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OVERVIEW

Credit Quality. After declining for three consecutive months in the second quarter and again in August, the delinquency ratio of VCI company account-based composite of retail and lease contracts stood at 1.90% at the end of the third quarter, up 48 basis points (bps) from the quarter before. At 1.90%, it is up from its 1.54% a year ago, but still below the 2.27% peak in December 2000 and well below the 2.91% peak of September 1999. Though increasing, VCI company delinquent is below industry's second quarter average of 2.60%.

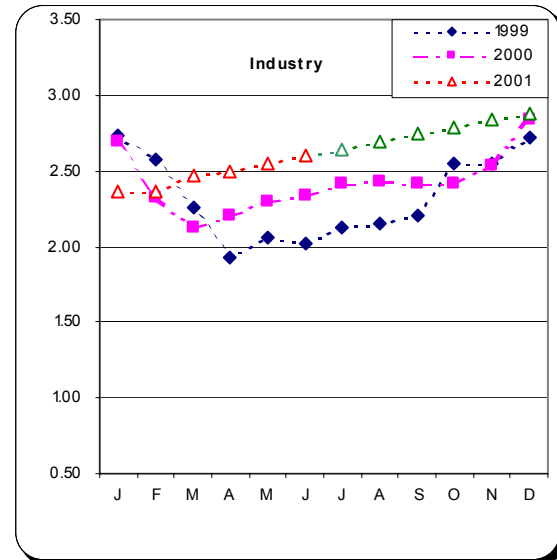
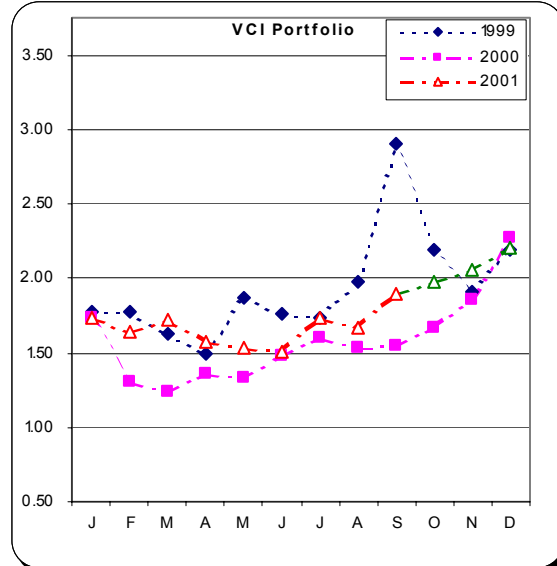
VCI company portfolio has consistently over the years, been lower than the industry except for September 1999 when the delinquency rate stood at 2.91 % compare to 2.21 for the industry.

A similar story is evident in other portfolio segments. Delinquent rates for retail and lease contracts, at 1.89% and 1.92% respectively, rise again in the third quarter. After surging to 2.22% and 2.31% in the fourth quarter respectively, the rate fell back 2 consecutive quarters, 1.65% and 1.78% in the first quarter and 1.45% and 1.57% in the second quarter before climbing over 30 bps at the end of the third quarter.

Overall, the portfolio continues to demonstrate credit quality deterioration, much of which relates to seasoning of recently originated contracts. According to Risk management delinquency rates, the pools contracted in 1999 are performing worse than previous pools; at the end of the third quarter, contracts originated in the second and third quarter of 1999 runs at 2.5% compared to previous ones. This suggests that charge-offs hence may be higher for the 1999 pool than previous ones.

Fifty-six percent of all delinquent accounts are concentrated within the states of California, Texas, Florida, New Jersey, New York and Pennsylvania. These six states make up 52% of the total VCI company consumer portfolio. The state of CA accounts for 23% of all delinquent accounts; the eastern region states of NJ, NY and PA combine for a total of 22%; with the remaining 11% split between TX (6%) and FL (5%). At the end of the third quarter delinquency rates for the six states stood at

Loan past due 30 days or more as a percentage of Loans with Outstanding s. --- represent forecast



2.19%, 2.26%, 1.83%, 2.05%, 1.82%, and 1.88% respectively.

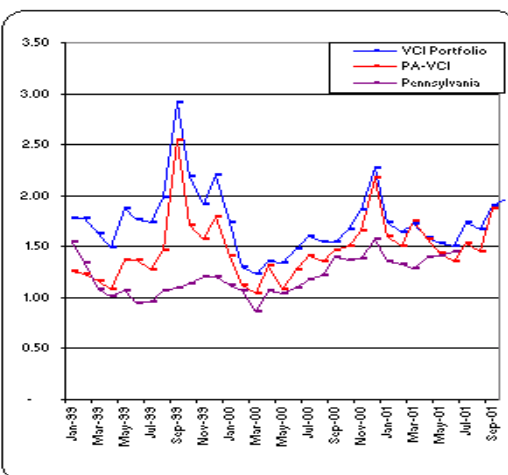
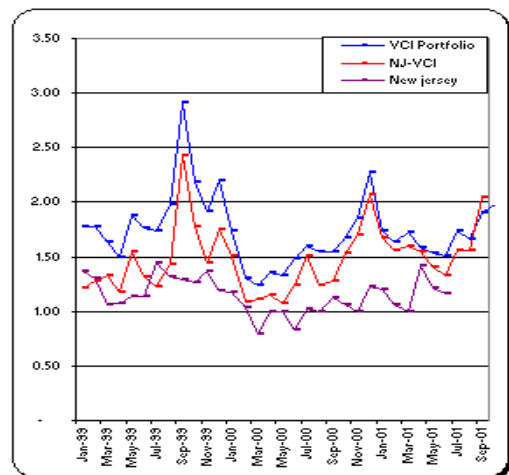
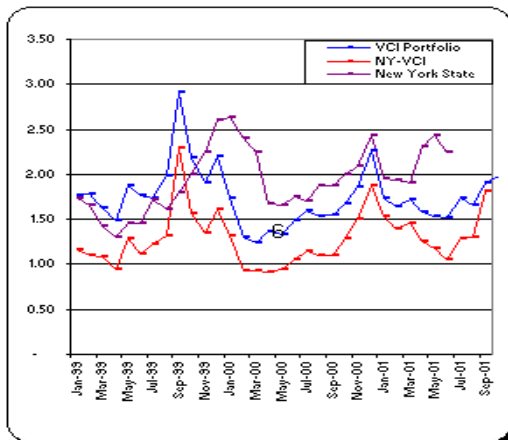
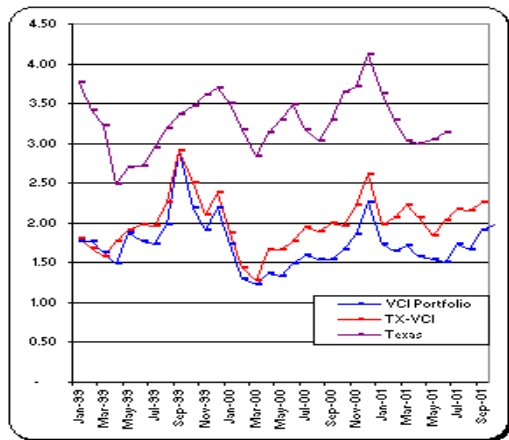
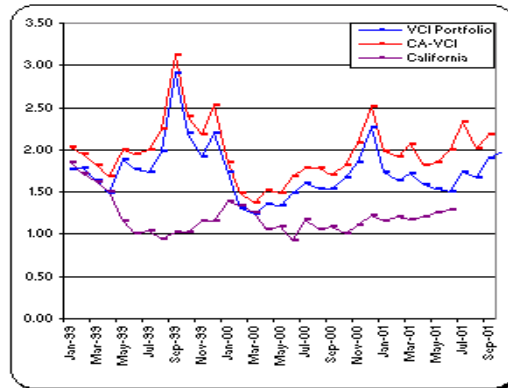
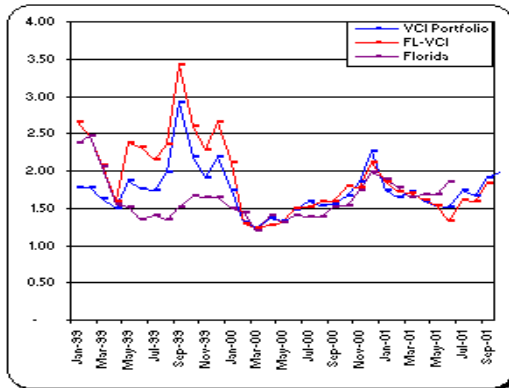
These rates are up from the previous quarters but down from fourth quarter surge.

When compared to state averages, historically, California, Florida, New Jersey and Pennsylvania delinquency rates are higher than state averages, while Texas and New York delinquency rates fall below individual state averages.

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Credit Quality in the Top Six States Shows sign of continuing deterioration



Credit quality deterioration can also be seen throughout the industry. With the exception of New York and Pennsylvania, the remaining four states all experienced an increase in their delinquency ratio.

OUTLOOK

New York. The state's economy has been pushed onto the fast track to recession. That's according to Economy.Com economist, Celia Chen. Weakening employment growth and

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increasing uncertainty over the direction of the economy are dampening consumer spending in NY. Even before September 11, NY economy was slowing. Many of the state's manufacturers are struggling and with increasing talk of layoffs. Third quarter jobless rate stood at 4.4%. Though considered low in NY the rate is expected to climb upward at the same time the labor force is contracting. *The rise in initial unemployment claims, an average of 92,000 claims in the past three months compared to 72,000 during the same period a year ago, is seen as further evidence that the state is experiencing deteriorating economic conditions, hence having a dreary outlook.*

New Jersey. For the past six months New Jersey has seen a drop in its payroll employment. These drops have primarily been concentrated in the manufacturing and construction industry with other sectors experiencing stagnant growth. Most economist agree that the New Jersey economy will take a hit in the short term from the events of September 11th, but should see a rebound in the beginning of 2002. New Jersey is in a unique position to benefit from the federal funds that will be pouring into the area. *Despite slow population growth, in the long run, NJ's central location, infrastructure, highly skilled labor force and high per capita income (mean household income in the state is more than \$72,000) provide a solid economic base for future growth.*

Pennsylvania. Like its neighbors, Pennsylvania economy continues to slow in line with regional and national trends. Declining employment numbers and falling manufacturing payrolls are just some of the evidence of deteriorating economic conditions. According to recent Philadelphia Fed Survey there have been declines in activity for the ninth consecutive month. The largest losses have been occurring in the industrial and electronics equipment and steel industries with some job cuts in the apparel and textiles industries. As a result, those fortunate to retain their jobs, have seen their workweek and hence income fallen. Vehicle sales have weakened in recent month, but also remain historically high. *The jobless rate is expected to climb to 5.3% by the middle of next year thus making hope for a quick rebound less likely. In the longer-term, poor demographics trends, a weak manufacturing industry and relatively low concentration of high-growth industries hinders*

States Credit Quality- Loan Past due 30 Days or More

	Jul-01	Aug-01	Sep-01
Alabama	1.80	1.57	2.01
Alaska	2.87	1.65	2.14
Arizona	2.99	2.59	2.51
Arkansas	2.06	3.04	2.35
California	2.33	2.01	2.19
Colorado	1.89	1.73	1.85
Connecticut	1.08	1.16	1.55
D.C.	1.82	1.25	2.00
Delaware	1.11	1.31	1.42
Florida	1.62	1.60	1.83
Georgia	2.08	2.08	2.14
Guam	10.00	22.22	28.57
Hawaii	2.76	2.33	2.39
Idaho	2.01	2.03	0.89
Illinois	1.57	1.52	1.56
Indiana	1.47	1.14	1.57
Iowa	0.54	0.76	0.86
Kansas	1.37	0.94	1.18
Kentucky	1.36	1.60	1.57
Louisiana	2.80	2.88	2.97
Maine	1.35	1.20	1.22
Maryland	1.62	1.52	1.57
Massachusetts	1.34	1.44	1.65
Michigan	1.56	1.45	1.51
Minnesota	0.70	0.70	1.03
Mississippi	6.68	5.97	6.70
Missouri	1.71	1.86	1.83
Montana	0.48	0.90	0.43
Nebraska	0.76	0.99	0.89
Nevada	3.23	3.34	2.95
New Hampshire	1.40	1.25	1.65
New Jersey	1.56	1.56	2.05
New Mexico	1.89	2.06	1.61
New York	1.28	1.30	1.82
North Carolina	1.83	1.90	2.06
North Dakota	1.88	1.24	0.61
Ohio	0.94	1.05	1.16
Oklahoma	2.18	2.06	2.02
Oregon	2.11	2.06	2.17
Pennsylvania	1.53	1.45	1.88
Puerto Rico	6.67	6.52	6.25
Rhode Island	1.35	1.14	1.66
South Carolina	2.71	2.72	3.06
South Dakota	1.52	1.32	1.72
Tennessee	2.53	2.78	2.56
Texas	2.16	2.16	2.26
Utah	2.35	2.31	2.14
Vermont	2.01	1.78	2.14
Virgin Islands	25.00	50.00	25.00
Virginia	1.50	1.41	1.88
Washington	1.80	1.80	2.02
West Virginia	1.09	1.04	1.34
Wisconsin	1.11	1.27	1.39
Wyoming	1.92	1.11	1.08
Total Portfolio	1.74	1.66	1.90

Pennsylvania's growth prospects.

Northeast Region. In the short-term, the economic slowdown in the Northeast is expected to continue with a high risk of contraction. Any unfavorable demographics trends and above average business and living cost will be balanced

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by the Northeast region abundance of capital, highly skilled labor force and technology.

Florida. Florida's economy remains among the most unaffected economies in the nation. The state continues to enjoy steady employment growth on a year-to-year basis. One contributing factor is the absence of manufacturing and information technologies, the industries most hit by the economic slowdown. Tourism is resilient, so to are financial and business services. The risk in financial services is somewhat smaller for the state of Florida, as the industry is far more focused on retail banking and brokerage activity than on security trading activity, a sector which has been impacted by a nationwide economic slowdown. While the U.S. population grew 13.5% between 1990 and 2000, Florida saw a 23.5% increase in population. A more rapid population increase indicates the potential for greater sustainable long-term growth throughout the economy. *Florida will continue to be one of the nation's top performers buoyed by comparatively stable service sector, especially in the long-term.*

Texas. Although growing at a slower pace than 18 months ago, job growth in the state has outpace that of the nation by considerable margin. Like most of the other states, Texas manufacturing industry has shrunk by 7,000 workers since January. *Many analysts believe Texas will continue to be a solid performer relative to the nation. They believe the state possess all the ingredients for above average long-term growth: strategic location business-friendly government, low business cost (an index of 7 – meaning that the state has business cost 93% below the national average), and a highly competitive industrial base.*

South Region. Employment growth in the Southern states has slowed, with growth slowest in the four-state East South Central region. Unlike the East South Central region, the coastal states and Texas has benefits not only from growing industries but in-migration trends fueling strong growth in personal services, housing and small business. Overall, the South is expected to outperform the U.S. during recent slowdown.

California. In the aftermath of the dot-com boom and rapid hiring in the software industry, California's economic conditions have slowed significantly in the last six to nine months. Unemployment is rising, the demand for office

spaces is weakening and personal bankruptcy filings in the first quarter were up by nearly 17%. To top it off, the ongoing energy crisis has introduced a sense of ambiguity. The new round of base closures poses additional risk for the state in the coming future, with the potential to lose the 1.5% of total wage and salary employment which the military provides. *Although the Bay Area and Silicon Valley are the ones hardest hit by the slowdown, Southern California is also feeling the pinch from recent job cuts in telecommunications, semiconductors and e-commerce. Economists expect CA's economy to weaken further through the end of the year with moderate growth to return next year and near-average performance in the long-run.*

West Region. As technology and telecom firms continue to cut their inventories and work forces, the West's economy will continue to decelerate. Employment growth is at it slowest pace but growth in the West still leads the other three regions. The risk to the region still remains high with inventory corrections in the semiconductor and telecom equipment industries are still months away from completion.

Risk. The state of the job market remains the largest downside risk, as job security concerns form a far more essential part of the buying decision. Credit quality concerns also materialize as the economic slowdown lingers longer than previously expected and middle income households/individuals, who already have a the highest debt burden and most difficulty servicing those burdens, experience the most serious weakening in their job and income prospects.

Risk management is already seeing a deterioration in credit quality for accounts sixty-one to ninety days past due for the portfolio as a whole. At the end of the third quarter the rate stood at 0.28% up 55% from 0.18% the quarter before. Any continuation of such trend increases VCI company credit loss potential.

The key for credit quality will be whether the labor market deteriorates in a broad-based manner encompassing other industries, also as consumers try to manage higher debt burdens accumulated during the period of economic prosperity.

*Chris Letang
September 2001*