

# EXHIBIT 1



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Luke O. Brooks  
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April 26, 2009

VIA E-MAIL

The Honorable Ronald A. Guzman  
United States District Court  
Northern District of Illinois  
219 South Dearborn Street, Room 1278  
Chicago, IL 60604

Re: *Lawrence E. Jaffe Pension Plan v. Household International, Inc. et al.*  
Lead Case No. 02-CV-5893 (N.D. Ill.)

Dear Judge Guzman:

Pursuant to the Court's direction at the April 24, 2009 hearing, please find attached a revision of the verdict form the Court provided (along with Tables A and B) modified to include interrogatories regarding (1) the disclosure dates related to Professor Fischel's "Specific Disclosures" model and (2) whether the each false statement was related to predatory lending, re-aging/2+ delinquency and/or the restatement. Plaintiffs have objections to these interrogatories and believe they are unnecessary under applicable law to reach a final verdict.

Respectfully submitted,

A handwritten signature in blue ink that reads "L. O. Brooks".

LUKE O. BROOKS

LOB:rje

Enclosures

cc: Thomas J. Kavalier, Esq. (w/ enc.)  
Adam B. Deutsch, Esq. (w/ enc.)

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**Verdict Form**

**Question No. 1**

Have plaintiffs proved that **Defendant Household** violated Section 10(b)/Rule 10b-5 with regard to any of the statements set forth in Table A?

- |                            |                            |
|----------------------------|----------------------------|
| Statement 1: Yes___ No___  | Statement 21: Yes___ No___ |
| Statement 2: Yes___ No___  | Statement 22: Yes___ No___ |
| Statement 3: Yes___ No___  | Statement 23: Yes___ No___ |
| Statement 4: Yes___ No___  | Statement 24: Yes___ No___ |
| Statement 5: Yes___ No___  | Statement 25: Yes___ No___ |
| Statement 6: Yes___ No___  | Statement 26: Yes___ No___ |
| Statement 7: Yes___ No___  | Statement 27: Yes___ No___ |
| Statement 8: Yes___ No___  | Statement 28: Yes___ No___ |
| Statement 9: Yes___ No___  | Statement 29: Yes___ No___ |
| Statement 10: Yes___ No___ | Statement 30: Yes___ No___ |
| Statement 11: Yes___ No___ | Statement 31: Yes___ No___ |
| Statement 12: Yes___ No___ | Statement 32: Yes___ No___ |
| Statement 13: Yes___ No___ | Statement 33: Yes___ No___ |
| Statement 14: Yes___ No___ | Statement 34: Yes___ No___ |
| Statement 15: Yes___ No___ | Statement 35: Yes___ No___ |
| Statement 16: Yes___ No___ | Statement 36: Yes___ No___ |
| Statement 17: Yes___ No___ | Statement 37: Yes___ No___ |
| Statement 18: Yes___ No___ | Statement 38: Yes___ No___ |
| Statement 19: Yes___ No___ | Statement 39: Yes___ No___ |
| Statement 20: Yes___ No___ | Statement 40: Yes___ No___ |

If you answered “no” for all of the statements, proceed to Question No. 4. If you answered “yes” for any of the statements, please proceed to Question No. 2.

**Question No. 2**

Did **Defendant Household** act knowingly or recklessly (**choose one**) with regard to the statements for which you answered “yes” in response to Question No. 1?

- Statement 1: Knowingly \_\_\_ Recklessly \_\_\_      Statement 21: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 2: Knowingly \_\_\_ Recklessly \_\_\_      Statement 22: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 3: Knowingly \_\_\_ Recklessly \_\_\_      Statement 23: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 4: Knowingly \_\_\_ Recklessly \_\_\_      Statement 24: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 5: Knowingly \_\_\_ Recklessly \_\_\_      Statement 25: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 6: Knowingly \_\_\_ Recklessly \_\_\_      Statement 26: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 7: Knowingly \_\_\_ Recklessly \_\_\_      Statement 27: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 8: Knowingly \_\_\_ Recklessly \_\_\_      Statement 28: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 9: Knowingly \_\_\_ Recklessly \_\_\_      Statement 29: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 10: Knowingly \_\_\_ Recklessly \_\_\_      Statement 30: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 11: Knowingly \_\_\_ Recklessly \_\_\_      Statement 31: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 12: Knowingly \_\_\_ Recklessly \_\_\_      Statement 32: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 13: Knowingly \_\_\_ Recklessly \_\_\_      Statement 33: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 14: Knowingly \_\_\_ Recklessly \_\_\_      Statement 34: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 15: Knowingly \_\_\_ Recklessly \_\_\_      Statement 35: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 16: Knowingly \_\_\_ Recklessly \_\_\_      Statement 36: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 17: Knowingly \_\_\_ Recklessly \_\_\_      Statement 37: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 18: Knowingly \_\_\_ Recklessly \_\_\_      Statement 38: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 19: Knowingly \_\_\_ Recklessly \_\_\_      Statement 39: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 20: Knowingly \_\_\_ Recklessly \_\_\_      Statement 40: Knowingly \_\_\_ Recklessly \_\_\_

Please proceed to Question No. 3.

**Question No. 3**

For each of the statements to which you answered “yes” in response to Question No. 1, why was the statement false or misleading? Check each that applies (**more than one box can be checked for each statement**):

- Statement No. 1:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 2:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 3:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 4:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 5:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 6:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 7:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 8:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 9:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 10:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 11:    Predatory Lending \_\_\_
- Statement No. 12:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 13:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 14:    Predatory Lending \_\_\_
- Statement No. 15:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 16:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 17:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 18:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 19:    Predatory Lending \_\_\_
- Statement No. 20:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 21:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 22:    Predatory Lending \_\_\_    2+ Delinquency/Re-Aging \_\_\_    Restatement \_\_\_
- Statement No. 23:                                               2+ Delinquency/Re-Aging \_\_\_

- Statement No. 24: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 25: Predatory Lending \_\_\_
- Statement No. 26: Predatory Lending \_\_\_
- Statement No. 27: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 28: 2+ Delinquency/Re-Aging \_\_\_
- Statement No. 29: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 30: Predatory Lending \_\_\_
- Statement No. 31: Predatory Lending \_\_\_
- Statement No. 32: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 33: Predatory Lending \_\_\_
- Statement No. 34: Predatory Lending \_\_\_
- Statement No. 35: Predatory Lending \_\_\_
- Statement No. 36: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 37: Predatory Lending \_\_\_
- Statement No. 38: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_
- Statement No. 39: Predatory Lending \_\_\_
- Statement No. 40: Predatory Lending \_\_\_

Please proceed to Question No. 4.

**Question No. 4**

Have plaintiffs proved that **Defendant William Aldinger** violated Section 10(b)/Rule 10b-5 with regard to any of the statements set forth in Table A?

- |                            |                            |
|----------------------------|----------------------------|
| Statement 1: Yes___ No___  | Statement 21: Yes___ No___ |
| Statement 2: Yes___ No___  | Statement 22: Yes___ No___ |
| Statement 3: Yes___ No___  | Statement 23: Yes___ No___ |
| Statement 4: Yes___ No___  | Statement 24: Yes___ No___ |
| Statement 5: Yes___ No___  | Statement 25: Yes___ No___ |
| Statement 6: Yes___ No___  | Statement 26: Yes___ No___ |
| Statement 7: Yes___ No___  | Statement 27: Yes___ No___ |
| Statement 8: Yes___ No___  | Statement 28: Yes___ No___ |
| Statement 9: Yes___ No___  | Statement 29: Yes___ No___ |
| Statement 10: Yes___ No___ | Statement 30: Yes___ No___ |
| Statement 11: Yes___ No___ | Statement 31: Yes___ No___ |
| Statement 12: Yes___ No___ | Statement 32: Yes___ No___ |
| Statement 13: Yes___ No___ | Statement 33: Yes___ No___ |
| Statement 14: Yes___ No___ | Statement 34: Yes___ No___ |
| Statement 15: Yes___ No___ | Statement 35: Yes___ No___ |
| Statement 16: Yes___ No___ | Statement 36: Yes___ No___ |
| Statement 17: Yes___ No___ | Statement 37: Yes___ No___ |
| Statement 18: Yes___ No___ | Statement 38: Yes___ No___ |
| Statement 19: Yes___ No___ | Statement 39: Yes___ No___ |
| Statement 20: Yes___ No___ | Statement 40: Yes___ No___ |

If you answered “no” for all of the statements, proceed to Question No. 7. If you answered “yes” for any of the statements, please proceed to Question No. 5.

**Question No. 5**

Did **Defendant William Aldinger** act knowingly or recklessly (**choose one**) with regard to the statements for which you answered “yes” in response to Question No. 3?

- |                                            |                                            |
|--------------------------------------------|--------------------------------------------|
| Statement 1: Knowingly ___ Recklessly ___  | Statement 21: Knowingly ___ Recklessly ___ |
| Statement 2: Knowingly ___ Recklessly ___  | Statement 22: Knowingly ___ Recklessly ___ |
| Statement 3: Knowingly ___ Recklessly ___  | Statement 23: Knowingly ___ Recklessly ___ |
| Statement 4: Knowingly ___ Recklessly ___  | Statement 24: Knowingly ___ Recklessly ___ |
| Statement 5: Knowingly ___ Recklessly ___  | Statement 25: Knowingly ___ Recklessly ___ |
| Statement 6: Knowingly ___ Recklessly ___  | Statement 26: Knowingly ___ Recklessly ___ |
| Statement 7: Knowingly ___ Recklessly ___  | Statement 27: Knowingly ___ Recklessly ___ |
| Statement 8: Knowingly ___ Recklessly ___  | Statement 28: Knowingly ___ Recklessly ___ |
| Statement 9: Knowingly ___ Recklessly ___  | Statement 29: Knowingly ___ Recklessly ___ |
| Statement 10: Knowingly ___ Recklessly ___ | Statement 30: Knowingly ___ Recklessly ___ |
| Statement 11: Knowingly ___ Recklessly ___ | Statement 31: Knowingly ___ Recklessly ___ |
| Statement 12: Knowingly ___ Recklessly ___ | Statement 32: Knowingly ___ Recklessly ___ |
| Statement 13: Knowingly ___ Recklessly ___ | Statement 33: Knowingly ___ Recklessly ___ |
| Statement 14: Knowingly ___ Recklessly ___ | Statement 34: Knowingly ___ Recklessly ___ |
| Statement 15: Knowingly ___ Recklessly ___ | Statement 35: Knowingly ___ Recklessly ___ |
| Statement 16: Knowingly ___ Recklessly ___ | Statement 36: Knowingly ___ Recklessly ___ |
| Statement 17: Knowingly ___ Recklessly ___ | Statement 37: Knowingly ___ Recklessly ___ |
| Statement 18: Knowingly ___ Recklessly ___ | Statement 38: Knowingly ___ Recklessly ___ |
| Statement 19: Knowingly ___ Recklessly ___ | Statement 39: Knowingly ___ Recklessly ___ |
| Statement 20: Knowingly ___ Recklessly ___ | Statement 40: Knowingly ___ Recklessly ___ |

Please proceed to Question No. 6.





- Statement No. 24: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 25: Predatory Lending \_\_\_
- Statement No. 26: Predatory Lending \_\_\_
- Statement No. 27: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 28: 2+ Delinquency/Re-Aging \_\_\_
- Statement No. 29: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 30: Predatory Lending \_\_\_
- Statement No. 31: Predatory Lending \_\_\_
- Statement No. 32: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 33: Predatory Lending \_\_\_
- Statement No. 34: Predatory Lending \_\_\_
- Statement No. 35: Predatory Lending \_\_\_
- Statement No. 36: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 37: Predatory Lending \_\_\_
- Statement No. 38: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_
- Statement No. 39: Predatory Lending \_\_\_
- Statement No. 40: Predatory Lending \_\_\_

Please proceed to Question No. 7.

**Question No. 7**

Have plaintiffs proved that **Defendant David Schoenholz** violated Section 10(b)/Rule 10b-5 with regard to any of the statements set forth on Table A?

- |                            |                            |
|----------------------------|----------------------------|
| Statement 1: Yes___ No___  | Statement 21: Yes___ No___ |
| Statement 2: Yes___ No___  | Statement 22: Yes___ No___ |
| Statement 3: Yes___ No___  | Statement 23: Yes___ No___ |
| Statement 4: Yes___ No___  | Statement 24: Yes___ No___ |
| Statement 5: Yes___ No___  | Statement 25: Yes___ No___ |
| Statement 6: Yes___ No___  | Statement 26: Yes___ No___ |
| Statement 7: Yes___ No___  | Statement 27: Yes___ No___ |
| Statement 8: Yes___ No___  | Statement 28: Yes___ No___ |
| Statement 9: Yes___ No___  | Statement 29: Yes___ No___ |
| Statement 10: Yes___ No___ | Statement 30: Yes___ No___ |
| Statement 11: Yes___ No___ | Statement 31: Yes___ No___ |
| Statement 12: Yes___ No___ | Statement 32: Yes___ No___ |
| Statement 13: Yes___ No___ | Statement 33: Yes___ No___ |
| Statement 14: Yes___ No___ | Statement 34: Yes___ No___ |
| Statement 15: Yes___ No___ | Statement 35: Yes___ No___ |
| Statement 16: Yes___ No___ | Statement 36: Yes___ No___ |
| Statement 17: Yes___ No___ | Statement 37: Yes___ No___ |
| Statement 18: Yes___ No___ | Statement 38: Yes___ No___ |
| Statement 19: Yes___ No___ | Statement 39: Yes___ No___ |
| Statement 20: Yes___ No___ | Statement 40: Yes___ No___ |

If you answered “no” for all of the statements, proceed to Question No. 10. If you answered “yes” for any of the statements, please proceed to Question No. 8.

**Question No. 8**

Did **Defendant David Schoenholz** act knowingly or recklessly (**choose one**) with regard to the statements for which you answered “yes” in response to Question No. 7?

- Statement 1: Knowingly \_\_\_ Recklessly \_\_\_      Statement 21: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 2: Knowingly \_\_\_ Recklessly \_\_\_      Statement 22: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 3: Knowingly \_\_\_ Recklessly \_\_\_      Statement 23: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 4: Knowingly \_\_\_ Recklessly \_\_\_      Statement 24: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 5: Knowingly \_\_\_ Recklessly \_\_\_      Statement 25: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 6: Knowingly \_\_\_ Recklessly \_\_\_      Statement 26: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 7: Knowingly \_\_\_ Recklessly \_\_\_      Statement 27: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 8: Knowingly \_\_\_ Recklessly \_\_\_      Statement 28: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 9: Knowingly \_\_\_ Recklessly \_\_\_      Statement 29: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 10: Knowingly \_\_\_ Recklessly \_\_\_      Statement 30: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 11: Knowingly \_\_\_ Recklessly \_\_\_      Statement 31: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 12: Knowingly \_\_\_ Recklessly \_\_\_      Statement 32: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 13: Knowingly \_\_\_ Recklessly \_\_\_      Statement 33: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 14: Knowingly \_\_\_ Recklessly \_\_\_      Statement 34: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 15: Knowingly \_\_\_ Recklessly \_\_\_      Statement 35: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 16: Knowingly \_\_\_ Recklessly \_\_\_      Statement 36: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 17: Knowingly \_\_\_ Recklessly \_\_\_      Statement 37: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 18: Knowingly \_\_\_ Recklessly \_\_\_      Statement 38: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 19: Knowingly \_\_\_ Recklessly \_\_\_      Statement 39: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 20: Knowingly \_\_\_ Recklessly \_\_\_      Statement 40: Knowingly \_\_\_ Recklessly \_\_\_

Please proceed to Question No. 9.



- Statement No. 24: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 25: Predatory Lending \_\_\_
- Statement No. 26: Predatory Lending \_\_\_
- Statement No. 27: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 28: 2+ Delinquency/Re-Aging \_\_\_
- Statement No. 29: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 30: Predatory Lending \_\_\_
- Statement No. 31: Predatory Lending \_\_\_
- Statement No. 32: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 33: Predatory Lending \_\_\_
- Statement No. 34: Predatory Lending \_\_\_
- Statement No. 35: Predatory Lending \_\_\_
- Statement No. 36: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 37: Predatory Lending \_\_\_
- Statement No. 38: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_
- Statement No. 39: Predatory Lending \_\_\_
- Statement No. 40: Predatory Lending \_\_\_

Please proceed to Question No. 10.

**Question No. 10**

Have plaintiffs proved that **Defendant Gary Gilmer** violated Section 10(b)/ Rule 10b-5 with regard to any of the statements set forth on Table A?

- |                            |                            |
|----------------------------|----------------------------|
| Statement 1: Yes___ No___  | Statement 21: Yes___ No___ |
| Statement 2: Yes___ No___  | Statement 22: Yes___ No___ |
| Statement 3: Yes___ No___  | Statement 23: Yes___ No___ |
| Statement 4: Yes___ No___  | Statement 24: Yes___ No___ |
| Statement 5: Yes___ No___  | Statement 25: Yes___ No___ |
| Statement 6: Yes___ No___  | Statement 26: Yes___ No___ |
| Statement 7: Yes___ No___  | Statement 27: Yes___ No___ |
| Statement 8: Yes___ No___  | Statement 28: Yes___ No___ |
| Statement 9: Yes___ No___  | Statement 29: Yes___ No___ |
| Statement 10: Yes___ No___ | Statement 30: Yes___ No___ |
| Statement 11: Yes___ No___ | Statement 31: Yes___ No___ |
| Statement 12: Yes___ No___ | Statement 32: Yes___ No___ |
| Statement 13: Yes___ No___ | Statement 33: Yes___ No___ |
| Statement 14: Yes___ No___ | Statement 34: Yes___ No___ |
| Statement 15: Yes___ No___ | Statement 35: Yes___ No___ |
| Statement 16: Yes___ No___ | Statement 36: Yes___ No___ |
| Statement 17: Yes___ No___ | Statement 37: Yes___ No___ |
| Statement 18: Yes___ No___ | Statement 38: Yes___ No___ |
| Statement 19: Yes___ No___ | Statement 39: Yes___ No___ |
| Statement 20: Yes___ No___ | Statement 40: Yes___ No___ |

If you answered “no” for all of the statements, proceed to Question No. 13. If you answered “yes” for any of the statements, please proceed to Question No. 11.

**Question No. 11**

Did **Defendant Gary Gilmer** act knowingly or recklessly (**choose one**) with regard to the statements for which you answered “yes” in response to Question No. 10?

- Statement 1: Knowingly \_\_\_ Recklessly \_\_\_      Statement 21: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 2: Knowingly \_\_\_ Recklessly \_\_\_      Statement 22: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 3: Knowingly \_\_\_ Recklessly \_\_\_      Statement 23: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 4: Knowingly \_\_\_ Recklessly \_\_\_      Statement 24: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 5: Knowingly \_\_\_ Recklessly \_\_\_      Statement 25: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 6: Knowingly \_\_\_ Recklessly \_\_\_      Statement 26: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 7: Knowingly \_\_\_ Recklessly \_\_\_      Statement 27: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 8: Knowingly \_\_\_ Recklessly \_\_\_      Statement 28: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 9: Knowingly \_\_\_ Recklessly \_\_\_      Statement 29: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 10: Knowingly \_\_\_ Recklessly \_\_\_      Statement 30: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 11: Knowingly \_\_\_ Recklessly \_\_\_      Statement 31: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 12: Knowingly \_\_\_ Recklessly \_\_\_      Statement 32: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 13: Knowingly \_\_\_ Recklessly \_\_\_      Statement 33: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 14: Knowingly \_\_\_ Recklessly \_\_\_      Statement 34: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 15: Knowingly \_\_\_ Recklessly \_\_\_      Statement 35: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 16: Knowingly \_\_\_ Recklessly \_\_\_      Statement 36: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 17: Knowingly \_\_\_ Recklessly \_\_\_      Statement 37: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 18: Knowingly \_\_\_ Recklessly \_\_\_      Statement 38: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 19: Knowingly \_\_\_ Recklessly \_\_\_      Statement 39: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 20: Knowingly \_\_\_ Recklessly \_\_\_      Statement 40: Knowingly \_\_\_ Recklessly \_\_\_

Please proceed to Question No. 12.



**Question No. 12**

For each of the statements to which you answered "yes" in response to Question No. 10, why was the statement false or misleading? Check each that applies (**more than one box can be checked for each statement**):

Statement No. 1:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 2:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 3:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 4:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 5:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 6:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 7:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 8:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 9:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 10:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 11:	Predatory Lending ___		
Statement No. 12:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 13:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 14:	Predatory Lending ___		
Statement No. 15:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 16:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 17:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 18:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 19:	Predatory Lending ___		
Statement No. 20:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 21:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 22:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 23:		2+ Delinquency/Re-Aging ___	

- Statement No. 24: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 25: Predatory Lending \_\_\_
- Statement No. 26: Predatory Lending \_\_\_
- Statement No. 27: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 28: 2+ Delinquency/Re-Aging \_\_\_
- Statement No. 29: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 30: Predatory Lending \_\_\_
- Statement No. 31: Predatory Lending \_\_\_
- Statement No. 32: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 33: Predatory Lending \_\_\_
- Statement No. 34: Predatory Lending \_\_\_
- Statement No. 35: Predatory Lending \_\_\_
- Statement No. 36: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 37: Predatory Lending \_\_\_
- Statement No. 38: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_
- Statement No. 39: Predatory Lending \_\_\_
- Statement No. 40: Predatory Lending \_\_\_

Please proceed to Question No. 13.

**Question No. 13**

Have defendants proved that **Former Defendant Arthur Andersen** violated Section 10(b)/Rule 10b-5 with regard to any of the statements set forth on Table A?

- |                            |                            |
|----------------------------|----------------------------|
| Statement 1: Yes___ No___  | Statement 21: Yes___ No___ |
| Statement 2: Yes___ No___  | Statement 22: Yes___ No___ |
| Statement 3: Yes___ No___  | Statement 23: Yes___ No___ |
| Statement 4: Yes___ No___  | Statement 24: Yes___ No___ |
| Statement 5: Yes___ No___  | Statement 25: Yes___ No___ |
| Statement 6: Yes___ No___  | Statement 26: Yes___ No___ |
| Statement 7: Yes___ No___  | Statement 27: Yes___ No___ |
| Statement 8: Yes___ No___  | Statement 28: Yes___ No___ |
| Statement 9: Yes___ No___  | Statement 29: Yes___ No___ |
| Statement 10: Yes___ No___ | Statement 30: Yes___ No___ |
| Statement 11: Yes___ No___ | Statement 31: Yes___ No___ |
| Statement 12: Yes___ No___ | Statement 32: Yes___ No___ |
| Statement 13: Yes___ No___ | Statement 33: Yes___ No___ |
| Statement 14: Yes___ No___ | Statement 34: Yes___ No___ |
| Statement 15: Yes___ No___ | Statement 35: Yes___ No___ |
| Statement 16: Yes___ No___ | Statement 36: Yes___ No___ |
| Statement 17: Yes___ No___ | Statement 37: Yes___ No___ |
| Statement 18: Yes___ No___ | Statement 38: Yes___ No___ |
| Statement 19: Yes___ No___ | Statement 39: Yes___ No___ |
| Statement 20: Yes___ No___ | Statement 40: Yes___ No___ |

If you answered “no” for all of the statements, proceed to Question No. 16. If you answered “yes” for any of the statements, please proceed to Question No. 14.

**Question No. 14**

Did **Former Defendant Arthur Andersen** act knowingly or recklessly (**choose one**) with regard to the statements for which you answered “yes” in response to Question No. 13?

- Statement 1: Knowingly \_\_\_ Recklessly \_\_\_      Statement 21: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 2: Knowingly \_\_\_ Recklessly \_\_\_      Statement 22: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 3: Knowingly \_\_\_ Recklessly \_\_\_      Statement 23: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 4: Knowingly \_\_\_ Recklessly \_\_\_      Statement 24: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 5: Knowingly \_\_\_ Recklessly \_\_\_      Statement 25: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 6: Knowingly \_\_\_ Recklessly \_\_\_      Statement 26: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 7: Knowingly \_\_\_ Recklessly \_\_\_      Statement 27: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 8: Knowingly \_\_\_ Recklessly \_\_\_      Statement 28: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 9: Knowingly \_\_\_ Recklessly \_\_\_      Statement 29: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 10: Knowingly \_\_\_ Recklessly \_\_\_      Statement 30: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 11: Knowingly \_\_\_ Recklessly \_\_\_      Statement 31: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 12: Knowingly \_\_\_ Recklessly \_\_\_      Statement 32: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 13: Knowingly \_\_\_ Recklessly \_\_\_      Statement 33: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 14: Knowingly \_\_\_ Recklessly \_\_\_      Statement 34: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 15: Knowingly \_\_\_ Recklessly \_\_\_      Statement 35: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 16: Knowingly \_\_\_ Recklessly \_\_\_      Statement 36: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 17: Knowingly \_\_\_ Recklessly \_\_\_      Statement 37: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 18: Knowingly \_\_\_ Recklessly \_\_\_      Statement 38: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 19: Knowingly \_\_\_ Recklessly \_\_\_      Statement 39: Knowingly \_\_\_ Recklessly \_\_\_
- Statement 20: Knowingly \_\_\_ Recklessly \_\_\_      Statement 40: Knowingly \_\_\_ Recklessly \_\_\_

Please proceed to Question No. 15.

**Question No. 15**

For each of the statements to which you answered “yes” in response to Question No. 13, why was the statement false or misleading? Check each that applies (**more than one box can be checked**):

Statement No. 1:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 2:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 3:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 4:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 5:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 6:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 7:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 8:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 9:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 10:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 11:	Predatory Lending ___		
Statement No. 12:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 13:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 14:	Predatory Lending ___		
Statement No. 15:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 16:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 17:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 18:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 19:	Predatory Lending ___		
Statement No. 20:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 21:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 22:	Predatory Lending ___	2+ Delinquency/Re-Aging ___	Restatement ___
Statement No. 23:		2+ Delinquency/Re-Aging ___	

- Statement No. 24: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 25: Predatory Lending \_\_\_
- Statement No. 26: Predatory Lending \_\_\_
- Statement No. 27: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 28: 2+ Delinquency/Re-Aging \_\_\_
- Statement No. 29: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 30: Predatory Lending \_\_\_
- Statement No. 31: Predatory Lending \_\_\_
- Statement No. 32: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 33: Predatory Lending \_\_\_
- Statement No. 34: Predatory Lending \_\_\_
- Statement No. 35: Predatory Lending \_\_\_
- Statement No. 36: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_ Restatement \_\_\_
- Statement No. 37: Predatory Lending \_\_\_
- Statement No. 38: Predatory Lending \_\_\_ 2+ Delinquency/Re-Aging \_\_\_
- Statement No. 39: Predatory Lending \_\_\_
- Statement No. 40: Predatory Lending \_\_\_

If you answered “no” for **all** of the statements in Question Nos. 1, 4, 7, 10 and 13, you have finished with the Verdict Form.

If you answered “yes” for **any** statement in Question Nos. 1, 4, 7, 10 or 13, please proceed to Question No. 16.

**Question No. 16**

Write the amount of loss per share, if any, that any defendant or former defendant's conduct caused plaintiffs to suffer on each of the dates set forth in Table B. (If no loss was caused on any date, write "none.")

If the amount of loss per share set forth in Table B came from the Artificial Inflation column in Professor Fischel's Leakage Model (Plaintiffs' Ex. 1395), go to Question No. 18.

If the amount of loss per share set forth in Table B came from the Artificial Inflation column in Professor Fischel's Specific Disclosure Model (Plaintiffs' Ex. 1397), go to Question No. 17.

**Question No. 17**

Was the artificial inflation in Household's stock reduced on any of the following days because of disclosures about the true condition of Household?

<u>DATE</u>	<u>EVENT</u>	
November 15, 2001:	California Department of Corporations lawsuit against Household (P1305)	Yes ___ No ___
December 3, 2001:	<i>Barron's</i> article entitled, "Does it all Add Up? A Look at Household's Accounting" (P1409)	Yes ___ No ___
December 12, 2001:	Legg Mason analyst report (P1410)	Yes ___ No ___
July 26, 2002:	<i>Bellingham Herald</i> article entitled, "Lender Admits to Violations" (P283)	Yes ___ No ___
August 14, 2002:	Household press release announcing restatement (P227)	Yes ___ No ___
August 16, 2002	<i>Forbes</i> article entitled, "Home Wrecker" (P69)	Yes ___ No ___
August 27, 2002:	KBW analyst report (D568) and <i>Bellingham Herald</i> article entitled, "State Report Details HFC Lending Abuse" (P1429)	Yes ___ No ___
September 3, 2002:	Bernstein analyst report (P1431)	Yes ___ No ___
September 23, 2002:	CIBC analyst report (P1435)	Yes ___ No ___
October 4, 2002:	<i>Wall Street Journal</i> article entitled, "Household International May Be Near Large Settlement" (P1375)	Yes ___ No ___

Please proceed to Question No. 18.



**Question No. 18**

If you checked “Knowingly” for any statement identified in Question Nos. 2, 5, 8, 11 and 14, please proceed to Question No. 19.

If you checked “Recklessly” for any statement identified in Question Nos. 2, 5, 8, 11 or 14, you must determine what percentage of responsibility, if any, for any loss plaintiffs suffered is due to the conduct of Defendants Household, William Aldinger, David Schoenholz, Gary Gilmer and Former Defendant Arthur Andersen. In making this determination, you should consider the nature of the conduct of each person found to have caused or contributed to plaintiffs’ loss and the nature and extent of the causal relationship between each such person’s conduct and plaintiffs’ loss.

Household	_____
William Aldinger	_____
David Schoenholz	_____
Gary Gilmer	_____
Arthur Andersen	_____
TOTAL	(This must equal 100%)

Please proceed to Question No. 19.

**Question No. 19**

With respect to the Section 20(a) claim, have plaintiffs proved that Defendant William Aldinger is a controlling person as to:

Household:	Yes ___	No ___
David Schoenholz:	Yes ___	No ___
Gary Gilmer:	Yes ___	No ___

Please proceed to Question No. 20.

**Question No. 20**

With respect to the Section 20(a) claim, have plaintiffs proved that Defendant David Schoenholz is a controlling person as to:

Household: Yes \_\_\_ No \_\_\_

William Aldinger: Yes \_\_\_ No \_\_\_

Gary Gilmer: Yes \_\_\_ No \_\_\_

Please proceed to Question No. 21

**Question No. 21**

With respect to the Section 20(a) claim, have plaintiffs proved that Defendant Gary Gilmer is a controlling person as to:

Household: Yes \_\_\_ No \_\_\_

William Aldinger: Yes \_\_\_ No \_\_\_

David Schoenholz: Yes \_\_\_ No \_\_\_

Once you have completed the Verdict Form, each juror should sign in the space below:

_____	_____	_____
Jury Foreperson		
_____	_____	_____
_____	_____	_____
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# EXHIBIT 2

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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. )

HOUSEHOLD INTERNATIONAL, INC., )  
et al., )

Defendants. )

No. 02 C 5893

Chicago, Illinois  
December 16, 2008  
9:30 a.m.

TRANSCRIPT OF PROCEEDINGS  
BEFORE THE HONORABLE RONALD A. GUZMAN

APPEARANCES:

For the Plaintiff:

COUGHLIN STOIA GELLER RUDMAN &  
ROBBINS LLP  
BY: MS. AZRA Z. MEHDI  
100 Pine Street  
Suite 2600  
San Francisco, California 94111  
(415) 288-4545

MILLER LAW LLC  
BY: MR. MARVIN ALAN MILLER  
MS. LORI A. FANNING  
115 South LaSalle Street  
Suite 2910  
Chicago, Illinois 60603  
(312) 332-3400

1 That's what the final pretrial conference is for.

2 MS. MEHDI: Right.

3 THE COURT: And we'll rule on those as best we can  
4 before the evidence at that time.

5 I do think that you need to designate a narrower  
6 number of false statements that you're going to be relying on.

7 MS. MEHDI: Okay.

8 THE COURT: Unless you are going to represent to me  
9 that you intend to present evidence to support all of those  
10 statements, in which case I guess I'll have to accept that,  
11 with the caveat that you better do what you say you're going  
12 to do or --

13 MS. MEHDI: Well, your Honor --

14 THE COURT: -- you might find yourself out of a  
15 trial.

16 But I think it's pretty clear from -- I mean, gee,  
17 when did we rule on the -- what was it, how many motions to  
18 dismiss were there for failure to state with particularity? I  
19 can't recall.

20 MS. MEHDI: Three, at least.

21 MR. KAVALER: Two, your Honor, and the motion --

22 THE COURT: I've got one here that was still in my  
23 file, a March 19, 2004, ruling where we spend, I think, pages  
24 9 through 16 articulating the allegedly false and misleading  
25 statements or omissions that were pled with particularity.

1 MR. KAVALER: And that's one of the rulings I don't  
2 quarrel with, your Honor. That was a pleading motion. I  
3 fully agree that brought us here.

4 THE COURT: The point I'm making is that I don't  
5 think you're going to present evidence as to all of those. I  
6 don't think you are. And if you're not, throw them out and  
7 let's give us all -- them and the Court -- a list of the  
8 statements that you're actually going to rely upon at trial.

9 MS. MEHDI: Okay.

10 THE COURT: I don't think that's unduly restrictive.  
11 I mean, you're going to make that determination; so the  
12 question is how far ahead of trial do you make it. You have  
13 to be pretty far along, if not already set.

14 So you tell me. When can we have a more  
15 particularized listing of the allegedly false and misleading  
16 statements and/or omissions that you're going to actually use  
17 at trial?

18 MS. MEHDI: The particularized listing will at least  
19 be all of the statements listed in our interrogatory  
20 responses. No more than that. We're not going to do any more  
21 than that.

22 THE COURT: So your assertion is that you are going  
23 to present evidence as to each of the statements alleged in  
24 your interrogatory answers?

25 MS. MEHDI: Yes.

1 THE COURT: There you have it, counsel. The  
2 interrogatory answers is the blueprint of misleading  
3 statements.

4 MS. MEHDI: And it's listed in bullet form.

5 THE COURT: I'm sorry?

6 MS. MEHDI: It's listed in bullet form, the  
7 statements, with dates and the source of the false statement.

8 MR. KAVALER: Very good, your Honor. So when we  
9 are -- we will submit a revised draft of the special verdict  
10 form. And where we currently have said the following false  
11 statements one through X, we will list at a minimum the 84  
12 affirmative misrepresentations listed by the interrogatories,  
13 as well as the numerous omissions listed by the  
14 interrogatories. And we will try to find a vehicle to hold  
15 Ms. Mehdi to what she said. As your Honor said, if they fail  
16 to prove that at the trial, I assume you'll remember this  
17 morning's conversation and whatever flows will flow.

18 MS. MEHDI: Well, your Honor, using the JDS Uniphase  
19 case, you know, they had a listing of false statements. And  
20 by the time that trial began and the Court determined that  
21 certain of the statements that -- that plaintiffs had not  
22 proven -- in fact, I think they lost at trial because the jury  
23 found the statements weren't false. The fact of the matter is  
24 that some of those statements were eliminated. Now, I hope  
25 and my expectation is we will be able to prove all of those.



# EXHIBIT 3

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION

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

Plaintiff,

- against -

HOUSEHOLD INTERNATIONAL, INC., et al.,  
Defendant,

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

CLASS ACTION

Judge Ronald A. Guzman  
United States District Judge

**JOINT REPORT PURSUANT TO  
FEDERAL RULE OF CIVIL PROCEDURE 26**

- of -

**John L. Bley,**  
*former Director, State of Washington  
Department of Financial Institutions*

**Carl A. LaSusa,**  
*former Supervisor of the Consumer Credit  
Division, State of Illinois Department of  
Financial Institutions*

**AS AMENDED FEBRUARY 15, 2008**

**\*\* CONFIDENTIAL AND SUBJECT TO PROTECTIVE ORDER \*\***

any person.”<sup>12</sup> Furthermore, it is prohibited to “(d)irectly or indirectly engage in any unfair or deceptive practice toward any person.”<sup>13</sup> Often, manner regulation statutes do not define, or vaguely define, such terms as “fraud”, “scheme”, “mislead”, “unfair”, or “deceptive”. Therefore, interpretation of such terms is left to the discretion of regulators.

The legislatures grant broad administrative discretion to the regulators under such circumstances. Regulators’ exercise of this discretion over time creates a very dynamic regulatory process, particularly given changes in the individuals making regulatory decisions and changes in the political environment in which such regulators operate. The dynamic regulatory process, particularly in the realm of manner regulation, creates a significant amount of uncertainty for management of financial institutions subject to such broad regulatory discretion.

**c. Regulatory Process**

The regulatory process has two parts, the field examination process and the enforcement process.

**(1) The Field Examination Process**

Legislatures delegate the task of regulating to administrative agencies. In most cases that delegation is conferred to the head of an agency who, in turn, has authority to further delegate his or her responsibilities to deputies.

For example, in Washington, “(t)he director of financial institutions shall appoint, deputize, and employ examiners and such other assistants and personnel as may be necessary to carry on the work of the department of financial institutions.”<sup>14</sup> The Consumer Services Division in Washington is created as a division of the Department of Financial Institutions.<sup>15</sup> Therefore, pursuant to the provisions of RCW 43.320.060, the department head delegates to the Consumer Services Division head the responsibility to implement and enforce the provisions of Washington statutes relating to the department’s mission. The department head reserves the right to review the actions of the division, thereby creating a structure to afford a licensee a due process right of appeal to the department head.

The Consumer Services Division promulgates rules and hires and trains examiners (as well as application professionals and enforcement specialists) to carry out the business of the division. The examination process is composed of field examiners who visit licensees in order to evaluate compliance with applicable laws and rules. These examinations are performed by reviewing loan files, (a form of content regulation review), and reviewing complaints which may involve interviewing the institution’s personnel and, on occasion, consumers, to assess how loan transactions are being handled (a form of manner regulation review).

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12 RCW 31.04.027(1).

13 RCW 31.04.027(2).

14 RCW 43.320.060.

15 RCW 43.320.050.

public policy debate, they do not have any more ability than anyone else to divine an enforceable definition of amorphous terms such as “predatory lending” in the absence of legislative guidance.

“Predatory lending” is not a meaningful term in connection with regulatory enforcement. Nonetheless, the term “predatory lending” is used 94 times in Plaintiffs’ Complaint and 155 times in Plaintiffs’ Report (in 168 pages). The fact that Plaintiffs’ Report manages to repeat the term so often, however, does not mean that any of the numerous uses of the term contains any settled meaning. Contrast Plaintiffs’ Report with two important regulatory documents in this controversy: (i) the Consent Order dated October 11, 2002 among the various state Attorneys General with Household; and (ii) the Washington Department of Financial Institutions Expanded Report of Examination dated April 30, 2002. The term “predatory” does not appear once in either one of these documents in the context of possible regulatory enforcement actions.<sup>28</sup>

Curiously, the Plaintiffs’ Report seems unconcerned as to whether or not the term “predatory lending” has any legal significance. On page 15 of Plaintiffs’ Report, the following mystifying disclaimer appears:

“A review of the predatory lending materials in this report shows that lending *does not have to be illegal or intentionally deceptive in order to be predatory.*”<sup>29</sup>

Instead, according to Plaintiffs’ Report, a determination of “predatory lending” can be based upon:

- The particular sum of the loan terms;
- The absence of the disclosure of loan terms; and/or
- The status of the borrower.

The reader of Plaintiffs’ Report is left to determine what this list means in substance. We are not sure. We can be sure, however, that, according to the Plaintiffs’ Report, perfectly legal behavior can be considered “predatory” or “improper”. We disagree. Given the lack of a societal, or more importantly, a legislative consensus regarding the term “predatory lending”, we believe it is a fool’s errand to try to work with the term. Plaintiffs’ Report undertakes this fool’s errand; our Response does not. Instead, we discipline ourselves to deal solely with issues of illegality and deception and analysis through accepted regulatory methods.

**b. Plaintiffs’ Expert Witness’s Analysis Ignores Accepted Compliance Regulatory Process Methods**

In reaching its conclusions, the Plaintiffs’ Report relies heavily on apparent findings described in various regulatory reports of examination. However, the Report ignores accepted methodology in the field of consumer credit regulation by consistently failing to consider Household’s written

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<sup>28</sup> The term does appear in two contemporaneous write-ups regarding complaints from consumers in the exam. But it was not used in the context of a pending or proposed enforcement action by the Department. It was used to characterize a reputation concern.

<sup>29</sup> (emphasis added).

explanatory responses to these reports of examination. A critical part of a regulator's analysis is due consideration and evaluation of a regulated entity's responses to apparent findings in reports of examination. That key step is conspicuously absent from the Plaintiffs' Report. In fact, Ms. Ghiglieri neither performs this step nor even acknowledges that it is a common and essential step. Therefore, the Plaintiffs' Report's reliance on initial apparent findings, only a fraction of the regulatory examination process, as established facts is profoundly flawed. Further, in the context of this litigation, millions of pages of company documents have been produced, and hundreds of hours of testimony have been taken, that would normally not be available to an examiner in the context of a regulatory process. Notwithstanding this mountain of discovery that one would expect to support examiners' conclusions if they were true, the Plaintiffs' Report relies heavily for its conclusions on a handful of initial examination findings.

This methodological error of Plaintiffs' Report is particularly noteworthy given its author's background and experience. As a former review officer, albeit in the safety and soundness context, the author of Plaintiffs' Report should know the limits of examiner findings and the need to review and consider the licensee's response to make a fair evaluation of the facts. Plaintiffs' expert witness should be aware that apparent findings as presented in a report of examination are never vetted through an adversarial process unless the report is appealed, and are thus not necessarily accurate and reliable.

Plaintiffs' Report substantially relies on the Washington Department of Financial Institutions Expanded Report of Examination dated April 30, 2002 (the "WA-Consumer Services Report").<sup>30</sup> It should be noted that a Consumer Services Division report, such as the WA-Consumer Services Report, is not a report backed by the moral authority of the State of Washington. Such a report is not even backed by the moral authority of the Washington Department of Financial Institutions. Rather, it is a report drafted by field examiners and review officers at the first level of the examination process within the Consumer Services Division within the Department of Financial Institutions; no more, no less. Citing the report as the "State of Washington" report or even the "Washington DFI Report" ignores the various levels of review in the regulatory process and assigns the report greater value than it deserves, particularly because such a report is drafted without any opportunity to consider the regulated entity's response.

The WA-Consumer Services Report, by its own terms, describes its contents as "apparent" findings. The report is very specific about the weight a reader should give to its findings:

***"The findings and violations contained herein are considered 'apparent' findings and violations based upon information and documentation provided to date. Additional information, or lack thereof, may be cause for amended findings and violations.*** This report does not contain charges or orders by the Director and should not be considered a trigger of rights or procedures under chapter 34.05 RCW, the Administrative Procedure Act. This report does contain directives to respond to specific issues, allegations or requests for clarification."<sup>31</sup>

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<sup>30</sup> The WA-Consumer Services Report is found in the record of this case at HHS 02484965-5037.

<sup>31</sup> WA-Consumer Services Report at 5, HHS 02484965-5037 (emphasis added).

Plaintiffs' Report ignores this explicit limitation, however, and bases, by our count, as many as nine of its conclusions upon a literal reading of the apparent findings in the WA-Consumer Services Report.<sup>32</sup> As discussed above, experts in the regulatory profession are aware that reports of examination often tell only part of the story and that due consideration must be given to the licensee's response. Plaintiffs' Report nowhere considers Household's reply to the Consumer Services Division report. Instead, the Plaintiffs' Report relies on the WA-Consumer Services Report while studiously ignoring any of the evidence or arguments made in Household's response to the contrary.

Putting aside the biased approach taken in Plaintiffs' Report of considering only one side of the story, it is also important to note that the WA-Consumer Services Report is based on a review of fewer than thirty loan accounts in Washington. In our opinion, even taking the findings in the WA-Consumer Services Report regarding these loans as true, it would be inappropriate to draw conclusions about a national entity with millions of active customer accounts on the basis of findings related to fewer than thirty accounts without further field examination investigation. No such investigation occurred.

Our own understanding of the limitations of the regulatory examination process is reflected in the reports of other regulators, which are included in the documentary record of this case. For example, this process limitation was recognized by the Office of Thrift Supervision examiners in their report of examination relating to Household Bank f.s.b. dated January 16, 2003. In reference to the ability of the federal examiners to rely on the facts and conclusions within the WA-Consumer Services Report, the Office of Thrift Supervision examiners stated the following after a review of that report and Household's response:

"Our review [of the WA-Consumer Services Report and Household's response] did not include testers or onsite reviews of HFC/Beneficial retail branches. **Consequently, the OTS examiners make no specific conclusions as to the validity of the DFI report.** In many instances, Household's answers to examination concerns diverged markedly from DFI's findings and conclusions. In certain instances Household admitted some culpability, in other instances there were disagreements with the DFI report. As previously stated, the examiners believe that the content of the DFI report will negatively impact the reputation of Household."<sup>33</sup>

This paragraph is interesting for a variety of reasons. First, as stated previously, in recognition of exam process limitations, the Office of Thrift Supervision examiners noted that they could not rely on the apparent findings of the WA-Consumer Services Report as conclusively established facts. Second, the Office of Thrift Supervision examiners were careful to use the term "examiners" in their own report, again being respectful of the examination process and making sure that the reader understands that their report is only an examiner level report, without any subsequent review to determine the validity of its findings. Third, the last sentence is very interesting. It is not a criticism of Household's senior management and expresses no view on the truth of the allegations in the WA-Consumer Services Report. Rather, it expresses the worry that

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<sup>32</sup> The WA-Consumer Services Report is referenced on at least nine separate occasions in Plaintiffs' Report. (pp. 49, 91, 98, 103, 108, 111, 117, 118 and 207).

<sup>33</sup> OTS 00032-123 (emphasis added).

many in the general public may fail to recognize the relative position of the WA-Consumer Services Report in the examination process, and will misinterpret the weight of its findings, thereby increasing Household's "headline risk" regardless of the truth or falsity of the findings. Given the undue reliance of the Plaintiffs' Report on these "apparent" findings, the Office of Thrift Supervision examiners' concerns appear to have been well justified.

#### **B. Household's Management of Regulatory Compliance Risk**

To respond to Plaintiffs' Report's sweeping conclusion that Household engaged in "predatory lending" we divide Plaintiffs' Report's conclusions of fact into two parts: (i) management's overall stewardship of an appropriate corporate compliance culture associated with product design and sales strategy (*i.e.*, whether management put in place legal product designs and legal sales strategies); and (ii) management's construction of a prudent system of internal controls to assure that the manner in which product designs and sales strategies were executed conformed to company policy (*i.e.*, management's efforts to ensure that the company did not violate lending laws in spite of management's putting in place legal product designs and sales strategies). As discussed above, we do not engage with Plaintiffs' Report's conclusion that Household was a "predatory lender". We believe it is inappropriate for regulators, or former regulators, to resort to ambiguous characterizations rather than letting the facts speak for themselves.

This section is therefore divided into two sub-sections:

- Evaluating Household's Product Design and Corporate Sales Strategy
- Evaluating Household's System of Internal Controls

Regulators have identified nine species of risk: credit, interest rate, liquidity, price, foreign exchange, transaction, compliance, strategic and reputation risk<sup>34</sup>. Both of the sub-sections in this section, taken together, relate to how Household managed the compliance and reputation risks<sup>35</sup> that its business would be negatively perceived (*i.e.*, in the undisciplined terms of Plaintiffs' Report, perceived as "predatory"), accurately or inaccurately, by its customers and its regulators.

In this section we examine the Plaintiffs' Report's conclusions regarding the conduct of Household's senior management: the compliance culture and the sales culture it promoted, and the appropriateness of the internal controls it instituted. In so doing, we will also point out specific examples of the methodological flaws in the Plaintiffs' Report as described generally above. In conducting this evaluation of the Plaintiffs' Report, however, we are mindful that even a finance company with perfectly legal product designs and sales strategies, and perfectly adequate internal controls, operates in an environment of constant and dynamic risk that its legal

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<sup>34</sup> See generally Forrest E. Myers, *Basics for Bank Directors*, Fourth Edition (Kansas City: Division of Supervision and Risk Management, Federal Reserve Bank)

<sup>35</sup> It is our understanding that management referred to the interrelationship of compliance risk and reputation risk as "headline risk". *E.g.*, HHS 02904471-473; HHS 00710389-404; Gilmer (1/12/07) Dep. Tr. at 391:10-393:1; Schoenholz (2/28/07) Dep. Tr. at 90:10-91:10.