UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	Lead Case No. 02-C-5893 (Consolidated) <u>CLASS ACTION</u> Honorable Jorge L. Alonso

<u>PLAINTIFFS' MOTION *IN LIMINE* TO PERMIT PLAINTIFFS TO PRESENT EVIDENCE OF THE FRAUD</u>

PLAINTIFFS' MOTION *IN LIMINE* NO. 1

The trial of loss causation, damages and proportionate liability cannot be conducted in an evidentiary void. In particular, a jury will have to understand the nature of defendants' fraud – including the conduct giving rise to the prior jury's determination that defendants made false or misleading statements about their predatory lending, reaging and restatement – in order to determine two separate and independent questions: (i) what is non-fraud information, and whether and to what extent it impacted Professor Fischel's models; and (ii) the allocation of responsibility for plaintiffs' losses. The jury cannot decide either of these issues in a vacuum; it must be made aware of the underlying facts. In particular, in reaching a verdict with respect to whether Professor Fischel has properly accounted for the effect of non-fraud company specific information, the jurors need to be educated about Household, the underlying fraud, and the reasons why defendants' statements were false or misleading. And, in order to assess the proportionate fault of each defendant, the jury requires an understanding of the nature of the fraudulent conduct and each defendant's role in the fraud. Although this evidence is indisputably relevant, defendants have objected to the admission of any evidence of the fraud, claiming that it is irrelevant to the scope of the retrial. To the contrary, much of the evidence that was introduced at the prior trial will be relevant to the issues of loss causation and proportionate liability that are the focus of the retrial.

The Seventh Circuit Court of Appeals addressed the admissibility of evidence from a first trial after a remand for a partial new trial in *Watts v. Laurent*, 774 F.2d 168, 181 (7th Cir. 1985). In *Watts,* the Court of Appeals affirmed the judgment as to liability, but remanded the case for a new trial solely on the issue of damages. While noting that the new jury should be instructed that "the relevant issues of liability have been previously decided and shall be instructed as to the legal basis of defendants' liability," the *Watts* court held that "[t]hese instructions shall not, however, preclude the free presentation of evidence and information from the liability phase to the extent such evidence is relevant . . . in any way to damages." *Id*.

The Court of Appeals expanded on its view of the admissibility of evidence at the new trial, holding:

> We therefore require that the parties ***shall have*** an opportunity to present to the second jury whatever evidence (through testimony, in summary form or as the

> district court shall permit) from the liability phase of the trial may be regarded as relevant in any way to the question of damages. To the extent that the parties may be able to stipulate to evidence or summaries of evidence from the liability phase, the proceeding will, of course, be expedited. ***The trial judge shall apply a broad standard with respect to the relevance of this sort of evidence and there shall be a strong presumption that evidence from the liability phase may be relevant in some way to damages***.

Id. (emphasis added).

Addressing a similar situation in *MCI Communications Corp. v. AT&T Co.*, 708 F.2d 1081 (7th Cir. 1983), the Seventh Circuit reasoned that:

> The most difficult part of the decision to remand for a partial new trial on damages is the formulation of rules to guide such a proceeding. It is critical to realize what issues have not been remanded. The issues relating to jurisdiction, liability and immunity have been conclusively decided by this opinion and are not subject to further proceedings on remand. ***To the extent it is necessary to educate the fact finder on these issues, evidence which might normally be associated with a determination of liability may have to be introduced or reintroduced***. We suggest, however, that stipulations be heavily relied upon by the parties in accordance with the sound discretion of the trial judge.

Id. at 1168 (emphasis added).

The Seventh Circuit in both *Watts* and *MCI* simply refused to require the new jury to decide the case in a vacuum. The impact of withholding evidence of the defendants' underlying conduct from the jury "might trigger unwarranted jury speculation and hamper the plaintiffs' fair right to tell their story of how they have been hurt, why they have been hurt and who hurt them." *See Whitehead v. K Mart Corp.*, 173 F. Supp. 2d 553, 560 (S.D. Miss. 2000). As a result, "there should be a strong presumption that evidence from the liability phase of the first trial was relevant in some way to damages." *Id.*; *see also Miami Valley Fair Housing Ctr. v. The Connor Grp.*, No. 3:10-cv-83, 2015 WL 9582433, at *4 (S.D. Ohio Dec. 31, 2015) ("Although this jury's task will be limited to determining the issues of proximate cause and damages, the jury cannot be expected to make that determination in a vacuum."); *Real v. Bunn-O-Matic Corp.*, 195 F.R.D. 618, 624 (N.D. Ill. 2000) ("'[T]he damages trial cannot be conducted in an evidentiary vacuum. A jury will have to be familiar with the patents at issue, the products, and the . . . industry itself. Therefore, much of the evidence that can be expected to be introduced in a trial on damages will be duplicative of the evidence that can be expected to be presented in a trial on liability.'") (quoting *THK America, Inc. v.*

NSK Co. Ltd., 151 F.R.D. 625 (N.D. Ill. 1993)); *Wheatley v. Beetar*, 637 F.2d 863, 867 (2d Cir. 1980) ("The new trial on damages in this case will necessarily require introduction of some of the evidence which came in during the liability stage of the first trial.").

Here, too, the jury requires complete information about defendants' fraudulent conduct – including the reasons that defendants' statements were false or misleading – in order to understand fully the loss causation and proportionate liability issues that are the subject of the retrial. A second jury cannot fairly determine what is fraud-related information in the first instance – much less evaluate whether it impacted Household's share price – without a full understanding of defendants' fraudulent scheme.

To be sure, whether information is fraud-related will be a central focus of the retrial. In remanding this case for a new trial, the Court was satisfied that "Fischel's models controlled for market and industry factors and general trends in the economy – the regression analysis took care of that." *Glickenhaus & Co. v. Household Int'l Inc.*, 787 F.3d 408, 421 (7th Cir. 2015). But, the court observed, "the leakage model . . . didn't account for the extent to which firm-specific, nonfraud related information may have contributed to the decline in Household's share price." *Id.* Therefore, the court adopted an approach where, on retrial, Fischel testifies that significant firm-specific, nonfraud related information did not distort the results of his model and "explains in nonconclusory terms the basis for this opinion." *Id.* at 422. As a result, in his Second Supplemental Report, Fischel "analyzed whether there were any days on which 'significant, firm-specific, nonfraud related information was released' that could reasonably explain the statistically significant residual declines in Household's stock price during the period from November 15, 2001 through October 11, 2002 (the 'Leakage Period')." 2nd Supp. Rpt., ¶3 (Dkt. No. 2067-2).[1] Thus, Fischel's testimony concerning whether disclosures are related to the fraud will be a core issue at the retrial.

[1] As set forth in Plaintiffs' Omnibus Motion to Exclude Defendants' Experts (Dkt. No. 2128) and Plaintiffs' Motion *in Limine* No. 4, defendants' experts should be precluded from testifying in light of this Court's holding that "the categories of disclosures that defendants characterize as firm-specific and unrelated to fraud are neither." 2/1/16 Order at 6-7 (Dkt. No. 2102). If defendants' experts are permitted to testify, however, their trial testimony too will focus on firm-specific, nonfraud information. *See, e.g.*, Ferrell Report, ¶¶15, 33, 56 (Dkt. No. 2060-3); James Report, ¶11 (Dkt. No. 2060-4).

Because a complete understanding of the fraud is necessary in order to understand whether information is fraud related, evidence of the fraud is relevant to loss causation. The jury in the first trial concluded that defendants engaged in three interrelated frauds. The evidence showed that defendants grew the company by engaging in predatory-lending practices, hid the negative effects of those practices on the quality of Household's loan portfolio, and inflated net income through improper accounting. *Glickenhaus*, 787 F.3d at 413. The jury cannot be expected to determine whether individual disclosures are related to this fraud without a complete understanding of the fraud. For example, news of regulatory actions during the leakage period is plainly related to Household's predatory lending practices. *See* 2/1/16 Order at 14-22. In addition, issues regarding credit quality were due to reaging, while widening bond spreads were attributed to Household's fraud. *See id.* at 6-13. These are precisely the type of disclosures that must be put in context for the jury to determine whether they are fraud related.

Indeed, at his deposition, Professor Bradford Cornell, one of defendants' three loss causation experts, conceded that a full understanding of the fraud was necessary to determine whether information is fraud related:

> Q. What's your understanding of the fraud in this case?
>
> A. I don't think I understand it well enough to really answer that under oath.

Cornell Depo. Tr. at 91:17-20 (Dkt. No. 2130-11).

* * *

> Q. If you didn't have a complete understanding of what the fraud was, how were you able to determine whether information was non-fraud?
>
> A. I don't think I could make a scientific determination of that.

Id. at 136:20-24. Likewise, Professor Ferrell, another one of defendants' loss causation experts, admitted that "in order to determine whether something is fraud-related or not, one has to understand the fraud." Ferrell Depo. Tr. at 162:3-6 (Dkt. No. 2130-2); *see also id*. at 61:11-12 ("Again what's important for me and my scope is what constitutes the fraud."). Accordingly, a meaningful causation inquiry necessarily requires introduction of the fraud evidence that came in during the first trial.

The jury also will need an understanding of the underlying fraud and each defendant's role in the fraud in order to apportion liability. In the case where a defendant has been held to have acted recklessly, the Private Securities Litigation Reform Act contemplates liability shared by multiple violators, with varying degrees of knowledge and fault, by requiring the jury to evaluate each defendant's "percentage of responsibility" to be "measured as a percentage of the total fault of all persons who caused or contributed to the loss incurred." 15 U.S.C. §78u-4(f)(3)(A)(ii). The jury must "specify the total amount of damages that the plaintiff is entitled to recover and the percentage of responsibility of each covered person found to have caused or contributed to the loss incurred by the plaintiff or plaintiffs." 15 U.S.C. §78u-4(f)(3)(B). The statute provides that in determining proportionate fault, the "[f]actors for consideration" the jury "shall consider" include "(i) the nature of the conduct of each covered person found to have caused or contributed to the loss incurred by the plaintiff or plaintiffs; and (ii) the nature and extent of the causal relationship between the conduct of each such person and the damages incurred by the plaintiff or plaintiffs." 15 U.S.C. §78u-4(f)(3)(C). Here, the jury on retrial could allocate a greater percentage of responsibility to a defendant such as Household – as the jury did at the first trial – if the jury finds that its "conduct" was of greater significance to the fraudulent scheme. Thus, in determining proportionate fault, the jury will need an understanding of the nature of defendants' underlying fraudulent conduct – including evidence about defendants' predatory lending, reaging and accounting fraud – and each defendant's role in the fraud.

As set forth above, evidence of defendants' fraudulent conduct remains relevant at the new trial. Therefore, plaintiffs request that this Court read and give the jury a comprehensive statement of the evidence admitted at the first trial.[2] The statement of the prior proceedings will permit the new jury to properly analyze the questions presented at this trial. Although the statement will be a necessary primer, plaintiffs should also be permitted to supplement that statement with "the free presentation of evidence and information from the liability phase to the extent such evidence is

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[2] Plaintiffs' Proposed Statement of the Prior Proceedings to Be Read and Given to the Jury, Exhibit B-3 to the [Proposed] Final Pretrial Order, is also attached hereto as Exhibit 1 for the Court's consideration.

relevant." *Watts*, 774 F.2d at 181 ("[T]here shall be a strong presumption that evidence from the liability phase may be relevant in some way to damages.").

The new jury must have access to the evidence heard by the first jury to the extent it is relevant in determining the issues of proportionate liability, loss causation and damages. As one court noted in a similar situation, it would be "logically flawed" to suggest that a "subsequent jury empanelled to decide only the issue of damages is, by law, required to be more ignorant of the liability facts than the initial liability-finding jury." *Whitehead*, 173 F. Supp. 2d at 560.

In short, the new jury should be entitled to hear the facts which led to the prior jury's verdict finding falsity, materiality and scienter.

DATED: April 22, 2016

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on April 22, 2016, I authorized the electronic filing of the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the e-mail addresses for counsel of record denoted on the attached Service List.

I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on April 22, 2016.

s/ Luke O. Brooks

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EXHIBIT 1

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	Lead Case No. 02-C-5893 (Consolidated) <u>CLASS ACTION</u> Honorable Jorge L. Alonso

PLAINTIFFS' PROPOSED STATEMENT OF THE PRIOR PROCEEDINGS TO BE READ AND GIVEN TO THE JURY

[Exhibit B-3 to [Proposed] Final Pretrial Order]

This is a class action securities fraud case against defendants Household International, Inc. ("Household" or the "Company") and three former Household executives (the "Individual Defendants"; collectively with Household, "defendants"):

- William F. Aldinger, who served as Household's Chief Executive Officer and Chairman of Household's Board of Directors;
- David A. Schoenholz, who served as Household's Chief Financial Officer and Vice-Chairman of Household's Board of Directors; and
- Gary Gilmer, who served as Vice Chairman and President of Household's Consumer Lending Group and Group Executive of U.S. Consumer Finance.

The case involves a series of false statements and omissions made by defendants concerning Household's predatory lending and reaging practices, the quality of Household's loan portfolio, and improper accounting. At a prior proceeding in this case, it was determined that the defendants committed securities fraud by making 17 materially false and misleading statements in violation of §10(b) of the Securities Exchange Act of 1934. On March 23, 2001, defendants Household and Aldinger knowingly made the first false statement with the intent to manipulate or deceive investors, and Gilmer recklessly made this statement. Household and one or more of the Individual Defendants recklessly made the remaining false or misleading statements and omissions, that is, they made those statements or omissions with an extreme departure from the standards of ordinary care. Defendants' extreme departure from the standards of ordinary care presented a danger of misleading investors that either was known to the defendants or so obvious that the defendant must have been aware of it. In addition, defendants Aldinger and Schoenholz were found to have violated §20(a) of the Securities Exchange Act of 1934 and were, therefore, additionally liable for all 17 statements, as persons who controlled Household in 2001 and 2002. A chart that contains the 17 false and misleading statements and that identifies the defendants responsible for each statement is attached as Exhibit 1.

The first false statement was made on March 23, 2001 and the class period continues until October 11, 2002. The plaintiffs are all persons or entities who purchased Household common stock during the Class Period (between March 23, 2001 and October 11, 2002, inclusive).

I. BACKGROUND

During the Class Period, Household was a financial institution that, through its subsidiaries, provided a variety of loan products to consumers in the United States, the United Kingdom and Canada. Household had reported net income for 2001 of approximately $1.9 billion and for 2002 of approximately $1.55 billion. Household's primary business units were Consumer Lending, Mortgage Services, Retail Services, Credit Card Services and Auto Finance. Household's loan products included real estate secured loans, auto finance loans, MasterCard and Visa credit cards, private label credit cards, tax refund anticipation loans, retail installment sales finance loans and other types of unsecured loans, as well as credit and specialty insurance products. As of December 31, 2001, Household had approximately 32,000 employees and over 50 million active customer accounts.

Household's largest business unit, as of December 31, 2001, was Consumer Lending. Consumer Lending was one of the largest subprime home equity originators in the United States at the time, with approximately 1,400 branches located in 46 states, 3.2 million customer accounts, $39.5 billion in managed receivables (U.S.) and 13,000 employees.

The Mortgage Services business unit purchased residential mortgage loans from a network of third party lenders. Mortgage Services, as of December 31, 2001, had approximately $18.1 billion in managed receivables (U.S.), 240,000 customer accounts and 1,600 employees.

The Credit Card Services business unit included Household's MasterCard and Visa receivables in the United States. As of December 31, 2001, Credit Card Services had approximately $17.2 billion in managed receivables (U.S.), 19.9 million customer accounts and 5,000 employees.

The Retail Services business unit was a provider of private label credit cards for third-party merchants, such as Best Buy or Levitz. As of December 31, 2001, Retail Services had approximately $11.6 billion in managed receivables (U.S.), 9.9 million customer accounts and 2,200 employees.

The Auto Finance business unit purchased retail installment contracts from a network of car dealers and also originated and refinanced auto loans. As of December 31, 2001, Auto Finance was the smallest of Household's business units with $6.4 billion in managed receivables (U.S.) and 2,000 employees.

As of December 31, 2001, secured real estate loans constituted 44% of Household's loan portfolio, the MasterCard/Visa business was 17% of the portfolio, Private Label was 14% of the portfolio, personal non-credit card loans were 18% of the portfolio and auto loans were 6% of the portfolio.

II. SUMMARY OF THE FRAUD

During the relevant time period, defendants embarked on a three-pronged fraud which enabled Household to falsely report "record" financial results, by: (1) engaging in predatory lending; (2) improperly "reaging" delinquent loans to "current" in order to conceal the true level of delinquencies and mask the credit quality of Household's loan portfolios as reported to investors; and (3) overstating net income by failing to record timely expenses associated with various credit card agreements in violation of Generally Accepted Accounting Principles ("GAAP").

A. Predatory Lending

In 1999, company executives implemented an aggressive growth strategy in pursuit of a higher stock price. Defendants knew that if Household conveyed the appearance of growth to the market, the Company's stock price would dramatically increase. In 1999, Gilmer told his subordinates in Consumer Lending that Household's stock should trade at least "22 dollars a share" higher and if they could convince Wall Street of their growth prospects, Household's stock, then trading at $39-$40, would skyrocket to $53-$66. Gilmer said that failing to grow would have "unthinkable consequences."

In their efforts to grow at all costs, defendants hired Andrew Kahr, a predatory-lending specialist, who suggested that defendants implement certain "initiatives" designed to deceive customers. Defendants, working with Kahr, caused Household to undertake predatory practices, which drove loan originations up and resulted in unprecedented growth. By 2002, state Attorneys General concluded that Household was engaged in "widespread lending patterns and practices that violate both state and federal law," which were "national in scope." The Attorneys General tied Household's growth to its predatory practices:

> [W]e note that several of the most insidiously deceptive sales practices which attracted regulatory attention to Household practices at the outset relate to products and practices initiated by Household in 1999. . . . [S]ince 1999, Household's [loan] originations have nearly doubled. Almost assuredly, the misleading sales practices the states have identified have contributed to that growth.

In October 2002, Household settled the Attorneys General predatory-lending charges for $484 million. Household got a sizeable discount via this agreement, having reaped $3.2 billion in revenue from predatory practices between 1999 and the end of the second quarter of 2002 (June 30, 2002). In 1999, predatory lending practices contributed 28.4% of Household's net income (that is $421.7 million of $1.486 billion in reported net income for that period); in 2000, predatory lending contributed 32.6% of Household's net income (that is $554.6 million of $1.7 billion in reported net income for that period); in 2001, predatory lending contributed 36.2% of Household's net income (that is $696.3 million of $1.923 billion in reported net income for that period); and 32.8% of Household's net income for the first two quarters of 2002 (that is $336.4 million of $1.024 billion in reported net income for that period). Between 1999 and 2002, defendants engaged in the following predatory lending practices:

1. Effective or Equivalent Rates

Household loan officers throughout the United States quoted "Effective" or "Equivalent Rates" to customers, which allowed Household loan officers to deceive customers with respect to the actual interest rates on their loans. Household loan officers would compare the customer's current mortgage based on a 30-year amortization period to a Household mortgage paying their mortgage bi-weekly. Household loan officers showed the consumer a lower "effective" rate (terms such as "equivalent" rate and "comparable" rate were also used), and compared that "effective" rate to the consumer's current higher rate. Often, Household loan officers used this technique to induce borrowers to refinance from a lower interest loan to a higher interest loan. For example, the effective rate presentation confused customers into thinking that the Household loan had a 7% interest rate when in reality their interest rate was 11% or higher. Household executives trained the

Company's loan officers in every one of the Company's six regions on the "effective" rate presentation.

As a group of Attorneys General from a number of states concluded: "Household misleads consumers by comparing the total interest the consumer will pay over a 30-year term of monthly payments, against the total interest a consumer would pay making bi-weekly payments. Household deceptively asserts that the effective interest rate is lower under the bi-weekly program because the loan is paid off sooner." The multi-state group of Attorneys General found that Household's use of the effective rate was widespread and violated applicable laws.

2. Insurance Packing

Insurance packing is a practice whereby insurance is added to a loan, when the customer is either unaware of the insurance on the loan, or is told that the insurance is required to obtain the loan. During the relevant period, Household charged consumers for single premium credit insurance where the consumer had not requested it and was unaware of the sale until receipt of the monthly statement. Alternatively, Household falsely represented to consumers that insurance was required as a condition of the loan. Household encouraged its employees to engage in insurance packing by including sales of insurance as a component of the compensation plans for its account executives and managers. These predatory practices were widespread at Household and the multi-state group of Attorneys General found that they violated applicable laws.

3. Imposition of Excessive Points and Fees and Failure to Properly Disclose

Household engaged in a number of practices in which it imposed excessive points and fees, which it improperly failed to disclose to borrowers. For example: (1) Household disclosed as "discount fees," charges that were not actually discount fees because the fees were not used to "buy down" the interest rate and Household did not inform consumers that paying a discount fee should result in a reduced interest rate; and (2) Household failed to adequately disclose these fees in the Good Faith Estimate by using an impermissibly wide dollar range for the proposed loan (sometimes from $0 to $8,000) that was misleading, especially when the fees it consistently imposed were either at the high end of the disclosed range or exceeded that range. Household also failed to provide consumers who received high cost loans with certain disclosures required under state and/or federal law. These predatory practices were widespread at Household and the multi-state group of Attorneys General found that they violated applicable laws.

4. Loan Splitting

Household charged consumers illegal and unconscionable fees and interest by splitting what the consumer expected would be one loan, into two, distinct secured loans, the second of which was structured as an open-end revolving line of credit but had all of the characteristics of a standard closed-end home equity loan with an interest rate of over 20%. Household misrepresented that these high interest loans were open-end "revolving credit lines" when in fact: (a) close to the full amount of the line was drawn down immediately; (b) the loans were non-amortizing, making it nearly impossible for the consumer to pay down the credit line; and (c) neither Household nor the consumer reasonably anticipated subsequent extensions of credit. Therefore, these loans should have been subject to the Home Ownership Equity Protection Act ("HOEPA") restrictions placed on closed-end loans. Whether the sham open-end loan is sold separately or in the context of a "split loan," Household misled consumers into believing that these credit lines would be fully paid off if the minimum monthly payments were made, when in fact, a large balloon payment was required to pay off the loan at the end of the term. This predatory practice was widespread at Household and the multi-state group of Attorneys General found that it violated applicable laws.

5. Prepayment Penalties

Household did not adequately disclose the imposition of prepayment penalties on non-HOEPA loans, and violated HOEPA by imposing prepayment penalties on high cost loans. Household also imposed prepayment penalties on open-end credit and imposed prepayment penalties in violation of state law in states where the imposition of prepayment penalties was strictly forbidden. These predatory practices were widespread at Household and the multi-state group of Attorneys General found that they violated applicable laws.

6. Loan Flipping

Household engaged in the practice of frequently refinancing – or flipping – one Household loan with another, imposing additional costs and fees with no benefit to the consumer. Additionally, Household engaged in the practice of selling a loan to a consumer with an existing loan where the new Household loan results in no benefit to the consumer. These predatory practices were widespread at Household and the multi-state group of Attorneys General found that they violated applicable laws.

7. Equity Stripping/Blocking the Back Door

In refinancing loans, Household tacked unnecessary fees, points and insurance onto home loans, increasing costs and stripping equity from borrowers so that any equity the borrower had in the home was reduced even as the costs of the loans went up. In addition to stripping equity, Household's unnecessary fees, points, insurance and the improper imposition of prepayment penalties operated to "block the back door" and prevent borrowers from refinancing with other lenders at better terms. These predatory practices were widespread at Household and the multi-state group of Attorneys General found that they violated applicable laws.

In addition to engaging in widespread predatory lending practices, defendants intentionally destroyed evidence of their improper conduct. On March 12, 2001, Schoenholz instructed Household's Office of General Counsel to collect "all Andrew Kahr memoranda" and destroy them. Schoenholz later ordered the destruction of Kahr-related e-mails. Aldinger knew of Schoenholz's orders to destroy evidence of predatory lending. Similarly, in the summer of 2001, Gilmer ordered his Consumer Lending Unit to undertake a "purge" in all of the Company's branch offices and destroy evidence of predatory sales tactics.

During the Class Period, defendants falsely denied that Household was engaged in predatory lending. Although they had a duty to do so, defendants also failed to disclose to investors both that Household was engaged in widespread predatory lending and that Household's rapid growth was the result of its predatory practices. Defendants' failure to disclose this information rendered the disclosures in Household's Forms 10-K and 10-Q SEC filings, and its press releases, materially false and misleading. In making false and misleading statements and failing to disclose important information about the Company's predatory lending practices, defendants knew either that they were presenting a risk of misleading investors or that the risk was so obvious that they had to have been aware of it.

B. 2+ Delinquency/Re-Aging

As Household grew, its stock price rose dramatically, but the company's growth was driven by predatory lending practices. This in turn increased the number of Household customers who could not pay their loans and thus were delinquent, which Household's executives then tried to mask by improper means. Defendants engaged in a concerted effort to conceal delinquent loans to distort the Company's 2+ delinquency numbers (the percentage of loans that were two or more months delinquent) and charge-off numbers. The 2+ number, which Household reported in both its press releases and its financial statements filed with the SEC, was a popular metric that investors used to gauge the quality of loan portfolios.

Defendants knew investors relied upon 2+ and charge-off statistics to evaluate Household's loan quality and stock price, and, in fact, the SEC called Household's 2+ statistics "one of the critical measures of Household's financial performance." Unsurprisingly, predatory loans were more likely to end up delinquent, as recipients were unlikely to pay back the loans on time, if at all. To mask the problem, defendants engaged in "loan quality concealment techniques" designed to make delinquent loans appear current, thereby improperly reducing the percentage of 2+ delinquent loans reported in Household's financial statements. Likewise, the "loan quality concealment techniques" delayed charge-offs, resulting in understated and misleading reported charge-off numbers.

More specifically, Household improperly used at least five techniques to conceal the actual delinquency and charge-off rates of its loan portfolio:

1. Re-Aging and Restructuring Loans

Household took loans that were either 2+ months delinquent or on the verge of falling into that 2+ category and reclassified those loans as current, non-delinquent loans, notwithstanding the fact that no payment had been received from the customer. Some restructures were automatic, with no customer involvement at all. Household's re-aging and restructuring practices thereby reduced the number of loans that were reported as 2+ months delinquent in its press releases and financial statements. By doing so, defendants misled investors into believing that Household's loan portfolio was performing better than it truly was at the time.

2. Forbearance

Household agreed to cease collection efforts on delinquent customers for a period of time in exchange for temporarily reduced payments, re-writes, or reduced payment. Household adjusted delinquent accounts that were in forbearance. As a result, Household's reported 2+ delinquency statistics were understated because accounts that were 2+ months delinquent when this forbearance was done would not show up in the company's press releases, Forms 10-Q and 10-K as being 2+ delinquent.

3. Skip-a-Pays

Household implemented its "Skip-A-Pay" program, in which it unilaterally granted skip-a-pays by notifying customers, who were about to fall into the 2+ months delinquent category, that they did not have to make their scheduled monthly payment. In other words, the customer could skip a payment. Ultimately, the customer would have to make up this payment at the end of their loan payment. However, by granting these skip-a-pays, Household would prevent large numbers of loans from moving into the 2+ delinquent category, again misleading investors about the quality of Household's loan portfolio.

4. Re-Writes

Household would take loans that were more than 2+ months delinquent, cancel the current loan and write a new loan to the customer. The "new" or "re-written" loan would then be shown as current, that is not 2+ months delinquent, even though it was effectively the same loan. Once again, Household used this technique to conceal the actual state of its loan portfolio.

5. Grace Periods

Household granted its customers additional time to make their loan payment, called a grace period. As delinquent accounts became over 60 days past due, the company did not report them as

2+ delinquent until the additional grace period had expired. This practice resulted in Household understating its 2+ delinquencies in its Forms 10-K, 10-Q and press releases filed during the Class Period.

In December 2001, the market began questioning the quality of Household's loan portfolio and its re-aging policies. Defendants knew that investors were seeking more information regarding the Company's 2+ statistics and internal loan re-aging policies. Therefore, defendants decided to include information regarding Household's re-aging policies in the Company's 2001 Form 10-K, which was filed on March 13, 2002. At a prior proceeding in this case, Aldinger admitted that defendants made materially false representations about Household's re-aging policies in the Company's 2001 10-K, which Schoenholz and Aldinger signed. In particular, Household misrepresented its policies that permit the restructuring of delinquent loans (and the resetting of such loans to "current"), stating that re-ages were performed only "if a predetermined number of consecutive payments has been received and there is evidence that the reason for the delinquency has been cured." Contrary to defendants' representations regarding "curing the reason for delinquencies," Household actually re-aged loans automatically without any contact with the customer. Household also restructured numerous loans after receiving fewer than two payments and sometimes restructured delinquent loans without receiving any payment at all. Household's re-aging practices were not applied consistently, but were instead constantly changing to manage the number of delinquent loans and charge-offs reported to investors. Household's re-aging practices obscured the Company's credit quality, making it appear much better than it actually was.

In March 2003, Household amended its 2001 Form 10-K to reflect the fact that it had made false statements with respect to re-aging at the time that document was originally filed with the SEC. The following chart demonstrates the corrections that Household was forced to make with respect to its disclosures about the Company's re-aging and restructuring practices:

ORIGINAL 10-K	AMENDED 10-K/A
"Our policies . . . permit reset of the contractual delinquency status of an account to current, subject to certain limits if a predetermined number of consecutive payments has been received."	"We are amending our disclosures of our restructure policies to include the following disclosures: In numerous instances Household accepts one or zero payments prior to resetting the delinquency status."
". . . and there is evidence that the reason for the delinquency has been cured."	"In the case of automatic restructures, no prior contact is required with the customer to determine if the cause of the delinquency has been cured."
No mention of any other variations of loan quality concealment techniques.	"The account management policies include: Re-aging of accounts Forbearance agreements Extended payment plans Modification of arrangements Consumer credit counseling accommodations Loan rewrites Deferments"

Defendants also made materially false statements about their loan portfolio and re-aging policies at a December 2001 Goldman Sachs conference and again in April 2002 at Household's annual Financial Relations Conference ("FRC") for Wall Street analysts, supplying phony statistics regarding re-aging and its impact on Household's loan portfolio.

On April 9, 2002, defendants held their annual FRC, which was attended by over 400 Wall Street analysts and members of the financial press. Gilmer described the annual FRC as Household's opportunity to tell investors "what we were doing and how we were doing it" – an opportunity to share what was happening in the Company. Schoenholz made four related sets of false statements about Household's re-aging policies and practices at the FRC. First, Schoenholz again lied about the Company's policies being consistently applied and by claiming that Household required consecutive payments and determined that the reason for the delinquency had been cured before re-aging loans.

In addition, for the first time, Household provided information regarding the percentage of its loan portfolio that had been re-aged and regarding re-age recidivism rates within the portfolio.

These statements were false. For example, Schoenholz stated that only 4.3% ($4.028 billion) of Household's loan portfolio had been re-aged multiple times. In fact, 7.5% ($7.025 billion) of Household's loan portfolio had been re-aged multiple times. Moreover, defendants tried to assuage investor concerns about re-aging by presenting statistics designed to show that once an account was re-aged and Household had helped a customer past "a bump in the road," the account was rarely re-aged again or charged off. Schoenholz provided "recidivism statistics by product" at the FRC. The recidivism statistics provided by Schoenholz, however, were materially false. For example, Schoenholz stated that only 13.1% of secured real estate loans had become 2+ delinquent or charged off within one year of being re-aged. In fact, Household did not count loans that had been re-aged again in these statistics. In actuality, 53.9% of Household's secured real estate loans were 2+ delinquent or charged-off within a year of re-aging. Schoenholz's statistics for each of the loan categories were similarly false. At a prior proceeding, Schoenholz denied knowingly making false statements at the FRC, claiming it was a "mistake." However, Schoenholz was forced to admit at the prior proceeding that he knew within a few weeks of the FRC that he had given false information to the assembled financial press – yet he did nothing to correct his alleged "mistake."

Finally, Schoenholz also lied at the FRC by claiming that Household's collections department employees received commissions only for obtaining actual payments from delinquent customers. In fact, Household's collections employees were given bonus commissions simply for finding a way to move a loan from 2+ to current, regardless of whether the customer made any payments. Household employees claimed that the Company's collections staff's reliance on re-aging was akin to a heroin addiction.

Defendants were motivated to lie about Household's loan portfolio because they were trying to sell the Company to Wells Fargo. As part of the potential transaction, in 2001-2002, Wells Fargo was provided with access to non-public information regarding Household. Wells Fargo determined that Household's "extensive re-aging of delinquent accounts delayed loss recognition and produced a 'bubble' of latent credit losses." Wells Fargo's due diligence team also noted "major systemic issues in [Household's] policies and procedures" and noted that Household's re-aging policies were "aggressive." Wells Fargo determined that Household was using re-aging and write-off policies to mask the true run rate of its losses and, in discussing Household's policies, concluded "it is hard to imagine that they are not also being employed to boost earnings." After concluding their due diligence, Wells Fargo decided not to acquire Household. Ultimately, defendants sold the Company to HSBC after the Class Period in late 2002-2003 for less than half of the price discussed by Household and Wells Fargo in the spring of 2002. Had the deal with Wells Fargo gone through, Aldinger, Gilmer, and Schoenholz would have collected as much as $150 million in cash distributions and parachute payments.

C. The Credit Card Restatement

Defendants also falsified their financial statements by improperly recording revenue and expenses in connection with four credit-card agreements – overstating Household's net income by $386,000,000. In August 2002, Household conceded its accounting for these transactions violated GAAP, and restated its financial statements.

Specifically, defendants improperly recorded revenue and expenses in connection with certain agreements with General Motors, the AFL-CIO, Union Privilege and a marketing company called Kessler. Defendants' improper accounting with respect to these contracts caused the Company's net income to be higher than it would have been had the Company complied with GAAP between 1999-2002. On August 14, 2002, Household conceded that its accounting for these transactions failed to comply with GAAP and restated its previously issued financial statements. Household conceded that its reported net income between 1999 and Q2 2002 was overstated by $386,000,000. In certain quarters during this period, Household's net income was overstated by over 6% due to this improper accounting (Q1 2000 – 6.1%; Q1 2001 – 6.5%). Defendants were warned about their accounting with respect to certain of these contracts (GM and Union Privilege) by the Office of the Comptroller of the Currency in 1998, but continued the improper accounting despite the warning. Indeed, defendants would not have met their bonus targets without this restated net income. None of the defendants refunded their bonus monies after the restatement correcting the Company's net income.

D. Household's Stock Price

Between the summers of 1999 and 2001, Household's stock rose from around $40 per share to the mid $60s, and by July of 2001 was trading as high as $69. But the reality of defendants' fraud eventually caught up with its stock price. The truth about defendants' predatory lending and re-aging practices began leaking into the market on November 15, 2001 when California sued Household for overcharging customers and Household claimed it was an isolated issue, and continued in December 2001 when an article was published questioning the Company's accounting practices with respect to its loan portfolio. News that the Washington Attorney General ("DFI") was investigating Household for its lending practices also began leaking into the market. Household eventually obtained a court order in April/May 2002 sealing a report from the Washington DFI, but its damning contents leaked into the market later in 2002 until its full contents were disclosed at the end of August 2002.

Household claimed its problems were limited to one branch office, but later disclosures confirmed the practices were national in scope. In 2002, information also began to leak out that Household would have to pay a huge fine and refund money to states for its predatory lending practices. The plaintiffs proved at the prior proceeding that Household's share price declined after the truth came out. Despite defendants' continuing denials, the leakage of truthful information and disclosures caused inflation to dissipate from Household's stock price from November 15, 2001 to October 11, 2002 (the "Leakage Period"). The Leakage Period culminated when Household announced a $484 million settlement of the multi-state Attorneys General investigation on October 11, 2002. By October 2002, Household's stock price had fallen ***below*** the level it traded at before defendants' scheme began. In fact, between the filing of California's suit on November 15, 2001, and the multi-state settlement on October 11, 2002, Household's stock dropped 54%, from $60.90 to $28.20. Comparatively, declines in the S&P 500 Index (25%) and the peer group to which Household compared itself, the S&P Financials index (21%), were much less during this period.

At a prior proceeding, plaintiffs also introduced e-mails and reports from Household executives attributing the stock's decline to the fraud-related disclosures, and the record contains various reports from market analysts primarily focused on this information. In addition, other evidence loosely corroborates the inflation figure produced by the leakage model ($23.94). For example, when Household embarked on its aggressive growth strategy, Gary Gilmer suggested that the stock price could increase by "over 22 dollars a share."

DATED: April 22, 2016

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EXHIBIT 1

EXHIBIT 1
LIST OF FALSE OR MISLEADING STATEMENTS OR OMISSIONS

False Stmt No.	Date	Document Title	Responsible Defendants	State of Mind	Statement	Reason(s) Why False
14.	03/23/2001	*Origination News* article Plaintiffs' Exhibit 1307	Household Gilmer Aldinger	Knowingly (Household & Aldinger) Recklessly (Gilmer)	*Origination News* – March 23, 2001: "Gary Gilmer, president and chief executive of Household's subsidiaries HFC and Beneficial said the company's 'position on predatory lending is perfectly clear. Unethical lending practices of any type are abhorrent to our company, our employees and most importantly our customers.'" [TEL 002334]	Predatory Lending
15.	03/28/2001	Household FY00 Report on Form 10-K Defendants' Exhibit 851	Household Schoenholz Aldinger	Recklessly	Household FY00 Report on Form 10-K filed with the SEC on March 28, 2001 Household reported net income of 1.7 billion and E.P.S. of $3.55 [HHT 0015623]: * * * "Our focus is to use risk-based pricing and effective collection efforts for each loan. We have a process which we believe gives us a reasonable basis for predicting the credit quality of new accounts. This process is based on our experience with numerous marketing, credit and risk management tests. We also believe that our frequent and early contact with delinquent customers is helpful in managing net credit losses." [HHT 0015608] * * * "Delinquency and Chargeoffs: Our delinquency and net chargeoff ratios reflect, among other factors, changes in the mix of loans in our portfolio, the quality of our receivables, the average age of our loans, the success of our collection efforts and general economic conditions.". . . We track delinquency and chargeoff levels on both an owned and a managed basis. We apply the same credit and portfolio management procedures to both our owned and off-balance sheet portfolios. Our focus is to use risk-based pricing and effective collection efforts for each loan. We have a process which we believe gives us a reasonable basis for predicting the credit quality of new accounts. This process is based on our experience with numerous marketing, credit and risk management tests. We also believe that our frequent and early contact with delinquent customers is helpful in managing net credit losses." [HHT 0015608] * * *	Predatory Lending 2+ Delinquency/ Re-Aging Restatement

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<table>
<tr><th>False Stmt No.</th><th>Date</th><th>Document Title</th><th>Responsible Defendants</th><th>State of Mind</th><th>Statement</th><th>Reason(s) Why False</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td>
<table>
<tr><td colspan="9">CONSUMER TWO-MONTH-AND-OVER CONTRACTUAL DELINQUENCY RATIOS</td></tr>
<tr><td></td><td colspan="4">2000 Quarter End</td><td colspan="4">1999 Quarter End</td></tr>
<tr><td></td><td>4</td><td>3</td><td>2</td><td>1</td><td>4</td><td>3</td><td>2</td><td>1</td></tr>
<tr><td>Managed:</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Real estate secured</td><td>2.63%</td><td>2.77%</td><td>2.72%</td><td>2.99%</td><td>3.27%</td><td>3.46%</td><td>3.29%</td><td>3.54%</td></tr>
<tr><td>Auto finance</td><td>2.55</td><td>2.19</td><td>1.99</td><td>1.52</td><td>2.43</td><td>2.26</td><td>1.87</td><td>1.74</td></tr>
<tr><td>MasterCard/Visa</td><td>3.49</td><td>3.48</td><td>3.14</td><td>3.06</td><td>2.78</td><td>3.10</td><td>3.11</td><td>3.61</td></tr>
<tr><td>Private label</td><td>5.48</td><td>5.67</td><td>5.77</td><td>5.94</td><td>5.97</td><td>6.66</td><td>6.62</td><td>6.37</td></tr>
<tr><td>Other unsecured</td><td>7.97</td><td>7.72</td><td>7.92</td><td>8.56</td><td>8.81</td><td>8.57</td><td>8.17</td><td>7.84</td></tr>
<tr><td>Total Managed</td><td>4.20%</td><td>4.21%</td><td>4.16%</td><td>4.43%</td><td>4.66%</td><td>4.89%</td><td>4.72%</td><td>4.81%</td></tr>
<tr><td>Total Owned</td><td>4.26%</td><td>4.29%</td><td>4.25%</td><td>4.58%</td><td>4.81%</td><td>5.24%</td><td>4.96%</td><td>5.04%</td></tr>
</table>
[HHT 0015609]</td><td></td></tr>
<tr><td>16.</td><td>04/18/2001</td><td>Household Press Release

Plaintiffs’ Exhibit 504</td><td>Household

Schoenholz

Aldinger</td><td>Recklessly</td><td>April 18, 2001 Household Press Release entitled “Household International Reports First Quarter Results; 11th Consecutive Record Quarter”: Household “reported that earnings per share rose 17 percent to a first quarter record of $.91 from $.78 a year ago. Net income increased to $431.8 million, up 16 percent from $372.9 million in the first quarter of 2000. This quarter marked the 11th consecutive quarter of record results.” [HHS 02914121]
* * *
“Credit Quality and Loss Reserves
At March 31, the managed delinquency ratio (60+days) was 4.25 percent, compared to 4.43 percent a year ago and 4.20 percent at December 31, 2000. The annualized managed net chargeoff ratio for the first quarter was 3.56 percent, a 44 basis points improvement from the year-ago quarter and up modestly from 3.41 percent in the prior quarter.” [HHS 02914123]</td><td>Predatory Lending

2+ Delinquency/ Re-Aging

Restatement</td></tr>
</table>

<table>
<tr><th>False Stmt No.</th><th>Date</th><th>Document Title</th><th>Responsible Defendants</th><th>State of Mind</th><th>Statement</th><th>Reason(s) Why False</th></tr>
<tr><td>17.</td><td>05/09/2001</td><td>Household 10-Q

Plaintiffs' Exhibit 733</td><td>Household

Schoenholz

Aldinger</td><td>Recklessly</td><td>Household 10-Q for 3/31/01 quarter ended: Household reported net income of $431.8 million for the quarter ended March 31, 2001 and EPS of $0.92 [HHS 03137911]:

CREDIT QUALITY
We track delinquency and chargeoff levels on a managed basis and we apply the same credit and portfolio management procedures as on our owned portfolio.

Delinquency
Two-Months-and-Over Contractual Delinquency (as a percent of consumer receivables):
<table>
<tr><th></th><th>March 31, 2001</th><th>December 31, 2000</th><th>September 30, 2000</th><th>June 30, 2000</th><th>March 31, 2000</th></tr>
<tr><td>Managed:</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Real estate secured</td><td>2.61%</td><td>2.63%</td><td>2.77%</td><td>2.72%</td><td>2.99%</td></tr>
<tr><td>Auto finance</td><td>1.79</td><td>2.55</td><td>2.19</td><td>1.99</td><td>1.52</td></tr>
<tr><td>MasterCard/Visa</td><td>3.68</td><td>3.49</td><td>3.48</td><td>3.14</td><td>3.06</td></tr>
<tr><td>Private label</td><td>5.50</td><td>5.48</td><td>5.67</td><td>5.77</td><td>5.94</td></tr>
<tr><td>Other unsecured</td><td>8.37</td><td>7.97</td><td>7.72</td><td>7.92</td><td>8.56</td></tr>
<tr><td>Total managed</td><td>4.25%</td><td>4.20%</td><td>4.21%</td><td>4.16%</td><td>4.43%</td></tr>
<tr><td>Owned</td><td>4.36%</td><td>4.26%</td><td>4.29%</td><td>4.25%</td><td>4.58%</td></tr>
</table>
[HHS 03137930]
* * *
"Owned consumer two-months-and-over contractual delinquency as a percent of owned consumer receivables was 4.36 percent at March 31, 2001, compared with 4.26 percent at December 31, 2000 and 4.58 percent at March 31, 2000. The annualized consumer owned chargeoff ratio in the first quarter of 2001 was 3.12 percent, compared with 2.98 percent in the prior quarter and 3.53 percent in the year-ago quarter.

Managed consumer two-months-and-over contractual delinquency as a percent of managed consumer receivables was 4.25 percent at March 31, 2001, compared with 4.20 percent at December 31, 2000 and 4.43 percent at March 31, 2000. The annualized consumer managed chargeoff ratio in the first quarter of 2001 was 3.56 percent, compared with 3.41 percent in the prior quarter and 4.00 percent in the year-ago quarter." [HHS 03137924]</td><td>2+ Delinquency/ Re-Aging

Restatement</td></tr>
</table>

False Stmt No.	Date	Document Title	Responsible Defendants	State of Mind	Statement	Reason(s) Why False
18.	07/18/2001	Household Press Release Plaintiffs' Exhibit 503	Household Schoenholz Aldinger	Recklessly	July 18, 2001 Household Press Release entitled "Household International Reports Second Quarter Results; 12th Consecutive Record Quarter": Household "reported record earnings per share of $.93, up 16 percent from a year ago. Net income rose 14 percent, to $439.0 million, from $383.9 million for the second quarter of 2000." . . . "We had a terrific quarter – our 12th consecutive quarter of record results. Given the softening economic environment, I am particularly pleased with our ability to consistently deliver strong, quality earnings. Results for the quarter were excellent. . . . We enjoyed strong receivable and revenue growth compared to a year ago, with all of our businesses performing well. In addition, delinquency was stable in the quarter." [HHS 02914097] "Credit Quality and Loss Reserves At June 30th, the managed delinquency ratio (60+days) was 4.27 percent, stable with 4.25 percent in the first quarter. The managed delinquency ratio a year ago was 4.16 percent. The annualized managed net chargeoff ratio for the second quarter was 3.71 percent, essentially unchanged from the year-ago quarter and up modestly from 3.56 percent in the first quarter." [HHS 02914098]	Predatory Lending 2+ Delinquency/ Re-Aging Restatement
20.	08/10/2001	Household 10-Q Plaintiffs' Exhibit 6	Household Schoenholz Aldinger	Recklessly	Household 10-Q for 6/30/01 quarter ended: Household reported net income of $439 million for the quarter ended June 30, 2001 and EPS of $0.94 [AA 062721]: CREDIT QUALITY We track delinquency and chargeoff levels on a managed basis and we apply the same credit and portfolio management procedures as on our owned portfolio. [AA 062738]	2+ Delinquency/ Re-Aging Restatement

<table>
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<tr><td></td><td></td><td></td><td></td><td></td><td>Delinquency
Two-Months-and-Over Contractual Delinquency (as a percent of consumer receivables):
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<tr><td>MasterCard/Visa</td><td>3.60</td><td>3.68</td><td>3.49</td><td>3.48</td><td>3.14</td></tr>
<tr><td>Private label</td><td>5.66</td><td>5.50</td><td>5.48</td><td>5.67</td><td>5.77</td></tr>
<tr><td>Other unsecured</td><td>8.43</td><td>8.37</td><td>7.97</td><td>7.72</td><td>7.92</td></tr>
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</table>
[AA 062739]
* * *

”Owned consumer two-months-and-over contractual delinquency as a percent of owned consumer receivables was 4.48 percent at June 30, 2001, compared with 4.36 percent at March 31, 2001 and 4.25 percent at June 30, 2000. The annualized consumer owned chargeoff ratio in the second quarter of 2001 was 3.26 percent, compared with 3.12 percent in the prior quarter and 3.27 percent in the year-ago quarter.

Managed consumer two-months-and-over contractual delinquency as a percent of managed consumer receivables was 4.27 percent at June 30, 2001, compared with 4.25 percent at March 31, 2001 and 4.16 percent at June 30, 2000. The annualized consumer managed chargeoff ratio in the second quarter of 2001 was 3.71 percent, compared with 3.56 percent in the prior quarter and 3.74 percent in the year-ago quarter.” [AA 062733]</td><td></td></tr>
<tr><td>21.</td><td>10/17/2001</td><td>Household Press Release

Plaintiffs’ Exhibit 978</td><td>Household

Schoenholz

Aldinger</td><td>Recklessly</td><td>October 17, 2001 Household Press Release entitled “Household Reports Highest Quarterly Net Income in Its 123-Year History”: Household “reported earnings per share of $1.07 rose 14 percent from $.94 the prior year. Net income increased 12 percent, to $504 million, from $451 million in the third quarter of 2000.” [HHS 03453676]</td><td>Predatory Lending

2+ Delinquency/ Re-Aging

Restatement</td></tr>
</table>

<table>
<tr><th>False Stmt No.</th><th>Date</th><th>Document Title</th><th>Responsible Defendants</th><th>State of Mind</th><th>Statement</th><th>Reason(s) Why False</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td>“Credit Quality and Loss Reserves
At September 30th, the managed delinquency ratio (60+ days) was 4.43 percent, compared to 4.27 percent in the second quarter and 4.21 percent a year ago. The sequential increase was across all products and was well within company expectations. The annualized managed net chargeoff ratio for the third quarter was 3.74 percent, up slightly from 3.71 percent in the second quarter. The managed net chargeoff ratio was 3.47 percent in the prior-year quarter.” [HHS 03453677]</td><td></td></tr>
<tr><td>22.</td><td>11/14/2001</td><td>Household 10-Q

Plaintiffs’ Exhibit 707</td><td>Household

Schoenholz

Aldinger</td><td>Recklessly</td><td>Household 10-Q for quarter ended 9/30/01: Household reported net income of $503.8 million for the quarter ended September 30, 2001 and EPS of $1.09 [HHS 03111409]:

CREDIT QUALITY
We track delinquency and chargeoff levels on a managed basis and we apply the same credit and portfolio management procedures as on our owned portfolio.
[HHS 03111425]
Delinquency
Two-Months-and-Over Contractual Delinquency (as a percent of consumer receivables):
<table>
<tr><th></th><th>September 30, 2001</th><th>June 30, 2001</th><th>March 31, 2001</th><th>December 30, 2000</th><th>September 30, 2000</th></tr>
<tr><td>Managed:</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Real estate secured</td><td>2.74%</td><td>2.63%</td><td>2.61%</td><td>2.63%</td><td>2.77%</td></tr>
<tr><td>Auto finance</td><td>2.54</td><td>2.09</td><td>1.79</td><td>2.55</td><td>2.19</td></tr>
<tr><td>MasterCard/Visa</td><td>3.91</td><td>3.60</td><td>3.68</td><td>3.49</td><td>3.48</td></tr>
<tr><td>Private label</td><td>5.88</td><td>5.66</td><td>5.50</td><td>5.48</td><td>5.67</td></tr>
<tr><td>Other unsecured</td><td>8.51</td><td>8.43</td><td>8.37</td><td>7.97</td><td>7.72</td></tr>
<tr><td>Total managed</td><td>4.43%</td><td>4.27%</td><td>4.25%</td><td>4.20%</td><td>4.21%</td></tr>
<tr><td>Owned</td><td>4.58%</td><td>4.48%</td><td>4.36%</td><td>4.26%</td><td>4.29%</td></tr>
</table>
[HHS 03111426]
* * *
“Owned consumer two-months-and-over contractual delinquency as a percent of owned consumer receivables was 4.58 percent at September 30, 2001, compared with 4.48 percent at June 30, 2001 and 4.29 percent at September 30, 2000. The annualized total consumer owned chargeoff ratio in the third quarter of 2001 was 3.43 percent, compared with 3.26 percent in the prior quarter and 3.01 percent in the year-ago quarter.</td><td>2+ Delinquency/ Re-Aging

Restatement</td></tr>
</table>

False Stmt No.	Date	Document Title	Responsible Defendants	State of Mind	Statement	Reason(s) Why False
					Managed consumer two-months-and-over contractual delinquency as a percent of managed consumer receivables was 4.43 percent at September 30, 2001, compared with 4.27 percent at June 30, 2001 and 4.21 percent at September 31, 2000. The annualized total consumer managed chargeoff ratio in the third quarter of 2001 was 3.74 percent, compared with 3.71 percent in the prior quarter and 3.47 percent in the year-ago quarter." [HHS 03111420] * * * "Managed delinquency as a percent of managed consumer receivables increased modestly over both the previous and prior-year quarters. Compared to the previous quarter, all products reported higher delinquencies principally as the result of a weakening economy." [HHS 03111426]	
23.	12/04/2001	Goldman Sachs Presentation Plaintiffs' Exhibit 1248	Household Aldinger	Recklessly	December 4, 2001 Goldman Sachs Presentation: defendants made false statements regarding Household's accounting practices, including reaging and restructuring. * * * "Charge off policies are appropriate for our target market and result in proper loss recognition" (PFG000158) "All policies have been consistently applied and realistically report results" (PFG000158) "Why are Household's Credit Losses Better" - better credit skills (PFG000152)	2+ Delinquency/ Re-Aging
24.	01/16/2002	Household Press Release Plaintiffs' Exhibit 706	Household Schoenholz Aldinger	Recklessly	January 16, 2002 Household Press Release entitled "Household Reports Record Quarterly and Full-Year Net Income": Household "reported fourth quarter earnings per share of $1.17, its fourteenth consecutive record quarter. Fourth quarter earnings per share rose 14 percent from $1.03 the prior year. Net income in the fourth quarter increased 11 percent, to an all-time quarterly record of $549 million. For the full year, Household reported earnings per share of $4.08, representing a 15 percent increase from $3.55 in 2000. Net income for 2001 totaled $1.9 billion, also an all-time high, 13 percent above $1.7 billion earned in 2000." "Household's fourth quarter results were simply outstanding . . . demonstrating the tremendous strength and earnings power of the Household franchise. Receivable and revenue growth exceeded our expectations while credit indicators weakened only modestly in a tough economic	Predatory Lending 2+ Delinquency/ Re-Aging Restatement

False Stmt No.	Date	Document Title	Responsible Defendants	State of Mind	Statement	Reason(s) Why False
					environment. . . . In 2001, we demonstrated that our business model generates superior results in a weak economy as well as in the strong economic periods of previous years. Exceptional revenue growth of 18 percent more than offset the increases in credit losses during the year." [HHS 03110403 – HHS 03110404] * * * "Credit Quality and Loss Reserves At December 31st, the managed delinquency ratio (60+days) was 4.46 percent, up 3 basis points from 4.43 percent in the third quarter. The managed delinquency ratio was 4.20 percent a year ago. The annualized managed net chargeoff ratio for the fourth quarter was 3.90 percent, up 16 basis points from 3.74 percent in the third quarter. The managed net chargeoff ratio in the year-ago quarter was 3.41 percent." [HHS 03110405]	
27.	03/13/2002	Household FY01 Report on Form 10-K Defendants' Exhibit 852	Household Schoenholz Aldinger	Recklessly	Household FY01 Report on Form 10-K filed with the SEC on March 13, 2002 Household reported Net Income of $1.923 billion in 2001, and E.P.S. of $4.13 [HHT 0015815 – HHT 0015816]: Household International, Inc. and Subsidiaries CREDIT QUALITY STATISTICS – OWNED BASIS All dollar amounts are stated in millions. — 2001 / 2000 / 1999 / 1998 / 1997 At December 31, unless otherwise indicated. Owned Two-Month-and-Over Contractual Delinquency Ratios Real estate secured: 2.63% / 2.58% / 3.10% / 3.95% / 3.66% Auto finance: 2.92 / 2.46 / 2.02 / 2.90 / 1.48 MasterCard/Visa: 5.67 / 4.90 / 3.59 / 5.09 / 3.55 Private label: 5.99 / 5.60 / 6.09 / 6.03 / 5.60 Personal non-credit card: 9.04 / 7.99 / 9.06 / 8.24 / 7.55 Total consumer: 4.53% / 4.26% / 4.82% / 5.31% / 4.87% [HHT 0015809] * * *	Predatory Lending 2+ Delinquency/ Re-Aging Restatement

1131168_1

False Stmt No.	Date	Document Title	Responsible Defendants	State of Mind	Statement	Reason(s) Why False
					Household International, Inc. and Subsidiaries CREDIT QUALITY STATISTICS – MANAGED BASIS <table><tr><td>All dollar amounts are stated in millions. At December 31, unless otherwise indicated.</td><td>2001</td><td>2000</td><td>1999</td><td>1998</td><td>1997</td></tr><tr><td colspan="6">Managed Two-Month-and-Over Contractual Delinquency Ratios</td></tr><tr><td>Real estate secured</td><td>2.68%</td><td>2.63%</td><td>3.27%</td><td>3.67%</td><td>3.69%</td></tr><tr><td>Auto finance</td><td>3.16</td><td>2.55</td><td>2.43</td><td>2.29</td><td>2.09</td></tr><tr><td>MasterCard/Visa</td><td>4.10</td><td>3.49</td><td>2.78</td><td>3.75</td><td>3.10</td></tr><tr><td>Private label</td><td>5.48</td><td>5.48</td><td>5.97</td><td>6.20</td><td>5.81</td></tr><tr><td>Personal non-credit card</td><td>8.87</td><td>7.97</td><td>8.81</td><td>7.94</td><td>7.81</td></tr><tr><td>Total consumer</td><td>4.46%</td><td>4.20%</td><td>4.66%</td><td>4.90%</td><td>4.64%</td></tr></table>[HHT 0015810] * * * "Management has long recognized its responsibility for conducting the company's affairs in a manner which is responsive to the interest of employees, shareholders, investors and society in general. This responsibility is included in the statement of policy on ethical standards which provides that the company will fully comply with laws, rules and regulations of every community in which it operates and adhere to the highest ethical standards. Officers, employees and agents of the company are expected and directed to manage the business of the company with complete honesty, candor and integrity." [HHT 0015848] * * * "Our credit and portfolio management procedures focus on risk-based pricing and effective collection efforts for each loan. We have a process which we believe gives us a reasonable basis for predicting the credit quality of new accounts. This process is based on our experience with numerous marketing, credit and risk management tests. We also believe that our frequent and early contact with delinquent customers, as well as policies designed to manage customer relationships, such as reaging delinquent accounts to current in specific situations, are helpful in maximizing customer collections. . . . As a result, charge-off and delinquency performance has been well within our expectations." [HHT 0015797] * * *	

<table>
<tr><th>False Stmt No.</th><th>Date</th><th>Document Title</th><th>Responsible Defendants</th><th>State of Mind</th><th>Statement</th><th>Reason(s) Why False</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td>“We believe our policies are responsive to the specific needs of the customer segment we serve. . . . Our policies have been consistently applied and there have been no significant changes to any of our policies during any of the periods reported. Our loss reserve estimates consider our charge-off policies to ensure appropriate reserves exist for products with longer charge-off lives. We believe our charge-off policies are appropriate and result in proper loss recognition.” [HHT 0015798]
* * *

“Our policies for consumer receivables permit reset of the contractual delinquency status of an account to current, subject to certain limits, if a predetermined number of consecutive payments has been received and there is evidence that the reason for the delinquency has been cured. Such reaging policies vary by product and are designed to manage customer relationship and maximize collections.” [HHT 0015798]</td><td></td></tr>
<tr><td>28.</td><td>04/09/2002</td><td>Household Financial Relations Conference

Plaintiffs’ Exhibit 135</td><td>Household

Schoenholz</td><td>Recklessly</td><td>April 9, 2002 Financial Relations Conference:
Credit Quality Trend – Manageable, Modest Increases [chart on HHS 01883530]
Credit Policies – Overview – In some cases charge-off policy is longer than bank policy to optimize customer management. [HHS 01883554]
Reage Policies – Overview
Reage policies are an inherent part of value proposition for our customers for which they pay above bank prices
Not intended to defer credit loss recognition or to overstate net income
Policies have been consistently applied and are appropriate for each product
[HHS 01883557]
Credit Policies – Personal Non-Credit Card
Restructures
If an account is ever 90+, lifetime limit of 4 restructures allowed
[HHS 01883579]
Defendants included information regarding Household’s reage portfolio in a number of charts included in Plaintiffs’ Exhibit 135 – the charts are located at HHS01883560, HHS01883561, HHS01883562, HHS01883564, HHS01883565, HHS01883566, and HHS01883567.</td><td>2+ Delinquency/ Re-Aging</td></tr>
</table>

False Stmt No.	Date	Document Title	Responsible Defendants	State of Mind	Statement	Reason(s) Why False
29.	04/17/2002	Household Press Release Plaintiffs' Exhibit 635	Household Schoenholz Aldinger	Recklessly	April 17, 2002 Household Press Release entitled "Household Reports Record First Quarter Net Income": Household "reported first quarter earnings per share of $1.09, its fifteenth consecutive record quarter. First quarter earnings per share rose 20 percent from $.91 the prior year. Net income in the first quarter increased 18 percent, to a record $511 million." "Household turned in a very strong first quarter. . . . In addition to delivering record results this quarter, we strongly added to our capital and reserve levels and further enhanced liquidity. We remain committed to maintaining a strong balance sheet and maximum financial flexibility." "Our credit quality performance was well within our expectations in light of the continued weakness in the economy. . . . We anticipate a very manageable credit environment for the remainder of the year." [HHS 02980361] * * * "Credit Quality and Loss Reserves At March 31st, the *managed basis* delinquency ratio (60+days) was 4.63 percent, up 17 basis points from 4.46 percent at year-end 2001 and up 38 basis points from 4.25 percent a year ago. The annualized *managed basis* net charge-off ratio for the first quarter of 4.09 percent increased 19 basis points from 3.90 percent in the fourth quarter of 2001. . . ." "The *owned basis* delinquency ratio at March 31st was 4.77 percent, compared to 4.53 percent at December 31st and 4.36 percent a year ago. The annualized *owned basis* charge-off ratio for the first quarter was 3.61 percent compared to 3.43 percent in the previous quarter and 3.12 percent a year ago." [HHS 02980363]	Predatory Lending 2+ Delinquency/ Re-Aging Restatement

<table>
<tr><th>False Stmt No.</th><th>Date</th><th>Document Title</th><th>Responsible Defendants</th><th>State of Mind</th><th>Statement</th><th>Reason(s) Why False</th></tr>
<tr><td>32.</td><td>05/10/2002</td><td>Household 10-Q

Plaintiffs' Exhibit 232</td><td>Household

Schoenholz

Aldinger</td><td>Recklessly</td><td>Household 10-Q for quarter ended 3/31/2002. Household reported net income of $511 million, and E.P.S of $1.09 [HHS 02135167]

CREDIT QUALITY

Delinquency – Owned Basis
Two-Months-and-Over Contractual Delinquency (as a percent of consumer receivables):
<table>
<tr><th></th><th>March 31, 2002</th><th>December 31, 2001</th><th>March, 31 2001</th></tr>
<tr><td>Real estate secured</td><td>2.88%</td><td>2.63%</td><td>2.55%</td></tr>
<tr><td>Auto finance</td><td>2.04</td><td>2.92</td><td>1.74</td></tr>
<tr><td>MasterCard/Visa</td><td>6.54</td><td>5.67</td><td>5.02</td></tr>
<tr><td>Private label</td><td>6.33</td><td>5.99</td><td>5.62</td></tr>
<tr><td>Personal non-credit card</td><td>9.60</td><td>9.04</td><td>8.79</td></tr>
<tr><td>Total Owned</td><td>4.77%</td><td>4.53%</td><td>4.36%</td></tr>
</table>
[HHS 02135187]</td><td>2+ Delinquency/ Re-Aging

Restatement</td></tr>
<tr><td>36.</td><td>07/17/2002</td><td>Household Press Release

Plaintiffs' Exhibit 788</td><td>Household

Schoenholz

Aldinger</td><td>Recklessly</td><td>July 17, 2002 Household Press Release entitled "Household Reports Record Second Quarter Results on Strong Receivables Growth": Household "reported second quarter earnings per share increased 16 percent to $1.08, from $.93 the prior year. These results mark Household's sixteenth consecutive record quarter. Second quarter net income increased 17 percent, to a record $514 million."
* * *
"Our results this quarter were fueled by ongoing strong demand for our loan products. . . . Growth this quarter was strong, while we have maintained our conservative underwriting criteria. . . ."
[HHS 03195884]
* * *
"Credit Quality and Loss Reserves
At June 30th, the managed basis delinquency ratio (60+days) was 4.53 percent, down 10 basis points from 4.63 percent at the end of March, led by improvement in the MasterCard/Visa portfolio. The managed basis delinquency ratio was 4.27 percent a year ago. The annualized</td><td>Predatory Lending

2+ Delinquency/ Re-Aging

Restatement</td></tr>
</table>

<table>
<tr><th>False Stmt No.</th><th>Date</th><th>Document Title</th><th>Responsible Defendants</th><th>State of Mind</th><th>Statement</th><th>Reason(s) Why False</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td>managed basis netcharge-off ratio for the second quarter of 4.26 percent was 17 basis points higher than the first quarter and 55 basis points higher than a year ago."

"The owned basis delinquency ratio at June 30th was 4.61 percent, compared to 4.77 percent at March 31st and 4.48 percent a year ago. The annualized owned basis net charge-off ratio for the second quarter was 3.76 percent compared to 3.61 percent in the previous quarter and 3.26 a year ago." [HHS 03195886]</td><td></td></tr>
<tr><td>37.</td><td>08/14/2002</td><td>Household Press Release

Plaintiffs' Exhibit 227</td><td>Household

Schoenholz

Aldinger</td><td>Recklessly</td><td>August 14, 2002 Household Press Release entitled "Household International Certifies Accuracy of SEC filings in 2002": "Household's results for the year-to-date have been fueled by strong demand for our loan products throughout our businesses. Our loan underwriting approach continues to be conservative in these times of economic uncertainty, and we remain committed to strong reserve and capital levels." [HHS 02133695]</td><td>Predatory Lending</td></tr>
<tr><td>38.</td><td>08/14/2002</td><td>Household 10-Q

Defendants' Exhibit 874</td><td>Household

Schoenholz

Aldinger</td><td>Recklessly</td><td>Household 10-Q for quarter-ended 6/30/2002 issued on 8/14/2002: Household reported net income of $507 million and E.P.S. of $1.08 [HHT 0017112]

CREDIT QUALITY
Delinquency – Owned Basis
Two-Months-and-Over Contractual Delinquency (as a percent of consumer receivables):
<table>
<tr><th></th><th>June 30, 2002</th><th>March 31, 2002</th><th>June 30, 2001</th></tr>
<tr><td>Real estate secured</td><td>2.78%</td><td>2.88%</td><td>2.59%</td></tr>
<tr><td>Auto finance</td><td>2.99</td><td>2.04</td><td>2.35</td></tr>
<tr><td>MasterCard/Visa</td><td>6.13</td><td>6.54</td><td>4.80</td></tr>
<tr><td>Private label</td><td>6.19</td><td>6.33</td><td>6.54</td></tr>
<tr><td>Personal non-credit card</td><td>9.12</td><td>9.60</td><td>8.79</td></tr>
<tr><td>Total Owned</td><td>4.61%</td><td>4.77%</td><td>4.48%</td></tr>
</table>
[HHT 0017131]

* * *</td><td>2+ Delinquency/ Re-Aging

Restatement</td></tr>
</table>

False Stmt No.	Date	Document Title	Responsible Defendants	State of Mind	Statement	Reason(s) Why False
					"Our credit policies for consumer loans permit the reset of the contractual delinquency status of an account to current, subject to certain limits, if a predetermined number of consecutive payments has been received and there is evidence that the reason for the delinquency has been cured. Such reaging policies vary by product and are designed to manage customer relationship and ensure maximum collections." [HHT 0017132] * * * Household reiterated this disclosure in its Form 10-K/A for fiscal year 2001, filed with the SEC on August 27, 2002.	