

**UNITED STATES DISTRICT COURT**  
**NORTHERN DISTRICT OF ILLINOIS**  
**EASTERN DIVISION**

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LAWRENCE E. JAFFE PENSION PLAN, ON )  
BEHALF OF ITSELF AND ALL OTHERS SIMILARLY )  
SITUATED, )

Plaintiffs, )

- *against* - )

HOUSEHOLD INTERNATIONAL, INC., ET AL., )

Defendants. )

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Lead Case No. 02-C-5893  
(Consolidated)

CLASS ACTION

Judge Ronald A. Guzmán

**APPENDIX OF TRANSCRIPT EXCERPTS IN SUPPORT OF  
DEFENDANTS' MOTIONS FOR JUDGMENT AS A MATTER OF  
LAW PURSUANT TO RULE 50(b) OR, IN THE ALTERNATIVE,  
FOR A NEW TRIAL PURSUANT TO RULE 59**

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**VOLUME 1 OF 2**

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TAB 1

## Household

 Cross, Charles

1 CLIP (RUNNING 01:11:03.667)

 Cross trial#3

-1230-0001214-002

121 SEGMENTS (RUNNING 01:11:03.667)



1. PAGE 12:14 TO 13:04 (RUNNING 00:00:54.360)

14 Q. (BY MR. SLOANE:) Okay. Let me just do  
15 some -- some preliminary stuff so that we kind of get  
16 this out of the way.  
17 Without going into a lot of detail, my  
18 understanding is -- and correct me if I'm wrong -- that  
19 you were with the Washington -- State of Washington DFI  
20 for a period of time and, for purposes of what we're  
21 interested in, here, you returned to the DFI sometime in  
22 1993; is that correct?  
23 A. Well, to be accurate, it didn't become DFI  
24 until, I believe, October of 1993, so, when I was with  
25 the agency -- if we use that term -- previously, it was  
00013:01 with the banking department --  
02 Q. Okay.  
03 A. -- which was then merged with other agencies  
04 or subagencies to form DFI in 1993.

2. PAGE 15:06 TO 15:16 (RUNNING 00:00:30.479)

06 Now, am I correct that the -- the Consumer  
07 Services Division was headed by Mr. Thompson and his --  
08 he was essentially an assistant director of DFI, but  
09 they called him a director for -- for purposes of  
10 simplicity; is that right?  
11 A. Yeah.  
12 Q. And, under Mr. Thompson, there was, as I  
13 understand it -- correct me if I'm wrong -- there were a  
14 number of people who reported to him, one of which was  
15 yourself as the enforcement chief?  
16 A. Correct.

3. PAGE 16:12 TO 16:19 (RUNNING 00:00:21.262)

12 Q. Let me be specific. At the time that you were  
13 doing the investigation of Household, how many  
14 investigators reported to you?  
15 A. Again, that was a fairly long case and spans a  
16 period of time in which I -- I got more jurisdiction on  
17 more people, but -- let's just say 15 for --  
18 Q. Okay.  
19 A. -- or so.

4. PAGE 22:21 TO 23:01 (RUNNING 00:00:35.635)

21 Q. Okay. Now, let me -- Let's move to the actual  
22 report and focus on that for a few minutes. So, let's  
23 mark as Cross 3 the Washington State Department of  
24 Financial Institutions' expanded report of examination  
25 for Household Corporation 1, 2, 3 -- Roman III as of  
00023:01 April 30, 2000.

5. PAGE 26:19 TO 26:22 (RUNNING 00:00:18.423)

19 Q. Now, am I correct that this report, this  
20 April 30 report, was delivered to or sent to Household  
21 on or about May 15th of '02?  
22 A. Sounds about right.

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**6. PAGE 27:07 TO 27:19 (RUNNING 00:00:48.190)**

07 As I understand it -- correct me if I'm  
08 wrong -- there is a scheduled examination of certain  
09 entities under your jurisdiction, at that time, every  
10 two years; is that right?  
11 A. I think the law changed subsequently, but I  
12 think, during that period of time, it was a 24-month  
13 exam period.  
14 Q. Okay. And what was your involvement in the  
15 April 30, 2002 routine examination? I'm sorry, the --  
16 the March 2002 routine examination.  
17 A. My involvement would have been to -- to review  
18 that report and -- that would have been the extent of my  
19 involvement.

**7. PAGE 28:13 TO 28:22 (RUNNING 00:00:29.914)**

13 Q. Okay. Now, in connection with this report --  
14 Let's go to Cross 3, the report -- am I correct that you  
15 had more direct involvement in doing the work that  
16 resulted in the report?  
17 A. Yes. It -- In this report --  
18 Q. This, for the record, is Cross Exhibit 3, just  
19 so we know.  
20 A. Virtually a hundred percent of this was my  
21 work, my examination work, investigation work, and my  
22 authoring.

**8. PAGE 29:02 TO 29:06 (RUNNING 00:00:19.512)**

02 Q. Okay. Now, is it correct that the report that  
03 is Cross 3 was based on complaints that had been made or  
04 you found over a 22-month period, from May 2000 to  
05 February 2002?  
06 A. Largely.

**9. PAGE 74:16 TO 76:23 (RUNNING 00:03:05.310)**

16 In -- In connection with your work, did you  
17 make any effort to quantify how many complaints --  
18 whether the number of complaints, in any particular  
19 practice -- practice that you identified was  
20 statistically significant in terms of the overall  
21 loans -- number of loans that were made by Household in  
22 any particular time period?  
23 A. Yes and no.  
24 Q. Okay.  
25 A. Or no -- No and yes. I could try to explain a  
00075:01 little bit.  
02 Q. Sure. Please do.  
03 A. Again, there's is -- there is nothing about  
04 this report that we --  
05 Q. That's Cross Exhibit 3.  
06 A. -- that we would argue is a statistical  
07 analysis. So, you're using that term with me. I don't  
08 know if I ever claimed, in this report, that it was a  
09 statistical analysis, but my guess is I wouldn't have.  
10 So, in a -- if we were to hire a  
11 statistician -- which wouldn't be me -- if we were to  
12 hire a statistician to do some analysis, they would --  
13 they would probably come back with some numbers that  
14 show that the number of complaints I was looking at in  
15 this report were very, very, very, very small in  
16 relation to the population of complaints, but we  
17 don't -- the regulatory world, we don't live in a  
18 vacuum. We measure things like are the complaints with  
19 this company greater than with a peer company and are

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20 they increasing at a greater rate, are they more  
21 egregious than other types of complaints, these types of  
22 things.

23 In that sense, they may not be a classic  
24 statistical indicator for us, but they are,  
25 nevertheless, important in us forming our decisions.

00076:01 And, I don't know, if -- if I can give you  
02 a -- just the off-the-top-of-my-head strange analogy. I  
03 could walk down this street out front, here, a thousand  
04 times, in front of that Tully's Coffee shop and, one  
05 day, I could decide to go in and shoot somebody and take  
06 money out of the till. That's one out of a thousand  
07 times, but I think that somebody would consider that to  
08 be something that would need to be dealt with.

09 And that's what we're -- In this report, when  
10 we're dealing with 19 complaints, that's -- that's what  
11 we're saying, is these 19 complaints were egregious acts  
12 against consumers. And we never tried to argue that  
13 they make up a huge percentage of -- of the total loans  
14 in the company. What we say is we find these practices  
15 within these complaints -- we find them to be egregious.  
16 We communicate with -- with many of the states across  
17 the country. We find that they have similar complaints  
18 in their files, that their examination findings are  
19 similar to the things that we're finding in our  
20 examination. And, therefore, we feel comfortable in  
21 saying that, when we look at the company, we -- we do  
22 not like the practices we're seeing here. That's what  
23 that report does.

### 10. PAGE 84:16 TO 84:19 (RUNNING 00:00:12.233)

16 Q. (BY MR. SLOANE:) So, as of that time, the  
17 time that you sent out this expanded report, you had  
18 made your findings and opinions and you were not  
19 interested in revisiting them, were you?

### 11. PAGE 84:21 TO 85:08 (RUNNING 00:00:43.045)

21 A. Hard to say, now. From speaking from  
22 recollection, I know that the agency, including me, was  
23 not interested in having the conversation or dialogue  
24 that Household kept insisting they -- that they wanted  
25 to have with -- with us, which was very much a dialogue  
00085:01 controlled by Household, contained within a certain  
02 environment or picture that they had -- had painted, and  
03 I know that -- that to the extent that an agency not  
04 being a person can lose sort of patience with that  
05 process, we had reached a point where we had -- where we  
06 had lost patience with it. We were no longer interested  
07 in -- in having the dialogue that they kept insisting  
08 that they wanted to have.

### 12. PAGE 91:03 TO 91:12 (RUNNING 00:00:45.340)

03 Q. (BY MR. SLOANE:) And is it also fair to say  
04 that -- that in connection with your work, that it was  
05 not a significant part of your examination to review any  
06 of the Household policies or training manuals or  
07 bulletins about practices that it should or should not  
08 engage in?

09 A. I -- I don't believe so, in the writing of  
10 this report. I believe, subsequent to this report,  
11 we -- using that term loosely -- spent more time in that  
12 area.

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### 13. PAGE 97:25 TO 98:11 (RUNNING 00:00:40.750)

25 Q. Okay. And you mentioned some conversations  
00098:01 with Mr. Baker. How many times -- How many times have  
02 you talked to any lawyer representing the plaintiffs in  
03 this case?  
04 A. Boy, I wouldn't know that. I think  
05 Mr. Baker's the -- the only attorney I know, for sure,  
06 who represents the plaintiffs -- I don't even really  
07 know who the plaintiffs are, but -- I'm fairly  
08 comfortable saying -- at least as far as I know,  
09 Mr. Baker is the only attorney I was speaking with with  
10 the knowledge that -- that the attorney represented the  
11 plaintiffs.

### 14. PAGE 99:23 TO 100:08 (RUNNING 00:00:41.285)

23 Q. Do you recall the general -- generally, what  
24 was discussed, other than what you've already said?  
25 A. Pretty much what I already said: That he was  
00100:01 interested in my deposition with -- with Bob Parlette;  
02 he had even actually reminded me that I had done this  
03 deposition, because it had slipped my mind; and, at one  
04 point, one of the conversations, we talked about whether  
05 Exhibit 3 would have actually been a -- I think a  
06 formally issued report of the department or whether it  
07 was still in draft form, and we talked about that a  
08 little bit.

### 15. PAGE 100:14 TO 101:14 (RUNNING 00:01:25.700)

14 Q. Sure. And in connection with the -- what the  
15 subject matter that you just referred to about the  
16 report, is there anything you recall telling him in  
17 particular about that?  
18 A. Yeah, I was -- I -- I think I laughed and said  
19 that -- I think I might have asked him, "Does it have my  
20 signature on it?" And he said, "Yes." And it's got my  
21 signature on it, it was -- it was a formally entered  
22 report of the agency, and I remember issuing that  
23 report. I remember Household asking me not to and a  
24 whole bunch of arguments around whether it should be or  
25 not. But it was definitely an entered report by the  
00101:01 agency.  
02 There was some discussion about the term  
03 apparent violations, and I explained to Mr. Baker that,  
04 basically, if -- if -- if the term apparent violations  
05 in this report is somehow going to make it a non-formal  
06 report or -- or a draft report, then I think just about  
07 any report we ever did would fall into that category,  
08 including all of the reports out of our division of  
09 banks. I mean, for 15 years, now, everything would be  
10 draft, because we use that term, apparent violations, as  
11 does the FDIC, federal regulatory agency, so -- That's  
12 where I brought it from. I was with the FDIC before I  
13 came to Washington State. It's an accepted term that's  
14 used throughout examination reports.

### 16. PAGE 105:05 TO 105:08 (RUNNING 00:00:06.754)

05 MR. BAKER: Let's mark this next in order.  
06 It's number seven.  
07 MS. MARTIN: 6.  
08 MR. BAKER: Sorry, 6.

### 17. PAGE 105:16 TO 106:02 (RUNNING 00:00:35.777)

16 Q. Okay. Mr. Cross, if you could turn to the  
17 page to -- second page of this document.



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18 And, earlier today, you were testifying about  
19 some testimony that Mr. Bley had given, the Federal  
20 Reserve Board, I believe, in 2000. You recall that  
21 testimony?  
22 A. Yes.  
23 Q. Okay. And is the second page on -- is that a  
24 copy of the testimony that Mr. Bley gave?  
25 A. It appears to be.  
00106:01 Q. And did you author portions or all of this  
02 testimony?

**18. PAGE 106:15 TO 106:15 (RUNNING 00:00:02.000)**

15 A. Could I give you more than a simple yes or no?

**19. PAGE 106:16 TO 109:11 (RUNNING 00:02:57.616)**

16 Q. (BY MR. BAKER:) Sure.  
17 A. Okay. Much of the content of this I would  
18 have provided to John -- when I'm reading this now, and  
19 I realized that, when you talked to me on the phone  
20 previously, I didn't have a copy of this in front of me.  
21 Clearly, the attachment that -- that, I think, went  
22 along with it --  
23 Q. Um-hum.  
24 A. -- is my authorship, and much of the content  
25 of this would have been information I provided to John.  
00107:01 I'm reading this, now, and this -- the paragraphs, here,  
02 are more in John's voice than my voice.  
03 Q. If I could direct your attention to page two.  
04 A. Of --  
05 Q. I'm sorry, page number two of the testimony.  
06 A. Got it.  
07 Q. You see, in the third paragraph, there's a  
08 reference, "I have attached as Exhibit A a memorandum  
09 authored by the department's chief mortgage  
10 investigator, Mr. Chuck Cross, which describes the  
11 deceptive practices we have observed in Washington?"  
12 A. Yes.  
13 Q. Okay. And that's the memo that you were  
14 referring to as the attachment that you had authored?  
15 A. Right. That's the thicker part of this  
16 document, actually.  
17 Q. Okay.  
18 If I could direct your attention to the next  
19 paragraph that says, "It is important to note that  
20 predatory lending is not a new problem. State  
21 regulators have been dealing with this very same issue  
22 under a different name for years," period. "What was  
23 once called mortgage fraud is now called predatory  
24 lending," period. "Under either name, our mission to  
25 investigate violations and enforce the law has remained  
00108:01 the same." Do you see that?  
02 A. Yes.  
03 Q. Do you concur with that?  
04 A. Yes.  
05 MR. SLOANE: Does he concur with it today?  
06 Q. (BY MR. BAKER:) Did you always concur with  
07 that?  
08 A. Yes. Missions do change a little bit over  
09 time, but I -- I think, generally, it's a pretty  
10 accurate statement.  
11 Q. Okay.  
12 Was the term predatory lending used within the  
13 department during the time period that Mr. Sloane was  
14 asking about, 1999 to 2002?  
15 A. Yes.

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16 Q. Okay. Did you have any discussions with  
17 Mr. Bley about predatory lending during that time  
18 period?  
19 A. Sure.  
20 Again, I didn't very often brief John because  
21 I didn't report directly to him. My boss reported to  
22 him. And, actually, during part of this time, my boss'  
23 boss reported to him. But -- But my relationship with  
24 John goes -- goes way back, and, so, we would discuss  
25 predatory lending.  
00109:01 There -- There was another case that was  
02 called a FAMCO case that was -- that predated this, and  
03 John and I talked much more about that case than we did  
04 about this case, and that was -- that was sort of our --  
05 our first really big venture into the world of predatory  
06 lending. We'd done minor cases leading up to that, but  
07 that was the first really big one.  
08 Q. Okay. Earlier, Mr. Sloane asked you about  
09 whether the term predatory lending had a rigid  
10 definition. Was it your understanding that that term  
11 had a commonly understood meaning?

### 20. PAGE 109:15 TO 110:07 (RUNNING 00:00:46.118)

15 A. I think -- To this day, it doesn't -- nobody  
16 has -- has defined predatory lending. Every -- Many  
17 people have defined it. I mean, I even defined it  
18 myself. But many people have defined it. There's no  
19 one universal accepted definition of predatory lending;  
20 although, I have to say, in more recent years, the  
21 federal agencies have tried to establish some  
22 definitions of predatory lending, which I don't  
23 completely agree with, and not everybody agrees with.  
24 So, we don't have a uniform accepted term for predatory  
25 lending.  
00110:01 That being said, you could put five or a  
02 thousand regulators in the same room, you could throw  
03 out some examples, and we'd say that was predatory  
04 lending, that wasn't predatory lending, that was, that  
05 was. So, you know it when you see it. Do we have --  
06 Can we open up the dictionary and find a definition?  
07 No.

### 21. PAGE 110:08 TO 111:01 (RUNNING 00:00:55.240)

08 Q. (BY MR. BAKER:) Earlier, you had been asked a  
09 question as to whether the director of the DFI itself  
10 had approved Cross Exhibit 3, the report. Mr. Thompson,  
11 at this time, was -- was your boss; is that correct?  
12 A. That is correct.  
13 Well, again, I get promoted somewhere right in  
14 there. So, Whittier Johnson might have been my boss at  
15 the time this report was entered. But, that being said,  
16 I really reported directly to Mark Thompson. I had --  
17 Because I was enforcement chief, I sort of bypassed  
18 that -- that spot on the org chart.  
19 Q. Okay. At this point in time of -- in  
20 April 2002, was Mr. Thompson aware of the -- the  
21 findings and conclusions reached in Cross Exhibit 3?  
22 A. Intimately aware and familiar with them, yes.  
23 Q. And did he authorize your submission of that  
24 filings -- promulgation of that report to Household at  
25 the time?  
00111:01 A. Absolutely.

### 22. PAGE 111:15 TO 113:16 (RUNNING 00:03:07.816)

15 What was the purpose of the expanded report,

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16 which we've been calling Exhibit 3?  
17 A. The first one qualifies that the purpose is  
18 probably contained within the report itself, and then  
19 I'll speak from recollection, as -- as to the purpose.  
20 We had, for a period of -- I want to say six  
21 years -- completed three examinations of Household and  
22 Beneficial in conjunction with Household and, in that  
23 period of time, the examination reports had,  
24 repeatedly -- you know, for at least, I think, three  
25 exam reports -- come in thin and -- I don't want to say  
00112:01 not complementary to the company, but not with a lot of  
02 findings within them.  
03 Now, that was the examinations unit conducting  
04 those exams. I was over the enforcement unit at that  
05 time; although, sometime during this period of time,  
06 I -- I came over both of them.  
07 But, in the enforcement unit, we handled the  
08 complaints coming in, dealt with all the investigations  
09 and enforcement actions. The -- The findings of the  
10 exam side reports were not jiving with what we were  
11 seeing in the complaints over this -- this same period  
12 of time. So, the division began raising questions about  
13 this: What -- Why are we seeing this in the complaint  
14 side -- or the -- or the enforcement side and we're not  
15 seeing this in the examination side? What's -- What's  
16 going on?  
17 So, these discussions were ongoing and they  
18 involved very much the -- the division director, Mark  
19 Thompson, about, you know, why weren't they -- why  
20 weren't the exams picking up on this stuff? What --  
21 What was -- What was going wrong? Are they -- Are they  
22 getting too comfortable, you know, going to this -- to  
23 these routine exams and not seeing what's going on? Why  
24 isn't it jiving with what the consumers were telling us?  
25 So forth.  
00113:01 So -- And, also, we were beginning to  
02 understand more and more about predatory lending  
03 practices. We had the FAMCO case under our belt, now.  
04 We understood more about what was going on, and the  
05 deception that could actually occur with consumers,  
06 where, a lot of times, consumers didn't even really have  
07 a clue what happened, what went on.  
08 So, we're having these conversations and it  
09 was determined that -- that it made sense to do an  
10 investigation or an exam -- expanded examination report  
11 to -- and focus on the complaint side of the world as it  
12 related to Household and try to -- try to understand  
13 what was really going on with the practice of the  
14 company, see if what we were hearing from the complaints  
15 made sense or what -- what the routine exams was telling  
16 us made sense. That's -- That's how it got started.

### 23. PAGE 117:22 TO 117:25 (RUNNING 00:00:07.488)

22 Q. And, in preparing Exhibit 3, you testified  
23 that you interviewed some of the consumers; is that  
24 correct?  
25 A. That's correct.

### 24. PAGE 118:04 TO 118:17 (RUNNING 00:00:35.716)

04 Q. (BY MR. BAKER:) Did you also -- you and some  
05 of your colleagues -- engage in what I understand to be  
06 called mystery shopping?  
07 A. Yeah, we applied for loans at Household, yes.  
08 Q. Okay. And did your experience help you reach  
09 any -- any of the conclusions that are set forth in

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10 Exhibit 3?  
11 A. Yes. There were -- There was -- Yes.  
12 Q. Okay. Did you also subpoena documents from  
13 Household in February of 2002?  
14 A. I don't know the date, but I know that we --  
15 we subpoenaed them.  
16 Q. Okay.  
17 A. Sounds about right.

**25. PAGE 119:01 TO 119:04 (RUNNING 00:00:08.058)**

00119:01 Q. (BY MR. BAKER:) Okay. And did you consider  
02 any documents received from Household in response to the  
03 subpoena in reaching the conclusions that are set forth  
04 in Exhibit 3?

**26. PAGE 119:07 TO 119:07 (RUNNING 00:00:01.179)**

07 A. Yes.

**27. PAGE 120:13 TO 120:16 (RUNNING 00:00:10.753)**

13 You're familiar that -- with the fact that  
14 subsequent to -- or about the time of the issuance of  
15 this report, the Washington State Attorney General was  
16 conducting her own investigation into Household?

**28. PAGE 120:23 TO 121:04 (RUNNING 00:00:12.331)**

23 A. I was involved in their investigation, so,  
24 yes, I was aware of it.  
25 Q. Okay. And, in the course of that  
00121:01 investigation, did you learn additional information  
02 about Household's practices within the state of  
03 Washington?  
04 A. Yes.

**29. PAGE 121:16 TO 121:20 (RUNNING 00:00:10.557)**

16 Q. (BY MR. BAKER:) And did the information that  
17 you learned as a result of participating in the AG  
18 investigation reinforce the conclusions that you reached  
19 as a result of your own investigation reflected in  
20 Exhibit 3?

**30. PAGE 121:23 TO 121:23 (RUNNING 00:00:00.532)**

23 A. Yes.

**31. PAGE 121:24 TO 122:01 (RUNNING 00:00:08.810)**

24 Q. (BY MR. BAKER:) And did the attorney general  
25 conduct interviews of former employees of Household, to  
00122:01 your knowledge?

**32. PAGE 122:03 TO 122:03 (RUNNING 00:00:00.862)**

03 A. Yes.

**33. PAGE 122:04 TO 122:05 (RUNNING 00:00:02.998)**

04 Q. (BY MR. BAKER:) Okay. Did you participate in  
05 any of those discussions?

**34. PAGE 122:06 TO 122:10 (RUNNING 00:00:24.400)**

06 A. Quite possible. They primarily used Jan  
07 Simonds, who is an investigator working for Dave Huey,  
08 to interview consumers, but I think it's quite possible  
09 that, at times, Dave and I were both present when a  
10 consumer was being interviewed.

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35. PAGE 122:12 TO 122:12 (RUNNING 00:00:02.203)

12 A. I don't have a clear recollection of that.

36. PAGE 122:21 TO 122:25 (RUNNING 00:00:12.221)

21 Q. (BY MR. BAKER:) Okay. You testified that --  
22 during this time period, that you were in discussions  
23 with other state examiners -- and I mean examiners from  
24 other states; is that correct?

25 A. Yes, I believe so, yes.

37. PAGE 123:01 TO 123:03 (RUNNING 00:00:15.310)

00123:01 Q. Okay. One of the ones, according to your  
02 deposition -- and I think if I could -- it's on  
03 Exhibit 1. Take you to Exhibit 1, page 33 to 34.

38. PAGE 123:04 TO 123:10 (RUNNING 00:00:20.041)

04 Towards the bottom. Mr. Parlette asks you: "What other  
05 states were you in contact with?"

06 Answer: "Minnesota, Georgia, Idaho, Oregon.  
07 Those were the main ones. There was some infrequent  
08 contact with Michigan, California, Illinois."

09 Do you see that?

10 A. Yes.

39. PAGE 125:09 TO 126:19 (RUNNING 00:01:54.662)

09 Q. Okay. Mr. Cross, I just want to ask you some  
10 more questions about your report.

11 Now, in the preparation of your report, did  
12 you approach the issue with a neutral view as to the  
13 merits of these complaints?

14 A. In the preparation of the report?

15 Q. No, just -- Sorry, in evaluating these  
16 complaints, did you take, initially, a neutral view?

17 A. Yes. The -- The reason I was qualifying is by  
18 the time I was actually writing this report, it was no  
19 longer a neutral position.

20 Q. Okay. And, earlier, I had asked you what was  
21 the purpose of the report. If I could direct your  
22 attention to page 28 of Exhibit 1, which is your  
23 deposition, lines 17 through 23. And the question on  
24 line 17 was: "When did you decide to do this expanded  
25 report of examination?" The answer is: "I believe it

00126:01 was in, I want to say, December of 2001 is when the  
02 director and myself agreed that we needed to further  
03 document our findings." Okay.

04 And, by document the findings, you mean the  
05 findings that you were having with individual  
06 complaints?

07 A. Yes. And, also, I believe the complaints were  
08 the driver, but, beyond that, we were starting to  
09 develop -- for lack of a better words -- theories about  
10 the business practices of Household that were -- that  
11 didn't comport with what we would expect from our  
12 licensee, so the complaints were the driver, but it was  
13 beyond the complaints.

14 Q. Okay. And as you further investigated and  
15 looked at, for instance, Household's internal documents,  
16 do those corroborate your theories?

17 A. Yes.

18 Q. Okay. And what specific theories were you  
19 operating under at this point in time?

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**40. PAGE 126:22 TO 127:04 (RUNNING 00:00:37.563)**

22 A. I have to say, from -- would be the general --  
23 generally, the theories that ended up in the report,  
24 which were deception, misrepresentation, confusion,  
25 up-selling borrowers unnecessarily. Those types of  
00127:01 things. But -- As a move towards, you know, producing  
02 the actual report, those became more -- more defined --  
03 became clearer and -- and more -- more precise, I guess,  
04 in the report.

**41. PAGE 127:05 TO 127:06 (RUNNING 00:00:06.286)**

05 Q. (BY MR. BAKER:) What types of deception did  
06 you find that were being engaged in by Household?

**42. PAGE 127:16 TO 127:18 (RUNNING 00:00:09.005)**

16 A. I can do this one or of two ways. I can give  
17 a very incomplete recollection or I can flip through the  
18 report and tell you what the report says.

**43. PAGE 127:19 TO 127:23 (RUNNING 00:00:10.114)**

19 Q. (BY MR. BAKER:) All right. Well, the  
20 report -- the report, on page 43, starts talking about  
21 some of the things that you found, so, if you want to  
22 look at that and that will help you identify some of the  
23 issues.

**44. PAGE 128:05 TO 129:18 (RUNNING 00:02:12.906)**

05 A. There -- There are these identified patterns  
06 of practice that are sort of fleshed out by the  
07 complaint history, starting, here, on page 43. One of  
08 them is misrepresentations of failed promises, next one  
09 is confusion over rates, points, and fees. So, that's  
10 pretty consistent with what I said, generally, about the  
11 sort of deception, misrepresentation, confusion kind of  
12 thing.  
13 These were all -- I -- I did a -- a bunch of  
14 cases during my time with DFI and, just because of the  
15 timing of things, not -- not really necessarily because  
16 of anything else, but just because I happened to work  
17 for an agency that -- that pushed the envelope on some  
18 things -- we were out in front of a lot of people and --  
19 on some of this kind of stuff, and I was becoming very  
20 immersed in it, even ahead of a bunch of -- of other  
21 states, and these are all -- These are what I would  
22 identify as predatory practices that, at times, similar  
23 to things I would see in other cases and -- and it  
24 revolves around this general idea that -- that people  
25 are being sold something that isn't what they think that  
00129:01 they're getting and -- and it very likely may not be in  
02 their best interest to get that product, but it's very  
03 much in the company's best interests to sell that  
04 product. That's sort of the big picture of it.  
05 Specifically, you get down to things like the  
06 prepayment penalties, the way the payments were sold,  
07 the amount of loans being sold. This case had a -- had  
08 a specific area of insurance packing that concerned us,  
09 which I don't remember finding insurance packing in any  
10 company subsequent to this, but -- but, leading up to  
11 this time, there were companies that -- that have been  
12 doing some insurance packing, but I -- I think the  
13 associates case that predated this one sort of scared  
14 most people out of the business of insurance packing.  
15 But, during this period of time, that was  
16 still an area going on that -- that we had concerns

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17 with, so -- You know, without reading the report, like  
18 he said, those are the sort of general -- general areas.

**45. PAGE 129:19 TO 130:05 (RUNNING 00:00:35.259)**

19 Q. (BY MR. BAKER:) In -- In making a  
20 determination that Household was engaged in insurance  
21 packing, did you consider the insurance penetration  
22 rates?  
23 A. Yes. That was a -- That was a -- That was a  
24 common thing that we did. In fact, that's -- I'm pretty  
25 sure that's an area that -- that I had the other  
00130:01 examiners develop for me, because they were the experts  
02 in identifying insurance penetration for the office,  
03 and -- and I think I had some of them prepare the  
04 insurance penetration data for me that I used.  
05 Q. There's a section on page 48, Section 6.

**46. PAGE 130:06 TO 130:07 (RUNNING 00:00:03.325)**

06 A. Oh, okay. Give me just a moment. I'll try to  
07 refresh myself with this.

**47. PAGE 130:08 TO 131:19 (RUNNING 00:01:49.713)**

08 I remember some of this. There -- The  
09 insurance penetration was something that -- that was  
10 done -- An analysis of insurance penetration was  
11 something that was done with -- with most, if not all,  
12 of the consumer loan company exams. And I don't want to  
13 confuse you by consumer loans. That's the type of  
14 license Household held even though what we were looking  
15 at was primarily mortgage activity, it was a -- what was  
16 called a consumer loan license, and companies that were  
17 examined under that statute, it was pretty routine to  
18 look at -- at insurance penetration to determine if --  
19 if -- if we believed that the company was packing or  
20 getting insurance into the transaction, either through  
21 an overly convincing sales pitch or out-and-out  
22 misrepresentation or deception to the consumer.  
23 And this, I'm looking here, it was -- I  
24 remember it being very high in some of the branches. It  
25 says 92 to a hundred percent here. I mean, that's --  
00131:01 that's incredible. I mean, any time that we drift  
02 above, maybe, like 60 percent, we would -- I mean,  
03 alarms with red flags would start going off -- you know,  
04 we need to really look at this area -- where, here,  
05 we're -- you know, some cases almost every loan had --  
06 had -- had insurance. That's just extremely uncommon.  
07 When you talk to consumers about this  
08 insurance, it's very seldom that a consumer ever sits  
09 down and says, yeah, I -- I really wanted that and I  
10 took it for a specific reason. Every now and then. In  
11 this -- I have a recollection of a consumer, in this  
12 case, that I believe did tell me he wanted the  
13 insurance, but when I got into it further, I found out  
14 he was too old to actually even use the insurance that  
15 was sold to him. I think he could only be 65 or 70 and  
16 he was already 72, yet, he had been sold this very  
17 costly insurance that he thought he had that he could  
18 never even actually use. So, we had a bunch of concerns  
19 about this.

**48. PAGE 132:23 TO 133:04 (RUNNING 00:00:22.503)**

23 Q. (BY MR. BAKER:) Okay. One of the factors  
24 that you discussed -- discussed in this report, if I  
25 could direct your attention to page 46, the prior page.

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00133:01 And you're discussing concerns resulting from borrower  
02 confusion over biweekly and bimonthly programs. You see  
03 that in sort of the second full paragraph there?  
04 A. Yeah.

**49. PAGE 133:05 TO 133:11 (RUNNING 00:00:18.265)**

05 Q. Are you familiar with the term effective rate  
06 or equivalent rate as used with respect to a biweekly  
07 payment program?  
08 A. Yes.  
09 Q. And did you identify a pattern of deceptive  
10 practices at Household that used those terms?  
11 A. I -- I believe so, yes.

**50. PAGE 133:25 TO 133:25 (RUNNING 00:00:04.257)**

25 Here, let's mark this next in order.

**51. PAGE 134:12 TO 134:22 (RUNNING 00:00:21.344)**

12 Q. (BY MR. BAKER:) And, Mr. Cross, you see this  
13 is a letter to you from Household?  
14 A. Yes.  
15 Q. Okay. And it relates to a specific complaint  
16 from the -- the Johnstons. Do you see that?  
17 A. Yes.  
18 Q. Okay. And you would have reviewed this and  
19 considered this in evaluating the complaint -- the  
20 merits of the claim; is that right?  
21 A. In relation to this -- yeah, Julian and Terry  
22 Johnston complaint, yes.

**52. PAGE 134:23 TO 135:01 (RUNNING 00:00:11.723)**

23 Q. And is it fair to say it was part of your  
24 regular business practices, during the time period we're  
25 talking about, to evaluate complaints received from  
00135:01 borrowers?

**53. PAGE 135:04 TO 135:17 (RUNNING 00:00:32.871)**

04 A. I think the answer is yes.  
05 Q. (BY MR. BAKER:) Okay.  
06 A. It -- I supervised this area and I had people  
07 handling -- We received about a thousand complaints a  
08 year, so, did I look at every complaint? At one time, I  
09 was the only guy looking at complaints, but you get into  
10 this period of time and it took bigger cases like FAMCO  
11 and Household for me to become involved in the  
12 complaints.  
13 Q. Okay.  
14 A. But I approved every -- Every complaint  
15 finding that ever went out went out under my approval,  
16 but a lot of it was under sort of policy and procedure:  
17 You do this in this situation.

**54. PAGE 135:18 TO 135:21 (RUNNING 00:00:16.001)**

18 Q. Okay. And if I direct your attention to the  
19 second page of this document. There's a paragraph  
20 starting, "Third". If you could read that to yourself.  
21 A. Um-hum.

**55. PAGE 135:22 TO 137:10 (RUNNING 00:01:57.968)**

22 I've read it.  
23 Q. Okay. And does that refresh your recollection  
24 as to what the -- the biweekly effective rate deceptive  
25 practice was?



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00136:01 A. A little bit. He -- Schneider, here, is  
02 referring to the equivalent rate. I think we talked a  
03 lot about the effective rate -- I can't remember, now,  
04 whether those terms are interchangeable or had some  
05 subtle nuances that were different among them.  
06 And, in general -- And there were a couple of  
07 variations or maybe more variations than the whole  
08 biweekly or bimonthly program. In general, what -- what  
09 we found was that when borrowers had a biweekly or  
10 bimonthly payment plan, they would communicate to us  
11 that -- that their rate was approximately half of what  
12 we could see on the note was showing as their rate, and,  
13 as we discussed this with them -- and, then, also would  
14 look at the materials and the responses from the  
15 company -- it became apparent to us that -- that this  
16 whole -- there was a sales pitch that went with getting  
17 the biweekly program, and that sales pitch was clearly  
18 leading borrowers to believe that their rate was half of  
19 what it really was.  
20 Now, there's -- there's a whole ton of  
21 discussion that ensued, that I'm sure went on for months  
22 and months, about the meaning of effective, meaning of  
23 equivalent, who meant what by what.  
24 In the end, our finding was that this is what  
25 borrowers carried away from -- from -- from the sales  
00137:01 pitch. These guys were the professionals selling this  
02 loan program and -- in our -- In our regulatory world,  
03 under the concept by which we issued the company a  
04 license, they have an obligation not to mislead people,  
05 and we found that borrowers were entering the  
06 transaction believing that their rate was half of what  
07 it really was.  
08 Q. Okay. And did you determine that that was a  
09 deceptive practice?  
10 A. Absolutely.

### 56. PAGE 137:11 TO 138:24 (RUNNING 00:01:10.732)

11 Q. Okay. In the report, here, it says -- I'm  
12 reading from the -- looks like the second-to-last line  
13 of this paragraph. It says, "The department has  
14 identified the practice in other branches in Washington  
15 and has even received reports from regulators in other  
16 states concerning the practice." Do you see that?  
17 A. What document are you on?  
18 Q. I'm sorry, I'm on your Exhibit 3.  
19 A. Okay. Page 46, still.  
20 Q. Page 46. Yeah. The paragraph we're looking  
21 at, this kind of inset.  
22 A. That begins with --  
23 Q. The Department.  
24 A. The prime -- or --  
25 Q. Yeah, borrowers have been informed.  
00138:01 A. Okay.  
02 Q. Okay.  
03 A. And then what -- You're looking at the last  
04 sentence that begins with department?  
05 Q. Yeah. Well, no, the second-to-last  
06 sentence --  
07 A. Got it.  
08 Q. -- that says, "However the department has  
09 identified"?  
10 A. Yes, okay.  
11 Q. Okay.  
12 A. Okay.  
13 Q. And other practices -- sorry, "the practice to  
14 other branches in Washington and has even received

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15 reports from regulators in other states concerning the  
16 practice." Do you see that?  
17 A. I do, yes.  
18 Q. Okay. Do you recall how many other states  
19 reported this practice? And if I could direct you to  
20 page 89 of your deposition --  
21 A. Okay.  
22 Q. -- and your answer there.  
23 A. I'm going to say, off the top of my head,  
24 probable Minnesota and Georgia, but -- Okay. I'm on

57. PAGE 138:24 TO 140:08 (RUNNING 00:01:34.872)

24 probable Minnesota and Georgia, but -- Okay. I'm on  
25 page 89.  
00139:01 Q. Page 89, and question From Mr. Parlette:  
02 "Let's put back together. I believe you said the  
03 effective or equivalent interest rates sales program was  
04 found in several other states?"  
05 Answer: "I was told that."  
06 Question from Mr. Parlette: "Okay." Do you  
07 know how many other states" -- sorry, "Do you know how  
08 many states?"  
09 Objection from Mr. Dunne.  
10 Answer: "No, I don't know how many, but I  
11 know that I was told that by at least 15 to 20 states."  
12 A. And I don't know how far back we have to go to  
13 get this into appropriate context, but, first, this was  
14 contemporaneous in time with -- with the events, so, I  
15 stand by what was said there.  
16 What I'm wondering, now, if we went back and  
17 looked at the earlier context, if the 15 and -- 15 to 20  
18 was not relevant to the multistate, then -- in other  
19 words, not -- the 15 -- 15 to 20 may not have been  
20 before this report was drafted.  
21 Q. Okay.  
22 A. Yet, the report was drafted, and -- and a lot  
23 of discussions ensued after the report was drafted, and  
24 that's when the 15 to 20 may have said, "Hey, us, too."  
25 But -- I'd have to read a bunch of this to figure that  
00140:01 out, I think.  
02 Q. Okay. So, you're not sure when you -- when  
03 the timing of these 15 to 20 other states telling you  
04 when that occurred?  
05 A. Right.  
06 Q. It could have occurred before this report or  
07 could have occurred subsequent?  
08 A. Right.

58. PAGE 140:09 TO 140:10 (RUNNING 00:00:04.621)

09 Q. Okay. But you're saying, to your knowledge,  
10 this practice occurred between 15 and 20 other states?

59. PAGE 140:18 TO 140:24 (RUNNING 00:00:26.201)

18 A. I would say I was told. I did not -- I don't  
19 know that I -- that I personally investigated materials  
20 from other states; although, it's quite possible that --  
21 We came together on several occasions and discussed  
22 things and -- and looked at stuff, so, but -- but it is  
23 most accurate to say that I was told that by 15 to 20  
24 states.

60. PAGE 142:01 TO 142:08 (RUNNING 00:00:13.807)

00142:01 Q. (BY MR. BAKER:) Are you familiar with a man  
02 named Dan Gallatin?

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03 A. Yes.  
04 Q. Okay. And did Mr. Gallatin work at the  
05 Minnesota Department of Commerce?  
06 A. He did.  
07 Q. And did he exchange information with you about  
08 what he was finding in the state of Minnesota?

**61. PAGE 142:11 TO 142:21 (RUNNING 00:00:35.833)**

11 A. There were three examiners -- me, Dan  
12 Gallatin, Tony Polidori -- representing three different  
13 states who provided all of the technical support to what  
14 became the big multistate case. So, Dan and -- and Tony  
15 and -- and me, we all -- we all worked together very  
16 closely. We analyzed a lot of documentation from -- We  
17 were the guys that were charged with analyzing all the  
18 documentation that was coming in from all of the states  
19 into this multistate. So, yeah, we spent a lot of time  
20 exchanging information, exchanging documents, looking at  
21 spreadsheets, that kind of thing.

**62. PAGE 142:22 TO 143:20 (RUNNING 00:00:53.459)**

22 Q. (BY MR. BAKER:) And where is Mr. Polidori  
23 from?  
24 A. Idaho.  
25 Q. Idaho, okay.  
00143:01 In your deposition, you referenced a Ben Bruce  
02 from New York.  
03 A. Yes, he would be with -- with New York  
04 Attorney General. He was an assistant attorney general.  
05 Q. I see.  
06 And there was an Ann Gaultney referenced from  
07 Michigan.  
08 A. She was Mark Thompson's equivalent in the  
09 State of Michigan. She would be the equivalent -- I  
10 don't know if the title is the same, but basically an  
11 assistant commissioner, I think, in Michigan. We call  
12 them directors here, but --  
13 Q. Was she also involved in the technical side of  
14 evaluating the scope of misconduct by Household?  
15 A. A little bit. She was a little bit above that  
16 level. I think she might have loaned some of her people  
17 to us, some point in time. She definitely -- And  
18 definitely had the ability to discuss at those levels.  
19 I can't remember her necessarily getting her hands so  
20 dirty with the numbers.

**63. PAGE 143:21 TO 143:23 (RUNNING 00:00:05.821)**

21 Q. Okay. Was Michigan one of the states that was  
22 reporting finding effective rate presentations in their  
23 state?

**64. PAGE 144:01 TO 144:10 (RUNNING 00:00:25.634)**

00144:01 A. I can't remember.  
02 Q. (BY MR. BAKER:) Okay. If your prior  
03 deposition said that she was, would that be consistent?  
04 A. Then I would say she was.  
05 Q. She was, okay.  
06 A. Or they were, sorry.  
07 Q. All right. And the same thing would be true  
08 with Mr. Bruce?  
09 A. Yes. Keeping in mind that -- that Ben was not  
10 a regulator. He was an assistant attorney general.

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65. PAGE 144:12 TO 145:11 (RUNNING 00:01:12.239)

12           You testified earlier about deceptive  
13 practices with respect to prepayment penalty by  
14 Household. There's a reference in this report. Can you  
15 tell me what you recall about the -- the prepayment  
16 penalty deceptions?  
17       A.   Some of it.  
18       Q.   Yes.  
19       A.   Okay. As I would interview borrowers, they  
20 would tell me they didn't know that they had a  
21 prepayment penalty and they were, at times, confused  
22 about the fact that they had a prepayment penalty.  
23 And -- And that was definitely a discussion among the  
24 different states.  
25       In fact, I'm pretty confident, here, now,  
00145:01 years later, that New York was the only state that did  
02 not have that issue. And this actually came to light  
03 during the case. And the reason was New York had a  
04 specific law saying you could not have prepayment  
05 penalties, so, New York came into the case saying,  
06 "Well, we don't see that in our state." It's because  
07 prepayment penalties were completely disallowed, so  
08 there's no reason to try to deceive somebody or  
09 misrepresent that a prepayment penalty existed.  
10       But all the other states, that was a very big  
11 point that was discussed over and over and over.

66. PAGE 145:21 TO 146:02 (RUNNING 00:00:15.408)

21       Q.   (BY MR. BAKER:) You're talking about, if I  
22 understand, there's a group of you -- some are attorneys  
23 general, some are -- you are regulators -- who are  
24 talking about these practices, and I'm wondering if you  
25 reached a consensus that Household is engaged in  
00146:01 deceptive practices with respect to prepayment penalties  
02 in all the states that you are representing.

67. PAGE 146:06 TO 146:16 (RUNNING 00:00:28.385)

06       A.   The group grew to about 40 states, I believe,  
07 with time, and, yes, we had -- I remember two physical  
08 meetings we were all in the same room. The first  
09 meeting, I think there were about 25 states, and then  
10 the next meeting grew to about 40 states, and we very  
11 much -- with the exception of New York, who wanted to  
12 stay away from the prepayment penalty issue, because  
13 they didn't have prepayment penalties in their state,  
14 every other state was saying, "This is a major issue in  
15 our state and it's an issue we have to have resolution  
16 of in this case."

68. PAGE 146:17 TO 147:25 (RUNNING 00:01:42.063)

17       Q.   (BY MR. BAKER:) One of the other things that  
18 you talk about in your report that we haven't touched  
19 upon has to do with the GFEs in the -- quote, unquote --  
20 buydown or discount points. Do you recall that?  
21       A.   Yes.  
22       Q.   Okay. What can you tell me about that  
23 particular practice?  
24       A.   There were -- There were two -- I believe  
25 there were two deceptions that I cited revolving around  
00147:01 the discount points, in this case. One was whether the  
02 discount points were what I would call bona fide -- did  
03 they actually have an effect of buying the rate down --  
04 and the second was the disclosure on the Good Faith  
05 Estimate of a range of discount points, which typically

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06 began at zero and went up somewhere -- anywhere from  
07 maybe six, seven thousand up to maybe, like, ten or 11  
08 thousand. It was -- It would just be showing, in the  
09 Good Faith Estimate, zero to this larger number.  
10 But, in the cases I reviewed, consistently,  
11 the borrowers paid at the very top of that number. Yet,  
12 the borrowers were telling us that the loan originator  
13 said they would be at the bottom. They would get  
14 essentially a -- a very low-cost or no-cost loan. So --  
15 Deception -- To reverse those, deception, first, around  
16 what was disclosed to the borrower, making the borrower  
17 believe that it could be as low as zero, and it  
18 virtually never was, in -- in our investigation, and  
19 then, once discount points were actually paid, they  
20 didn't seem to have any affect in moving the rate down  
21 any, which would be your natural assumption, is that --  
22 and based on some documentation produced by Household,  
23 some tables that showed that there was an inverse  
24 relationship between points and rate. You would assume  
25 that, but that was not what we found.

**69. PAGE 148:01 TO 148:04 (RUNNING 00:00:07.438)**

00148:01 Q. Okay. Was that also the subject of  
02 discussions within the -- you mind if I call it the AG  
03 group?  
04 A. That's fine. Yes.

**70. PAGE 150:04 TO 150:09 (RUNNING 00:00:14.112)**

04 Q. (BY MR. BAKER:) I want to make sure -- The  
05 question I want to know is: Was there a consensus  
06 reached, within the AG group, that Household was engaged  
07 in deceptive practices with respect to the disclosures  
08 of -- on GFEs and the -- quote, unquote -- buydown  
09 discount points that you discussed?

**71. PAGE 150:11 TO 150:12 (RUNNING 00:00:05.617)**

11 A. My recollection is that it was 100 percent,  
12 so, we -- Yes, a consensus.

**72. PAGE 150:22 TO 150:24 (RUNNING 00:00:08.642)**

22 Q. So, on page 132, if I could direct your  
23 attention to the question and answer starting on lines  
24 13. And there's a -- The answer was: "Household

**73. PAGE 150:24 TO 151:24 (RUNNING 00:01:05.401)**

24 13. And there's a -- The answer was: "Household  
25 maintained for, I don't know, two, two and a half years,  
00151:01 that they had a safe harbor under RESPA that allowed  
02 them to disclose the range of discount points in the  
03 Good Faith Estimate in the fashion in which they  
04 disclosed those points," period. You see that?  
05 A. Um-hum.  
06 Q. And it says that this issue has kind of been  
07 going back and forth with them since late 1999.  
08 A. Yes.  
09 Q. Okay. Who, at Household, was maintaining  
10 that? Who told you that they had a safe harbor?  
11 A. I don't remember. I -- It would be --  
12 Q. Mr. Schneider?  
13 A. Mr. Schneider.  
14 We had a lot of correspondence revolving  
15 around the complaints where I think we were raising this  
16 concern, but -- there -- there's a -- there was a woman  
17 with Household who was something like assistant general

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18 counsel, and I can't remember her name, now, and I think  
19 we had a lot of arguments with her about this topic.  
20 Q. Okay.  
21 And according to your -- It goes on. You said  
22 that you asked HUD for an opinion letter?  
23 A. Yes.  
24 Q. Okay. And let me just show you a document.

**74. PAGE 152:06 TO 152:08 (RUNNING 00:00:05.102)**

06 Q. (BY MR. BAKER:) And I just want to know, is  
07 this a copy of the letter that you received back from  
08 HUD?

**75. PAGE 152:10 TO 152:10 (RUNNING 00:00:01.370)**

10 A. Yes.

**76. PAGE 152:12 TO 152:13 (RUNNING 00:00:03.160)**

12 MR. BAKER: Okay. And this is Cross  
13 Exhibit 11?

**77. PAGE 152:16 TO 152:19 (RUNNING 00:00:04.440)**

16 Q. (BY MR. BAKER:) Did you ever show this  
17 letter -- Sorry, did you ever show this letter to  
18 Household?  
19 A. Yes.

**78. PAGE 152:21 TO 152:21 (RUNNING 00:00:00.957)**

21 A. Yes, I did.

**79. PAGE 159:08 TO 159:12 (RUNNING 00:00:17.115)**

08 Q. Okay. Did you find any practice or pattern  
09 where Household would maximize the amount of a loan that  
10 was given to the -- Sorry. See if I could do this --  
11 that would maximize the loan amount that was given to  
12 the borrower?

**80. PAGE 159:18 TO 159:21 (RUNNING 00:00:08.458)**

18 A. I believe I referred to that as up-selling.  
19 Q. (BY MR. BAKER:) Okay.  
20 A. And, yeah, it was one of the -- one of the  
21 practices that caused us concern.

**81. PAGE 160:04 TO 160:10 (RUNNING 00:00:11.012)**

04 Q. (BY MR. BAKER:) All right. As part of your  
05 preparation of this report, did you consider the impacts  
06 of Household's branch compensation record?  
07 MS. MARTIN: I'm sorry, when you mean -- when  
08 you say this report, do you mean --  
09 MR. BAKER: I'm sorry, Exhibit 3.  
10 MS. MARTIN: Okay. Thank you.

**82. PAGE 160:11 TO 160:16 (RUNNING 00:00:23.386)**

11 A. I know that we gave a lot of attention to  
12 branch -- or employee compensation. The timing of that  
13 I'm not absolutely certain on, whether I was aware of  
14 compensation or specific compensation plans prior to  
15 drafting the report or if it was subsequent to drafting  
16 the report.

**83. PAGE 160:17 TO 160:18 (RUNNING 00:00:03.955)**

17 Q. (BY MR. BAKER:) Okay. Well, if I could  
18 direct your attention to page 111 of your report.

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84. PAGE 160:24 TO 161:13 (RUNNING 00:00:37.849)

24 Q. (BY MR. BAKER:) Question is on line five and  
25 the answer starts on line nine.  
00161:01 And your answer was: "Well, I know that the  
02 compensation for originating or closing loans with  
03 insurance was a significant amount to the loan officer's  
04 commission, so it would just have to be my opinion that  
05 heavy compensation claims can lead towards the" -- dash  
06 -- "obviously it would be an incentive for" any --  
07 "somebody" -- dash -- "could be an incentive for  
08 somebody to do something they wouldn't do if that  
09 incentive wasn't there." Is that your testimony?  
10 A. That's a statement I made at that time.  
11 Q. And, to the best of your knowledge, it's an  
12 accurate statement?  
13 A. Yep.

85. PAGE 161:18 TO 162:11 (RUNNING 00:00:47.676)

18 Q. (BY MR. BAKER:) Did you find, based on your  
19 review of complaints in the state of Washington, that  
20 Household was engaging in a practice of equity  
21 stripping?  
22 A. Yes. Although equity stripping wasn't --  
23 wasn't --  
24 Q. Wasn't a term you used?  
25 A. That's more of an AG term than a -- than a  
00162:01 regulator term. But -- But, yeah, definitely eating up  
02 the borrower's equity, the equity in their property,  
03 through up-selling loan and layering on fees,  
04 definitely. That eats up equity. Equity stripping as a  
05 specific legal -- that's -- There's a legal definition  
06 of that in the state of Washington and there's a whole  
07 law revolving around that that wasn't under our  
08 jurisdiction. It was under the AG's jurisdiction. So,  
09 I had tendency, I think, to stay away from that specific  
10 term, equity stripping, but the AGs talked about it a  
11 lot.

86. PAGE 162:12 TO 162:13 (RUNNING 00:00:03.488)

12 MR. BAKER: Let's mark one more document,  
13 here.

87. PAGE 162:17 TO 163:04 (RUNNING 00:00:30.358)

17 Q. (BY MR. BAKER:) We're going to have to work  
18 our way around it. This document has a lot of  
19 handwriting on it, but I'm not going to represent it's  
20 yours. But if you turn in a couple pages, you'll see  
21 there's a memo to you from Patrick Hardman.  
22 A. Yes.  
23 Q. And it's dated May 17th, 2001.  
24 A. Yes.  
25 Q. And, thereafter, there is various pages of  
00163:01 this, and it appears that Mr. Hardman has summarized  
02 complaints that are -- that were then pending relating  
03 to Household. Do you see that?  
04 A. Yes.

88. PAGE 163:05 TO 163:20 (RUNNING 00:00:50.696)

05 Q. Okay. And was it part of Mr. Hardman's  
06 responsibilities, as a financial examiner, to prepare  
07 memorandums like this for you?  
08 A. Yes, we hold -- we held weekly meetings of  
09 the -- of the enforcement staff and -- and I remember  
10 assigning to Patrick the job of starting to report to me

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11 on -- on -- on the complaint volume and activity with  
12 Household and Beneficial, so that I could start to get  
13 my mind around what was going on with the company.  
14 My -- My staff had -- My staff had been  
15 complaining for quite some time that not only had the  
16 complaints been increasing, but their interaction with  
17 the company had -- had become more and more adversarial.  
18 So, we -- So, I can remember asking Patrick, you know,  
19 Start -- "start monitoring this for me," and this would  
20 be one of the reports that we would have done that.

**89. PAGE 166:13 TO 166:18 (RUNNING 00:00:07.984)**

13 Q. (BY MR. BAKER:) So, you got 19 complaints  
14 that are discussed in Exhibit 3, right?  
15 A. Um-hum.  
16 Q. Those weren't all the complaints that you --  
17 that DFI had received from Household, right?  
18 A. Right.

**90. PAGE 167:16 TO 167:18 (RUNNING 00:00:06.063)**

16 Q. Let's -- Can I direct your attention to page  
17 60 of your report -- sorry, of Exhibit 1, which is your  
18 deposition.

**91. PAGE 167:19 TO 168:10 (RUNNING 00:00:36.366)**

19 Directing you to starting on 60, line 21,  
20 through 61, line -- page 61, line three. Question was:  
21 "Did you review other clients other than the 19?"  
22 Answer: "Yes."  
23 Question: "And did you believe that those 19  
24 complaints were representative or typical of the ones  
25 you received?"  
00168:01 Objection from Mr. Dunne.  
02 Answer: "They were representative of many of  
03 the complaints we had received at earlier times and were  
04 very, very similar to complaints we received subsequent  
05 to the date of the report," period.  
06 You see that?  
07 A. Yes, I do.  
08 Q. And is that accurate testimony, to the best of  
09 your knowledge?  
10 A. I'm sure that was accurate testimony.

**92. PAGE 168:11 TO 169:14 (RUNNING 00:01:46.595)**

11 Q. Okay. Now, the report itself only deals with  
12 complaints received with respect to complaints from HFC  
13 borrowers and not Beneficial borrowers; is that correct?  
14 A. There were no Beneficial borrower complaints  
15 in this report.  
16 Q. All right. Did you ever come to an opinion  
17 that there were similar patterns of deceptive practices  
18 taking place in the Beneficial offices?  
19 A. We believed that.  
20 Q. And when you say we, do you mean DFI?  
21 A. DFI, yes.  
22 Q. Okay.  
23 A. And -- Well, DFI and, eventually, other  
24 people, and they evolved in the multistate.  
25 Q. And what was the basis for your belief?  
00169:01 A. For one thing, the -- the -- the sales  
02 practices, the -- the way loans appeared to be  
03 originated, as I remember, were very similar between the  
04 organizations. I believe that even some of the  
05 locations were the same locations, Beneficial and HFC



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06 being in the same location at times, kind of maybe  
07 sharing employees. But we also had complaints against  
08 Beneficial. I think we had almost as many complaints  
09 against Beneficial as we did against Household, and we  
10 would have looked at those complaints and, ultimately,  
11 their -- I mean, I remember needing to do a report on  
12 Beneficial similar to what I did on Household. It just  
13 never -- We -- We went off on this whole other tangent  
14 and it didn't go there.

**93. PAGE 172:11 TO 172:11 (RUNNING 00:00:04.000)**

11 MR. BAKER: 15.

**94. PAGE 172:14 TO 173:01 (RUNNING 00:00:35.760)**

14 Q. (BY MR. BAKER:) I'm going to ask you to  
15 ignore the first couple of pages of this document and go  
16 to the second-to-last page, which is Bates number ending  
17 in 78.

18 A. Okay.

19 Q. It references -- It's in the agenda for a  
20 meeting that was held between the State of Washington  
21 and Household officials on May 23rd, 2002. Do you see  
22 that?

23 A. Yes.

24 Q. And I believe, at this meeting, Robin Allcock  
25 and Tom Detelich were there, and I believe also yourself  
00173:01 and Mr. Huey were there.

**95. PAGE 173:03 TO 175:11 (RUNNING 00:02:15.655)**

03 MR. BAKER: Yeah.

04 Q. (BY MR. BAKER:) Is that your recollection?

05 A. Yes, and that -- that attorney from the  
06 company, I can't -- can't remember her name, but it  
07 could be Kay Curtin. I just saw this name.

08 Q. Kay Curtin, yes, okay, okay.

09 Did you have any role in the preparation of  
10 this agenda?

11 A. Yes.

12 Q. Okay. Did you prepare it?

13 A. Mostly. I think this might have finally come  
14 out of Mark Thompson's computer. I remember being in  
15 his office, helping him with some finishing touches on  
16 this.

17 Q. Now, item one of this, under the  
18 Misrepresentation of Discount or Loan Origination Fee --  
19 Do you see that?

20 A. Yes.

21 Q. Okay. There's a bullet point, it says,  
22 "Reparation to borrowers deceived about fees."

23 A. Um-hum.

24 Q. That's kind of obscured a little bit by the  
25 underlining.

00174:01 A. Yes.

02 Q. Do you recall if there was any discussion, at  
03 this point in time, about the amount of reparation that  
04 should be made? And I'm talking about May -- May 23rd,  
05 2002.

06 A. Discussion. Yes. Whether I had identified a  
07 specific dollar amount at that time or not, I don't  
08 remember, but I was very insistent that all discount  
09 points should probably go back to consumers, unless they  
10 could prove, consumer by consumer, that they didn't  
11 deceive the consumers, and I wanted all discount points  
12 to go back to consumers.

13 Q. Okay. Did you share that thought with

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14 Household at that time?  
15 A. We argued about that, yes.  
16 Q. Okay. Did you mention anything about the  
17 next -- it's an effective interest rate? Do you see  
18 that? There's the next heading there?  
19 A. Yes.  
20 Q. And, again, it also has a reparation to  
21 borrowers deceived about the interest rate to be  
22 charged. Do you see that?  
23 A. Yes.  
24 Q. Did you have any discussion with them about  
25 the amount of -- and, by them, I mean Household -- about  
00175:01 the amount of reparation that should be given back to  
02 borrowers based on this particular point?  
03 A. I don't remember if -- if any dollar amount  
04 was discussed on that.  
05 Q. Okay. How about a discussion about the next  
06 item point, which is reparation for -- for prepayment  
07 penalties?  
08 A. Again, the discussion would have been all  
09 that -- in every instance, word appeared that borrowers  
10 were misled about prepayment penalties, which I was  
11 arguing, at that time, was a practice, so --

**96. PAGE 175:25 TO 176:04 (RUNNING 00:00:10.213)**

25 So, they came in to talk about that, but, at  
00176:01 the same time, as the agenda notes, you mentioned to  
02 them there's multistate interest, and that's on page  
03 two.  
04 A. Yes.

**97. PAGE 176:05 TO 176:07 (RUNNING 00:00:05.803)**

05 Q. Okay. And was there a discussion between you  
06 and Household about the multistate interest at this  
07 point in time?

**98. PAGE 176:10 TO 176:10 (RUNNING 00:00:02.205)**

10 A. We would have discussed that.

**99. PAGE 177:01 TO 177:07 (RUNNING 00:00:18.972)**

00177:01 Q. We're here on -- We're here on -- on May 23rd,  
02 2002. There's a discussion. Someone from your side  
03 mentions, "By the way, there's a multistate interest."  
04 Was there any discussion between you and Household about  
05 the next step to resolve the multistate interest in this  
06 issue?  
07 A. I believe -- I believe we --

**100. PAGE 177:10 TO 177:14 (RUNNING 00:00:17.390)**

10 A. I believe we hypothesized about that, but we,  
11 of course, could not make any statements for what other  
12 states would do. But I -- But we hy -- we hypothesized  
13 about the potential outcome if -- if things had to go,  
14 you know, to a more aggressive level.

**101. PAGE 178:24 TO 179:02 (RUNNING 00:00:09.051)**

24 Q. (BY MR. BAKER:) Okay. Were the documents and  
25 materials you received with respect to Household's  
00179:01 practice in other states consistent with what -- with  
02 the findings that you made in Exhibit 3?

**102. PAGE 179:04 TO 179:07 (RUNNING 00:00:16.339)**

04 A. Much -- Much of what the other states found

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05 and produced in our, you know, exchange of materials,  
06 and so forth, was consistent with what we found in  
07 Washington.

**103. PAGE 179:09 TO 179:11 (RUNNING 00:00:07.302)**

09 And, in terms of the AG, you're familiar with  
10 the fact that there was actually a settlement between  
11 Household and the multistate group; is that right?

**104. PAGE 179:14 TO 179:14 (RUNNING 00:00:01.183)**

14 A. Yes.

**105. PAGE 179:15 TO 179:16 (RUNNING 00:00:04.548)**

15 Q. (BY MR. BAKER:) Okay. When, to your  
16 knowledge, did that agreement come into fruition?

**106. PAGE 179:19 TO 179:19 (RUNNING 00:00:03.085)**

19 A. On my birthday, October 2nd, 2002.

**107. PAGE 179:20 TO 181:09 (RUNNING 00:02:15.781)**

20 Q. (BY MR. BAKER:) Okay. Why didn't DFI get to  
21 the point of filing charges based on the apparent  
22 violations found in your DFI report that's Exhibit 3?  
23 A. Two reasons. The -- Well, maybe three  
24 reasons.  
25 When we started down the multistate path, we  
00180:01 were at least committing ourselves, in intent and  
02 theory, to try to -- to try to stick with that, being in  
03 solidarity with other states and bring a large  
04 resolution for the entire country.

05 You have to remember, there were only --  
06 There -- There weren't 50 states that were -- that were  
07 carrying this thing. There were a handful of states  
08 carrying the 50 states -- and that's how the multistates  
09 work. You sort of take turns carrying the load. So --  
10 And there were a lot of states that ended up in the  
11 settlement and they just sort of signed on at the end  
12 and they just rode on our coattails right on out through  
13 the settlement, and said, "Whatever they say, we --  
14 that's good for us."

15 So, we had this -- this allegiance to other  
16 states holding that -- that together. Although,  
17 Washington was always extremely aggressive, so was  
18 Minnesota, New York, some other states, extremely  
19 aggressive in saying -- threatening, at various points  
20 in time, to pull out and actually file charges. So, we  
21 always retained that right and authority to file  
22 charges, but we had a commitment to the multistate. We  
23 thought we had a good chance of getting as much for  
24 Washington consumers out of the multistate as we could  
25 if we went on our own.

00181:01 So, there was incentive. So, we could get  
02 something for everybody plus us, equivalent to what we  
03 probably could get if we went on our own. And then  
04 there's the whole resource issue -- I mean, in reality,  
05 it would have been five years of -- of our agency's  
06 life, very ugly -- you know, this stuff would have gone  
07 on for -- for five years and it would have been a huge  
08 resource drain and that's -- that's much of the reason  
09 why you settle.

**108. PAGE 181:10 TO 181:13 (RUNNING 00:00:15.489)**

10 Q. Okay. A lot of -- of -- Household produced a

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11 lot of documents to show that they were in compliance  
12 with the various federal and state laws, including loan  
13 documents signed by borrowers.

109. PAGE 181:19 TO 185:02 (RUNNING 00:04:22.195)

19 Q. (BY MR. BAKER:) You considered that as part  
20 of -- and -- and found that, despite that, that there  
21 was deceptive practices taking place; is that right?

22 A. Yes.

23 Q. Okay. Why didn't you find -- Why didn't you  
24 rely upon the loan documents that Household was  
25 producing to determine that there was, in fact,  
00182:01 compliance?

02 A. In the early days, I think we did. In the  
03 very early days of complaints coming in -- and if I  
04 could roll the clock back, I would -- but, in the early  
05 days, the company's arguments had been somewhat  
06 convincing for us, and I think that we -- we had a  
07 little bit of trouble coming to grips with what the  
08 consumers were telling us. It didn't -- It didn't make  
09 sense, early on, that this would be happening, that --  
10 that a -- such a big company, such a well-structured,  
11 well-organized, well-funded company, would be doing  
12 these things to consumers. It didn't -- didn't make a  
13 lot of sense. But, over a period of time, we -- we --  
14 we changed our belief on that.

15 So, in the early days, there were documents  
16 that were coming in. Company would -- would send us the  
17 disclosures from their files, or whatever, and we'd look  
18 at them and say, "Ah, well, consumer must have," you  
19 know, "ignored them," or, "Maybe a consumer isn't  
20 telling the full story," or whatever, and we would -- we  
21 would largely discount the consumer and -- and close out  
22 the complaint.

23 We reached a tipping point where we just, for  
24 lack of a better description, sort of stood around,  
25 looking at each other, saying, you know, at some point,  
00183:01 you know, we're having trouble believing this any  
02 longer, the answers we were getting. And, so, there  
03 became -- There was a point in time -- late 2001, early  
04 2002 -- where we felt we were getting a lot of  
05 disinformation from the company, a lot of -- We were --  
06 We were extremely unhappy with the response we were  
07 getting from the company. We stopped trusting the  
08 response. And we started more and more believing what  
09 we saw from the consumers, what the consumers were  
10 telling us.

11 Documentation is one part of a case, and  
12 regulators do have a tendency to sort of get blinders  
13 on, saying, "Well, it's in the file. It must be true.  
14 Hey, it came out of a computer. It's there. Somebody  
15 must have gotten it." But you hear enough stories about  
16 consumers saying, "I never saw it," or, "That's not how  
17 it was explained to me," and so forth, and you start to  
18 change your mind over time.

19 That's how all these predatory lending cases  
20 come about. If you -- you take almost any predatory  
21 lending case, that I can think of, and you go back to  
22 the start of time, the regulators were not saying, you  
23 know, consumers were harmed, here. It always kind of  
24 starts off with not really believing that what people  
25 are saying is it, and then you -- it grabs traction with  
00184:01 time and your -- your mind has changed.

02 And it was no different with this case, so --

03 So, we reached a point where -- where the  
04 relationship seemed to be so disingenuous that -- it was

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05 almost like stuff was being fabricated to convince us,  
06 and we didn't believe it any longer.  
07 Q. Did your experience with FAMCO have anything  
08 to do with it? In other words where -- where the paper  
09 files looked clean, but, in fact, there were deceptive  
10 practices taking place?  
11 A. FAMCO had nothing to do with our impression of  
12 Household. Household was completely responsible for our  
13 impression of Household. FAMCO educated us to learn how  
14 to look beyond what was being said and FAMCO -- The  
15 earlier complaints I was talking about where we didn't  
16 maybe believe the consumers as much as we should have,  
17 that was -- that was -- those complaints go back to the  
18 early days of FAMCO, before we started to learn more  
19 about how deception could take place, misrepresentation  
20 could take place, how people could be trained to lie  
21 with the truth, and all of these -- these sales  
22 practices that we hadn't -- I came out of the banking  
23 world. That kind of stuff didn't really take place in  
24 the banking world. And, so, I had to be educated.  
25 So, FAMCO educated me, educated the  
00185:01 department, and in no way formed any impression about  
02 Household.

**110. PAGE 185:11 TO 185:18 (RUNNING 00:00:15.007)**

11 Q. Okay. That's all I was trying to -- And --  
12 And, earlier today, Mr. Sloane was asking you some  
13 questions about hypothetical predatory lending practices  
14 or improper practices, you know, about based on one  
15 office or one employee. Do you remember those  
16 questions?  
17 A. Yes.  
18 Q. The patterns --

**111. PAGE 185:22 TO 185:24 (RUNNING 00:00:06.373)**

22 Q. (BY MR. BAKER:) Going back to the findings of  
23 patterns that you made in Exhibit 3. Those are not  
24 based on one office; is that correct?

**112. PAGE 186:05 TO 186:09 (RUNNING 00:00:13.519)**

05 A. I can't say that there wasn't a single place  
06 in the file where something only happened in one branch,  
07 but, no, we looked at -- I would say a half-dozen  
08 branches were considered very seriously in that -- in  
09 that exam.

**113. PAGE 189:11 TO 189:12 (RUNNING 00:00:04.427)**

11 And let's mark this next in order as Exhibit  
12 18.

**114. PAGE 189:16 TO 190:08 (RUNNING 00:00:44.308)**

16 Q. (BY MR. BAKER:) Okay. And, Mr. Cross, do you  
17 see Exhibit 18?  
18 A. Yes.  
19 Q. And the cover -- the first page is a letter  
20 from Ms. Allcock to yourself; do you see that?  
21 A. Yes.  
22 Q. Okay. And attached to it is a list -- exhibit  
23 list of -- sorry, it's exhibit -- sorry, Exhibit A, but  
24 it's a list of documents that were produced in response  
25 to the subpoena that you requested.  
00190:01 A. Yes.  
02 Q. Okay. And did you review all these documents  
03 as part of your preparation of Exhibit 3?

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04 A. Yes. I can't say I sat down and watched these  
05 videotapes. Although I -- You didn't ask me.  
06 Q. But you had them available for your  
07 consideration if you thought it was appropriate?  
08 A. Yes.

**115. PAGE 190:09 TO 190:16 (RUNNING 00:00:24.651)**

09 Q. Okay. Now, was the preparation of reports of  
10 examination, at this point in time, one of your regular  
11 duties at DFI?  
12 A. It was my all-consuming duty as -- Everything  
13 else kind of got put on hold for a couple of months.  
14 Q. And was Exhibit 3 a report prepared pursuant  
15 to Washington law?  
16 A. Yes.

**116. PAGE 193:04 TO 195:22 (RUNNING 00:03:47.150)**

04 Q. Okay. All right. Let me rephrase that.  
05 In what -- what way did you believe you were  
06 pushing the envelope in the kinds of investigations,  
07 using your word, that the -- that the -- your department  
08 was doing?  
09 A. There were a variety of things we did that  
10 were being done before any other state, much of which  
11 long since was adopted by other states, but, I mean --  
12 We were the leading state in FAMCO, Household,  
13 AmeriQuest. I mean, those are the three biggies in this  
14 world, this -- this world of mortgage regulation. We  
15 were using subpoenas before most of the other states.  
16 The way we were processing complaints and conducting  
17 complaint resolutions were very progressive compared to  
18 other states and, you know, we began using -- instead of  
19 simple request letters on complaints, we -- we began  
20 using directives and pleadings formats. No other state  
21 had thought to do that and we -- we went from a --  
22 probably a 40-percent successful response rate to almost  
23 a hundred-percent successful response rate. I mean,  
24 literally, overnight, by -- by changing some of those --  
25 those methods.  
00194:01 So -- We were -- Much credit to John and Mark  
02 Thompson. We thought outside the -- the box from --  
03 from a lot of regulators.  
04 Q. And is it, in your -- Were you thinking  
05 outside the box, to use your phrase, in terms of the  
06 kinds of practices that you were investigating?  
07 A. We were finding outside the box. I'm not sure  
08 we were -- in -- Always -- Regardless of how progressive  
09 a regulator is, we're always way behind the industry.  
10 We're always playing catch-up. So, the kind of stuff  
11 that we've seen from these days to present time -- I  
12 mean, these days, we -- we see this -- we see the  
13 practices that take place in companies and sort of it --  
14 it's -- it's commonplace. In those days, we were  
15 just -- we were seeing it for the first time. It was  
16 very new, and we were having to be very aggressive in  
17 our insistence that we didn't just accept the surface or  
18 the -- the pat answers that a company was giving us back  
19 and closing out a case and going on.  
20 We started to -- As Mr. Baker questioned,  
21 because of FAMCO and some other cases, we started to  
22 drill deeper, become more insistent. We became -- We  
23 were very aggressive regulators. I remember Mr. Bley  
24 sometimes fondly referring to me as his Pit Bull at the  
25 end of the chain. I mean, we were -- we were extremely  
00195:01 aggressive.

## Household

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02 Now, it's pretty normal. States like  
03 Massachusetts, New York, Florida, these states are  
04 extremely -- extremely aggressive, but they weren't so  
05 much in those days, because everybody came out of  
06 that -- that banking regulator world, and this was a new  
07 world to us. This -- This was a difference between  
08 businessmen and criminals. I mean -- I'm not saying --  
09 I'm not saying anything about Household being criminal,  
10 but the whole world -- we came into this mortgage world.  
11 We began doing fraud cases. We never did fraud cases in  
12 the banking side of the world. It was -- It was -- It  
13 was new, it was different. You had to think  
14 progressively or you just weren't going to make any  
15 cases and, so, that's what I meant by that.

16 Q. You used the phrase finding outside the box.  
17 What did you mean by that?

18 A. Well, I was just trying to sort of not have  
19 you give me that -- you know, use that phrase in this --  
20 this context. I mean, the fact that we thought outside  
21 of the box in our -- in our investigative or examination  
22 work --

### 117. PAGE 195:23 TO 196:09 (RUNNING 00:00:35.470)

23 What I was trying to say was that -- that the  
24 Household practices revealed themselves to us. We  
25 didn't make -- I think -- I was -- I was getting the  
00196:01 sense that you were implying that we made up these new  
02 ways of them doing business, and we'll call it this or  
03 call it that. And what I meant to say was, no, we  
04 weren't thinking outside the box and coming up with  
05 these -- these scams and so forth. We were saying,  
06 "Wow, look at this," and we would study it, realize  
07 that's a scam. This is a misrepresentation. And we  
08 would start to label and identify these things. But we  
09 didn't create them. We discovered them.

### 118. PAGE 198:25 TO 199:10 (RUNNING 00:00:26.628)

25 Q. Just a couple follow-up questions based on  
00199:01 what Mr. Sloane asked you.

02 He asked you a question about borrowers using  
03 the terminology effective rate or equivalent rate. You  
04 remember those questions?

05 A. Yes.

06 Q. Were there a larger number of borrowers  
07 complaining that the interest rate they received was  
08 substantially more or twice the interest rate that they  
09 had been told by Household employees?

10 A. Yes.

### 119. PAGE 199:13 TO 199:18 (RUNNING 00:00:13.304)

13 Q. (BY MR. BAKER:) Okay. Then, you asked  
14 about -- he asked you some questions about borrowers  
15 receiving written documentation about a representation  
16 about an effective or equivalent rate; do you remember  
17 that question?

18 A. Yes.

### 120. PAGE 200:03 TO 200:05 (RUNNING 00:00:08.958)

03 Were there other borrowers who told you they  
04 had received an oral representation of a lower interest  
05 rate based on a biweekly loan program?

### 121. PAGE 200:08 TO 200:08 (RUNNING 00:00:02.603)


08 A. I believe so.

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TAB 2



0\_N9886

 Cross, Charles (Vol. 01) - 04/09/2008

1 CLIP (RUNNING 00:08:04.979)

 DEF Clips

CC-DEF 13 SEGMENTS (RUNNING 00:08:04.979)

1. PAGE 13:05 TO 13:20 (RUNNING 00:00:52.200)

05 Q. Now, I'm -- I really want to understand the  
06 structure of the DFI for purposes of -- of setting the  
07 scene, here. You correct me if I'm wrong.  
08 At -- At some point prior to, say, 2000, or  
09 1999, there was a -- a person who headed the DFI who was  
10 Mr. Bley, who is sitting here today; is that correct?  
11 A. Correct.  
12 Q. And, below Mr. Bley, there were something like  
13 four divisions of DFI?  
14 A. Yes.  
15 Q. And one of the divisions was consumer  
16 something -- consumer services?  
17 A. And I -- I want to say, at some point in time,  
18 I think it became five divisions. The admin division,  
19 which is accounting and personnel, so forth, moved up  
20 and became a division on its own.

2. PAGE 32:21 TO 33:07 (RUNNING 00:00:49.100)

21 Now, if you -- if you look at the report, page  
22 one, it references, in the fine -- in the penultimate  
23 paragraph, that Household had more than 400,000 customer  
24 accounts and 2.3 billion in financing to Washington  
25 consumers in 2001. Did you see that?  
00033:01 A. Yes.  
02 Q. And do you have any basis for believing that  
03 statement -- or did you, at the time, have any basis for  
04 believing that statement was not true?  
05 A. That statement would be based on information  
06 provided to the department by Household, and I have no  
07 reason to believe it is not true.

3. PAGE 49:14 TO 50:02 (RUNNING 00:00:47.879)

14 Q. (BY MR. SLOANE:) You yourself made apparent  
15 findings; is that right?  
16 A. We cited them -- I cited them in this report  
17 as -- I think they were cited as apparent violations. I  
18 don't know -- I'd have to see if that -- if the term  
19 apparent finding was used.  
20 Q. I'm sorry, if I said finding, I misspoke.  
21 Apparent violations.  
22 A. That would be accurate.  
23 Q. Okay. Now, you weren't in a position to  
24 commit the department -- the DFI -- to charges for the  
25 19 or so incidents you reported in this report; is that  
00050:01 correct?  
02 A. Correct.

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4. PAGE 50:03 TO 50:06 (RUNNING 00:00:15.600)

03 Q. And in order for the department to make a  
04 case, it would have to meet a burden of filing and  
05 supporting charges; is that right?  
06 A. It would be wise to do so.

5. PAGE 67:02 TO 67:09 (RUNNING 00:00:29.900)

02 Q. Okay. Now, you dealt with various Household  
03 people in connection with this investigation, did you  
04 not?  
05 A. I did.  
06 Q. And you found Ken Robin and Lisa Sudeika and  
07 Jim Kaufman to be very honest, forthright, believable  
08 people; is that accurate?  
09 A. I believe so. I -- Yeah, I think so.

6. PAGE 69:13 TO 70:10 (RUNNING 00:01:17.200)

13 Q. Would you agree with me that the 19 complaints  
14 that you looked at was a woefully inadequate population  
15 to draw from?  
16 A. That sounds like something I would have said.  
17 Q. Let's look at it so I'm not misquoting you or  
18 mischaracterizing it.  
19 If you look at page 398 of Exhibit 2, and you  
20 were asked the following question, line 22:  
21 "Do you have any opinion whether a sample of  
22 19 complaints out of a population of thousands and  
23 thousands of complaints would be statistically  
24 significant?"  
25 Answer: "I would say, without having any  
00070:01 remote claimed expertise in this area, that anybody who  
02 was a statistician or knew anything about statistics  
03 would tell you that that was a woefully inadequate  
04 population to draw from."  
05 Did you give that answer and was it accurate  
06 at the time?  
07 A. Yes, and yes. And, remember -- The reason I  
08 remembered this is because you said -- you quoted this  
09 to me just a little while ago, before we -- earlier on  
10 in my deposition, so --

7. PAGE 79:23 TO 80:02 (RUNNING 00:00:16.900)

23 Q. Now, at some point, you received a 400-page  
24 response from Household; is that right?  
25 A. Yeah. I want to say that the actual response  
00080:01 maybe was less than a hundred, but there was a ton of  
02 attachments behind it, I believe.

8. PAGE 85:24 TO 86:10 (RUNNING 00:00:37.400)

24 Q. Let me direct your attention to Exhibit 2,  
25 page 371. It actually starts -- Let's start at page  
00086:01 371. You can read as much as you want. I'm focused on  
02 lines ten to 13. And the question was asked: "In other  
03 words, your report is just dealing with problems and  
04 negative issues, not the positive side of the business?"

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05 Answer: "Absolutely."  
06 Did you give that testimony at that time and  
07 was it accurate?  
08 A. Yes.  
09 Q. Yes to both?  
10 A. Yes to both.

9. PAGE 88:18 TO 89:08 (RUNNING 00:00:49.100)

18 Q. Would you look at page 393, lines two to 13.  
19 The question was asked: "And are you telling me that,  
20 with respect to those 19 complaints and that analysis,  
21 you would have excluded any of the information that was  
22 favorable to Household just as you did in the more  
23 general discussion about Household?"  
24 There's an objection.  
25 The witness says, "Yeah, likely. Unless it  
00089:01 was relevant to the argument of the point I was trying  
02 to make, there would be no point to put it in."  
03 Question: "What was the argument of the point  
04 you were trying to make?"  
05 Answer: "That these consumers were harmed."  
06 Did you give that testimony and was it  
07 accurate at the time?  
08 A. Yes and yes.

10. PAGE 89:24 TO 90:06 (RUNNING 00:00:23.400)

24 this question: Is it correct to say that the purpose of  
25 your report, which is Exhibit 3, was not to come to the  
00090:01 fairest overall appraisal of all of Household's  
02 practices as to all of its borrowers in the state of  
03 Washington?  
04 A. Yes.  
05 Q. That was not the purpose of this report?  
06 A. That was not the purpose of the report.

11. PAGE 91:13 TO 91:17 (RUNNING 00:00:27.500)

13 Q. Okay. At the time that you did this report  
14 and investigation, was it your view that a company  
15 should be held responsible for the acts of a single  
16 individual employee?  
17 A. Yes.

12. PAGE 96:20 TO 97:09 (RUNNING 00:00:46.600)

20 Q. (BY MR. SLOANE:) Okay. In connection with  
21 that hearing -- and I can play the actual transcript for  
22 you -- I will represent to you that you made the  
23 following statement, which I'm happy to play for you, if  
24 you'd like, however -- quote, "However, there is still  
25 no agreed-upon or unified definition that exists for  
00097:01 predatory lending," unquote.  
02 My question to you, sir, is -- First of all,  
03 do you recall making that statement?  
04 A. I think I said that a bunch of times. I'm  
05 sure I said it in an event talking about predatory  
06 lending.  
07 Q. And -- And is that statement consistent with

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08 your knowledge and belief?

09 A. Yes.

13. PAGE 103:22 TO 103:24 (RUNNING 00:00:12.200)

22 Q. Did you -- Do you have any basis for believing  
23 that Mr. Bley is not an honest person?

24 A. Well, I think John's a very honest person.

TOTAL: 1 CLIP FROM 1 DEPOSITION (RUNNING 00:08:04.979)
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TAB 3

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

LAWRENCE E. JAFFE PENSION PLAN, )  
on behalf of itself and all )  
others similarly situated, )  
 )  
Plaintiff, )  
 )  
vs. ) No. 02 C 5893  
 )  
HOUSEHOLD INTERNATIONAL, INC., )  
et al., ) Chicago, Illinois  
 ) March 12, 2009  
Defendants. ) 1:30 p.m.

VOLUME 1  
TRANSCRIPT OF PROCEEDINGS - PRETRIAL CONFERENCE  
BEFORE THE HONORABLE RONALD A. GUZMAN

APPEARANCES:

For the Plaintiff: COUGHLIN STOIA GELLER RUDMAN &  
ROBBINS LLP  
BY: MR. SPENCER A. BURKHOLZ  
MR. MICHAEL J. DOWD  
MR. DANIEL S. DROSMAN  
MS. MAUREEN E. MUELLER  
655 West Broadway  
Suite 1900  
San Diego, California 92101  
(619) 231-1058  
  
COUGHLIN STOIA GELLER RUDMAN &  
ROBBINS LLP  
BY: MR. DAVID CAMERON BAKER  
MR. LUKE O. BROOKS  
MR. JASON C. DAVIS  
MS. AZRA Z. MEHDI  
100 Pine Street  
Suite 2600  
San Francisco, California 94111  
(415) 288-4545

1 your Honor.

2 I guess the one issue is this issue of reliance and  
3 classwide reliance. And the -- they have one -- they have an  
4 opportunity to rebut that presumption through the  
5 truth-on-the-market defense. And that's something that they  
6 should put on in this trial, and they intend to put on in this  
7 trial. They sought some of the plaintiffs' discovery; and  
8 your Honor's January 29, 2007, order made clear that they did  
9 not need plaintiffs' discovery in order to rebut the  
10 presumption reliance on the issue of the truth-on-the-market.  
11 So that -- we envision that being litigated in this case. So  
12 that's a reliance element that needs to be litigated on a  
13 classwide basis.

14 With respect to the second phase, we envision -- if  
15 we're successful with a verdict, liability verdict, a per  
16 share damages calculation by this jury, we would envision  
17 expert input into a formula on how you calculate damages for  
18 the class members in this case. Whether you use LIFO, FIFO,  
19 whether you have in-and-out traders, how you would calculate  
20 the damages, that formula, that would go into a notice that  
21 would go to class members that would then fill out the claim  
22 forms.

23 And then the real issue is what do we do after that.  
24 Do we have what they've wanted, which is full-blown discovery  
25 on all of the class members in order to rebut that presumption

1 motion for summary judgment, Judge, well, we don't think  
2 that's relevant; we're not going that route. We're sort of  
3 doing this miasma kind of fraud, that if you fail to tell  
4 people that you were a bad actor, that's the fraud.

5           So -- but whether or not that was appropriate, we  
6 could discuss separately. But for purposes of Professor  
7 Fischel, their loss causation expert, the guy that a jury  
8 would look to to say here's the fraudulent statement -- on  
9 this fraudulent statement, the stock -- the inflation went up  
10 this way. When that statement was shown to be false, it came  
11 down this way. He just worked on the down leg for some  
12 reason. But he did say, your Honor, that he found no new  
13 artificial inflation, no introduction of artificial inflation  
14 into the price of Household stock from the very first day of  
15 the class period, where he assumed that there was some already  
16 in place -- and, as you know, your Honor, we have statute of  
17 repose problems with that. From the very first day of the  
18 class period for two-and-a-quarter years, until November 15,  
19 2002 -- no, I'm sorry, 2001, that same artificial inflation  
20 that he was assuming came in the door at the start of the  
21 class period stayed exactly in place, didn't go up, didn't go  
22 down, stayed exactly as is. That could not be further in --  
23 that could not be further from the real stock --

24           THE COURT: If their expert fails to show that there  
25 was inflation in price, you win. But right now that's not



TAB 4

1                   IN THE UNITED STATES DISTRICT COURT  
2                   FOR THE NORTHERN DISTRICT OF ILLINOIS  
                  EASTERN DIVISION

3   LAWRENCE E. JAFFE PENSION PLAN, )  
   on behalf of itself and all       )  
4   others similarly situated,        )  
                                      )  
5                   Plaintiff,         )  
                                      )  
6       vs.                             )   No. 02 C 5893  
                                      )  
7   HOUSEHOLD INTERNATIONAL, INC., )  
   et al.,                            )   Chicago, Illinois  
8                                       )   March 18, 2009  
                  Defendants.         )   11:15 a.m.

9                                       VOLUME 5  
10                   TRANSCRIPT OF PROCEEDINGS - PRETRIAL CONFERENCE  
11                   BEFORE THE HONORABLE RONALD A. GUZMAN

12   APPEARANCES:

13   For the Plaintiff:               COUGHLIN STOIA GELLER RUDMAN &  
                                     ROBBINS LLP  
14                                     BY: MR. SPENCER A. BURKHOLZ  
                                     MR. MICHAEL J. DOWD  
15                                     MR. DANIEL S. DROSMAN  
                                     MS. MAUREEN E. MUELLER  
16                                     655 West Broadway  
                                     Suite 1900  
17                                     San Diego, California 92101  
                                     (619) 231-1058  
18                                     COUGHLIN STOIA GELLER RUDMAN &  
19                                     ROBBINS LLP  
                                     BY: MR. DAVID CAMERON BAKER  
20                                     MR. LUKE O. BROOKS  
                                     MR. JASON C. DAVIS  
21                                     MS. AZRA Z. MEHDI  
                                     100 Pine Street  
22                                     Suite 2600  
                                     San Francisco, California 94111  
23                                     (415) 288-4545

24  
25

1 "Scienter requires an extreme departure from the standards of  
2 ordinary care."

3 THE COURT: Do you agree with that?

4 MR. BURKHOLZ: Not necessarily, I don't.

5 I'm just looking at the Ernst quote that they cited  
6 in their opposition to our scienter and it doesn't exactly say  
7 that. It says, "The term 'scienter' refers to a mental state  
8 -- "

9 THE COURT: I'm sorry. A little louder, please.

10 MR. BURKHOLZ: Yes.

11 The term -- the case -- that they cite -- at least  
12 the quote they cite from Ernst -- is, "The term 'scienter'  
13 refers to a mental state embracing intent to deceive,  
14 manipulate or defraud."

15 MS. BEER: Ernst is -- this is at Page 193 of Ernst &  
16 Ernst vs. Hochfelder, which is 425 U.S. 185: "In this  
17 opinion, the term 'scienter' refers to a mental state  
18 embracing intent to deceive, manipulate or defraud. In  
19 certain areas of the law, recklessness is considered to be a  
20 form of intentional conduct for purposes of imposing liability  
21 for some act."

22 So, it's not an issue of not needing to prove intent.  
23 It's a question of how intent is proved.

24 And the Court of Appeals for the Seventh Circuit  
25 answered that question in Higginbotham vs. Baxter

TAB 5

1                   IN THE UNITED STATES DISTRICT COURT  
2                   FOR THE NORTHERN DISTRICT OF ILLINOIS  
                  EASTERN DIVISION

3   LAWRENCE E. JAFFE PENSION PLAN, )  
   on behalf of itself and all       )  
4   others similarly situated,        )  
                                      )  
5                   Plaintiff,         )  
                                      )  
6       vs.                             )   No. 02 C 5893  
                                      )  
7   HOUSEHOLD INTERNATIONAL, INC., )  
   et al.,                            )   Chicago, Illinois  
8                                       )   March 20, 2009  
                  Defendants.         )   8:30 a.m.

9                                       VOLUME 7  
10                   TRANSCRIPT OF PROCEEDINGS - PRETRIAL CONFERENCE  
11                   BEFORE THE HONORABLE RONALD A. GUZMAN

12   APPEARANCES:

13   For the Plaintiff:               COUGHLIN STOIA GELLER RUDMAN &  
                                     ROBBINS LLP  
14                                     BY: MR. SPENCER A. BURKHOLZ  
                                     MR. MICHAEL J. DOWD  
15                                     MR. DANIEL S. DROSMAN  
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16                                     655 West Broadway  
                                     Suite 1900  
17                                     San Diego, California 92101  
                                     (619) 231-1058  
18                                     COUGHLIN STOIA GELLER RUDMAN &  
19                                     ROBBINS LLP  
                                     BY: MR. DAVID CAMERON BAKER  
20                                     MR. LUKE O. BROOKS  
                                     MR. JASON C. DAVIS  
21                                     MS. AZRA Z. MEHDI  
                                     100 Pine Street  
22                                     Suite 2600  
                                     San Francisco, California 94111  
23                                     (415) 288-4545

24

25

1 Different from each other or in addition to?

2 MS. SMITH: In addition to.

3 THE COURT: Okay.

4 Which one has the additional cover?

5 MS. SMITH: 550 has the additional cover e-mails,  
6 your Honor.

7 THE COURT: Is that 16 or 17?

8 MR. DROSMAN: Your Honor, if you'd like, I can hand  
9 you up Exhibit 550.

10 THE COURT: You don't need to. You guys can do this.

11 I want to know if there's any difference between the  
12 document that I excluded, which is D17, and this document.

13 MR. DROSMAN: Yes. The answer is "Yes."

14 THE COURT: What is the difference?

15 MR. DROSMAN: The difference is the first -- the  
16 first -- four pages of this document, Exhibit 550, were not  
17 contained on the document that you excluded.

18 So, to the extent that the remaining pages of Exhibit  
19 550 are contained, we can take those off.

20 THE COURT: Okay. That will be the ruling.

21 MR. DROSMAN: This is -- Exhibit 596, your Honor, is  
22 -- the next one.

23 THE COURT: What's the objection?

24 MS. SMITH: The objection is, your Honor, that in  
25 light of your ruling on the spoliation motion, this document

1 is irrelevant, hearsay and confusing.

2 MR. DROSMAN: Your Honor, obviously, you ruled that  
3 you would not give plaintiffs an adverse inference.

4 I didn't see anything in your ruling in which you  
5 indicated that documents dealing with document destruction or  
6 ordering document destruction were inadmissible.

7 And, in fact, this is an important document that goes  
8 straight to defendants' scienter because on May 24th, 2001 --  
9 roughly, two months before the date of this e-mail -- a senior  
10 member of the Sales Department at Household issued an edict,  
11 and the edict was: "The issue of homemade worksheets must be  
12 immediately discontinued and all copies of the unauthorized  
13 aids must be destroyed."

14 That's Plaintiffs' Exhibit 266. There's no objection  
15 to that document.

16 This, then, is the response to that edict. You have  
17 a DSM -- a Division Sales Manager -- Beth Hansgen, ordering  
18 people to, basically, take these letters that were written to  
19 customers and delete them immediately.

20 MS. SMITH: Well, Mr. Drosman's speculation about  
21 whether or not that's a response to what he calls an edict is  
22 irrelevant, your Honor.

23 The fact is that in light of your ruling on the  
24 spoliation motion, this document has -- is irrelevant.

25 MR. DROSMAN: I mean, this was the destruction of

TAB 6



1                   IN THE UNITED STATES DISTRICT COURT  
2                   FOR THE NORTHERN DISTRICT OF ILLINOIS  
                    EASTERN DIVISION

3   LAWRENCE E. JAFFE PENSION PLAN, )  
4   on behalf of itself and all        )  
5   others similarly situated,         )  
6                                        )  
7                   Plaintiff,         )  
8                                        )  
9                   vs.                 ) No. 02 C 5893  
10                                        )  
11   HOUSEHOLD INTERNATIONAL, INC., )  
12   et al.,                            ) Chicago, Illinois  
13                                        ) March 26, 2009  
14                   Defendants.         ) 9:30 a.m.

15                                       VOLUME 8  
16                   TRANSCRIPT OF PROCEEDINGS - PRETRIAL CONFERENCE  
17                   BEFORE THE HONORABLE RONALD A. GUZMAN

18   APPEARANCES:

19   For the Plaintiff:               COUGHLIN STOIA GELLER RUDMAN &  
20                                       ROBBINS LLP  
21   BY: MR. SPENCER A. BURKHOLZ  
22       MR. MICHAEL J. DOWD  
23       MR. DANIEL S. DROSMAN  
24       MS. MAUREEN E. MUELLER  
25       655 West Broadway  
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         (619) 231-1058

                                     COUGHLIN STOIA GELLER RUDMAN &  
                                     ROBBINS LLP  
BY: MR. DAVID CAMERON BAKER  
     MR. LUKE O. BROOKS  
     MR. JASON C. DAVIS  
     MS. AZRA Z. MEHDI  
     100 Pine Street  
     Suite 2600  
     San Francisco, California 94111  
     (415) 288-4545

1 allowed to rely on these. In one instance, the settlement  
2 amount relates arguably to the damages in this case, which is  
3 the movement of the stock price. In the other instance, it  
4 relates only to showing the truth essentially of what was  
5 alleged in the settlement allegations.

6 THE COURT: I'm not really sure I follow how you  
7 reach that conclusion.

8 MR. HALL: Well, your Honor, Mr. Devor, who opines on  
9 this issue in his report, isn't opining as to damages in the  
10 securities case. He's opining as to -- you know, to what  
11 extent essentially did Household benefit from the practices  
12 that the plaintiffs say were misrepresented, not that they  
13 were wrong. That's not what this case is about. This case is  
14 about whether certain practices weren't disclosed then to the  
15 market.

16 MR. DOWD: And, your Honor, you know, we have to  
17 demonstrate materiality. We have to demonstrate some sort of  
18 quantification so that defendants can't stand up and say  
19 predatory lending could have been two cents, could have been  
20 three cents, could have been five bucks, could have been two  
21 billion, but plaintiffs couldn't tell you. And that's all  
22 they're trying to do, is to not allow us, with documents that  
23 there's -- the only objection to them is 408, that an expert  
24 relied on to show that quantification; and they are just  
25 trying to drive a truck through 408.

1           Your Honor, I mean, with all due respect, I mean,  
2    what 681 has to do with 408 is beyond me, this exhibit. And  
3    I'll live with that ruling, your Honor. The Court makes  
4    rulings. We adapt and overcome. I mean, that's part of our  
5    job as lawyers. But to try to wipe it out completely when the  
6    Court then issues a ruling directly dealing with plaintiffs'  
7    accounting expert and says we can do it is just unfair.

8           THE COURT: Well, I think the ruling has already been  
9    made here. I've indicated that he can testify to these  
10   things; and that includes, of course, the material that is  
11   explained in the motions that he relied upon in doing so.

12          MR. DOWD: Thank you, your Honor.

13          THE COURT: That's the way the baby gets sliced this  
14   time. Okay.

15          MR. DOWD: I believe defendants' next objections were  
16   on 42 and 43.

17          MR. HALL: Yes. Could we have a moment, your Honor?

18   (Brief pause.)

19          MR. DOWD: We actually have reached an agreement on  
20   42 and 43, your Honor. We're just going to combine the year  
21   '99.

22          THE COURT: Okay.

23          MR. HALL: Your Honor, I'm going to let my colleague,  
24   Mike Wernke, speak to these.

25          THE COURT: As long as you're doing some shuffling

1    which would be used likely with Dr. Litan if he testifies, the  
2    underlying disclosures that are referenced here with the big  
3    green check marks, I believe plaintiffs are aware, are  
4    discussed at great length in Dr. Litan's report and in the  
5    exhibits to his report.

6           MR. DOWD: With that representation, we'll evaluate  
7    it and double check, if it's going to be used only with Litan  
8    and the source to his report.

9           I think our next -- we have the same concern with  
10   Exhibits 541-01 through 04. I'm just not sure if these are  
11   used with a particular witness or --

12           MS. COHN: These would also be used with Dr. Litan.

13           MR. DOWD: With that, we'll just save it for cross,  
14   your Honor.

15           MR. BURKHOLZ: Next objection we have is to 541 --  
16   545-01 through 05.

17           THE COURT: I'm sorry. These are 5- --

18           MR. BURKHOLZ: 545-01.

19           THE COURT: 545. Okay.

20           MR. BURKHOLZ: Our basic objection is this is a  
21   hypothetical that is not in Dr. Bajaj's report. He does have  
22   a different hypothetical involving an oil well and disclosure  
23   of news regarding fire that he describes twice in his report.  
24   But this is something new that's come from the defendants.

25           MR. HALL: Your Honor, I understand Mr. Burkholz'

1 point to be that the experts should be constrained essentially  
2 to the words that are in their report and not simply the  
3 concepts that are in their report. And we can agree to that.  
4 And with the Court's permission, we'll reevaluate our  
5 demonstratives in that context.

6 THE COURT: It sounded wonderful, but I'm not sure  
7 what it meant.

8 MR. HALL: Your Honor, the point being, in light of  
9 your Honor's earlier instructions that the experts, under Rule  
10 26, will be limited to what they actually say in their reports  
11 construed narrowly instead of construed broadly is my point.

12 THE COURT: Well, I don't know about that point. But  
13 with respect to experts who have been hired to give opinions,  
14 who have written reports and have been deposed, the use of  
15 previously undisclosed hypotheticals to make their points at  
16 trial is -- unless there are some unusual circumstances -- not  
17 going to be allowed.

18 MR. HALL: Yes, your Honor.

19 THE COURT: Okay.

20 MR. HALL: We can withdraw this exhibit, your Honor.  
21 I believe we can probably productively, in light of that  
22 guidance, your Honor, meet and confer with the plaintiffs and  
23 eliminate several issues.

24 MR. BURKHOLZ: Okay.

25 THE COURT: Okay.

TAB 7

1 PROSPECTIVE JUROR EGAN: Correct.

2 MR. KAVALER: A bank?

3 PROSPECTIVE JUROR EGAN: Correct.

4 MR. KAVALER: Sir?

02:24:56 5 PROSPECTIVE JUROR GALVAN: No mortgage.

6 PROSPECTIVE JUROR VELIZ: I have a mortgage,

7 refinanced once for better rates. Don't know -- my wife

8 handled all that. She just said, "Pay the bill."

9 (Laughter.)

02:25:07 10 MR. KAVALER: I know that speech. I've heard that

11 speech.

12 I noticed something interesting. All of you except

13 one said "banks." One of you said "finance company."

14 Do you all know the difference between a bank and

02:25:22 15 finance company?

16 (Some prospective jurors nodded and some shook their

17 heads.)

18 MR. KAVALER: I see some Yes'es and some No's.

19 We all know what a bank is. A bank takes deposits.

02:25:32 20 Tellers -- when I was a kid, banks had tellers. Now they have

21 machines. People deposit their money in a bank; and, then,

22 the bank lends their money to, for example, people buying

23 homes.

24 Does anyone know what a finance company is -- what

02:25:44 25 the difference is?

1 (No response.)

2 MR. KAVALER: Sir, you're a banker.

3 PROSPECTIVE JUROR GALVAN: It's not a bank.

4 MR. KAVALER: It's not a bank. There you go.

02:25:53 5 A finance company does not take deposits. Did you  
6 realize will that? A finance company is a company that  
7 borrows money in the market wholesale, if you will, and rents  
8 it out to customers retail. And it makes its money on the  
9 differential between the rate at which it borrows the money  
02:26:14 10 and it sells the money -- rents it to the customers.

11 Is that clear to everybody?

12 (Prospective jurors nodding.)

13 MR. KAVALER: Okay.

14 Household was never a bank. Household International,  
02:26:24 15 the big parent company, owned a couple of banks -- a small  
16 portion of the business. Basically, the business Mr. Gilmer  
17 ran was a finance company -- a consumer loan business.

18 Is everybody comfortable with that? Do you  
19 understand the difference?

02:26:37 20 (Prospective jurors nodding.)

21 MR. KAVALER: So, when you think of bank as this case  
22 unfolds, I want to you remember it's all fine and good to  
23 think of banks, but you're not thinking of Household.

24 Household is a different kind of company governed by  
02:26:54 25 different rules.



TAB 8



1 Q. Did you also graduate from Georgia State University Law  
2 School?

3 A. I did.

4 Q. And that was in June of 1991?

02:08:08 5 A. Yes.

6 Q. When did you attend the University of -- or the Georgia  
7 State University Law School?

8 A. I attended it in Atlanta for four years at night.

9 Q. And why did you attend at night?

02:08:20 10 A. Because I was working full-time. I had a senior position  
11 at the Comptroller of the Currency, which is the OCC.

12 Q. Are you also licensed to practice law in Georgia?

13 A. I am.

14 Q. And you're licensed to practice law in Washington, D.C.,

02:08:35 15 as well?

16 A. Yes.

17 Q. And both those licenses are inactive currently; is that  
18 right?

19 A. That's correct.

02:08:39 20 Q. Now, let's talk a little bit about your experience.

21 You've spent -- you spent -- 25 years as a state and  
22 federal regulator in the banking industry; is that correct?

23 A. That's correct.

24 Q. And you began your tenure as a Regulator at the OCC; is

02:08:57 25 that right?

1 A. Yes.

2 Q. What does the "OCC" stand for?

3 A. It's the "Comptroller of the Currency," which is the  
4 regulator of national banks in the country.

02:09:03 5 Q. And you worked for the OCC from 1974 to 1992; is that  
6 right?

7 A. Yes.

8 Q. From 1974 to 1982, you worked as a National Bank Examiner  
9 in Chicago, Illinois; is that right?

02:09:17 10 A. That's right.

11 Q. And tell me what you were responsible for doing while you  
12 were the National Bank Examiner in it Chicago?

13 A. Well, actually, I was based in Joliet, Illinois; and, as a  
14 field examiner, I would go from bank to bank and examine their  
02:09:32 15 books and records, making sure they were complying with the  
16 law and checking on the quality of their assets, to make sure  
17 they were solvent.

18 And I did that for approximately seven years.

19 Q. Okay.

02:09:45 20 And what was your jurisdiction during that time?

21 What states were you responsible for?

22 A. I was based in Joliet and I examined banks in the  
23 Chicagoland area and, also, the upper peninsula of Michigan;  
24 and, then, they would call us in to do the big banks in

02:10:00 25 Detroit and Kalamazoo.

1 Q. Okay.

2 Were you responsible for a team of examiners at that  
3 point?

4 A. After I got commissioned as a National Bank Examiner, I  
02:10:08 5 was.

6 Q. Now, did you determine compliance with national banking  
7 laws in that position?

8 A. Yes.

9 Q. And did you also teach courses at the OCC schools in the  
02:10:19 10 areas in investment securities during that time?

11 A. Yes. And, also, white collar crime.

12 Q. Now, let's fast forward to 1982.

13 You mentioned that your position changed at that  
14 time; is that right?

02:10:29 15 A. Yes.

16 Q. You were still with the OCC in 1982?

17 A. Yes.

18 And I went to Washington.

19 Q. And, at that point, you became a Special Projects Examiner  
02:10:37 20 in Washington, D.C., with the OCC?

21 A. Yes.

22 Q. And you worked in that position from 1982 to 1985; is that  
23 correct?

24 A. Yes.

02:10:45 25 Q. What did you do as a Special Projects Examiner in

1 Washington?

2 A. And, actually, it was 1982 to 1984.

3 As a Special Projects Examiner, I was responsible for  
4 a certain area of the country and I supervised the failing  
02:10:59 5 banks.

6 And, so, I would monitor them; and, when it was time  
7 to close them, I would actually go out and close it on behalf  
8 of the Comptroller of the Currency.

9 Q. Did you also formulate a book called the "Administrative  
02:11:12 10 Action Book" during that time?

11 A. Yes.

12 During that time, we started to see a rise in the  
13 number of problem banks. And the person that was in charge of  
14 our division said, "We have to have consistency in the  
02:11:24 15 enforcement actions that we're taking against banks."

16 And, so, he gave me the responsibility of pulling  
17 together a sample enforcement articles, so that everyone in  
18 the United States would have some consistency when they were  
19 formulating enforcement actions.

02:11:37 20 Q. And was that administrative action book, was it actually  
21 published and distributed to people in the field?

22 A. Not in the field, but in the offices. And the legal staff  
23 would actually use this to draft up the enforcement actions.

24 And it's still being used in an updated version, of  
02:11:55 25 course, today.

1 Q. Now, you mentioned that you left your position as Special  
2 Projects Examiner in 1984; is that right?

3 A. Yes.

4 Q. And, at that point, you stayed with the OCC; is that  
02:12:06 5 correct?

6 A. Yes.

7 I was promoted to be the Executive Assistant to the  
8 top policy maker, the Senior Deputy Controller For Bank  
9 Supervision.

02:12:15 10 Q. And where was that position?

11 A. In Washington, D.C., also.

12 Q. Okay.

13 And did you act as the Senior Policy Adviser to the  
14 Senior Deputy Comptroller at that time?

02:12:24 15 A. Yes.

16 Q. What did that involve?

17 A. I advised him on all policymaking issues regarding bank  
18 supervision policy; and, I also coordinated all of the senior  
19 level policy issues with the FDIC and the Federal Reserve and  
02:12:40 20 the Conference of State Bank Supervisors and the foreign  
21 governments, as well, through the Basel Committee.

22 Q. Was there an emphasis on enforcement matters at that time?

23 A. Yes. And I would review every document that he would  
24 sign, including numerous enforcement actions.

02:12:58 25 Q. What does that mean, "an enforcement action"?

1 A. An enforcement action is what regulators have the  
2 authority to take when they find practices that they want to  
3 change in the banks; and, the state regulators and the federal  
4 regulators have the same sort of enforcement authority.

02:13:14 5 They can take a cease-and-desist action and say, "You  
6 have to stop doing what you're doing," or they can take a  
7 lesser action.

8 It's always in writing, so that's why we wanted the  
9 Administrative Action Book, so they could pull sample articles  
02:13:29 10 from that for those enforcement actions.

11 Q. Now, you left your Executive Assistant to the Senior  
12 Deputy Comptroller in 1986; is that right?

13 A. Yes.

14 Q. And you remained with the OCC still; is that correct?

02:13:39 15 A. I did.

16 Q. What was your next position?

17 A. I was promoted to the Director For Bank Supervision and we  
18 had six districts at the OCC at the time, and there were six  
19 Directors For Bank Supervision and I was the Director For Bank  
02:13:52 20 Supervision in the Southeastern District in Atlanta.

21 Q. And what jurisdiction did that cover?

22 A. We had nine states in our district and my responsibilities  
23 were over all the large banks -- the ones that were over a  
24 billion dollars -- and, then, another portfolio was all the  
02:14:08 25 problem banks.



1 Q. And, then, in 1988, you left that position and you  
2 remained with the OCC still; is that correct?

3 A. Yes.

4 Q. And you moved on to act as the Atlanta Field Office  
02:14:19 5 Director; is that right?

6 A. That's right.

7 My boss came to me and said, "Would you mind taking a  
8 lateral and be the Atlanta Field Office Director because we're  
9 going to shut down our Richmond office and we're going to  
02:14:30 10 consolidate them, and this is going to be the largest one that  
11 we have in the country?"

12 And since I already started law school, this was a  
13 perfect opportunity for me to finish law school and do  
14 something different.

02:14:41 15 Q. What were your responsibilities when you acted as the  
16 Atlanta Field Officer?

17 A. The Atlanta Field Office Director was responsible for all  
18 the community banks in a five-state area and all the  
19 examiners. So, I would hire the examiners. I would train  
02:14:59 20 them. I would supervise them, along with this portfolio of  
21 banks.

22 Q. Now, in 1992, you left the office of the Comptroller of  
23 the Currency; is that correct?

24 A. That's correct.

02:15:09 25 Q. And you took a position as the Texas State Banking

1 Commissioner; is that right?

2 A. Yes.

3 Q. And, in that position, did you supervise over 56 billion  
4 dollars in banking assets?

02:15:20 5 A. Yes.

6 Q. And is the Texas state banking -- is that the third  
7 largest state banking system in the country?

8 A. At the time, it was the third largest behind New York and  
9 California, in terms of assets -- in terms of size of banks,  
02:15:35 10 dollar-wise. But it was only the second largest behind

11 Illinois, in terms of numbers of banks, because both of those  
12 states came late to intrastate branching.

13 Q. Were you appointed to that position or how did you obtain  
14 that position?

02:15:49 15 A. I was asked to apply for the position.

16 They were looking for a banking commissioner and I  
17 went over and interviewed and they hired me. And I reported  
18 to an oversight board, which was gubernatorial appointee.

19 So, I was not appointed by the governor, but I worked  
02:16:06 20 for an oversight board that was appointed.

21 Q. Did you manage employees when you were the Texas State  
22 Banking Commissioner?

23 A. Yes, I did.

24 Q. How many employees did you oversee?

02:16:16 25 A. I had -- I think I had -- 150 employees; and, then, I also

1 managed, from an administrative standpoint, the activities of  
2 the other two sister agencies: The Savings and Loan  
3 Department and the Consumer Credit Department.

4 Q. Did you also manage a \$12 million budget as the Texas  
02:16:35 5 State Banking Commissioner?

6 A. Yes.

7 Q. As the Texas State Banking Commissioner, were you involved  
8 in the statutory modernization of certain statutes or laws  
9 that existed at that time?

02:16:45 10 A. Yes. The Banking Code was from 1943; and, when I got  
11 there, I thought, "You know, the first thing I need to do is  
12 see if we can't update these laws -- these banking laws -- to  
13 bring them into the modern era."

14 And, so, I formed a committee and we worked for two  
02:17:02 15 years and we were able to get our banking laws updated.

16 Q. Did you also coordinate supervisory efforts for problem  
17 institutions?

18 A. Yes.

19 Q. Tell me about that.

02:17:12 20 A. Well, all of the banks in the state of Texas -- in the  
21 United States, we have a dual banking system. And, so, if you  
22 want a bank, you can either go to the federal government,  
23 which is the Comptroller of the Currency, or you can go to  
24 your State Banking Commissioner, which there's one in every  
02:17:28 25 state.

1                   And, so, anybody that had a state bank, I was  
2   responsible for overseeing. And, of course, if they got into  
3   trouble, then I was responsible for trying to rehabilitate  
4   them or taking an enforcement action or whatever needed to be  
02:17:44 5   done.

6   Q. Did you serve at the same time as Executive Director of  
7   the Texas Finance Commission?

8   A. Yes.

9   Q. What did that involve?

02:17:51 10   A. It, basically, what it involved -- for the Finance  
11   Commission, which was the oversight board, there was the  
12   Banking Department, and I was the Commissioner of the Banking  
13   Department; there was a Savings and Loan Department; and, the  
14   Consumer Credit Department.

02:18:04 15                   And just from an administrative standpoint, I would  
16   sort of manage the meetings.

17                   They had public meetings and various studies that  
18   they had to do. So, I would do the -- manage that work on an  
19   administrative basis.

02:18:19 20   Q. During all this time, were you also the Secretary and  
21   Treasurer of the Conference of State Bank Supervisors?

22   A. Yes.

23   Q. And what did that -- what did the Conference of State Bank  
24   Supervisors consist of?

02:18:31 25   A. I was the Secretary/Treasurer during one of the years I

1 was Banking Commissioner for seven-plus years. And the  
2 Conference of State Bank Supervisors is the national  
3 organization of all the banking commissioners. And some of  
4 the Commissioners have different titles, like "Director" or  
02:18:48 5 whatever.

6 But, basically, there's one from every state in the  
7 four territories and we had an organization that would monitor  
8 laws across the country. We would go and testify before  
9 Congress on various issues that affected the state banking  
02:19:07 10 systems.

11 Q. Now, in 1999, you left your position as the Texas State  
12 Banking Commissioner; is that right?

13 A. That's right.

14 Q. And you founded your own company; is that correct?

02:19:18 15 A. Yes, I did.

16 Q. What's the name of your company?

17 A. It's Ghiglieri & Company.

18 Q. Tell us what Ghiglieri & Company does?

19 A. Well, I do basically three things. I do a lot of bank  
02:19:29 20 consulting. And I do, for example, if they run afoul of the  
21 regulators, and the regulators are asking them to do certain  
22 things, I will go in and do a management study or a strategic  
23 planning session or something for them.

24 I also do expert witness work, such as I'm doing here  
02:19:45 25 today.

1 portfolio, since that's the largest asset.

2 And the past due percentages are very important, to  
3 see what the quality of the loan portfolio is.

4 So, the regulators don't want the lenders to be

02:24:51 5 masking that number to them. And, so, that's one of the  
6 things that I would look at when I was a field examiner.

7 Q. Let's now turn to the opinions you actually reached in  
8 this case.

9 Did you reach any conclusion about whether Household

02:25:05 10 engaged in predatory lending practices during the 1999 to 2002  
11 time frame?

12 A. I did reach an opinion.

13 Q. And tell us what that is.

14 A. My opinion is, after looking at everything, that Household

02:25:18 15 engaged in company-wide systemic predatory lending.

16 Q. Now, did you also reach any opinion or conclusion as to  
17 whether Household hid the quality of its loans during the 1999  
18 to 2002 time frame?

19 A. I did reach an opinion.

02:25:35 20 Q. And please tell the jury what that opinion is.

21 A. My opinion, after looking at everything that I looked at,  
22 is that Household utilized re-aging practices to mask their  
23 delinquencies.

24 Q. Let's -- before we talk in more detail about how you

02:25:51 25 arrived at those opinions and what you found that supported

1           And, then, I would formulate how many loans I wanted  
2   to look at and whatever else I wanted to look at on their  
3   balance sheet. So, I would look at the books, the records,  
4   internal memos, board minutes, things like that.

02:37:33 5   Q. What procedure did you use to arrive at your conclusions  
6   in this case?

7   A. I used a similar procedure. Some of the documents were  
8   different, but I looked at the loan-type documents that were  
9   available. I looked at complaints. I looked at the  
02:37:52 10   Household's responses to the complaints. I looked at  
11   examination reports -- the ones that were available. I looked  
12   at the company's responses to those examinations.

13           And, then, I also was able to have access to the  
14   deposition testimony, which is where the employees of  
02:38:10 15   Household were questioned. And I had the ability to read  
16   their -- the answers that they had.

17   Q. Did you prepare a demonstrative exhibit to assist you in  
18   explaining the procedure or process that you used in this case  
19   to develop your opinions?

02:38:27 20   A. I did.

21   Q. I'll show you what has been marked as plaintiffs'  
22   demonstrative Exhibit 34 for identification.

23           What does this exhibit show?

24   A. This exhibit shows the different materials that I looked  
02:38:56 25   at: Loan documents, internal e-mails and memos and reports.

1 tell the jury what that term means?

2 A. Well, "predatory lending" is sort of an umbrella term  
3 that's come into vogue in the last ten years or so, to  
4 encompass a variety of practices that are either deceptive to  
02:43:19 5 the customer or unfair -- contain unfair terms.

6 In the olden days, we used to call it mortgage fraud;  
7 but, these days they call it predatory lending. And a lot of  
8 the practices that we looked at in the '70s -- for example,  
9 insurance packing, compliance with Reg Z, things like that --  
02:43:39 10 a lot of these practices are brought under this umbrella of  
11 predatory lending.

12 Q. Now, when you performed your analysis in this case, did  
13 you review any documents to sort of survey the definition of  
14 "predatory lending" that existed in the 1999 to 2002 time  
02:43:54 15 frame?

16 A. I did.

17 Q. What documents did you survey to sort of see what material  
18 was available at that point?

19 A. Well -- and this is something that I always do when I'm  
02:44:06 20 serving as an expert -- I want to know what the regulatory  
21 landscape was like at the time.

22 And, so, in this time frame, I looked at any  
23 issuances from the Comptroller of the Currency. I looked at  
24 any issuances from the Office of Thrift Supervision, because  
02:44:21 25 both of them regulated Household. I looked at anything that



1 settlement is not admitted to show that Household was at fault  
2 or that Household engaged in any wrongdoing in the matter that  
3 was settled. Again, the evidence is admitted only for the  
4 limited purpose of showing whether the settlement affected the  
03:42:19 5 price of Household stock and should be considered and may be  
6 considered only for that purpose.

7 I guess I want to make sure that I have this correct  
8 from the attorneys. The instruction regarding the information  
9 assumed by the various expert opinions, do you want that  
03:43:17 10 instruction given at this point as well?

11 MR. HALL: Yes, your Honor.

12 THE COURT: All right. I believe I have the language  
13 that you folks agreed to. If it is, it's acceptable to me and  
14 I will deliver it to the jury. If I misspeak, let me know and  
03:43:36 15 we will make the appropriate correction.

16 During the course of testimony by expert witnesses  
17 who you may hear, you may hear evidence regarding the category  
18 of documents I have already told you about. Evidence  
19 regarding publicity, notice, price, and things of that nature  
03:44:21 20 will be explained to you during the course of the expert's  
21 testimony.

22 The underlying information that you receive in this  
23 manner must not be considered by you for the purpose of  
24 determining -- must not be considered by you as evidence of  
03:44:42 25 the truth of the information but rather is being admitted for

1 the limited purpose of showing you -- or assisting you to  
2 evaluate the expert witness' opinion and how sound that  
3 opinion is.

4 The underlying opinion must not be used by you for  
03:45:03 5 any other purpose than to evaluate the opinion of the expert  
6 witness.

7 You may proceed.

8 MR. DROSMAN: Thank you, your Honor.

9 BY MR. DROSMAN:

03:45:15 10 Q. Ms. Ghiglieri, before the break I asked you whether you  
11 prepared a demonstrative exhibit to assist you in explaining  
12 your conclusion that Household engaged in a variety of  
13 predatory practices during the 1999-to-2002 time frame.

14 Did you prepare such an exhibit?

03:45:33 15 A. I did.

16 Q. Would that assist you in explaining your testimony?

17 A. Yes, it would.

18 Q. At this time I will show you what has been marked as  
19 Plaintiffs' Demonstrative Exhibit 29 for identification.

03:45:45 20 What are the entries on Plaintiffs' Exhibit 29?

21 A. These are the various predatory lending practices that I  
22 found when I was reviewing all of the documents.

23 Q. Let's take the first predatory lending practice listed,  
24 the effective or equivalent rate.

03:46:06 25 Can you tell the jury what that is?

1 Down one more paragraph it says, "The Penalty Trap."

2 "One of Kahr's favorite strategies was to trap  
3 customers with penalty fees for late payments or going over  
4 credit limits. That had the virtue not only of providing  
04:13:55 5 direct fee income but also of permitting Providian to raise  
6 interest rates as high as 24 percent annually."

7 So there were similarities between what I saw at  
8 Household on his suggestions and what he had suggested to  
9 Providian.

04:14:16 10 Q. I will show you what has been marked as Plaintiffs'  
11 Exhibit 347 for identification.

12 (Document tendered.)

13 BY MR. DROSMAN:

14 Q. Ms. Ghiglieri, do you recognize Plaintiffs' Exhibit 347?

04:14:47 15 A. I do.

16 Q. What is it?

17 A. This is one of the documents that I used to formulate my  
18 opinions that Household engaged in widespread and systemic  
19 predatory lending.

04:14:58 20 Q. What is the document?

21 A. This is a document that Paul Creatura -- it has a little  
22 note to Gary Gilmer, and this is a summary of a meeting that  
23 was held with Andrew Kahr on December 18th, 1998.

24 MR. DROSMAN: Your Honor, at this time plaintiffs

04:15:23 25 offer Exhibit 347 into evidence. I believe there has been no