DIRK KEMPTHORNE
GOVERNOR

GAVIN M. GEE
DIRECTOR

STATE OF IDAHO
DEPARTMENT OF FINANCE
700 W. STATE STREET, 2ND FLOOR
P. O. BOX 83720
BOISE ID 83720-0031
www.finance.state.id.us

Contact:
Mary Hughes
Consumer Finance Bureau Chief
Idaho Department of Finance
(208) 332-8000

NEWS RELEASE

FOR IMMEDIATE RELEASE October 11, 2002

States Settle With Household Finance

Idaho Department of Finance and Attorney General Work With Multi-State Task Force

BOISE, IDAHO – Gavin Gee, Director of the Idaho Department of Finance, and Attorney General Al Lance, announced that in a landmark settlement, mortgage lender Household Finance has agreed with state government regulators to change its lending practices. Household also agreed to pay up to $484 million to consumers nationally -- approximately $3,000,000 to Idaho consumers -- for alleged unfair and deceptive lending practices in the "subprime" market. The direct restitution amount is believed to be the largest ever in a state or federal consumer finance case.

The details of the settlement and the process by which consumers can apply for restitution are being finalized and will be announced at a later date. Each state will design its own restitution plan, since lending practices by Household varied from state to state. Approximately 2100 Idaho consumers took out real estate loans with Household since 1999, the year the states allege the problem practices began.

The multi-state investigation alleged that Household violated numerous provisions of state consumer finance and consumer protection laws by misrepresenting loan terms and failing to disclose material information to borrowers. Consumers complained that Household charged far higher interest rates than promised, charged costly points and prepayment penalties, which were misrepresented, or deceived them about insurance policies. The amount of fees were often misrepresented or not explained at all. Some consumers were trapped in costly loans, the states alleged.

Director Gee said the settlement provides nationwide relief to consumers and addresses practices in the lending industry that have been and will continue to be a priority effort for the Department of Finance and the Attorney General's Office.

Gee was pleased to announce that the settlement resulted from a crucial and unique partnership between state financial regulators and state attorney general offices, nationally and in Idaho. Primary investigative work upon which the case was based was done by the financial regulatory departments and attorney general offices of the states of Washington, New York, Minnesota, and Idaho. Financial regulators and state attorney general offices from 19 states and the District of Columbia began coordinating efforts early this year after identifying a pattern of complaints from borrowers who said they had been misled into agreeing to home loans with far different and much more expensive terms than had been promised. In many of the cases, borrowers' monthly payments jumped dramatically, and some consumers were put at risk of losing or did lose their homes.

"In this case the Office of Attorney General had the opportunity to support the lead role of the Idaho Department of Finance. Our partnership demonstrates once again that Idahoans win when the various entities of state government are on the same team." Attorney General Lance said. "The settlement is fair to consumers, taxpayers and Household. The company's willingness to negotiate in good faith and take care of past problems will benefit not only Idaho consumers currently doing business with the company, but also those Idahoans who choose this lender in the future."

State officials said Household cooperated in the case when the states presented their concerns. The company worked quickly with the multi-state group -- over a period of about four months -- to develop and negotiate solutions to the practices identified by the states. State officials said Household heard the message of the states and moved to a settlement that will set new standards for the industry. The settlement includes Household Finance Corp., Household Realty Corp., and Beneficial Finance Corp. Household is based in Prospect Heights, Illinois.

Director Gee stated, "We believe this settlement raises the bar for all subprime lenders. The mortgage lending practices that Household has agreed to adopt going forward will set a new standard for the industry. All home buyers and borrowers should benefit from this action not only because it sets new standards of protection, but because it sends a message to the industry that the states will take action to protect their citizens from mortgage lending abuses."

In many cases, regulators claim, Household failed to properly inform consumers of loan costs and insurance premiums that were included in their loans. In other cases, borrowers who were led to believe they were receiving interest rates of about seven or eight percent were actually charged nearly twice that much. Borrowers also complained that they were charged costly prepayment penalties that were not clearly disclosed to them.

Under the settlement, Household agreed to:

- Pay up to $484 million in restitution to consumers nationwide.
- Limit prepayment penalties on current and future home loans to only the first two years of a loan.
- Ensure that new loans actually provide a benefit to consumers prior to making the loans.
- Limit up-front points and origination fees to 5%.
- Reform and improve disclosures to consumers.
- Reimburse states to cover the costs of the investigations into Household's practices. Idaho will likely receive in excess of $200,000 as reimbursement for investigative costs and attorney fees.
- Eliminate "piggyback" second mortgages (multiple loans secured by the same property within a short period of time).

State officials said the settlement specifies that the restitution fund could range from $387.5 million up to $484 million, depending on participation by states. They expect almost all states to participate and that the restitution total will be at or close to the $484 million level. Each state's share of the restitution fund will be proportional to the state's percentage share of Household's total real estate loan secured dollar volume.

The written settlement announced today between Household and the states will be contained in consent decrees to be presented to state courts throughout the country.

Director Gee cautions that not all Idaho mortgage lenders should be painted as abusive lenders. The Department of Finance licenses and regulates 375 regulated lenders who conduct consumer finance transactions in Idaho. The most recent annual report indicated that approximately 19,600 real estate secured loans were extended by these lenders, for a total dollar loan volume of approximately $879,500,000. The transactions of Household International and its subsidiaries in Idaho represent only approximately 2.7% of the total dollar volume of real estate secured loans closed in Idaho. "Through our regulatory processes we find that the great majority of lenders in Idaho operate ethically," said Gee. "Idaho consumers are fortunate to have credit that is not only readily available, in a competitive lending environment, but offered by lenders who work in the best interests of their customers."

# # #

Department of Finance press releases and other information are available on the Internet via the world wide web at ***http://finance.state.id.us*** *and may be obtained by contacting the Department at (208) 332-8000, or toll-free in Idaho at 1-888-346-3378.*