected new information. Therefore, it is reasonable to presume that the market for Household's stock was efficient.

stock when new information becomes available measures the value of the new information to investors. This type of analysis is known as an event study and is widely used in finance.[12]

32. It is standard practice in event studies to take into account the effect of market factors on stock price returns. This is typically done by using regression analysis to estimate the historical relationship between changes in a company's stock price and changes in the performance of a market index (and possibly an industry index), using the historical relationship and the actual performance of the index(es) on the day in question to calculate a "predicted return," and subtracting the predicted return from the actual return to derive a "residual return" (sometimes referred to as an "abnormal return" or "market-adjusted return"). In this case, we estimated the relationship between Household's return and returns on the S&P 500 and S&P Financials Indexes during the period from November 15, 2000 to November 14, 2001 (*i.e.*, the calendar year prior to the earliest date I found that Household's stock price was negatively affected by the alleged fraud (*see supra* ¶ 12)).

33. In event studies, the statistical significance of the residual returns is typically assessed by calculating a standardized measure of the size of the residual return known as a "t-statistic."[13] A t-statistic with an absolute value of 1.96 or greater denotes statistical significance at the 5 percent level of significance (a conventional level

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12. *See, e.g.*, A.C. MacKinlay, "Event Studies in Economics and Finance," 35 *Journal of Economic Literature* (March 1997), 13-39.
13. *See, e.g.*, A.C. MacKinlay, "Event Studies in Economics and Finance," 35 *Journal of Economic Literature* (March 1997), 13-39; G.W. Schwert, "Using Financial Data to Measure Effects of Regulation," 24 *The Journal of Law and Economics* (1981), 121-57; D.R. Fischel, "Use of Modern Finance Theory in Securities Fraud Cases Involving Actively Traded Securities," 38 *The Business Lawyer* (1982), 1-20, at 18-19.

at which such assessments are made) in a "two-tailed" test of statistical significance (*i.e.*, testing for significance regardless of whether the residual return is positive or negative).[14] A t-statistic with an absolute value of 1.65 or greater denotes statistical significance at the 5 percent level of significance in a "one-tailed" test of statistical significance (*i.e.*, testing for significance where the residual return has a particular sign).[15] The data for and results of the event study, along with headlines from *Dow Jones News Service* and *Wall Street Journal* articles that mention Household, are presented in Exhibit 49.

B. Quantification Using Specific Disclosures

34. Beginning no later than November 15, 2001, Household's stock price declined significantly in response to disclosures related to the alleged fraud. For example, the stock price declined significantly following the November 14, 2001 disclosure of the CDC lawsuit, the December 1, 2001 *Barron's* article questioning Household's accounting and re-aging practices, the July 26, 2002 *Bellingham Herald* article reporting that the Company acknowledged its employees may have misrepresented mortgage loan terms to some homeowners, the announcement of the restatement, the publication of the *Forbes* "Home Wrecker" article after the market closed on August 15, 2002, and the October 4, 2002 *Wall Street Journal* article that leaked the news about Household's settlement with the state attorneys general.[16, 17, 18] *See supra* ¶¶ 6, 12, 18, 21

14. *See, e.g.*, W. Mendenhall, J.E. Reinmuth & R.J. Beaver, *Statistics for Management and Economics* (Duxbury Press, 1993), at 345-46 & 368-69.
15. *Id*.
16. The residual return on November 15, 2001, the first trade day after the press reported on the CDC lawsuit, was -3.1% and the t-statistic was -2.21; the residual price change was -$1.86. *See* Exhibit 49. The residual return on December 3, 2001, the first trade day after the *Barron's* article was published, was -3.2% and the t-statistic was -2.33; the residual price change was -$1.90. *Id*. The residual return on July 26, 2002, the date the *Bellingham Herald* article was published, was -5.7% and the t-statistic was -4.08; the residual price change was -$2.20. *Id*. The residual return on August 14,

& 27 *and* Exhibit 49. The stock price also declined significantly as analysts reassessed the risks of investing in the Company's stock due to the alleged fraud, including following the publication of the December 11, 2001 Legg Mason report regarding Household's re-aging policies, the August 27, 2002 Keefe, Bruyette & Woods report that described Household as "uninvestable," the September 3, 2002 Bernstein Research report that discussed the analysts' belief that Household will need to lower its EPS growth target, and the September 22, 2002 CIBC report in which the analysts lowered their target price to $36 from $57 and reduced their earnings estimate for 2003.[19] *See supra* ¶¶ 19, 20, 23 & 28 *and* Exhibit 49.

2002, the date the restatement was announced, was -2.5% and the t-statistic was -1.77; the residual price change was -$0.94. *Id*. The residual return on August 16, 2002, the first trade day after the *Forbes* article was available to the market (*see infra* Note 18), was -4.7% and the t-statistic was -3.37; the residual price change was -$1.84. *Id*. The residual return on October 4, 2002, the date the *Wall Street Journal* article was published, was -4.7% and the t-statistic was -3.41; the residual price change was -$1.26. *See* Exhibit 49.

17. Although Household's stock price increased significantly on August 15, 2002, the day after the restatement was announced, there is evidence that the restatement contributed to the cloud over the Company's stock after the announcement and to the subsequent decline in Household's stock price. *See, e.g., supra* ¶ 28 *and* Exhibit 50 ("The company's stock has been reeling while Household fights the [predatory lending] allegations and since it restated several years' worth of earnings in August.").
18. Although the *Forbes* article is dated September 2, 2002, an internal Household e-mail states that the article appeared on www.forbes.com on the evening of August 15, 2002. *See* Exhibit 24.
19. The residual return on December 12, 2001 was -4.2% and the t-statistic was -3.06; the residual price change was -$2.39. *See* Exhibit 49. The residual return on August 27, 2002 was -3.1% and the t-statistic was -2.21; the residual price change was -$1.19. *Id*. August 27, 2002 was also the date the *Bellingham Herald* reported on the contents of the WA Report. *See supra* ¶¶ 16. The residual return on September 3, 2002 was -3.4% and the t-statistic was -2.39; the residual price change was -$1.21. *Id*. The residual return on September 23, 2002 was -5.2% and the t-statistic was -3.77; the residual price change was -$1.52. *Id*.

35. Household's stock price also increased significantly due to disclosures related to the alleged fraud. The price increased significantly in response to Defendant Aldinger's rejoinder to the December 1, 2001 *Barron's* article, the Company's February 27, 2002 announcement that it would implement new "Best Practice Initiatives," and the settlement with the state attorneys general and regulatory agencies.[20, 21] *See supra* ¶¶ 7, 17 & 23 *and* Exhibit 49.

36. I quantify alleged artificial inflation related to the above disclosures based on the concomitant residual price changes reported *supra* Notes 16 & 19-21. The amount of artificial inflation on a particular day during the Class Period equals the sum of the subsequent residual price changes; therefore, as the price reacts to

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20. The residual return on December 5, 2001 was 3.2% and the t-statistic was 2.29; the residual price change was $1.85. *See* Exhibit 49. The residual return on February 27, 2002 was 3.3% and the t-statistic was 2.38; the residual price change was $1.64. *Id.*
21. As explained *supra* ¶ 7, Household's announcement on October 11, 2002 disclosed that the Company would pay hundreds of millions of dollars and change its business practices such that future earnings would be reduced. In response to the news, Standard & Poor's lowered its debt ratings, stating that "the charge, coming on the heels of the company's $386 million accounting adjustments, calls into question the managerial controls in place at the company as well as its appetite for risk taking," and Fitch placed its ratings on negative watch, stating: "… the bigger challenge for Household will be replenishing lost revenue resulting from the implementation of 'Best Practices.' An inability to offset these revenues streams could pressure future profitability, …." *See* Exhibits 2 & 51. Because this news had substantial negative implications for Household's market value, one would expect that it would have caused the Company's stock price to decline significantly. However, the stock price increased $1.90 on October 11, 2002 after increasing $5.30 on the previous day. Market commentators attributed the price increase on October 10, 2002 to "market talk that [Household] could reach an agreement as soon as Friday that would settle investigations by state attorneys general into its subprime consumer lending business." *See, e.g.*, Exhibit 52. The residual return over this two-day period was 23.1% [= (1 + 0.1999) x (1 + 0.0258) – 1] with a cumulative t-statistic of 11.29 [= (14.13 + 1.83) / (the square root of 2)]; the cumulative residual price change was $4.88. *See* Exhibit 49. The fact that the stock increased in value upon disclosure of such negative information is evidence that it had declined earlier by at least as much in anticipation of a larger payment and/or changes in Household's business practices that would have had a worse impact on the Company's future prospects.

each disclosure, inflation increases or decreases by the amount of the residual price change on that date. For example, on November 14, 2001 (the day before the price reacted to the earliest of the above disclosures), the artificial inflation equals $7.97, the sum of the subsequent residual price changes. *See supra* Notes 16 & 19-21 *and* Exhibit 53. On November 15, 2001, the artificial inflation declines by $1.86 (the amount of the residual price change on that day) to $6.11. *See supra* Note 16 *and* Exhibit 53.

37. Exhibit 53 presents Household's stock price, the quantification of total alleged artificial inflation, and the resulting estimate of the stock's true value (*i.e.*, the price at which the stock would have traded but for the alleged fraud, calculated as the difference between the stock price and artificial inflation) on each day of the Class Period. Exhibit 54 is a graph of the stock price and estimated true value.

C. Quantification Including Leakage

38. In their article titled "Using Finance Theory to Measure Damages in Fraud on the Market Cases," Cornell and Morgan state that "[b]y the time a public announcement occurs, often the market price already reflects some of the information contained in the announcement."[22] They further state that in cases where a prior information leak occurs, a residual price change following a disclosure "does not properly measure the economic impact of the disclosure" and that, as a result, using

22. B. Cornell and R.G. Morgan, "Using Finance Theory to Measure Damages in Fraud on the Market Cases," 37 *UCLA L Rev.* (1990), 905. In support of their statement, the authors reference a study which "found that the price of target companies ran up almost 30% on average, relative to the predictions of the market model, before the first announcement of a merger or tender offer." *Id*. They also reference a study finding "there were almost no large residuals for a portfolio of bank stocks on days when information about the Latin American debt crisis was publicly announced" and conclude that "[t]his may be attributable to the characterization of the crisis by a slow accumulation of bad news and not by a few unexpected announcements." *Id*.

residual price changes in these cases "only on disclosure days will understate damages."[23] The authors also cite examples of securities cases in which fraud was revealed slowly over time, including one in which "a slow flow of increasingly negative news fueled a rising tide of doubts and rumors" with the result that "only a few dramatic announcements were associated with large residual returns."[24]

39. Similarly, in the Household case, a steady stream and extensive amount of incomplete information related to Defendants' alleged fraud was disclosed beginning at least as early as November 15, 2001 (including the information detailed *supra* § III), but only some of these disclosures were associated with statistically significant residual returns. *Compare supra* § III *with* Exhibit 49. However, Household's stock lost more than half of its value during this period, which market participants attributed to concerns regarding Defendants' allegedly fraudulent practices. *See, e.g., supra* ¶ 28. Moreover, as explained *supra* ¶ 29, the stock substantially underperformed the market and comparable indexes over this period, indicating that under the facts and circumstances of this case, its decline cannot be fully explained by adverse market events. The combination of the significant stock price decline, the concurrent leakage of fraud-related information, and market participants' attribution of the decline to this fraud-related information is strong economic evidence that in this case, the long-run relative underperformance in Household's stock beginning November 15, 2001 was caused by leakage of artificial inflation from the price.

40. As a result of this leakage, my quantification of inflation using the specific disclosures described *supra* ¶¶ 34-5 likely significantly understates the amount of

23. *Id.*
24. *Id*. at 905-6.

artificial inflation in the stock price during the Class Period. Cornell and Morgan explain that one way to reduce the likely understatement in a case where fraud was revealed slowly over time is to extend the "observation window" (*i.e.*, the period over which a price reaction to an event is measured) surrounding the disclosure date and measure residual returns over time.[25] They explain that in such a case, "[t]he window begins far enough in advance of the disclosure for the analyst to be reasonably confident that no significant information leakage has occurred … [and] ends at a date when the analyst feels confident that most of the information is publicly available."[26] The authors state that for a case in which there is a continuous leakage of information, it may be necessary to expand the observation window to cover the entire class period.[27]

41. Under the facts and circumstances of this case explained above, I quantified the amount of artificial inflation in Household's stock price including the leakage of information related to the alleged fraud using the "event study approach" described by Cornell and Morgan.[28] The first step in this approach is to determine the observation window. Because I found that fraud-related information leaked out beginning no later than November 15, 2001, the observation window begins on this date; it ends on October 11, 2002, the last day of the Class Period. The next step is to use actual stock returns and predicted returns to construct a time series of daily stock price returns ("Constructed Returns") during the Class Period: for each day during the

25. *Id*. at 906. Cornell and Morgan note that "[t]he length of the window depends on the facts of each specific case." *Id*.
26. *Id*.
27. *Id*. at 906-7.
28. *Id.* at 899-900.

observation window, the Constructed Return equals the predicted return;[29, 30] for all other days, the Constructed Return equals the actual return.

42. The next step is to calculate a "true value line," *i.e.*, a daily series of the stock's estimated true value. This line was generated by setting its value equal to Household's stock price on October 11, 2002 (the last day of the Class Period) and working backwards in time according to the following formula: $\text{Value}_{t-1} = (\text{Value}_t + \text{Dividend}_t) / (1 + \text{Constructed Return}_t)$. I then computed daily artificial inflation as the difference between the Company's stock price and the true value line. If the resulting inflation on any day was greater than the cumulative residual price decline during the observation window of $23.94, I limited the inflation to $23.94 and adjusted the true value line accordingly. Exhibit 56 lists Household's stock price, the true value line, and the artificial inflation on each day during the Class Period. Exhibit 57 is a graph of the stock price and estimated true value line. This analysis represents a quantification of alleged artificial inflation taking leakage into account.

29. As explained *supra* ¶ 32, predicted returns account for the effects of market and industry movements on Household's stock price.
30. Because a bias can occur for long observation windows in the standard market model that underlies our event study, we used predicted returns calculated using the capital asset pricing model ("CAPM") for the event study approach. *See, e.g.*, G.N. Pettengill & J.M. Clark, "Estimating Expected Returns in an Event Study Framework: Evidence from the Dartboard Column," 40 *Quarterly Journal of Business & Economics* (2001), 19 *and* Exhibit 55.

Daniel R. Fischel

August 15, 2007

EXHIBIT 4

were inadequate, I think was your word, during the relevant period; is that right?
A. They were inadequate, yes. And they did not meet GAAP or SEC requirements, that's correct.
Q. Right.
A. Not just the financial statements and footnotes, but the management, discussion and analysis section that's elsewhere in the 10-Ks and 10-Qs.
Q. And all of this is based on that assumption counsel made you make; is that right?
A. When you said made me make --
Q. You're right.
A. They asked me to make.
Q. I should rephrase that.
All of this, this disclosure opinion, is entirely dependent on the assumption counsel asked you to make, correct?
A. If --
Q. Correct, Mr. Devor?
A. I believe -- I believe it is.
Q. Thank you.
A. I believe it is.
Q. Now, you had a second opinion on predatory lending, Mr. Devor; did you not?
THE COURT: Is this maybe a good time to stop for

lunch?
MS. BUCKLEY: Sure.
THE COURT: Very well. We'll break for lunch, ladies and gentlemen. Resume at 1:00 o'clock.
(Jury out.)
THE COURT: You may step down, sir.
Anything we need to take up?
MR. DOWD: Nothing from the plaintiffs, your Honor.
MR. KAVALER: No.
THE COURT: Recessed until 1:00 o'clock.
(Trial recessed until 1:00 p.m. of the same day.)

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN,)
on behalf of itself and all)
others similarly situated,)
)
Plaintiff,)
)
vs.) No. 02 C 5893
)
HOUSEHOLD INTERNATIONAL, INC.,)
et al.,) Chicago, Illinois
) April 16, 2009
Defendants.) 1:09 p.m.

TRANSCRIPT OF PROCEEDINGS - TRIAL
BEFORE THE HONORABLE RONALD A. GUZMAN, and a jury

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MR. DOWD: Nothing further, your Honor. Thank you.
MS. BUCKLEY: Just one question, your Honor.
RECROSS-EXAMINATION
BY MS. BUCKLEY:
Q. Let's go back to Defendants' 315, just to be clear, Mr. Devor.
A. Okay.
MS. BUCKLEY: We can put Page 2 up on the screen, if your Honor wouldn't mind switching us over briefly.
BY MS. BUCKLEY:
Q. All right. I don't want to have any confusion as to who was speaking here about what.
The sentence Mr. Dowd just pointed you to, which is in Paragraph 3, beginning, "Based on the bank's projections," you just talked about.
Do you see that?
A. I do see that, yes.
Q. You will agree that that's setting forth the OCC's views, correct?
A. Well, that's not so clear to me.
Q. Okay.
A. Because if you look at the paragraph before, they are talking about GAAP. They are talking about the whole concept comes from GAAP, a systematic and rational manner to allocate this expense to. I don't believe that's an OCC issue. That's

GAAP. That's what GAAP says.
Q. I understand you are talking about GAAP. I am just trying to figure out if you can help us say, is the third sentence in Paragraph 3 reciting the views of the OCC as compared to the sentence you and I focused on, which is setting forth the views of the OCC ombudsman?
I am trying to see if you can help us through that.
Paragraph 3 -- this is the ombudsman's letter, now, so he is talking.
A. Okay. Thank you for making that distinction because I was looking at this as the OCC and not the ombudsman.
Q. So you understand that in Paragraph 3 here the ombudsman is describing what the OCC had concluded?
A. I do now, yes.
Q. Okay. And in Paragraph 5, it's the ombudsman giving his own opinion, which happens to be different from the OCC's?
A. Okay.
Q. Okay?
A. Well, is that a question?
Q. No. I just want to know if you understand that there are two different views there?
A. I understand what you are saying.
Q. Okay. Thank you, Mr. Devor.
MS. BUCKLEY: No further questions, your Honor.
THE COURT: Anything else?

MR. DOWD: No, your Honor.
THE COURT: You may step down, sir.
(Witness excused.)
MR. BURKHOLZ: Your Honor, plaintiffs call Daniel Fischel to the stand.
DANIEL R. FISCHEL, PLAINTIFFS' WITNESS, SWORN
DIRECT EXAMINATION
BY MR. BURKHOLZ:
Q. Sir, can you please state your name for the record.
A. My name is Daniel Robert Fischel.
Q. Were you retained by the plaintiffs to reach an expert opinion in this case related to the inflation in Household's stock price during the relevant period?
A. Yes, sir, I was, based on the assumption that the plaintiffs will be able to prove that Household's disclosures were not accurate during the class period.
Q. We will get to your opinion a little later. I want to ask you some questions about your background.
Where do you live?
A. I live in Chicago, where I have lived for the past 35 years.
Q. And where are you employed?
A. I am currently employed by Northwestern University. I also have a relationship with the University of Chicago, and I am also employed by a consulting firm in Chicago by the name

of Compass Lexecon.
Q. Let's start out with Northwestern University. What's your position there?
A. I am professor of law and business at the law school at Northwestern, and I also have a courtesy appointment at the Kellogg School of Management, the business school at Northwestern.
Q. What's your current position at the University of Chicago?
A. I am the Lee and Brena professor of law and business, emeritus, at the University of Chicago.
Q. Have you had other positions at the University of Chicago?
A. Yes. For many years I was a professor both in the law school, also for a number of years I was a professor in the business school at the University of Chicago.
I served for a number of years as dean of the law school. And also, for many years I ran -- I was the director of a universitywide program in applying economics to various legal and regulatory issues.
Q. Can you tell us what kind of courses you have taught at both Northwestern and the University of Chicago?
A. I teach courses primarily in the business area, primarily in the finance area. I have taught courses in business organizations, corporate finance, the regulation of financial markets.
I've taught seminars on the issue of -- in the area

S&P 500 went up by a little over 4 percent that day, 4.01 percent.

And the next column, the S&P financials index, which is the index that Household itself compared itself to, that went up by 3.74 percent.

So in the same way that I just described about the stock market going down in the past year by 50 percent, going up in the last month by 25 percent, you can't just look at that .77 percent increase in a vacuum. You have to compare it to how the overall market did and how the industry did.

And you see the overall market did -- let's see -- more than five times better than Household did on that day. And the industry, looks like it did also about five times better than Household on that day.

So if we go to the next column, the predicted return, this is the -- where the statistical analysis gives you the ability to say with some precision, given what happened in the overall market and given what happened in the overall industry, knowing how much they went up that day, how much would you predict -- given Household's relationship with the market and the industry -- Household would have gone up on that day, August 14th?

And if we go to the -- it's 3.26 percent.

And if we go to the next column, residual return, 2.49 percent -- that's simply the difference between

3.26 percent -- what you would predict. You would predict that Household would go up by a lot. Instead it went up by just a little. That's just like my example of the stock market going up by 25 percent in the last month but a particular stock going up by only 5 percent. 5 percent sounds good, but it's not as good as what you would expect, 25 percent.

And the same thing is true for Household.

So applying that statistical method, you see that the residual return for Household on that day is actually negative, negative by a fairly large amount because Household so far underperformed the market and the industry which have a big influence on its performance.

And the next column, the residual price change, that is just -- that's simply a multiplication of this minus 2.49 percent times what Household's closing price was the previous day, $37.80.

So when you look at Household stock price analytically, precisely, scientifically, you see that Household stock price, measured against the market and the industry of which it's a part, actually declined by 94 cents as opposed to the initial appearance that it looks like the price went up on that day.

And then, if you go to the last two columns, the T statistic and whether the T statistic is greater than 1.65,

that is simply a measure of whether the negative performance of Household on that day is sufficiently large to be considered significant using this particular regression analysis and event study.

Any time there is three stars on a particular date, the conclusion is that, based on this particular event study, this particular regression analysis, Household stock price underperformed by a statistically significant amount on this particular day.

And that's how an event study works, basically.

Q. What was the -- what is the relationship between this event study and your quantification of inflation?

A. I used two methods of quantification. An event study is basically used in both of them.

But with respect to the first method, what I did was, I selected those disclosures which I considered to be fraud-related during the relevant period where there was a statistically significant price movement, where I was also reasonably confident that the fraud-related disclosure on a particular day was responsible for a particular statistically significant price movement.

Q. And how many dates did you find during this period?

A. Using under my first method, 14 dates.

Q. What was the first date that you found one of these events -- one of the dates that you are testifying about?

A. November 15th, 2001.

Q. Why were these 14 dates selected?

A. They were selected because I wanted to isolate the fraud-related disclosures that were important to investors. So I had to make a series of judgments based on the event study in order to do that. I had to isolate disclosures. I had to determine whether those disclosures occurred at a time when there was a statistically significant stock price movement. And I had to be reasonably confident that the fraud-related disclosure was responsible for the price movement.

Q. And have you prepared a demonstrative that summarizes the relationship between your analysis of the 14 dates and inflation?

A. I have.

MR. BURKHOLZ: Can we bring up Plaintiffs' Demonstrative 150.

BY MR. BURKHOLZ:

Q. Now, before we look at -- is this the demonstrative that you prepared?

A. Yes.

Q. Before looking at these 14 dates, was there another set of dates that you could have picked?

A. Yes. I believe this particular analysis focuses on 14 dates. I have seen an analysis by Household that

identifies 166 dates.
Q. If you included those dates in your quantification, would the inflation be higher or lower?
A. It would be almost double the number that I calculated here. We will get to it, but the $7.97 number.
If I included all the defendants' dates, that number would increase by another $7, so it would be virtually $15, which would make the harm and the losses to investors much greater than what I myself calculated under this first method.
Q. So selecting the 14 dates was conservative, in your view?
A. Absolutely. Relative to the choice of dates of the defendants.
Q. Let's look at the 14 dates.
Why is November 15th, 2001, the first date on this exhibit?
A. Because that is the date that the California Department of Corporations filed suit against Household alleging that Household had engaged in systematic unfair predatory lending practices.
Q. Did you prepare a demonstrative related to that date?
A. I did.
MR. BURKHOLZ: Can we bring up Plaintiffs' Demonstrative 137.
BY THE WITNESS:
A. I don't think -- this is not the right document.

That's the right document.
BY MR. BURKHOLZ:
Q. I want to hand you what we have marked as Plaintiffs' 1305, Plaintiffs' 1405, and Plaintiffs' 1452.
(Documents tendered.)
BY MR. BURKHOLZ:
Q. Plaintiffs' 1305 is a California Department of Corporations press release.
Plaintiffs' 1405 is a Bloomberg article regarding a lawsuit on November 14th, 2001.
And Plaintiffs' 1452 is a Household press release of November 15th, 2001.
Did you take excerpts from those three exhibits and include them on your demonstrative?
A. I did.
MR. BURKHOLZ: Your Honor, I move these three exhibits into evidence subject to the limiting instruction.
THE COURT: They will be admitted subject to the limiting instruction.
(Said exhibits were received in evidence.)
BY MR. BURKHOLZ:
Q. Can you describe the demonstrative that you prepared.
A. Yes. This is an exhibit which describes the events on November 15th, 2001, the California Department of Corporations lawsuit.

And it also, on the third line, says "residual price change, negative $1.86," meaning that this is the first of my 14 dates where there was a fraud-related disclosure which had a significant effect on Household stock price.
And I think it's fairly self-explanatory, but just so we are all clear, the press release of the California Department of Corporations stated that, "After the close of trading on November 14th, 2001, the California Department of Corporations issued a press release announcing that it had sued Household for imposing 'excessive and improper fees, penalties, interest, and charges in violation of state consumer protection laws.'"
And then I also included Household's response.
"Household International responded that it is 'currently reviewing the specifics of the lawsuit but vehemently denies any assertion that it has willfully violated the lending laws that regulate its business.'"
But you can see from the price reaction, the negative price reaction, the negative significant price reaction, that this is the beginning of the time when Household, that had been denying its involvement in predatory lending throughout, when market participants begin to doubt Household's denials because of the accumulation of accusations and firsthand accounts by customers who had complained about their dealings with Household.

Q. And did analysts comment on this lawsuit?
A. Yes, quite extensively.
Q. Let me show you Plaintiffs' Exhibit 1407. It's a November 15th, 2001, Salomon Smith Barney analyst report.
(Document tendered.)
MR. BURKHOLZ: I would like to move that into evidence, your Honor. I don't believe there is an objection. Again subject to the limiting instruction.
THE COURT: It will be admitted subject to the limiting instruction.
(Said exhibit was received in evidence.)
BY MR. BURKHOLZ:
Q. What is the significance of this report to your opinion?
A. Well, if we highlight under "summary" just the first bullet point -- remember what I wanted to do was isolate events and then be reasonably confident that the events are the cause of the stock price movement; in this case, a stock price decline.
Here you have the analyst saying exactly that: that Household shares sold off almost 4 percent intraday on news that the California Department of Corporations has filed an $8.5 million lawsuit against Household for lending law violations (predatory lending).
Then, on the next page -- this is quite important in light of subsequent developments. In the third paragraph, the

as I said, those disclosures were criticized later as well.
Q. So is it your opinion that the investors that bought stock during the relevant period up until approximately the last month suffered harm, but the investors in the last month did not suffer?
A. Correct.
And I wanted to be careful in excluding investors who suffered no harm in this particular calculation, which is why I indicate that for a certain period, the blue line is above the red line.
Q. Okay. And did you prepare an exhibit that displays the actual amount of artificial inflation on every day during the relevant period?
A. I did. Under this method and the second method that we haven't gotten to yet.
Q. Let me show you what we've marked as Plaintiffs' 1397. What is Plaintiffs' 1397?
A. This is an exhibit which basically takes this graph that is currently on the screen and reports for every day what the actual price was of Household in the real world and what the amount of inflation was in Household's stock price on every day during the relevant period with the amount of inflation defined as the difference between the red line, the actual price, and the blue line, the uninflated true value line. And you can see it's positive for the entire period until the end

when it turns negative.
MR. BURKHOLZ: I'd like to show the jury some of these dates if we can. Your Honor, can we move in 1397? I don't believe there's any objection.
THE COURT: 1397 is admitted.
(Plaintiffs' Exhibit 1397 received in evidence.)
BY MR. BURKHOLZ:
Q. So why don't we just highlight August 16th, 1999.
A. Okay.
Q. Can you just describe what -- what your demonstrative -- what your exhibit, I'm sorry, shows for that date?
A. All right. On August 16th, 1999, which is, I believe, the date of Household's -- when it reported its second quarter results in its 10-Q filing, the closing price that day was $39.75.
My calculations indicate that that stock price was inflated by $7.97, the effect of the 14 fraud-related disclosures, so that the true value on that date, what investors should have paid, was $31.78.
Q. Okay. Can we turn to the next page? I'm sorry, and focus on October 19th, 1999.
Now, I think that's the date of another press release by Household of its quarterly results. You have inflation of 7.97 on that date?
A. Correct.

Q. Would there be inflation on that date if there was no finding that the August 16th, 1999 10-Q was false or misleading?
A. No, no, that the -- well, it would depend, I guess, on whether it was an earlier disclosure that was found to be false and misleading. It's hard to separate one from the other.
But so long as there is a disclosure that Household made that was false and misleading because it did not provide accurate information about its predatory lending practices, its re-aging policies, its credit card accounting, the ability to sustain its growth strategy in the future, the inflation would be this particular amount based on my calculations.
Q. Okay. Now, in your opinion, the $7.97 of inflation that you calculated, does that capture, in your opinion, the amount of inflation that was in Household's stock price?
A. No.
Q. And why not?
A. Because what I did was I focused on individual disclosures, but that's in some sense not a completely realistic analysis because it's not as if there was only 14 disclosures during the relevant period.
There was a cascade of negative information that came out about Household, particularly after negative -- particularly after November 15th, 2001, when market

participants, investors, analysts became to increasingly doubt Household's denials and started to really question whether or not Household's disclosures were accurate, whether its accounting was accurate, whether its lending practices were consistent with governing regulations.
There was, as we get a little bit later in the period, tremendous amount of leakage of information about the Washington Department of Financial Institutions report, about the possibility of a settlement, about the need for Household to reform its sales practices and the possible effect that would have on Household's profitability, and I believe that cascade of negative information had an effect, a negative effect, on Household's stock price in addition to the effect of the 14 disclosures that I originally quantified that we just went through.
Q. Do you have the Bellingham Herald article, that Exhibit 1429?
A. Probably better if you give me another copy of it because I have so many documents. I could search for it, but if you have another copy, that would be better.
What's the date of it?
Q. I have a copy.
A. Thank you.
I have it.
Q. Okay. Is this an example of the type of leakage that you

were talking about?
A. Yes. In fact, the article discusses the very leakage that I just described.
Q. Okay. And what in the article is significant to your opinion regarding leakage?
A. Well, if we just highlight the first half of the page on the first page of the article. The first paragraph talks about the Washington report, the state investigative report on Household.
Then it talks about how it's been suppressed by -- for three months as a result of a court order that Household obtained; then describes, because the article's been now leaked, a -- what the article refers to as a blistering assessment of the Household's loan practices in Washington and elsewhere in the state.
And then it goes on to talk about what the report accuses the company of, misrepresentations and dishonest statements, failure to provide customers with accurate disclosures, coaxing borrowers into signing without reading the documents that they're signing, talking borrowers into refinancing at disadvantageous interest rates based on misleading them, adding costly insurance premiums.
But then the next paragraph is really what is supportive of what I said a minute ago. It talks about how Household's attorneys went to court to obtain a restraining

order blocking release of the report; but in recent weeks, copies of the report have been leaked to every news organization that has followed the HFC story, including the New York Times, Forbes Magazine, American Banker Magazine, and the Bellingham Herald.
And the point is that my 14 specific disclosures don't pick up all this leakage going on behind the scenes to all of these news organizations about the consequences to Household of this report.
And, again, the same is true with respect to rumors about the settlement, about rumors about the effect of sales practice reform on Household's profitability and its growth strategy, and that's why I think that my first quantification doesn't fully capture the inflation in Household's stock price.
Q. Okay. Before we get a little further into leakage and your leakage analysis, did you prepare a demonstrative that compared how Household's stock price went down from your first date, November 15, 2001, until the end of the relevant period, October 11, 2002, to the inflation that you found, the $7.97?
A. I did.
MR. BURKHOLZ: Okay. Can we look at -- bring up 152, please.
BY MR. BURKHOLZ:
Q. Is this a demonstrative that you prepared?

A. Yes.
Q. And can you explain the demonstrative to the jury?
A. Yes. This is a comparison of Household's stock price decline from November 15th, 2001, my first fraud-related disclosure, the date of the California Department of Corporations suit, to October 11th, 2002, when the settlement and the reform of sales practices is announced, and the red bar is the amount of the decline in Household's stock price. $32.70 was the decline from I think it's, you know, somewhere around 60 to somewhere in the 20s, but the exact amount of the decline is $32.70.
And I compare that with the amount of inflation that I calculated based on my 14 specific disclosures, which is the blue bar, $7.97, and obviously $7.97 is a much smaller number than $32.70. So in my first method of the decline in price of $32.70, only $7.97 of that $32.70 decline I attribute to improper inflation, and the rest is attributable to other factors under this first method.
So you can see the vast majority of the stock price decline I do not count as inflation under my first method.
Q. And it's your opinion that the $7.97 is -- doesn't fully capture the inflation that was in Household's stock price before this time period?
A. Correct. It captures the 14 specific disclosures, but it doesn't capture the pervasive leakage of all of the

accusations and the findings in the Washington report, consumer groups, the possibility of more regulatory investigations, the effect on Household's -- rumors about the effect on Household's lower profitability as a result of reform of its sales practices, any analysis of specific disclosures in a situation where there's so much leakage, the specific disclosures can't fully capture all of the decline that's attributable to fraud-related information.
Q. And did you prepare -- compare Household's stock price decline during this period we're looking at to what it identified as its peer group?
A. I did.
MR. BURKHOLZ: Okay. And can we look at -- bring up demonstrative 136, please?
Let's highlight that.
BY MR. BURKHOLZ:
Q. Is this a demonstrative that you prepared?
A. Yes.
Q. Can you explain it to the jury?
A. Yeah.
Again, this is very important because, as I indicated earlier, you can't really analyze a stock price in the abstract. You have to know how it compares to how the market did and how the industry that it's a part of did.
And what I did was I looked at Household's

disclosures to see what benchmark Household itself identified as the market index and the industry index that its performance should be compared against.

And Household identified the Standard & Poor's Financial Index and the Standard & Poor's 500 Index, a much broader index of the overall market.

So during this period when Household declined by $32.70, I wanted to compare how Household performed versus the indexes that Household itself said it should be compared against, and this is what this graph indicates.

First of all, the full red bar is Household's performance during this period. The $32.70 decline translate into a decline of 53 percent in Household's stock price during this period.

But, again, I wanted to see how that compared with the market and the industry to be consistent with my overall analysis that you can't ever analyze stock prices in isolation, you have to compare them to the market in the industry.

So if you look at the two lines going across, they represent the performance of the S&P Financials Index and the S&P 500 Index, which, again, I did not choose those. Household itself chose them as the relevant benchmarks to assess its performance against.

And you can see that the Household -- the S&P

Financials Index declined by approximately 20 percent. The S&P 500 Index declined by approximately 25 percent, but Household declined by more than twice that amount. It declined by 53 percent during this period, which, again, gave me confidence that Household's decline was not just attributable to normal market and industry fluctuations, but was attributable to new negative information coming out about Household that is easily understandable in light of the cascade of negative information that was coming out during this period.

Q. And was the $7.97 inflation that you found -- what was the relationship between that and what you were finding in this analysis?

A. The $7.97 number is smaller than the amount of the -- of Household's decline that exceeded the decline of the indexes that Household itself compared itself to. So my analysis was conservative again in that respect.

Q. And I want to show you the proxy that Household filed, 14A proxy. It's Exhibit 1275 dated May 14, 2002.

Is this a document that you used in preparing this demonstrative?

A. Yes. Again, I didn't want to perform any comparisons of Household to indexes that Household itself didn't compare itself to, so under the governing regulations of the Securities and Exchange Commission, companies have to identify

which stocks and which stock indexes their performance should be compared against so investors can assess whether their performance is good or bad, not just in isolation, but relative to the companies or the indexes that they themselves compare themselves to.

MR. BURKHOLZ: Okay. Let's look at 1275. Before we bring it up, your Honor, can we move this in. It's Household SEC filing, 1275.

THE COURT: No objection, it will be admitted.

(Plaintiffs' Exhibit 1275 received in evidence.)

MR. BURKHOLZ: Thank you.

BY MR. BURKHOLZ:

Q. Let's turn -- it's on page 31 of the proxy filing, and we can highlight that paragraph that starts "The above chart."

A. Yeah, actually if you highlight the panel right above that.

Q. Okay.

A. And this is -- Household is reporting its performance relative to the S&P Financials Index and the S&P 500 Index, exactly the indexes that my exhibit just compared Household's performance to. And, in fact, the reason why I chose those indexes is because Household itself identified those indexes as what its performance should be compared against.

And then after the panel, Household's disclosure states that "The above chart compares total returns (assuming

all dividends are reinvested) of Household to Standard & Poor's Composite Financial Stock Price Index and Standard & Poor's 500 Composite Stock Price Index. Our common stock is included in both of these indices. The chart assumes $100 was invested in Household common stock on December 31, 1996 and that all dividends are reinvested. We are required to publish the five-year return chart so you could compare our performance to other stocks."

So Household demonstrated in this document what they considered the relevant comparison was. I used the exact same comparison that Household itself stated was the right comparison to use.

Q. And did you prepare an exhibit that shows the amount of artificial inflation, taking into account the leakage that you've discussed?

A. I did.

Q. Before we get to that, did you prepare a demonstrative that shows the inflation taking into account the leakage?

A. Yes, I -- yes, I did.

MR. BURKHOLZ: Okay. Let's bring up 154, the next demonstrative, 154.

BY MR. BURKHOLZ:

Q. And what does this show?

A. This is analogous to the document that we've already looked at, the graph focusing on the 14 specific disclosures.

But here instead of 14 specific disclosures, this method again uses an event study, uses a regression analysis and attempts to calculate the amount of inflation on every day during the relevant period, again, taking into account the effect of the market and the industry on Household's stock prices on every day.

You can see that the difference between the red line, the price, and the blue line is wider. The blue line, the true value line, the uninflated price, that's wider than in my first method focusing on 14 disclosures, and the reason is obvious, that you have so many more negative disclosures that are leaking out that are not captured in my 14 specific disclosures.

The result of that is that a greater percentage, a greater proportion of Household's decline in price is attributable to fraud-related disclosures and the correction of fraud-related information in this exhibit than the previous exhibit; but you can see again at the very end, the blue line goes above the red line.

So even in this exhibit, I want to be careful that investors who suffered no loss because they purchased at particularly low prices are not entitled to recover because they haven't suffered any harm.

Q. And that's the investors in the last 30, approximately 30 days of the relevant period?

A. Correct. When the leakage resulted in a much lower stock price than what ultimately occurred on October 10th and 11th.

Q. And you prepared an exhibit that shows the amount of inflation on every day during the relevant period for your leakage model, right?

A. Correct.

Q. Let me show you Exhibit 1395.

A. Thank you.

Q. And is that your quantification of the inflation under your leakage model?

A. Yes. If you can put it on the screen maybe.

Q. Did you prepare this document?

A. I did.

MR. BURKHOLZ: Your Honor, I don't believe there's an objection to 1395 if we can move it into evidence.

THE COURT: It will be admitted.

(Plaintiffs' Exhibit 1395 received in evidence.)

BY MR. BURKHOLZ:

Q. Can you explain what this exhibit is?

A. This exhibit, again, is analogous to the previous exhibit which focused on the 14 specific disclosures; but this exhibit takes leakage into account and, once again, has a calculation of the stock price on every day, what the true value is, which is what my calculation is of the uninflated price, what the price should have been had there been no fraudulent

disclosures or omissions in the various Household statements and disclosures during the relevant period. That's the second column, true value.

And the artificial inflation is the number in the last column. And, again, you'll see that it's different from 7.97 at the beginning because this calculation doesn't just focus on 14 disclosures. It focuses on all the negative disclosures that came out, particularly after November 15th when the market started to, in a much more systematic way, disbelieve Household's denials that it was engaging in predatory lending and that it was engaging in improperly aggressive accounting.

Q. Like your specific disclosure model, does this quantification use statistical methods to account for the market and industry influences on Household's stock prices?

A. Yes, it does.

Q. And did you also analyze whether company-specific factors unrelated to the alleged fraud can explain Household's stock price decline during this latter part of the relevant period?

A. Yes, I did. I looked at that carefully.

I noticed that there were a lot of disclosures that had some fraud-related information in it and some other disclose -- and part of the disclosure did not have -- dealt with something other that was fraud related.

There were some -- some of those disclosures that had

a positive effect, some had a negative effect; but overall it was impossible to conclude that the difference between the true value line and the actual price would have been any different had there been no disclosures about non-fraud-related information during this particular period. Some positive, some negative. They cancel each other out.

Q. Okay. Now, reaching your opinion about inflation, did you consider whether investors during the relevant period were fully informed about Household's accounting and lending practices?

A. I did.

Q. And what did you find?

A. I found that they were not fully informed for a number of different reasons.

Q. And what were the reasons?

A. Well, first, the disclosures coming out criticizing Household's practices didn't come from Household; and if a company is disclosing information about itself, it's one thing for third parties to comment, but it's another thing for the information to come directly from the company itself.

Since the company was not disclosing what the analysts and the critics were saying, market participants did not have full information.

Q. Okay. So you had your analysts' reaction or commentary, some of -- the Barron's article and the analysts' reports, the

Q. How does that relate to your opinion that investors were not told the truth about Household?
A. Well, Household is really the party in the best position to tell investors about its own practices. And to the extent that there are disclosures coming out by third parties who are increasingly critical, increasingly skeptical, increasingly disbelieving of Household's denials, that provides some information to investors, but it's not the same thing as Household itself telling investors about its own practices.
Q. And did you see evidence of criticism by analysts increasing in late 2001 and throughout 2002 and denials by management becoming less accepted by investors and analysts?
A. Yes, that was very much the pattern. The history during the entire relevant period of this case was accusations followed by denials. And for the first part of the period, investors really didn't know what to believe, and the denials were given some weight.
But by the end of the period, analysts and third-party commentators were openly skeptical of management's denials because there was so much evidence accumulating to the contrary.
Q. Let me show you what we've marked as Plaintiffs' Exhibit 1446. It's already in evidence.
(Tendered.)
BY MR. BURKHOLZ:

Q. What is Exhibit 1446?
A. This is an American Banker article dated May 31, 2002.
Q. And is this a denial by Household management that relates to your opinion?
A. Yes, very much so. And, again, it's an indication by the analysts that they're not quite sure whether the denial is credible or there aren't going to be a lot more bad things to come.
Q. Okay. Let's turn to the second page of the document. If we can highlight the part that begins with, Ms. Hayden said Household took full and prompt responsibility.
What is the significance of that statement and the statement underneath it?
A. Well, this was a statement by a Household representative that Household acknowledged there was a complaint that customers -- some customers were confused about the rates that they were paying on their loan. But then she said that Household was satisfied that this was basically a localized situation, an isolated situation in one particular branch, but again consistent with the pattern that I just described a minute ago because this is very late in the period, very late in the relevant period.
The author of the article then says, But Wall Street analysts wonder if this is the tip of an expensive iceberg, meaning that they didn't believe it was localized. They

didn't believe it was isolated. They believed this was just the beginning of a lot more bad information coming out about Household's predatory lending practices and its aggressive accounting which again is, in fact, exactly what happened.
Q. And does this article relate to your leakage opinion?
A. Yes, very much, that -- as I said, I have two methods for quantifying the amount of inflation. The first method focused on 14 specific disclosures, but I also explained that the 14 specific disclosures don't fully capture the negative information that was increasingly coming out about Household that wasn't present at the beginning of the relevant period but became increasingly present towards the end of the period.
And this statement about Wall Street analysts speculating about how big and bad this problem was going to be and increasingly so as Household's denials became less and less credible, that's precisely what underlies the leakage theory.
Q. And did you review an analyst's report by CFRA issued in the summer of 2002 that was critical of Household's re-aging practices?
A. I did.
Q. And did that relate to your leakage model?
A. Yes. Really the same thing, that Household had defended its treatment of its re-aging practices. There are a series of disclosures by Household on that issue. But then when this

CFRA report comes out -- it's an independent organization as I understand it, and it concludes that basically all of Household's disclosures on re-aging that it had defended were, in fact, highly misleading.
And, again, that's another situation where Household defended its practices, denied that there was a problem, and then a third-party commentator comes along and says we've now looked at this, we don't believe the denials, we think the re-aging practices and the treatment of the re-aging practices in Household's financial statements were misleading and did not provide an accurate picture for investors.
Q. Let me show you what we've marked as Plaintiffs' Exhibit 515.
(Tendered.)
MR. BURKHOLZ: A copy for counsel.
BY MR. BURKHOLZ:
Q. Is Exhibit 515 an e-mail from Mr. Aldinger to Mr. Streem attaching the CFRA report that you reviewed?
A. Yes.
MR. BURKHOLZ: Your Honor, we move Exhibit 515 into evidence. I don't believe there's any objection.
MR. KAVALER: Just the limiting instruction.
MR. BURKHOLZ: Subject to the limiting instruction.
THE COURT: It will be admitted subject to the limiting instruction.

the truth leaked out from November 2001 to October 2002?
A. Correct, from November 15, 2001, to October 11 of 2002. I should also say of these -- I think there's almost 70 firms in the S&P Financials Index. These are indexes which is a composite of firms.
But if you look at the firms individually, Household was the fourth worst-performing firm out of 70 firms during this particular period. So they dramatically underperformed relative to the indexes that Household itself deemed to be comparable. But if you look at the individual firms that compose the index, Household is the fourth worst as compared to the full 70 firm set.
Q. Now, your specific disclosure model estimates inflation of only about $7.97 during this period, correct?
A. As the maximum amount, correct.
Q. And your opinion is that that understates the inflation in Household's stock due to Household's public statements?
A. Yes, because it doesn't take into account the leakage that we've been discussing and I've been describing.
Q. And your leakage model estimates daily inflation ranging from $13 to approximately $23 for each day of the relevant period?
A. Yes. And actually, let me just explain why there's a cap of $23. Because what I did was I calculated the total underperformance of Household on -- relative to these indexes

based on my statistical model and that number was, I think, $23.94 or something like that.
So I made that the maximum possible inflation on any given day. So even when my model would predict or would indicate inflation of more than $23.94, I made $23.94 the cap because that's the amount that Household underperformed the S&P Financials Index and the S&P 500 Index.
Q. So compared to the stock price decline of $32, you attribute anywhere from 13 to $23 due to disclosures related to the fraud?
A. 13 to $23 based on leakage and $7.97 as the maximum under the specific disclosure models.
Q. And it's your opinion that the leakage model is a better estimate of the inflation in Household's stock price during the relevant period due to the alleged false statements and omissions?
A. Correct, because it takes into account the economic reality in this case where negative information came out slowly over time precisely because Household did not admit the predatory lending practices that it was involved in or the improper accounting as a result of re-aging, and the restatement of the truth only became known gradually as a result of real world events and commentary by third parties.
MR. BURKHOLZ: Nothing further at this time, your Honor.

THE COURT: Cross-examine.
MR. KAVALER: Thank you, your Honor.
CROSS-EXAMINATION
BY MR KAVALER:
Q. Good morning, Professor Fischel.
A. Good morning.
Q. My name is Tom Kavaler. I represent the defendants.
A. We met before actually.
Q. Briefly, I think.
And I'm going to ask you some questions today. I'm going to try to -- try to understand what you said on direct and explore how it applies to some other aspects of the case that I'm interested in. I would appreciate it if you would answer the questions I ask you and just those questions.
Can you do that?
A. I will do my best, sir.
Q. Excellent.
Now, you have an extensive background in this area in connection with disclosures and their impact on stock price, don't you?
A. I do.
Q. You are widely regarded as if not the preeminent, one of the preeminent experts in this field; are you not?
A. That's very kind of you to say. I hope that's the case, but I accept your gracious compliment.

Q. And your work has been cited by the Supreme Court, correct?
A. It has.
Q. And, in fact, when we were looking for an expert, we contacted you to see if you were available, but you had already been hired by these folks, correct?
A. You were nice enough to contact me to try and hire me in this case, but I was already retained, yes.
Q. And you've conducted a substantial number of event studies in connection with various cases over the years?
A. I have.
Q. An event study is a well-established methodology for analyzing loss causation in securities fraud cases?
A. Correct.
Q. In fact, an event study is widely regarded as the gold standard by both courts and economists for evaluating the economic aspects of a case like this?
A. In connection with -- in combination with other economic evidence, I would say that's correct.
Q. And you conducted an event study in this case?
A. We did.
Q. And, in fact, the results are one of the documents marked in evidence?
A. Correct.
Q. And you used your event study to analyze and detail the

quoted in a dollar amount without this adjustment that you've shown on all these charts for what it really should be, right?
A. Well, respectfully, sir, I'm not sure what you mean by what it really should be. That's really a mischaracterization of what I said.
Q. Fair enough. Turn to Plaintiffs' Demonstrative 137, where you've got a residual price change of minus $1.86.
Do you see that?
MR. BURKHOLZ: Could you show him where it is?
MR. KAVALER: Sure.
BY MR. KAVALER:
Q. It's tab three, which just happens to be the first one in --
A. I'm looking at it on the screen.
Q. If I were looking at the price of the stock, closing price on the New York Stock Exchange, on November 15, 2001, I wouldn't see minus $1.86, would I?
A. You would not, for the reasons that I explained at length.
Q. And if I were watching Bloomberg News, I wouldn't see minus $1.86, would I?
A. Probably not.
Q. And if I were reading the Wall Street Journal in the morning or the New York Times or the Chicago Tribune, I wouldn't see minus $1.86?
A. I suspect you would not.

Q. And if I were looking at my brokerage statement if I owned Household stock, I wouldn't see minus $1.86?
A. No. But in all those documents, you might see discussion of how the stock price movement compared with the overall market and movements of other firms in the industry. That's a very common measure that Household itself used in its proxy statements that's, in effect, required by SEC regulations.
Q. I'm making --
A. So this is just a quantification of what investors look at all the time.
Q. I'm making a very small point, sir. Stocks are quoted in a price which is the price usually that they close on the New York Stock Exchange, right?
A. Correct. But there's also frequently comparisons of stock prices and prices of the overall -- movement to the overall market, movements in the industry. That's what Household itself disclosed in its proxy statement. This is just a quantification of that relationship.
Q. You've been very patient all afternoon while we talked about your first model. I want to turn to your second model.
A. Okay.
Q. This is the model with the leakage, right?
A. Okay.
Q. Okay. And you agree there are a bunch of stock price movements that were significant under your aggression analysis

that were not attributable to fraud-related disclosures, don't you?
A. There were probably some, both positive and negative, but a lot of the significant movements were combined disclosures of -- they had some fraud-related aspect and then they had some other aspect in addition to the fraud-related aspect.
Q. And were there some, any, that had no fraud-related aspect?
A. It's a matter of judgment as to whether something has a fraud-related aspect or not. I would say there were a few, but there were also, I would say, a significant number of the statistically significant movements that had this combined aspect.
But just to be clear, under the leakage model, whether they did -- whether they were purely fraud related, combined fraud related or not at all fraud related, they were all included in the leakage model.
Q. I understand. But my point is there was some of all three?
A. You probably could -- that would probably be a fair statement.
Q. Okay. Now, this is not on either model. This is a general question.
A. Okay.
Q. You assumed that the defendants did make false statements

during the relevant period, didn't you?
A. That's correct.
Q. Okay. Can you do this: Assume the opposite. Assume the defendants did not make any false statements during the relevant period.
A. Okay.
Q. Okay. The stock price still declined in the real world, didn't it?
A. The stock price declined in the real world, that's correct.
Q. Why?
A. I think the stock price declined for a variety of different factors. I touched on this in my testimony. There was a -- a big part of the stock price decline that's -- according to both of my calculations that's attributable to some combination of market industry and non-fraud-related effects. And also some percentage of the stock price decline that's attributed -- attributable -- excuse me -- to the market learning correct information about Household's predatory lending practices, its re-aging policies and the effect of the restatement.
Q. And giving the last part of that answer, you were still holding to the assumption I asked you to make that there's no fraud?
A. I'm sorry. Well, if there's no fraud, then obviously

I am objecting in advance. I am asking that counsel be instructed to make sure the witness --

THE COURT: Wait a minute. Let me find out what's going on first.

MR. BURKHOLZ: All he talked about was the 2001 10-K that was restated. That's all he said.

THE COURT: So when he said they had to restate it, he was talking about the 10-K?

MR. BURKHOLZ: Yes. That's already been testified. He is not going to talk about any SEC consent.

THE COURT: That's already in evidence?

MR. KAVALER: I have no problem with that. I thought he was heading to the C and D. I want to be absolutely crystal clear. If that happens, I have a major problem, because that's a document you ruled out.

We made specific tactical decisions in our case because of your rulings. We did not call witnesses we might have called. There is no way they can open their own door here, your Honor.

And if that is attempted or effected, it's going to have serious consequences.

MR. BURKHOLZ: It's not going to happen, your Honor.

THE COURT: Okay.

(End of sidebar proceedings.)

BY MR. BURKHOLZ:

Q. Professor Fischel, did you find analysts in these articles attributing Household stock price decline in late 2001 to October 2002 to predatory lending, reaging, and restatement?

A. Yes. Again, I heard Dr. Bajaj testify over and over and over again that there was no relationship between Household stock price movements and inflation or the plaintiffs' allegations.

Again, to me, it's not a matter of a battle of statistics. It's a matter of which opinion more closely approximates reality.

Q. Let me show you Plaintiffs' Exhibit 1450.

(Document tendered.)

MR. BURKHOLZ: Plaintiffs' Exhibit 1450 is an analyst report issued by Deutsche Bank on September 12th, 2002, offered into evidence subject to the limiting instruction, your Honor.

THE COURT: It will be admitted.

(Said exhibit was received in evidence.)

BY MR. BURKHOLZ:

Q. If we can, turn to the second page of the document, the top part of the document.

What is the significance of this analyst report to your opinion regarding news coming out about predatory lending, reaging, restatement issues in 2002?

A. Well, again, Dr. Bajaj testified that Household's stock

price had nothing to do with the allegations of predatory lending, the regulatory investigations and complaints, the lawsuits, consumer complaints. It was all a function of what happened with finance companies.

And I think I have shown, or certainly tried to show, that if you look at the economic evidence with respect to finance companies, there was dramatic underperformance of Household.

But, again, it's not just an opinion of an expert. It's supported by what observers were saying at the time.

Again, this first paragraph demonstrates that. The particular analyst talks about how "Household's stock has been under pressure due to concern about accusations of unfair and predatory lending practices, primarily consumer groups (ACORN and AARP) and the State of Washington Department of Financial Institutions." And then talks about the possibility of further developments along the same lines in the future.

Q. I want to go back to your S&P financial group.

During the time period of your disclosure period, November to October of '02 -- November of '01 to October of '02, how did Household perform within that group?

A. Much worse.

Q. Did you look to see how they performed?

A. Yes. They were the fourth worst out of 70 firms.

By the way, that's also true if you take a look at

the period that Dr. Bajaj selected -- again, not the correct period, in my view, because it didn't start with November 15th. But even looking at his period, Household was the fourth worst performing firm out of 70 firms -- approximately 70 firms in the S&P financials index, which was the index that Household itself, as required by law, told investors that it should be -- its performance should be judged against.

Q. Before we finish up today, I just want to go back to one more topic, and that's the up-leg, as the defendants refer to it, inflation coming into Household stock.

How does the false statements in this case cause inflation to be in Household stock?

A. The plaintiffs have alleged in this case that Household failed to disclose that its growth strategy was based on an unsustainable business model; that it was based on predatory lending practices that would ultimately be the subject of regulatory investigations, customer complaints, lawsuits, proceedings by states' Attorney General, et cetera. It also alleged that Household's accounting was incorrect; that its reaging policies masked delinquencies and defaults; and that its accounting for its credit card revenues was incorrect as demonstrated by the ultimate restatements.

When Dr. Bajaj gives his opinion over and over and over again that there is no economic evidence that there is

any relationship between those allegations and inflation in Household stock, what he is saying is that had Household disclosed from the beginning of the relevant period everything that the plaintiffs allege that Household should have disclosed, its stock price would have been identical on every day during the class period.

In other words, if Household had disclosed, our growth model is based on predatory lending practices, which can't be sustained; if it disclosed that our accounting is overly aggressive and masked delinquencies; if it had disclosed that our accounting is ultimately going to be the subject of a restatement, that would have had no effect on investors at any point in time during the relevant period, even though we know when that information came out after November 15th, when Household's denials became less and less credible, the stock price fell dramatically.

So the premise of, really, both of my analyses -- the specific disclosure model and the leakage model -- is that stock price decreased, that dramatic underperformance from November 15th forward.

If the information that came out after November 15th, if that information had been properly disclosed at the beginning of the relevant period, Household's stock price would have fallen the same way that Household's stock price in fact fell when the correct, or truthful, information came out

when Household's denials became less and less credible after November 15th.

So the way inflation entered Household's stock prices is very simple.

Dr. Bajaj had all kinds of complicated exhibits, but the point is very, very simple.

If instead of the disclosures that Household in fact made before they had to change their disclosures, admit that some of their disclosures were false and misleading, if they had said those things at the beginning, would the stock price have been the same, or would it have fallen?

And what I tried to do was attempt to quantify, using two different methods, how much Household's stock price would have fallen had there been correct disclosures at all points in time.

In other words, if the information that came out gradually beginning on November 15th, 2001, if instead of coming out at that time and with Household continually denying the allegations, if Household had made truthful and accurate disclosure at the beginning, its stock price wouldn't have been in the 40s. It would have been lower because investors would have realized the growth strategy is not sustainable, the accounting is not reliable, there is questions about the integrity of management and financial reporting. All those things would have caused the stock price to be lower. That's

what constitutes the inflation. That's what I tried to quantify under my two different methods.

MR. BURKHOLZ: Is this a good time to break, your Honor?

I can keep going.

THE COURT: No. It is. Very well.

Ladies and gentlemen, we will break for today. We will -- as you can no doubt perceive, we are nearing the close of the evidence in this case. So your patience and your attention is, as always, appreciated. But know that we are almost at the end.

We will resume tomorrow at the usual time.

Please don't discuss the case with anyone or allow anyone to discuss it with you.

Have a good evening. We will see you tomorrow.

(Jury out at 4:31 p.m.)

THE COURT: You may step down.

THE WITNESS: Thank you, your Honor.

THE COURT: Tell me what our schedule is.

MR. BURKHOLZ: We have the 50(a) motion with respect to --

THE COURT: Tell me what the schedule is with the evidence. That's what I need to know.

MR. BURKHOLZ: Probably another 20 to 30 minutes.

THE COURT: With this witness?

Any other witnesses?

MR. BURKHOLZ: No, your Honor.

THE COURT: All right. I assume you will have about the same in cross?

MR. KAVALER: In terms of time or in terms of number of witnesses, your Honor?

THE COURT: In terms of time with this witness first.

MR. KAVALER: Less. Based on what he has done so far, less. With witnesses, fewer.

THE COURT: Any other witnesses after him in surrebuttal?

MR. KAVALER: Zero. Again, your Honor, subject to him saying -- hereafter would require some response.

THE COURT: Okay. All right. So we can count on releasing this jury tomorrow probably right around lunchtime, I would assume.

And I can have your -- when can I have your submissions on the verdict forms?

MR. DROSMAN: I have that now, your Honor.

We will hand up a copy of the 50(a) motion at the same time.

THE COURT: That's fine.

MR. DROSMAN: What I have got is, I have got a copy of the 50(a) motion for the Court, a copy of the verdict form, a clean copy of the revised jury instructions, and then a

EXHIBIT 5

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	Lead Case No. 02-C-5893 (Consolidated) CLASS ACTION Judge Ronald A. Guzman Magistrate Judge Nan R. Nolan

REBUTTAL REPORT OF DANIEL R. FISCHEL

Lawrence E. Jaffe Pension Plan vs. Household International, Inc., et al.

REBUTTAL REPORT OF DANIEL R. FISCHEL

I. INTRODUCTION

1. I submitted a report dated August 15, 2007 (the "Fischel Report") in the above-captioned litigation.[1] In that report, I set forth and provided the bases for my principal conclusion that the economic evidence is consistent with Plaintiffs' claim that the alleged wrongdoing caused investors in Household's common stock to incur losses. Fischel Report ¶ 11. I also provided two alternative quantifications of the amount of alleged artificial inflation in Household's stock price during the Class Period, one based on the price reactions to specific fraud-related disclosures ("Quantification Using Specific Disclosures") and one that accounts for the stock price effect of fraud-related information that leaked into the market during the latter part of the Class Period ("Quantification Including Leakage"). *Id*. ¶ 30.

2. Defendants have submitted the Expert Report of Mukesh Bajaj dated December 10, 2007 (the "Bajaj Report"). In his report, Dr. Bajaj claims that "Professor Fischel's Analysis Suffers From Several Fundamental Flaws And Results In Incorrect And Unsupportable Conclusions." Bajaj Report at 8. He also provides multiple criticisms of my analysis and conclusions.

3. I have been asked by counsel for Plaintiffs to review and respond to Dr. Bajaj's criticisms as described in the Bajaj Report. I have been assisted by Lexecon's staff. Exhibit A describes the materials I have relied upon in forming my

1. The Fischel Report provides information on my qualifications and defines capitalized terms.

opinions contained in this report. Based on my review of these materials and our analysis, I have concluded that Dr. Bajaj's criticisms are incorrect and therefore do not affect my conclusion.

II. DR. BAJAJ'S CRITICISMS OF MY CONCLUSION ARE INCORRECT

A. Dr. Bajaj's Claim that I "Provided No Economic Evidence" to Support My Conclusion Is Incorrect

4. As I explained in the Fischel Report, Plaintiffs allege that the Defendants engaged in a fraudulent scheme and wrongful course of business, the components of which I refer to as Predatory Lending, Re-aging, and the Restatement. Fischel Report ¶ 10. Plaintiffs further claim that the cumulative effect of the revelation of Defendants' alleged wrongful course of business caused Household's stock price to decline. *Id*. Dr. Bajaj opines that "Professor Fischel Has Provided No Economic Evidence That Would Warrant His Conclusions That Economic Evidence Is Consistent With Plaintiffs' Claim." Bajaj Report at 11. Dr. Bajaj is incorrect because he ignores the extensive economic evidence in the Fischel Report that is consistent with Plaintiffs' allegations.

5. In my report, I used a well-known and established technique in financial economics known as an "event study" to establish that Household's stock price reacted significantly to disclosures related to the alleged fraud. Fischel Report ¶¶ 30 & 34-5. Using my event study, I accounted for the effect of market factors on the Company's stock price following each of these disclosures and demonstrated that net of market factors, the cumulative impact of the disclosures caused the stock price to decline. *Id*. ¶ 36. In addition, I provided numerous examples of news articles and commentary by

market participants which demonstrate that a steady stream and extensive amount of incomplete information related to Defendants' alleged fraud was disclosed beginning at least as early as November 15, 2001. *Id*. § III & ¶ 39. I also established that, although only some of these disclosures were associated with significant changes in Household's stock price, the stock lost more than half of its value beginning November 15, 2001 through the end of the Class Period and that market participants attributed this decline to concerns regarding Defendants' allegedly fraudulent practices. *Id*. ¶¶ 28 & 39. Moreover, I showed how the stock substantially underperformed the market and comparable indexes over this period, indicating that under the facts and circumstances of this case, Household's stock price decline cannot be fully explained by adverse market events and is on the contrary consistent with Plaintiffs' claim that the decline occurred as investors learned of the Company's allegedly fraudulent practices and Defendants' denials became less credible. *Id*. ¶¶ 29 & 39. I concluded that the combination of the significant stock price decline, the concurrent leakage of fraud-related information, and market participants' attribution of the decline to this fraud-related information is strong economic evidence that in this case, the long-run relative underperformance of Household's stock price beginning November 15, 2001 through the end of the Class Period was caused by leakage of artificial inflation from the price. *Id*.

6. Dr. Bajaj ignores this economic evidence and offers no compelling argument to otherwise explain Household's stock price underperformance in the latter part of the Class Period.[2] Instead, he mischaracterizes the Fischel Report[3, 4] and my

2. In fact, using his estimation period, Dr. Bajaj calculated substantial artificial inflation in Household's stock price during the Class Period. Bajaj Report at 83 & Exhibit 6.
3. Dr. Bajaj claims that "Professor Fischel anecdotally discusses events that occurred on 41 dates during the Class Period when the markets purportedly received information

report in another case,[5] falsely claims that my quantifications are internally inconsistent,[6] and presents a fundamentally flawed "illustration" that, contrary to his claim, does not

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related to the Plaintiffs' theories of alleged fraud" and that "such information did not collectively have a significant impact on HI's stock price on a market-adjusted basis." Bajaj Report at 17. But, he ignores that I acknowledged in my report that not all of the 41 "events" – some of which were newspaper articles describing past events (*see, e.g.*, Fischel Report ¶ 15) – were associated with statistically significant market-adjusted price changes and that I provided strong economic evidence to support my conclusion. *Id.* ¶ 39. This evidence included that analysts reacted negatively to the incomplete disclosures related to the alleged fraud on different dates. *Id.* ¶ 20. Based on all of the economic evidence, the fact that the market did not react significantly on every day that incomplete information related to Plaintiffs' allegations was disclosed is consistent with my conclusion that artificial inflation leaked out of Household's stock price in the latter part of the Class Period.

4. Dr. Bajaj claims that "Professor Fischel describes his Leakage model as an 'event study approach' when it is not." Bajaj Report at 16. However, as I explained in the Fischel Report, my Quantification Using Leakage uses "the 'event study approach' described by Cornell and Morgan." Fischel Report ¶ 41. According to these authors: "The event study approach assumes that the price and value of the security move in tandem except on days when fraud-related information is disclosed. … [I]f no fraud-related information is disclosed, set the [Constructed Return (*i.e.*, the stock price return underlying the estimate of the stock's value absent the fraud)] for that day equal to the actual return on the security; if fraud-related information is disclosed, or there is evidence that such information is leaking into the market, set the [Constructed Return] for that day equal to the return on the security predicted by the market model." B. Cornell and R.G. Morgan, "Using Finance Theory to Measure Damages in Fraud on the Market Cases," 37 *UCLA L Rev.* (1990) at 899. This is exactly what I did. Fischel Report ¶ 41. Dr. Bajaj also criticizes the event study approach by misquoting Cornell and Morgan's discussion of a limitation in an alternative approach – which I did not use – that they call the "comparable index approach." Compare, Bajaj Report at 72 *with* Cornell and Morgan (1990) at 903.
5. Based on his mischaracterization of my report in another case (*In re Blech Securities Litigation*, which he incorrectly refers to as *In re Bizch Securities*), Dr. Bajaj claims that "Professor Fischel now makes the same mistake for which he has criticized others in the past." Bajaj Report at 74. On the contrary, my reports in the two cases are entirely consistent. In *Blech*, I stated that it is a mistake to assume without more economic evidence that underperformance relative to an index constitutes inflation. Here, I explain why underperformance, in combination with the statistically significant stock price declines in response to specific disclosures and analyst and other commentary, all are consistent with Plaintiffs' claims.
6. Dr. Bajaj claims that "The Two Alternative Quantifications of Alleged Artificial Inflation That Professor Fischel Proposes Are Internally Inconsistent" and that this purported "internal inconsistency … demonstrates that his quantification of alleged inflation is fundamentally flawed and unreliable." Bajaj Report at 75-6. His claim is

show the purported "fallacy" in my analysis.[7] Consequently, Dr. Bajaj's arguments do not affect my conclusion.

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based on two declines in artificial inflation in my Quantification Using Specific Disclosures (on November 15, 2001 and December 5, 2001) that are not reflected in my Quantification Including Leakage. *Id*. However, in making this criticism, he ignores that I state in the Fischel Report that in the latter quantification "[i]f the resulting inflation on any day was greater than the cumulative residual price decline during the observation window of $23.94, I limited the inflation to $23.94 and adjusted the true value line accordingly." Fischel Report ¶ 42. To demonstrate that my quantifications of artificial inflation are consistent, Exhibit B presents my daily quantifications but without applying the limitation on the Quantification Including Leakage. As shown on page 14 of this exhibit, prior to employing the constraint, the artificial inflation in both quantifications declines on November 15, 2001 and December 5, 2001. Thus, the differences he notes are artifacts of the constraint, not an internal inconsistency in my calculations. Dr. Bajaj's claim is particularly disingenuous because he employs the limitation when he replicates my Quantification Including Leakage using his estimation period. Bajaj Report Exhibit 6.

7. Dr. Bajaj's misunderstanding of the Fischel Report and the event study approach leads him to create a fundamentally flawed "illustration" using stock price information for "all 30 members … of the Dow Jones Industrial Average ('DJIA')" during the Class Period to create "Pseudo-Damages" that purportedly show the "fallacy" in my analysis. Bajaj Report at 76. This illustration is flawed for at least three reasons. First, the illustration is based on the "comparable index approach" which assumes that "the observation window [where the leakage could have occurred] is expanded to cover the entire class period" (Cornell and Morgan (1990) at 906), not on the event study approach that I used in the Fischel Report. Second, unlike his analysis which he admits was performed "without any further factual analysis" other than the use of stock price data (Bajaj Report at 76), my Quantification Including Leakage was based on the analysis of the economic evidence presented in the Fischel Report. Third, because he did not conduct any factual analysis and thus has no reason to believe that the DJIA members' stock prices were inflated, had he used the event study approach that I used, Dr. Bajaj would have found zero "Pseudo-Damages." To see why, note that in his illustration, Dr. Bajaj "assumes that the difference between a DJIA Member's actual stock price and its True Value represents daily 'inflation.'" *Id*. As explained *supra* n. 4, the event study approach requires that if no fraud-related information is disclosed, the stock price return underlying the estimate of True Value for that day is set equal to the actual return on the security. Therefore, because he has no reason to believe that any fraud-related information was disclosed on any day during the Class Period for the DJIA members, he should have set their True Value returns equal to the actual returns on every day during this period. Had he done so, the True Value would have equaled the actual stock price for each DJIA member and thus he would have found zero daily inflation in these companies' stock prices and zero "Pseudo-Damages."

B. Dr. Bajaj's Analysis of Dates "Most Relevant to Plaintiffs' Three Distinct Theories of Alleged Fraud" Is Incorrect

7. Dr. Bajaj also claims that my "conclusion is factually incorrect" because "on the three days when new information most relevant to Plaintiffs' three distinct theories of alleged fraud was revealed, HI's stock price actually increased." Bajaj Report at 8. These "three days" are August 14, 2002, April 9, 2002, October 10, 2002, and October 11, 2002. *Id*. at 8-10. Once again, Dr. Bajaj is incorrect because, as explained above, he ignores the extensive economic evidence in my report concerning disclosures on days other than these "three" that is consistent with Plaintiffs' allegations. As I explain below, Dr. Bajaj is also incorrect because he ignores the economic evidence related to these "three days."

i. August 14, 2002

8. Dr. Bajaj states that "[o]n August 14, 2002, HI announced that it would restate its earnings back to 1994" and that "HI's price increased by 29 cents (or 0.77%) following this Restatement." *Id*. at 8-9. However, as I explained in the Fischel Report, after accounting for the effect of market factors on Household's stock price on August 14, 2002, I found that it declined by $0.94 (or 2.5%); I also found that this decline was statistically significant. Fischel Report n. 16. In addition, I explained that market participants were surprised by the announcement. *Id*. ¶ 27. Dr. Bajaj recognizes that "unless the market received new information about the alleged fraud, and the stock's market-adjusted price change following such news was statistically significant, there is no economic basis to claim that the observed price change should be attributed to a 'disclosure' related to the alleged fraud, nor to measure the Plaintiffs' harm based on such a price change." Bajaj Report at 7. But, he admits that the market received new

information about the alleged fraud on August 14, 2002 and recognizes that I found the market-adjusted price change to be statistically significant (*id*. at 14 & n. 15), yet he ignores this economic evidence. Dr. Bajaj's criticism is particularly disingenuous because his own analysis of Household's stock price movements demonstrates that on a market-adjusted basis, the stock price declined significantly on August 14, 2002. *Id*. at 82 & Exhibit 8 at 1055.

9. Moreover, market commentators attributed the Company's stock price decline early on August 14, 2002 to the Restatement, which was announced before trading began on August 14, 2002. *Reuters News* reported that "Household International tumbled after the consumer finance company said it would downwardly revise its net income due to accounting changes." *See* Exhibit C. Similarly, in an article dated August 14, 2002 at 11:22 AM, *Dow Jones Business News* reported that "Household International Inc.'s (HI) shares fell after the consumer-finance company announced that it restated profits downward by $386 million – for the period spanning from 1994 to the second-quarter of this year – to reflect a change in accounting tied to certain contracts within credit-card business." *See* Exhibit D.

10. In addition, Dr. Bajaj asserts that "[a]ccording to a large body of academic research, accounting changes that do not significantly affect investors' expectations about future cash flows or the risk associated with such cash flows, do not impact the stock price." *Id*. at 9. While generally true, this assertion is irrelevant in this case because there is evidence that the Restatement significantly affected investors' expectations about future cash flows. As I explained in the Fischel Report, analysts at Morgan Stanley commented that the restatement "suggests to us that returns in the credit card business are lower than we previously thought" and reduced their earnings forecasts

and price target while CIBC World Markets analysts also reduced their 2002 and 2003 earnings estimates and lowered their price target. Fischel Report ¶ 27.

11. Dr. Bajaj further asserts that I "fail[] to note that despite modest reductions in forecast earnings in the short term, these analysts continued to be very bullish on HI's stock, forecasting significant increases in HI's stock price." Bajaj Report at 25. This assertion is also irrelevant because, as I explained above, the analysts lowered their earnings forecasts and price targets. The fact that they did not change their recommendations or lower their price targets below the current price does not mean that investors did not lower their expectations about future cash flows or that the stock price did not decline on August 14, 2002 after accounting for market-related factors.

12. Dr. Bajaj also asserts that another Morgan Stanley report stated that "'Household's restatement does not materially affect future earnings, and the company has not changed guidance'" and that "'[a]ll three rating agencies affirmed Household's ratings on the news, reiterating that the restatement does not affect Household's future business, and included their expectations for capital levels to increase.'" Bajaj Report at 26. However, this report was issued by a fixed income analyst, not a stock analyst. *Id*. n. 92. Holders of fixed income (*i.e.*, debt) securities (which are the securities rated by the rating agencies) have claims on a company's assets that are senior to those of equity security holders and are thus less sensitive to changes in expectations about future cash flows. Therefore, the fact that fixed income analysts and ratings agencies did not consider the Restatement to materially affect Household's future earnings from the perspective of fixed income security holders does not mean that equity security holders did not lower their expectations about future cash flows or that the stock price did not decline on August 14, 2002 after accounting for market-related factors.

ii. April 9, 2002

13. Dr. Bajaj states that "Plaintiffs allege that the Company first 'broke out its reaging statistics' on April 9, 2002" and that "HI's stock price, however, increased insignificantly by 19 cents (or 0.32%) on that day, once again indicating that an event which Plaintiffs (and Professor Fischel) claim represented a 'disclosure,' was value-irrelevant."[8] *Id*. at 9. But, he ignores the economic evidence I presented in the Fischel Report that information related to Plaintiffs' Re-aging claim was disclosed on other dates (including earlier dates) and that several of these disclosures were associated with statistically significant price declines. Fischel Report ¶¶ 22-6, 34-5, n. 16, 19 & 20. In addition, Dr. Bajaj ignores that the stock price may not have reacted significantly on April 9, 2002 because investors had already adjusted the price to reflect information disclosed earlier that was related to Plaintiffs' Re-aging claim, thereby making the news on April 9, 2002 "value-irrelevant."

14. Dr. Bajaj also states that I "mention[] the SEC Cease-and-Desist Order ('SEC Order') dated March 18, 2003" and claims that I "fail[] to examine HI's stock price reaction to the SEC Order" as "[o]n March 19, 2003 (the date of the SEC Order Press Release) … increased insignificantly by 25 cents (or 0.89% from $28.20 to close at $28.45)." Bajaj Report at 39-40. However, contrary to Dr. Bajaj's claim, I did examine this reaction and found it to be inconclusive. On November 14, 2002, several months prior to the SEC Order announcement, Household and HSBC Holdings plc

8. I understand that Plaintiffs contend that Household's April 9, 2002 disclosure of its re-aging statistics is a false and misleading statement, not a corrective disclosure. Indeed, I noted in the Fischel Report that analysts at Prudential Securities commented that the "new info on account re-aging lacked historical and comparative context and could be a misleading indicator of HI's approach to managing credit losses." Fischel Report ¶ 25.

("HSBC") jointly announced that they entered into an agreement pursuant to which HSBC would acquire the Company; the merger was expected to be completed during the first quarter of 2003. *See* Household Finance Corporation SEC Form 8-K dated November 14, 2002. Under the terms of the agreement, a fixed ratio was established in which each Household share would be converted into the right to receive 2.675 HSBC ordinary shares or 0.535 HSBC American depositary shares.[9] *See id.* The merger was consummated on March 28, 2003. Fischel Report n. 1. Following announcements of acquisitions where the consideration is based on the acquirer's stock price, the stock prices of the target company typically are determined by the prices of the acquirer.[10] In these types of mergers, the target's price generally would deviate significantly from the acquirer's price only if there is a reason to believe that the acquisition would not be completed at the agreed-upon terms. In Household's instance, there was no reason to believe that following the announcement of the SEC Order the acquisition would not be completed at the agreed-upon terms. In fact, HSBC's March 19, 2003 press release

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9. In terms of market capitalization, HSBC was almost eight times larger than Household on March 18, 2003. According to their respective SEC filings, Household had 474.6 million common shares outstanding and HSBC had 9.5 billion ordinary shares outstanding as of December 31, 2002. According to *Bloomberg*, Household's stock price and HSBC's American depositary share ("ADS") price closed at $28.20 and $54.51 on March 18, 2003, respectively. Therefore, Household's market capitalization on March 18, 2003 was $13.4 billion. Because each HSBC ADS represents the right to receive five HSBC ordinary shares (*see* Household Finance Corporation SEC Form 8-K dated November 14, 2002), HSBC had 1.9 billion ADS-equivalent shares outstanding as of December 31, 2002 and its market capitalization on March 18, 2003 was thus $103.4 billion.
10. *See, e.g.*, E. Hutson and C. Kearney, "Merger arbitrage and the interaction between target and bidder stocks during takeover bids," 19 *Research in International Business and Finance* (2005) at 1 & 21 ("Interaction between bidder and target stocks is strong for stock-swap and mixed cases, where the bid price is transferred from bidder to target. … The interaction term in the target mean equations … shows considerable price transfer from bidder to target.").

regarding the SEC Order stated that "HSBC remains fully committed to completing the merger with Household subject to the terms and conditions contained in the merger agreement." *See* Exhibit E. Consequently, the fact that Household's stock price did not change significantly following the SEC Order announcement establishes nothing and does not affect my conclusions.

iii. October 10, 2002 and October 11, 2002

15. Dr. Bajaj states that "Professor Fischel attributes HI's price reaction on October 10, 2002 and October 11, 2002 to 'market talk' and the announcement of the terms of HI's nationwide settlement of investigations by various 'state attorneys general into its subprime consumer lending business' (the 'AG Settlement') on these two dates, respectively," and that "HI's stock price, however, increased significantly by $5.30 (or 25.24%) on October 10, 2002 and further by $1.90 (or by 7.22%) on October 11, 2002." Bajaj Report at 10-1. He notes that the Company "announced it would pay 'up to $484 million' to settle the investigations, and that it 'expected the changes in business practices to cut earnings by 10 cents a share in 2003, by 20 cents in 2004, and by 30 cents in 2005'" and that "[r]atings agencies lowered HI's debt ratings upon this news." *Id*. at 10. He also notes that I explained in the Fischel Report that the fact that the stock increased in value upon disclosure of this negative information is evidence that it had declined earlier by at least as much in anticipation of a larger payment and/or changes in Household's business practices that would have had a worse impact on the Company's future prospects. *Id*. at 66. Dr. Bajaj claims that my explanation contradicts "the facts surrounding the AG Settlement" and "Professor Fischel's theory that HI's stock price declined on the Alleged P[redatory] L[ending]

Disclosures because of curative disclosures that revealed a fraud related to the Plaintiffs' theory of 'Predatory Lending.'"[11] *Id*. Dr. Bajaj's claims are incorrect.

16. Dr. Bajaj claims that my explanation "is inconsistent with the facts" because "the announced settlement amount ($484 million) was within the range that investors and analysts had been expecting for several months." *Id*. at 68. But, he ignores the fact that if the announced settlement amount was within the expected range of the market consensus, there would have been no reason for Household's stock price to react positively or negatively to the settlement announcement. Instead, as I explained in the Fischel Report, analysts were concerned the fine could be higher; for example, analysts at UBS stated that "we estimate this fine could exceed $500 million." Fischel Report ¶ 21. In addition, Professor Bajaj ignores the fact that market participants were highly concerned that no settlement would be reached at all. For example, Howard Mason of Sanford Bernstein commented on October 3, 2002: "A more serious risk is that Household cannot reach agreement with the AGs and the rating agencies, unnerved by chronic regulatory problems, downgrade the outlook or rating on Household's senior debt. The impact could go beyond raising the cost of debt funding toward restricting access and creating liquidity challenges." *See* Exhibit F. Therefore, it is not surprising that when a settlement was reached, Household's stock price reacted positively.

17. Dr. Bajaj claims that if "price declines on the Alleged P[redatory] L[ending] Disclosures dates were in part caused by investors' expectations about larger

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11. Dr. Bajaj further claims that I "fail[] to consider whether HI's price reaction is explained by non-fraud related factors" and that in particular I "fail[] to exclude the possibility that HI's stock price had been depressed by headline risk regarding alleged 'predatory lending' …." Bajaj Report at 67. As I explain *infra* ¶¶ 26-9, his claim that Household stock price declines related to "headline risk" cannot be attributable to the alleged fraud is incorrect.

negative impacts of the impending AG Settlement than were subsequently announced, then such price declines cannot be entirely attributed to the 'alleged artificial inflation related to the above disclosures' as Professor Fischel claims in his event study methodology." Bajaj Report at 69. But, he ignores that by including the price increases on October 10, 2002 and October 11, 2002 in my Quantification Using Specific Disclosures, I net them against prior price declines caused by prior disclosures.[12] Fischel Report ¶ 36. Dr. Bajaj incorrectly assumes either that I do not net the price increases against the price decreases I measure or that the net effect on Household's stock price from the announcement that the Company would pay hundreds of millions of dollars and change its business practices such that future earnings would be reduced, which caused rating agencies to lower their ratings on Household's fixed income securities, was zero.

C. Dr. Bajaj's Analysis of Other Relevant Dates Is Incorrect

18. Dr. Bajaj also criticizes other dates relevant to the alleged fraud on which I base my Quantification Using Specific Disclosures. Bajaj Report at 30-7 & 40-65. His criticisms can be summarized as falling into five basic categories: 1) I "cherry-picked" these dates; 2) I did not adequately consider other non-fraud related reasons that could explain Household's stock price changes on some of these dates; 3) the information disclosed on some of these dates was "stale," *i.e.*, already publicly known; 4) stock price declines related to "headline risk" purportedly "cannot be attributable to the alleged fraud;" and 5) the stock price changes on some of these dates were not statistically

12. This also holds true for my Quantification Including Leakage in which I net the price increases on October 10, 2002 and October 11, 2002 against prior price declines caused by prior disclosures and leakage.

significant because my regression model is "flawed" and "mis-specified." I address each of these categories below.[13]

i. Dr. Bajaj's claim that I "cherry-picked" the Specific Disclosure dates is incorrect

19. Dr. Bajaj claims that "Professor Fischel has [] 'cherry-picked' his Specific Disclosures because he has ignored many dates (including dates that he himself has cited in his report, as well as numerous other dates that he has entirely ignored) when the markets did receive news related to Plaintiffs' theories of alleged fraud, but HI's stock price change was not significant, which indicates that such news was not value-relevant." Bajaj Report at 15-6. Once again, he mischaracterizes my report. The analysis used to identify the Specific Disclosures was comprehensive and consistent, not "cherry-picking."[14] In addition, the other dates in § III of my report, combined with the other economic evidence contained in my report, provided the basis for my conclusions that there was a significant relationship between Plaintiffs' allegations and investors' losses during the latter part of the Class Period, and that leakage of artificial inflation from the price caused Household's long-run relative stock price underperformance during this period. Fischel Report ¶¶ 28-9 & 39. As such, Fischel Report § III documented numerous instances where market participants explained how news related to Plaintiffs' allegations led them to revise downward their valuation of the Company's stock. For

13. In the attached Appendix, I provide additional examples of Professor Bajaj's flawed criticisms.
14. Specifically, we first identified dates on which news related to Plaintiffs' allegations became available to the market. We then examined each of these dates to determine whether the news related to Plaintiffs' allegations led the market to significantly alter its valuation of Household's stock. We only included in the Quantification Using Specific Disclosures those dates on which news related to Plaintiffs' allegations had a statistically significant effect on the Company's stock price.

example, it documented that on May 7, 2002, *Newsday* reported that as news of Household's lending practices came out, the New York State Comptroller became so concerned that he considered selling his 2.5 million shares of the Company's stock. *Id.* ¶ 19. The Comptroller's concerns did not provide the market with new information related to Plaintiffs' allegations that caused it to significantly change the stock's value and so this date was not included in the Quantification Using Specific Disclosures. However, the concerns demonstrate how the revelations of improper lending practices led market participants to revise their valuations of the stock.

ii. Dr. Bajaj's claim that the price changes on some Specific Disclosure dates may be due to other non-fraud related reasons is flawed

20. Dr. Bajaj argues that the price changes on some Specific Disclosure dates may be explained by non-fraud related events which affected Household's industry. For example, he claims that news of a decline in the 10-year Treasury note yield "may have adversely impacted HI's stock price" on September 23, 2002. Bajaj Report at 62. But, he ignores that, as I explained in my report, I controlled for such industry effects in my event study. Fischel Report ¶ 32. Dr. Bajaj criticizes my event study because the underlying regression model did not include the index of consumer finance company stocks he created. *See infra* ¶ 32. But, even if I include this index in my regression model, I still find that all of the market-adjusted stock price changes on the Specific Disclosure dates I identified are statistically significant. *See id.* & Exhibit G.

21. The specific non-fraud related events Dr. Bajaj offers to explain the changes in Household's stock price on Specific Disclosure Dates are implausible.[15] For example, he claims that the Company's stock price decline on November 15, 2001 (the date Household responded to the CDC lawsuit (Fischel Report ¶ 12)) may have been due to "Providian's statement that its default rates had increased," which he notes occurred after the market closed on November 14, 2001, the prior day. Bajaj Report at 50-1. But, Providian's stock opened down substantially on November 15, 2001 while Household's stock price was largely unchanged until the Company responded to the lawsuit at 1:40 PM.[16, 17] *See* Fischel Report Exhibit 5.

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15. In a number of instances, Dr. Bajaj's assertions regarding non-fraud related explanations of Household's performance involve mischaracterizations of the facts. For example, Dr. Bajaj criticizes the Fischel Report for attributing Household's price decline on September 23, 2002 to news regarding Household's alleged predatory lending in a report by analysts at CIBC. Bajaj Report at 62 & Fischel Report ¶ 34. Dr. Bajaj argues that the CIBC analysts "Downgraded HI's Stock Based On The Possible Adverse Impacts Of Macro-Economic Factors That Were Unrelated To The Alleged Fraud" and that "the CIBC report did not reveal any news related to the Plaintiff's claim of 'Predatory Lending.'" Bajaj Report at 61-2. But the analysts did not downgrade Household's rating (the title of the report is "Household International Lowering Price Target On Persistent Headline Risk, But Maintaining SP Rating") and their only reaction to macro-economic factors was to trim their 2003 earnings estimates by about one percent (from $5.18 to $5.12 per share). Fischel Report Exhibit 46. Dr. Bajaj ignores that the CIBC analysts reduced their price target by over thirty-five percent (from $57 to $36) due to concerns related to predatory lending. *Id.* ¶ 28. The analysts commented that "[i]n particular, building concerns regarding the company's lending practices, which have been accused of being predatory in nature and is currently the subject of an investigation by the Washington Department of Financial Institutions, have dampened price performance" and then stated that "we have reduced our price target on the stock given the lack of visibility as to a resolution of the highlighted investigations and pending lawsuits." *Id.* & Exhibit 46.
16. Providian closed at $3.68 on November 14, 2001, opened at $3.02 on November 15, 2001, and closed at $2.87 on this day. In contrast, Household closed at $60.90 on November 14, 2001, opened at $60.60 on November 15, 2001, traded at $60.39 at 1:40 PM, and closed at $58.90 on this day.
17. Dr. Bajaj also claims that the CDC lawsuit was "stale" information because it was filed on November 9, 2001 and reported in the press on the same day. Bajaj Report at

22. Moreover, the Salomon Smith Barney analysts Dr. Bajaj cites attributed Household's price decline on November 15, 2001 to concerns regarding the CDC's allegations, stating that "HI shares sold off almost 4% intra-day on news that the California Department of Corporations has filed an $8.5 million lawsuit against HI for lending law violations (i.e., predatory lending)."[18] *See* Exhibit H. These analysts' concerns included that "[t]he greater potential risk, in our view, is that this lawsuit turns into a larger development. … to the extent that there were further findings from another audit, or another regulatory body was interested in pursuing the matter, there could be further chapters in the story." *See id*. Further, as discussed in the Fischel Report, the Deutsche Bank Alex Brown Inc. report Dr. Bajaj cites stated that the CDC lawsuit raised the questions of "1) how much more in refunds might Household owe? 2) will the accusations escalate (within or beyond the state)? and 3) will there be any operational constraints?" Fischel Report ¶ 12.

23. In another example, Dr. Bajaj criticizes the Fischel Report for attributing the decline in Household's stock price on December 3, 2001 to questions about the Company's accounting raised by a *Barron's* article published on Saturday, December 1, 2001. Bajaj Report at 31 & Fischel Report ¶ 22. He suggests that the stock price may have fallen because the *Barron's* article "adversely affected investors' expectations in a post-Enron world for non-fraud related reasons."[19] Bajaj Report at 34.

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48. But, he ignores that, as I explained in my report, Household did not publicly respond to the lawsuit until November 15, 2001. Fischel Report ¶ 12. The decline in the Company's stock price following its press release (*see supra* n. 16) indicates that the market was reacting not only to the CDC's complaint but also to Household's response.

18. In fact, neither of the analyst reports Dr. Bajaj cites that were released on November 15, 2002 even mention Providian. *See* Exhibit H & Fischel Report Exhibit 6.

19. Dr. Bajaj also claims that "the *Barron's* article did not provide any new information

But the closest Dr. Bajaj comes to identifying these "non-fraud related reasons" is his assertion that "[i]n the post-Enron world the 'market … [became] extremely emotional and sensitive' to any allegations of questionable accounting."[20, 21] *Id*. The only support he provides for his assertion is a Deutsche Banc Alex. Brown Inc. report which was issued over two months later and does not even mention the *Barron's* article or December 3, 2001. *See* Exhibit I & *id.* n. 136.

24. In contrast to the tenuous support for Dr. Bajaj's non-fraud related explanation for Household's stock price decline on December 3, 2001, market commentators provided clear, unequivocal support that the stock price fell because the *Barron's* article raised concerns about the Company's accounting. For example, on the morning of December 3, 2001, *Reuters News* reported that "[s]hares of loan and credit card firm Household International Inc. fell 5 percent on Monday, amid heavy trade, following an article in business weekly *Barron's* which cited analysts' views that the firm

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to the market" because it was based on an analyst report by William Ryan which was published more than six weeks earlier. Bajaj Report at 32. But, he ignores that, as I explained in my report, the article also discusses the concerns of a securities analyst whose firm worked for Household. Fischel Report ¶ 22. According to the article, the analyst was "puzzled by Household's statement that it had net chargeoffs of just 0.52%" in the last quarter on its home equity loans when "other subprime mortgage lenders have experienced losses at twice that level." *Id*. Exhibit 36. The analyst went on to say that "Household's loss rate on subprime mortgages is close to that of the savings-and-loan industry, even though S&Ls generally have more affluent borrowers and issue fewer second mortgages which, by their nature, are shakier than first mortgages." *Id.* ¶ 22.

20. Dr. Bajaj also notes that Enron filed for Chapter 11 bankruptcy protection (Bajaj Report at 33) but does not explain why this coincidence matters to Household's stock price.

21. Dr. Bajaj's assertion is consistent with Plaintiffs' allegations that investors' expectations of Household's prospects were adversely affected by concerns of accounting fraud.

was underestimating bad loans." *See* Exhibit J. The following day, analysts at Sanford Bernstein wrote:

> [Household's] stock is reacting to concerns about management credibility. Specifically, is management using the latitude provided by its loss recognition policies to enhance economic returns by adopting a more flexible stance towards customers, or abusing this latitude to distort reported payment behavior by postponing the recognition of losses?

See Exhibit K.

iii. Dr. Bajaj's criticisms regarding the purportedly "stale" information are unfounded

25. Dr. Bajaj's criticisms regarding the purportedly "stale" information are unfounded because he ignores information related to the alleged fraud that was first disclosed on each Specific Disclosure date. For example, he claims that the July 26, 2002 *Bellingham Herald* article "Only Provided Stale Information" because "complaints regarding Household's lending practices in Whatcom County, Washington had emerged almost four months earlier!" Bajaj Report at 52. But, he ignores the first sentence of the article, quoted in the Fischel Report, which states: "For the first time, Household International has acknowledged that its employees may have misrepresented mortgage loan terms to some Whatcom County homeowners who refinanced their homes at the Bellingham office of Household Finance Co., a subsidiary." Fischel Report ¶ 18. This was particularly significant since, as noted in the Fischel Report, the article went on to report that: "'[U]ntil now, company spokesmen have portrayed Household as an industry leader in consumer protection, with elaborate safeguards to make sure borrowers understand the deals they are signing' but 'this week, [a company spokesperson] said an internal company probe of the complaints had uncovered some serious problems.'" *Id.* Dr. Bajaj also ignores that the article provided new information suggesting that the

problems were not limited to the Company's Bellingham office. It reported that the former Bellingham office manager "said the sales pitches she used on potential borrowers came from the company." *Id*. Exhibit 23.

iv. Dr. Bajaj's claim that Household stock price declines related to "headline risk" cannot be attributable to the alleged fraud is incorrect

26. Dr. Bajaj claims that I "fail[] to recognize that the purported 'disclosures' [I] identified could have adversely affected investors' beliefs about HI's 'headline risk' exposure, *i.e.*, increased the market's assessment of the unknown future costs of settling allegations of 'predatory lending' or complying with future regulations" and further claims that "[a]ny price decline caused by news that changed HI's headline risk exposure cannot be attributable to the alleged fraud." Bajaj Report at 47. His claim is incorrect for several reasons.

27. First, Dr. Bajaj fails to explain why "headline risk" is inconsistent with Plaintiffs' predatory lending allegations. Rather, Household's "headline risk" during the Class Period was directly related to the alleged wrongdoing. For example, as I noted in my report, Stephens Inc. analysts stated that the Company's stock "has been plagued by 'headline' risk over predatory lending practices." Fischel Report ¶ 28.

28. Second, Plaintiffs allege that Household was not complying with existing regulations, not the undefined future ones that Dr. Bajaj alludes to in his description of the Company's "headline risk" exposure. As I noted in my report, on July 26, 2002, *The Bellingham Herald* reported that "Household International has acknowledged that its employees may have misrepresented mortgage loan terms to some Whatcom County homeowners" after "an internal company probe of [] complaints had uncovered some serious problems." *Id*. ¶ 18.

29. Third, Dr. Bajaj ignores the fact that market participants revised their valuations to take into account Household's likely lower profits as it brought its lending practices into compliance. For example, on September 3, 2002, Sanford Bernstein wrote:

> The report of the Washington State Department of Financial Institutions (DFI) – made public by the media on Wednesday last week – indicates that confusing sales practices in the Household branch system are more widespread than a few renegade loan officers, and quite possibly systemic. The effect on earnings growth as Household responds to regulatory pressure for sales practice reform will be commensurate. Specifically, we believe that as sales practice reform takes hold Household will need to reset its long run EPS growth target of 13-15% to 10-12%. … Driving factors are lower up-front points, reform of practices involving misrepresentation of loan rates, and the elimination of single-premium credit life insurance. Sales practice reform will also tend to slow growth in the branch real estate portfolio […] for two reasons: First, the practice of up-selling – restructuring the entire mortgage debt of a customer looking only for a "top-up" home loan to refinance credit card and other unsecured debt – will become more difficult under tougher regulatory scrutiny and higher company hurdles for customer net tangible benefit. Second, it is impractical for Household to offer loans at the 7% rates that representatives promise to induce refinancing by borrowers with prime bank mortgages, and this business will be forgone."

See Exhibit L.

v. Dr. Bajaj's criticisms of my regression analysis are fundamentally flawed

30. Dr. Bajaj claims that my estimation period (*i.e.*, the period over which I estimated the relationship between Household's return and the returns on the S&P 500 and S&P Financials Indexes underlying my event study analysis) is "[a]rbitrary" and "[i]ncorrect," because there "is no basis to arbitrarily select a segment of the Class Period to determine the 'historical relationship between changes in a company's stock price and changes in the performance of a market index (and possibly an industry index).'" Bajaj Report at 82 & n. 319. Dr. Bajaj is incorrect. As I explained in my

report, I used the period from November 15, 2000 to November 14, 2001 as my estimation period, which is "the calendar year prior to the earliest date I found that Household's stock price was negatively affected by the fraud." Fischel Report ¶ 32. My choice of estimation period is supported by the academic literature. For example, Tabak and Dunbar note: "[O]ne would typically like to use an estimation window close to the event because the relation between the company's stock and an index changes over time. Therefore, the closer the estimation window is to the event, the more relevant the estimated relation will be … The most common choice places the estimation window before the event."[22] In addition, MacKinlay states: "Given the selection of a normal performance model, the estimation window needs to be defined. The most common choice, when feasible, is using the period prior to the event window for the estimation window."[23]

31. Dr. Bajaj claims that I "provide[] no explanation for using the S&P 500 and the S&P Financials indices as the market and industry benchmarks in [my] regression model."[24] Bajaj Report at 79. But, he ignores that, as I explained in my report, Household compared its stock price performance to the S&P 500 Index and S&P Financials Index in its annual Proxy Statements filed with the SEC during the Class Period. Fischel Report n. 10.

32. Dr. Bajaj also claims that my model suffers from the "Omitted Variable" problem, where "a mis-specified regression model which excludes an

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22. D.I. Tabak and F.C. Dunbar, "Materiality and Magnitude: Event Studies in the Courtroom," in R.L. Weil, M.J. Wagner, and P.B. Frank (eds), *Litigation Services Handbook* (Wiley, 2001) at 19.5.
23. The event window in this case is November 15, 2001 through October 11, 2002.
24. A.C. MacKinlay, "Event Studies in Economics and Finance," 35 *Journal of Economic Literature* (March 1997) at 15.

important explanatory variable can result in the results of a regression being spurious."[25] Bajaj Report at 80. He purportedly solves this problem by constructing a "daily value-weighted index of consumer finance companies" (the "Consumer Finance Index") and including this index in his regression analysis. *Id.* n. 316. I added this variable to my regression analysis and found that all of the price changes in my Quantification Using Specific Disclosures remained statistically significant at the 5 percent level of significance in a "one-tailed" test and that the true value lines in both of my quantifications were still below Household's stock price.[26] *See* Exhibits G & M. Therefore, Dr. Bajaj's claim that my model is "mis-specified" because it suffers from the "Omitted Variable" problem does not affect my conclusions. Moreover, he ignores the fact that Household's stock underperformed his Consumer Finance Index during the

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25. Because Household is part of both the S&P 500 Index and S&P Financials Index, Dr. Bajaj claims that "it is incorrect as a matter of statistical principles, to attempt to explain HI's stock returns by variables that are in part influenced by the same returns." Bajaj Report n. 317. However, as Dr. Bajaj notes, Household's stock only comprised "0.83% of the S&P Financials Index" as of October 11, 2002. *Id.* n. 315. Moreover, according to *Bloomberg*, the stock only comprised 0.17% of the S&P 500 Index on the same date. Because these weights are so small, there is no reason to believe that Household's stock substantially "influenced" the indices or that there would be significant changes to my results. Indeed, Dr. Bajaj does not claim that there would be significant changes if I had excluded the stock from the indices.
26. In testing for statistical significance, I note that the ten percent level of significance (*i.e.*, a t-statistic of 1.65 or greater in a "two-tailed" test of significance) is also commonly considered statistically significant. *See*, *e.g.*, M.L. Mitchell and J.M. Netter, "The Role of Financial Economics in Securities Fraud Cases: Applications at the Securities and Exchange Commission," 49 *Business Lawyer* (1994) at 564 ("A third commonly used decision rule is ten percent – here, the probability is ten percent that a randomly selected value will lie 1.65 standard deviations or more from the mean value.") *and* N.I. Crew, K.L. Gold and M.A. Moore, "Federal Securities Acts and Areas of Expert Analysis," in R.L. Weil, P.B. Frank, C.W. Hughes and M.J. Wagner (eds), *Litigation Services Handbook* (Wiley, 2007) at 18.11 ("Courts have not specified the level of statistical significance that corresponds to a legal definition of materiality. As with much academic research, they commonly use the 95 percent confidence level but also recognize the 90 percent and 99 percent levels as thresholds for statistical significance.").

period from November 15, 2001 to October 11, 2002 – the stock fell 53.2% while his index declined 29.6%, adjusted for dividends.

33. Dr. Bajaj also criticizes my estimation period because it includes September 11, 2001. He claims that the inclusion of September 11, 2001 in my estimation period "could result in an unreliable predictor for HI's future returns in the longer run." Bajaj Report at 83. But, he fails to provide any evidence to support this speculation or demonstrate that it affected my conclusions. Moreover, his estimation period also includes September 11, 2001. *Id*. at 81. Dr. Bajaj also claims that my use of a "narrow one-year horizon" is an additional reason why September 11, 2001 should not be included in the estimation period. *Id*. at 83. However, use of a one-year estimation period is common in the academic literature on event studies.`[27]

34. Dr. Bajaj further criticizes my regression model because it yields a negative coefficient for the S&P 500 Index. *Id*. at 79. But this is simply an artifact of my two-factor model. My regression model as a whole has substantial explanatory power. *Id*. To show that the returns on Household's stock and the S&P 500 Index were positively correlated during my estimation period, we ran a one-factor regression model

27. *See, e.g.,* MacKinlay (March 1997) at 17 ("For each announcement the 250 trading day period prior to the event window is used as the estimation window."). A calendar year has approximately 250 trading days. Dr. Bajaj "consider[s] the entire Class Period as the relevant estimation period because … it is inappropriate to measure the relationship between HI's stock return and that of various indices based on an arbitrarily-selected and truncated Estimation Period (November 15, 2000 – November 14, 2001) as Professor Fischel has done." *Id*. n. 318. However, Dr. Bajaj's estimation period is objectionable because it unnecessarily includes the period of price movements he is analyzing. As MacKinlay points out: "Generally the event period itself is not included in the estimation period to prevent the event from influencing the normal performance model parameter estimates." MacKinlay (March 1997) at 15.

with this index as the sole explanatory variable and found that the coefficient for the S&P 500 Index was positive at 0.81.[28]

III. DR. BAJAJ MISCHARACTERIZES PLAINTIFFS' ALLEGATIONS AND MY USE OF REGRESSION ANALYSIS TO QUANTIFY ALLEGED ARTIFICIAL INFLATION IN THIS CASE

35. I understand that in an order dated November 20, 2007, the Court stated: "Defendants [] claim that their expert requires more information as to the source of the pre-Class Period inflation Professor Fischel claims is present in the price of Household stock on the first day of the Class Period. The court expects that Professor Fischel will provide a regression analysis showing the date on which there was zero inflation in the stock price …." My response is below.

36. At the outset before discussing my analysis of the economic evidence, some background is necessary. I understand that the original class period as pled in the Complaint began on October 23, 1997 when Household issued a press release announcing its financial results for the third quarter of 1997 and Plaintiffs allege Household's stock price became artificially inflated because Defendants concealed adverse information related to the Company's business practices. I further understand that the Class Period was shortened to begin on July 30, 1999, making this date the first day that Plaintiffs allege the stock price was artificially inflated because they allege that Defendants failed to reveal the adverse information on July 22, 1999 when the Company announced its second quarter financial results. I also understand that Plaintiffs further allege that Defendants failed to reveal the adverse information in the Company's Form

28. We also re-ran our results using Dr. Bajaj's method (Bajaj Report Exhibit 8 at 1222) and found that it made no difference.

10-Q for the quarterly period ended June 30, 1999 filed on or about August 16, 1999. This is because, according to Plaintiffs, each time Household issued public statements regarding its business (such as its quarterly financial results) during the Class Period, it failed to disclose material facts. Thus, any shortening of the Class Period at the beginning would not change Plaintiffs' allegation that Household's stock price was inflated on later dates. My analysis is premised on my assumption that artificial inflation in Household's stock price began on July 30, 1999 or no later than August 16, 1999.

37. With this background, I now turn to my analysis of the economic evidence and specifically Dr. Bajaj's mischaracterizations. He claims that "in both his Specific Disclosures model as well as his Leakage model, Professor Fischel explicitly assumes that no inflationary events occurred prior to November 15, 2001 (and after July 30, 1999, the first day of the Class Period)" and further claims that "[t]his assumption contradicts the Plaintiffs' claim that HI's stock became inflated through various alleged misrepresentations and/or omissions ('inflationary events') during the Class Period prior to November 15, 2001." Bajaj Report at 12-3. He also claims that "it is crucial under [my Quantification Including Leakage] to at least demonstrate that inflation was introduced into HI's stock price as a result of specific misstatements and omissions at some point in time before information about such alleged inflation purportedly began to 'leak' into the market."[29] *Id.* at 85-6. Dr. Bajaj's claims are incorrect and misleading

29. Dr. Bajaj further claims that "[Plaintiffs] also include as damages any difference between the stock price and the True Value when the stock price drops below the True Value; a difference which cannot be attributed to the fraud, according to the Plaintiffs' theories of alleged fraud." Bajaj Report at 89. But the evidence that Household's stock price had dropped below its true value as a result of the alleged fraud was the stock's reaction to the Specific Disclosures on October 10, 2002 and October 11, 2002. Fischel Report Note 21. As explained in the Fischel Report, this interpretation of the stock's return on these dates is fully consistent with Plaintiff's

because he mischaracterizes Plaintiffs' allegations and the use of regression analysis to quantify alleged artificial inflation.

38. Plaintiffs claim that the alleged omissions were inflationary events because they prevented the price from falling to its true, uninflated value. Under this theory, the Company's stock price did not have to increase upon Defendants allegedly false statements (*e.g.*, quarterly financial results) in order to become inflated.[30] Consequently, the fact that I did not identify statistically significant price increases that resulted in the inflation increasing between the beginning of the Class Period and November 15, 2001 does not contradict Plaintiffs' allegations. Moreover, event studies (which are based on regression analysis) are intended to measure stock price movements upon disclosure of new information, not the non-disclosure of information. Therefore, no regression analysis can be used to identify the day on which the stock price became inflated in this case.

39. Regression analysis, however, can be used in this case to calculate the amount of artificial inflation resulting from an alleged omission on any day during the Class Period. Because Plaintiffs allege that Defendants failed to disclose new adverse information concerning Household's business practices until later in the Class Period,

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claims. *Id.* n. 21.

30. As Cornell and Morgan show in their Figure 1, the observed market price can become inflated even if it remains basically constant because, had adverse information been disclosed, the market price would have declined. Figure 1 of Cornell and Morgan (1990) at 887. Cornell and Morgan explain: "The price line and the value line coincide before a fraud or misrepresentation begins. Failure to disseminate information, or the dissemination of false or misleading information, then leads to an artificial inflation in the price of the security. Because the efficient market hypothesis states that the price of a security reflects publicly available information quickly and without bias, the price and value lines converge on the date that the fraud or misrepresentation is disclosed or corrected." *Id*. at 886.

investors in the Company's stock did not learn and therefore could not react to this information until then. Consequently, I used regression and event study analysis in this case to estimate the effect of corrective disclosures and leakage that dissipated the artificial inflation existing from the time of the first actionable non-disclosure.

Daniel R. Fischel

February 1, 2008

EXHIBIT 6

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN,)
on behalf of Itself and All)
Others Similarly Situated,)
Plaintiffs,)
vs.) No. 02 C 5893
HOUSEHOLD INTERNATIONAL, INC.,)
et al.,)
Defendants.)

The videotape deposition of DANIEL R. FISCHEL, taken before Richard H. Dagdigian, Illinois CSR No. 084-000035, Notary Public, Cook County, Illinois, pursuant to the Federal Rules of Civil Procedure for the United States District Courts pertaining to the taking of depositions, at 115 South LaSalle Street, Suite 2910, Chicago, illinois, commencing at 8:56 a.m. on the 21st day March 2008.

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I N D E X

March 21, 2008

THE WITNESS	EXAMINATION BY COUNSEL FOR PLAINTIFFS	DEFENDANTS
DANIEL FISCHEL		
(By Mr. Owen)		6

FISCHEL DEPOSITION EXHIBITS

NUMBER	DESCRIPTION	PAGE
Exhibit 1	Report of Daniel R. Fischel	10
Exhibit 2	Rebuttal report of Daniel R. Fischel	10
Exhibit 3	Document titled "Efficient Capital Markets, the Crash, and the Fraud on the Market Theory", by Daniel R. Fischel	21
Exhibit 4	Document titled "Appendix 1, Household's Prospectus Disclosures"	89
Exhibit 5	Document dated Oct. 18, 2001 from Ventana Capital, titled "Household International (HI-$58-Sell)"	94
Exhibit 6	Document titled "Lead Plaintiffs' Opposition to Household Defendants' Motion to Compel", etc.	105
Exhibit 7	Document titled "VMS, Monitoring Report", Bates Nos. HHS 02948918 through 02948926	170

undisclosed reasons while continuing to profess innocence. Both are then sued for securities fraud.

Your methods, as they have been applied here, would identify the presence of inflation for both companies, is that correct?

A I just don't know if that's correct. I think I would have to look at all the relevant facts and circumstances and -- and if this were a real world situation.

But I do want to emphasize what might be the premise of your question, which is that I'm not expressing an opinion on whether there were in fact misrepresentations or omissions.

The economic evidence that I've looked at does not allow me to express an opinion on that subject.

I can express an opinion as to whether the economic evidence is consistent with those allegations, but does not establish that the allegations themselves are true.

Q Let me just see if I understood that.

The economic evidence could be consistent with the claims, but the claims themselves could be false?

A The claim that there is legal liability for misrepresentations or omissions -- that may or may not be correct.

I don't have an opinion one way or the other on whether the claims that there were disclosure defects that were actionable under the securities laws -- I don't have an opinion on that.

I have an opinion as to whether the economic evidence is consistent with those allegations in the way that I described; that if those allegations were accurate, I would expect to see a certain pattern of stock price behavior as well as a certain pattern to my analysis of publicly available information.

I was able to test those things by looking at relevant disclosures, publicly available information, stock price movements, controlling for market and industry movements.

I looked at all of Doctor Bajaj's criticisms, responded to those, and I reached the opinions that I reached.

But that's why the last sentence of paragraph 11 says that, "the economic evidence is consistent with plaintiffs' claim" as opposed to

establishes plaintiffs' claim.

Q You are aware that Household settled a bunch of different matters of litigation against it, disputes of regulators in this case?

A I am.

Q Are you offering any opinion as to the reasons Household settled any of those matters or litigations?

A No, I am not.

Q Now, you conduct a regression analysis in connection with your first report?

A Correct.

Q And that regression analysis tries to identify statistically significant changes in stock price after controlling for market and industry factors?

A That's correct.

Q What standard is being applied for statistical significance in your report?

A You mean what is -- I'm not sure what you mean by "what standard".

Q Well, supposedly the regression will say this movement is significant, and this other movement is not significant.

And I want to know what the standard is to decide which is which.

A I used, as I typically do, as is conventional, a standard of any stock price movement that had a t-statistic of greater than 1.65, I consider to be statistically significant.

And any stock price movement that had a t-statistic less than 1.65, I did not consider to be statistically significant under the specification that's described in my report.

Q You talk about another standard involving a t-statistic of 1.96, I think?

A Correct.

Q What -- why do you talk about that standard?

A Just for purposes of providing background about the difference between a 1-tail test and a 2-tail test.

Q So the other standard doesn't have anything to do with the actual analysis that you do?

A I'm not sure what you mean by "doesn't have anything to do with" it. I think anybody could look at the results that are reported and conclude that the results are significant in either a 1-tail test

or a 2-tail test, or neither.
But in terms of the standard that I used, I used a t-statistic of 1.65 which is the conventional level of statistically significance in a 1-tail test.
Q Speaking generally -- let me start again.
Did you apply a 2-tail test to any of the dates that you analyzed in your regression analysis?
A Well, the results lend themselves to applying any level of statistical significance.
You could apply statistical significance at the ten percent level, which would be the lowest t-statistic; you could apply statistical significance at the one percent level which would be a higher t-statistic.
But in terms of what I consider to be statistically significant, I used a 1-tail test and, therefore, a t-statistic of 1.65.
But the results allow you to use any level of statistical significance that anyone wants to do for any purpose.
But if you are asking me what I did, for the most part, I used a 1-tail test and a -- a t-statistic of 1.65.
Q So you talked about the 2-tail test in your

report but you didn't actually use it?
A Again, I'm not sure what you mean by "use it". By reporting it, again, this is conventional, anybody can decide whether a particular event is statistical -- excuse me, statistically significant at the five percent level under either a 1-tail test or a 2-tail test.
But if you are asking me what I consider to be statistically significant, I used a 1-tail test at the five percent level, as opposed to a 1-tail test at the ten percent level, a 1-tail test at the one percent level, a 2-tail test at the ten percent level, a 2-tail test at the one percent level, or any other possible combination.
Q Does the 2-tail test provide a stronger indication of statistical significance than the 1-tail test?
A I'm not sure what you mean by a stronger indication. It requires a higher level of -- a higher t-statistic.
So, therefore, fewer events would be statistically significant at any given level of statistical significance in a 2-tail test than a 1-tail test.

Q So fewer events are going to meet the 2-tail criteria than the 1-tail criteria?
A Holding everything else constant, correct.
Q Speaking generally, what does a significant -- statistically significant price change indicate to you?
A Generally it means that there is -- a residual of this size will be attributable to chance alone less than five percent of the time.
Q Do you use that inference to support a conclusion that some new piece of information has entered the marketplace that is affecting the stock in a way that can't be explained by market or industry factors?
A Sometimes. It depends on the relevant facts and circumstances.
Q Are there any statistically significant stock price movements of Household for which you have drawn that conclusion?
A Well, yes, I think there are -- in the context of my report, I think I identified 14 events where I drew that conclusion.
But if I looked at the full events study, there would be a lot more than 14. I just didn't

consider other statistically significant stock price movements attributable to fraud related disclosures.
Q I'm looking at days where there was no statistically significant movement controlling the industry and market factors.
Whatever new information might have been available on those days wasn't sufficient to cause the stock price to change?
A In a statistically significant way, correct.
MR. OWEN: Do you want to take a break?
A Sure.
THE VIDEOGRAPHER: Going off the record at 10:17 a.m.
(Whereupon, a short recess was taken.)
THE VIDEOGRAPHER: This marks the beginning of tape two in the deposition of Daniel Fischel.
Going on the record, the time is now 10:26 a.m. Please proceed.
MR. BURKHOLZ: Excuse me, Mr. Owen, I think there was a discrepancy in his second to last answer regarding whether he said fraud or non-fraud related disclosures that I think he wants to clarify.

He thinks he said one thing and the record came out differently.

A I don't have it in front of me, but I think -- he pointed out to me that the transcript didn't reflect what I said.

It's on line 19, the sentence, "I just didn't consider other statistically significant price movements", and I guess it should say, "not attributable to fraud related disclosures", so it's clear in context.

BY MR. OWEN:

Q So there are a bunch of stock price movements that were significant under your regression analysis that were not attributable to fraud related disclosures?

A Correct.

Q And that actually leads into my next question, which is, I want to talk about the alleged fraud that you are analyzing in this case.

I guess, first, I want to ask you is, is it three theories of fraud or one theory of fraud in your mind?

A I'm not sure how to answer that. I guess I don't have independent theories of fraud.

My understanding is that the plaintiffs are alleging a fraud with several different components, three different components.

Q So the overall lawsuit alleges fraud, and that fraud has three parts to it?

A That's my understanding, but I don't have -- in response to your earlier question, I don't have my own independent theory of fraud.

Q In the complaint, they plead them separately, do you know that?

A I don't know if that's true or not true. It wouldn't have any significance to me in any event.

Q Okay. I don't need to show you the thing. I will represent to you that there are three different sections, and each deal with restatement, reage and predatory lending.

That doesn't have any effect on your answer to the prior question?

A How the complaint is drafted, whether there are three sections, three different sections? No, that has no relevance to me.

Q And your report analyzes the three components you talked about separately?

A I'm not sure I agree with that

characterization.

Q Well, let's look at it. It says -- starting on page six, Roman numeral III, "The relationship between plaintiffs' allegations and investors' losses" -- and the next heading is A, "Predatory Lending", and thereafter you talk about predatory lending issues for seven pages before you get to page 13 where it says, "B. Reaging", and you talk about reaging for five or six pages, and then you get to page 16, it says, "C. The Restatement".

That's what I mean when I say you analyzed them separately.

A Again, I'm not sure whether anything from for my purposes turns on whatever distinction you are trying to draw.

But in terms of the organization of the report, these are subsections under one general heading.

So even as a semantic matter, I'm not sure it's completely accurate to describe them as -- as distinct as opposed to different aspects of the plaintiffs' allegations.

But, again, the distinction that you are drawing doesn't have any particular economic

significance to me anyway.

Q Well, I guess the question I have is, in your mind, are the facts and circumstances of the three different components, as you call them, interrelated or are they distinct?

A I guess my understanding is that the plaintiffs claim that they are distinct -- I'm sorry, the plaintiffs claim they are interrelated rather than distinct, but I don't have any independent opinion on that one way or the other.

Q And you would agree that of the components, there are distinct factual issues and even different business units involved?

A I guess I understand that the three different components involve different areas of Household's business, so that by definition there would be some different factual issues involved.

Q Now, one set of issues relating to one component could be correct and, then, another set of issues relating to the other component could be false, and the falsity of the second component wouldn't necessarily have anything to do with the first component, right?

MR. BURKHOLZ: Objection, form.

thought, as a result of market participants learning more and more about Household's true financial condition, as its true financial condition became known as less profitable, less valuable than it was earlier as a result of increased information dissemination about the subject matters that are the alleged disclosure defects in this case.

That's what I meant by that sentence.

Q Okay. I want to turn to, now, the specific disclosure dates you talk about in your report.

A Okay.

Q And your analysis and how you got there.

Your first report mentions approximately 40 particular dates on which news related to the plaintiffs' allegations became available to the market.

My question is, how did you distinguish between the dates you selected, the 40 dates, and the other days in that period following November 15th, 2001?

A Can you just tell me where you are referring to in my report.

Q That's page 14. I think it's footnote -- oh, I'm sorry, yes, you are right. It is the

rebuttal.

A Okay. Where are you referring to in the rebuttal report?

Q On footnote 14.

A How many disclosures did you say we identified?

Q I think it was 40. I think it may be exactly 41, but the exact number is not important.

I just want to understand the process of how you selected them.

A Well, again, I'm looking at footnote 14, and I'm not sure what you are referring to.

Q Well, between November 15, 2001 and the end of the class period is 300 some days. And you said November 15th was the first day that news related to plaintiffs' allegations became available to the market.

And you then analyzed those dates to pull out 40 -- 41, maybe.

MR. BURKHOLZ: Where does it say that?

BY MR. OWEN:

Q Doctor Bajaj says it in his report.

A But that's not what I said in my report.

Q Fine. I want you to understand what I'm

saying. The report mentions specifically 40 different dates, and it talks about things that happened on those dates.

And then in footnote 14, you say, "We identified dates on which news related to plaintiffs' allegations became available to the market. We then examined each of these dates to determine whether the news related to plaintiffs allegations led the market to significantly alter its valuation of Household stock. We only included in the quantification using specific disclosures those dates on which news related to plaintiffs' allegations had a statistically significant effect on the company's stock price".

The first step of this, I think, is to look at that 300 plus day period and choose dates on which news related to plaintiffs' allegations became available to the market.

My question is, how did you pick the days when news related to plaintiffs' allegations became available to the market, among the 300 days in that range.

A All right. I just want to make clear that while I know Doctor Bajaj, I have a lot of respect

for him as a colleague, you mixed up whatever he concluded with what's stated in my report.

I just want to talk about my report.

Q My question really didn't relate to Doctor Bajaj. It related to the question of identifying dates on which news related to plaintiffs' allegations became available to the market.

A Okay. As long as Doctor Bajaj can speak for himself.

Q Take Doctor Bajaj out of it completely.

A Okay. Well, as the paragraph makes clear, this is a response to Doctor Bajaj's criticism of my report for what he referred to as cherry picking.

And what the footnote states is that -- as well as the rest of the paragraph -- is that there was no cherry picking, because what was done was to look -- really, not just at the dates on which news related to plaintiffs' allegations became available to the market, but to look on every single day as the event study, which is an exhibit to my initial report.

Exhibit 49 to my initial report is an analysis of events on every single day during the class period.

So in some sense, the footnote itself is a little bit understated in terms of what was done, as is clear from looking at my original report.

The event study also contains a comment column at the last column of the event study which enables me to look at what happened on a particular day, not just the stock price reaction, using the particular model that is being used here to generate predicted returns, but also what is in the comment column, and if there is any relationship between the comment column and the stock price movement on that day.

So we really examined every single day during the entire class period, and selected, really, 14 days where there was a statistically significant reaction to a particular disclosure related to the plaintiffs' allegations in ways that are described at length in the report for purposes of my first method of quantifying inflation.

Q Now, as I understand it, the event study, the thing we are looking at right now, identifies 22 days when the stock price changed in a way that's significant under the standard that you applied, right?

A Do you want me to count them or is this just another --

Q No, I believe that's correct. Does that sound wrong to you?

A I don't know if it's right or wrong. It sounds like another Doctor Bajaj conclusion.

It might be right, it might be wrong. I don't know. If you want to know -- it's easy to count.

You just look at the number of three-star days, so maybe I will just do that -- one, two, three, four, five, six, seven, eight, nine, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20.

I don't know. It looks to me like there is a lot more.

Q Okay. I agree with you, I think we are really talking about apples and oranges here.

But there is more than the 14 days you settled on?

A Correct --

Q Ultimately. So there is more things going on with respect to Household than just the things that are related to plaintiffs' allegations here in terms of statistically significant price movements?

A Correct, that's certainly true. That's right.

Q And among this list of the significant days, you analyzed what happened on those days, and winnowed the list of significant days down to 14?

A Again, the event study analyzes what happened on every day. For purposes of my first method of quantifying inflation, I chose 14 dates, correct.

Q I want to ask you a question about what your expectations were when you looked at some of these dates.

The 1-tail test that you talked about anticipates a particular kind of movement in one direction?

A That's correct.

Q Using that test, does that mean that you expected certain kinds of reactions to the events that you are testing against?

A I would say that using that test of statistical significance, you have a hypothesis of which direction stocks are going to move in response to a particular disclosure.

Q So you are not agnostic as to how it might

move. You have actually an anticipated direction of movement?

A Correct, if you are using a 1-tail test.

Q Now, of the 14 days that you picked, 13 of them would meet the 2-tail test that you talk about in your report, isn't that correct?

A I have to look. It's possible, but I have to look.

Just as a shorthand, if I look at Exhibit G of my rebuttal report, which is my regression analysis with the inclusion of the additional independent variable that Doctor Bajaj indicated should be used, it looks like all 14 would meet the test of statistical significance under either the 1-tail or 2-tail test.

Q Okay. But looking at your original report, and footnote 16 on page 20, at the very bottom, it says, "The residual return on August 14", turning to the next page, "2002, the date the restatement was announced, was minus 2.5 percent, and the t-statistic was 1.77". Do you see that?

A I do.

Q Now, that t-statistic does not meet the 2-tail test?

assuming that plaintiffs' allegations of disclosure defects are correct, which takes into account not just the price reaction on two specific disclosures where there is a statistically significant price reaction.

Q That's the leakage analysis?

A Correct, that's the leakage analysis.

Q Is it your view that the leakage analysis is a better analysis?

A I think it's better in the sense that it more accurately reflects the effects of the alleged disclosure defects on stock prices than the quantification, focusing only on disclosures that have a statistically significant price reaction associated with them based on the facts and circumstances of this case.

Q So, in that sense, the specific disclosure model is not as good?

A In the sense that it doesn't fully capture the negative effects on Household's stock price caused by the gradual revelation of information about Household's true financial condition that's related to the alleged disclosure defects in this case, correct.

Q You remember when we looked at that chart, all those statistically significant days -- it was more than 20 -- and you said that the days that you didn't include in the 14 were exogenous to the alleged fraud, isn't that right?

MR. BURKHOLZ: Objection, form.

A What I said was they were exogenous or not included in the calculation of inflation based on the effects of the 14 disclosures that had a statistically significant price reaction associated with them.

Q We talked about how other things were going on on those days probably.

A Correct.

Q Now, the leakage model doesn't accept the possibility that anything else was going on on those days, does it?

A That's not really correct, no.

Q Well, it incorporates those movements into inflation, doesn't it?

A What the leakage model does is, for the period up until November 15th, 2001, it takes the actual return -- namely, whatever caused stock prices to behave the way they did on all of those days -- it

just takes the actual return as the basis for calculating a true value line.

The analysis is different for days after November 15th, 2001 because of the extrinsic evidence which is quite extensive, which I describe at length in my report, attributing Household's stock price decline after that period to the gradual release of information related to the alleged disclosure defects in this case.

Whenever you are ready, if we could take a break.

MR. OWEN: No problem.

THE VIDEOGRAPHER: This marks the conclusion of tape three in the deposition of Daniel Fischel.

Going off the record, the time is now 2:18 p.m.

(Whereupon, a short recess was taken.)

THE VIDEOGRAPHER: Going on the record, this marks the beginning of tape four in the deposition of Daniel Fischel.

The time is 2:36 p.m. Please proceed.

BY MR. OWEN:

Q I want to go back quickly to footnote 14 in

your rebuttal report.

A Okay.

Q It says, "Specifically, we identified dates on which news related to plaintiffs' allegations became available to the market. We then examined each of these dates to determine whether the news related to plaintiffs' allegations led the market to significantly alter its valuation of Household stock. We only included in the quantification using specific disclosures for those dates on which news related to plaintiffs' allegations had a statistically significant effect on the company's stock price".

Where does the regression analysis fit in this sequence of events?

A The regression analysis, I guess, would fit in the last sentence.

All the other sentences, you don't need a regression analysis to analyze -- I guess the last sentence picks up on the sentence before.

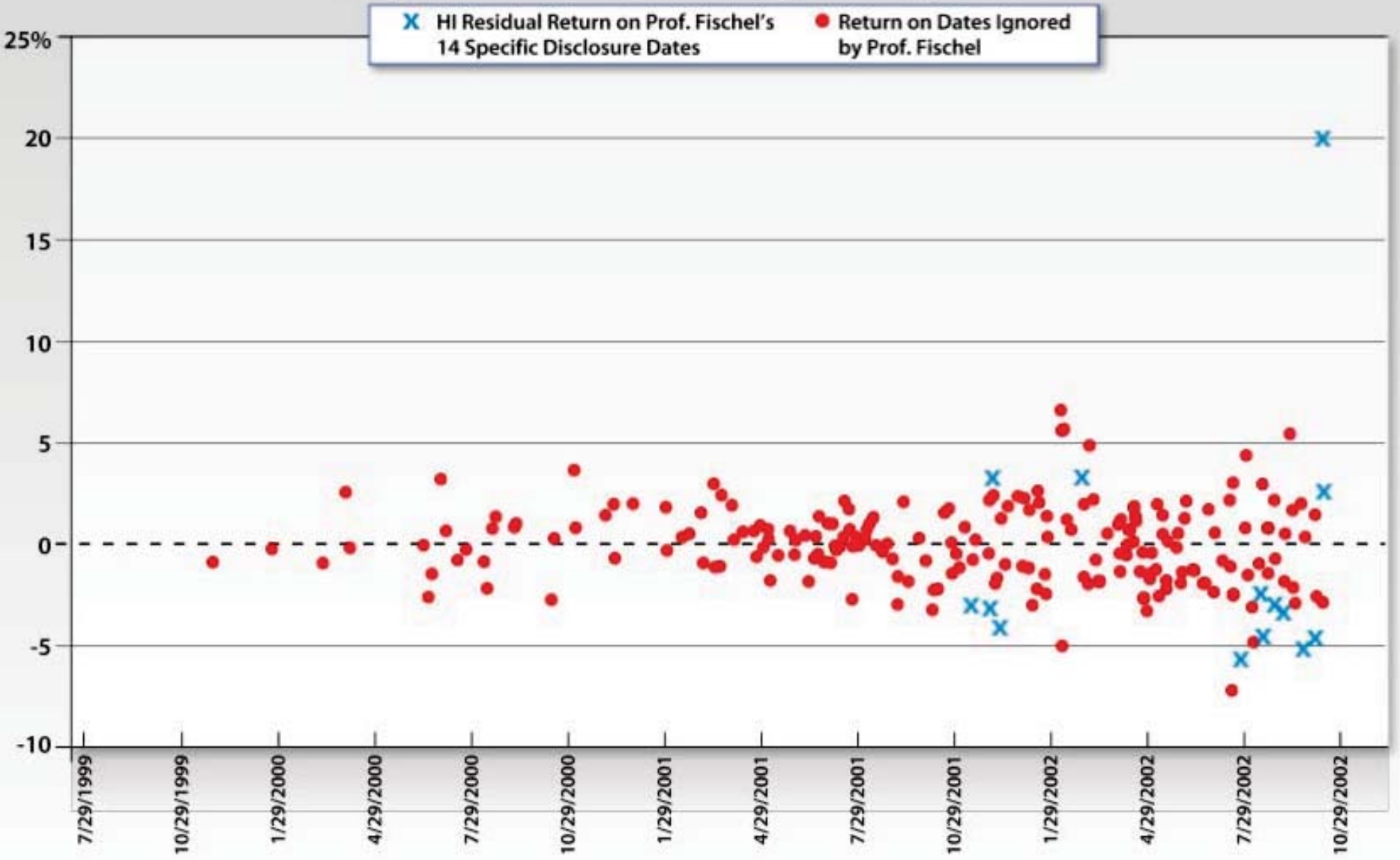
So I would say the first sentence is not connected to the regression analysis.

The third sentence is connected to the regression analysis, and the third sentence refers to the second sentence.

EXHIBIT 7

Prof. Fischel's Specific Disclosures Model Is Flawed

Alleged Fraud-Related News Ignored by Prof. Fischel

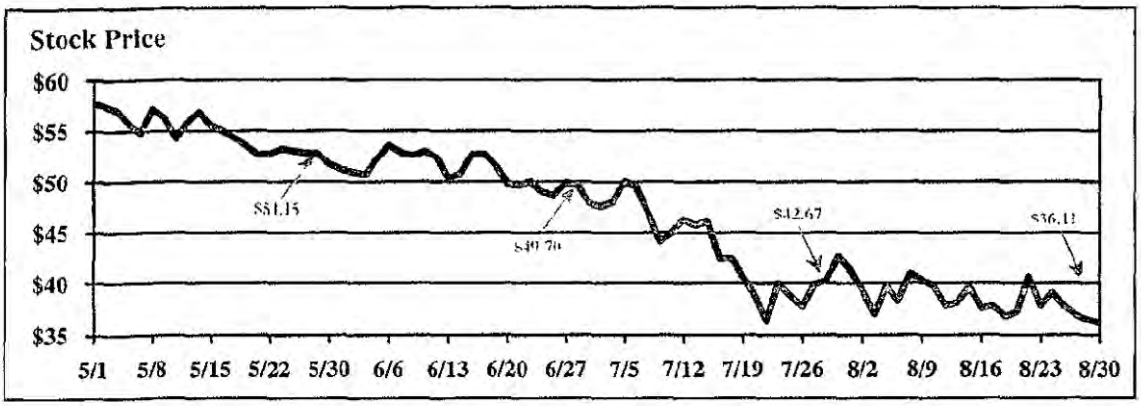


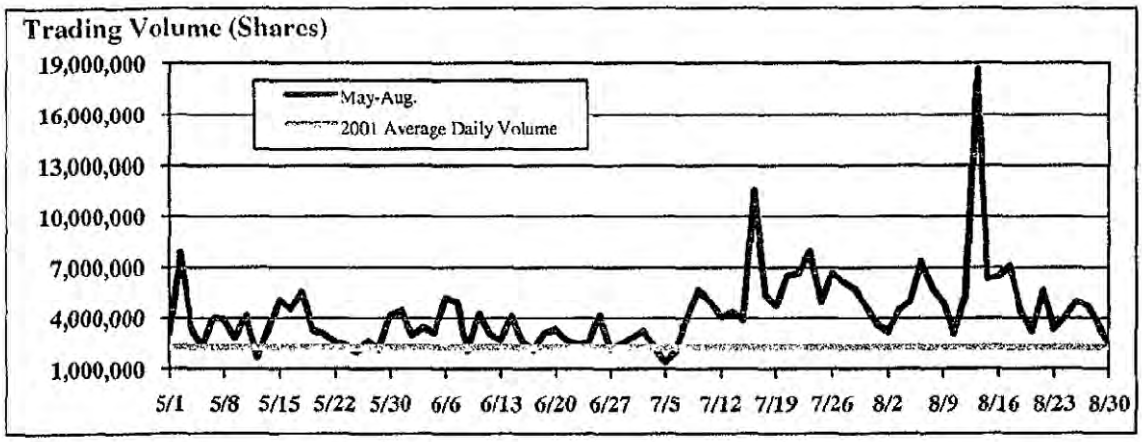
Next

EXHIBIT 8

HOUSEHOLD

INVESTOR RELATIONS REPORT
May-August 2002





May-August Stock Trading Commentary

Household shares closed April at $58.29 and declined in each of the next four months, closing August at $36.11. A summary of significant events affecting the stock price follows.

<u>May</u>

- On May 2nd, a class action suit against Household was filed with ACORN's help. However, word of the suit was leaked to the press and the investment community prior to the suit being served. Over 7.8 million shares traded that day, as the stock lost $.26. ACORN's "embargoed" press release was eventually posted on ACORN's web site, although it was never officially disseminated over wire services.

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Jaffe v. Household
Plaintiffs' Exhibit
P0198

- On May 7th, the *American Banker* and *NewsDay* both ran articles in which the New York Comptroller expressed concerns about Household's lending practices and the state's investment in the stock. In addition, Responsible Wealth issued a press release about the shareholder proposal in Household's proxy and that ACORN and other supporters of the proposal would demonstrate at Household's shareholders' meeting. Over 4 million shares traded that day as the stock dropped $.94.
- On May 10th, Howard Mason of Sanford Bernstein issued a report in which he raised concerns about the legal threat to Household's sales practices and the resultant effect on the sustainability of the business model. Over 4.1 million shares traded that day, as the stock price fell $2.05.
- Beginning on May 15th, numerous articles ran in the press regarding Household's shareholders' meeting. These articles prominently featured ACORN and its sponsored shareholder proposal, which gained support from the prior year. In addition, on May 16th, Howard Mason of Sanford Bernstein spread word that the Washington State Department of Financial Institutions (DFI) was going to file a predatory lending report and ask the Attorney General to file a suit against Household. Nearly 15.2 million shares traded between the 15th and the 17th, with consistent short selling. The stock lost $2.65 during that 3-day period.
- On May 30th, the *New York Post* featured a story about Household's injunction against the release of the examination report by the DFI. A similar story ran in the *American Banker* on May 31st. Household lost $1.65 during that two-day period on heavy volume, to close May at $51.15.

June

- On June 13th, the *American Banker* in an article, "Household Wins Delay of Predator Report," reported the restraining order prohibiting the DFI from making public the results of its examination of Household was extended. The article, coupled with a 111-point drop in the market, contributed to a $2.19 decline in Household's stock on 4.1 million shares.
- On June 19th and 20th, the market fell a combined 274 points on corporate profit warnings and escalating violence in the Middle East. Household's stock price fell as well, dropping $2.95 during the two-day period.
- On June 25th, a California Federal judge allowed a lawsuit against Household to proceed on the grounds that mandatory arbitration clauses are "unconscionable" under California law. On June 26th, WorldCom stunned the market by announcing the restatement of 2001 earnings due to the misclassification of $4 billion in expenses. Over the two-day period, Household's stock dropped $1.34. Household closed June at $49.70 on average daily volume of nearly 3.2 million shares.

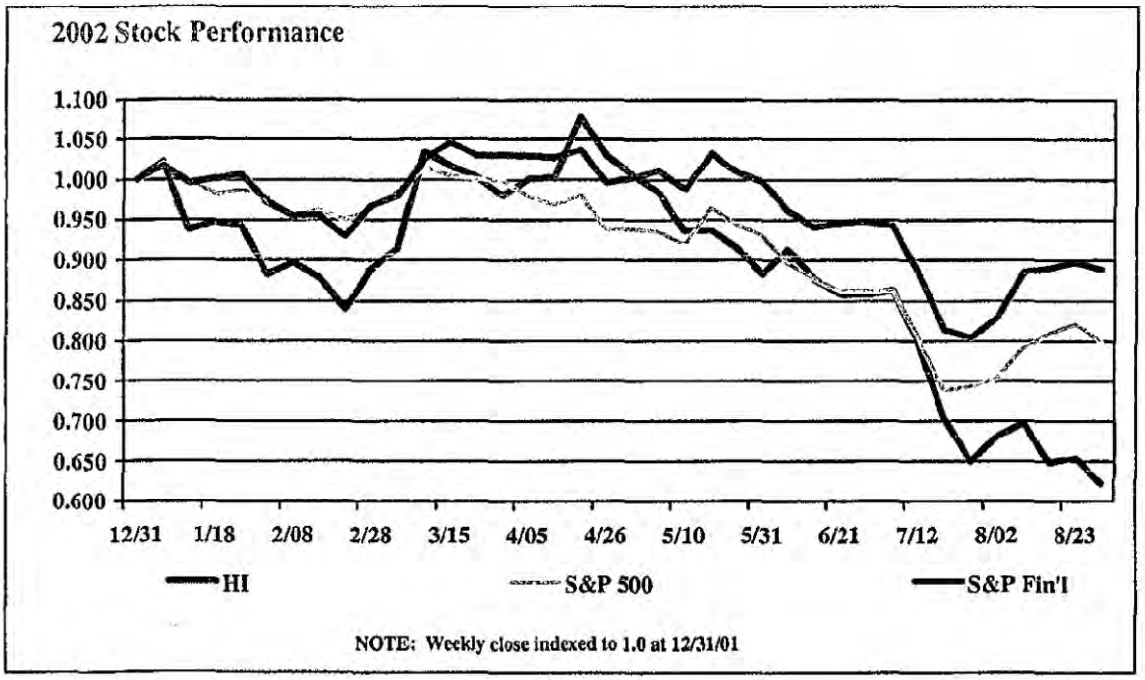
July

- On July 10th, Capital One Financial reported through its credit card trust data a 50 basis-point increase in charge-off. The entire sector suffered on the news, with Household dropping nearly $3, to $44.07, on heavy volume of over 5.5 million shares.
- On July 17th, Household reported record second quarter earnings. The results were well received. However, the stock plunged $3.73, to $42.37, as a result of fall-out from Capital One's announcement that it had entered into a Memorandum of Understanding with its bank regulators over reserve and capital issues. Investors' concerns were that other credit card issuers had similar issues.
- Between July 18th and July 26th, the stock fell $4.75, or 11 percent, on market and sector fears. During that period, WorldCom filed for bankruptcy protection, and it was reported that Citigroup aided Enron in its questionable financing transactions. In addition, on July 23rd, banking regulators issued new, stricter guidelines on reserving and lending practices for credit card issuers. Household's stock dropped $2.55, or 6.6 percent, on that day as investors sought to understand the effects of the proposed guidelines on the sector. Over the last few days of the month, the stock came back to close July at $42.67 or down 7 percent.

August

- On August 14th, Household announced it would restate its earnings and hosted a conference call. Investor meetings with both equity and fixed investors were held. Household's stock was volatile, but closed up 29 cents, on 18.7 million shares.
- On August 15th and over the next four days, articles on Household appeared in *Forbes, The New York Times, Barrons and The American Banker.* For the most part, the articles did not contain new disclosures but rather rehashed information on the potential threats to Household's business model, outstanding lawsuits and the State of Washington Department of Financial Institutions' regulatory report. In addition, on August 15th, ACORN members and others filed in Massachusetts a suit against Household charging it with violations of state banking regulations and engaging in predatory lending practices. Household's stock drifted downward to close at $36.75 on August 20th.
- During the last week of August, the *Bellingham Herald* carried several negative articles of Household and printed the embargoed DFI regulatory report. Household's stock drifted downward and closed the month at $36.11, down almost 7 points, or 15 percent. Volume for August averaged 5.4 million shares.
- For the four-month period, Household's stock dropped $22.18 or 38 percent.

The graph below shows the performance of Household's stock, the S&P 500 and the S&P Financial indices during 2002. Household has underperformed these indicies thus far in 2002.



Performance vs. Financial Indices

The following table compares Household's performance to our peer group and certain indices for May through September, as well as year to date.

Change (%)	*May*	*June*	*July*	*August*	*YTD*
Household	(12.2)	(2.8)	(14.1)	(15.4)	(37.7)
Peer Group Average	1.0	(5.6)	(14.3)	2.5	(9.4)
S&P 500	(0.9)	(7.2)	(7.9)	.5	(20.2)
S&P Financial	(0.5)	(4.9)	(8.1)	1.9	(11.2)

Analysts' Estimates

Following are analysts' EPS estimates for 2002.

Firm	*FY'02*	*3Q'02*	*Opinion*
A.G. Edwards	$4.62	$1.20	Buy
Bear Stearns	4.61	1.20	Buy
B of A Montgomery Securities	4.70	1.22	Market Performer
Bernstein Research	4.48	-	Market Perform*
CIBC World Markets	4.58	1.16	Buy*
Credit Suisse First Boston	4.60	1.21	Strong Buy
Deutsche Banc Alex. Brown	4.50	1.15	Strong Buy
Fox-Pitt Kelton	4.55	1.16	Attractive*
Friedman, Billings, Ramsey & Co.	4.62	1.20	Buy
Goldman Sachs	4.45	1.18	Buy
J.P. Morgan	4.55	1.16	Buy
Keefe, Bruyette & Woods	4.54	1.18	Market Perform*
Legg Mason	4.65	1.19	Market Perform
Lehman Brothers	4.59	1.20	Strong Buy
Merrill Lynch	4.65	1.21	Strong Buy
Morgan Stanley	4.56	1.15	Overweight*
Prudential Securities	4.55	1.18	Buy
Salomon Smith Barney	4.45	1.12	Outperform
Stephens, Inc.	4.56	1.18	Buy
Thomas Weisel Partners	4.66	1.17	Buy
UBS Warburg	4.56	1.17	Buy
U.S. Bancorp Piper Jaffray	4.58	1.18	Outperform
Wachovia Securities	4.60	1.19	Buy*
William Blair	4.58	1.17	Long-term Buy
First Call Consensus	$4.57	$1.18	

* New rating/changed since last report. See exhibit #3.

Ten Largest Institutional Shareholders
August 23, 2002

Institution	*Shares*	*YTD Change*	*Orientation*
1. Capital Research & Management	34,900,000	1,078,200	Value
2. Davis Selected Advisers, L.P.	30,890,600	(1,101,100)	Value
3. Fidelity Management & Research	21,300,000	(8,363,400)	Growth/Value
4. Alliance Capital Mgmt.	19,000,000	(3,803,500)	Growth
5. Smith Barney Asset Mgmt.	18,779,400	(1,580,100)	Growth/Value
6. Barclays Bank plc	16,679,100	649,600	Indexed
7. State Street Bank	11,018,500	455,100	Indexed
8. Putnam Investment Management	10,600,000	(1,920,300)	Growth
9. J.P. Morgan Fleming Asset Mgmt.	8,351,400	4,108,000	Growth
10. Wellington Management Co.	7,900,000	7,855,900	Value

Collectively, these shareholders own approximately 39 percent of Household's outstanding common stock.

Peer Group Stock Price Performance

Exhibit 1 – details 2002 stock price performance for Household, our peer group and three market indices.

Research Reports

Exhibit 2 – includes excerpts from analysts' notes on Household's earnings restatement.

Exhibit 3 – includes highlights from notes issued by analysts who changed their ratings on, or initiated coverage of, Household.

Exhibit 4 – includes excerpts from analysts' notes on Household's second quarter earnings.

Exhibit 5 – Includes highlights from analyst's notes on predatory lending issues.

Exhibit #1

Household International Peer Group Stock Price Report
August 30, 2002

	12/31/01 Close	08/30/02 Close	% Change YTD	% Change In August	2001 EPS	2002 Est. EPS	% EPS Growth	2002 P/E	2002 Rel. P/E(1)	PE/G Ratio(2)	Market/ Book
HI	57.94	36.11	(37.7)	(15.4)	3.91	4.58	17.1	7.9	0.44	0.46	1.7
AIG	79.40	62.80	(20.9)	(1.8)	2.89	3.48	20.4	18.0	1.00	0.88	3.4
AXP	35.69	36.06	1.0	(0.6)	0.98	1.99	103.1	18.1	1.01	0.18	3.7
COF	53.95	35.67	(33.9)	11.8	2.91	3.77	29.6	9.5	0.53	0.32	2.0
C	50.48	32.75	(35.1)	(2.4)	2.81	3.18	13.2	10.3	0.57	0.78	2.0
KRB	23.47	20.20	(13.9)	4.2	1.28	1.51	18.0	13.4	0.74	0.74	2.1
ONE	39.05	40.95	4.9	5.2	2.47	2.77	12.1	14.8	0.82	1.22	2.2
USB	20.93	21.49	2.7	0.5	1.32	1.84	39.4	11.7	0.65	0.30	2.5
WFC	43.47	52.19	20.1	2.6	1.97	3.32	68.5	15.7	0.87	0.23	3.0
Peer Group Average			(9.4)	2.5			38.0	13.9	0.77	0.37	2.6
DJ Indust.	10,021.57	8,663.50	(13.6)	(0.8)	391.09	480.00	22.7	18.0	1.00		
S&P 500	1,148.00	916.07	(20.2)	0.5	38.71	50.87	31.4	18.0	1.00		
S&P Fin'l	355.26	315.43	(11.2)	1.9	19.59	24.21	23.6	13.0	0.72		

American International Group (AIG), American Express (AXP), Bank One (ONE), Capital One (COF), Citigroup (C), MBNA (KRB), U.S. Bancorp (USB) and Wells Fargo (WFC).

(1) 2002 P/E ratio relative to the S&P 500 P/E ratio.
(2) (2) 2002 P/E ratio divided by EPS growth.

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Exhibit #2

ANALYST REPORTS – EARNINGS RESTATEMENT

U.S. Bancorp Piper Jaffray **August 15, 2002**

Outperform

Household announced this morning that it would restate its earnings from 1994 through second quarter 2002 due to adjustments to amortization of expenses related to cobranding, affinity, and marketing relationships. These adjustments reflect timing of costs and revenues, which were previously approved by Household's prior auditor, for a total reduction of earnings of $386 million.

An important take–away is that the restatement did not affect Household's fundamentals, which we believe remain intact. KPMG, Household's current auditor, has completed a thorough assessment of Household's business, and has signed off on key areas such as the provisioning for credit losses and reserves, as well as Household's policies regarding the re-aging of charge-offs.

We reiterate our Outperform Rating, as we believe Household's fundamentals remain sound and the stock price more than reflects the risks associated with regulatory issues and potential changes to their business model.

J.P. Morgan **August 14, 2002**

Buy

Household International announced this morning it has certified its financial statements with the SEC following the restatement of its earnings from 1994-2002.

We are lowering our 2002 and 2003 estimates for Household to $4.55 and $5.00, respectively, from $4.69 and $5.30 to incorporate the earnings restatements, the temporary suspension of the company's share buyback program, slower loan growth, and higher funding costs.

Today's announcement was surprising but perhaps more surprising was that the restatement did not relate to any of the areas that had been of great concern to investors, such as policies regarding the re-aging of charge-offs or the impact of new FFIEC guidelines. In both cases, management stated they do not expect any impact.

While the stock appears attractively priced, at 7.7 times our 2003 estimate, and with the worst accounting fears likely behind us (pending the release of Household's audited restated financial reports on or around August 31, 2002), the bigger concern for the stock, in our view, is the broader economic picture, namely the U.S. economy.

William Blair & Co. **August 14, 2002**

Long-Term Buy

Household's CEO and CFO certified the accuracy of the company's financial results with the SEC. However, the company restated results dating back to 1994, reflecting revisions to the accounting treatment of MasterCard/Visa co-branding and affinity relationships and a credit card agreement with a third party.

The news is disappointing, as it appears management and previous auditor, Arthur Andersen, were taking a more liberal interpretation of specific accounting rules. The changes were judgmental and complex, and new auditor KPMG is taking a more conservative view on the amortization period of upfront expenses/intangibles in the credit card business. As such, the concern is more of earnings quality. Importantly, in our view, there is no change on credit quality metrics, which would be more disturbing. No other restatements are anticipated according to management.

We maintain our Long-term Buy rating. Shares trade at a highly depressed 8 times our 2002 EPS estimate. Fundamentals are tracking in line to better than expectations. However, the stock is likely to remain under pressure, as management continues to face a difficult period, operating the business under difficult economic conditions, regulatory and political scrutiny, and now heightened questions over the integrity of its accounting.

Salomon Smith Barney **August 14, 2002**

Outperform

Household International announced that its CEO and CFO have certified the company's financial statements. However, in doing so, management restated net income down by $386 million cumulatively over the preceding 8 year period (1994 to Second Quarter of 2002). The restatement represents roughly 3%-4% of reported net income over that period, and a little over 4% of current total common equity.

The changes result from Household's new auditor, KPMG, requiring it to use shorter amortization periods on certain credit card account acquisition costs that it has historically used.

It appears to us that Household's previous accounting treatment was consistent with the rules at the time they were enacted, given that they were "blessed" repeatedly over the years by Household's previous auditor, Andersen. In one case, the company even received such a "blessing" from the senior technical person at Andersen that wrote the conclusion on the new accounting policy that suggested that the accounting practice would be "grandfathered" in under the old (then existing) rule. While Household could have been more conservative by adopting the new accounting policies, even though it didn't have to, we believe a reasonable case can be made for the course of action it took. We do not expect any more material changes to come out of the audit.

We also take comfort from the fact that all three rating agencies S&P, Moody's and Fitch reaffirmed their single-A ratings for Household's debt this morning.

Given the tone of the conference call this morning, it appears that management credibility may continue to be banged up a bit in the minds of investors. And with the continuing backdrop of predatory lending discussions, it is difficult to identify a near-term catalyst that will move the stock higher in the near-term.

Nonetheless, with the stock currently trading at 7.2x our new 2003 EPS estimate, we believe our Outperform rating is still warranted from a risk/reward perspective.

In our mind, the biggest risk to the Household story is that jittery debt markets make the company's cost of funding prohibitive or mechanically difficult. That said, it appears that the company has ample access to funds for near-term liquidity in the form of its liquidity portfolio, the commercial paper market, ABS market, and the potential for whole loan sales. Thus, we do not believe a funding crisis is imminent, and think it is plausible that the term debt market could settle down in the intermediate term

Bear Stearns **August 15, 2002**

Buy

While we were disappointed with the restatement, we do not believe it will significantly impact the company's business or earnings outlook going forward (although there is likely to be some modest increase in expenses). There is no impact to cash flow, and the restatement relative to the earnings that have been generated over the last eight years is small. Further, none of the changes reflect problems with the company's core business practices (i.e. the way it accrues interest and fees, its accounting for provisions or reserve adequacy, securitization accounting, re-aging, etc.). In fact, it appears that all other aspects of the company's books have gotten a clean bill of health. Consequently, Household has certified the accuracy of its SEC filed documents. Also, as we see it, the restatement appears to reflect a difference in opinion between KPMG and Household's audit committee and its old auditor, Arthur Andersen, and is not an indication that Household acted improperly in the past.

We do not mean to make light of the restatement; however, the bigger issues, going forward, in our view, relate to liquidity, leverage, and of course the regulatory environment. All these things that have been on investors' minds for some time now. Credit obviously remains an issue for all consumer lenders if the economy double dips. We think that Household has the tools and the flexibility to address the concerns we cite, though it seems reasonable to assume there will be some earnings impact from the steps that will need to be taken in order to pacify the rating agencies, fixed income investors, and consumer advocates. Still, it appears that the stock price already reflects the potential slowdown in EPS growth.

The liquidity and leverage challenges the company faces and the fact that it must take steps to reach its targets in the near-term are not without cost. We estimate that not buying back any stock in the second half of 2002 will cost the company $0.04 in earnings next year. In addition, the whole loan sales that management indicated are likely (we estimate $1.5 billion in the third quarter and $500 million in the fourth quarter) will cost the company nearly $0.10 per share (assuming a 2%+ ROA on the $2 billion of assets being removed from the balance sheet), although they are likely to help results in the quarters they are sold given the gains on sale that will be recorded (we estimate premiums of 3% to 4% on the assets).

At a meeting that Household hosted for fixed income investors, following its morning announcement about its earnings restatement, the company reviewed, among other things, the regulatory environment. This included a discussion on new FFIEC proposals, capital requirements, and how Household is seeking to reduce headline risk by implementing best practices. It is unclear what the long-term ramifications will be on Household's returns as a result of the best practices initiatives it is implementing. It would seem

that the company will have to give up some revenue as it is lowering fees, reducing prepayment penalties, and eliminating highly profitable insurance sales. However there are clear benefits which should provide at least some offset, and these include less pressure from regulators and consumer activists, better credit quality, lower attrition, and perhaps more market share as actual predatory lenders are shaken out of the market.

Our Buy rating is unchanged as we believe most of the bad news is currently in the stock and the valuation, despite the reductions to estimates, is still low. There are few near-term catalysts however.

Exhibit #3

ANALYST REPORTS – CHANGES IN RATINGS/INITIATING COVERAGE

Bernstein Research **September 3, 2002**

Market Perform

Cutting Long-Run Growth Estimates on Impact of Sales Practice Reform in Branch-Based Real Estate Lending.

- The report of the Washington State Department of Financial Institutions (DFI) – made public by the media on Wednesday last week – indicates that confusing sales practices in the Household branch system are more widespread and quite possibly systemic. The effect on earnings growth as Household responds to regulatory pressure for sales practice reform will be commensurate.

- Specifically, we believe that as sales practice reform takes hold Household will need to reset its long-run EPS growth target of 13-15% to 10-12% (with an intra-range swing factor being the stock buyback program that is presently on hold). The short-run effect is less because the earnings impact of the changes phases over time as current loans run-off and are replaced by new, less profitable loans originated under reformed sales practices.

  - The estimated impact of sales practice reform on 2002 and 2003 EPS estimates is 3 cents and 18 cents respectively. The combined effect of this, the suspension of the stock buyback program, and the accounting restatement (related to the amortization of certain marketing expenses) announced by Household on August 14th is 15 cents and 40 cents respectively.

- Reduced earnings growth arises as after-tax returns on the branch real estate portfolio fall over time from the currently estimated 2.5% to 1.9%. Driving factors are lower up-front points, reform of practices involving the misrepresentation of loan rates, and the elimination of single-premium credit life insurance. Sales practice reform will also tend to slow growth in the branch real estate portfolio (by about 3 percentage points in our estimates to a long-run rate of 10%).

Keefe, Bruyette & Woods **August 27, 2002**

Market Perform

Initiating Coverage of Household International With a Market Perform Rating.

- Right side of the balance sheet is a major issue. $19 billion of notes are maturing by year end 2003.
- Company has put fixed income investors ahead of equity investors.
- Predatory lending concerns, are the issues systemic and will the amelioration of such issues reduce future profitability.
- Accounting practices/philosophy of the company have never been considered conservative.
- Credit costs remain a concern, particularly in auto and unsecured lending.
- On a positive note, the company has assets (1,400 branches, leading market share in secured real estate and private label credit cards) that are attractive to potential acquirers.

Overweight

We're upgrading Household International from Equal-weight to Overweight, thinking that the controversy surrounding predatory lending, combined with a general lack of appetite for risk among investors, has created a buying opportunity. *That's not to say that the predatory lending storm doesn't contain some hail and* lightning. As a result, we are adding a discretionary V to reflect the possibility of volatility in the stock given the likelihood of negative headlines related to predatory lending issues. We've cut our 5-year EPS growth forecast from 14% to 8% and our price target from $76 to $55 to account for several risks. New lending practices may impact profitability. The company is experiencing higher funding costs and capital requirements. We can't rule out substantial litigation damages and/or regulatory fines. However, with 38% upside potential to our reduced price target, investors are being compensated to bear the risk, in our view. Further, there may be a silver lining to this cloud. In the wake of the stock market sell off, many segments of retail finance, such as credit cards, may see weak demand, as consumers rebuild their portfolios by borrowing less and saving more. That's not the case in Household's core business, subprime home equity debt consolidation lending, as we recently verified in an extensive survey of subprime branch managers. Strong portfolio growth is not discounted in Household's stock at this time, in our view, and it's part of the reason we see attractive upside to our price target.

The risk may be close to its peak, although we can't promise any near-term catalysts to lift the cloud. Predatory lending has captured a great deal of attention among activists, politicians, regulators, and investors. Bad press is widespread. However, Household and the industry have begun to address these issues by implementing new lending practice standards, which meet many, if not all, of the activists' goals. At Household, senior executive changes, including the promotion of the chief compliance officer, indicate a desire to manage these issues at the highest levels of the firm. Separately, the markets are nervously awaiting a report by Washington State regulators on Household's lending practices, and the content of that report, and its reception by investors, will give us an early read on our investment thesis. With the stock trading at only 8.0x our 2003 EPS forecast, we're inclined to think this report may not be as bad as it widely feared.

To reflect predatory lending risks, we've reduced our 5-year EPS growth rate goes from 14% to 8% and cut our 2003 estimate from $5.26 to $5.02. First, we assume slower growth in the company's credit card, private label, and auto finance businesses, consistent with the view that these businesses may see reduced demand, as consumers opt to save more and borrow less in the wake of the stock market selloff. Second, we factor in higher capital and funding costs for the company, as fixed income investors and rating agencies continue to worry about Household's exposure to the predatory lending controversy. Third, we assume that new lending practices reduce the return on managed assets in Household's consumer finance business from 2.0% to 1.5-1.75%.

The reduced forecast may prove conservative. Our survey work indicates that subprime demand is strong and competition healthy. Our research suggests that Household will continue to grow faster than the industry because of superior lead generation systems, which are not part of the predatory lending controversy. Even on our reduced earnings forecast, the valuation looks attractive.

Fox-Pitt, Kelton **July 18, 2002**

Attractive

Household International shares were under pressure yesterday in sympathy with its consumer finance peers. Specifically, Capital One, the perennial leader in the card business, disclosed it is entering into a MOU with the national banking authorities. We think this bombshell announcement signals an era of lower returns, increased capital intensity, and heightened regulatory oversight for consumer lenders of all types. While Household may be less directly affected by the potential regulatory changes to capital levels, the overhang of regulatory hostility does impact the stock. Moreover, accusations of predatory lending, however baseless they may be, gain additional currency in a market seized by fear of events outside of management's control. Whether legislators jump on the bandwagon that the trial lawyers are regulators are riding is a rising risk for Household. Additionally, as Household goes further down the road to securitization, additional questions regarding the quality of earnings may arise. When investors pay attention to key fundamental drivers like loan growth, margins, credit quality, and cost control, Household does fine because it delivers. When the focus moves away from the fundamentals toward unquantifiable factors like litigation and regulatory risk, the upside on the stock will be capped. While we are maintaining our 2002 and 2003 EPS estimates, we do not see Household trading at better than 12 times earnings in this charged environment, and thus have lowered our target price to $63.

CIBC World Markets Corp. ***June 26, 2002***

Buy

We have initiated coverage of Household International with a Buy rating and $63-$65 price target, effective June 21. Although rising rates could affect origination volume, the improving economic outlook and cross-selling opportunities should support EPS growth of 13%-15% annually.

Although the consumer finance industry has undergone significant consolidation over the past few years, primarily as smaller finance companies have sought to improve funding costs, Household still ranks among the leading lenders in each of its product lines. Household has been able to remain competitive with its larger peers through superior customer service and account management, as well as effective target marketing initiatives. Interestingly, the industry consolidation has actually had a positive impact on Household because more rational pricing has returned to the market, which has enabled the company to effectively risk-base price and maintain favorable investment returns.

An improving economy has both positive and negative implications.

The downside of the economic improvement is the likelihood for higher interest rates by late 2002 or early 2003. As rates move higher, Household will likely experience some net interest margin contraction, particularly given the fixed-rate concentration of its home equity loans. The company, however, should be able to effectively manage the changing interest rate environment given that it generally match-funds its loans with similarly structured borrowings. Furthermore, given Household's ability to quickly adjust lending terms on new originations through its centralized operating structure, the company should be able to pass through any rate adjustments to potential customers relatively quickly, thereby minimizing any interest rate impact.

Although higher interest rates may challenge the company's rate management skills, we believe the underlying reasons behind the potential rate increase, i.e., an improving economy, has a significantly greater impact than a 50 or 100 basis point rate rise. As the economy improves, not only should consumer spending activity strengthen, but delinquency and loss rates should also decline. Although consumer spending behavior has remained strong throughout the recession, we believe that as the economy strengthens, volatility in consumer sentiment should diminish, prompting more stable and consistent spending trends.

Despite the solid fundamentals, Household is trading at its lowest level since the first half of 2000.

Although refinancing activity reached record levels last year, enabling Household to enjoy solid 15% earnings growth, the stock is currently trading roughly 15% below the average price/forward earnings multiple achieved over the past four years. While credit quality concerns and the recession have had an impact on the specialty finance sector broadly, and Household in particular, we believe the current discount is overdone. As the economy emerges from recession, the combination of solid fundamentals and discounted valuation could represent an attractive entry point for investors to begin building a position in the stock.

Overall, we believe the growth opportunities and earnings consistency warrant a valuation at least equal to the average valuation achieved over the past five years on either a price/forward earnings or price/book basis. Furthermore, as 2002 unfolds, we believe the company should have the wind at its back owing to the improving economy, while internal initiatives should begin to take hold and position it for sustainable earnings growth of 13%-15% annually. As a result, we believe the combination of the solid fundamentals and attractive stock price valuation represents a compelling investment for Household. As such, we have initiated coverage with a Buy rating and a $63-$65 price target.

Wachovia Securities **May 31, 2002**

Buy

We are initiating research coverage of Household International with a Buy rating on the shares.

We believe investors should buy the shares of this well run, diversified consumer finance company. We are confident that Household can deliver 15% EPS growth in 2002 and 13% EPS growth in 2003. While modestly rising credit losses and general uncertainty regarding the outlook for the U.S. economy is likely to limit valuation expansion in Household shares near-term, we believe the risk/reward ratio is favorable for long-term investors. Household shares trade near the low end of its historic P/E range. Our $64 price target implies over 23% upside in the shares and only assumes Household shares trade at 12x our 2003 estimate, the mid-point of Household's historic P/E range.

Household has delivered consistent EPS growth through the credit cycle. Under the leadership of Bill Aldinger, Household's diluted EPS has more than tripled from 1995, while ROE has increased 780 basis points to 22.4% in 2001. Household has achieved consistent and profitable growth while making several major acquisitions such as Transamerica, Beneficial, ACC Consumer Finance, and Renaissance Holdings over the past several years. Household's combination of good organic growth and success with integrating sizeable acquisitions stands out in the financial services industry. In addition to improved profitability, Household has dramatically strengthened its balance sheet as its tangible equity-to-tangible managed asset ratio improved to 8.41% at March 31, 2002 versus 6.20% at December 31, 1996.

We note that Household has some protection against an economic downturn by virtue of its strong capital and reserve levels. Also, Household's diversified nature of its operations does not leave the company over exposed in any one particular product line or geographic region. Nevertheless, investor concerns about Household International's fundamentals in an economic downturn could constrain Household's valuation.

The current regulatory environment is challenging. Without wrongdoing, Household has made refinements to its business model, which include standardization of certain fees. Household has also made contributions in the form of grants to various local charitable organizations. Household has been able to manage through the current regulatory environment quite well. While it is difficult to precisely measure the higher costs of increased regulatory scrutiny for the industry, we are confident that Household can continue to generate an ROE above 20% for the foreseeable future.

Exhibit #4

ANALYST REPORTS – SECOND QUARTER EARNINGS

Legg Mason **July 19, 2002**

Hold

Household reported fairly solid second quarter 2002 EPS of $1.08, in line with consensus estimates.

Positives included slightly better-than-expected loan growth, and more importantly, impressive asset quality trends including falling delinquencies and a flat re-aged portfolio.

However, we think it's too early to celebrate as we would like to see more sustained declines in the re-aged portfolio along with continued positive asset quality trends to become comfortable with Household's performance in this recession.

Most importantly, we remain concerned about the broader issues in this highly uncertain environment. Essentially, we think the level of scrutiny being applied to both companies with unclear accounting practices and companies with subprime lending activities puts Household at risk. While some are worried about a Capital One-type action at Household, we think this is a remote possibility given the small size of company's regulated bank (less than 10% of assets). As such, it is difficult to define the risk, but we simply don't find Household's valuation compelling enough in this market environment. We also note that predatory lending, while likely overblown, is likely to continue to create additional headline risk (also not treated well in this market) with little visible improvement over the near term. Accordingly, despite better-than-expected asset quality trends and a decent quarter, we are maintaining our Hold rating on the shares until the environment improves.

Merrill Lynch **July 18, 2002**

Strong Buy

Household International reported second quarter 2002 earnings of $1.08 versus $0.93.

Fundamentals and earnings quality were generally good, with robust receivables growth and lower expenses more than offsetting a declining margin, moderate rise in charge-offs, and a healthy reserve build.

However, nervous investors ignored this good earnings report and focused instead on whether regulators would soon be knocking on Household's door after having just finished with Capital One.

Despite a good earnings report, Household's shares were weak over investor concerns about possible regulatory scrutiny of its bank's capital adequacy, reserve adequacy, and operating practices a la Capital One, Metris, and Providian. Given the small size of Household's subprime credit card portfolio and the small size of its bank relative to the company as a whole, the theory that bank regulators can have a significant impact on Household makes no sense. Further, Household added $1 billion in capital to its bank in the first quarter at the regulator's behest, leaving the company very well capitalized and reserved at the bank level. Also,

deposits were just $6.1 billion at 3/31/02, or less than 8% of funding, and have been shrinking. This is not the typical target of a regulatory action.

The current disfavor towards subprime lenders is doing Household's stock no favors, particularly when layered on top of increased regulatory scrutiny of subprime real estate lenders in general. Yet, other than being in the "wrong" group, Household has done most everything right in our view. The company has done an excellent job of increasing liquidity and decreasing funding risk given the current environment, reserves and capital are in good shape, and earnings growth continues to look good. Yet the stock languishes near its historic low multiple, where admittedly it has good company.

We continue to like these shares for the stable growth and cheap price, while acknowledging that a rapidly expanding multiple could be several years away until regulatory issues are history.

Deutsche Bank **July 18, 2002**

Strong Buy

Household reported second quarter 2002 EPS of $1.08 versus $0.93.

Household's share price has come under pressure following Capital One's announced MOU (memorandum of understanding) agreement with regulators. However, Household's subprime exposure in its Master Card/Visa portfolio is minuscule, totaling $1.3 billion at the end of the second quarter (versus $1.1 billion last year). This represents less and 1% of the total managed portfolio.

Household remains adequately capitalized based on the regulators' subprime capital guidelines.

As one of the largest consumer financial concerns, Household will continue to be in the spotlight regarding predatory lending (fairly or unfairly), in our opinion. Household operates in all 50 states, which exposes the company to various state laws. A number of states, led by California, have enacted predatory lending statues with other states expected to follow suit, as the issue remains a hot political topic. However, Household's "best practices" initiative exceeds or is in line with most state legislation.

While the issue of subprime loans, the hotbed for predatory lending debates, will continue to receive regulatory scrutiny, Household's diverse business model gives the company an edge, in our opinion. We note subprime card loans represent less than 1% of Household's total portfolio. Moreover, Household remains one of the best capitalized companies in the consumer financial space. We reduced our target price on the stock due to lower market valuations and the cloud overhanging all subprime lenders. As one of the largest consumer finance companies, Household should remain a magnet for consumer advocacy groups and political zealots. To this end, the shares may come under pressure. The stock is currently trading at just under 8x our 2003 EPS following negative announcements by two other card issuers. However, the fundamentals at the company remain solid. Company guidance remains the same even in the tough economic environment. We continue to rate the shares Strong Buy.

Goldman Sachs **July 18, 2002**

Buy

Household International hit the second quarter consensus with EPS of $1.08 versus $0.93 a year ago. Earnings quality was fairly high even with a pick up in securitization income, as loss provisioning ran $186 million above charge-offs.

Credit trends were broadly in-line, with delinquencies sequentially down 10 bps to 4.53% and charge-offs up 17 bps to 4.26%.

Investor backdrop remains unsettled given uncertainty tied to economy/consumer, the potential for changes emanating from 'predatory' lending issues, and heightened regulatory scrutiny on Household's regulated banking subsidiaries. On the regulatory front, we note Household does appear to be somewhat ahead of the curve having injected $1.1 billion in capital into its regulated subsidiaries in the first quarter, dedicating $2 billion of its $4 billion liquidity portfolio to these entities, and according to management meeting the well capitalized guideline under the new subprime standards. Though there remains little to suggest the cloud on 'predatory lending' issues will lift near-term, Household has been proactively addressing these issues through its best practices initiatives regarding disclosure to consumers, caps on points and fees, and other pro-consumer activities.

Household is now trading at 8.1x our 2003 forecast and at 2x book value. We believe Household shares are attractive at these levels and see solid upside as fundamentals come back into focus.

Exhibit #5

STREET REPORTS – PREDATORY LENDING ISSUES

Deutsche Bank **August 12, 2002**

Strong Buy

We sponsored a conference call for investors to discuss predatory lending issues, state legislative initiatives, and Household International, in particular. Our guests were representatives of ACORN and Self-Help, two consumer activist groups at the forefront of lending .

A big challenge for home equity lenders is that they must abide by legislation of each of the 50 states, which are often more restrictive than federal legislation (largely HOEPA).

The guest speakers on our call were Lisa Donner, Director ACORN Justice Center and Keith Ernst, Assistant General Counsel Self-Help.

Ms. Donner presented several cases in which Household extended loans that appear to be misleading with respect to terms, or possibly in violation of federal legislation. Mr. Ernst discussed state legislative initiatives as well as holes he sees in Household's 'Best Practices' standards, which Household has been implementing since last year in an attempt to stay ahead of the scrutiny. At the very least, the conference call illustrated that in today's market, scrutiny is outpacing attempts at reform in many areas.

Questions that weren't answered include 1) whether Household has acted systemically and knowingly in misleading borrowers and 2) whether Household is any worse than its competitors. Certainly, even if the answers were 'no,' Household would not be exonerated from responsibility. Nor do we believe that merely not violating the letter of the law is sufficient in today's environment. Any lender that doesn't pass the "smell" test will find its stock valuation penalized, in our opinion. And frankly, the cases which Ms. Donner described probably would offend the olfactory senses of many investors.

From a credit risk standpoint, we've taken comfort in Household's large real estate-secured home equity exposure (particularly relative to unsecured subprime credit card lenders). However, we have probably underestimated the "social" and potential regulatory risk of subprime home equity lending, especially given that Household is something of a "bell weather" for the industry.

Household's lending practices, for better or worse, expose it to economic and headline risk. The ACORN suits are pending in California and Illinois. The State of Washington has conducted an investigation, the report of which has been granted a restraining order until October. Already, Household has paid fines in California and Washington. Violations of HOEPA could result in penalties. And the list goes on. Headline risks include magazine and newspaper articles, and other media attention. Then, of course, there are equity research reports.

In responding to both regulatory and headline risks, Household will undoubtedly sacrifice profitability and potential growth in order to preserve its reputation. This is the right decision, in our opinion. The economic consequences of deliberately misleading borrowers in order to maximize profits would not only be short-sighted, but would ultimately destroy a franchise that has served the low-to-middle income market for over

100 years. At the same time, activist groups such as ACORN, which are also acting in good faith, must make certain that they don't drive legitimate lenders from the underserved marketplace. Certainly, there are more egregious lenders in the form of pawn shops, payday lenders, and check cashing storefronts. If the means to the end is to drive legitimate lenders, regulated by state and federal laws, from serving the low-to-middle income market, the consumer will have the most to lose, both in terms of availability and cost of credit.

While we are not changing our 2002 or 2003 EPS estimates, we are lowering our target price to $53. We are also lowering our long-term growth rate to 10%-12% from 14% as we believe Household's loan growth will slow as lending restrictions gradually take hold. Still, with about a 30% upside (on a one year basis), we are maintaining our Strong Buy rating.

Bernstein Research **August 5, 2002**

Market Perform

On a conference call we hosted today, Household International addressed sales practices that have caused confusion among some borrowers. Tom Detelich, recently named Group Executive for the 1400-branch US consumer lending business of HFC/Beneficial, acknowledged that some customers had misunderstood their interest rates and other loan terms – particularly in Washington State but also in other States. He added that cases of borrower confusion were not widespread. For example, the firm had identified 42 complaints nationwide over the last 3 years where borrowers were confused about the impact of more frequent payments on their interest rates and placed this in the context of the 1.2 million loans closed each year in the branch network.

Tom noted that in some cases training approaches had been modified by middle managers so that some sales practices went from "potentially confusing to absolutely confusing". For example, some borrowers had been left with the impression that if they paid more frequently then somehow their interest rate would be lower and others had failed to understand that a bi-weekly payment schedule, unlike a semi-monthly schedule, means that in two months there are actually three payments. He added that, given this confusion, the firm had reviewed their training and controls and was committed to raising the bar for customer satisfaction.

We believe Household is now committed to reducing the incidence of borrower confusion and that there is no long-term strategy for the firm to have any sales practices at any level where customers can be deceived. That said, there remains headline risk from the practices that have created confusion over the last 2 years (particularly in relation to the E-Z Pay Plus product offering bi-weekly payments).

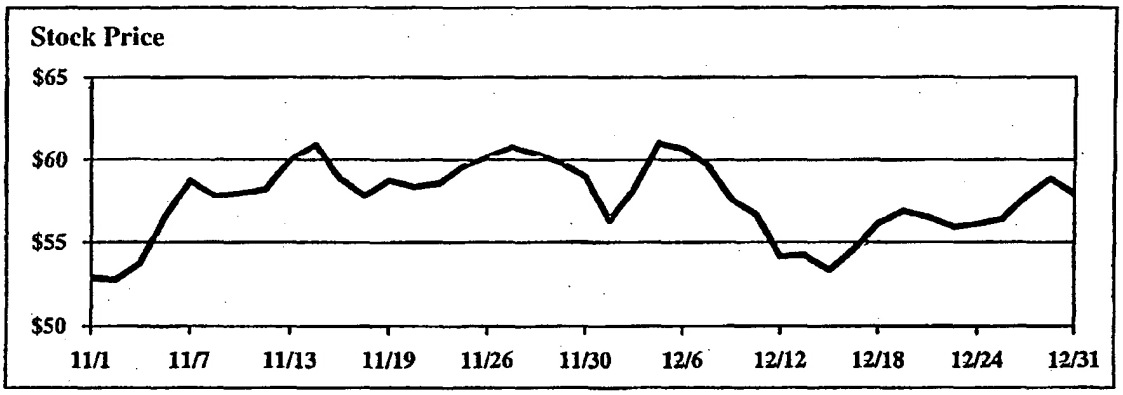
In addition, there will be some earnings impact from the reform of sales practices whose extent will depend on whether borrower confusion has arisen because of the work of a few rogue loan officers, as the firm has suggested, or because of wider systemic factors such as training and compensation. Either way, it is almost sure that Household will have to compensate borrowers who have been confused as a result of private lawsuits and a likely national settlement with State Attorneys General.

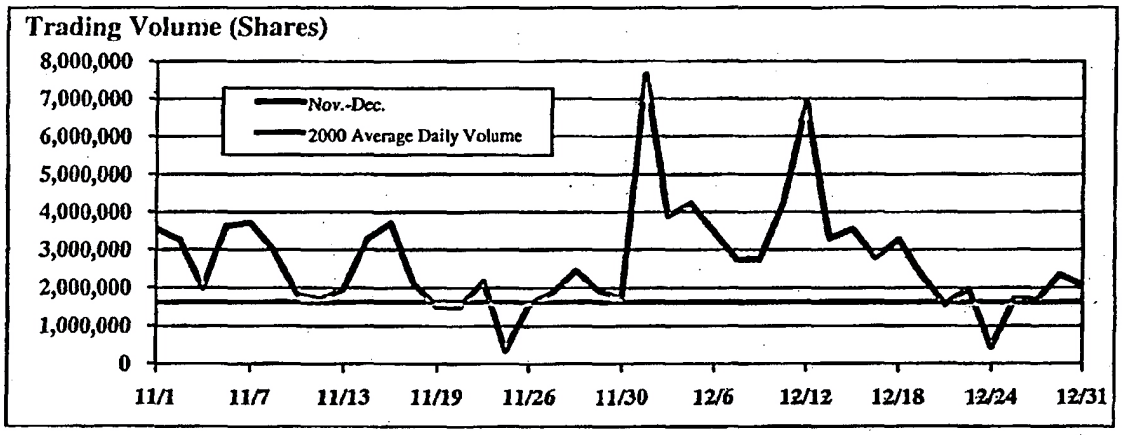
Household International has near-term earning flexibility created by the current environment of low interest rates and the shift in the portfolio mix towards low-loss ratio real estate loans. The firm is using some of these surplus earnings to strengthen the balance sheet and specifically to increase liquidity and maintain higher capital ratios. Despite this flexibility, we are cautious on longer-term returns as the impact of recently announced and possible future changes to business practices on loan volumes, fee income, and profitability becomes clear. In the near-term, we believe that legal and headline risks in the real estate lending business are likely to continue compressing the stock's multiple below historical averages. We rate Household International market-perform and believe the stock will continue to trade at or near its current relative multiple of 49% until longer-term prospects become clearer.

EXHIBIT 9

HOUSEHOLD

INVESTOR RELATIONS REPORT
November-December 2001





November-December Stock Trading Commentary

Household closed October at $52.30. Significant events during November and December included:

- On November 6th, the Federal Reserve cut rates by 50 basis points, its tenth cut of the year. Household's stock rose $2.78 on the 6th and another $2.19 on the 7th.
- Household's stock price increased steadily over the next week, reaching a two-month high closing price of $60.91 on November 14th. The stock succumbed to profit-taking over the ensuing weeks and drifted downward to close the month at $58.99, up 12.8 percent for November.
- On December 3rd, the stock dropped $2.69, or 4.6 percent, to $56.30 following articles in *Barron's* and *Business Week* that alleged Household's strong results were in part driven by aggressive chargeoff policies. On December 4th, Bill Aldinger and Dave Schoenholz spoke at the Goldman Sachs Bank CEO Conference and effectively addressed many of the issues raised in the articles. The stock rebounded nearly $2 on the 4th and another $2.77 on the 5th.

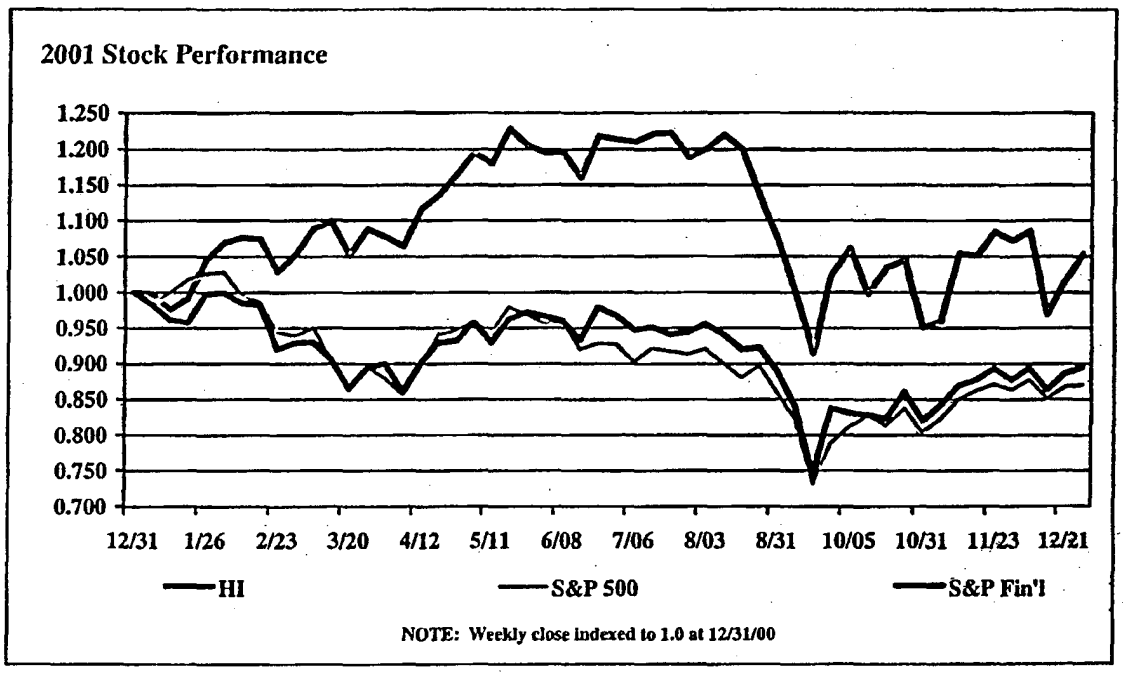
Case # 02-C-5893
Jaffe v. Household
Plaintiffs' Exhibit
P0820

DEPOSITION EXHIBIT
MURPHY #31
4-11-06

HHS 03237027

- On December 11th and 12th, the analyst from Legg Mason issued a series of research notes downgrading the stock from "Strong Buy" to "Market Performer" based on his view that Household's asset quality policies were lenient and aggressive. The stock lost $4.25, or 7.4 percent, over the course of the week.
- Over the following weeks, the stock generally moved higher, as investors' concerns about these asset quality practices were addressed. Household closed the year at $57.94, down almost 2 percent for the month and up 5.3 percent from a year ago. Average daily volume for 2001 was almost 2.3 million shares.

The graph below shows the performance of Household's stock, the S&P 500 and the S&P Financial indices during 2001. As shown, Household meaningfully outperformed both indices all year.



Performance vs. Financial Indices

The following table compares Household's performance to our peer group and certain indices for November and December, as well as for the year. Household has significantly outperformed the indices and its peer group this year.

Change (%)	*November*	*December*	*YTD*
Household	12.8	(1.8)	5.3
Peer Group Average	6.3	8.5	(21.9)
S&P 500	7.5	0.8	(13.0)
S&P Financial	7.0	2.8	(10.5)

Analysts' Estimates

Following are analysts' EPS estimates for 2002.

Firm	*FY'02*	*1Q'02*	*Opinion*
A.G. Edwards	$4.65	$1.04	Buy *
ABN Amro	4.70	1.04	Buy
Bear Stearns	4.60	1.04	Buy
B of A Montgomery Securities	4.65	1.05	Market Performer
Bernstein Research	4.65	-	Outperform **
Credit Suisse First Boston	4.70	-	Strong Buy *
Deutsche Banc Alex. Brown	4.70	1.04	Strong Buy
Fox-Pitt Kelton	4.70	1.05	Attractive
Friedman, Billings, Ramsey & Co.	4.65	1.03	Market Perform
Goldman Sachs	4.65	1.04	Buy
J.P. Morgan	4.69	1.05	Buy
Legg Mason	4.60	1.04	Market Perform *
Lehman Brothers	4.69	1.05	Buy
Merrill Lynch	4.70	1.05	Buy
Morgan Stanley	4.60	1.03	Outperform
Prudential Securities	4.60	1.03	Strong Buy
Salomon Smith Barney	4.60	1.04	Outperform
Stephens, Inc.	4.65	1.06	Buy
Thomas Weisel Partners	4.65	1.04	Buy
UBS Warburg	4.65	-	Buy
U.S. Bancorp Piper Jaffray	4.65	1.04	Buy
William Blair	4.60	1.04	Long-term Buy
First Call Consensus	$4.64	$1.04	

* Rating changed since last report.
** Initiated coverage since last report.

On January 16, 2002, Household reported fourth quarter earnings per share of $1.17 and full year earnings per share of $4.08. Exhibit #2 includes highlights from analysts' notes on our earnings.

Ten Largest Institutional Shareholders
December 31, 2001

Institution	*Shares*	*YTD Change*	*Orientation*
1. Capital Research & Management	32,269,500	(12,528,000)	Value
2. Davis Selected Advisers, L.P.	29,874,300	317,000	Value
3. Fidelity Management & Research	29,255,400	2,034,400	Growth/Value
4. Alliance Capital Mgmt.	20,500,000	1,231,200	Growth
5. Smith Barney Asset Mgmt.	17,724,600	(3,806,000)	Growth/Value
6. Barclays Bank plc	15,494,400	132,900	Indexed
7. Jennison Associates LLC	11,600,100	11,600,100	Growth
8. State Street Bank	10,359,900	1,455,400	Indexed
9. Putnam Investment Mgmt.	9,200,000	3,762,100	Growth
10. Oppenheimer Capital	9,055,200	(3,523,800)	Indexed

Collectively, these shareholders own 41 percent of Household's outstanding common stock. Capital Research ended the year as Household's largest shareholder, adding 5 million shares in November and December and reversing its selling trend begun in August of last year. Davis, a heavy buyer mid-year, trimmed its position by over one million shares in November and December. Fidelity sold nearly 850 thousand shares during the two-month period.

Peer Group Stock Price Performance

Exhibit 1 – details 2001 stock price performance for Household, our peer group and three market indices.

Research Reports

Exhibit 2 – includes excerpts from analysts' notes on Household's fourth quarter earnings.

Exhibit 3 – includes excerpts from analysts' notes on senior management meetings/presentations.

Exhibit 4 – includes highlights from notes issued by analysts who changed their ratings or initiated coverage on Household.

Exhibit 5 – includes highlights from analysts' notes discussing Household's chargeoff accounting policies.

Exhibit #1

Household International Peer Group Stock Price Report
December 31, 2001

	12/31/00 Close	12/31/01 Close	% Change YTD	% Change In December	2001 EPS	2002 Est. EPS	% EPS Growth	2002 P/E	2002 Rel. P/E(1)	PE/G Ratio(2)	Market/ Book
HI	55.00	57.94	5.3	(1.8)	4.08	4.64	13.7	12.5	0.59	0.91	3.1
AIG	98.56	79.40	(19.4)	(3.6)	2.81	3.49	24.2	22.8	1.07	0.94	4.3
AXP	54.94	35.69	(35.0)	8.4	0.98	1.91	94.9	18.7	0.88	0.20	3.9
COF	65.81	53.95	(18.0)	7.8	2.91	3.51	20.6	15.4	0.73	0.75	3.8
C	51.06	50.48	(1.1)	5.4	2.81	3.34	18.9	15.1	0.71	0.80	4.4
KRB	36.94	35.20	(4.7)	9.2	1.91	2.22	16.2	15.9	0.75	0.98	4.2
ONE	36.63	39.05	6.6	4.3	2.46	2.77	12.6	14.1	0.67	1.12	2.3
PVN	57.50	3.55	(93.8)	33.0	1.79	0.15	(91.6)	23.7	1.12	NMF	0.4
USB	23.25	20.93	(10.0)	10.3	1.33	1.85	39.1	11.3	0.53	0.29	2.5
WFC	55.69	43.47	(21.9)	1.6	2.01	3.26	62.2	13.3	0.63	0.21	2.7
Peer Group Average			(21.9)	8.5			21.9	16.7	0.79	0.76	3.2
DJ Indust.	10,787.99	10,021.57	(7.1)	1.7	425.00	480.00	12.9	20.9	0.99		
S&P 500	1,320.28	1,148.00	(13.0)	0.8	40.56	54.22	33.7	21.2	1.00		
S&P Fin'l	164.72	147.40	(10.5)	2.0	8.32	10.01	20.3	14.7	0.70		

American International Group (AIG), American Express (AXP), Bank One (ONE), Capital One (COF), Citigroup (C), MBNA (KRB), Providian Financial (PVN), U.S. Bancorp (USB) and Wells Fargo (WFC). Due to the acquisition of American General by AIG on August 29th, AIG has been added to the peer group.

(1) 2002 P/E ratio relative to the S&P 500 P/E ratio.
(2) 2002 P/E ratio divided by EPS growth.

HHS 03237031

Exhibit # 2

STREET REPORTS –FOURTH QUARTER RESULTS

Goldman Sachs **January 17, 2002**

Buy

Household extended its record of delivering high quality earnings growth with in-line EPS of $1.17 in Q4, up 14% year over year. Asset growth, net interest margin, and credit quality trends were all solid and in/line to slightly better than anticipated. Earnings quality also remained high with provisioning well above charge-offs and securitization income down vs. the year ago. That said, the auto finance unit, though small at just 6% of receivables, had a much weaker than anticipated credit quality showing. Overall, we remain very comfortable with the outlook for Household and are moving our '02 forecast up $0.05 to $4.65 and are initiating a $5.20 estimate for '03. Reaffirm "Buy" rating.

Over time, we believe Household's strong operating profile and mid-teen growth trajectory should lead to P/E expansion (Household is currently trading at just 11.6 our '02 forecast).

ABN AMRO **January 17, 2002**

Buy

Household completed a very strong year with its positive trends intact, in our view. Earnings quality remains high and we believe the stock is poised to outperform the market again in 2002.

Household reported strong and high quality earnings, despite the weak economy. The key drivers to the strong results included 16% full year loan growth and about an 85 basis point expansion in the net interest margin, which combined to generate 18.3% revenue growth. As we point out below, Household took advantage of the powerful earnings trends to build reserves, invest in people and technology, and reduce securitization revenue further as opposed to beating EPS estimates, which it clearly could have done. Return on equity for the year was 24%, and return on tangible equity was 30%.

We strongly reiterate our "Buy" rating and $75 target price and expect the stock to comfortably outperform the S&P 500 again in 2002. Household has delivered one of the top financial performances that we are aware of in financial services over the past few years. We believe the visibility for earnings and return on equity remains high. The stock is valued at only 11.5x our 2002 estimate. We believe Household should trade at a premium to its growth rate. Our $75 target is equal to 16x our 2002 EPS estimate.

Merrill Lynch **January 17, 2002**

Strong Buy

Household reported an as expected quarter of $1.17 vs. $1.03 last year. We believe the quality of earnings was very high. The only negative we can find in the quarter is in the company's auto portfolio; weak resale prices on repos caused an increase in charge-offs that is likely to remain into the 1st quarter. However, auto makes up just 6% of Household's portfolio, and losses are at very manageable levels. Growth was excellent, the margin strong, and losses as expected. Losses included a tightening of charge-off policy on consumer loans, which accelerated loss recognition by $20 million.

Household has strong fundamentals entering the year, and a $0.10 cushion from the goodwill accounting change. It is our opinion that the company can achieve its 15% earnings growth without this cushion, but it does provide an insurance policy if needed. It is not clear if the company will allow this to drop to the bottom line if earnings remain as strong as they currently are.

The valuation of Household remains inexpensive at just over 10.8x our 2002 earnings estimate. We view Household as a company generally trading in roughly a 10-18x range, suggesting significant appreciation potential from here. The top end of our range probably requires some economic improvement however. For core growth buyers, this remains an excellent idea for roughly 15% annual growth.

Deutsche Banc Alex. Brown **January 16, 2002**

Strong Buy

Household reported 4Q EPS of $1.17 vs. $1.03 last year, a year-over-year increase of 14%, marking the 14th consecutive quarter of record results.

Our FY02 EPS estimate remains $4.70. Our price target is 15x our FY02 EPS estimate, or $71. The stock has been weak lately, trading at a 50% market multiple, in part due to rumors that it was interested in buying Providian and concerns today over losses in its auto portfolio. Setting the record straight on the Providian rumor, management indicated that in "no way is it interested in buying Providian, under any circumstances." While we remain concerned about the subprime auto lending industry (due to falling used car prices), Household's auto business is only 6.3% of loans. We reiterate our "Strong Buy" rating.

Household's course has not changed over the last 12-18 months, as management has been anticipating a recession (added collectors, tightened credit scores, and more secured lending). Moreover, the company has enough cushions to protect against a slumping economy. The company does expect charge-offs and delinquencies to trend higher, but to remain manageable and predictable. The company has also been adding to reserves. Overall, Household enters 2002 in better shape than most consumer finance companies, in our opinion.

Prudential Securities **January 16, 2002**

Buy

Household reported 4Q01 EPS of $1.17, in line with expectations. Results reflected strong receivables growth and margin expansion, mitigated by higher expense growth, higher excess provisioning, and modestly worsening credit quality.

While the stock has been beaten down since mid-'01 by a succession of (largely unfounded) negative press reports and speculation of potential for "dumb deals," Household continues to deliver solid earnings growth and profitability through its core activities. In fact, the quality of earnings, helped by ongoing emphasis on home equity secured growth and careful underwriting, remains relatively stable – with positive prospects for achieving management's 13%-15% '02 EPS growth target.

Exhibit #3

STREET REPORTS – SENIOR MANAGEMENT MEETINGS/PRESENTATIONS

Goldman Sachs **December 5, 2001**

Buy

We are reaffirming our "Buy" rating on Household and maintaining our estimates following company CEO, Bill Aldinger's well attended presentation at the Goldman Sachs Bank CEO Conference in New York. Aldinger, in addition to recapping Household's strong record over the past 7 years and walking through the model underpinning next year's 13%-15% EPS growth target, credibly and definitively addressed several recent investor 'flashpoint' issues. We continue to believe that there is little that is fundamentally new or substantive in the recent negative press on Household and are reiterating our $75-$80 price target.

The detail in the presentation and open and candid dialogue in the Q&A favorably elucidated Household's personal homeowners loan (PHLs) category, cleared up any outstanding concerns about income recognition, credit loss policies and account reaging and released additional details on 'other unsecured loans' including the PHL category which has been a particularly intensive area of focus in recent negative press.

While investors will understandably focus on accounting issues, particularly in light of well-publicized dislocations, such as Providian, Household has begun a process of greater transparency against this more hostile operating backdrop. Management seemed intent on providing fuller disclosure on income recognition, the effect of securitization activity on the income statement, and policies pertaining to credit loss reaging and loss recognition. While questions are likely to persist, we are impressed with management's disclosure and candor, while maintaining a strong growth and value creation emphasis against a consolidating industry backdrop.

UBS Warburg **December 5, 2001**

Buy

Household Chairman and CEO Bill Aldinger spoke to an investor conference Tuesday. Key themes included the company's consistent earnings track record strong competitive positioning, and steps it has taken to weather a difficult economic environment. He also addressed concerns raised in a recent *Barron's* article regarding the company's accounting practices. Household remains confident in its ability to deliver 15% EPS growth in 2001 and 13%-15% growth in 2002. We maintain our 2001 EPS estimate of $4.08 and our 2002 EPS estimate of $4.65. We reiterate our "Buy" rating and $70 12-month price target.

A sequence of competitor mergers, exits, and failures over the past several years have left Household with a more favorable competitive environment in a number of areas. Household's size and experience give it an upper hand in several businesses including home equity, auto lending, private label, and branch-based lending.

Exhibit #4

STREET REPORTS – CHANGES IN RATING/NEW RATINGS

A.G. Edwards **January 16, 2002**

Buy

We are upgrading the shares of Household International to "Buy" from "Hold" due to solid fundamental performance during a recession, our belief that Household can deliver 13-15% EPS growth in 2002, and favorable valuation. Under the leadership of Bill Aldinger, Household continues to prove that it can deliver superior operating results in multiple economic environments. We believe Household is well positioned to generate double-digit EPS growth in 2002 with relatively good credit quality performance. We believe Household shares, which trade at less than 12x our $4.65 estimate for 2002, are under-appreciated by investors. We have established a $65 price objective, which implies just under 20% upside in the shares over the next 12 months.

We continue to believe that Household is a well-managed company and a leader in the consumer finance space. Management wisely began to reposition Household's portfolio toward more real estate secured product in 2000. The greater emphasis on real estate secured product has served to decrease the volatility in Household's overall loss rates. We also believe this mix-shift will continue to help protect Household's asset quality during the current economic environment.

Legg Mason **December 11, 2001**

Market Performance

Last week, we suspended our investment rating of "Strong Buy" on the shares of Household International based on the serious allegations made and questions raised in the *Barron's* and *Business Week* articles. Since then our goal had been to try to determine (i) if the risks raised are indeed real, (ii) how aggressive are the company's restructuring policies and is this a concern and relevant to the investment case or simply reflective of its customer base and thus supportive of the franchise, and (iii) if we could size the one-time restructuring charge necessary to "uniform" the policies and make their application more consistent across business lines, or better yet, bring them in compliance with the FFIEC.

After further investigation, we are more concerned that Household's accounting policies, as they relate to asset quality, understate the true level of portfolio delinquency and charge-offs, and thus make it difficult to interpret the company's financial results and performance. Household points to its impressive record of growth, profitability, stable asset quality, and absence of frequent large restructuring charges (other than for the Beneficial acquisition), particularly relative to commercial banks. However, we believe the company's lenient and aggressive asset quality policies and the wide variation in how these policies are implemented among Household's five major business lines call this record into question. Essentially, the restructuring occurs behind the scenes, quietly, without disclosure, as the company reages and rewrites the portfolio on a loan-by-loan basis as part of its long-standing approach of working with its customer base as problems arise.

We have found there are significant differences by business line in how Household determines if a loan is delinquent: when, how and how often an account can be reaged (and brought current); what constitutes a full payment; when a loan goes on nonaccrual; how a loan returns to accruing status; how bankruptcy-related losses are recognized; and when a loan is charged off. We were surprised how easy it is to bring a delinquent loan current, how aggressive the reage policies are, and how easy they have become over time.

In the end, we realize that we do not have a clue as to the size of the reaged or the rewritten portfolios, either by business line or in total. We don't know what to make of the reported delinquency statistics as they do not adequately capture those loans that have been reaged or rewritten, but at present are reported as current despite having missed payments in the past.

Admittedly, we continue to wrestle with the question of "does any of this matter?" Household's policies have been in place for a few years, and most of the serious changes took place in the 1997-1999 time frame. Given its 100-year history, strong market share, healthy yields averaging 20% (on an accrual basis at least) in its non-real estate secured portfolio, and the particular requirements of its nonprime customer base, we wonder if we are missing the forest for the trees. Reaging and rewrite policies are not that unusual in the nonprime consumer finance world, but Household's practices seem overly aggressive to us.

Nevertheless, we have concluded this is material, particularly as it relates to our investment thesis and P/E multiple expansion story on Household that (i) Household was better than a bank, (ii) it possessed unique strengths in market presence and distribution, technology, and non-prime underwriting, (iii) it was well-positioned to leverage its position in this consolidating market, and (iv) this would continue to drive the superior results of strong earnings growth, high profitability and fairly stable and surprisingly good asset quality.

But the lack of information available on portfolio quality and the wide variation in how the asset quality policies are implemented, and the aggressive nature of these policies relative to our expectations of what is appropriate and relative to other consumer finance companies all serve to undercut our investment thesis, reduce the likelihood of multiple expansion, in our view, and lower our confidence in our ability to understand and interpret Household's financial performance. While any type of one-time restructuring charge to bring Household's asset quality policies more in line with other finance companies or banks is unlikely in the near term, we think the odds will rise over time. Accordingly, we have lowered our rating to "Market Performance" and increased our risk rating to "Average" from "Low."

Credit Suisse First Boston **December 4, 2001**

Strong Buy

Recently, some have suggested that aggressive accounting has played an outsized role in Household's growth. We believe that Household uses accounting standards that are at least as conservative as the industry standard, and sometimes significantly more so. A number of recent press reports have suggested that changing accounting practices has either benefited earnings, or suppressed losses. Neither of these is true, as nearly all (except a one-time merger change) occurred five years ago. These changes gave Household the flexibility to deal with borrowers in similar fashion to other lenders.

Some have suggested that the very fact that Household's loss rate is lower than peers "proves" that there is something "wrong." As we have written numerous times, it is the centralized underwriting and appraisal process, coupled with the fact that the vast majority of loans are made direct by Household personnel, make the better credit quality an enormous competitive advantage.

Overall, we believe that Household has a less volatile mix of assets than just about any other financial services company. Its loans are diversified by product and geography, no individual product has dominated the growth, and the largest piece of the pie is secured by real estate, with lending standards that have gotten more conservative over time.

We believe that investors prefer financial companies with diversified lines of business, particularly those that can maintain consistent growth. We believe that Household stacks up well compared to the typical large cap ank, as it has been more focused and better able to achieve balance growth and profitability. It is perhaps one of the few (if not the only) major financial services company that has been able to use customer data to sell products to customers across its various business lines.

Household's accelerating revenue growth coupled with better than average credit quality and strong efficiency should continue to deliver high and consistent earnings growth. Management has been astute to recognize developing industry trends, and position the company to profit from them, and minimize risk in the process. We are raising our target to $75 from $70, reflecting the company's historic average relative multiple. Selling at 12x 2002 earnings, with positive fundamentals, the equity has 30% upside to our target and we are raising our rating to "Strong Buy."

Sanford C. Bernstein & Co. **November 1, 2001**

Outperform

We recently launched coverage of the consumer finance industry recommending a market weight in the group and selective stock picking as secular and cyclical fundamentals continue to weaken. We prefer companies who have resilience to near term earnings and where valuations do not reflect that fact.

We believe Household will deliver 15% earnings growth in 2001 and 2002 providing the opportunity for the earnings multiple to expand from its current depressed level of 12 to 15 (56% to 70% relative to the S&P 500). Given EPS of $4.65/share, this generates a price target of $68. We rate Household "Outperform."

The firm has focused its activities in businesses where it can differentiate. For example, it has exited the first mortgage business and vanilla credit card business to focus on areas where it can sustain an edge – in home equity lending through branch-based customer relationships, in cards through partnerships with retailers for private label cards and with GM and Union Privilege customers for bankcards, and in auto-lending through established dealer relationships.

Household has undergone a transformation and is now poised for strong organic growth in the profitable segments of the consumer finance business, particularly home equity lending.

As a result of its broad business mix and locked-in credit card relationships, Household has been less affected than the credit card mono-lines by the deterioration in more general credit card industry fundamentals. For example, Household enjoys higher return on assets and more rapid loan growth than MBNA and yet still trades at a lower earnings multiple. Premium performance has been made possible by Household's growth in the more profitable segments of the consumer finance business. Household's home equity business is high margin because many customers are not price sensitive – often because they have a sense of comfort with the Household brand and their local branch representative. Furthermore, a number of competitors have exited the business – leading to more rational pricing – both as a result of the shakeout in 1997/1998 when mono-line home equity loan companies such as Green Tree Financial and the Money Store were either sold or closed, and more recently.

A second advantage of a broad product mix is the opportunity to cross-sell. This approach lowers account acquisition costs and improves portfolio performance since Household has the detailed and up-to-date information on the customer.

While Household's customers are higher risk as a group than many prime credit card customers, Household delivers charge-off performance that is better than even top credit card competitors such as MBNA. A first reason is that half of Household's portfolio is secured and, within the home equity portfolio, three quarters of loans have a first lien. This means that not only are borrowers less likely to default but also that in bankruptcy Household has the opportunity to recover more than the typical 10-15 cents on the dollar that applies to credit card charge-offs. A second reason for low charge-off rates is that Household is able to gather local intelligence on its customers through a network of 1,400 branch offices in the US. For example, all direct customers for home-equity loans are routed through a branch representative – whether in a face-to-face meeting or a telephone conversation – who elicits detailed financial information including income levels and property values, and benchmarks responses against knowledge of local employment and real estate markets. This process provides Household with better information about its customers than the typical card company that must rely exclusively on credit bureaus together with self-reported customer data that is often subject to only cursory validation.

Household is unique in the industry in terms of combining the "small firm" advantage of local presence with the "large firm" advantage of scale-driven investments in technology and branding. While Household's largest active rival, Associates, has a branch network of similar size, it does not appear to have harnessed technology to achieve the same level of productivity. Household has higher margins at the approximately the same cost.

Exhibit #5

STREET REPORTS – ACCOUNTING PRACTICES

Merrill Lynch **December 14, 2001**

Strong Buy

There are two fallacies that we find disturbing that have been suggested in an attempt to paint Household as an aggressive accounting company.

First, we believe sub-prime borrowers don't pay every 4 months to game the system as some are alleging. The author of this report used to be a sub-prime lender for a firm that Household now owns. When a borrower couldn't make a payment, it was because they didn't have the cash, which usually meant they had become unemployed, or had a medical issue, a divorce, or other material event. If life events improved, they would resume making payments and we often restructured those accounts. If the life event didn't change, that account was charged off.

It has been alleged that Household employees could coax a payment out of a borrower every 4 months to keep an account current on a "recency" basis. There are two problems with that theory. The first is that this type of borrower either has a job and/or cash or he doesn't. Second, Household collectors are paid on a contractual basis. Collections are centralized and monitored. It does a collector no good to get a payment every 4 months, and the borrower doesn't magically have cash as necessary.

The second key fallacy is that all the other sub-prime lenders are a lot more conservative than Household. It may be true, but we can't prove it. We have reviewed trust data and 10-Ks where appropriate. Asset backed documents usually contain disclaimers like "generally" and "usually" and "typically" before their statements of policy. Since Household ends up restructuring about 10% of its accounts each year, it would probably say the same thing if they gave less detail. They give more detail. It hurts them in this case.

On average, Household is reaging about 10% of accounts. Is that a lot? We don't really have a standard against which to measure it, though when the Associates was public, they claimed (and it says in the 2000 10-K) that they used contractual delinquency only. What is important is that most of the accounts stay current after the restructuring. In our experience, it is not unusual for subprime borrowers to have a short term problem due to one unusually large expenditure (roof, medical, etc.), but then be able to resume normal payments. What Household borrowers rarely have is big savings accounts.

Bear Stearns **December 14, 2001**

Buy

Investors' concerns about sub-prime lending, the uncertain economy, and interest rate trends have affected stock valuations of many consumer lending companies. Household's stock appears to have also been affected by the persistent controversy over the company's delinquency and chargeoff policies.

The recent controversy seems unjustified given the fact that Household's delinquency and chargeoff policies are old. They have been consistently applied for the past five years. And despite the assertions of some observers, some of Household's policies are more conservative than its competitors.

Household's business is not the same as banks, because Household does not serve the same customers as banks. Household's customers are riskier – because they miss more payments and chargeoff more frequently. In Household's business, a good customer is one that pays 11 out of 12 months.

If Household's customers had excellent credit histories and were seldom delinquent, most would probably not be borrowing from Household. Given that they are prone to more occasional delinquencies and they are paying higher rates than prime borrowers, the company tries to work with its customers in an effort to maximize loan payments and collections and on occasion will reage a loan. Interest accruals are unaffected and typically interest accruals cease months before loans are charged off. We believe the company's reserving is also unaffected by its delinquency recognition and reaging policies as reserves are established based on expected losses.

Its delinquency and chargeoff practices reflect the company's desire to collect as much money as possible from customers, even in the unsecured portfolio. By working with a customer rather than rigidly pushing a customer into delinquency or charging off an account, the company does typically accept smaller than normal payments and will in some instances reage an account. Decisions are made based on conversations with the customer and are made based on the customer's particular circumstances. These practices make GOOD BUSINESS SENSE as they enable the company to MAXIMIZE COLLECTIONS AND PROFITABILITY. Pushing an unsecured account into delinquency or charging off an unsecured account will essentially eliminate the company's ability to collect from that customer. Reaging accounts does defer chargeoffs, but in most cases, it actually appears to AVOID CHARGEOFFS. Nearly all customers in each line of business that are reaged are current one year later.

Helping a customer avoid delinquency is likely to strengthen Household's relationship with its customer. This willingness to work with customers is particularly valuable as there is a finite number of potential customers in the US and about two-thirds of Household's unsecured borrowers are repeat customers.

Recent magazine articles and several other analysts' reports have suggested that Household's delinquency and chargeoff policies are so lenient that the company could avoid charging off accounts for as much as a year and a half in its sub-prime portfolio. While unsecured loans can be kept in portfolio for up to 18 months, in reality, virtually all unsecured loans are charged off at 12 months or less delinquency. Household does reage accounts, but this practice is reserved for the company's best customers. Contrary to the belief of some other analysts, the company has no automatic reage policy. The portion of the portfolio that is reaged is actually small.

Unsecured accounts can be reaged a maximum of 3 times per year. While this appears to be very liberal, it is important to remember that Household does not accrue interest once a loan is more than 4 months delinquent. In general, borrowers make payments or they do not. It is very unusual for an unsecured borrower to make a few payments then miss some payments and then begin making payments again. It is more likely that a borrower encounters a financial problem and either is able to overcome it with the lenders' help or cannot.

While some may suggest that Household has delayed the recognition of chargeoffs as a result of its flexible chargeoff policy, the fact that interest accruals stop after four months should limit the financial impact of any delay. In fact, even if one assumes that the company has failed to recognize as that a portion of its unsecured loan portfolio is delinquent, the earnings impact appears quite modest. For example, we estimate that branched based unsecured loans have the highest loss rate of all unsecured loans. If there were 12% of those loans that were delinquent but not recognized as delinquent (doubling delinquencies from the 12% reported), there would be interest income recognized that should not be accrued. If four months accrued interest on 12% of the unsecured branch based loans were reversed, the cost to the company would be roughly $91 million (196,000 accounts at $6,000 average balance at 25% average rate) pre-tax. This equals about 13 cents per share, an insignificant impact on earnings given our 2002 estimate of $4.60 per share.

Deutsche Banc Alex. Brown Inc. **December 13, 2001**

Strong Buy

We won't rehash the *Barron's* article or our response. However, questions seem to be lingering about Household's credit policies, and Household is taking it very seriously by providing much greater detail.

Before going into the detail, we point out two "big picture" points:

1) Few companies provide even the detail that Household's provides. And, sometimes the policies of Household can be complicated and misunderstood. But, many of the large competitors, including CitiFinancial and Wells Fargo Financial, provide less information than Household on policies such as reaging and recency.

2) Household's policies are designed to generate high returns while meeting the special attributes of its customers. A higher percentage of Household's customers (compared to a bank) are simply not going to be able to make 36, 18, or possibly even 12, consecutive payments. But, eventually, they will pay and borrow again. Two-thirds are repeat customers. It would be unwise for Household, and a disaster for the customer, if Household didn't work with the borrowers from time to time. The alternative is to slap on late fees, ruin their credit records and foreclose on the homes. Household prices its loans with the knowledge that some payments will not be received on time, but by working with the borrower, the loan can still be highly profitable.

The *Barron's* article and some sell side analysts have alluded to the possibility of loans being reaged multiple times to postpone losses. First, there is not automatic reaging, and a collector would catch on. If too many payments are piggy-backed on each other, the customer will simply give up and not pay. More important, Household's customers are not aware of the reaging rules, so they can't "game" it. If they can't pay, they won't. Most borrowers who reage simply need some time.

EXHIBIT 10

From: HFC0136 --HFCVM01 Date and time 08/30/02 08:11:37
To: HI0031 --HFCVM01 Streem, Craig A.
cc: HFC1204 --HFCVM01 Detelich, Thomas M

From: Donna L. Taillon - DXTAILLO
847/564-6970 847/205-7452 FAX
Secretary: Tom Detelich,Gary Gilmer,Jim Kauffman,D.Garr
Subject: Tom

Craig, Tom phoned:

Would like the price history of Households's stock as he wants to measure the decrease in the stock price from various points in time in the announcements of the Washington report. He'd like to use in arguing that we've already paid a good price to the states in the loss of our stock value. Can we get daily quotes from the year or just from the date WA released their report (May 15, 2002).

THANKS

Case # 02-C-5893
Jaffe v. Household
Plaintiffs' Exhibit
P1156

Streem
DEP. EXH. #30
Date: 2/21/07

EXHIBIT 11

-

1 IN THE UNITED STATES DISTRICT COURT
2 FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION
3 LAWRENCE E. JAFFE PENSION PLAN,)
on behalf of itself and all)
4 others similarly situated,)
)
5 Plaintiff,)
)
6 vs.) No. 02 C 5893
)
7 HOUSEHOLD INTERNATIONAL, INC.,)
et al.,) Chicago, Illinois
8) April 9, 2009
Defendants.) 9:55 a.m.
9
VOLUME 8
10 TRANSCRIPT OF PROCEEDINGS - TRIAL
BEFORE THE HONORABLE RONALD A. GUZMAN, and a ju
11
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25 Nancy_LaBella@ilnd.uscourts.gov

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1 THE CLERK: 02 C 5893, Jaffe v. Household
2 International, Incorporated.
3 THE COURT: Good morning, everyone.
4 I'd like to take up a couple of things and any issues
5 you have and then we'll finally have the jury brought in.
6 First, the jurors have caucused, and they are
7 requesting the following schedule: That we start evidence at
8 9:00 o'clock in the morning, which the Court is willing to do.
9 They want -- and they're quite specific -- they want a
10 15-minute break in the morning since it's going to be a
11 three-hour stretch. They would like to break for lunch at
12 noon, but only for an hour. Apparently they don't need an
13 hour and 15 minutes. And they would like to finish at 4:30,
14 with the usual 15-minute break, not 20 minutes, in the
15 afternoon. Apparently they're all in agreement.
16 They are all also in agreement that they do not wish
17 to work on Fridays due to conflicts and commitments, which is
18 understandable since our original notice to them indicated
19 that we would not be working on Fridays.
20 So that's the schedule we're going to keep to from
21 now on.
22 The second thing the Court has is, I have and my
23 attorneys -- and mostly my attorneys -- have been working on
24 the proposed jury instructions for the last week and are
25 somewhat overwhelmed by the shear volume of such proposed

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1 instructions, not to mention the complexity of some of the
2 issues.
3 So what we have decided and what we have done is to
4 alter the way in which we conduct the final jury instruction
5 conference to this extent: Rather than going through your
6 proposed instructions and comparing them and coming to a
7 determination, we have prepared what I would call a set of
8 proposed instructions for discussion that I am going to hand
9 out to you right now.
10 Carole, one for each side, please.
11 And at the jury instruction conference, we're going
12 to start with that set of proposed instructions for discussion
13 and compare your corresponding instructions to them and reach
14 a determination as to the appropriate instruction that way.
15 So what I am instructing the parties to do now is
16 commence that process with their own instructions and to see,
17 after comparing them with the proposed discussion
18 instructions, whether there are any instructions that you are
19 willing to withdraw or modify to concur with the instructions
20 that you have just received and to provide me with a new set
21 of whatever instructions you're still proposing in addition to
22 the ones you have just been given. And that way we'll
23 hopefully have a pared down set of instructions from both
24 sides to discuss at the final conference.
25 Any questions about the process?

Q. And you indicated there under the subject Review, A significant number of complaints that we've received over the last couple of months have customers stating that they were promised a rate of 7 percent or 8 percent but later realized that the loan was for 13 percent or 14 percent, correct?
A. Correct.
MR. DROSMAN: Your Honor, could we turn the switch? I'm sorry.
BY MR. DROSMAN:
Q. And you were referring to the effective rate when you wrote that, right?
A. I was just referring to that we had a number of complaints. Sometimes customers -- unfortunately a lot of our customers are not really financially savvy; and they come in, and they just think that this is the rate of the day. And quite often, they're told this is what your rate is going to be, and it doesn't stick with them.
So I can't say whether this was effective rate or not. But it was -- it's a situation where customers complain that they were promised one rate, and they ended up with something higher.
Q. So your testimony, sir, is that you were not referring to the effective rate in that e-mail?
A. Some of these could very well have been those. Others could be just a miscommunication.

Q. Turn the page if you would to the next page. This was a document that you sent attached to that e-mail, correct?
A. That is correct.
Q. And if you look down under Quoting of Rates, the second sentence, you wrote, There is no effective rate to quote on either biweekly or pay right reward loans to indicate the impact of possible interest savings over the original terms of the loan, correct?
A. Correct.
Q. And the reason you sent that document discussing the effective rate with this e-mail is because when you referred to a significant number of complaints, you were referring to complaints about the effective rate, weren't you, sir?
A. There were some complaints about effective rate, I'm sure.
Q. There weren't just some complaints, were there? There was a significant number of complaints, in your words; isn't that right, sir?
A. My words are if there are significant complaints, that means there's more than maybe two or three that -- when you've never had them before. So, yes, it's -- significant doesn't mean a landslide. Significant means that it comes to our attention.
Q. And this was in May of 2001; is that right?
A. Yes.
Q. So you noted a significant number of complaints in May of

2001. And as you testified on direct, you always supplied senior management with that information, correct?
A. That's correct.
Q. So you told Mr. Gilmer, for example, that you had noted a significant number of complaints where people had been promised a 13 percent or a 14 percent rate -- I'm sorry -- a 7 percent or an 8 percent rate but ended up with a 13 percent or a 14 percent rate, right?
MR. KAVALER: Objection, your Honor, misstates this document.
THE COURT: The witness can answer the question if he understands it.
BY THE WITNESS:
A. He was notified via our complaint list; and I'm sure that my boss, Robin Allcock, had conversations with him. I may have even had a conversation with him directly.
MR. DROSMAN: I have no further questions, your Honor.
MR. KAVALER: Nothing further, your Honor.
THE COURT: You may step down, sir.
Call your next.
MR. BURKHOLZ: Plaintiffs call Craig Streem.
(Brief pause.)
THE COURT: Step up there, sir. Remain standing and raise your right hand.

(Witness sworn.)
THE COURT: Be seated.
You want those documents up there?
MR. BURKHOLZ: I don't.
CRAIG ALAN STREEM, PLAINTIFFS' WITNESS, SWORN
DIRECT EXAMINATION
BY MR. BURKHOLZ:
Q. Sir, can you state your name for the record.
A. Yes, Craig Alan Streem.
Q. And you had your deposition taken in this case, correct?
A. Yes.
Q. And you were represented by the lawyers for the defendants at that deposition, correct?
A. Yes.
Q. And you're represented here today by the same law firm, aren't you?
A. Yes.
Q. Now, you worked at Household from 1996 to 2003; isn't that correct?
A. Yes.
Q. And what were your job duties during the time period -- or job titles during the time period of 1999 to 2002?
A. I can't remember specifically when -- the dates when transitions occurred. But at one point, I was vice president of investor relations. And then subsequent to that, I was

vice president, investor relations -- or corporate relations and communications, excuse me.
Q. And you got that additional job title sometime in the spring of 2001; is that correct?
A. I don't recall exactly when that happened.
Q. Was it around the time that Ms. Megan Hayden-Hakes came c board --
A. Yes.
Q. -- at the company?
And she took over -- or she took on the task of being one of the corporate spokespersons for the company?
A. Yes.
Q. But you continued to talk to the media still, correct?
A. Yes.
Q. In fact, you spoke to Business Week at the end of 2001. Do you remember that?
A. I remember speaking to a reporter from Business Week, but I could not tell you exactly when that was.
Q. Now, as the VP of investor relations, you reported directly to Mr. Schoenholz, the CFO, correct?
A. Yes.
Q. And you also reported to Mr. Aldinger, didn't you?
A. At another point I did, yes.
Q. Do you recall when that was?
A. I don't recall the transition date, no.

Q. Let's take a look at Plaintiffs' 824, which we'll mark for identification.
(Tendered.)
MR. BURKHOLZ: A copy for counsel.
MR. KAVALER: Thank you.
BY MR. BURKHOLZ:
Q. Do you recognize the document?
A. Yes, I do.
Q. It's a memo that you sent to senior management on or about November 1, 2000, correct?
A. Yes.
Q. And it was sent to Mr. Aldinger, Mr. Gilmer, Mr. Schoenholz and others, correct?
A. Yes.
MR. BURKHOLZ: Your Honor, I move 824 into evidence.
MR. KAVALER: Your Honor, this is a document subject to the limiting instruction No. 1. It's a newspaper article.
MR. BURKHOLZ: That's correct.
THE COURT: It will be admitted with the limiting instruction No. 1.
BY MR. BURKHOLZ:
Q. Let's take a look at --
THE COURT: I'm sorry. Let me just make a correction there.
I think the newspaper article limiting instruction is

numbered as fifth on page two the instruction that we've given the jurors.
MR. KAVALER: I apologize, your Honor, if I got the wrong number.
THE COURT: Sure.
BY MR. BURKHOLZ:
Q. That first page is a -- I think it's a memo to Mr. Aldinger, Mr. Gilmer, Mr. Schoenholz and others, correct?
A. Yes.
Q. And you attached a copy of an article that ran in the St. Louis Post-Dispatch, correct?
A. Yes.
Q. Okay. Let's turn to the second page of the document.
That's the article that you attached, correct?
A. Yes.
Q. See the top part of the article -- actually it's an article that Ms. Hayden sent to you, correct, at the time? An e-mail from her?
A. Yes, yes.
Q. And she attached the article, right?
A. That appears to be the case, yes.
Q. And the title of the article is Majority of blacks pay high-interest refinance rates, group charges. ACORN finds a lot fewer, quote, subprime, end quote, loans to whites.
Do you see that?

A. I see the headline, yes.
Q. And then turn to the second page of the document. I would like you to focus on the bottom, the bottom half of the page if we can. Have you read that portion already or why don't you take a minute and look at that.
A. Okay. Bottom half meaning from where down?
Q. From where it says ACORN.
A. Okay. Give me a moment, please.
Q. Let's highlight that entire portion.
Thank you.
(Brief pause.)
BY THE WITNESS:
A. Yes, sir.
BY MR. BURKHOLZ:
Q. You've read it?
A. Uh-huh.
Q. And this part of the article is referring to a loan that Household Finance Corp. Mortgage Corp. had made to a custome correct?
A. I believe so, yes.
Q. And you're quoted -- after a description of the loan, you're quoted as saying, It was, quote, not a predatory loan by any definition, end quote, correct?
A. I see the quote, yes.
Q. And you don't have any reason to dispute the quote

attributed to you, do you?
A. No, I do not.
Q. Then down at the bottom, it says, Streem says HFC never pressures people to buy credit life insurance.
Do you see that?
A. I do.
Q. And you have no reason to doubt the accuracy of that statement attributed to you?
A. I do not.
Q. Let's look at some of the particulars of this loan. It's a loan for $76,900, correct?
A. That's the way it's described, yes.
Q. And it shows that there were approximately $11,000 in costs for this customer, correct?
A. Again, that's the way it's described.
Q. And it shows that there was an origination fee of $5,200.
Do you see that?
A. I see that described that way, yes.
Q. You see that the customer was charged $5,700 for credit life insurance.
Do you see that?
A. Yes, I do.
Q. So the customer was charged approximately -- a little over -- almost $11,000 in costs, correct?
A. If you're summing the 57 and the 52, that's almost 11,000.

Q. On a $76,900 loan, right?
A. Yes.
Q. And you told the newspaper reporter that it was not a predatory loan by any definition, correct?
A. I did, yes.
Q. Okay. And then, in particular, your reference to the credit life insurance, you said that Household never pressured people to buy credit life insurance.
Do you see that?
A. I do.
Q. Did you know that Household had a policy of incentivizing its employees to sell credit life insurance at this time?
A. I don't recall that there was such a policy or that I knew that there was such a policy. I want to make sure I answer the question correctly.
Q. You knew what the policies of -- Household's compensation policies for its employees were at that time, didn't you?
A. No, I can't say that I actually did know all or perhaps many of the policies by which branch staff were compensated.
Q. Well, certainly before you spoke to a reporter that was going to write an article, you certainly knew whether or not Household's employees were compensated for selling life insurance, didn't you?
A. No, I don't recall that I would have known that.
Q. Okay. Did you know that Household had a goal of selling

70 percent of its customers life insurance? Did you know that?
A. No, I did not.
Q. Is this the first time you've heard that?
A. That is the first time I've heard that, to the best of my recollection.
Q. Now, your investor relations group prepared a report called an investor relations report, right?
A. Yes, we did.
Q. And you prepared it every two or three months, correct?
A. Yes.
Q. During this time period of 1992 to 2002, right?
A. I would assume that we prepared such reports during that time period, yes.
Q. Let me show you one of those reports. We've identified it as Plaintiffs' 198.
(Tendered.)
MR. BURKHOLZ: A copy for counsel.
BY MR. BURKHOLZ:
Q. Feel free to look through it. I'm going to ask you a few questions about the document.
A. It's quite a lengthy document. Do you want me to read the entire thing?
Q. No, I just want you to familiarize yourself with the document. And then I'll point you to certain parts of it.

A. That would be helpful. Why don't you do that.
(Brief pause.)
BY MR. BURKHOLZ:
Q. Okay. Now, you recognize the document, don't you?
A. Yes.
Q. This is a document that your group would have prepared in the ordinary course of business at Household, correct?
A. Yes.
Q. And you were responsible for finalizing this document, correct?
A. Yes.
Q. And Mr. Aldinger and Mr. Schoenholz had involvement in editing it, correct?
A. Generally we would have sent it to both Bill and Dave for review. I can't say that they reviewed this specific one.
Q. That was the practice, correct?
A. Yes, it was.
MR. BURKHOLZ: Your Honor, I move 198 into evidence.
MR. KAVALER: Your Honor, could we come to the sidebar?
THE COURT: Sure.
(Proceedings heard at sidebar:)
THE COURT: Yes.
MR. KAVALER: Your Honor, I didn't want to say anything in the hearing of the jury. I want to make sure I'm

doing what you want me to do. These are the instructions that we agreed upon to give the jury. When I said earlier instruction No. 1, this is instruction No. 1. Your Honor was focused on a specific item within it. This time it is, again, instruction No. 1. It's item second. I referred to instruction No. 1 to distinguish it from instruction No. 2. I don't want to suggest there's any error. On the other hand, I want to be sure the jury --

THE COURT: I think you're accurate. So you want to direct them to the second part of instruction No. 1, investor relation report?

MR. KAVALER: Yes. And I think you should tell them the other one was instruction No. 1, item number five.

THE COURT: I don't think it's necessary. We were referring to what we gave them. There's only one fifth in what we gave them.

MR. KAVALER: That's why I thought they would be confused because you said instruction No. 5.

THE COURT: No, I said fifth. I think they'll understand it.

MR. KAVALER: Thank you, your Honor.

(Proceedings heard in open court:)

THE COURT: You may proceed.

You wanted to make --

MR. KAVALER: Your Honor, limiting instruction No. 1,

paragraph second.

THE COURT: Correct. This document will be admitted subject to the second paragraph in the limiting instruction No. 1.

MR. KAVALER: Thank you, your Honor.

BY MR. BURKHOLZ:

Q. This is an investor relations report for the time period May to August 2002, correct?

A. Yes.

Q. This is a report that was prepared by your investor relations group, correct?

A. Yes.

Q. Now, the first three pages of the document has a description of events during different months during this time period, correct?

A. Yes.

Q. And how did you prepare that particular part of the document?

A. This -- this would have been prepared based on our knowledge of just news events, analyst reports, ancillary activities that affected the trading of the stock or the stock market in general.

Q. So you were looking at newspaper articles and analysts' reports, for example?

A. Among other things, yes.

Q. What were the other things you were looking at?

A. As I said, other events that affected the stock market and the trading of our stock.

Q. And you were looking to see how these events, these newspaper articles and analysts' reports, impacted Household's stock prices, correct?

A. Really just trying to track the particular article or event with changes in the stock price.

Q. And how did you figure out the change in the stock price? What did you look at?

A. Public information about how the stock prices go up and down.

Q. So if an event -- an analyst's report came out on a particular day and you include it in here, you look at how the stock performed over that day or the next couple of days; is that what you did?

A. Yes.

Q. Now, you didn't perform any statistical analysis in preparing this analysis of the stock price impact, did you?

A. Not generally, I don't think so, no.

Q. You're not an expert in statistical analysis of stock price movements?

A. No, sir.

Q. You're not an expert in loss causation, are you?

A. No.

Q. You're not an expert in damages, are you?

A. No.

Q. Nobody in your group that prepared this report is an expert in those areas, are they?

A. I don't believe anyone was at that time.

Q. And you're not an expert in determining if Household's stock price declined because of the market declining or because of information coming out regarding Household's business practices?

A. If you don't mind, could you just repeat the question? Please just read it back.

Q. Sure. You're not an expert in determining if Household's stock price declined because of the market going down or because of information coming out regarding Household's business practices?

A. That is correct, I would not be.

Q. But this investor relations report does compare Household to its peers, correct?

A. Yes, yeah.

Q. Over a period of time, right?

A. Right.

Q. And it also compares Household to the market, the S & P 500, correct?

A. Yes, it does.

Q. Okay. Let's look at that on page four of the document.

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We can highlight the top portion, performance versus financial indices, that section right there, to the bottom, S & P 500.
This part of the document shows how Household performed compared to a peer group average, the S & P 500 and the S & P 500 Financial for various months for this report, correct?
A. Yes.
Q. And these are the months May, June, July and August of 2002, correct?
A. Yes.
Q. And it also shows how Household performed for the entire year, from January 1, 2002, up until the end of August 2002, correct?
A. Yes. Sorry.
Q. And that's what the year-to-date refers to on the right-hand side, right?
A. Yes.
Q. And that shows that Household declined by 37.7 percent compared to its peer group going down 9.4 percent for the entire year up until the end of August 2002, correct?
A. Yes.
Q. Let's look at the peer group that's on the next page. I'm sorry, two pages from there.
Who selected that group?
A. It would have been my group that picked the names.

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Q. And those are companies that Household compared itself to during this time period, correct?
A. Yes, sir.
Q. Included AIG, Citigroup and Wells Fargo, correct?
A. Among others, yes.
Q. Keep that document handy. I want to show you another one. We marked it as Plaintiffs' 1156.
(Tendered.)
MR. BURKHOLZ: A copy for counsel.
MR. KAVALER: Thank you.
BY MR. BURKHOLZ:
Q. This is an e-mail that you received on or about August 30, 2002, correct?
A. Yes, sir.
Q. From Donna Taillon; is that correct?
A. Yes.
Q. She worked at Household, correct?
A. Yes, she did.
MR. BURKHOLZ: Your Honor, I move 1156 into evidence.
THE COURT: It will be admitted.
BY MR. BURKHOLZ:
Q. Let's highlight the entire part of the e-mail.
It says Craig, Tom phoned. Would like the price history of Household's stock, as he wants to measure the decrease in the stock price from various points in time in the

1641

announcements of the Washington report. He'd like to use in arguing that we've already paid a good price to the states in the loss of our stock value.
Do you see that?
A. I do.
Q. It goes on to say, Can we get daily quotes from the year or just from the date WA released their report, May 15, 2002. Thanks.
Do you see that?
A. I do.
Q. That was an e-mail you received on or about August 30, 2002, correct?
A. Yes, sir.
Q. And Mr. Detelich was cc'd on this e-mail, correct?
A. Yes.
Q. And this was a directive -- the reference to subject of Tom was referring to Mr. Detelich, correct?
A. I would assume so, yes.
Q. There was nobody else that you were taking orders from at that time other than Mr. Schoenholz and Mr. Aldinger, correct?
A. If responding to a request is the same as taking orders, but, no. I mean --
Q. And, in fact, at this time, August 30, 2002, Mr. Gilmer had stepped back from his role as the head of consumer lending, correct?

1642

A. That, I don't recall. I don't know the date that he did that.
Q. But you remember that happening sometime in the summer of 2002?
A. I cannot say that I remember that it was in that period or any other period. I know that he did, but I don't know when.
Q. But you do recall that Mr. Detelich took over his job, correct, sir?
A. Yes.
Q. Now, the reference to the Washington report refers to the Washington DFI report that was issued in the spring of 2001, correct?
A. I believe so, yes.
Q. And you've seen that report, haven't you?
A. You know, I don't recall that I ever did see the actual report. I don't recall that I did.
Q. You've never seen the report?
A. I didn't say that.
Q. Let me show you a copy of the report. It's been marked as Plaintiffs' 290. It's received into evidence already.
(Tendered.)
BY THE WITNESS:
A. It's a big report.
BY MR. BURKHOLZ:
Q. Right. See how it's dated on the top April 30, 2002?

EXHIBIT 12

Summary of "New" Arguments Raised in Support of Motion to Exclude Fischel		Summary of Arguments Previously Raised in Support of Motion to Exclude Fischel and Rejected by Judge Guzman[1]
1.	Fischel's application of the leakage model in this context has not been subject to peer review or publication. According to Professor Bradford Cornell, the author of the article Fischel cited in his earlier reports as support for his leakage model, Fischel misapplies the leakage model and the necessary preconditions for the proper application of the leakage model cannot be met in the context of this case. *See* Dkt. No. 2059 at 5, 16-17.	Fischel's leakage model has no support in the scientific community. The sole academic that Fischel relies on to validate his model, Professor Cornell, has rejected Fischel's application of the leakage model theory in this case. *See* Dkt. No. 1364 at 33-36; Dkt. No. 1458-2 at 2, 18; Dkt. No. 1867 at 19; Dkt. No. 1882 at 8.
2.	For 15 of the 27 days Fischel analyzed in his Remand Report (including July 1, 9 and 10, 2002), he concedes that he is unable to identify the disclosure of any information related to the fraud that could account for any portion of the statistically significant residual price decline. Fischel's assertion that the 15 statistically significant price movements for which there is no disclosure of any kind related to the fraud are nonetheless "caused" by the fraud, violates fundamental financial principles. Price declines on days for which one cannot reliably attribute the price decline to fraud-related information should not be used for purposes of calculating damages per share. *See* Dkt. No. 2059 at 4, 12, 15, 17.	The leakage model improperly attributes all residual stock price declines to the alleged fraud. On certain of the 26 days on which Fischel identified a statistically significant stock price decline (*e.g.*, July 9 and 10, 2002), Fischel did not attribute the decline to any corrective disclosures, and on some days no information regarding Household or the consumer finance sector was released at all, yet the leakage model nonetheless improperly attributes these declines to the alleged fraud. *See* Dkt. No. 1364 at 5, 28; Dkt. No. 1458-2 at 15-17; *see also* Dkt. No. 1867 at 13-15, 18; Dkt. No. 1882 at 7.
3.	With respect to the 171 days in which there was no statistically significant residual price movement, there is no proper scientific basis	Fischel identified 171 days that were statistically insignificant. Fischel's leakage model improperly attributes to the alleged

[1] *See* Dkt. No. 1364 (Memorandum of Law in Support of Household Defendants' *Daubert* Motion to Exclude the "Expert" Testimony of Daniel Fischel); Dkt. No. 1458-2 (Defendants' Reply Memorandum of Law in Further Support of Household Defendants' *Daubert* Motion to Exclude the "Expert" Testimony of Daniel Fischel); Dkt. No. 1867 (Memorandum of Law in Support of Defendants' Renewed Motion for Judgment as a Matter of Law or, in the Alternative, a New Trial); Dkt. No. 1882 (Reply in Support of Defendants' Renewed Motion for Judgment as a Matter of Law or, in the Alternative, a New Trial); Dkt. No. 1527 (3/23/09 order denying defendants' *Daubert* motion to exclude the testimony of Daniel Fischel); Dkt. No. 1822 (9/21/12 order on defendants' rebuttal of the presumption of reliance); Dkt. No. 1887 (10/4/13 order denying defendants' post-trial motions).

Summary of "New" Arguments Raised in Support of Motion to Exclude Fischel		Summary of Arguments Previously Raised in Support of Motion to Exclude Fischel and Rejected by Judge Guzman[1]
	to attribute stock price movement to an alleged disclosure of the fraud on those days. *See* Dkt. No. 2059 at 13, n.6, 18, 21 (citing Daniel R. Fischel, *Use of Modern Finance Theory in Securities Fraud Cases Involving Actively Traded Securities*, 38 Bus. Law. 1, 19 (1982)).	fraud all residual stock price declines on every day, even if the movement was not statistically significant. It is a well-accepted tenet of economics that one can only attribute stock price movements to fraud if the stock price movement is statistically significant. *See* Dkt. No. 1364 at 28 (citing Daniel R. Fischel, *Use of Modern Finance Theory in Securities Fraud Cases Involving Actively Traded Securities*, 38 Bus. Law. 1, 19 (1982)); Dkt. No. 1458-2 at 17 n.11 (citing same); Dkt. No. 1867 at 21-22 (citing same).
4.	Fischel's leakage model results in impermissibly wide "error bands" due to the forecast and prediction errors in his 228 day observation window. *See* Dkt. No. 2059 at 18.	Fischel's leakage model improperly uses an "event window" that is too large. According to Cornell, using too large of an event window results in errors, which are then compounded, and can produce significant errors in measured inflation. *See* Dkt. No. 1364 at 35-36; Dkt. No. 1458-2 at 20; Dkt. No. 1867 at 21.
5.	In order to determine the amount of damages for any given plaintiff based on the day on which that plaintiff transacted in Household stock, one must know the extent to which the price was inflated on the specific day on which the transaction was executed. Thus, it is wholly insufficient to assert that various firm-specific, non-fraud factors somehow "canceled" out over the course of the 228 day period. *See* Dkt. No. 2059 at 19.	Even if all non-fraud, firm specific disclosures "cancel each other out," it was improper to fail to address such movements in Fischel's analysis. The specific dates of non-fraud related movement is critical to assessing damages for any particular plaintiff depending on the dates of stock trades. *See* Dkt. No. 1867 at 18 n.9; Dkt. No. 1882 at 7.
6.	Fischel opines that if he subjectively could not find negative firm-specific, nonfraud related information that explains the price decline, then it is somehow reasonable to assume that all such residual price declines should be attributed to the fraud. Fischel also fails to address and account for confounding nonfraud-related information. *See* Dkt. No. 2059 at 19.	The leakage model attributes all stock price declines that are not attributable to general market forces to the alleged fraud and fails to account for obvious alternative explanations for Household's stock price decline. *See* Dkt. No. 1364 at 27-28; Dkt. No. 1458-2 at 15-16.

Summary of "New" Arguments Raised in Support of Motion to Exclude Fischel		Summary of Arguments Previously Raised in Support of Motion to Exclude Fischel and Rejected by Judge Guzman[1]
7.	Fischel fails to address numerous items of significant firm-specific, non-fraud related information, including disclosures and concerns regarding future regulatory and legislative changes, firm-specific random "noise" and the disproportionate impact of the double-dip recession on consumer lenders serving primarily subprime consumers. *See* Dkt. No. 2059 at 20-21.	The leakage model fails to account for the fact that all of Household's competitors in the consumer finance index (containing consumer finance coded companies) were experiencing similar losses as regulation increased and consumer advocates criticized subprime lending as "predatory." *See* Dkt. No. 1364 at 29-31. Fischel completely ignores the general industry downturn in the consumer finance business. Dkt. No. 1364 at 31, 45 n.18.
8.	With respect to the 171 days on which the stock price decline was not statistically significant, the stock price movement on these days could be attributed to firm-specific random noise. *See* Dkt. No. 2059 at 21.	On days on which the decline in Household's stock price was statistically insignificant, there is a likelihood that the movement was simply due to normal fluctuations in Household's stock price and not because of any firm specific news, whether fraud related or not. Dkt. No. 1364 at 29; *see also* Dkt. No. 1867 at 12.
9.	Fischel's regression calculation (which uses the S&P 500 Index and the S&P Financials Index) fails to address various macroeconomic and regulatory nonfraud factors that had unique and specific impacts on Household during the disclosure period, which differed from the general indexes used by Fischel in his model. *See* Dkt. No. 2059 at 22.	The leakage model fails to account for the fact that all of Household's competitors in the consumer finance index (containing consumer finance coded companies) were experiencing similar losses as regulation increased and consumer advocates criticized subprime lending as "predatory." *See* Dkt. No. 1364 at 30. Fischel completely ignores the general industry downturn in the consumer finance business. Dkt. No. 1364 at 21, 45 n.18.

EXHIBIT 13

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	)	Lead Case No. 02-C-5893 (Consolidated) CLASS ACTION Honorable Jorge L. Alonso

SECOND SUPPLEMENTAL REPORT OF DANIEL R. FISCHEL

Exhibit 2

Bates Number Ranges

	Date	Beginning Bates #	Ending Bates #
[1]	January 11, 2002	DF0000001	DF0000594
[2]	January 28, 2002	DF0000595	DF0001339
[3]	February 6, 2002	DF0001340	DF0002165
[4]	February 21, 2002	DF0002166	DF0002612
[5]	April 25, 2002	DF0002613	DF0003151
[6]	April 29, 2002	DF0003152	DF0003732
[7]	May 10, 2002	DF0003733	DF0004177
[8]	May 15, 2002	DF0004178	DF0004862
[9]	July 1, 2002	DF0004863	DF0005454
[10]	July 9, 2002	DF0005455	DF0005884
[11]	July 10, 2002	DF0005885	DF0006208
[12]	July 17, 2002	DF0006209	DF0006803
[13]	July 19, 2002	DF0006804	DF0007362
[14]	July 25, 2002	DF0007363	DF0008062
[15]	August 5, 2002	DF0008063	DF0008546
[16]	August 7, 2002	DF0008547	DF0009028
[17]	August 9, 2002	DF0009029	DF0009511
[18]	August 13, 2002	DF0009512	DF0010913
[19]	August 23, 2002	DF0010914	DF0011574
[20]	September 10, 2002	DF0011575	DF0011962
[21]	September 16, 2002	DF0011963	DF0012387
[22]	September 17, 2002	DF0012388	DF0012819
[23]	September 27, 2002	DF0012820	DF0013235
[24]	October 1, 2002	DF0013236	DF0013611
[25]	October 7, 2002	DF0013612	DF0014250
[26]	October 8, 2002	DF0014251	DF0014765
[27]	October 9, 2002	DF0014766	DF0015167

EXHIBIT 14

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SECTION: ARTICLE.

TITLE: Use of Modern Finance Theory in Securities Fraud Cases Involving Actively Traded Securities

AUTHOR: DANIEL R. FISCHEL *

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Editor's note: David S. Ruder of the Illinois and Wisconsin bars, Robert L. Berner, Jr., of the Illinois bar, and Alan R. Bromberg of the Texas bar served as reviewers for this article.

TEXT:

Determining whether investors suffered any injury as a result of an alleged misrepresentation or nondisclosure and, if so, the extent of such injury, is a recurrent problem in securities fraud cases under rule 10b-5. n1 Consider the situation where a firm, say a chemical company, reported in a public filing in 1975 that it would have to spend $100 million to comply with environmental regulations over the next decade. At the time the statement was made, the firm's stock was selling at 20. Three years later, in 1978, the firm in another public filing revises its cost estimate and now states that it expects to spend $1 billion. By the end of 1979, the stock price has dropped to 15.

n1 17 C.F.R. § 240. 10b-5 (1980), *enacted pursuant to* § 10(b) of the Securities Exchange Act of 1934, *15 U.S.C. § 78*(b) (1976). Although it is clear that Congress did not intend for a private right of action to exist under § 10(b), and a private remedy would not be implied under current Supreme Court doctrine, Fischel, *Secondary Liability Under Section 10(b) of the Securities Act of 1934, 69 Cal. L. Rev. 80 (1981),* it is now assumed that such a private remedy is available.

At this time, a plaintiff files a class action lawsuit on behalf of all shareholders who purchased the chemical firm's stock between 1975 and 1979, alleging that the firm knew that it would have to spend $1 billion at the time of its initial

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statement in 1975. Plaintiff further alleges that had the truthful information been disclosed in 1975, the firm's stock price would have immediately fallen to 15, thereby preventing all purchasers after this date from suffering an economic loss. After reciting the above allegations, the complaint prays for damages in the amount of the aggregate economic loss suffered by members of the class. How should a court determine the merits of plaintiff's claims?

The conventional approach has been to analyze whether the materiality, reliance, causation, and damages requirements of rule 10b-5 have been met. n2 Numerous conceptual problems and unanswered questions exist, however, with this conventional approach. For example, the failure to disclose expected costs of $900 million (assuming the truth of the allegations) would appear to be highly significant, thus satisfying the materiality requirement. But what if information concerning compliance costs, even if intentionally concealed by the defendant, was available from other sources? And what if plaintiff or other members of the class never read, or were even aware of, the public filing in 1975? Can such plaintiffs be deemed to have satisfied the reliance requirement? Causation and damages also present difficult issues. The fall in the chemical firm's stock price suggests that investors were injured by the nondisclosure. But what if during the time the price of the defendant's stock was falling 25% (20 to 15), the price of other chemical company stocks fell 33%? What if the price of other chemical company stocks did not fall during the relevant time period, but the defendant chemical company was the victim of a long and crippling strike? All of these possibilities directly affect the merits of plaintiff's claims.

n2 The scienter and purchaser-seller requirements also would have to be satisfied. These requirements are not discussed herein.

My purpose here is to provide a coherent framework for analyzing the above issues. In part I, I critically analyze the model of the investment-purchase decision traditionally used by the Securities and Exchange Commission and the courts. Part II applies this critique to the requirements for establishing a cause of action under rule 10b-5. The recent cases adopting a "fraud on the market" theory are discussed in part III. These cases, I argue, form the basis for rejection of the traditional method of determining injury and damages in open-market trading cases in favor of a more realistic economic approach. Part IV, generalizing from the fraud on the market theory cases, proposes a unified approach for computing injury and damages in open-market trading cases where the only relevant inquiry is to what extent the alleged fraudulent conduct artificially inflated or deflated the market price of affected securities. Finally, part V discusses how the tools of financial economics can be utilized to test empirically the effect of an event on the market price of a security. n3

n3 I do not address here many basic economic questions, such as whether private or public enforcement of securities fraud is optimal, whether strict liability, recklessness, or negligence is the most efficient rule in securities fraud cases, or in what situations punitive, consequential, rescissionary, or other types of damages should be available. I also do not discuss injury and damages in face to face transactions or in situations involving insider trading. All of these issues await definitive treatment.

I. DIFFERENT MODELS OF THE INVESTMENT DECISION

A. The Traditional Model of the Investment Decision

The prevalent philosophy of the securities laws is one of full disclosure of all possibly relevant information to individual investors. The Securities Act of 1933 mandates disclosure in the form of a registration statement when new stock is being issued, while the Securities and Exchange Act of 1934 requires periodic reporting and the filing of documents with the commission in certain factual situations, such as tender offers and proxy statements. Underlying this system of mandatory disclosure is a model of the investment decision in which all investors carefully analyze financial and other relevant information about a particular firm before making an investment decision. n4 Investors, under this model, are economic actors who desire as much information as possible so that they can make an informed

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decision. The goal of regulation, therefore, is to ensure that all relevant information is equally available to everyone entering the investment markets. Thus the securities laws and SEC regulations mandate the continuous disclosure of information so that relevant information is equally available to all. As one former commissioner has stated, the ideal situation would be for an investor anywhere in the country to be able to push a button and have all the documents on file with the SEC regarding a certain company appear on a screen in his office. n5 Moreover, to ensure that investors will not be misled or confused, the SEC requires that disclosures be simplified and restricts the dissemination of certain types of information that are difficult for the ordinary investor to analyze.

n4 For representative critiques of the model of the investment decision used by the Securities and Exchange Commission, see Kripke, *The Myth of the Informed Layman, 28 Bus. Law. 631 (1973);* Note, *The Efficient Capital Market Hypothesis, Economic Theory and the Regulation of the Securities Industry, 29 Stan. L. Rev. 1031 (1977).*

n5 Wheat, *The Philosophy and Policies of the SEC's Disclosure Policy Study,* 1 Sec. Reg. Inst. 4, 7 (1970).

Proponents of the traditional model of the investment decision recognize that regulation may not perfectly achieve its objectives. Imperfections may exist because purchasers of securities sold in a public offering might not get a copy of the prospectus, n6 because the volume of information to be digested is too great, n7 or possibly because prospectuses do not contain the information that investors really want. n8 These imperfections, however, are viewed as flaws in an otherwise sound system that can be corrected by more and better disclosure requirements. If these improvements are made, investors will be able to digest and analyze the relevant information and make informed investment decisions.

n6 Sowards, *The Wheat Report and Reform of Federal Securities Regulation, 23 Vand. L. Rev. 495, 499-500 (1970).*

n7 Cohen, *Truth in Securities Revisited, 79 Harv. L. Rev. 1340, 1375 (1966).*

n8 Mann, *Prospectuses: Unreadable or Just Unread -- A Proposal to Reexamine Policies Against Permitting Projections, 40 Geo. Wash. L. Rev. 222, 223 (1971).*

B. The Market Model of the Investment Decision

The crucial assumption of the traditional model is that if disclosure of information is made sufficiently meaningful and accessible, investors will rely on it in making investment decisions. The typical response to the casual empirical observation that most investors do not scrutinize the information in required disclosures (or other sources) is that the information is not sufficiently meaningful or accessible.

The fundamental defect of the traditional model is its assumption that the rational course for investors is to analyze carefully all publicly available information before making an investment decision. What is to be gained by this process? This type of analysis of available data is profitable only if the investor can identify undervalued or overvalued securities better than others do. In an efficient capital market, such as American stock markets, n9 however, the market price of a firm's stock will reflect all available information about the firm's prospects. Because the market price itself transmits all available information, investors have no incentive to study other available data.

n9 An efficient capital market is one in which the price of stock at a given time is the best estimate of what the price will be in the future. The literature on efficient capital market theory and its applications is massive and growing. *See generally* E. Fama, Foundations of Finance at 133-168 (1976); J. Lorie & M. Hamilton, The Stock Market: Theories and Evidence at 70-98 (1973); Heller, *Chiarella, SEC Rule 14e-3, and Dirks: Fairness versus Economic Theory, 37 Bus. Law. 517 (1982);* Easterbrook & Fischel, *The Proper Role of a Target's*

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Management in Responding to a Tender Offer, 94 Harv. L. Rev. 1161, 1165-68 (1981); Fischel, *The Law and Economics of Dividend Policy, 67 Va. L. Rev. 699 (1981);* Fischel, *Efficient Capital Market Theory, The Market for Corporate Control, and the Regulation of Cash Tender Offers, 57 Tex. L. Rev. 1 (1978);* Fama, *Efficient Capital Markets: A Review of Theory and Empirical Work,* 25 J. Fin. 383 (1970); Jensen, *Capital Markets: Theory and Evidence,* 3 Bell J. Econ. & Mgmt. Sci. 357 (1972); Note, *The Efficient Capital Market Hypothesis, Economic Theory and the Regulation of the Securities Industry, 29 Stan. L. Rev. 1031, 1034-57 (1977).* The theory is also gaining increasing acceptance in the courts. *See, e.g., Seaboard World Airlines v. Tiger Int'l, 600 F.2d 355, 362 (2d Cir. 1979); In re LTV Securities Litigation, 88 F.R.D. 134 (N.D. Tex. 1980). Cf. Mills v. Electric Auto-Lite Co., 552 F.2d 1239, 1247* (7th Cir.), *cert. denied, 434 U.S. 922 (1977).*

The assertion that securities markets transmit all relevant information may appear to be belied by the constant attempt of securities analysts, institutional investors, and other market professionals to locate mispriced securities. It is not. Markets may be analyzed as having two classes of participants. n10 One class will have a comparative advantage in obtaining and interpreting relevant information. Because of this comparative advantage, actors in this class have an incentive to invest in gathering and analyzing information and to take actions to affect the market price. The other class, however, lacking a comparative advantage, has no incentive to invest in processing information because it cannot profit thereby. The first group will earn a superior return commensurate with their greater investment and skill.

n10 Stiglitz, *On the Impossibility of Informationally Efficient Markets, 70 Am. Econ. Rev. 393 (1980). See also* Easterbrook & Fischel, *supra* note 9, at 1166; Kitch, *The Law and Economics of Rights in Valuable Information, 9 J. Legal Stud. 683, 716-17 (1980).*

Things are much the same in the securities markets. Various market professionals have an advantage in predicting future states and thus have an incentive to secure information until a marginal dollar invested in processing incentive to secure information until a marginal dollar invested in processing information equals the profits to be made from trading based on superior forecasting. The other class of investors, with no advantage in predicting future states, has no incentive to invest in information gathering; these investors would be wasting their money by doing so. Their best course is to accept the market price as given. n11 Because all publicly available information is embedded in stock prices, investors who accept the market price are fully protected. They are no better off with more disclosure nor worse off with less disclosure. n12

n11 The market will be efficient if the first class has access to sufficient capital to move the price of the stock from an incorrect price to the correct one. Kitch, *supra* note 10, at 717.

n12 Fischel, *The Law and Economics of Dividend Policy, 67 Va. L. Rev. 699, 719 (1981).*

This is not to suggest, however, that investors who accept the market price will never be misled. There is no guarantee that the price of a firm's stock will incorporate only accurate information. If relevant information is withheld from the market, or if incorrect information is disseminated, the price of stock will be mispriced, causing some investors to be injured. To illustrate with an obvious example, if stock is trading at 10 at a time when it would be trading at 5 if negative information about the firm were disclosed, then all purchasers who bought at 10 but could only sell at 5 after the information became known suffered an injury.

The traditional model and the market model of the investment decision have radically different implications. Under the traditional model, the optimal situation is one where all investors have equal access to all relevant information. Investors who lack equal access but make investment decisions nonetheless are worse off as a result. Under the market model, however, it is irrelevant whether investors have equal access -- or, for that matter, any access -- to information. The only relevant inquiry is whether the price of a security was artificially high or low at the time of purchase or sale.

II. SECURITIES FRAUD CASES UNDER RULE 10B-5

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Because most securities fraud litigation is brought under rule 10b-5, an implied remedy, courts have broad discretion in formulating the requirements for recovery. In this section, I analyze some of the elements of a cause of action under the rule and demonstrate how the analysis differs, depending on whether the traditional or the market model of the investment decision is employed.

A. Materiality

An investor must establish that the information alleged to have been wrongfully withheld or falsely disseminated was material to recover under rule 10b-5. n13 Under the current test, information is material "if there is a substantial likelihood that a reasonable shareholder would consider it important" in making the investment decision. n14 This standard, however, provides little guidance for determining whether particular pieces of information are material or not. As one commentator has stated, "Verbal formulations are fine but it's the application that's the problem." n15

n13 *SEC v. Texas Gulf Sulphur Co., 401 F.2d 833 (2d Cir. 1968)* (en banc), *cert. denied, 394 U.S. 976 (1969).* The concept of materiality is also central to the mandatory disclosure system. 17 C.F.R. § 240. 12b-2(j) (1980) (defining materiality in situations where only material information must be disclosed).

n14 *TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).*

n15 Kripke, *Rule 10b-5 Liability and "Material Facts," 46 N.Y.U. L. Rev. 1061, 1068 (1971).*

The problem is insoluble under the traditional model. The fact finder must decide whether an objective investor would have considered the information important or significant when making an investment decision. Apart from an "I know it when I see it" test, the traditional model contains no tools for resolving the materiality problem. n16 Not surprisingly, courts have expressed considerable frustration with the elusiveness of the materiality concept. n17

n16 This difficulty was recognized by the court in *Escott v. Barchris Construction Co., 283 F. Supp. 643 (S.D.N.Y. 1968).* After concluding that a corporation had overstated earnings per share and current assets while understanding current liabilities, the court had to decide whether the materiality requirement was met. The court's analysis indicates the "I know it when I see it" aspect of materiality:

> Since no one knows what moves or does not move the mythical "average prudent investor," it comes down to a question of judgment, to be exercised by the trier of the fact as best he can in the light of all the circumstances. It is my best judgment that the average prudent investor would not have cared about these errors in the 1960 sales and earnings figures, regrettable though they may be. I therefore find that they were not material . . . .

Id. at 682.

n17 *See, e.g., SEC v. Bausch & Lomb, Inc., 565 F.2d 8, 10 (2d Cir. 1977)* (describing the materiality requirement as "unpredictable and elusive").

The primary danger caused by this lack of precision is that a particular piece of information may appear to be important to investors when in fact it is not. n18 This could be true because the information is stale (previously available and therefore embedded in the market price) or because the information was not credible and was therefore disregarded by the market. n19 In either case, the information will not have affected the price of the underlying security but may nevertheless be deemed material under the traditional approach.

n18 The case of *Lynch v. Vickers Energy Corp., 383 A.2d 278 (Del. 1977),* while decided under state law, illustrates this problem. In *Lynch,* a controlling shareholder made a tender offer for shares of the minority. The

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court held that the controlling shareholder breached its fiduciary duty because it failed to disclose two pieces of material information in its offering circular: an appraisal suggesting that the firm's assets were worth more than the amount stated in the circular and that it was willing to pay a higher price for shares in the open market than the tender price. If this information were truly material, the price of the firm's shares should have risen at the time of disclosure. In fact, however, the price fell, demonstrating that no material information was withheld. For a more detailed critique of *Lynch*, see Fischel, *The "Race to the Bottom" Rvisited: Reflections on Recent Developments in Delaware's Corporation Law, 76 Nw. U.L. Rev. 913 (1982).*

n19 *See* Fischel, *supra* note 12, at 720-721 for an argument that it is more difficult to mislead investors than is commonly assumed. The difficulty of misleading investors is illustrated by studies concluding that accounting changes affecting the manner in which profitability is reported but not affecting real earnings do not cause investors to reevaluate the prospects of the firm. Hong, Kaplan & Mandelker, *Pooling vs. Purchase: The Effects of Accounting for Mergers on Stock Prices,* 53 Acct. Rev. 31 (1978); Sunder, *Relationships Between Accounting Changes and Stock Prices: Problems of Measurement and Some Empirical Evidence,* 11 J. Acct. Research 138 (Supp. 1973).

Consider the example, used in the introduction, of a chemical company that fails to disclose the costs of compliance with environmental regulations. Assume that the other firms in the industry accurately disclose their expected compliance costs. Most lawyers would view the first firm's failure to disclose under these circumstances as more culpable than if no other firm disclosed. The fact that other firms did disclose would be viewed as an indication that the information was important to investors; it would also suggest that the one firm that did not disclose did so intentionally, thus satisfying the scienter requirement. n20 The economist, however, might view the above facts quite differently, probably concluding that the fact of disclosure by other affected firms made it highly improbable that the market was misled by one firm's failure to disclose. Thus the economist would view the nondisclosure as immaterial. n21

n20 *Ernst & Ernst v. Hochfelder, 425 U.S. 185 (1976).*

n21 The economist might, however, be concerned about a potential free rider problem if some firms bear a disproportionate share of the costs of disclosure.

The primary advantage on the market model is that it recognizes that the question of what information is important to investors cannot be answered in the abstract. A firm's failure to disclose that it will have to spend $1 billion for compliance with environmental regulations is not material if this information is available from other sources; n22 a firm's projection of increased earnings of $1 billion based on a new type of technology is not material if market analysts view the technology as worthless. Thus it is impossible to analyze the materiality issue on an a priori basis. The market model of the investment decision, by focusing on whether the alleged misrepresentation or disclosure caused the security to trade at an artificially high or low price, eliminates the arbitrariness in the determination of materiality.

n22 *See Seaboard World Airlines v. Tiger Int'l, 600 F.2d 355 (2d Cir. 1979)* (holding that a statement was not material because some other party could have discovered the correct information).

B. Reliance

The requirement of reasonable reliance is a prerequisite for establishing injury and damage under the traditional model of the investment decision. Since all investors are presumed to base investment decisions on analysis of available information, lack of awareness of a particular piece of information is a bar to recovery. n23 Returning to the earlier example, an investor under the traditional model could not recover if he was unaware of the SEC filing that contained the allegedly misleading information concerning compliance costs.

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n23 *See, e.g., Vervaecke v. Chiles, Heider & Co., 578 F.2d 713 (8th Cir. 1978). Cf. Huddleston v. Herman & MacLean, 640 F.2d 534, 549 (5th Cir. 1981).*

In interpreting the reliance requirement, courts have distinguished between omissions and misrepresentations. A plaintiff need not establish reliance in omission cases because of the difficulty of proving that conduct was influenced by a statement never made. n24 It is this difficulty of proof, rather than any conceptual difficulty with the requirement itself, that eliminates the need for proof of reliance in omissions cases. Because misrepresentations cases do not present comparable problems of proof, plaintiffs must prove reliance.

n24 *Affiliated Ute Citizens v. United States, 406 U.S. 128 (1972).* Courts have not completely abandoned the reliance requirement in omissions cases, but rather have established a rebuttable presumption of reliance. *See, e.g., Rifkin v. Crow, 574 F.2d 256, 263 (5th Cir. 1978)* ("this presumption of reliance is not conclusive").

The market model does not distinguish between omissions cases and misrepresentations cases. The relative ease of proving reliance in the latter type of case is irrelevant. Because the rational course for investors is simply to accept (rely on) the market price, it is of no consequence whether a plaintiff can demonstrate that he relied upon a particular piece of information. If fraudulent conduct caused the market price to be artificially high or low, a plaintiff under the market model has been injured even if he was totally unaware of the challenged conduct.

C. Causation and Damages

Once a plaintiff establishes materiality and reliance, he still must prove, under the traditional model, that the alleged misrepresentation or nondisclosure caused him to suffer an economic loss and the amount of such loss. Proving the existence and amount of economic loss causally related to conduct by the defendant is difficult, particularly where economic loss suffered by a plaintiff, such as in the opening example, may be attributable to market-, industry-, or even firm-specific factors having nothing to do with the challenged conduct of the defendant. n25

n25 Several courts have recognized the need to isolate the effect of the alleged fraudulent conduct on stock prices as opposed to price movements attributable to general market, industrywide, or other firm-specific factors without specifying how this should be done. *See, e.g., Huddleston v. Herman & MacLean, 640 F.2d 534, 556 (5th Cir. 1981); Rolf v. Blyth, Eastman Dillon & Co., 570 F.2d 38, 49 (2d Cir. 1978); Green v. Occidental Petroleum Corp., 541 F.2d 1335, 1341 (9th Cir. 1976)* (Sneed, J., concurring). Isolating the effect of the alleged misconduct on the firm's stock price is required by the out-of-pocket measure of damages, the traditional method for computing damages in open market trading cases under the rule 10b-5, which limits recovery to the difference between the price paid or received, and the "real" value of the security at the time of the purchase/sale. *In re LTV Securities Litigation, 88 F.R.D. 134, 148-49 (N.D. Tex. 1980).*

Under the market model, causation and damages, like materiality and reliance, are subsumed under the general inquiry of whether the alleged fraudulent conduct affected the price of the security. Moreover, by focusing on the precise relationship between the challenged conduct and the market price of the security, n26 the market model diminishes the possibility of compensating plaintiffs for losses caused by general market movements.

n26 The methodology for isolating the effect of the alleged fraudulent conduct on the market price of a firm's securities is discussed *infra* at text accompanying notes 45-51. *See also* Note, *The Measure of Damages in Rule 10b-5 Cases Involving Actively Traded Securities, 26 Stan. L. Rev. 371 (1974).*

III. THE FRAUD ON THE MARKET THEORY AND THE MARKET MODEL OF THE INVESTMENT DECISION

The distinction between the traditional and the market model of the investment decision, and the implications of

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each for securities fraud cases, has been brought into focus by decisions in several cases adopting a fraud on the market theory in open-market trading cases under rule 10b-5. n27 Under the theory, a plaintiff need not prove reliance on particular misrepresentations or omissions under rule 10b-5. The theory and its implications are analyzed below.

n27 *See, e.g., Blackie v. Barrack, 524 F.2d 891 (9th Cir. 1975), cert. denied, 429 U.S. 816 (1976);* Mottoros v. Abrams, [Current] *Fed. Sec. L. Rep. [CCH] P98,376 (N.D. Ill. 1981); In re LTV Securities Litigation, 88 F.R.D. 134 (N.D. Tex. 1980). Cf. Panzirer v. Wolf, 663 F.2d 365 (2d Cir. 1981).*

A. The Fraud on the Market Theory

The fraud on the market theory has been utilized by plaintiffs in class actions against a company and its officials for misrepresenting or failing to disclose relevant information. These misrepresentations or omissions are alleged to have artificially affected the price of the firm's securities; the class consists of all purchasers and sellers during the time the price was inflated or depressed. Defendants, on the other hand, have claimed that the absence of reliance on the specific information alleged to have artificially affected the price is a bar to recovery. Thus defendants have argued that the class could not be certified because of the need for individualized proof of reliance.

The courts that have adopted a fraud on the market theory have held that the class could be certified because proof of subjective reliance on particular misrepresentations is unnecessary in open-market trading cases under rule 10b-5 where there has been deception affecting the price of a firm's securities. A purchaser in the open market, the courts have reasoned, may be unaware of a specific false representation or may not directly rely on it. But such purchaser "relies generally on the supposition that the market price is validly set and that no unsuspected manipulation has artificially inflated the price, and thus indirectly on the truth of the representations underlying the stock price -- whether he is aware of it or not, the price he pays reflects material misrepresentations." n28 Unless rebutted, therefore, the reliance requirement is satisfied if the misrepresentation is material. n29

n28 *Blackie v. Barrack, supra* note 27, at 906.

n29 The presumption of reliance is discussed critically *infra* at text accompanying notes 32-34.

The premise that investors rely on market prices assumes that the market price reflects all publicly available information quickly and without bias. As the cases themselves have recognized, this central assumption of the fraud on the market theory -- the efficiency of stock prices -- has been demonstrated by a multitude of studies. n30 Because the market is efficient, investors who rely on a market price that is artificially inflated or depressed by fraudulent conduct suffer an economic loss.

n30 As one court has stated:

Recent economic studies tend to buttress empirically the central assumption of the fraud on the market theory -- that the market price reflects all representations concerning the stock. Indeed, economists have now amassed sufficient empirical data to justify a present belief that widely followed securities of larger corporations are efficiently priced: the market price of stocks reflects all available public information -- and hence necessarily, any material misrepresentations as well . . . .

. . . [T]ests of market efficiency show that stock prices adjusted quickly to public announcements concerning the company: the "collective action of a sufficient number of market participants buying or selling the stock causes a very rapid, if not virtually instantaneous, adjustment in price."

In re LTV Securities Litigation, 88 F.R.D. 134, 144 (N.D. Tex. 1980).

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The cases adopting the fraud on the market theory are noteworthy because of their explicit recognition of the market model of the investment decision and the concept of efficient capital markets on which the model is based. Once the market model is understood, the courts' treatment of the reliance requirement in open-market transactions is straightforward. The purpose of the requirement in face-to-face transactions is to ensure that the plaintiffs who would not have acted differently if the true information were known cannot recover. The requirement guarantees, in other words, that information that does not affect a buyer's or seller's view of the merits of a transaction cannot form the basis of a cause of action. In organized markets, however, the market has already performed the function of distinguishing between unimportant and important information. Thus the market acts "as the unpaid agent of the investor, informing him that given all the information available to it, the value of the stock is worth the market price." n31 Because the market acts in this capacity, there is no point in requiring investors to do what the market has done already. The only relevant inquiry is whether the market price is artificially high or low because the market has been somehow misled. If this is the case, then all investors who relied on the market in setting the price also have been misled.

n31 *Id. at 143.*

B. The Presumption of Reliance

Courts adopting the fraud on the market theory have refused to dispense with the reliance requirement altogether; they have suggested that the theory only creates a presumption of reliance that can be rebutted. Thus courts have stated that the presumption could be rebutted if the defendant proved that despite the materiality of the misstatement, an insufficient number of traders relied on it to inflate the price; n32 that plaintiffs relied on matters extraneous to the market price in making an investment decision; n33 or that plaintiffs would have purchased the security even if they had known of the truthful information. n34

n32 *Blackie v. Barrack, supra* note 27, at 906.

n33 *In re* LTV Securities Litigation, *supra* note 30.

n34 Mottoros v. Abrams, [Current] *Fed. Sec. L. Rep. (CCH) P98,376 (N.D. Ill. 1981).*

These statements reflect a conceptual confusion concerning the market model of the investment decision. It is a contradiction, for example, for a statement to be material yet not affect enough traders to influence the market price. The meaning of materiality under the market model is that there has been an effect on the market price. If there has been no such effect, it is more accurate to say that the plaintiff has not shown that there has been a fraud on the market and therefore is not entitled to recovery. It is also difficult to know what to make of the assertion that the presumption of reliance can be rebutted by proof that an investor made his own estimation of available information rather than simply accepting the market price when deciding whether to purchase/sell. Such an investor could only decide that particular information was relevant by reference to the existing market price and the predicted impact of available information on future prices. If the market price is distorted by fraudulent conduct, both active and passive investors suffer injuries. Finally, the possibility that an investor would have purchased the security in any event should not defeat recovery. By definition, investors would have paid or received a different price had there been no fraud on the market. Investors would not be willing or have to pay the increment attributable to distortion of the price if the true information were known. Thus these investors suffer a real economic injury if there has been a fraud on the market. The concept of a presumption of reliance, therefore, is best abandoned. The logic of the fraud on the market theory dictates that the reliance requirement as conventionally interpreted be discarded altogether.

C. The Fraud in Bringing Securities to the Market Theory

The fraud on the market theory has not been adopted by all courts. In *Shores v. Sklar,* n35 a deeply divided Fifth Circuit, sitting en banc, held that a purchaser of bonds that were marketed pursuant to an allegedly misleading offering

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circular could recover only if he could prove that the bonds were not entitled to be marketed. Because the plaintiff admitted that he did not read the offering circular, the Fifth Circuit held that the reliance requirement precluded any recovery on a straight misrepresentation theory. Thus plaintiff could not recover even if he demonstrated that the bonds would have sold for a lower price or at a higher rate. It was unnecessary, according to the court, for plaintiff to have read the offering circular to prevail on his alternative theory because he could justifiably assume that the bonds were entitled to be in the marketplace.

n35 *647 F.2d 462 (5th Cir. 1981)* (en banc). The vote was 12-10.

The Fifth Circuit's distinction between the purchase of bonds at an artificially high price and the purchase of bonds that are not entitled to be marketed is elusive at best. Virtually all securities will sell for some positive price. Thus the concept of whether securities are entitled to be marketed is meaningless when considered in isolation from price. n36 All a plaintiff can show is that a security would have sold for a different price had the true information been known at the time of sale. If the plaintiff can demonstrate this, he has proven that the securities were not entitled to be marketed at the selling price, and that all purchasers suffered an injury. The Fifth Circuit's requirement that these purchasers, because they did not read the offering circular, cannot recover unless they demonstrate that the securities could not be marketed under any circumstances represents a rejection of the market model of the investment decision that should not be followed by other courts.

n36 The dissent in *Shores* rejected the fraud on the entire market theory, but agreed with the majority that plaintiff's absence of reliance was a bar to recovery.

IV. THE IMPLICATIONS OF THE FRAUD ON THE MARKET THEORY FOR SECURITIES FRAUD CASES UNDER RULE 10b-5

The fraud on the market theory has so far been invoked by plaintiffs to avoid the necessity of individualized proof of reliance in class action suits. In this section I explore the broader implications of the theory and propose that the issues of existence and extent of injury in securities fraud cases should be analyzed empirically by testing the effect of an alleged misrepresentation or nondisclosure on the market price of the firm's securities; I then address possible objections to this approach.

A. Effect on Market Price as the Only Relevant Inquiry

The fraud on the market theory can be viewed as a procedural device that favors plaintiffs because it allows a class to be certified by shifting the burden of proof on the reliance issue. But the theory has far more dramatic implications. By emphasizing the role of markets in transmitting information and the irrelevance of investors' awareness of specific pieces of information, the theory adopts the market model of the investment decision.

Under the market model, investors who accept the market price receive all relevant information and are thus fully protected. They are unprotected only if the market price has been distorted by the dissemination of false information. But the converse also is true. If plaintiffs suffer an injury when there has been a fraud on the market, regardless of whether they are aware of the alleged fraudulent conduct, because they have relied on the accuracy of the market price, it also follows that they have not suffered an injury when the market price has not been artificially inflated -- when there has been no fraud on the market. In this event, investors who rely on the accuracy of the market price get exactly what they bargain for. Returning to the initial example, no investor in the chemical company that did not disclose its compliance costs suffered an injury if the existence of these costs was well known. The market price of its securities reflected and communicated this information, and investors who accepted this price were protected.

Acceptance of the logic of the fraud on the market theory, therefore, leads to the conclusion that there is no need in a securities fraud case for separate inquiries into materiality, reliance, causation, and damages. These inquiries are

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necessary in a face-to-face transaction where each party must make a subjective valuation of information provided by the other party, but irrelevant in open market transactions where the market price transmits all relevant information. The relevant inquiry in open-market transactions should be whether the market price was in fact artificially affected by false information.

B. Possible Arguments Against the Effect on the Market Price Approach

1. ENCOURAGING UNINFORMED INVESTORS

One argument that can be made against the effect on market price approach is that it creates an incentive for investors to remain uninformed. n37 The whole purpose of the securities laws, the argument runs, is to provide information to investors so that they can make meaningful investment decisions. Investors who do not analyze available information and suffer a loss have only themselves to blame. Thus the reliance requirement promotes the objectives of the securities laws by denying recovery to investors who have not availed themselves of the useful information disseminated for their benefit.

n37 This argument was made in *Shores v. Sklar, 647 F.2d 462, 483 (5th Cir. 1981)* (dissenting opinion).

The argument, like the traditional model of the investment decision, reflects a lack of understanding of the operation of markets in transmitting information. It assumes that investors can make better investment decisions by first carefully analyzing disclosures mandated by the federal securities laws. This assumption, however, is contradicted by available theoretical and empirical evidence. Studies that have tested empirically the information content of SEC filings have generally concluded that they contain no new information. n38 Even if such filings did contain new information, market professionals would have a comparative advantage in analyzing the information more quickly and efficiently. The rational course for the public investor, therefore, is simply to accept the market price as given. Rather than encouraging more informed investors, a legal rule that required investors to invest in the collection and analysis of information would force them to incur costs with no corresponding benefit.

n38 *See, e.g.,* Madden, *Potential Corporate Takeovers and Market Efficiency: A Note,* 36 J. Fin. 1191 (1981); Beaver, *The Information Content of Annual Earnings Announcements,* 7 J. Acct. Research 67 (Supp. 1968).

2. CREATION OF A LESS EFFICIENT MARKET

A related but somewhat more sophisticated argument is that if all investors decided to accept the market price knowing that they could recover if the price was distorted by fraudulent conduct, the market would become inefficient and no longer effectively communicate all available information. If the market did become inefficient, the whole premise of the market model of investment would no longer be valid.

There is no reason to believe, however, that the effect on the market price approach will in any way undermine market efficiency. Market professionals have an incentive to invest in information processing up to the point where a dollar spent will equal a dollar gained from making superior predictions about the future. Only a tiny fraction of cases where the current market price is perceived to be above or below a future price will involve conduct that is actionable under the securities laws. n39 Market professionals retain the full ability to reap gains if they have superior insight about the future. In any event, the problem is entirely self-correcting. If there are inadequate resources being devoted to information processing causing the market to be inefficient, there is a potential for entrepreneurial gain. Investors, perceiving the divergence between price and value, can secure substantial gains by purchasing underpriced shares and selling overpriced shares. This process of arbitrage would eliminate any divergences that did exist and cause the market to return to equilibrium.

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n39 Only cases where the allegedly false statements are made with scienter will be actionable under the federal securities laws.

3. UNFAIRNESS TO INVESTORS WHO RELIED ON FACTORS OTHER THAN THE MARKET PRICE AND EXPECTED HIGHER RETURNS

Suppose that an investor, after reading a false statement, believes that a particular investment offers a superior rate of return and invests accordingly. The market, however, ignores the false statement so that it has no effect on the market price. Is the investor who relied on the false statement entitled to expectation or benefit-of-the-bargain damages -- the higher rate of return that he anticipated?

Certain cases have awarded expection damages in certain narrow situations where the amount is not speculative but reasonably certain, such as where a plaintiff was induced to invest based on assurances of receipt of a particular price. n40 If there has been no fraud on the market, however, investors have not been induced to invest by any fraudulent conduct of the defendant. The law has never compensated for injury where the so-called reasonable man -- in this case the market -- has not been misled. n41 Such investors earned the market rate of return and are entitled to no more. Whatever the availability of expectation damages in other contexts, therefore, they should not be available when there has been no fraud on the market.

n40 For a discussion of the general rule denying the availability of expectation damages in securities cases, and the limited exceptions to the rule, see *Osofsky v. Zipf, 645 F.2d 107 (2d Cir. 1981).*

n41 The reasonable man concept is pervasive in the law of contracts, torts, and criminal law, as well as in securities litigation. It would simply be too costly to develop separate standards of conduct for every individual.

4. UNFAIRNESS TO INVESTORS WHO SUFFER LOSSES UNRELATED TO THE ALLEGED WRONGFUL CONDUCT

A related situation is presented if an investor relies on a statement that does not affect the market price and suffers a loss for reasons wholly unrelated to the alleged wrongful conduct. If an investor invests in a firm because he believes earnings have increased, when in fact the firm has simply changed its accounting technique of reporting income, should he be allowed to recover if the price of the firm's stock falls due to an industrywide slump?

Under established case law, the investor in such a case should not be entitled to any recovery. n42 A plaintiff must establish more than that a loss would not have occurred but for the defendant's actions; the plaintiff also must establish a causal connection between the challenged conduct and the loss. n43 In the above example, this causal connection is absent by definition since the market price was not affected. Requiring the defendant to compensate the plaintiff in this situation would make the defendant an insurer of the market risk that exists independently of its own actions, and which would have existed even if no misstatement had been made. The securities laws are designed to prevent loss from fraud, not from economic downturn.

n42 *See, e.g., Huddleston v. Herman & MacLean, 640 F.2d 534 (5th Cir. 1981); Bonime v. Doyle, 416 F. Supp. 1372 (S.D.N.Y. 1976).*

n43 Thus courts have distinguished two different types of causation. The first is transaction causation, which deals with whether the defendant's behavior caused the plaintiff to enter into a particular transaction. The second is loss causation, which focuses on whether the alleged fraudulent conduct was directly responsible for the injury. *Schlick v. Penn-Dixie Cement Corp., 507 F.2d 374 (2d Cir. 1974).* The Fifth Circuit has recently emphasized the importance of establishing both types of causation. *See Huddleston, 640 F.2d at 549.*

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5. INCONSISTENCY WITH RECENT SUPREME COURT DECISIONS INTERPRETING RULE 10b-5

The Supreme Court in recent years has adopted a restrictive approach to the scope of rule 10b-5. n44 It could be argued that certain aspects of the effect on the market price approach, such as the elimination of the traditional reliance requirement, are inconsistent with this trend.

n44 *See, e.g., Santa Fe Indus. v. Green, 430 U.S. 462 (1977); Ernst & Ernst v. Hochfelder, 425 U.S. 185 (1976); Blue Chip Stamps v. Manor Drug Stores, 421 U.S. 723 (1975).*

While the fraud on the market theory has been used to support plaintiffs' cases, the implications of the theory have no such bias. One of the implications of the notion of efficient markets is that the investment community is not easily fooled. Use of biased accounting techniques or the issuance of overly optimistic forecasts are not likely to fool investors. If these techniques do not fool investors, then plaintiffs who may have had a successful cause of action under the traditional approach will have no success under the market model because there will have been no effect on the price. The proposed approach, therefore, will likely decrease the number of successful rule 10b-5 suits.

Moreover, resources spent on securities fraud litigation will be reduced. Because the focal issue of every case will be whether there has been any effect on the market price of the firm's securities, the increased certainty resulting from this objective determination will reduce the amount of litigation. On those occasions when litigation is brought, there will no longer be any need for fact-finding on such issues as what a reasonable investor would have thought important or whether investors were aware of a certain document. In all probability, therefore, the effect on the market price approach will decrease the overall amount of litigation under rule 10b-5.

6. INCONSISTENCY WITH OPTIMAL DETERRENCE

A final possible, indeed formidable, objection with the proposed approach, particularly the abandonment of the reliance requirement, is that it may be inconsistent with optimal deterrence. A damage remedy should reflect the social costs of a particular activity. Because trading losses of one group of traders are recouped by trading gains of another group of traders, the argument could be made that allowing the losing traders to recover their losses is an inappropriate damage measure because it exceeds the social costs of the challenged conduct. The appropriate damage remedy, the argument runs, is limited to forcing the wrongdoer to disgorge his gains. The proposed approach may be viewed as objectionable because it has the effect of increasing the number of potential plaintiffs seeking to recover trading losses.

Several responses are in order. First, the social costs of fraudulent conduct are substantial. The most obvious illustration is fraudulent conduct in connection with the sale of new securities. In this situation, the mispricing of securities will have a direct allocative effect because investment dollars will be directed away from more valuable uses. This will be true even in the secondary market as price signals from mispriced securities cause investment dollars to be misdirected. Moreover, a rule precluding traders from recovering trading losses will lead to an increase in investment in resources to distinguish correct from incorrect information, and this too is a social cost. Also, in many securities fraud cases the gains to defendants will be very difficult, if not impossible, to measure, making this an unreliable measure of damages. Finally, as emphasized above, it is not at all clear that the proposed approach will increase damage awards because of the likelihood that use of the market model will decrease the number of successful 10b-5 suits.

In the final analysis, perhaps the most that can be said is that the choice between disgorging of gains and recovery of trading profits is a difficult one that has never been analyzed and which merits rigorous analysis. But even if disgorgement of gains is the correct measure of damages in securities fraud cases (an issue I plan to address in an article I am cowriting), it in no way follows that the reliance requirement, or other aspects of the conventional approach, should be retained. Effect on the market price would still displace inquiries into materiality, reliance, and causation, but recovery would be limited to a pro rata share of gains of the defendant.

V. DETERMINING THE EFFECT OF ALLEGED FRAUDULENT CONDUCT ON MARKET PRICE

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Determining whether an alleged misrepresentation or omission caused a firm's stock to trade at an artificially high or low price presents problems, one of which is calculating what the price of the security would have been had the alleged wrongful conduct never occurred. The market price of the security on the date of purchase or sale is unreliable for this purpose because of the possibility that it has been affected as a result of the alleged fraudulent conduct. Attempting to appraise the value of the security by analyzing asset value, earnings data, and other information is inherently speculative. Measuring the difference in the market value of the security between the date of purchase and the date of sale (or any other posttransaction date) also is flawed because of the possibility that the decline was caused by factors other than the alleged wrongdoing by the defendant. Because any decline in value might be attributable to factors that affect the entire market, the relevant industry, or the firm itself, but have nothing to do with the alleged fraud, measuring damages by the difference between the purchase and sale prices may significantly inflate the plaintiff's losses attributable to conduct of the defendant.

These methodological difficulties can be overcome by using the standard market model developed by financial economists to measure the effect of unanticipated events on the market price of a firm's securities. n45 The market model makes it possible to test whether false information caused a security to trade at an artificially high or low price by measuring whether investors earned any abnormal returns at the time the correct information was released to the public.

n45 The model has been used extensively to measure the effect of such events as stock splits, dividends, mergers, and earnings announcements on stock prices. See Schwert, *Using Financial Data to Measure Effects of Regulation, 24 J. Law & Econ. 121 (1981).* It has been suggested the model be used to calculate damages in securities fraud cases. Note, *The Measure of Damages in Rule 10b-5 Cases Involving Actively Traded Securities, 26 Stan. L. Rev. 371 (1974).*

The model is based on the observable correlation between the return on a particular security n46 and the return on the entire market when viewed over time. n47 Once this historically observed correlation is determined, it is possible to predict what the return of a given security should be on a certain date given the return for the market as a whole. If the return for a security on the date that the supposedly correct information is disclosed to the public is consistent with the historically observable correlation with the return for the entire market, then investors earned normal returns. If, on the other hand, the actual return on the date when the supposedly correct information is disclosed is lower at a statistically significant level than what is predicted, then investors earned abnormally low returns. The advantage of this procedure is that the concept of what price change is normal or abnormal incorporates the observed relationship between the return on a particular stock and the market as a whole. n48 Thus, movements in price caused by marketwide influences are excluded in determining whether release of a particular piece of information affected in return earned by investors. Moreover, by comparing the predicted return with the actual return on the date of release of the supposedly correct information or immediately thereafter, the test attempts to isolate the change in the return earned by investors that is attributable solely to the allegedly withheld or false information. n49

n46 The return on a particular stock includes changes in prices as well as dividends and other distributions.

n47 More technically, the market model attempts to relate the rate of return on an individual stock to the rate of return on a diversified portfolio of stocks, as shown in the following equation:

$$ri = a + brm + e$$

where ri = the rate of return on the stock of company i; rm = the rate of return on a diversified portfolio of stocks; a and b are constants reflecting systematic and unsystematic risk; and e = the error of the regression (assumed to have a zero mean) and the return on the stock of company i not explained by movement in the market as a whole. For a fuller explanation of the market and related models for measuring the effect of exogenous events on stock prices, see Schwert, *supra* note 45, at 124-129. For an analysis of the usefulness of regression analysis as a tool in a variety of legal contexts, see Fisher, *Multiple Regressions in Legal*

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Proceedings, 80 Col. L. Rev. 702 (1980).

n48 It also is useful to relate the return on a particular security to a portfolio of securities in the same industry by adding another variable in the market equation. In this manner, the concept of a normal or abnormal price change also will incorporate the observed relationship between the return on a particular security and other comparable firms.

n49 The test is based on the assumption that new information affecting a particular firm is quickly reflected in the price of the firm's stock. Numerous empirical studies have confirmed the assumption of rapid price adjustment. See Aharony & Swary, *Quarterly Dividend and Earnings Announcements and Stockholders' Returns: An Empirical Analysis,* 35 J. Fin. 1 (1980); Hillmer & Yu, *The Market Speed of Adjustment of New Information,* 7 J. Fin. Econ. 321 (1979); Dann, Mayers & Raab, *Trading Rules, Large Blocks and the Speed of Price Adjustment,* 4 J. Fin. Econ. 3 (1977). All of these studies found that new information is capitalized in stock prices no later than the day of release.

If the adjustment in price were not extremely rapid, sophisticated investors could consistently earn superior returns by buying and selling shares during the lag between the availability of information and the adjustment in price. Studies of the investment performance of professionally managed portfolios, however, have generally concluded that professional investors do not outperform the market. For a summary of these studies, see B. Lev, *Financial Statement Analysis: A New Approach.* 220-21 (1974); J. Lorie & M. Hamilton, *supra* note 9, at 87 97.

This standard market model provides a relatively precise method for measuring whether an alleged omission or misrepresentation injured investors. Assuming that a lawsuit were brought under the facts of the initial example, the first step would be to establish, by analyzing past stock price data (including dividends and other distributions), the historically observable relationship between the return on the chemical company's stock, and the return on a portfolio of chemical company stocks and the market as a whole. It would then be possible to predict what the normal range of returns for the chemical company should be on any given day by observing the actual return on a portfolio of chemical stocks and the market as a whole on that date. By comparing this predicted return with the actual return immediately after disclosure in 1978 of the correct information, a conclusion could be reached about the effect of the alleged failure to disclose the costs of compliance with environmental regulations. If the difference between the actual return and the predicted return is not statistically significant, investors were not injured by the chemical company's failure to disclose its expected costs of compliance because this information was already incorporated in the market price. n50 If, on the other hand, investors earned significantly below the predicted return immediately after disclosure of the correct information was made, the increased costs of compliance were not anticipated by the market and therefore were not incorporated in the market price.

n50 This statement assumes that there has been no leakage of information concerning compliance costs between the time of the two SEC filings.

It should be emphasized, however, that the existence of abnormal returns does not necessarily mean that the firm intentionally disseminated false information or withheld relevant information. The abnormal returns may simply be caused by new information not previously available. In the initial example, the firm may have been unaware that its expected costs of compliance would be so high at the time of the initial filing. Alternatively, information may have been too indefinite to disclose or there may have been sound business reasons for not disclosing. Any abnormal returns in these cases would be attributable to a revised estimate of the profitability of the firm because of new information rather than the intentional dissemination of false information or the withholding of relevant information. In any of these situations, plaintiff should not be entitled to recover.

VI. CONCLUSION

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The traditional method for determining the existence and amount of injury in open-market trading cases under rule 10b-5 should be replaced by a test measuring whether the alleged nondisclosure or misrepresentation affected the market price of the firm's securities. The fraud on the market theory goes far in this direction. Future cases should adopt the logic of the fraud on the market theory and utilize the tools of financial economics in adjudicating securities fraud cases.

EXHIBIT 15

Lawrence E. Jaffe Pension Plan vs. Household International, Inc., et al.

SUPPLEMENTAL REPORT OF DANIEL R. FISCHEL

1. I submitted a report dated August 15, 2007 (the "Fischel Report") in the above-captioned litigation.[1] In that report, I set forth and provided the bases for my principal conclusion that the economic evidence is consistent with Plaintiffs' claim that the alleged wrongdoing caused investors in Household's common stock to incur losses. Fischel Report ¶ 11. I also provided two alternative quantifications of the amount of alleged artificial inflation in Household's stock price during the Class Period, one based on the price reactions to specific fraud-related disclosures ("Quantification Using Specific Disclosures") and one that accounts for the stock price effect of fraud-related information that leaked into the market during the latter part of the Class Period ("Quantification Including Leakage"). *Id.* ¶¶ 30-42. On February 1, 2008, I submitted a rebuttal report which responded to criticisms of the Fischel Report by Defendants' expert Mukesh Bajaj (the "Fischel Rebuttal Report").

2. Counsel for Defendants have submitted the Affidavit of Bradford Cornell dated October 30, 2008 (the "Cornell Affidavit"). In his affidavit, Professor Cornell criticizes the Quantification Including Leakage because "it attributes any decline in the security price that is not due to movements in the market or the industry to disclosure of the fraud." Cornell Affidavit ¶ 4.[2] Professor Cornell also criticizes the Quantification Including Leakage because it applies a regression model over an 11-

1. The Fischel Report provides information on my qualifications and defines capitalized terms.
2. All citations to the Cornell Affidavit refer to the paragraphs in section II of the Cornell Affidavit.

month-long portion of the Class Period; he states: "... when a model is used to predict returns over periods hundreds of days long the errors compound. Such compounding, in turn, can produce significant errors in measured inflation." *Id.* ¶ 8.

3. I have been asked by counsel for Plaintiffs to review and respond to Professor Cornell's criticisms as described in the Cornell Affidavit. I have been assisted by Compass Lexecon's staff. In forming my conclusions contained in this report, I have reviewed the Cornell Affidavit and the court's opinion in *In re Williams Securities Litigation* 496 F. Supp. 2d (N.D. Okla. July 6, 2007). Based on my review of these materials and our analysis, I have reached the following conclusions.

4. First, Professor Cornell's affidavit says nothing about my Quantification Using Specific Disclosures, the first measure of inflation discussed in my report. Fischel Report ¶¶ 34-7. The criticisms Professor Cornell makes of the Quantification Including Leakage are not relevant to the Quantification Using Specific Disclosures because the latter: 1) only attributes the price change on any day to the alleged fraud if there was a specific fraud-related disclosure and the price decline was statistically significant; and 2) does not use a model to predict returns over periods of more than one day.[3] *Id.*

5. Second, the leakage model Professor Cornell criticizes comes directly from him. As I explained in the Fischel Report, the Quantification Including Leakage, and the reasons for its use, are described in Professor Cornell's own article on measuring damages in fraud on the market cases.[4] *Id.* ¶¶ 38-41.

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3. As Professor Cornell concedes, "if the models are used to calculate residual returns over intervals of no more than a few days, the errors are generally minor." Cornell Affidavit ¶ 8.
4. In his affidavit, Professor Cornell criticizes my Quantification Including Leakage as

6. Third, Professor Cornell asserts, without providing any supporting evidence, that firm-specific factors unrelated to the alleged fraud can fully explain the relative underperformance in Household's stock (*i.e.,* the decline in Household's stock price during the Class Period that was not related to the market or the industry). Cornell Affidavit ¶¶ 4-7. In doing so, he ignores the evidence presented in the Fischel Report that a steady stream and extensive amount of incomplete information related to Defendants' alleged fraud leaked into the market in the latter part of the Class Period and that contemporary observers attributed the decline in Household's stock price during this period to concerns regarding the allegedly fraudulent practices. Fischel Report ¶¶ 12-29 & 39. He also ignores the fact that Plaintiffs' allegations include the Company's agreement with the multi-state working group of state attorneys general and regulatory agencies, in which the Company agreed to pay up to $484 million and adopt a series of business practices that Household management expected would reduce future earnings. *Id.* ¶ 7.

7. Finally, Professor Cornell incorrectly claims that the Quantification Including Leakage suffers from the same flaws as the approach of Dr.

"identical to the comparable index approach described on page 898 of Cornell and Morgan." *Id.* ¶ 3. But he himself advocates use of this methodology in his article, stating that where there is "continuous leakage of information, it may be necessary to use the comparable index approach." B. Cornell and R.G. Morgan, "Using Finance Theory to Measure Damages in Fraud on the Market Cases," 37 *UCLA L Rev.* (1990) at 906-7. Moreover, although Professor Cornell argues in his affidavit that one should be skeptical of the Quantification Including Leakage because it uses a model to predict returns over an 11-month-long portion of the Class Period, his article recommends applying the comparable index approach over the entire class period in a case where the class period was several years long. *Compare* Cornell Affidavit ¶ 8 *with* Cornell & Morgan at 892-3 & 905-8. Finally, Professor Cornell also ignores the adjustments I made to the leakage model described in his article. Fischel Report ¶¶ 41-2 & note 30. These adjustments reduce the estimate of inflation that would result from unadjusted use of his model.

Blaine Nye in *Williams*.[5] Cornell Affidavit ¶ 7. The court in *Williams* criticized Dr. Nye because he provided no support for his leakage claim: "[A]s a practical matter, Dr. Nye assumes leakage of the relevant truth." *In re Williams Securities Litigation* 496 F. Supp. 2d at 1267. In contrast, as noted *supra* ¶ 6, the Fischel Report provided evidence of leakage. The court in *Williams* further criticized Dr. Nye because his analysis of inflation failed to fully account for industry conditions since "the trajectory of the share prices for the companies represented in the Nasdaq telecommunications index was remarkably similar" to that of Williams Communications Group's stock. *Id.* at 1255. In contrast, the Fischel Report demonstrated that Household's share price substantially underperformed market and comparable indices in the latter part of the Class Period, including Dr. Bajaj's "Consumer Finance Index." Fischel Report ¶ 29 & Exhibit 48 *and* Fischel Rebuttal Report ¶ 32.

8. Based on the above, I intend to testify, if asked, that the economic evidence demonstrates that Household's stock price became depressed during the Class Period as information about its allegedly fraudulent practices became known to market participants. I further intend to testify, if asked, that as a result, the Quantification Using Specific Disclosures that I described in the Fischel Report understates the effect of the alleged disclosure defects because of the existence of leakage.

Daniel R. Fischel

February 9, 2009

5. Under normal circumstances, I would not comment in an expert report on a court's reasoning in a judicial opinion. However, because Professor Cornell relied on his interpretation of the court's criticism of Dr. Nye in *Williams* in his affidavit, I have chosen to respond rather than allow his incorrect claims to go unrebutted.