

2. Attached hereto as Exhibit 1 is a true and correct copy of the Transcript of the Deposition of Charles Cross, dated December 19, 2002 from *Luna v. Household Finance Corporation*, No. C02-1635 (W.D. Wash).

3. Attached hereto as Exhibit 2 is a true and correct copy of the Transcript of the Deposition of Charles Cross, dated April 9, 2008.

4. Attached hereto as Exhibit 3 is a true and correct copy of the Washington Department of Financial Institution's Expanded Report of Examination for Household Finance Corporation III, dated April 30, 2002.

I declare under penalty of perjury under the laws of the State of New York that the foregoing is true and correct.

Executed this 30th day of January, 2009, in New York, New York.

A handwritten signature in black ink, appearing to read 'D. Owen', written over a horizontal line.

David R. Owen

EXHIBIT 1

UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WASHINGTON

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JOSEPH LUNA and JEANIE LUNA,
husband and wife; CARL BENNETT
and BRENDA BENNETT, husband and
wife; DAVID J. MURPHY and
GENEVEVE L. MURPHY, husband and
wife; NEIL NELSON and ELSIE L.
NELSON, husband and wife; BRYAN
THOMSON and JEANNETTE THOMSON,
husband and wife; and DANIEL
JAMES and MAZIE JAMES, husband and
wife, on behalf of themselves and
all others similarly situated,
Plaintiffs,

vs.

NO. C02-1635

HOUSEHOLD FINANCE CORPORATION,
III, a foreign corporation doing
business in the State of
Washington; and HOUSEHOLD REALTY
CORPORATION, a foreign corporation
doing business in the State of
Washington; BENEFICIAL MORTGAGE
CORPORATION, a Delaware
corporation, and other related
entities and subsidiaries,
Defendants.

DEPOSITION UPON ORAL EXAMINATION OF CHARLES L. CROSS III
(VOLUME ONE - Pages 1-220)

December 19, 2002
Olympia, Washington

Dixie Cattell & Associates (360) 352-2506

EXHIBIT 1
Cross
DATE: 9/9/08
J.R. Head, CCR, CRR, CSR, RPR

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1 APPEARANCES:
 2 FOR THE PLAINTIFFS: MR. ROBERT L. PARLETTE
 3 DAVIS ARNEIL LAW FIRM, LLP
 4 617 Washington Street
 5 P.O. Box 2136
 6 Wenatchee, WA 98801
 7 MS. LORI K. RATH
 8 RIDDELL WILLIAMS P.S.
 9 1001 Fourth Avenue
 10 Suite 4500
 11 Seattle, WA 98154-1065
 12 FOR THE DEFENDANTS: MR. DANIEL J. DUNNE, JR.
 13 HELLER EHRMAN
 14 701 Fifth Avenue
 15 Suite 6100
 16 Seattle, WA 98104-7098
 17 MR. ANDREW BUDISH
 18 HOUSEHOLD IN-HOUSE COUNSEL
 19 2700 Sanders Road
 20 Prospect Heights, IL 60090
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1 BE IT REMEMBERED that on Thursday, December 19,
 2 2002, at 9:10 a.m. at 210 11th Avenue, Room 300, Olympia,
 3 Washington, before REBECCA S. LINDAUER, Notary Public in and
 4 for the State of Washington, appeared CHARLES L. CROSS III.
 5 the witness herein:
 6 WHEREUPON, the following proceedings were had, to
 7 wit:
 8
 9 (Ms. Rath not present.)
 10
 11 CHARLES L. CROSS III. having been first duly sworn
 12 by the Notary, testified as
 13 follows:
 14 EXAMINATION
 15 BY MR. PARLETTE:
 16 Q Mr. Cross, you're here under a subpoena, are you not, sir?
 17 A I am.
 18 Q And in that subpoena I had requested certain documentation
 19 from you and the Department of Financial Institutions, and
 20 my recollection is that you had called my office and left a
 21 message that you could not process certain materials because
 22 there was a temporary restraining order in place against the
 23 Department brought by Household Finance?
 24 A Correct
 25 Q Can you tell me what materials you cannot produce?
 26 A It would be easier for me to tell you what I can produce

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| 2 | EXAMINATION | PAGE LINE |
| 3 | MR. PARLETTE | 4 15 |
| 4 | MR. DUNNE | 189 23 |
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| 7 | | |
| 8 | EXHIBITS | |
| 9 | EXHIBIT DESCRIPTION PAGE LINE | |
| 10 | A State of Washington, open complaints in date range-alpha, 35 pgs | 5 23 |
| 11 | | |
| 12 | B DFI expanded report on examination for Household Finance Corporation III, 73 pgs. | 23 7 |
| 13 | | |
| 14 | C Washington Department of Financial Institutions expanded report of examination for Household Finance Corporation III, 73 pgs. | 65 16 |
| 15 | | |
| 16 | D Letter to Craig from Lori dated 5/14/01 with attachments. (Confidential); 42 pgs. | 79 4 |
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1 Q Okay.
 2 A The only things I'm allowed to produce for you right now are
 3 the examination report produced by the Department in April
 4 of 2002 and a listing of complaints that you had requested.
 5 Q Okay. And how long will this temporary restraining order be
 6 in place?
 7 A I have no idea.
 8 Q And can you tell me what jurisdiction that's in?
 9 A It's in Thurston County.
 10 Q Thurston County. Offhand, you don't remember a cause number
 11 or anything like that?
 12 A I never even went to court. It's not much an issue for me.
 13 Q Okay. And you have brought with you a document which is
 14 entitled or encaptioned at the top Open Complaints and Date
 15 Range-Alpha?
 16 A Correct.
 17 Q And that, as you explained before the deposition got
 18 started, represents just a listing of the case name, the
 19 license type, and the examiner and the date received against
 20 various financial institutions?
 21 A Correct. Again, these were all the open complaints we had
 22 against all our licensees at this point in time
 23 Q And you've put a pink marker on the pages where the
 24 complaints against Beneficial start and the complaints
 25 against Household have started?

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| <p style="text-align: right;">Page 6</p> <p>1 A Yes.</p> <p>2 MR. PARLETTE: We'll mark this as Exhibit A.</p> <p>3 (EXHIBIT NO. A MARKED)</p> <p>4 MR. DUNNE: Since the markers don't get copied</p> <p>5 when the court reporter copies those exhibits and</p> <p>6 distributes them, do you want to get more specific</p> <p>7 identification?</p> <p>8 MR. PARLETTE: That's a good idea.</p> <p>9 THE WITNESS: There are page numbers on the</p> <p>10 bottom.</p> <p>11 MR. PARLETTE: The Beneficial complaints appear to</p> <p>12 start on page 5 of 35 pages and go through page 8 about</p> <p>13 three-quarters of the way down, and the Household complaints</p> <p>14 appear to start on page 17 and go through page 23 about</p> <p>15 halfway down.</p> <p>16 Q (By Mr. Parlette) Okay. Now, Mr. Cross, in this deposition</p> <p>17 I have the same affliction the court reporter referred to.</p> <p>18 I speak fast. And if I ask you any question which you don't</p> <p>19 understand or is unclear to you, would you stop me and ask</p> <p>20 me to rephrase that question so that I can be assured that</p> <p>21 any question you do answer is one that you've understood?</p> <p>22 Is that agreeable?</p> <p>23 A Yes.</p> <p>24 Q Would you state your name and address, please, for the</p> <p>25 record.</p> | <p style="text-align: right;">Page 8</p> <p>1 Q Okay. And would you estimate how many weeks or months the</p> <p>2 totality of that training constituted, just an estimate?</p> <p>3 A Let's see. On average, two to three weeks a year over maybe</p> <p>4 a ten-year period of time. I don't attend too much training</p> <p>5 anymore. I'm an instructor now for many of the</p> <p>6 organizations that I used to take training from, so I don't</p> <p>7 know. That's a rough average.</p> <p>8 Q And you used to work as a federal bank examiner?</p> <p>9 A For the Federal Deposit Insurance Corporation.</p> <p>10 Q How long did you work there?</p> <p>11 A For nearly three years beginning in 1986. Then I</p> <p>12 transferred to the state of Washington, Division of Banks,</p> <p>13 as a bank analyst for nearly two years, and then went into</p> <p>14 private industry running a mortgage company and escrow</p> <p>15 company for a period of three years - that would be 1990</p> <p>16 through '93 - and then returned here to the Department of</p> <p>17 Financial Institutions in November of '93 and have been here</p> <p>18 ever since.</p> <p>19 Q Okay. That takes care of a summary of your. I guess, your</p> <p>20 occupational training, specialized occupational training.</p> <p>21 Could you give me a synopsis of your work history?</p> <p>22 A Since I joined the Department of Financial Institutions or</p> <p>23 the entire work history?</p> <p>24 Q Entire work history.</p> <p>25 A And I assume you want to start after college?</p> |
| <p style="text-align: right;">Page 7</p> <p>1 A Charles L. Cross III; address is P O. Box 41200, Olympia,</p> <p>2 Washington 98504-1200.</p> <p>3 Q And what is your educational background, sir?</p> <p>4 A My background is bachelor's degree in accounting and</p> <p>5 economics from Western Washington University and that --</p> <p>6 excuse me</p> <p>7 (Off-the-record interruption.)</p> <p>8 (Ms Rath now present.)</p> <p>9 Q (By Mr. Parlette) We'll pick up where we left off there.</p> <p>10 You have a bachelor's degree in accounting and . . . ?</p> <p>11 A Economics.</p> <p>12 Q Economics from Western Washington. Okay. Anything else?</p> <p>13 A As far as formal education?</p> <p>14 Q We'll go to the formal education first.</p> <p>15 A Just trainings as a regulator, the whole slew of training,</p> <p>16 which I can list some, but I won't list all.</p> <p>17 Q Summarize that for us, if you would, please.</p> <p>18 A All right. A lot of training under some of the federal</p> <p>19 agencies because I was a federal bank examiner for a period</p> <p>20 of time; a variety of trainings from agencies such as the</p> <p>21 Federal Law Enforcement Training Center, National White</p> <p>22 Collar Crimes Center, in-state trainings, and state of</p> <p>23 Washington. I don't know. A variety of private trainings</p> <p>24 not related to the mortgage industry; you know, your typical</p> <p>25 career training throughout your path</p> | <p style="text-align: right;">Page 9</p> <p>1 Q Yeah.</p> <p>2 A You don't care about the pizza joints and so forth?</p> <p>3 Q What I'm focusing on, Chuck, is your experience and</p> <p>4 qualifications to be an examiner.</p> <p>5 A Right. I began, as I said, in 1986 with the FDIC. That was</p> <p>6 as an assistant bank examiner. Responsibilities were</p> <p>7 primarily safety and soundness examinations of banks under</p> <p>8 the FDIC's jurisdiction. This, of course, was in the late</p> <p>9 '80s, so for a period of time that morphed into closing</p> <p>10 banks for the FDIC, primarily in Alaska, but in various</p> <p>11 places around the country. I also did a bit of compliance</p> <p>12 work with the FDIC, was trained in federal compliance</p> <p>13 issues.</p> <p>14 When I moved to the state of Washington, the work was</p> <p>15 primarily the same with no compliance duties because State</p> <p>16 agencies typically don't - State banking agencies typically</p> <p>17 don't deal with the compliance issues. Those are left to</p> <p>18 the feds, so safety and soundness examiner for banking</p> <p>19 institutions for the state of Washington for the period of</p> <p>20 time I was there.</p> <p>21 When I went into private industry, I was vice president</p> <p>22 and general manager of a, I don't know, small to midsize</p> <p>23 mortgage company out of Bellingham, Washington. We had</p> <p>24 approximately 20 to 25 employees. I did that for a period</p> <p>25 of three years. I supervised all of the sales staff and all</p> |

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| <p style="text-align: right;">Page 10</p> <p>1 of the backroom staff: processors, accounting, all that 2 kind of stuff. 3 Q What was the name of that institution? 4 A Security First Mortgage, Inc. 5 Q Okay. 6 A When I returned to the state of Washington in '93, I came 7 into the Division of Consumer Services. There had been some 8 departmental changes. Previously Division of Banks had been 9 under General Administration. It was moved out from 10 underneath that and merged with three other divisions into 11 the Department of Financial Institutions. And my former 12 bosses at Division of Banks became the heads of Department 13 of Financial Institutions, so they requested that I come 14 back under their employ, so I started my current career, if 15 you will, with the Department of Financial Institutions 16 within the Division of Consumer Services, primarily 17 regulating mortgage brokers at that time. We had mortgage 18 brokers, consumer loan companies, check cashers and sellers 19 under our jurisdiction from '93 until mid-'95. In mid-'95, 20 we took on the escrow industry, and we took that over from 21 the Department of Licensing. 22 In the early days, I'll say roughly '93 and '94, I was 23 very much a jack-of-all-trades. I did everything from 24 licensing issues to handling complaints to beginning 25 investigation work for the Division. We didn't really have</p> | <p style="text-align: right;">Page 12</p> <p>1 being in charge of compliance of state regulations? 2 A In my current position, yes, since '93 forward, but not as a 3 state bank examiner because state banking departments 4 generally don't handle compliance. I can't say that's true 5 for every state, but the majority of the states leave the 6 compliance issues to the feds. 7 Q Okay. Now, your current title is enforcement chief? 8 A Correct. 9 Q And what do you enforce? 10 A We have jurisdiction over mortgage brokers, and there's a 11 very wide definition of mortgage brokers. It essentially 12 includes anybody who originates a mortgage loan including 13 banks, credit unions, savings and loans, anybody who might 14 originate a single-family residential mortgage loan. 15 However, under that statute there's a variety of exemptions. 16 They might be defined as mortgage broker, but they may be 17 removed from the statute for one reason or another. Banks 18 and credit unions, for example, are completely exempt from 19 the statute. Mortgage bankers that would fall under Fannie 20 Mae and Freddie Mac would have a licensing exemption but 21 would still be subject to our authority for certain sections 22 of the statute and our enforcement authority. 23 We also have jurisdiction over consumer loan companies, 24 which were formerly known as consumer finance companies, and 25 industrial loan companies. Those two were sort of merged</p> |
| <p style="text-align: right;">Page 11</p> <p>1 an investigation program in place at that time. By '95, I 2 had transferred into almost 100 percent investigative and 3 enforcement work and pretty much worked up through the ranks 4 there until my current position of enforcement chief. 5 I currently oversee about 15 attorneys and examiners 6 who have a variety of duties, including routine examination 7 of our licensees and enforcement work, and there's a whole 8 myriad of duties within that general realm of examination 9 and enforcement and I supervise all of it 10 Q You mentioned in that iteration that part of your duties was 11 as a compliance officer. Compliance with what? 12 A Federal statutes. And I don't think I used the term 13 compliance, although people always repeat that back to me 14 when I say - well, maybe I did, but it would be compliance 15 examiner. Compliance with federal statutes such as Truth in 16 Lending and regulations, the RESPA and Reg X, ECOA, and 17 Reg B. That's E-C-O-A. 18 Q Stands for...? 19 A Equal Credit Opportunity Act. Various other federal 20 statutes, Depository Institutions Deregulatory and Monetary 21 Control Act, DIDMCA, Reg CC. I mean, it just goes on and on 22 and on. There's a variety of - there's quite a litany of 23 federal statutes that apply to banks that wouldn't 24 necessarily apply in the situation I'm in now 25 Q Okay. And what about - have you ever been in a position of</p> | <p style="text-align: right;">Page 13</p> <p>1 in, I don't know, the '80s or whatever into the consumer 2 loan companies. That licensing type has grown through the 3 '90s as subprime lenders of mortgage loans have found that 4 to be a convenient license to hold. So with the growth in 5 subprime lending in this country, we've seen a real growth 6 in the consumer loan licensees. 7 Today, the way the market is, consumer loan companies 8 pretty much do the same activity as mortgage brokers. They 9 hold a different license, but they do pretty much the same 10 activity, with the exception of being able to fund high-cost 11 second mortgages, which a mortgage broker can't do. We also 12 handle escrow agents and officers or the - those are the 13 real estate closers in the state of Washington 14 We don't handle title companies. We don't have any 15 jurisdiction over attorneys effecting closing. And we have 16 jurisdiction over check cashers and sellers and that would 17 include, since 1995, payday lenders, which are, you know, 18 short-term, high-cost loans secured by a postdated check 19 Q And Household Finance, Household Realty III, and Beneficial 20 Mortgage would be classified as consumer loan companies? 21 A Household Finance and Beneficial hold consumer loan 22 licenses. Household Realty does not hold a consumer loan 23 license. 24 Q Do they hold one now? 25 A I'm not sure if they have applied or not, but I don't</p> |

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| <p style="text-align: right;">Page 14</p> <p>1 believe that we've issued one yet. I could be wrong on 2 that. I would have to check with licensing staff. 3 Q To get a license in the state of Washington, what do you 4 have to show? 5 A Well, the statute requires your typical character and 6 fitness qualifications, bonding requirements. That's the 7 basic criteria. Of course, there's details involved in 8 that. You have to make application, which is a significant 9 amount of paperwork, and show that you're authorized to do 10 business in the state of Washington and master business 11 license, that kind of stuff. 12 Q Is there any requirement that they be incorporated in the 13 state of Washington? 14 A No. 15 Q And -- 16 A Nor is there a requirement that you be located in the state 17 of Washington. 18 Q And when you say they have to have bonding capacity, what's 19 the amount of bond? 20 A Currently it's - I believe it begins at \$400,000, if I 21 remember correctly. It changed recently. \$100,000 added 22 per branch after that. There might be a maximum on it. I'm 23 sorry. I would have to look that up. The statute did 24 change. It's more bonding now than it used to be. 25 Q Do you happen to know off the top of your head what the</p> | <p style="text-align: right;">Page 16</p> <p>1 state of Washington. 2 MR. DUNNE: I'm going to object. They're 3 different corporations in different periods of time, so 4 that's a compound question. 5 Q (By Mr. Parlette) Do you understand the question? 6 A Understood the question. The answer is going to be no, 7 regardless of how you rephrase it. I can't tell you when 8 they began doing first mortgages in Washington. 9 Q With their license as a consumer loan company, does it 10 mention specific authority to underwrite mortgages? 11 A The license doesn't mention that. The statute covers that. 12 Q What's the statute say about that? 13 A The statute authorizes consumer loan companies to - it's a 14 strange statute. Specifically authorizes them to conduct 15 high-rate lending above the rate of usury as a specific 16 authorization under the statute and that would include high- 17 rate second mortgages. There is no specific coverage or 18 prohibition for first mortgages. First mortgages would be 19 preempted for federal housing creditors or housing creditors 20 falling under I think it's DIDMCA. 21 Q What's that mean? 22 A Depository Institutions Deregulatory and Monetary Control 23 Act. 24 Q Okay. 25 A There are a couple of federal statutes that intend to create</p> |
| <p style="text-align: right;">Page 15</p> <p>1 bonding requirement is for Household? 2 A I don't know what the dollar amount is, but I can tell you 3 they had whatever required bonding amount they were supposed 4 to have. 5 Q And I'm sure in your listing of the dates I could figure 6 this out, but can tell me how many years you've been in your 7 current position as compliance - chief of compliance? 8 A Enforcement chief. 9 Q Enforcement chief, excuse me. 10 A I was promoted to that in May of this year 11 Q Before that, what was your position? 12 A Supervisor of Investigation and Enforcement 13 Q How long did you hold that position? 14 A I think I was promoted to supervisor in '93 or '96. Prior 15 to that, I was a senior examiner, so - I've been doing the 16 same duties for quite a period of time. I've moved up 17 through the ranks. 18 Q And you started here at DFI back in -- 19 A Back in '93. 20 Q '93, okay. Can you tell me how many first mortgages -- 21 strike the question. 22 When did Household - when I use the term "Household." 23 I'm going to incorporate Household Realty III, Household 24 Finance, and Beneficial Mortgage, so they're one. Can you 25 tell me when Household started doing first mortgages in the</p> | <p style="text-align: right;">Page 17</p> <p>1 sort of a level playing field for lenders across the country 2 that would preempt or trump state statutes that might intend 3 to divide the country into 50 different chunks of 4 regulation, if you will. So a company such as Household is 5 not required to hold a license to do first mortgages in 6 Washington. They are required to hold a license if they 7 want to do second mortgages above the rate of usury, which 8 is currently at 12 percent, or if they want to do the 9 typical consumer finance loans above the rate of 12 percent. 10 Q So they do hold such a license? 11 A They do hold such a license. They're not required to hold 12 such a license. In fact, even if they made loans that 13 exceeded the rate of usury, they aren't specifically 14 required to hold the license. It's just they're subject to 15 violations under the usury statute if they didn't hold a 16 license and have an exemption. We have jurisdiction to 17 review first mortgages under that statute. We can review 18 any business of our licensees and hold them compliant with 19 the federal statutes that govern their business, so the 20 federal statutes have been incorporated into our statutes, 21 but the license is not necessary in order for them to do 22 first mortgages. 23 Q Is there a federal agency that oversees Household's 24 business? 25 A Well --</p> |

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1 MR. DUNNE: I object. Lack of foundation, vague,
 2 and ambiguous.
 3 Q (By Mr. Parlette) You can go ahead and answer the question.
 4 A First, I believe Household has three banks, so there would
 5 be federal jurisdiction over those banks. But those - I
 6 think that's a fairly small portion of their business, so
 7 yes, to that part of the answer.
 8 As far as what would be considered primary regulation
 9 is how we would define it in the regulatory field, the
 10 primary regulators for Household are going to be each of the
 11 state entities. Now, the FTC would have jurisdiction over a
 12 variety of federal statutes and HUD would have jurisdiction
 13 over RESPA, for example, so there's federal jurisdiction,
 14 but not what we would call primary federal oversight.
 15 Q You said FTC?
 16 A Federal Trade Commission.
 17 Q And Housing and Urban Development?
 18 A Correct.
 19 Q And the Federal Home Loan Bank Board has no jurisdiction
 20 over them, I take it?
 21 A I don't know what the makeup or the charter of their three
 22 banks are, but for the licensees in our state, Household
 23 Finance III and Beneficial, no.
 24 Q What about the control of the currency?
 25 A No. Again, qualifying that I don't know the charter status

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1 of those banks. If they're national banks, the OCC would be
 2 the primary regulator for those banks.
 3 Q Now, would you know or could I find out by doing a public
 4 disclosure request how many first mortgages were
 5 underwritten by Household in the year 1998 in the state of
 6 Washington?
 7 MR. DUNNE: Objection: compound.
 8 A During what year?
 9 Q (By Mr. Parlette) In 1998.
 10 A No. Let me think for a second. We do examinations every
 11 two years, and we do collect volume of loans in Washington.
 12 I think what we could report is, in 1999 I think we could
 13 report the last two years' volume of loans, so it probably
 14 would be for all of '98 and all of 1999. However, I believe
 15 at the moment that those reports might be protected by the
 16 temporary restraining order. I would have to ask our
 17 Assistant Attorney General.
 18 Q And the year 2000 - excuse me, 1999, you've already
 19 addressed that. It would be in the same examination period?
 20 A Correct, '98 and '99. Then we had - the next examination
 21 period was 2000 and 2001.
 22 Q And do you know off the top of your head or could I find out
 23 through a public disclosure request how many first mortgages
 24 Household underwrote in those two years, 2000 and --
 25 A Again, same exact answer. We would - I believe we have the

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1 information for a two-year period of time, but not year by
 2 year. And I would have to direct you to Susan Carlson to
 3 find out whether you could actually discover that or not at
 4 this point in time.
 5 Q The year 2002, do you have partial information on that year?
 6 A No.
 7 Q Now, off the top of your head - strike the question. At her
 8 press conference, Attorney General Christine Gregoire said
 9 that the likely number of borrowers who would be entitled to
 10 payment under the settlement done by the Attorney General
 11 with Household in the state of Washington would be in the -
 12 I believe she used the number 11,000. Do you recall that
 13 number?
 14 A Yes.
 15 MR. DUNNE: Objection to form.
 16 Q (By Mr. Parlette) And can you tell me what that number is
 17 composed of or how it's arrived?
 18 MR. DUNNE: Objection to form, lack of foundation.
 19 A At this time I can't tell you what it's composed of. At
 20 some point in time when we actually extract information from
 21 Household's databases, we will have a feel for that number.
 22 But at this point in time, that nearly 11,000 borrowers is
 23 comprised of borrowers who have come and gone from January
 24 1999 through September 30th of 2002, and that would be made
 25 up of just first mortgage borrowers, just second mortgage

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1 borrowers, and a combination of first and second mortgage
 2 borrowers. Some of them may have repeat finances during
 3 those period of time.
 4 Q (By Mr. Parlette) Okay, good. The term PHL is used in some
 5 of Household's documentation. Do you know exactly what
 6 "PHL" stands for?
 7 A Personal home loan.
 8 Q And is that a secured loan?
 9 A It is a secured loan in - well, I don't believe it's a
 10 secured loan in every case, but it's a type of loan that
 11 Household wrote that is fashioned along the lines of a
 12 second mortgage line of credit. Household didn't consider
 13 personal home loans really to be real estate loans, but they
 14 were secured, not in every case, but I believe in the
 15 majority of cases they were secured by real estate.
 16 Q Were any of those personal home loans fixed by term and
 17 amount or were they always open lines of credit?
 18 MR. DUNNE: Objection: lack of foundation.
 19 A I don't recall right now. The company is large enough and
 20 has enough different types of products that I'm
 21 uncomfortable in saying what products are what.
 22 Q (By Mr. Parlette) And do you at Department of Financial
 23 Institutions have data on the capitalization of Household
 24 and its subsidiaries that are licensed here in the state of
 25 Washington?

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1 A The only information that we have is through SEC filings
 2 that are public records. We don't routinely perform what
 3 are called safety and soundness examinations of our
 4 licensees which is to determine, you know, have to determine
 5 their net worth and asset quality and so forth. We don't,
 6 during an examination, extract that information.
 7 Q Does the State make any effort to assure itself of adequate
 8 capitalization, or leave that to the SEC?
 9 A Well, we don't really leave it to anybody. We have bonds in
 10 this state, so we're not concerned with capital adequacy.
 11 Q The document Exhibit A, which we've admitted in your
 12 deposition here, have you made any attempt to count those
 13 complaints for Beneficial and Household?
 14 A No. This was printed out moments before you arrived. My
 15 staff person forgot to do it for me and raced to the printer
 16 and did it just right before you came in.
 17 Q Okay, great. When did it first come to your attention that
 18 the complaints against Household, and again I use it to
 19 include Beneficial, seem to get inordinately large here in
 20 the state of Washington?
 21 MR. DUNNE: Objection: form.
 22 A We saw --
 23 MR. DUNNE: Objection: leading.
 24 A We saw an increasing trend in complaint activity in 1999 and
 25 continuing to 2000.

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1 Q (By Mr. Parlette) And at any point in time, did this --
 2 A If you don't mind, I'll modify that. I do have some
 3 information here in my report. Looks like we had a dip in
 4 1999. We became more concerned with complaints in 1999, but
 5 it does look like there's an actual dip in activity and then
 6 it started to accelerate in 2000.
 7 Q You're referring to a document that you have in front of
 8 you. Let's go ahead and get that marked as Exhibit B and
 9 identified.
 10 (EXHIBIT NO. B MARKED)
 11 Q I'm going to hand you what's been marked as Exhibit B and
 12 ask if you can identify that, please?
 13 A This is the Department's expanded report of examination for
 14 Household Finance Corporation III as of April 30, 2002, and
 15 I would actually ask that you allow me at some time on a
 16 break to print you a good copy of this. This is a - I
 17 pulled this out of a box on my way racing here because I
 18 wasn't prepared this morning. This is a - this is the draft
 19 run early on, and it has typographical errors which you can
 20 find right here in the heading. There's a clean,
 21 nontypographical error version, same length, all the same
 22 information, same signature and everything on it that I
 23 would prefer to print for you --
 24 Q Okay.
 25 A -- than this one only because it's sort of embarrassing

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1 having a handful of typos throughout the report.
 2 Q Okay. So with that understanding, we'll make it Exhibit B
 3 when you have a chance at the break to get us a clean copy
 4 of the same thing and we'll call that Exhibit C, the clean
 5 copy of the report.
 6 A Okay. Thanks.
 7 Q I had asked you a question about the number of complaints,
 8 and you were just interposing an answer there about 1999.
 9 At some point in time, did you start to become alarmed by
 10 the number of complaints that were coming in against
 11 Household?
 12 MR. DUNNE: Objection; leading.
 13 A In 2000 we became concerned about what we saw as an
 14 increasing trend in the number of complaints.
 15 Q (By Mr. Parlette) Did you personally examine these
 16 complaints as they came in?
 17 A Yes. Some of them.
 18 Q And who else here at the Department was analyzing those?
 19 A Vivian Carter. And if you have happen to, at some point in
 20 time look in a file, you will see there are three different
 21 names because she went through a divorce, back to her old
 22 name, and then a marriage again, so you'll see a variety of
 23 names for her, but she's the only Vivian that's worked for
 24 the Department Patrick Hardman, H-a-r-d-m-a-n, and John
 25 Samuelson.

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1 Q And are those three individuals still employed here at DFI?
 2 A Yes. Although Vivian has transferred to another division,
 3 but she's still under DFI.
 4 Q Did you periodically conduct meetings with Vivian, Patrick,
 5 and John to consult on what you were observing?
 6 A Yes. They were directly under my supervision, so we had
 7 very close interaction.
 8 Q How often would you meet relative to Household and the
 9 things you were seeing?
 10 A I'm not sure that we had - that I had any formal meetings
 11 with those three on Household, but we had a weekly status
 12 meeting on all of the cases we were working every Monday, so
 13 issues concerning Household would be brought up during that
 14 meeting, you know, on any given Monday.
 15 Q Do you recall when you first brought to the attention of the
 16 director of Department of Financial Institutions your
 17 concerns about household?
 18 A I don't believe I ever brought them to the director of
 19 Financial Institutions' attention, but the director of
 20 Division of Consumer Services would have been who I would
 21 report to --
 22 Q I see.
 23 A -- and he reported up to the director of the agency. I
 24 can't remember - I don't recall having a meeting directly
 25 with the director of the agency on Household.

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1 Q Who is the director of the Division of Consumer Services?
 2 A Mark Thomson, no P.
 3 Q Mark Thomson?
 4 A T-h-o-m-s-o-n.
 5 Q No P, you said?
 6 A No P, yeah.
 7 Q Is he still the director of Consumer Services?
 8 A Yes.
 9 Q And when did you first bring to Mr. Thomson's attention the
 10 trend you were seeing in the Household complaints?
 11 A I don't recall, but Household being our second - I believe
 12 our second largest licensee, we were, as with any of our
 13 large licensees, we would communicate frequently about the
 14 company. The Department has a long history with Household,
 15 and so we would frequently interact in regards to Household.
 16 I do know in late 1999 we began discussing what we
 17 considered to be an alarming nature of the complaints that
 18 we were seeing.
 19 Q And what was the alarming nature of the complaints?
 20 A We were seeing good-faith estimates come in where a range of
 21 discount points were shown on the good-faith estimate. And
 22 my interpretation and my three examiners' interpretation was
 23 that this was not in compliance with Regulation X to the
 24 Real Estate Settlement Procedures Act, and we became
 25 concerned and began interacting with Household on that

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1 issue, essentially challenging them on their compliance with
 2 Reg X.
 3 Q And in this process, as the complaints would come in, did
 4 you talk to the complainant, you or your investigators under
 5 your jurisdiction?
 6 A Talk to the complainants?
 7 Q Right.
 8 A At times. When we're handling complaints, we're more
 9 document driven than we are interview driven. Interviews
 10 are more often saved for investigative work. The volume of
 11 complaints is too great to be calling up complainants and
 12 asking what their story was. I can't say we didn't talk to
 13 consumers because from time to time you need maybe some
 14 clarification or some document they didn't provide. But
 15 not, as a practice, would we be interviewing the consumers.
 16 Q And does the Department have an annual or biannual review
 17 period for its licensees that you undertake in the ordinary
 18 course of business?
 19 A We do a routine examination that is supposed to be scheduled
 20 every 24 months. We don't always make that 24-month time
 21 frame. However, with Household I think we, since they were
 22 such a large licensee, were pretty good about making our 24-
 23 month time frame.
 24 Q Would those start in the odd year and end in the even year?
 25 A What do you mean by "start"?

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1 Q Well, let's see. My recollection was, you put '98 and '99
 2 together. Would that be an examination period?
 3 A Yes. That would be a period under examination, yeah. So I
 4 think, if you looked backwards in time, you would probably
 5 find our exam reports going 2001-1999, '97-'95, I believe is
 6 the trend you would see.
 7 Q I get it. And the documents you have in front of you as
 8 Exhibit B, was that one an examination conducted in the
 9 ordinary course of business?
 10 A We identified this as an examination. It's an expanded
 11 examination because in 2001 we did a routine examination.
 12 And this exam was keyed more off the complaints that we had
 13 been reviewing and somewhat off findings from the
 14 examination staff during the routine exam.
 15 Q I see.
 16 A It was an expansion of their routine exam.
 17 Q When did you decide to do this expanded report of
 18 examination?
 19 A I believe it was in, I want to say, December of 2001 is when
 20 the director and myself agreed that we needed to further
 21 document our findings.
 22 Q And the director was Mark Thomson?
 23 A Mark Thomson.
 24 Q In your ordinary biannual examinations, what's the purpose
 25 of those?

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1 A It's a compliance-focused examination. The purpose is,
 2 determine a licensee's compliance or adherence to certain
 3 federal and state statutes which are aimed at consumer
 4 protection in financial transactions.
 5 Q Is the purpose of this expanded report any different than
 6 that?
 7 A No, not really. It's more focused and more specific, but
 8 it's - the purpose isn't any different.
 9 Q The individual complaints upon which this are based by
 10 consumers, how are those complaints resolved or acted upon,
 11 I should say?
 12 A By the Department?
 13 Q Yes.
 14 A I need to understand your question a little bit better.
 15 Q Sure.
 16 A Do you mean in the normal course or this case?
 17 Q In the normal course of business someone says, I got
 18 mistreated by my mortgage broker or by Household. Let's
 19 just use Household as the example. They send in a written
 20 complaint. Is there a resolution of their complaint by the
 21 Department?
 22 A Usually.
 23 Q And how does that resolution occur, when it does occur?
 24 A The complaint arrives in the department. We have
 25 essentially four phases that transpire. Phase one is to

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1 send a directive out to the licensee saying, we need
 2 specific information in order to review this complaint.
 3 Phase two is a follow-up to phase one if we don't get
 4 everything that we need or if we don't get anything, as
 5 often is the case. Phase three is when an examiner sits
 6 down with a complaint file that hopefully is now somewhat
 7 complete with documentation from both parties, being the
 8 complainant and the respondent. They perform a compliance
 9 review of that file and make findings of - make the initial
 10 findings of violation, apparent violations, and prepare a
 11 set of requirements that we would ask the company to
 12 complete in order to resolve the complaint.
 13 Q Do they have any obligation to complete those, the company?
 14 A The company is not required to undertake corrective action
 15 requested through a complaint. Every complaint resolution
 16 comes with a paragraph that warns the company that if they
 17 don't undertake the corrective measures that we've laid out,
 18 we would have no choice but to enter an administrative
 19 enforcement action forcing them to do that, so the actual
 20 complaint document itself doesn't rise to the level of an
 21 action under the Administrative Procedures Act. It's an
 22 informal request, if you will.
 23 Q And they - the formal resolution under the APA,
 24 Administrative Procedures Act, would be triggered by an
 25 administrative enforcement proceeding brought by DFI?

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1 A A statement of charges, yes.
 2 Q Has that ever happened against Household?
 3 A No.
 4 Q And can you tell me why? Why not?
 5 A We joined with a multistate effort and brought what we felt
 6 were their violations to a consensual resolution.
 7 Q We'll talk about that later.
 8 You used two terms, violation. I presume, of either
 9 federal or state regulations or an apparent violation of the
 10 federal and state regulations. Are those terms of art?
 11 A Yes. We use the term "apparent violation" prior to actually
 12 filing charges because they are essentially initial
 13 findings. It is just a term of art to allow the process.
 14 the understanding, that, you know, it's not a finding by the
 15 director that a violation has occurred. It's a finding by
 16 an examiner who is not in a position to commit the
 17 Department to charges for those violations.
 18 Q In order to have a violation, you would have to go through
 19 the Administrative Procedures Act. Is that a true
 20 statement?
 21 A I don't know if it's true, but it's - let me say it's not a
 22 clearly defined process. I won't say that there haven't
 23 been times where examiners have used the term "violation" in
 24 lieu of apparent violation. We just prefer that our
 25 examiners talk in terms of apparent violations instead of

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1 making it sound as if it's a finding of the director.
 2 Q In order to have a finding of the director, what does that
 3 take?
 4 A Again, that's not clearly defined because I don't dictate
 5 the director's finding. The director could simply stand up
 6 and say, "I find a violation of this," but typically it's
 7 going to be something under the director's signature that a
 8 violation transpired.
 9 Q When talking about the director, we're speaking of the
 10 director of Department of Financial Institutions?
 11 A We're speaking of the director of the Department of
 12 Financial Institutions who delegates his or her authority
 13 down to a division director to make those findings and might
 14 even further be delegated down from that point, so . . .
 15 Q Was there ever a violation found against Household or any of
 16 its subsidiaries by anyone who was delegated that authority?
 17 MR. DUNNE: Objection; vague and ambiguous.
 18 A No.
 19 Q (By Mr. Parlette) And again, as I understand what you're
 20 saying is, the process got interrupted by this multistate
 21 effort to have some sort of consensual resolution?
 22 MR. DUNNE: Objection; leading.
 23 A The process wasn't interrupted so much as there was a
 24 parallel process taking place and we achieved resolution
 25 before the enforcement track reached completion and filing

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1 of charges.
 2 Q (By Mr. Parlette) Okay. So if I am putting this all
 3 together, in your report, expanded report of examination,
 4 when we see the words "apparent violation," what that is, is
 5 a conclusion by an examiner that it appears to that examiner
 6 there is a violation, but there's not the formal process of
 7 determining a finding of fact that it is indeed a violation?
 8 A That is correct. Keeping in mind with this case that the -
 9 those apparent findings were being made by myself. And at
 10 that period of time, it would be a very high level of
 11 examiner, actually supervisor of investigation enforcement,
 12 days before I was promoted to enforcement chief.
 13 Q Okay. At the time that you were doing this expanded report
 14 of examination, were you in contact with other state
 15 regulators in other states?
 16 A At this point in time, April 30, 2002?
 17 Q I think you said you started this process, you and the
 18 director decided to - started in December 2001. You
 19 completed it in April of 2002. In that period of time,
 20 between those dates of December and April, were you in
 21 contact with your equivalents in other states?
 22 A Yes.
 23 Q What other states were you in contact with?
 24 A Minnesota, Georgia, Idaho, Oregon. Those were the main
 25 ones. And then some infrequent contact with Michigan.

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1 California, Illinois. I'm not really clear now. I interact
 2 with all of the states a lot and we discuss a lot of issues.
 3 I'm chairman of the Mortgage Fraud Committee for AARMR,
 4 which is the national association of state regulators, so we
 5 have meetings and we interact on a lot of issues, so I
 6 frequently talk with other regulators. But those that I
 7 listed there are the ones that we actually were interacting
 8 on, let's say, a case level with.
 9 Q You just mentioned an organization which is interesting to
 10 me. What did you call it? AARMR?
 11 A Yes. The American Association of Residential Mortgage
 12 Regulators, A-A-R-M-R.
 13 Q And that's composed of state agencies?
 14 A Yes.
 15 Q Is the federal government in any way connected with or have
 16 any representation on that group?
 17 A No. They participate with us, but they're not formally
 18 connected.
 19 Q You're the chairman of that group?
 20 A No. I'm chairman of the Mortgage Fraud Committee, which is
 21 one of the committees under AARMR.
 22 Q How long have you held that position?
 23 A I think I'm halfway through my second year now
 24 Q I failed to ask this in the background questions, but are
 25 there any other committees that you serve on that bear on

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1 your job responsibilities here?
 2 A Yes. I'm also on the Training Committee for AARMR. I am a
 3 casual committee member for the Research Committee for the
 4 King County Coalition for Responsible Lending and also at
 5 times participate on Remedies and Education Committees. I'm
 6 more like - I don't know. I appear when I can find time
 7 almost, more of a guest appearance. I don't make it to most
 8 of the meetings.
 9 Q That's a county --
 10 A King County, yes.
 11 Q -- committee?
 12 A Committee for Responsible Lending.
 13 Q Is that a government organization or volunteer?
 14 A Well, not really. It's government and quasi-government and
 15 then consumer-group oriented. The Washington representative
 16 for ACORN, for example, participates on some of these
 17 committees. You see groups such as the Fremont Association
 18 having participation or the Washington State Bar. Actually,
 19 the King County chapter of the Washington State Bar is
 20 involved. City of Seattle, HUD's local representation. At
 21 times the FTC sends a member to the meetings. It's sort of
 22 a loose coalition of people who are interested in the
 23 subject of predatory lending.
 24 Q I see. How long has that committee been in existence?
 25 A Boy, a year and a half.

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1 Q Any other organizations, other than the ones you've just
 2 listed?
 3 A I am a subject matter expert and instructor for the National
 4 White Collar Crimes Center. I'm a member of the --
 5 Q Excuse me. National White Collar Crimes Center, is that a
 6 government committee?
 7 A It is funded by the U.S. Department of Justice, but it is a
 8 stand-alone organization that assists law enforcement.
 9 Q How long have you been on that committee?
 10 A I became a subject matter expert - well, let me rephrase. I
 11 began teaching for them in 1997 and became a subject matter
 12 expert I believe it was 1998.
 13 Q And what's the subject matter in which you're an expert?
 14 A Financial crimes, white-collar crime.
 15 Q Any other committees?
 16 A I belong to the - no other committees. I belong to Pacific
 17 Northwest Tax License and Fraud Association, and I'm a
 18 certified government financial manager, CGFM. It's the
 19 government equivalent of a CPA.
 20 Q And what goes into getting that certification?
 21 A You know, nothing at the point in time I got it. I was
 22 grandfathered in because of my background and educational
 23 experience and so forth. Now you have to take a test along
 24 the lines of the CPA, so I got in kind of easy. Then I'm
 25 associate certified fraud examiner.

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1 Q And who does the licensing again? The Pacific Northwest Tax
 2 License Fraud?
 3 A They don't do licensing. That's just an organization,
 4 Pacific Northwest Tax License and Fraud Association. It's
 5 the association for Washington, Oregon, and lower Canada
 6 dealing with everything from licensing to tax fraud to
 7 financial crimes. It's everybody from the FBI to the
 8 inspector general, local law enforcement, prosecutors. It's
 9 all of us. It's a pretty big group.
 10 Q Okay. And what triggered that question, you said you were
 11 an associate fraud --
 12 A Associate certified fraud examiner.
 13 Q Certified fraud examiner.
 14 A Which just means that I haven't sat for the exam to be a
 15 CFE, a certified fraud examiner. It's a national
 16 designation. It's the CPA of the fraud arena.
 17 Q Okay. Who certified you? That's my question.
 18 A The organization, Certified Fraud Examiners, Association of
 19 Certified Fraud Examiners.
 20 Q Any other titles or awards or honors?
 21 A All kinds of that kind of stuff.
 22 Q Let's go through them.
 23 A I was awarded a columnist of the year by the National
 24 Association of Mortgage Brokers for the year 2000. Let's
 25 see. 2001 I was the examiner of the year awarded by AARMR.

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1 I don't know. You know, I'll have to think for a while.
 2 Q Do you have any of this stuff listed out on a vitae of any
 3 sort?
 4 A A little bit of it, I do. I have a short bio that I use
 5 when I do speaking engagements. Mostly it's stuff that's
 6 dumped in a drawer. Certificates of, you know, instructing
 7 this course and that course, that kind of thing.
 8 Q If during a break you or your secretary can come up with
 9 that bio --
 10 A Sure.
 11 Q -- we can --
 12 A It's one paragraph.
 13 Q -- simplify this thing and speed it up.
 14 A Okay.
 15 Q Now, when you were in contact with these other state
 16 regulators, was there an observation by these other states
 17 of the same patterns that you were seeing here at Household?
 18 A They were stating similar patterns.
 19 Q And did you hold meetings with any of these other people to
 20 specifically discuss the practices of Household?
 21 A Yes. We held two meetings.
 22 Q When were those?
 23 A January and February of this year. I believe it might be
 24 January and March, but somewhere around the start of the
 25 year.

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1 Q Where were those meetings held?
 2 A Both of them were held here at DFI, although some of the
 3 people appeared by telephone. Minnesota only appeared by
 4 telephone. Georgia bowed out early on, said they didn't
 5 have the resources to be involved in a multistate
 6 investigation or examination of Household, so they showed
 7 early interest and then said - they had some serious funding
 8 restrictions on them.
 9 Q And were you then designated by this group to take the lead
 10 on this?
 11 A No.
 12 Q You just did it?
 13 A No. I mean, I just did my job, and I just happened to do
 14 some of it before some other people.
 15 Q I get it. Now, when you did your expanded report of
 16 examination, what trends or patterns did you observe that
 17 gave you cause for concern?
 18 A There were five or six trends or patterns. I will attempt
 19 these from memory and possibly flip to this report.
 20 Q Feel free to use that report whenever you want.
 21 A Maybe I'll do that right now just to be more precise.
 22 Beginning on page 43 is what I called identified patterns in
 23 recent complaint history. The first pattern is
 24 misrepresentations and failed promises to consumers. The
 25 second is confusion over rates, points, and fees. The third

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1 is timely disclosures. The fourth is confusion over monthly
 2 payment amount or misrepresentation of monthly payment
 3 amount. Fifth was misrepresentation of prepayment
 4 penalties. The sixth was insurance packing. And the
 5 seventh is what I call in this report upselling loans but
 6 through the multistate process became known as the piggyback
 7 loan scenario or the simultaneous second with a first.
 8 Q Two loans instead of one?
 9 A Correct.
 10 Q And it's my understanding that the complaints against the
 11 subsidiary known as Beneficial Mortgage are not listed in
 12 this expanded report.
 13 A That's correct.
 14 Q Have you done or have you arrived at any conclusions about
 15 their practices relative to what you've observed about
 16 Household?
 17 A We found strong similarities, but we haven't performed the
 18 in-depth review on specific complaints of Beneficial, as we
 19 did with Household.
 20 Q Had you intended to do that before this resolution of the
 21 multistate Attorney General settlement?
 22 A Yes - the parallel track that was taking place was a
 23 movement towards filing charges, and charges would have been
 24 filed against Household Finance, Household Realty,
 25 Beneficial, and likely we would have named Household

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1 International as well, and that would have required a full
 2 in-depth review of Beneficial's complaint activity as well
 3 as Household's.
 4 Q Had you gotten started on that analysis of the complaints
 5 against Beneficial?
 6 A No - I had just briefly reviewed some of the complaint
 7 activity to make sure that what we believed was transpiring
 8 at Beneficial really was. What I mean by that, we
 9 identified very clear solicitation and business practices
 10 that we believe were corporate-wide, not just segregated
 11 into, you know, one of the entities. We believed it was -
 12 we believed that it was a corporate-wide practice for all
 13 three entities, so the review was pretty much just to check
 14 those files and see if our assumption was correct.
 15 Q Was your assumption correct?
 16 A I believe so.
 17 Q And that assumption was that the patterns were the same?
 18 A Strongly similar.
 19 Q And when did you actually commence work on this expanded
 20 report?
 21 A That's difficult to answer because in my duties the
 22 complaints that ended up in this report would have fallen
 23 under my jurisdiction at all moments in time, so I think we
 24 were - maybe we didn't always realize it, but we were always
 25 moving towards some product such as this. The actual

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1 drafting of the report I believe I began in the end of
 2 February, start of March.
 3 Q Okay. Now, is this - the document that you're going to have
 4 as Exhibit C when we get it, which is the corrected without
 5 the typos --
 6 A Okay.
 7 Q -- did you consider that to be a final report?
 8 A Yes.
 9 Q And it is my understanding that the Department of Financial
 10 Institutions gave Household an opportunity then to respond
 11 to that final report.
 12 A Yes.
 13 Q And did Household respond to it?
 14 A Yes.
 15 Q And did that - their response in any way change the
 16 conclusions you had arrived at in this report?
 17 A No.
 18 Q Do you have or can I get a copy of Household's response?
 19 A Only from Household.
 20 Q That's also a under --
 21 A Under the TRO.
 22 Q That's one of the blocked documents, okay.
 23 A And that's what our Assistant Attorney General tells us.
 24 The corporate officers of Household told me they wanted me
 25 to give out their response anytime I gave anybody the

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1 a slightly different experience for each one of us, but we
 2 were in agreement on the origination process.
 3 Q (By Mr. Parlette) And that's the origination of the loan
 4 process?
 5 A Correct.
 6 Q And which office did you visit?
 7 A Bellingham.
 8 Q And who did you deal with there, do you remember?
 9 A A young guy. I had this in my notes somewhere, but I want
 10 to say Dominic. And then at a later point in time - boy, I
 11 would have to find the name - a woman took over the file
 12 from him because he was out sick, I believe was the deal
 13 with him, so there's a woman that took over the file at some
 14 point in time.
 15 Q Let me give you some names and see if it refreshes any
 16 memory. Lori Gale, Sasha Tomlinson.
 17 A I'm going to have to say I don't remember at this moment in
 18 time because those names are familiar to me, and I don't
 19 want to say they're familiar because I visited the office.
 20 I apologize.
 21 Q That's all right.
 22 A I believe it was August 10, 2001. That's a long time ago.
 23 I just did one - I just stopped in the office and only
 24 talked to Dominic, if that was his name, for about two
 25 minutes or so and then him and I originated the loan over

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1 report, but apparently the TRO does protect that.
 2 Q You call it a TRO. Typically a TRO is good for 14 days, I
 3 think.
 4 A You know, it's probably in the form of an injunction now.
 5 I'm sorry.
 6 Q And could you describe in detail your investigative or
 7 examination efforts that went into the drafting of this
 8 report?
 9 A The investigation was primarily focused on, I believe,
 10 19 complaints that have been received against Household.
 11 What I did was an in-depth analysis of these 19 complaints
 12 to identify the patterns and practices discussed within the
 13 report. In addition to that, myself and two of my staff
 14 originated mortgages with three different Household offices.
 15 Q And what were those offices that you originated these
 16 mortgages with?
 17 A Bellingham, Lakewood, and Olympia. Yeah, Bellingham,
 18 Lakewood, and Olympia.
 19 Q Did you notice similarities in treatment between those three
 20 branches when you went to test the system?
 21 MR. DUNNE: Objection: lack of foundation, vague
 22 and ambiguous.
 23 A There were similarities. Myself and my two examiners had -
 24 my two examiners reported back their findings to me, and
 25 their findings were not dissimilar from mine, although it's

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1 the phone later that day
 2 Q And the lady that you came in contact, was that by phone?
 3 A Yes. She contacted me by telephone and said that she was
 4 picking up for him because he was out sick.
 5 Q Have you ever met Melissa Rutland-Drury?
 6 A Not to my knowledge. Although, I'm from Bellingham and I
 7 understand she's been up there a long time. It's possible
 8 we might have come in contact, but I don't have any
 9 recollection of that.
 10 Q And who were the other two examiners that went to the other
 11 offices?
 12 A John Samuelson did Olympia and Patrick Hardman was at
 13 Lakewood.
 14 Q And when did they make their visitations? About the same
 15 time frame?
 16 A About the same time. Within days of mine.
 17 Q That would have been in August of 2001?
 18 A Yes. I believe that John's was all telephonic. We're
 19 trying to mix it up and see what kind of response we got
 20 depending on how we did it. Patrick did two or three actual
 21 visits to the office, sit-down long meetings with the loan
 22 officer. Mine was a combination of going in and meeting and
 23 then doing the rest by telephone, and John was completely by
 24 telephone.
 25 Q I see. And when you initiated this process, do you believe

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1 you were initiating a loan application?
 2 A I know I was initiating a loan application.
 3 Q And did Household have an application form for you to fill
 4 out?
 5 A No. That's not the way the company conducts its business.
 6 Q Tell me how the company does conduct its business with
 7 respect to an application.
 8 A They take the application directly into their computer
 9 system so they don't use paper form of application. The
 10 industry standard had always been using a Fannie Mae or
 11 FMA 1003 form. You hear it referred to as a 1003. That
 12 form of taking loans has been around since the '70s or
 13 early '80s. And Household is the - in our understanding, is
 14 the most progressive technology-wise of our licensees. And
 15 a few years back, they abandoned that approach and began
 16 doing more directly into the system so there's less paper
 17 flow taking place.
 18 Q Who inputs the information? The customer or the Household
 19 representative?
 20 A No. The Household representative inputs the information.
 21 Q Does the customer ever sign the application?
 22 MR. DUNNE: Objection; vague and ambiguous.
 23 Go ahead.
 24 A At some - I've never seen a signed application by a
 25 customer. That's not a requirement. There's no law that

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1 governs - that requires that an applicant sign the
 2 application, but I've never - I've never seen one by
 3 Household. I believe that the customer does not, although
 4 they sign certain authorization to go forward with the loan.
 5 Q (By Mr. Parlette) Does the customer ever have the
 6 opportunity to review the application?
 7 MR. DUNNE: Same objection; vague and ambiguous
 8 and lack of foundation.
 9 A Not to my knowledge.
 10 Q (By Mr. Parlette) Did you have an opportunity to review the
 11 application you made?
 12 A No.
 13 Q The information then that is put in the application, how
 14 does the customer know that it's accurate?
 15 MR. DUNNE: Objection; "application" is vague and
 16 ambiguous, lack of foundation.
 17 A I don't know that the customer does have any knowledge that
 18 it's accurate.
 19 Q (By Mr. Parlette) Is there anything to prevent a Household
 20 representative from misrepresenting such facts as birth
 21 date, amount of debt that they might have in other loans,
 22 and sources of income?
 23 MR. DUNNE: Objection.
 24 A I don't know
 25 MR. DUNNE: Let me object please, Mr. Cross.

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1 Objection; compound, vague and ambiguous, and lack of
 2 foundation.
 3 Go ahead, please. Sorry. I'm sorry.
 4 THE WITNESS: I understand.
 5 MR. DUNNE: I don't know if you've been through
 6 this process before, but this is for the record, and the
 7 court -
 8 MR. PARLETTE: He does this all the time. I just
 9 ignore him.
 10 THE WITNESS: I understand you're preserving your
 11 objection for the record.
 12 A I can't remember what I was saying. I think I was saying I
 13 don't know because I don't know specifically what up-line
 14 controls might be in place that that loan officer would have
 15 to interact with. Theoretically anybody at any time, any
 16 loan, any company could change information, so theoretically
 17 it's possible. What controls Household has in place to keep
 18 it from happening, I don't know, or to catch it when it
 19 happens.
 20 Q (By Mr. Parlette) It seems to me a vital piece of
 21 information that Household would have to have in order to
 22 decide whether or not to issue a loan would be income
 23 information.
 24 MR. DUNNE: Objection to form.
 25 Q (By Mr. Parlette) Would you agree with that statement?

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1 MR. DUNNE: You're asking him about a question of
 2 law, about a question of business practices. Vague and
 3 ambiguous.
 4 A Lenders typically want to know income information, but
 5 there's nothing requiring any lender to use any specific
 6 information on an application. If a lender wanted to, they
 7 can simply take your name and telephone number and make you
 8 a loan. There's no restrictions on that, especially a
 9 company like Household that funds its loans with its own
 10 funding base. It might be different for companies that are
 11 selling into the secondary market to Fannie Mae and Freddie
 12 Mac and have to follow those specific guidelines, but
 13 there's no requirement
 14 Q (By Mr. Parlette) Does the customer indeed ever know in
 15 Household's case that an application for a loan has been
 16 made?
 17 A Well, the application for a loan falls under federal
 18 definition, so whether a consumer knows it or not, we
 19 certainly know when an application has been made.
 20 Q Mr. Cross, in your examination of Household's practices,
 21 have you ever come across a standardized letter that has
 22 been sent to consumers that say that your loan that you've
 23 applied for has been rejected?
 24 A Yes, or canceled
 25 Q I want you to take this - I want you to assume at face value

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1 that certain people have come to me and said, "I never
 2 applied for a loan and I get this letter out of the blue. I
 3 simply asked a question about my current loan with Household
 4 and then I get a responsive letter that says the loan that
 5 you've applied for has been rejected." Have you seen that
 6 practice anywhere?
 7 MR. DUNNE: Objection; vague and ambiguous.
 8 A If I saw it, I didn't know that that's what I was seeing.
 9 but again, what it sounds to me like what you're spelling
 10 out is that Household was being technically in compliance
 11 with federal regulations, whether the borrower knew it or
 12 not.
 13 Q (By Mr. Parlette) The borrower's concern in this instance
 14 was that the letter, having been issued, went on their
 15 credit record and showed that they had been rejected for a
 16 loan that they never knew that they applied for. Is there
 17 any prohibition against that?
 18 MR. DUNNE: Objection to form. lack of foundation.
 19 It assumes facts not in evidence.
 20 A No prohibition. to my knowledge.
 21 Q (By Mr. Parlette) Okay. Did either Patrick Hardman or John
 22 review the application that was made in their instances?
 23 A No.
 24 Q In the process of examining the complaints that have been -
 25 these 19 complaints that this report was based on. did you

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1 make requests to Household for documents and information?
 2 A Yes.
 3 Q Was Household cooperative?
 4 A No.
 5 Q Would you describe your - or give us a more detailed
 6 explanation of their lack of cooperation?
 7 A We had been experiencing a lack of cooperation since. I want
 8 to say. late 1999. early 2000 to our requests for
 9 information. This is something that the Department was
 10 concerned about. It became an increasing issue with us over
 11 time. enough so that we brought the company in to meet with
 12 the director on a few occasions. We call these "come to
 13 Jesus meetings" where a regulator sits down with the company
 14 and says. "We don't like the trend of things here. We are
 15 your regulator. We want you to be responsive to us."
 16 Q Who at Household represented - what individual represented
 17 Household in these meetings?
 18 A At times just Tom Echols, E-c-h-o-l-s. He's the local. I
 19 don't know. legislative lobbyist, if you will. I'm not sure
 20 what his actual title is, but he works for Household, deals
 21 with legislative issues here in the Northwest. I know he
 22 interacted frequently with the director on these issues of
 23 responsiveness. We also met with, I believe, Tom Detelich
 24 and Robin Allcock, possibly various other people. It's been
 25 a period of time now.

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1 Q Is Robin Allcock still employed by Household?
 2 A Hmm. I don't know. I haven't heard anything from Robin for
 3 a period of time.
 4 Q How many of these "come to Jesus" meetings occurred?
 5 A I'm going to say two or three with Tom Echols and two with
 6 people from Illinois.
 7 Q That would include Tom Detelich and Robin Allcock?
 8 A Yeah. I believe - I'm pretty sure Tom was there and Robin
 9 was there. We have a long history with Household, and
 10 company representatives used to come here once or twice a
 11 year just to meet with us anyway. so I started to become
 12 hazy when we meet and who was actually here, but I believe
 13 that during the two meetings that I'm referring to, which
 14 are subsequent to us having - starting to have this lack of
 15 cooperation problem with Household, that Tom and Robin were
 16 involved in those meetings.
 17 Q Do you have notes or minutes from those meetings?
 18 A There are some limited notes that I obtained from the
 19 director. Again, I believe I was in - not again. I don't
 20 think I have said this. I believe I was at one. maybe two
 21 of the two to three meetings with Tom Echols and only one of
 22 the two meetings with the rest of Household.
 23 Q The rest of them were with the director?
 24 A With the director and the program manager, who was my boss
 25 at that point in time. Whittier Johnson.

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1 Q And the individual representing the State would have been
 2 Whittier Johnson and who would --
 3 A Mark Thomson.
 4 Q Mark Thomson. And Mark is still here at DFI?
 5 A He is.
 6 Q Are those notes or minutes governed by this temporary
 7 restraining order, preliminary injunction, whatever it is?
 8 A Well, those are our notes, so I don't know. I would just,
 9 you know, apply caution and ask our Assistant Attorney
 10 General before releasing anything.
 11 Q Yeah. So what I would do is a public disclosure request if
 12 I wanted to see those and see what happens?
 13 A Yeah.
 14 Q In these "come to Jesus" meetings, did the State have to
 15 threaten administrative action in order to get the documents
 16 produced?
 17 MR. DUNNE: Objection; lack of foundation. He
 18 testified he didn't attend all of them.
 19 A That's difficult for me to answer because, although we did
 20 indicate that that would be the likely outcome, the company
 21 still wasn't very responsive. So the question was, did we
 22 have to threaten in order to get them to be responsive? And
 23 sort of despite the director's very strong message that this
 24 is going the wrong direction for you and we don't want to
 25 have to step it up to the next level, we still didn't get

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1 the responsiveness we were seeking.
 2 Q (By Mr. Parlette) And is that lack of responsiveness
 3 detailed in your expanded report of examination?
 4 A Much of it is, yes.
 5 Q Is there any that's not in there that you recall?
 6 A Well, what I want to qualify is that my interaction on the
 7 lack of responsiveness is contained within the report. The
 8 director may have his own version of when he looked somebody
 9 in the eye and asked for and what he felt he got or didn't
 10 get. And I think he has a personal opinion about that that
 11 I didn't bring into the report.
 12 Q Part of your examination was on these good-faith estimates.
 13 Did you find occasions where good-faith estimates had not
 14 been prepared by Household and not given to consumers?
 15 A We had situations where consumers said they had not gotten
 16 their disclosures and the company didn't produce - either
 17 didn't produce the disclosures for us or in some cases
 18 produced disclosures with bad dates or dates that wouldn't
 19 be in compliance with the requirements.
 20 Q Was there any statistical analysis done on the complaints,
 21 the 19 complaints you reviewed, and how many did or did not
 22 have good-faith estimates given to consumers?
 23 A I ran some numbers and I guess you - it's such a small
 24 population here. I shy away from talking about statistical
 25 analysis, but I think I said this many of this many --

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1 Q I see
 2 A -- we found this in.
 3 Q Did you find that the good-faith estimates were routinely
 4 kept by Household?
 5 MR. DUNNE: Objection; vague and ambiguous and
 6 also lack of foundation.
 7 A To that specific question, I don't know. The question I
 8 would know is whether they were produced for us, not whether
 9 they were kept by Household.
 10 Q (By Mr. Parlette) Okay. Tell me about the production of
 11 good-faith estimates by Household.
 12 A As I recall, more often than not, they produced good-faith
 13 estimates for us. We, almost in every case, had problems
 14 with those good-faith estimates, but whether a good-faith
 15 estimate was produced for us and the borrower said they
 16 didn't get or it was produced for us but it had a date
 17 beyond the time period allowed to be delivered to the
 18 borrower or whether the very content of the good-faith
 19 estimate was, we felt, was not in compliance with the
 20 statute, but I think in a majority of the situations, as I
 21 remember - I'll just give you one big apology here. I have
 22 not even flipped through this report since early June of
 23 this year, so that's my recollection at this point in time
 24 of the good-faith estimates.
 25 Q Chuck, you indicated to me you had to go to a meeting

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1 A Yes. I have to meet the director to go to a senator's
 2 office at 10:45, so I have like - probably in about five
 3 minutes I need to jump out of here.
 4 Q Okay.
 5 A And then they promised I can be on first with my
 6 presentation and then be back here, but it might be a good
 7 time to break for lunch at that time and then come back.
 8 Q Okay. Do you want to go on for five minutes here?
 9 A It's your call.
 10 Q All right. Let's keep doing it.
 11 A That's fine.
 12 Q Other than the names of the individuals you just mentioned -
 13 Tom Echols, Tom Detelich and Robin --
 14 A Allcock.
 15 Q -- Allcock - are there any other people at Household you
 16 dealt with?
 17 A On the complaints themselves, we primarily interacted with
 18 Tom Schneider, and at least at that time I believe the title
 19 he gave us was director of compliance.
 20 Q And is he physically located in Household headquarters in
 21 Illinois?
 22 A That's where his letters would come from.
 23 Q And what was Tom Detelich's title?
 24 A I can't remember. He's way up. What he's told me is, his
 25 responsibilities involve oversight of all of the lending

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1 operations of Household Realty, Household Finance, and
 2 Beneficial.
 3 Q So you were going to the guys who knew or should have known
 4 what the practices were?
 5 MR. DUNNE: Objection to form.
 6 Q (By Mr. Parlette) Top guys?
 7 A We went to the people who were held out to us as the ones
 8 that controlled the practices.
 9 Q Do you remember what Robin's - is Robin a man or woman?
 10 A Woman.
 11 Q Do you remember what her title was?
 12 A No. I don't remember Robin's title, but it was in the
 13 compliance section. She interacted, along with Tom
 14 Schneider, on the complaints with us. I don't specifically
 15 remember her title.
 16 Q And you had indicated, to compile this report that's in
 17 front of you, you or your investigators had analyzed 19
 18 claims?
 19 A I personally went through the 19 complaints in this
 20 report --
 21 Q I see.
 22 A -- in detail I didn't assign these. Some of them had been
 23 previously assigned to some of my examiners, but then I took
 24 them over.
 25 Q And you relied primarily on the documentation that was given

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1 to you by the complainant and Household?
 2 A And I did interview a few consumers.
 3 Q And then in addition, you did three tests. You did one, and
 4 two other examiners did one apiece?
 5 A Yes.
 6 Q And did you find a geographic distribution of the practices
 7 throughout the United States - throughout the state of
 8 Washington --
 9 MR. DUNNE: Objection; vague and ambiguous.
 10 Q (By Mr. Parlette) -- that was of interest to you?
 11 MR. DUNNE: It's vague and ambiguous because
 12 you're not defining what practices you're referring to.
 13 Go ahead, please.
 14 A The complaints, of course, were geographically distributed,
 15 and I'm not sure to what degree you're looking for. But I
 16 believe I want to say six of the 19 complaints were from
 17 Bellingham, so they had the bulk of the complaints, and the
 18 rest were spattered around the state, but mostly in the I-5
 19 corridor.
 20 Q (By Mr. Parlette) Did you review any complaints that were
 21 not mentioned in the report? In other words, were there
 22 complaints that came in on top of the 19 in February or
 23 March of 2002?
 24 A There were complaints before and after these 19 that I
 25 chose. for one reason or another, not to include --

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1 Q I see
 2 A -- in the report
 3 Q So they didn't influence your findings in any way?
 4 A Well, no. They influenced. The volume of complaints was a
 5 direct influence. I had to choose a cutoff point at some
 6 point in time. So the subsequent complaints weren't because
 7 they didn't carry merit because I had to derive a cutoff
 8 The ones prior to these complaints would have been not
 9 included because they were older or, in certain situations,
 10 complaints prior and during this period of complaints were
 11 related more to just, say, a specific servicing issue.
 12 Maybe somebody is complaining that they didn't get their
 13 payoff statement or something like that. So I would look at
 14 those, but then, you know, not include them because they
 15 weren't relevant to the practices we were identifying. They
 16 would have been additional smaller recurrence of practices
 17 that I didn't want to muddy the waters with.
 18 Q Right. Based upon your review of the materials supplied by
 19 Household and the complaints that were filed by consumers,
 20 your investigations, and your discussions with consumers and
 21 Household representatives, did you discover any common
 22 patterns or practices of Household that would constitute
 23 violations of federal or state law or your own regulations?
 24 A Yes
 25 Q Would you identify those please or have we already

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1 identified them?
 2 A I haven't identified any violations. I have not - today I
 3 haven't said anything about any violations. But there are a
 4 significant amount of apparent violations contained within
 5 this report and I don't have time to - I can go through
 6 them, but I don't have time before we break here to go
 7 through those.
 8 Q Are those all listed in writing in this report?
 9 A At the time they were. I would have to ponder whether
 10 subsequent there were additional violations or not.
 11 MR. PARLETTE: Okay. We'll take a break here.
 12 (Recessed at 10:40 a.m.)
 13 (Reconvened at 12:05 p.m.)
 14 Q (By Mr. Parlette) Chuck, the question I think immediately
 15 prior to that was, I was asking you for your conclusions
 16 about discovering any common patterns or practices and we
 17 got into if all those that you discovered were in your
 18 report. You had indicated, I believe, that your report was
 19 based upon your review of 19 complaints.
 20 A Yes.
 21 Q Did you review complaints other than the 19?
 22 A Yes.
 23 Q And did you believe those 19 complaints were representative
 24 or typical of the ones that you received?
 25 MR. DUNNE: Objection; vague and ambiguous.

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1 A They were representative of many of the complaints we had
 2 received at earlier times and were very, very similar to
 3 complaints we received subsequent to the date of the report.
 4 Q (By Mr. Parlette) Okay. Now, while we were all at a break
 5 for lunch, I went over the document that was produced this
 6 morning as Exhibit A. And without any affirmation that my
 7 count was accurate, my review was in any way accurate, it
 8 looked to me like this list that you gave us started
 9 somewhere in early 2001. We have a date received column,
 10 and I didn't see any complaints against Household or
 11 Beneficial that predated March of 2001.
 12 A That's because this is a list of open complaints.
 13 Q Okay. And so it would not be a total list of all complaints
 14 received since 1998?
 15 A No.
 16 Q And how we could estimate that number would be to look at
 17 your Exhibit 2 and in there I think you recited in 1998
 18 against Household, not including Beneficial, you've received
 19 12; in 1999, eight; in the year 2000, 17; and some through
 20 2001?
 21 A Um-hmm - yes. Well, 22 in 2001.
 22 Q 22 in 2001
 23 A And then 15 as of the date of this report in 2002.
 24 Q Okay. And those complaints that don't appear in Exhibit A
 25 here that were received in '98, '99, and 2000, we can assume

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1 were acted upon and closed? Is that --

2 A Yes. They're no longer - yeah. They would have been

3 closed.

4 Q Okay. And I want to ask you if this is an approximate

5 number, from your knowledge, if you've got it. I tallied up

6 what was in Exhibit A here against Household from the time

7 frame - well, as you state, are open, and I came up with

8 approximately 94 complaints. Does that sound like a --

9 A Was it Household, or Household and Beneficial?

10 Q Just Household.

11 A Just Household.

12 MR. DUNNE: Objection to form.

13 A It sounds about right. I remember there being about, I want

14 to say, 240 complaints for the two companies since 2000,

15 some number like that. I ran the number for the director at

16 some prior point in time. Yeah. Your count sounds like

17 it's in the ballpark. I can get you an exact count at some

18 point in time. It's just our systems are kind of weird

19 right now.

20 Q (By Mr. Parlette) If that's not too much trouble, what I

21 would like to do is have you send that to me and I can give

22 a copy to Mr. Dunne and just supplement this record with

23 that number?

24 MR. DUNNE: I'm not going to agree to that. I

25 object to the procedure.

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1 Q (By Mr. Parlette) You can give it to me, and he doesn't

2 want a copy

3 MR. DUNNE: I'll take a copy, but you can't

4 supplement the record, the deposition that you're taking.

5 MR. PARLETTE: Fine.

6 A Yeah. I might ask you to send me an e-mail to remind me

7 because --

8 Q (By Mr. Parlette) Remind you, yeah

9 A -- things are a little crazy right now.

10 Q And I understand the office is going to move?

11 A The office will move, yeah.

12 Q Which will make it even crazier?

13 A Yeah. We're not moving until March, so . . .

14 Q The number I counted for Beneficial on Exhibit A here was

15 55. Does that sound approximately right? It would be --

16 A It doesn't surprise me.

17 Q And of the ones that are in this Exhibit A, have you

18 reviewed any of those, the ones that are open?

19 A Do you mind if I look at it?

20 Q Yeah. Go ahead and look at it.

21 A Some of the names might jump out at me. I might have looked

22 at Bates, Acosta. Byers I looked at. Byington I looked at.

23 I think I looked at Figueroa, possibly Guzman. I think

24 Guzman, Luna, Moore I think I looked at. Nelson. There's

25 more than one Nelson here, so I don't know if that's the

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1 same complaint or two different Nelsons. Pemberton, Smart.

2 I see three Nelsons on here. There could be - it's possible

3 there's some double counting in here. Yeah. I think -

4 well, I don't know. Nelson is such a common name. There

5 could be some double counting in here. I just apologize.

6 We're converting systems and ending up with a lot of strange

7 info.

8 Q You just reviewed the Household?

9 A Just the Household. You know, this was causing me concern

10 when I looked - when I said Acosta, because I thought that

11 was a Beneficial complaint, it's carried under Household

12 here and I just flipped over to Beneficial and it's carried

13 there under Beneficial. I believe that is a Beneficial

14 complaint. It probably just got logged into both places.

15 Need to be a little careful with this report.

16 Q And the ones that you've just iterated would be done

17 subsequent to your expanded report of examination?

18 A Well, some of them are part of the expanded report. Smart.

19 Two or three of them here were part of it.

20 Q All right.

21 MR. DUNNE: Can I ask you to read back the list of

22 name to me, please.

23 THE COURT REPORTER: "Bates, Acosta, Byers, Byington,

24 Figueroa, Guzman, Luna, Moore, Nelson, Pemberton, Smart."

25 Q (By Mr. Parlette) Now, Chuck, you were about to get into

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1 the common patterns or practices that you did discover. And

2 you had listed seven of them earlier in your deposition.

3 Those are starting in your expanded report at page 44. Is

4 that a correct statement?

5 A 43 on the typographical error one. Let me look at this one

6 and see what's on page 44. Well, it's page 43 on both of

7 them.

8 Q While we were talking, your secretary brought in a new

9 document and let's mark that Exhibit C. I had asked for one

10 with other thing, I guess your vitae or your --

11 A I'm sorry.

12 Q That's all right.

13 MR. PARLETTE: Let's mark this Exhibit C, the one

14 that was just brought in

15 (EXHIBIT NO. C MARKED)

16 Q (By Mr. Parlette) Could you identify Exhibit C for us,

17 please?

18 A This is the Washington Department Financial Institutions

19 Expanded Report of Examination for Household Finance

20 Corporation III as of April 30, 2002, hopefully minus minor

21 typographical errors.

22 Q Are the substantive comments or messages identical with

23 Exhibit B?

24 A Yes. Absolutely nothing was changed except for, just to

25 give you an example, in the header "corporation" is

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1 misspelled. It's corrected in this one.
 2 Q Okay.
 3 A Few typos here and there like that.
 4 Q Is the pagination the same. Do you know?
 5 A It appeared to be. At first I thought from the page number
 6 you're calling off it wasn't. When I looked, both of those
 7 began on page 43.
 8 Q Okay.
 9 MR. DUNNE: Well, your pagination differs from my
 10 version by a page, which is also --
 11 THE WITNESS: Or possibly his because he was not
 12 on 44 as well.
 13 MR. PARLETTE: Mine starts on 43.
 14 MR. DUNNE: It's not in the same place as this.
 15 A Well, I'm going to wager a wild guess on his. You did not
 16 get that report from me. I don't know where you got it.
 17 Q (By Mr. Parlette) Right.
 18 A But you didn't get it from me, so that could account for the
 19 pagination issues.
 20 Q Okay. Let's --
 21 MR. DUNNE: Not on mine because I did get it.
 22 THE WITNESS: Did you get it from me or our
 23 attorney?
 24 MR. DUNNE: Well, I don't know whether I got it
 25 directly or indirectly from DFI.

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1 arguments provided by both sides. And what this establishes
 2 is, there was a significant amount of misrepresentations and
 3 promises made that were not followed through with consumers.
 4 Where this could become a little confusing is that this
 5 specific pattern didn't carry forward into the multistate
 6 that everybody seems to be so familiar with. It's - there
 7 isn't a specific - for example, there isn't a specific
 8 violation identified in the Consumer Loan Act of failed
 9 promises. We have a general catchall that refers to
 10 deceptive practices, representations, and so forth. So
 11 that's where I was generally heading with this section.
 12 What I was attempting to do was capture this pattern that we
 13 were hearing from consumers of what was promised to me was
 14 not what I got.
 15 Q Okay. In a general sense?
 16 A In a general sense. yeah.
 17 Q And the specific promises might have been identified as -
 18 can you give us examples of specific promises?
 19 A Interest rate was the most - well, was one of the most
 20 occurring failed promises, a lower interest rate than the
 21 borrowers obtained. The other really major area was
 22 prepayment penalties, that the borrowers felt they wouldn't
 23 have a prepayment penalty and they actually did.
 24 Q Okay. And your second pattern or practice that you
 25 discovered?

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1 Q (By Mr. Parlette) Let's stay with one document, and let's
 2 use the one that your secretary just brought in, Exhibit C.
 3 A Okay.
 4 Q Would you turn to the page where the identified patterns of
 5 complaint history start being discussed
 6 A In my document that's page 43. In both documents that I
 7 brought in here, it's page 43
 8 Q And that is captioned - the paragraph is captioned
 9 identified patterns in recent complaints - complaint
 10 history?
 11 A Complaint history, yes.
 12 Q I'm with you. All right. Now, the first one that you
 13 identified was what?
 14 A Misrepresentations and failed promises.
 15 Q Could you summarize for us what that constituted?
 16 MR. DUNNE: Are you asking him to summarize the
 17 contents of that section of the report?
 18 MR. PARLETTE: What he meant by misrepresentations
 19 and failed promises.
 20 A Give me just a moment to look at this again
 21 Q (By Mr. Parlette) Okay. This is --
 22 A This is a general capturing of a combination of borrowers'
 23 representation of what transpired in their transaction or
 24 representation to the Department of what transpired in their
 25 transaction and my review of the complaints based on

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1 A Confusion over rates, points, and fees.
 2 Q That sort of overlaps insofar as you mentioned rates with
 3 the number one that we just discussed?
 4 MR. DUNNE: Objection; leading.
 5 A Number one could carry - number one sort of sets the tone
 6 for all of the other patterns to follow. Without number
 7 one, none of the other patterns likely would have been in
 8 existence. So beginning with number two, it gets more
 9 specific down to actual sort of types or events instead of
 10 just general misleading practices, which number one
 11 captures. So as I said previously, rates, yeah.
 12 Misrepresentation on rates, number two talks specifically
 13 about rates.
 14 Q (By Mr. Parlette) Okay. Expand, if you would, please, how
 15 consumers were misled about their interest rate that they
 16 were to have received.
 17 A We had --
 18 MR. DUNNE: Objection; leading.
 19 A We identified a specific pattern in Washington State but
 20 also clear across the country. And I say identified,
 21 reported to us by regulators across the country, a
 22 solicitation practice referred to under two different names.
 23 One was an effective rate solicitation practice. The other
 24 was the equivalent interest rate solicitation practice. As
 25 far as I was able to tell, effective and equivalent are

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1 interchangeable terms in how they were used.
 2 The practice was to lead borrowers to believe that
 3 their interest rate was going to be roughly half of what the
 4 interest rate really was on the contract. And the most
 5 often example that we saw was an interest rate - a
 6 contractual interest rate of 14 percent being misrepresented
 7 to consumers as being an effective rate of 7 percent, so
 8 half of the 14 percent. This was sold, if you will, to
 9 borrowers through what is known as the E-Z Pay Plus Plan.
 10 We found the E-Z Pay Plus Plan to be consistent with the
 11 effective or equivalent rate solicitation practice. That
 12 it - there are different vehicles under the E-Z Pay Plus
 13 Plan. Two of them are the biweekly plan where payments are
 14 made every other week and then the bimonthly plan where
 15 payments are made twice a month, say on the 1st and 15th of
 16 every month.
 17 In a nutshell, borrowers were either told or shown
 18 sometimes graphically that because they were making payments
 19 twice as often, if you will, that their interest rate was
 20 effectively cut in half.
 21 Q (By Mr. Parlette) Did you ever hear any stories or see any
 22 complaints where it was summarized just that simply, that
 23 your rate, if you went on E-Z Pay Plus, would be half of
 24 what it would be normally?
 25 A What we had was examples of amortization tables where

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1 borrowers were shown what would happen, and the tables would
 2 carry, for example, a 6.9 percent rate or a 7 percent rate
 3 And it would be a diagram to show borrowers that by paying
 4 more, thereby reducing their interest, they achieved this
 5 effective lower rate, so we saw documentation we felt
 6 clearly supported that.
 7 Q Did you consider that representation to be false and
 8 misleading?
 9 A Definitely.
 10 Q The use of the term "effective interest rate" or "equivalent
 11 interest rate," was that ever used in the context of the
 12 Internal Revenue Tax code? In other words, a representation
 13 made to consumers that their effective interest rate would
 14 be lower because they would save money on their taxes and a
 15 calculation to support that?
 16 A Not that I remember.
 17 Q Okay. So from your memory, the effective or equivalent
 18 interest rate was in connection with the E-Z Pay Plus Plan?
 19 A In connection with the amortization - expected amortization
 20 results under the E-Z Pay Plan. Not in every situation
 21 Not every consumer came back and said, I was shown an
 22 amortization table where my interest rate would be lower
 23 Many of them just reported that their rate was supposed to
 24 be half of what it really was.
 25 Q Okay. Of the 19 complaints specifically analyzed in your

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1 expanded report, how many of those contained a complaint
 2 that the interest rate was not what was represented?
 3 A Let me look here. It might take me a moment to find.
 4 Q That the contract interest rate was not what was represented
 5 to them.
 6 A I don't know. I think it's somewhere in this report, but
 7 it's a fairly lengthy report. And I can't remember where
 8 I - I will answer the question by saying that if I
 9 identified it, it's contained in the report. And if it's
 10 not, then I didn't identify it, but I seem to remember
 11 counting how many in each category. It's just not jumping
 12 out at me right here.
 13 Q Okay. Let me ask this question: Has the Department, on all
 14 the complaints that have been filed to date, done a
 15 statistical analysis of how many then contain a complaint
 16 that the interest rate was not as represented?
 17 A No.
 18 Q Could that be done?
 19 A In time it could be done. It won't be done anytime soon.
 20 I'll tell you that, because we're 650 complaints behind
 21 right now.
 22 Q Is it possible to get a copy of those individual complaint
 23 forms that were filed by consumers?
 24 A Not at this time.
 25 Q Why is that?

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1 A They're protected. That's what our Assistant Attorney
 2 General says, all of those files are protected under the
 3 injunction.
 4 Q The injunction purportedly protects Household trade secrets?
 5 A That's my understanding. Again, that case has been
 6 completely handled by an Assistant Attorney General and
 7 it's - it's a side issue that I - just really hasn't been of
 8 much concern or interest to me one way or the other.
 9 Q Right. It's of major interest to me because I would like to
 10 get my hands on those complaint forms and do a statistical
 11 analysis. Can you - strike the question.
 12 Your understanding is, if I were to make a public
 13 disclosure request for them, you could disclose them to me,
 14 but for Household's restraining order or preliminary
 15 injunction?
 16 MR. DUNNE: Objection: lack of foundation, calls
 17 for a legal opinion.
 18 A Now that the investigation is closed, some of them I could
 19 disclose to you. Those that we did not feel fell within the
 20 parameters of the consent decree that was just achieved
 21 would still be considered open investigative matters and
 22 protected as such under 42.17. Those that were part of
 23 the - we felt were part of the elements of the consent
 24 decree, now that that matter has been brought to a
 25 resolution, could be disclosed because they're no longer

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| <p style="text-align: right;">Page 74</p> <p>1 part of the open investigation.</p> <p>2 Q (By Mr. Parlette) What would be the cutoff date on those</p> <p>3 ones that would be included in the investigative --</p> <p>4 A Real estate mortgage transactions that originated between</p> <p>5 January 1999 and September 30th, 2002, would be</p> <p>6 discloseable, if not for the injunction.</p> <p>7 Q Before we digressed, we were off on this effective interest</p> <p>8 rate being different than the contract rate. Is it your</p> <p>9 belief, Mr. Cross, that the majority of those complaints</p> <p>10 contained a complaint that the effective - excuse me, that</p> <p>11 the contract rate was not as represented?</p> <p>12 MR. DUNNE: Could I have the question read back,</p> <p>13 please?</p> <p>14 THE COURT REPORTER: Question: "Before we</p> <p>15 digressed, we were off on this effective interest rate being</p> <p>16 different than the contract rate. Is it your belief,</p> <p>17 Mr. Cross, that the majority of those complaints contained a</p> <p>18 complaint that the effective - excuse me, that the contract</p> <p>19 rate was not as represented?"</p> <p>20 MR. DUNNE: Objection; misleading, vague and</p> <p>21 ambiguous as to which complaints you're referring to.</p> <p>22 Q (By Mr. Parlette) Okay. Let me clarify that. I'm</p> <p>23 referring to all complaints which you have personally</p> <p>24 reviewed that were filed against either Beneficial or</p> <p>25 Household. I want to know if the majority of those, from</p> | <p style="text-align: right;">Page 76</p> <p>1 I'm not sure.</p> <p>2 Q Have you reviewed training manuals that were provided to you</p> <p>3 by Household?</p> <p>4 A I have.</p> <p>5 Q Did you see anything in those training manuals that</p> <p>6 discussed effective interest rate or equivalent interest</p> <p>7 rate or how to calculate it?</p> <p>8 MR. DUNNE: I'm going to object to having him</p> <p>9 testify to the contents of documents that we don't have</p> <p>10 here.</p> <p>11 A I don't believe that I found that contained, specific</p> <p>12 content material for effective or equivalent interest rates,</p> <p>13 within the training manuals.</p> <p>14 Q (By Mr. Parlette) I'm going to hand you a document which</p> <p>15 was produced by Melissa Rutland-Drury under subpoena at her</p> <p>16 aborted deposition of last week as Exhibit B and draw your</p> <p>17 attention to - stick your finger here in the document. It's</p> <p>18 perhaps the first ten or 15 pages of that.</p> <p>19 A So you don't want me to start here. You want me to start</p> <p>20 before that?</p> <p>21 Q Right. Start at the beginning. My question to you is, have</p> <p>22 you seen any of this information before?</p> <p>23 MR. DUNNE: While you're looking through that, I'm</p> <p>24 just going to say that this document is the subject of a</p> <p>25 motion for protective order that's presently pending before</p> |
| <p style="text-align: right;">Page 75</p> <p>1 your memory, contained complaints that the interest rate was</p> <p>2 not as represented by the Household representatives.</p> <p>3 A My answer to that is, I don't know, but a significant number</p> <p>4 of them were. Majority is a - sort of pushes me to a</p> <p>5 specific number. A significant number were. I continue to</p> <p>6 look through here looking for the numbers for you. But</p> <p>7 being a cautious sort, I would stop short of saying a</p> <p>8 majority. It might not be a majority, but it was definitely</p> <p>9 a significant number.</p> <p>10 Q And in your eyes, what would be a significant number?</p> <p>11 A A bunch. You know, I apologize. You're asking me a very</p> <p>12 specific question to which I can't give a very - enough that</p> <p>13 it made it in as the number two issue of identified</p> <p>14 patterns. It became one of the most significant areas of</p> <p>15 resolution in the consent degree and would definitely have</p> <p>16 been cause for us to file very significant charges under the</p> <p>17 Consumer Loan Act.</p> <p>18 Q Did you see any - in your review of materials that were</p> <p>19 reviewed by you, did you see any documentation that</p> <p>20 Household employees had been trained to use the effective</p> <p>21 interest rate or equivalent interest rate as a sales pitch?</p> <p>22 A Specific documentation?</p> <p>23 Q Um-hmm</p> <p>24 A I saw documentation relative to or supporting this pitch,</p> <p>25 but whether it was documentation intended to train or not,</p> | <p style="text-align: right;">Page 77</p> <p>1 the court, so I would ask that the court reporter designate</p> <p>2 this portion of the transcript as confidential.</p> <p>3 MR. PARLETTE: For the record, Mr. Dunne and I are</p> <p>4 in an ongoing dispute about whether or not this can be</p> <p>5 protected. I'm representing I've not shown it to anyone,</p> <p>6 other than attorneys in my firm or attorneys working on this</p> <p>7 case, but I am using it in purpose of this deposition with</p> <p>8 Mr. Cross because presumably he's the chief state</p> <p>9 investigator for this.</p> <p>10 MR. DUNNE: That's fine. I don't have an</p> <p>11 objection to using it for purposes of litigation with a</p> <p>12 deposition witness.</p> <p>13 A I have seen versions of three of the pages that you have</p> <p>14 showed to me. The others, I haven't seen before. I did</p> <p>15 subpoena from Household all of the training materials, and I</p> <p>16 haven't seen those other pages.</p> <p>17 Q (By Mr. Parlette) Let's go through it and identify</p> <p>18 specifically the pages that you have seen before.</p> <p>19 A The pages identified as 3 and 4, which are --</p> <p>20 Q They're not in sequential order, so let's read the caption</p> <p>21 of it.</p> <p>22 A E-Z Pay Plus Loan proposal for Fred Lombard. I've never</p> <p>23 seen this document for Fred Lombard, but I have seen it for</p> <p>24 a couple of other consumers. It looks the same, just had</p> <p>25 somebody - a different person's name at the top of it.</p> |

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| <p style="text-align: right;">Page 78</p> <p>1 Q Is this thing known as the homeowner loan proposal? 2 MR. DUNNE: Objection; lack of foundation. 3 Q (By Mr. Parlette) Do you know? 4 A I believe the State of New York referred to it in that way, 5 but I've never heard anybody at the company refer to it that 6 way. 7 Q Okay. 8 A The page directly behind that, which is identified as E-Z 9 Pay Plus with Right Rewards Loan Proposal for Fred Lombard, 10 I've seen a version of this for a different consumer. And 11 two pages forward, the blended rate presentation, I have 12 seen. I believe this - actually, I believe this document 13 was included in the training materials. 14 Q It was? 15 A I believe that it was. I believe that's where I saw it, was 16 in the training materials. 17 Q Okay. 18 A But if my memory serves me, this is the only page I remember 19 from the books of training materials that I received. 20 Q Now, let's go through the ones you had not seen before. 21 Let's start at the beginning. Had you seen this letter from 22 Lori Gale addressed to Craig Castalin which is on the front 23 of Exhibit B? 24 A I don't believe so. I don't recognize her name. 25 Q Would you take a moment and read that letter.</p> | <p style="text-align: right;">Page 80</p> <p>1 11 percent - 11.96 30-year loan. 2 In your investigation, did you come across anything 3 that would confirm that the Household representatives in 4 Bellingham were trained by others outside Bellingham to do 5 this, this equivalent interest rate comparison. 6 MR. DUNNE: Objection; misstates the record. 7 Misstates the contents of the letter. 8 MR. PARLETTE: The letter will speak for itself. 9 MR. DUNNE: You won't find those words in the 10 letter. 11 A Can you ask me just that last part of the question again? 12 Q (By Mr. Parlette) Yeah. Have you found anything in your 13 review of the documentation that was sent to you by 14 Household or produced by Household that showed or confirmed 15 that Household had trained the people in the Bellingham 16 office to use the equivalent interest rate comparison? 17 MR. DUNNE: Same objection. Equivalent interest 18 rate comparison is vague and ambiguous. It's not what this 19 letter talks about. 20 Q (By Mr. Parlette) Do you understand what I'm saying? 21 A I understand, yeah. With the exception of the one document 22 I saw in their training materials, I would have to say no, I 23 wasn't provided with any documentation from - I want to 24 qualify that by saying, to the extent that that 25 documentation belongs with these training materials, I</p> |
| <p style="text-align: right;">Page 79</p> <p>1 A To myself? 2 Q Yeah. 3 A I've read it. 4 MR. PARLETTE: Okay. Before we get the record 5 confused here, let's mark this as Exhibit D. 6 MR. DUNNE: Do you have a copy for me, Bob? 7 MR. PARLETTE: I'm sorry. I don't, Dan. 8 MR. DUNNE: Can I read it? 9 MR. PARLETTE: Sure. You bet. 10 Q (By Mr. Parlette) Have you read that letter? 11 A I just read the letter, yes. 12 Q Had you seen that letter before? 13 A No. 14 Q In that letter Lori Gale purports to say that when she was 15 transferred to the Bellingham office in June of 2000, a 16 couple days later she was shown by Steve Turner of Household 17 ways to sell our biweekly program. Do you know who Steve 18 Turner is? 19 A No, I don't. 20 Q She goes on to say that subsequently a gentleman by the name 21 of Eric Reault in August came to the office to do his relief 22 assignment, and he showed additional ways to show the 23 amortization schedule. The conclusion that she draws is 24 that we were trained to use this amortization schedule 25 comparison of a 30-year 7 percent loan to a, she says, a</p> | <p style="text-align: right;">Page 81</p> <p>1 wasn't - I don't remember being provided anything directly 2 by Household that showed that the loan officers had been 3 trained in this way. 4 Q Okay. Now, how do you read Lori Gale's letter? 5 MR. DUNNE: Objection; vague and ambiguous. Calls 6 for a narrative. 7 A Are you asking what is my impression? 8 Q (By Mr. Parlette) Yes. 9 MR. DUNNE: Same objections. 10 A My first impression is that I didn't do a very good 11 investigation, which is a little bit embarrassing for me, 12 because I hadn't seen this document before and there was a 13 point in time that I would have loved to have seen this 14 document. It supports - to me, it independently supports 15 what I found by reviewing the loan files and talking to 16 consumers. It has, for much of it, until you get towards 17 the end where she starts saying that her borrowers always 18 understood the contract rate, until you get to that point, 19 it's pretty much what I found and what my examiners reported 20 to me and what Dan Gallatin from Minnesota reported, what 21 Ben Bruce from New York reported, and Ann Gaultney from 22 Michigan, and the names just go on and on and on. 23 So it - so many of us reached this opinion about what 24 was taking place with the interest rate misrepresentation 25 that I believe very strongly that we had it figured out, but</p> |

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| <p style="text-align: right;">Page 82</p> <p>1 we all figured it out independently and didn't know this 2 until we came together and started talking. Now, I'm seeing 3 a document from a year and a half ago that seems to say much 4 of what I found on my own, so . . . 5 Q (By Mr. Parlette) Would you read this document as an 6 admission by, at least Lori Gale, a Household employee, that 7 they utilized this effective interest rate comparison to 8 confuse customers? 9 MR. DUNNE: Objection; leading. 10 A I would be careful about doing that only because I've never 11 met Lori Gale and it's not signed, you know. I'm an 12 investigator, and I try to stay as neutral as I can while 13 I'm conducting an investigation. So other than you have 14 given me this document, I don't know anything about it. So 15 depending on how it came into my possession and whether I 16 had some other support to it, yeah, I definitely would use 17 it. If I could rely on the content of it, yes. But I don't 18 know if I can rely on the content of it. 19 Q (By Mr. Parlette) Fair answer. 20 Turning to the other documents that you had not seen 21 previously, would you identify which ones you had not seen. 22 A The next page is called steps to finding equivalent interest 23 rate. I don't remember seeing that document. 24 Q What does that purport to be, the steps to finding -- 25 MR. DUNNE: Objection; lack of foundation. What's</p> | <p style="text-align: right;">Page 84</p> <p>1 of a couple of loan products, just by looking at the surface 2 of it. 3 Q Both loan products bear the same interest rate though, do 4 they not? One is paid biweekly; the other is conventional 5 30-year, once-a-month mortgage? 6 A Yeah. I understand that. I just want to make sure of the 7 one I'm looking at. That's the way it appears without -- 8 MR. DUNNE: Objection; lack of foundation. 9 Q (By Mr. Parlette) Had you seen that document before? 10 A I haven't seen this document before. 11 Q It's -- 12 A The only reason I hesitate is, if I pulled out a calculator, 13 I could probably answer your question, but I don't know 14 exactly that the 11.99 percent runs across these lines. 15 Q All right. 16 A This appears to be a newspaper article. "Biweekly Loans Save 17 Money." 18 Q Have you seen that article before? 19 A Not that I recall. 20 Q Could you take a minute and read that, please? 21 A I read it fast, but I've read it. 22 MR. DUNNE: I would like to read it, please. 23 before you ask any questions 24 (Document passed.) 25 MR. DUNNE: Okay</p> |
| <p style="text-align: right;">Page 83</p> <p>1 the point of that question? Bob, I've got a lot of 2 questions to ask. 3 MR. PARLETTE: Okay. 4 MR. DUNNE: Do the deposition, but . . . 5 Q (By Mr. Parlette) Go ahead. 6 A It has some calculations on it that seem to refer how to go 7 about, as it says, finding the biweekly payment and number 8 of biweekly payments and so forth. It appears to be a 9 calculation for coming up with something relative to the 10 biweekly payment program. It's identified, finding 11 equivalent interest rate, but the equivalent - the word 12 equivalent isn't defined on here anywhere. 13 Q Okay. What's the next document? 14 A Biweekly payments/BA 35 is the name of the document. It's a 15 combination of typewritten stuff and hand-scrolled numbers 16 upon it. 17 Q Have you ever seen anything that looked like that? 18 A Never seen this before. 19 Q Okay. 20 A Next page is a Schwab Mutual Fund Select List, appears to 21 have come from the Internet from probably Schwab, Charles 22 Schwab's Web site would be my guess. 23 Q Okay. 24 A Next one is identified as \$100,000 loan at 11.99 percent 25 principal pay-down comparison. This clearly is a comparison</p> | <p style="text-align: right;">Page 85</p> <p>1 Q (By Mr. Parlette) At the top under the paper clip there 2 appears to be a fax - I don't know what you call it. 3 A Header. 4 Q Header, right. How do you read that fax header? 5 MR. DUNNE: Objection to form. Do you want him to 6 read the document numbers into the record? 7 MR. PARLETTE: I want to know how he interprets 8 the fax header. 9 MR. DUNNE: Lack of foundation. Objection to 10 form. 11 A It appears to have a date, April 5th, 2001, a time of 1:06, 12 which is military. It would be 1:06. I have no idea what 13 the next designation is, which is an FR. The next says HFC, 14 which if I was examining Household, I would see HFC all the 15 time, so HFC is short for Household Finance Corporation. 16 After that, a series of numbers. I don't know what those 17 numbers mean. Then there appears to be a telephone number 18 that fades off the page. 19 Q Would you presume, as an examiner, that that is something 20 that was sent by HFC or received by them or do you know? 21 MR. DUNNE: Objection; lack of foundation. 22 A If I was standing in a Household branch and I found this 23 document, I would assume that maybe it had come there. If I 24 was - if I was - again, it all depends on the contact. I 25 can't say there aren't other HFC's somewhere.</p> |

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1 Q (By Mr. Parlette) Right. In the - as you read that
 2 newspaper article, which purports to be from USA Today, I
 3 couldn't figure out the date myself, how did you read that?
 4 What conclusion did you arrive from that?
 5 A Well, my conclusion is that this guy may know what he's
 6 talking about in the general context of what we know to be
 7 biweekly payment plans. But in the context of this case, he
 8 doesn't have it right and that's because Household uses two
 9 terms, biweekly and bimonthly. What he describes here as a
 10 biweekly is really what Household would call a bimonthly.
 11 Q When he says that the 12 percent mortgage described in the
 12 contents of that article has an effective interest rate of
 13 7 - I can't remember the number - 7.6, is he correct in that
 14 or can you follow his logic?
 15 MR. DUNNE: Objection to form.
 16 A I follow his logic. He has what I consider to be a very
 17 strong qualifier in here, which is the term "yielding an
 18 effective interest rate," which leaves me and anyone with
 19 any financial training with a different perception than just
 20 using the term "effective interest rate." Here he's talking
 21 about comparing mathematical results and sort of drawing a
 22 conclusion from that, so I definitely follow what he's
 23 saying. I'm not exactly sure how to answer your question.
 24 Given - I don't know who he is or what he does. If he's
 25 just some guy that writes articles to help people understand

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1 things. I don't have a problem with what he says. If he was
 2 one of my licensees, I would probably tell him to be
 3 cautious about that kind of a delivery of a message.
 4 Q (By Mr. Parlette) Okay. Do you know if Household used that
 5 article and sent it out to their branches? Do you have any
 6 knowledge of that?
 7 A No knowledge.
 8 Q Let's turn to the next page.
 9 A How to explain effective rate to customers, I don't believe
 10 I've seen this before.
 11 Q Okay.
 12 A This one is called App 8 Snap. That doesn't ring a bell
 13 with me.
 14 Q Okay.
 15 A This - actually, I should have said I do think I've seen
 16 this bold page, selling first mortgages. I think this might
 17 be a major section in one of the manuals I looked at. It
 18 looks familiar, but it's a - just appears to be like a break
 19 page for something, for a chapter or something like that
 20 Q All right.
 21 A The Rate Game, I don't think I have seen the Rate Game
 22 before. This next one has a couple columns, Bank and HFC
 23 I haven't seen this one before.
 24 MR. DUNNE: I'll take it.
 25 A The next two are the ones I've identified as having seen

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1 Q (By Mr. Parlette) Okay. All right. Lower down in that
 2 same Exhibit D, there's a page that entitled Calculate
 3 Effective Rate. Had you seen that page before?
 4 A No.
 5 Q And I had earlier asked you a question about whether
 6 effective rate, from your review or examination, was in any
 7 way connected with tax brackets, and you, I believe,
 8 answered no, you hadn't seen that or heard about that.
 9 A Well, you asked if I had specifically heard that in relation
 10 to my Household --
 11 Q Right.
 12 A -- case. No. Are you asking generally if I ever heard of
 13 effective rate connected with --
 14 Q No, no. In connection with Household, your examination.
 15 A No. I don't remember there ever being a connection with
 16 taxes and effective with Household.
 17 Q To your knowledge, they've never produced such an effective
 18 rate calculation using the tax bracket that I've shown you
 19 here in this?
 20 A Not to my knowledge.
 21 MR. DUNNE: Produced to whom?
 22 MR. PARLETTE: To the Department.
 23 Q (By Mr. Parlette) And now finally, have you seen a page
 24 encaptioned Calculate Tax Saving?
 25 A I don't recall seeing a page like that.

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1 Q All right. Let's put that back together. Was the - I
 2 believe you said the effective or equivalent interest rate
 3 sales program was found in several other states?
 4 MR. DUNNE: Objection, vague and ambiguous and
 5 leading.
 6 A I was told that
 7 Q (By Mr. Parlette) Okay. Do you know how many states?
 8 MR. DUNNE: Same objections, lack of foundation.
 9 A No. I don't know how many, but I know that I was told that
 10 by at least 15 to 20 states.
 11 Q (By Mr. Parlette) In the state of Washington, do you have
 12 an opinion about how many branch offices were utilizing this
 13 sales pitch?
 14 A No.
 15 Q Do you have an opinion whether it was the majority of them?
 16 A No. I just don't - I don't have an opinion about it.
 17 Q Do you have an opinion that it was more than just
 18 Bellingham?
 19 A Yes.
 20 Q In fact this Lori Gale, if we can believe her letter, says
 21 she knew that other offices were utilizing it --
 22 MR. DUNNE: Objection to form, leading, lack of
 23 foundation
 24 Q (By Mr. Parlette) -- is that not true?
 25 A I believe the letter said that

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1 MR. DUNNE: The letter speaks for itself.
 2 A She says we weren't the only ones.
 3 Q (By Mr. Parlette) Do you know who Craig Castalin is?
 4 A That doesn't ring a bell.
 5 Q Did you view this equivalent interest rate problem to be the
 6 number two in importance when you referred to it as being
 7 number two --
 8 MR. DUNNE: I'm going to object to --
 9 MR. PARLETTE: I'm not done with the question.
 10 MR. DUNNE: Go ahead.
 11 Q (By Mr. Parlette) -- or was it just numbered number two in
 12 your investigative report?
 13 MR. DUNNE: Objection. Equivalent interest rate
 14 is vague and ambiguous.
 15 A It was - actually number two comprised three things:
 16 confusion over rates, points, and fees, so it was inclusive
 17 in there. So it was - I hesitate to say it's listed in
 18 order of priority. I wrote this report to try to clearly
 19 paint a picture and the order - the progression of things
 20 are aligned oftentimes in certain ways so that the reader
 21 can sort of understand how the pattern might unfold more so
 22 than just what is more important than something else.
 23 Q (By Mr. Parlette) Okay. We've talked about rates. Is
 24 there anything more that you would like to say about the
 25 rates, equivalent rates or effective rate?

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1 MR. DUNNE: Objection: calls for a narrative.
 2 A There's a whole area of rates and discount points that were
 3 covered in the report and addressed by the multistates that
 4 we haven't talked about here. We haven't talked about the
 5 effective or equivalent rate. I had issue with what's known
 6 as a matrix of discount points and rates. I had a strong
 7 issue with that. Now, that would have been incorporated
 8 into the effective or equivalent rate scenario, but it was
 9 sort of a stand-alone concern or harm in and of itself.
 10 Q (By Mr. Parlette) And you discuss that more thoroughly in
 11 this report. We'll get into that.
 12 A I think I might discuss it more thoroughly than anything
 13 else in the report.
 14 Q Now, what about the - that relates to points charged by
 15 Household?
 16 A Discount points.
 17 Q Discount points. What about fees? You have here confusion
 18 over rates, points, and fees. What's the fee confusion?
 19 MR. DUNNE: You're asking him again to recite the
 20 fee confusion that's referred to in this report?
 21 MR. PARLETTE: I want to know what he means by
 22 that.
 23 MR. DUNNE: What he means when he's talking about
 24 it in the report --
 25 MR. PARLETTE: Right.

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1 MR. DUNNE: -- Exhibit C?
 2 MR. PARLETTE: Pardon?
 3 MR. DUNNE: Exhibit C?
 4 MR. PARLETTE: Yeah.
 5 A The title of that, confusion over rates, points, and fees I
 6 would rewrite, if given the opportunity, to what is
 7 contained in the first sentence which says, rates, points,
 8 or fees. What I was attempting to do there was identify
 9 that there's different terminology, but it's really rates
 10 and points I'm talking about in the section, but some people
 11 call them fees.
 12 Q (By Mr. Parlette) Okay. The item three that you have down
 13 on your patterns, identified patterns, is entitled timely
 14 disclosures?
 15 A Yes.
 16 Q And this refers to timely disclosures of what facts?
 17 A Good-faith estimates and Truth in Lending disclosures.
 18 Q What's a good-faith estimate?
 19 A A good-faith estimate is a document in a form that is
 20 intended to give borrowers advance notification of what the
 21 costs in the loan are expected to be.
 22 Q Is this required by federal law?
 23 A It is required by both federal and state law.
 24 Q And what is the federal law?
 25 A It's RESPA, Real Estate Settlement Procedures Act, and the

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1 regulation is Regulation X, part 3500.7.
 2 Q And the state law that requires it?
 3 A RCW 31.04.
 4 Q Was this in effect in year 1999?
 5 A In 1999 it was in effect in the form of a regulation. It
 6 was moved into statute in 2001.
 7 Q I see. And do you recall the regulation that required the
 8 good-faith estimate?
 9 A Boy. Why don't I look it up here. It's the easy thing to
 10 do. Sorry. We have a bunch of regulations.
 11 Q Yeah. You sure do.
 12 A 208-620.
 13 Q And when is the good-faith estimate required to be given
 14 under federal law?
 15 A Must be delivered within three days of the date of
 16 application.
 17 Q And under state law?
 18 A Same.
 19 Q Same. And what did you find was the practice of Household
 20 and Beneficial with respect to the good-faith estimate?
 21 MR. DUNNE: Objection: no foundation as to
 22 Beneficial. The question is overbroad.
 23 Q (By Mr. Parlette) I will rephrase the question because your
 24 report only does speak to Household, and limit to Household
 25 A I found that in some instances borrowers claim that they

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| <p style="text-align: right;">Page 94</p> <p>1 never got their disclosures, and sometimes those disclosures 2 were made available for our review by the company. I found 3 at times that the disclosures appear to not exist at all, 4 were not made available for a review, and the borrowers 5 claimed to not be aware of the disclosures. I found that in 6 my origination and in my two examiners' originations that 7 there were not only timing violations, but failure - in one 8 instance, failure to produce any disclosures whatsoever, 9 zero, absolutely none. With me, the disclosures were just 10 late; and with my examiner, Pat Hardman, his disclosures 11 were late as well. 12 Q I believe in your report, at least one instance, you 13 referred to the good-faith disclosures being backdated. Is 14 that a true statement? 15 MR. DUNNE: Objection to form, leading, lack of 16 foundation. 17 A Can you point me towards that section of the report? 18 Q (By Mr. Parlette) If I can. Let's see. I believe it's on 19 my page 50 relating to your experience in the Bellingham 20 office. 21 A Under what - give me the paragraph heading. 22 Q It's Bellingham branch. Loan originated on August 10. 23 A Okay. 24 Q My page 50. 25 A Is there a darker heading previous to that --</p> | <p style="text-align: right;">Page 96</p> <p>1 same thing at Lakewood. But I wouldn't know this for any 2 consumer complaints because I wouldn't have had the 3 postmarks from the consumers. 4 Q Right. So two of the three tests that the Department of 5 Financial Institutions did, two of those three, you could 6 tell that they were backdated, the good-faith estimates? 7 A Yeah. I could tell that the dates were dated at a point in 8 time that would make them appear to be in compliance when 9 the disclosure clearly was not in compliance. It was late. 10 Q And you could tell by the postmark on the envelope? 11 A Yes. 12 Q What else did you take issue with on the good-faith 13 estimates? 14 A The primary thing that we took issue with was the use of a 15 range of discount points on the good-faith estimate. We 16 felt, and still feel, that it's a violation of Reg X, RESPA, 17 to carry - to disclose to borrowers the range in the fashion 18 they were disclosing it. Had it been a very narrow range, 19 we might have told them to knock it off, but we probably 20 wouldn't have much as an issue as we did over the fact that 21 they were enormous ranges between low and high. 22 Q In some cases, were the ranges from zero to -- 23 A Very high numbers, yeah. 24 Q Some high number. 25 A Yeah.</p> |
| <p style="text-align: right;">Page 95</p> <p>1 Q Yes. 2 A -- Department's Experience -- 3 Q Department's Experience with HFC Branches. 4 A It's page 56 on mine. 5 Q Yeah. I noticed the pagination would probably be goofed up 6 because it -- 7 A You have a different font, it appears. 8 Q Yeah, right 9 A Okay. 10 Q And it would be the third full paragraph down. Loan 11 originated? 12 A On the entire page? Under Bellingham branch, right there? 13 Q Right, right 14 A Okay. What this is referring to is that the disclosures 15 were dated to make them appear as if they had been delivered 16 sooner than they were really delivered. 17 Q You use the word "backdated"? 18 A Yes. So my belief was the disclosures were not generated 19 and put in the mail until August 21st, but they carried a 20 date of August 16th. 21 Q I get you. Did you find that to be true in any other 22 instances, other than your own experience at the Bellingham 23 office? 24 A I think with Patrick Hardman we saw the same thing. Let me 25 see if we did here. Yeah. Patrick Hardman experienced the</p> | <p style="text-align: right;">Page 97</p> <p>1 Q Implying that there were instances when Household didn't 2 charge points? 3 MR. DUNNE: Objection: leading, vague and 4 ambiguous. 5 Q (By Mr. Parlette) Would that be the inference you would 6 draw as an examiner? 7 A No. The implication would be that on that specific 8 transaction the borrower would be able to have the loan 9 without any points 10 Q Right. 11 A I don't want to say it's implied that they ever actually did 12 that. 13 Q Okay. I didn't make my question clear. 14 Your fourth item of your pattern - identified pattern 15 was monthly payment amount? 16 A Yes. 17 Q What did you discover there? 18 A We had -- 19 MR. DUNNE: Again, you're referring to what he 20 reported in the report that's Exhibit C? 21 MR. PARLETTE: That's right. 22 A We had borrowers that told us that the amount they were 23 making, the payment, wasn't what they believed their payment 24 was going to be. The confusion oftentimes came under the 25 form of biweekly or bimonthly plan where it didn't work how</p> |

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1 the borrower claimed it was going to work.
 2 The most specific one there was Georgia Smart was very
 3 specific on how the biweekly plan and bimonthly plan worked.
 4 She was able to describe in good detail in her complaint,
 5 which indicated she knew - she had questioned and gotten the
 6 answers and knew what she was talking about enough to be
 7 able to make it clear to me in her written complaint that
 8 she understood how these programs worked. And she was
 9 adamant that she was supposed to received a biweekly plan,
 10 but she really received a bimonthly plan, which effectively
 11 amortized the loan slower than the biweekly. She was sold
 12 the biweekly and put into a bimonthly.
 13 Other borrowers claim they were led to believe that the
 14 biweekly amount, which is half of what a monthly amount
 15 would be, was really what their payment was going to be, and
 16 they were shocked to find out later that they were required
 17 to make - that was really only half of a payment. They
 18 thought it was a whole payment.
 19 Q (By Mr. Parlette) They thought that the biweekly payment --
 20 A They thought that because they had been sold this idea of
 21 the lower interest rate that the payment - the payments
 22 reflected substantially lower payments. They thought that
 23 the half payment they were making was really the whole
 24 payment. They didn't understand they were just making a
 25 half payment. They thought that was their whole payment.

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1 Q For a month?
 2 A Yes.
 3 Q And was there any confusion over taxes and insurance --
 4 MR. DUNNE: Objection; vague.
 5 Q (By Mr. Parlette) -- being included or not included?
 6 MR. DUNNE: Objection; vague and ambiguous.
 7 A There were borrowers who believed that their payment
 8 included taxes and insurance when it didn't. And what
 9 Household argued, as I remember, on several or a few
 10 different complaints was, we don't do our loans that way.
 11 We simply don't include taxes and insurance. It's not part
 12 of our practice, so how could they ever have possibly
 13 believed that we would do that? That was their response.
 14 My opinion was that somebody who - borrowers don't know
 15 enough about lending transactions to dream these things up
 16 out of their own heads. So if a borrower specifically
 17 states it was to include my taxes and insurance, you know,
 18 my experience is a borrower's been told that by somebody.
 19 MR. DUNNE. Let me have you read that testimony
 20 back please because I want to make sure I get that exactly.
 21 Could you read it back?
 22 THE COURT REPORTER: Answer: "There were
 23 borrowers who believed that their payment included taxes
 24 and" --
 25 MR. DUNNE. Start with "borrowers don't know

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1 enough."
 2 THE COURT REPORTER: Answer: "Borrowers don't
 3 know enough about lending transactions to dream these things
 4 up out of their own heads. So if a borrower specifically
 5 states it was to include my taxes and insurance, you know,
 6 my experience is a borrower's been told that by somebody."
 7 MR. DUNNE: Thank you.
 8 Q (By Mr. Parlette) Mr. Cross, did you find written instances
 9 in the documents you reviewed where Household compared the
 10 monthly payments that were made under the borrower's
 11 previous mortgage before it had been refinanced and the one
 12 that was represented to them would be their monthly payment
 13 under Household's mortgage where the previous mortgage
 14 included taxes and insurance, and the Household comparison
 15 that was given to the borrowers did not include taxes and
 16 insurance?
 17 A I believe so, but I can't picture any of those transactions
 18 right now, but I believe so.
 19 Q Did you find that to be a common pattern where taxes and
 20 insurance just weren't discussed at all?
 21 A I found it to be a common pattern that borrowers were
 22 confused. Borrowers believed their taxes and insurance were
 23 going to be included in the payment and they weren't.
 24 Q And you have been employed as a bank lending officer?
 25 A Examiner.

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1 Q Bank examiner. You worked though in private industry, did
 2 you not?
 3 A I did.
 4 Q Did you ever make loans?
 5 A I originated loans.
 6 Q Originated loans. Are you familiar with the practices that
 7 most banks in the state of Washington use on originating
 8 mortgage loans?
 9 A Well, I'm familiar with standard origination practices.
 10 Again, those words like "most" cause me discomfort.
 11 Q Right. Is it the - is it the general practice of mortgage
 12 lenders to have an escrow account that includes taxes and
 13 insurance?
 14 A It depends on what type of lending you're talking about.
 15 For conventional mortgages, yes. For subprime mortgages,
 16 no.
 17 Q I see. If a person is coming out of a conventional
 18 mortgage, more than likely they would have taxes and
 19 insurance in an escrow account?
 20 A More often than not. If I had to guesstimate, I would say
 21 90 percent of all conventional loans have those impound
 22 accounts.
 23 Q Do you believe it's an obligation of Household to tell the
 24 consumer that taxes and insurance are not included in their
 25 monthly payments?

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1 MR. DUNNE: Objection; calls for a legal
 2 conclusion and - go ahead.
 3 A I don't know if I believe they have an obligation to tell
 4 the borrower they are not included, but I think they have a
 5 very clear obligation to clearly disclose their transaction
 6 and not lead anybody to believe that they would be included.
 7 Q (By Mr. Parlette) Okay. Under your subparagraph little i -
 8 or ii under paragraph Roman IV, monthly payment amount. at
 9 the very bottom, you refer to the Fort Knox Bank. What was
 10 your issue there?
 11 A I found that Household had apparently made unilateral
 12 decisions to change the agreement that the borrower entered
 13 into on how the payments were going to be deducted from
 14 their accounts. The agreement that I found in each of the
 15 files I reviewed very clearly said that Fort Knox Bank could
 16 only make changes in that by the borrower making those
 17 changes. And when borrowers tell us we didn't want this to
 18 change and it just changed, so somebody had to tell Fort
 19 Knox Bank to do it. My assumption was that it had to be
 20 Household that was instructing the bank to make those
 21 changes. since they were in receipt of that.
 22 Q Did you ever --
 23 MR. DUNNE: Excuse me. I would like you to read
 24 that back beginning with "somebody," please. "somebody had
 25 to tell."

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1 THE COURT REPORTER: Answer: "So somebody had to
 2 tell Fort Knox Bank to do it. My assumption was that it had
 3 to be Household that was instructing the bank to make those
 4 changes. since they were in receipt of that."
 5 Q (By Mr. Parlette) You made that assumption, Mr. Cross,
 6 because the borrower had told you they hadn't contacted Fort
 7 Knox Bank and changed the deduction?
 8 MR. DUNNE: Objection: leading
 9 Q (By Mr. Parlette) Is that a true statement?
 10 A Yes. And I'm not sure if the borrowers directly said, "I
 11 never contacted Fort Knox Bank." The borrower said, "My
 12 payment got changed on me." The indication was that it
 13 happened without their knowledge.
 14 Q Do you know how many instances that you discovered there
 15 that would meet that pattern?
 16 A Well, I think that might be listed in the report. I don't
 17 remember off the top of my head. I believe in some
 18 situations also Household reported to us that they did make
 19 the change. They just put a different spin on the story
 20 than the borrower did. In any event, my issue within the
 21 report was that the agreement, the E-Z Pay Plus agreement,
 22 has some very specific language in it that you can read, and
 23 it does not appear from that language to allow Household to
 24 be the one to make the change.
 25 Q I see. Under Roman iii, little Roman iii, you identify a

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1 confusion issue there. Could you explain what that is?
 2 A Give me just a moment.
 3 Q Sure.
 4 A Yeah. This situation directly related to what I was saying
 5 earlier where the borrower was led to believe that the
 6 payment was half as much as it really was. On the actual
 7 documentation, Household showed in one of the blank lines
 8 how much the payment would be and later said, well, clearly
 9 you can see that we made a mistake and the payment should
 10 have been double that amount. The borrowers say they
 11 entered into the transaction because that dollar amount was
 12 shown to them and that's what they felt they could afford
 13 per month. And then these are automatic withdrawals from
 14 their accounts. Suddenly twice as much money started coming
 15 out of their account. Wait a minute. That's not what we
 16 agreed to.
 17 And the response from Household was, that's the
 18 contract you signed. The note you signed says it will be
 19 this much in payment. You know, there was a mistake.
 20 Regardless of the mistake, you have to make the larger
 21 payment. That mistake, if it was a mistake, was clearly
 22 disclosed to the borrowers on how much their payment was
 23 going to be. I can easily see where the borrowers relied
 24 upon that.
 25 Q In the Smart complaint you say that the terms of payment on

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1 the document were altered after the borrower signed.
 2 A Yes. To get the specific facts, let's flip back to the
 3 Smart complaint because I want to be careful on that,
 4 whether that's from her testimony or her testimony plus
 5 documents that I saw. I think I might have had two versions
 6 of documents which supported her claims. Let me look at
 7 that. In this situation, she had been given an E-Z Pay
 8 document that contained specific information about what the
 9 plan was going to be and then later --
 10 MR. DUNNE: If I can interrupt you, just to make a
 11 quick objection to lack of foundation, what the facts are as
 12 opposed to the findings.
 13 Go ahead.
 14 A Later she entered into negotiations, if you will, with
 15 Household, and she obtained some more documentation from
 16 them. She got another form, which was how the payment was
 17 really working, and it was different than the one she
 18 originally had. She told me she didn't know or approve this
 19 altered form, plus she was presenting me with documentation.
 20 She actually presented me with two forms, one unaltered and
 21 one altered, so that's what I'm saying in that section.
 22 Q (By Mr. Parlette) The altered one had been provided to her
 23 by Household or provided to you?
 24 A It had been - I believe - I have to look in the file, but I
 25 believe it was provided to her, so she asked Household. "I

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1 need all the documents in my file. I need to understand why
 2 you're doing this," and they gave her that one, which was
 3 different than the one they had given her previously.
 4 Q At the time of closing?
 5 A Yes.
 6 Q We're going now to the pattern that you describe as the
 7 prepayment penalty. What was your issue with the prepayment
 8 penalty?
 9 MR. DUNNE: Again, are you referring to the
 10 findings in the report?
 11 MR. PARLETTE: I am.
 12 MR. DUNNE: Thank you.
 13 A Borrowers consistently complained that they were either
 14 unaware of a prepayment penalty being on the loan, so they
 15 were surprised to find it there. Or some borrowers told us
 16 very strongly that they made sure during their conversations
 17 with the company they would not have a prepayment penalty.
 18 Georgia Smart again comes to mind. She had had a loan
 19 at one time that had a prepayment penalty in it, and she
 20 expressed that that was a transaction that she would never
 21 again enter into. She was very specific in getting promises
 22 from her loan officer that she definitely would not have a
 23 loan with a prepayment penalty. She admits to being a
 24 little foolish going to signing and not reading all the fine
 25 print. Later ended up, when she looked at the documents

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1 closer after closing, well after closing, she did have a
 2 prepayment penalty.
 3 Q (By Mr. Parlette) Were the prepayment penalties imposed by
 4 Household consistent or did they vary from transaction to
 5 transaction?
 6 A The ones I saw were consistent.
 7 Q And what do they constitute?
 8 A The five-year prepayment penalty. If the loan was prepaid
 9 above a certain percentage amount within a five-year period
 10 of time, then the borrower would have to pay, I believe, six
 11 months' worth of interest on the outstanding balance at that
 12 point in time. I believe is how they read in Washington.
 13 Some of the states report that the prepayment penalties read
 14 six months' worth of interest on the original balance of the
 15 loan, but I think in Washington they read six months with
 16 interest on the outstanding balance at the time the
 17 prepayment occurred.
 18 Q Is there any more on the prepayment penalty that you
 19 discovered that we haven't discussed?
 20 MR. DUNNE: Objection to form, calls for a
 21 narrative.
 22 A Well, I had issue with the argument Household had made to me
 23 over time in these complaints that the existence of the
 24 prepayment penalty was in the documents and basically it was
 25 the borrower's obligation to read those documents. And what

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1 I point out in the report is that, when you look at the
 2 note, it's buried deep in the note in smaller font. It's
 3 part of the legal language. It's not on a page that gets
 4 signed. Anybody who wants to hide a prepayment penalty from
 5 a borrower can do it very easily.
 6 In other words, there's - in order for a borrower - if
 7 you didn't say anything about a prepayment penalty and a
 8 borrower didn't sit down and read every word in their
 9 documentation, it's highly likely they would never know they
 10 had a prepayment penalty. Even given the borrower asking a
 11 question like Georgia Smart did, "Do I have a prepayment
 12 penalty?" it's very easy to keep a borrower from noticing
 13 they have a prepayment penalty. It only appears in two
 14 places. One place is about five or six point font
 15 two-thirds of the way down in the Truth in Lending
 16 disclosure statement.
 17 I am very aware of an industry practice. I'm not going
 18 to say it's Household practice, but industry practice of
 19 loan officers placing their hands over certain portions of
 20 the documents. My examiner, Patrick Hardman, said that his
 21 loan officer was very adept at covering up portions of
 22 documents that he was trying to look at when he was
 23 explaining the programs to him.
 24 Q (By Mr. Parlette) Is Household Finance?
 25 A Yes.

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1 MR. DUNNE: I object and move to strike that -
 2 answer as nonresponsive.
 3 Go ahead.
 4 Q (By Mr. Parlette) Do you know which branch, again,
 5 Mr. Hardman was dealing with?
 6 A Lakewood.
 7 Q He described, I believe in the report, that there was a
 8 concerted effort by the loan officer to cover up?
 9 A That was his feeling.
 10 Q Okay. It's in the TILA statement and in the --
 11 A Note.
 12 Q -- note itself, the promissory note?
 13 A Yes.
 14 Q Is it ever disclosed on the good-faith estimate?
 15 A Some lenders may disclose it there, but it's not a
 16 requirement.
 17 Q Okay. The sixth item you identified is insurance packing.
 18 What was your issue there?
 19 A Similar to some of the other issues, that borrowers did not
 20 know that they were closing on a loan with insurance
 21 financed into that loan. And in other situations, borrowers
 22 reporting that they were led to believe by their loan
 23 officer that the insurance was required in order to obtain
 24 the loan, which is a clear violation of both federal and
 25 state law.

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1 Q Was there a pattern that that existed in some offices more
 2 than others?
 3 A We found greater what we call insurance penetration in some
 4 offices than in other offices. I think that's captured in
 5 the report here. So to the extent we could use insurance
 6 penetration as an indicator of what we would call aggressive
 7 sales practices or - which would result in insurance packing
 8 that, yeah, my belief is that when you find high penetration
 9 rates, there is usually insurance packing taking place.
 10 Q Did any complainant complain that they didn't understand the
 11 terms of the insurance were only limited to \$50,000 in five
 12 years?
 13 A I can't remember the dollar amount being complained about,
 14 but I did have at least one complainant who complained that
 15 he ended up with insurance that was never any good for him
 16 because his age versus how long the insurance was good for,
 17 who it was even good for.
 18 Q Was the insurance - strike the question.
 19 Is there a requirement under either federal or state
 20 law that the insurance be cancelable?
 21 A You know, I would have to research that. It was cancelable
 22 on these loans.
 23 Q Did you find a pattern or practice where customers were told
 24 that they could sign up for the insurance but cancel it
 25 within the first month?

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1 MR. DUNNE: Objection to form.
 2 A Did I find that?
 3 Q (By Mr. Parlette) Yes.
 4 A No. I heard rumor of it, but I didn't find that.
 5 Q Do you know of any incentive that an account executive or
 6 loan officer would have to sign people up for insurance, in
 7 the same breath tell them they can cancel it right away?
 8 MR. DUNNE: Objection; lack of foundation.
 9 A Well, I know that the compensation for originating or
 10 closing loans with insurance was a significant amount to the
 11 loan officer's commission, so it would just have to be my
 12 opinion that heavy compensation plans can lead towards
 13 the - obviously it would be an incentive for somebody -
 14 could be an incentive for somebody to do something they
 15 wouldn't do if that incentive wasn't there. Whether I can
 16 say that some loan officer, you know, followed that
 17 incentive.
 18 MR. DUNNE: Could I ask you to read the first
 19 sentence of the answer back, please?
 20 THE COURT REPORTER: Answer: "Well, I know that
 21 the compensation for originating or closing loans with
 22 insurance was a significant amount to the loan officer's
 23 commission."
 24 Q (By Mr. Parlette) Do you know anything about the
 25 compensation formula for Household executives, account

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1 executives?
 2 A I reviewed it. I have it, but I don't have it in memory.
 3 Q Okay. Do you know whether or not there's - if they do
 4 receive some incentive or commission or some monetary
 5 incentive, whether they have to pay it back if the insurance
 6 is subsequently canceled?
 7 MR. DUNNE: Objection; lack of foundation.
 8 A I don't recall seeing that caveat in that commission forms.
 9 Q (By Mr. Parlette) Household offered credit life insurance,
 10 they offered disability insurance, some sort of unemployment
 11 insurance. Are you aware of any others that they offered?
 12 A I saw some auto insurance, but only on rare occasions.
 13 Q And were all these insurance premiums single premium advance
 14 payment?
 15 MR. DUNNE: Objection; lack of foundation.
 16 Are you asking, again, for findings in this?
 17 MR. PARLETTE: I'm asking from his knowledge.
 18 MR. DUNNE: Lack of foundation.
 19 A No. They weren't all single financed - single premiums
 20 insurance financed with the loan. Some was monthly
 21 insurance.
 22 Q (By Mr. Parlette) If the consumer didn't have to write a
 23 check, would they - for the insurance premiums, how would
 24 they know that insurance had been taken out?
 25 MR. DUNNE: Calls for speculation and lack of

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1 foundation.
 2 A Taken out or added to the loan?
 3 Q (By Mr. Parlette) Added to the loan is a better way of
 4 saying that.
 5 A The HUD I showed that.
 6 Q They would have to exam the HUD 1 form to see it?
 7 MR. DUNNE: Objection.
 8 Q (By Mr. Parlette) Did you find any complainants who were
 9 surprised that they had insurance at all?
 10 A Yes.
 11 Q Of the 19 complaints, do you remember how many of those
 12 situations there were?
 13 A No, I don't remember. I think again it's somewhere buried
 14 in this report. What you would have to do is go through - I
 15 analyzed complaint by complaint throughout this report. You
 16 would have to go through and see how many times I provided
 17 that issue under that specific complaint.
 18 Q What federal law or state law does it violate when you tell
 19 a borrower that they must take out credit life insurance?
 20 A You can't require it under the Truth in Lending Act.
 21 Actually, if you require it - if you require it, you have to
 22 include it in the annual percentage rate calculation, which
 23 on the loans I looked at, it was not included. In addition
 24 to that, under Washington State law under the 31.04, you
 25 cannot require the insurance.

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1 Q And thus if a loan officer or account executive tells a
 2 consumer it's required but the TILA form doesn't reflect
 3 that, then that would be a violation of TILA?
 4 A That would be a federal violation. And regardless if they -
 5 if it showed it or not the - regardless of whether it was
 6 contained within the Truth in Lending disclosure or not, it
 7 would still be a state violation because our law is very
 8 simple. It says you can't require it.
 9 Q I think it's the last pattern or practice that you
 10 identified as number seven is upselling loans?
 11 A Yes.
 12 Q Would you tell us what your issue there was.
 13 MR. DUNNE: You're asking him to summarize what
 14 the report findings were?
 15 MR. PARLETTE: Right.
 16 A I found that there was an apparent practice of - it was a
 17 two-prong practice. One practice was to eat up additional
 18 equity out of the borrower's property, which generally was
 19 realized to Household in the form of discount points, and I
 20 can explain that a little more clearly.
 21 The second prong was to put borrowers in a position
 22 where they had a fairly or reasonably high interest rate
 23 first mortgage but then a very high rate in the, say,
 24 24 percent range for a second mortgage. So my belief is the
 25 intent was to get as much high cost loan to be taken out by

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1 the borrower as absolutely possible.
 2 Many of the transactions I looked at, and the same held
 3 true for regulators in the other states - this is what they
 4 reported to me, we had several meetings about this - was
 5 that the amount of the second mortgage was almost identical
 6 to the amount of the discount points in the first mortgage.
 7 The only purpose we could even see for the second mortgage
 8 existing was to pay these very high points on the first
 9 mortgage.
 10 Q (By Mr. Parlette) The upselling of loans, what do you mean
 11 by the word "upselling"?
 12 A Borrowers generally came in for one of two purposes. They
 13 either wanted to refinance from where they were at or they
 14 just wanted to get a second mortgage. But in many
 15 situations, Household tells us in 19 percent of the
 16 situations, but in many of the situations, the borrowers -
 17 walked out with two simultaneous loans, not the single loan
 18 they went in looking for. And these loans were high
 19 interest rate loans at - that left them with high LTV's.
 20 Sometimes we saw - LTV is loan to value - we saw borrowers
 21 walking in with an equity position in their property and
 22 walking out being way under water on their property, in
 23 other words, owing far more than what the property was
 24 worth. When they had gone in, they had equity in their
 25 property. When they came out, they had negative equity on

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1 the property.
 2 Q What's the significance of a high LTV to a borrower?
 3 A The significance --
 4 MR. DUNNE: Objection: calls for speculation,
 5 overbroad.
 6 A The significance to the borrower is that they are trapped in
 7 that transaction and cannot get out of the transaction.
 8 It's a very effective tool identified among the multistate
 9 as a way of keeping borrowers trapped into Household loans
 10 and not being able to refinance out with other lenders.
 11 Q (By Mr. Parlette) In your review of --
 12 MR. DUNNE: Move to strike as nonresponsive.
 13 Q (By Mr. Parlette) In your review of the records, have you
 14 ever come across a statement where Chairman Allinger said
 15 exactly that to some stock analysts, that we make our
 16 customers - this is paraphrasing. We make our customers
 17 loyal by getting them high LTV's.
 18 MR. DUNNE: Objection; mischaracterizes the
 19 statement and leading.
 20 A I don't recall that statement.
 21 Q (By Mr. Parlette) Your point is, I guess, and correct me if
 22 I'm wrong, with high loan to value ratio, if a person wants
 23 to get away from Household, they would find that another
 24 bank would not refinance them --
 25 MR. DUNNE: Objection.

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1 Q (By Mr. Parlette) -- with a greater than 100 percent or
 2 80 percent LTV?
 3 MR. DUNNE: Objection. leading and overbroad. It
 4 doesn't relate to any particular borrower.
 5 A That is my position or my point that if a borrower has a
 6 higher than industry norm LTV, they're going to find it very
 7 difficult to find somebody that will refinance them out of
 8 that.
 9 Q (By Mr. Parlette) In your opinion as the chief examiner for
 10 the state of Washington, what's the normal LTV?
 11 MR. DUNNE: Objection, vague and ambiguous, lack
 12 of foundation.
 13 A Depends on what type of lending you're talking about. In
 14 the conventional market, you will not hardly ever see
 15 anything above 97 percent LTV, and generally you're going to
 16 want to find it 95 percent or below. There's some special
 17 programs that will do 97 percent LTV. In the subprime
 18 market, higher LTV loans are found, and there was a period
 19 of time, until about two years ago, where many lenders were,
 20 for lack of a better word, experimenting with 125 loans,
 21 125 percent LTV's. But the market drifted away from that a
 22 couple years ago
 23 Q (By Mr. Parlette) Drifted away and gone down?
 24 A Gone down. Too much risk with those kind of loans.
 25 Q Do you recall any analysis of the LTV that borrowers were

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1 left with after they refinanced with Household in doing your
 2 report?
 3 A No. I didn't do a specific analysis. I think on certain
 4 complaints I identified what the LTV was, but I can tell you
 5 what the company told me what their practice was.
 6 Q What was that?
 7 A That they would make first mortgages up to 100 percent LTV
 8 and then would tag discount points on top of that, so they
 9 could take it above 100 percent LTV if they needed to add
 10 discount points on to that. Everything additional beyond
 11 that would be picked up by a second mortgage. The LTV could
 12 get up fairly high. I would have to look at specific
 13 transactions to tell you how high.
 14 Q So they would - if I got what you just said, they would
 15 loan - they told you they would loan up to 100 percent LTV,
 16 excluding the points?
 17 A Correct.
 18 Q Would add the points into the LTV for the first mortgage and
 19 then loan on top of that with a second?
 20 A Correct.
 21 MR. PARLETTE: Let's take a break for the court
 22 reporter.
 23 (Recessed at 1:53 p.m.)
 24 (Reconvened at 2:05 p.m.)
 25 Q (By Mr. Parlette) Is there a DFI file for this expanded

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1 report that you did? Is there some background material --
 2 A Well --
 3 Q -- used as source material?
 4 A Well, there's - well, the file - it isn't in the file for
 5 this report, but, you know, it's an investigative file from
 6 the beginning of time until current. I don't know. I
 7 probably have, I don't know, 8,000, 10,000 pages in it.
 8 something like that.
 9 Q On Household Finance?
 10 A On Household, Beneficial, Household Realty. On the case.
 11 Q Is that subject to this temporary restraining order?
 12 A Well, much of it clearly would be. There's - a lot of it is
 13 correspondence between the multistate and anytime an
 14 Assistant Attorney General, whether from this state or
 15 another state, appears, they will identify that as attorney-
 16 client privilege and protect that. So on virtually every
 17 document you're going to find that. I will have to leave it
 18 to Susan to protect that stuff. That's what they do. They
 19 come in and sit down for hours going through stuff, and I
 20 just know from experience that all those e-mails and
 21 letters, they're all set aside because there's an attorney
 22 in it.
 23 Q And there's a parallel group of complaints that were filed
 24 with the Consumer Protection Division of the Attorney
 25 General's Office.

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1 A Correct.
 2 Q Are those protected by --
 3 A You would have to ask them.
 4 Q -- the restraining order?
 5 A I --
 6 MR. DUNNE: I'm sorry if I stick my hand out. I'm
 7 just trying to signal that sometimes I need to make an
 8 objection. I don't mean to appear to be rude in any way
 9 when I do that.
 10 THE WITNESS: Did you want to make one?
 11 MR. DUNNE: No. I'm fine now.
 12 A You would have to ask them, but the injunction is against
 13 the state of Washington. It's not limited to DFI.
 14 Q (By Mr. Parlette) Okay. Are all of the DFI complaints in
 15 the AG complaints?
 16 A One of the AG investigators, Jan Simonds, S-i-m-o-n-d-s, was
 17 doing a cross referencing and I don't know where that
 18 finally came out. I think they were satisfied that they had
 19 everything that we had, but we don't have everything that
 20 they have. I think that's the direction it went.
 21 Q Okay. And is that going to be utilized in the distribution?
 22 Her files, are these complaints going to be utilized in the
 23 distribution formula that finally is arrived at on the AG
 24 settlement?
 25 A They could be. We believe we will get so much information

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1 from the company we may not have to access those files, but
 2 I don't rule it out.
 3 Q Okay. Now, going back to - I was through number seven on
 4 my - did we conclude that the page numbers are different?
 5 A I believe so.
 6 Q On my page 43 of the DFI expanded report, it referenced
 7 paragraph seven, upselling loans, and I don't know what page
 8 that would be on yours.
 9 A Mine it's page 48.
 10 Q Page --
 11 A We seem to be drifting five pages apart.
 12 Q Five pages apart, okay. Is everything after page 48 an
 13 expanded explanation of the seven patterns or practices that
 14 you discovered?
 15 A No.
 16 Q Then we better go through from there on out.
 17 MR. DUNNE: That was the wrong answer. For the
 18 record, I was joking.
 19 Q (By Mr. Parlette) You're on the same page I am now, a
 20 matrix that states rate points and discounts as a percent of
 21 loan.
 22 A Yes.
 23 Q This is, I think, the issue you were referring to earlier
 24 about the points or the buydown of interest rates. Could
 25 you explain what your issue was there?

| | |
|---|---|
| <p style="text-align: right;">Page 122</p> <p>1 A Household informed us how their system worked, and it 2 revolved around what was called a credit guide score. They 3 would - their software would assist them in underwriting the 4 loan to develop a credit guide score for the borrower based 5 on a bunch of criteria. Once a credit guide score was 6 developed for the borrower, they were able to offer the 7 borrower some of a series of different loan programs that 8 were controlled really by rate and the LTV available to the 9 borrowers, how much could they borrow, how much percent 10 could they borrow, and what were the range of rates 11 available. The matrices that I saw would sometimes be three 12 to a page and be three pages long, so maybe there would be 13 nine available programs and one of these might be what they 14 were going to offer that borrower. 15 It would appear in the form of a matrix that didn't 16 look like this but was not dissimilar to what's on my 17 page 49, which is a table of discount points and rates 18 showing an inverse relationship between the discount points 19 and the rates. In other words, the more points you paid, 20 the lower the rate. The less points you paid, the higher 21 the rate. 22 Q And let me interrupt you here. Points as Household used 23 them was a prepaid interest charged to buy a rate down? 24 A I think that would be a fair representation of it. 25 Q Okay.</p> | <p style="text-align: right;">Page 124</p> <p>1 I never showed them the thing. I asked them, you know, did 2 you ever see anything that explained to you if you paid more 3 in discount points you could lower your rate or if you got a 4 higher rate you paid less in discount points or how this 5 range of discount points that appears in the good-faith 6 estimate works, and not a single borrower was ever able to 7 tell me that they understood that or ever seen anything 8 explaining that to them. 9 Q Okay. 10 A This section discusses that, the practice of using the 11 credit guide score and the matrix to price borrowers into a 12 loan. It's a fairly lengthy section here that deals with 13 different issues revolving around that. But the short of it 14 is that it was my belief and finding that borrowers were 15 consistently deceived about how this range of discount 16 points that was appearing in the good-faith estimate would 17 work for or against them. Borrowers repeatedly seemed to be 18 surprised how much they paid in points but repeatedly 19 believed they were getting a 7 percent loan rate. Well, the 20 two can't go hand in hand. 21 First off, I never seen a 7 percent rate offered by 22 Household. But even if you're dealing with the lower end, 23 say, 11 percent rate roughly - sorry, I lost my train of 24 thought on that. Sorry. I was going somewhere, and I don't 25 know where I was going.</p> |
| <p style="text-align: right;">Page 123</p> <p>1 A We never interviewed a borrower that ever saw - that ever 2 said or was able to tell us that they ever saw the matrix. 3 We knew the matrix exists because that's what Household told 4 us. We never interviewed a borrower that was able to tell 5 us they had ever seen it. None of the three of us who 6 applied for loans ever saw the matrix. However, we know 7 very well that a matrix was used because Household delivered 8 us a significant amount of materials that explained how they 9 used the matrix, and they even explained to us how they used 10 the matrix. 11 Q Approximately how many borrowers did Household interview? 12 A Did Household interview? 13 Q Excuse me. That DFI interviewed of Household borrowers 14 A I don't remember. I spoke with 15 or 20 probably. 15 Q And the other investigators, how many would they have spoken 16 to? 17 MR. DUNNE: Lack of foundation. 18 A None, I think. I don't know if they ever spoke with 19 somebody or not, but they weren't specifically assigned to 20 interview anybody. 21 Q (By Mr. Parlette) I see. When you say, we never found a 22 borrower that saw such a matrix, you're referring to the 15 23 or 20 that you interviewed? 24 A Yes. And I can't tell you how many I asked a number of 25 them specifically, have you ever seen this thing, you know</p> | <p style="text-align: right;">Page 125</p> <p>1 We found that borrowers consistently paid at the top or 2 even above the top discount points disclosed to them on the 3 good-faith estimate. There are many instances where the 4 discount points they actually paid at closing exceeded the 5 cost of what was shown to them on the good-faith estimate. 6 Very few instances were identified where borrowers paid 7 below the top of the discount points shown on the good-faith 8 estimate. 9 Q Where it exceeded the top on the good-faith estimate, is 10 that a violation of federal law? 11 MR. DUNNE: Objection. It's an incomplete 12 hypothetical and without foundation. 13 A Not necessarily. 14 Q (By Mr. Parlette) What do you mean when you say that? 15 A Well, federal law is not that specific. It doesn't say you 16 can't exceed this top range. It talks more to accurately 17 disclosing what you know to be, you know, the cost based on 18 your experience and knowledge of the industry, you know, 19 your knowledge of your own products along those lines, 20 so . . . 21 Q I guess that's inherent in the word "good faith," is it not? 22 A I believe it is, yeah. 23 Q It gives the lender some wiggle room there but they have to 24 be in good faith when they're representing the costs? 25 A Yes.</p> |

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1 Q And describe for me then your finding or belief. You were
 2 about to go into that.
 3 A Well --
 4 MR. DUNNE: Vague and ambiguous.
 5 A Our finding - my finding was that borrowers consistently
 6 ended up at the top or frequently above the top of the rate
 7 structure. I found only few instances where borrowers ended
 8 up somewhere below the top, yet borrowers were consistently
 9 surprised at how much they were paying in discount points.
 10 You look at a good-faith estimate and it says on there on
 11 line 802, which is the discount point line, let's say zero
 12 to \$8,500, but borrowers are surprised they paid \$8,500 but
 13 somehow believed they were getting a 7 percent loan.
 14 And it's - in addition to them arguing that they were
 15 very confused about the transaction, it's easy to see how
 16 they were confused about the transaction. They were being
 17 delivered a set of information that kind of didn't really
 18 make sense and, our opinion, was not in compliance with the
 19 federal regulation governing the content of the good-faith
 20 estimate. And ended up, the result being borrowers paying
 21 more than they expected to pay.
 22 So in short, my opinion was that this whole good-faith
 23 estimate range coupled with this matrix of buy-down was a
 24 very sophisticated artifice to mislead borrowers about the
 25 transaction they would ultimately receive.

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1 Q (By Mr. Parlette) Did you ever find a common number that
 2 was used for the points for the discount?
 3 MR. DUNNE: Objection: vague and ambiguous
 4 A Yes.
 5 Q (By Mr. Parlette) What was that?
 6 MR. DUNNE: Same objection.
 7 A 7.25 and 7.4 were the two most common discount point
 8 numbers.
 9 Q (By Mr. Parlette) Did you do an analysis of how many of the
 10 transactions you reviewed had 7.25?
 11 A I believe I did do that, but I also believe I did an
 12 analysis based on loans from May of 2001. find that on my
 13 page 54. It's a little table like this.
 14 Q Okay. Yeah.
 15 A There it is. No.
 16 Q Yeah. This is it?
 17 A There's a column that says Discount Charged. Next column
 18 says Number of Loans. Next is Percent of Total Loans.
 19 Q Right.
 20 A You can see out of the loans I reviewed, 259 loans made in
 21 the month of May 2001, that 88 percent of those loans had
 22 discount points above 7 percent and a fairly small
 23 percentage were below 7 percent.
 24 Q For a conventional - from your knowledge of lending,
 25 mortgage lending industry in the state of Washington, what

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1 would be a normal range of points for a conventional lender?
 2 A Discount points?
 3 MR. DUNNE: Objection.
 4 Q (By Mr. Parlette) Um-hmm.
 5 A The normal - the norm, I would have to say, would be
 6 anywhere from an eighth of a point to one point. It is not
 7 uncommon to see two points and on rare occasions maybe
 8 drifting up to three points. But typically the majority of
 9 the loans you're going to find are in the one point or less
 10 discount point range.
 11 Q And for the subprime lenders, what would the norm be in the
 12 state of Washington, from your knowledge of the industry?
 13 A I don't know.
 14 Q Did you find whether in the first mortgage refinances that
 15 most of the loans that you examined came from conventional
 16 lenders to Household as a subprime lender?
 17 MR. DUNNE: Can I have the question read back.
 18 please?
 19 THE COURT REPORTER: Question: "Did you find
 20 whether in the first mortgage refinances that most of the
 21 loans that you examined came from conventional lenders to
 22 Household as a subprime lender?"
 23 MR. DUNNE: Thank you.
 24 A Do you mean did the borrowers first have a conventional loan
 25 and then refinanced with Household?

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1 Q (By Mr. Parlette) Right.
 2 A Again, that word "most" bothers me, but there were a number
 3 that I saw that were like that
 4 Q Can you give a reason why a borrower moved from a
 5 conventional lender to a subprime lender?
 6 MR. DUNNE: Calls for speculation, incomplete
 7 hypothetical.
 8 A There could be a myriad of reasons why somebody would go
 9 from a conventional lender to a subprime lender. Might have
 10 lost a job, changed jobs, had deteriorating credit during
 11 the period of time they were with the conventional lender.
 12 Their property didn't meet - no longer met conventional
 13 lending standards. There could be quite a variety of
 14 reasons why somebody might go from a conventional to a
 15 subprime lender.
 16 Q (By Mr. Parlette) Those would be justifiable reasons for
 17 going to a subprime lender?
 18 A It would be up to each borrower to make that determination.
 19 Q Yeah.
 20 A You know ...
 21 Q Now --
 22 A Depends on the specific situation.
 23 Q -- when I took the deposition of Melissa Rutland-Drury, I
 24 showed her a videotape that was purported to be a training
 25 tape of Household Finance where they said that they were

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1 going to start to target people who were good credit risks
 2 who might have two jobs, but just couldn't get ahead but
 3 they had good payment records. Were you aware of any such
 4 targeting by Household in 1998, 1999?
 5 MR. DUNNE: Objection; mischaracterizes the
 6 evidence and assumes facts not in evidence and lack of
 7 foundation.
 8 A I never saw anything like that.
 9 Q (By Mr. Parlette) Were you aware of retargeting by
 10 Household in 1998 through 1999 of trying to specifically
 11 target, as a group of borrowers, people who were not
 12 subprime but rather were - had good credit ratings?
 13 MR. DUNNE: Objection; mischaracterizes the
 14 evidence, assumes facts not in evidence, leading.
 15 A I can sort of shortcut you by saying I'm - I was - I don't
 16 think I was, at any point in time, aware of what their
 17 targeting practices were for any of the variety of things
 18 that you might be able to ask me. I don't know what they
 19 targeted.
 20 Q (By Mr. Parlette) Okay. On page - my page 49, so it must
 21 be your page 54, you're talking, I think, about the three
 22 tests that you and your colleagues made of the Household
 23 system. No, I take it back. These are specific complaints
 24 that were filed. In that paragraph that starts "The second
 25 half of Mr. Schneider's statements." do you see that one?

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1 A Is there a number or anything?
 2 Q Well, let's see. It's my page 49. I'm just adding five to
 3 it.
 4 A How does the sentence begin?
 5 MR. BUDISH: 55, I think.
 6 Q (By Mr. Parlette) It's under a bold heading, Department's
 7 Understanding.
 8 A Found it.
 9 Q Second half of Mr. Schneider's statement. Take a minute to
 10 read that paragraph.
 11 A Okay. I've read it.
 12 Q Okay. Tell me what you meant when you were talking about
 13 the phrase, "Increased loan amounts appear more a function
 14 of Household Finance financing the upper end of discount
 15 points."
 16 A This is somewhat of what I was talking about before where
 17 you found the increased loan amount due to the fact that
 18 there was this large amount of points on the loan. And
 19 Mr. Schneider argued in several situations that the reason
 20 the loan amounts were so large was because the borrowers
 21 asked for them to be large. But I give three examples here
 22 of complaints I went through where the only reason they were
 23 larger is because points were added on. I run this analysis
 24 showing that.
 25 Q Do these - on those three cases, was it just points or was

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1 it points and credit life insurance?
 2 A I don't remember.
 3 Q Credit life insurance packed into a loan that a customer
 4 didn't want would have the same effect as increased points,
 5 would it not?
 6 MR. DUNNE: Objection; leading.
 7 A It would have the same effect.
 8 Q (By Mr. Parlette) And the net effect of that, would it not,
 9 sir, be that it would eat into the borrower's equity in his
 10 home?
 11 MR. DUNNE: Objection; leading.
 12 A Correct.
 13 Q (By Mr. Parlette) At the bottom of that page there's a
 14 colloquy - or not colloquy, but there's discussion about a
 15 safe harbor exemption. What was that all about?
 16 A Household maintained for, I don't know, two, two and a half
 17 years, that they had a safe harbor under RESPA that allowed
 18 them to disclose the range of discount points in the good-
 19 faith estimate in the fashion in which they disclosed those
 20 points. The Department had maintained since late 1999 that
 21 they did not enjoy such a safe harbor under RESPA for that.
 22 We challenged them over and over on that. That remained a
 23 point of contention between us and the company, possibly
 24 even to this day.
 25 HUD had - I asked HUD for an opinion on this in July of

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1 2000. Being a federal agency, they were very slow in
 2 responding, but finally responded to me on July 5th, 2002,
 3 completely agreeing with my analysis that the discount
 4 points were handled incorrectly under RESPA.
 5 Q On page 50 of my report, it must be page 55 of yours, you
 6 start explaining your experiences at the various branches
 7 when you went out to test and the other two individuals went
 8 out to test the system.
 9 A Yes.
 10 Q You make the statement that in all three tests you found
 11 that Household representatives had misrepresented or
 12 withheld information or failed to comply with state and
 13 federal law and regulations. Can you expand on that? What
 14 do you mean when they misrepresented or withheld
 15 information?
 16 MR. DUNNE: Object to the extent it lacks
 17 foundation with what happened with the other two. That's
 18 information that's conveyed by hearsay.
 19 Go ahead, please.
 20 A I think what you're just asking me is, what did I mean by
 21 the statement I made in the report?
 22 Q (By Mr. Parlette) Right.
 23 A Which was the purpose of sending myself and my examiners
 24 out. I don't think you were specifically asking about my
 25 findings of misrepresentation.

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1 Q That's right.
 2 A You're asking what did I mean here. The purpose of the
 3 three of us going out was to find out who was - try to find
 4 out who was telling the truth because Household was telling
 5 us all these borrowers are mistaken. This isn't how we do
 6 business. But we had borrowers telling us this is my
 7 experience. The borrowers weren't getting together. It
 8 wasn't until, I don't know, like the summer of this year
 9 where I think you started rounding borrowers up into one
 10 group. I never had got - no borrower I talked to ever knew
 11 I was talking to any other borrowers. so - but I was hearing
 12 this consistent story from all of them. The company
 13 responded consistently that this person is mistaken, this
 14 person is mistaken, and so forth. It seemed a prudent thing
 15 to do to go out to some branches and just see what was up,
 16 see what we were told.
 17 Q I see. And in a nutshell, what did you either confirm or
 18 not confirm in your investigations?
 19 MR. DUNNE: Again, lack of foundation as to the
 20 other testers' experiences.
 21 A I found that some of what the borrowers were telling me also
 22 happened with me, and my two examiners reported similar
 23 things. Patrick Hardman had the most in-depth experience
 24 because he spent much more time with the loan officer. He
 25 had at least two meetings face-to-face that lasted for a

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1 period of time, and he asked a lot of questions and dug
 2 really deeply.
 3 I will - you earlier asked me a question about taxes,
 4 but you asked about it in connection with effective interest
 5 rate. I just want to clarify that Patrick Hardman did
 6 report that he spent a period of time talking about tax
 7 consequences with his loan officer. Patrick has a finance
 8 background, is almost finished with his MBA, has been an
 9 examiner for a period of time. He understand taxes. And he
 10 said this loan officer was way off on some other planet
 11 describing the tax effect and so forth to him, which he
 12 allowed him to do just to see what he would say. But
 13 that - I'm not sure that was ever connected with any
 14 effective interest rate connection.
 15 Q (By Mr. Parlette) I see.
 16 A But I just want to make sure I didn't misanswer your earlier
 17 question.
 18 But Patrick spent enough time with the loan officer to
 19 come back and report that, you know, this whole thing is
 20 just - it's a moving - sort of reported it was a moving
 21 sales scenario. Every time he felt he had it nailed down,
 22 it would move on him. He tried to take documentation from
 23 the loan officer to take back and show his wife was the
 24 story he wanted to tell. He said the loan officer wouldn't
 25 let him leave with any documentation from the branch, so he

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1 called the manager in, and the manager would not allow him
 2 to leave with any documentation. He said he would have to
 3 bring his wife back in to sit through a sales presentation.
 4 He would not be allowed to take documentation to show to
 5 her.
 6 That sort of treatment of him seemed to support what
 7 many consumers had told us, that they were controlled
 8 through the process. They were misled, confused.
 9 Q He just confirmed what had been complained of by others?
 10 A Yes.
 11 Q Now, at the time you went up to the Bellingham branch, that
 12 was August of 2001. Do you know whether Household had done
 13 an internal audit prior to that of the Household branch?
 14 A I don't know.
 15 Q I notice that this letter to Craig Castalin written by Lori
 16 Gale is dated May 14, 2001, and in that letter she states
 17 that they're going to discontinue or have discontinued the
 18 effective interest rate pitch.
 19 MR. DUNNE: Objection: completely mischaracterizes
 20 the letter. You won't find those words in the letter.
 21 Q (By Mr. Parlette) When you went to the Household office in
 22 August of 2001, was effective interest rate used in your
 23 application process or subsequent telephone calls?
 24 A I never heard those words.
 25 Q Did you hear anything that was similar to it?

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1 A The way the loan process was presented to me helped me
 2 confirm in my mind that borrowers were led to be confused
 3 about their transaction on the rates and fees. What led me
 4 to believe this is, I was never once told what a rate would
 5 be. I was shown a large range of discount points. That was
 6 actually mailed to me. But I was never told there would be
 7 a large range of discount points. When I asked what the
 8 range of discount points were, they gave a very strange
 9 answer to me. I think I wrote it in my report. She said
 10 the amount is determined by loan amount and value, so we
 11 have to quote a range, which gives me no information as a
 12 regulator or a borrower. To this day I'm not really sure
 13 what to make of that statement.
 14 Q I'm going to show you what was marked in Melissa Rutland-
 15 Drury's deposition as Exhibit A, which I won't bother to
 16 make an exhibit here. Just have you look at just three
 17 documents on the top here. The first one purports to be
 18 either an e-mail or a memo sent out by a Rob O'Han. Have
 19 you - do you recognize that name Rob O'Han, who he is?
 20 A No.
 21 Q Would you take a moment and read that memo.
 22 A Okay.
 23 Q In the materials produced to the Department of Financial
 24 Institutions at your request by Household, have you ever
 25 seen that document there?

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1 A I don't recall seeing it. I do know what he's referring to.
 2 Q And what is it he's referring to in that?
 3 A Customer satisfaction survey which the company came and
 4 showed us on a couple different occasions, a form they
 5 intended to begin using to verify that borrowers did
 6 understand the transaction.
 7 Q Okay. Similarly on a memo dated 7/6/01 from Mr. O'Han, take
 8 a moment and read that, if you would, please.
 9 A I've read it.
 10 Q In the documents produced for you at the Department of
 11 Financial Institutions, have you ever seen that document or
 12 anything similar?
 13 A I don't believe so.
 14 Q How do you read that document from Mr. O'Han to all the
 15 apparently branch offices?
 16 MR. DUNNE: Objection: lack of foundation, calls
 17 for speculation, vague and ambiguous.
 18 A It appears to be an instruction to staff people that are
 19 apparently located at HFC sales offices and to certain
 20 management to educate them on how the payment and program
 21 would actually work under the Pay Right Rewards Program, the
 22 E-Z Pay Plus, and to tell them not to do certain things.
 23 Q (By Mr. Parlette) And what did he tell them not to do?
 24 MR. DUNNE: Same objections.
 25 A Sales offices must never quote any interest rates other than

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1 the contract rate or APR that appears on the HOLP. Under no
 2 circumstances should you discuss or attempt to factor in the
 3 anticipated interest savings over the original term of the
 4 loan to derive at a reduced or, in quotes, effective
 5 interest rate.
 6 Q (By Mr. Parlette) Now, in your review of the complaints
 7 that were filed here with the Department that continued
 8 through year 2001 and up to when you wrote your report in
 9 early 2002, did you find people complaining that the
 10 effective interest rate or equivalent interest rate was
 11 continued to be used by Household representatives?
 12 MR. DUNNE: Can I have the question read back,
 13 please?
 14 THE COURT REPORTER: Question: "Now, in your
 15 review of the complaints that were filed here with the
 16 Department that continued through year 2001 and up to when
 17 you wrote your report in early 2002, did you find people
 18 complaining that the effective interest rate or equivalent
 19 interest rate was continued to be used by Household
 20 representatives?"
 21 Q (By Mr. Parlette) Do you understand the question,
 22 Mr. Cross?
 23 A I do.
 24 MR. DUNNE: I going to object for lack of
 25 foundation, vague and ambiguous

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1 MR. PARLETTE: Do you want to make a standing
 2 objection?
 3 MR. DUNNE: No. I should do it in response to
 4 each question. You ignore me, and you do so because you
 5 feel like it. On that question we have a different view
 6 about what effective interest rates means, so I understand
 7 why you don't change your question.
 8 A Okay. Now, I'll make you ask me the question again or have
 9 her read it to me again.
 10 MR. PARLETTE: Yes. Read that question back.
 11 THE COURT REPORTER: Question: "Now, in your
 12 review of the complaints that were filed here with the
 13 Department that continued through year 2001 and up to when
 14 you wrote your report in early 2002, did you find people
 15 complaining that the effective interest rate or equivalent
 16 interest rate was continued to be used by Household
 17 representatives?"
 18 A Yes.
 19 Q (By Mr. Parlette) And while you answered that question, you
 20 were reviewing your own report. Did you count up the number
 21 of people in that time period? Were you counting?
 22 A Well, what I was doing was trying to determine what I
 23 thought your question was that you didn't really ask, which
 24 was subsequent to this date did - was there any of that
 25 being identified. And I identified two subsequent to this

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1 date, but your question really was just during 2000, 2001
 2 period of time did I see it continuing to occur. That's why
 3 I gave you the answer of yes.
 4 MR. DUNNE: I'm going to move to strike because
 5 his testimony, the previous answer, was nonresponsive to the
 6 question.
 7 Q (By Mr. Parlette) What you did do while you were - before
 8 you answered that question, you reviewed it and what you
 9 just said is that you discovered two instances where the
 10 equivalent interest rate presentation or effective rate was
 11 used after the date of Mr. O'Han's memo of 7/6/01. Is that
 12 true?
 13 MR. DUNNE: Objection: vague and ambiguous.
 14 A You're using the term effective and equivalent interest
 15 rate. What I did is identify situations in which the
 16 borrower's story of what happened was consistent with what I
 17 have called the effective or equivalent interest rate.
 18 Q (By Mr. Parlette) Okay. Now, you had purposely gone to the
 19 Bellingham office. Can you tell me why you picked that
 20 office?
 21 A We had more complaints from the Bellingham office and not -
 22 not - gave me an opportunity to go home for the weekend. So
 23 we had complaints against Bellingham. I could have sent an
 24 examiner up there, but I went up on a - took a Friday to go
 25 up and stayed over the weekend, so it was convenient for me

| | |
|--|--|
| <p style="text-align: right;">Page 142</p> <p>1 to do so.</p> <p>2 Q Are you familiar with the complaint or generally familiar</p> <p>3 with the complaint of Corey and Jennifer Dodge, I believe it</p> <p>4 is?</p> <p>5 A Dodge, yes.</p> <p>6 Q And they're in the Bellingham area, are they not?</p> <p>7 A I believe so, yes.</p> <p>8 Q And do you know the attorney by the name of David Lean?</p> <p>9 A I know David.</p> <p>10 Q Was there not a complaint that he filed in superior court in</p> <p>11 the early 2001 time frame that emanated out of the practices</p> <p>12 of Bellingham office?</p> <p>13 A I believe so. I couldn't tell you which transaction it was.</p> <p>14 but I do have documentation from David in one of the</p> <p>15 complaint files.</p> <p>16 Q I see. And are you personally aware that Household ever</p> <p>17 audited that Bellingham office in the summer of 2001 or</p> <p>18 before?</p> <p>19 A No. I have no knowledge of that. I was told about an audit</p> <p>20 in June of 2002 by Household.</p> <p>21 Q Of the Bellingham office?</p> <p>22 A Yes.</p> <p>23 Q Do you believe that Household would have known in the summer</p> <p>24 of 2001, let me say by the date of Mr. O'Han's memo here, of</p> <p>25 the practices that had gone on in the Bellingham office?</p> | <p style="text-align: right;">Page 144</p> <p>1 don't - we never accept an excuse of I didn't know that was</p> <p>2 going on in my offices. It's unacceptable to regulators.</p> <p>3 Q (By Mr. Parlette) Were you ever told by Household</p> <p>4 representatives that any loan officers, account executives,</p> <p>5 sales managers, office managers at the Bellingham office</p> <p>6 were ever sanctioned or disciplined?</p> <p>7 A Yes. I was told that.</p> <p>8 Q What were you told?</p> <p>9 A I was told that Melissa Rutland-Drury was let go. That was</p> <p>10 in the summer of this year. I want to say in June or July.</p> <p>11 We had a fairly large contingent from Household come here</p> <p>12 and tell us they had removed her from that office.</p> <p>13 Q They had taken the action and fired her?</p> <p>14 A They didn't use - I don't know if they said "fired."</p> <p>15 They indicated that they had acted upon their findings in</p> <p>16 that office and that she no longer was working in that</p> <p>17 office.</p> <p>18 Q To your knowledge, was she the only employee in the state of</p> <p>19 Washington who was dismissed, terminated, let go out,</p> <p>20 however you want to phrase it?</p> <p>21 MR. DUNNE: Objection: lack of foundation.</p> <p>22 A To my knowledge, she's the only one I ever heard of.</p> <p>23 Q (By Mr. Parlette) And in that conversation where they used</p> <p>24 her name, they didn't identify any others?</p> <p>25 A No.</p> |
| <p style="text-align: right;">Page 143</p> <p>1 MR. DUNNE: Objection. The practices are aren't</p> <p>2 specified, so that question is vague and ambiguous.</p> <p>3 MR. PARLETTE: Let me make that one more specific.</p> <p>4 MR. DUNNE: Let me just help you out. I'm going</p> <p>5 to object to speculation about what Household would have</p> <p>6 known</p> <p>7 Q (By Mr. Parlette) Do you believe that Household would have</p> <p>8 reason to know, based upon what you did here in the</p> <p>9 Department responding to customers' complaints and</p> <p>10 contacting them and requesting documents and so forth, that</p> <p>11 Household would have known about the effective interest rate</p> <p>12 or equivalent interest rate sales pitch that had been used</p> <p>13 in the Bellingham office by the summer of 2001?</p> <p>14 MR. DUNNE: Same objections.</p> <p>15 A Two answers to that. All of the complaints that we receive,</p> <p>16 that we receive against any licensee, we forward a copy of</p> <p>17 the complaint along with our instructions of what we need</p> <p>18 from the licensee to them. So when we have a complaint</p> <p>19 filed against any branch, we send it to the company and say,</p> <p>20 look into this and get back to us. We had some filed</p> <p>21 against the Bellingham office prior to the date of this</p> <p>22 memo.</p> <p>23 The second part of my answer is my regulatory response,</p> <p>24 which is it's our regulatory expectation that our licensees</p> <p>25 will know what goes on in their branches and we do not - we</p> | <p style="text-align: right;">Page 145</p> <p>1 Q Are you aware through other sources that Household</p> <p>2 disciplined, terminated, let go sales officers in any other</p> <p>3 offices?</p> <p>4 A I haven't heard, no. I haven't heard that from anywhere.</p> <p>5 Q You just said something that was interesting. All</p> <p>6 complaints that have been filed here at DFI automatically</p> <p>7 get sent to Household?</p> <p>8 A Yes</p> <p>9 Q How quickly are they sent?</p> <p>10 A Well, we've had a little problem with our systems lately. I</p> <p>11 want to say until approximately the summer, start of the</p> <p>12 summer of this year, within five days of receipt by us, but</p> <p>13 we got backlogged. Our systems have been in this gigantic</p> <p>14 database conversion project, so things have slowed down. We</p> <p>15 found ourselves weeks behind here in recent months getting</p> <p>16 information out.</p> <p>17 However, I know that the staff, and I'm just talking my</p> <p>18 processing staff in complaints which aren't involved in any</p> <p>19 investigative or examination matters, had developed a</p> <p>20 relationship with whoever was processing complaints at</p> <p>21 Household. Household indicated they really wanted to get a</p> <p>22 handle on the complaints and get on top of them, so they</p> <p>23 connected with Wilma, who is on my staff who processes this</p> <p>24 stuff. And I think - I have to let Wilma answer this for</p> <p>25 sure, but I'm pretty sure that Wilma was trying to get stuff</p> |

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1 to them faster so they could get a better handle on it and
 2 get the stuff. I'm just talking this summer, this last
 3 summer.
 4 Prior to that, our system was pretty much up and
 5 working, and within about five days after receiving a
 6 complaint, we launched off to any company.
 7 Q Okay. On my page 52, which must be your page 57, you have a
 8 section entitled Clear, Conspicuous, and Segregated
 9 Disclosures.
 10 A 58 for me.
 11 Q And you can take a minute to review after I ask the
 12 question. What was your issue in this section?
 13 MR. DUNNE: Objection to form.
 14 A Regulation Z is specific about the issue of clear,
 15 conspicuous, and segregated disclosures. That's what I'm
 16 discussing here. There were documents I found in loan files
 17 in one of the identifiers, the Luna file, where information
 18 that should be segregated to the Truth in Lending disclosure
 19 statement found its way on to other documents. And my
 20 finding was that's a violation of Regulation Z under the
 21 Truth in Lending Act.
 22 Q (By Mr. Parlette) Specifically what found its way on to
 23 other documents?
 24 A The amount financed. Let's see. Let me read this. Yeah.
 25 I believe the amount financed was shown on the E-Z Pay

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1 document.
 2 Q And it should not have been?
 3 A No. There's specific items in the Truth in Lending
 4 disclosure statement that are to be segregated and kept
 5 apart from any other information not at issue in the Truth
 6 in Lending disclosure statement. These are even bounded by
 7 boxes in the Truth in Lending disclosure. You're not
 8 supposed to pull these things off and use them in other
 9 representative ways.
 10 Q And they had done that with the Lunas?
 11 A Yes.
 12 Q Do you recall what forms they used the Truth in Lending --
 13 A It was an amortization form that I found off and on
 14 connected with this E-Z Pay Plus. Looked like it had been
 15 run out of somebody's dot matrix printer, but it would
 16 capture specific information that would maybe or maybe not
 17 be relevant to the loan that the person ended up with, but
 18 it would be included in there and then these amortization
 19 tables run. Let's see.
 20 And looks like there was rates and APR's on that form
 21 that were not - didn't appear to be relevant to the
 22 borrower's situation. But the borrower is telling us those
 23 very documents were used to convince them that they were
 24 getting a 6.99 percent loan.
 25 The company responded to me, and there's a quote in

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1 here where they state. "In explaining the potential saving.
 2 amortization schedules were employed to show the comparison
 3 by illustrating the difference in a potential savings of an
 4 18-year loan at 12.69 percent over a 30-year loan at 6.99
 5 percent. This was done for demonstration purposes only and
 6 was not intended to apply or establish that the interest
 7 rate on the loan Mr. and Mrs. Luna were considering
 8 purchasing was 6.99 percent." My point in this section is,
 9 regardless of that. Truth in Lending says you can't do that
 10 kind of thing for the very reason that it could mislead
 11 somebody into thinking something is different than what the
 12 transaction really is.
 13 Q Okay. On the next page you make the statement that
 14 House - quote, Household has provided various responses to
 15 the Department ranging from statements that the borrowers
 16 were mistaken to claims that the practice is isolated to a
 17 branch in Washington. The Department believes these
 18 responses to be disingenuous, however. What do you mean
 19 by - why did you make that statement, that you believed them
 20 to be disingenuous?
 21 A You said it was on the next page?
 22 MR. DUNNE: I don't see it either.
 23 MS. RATH: On mine it's on the top of the page
 24 after the next page.
 25 MR. DUNNE: I think every one of us has it on a

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1 different page.
 2 Q (By Mr. Parlette) It's about - what you were reading from
 3 earlier, Mr. Cross, it's about five paragraphs down. Starts
 4 with - the paragraph starts, "In the documents reviewed by
 5 the Department."
 6 A Okay. I looked at that paragraph, didn't see what you just
 7 read.
 8 Q It's at the bottom of that paragraph, the last two
 9 sentences.
 10 A I see. Okay. Let me read this paragraph. And your
 11 question was, why did I state that we believed it to be
 12 disingenuous --
 13 Q Yes.
 14 A -- the statement to be disingenuous? Because too many
 15 borrowers - so many borrowers - in our belief, so many
 16 borrowers can't be mistaken. We do give companies the
 17 benefit of the doubt. You know, an occasional borrower
 18 tells us they believe something doesn't sound quite right.
 19 The company responds with no, that's not really how it was.
 20 You know, they must have misheard or they're mistaken or
 21 whatever. We'll oftentimes give companies the benefit of
 22 the doubt. We did that very thing with Household for a
 23 significant period of time. We trusted this company for a
 24 long time. We used to have a very good relationship with
 25 this company.

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1 So I have to say that as of today, with hindsight over
 2 the last couple of years, there were borrowers put through
 3 more because the Department believed Household first and the
 4 borrower second until finally the weight of the complaints
 5 and our investigative work just sort of finally pushed us
 6 over and made us wake up, if you will, and that's - that's
 7 what we're arriving at here. We're saying, look, the
 8 company has been telling us over and over borrowers are
 9 mistaken or we have rogue loan officers, but just the weight
 10 of - the sheer weight, volume coming from not only this
 11 state but other states telling the same story over and over
 12 caused us to finally say we don't believe that argument
 13 anymore. That's a disingenuous argument.
 14 Q Okay. You make - in the next paragraph you refer to the
 15 Bley complaint.
 16 A Yes.
 17 Q Apparently that must have come out of the Bellingham office.
 18 Is that true?
 19 A I could tell you.
 20 Q Excuse me. I said Bellingham. I meant Spokane.
 21 A Yes. Spokane. There was a moment in time when I had all
 22 this memorized, but it's long since passed.
 23 Q You say that in this report that the 7 percent equivalent
 24 interest rate scenario had occurred in several branches in
 25 Washington and in multiple locations in the country. Was

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1 the Spokane branch one of the places where this was showing
 2 up?
 3 MR. DUNNE: Objection: overbroad, vague and
 4 ambiguous, and leading, lack of foundation.
 5 A I led you to believe that here. Let's see if that's really
 6 the truth. Yes. Borrowers claimed - the Bleys complained
 7 of confusion about their interest rate.
 8 Q (By Mr. Parlette) At the bottom of that paragraph you
 9 state, quote, the Department believes that the equivalent
 10 interest rate sham proffered by HFC representatives is known
 11 and likely fostered by the corporation itself or, at the
 12 least, by corporate officers overseeing large segments of
 13 the country. This belief appears to be supported by HFC
 14 headquarter's knowledge of the disclosures and sales
 15 practices when responding to complaints, end quote. Who do
 16 you believe at Household knew about this equivalent interest
 17 rate you call sham?
 18 MR. DUNNE: Objection: calls for speculation and
 19 lack of foundation.
 20 A At a minimum, Tom Schneider, who at least, at one point in
 21 time, was director of compliance. He used the term
 22 effective and/or equivalent interest rate in his responses
 23 to us. It could very well be where I first even came across
 24 those terms was from Mr. Schneider in his responses to our
 25 complaints. But he used this terminology on several

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1 occasions with us, so he clearly knew what was going on. He
 2 just argued each time there was nothing wrong with it.
 3 Q (By Mr. Parlette) And his job description again?
 4 A Director of compliance is how his letters were signed during
 5 a period of time.
 6 Q Top of the company?
 7 MR. DUNNE: Objection: lack of foundation.
 8 A I have no idea.
 9 MR. DUNNE: Vague and ambiguous.
 10 Q (By Mr. Parlette) Not director of compliance in the state
 11 of Washington?
 12 A No. He was in Illinois. I don't know what director means
 13 at Household.
 14 Q When do you believe he knew?
 15 MR. DUNNE: Objection: calls for speculation, lack
 16 of foundation.
 17 A I recall he was putting us in his letters back in 2000.
 18 Q (By Mr. Parlette) And your earlier testimony, and I don't
 19 want to be mischaracterizing it in any way, but I asked you
 20 a question about what happened after this July 6th, '01,
 21 memo from Mr. O'Han, and you indicated you found two
 22 instances where similar interest rate confusion had occurred
 23 in - by reviewing the complaint forms filed here subsequent
 24 to this date.
 25 MR. DUNNE: Objection: mischaracterizes the

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1 testimony. The summary is vague and ambiguous.
 2 A I want to clarify that I said I believe that's what you were
 3 getting at, but you never really asked me that. If you're
 4 asking me that now --
 5 Q (By Mr. Parlette) I'm asking you that now.
 6 A Yes. I found two in here that were subsequent to that date.
 7 Q Which two did you find, if you can recall?
 8 A Luna was one. And you should have asked me this when we
 9 were on it.
 10 Q That's all right. I don't want to take your time now and
 11 have you go through.
 12 MR. DUNNE: I would like him to answer the
 13 question, please.
 14 A Start over.
 15 Q (By Mr. Parlette) You found it?
 16 A No. I only see Luna now.
 17 Q Okay.
 18 A I don't know if I either saw a date prior to July of '01
 19 before or if my eyes are just getting - probably find it
 20 30 minutes after you walk out of here.
 21 Q What was the date of the Luna complaint?
 22 A November 2001.
 23 Q Okay.
 24 A Actually that was the complaint date anyway.
 25 MR. DUNNE: What page are you looking at, please?

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1 THE WITNESS: 36 of 73 for me.
 2 A You know what? I've been looking at the wrong date on
 3 these. Let me just get this right. I have to apologize to
 4 Bob. I was looking at the complaint date, not the
 5 transaction date, and this would key off the transaction
 6 date. I don't even have any transaction dates in here
 7 subsequent to that date.
 8 Q (By Mr. Parlette) So you wouldn't know?
 9 A I wouldn't know. I wasted a bunch of time.
 10 MR. DUNNE: That mischaracterizes his testimony.
 11 He said he has no transaction after that date. That's what
 12 he just said. That's different from he doesn't know.
 13 MR. PARLETTE: He would have no way of knowing.
 14 MR. DUNNE: Mischaracterizes his testimony.
 15 Q (By Mr. Parlette) Okay. Mr. Cross, getting down to the
 16 next section, after you discussed Schneider's response, you
 17 make the statement, "Yet this complaint filed in December of
 18 2000," referring to the Johnson complaint, No. 2382, "was
 19 neither the first nor the last complaint concerning the
 20 7 percent rate scenario that HFC responded to."
 21 A Okay.
 22 Q Do you know how many? Would you have any way of knowing,
 23 without going back through all these complaints, how many
 24 more came in after the Johnson complaint, Johnson complaint?
 25 A I don't know how many more would have come in because I

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1 stopped at a certain point in time. But within this report,
 2 I would have to flip through here. I'm at Johnson right
 3 now. I would have to go beyond here. I remember the Lunas
 4 came after the Johnson one. That would have been subsequent
 5 to the Johnsons, Fenton. What did I say in my statement
 6 there?
 7 Q "This was neither the first nor the last complaint
 8 concerning the 7 percent rate scenario."
 9 A I've got Smart in here. There's three others.
 10 Q The point is, Mr. Cross, you notified Household and
 11 Mr. Schneider specifically in December of 2000 about this
 12 equivalent interest rate scenario because you sent him the
 13 Johnson complaint, so they had an opportunity after that
 14 date to correct their actions?
 15 MR. DUNNE: Objection to form.
 16 Q (By Mr. Parlette) Is that a true statement?
 17 MR. DUNNE: Objection to form.
 18 A I informed them of that complaint on that date, sure. I
 19 guess they would have an opportunity from that point forward
 20 to do something about it.
 21 Q (By Mr. Parlette) Do you know when they finally did do
 22 something about that, the equivalent interest rate sham?
 23 MR. DUNNE: Objection to form, lack of foundation.
 24 A No. Because the company never admitted to me it was a sham,
 25 so the company never told me that - you showed me this

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1 document. The company never came to me and said, you know,
 2 that's a practice we were doing that we were going to quit
 3 doing. They did say that they had, you know, checked the
 4 company over, made sure that people weren't doing it. I
 5 mean, things along those lines. You're asking me do I know
 6 specifically when the company stopped --
 7 Q (By Mr. Parlette) Right.
 8 A -- doing it. No, I don't.
 9 Q So the effect of what you just said to me is that the first
 10 time that you were aware that the company put a notice out,
 11 said stop doing this, internally to the branch offices was
 12 Mr. O'Han's memo of July 2001?
 13 MR. DUNNE: Mischaracterizes the testimony.
 14 leading, and lack of foundation.
 15 A I may have seen a letter from Detelich that makes reference
 16 to this. In the materials that Household provided to us, I
 17 may have - something strikes me that there was a letter in
 18 there, something along the lines of saying, you know, we
 19 don't do this. This isn't what - you know, this isn't our
 20 practice or something like that. Not to me, but to some
 21 staff, but ...
 22 Q (By Mr. Parlette) To the best of your knowledge, this
 23 memorandum from Mr. O'Han was never produced to you at DFI?
 24 A I don't remember seeing this memo.
 25 Q And looking on the next page there's a memo from a Craig

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1 Castalin dated July 10th, 2001. Have you ever seen that
 2 memo?
 3 A Not to my knowledge.
 4 Q Okay. Do you want to take a moment and read that?
 5 A Do you want me to read it or do you want me to read it to
 6 refresh myself?
 7 Q Refresh your memory to make sure you hadn't seen it before.
 8 A Okay. I'm pretty sure I've never seen this.
 9 Q Okay. Moving on to the next subject, you, in my page 54,
 10 which must be probably your page 60, you have a caption
 11 called Spurious Home Equity Lines of Credit.
 12 A Yes.
 13 Q What was your issue with the Spurious Home Equity Lines of
 14 Credit?
 15 A In a nutshell, I felt that Household had designed its open-
 16 end home equity lines - let me rephrase that. Household had
 17 taken what was really a closed-end second mortgage and made
 18 it appear to be a home equity line of credit or an open-end
 19 line of credit, which is referred to as spurious home equity
 20 lines of credit in case law under the Truth in Lending Act.
 21 Q And why did you feel these lines of credit were spurious or
 22 false?
 23 A Because they --
 24 MR. DUNNE: Objection. It's not the word he used
 25 and misstates his testimony.

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1 Q (By Mr. Parlette) You used the word "spurious." Why did
 2 you consider them spurious?
 3 A There are specific tests that had been used to identify when
 4 a loan holds more of the characteristics of a closed-end
 5 loan versus an open-end loan. These loans I looked at seem
 6 to meet enough of those tests, in my opinion, to really be a
 7 closed-end loan disguised as an open-end loan.
 8 Q What's the significance of that?
 9 A Well, you avoid giving a good-faith estimate and a
 10 Section 32 disclosure on those types of loans.
 11 Q What's a Section 32 disclosure?
 12 A It's the HOEPA disclosure, Home Ownership and Equity
 13 Protection Act disclosure. It informs borrowers they're
 14 entering into a higher rate, higher risk transaction in
 15 which they're putting their property at risk.
 16 Q And so whenever Household would call it a line of credit,
 17 they wouldn't have to give that type of HOEPA disclosure?
 18 A They believed they wouldn't have to. The reality of it is,
 19 regardless of what you call it, it's what it is, and you're
 20 supposed to give your disclosures.
 21 Q Did you find that they ever did give the disclosures in --
 22 A No.
 23 Q What is the penalty under HOEPA for not giving these
 24 disclosures?
 25 MR. DUNNE: Objection; calls for a legal

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1 conclusion, lack of foundation, also calls for expert
 2 opinion.
 3 A You could - you, as an attorney, could bring an action in
 4 civil court and sue for that. Regulatorily speaking,
 5 there's nothing - there's no penalty we would find for a
 6 failure to comply with the Truth in Lending Act. Where the
 7 penalty comes in is under the Consumer Loan Act we can
 8 assess penalties for not - for our licensees who do not
 9 complying with Reg Z and the Truth in Lending Act. The
 10 penalties to us would be under our statute. We don't have
 11 the ability to impose any penalties under the Truth in
 12 Lending Act.
 13 Q (By Mr. Parlette) Can a consumer who doesn't get these
 14 disclosures rescind the transaction?
 15 MR. DUNNE: Objection; calls for an expert opinion
 16 and legal conclusion, lack of foundation, and calls for
 17 speculation.
 18 A If material disclosures are not made, then the rescission
 19 rights extend for three years into the future from the date
 20 of consummation.
 21 Q (By Mr. Parlette) From the date of?
 22 A Consummation.
 23 Q I still didn't --
 24 A Consummation.
 25 Q Consummation. Under the section entitled Insurance Packing,

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1 that's on my page 56. It must be your 62.
 2 A 63 for me.
 3 Q 63. We've talked a bit about the insurance. The
 4 penetration rates that you referred to are actually recited
 5 in the report, are they not --
 6 A Yes.
 7 Q -- by the various branches?
 8 And the highest penetration rate was in the Vancouver
 9 office?
 10 MR. DUNNE: You're referring to the report again
 11 here?
 12 MR. PARLETTE: Yes.
 13 A Yes. For that period of time, July 2001, so it would be for
 14 a six - six-month period of time, the first six months of
 15 2001.
 16 Q (By Mr. Parlette) For the first six months of 2001,
 17 everybody who got a home loan in Vancouver also got credit
 18 life insurance?
 19 MR. DUNNE: Vancouver/McLoughlin or Vancouver/
 20 Parkway?
 21 MR. PARLETTE: I'm looking at Vancouver/
 22 McLoughlin.
 23 MR. DUNNE: You're not referring to the
 24 77 percent --
 25 MR. PARLETTE: No.

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1 MR. DUNNE: -- Vancouver/Parkway. Okay.
 2 A I can't give you, you know, a response as to confirmed fact
 3 on this is the report that Household generated for us and
 4 the penetration rates.
 5 Q (By Mr. Parlette) These numbers came from Household?
 6 A Yes.
 7 Q And their report then showed in Federal Way everybody that
 8 got a real estate loan in Federal Way also got credit life
 9 insurance. Am I reading that correctly?
 10 MR. DUNNE: Objection; mischaracterizes the
 11 document.
 12 A Well, you can't say that from this form because it could be
 13 that - I'm sorry. Ask the question again.
 14 Q (By Mr. Parlette) Does this document say that everyone who
 15 took out a real estate loan in Federal Way in that time
 16 period also got credit life insurance?
 17 A No. It says that 94 percent of the people got credit life
 18 insurance.
 19 Q Up at the top it says All Loans/All Real Estate loans/Credit
 20 life.
 21 A It says All loans/All insurance. Next column, Real Estate
 22 loans/Credit life only.
 23 Q Right.
 24 A Okay.
 25 Q How do I read this thing? I mean, it looks like it was

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1 intended that of all the loans it gives then a percent that
 2 were real estate loans and then a percent that had credit
 3 life insurance.
 4 A How I would read this, I would have to direct Household to
 5 probably help you with this, but I think that only
 6 94 percent of the loans were real estate loans. It just so
 7 happens that all 94 percent of those real estate loans had
 8 credit life insurance on them.
 9 Q Right. So it's 100 percent penetration of credit life
 10 insurance in the real estate loans?
 11 MR. DUNNE: Objection; leading and
 12 mischaracterizes the testimony.
 13 Q (By Mr. Parlette) Is that the way you read it?
 14 MR. DUNNE: Also lack of foundation.
 15 MS. RATH: Bob, it looks like, for some reason,
 16 our copy has it all bunched together here but their copies
 17 have it in tables and that might clarify some of the
 18 confusion about how to read the table. I don't know why it
 19 looks so different.
 20 A Am I even using the same table you are?
 21 Q (By Mr. Parlette) The numbers are the same. I want to make
 22 sure I'm interpreting it right. You got the same numbers I
 23 do.
 24 MR. DUNNE: You got me stumped.
 25 A I don't know, but I could tell you that our conclusion was

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1 that there was a high level of penetration. Whether that's
 2 100 percent or 94 percent. I don't care. You're right.
 3 You're so close to 100 percent. It doesn't much matter.
 4 But I can't say whether this means - I understand what
 5 you're saying. All I did was take their table, extract the
 6 headings off their table, and create a table here
 7 Q (By Mr. Parlette) So this is all their information?
 8 A It's their information.
 9 Q Okay. And the next to last section of your report, your
 10 expanded report, refers to Steering or Control Borrowers to
 11 Maximize Revenue. What was your issue here or your finding?
 12 A Let me take a look here. I think that if you look at the
 13 second paragraph of that section, last sentence, that's
 14 probably the best summary of all of these several
 15 paragraphs. It was apparent to us that Household was
 16 seeking to put the borrowers into a maximum amount of loan
 17 they possibly could, regardless of whether that was a
 18 beneficial transaction or beneficial lending scenario for
 19 the borrowers. And they would - there was a variety of
 20 techniques that were used to get them there: layering on of
 21 extra points, packing in credit insurance, adding on second
 22 loans, whatever it took to get more and more loan amount for
 23 these people.
 24 Q In other words, doing something that wasn't necessarily in
 25 the borrower's interest, but certainly was in Household's

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1 interest?
 2 MR. DUNNE: Leading.
 3 A The answer to that is yes. And even what - what I think I'm
 4 stressing very strongly in this report is it was in the
 5 borrower's disinterest. In other words, it put the
 6 borrowers in a bad situation at a very great return to
 7 Household.
 8 Q (By Mr. Parlette) The unlicensed activity that you refer to
 9 on the next section, what is the sanction or penalty for
 10 conducting unlicensed business in the state of Washington?
 11 A Well, if we had assessed penalties or brought sanctions,
 12 could have been a loss of Household's main office license,
 13 loss of any or all of its branch licenses, restitution to
 14 consumers from any profits made at those locations where
 15 they didn't hold a license, and penalties of \$100 a day for
 16 every bit of business that was done for every day out of
 17 there. So if you had a branch that did 100 loans for
 18 100 days, it would be 100 times 100 times 100, a significant
 19 amount of fines.
 20 Q Wow. Does it give the consumer a right to rescind
 21 transactions that were unlicensed?
 22 MR. DUNNE: Objection; calls for a legal
 23 conclusion.
 24 A In my opinion, no.
 25 Q (By Mr. Parlette) That's between the two people, the two

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1 parties to the transaction. It doesn't - doesn't enhance
 2 the consumer's right to rescind the transaction?
 3 A The only area - the Truth in Lending is the only thing that
 4 gives them a right to rescind and licensing has nothing to
 5 do with the Truth in Lending Act.
 6 Q And the section on Affiliated Business Arrangements, what's
 7 the issue there?
 8 A My --
 9 MR. DUNNE: Objection to form.
 10 A My opinion is that there were two different entities
 11 operating out of Household's brick and mortar locations:
 12 Household Realty and Household Finance. Household Finance
 13 was the only company that was in evidence as operating from
 14 there. As I learned later, there was a third company
 15 operating out of these locations known as Household Payroll
 16 Services, which is a separate corporation that carried all
 17 the employees for the branches. But at the point in time I
 18 was investigating this, I didn't understand about Household
 19 Payroll Services. That was explained to me later, and I
 20 talk about that, three pages in here.
 21 Borrowers would come to Household Finance. They walked
 22 through the front door of Household Finance, they saw people
 23 wearing these polo shirts that referenced Household Finance.
 24 There were business cards that said Household Finance.
 25 Nowhere was there any identifier of Household Realty

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1 Corporation. I looked around when I went into the Household
 2 office and didn't see anything. Nobody ever represented
 3 themselves that way. In the phone book you don't find
 4 Household Realty. All of the holding out is by Household
 5 Finance.
 6 However, virtually every borrower who ever walked back
 7 out of those offices with a first mortgage had obtained it
 8 from Household Realty Corporation. Household Realty
 9 Corporation, Household Finance Corporation are affiliates of
 10 each other and, to me, there's a very apparent business
 11 arrangement between the two. When you walk in the door of
 12 one company and walk back out with somebody else's loan, my
 13 argument was there was a referral of business from either
 14 Household to Household Realty or from Household Realty back
 15 to Household Finance.
 16 Q (By Mr. Parlette) Did you find a connection between MBNA
 17 and Household?
 18 A Well, I found a connection. I remained somewhat confused
 19 about that connection, but what I was told was that
 20 Household simply processed MBNA loans as sort of a contract
 21 processor for them. It's just interesting to me that all of
 22 the documentation that - where MBNA is identified is exactly
 23 the same documentation that you would find if Household had
 24 done the loan all themselves.
 25 Q Did you find any instances where MBNA credit cardholders

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1 were referred to Household for mortgage financing?
 2 A Well, I believe that they were, but I'm not sure how I would
 3 document that. Borrowers held those credit cards and they
 4 later ended up with a loan that was closed in the name of
 5 MBNA but completely on Household documentation and then
 6 immediately sold to Household.
 7 Q Did you find any business connection between Edgewater
 8 Appraisals in the Bellingham area and the Bellingham
 9 Household office?
 10 A Other than the fact they did appraisals.
 11 Q Did they do them exclusively, do you know?
 12 A I don't believe so.
 13 Q Did you find a business connection between the Fort Knox
 14 Bank and Household, a business affiliation?
 15 A Not under - not as it would be defined under affiliated
 16 business arrangements under RESPA, no.
 17 Q I heard you testify at the Senate subcommittee hearing up in
 18 Mount Vernon about predatory lending in the state of
 19 Washington, and you described practices which you considered
 20 to be fraudulent practices and then went on to make the
 21 statement that you believe it to be criminal fraud. Do you
 22 remember that statement?
 23 A Yeah, I actually - if I said it that way, how I would - I'm
 24 not sure exactly the words I used, but my point was fraud is
 25 criminal. So to the extent that I find fraud anywhere, I

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1 consider it to be a criminal act.
 2 Q I see.
 3 A Whether it's buried in mortgage fraud or some other kind of
 4 fraud, it's criminal.
 5 Q Were the practices you were referring to, were those
 6 Household practices, even though you didn't use their name?
 7 MR. DUNNE: Objection.
 8 A I wasn't focusing my --
 9 MR. DUNNE: Objection to form.
 10 Go ahead.
 11 A I wasn't focusing my comments on Household, but of my
 12 findings within this Household case I think could be
 13 considered to rise to the level of what I was talking about.
 14 MR. DUNNE: I'm going to object: move to strike
 15 the last sentence as unresponsive to the question.
 16 Q (By Mr. Parlette) Does the State have original criminal
 17 jurisdiction?
 18 A Well, it depends on what you mean when you say "the State."
 19 Q Does DFI have original jurisdiction?
 20 A No.
 21 Q Does the State oppose the temporary restraining order where
 22 this report was prohibited from being published last May or
 23 June?
 24 A No.
 25 Q That motion was brought by Household?

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1 A Correct.
 2 Q And is the continued preliminary injunction, we'll call it,
 3 on the documents that they produced, was that similarly -
 4 that motion brought by Household?
 5 A Yes.
 6 Q Has the State opposed that?
 7 A I don't think we have --
 8 MR. DUNNE: Objection; lack of foundation.
 9 Go ahead.
 10 A We don't have a specific position of opposition to it. I
 11 know we would like it to go away. I know that Susan Carlson
 12 has found herself more and more drug into arguments where
 13 she was staying out of it before, but at least DFI doesn't
 14 have a stated opposition to the injunction. It's been a
 15 hassle but we just - whatever the court wants to decide on
 16 that matter.
 17 Q (By Mr. Parlette) The documents that I - let me strike the
 18 question. Did you ask Household to produce all written
 19 memoranda or correspondence from headquarters to branch
 20 offices pertaining to equivalent interest rate practices and
 21 that sort of thing?
 22 A You know, my directives and subpoenas were from January or
 23 February of last year, and I can't remember. I would have
 24 to actually pull those to tell you what I asked for. I
 25 asked for a bunch of stuff.

| | |
|--|--|
| <p style="text-align: right;">Page 170</p> <p>1 Q Now, the things that I presented to you today as Exhibit B 2 to Melissa Rutland-Drury's deposition, would those, you 3 believe, have been covered by your request? 4 MR. DUNNE: Objection; lack of foundation. 5 A Depending on what they are. I don't know what that stuff 6 is. So if that's training materials, then definitely, 7 but... 8 Q (By Mr. Parlette) And in Exhibit A from Melissa Rutland- 9 Drury's deposition where these memorandums or e-mails or 10 whatever they are from Mr. O'Han and Mr. Craig Castalin, 11 would they, do you believe, have been covered by your 12 request? 13 MR. DUNNE: He said he didn't know what the 14 request said, so I think there's a clear lack of foundation. 15 I don't know what the point is of asking this kind of 16 question. 17 A I'm looking for my section of the report to see if I state 18 what I asked for. I apologize. I'm getting a little tired 19 here. Do you have the section memorized? 20 Q (By Mr. Parlette) No, I don't. 21 A I know I covered it somewhere in here. 22 Q What you requested is covered in this written report? 23 A Well, I know I covered the subject in the written report and 24 the lack of response. So what I didn't get -- 25 Q I see.</p> | <p style="text-align: right;">Page 172</p> <p>1 settlement nature, then I think there's some problems with 2 getting into those areas. I think it's appropriate to ask 3 about orders, decrees, judgments, but I think getting into 4 specifics of the negotiations would be highly inappropriate. 5 Q (By Mr. Parlette) Mr. Cross, do you understand my question? 6 A Yes. 7 Q I want to know if there was a moratorium that Household 8 unilaterally put in place in the state of Washington saying 9 that they would not foreclose against any of their borrowers 10 pending the settlement negotiations. Are you aware of such 11 a moratorium? 12 MR. DUNNE: Objection; vague and ambiguous. 13 A I don't know if there was a moratorium. There was an 14 understanding that such would be in place and that, to my 15 knowledge, is not confidential because it's been talked 16 about pretty openly by the Attorney General's Office. 17 There's a letter to the effect of that at some point in 18 time. Whether it was an actual moratorium in place, I don't 19 know. That would be an actual event that would happen. 20 Q (By Mr. Parlette) Okay. Do you know if that understanding 21 was made public to the borrowers? 22 A There was some borrowers, I believe, that were aware of 23 that. There were borrowers calling in with problems and 24 issues, and I believe that the AG's Office was communicating 25 we've got this worked out for you. There should be -</p> |
| <p style="text-align: right;">Page 171</p> <p>1 A I just don't know if I covered it specifically. I thought 2 if I did, then I could answer your question. Another thing 3 that I would do is simply ask Susan Carlson whether those 4 subpoenas are protected or not. 5 Q Is it possible to get a copy of your subpoena? 6 A If it's not protected. 7 Q Did you participate in the negotiations where the Attorney 8 Generals and Household arrived at their civil consent decree 9 settlement? 10 A I'm sorry. Ask me that again. 11 Q Did you participate in the negotiations with the state 12 Attorney Generals and the multistate Attorney Generals' 13 thing arrived at a consent decree with Household? 14 A Yes. 15 Q Was there in place a moratorium, a unilateral moratorium, on 16 foreclosures or against foreclosures until September 30th of 17 this year? 18 MR. DUNNE: I'm going to object, vague and 19 ambiguous. I'm having problems with this area of 20 questioning because I think you're getting into confidential 21 negotiations between the Department of Financial 22 Institutions. 23 MR. PARLETTE: I'll let Mr. Cross decide that. 24 MR. DUNNE: Let me finish, please. If you're 25 getting into confidential negotiations that are of a</p> | <p style="text-align: right;">Page 173</p> <p>1 there's a hold on this foreclosure process. It didn't cover 2 all loans and all situations. It was just sort of a 3 general, I don't want to say informal, but written 4 understanding that -- 5 Q Informal but written? 6 A Yeah. It was a good - we characterized it as a good-faith 7 gesture while negotiations were going on. But clearly there 8 was specific situations in which the company could continue 9 to protect its interests. 10 Q Do you remember what those situations were? 11 A No. That was being handled by David Hewey at the AG's 12 Office. It was somewhat technical and legal. I just didn't 13 get involved in that area. 14 Q Let me ask you this hypothetical question. If a borrower 15 was not made aware of this understanding that foreclosures 16 would not proceed pending these negotiations, he then would 17 not be aware that he shouldn't leave his home if he had 18 received a foreclosure notice, would he? 19 MR. DUNNE: Lack of foundation; calls for 20 speculation. 21 A I can't get in the borrower's head. And again, I couldn't 22 tell you whether on that specific borrower's transaction 23 that the company would, you know, be able to go ahead and 24 foreclose. I'm not sure that there was anything legally 25 preventing them from foreclosing on the property anyway</p> |

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1 despite this, for lack of a better word, moratorium on
 2 foreclosures.
 3 Q (By Mr. Parlette) I'll ask the question in an inverse way.
 4 If a borrower didn't know that there was such an
 5 understanding and left his home, there would be no way he
 6 could protect it against a foreclosure sale if one of the
 7 conditions of that understanding was that there not be an
 8 abandonment.
 9 MR. DUNNE: Objection; calls for speculation and
 10 lack of foundation.
 11 A You're just out of my bailiwick now, Bob. I'm sorry.
 12 Q (By Mr. Parlette) Pending the distribution of that
 13 settlement money that the AG's obtained, can you explain to
 14 me why the State did not suspend or ask that foreclosures be
 15 suspended until the borrowers could get money to help pay
 16 their loans?
 17 MR. DUNNE: Objection to form and I think that
 18 asks about the subject of confidential negotiations of a
 19 settlement nature, which, as you know, are completely
 20 irrelevant under Rule 403, so I'm not sure where we're going
 21 with this. But I'm considering whether to terminate the
 22 deposition and move for a protective order.
 23 MR. PARLETTE: You're not going to terminate my
 24 deposition. You might object --
 25 MR. DUNNE: Yeah. Read the federal rules. Bob, if

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1 you haven't done that.
 2 MR. PARLETTE: Let me tell you why this is
 3 relevant, Mr. Dunne.
 4 MR. DUNNE: I appreciate it.
 5 MR. PARLETTE: This is relevant because when I
 6 move for class certification and I move for an injunction to
 7 prevent foreclosure activity pending this distribution or
 8 the resolution of our case, these people will be losing
 9 homes. And it seems to me incumbent upon Household and the
 10 State that if there's going to be money paid to people that
 11 could save their homes, it ought to be paid or they ought to
 12 know about it.
 13 MR. DUNNE: If you want to ask him about --
 14 MR. PARLETTE: I just did
 15 MR. DUNNE: -- the procedures for payment,
 16 procedures for payment as opposed to negotiations and
 17 settlement, I think that's a different subject, so I don't
 18 have an objection.
 19 MR. PARLETTE: This is my deposition Mr. Dunne.
 20 I can ask the questions I want.
 21 Q (By Mr. Parlette) Now, my question is, Mr. --
 22 MR. DUNNE: There's a federal rule that allows for
 23 objections in depositions.
 24 MR. PARLETTE: Right.
 25 Q (By Mr. Parlette) Do you know, Mr. Cross, why the State has

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1 not asked for a moratorium on foreclosures pending the
 2 distribution of funds?
 3 A This state or ... ?
 4 Q Right. This state.
 5 A I can only answer from --
 6 MR. DUNNE: Before you answer, I'm going to object
 7 under Rule 403. I think this is an inappropriate line of
 8 questioning. I'm going to object for lack of foundation
 9 that you assume that this witness is the person who makes
 10 those decisions and has personal knowledge of what that
 11 would be. And, again, I want to emphasize how disturbed I
 12 am by this line of questioning.
 13 MR. PARLETTE: You can be disturbed. I'm asking
 14 Mr. Cross a question.
 15 Q (By Mr. Parlette) You may answer the question.
 16 A This is going to be from my own, you know.
 17 Q I'm asking if you have knowledge of why.
 18 A I would say that my knowledge would be incomplete, that that
 19 area was driven by the AG's Office.
 20 Q Okay. Do you know when a determination of the distribution
 21 formula will be made by the state of Washington?
 22 A When we will determine how much money people get, is that
 23 what you're asking?
 24 Q Yes.
 25 A We have a guesstimate at this point in time. We believe

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1 somewhere around March, roughly.
 2 Q Do you have any guesstimates about the amount that could be
 3 paid to each victim?
 4 A No. We've run some scenarios, some possible scenarios. But
 5 until we get the extraction of information out of Household,
 6 which won't occur until January 15th, and then from there
 7 that information is actually delivered to an administrator
 8 and the data needs to be massaged and reported to us, so
 9 it's going to be mid-February I think realistically before
 10 we're seeing enough numbers to start making those kind of
 11 determinations. Now, we've - you know, as we should do,
 12 we're trying to look forward and are running some various
 13 scenarios and so forth, but they're really all over the map
 14 Q Under that settlement, people will have to file a claim
 15 form?
 16 A No. Our intent is to notify consumers as to how much
 17 settlement we believe their share is, and they need to
 18 respond with a release if they want to receive a check for
 19 that settlement amount.
 20 Q Is this - can this be characterized as an opt-in settlement?
 21 A Yes;
 22 Q So people will actually have to do something in order to get
 23 money?
 24 A Correct
 25 Q It won't be automatic. Do you have any idea - we've already

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1 asked this question in a different way - how large a group
 2 the victims will be?
 3 MR. DUNNE: Objection; characterization.
 4 A Our guesstimate is somewhere around 11,000 is the number,
 5 the population of consumers. Again, we'll know exactly here
 6 in a few weeks.
 7 Q (By Mr. Parlette) Does the State - does the State intend to
 8 buy back the security on the second mortgages as provided in
 9 that settlement?
 10 A We don't believe at this moment in time that that's the best
 11 expenditure of consumers' funds, but we're still
 12 investigating that. We may end up looking on a case-by-case
 13 basis. The consent decree allows us to approach that on a
 14 case-by-case basis. The dollar amount trade-off, we're not
 15 convinced, makes the most sense for borrowers but that's not
 16 a finality yet.
 17 Q Who sets the price for that? Household? Or is that
 18 negotiated?
 19 A It was part of the consent decree.
 20 Q It's an established price. Household knows how much it's
 21 going to cost to release the security?
 22 A It's a price per thousand.
 23 Q Will the victims be given the right to buy back the
 24 security? In other words, to get the mortgage released off
 25 their second?

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1 MR. DUNNE: Objection; characterization.
 2 MR. PARLETTE: I'm asking a question.
 3 A The states will determine whether the victims will be
 4 allowed to do that or not. So in some states, the answer to
 5 that is yes and in some no, and we haven't determined that
 6 yet here.
 7 Q (By Mr. Parlette) In your professional opinion, do you
 8 think that the equivalent interest rate or effective
 9 interest rate sales pitch was a fair sales tactic to use or
 10 do you believe it was misleading?
 11 MR. DUNNE: Objection; vague and ambiguous,
 12 assumes the fact there was a single such pitch, so it
 13 assumes facts not in evidence and leading.
 14 A Our position throughout has been that that was a deceptive
 15 practice. We documented that in the report.
 16 Q (By Mr. Parlette) Based on your experience in private
 17 industry - I can't remember your title when you were working
 18 for the bank.
 19 A It was a mortgage company.
 20 Q A mortgage company.
 21 A I was general manager and vice president.
 22 Q When you were general manager and vice president of the
 23 mortgage company, do you believe that there was - based on
 24 your experience there, is there ever an occasion where
 25 refinancing a first mortgage which has a lower rate with one

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1 which carries a higher rate is advantageous to the customer?
 2 A Sure.
 3 Q When is that?
 4 A That would be in situations where, for example, someone has
 5 to get a loan and rates have gone up. A divorce, for
 6 example, or somebody really wants to add a bedroom on a home
 7 or remodel the kitchen or repair a roof, for example, but
 8 rates have gone up in the meantime. But, you know, you
 9 can't allow rain to come in the house and you got to take
 10 out a loan to repair the roof. You might end up being -
 11 moving from a lower rate loan to a higher rate loan.
 12 Q Now, when I asked that question, I'm talking about a first
 13 mortgage. If you had to repair a roof, you could get a
 14 second mortgage and accomplish the roof expenditure, could
 15 you not?
 16 A Maybe.
 17 MR. DUNNE: Objection; speculation.
 18 Q (By Mr. Parlette) Let me rephrase --
 19 MR. DUNNE: Excuse me, Bob, if I can finish my
 20 objection. Calls for speculation and it's an incomplete
 21 hypothetical.
 22 Q (By Mr. Parlette) I'm going to rephrase that question. If
 23 a second mortgage is available, is there ever a circumstance
 24 where - or an occasion where refinancing a first mortgage,
 25 which carries a lower rate, is advantageous to the borrower

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1 to refinance into a new mortgage at a higher rate where a
 2 second mortgage is available?
 3 A Depends on the characteristics of the second mortgage.
 4 Q All right. Explain that answer, please.
 5 A I don't mean to do battle with you --
 6 Q No, no
 7 A -- but there's so many potential scenarios.
 8 Q Right.
 9 A Let's say, for example, you have a \$10,000 first mortgage
 10 left on your home and you're currently paying an 8 percent
 11 interest rate. Let's say a second mortgage is running at
 12 15 percent and you need to borrow \$10,000. It might be more
 13 advantageous to take out a loan for \$20,000 at 9 percent
 14 versus having your first for \$10,000 at 8 percent and a
 15 second at \$10,000 at 15 percent. It depends.
 16 Q Right.
 17 A It gets very fact specific
 18 Q Now, in a case where - in Household's case where they were
 19 refinancing first mortgages, you reference this at the end
 20 of your report, Steering or Controlling Borrowers to
 21 Maximize Revenue. By refinancing a first mortgage with a
 22 higher rate second - excuse me, with a higher rate first
 23 mortgage, in the case - let's use the Lunas, for example.
 24 They had a 7.5 Chase mortgage and they were refinanced into
 25 a first mortgage at Household at 12 and a half percent. Was

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1 there any advantage whatsoever to them?
 2 MR DUNNE: Objection; incomplete hypothetical and
 3 lack of foundation.
 4 Go ahead, please.
 5 A In my experience, based on my experience both on the lending
 6 side and on the regulatory side, I did not find any of the
 7 situations that I analyzed in here, Lunas' or anybody
 8 else's, in which it appeared that the borrower is in a more
 9 beneficial position than they had been before.
 10 Q (By Mr. Parlette) So in the 19 cases you examined, none of
 11 those people benefited by the refinance of the first
 12 mortgage?
 13 A Not every one of those went through, but of those that
 14 closed, I don't recall anybody where I saw a benefit to the
 15 borrower in moving from where they had been to where they
 16 ended up.
 17 Q Now, in the AG settlement, Household claims that they will
 18 provide a net tangible benefit to the borrowers on all loan
 19 transactions from here on out. What's meant by the words
 20 "net tangible benefit"?
 21 A The loan has to show some - considering possible scenarios
 22 that a borrower could find themselves in, the loan has to
 23 show a tangible benefit. So taking into consideration the
 24 borrower's needs, what they had before, what they end up
 25 with now, net of all those various scenarios, the borrower

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1 ends up benefiting from taking out this loan versus the
 2 company benefiting from the borrower taking out the loan.
 3 Q Now, I believe it was in early 2002 Household adopted what
 4 they called best practices
 5 A I can't remember the date, but that's about right.
 6 Q Was there a net tangible benefit best practice?
 7 MR DUNNE: Objection; lack of foundation.
 8 Q (By Mr. Parlette) Do you know?
 9 A I don't remember. I read it, but I can't remember now.
 10 Q Of the loans that were split loans, that is first and the
 11 second or the spurious second, how - excuse me. What
 12 percent of all the real estate loans that Household made
 13 from your review were split loans?
 14 MR DUNNE: Talking about the 19 loans?
 15 MR PARLETTE: We'll ask it two ways.
 16 Q (By Mr. Parlette) Of the 19 loans.
 17 A I would have to count, and Household reported that the
 18 experience for Washington State was approximately 19 percent
 19 of all the loans they made in Washington had that first
 20 simultaneous second split loan scenario.
 21 Q So all the real estate loans they made during the time
 22 period of your examination, they reported to you
 23 approximately 19 percent of them --
 24 A Correct.
 25 Q -- were split? Did they report to you what percent of their

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1 loans were E-Z Pay Plus biweekly plans?
 2 A They did provide us preliminary reports on that. I can't
 3 remember the numbers now. Part of the information they will
 4 provide to us later on will identify specifically whether
 5 that feature was part of the loan or not.
 6 Q Did you ever find an instance in your review of the
 7 complaints where the borrower actually did buy down an
 8 interest rate with the points?
 9 MR DUNNE: Objection; vague and ambiguous.
 10 A Working from Household's documentation, that's a somewhat
 11 difficult determination to come to. Throughout the
 12 complaints that I analyzed for this report, I felt that what
 13 I had at my disposal to look at pointed more towards the
 14 fact that the rate had not been bought down, the fact that
 15 it hadn't been bought down, but their documentation is quite
 16 cumbersome. And there are gaps in information that make
 17 making an absolute certain determination of that difficult
 18 at best.
 19 But my opinion, and I recount it throughout the report,
 20 is I can't see where - I would find a rate at the earliest
 21 point I could in the transaction. Sometimes it would be on
 22 some documents, sometimes on others. It was difficult to
 23 find. But I find a rate and I would find a disclosure of
 24 discount points that seem to correlate to the point in time
 25 that rate appeared on a document and then at closing the

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1 rate frequently would be higher than the rate it was here,
 2 but at the same time, the points would have gone up to the
 3 top. So it would seem like the relationship wasn't working
 4 as the matrix says it would work, where if points go up,
 5 rates should go down. I found too many situations where
 6 rates and points went up together.
 7 Q (By Mr. Parlette) I see.
 8 A That's why over and over throughout this report I came to
 9 the determination that it did not appear that these discount
 10 points were buying anything down.
 11 Q Just take a second here. I think I'm done.
 12 Is the investigation now concluded, your investigation
 13 of Household?
 14 A Well, yes and no. The bulk of the investigation concluded
 15 with the consent degree. I have complaints that consumers
 16 have filed that fall outside of that window of January 1999
 17 to September 2002 that I have an obligation to deal with.
 18 So on a case-by-case basis those complaints will be
 19 investigated. But for that window of time, January '99 to
 20 September 30, 2002, yes, case closed on that except for the
 21 administration from this point forward of, you know, the
 22 funds and the monitoring of compliance and so forth.
 23 Q And as I understood your testimony, you made no attempt to
 24 order in order of importance the various patterns and
 25 practices that you observed?

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1 A Well --

2 MR. DUNNE: Objection: mischaracterizes the

3 testimony.

4 A I think I what said was I first was trying to paint a

5 picture in the best order. I won't say that some things of

6 more importance don't fall in front of other things. But

7 that wasn't the driving - I wasn't trying to do a

8 hierarchical report in this report.

9 Q (By Mr. Parlette) Do you have an opinion, as we sit here

10 today, which one are the most egregious of the patterns or

11 practices that you observed?

12 MR. DUNNE: Objection: vague and ambiguous.

13 A I have opinions about the patterns and practices, and

14 there's some that do not concern me nearly as much as

15 others. There are some that don't concern me much at all

16 that concern some other states that ended up in the consent

17 decree that Washington didn't even care much about, so we do

18 have opinions and degrees of concern. I'm not sure I could

19 rate a single one for you except for in the context of the

20 report where I talk about this misrepresentation, confusion,

21 the number one. There was sort of this overriding or this

22 drifting cloud throughout all the transactions. I guess

23 that concerns me more than anything because that - you don't

24 always find the same events happening, but you do find this

25 consistency of misrepresentation and confusion and

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1 missteering and so forth.

2 Q (By Mr. Parlette) Okay. You talked about the - in the

3 matrix where you would expect the more points that are paid

4 interest rate goes down, but in Household's case they both

5 seemed to go up. Have you ever found a situation here in

6 the state of Washington that you've examined where that has

7 similarly occurred with other lending institutions?

8 A We've done a couple of predatory lending investigations that

9 resulted in charges filed in Washington where at times that

10 characteristic was there.

11 Q Have you - when you were talking about the numbers of

12 complaints starting to rise in the late 1990s, on a relative

13 scale was - in the state of Washington, was the Household

14 experience the greatest number of complaints you've ever

15 seen or the fastest rise in complaints?

16 MR. DUNNE: Objection: vague and ambiguous.

17 Go ahead.

18 A They consistently vied with Beneficial. There's only two

19 other companies besides Household and Beneficial that

20 even - maybe two or three others that even rank in the

21 numbers of complaints that we found with Household and

22 Beneficial. There's a period of time where Associates had a

23 significant number of complaints. There's a period of time

24 where FAMCO had a significant number of complaints. One or

25 two other companies drift into that category, but I believe

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1 that the greatest number of complaints far and away, if you

2 combined Household and Beneficial together, that was the

3 largest single complaint area of any of our licensees.

4 Q (By Mr. Parlette) From your analysis that you've put in

5 this written report, what claims or complaints have a

6 predominating core of common issues?

7 MR. DUNNE: I'm going to object. Vague and

8 ambiguous: lack of foundation.

9 Q (By Mr. Parlette) Do you understand the question?

10 A No. Are you asking what commonality?

11 Q Well, you said that this - I think you described it as a

12 cloud of confusion and misrepresentation. Would that be the

13 common core of all the other specific complaints?

14 MR. DUNNE: Are you talking about the 19 or

15 something else?

16 MR. PARLETTE: Of his report here.

17 A Yes. As I recall, every single complainant in here was

18 confused about either what they were supposed to get or what

19 they did get. And so that would be common to all of them,

20 regardless of whether one consumer was talking about the

21 monthly payment or another consumer was talking about the

22 interest rate or another was talking about discount points.

23 The common thread was they were confused and didn't

24 understand and believed something other than what was

25 reality.

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1 Q (By Mr. Parlette) And after you saw these numbers

2 appearing, I think your testimony was, you know, Household

3 had been one of your better licensees, and after a certain

4 period of time the numbers got so large you stopped giving

5 the benefit of the doubt to Household and started

6 investigating the consumer complaints

7 MR. DUNNE: Objection: leading and asked and

8 answered.

9 Q (By Mr. Parlette) Is that a fair summarization of your -

10 the genesis of this report?

11 A The numbers and the content of the complaints, not just the

12 numbers alone, but what the borrowers were saying as well.

13 Q And it was the confusion element of what the borrowers were

14 saying that was the most important?

15 MR. DUNNE: Objection: leading

16 A No. The discount point range that we identified over and

17 over and over again was the most important.

18 MR. PARLETTE: I have no further questions

19 (Recessed at 4:12 p.m.)

20 (Reconvened at 4:18 p.m.)

21 EXAMINATION

22 BY MR. DUNNE:

23 Q My name is Dan Dunne. I represent Household Finance

24 Corporation and Beneficial Mortgage Company in some

25 litigation in which Mr. and Ms. Luna and some other

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1 plaintiffs are suing them under the Consumer Protection Act.
 2 You and I haven't met before, have we, Mr. Cross?
 3 A Only by telephone.
 4 Q Have you met Mr. Parlette before?
 5 A Yes.
 6 Q How many times have you met Mr. Parlette?
 7 A Two, I think before today.
 8 Q Two in-person meetings?
 9 A Yes.
 10 Q And have you had additional telephone conversations with
 11 him?
 12 A Yes.
 13 Q When's the first time that you actually had any
 14 communication with Mr. Parlette?
 15 A Wild guess. February, March of 2002, I think.
 16 Q Okay. And did that have something to do with Household
 17 Finance?
 18 A Yes.
 19 Q Have all of your communications with Mr. Parlette had
 20 something to do with Household Finance?
 21 A Almost. I think one time we talked about a website he had
 22 set up for kids to educate themselves or something like
 23 that.
 24 Q About how many telephone calls would you estimate that you
 25 and Mr. Parlette have shared?

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1 A Actual phone calls. Four to five where we actually spoke and
 2 then just countless, you know, leaving messages.
 3 Q Do you know whether Mr. Parlette talked to other examiners
 4 in the office here?
 5 A No. I don't know whether he has or not.
 6 Q Okay.
 7 A I would have been - in all likelihood, I would have been
 8 told, but no, I don't know.
 9 Q What was the first occasion of your first meeting with
 10 Mr. Parlette? Did he call you to set that up?
 11 A I know that I - I'm pretty sure I never called him, but I
 12 think he found me, but I really can't recall.
 13 Q Okay. Was that a meeting here at these offices?
 14 A You mean face-to-face?
 15 Q Yes.
 16 A I'm sorry. I thought you were talking by telephone.
 17 Q No.
 18 A My first face-to-face meeting with him was a Senate
 19 subcommittee hearing at Mount Vernon, Washington.
 20 Q I thought you mentioned that you first met him in March or
 21 April of this year?
 22 A Telephone, sorry. Just like I said, I thought you meant
 23 over the phone.
 24 Q I don't know if I asked you this. Did you and he exchange
 25 any correspondence? Did he send you any correspondence, any

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1 documents relating to Household at any time or relating to
 2 his clients or potential clients at any time?
 3 A I believe that - matter of fact, Bob and I may have come
 4 into contact over the Luna complaint because I was
 5 conducting an investigation into the Luna complaint, and he
 6 might have given me some stuff. I might have asked him for
 7 some stuff or maybe I asked Jeanie Luna for some stuff that
 8 I got from Bob. I don't really recall right now.
 9 Q All right. While we're on that subject, there's a statement
 10 in your report that the Lunas paid \$25,000 in discount
 11 points on two real estate loans that were originated in less
 12 than a year, about \$14,000 on - \$13,000 or \$14,000 on one
 13 and a similar amount on a second. Do you remember that?
 14 A Sounds familiar. I could look at it and confirm that for
 15 you.
 16 Q Do you remember having any discussions with Mr. Parlette
 17 about whether that was a true or false statement?
 18 A No. Tell you, I didn't really talk to Bob. I think Bob
 19 found me a little frustrating possibly over the last year
 20 because when I'm doing an investigation, I really don't like
 21 to talk to people very much. So I'm going to tell you that
 22 probably three of the four or five phone calls were almost
 23 nonsubstance, more of me just saying, I'm doing my thing.
 24 You're doing your thing. Let's kind of keep it that way.
 25 Q What was the thing that Mr. Parlette was calling and talking

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1 to you about?
 2 A He had a case with Jeanie Luna. I was aware of that. He
 3 would want to know where the State's case was going, how
 4 were we progressing, were there - you know, what were we
 5 finding, who were the victims, things along those lines.
 6 Q All right. You said you had three, four, five telephone
 7 conversations with him?
 8 A I would say four or five actual, where we actually spoke.
 9 Q And the first one was February, March of this year?
 10 A As best I can recall.
 11 Q When was the last one?
 12 A Last week from my cell phone. I was going to a Mailboxes,
 13 Etc. I remember sitting in the parking lot wanting to get
 14 in before they closed, and we were having a conversation.
 15 Q Talking about this deposition?
 16 A Yes - no. Talking about Melissa Rutland-Drury.
 17 Q Tell me what was said in that conversation, if you would.
 18 A I know that Bob had wanted to take her deposition and that
 19 there was issues over her attorney being reluctant for her
 20 to testify. He was worried about further State
 21 investigation and/or prosecution and was asking if our
 22 department could see its way to agreeing to resolve our
 23 issues with Melissa through some sort of a consensual
 24 agreement that would allow her to feel comfortable in going
 25 ahead and testifying.

| | |
|---|--|
| <p style="text-align: right;">Page 194</p> <p>1 Q And is there some investigation at this point going on with 2 her?</p> <p>3 A Boy, I'm not currently conducting any work in that area but 4 I think officially we would say that that matter is still 5 open.</p> <p>6 Q All right. And do you know how Mr. Parlette learned about 7 this? Did you convey some information about an 8 investigation of Ms. Rutland-Drury at some point?</p> <p>9 A I don't remember saying anything to Bob, but I communicated 10 a bunch with David Hewey from the AG's Office about our 11 obligations, our regulatory obligations, with Melissa and 12 the need to seriously consider following through on those 13 and getting her out of the industry. And it may be more 14 likely - I can't speak for David, but it might be more 15 likely that David would have told Bob that that was the 16 direction they were heading. I don't remember actually 17 telling Bob that.</p> <p>18 Q All right. So did you and he talk about this deposition -- 19 A This one?</p> <p>20 Q -- this week? Yes.</p> <p>21 A You know, the discussions about this deposition were left 22 with his secretary, as I remember. We talked a while back 23 about doing a deposition, and we set the date up and set 24 that up. That was, I don't know, I want to say three weeks 25 back or four weeks back. I can't remember now. I couldn't</p> | <p style="text-align: right;">Page 196</p> <p>1 Q Okay. So anything else that you and he said about Melissa 2 that you haven't testified to?</p> <p>3 A He was expressing to me how much Melissa's testimony would 4 mean to him and his case and ultimately to Washington 5 consumers, being able to get additional testimony from her 6 and how valuable that would be. He was trying to sell me on 7 the idea of agreeing to do a consent order with her instead 8 of conducting an investigation and filing charges to remove 9 her from the industry.</p> <p>10 Q You may not be able to answer this, but have you initiated 11 charges or initiated an investigation, communicated that to 12 Ms. Rutland-Drury?</p> <p>13 A I have never spoken with her before.</p> <p>14 Q Has the Department initiated contact with her about an 15 investigation?</p> <p>16 A No. I talked to her husband or, I don't know, somebody she 17 lives with. She called me, left a message on my voice mail 18 I called back. He answered the phone. She was there in the 19 house, and he yelled at her and said I was on the phone, and 20 she didn't get on the phone, so I didn't know what she 21 wanted. I said, "Well, tell her I'm returning her phone 22 call." That's the closest I've ever come to talking to her. 23 The department has not begun anything more formal than what 24 we've already done in regards to Melissa.</p> <p>25 Q Okay. What is that?</p> |
| <p style="text-align: right;">Page 195</p> <p>1 get ahold of him, and I needed to tell him about this - 2 finding out that I had to go to this meeting and that Susan 3 Carlson had said I could not produce specific documents for 4 him, but I don't think I ever actually connected with him. 5 I think I had to leave messages through his secretary.</p> <p>6 Q How did you receive service of this subpoena?</p> <p>7 A Just appeared in my in box. When I came to work one 8 morning, it was in the in box.</p> <p>9 Q Did you make some agreement with Mr. Parlette and the 10 plaintiffs about acceptance of service?</p> <p>11 A No. But I signed a document saying that I had accepted 12 service.</p> <p>13 Q All right.</p> <p>14 A My assumption, it just came in the mail, but I don't open 15 the mail here.</p> <p>16 Q I'm going to work backwards on these conversations. This 17 one that you had last week, how long did that last?</p> <p>18 A Five to ten minutes.</p> <p>19 Q In addition to the questions that you exchanged about 20 Melissa Rutland-Drury, what else did you talk about in that 21 conversation?</p> <p>22 A I think we talked or he talked about how much - are you 23 saying - wait a minute - in addition to Melissa?</p> <p>24 Q Yes.</p> <p>25 A I think we only talked about Melissa.</p> | <p style="text-align: right;">Page 197</p> <p>1 A To the extent that she had involvement in any of the files 2 we reviewed, we reviewed those files and I would use those 3 facts in the case I did bring, but I don't have a case, 4 Melissa-identified case, going on.</p> <p>5 Q Have you interviewed any individuals about her conduct? And 6 what I mean by "you," I mean the Department.</p> <p>7 A Well, any Department interviews would be conducted by me. 8 There's a mortgage broker in Bellingham - I want to say her 9 name is Deborah Koch - who called me one day and talked 10 about a transaction she had with a borrower she was trying 11 to refinance away from Household, and I think that - it was 12 quite some months back now, but I think I queried her a 13 little about who Melissa was and what she did for that 14 office and so forth. The woman worked in the mortgage 15 business up in Bellingham and seemed to know - she knew some 16 other loan officers from Household that had gone to a 17 company called Top Mortgage, so I might have queried her a 18 little bit about Melissa.</p> <p>19 Q Okay.</p> <p>20 A Other than that, I spoke with Tom Detelich and Kate Curtan 21 a little bit about Melissa. Nobody at lower levels. I 22 think John Schummel, I want to say his name is, spoke a 23 little bit about her when he came in here.</p> <p>24 Q So Mr. Parlette was trying to ask for the Department to 25 consider his request to take some action that would aid him</p> |

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1 in his civil litigation. Is that right?

2 A I think that would be the outcome of it, yes. He wanted her

3 testimony, and her attorney was saying my client is not

4 testifying as long as whatever she says can be used against

5 her by the State.

6 Q Now, about three weeks ago you and Mr. Parlette talked about

7 scheduling of this deposition, right?

8 A Um-hmm.

9 Q Other than basic scheduling matters, did you have any

10 discussions of substance?

11 A Well, not what I would consider to be of substance. He told

12 me he was going to ask me about this report and some about

13 complaints. He never posed any questions to me. He never

14 prepped me in any way. Again, I've avoided, to a large

15 extent, having conversations with Bob.

16 Q Okay. What's the next most recent time that you remember

17 having a conversation with him?

18 A Prior to that? You mean going backwards?

19 Q Going backwards. And other than incidental nonsubstantive

20 conversations

21 A I think the last time prior to that that Bob and I hooked up

22 were these, you know, leaving a message, call me back kind

23 of things. But where we actually hooked up was in person at

24 Sea-Tac Airport. Well, that was the day. It was a press

25 release day following the agreement in principal in October.

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1 and Bob was at both Sea-Tac - I think he was in Bellingham.

2 I can't remember for sure whether he went to Bellingham. We

3 did press releases at Sea-Tac and Bellingham. I went with

4 the Attorney General, Chris Gregoire, to do these press

5 releases. I know that I saw him at Sea-Tac. I can't

6 remember now who went to Bellingham.

7 Q Mr. Parlette was there attending press releases at the same

8 time that you and Christine Gregoire were doing press

9 releases on the subject of this agreement with Household

10 Is that right?

11 A Him and a whole bunch of people.

12 Q How did it come to happen, to your knowledge, that

13 Mr. Parlette was there at both of these meetings? Did you

14 inform him of this?

15 A No. I didn't inform him. Somebody from the AG's Office

16 might have informed him.

17 Q What conversation --

18 A But it was also - we do - we notify. We put out a general

19 notification, we will be showing up to do a press release at

20 such and such a location.

21 Q At either of these locations when you were doing them, press

22 conferences, did you and Mr. Parlette have any discussions?

23 A Yes

24 Q What did you talk about?

25 A We met in the morning before the actual - there was a two-

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1 stage process to the press conference. Chris Gregoire went

2 in, did a telephone hookup with Roy Cooper and Tom Miller.

3 the other Attorney Generals that were really involved in the

4 case directly around the negotiating team. When they did

5 their press release, the national press release, she hooked

6 up with them. But myself and Paul Silver and Dave Hewey had

7 arrived earlier at the airport to be prepared. And we had

8 coffee with Bob, let's say, 45 minutes before the Washington

9 press release while Chris Gregoire was doing her national

10 press release.

11 Did you ask me what did we talk about?

12 Q Yes.

13 A We gave Bob - we - they. I sat and listened.

14 Q "They" being?

15 A Paul Silver and Dave Hewey. Gave Bob a courtesy half hour.

16 45-minute advance heads up to what the agreement and

17 principals contained and what was going to be stated in the

18 press conference.

19 Q All right. Did Mr. Parlette ask for anything at any time in

20 that meeting?

21 A He asked the typical questions that everybody has asked us,

22 why so little, you know, why this, why that. You know, why

23 didn't you ask for this, that kind of thing.

24 Q Okay. Other than questions about the terms of the release,

25 do you remember him asking other questions?

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1 A Not that I recall.

2 Q Did he ask about what impact the settlement would have on

3 the litigation that he was involved in?

4 A I don't remember him asking that. I know that was a concern

5 of Dave and Paul's.

6 Q Why do you say that?

7 A Because they told me it was their concern. They, the AG's,

8 have a different concern than DFI does. We're a regulatory

9 agency. I believed that Bob was doing a good thing trying

10 to help consumers, but I could really care less about his

11 case. That's the honest truth. I've got my regulatory

12 mission. I pursue it with a vengeance. I'm 110 percent

13 committed to my mission. What he does has nothing to do

14 with me. It's his case. I've got my case. I tried to

15 remain very noninteractive with him on his case.

16 The AG's take a different approach. They have a

17 history of, at times, coupling with people who are doing

18 class action suits or bringing them in, enveloping them

19 within their actions. We discussed this on several

20 occasions, and I, on several occasions, I told Dave and

21 Paul, you guys want to interact with Bob, that's your deal.

22 That's not what I do at DFI. I stay separate and apart. I

23 try to be the investigator and be separate. But I certainly

24 don't dictate what they do.

25 So I know that they were concerned. They felt that he

| | |
|---|---|
| <p style="text-align: right;">Page 202</p> <p>1 had, I think, brought them a lot of information on their 2 side of the case, and he deserved an advance notice of what 3 was going to come down on this press conference moments 4 later. 5 Q Was there any discussion about what role Bob Parlette might 6 play with the press conference or the press release or the 7 ability to speak to reporters at the same time? 8 A I know they - I saw him speaking with reporters, him and 9 Jeanie Luna. I didn't discuss with him what role he might 10 have there. The reporters have a tendency to talk to who 11 they want to. 12 Q Okay. Did you sit in any meetings with Mr. Parlette and 13 Ms. Luna and Attorney General Gregoire? 14 A No. 15 Q Because I've seen photographs of Ms. Gregoire shaking hands 16 with Ms. Luna that day. Were you present when those photos 17 were taken? 18 A Yeah. I was there. There were photos being shot. It was a 19 room, I don't know, five times the size of this room. It's 20 a press room at Sea-Tac, and there were several borrowers 21 there. The Lunas, the Vaughns, Georgia Smart, and there are 22 people from the agencies, and there was a whole bunch of 23 press there and then some other sort of people that I don't 24 even know that were interested in one way or another. Yeah, 25 Chris Gregoire was in the room and even outside the room.</p> | <p style="text-align: right;">Page 204</p> <p>1 A Early July, late June. 2 Q That was after the date of your expanded report? 3 A Yes. 4 Q Okay. Let's talk - that was released on April 30th. Is 5 that right? 6 A You know, it's dated as of April 30th. It wasn't shipped 7 until, I believe, May 14th or May 15th. Yes. We have a 8 cutoff date for things, and then we finalize them and send 9 them. But the facts are considered to be as of April 30th 10 and I want to - I just want to qualify that if we said - you 11 just said meeting at the Senate subcommittee. I want to 12 make sure you're not using "meeting" differently than me. 13 I'm using "meeting" in the form of meet somebody. I was 14 never alone with Bob at any point in time that evening, nor 15 did we discuss any of my investigation that evening. 16 Q All right. 17 A But I did meet him there. He spoke on a panel, and I spoke 18 on a panel. 19 Q Did you and he talk with other people present about anything 20 of substance regarding Household? 21 A No. I think he might have had some story that he wanted to 22 tell, but I certainly was very tight lipped about anything 23 that I was up to, very tight lipped. 24 Q So he was conveying information to you? 25 A Attempting to. Again, I - we try to do our own</p> |
| <p style="text-align: right;">Page 203</p> <p>1 It sort of drifted in and out of this room as the press 2 was interviewing people, and there were shots being taken 3 here and there. 4 Q So did a number of people whose complaints you reviewed get 5 advance notice of this settlement and notice that there 6 would be a press conference about the settlement and the 7 details of - you know, said Ms. Vaughn was there. Georgia 8 Smart was there. How did the people find out? 9 A The AG's Office specifically invited Ms. Vaughn. She had 10 come and testified at the Senate subcommittee meeting at 11 Mount Vernon. I don't - I can't speak for Dave and Paul, 12 but I don't believe they would have told Ms. Vaughn what was 13 going to be said, but just that this is a big deal. It 14 involved Household and you ought to come on down -- 15 Q Okay. 16 A -- and be here. I think Georgia Smart might have come with 17 Bob, just like - I don't think Jeanie Luna came to Sea-Tac 18 Maybe she did. I can't remember now because we went to two 19 different locations, and I think Jeanie is from Bellingham, 20 so I don't remember if she came to Sea-Tac or not. 21 Q Now, the prior meeting you had with Mr. Parlette, that was 22 at a committee hearing, legislative committee hearing, in 23 Mount Vernon? 24 A Right. 25 Q What was the date of that?</p> | <p style="text-align: right;">Page 205</p> <p>1 investigation. And when we want information, we go and, you 2 know, show our badge and set you down in a room and hand you 3 a subpoena, if necessary, and ask you for information. We 4 do a lot of these kinds of cases, and when people come out 5 of the woodwork and start wanting to tell us things, we're 6 generally - you know, we will come and ask you when we want 7 to know something. I don't think I was rude to Bob but 8 that's kind of where I was. 9 Q Prior to the date that the Department released this report, 10 how many phone conversations have you had with Mr. Parlette? 11 A Two, maybe two. 12 Q Okay. In those conversations, had he conveyed information 13 to you about what he believed Household's practices to be? 14 A Yes. 15 Q How long did those conversations last? 16 A Maybe, I don't know, 15, 20 minutes. 17 Q Each? 18 A Something like that, yeah. I'm guessing now. I can't - I 19 could picture one standing up near my old desk. You know 20 how you can remember something, standing instead of sitting 21 in my chair. I remember - I remember why now. I had this 22 file cabinet, and I was trying to get over to the file 23 cabinet to get something out of it, probably check something 24 that he was telling me, but that's all I remember. 25 Q Now, did he tell you - give you information about Ms. Luna's</p> |

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1 complaint?
 2 A Yes.
 3 Q And did he give you more general information about what he
 4 believed Household's practices to be? For example, did he
 5 talk to you about people who were contacting him and what
 6 they were saying about Household's practices?
 7 A Yes. He would tell me some of that. You said general, and
 8 frequently he would kind of give me more specific
 9 information, not specifically general.
 10 Q What sorts of specific information do you recall him giving
 11 you?
 12 A I talked to this borrower and they say this happened to
 13 them. I've seen this documentation. I don't know. They
 14 were told this on this date. This is what they ended up
 15 with, that kind of thing.
 16 Q This was in the period between the time that you issued a
 17 subpoena to Household and the time that the report was
 18 completed. Is that right? A couple of conversations?
 19 A I'm not sure whether the subpoena would have been before or
 20 after, but that window of time, somewhere around there.
 21 Q We've only got ten minutes left, so let me touch on
 22 something Mr. Parlette asked you about on these Attorney
 23 General settlement procedures. Are you involved in the task
 24 force that is working on - what did you call them? -
 25 scenarios for compensation to Household borrowers?

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1 A In Washington State?
 2 Q Yes. Just in Washington State.
 3 A Well, it's not really a task force. It's myself, Dave
 4 Hewey, and Paul Silver continue to work out the details.
 5 Q All right. Do you anticipate publishing any rule making or
 6 is there just going to be some government decision about
 7 what the allocation procedure will be?
 8 A Talking about the settlement?
 9 Q Yeah. Let me - I'm talking about the settlement between
 10 Household and the state of Washington.
 11 A Right. You mentioned rule making. To us, that's a specific
 12 process.
 13 Q Right. That's what I'm asking. I guess, let me ask you
 14 generally. How is the state of Washington going to decide
 15 who to compensate and how to compensate them and how much to
 16 compensate them?
 17 A We intend to use what we're calling a harm's matrix. We
 18 will extract - provided this all works. Household is
 19 sitting on a mountain of information. We're not exactly
 20 sure how the electronic bites of their information get into
 21 a useable format for us, but we're trying to see the future
 22 and develop tools that we can use.
 23 And our theory of the best way to handle it is to
 24 develop a matrix, extract specific pieces of information for
 25 each borrower, and we have it narrowed down to, I think,

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1 nine request items. It might be ten request items that we
 2 want from Household on each borrower. It's information we
 3 put into a matrix. We will assign points based on, for
 4 example, whether a borrower paid under five discounts points
 5 or over discount points, they might get one or two points of
 6 harm assigned to them and total up their points and they'll
 7 get the pro rata share of the money that way. That's our
 8 intent to assign the money.
 9 I cannot promise you that we won't get all the
 10 information from Household, go, my God, it's going to take
 11 us a year and a half to figure this thing out. We're just
 12 going to take the 11,000 borrowers and divide it into the
 13 \$21 million and everyone gets a check. We're not leaning
 14 that way, but I just can't promise you that - it might be we
 15 could find ourselves in a situation where it made more sense
 16 to get people money back, some money back, sooner than
 17 figure out exactly who deserves which piece of what money.
 18 Q Okay. At this point, you're working with nine separate
 19 factors?
 20 A It might be ten, nine or ten.
 21 Q Do those tie to practices that have been reported in the
 22 expanded examination report?
 23 A They tie very well back to this report.
 24 Q Okay. So can you explain to me how they tie back?
 25 A Yes. Piggyback loans, what I call them here - I'm sorry,

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1 Split loans or simultaneous seconds, whatever, that's one of
 2 the criteria we will measure. The amount of discount points
 3 paid, whether we believe that a borrower was subject to the
 4 effective interest rate or equivalent interest rate sales
 5 pitch, whether a borrower paid a prepayment penalty or not,
 6 whether insurance was financed into the loan. There's one
 7 more. Let me come back. I might remember.
 8 Now, draw yourself a line, and I'm going to give you
 9 three factors that we call mitigating factors that would
 10 reduce the amount of money people had coming back to them.
 11 That would be if any interest rate reduction had been given
 12 to a borrower by Household, and I'm not talking about a
 13 refinance, but like in the case of Georgia Smart where she
 14 was able to renegotiate with them and get them to lower her
 15 loan.
 16 Q Or in the case of Jeane Luna who got a new loan at
 17 7 percent from Household?
 18 A I don't know the specifics of that. If that was a
 19 refinance, no, it wouldn't be considered. If it was simply
 20 an interest rate reduction of an existing loan, then it
 21 would be considered as a mitigating factor. And Household
 22 says they can produce this information for us. We won't
 23 even know - we won't be able to tell you if this amount of
 24 points is assigned to Jeane Luna. It's going to be
 25 borrower X.

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1 Q Okay.

2 A The second mitigating factor is whether any refunds have
3 been paid to any borrower, the dollar amount of any refunds
4 for any reason whatsoever.

5 Q Okay.

6 A The third mitigating factor would be whether any borrower
7 ever has made a claim and been paid a benefit under any
8 insurance plan they had. The theory there being that if
9 they had been assigned points of harm because insurance was
10 financed into the loan and they ever got benefit from that
11 insurance, then we need to negate those.

12 Q Okay. And how do - so you've got what you've identified as
13 five categories of practices?

14 A There's another one there. LTV, loan to value.

15 Q And then you mentioned harm. Do you rate the harm of
16 practices on a scale?

17 A Yes. We're really using a scale of one point versus two
18 points. Well, zero points, one point, and two points for
19 each borrower.

20 Q Do you total the number of points and that will have a
21 dollar value?

22 A It will eventually have a dollar value. So let's say you
23 had two borrowers and one got five points and the other got
24 ten points. that would be a total of 15 points. The
25 borrower that got five points would get 30 percent of the

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1 distribution. The borrower that got the ten points would
2 get 66 percent of the distribution.

3 Q I see. So at this stage it's the intent of the Attorney
4 General and the Department of Financial Institutions to
5 attempt to tailor payments to Household borrowers to the
6 kinds of violations or apparent violations, I should say,
7 that have been identified in your expanded examination
8 report?

9 A That is our goal.

10 Q And you believe, if you're able to, that you will be able to
11 tailor the actual payments or reimbursements to some
12 reasonable measure of harm?

13 A To a - I want to make sure I understand your question. I
14 don't think this is your question, but if your question is
15 will the dollars be - correlate directly to their harm. no.
16 But the harm itself will be a representation of how much of
17 those dollars they get. In other words, we feel they're
18 going to get pennies on the dollar for how much they've been
19 harmed. We just want to make sure we give the right pennies
20 to the right people.

21 Q Do you really know what the relationship is going to be
22 between the compensation and some notion of harm?

23 A Right. I understand what you're asking. We believe
24 that --

25 Q The question is, do you know?

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1 A Well, I need know what you're asking.

2 Q Would you agree with me that harm is a subjective word?

3 I'll restate it. Would you agree with me that harm - that
4 different people can come up with different evaluations of
5 harm for any given borrower?

6 A Yes.

7 Q And so you're not attempting to make a perfect subjective
8 attempt to establish what that harm is, are you?

9 A That would be impossible.

10 Q Okay. What you're trying to do is provide an objective
11 system that provides compensation to Household borrowers in
12 relation to the kinds of harms that they suffered. Is that
13 a fair statement?

14 A I believe that's a fair statement.

15 Q Does the Department of Financial Institutions have a right
16 to recover directly or indirectly in fees or other funds
17 that Household is paying to the state of Washington?

18 A I don't understand your question.

19 Q Well, have you looked at the consent judgment that was
20 entered between Household and the state of Washington?

21 A We're getting, I believe, \$606,000. Is that your question?

22 Q Yeah. My question is, does any portion of that get
23 allocated to the Department of Financial Institutions?

24 A Yes, yes.

25 Q What portion is that?

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1 A That hasn't been decided yet. We've decided to give, I
2 believe, somewhere around \$10,000 or something like to the
3 Insurance Commissioner's Office to compensate them for the
4 minor part of the investigation they did in sort of joining
5 in on this. And we will decide at a later point in time how
6 much of the remaining amount goes to the AG's Office and how
7 much goes to our office. The problem is the AG is part of
8 the general fund, and we don't want those monies to get
9 swept back into just the general \$2 billion hole we have in
10 the State budget. We want to make sure it gets used for
11 consumer outreach, financial literacy, or whatever. There
12 will be a point in time where after the AG's have recouped
13 their costs, probably the remainder of the money will come
14 us to because we have a dedicated nonappropriated fund that
15 we can earmark those funds to financial literacy outreach
16 and predatory lending cases and that kind of thing.

17 Q What's your estimate of the amounts that you're talking
18 about, financial outreach and literacy programs?

19 A Well, you know, boy, we're under way with a project right
20 now that already has a price tag of \$160,000 for just a
21 study to determine who we should be targeting in financial
22 literacy and outreach, so . . .

23 Q Are these funds that are being paid to the state of
24 Washington by Household?

25 A Well, no. We're committed to that research project, you

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1 know, regardless of Household. It's just that's what we're
 2 probably going to apply those funds to.
 3 Q What's your best estimate of the amount of funds that are
 4 going to come from Household to the Department of Financial
 5 Institutions over this period of this consent judgment?
 6 A My best guess would be half of the roughly \$600,000.
 7 Somewhere near \$300,000. I know the AG's have over \$200,000
 8 in costs. We were 50/50 partners in that, so the split
 9 should be somewhere around 50/50. We might get more than
 10 \$300,000.
 11 Q Now, is there any other economic benefit to the Department
 12 of Financial Institutions from this consent judgment? In
 13 other words, going forward from a regulatory perspective,
 14 does the consent judgment affect your operations in any way
 15 that changes the economics around here?
 16 A Well, in a sense it does because had we not entered the
 17 consent judgment, we probably would have been in a five-year
 18 legal battle with Household that costs umpteen hundreds of
 19 thousands of dollars, so that would have been a cost to us
 20 Also by - we believe the likely outcome of that would be we
 21 would close Household down and/or force it into bankruptcy.
 22 Household's probably our second largest licensee. We get
 23 revenues from Household on an annual basis.
 24 Q How much are those revenues?
 25 A I don't remember, but - I don't remember. It's in the tens

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1 of thousands of dollars a year.
 2 Q Okay. One last set of questions here. The state of
 3 Washington is in a very serious budget crisis right now,
 4 correct?
 5 A That's my understanding.
 6 Q And it's true, isn't it, that producing substantial revenues
 7 from a licensee such as Household Finance Corporation
 8 enables the Department to justify its value to the state of
 9 Washington and gives it something to talk about with the
 10 legislators when budget time comes around. Would you agree
 11 with that?
 12 A No. Because that's not how - we're a very unique agency
 13 We're a dedicated nonappropriated funds. Our funds are not
 14 available to balance the budget.
 15 Q Okay. So your funds are exclusively provided by licensees?
 16 A We essentially have to kill what we eat, so to speak. We're
 17 like a private corporation. We're self-funded.
 18 Q And your employment status here, the number of employees and
 19 staff and all that, is completely outside of the realm of
 20 the budgeting process?
 21 A No. I wish it was. We, as a result of being a State
 22 agency, the governor - the governor has a plan of cutting
 23 FTE's, full-time equivalent, or people out of the general
 24 budget. We have been subjected to some of those cuts, not
 25 because we can't afford to have people, but because there's

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1 an appearance of unfairness of some agencies have to cut.
 2 but others don't have to cut. So it's sort of forced on us
 3 out of this sort of picture of fairness.
 4 Q Okay.
 5 A Fortunately it hasn't been significant.
 6 Q And have the cuts here been less than in other areas of the
 7 government?
 8 A Yes.
 9 Q And is the success in Household one of the talking points
 10 that the Department has used to justify the staffing of all
 11 the people who work in enforcement?
 12 A No. Because the budgeting process had come to an end before
 13 this case made it to where it's going, but I can tell you
 14 that if you looked at the minutes from the Senate
 15 subcommittee hearings and so forth, this case has been
 16 talked among the legislature, quite a talk, but not as an
 17 intent to get us more.
 18 Q In what sense?
 19 A I don't think that exact team has ever gone to the
 20 legislature and said, "Look what we did. We need more
 21 FTE's." The simple fact is this is a wonderful case that
 22 we've done. It doesn't matter. 601 limits our growth.
 23 We have a variety of limiters on us that - you know, it
 24 doesn't matter how many dragons we slay. It doesn't
 25 necessarily mean --

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1 Q Well, I understand you can grow, but I imagine that when,
 2 you know, your director goes to talk to the legislature
 3 about how many employees at least have to keep their jobs,
 4 he talks about what a good job the Department is doing. Am
 5 I mistaken about that?
 6 A I would say that's correct, but we don't - first off, you
 7 don't go to the legislature to talk about that. It's been
 8 the governor that's been directing the cuts in FTE's. I
 9 don't believe anybody has gone up to argue, look at the good
 10 we've done. Don't cut us so much. The argument has been,
 11 we're completely self-funded. What good does it do to cut
 12 us? It doesn't matter if we were, you know, paving roads or
 13 being librarians. Our budget doesn't affect your budget, so
 14 why do you want to take our people away from us?
 15 Q Okay. I'll let you get out of here and we'll get out.
 16 A Thanks.
 17 MR. DUNNE: On the record, let me say two things.
 18 First of all, we have discussed some documents that
 19 Household believes should be considered confidential, and
 20 for simplicity sake, what I would do is designate this
 21 deposition confidential, and Mr. Parlette and I can talk
 22 about what portions of it are confidential and not
 23 confidential. Not every document in those exhibits is
 24 necessarily confidential, but our process of discussing
 25 those issues has been interrupted, so - because I was

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1 instructed I needed to file a motion for protective order.
 2 So for present purposes, until counsel and I have a chance
 3 to work that out, I'm going to designate the transcript
 4 confidential with the idea we can discuss what portions are
 5 and are not confidential.
 6 MR. PARLETTE: Wait a minute. Keep talking.
 7 MR. DUNNE: And I anticipate that the court will
 8 enter some form of a general protective order regarding
 9 confidential information and this designation would be
 10 within that general protective order.
 11 Secondly, we haven't finished today. I have quite a
 12 bit more to do with Mr. Cross in cross examination, and so
 13 we're going to adjourn, but reschedule for a time in advance
 14 of the class certification hearing.
 15 MR. PARLETTE: I want to make it plain that I'm
 16 not agreeing that this deposition is confidential. I do
 17 agree that Mr. Dunne and I have an ongoing dispute about
 18 Exhibit D, which was Plaintiff's Exhibit B to Melissa
 19 Rutland-Drury's deposition. He's made a motion to have that
 20 deemed to be protected, and I will honor his request that
 21 that document can be marked as confidential, but I do not
 22 agree that the rest of this deposition is confidential.
 23 MR. DUNNE: As I said, I think that's something
 24 that counsel are required to work out under the local rules.
 25 And to the extent that Mr. Cross testified about

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1 confidential information and documents, that portion, in my
 2 view, should be confidential.
 3 MR. PARLETTE: Do you have a date, Dan, for that?
 4 You've got seven days to get the protective order
 5 established. Do you have a date yet?
 6 MR. DUNNE: You filed a motion. Noted it for a
 7 date. The date is the 30th.
 8 MR. PARLETTE: Of December?
 9 MR. DUNNE: Yes. The court decides it when it
 10 pleases the court to do so. So I don't know when your brief
 11 is due, but it's sometime next week. Our reply is due a
 12 week from tomorrow.
 13 MS. RATH: I think so.
 14 MR. DUNNE: I think that's all we need to do on
 15 the record. Is that right?
 16 MR. PARLETTE: As far as I'm concerned.
 17 MR. DUNNE: Thank you.
 18 (Adjourned at 5:00 p.m.)
 19 (Signature reserved)
 20
 21
 22
 23
 24
 25

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CERTIFICATE

1 I, REBECCA S. LINDAUER, a duly authorized Notary Public in
 2 and for the State of Washington, residing at Lacey, do hereby
 3 certify:
 4 That the foregoing deposition of CHARLES L. CROSS III, was
 5 taken before me and completed on the 19th day of December, 2002.
 6 and thereafter transcribed by me by means of computer-aided
 7 transcription; that the deposition is a full, true, and complete
 8 transcript of the testimony of said witness;
 9 That the witness, before examination, was by me duly sworn
 10 to testify the truth, the whole truth, and nothing but the truth,
 11 and that the witness reserved signature:
 12 That I am not a relative, employee, attorney, or counsel of
 13 any party to this action or relative or employee of any such
 14 attorney or counsel, and I am not financially interested in the
 15 said action or the outcome thereof.
 16 That I am herewith securely sealing the deposition of
 17 CHARLES L. CROSS III, and promptly mailing the same to MR. ROBERT
 18 L. PARLETTE.
 19 IN WITNESS WHEREOF, I have hereunto set my hand and affixed
 20 my official seal of this 21st day of December, 2002.
 21
 22
 23
 24 Rebecca S. Lindauer, CSR#LI-ND-AR-5306NT
 25 Notary Public in and for the State of
 Washington, residing at Lacey

UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WASHINGTON

JOSEPH LUNA and JEANIE LUNA, husband)
and wife; CARL BENNETT and BRENDA)
BENNETT, husband and wife; DAVID J.) No. C02-1635
MURPHY and GENEVEVE L. MURPHY, husband)
and wife; NEIL NELSON and ELSIE L.)
NELSON, husband and wife; BRYAN)
THOMSON and JEANNETTE THOMSON, husband)
and wife; and DANIEL JAMES and MAZIE)
JAMES, husband and wife, on behalf of)
themselves and all others similarly)
situated,)

Plaintiffs,)

vs.)

HOUSEHOLD FINANCE CORPORATION, III,)
a foreign corporation doing business)
in the State of Washington; and)
HOUSEHOLD REALTY CORPORATION, a)
foreign corporation doing business in)
the State of Washington; BENEFICIAL)
MORTGAGE CORPORATION, a Delaware)
corporation, and other related)
entities and subsidiaries,)

Defendants.)

DEPOSITION UPON ORAL EXAMINATION OF

CHARLES L. CROSS III

(Volume II)

Tuesday, February 4, 2003
9:35 a.m.
210 11th Avenue S.W.
Room 300
Olympia, Washington

Laurie E. Heckel, CSR, RPR
Court Reporter
CSR License No. HE-CK-EL-E386DM

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