

SETTLEMENT AGREEMENT

This SETTLEMENT AGREEMENT (“Settlement Agreement”) is entered into as of January 4, 2002, by and between the People of the State of California, by and through the California Corporations Commissioner (“Commissioner”), on the one hand, and Household Finance Corporation of California (“Household”) and Beneficial California, Inc. (“Beneficial”), on the other hand (hereinafter collectively “the Parties”).

RECITALS

This Settlement Agreement is made with reference to the following facts:

A. Household and Beneficial are finance lenders licensed under the California Finance Lenders Law. On November 9, 2001, the Commissioner commenced an action against Household and Beneficial entitled *The People of The State of California, By and Through the California Corporations Commissioner v. Household Finance Corporation of California and Beneficial California, Inc., and Does 1 through 10, inclusive*, in the Superior Court of the State of California for the County of Los Angeles (the “Court”), Case No. BC261513 (the “Litigation”).

B. As set forth with greater particularity in the Commissioner’s Complaint for Civil Penalties for Willful Lending Violations (the “Complaint”), the Litigation arose out of regulatory examinations of Household and Beneficial conducted by the Commissioner during the year 2000. Those regulatory examinations disclosed that Household and Beneficial had committed violations of numerous provisions of the California Finance Lenders Law. The provisions violated included Financial Code section 22305 (excessive administrative fees and charging of more than one administrative fee in a year), Financial Code section 22320.5 (excessive late fees); Financial Code section 22308 (failure to recast loans, i.e., re-compute interest due on loans paid off prior to the due date for the third installment), Financial Code section 22336 (excessive recording fees), Financial Code section 22329(e)(5) and California Code of Regulations, Title 10, section 1539 (improper repossession fees).

C. On the basis of the results of the regulatory examinations, the Commissioner directed Household and Beneficial to perform self-audits to determine the full extent of the violations of those provisions during the two-year period covered by the regulatory examination. As set forth in detail in the Complaint, the self-audits of Household and Beneficial disclosed thousands of violations of provisions of the California Finance Lenders Law. The Commissioner required Household and Beneficial to refund the excessive and improper fees and interest to the customers directly affected by the violations. The Commissioner further noted that self-audits by Household and Beneficial failed to identify certain violations that were discovered and identified by the Commissioner’s regulatory examination but not disclosed to Household and Beneficial, thereby giving rise to concerns about the thoroughness and accuracy of the self-audits.

D. On November 9, 2001, the Commissioner, in furtherance of the allegations

made against Household and Beneficial in the Complaint, directed Household and Beneficial to conduct a new self-audit, by and through an independent certified public accountant, for the period covered by the previous self-audit through October 31, 2001, for purposes of identifying all overcharged accounts, and making appropriate refunds to those not previously refunded. Household and Beneficial have engaged the accounting firm of Arthur Andersen to conduct the new self-audit with results expected to be submitted to the Commissioner on or before January 31, 2002 (“Arthur Andersen audit”).

E. The Commissioner maintains the position set forth in the Complaint, that Household and Beneficial were engaged in a joint, pervasive pattern of abusive lending practices, consisting of routine, statewide imposition of excessive and improper fees, penalties, interest and charges in violation of numerous provisions of the California Finance Lenders Law (“CFL”), the rules promulgated thereunder, and two consumer protection provisions of the Civil Code. Household and Beneficial, on the other hand, admit that the excessive and/or improper fees, penalties, interest and/or charges occurred, but otherwise deny the material allegations set forth in the Complaint, including the allegation that the violations were willful. While continuing to adhere to their respective contentions in these regards, and without any admission of liability or wrongdoing by Household and/or Beneficial, the Parties have agreed to settle the Litigation on the following terms and conditions:

SETTLEMENT TERMS

NOW, THEREFORE, for good and valuable consideration, the Parties agree as follows:

1. Settlement Agreement Coverage. The Parties acknowledge and agree that this Settlement Agreement is intended to resolve the Litigation, including any and all claims of the Commissioner against Household and Beneficial as a result of the violations of the California Finance Lenders Law alleged in the complaint, and any additional violations of the provisions of the California Finance Lenders Law and regulations alleged in the Complaint that may be discovered in the Arthur Andersen audit, which covers a longer time period than the regulatory examinations and the self-audits that are the subject of the Complaint.

2. Stipulation to the Court’s Continuing Jurisdiction.

(a) The Parties hereby agree that simultaneous with the execution and delivery of this Settlement Agreement, they will cause their respective attorneys to execute a Stipulation and [Proposed] Order Retaining Jurisdiction to Enforce Settlement Agreement in the form attached hereto as Exhibit 1 (the “Stipulation and Order”). The Parties hereby agree, and the Stipulation and Order shall provide, that pursuant to California Code of Civil Procedure section 664.6, and as otherwise as permitted by law, the Court shall retain personal and subject matter jurisdiction over the Parties and the Litigation to enforce this Settlement Agreement until all obligations hereunder have been fulfilled. The Parties agree that the Commissioner shall cause his attorneys, upon their receipt of the fully executed Stipulation and Order re Settlement, to present the same to

the Court for its approval.

(b) Subject to the provisions of Paragraph 2(c) below, upon the violation or breach by Household and/or Beneficial, or any of their successors, representatives, agents, employees, assigns, or anyone acting in concert with them, or any terms of this Settlement Agreement, the Commissioner shall be immediately entitled, in addition to any other remedies he may have, to apply to the Court for the immediate entry of judgment pursuant to and embodying the terms of this Settlement Agreement.

(c) Notwithstanding Paragraph 2(b) above, in the event that the Commissioner subsequently believes that Household and/or Beneficial is/are in violation or breach of this Settlement Agreement, prior to commencing any other action to enforce the terms of this Settlement Agreement, the Commissioner shall provide Household and/or Beneficial with written notice of the alleged violation or breach, specifying the section of the Settlement Agreement that Household and/or Beneficial has allegedly violated or breached, and specifically identifying the act, omission, event, occurrence, incident, circumstance, or other conduct of Household and/or Beneficial that the Commissioner believes constitutes the alleged violation or breach. Household and/or Beneficial shall have ten (10) days from receipt of notice within which to cure the alleged violation or breach before the Commissioner initiates any other action to enforce the terms Settlement Agreement.

3. Obligations of Household and Beneficial.

(a) Household and Beneficial hereby agree to pay to the Commissioner no later than 10:00 a.m. California time on January 7, 2002 the sum of \$8,900,000.00 by wire transfer to the Treasurer of the State of California, for the Beneficiary California Department of Corporations, in settlement of the Litigation and the anticipated findings of the Arthur Andersen audit.

(b) Household and Beneficial further agree to:

(i) Establish, within three months of the date of this Settlement Agreement, an office in Pomona, California for use by the California Department of Corporations (“the Department”) during regulatory examinations of Household and Beneficial and complaint follow-ups. The office will provide the Department’s personnel access to all loan documents pertaining to all California loans made by Household and Beneficial, including access to computer terminals, imaged documents, including all imaged loan documents, manuals of all available screens, reports and queries, and available staffing to respond to Department inquiries.

(ii) Conduct annual self-audits designed to determine compliance with those provisions of the CFLL, the rules promulgated thereunder, and the Civil Code set forth in the Complaint, by and through an independent certified public accountant, for a period of two years, with the first audit to cover the one-year

period commencing on November 1, 2001, and the second audit to cover the one-year period commencing on November 1, 2002. The self-audits shall be performed in accordance with the December 12, 2001 engagement letter submitted by Arthur Andersen to Household International, Inc., the parent of Household and Beneficial, and the results shall be submitted to the Commissioner within ten (10) days of completion of the self-audits.

(iii) Establish, within three months of the date of this Settlement Agreement, a toll-free telephone hotline for use by the Department in communicating with Household and Beneficial with regard to consumer complaints received by the Department against Household and Beneficial.

(c) Household and Beneficial further agree that in the event the Arthur Andersen audit discloses that the violations by Household and Beneficial in the specified violation categories collectively total more than \$8.9 million when calculated according to the following formula:

\$2,500.00 per excessive administrative fee plus three times the refund amount on all other excessive or improper fees, interest or charges prohibited by the California Finance Lenders Law (and excluding therefrom overcharges under the Civil Code)

then Household and Beneficial shall pay to the Commissioner all amounts so calculated in excess of \$8,900,000.00 as civil penalties pursuant to Financial Code section 22713(c). Such amounts, if any are due in accordance with this formula, shall be paid to the Commissioner within fifteen (15) days of the completion of the Arthur Andersen audit.

(d) It is agreed, and Household and Beneficial acknowledge and understand, that the Commissioner will test the procedures employed and the results in the Arthur Andersen audits to ensure their accuracy.

(e) Household and Beneficial further agree that any additional excessive and/or improper fees, penalties, interest and charges discovered during the Arthur Andersen audit, and not previously refunded, shall be refunded to the affected customers no later than February 15, 2002.

(f) Household and Beneficial agree that all refunds returned as undeliverable by the United States Post Office shall escheat to the California State Controller's Office within the time period provided by the Unclaimed Property Act, Code of Civil Procedure, section 1500 et seq.

4. Systems Fix. Household and Beneficial shall establish and implement the necessary technological and human controls to ensure that such excessive and/or improper fees, penalties, interest and charges as are alleged in the Complaint will not occur in the future.

5. Dismissal With Prejudice. Within ten (10) business days after the date the Commissioner's attorneys receive notice of the execution and entry by the Court of the Stipulation and Order re Settlement referred to in Paragraph 2 above, the Commissioner agrees to cause to be filed with the Court an executed Request for Dismissal with Prejudice (the "Request for Dismissal") of the Litigation. The execution and entry by the Court of the Stipulation and Order re Settlement is an express condition precedent to the Commissioner's obligation to file the Request for Dismissal. Neither the Commissioner's filing of the Request for Dismissal nor any entry of dismissal resulting therefrom shall impair the Court's continuing jurisdiction to enforce this Settlement Agreement pursuant to Code of Civil Procedure section 664.6.

6. Independent Legal Advice. Each of the Parties represents, warrants, and agrees that it has received independent legal advice from its attorneys with respect to the advisability of executing this Settlement Agreement.

7. No Other Representation. Each of the Parties represents, warrants, and agrees that in executing this Settlement Agreement it has relied solely on the statements set forth herein and the advice of its own counsel. Each of the Parties further represents, warrants, and agrees that in executing this Settlement Agreement it has placed no reliance on any statement, representation, or promise of any other Party, or any other person or entity not expressly set forth herein, or upon the failure of any Party or any other person or entity to make any statement, representation or disclosure of anything whatsoever. The Parties have included this clause: (1) to preclude any claim that any Party was in any way fraudulently induced to execute this Settlement Agreement; and (2) to preclude the introduction of parol evidence to vary, interpret, supplement, or contradict the terms of this Settlement Agreement.

8. Authority For Settlement. Each Party warrants and represents that such Party is fully entitled and duly authorized to enter into and deliver this Settlement Agreement. In particular, and without limiting the generality of the foregoing, each Party warrants and represents that it is fully entitled to enter into the covenants, and undertake the obligations set forth herein.

9. Full Integration. This Settlement Agreement, including the attached Stipulation and Order, is the final written expression and the complete and exclusive statement of all the agreements, conditions, promises, representations, and covenants between the Parties with respect to the subject matter hereof, and supercedes all prior or contemporaneous agreements, negotiations, representations, understandings, and discussions between and among the Parties, their respective representatives, and any other person or entity, with respect to the subject matter covered hereby.

10. No Admissions. This Settlement Agreement is the result of compromise, and accordingly, the execution of this Settlement Agreement by the Parties shall not be construed as or constitute an admission of any liability or wrongdoing.

11. Attorney's Fees. Each of the Parties shall each bear his or its own respective attorneys' fees, expenses and costs incurred in connection with this action and the preparation, implementation and performance of this Settlement Agreement. In the event of any dispute that may arise regarding this Settlement Agreement, the prevailing party shall be entitled to recover its reasonable attorneys' fees and costs.

12. Counterparts. This Settlement Agreement may be executed in any number of counter-parts by the Parties, and when each Party has signed and delivered at least one such counterpart to the other Party, each counterpart shall be deemed an original and taken together shall constitute one and the same Settlement Agreement. The Parties agree and acknowledge that delivery of the executed counterparts to this Settlement Agreement may be accomplished by way of facsimile transmission, and that a facsimile signature of the Parties hereto shall be treated as if an original.

13. No Presumption From Drafting. In that all Parties have had the opportunity to draft, review and edit the language of this Settlement Agreement, no presumption for or against any Party arising out of drafting all or any part of this Settlement Agreement will be applied in any action relating to, connected, to, or involving this Settlement Agreement. Accordingly, the Parties waive the benefit of California Civil Code section 1654 and any successor or amended statute, providing that in cases of uncertainty, language of a contract should be interpreted most strongly against the party who caused the uncertainty to exist.

14. Successors. This Settlement Agreement shall be binding upon, and shall inure to the benefit of, each of the Parties hereto and each of their respective successors, legal representatives, and assigns.

15. Headings and Governing Law. The headings to the paragraphs of this Settlement Agreement are inserted for convenience only and will not be deemed a part hereof or affect the construction or interpretation of the provisions hereof. This Settlement Agreement shall be construed and enforced in accordance with, and governed by, the laws of the State of California.

16. Signators. Each signator hereto warrants and represents that he or she possesses all necessary capacity and authority to execute this Settlement Agreement on behalf of his or her respective Party.

IN WITNESS WHEREOF, the Parties hereto have approved and executed this Settlement Agreement on the dates set forth opposite their respective signatures.

Dated: January 4, 2002

DEMETRIOS A. BOUTRIS
California Corporations Commissioner

By /s/ Louisa A. Broudy
LOUISA A. BROUDY
Assistant Commissioner

Dated: January 4, 2002

HOUSEHOLD FINANCE CORPORATION
OF CALIFORNIA

By /s/ R.L. Allock
R.L. ALLCOCK
Vice-President

Dated: January 4, 2002

BENEFICIAL CALIFORNIA, INC.

By /s/ T.M. Detelich
T.M. DETELICH
Vice-President