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Conseco Losses Drop, Even as Credit Reserves Jump; Settles Class Suit for \$120M

NEW YORK, Feb. 21 (LendingIntelligence.com) — Losses at Conseco Inc. diminished last quarter, even as the Indianapolis company increased its reserves for failed loans by 30%, according to a company announcement today.

At quarter's end, Conseco had \$182.9 million set aside to cover its loan losses.

Meanwhile, lawyers for two pension funds that had brought a class action lawsuit against Conseco for reporting allegedly false and misleading financial results said they and Conseco settled the case today.

Dan Berger, an attorney representing the class members, which he numbered in the thousands, said Conseco agreed to pay a \$120 million settlement by March 8.

According to Conseco, the company lost \$56.9 million, or \$0.17 a share, in the fourth quarter of 2002, compared with a loss of \$376.6 million, or \$1.16 a share, a year earlier. Conseco's revenue dropped 5.9% during the quarter to \$2.04 billion from \$2.17 billion. Conseco blamed its continuing losses on the recessive economy.

Conseco [NYSE: CNC] is trading 3.07% higher at \$3.69 per share, as of 1:16 p.m. ET.

Last month, Conseco announced that it would not match the earnings results analysts had expected for the fourth quarter, due, "in large part," to its need to increase loan-loss reserves. In addition to the \$42 million of additional reserves — which equals \$0.08 per share — Conseco took a \$15 million charge for adverse mortality experience in its traditional life insurance products, and a \$13 million charge to settle a class-action lawsuit related to its reporting of financial information in 1999. It

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is unclear whether this charge is related to the class-action settlement of \$120 million announced today.

One Wall Street analyst said he expects that Conseco will be forced to reserve "substantially" more money to cover its expected credit losses.

"You just have to look to the problems with loan deterioration they have had over the last 12 months, and the rates will continue to deteriorate in the 2000 and 2001 pools," said Colin Devine, an analyst who tracks Conseco for Salomon Smith Barney Inc.

"The biggest problem for Conseco is the continuing deterioration of Conseco Finance, which is going from bad to worse quarter after quarter," Devine added.

Going forward, Devine pointed to two key indicators to watch. He said 60-day delinquencies jumped 48% during the quarter to 2.19%. In addition, the percentage of loans on which Conseco was forced to repossess increased 76% to 2.37%.

"Those are the problems," he said.

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