

STATE OF MICHIGAN
CIRCUIT COURT FOR THE 30TH JUDICIAL CIRCUIT
INGHAM COUNTY

JENNIFER M. GRANHOLM, Attorney
General of the State of Michigan, and
FRANK M. FITZGERALD, Commissioner of the Office of Financial and Insurance
Services, No. 02-1969-CH

HON. WILLIAM E. COLLETTE

Plaintiffs

v

HOUSEHOLD INTERNATIONAL, INC. a
Delaware corporation,

Defendant.

Michael J. Fraleigh (P36615)
Assistant Attorney General
Attorney for Plaintiffs
Michigan Department of Attorney General
Insurance & Banking Division
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(517) 373-1160

THERE IS NO OTHER PENDING OR
RESOLVED CIVIL ACTION ARISING OUT
OF THE TRANSACTION OR
OCCURRENCE ALLEGED IN THE
COMPLAINT

**COMPLAINT FOR INJUNCTION,
RESTITUTION, AND OTHER EQUITABLE RELIEF**

Plaintiffs JENNIFER M. GRANHOLM, Attorney General of the State of Michigan
("Attorney General"), and FRANK M. FITZGERALD, Commissioner of the Office of Financial
and Insurance Services ("Commissioner"), bring this action pursuant to the Mortgage Brokers,
Lenders, and Servicers Act, MCL 445.1651 *et seq.*; the Secondary Mortgage Loan Act,
MCL 493.51 *et seq.*; and the Consumer Financial Services Act, MCL 487.2051 *et seq.* Plaintiffs

seek, among other things: a permanent injunction, an order compelling Defendant to pay restitution to consumers, attorneys' fees and costs, and an order reforming contracts between Defendant and Michigan consumers.

JURISDICTION AND PARTIES

1. The Attorney General's and the Commissioner's authority to bring this action is derived from MCL 493.56b(2)(d); MCL 493.77(4); MCL 487.2070 and MCL 14.28.

2. 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 Michigan, County of Ingham. The violations of law alleged herein were committed throughout the State of Michigan, and in the County of Ingham. Venue is proper pursuant to MCL 14.102, MCL 493.56b(2)(e) and MCL 600.1621.

GENERAL ALLEGATIONS

3. The amount in controversy exceeds \$100,000.00.

4. In the ordinary course of 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 Michigan. These real estate secured loans were made from or at Household's retail lending branches during between the period January 1, 1999 through September 30, 2002 (the "Covered Transactions").

5. The Attorney General and Commissioner in Michigan, and the Attorneys General and financial regulators 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"): Plaintiffs allege 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; [use of the second loan as a result of the high amount of points and fees financed as part of the primary loan;] 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: Plaintiffs allege 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: Plaintiffs allege 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 an 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. Defendant 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: Plaintiffs allege 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: Plaintiffs allege that Defendant engaged in a pattern of "insurance packing," including, but not limited to, misleading consumers as to the voluntary nature of the insurance, the price of the insurance, and the benefits and/or term of the insurance.
- F. Prepayment penalties: Plaintiffs allege that Defendant engaged in a practice of misleading consumers about the presence of prepayment penalties on their loans [, and imposed prepayment penalties in violation of state law].
- G. Unsolicited loans offered through an unsolicited negotiable check that the consumer can accept by endorsing and depositing or transferring the check ("live checks"): Plaintiffs allege that Defendant used "live checks" as a "bait"

to make high-cost mortgage loans; used misleading representations; and failed to adequately inform consumers that the unsolicited check was a loan.

- H. Practices with regard to home equity lines of credit: Plaintiffs allege 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. Plaintiffs further allege that Defendant extended what was in substance closed-end credit with APRs in excess of 10% over the US treasury rate for comparable maturities, which Defendant 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: Plaintiffs allege 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. Defendant further made representations concerning the opportunity to "skip a payment" without informing consumers that doing so would result in "interest short" situations. Defendant failed to provide borrowers with material information necessary to avoid such extra charges.

- J. Balloon payments: Plaintiffs allege that Defendant extended credit to borrowers on terms that would eventually require balloon payments, without disclosing to borrowers the existence or amount of the balloon payments.
- K. Payoff information: Plaintiffs allege that Defendant failed to provide timely payoff information, which impeded borrowers' efforts to seek refinancing elsewhere.
- L. Non English language documentation: Plaintiffs allege that Defendant 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: Plaintiffs allege that Defendant 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.

6. Written documents supporting these allegations are not attached because they number in the thousands and the Defendant has possession and control of the original documents and/or copies of the original documents.

7. Defendant's conduct, as set forth in this Complaint, was contrary to and prohibited by the provisions of the Consumer Credit Protection Act, 15 U.S.C. 1601 *et seq.*

8. Defendant's conduct, as set forth in this Complaint, resulted in material misrepresentations to the consumers obtaining loans from the Defendant.

9. The Defendant intentionally or due to gross or wanton negligence, repeatedly failed to provide consumers material disclosures of information required by State or Federal Law in connection with loan transactions as set forth in this Complaint.

COUNT I

VIOLATION OF MICHIGAN LENDING LAWS

10. Plaintiffs reallege and incorporate by reference the allegations of Paragraphs 1 to 9 of this Complaint.

11. Defendant's conduct, as set forth in this Complaint, violated statutory requirements of the Mortgage Broker, Lenders, and Servicers Act, MCL 445.1651 *et seq.*

12. The Defendant's conduct, as set forth in this Complaint, violated the statutory requirements of the Second Mortgage Loan Act, MCL 493.51 *et seq.*

13. Defendant's conduct, as set forth in this Complaint, violated the statutory requirements of the Consumer Financial Services Act, MCL 487.2051 *et seq.*

RELIEF

Based on the foregoing, Plaintiffs ask the Court to enter a Judgment in their favor that:

A. Permanently restrains and enjoin the 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 from the following:

1. Making or disseminating any misleading, unfair or and deceptive representations in violation of the Mortgage Brokers, Lenders, and Servicers Act, MCL 445.1651 *et seq.*, the Secondary Mortgage Loan Act, MCL 493.51 *et seq.*; and the Consumer Financial Services Act, MCL 487.2051 *et seq.* relating to the marketing or sale of loans to consumers.
2. Doing any of the wrongful acts referenced in this Complaint or any other act in violation of the Mortgage Brokers, Lenders, and Servicers Act,

MCL 445.1651 *et seq.*, the Secondary Mortgage Loan Act, MCL 493.51 *et seq.*; and the Consumer Financial Services Act, MCL 487.2051 *et seq.* relating to the business of making retail residential loans to consumers.

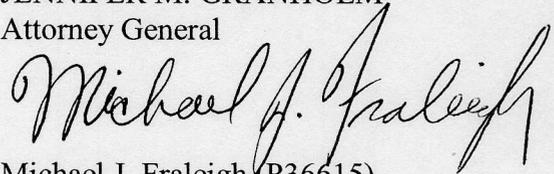
B. Requires Defendant Household International, Inc. to make restitution to Michigan consumers.

C. Awards the Plaintiffs their attorney fees, costs, expenses and civil fines as allowed by law.

D. Awards the Plaintiffs such other and further relief as the Court deems just, proper, and equitable under the circumstances.

Respectfully submitted,

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Dated: December 16, 2002