UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff,	)	Lead Case No. 02-C-5893 (Consolidated)
- against -	)	CLASS ACTION
Household International, Inc., et al., Defendants.	)	Judge Ronald A. Guzman Magistrate Judge Nan R. Nolan

MEMORANDUM OF LAW OF THE HOUSEHOLD DEFENDANTS WITH RESPECT TO THE PRELIMINARY ERNST & YOUNG COMPLIANCE ENGAGEMENT WORK PAPERS

Cahill Gordon & Reindel LLP
80 Pine Street
New York, New York 10005
(212) 701-3000

Eimer Stahl Klevorn & Solberg LLP
224 South Michigan Ave.
Suite 1100
Chicago, Illinois 60604
(312) 660-7600

Attorneys for Defendants Household International, Inc., Household Finance Corporation, William F. Aldinger, David A. Schoenholz, Gary Gilmer and J.A. Vozar

Defendants Household International, Inc. ("Household"), Household Finance Corporation, William F. Aldinger, David A. Schoenholz, Gary Gilman and J.A. Vozar (collectively, the "The Household Defendants" or "Defendants") submit this Memorandum of Law as directed by the Court to oppose Plaintiffs' demand for production of the 280 boxes that contain the preliminary data sampling and data validation work papers created and assembled by Ernst & Young ("E&Y") as part of the privileged July 2002-2004 Compliance Engagement, and to explain Household's position regarding the import of the "manual sign off" date appearing on Defendants' privilege logs of E&Y work papers.[1]

PRELIMINARY STATEMENT

The Court has considered the approximately 400 boxes of E&Y work papers created during the Compliance Engagement in two separate groups: (i) the 110 boxes that contain E&Y's analyses of various Household lending practices, as discussed periodically with Household's Office of General Counsel and summarized in a draft final report conveyed to Household's attorneys in January 2004, and (ii) the 280 boxes that contain E&Y's data sampling and data validation work that was a necessary predicate to its analyses.

Defendants summarized all of the documents in the first group in a 215-page privilege log, which was prepared and revised to reflect the most accurate information about the documents at issue.[2] Any documents in these boxes that Defendants determined, by indicia on the document and/or consultation with knowledgeable E&Y personnel, to have been dated on or before October 11, 2002 were produced to Plaintiffs pursuant to the Court's April 27, 2007 ruling as to the temporal limits of the *Garner* exception to the attorney-client

1 As this Memorandum focuses solely on the 280 boxes of work papers, Defendants will rely on their May 4, 2007 Memorandum and May 23, 2007 Reply Memorandum for the reasons why *all* of E&Y's work papers, as well as E&Y's January 2004 draft final report, are privileged in their entirety.

2 Defendants presently anticipate one further revision to the log to reflect additional information that has been learned about those entries with "N/A" in the date column.

privilege. The second group of boxes containing E&Y's preliminary work papers was the subject of the parties' May 11, 2007 joint proposal for the Court's *in camera* review of a subset of these boxes. On May 22, following the Court's acceptance of this proposal, Defendants provided the Court with twenty-one (21) of the 280 boxes for inspection in whole or in part, as determined by the Court. This memorandum is submitted to address the proper treatment of the 280 boxes of E&Y's preliminary work papers.

ARGUMENT

A. E&Y's Preliminary Work Papers Should Not Be Produced to Plaintiffs

1. The Preliminary Work Papers Are Privileged

The 280 boxes of E&Y work papers at issue contain data sampling and data validation work that was a necessary prerequisite to the more detailed analyses of loan attributes that E&Y performed during the privileged Compliance Engagement. As such, this material should be protected from disclosure to Plaintiffs by reason of the attorney-client privilege and work product protection. As Defendants demonstrated in their May 4 and May 23, 2007 Memoranda, all of the E&Y work papers created as part of the Compliance Engagement are privileged in their entirety because they embody the analytical work that accountants performed as agents for Household's General Counsel for the express purpose of assisting Household's attorneys in the provision of legal advice to Household. *See* May 4 Memorandum at 5-11; May 23 Memorandum at 4-7, and cases cited therein.

There is no practical way of distinguishing between E&Y's preliminary work and final analyses for purposes of applying this principle, because the process of ensuring that the latter, broad-scale analyses would be conducted in accordance with the General Counsel's instructions and needs necessarily entailed selecting, verifying and testing discrete categories of data with reference to particular legal and regulatory standards in a given state. The mechanics and purposes of E&Y's data validation and sampling procedures are described in greater detail in paragraphs 8-16 of the April 24, 2007 Affidavit of John M. Keller ("Keller Afft."), which is annexed at Tab B of Defendants' May 4 Memorandum.[3] As that explanation shows (and even the index of these preliminary work papers confirms), the work papers reflect geographic and substantive parameters that informed every aspect of E&Y's assignment. The Court's *in camera* review of the 21 boxes of the preliminary work papers will confirm that from the outset — even during the preliminary data validation and data sampling phase — the material was organized and tested according to specific formulae applied within discrete substantive categories that varied by state, thus making the empirical data in the files inseparable from the substantive analyses, evaluations and conclusions that this preliminary groundwork allowed.[4]

Under these circumstances, the Court should be in a position to make a privilege determination without imposing on Defendants the undue and wasteful burden of entering on a log every file in the 280 boxes, as Plaintiffs want. The descriptions on the E&Y index (which Plaintiffs have received) coupled with the Court's ability to verify Mr. Keller's representations by inspecting a large sampling of those boxes should provide the Court with ample background to evaluate Defendants' reliance on authorities that support the protection of the entire output of a privileged engagement by accountants. Requiring expensive and time-consuming make-work in advance of this analysis would be especially unjust in this context

3 The full Keller Affidavit was also filed under seal on May 21, 2007. (Docket No. 1085).

4 Plaintiffs complain that the privilege log of the 21 boxes of preliminary work papers "fails to take the appropriate document-by-document approach but lumps documents by folder." (Plaintiffs' May 29, 2007 Status Report at 2.) This argument, previously made by Plaintiffs as to Defendants' log of the 110 boxes of E&Y analyses, ignores relevant authority such as *SEC* v. *Thrasher*, 1996 U.S. Dist. LEXIS 3327 (S.D.N.Y. Mar. 19, 1996), which allows a privilege log to provide summaries of documents by category when "the files in question are voluminous" and "a document-by-document listing would be a long and fairly expensive project for counsel to undertake" (*Id.* at *3). While both of these conditions are satisfied with respect to the preliminary E&Y work papers (and the subsequent work papers), Defendants did not log documents by "category," but by discrete folders of related, integrated material that were organized as such in the boxes. Moreover, Plaintiffs essentially consented to this format, as the parties' agreed upon protocol sanctions a folder by folder review by the Court.

because, as summarized below, it is clear that Plaintiffs have no need for the privileged work papers through which E&Y implemented the Compliance Engagement.

2. The Preliminary Work Papers Are Cumulative

Plaintiffs have already received a huge volume of Class Period documents and information from Defendants on every one of the subjects investigated by E&Y during the Compliance Engagement. Household has produced millions of pages of documents and answered numerous interrogatories that concern loan origination fees, prepayment penalties, refinance restrictions, late fees, unemployment and disability credit insurance, recording fees and disclosures — all topics that were also studied after the relevant period as part of the Compliance Engagement. (*See* Keller Afft. ¶ 7) The E&Y work papers Plaintiffs now seek are cumulative of substantial material Defendants produced in response to Plaintiffs' document demands, including monthly refund reports, breaking down refunds issued by volume and type (*e.g.*, HHS 01812251-254); reports from state regulatory agencies mandating specific customer refunds (*e.g.*, HHS 02940055-077); State Examination Audit Tracking Expense Summary charts, which include hundreds of pages per chart on information such as cited examination violations and subsequent refunds issued (*e.g.*, HHS 006454751-6441); and Class Period data compiled for the multi-state group of State Attorneys General in advance of the October 11, 2002 settlement agreement, discussing many of the same issues explored by E&Y during the Compliance Engagement (*e.g.*, HHS 02139838-953) — among many other documents relevant to these subjects.[5] All of the previously produced material has greater relevance and reliability than E&Y's after-the-fact analyses, because by definition the Class Period information could have informed Household's disclosure decisions during that period, while E&Y's subsequent analysis and conclusions obviously could not.

---

5 At the April 12, 2007 status conference, the Court directed Plaintiffs to supply a list of information it had received in discovery that was similar to the E&Y materials. (4/12/07 Transcript at 20-21, 24, attached hereto at Tab A.) Plaintiffs have failed to provide this information.

3. **The Information in the Preliminary Work Papers Would Not Have Been Responsive to Any Document Request**

Although E&Y's work papers contain substantial amounts of individual customer loan information that does not appear in most of the produced Class Period material, the fact is that this level of granular detail was never at issue throughout the discovery phase of this action. In fact, Plaintiffs never took exception to Defendants' objection to producing individual customer files in response to Plaintiffs' demands for "all documents" regarding Household's consumer loans or potential loan attributes.[6]

Plaintiffs also acknowledged in their December 29, 2006 response to one of Defendants' motions to compel proper answers to interrogatories that this suit will not turn on individual customer data. In discussing an interrogatory from Defendants that sought the "revenues" from the alleged predatory sales practices, Plaintiffs said:

> "Defendants demand details that are more typical of consumer fraud cases in order to ascertain the total amount of damages to which consumers would be entitled. In this securities fraud action, the Class only need demonstrate that Household's financial statements were materially false and misleading because the revenues earned by the Company were subject to refund or other contingencies, thereby reducing income."

("The Class' Response to Defendants' Motion for Sanctions and to Compel Responses to 'Additional' Interrogatories Allowed By The Court's August 10, 2006 Order," December 29, 2006, p. 8; attached hereto at Tab C.) Even if Plaintiffs were to renege on these admissions now, the fact that the customer-level information reflected in the preliminary work papers is by definition a small subset of the whole, assembled for testing purposes only, would deprive

6 *See, e.g.*, Response to Request No. 7, "Responses and Objections to Plaintiffs' First Request for Production of Documents," July 9, 2004 ("Defendants will produce . . . excluding documents relating to or concerning only individual loans or customers or discrete group of loans or customers"), attached hereto at Tab B.

the preliminary work papers of any possible relevance to proving investor fraud in the years before this project was launched.

4. Plaintiffs Have Confirmed That They Do Not Need the Preliminary Work Papers

During the April 12, 2007 status conference, Plaintiffs confirmed that they do not want or need E&Y's preliminary work papers, but only its final report (which is clearly privileged, as set forth in Defendants' May 4 Memorandum at pages 3-4). At that time, Plaintiffs' counsel said, "What we don't have is the discussion of the total dollars associated with these particular practices. And that is what I understand Ernst & Young to have been hired for . . . . We have the Household's recognition of the problem, but not the magnitude . . . . So what we have is we have Household recognizing the problem and — hiring Ernst & Young to figure out the scope of the dollars associated with it." (4/12/07 Transcript at 24-25; attached hereto at Tab D) Passing for the moment that this argument ignores the huge volume of documents that Plaintiffs have already received regarding contemporaneous evaluations of so-called lending "problems," including the amounts of refunds associated with certain loan attributes,[7] E&Y's analysis of the "scope of the dollars" reported to Household's General Counsel years after the end of the Class Period cannot be found in the preliminary data sampling and data validation work papers.

During the May 31, 2006 status conference, Plaintiffs unequivocally renounced their right to take any objection to Judge Guzman with respect to this Court's ruling as to any of the E&Y-related documents at issue. It is doubtful Plaintiffs would have done so if they per-

---

7 In response to certain of Defendants' interrogatories, Plaintiffs noted that in 2002, Household refunded $2.51 million in connection with credit insurance and $2.88 million in connection with prepayment penalties. (*See* Plaintiffs' Responses to Interrogatory Nos. "117-119 [11] and 120-122 [12]," "Plaintiffs' Supplemental Amended Responses and Objections to Household Defendants [Sixth] Set of Interrogatories," January 19, 2007, pp. 16, 20; attached hereto at Tab E.)

ceived any genuine need for the E&Y work papers or belief that these documents could significantly assist in the presentation of their case.

5. A Proportionality Analysis Supports the Conclusion that the 280 Boxes of Preliminary Work Papers Should Not Be Produced

If this Court rejects Household's privilege assertion (either in whole or in part), this Court should still deny Plaintiffs' request for the preliminary work papers under a proportionality analysis. If the Court rules that the preliminary work papers are subject to the *Garner* exception, then the interests of justice — including the need to avoid further delay and the imposition of an additional one-sided and pointless burden on Defendants — compel the rejection of Plaintiffs' demand that Defendants log the additional 259 boxes of preliminary work papers and review their entire contents to elicit any individual documents or files created on or before October 11, 2002. The voluminous body of Class Period documents on the same subjects as the Compliance Engagement already produced in this case, the pre-October 12, 2002 documents already produced from the first group of E&Y work papers, the late stage of this action, the time and needless expense that Defendants would be forced to incur in reviewing these boxes, and the limited relevance (if any at all) of the preliminary work papers, reinforced by Plaintiffs' acknowledged lack of need for this information, strongly supports this conclusion.

Moreover, even if the Court were to somehow conclude that the preliminary work papers in the 280 boxes are not privileged at all, and even if Plaintiffs could demonstrate with an appropriate level of specifity the alleged relevance of the preliminary work papers, it does not follow that these documents should be produced. The material is still cumulative of Class Period discovery already produced, and simply bates labeling and copying 280 boxes of documents is costly and time consuming. As the District Court observed in its November 22, 2006 decision in this action (affirming this Court's denial of Plaintiffs' demands for certain post-Class Period discovery), not every relevant document should be produced.

> "Discovery may be limited if it is 'unreasonably cumulative or duplicative. . . [or if] the burden or expense of the proposed discovery outweighs its likely benefit taking into account the needs of the case.' Fed. R. Civ. P. 26(b)(2). Thus, contrary to plaintiffs' contention, the mere fact that further discovery might be relevant does not mean that plaintiffs are entitled to that discovery."

Lawrence E. Jaffe Pension Plan v. *Household International, Inc., et al.*, 2006 WL 3445742, at *4 (N.D. Ill. Nov. 22, 2006). More than six months later in this action, and more than four months after the close of fact discovery, Judge Guzman's warning about the need to limit discovery generally, and in this case specifically, is even more compelling.

B. Using E&Y's "Manual Sign Off" to Date the Entries on the Privilege Log is Proper and Appropriate

In their May 29 Status Report, Plaintiffs objected to Defendants' use of E&Y's "manual sign-off" date to determine the dates of a small number (less than 149) of the 1,460 entries contained on Defendants' privilege log of the 110 boxes of E&Y's analyses. Plaintiffs claim that these dating decisions were improper because "a number of documents that were [initially] identified as Class Period documents are all now identified as post-Class Period on defendants' revised log." (Plaintiffs' May 29, 2007 Status Report, at p. 1.) As Defendants informed Plaintiffs, these and other minor revisions to privilege log entries were the result of further review of the documents by Defendants (as the initial log had been prepared under extreme time constraints) and further consultations with E&Y personnel involved in the Compliance Engagement.

In Mr. Keller's May 4, 2007 Supplemental Affidavit (annexed at Tab C to Defendants' May 4 Memorandum), the E&Y team leader provided an explanation of the work papers corresponding to 13 entries on the privilege log as to which the Court had conducted an *in camera* review of the documents. For example, with respect to document number 105 on Defendants' First Installment of its privilege log, Mr. Keller noted that the log entry referred to a folder that contained documentation pertaining to the analysis of prepayment penalties in the State of Utah. Mr. Keller then explained that "[t]he date that applies to this folder is December 5, 2003, which is the date of the manual sign-off by an E&Y representative signifying the completion of the project overview." (Supp. Keller Afft. ¶ 4) Mr. Keller further noted that E&Y's manual log sign-off date was, in his view, the appropriate date for documents reviewed by the Court that corresponded to eight other entries on Defendants' privilege log (*Id.* at ¶¶ 5-9, 11-13). This was the date on which documents that are included in a logged folder, some of which may have been gathered or printed out on some earlier date, were reviewed by E&Y for accuracy and, if necessary, modified or revised. Based on this practice by E&Y, and in keeping with the guidance provided by Mr. Keller, the manual sign-off date of E&Y or Household representatives is the appropriate date for the purpose of assessing privilege since that is that date on which the information in a folder that appears on a given entry on the privilege log was accepted for use in E&Y's further and continuing analyses.

Thereafter, Defendants reviewed the entries on their privilege logs and, where appropriate, changed any inaccurate dates on the log to reflect the date of the manual sign-off. Defendants, at the same time, amended the dates on other entries to reflect the correct date based on other indicia regarding the entry — but not the manual sign-off date.[8] As noted above, these revisions occurred only with respect to a subset of 149 of over 1,400 privilege log entries, hardly a wholesale movement of documents from within to outside the Class Period, as Plaintiffs allege. Defendants respectfully submit that Defendants' use of the manual sign-off for a small number of their privilege log entries is proper.

CONCLUSION

For the reasons set forth above, Plaintiffs' demands for production of all or portions of the 280 boxes of preliminary work papers created during the course of E&Y's privileged Compliance Engagement should be denied, and Defendants' use of the "manual sign-off" date

8 Of the 149 entries, Household did not keep a record as to which were changed due to the manual sign-off versus other indicia.

to establish the correct date for a number of the entries on Defendants' E&Y work papers privilege log should be deemed appropriate by the Court.

Dated: June 5, 2007
New York, New York

Respectfully submitted,

Eimer Stahl Klevorn & Solberg LLP
224 South Michigan Ave.
Suite 1100
Chicago, Illinois 60604
(312) 660-7600

and

Cahill Gordon & Reindel LLP

By: /s/ Landis C. Best
Thomas J. Kavaler
Peter Sloane
Patricia Farren
Landis C. Best
David R. Owen

80 Pine Street
New York, New York 10005
(212) 701-3000

Attorneys for Defendants Household International, Inc., Household Finance Corporation, William F. Aldinger, David A. Schoenholz, Gary Gilmer and J.A. Vozar

TAB A

TRANSCRIBED FROM DIGITAL RECORDING

IN THE UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

LAWRENCE E. JAFFE, Pension Plan, on behalf of itself and all others similarly situated, and GLICKENHAUS INST GRP., Plaintiffs, vs. HOUSEHOLD INTERNATIONAL, INC., ARTHUR ANDERSEN, L.L.P., W F ALDINGER, and D A SCHOENHOLD, Defendants.	No. 02 C 5893 Chicago, Illinois April 12, 2007 3:36 P.M.

TRANSCRIPT OF PROCEEDINGS - Telephone Status
BEFORE THE HONORABLE NAN R. NOLAN, Magistrate Judge

APPEARANCES:

For the Plaintiffs:

LERACH, COUGHLIN, STOIA, GELLER, RUDMAN & ROBBINS, LLP
100 Pine Street, Suite 2600
San Francisco, California 94111
BY: MR. DAVID CAMERON BAKER
MR. LUKE O. BROOKS
MR. SPENCER A. BURKHOLZ
(Appearing telephonically)

MILLER LAW LLC
101 North Wacker Street, Suite 2010
Chicago, Illinois 60606
BY: MR. MARVIN ALAN MILLER
MS. LORI A. FANNING
(Appearing telephonically)

PAMELA S. WARREN, CSR, RPR
Official Court Reporter
219 South Dearborn Street, Room 1928
Chicago, Illinois 60604
(312) 294-8907

NOTE: Please notify of correct speaker identification.

APPEARANCES: Continued

For Defendant Household: CAHILL, GORDON & REINDEL, LLP
80 Pine Street
New York, New York 10005-1702
BY: MS. LANDIS BEST
MR. DAVID R. OWEN
MR. IRA DEMBROW
MR. CRAIG S. KESCH
(Appearing telephonically)

EIMER, STAHL, KLEVORN & SOLDBERG, LLP
224 S. Michigan Avenue, Suite 1000
Chicago, Illinois 60604
BY: MR. ADAM B. DEUTSCH
(Appearing telephonically)

mean, the plaintiffs are going to be bored when they see this index because almost every one of them is exactly the same.

MS. BEST: Okay.

THE COURT: So do you understand what I am saying? Okay?

MS. BEST: I -- I do understand what you are saying. And if for some reason we need clarification when we -- because one issue -- because we have these -- we have looked in some of these boxes of 225, but we haven't looked in all of them. I imagine they are all very uniform.

THE COURT: And as you get to the back of the index, it changes a little. And they'll have -- you know, they are going to now have the index. So they can see that too.

But I don't understand the nature -- I -- because I haven't seen them.

And then next step I may want to see them. But first I want Ernst & Young to tell us about the nature of these documents. Okay?

Then the record will be -- that's the same affidavit. That's part of the same affidavit there.

Now hold on. I have something else.

(Brief interruption.)

THE COURT: Now this will also be helpful that the plaintiffs gets this index because I am going to turn around to the plaintiffs, and I want to know on the record from the plaintiffs what of these documents do you have already. And what I mean by that is there appears to be that what is running through this entire Ernst & Young is that there was an AG settlement of a number of states.

I know the work that we did a year ago on the Attorney General, but I never kept track on what documents you got, what documents you didn't get.

There appears to be a thread of something about the SEC. I never really had any discovery disputes about that.

What I want from the plaintiffs, when you look at all of this, is I want you to tell me what you have already.

MS. BEST: Your Honor, I think I can short circuit that and say the plaintiffs don't have any of the material that is in the E&Y work paper boxes.

THE COURT: They don't have any of the underlying material that relates to -- that relates to prepayment penalties, late fees, points on points, origination fees, refund processing.

MS. BEST: I mean, they have certain -- they have lots of documents that relate to those sorts of issues, of course.

THE COURT: And they don't have anything in the global settlement.

MS. BEST: They have --

MR. BAKER: Your Honor, we have lots --

MS. BEST: They have lots of information -- they have

THE COURT: Okay. Well, I -- I'm not saying that you have the Ernst & Young documents.

MR. BAKER: I don't believe --

THE COURT: If you have similar -- if you have similar information that Ernst & Young -- I am just -- I want this record to be clear if you have either parallel information -- and I just got very confused when I was reading everything that I thought, well, maybe, you had some of this material, even if not in the same form, as Ernst & Young, that you had some of the same background material, and I wanted a statement about that.

MR. BAKER: I think, your Honor, what we can say -- and again we haven't seen the documents so I can't really say what's exactly (unintelligible) work paper documents -- boxes rather -- but what we have is we have a lot of detail about states saying, you have this problem with your administrative (unintelligible). You have this problem with your (unintelligible). You have this problem with a lot of those issues that your Honor mentioned.

What we don't have is the discussion of the total dollars associated with those particular practices. And that is what I understand Ernst & Young to have been hired for.

In other words, the State of California says you are overcharging in the administrative fees, and they reached a settlement with California. But that spurred Household to take

TAB B

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	Lead Case No. 02-C-5893 (Consolidated) CLASS ACTION Judge Ronald A. Guzman Magistrate Judge Nan R. Nolan

RESPONSES AND OBJECTIONS TO PLAINTIFFS' FIRST REQUEST FOR PRODUCTION OF DOCUMENTS

Defendants Household International, Inc. ("Household"), Household Finance Corporation, William F. Aldinger, David A. Schoenholz, Gary Gilmer and J.A. Vozar (collectively, "Defendants"), by their attorneys, submit these Responses and Objections (the "Responses and Objections") to Plaintiffs' First Request for Production of Documents, dated May 17, 2004 (the "Requests").

GENERAL RESPONSES AND OBJECTIONS

1. Defendants object to the Requests, including any definition or instruction therein, to the extent they seek to impose obligations beyond those imposed by the Federal Rules of Civil Procedure or the Local Rules of the United States District Court for the Northern District of Illinois.

2. Defendants object to the Requests to the extent they are overbroad, unduly burdensome, vague, ambiguous, duplicative, would require Defendants to speculate as to the

REQUEST NO. 7

All documents and communications concerning or relating to Household's lending practices and policies related to loans secured by real property (as described in the Complaint), including, but not limited to, correspondence, analyses, statistics, presentations, training materials, public statements, memoranda and notes.

RESPONSE

Defendants object to this request on the grounds that it is overbroad, unduly burdensome, and seeks documents that are neither relevant nor reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing General and Specific Objections, Defendants will produce non-privileged responsive documents concerning or relating to Household's lending policies and practices related to loans secured by real property in the aggregate, excluding documents relating to or concerning only individual loans or customers or discrete groups of loans or customers.

REQUEST NO. 8

All organizational charts and employee directories describing or reflecting the organizational hierarchy and management structure of Household and each of its divisions and operating segments, including its executive and management personnel, subsidiaries, affiliates, divisions and departments, and all documents identifying Household's loan officers, branch managers, account executives, collection representatives, and customer care representatives.

RESPONSE

Defendants object to this request on the grounds that it is overbroad, unduly burdensome, and seeks documents that are neither relevant nor reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing General and Specific Objections, Defendants will produce non-privileged responsive documents sufficient to identify generally the organizational hierarchy and management structure of Household

DATED: July 9, 2004

MILBANK, TWEED, HADLEY & McCLOY LLP

By: [signature]

David R. Gelfand
Michael L. Hirschfeld
Douglas W. Henkin
1 Chase Manhattan Plaza
New York, NY 10005
(212) 530-5000

-and-

EIMER STAHL KLEVORN & SOLBERG LLP
Nathan P. Eimer
Adam B. Deutsch
224 South Michigan Avenue, Suite 1100
Chicago, IL 606[illegible]
(312) 660-7600

Attorneys for Defendants Household International, Inc., Household Finance Corporation, William F. Aldinger, David A. Schoenholz, Gary Gilmer and J.A. Vozar

TAB C

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated,	Lead Case No. 02-C-5893 (Consolidated)
Plaintiff,	CLASS ACTION
vs.	Judge Ronald A. Guzman Magistrate Judge Nan R. Nolan
HOUSEHOLD INTERNATIONAL, INC., et al.,	
Defendants.	

THE CLASS' RESPONSE TO DEFENDANTS' MOTION FOR SANCTIONS AND TO COMPEL RESPONSES TO "ADDITIONAL" INTERROGATORIES ALLOWED BY THE COURT'S AUGUST 10, 2006 ORDER

> refund estimate is conservative as the Office of Thrift Supervision, Federal Depository Insurance Corporation and the state agency documents (with which defendants are intimately familiar) evidence refunds of improper discount point revenues attributable to predatory lending practices, which refunds are separate from, and in addition to, all of the refunds calculated in connection with the Attorneys General settlement.

Mehdi Decl., Ex. 1 at 10-11. Similarly, the Class identified \$1.253 billion in refunds on just those real estate loans originated between January 1999 through June 2002 that were misleading based upon an EZ Pay sales scam. *Id.* at 22; *see id.*, Ex. 7 at HHS 03070935. *See also id.*, Ex. 1 at 14 (identifying \$460 million as the amount of premium refunded and a decrease in net income of \$46.3 million or \$77 million on a pre-tax basis as a result of eliminating single premium credit life insurance); *id.*, Ex. 1 at 18 (identifying \$161 million due to refunds based upon prepayment penalty revenues); *id.*, Ex. 1 at 26 (identifying \$217 million in improper revenues refunded generated from second loans).

Recognizing that the refunds calculated by Household based upon the predatory practices at issue were conservative, the Class also identified as an additional source of the internal refund estimates that were separate and in addition to the refunds mandated by the AG Settlement. *Id.*, Ex. 1 at 11, 15, 19, 22-23, 27. These amounts include refunds mandated by state and federal regulatory agencies. Given these responses and identification of specific dollar amounts by the Class, including reference to Household's internal documents, defendants' accusations that the Class avoids taking a position, are simply absurd.[7]

Defendants demand details that are more typical of consumer fraud cases in order to ascertain the total amount of damages to which consumers would be entitled. In this securities fraud action, the Class only need demonstrate that Household's financial statements were materially false and misleading because the revenues earned by the Company were subject to refund or other contingencies, thereby reducing income. The question of what amounts are material and whether the Class has carried its burden of demonstrating materiality is a complex question left to the trier of fact. *See TSC Indus. v. Northway, Inc.*, 426 U.S. 438, 450 (1976) ("The determination [of materiality] requires delicate assessments of the inferences a 'reasonable shareholder' would draw from a given set of facts and the significance of those inferences to him, and these assessments are

---

[7] During the parties' meet and confer, when Class counsel asked why Household would refund money if it wasn't obtained illegally, defense counsel had no answer. Ex. 2 at 14-15.

finding that plaintiffs had adequately pled loss causation (Dkt. Nos. 493, 494) and then a denial of defendants' request for 28 U.S.C. §1292(b) certification for interlocutory appeal. Dkt. No. 816. In contrast, Lead Counsel have been diligently taking depositions and engaging in other discovery preparing their case for summary judgment and trial.

Moreover, when ordering the sanctions of default judgment or dismissal of the case under Fed. R. Civ. P. 37(b), the court must find that the party against whom these sanctions are imposed displayed willfulness, bad faith or fault. *In re Thomas Consol. Indus.*, 456 F.3d 719, 724 (7th Cir. 2006). Cases cited by defendants are simply inapplicable to the circumstances here. For example, in *In re Indus. Gas Antitrust Litig.*, No. 80 C 3479, 1985 U.S. Dist. LEXIS 15646 (N.D. Ill. Sep. 24, 1985), as well as in *Thomas Consol. Indus.*, 456 F.3d at 724, plaintiff never answered the interrogatories. In contrast, the Class has provided answers to the Additional Interrogatories. The mere fact that defendants are dissatisfied with these responses does not, without more, provide a basis for the relief they seek. Accordingly, the Court should not permit the defendants to further burden the Court and the Class with frivolous motions without any demonstration of how the information they purportedly seek is useful in this securities fraud case.[9]

IV. CONCLUSION

For all the foregoing reasons, defendants' frivolous motion should be denied. Further, defendants should be required to obtain prior leave of court before filing any more motions for sanctions.

DATED: December 29, 2006

Respectfully submitted,

LERACH COUGHLIN STOIA GELLER
RUDMAN & ROBBINS LLP

s/Azra Z. Mehdi
AZRA Z. MEHDI

[9] Ironically, defendants have somehow arrived at the conclusion that plaintiffs in this litigation must be held to a different standard than they are. So, while their responses to the Class' discovery have comprised entirely of objections, they absurdly believe they are entitled to refuse to answer or provide any discovery. *Compare* Defs' Mot. at 6 to Mehdi Decl., Ex. 2 at 4.

PATRICK J. COUGHLIN (90785466)
AZRA Z. MEHDI (90785467)
D. CAMERON BAKER (154452)
MONIQUE C. WINKLER (90786006)
LUKE O. BROOKS (90785469)
JASON C. DAVIS (4165197)
BING Z. RYAN (228641)
100 Pine Street, Suite 2600
San Francisco, CA 94111
Telephone: 415/288-4545
415/288-4534 (fax)

LERACH COUGHLIN STOIA GELLER
RUDMAN & ROBBINS LLP
WILLIAM S. LERACH
655 West Broadway, Suite 1900
San Diego, CA 92101
Telephone: 619/231-1058
619/231-7423 (fax)

Lead Counsel for Plaintiffs

MILLER FAUCHER AND CAFFERTY LLP
MARVIN A. MILLER
30 North LaSalle Street, Suite 3200
Chicago, IL 60602
Telephone: 312/782-4880
312/782-4485 (fax)

Liaison Counsel

LAW OFFICES OF LAWRENCE G.
SOICHER
LAWRENCE G. SOICHER
110 East 59th Street, 25th Floor
New York, NY 10022
Telephone: 212/883-8000
212/355-6900 (fax)

Attorneys for Plaintiff

T:\CasesSF\Household Intl\BRF00037765.doc

TAB D

TRANSCRIBED FROM DIGITAL RECORDING

IN THE UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

LAWRENCE E. JAFFE, Pension Plan, on behalf of itself and all others similarly situated, and GLICKENHAUS INST GRP., Plaintiffs, vs. HOUSEHOLD INTERNATIONAL, INC., ARTHUR ANDERSEN, L.L.P., W F ALDINGER, and D A SCHOENHOLD, Defendants.	No. 02 C 5893 Chicago, Illinois April 12, 2007 3:36 P.M.

TRANSCRIPT OF PROCEEDINGS - Telephone Status
BEFORE THE HONORABLE NAN R. NOLAN, Magistrate Judge

APPEARANCES:

For the Plaintiffs:

LERACH, COUGHLIN, STOIA, GELLER, RUDMAN & ROBBINS, LLP
100 Pine Street, Suite 2600
San Francisco, California 94111
BY: MR. DAVID CAMERON BAKER
MR. LUKE O. BROOKS
MR. SPENCER A. BURKHOLZ
(Appearing telephonically)

MILLER LAW LLC
101 North Wacker Street, Suite 2010
Chicago, Illinois 60606
BY: MR. MARVIN ALAN MILLER
MS. LORI A. FANNING
(Appearing telephonically)

PAMELA S. WARREN, CSR, RPR
Official Court Reporter
219 South Dearborn Street, Room 1928
Chicago, Illinois 60604
(312) 294-8907

NOTE: Please notify of correct speaker identification.

APPEARANCES: Continued

For Defendant Household:

CAHILL, GORDON & REINDEL, LLP
80 Pine Street
New York, New York 10005-1702
BY: MS. LANDIS BEST
MR. DAVID R. OWEN
MR. IRA DEMBROW
MR. CRAIG S. KESCH
(Appearing telephonically)

EIMER, STAHL, KLEVORN & SOLDBERG, LLP
224 S. Michigan Avenue, Suite 1000
Chicago, Illinois 60604
BY: MR. ADAM B. DEUTSCH
(Appearing telephonically)

THE COURT: Okay. Well, I -- I'm not saying that you have the Ernst & Young documents.

MR. BAKER: I don't believe --

THE COURT: If you have similar -- if you have similar information that Ernst & Young -- I am just -- I want this record to be clear if you have either parallel information -- and I just got very confused when I was reading everything that I thought, well, maybe, you had some of this material, even if not in the same form, as Ernst & Young, that you had some of the same background material, and I wanted a statement about that.

MR. BAKER: I think, your Honor, what we can say -- and again we haven't seen the documents so I can't really say what's exactly (unintelligible) work paper documents -- boxes rather -- but what we have is we have a lot of detail about states saying, you have this problem with your administrative (unintelligible). You have this problem with your (unintelligible). You have this problem with a lot of those issues that your Honor mentioned.

What we don't have is the discussion of the total dollars associated with those particular practices. And that is what I understand Ernst & Young to have been hired for.

In other words, the State of California says you are overcharging in the administrative fees, and they reached a settlement with California. But that spurred Household to take the next step is do have this problem elsewhere. They hired Ernst & Young to look at that and to quantify that. We don't have that second piece. We have the Household's recognition of the problem, but not the magnitude. Because as far as I have been able to ascertain Household internally didn't figure out it -- how much they owed in access administrative fees or what the refund should be for that or what the refund should be for (unintelligible).

They had a team that could do this, but they didn't do it with the same, I should say, thoroughness and -- as Ernst & Young. If fact, that's -- if I recall Mr. Robin's declaration, the reason why they hired Ernst & Young is because they couldn't do it in-house.

THE COURT: Okay.

MR. BAKER: So what we have is we have Household recognizing the problem and Ernst and -- and hiring Ernst & Young to figure out the scope of the dollars associated with it.

THE COURT: Okay.

MS. BEST: And just -- your Honor, we would emphasize that we have produced a lot of documents about customer complaints and about refunds already during the class period. I mean, all -- again, just the key issue I think that the Court needs to focus on, which I think the Court has, is this is all after not only the adversity with the plaintiff, but after the

TAB E

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	Lead Case No. 02-C-5893 (Consolidated) <u>CLASS ACTION</u> Judge Ronald A. Guzman Magistrate Judge Nan R. Nolan

<u>LEAD PLAINTIFFS' SUPPLEMENTAL AMENDED RESPONSES AND OBJECTIONS TO HOUSEHOLD DEFENDANTS' [SIXTH] SET OF INTERROGATORIES BASED ON THE COURT'S JANUARY 10, 2007 REVISION TO DEFENDANTS' INTERROGATORIES</u>

resulting from such practices, including, among other things, Household's improper utilization of "discount points."

INTERROGATORY NOS. 117-119 [11]:

Pursuant to the August 10, 2006 Order of the Court requiring Plaintiffs to identify "which specific products and revenues Plaintiffs claim [were] derived from those illegal practices," if Plaintiffs do not include all uses of "single premium credit life insurance" within the alleged illegal practices, identify the Household products utilizing "single premium credit insurance" that Plaintiffs contend were part of any alleged illegal practices, including any revenues illegally derived thereby.

RESPONSE TO INTERROGATORY NOS. 117-119 [11]:

Lead Plaintiffs hereby incorporate all the General Objections above, as if set forth fully herein. Lead Plaintiffs further object to this interrogatory on the grounds that it seeks information protected by the attorney work-product doctrine. Lead Plaintiffs further object on the grounds that this interrogatory calls for expert opinion. Lead Plaintiffs further object on the grounds that this interrogatory is overly broad and unduly burdensome.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Many of the documents responsive to this interrogatory are under the defendants' control and subject to ongoing discovery. Defendants have not completed their production of documents responsive to Lead Plaintiffs' requests and have refused to produce additional narrow categories of documents requested. Given defendants' (i) recent unexplained production of responsive documents that were requested over two and a half years ago, (ii) failure to certify properly the completion of their document production, and (iii) improper withholding and/or redaction of responsive documents without listing them on a privilege log in violation of Fed. R. Civ. P. 26, Lead Plaintiffs' ability to provide complete answers is significantly limited. Witnesses with knowledge of the facts needed to provide a response to this interrogatory have not yet been deposed. Further, defendants have objected to depositions of a number of witnesses that defendants have identified as having knowledge of facts relevant to this litigation. Indeed, the Individual Defendants have refused to respond to the discovery propounded on them by the Class, directing the Class instead to wait until after their depositions to obtain information relevant to this litigation from the Individual Defendants. Finally, fact discovery has not been completed. Lead Plaintiffs object to the Interrogatories because defendants have failed to provide evidence of the documents that were destroyed throughout the entire Company pursuant to the "purge" that occurred in mid-2001 as well as the destruction of documents and spoliation of other relevant evidence that occurred both during and after the Class Period. Lead Plaintiffs cannot fully respond to the Interrogatories unless defendants can produce a sample of each document or an index of the documents directed to be destroyed in the "purge," which defendants have presently refused to do. Lead Plaintiffs reserve the right, as necessary and appropriate, to supplement, amend, modify or revise their response to this interrogatory following: (i) the defendants' verification under oath that their document production is complete; (ii) depositions of the necessary witnesses; and (iii) the substantial completion of fact discovery.

Lead Plaintiffs object to defendants' improper numbering of this interrogatory. In addition, this interrogatory has at least three subparts and makes inquiries into at least three discrete areas, based on the standards advanced by defendants in this action and apparently adopted by the Court in the August 10, 2006 Order. As a consequence, this interrogatory along with the other Interrogatories exceed the Court's specific instructions set forth in the August 10, 2006 Order limiting defendants to five interrogatories. August 10, 2006 Order at 17.

Lead Plaintiffs further object to this interrogatory on the grounds that it violates the Court's August 10, 2006 Order that defendants submit "more specific" interrogatories. *Id.* Instead, this interrogatory exhibits the same poor drafting that the Court observed in defendants' previously propounded interrogatories. *Id.* This interrogatory is objectionable because it falsely asserts that the Court requires certain information when the Court seeks no such information. The August 10, 2006

Order permitted defendants to fix their poorly drafted interrogatories, and did not aim to redraft those interrogatories for defendants. Defendants cannot look to the Court as an excuse for their failure to draft this interrogatory in a manner that articulates what information they are seeking. Lead Plaintiffs also object to this interrogatory because it is vague, incomprehensible, unintelligible and inconsistent as drafted. Put bluntly, this interrogatory makes no sense whatsoever. Lead Plaintiffs object to this interrogatory on the grounds that it is compound. Lead Plaintiffs further object on the grounds that this interrogatory is overly broad and unduly burdensome.

Apparently recognizing the validity of Lead Plaintiffs' aforementioned objections, the Court in its January 10, 2007 Order rewrote defendants' inartfully drafted interrogatories as follows:

> Identify the Household products utilizing "single premium credit insurance" that Plaintiffs contend were part of any alleged illegal practices, including any revenues illegally derived thereby.

Notwithstanding the foregoing General and Specific Objections and without waiving them, Lead Plaintiffs further respond to these interrogatories as rewritten by the Court's January 10, 2007 Order as follows:

As an initial matter, Lead Plaintiffs note that Household's own documents demonstrate that Household describes "Credit Insurance" itself to be a product. *See e.g.*, HHS 02885071-97 at HHS 02885075; HHS 02980146-192 at HHS 02980151; HHS 02887467-71 at HHS 02887468; HHS 02887430-441 at HHS 02887432 and HHS 02887438. In addition, Household products utilizing "single premium credit insurance" that were part of Household's illegal and improper practices during the Class Period include, but are not limited to, (1) Branch Real Estate Secured Loans, including (a) first mortgages, (b) second mortgages, (c) closed end loans, (d) revolving loans, (e) fixed rate loans, and (f) variable rate loans; (2) Non-Branch or Other Real Estate Secured Loans, including (a) first mortgages, (b) second mortgages, (c) closed end loans, (d) revolving loans, (e) fixed rate loans, and (f) variable rate loans; (3) Branch Personal Homeowner Loans, including (a)

PHL loan products, (b) Personal Equity Loan (PEL) products, (c) closed end stated value equity real estate loans, (d) revolving stated value equity real estate loans, (e) fixed rate stated value equity real estate loans, and (f) variable rate stated value equity real estate loans; (4) Non-Branch or Other Personal Homeowner Loans, including (a) PHL loan products, (b) Personal Equity Loan (PEL) products, (c) closed end stated value equity real estate loans, (d) revolving stated value equity real estate loans, (e) fixed rate stated value equity real estate loans, and (f) variable rate stated value equity real estate loans; (5) Non-Real Estate Secured loan products; and (6) Non-Real Estate Unsecured loan products. All such loans include newly originated loans as well as loans that are refinances or rewrites, regardless of which Household business unit originated or booked such loans.

Lead plaintiffs have identified those products that are currently known to them at this time based upon the discovery received from defendants this far, but reserve the right pursuant to Fed. R. Civ. P. 26(e) to supplement their responses to include any additional products where Household unknowingly tacked on insurance onto loans without the customers knowledge; required borrowers to purchase credit, life and other types of insurance in order to secure loans; sold loans by concealing from customers (i) the total cost and term of insurance products sold in connection with the loans, (ii) that the policies did not provide protection for the life of the loan, (iii) that the customers were paying additional up-front points based on the cost of the insurance, and (iv) that these points would not be refunded if the insurance was cancelled; and, among other things, forged signatures indicating customer approval of the purchase of the insurance products.

Household derived a significant amount of revenues from the aforementioned Household products with "single premium credit insurance" Specifically, state officials discovered that because the loss ratio on sales of single premium credit insurance was very low (*i.e.*, the claim rate was low), a significant percentage of the premiums paid by the borrower effectively constituted profits for Household. By its own calculations in connection with the multi-state Attorneys General investigation, Household derived at least $460 million in improper revenue from premiums associated just with the sales of its real estate products during the period 2000 through June 2002. Household also calculated an additional $2.51 million in monies that had to be returned to customers for the year 2002 also in connection with credit insurance. For the year 2000 alone, Household generated over $127 million in revenue on real estate and PHL loans in sales of single premium insurance. Additionally, as early as September 2000, Household's internal calculations demonstrated a reduction in income of $305 million over five years if Household were to cease selling single premium insurance on real estate secured loans. At that time, Household also estimated that it could mitigate this reduction in income to $146 to $97 million by replacing single premium and replacing it with a Fixed Monthly Premium product. For the year 2002 alone, Household estimated that it would be subject to a $134 million pre-tax hit due to its adoption of the Company's so-called "best practices." Given the significant source of revenue that single premium credit insurance represented to Household, defendants determined not to eliminate this product, and did not do so until 2002 when there was heightened scrutiny from state and federal regulators as well as Attorneys General as to the predatory nature of this product.

Household also derived significant revenues from selling insurance on rewrites and refinances. For instance, Household's calculations demonstrated that it would lose $5-6 million in pre-tax fee income merely from eliminating collection rewrites. Household also derived material revenue and income from other products identified herein, and thus, the amounts noted here are conservative.

Notwithstanding numerous deficiencies in defendants' document production, Lead Plaintiffs will demonstrate at trial in this securities fraud litigation, all elements of securities fraud, including that Household's financial statements during the Class Period were materially false or misleading because the revenues and income earned by the Company were subject to refunds or other contingencies as a result of Household's predatory lending practices and the litigation exposure resulting from such practices, including, among other things, Household's improper utilization of "single premium credit insurance."

INTERROGATORY NOS. 120-122 [12]:

Pursuant to the August 10, 2006 Order of the Court requiring Plaintiffs to identify "which specific products and revenues Plaintiffs claim [were] derived from those illegal practices," if Plaintiffs do not include all uses of "prepayment penalties" within the alleged illegal practices, identify the Household products utilizing "prepayment penalties" that Plaintiffs contend were part of any alleged illegal practices, including any revenues illegally derived thereby.

RESPONSE TO INTERROGATORY NOS. 120-122 [12]:

Lead Plaintiffs hereby incorporate all the General Objections above, as if set forth fully herein. Lead Plaintiffs further object to this interrogatory on the grounds that it seeks information protected by the attorney work-product doctrine. Lead Plaintiffs further object on the grounds that this interrogatory calls for expert opinion. Lead Plaintiffs further object on the grounds that this interrogatory is overly broad and unduly burdensome.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Many of the documents responsive to this interrogatory are under the defendants' control and subject to ongoing discovery. Defendants have not completed their production of documents responsive to Lead Plaintiffs' requests and have refused to produce additional narrow categories of documents requested. Given defendants' (i) recent unexplained production of responsive documents that were requested over two and a half years ago, (ii) failure to properly certify the completion of their document production, and (iii) improper withholding and/or redaction of responsive documents without listing them on a privilege log in violation of Fed. R. Civ. P. 26, Lead Plaintiffs' ability to provide complete answers is significantly limited. Witnesses with knowledge of the facts needed to provide a response to this interrogatory have not yet been deposed. Further, defendants have objected to depositions of a number of witnesses that defendants have identified as having knowledge of facts relevant to this litigation. Indeed, the Individual Defendants have refused to respond to the discovery propounded on them by the Class, directing the Class instead to wait until after their depositions to obtain information relevant to this litigation from the Individual Defendants. Finally, fact discovery has not been completed. Lead Plaintiffs object to the Interrogatories because defendants have failed to provide evidence of the documents that were destroyed throughout the entire Company pursuant to the "purge" that occurred in mid-2001 as well as the destruction of documents and spoliation of other relevant evidence that occurred both during and after the Class Period. Lead Plaintiffs cannot fully respond to the Interrogatories unless defendants can produce a sample of each document or an index of the documents directed to be destroyed in the "purge," which defendants have presently refused to do. Lead Plaintiffs reserve the right, as necessary and appropriate, to supplement, amend, modify or revise their response to this interrogatory following: (i) the defendants' verification under oath that their document production is complete; (ii) depositions of the necessary witnesses; and (iii) the substantial completion of fact discovery.

Lead Plaintiffs object to defendants' improper numbering of this interrogatory. In addition, this interrogatory has at least three subparts and makes inquiries into at least three discrete areas, based on the standards advanced by defendants in this action and apparently adopted by the Court in the August 10, 2006 Order. As a consequence, this interrogatory along with the other Interrogatories exceed the Court's specific instructions set forth in the August 10, 2006 Order limiting defendants to five interrogatories. August 10, 2006 Order at 17.

Lead Plaintiffs further object to this interrogatory on the grounds that it violates the Court's August 10, 2006 Order that defendants submit "more specific" interrogatories. *Id.* Instead, this interrogatory exhibits the same poor drafting that the Court observed in defendants' previously propounded interrogatories. *Id.* This interrogatory is objectionable because it falsely asserts that the

Court requires certain information when the Court seeks no such information. The August 10, 2006 Order permitted defendants to fix their poorly drafted interrogatories, and did not aim to redraft those interrogatories for defendants. Defendants cannot look to the Court as an excuse for their failure to draft this interrogatory in a manner that articulates what information they are seeking. Lead Plaintiffs also object to this interrogatory because it is vague, incomprehensible, unintelligible and inconsistent as drafted. Put bluntly, this interrogatory makes no sense whatsoever. Lead Plaintiffs object to this interrogatory on the grounds that it is compound. Lead Plaintiffs further object on the grounds that this interrogatory is overly broad and unduly burdensome.

Apparently recognizing the validity of Lead Plaintiffs' aforementioned objections, the Court in its January 10, 2007 Order rewrote defendants' inartfully drafted interrogatories as follows:

> Identify the Household products utilizing "prepayment penalties" that Plaintiffs contend were part of any alleged illegal practices, including any revenues illegally derived thereby.

Notwithstanding the foregoing General and Specific Objections and without waiving them, Lead Plaintiffs further respond to those interrogatories as rewritten by the Court's January 10, 2007 Order as follows:

Household products utilizing "prepayment penalties" that were part of Household's illegal and improper practices during the Class Period include, but are not limited to, (1) Branch Real Estate Secured Loans, including (a) first mortgages, (b) second mortgages, (c) closed end loans, (d) revolving loans, (e) fixed rate loans, and (f) variable rate loans; (2) Non-Branch or Other Real Estate Secured Loans, including (a) first mortgages, (b) second mortgages, (c) closed end loans, (d) revolving loans, (e) fixed rate loans, and (f) variable rate loans; (3) Branch Personal Homeowner Loans, including (a) PHL loan products, (b) Personal Equity Loan (PEL) products, (c) closed end stated value equity real estate loans, (d) revolving stated value equity real estate loans, (e) fixed rate stated value equity real estate loans, and (f) variable rate stated value equity real estate loans; and (4)

Non-Branch or Other Personal Homeowner Loans, including (a) PHL loan products, (b) Personal Equity Loan (PEL) products, (c) closed end stated value equity real estate loans, (d) revolving stated value equity real estate loans, (e) fixed rate stated value equity real estate loans, and (f) variable rate stated value equity real estate loans. All such loans include newly originated loans as well as loans that are refinances or rewrites, regardless of which Household business unit originated or booked such loans.

Lead plaintiffs have identified those products that are currently known to them at this time based upon the discovery received from defendants this far, but reserve the right pursuant to Fed. R. Civ. P. 26(e) to supplement their responses to include any additional products where Household included prepayment penalties that were not disclosed or which were actively concealed, or whose existence or imposition was misrepresented in some fashion, as well as loans where prepayment penalties that were in violation of state or federal laws.

Household derived a significant amount of revenues from the aforementioned Household products from "prepayment penalties." Household's internal calculations show a real estate prepay run rate of approximately $332 million over a four-year period. By its own calculations in connection with the multi-state Attorneys General investigation, Household derived at least $161 million in improper revenue from prepayment penalties associated just with the sales of its real estate products during the period 1999 through June 2002. Household also calculated an additional $2.88 million in monies that had to be returned to customers for the year 2002 also in connection with improper prepayment penalties. Further, Household's internal calculations demonstrate that the Company estimated it would lose over $228-$206 million in prepayment revenues if it were forced to reduce the number of years within which a customer was prohibited from refinancing his loan from five years down to two or three years. For the year 2002 alone, Household estimated that it would be subject to a $134 million pre-tax hit due to its adoption of the Company's so-called "best practices." Household also derived material revenue and income from other products identified herein, and thus, the amounts noted here are conservative.

Notwithstanding numerous deficiencies in defendants' document production, Lead Plaintiffs will demonstrate at trial in this securities fraud litigation, all elements of securities fraud, including that Household's financial statements during the Class Period were materially false or misleading because the revenues and income earned by the Company were subject to refunds or other contingencies as a result of Household's predatory lending practices and the litigation exposure resulting from such practices, including, among other things, Household's improper utilization of "prepayment penalties."

INTERROGATORY NOS. 123-125 [13]:

Pursuant to the August 10, 2006 Order of the Court requiring Plaintiffs to identify "which specific products and revenues Plaintiffs claim [were] derived from those illegal practices," if Plaintiffs do not include all uses of "EZ Pay or any bi-weekly payment plan" within the alleged illegal practices, identify the Household products utilizing "EZ Pay or any bi-weekly payment plan" mat Plaintiffs contend were part of any alleged illegal practices, including any revenues illegally derived thereby.

RESPONSE TO INTERROGATORY NOS. 123-125 [13]:

Lead Plaintiffs hereby incorporate all the General Objections above, as if set forth fully herein. Lead Plaintiffs further object to this interrogatory on the grounds that it seeks information protected by the attorney work-product doctrine. Lead Plaintiffs further object on the grounds that this interrogatory calls for expert opinion. Lead Plaintiffs further object on the grounds that this interrogatory is overly broad and unduly burdensome.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Many of the documents responsive to this interrogatory are under the defendants' control and subject to ongoing discovery. Defendants have not completed their production of documents responsive to Lead Plaintiffs' requests and have refused to produce additional narrow categories of documents requested. Given defendants' (i) number of secured side loans or "piggy-back loans" as the multi-state Attorneys General Group designated these loans, were in the range of 20-25%. Also, Household's own calculations in connection with the multi-state Attorneys General investigation, demonstrate that Household derived at least $217 million in improper revenues by misrepresenting the benefits associated with second loans at rates in excess of 20% related just with the sales of its PHL products during the period 1999 through May 2002. Household also estimated that offering secured sides at a rate cut in response to the pressure put by the Attorneys General would result in Household taking a $50 million pre-tax hit. For the year 2002 alone, Household estimated that it would be subject to a $134 million pre-tax hit due to its adoption of the Company's so-called "best practices." Household also derived material revenue and income from other products identified herein, and thus, the amounts noted here are conservative.

Notwithstanding numerous deficiencies in defendants' document production, Lead Plaintiffs will demonstrate at trial in this securities fraud litigation, all elements of securities fraud, including that Household's financial statements during the Class Period were materially false or misleading because the revenues and income earned by the Company were subject to refunds or other contingencies as a result of Household's predatory lending practices and the litigation exposure resulting from such practices, including, among other things, Household's improper utilization of "second loans at rates in excess of 20%."

DATED: January 19, 2007

LERACH COUGHLIN STOIA GELLER
RUDMAN & ROBBINS LLP

Azra Mehdi

AZRA Z. MEHDI

PATRICK J. COUGHLIN (90785466)
AZRA Z. MEHDI (90785467)
D. CAMERON BAKER (154452)
MONIQUE C. WINKLER (90786006)
LUKE O. BROOKS (90785469)
JASON C. DAVIS (4165197)
100 Pine Street, Suite 2600
San Francisco, CA 94111
Telephone: 415/288-4545
415/288-4534 (fax)

LERACH COUGHLIN STOIA GELLER
RUDMAN & ROBBINS LLP
WILLIAM S. LERACH
655 West Broadway, Suite 1900
San Diego, CA 92101
Telephone: 619/231-1058
619/231-7423 (fax)

Lead Counsel for Plaintiffs

MILLER LAW LLC
MARVIN A. MILLER
LORI A. FANNING
101 North Wacker Drive, Suite 2010
Chicago, IL 60606
Telephone: 312/525-8320
312/525-8231 (fax)

Liaison Counsel

LAW OFFICES OF LAWRENCE G.
SOICHER
LAWRENCE G. SOICHER
110 East 59th Street, 25th Floor
New York, NY 10022
Telephone: 212/883-8000
212/355-6900 (fax)

Attorneys for Plaintiff

T:\CasesSF\Household Intl\RES00038356.doc