

**CONFIDENTIAL**  
**Agreement in Principle**  
**(October 9, 2002)**

**GENERAL**

The parties to this agreement in principle, which the parties agree and intend to affect solely real estate transactions closed at branches of Household Finance Corporation and Beneficial Corporation and their direct and indirect subsidiaries, are Household International, Inc. on behalf of itself, its direct and indirect subsidiaries, affiliates, shareholders, officers, directors, employees, agents, related entities, successors, and assigns (collectively, "Household"), and the state attorneys general and/or state financial regulators, and the participating insurance regulators (collectively "the states"). The state attorneys general and/or state financial regulators will use their best efforts to obtain participation of their states' insurance regulators in this agreement.

In the ordinary course of its business, Household Finance Corporation or its direct and indirect subsidiaries have negotiated and entered into real estate secured loans, including personal homeowner loans made contemporaneously or concurrently with a real estate secured loan, with consumers (the "borrowers") from or at the retail lending branches of Household between the period of January 1, 1999 through September 30, 2002 (the "loans"). Certain state attorneys general and state financial and insurance regulators have received consumer complaints and conducted examinations of Household's real estate secured lending acts and practices. The real estate secured lending practices investigated, include Household's conduct with respect to real estate secured loans that are contemporaneous or concurrent to the same borrower (i.e., "split loans"), loan points and origination fees, interest rates, monthly payment amounts, single premium credit and other insurance products, prepayment penalties, loans offered through a negotiable check (i.e., "live checks"), practices with regard to home equity lines of credit, loan billing practices relating to simple interest calculations, balloon payments, pay-off information, non-English language documentation and net tangible benefit in loan refinancings (collectively "the lending practices").

The states allege Household violated state and/or federal consumer protection, consumer financing, and banking laws and regulations in connection with its lending practices. Household has indicated that it denies these allegations and would vigorously defend any attempt by the states to assert any claim based on the investigations.

The parties recognize that if a claim was threatened or asserted by the states there would be protracted litigation, the result of which is uncertain. Household has determined that settlement of these issues is advisable to permit the operation of the corporation's businesses without incurring significant litigation expenses and the distraction of executive personnel. Based on good faith negotiations the parties have reached an agreement in principle to resolve these issues. The agreement is conditioned on the participation of those states representing at least 80% of the dollar volume of the loans.

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**MONETARY SETTLEMENT**

1. Settlement fund--Household agrees to establish a cash settlement fund in the amount of \$387,500,000 for those states representing 80% of the dollar volume of the loans. If states in excess of 80% of the dollar volume of the loans participate in the settlement, Household shall increase the settlement funds on a proportionate basis of those states' real estate secured dollar volume in the loans to a 51 state maximum amount of \$484,000,000. For purposes of this cash settlement fund and the administrative expenses noted below, the District of Columbia shall be considered a state. The settlement fund shall be allocated to the states on the basis of each state's proportionate share of the total dollar volume of the loans for the participating states. Each state has sole discretion to disburse the funds allocated to it to provide restitution to borrowers that received the loans or any other products in its state for the lending practices covered by this agreement. All of the funds will be allocated to borrowers or to the administrative costs not directly paid by Household as covered below. Each state will use its best efforts to distribute its portion of the settlement fund to borrowers of Household in that state. States that do not have any loans may participate in the agreement but shall not share in the settlement fund. States representing at least 80% of the dollar volume of the loans shall file their consent decrees in the appropriate jurisdictions simultaneously on a date mutually agreed to by those states, which shall not be later than December 15, 2002 ("Effective Date"). Household agrees to fund the settlement fund in three installments due 30, 60 and 90 days after the Effective Date. Each of the first two installments shall be at least one-third of \$387,500,000. The third installment shall be the entire remaining funds due. Household and the states agree that the full amount of the settlement fund is based solely on the lending practices and is intended as restitution to borrowers and does not contain any amounts for fines, penalties or punitive damages. Accordingly, there is no reversion to Household of any monies in the settlement fund.

2. Prepayment penalties--Household agrees to amend all real estate secured loan agreements closed at its retail lending branches nationwide to change the prepayment penalty provisions of the loans, provided the loan is outstanding as of the Effective Date. For all such loans, Household shall provide that prepayment penalties are not payable after 24 months after origination, notwithstanding agreements to the contrary. Household shall notify the borrowers of these affected loans in writing of this change within 60 days of the Effective Date. Household will represent and warrant that to the best of its knowledge Household has ownership, servicing or other rights sufficient to effect such a change for all loans closed during the period January 1, 1999 through September 30, 2002. If Household has closed loans after January 1, 1999 or before September 30, 2002, or closes loans after September 30, 2002, that are not within Household's control to effect such a change in the prepayment penalty as of the Effective Date, Household agrees to provide full restitution of the amount of the prepayment penalty to borrowers who incur a prepayment penalty more than two years after the date the loan closed and to provide a

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notice, in a form mutually agreeable to the states, to all such borrowers informing them of their right to such compensation.

3. Second lien releases--states may, among other things, apply the settlement funds allocated to them to obtain the release of second liens on loans currently outstanding where a first and second real estate secured loan was made to the same borrower and secured by that borrower's residence within a 90-day period. Such buy-backs of lien releases shall be pursuant to a formula to be worked out with Household.

**PAYMENT FOR, OR IN LIEU OF, INVESTIGATORY FEES AND COSTS**

On or about the Effective Date, Household agrees to pay into an account to be identified by the states an amount determined under an agreed upon formula, based on the number of states participating. If all states file a consent decree the maximum amount payable by Household for this purpose would be \$10.2 million. This sum represents payment for full reimbursement to the states for all attorneys' fees and investigative costs incurred by the attorneys general offices and/or the state financial and participating insurance regulators with respect to the matters covered by this agreement, or payment in lieu of such fees and costs. The funds in this account shall be distributed to the states in a manner determined by the states on the basis of their relative participation in this matter.

**ADMINISTRATION**

Within 10 business days after the Effective Date, Household agrees to pay administrative fees and expenses out of a separate administrative fund to an administrator calculated on a per state basis in an amount not to exceed the greater of 2% of each state's pro rata share of the settlement fund or \$20,000. Each state shall determine its own criteria and procedures for allocation and disbursement of the settlement fund and investigatory fees and costs and shall have sole authority to direct the administrator with respect to the distribution of that state's monies. Household shall select and retain the administrator and the states agree that the administrator is, for purposes of customer information being supplied to it by Household, solely an agent of Household. The administrator's appointment shall be subject to the approval of the states. Any additional expenses of the administrator exceeding the amounts required to be paid by Household shall be paid by the states from the settlement fund. Household will provide an agreed upon up front payment to the administrator who will then bill Household on a monthly basis. Household shall provide to the administrator all information necessary for the administration of the relief process. The administrator shall certify that the notices and disbursements have been provided to borrowers as per each state's instructions. The administrator shall permit onsite inspections by the states on the premises of the administrator to verify the notices and disbursements.

**RELEASES**

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Each borrower who receives a payment from the settlement fund shall execute a general release to Household of all civil claims and causes of action, known or unknown, threatened or unasserted, related to the restitution received or the lending practices, which they have as of the date of the agreement or which result from the agreement; provided, however that any claim that was released by a borrower as required for the restitution may, if permitted by applicable state or federal law, be asserted by the borrower as a claim or defense to any real estate judicial or non-judicial foreclosure action with respect to a loan.

This agreement resolves all current civil investigations and proceedings by participating state attorneys general and financial and participating insurance regulators related to the lending practices by Household from January 1, 1999 through September 30, 2002. This does not include non-cover regulatory issues or administrative matters which can not be unilaterally concluded by the state, which are to be resolved with each state in the consent decrees. However, Household confirms that it will issue refunds pursuant to existing agreements with every state agency, the terms of which provide for refunds to borrowers.

**CONSENT DECREES**

Household shall enter into separate consent decrees with each participating state by December 15, 2002.

Except as expressly provided in this agreement, neither this agreement, nor any information submitted by Household in connection with this agreement, nor any acts performed and documents executed in furtherance of this agreement, may be used as an admission of, or evidence of, the validity of any alleged wrongdoing or liability, or as an admission of, or evidence of, any alleged fault or omission by Household, in any civil, criminal or administrative proceeding in any court, administrative agency, arbitration or other tribunal. No party to this agreement shall use this agreement, or any information submitted by Household in connection with this agreement, as any basis for the denial of any license, authorization, approval or consent that may be required by Household under any states' lending, banking, insurance or similar financial laws or regulations.

**CONFIDENTIALITY**

Each state will comply with applicable disclosure laws. If a state receives a request for documents provided by Household relative to the subject matter of this agreement, it will promptly provide notice of such request and afford Household the opportunity to assert that the documents subject to the request are exempt from disclosure.

**CLAIMS PROCESS**

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Each state will determine its own criteria for allocating restitution and other relief to a broad number of borrowers. The criteria will be furnished to the administrator, said administrator being mutually agreed upon collectively by the states and by Household. The substance of and procedures for notification to borrowers of their opportunities pursuant to this agreement will be discussed between the parties and shall be totally under the control of the states. Household will provide loan numbers and relevant information regarding the loans to the states to assist them in allocating restitution to borrowers, but Household shall own and have exclusive custody of the names and addresses of its borrowers.

**PROSPECTIVE MONITORING**

Household will retain the services of an independent monitor to ensure compliance with the terms of this agreement. The monitor chosen shall be subject to approval by the states. Household and the states shall mutually agree on the procedures to be followed by the independent monitor. The terms of the engagement will be for a loan sample with a 95% confidence level with an error tolerance of plus or minus 5 percent. If monitoring reports demonstrate a level of violations in any of the commitments, within a state or taking all states into consideration, of 10% or greater, the states reserve the right to increase the loan sample size and confidence level. Household anticipates having phased in the required changes by the end of 2003. Household shall advise the states when changes are implemented and would be subject to monitoring. The first report shall be provided to the states and Household 6 months after the filing of the consent decrees representing at least 80% of the dollar volume of the loans followed by a second report six months later. Thereafter, the report shall be provided annually, for a total time period of 5 years. To prevent use of the monitoring report in evidence, Household shall be afforded a reasonable time (in no event less than 30 days and no greater than 90 days) in which to cure violations. In the event such violations are cured, the report shall not be admissible in any proceeding or used for any purpose by any of the states, except upon the occurrence of repeat violations. If such violations are not cured, then the states have the right to automatically admit the monitor's report in evidence in any proceeding relating to the enforcement of the consent decrees. However, this opportunity to cure does not apply to repeat violations. Repeat violations, for purposes of the agreement, shall be a 10% or more failure rate in the same area of the consent decree in any one state in more than one report.

**INJUNCTIVE RELIEF**

Notwithstanding anything set forth below, Household shall not be required to violate any federal or state law with respect to any action required to be performed by Household.

1. *Loan Fees.* Household shall not charge lender fees of more than 5% (or 5 points) to originate a real estate secured loan, whether in the form of loan origination charges and/or discount

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points. Household may charge other lender fixed fees as allowed by state law. This provision shall be in force for a period of three (3) years from the Effective Date. Household shall comply with the definition of bona fide discount points if provided in state law.

2. *Rate and Point Options Disclosed.* Household shall provide written disclosure to borrowers of the interest rates available to the borrower and the corresponding discount points available to buy down the interest rate, at the earliest possible date in a form to be agreed upon by the parties.

3. *Good Faith Estimate.* All fees disclosed by Household in the good faith estimate (GFE) shall bear a reasonable relationship to the charge the borrower is likely to pay at settlement, based upon its knowledge and experience regarding such charges and the loan amount applied for by the borrower. Such fees shall not vary from the actual fee charged by more than a 10% tolerance, unless a smaller variance is required by law. If the actual fees to be paid by the borrower are greater than the total amount of fees disclosed on the GFE by more than 10%, Household shall redisclose the GFE provided the increase in such fees is not the result of an increase in the amount originally applied for by the borrower.

4. *Representations Regarding Interest Rates and Loan Terms.*

Household agrees that all representations regarding loan terms shall be accurate, and non-deceptive.

- a. Household shall make no oral or written representations about rates other than the contract rate and the true APR. For example, Household may make no “effective” rate or “blended” rate comparisons unless the applicable federal law requires such a calculation to determine the true APR.
- b. Household shall make no representations about accelerated payment plans without accurate and clear disclosure about the way such plans amortize the loans.
- c. Any comparisons of current and proposed interest rates, monthly payments, and total loan costs by Household shall be predicated upon accurate, non-deceptive and clear comparisons. For example, comparisons of the monthly payments shall include taxes and insurance, if the borrower's current mortgage loan escrows those payments. Total loan points and lender origination fees to be charged by Household will be included in any comparison of monthly payments and total loan cost.
- d. Household shall make no representations about anticipated interest savings available under a bi-weekly payment plan when the plan is actually semi-monthly, unless the amount of the semi-monthly payment creates the anticipated interest savings.

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- e. Household shall not unilaterally convert customers from bi-weekly payments to semi-monthly payments.

5. *Contemporaneous Loans: Secured Second Loans.* Household shall not make a subordinated loan to the same borrower secured by the same property within 90 days of making a first mortgage loan on that property if the transaction is a refinance of the property by the borrower (i.e., not a purchase money transaction).

6. *Contemporaneous loans: Unsecured Second Loans.*

- a. Unsecured second loans by Household to a borrower who has a real estate secured loan with Household are permitted, upon the assent and agreement of the borrower, provided that the loan provides a benefit to the borrower and is not triggered by the amount of fees and costs on the first real estate secured loan.
- b. If a real estate secured loan is approved for a borrower in an amount less than applied for, and Household wishes to make a counteroffer that includes an unsecured second loan, Household shall inform the borrower (orally or in writing) that the mortgage loan was approved for a lesser amount and that, if the borrower seeks additional funds, the borrower may apply for a second loan, which would not be secured.
- c. Household further agrees that if an unsecured loan to the same borrower is closed on the same day as a real estate secured loan to that borrower: (i) the loans will be clearly and conspicuously differentiated; (ii) the loan closings will be presented as separate transactions; (iii) Household shall, at the loan closing, confirm and acknowledge the borrower's understanding of two separate loan transactions; and (iv) an "independent closer" will conduct each loan closing (see paragraph "9", below).

7. *Balloon Payments.* Household shall provide borrowers with a new loan disclosure form, substantially in the form of Appendix A, that more clearly informs borrowers of real estate secured revolving lines of credit in plain language, that making minimum payments will not fully amortize the loan by the end of its term and will result in a balloon payment at the end of the term. The disclosure will also state the full amount of the balloon payment and the monthly payment required to pay off the loan by the end of the term if no further advances other than any initial advance are taken.

8. *Closing HELOCs.* Household shall permit borrowers to cancel and terminate a real estate secured open end line of credit at any time. Household shall adequately disclose to borrowers the procedure it requires to cancel and terminate any real estate secured open end line of credit.

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9. *Independent Closer.* Household shall revise its real estate secured loan closing procedure in its branch offices to include use of an “independent closer” or other type of control mechanism. The independent closer may be an employee of Household so long as the employee does not report to sales management and the employee’s compensation is not based on loan production.

10. *Prepayment Penalty Disclosures.* If a prepayment penalty may be charged on a real estate secured loan, Household shall provide to the borrower at the time the GFE is disclosed, a prepayment penalty disclosure that (i) discloses the existence of a prepayment penalty and clearly describes the circumstances in which a prepayment penalty will be assessed, and (ii) states the amount of the prepayment penalty that the borrower would be required to pay if the loan was paid in full immediately after the end of the rescission period for the loan.

11. *Prepayment Penalties.* a) Household shall provide loan products with and without prepayment penalties. Household shall not charge a prepayment penalty on any real estate secured loan in which the existence of the prepayment penalty was not fully or timely disclosed as provided in “10”, above. b) No Household real estate secured loan shall contain a prepayment penalty with a term greater than 24 months from the date of loan origination. Household reserves the right to request the states to reconsider this provision at a future date.<sup>1</sup> (c) Household shall calculate all prepayment penalties in accordance with state law. For any real estate secured loan, if the state law is silent on the method of calculation of a prepayment penalty, the prepayment penalty shall be calculated on the amount outstanding at the time of prepayment.

12. *Net Tangible Benefit.* Household shall not enter into any real estate secured loan that does not provide a net tangible benefit to the borrower, that is, a loan that does not result in a monetary benefit to the borrower, taking into consideration the totality of the circumstances, including, but not limited to, the loan product and the borrower’s stated loan objectives, repayment ability, current and expected income and current obligations.

13. *Repeat Refinancing.* Household shall not charge loan discount points or origination fees (other than third party fees permitted by the applicable state law) on the original loan amount of a real estate secured loan owned at the time of refinancing by any lending affiliate of Household if the loan is refinanced within 12 months of the date of that original loan; provided, however that Household may refund all lender origination fees and loan discount points paid by the borrower on the original loan amount and charge origination points and fees on the total amount of the new real estate secured loan if the points and fees paid on the original loan total amount are equal to, or exceed, the points and fees to be charged on an equal amount for the new loan.

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<sup>1</sup> This is not to be construed as a limitation on the parties’ right to request modification of the injunctive terms of the agreement.



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14. *Insurance Sales.* Household shall not sell or finance any single premium credit insurance on real estate secured loans. Household agrees that its operational systems, training, and scripts shall direct account executives of Household to disclose monthly loan payments *without* the monthly cost of insurance before disclosing the monthly loan payment with the monthly cost of insurance. Household shall establish procedures so that its employees fully explain insurance coverage and disclose that all insurance products are optional. The amount of the monthly insurance premium shall be separately identified on any monthly account statement for the real estate secured loan provided to any borrower by the Household.
15. *“Live Checks”.* Household shall disclose on the face and back of all “live checks” as follows: “signing this check will result in a loan to you that must be repaid with interest and fees” (as applicable) in 12-point bold face type, unless otherwise required by state law. Household shall not charge prepayment penalties on such loans.
16. *Billing Statement Practices and Skip-A-Payment.* For all real estate secured simple interest loans, Household shall provide customer billing statement disclosure of “interest short” situations. For all real estate secured simple interest loans, the Household shall allocate all interest short amounts into a deferred account that borrowers may pay down during the loan term or after they have paid off the principal of the loan. Borrowers shall remain liable for any amounts held in the deferred interest account. The deferred interest account will not incur interest. Household shall not change a customer’s payment date without disclosing it to the borrower and obtaining his or her consent.
17. *HOEPA Disclosures.* Household shall develop systems and reasonable safeguards to provide HOEPA disclosures on all HOEPA loans, including notice of right to rescind.
18. *Employee Training.* Household shall provide employee training, which shall include training on the terms of, and compliance with, the consent decree. Household shall modify its employee manuals to be consistent with the requirements of the consent decree.
19. *Best Rate Available.* Household shall provide borrowers with the lowest rate applicable to a Household real estate secured product for which the borrower’s credit qualifies.
20. *Disclosures Generally.* For real estate secured loans Household shall establish forms and procedures to simplify and improve disclosures to borrowers, ensuring that such information is accurate and presented clearly and conspicuously. Household shall work with the multi-state group to more fully develop timely loan disclosures related to this consent decree, including its one-page loan disclosure of key terms.
21. *Spanish Language Documents.* Household shall provide Spanish language loan documents in all branch offices that are certified to conduct Spanish language transactions.

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Household employees shall be instructed and trained to not speak Spanish in connection with its loan transactions unless certified to do so. In all such certified offices Household shall ensure that the independent loan closer is certified to conduct Spanish language transactions. Household shall also make available a one-page loan disclosure of key terms in Spanish in certified branch offices to those borrowers whose primary language is Spanish. Household shall make available in each of its branch offices the addresses and phone numbers of Spanish certified branch offices within a 50 mile radius of that branch. Household will continue to work with the multi-state group to more fully develop its assistance to Spanish speaking borrowers.

22. *Timely Payoff Information.* Household shall provide payoff information on all underlying liens held by Household to borrowers or their authorized representatives, within five (5) business days of a borrower's written request, or as specifically permitted by state or federal law. Household shall inform borrowers that requests by mortgage brokers or other agents must be in writing and must include a written authorization from the borrower to provide the requested information. Payoff information requested directly by a borrower in person at a branch location shall be provided as promptly and accurately as is practicable.

23. *Implementation Timeline.* The parties to agree upon dates for provisions to be implemented.

24. Where state statutes or regulations, letters of understanding or agreements with Household, entered into and in force with state regulatory or state agencies provide greater consumer protections that the terms or provisions included in this agreement, those state statutes, regulations, letters of understanding or agreements with Household shall govern.

APPENDIX A

SAMPLE POSSIBLE ADVANCE DISCLOSURE FOR TRUE OPEN-END HELCs

PAYMENT INFORMATION ON YOUR HELC

YOU WILL BE GETTING A LINE OF CREDIT IN THE AMOUNT OF \$ 35,000.

YOUR INITIAL LOAN BALANCE WILL BE \$ 15,000.

\*\*\*\*\*

IF

IF YOU DO NOT MAKE ANY OTHER WITHDRAWALS ON THIS ACCOUNT

and

IF THE INTEREST RATE DOES NOT CHANGE

and

IF YOU MAKE ONLY THE MINIMUM MONTHLY PAYMENTS of \$ \_\_\_\_\_ / or \_\_\_\_\_  
% of your balance (which would start at \$ \_\_\_\_\_)\*\*

and

IF YOU MAKE ALL YOUR PAYMENTS ON TIME

THEN [fill in applicable line]

9 IT WILL TAKE YOU \_\_\_\_\_ [months] [years] to pay off your initial balance of \$ \_\_\_\_\_

or

9 YOU WILL HAVE A BALLOON PAYMENT OF APPROXIMATELY \$ \_\_\_\_\_  
DUE ON \_\_\_\_\_. (If you want to avoid the balloon, you would have to pay  
\$ \_\_\_ each month.)

\*\* If the monthly payments are a percentage of the outstanding balance each month, the beginning monthly payment (which should be the highest) will be disclosed in the

**parenthetical. If the monthly payments are a percentage of the beginning monthly balance, which does not change unless there are additional draws, the standard monthly payment would be disclosed.**