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Financial Services: Diversified

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Profit growth continues, but concerns remain

For numerous years, consumer finance companies and diversified financial services firms basked in the long-running economic expansion. Strong economic growth, low unemployment rates, robust consumer spending patterns, low inflation, and a generally favorable interest rate environment enabled these companies to produce strong profit gains in the 1990s. The group, for the most part, continued to post relatively healthy financial results in more recent periods, despite the economic recession of 2001 and the weak recovery of 2002.

Standard & Poor's estimates that real growth in U.S. gross domestic product (GDP) rose from 0.3% in 2001 to 2.5% in 2002. Growth in personal consumption expenditures rose to an estimated 3.1% in 2002, from 2.5% in 2001. However, reflecting what some have termed a jobless recovery (similar to the economic recovery of the early 1990s), the unemployment rate continued to rise. The unemployment rate jumped from 4.0% in 2000 to 4.8% in 2001 and likely reached 5.8% in 2002. Unemployment may rise even higher in 2003, to 6.2%, according to Standard & Poor's projections. On the positive side, with inflation at bay, interest rates should remain relatively low in the near term.

To the surprise of many, overall demand for credit remained fairly robust in 2002. Credit quality also held up better than many would have projected. Thus, even in the weak economic environment, some, though not all, of the leading consumer and diversified financial services firms were able to post good results. Broadly speaking, the top-tier firms were able to post healthy earnings growth in the mid-single digits to double digits, either meeting or exceeding Wall Street's profit expectations. However, deteriorating credit quality hurt firms that focused on subprime consumers and had poor underwriting standards.

As discussed below, credit card use worldwide continues to grow rapidly. In the United States, one negative that continues to cloud the industry outlook has been the rising number of consumer bankruptcies, which reached record levels throughout 2002. Proposed bankruptcy reform legislation should start to move forward, however, and the industry may get some relief on this front in 2003. Moreover, increased regulatory scrutiny should encourage more disclosure and better underwriting standards that will hopefully dissuade many credit card issuers from extending credit to higher-risk consumers. In addition, the competitive environment could be affected by the outcome of the two antitrust cases discussed below.

Some firms hit by weak credit quality

Over the past fifteen months, a number of credit card companies surprised investors by announcing that their financial results would fall significantly below previous guidance or expectations, primarily because of deteriorating loan quality. In October 2001, Providian announced that its results would be hurt by weak credit conditions, lower than expected fee and finance charges in September 2001, and higher than expected credit losses in September 2001. Further, the company said that it would have to increase its loss provisions in order to strengthen its balance sheet. The announcement sent Providian's stock down 34% in one day.

Later in October 2001, the long suffering NextCard, Inc., a four-year-old issuer of credit cards over the Internet, announced that it had hired Goldman Sachs & Co. to find it a buyer. The company's losses had mounted due to continuing credit problems.

Following that announcement, the group was quiet for a while, and many investors thought that all the bad news was essentially out. Then in April 2002, Metris Companies, another issuer of credit cards to subprime consumers, announced that its results would fall below expectations.

Stocks decline on increased regulatory oversight

After the above-mentioned blow-ups, it was only a matter of time before regulators got more actively involved. After all, to fund their loans, these credit card issuers rely on deposits that are insured by the federal government.

In February 2002, regulators closed down NextCard's banking unit, after finding that the institution was operating in an "unsafe and unsound" manner. The bank had more than $550 million in FDIC-insured certificates of deposit. The failure of NextCard signaled that regulators were becoming more aggressive in overseeing the credit card industry — a prospect that alarmed many investors.

In July 2002, Capital One Financial Corp., one of the nation's leading issuers of credit cards, announced that it planned to enter into a memorandum of understanding with regulators to increase its loan loss reserves, slow its growth, and improve its overall management. This announcement, despite the company's robust earnings growth, good credit trends, and implementation of many of the provisions of the memorandum of understanding, sent the shares tumbling about 40% in one day. Many other credit card issuers got caught up in the storm, and watched their share prices fall. Some later went on to take charges in connection with proposed federal guidelines; in the case of MBNA, the amount was about $167 million.

New federal guidelines coming in 2003

During the summer of 2002, the Federal Financial Institutions Examination Council (FFIEC), a group consisting of the main U.S. financial regulators, including the Federal Reserve and the Office of the Comptroller of the Currency, released a draft of its proposed guidance for credit card issuers. The proposal was in response to concerns about disparities in the quality of account management practices and inconsistencies in the application of existing guidance, which could increase institutions' credit risk profiles to imprudent levels. The FFIEC was also concerned that inconsistent application of accounting and regulatory guidance could affect the transparency and comparability of financial reporting for all institutions engaged in credit card lending.

The FFIEC's proposed guidance would have affected credit line management, over-the-limit practices, and workout and forbearance periods. The proposal also offered guidelines relating to accrued interest and fees, loan loss allowances, allowances for over-limit accounts and workout programs, as well as recovery practices. Since July 2002, many investors have been apprehensive about investing in credit card companies because of the increased regulatory oversight, which many saw as a threat to earnings growth potential.

In January 2003, FFIEC issued finalized guidelines, which contained many of the provisions noted above. However, in one concession, the FFIEC decided not to proceed with a proposal to collect data on subprime consumer lending programs in the quarterly regulatory reports filed by banks and savings associations since there is no standard definitions of subprime. The FFIEC also said that credit card issuers should stop pursuing delinquent credit card debts after five years. Further, the FFIEC did not prohibit overlimit fees, which many had feared the agency would do. We view increased scrutiny positively, as it should help to reduce the likelihood of failures. In addition, a more standardized approach should allow investors to differentiate among the various credit card issuers.

The Justice Department vs. Visa and MasterCard

In October 1998, the U.S. Department of Justice (DOJ) filed an antitrust suit against MasterCard and Visa. The trial began in June 2000 and was originally expected to take two months. Testimony in the case concluded on August 22, 2000, and presiding Judge Barbara S. Jones of the U.S. District Court for the Southern District of New York finally issued a ruling in October 2001. The saga continues, however, as that decision is under appeal.

Visa and MasterCard are mutually owned joint venture associations of thousands of individual financial institutions. The associations operate under what is called "duality";

that is, member banks are allowed to issue both Visa and MasterCard branded credit cards. However, each member bank sets its own fees and terms and issues its own cards. The services that Visa and MasterCard provide include national advertising campaigns, the approval of credit card transactions for merchants, and the electronic notification of card usage so banks can charge their customers' accounts. Visa and MasterCard also develop terminals and technology that process transactions.

At issue: duality and exclusivity

The government's case centered around two issues. The first is the duality issue. The government alleged that the current duality structure is anticompetitive and has interfered with the introduction of innovative products and services. Interestingly enough, the system of duality was actually introduced at the behest of the Department of Justice in 1975, when it feared Visa hegemony.

The evidence in support of the government's position is not clear-cut. For example, credit card issuers in the United States have been on the forefront of offering credit cards to low-quality borrowers, and credit cards with varying rates of interest. Rewards programs and affinity cards represent other examples of innovation on the part of issuers. On the other hand, issuers have been slow to develop "smart" cards and wireless products.

The second issue involves the exclusivity rules practiced by Visa and MasterCard, whereby they forbid banks from issuing rival cards like American Express and Discover. Visa's by-laws explicitly prohibit U.S. member banks from issuing American Express or Discover cards. Violating this rule results in the expulsion of the member from the Visa organization. MasterCard policy imposes the same penalty on a bank that issues American Express Cards. Admittedly, banks can still choose to offer other cards. Furthermore, given that most credit cards are solicited through the mail and Visa and MasterCard do not have a lock on the U.S. postal system, American Express and Discover do not have their hands tied, to say the least.

The decision

In October 2001, the Court ruled that Visa and MasterCard must end their practice of barring member banks from distributing rivals' credit cards. This decision was largely seen as a victory for American Express and Discover Card. The Court also stated that the governing structure of VISA and MasterCard was not anticompetitive and need not be dismantled.

In February 2002, Judge Barbara Jones decided to stay her decision, pending review by an appellate court. In May 2002, the defendants asked the U.S. Court of Appeals for the Second Circuit to reverse one section of federal district court Judge Barbara Jones' decision. That section requires MasterCard and Visa to repeal their rules prohibiting their member banks from issuing cards on the proprietary networks of American Express and Discover. MasterCard pointed out that antitrust laws are designed to protect competition, not competitors.

MasterCard further noted that the court recognized that American Express has the ability to reach all potential customers, and that consumers now have access to thousands of card choices — including American Express — with a broad array of features. MasterCard also contended that the court ignored the doctrine that recognizes that joint ventures, such as MasterCard, often need to employ loyalty mechanisms to protect the interests of the joint venture, since joint ventures are inherently disadvantaged because their members often have differing business strategies. Loyalty provisions, said MasterCard, are necessary to protect the cohesiveness and competitive strength of the joint venture itself.

Wal-Mart challenges Visa and MasterCard

In 1996, Wal-Mart and other retailers launched a class action antitrust lawsuit against Visa and MasterCard. The retailers claimed that Visa and MasterCard were abusing their power by extending their credit-card monopoly into the debit card business. The companies' rules require that merchants accepting Visa and MasterCard credit cards also take their debit cards. The retailers claimed that Visa and MasterCard charged merchants up to 25 times more per transaction than competing debit cards.

In October 2001, a U.S. Appeals Court rejected an appeal to stop the antitrust lawsuit against Visa and MasterCard from including four million retailers. It also rejected an appeal from credit card companies to stop retailers from receiving class certification. The suit seeks $8 billion in damages, a figure that would be tripled to about $24 billion under federal antitrust law if retailers won. It is hard to forecast the outcome, and an out-of-court settlement might be reached. In June 2002, the U.S. Supreme Court decided not to review the Second Circuit Court of Appeal's decision. The case is still proceeding.

Credit card use continues to rise

General-purpose credit and debit cards displaying the brands of Visa, MasterCard, American Express, JCB (JCB International Credit Card Co. Ltd.), and Diners Club generated $3.2 trillion in total transaction volume worldwide in 2001, up more than 21% from 1999, according to *The Nilson Report,* a trade publication that covers the consumer payment systems industry worldwide. The number of cards outstanding also rose, reaching 1.60 billion in 2001, up from 1.36 billion in 2000. The number of transactions generated by these brands rose 16.2%, year to year, to 45.19 billion in 2001. Although data is not yet available, we believe that both transaction volume and the number of credit cards continued to rise in 2002. During the first half of 2002, global purchase volume jumped 11% to $1.3 trillion according to *The Nilson Report*; MasterCard and Visa had gains of 15% and 12%, respectively.

Visa maintained its leading market position in 2001 based on purchase volume, with a worldwide market share of 57.7% (versus 56.9% in 2000) according to *The Nilson Report*. MasterCard's market share in 2001 was 27.2% (compared with 26.3% in 2000), followed by American Express at 12.3% (13.6%), JCB at 1.4% (1.4%), and Diners Club, 1.4% (1.8%).

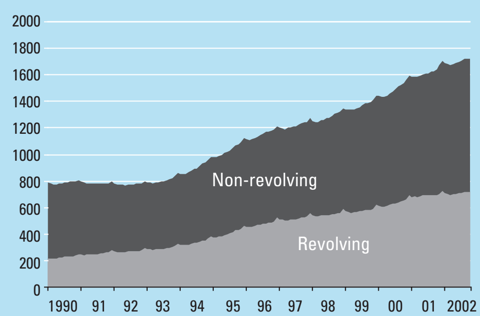
Activity in the United States also rose. The five brands of general-purpose credit cards in the United States are Visa, MasterCard, American Express, Discover, and Diners Club. According to *The Nilson Report*, the number of cards outstanding in the United States at year-end 2001 totaled 741.7 million, up from 677.7 million at the end of 2000. Total purchase volume rose 8.2% to $1.4 trillion in 2001. The number of purchase transactions totaled 19.86 billion in 2001, compared with 17.67 billion in 2000. U.S. credit card usage are estimated to have increased in 2002 from year-ago levels.

Consumer bankruptcy rates running high

Bankruptcy trends are crucial issues for all consumer finance companies and many diversified financial services firms. U.S. bankruptcy filings reached record levels through 2002, rising to 401,306 in the third quarter of 2002, compared with 359,518 in the comparable year-earlier period. This was the highest quarterly total ever. These results followed record high annual filings of 1.5 million in 2001. We believe that annual bankruptcy filings rose in 2002 and will rise again in 2003, driven by continued economic weakness, an increase in unemployment, high consumer debt levels, and expected changes in the bankruptcy law.

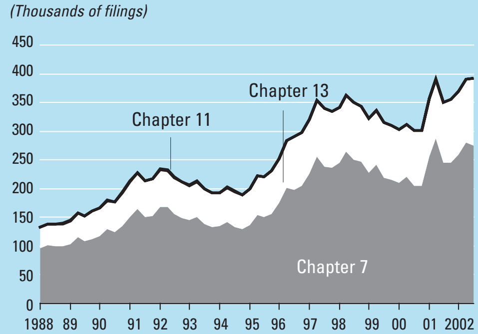
In addition to economic growth and the unemployment rate, many other factors contribute to bankruptcies. These factors include

TOTAL CONSUMER INSTALLMENT CREDIT
(In billions of dollars, outstanding at end of month)



Source: Federal Reserve Board.

CONSUMER BANKRUPTCY FILINGS
(Thousands of filings)



Source: U.S. Bankruptcy Courts.

divorce rates, lack of medical insurance, the relative ease with which individuals can declare bankruptcy, the fairly forgiving bankruptcy laws currently in place, sometimes lax underwriting standards being practiced by some financial services companies, and the ease with which loans can be obtained.

Bankruptcy reform: the saga continues

The topic of bankruptcy reform has been a contentious one in recent years, as financial services companies have complained about the large number of bankruptcies and their cost to the industry. But financial services companies are not the only ones that bear the burden of the high bankruptcy rates in this country. As these companies pass through some of the costs of bad debt, consumers pay higher interest rates than they might otherwise. In essence, consumers who pay their bills end up subsidizing those who don't. In addition, marginal borrowers may end up being denied credit, because lenders become more risk-averse in an environment of high bankruptcies.

In many ways, a sensible reform of the bankruptcy laws would benefit both lenders and borrowers alike, and recent legislative maneuvers have demonstrated the strong support for this issue. In October 2000, the House passed a bill called the Bankruptcy Reform Act of 2000, with a unanimous voice vote. The bill then cleared the Senate by a comfortable margin in early December. However, the Clinton administration had repeatedly said that the president would veto the bill, even though the bill passed with veto-proof majorities. The bill died on December 19, 2000, the deadline for enactment, because President Clinton left it unsigned.

Bankruptcy reform legislation was resurrected in a bill introduced by Rep. George W. Gekas (R., Pennsylvania) in January 2001. A bankruptcy reform bill cleared the House of Representatives on March 1, 2001, by a vote of 306 to 108. A similar bill cleared the Senate on March 15, 2001, by a vote of 83 to 15. The legislation remains in committee, where differences between the two bills will be resolved. More recently, in May 2002, Congress nearly passed bankruptcy reform legislation that would have been less debtor-friendly. However, the vote was not scheduled because of controversy over unrelated provisions attached to the bill. The bill was defeated in Congress in November 2002 amid continued controversy over the unrelated provisions. We expect a compromise will ultimately be reached, and some form of bankruptcy reform legislation might even be signed into law during the first part of 2003.

One of the primary issues that must be resolved is the so-called homestead exemption. Some states allow wealthy debtors to avoid creditors by purchasing expensive homes that cannot be seized. This exemption received extra attention in light of the Enron collapse. In a compromise in mid-2002, Congress agreed on a provision that would bar anyone who has been convicted of certain types of felony or of securities fraud from shielding more than $125,000 in home equity in bankruptcy. However, a separate provision (known as the unlimited homestead provision) would allow bankrupt debtors in Texas, Florida, and four other states to shield their homes from creditors.

Both the Senate and House bills would establish a "means test" to determine if people should be allowed to file for Chapter 7 of the bankruptcy code, which discharges filers from credit card and other unsecured debt. The bills would force more debtors to file under Chapter 13 of the bankruptcy code, which would require them to repay some or all of their debt.

The passage of a bankruptcy reform bill would likely have a noticeable impact on the industry's charge-off rates. Need-based reform may significantly increase the number of high-income filers who eventually would have to repay their debts or part of their debts. This would lead to lower industry charge-offs. However, in the short term, bankruptcies are likely to continue soaring as debtors seek to file ahead of less debtor-friendly laws.

Forecast: still cloudy

Although challenges remain, the earnings outlook for the stronger companies in both sectors looks bright, and we expect them to post solid results for the fourth quarter of 2002 as well as full-year 2003. However, even the stronger companies may have to contend with the problems created by the weak economy, such as poor credit trends. The weaker players will likely continue to languish.

Overall demand for credit should remain strong, assuming that the interest rate environment remains favorable. In 2001 and 2002, in the face of worsening economic news, the Federal Reserve reduced the Fed funds target rate by a total of 525 basis points, from 6.5% at the start of 2001 to 1.25% in December 2002. Standard & Poor's currently does not expect that the Fed will cut its Fed funds target further. Moreover, we believe the Fed will probably delay any tightening until later in 2003, upon signs of sustainable economic growth.

In our view, the economy recovery is likely to be uneven. After accelerating to an estimated 3.1% in 2002 from 2.5% in 2001, growth in real personal consumption expenditures may slow to 2.7% in 2003, according to Standard & Poor's forecasts. We expect the unemployment rate to rise steadily throughout 2003, for an average rate of 6.2%, up from 4.8% in 2001 and 5.8% in 2002. We expect inflation (as measured by the consumer price index) to remain low in 2003, at a projected 2.3%, compared with an estimated 1.6% in 2002 and 2.8% in 2001.

Against this economic backdrop, the earnings growth of both consumer finance companies and diversified financial services firms will be driven by a variety of factors. Overall, however, we expect the combination of a favorable interest rate environment, low inflation, and a strengthening economy to benefit companies in this industry. Results will vary, however, because of the diverse nature of the group, and these companies' varying responses to external variables. ■

A diverse industry

The financial services industry can be broadly segmented into two groups of companies: diversified financial services companies and consumer finance companies.

The diversified financial services industry comprises a range of consumer and commercial oriented companies that offer a wide variety of products and services, including various lending products (such as home equity loans and credit cards), insurance, and securities and investment products. Within this broad description, however, further distinctions can be made. Companies that are classified as diversified financial services companies tend to be either large financial conglomerates or unique companies that do not fit neatly into another industry grouping. Examples of large financial conglomerates include Citigroup Inc. ($1,031.6 billion in assets at September 30, 2002), Morgan Stanley Dean Witter ($516.8 billion at August 31, 2002), and American Express ($145.3 billion as of September 30, 2002). Among important companies that are unique are Fannie Mae ($837.7 billion) and Freddie Mac ($682.0 billion). While they are government-sponsored enterprises, with a mandate to buy mortgages, they are also publicly held corporations.

Generally speaking, consumer finance companies are more homogeneous. These companies are often compared with banks, and in many respects operate like banking institutions. They record interest income and fees from loan products, establish reserves for potential loan defaults, and generally compete with each other to market interest-sensitive lending products. Among the differences between the two sectors, consumer finance companies are somewhat less regulated than banks are, and they can be more flexible in their product offerings. Often they prefer to focus their lending efforts on specific market niches rather than trying to meet the borrowing needs of all people. Banks may also have a specific niche, but usually they offer a set of core lending products to a wide range of customers at similar terms and conditions.

It's harder to quantify the size and scope of the consumer finance industry than the banking industry. Banks are more closely regulated, and the Federal Deposit Insurance Corp. (FDIC) maintains and distributes useful aggregate industry data. Therefore, a comparative analysis is easier with banks. In contrast, consumer finance companies often operate in disjointed niche markets.

TOP 10 GENERAL PURPOSE CREDIT CARD ISSUERS — 2001

(Ranked by outstanding debt as of Dec. 31)

ISSUER	DEBT (BIL. $)	MARKET SHARE (%)
Citigroup	108.90	19.7
MBNA	84.32	15.2
FIrst USA (a unit of Bank One)	68.20	12.3
American Express	64.91	11.7
Discover	49.33	8.9
Capital One	46.26	8.4
J.P. Morgan Chase	40.90	7.4
Providian	32.64	5.9
Household International	31.21	5.6
Bank of America	27.20	4.9
Total, top 10	553.87	100.0

Source: SNL Financial.

INDUSTRY TRENDS

Both diversified financial services firms and consumer finance companies are undergoing a period of consolidation and globalization. Consumer finance companies have seen healthy growth in receivables and in the credit card business, despite generally weak economic conditions. A continued high level of consumer bankruptcy filings is cause for concern. However, consumer bankruptcy trends should improve as the economy continues to recover and job growth resumes.

TOP 20 CONSUMER LENDERS

(Ranked by receivables, in millions of dollars)

	TOTAL CONSUMER RECEIVABLES 2000	2001
1. Ford Motor Credit Co	146,100	166,700
2. Citigroup Inc.*	87,700	108,900
3. Household International Inc.	87,009	100,316
4. MBNA Corp.	87,868	97,496
5. USA Education Inc.	66,700	73,400
6. First USA Inc.	67,000	68,200
7. American Express*	60,781	64,906
8. General Electric Capital Corp.	51,417	50,800
9. Discover Bank	47,294	49,565
10. Capital One Financial Corp	29,524	46,264
11. Conseco Finance Corp.	43,509	41,625
12. J.P. Morgan Chase & Co.*	36,200	40,900
13. Providian Financial Corp.	26,913	32,654
14. Bank of America*	24,300	27,200
15. Toyota Motor Credit Corp.	23,319	22,460
16. Student Loan Corp.	15,774	18,237
17. FleetBoston Financial Corp.*	14,869	16,278
18. Sears Roebuck Acceptance Corp.	16,879	16,014
19. GreenPoint Credit Group	9,730	13,000
20. USAA Federal Savings Bank	11,870	12,131

*Credit card division.
Source: SNL Financial.

Consolidation will continue

In recent years, the entire financial services industry has undergone rapid consolidation. The easing of regulatory barriers, the search for profit sources, customers' apparent desire for the convenience of "one-stop shopping," and the industry's inherent economies of scale are some of the reasons for this trend.

The easing of regulatory barriers began in the late 1980s, when rules changes by the Federal Reserve allowed banks to generate up to 5%, and then 10%, of their revenues from securities underwriting. The limit was raised to 25% in 1996. This evolution was essentially completed in November 1999, with the passage of the Gramm-Leach-Bliley Act. Broadly speaking, the new law eliminates the barriers introduced by Glass-Steagall in the 1930s by allowing the three largest segments of the financial services industry — commercial banks, investment banks, and insurance companies — to enter into one another's businesses.

Although we do not anticipate that the reform will cause an avalanche of mergers in the near term (largely because loopholes in previous laws already permitted much cross-industry activity), we do expect it to result in the creation of more large financial conglomerates as time passes. Although the ardor for acquisitions has waned of late due to weak market conditions, corporate scandals and questions about the effectiveness of acquisitions, in general, we believe that acquisitions will be more focused and prudent with clearer benefits for the acquirer. Moreover, firms such as Citigroup Inc., which have grown through acquisitions, are increasingly focusing on their more profitable businesses and jettisoning others. During the summer of 2002, Citigroup spun off the majority of its Travelers Insurance business to shareholders.

Among recent news, in November 2002 British-based HSBC Holdings Plc, one of the largest banks in the world, agreed to acquire Household International for $14.2 billion in stock. In many ways, this deal has been viewed as prudent. In 2000, Citigroup paid $31.1 billion (three times book value) for Associates First Capital Corp. In contrast, HSBC is acquiring one of the leading consumer finance companies for about 1.6 times book. Some have argued that Household might have been valued at five times book in 2000.

One reason is that the nature of the financial services industry confers advantages on larger companies. They can leverage their distribution channels by offering a wide array of financial products, thereby creating certain cost efficiencies. They may find it easier and less expensive to access capital. Large companies are also likely to have the resources to take advantage of growth opportunities in international markets.

Of course, not all of these acquisitions work out as expected. For instance, First Union Corp. (now part of Wachovia Corp.) purchased The Money Store in March 1998, which did not fare as well as expected. In 2000, First Union closed The Money Store, due to credit and earnings problems at the unit.

Globalization underway

As competition in domestic markets has intensified, financial services companies of all stripes have looked to build businesses overseas. The expansion of diversified financial services companies is widespread. Many firms with securities arms have moved into both Europe and Asia as the

TOP 20 LENDERS, BY MANAGED RECEIVABLES

(In millions of dollars)

	MANAGED RECEIVABLES 2000	2001
1. Washington Mutual Inc.	159,431	496,700
2. Wells Fargo Home Mortgage Inc.	452,570	487,823
3. Chase Manhattan Mortgage Corp.	361,640	429,840
4. General Motors Acceptance Corp	339,887	408,868
5. Countrywide Credit Industries Inc.	250,192	336,627
6. Bank of America Consumer Lending	366,200	320,854
7. Ford Motor Credit Co.	191,800	211,100
8. General Electric Capital Corp.	168,614	203,358
9. HomeSide International Inc.	173,310	187,367
10. ABN AMRO Mortgage Group	109,326	146,479
11. First Nationwide Mortgage Corp.	111,992	112,263
12. Citigroup Inc. (credit card)	87,700	108,900
13. CitiMortgage Inc.	98,095	105,980
14. Household International Inc.	87,607	100,823
15. Cendant Mortgage Services	81,194	98,787
16. MBNA Corp.	88,791	97,496
17. National City Mortgage Inc.	63,300	88,917
18. Principal Residential Mortgage Inc.	55,987	80,531
19. USA Education Inc.	72,500	79,400
20. American Express Co.	72,800	75,800

Source: SNL Financial.

capital markets of these continents continue to grow and as these continents develop more equity-based cultures. Other services offered abroad vary widely, as companies have to grapple with different regulatory standards and cultural preferences.

The international expansion of credit card companies has been concentrated mainly in the Canadian and U.K. markets, where cultural attitudes toward credit are more in tune with those of the United States. However, as these markets too become mature, it is likely that credit card issuers will look at expanding in other markets. Indeed, HSBC's strong presence around the world and its understanding of various markets should allow Household to use HSBC as a platform to expand its lending operations globally is one of the strategic benefits of the planned merger.

Strong loan portfolio growth

Loan portfolios for many of the industry's strong players have grown by double-digit amounts annually, on average, over the past five years, according to company reports. At Capital One Financial Corp., total managed loans grew from $14.2 billion at 1997 year-end to $56.9 billion at the end of September 2002, while Household International's managed receivables increased from $63.2 billion to $106.6 billion. An extended variety of products contributed to this growth. Lending programs for products that were traditionally the mainstay of commercial banks — or thrifts, in particular — boosted financial services companies' growth in finance receivables.

Over the past decade, consumer finance companies have progressed from lending for household items such as furniture and large appliances, to financing swimming pools and cars and providing home equity loans. Lately they've branched out even further and are lending in diverse segments such as boats, motor homes, and personal aircraft financing.

Many lenders have begun to specialize in a single niche area: for example, AmeriCredit Corp. focuses on offering auto loans. This practice can give lenders superior pricing power, industry expertise, and preferred lending status among retail dealers that are in a position to recommend lenders to consumers. These dealer relationships can have a lasting impact on the demand for a company's lending products, and they can be beneficial to lender and retailer alike.

Credit cards boost growth

Companies engaged in the credit card lending business have enjoyed substantial growth over the past decade, much of which has come from increasing usage of general-purchase credit cards rather than cash and checks. Credit cards are no longer used just for emergency purposes or for the occasional spending spree.

Some of the growth attributable to specialized credit card lenders has come at the expense of banking institutions, which once dominated the credit card industry. Reeling from commercial real estate loan losses in the late 1980s, many large banks lost focus or withdrew from the credit card market. Instead, they concentrated on loan categories with more stable loss rates, such as those found in the residential mortgage market.

Consumer finance companies have been exceptionally active over the past few years in soliciting credit card accounts, and competition remains intense today. These firms often entice consumers to open an account by offering a low annual financing rate or by waiving annual fees. Or they may offer low introductory rates for up to a year to cus-

TOP ISSUERS OF STORE CREDIT CARDS — 2001

	OUTSTANDING CREDIT ($ BILLION)	MARKET SHARE (%)
IN-HOUSE PROGRAMS		
Sears	22.34	52.1
Target	2.75	6.4
Federated	2.48	5.8
Spiegel	2.28	5.3
May	2.08	4.9
Others	10.96	25.5
PRIVATE-LABEL PROGRAMS		
GE Card Services	24.30	49.9
Household	11.49	23.6
Citigroup	6.04	12.4
Conseco	2.69	5.5
Alliance Data	2.48	5.1
Others	1.71	3.5

Source: *The Nilson Report.*

tomers who transfer balances from other credit card companies.

Credit card issuers have begun to tailor their offerings to individual tastes and spending habits as a means of drawing in new accounts. This can be seen in the onslaught of prestigious gold and platinum cards, which allow higher spending limits.

Cobranding, sponsorships gain favor

Some credit card issuers have found a unique marketing niche in cobranding their products with major retailers. In a cobranding arrangement between a credit card company and retailer, the retailer's name and logo appear on the credit card. In such arrangements, credit card companies enjoy additional account and balance growth and the opportunity to market other products to a new set of customers. Retailers find these arrangements advantageous because they can expand their sales by encouraging credit use, while the card issuer handles the payment collection aspects.

Retail establishments' increased acceptance of credit cards and customers' greater willingness to use them are among the major forces driving credit card volume growth. Whereas customers once reserved their credit cards mainly for costly purchases such as furniture or major appliances, they now charge anything from groceries, gasoline, and clothing to movie tickets and other inexpensive items. Indeed, some companies such as American Express, reward consumers with special incentives (*i.e.*, double points) in order to encourage "everyday" use.

Issuers have also developed sponsor relationships with colleges, universities, and professional organizations. The lender provides the funds, typically embossing the logo or insignia of the endorsing organization on the card, while the organization provides the customer list. Card members are thus encouraged to use the card to show support for the endorsing organization, which may receive a small percentage of the sales proceeds charged with the card.

Reward programs increase credit card use

Many card issuers now offer reward programs, through which purchasers accumulate points that they can redeem for various goods, such as travel benefits or free travel on major airlines. Issuers devised these programs to encourage loyalty among customers and to boost credit card usage for items that might otherwise have been paid for by cash or check.

Programs such as these are increasingly important, as saturation of the credit card market continues to rise. The ability to create a distinct product with unique benefits is paramount. Credit card issuers have to differentiate themselves from competitors. This is particularly the case when consumers have more than a few cards at their disposal.

Efficiency, safety boost transaction volume

Improved technology has facilitated much of the growth in transaction volume by facilitating faster, cheaper transactions. In fact, some retailers prefer credit card transactions to other forms of payment. Credit transactions provide electronic records of all purchases. Compared with cash transactions, they are also generally less susceptible to miscalculations or other human errors.

Time-strapped consumers can now skip going to the bank for cash by using credit cards to withdraw cash from bank teller machines. Financially astute consumers have discovered that paying for purchases after the credit card bill arrives — typically weeks after purchases were made — lets them keep cash in the bank longer, earning more interest for themselves.

Many purchases — such as those made through catalog phone orders — are difficult to make without credit cards. Electronic commerce, whereby consumers shop from home using personal computers or televisions, has been exploding in recent years, further multiplying transaction volume.

The relative safety of using credit cards compared with cash and checks has also boosted industry volume growth over the past several years. Although credit cards aren't immune to theft or fraud, issuers generally limit consumers' liability for unauthorized use of credit cards. Finally, the ability to travel without having to carry enough cash for all transactions makes credit cards particularly useful for vacation and business travelers; for the latter group, credit cards also aid in record keeping.

Credit quality: a growing concern

In past years, consumer finance companies became accustomed to a generally favorable economic backdrop of stable inflation, healthy job creation, and consumer willingness to spend. Even during the recent period of economic malaise, low interest rates and fairly healthy consumer spending supported credit demand. This environment has led to significant growth in lending portfolios.

At the same time, increased credit costs have begun to hamper overall profitability. In particular, rising bankruptcies have plagued the industry, causing higher charge-offs and greater loss provisioning. Although bankruptcies remain at record levels, they are poised to eventually decline. According to the American Bankruptcy Institute, U.S. bankruptcy filings soared from about 331,000 in 1980 to about 783,000 in 1990, and to about 1.5 million in 2001. The annual total ballooned to 1.179 million in 1996, then rose to 1.404 million in 1997 and 1.443 million in 1998. Filings moderated somewhat over the following two years, to 1.319 million in 1999 and 1.253 million in 2000, before increasing to record levels in 2001. We estimate that bankruptcy filings reached another new high in 2002. In the third quarter of 2002, bankruptcy filings of 401,306 were the highest quarterly total ever.

Higher consumer bankruptcy filings have accounted for the overwhelming majority of the increase. While the number of business filings dropped 8.2% between 1980 and 2001, consumer filings rose by more than 400%. In a sense, financial services companies are paying a price for rampant growth. However, this price has recently been outweighed by higher net interest margins as well as higher noninterest income.

Behind the bankruptcy trend

Industry observers have attributed the alarming rise in bankruptcies to a number of factors. Some point to the ease with which consumers can now file for bankruptcy. Others pin the blame on financial services companies themselves, saying that lax underwriting standards have let consumers outspend their financial resources. Credit card companies, in particular, have been chided by industry critics for making too much credit available to customers with marginal credit histories. The weak economy, which has been accompanied by rising unemployment, has also been a factor. Further, efforts to change the bankruptcy laws so that they are less consumer-friendly have led some consumers to file before the laws are changed.

From the consumer's viewpoint, any number of economic and societal factors could be to blame. Economic factors that could push people to file for bankruptcy include job losses resulting from industry consolidation or work force reductions, and a widespread lack of health and automobile insurance, which sometimes allows a serious problem to wipe out an individual's financial resources. Bankruptcy filings may also be fueled by higher divorce rates; a greater percentage of the population in the 25-to-44 age bracket, for whom bankruptcy allegedly carries less of a stigma than for older generations; a lack of financial discipline among many consumers; and increased advertising by bankruptcy lawyers.

Any number of factors could affect this trend. Even modestly higher interest rates — which would make loan payments less affordable on everything from mortgages to car loans to credit card balances — could dampen lending growth and result in a substantial increase in loan defaults. Conversely, the Fed's recent easing program should take some pressure off borrowers by lowering interest rates, especially as it promotes economic growth and fosters job growth.

Disturbing charge-off patterns

Customers of financial services companies generally go from being current to delinquent in a smooth pattern, moving from being zero to 30 days late, then 30 to

90 days late, and then to more than 90 days noncurrent. With bankruptcies, however, accounts often immediately move from being current to being charged off, giving the lender no advance warning.

This upsets the otherwise smooth pattern of delinquencies and causes loan charge-offs to be less predictable. Collection efforts are also hampered, as a bankruptcy court is responsible for settling a bankrupt individual's debt obligations. This prevents a lender from initiating repossession efforts.

Financial companies fight back

Whatever the causes, the continued high rate of bankruptcy remains troublesome for financial services companies. While the overall level of charge-offs attributed to bankruptcies remains low as a percentage of the total loan portfolio, it has created erratic charge-off levels and greater uncertainty about loss provisioning.

Recently, however, lenders have become more vigilant about keeping delinquencies at manageable levels. They've done this by limiting receivables growth, or by boosting loss reserves in anticipation of weaker overall credit quality. In numerous cases, some lenders began to act at the first signs of deteriorating credit quality in early 2001 by tightening underwriting standards. In some cases, stepped-up collection efforts have arrested the gradual decline in credit quality. But in many cases, delinquent loan balances are valued at less than $5,000 each. The unsecured nature of the loans may make collections difficult and more of a nuisance than writing them off.

Clearly, financial services companies have been wise to concentrate collection efforts on large-dollar receivables. They've been seeking to attract and retain creditworthy customers, and keeping interest rates on lending products high enough to compensate for default risk. Their success in limiting further credit losses may depend largely on future economic conditions and consumers' ability to repay debt. Nonetheless, financial services companies are at least recognizing potential pitfalls and taking appropriate steps. In addition, as discussed in the "Current Environment" section of this *Industry Survey*, federal regulators are taking steps to protect overall credit quality by implementing tighter controls and standards.

Securitization: jumping into the pool

Since about 1994, securitization of finance receivables has become increasingly popular as a financing mechanism. In a securitization transaction, a lender typically pools various finance receivables, structures them as asset-backed securities, and sells them in the public securities market.

The securitization and sale of certain loans, and the use of loans as collateral in asset-backed financing arrangements, are important sources of liquidity for financial services firms. Together with credit syndications and loan sales, securitizations help these companies manage exposures to a single borrower, industry, product type, or other concentration.

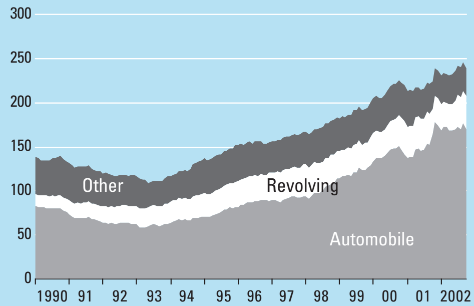
Most large financial services companies remain active participants in the asset-backed securities market. Securitizations leave net income substantially unchanged because they convert interest income, credit losses, and other expenses into loan servicing fees, while reducing a company's on–balance-sheet assets.

As loan receivables are securitized, the company's on–balance-sheet funding needs are reduced by the value of loans securitized. The company often continues to service the accounts, for which it receives a fee. Funds received from securitizations sold in the public market are typically invested in money-market instruments and investment securities, which are available whenever the company needs to fund loan growth.

During the revolving period of the securitization — which generally ranges from 24 to 108 months — no principal payments are made to the security holders. Payments received on the accounts are used to pay interest to the holders and to purchase new loan receivables generated by the accounts so that the principal dollar amount remains unchanged. Once the revolving period ends, principal payments are allocated for distribution to holders.

This trend toward securitization has let financial services companies better manage their funding needs. It also reduces their interest rate sensitivity somewhat, as securitized loans are off the balance sheet and don't affect net interest margin calculations.

CONSUMER CREDIT AT FINANCE COMPANIES
(In billions of dollars, outstanding at end of month)



Source: Federal Reserve Board.

HOW THE INDUSTRY OPERATES

This survey addresses two somewhat related, but essentially different groups of companies: diversified financial services firms and consumer finance companies.

◆ **Diversified financial services.** This industry is made up of a hodgepodge of companies that operate in a number of disparate businesses. Some of these companies specialize in just one financial-related business and do not fit into the traditional mold of a commercial bank, investment bank, insurance company, savings & loan, or investment management firm. Because they are difficult to classify and may have few or no true peers, they are included in this industry group.

Another set of companies that falls into the "diversified financial services" industry are those that comprise so many different businesses that they do not neatly fit anywhere else. Some of these companies, which are essentially combinations of insurance, securities, and lending businesses, were created during the wave of consolidation that has taken place in the financial industry over the past decade. For greater insight into the various businesses included in these financial conglomerates, see the Standard & Poor's *Industry Surveys* on *Banking, Insurance: Life & Health, Insurance: Property-Casualty*, and *Investment Services*.

◆ **Consumer finance companies.** These firms are predominantly engaged in the business of lending money to individual consumers. Most of the loans they make are small to midsize ($1,000 to $75,000). Primary products include home equity loans, auto, boat, or motor homes loans; unsecured personal loans; and credit card loans. Some of these firms also offer limited consumer banking activities, including checking, savings, and money market accounts, as well as related financial products such as credit, life, disability, and specialty insurance products.

This section begins with a discussion of the attributes both industries have in common and follows up with an examination of consumer finance companies.

Profits influenced by interest rates

Interest rates affect the profitability of both diversified financial services companies and consumer finance companies by influencing the demand for credit, the cost of funds, and the amount of charge-offs.

In a falling interest rate environment, the cost of borrowing is reduced, so demand for the industry's products rises. As interest rates fall, the cost of the funds that companies use to make loans also falls and lending spreads tend to widen. Finally, in general, low interest rates fuel economic growth. Economic growth leads to job growth, and lower unemployment rates often tend to result in higher credit quality. When interest rates rise, the opposite occurs. The cost of borrowing rises, so consumers may forgo purchases; the cost of funding loans also rises, putting pressure on spreads; and job growth slows, which may ultimately lead to credit quality problems.

Diversified financial services companies with lending operations are similarly influenced by changes in interest rates. Those with securities businesses are also affected, perhaps in a more pronounced way, as securities revenues can be highly volatile. Higher interest rates can result in reduced securities underwriting activity and can generate marked-to-market losses in fixed income trading portfolios. In a falling rate environment, the opposite occurs.

Large players dominate

The nature of the financial services industry tends to favor large companies. Larger companies, which typically offer a number of different products, are able to leverage their distribution systems to get the most products to the most people in the most efficient manner. It is also easier for larger companies to leverage their advertising and generate name recognition.

Access to low-cost financing can be a key advantage in the financial services businesses, and larger firms may be able to get the financing required to fund their operations at a lower cost than their smaller brethren. We expect ongoing merger activity to further the trend toward larger, more diversified financial services companies.

Competition may intensify

The competition among financial services companies is intense. This generally reflects the commodity-like nature of most financial services products. Even companies that are unique face competition from companies that offer acceptable, if not exact, substitutes. In addition, financial products can't be copyrighted or patented, so companies that introduce new products that become successful soon find competitors entering the market.

The November 1999 passage of the Gramm-Leach-Bliley Act is likely to increase the competition among financial services firms. Essentially, the Gramm-Leach-Bliley Act eliminates the barriers introduced by Glass-Steagall and allows investment banks, insurance companies, and commercial banks to enter each other's businesses. We expect merger activity to raise the number of large financial conglomerates, like Citigroup, as companies realize how important size has become in the financial services industry and look to build scale. For example, even while Citigroup has disposed of noncritical assets, it has continued to make acquisitions in order to bulk up important business areas.

The planned merger of HSBC and Household International is another example. Other large financial companies may choose not to buy new businesses, but may instead build them from scratch. Either way, we feel the trend toward large financial services conglomerates is here to stay.

This may be bad news for consumer finance companies that tend to concentrate on one product or segment of the market and may not have the wherewithal to compete with these emerging financial giants. On the flip side, because they tend to have a narrow focus, consumer finance companies can watch industry trends more closely and hone in on the more profitable or faster growing segments. And because their operations may be geared toward a few types of lending, specialized lenders are sometimes more efficient than larger competitors as a result of lower overhead costs and a closer knowledge of the risks involved. Ultimately, this may let them offer better pricing on products and services.

Leveraged balance sheets

Most financial services firms have one thing in common: highly leveraged balance sheets. This reflects the fact that their day-to-day business activities are largely financed with borrowed money. The degree of leverage within actual businesses varies and is often determined by the companies' business (securities related businesses, for example, are very highly leveraged) and regulatory statutes.

The equity-to-assets ratio is one measure used to determine indebtedness. For example, Morgan Stanley Dean Witter had shareholders' equity of $21.4 billion at August 31, 2002, and total assets of $516.8 billion, for an equity-to-assets ratio of 4.1%. Fannie Mae, meanwhile, had shareholders' equity of $14.9 billion at September 30, 2002, and total assets of $837.7 billion, for an equity-to-assets ratio of 1.8%. Consumer finance companies tend to be less leveraged. For example, American Express and MBNA Corp.'s equity-to-assets ratio at September 30, 2002, were 9.6% and 16.8%, respectively, while struggling Providian Corp.'s was 12.4%.

Tight regulation

The entire financial services industry is highly regulated. Given that the industry centers on money (lending, investing, borrowing or some combination thereof), this is not surprising. In general, much of the regulation entails various consumer protection and capital adequacy measures. Obviously, consumer protection measures are designed to guard consumers from predatory lending practices, fraud, and the like. Capital adequacy measures are designed to ensure the viability of the financial services industry under different types of economic scenarios. This is vital; almost nothing can bring an economy to its knees faster than a collapse of its financial system. Nevertheless, diversified financial services firms and consumer finance companies are subject to somewhat different regulatory burdens.

Financial services companies deal with numerous regulations

Given their diverse nature, companies in this segment are subject to a wide range of regulations at the hands of a number of different regulatory agencies. For example, Fannie Mae and Freddie Mac are regulated by the U.S. Department of Housing and Urban Development (HUD). Morgan Stanley Dean Witter, on the other hand, is regulated by the Securities and Exchange Commission. Some of its subsidiaries are FDIC insured and therefore subject to the regulatory capital requirements adopted by the FDIC. Specific regulatory information can be found in a company's annual reports and 10Ks.

Consumer finance regulation

Consumer finance companies are regulated by a number of consumer protection laws. Among the most important are the Truth-in-Lending Act of 1968, Fair Credit Reporting Act of 1970, Equal Credit Opportunity Act of 1974, Electronic Funds Transfer Act of 1978, Truth-in-Savings Act of 1991, and the Telemarketing and Consumer Fraud and Abuse Prevention Act of 1994. In general, these require companies to make certain disclosures when a consumer loan is advertised, when an account is opened, and when monthly billing statements are sent. They also limit the liability of credit card holders for unauthorized use and prohibit discriminatory practices in extending credit.

Because many consumer finance companies operate as bank holding companies, they are also subject to regulation by various federal bank regulatory agencies. These regulations center on maintaining certain capital requirements. In January 2003, the Federal Financial Institutions Examination Council (FFIEC), a group consisting of the main U.S. financial regulators, including the Federal Reserve and the Office of the Comptroller of the Currency, finalized guidelines for credit card lenders. (See the "Current Environment" section of this report for more details.)

Consumer finance companies' lending policies

Before a loan is made, consumer finance companies thoroughly investigate the creditworthiness of the potential customer. The credit extension process tends to be highly automated. Many firms have proprietary credit scoring models used to determine the creditworthiness of applicants.

Companies often work in conjunction with independent credit rating agencies, such as Experian (formerly TRW) or Equifax, which issue reports of borrowers' credit histories and paying habits. Coupled with other data (such as employment history, income level, value of designated collateral, and current debt servicing requirements) financial services companies use this information to attempt to gauge an individual borrower's ability and willingness to repay a loan. Firms often employ credit analysts who are able to override decisions made by a company's scoring system after receiving further information from applicants.

Lending rates

When it comes to setting lending rates, consumer finance companies can afford to be flexible. While funding costs range from 3% to 8%, the rates charged start at about 9% and can go as high as 20% or more. Short-term promotional rates can run as low as 0%.

Lending rates offered by consumer finance companies are usually competitive with those offered by banks, as the two often vie for the same customers. However, because some consumer finance companies specialize in one or a few lending segments, they may be more familiar with the associated risks and thus able to offer more attractive lending rates than banks.

Rates reflect risk

The interest rate charged on a loan is determined by factors that affect the loan's riskiness: the loan's duration, whether its rate is fixed or variable, whether the loan is secured or unsecured, the life of the item being financed, and the borrower's creditworthiness.

◆ **Loan duration.** Other things being equal, loans made on a short-term basis carry lower interest rates because lenders can more reliably gauge economic conditions and their impact on interest rates over a briefer time span. Long-term loans typically carry higher interest rates to cover the greater potential risks associated with the uncertainty of distant future economic events.

◆ **Fixed- or variable-rate.** The interest rate on a loan can be either fixed or variable. For a fixed-rate loan, the interest rate remains unchanged throughout a loan's life. For a variable-rate loan, in contrast, the interest rate is adjusted over time as the lender's costs fluctuate.

For lenders, fixed-rate loans are riskier and thus carry higher interest rates at the date of issue, because lenders cannot raise rates when their funding costs rise. Loans made at variable interest rates carry lower interest charges initially because the lender can respond quickly to changing costs in the future.

◆ **Secured or unsecured.** Whether a loan is secured or unsecured is another paramount factor in determining its risk. Secured loans typically hold a home or other tangible asset as collateral; a lien is placed on the property until the loan is repaid. Unsecured lending offers no such protection to the lender, and thus carries higher associated risk. From the lender's point of view, the difference between the two is the likelihood that the loan obligation will be satisfied through alternative means if the loan is not repaid.

When a borrower defaults on a secured loan, the lender repossesses the asset, which may be sold to pay the loan obligation. Because of this collateral, secured loans are perceived as less risky and therefore carry lower associated interest rates.

The greater risk inherent in unsecured loans means that borrowers pay higher interest rates. Using a credit card to make purchases or cash withdrawals — two common forms of unsecured loans — incurs some of the highest interest rates of all lending. Although temporary teaser rates can be as low as 0%, interest rates on credit card loans can be as high as 20% or more.

◆ **The life of the item being financed.** In the case of a secured loan, the financed item's durability is another factor determining interest rates and loan terms. In general, the longer the projected life of the item, the further one can extend payments and the lower the associated interest rate will be.

Items that are expected to have long life spans — such as homes, large appliances, or other durable goods — may qualify the borrower for lower interest rates, as the item probably won't need to be replaced within the duration of the loan. Conversely, lenders are not likely to make a 10-year loan on an item expected to last five years. Automobile loans, for example, typically extend no more than five or six years for new models and three or four years for used vehicles.

◆ **Customer credit rating.** The borrower's creditworthiness — based on his or her financial profile and past record of making timely loan payments — will also affect the interest rate at which a lender is willing to loan money.

A good credit history is attractive to financial services companies, which may offer such borrowers reduced interest rates. Borrowers' income and debt levels also affect the interest rates they are charged. An individual whose debt levels are high as a percentage of income might have trouble repaying a loan.

Enviable lending spreads

Despite high loss trends compared with banks, consumer finance companies tend to have substantial profit margins because of the wide spreads they enjoy on their lending business. Lending spreads typically range from 6% to more than 12% — enviable, indeed. In essence, consumer finance companies either borrow funds from depositors or raise funds in capital markets (using commercial paper, medium-term notes, and long-term debt) at rates ranging from 3% to 8%. They then lend these funds at rates of 9% to 20% or more. In contrast, commercial banks' interest margins usually range from 3% to 5%. This reflects banks' wider mix of business and greater proportion of lower-risk commercial and secured residential lending, which produces much lower margins.

Although consumer finance companies generally enjoy wide latitude in pricing their products and services, there are limits. Some states, for example, have usury ceilings (a maximum allowable interest rate that financial institutions can charge). In most cases, however, this rate is higher than 20%. In cases where allowed rates do not adequately compensate for the risks involved, financial services companies can elect not to participate — declining credit to individuals or not actively soliciting their business.

The risks of extending credit

The practice of lending money sometimes results in extra costs to lenders, as when a customer stops repaying a loan. Naturally, lenders try to limit these types of losses. When the worst happens, however, these companies take other steps.

Limiting losses

As with any other cost of doing business, consumer finance companies attempt to minimize their loan losses. Individual companies may set limits on what they perceive as acceptable levels of losses, depending on the type and duration of loans they make and the interest rates they charge.

In general, financial services companies that offer financing for a broad range of different products will experience delinquency rates of 3% to 4%. In the home-equity lending segment, however, alarm bells may ring if loss rates exceed 1%. In contrast, companies that specialize in the credit card lending segment may be content with delinquency rates in the 5% to 6% range, as interest rates and fees earned from the rest of the loan portfolio in the aggregate will more than compensate for these higher loss rates.

Loan-loss provisions

Consumer finance companies, like banks, must set aside funds in case customers don't repay their loans; these funds are called reserves for loan losses. The provision made by a firm appears on its income statement, where it represents a charge taken against earnings to cover potential loan defaults. The sum is based on management's assessment of current and expected lending conditions. The provision is added to the reserve for loan losses, which appears on the balance sheet as a contra-account to loans.

Unpaid loans are generally grouped according to the time that has elapsed since payment was to have been received: zero to 30 days; 30 to 90 days; or more than 90 days. After 30 days, loans are first categorized as delinquent; after 90 days, they're deemed uncollectible and are charged off. Charged-off loans are removed from the balance sheet and subtracted from the reserve for loan losses.

Default: the black hole of the lending universe

Default occurs when the borrower has stopped servicing a debt obligation for a certain number of months. The point at which default occurs is generally determined by credit managers once they've exhausted all methods of collecting on the obligation.

Delinquencies and charge-offs are generally higher during periods of adverse or recessionary economic conditions. These conditions may include rising unemployment, declining home values, and inflationary pressures, all of which can affect a borrower's ability to repay loans. At such times, financial services companies may limit the number and amount of loans they're willing to make. They do this by placing stricter standards on credit availability or charging higher interest rates to compensate for greater perceived risk.

Types of bankruptcy

Bankruptcies generally cause lenders immediately to charge off a customer's loan, since repayment is considered unlikely. Types of bankruptcy are described below. Chapter 7 is the most widely used by individuals, followed by 13 and then 11.

◆ **Chapter 7.** This bankruptcy filing is essentially a liquidation. It lets debtors retain certain exempt property, while a trustee liquidates their remaining assets. The proceeds are distributed according to priorities set by the bankruptcy court.

◆ **Chapter 11.** This filing, known as a reorganization, lets individuals reorganize their financial obligations, such as state or federal taxes, over an extended period of time.

◆ **Chapter 13.** This filing, generally referred to as the wage-earner chapter, is designed for individuals with regular income who wish to repay their debts but are currently unable to do so. Under the supervision of the bankruptcy court, such individuals carry out a repayment plan in which their obligations to creditors are paid over an extended period.

Funding sources and margins

The mix of yields earned on assets and the rates paid for funding are of utmost importance to financial services firms. Like all firms, financial services companies try to maximize the profit derived from each sale — in this case, from each loan. They must try to obtain the best available interest rates for funding, while also lending at the highest possible interest rates and staying competitive.

To be successful, a financial services company must have access to funds at competitive interest rates, terms, and conditions. To obtain such funds, most firms turn to the global capital markets, making use of commercial paper, medium-term notes, long-term debt, or issuances of equity such as common or preferred stock. To a lesser extent, they may also offer customers limited deposit services.

Marketing and distribution

Because competition among lenders is usually intense, the costs of soliciting new business and retaining existing customers can be substantial. Response rates tend to be low, and competitors often try to lure customers away.

A company's marketing and advertising efforts are often geared toward the specific market segments in which it has expertise or where it provides the most comprehensive selection of products and services at the most competitive prices. In this manner, a firm can maximize available resources in hopes of attracting the greatest number of customers.

The main distribution channels used by consumer finance companies are direct mail, telemarketing, branch networks, event marketing, and retail outlets.

◆ **Direct mail.** Direct mail involves the prescreening of credit rating databases for individuals with favorable credit criteria; they are mailed offers of lending products such as home equity loans or credit cards. These mass mailings are fairly inexpensive, but they also have a low success rate.

◆ **Telemarketing.** Telemarketing techniques often use the same financial criteria in locating potential lenders, but the process involves a representative calling the prospect directly to offer the financial products. Telemarketing campaigns tend to be more expensive than direct mail campaigns. They are also more successful, and often can be used as an opportunity to reach existing customers to cross-sell ancillary products like insurance.

◆ **Branch networks.** Branch networks usually cover a geographic region, like the Southeast or the Midwest, with offices located in high-traffic areas. This enables firms to leverage marketing and production efforts. At branch offices, walk-in customers may meet with financial representatives to find out about lending products or other offerings. Obviously, this brick and mortar approach to business is costly, but also highly effective. Customers entering branch offices are already looking to borrow money, and the face-to-face contact makes it easier for financial representatives to close the deal.

◆ **Event marketing.** Event marketing typically involves setting up booths at sporting events or other well-attended activities at which product offerings are made. This type of marketing has a fairly high success rate, reflecting the combination of face-to-face contact with customers and the use of promotional tie-ins, such as tee shirts and hats, which encourage people to apply for credit.

◆ **Retail outlets.** Retail outlets often let financial services companies provide brochures or applications to customers, who may seek financial assistance in purchasing the items they want. This practice is common among electronics and appliance retailers, which sell high-cost consumer durable goods. This method is also helpful to the retailer, since sales of high-priced items could be limited if financing weren't available.

KEY INDUSTRY RATIOS AND STATISTICS

The following measures can be used to gauge the health of companies in the consumer finance and diversified financial services industries. For diversified financial services companies with securities, insurance, or commercial banking operations, Standard & Poor's publishes surveys dealing with the specific ratios and statistics affecting each business.

Interest rates. Interest rates are the key macroeconomic indicator of the financial services industry's overall performance. Because rates affect the ultimate cost of items to be financed, they may increase or diminish the demand for financial services companies' products. (Interest rates' impact on individual companies' performance is discussed in this survey's "How to Analyze a Financial Services Company" section.)

Lower interest rates tend to stimulate economic activity and the demand for borrowing. By helping to make goods more affordable, they're also likely to reduce customers' delinquency rates and to enhance profits for financial services companies. In contrast, higher interest rates tend to help make payments on loans less affordable, reduce loan demand, and generally result in higher delinquencies and charge-offs, negatively affecting financial services firms' profits.

Analysts watch short- and long-term interest rates closely. They also monitor the relationship between short- and long-term rates, which can be graphed as the "yield curve," a chart that plots interest rates and their maturities.

Short-term rates are generally represented by the discount rate or the Federal funds rate. The Federal Reserve Board, whose policy takes into account current economic conditions, influences the Fed funds rate and directly controls the discount rate. For example, strong economic growth and/or employment activity — which can generate shortages in labor and goods and therefore can fuel higher inflation — may cause the Fed to raise its target for the Fed funds rate, which in turn affects other interest rates.

Market forces control long-term rates, represented by the yield on the 30-year Treasury bond. However, these are subject to the same factors as short-term rates: strong economic and employment conditions, by fueling inflation, can make them rise. Because they're subject to market forces rather than to regulation, long-term interest rates react more swiftly than short-term rates to daily economic developments. Thus, they can be viewed as a leading indicator for future interest rate levels and economic activity.

When long-term rates decline but short-term rates don't, the difference between the two diminishes and the yield curve begins to flatten. A flat yield curve is undesirable for the industry because it reduces the difference between the rates lenders must pay to borrow funds and what they can charge their customers. By reducing the spread, it cuts into their profit margin.

To anticipate the direction of interest rates, the analyst should evaluate the levels of domestic economic growth and inflation. Interest rates tend to rise when economic growth is strong, because healthy demand for borrowing makes lenders less willing to compromise on credit rates. A strong economy often means higher employment and consumer confidence levels. However, strong economic growth may also put upward pressure on inflation, as goods and services may be in short supply. Higher inflation will then limit individuals' purchasing power.

A series of tightening moves beginning in June 1999 brought the Fed funds target to 6.5% on May 16, 2000. By late 2000, however, it became clear that the U.S. economy was slowing. In a surprise move on January 3, 2001, the Fed eased the Fed funds rate by 50 basis points to 6.0%. Over the course of that year, the Fed eased 10 more times. By the end of 2001, the rate was at 1.75%, reflecting concerns about the strength of the U.S. economy. In November 2002, the, the Fed funds rate was lowered to 1.25%, reflecting ongoing concerns at the Fed about the economy. It appears that the Fed will maintain its accommodative monetary policy until the economic recovery is more certain — most likely through the early part of 2003, Standard & Poor's projects.

The interest rate on the 10-year Treasury note is now representative of long-term rates. (The 30-year bond, once a benchmark, has been discontinued.) At year-end 2001, the yield on the 10-year note was 4.77%, reflecting the Federal Reserve's efforts to use lower interest rates to jumpstart the economy. That rate was well below the 6.14% of year-end 1999 and 5.57% at year-end 2000. As of mid December 2002, the 10-year note was priced to yield 3.99%. Standard & Poor's sees the rate going to 4.7% by the fourth quarter of 2003.

Disposable personal income. Reported each month by the U.S. Department of

Commerce, disposable personal income is a measure of inflation-adjusted income minus taxes. Changes in disposable personal income are important to financial services companies because of the influence on the level of consumer spending and borrowing. Healthy rises in disposable personal income indicate a higher capacity to borrow and spend.

Disposable personal income rose 5.1% in 1998, 5.0% in 1999, 6.2% in 2000, and 5.5% in 2001. In January 2003, Standard & Poor's was estimating growth of 5.9% in 2002 and 5.7% in 2003.

Consumer confidence index. The consumer confidence index reflects U.S. consumers' views on current and future business and economic trends and how they expect to be affected by those trends. The index is compiled monthly by the Conference Board, a private research organization, which polls 5,000 representative U.S. households to gauge consumer sentiment.

The index has two survey components. One set of questions is concerned with consumers' appraisals of present conditions, and another with expectations for the future. The consumer confidence index combines responses to those questions. Factors that influence the index include individuals' perceptions of employment availability and of their current and projected income levels.

Historically, the level of consumer confidence has been a good predictor of future spending habits. People's expectations of future economic, employment, and income levels affect their ability to repay borrowed money and can be key in making purchase decisions. The index is one measure that's used to project future consumer borrowing.

After some weakness in the late summer and early fall of 1999, the index reached 144.7 (1985=100) in January 2000, the highest reading in the index's 32-year history. (The previous high of 142.3 was registered in October 1968.) Since May 2000, when the index again hit 144.7, consumer confidence has declined dramatically, reflecting a weakening economy. Following the September 2001 terrorist attacks, the index fell to 84.9 in November 2001. After recovering a bit, then dipping in April 2002 to 108.5, the consumer confidence index edged up to 110.3 in May. Thereafter, the index declined for five consecutive months, bottoming out at 79.6 in October 2002. The overall index rose to 84.9 in November, due to an expected improvement in business conditions, but fell to 80.3 in December 2002, as a weak job outlook soured consumer spirits. The latest readings suggest that overall growth will remain anemic, with consumers unlikely to go on a buying binge.

CONSUMER CONFIDENCE INDEX

(1985 = 100)

Source: The Conference Board.

Consumer borrowing patterns. The preceding year's consumer borrowing patterns give the best indication of what future demand will likely be, as demand has historically tended to follow the trend line. Consumer borrowing often moves in tandem with job growth. It can be influenced by the direction of interest rates, as lower rates may stimulate borrowing.

The Federal Reserve Board reports consumer installment credit outstanding monthly. As of December 2000, consumer credit outstanding in the United States totaled $1.56 trillion (seasonally adjusted), up from $1.42 trillion a year earlier. By year-end 2001, the total stood at $1.67 trillion. As of October 2002 (latest available), consumer credit outstanding had climbed to $1.72 trillion.

Delinquencies and bankruptcies. Delinquency and bankruptcy trends are related measures used to predict future consumer borrowing; as these rates decline, consumers may be presumed to have a greater capacity to borrow. The Federal Reserve and independent firms, such as Veribanc Inc., calculate delinquency statistics. The number of U.S. bankruptcy filings is calculated quarterly by the Federal Reserve Board.

Recent data from the Federal Reserve show that although delinquencies have risen in response to the weak economy and rising unemployment, they remain significantly below levels reached in the recession in the early 1990s. Delinquencies were 3.50% (seasonally adjusted) for all commercial banks for all consumer loans for the third quarter of 2002, down from the 3.73% level reached in the third quarter of 2001 and significantly less than the 4.14% in the third quarter of 1991.

In general, a loan more than 30 days past due is considered delinquent. A rising level of delinquencies isn't necessarily a precursor to bankruptcies. However, it does suggest that more individuals are having trouble meeting their debt obligations, which may signal a reduction in aggregate spending capacity.

The number of U.S. bankruptcy filings increases when consumers try to purchase beyond their spending capacity. When a borrower declares bankruptcy, the lending company is forced to write off the loan as a loss. In addition, bankruptcy implies that an individual's ability to borrow further is limited.

According to the American Bankruptcy Institute, U.S. bankruptcy filings totaled 1.404 million in 1997, up from 1.179 million in 1996. In 1998, bankruptcies rose again to 1.443 million. In 1999, filings moderated somewhat, to 1.319 million. In 2000, filings were 1.253 million. However, filings rose to a record 1.492 million in 2001. In the third quarter of 2002, total bankruptcy filings amounted to a record 391,873, compared with 349,981 in the comparable year-earlier period.

HOW TO ANALYZE A FINANCIAL SERVICES COMPANY

This section features separate discussions on how to evaluate a diversified financial services company and how to analyze a consumer finance company. Both approaches include an analysis of business mix, quantitative financial measures, and price/earnings (P/E) ratios as a valuation tool.

Diversified financial services companies

An analysis of a diversified financial services company begins with an assessment of the company's lines of business — the key factor differentiating the diverse companies in this group. Next, the analyst should review certain performance and valuation measures.

Lines of business

As discussed, the diversified financial services group is a catchall category that includes a number of different business models. Therefore, an analysis of any company in this industry segment must begin with an evaluation of what the company does, what its products are, and how it generates revenues. This exercise is fairly simple for companies that are unique or have only one line of business. For a company that has multiple business lines, information on revenue and profit contributions from its different segments should be available in the company's annual reports.

After identifying a company's activities, the analyst should then assess their prospects for growth and profitability. For example, Fannie Mae, which purchases mortgages from lenders such as savings and loans, is most affected by growth in mortgage debt outstanding and the credit quality of the mortgages it purchases. In contrast, Citigroup, with its diverse business lines — including commercial lending, consumer lending, investment banking, retail brokerage, and insurance — could be favorably or adversely impacted by any number of developments, including corporate scandals, allegations of biased equity research and conflicts of interest. The same goes for other diversified companies such as American Express Co. or Morgan Stanley Dean Witter & Co.

Quantitative measures

Although companies in this industry segment often operate different businesses, certain quantitative factors can be used to compare and contrast industry participants. Key measures of financial performance include revenue growth, profit margins, and return on equity.

◆ **Revenue growth.** A key sign of health for any business is revenue growth. It is important to compare a firm's revenue growth with its historic growth rate and with that of its competitors. Is growth accelerating or decelerating? Is the company outperforming others in its markets, and if so why?

Determining what is behind the growth trends, such as acquisitions or a new product, can provide insight into prospects for future growth.

◆ **Profit margins.** Given the diversity of the industry, a number of different profit margin calculations can be useful. For companies with lending operations, an important figure is net interest margin (net interest income divided by average earning assets). Other firms' profitability can be compared by looking at operating margins (operating profit divided by revenues) or at pretax margins (pretax income divided by revenues). These measures provide insight into a company's ability to control operating costs and other costs of doing business.

Another measure that can be applied to all firms is net profit margin (net income divided by revenues). The net profit margin can give an analyst insight into the intrinsic characteristics of a firm's business. For example, companies with commodity-like, nondifferentiated products tend to have lower net profit margins than companies that provide customers with proprietary products or value-added services.

◆ **Return on equity (ROE).** ROE (net income divided by average shareholders' equity) is a telling indicator of financial performance. It measures how efficiently a company employs shareholders' capital, or how much bang shareholders get for their buck. Not surprisingly, the ROEs of diversified financial firms vary widely.

As analysts know, however, ROE is not a perfect measure. All else being equal, the higher a firm's debt leverage, the greater its ROE. Given that most financial firms are highly leveraged, their relative ROEs could be misleading without a comparative analysis of debt levels. Nevertheless, ROE remains a useful tool for evaluating performance.

Valuation

The last step in analyzing a diversified financial services company involves trying to determine whether its stock price reflects its true value. What price might the business garner in a private transaction? The valuation of a diversified finance company should take into account myriad factors, such as the quality of management, future business prospects, earnings volatility, and earnings history, to name a few.

Most investment valuations center on an analysis of a company's price/earnings ratio. All else being equal, companies with superior earnings growth prospects command higher P/E ratios. Analysts compare a firm's P/E ratio with the P/Es of its peers and with the P/E ratio of the broader market. The P/E ratios of diversified financial services companies vary widely. However, most firms usually trade at a discount to the overall market because of the cyclical, interest-rate-sensitive nature of their business.

Consumer finance companies

Consumer finance companies are much more homogeneous than diversified financial services companies. Therefore, it tends to be easier to compare and contrast them. An evaluation of a consumer finance company includes an analysis of its business mix, a look at certain quantitative measures, and a valuation analysis.

Business mix

The mix of a company's lending business is important in predicting loan growth. It is also one of the key determinants of a company's net interest margin and credit quality, because consumer finance companies often concentrate on one sector of a certain market. For example, Metris Companies, Inc., is known for offering credit card products to individuals at the lower end of the credit quality spectrum, such as consumers with limited access to credit because of past credit problems or little or no credit history. MBNA Corp., on the other hand, is the leading issuer of affinity credit cards, and is known for having a very strong customer base. Less than half of the applicants that applied for an MBNA credit card in 2001 were approved.

The importance of a consumer finance company's business mix should not be underestimated. While some companies with higher risk profiles might outperform those companies with higher credit standards in certain periods, those companies with the higher credit underwriting standards are inherently less risky and more likely to succeed over the long term.

For instance, Providian Financial Corp. had long concentrated on subprime and standard consumers to generate earnings growth. Its results deteriorated sharply in 2001 and 2002, as a weak economy hurt Providian's customers. Consequently, Providian's already high net credit loss rate (on a managed basis) mushroomed from 8.49% during the fourth quarter of 2000 to 16.71% during the third quarter of 2002. Similarly, for Metris the net charge-off rate (on a managed basis) rose to 15.1% during the third quarter of 2002, from 10.7% in the comparable year-earlier period. In response to the rising levels of charge-offs, both Metris and Providian are increasingly focusing on prime and super prime consumers, and less on subprime consumers (sometimes defined as those with FICO credit scores of 660 or less, although there is no standard definition).

Meanwhile, companies with stricter credit standards continued to report good results, although even their charge-off rates may have increased slightly. MBNA Corp.'s net credit loss rate actually declined from 5.51% during the fourth quarter of 2000 to 4.84% during the third quarter of 2002.

Quantitative measures

Although companies in this segment often operate different businesses, certain quantitative factors can be used to compare industry participants. Key measures of financial performance are loan growth, securitization, net interest margin, return on managed receivables, credit quality, and efficiency ratios.

◆ **Loan growth.** The two main sources of a consumer finance company's earnings are net interest income and securitization income, both of which are driven by loan growth. Net interest income represents income on total interest-earning assets, less the interest expense on total interest-bearing liabilities. Given that loans are the biggest component of interest-earning assets, it is easy to see the relationship between loan growth and earnings growth. MBNA's loan portfolio grew from $8.3 billion in 1997 to $14.7 billion in 2001.

As previously discussed, an asset securitization involves the sale of a pool of loans. The more loans a company generates, the more pools of loans it can securitize and the more securitization income it can generate. Consequently, when looking at a consumer finance loan portfolio, it is important to look at it on a managed basis, which reflects the impact of the securitized loans that the company still services. MBNA's managed loan portfolio rose from $49.4 billion in 1997 to $97.5 billion in 2001.

◆ **Securitization.** An examination of a consumer finance company's securitization activities is imperative. When a company securitizes pools of assets, it recognizes certain gains on its income statement. These gains are based on assumptions the company makes about the loss trends and prepayment rates of the securitized assets. If the performance of the pool of assets diverges significantly from the company's expectations, the company may have to restate earnings, or take a significant charge. Frequently, securitization income exceeds net interest income. At MBNA, securitization income in 2001 was about $6 billion, compared with net interest income of $1.4 billion.

◆ **Net interest margin.** This is the key measure of profitability for companies that rely on lending operations — be they banks, savings and loans, or consumer finance companies. It is an important indicator of how much new profit can be expected from a given level of loan growth. A company's net interest margin (net interest income divided by average interest-earning assets) is affected by factors such as funding costs and business mix. MBNA's net interest margin rose from 7.71% in 2000 to 8.84% in 2001, reflecting in part the positive impact of lower interest rates, which translated into lower funding costs. They also helped the company to expand its interest spread.

In analyzing consumer finance companies, one should also pay attention to the risk-adjusted net interest margin, since the net interest margin may not fully reflects the risks that the company is taking. For example, while Providian's net interest margin rose from 12.60% in 2000 to 12.78% in 2001, its risk adjusted net interest margin plummeted from 17.13% to 10.38%, reflecting the company's rising credit losses.

◆ **Return on managed receivables.** Although return on equity (ROE) and return on assets (ROA) are popular measures of financial performance for most firms, they both fall short in an analysis of a consumer finance company. This is because of the off-balance-sheet nature of the industry's asset securitization practices. All else being equal, the more loans a firm securitizes, the higher its ROE. Nevertheless, credit losses generated by the firm's securitized assets still flow through the income statement. So, in order to help ensure apples-to-apples comparisons between companies, return on average managed loans (or receivables) is used. Return on average managed receivables equals net income divided by average managed receivables. Managed receivables consist of a company's loan portfolio and securitized loans. In 2001, MBNA's return on managed receivables was about 1.8%.

◆ **Credit quality.** Consumer finance companies are in the business of lending, and occasionally the money they lend to consumers is not repaid. Therefore, ascertaining a firm's credit quality is very important. The first statistic to check is delinquencies. Typically, a loan is termed delinquent if the payment is not received within 30 days of its due date. Credit losses, or charge-offs, are much more serious. Loans tend to be charged off, and determined to be uncollectible, if payment has not been received after 180 days. Although the absolute level of delinquencies and charge-offs is important, examining their trend over the course of several quarters or years can often provide information that is more meaningful.

Like banks, consumer finance companies set aside reserves to offset the impact of credit losses. Comparing a company's level of reserves to the amount of its credit losses or overall level of receivables can help determine whether the company is adequately prepared for an unexpected deterioration in credit quality.

◆ **Efficiency ratios.** The most competitive firms typically have low efficiency ratios (expenses divided by revenues), meaning that they have low expenses for a given level of revenues. As with any business, growth in expenses will limit how much of the revenue base flows to the bottom line.

It's important to recognize that revenues are not generated without associated costs, although companies generally strive to keep the growth rate of expenses below that of revenues. Reflecting economies of scale, efficiencies typically improve as a firm grows in size. Thus, it is important to compare efficiency levels among companies of comparable size in terms of assets or revenues.

Valuation

Among valuation methods, the P/E ratio is a crucial yardstick for investors in consumer finance companies. Like most other financial companies, consumer finance companies generally garner P/E ratios below those of the typical industrial firm. There are a few reasons for this, but primarily it is the uncertainty associated with the accounting methods used for asset securitizations. Other reasons include the industry's sensitivity to interest rates, its commodity-like product offerings, and the intense competition among industry participants. ■

Affinity card — A credit card promoted under a sponsoring agreement between an organization (such as a nonprofit group or a university) and a card-issuing financial institution.

Bankruptcy — The inability of an individual or an organization to pay outstanding debts. U.S. law recognizes two kinds of legal bankruptcy: involuntary (in which one or more creditors petition to have a debtor judged insolvent by a court) and voluntary (in which the debtor brings the petition). In both cases, the goal of bankruptcy proceedings is to achieve an orderly and objective settlement of obligations.

Basis point — The unit generally used to measure movements in interest rates or margins; it equals one one-hundredth of one percent (0.01%). Thus, 100 basis points equal 1%.

Captive finance company — A company (usually a wholly owned subsidiary) that exists primarily to finance consumer purchases from the parent company. Examples include Ford Motor Credit Co., General Motors Acceptance Corp., and Sears National Bank.

Consumer credit — Debt, other than home mortgages, assumed by consumers. The Federal Reserve Board releases the amount of consumer credit outstanding on a monthly basis.

Consumer durables — Consumer products (such as cars, appliances, boats, and furniture) that are expected to last three years or more.

Credit — An amount of money that a financial institution extends, which the customer may borrow.

Credit bureau — An agency that gathers information about consumers' credit history, which it relays to credit grantors for a fee. Credit bureau files detail the lines of credit that individuals have applied for and received, as well as whether they pay their bills in a timely fashion. Credit data are maintained by several hundred credit bureaus that operate off three automated systems: Equifax, Experian (formerly TRW), and Trans Union.

Credit card — A plastic card issued by a bank, S&L, retailer, oil company, or other credit grantor that allows the consumer to obtain goods or services on credit, for which interest is charged. Most bank credit cards let consumers use their cards to obtain cash advances.

Credit limit — A credit card term that refers to the maximum balance a particular customer is allowed to carry.

Credit rating — A formal evaluation of an individual's credit history and ability to repay obligations.

Debt consolidation — A way to manage consumer debt. Rather than paying off several separate bills each month, a consumer consolidates debts with a financial institution that arranges for one lower monthly payment extending over a longer period. This lowers and simplifies the borrower's monthly payments, but may mean a higher interest rate.

Delinquency — A credit card payment that is past due, typically by 30 days or more.

FICO Score — The widely used FICO score is a credit measure developed by Fair Isaac & Co to determine the likelihood that credit users will pay their bills. The credit score, ranging from 370 to 870, attempts to condense a borrower's credit history into a single number.

Interest rate sensitivity — The degree to which an asset is subject to interest rate fluctuations. The term is typically used with respect to interest-earning assets or interest-bearing liabilities whose interest rates are adjustable within a short period of time (less than one year), according to maturity or contractual terms. Rate adjustments usually reflect changes in prevailing short-term money rates.

Margin — Net interest income divided by average earning assets; it's a measure of the profitability of a lending business.

Net charge-off — The portion of a loan that a financial services company is unlikely to collect and writes off as a bad debt expense; can be reduced by recoveries of payments for loans previously charged off.

Net interest income — Total interest revenues less total interest expenses.

Return on assets (ROA) — An indicator of operating efficiency, ROA is calculated by dividing net operating income by total average assets.

Return on equity (ROE) — A performance ratio, ROE is calculated by dividing net operating income by total average equity.

Risk-adjusted margin — One of the better operational measures; allows for cross-industry comparisons. It is calculated by dividing risk-adjusted revenue (net interest income plus noninterest income, less net charge-offs) divided by average managed receivables.

Secured loan — A note that, upon default, provides for pledged or mortgaged property or other collateral to be applied toward the payment of the debt.

Unsecured loan — A credit agreement not backed by the pledge of specific collateral. The lender's only security is the credit user's signature and personal financial situation as demonstrated through the credit application.

PERIODICALS

ABA Banking Journal
Simmons-Boardman Publishing Corp.
345 Hudson St., New York, NY 10014
(212) 620-7200
Web site: http://www.banking.com/aba
Monthly journal of the American Bankers Association; covers regulatory developments and compliance issues.

American Banker
Thomson Financial Inc.
One State Street Plaza, New York, NY 10004
(212) 803-8200
Web site: http://www.americanbanker.com
Daily; news on a broad range of legislative, product, and financial developments affecting financial services companies.

The Conference Board/NFO's Consumer Confidence Survey
The Conference Board Inc.
845 Third Ave., New York, NY 10022
(212) 339-0316
Web site: http://www.crc-conquest.org
Monthly; reports consumer confidence index levels.

Federal Reserve Bulletin
Board of Governors of the Federal Reserve System
Publications Services
20th St. and Constitution Ave. NW
Washington, DC 20551
(202) 452-3244
Web site:
http://www.federalreserve.gov/publications.htm
Monthly; provides data and articles on financial and economic developments.

Specialty Finance
SNL Financial
321 E. Main St., Charlottesville, VA 22902
(434) 977-1600
Web site: http://www.snl.com
Monthly; tracks the specialty finance industry, including mortgage companies, finance companies, and finance real estate investment trusts (REITS).

GOVERNMENT AGENCIES

Bureau of Labor Statistics (BLS)
2 Massachusetts Ave. NE, Washington, DC 20212
(202) 691-5200
Web site: http://stats.bls.gov
A division of the U.S. Department of Labor, this national statistical agency is the principal fact-finding arm of the federal government in the broad fields of labor, economics, and statistics. The BLS collects, processes, analyzes, and disseminates essential statistical data to the U.S. public, Congress, other federal agencies, state and local governments, business, and labor. Among its major programs are the consumer price index (CPI), the producer price index (PPI), the employment cost index, and the national compensation survey.

Federal Deposit Insurance Corporation (FDIC)
550 17th St. NW, Washington, DC 20429
(877) 275-3342
Web site: http://www.fdic.gov
Federal agency that maintains stability and public confidence in U.S. banking system by insuring the deposits of banks and savings associations. The FDIC also provides useful financial and economic information and analysis.

Federal Reserve System, Board of Governors
20th & Constitution Ave. NW, Washington, DC 20551
(202) 452-3000
Web site: http://www.federalreserve.gov
Central bank of the United States, which conducts monetary policy by influencing money and credit conditions in the economy. Supervises and regulates banking institutions and maintains stability of the financial system.

OTHER

American Bankruptcy Institute (ABI)
44 Canal Center Plaza, Suite 404, Alexandria, VA 22314
(703) 739-0800
Web site: http://www.abiworld.org
Founded in 1982 to provide Congress and the public with unbiased analysis of bankruptcy issues, the ABI is the largest multidisciplinary, nonpartisan organization dedicated to research and education on insolvency matters. It also produces a number of publications, both for insolvency practitioners and the public. Membership includes more than 5,800 attorneys, bankers, judges, professors, turnaround specialists, accountants, and other bankruptcy professionals.

Cardweb.Com, Inc.
450 Prospect Boulevard, Frederick, MD 21702
(301) 631-9100
Web site: http://www.cardweb.com
Online publisher of information pertaining to all types of payment cards, including, but not limited to, credit cards, debit cards, smart cards, prepaid cards, ATM cards, loyalty cards, and phone cards. The organization is the offspring and online extension of RAM Research Group, a payment card industry research firm, and serves more than 20,000 institutional clients around the world.

Definitions for Comparative Company Analysis Tables

Operating revenues

Net sales and other operating revenues. Excludes interest income if such income is "nonoperating." Includes franchised/leased department income for retailers and royalties for publishers and oil and mining companies. Excludes excise taxes for tobacco, liquor, and oil companies.

Net income

Profits derived from all sources, after deductions of expenses, taxes, and fixed charges, but before any discontinued operations, extraordinary items, and dividend payments (preferred and common).

Total assets

Includes interest-earning financial instruments—principally commercial, real estate, consumer loans, and leases; investment securities/trading accounts; cash/money market investments; other owned assets.

Return on revenue

Net income divided by gross revenues.

Return on assets

Net income divided by average total assets. Used in industry analysis and as a measure of asset-use efficiency.

Return on equity

Net income, less preferred dividend requirements, divided by average common shareholder's equity. Generally used to measure performance and to make industry comparisons.

Price/earnings ratio

The ratio of market price to earnings, obtained by dividing the stock's high and low market price for the year by earnings per share (before extraordinary items). It essentially indicates the value investors place on a company's earnings.

Dividend payout ratio

This is the percentage of earnings paid out in dividends. It is calculated by dividing the annual dividend by the earnings. Dividends are generally total cash payments per share over a 12-month period. Although payments are usually calculated from the ex-dividend dates, they may also be reported on a declared basis where this has been established to be a company's payout policy.

Dividend yield

The total cash dividend payments divided by the year's high and low market prices for the stock.

Earnings per share

The amount a company reports as having been earned for the year (based on generally accepted accounting standards), divided by the number of shares outstanding. Amounts reported in Industry Surveys exclude extraordinary items.

Tangible book value per share

This measure indicates the theoretical dollar amount per common share one might expect to receive should liquidation take place. Generally, book value is determined by adding the stated (or par) value of the common stock, paid-in capital, and retained earnings, then subtracting intangible assets, preferred stock at liquidating value, and unamortized debt discount. This amount is divided by the number of outstanding shares to get book value per common share.

Share price

This shows the calendar-year high and low of a stock's market price.

In addition to the footnotes that appear at the bottom of each page, you will notice some or all of the following:

NA—Not available.

NM—Not meaningful.

NR—Not reported.

AF—Annual figure. Data are presented on an annual basis.

CF—Combined figure. In this case, data are not available because one or more components are combined with other items.

Comparative Company Analysis — Financial Services: Diversified

		Operating Revenues (Million $)					*Net Income (Million $)*					*Total Assets (Million $)*				
Company	**Yr. End**	**2001**	**2000**	**1999**	**1998**	**1997**	**2001**	**2000**	**1999**	**1998**	**1997**	**2001**	**2000**	**1999**	**1998**	**1997**
CONSUMER FINANCE‡																
† AMERICREDIT CORP	JUN	818.2	509.7	335.5	209.3	137.7 A	222.9	114.5	74.8	49.3	38.7	3,384.9	1,862.3	1,063.5	713.7	493.5
* CAPITAL ONE FINL CORP	DEC	7,254.3 A	5,424.3	3,965.8	2,599.8 A	1,787.1	642.0	469.6	363.1	275.2	189.4	28,184.0	18,889.3	13,336.4	9,419.4	7,078.3
§ CASH AMERICA INTL INC	DEC	355.9 D	363.7	373.2 A	342.9 A	303.4 A	12.7	-1.7	3.9	12.6	16.6	382.9	378.2	417.6	410.8	341.3
* COUNTRYWIDE FINANCIAL CORP	DEC	6,239.7 H	4,819.0	3,125.6 A	3,976.4	2,437.7	486.0	374.2	410.2	385.4	345.0	37,216.8	22,955.5	15,822.3	15,648.3	12,219.2
§ FINANCIAL FEDERAL CORP	JUL	138.3	111.5	89.1	72.7	55.3	31.6	26.7	22.6	17.0	12.9	1,313.7	1,127.8	942.2	766.1	574.8
* HOUSEHOLD INTERNATIONAL INC	DEC	13,780.3	11,960.9 A	9,499.1 A	8,707.6 A	5,453.1	1,847.6	1,700.7	1,486.4	524.1	686.6	88,910.9	76,706.3	60,749.4	52,892.7	30,302.6
* MBNA CORP	DEC	10,144.7 F	7,868.9 F	6,470.1 F	5,195.1 F	4,523.9 F	1,694.3	1,312.5	1,024.4	776.3	622.5	45,447.9	38,678.1	30,859.1	25,806.3	21,305.5
† METRIS COMPANIES INC	DEC	1,851.4	1,438.6 C	859.9	426.2	255.9	260.3	198.6	115.4	57.3	38.1	4,228.7	3,736.0	2,045.1	945.7	673.2
§ NEW CENTURY FINANCIAL CORP	DEC	293.3	163.9	233.9	176.4	98.6	48.0	-23.0	39.5	31.1	17.7	1,451.3	837.2	863.7	624.7	398.1
* PROVIDIAN FINANCIAL CORP	DEC	5,529.9 F	5,883.5 F	4,036.8 F	2,108.8 F	1,217.1 F	141.4	651.8	550.3	296.4	191.5	19,938.2	18,055.3	14,340.9	7,231.2	4,449.4
OTHER COMPANIES WITH SIGNIFICANT CONSUMER FINANCIAL SERVICES OPERATIONS																
* AMERICAN EXPRESS	DEC	24,985.0	25,273.0	22,405.0	20,297.0	18,958.0	1,311.0	2,810.0	2,475.0	2,141.0	1,991.0	151,100.0	154,423.0	148,517.0	126,933.0	120,003.0
* CITIGROUP INC	DEC	112,022.0 A,C	111,826.0 A	82,005.0	76,431.0 A	37,609.0 A	14,284.0	13,519.0	9,994.0	5,807.0	3,104.0	1,051,450.0	902,210.0	716,937.0	668,641.0	386,555.0
* FEDERAL HOME LOAN MORTG CORP	DEC	36,173.0 C	29,969.0	24,268.0	18,048.0	14,399.0	4,373.0	2,539.0	2,218.0	1,700.0	1,395.0	617,340.0	459,297.0	386,684.0	321,421.0	194,597.0
* FANNIE MAE	DEC	50,803.0 F	44,088.0 F	36,968.0 F	31,499.0 F	27,777.0 F	6,067.0	4,416.0	3,921.0	3,444.0	3,068.0	799,791.0	675,072.0	575,167.0	485,014.0	391,673.0
* J P MORGAN CHASE & CO	DEC	50,429.0 C	58,934.0 A,F	33,544.0	32,379.0	30,381.0 A	1,719.0	5,727.0	5,446.0	3,782.0	3,708.0	693,575.0	715,348.0	406,105.0	365,875.0	365,521.0
* MORGAN STANLEY	NOV	43,727.0	45,413.0 A	33,928.0 A	31,131.0	27,132.0 A	3,610.0	5,456.0	4,791.0	3,393.0	2,586.0	482,628.0	426,794.0	366,967.0	317,590.0	302,287.0
† PMI GROUP INC	DEC	937.0 A,F	750.9	663.1 A	617.7	564.6 F	312.0	260.2	204.5	190.4	175.3	2,990.0	2,392.7	2,100.8	1,777.9	1,686.6
* SLM CORP	DEC	3,985.6	4,166.3	3,259.4 A	3,064.6	3,687.7	384.0	465.0	500.8	501.5	511.2	52,874.0	48,791.8	44,024.8	37,210.0	39,908.7

Note: Data as originally reported. ‡S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. A - This year's data reflect an acquisition or merger. B - This year's data reflect a major merger resulting in the formation of a new company. C - This year's data reflect an accounting change. D - Data exclude discontinued operations. E -Includes excise taxes. F - Includes other (nonoperating) income. G - Includes sale of leased depts. H - Some or all data are not available, due to a fiscal year change.

		Return on Revenues (%)					*Return on Assets (%)*					*Return on Equity (%)*				
Company	**Yr. End**	**2001**	**2000**	**1999**	**1998**	**1997**	**2001**	**2000**	**1999**	**1998**	**1997**	**2001**	**2000**	**1999**	**1998**	**1997**
CONSUMER FINANCE‡																
† AMERICREDIT CORP	JUN	27.2	22.5	22.3	23.6	28.1	8.5	7.8	8.4	8.2	9.4	25.5	21.0	21.8	19.5	20.4
* CAPITAL ONE FINL CORP	DEC	8.8	8.7	9.2	10.6	10.6	2.7	2.9	3.2	3.3	2.8	24.3	27.0	26.1	25.4	23.2
§ CASH AMERICA INTL INC	DEC	3.6	NM	1.0	3.7	5.5	3.3	NM	0.9	3.4	5.0	7.3	NM	2.1	7.1	10.3
* COUNTRYWIDE FINANCIAL CORP	DEC	7.8	7.8	13.1	9.7	14.2	1.6	1.9	2.6	2.8	3.4	12.7	11.6	15.2	16.7	18.7
§ FINANCIAL FEDERAL CORP	JUL	22.9	24.0	25.4	23.4	23.3	2.6	2.6	2.6	2.5	2.6	16.7	16.8	16.9	14.9	12.9
* HOUSEHOLD INTERNATIONAL INC	DEC	13.4	14.2	15.6	6.0	12.6	2.2	2.5	2.6	1.2	2.3	23.2	23.5	23.3	9.5	18.1
* MBNA CORP	DEC	16.7	16.7	15.8	14.9	13.8	4.0	3.7	3.6	3.2	3.2	23.3	24.0	30.7	34.9	33.0
† METRIS COMPANIES INC	DEC	14.1	13.8	13.4	13.5	14.9	5.7	5.8	6.1	6.9	7.9	35.5	40.9	34.5	27.6	24.2
§ NEW CENTURY FINANCIAL CORP	DEC	16.4	NM	16.9	17.6	18.0	3.9	NM	5.0	6.1	7.7	22.6	NM	26.0	35.5	54.4
* PROVIDIAN FINANCIAL CORP	DEC	2.6	11.1	13.6	14.1	15.7	0.7	4.0	5.1	5.1	NA	7.2	38.7	51.5	42.4	NA

Company	Yr. End	Return on Revenues (%) (cont'd) 2001	2000	1999	1998	1997	Return on Assets (%) (cont'd) 2001	2000	1999	1998	1997	Return on Equity (%) (cont'd) 2001	2000	1999	1998	1997
OTHER COMPANIES WITH SIGNIFICANT FINANCIAL SERVICES OPERATIONS																
* AMERICAN EXPRESS	DEC	5.2	11.1	11.0	10.5	10.5	0.9	1.9	1.8	1.7	1.7	11.1	25.8	25.0	22.2	22.0
* CITIGROUP INC	DEC	12.8	12.1	12.2	7.6	8.3	1.5	1.7	1.4	1.1	1.1	19.7	23.9	22.3	18.7	18.6
* FEDERAL HOME LOAN MORTG CORP	DEC	12.1	8.5	9.1	9.4	9.7	0.8	0.6	0.6	0.6	0.7	37.1	23.6	25.2	22.6	20.6
* FANNIE MAE	DEC	11.9	10.0	10.6	10.9	11.0	0.8	0.7	0.7	0.8	0.8	34.5	24.6	25.1	24.9	24.4
* J P MORGAN CHASE & CO	DEC	3.4	9.7	16.2	11.7	12.2	0.2	1.0	1.4	1.0	1.0	4.1	17.7	23.6	17.2	18.4
* MORGAN STANLEY	NOV	8.3	12.0	14.1	10.9	9.5	0.8	1.4	1.4	1.1	1.0	18.3	30.8	31.7	25.0	27.2
† PMI GROUP INC	DEC	33.3	34.7	30.8	30.8	31.0	11.6	11.6	10.5	11.0	11.0	19.0	19.2	17.7	17.6	17.1
* SLM CORP	DEC	9.6	11.2	15.4	16.4	13.9	0.7	1.0	1.2	1.3	1.2	27.0	47.1	75.1	75.5	67.8

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

Company	Yr. End	Price / Earnings Ratio (High-Low) 2001	2000	1999	1998	1997	Dividend Payout Ratio (%) 2001	2000	1999	1998	1997	Dividend Yield (High-Low, %) 2001	2000	1999	1998	1997
CONSUMER FINANCE‡																
† AMERICREDIT CORP	JUN	23-5	20-7	16-8	23-8	27-9	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
* CAPITAL ONE FINL CORP	DEC	24-12	31-13	33-19	31-12	19-11	3	4	6	8	11	0.3-0.1	0.3-0.1	0.3-0.2	0.6-0.2	1.0-0.6
§ CASH AMERICA INTL INC	DEC	20-8	NM-NM	NM-45	41-18	20-12	10	NM	33	10	7	1.2-0.5	1.4-0.4	0.7-0.3	0.6-0.2	0.6-0.4
* COUNTRYWIDE FINANCIAL CORP	DEC	13-9	15-7	14-7	16-8	13-8	10	12	11	9	10	1.1-0.8	1.8-0.8	1.6-0.8	1.1-0.6	1.3-0.7
§ FINANCIAL FEDERAL CORP	JUL	16-11	15-9	16-10	25-15	30-13	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
* HOUSEHOLD INTERNATIONAL INC	DEC	18-12	16-8	17-10	52-22	20-12	21	21	22	58	25	1.8-1.2	2.5-1.3	2.1-1.3	2.6-1.1	2.1-1.2
* MBNA CORP	DEC	20-12	25-12	26-17	26-13	25-15	18	20	22	24	27	1.5-0.9	1.6-0.8	1.3-0.8	1.8-0.9	1.8-1.0
† METRIS COMPANIES INC	DEC	15-5	15-5	NM-NM	28-5	25-11	1	1	NM	2	2	0.3-0.1	0.2-0.1	0.1-0.1	0.3-0.1	0.1-0.1
§ NEW CENTURY FINANCIAL CORP	DEC	5-2	NM-NM	8-4	6-1	9-4	0	NM	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
* PROVIDIAN FINANCIAL CORP	DEC	NM-4	29-13	35-18	36-14	23-14	18	5	5	7	5	4.5-0.1	0.4-0.2	0.3-0.1	0.5-0.2	0.3-0.2
OTHER COMPANIES WITH SIGNIFICANT FINANCIAL SERVICES OPERATIONS																
* AMERICAN EXPRESS	DEC	58-24	30-19	30-17	25-14	21-13	32	15	16	14	21	1.3-0.6	0.8-0.5	0.9-0.5	1.0-0.6	1.7-1.0
* CITIGROUP INC	DEC	20-12	22-13	20-11	30-11	21-11	21	18	18	22	15	1.7-1.0	1.4-0.8	1.7-0.9	1.9-0.8	1.4-0.7
* FEDERAL HOME LOAN MORTG CORP	DEC	12-10	21-11	22-15	29-17	23-14	13	20	20	21	21	1.4-1.1	1.8-1.0	1.3-0.9	1.2-0.7	1.5-0.9
* FANNIE MAE	DEC	15-12	21-11	20-16	23-15	20-13	20	26	29	29	29	1.7-1.4	2.3-1.3	1.8-1.4	1.9-1.3	2.3-1.5
* J P MORGAN CHASE & CO	DEC	68-35	22-11	14-10	18-8	15-10	160	41	24	32	29	4.6-2.3	3.8-1.8	2.4-1.7	3.9-1.8	2.9-1.9
* MORGAN STANLEY	NOV	28-11	22-12	16-8	17-6	14-8	28	16	11	14	12	2.6-1.0	1.4-0.7	1.4-0.7	2.2-0.8	1.6-0.9
† PMI GROUP INC	DEC	11-7	13-6	12-6	14-5	14-9	2	3	3	3	4	0.3-0.2	0.5-0.2	0.6-0.3	0.6-0.2	0.4-0.3
* SLM CORP	DEC	38-24	24-10	17-13	17-9	17-9	31	23	20	19	18	1.3-0.8	2.4-1.0	1.5-1.1	2.1-1.1	2.0-1.1

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

		Earnings per Share ($)					*Tangible Book Value per Share ($)*					*Share Price (High-Low, $)*				
Company	**Yr. End**	**2001**	**2000**	**1999**	**1998**	**1997**	**2001**	**2000**	**1999**	**1998**	**1997**	**2001**	**2000**	**1999**	**1998**	**1997**
CONSUMER FINANCE‡																
† AMERICREDIT CORP	JUN	2.80	1.57	1.19	0.82	0.63	12.71	8.98	6.23	4.67	3.57	64.90-14.00	31.13-10.63	18.94-9.81	18.66-6.63	17.22-5.94
* CAPITAL ONE FINL CORP	DEC	3.06	2.39	1.84	1.40	0.96	15.33J	9.94	7.69	6.45	4.55	72.58-36.40	73.25-32.06	60.25-35.81	43.31-16.85	18.10-10.17
§ CASH AMERICA INTL INC	DEC	0.52	-0.07	0.15	0.51	0.68	3.75	3.69	3.81	3.95	4.24	10.50-4.31	13.00-3.63	15.94-6.75	20.88-9.00	13.75-8.00
* COUNTRYWIDE FINANCIAL CORP	DEC	4.04	3.26	3.63	3.46	3.21	-16.53	-18.76	-22.11	-17.56	-13.96	52.00-37.39	50.50-22.31	51.44-24.63	56.25-28.63	43.25-24.38
§ FINANCIAL FEDERAL CORP	JUL	1.99	1.79	1.52	1.15	0.80	12.48	11.53	9.76	8.30	7.15	31.54-22.43	26.00-16.13	24.75-15.38	28.63-17.13	23.63-10.25
* HOUSEHOLD INTERNATIONAL INC	DEC	3.97	3.59	3.10	1.04	2.20	13.74	13.26	10.39	9.36	8.59	69.98-48.00	57.44-29.50	52.31-32.19	53.69-23.00	43.33-26.21
* MBNA CORP	DEC	1.31	1.05	0.84	0.67	0.53	4.08	3.03	2.15	1.51	1.41	26.37-15.62	26.75-13.00	22.17-13.87	17.25-9.00	13.59-7.96
† METRIS COMPANIES INC	DEC	2.67	2.78	-0.19	0.97	0.66	10.30	6.87	3.63	2.60	2.42	39.10-13.50	42.94-13.58	31.67-12.43	26.92-5.17	16.33-7.00
§ NEW CENTURY FINANCIAL CORP	DEC	2.74	-1.76	2.59	2.20	2.18	12.08	9.97	11.72	7.92	4.29	14.02-6.00	15.75-5.06	20.50-10.69	13.63-2.75	20.13-9.63
* PROVIDIAN FINANCIAL CORP	DEC	0.50	2.29	1.95	1.04	0.67	6.70	7.11	4.69	2.86	2.09	64.06-2.00	67.00-29.06	69.00-34.75	37.84-14.19	15.60-9.71
OTHER COMPANIES WITH SIGNIFICANT FINANCIAL SERVICES OPERATIONS																
* AMERICAN EXPRESS	DEC	0.99	2.12	1.85	1.57	1.43	9.04	8.80	7.52	7.17	6.84	57.06-24.20	63.00-39.83	56.29-31.63	39.54-22.33	30.50-17.88
* CITIGROUP INC	DEC	2.82	2.69	2.21	1.25	1.35	15.48J	12.84J	10.64J	8.94J	8.49J	57.38-34.51	59.13-35.34	43.69-24.50	36.75-14.25	28.69-14.58
* FEDERAL HOME LOAN MORTG CORP	DEC	5.98	3.40	2.97	2.32	1.90	15.50	16.81	11.98	11.55	8.74	71.25-58.75	70.13-36.88	65.25-45.38	66.38-38.69	44.56-26.69
* FANNIE MAE	DEC	5.92	4.28	3.75	3.28	2.87	15.86	18.58	16.02	13.95	12.34	87.94-72.08	89.38-47.88	75.88-58.56	76.19-49.56	57.31-36.13
* J P MORGAN CHASE & CO	DEC	0.84	2.99	4.33	2.90	2.77	12.54	12.96	18.29J	17.93J	15.84J	57.33-29.04	67.17-32.38	60.75-43.87	51.71-23.71	42.19-28.21
* MORGAN STANLEY	NOV	3.29	4.95	4.33	2.90	2.13	17.39	15.78	13.67	11.94J	11.05J	90.49-35.75	110.00-58.63	71.44-35.41	48.75-18.25	29.75-16.44
† PMI GROUP INC	DEC	3.51	2.94	2.28	2.02	1.75	20.04	16.92	13.62	12.08	10.90	37.25-24.19	37.47-16.75	27.75-13.33	28.50-11.00	24.67-15.92
* SLM CORP	DEC	2.34	2.84	3.11	2.99	2.82	9.69	7.62	4.29	3.98	3.89	87.99-55.88	68.25-27.81	53.94-39.50	51.38-27.50	47.18-25.43

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. J-This amount includes intangibles that cannot be identified.

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