UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

UNITED STATES OF AMERICA, Plaintiff, v. HOUSEHOLD FINANCE CORPORATION, HFC AMERICAN, INC., and AMERICAN INVESTMENT COMPANY, Defendants.	)	Civil Action No. 79-C-80 Filed: January 9, 1979

COMPLAINT

The United States of America, by its attorneys, acting under the direction of the Attorney General of the United States, brings this civil action against the above-named defendants, and complains and alleges as follows:

I

JURISDICTION AND VENUE

1. This complaint is filed and this action is instituted against the defendants under Section 15 of the Clayton Act (15 U.S.C. §25), in order to prevent and restrain the violation by the defendants, as hereinafter alleged, of Section 7 of the Clayton Act (15 U.S.C. §18).

2. Defendants Household Finance Corporation, HFC American, Inc., and American Investment Company transact business, maintain offices, and are found within the Northern District of Illinois.

II

DEFENDANTS

3. Household Finance Corporation (hereinafter referred to as "HFC") is made a defendant herein. HFC is a corporation organized and existing under the laws of the State of Delaware with its principal place of business in Prospect Heights, Illinois. HFC is engaged in the business of consumer finance, and makes direct cash loans to individuals. It also is engaged in insurance, manufacturing, merchandising and leasing businesses.

4. HFC American, Inc., (hereinafter referred to as "HAI") is made a defendant herein. HAI is a wholly-owned subsidiary of HFC. HAI is a corporation organized and existing under the laws of the State of Delaware, with its principal place of business in Prospect Heights, Illinois.

5. American Investment Company (hereinafter referred to as "AIC") is made a defendant herein. AIC is a corporation organized and existing under the laws of the State of Delaware with its principal place of business in St. Louis, Missouri. AIC is engaged in the business of consumer finance, and makes direct cash loans to individuals. It is also engaged in the insurance business.

III

DEFINITIONS

6. As used herein, "finance company" shall mean persons, partnerships or corporations engaged primarily in the business

of granting of direct cash loans, and the purchasing of retail installment loans, under the appropriate statutes and licensing regulations of the various states.

7. As used herein, "direct cash loans" shall mean loans made to individuals by finance companies under the appropriate statutes of the various states, repayable generally on an equal periodic basis.

8. As used herein, "independent finance company" shall mean any finance company other than one whose principal activity consists of financing the purchase of products or services sold by an affiliated company.

IV.

TRADE AND COMMERCE

9. Finance companies engage primarily in granting direct cash loans to individuals, usually for noncommercial purposes and usually repayable in equal periodic installments. Consumer finance companies which grant direct cash loans are licensed by the states in which they operate, and are regulated and supervised by state agencies. As of December 31, 1977, the total amount of direct cash loans outstanding made by finance companies in the United States totaled $21.281 billion.

10. HFC is the largest independent finance company in the United States, with total capital funds of $1.275 billion as of December 31, 1977. It operates more than 2,000 branch offices in 47 states, Puerto Rico, all Canadian provinces, and the United Kingdom. As of December 31, 1977, HFC had total direct cash loans outstanding of approximately $2,450,854,000.

11. AIC is among the twenty largest independent finance companies in the United States, with total capital funds of $123.3 million as of December 31, 1977. It operates 477 offices in 30 states. As of December 31, 1977, AIC had total direct cash loans outstanding of approximately $348,499,000.

12. Finance companies are the only type of business entity whose primary purpose is to make installment credit, including direct cash loans, available to consumers. While financial institutions such as commercial banks, savings and loan associations, and credit unions make some personal loans to consumers, these institutions primarily engage in other financial activities. All of them, unlike finance companies, are depository institutions, that is they accept demand and/or savings deposits which serve as their major source of funds. Commercial banks engage in a full range of financial activities including lending to business entities. Savings and loan associations primarily grant first mortgages for the purchase of residential properties. Credit unions are limited to lending to their own members, all of whom must have a common affiliation which is usually based on employment. All of these institutions charge lower interest rates than finance companies for direct cash loans. Frequently, the rates which are charged are regulated by state statute; finance companies are permitted to charge the highest rate of interest of any lender. For this

reason, among others, finance companies are uniquely capable of taking higher risks and making direct cash loans to consumers when they do not have alternative sources of credit. Thus, for a substantial group of consumers finance companies do not face competition from other financial institutions.

13. Finance companies conduct their direct cash loan business through offices located in particular communities. While the size of the area served by a particular office will vary depending upon the population and geographic characteristics of the area, generally a particular city is a reasonable approximation of the geographic area served by a finance company. In addition, finance company offices are relatively small with average loans outstanding per office in 1977 of less than $1.5 million. The large finance companies (those with total loans outstanding in excess of $500 million) have substantially higher average loans outstanding per office than the industry average. HFC and AIC combined have 20 percent or more of all finance company offices in each of more than 100 cities in approximately 25 states, including the states of California, Connecticut, Illinois, Kansas, Massachusetts, New York, North Dakota, Ohio, Pennsylvania, Virginia, Washington, and West Virginia. These cities include New York, New York; Buffalo, New York; Chicago, Illinois; Gary, Indiana; and Jersey City, New Jersey. In a number of additional cities, HFC and AIC combined have 10 percent or more of

all finance company offices. These cities include San Diego, California; San Francisco, California; Cleveland, Ohio; Philadelphia, Pennsylvania; Pittsburgh, Pennsylvania; and Seattle, Washington. HFC and AIC engage in substantial competition in these cities.

14. Measured by amount of direct cash loans outstanding, HFC and AIC are substantial and direct competitors in a large number of cities and metropolitan areas in various states in the United States. For example, in New York, New York, as of December 31, 1977, HFC held 47.9 percent of the outstanding direct cash loans made by all finance companies and AIC held 8.3 percent for a combined total of 56.2 percent. In Buffalo, New York, as of the same date, HFC held 15.8 percent of total outstanding direct cash loans and AIC held 13.4 percent for a combined total of 29.2 percent. In Chicago, Illinois, as of December 31, 1977, HFC held 25.7 percent of outstanding direct cash loans made by all finance companies and AIC held 2.9 percent for a combined total of 28.6 percent.

15. HFC and AIC have offices in thirty common states. In most of these states, HFC and AIC have offices located in various common cities within the state. While there are finance companies which have only one or a few offices, a relatively few finance companies with multiple offices frequently control a large percentage of all offices in the state and operate in many cities in the state. In New York State, HFC had 24.5 percent of total finance company offices and AIC had 6.3 percent for a combined total of 30.8 percent

as of December 31, 1977. As of that date, HFC had 30.8 percent of outstanding direct cash loans made by all finance companies in New York State and AIC had 6.1 percent for a combined total of 36.9 percent. In a number of additional states including California, Illinois, Ohio, Washington, and Virginia, HFC and AIC are direct and substantial competitors in a number of cities and have a combined total in excess of 18 percent of outstanding direct cash loans made by all finance companies in the state. State market shares may be taken as a rough approximation of market shares in particular cities within the state.

16. Defendants regularly use interstate communications, including the mails, telephone and telegraph, in providing direct cash loans and other services to their customers. Defendants maintain offices in a number of states of the United States, and regularly use interstate communications, including the mails, telephone and telegraph, to transmit cash, drafts, notes, contracts, ledgers, journals, reports and other correspondence between their branch offices located in the several states and their respective home offices. Defendants regularly make a substantial number of loans, including direct cash loans, with funds acquired in states other than the states in which the loans are made. Each defendant is engaged in interstate commerce.

V

OFFENSE CHARGED

17. On or about October 19, 1978, the defendants entered into an agreement whereby HFC, through HAI, would acquire all the stock of AIC. On or about November 9, 1978, HFC purchased 258,600 shares of AIC common stock, representing approximately 4.7% of such shares issued and outstanding. This agreement was approved at a special shareholders meeting of AIC held on December 11, 1978.

18. The effect of the proposed acquisition of AIC by HFC, acting through HAI, may be substantially to lessen competition or to tend to create a monopoly in the making of direct cash loans in various cities located in the states of California, Connecticut, Illinois, Kansas, Massachusetts, New York, North Dakota, Ohio, Pennsylvania, Virginia, West Virginia, among others, in violation of Section 7 of the Clayton Act in the following ways, among others:

(a) existing competition and the potential for increased competition between HFC and AIC will be eliminated;

(b) concentration among companies making direct cash loans will be increased;

(c) competition generally among companies making direct cash loans may be substantially lessened.

PRAYER

WHEREFORE, plaintiff prays:

1. That the proposed acquisition of AIC by HFC, acting through HAI, be adjudged a violation of Section 7 of the Clayton Act.

2. That HFC and HAI be ordered and directed to divest any interest, stock or otherwise, in AIC held by HFC or HAI.

3. That HFC be perpetually enjoined and restrained from acquiring, either directly or indirectly, any stock, assets, or other interest of AIC.

4. That pending a final adjudication of the merits of this complaint, a preliminary injunction be issued against the defendants, preventing the consummation of the acquisition of AIC by HFC or HAI.

5. That the plaintiff have such other and further relief as the Court may deem just and proper.

6. That the plaintiff recover the cost of this action.

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