

2. In a civil action alleging an unlawful practice the Attorney General has the statutory authority to obtain injunctive relief, monetary reimbursement for consumers and other relief. Iowa Code § 714.16(7) (2001).

3. Defendant Household International, Inc., a Delaware corporation, and/or its direct and indirect subsidiaries, affiliates, officers, directors, employees, agents, related entities, successors, and assigns (collectively, "Household"), at all times mentioned herein, have transacted business within the State of Iowa, through its consumer lending subsidiaries.

4. Venue is proper in Polk County, Iowa.

5. Pursuant to Iowa R. Civ. P. 1.207, no security is required if the State is seeking injunctive relief.

6. No application for injunctive relief in connection with the business practices of Household has previously been presented by the State to, or denied by, any court.

GENERAL ALLEGATIONS

7. In the ordinary course of its business, direct or indirect subsidiaries of Household Finance Corporation ("HFC"), a subsidiary of Defendant Household International, Inc., have negotiated and entered into real-estate secured loans with consumers in the State of Iowa. These real-estate secured loans with the consumers were made from or at Household's retail lending branches during between the period January 1, 1999 through September 30, 2002 (the "Covered Transactions").

8. State attorneys general and state financial regulators in this state and in other states have received and investigated complaints and conducted examinations concerning the Covered Transactions. Those complaints and investigations related to Household's conduct with respect to the following practices, (collectively, "the Lending Practices"):

A. Two real-estate secured loans made at or near the same date to the same consumer (“split loans,” or “loan splitting”): Plaintiff alleges that such loans were made through unfair and deceptive means, including, but not limited to, misrepresentations or omissions concerning the number of loans, misrepresentation of the benefits of refinancing and debt consolidation with the high-cost split loans; and as a means to make high loan-to-value mortgage loans which had the effect of preventing borrowers from seeking to refinance with lower rate lenders.

B. Loan points and origination fees: Plaintiff alleges that Defendant failed to provide timely and adequate information to borrowers concerning the amount and purpose of the putative “discount” or “buy-down” points and fees imposed on their loans, including, but not limited to, failing to provide meaningful early disclosures as required by law, 24 C.F.R. § 3500.7.

C. Misrepresentation of interest rates: Plaintiff alleges that Defendant misrepresented the interest rates to be charged on loans through such means as using a “low-ball” rate purporting to be an “effective” rate, or equally deceptive term. Such misrepresentations and omissions occurred in the context of Defendant’s attempting to disguise a high-rate mortgage as a low-rate mortgage through use of (for payment of an additional fee) a bi-weekly payment plan. Plaintiff failed to inform consumers that accelerated principal reduction occurred through making extra payments, instead misleading consumers into thinking the savings were attributable to lower interest charges than the loans provided for. Additionally, misleading comparisons were made between rates on existing debts which applicants were considering refinancing or consolidating, and the rate(s) to be charged on Defendant’s proposed loan or loans.

D. Monthly payment amounts: Plaintiff alleges that Defendant failed to inform consumers that higher payments, rather than lower rates, were the feature of the bi-weekly payment program which would result in overall savings in finance charges. Further, in making sales presentations with respect to refinancing and debt consolidation applications, Defendant

made misleading comparisons of monthly payment obligations between existing debts and the proposed new loan or loans to be made by Defendant.

E. Single premium credit and other insurance product: Plaintiff alleges that Defendant engaged in a pattern of “insurance packing,” including, but not limited to, misleading consumers as to the voluntary nature of the insurance, to the price of the insurance, and the benefits and/or term of the insurance.

F. Prepayment penalties: Plaintiff alleges that Defendant engaged in a practice of misleading consumers about the presence of prepayment penalties on their loans.

G. Unsolicited loans offered through an unsolicited negotiable check that the consumer can accept by endorsing and depositing or transferring the check (“live checks”): Plaintiff alleges that Defendant used “live checks” as a “bait” to make high-cost mortgage loans; used misleading representations, such as that the receipt of a live check constituted a “guaranteed loan approval,” and failed to adequately inform consumers that the unsolicited check was a loan.

H. Practices with regard to home equity lines of credit: Plaintiff alleges that Defendant extended what was in substance closed-end credit disguised as open-end credit with the intent to avoid making meaningful disclosures concerning the payment terms, such as the existence of large balloon payments. Plaintiff further alleges that Defendant extended what was in substance closed-end credit with APRs in excess of 10% over the US treasury rate for comparable maturities, disguised as open-end credit to evade the requirements of the Home Ownership and Equity Protection Act, 15 U.S.C. § 1639.

I. Loan billing practices relating to simple interest calculations: Plaintiff alleges that Defendant’s practices by which payments were credited to accounts on the basis of the number of days between payments frequently resulted in situations in which scheduled payments were insufficient to pay accrued interest, creating a shortfall in interest (“interest short”), which

resulted in excess finance charge costs for borrowers. Such shortfalls could occur even when payments were not late. Defendants further made representations concerning the opportunity to “skip a payment,” without informing consumers that such would result in “interest short” situations. Defendants failed to provide borrowers with material information necessary to avoid such extra charges.

J. Balloon payments: Plaintiff alleges that Defendants extended credit to borrowers which would eventually require balloon payments, without disclosing to borrowers the existence or amount of the balloon payments.,

K. Pay-off information: Plaintiff alleges that Defendants failed to provide timely pay-off information, which impeded borrowers’ efforts to seek refinancing elsewhere.

L. Non-English language documentation: Plaintiff alleges that Defendants engaged in unfair and deceptive practices by failing to provide meaningful descriptions of loan terms to non-English-speaking borrowers.

M. Net tangible benefit in loan refinancing. Plaintiff alleges that Defendants engaged in the practice of refinancing its own or other loans, thereby imposing additional fees and costs, where the new loan provided no net tangible benefit to the consumer.

UNFAIR AND DECEPTIVE PRACTICES
IOWA CODE § 714.16

9. Plaintiff realleges and incorporates by reference the allegations of Paragraphs 1 to 8 of this Petition.

10. Defendant, through its direct or indirect subsidiaries, engages in trade or commerce in connection with the sale of intangible “merchandise” within the meaning of Iowa Code § 714.16, by making loans to consumers in “sub-prime” mortgage loan market. Defendant advertises, offers, solicits sales of, and sells real estate secured loans and related goods and

services to Iowa consumers.

11. Defendant, through its direct and indirect subsidiaries, engaged in the business of making loans to Iowa consumers that were secured by those consumers' homes. Defendant used misleading unfair or deceptive promotions, marketing and sales techniques to induce primarily low and moderate-income homeowners to refinance their mortgages and consolidate their debts using Household's real-estate secured loan products.

12. In the course of its dealings with consumers and in furtherance of its own direct pecuniary and business gains, Defendant committed deceptive or unfair acts, or made material misrepresentations or omissions in violation of Iowa Code § 714.16(2)(a).

WHEREFORE, the Attorney General prays that the court:

A. Permanently enjoin Defendant, its direct and indirect subsidiaries, affiliates, officers, directors, employees, agents, related entities, successors, and assigns, and any and all other persons who act under, by, through, or on behalf of Defendant, pursuant to Iowa Code § 714.16(7), from:

(1) Making or disseminating any misleading unfair or and deceptive representations in violation of Iowa Code § 714.16(2), relating to the marketing or sale of loans to consumers.

(2) Engaging in unfair and deceptive practices referenced in the Petition, in violation of Iowa Code § 714.16(2).

B. Order the Defendant make restitution pursuant to Iowa Code § 714.16(7) to consumers who paid or are obligated to pay money to Defendant under circumstances alleged herein to be in violation of Iowa law.

C. Order the Plaintiff be awarded such recompense as is authorized under Iowa Code § § 714.16(7), (11).

D. That the Plaintiff be awarded such other and further relief as the Court deems just and proper and is equitable under the circumstances.

Dated:

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