

**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)

**DECLARATION OF  
 JOHN L. BLEY**

STATE OF WASHINGTON )  
 )  
 ) : ss.:  
 COUNTY OF KING )

I, John L. Bley, declare as follows:

1. I am a member of the bar of the State of Washington and a of the law firm Foster Pepper PLLC. I have been retained as an expert witness by counsel for the Defendants in the above captioned matter and have submitted two expert reports and given deposition testimony in furtherance of that engagement.

2. I earned J.D. and M.B.A. degrees from Willamette University in 1985 and have been admitted to practice law in Washington since 1985. Throughout the course of my career, I have amassed considerable knowledge and experience in the area of the financial services industry. From 1985 to 1987, I worked as an attorney at the law firm of Graham & Dunn. Beginning in 1987, I was employed by the Washington Division of Banking in the Department of General Administration, first as Deputy Supervisor of Banking from 1987 to 1991, then as Supervisor of Banking from 1991 to 1993. From 1993 to 2001, I served as the first Director of Washington's Department of Financial Institutions. From 2002 to 2004, I served as CEO of IntegraAdvisors, a

firm that provides management consulting services to the financial services industry. From 2004 to the present, I have served as an attorney at the firm of Foster Pepper PLLC, and as chair of Foster Pepper's Financial Institutions Group. I have also been engaged as an expert witness advising on the regulatory process and enforcement actions and am a member of the board of directors of RiverBank, Spokane, Washington, where I serve as the Chair of the Audit Committee.

3. I understand that during the Class Period, Household had small bank subsidiaries that operated under federal bank regulation, chartered by the OCC, OTS, and insured by FDIC as well as numerous non-depository state licensed consumer lending offices that were subject to regulation by the states in which they operated.

4. The general nature and process followed by the various state and federal agencies that regulate entities like those operated by Household during the Class Period is generally very similar. In general, legislative bodies delegate the task of regulation to administrative agencies and those agencies promulgate rules and perform examination procedures to ensure compliance with applicable statutes, rules and regulations.

5. The examination process is generally composed of field examiners who visit licensees in order to evaluate compliance with applicable laws and rules. These examinations are performed by reviewing loan files and reviewing complaints (which may involve interviewing the institutions personnel and, on occasion, consumers, to assess how loan transactions are being handled)

6. Most, if not all, state consumer financial regulatory authorities have the statutory authority to conduct the review of books, records, and accounts of licensed entities. In many instances, a statute mandates that these examinations must be conducted at certain intervals (*e.g.*, every year or every other year). Statutory provisions regarding these examinations are typically broad enough to permit the regulatory authorities to conduct examinations on a more frequent basis as they deem appropriate. These interim examinations may precipitate from consumer complaints. Interim examinations are often limited in scope and focused on evaluating the merits of specific complaints. Consumer complaints are never taken as true without first reviewing the loan in question and considering the entity's response.

7. Depending on the particular state statute and regulatory policy, the examination of entities with multiple locations may be conducted on a statewide basis (one examination report for all of an entity's licensed locations with the State); or in the alternative may be conducted on an individual office-by-office basis. In both instances, customer accounts are generally randomly selected to test the licensee's compliance. To the extent that the examination is specific to individual licensed locations, the reports of those examinations would only purport to evaluate the operations in those specific locations and not every office within the state.

8. After the examination is completed, the examiners will draft a report of examination discussing their apparent findings. Often, such reports of examination contain recommendations for the licensee to make reimbursements of alleged overpayments or other such recommendations. The examination results are then provided to the licensee so that the licensee can respond to the regulatory authority regarding any apparent finding noted in the report of examination. A critical part of a regulator's analysis is due consideration and evaluation of a regulated entity's responses to apparent findings in reports of examination. The licensee may seek review of the examiner's apparent findings with a higher level of the regulating agency.

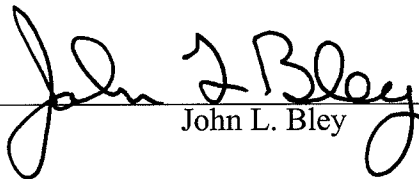
9. In my experience, it is not uncommon for creative examiners — applying the broad discretion that regulation affords them — to propose innovative theories of fraud or deception that may or may not pass the scrutiny of a review examiner. Regulators often view the inclusion of novel theories as findings in reports of examination as part of the ongoing dialogue between regulators and regulated entities. In many cases, a review examiner will allow a novel theory of a violation and broad assumption of fact to be passed along to the regulated entity in the report of examination, if for no other reason than to see how the licensee will respond to the finding.

10. After administrative processes are exhausted within the agency, a licensee that remains unsatisfied with the accuracy of examination findings has due process rights to have the courts review administrative actions and processes. Such processes are usually governed by state "administrative procedure acts." In most cases, however, a licensee makes the business decision that it is not worthwhile to engage in litigation with its regulators. Such cases are public in nature and the institution runs the danger of suffering significant reputation damage with consumers by

taking on the moral authority of the regulators. The vast majority of cases involving regulatory findings settle, without an appeal.

11. Settlements leave the regulatory process frozen in place, leaving a permanent fossil record in the form of a report of examination of an incomplete administrative process. The apparent findings in the report of examination remain apparent, even if the report contains novel or innovative enforcement theories, or enforcement theories that are contrary to law. Regulators have not proven their theories and alleged facts through an adversarial review process, and regulated entities have not gone through the process of disproving those theories and alleged facts. In this sense, “findings’ in a report of examination that eventually lead to a settlement between a regulator and a regulated entity are analogous to allegations in a civil complaint against a defendant who eventually decides to settle rather than pursue costly litigation. The truth and accuracy of the allegations remain unknown.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed this 28<sup>th</sup> day of January, 2009, in Seattle, Washington.

  
John L. Bley