

HOUSEHOLD



***“LENDING TO THE MIDDLE MARKET
FOR 125 YEARS”***

Dave Schoenholz

President and Chief Operating Officer

January 21-22, 2003

HOUSEHOLD

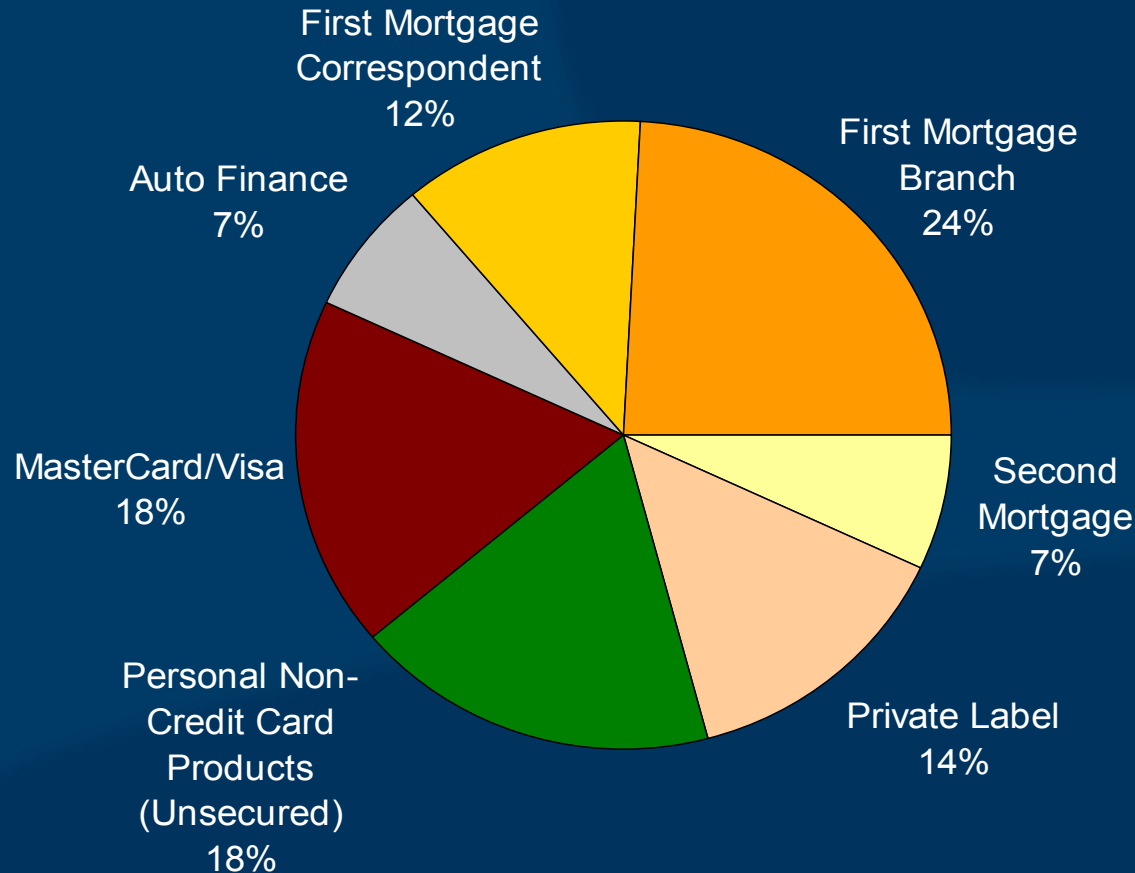
- Established in 1878
- Recognized leader in U.S. consumer lending
 - Leading market share in all businesses
 - Leading brand names in consumer finance
 - Profitable and growing credit card businesses – private label and bank card
- Extensive customer base and distribution network
 - 53+ million customers
 - Nationwide branch network, direct mail and e-commerce
 - Significant distribution through alliances and business partnerships

HOUSEHOLD

- Consistent financial performance
 - Disciplined and sustainable asset growth
 - Strong margins and returns on a total and risk-adjusted basis
- Leads “Best Practices” in consumer finance

A DIVERSIFIED CONSUMER LENDER

Multiple Products

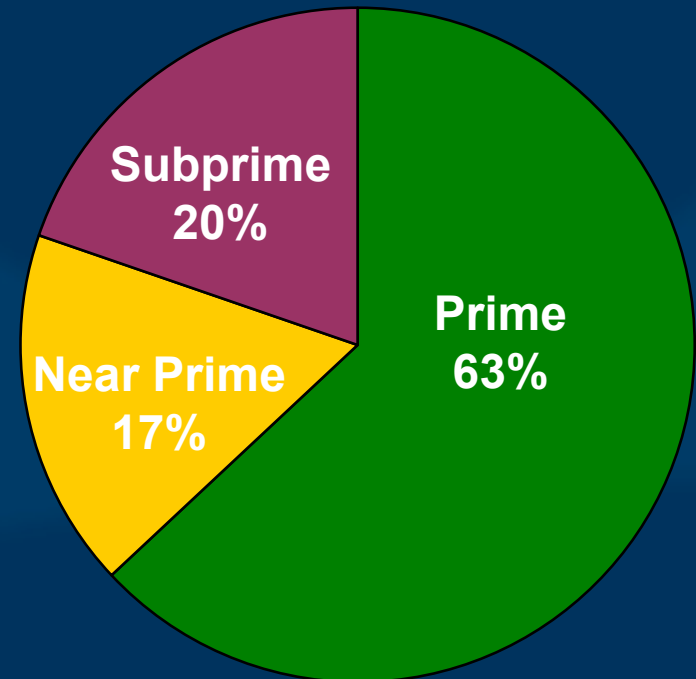


\$107 Billion in Managed Receivables in U.S., Canada and U.K. at 12/31/2002

HOUSEHOLD'S CUSTOMER BASE

Household's 53 million customers have the following characteristics:

- Average age between 40–50
- Average household income between \$45,000 and \$60,000
- Average home value* between \$120,000–\$175,000
- Average auto value** between \$12,000–\$15,000



Note: Based on outstanding managed receivables as of June 30, 2002.

** U.S. real estate secured loan customers*

*** Auto finance customers*

HOUSEHOLD'S CORE CUSTOMER IS THE MIDDLE INCOME MARKET

Customers can be classified as:



Prime



Near Prime



Subprime

PROBABILITY OF DEFAULT

| EXPECTED LOSS GIVEN DEFAULT | PROBABILITY OF DEFAULT | | |
|--------------------------------|---|---|--|
| | Low | Medium | High |
| | Low | Real Estate Secured – 1 st Lien | |
| | Medium | Real Estate Secured – 2 nd Lien | Auto |
| High | Credit Card — GM Credit Card — UP Private Label | PHL; Credit Card – Household Bank | Subprime credit card Branch unsecured |

Probability of Default: Determined by the credit score. General bands are as follows:

Low: >660

Medium: 580-660

High: <580

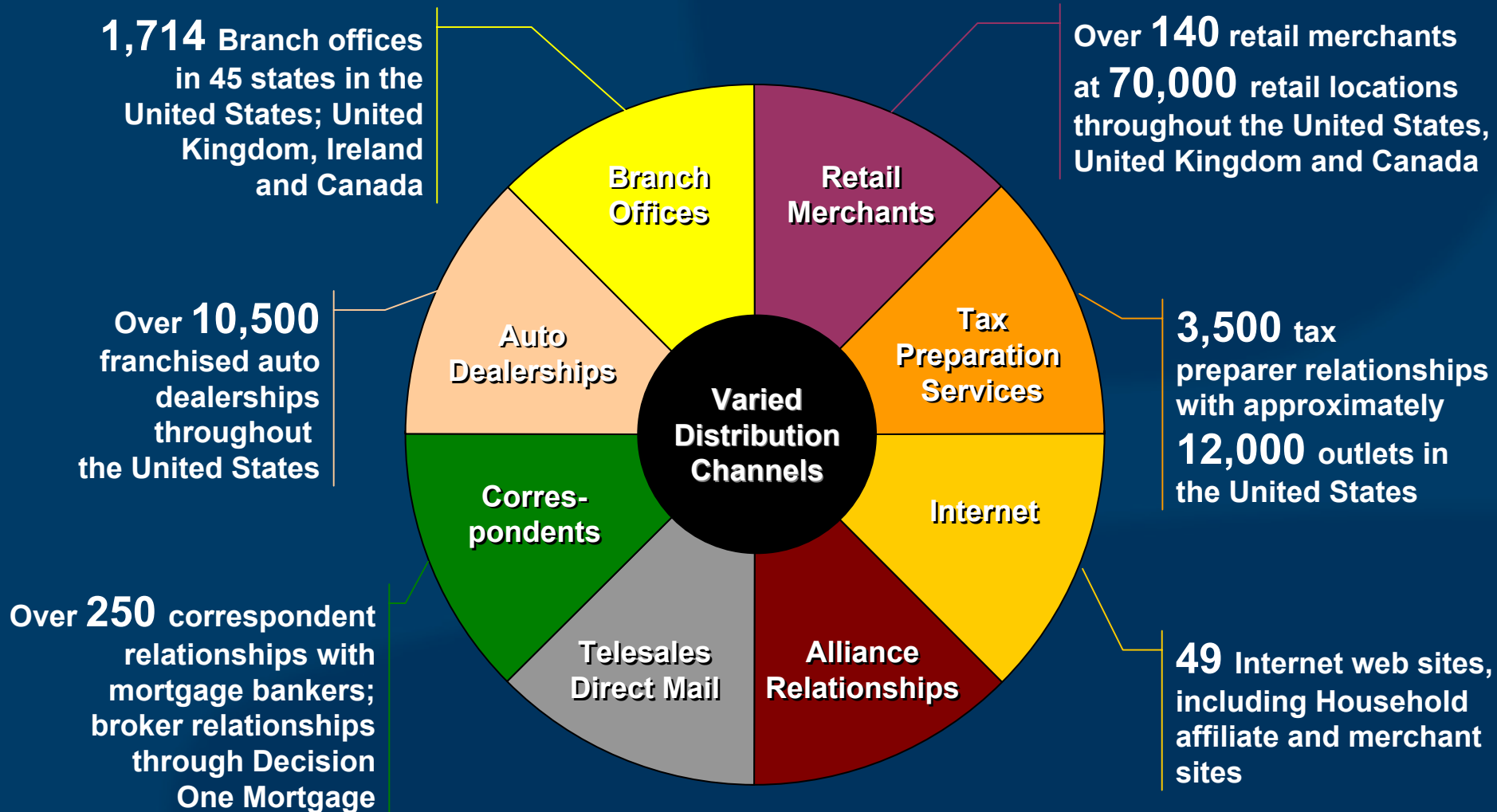
Expected loss given default: What percent of the loan is at risk given default

Low: <25%

Medium: 25% to 75%

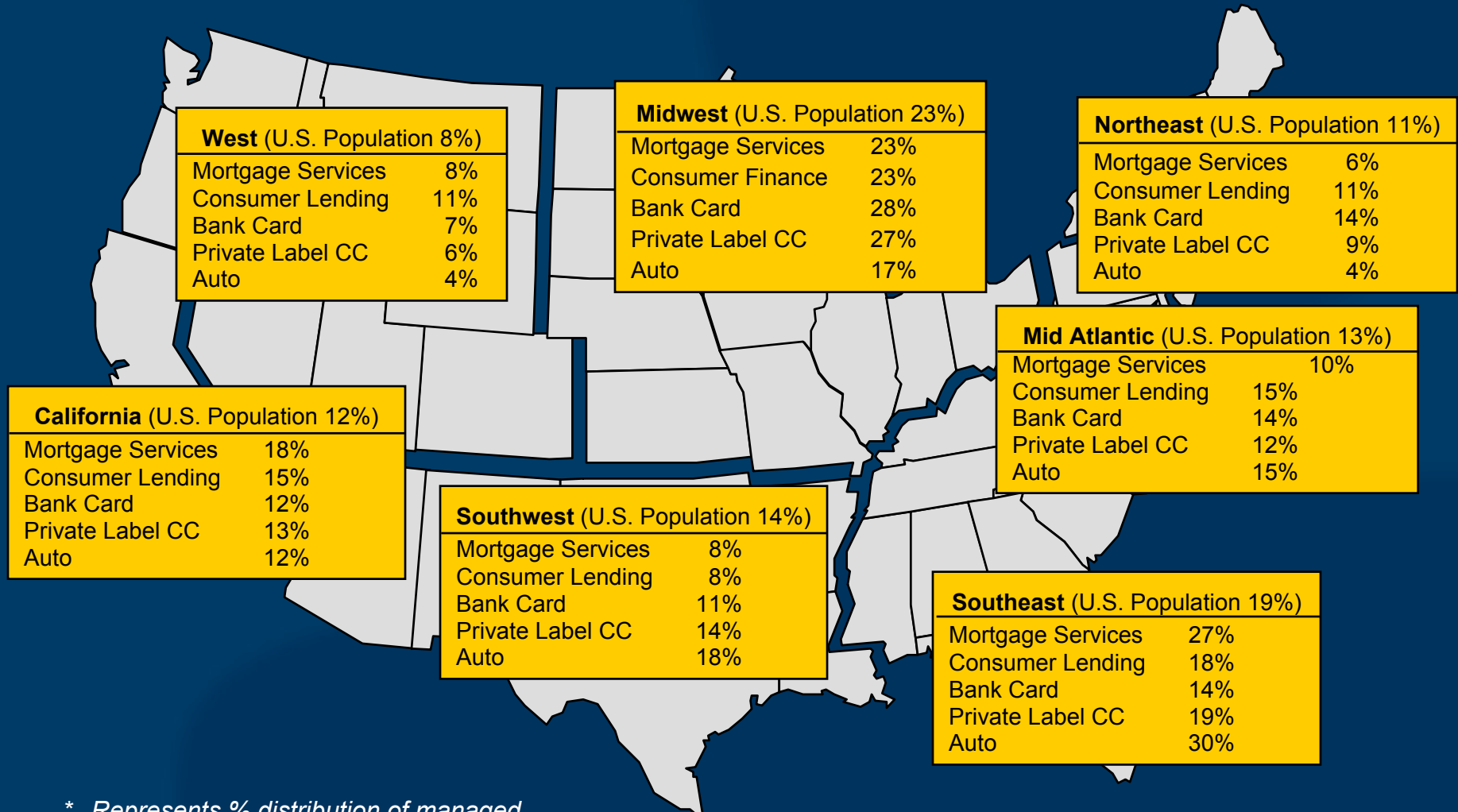
High: >75%

HOUSEHOLD'S DISTRIBUTION CHANNELS



HOUSEHOLD'S CONSUMER LENDING FRANCHISE*

Nationwide Coverage, Well-Diversified



* Represents % distribution of managed
receivables as of December 31, 2002

CHARACTERISTICS OF HOUSEHOLD'S BUSINESS MODEL

- Centralized approach to business
- Sales skills and culture
- Partnering skills and culture
- Low cost producer
- “Best in Class” technology
- Strong marketing and credit management analytics



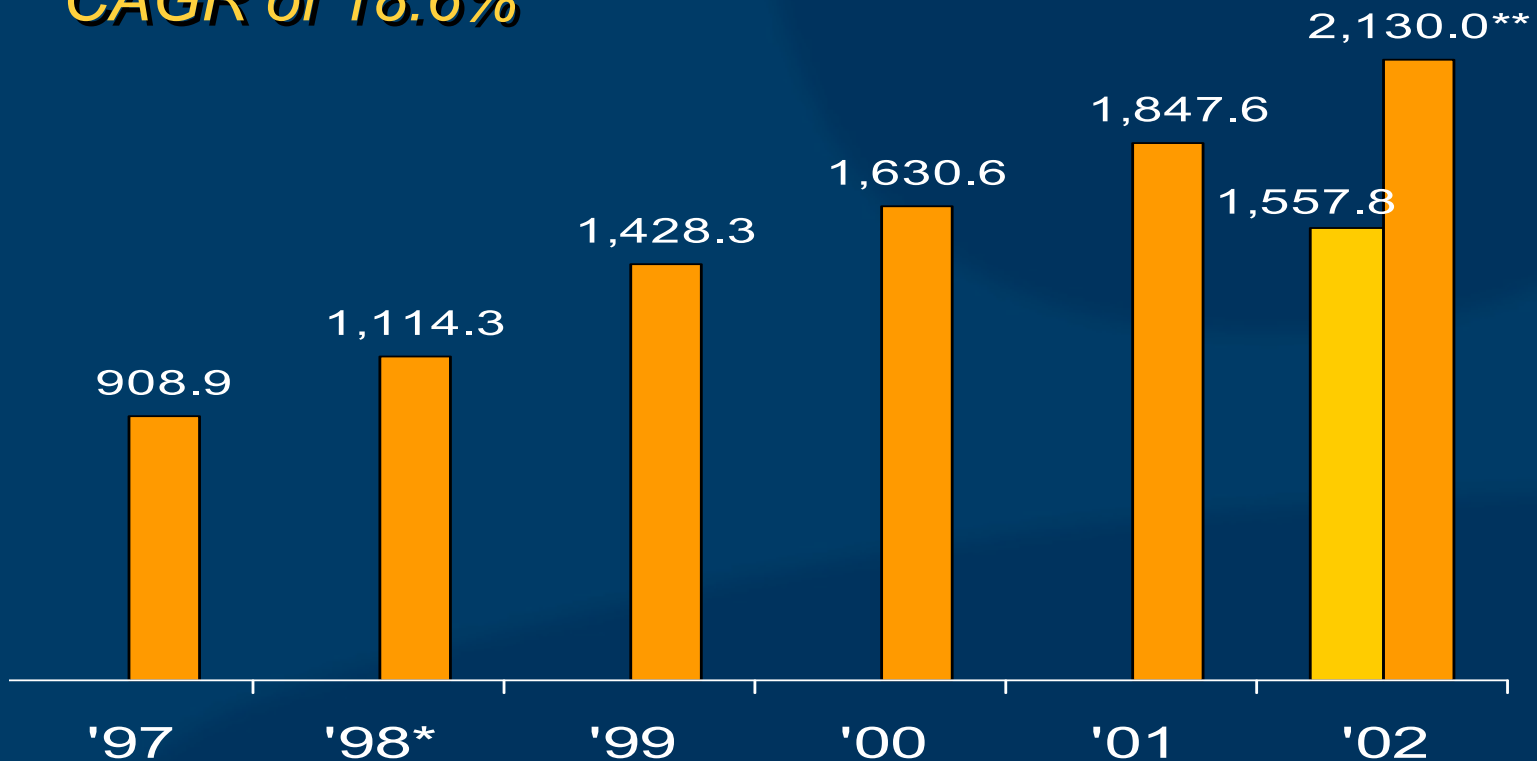
HOUSEHOLD

FINANCIAL PERFORMANCE

PROFITABILITY

(\$ Millions)

CAGR of 18.6%



* Excludes merger related items

** Excludes non-recurring charges

2002 NON-RECURRING CHARGES

Thrift Disposition

- Reduced assets by \$3.6 billion and deposits by \$4.3 billion
- \$240 million after-tax charge in 4th quarter
- No longer strategic focus of company
- Help hit capital targets

Attorneys General Settlement

- \$333 million after-tax charge in 3rd quarter
- Completed in December, 2002

DISCIPLINED, SUSTAINABLE GROWTH MANAGED RECEIVABLES

(\$ Billions)

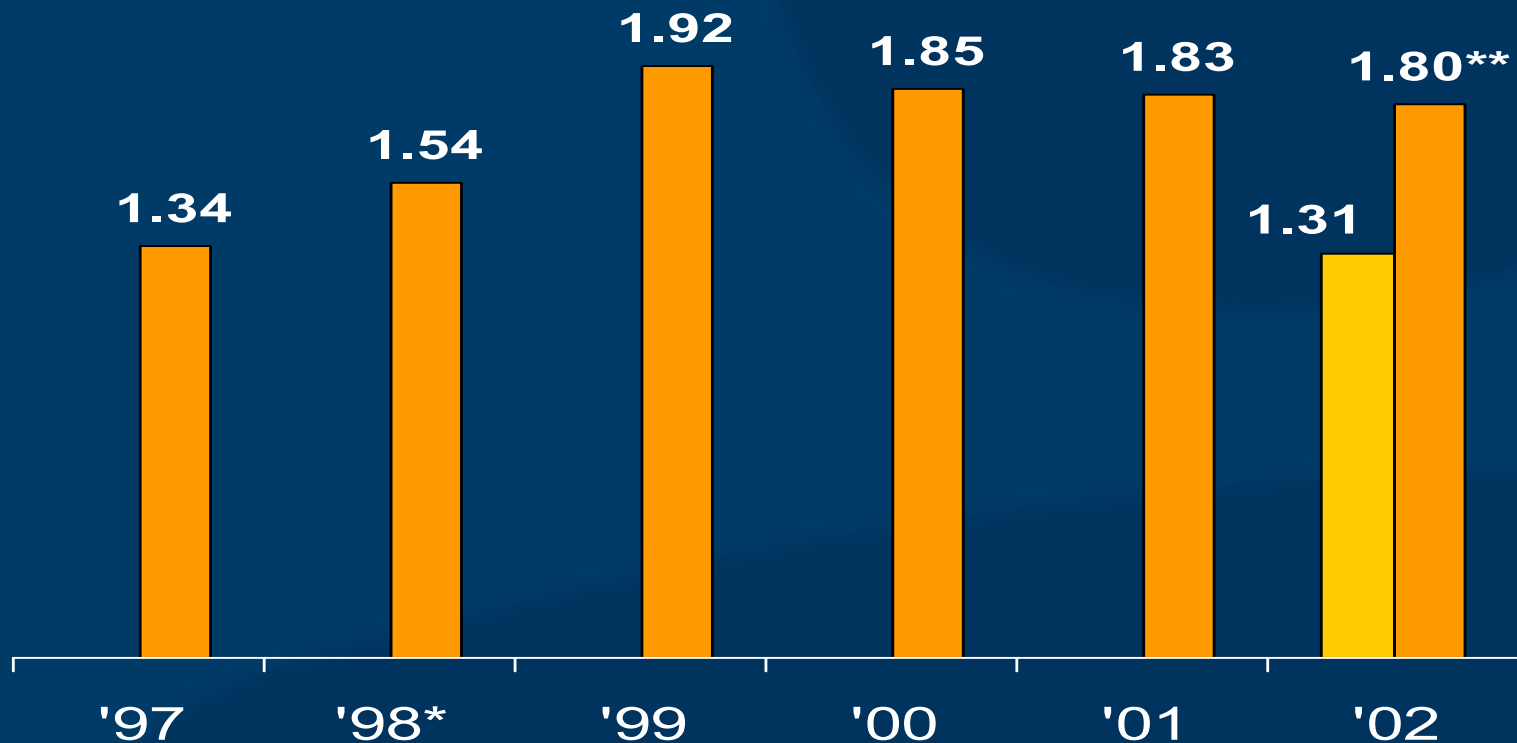
CAGR of 11.2%



* Net of whole loan sales of \$6.3 billion in 2002

SUSTAINABLE, SUPERIOR RETURNS RETURN ON MANAGED ASSETS

(%)

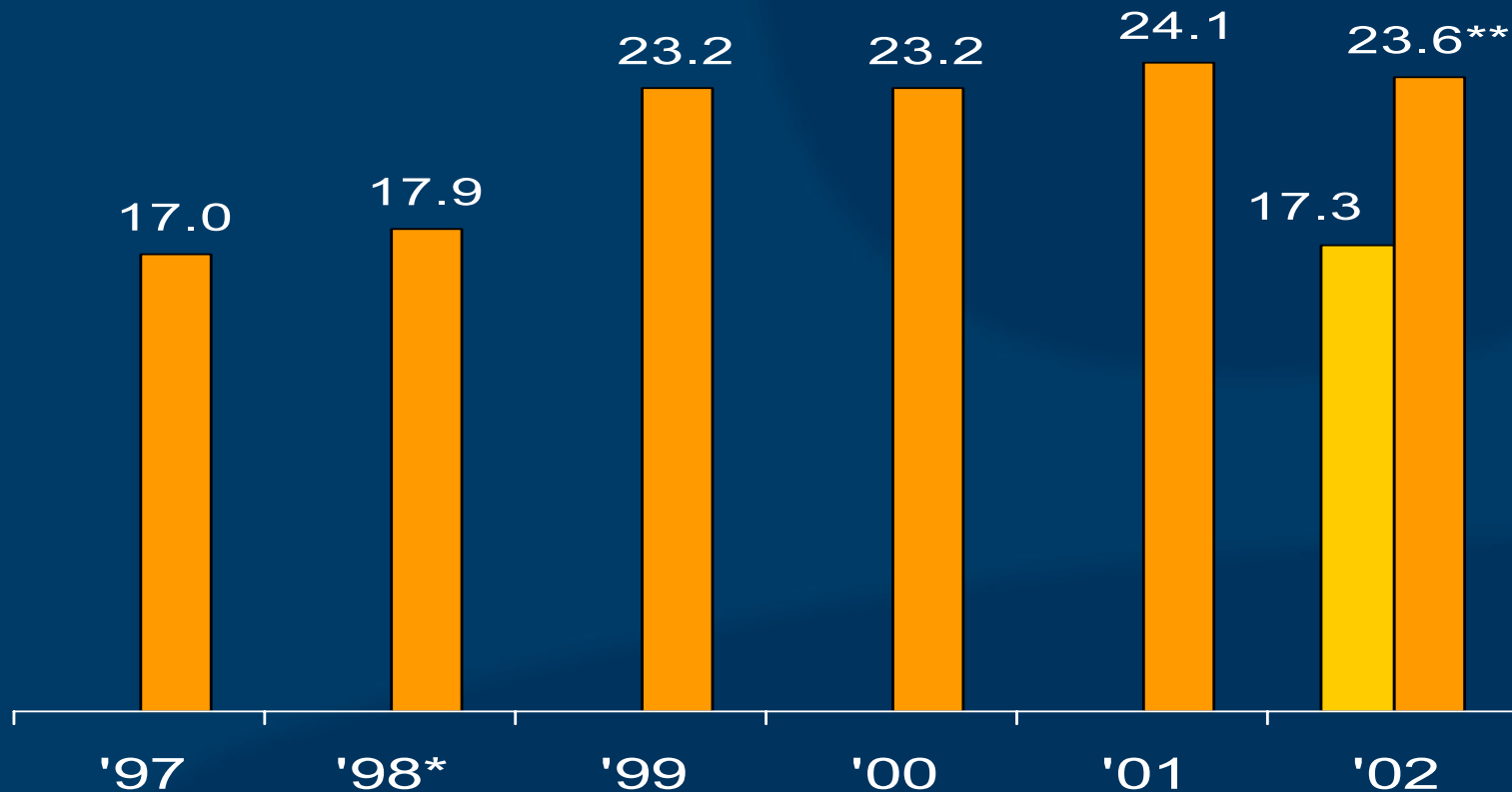


• Excludes merger-related items

** Excludes non-recurring charges

RETURN ON AVERAGE COMMON EQUITY

(%)



• Excludes merger-related items

** Excludes non-recurring charges

CREDIT QUALITY

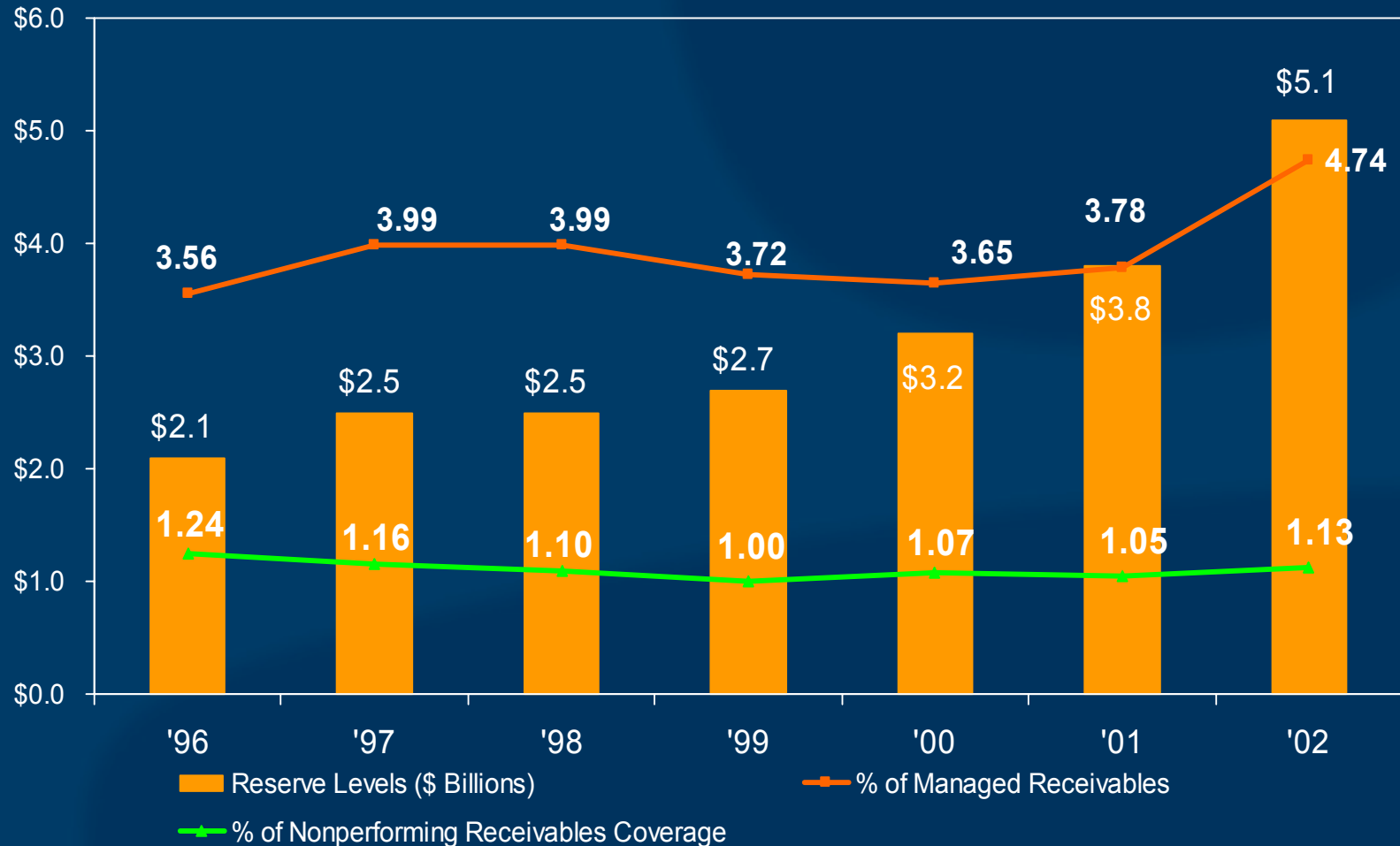
Managed Basis



- *Excluding loan sales of \$1.6 billion in 3Q'02 and \$3.8 billion in 4Q'02.*

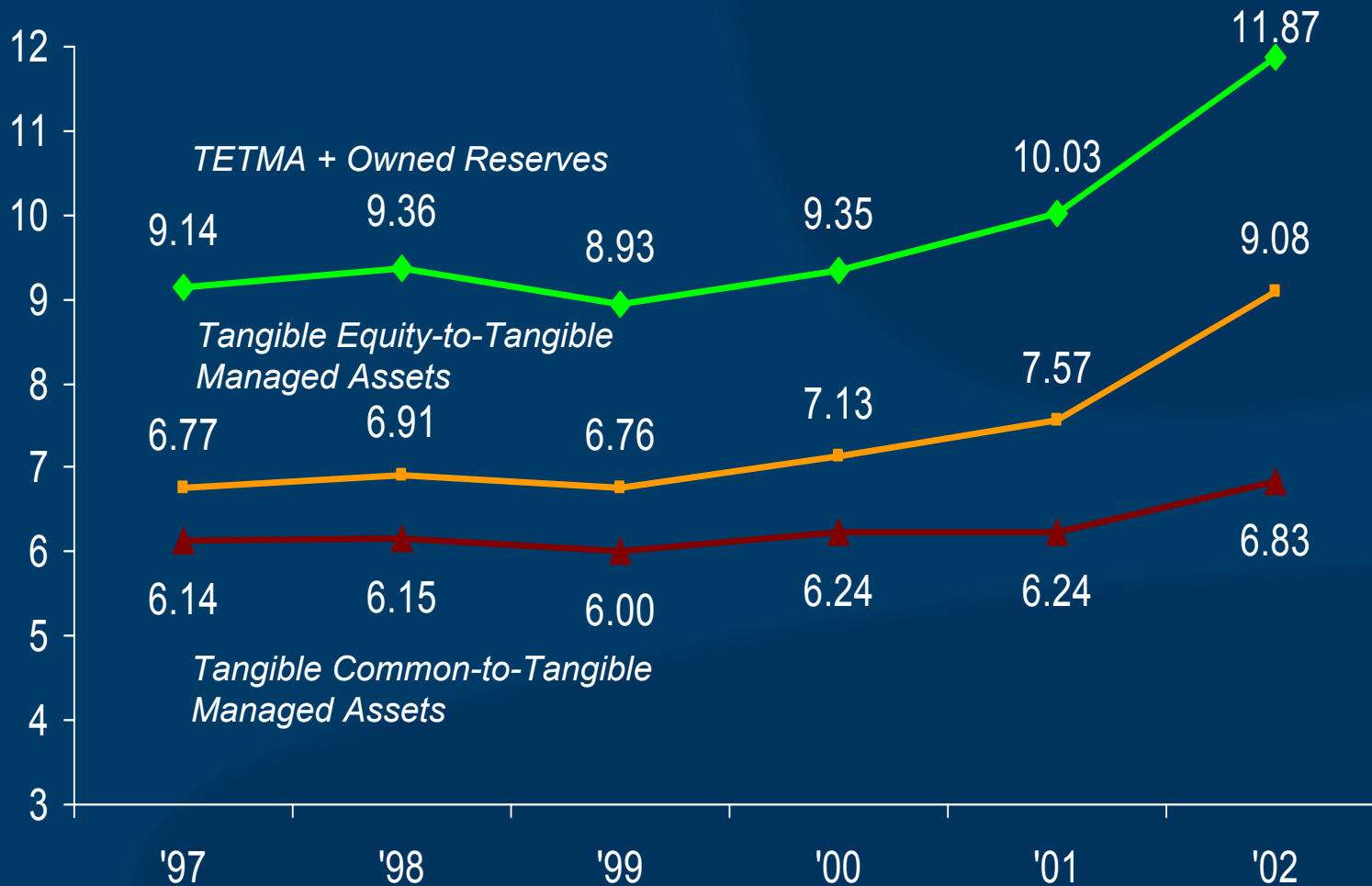
MANAGED RESERVES

A Strong Balance Sheet



CAPITAL RATIOS

(%)



ATTORNEYS GENERAL SETTLEMENT

- Settlement primarily addressed loan disclosure issues on branch originated real estate loans
- \$333 million after-tax charge taken in 3rd quarter for AG settlement, other civil litigation and related expenses
- Announced completion on December 19, 2002
- All 50 states and District of Columbia signed
- Settlement:
 - Disclosure
 - Compliance/control
 - Economic issues
- Business model unaffected
- Estimated impact on '03 results - \$50 million (after-tax)

WHAT IS “PREDATORY LENDING?”

- No clear consensus on the definition of predatory lending
 - “I don’t know how we can hope to address the problem before we have decided what it is...”

Former U.S. Senator, Phil Graham

- “The predatory lending story is one of anecdotes; it is very hard to get data.”

Federal Reserve Board Governor Edward Gramlich

- Responsible lenders agree that predatory activities include:
 - Making unaffordable loans based solely on the home value rather than the borrower’s ability to repay (“equity stripping”)
 - Inducing the borrower to refinance a loan repeatedly in order to charge high points and fees (“loan flipping”)
 - Engaging in fraud or deception to conceal the true nature of the loan obligation
- Other areas of discussion – points/fees, prepayment penalties, insurance sales, non-standard loan features

POLITICAL ENVIRONMENT

- Despite no formal definition of predatory lending, over 20 state jurisdictions have instituted high cost mortgage/predatory lending legislation
 - A comparable number of cities and counties have enacted similar local ordinances
 - May result in restricted consumer credit options
 - Raises cost to comply with various state, county and city mortgage lending laws and regulations
- United States Congress has yet to implement a federal, preemptive solution, although such a bill was recently introduced

POLITICAL ENVIRONMENT

- Activists placed considerable pressure on major players (Citifinancial, Household)
 - Negative media articles
 - Class action litigation
- State Attorneys General and Banking Regulators are responding to public pressure to take action
 - Citifinancial settled with DOJ
 - Household settled with state AG's
 - Wells Fargo currently being sued by California Department of Corporations

HOUSEHOLD'S UNIQUE OPPORTUNITY

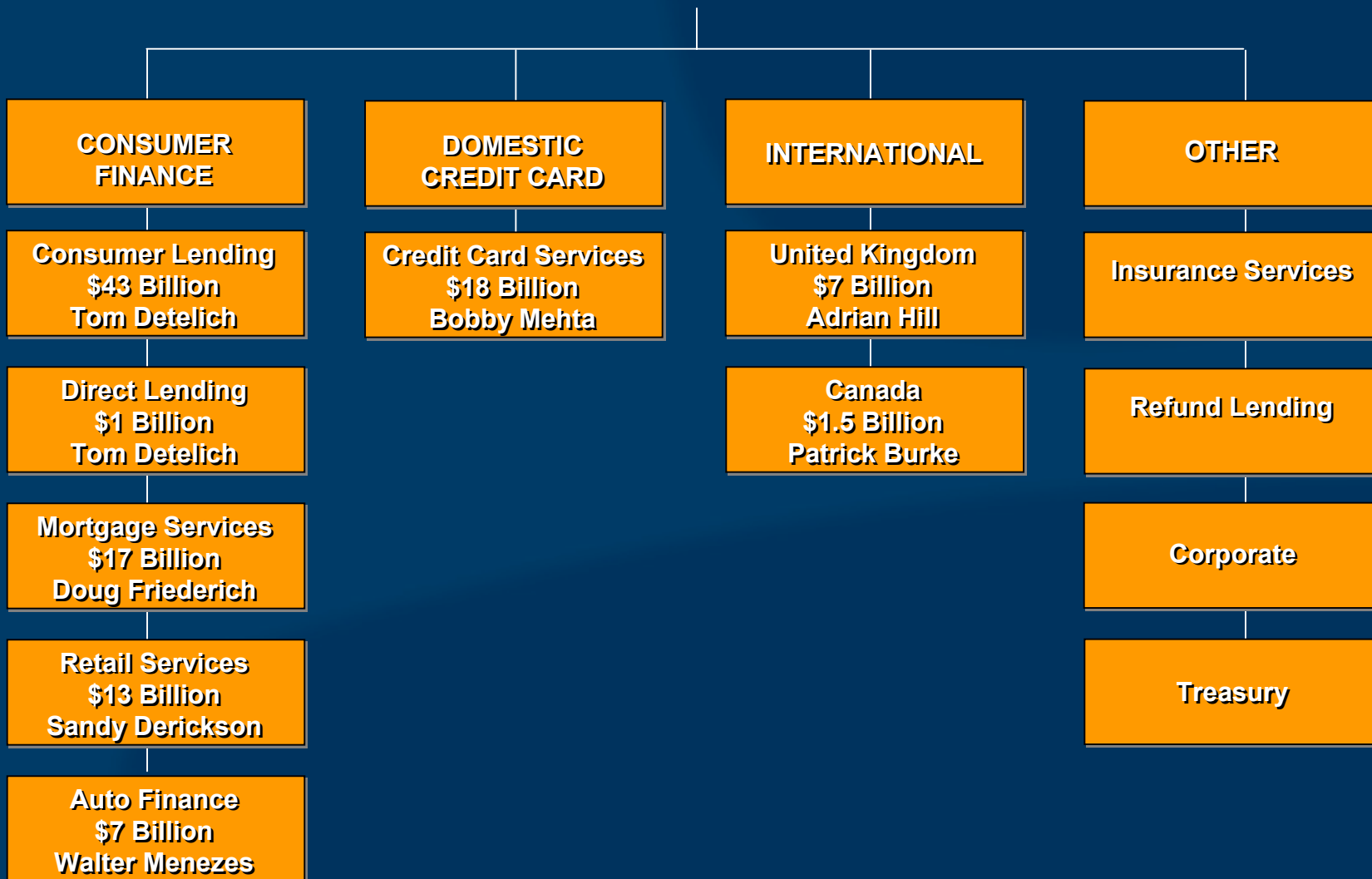
- The company's stringent consumer lending policies, which include provisions agreed to in the recent settlement with state attorneys general, are *industry leading* and are endorsed by state regulatory bodies:
 - *"Household Finance has shown important leadership in this collaborative effort to better inform and protect borrowers."*
Utah Attorney General Mark Shurtleff
 - *"We trust that this settlement will transform Household into a model for other lenders to follow."*
Washington Attorney General Christine Gregoire
 - *"Household should be commended for working to adopt innovative new programs to strengthen compliance and improve disclosure. We anticipate this landmark agreement with Household will set a new standard for the entire subprime lending business."*
Delaware Bank Commissioner Robert Glen

HOUSEHOLD'S UNIQUE OPPORTUNITY

- Policies are setting the standard
- Low cost producer
 - Centralized capabilities to efficiently comply with various legislative proposals
 - Ability to gain further market share
 - Policies are the most consumer-friendly in the marketplace
 - Capability to advocate for federal legislative solution
 - Existing regulatory dialogue
 - Member of industry coalition pushing for Congressional action in 2003

ORGANIZATION CHART

HOUSEHOLD



HOUSEHOLD



CONSUMER LENDING

Tom Detelich
Group Executive

January 21-22, 2003

OUR OPERATING MODEL

- 1,359 distributed retail branches
- Direct lending channel
- 7 centralized collection, underwriting and customer service sites
- Centralized support functions:
 - Marketing
 - Human resources
 - Credit risk
 - Policy and compliance
 - Financial control

KEY COMPETITIVE ADVANTAGES

- Operating model
 - Distributed branch network
 - Centralized support
 - Low cost producer
- Lead delivery platform/technology
 - “Next best lead” segmentation
 - Optimization of leads across the branch network
 - Centralized control of the sales efforts
- Proprietary front-end sales engine: Vision

KEY COMPETITIVE ADVANTAGES

- Credit risk approach
 - Proprietary scorecards and modeling
 - Niche market approach to underwriting
- Direct marketing expertise
 - CIM: data marts for both customer acquisition and relationship management
 - Unique blend of both marketing and credit risk analytical talent: focus is optimization of profit

QUALITY AND CUSTOMER SATISFACTION APPROACH

- Credit policies are established by a credit committee, which includes key consumer lending executives and Household's chief credit officer
- Proprietary, internally developed scorecards, built on experience with these products, are used to underwrite 100% of our lending
 - No automated decisions occur on secured lending
 - All decisions are handled at a centralized facility
 - Consideration given to credit policy, collateral, ability to pay and verification of title and income
 - Unsecured applications may be manually underwritten or auto-decided

QUALITY AND CUSTOMER SATISFACTION APPROACH

- Underwriting utilizes an automatic bureau feed to maximize depth of credit file and geographic differences
- There is a centrally controlled appraisal and title ordering process

QUALITY AND CUSTOMER SATISFACTION APPROACH

- Law records
 - Rate, term, fees, and insurance based upon state requirements
- Safe
 - All form changes are centrally maintained and controlled
 - Checklist of required documents at loan close
 - Bar coding for tracking
 - Loan terms cataloged for post-comparative purposes
- On-line manuals
 - Products
 - Servicing
- On-line training
- Underwriting verification of Customer Benefits Test

QUALITY AND CUSTOMER SATISFACTION APPROACH

- One page disclosure
- Loan closing video
- Customer survey at loan close
- Third party customer satisfaction survey
- Mystery shopper – branch experience
- Periodic audit of the branch controls
 - Confirmation calls to the customer
 - Branch audits – over 4,000 audits conducted per year

ORGANIZATIONAL STRUCTURE

Thomas M. Detelich

Group Executive - Household
President - HFC/Beneficial
Consumer Lending

Years with Company: 26

**Managing
Director-
Branch
Operations**

Years with Company: 20

**Managing
Director-
Operations**

Years with Company: 13

**Managing Director
Direct Lending and
Customer Retention**

Years with Company: 3

**Managing Director-
Strategic Planning
and Development**

Years with Company: 14

**Vice President
Marketing**

Years with Company: 12

**Vice President
Human Resources**

Years with Company: 19

**Vice President
Credit Risk**

Years with Company: 26

**Chief Financial
Officer**

Years with Company: 19

**National Director-
Business
Performance**

Years with Company: 13

**Vice President
Policy and
Compliance**

Years with Company: .25

General Counsel

Years with Company: 15

**Vice President
Applications - HTS**

Years with Company: 23

BUSINESS MIX

| | 12/31/02 Outstandings (\$ Billions) | Percent of Total Outstandings |
|--------------------|---|----------------------------------|
| Real Estate | | |
| First Lien | \$23.8 | 55% |
| Second Lien | 4.2 | 10 |
| Total Real Estate | \$28.0 | 65% |
| Personal Homeowner | | |
| Loan (PHL) | \$ 5.1 | 12% |
| Unsecured Loans | 10.3 | 23% |
| Product Total | \$43.4 | |

OUR BUSINESS TODAY

CUSTOMERS

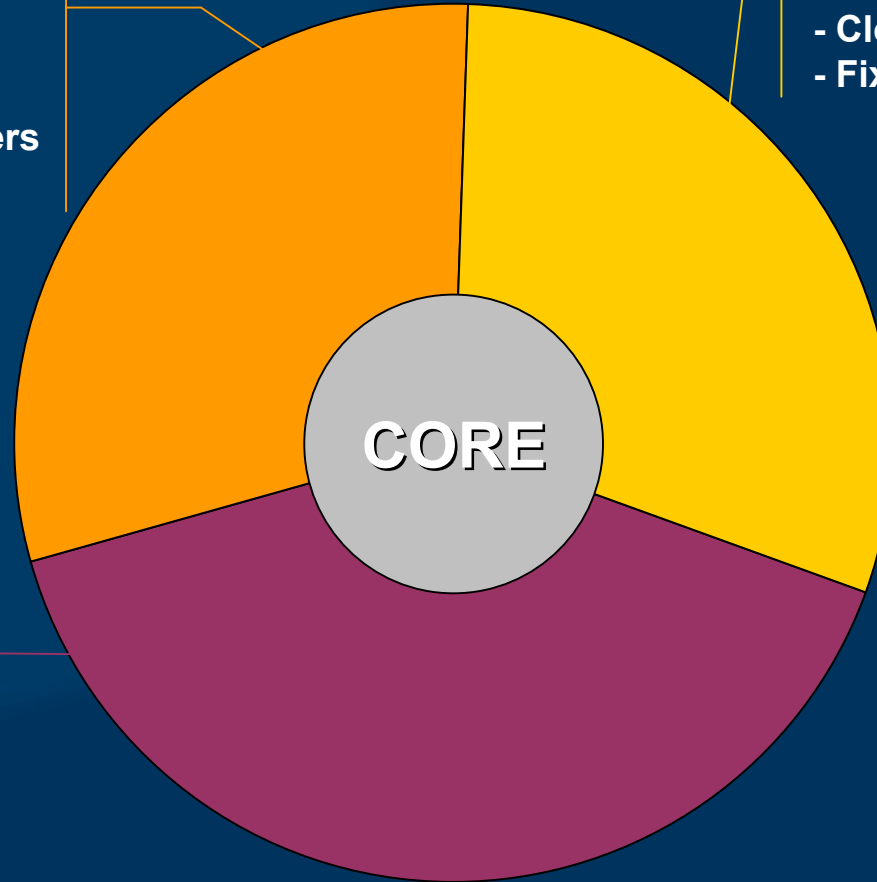
- Subprime and Non-Conforming Homeowners

PRODUCTS

- Secured & Unsecured Loans
 - Closed-end & Revolving
 - Fixed Rate & Variable Rate

CHANNELS

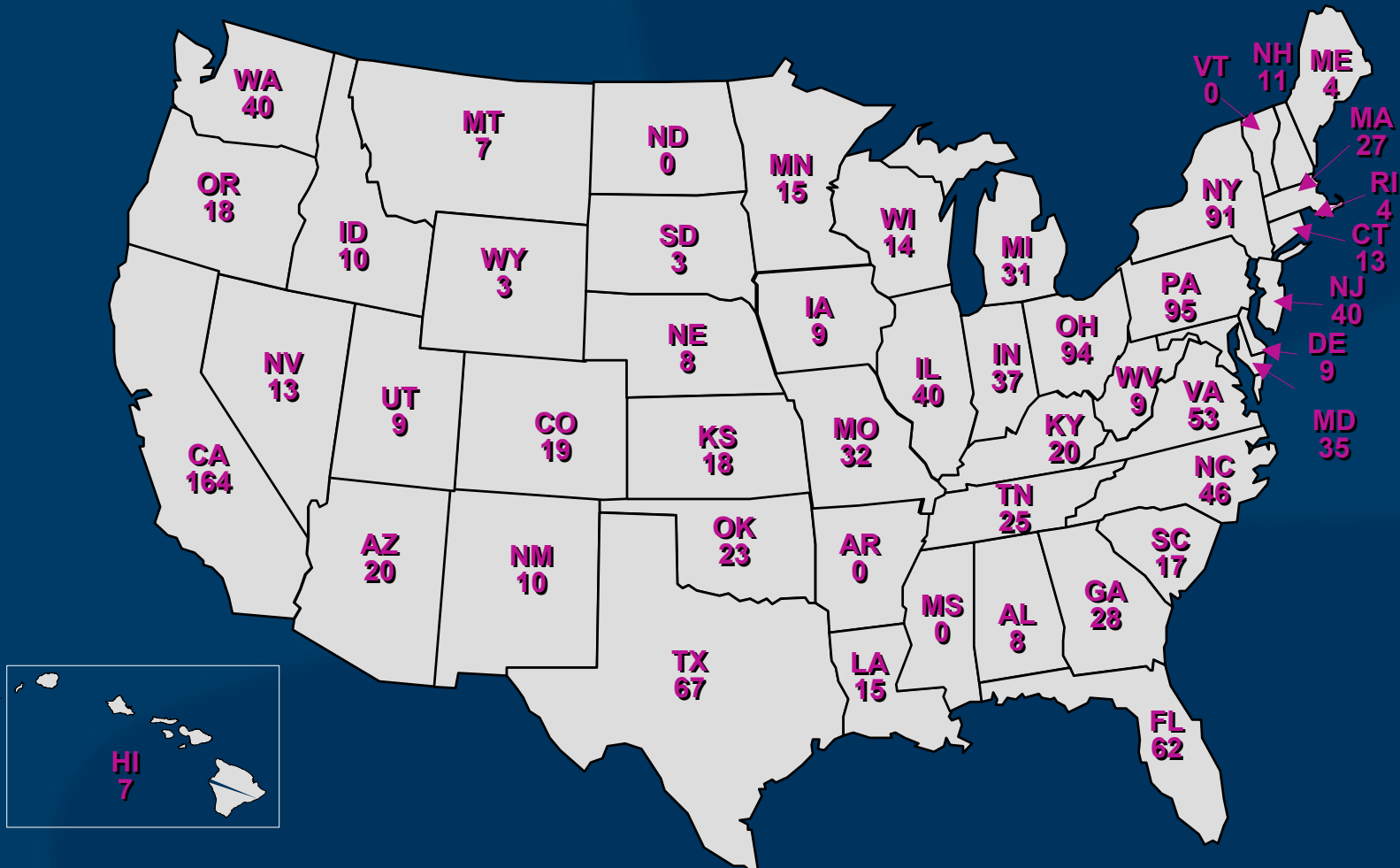
- Branch
- Direct Lending
- Direct Mail
- Internet Sourced



OUR BUSINESS TODAY

HFC & Beneficial Branch Offices Per State

(As of November 11, 2002)



OUR CUSTOMER *

| | |
|--------------------------------|--|
| <i>Age</i> | 43 years |
| <i>Gross Household Income</i> | \$42,000 |
| <i>Time on Job</i> | 6.4 years |
| <i>Occupation</i> | 46% white collar 29% blue collar 25% sales/other |
| <i>Time at Current Address</i> | 6.0 years |
| <i>Homeownership</i> | 79% |

* Data is for all products originated June 2001-June 2002

OUR CUSTOMER *

Loan Purpose

assist family

35% debt consolidation

28% current expenses/

17% travel/other

16% home improvement

4% auto purchase/repair

Proximity to Branch

35% live within 5 miles

24% live within 5-10 miles

34% live within 10-50 miles

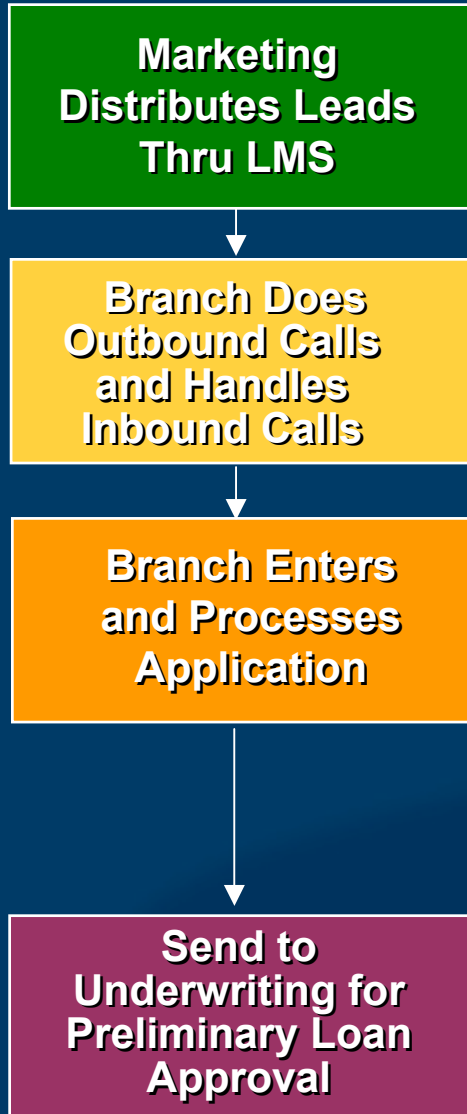
7% live > 50 miles

* *Data is for all products originated June 2001-June 2002*



Beneficial

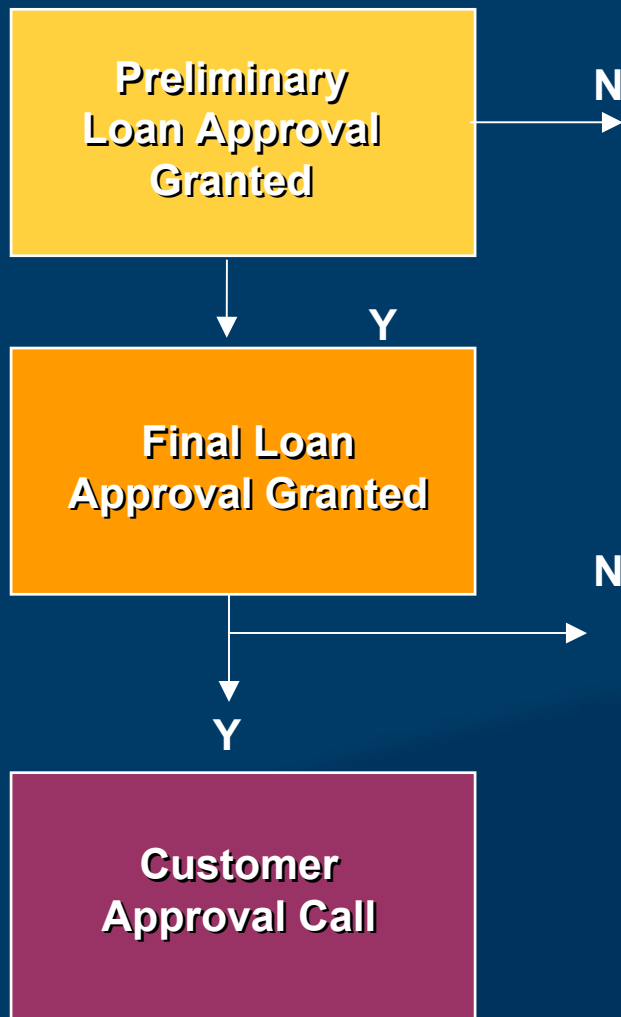
BRANCH CYCLE – REAL ESTATE



- Branch requests necessary information to complete the application: demographic, employment and earnings
- Request necessary loan documents
- Establish an appointment to discuss loan terms and benefits with the customer
- Complete and mail RESPA documents if applicable
- Underwriting reviews application, credit bureau, income documentation and ability to pay
- Underwriting preliminary grades the customer based on credit policy
- Verify customer meets Net Tangible Benefits and Customer Benefits Test
- Branch Manager orders title and appraisal from our approved vendor

BRANCH CYCLE

Real Estate



- Contact the customer and explain the turndown
- Determine if additional information needs to be gathered for re-consideration by Underwriting

- Review appraisal, title and income verification

- Determine if additional information needs to be gathered for re-consideration by Underwriting

- Re-grade the loan based on credit policy: ability/capacity to pay, collateral, and title infractures

- Contact the customer and review the final loan parameters and terms

BRANCH CYCLE

Real Estate

Loan Closing



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graph TD; A[Loan Closing] --> B[Loan Funding];
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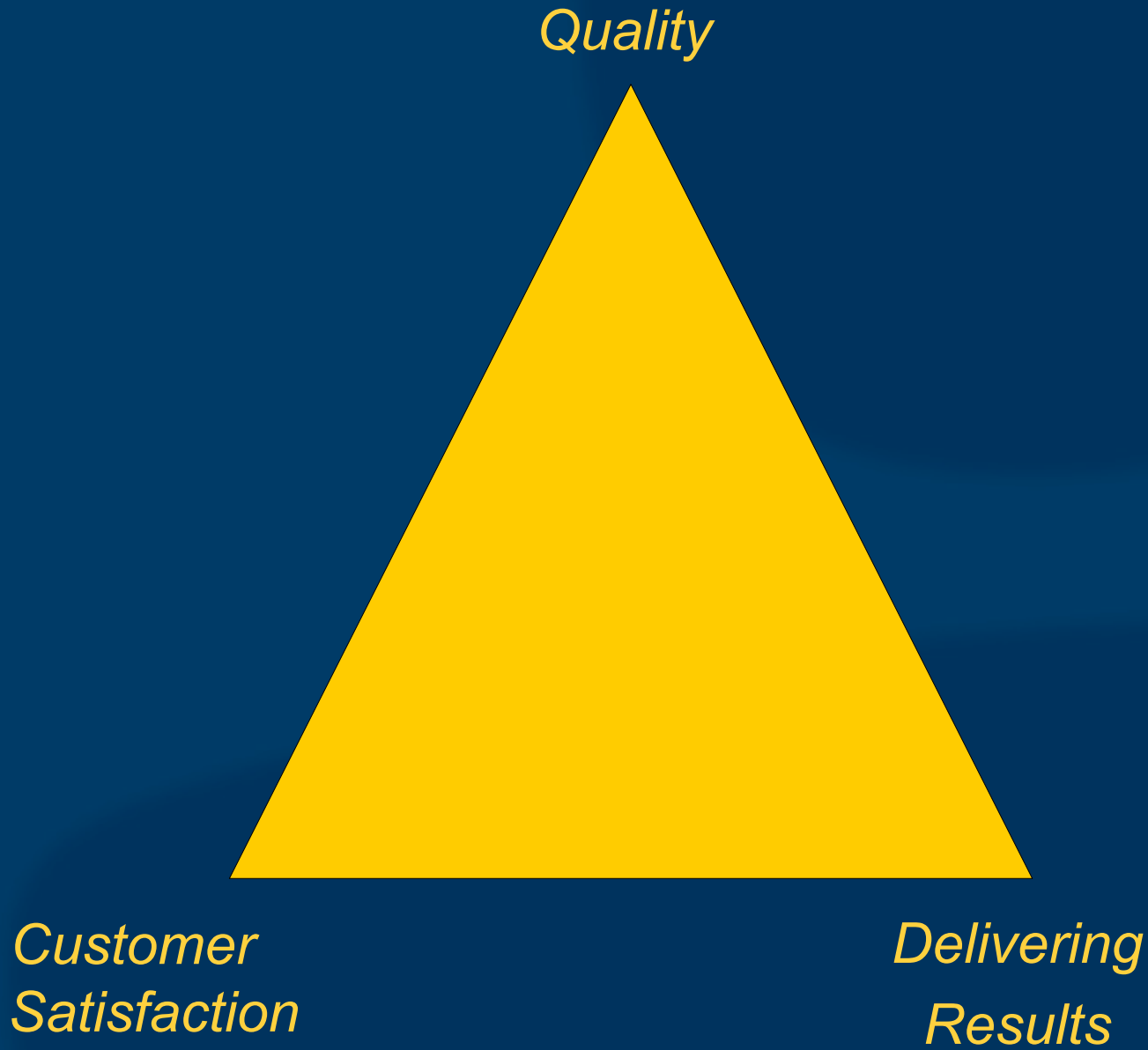
A vertical flowchart with two yellow rectangular boxes. The top box is labeled 'Loan Closing' and the bottom box is labeled 'Loan Funding'. A white arrow points from the bottom of the 'Loan Closing' box to the top of the 'Loan Funding' box.

- Customer watches the loan closing video
- Review loan documents
- Explain rescission and sign loan documents
- Discuss funding date and time

Loan Funding

- Cut customer check(s)
- Have customer sign non-rescission notice and collect this document for the file
- Have customer complete customer survey

2003 FOCUS



HOUSEHOLD



TECHNOLOGY

Ken Harvey

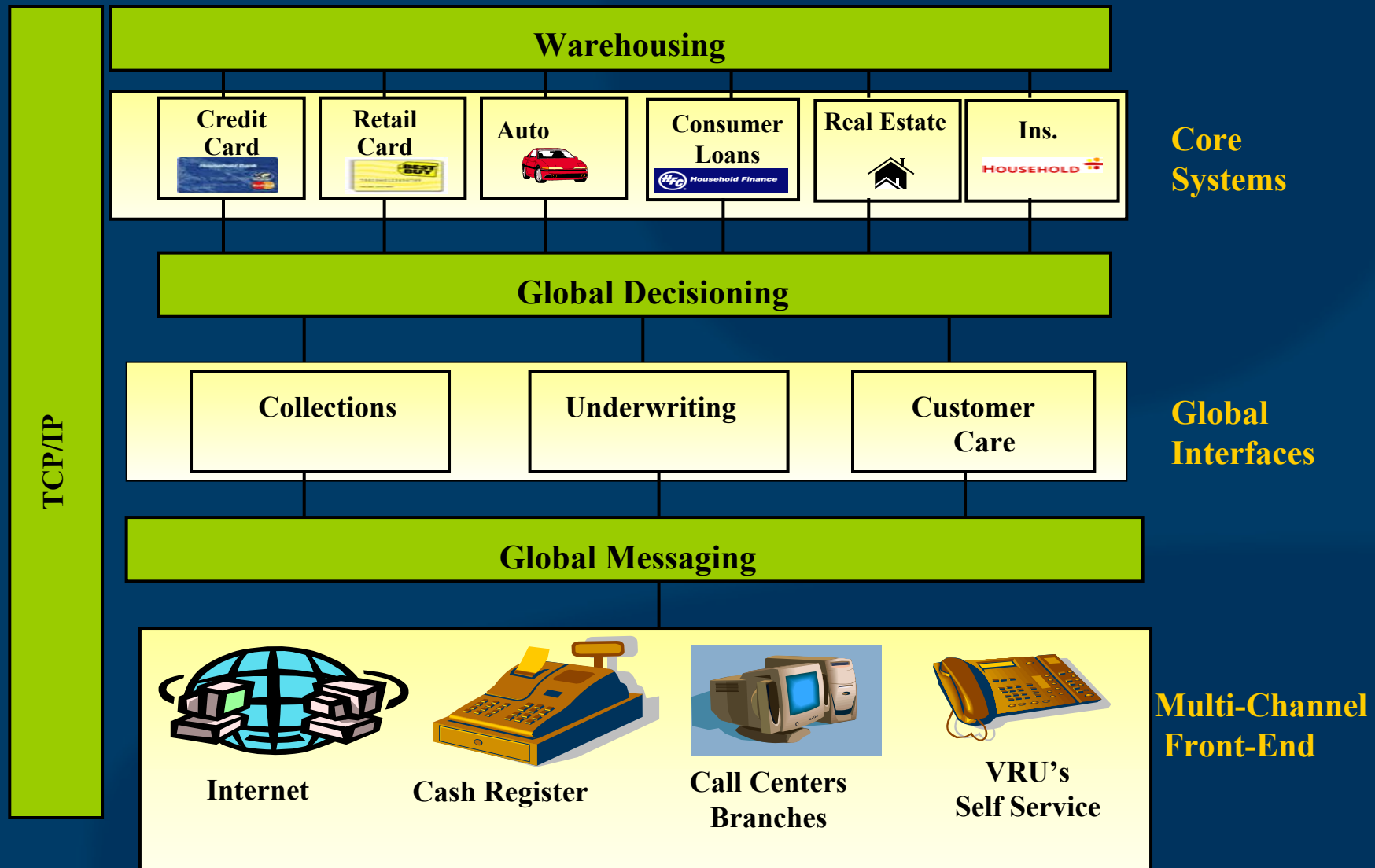
Group Executive – Chief Information Officer

January 21, 2003

HOUSEHOLD NORTH AMERICA

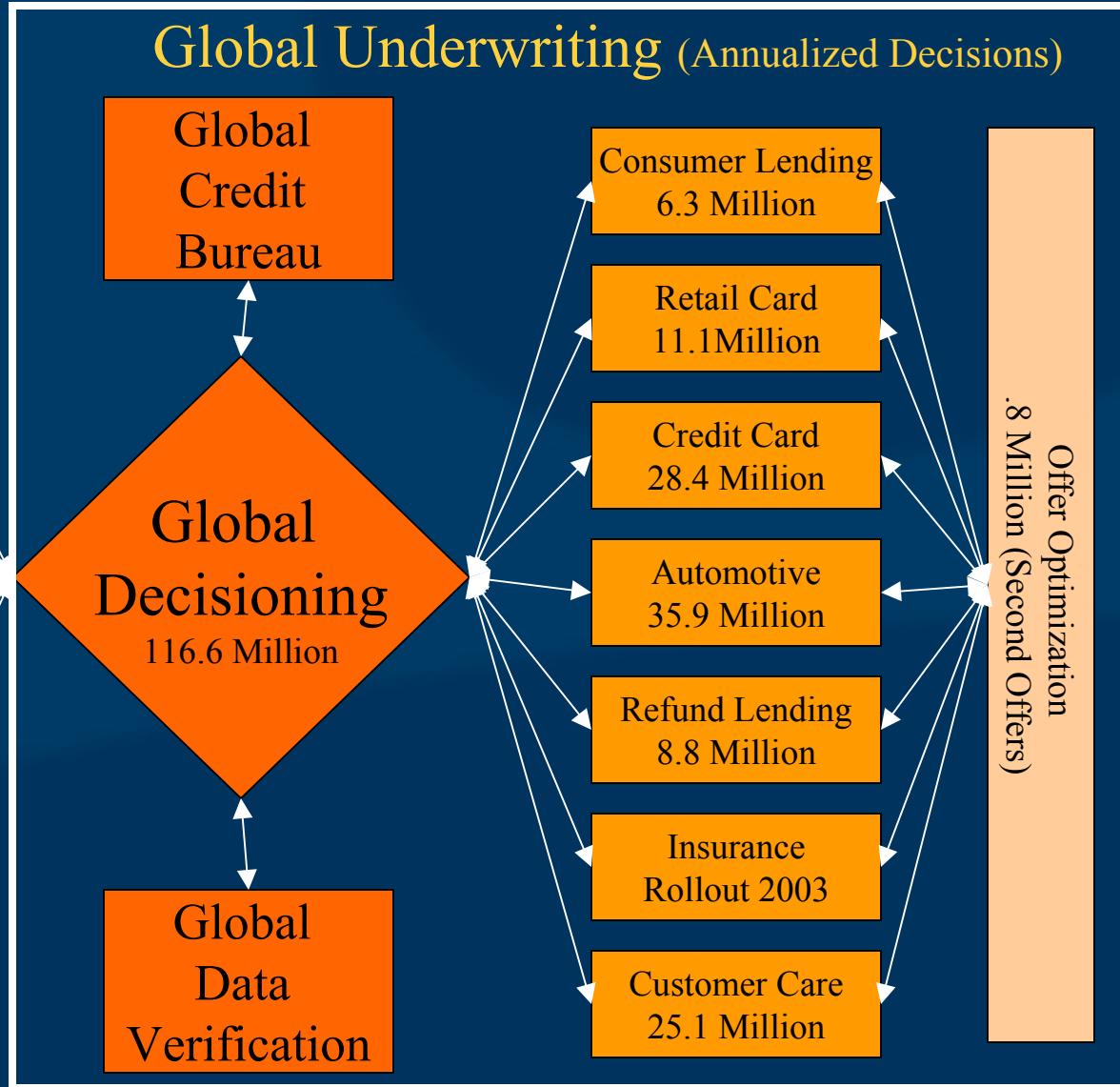
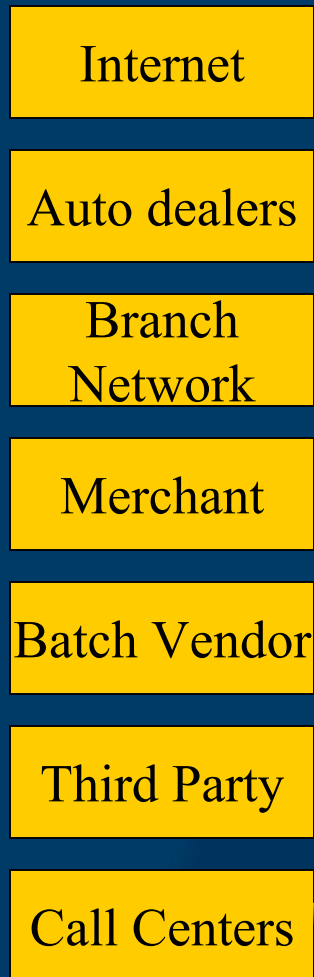
- Largest Static Internet Protocol Network
- 800 Million Transactions Processed Per Month
- 25 Ubiquitous Call Centers
- Leader in Neural Networking
- Leader in Point of Sale Technology “VISION”

HOUSEHOLD GLOBAL TRANSACTION FLOW



ENTERPRISE DECISIONING FLOW

Inbound Channels



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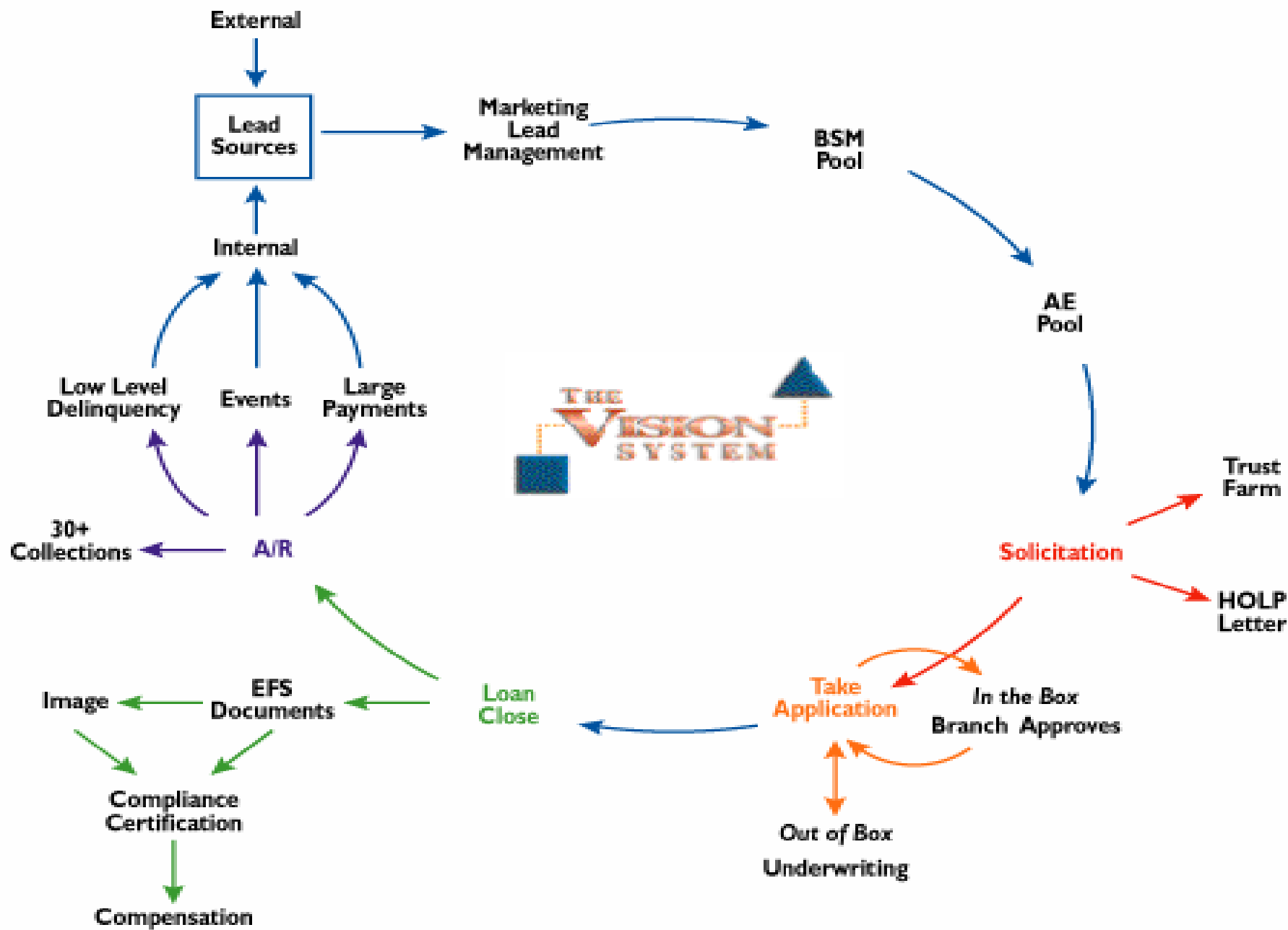
VISION METRICS

Servicing

- 7 million outbound calls
- Capacity for 15mm inbound calls
- .5 million leads serviced each week
- 35% average decrease in turn-around time for title and appraisal work

Efficiency Trends

| | |
|-----------------------------|--------------|
| Total Number of Loans | 35% increase |
| Total Loan Acct Dollar Gain | 20% increase |
| Promotional expense | 4% decrease |
| Cost per \$1,000 originated | 20% decrease |
| Secured cost per LA \$ | 24% decrease |



HOUSEHOLD



CREDIT MANAGEMENT

Paul Makowski

Senior Vice President – Chief Credit Officer

January 21-22, 2003

CREDIT RISK MANAGEMENT

- Credit risk management is a core competency
- Developed and managed company-wide, with common data structure and platforms
- State-of-the-art scoring and segmentation techniques
- Strategic support for batch and real time decisions
- A wealth of technological tools to facilitate implementation of complex strategies

SKILLS INVENTORY

- 700 professionals with analytic expertise
- Engaged in
 - Scorecard development
 - Customer analytics
 - Strategy implementation
 - Collections analytics
 - Underwriting decision trees
 - Loss forecasting
 - Underwriting and collections support
- Managers all have minimum of 10 years experience; almost all have MBA+

BUSINESS UNIT CREDIT RISK

Underwriting Practices

- Real Estate Loans
 - No auto decisioning
 - All loans are graded on multiple measurements (i.e., LTV, DTI, etc.)
 - Objective, centralized appraisal process
- Private Label
 - 90% automated
 - Incomplete applications are referred for credit review
- Credit Cards
 - Proprietary prospect database
 - Custom risk attributes and models
 - Screen all responses on back-end

BUSINESS UNIT CREDIT RISK

Underwriting Practices

- Other Unsecured Products
 - 70% automated
 - Judgmental decisions are made by experienced underwriters at central location
- PHL
 - Judgmental decisions are made by experienced underwriters at central locations
- Auto Finance
 - Decisions are based on a mix of FICO, custom score, judgment and policy rules

DECISION SUPPORT TECHNOLOGY

Common Underwriting Tool

- Complex strategies in champion/challenger mode
- Can use multiple input sources, not just credit bureau
- Can test logic by analyst at desktop
- Common inputs and outputs company wide, yet allows specific business customization
- Creates outputs ready for future model development
- Supports cross business solicitation
- Offers can be made by multiple businesses with their proprietary strategies with one pass

CORPORATE CREDIT MISSION

- Provide corporate oversight of:
 - Scorecards
 - Underwriting
 - Account management
 - Promotions and mailings
 - Collections
 - Privacy practices
- Foster best practices:
 - Manage communications and meetings on best practices
 - Work with each business to improve processes and technology
- Manage corporate initiatives:
 - Restructure policy changes
 - Homebase to Datahouse
 - Fraud
 - Scoring utility
 - Collections assessments
 - Cross selling
 - Loss forecasting
 - Strategyware implementation
 - Credit bureau management
 - Privacy
 - Analytic databases

STRATEGIC CREDIT PROCESSES

- Credit Extension Program Approval for direct mail and other programs with large exposure
- Test and Learn: A culture of controlled experimentation
- Budgeting and Forecasting: Independent forecasting of delinquency and loss for comparison/validation of decentralized business unit projections
- Portfolio Review: Periodic reviews and issue specific reviews
- Risk Assessment: Lower risk tolerance across all areas of business

FORECASTING APPROACH

- Loss and delinquency is independently forecast by Business Units and Corporate, then reconciled. Process is repeated each quarter.
- Top Down Corporate Forecast - Baseline of constant “Lagged Charge-off Rate” adjusted for economic conditions, mixed seasoning and management actions.
- Bottom Up Business Unit Forecast - Baseline of segmented roll rate and vintage and management consensus adjusted for economic conditions and management actions.
- Reconciled and consensus outlook jointly reviewed with senior management.

RESTRUCTURE POLICIES

Overview

- Restructure policies are an inherent part of value proposition for our customers, for which they pay above bank prices
- Not intended to defer credit loss recognition or to overstate net income
- Allows customers to recover from “bumps in the road” and to preserve credit bureau information
- Allows collectors to work on higher-risk accounts that have not indicated a willingness and/or ability to pay
- Policies have been consistently applied and are appropriate for each product

LOAN RESTRUCTURING

Restructuring and the Marketplace

Wall Street Journal, Friday, November 1, 2002

- “Fannie Mae... is allowing (customer) to skip some payments”
- “The program’s flexibility may actually help reduce defaults and foreclosures...and helps consumers stay in their homes”
- “Lenders also approve...and see it as benefiting people with irregular income streams or relieving situations in which people are temporarily cash-strapped

RESTRUCTURING CONTROLS

- Accounts must meet performance criteria to be eligible for restructuring
- Collectors incented on “promises to pay” and dollars collected
- Only experienced collectors may provide restructuring as a collection option/strategy
- Audits to ensure adherence to policy
- Restructuring stock and volume monitoring
- Restructured accounts carry higher reserves

RESTRUCTURE STOCKS

| (\$ Millions) | 12/31/02 | 6/30/02 | 12/30/01 |
|--------------------------------------|------------|------------|------------|
| <i>Total Domestic Portfolio</i> | | | |
| Never restructured | 84.4% | 83.3% | 83.1% |
| Restructured in the last 6 mos. | 6.5 | 7.4 | 9.0 |
| Restructured in the last 7-12 mos. | 4.1 | 5.1 | 3.6 |
| Previously restructured | 5.0 | 4.2 | 4.3 |
| Total Restructured | 15.6% | 16.7% | 16.9% |
| Total | 100.0% | 100.0% | 100.0% |
| <i>Total Restructured by Product</i> | | | |
| Real Estate Secured | \$8,473.2 | \$ 8,778.2 | \$ 8,667.1 |
| Auto Finance | 1,242.9 | 1,189.2 | 959.3 |
| MasterCard/Visa | 540.8 | 535.4 | 512.5 |
| Private Label | 1,255.4 | 1,237.5 | 1,332.4 |
| Personal Non-Credit Card | 3,768.1 | 4,195.1 | 4,191.5 |
| Total | \$15,280.4 | \$15,935.4 | \$15,662.8 |

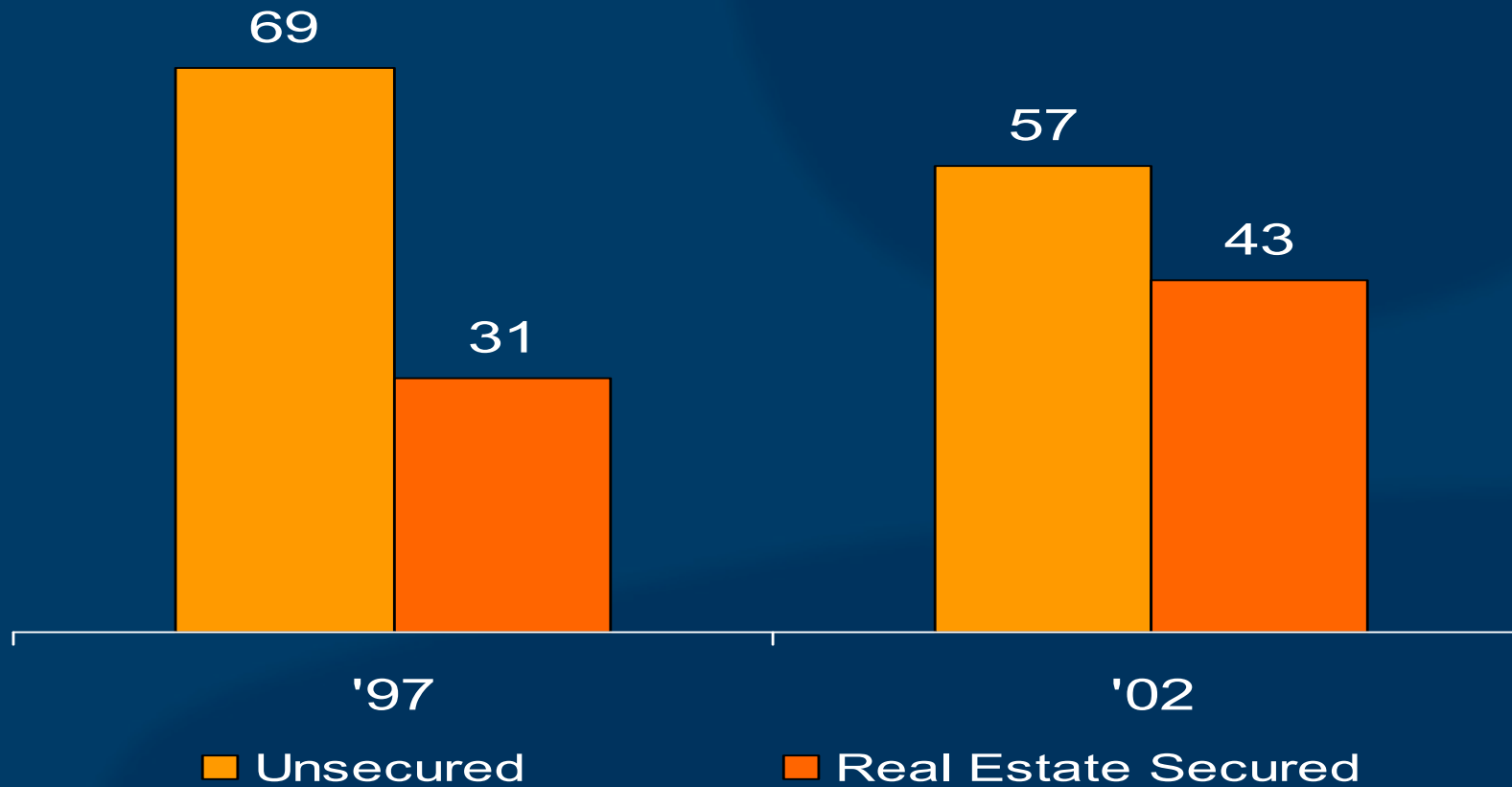
LOWERING THE RISK PROFILE

We Have Prepared for an Economic Slowdown

- Emphasized real estate secured loans
- Increased collectors by 50%
- Tightened underwriting policy criteria
- Reduced credit lines in U.S. credit card businesses
- Eliminated unsecured loans to renters in U.S. branches
- Continuous strengthening of risk modeling capabilities
- Real-time monitoring of account performance

LOWERING THE RISK PROFILE

(%)



ACTIONS TAKEN - UNDERWRITING

- Eliminated highest risk populations from credit solicitations (i.e. renters)
- Tightened underwriting policy criteria
 - Increased cutoffs
 - Raised minimum disposable income
 - Reduced initial credit lines
- Tightened lending authority and exception policies
 - Centralized lending authority
 - Reduced exception authority
 - Lowered lending authority
- Significantly improved existing risk models and introduced new ones

ACTIONS TAKEN – PORTFOLIO MANAGEMENT

- Converted unsecured loans to secured position
- Expanded credit line decrease programs.
- Focused on retaining and up-selling low risk accounts
 - Outbound campaigns
 - Inbound campaigns
- Significantly reduced contingent liabilities in credit card businesses

ACTIONS TAKEN - COLLECTION

Focused on Collections

- Legendary Performance Incentive Program - sponsored by CEO
- Customer Treatment Decision Tools
 - Best time to call
 - Treatment optimization
 - Adaptive control software
- Contact management database

ACTIONS TAKEN - COLLECTIONS

Dramatically increased the number of collectors both prior to the actual recession and after 9/11.

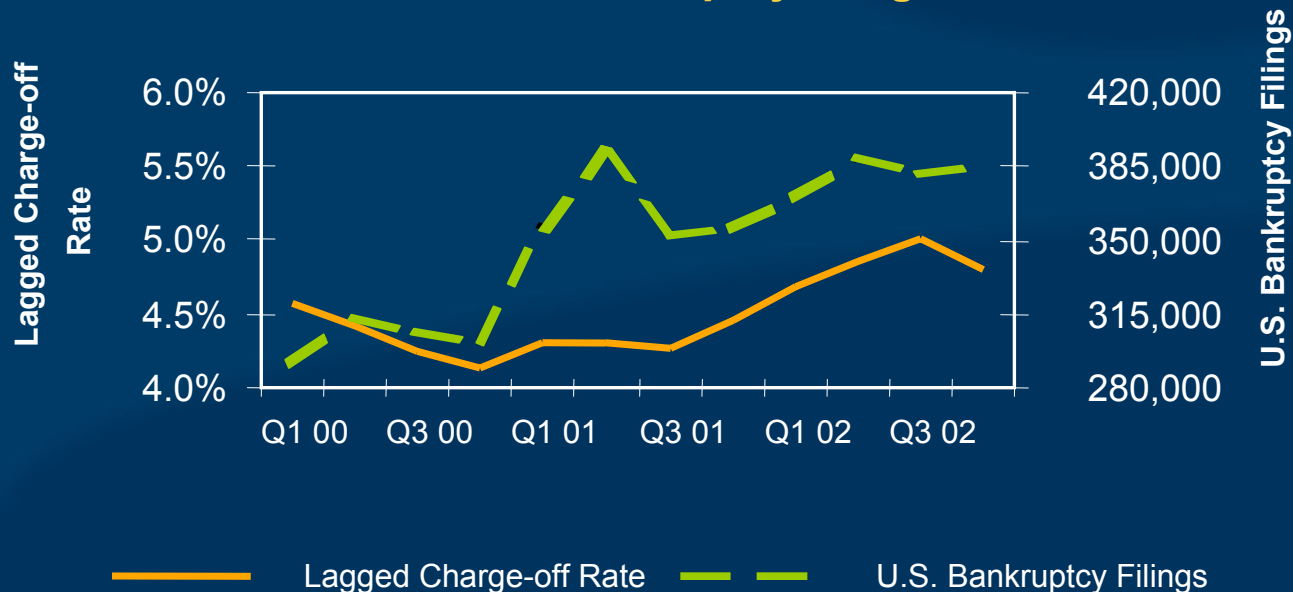
Collectors - Headcount All Businesses



MANAGING THROUGH THE RECESSION

- However, losses rose less than the benchmark – U.S. bankruptcy filings
- Resilient performance was the result of preemptive management action

**Comparison Lagged Charge-off rate and
U.S. Bankruptcy filings**



SUMMARY

- Credit risk management skills, practices and technologies are “best in class”
- Accurate loss forecasts have enabled the company to prepare for the weak economy
- The company has continued to outperform the industry

HOUSEHOLD



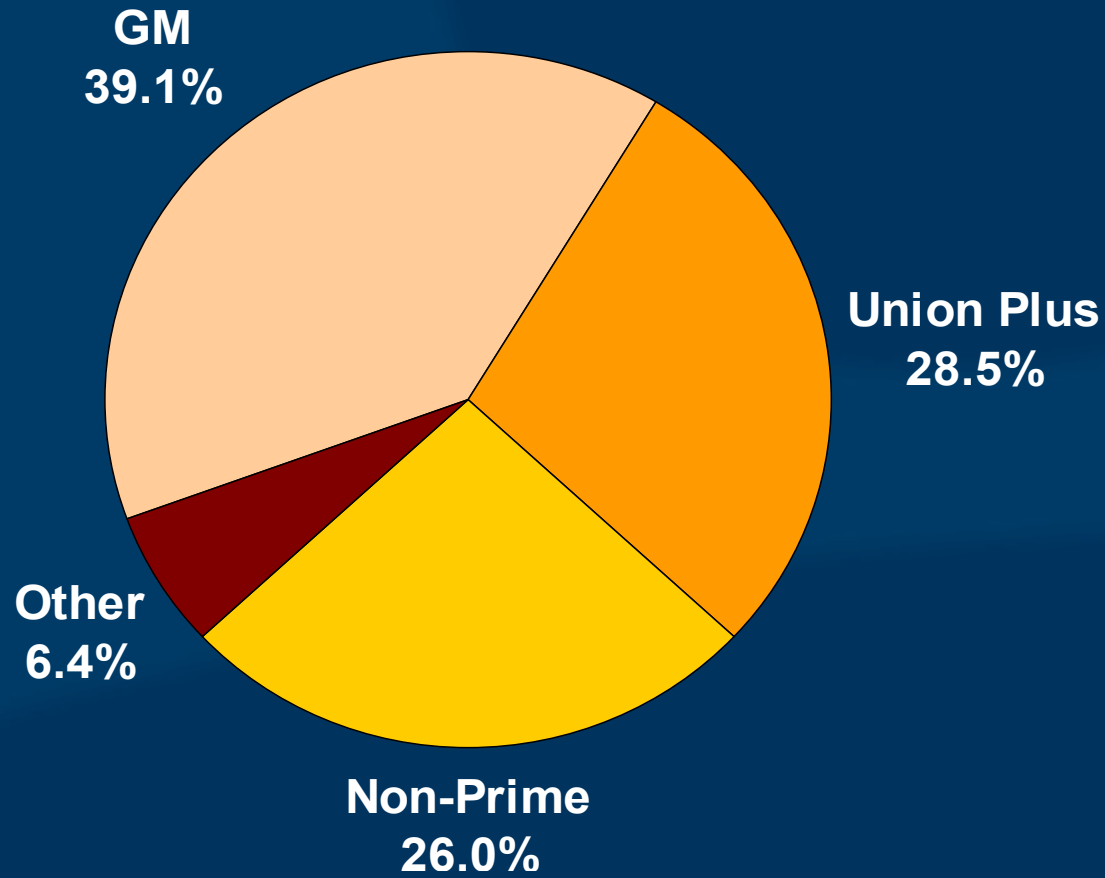
CREDIT CARD SERVICES

Bobby Mehta
Group Executive

January 21-22, 2003

CREDIT CARD SERVICES

Receivables As of December 31, 2002



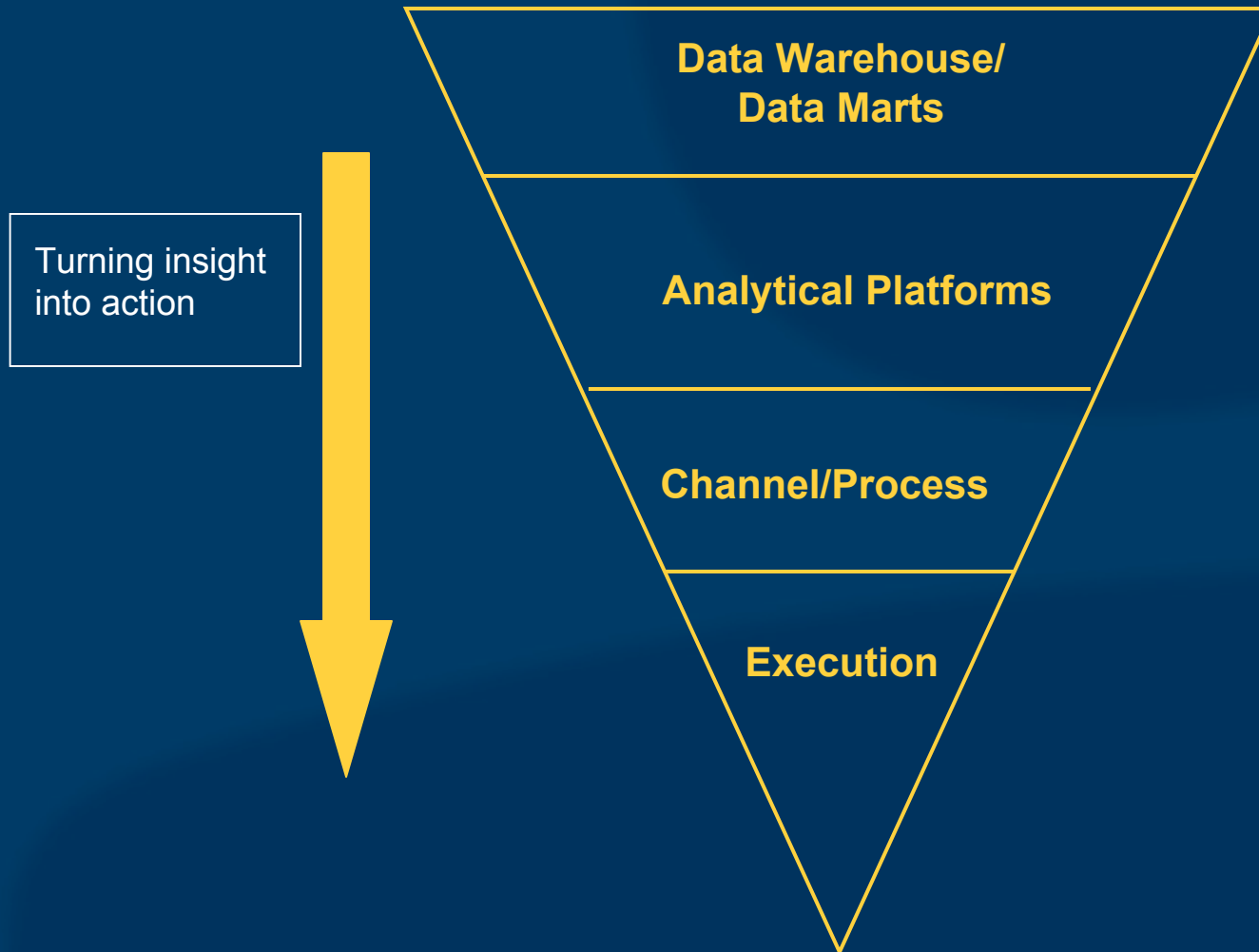
STRATEGY FOR PROFITABLE GROWTH

- True partnership approach
- Full spectrum lending
- Leverage of Household franchise
- Customer care orientation (Sales and Service)
- Analytically driven decision making (Marketing, Risk, Collections)

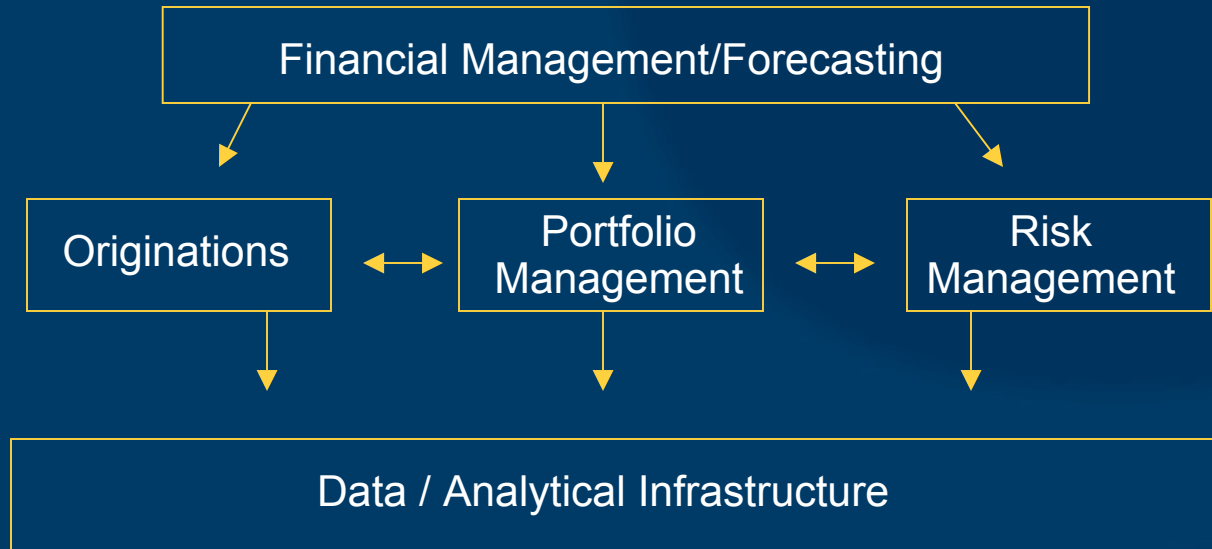
LEVERAGING DATA AND ANALYTICS FOR PROFITABLE GROWTH

- Data and analytics are the foundation for decision-making
- Analytics and execution are aligned to turn insight into actions
 - Focused teams support each critical business function
- Teams leverage a common data infrastructure
 - Analytics are balanced with experience and judgement
- Test and learn approach

FRAMEWORK FOR ANALYTICAL DECISION MAKING



EXECUTION: TURNING INSIGHT INTO ACTION



STRONG FINANCIAL MANAGEMENT PROCESS UNDERPINS RISK MANAGEMENT

- Originations, investment decisions and results tracking
 - Pro formas (5 year) utilize recent performance of “like” marketing cells
 - Risk-weighted capital based on portfolio
 - Vintage tracking on portfolio mailings
- Loss forecasting process
 - Joint process with Finance, Risk and Collections
 - Roll rate models
 - Vintage models
 - Econometric modeling and economic overlays

STRONG FINANCIAL MANAGEMENT PROCESS UNDERPINS RISK MANAGEMENT

- Financial forecasting process
 - Full P/L monthly by major portfolio
 - Common data infrastructure
 - Produce 18-month rolling forecasts
 - Continuous improvement of process (cost analysis/drivers, capital, treasury, etc.)
 - Recession and other scenarios
- Monthly business reviews
 - Focus on risks and opportunities to financial forecasts
 - Initiatives and trends

MODELS ARE CONTINUOUSLY VALIDATED WITH EXPERIENCE

Over 150 scorecards are in production today

- Leverage a suite of custom models
 - Risk and response models
 - Bankruptcy prediction models
 - Behavior scores
 - Transaction-based models
 - “Purpose-built” models
- Strict, well-documented control process governs the model development/validation process
 - Ensures statistical validity and legal/regulatory compliance

ORIGINATIONS

Data

Credit bureau

Demographics

Customer

Suppression

Campaign history

Response history

Vertical lists

Analytics

Risk

Marketing

Finance

Business Processes

Monthly mailings

Offer optimization

Underwriting
(Strategyware)

Results

Response rates
above industry

Cost per account flat
while volume of new
accounts rising

Risk-adjusted returns
stable

Increased frequency
of mailings to
monthly

Leading direct mailer
(300M originations
pieces mailed)

PORTFOLIO MANAGEMENT

Data

Transaction

Account

Customer

Household

Offer

Response

Application

Behavior

Demographics

Models/Scores

Telephone

Points (GM)

Analytics

Risk

- Line management

- Risk-based pricing

Marketing

- Balance build

- Spend

- Retention

- Enhancement Services

Financial Forecasting

Business Processes

Data integration

Risk focused

Marketing focused

Results

Program execution
(700+ campaigns annually)

Growth of inbound sales

Intelligent call routing

Monthly processes for all key actions

LOSS MITIGATION

| <u>Data</u> | <u>Analytics</u> | <u>Business Processes</u> | <u>Results</u> |
|----------------------|---|---------------------------------|---|
| Falcon (fraud) | Current account | Collections analytics | Collections |
| Bust-outs | - Line management | Current account loss mitigation | - Efficiency |
| Suspicious merchants | - Repricing | | - Effectiveness |
| Transactions | - Authorizations | | - Optimization of treatment (CTO) |
| Authorizations | Delinquent accounts | | Fraud losses among lowest in industry |
| Collections | - Collections treatment optimization | | Current account loss mitigation provides substantial charge off savings |
| | - Collections support (champion/challenger) | | |

SUMMARY

- Results
 - Have improved consistently since 1998
 - Have proven highly predictable
- Overall portfolio growth has been prudent and controlled
- Underwriting and account management strategies have been appropriately conservative
- Collections and loss mitigation efforts have been very effective
- All strategies have a strong empirical and statistical foundation
- Rigorous review and control processes ensure sustainability of results

HOUSEHOLD



AUTO FINANCE

Bobby Mehta
Group Executive

January 21-22, 2003

AUTO FINANCE

- We finance primarily late-model used vehicles through franchised new vehicle dealers
- 10% direct lending through internet, direct mail and alliance partners
- Tremendous success of HAFC Superhwy.com
- \$7 billion in managed receivables

UNDERWRITING TRENDS

Improving Collateral and Borrower Profile

| | 2002 | 2001 | 2000 |
|---------------------------|----------|----------|----------|
| <i>Borrower</i> | | | |
| Monthly Disposable Income | \$1,709 | \$1,706 | \$1,613 |
| Home Ownership | 45% | 40% | 37% |
| FICO Score | 598 | 587 | 576 |
| <i>Collateral</i> | | | |
| Odometer Mileage | 27,770 | 26,529 | 24,253 |
| New Cars | 24% | 24% | 29% |
| Loan Amount | \$16,677 | \$15,938 | \$16,226 |
| Wholesale Value of Car | \$14,814 | \$14,704 | \$14,958 |
| Average Term | 63.5 | 63.1 | 64.0 |

KEY ISSUES

- Losses increased in late 2001 and 2002 due to:
 - A slow economic growth environment creating higher unemployment rate (frequency)
 - Zero percent manufacturers' programs creating declining/weak used car prices (severity)
- Used car prices have softened and likely to result in low recovery rates for the foreseeable future
- 4th quarter 2002 chargeoffs are higher due to weak used car prices, some of which is seasonal

HOUSEHOLD



RETAIL SERVICES

Sandy Derickson

Group Executive

January 21-22, 2003

RETAIL SERVICES BUSINESS OVERVIEW

- Second largest third-party private label provider
- \$12.6 billion managed receivables
- Nearly 11 million active cardholders
- 70 active merchant relationships
- Approximately 2,300 employees in 7 locations

THE PRIVATE LABEL MARKET IS SIGNIFICANT

(\$ Billions)



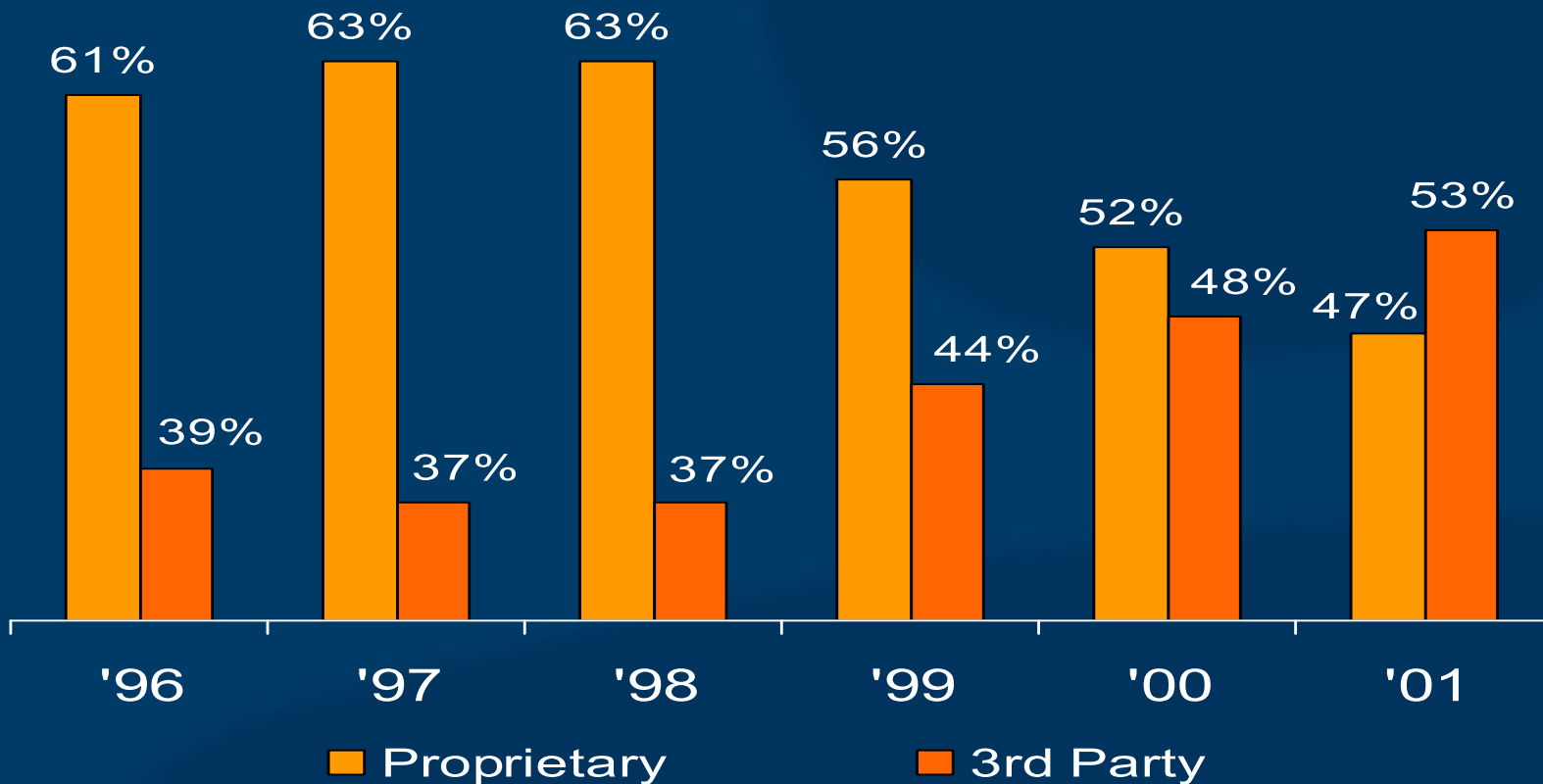
SOURCE: *The Nilson Report*

PRIVATE LABEL CREDIT IS ESSENTIAL TO RETAILERS

- Customers receive a distinct line of credit which increases buying power
- Merchant has greater flexibility in the design of credit promotions and structure of program economics
- Private label program provides valuable customer data for future marketing campaigns
- Customer loyalty is enhanced through formal rewards programs and targeted marketing
- Outsourcing allows retailer to leverage third party scale and expertise, minimize financial investment and risk, yet maintain key customer data

MARKET SHARE IS SHIFTING TO THIRD PARTIES

(%)



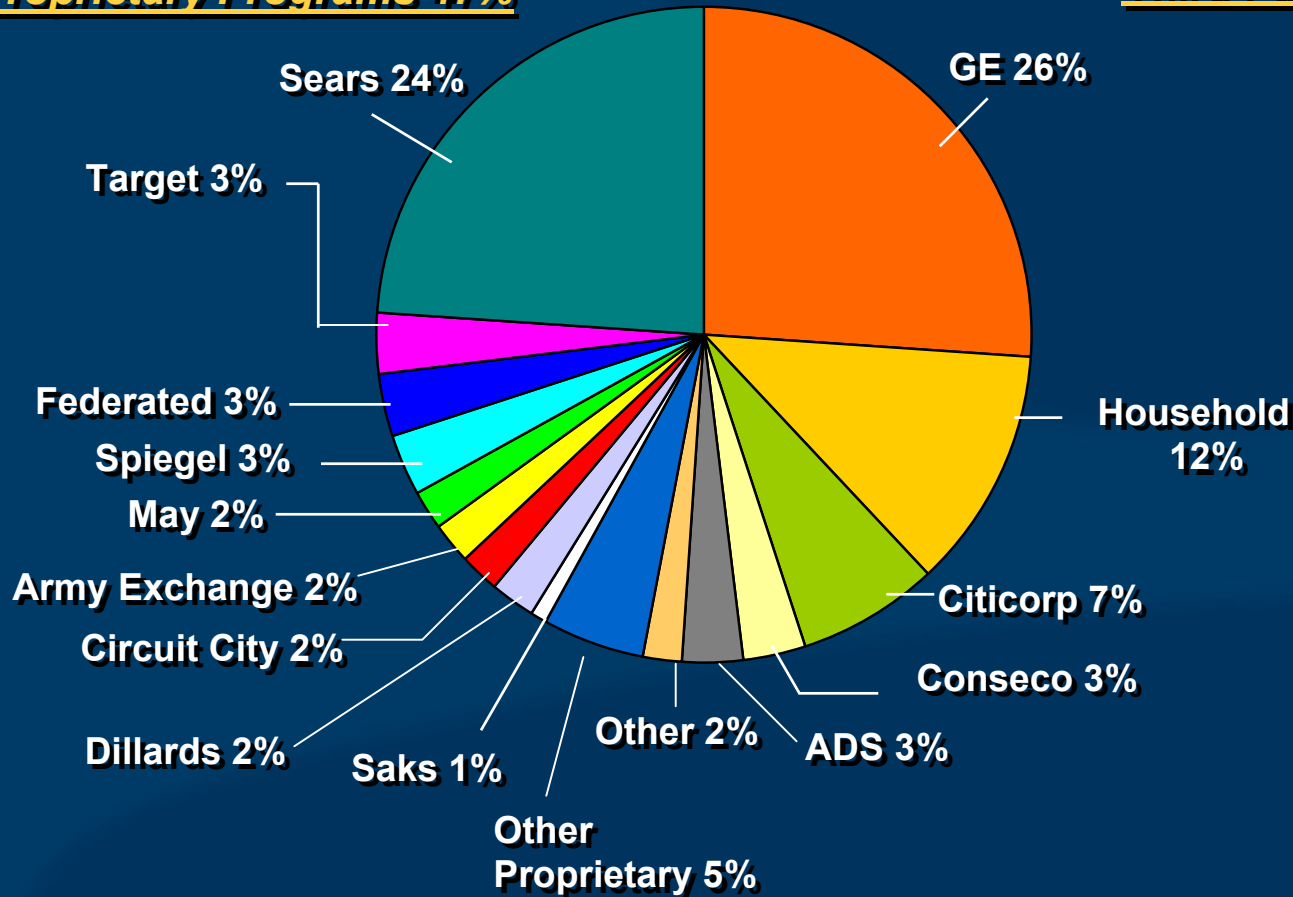
Private Label Receivable Share

SOURCE: The Nilson Report

THE PRIVATE LABEL MARKET REMAINS ATTRACTIVE

Proprietary Programs 47%

Third Party Providers 53%



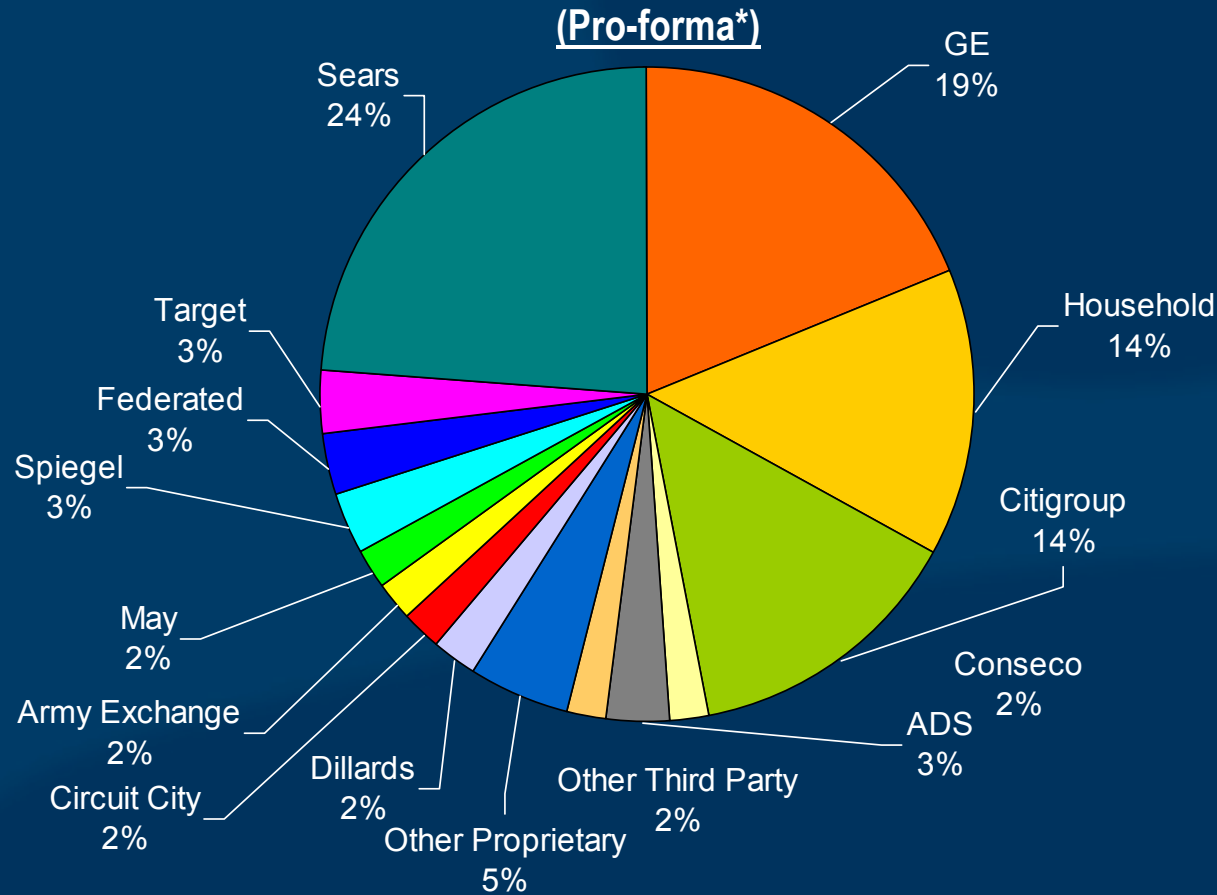
2001 - \$91.6B MARKET

SOURCE: The Nilson Report

MARKET SHARE IS CHANGING

Proprietary Programs - 46%

Third Party Providers - 54%



* Pro-forma adjusted to reflect transfer of Home Depot from GE to Citigroup and Retail Services' proposed acquisition of Saks and Menards

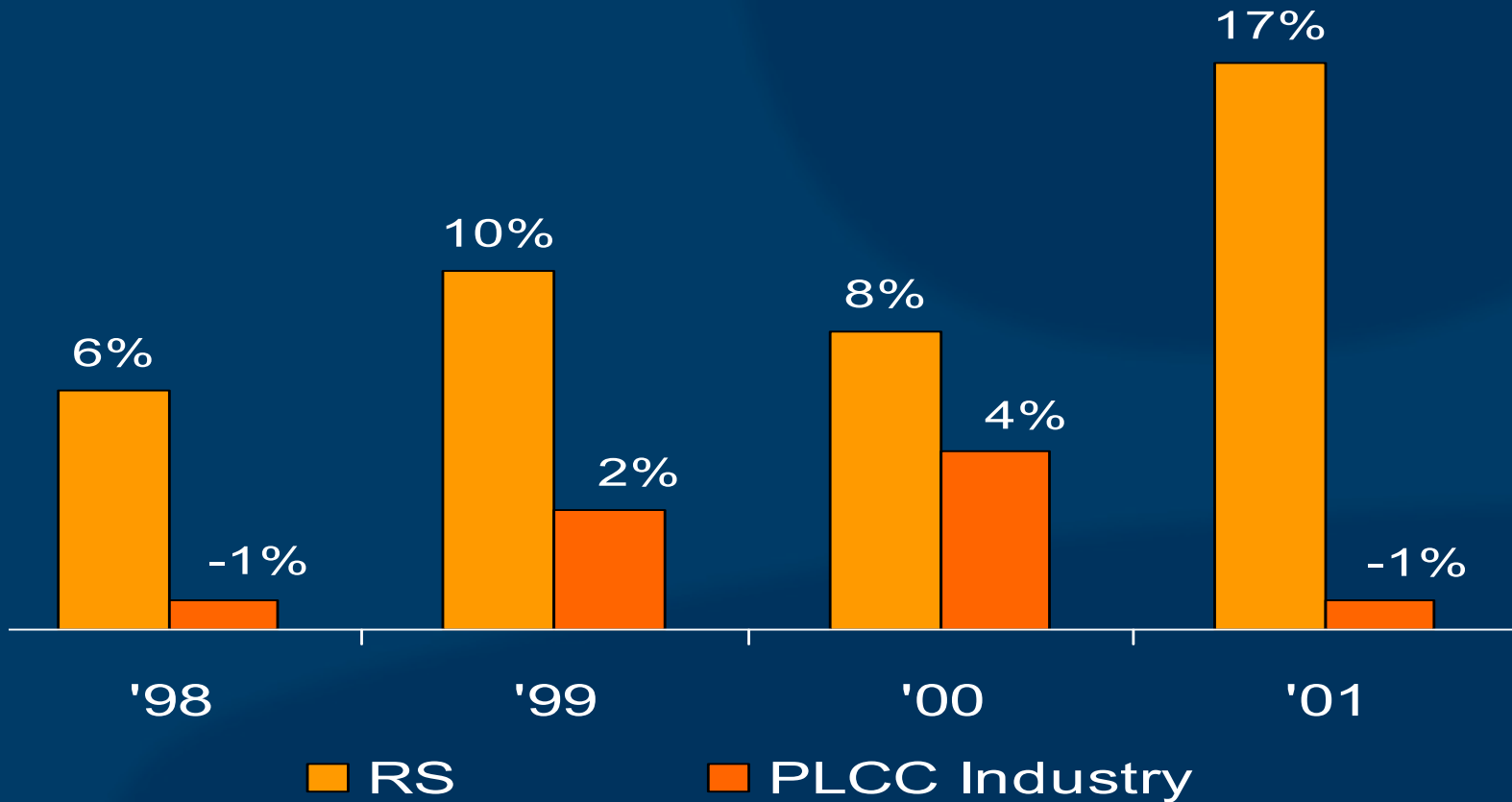
SOURCE: *The Nilson Report*

OUR BUSINESS MODEL FOCUSES ON OUR PARTNERS' NEEDS

- Partnership focus provides alignment of interests
- Flexible program structuring meets financial needs of merchants
- Operational efficiency enhances price competitiveness
- “Home grown” system vs. outsourcing allows greater speed and flexibility
- Multiple origination channels promote merchant sales
- New commercial platform provides industry leading capabilities
- Recent initiatives have improved competitive position

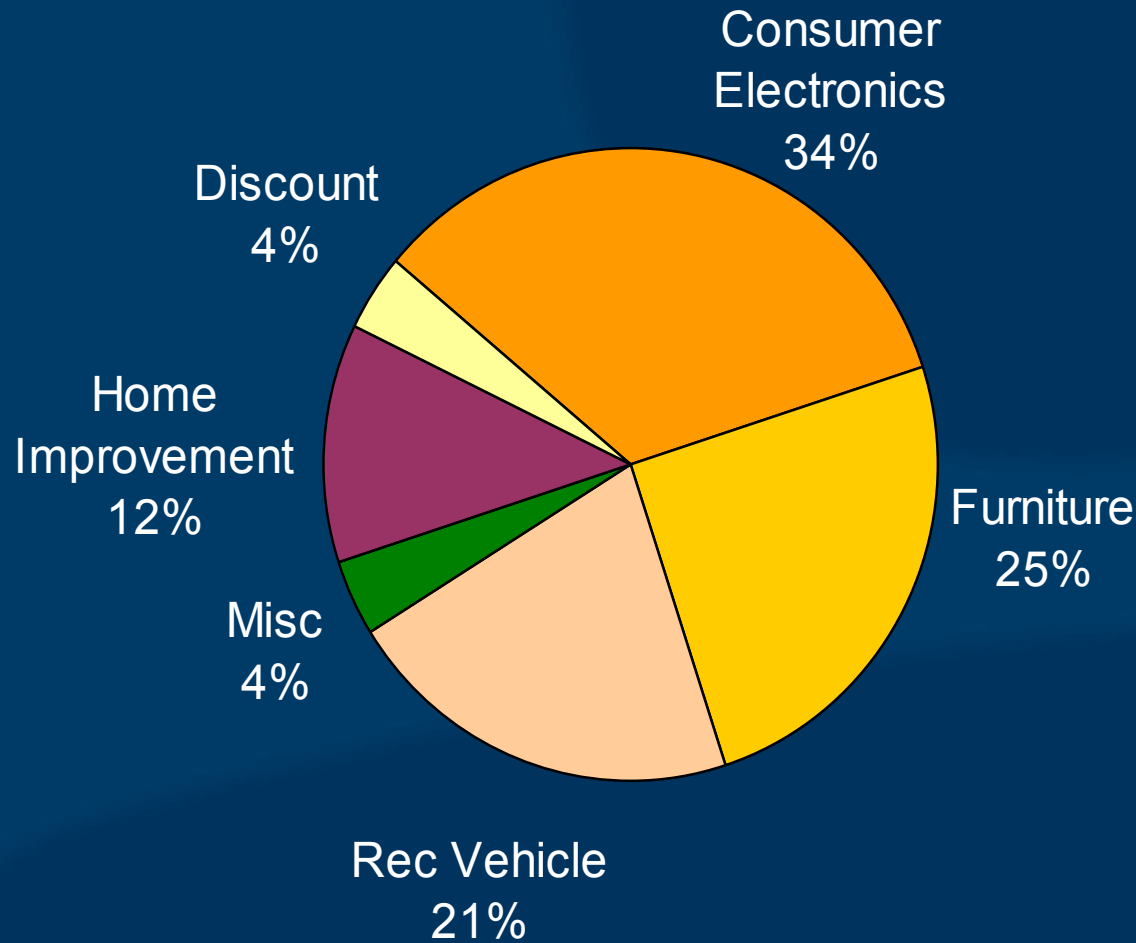
OUR GROWTH CONTINUES TO EXCEED THE INDUSTRY

(%)



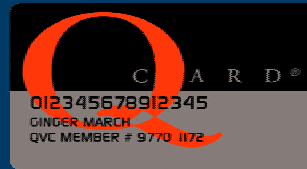
SOURCE: *The Nilson Report*

OUR PORTFOLIO IS DIVERSIFIED



December 31, 2002

Our Partners Include Some Of The World's Largest And Best Retailers And Manufacturers



- Our 45 retailer partnerships include industry leaders such as Best Buy, QVC, Costco and Menards
- Our 17 manufacturer partnerships include great brands such as GM, Mitsubishi and Yamaha
- Our 8 commercial partnerships include both retailers and manufacturers such as Costco, Best Buy and Microsoft
- The acquisition of the Saks program provides strategic entry in the department store market

WE ARE MORE THAN JUST A CREDIT PARTNER

Household's Marketing Capabilities

Marketing Strategy/Consulting

- Customer needs/channel analysis
- Business strategy development
- Product innovation, eMarketing

CRM/Analytics

- Tailored/targeted Customer Relationship Management
- Loyalty program design and execution

Program Development/Execution

- Campaign design and execution
- In-house creative services
- Insurance/Enhancement services

Infrastructure Support

- Prospect data warehouse
- Loyalty program management
- Database and information management



Retailer

Maximizing Sales and Profitability by:

- Retaining and growing the existing customer base
- Identifying and attracting new customers
- Driving value for all stakeholders
- Leveraging key marketing strengths of retailers and Household

Household complements retailers in-house marketing capabilities

RISK CONTROL UTILIZES SIGNIFICANT ANALYTICS

- Credit underwriting uses proprietary scorecards and decision rules
 - Customer scorecards developed for specific merchant or industry programs
 - Scorecards revalidated periodically to maintain predictive value
- Proprietary bankruptcy models and internal fraud scorecards provide additional risk mitigation
- Custom models are complemented by the use of external credit and fraud tools
- Loss targets established for each merchant program to achieve approval rate consistent with program economics
- Experienced credit risk team (average 12 years industry experience) with additional support provided by Corporate Risk resources

OUR USE OF TECHNOLOGY PROVIDES ADDITIONAL CONTROL AND EFFICIENCY

- Online credit application procession ensures appropriate risk control yet provides positive point-of-sale experience
 - Credit risk tools and credit bureau interface incorporated in decisioning system
 - Over 90% of all credit decisions are automated
 - Response received within 8 seconds
- Best in Class call center technology ensures quality, efficiency and service
 - Champs
 - Geotel
 - Witness
 - Skill based routing
 - Expanded VRU capabilities
- Technology can ensure efficient and effective collections
 - Davox Dialer
 - Call tech (Austin Logistics)
 - Par 3
 - CHAMPS

HOUSEHOLD



TECHNOLOGY

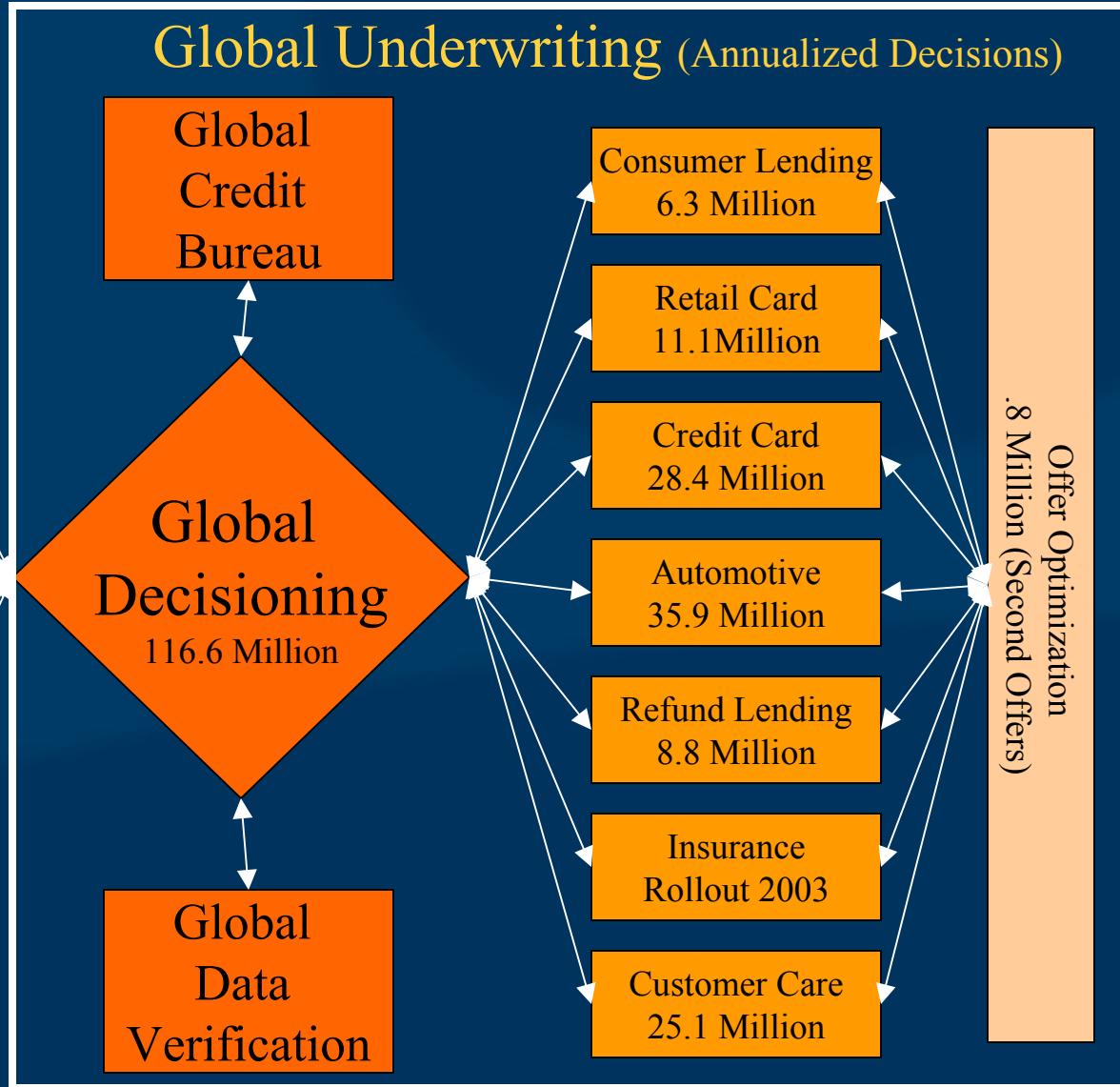
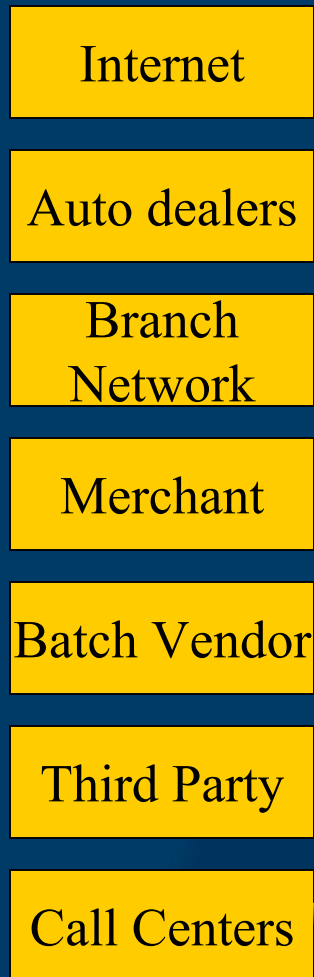
Ken Harvey

Group Executive – Chief Information Officer

January 22, 2003

ENTERPRISE DECISIONING FLOW

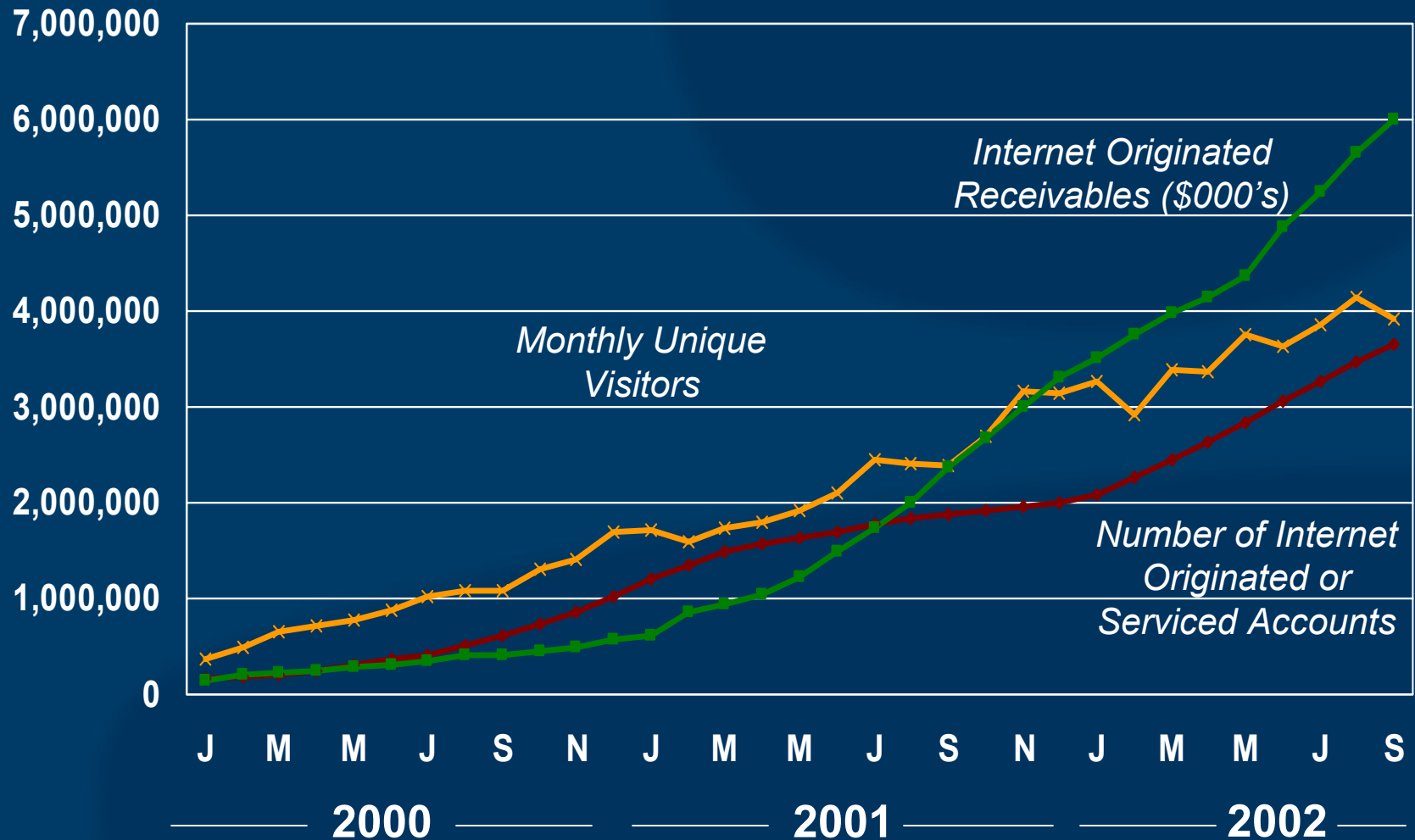
Inbound Channels



C
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EMETRICS – ONLINE VISITORS, ACCOUNTS & LOANS

eCommerce – 2002, 2001 & 2002



CREDIT CARD SERVICES

eCommerce

Account Origination and eCare for Six Portfolios

2002 eCare Highlights:

- 1,542,779 new enrollees, Total = 3,213,287 Registered Customers
- 1.2 M Registered Bill Pay users made 8.9M payments totaling \$2.667 B.

2002 Online Application Highlights:

- 767K Pre-selected Offer applicants, 500K Approved (65%)
- 906K “Walk-in” Applicants, 198K Approved (22%)

HOUSEHOLD



**“BALANCING RISK AND REWARD
IN CONSUMER LENDING”**

Walt Rybak

Vice President - Credit Risk

January 21-22, 2003

CONSUMER LENDING

Credit Risk Management

- Responsibilities include:
 - Score card development
 - Underwriting analytics
 - Underwriting decision trees
 - Collection analytics
 - Loss forecasting
 - Credit risk system implementation
- Staff of 55 Analytical Specialists
 - Managers have 12+ years of experience

SCORECARD DEVELOPMENT

Consumer Lending

- Manager has 17 years experience
 - 6 scorecard development professionals on staff
 - Plans to expand group
- We believe in proprietary scorecards
 - Scorecards are product specific
 - Scorecards capture extensive data
 - Application
 - Prior payment history with Household
 - Credit bureau attributes

SCORECARD DEVELOPMENT

Consumer Lending

- Scorecards are rebuilt at least every 2 years; or sooner if needed
- Corporate credit must approve model development
- Scorecard performance is validated on a regular basis
 - Scores and approval rate monitored monthly
 - Delinquency forecasts validated quarterly

UNDERWRITING ANALYTICS

Consumer Lending

- 13 analysts review underwriting
 - Portfolio performance is reviewed every month
 - Regular review meetings with underwriting on policy and practices
 - Test and amend cutoffs
 - Decision trees developed with underwriting

UNDERWRITING ANALYTICS

Consumer Lending

- For real estate loans we believe in the “3C’s”
 - Credit: Probability of default as predicted by our scorecard
 - Capacity: Ability to repay the debt measured as debt-to-income and disposable income
 - Collateral: Quality of the property
- We rely on our scorecards to evaluate credit, however underwriting personnel
 - Evaluate income and ability to repay loan
 - Reviews appraisals
 - Make judgements on exceptions to policy

COLLECTION ANALYTICS

Consumer Lending

- 12 Collection Analysts are responsible for:
 - Collection strategy development
 - Strategy analytics
 - Direct mail campaigns
 - Database development and maintenance
 - System implementation

COLLECTION ANALYTICS

Consumer Lending

- Strongly believe in “test and learn” approach
 - Accounts randomly assigned to groups
 - Different actions applied
 - Different offers made
 - Tests are tracked up to one year after installation
- Restructure policies are used to:
 - Maximize cash flow
 - Retain customers