

OUR HOUSE

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A NEWSLETTER FOR HOUSEHOLD AUTO FINANCE

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House News ...▼

First Quarter Town Halls Bring Message of Future Success

CEO urges employees to "Get on the Bus!"

Auto finance employees had the opportunity to engage in open dialogue with senior management this February when President and CEO Walter Menezes and Chief Financial Officer Tim Condon went on the road for a series of Town Hall meetings and fireside chats. Front-line and management employees in San Diego, Jacksonville, Florida, and Lewisville, Texas, heard a first-hand account of auto finance's past, present and future direction. Menezes outlined how auto had a challenging year in 2002, with environmental factors such as high unemployment and lower used car prices contributing to missed revenue targets and higher charge-offs.

But, a new direction has been set for 2003. With an achievable net income target of \$105 million,

there is a renewed concentration on individual performance to help us achieve goal.

"We're focusing on five critical success factors this year including bringing certainty to sales, profitable volume, ensuring the quality of underwriting, being a low-cost provider and delivering world-class collections that support growth," said Menezes.

He also cited several key initiatives that will support success in 2003, including targeting 50 percent of the business at a FICO rate greater than 575 and a loan-to-value that is less than 125, as well as the successful rollout of Auto 500 and other technology enhancements, including DealerTrack.

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New Partners in Profitability Debuts at NADA Convention

Program promotes profitability

Auto finance launched its Partners in Profitability program this February amid much dealer interest at the National Automobile Dealers Association (NADA) convention in San Francisco. The program benefits dealers whose business base falls within newly defined parameters designed to increase profitability. "In analyzing our dealer base, we found that our largest dealers were not necessarily sending us the most profitable business," said Gannesh Bharadhwaj, group director, Product Management.

"We refined our preferred market segment to customers with a FICO score between 575 and 680 and a loan-to-value of less than 125 percent. Then, we categorized dealers into either Gold, Silver, Bronze or base status depending on total volume, the percentage of the volume that falls in our preferred market segment, and a profitability index that weights the customer's default payment rate," explained Bharadhwaj.

As the quality and quantity of dealer business increases, the dealers are eligible for more benefits from auto finance including faster decisioning, dedicated staffing and greater responsiveness, as well as increased flexibility on the maximum loan-to-value.

Gold and Silver dealers also are eligible for additional incentives and a SuperPoints program that rewards the business relationship with travel and merchandise awards.

"The Partners in Profitability program is a win-win all around. The profitability of both our businesses increases, and as the dealers business increases, so do their benefits," summarized Bharadhwaj.



Product Manager Jon Nelson explains the new PIP program to prospective dealer customers visiting auto's booth at February's NADA convention.

▲ Stock Answer Booklet

Your *Stock Answer Booklet*, an easy-to-read publication about the Household/HSBC acquisition has been mailed to all employee homes. Chock full of useful information, the 16-page booklet addresses issues such as the difference between HSBC ordinary shares and HSBC ADS, long-term incentive plans and frequently asked questions. If you have additional questions, be sure to call the Employee Stock Hotline at 800-481-0835.

▲ Connect to the News

Need to know what's going on FAST? Log on to Connect and check the auto finance news section to learn what's hot and what's not. You can customize your news subscription by clicking the News icon in the upper left corner of the toolbar, and then Edit News Subscriptions. Next, click on the box for each area that you would like to receive news. At a minimum, auto employees should click the Auto Finance box. We also recommend checking off Auto Finance Copley, Auto Finance Convoy, Jacksonville FL Fac and Lewisville TX Fac.

▲ Auto 500 Conversion

The Auto 500 Project Team has resolved the data and programmatic issues encountered during the mock conversion of March 14th - 16th and is now laying out a schedule for additional conversion tests. At the same time, the team is reviewing financial accounting requirements, while completing remaining development. A new "go-live" weekend has been targeted for May 16, 2003, but this will be reconfirmed after completing preliminary conversion tests and continuing with further User Acceptance Testing (UAT). An update will be issued on Connect by the Project Team as the "go-live" weekend draws closer.

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▲ DealerTrack Rollout Spurs Volume Increase

Auto finance's alliance with DealerTrack, a technology services company that accelerates the entire dealer-to-creditor relationship through a web-based platform, has laid the groundwork for increases across the board in efficiency, volume and capture rate for auto loans actually funded.

DealerTrack initially rolled out in 12 states in late 2002 and was followed by a nationwide rollout in early February. Dealer customers of auto finance who use DealerTrack are able to electronically transmit credit applications to us and receive a fast response back on decisions.

"We've seen a 30 percent incremental increase in application volume with DealerTrack as well as an increase in credit quality," says Tom Reddick, director of E-Commerce. For example, funding volumes grew from \$20 million in January to \$56 million in February.

In early April, auto finance and other lenders will convene at the DealerTrack Lender Council meeting, the focus of which will be to plan future enhancements for DealerTrack. "Through our participation, we'll be able to put Household's thumbprint on DealerTrack's future improved releases," Reddick said.

One of the enhancements planned for early May is credit routing filters. "These filters will automatically screen out applications that don't meet our minimum credit approval requirements. This will help improve cost efficiency since we won't be paying for applications that have no value for us. The credit routing filters will also improve our overall approval, capture and book-to-look ratios," he explained.

With its significant increase in volume, efficiency and loan quality, DealerTrack is another step in our drive toward becoming a low-cost provider with profitable volume and quality underwriting, notes Reddick.

Creative "Mini Museum" Evokes Inspired Black History at Auto

While sitting among fellow employees at the February Town Hall meetings in San Diego, Compliance's Paul Smith thought to himself, "Wow, this is really a diverse place." And with that, he began formulating plans for a truly original celebration of Black History Month in February.

"I didn't want to do something that reflected the everyday. I wanted people to walk away saying, 'Gee, I didn't know that,'" explains Smith. What evolved was an informative, entertaining and thought-provoking display of African-American achievement over the last century. On display in the Executive Conference Room of the Copley building, the one-day "Mini-Museum" consisted of everyday items that were invented or developed by black Americans, from favorites like the potato chip to the ubiquitous cell phone, the answering machine, hand wrenches and furniture casters. Not missing a beat, the Mini-Museum also featured jazz music from legends like Louis Armstrong and Robert Johnson — known as the father of Delta Blues. In the background, a television ran full-length feature films starring first-time female African-American Oscar winner Halle Berry and fellow Oscar winner Denzel Washington.

Each item in the museum was accompanied by a written history describing the inventor and the story behind the invention. Additionally, Smith also treated museum-goers to some ethnic



Paul Smith, Compliance, sits among the many unique and diverse items he assembled for display in his "Mini-Museum," celebrating African-American culture during Black History Month.

foods, including cornbread and "greens," a traditional southern dish. Smith acknowledges his input in the kitchen was limited and called upon fellow auto employees Stephanie Anderson, Consumer Lending, and Terry Owens, Compliance, for help.

A one-time Special Events Director for six radio stations in Ventura County, Smith is no stranger to putting together unique, eye-catching presentations. Once he had the idea in mind, he conducted research on the Internet and also used encyclo-

pedias, and then called upon neighbors for help in compiling the items displayed. In addition, he featured several giveaways, including ethnic cookbooks. After nearly 100 people visited the Mini-Museum, Smith awarded prizes to everyone who answered inventor trivia questions.

Smith says his inspiration for the Mini-Museum came from multiple sources. He credits Compliance Director Anthony Gibbs for fostering interest in ethnic diverseness and CEO Walter Menezes for sharing the message in his Town Halls that we all contribute something to the company's success.

"No matter if you are a collector who has just started, or a director who has been with Household for years, we all bring something to the table — for our company and in our communities," he said. "Hopefully, with this event, I was able to entertain, inform and enlighten my fellow employees at auto."

Top RSM Producer in 2002 Named at Annual Sales Conference

Auto finance's sales team kicked off the year with its annual conference in January at the Hotel Nikko in San Francisco. Among the many notable events was the announcement of Top Producer for 2002. Congratulations go to Don Merritt, Regional Sales Manager-Nashville, for securing more than 4,200 contracts during the year with an estimated value of more than \$70 million. No stranger to awards, Merritt was named Top Producer in 1998, MVP in 1999 and a Profitable Growth Star in the third

quarter of 2002. He attributes his success to asking not just what Household can do for his customers, but what he can do. The biggest challenge he faces this year as he strives to make Top Producer two years running is to maintain his \$70 million volume while achieving the quality underwriting goals that have been outlined for 2003. "When you explain what you're doing and why, people understand. Now it's time for dealers to send us the paper, and the bad stuff elsewhere."

Three Auto Finance Employees Receive Profitable Growth Awards Two from San Diego, One from Lewisville

Auto finance has three shining stars of individual performance for the fourth quarter of 2002. Recognized for their stellar performance as Profitable Growth Star award winners were: Lori Borzick, Sandra Thurman and Jamie Birkenbach.

Borzick, a compliance manager in San Diego, was responsible for implementing the law and control records for the new loan servicing system, AutoMate. But, she went beyond that responsibility by identifying opportunities where the new system could generate increased fee income for auto finance. These newly generated fee opportunities were coded into the control records and will result in approximately \$726,660 per year in additional fee income.

"I was very pleasantly surprised by the award. I've been a Household employee for 17 years and working on this project gave me the oppor-



President and CEO Walter Menezes recently congratulated Lori Borzick, Compliance (c), and Jamie Birkenbach, Consumer Lending (r), on having recently been awarded the 2002 4th Quarter Profitable Growth Star Awards by HI CEO Bill Aldinger. Pictured in front of the display of senior management "Get on the Bus" commitment tickets, Menezes called the women and their outstanding efforts "driving examples" of success for 2003.

tunity to identify a new revenue source," says Borzick, "It feels good to positively contribute to the bottom line."

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Great Ideas Equal Great Rewards ▲

Your great ideas can have great impact, both for you and for auto finance. The Great Ideas program rewards employees whose ideas demonstrate a performance improvement for Household. Ideas can be tangible, that is having an impact that can be easily quantified, or intangible, but still directly impacting the organization. And the ideas pay off! Just ask Dan Seifert, operations manager for Southern California.

Last year when Dan was working toward his MBA degree, he did a research paper on the Internet and had the idea of using the Web, rather than a 900 phone number, to complete salary verifications.

"I thought there would be some significant cost saves from using the Internet and it would be much easier to use," said Seifert. It turns out Dan and fellow employee Ricky Bradley, who had the same idea independently, were right!

Previously, using the 900 phone number to verify employment and salaries cost more than \$11.46 per call. By using a web site that houses more than 60 million employment records, the cost was reduced to \$8 per verification. Estimated annual savings top \$49,824 and save approximately two minutes per verification.

For his efforts, Dan received a check for 10 percent of the savings.

Outstanding Achievement Award for Bailey

Tiffany Bailey, a current participant in auto finance's Accelerated Management Program (AMP), was recently honored with an Outstanding Achievement Award of \$5,000 for her leadership on a project designed to drive profitability and help reshape auto finance's business model.

Bailey was nominated by her AMP manager, Training Director Raeann Rodriguez, for her "exceptional leadership as a manager on Project Atlas, the joint initiative sponsored by Sales, and Credit and Funding, to drive profitable volume through a better mix of business," said Rodriguez, in her nomination.

The project met its targets for return on managed assets and was completed ahead



After receiving \$5,000 for her Outstanding Achievement Award, Tiffany Bailey accepts congratulations from President and CEO Walter Menezes.

of schedule. "I was completely surprised when my boss presented me with the award. I had a great group of people to work with on this project. Everyone pitched it when we needed help and that's how we met accelerated deadlines," said Bailey, who coordinated the logistics of the project from start to finish with teams in San Diego and Lewisville.

As part of Project Atlas, Bailey developed the first faxback template used to communicate the new pricing model to dealers, thereby improving efficiency and decreasing operating expenses by limiting the number of call backs. She also helped to implement alternative communication channels within the RSM and Credit Officer teams by using two-way pagers.

Bailey has been with Household for one year, coming from Ford Motor Company with more than six years of sales and marketing experience. She was selected to participate in AMP, which is designed to provide participants with an understanding of the various departments that make up auto finance and serve as a source of future executive talent. The program is currently on hiatus due to the strong leadership pool currently on hand. Building benchstrength is a primary purpose behind the program.

Bailey anticipates completing AMP this June and will find a permanent placement, based upon her own performance and available opportunities. Meanwhile, Rodriguez notes that an official announcement will be made on Connect when AMP is formally resumed.

Growth Awards ▼

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Sandra Thurman, a credit officer in Lewisville, Texas, was honored with the award for having the highest capture and lowest delinquency rates. Thurman has a capture rate (deals which are actually approved and funded) of 43.2 percent and a 97.1 percent error-free ratio.



Thurman was "stunned" when she received the award. "I'm proud to be a part of the southeast team. I have a real go-getter RSM in Robert Thomas and a 'killer' funder in Marie Eguia. I really enjoy working the one-to-one contact with the dealers," said Thurman, who was recently promoted to senior credit officer.

Thurman has worked at Household for almost four years. "This is a great company to work for. I've learned a lot and work with a great team," she said.

Jamie Birkenbach, a direct account representative in San Diego, achieved the Profitable Growth Award for consistently performing as one of the top two on the consumer sales team. During the fourth quarter of 2002, Birkenbach held the No. 1 position for two of the three months and contributed 333 of the deals funded, equaling 19 percent of the total dealer funding by the team during the quarter.

"Working in sales is my passion," says Birkenbach. "In addition to the credit aspect of my job, I really enjoy talking with the customers directly."

A more than four-year Household veteran, Birkenbach was "shocked" when she learned of her award. "I'm most grateful to my manager and to my team. Most of all, I'm proud of what we achieved together," she said.

Each of the winners will receive a significant cash award in recognition of their contributions. For further information on the Profitable Growth Stars award program, log on to Connect, click on Complete Rewards (in the upper left-hand toolbar), then click on the Company Information link located on the left-hand side of the page above the pull down menu for Business Units. Once there, simply click on the link for Profitable Growth Stars.

Innovative Alliance with Mitsubishi Drives Better Quality, Increased Volume

In October 2002, Household formed an alliance that established auto finance as the exclusive provider of used car financing to Mitsubishi retailers. The alliance has resulted in increased volume and better credit quality in applications.

Under the alliance, auto finance provides both prime and non-prime used vehicle financing to more than 600 Mitsubishi retailers nationwide. In fact, a dedicated Mitsubishi Operations Center of 27 employees was established last September in San Diego. "The Center allows us to provide dedicated resources to servicing just Mitsubishi dealer applications and providing instant credit decisions," said Product Manager Jon Nelson.

"Under the alliance with Mitsubishi Motors Credit of America (MMCA), we've

seen a 100 percent increase in volume, and relationships with many dealers we didn't have prior to the alliance" Nelson noted.

Many of the finance applications are handled electronically, using a seamless process pairing MMCA's proprietary Daybreak system with auto's HAFCSuperhwy.com. As an added incentive, dealers receive lower rates for their customers on used Mitsubishi vehicles. Because of the success of the alliance, auto is also piloting a discounted APR rate for new Mitsubishi cars as well.

The resulting positive outcomes from the Mitsubishi alliance have led to the exploration and development of additional alliances with other companies. Still in the negotiating stages, more on these exciting programs will be announced at a later date.

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In wide ranging discussions with employees at all locations, Menezes touched on where the business has been, where it is now and where we are headed.

"We'll be better positioned to grow in the future if we focus now on staff development and retention, relational sales, the development of alliances, innovative growth strategies and providing better customer service with an emphasis on credit, funding and collections," he said.

Overwhelmingly, employees responded positively to the opportunity to gain information and share ideas with senior management. While they asked comprehensive questions of Menezes, Condon and Human Resources Vice President Pat Boney, they also came prepared to provide a number of suggestions and comments about how to make some business processes better.

Menezes challenged all auto finance employees to "Get On The Bus" headed to success and asked them to demonstrate their commitment to the journey by signing two "tickets." The first, to keep and post in workstations as a visual reminder of where we're headed in 2003, and the second turned in for collective display at each facility.

"We will grow our business with an emphasis on quality rather than quantity, while providing the best value service possible," said Menezes. "We're on our way to turning 2003 into a winning year."

Auto finance employees will have another opportunity for dialogue with senior management when a second series of Town Hall meetings launches in July.

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