

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

LAWRENCE E. JAFFE PENSION PLAN, ON BEHALF OF ITSELF AND ALL OTHERS SIMILARLY SITUATED,	)	
	)	
	)	Lead Case No. 02-C-5893 (Consoli-
	)	dated)
Plaintiffs,	)	
	)	CLASS ACTION
- <i>against</i> -	)	
	)	Judge Ronald A. Guzman
HOUSEHOLD INTERNATIONAL, INC., ET AL.,	)	
	)	
Defendants.	)	
	)	

**DECLARATION OF THOMAS J. KAVALER IN  
OPPOSITION TO PLAINTIFFS' MOTIONS *IN LIMINE*  
NOS. 1, 3-10**

STATE OF NEW YORK    )  
  : ss.:  
COUNTY OF NEW YORK )

I, THOMAS J. KAVALER, declare as follows:

1. I am a member of the bar of the State of New York and a member of the firm Cahill Gordon & Reindel LLP, attorneys for Household International, Inc., William F. Aldinger, David A. Schoenholz and Gary Gilmer, Defendants in this action. I have been admitted *pro hac vice* to appear before the Court in this action. I submit this declaration to place before the Court certain information and documents referenced in Defendants' Memoranda of Law in Opposition to Plaintiffs' Motions *In Limine* Nos. 1, 3-10.

2. Attached hereto as Exhibit 1 is a true and correct copy of the Expert Witness Report of Catherine A. Ghighlieri, which was served upon Defendants by Plaintiffs in this action on August 15, 2007.

3. Attached hereto as Exhibit 2 is a true and correct copy of the Rebuttal Report of Catherine A. Ghiglieri, which was served upon Defendants by Plaintiffs in this action on February 1, 2008.

4. Attached hereto as Exhibit 3 is a true and correct excerpt of the Transcript of the Deposition of Catherine A. Ghiglieri, taken on February 13, 2008.

5. Attached hereto as Exhibit 4 is a true and correct copy of the Amended Joint Report Pursuant to Federal Rule of Civil Procedure 26, and Appendix A thereto, of John L. Bley and Carl A. LaSusa, which was served upon Plaintiffs by Defendants in this action on February 15, 2008.

6. Attached hereto as Exhibit 5 is a true and correct excerpt of the Transcript of the Deposition of John L. Bley, taken on March 14, 2008.

7. Attached hereto as Exhibit 6 is a true and correct copy of Exhibit 7 from the Deposition of John L. Bley, taken on March 14, 2008.

8. Attached hereto as Exhibit 7 is a true and correct excerpt of the Transcript of the Deposition of Charles Cross in this litigation, taken on April 9, 2008.

9. Attached hereto as Exhibit 8 is a true and correct excerpt of the Transcript of the Deposition of Charles Cross in *Luna v. Household Finance Corporation*, taken on December 19, 2002 and February 4, 2003.

10. Attached hereto as Exhibit 9 is a true and correct copy of the document titled Washington Department of Financial Institutions Expanded Report of Examination for Household Finance Corporation III as of April 30, 2002 bearing production control numbers HHS 02498625-697 produced in this litigation.

11. Attached hereto as Exhibit 10 is a true and correct copy of a Letter from L. McNeil Chestnut, Special Deputy Attorney General for the State of North Carolina Department

of Justice to Judge Guzman and Magistrate Judge Nolan, dated September 27, 2006, with enclosed Memorandum Regarding Confidentiality of Agency Records Under North Carolina Law and Appendices.

12. Attached hereto as Exhibit 11 is a true and correct copy of the document bearing production control number HHS 03443325 produced in this litigation.

13. Attached hereto as Exhibit 12 is a true and correct excerpt of the Transcript of the Deposition of Gary Gilmer, taken on January 12, 2007.

14. Attached hereto as Exhibit 13 is a true and correct copy of the document titled Effective Rate Complaint Review, marked as Exhibit 56 to the Deposition of Gary Gilmer, taken on January 11, 2007, bearing production control numbers HHS 02868040-053 produced in this litigation.

15. Attached hereto as Exhibit 14 is a true and correct copy of the Report of Robert E. Litan, which was served upon Plaintiffs by Defendants in this action on December 10, 2007.

16. Attached hereto as Exhibit 15 is a true and correct copy of the Expert Report of Roman L. Weil, which was served upon Plaintiffs by Defendants in this action on December 10, 2007.

17. Attached hereto as Exhibit 16 is a true and correct excerpt of the Transcript of the Deposition of Roman L. Weil, taken on March 12, 2008.

18. Attached hereto as Exhibit 17 is a true and correct copy of the Corrected Rule 26 Statement of Harris L. Devor, which was served upon Defendants by Plaintiffs in this action on March 8, 2008.

19. Attached hereto as Exhibit 18 is a true and correct excerpt of the Transcript of the Deposition of Harris L. Devor, taken on February 20, 2008.

20. Attached hereto as Exhibit 19 is a true and correct excerpt of the Transcript of the Deposition of Clifford Mizialko, taken on April 5, 2006.

21. Attached hereto as Exhibit 20 is a true and correct excerpt of the Transcript of the Deposition of David A. Schoenholz, taken on February 28, 2007.

22. Attached hereto as Exhibit 21 is a true and correct excerpt of the Transcript of the Deposition of Joseph A. Vozar, taken on February 7, 2007.

23. Attached hereto as Exhibit 22 is a true and correct copy of the document bearing production control number HHS 03114784 produced in this litigation.

24. Attached hereto as Exhibit 23 is a true and correct copy of the documents bearing production control numbers HHS 01596369-384 produced in this litigation.

25. Attached hereto as Exhibit 24 is a true and correct copy of the documents bearing production control numbers AA 064627-631 produced in this litigation.

26. Attached hereto as Exhibit 25 is a true and correct copy of the documents bearing production control numbers HHS 02022250-256 produced in this litigation.

27. Attached hereto as Exhibit 26 is a true and correct copy of the documents bearing production control numbers HHS 03131738-747 produced in this litigation.

28. Attached hereto as Exhibit 27 is a true and correct copy of the document bearing production control number HHS 03127913 produced in this litigation.

29. Attached hereto as Exhibit 28 is a true and correct copy of the documents bearing production control numbers HHS 03158437-438 produced in this litigation.

30. Attached hereto as Exhibit 29 is a true and correct copy of SEC Staff Accounting Bulletin No. 99.

31. Attached hereto as Exhibit 30 is a true and correct excerpt of HRSI Funding Inc. II, Prospectus Supplement (Form 424B5), dated August 9, 2001.

32. Attached hereto as Exhibit 31 is a true and correct excerpt of Home Equity Loan Corp. I, Prospectus Supplement (Form 424B2), dated March 8, 2002.

33. Attached hereto as Exhibit 32 is a true and correct copy of Defendants' Responses and Objections to Plaintiffs' First Request for Production of Documents, dated July 9, 2004.

34. Attached hereto as Exhibit 33 is a true and correct copy of Defendants' Notice Concerning Expert Testimony, dated December 10, 2007.

35. Attached hereto as Exhibit 34 is a true and correct copy of Defendants' Memorandum in Opposition to Plaintiffs' Submission in Response to the Court's January 16, 2008 Order, dated January 25, 2008.

36. Attached hereto as Exhibit 35 is a true and correct copy of Plaintiffs' Notice Concerning Expert Testimony Pursuant to the Court's February 26, 2008 Order, dated February 27, 2008.

37. Attached hereto as Exhibit 36 is a true and correct copy of Plaintiffs' Amended Notice Concerning Expert Testimony Pursuant to the Court's February 26, 2008 Order, dated March 10, 2008.

38. Attached hereto as Exhibit 37 is a true and correct copy of the Status Hearing Transcript before Magistrate Judge Nolan, dated March 13, 2008.

39. Attached hereto as Exhibit 38 is a true and correct copy of Plaintiffs' Witness List, dated January 30, 2009.

40. Attached hereto as Exhibit 39 is a true and correct copy of Plaintiffs' Statement of Qualifications of Expert Witnesses to Be Read to the Jury, dated January 15, 2009.

41. Attached hereto as Exhibit 40 is a true and correct copy of Defendants' Statements of Qualifications of Expert Witnesses to Be Read to the Jury and Defendants' Statements of Qualifications of Witnesses Who May Offer Testimony Based on Specialized Knowledge and Defendants' Objections to Plaintiffs' Statements of Qualifications of Expert Witnesses to Be Read to the Jury.

42. Attached hereto as Exhibit 41 is a true and correct excerpt of the Transcript of the Deposition of William F. Aldinger, taken on January 29, 2007.

43. Attached hereto as Exhibit 42 is a true and correct copy of Defendants' Status Report for the Telephone Status Conference with Magistrate Judge Nolan, dated February 6, 2008.

44. Attached hereto as Exhibit 43 is a true and correct copy of the documents bearing production control numbers HHS 02904674-682 produced in this litigation.

45. Attached hereto as Exhibit 44 is a true and correct excerpt of Defendants' [Proposed] Statement of Contested Issues of Law and Fact, dated October 31, 2008.

46. Attached hereto as Exhibit 45 is a true and correct copy of the document bearing production control number HHS 02914803-804 produced in this litigation.

47. Attached hereto as Exhibit 46 is a true and correct excerpt of the Transcript of the Deposition of William S. Long, taken on August 9, 2006.

48. Attached hereto as Exhibit 47 is a true and correct excerpt of the Transcript of the Deposition of Brian Stephens, taken on October 5, 2006.

49. Attached hereto as Exhibit 48 is a true and correct excerpt of the Transcript of the Deposition of Jonathan M. Keller, taken on July 26, 2007.

50. Attached hereto as Exhibit 49 is a true and correct excerpt of the Transcript of the Deposition of Christopher Bianucci, taken on August 2, 2007.

51. Attached hereto as Exhibit 50 is a true and correct copy of Plaintiffs' Exhibit 1210 bearing production control numbers HI KPMG 008614-008618.

52. Attached hereto as Exhibit 51 is a true and correct copy of Plaintiffs' Exhibit 1211 bearing production control numbers HI KPMG 016990-017002.

53. Attached hereto as Exhibit 52 is a true and correct copy of Plaintiffs' Exhibit 1212 bearing production control numbers HI KPMG 017077-017090.

54. Attached hereto as Exhibit 53 is a true and correct copy of Plaintiffs' Exhibit 1213 bearing production control numbers HI KPMG 017091-017104.

Executed this 10th day of February, 2009, in New York, New York.

/s / Thomas J. Kavalier  
Thomas J. Kavalier

# **EXHIBIT 1**

Restricted Document Pursuant To L.R. 26.2  
Filed Under Seal Pursuant To The Protective Order  
Dated November 5, 2004 And The Minute Order  
Dated October 10, 2006



# **EXHIBIT 2**

Restricted Document Pursuant To L.R. 26.2  
Filed Under Seal Pursuant To The Protective Order  
Dated November 5, 2004 And The Minute Order  
Dated October 10, 2006

# **EXHIBIT 3**

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

--oOo--

LAWRENCE E. JAFFE PENSION  
ELAN, On Behalf of Itself and  
All Others Similarly Situated,

Plaintiffs,

vs. Lead Case No. 02-C-5893

HOUSEHOLD INTERNATIONAL, INC.,  
et al.,

Defendants.

\_\_\_\_\_ /

--oOo--

WEDNESDAY, FEBRUARY 13, 2008

--oOo--

VIDEOTAPED DEPOSITION OF  
CATHERINE A. GHIGLIERI

--oOo--

Ref. No. 4690  
Reported By: CAROL NYGARD DROBNY, CSR No. 4018  
Registered Merit Reporter

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1 A. Yes.  
 2 Q. And you should be well informed about the  
 3 materials that you're working with about the record in  
 4 this case, as you said, the universe that you found on  
 5 LiveNote?  
 6 A. Well, it's beyond that.  
 7 I mean, there were other documents that  
 8 weren't on LiveNote, but there were a lot of documents  
 9 that were exhibits.  
 10 I mean, I had access to any document that I  
 11 wanted in this case.  
 12 Q. Uh-huh.  
 13 And you think it was part of your  
 14 responsibility to be well informed about what's in those  
 15 documents?  
 16 A. Yes.  
 17 Q. And you think it's incumbent upon an expert to  
 18 be diligent in her research?  
 19 A. Yes.  
 20 Q. And to be accurate?  
 21 A. Yes.  
 22 Q. Fair?  
 23 A. Yes.  
 24 Q. Forthright?  
 25 A. Yes.

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1 Q. And not to ignore facts that are inconsistent  
 2 with the opinion that you're giving in this matter?  
 3 In other words, if you're opining that the sun  
 4 rises in the east and sets in the west and you see that  
 5 as suggesting that the sun rises in the west and sets in  
 6 the east, you shouldn't ignore that data, you should  
 7 take count of it?  
 8 A. Yes.  
 9 Q. And would you agree that an expert should  
 10 avoid unsupported extrapolation?  
 11 A. And what do you mean by that?  
 12 Q. Well, for example, if you see one instance of  
 13 something, if you see a child with red socks, you should  
 14 not conclude that all children wear red socks?  
 15 MR. BAKER: Let me object.  
 16 That's an incomplete hypothetical.  
 17 THE WITNESS: Yeah. I -- I don't know how to  
 18 answer that.  
 19 BY MR. KAVALER:  
 20 Q. Okay. Do you know what "extrapolation"  
 21 means?  
 22 A. Uh-huh.  
 23 Q. Okay. When do you think it's appropriate to  
 24 extrapolate?  
 25 MR. BAKER: Objection. Compound.

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1 THE WITNESS: Well, what I do is look at the  
 2 entire record and from a regulatory standpoint make  
 3 judgments based on my experience, and, you know, what  
 4 I'm bringing to the table is what -- what I know from my  
 5 regulatory experience.  
 6 So there's sometimes that you extrapolate and  
 7 sometimes that you don't. It just depends on the  
 8 situation.  
 9 BY MR. KAVALER:  
 10 Q. You used the phrase "from a regulatory  
 11 standpoint" and based on your experience as a regulator.  
 12 Tell me what you mean by that.  
 13 What is a "regulator" in this context?  
 14 A. What do you mean, "What is a 'regulator'?"  
 15 Q. Well, you said "I make judgments based upon my  
 16 experience as a regulator, and I look at things from a  
 17 regulatory standpoint."  
 18 A. Right.  
 19 Q. Right?  
 20 For example, there's a thing called a  
 21 "regulator" in your automobile. I have no idea what it  
 22 does, but I'm sure that's not what you are.  
 23 A. No. I'm not an automobile, that's true.  
 24 Q. Okay. So when you say, "I look at things from  
 25 a regulatory standpoint," what do you mean?

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1 What is a "regulator" in this context?  
 2 A. Well, a "regulator" is -- financial  
 3 institutions, mortgage lending.  
 4 You know, there are -- I was a regulator of  
 5 the funeral industry, too, in Texas, but I did not draw  
 6 upon my experience in the funeral industry to opine --  
 7 make my opinions in this case.  
 8 So --  
 9 Q. What -- I take it you were a regulator in  
 10 Texas?  
 11 A. Yes.  
 12 Q. And what did you regulate?  
 13 A. I regulated banks and trust companies, prepaid  
 14 funeral contracts, perpetual care cemeteries, currency  
 15 exchanges, formed bank agencies, sale of check  
 16 licensees.  
 17 Q. Is Household any of those things?  
 18 A. Is Household any of those things?  
 19 Q. Yes.  
 20 A. Well, they did have a thrift, which some  
 21 people consider a bank, so I -- there was one slice of  
 22 their operation that -- was a bank.  
 23 Is that what you mean?  
 24 Q. What percentage of Household's gross revenues  
 25 were accounted for by that thrift in each of the years

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1 Q. How does the regulated entity comply with the  
2 disclosure requirements?  
3 Is it by disclosing the required information?  
4 MR. BAKER: Objection. Compound.  
5 THE WITNESS: Disclosing -- I'm sorry.  
6 If you're asking me how a lender goes about  
7 complying with Reg Z, for example, there's certain  
8 documents they have to give the borrower that have to  
9 contain certain information, and the information has to  
10 be accurate.  
11 So there are -- several issues. They don't  
12 just fill out the form and whatever they slap on there  
13 is okay for disclosure. It has to be accurate. So --  
14 BY MR. KAVALER:  
15 Q. But if they -- if they do the two things you  
16 mention, if they give them the required information and  
17 it is accurate, then they've conformed, complied with  
18 the disclosure requirement?  
19 A. Depending on what the requirement is, but if  
20 that's all they have to do, then they would comply with  
21 it.  
22 Q. Okay. So if they -- if they did that, for  
23 example, in that one limited instance you as a regulator  
24 would have no -- would have no criticism of them from  
25 the perspective of their compliance with that disclosure

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1 based regime; correct?  
2 A. For that particular law?  
3 Q. Right.  
4 A. I guess, I mean, if I'm following what you're  
5 saying.  
6 Q. And in that case there's nothing else that  
7 they would have to do -- withdrawn.  
8 I think you used the phrase "predatory"  
9 earlier in your testimony, one of your answers,  
10 "predatory lending."  
11 Do you recall that?  
12 A. No.  
13 Q. Okay. Are you familiar with the phrase  
14 "predatory lending"?  
15 A. Yes.  
16 Q. What does "predatory lending" mean?  
17 A. Well, the definition that -- that I've reached  
18 after looking at everything that was out there during  
19 the class period -- I'll give you the definition that I  
20 think covers what was generally known, and that is  
21 making a loan to a financially unsophisticated borrower,  
22 oftentimes not English-speaking, using deceptive or  
23 illegal sales practices and with deceptive or illegal  
24 loan terms, and I think that covers what generally was  
25 out there during the class period.

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1 Q. Is that a definition that you personally  
2 created or did you go and look it up someplace?  
3 A. I created it based on all the information  
4 that's out there.  
5 Q. Okay. And when did you create it?  
6 A. When I was thinking about this case in  
7 preparation for the deposition.  
8 Q. So it's not a definition that you -- let's  
9 start with that you created back when you were a  
10 regulator?  
11 A. No.  
12 Q. And it's not a definition that you created for  
13 some other purpose prior to being engaged for this  
14 assignment in this case?  
15 A. No. I -- I just said when I created it.  
16 Q. Right.  
17 I'm just trying to flesh out so I understand  
18 correctly what -- what the parameters of your testimony  
19 are.  
20 It's not a definition you looked up someplace  
21 in a resource manual?  
22 A. Well, there is no definition of "predatory  
23 lending" that -- any one definition, and I discussed  
24 that extensively in my report.  
25 It's sort of like trying to come up with the

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1 definition of "fraud."  
2 As soon as you do, somebody will come up with  
3 a way to get around it.  
4 So -- but I think what I -- my definition is a  
5 good characterization of the information that was out  
6 there during the class period.  
7 Q. So, in other words, would you agree with me  
8 that you know predatory lending practices when you see  
9 them, but trying to come up with any definition is  
10 difficult?  
11 A. Well, I think I've -- my report reflects that  
12 those were some of the quotes from some of the  
13 regulators.  
14 Q. And do you agree with that?  
15 A. It's like I think it was pornography, you know  
16 it when you see it. Several of them have said that.  
17 Q. But my question to you is, do you agree with  
18 that?  
19 A. That you know it when you see it?  
20 Q. Do you agree that predatory lending practices,  
21 you know them when you see them, but trying to come up  
22 with a neat definition is difficult?  
23 A. Well, I mean, I think that's a good  
24 characterization of why it's difficult to -- to put a  
25 box around it. You know, these 25 sales practices are

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<p>1 Are there regulators like you mentioned, the  2 HUD, or the OCC, or OTS?  3 Is there a standard regulatory definition of  4 "predatory lending"?  5 A. Well, if you read my report, my initial report  6 and my rebuttal, you'll see that I quoted many examples  7 of what -- including Mr. Bley was saying with the  8 definition of "predatory lending," and none of them used  9 the exact words, but all of them had similar ideas.  10 Q. Is it fair to say that all of them are  11 different, each than the other, and each than your  12 definition as given here today?  13 A. I don't agree with that.  14 I think all of the ideas are the same, and  15 that is illegal or deceptive sales practices, loan  16 terms, and -- I think Mr. Bley might have said it best  17 when he said, "Mortgage fraud, it's a new name for an  18 old activity."  19 Q. Do you know what Mr. Aldinger's definition of  20 "predatory lending" is?  21 A. I have it in my report. I didn't memorize it.  22 Q. Other than you have in your report do you have  23 any knowledge of what Aldinger's working definition of  24 "predatory lending" is today, was during his deposition,  25 or was during the class period?</p>	<p>1 Q. And you believe yours is better than theirs?  2 A. I believe mine characterizes -- or is a good  3 summary of the definitions put forward by the regulators  4 at the time of the class.  5 Q. But they don't -- those four individuals don't  6 seem to share your definition; is that right?  7 A. Well, their definition was more restrictive  8 from what I could tell.  9 Q. Is their definition in your opinion wrong?  10 A. I don't think it's broad enough to cover  11 "predatory lending."  12 MR. BAKER: You want to take a break?  13 THE WITNESS: Yeah. Yeah.  14 MR. BAKER: Can we take a break now? Is it a  15 good time?  16 THE WITNESS: Would it be okay to take a quick  17 break?  18 MR. KAVALER: Sure. Absolutely.  19 VIDEOGRAPHER: Off the record at 10:22.  20 (Thereupon a recess was taken at 10:22 a.m.  21 and the deposition resumed at 10:35 a.m.)  22 VIDEOGRAPHER: On record at 10:35.  23 BY MR. KAVALER:  24 Q. Ms. Ghiglieri, let me go back over some of the  25 things that I started asking you about before to make</p>
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<p>1 A. From what -- only what I saw in his  2 deposition.  3 Q. What about Mr. Gilmer, do you know what his  4 definition of "predatory lending" was during the class  5 period?  6 A. If I recall correctly, and I can look it up,  7 he said intentionally illegal or intentionally  8 deceptive, I believe.  9 Q. What about Mr. Vozar, do you know what his  10 definition was during the class period?  11 A. I have it in my report, a snippet from his  12 deposition.  13 Q. And what about Mr. Scheinholz, do you know  14 what his definition was?  15 A. And I have it on the report.  16 Q. Do you know whether any of the four of them  17 had the same definition that you gave today in your  18 testimony?  19 A. I think mine is broader than -- theirs was  20 very restrictive, as I discussed in my report and in my  21 rebuttal. Theirs -- theirs was more restrictive than my  22 definition.  23 Q. So yours is broader than any of theirs or all  24 of theirs?  25 A. I believe all of theirs.</p>	<p>1 sure that I've completed my understanding of what you  2 did.  3 I don't mean to repeat myself. I just want to  4 be sure I've exhausted this subject.  5 You didn't do any statistical analysis of  6 anything; correct?  7 A. No.  8 Q. You didn't do any surveys?  9 You didn't survey any companies other than  10 Household to see how Household compares to any of its  11 peers on any topic?  12 A. I never do that. I just look at the documents  13 in the case, and that's what I did here.  14 Q. That's a "no," you didn't do that?  15 A. No, I never do that on any case.  16 Q. Uh-huh.  17 Okay. So on any of these practices that you  18 talk about in your two reports you don't know whether  19 Household was an outlier or if they're right in the  20 middle of the pack?  21 A. Only from what I looked at in the documents in  22 the case, and there are some studies that were  23 performed. One in particular was the KPMG study that  24 gave me some information in terms of how they compare to  25 their peers.</p>

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1 Q. Are you finished with your answer?  
 2 A. Sure.  
 3 Q. Okay. You can't quantify the universe of  
 4 complaints that Household received?  
 5 MR. BAKER: Same objections.  
 6 THE WITNESS: Well, I've seen --  
 7 THE WITNESS: Okay. I've seen lots of  
 8 documents from Household summarizing complaints. I  
 9 would just have no idea what the universe is.  
 10 BY MR. KAVALER:  
 11 Q. How many open customer accounts did Household  
 12 have during the class period?  
 13 A. Open --  
 14 Q. Customer accounts.  
 15 A. What do you mean by that?  
 16 Q. Do you understand Household deals with various  
 17 customers?  
 18 A. Sure.  
 19 Q. And at various times customers have open and  
 20 outstanding loans?  
 21 A. And that's what you mean by "open accounts"?  
 22 MR. BAKER: Are you referring to Household  
 23 International, Household Consumer Lending?  
 24 Which are you -- any business? Household in  
 25 its entirety? Is that what you're asking, Mr. Kavalier?

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1 THE WITNESS: What -- which -- what exactly  
 2 are you asking?  
 3 BY MR. KAVALER:  
 4 Q. Do you have any knowledge as to how many  
 5 customers Household had at any given time who had open  
 6 accounts?  
 7 A. Well, I don't understand.  
 8 Which business unit are you talking about?  
 9 Q. Well, I'm trying to find out what knowledge  
 10 you have.  
 11 For instance, you could say "I know how many  
 12 accounts Beneficial had." "I know how many accounts  
 13 Household Finance had." "I know how many accounts the  
 14 thrift had." "I know how many accounts the credit card  
 15 businesses had," or you can say "I know how many  
 16 accounts globally Household International had," or you  
 17 could say "I don't have any knowledge at all."  
 18 A. Well, I've read the documents where different  
 19 statistics were discussed, but I didn't memorize those.  
 20 I wouldn't be able to spout them off sitting  
 21 here today.  
 22 Q. What documents gave you the number of accounts  
 23 Household had at any given time?  
 24 A. Well, I've read all kinds of responses to  
 25 regulators. I've read internal documents discussing

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1 complaints where they were deriving ratios.  
 2 So I'm sure in there somewhere there was a --  
 3 a summary of how many accounts were the universe of what  
 4 they were talking about.  
 5 Q. Did you read Household's annual reports filed  
 6 with the Securities and Exchange Commission?  
 7 A. I did not.  
 8 Q. Do you know that in those reports Household  
 9 discloses how many open accounts they have at any time  
 10 or at year-end?  
 11 A. I don't know what they disclosed there.  
 12 Q. The universe of complaints that you're aware  
 13 of, the ones that are contained on Appendix 8 --  
 14 Appendix H, rather, to Exhibit I plus the ones that are  
 15 not contained that you just testified about in the last  
 16 few minutes, do you know what percentage those are of  
 17 Household's open accounts at any given time?  
 18 A. No, I don't.  
 19 Q. Are you of the impression it's a material  
 20 percentage?  
 21 MR. BAKER: Objection. Vague and ambiguous as  
 22 to what you mean by "material."  
 23 THE WITNESS: It depends what your definition  
 24 of "material" is.  
 25 BY MR. KAVALER:

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1 Q. Are you under the impression it represents 50  
 2 percent of Household's customers?  
 3 A. I don't know the exact percentag.  
 4 Q. Are you under the impression it represents 10  
 5 percent?  
 6 A. I just answered that. I don't know what the  
 7 exact percentage is.  
 8 Q. Are you under the impression it represents  
 9 less than one percent?  
 10 A. I don't know the exact percentage.  
 11 Q. Would it make a difference to your opinions if  
 12 you knew the answer to those questions?  
 13 A. I would take it in to consideration.  
 14 Q. All right. How would you take it in to  
 15 consideration?  
 16 A. Well, as I think I said before, when you're  
 17 looking at complaints, you can't just say, "Well there's  
 18 only one complaint here so we don't have to worry about  
 19 it."  
 20 You have to take in to consideration the basis  
 21 of the complaint, how geographically dispersed they were.  
 22 This is one of the things I was trying to look at here.  
 23 And how similar the complaints are.  
 24 So it's not just the sheer number. And also,  
 25 as I said before, regulators realize that it takes a lot

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1 you please let the witness finish it.  
 2 Ms. Ghiglier, are you finished?  
 3 THE WITNESS: I don't know. I've lost my  
 4 train of thought.  
 5 MR. BAKER: Will you stop that.  
 6 You are interrupting her. You are thwarting  
 7 the purpose of her deposition. You're not letting her  
 8 get her answers out.  
 9 Do not do it again.  
 10 BY MR. KAVALER:  
 11 Q. You used the word "prevalant" in your last  
 12 answer.  
 13 Do you remember that?  
 14 A. I don't know.  
 15 Q. Okay. Did you make any effort to figure out  
 16 how prevalent any of these practices that you talk about  
 17 under point B on page 87 of Exhibit 1 were?  
 18 A. Yes, I did make an effort to look at how wide  
 19 spread they were and take that in to consideration in my  
 20 opinions.  
 21 Q. How did you do that if you know neither the  
 22 numerator or the denominator, you don't know how many  
 23 complaints there were and don't know how many open  
 24 customer accounts there were?  
 25 How could you figure out how prevalent a given

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1 practice was?  
 2 MR. BAKER: Objection. Compound.  
 3 THE WITNESS: I think, as I've said numerous  
 4 times in response to, I think, the same question, I  
 5 looked at Household's documents, where they were  
 6 summarizing complaints.  
 7 I looked at examination reports regarding  
 8 complaints.  
 9 I looked at actual complaints, and I drew  
 10 conclusions from all of those documents. I -- I did not  
 11 do -- in this particular area for complaints, as I've  
 12 been saying, just because you have a handful of  
 13 complaints you don't dismiss it, because if you divide  
 14 it by the sum total of the open accounts they have, it  
 15 comes up to a small number, because it still might be  
 16 important that the nature of the complaint sometimes  
 17 overrides the number and so I -- I try to take  
 18 everything in to consideration, not just focus on a  
 19 percentage of the complaints divided by the open  
 20 accounts.  
 21 BY MR. KAVALER:  
 22 Q. All right.  
 23 A. And I did not do that calculation.  
 24 Q. Okay. Let me see if we can leave this area  
 25 behind forever.

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1 You didn't do that calculation, I understand.  
 2 You understood that one of the differences of  
 3 positions between regulator and Household, the  
 4 regulators as you recount in your report, would confront  
 5 Household with a complaint. Household would say some  
 6 variant of that's not company policy, it's a rogue  
 7 employee, and you concluded ultimately that that was not  
 8 true, that it was company policy and it was not a rogue  
 9 employee; correct?  
 10 MR. BAKER: Objection. Mischaracterizes the  
 11 contents of the reports.  
 12 THE WITNESS: I spent a lot of time in my  
 13 report, my initial report and in my rebuttal report,  
 14 talking about this issue of unauthorized and rogue  
 15 employees, and there are a lot of facets to it, but  
 16 overall I concluded that Household's explanation was not  
 17 accurate --  
 18 BY MR. KAVALER:  
 19 Q. And you --  
 20 A. -- as far as I'm concerned.  
 21 Q. And as far as you're concerned, you came to  
 22 that conclusion without knowing either the numerator or  
 23 the denominator of the fraction where the numerator  
 24 would be how many complaints there were and the  
 25 denominator would be how many open accounts there were?

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1 A. Well, as I've said however many times I've  
 2 said it today, that is an irrelevant number, because you  
 3 have to look at what the nature of the complaints are  
 4 and the fact that not everyone who is affected by a  
 5 certain practice complains.  
 6 Q. Whether it's relevant or not, you didn't know  
 7 it, you didn't do it, you didn't make any effort to  
 8 ascertain it, and you're unable to do it today; correct?  
 9 MR. BAKER: Mischaracterizes her prior  
 10 testimony.  
 11 THE WITNESS: As I think I said, I looked at  
 12 lots of documents internal to Household where they  
 13 discuss complaints and they characterize it as a lot,  
 14 not very much, increasing, decreasing.  
 15 There -- there were many, many many, many  
 16 documents talking about the number of complaints, and --  
 17 versus the universe of their accounts, by state, by  
 18 region.  
 19 There were any number of things that I  
 20 considered.  
 21 BY MR. KAVALER:  
 22 Q. Ms. Ghiglieri, I want to be completely fair to  
 23 you.  
 24 MR. BAKER: Ghiglieri.  
 25 BY MR. KAVALER:



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1 Q. There may come a time when I want to say to  
 2 the Judge with regard to this portion of the testimony  
 3 that "This witness did not make any calculation of the  
 4 percentage that complaints represent of the total  
 5 universe of Household customers," and I'm going to say  
 6 to him that I gave you every opportunity to answer that  
 7 question.  
 8 So I'm saying right now that's the use to  
 9 which I'm going to put this piece of testimony. If  
 10 there's anything you want to add other than what you've  
 11 said repeatedly about looking at the whole universe,  
 12 please feel free to do so.  
 13 Absent that I'm going to say I asked the  
 14 question as plainly as I know how repetively, Mr. -- Mr.  
 15 Baker chastised me soundly and I'm duly chastised for  
 16 being repetitive, and I got no answer.  
 17 If I'm misunderstanding you, if you're telling  
 18 me --  
 19 A. I think that --  
 20 Q. Excuse me. Let me finish my question.  
 21 If you're telling me that you actually did  
 22 calculate the percentage and that you found that these  
 23 complaints represented a material or a significant or  
 24 any other percentage of Household's customer base, this  
 25 would be the time for you to point me to that evidence

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1 and tell me about it, or if you want to rest on what you  
 2 said, that's fine, but then I will characterize it as  
 3 I've said, and I think I'm being very fair in telling  
 4 you what I'm going to do with your testimony.  
 5 If I'm misunderstanding you, feel free to correct  
 6 me.  
 7 A. I think it mischaracterizes my testimony to  
 8 say I haven't been responsive.  
 9 I've said over and over that I didn't perform  
 10 separate statistical analysis, but I did consider all of  
 11 the Household documents where they discussed  
 12 percentages, increasing or decreasing complaints by  
 13 various business units and various states.  
 14 I considered all of that.  
 15 I didn't feel that it was relevant for me to  
 16 do separate calculations because I didn't feel I had the  
 17 necessary information to do it, nor did I care to.  
 18 I used their internal documents, which should  
 19 have been more accurate than anything I could have done.  
 20 Q. Do you believe your report should be the  
 21 product of reliable principles and methods?  
 22 MR. BAKER: Objection. Vague and ambiguous.  
 23 THE WITNESS: What do you mean by "principles  
 24 and methods"?  
 25 BY MR. KAVALER:

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1 Q. Do you believe that the methods that you used  
 2 to come to your conclusions should be reliable methods?  
 3 MR. BAKER: Same objection.  
 4 THE WITNESS: I don't think I understand how  
 5 you're using that term in this kind of a case.  
 6 BY MR. KAVALER:  
 7 Q. You believe that your reports should be the  
 8 product of methods that other people with your expertise  
 9 would also regard as the proper methods to use?  
 10 A. Well, these types of cases don't lend  
 11 themselves to like medical analysis, or, you know, what  
 12 other experts might do where you say this is the set  
 13 method that you have to use.  
 14 But generally all regulators look at documents  
 15 and come up with similar conclusions. Whether it's a  
 16 mortgage file or a looking at a document to do term and  
 17 compliance with Regulation Z or RESPA.  
 18 And from that standpoint I did use the same  
 19 methods that I used when I was an examiner or when I was  
 20 the Banking Commissioner.  
 21 That's the -- that's the approach that I took  
 22 with regard to this entire file.  
 23 Q. And you applied those methods that you just  
 24 described to the facts of this case?  
 25 A. Yes.

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1 Q. Now, we were talking earlier about your  
 2 definition of "predatory lending," and I believe you  
 3 told me that your report does not contain a definition  
 4 but you gave me a definition today in your testimony.  
 5 Did I understand that correctly?  
 6 A. Yes.  
 7 Q. Okay.  
 8 A. I thought you might ask me for my definition,  
 9 so I pondered it.  
 10 Q. So you pondered it when?  
 11 A. In preparation for my deposition.  
 12 Q. Yes, but when temporarily, this morning,  
 13 yesterday, a week ago?  
 14 A. Oh, in the last week --  
 15 Q. In the last week?  
 16 A. -- when I was preparing for my deposition.  
 17 Q. So when you told me earlier today that's the  
 18 definition that you prepared for purposes of this case,  
 19 we're now refining it, it's a definition you prepared in  
 20 the last week?  
 21 A. I did not say for this case. I said for this  
 22 deposition.  
 23 MR. KAVALER: Okay.  
 24 THE WITNESS: That mischaracterizes --  
 25 MR. BAKER: Mr. Kavalier, you have to listen to

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1 rebuttal report, I agree with Household's answer.  
 2 That's absolutely not the case.  
 3 MR. BAKER: Ms. Ghiglieri, if you want,  
 4 perhaps you should review your rebuttal report, the  
 5 comments you made specifically regarding Household's  
 6 responses to regulators, and that's on page 62 of your  
 7 rebuttal report, and I think that will help you  
 8 determine how to respond to Mr. Kavalier's questions on  
 9 this issue.  
 10 MR. KAVALER: No. I object to that process,  
 11 Ms. Ghiglieri.  
 12 I have a different question I want to ask you,  
 13 and I'm going to move on, and if Mr. Baker wants to do  
 14 that on his cross examination, he's fine.  
 15 BY MR. KAVALER:  
 16 Q. Here's my question:  
 17 Did you discount any of Household's  
 18 explanations for any of the -- any of its responses to  
 19 the regulators?  
 20 MR. BAKER: I would again think that you  
 21 should look at your Exhibit B -- or Exhibit 2 page 62,  
 22 which discusses that issue.  
 23 THE WITNESS: Would you ask me that question  
 24 again.  
 25 MR. KAVALER: Sure.

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1 Please read back the question.  
 2 (Record Read)  
 3 THE WITNESS: Which responses are you asking  
 4 me about?  
 5 BY MR. KAVALER:  
 6 Q. Throughout the process of forming your  
 7 opinion, when you saw that Household responded to a  
 8 regulator --  
 9 A. Yes.  
 10 Q. -- did you sometimes say "I discount that. I  
 11 find that response to be wholly unpersuasive, wholly  
 12 unacceptable, uncredible, untrue," whatever?  
 13 A. In the beginning, when I started through this  
 14 process, I assumed that what Household was saying was  
 15 credible, and the more documents that I looked at and  
 16 the more responses I looked at based on deposition  
 17 testimony, internal documents, or whatever, the more  
 18 unreliable just as a general pattern I found Household's  
 19 responses.  
 20 Now, it may be that there's a response in  
 21 here, and we haven't gone through every line, that I'll  
 22 say "I agree with that," "I don't agree with that,"  
 23 based on other knowledge I have, but, as I said in my  
 24 rebuttal report here, generally I've found Household's  
 25 responses to be unreliable, because of some major

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1 factors that I found in their responses to the  
 2 regulators, and it kind of varnished all of their other  
 3 responses.  
 4 Q. Now, if a regulator came to that conclusion,  
 5 what would a regulator do?  
 6 A. Well, they would do what they did here, and  
 7 they would go back to them and say, "We don't believe  
 8 what you're telling us, and we want you to, you know,  
 9 refund money, you know, pay a fine or whatever."  
 10 I mean, that is the conclusion that the  
 11 regulators came to.  
 12 Q. Or they would go back and say to Household,  
 13 "We don't find this response credible," to use your  
 14 word, "Please give us a better response;" isn't that  
 15 true?  
 16 A. Well, why would they do that? Because then  
 17 they would just keep getting responses that they found  
 18 to be unreliable.  
 19 Generally regulators don't give a regulated  
 20 entity another opportunity to give them another  
 21 unreliable response. They go on and take some sort of  
 22 action.  
 23 And -- and I cite in my report and in my  
 24 rebuttal -- I -- one specifically that comes to mind is  
 25 the Iowa A.G. where she said, you know, "There are

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1 things that, you know, they told us, and it's just not  
 2 what was happening on the ground," for example.  
 3 And so they -- their responses -- the  
 4 responses that Household made to them became varnished  
 5 as unreliable.  
 6 Q. So a regulator would not go back to Household  
 7 and ask for a better explanation; that's your testimony?  
 8 MR. BAKER: Objection. Asked and answered.  
 9 THE WITNESS: Well -- you know, you're pulling  
 10 out a document, so maybe somewhere someone asked them  
 11 to, but I don't know why they would.  
 12 If they found their answers to be unreliable,  
 13 they should take enforcement action, which is what most  
 14 of them did.  
 15 MR. KAVALER: No. That's not what I'm looking  
 16 for.  
 17 Oh, maybe it is. You're right.  
 18 BY MR. KAVALER:  
 19 Q. Let's go back to Exhibit 3. I think that's  
 20 the one you testified you didn't see.  
 21 A. My documents aren't marked, so I don't know  
 22 what you're talking about.  
 23 Q. The Doreen Hughes file.  
 24 MR. BAKER: I think the witness needs another  
 25 copy.

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1 Q. But you didn't see any document in the record  
 2 that you looked at where somebody said, "Here's why  
 3 we're going to do this;" did you?  
 4 A. Well, if I recall, Andrew Carr -- let me just  
 5 see real quick.  
 6 MR. BAKER: I think it's here, Cathy.  
 7 This is your --  
 8 THE WITNESS: Yeah.  
 9 I was going to see what page it's on.  
 10 MR. BAKER: 7. I'm trying.  
 11 Oh, my God. I'm ripping. Look at that, huh?  
 12 THE WITNESS: Okay. Thanks.  
 13 The -- if you look at the Andrew Carr list of  
 14 initiatives that was attached to Gilmer 24, he's got as  
 15 -- let's see which one it is.  
 16 Number 8. It says "Offer biweekly payment  
 17 loans to reduce effective APR and make our mortgage  
 18 terms more competitive," and there would be no reason  
 19 for them to have to do that if their terms were  
 20 competitive.  
 21 MR. BAKER: About how much time is left?  
 22 VIDEOGRAPHER: About four minutes,  
 23 three-and-a-half.  
 24 MR. BAKER: Mr. Kavalier, again, I'm going to  
 25 suggest you reserve some time.

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1 If you don't want to reserve some time for --  
 2 for recross, that's up to you.  
 3 But I'm --  
 4 MR. KAVALER: I'm going to complete my seven  
 5 hours and terminate the examination. I believe that's  
 6 what the rules require.  
 7 I believe that's what the Magistrate  
 8 contemplates, and that's what I'm going to do.  
 9 MR. BAKER: Oh. So you're not going to let me  
 10 do any recross; is that what you're telling me?  
 11 MR. KAVALER: Were you listening before?  
 12 MR. BAKER: I tried to. I don't think you  
 13 ever said that before.  
 14 MR. KAVALER: Uh-huh.  
 15 BY MR. KAVALER:  
 16 Q. So you mentioned that prepayment penalties --  
 17 at some point Household changed the duration of the  
 18 prepayment penalty period?  
 19 A. Yes.  
 20 Q. And what do you recall they changed it from  
 21 and to?  
 22 A. From three years to five years.  
 23 Q. Was it predatory when it was three years?  
 24 A. Well, there are a lot of issues surrounding  
 25 prepayment penalties. One is disclosure. One is

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1 saying, you know, the customer says. "Oh, there's a  
 2 prepayment penalty" and the customer service person  
 3 saying, "Oh. We'll waive it."  
 4 And -- so there are -- there are a whole host  
 5 of issues that I discuss in both of these reports, but  
 6 in my opinion a prepayment penalty of five -- within the  
 7 first five years, and I believe it was six months  
 8 interest, was the penalty, if -- if you paid off in the  
 9 first five years.  
 10 That to me is predatory. So the length of it  
 11 to me was predatory.  
 12 The regulators, I believe, agreed with me  
 13 because they made Household go back to a two-year --  
 14 within a two-year time frame.  
 15 Q. So two years is not predatory?  
 16 A. The -- the length of it.  
 17 Q. I'm talking about the length.  
 18 A. Yes.  
 19 Q. Right.  
 20 Is three years predatory?  
 21 A. Well, I think three years is probably the  
 22 maximum that I've seen.  
 23 Q. I see. Three years.  
 24 A. I would say would not be predatory.  
 25 Q. So four years is predatory?

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1 A. I would say anything over three years.  
 2 Q. Three years and one week?  
 3 A. Anything over three years.  
 4 Q. Is that an industry standard, three years?  
 5 Is that something I can go look up somewhere?  
 6 Is there a textbook that tells me that three  
 7 years is the duration period after which it becomes  
 8 predatory?  
 9 A. I haven't seen it in any particular place, but  
 10 it's just like a lot of other things. I teach bank  
 11 board of directors how to be good board of directors,  
 12 and there's so many rules of thumb that the regulators  
 13 use, so many standards, and to me this is one.  
 14 Q. Do you know what duration period Household's  
 15 directors were taught?  
 16 A. I don't understand your question.  
 17 Q. Well, you say when you teach bank directors  
 18 you teach them three years is a benchmark or a bright  
 19 line.  
 20 Do you know whether Household's directors went  
 21 to your classes or classes like yours and learned the  
 22 same thing?  
 23 A. Well, I -- that mischaracterizes my testimony.  
 24 What I'm saying is I don't think that there's  
 25 a set policy that the regulators have that says anything

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1 under -- is it RESPA or Regulation Z?  
 2 A. Regulation Z.  
 3 Q. Okay. Okay.  
 4 Did Mr. Kavalier direct you to that specific  
 5 sentence?  
 6 A. Oh.  
 7 Q. You don't remember one way or the other?  
 8 A. I don't remember.  
 9 Q. Okay. Let me direct your attention to -- I  
 10 believe it's Exhibit 21, and this is the document  
 11 beginning with OTS 0007.  
 12 Do you see that?  
 13 Okay.  
 14 And I want to direct your attention to page 3.  
 15 Do you see that? There's a section entitled  
 16 "Negative General Attributes."  
 17 Do you see that section?  
 18 A. Yes.  
 19 Q. Okay. And if I could direct you to the bottom  
 20 of that page, there's a bullet point starting with "Due  
 21 to."  
 22 Can you read that out loud?  
 23 A. "Due to the high penetration rate of credit  
 24 insurance sales the institution is at risk regarding the  
 25 voluntary nature of insurance and proper treatment of

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1 insurance premiums under the Truth in Lending Act."  
 2 Q. Okay. Does that statement support your  
 3 concern -- your -- sorry -- your reports that indicated  
 4 that the OTS was concerned about insurance packing?  
 5 A. Yes.  
 6 Q. Okay. Let me ask you one other question.  
 7 At the last part of your deposition  
 8 Mr. Kavalier was asking you questions about the benchmark  
 9 rate and whether any regulators had -- criticized  
 10 Household's practice with respect to the benchmark rate.  
 11 Do you remember that testimony?  
 12 A. Yes.  
 13 Q. Okay. To your knowledge did any of the  
 14 regulators criticize Household with respect to the,  
 15 quote, unquote, "discount points" that were being  
 16 charged?  
 17 A. Yes.  
 18 Q. Does your exhibit that you referred to -- I  
 19 believe it's Appendix -- is that Appendix B?  
 20 A. This is Appendix D of my rebuttal.  
 21 Is that what you mean?  
 22 Q. No. I believe --  
 23 A. Oh. Which?  
 24 Q. -- it's Appendix B that showed the pricing  
 25 above the benchmark rate?

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1 A. Oh, yeah.  
 2 Q. Okay. Does that document also reflect that  
 3 the discount points being charged were not true discount  
 4 points, and the fact -- as to the fact that there was no  
 5 diminishment of the rates in exchange for payment of  
 6 those rates beside those points?  
 7 A. Yes. In fact, the rates were increased over  
 8 the benchmark, and then the employees were compensated  
 9 on that.  
 10 Q. Okay. Is this consistent with other regulators  
 11 or with the regulators' complaints that the discount  
 12 points being charged were not, in fact, true discount  
 13 points?  
 14 A. Yes.  
 15 Q. And that they were, in fact, origination fees?  
 16 A. Yes.  
 17 MR. BAKER: I don't have any further  
 18 questions. The deposition is over.  
 19 VIDEOGRAPHER: This is the end of Videotape  
 20 Number 4, Volume 1, in the deposition of Cathy  
 21 Ghiglieri.  
 22 The original videotapes will be retained by  
 23 LiveNote World Services.  
 24 Going off the record, the time on the video  
 25 monitor is 7:02.

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1 (Thereupon the deposition was adjourned at  
 2 7:02 p.m.)  
 3 --o0o--  
 4  
 5 Signed under penalty of perjury:  
 6  
 7 \_\_\_\_\_  
 8 CATHERINE A. GHIGLIERI  
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 10 \_\_\_\_\_  
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1 --o0o--

2 I, CAROL NYGARD DROBNY, a Certified Shorthand  
3 Reporter of the State of California, duly authorized to  
4 administer oaths, do hereby certify:

5 That I am a disinterested person herein; that  
6 the Witness, CATHERINE A. GHIGLIERI, named in the  
7 foregoing deposition was by me duly sworn to testify the  
8 truth, the whole truth, and nothing but the truth; that  
9 the deposition was reported in shorthand by me, CAROL  
10 NYGARD DROBNY, a Certified Shorthand Reporter of the  
11 State of California, and thereafter transcribed into  
12 typewriting.

13 That before completion of the deposition,  
14 review of the transcript [ ] was [x] was not requested.  
15 If requested, any changes made by the deponent (and  
16 provided to the Reporter) during the period allowed are  
17 appended hereto.

18 Dated: \_\_\_\_\_

19

20

\_\_\_\_\_  
CAROL NYGARD DROBNY CSR #4018

21

22 --o0o--

23

24

25

# **EXHIBIT 4**

Restricted Document Pursuant To L.R. 26.2  
Filed Under Seal Pursuant To The Protective Order  
Dated November 5, 2004 And The Minute Order  
Dated October 10, 2006

# **EXHIBIT 5**

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION  
Lead Case No. 02-C-5893

-----x  
LAWRENCE E. JAFFE PENSION PLAN,  
on Behalf of Itself and All Others  
Similarly Situated,

Plaintiff,

vs.

HOUSEHOLD INTERNATIONAL, INC.,  
et al.,

Defendants.  
-----x

VIDEOTAPE DEPOSITION of JOHN BLEY,  
taken by the Plaintiffs at the offices of Cahill  
Gordon & Reindel, 80 Pine Street, New York, New York  
10005, on March 14, 2008, at 9:38 a.m., before Lisa  
Forlano, a Notary Public and Certified Court Reporter.



<p style="text-align: right;">Page 54</p> <p>1 see citations of fraud, deception, unfair, I'm going  2 to spend a lot more time considering those issues  3 within the context of a broader enforcement context  4 and the manner in which DFI should implement that  5 statute.  6 Q While you were the head of DFI, did you  7 communicate that view, the one you just expressed to  8 examiners or to their supervisors to ensure that  9 they were very cautious in the use of those terms,  10 unfair, deceptive, fraudulent? So you didn't engage  11 in sort of gotcha supervision?  12 A When I -- I was the head of four  13 divisions, okay? I had four division directors  14 reporting to me. The constant theme that I -- the  15 culture I tried to implement within the department  16 was based on three premises. I hope I can remember  17 them: at the heat of the moment here. The first one  18 is stay true to your statutory mission and if you  19 read 3104010, which is cited in a footnote in our  20 report, that mission does not say much about  21 consumer protection as the mission, it says  22 facilitate credit, facilitate credit to the citizens  23 of the State of Washington. The way I interpret  24 that specific legislative intent or mandate to the  25 department is that when you apply rules, when you</p>	<p style="text-align: right;">Page 56</p> <p>1 circumstance, to follow this particular rule. So to  2 the extent we can, we want to regulate to the  3 exception and not to the rule. We want to focus our  4 regulation on whatever the problem is and divine  5 rules that will address specifically that problem  6 and not over regulate the problem. Stay true to  7 statutory mission, to the extent we can. There's  8 the qualifier there. Regulate to the exception and  9 not the rule.  10 The third is a recognition that the  11 regulatory apparatus are not the primary regulators  12 of the financial institution. As a matter of fact,  13 the coercive power of the state is probably the  14 third in line. The first regulator of financial  15 institutions isn't always going to be the  16 marketplace, the second, the regulatory authority of  17 the financial institution of the Board of Directors  18 and the regulators of the State and Federal  19 Government are somewhere around third or fourth.  20 Some would say the bonding companies will be third,  21 and say that's somewhat tongue in cheek, but let's  22 put us third. Markets first, board second,  23 regulatory apparatus third.  24 That's the type of culture I tried to  25 impose in the Department of Financial Institutions</p>
<p style="text-align: right;">Page 55</p> <p>1 apply statutes, Mr. Bley or Department of Financial  2 Institutions, we want you to do that equally across  3 all industries. We don't want you to engage in  4 gotcha regulations. That's the way I'd interpret  5 that provision. I think it's a reasonable  6 interpretation of that provision. Stay true to your  7 statutory mission, which means don't go beyond what  8 the legislature has granted us.  9 Second is regulate to the exception and  10 not to the general rule. For example, I do a lot of  11 governance-type presentations, some of which I'm  12 critical of Sarbanes-Oxley. Sarbanes-Oxley has  13 provisions in it that mandates specific behaviors on  14 the part of licensed entities. Some of those are  15 very prudent public policy provisions, others don't  16 work as well in the context of a small bank. For  17 example, all members of an audit committee, quote,  18 unquote, need to be independent of management if the  19 entity is subject to Sarbanes-Oxley. Under banking  20 rules, if the bank is under a billion dollars, a  21 majority of the members of the audit committee need  22 to be independent of management. The bank  23 regulators I'd suggest are regulating more to the  24 exception than to the rule because they're not  25 requiring all institutions, regardless of their</p>	<p style="text-align: right;">Page 57</p> <p>1 so it would not be a surprise to any division if the  2 questions I'm proposing to you today about the use  3 of fraud, deception, unfair would be questions I  4 would be posing if it -- if that report would have  5 ever come to be.  6 Q I'm going to shift gears a little bit.  7 I want to ask you a couple of relatively simple  8 questions.  9 Have you ever reviewed the operative  10 Complaint in this action?  11 A It's one of the first documents.  12 Matter of fact, I think we counted how many times  13 the word predatory appeared in it, which appears in  14 our Report of Exam -- excuse me, I said Report of  15 Exam, in our reply. I apologize.  16 Q Are you or Mr. LaSusa expressing any  17 opinion as to whether Household's public statements  18 regarding whether an engagement of predatory lending  19 were accurate or not?  20 A Let's ask that question one more time.  21 Q Are you expressing any opinion as to  22 whether Household's public statements regarding  23 whether they engaged in predatory lending or not  24 were accurate?  25 MR. OWEN: I'm going to object to the</p>

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1 something regarding HUD 1 forms. A GFE issue may  
 2 most likely be, I'm speculating, and I can't read  
 3 Mr. Detelich's mind, but was probably the ongoing  
 4 controversy associated with ranges of GFEs or  
 5 perhaps isolated occurrences involving the delivery  
 6 of GFEs. I can't tell from this, but what I can  
 7 tell from this document is a communication to senior  
 8 staff saying that this process is being implemented  
 9 effectively. And I have no reason to conclude that  
 10 Mr. Detelich would be intentionally misleading Mr.  
 11 Gilmore in the context with that. I think that  
 12 that -- those two paragraphs, not just your  
 13 sentence, but those two paragraphs support the  
 14 phrase we have in the footnote 184. I don't  
 15 understand your point.  
 16 VIDEO OPERATOR: Counselor, that's it.  
 17 MR. OWEN: All right, we're done.  
 18 VIDEO OPERATOR: This marks the end of  
 19 videotape number eight in the deposition of  
 20 John Bley.  
 21 The original tape is to be retained by  
 22 West Court Reporting Service.  
 23 We're going off the record.  
 24 The time is 6:54.  
 25

Page 304

1 STATE OF NEW YORK )  
 2 COUNTY OF NEW YORK )  
 3 I wish to make the following changes, for  
 4 the following reason:  
 5 PAGE LINE  
 6 \_\_\_\_\_ CHANGE: \_\_\_\_\_  
 7 \_\_\_\_\_ REASON: \_\_\_\_\_  
 8 \_\_\_\_\_ CHANGE: \_\_\_\_\_  
 9 \_\_\_\_\_ REASON: \_\_\_\_\_  
 10 \_\_\_\_\_ CHANGE: \_\_\_\_\_  
 11 \_\_\_\_\_ REASON: \_\_\_\_\_  
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 21 \_\_\_\_\_ REASON: \_\_\_\_\_  
 22 \_\_\_\_\_ CHANGE: \_\_\_\_\_  
 23 \_\_\_\_\_ REASON: \_\_\_\_\_  
 24 \_\_\_\_\_ CHANGE: \_\_\_\_\_  
 25 \_\_\_\_\_ REASON: \_\_\_\_\_

Page 303

1 JURAT  
 2  
 3 I, JOHN L. BLEY, the witness herein,  
 4 the foregoing testimony of the pages of this  
 5 deposition, do hereby certify it to be a true  
 6 and correct transcript, subject to the corrections, if  
 7 any, shown on the attached page.  
 8  
 9 \_\_\_\_\_  
 10 JOHN L. BLEY  
 11  
 12  
 13  
 14 Subscribed and Sworn to before me  
 15 this \_\_\_\_\_ day of 2008.  
 16  
 17 \_\_\_\_\_  
 18 Notary Public  
 19  
 20  
 21  
 22  
 23  
 24  
 25

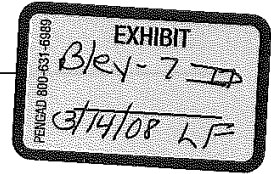
Page 305

1 CERTIFICATION  
 2  
 3 I, LISA FORLANO, a Certified Realtime  
 4 Reporter, Certified Court Reporter and Notary  
 5 Public, do hereby certify that I reported the  
 6 deposition in the above-captioned matter, that  
 7 the said witness was duly sworn by me; that  
 8 the foregoing is a true and correct transcript  
 9 of the stenographic notes of testimony taken  
 10 by me in the above-captioned matters.  
 11 I further certify that I am not an  
 12 attorney or counsel for any of the parties,  
 13 not a relative or employee of any attorney or  
 14 counsel connected with the action, nor  
 15 financially interested in the action.  
 16  
 17 \_\_\_\_\_  
 18 LISA FORLANO, CRR, CCR #XI01143  
 19 DATED:  
 20  
 21  
 22  
 23  
 24  
 25

# **EXHIBIT 6**

# Department of Financial Institutions

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## Introduction

Created by statute RCW 43.320.010, the Department of Financial Institutions provides regulatory oversight for our state's financial service providers. Examples of this regulatory oversight include examination and supervision of state-chartered commercial banks, savings and loan associations, savings banks, trust companies, foreign banks, credit unions, consumer loan companies and check cashers and sellers. Additionally, the Department issues licenses, permits and exemptions for registered securities broker-dealers, investment advisers, agents of securities brokers, active franchises, franchise brokers, active business opportunities, mortgage brokers, and escrow agents and officers operating in the state of Washington.

As presently organized, the Department was established in October 1993, but its historical roots date back to the early 1900s, with the organization of the Division of Banking on June 12, 1907, and the Division of Securities in the 1930s.

The Department's mission of regulating our state's financial services industry in a manner that promotes public confidence in our state's financial markets is accomplished through five divisions:

- Division of Administration**
- Division of Banks**
- Division of Consumer Services**
- Division of Credit Unions**
- Division of Securities**

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To receive this report in an alternative format, contact:

**Department of Financial Institutions**  
**PO Box 41200**  
**Olympia, Washington 98504-1200**  
**(360) 902-8700 or (360) 664-8126 TDD**

# Department of Financial Institutions

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# Office of the Director

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## Message from the Director

The Honorable Gary Locke  
Governor, State of Washington  
Olympia, Washington

Dear Governor Locke:

During 2001, Washington state and the nation experienced great economic change and uncertainty, due in part to the tragic events of September 11th. The year presented significant challenges for many of us in government service, and I am glad to report that the Department of Financial Institutions and the businesses we regulate in the state weathered the storms of 2001 well.

Some of the regulatory duties we perform include examining and supervising state-chartered commercial banks, savings and loan associations, savings banks, trust companies, foreign banks, credit unions, consumer loan companies, and check cashers and sellers. We issue licenses, permits, and exemptions for registered securities broker-dealers, investment advisers, agents of securities brokers, active franchises, franchise brokers, active business opportunities, mortgage brokers, and escrow agents and companies.

The banking and credit union industries in Washington state remained healthy, despite the economic problems that faced the state and the nation in 2001. State chartered banking institutions achieved record profits, as the lowest interest rates in 30 years triggered a refinancing boom. At the same time, banks were faced with more "problem loans" due to the nation's economic downturn.

For the entire Department, greater efficiency and staff development continued to be priorities, with the Division of Credit Unions taking steps to improve the recruiting and retaining of skilled examiners. The Credit Unions Division was also successful in updating its statutes and rules.

The increased mortgage refinancing activity was reflected in the mortgage and lending industries. This led to increased license and enforcement activity by the Division of Consumer Services. The Division also remained actively involved in multi-jurisdictional efforts to curb predatory lending.

The Securities Division brought 94 enforcement actions during the year, including one in which 4000 individuals invested \$90 million, and assisted in the preparation of 11 criminal cases. Educational outreach efforts continued to expand, reaching 12 counties and more than 21,000 citizens around the state.

Doing its part to help Washington maintain a leadership role in digital government, the Department unveiled a completely redesigned website with greatly improved organization and navigability during 2001. The new STAR Licensing and Registration System for the Securities and Consumer Services divisions was also a major step forward in replacing outdated databases.

During the year, the Division of Administration became a separate division within the agency. Previously, Administration was combined with the Consumer Services Division. Given the agency's growing workload, it was necessary to separate the two areas into distinct divisions to allow for more effective management and operations.

Mark Thomson,  
Acting Director  
(Appointed January 14, 2002)



# Office of the Director

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## **DFI Vision**

Promote public confidence and trust in the financial services industry.

## **DFI Mission Statement**

We regulate our State's financial services industry to promote economic vitality and protect consumers.

## **DFI Values**

At the Department of Financial Institutions we will:

- Treat employees as our most valuable resource and provide them with skills, knowledge, and opportunities to be successful.
- Empower employees with authority and accountability.
- Respect and promote diversity.
- Treat all individuals and regulated institutions fairly and with respect.
- Respect and support the mission of every division.
- Promote consensus in departmental decision-making
- Deliver quality services with professionalism and integrity.

## **DFI Regulatory Philosophy**

- Stay true to our statutory mission.
- Regulate to the exception.
- Promote competition in financial markets.

## **Office of the Director**

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**John L. Bley**  
Director  
Department of Financial Institutions  
*(Resigned January 11, 2002)*

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**Director's Staff**  
Special Assistant to the Director  
Vacant

**Confidential Assistant**  
Susan Putzier

# Division of Administration

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## Message from the Director of Administration

The 2001 calendar year marked the first year of operation for the Division of Administration as a separate division within the Department. Previously, this Division was combined with the Consumer Services Division. Due to overall growth in the agency over time, and growth in services regulated, it became necessary to separate the two areas into distinct divisions to allow for more effective management and operations. This first year of operation has been very successful for the Division of Administration.

In the Human Resources arena, major milestones included:

- Formation of a Workforce Planning Group to identify, study, and make recommendations regarding workforce needs of the Department, both now and into the future. The Group developed general and technical competency requirements (i.e. skill levels) for all positions within the Department, and identified training needed to support these competencies. The competencies will assist us in the areas of recruitment, succession planning, training and development, and performance evaluation.
- Approval to merge two of our unique classes, the Securities Analyst and Financial Examiner, into a new examiner class and creation of a new class of Legal Examiner. The merger and new class will better serve the needs of the Department in meeting the changes and challenges in the industries we regulate and will allow for more flexibility within the Department.
- Continued expansion of our recruiting efforts to recruit a highly trained and diverse workforce. In a memo to the Governor dated August 22, 2001, from the Director of Personnel, DFI was ranked as the third highest state cabinet agency in representation of racial/ethnic minorities and women in state government.

In the Information Technology arena, we celebrated the following accomplishments:

- Going live with our new redesigned DFI website, which improved the look, feel, navigation, and organization of our website content. We continue to add information useful to our customers to the website and measure our success by the increasing numbers of customers accessing our site.
- Implementation of the new STAR Licensing and Registration system for the Securities and Consumer Services Divisions. This new system replaces antiquated databases and provides an integrated licensing and registration system.

- Strengthening and securing the Department's Information Technology Infrastructure by moving all file servers and essential network equipment to a secure, environmentally controlled computer room, deploying virus protection with daily live update on all PCs and servers in the Department, implementing Windows 2000 on all Department PCs, and implementing a new tape backup system along with offsite storage to protect the Agency's data and information. Also noteworthy was that all computers, networks, and servers were up and running within 30 hours after the February 28<sup>th</sup> Nisqually earthquake hit.
- Participation in the Department of Information Service's Digital Academy on E-Licensing that provided the training ground for deploying licensing renewal via the Internet in the coming year.
- Implementation of a new Remote access system for staff working away from the office.
- Implementation of a new version of Help Desk software that improves responsiveness of our computer support staff. The new system provides for automatic paging of technical staff when a request is made and escalation of non-closed requests.

Successes in the financial arena included:

- Legislation merging our three dedicated funds into one dedicated, non-appropriated fund for the Department. This merged fund will provide flexibility and continuity in meeting our statutory mandate by ensuring an adequate funding source.
- Implementation of a pilot project for an electronic travel voucher system. This system will provide for electronic travel voucher submission and approval through the Internet. Due to large numbers of examiners who travel, we anticipate that the system will reduce turnaround times for processing travel reimbursements.

The focus for the Division of Administration will continue to be information technology and continuous improvement in our processes. We clearly understand that our role is to support the Divisions in carrying out the Department's statutory mandate. We serve both the Department's internal and external customers and we will continue to work both fronts as we strive to implement Best Practices over the next couple of years.

Gloria Papiez  
 Director, Division of Administration

# Division of Administration

---

## Mission Statement

The Mission of Administration is to plan, facilitate and coordinate the provision of quality support services to all employees and Divisions of the agency in an ethical and professional manner.

Administration performs support functions in the areas of budget and accounting; information technology and support; human resources; and facilities; all areas that keep the Department functioning. In addition to the support functions listed above, Administration manages the Agency's quality initiative and the agency's website. During 2001, the Agency submitted twelve quality projects, all of which were featured in the Governor's Governing For Results publications. We continue to work on improving our processes and the services we provide to our clients.

The Division does not generate its own revenue and is supported by allocations from the direct program areas in the Department.

# **Division of Administration**

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## **Division Staff**

**Gloria Papiez**  
Division Director

### **Financial Office**

Michael Schmidkofer, Manager  
Melanie Lee  
Nick Klucarich  
Truc Le  
Ronni Wharton

### **Information Technology**

Ron Seymour, Manager  
Mark Cornish  
William Davis  
Patrick McKee  
Brett Stone  
Dung Tong

### **Human Resources**

Alayne Goodhart, Manager  
Gerri Deach  
Holly Dexter

### **Administration Support**

Micheal Anders  
Darlene Christianson  
Sabrina Thompson

# Division of Banks

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## Message from the Director of Banks

The overall health of the banking industry in the State of Washington remains sound. The year 2001 was characterized by some divergent trends within the banking industry. State chartered institutions ended the year with record profits, and increased equity, reserve for loan losses, and net interest margin ratios. The improved performance was driven primarily from mortgage banking operations, improved net interest margins resulting from lower funding costs, and gains on the sale of securities.

The banking industry was able to achieve these results while facing the most difficult economic conditions experienced in the last decade. The national economy slipped into recession and was further impacted by the September 11 attacks, public accounting irregularities, and loss of confidence in the equity markets. Locally, the State of Washington's economic downturn was more severe, brought on by contraction of aerospace, high tech, manufacturing, construction, and commercial real estate.

The national recession led the Federal Reserve to lower market interest rates to their lowest levels seen in the last thirty years. This caused a massive refinancing boom, where approximately one third of all residential mortgages were refinanced. This produced an extraordinary year for our thrift institutions. State of Washington chartered banking assets remained flat, increasing by only 1% to \$61.7 billion. Loan demand weakened with loan portfolios growing by 5%. Banks were faced with significant increases in problem loans and loan charge-offs, and spent much of the year addressing credit administration issues.

The number of problem banks increased from four to five in 2001. The number of problem banks appears to be rising, given the increases in problem loan portfolios, and the predictions of continued economic weakness. All of the problem banks are being closely supervised and are under enforcement actions initiated by the Division.

In 2001, chartering activity slowed from the rapid pace of the last five years. Only one new bank (Pacific International Bank) and one new trust company (EverTrust Asset Management Trust Company) opened in 2001. Other banks in organization faced more difficulty raising their initial capital, which delayed their openings into 2002. One credit union converted to a state chartered savings bank; one savings and loan association converted to a state chartered commercial bank; and one trust department of a federal savings bank converted to a state chartered trust company. Mergers and Acquisitions were slow, with the primary transactions dealing with affiliate bank mergers. Branching and other chartering activities remained active.

The year 2001 was a good year internally for the Division. We were able to meet our statutory examination schedule with the assistance of the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, and other states' banking departments. Our staff continues to grow in experience, and the responses from the industry to our examinations have been positive. Staff development continues to be a priority, and we remain focused on building an excellent and efficient organization. The work that went into the workforce planning initiative was successful and puts us in a better position to effectively supervise our institutions. We are carefully monitoring our budget and, at the present time, we feel we can meet all of our financial obligations.

In these times of governmental budget shortfalls, federal banking agencies' contractions, and industry consolidation, we are keenly aware of the necessity to become more efficient and use our resources more effectively. We are working closely with the federal banking agencies, the banking industry, trade associations, and CPAs to be responsive to their needs and improve Division operations.

Over the next year, there are many challenges ahead. We are in a period of increasing risk within the banking industry. Our focus and energy must be centered on ensuring that our institutions are operating in a safe and sound manner, and that any supervision issues that come up are effectively addressed.

In closing, I would like to thank the administrative and examination staffs, DFI administration, and our stakeholders for their continued support and dedication to the Division of Banks.

David G. Kroeger,  
Director, Division of Banks



# **Division of Banks**

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## **Mission Statement**

The Mission of the Division of Banks is to support economic stability and growth in the State of Washington through charters, regulation, and supervision, and by working to keep state-chartered and multi-state financial institutions competitive.

The Division of Banks was organized in 1907 and administers Title 30, Title 32, and Title 33 of the Revised Code of Washington. The Division has responsibility for supervising commercial banks, trust companies, savings banks, savings and loan associations, and alien banks incorporated under the laws of the state of Washington.

Management and policy making power of the Division is vested in the Director of the Department of Financial Institutions and the Assistant Director, Division of Banks. The Director and Assistant Director are responsible for the administration of the policies, laws, and regulations. The Assistant Director exercises general supervisory control over the work of the Division, including the program managers, analysts, and administrative staff.

The Division works directly with the institutions it regulates through examination and supervisory activity in an effort to assure the public of adequate and proper services from the institutions. It seeks to ensure the protection of the interests of depositors, borrowers, shareholders, and consumers.

The Division is a self-supporting division of state government with none of its operating expenditures funded by general tax funds. Revenue is obtained solely from the supervision, examination, and license fees which are assessed upon those financial institutions regulated by the Division.

# Division of Banks

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## Division Staff

**David G. Kroeger**  
Division Director

### Program Managers

Mike Abe  
Gloria T. McVey

### Case Manager

Karen Beller

### Financial Examiner Supervisors

John R. Burke  
Paula Copley  
Cynthia Lee  
Albert Moore, Jr.

### Information Systems Specialist

Larry Lee

### Financial Examiner 3

Tom Galbraith  
David Leferink  
Janet E. Liming  
William A. McCaw  
John Ransom  
Gerald Spellmeyer  
Donald Tyson

### Financial Examiner 2

Erin Johnson  
Tyler Krutzfeldt  
Cristi-Ann Page

### Financial Examiner 1

Susan Carlson  
Brian Fernald  
Donald Hughes  
Matthew Mullet

### Financial Examiner 1

#### Assistants

Asha Fuller  
Roberta Stewart

### Support Staff

Patty Brombacher  
Amber Harris  
Darolynn Shue

### Special Projects

Linda Hurley (intermittent)

# Division of Banks

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## Institutions Under the Division's Regulatory Authority

### Regulated Institutions with Aggregate \$95 Billion in Total Assets (as of 12/31/01)

62	Commercial Banks
3	Mutual Savings Banks
11	Stock Savings Banks
3	Alien Banks
11	Trust Companies
8	Trust Departments
2	Savings & Loan Associations

### New Banks and Trust Companies Chartered

EverTrust Asset Management  
Seattle, WA  
May 14, 2001

Pacific International Bank  
Seattle, WA  
November 15, 2001

### Charter Conversions

Riverview Asset Management and Trust Company  
Vancouver, WA  
February 16, 2001  
Changed from a federal trust department to a  
state trust company

Cascade Bank  
Everett, WA  
July 27, 2001  
Changed from a federal stock savings bank to a  
state commercial bank

### Name Changes

First Mutual Savings Bank  
Bellevue, WA  
October 26, 1999  
Changed to First Mutual Bank

The Wheatland Bank  
Davenport, WA  
February 20, 2001  
Changed to Wheatland Bank

## Division of Banks

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### Name Changes continued

Evergreen Bank Seattle, WA Changed to EvergreenBank	February 20, 2001
The Bank of Edmonds Lynnwood, WA Changed to the Bank of Washington	April 10, 2001
The Sumitomo Bank Seattle, WA Changed to Sumitomo Mitsui Banking Corporation	May 3, 2001

### Branch Closures and Authorizations

A listing of the individual branches that were opened and closed during the calendar year of 2001 is available to anyone upon a request to the Division of Banks.

### Mergers

Home Security Bank, Sunnyside, into AmericanWest Bank, Walla Walla	January 22, 2001
United Security Bank, Spokane, into AmericanWest Bank, Walla Walla	January 22, 2001
Bank of Pullman, Pullman, into AmericanWest Bank, Walla Walla	January 22, 2001
Commercial Bank of Everett, Everett, into EverTrust Bank, Everett	January 31, 2001
Inter Bank, Duvall, into Frontier Bank, Everett	February 1, 2001
Banner Bank of Oregon, Hermiston, Oregon, into Banner Bank, Walla Walla	August 27, 2001
Silverdale State Bank, Silverdale, into American Marine Bank, Bainbridge Island	September 28, 2001
AmericanWest Bank, N.A., Walla Walla, into AmericanWest Bank, Walla Walla	November 30, 2001

## Division of Banks

### Income Statement (\$000) as of 12/31/01 for Commercial Banks

	2001	2000	1999
Number of institutions reporting	62	65	64
Total interest income	1,492,757	1,385,703	884,818
Total interest expense	667,269	642,589	337,492
Net interest income	825,488	743,114	547,326
Provision for loan and lease losses	92,076	42,312	35,214
Total noninterest income	192,444	144,714	112,943
Fiduciary activities	9,864	10,157	9,173
Service charges on deposit accounts	56,071	48,402	38,940
Trading account gains & fees	0	0	0
Additional noninterest income	126,509	86,155	64,830
Total noninterest expense	641,929	542,917	404,887
Salaries and employee benefits	327,426	285,481	213,274
Premises and equipment expense	92,475	77,727	60,160
All other noninterest expense	222,028	179,710	131,453
Pre-tax net operating income	283,927	302,598	220,163
Securities gains (losses)	10,191	(6,797)	(174)
Applicable income taxes	87,647	88,899	67,734
Income before extraordinary items	206,471	206,902	152,260
Extraordinary gains - net	0	0	0
Net income	206,471	206,902	152,260

## Division of Banks

### Income Statement (\$000) as of 12/31/01 for Savings Banks

	2001	2000	1999
Number of institutions reporting	14	13	14
Total interest income	2,782,254	2,942,709	2,933,890
Total interest expense	1,447,105	1,899,042	1,715,042
Net interest income	1,335,149	1,043,667	1,218,848
Provision for loan and lease losses	71,670	120,662	28,491
Total noninterest income	581,359	391,158	478,306
Fiduciary activities	83	18	275
Service charges on deposit accounts	223,184	195,701	165,873
Trading account gains & fees	0	0	0
Additional noninterest income	358,092	195,439	312,158
Total noninterest expense	1,084,382	892,496	995,711
Salaries and employee benefits	637,558	505,050	466,454
Premises and equipment expense	204,079	169,132	164,559
All other noninterest expense	242,745	218,314	364,698
Pre-tax net operating income	760,457	421,667	672,952
Securities gains (losses)	161,977	10,114	4,194
Applicable income taxes	305,781	139,357	237,040
Income before extraordinary items	616,653	292,424	440,106
Extraordinary gains - net	47,845	0	0
Net income	664,498	292,424	440,106

## Division of Banks

### Income Statement (\$000) as of 12/31/01 for Savings and Loan Associations

	2001	2000	1999
Number of institutions reporting	2	2	2
Total interest income	219,015	223,215	192,311
Total interest expense	120,167	127,318	103,840
Net interest income	98,848	95,897	88,471
Provision for loan and lease losses	8,185	4,600	3,960
Total noninterest income	21,148	20,131	14,492
Fiduciary activities	N/A	N/A	N/A
Service charges on deposit accounts	N/A	N/A	N/A
Trading account gains & fees	0	0	0
Additional noninterest income	21,148	20,131	14,492
Total noninterest expense	78,787	72,670	68,202
Salaries and employee benefits	36,664	33,532	30,693
Premises and equipment expense	20,334	20,026	18,932
All other noninterest expense	21,789	19,112	18,577
Pre-tax net operating income	33,024	38,758	30,801
Securities gains (losses)	5,680	1,341	681
Applicable income taxes	13,514	14,634	11,568
Income before extraordinary items	25,190	25,465	19,914
Extraordinary gains - net	0	0	0
Net income	25,190	25,465	19,914

## Division of Banks

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### Director of Banks (Formerly Supervisor) and Term Served since the Division was Organized on June 12, 1907

Name	From	To
Abraham W. Emgle	1907	1909
J. L. Mohundro	1909	1913
W. E. Hanson	1913	1917
Louis H. Moore	1918	1920
Claude P. Hay	1920	1921
John P. Duke	1921	1924
J. C. Minshull	1924	1925
H. C. Johnson	1925	1930
C. S. Moody	1930	1933
Howard H. Hansen	1933	1935
C. E. Jenks	1935	1937
George H. Jackson	1937	1940
J. C. Minshull	1940	1945
Walter A. Johnson	1945	1949
J. C. Minshull	1949	1951
R. D. Carrell	1951	1958
Joseph C. McMurray	1958	1965
R. D. Carrell	January 13, 1965	May 7, 1965
Jack C. Hood	May 7, 1965	March 31, 1968
Frank Cooper	April 1, 1968	April 30, 1970
John McCarthy	May 1, 1970	March 31, 1973
William L. Hart	August 1, 1973	June 30, 1976
G. W. Mutschler	July 1, 1976	April 30, 1977
M. D. Edwards	May 1, 1977	February 2, 1983
Leroy O. Malmberg	February 2, 1983	November 30, 1985
Thomas H. Oldfield	December 1, 1985	September 1, 1991
John L. Bley	September 1, 1991	October 1, 1993
G. R. Zachary	October 1, 1993	August 17, 1998
L. Wayne Fralin	February 1, 1999	June 12, 2000
David G. Kroeger	October 30, 2000	Present



# **Division of Consumer Services**

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## **Message from the Director of Consumer Services**

The Division of Consumer Services serves the citizens and businesses of our state by reviewing license applications, issuing licenses, regulating the activities of licensees, examining the books and records of licensees for compliance with state and federal law, investigating consumer complaints against licensees and initiating enforcement actions against licensees when appropriate.

In 2001 we experienced setbacks as members of our team departed for other employment. New hires were trained and by years-end we were fully staffed with license review personnel. The number of auditing and enforcement examiners remained at levels below our allotment.

### **Consumer Services**

Consumer Services regulates the business activities of consumer loan companies, mortgage brokers, escrow agents and designated escrow officers, check cashers and check sellers (including payday loans).

We achieved our mission in 2001. We installed, tested and began using a new computerized data management system for licensing. The system was jointly brought on line in the Consumer Services and Securities Divisions. We also took the first steps toward moving our enforcement and consumer complaints data to the new system. This builds on the review of our business processes conducted in 1998.

Our energetic staff continued to issue large numbers of new licenses, license renewals and branch licenses.

Changes in the economy in 2001, most notably increased refinance activity associated with a downturn in interest rates, were reflected in the mortgage and lending industries. The competitive nature of the industry also led to increased license and enforcement activity. The agency also remained actively involved in multi-jurisdictional efforts to curb predatory lending.

### **Administrative Changes**

The Division of Consumer Services and Administration was changed in 2001. Both areas of responsibility had grown over the years and finally in 2001 had reached a point where it was necessary for each to stand alone. The Division of Administration was separated from the Division of Consumer Services and assigned a Division Director. I remained Director of the Division of Consumer Services where I could spend time focused on emerging regulatory and legislative issues.

Mark P. Thomson,  
Director, Division of  
Consumer Services

# **Division of Consumer Services**

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## **Mission Statement**

The Mission of the Division of Consumer Services is to protect, inform, and serve consumers through fair, effective, and prompt regulation and licensing of consumer loan companies, escrow agents and officers, mortgage brokers, and check cashers and sellers (many of whom are payday lenders).

The Consumer Services Division administers chapters 31.04, 31.45, 18.44, and 19.146 RCW respectively. The division has responsibility for regulation and licensing of consumer loan companies, check casher and seller companies, mortgage brokers, and escrow agents and designated escrow officers. The primary missions of this division are to assure compliance with the statutes and protect the consumers of Washington State. Safety and soundness is also a focal point with check sellers since they accept money from consumers for transmission via a negotiable instrument. The division accomplishes its mission through examination, audit, investigation, and enforcement of licensed and non-licensed companies.

The Consumer Services Division is a revenue-generating, self-supporting area of state government. Operating expenditures are not funded by general tax funds. Revenue is obtained solely from licensing, examination, investigation fees and assessments, and enforcement action.

# Division of Consumer Services

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## Division Staff

**Mark P. Thomson**  
Division Director

**Program Manager**  
Whittier Johnson

**Supervising Financial Examiners**  
Kwadwo Boateng  
Ed Burgert  
Chuck Cross

**Financial Examiners**  
Alvin Coleman - Sr. Examiner  
Patrick Hardman  
Vivian Lee - Sr. Examiner  
Ronald Boone Mill  
John Samuelson  
Nicole Scott  
Sandy Thomas - Sr. Examiner

**Licensing Staff Supervisor**  
Kae McDonnell

**Licensing Customer Service  
Specialists**

Beth Craig  
Patty Sinks  
Trish Sheatsley  
Ann Campbell

## Support Staff

Debbie Brown - Licensing  
Leslie Matthews - Examinations  
Danielle Mortenson -  
Enforcement/Consumer  
Complaints  
Jae Taylor -  
Enforcement/Consumer  
Complaints  
Jeannette Terry - Administrative  
Assistant 4/Shared with  
Administration  
Pauline Yale - Secretary  
Administrative

# Division of Consumer Services

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## Jurisdictional Areas & Regulated Entities

### Consumer Loan Companies Act - 31.04 RCW

- Some consumers represent a higher than average credit risk. They are unable to obtain credit except at interest rates higher than permitted under other statutory provisions governing interest rates for loans. This chapter authorizes higher interest rates for certain types of loans, subject to conditions and limitations, in order to ensure credit availability.
- Licensees may charge a rate that does not exceed 25% per annum simple interest.
- Licensees grant consumers both secured and unsecured loans for a multitude of purposes.
- The Director or a designee examines the affairs, business, office, and records of each licensee at least once every twenty-four months.
- The Director may revoke or suspend an issued license if it is found that a licensee has violated any provision of this chapter or any rule adopted under this chapter.

### Check Cashers and Sellers Act - 31.45 RCW

- There are consumers who do not maintain a deposit relationship with conventional banking sources but require a source to cash checks and obtain payment instruments. Licensed check cashers provide this service by cashing checks for a fee based on the risk assumed when the instrument is negotiated. These licensees may issue money orders as a payment instrument.
- Licensed check sellers must demonstrate financial stability and provide a surety bond or equivalent for the protection of consumers. Check sellers accept cash and issue a payment instrument, as opposed to check cashers, who accept a payment instrument and give the consumer cash.
- The Director or a designee examines the affairs, business, office, and records of each licensee at least once every twenty-four months. An audit prepared by an independent certified public accountant or an examination prepared by another state may be accepted in lieu of the Director's examination.
- Legislation was passed in 1995, allowing either a check casher or seller to obtain a small loan endorsement. The endorsement allows the licensee to make small loans of up to \$500.00 for 31 days or less. The licensee may charge interest or fees that do not in the aggregate exceed 15%. A very high percentage of licensees have secured small loan endorsements and make what have come to be known as "payday loans."
- The Director may issue a statement of charges or a cease and desist order if, in the opinion of the Director, any licensee or non-licensee is engaging in an unsafe or unsound practice or is violating or has violated this statute or any rule in support of this chapter.

# Division of Consumer Services

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## **Mortgage Brokers Practices Act - 19.146 RCW**

- Some consumers rely on the services of a mortgage broker to obtain a residential real estate loan. The practices of mortgage brokers have a significant impact on the citizens of the state and the real estate industry. This chapter establishes a system of licensure and rules of practice for mortgage brokers to promote honesty and fair dealing with citizens and preserve public confidence in the lending and real estate communities.
- Loan originators or mortgage brokers required to be licensed under this chapter, or mortgage brokers otherwise exempted from this chapter, are prohibited from certain practices in order to protect the consumer.
- The Director or designee may visit the licensee's place or places of business to conduct a compliance examination once during the first two years of licensing. After this one visit, the Director or designee may visit the licensee's place or places of business only to ensure that corrective action has been taken or to investigate a complaint.
- The Division has provided continuing education for mortgage brokers. These sessions have been coordinated through the brokers' statewide association and tend to focus on practices and issues this office sees as problem areas for a large or growing number of brokers. Consumer complaints generally direct us to these areas of concern and emphasis. Recent experience has shown that following a series of educational seminars on a topic, brokers improve their compliance in the area of emphasis for a period.
- The Director may suspend or revoke licenses, deny applications for licenses, or impose penalties upon violators of cease and desist orders issued under this chapter.

## **Escrow Agent Registration Act - 18.44 RCW**

- Some consumers rely on the services of an escrow agent for the purpose of effecting and closing the sale, purchase, exchange, transfer, encumbrance, or lease of real or personal property. This chapter establishes a system of licensure and rules of practice for escrow agents and officers, which provides protection to consumers.
- Escrow agents are required to maintain a fidelity bond in the aggregate amount of \$200,000 with a deductible no greater than \$10,000 and an errors and omissions policy in the minimum aggregate amount of \$50,000 as evidence of financial stability. A surety bond in the amount of \$10,000 is waived if the fidelity bond does not have a deductible.
- The Director or designee may make necessary public or private investigations to determine whether any person has violated this chapter or any rule, regulation, or order under this chapter.
- The Director may suspend or revoke licenses, and deny applications for licenses under this chapter.
- In 2001 the Division continued and refined measures to help focus resources on escrow licensees in need of attention. A voluntary program of quarterly reports was established. Licensees sent reports to the Division showing reconciliation and other key information relating to trust accounting and other business practices. From review of these reports the Division determined which licensees were in need of more careful review or an examination. This enabled the Division to target screening more carefully on licensees who turned in reports with problems or those who did not report at all.

# Division of Consumer Services

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## Regulated Institutions 2001

### Consumer loan Companies

	2001	2000	1999
Number of License Applications	148	357	433
Number of Companies	287	304	305
Number of Branch Offices	617	599	684
Number of Examinations	428	186	196
Examination Hours	3,111.99	3,222.13	2,831.92
Refunds to Consumers	\$213,784.77	\$1,034,795.78	\$218,787.34
Number of Consumer Complaints	195	328	157
Number of Enforcement Actions	2	4	1

### Mortgage Brokers

	2001	2000	1999
Number of License Applications	318	326	377
Number of Active Companies	839	795	750
Number of Branch Offices	350	337	400
Number of License Exemptions Recognized	189	178	160
Number of Consumer Complaints	185	152	175
Number of Enforcement Actions	18	2	2

### Escrow Companies & Officers

	2001	2000	1999
Number of License Applications	25	25	36
Number of Agent Licenses	181	173	176
Number of Escrow Agent Branch Licenses	32	31	40
Number of Active Escrow Officer Licenses	309	247	310
Number of Inactive Escrow Officer Licenses	210	104	109
Number of Examinations	39	47	22
Examination Hours	796.15	722.65	374.75
Number of Consumer Complaints	29	35	24
Number of Enforcement Actions	1	1	1

# Division of Consumer Services

## Regulated Institutions 2001

### Check Cashers, Sellers, & Small Loan Endorsements

2001	Check Cashers	Check Sellers	Small Loan Endorsements	Combined
Number of License Applications	62	0	91	
Number of Companies	110	8	96	
Number of Branch Offices	365	8	286	
Number of Examinations	168	0	168	
Examination Hours	482.7	0	482.7	
Refunds to Consumers	0	0	\$185.85	
Number of Consumer Complaints	0	1	3	4
Number of Enforcement Actions	0	1	0	1

2000	Check Cashers	Check Sellers	Small Loan Endorsements	Combined
Number of License Applications	136	7	123	
Number of Companies	109	10	90	
Number of Branch Offices	306	9	287	
Number of Examinations	96	3	59	
Examination Hours	529.25	0	529.25	
Refunds to Consumers	145.60		145.60	
Number of Consumer Complaints	4	0	0	4
Number of Enforcement Actions	0	0	0	0

1999	Check Cashers	Check Sellers	Small Loan Endorsements	Combined
Number of License Applications	107	3	107	
Number of Companies	80	8	71	
Number of Branch Offices	247	4	239	
Number of Examinations	24	3	24	
Examination Hours	194	19.5	194	
Refunds to Consumers	\$435.00	\$0	\$435.00	
Number of Consumer Complaints	2	0	0	2
Number of Enforcement Actions	0	0	0	0

## Division of Consumer Services

### Consumer Loan Companies

#### Analysis of Loans Made Under Consumer Loan Act\*

Consumer Loans	2001	2000	1999
Number of Loans Outstanding at Beginning of Period	133,377	124,286	159,733
Total Dollars in Loans Outstanding at Beginning of Period	\$1,759,737,332	\$766,209,938	\$2,461,801,412
Average Dollar Size of Loans Outstanding at Beginning of Period	\$13,193	\$6,165	\$15,412
Number of Non-Real Estate (RE) Loans Made During Period	94,833	72,608	102,092
Total Dollars in Non-RE Loans Made During Period	\$586,636,588	\$568,786,776	\$568,134,418
Average Dollar Size of Non-RE Loans Made During Period	\$6,186	\$7,834	\$5,565
Number of RE Loans Made During Period	59,836	43,254	44,084
Total Dollars in RE Loans Made During Period	\$2,270,449,440	\$1,611,485,003	\$2,526,914,791
Average Dollar Size of RE Loans Made During Period	\$37,944	\$37,256	\$57,320
Number of Loans Outstanding at End of Period	118,880	119,213	153,998
Total Dollars in Loans Outstanding at End of Period	\$2,147,163,648	\$1,507,746,955	\$2,418,391,583
Average Dollar Size of Loans Outstanding at End of Period	\$18,061	\$12,648	\$15,704
Number of Loans Secured by RE in Foreclosure at End of Period *	1,088	994	910
Amount of Loans Secured by RE in Foreclosure at End of Period *	\$94,069,391	\$89,197,668	\$75,080,602
Number of Loans Secured by RE Foreclosed During Period*	1,231	1,210	2,480
Amount of Loans Secured by RE Foreclosed During Period*	\$92,514,699	\$104,239,627	\$79,696,596
Number of Loans Secured by RE Charged Against Loss During Period*	1,654	1,478	386
Amount of Loans Secured by RE Charged Against Loss During Period*	\$33,701,137	\$27,011,814	\$13,864,550
Number of Other Loans Charged Against Loss Reserve During Period	16,689	11,587	13,382
Amount of Other Loans Charged Against Loss Reserve During Period	\$54,356,558	\$22,597,813	\$38,452,912
Number of Loans Contractually Delinquent at End of Period	27,395	17,910	21,330
Total Dollars in Loans Contractually Delinquent at End of Period	\$307,002,836	\$183,930,721	\$763,653,603
Percent of Outstanding Loans Contractually Delinquent (30 days or more) at End of Period	14.30%	12.20%	7.22%

\* May include loans not made under the Act.



## Division of Consumer Services

### Check Cashers, Sellers and Small Loan Endorsements (12/31/01)

#### Analysis of Check Casher Companies

<b>Check Cashers</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Number of checks cashed during period	1,839,397	1,354,427	1,527,742
Dollar amount of checks cashed during period	\$593,882,580	\$575,991,499	\$480,602,605
Average size of checks cashed during period	\$322	\$426	\$315
Dollar amount of fees collected during period	\$16,280,426	\$12,571,376	\$13,649,834
Dollar amount of checks charged to bad debts	\$1,276,771	\$802,350	\$710,840

#### Analysis of Check Seller Companies

<b>Check Sellers</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Number of checks sold during period	1,426,531	1,325,117	1,929,657
Dollar amount of checks sold during period	\$263,592,037	\$252,827,536	\$494,079,053
Average size of checks sold during period	\$184	\$191	\$241
Dollar amount of fees collected during period	\$502,589	\$469,618	\$402,643

(Includes checks sold as an agent of exempt company)

#### Small Loan Endorsements

	<b>2001</b>	<b>2000</b>	<b>1999</b>
Number of small loans made during period	2,186,333	1,832,782	1,723,316
Dollar amount of small loans made during period	\$739,540,654	\$580,535,734	\$493,584,410
Average size of small loans made during period	\$338	\$317	\$286
Dollar amount of fees collected during period	\$97,538,903	\$80,412,262	\$69,976,116
Dollar amount of small loans charged off during period	\$17,183,107	\$14,421,852	\$10,490,498

# Division of Credit Unions

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## Message from the Director of Credit Unions

2001 was a significant year for strengthening the Division.

First and foremost, we were successful in revamping the examiner series of positions to substantially increase compensation and to provide two new positions in the series to improve the career ladder. These changes will enable us to do a better job of recruiting and retaining skilled examiners.

Second, we were successful in updating our statutes and rules.

**Statutes.** We were successful in working our Departmental Request bill (HB 1366) through the legislative process. The bill amended the Washington State Credit Union Act, Chapter 31.12 RCW, and the Corporate Credit Union Act, Chapter 31.13 RCW. The primary changes in the bill were:

- Streamlining many provisions of the Acts
- Providing greater power to credit unions to offer insurance products to members, as other state-chartered financial institutions can do
- Providing parity with other state credit unions with a branch in Washington, if the Division reaches a certain finding
- Authorizing the Division to designate low income credit unions
- Authorizing the Division to conduct exams of EDP firms
- Strengthening investigative powers of the Division
- Strengthening the application of the State APA to enforcement actions by the Division.

The bill took effect on July 22, 2001.

**Rule-making.** Our new member business loan (MBL) rules, at Chapter 208-460 WAC, took effect on June 1, 2001. We were the third state in the nation to obtain the approval of the National Credit Union Administration (NCUA) for our own state-specific MBL rules. As a result, our credit unions will be better able to serve their members with prudent business loans. The National Credit Union Administration (NCUA) is the administrator of the federal deposit insurance fund. All Washington state-chartered credit unions are required to have federal deposit insurance.

We also adopted a rule change providing for an annual increase in the fees we charge to credit unions, up to the statutory limit (the amount of the fiscal growth factor as determined by the Office of Financial Management). The increases will take place on July 1, 2001 and July 1, 2002.

Finally, we initiated a rule-making proceeding to consider changes to streamline our field of membership (FOM) rules. We held a number of sessions with credit unions concerning these changes. The rule-making process on the changes was completed in 2002.

**Healthy State Credit Union Movement.** The 94 Washington state-chartered credit unions had another good year in 2001, growing by 10.3% to nearly \$13.4 billion in total assets, with strong capital levels.

J. Parker Cann,  
Director, Division of Credit Unions

# **Division of Credit Unions**

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## **Mission Statement**

A credit union is a cooperative society organized for the purpose of promoting thrift among its members and creating a source of credit for them at fair and reasonable rates. RCW 31.12.015.

We regulate state credit unions to protect their members' financial interests. State statute empowers the Director of the Department of Financial Institutions to examine and supervise state-chartered credit unions. This authority has been delegated to the Director of Credit Unions.

The Division examines credit unions at least every eighteen months for unsafe and unsound practices and violations of statutes and rules. The Division utilizes a variety of examination and supervision tools to accomplish its mission. In addition, the Division processes a variety of applications from state credit unions, such as merger and conversion applications.

Fees paid by state credit unions and other related entities fund the activities of the Division. We rely primarily on fees based on its asset size and paid quarterly. None of the Division's funding comes from the general fund or other tax revenues.

# Division of Credit Unions

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## Division Staff

**J. Parker Cann**  
Director of Credit Unions

**Program Manager**

Linda Jekel

**Financial Examiner**

Chongsun Abbott

Sue Graham

Austine Izuagbe

**Financial Examiner Supervisor**

Mike Delimont

Jane Johnson

**Financial Examiner Senior**

Caryl Ausejo

Doug Lacy-Roberts

Rogelio Pascua

Joseph Rogers, Jr.

Glenn Ross

Margaret Ross

Richard Ullrich

Jay Weintraub

Feryl Woodworth

**Support Staff**

Tina Philippsen – Administrative  
Assistant

Judy Mortenson

Diane Moye

# **Division of Credit Unions**

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## **Statutes Administered by the Division of Credit Unions**

### **Chapter 31.12 RCW – The Washington State Credit Union Act**

The Act provides for the organization and powers of state credit unions. Membership in a credit union is limited to occupational, associational, and community groups. Credit unions cannot undertake certain activities without prior approval of the Division.

The Act also provides for the examination and supervision of credit unions by the Division. The Division must examine each credit union at least every eighteen months.

If appropriate grounds exist, the Division may take enforcement action against a credit union or related parties. The Division has the power to remove directors and employees, issue temporary cease and desist orders, serve notice of charges for the issuance of a permanent cease and desist order, and appoint a conservator or receiver for a credit union.

The Division's rules are set forth in Title 208 WAC.

### **Chapter 31.13 RCW – The Corporate Credit Union Act**

The Act provides for the organization and powers of corporate credit unions, which act as a liquidity source for other credit unions. Corporate credit unions have other credit unions as members and do not have "natural person" members. They are subject to the Division's examination and supervision authority just as any other credit union. Currently, there is no Washington state-chartered corporate credit union.

# **Division of Credit Unions**

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## **Annual Summary**

### **State Credit Unions**

As of December 31, 2001, there were 94 credit unions chartered by the State of Washington, with total assets of \$13.4 billion. The number of their members increased over the year from 1,735,153 to 1,773,301.

### **Mergers and Liquidations**

- Credit Union of Puget Sound merged into Washington Credit Union
- Western Credit Union merged into Express Credit Union
- United Sound Credit Union merged into Washington Credit Union
- Lilac City Federal Credit Union merged into Mountain View Credit Union
- Ironworkers Local #14 Credit Union merged into Pacific Northwest Ironworkers Federal Credit Union

### **Charter Conversions**

- Lacamas Community Federal Credit Union converted to a state chartered credit union

### **Name Changes**

- Lucky Lager Credit Union changed its name to Heritage Credit Union
- Telco Community Credit Union changed its name to Sound Credit Union
- King Street Terminal Credit Union changed its name to Express Credit Union
- Northwest Telco Credit Union changed its name to Northwest Plus Credit Union

# Division of Credit Unions

## State Credit Unions' Consolidated Financial Statement Comparing Year-End Figures For 1998 Through 2001

	<u>12/31/2001</u>	<u>12/31/2000</u>	<u>12/31/1999</u>	<u>12/31/1998*</u>
<b>Number of state chartered credit unions</b>	<b>94</b>	<b>98</b>	<b>101</b>	<b>102</b>
<b>Assets</b>				
Loans & Contracts	\$8,947,804,197	\$8,537,673,967	\$7,552,358,780	\$6,640,738,677
Other Assets	<u>\$4,440,534,816</u>	<u>\$3,597,014,313</u>	<u>\$4,113,573,905</u>	<u>\$4,206,598,971</u>
<b>Total Assets</b>	<b>13,388,339,013</b>	<b>\$12,134,688,280</b>	<b>\$11,665,932,685</b>	<b>\$10,847,337,648</b>
<b>Liabilities &amp; Net Worth</b>				
Shares & Deposits	\$11,692,689,155	\$10,200,011,728	\$9,828,088,193	\$9,384,709,294
Other Liabilities	\$431,877,274	\$732,748,783	\$724,065,014	\$445,849,194
Net Worth	<u>\$1,263,772,584</u>	<u>\$1,201,927,769</u>	<u>\$1,113,779,478</u>	<u>\$1,016,779,160</u>
<b>Total Liabilities &amp; Net Worth</b>	<b>\$13,388,339,013</b>	<b>\$12,134,688,280</b>	<b>\$11,665,932,685</b>	<b>\$10,847,337,648</b>
<b><u>Income Data</u></b>				
Gross Income	\$1,030,496,379	\$962,285,887	\$876,343,911	\$830,465,766
Plus Non-operating Gains	\$2,011,090	\$1,605,409	\$1,287,788	\$2,255,697
Minus Cost of Funds (including borrowings)	\$438,784,131	\$421,187,421	\$375,074,224	\$369,949,139
Minus Operating Expenses	\$449,465,607	\$408,144,410	\$369,619,828	\$330,824,065
Minus Provision for Loan & Lease Expense	<u>\$57,542,684</u>	<u>\$49,353,078</u>	<u>\$42,306,757</u>	\$45,511,654
<b>Net Income</b>	<b>\$86,715,047</b>	<b>\$85,206,387</b>	<b>\$90,630,890</b>	<b>\$86,436,605</b>
<b>Total Number of Members</b>	<b>1,773,301</b>	<b>1,735,153</b>	<b>1,657,600</b>	<b>1,589,285</b>

\*Note: The financial data for 1998 was adjusted from what was reported on annual reports prior to 2000.

## Division of Credit Unions

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### Changes In Certain Key State Credit Union Statistics

Changes From Year End 2000 To Year End 2001

	Increase (Decrease)	% Increase (Decrease)
Loans	\$410,130,230	4.8%
Shares and Deposits	\$1,492,677,427	14.6%
Assets	\$1,253,650,733	10.3%
Net Worth	\$61,844,815	5.2%
Members	38,148	2.2%



## **Division of Securities**

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### **Message from the Director of Securities**

This has been a year of tragedy, change and market volatility. The shocking events of September 11<sup>th</sup> have personally affected many members of our industry. My prayers go out to them and their families. We look forward to the recovery of our nation.

I am pleased, though, to present our 2001 annual report. The Securities Division took a number of significant enforcement actions this year. The Division brought 94 enforcement actions and assisted in the preparation of 11 criminal cases. Some of the larger enforcement cases included Health Maintenance Centers in which 4000 investors invested \$90 million, Senior Estate Planning Group involving 40 investors and \$4 million invested, and Sandra Crist with 75 investors and \$6 million invested.

Over the course of the year, investors benefited from our educational presentations and materials on at least 89 occasions. These events brought us to 12 different counties across Washington State and reached over 21,000 citizens. Partnering with school districts scattered across the state, the Division made presentations and distributed basic personal finance and investor educational materials to more than 600 Washington State students.

The Division is working on opportunities for mutual funds to utilize e-commerce to make their filings with us. In addition to updating our internal databases, we joined the Investment Adviser Registration Depository (IARD), a national electronic filing database for investment advisers. IARD has already improved the availability of information to the public about companies that offer investment services. In 2002 the system will expand to include investment adviser representatives.

As the Securities Division continues to develop better ways to protect the investing public and to foster capital formation, I welcome the participation and suggestions of all interested parties. I am proud of our employees and how hard they work to serve all our many constituencies. We intend to continue to do so in the years to come.

Deborah Bortner,  
Director, Securities Division

# Division of Securities

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## Mission Statement

To protect the investing public and promote confidence in the capital markets.

The Division accomplishes this by:

- Reviewing securities, franchises, and business opportunity offerings;
- Licensing and auditing Broker/Dealers, Investment Advisers, and their representatives;
- Providing technical assistance to small business;
- Responding to customer complaints, investigating and bringing appropriate administrative, civil and criminal cases; and
- Providing information and investor education.

The Division of Securities was established in the early 1930's. It now administers the Securities Act - 21.20 RCW, Franchise Investment Protection Act - 19.100 RCW, Business Opportunity Fraud Act - 19.110 RCW, and Commodities Act - 21.30 RCW. The primary purpose of the Division of Securities is to protect Washington State residents from the dishonest or fraudulent practices of people selling investments. The Division accomplishes this through a variety of regulatory and enforcement tools, including registration requirements for securities, franchise and business opportunity offerings and licensing and auditing of broker-dealers and investment advisers. It also undertakes investigations based upon complaints and undercover work.

Management and policy-making power of the Division is vested in the Director of the Department of Financial Institutions and the Director of the Division of Securities. These two are responsible for the administration of the laws, regulations, and policies currently in force. The Division Director exercises general supervisory control over the work of the Division including the program managers, examiners, investigators and administrative staff.

The Division works directly with the entities it regulates through audit and market surveillance activity in an effort to assure the public of adequate protection for their investments.

The Division is a revenue-generating, self-supporting division of state government with none of its operating expenditures funded by general tax funds. Revenue is obtained solely from its primary functions of Registration, Licensing, Auditing, and Enforcement. The Division is allotted 13 percent of the total funds it generates. The remaining 87 percent of the funds generated become a part of the General Fund and are used to fund other portions of the state government.

# Division of Securities

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## Division Staff

**Deborah R. Bortner**  
Director of Securities

### **Program Managers**

Michael Stevenson  
D. Greg Toms

### **Financial Legal Examiner Supervisor / Unit Manager**

William Beatty  
Martin Cordell  
Kristina Kneip  
Suzanne Sarason  
Janet So  
Rex Staples

### **Financial Legal Examiner 3**

Anthony Carter

### **Financial Legal Examiner 2**

Brad Ferber  
Tyler Letey  
Nelda Shannon  
Victoria Sheldon  
Chad Standifer

### **Financial Examiner 3**

Joanne Jones  
Eugene Nakano  
Carey (Duffy) Rader  
Mary Yost

### **Financial Examiner 2**

Faith Anderson  
Manuel Casem  
Emilio Casillas  
William Graeff  
Patricia Louterback

### **Financial Examiner 1**

Cerjio Castillo  
Gina DeCamp  
Frances From  
Shree Sharma

### **Investigators**

Becky Carnell  
Paul Laird  
Andrew MacKay  
Leslie Pearsall  
Susan Reynolds

### **Investor Education**

Alicia Haus  
Ed Ives

### **Administrative Support Staff**

Rhonda Caldwell  
Carolyn Hawkey  
Bruce Johnson  
Carol Kelsey  
Sara Moriarty  
Cheryl Pearson  
Patty Rice  
Kelli Skeels  
Chris Turcotte

# Division of Securities

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## Jurisdictional Areas and Regulated Entities

### Securities Act - 21.20 RCW

\$489,215,823,523.12	Securities Permits, Notifications and Exemptions
2,124	Registered Securities Broker-Dealers
416	Registered Investment Advisers
894	Investment Adviser Notice Filers
101,783	Registered Securities Salespersons
4,495	Registered Investment Adviser Representatives (Federal)
672	Registered Investment Adviser Representatives (State)
2,158	Branch Offices of Broker-Dealers
121	Active Enforcement Cases
71	Enforcement Actions

### Franchise Act - 19.100 RCW

689	Registered Franchises
74	Registered Franchise Brokers
12	Active Enforcement Cases
10	Enforcement Actions

### Business Opportunity Act - 19.110 RCW

40	Registered Business Opportunities
28	Active Enforcement Cases
11	Enforcement Actions

### Commodities Act 21.30 RCW

1	Active Enforcement Cases
2	Enforcement Actions

## Division of Securities

### Registration and Licensing Filing Activity Totals for Calendar Year 2001

#### Registrations, Exemptions & Notifications

	NEW	RENEW	AMEND	TOTAL
Investment Companies	2,657	13,692	7,103	23,452
SB-2s	21	6	5	32
Other Coordination Filings	37	43	18	98
Qualifications	32	19	50	101
SCOR (Small Company Offering Registration)	0	0	0	0
Franchises	153	629	238	1,020
Exemptions	1,747	0	0	1,747
Opinions	27	0	0	27
Franchise Exemptions	14	83	0	97
Business Opportunities	26	11	6	43
<b>TOTAL</b>	<b>4,714</b>	<b>14,483</b>	<b>7,420</b>	<b>26,586</b>

#### Firms & Entities

	NEW	RENEW	TOTAL
Securities Broker-Dealers	252	2,115	22,367
Investment Advisers	246	1,297	1,543
Franchise Brokers	30	37	67
<b>TOTAL</b>	<b>528</b>	<b>3,449</b>	<b>3,977</b>

#### Representatives & Salespersons

	NEW	RENEW	TOTAL
Investment Adviser Representatives	1,343	4,724	6,067
Intrastate Securities Salespersons	36	43	79
Agents of Issuers	19	18	37
Securities Salespersons	37,085	101,737	138,822
Salespersons with Disclosure History	2,079	0	2,079
<b>TOTAL</b>	<b>40,562</b>	<b>106,522</b>	<b>147,084</b>

#### Examination Statistics

Broker-Dealer Audits Completed	76
Investment Adviser Audits Completed	45
Bank Audits Completed	12
<b>Total Audits Completed</b>	<b>133</b>

# Division of Securities

## Enforcement Section, Statistics

Total Cases in which Orders were Entered 74

### Types of Orders Entered

	Notice of Intent	Temporary C & D	Final C & D	Consent
Securities	7	33	19	12
Franchises	1	3	1	5
Business Opportunities	0	6	2	3
Commodities	0	2	0	0
Total	8	44	22	20

	Notice of Intent	Summary Suspension	Final Revocation	Consent
Broker Dealer/Investment Adviser Reps	3	0	0	5

### Other Enforcement Statistics

- 490 Complaints
- 50 Warning Letters
- 94 Cases Opened
- 162 Cases In Process
- 118 Cases Closed
- 343 Subpoenas Issued
- 3 Criminal Referrals
- 3 Criminal Charges
- 3 Criminal Convictions
- 2 Criminal Sentencings



# **EXHIBIT 7**



Page 1	Page 2
UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION <hr/> LAWRENCE E. JAFFE PENSION ) PLAN, on Behalf of Itself and ) All Others Similarly Situated, ) ) Plaintiffs, ) ) vs. ) Lead Case No. 02-C-5893 ) HOUSEHOLD INTERNATIONAL, ) INC., et al., ) ) Defendants. ) <hr/> VIDEOTAPED DEPOSITION UPON ORAL EXAMINATION OF CHARLES CROSS CONFIDENTIAL <hr/> 9:02 A.M. APRIL 9, 2008 1515 COMMERCE STREET TACOMA, WASHINGTON <hr/> REPORTED BY: JULIE R. HEAD, CRR, RPR, CCR No. 3119	1 A P P E A R A N C E S 2 3 FOR THE PLAINTIFFS: 4 CAMERON BAKER, ESQ. 5 LUKE O. BROOKS, ESQ. 6 Coughlin Stoia Geller Rudman Robbins LLP 7 100 Pine Street, Suite 2600 8 San Francisco, California 94111 9 Phone: 415.288.4545 Fax: 415.288.4534 10 E-mail: cbaker@csgr.com 11 E-mail: LukeB@csgr.com 12 13 FOR THE DEFENDANTS: 14 HOWARD (PETER) G. SLOANE, ESQ. 15 LAUREN PERLGUT, ESQ. 16 JASON M. HALL, ESQ. 17 LARA R. CORCHADO, ESQ. 18 Cahill Gordon & Reindel LLP 19 80 Pine Street 20 New York, New York 10005 21 Phone: 212.701.3000 Fax: 212.269.5420 22 E-mail: psloane@cahill.com 23 E-mail: lperlgut@cahill.com 24 E-mail: jhall@cahill.com 25 E-mail: lcorchado@cahill.com
Page 3	Page 4
1 FOR THE WITNESS: 2 ELIZABETH P. MARTIN, ESQ. 3 Gordon Thomas Honeywell Malanca Peterson & 4 Daheim LLP 5 Wells Fargo Plaza 6 1201 Pacific Avenue, Suite 2100 7 Tacoma, Washington 98402 8 Phone: 253.620.6500 9 Fax: 253.620.6565 10 E-mail: emartin@gth-law.com 11 12 13 ALSO PRESENT: 14 JOHN L. BLEY, ESQ. 15 Foster Pepper PLLC 16 1111 Third Avenue, Suite 3400 17 Seattle, Washington 98101 18 Phone: 206.447.4400 19 Fax: 206.447.9700 20 E-mail: bleyj@foster.com 21 22 23 TANIA GRANT, Videographer 24 25	1 I N D E X 2 3 EXAMINATION BY: PAGE 4 MR. SLOANE 9, 190 5 MR. BAKER 105, 196 6 7 EXHIBITS FOR IDENTIFICATION PAGE 8 Exhibit 1 Transcript of 12/19/02 Volume 1 19 9 Deposition of Charles L. Cross III, HHS 10 02498419 - 02498474 11 Exhibit 2 Transcript of 2/4/03 Volume II 19 12 Deposition of Charles L. Cross III, HHS 13 02498501 - 02498569 14 Exhibit 3 Washington Department of Financial 23 15 Institutions Expanded Report of 16 Examination for Household Finance 17 Corporation III as of April 30, 2002, 18 HHS 02498625 - 02498697 19 Exhibit 4 7/1/02 Letter to Chuck Cross, Re: 33 20 Expanded Report of Financial 21 Examination for Household Finance 22 Corporation III - Confidential 23 Response, Plus Attachment, HHS 02484659 24 - 02484940 25

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1 Everything in my history leading up to 2002 would have  
2 played, in some way or another, into this report.  
3 Q. There is nothing within the statutes or the  
4 regulations that you enforced at that time that put the  
5 burden on borrowers of informing themselves; is that  
6 right?  
7 A. That is true.  
8 MR. SLOANE: Off the record.  
9 (A discussion was held off the record.)  
10 Q. (BY MR. SLOANE:) In connection with the  
11 examination of entities with multiple locations in  
12 Washington, was it your practice to randomly select  
13 customer accounts to test licensee compliance?  
14 MR. BAKER: Objection as to form. Just so you  
15 know what I'm -- you say, "your," you're referring to  
16 him or DFI?  
17 MR. SLOANE: Well, that's a good objection.  
18 Q. (BY MR. SLOANE:) Let's start with DFI.  
19 A. In the scenario led to down to division.  
20 Q. Right.  
21 A. Okay.  
22 Q. Division.  
23 A. Of Consumer Services.  
24 Q. Consumer Services.  
25 A. Division of Consumer Services examination unit

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1 you mean the agency head, not the division head?  
2 Q. (BY MR. SLOANE:) Correct.  
3 A. And I think your question was did the agency  
4 head have knowledge and give approval of the findings?  
5 Is that --  
6 Q. Of the apparent findings.  
7 A. I do not believe so. I can't -- I cannot  
8 testify to what my boss, the division director, would or  
9 would not have shared with the agency head. I didn't --  
10 I don't remember -- Other than general matters related  
11 to the case, I don't remember sharing any specifics  
12 with -- with the agency director.  
13 Q. Okay. Let me ask you about another issue.  
14 And, in particular, do you recall providing some  
15 testimony in connection with a Washington State labor  
16 subcommittee hearing on consumer finance on or about  
17 June 5, 2002?  
18 A. Would that have been at Mount Vernon,  
19 Washington? Do you know where it was? Was it in -- Did  
20 you say it was a senate subcommittee?  
21 Q. It was a --  
22 MR. BAKER: You don't rate.  
23 (A discussion was held off the record.)  
24 MR. SLOANE: What are they talking about, the  
25 baseball scores? Give me the disk.

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1 employed a random sampling selection method developed, I  
2 believe, by the Federal Reserve Board.  
3 Q. Okay. And do you know what that random  
4 selection process entailed?  
5 A. I did at one time.  
6 Q. You just don't know now?  
7 A. (The witness shakes his head.)  
8 Q. Do you know how that process was used or not  
9 used in connection with the investigation of Household?  
10 A. With this expanded examination?  
11 Q. Yes.  
12 A. It was not used.  
13 As long as there's a pause, I just want to  
14 clarify it was used in the routine exams that were done  
15 prior to this expanded examination.  
16 Q. Yes, okay.  
17 Would -- To the best of your knowledge, were  
18 the statements and apparent findings contained in  
19 Exhibit 3 made with the prior knowledge and approval of  
20 the head of DFI?  
21 MR. BAKER: Objection as to form.  
22 You mean apparent findings or apparent  
23 violations?  
24 MR. SLOANE: Apparent violations.  
25 A. And just to qualify, when you say, "the head,"

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1 Q. (BY MR. SLOANE:) It was a -- To the best of  
2 my knowledge, it was a Senate Labor Subcommittee on  
3 Consumer Finance. And I don't -- I have the actual  
4 transcript of it and the actual tape, and it says that  
5 it was the Wash -- Senate Labor Subcommittee on Consumer  
6 Finance meeting, June 5, 2002.  
7 MR. BLEY: That would have been during the  
8 interim, Chuck.  
9 A. So, location -- location would still help jog  
10 my memory.  
11 MR. SLOANE: Right.  
12 A. But I remember an event being held up --  
13 around that -- that time, up in Mount Vernon,  
14 Washington, where a couple of senators -- I can't  
15 remember who they were, now -- called on some various  
16 officials and representatives of community, and so  
17 forth, to discuss predatory lending issues. I have sort  
18 of a memory of that event, but I did a lot of stuff with  
19 the legislature.  
20 Q. (BY MR. SLOANE:) Okay. In connection with  
21 that hearing -- and I can play the actual transcript for  
22 you -- I will represent to you that you made the  
23 following statement, which I'm happy to play for you, if  
24 you'd like, however -- quote, "However, there is still  
25 no agreed-upon or unified definition that exists for

1 predatory lending," unquote.  
2 My question to you, sir, is -- First of all,  
3 do you recall making that statement?  
4 A. I think I said that a bunch of times. I'm  
5 sure I said it in an event talking about predatory  
6 lending.  
7 Q. And -- And is that statement consistent with  
8 your knowledge and belief?  
9 A. Yes.  
10 Q. I'm looking for my documents, here.  
11 Do you know what this case is about that  
12 you're being called as a witness here today on?  
13 A. Vaguely. I mean, a little bit.  
14 I think it's a Household employees and class  
15 action suit against the company, and I had to sort of  
16 fill in between -- the bits of information that  
17 Mr. Baker gave me some time back, but I -- I'm guessing  
18 it had something to do with Household employees feeling  
19 that management practices maybe somehow devalued their  
20 stock.  
21 Q. Okay. Do you understand that it's a  
22 securities case?  
23 A. I don't know that I specifically knew that it  
24 was a securities case, but --  
25 Q. Okay. And you mentioned some conversations

1 to happen, and; then, I think we might have had one  
2 other conversation after that in which he told me that  
3 my former boss, John Bley, was a witness for you guys.  
4 So -- That would be -- There was one other  
5 one, here, recently, where we talked about where the  
6 venue was going to be, whether I had to go to Seattle or  
7 not.  
8 Q. Okay. And in connection with the substantive  
9 discussion, as I'll call it, the half-an-hour  
10 discussion, what do you recall you were asked and what  
11 did you say?  
12 A. I don't know that he asked me questions that  
13 required answers. We dialogued a little bit. He told  
14 me that -- that he was interested in my deposition I did  
15 with Bob Farlette, which we've been going through pieces  
16 of, here. We talked about the fact that John would be  
17 an expert witness for you guys and I -- I believe you  
18 guys had already -- somebody had already done John's  
19 deposition, so, he briefly told me how that went.  
20 I don't recall specific questions about this  
21 case that I had to answer or that maybe I -- I could  
22 answer.  
23 Q. Do you recall the general -- generally, what  
24 was discussed, other than what you've already said?  
25 A. Pretty much what I already said: That he was

1 with Mr. Baker. How many times -- How many times have  
2 you talked to any lawyer representing the plaintiffs in  
3 this case?  
4 A. Boy, I wouldn't know that. I think  
5 Mr. Baker's the -- the only attorney I know, for sure,  
6 who represents the plaintiffs -- I don't even really  
7 know who the plaintiffs are, but -- I'm fairly  
8 comfortable saying -- at least as far as I know,  
9 Mr. Baker is the only attorney I was speaking with with  
10 the knowledge that -- that the attorney represented the  
11 plaintiffs.  
12 Q. Okay. How many times did you talk to  
13 Mr. Baker?  
14 A. We had a short conversation way back in  
15 November or December. I was at an airport; he left me a  
16 message; I left him a message; we connected; I think we  
17 talked for maybe five or ten minutes; I think I was in  
18 Chicago or Minneapolis; we didn't talk again for a  
19 while; we did -- we had a conversation sometime, I want  
20 to say, after the start of the year where maybe we  
21 talked for a half hour or so; we had, I want to say,  
22 another silence for a while, some phone tag back and  
23 forth -- I was kind of hard to get hold of -- we  
24 finally talked and he had been calling to give me a  
25 courtesy call to let me know this deposition was going

1 interested in my deposition with -- with Bob Farlette;  
2 he had even actually reminded me that I had done this  
3 deposition, because it had slipped my mind; and, at one  
4 point, one of the conversations, we talked about whether  
5 Exhibit 3 would have actually been a -- I think a  
6 formally issued report of the department or whether it  
7 was still in draft form, and we talked about that a  
8 little bit.  
9 Q. Anything else you can recall?  
10 A. No. But would you like me to -- If I -- If  
11 something comes to mind --  
12 Q. Sure.  
13 A. -- take you back and provide you that?  
14 Q. Sure. And in connection with the -- what the  
15 subject matter that you just referred to about the  
16 report, is there anything you recall telling him in  
17 particular about that?  
18 A. Yeah, I was -- I -- I think I laughed and said  
19 that -- I think I might have asked him, "Does it have my  
20 signature on it?" And he said, "Yes." And it's got my  
21 signature on it, it was -- it was a formally entered  
22 report of the agency, and I remember issuing that  
23 report. I remember Household asking me not to and a  
24 whole bunch of arguments around whether it should be or  
25 not. But it was definitely an entered report by the

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1 agency.

2 There was some discussion about the term

3 apparent violations, and I explained to Mr. Baker that,

4 basically, if -- if -- if the term apparent violations

5 in this report is somehow going to make it a non-formal

6 report or -- or a draft report, then I think just about

7 any report we ever did would fall into that category,

8 including all of the reports out of our division of

9 banks. I mean, for 15 years, now, everything would be

10 draft, because we use that term, apparent violations, as

11 does the FDIC, federal regulatory agency, so -- That's

12 where I brought it from. I was with the FDIC before I

13 came to Washington State. It's an accepted term that's

14 used throughout examination reports.

15 Q. Um-hum.

16 Anything else you can recall discussing with

17 Mr. Baker?

18 A. Not that I recall right now.

19 Q. Did he provide you, at any point, with any

20 documents?

21 A. Yes. A -- The protective order I think is all

22 that I got from him.

23 Q. Anything else?

24 A. I don't think I got anything else from him. I

25 did get these transcripts from my attorney, but I don't

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1 with this case?

2 A. Briefly.

3 Mr. Baker told me that -- that John, I

4 believe, will be testifying that it was not a -- I don't

5 know if I'm using the right term -- formal or that it

6 was -- that -- that the report that I issued was a draft

7 report.

8 Q. Is there anything else that you recall him

9 test -- telling you about?

10 A. He told me that John would be an expert witness

11 for predatory lending and I said, "Ah-hah. That must be

12 because of John's 2000 testimony at the federal

13 reserve" -- although, I think I remembered it being,

14 like, 1999, or something. Mr. Baker refreshed me it was

15 2000 or -- I think it was 2000.

16 And I recounted to him that, yes, I'd been

17 there with John; that -- that -- that I'd been the

18 author of much of that testimony; that -- that I sat

19 behind John while he was giving it. So, I was -- I was

20 familiar with that and I knew that even to -- to this

21 date, people bring up that testimony.

22 Q. Did you -- Do you have any basis for believing

23 that Mr. Bley is not an honest person?

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

25 Q. And do you know or have you had any contact

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1 think those came -- I don't know where they came from,

2 but --

3 Q. In any event, I'm not interested in what you

4 talked about with your attorney.

5 MS. MARTIN: Right.

6 Q. (BY MR. SLOANE:) I just want to know what --

7 A. I don't think he -- I don't think so.

8 Q. Was there any discussion in those various

9 conversations about you being a witness in this case?

10 A. He told me that I was named as a witness, or

11 named on the witness list, and, therefore, I was subject

12 to deposition.

13 Q. Did he mention to you anything about any

14 expert role you might have in this dep -- in this case?

15 A. No, I don't -- I don't think we -- People call

16 me a lot asking me to be an expert and I -- and other

17 than a state -- I will be an expert for a state agency.

18 I will not be an expert for -- for a private action.

19 So, if he did ask me that, which is possible, because I

20 get asked that -- seems like almost a weekly basis these

21 days -- I would have said no.

22 Q. Okay.

23 Did you -- Have you seen -- You mentioned John

24 Bley. Have you seen or been given any information about

25 Mr. Bley's views that he had expressed in connection

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1 with -- a woman by the name of Ghiglieri?

2 MR. BAKER: Kathy Ghiglieri.

3 A. No. Doesn't ring a bell.

4 Q. (BY MR. SLOANE:) How about a fellow by the

5 name of Devors, D-E-V-O-R-E?

6 A. Does not ring a bell.

7 Q. Okay. I'll ask you, just because I can't

8 imagine you have, but there's another gentleman by the

9 name of Fichel, F-I-C-H-E-L. You have any contact with

10 him?

11 A. I don't believe so.

12 Q. Okay.

13 Let me just take a short break because I don't

14 think I have anything more, but --

15 MS. MARTIN: Sure.

16 MR. SLOANE: I'll probably be told I do, so --

17 But it won't be long.

18 THE VIDEOGRAPHER: We are now going off the

19 record in the continuing deposition of Charles Cross.

20 The time is now 11:49 a.m.

21 (Off the record at 11:49 a.m.)

22 (Back on the record at 11:56 a.m.)

23 THE VIDEOGRAPHER: We are now back on the

24 record in the continuing deposition of Charles Cross.

25 The time is now 11:56 a.m.

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1 your response to that subpoena." Do you see that  
2 language?  
3 A. Yes.  
4 Q. Okay. So, this -- Did you ever see the  
5 documents that were produced by Household in response to  
6 the State of Minnesota subpoena?  
7 A. Yes. I believe that Scott Borchert (ph) and  
8 Don -- and Dan Gallatin shared those -- some of those  
9 documents with me.  
10 Q. Okay.  
11 And let's mark this next in order as Exhibit  
12 18.  
13 (Cross Exhibit 18 was marked for  
14 identification.)  
15 (A discussion was held off the record.)  
16 Q. (BY MR. BAKER:) Okay. And, Mr. Cross, do you  
17 see Exhibit 18?  
18 A. Yes.  
19 Q. And the cover -- the first page is a letter  
20 from Ms. Allcock to yourself; do you see that?  
21 A. Yes.  
22 Q. Okay. And attached to it is a list -- exhibit  
23 list of -- sorry, it's exhibit -- sorry, Exhibit A, but  
24 it's a list of documents that were produced in response  
25 to the subpoena that you requested.

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1 I asked you earlier whether a violation had  
2 been found against Household or any of its subsidiaries  
3 by anyone who was delegated the authority to so find,  
4 and I believe your testimony was no -- no such violation  
5 had been found.  
6 Is that -- Notwithstanding what Mr. Baker  
7 asked you, is that still accurate?  
8 A. Yes.  
9 Q. Okay. And when you refer to this report --  
10 and there's some discussion about final report -- you  
11 considered it final from your perspective -- is that  
12 right -- and from the division's perspective?  
13 A. That is true.  
14 Are you implying that it may not have been  
15 final from the department's perspective?  
16 Q. Well, you just told me that there was no --  
17 Well, let me ask you. Did you obtain the approval of  
18 the director of the department of DFI for the submission  
19 of this report?  
20 A. That would -- That would be delegated  
21 authority.  
22 Q. That's not my question.  
23 Did you obtain the approval of the director of  
24 DFI, the head of DFI, for the submission of this report?  
25 A. Yes.

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1 A. Yes.  
2 Q. Okay. And did you review all these documents  
3 as part of your preparation of Exhibit 3?  
4 A. Yes. I can't say I sat down and watched these  
5 videotapes. Although I -- You didn't ask me.  
6 Q. But you had them available for your  
7 consideration if you thought it was appropriate?  
8 A. Yes.  
9 Q. Okay. Now, was the preparation of reports of  
10 examination, at this point in time, one of your regular  
11 duties at DFI?  
12 A. It was my all-consuming duty as -- Everything  
13 else kind of got put on hold for a couple of months.  
14 Q. And was Exhibit 3 a report prepared pursuant  
15 to Washington law?  
16 A. Yes.  
17 MR. BAKER: I don't think I have anything --  
18 No further questions.  
19 MR. SLOANE: Okay. I just have a few  
20 questions.  
21 FURTHER EXAMINATION  
22 BY MR. SLOANE:  
23 Q. In connection with the questions that  
24 Mr. Baker asked you, and some of the answers you gave,  
25 your referred to the department, in quotes, and DFI.

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1 Q. Okay. And in your yes, you're saying your  
2 report -- that's because that duty was delegated to the  
3 head of the division?  
4 A. And then further delegated down from there,  
5 yes.  
6 Q. Okay. And further delegated to you?  
7 A. Yes.  
8 Q. Okay. Now, you referred in your testimony to  
9 Household internal documents that you said -- I'm not  
10 putting words in your mouth because someone else wrote  
11 this -- but that corroborated the theories you found --  
12 you formed on the basis of the 19 complaints.  
13 Can you identify for us what internal  
14 documents from Household you thought corroborated the  
15 theories you formed which related to the 19 complaints?  
16 MR. BAKER: Objection as to form.  
17 A. No.  
18 Not -- Not now sitting a bunch of years later.  
19 Q. (BY MR. SLOANE:) You also testified, in  
20 response to one of Mr. Baker's questions, that, in -- in  
21 doing this report -- and perhaps I got this wrong --  
22 you -- and I -- the phrase was push the envelope, and my  
23 question to you is: In what ways did you push the  
24 envelope in connection with this report?  
25 A. No, that wasn't -- I used push the envelope in

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1 terms of the type of examinations and investigations the  
2 agency was doing; not this report, necessarily. I think  
3 that's what I remember saying.

4 Q. Okay. All right. Let me rephrase that.

5 In what -- what way did you believe you were  
6 pushing the envelope in the kinds of investigations,  
7 using your word, that the -- that the -- your department  
8 was doing?

9 A. There were a variety of things we did that  
10 were being done before any other state, much of which  
11 long since was adopted by other states, but, I mean --  
12 We were the leading state in FAMCO, Household,  
13 AmeriQuest. I mean, those are the three biggies in this  
14 world, this -- this world of mortgage regulation. We  
15 were using subpoenas before most of the other states.  
16 The way we were processing complaints and conducting  
17 complaint resolutions were very progressive compared to  
18 other states and, you know, we began using -- instead of  
19 simple request letters on complaints, we -- we began  
20 using directives and pleadings formats. No other state  
21 had thought to do that and we -- we went from a --  
22 probably a 40-percent successful response rate to almost  
23 a hundred-percent successful response rate. I mean,  
24 literally, overnight, by -- by changing some of those --  
25 those methods.

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1 aggressive.

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

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

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

23 What I was trying to say was that -- that the  
24 Household practices revealed themselves to us. We  
25 didn't make -- I think -- I was -- I was getting the

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1 So -- We were -- Much credit to John and Mark  
2 Thompson. We thought outside the -- the box from --  
3 from a lot of regulators.

4 Q. And is it, in your -- were you thinking  
5 outside the box, to use your phrase, in terms of the  
6 kinds of practices that you were investigating?

7 A. We were finding outside the box. I'm not sure  
8 we were -- in -- Always -- Regardless of how progressive  
9 a regulator is, we're always way behind the industry.  
10 We're always playing catch-up. So, the kind of stuff  
11 that we've seen from these days to present time -- I  
12 mean, these days, we -- we see this -- we see the  
13 practices that take place in companies and sort of it --  
14 it's -- it's commonplace. In those days, we were  
15 just -- we were seeing it for the first time. It was  
16 very new, and we were having to be very aggressive in  
17 our insistence that we didn't just accept the surface or  
18 the -- the pat answers that a company was giving us back  
19 and closing out a case and going on.

20 We started to -- As Mr. Baker questioned,  
21 because of FAMCO and some other cases, we started to  
22 drill deeper, become more insistent. We became -- We  
23 were very aggressive regulators. I remember Mr. Bley  
24 sometimes fondly referring to me as his Pit Bull at the  
25 end of the chain. I mean, we were -- we were extremely

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1 sense that you were implying that we made up these new  
2 ways of them doing business, and we'll call it this or  
3 call it that. And what I meant to say was, no, we  
4 weren't thinking outside the box and coming up with  
5 these -- these scams and so forth. We were saying,  
6 "Wow, look at this," and we would study it, realize  
7 that's a scam. This is a misrepresentation. And we  
8 would start to label and identify these things. But we  
9 didn't create them. We discovered them.

10 Q. I understand.

11 It's always dangerous to think where the  
12 lawyer is going with a question. Just answer my  
13 questions.

14 MR. BAKER: Especially this guy.

15 Q. (BY MR. SLOANE:) You refer to the receipt of  
16 a thousand complaints a year -- Mr. Baker's examination.  
17 You weren't implying that you received a thousand  
18 complaints a year against Household, were you?

19 A. No.

20 Q. And --

21 Just have a few more questions.

22 Yeah, would you look at Exhibit 2, page 401.

23 I'm sorry, I have --

24 A. Okay.

25 Q. He bunched it all up.

Pages 193 to 196

REPORTER'S CERTIFICATE

I, JULIE R. HEAD, the undersigned Certified Court Reporter and Notary Public, do hereby certify:  
That the sworn testimony and/or proceedings, a transcript of which is attached, was given before me at the time and place stated therein; that any and/or all witness(es) were by me duly sworn to testify to the truth; that the sworn testimony and/or proceedings were by me stenographically recorded and transcribed under my supervision, to the best of my ability; that the foregoing transcript contains a full, true, and accurate record of all the sworn testimony and/or proceedings given and occurring at the time and place stated in the transcript; that I am in no way related to any party to the matter, nor to any counsel, nor do I have any financial interest in the event of the case.

WITNESS MY HAND AND SEAL THIS 14th day of April, 2008.

JULIE R. HEAD, CRR, RPR  
Certified Court Reporter  
CCR No. 3119  
Notary Public in and for the  
State of Washington, residing in  
Snohomish County. Commission  
Expires 8-09-11.

# **EXHIBIT 8**



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

<p style="text-align: right;">Page 30</p> <p>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?</p>	<p style="text-align: right;">Page 32</p> <p>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</p>
<p style="text-align: right;">Page 31</p> <p>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</p>	<p style="text-align: right;">Page 33</p> <p>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.</p>

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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 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)  
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C E R T I F I C A T E

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.  
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 Rebecca S. Lindauer, CSR#LI-ND-AR-S306NT  
 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 CENEVEVE 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

Maris DeJongh & Associates  
 (206) 583-8711

<p style="text-align: right;">Page 253</p> <p>1 are happening that are actually different than what's                  2 going on so --                  3 Q (By Mr. Dunne) So that is your opinion here,                  4 Mr. Cross, that this document which is disseminated to                  5 thousands of employees was actually intended to fool                  6 regulators rather than to train employees on making                  7 communications clear to customers?                  8 MR. PIERSON: Objection, assumes facts.                  9 THE WITNESS: I have no opinion of this document.                  10 Q (By Mr. Dunne) When you just testified that often when                  11 companies put these kinds of documents out, that's                  12 some hyperskeptical speculation on your part. You                  13 don't have any actual foundation for saying that                  14 Household ever put this document out for that purpose,                  15 do you?                  16 MR. PIERSON: Objection to the characterization,                  17 compound, argumentative.                  18 THE WITNESS: I might have lost my train of                  19 thought. But I don't think I ever characterized                  20 Household in that way.                  21 Q (By Mr. Dunne) Okay. Do you have any foundation in                  22 fact to say that Household ever put out any                  23 document in order to mislead or deceive regulators                  24 about what their actual practices were?                  25 A I believe that Household generated a significant</p>	<p style="text-align: right;">Page 255</p> <p>1 going to characterize it.                  2 Q Well, you expressed a lot of opinions about                  3 Household's intentions in your report. Were those                  4 speculation about Household?                  5 A It's possible at times that it was speculation, yes.                  6 Q Look at the second page of this exhibit, please,                  7 Exhibit E. Do you know who Gary Gilmer is at                  8 Household?                  9 A Not personally, but I'm familiar with the fact that he                  10 is the president at Household.                  11 Q Now, are you familiar with the statement that he has                  12 made to all employees of Household that, We have been                  13 in business for more than 120 years and we have been                  14 successful because we treat our customers the right                  15 way. The fact is you can't be in business,                  16 particularly the financial services business, if you                  17 don't take care of your customers. So the fundamental                  18 belief of our company always has been that the                  19 customer comes first.                  20 Are you familiar with that statement?                  21 A I am now that you read it, provided that he actually                  22 wrote it, but prior to you reading it to me, I don't                  23 recall.                  24 Q That's not something that was referenced, incorporated                  25 or even considered anywhere in the 75-page report that</p>
<p style="text-align: right;">Page 254</p> <p>1 amount of documentation to this Department that was                  2 intended to mislead us as to what was taking place                  3 within the company.                  4 Q And is this one of those documents?                  5 A No, I don't have a familiarity with this document.                  6 Q What I'm asking is do you -- your testimony as I                  7 understood it was that companies produce materials                  8 like this in order to mislead regulators about what                  9 really goes on in their practices, right?                  10 MR. PIERSON: I'm going to object to the                  11 characterization of his testimony. We can always go                  12 back and hear it if you want.                  13 THE WITNESS: Yeah. Before I answer that, I                  14 guess I'd want to hear what I said again.                  15 Q (By Mr. Dunne) Well, let me ask you, is that your                  16 position or is it not your position?                  17 A I want to be accurate on this. Could you phrase that                  18 again.                  19 Q Yeah, is it your opinion that Household created and                  20 produced training and policy materials to its                  21 employees for the purpose of deceiving regulators?                  22 A I have no opinion on that.                  23 Q Any opinion on that would be pure speculation,                  24 wouldn't it?                  25 A Well, since I don't have an opinion on it, I'm not</p>	<p style="text-align: right;">Page 256</p> <p>1 this Department put together --                  2 A No.                  3 Q -- is it? In fact, if you turn to the next page where                  4 this document instructs Household customers that we                  5 must always care, listen, ensure value, anticipate and                  6 respect our customers, you won't find a reference to                  7 that policy anywhere in the section that deals with                  8 allegedly misleading consumers, will you?                  9 MR. PIERSON: Objection, it assumes facts.                  10 THE WITNESS: I don't see that it's a policy,                  11 but you won't find any reference to this in my report,                  12 no.                  13 Q (By Mr. Dunne) And if you go to the next page, Making                  14 It Clear Principles, you won't find any reference to                  15 those principles in the section of your report where                  16 you allege that Household is in the business of                  17 misleading consumers, will you?                  18 MR. PIERSON: Same objection.                  19 THE WITNESS: You won't find any reference to                  20 this page in there, no.                  21 Q (By Mr. Dunne) Don't you think it's relevant,                  22 Mr. Cross, what the actual policies are about how you                  23 communicate information to your customers in making                  24 conclusions about whether those policies are fair or                  25 not?</p>

<p style="text-align: right;">Page 489</p> <p>1 to other examiners to other regulators to you; is that  2 right?  3 A Yes, unfortunately, for me in my cases hearsay is  4 acceptable.  5 Q Right. Now, one other question, you referred to  6 complaints being the tip of the iceberg. Did you ever  7 find a complaint that was unjustified?  8 A Yes.  9 Q Does that happen fairly frequently?  10 A I haven't looked at statistics recently, but the  11 statistics I used to report to the mortgage commission  12 here in Washington State were that we found at least  13 80 percent of the complaints to have validity.  14 Q Doing the same kind of investigation you did with the  15 Household complaints here?  16 MR. PIERSON: Objection, vague.  17 Q (By Mr. Dunne) Or maybe even less investigation?  18 A Similar, but I spent more one-on-one time with the  19 Household files than with your normal complaint files.  20 Q Okay. So let me ask you, from the complaints about  21 confusion over interest rates, can you give me a  22 precise estimate of the number of Washington borrowers  23 who received some oral misrepresentation about the  24 interest rates they were getting on their loans?  25 A No.</p>	<p style="text-align: right;">Page 491</p> <p>1 Q How about the number of borrowers who had insurance  2 financed into their loans without their knowledge or  3 against their wishes?  4 A Don't know.  5 MR. DUNNE: Okay. That's all I have.  6 MR. PIERSON: Thanks.  7 (WHEREUPON, at 6:20 p.m. the deposition was  8 concluded.)  9 (Signature was waived.)  10  11  12  13  14  15  16  17  18  19  20  21  22  23  24  25</p>
<p style="text-align: right;">Page 490</p> <p>1 Q How about -- I'm sorry -- as to discount points?  2 A No.  3 Q How about number of Washington borrowers from January  4 1999 to the present who didn't receive GFE disclosures  5 in a timely fashion?  6 A No. We would have to go to the database and pull  7 those violations and tell you how -- what percent that  8 was, but then you're asking what percent of Washington  9 borrowers, and I don't even know how many loans were  10 made in the State of Washington.  11 Q There were thousands. We know that, right?  12 A Yes, there were thousands.  13 Q Okay. So do you have a precise estimate of the number  14 of Washington borrowers who were confused about their  15 monthly payment amounts due to some misrepresentation  16 by Household?  17 A No.  18 Q How about the number who suffered some  19 misrepresentation concerning whether their loans  20 contained prepayment penalties?  21 A Could you could you ask me that again?  22 Q Yeah. How about the number of borrowers who suffered  23 some misrepresentation as to whether their loans  24 contained prepayment penalties?  25 A I don't know the number.</p>	<p style="text-align: right;">Page 492</p> <p style="text-align: center;">C E R T I F I C A T E</p> <p>1 STATE OF WASHINGTON )  2 )  3 COUNTY OF KING )</p> <p>4 I, the undersigned Notary Public in and for the  5 State of Washington, do hereby certify:  6 That the annexed transcript of Tuesday,  7 February 4, 2003 deposition of CHARLES L. CROSS III  8 was taken stenographically by me and reduced to  9 typewriting under my direction;  10 I further certify that I am not a relative or  11 employee or attorney or counsel of any of the parties  12 to said action, and that I am not financially  13 interested in the said action or the outcome thereof;  14 I further certify that the annexed Tuesday,  15 February 4, 2003 deposition of CHARLES L. CROSS is a  16 full, true and correct transcript, including all  17 objections, motions and exceptions of counsel, made  18 and taken at the time of the foregoing proceedings.  19 IN WITNESS WHEREOF, I have hereunto set my hand  20 and affixed my signature this 6th day of February,  21 2003.  22  23 NOTARY PUBLIC in and for the State of  24 Washington, residing at Seattle.  25 My Commission expires February 14, 2006  CS# License No. HECK-HL-F-0600M</p>