IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

NATIONAL CREDIT UNION ADMINISTRATION BOARD, as Liquidating Agent of Southwest Corporate Federal Credit Union and Members United Corporate Federal Credit Union,	)	
Plaintiff,	)	Case No.
	)	**JURY TRIAL DEMANDED**
v.	)	
CREDIT SUISSE SECURITIES (USA) LLC, CREDIT SUISSE FIRST BOSTON MORTGAGE SECURITIES CORP.,	)	
Defendants.	)	

COMPLAINT

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Plaintiff, the National Credit Union Administration Board ("NCUA Board"), brings this action in its capacity as Liquidating Agent of Southwest Corporate Federal Credit Union ("Southwest") and Members United Corporate Federal Credit Union ("Members United") (collectively "the Credit Unions") against Credit Suisse Securities (USA), LLC ("Credit Suisse"), as underwriters and sellers, and against Credit Suisse First Boston Mortgage Securities Corp. (the "Issuer Defendant"), as issuer, of certain residential mortgage-backed securities ("RMBS") purchased by the Credit Unions, and alleges as follows:

I. NATURE OF THE ACTION

1. This action arises out of the sale of RMBS to the Credit Unions where Credit Suisse acted as underwriter and/or seller of the RMBS.

2. All of the RMBS sold to the Credit Unions were rated as triple-A (the same rating as U.S. Treasury bonds) at the time of issuance.

3. The Issuer Defendant issued and Credit Suisse underwrote and sold the RMBS pursuant to registration statements, prospectuses, prospectus supplements, term sheets, free writing prospectuses, and other written materials (collectively, the "Offering Documents"). These Offering Documents contained untrue statements of material fact or omitted to state material facts in violation of Section 11 of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§ 77k ("Section 11"), the Texas Securities Act, Tex. Rev. Civ. Stat. Ann. Art. 581, § 33 ("Texas Blue Sky Law"), and the Illinois Securities Law of 1953, 815 Ill. Comp. Stat. Ann. 5/12 & 13 ("Illinois Blue Sky Law").

4. The Offering Documents described, among other things, the mortgage underwriting standards of the originators who made the mortgages that were pooled and served as the collateral for the RMBS purchased by the Credit Unions ("the Originators").

5. The Offering Documents represented that the Originators adhered to the underwriting guidelines set out in the Offering Documents for the mortgages in the pools collateralizingthe RMBS.

6. In fact, the Originators had systematically abandoned the stated underwriting guidelines in the Offering Documents. Because the mortgages in the pools collateralizing the RMBS were largely underwritten without adherence to the underwriting standards in the Offering Documents, the RMBS were significantly riskier than represented.

7. These untrue statements and omissions were material because the value of RMBS is largely a function of the cash flow from the principal and interest payments on the mortgage loans collateralizing the RMBS. Thus, the performance of the RMBS is tied to the borrower's ability to repay the loan.

8. The Credit Unions purchased certain RMBS issued by the Issuer Defendant and underwritten and/or sold by Credit Suisse as indicated in Table 1 (*infra*). Defendants are therefore liable for material untrue statements and omissions of fact in the Offering Documents for these RMBS under Section 11 and/or the Texas Blue Sky Law and Illinois Blue Sky Law as indicated in Table 1 (*infra*).

Table 1

CUSIP[1]	Issuing Entity	Depositor	Purchaser	Trade Date	Price Paid	Claims
00703QAD4	Adjustable Rate Mortgage Trust 2006-3	Credit Suisse First Boston Mtg. Sec. Corp.	Southwest	7/26/2006	$15,000,000	Texas Blue Sky
007037AE4	Adjustable Rate Mortgage Trust 2007-1	Credit Suisse First Boston Mtg. Sec. Corp.	Southwest	2/23/2007	$ 20,000,000	Texas Blue Sky
007037AE4	Adjustable Rate Mortgage Trust 2007-1	Credit Suisse First Boston Mtg. Sec. Corp.	Members United	2/23/2007	$40,000,000	Illinois Blue Sky

[1] "CUSIP" stands for "Committee on Uniform Securities Identification Procedures." A CUSIP number is used to identify most securities, including certificates of RMBS. *See* CUSIP Number, http://www.sec.gov/answers/cusip.htm.

CUSIP[1]	Issuing Entity	Depositor	Purchaser	Trade Date	Price Paid	Claims
00703AAD9	Adjustable Rate Mortgage Trust 2007-2	Credit Suisse First Boston Mtg. Sec. Corp.	Southwest	5/25/2007	$22,800,000	Texas Blue Sky
437097AD0	Home Equity Asset Trust 2006-6	Credit Suisse First Boston Mortgage Securities, Corp.	Southwest	7/12/2006	$11,000,000	Texas Blue Sky
225470W58	Home Equity Mortgage Trust 2006-2	Asset Backed Securities Corp.	Members United	4/3/2006	$28,000,000	Illinois Blue Sky
43710DAB8	Home Equity Mortgage Trust 2007-2	Credit Suisse First Boston Mortgage Securities, Corp.	Southwest	4/20/2007	$25,000,000	§ 11 and Texas Blue Sky
542514RL0	Long Beach Mortgage Loan Trust 2006-1	Long Beach Securities Corp.	Southwest	1/26/2006	$10,000,000	Texas Blue Sky
542514RL0	Long Beach Mortgage Loan Trust 2006-1	Long Beach Securities Corp.	Members United	1/30/2006	$30,000,000	Illinois Blue Sky
54251RAD5	Long Beach Mortgage Loan Trust 2006-6	Long Beach Securities Corp.	Southwest	7/21/2006	$10,000,000	Texas Blue Sky
75115VAA3	RALI Series 2006-QA9 Trust	Residential Accredit Loans, Inc.	Southwest	10/25/2006	$17,045,000	Texas Blue Sky

9. The RMBS the Credit Unions purchased suffered a significant drop in market value. The Credit Unions have suffered significant losses from those RMBS purchased despite the NCUA Board's mitigation efforts.

II. PARTIES AND RELEVANT NON-PARTIES

10. The National Credit Union Administration ("NCUA") is an independent agency of the Executive Branch of the United States Government that, among other things, charters and regulates federal credit unions, and operates and manages the National Credit Union Share Insurance Fund ("NCUSIF") and the Temporary Corporate Credit Union Stabilization Fund ("TCCUSF"). The TCCUSF was created in 2009 to allow the NCUA to borrow funds from the United States Department of the Treasury ("Treasury Department") for the purposes of stabilizing corporate credit unions under conservatorship or liquidation, or corporate credit unions threatened with conservatorship or liquidation. The NCUA must repay all monies borrowed from the Treasury Department for the purposes of the TCCUSF by 2021 through

assessments against all federally insured credit unions in the country. The NCUSIF insures the deposits of account holders in all federal credit unions and the majority of state-chartered credit unions. The NCUA has regulatory authority over state-chartered credit unions that have their deposits insured by the NCUSIF. The NCUA is under the management of the NCUA Board. *See* Federal Credit Union Act, 12 U.S.C. §§ 1751, 1752a(a) ("FCU Act").

11. Southwest was a federally chartered corporate credit union with its offices and principal place of business in Plano, Texas. As a corporate credit union, Southwest provided investment and financial services to other credit unions.

12. Members United was a federally chartered corporate credit union with its offices and principal place of business in Warrenville, Illinois. Members United was created in mid-2006 by the merger of Empire and Mid-States Corporate Federal Credit Unions. As a corporate credit union, Members United provided investment and financial services to other credit unions.

13. On September 24, 2010, the NCUA Board placed the Credit Unions into conservatorship pursuant to the FCUA, 12 U.S.C. § 1751, *et seq*. On October 31, 2010, the NCUA Board placed the Credit Unions into involuntary liquidation, appointing itself Liquidating Agent.

14. Pursuant to 12 U.S.C. § 1787(b)(2)(A), the NCUA Board as Liquidating Agent has succeeded to all rights, titles, powers, and privileges of the Credit Unions and of any member, account holder, officer or director of the Credit Unions, with respect to the Credit Unions and their assets, including the right to bring the claims asserted in this action. As Liquidating Agent, the NCUA Board has all the powers of the members, directors, officers, and committees of the Credit Unions, and succeeds to all rights, titles, powers, and privileges of the Credit Unions. *See* 12 U.S.C. §1787(b)(2)(A). The NCUA Board may also sue on the Credit

Unions' behalf. *See* 12 U.S.C. §§ 1766(b)(3)(A), 1787(b)(2), 1789(a)(2).

15. Prior to being placed into conservatorship and involuntary liquidation, the Credit Unions were two of the largest corporate credit unions in the United States.

16. Any recoveries from this legal action will reduce the total losses resulting from the failure of the Credit Unions. Losses from the Credit Unions' failures must be paid from the NCUSIF or the TCCUSF. Expenditures from these funds must be repaid through assessments against all federally insured credit unions. Because of the expenditures resulting from the Credit Unions' failures, federally insured credit unions will experience larger assessments, thereby reducing federally insured credit unions' net worth. Reductions in net worth can adversely affect the dividends that individual members of credit unions receive for the savings on deposit at their credit union. Reductions in net worth can also make loans for home mortgages and automobile purchases more expensive and difficult to obtain. Any recoveries from this action will help to reduce the amount of any future assessments on credit unions throughout the system, reducing the negative impact on federally insured credit unions' net worth. Recoveries from this action will benefit credit unions and their individual members by increasing net worth resulting in more efficient and lower-cost lending practices.

17. Credit Suisse is an SEC registered broker-dealer. Credit Suisse acted as an underwriter of certain RMBS that are the subject of this Complaint as indicated in Table 1 (*supra*). Credit Suisse is a Delaware limited liability company with its principal place of business in New York.

18. Credit Suisse First Boston Mortgage Securities Corp. is the depositor and issuer of certain RMBS that are the subject of this Complaint as indicated in Table 1 (*supra*). Credit Suisse First Boston Mortgage Securities Corp. is a Delaware corporation with its principal place

of business in New York.

III. JURISDICTION AND VENUE

19. This Court has subject matter jurisdiction pursuant to: (a) 12 U.S.C. § 1789(a)(2), which provides that "[a]ll suits of a civil nature at common law or in equity to which the [NCUA Board] shall be a party shall be deemed to arise under the laws of the United States, and the United States district courts shall have original jurisdiction thereof, without regard to the amount in controversy"; and (b) 28 U.S.C. § 1345, which provides that "the district courts shall have original jurisdiction of all civil actions, suits or proceedings commenced by the United States, or by any agency or officer thereof expressly authorized to sue by Act of Congress."

20. Venue is proper in this District under Section 22 of the Securities Act, 15 U.S.C. § 77v(a) and/or 28 U.S.C. §1391(b)(1), because each Defendant is a resident of/conducts business in this District. This Court has personal jurisdiction over each Defendant because they are residents of/conduct business in this District.

IV. MORTGAGE ORIGINATION AND THE PROCESS OF SECURITIZATION

21. RMBS are asset-backed securities. A pool or pools of residential mortgages are the assets that back or collateralize the RMBS certificates purchased by investors.

22. Because residential mortgages are the assets collateralizing RMBS, the origination of mortgages commences the process that leads to the creation of RMBS. Originators decide whether to loan potential borrowers money to purchase residential real estate through a process called mortgage underwriting. The originator applies its underwriting standards or guidelines to determine whether a particular borrower is qualified to receive a mortgage for a particular property. The underwriting guidelines consist of a variety of metrics, including: the borrower's debt, income, savings, credit history and credit score; whether the property will be owner-occupied; and the loan-to-value ("LTV") ratio, among other things. Loan

underwriting guidelines are designed to ensure that: (1) the borrower has the means to repay the loan, (2) the borrower will likely repay the loan, and (3) the loan is secured by sufficient collateral in the event of default.

23. Historically, originators made mortgage loans to borrowers and held the loans on their own books for the duration of the loan. Originators profited as they collected monthly principal and interest payments directly from the borrower. Originators also retained the risk that the borrower would default on the loan.

24. This changed in the 1970s when the Government National Mortgage Association ("Ginnie Mae"), the Federal National Mortgage Association ("Fannie Mae"), and the Federal Home Loan Mortgage Corporation ("Freddie Mac") (collectively government sponsored enterprises or "GSEs") began purchasing "conforming" or "prime" loans —so-called because they conformed to guidelines set by the GSEs. The GSEs either sponsored the RMBS issuance (Ginnie Mae) or issued the RMBS themselves after purchasing the conforming loans (Fannie Mae and Freddie Mac). The GSEs securitized the mortgage loans by grouping mortgages into "loan pools," then repackaging the loan pools into RMBS where investors received the cash flow from the mortgage payments. The GSEs guarantee the monthly cash flow to investors on the agency RMBS.

25. More recently, originators, usually working with investment banks, began securitizing "non-conforming loans"—loans originated (in theory) according to private underwriting guidelines adopted by the originators. Non-conforming loans are also known as "nonprime loans" or "private label" and include "Alt-A" and "subprime" loans. Despite the non-conforming nature of the underlying mortgages, the securitizers of such RMBS were able to obtain triple-A credit ratings by using "credit enhancement" (explained *infra*) when they

securitized the non-conforming loans.

26. All of the loans collateralizing the RMBS at issue in this Complaint are non-conforming mortgage loans.

27. The issuance of RMBS collateralized by non-conforming loans peaked in 2006. The securitization process shifted the originators' focus from ensuring the ability of borrowers to repay their mortgages, to ensuring that the originator could process (and obtain fees from) an ever-larger loan volume for distribution as RMBS. This practice is known as "originate-to-distribute" ("OTD").

28. Securitization begins with a "sponsor" who purchases loans in bulk from one or more originators. The sponsor transfers title of the loans to an entity called the "depositor."

29. The depositor transfers the loans to a trust called the "issuing entity."

30. The issuing entity issues "notes" and/or "certificates," representing an ownership interest in the cash flow from the mortgage pool underlying the securities (*i.e.*, the principal and interest generated as borrowers make monthly payments on the mortgages in the pool).

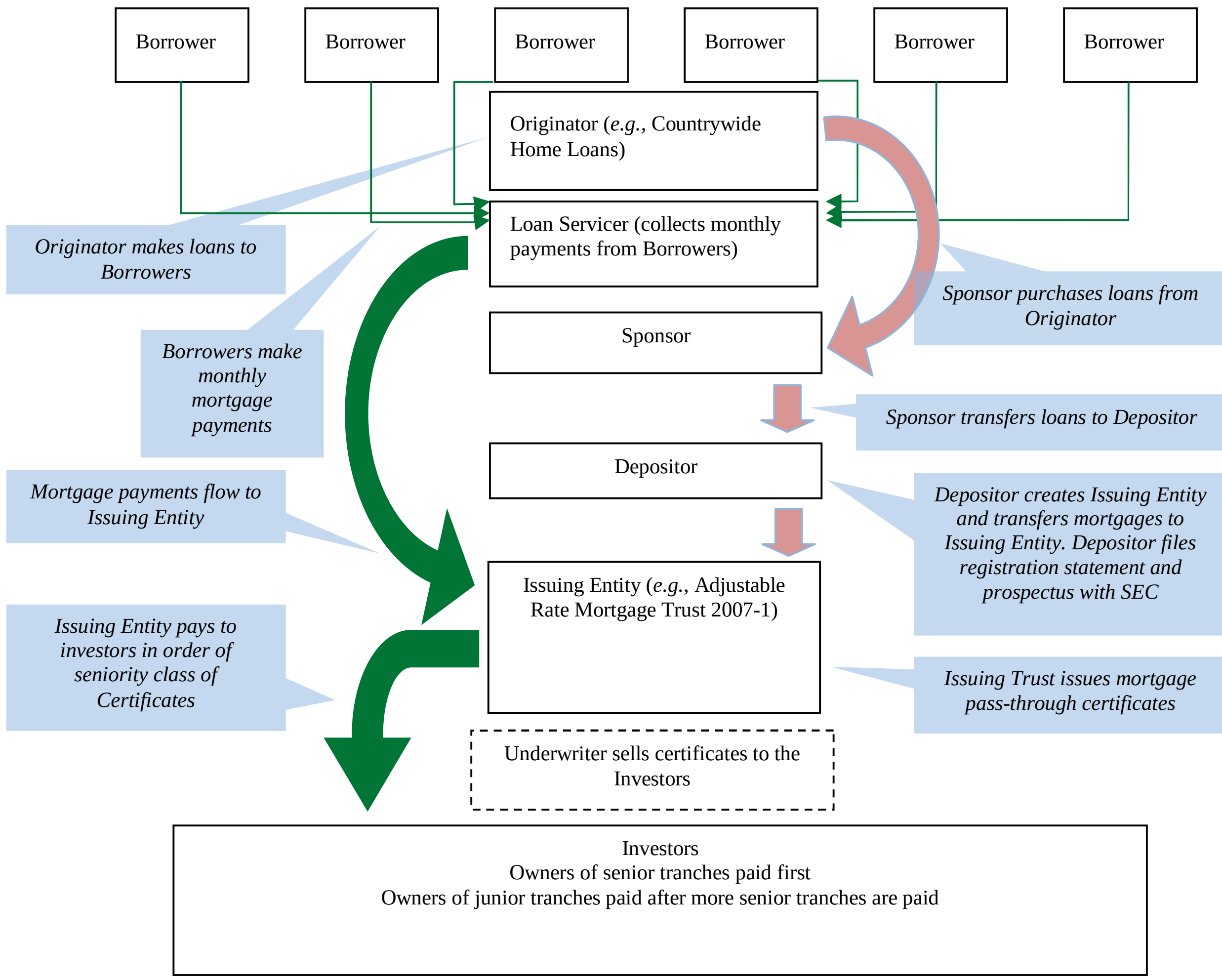
31. The depositor files required documents (such as registration statements and prospectuses) with the SEC so that the certificates can be offered to the public.

32. One or more "underwriters" then sell the notes or certificates to investors.

33. A loan "servicer" collects payments from borrowers on individual mortgages as part of a pool of mortgages, and the issuing entity allocates and distributes the income stream generated from the mortgage loan payments to the RMBS investors.

34. Figure 1 (*infra*) depicts a typical securitization process.

Figure 1
Illustration of the Securitization Process



35. Because securitization, as a practical matter, shifts the risk of default on the mortgage loans from the originator of the loan to the RMBS investor, the originator's adherence to mortgage underwriting guidelines as represented in the offering documents with respect to the underlying mortgage loans is critical to the investors' ability to evaluate the expected performance of the RMBS.

V. RMBS CREDIT RATINGS AND CREDIT ENHANCEMENT

36. RMBS offerings are generally divided into slices or "tranches," each of which represents a different level of risk. RMBS certificates denote the particular tranches of the security purchased by the investor.

37. The credit rating for an RMBS reflects an assessment of the creditworthiness of that RMBS and indicates the level of risk associated with that RMBS. Standard & Poor's ("S&P") and Moody's Investors Service, Inc. ("Moody's") are the credit rating agencies that assigned credit ratings to the RMBS in this case.

38. The credit rating agencies use letter-grade rating systems as shown in Table 2 (*infra*).

Table 2
Credit Ratings

Moody's	S&P	Definitions	Grade Type
Aaa	AAA	**Prime (Maximum Safety)**	**INVESTMENT GRADE**
Aa1 Aa2 Aa3	AA+ AA AA-	**High Grade, High Quality**	
A1 A2 A3	A+ A A-	**Upper Medium Grade**	
Baa1 Baa2 Baa3	BBB+ BBB BBB-	**Medium Grade**	
Ba2 Ba3	BB BB-	**Non-Investment Grade, or Speculative**	**SPECULATIVE GRADE**
B1 B2 B3	B+ B B-	**Highly Speculative, or Substantial Risk**	
Caa2 Caa3	CCC+	**In Poor Standing**	
Ca	CCC CCC-	**Extremely Speculative**	
C	-	**May be in Default**	
-	D	**Default**	

39. Moody's purportedly awards the coveted "Aaa" rating to structured finance products that are "of the highest quality, with minimal credit risk." Moody's Investors Services, Inc., Moody's Rating Symbols & Definitions at 6 (August 2003), *available at* http://www.rbcpa.com/Moody's_ratings_and_definitions.pdf. Likewise, S&P rates a product "AAA" when the "obligor's capacity to meet its financial commitment on the obligation is

extremely strong." Standard & Poor's, Ratings Definitions, *available at* https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1019442&SctArtId=147045&from=CM&nsl_code=LIME.

40. In fact, RMBS could not be sold unless they received one of the highest "investment grade" ratings on most tranches from one or more credit rating agencies, because the primary market for RMBS is institutional investors, such as the Credit Unions, which are generally limited to buying only securities with the highest credit ratings. *See, e.g.*, NCUA Credit Risk Management Rule, 12 C.F.R. § 704.6(d)(2) (2010) (prohibiting corporate credit unions from investing in securities rated below AA-); *but see*, *e.g.*, Alternatives to the Use of Credit Ratings, 77 Fed. Reg. 74,103 (Dec. 13, 2012) (to be codified at 12 C.F.R. pts. 703, 704, 709, and 742).

41. While the pool of mortgages underlying the RMBS may not have been sufficient to warrant a triple-A credit rating, various forms of "credit enhancement" were used to obtain a triple-A credit rating on the higher tranches of RMBS.

42. One form of credit enhancement is "structural subordination." The tranches, and their risk characteristics relative to each other, are often analogized to a waterfall. Investors in the higher or "senior" tranches are the first to be paid as income is generated when borrowers make their monthly payments. After investors in the most senior tranche are paid, investors in the next subordinate or "junior" tranche are paid, and so on down to the most subordinate or lowest tranche.

43. In the event mortgages in the pool default, the resulting loss is absorbed by the subordinated tranches first.

44. Accordingly, senior tranches are deemed less risky than subordinate tranches and

therefore receive higher credit ratings.

45. Another form of credit enhancement is overcollateralization. Overcollateralization is the inclusion of a higher dollar amount of mortgages in the pool than the par value of the security. The spread between the value of the pool and the par value of the security acts as a cushion in the event of a shortfall in expected cash flow.

46. Other forms of credit enhancement include "excess spread," monoline insurance, obtaining a letter of credit, and "cross-collateralization." "Excess spread" involves increasing the interest rate paid to the purchasers of the RMBS relative to the interest rate received on the cash flow from the underlying mortgages. Monoline insurance, also known as "wrapping" the deal, involves purchasing insurance to cover losses from any defaults. Finally, some RMBS are "cross-collateralized," *i.e.*, when a loan group in an RMBS experiences rapid prepayments or disproportionately high realized losses, principal and interest collected from another tranche is applied to pay principal or interest, or both, to the senior certificates in the loan group experiencing rapid prepayment or disproportionate losses.

VI. THE CREDIT UNIONS' PURCHASES

47. The Credit Unions purchased only the highest-rated tranches of RMBS. All were rated triple-A at the time of issuance. These securities have since been downgraded below investment grade just a few years after they were sold (*see infra* Table 3).

Table 3
Credit Ratings for the Credit Unions' RMBS Purchases

CUSIP	ISSUING ENTITY	PURCHASER	Original Rating S&P	Original Rating Moody's	First Downgrade Below Investment Grade S&P	First Downgrade Below Investment Grade Moody's	Recent Rating S&P	Recent Rating Moody's
00703QAD4	Adjustable Rate Mortgage Trust 2006-3	Southwest	AAA 8/1/2006	Aaa 7/31/2006	B 9/1/2009	Caa1 2/4/2009	CCC 2/16/2010	Caa3 9/16/2010

CUSIP	ISSUING ENTITY	PURCHASER	Original Rating S&P	Original Rating Moody's	First Downgrade Below Investment Grade S&P	First Downgrade Below Investment Grade Moody's	Recent Rating S&P	Recent Rating Moody's
007037AE4	Adjustable Rate Mortgage Trust 2007-1	Southwest/ Members United	AAA 3/2/2007	Aaa 3/20/2007	B 3/17/2009	Caa2 2/4/2009	D 10/22/2010	Ca 9/16/2010
00703AAD9	Adjustable Rate Mortgage Trust 2007-2	Southwest	AAA 6/4/2007	Aaa 5/30/2007	CCC 7/24/2009	B3 2/4/2009	D 5/21/2013	Caa3 9/16/2010
437097AD0	Home Equity Asset Trust 2006-6	Southwest	AAA 9/6/2006	Aaa 8/1/2006	B- 9/25/2009	Ba1 10/28/2008	CCC 10/21/2011	Ca 5/5/2010
225470W58	Home Equity Mortgage Trust 2006-2	Members United	AAA 5/2/2006	Aaa 4/28/2006	BB 3/31/2008	B1 6/20/2008	CCC 12/4/2008	Ca 6/30/2010
43710DAB8	Home Equity Mortgage Trust 2007-2	Southwest	AAA 5/2/2007	Aaa 4/30/2007	BB+ 10/14/2009	B3 2/18/2009	B 5/17/2013	B3 5/22/2013
542514RL0	Long Beach Mortgage Loan Trust 2006-1	Southwest/ Members United	AAA 2/14/2006	Aaa 2/27/2006	CCC 8/4/2009	Caa1 3/20/2009	CCC 8/4/2009	Ca 4/30/2010
54251RAD5	Long Beach Mortgage Loan Trust 2006-6	Southwest	AAA 8/1/2006	Aaa 7/26/2006	BB 9/9/2008	Caa1 10/16/2008	CCC 8/4/2009	Ca 4/30/2010
75115VAA3	RALI Series 2006-QA9 Trust	Southwest	AAA 11/2/2006	Aaa 10/30/2006	B 5/11/2009	Caa1 1/29/2009	CCC 7/24/2009	Caa3 12/14/2010

48. At the time of purchase, the Credit Unions were not aware of the untrue statements or omissions of material facts in the Offering Documents of the RMBS. If the Credit Unions had known about the Originators' pervasive disregard of underwriting standards—contrary to the representations in the Offering Documents—they would not have purchased the certificates.

49. The securities' substantial loss of market value has injured the Credit Unions and the NCUA Board.

VII. THE ORIGINATORS SYSTEMATICALLY DISREGARDED THE UNDERWRITING GUIDELINES STATED IN THE OFFERING DOCUMENTS

50. The performance and value of RMBS are largely contingent upon borrowers repaying their mortgages. The loan underwriting guidelines ensure that the borrower has the means to repay the mortgage and that the RMBS is secured by sufficient collateral in the event of

reasonably anticipated defaults on the underlying mortgage loans.

51. With respect to RMBS collateralized by loans written by originators who systematically disregarded their stated underwriting standards, the following pattern is present:

a. a surge in borrower delinquencies and defaults on the mortgages in the pools (*see infra* Section VII.A and Table 4);

b. actual gross losses to the underlying mortgage pools within the first 12 months after the offerings exceeded expected gross losses (*see infra* Section VII.B and Figure 2);

c. a high percentage of the underlying mortgage loans were originated for distribution, as explained below (*see infra* Table 5 and accompanying allegations); and

d. downgrades of the RMBS by credit rating agencies from high, investment-grade ratings when purchased to much lower ratings, including numerous "junk" ratings (*see infra* Section VII.C and *supra* Table 3).

52. These factors support a finding that the Originators failed to originate the mortgages in accordance with the underwriting standards stated in the Offering Documents.

53. This conclusion is corroborated by reports that the Originators who contributed mortgage loans to the RMBS at issue in this Complaint abandoned the underwriting standards described in the Offering Documents (*see infra* Section VII.D).

54. This conclusion is further corroborated by evidence from Credit Suisse's due diligence process that RMBS underwritten by Credit Suisse were collateralized by a substantial number of loans that were originated contrary to the applicable underwriting standards (*see infra* Section VII.E.-F.).

A. The Surge in Mortgage Delinquency and Defaults Shortly After the Offerings and the High OTD Practices of the Originators Demonstrate Systematic Disregard of Underwriting Standards

55. Residential mortgages are generally considered delinquent if no payment has been received for more than 30 days after payment is due. Residential mortgages where no payment has been received for more than 90 days (or three payment cycles) are generally considered to be in default.

56. The surge of delinquencies and defaults following the offerings evidences the systematic flaws in the Originators' underwriting process (*see infra* Table 4).

57. The Offering Documents reported zero or near zero delinquencies and defaults at the time of the Offerings (*see infra* Table 4).

58. The pools of mortgages collateralizing the RMBS experienced delinquency and default rates up to 5.10% within the first three months, up to 11.94% at six months, and up to 29.13% at one year (*see infra* Table 4).

59. As of June 2013, 33.33% of the mortgage collateral across all the RMBS that the Credit Unions purchased was in delinquency, bankruptcy, foreclosure, or real estate owned ("REO"), which means that a bank or lending institution owns the property after a failed sale at a foreclosure auction (*see infra* Table 4).

60. Table 4 (*infra*) reflects the delinquency, foreclosure, bankruptcy, and REO rates on the RMBS as to which claims are asserted in this Complaint. The data presented in the last five columns are from the trustee reports (dates and page references are indicated in the parentheticals). The shadowed rows reflect the group of mortgages in the pool underlying the specific tranches purchased by the Credit Unions; however, some trustee reports include only the aggregate data. For RMBS with multiple groups, aggregate information on all the groups is included because the tranches are cross-collateralized.

Table 4

Delinquency and Default Rates for the Credit Unions' RMBS Purchases

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	Adjustable Rate Mortgage Trust 2006-3: Aggregate (P.S. dated July 28, 2006)	Zero. (S-32)	0.15% (Aug., p.12)	2.07% (Oct., p.12)	4.19% (Jan., p.11)	9.94% (July, p.12)	42.24% (June 2013, p.12)
	Adjustable Rate Mortgage Trust 2006-3: Group 1	Zero. (S-32)	0% (Aug., p.13)	0% (Oct., p.13)	0.3% (Jan., p.12)	1.23% (July, p.14)	19.24% (June 2013, p.14)
	Adjustable Rate Mortgage Trust 2006-3: Group 2	Zero. (S-32)	0% (Aug., p.13)	0% (Oct., p.13)	0% (Jan., p.12)	3.6% (July, p.14)	26.97% (June 2013, p.14)
	Adjustable Rate Mortgage Trust 2006-3: Group 3	Zero. (S-32)	0% (Aug., p.14)	0.33% (Oct., p.14)	1.91% (Jan., p.13)	2.78% (July, p.14)	15.6% (June 2013, p.15)
00703QAD4	Adjustable Rate Mortgage Trust 2006-3: Group 4A *Class 4-A-1-1 in Group 4 (S-13)	Zero. (S-32)	0.26% (Aug., p.14)	2.53% (Oct., p.14)	4.91% (Jan., p.13)	11.16% (July, p.15)	48% (June 2013, p.15)
00703QAD4	Adjustable Rate Mortgage Trust 2006-3: Group 4B *Class 4-A-1-1 in Group 4 (S-13)	Zero. (S-32)	0% (Aug., p.15)	2.91% (Oct., p.15)	6.01% (Jan., p.14)	15.2% (July, p.16)	50.82% (June 2013, p.16)
	Adjustable Rate Mortgage Trust 2007-1 Aggregate (P.S. dated Feb. 28, 2007)	Zero. (S-31)	0.01% (Mar., p.11)	2.79% (May, p.12)	7.08% (Aug., p.12)	18.37% (Feb., p.12)	33.79% (June 2013, p.12)
	Adjustable Rate Mortgage Trust 2007-1: Group 1	Zero. (S-31)	0% (Mar., p.13)	0.46% (May, p.14)	2.43% (Aug., p.13)	4.34% (Feb., p.14)	24.51% (June 2013, p.14)
	Adjustable Rate Mortgage Trust 2007-1: Group 2	Zero. (S-31)	0% (Mar., p.13)	0% (May, p.14)	1.04% (Aug., p.13)	4.1% (Feb., p.14)	23.51% (June 2013, p.14)
	Adjustable Rate Mortgage Trust 2007-1: Group 3	Zero. (S-31)	0% (Mar., p.14)	0.74% (May, p.15)	1.3% (Aug., p.15)	4.27% (Feb., p.15)	28.33% (June 2013, p.15)
	Adjustable Rate Mortgage Trust 2007-1: Group 4	Zero. (S-31)	0% (Mar., p.14)	0.25% (May, p.12)	2.37% (Aug., p.15)	8.26% (Feb., p.15)	27.49% (June 2013, p.15)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
007037AE4	Adjustable Rate Mortgage Trust 2007-1: Group 5 *Class 5-A-1 in Group 5 (S-70)	Zero. (S-31)	0.02% (Mar., p.12)	4.63% (May, p.13)	11.36% (Aug., p.13)	28.87% (Feb., p.13)	42.61% (June 2013, p.13)
	Adjustable Rate Mortgage Trust 2007-2: Aggregate (P.S. dated May 30, 2007)	Zero. (S-29)	0.17% (June, p.10)	2.89% (Aug., p.10)	8.56% (Nov., p.10)	20.9% (May, p.10)	33.07% (June 2013, p.10)
	Adjustable Rate Mortgage Trust 2007-2: Group 1	Zero. (S-29)	0% (June, p.11)	0% (Aug., p.11)	1.46% (Nov., p.11)	2.41% (May, p.11)	24.35% (June 2013, p.11)
00703AAD9	Adjustable Rate Mortgage Trust 2007-2: Group 2 *Class 2-A-1 in Group 2 (S-60)	Zero. (S-29)	0.24% (June, p.10)	4.11% (Aug., p.11)	11.66% (Nov., p.11)	29.13% (May, p.11)	37.65% (June 2013, p.11)
	Home Equity Asset Trust 2006-6 Aggregate (P.S. dated July 28, 2006)	1.0% of the initial mortgage loans are at least 30 days delinquent but not more than 59 days delinquent (S-21)	0.09% (Aug., p.18)	4.78% (Oct., p.16)	10.42% (Jan., p.16)	20.55% (Jul., p.16)	41.97% (June 2013, p.13)
	Home Equity Asset Trust 2006-6: Group 1	1.0% of the initial mortgage loans are at least 30 days delinquent but not more than 59 days delinquent (S-21)	0.07% 0.09% (Aug., p.18)	4.62% (Oct., p.16)	10.04% (Jan., p.16)	18.11% (Jul., p.16)	41.79% (June 2013, p.13)
437097AD0	Home Equity Asset Trust 2006-6: Group 2 *Class 2-A-3 in Group 2 (S-5)	1.0% of the initial mortgage loans are at least 30 days delinquent but not more than 59 days delinquent (S-21)	0.11% 0.09% (Aug., p.19)	4.92% (Oct., p.17)	10.75% (Jan., p.17)	22.52% (Jul., p.17)	42.14% (June 2013, p.13)
	Home Equity Mortgage Trust 2006-2: Aggregate (P.S. dated Apr. 26, 2006)		1.32% (May, p.20)	2.92% (July, p.18)	5.13% (Oct., p.18)	8.81% (Apr., p.18)	8.52% (June 2013, p.16)
	Home Equity Mortgage Trust 2006-2: Group 1	1.62% of the initial group 1 loans are at least 30 days delinquent but not more than 59 days delinquent, no more than 0.20% of the initial group 1 loans are at least 60 days delinquent but not more than 89 days delinquent (S-29)	1.53% (May, p.20)	3.92% (July, p.18)	6.94% (Oct., p.18)	13.39% (Apr., p.18)	11.61% (June 2013, p.16)
225470W58	Home Equity Mortgage Trust 2006-2: Group 2 *Class 2A-1 in Group 2 (S-8)	0.66% of the initial group 2 loans are at least 30 days delinquent but not more than 59 days delinquent (S-37)	0.98% (May, p.21)	1.23% (July, p.19)	2.31% (Oct., p.19)	4.45% (Apr., p.18)	5.93% (June 2013, p.17)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	Home Equity Mortgage Trust 2007-2: Aggregate (P.S. dated Apr. 27, 2007)	Zero. (S-22)	0.16% (May, p.13)	4.97% (July, p.13)	10.68% (Oct., p.13)	16.17% (Apr., p.13)	7.90% (June 2013, p.12)
	Home Equity Mortgage Trust 2007-2: Group 1	Zero. (S-22)	0.00% (May, p.13)	2.81% (July, p.13)	5.61% (Oct., p.13)	8.26% (Apr., p.13)	10.17% (June 2013, p.12)
43710DAB8	Home Equity Mortgage Trust 2007-2: Group 2 *Class 2A-1A in Group 2 (S-14)	Zero. (S-22)	0.17% (May, p.14)	5.10% (July, p.14)	11.00% (Oct., p.14)	16.70% (Apr., p.14)	7.67% (June 2013, p.13)
	Long Beach Mortgage Loan Trust 2006-1: Aggregate (P.S. dated Jan. 30, 2006)	Zero. (S-64)	0.16% (Mar, p.12)	2.98% (May, p.12)	9.68% (Aug, p.11)	23.23% (Feb, p.11)	34.66% (June 2013, p.11)
	Long Beach Mortgage Loan Trust 2006-1: Group 1	Zero. (S-64)	0.13% (Mar, p.13)	2.08% (May, p.13)	7.30% (Aug, p.12)	18.75% (Feb, p.12)	32.18% (June 2013, p.16)
542514RL0	Long Beach Mortgage Loan Trust 2006-1: Group 2 *Class II-A3 in Group 2 (S-3)	Zero. (S-64)	0.18% (mar, p.14)	3.68% (May, p.14)	11.54% (Aug, p.13)	26.69% (Feb, p.13)	37.49% (June 2013, p.22)
	Long Beach Mortgage Loan Trust 2006-6: Aggregate (P.S. dated July 21, 2006)	Zero. (S-66)	0.00% (Aug, p.11)	3.08% (Oct, p.11)	11.08% (Jan, p.11)	24.41% (July, p.11)	34.54% (June 2013, p.12)
	Long Beach Mortgage Loan Trust 2006-6: Group 1	Zero. (S-66)	0.00% (Aug, p.12)	2.48% (Oct, p.12)	9.23% (Jan, p.12)	18.51% (July, p.12)	29.65% (June 2013, p.17)
54251RAD5	Long Beach Mortgage Loan Trust 2006-6: Group 2 *Class II-A3 in Group 2 (S-3)	Zero. (S-66)	0.00% (Aug, p.13)	3.37% (Oct, p.13)	11.94% (Jan, p.14)	27.14% (July, p.13)	37.39% (June 2013, p.23)
75115VAA3	RALI Series 2006-QA9 Trust (P.S. dated Oct. 26, 2006)	Zero. (S-46)	1.31% (Nov, p.7)	4.73% (Jan, p.7)	5.97% (Apr, p.7)	16.55% (Oct, p.7)	26.21% (June 2013, p.7)

61. This early spike in delinquencies and defaults, which occurred almost immediately after these RMBS were purchased by the Credit Unions, was later discovered to be indicative of the Originators' systematic disregard of their stated underwriting guidelines.

62. The phenomenon of borrower default shortly after origination of the loans is

known as "Early Payment Default." Early Payment Default evidences borrower misrepresentations and other misinformation in the origination process, resulting from the systematic failure of the Originators to apply the underwriting guidelines described in the Offering Documents.

63. In January 2011, the Financial Stability Oversight Council ("FSOC"), chaired by United States Treasury Secretary Timothy Geithner, issued a report analyzing the effects of risk retention requirements in mortgage lending on the broader economy. *See* FIN. STABILITY OVERSIGHT COUNCIL, MACROECONOMIC EFFECTS OF RISK RETENTION REQUIREMENTS (2011) ("FSOC Risk Retention Report"). The FSOC Risk Retention Report focused on stabilizing the mortgage lending industry through larger risk retention requirements in the industry that can "incent better lending decisions" and "help to mitigate some of the pro-cyclical effects securitization may have on the economy." *Id*. at 2.

64. The FSOC Risk Retention Report observed that the securitization process often incentivizes poor underwriting by shifting the risk of default from the originators to the investors, while obscuring critical information concerning the actual nature of the risk. The FSOC Risk Retention Report stated:

> The securitization process involves multiple parties with varying incentives and information, thereby breaking down the traditional direct relationship between borrower and lender. The party setting underwriting standards and making lending decisions (the originator) and the party making structuring decisions (the securitizer) are often exposed to minimal or no credit risk. By contrast, the party that is most exposed to credit risk (the investor) often has less influence over underwriting standards and may have less information about the borrower. As a result, originators and securitizers that do not retain risk can, at least in the short run, maximize their own returns by lowering underwriting standards in ways that investors may have difficulty detecting. The originate-to-distribute model, as it was conducted, exacerbated this weakness by compensating originators and securitizers based on volume, rather than on quality.

Id. at 3.

65. Indeed, originators that wrote a high percentage of their loans for distribution were more likely to disregard underwriting standards, resulting in poorly performing mortgages, in contrast to originators that originated and then held most of their loans.

66. High OTD originators profited from mortgage origination fees without bearing the risks of borrower default or insufficient collateral in the event of default. Divorced from these risks, high OTD originators were incentivized to push loan quantity over quality.

67. Table 5 (*infra*) shows the percentage of loans originated for distribution relative to all the loans made by the Originators for the years 2005, 2006 and 2007, for those Originators in this Complaint with high OTD percentages. The data was obtained from the Home Mortgage Disclosure Act database.

Table 5
Originator "Originate-to-Distribute" Percentages

Originator Name	OTD % 2005	OTD% 2006	OTD % 2007
Countrywide Home Loans, Inc.	98.5	96.5	98.4
Credit Suisse Financial Corp.	48.4	74.8	91.4
Decision One Mortgage Company, LLC	97.5	88.2	97.3
Encore Credit Corp.	79.5	100	
GMAC Mortgage, LLC	89.4	85.1	91.8
Homecomings Financial, LLC	97.4	97.9	99.9
Lime Financial Services, Ltd.	65.6	88	99.3
Long Beach Mortgage Company		80.2	
New Century Mortgage Corporation	92.4	84.2	
OwnIt Mortgage Solutions, Inc.	100		
PHH Mortgage Corp.	96.3	92.9	85.6

Originator Name	OTD % 2005	OTD% 2006	OTD % 2007
Quicken Loans, Inc.	89.5	86.7	91.3

B. The Surge in Actual Versus Expected Cumulative Gross Losses is Evidence of the Originators' Systematic Disregard of Underwriting Standards

68. The actual defaults in the mortgage pools underlying the RMBS the Credit Unions purchased exceeded expected defaults so quickly and by so wide a margin that a significant portion of the mortgages could not have been underwritten as represented in the Offering Documents.

69. Every month, the RMBS trustee reports the number and outstanding balance of all loans in the mortgage pools that have defaulted. The running total of this cumulative default balance is referred to as the "gross loss."

70. When defaulted loans are foreclosed upon, the proceeds from the foreclosures are distributed to the investors and any shortfall on the defaulted loan balances is realized as a loss. The running total of this cumulative realized loss (defaulted loan balance minus recovery in foreclosure) is referred to as the "net loss."

71. "Actual loss" is the economic loss the mortgage pool experiences *in fact*. So "actual gross loss" is the *actual* cumulative sum of the balance of the loans in default for a particular security. Likewise, "actual net loss" is the *actual* cumulative realized loss on defaulted loans after foreclosure.

72. At the time a security is rated, the rating agency calculates an amount of "expected loss" using a model based on historical performance of similar securities. So "expected gross loss" is the *expected* cumulative sum of the balance of the loans in default for a particular security. Likewise, "expected net loss" is the *expected* cumulative realized loss on

defaulted loans after foreclosure. The amount of expected net loss drives the credit ratings assigned to the various tranches of RMBS.

73. Each credit rating has a "rating factor," which can be expressed in multiples of the amount of credit enhancement over expected net loss (in equation form: CE/ENL = RF). Thus, the rating factor expresses how many times the expected net loss is covered by credit enhancement. A "triple-A" rated security would have a rating factor of "5," so would require credit enhancement of five times the amount of the expected net loss. A "double-A rating" would have a rating factor of "4," and thus would require credit enhancement equaling four times the expected net loss. A "single-A" rating would have a rating factor of "3" and would require credit enhancement of three times expected net loss. A "Baa" rating would require credit enhancement of 2—1.5 times expected net loss, and a "Ba" rating or lower requires some amount of credit enhancement less than 1.5 times expected net loss.

74. Accordingly, by working backwards from this equation, one can infer expected net loss in an already-issued offering. For example, assume there is a $100 million offering backed by $100 million of assets, with a triple-A rated senior tranche with a principal balance of $75 million. This means the non-senior tranches, in aggregate, have a principal balance of $25 million. The $25 million amount of the non-senior tranches in this hypothetical offering serves as the credit enhancement for the senior tranche. Therefore, on our hypothetical $100 million offering, the expected net loss would be $5 million, which is the amount of the credit enhancement on the triple-A rated senior tranche—$25 million—divided by the rating factor for triple-A rated securities—5. The following equation illustrates: $25,000,000/5 = $5,000,000.

75. Expected gross loss can be then mathematically derived by applying an "expected recovery rate" to the expected net loss (EGL = ENL/(1 – ERR)).

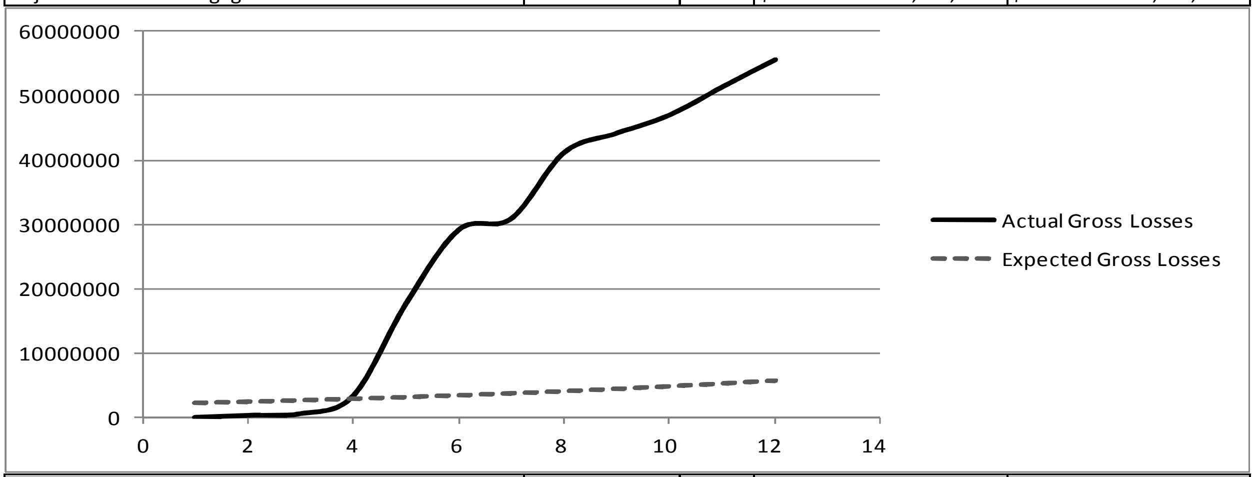
76. A comparison of actual gross losses to expected gross losses for a particular security can be made graphically by plotting the actual versus expected loss data on a line graph. Figure 2 (*infra*) is a series of such line graphs. Figure 2 illustrates the actual gross loss (again, actual defaults) the pools backing the RMBS purchased by the Credit Unions experienced in the first twelve months after issuance compared to the expected gross loss (again, expected defaults) for those pools during the same time period.

77. The actual gross loss data in Figure 2 (*infra*) was obtained from ABSNet, a resource for asset-backed securities related data. The expected gross losses were calculated by "grossing up" the rating-implied expected net losses using an expected recovery rate of 85%.

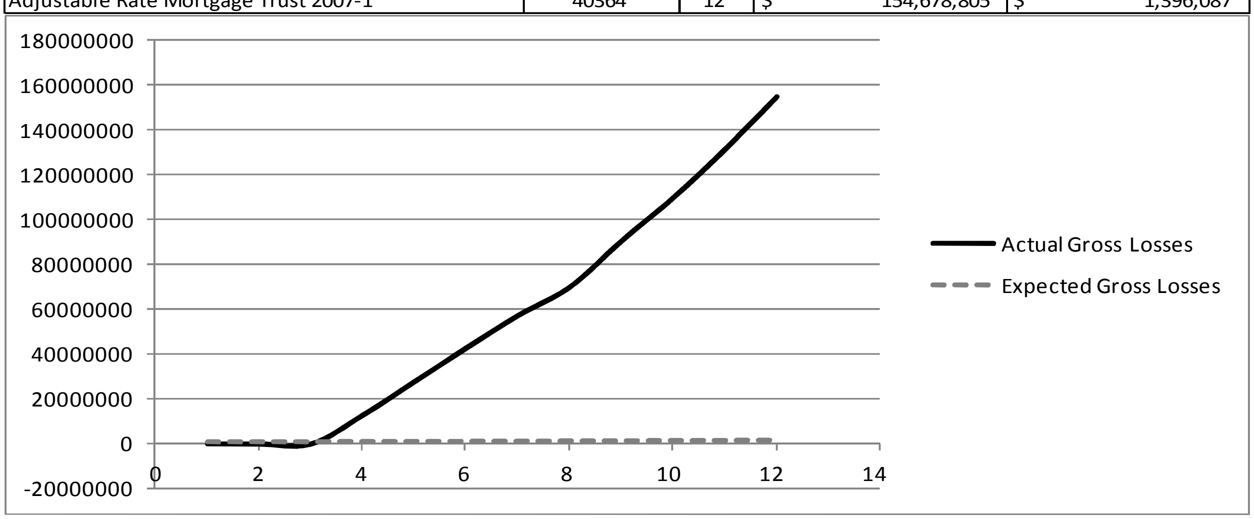
78. As the graphs show, the actual gross losses (the solid lines) far exceeded the expected gross losses (the dotted lines) for the period analyzed. That means that the actual balance of defaulted loans in the first twelve months following issuance far exceeded the expected balance of defaulted loans based on historical performance.

Figure 2
Illustration of Expected Gross Losses v. Actual Gross Losses for The Credit Unions' RMBS Purchases

Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Adjustable Rate Mortgage Trust 2006-3	38196	1	$ -	$ 2,229,875
Adjustable Rate Mortgage Trust 2006-3	38196	2	$ 326,812	$ 2,435,581
Adjustable Rate Mortgage Trust 2006-3	38196	3	$ 580,950	$ 2,659,833
Adjustable Rate Mortgage Trust 2006-3	38196	4	$ 3,340,414	$ 2,904,218
Adjustable Rate Mortgage Trust 2006-3	38196	5	$ 17,622,495	$ 3,170,446
Adjustable Rate Mortgage Trust 2006-3	38196	6	$ 29,114,455	$ 3,460,353
Adjustable Rate Mortgage Trust 2006-3	38196	7	$ 30,891,037	$ 3,775,907
Adjustable Rate Mortgage Trust 2006-3	38196	8	$ 41,128,769	$ 4,119,212
Adjustable Rate Mortgage Trust 2006-3	38196	9	$ 44,130,379	$ 4,492,516
Adjustable Rate Mortgage Trust 2006-3	38196	10	$ 46,968,061	$ 4,898,210
Adjustable Rate Mortgage Trust 2006-3	38196	11	$ 51,324,023	$ 5,338,836
Adjustable Rate Mortgage Trust 2006-3	38196	12	$ 55,563,984	$ 5,817,081



Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Adjustable Rate Mortgage Trust 2007-1	40364	1	$ -	$ 535,165
Adjustable Rate Mortgage Trust 2007-1	40364	2	$ -	$ 584,534
Adjustable Rate Mortgage Trust 2007-1	40364	3	$ -	$ 638,354
Adjustable Rate Mortgage Trust 2007-1	40364	4	$ 12,794,763	$ 697,006
Adjustable Rate Mortgage Trust 2007-1	40364	5	$ 27,788,176	$ 760,900
Adjustable Rate Mortgage Trust 2007-1	40364	6	$ 42,768,027	$ 830,477
Adjustable Rate Mortgage Trust 2007-1	40364	7	$ 57,234,074	$ 906,209
Adjustable Rate Mortgage Trust 2007-1	40364	8	$ 69,908,344	$ 988,602
Adjustable Rate Mortgage Trust 2007-1	40364	9	$ 90,447,210	$ 1,078,194
Adjustable Rate Mortgage Trust 2007-1	40364	10	$ 109,735,607	$ 1,175,560
Adjustable Rate Mortgage Trust 2007-1	40364	11	$ 131,292,401	$ 1,281,309
Adjustable Rate Mortgage Trust 2007-1	40364	12	$ 154,678,805	$ 1,396,087



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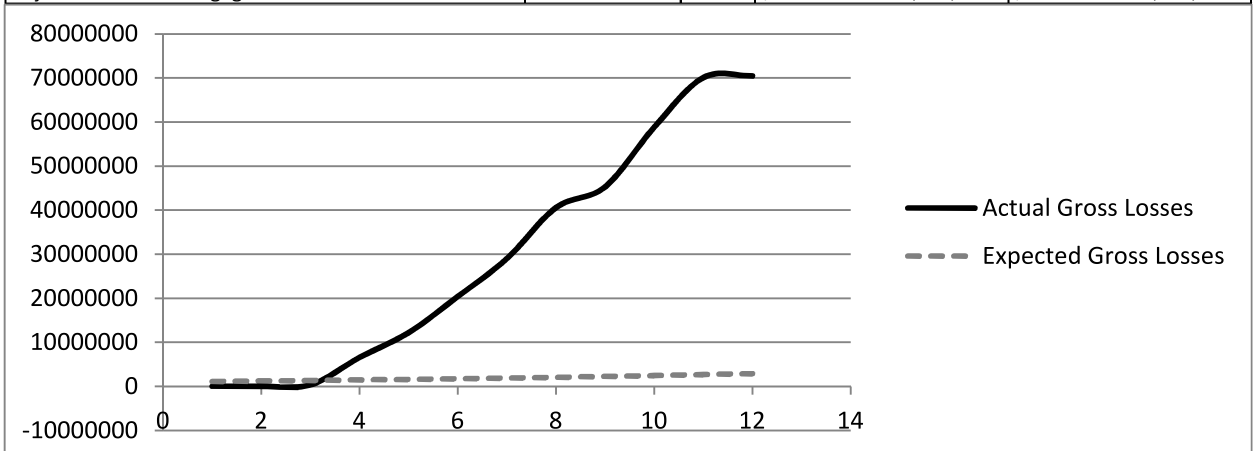
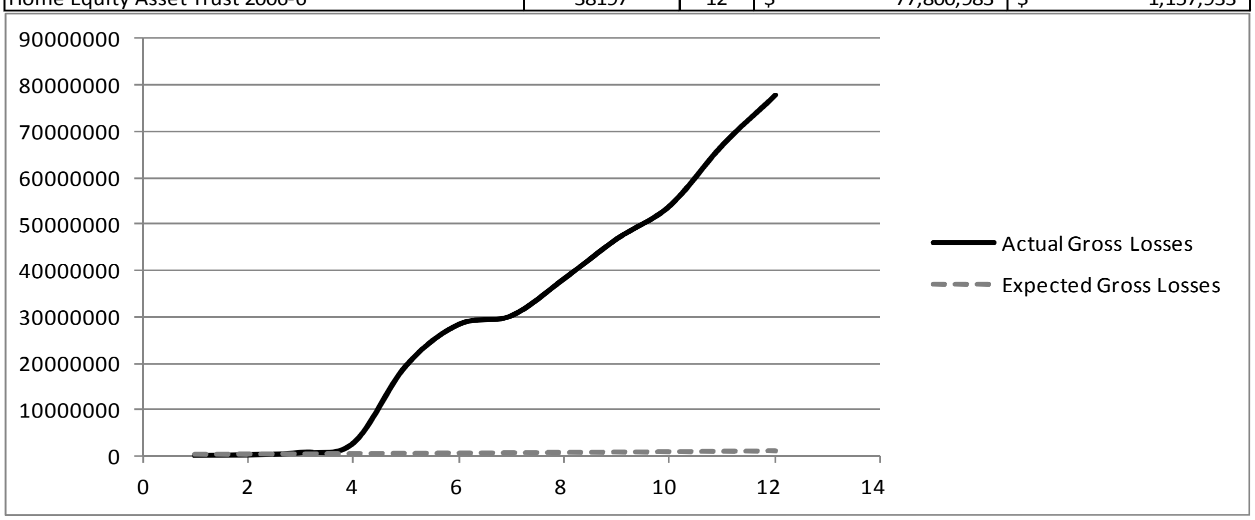
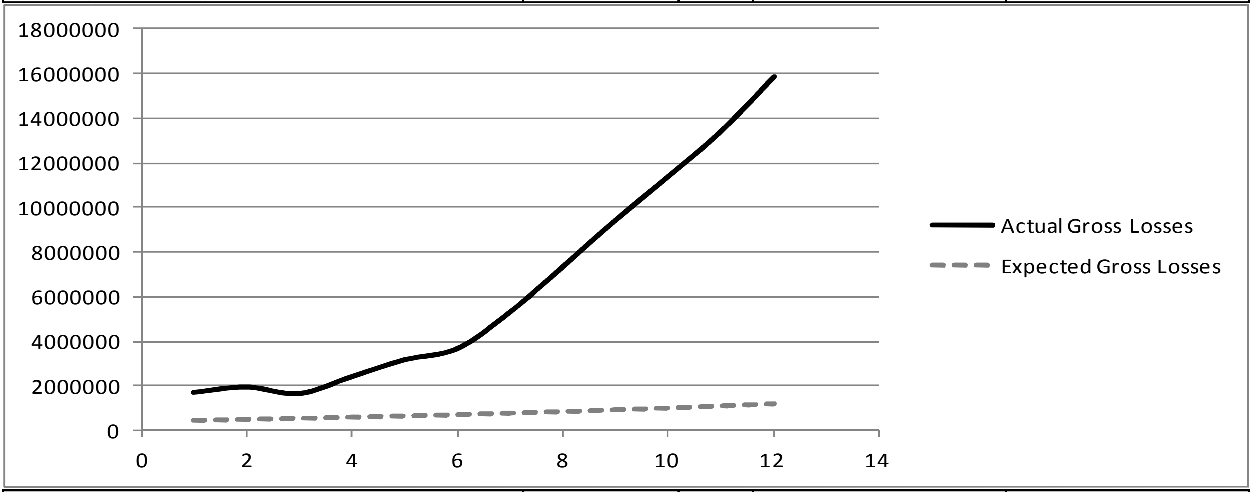
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Adjustable Rate Mortgage Trust 2007-2	41125	1	$ -	$ 1,112,920
Adjustable Rate Mortgage Trust 2007-2	41125	2	$ -	$ 1,215,587
Adjustable Rate Mortgage Trust 2007-2	41125	3	$ 351,943	$ 1,327,509
Adjustable Rate Mortgage Trust 2007-2	41125	4	$ 6,557,194	$ 1,449,480
Adjustable Rate Mortgage Trust 2007-2	41125	5	$ 12,212,953	$ 1,582,354
Adjustable Rate Mortgage Trust 2007-2	41125	6	$ 20,391,397	$ 1,727,045
Adjustable Rate Mortgage Trust 2007-2	41125	7	$ 29,003,016	$ 1,884,536
Adjustable Rate Mortgage Trust 2007-2	41125	8	$ 40,564,162	$ 2,055,878
Adjustable Rate Mortgage Trust 2007-2	41125	9	$ 45,290,591	$ 2,242,192
Adjustable Rate Mortgage Trust 2007-2	41125	10	$ 58,813,473	$ 2,444,672
Adjustable Rate Mortgage Trust 2007-2	41125	11	$ 70,086,742	$ 2,664,586
Adjustable Rate Mortgage Trust 2007-2	41125	12	$ 70,459,085	$ 2,903,276



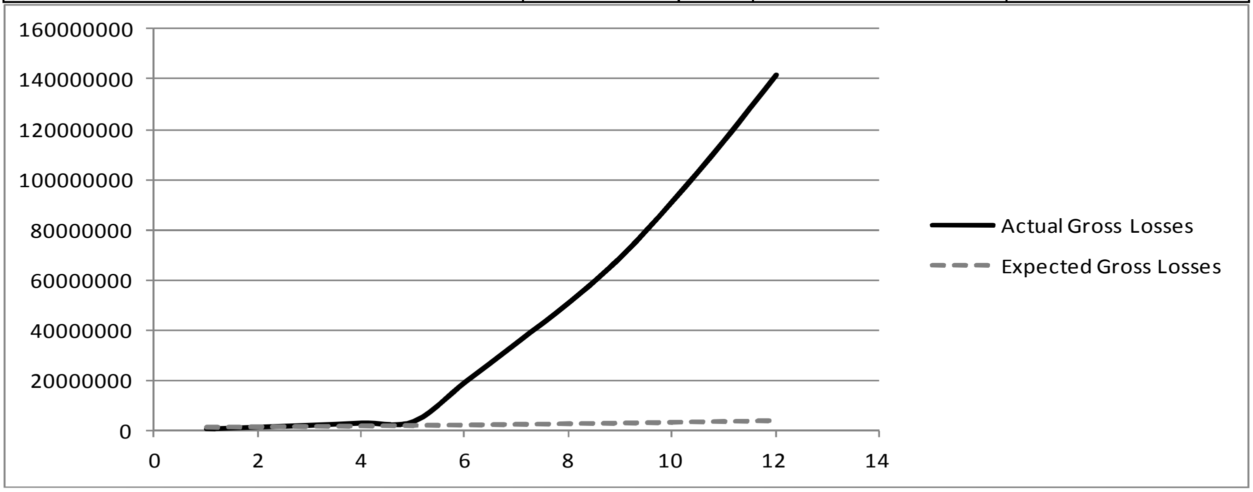
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Home Equity Asset Trust 2006-6	38197	1	$ -	$ 443,873
Home Equity Asset Trust 2006-6	38197	2	$ 210,573	$ 484,820
Home Equity Asset Trust 2006-6	38197	3	$ 684,425	$ 529,459
Home Equity Asset Trust 2006-6	38197	4	$ 2,687,893	$ 578,106
Home Equity Asset Trust 2006-6	38197	5	$ 19,430,183	$ 631,101
Home Equity Asset Trust 2006-6	38197	6	$ 28,344,697	$ 688,809
Home Equity Asset Trust 2006-6	38197	7	$ 30,211,988	$ 751,622
Home Equity Asset Trust 2006-6	38197	8	$ 38,236,652	$ 819,959
Home Equity Asset Trust 2006-6	38197	9	$ 46,803,605	$ 894,268
Home Equity Asset Trust 2006-6	38197	10	$ 53,933,301	$ 975,025
Home Equity Asset Trust 2006-6	38197	11	$ 67,043,237	$ 1,062,734
Home Equity Asset Trust 2006-6	38197	12	$ 77,800,983	$ 1,157,933



Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Home Equity Mortgage Trust 2006-2	37347	1	$ 1,684,192	$ 458,117
Home Equity Mortgage Trust 2006-2	37347	2	$ 1,925,343	$ 500,378
Home Equity Mortgage Trust 2006-2	37347	3	$ 1,629,366	$ 546,449
Home Equity Mortgage Trust 2006-2	37347	4	$ 2,393,307	$ 596,657
Home Equity Mortgage Trust 2006-2	37347	5	$ 3,148,437	$ 651,352
Home Equity Mortgage Trust 2006-2	37347	6	$ 3,656,185	$ 710,912
Home Equity Mortgage Trust 2006-2	37347	7	$ 5,305,085	$ 775,741
Home Equity Mortgage Trust 2006-2	37347	8	$ 7,348,948	$ 846,271
Home Equity Mortgage Trust 2006-2	37347	9	$ 9,442,405	$ 922,965
Home Equity Mortgage Trust 2006-2	37347	10	$ 11,404,532	$ 1,006,313
Home Equity Mortgage Trust 2006-2	37347	11	$ 13,437,963	$ 1,096,837
Home Equity Mortgage Trust 2006-2	37347	12	$ 15,877,363	$ 1,195,090



Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Home Equity Mortgage Trust 2007-2	40939	1	$ 685,551	$ 1,451,073
Home Equity Mortgage Trust 2007-2	40939	2	$ 1,424,781	$ 1,584,934
Home Equity Mortgage Trust 2007-2	40939	3	$ 2,130,227	$ 1,730,864
Home Equity Mortgage Trust 2007-2	40939	4	$ 3,040,955	$ 1,889,896
Home Equity Mortgage Trust 2007-2	40939	5	$ 3,658,996	$ 2,063,141
Home Equity Mortgage Trust 2007-2	40939	6	$ 19,419,037	$ 2,251,796
Home Equity Mortgage Trust 2007-2	40939	7	$ 35,143,595	$ 2,457,140
Home Equity Mortgage Trust 2007-2	40939	8	$ 50,981,469	$ 2,680,543
Home Equity Mortgage Trust 2007-2	40939	9	$ 69,111,682	$ 2,923,467
Home Equity Mortgage Trust 2007-2	40939	10	$ 91,312,800	$ 3,187,470
Home Equity Mortgage Trust 2007-2	40939	11	$ 115,542,170	$ 3,474,203
Home Equity Mortgage Trust 2007-2	40939	12	$ 141,490,792	$ 3,785,418



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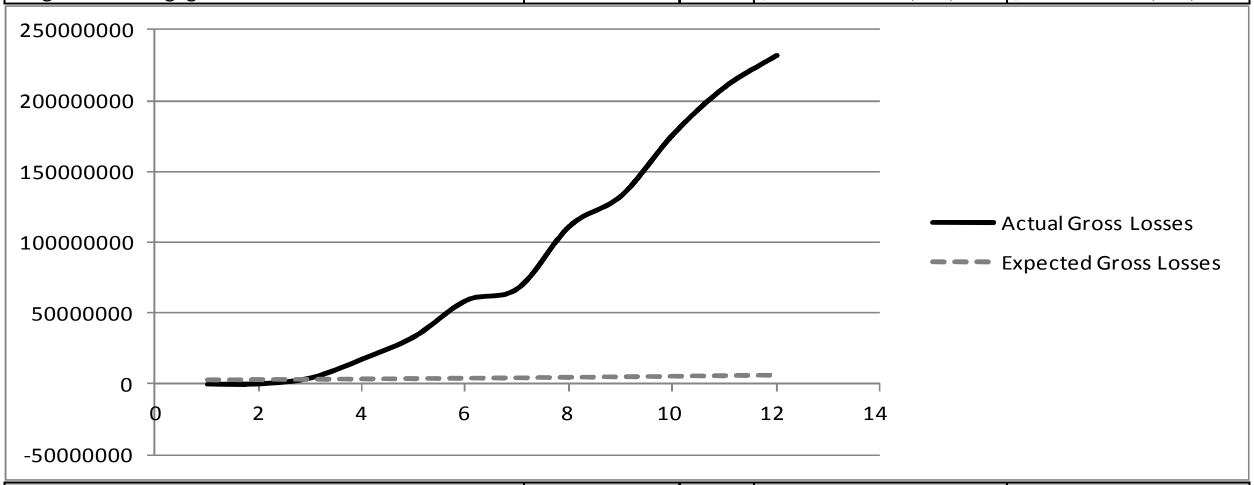
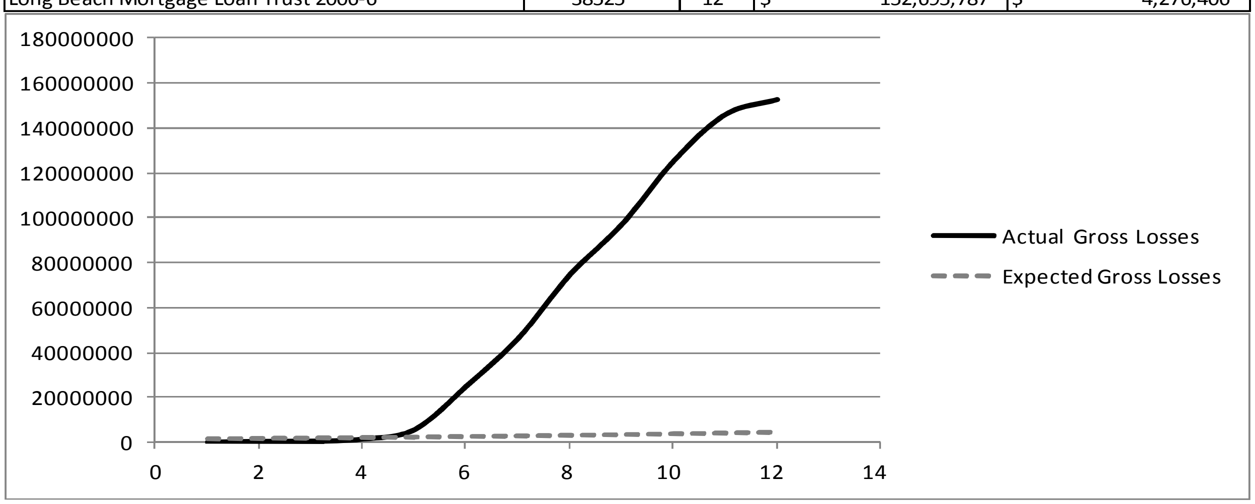
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Long Beach Mortgage Loan Trust 2006-1	36996	1	$ -	$ 2,526,211
Long Beach Mortgage Loan Trust 2006-1	36996	2	$ 412,789	$ 2,759,255
Long Beach Mortgage Loan Trust 2006-1	36996	3	$ 4,558,292	$ 3,013,307
Long Beach Mortgage Loan Trust 2006-1	36996	4	$ 17,923,483	$ 3,290,169
Long Beach Mortgage Loan Trust 2006-1	36996	5	$ 33,676,508	$ 3,591,778
Long Beach Mortgage Loan Trust 2006-1	36996	6	$ 59,010,091	$ 3,920,212
Long Beach Mortgage Loan Trust 2006-1	36996	7	$ 67,567,852	$ 4,277,701
Long Beach Mortgage Loan Trust 2006-1	36996	8	$ 111,424,480	$ 4,666,629
Long Beach Mortgage Loan Trust 2006-1	36996	9	$ 132,819,126	$ 5,089,542
Long Beach Mortgage Loan Trust 2006-1	36996	10	$ 175,866,230	$ 5,549,151
Long Beach Mortgage Loan Trust 2006-1	36996	11	$ 209,214,748	$ 6,048,333
Long Beach Mortgage Loan Trust 2006-1	36996	12	$ 231,278,960	$ 6,590,134



Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Long Beach Mortgage Loan Trust 2006-6	38525	1	$ -	$ 1,639,285
Long Beach Mortgage Loan Trust 2006-6	38525	2	$ 319,547	$ 1,790,509
Long Beach Mortgage Loan Trust 2006-6	38525	3	$ 377,735	$ 1,955,366
Long Beach Mortgage Loan Trust 2006-6	38525	4	$ 1,393,543	$ 2,135,025
Long Beach Mortgage Loan Trust 2006-6	38525	5	$ 5,696,825	$ 2,330,742
Long Beach Mortgage Loan Trust 2006-6	38525	6	$ 25,034,496	$ 2,543,866
Long Beach Mortgage Loan Trust 2006-6	38525	7	$ 46,350,200	$ 2,775,844
Long Beach Mortgage Loan Trust 2006-6	38525	8	$ 74,723,638	$ 3,028,224
Long Beach Mortgage Loan Trust 2006-6	38525	9	$ 97,059,070	$ 3,302,657
Long Beach Mortgage Loan Trust 2006-6	38525	10	$ 125,262,875	$ 3,600,901
Long Beach Mortgage Loan Trust 2006-6	38525	11	$ 146,042,055	$ 3,924,826
Long Beach Mortgage Loan Trust 2006-6	38525	12	$ 152,695,787	$ 4,276,406



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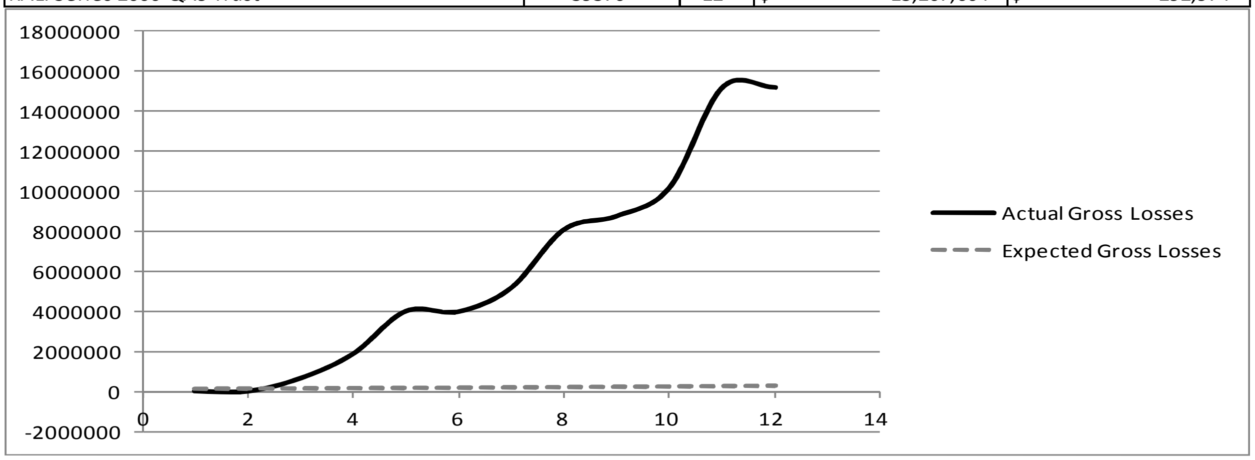
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
RALI Series 2006-QA9 Trust	39376	1	$ -	$ 112,306
RALI Series 2006-QA9 Trust	39376	2	$ -	$ 122,667
RALI Series 2006-QA9 Trust	39376	3	$ 648,000	$ 133,961
RALI Series 2006-QA9 Trust	39376	4	$ 1,877,729	$ 146,269
RALI Series 2006-QA9 Trust	39376	5	$ 4,010,278	$ 159,678
RALI Series 2006-QA9 Trust	39376	6	$ 3,985,061	$ 174,279
RALI Series 2006-QA9 Trust	39376	7	$ 5,188,344	$ 190,171
RALI Series 2006-QA9 Trust	39376	8	$ 8,102,714	$ 207,462
RALI Series 2006-QA9 Trust	39376	9	$ 8,770,754	$ 226,263
RALI Series 2006-QA9 Trust	39376	10	$ 10,205,885	$ 246,696
RALI Series 2006-QA9 Trust	39376	11	$ 15,210,288	$ 268,888
RALI Series 2006-QA9 Trust	39376	12	$ 15,207,664	$ 292,974



79. As clearly shown in Figure 2 (*supra*), actual gross losses spiked almost immediately after issuance of the RMBS. Borrowers defaulted on the underlying mortgages soon after loan origination, rapidly eliminating the RMBS's credit enhancement. For example, in the Adjustable Rate Mortgage Trust 2007-1 offering, actual gross losses at month 12 exceeded $154 million, or more than 110 times the expected gross losses of approximately $1.4 million. (*See supra* Figure 2).

80. This immediate increase in actual losses—at a rate far greater than expected losses—is strong evidence that the Originators systematically disregarded the underwriting standards in the Offering Documents.

81. Because credit enhancement is designed to ensure triple-A performance of triple-A rated RMBS, the evidence that credit enhancement has failed (*i.e.*, actual losses swiftly surged

past expected losses shortly after the offering) substantiates that a critical number of mortgages in the pool were not written in accordance with the underwriting guidelines stated in the Offering Documents.

C. The Collapse of the Certificates' Credit Ratings is Evidence of Systematic Disregard of Underwriting Guidelines

82. All of the RMBS certificates the Credit Unions purchased were rated triple-A at issuance.

83. Moody's and S&P have since downgraded the RMBS certificates the Credit Unions purchased to well below investment grade (*see supra* Table 3).

84. Triple-A rated product "should be able to withstand an extreme level of stress and still meet its financial obligations. A historical example of such a scenario is the Great Depression in the U.S." *Understanding Standard & Poor's Rating Definitions*, June 3, 2009, at 14.

85. A rating downgrade is material. The total collapse in the credit ratings of the RMBS certificates the Credit Unions purchased, typically from triple-A to non-investment speculative grade, is evidence of the Originators' systematic disregard of underwriting guidelines, amplifying that these RMBS were impaired from the outset.

D. Revelations Subsequent to the Offerings Show That the Originators Systematically Disregarded Underwriting Standards

86. Public disclosures subsequent to the issuance of the RMBS reinforce the allegation that the Originators systematically abandoned their stated underwriting guidelines.

1. The Systematic Disregard of Underwriting Standards Was Pervasive as Revealed After the Collapse

87. Mortgage originators experienced unprecedented success during the mortgage boom. Yet, their success was illusory. As the loans they originated began to significantly

underperform, the demand for their products subsided. It became evident that originators had systematically disregarded their underwriting standards.

88. The Office of the Comptroller of the Currency (the "OCC"), an office within the Treasury Department, published a report in November 2008 listing the "Worst Ten" metropolitan areas with the highest rates of foreclosures and the "Worst Ten" originators with the largest numbers of foreclosures in those areas ("2008 'Worst Ten in the Worst Ten' Report"). In this report the OCC emphasized the importance of adherence to underwriting standards in mortgage loan origination:

> The quality of the underwriting process—that is, determining through analysis of the borrower and market conditions that a borrower is highly likely to be able to repay the loan as promised—is a major determinant of subsequent loan performance. The quality of underwriting varies across lenders, a factor that is evident through comparisons of rates of delinquency, foreclosure, or other loan performance measures across loan originators.

89. Government reports and investigations and newspaper reports have uncovered the extent of pervasive abandonment of underwriting standards. The Permanent Subcommittee on Investigations in the United States Senate ("PSI") recently released its report detailing the causes of the financial crisis. Using Washington Mutual Bank as a case study, the PSI concluded through its investigation:

> Washington Mutual was far from the only lender that sold poor quality mortgages and mortgage backed securities that undermined U.S. financial markets. The Subcommittee investigation indicates that Washington Mutual was emblematic of a host of financial institutions that knowingly originated, sold, and securitized billions of dollars in high risk, poor quality home loans. These lenders were not the victims of the financial crisis; the high risk loans they issued became the fuel that ignited the financial crisis.

STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 112TH CONG., WALL STREET AND THE FINANCIAL CRISIS: ANATOMY OF A FINANCIAL COLLAPSE 50 (Subcomm. Print 2011).

90. Indeed, the Financial Crisis Inquiry Commission ("FCIC") issued its final report

in January 2011 that detailed, among other things, the collapse of mortgage underwriting standards and subsequent collapse of the mortgage market and wider economy. *See* FIN. CRISIS INQUIRY COMM'N, FINAL REPORT OF THE NATIONAL COMMISSION ON THE CAUSES OF THE FINANCIAL AND ECONOMIC CRISIS IN THE UNITED STATES (2011) ("FCIC Report").

91. The FCIC Report concluded that there was a "systemic breakdown in accountability and ethics." "Unfortunately—as has been the case in past speculative booms and busts—we witnessed an erosion of standards of responsibility and ethics that exacerbated the financial crisis." *Id*. at xxii. The FCIC found:

> [I]t was the collapse of the housing bubble—fueled by low interest rates, easy and available credit, scant regulation, and toxic mortgages—that was the spark that ignited a string of events, which led to a full-blown crises in the fall of 2008. Trillions of dollars in risky mortgages had become embedded throughout the financial system, as mortgage-related securities were packaged, repackaged, and sold to investors around the world.

Id. at xvi.

92. During the housing boom, mortgage lenders focused on quantity rather than quality, originating loans for borrowers who had no realistic capacity to repay the loan. The FCIC Report found "that the percentage of borrowers who defaulted on their mortgages within just a matter of months after taking a loan nearly doubled from the summer of 2006 to late 2007." *Id*. at xxii. Early Payment Default is a significant indicator of pervasive disregard for underwriting standards. The FCIC Report noted that mortgage fraud "flourished in an environment of collapsing lending standards…." *Id*.

93. In this lax lending environment, mortgage lenders went unchecked, originating mortgages for borrowers in spite of underwriting standards:

> Lenders made loans that they knew borrowers could not afford and that could cause massive losses to investors in mortgage securities. As early as September 2004, Countrywide executives recognized that many of the loans they were

> originating could result in "catastrophic consequences." Less than a year later, they noted that certain high-risk loans they were making could result not only in foreclosures but also in "financial and reputational catastrophe" for the firm. But they did not stop.

Id.

94. Lenders and borrowers took advantage of this climate, with borrowers willing to take on loans and lenders anxious to get those borrowers into the loans, ignoring even loosened underwriting standards. The FCIC Report observed: "Many mortgage lenders set the bar so low that lenders simply took eager borrowers' qualifications on faith, often with a willful disregard for a borrower's ability to pay." *Id*. at xxiii.

95. In an interview with the FCIC, Alphonso Jackson, the Secretary of the Department of Housing and Urban Affairs ("HUD") from 2004 to 2008, related that HUD had heard about mortgage lenders "running wild, taking applications over the Internet, not verifying people's income or their ability to have a job." *Id*. at 12-13 (internal quotation marks omitted).

96. Chairman of the Federal Reserve Board, Benjamin Bernanke, spoke to the decline of underwriting standards in his speech before the World Affairs Council of Greater Richmond on April 10, 2008:

> First, at the point of origination, underwriting standards became increasingly compromised. The best-known and most serious case is that of subprime mortgages, mortgages extended to borrowers with weaker credit histories. To a degree that increased over time, these mortgages were often poorly documented and extended with insufficient attention to the borrower's ability to repay. In retrospect, the breakdown in underwriting can be linked to the incentives that the originate-to-distribute model, as implemented in this case, created for the originators. Notably, the incentive structures often tied originator revenue to loan volume, rather than to the quality of the loans being passed up the chain. Investors normally have the right to put loans that default quickly back to the originator, which should tend to apply some discipline to the underwriting process. However, in the recent episode, some originators had little capital at stake, reducing their exposure to the risk that the loans would perform poorly.

Benjamin Bernanke, Chairman, Federal Reserve Board, Speech to the World Affairs Council of Greater Richmond, *Addressing Weaknesses in the Global Financial Markets: The Report of the President's Working Group on Financial Markets,* Apr. 10, 2008.

97. Investment banks securitized loans that were not originated in accordance with underwriting guidelines and failed to disclose this fact in RMBS offering documents. As the FCIC Report noted:

> The Commission concludes that firms securitizing mortgages failed to perform adequate due diligence on the mortgages they purchased and at times knowingly waived compliance with underwriting standards. Potential investors were not fully informed or were misled about the poor quality of the mortgages contained in some mortgage-related securities. These problems appear to have been significant.

FCIC Report at 187.

98. Because investors had limited or no access to information concerning the actual quality of loans underlying the RMBS, the OTD model created a situation where the origination of low quality mortgages through poor underwriting thrived. The FSOC found:

> In the originate-to-distribute model, originators receive significant compensation upfront without retaining a material ongoing economic interest in the performance of the loan. This reduces the economic incentive of originators and securitizers to evaluate the credit quality of the underlying loans carefully. Some research indicates that securitization was associated with lower quality loans in the financial crisis. For instance, one study found that subprime borrowers with credit scores just above a threshold commonly used by securitizers to determine which loans to purchase defaulted at significantly higher rates than those with credit scores below the threshold. By lower underwriting standards, securitization may have increased the amount of credit extended, resulting in riskier and unsustainable loans that otherwise may not have been originated.

FSOC Risk Retention Report at 11 (footnote omitted).

99. The FSOC reported that as the OTD model became more pervasive in the mortgage industry, underwriting practices weakened across the industry. The FSOC Risk Retention Report found "[t]his deterioration was particularly prevalent with respect to the

verification of the borrower's income, assets, and employment for residential real estate loans… ." *Id*.

100. In sum, the disregard of underwriting standards was pervasive across originators. The failure to adhere to underwriting standards directly contributed to the sharp decline in the quality of mortgages that became part of mortgage pools collateralizing RMBS. The lack of adherence to underwriting standards for the loans underlying RMBS was not disclosed to investors in the offering materials. The nature of the securitization process, with the investor several steps removed from the origination of the mortgages underlying the RMBS, made it difficult for investors to ascertain how the RMBS would perform.

101. As discussed below, facts have recently come to light that show many of the Originators who contributed to the loan pools underlying the RMBS at issue in this Complaint engaged in these underwriting practices.

2. Countrywide's Systematic Disregard of Underwriting Standards

102. Countrywide Home Loans, Inc. ("Countrywide") was one of the largest originators of residential mortgages in the United States during the time period at issue in this Complaint. Countrywide originated or contributed a material portion of the loans in the mortgage pool underlying the Adjustable Rate Mortgage Trust 2006-3 and the Adjustable Rate Mortgage Trust 2007-2 offerings. *See infra* Table 6.

103. In October 2009, the House Committee on Oversight and Government Reform launched an investigation into the entire subprime mortgage industry, including Countrywide, focusing on "whether mortgage companies employed deceptive and predatory lending practices, or improper tactics to thwart regulation, and the impact of those activities on the current crisis." Press Release, Comm. on Oversight & Government Reform, Statement of Chairman Towns on

Committee Investigation Into Mortgage Crisis at 1 (Oct. 23, 2009) (internal quotation marks omitted).

104. On May 9, 2008, the New York Times noted that minimal documentation and stated income loans—Countrywide's No Income/No Assets Program and Stated Income/Stated Assets Program—have "bec[o]me known [within the mortgage industry] as 'liars' loans' because many [of the] borrowers falsified their income." Floyd Norris, A Little Pity, Please, for Lenders, N.Y. Times, May 9, 2008, at C1.

105. In a television special titled, "*If You Had a Pulse, We Gave You a Loan*," Dateline NBC reported on March 27, 2009:

> To highlight just how simple it could be to borrow money, Countrywide marketed one of its stated-income products as the "Fast and Easy loan."
>
> As manager of Countrywide's office in Alaska, Kourosh Partow pushed Fast and Easy loans and became one of the company's top producers.
>
> He said the loans were "an invitation to lie" because there was so little scrutiny of lenders. "We told them the income that you are giving us will not be verified. The asset that you are stating will not be verified."
>
> He said they joked about it: "If you had a pulse, we gave you a loan. If you fog the mirror, give you a loan."
>
> But it turned out to be no laughing matter for Partow. Countrywide fired him for processing so-called "liar loans" and federal prosecutors charged him with crimes. On April 20, 2007, he pleaded guilty to two counts of wire fraud involving loans to a real estate speculator; he spent 18 months in prison.
>
> In an interview shortly after he completed his sentence, Partow said that the practice of pushing through loans with false information was common and was known by top company officials. "It's impossible they didn't know."
> …
>
> During the criminal proceedings in federal court, Countrywide executives portrayed Partow as a rogue who violated company standards.

> But former senior account executive Bob Feinberg, who was with the company for 12 years, said the problem was not isolated. "I don't buy the rogue. I think it was infested."
>
> He lamented the decline of what he saw as a great place to work, suggesting a push to be number one in the business led Countrywide astray. He blamed Angelo Mozilo, a man he long admired, for taking the company down the wrong path. It was not just the matter of stated income loans, said Feinberg. Countrywide also became a purveyor of loans that many consumer experts contend were a bad deal for borrowers, with low introductory interest rates that later could skyrocket.
>
> In many instances, Feinberg said, that meant borrowers were getting loans that were "guaranteed to fail."

Chris Hansen, *'If You Had a Pulse, We Gave You a Loan,'* NBC Dateline (Mar. 22, 2009) http://www.msnbc.msn.com/id/29827248/ns/dateline_nbc-the_hansen_files_with_chris_hansen.

106. On June 4, 2009, the SEC sued Angelo Mozilo and other Countrywide executives, alleging securities fraud. Specifically, the SEC alleged that Mozilo and the others misled investors about the credit risks that Countrywide created with its mortgage origination business, telling investors that Countrywide was primarily involved in prime mortgage lending, when it was actually heavily involved in risky sub-prime loans with expanded underwriting guidelines. *See* Compl. for Violations of the Federal Securities Laws, *SEC v. Mozilo*, No. CV 09-3994-JFW (C.D. Cal. filed June 4, 2009). Mozilo and the other executives settled the charges with the SEC for $73 million on October 15, 2010. *See* Walter Hamilton & E. Scott Reckard, *Angelo Mozilo, Other Former Countrywide Execs Settle Fraud Charges*, L.A. Times, Oct. 16, 2010, at A1.

107. Internal Countrywide e-mails the SEC released in connection with its lawsuit show the extent to which Countrywide systematically deviated from its underwriting guidelines. For instance, in an April 13, 2006 e-mail from Mozilo to other top Countrywide executives, Mozilo stated that Countrywide was originating home mortgage loans with "serious disregard for process, compliance with guidelines and irresponsible behavior relative to meeting timelines."

E-mail from Angelo Mozilo to Eric Sieracki and other Countrywide Executives (Apr. 13, 2006 7:42 PM PDT). Mozilo also wrote that he had "personally observed a serious lack of compliance within our origination system as it relates to documentation and generally a deterioration in the quality of loans originated versus the pricing of those loan[s]." *Id.* (internal quotation marks omitted).

108. Indeed, in September 2004, Mozilo had voiced his concern over the "clear deterioration in the credit quality of loans being originated," observing that "the trend is getting worse" because of competition in the non-conforming loans market. With this in mind, Mozilo argued that Countrywide should "seriously consider securitizing and selling ([Net Interest Margin Securities]) a substantial portion of [Countrywide's] current and future sub prime [sic] residuals." E-mail from Angelo Mozilo to Stan Kurland & Keith McLaughlin, Managing Directors, Countrywide (Sept. 1, 2004 8:17 PM PDT).

109. To protect themselves against poorly underwritten loans, parties that purchase loans from an originator frequently require the originator to repurchase any loans that suffer Early Payment Default.

110. In the first quarter of 2006, HSBC Holdings plc ("HSBC"), a purchaser of Countrywide's 80/20 subprime loans, began to force Countrywide to repurchase certain loans that HSBC contended were defective under the parties' contract. In an e-mail sent on April 17, 2006, Mozilo asked, "[w]here were the breakdowns in our system that caused the HSBC debacle including the creation of the contract all the way through the massive disregard for guidelines set forth by both the contract and corporate." E-mail from Angelo Mozilo to Dave Sambol, former Executive Managing Director and Chief of Mortgage Banking and Capital Markets at Countrywide Financial (Apr. 17, 2006 5:55 PM PST). Mozilo continued:

> In all my years in the business I have never seen a more toxic prduct. [sic] It's not only subordinated to the first, but the first is subprime. In addition, the [FICOs] are below 600, below 500 and some below 400 . . . . With real estate values coming down . . . the product will become increasingly worse. There has [sic] to be major changes in this program, including substantial increases in the minimum [FICO].

Id.

111. Countrywide sold a product called the "Pay Option ARM." This loan was a 30-year adjustable rate mortgage that allowed the borrower to choose between various monthly payment options, including a set minimum payment. In a June 1, 2006 e-mail, Mozilo noted that most of Countrywide's Pay Option ARMs were based on stated income and admitted that "[t]here is also some evidence that the information that the borrower is providing us relative to their income does not match up with IRS records." E-mail from Angelo Mozilo to Carlos Garcia, former CFO of Countrywide Financial and Jim Furash, former President of Countrywide Bank (June 1, 2006 10:38 PM PST).

112. An internal quality control report e-mailed on June 2, 2006, showed that for stated income loans, 50.3% of loans indicated a variance of 10% or more from the stated income in the loan application. *See* E-mail from Clifford Rossi, Chief Risk Officer, Countrywide, to Jim Furash, Executive, CEO, Countrywide Bank, N.A., among others (June 2, 2006 12:28 PM PDT).

113. Countrywide, apparently, was "flying blind" on how one of its popular loan products, the Pay Option ARM loan, would perform, and admittedly, had "no way, with any reasonable certainty, to assess the real risk of holding these loans on [its] balance sheet." E-mail from Angelo Mozilo to Dave Sambol, Managing Director Countrywide (Sept. 26, 2006 10:15 AM PDT). Yet such loans were securitized and passed on to unsuspecting investors such as the Credit Unions.

114. With growing concern over the performance of Pay Option ARM loans in the

waning months of 2007, Mozilo advised that he "d[id]n't want any more Pay Options originated for the Bank." E-mail from Angelo Mozilo Countrywide to Carlos Garcia, former Managing Director, Countrywide (Nov. 3, 2007 5:33 PM PST). In other words, if Countrywide was to continue to originate Pay Option ARM loans, it was not to hold onto the loans. Mozilo's concerns about Pay Option ARM loans were rooted in "[Countrywide's] inability to underwrite [Pay Option ARM loans] combined with the fact that these loans [we]re inherently unsound unless they are full doc, no more than 75% LTV and no piggys." *Id.*

115. In a March 27, 2006 e-mail, Mozilo reaffirmed the need to "oversee all of the corrective processes that will be put into effect to permanently avoid the errors of both judgement [sic] and protocol that have led to the issues that we face today" and that "the people responsible for the origination process understand the necessity for adhering to the guidelines for 100% LTV sub-prime product. This is the most dangerous product in existence and there can be nothing more toxic and therefore requires that no deviation from guidelines be permitted irrespective of the circumstances." E-mail from Angelo Mozilo to the former Countrywide Managing Directors (Mar. 27, 2006 8:53 PM PST).

116. Yet Countrywide routinely found exceptions to its underwriting guidelines without sufficient compensating factors. In an April 14, 2005 e-mail, Frank Aguilera, a Countrywide managing director, explained that the "spirit" of Countrywide's exception policy was not being followed. He noted a "significant concentration of similar exceptions" that "denote[d] a divisional or branch exception policy that is out side [sic] the spirit of the policy." E-mail from Frank Aguilera, Managing Director, Countrywide, to John McMurray, Managing Director, Countrywide (Apr. 14, 2005 12:14 PM PDT). Aguilera continued: "The continued concentration in these same categories indicates either a) inadequate controls in place to mange

[sic] rogue production units or b) general disregard for corporate program policies and guidelines." *Id.* Aguilera observed that pervasive use of the exceptions policy was an industry-wide practice:

> It appears that [Countrywide Home Loans]' loan exception policy is more loosely interpreted at [Specialty Lending Group] than at the other divisions. I understand that [Correspondent Lending Division] has decided to proceed with a similar strategy to appease their complaint customers. . . . [Specialty Lending Group] has clearly made a market in this unauthorized product by employing a strategy that Blackwell has suggested is prevalent in the industry. . . .

Id.

117. Internal reports months after an initial push to rein in the excessive use of exceptions with a "zero tolerance" policy showed the use of exceptions remained excessive. E-mail from Frank Aguilera, Managing Director, Countrywide, to Brian Kuelbs, Managing Director, Countrywide, among others (June 12, 2006 10:13 AM PDT).

118. In February 2007, nearly a year after pressing for a reduction in the overuse of exceptions and as Countrywide claimed to be tightening lending standards, Countrywide executives found that exceptions continued to be used at an unacceptably high rate. Frank Aguilera stated that any "[g]uideline tightening should be considered purely optics with little change in overall execution unless these exceptions can be contained." E-mail from Frank Aguilera, Managing Director, Countrywide, to Mark Elbuam, Managing Director, Countrywide, among others (Feb. 21, 2007 4:58 PM PST).

119. John McMurray, a former Countrywide managing director, expressed his opinion in a September 2007 e-mail that "the exception process has never worked properly." E-mail from John McMurray, Managing Director, to Jess Lederman, Managing Director, Countrywide (Sept. 7, 2007 10:12 AM PDT).

120. Countrywide conceded that the poor performance of loans it originated was, in

many cases, due to poor underwriting. In April 2007, Countrywide noticed that its high CLTV ratio stated income loans were performing worse than those of its competitors. After reviewing many of the loans that went bad, a Countrywide executive stated that "in most cases [poor performance was] due to poor underwriting related to reserves and verification of assets to support reasonable income." E-mail from Russ Smith, Countrywide to Andrew Gissinger, Managing Director, Countrywide (Apr. 11, 2007 7:58 AM PDT).

121. On October 6, 2008, 39 states announced that Countrywide agreed to pay up to $8 billion in relief to homeowners nationwide to settle lawsuits and investigations regarding Countrywide's deceptive lending practices.

122. On July 1, 2008, NBC Nightly News aired the story of a former Countrywide regional Vice President, Mark Zachary, who sued Countrywide after he was fired for questioning his supervisors about Countrywide's poor underwriting practices.

123. According to Zachary, Countrywide pressured employees to approve unqualified borrowers. Countrywide's mentality, he said, was "what do we do to get one more deal done. It doesn't matter how you get there [i.e., how the employee closes the deal] . . . ." NBC Nightly News, Countrywide Whistleblower Reports "Liar Loans" (July 1, 2008) ("July 1, 2008 NBC Nightly News"). Zachary also stated that the practices were not the work of a few bad apples, but rather: "It comes down, I think from the very top that you get a loan done at any cost." *Id.*

124. Zachary also told of a pattern of: 1) inflating home appraisals so buyers could borrow enough to cover closing costs, but leaving the borrower owing more than the house was truly worth; 2) employees steering borrowers who did not qualify for a conventional loan into riskier mortgages requiring little or no documentation, knowing they could not afford it; and 3) employees coaching borrowers to overstate their income in order to qualify for loans.

125. NBC News interviewed six other former Countrywide employees from different parts of the country, who confirmed Zachary's description of Countrywide's corrupt culture and practices. Some said that Countrywide employees falsified documents intended to verify borrowers' debt and income to clear loans. NBC News quoted a former loan officer: "'I've seen supervisors stand over employees' shoulders and watch them . . . change incomes and things like that to make the loan work.'" July 1, 2008 NBC Nightly News.

126. Not surprisingly, Countrywide's default rates reflected its approach to underwriting. *See* 2008 "Worst Ten in the Worst Ten" Report. Countrywide appeared on the top ten list in six of the ten markets: 4th in Las Vegas, Nevada; 8th in Sacramento, California; 9th in Stockton, California and Riverside, California; and 10th in Bakersfield, California and Miami, Florida. When the OCC issued its updated 2009 "Worst Ten in the Worst Ten" Report, Countrywide appeared on the top ten list in every market, holding 1st place in Las Vegas, Nevada; 2nd in Reno, Nevada; 3rd in Merced, California; 6th in Fort Myers-Cape Coral, Florida, Modesto, California, and Stockton-Lodi, California; 7th in Riverside-San Bernardino, California and Fort Pierce-Port St. Lucie, Florida; 8th in Vallejo-Fairfield-Napa, California; and 9th in Bakersfield, California. *See* 2009 "Worst Ten in the Worst Ten" Report.

3. Decision One's Systematic Disregard of Underwriting Standards

127. Decision One Mortgage Co., LLC ("Decision One") was a major lender specializing in "mortgage loans that are commonly referred to as Alt-A lending options, and non-conforming or sub-prime loans." In 2006, Decision One ranked as the 14th largest subprime lender in the nation. Decision One contributed a critical number of mortgage loans to the Home Equity Asset Trust 2006-6 offering. *See infra* Table 6.

128. A complaint filed by Allstate Insurance Company contains allegations based on

confidential witness statements in which former Decision One employees "described Decision One's lax attitude towards its own origination and underwriting standards and explained that Decision One had been approving loans that should have never been issued." *Allstate Ins. Co. v. Morgan Stanley*, Case No. 651840/2011, 2011 WL 2634724, ¶ 95 (N.Y. Sup. filed July 5, 2011). On March 15, 2013, the Court granted Morgan Stanley's Motion to Dismiss with respect to a negligent misrepresentation claim, but denied the Motion in all other respects.

129. According to testimony and documents submitted to the FCIC by a Clayton executive, during 2006 and the first half of 2007, Clayton reviewed 911,039 loans issued by originators, including Decision One, for securitization. Clayton determined over 10% of Decision One's loans did not comply with its underwriting guidelines and had no compensating factors. *See* Clayton All Trending Report at 10, *available at* http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0923-Clayton-All-Trending-Report.pdf.

130. Decision One's reckless lending practices earned it a spot on the OCC's 2009 "Worst Ten in the Worst Ten" list.

4. GMAC's Systematic Disregard of Underwriting Standards

131. GMAC Bank n/k/a Ally Bank and GMAC Mortgage originated or contributed a material portion of the loans in the mortgage pool underlying the RALI Series 2006-QA9 Trust offering. *See infra* Table 6.

132. GMAC's abandonment of its underwriting guidelines is at issue in suits filed by MBIA, Inc. MBIA was a monoline insurer for loans in RMBS. *See* Compl., *MBIA Ins. Corp. v. Ally Fin., Inc.*, No. 12-18889 (MN Ct., Hennepin Cnty. filed Sept. 17, 2012) ("*MBIA v. Ally* Compl."); Compl., *MBIA Ins. Corp. v. GMAC Mortg., LLC*, No. 600837/2010 (N.Y. Sup. Ct. filed Apr. 1, 2010) ("*MBIA v. GMAC* Compl.").

133. MBIA's suits concern loans underlying the GMACM 2004-HE4 and GMACM 2007-HE1. Ally Bank f/k/a GMAC Bank and GMAC Mortgage were the principal originators for the loans in these offerings. *MBIA v. Ally* Compl. ¶¶ 7, 45; *MBIA v. GMAC* Compl. ¶¶ 2, 44.

134. After sustaining large losses, MBIA conducted forensic analyses of loans underlying these offerings. MBIA found material breaches of representations and warranties in more than 89% of the loans from GMAC Mortgage. These breaches included:

- GMAC Mortgage egregiously and routinely breached its representation and warranty that the mortgage loans were underwritten generally in compliance with GMAC Mortgage's underwriting standards.

- A significant number of mortgage loans were made on the basis of "stated incomes" that were grossly unreasonable or were approved despite DTI or CLTV ratios in excess of the cut-offs stated in GMAC Mortgage's Underwriting Guidelines or the Purchase Agreements or Prospectus Supplements.

- Moreover, contrary to its Underwriting Guidelines, GMAC Mortgage failed in many cases to verify the borrower's employment when required to do so or to verify prior rental or mortgage payment history, approved mortgage loans with ineligible collateral, approved mortgage loans to borrowers with ineligible credit scores, and approved loans without verifying that the borrower had sufficient funds or reserves.

- GMAC Mortgage used its proprietary automated electronic loan underwriting program, known as "Assetwise," to approve loans that did not comply with its Underwriting Guidelines. Assetwise assisted in the underwriting of mortgage loans by automating the process of determining whether a loan met prespecified underwriting criteria set up in the program. GMAC Mortgage used the program itself and also made the program available to its affiliates. Assetwise, however, failed to analyze proposed mortgage loans using the criteria set forth in GMAC Mortgage's Underwriting Guidelines. As a result, GMAC Mortgage routinely contributed loans to the Transactions that failed to comply with its own underwriting standards.

MBIA v. GMAC Compl. ¶ 76; *see MBIA v. Ally* Compl. ¶¶ 76-83; *MBIA v. GMAC* Compl. ¶¶ 70-79.

135. Representative examples of the breaches encountered by the MBIA include:

- On January 25, 2006, a loan in the amount of $210,000 was made to a borrower in Vacaville, California on a property with an original appraisal value of $460,000 and a senior loan balance of $368,150. The borrower was employed as a correctional officer by the State of California. The loan was approved based on a DTI that was calculated using the borrower's highest reported monthly income, rather than his average income over a 33-month period, as is required by the Underwriting Guidelines. As a result, the true DTI on the loan was 65.56%, which exceeded the maximum ratio of 50% permitted under the applicable loan program. The CLTV ratio of 125.68% also exceeded the maximum CLTV ratio of 100% permitted under the Guidelines. The loan has been charged-off (Loan # 8601487693 — 2004 Transaction.)

- On April 20, 2007, a loan in the amount of $40,000 was made to co-borrowers in Vernon, New Jersey on a property with an original appraisal value of $305,000 and a senior loan balance of $244,000. The loan file is incomplete and lacks, among other documents, verbal verification of either borrower's employment, evidence of sufficient closing funds and reserves, an appraisal, a copy of the note from the senior lien, and the borrowers' credit reports. Further, the loan was approved even though the income stated by each borrower was unreasonable. One claimed to earn $4,583 per month as a counter manager at a discount tire store though, for example, salary.com, a website which maintains a national salary database based on job title and zip code, reports that the income at the 90th percentile for such a position is only $2,801 per month. The second borrower claimed to earn $59,592 annually as a sales associate at a home improvement store, but an income verification database showed that the borrower earned only $28,092 in 2006 and $32,977 in 2007. The loan has been charged-off (Loan # 1000117685 — 2006 Transaction.)

- On December 15, 2006, a loan in the amount of $22,000 was made to a borrower in Medford, Oregon on a property with an original appraisal value of $220,000 and a senior loan balance of $176,000. The loan file is missing many documents that bear upon the borrower's ability to repay and are required to be included in the file, including: verification of down payment funds, a CPA letter, an appraisal, a twelve-month housing history, a copy of the first mortgage, a preliminary title commitment, a credit report, and the final loan application. Moreover, although the borrower, an operator at a drywall company, had declared bankruptcy prior to applying for the loan, the loan file lacks documentation that the bankruptcy had been discharged for at least three years, as required by the Guidelines. The loan has been charged off. (Loan # 8254682837 – 2007 Transaction.)

- On January 23, 2007, a loan with a principal balance of $100,000 was made to a borrower in Yuma, Arizona on a property with an original appraisal value of $298,000 and a senior loan balance of $129,035. The borrowers claimed on their loan application that their combined income was $113,520 per year. However, on May 12, 2009, the borrowers jointly filed for bankruptcy under Chapter 7, and their court filings indicated that they earned only $13,085 in 2007 and $17,650 in 2008. Moreover, no record of the borrower's claimed employer can be located on websites commonly used to verify the existence of a business: manta.com or yellowpages.com. The loan has been charged-off. (Loan # 8254730412 – 2007 Transaction.)

MBIA v. GMAC Compl. ¶ 78.

136. Both suits are still pending. The Court in *MBIA v. GMAC* denied a motion to dismiss; there have been no rulings in *MBIA v. Ally*. *See MBIA v. GMAC*, 914 N.Y.S.2d 604 (N.Y. Sup. Ct. 2010); *MBIA v. RFC*, Order, No. 603552/08 (N.Y. Sup. Ct. Dec. 22, 2009).

137. GMAC's disregard of its underwriting guidelines has led to the repurchase of loans it had sold to Fannie Mae. As of September 10, 2010, Fannie Mae had required GMAC to repurchase 2,887 loans because of violations of representations and warranties regarding those loans. They had a total unpaid principal balance of $544 million. *See* Letter to Gary Cohen, FCIC (Sept. 21, 2010), Attach. "Total Aggregate Recovery, Data as of 8/31/2010," at 1, *available at* http://fcic-static.law.stanford.edu/cdn_media/fcic-docs/2010-09-21%20Fannie%20Mae%20Counsel%20letter%20to%20the%20FCIC.pdf.

5. Homecomings's Systematic Disregard of Underwriting Standards

138. Homecomings Financial, LLC f/k/a Homecomings Financial Network, Inc.

("Homecomings") originated or contributed a material portion of the loans in the mortgage pool underlying the RALI Series 2006-QA9 Trust offering and is a wholly-owned subsidiary of the sponsor of those offerings, Residential Funding Co., LLC f/k/a Residential Funding Corp. ("RFC"). *See infra* Table 6.

139. Following the purchase of RALI Series 2006-QA9 Trust offering by the Southwest, public disclosures revealed that Homecomings systematically disregarded its underwriting guidelines in favor of riskier, fee-driven mortgage lending practices including subprime, Alt-A and option-ARM loans, and engaged in predatory lending.

140. The Federal Trade Commission opened an investigation into Homecomings mortgage lending and underwriting practices, closing the investigation in January 2009, after Homecomings ceased mortgage loan origination. *See* Letter from Peggy L. Twohig, Associate Dir., Div. of Fin. Practices, Bur. of Consumer Protection, Federal Trade Commission, to Andrew Sandler, Skadden, Arps (counsel for Homecomings) (Jan. 22, 2009).

141. In March 2009, the Portland Tribune reported that Homecomings lending practices allowed for the origination of shaky loans that precipitated a wave of foreclosures. The article reported:

> "In order to keep your market share, you had to be more aggressive," said Tim Boyd, who sold subprime loans in the Portland area for six years and then Alt A loans for seven years for Homecomings Financial.
>
> "The main focus was doing Alt A because that's where the money was," said Boyd, who left the industry. A loan officer arranging a $300,000 Option ARM loan could collect $10,500 in fees, he said.
>
> Lenders could unload shaky loans by selling them to investors, who often resold them in what amounted to a worldwide game of financial musical chairs. Wall Street's insatiable appetite for more loans kept the pipeline filled, even if the deals weren't always sound.

> "The V.P.s came down to the office beating the drums about Option ARMs," urging mortgage brokers to sell them to customers, [Bill Ridge, owner of Ridge Mortgage Services] said. "I had Wachovia march through there; I had GMAC."
> . . . .
>
> He said he knows of loan officers who'd tell title agents to keep quiet about Option ARM loan provisions during document-signing time.
>
> "They'd tell the title officer, 'Don't go over this; just glean through it quickly and get the thing signed."'
>
> Tim Boyd said he drew the line at selling Option ARMs because he saw how that could get people into trouble. "It made me sick," he said.

Steve Law, *Shaky Loans May Spur New Foreclosure Wave*; *Unraveling 'Alt A' Mortgages Could Keep Portland Housing Market Dismal*, PORTLAND TRIB., Mar. 5, 2009.

142. Homecomings' origination practices are also at issue in *Federal Home Loan Bank of Chicago v. Banc of America Funding Corp.*, No. 10 CH 45033 (Ill. Cir. Ct. Cook Cty. filed Oct. 15, 2010). There, the Federal Home Loan Bank of Chicago ("FHLB Chicago") alleges that Homecomings systemically disregarded its underwriting guidelines when originating mortgages that were subsequently collateralized RMBS. *See* FHLB Chicago Am. Compl.

143. Statements from confidential witnesses in the FHLB Chicago Complaint represented that Homecomings originated mortgage loans in violation of its stated underwriting standards.

144. According to two confidential witnesses in the FHLB Chicago Complaint, the first who was a Homecomings underwriter from January 2006 until December 2006 and the second who was a Homecomings underwriter from May 2005 until October 2007, Homecomings made loans to borrowers who clearly could not make the monthly payments, approved high-risk low-doc or no-documentation loans, approved exceptions with no reasonable compensating factors, and widely abandoned underwriting practices. *See id.* ¶ 447.

145. Those two confidential witnesses described the two different automatic underwriting systems that Homecomings employed to underwrite loans: (1) Desktop Underwriter, and (2) Assetwise. According to the second confidential witness, Homecomings' employees purposefully chose to use Desktop Underwriter for subprime loan applications from low-income applicants because it approved loans with a higher debt-to-income ratio than Assetwise would approve. *See id.* ¶ 450.

146. The first confidential witness described how the Assetwise program required an employee to simply enter in a borrower's information and the program would yield its findings. The confidential witness explained that "one of [her] problems was that [a loan application] would fit inside the guidelines, but if you read between the lines, you could see that the borrower was not going to be able to make the payments." When the confidential witness raised these pressing concerns to her supervisor, she received unambiguous directions: "It fits, you do the loan. We're going to do this deal." *Id.* ¶ 451.

147. The second confidential witness reported that no matter which automated underwriting system employees chose to use, nearly all of the loan applications were approved. Once the loan application was approved by the automated underwriting system, the underwriters could not reverse the approval. *See id.* ¶ 452.

148. The first confidential witness described how mortgage brokers would appeal loans initially denied until Homecomings supervisors signed off on the loans. The second confidential witness said loan officers were instructed to search for compensating factors that would enable them to approve the loan despite the presence of "red flags." *Id.* ¶¶ 453-54.

149. The FHLB complaint survived the defendants' motion to dismiss. FHLB Ill. Order.

150. Homecomings' underwriting practices are implicated in three lawsuits filed by MBIA, Inc. MBIA provided monoline insurance, a form of credit enhancement, for RMBS containing Homecomings-originated loans. In its suits, MBIA alleges misrepresentations regarding the quality of the loans underlying the RMBS that it insured. Except for one, the RMBS in MBIA's suits were issued in 2006 and 2007. *See* Compl., *MBIA Ins. Corp. v. Ally Fin., Inc.*, No. 12-18889 (MN Ct., Hennepin Cnty. filed Sept. 17, 2012) ("*MBIA v. Ally* Compl."); Compl., *MBIA Ins. Corp. v. GMAC Mortg., LLC*, No. 600837/2010 (N.Y. Sup. Ct. filed Apr. 1, 2010) ("*MBIA v. GMAC* Compl."); Compl., *MBIA Ins. Corp. v. Residential Funding Co.*, No. 603552/2008 (N.Y. Sup. Ct. filed Dec. 4, 2008) ("*MBIA v. RFC* Compl.").

151. The defendants in those suits include Ally Financial, Inc., RFC, and GMAC Mortgage, LLC ("GMAC Mortgage"). RFC, GMAC Mortgage, and Homecomings were all subsidiaries of GMAC Mortgage Group, LLC, which is now a subsidiary of Ally Financial. *See* Ally Financial, Inc., Form 10-K, Ex. 21 (2011); GMAC LLC, Form 10-K, Ex. 21 (2006).

152. RFC and GMAC Mortgage sponsored the RMBS that MBIA insured. RFC also sponsored each of the RALI Series 2006-QA9 Trust at issue in this suit.

153. Homecomings originated many of the loans underlying the RMBS at issue in MBIA's suits. *See also MBIA v. Ally* Compl. ¶¶ 5, 25 (alleging Homecomings originated many of the loans in RMBS sponsored by RFC and GMAC Mortgage).

154. After sustaining large losses, MBIA conducted forensic analyses of several thousand loans underlying the RMBS sponsored by RFC and GMAC, many of which were originated by Homecomings. MBIA found material misrepresentations in over 89% of those loans from GMAC-sponsored RMBS and over 93% of those loans from RFC-sponsored RMBS. The material misrepresentations included, among other things, routine disregard of underwriting

guidelines, debt-to-income and combined loan-to-value ratios that exceeded the amounts allowed in the underwriting guidelines, failure to verify employment as required by underwriting guidelines, and improper reliance on the Assetwise program. *See MBIA v. Ally* Compl. ¶¶ 76-83; *MBIA v. GMAC* Compl. ¶¶ 70-79; *MBIA v. RFC* Compl. ¶¶ 42-48.

155. Representative examples of the misrepresentations MBIA uncovered include (1) a loan that had a debt-to-income ("DTI") ratio of 65.56% and a CLTV ratio of 125.68% when the underwriting guidelines imposed a maximum DTI ratio of 50% and a maximum CLTV ratio of 100%, and (2) a loan for a borrower with a stated income of $3700 per month and a CLTV of 94.2% when the underwriting guidelines required an income of $4000 per month and a CLTV not exceeding 80%. *See MBIA v. GMAC* Compl. ¶ 78; *MBIA v. RFC* Compl. ¶ 47.

156. All three of MBIA's suits are still pending. Two have survived motions to dismiss. *See MBIA v. GMAC*, 914 N.Y.S.2d 604 (N.Y. Sup. Ct. 2010); *MBIA v. RFC*, Order, No. 603552/08 (N.Y. Sup. Ct. Dec. 22, 2009). There have been no rulings in *MBIA v. Ally*.

157. A confidential witness, who was an account executive at Homecomings from August 2001 to September 2008, corroborated the allegations in the *MBIA* complaints regarding improper use of Assetwise. As a subsidiary of RFC, Homecomings used Assetwise in its mortgage origination. According to the confidential witness, Homecomings employees would "game" Assetwise. Assetwise was programmed to make "automated exceptions" that were purportedly within the RFC and Homecomings underwriting guidelines. Homecomings did not monitor what information a loan officer could input in Assetwise, and Assetwise required only a limited amount of information to process and approve a loan. If possible, loan officers would sometimes not submit detrimental information to Assetwise in order to gain approval for a loan that would not have been approved if all known information had been input into Assetwise.

158. The confidential witness also stated that Homecomings' employees would run the same loan through Assetwise several times, making a slight adjustment to the loan application each time until Assetwise approved the loan. This was possible because Homecomings did not place limits on the number of times a loan application could be submitted to Assetwise, and the software itself had no internal limits on the number of times a loan application could be submitted.

159. The confidential witness also corroborated the statements made by the confidential witnesses in the FHLB Chicago Complaint, stating that the lack of following underwriting guidelines at Homecomings was much more severe than what was related in the FHLB Chicago Complaint. The confidential witness sometimes processed as many as 130 to 200 loans per month and received pervasive pressure to get loans approved.

160. RFC is also the defendant in several other cases brought by the Financial Guaranty Insurance Company ("FGIC"), alleging material misrepresentations in the offering documents concerning the characteristics of the mortgages underlying the securities at issue. *See* Compl., *Fin. Guar. Ins. Co. v. Residential Funding Co,* No. 653304/2011 (N.Y. Sup. Ct. filed Nov. 29, 2011). *See also* Nos. 653493/2011, 653621/2011, 653622/2011, 653623/2011, 653303/2011 (related FGIC cases). The complaints allege that Homecomings originated and serviced many of the deficient loans underlying the securities at issue in the FGIC complaints, and that disregard of underwriting standards at Homecomings directly led to the losses incurred by FGIC.

161. As shown by statements from confidential witnesses, former employees in the FHLB Chicago Complaint, and MBIA's forensic analyses of Homecomings' loans, Homecomings' actual mortgage underwriting practices deviated widely from its stated

guidelines. This systematic disregard of underwriting standards led to toxic loans being bundled into securities and sold to investors who did not know, and could not have known, about the true nature of the loans backing their securities.

6. New Century's Systematic Disregard of Underwriting Standards

162. New Century Mortgage Corporation and NC Capital Corporation were subsidiaries of New Century Financial Corp. (collectively "New Century"). New Century was founded in 1995 in Irvine, California, and grew to be one of the nation's largest subprime lenders—originating $60 billion in loans in 2006 alone.

163. New Century originated a material portion of the loans in the pool underlying the Home Equity Mortgage Trust 2007-2 offering. *See infra* Table 6.

164. New Century failed amid revelations that its books contained numerous accounting errors, government investigations and a liquidity crisis when its Wall Street backers pulled the financial plug on loan funding. The circumstances leading to its collapse tell the story of a company— like so many other lenders of the time—that was far more concerned with originating mortgages to fuel the securitization machine than in the quality of those mortgages.

165. A June 2, 2008 article in the Columbus Dispatch summarized New Century's reputation in the industry:

> The California-based mortgage company catered to the riskiest borrowers, even those with credit scores as low as 500. Its brokers cut deals by asking few questions and reviewing even fewer documents, investigators say.
>
> Homeowners struggling to pay their existing mortgages signed up for what they believed to be redemption: a new loan. They were unaware of the warnings from lending and legal experts that New Century loaned money with a devil-may-care-attitude.
>
> New Century typified the book-'em-at-any-cost mentality that fueled the national mania for high-rate mortgages, commonly called subprime.

Jill Riepenhoff & Doug Haddix, *Risky Refinancings Deepen Financial Hole*, COLUMBUS DISPATCH, June 2, 2008, at 1A.

166. The article continued:

> Lending experts and consumer advocates say New Century was the poster child for the subprime tsunami -- a company that relaxed lending standards so much that even borrowers with fresh bankruptcies and foreclosures could get a mortgage.

Id.

167. New Century's foreclosure rates reflected its inattention to underwriting standards. Indeed, New Century appeared in the OCC's 2008 "Worst Ten in the Worst Ten" Report in every housing market highlighted. Incredibly, New Century appeared in the top five in every market—1st in Las Vegas, Nevada and Riverside, California; 2nd in Cleveland, Ohio, Denver, Colorado, Sacramento, California and Stockton, California; 3rd in Bakersfield, California and Detroit, Michigan; and 5th in Miami, Florida and Memphis, Tennessee.

168. When the OCC issued its updated 2009 "Worst Ten in the Worst Ten" Report, New Century rose to the top three in every one of the ten worst markets, holding 1st place in—Reno, Nevada, Bakersfield, California, Riverside-San Bernardino, California and Fort Myers-Cape Coral, Florida; 2nd place in Modesto, California, Las Vegas, Nevada, Merced, California, Stockton-Lodi, California; and 3rd place in Fort Pierce-Port St. Lucie, Florida and Vallejo-Fairfield-Napa, California.

169. The U.S. Bankruptcy Court of the District of Delaware presiding over New Century's bankruptcy case appointed Michael J. Missal ("the Examiner") to examine "any and all accounting and financial statement irregularities, errors and misstatements" in connection with New Century's practices and procedures. The Examiner engaged a law firm, forensic accountants and financial advisors to assist in his investigation and reporting. His final report to

the Bankruptcy Court dated February 29, 2008 (the "Examiner's Report") was unsealed and publicly released on March 26, 2008.

170. The Examiner concluded that New Century "engaged in a number of significant improper and imprudent practices related to its loan originations, operations, accounting and financial reporting processes." Examiner's Report, at 2. The Examiner summarized the findings:

A. "New Century had a brazen obsession with increasing loan originations, without due regard to the risks associated with that business strategy. Loan originations rose dramatically in recent years, from approximately $14 billion in 2002 to approximately $60 billion in 2006. The Loan Production Department was the dominant force within the Company and trained mortgage brokers to originate New Century loans in the aptly named 'CloseMore University.' Although a primary goal of any mortgage banking company is to make more loans, New Century did so in an aggressive manner that elevated the risks to dangerous and ultimately fatal levels." *Id*. at 3.

B. "The increasingly risky nature of New Century's loan originations created a ticking time bomb that detonated in 2007. Subprime loans can be appropriate for a large number of borrowers. New Century, however, layered the risks of loan products upon the risks of loose underwriting standards in its loan originations to high risk borrowers." *Id.*

C. "More than 40% of the loans originated by New Century were underwritten on a stated income basis. These loans are sometimes referred to as 'liars' loans' because borrowers are not required to provide verification of claimed income, leading a New Century employee to tell certain members of Senior Management in 2004 that 'we are unable to actually determine the borrowers' ability to afford a loan.'" *Id.*

D. "New Century also made frequent exceptions to its underwriting guidelines for borrowers who might not otherwise qualify for a particular loan. A Senior Officer of New Century warned in 2004 that the 'number one issue is exceptions to guidelines.' Moreover, many of the appraisals used to value the homes that secured the mortgages had deficiencies." *Id.* at 3-4.

E. "Senior Management turned a blind eye to the increasing risks of New Century's loan originations and did not take appropriate steps to manage those risks. New Century's former Chief Credit Officer noted in 2004 that

> the Company had "no standard for loan quality. Instead of focusing on whether borrowers could meet their obligations under the terms of the mortgages, a number of members of the Board of Directors and Senior Management told the Examiner that their predominant standard for loan quality was whether the loans New Century originated could be initially sold or securitized in the secondary market." *Id.* at 4.

F. "Senior Management was aware of an alarming and steady increase in early payment defaults ('EPD') on loans originated by New Century, beginning no later than mid-2004. The surge in real estate prices slowed and then began to decrease, and interest rates started to rise. The changing market conditions exacerbated the risks embedded in New Century's products, yet Senior Management continued to feed eagerly the wave of investor demands without anticipating the inevitable requirement to repurchase an increasing number of bad loans. Unfortunately, this wave turned into a tsunami of impaired and defaulted mortgages. New Century was not able to survive and investor suffered mammoth losses." *Id.*

171. The Examiner's Report also stated that New Century's underwriting and appraisal systems were antiquated. Rather than undertaking sophisticated risk assessments, New Century relied on outdated manual systems that, according to a member of New Century management interviewed by the Examiner, allowed New Century to "finagle anything." *Id*. at 54.

172. Brad Morrice, New Century's CEO beginning in 2006, acknowledged that "bad appraisals were a frustrating source of concern and the main cause of loan 'kickouts,'" *i.e.*, a rejection of certain loans by investors, and that "improper appraisals were the biggest contributors to losses when loans went bad." *Id*. at 61-62.

173. From 2003 to 2006, New Century began peddling riskier and riskier products, yet failed to employ underwriting safeguards that might have mitigated the inherent risk associated with such products. For instance, from March 2003 to June 2005, the percentage of interest-only loans New Century originated leapt from 0% to 38.49%. And from 2004 to 2005, the percentage of interest-only ARMs rose from 19.3% to 29.6% of the total volume of New Century's originations and purchases. New Century qualified borrowers based on their ability to pay the

initial interest rate rather than the interest plus principal amortization, which was added after the first several years. *Id*. at 57, 125-26.

174. Likewise, from 2004 through 2006, New Century increasingly sold "stated income" loans—with such loans representing at least 42% of New Century's total loan volume. (Table, Missal 57). "Stated income" loans involve no documentation regarding a borrower's income; instead, the loan is made based on the borrower's statement as to the amount of his or her income. Stated income loans are often referred to in the industry as "liars' loans," because of the ease with which unscrupulous borrowers or mortgage brokers can overstate income. (Examiner's Report, at 58). New Century actively discouraged its employees from even seeking to verify whether a prospective borrower's stated income was reasonable. *Id*. at 127 n.314.

175. The Examiner identified several "red flags" that were indicative of the poor quality of New Century's loans and the fact that New Century was not adhering to its underwriting guidelines. Specifically, the Examiner noted that "defective appraisals, incorrect credit reports and missing documentation" had led to a high number of kick-outs by investors, all of which "suggested that New Century's loan origination processes were not consistently producing loans that met New Century's underwriting standards and investor guidelines." *Id*. at 109.

176. The Examiner found:

> New Century's Senior Management recognized that the Company had serious loan quality issues beginning as early as 2004. For example, in April 2004, New Century's Chief Credit Officer reported that 'the QA [quality assurance] results [pertaining to the loan origination processes] are still at unacceptable levels' and that 'Investor Rejects [kickouts] are at an incline as well.' Two months later, in June 2004, the head of Secondary Marketing remarked in an e-mail that 'we have so many issues pertaining to quality and process!'"

Id. at 110.

177. In 2005, New Century began internal audits of its loan origination and production processes. An audit of the Sacramento wholesale fulfillment center revealed a number of "high risk" problems, including the fact that 45% of the loans reviewed had improper RESPA disclosures, 42% did not have approval stipulations fully satisfied, 39% had noted exceptions with respect to the calculation or verification of income, and 23% had appraisal exceptions or problems. *See id*. at 152.

178. Further adding to the problem was the fact that exceptions were frequently granted to underwriting guidelines, but "New Century had no formal exceptions policy." *Id*. at 174.

179. With no policy in place, the granting of exceptions was arbitrary. Despite upper management's awareness of the tremendous problems regarding loan quality, the Examiner concluded that "New Century continued to focus on generating greater quantities of ever riskier loans, devoting little effort to such basic issues as making sure that the Company's loan origination and underwriting policies and procedures were followed to avoid kickouts of loans offered for sale." *Id*. at 111.

180. The Examiner reported:

> New Century's loan originations grew at an enormous rate from 2000 through 2006, becoming the second largest subprime lender by the end of 2004 and remaining one of the largest in 2005. The Production Department was highly motivated and effective in originating such loans and apparently resisted changes that might have limited loan production volume. While both the Quality Assurance and Internal Audit Departments identified loan quality problems, and kick-out and EPD rates confirmed many of these problems, the Production Department devoted its resources to generating high volumes of loans, with relatively little attention to loan quality.

Id. at 113.

181. New Century consistently prioritized the origination of new loans over virtually

all other concerns, including loan quality. Despite after-the-fact assertions by some company spokespeople that such disregard was anomalous, New Century leaders articulated priorities demonstrating that the disregard was, in fact, systematic. For example, Patrick Flanagan, who until 2006 was New Century's Head of Loan Production and Secondary Marketing, "emphasized maintaining New Century's loan production even when field audits revealed loan quality problems." *Id*. at 89. Even after Flanagan left the company, New Century's prioritization of volume, rather than quality, continued.

182. The Examiner noted that New Century's Quality Assurance Department would run audit reports after loans were funded to determine if the loan file evidenced compliance with New Century's underwriting guidelines. "The Quality Assurance audit results tended to identify the same sorts of problems as identified in the kickout reports, such as faulty appraisals, undocumented exceptions to underwriting guidelines and missing documentation from loan files." Despite this fact, "since such post-funding audits did not directly affect profitability, some in Management discounted their importance." *Id*. at 137.

183. The Examiner's Report contained pages of findings that management ignored the loan quality issue and resisted efforts to implement strategies that would improve the quality of loans. For instance, the Examiner reported that management had determined a way to identify underwriters whose actions led to a high number of defective loans in October 2005, but failed to implement the effort until much later. *See id*. at 169 n.337.

184. The Examiner's Report found that loan quality trends "worsened dramatically" at New Century in 2006 and early 2007. Although New Century made a belated effort to improve loan quality late in 2006, it was "too little too late" and even as late as December 2006, "the same sorts of problems, including defective appraisals and missing documentation continued to

be the main reasons for investors kicking out increasing quantities of New Century loans." *Id*. at 157-58.

185. The Examiner concluded, "New Century knew from multiple data sources that its loan quality was problematic, starting no later than 2004. Yet… the Board of Directors and Senior Management before 2006 took few steps to address the troubling loan quality trends." *Id*. at 175.

186. On April 7, 2010, Patricia Lindsay, former Vice President of Corporate Risk at New Century, who worked for the company from 1997 through December 2007, corroborated the Examiner's findings in her testimony before the FCIC. She testified that at New Century, risk managers were often viewed as a roadblock rather than a resource and that:

> Account executives, who were New Century employees who brought loans in from brokers, were primarily compensated on commission of closed loans that they brought in. . . . Many of the sales managers and account executives lacked any real estate or mortgage experience. They were missing the depth of experience necessary to make an informed lending decision. These same sales mangers had the ability to make exceptions to guidelines on loans, which would result in loans closing with these exceptions, at times over the objections of seasoned appraisers, underwriters or risk personnel. Some of the best sales managers had underwriting backgrounds and were more closely aligned with risk management and better at understanding potential problems, but this was the exception and not the rule.

Section 2: Subprime Origination and Securitization Before the Fin. Crisis. Inquiry Comm'n (Apr. 7, 2010) (testimony of Patricia Lindsay, former Vice President of Corporate Risk, New Century).

187. She also testified as to systematic problems in the appraisal process:

> In my experience at New Century, fee appraisers hired to go to the properties were often times pressured into coming in "at value", fearing if they didn't, they would lose future business and their livelihoods. They would charge the same fees as usual, but would find properties that would help support the needed value rather than finding the best comparables to come up with the most accurate value.

Id.

188. Ms. Lindsay noted that at the end, New Century's approach to lending lacked "common sense"—that the business became "volume driven and automated" with a broker being able to get a loan pre-approved in "12 seconds or less." *Id*.

189. In December 2009, the SEC filed a complaint charging three former New Century executives with securities fraud. *See Securities & Exchange Commission v. Morrice, et al.*, Case No. SACV09-01426 JVS (C.D. Cal. filed Dec. 7, 2009). The SEC's complaint alleges that the New Century executives misled investors as to the deterioration of New Century's loan portfolio, including dramatic increases in early default rates and loan repurchases/repurchase requests. On July 30, 2010, the SEC announced it had accepted offers to settle the case, subject to court approval, with defendants agreeing to (1) pay over $1.5 million in disgorgement and civil penalties; (2) be permanently enjoined from further securities law violations and (3) a five-year ban on serving as an officer or director of a public company.

7. OwnIt Mortgage Solutions, Inc.'s Systematic Disregard of Underwriting Standards

190. OwnIt Mortgage Solutions, Inc. ("OwnIt") was a California-based company that specialized in the origination of mortgages for individuals who earned less than $100,000 annually, and had less than $100,000 in personal assets. OwnIt was created by William Dallas in 2003 out of a small mortgage company that Mr. Dallas purchased that same year. OwnIt originated or contributed loans in the mortgage pool underlying the Home Equity Asset Trust 2006-6 offering. *See infra* Table 6.

191. According to a report by the New York Times, OwnIt issued a majority of the loans in what turned out to be one of the worst mortgage securitizations in history. Because of the bad loans, Moody's predicted that "so many of the mortgages will have gone bad that 60

percent of the money lent will not be paid back." The lion's share of the problem with that securitization was because of rapid default rates on OwnIt loans. Floyd Norris, *Color-Blind Merrill in a Sea of Red Flags*, N.Y. TIMES, May 16, 2008.

192. OwnIt's systematic disregard of its own underwriting standards is confirmed by independent government analyses of OwnIt's underwriting standards and the quality of its loans. Based on figures the OCC updated in 2010, OwnIt ranked among only 21 companies that "in various combinations occupy the Worst Ten slots in the Worst Ten metro areas." John C. Dugan, *Comptroller of the Currency, Appendix B: Activities of National Banks Related to Subprime Lending, remarks before the FCIC*, Washington, D.C. (Apr. 8, 2010), *available at* http://www.occ.treas.gov/ftp/release/2010-39d.pdf.

8. WaMu's and Long Beach's Systematic Disregard of Underwriting Standards

193. WaMu's affiliate Long Beach was the primary originator of loans in the Long Beach Mortgage Loan Trust 2006-1 and the Long Beach Mortgage Loan Trust 2006-6 offerings. *See infra* Table 6.

194. WaMu was a Seattle-based bank that rapidly grew from a regional to a national mortgage lender during the period from 1991 to 2006. At over $300 billion in total assets, WaMu was at one time the largest institution regulated by the Office of Thrift Supervision ("OTS"). On September 25, 2008, however, federal regulators closed WaMu when loan losses, borrowing capacity limitations, a plummeting stock price, and rumors of WaMu's problems led to a run on the bank by depositors. Federal regulators facilitated the sale of WaMu to J.P. Morgan Chase & Co., in September 2008.

195. In April 2010, the Treasury OIG, issued a report titled "Evaluation of Federal Regulatory Oversight of Washington Mutual Bank," Report No. EVAL-10-002 (the "WaMu

OIG Report"), discussing the reasons for WaMu's meteoric rise and consequent collapse. The WaMu OIG Report found, "WaMu failed primarily because of management's pursuit of a high-risk lending strategy that included liberal underwriting standards and inadequate risk controls." WaMu OIG Report at 2. The report elaborated on how WaMu adopted this new strategy to compete with Countrywide and maximize profits:

> In 2005, WaMu management made a decision to shift its business strategy away from originating traditional fixed-rate and conforming single family residential loans, towards riskier nontraditional loan products and subprime loans. WaMu pursued the new strategy in anticipation of increased earnings and to compete with Countrywide….
>
> . . .
>
> WaMu estimated in 2006 that its internal profit margin from subprime loans could be more than 10 times the amount for a government-backed loan product and more than 7 times the amount for a fixed-rate loan product.

Id. at 8 (footnote omitted).

196. As previously noted in this Complaint, the PSI issued its report on the causes of the economic crisis. The PSI Wall Street Report used WaMu as its case study into lending practices of the mortgage industry during the housing bubble. Citing internal e-mails and correspondence the PSI obtained as part of its investigation, the PSI made the following factual findings:

> (1) High Risk Lending Strategy. [WaMu] executives embarked upon a High Risk Lending Strategy and increased sales of high risk home loans to Wall Street, because they projected that high risk home loans, which generally charged higher rates of interest, would be more profitable for the bank than low risk home loans.
>
> (2) Shoddy Lending Practices. WaMu and its affiliate, [Long Beach], used shoddy lending practices riddled with credit, compliance, and operational deficiencies to make tens of thousands of high risk home loans that too often contained excessive risk, fraudulent information, or errors.
>
> (3) Steering Borrowers to High Risk Loans. WaMu and Long Beach too often steered borrowers into home loans they could not afford, allowing and encouraging them to make low initial payments that would be followed by much

> higher payments, and presumed that rising home prices would enable those borrowers to refinance their loans or sell their homes before the payments shot up.
>
> (4) Polluting the Financial System. WaMu and Long Beach securitized over $77 billion in subprime home loans and billions more in other high risk home loans, used Wall Street firms to sell the securities to investors worldwide, and polluted the financial system with mortgage backed securities which later incurred high rates of delinquency and loss.
>
> (5) Securitizing Delinquency-Prone and Fraudulent Loans. At times, WaMu selected and securitized loans that it had identified as likely to go delinquent, without disclosing its analysis to investors who bought the securities, and also securitized loans tainted by fraudulent information, without notifying purchasers of the fraud that was discovered.
>
> (6) Destructive Compensation. WaMu's compensation system rewarded loan officers and loan processors for originating large volumes of high risk loans, paid extra to loan officers who overcharged borrowers or added stiff prepayment penalties, and gave executives millions of dollars even when its High Risk Lending Strategy placed the bank in financial jeopardy.

PSI Wall Street Report at 50-51.

197. In particular, the PSI Wall Street Report noted that WaMu had engaged in internal reviews of its lending practices and the lending practices of its subsidiary, Long Beach. WaMu's Chief Risk Officer, Ron Cathcart commissioned a study to look into the quality of loans originated by Long Beach. The review found that the "top five priority issues" were as follows:

> "Appraisal deficiencies that could impact value and were not addressed[:]
> Material misrepresentations relating to credit evaluation were confirmed[;]
> Legal documents were missing or contained errors or discrepancies[;]
> Credit evaluation or loan decision errors[; and]
> Required credit documentation was insufficient or missing from the file."

Id. at 82 (quoting e-mail from Ron Cathcart, Chief Risk Officer, WaMu, to Cory Gunderson (Dec. 11, 2006 9:21 AM PST)).

198. Pushing "Option ARMs" was a major part of WaMu's new "high risk" lending strategy. In a bipartisan memorandum from Senators Carl Levin and Tom Coburn to the Members of the PSI, dated April 13, 2010, Option ARMS are labeled WaMu's "flagship"

product. *Wall Street and the Financial Crisis: The Role of High Risk Home Loans, Hearing Before S. Permanent Subcomm. on Investigations*, 112th Cong. (2010) ("PSI High Risk Home Loans Hearing"), Senate Exhibit 1.a, at 3. The WaMu OIG Report describes the inherently dangerous nature of WaMu's Option ARMs:

> WaMu's Option ARMs provided borrowers with the choice to pay their monthly mortgages in amounts equal to monthly principal and interest, interest-only, or a minimum monthly payment. Borrowers selected the minimum monthly payment option for 56 percent of the Option ARM portfolio in 2005.
>
> The minimum monthly payment was based on an introductory rate, also known as a teaser rate, which was significantly below the market interest rate and was usually in place for only 1 month. After the introductory rate expired, the minimum monthly payment feature introduced two significant risks to WaMu's portfolio: payment shock and negative amortization. WaMu projected that, on average, payment shock increased monthly mortgage amounts by 60 percent. At the end of 2007, 84 percent of the total value of Option ARMs on WaMu's financial statements was negatively amortizing.

WaMu OIG Report at 9.

199. The WaMu OIG Report notes that "Option ARMs represented as much as half of all loan originations from 2003 to 2007 and approximately $59 billion, or 47 percent, of the home loans on WaMu's balance sheet at the end of 2007." *Id*.

200. The OIG also notes that WaMu's "new strategy included underwriting subprime loans, home equity loans, and home equity lines of credit to high-risk borrowers. In line with that strategy, WaMu purchased and originated subprime loans, which represented approximately $16 billion, or 13 percent, of WaMu's 2007 home loan portfolio." *Id* at 10.

201. WaMu's careless underwriting practices rendered these already high risk loan products even more risky. *See Id*. The WaMu OIG Report stated that the OTS and the FDIC repeatedly "identified concerns with WaMu's high-risk lending strategy" and loan underwriting, weaknesses in management and "inadequate internal controls." *Id*. at 3-4. Those concerns

included "questions about the reasonableness of stated incomes contained in loan documents, numerous underwriting exceptions, miscalculations of loan-to-value ratios, and missing or inadequate documentation." *Hearing on Wall Street & the Fin. Crisis: The Role of Bank Regulators Before the United States S. Homeland Security and Governmental Affairs Comm., Permanent Subcomm. on Investigations*, 111th Cong. 9 (Apr. 16, 2010) (statement of the Hon. Eric M. Thorson, Inspector General, Dep't of the Treasury) ("Thorson Statement").

202. WaMu management began to notice the pattern of "first payment default" ("FPD") for loans its Long Beach subsidiary originated. In June 2007, WaMu closed Long Beach as a separate entity and placed its subprime lending operations in a new division called "Wholesale Specialty Lending."

203. In late 2007, WaMu performed an internal review to determine whether its plans to address its poor underwriting practices were effective. The review focused on 187 loans that experienced FPD, originated from November 2006 to March 2007. As an initial matter, the review found:

> The overall system of credit risk management activities and process has major weaknesses resulting in unacceptable level of credit risk. Exposure is considerable and immediate corrective action is essential in order to limit or avoid considerable losses, reputation damage, or financial statement errors.

PSI High Risk Home Loans Hearing, Senate Ex. 21, "WaMu Corporate Credit Review: Wholesale Specialty Lending-FPD" at 2 (Sept. 28, 2007).

204. Specifically, the WaMu internal review reported the following findings regarding the 187 FPD loans:

> - (High) Ineffectiveness of fraud detection tools – 132 of the 187 (71%) files were reviewed by Risk Mitigation for fraud. Risk Mitigation confirmed fraud on 115 files and could not confirm on 17 of the files, but listed them as "highly suspect." This issue is a repeat finding with CCR.

- (High) Weak credit risk infrastructure impacting credit quality. Credit weakness and underwriting deficiencies is a repeat finding with CCR. It was also identified as a repeat finding and Criticism in the OTS Asset Quality memo 3 issued May 17, 2007. Internal Audit in their August 20, 2007 Loan Origination & Underwriting report identified it as a repeat issue. Findings from the CCR FPD review in relation to credit quality:

    - 132 of the 187 loans sampled were identified with red flags that were not addressed by the business unit
    - 80 of the 112 (71%) stated income loans were identified for lack of reasonableness of income
    - 87 files (47%) exceeded program parameters in place at the time of approval
    - 133 (71%) had credit evaluation or loan decision errors present
    - 25 (13%) had the title report issues that were not addressed
    - 28 (14%) had income calculation errors and 35 (19%) had income documentation errors
    - 58 (31%) had appraisal discrepancies that raised concerns that the value was not supported

Id. at 3.

205. An OTS memorandum on Loan Fraud Investigation, dated June 19, 2008, noted the systematic nature of the problem: "[T]he review defines an origination culture focused more heavily on production volume rather than quality. An example of this was a finding that production personnel were allowed to participate in aspects of the income, employment, or asset verification process, a clear conflict of interest. . . . Prior OTS examinations have raised similar issues including the need to implement incentive compensation programs to place greater emphasis on loan quality." PSI High Risk Home Loans Hearing, Senate Ex. 25, Memorandum from D. Schneider, President Home Loans, to A. Hedger, OTS Examiner and B. Franklin, OTS EIC at 1 (June 19, 2008).

206. A WaMu Significant Incident Notification , Date Incident Reported – 04/01/2008, Loss Type - Mortgage Loan, stated:

> One Sales Associate admitted that during that crunch time some of the Associates would 'manufacture' assets statements from previous loan docs and submit them to the [Loan Fulfillment Center ('LFC')]. She said the pressure was tremendous

> from the LFC to get them the docs since the loan had already funded and pressure from the Loan Consultants to get the loans funded.

PSI High Risk Home Loans Hearing, Senate Ex. 30, "Significant Incident Notification (SIN)" at 1 (Apr. 1, 2008).

207. A New York Times article described WaMu's underwriting practices as follows: "On a financial landscape littered with wreckage, WaMu, a Seattle-based bank that opened branches at a clip worthy of a fast-food chain, stands out as a singularly brazen case of lax lending." Peter S. Goodman & Gretchen Morgenson, *Saying Yes, WaMu Built Empire on Shaky Loans*, N.Y. TIMES, Dec. 27, 2008, at A1.

208. Sherri Zaback, a former underwriter at a WaMu branch in San Diego, California, stated that "[m]ost of the loans she … handled merely required borrowers to provide an address and Social Security number, and to state their income and assets." *Id*. On one occasion, Zaback asked a loan officer for verification of a potential borrower's assets. The officer sent her a letter from a bank showing a balance of about $150,000 in the borrower's account. Zaback called the bank to confirm and was told the balance was only $5,000. The loan officer yelled at her, Ms. Zaback recalled. "She said, 'We don't call the bank to verify.'" *Id.*

209. Zaback also recalled that the sheer volume of loans precluded WaMu employees from adhering to underwriting standards. According to Zaback, she would typically spend a maximum of 35 minutes per file: "'Just spit it out and get it done. That's what they wanted us to do. Garbage in, and garbage out.'" *Id*. Another WaMu agent in Irvine, California, told the authors of the New York Times that she "coached brokers to leave parts of applications blank to avoid prompting verification if the borrower's job or income was sketchy." *Id.*

210. WaMu's underwriting also critically failed with respect to appraisals as well. An accurate appraisal of a property's market value is crucial to the underwriting process as the

property provides collateral for the loan in case of default.

> WaMu's review of appraisals establishing the value of single family homes did not always follow standard residential appraisal methods because WaMu allowed a homeowner's estimate of the value of the home to be included on the form sent from WaMu to third-party appraisers, thereby biasing the appraiser's evaluation.

WaMu OIG Report at 11.

211. The New York Times reported, "WaMu pressured appraisers to provide inflated property values that made loans appear less risky, enabling Wall Street to bundle them more easily for sale to investors." Goodman & Morgenson, *Saying Yes, WaMu Built Empire on Shaky Loans* at A1. The article quoted the founder of one appraisal company that did business with WaMu until 2007 as saying, "'It was the Wild West,'. . . . 'If you were alive, they would give you a loan. Actually, I think if you were dead, they would still give you a loan.'" *Id.* (quoting Steven Knoble, founder Mitchell, Maxwell & Jackson).

212. Nor did WaMu adequately monitor non-employee third-party brokers who originated most of WaMu's loans. As Eric Thorson explained before the PSI:

> In addition to originating retail loans with its own employees, WaMu began originating and purchasing wholesale loans through a network of brokers and correspondents. From 2003 to 2007, wholesale loan channels represented 48 to 70 percent of WaMu's total single family residential loan production. WaMu saw the financial incentive to use wholesale loan channels for production as significant. According to an April 2006 internal presentation to the WaMu Board, it cost WaMu about 66 percent less to close a wholesale loan ($1,809 per loan) than it did to close a retail loan ($5,273). So while WaMu profitability increased through the use of third-party originators, it had far less oversight and control over the quality of the originations.

Thorson Statement at 5. According to the WaMu OIG Report, WaMu had only 14 employees monitoring the actions of 34,000 third-party brokers. *See* WaMu OIG Report at 11. This lack of oversight led to WaMu "identif[ying] fraud losses attributable to third-party brokers of $51 million for subprime loans and $27 million for prime loans" in 2007. *Id*.

213. Federal regulators also noted that "WaMu acquired 11 institutions and merged with 2 affiliates" from 1991 to 2006, yet failed to "fully integrate . . . information technology systems, risk controls, and policies and procedures" from its acquisitions and institute "a single enterprise-wide risk management system." Thorson Statement at 5. An integrated risk management system was critically important in light of WaMu's high-risk lending strategy. *See id.*

214. Based on interviews with two dozen former employees, mortgage brokers, real estate agents and appraisers, Goodman and Morgenson of the New York Times noted the "relentless pressure to churn out loans" while "disregarding borrowers' incomes and assets" came from WaMu's top executives. Goodman & Morgenson, *Saying Yes, WaMu Built Empire on Shaky Loans* at A1. According to Dana Zweibel, a former financial representative at a WaMu branch in Tampa, Florida, even if she doubted whether a borrower could repay the loan, she was told from the top that it was not her concern: her concern was "'just to write the loan.'" *Id.* Said Zweibel, "'[i]t was a disgrace' . . . . 'We were giving loans to people that never should have had loans.'" *Id.*

215. In November 2008 the New York Times, quoting Keysha Cooper, a Senior Mortgage Underwriter at WaMu from 2003 to 2007, recounted "'[a]t WaMu it wasn't about the quality of the loans; it was about the numbers' . . . . 'They didn't care if we were giving loans to people that didn't qualify. Instead, it was how many loans did you guys close and fund?'" Gretchen Morgenson, *Was There a Loan It Didn't Like?*, N.Y. Times, Nov. 1, 2008. According to the article, "[i]n February 2007, . . . the pressure became intense. WaMu executives told employees they were not making enough loans and had to get their numbers up . . . ." Cooper concluded, "'I swear 60 percent of the loans I approved I was made to.' . . . 'If I could get

everyone's name, I would write them apology letters.'" *Id.*

216. WaMu blatantly inflated salaries of baby sitters and mariachi singers to the six-figure range. Indeed, the only verification of the mariachi singer's income was a photograph of the mariachi singer in his outfit included in the loan application file. The New York Times reported:

> As a supervisor at a Washington Mutual mortgage processing center, John D. Parsons was accustomed to seeing baby sitters claiming salaries worthy of college presidents, and schoolteachers with incomes rivaling stockbrokers'. He rarely questioned them. A real estate frenzy was under way and WaMu, as his bank was known, was all about saying yes.
>
> Yet even by WaMu's relaxed standards, one mortgage four years ago raised eyebrows. The borrower was claiming a six-figure income and an unusual profession: mariachi singer.
>
> Mr. Parsons could not verify the singer's income, so he had him photographed in front of his home dressed in his mariachi outfit. The photo went into a WaMu file. Approved.
>
> "I'd lie if I said every piece of documentation was properly signed and dated," said Mr. Parsons.
>
> …
>
> At WaMu, getting the job done meant lending money to nearly anyone who asked for it — the force behind the bank's meteoric rise and its precipitous collapse this year in the biggest bank failure in American history.
>
> . . .
>
> Interviews with two dozen former employees, mortgage brokers, real estate agents and appraisers reveal the relentless pressure to churn out loans that produced such results.

Goodman & Morgenson, *Saying Yes, WaMu Built Empire on Shaky Loans* at A1.

217. Long Beach, a WaMu affiliate, specialized in the riskiest of loans—subprime mortgages. Internal WaMu documents reveal a well-documented pattern of underwriting deficiencies at Long Beach. A memorandum to the Washington Mutual, Inc. and WaMu Board of Directors' Audit Committees, dated April 17, 2006, re: *Long Beach Mortgage Company* -

Repurchase Reserve Root Cause Analysis states: "[Long Beach] experienced a dramatic increase in EPDs[] during the third quarter of 2005. . . . [R]elaxed credit guidelines, breakdowns in manual underwriting processes, and inexperienced subprime personnel . . . coupled with a push to increase loan volume and the lack of an automated fraud monitoring tool, exacerbated the deterioration in loan quality." Senate Exhibit 10 at 1-2.

218. A WaMu Audit Report titled *Long Beach Mortgage Loan Origination & Underwriting*, dated August 20, 2007, states: "[T]he overall system of risk management and internal controls has deficiencies related to multiple, critical origination and underwriting processes. . . . These deficiencies require immediate effective corrective action to limit continued exposure to losses." Senate Exhibit 19 at 2. In its "Executive Summary" section, this Audit Report states:

> In response to challenges resulting from the softening housing market, rising interest rates, tightening capital markets, poor portfolio performance and underwriting deficiencies, [Long Beach] continually refines their processes and guidelines. While management has been responsive to these challenges by identifying and implementing corrective actions, actual underwriting practices have not been consistent to achieve the desired levels of improvement. Continued patterns of loans being underwritten outside of established underwriting and documentation guidelines have been previously identified.

Id. at 2. It also identifies the following as the number one high rated "repeat issue" to correct: "Underwriting guidelines established to mitigate the risk of unsound underwriting decisions are not always followed and the decisioning methodology is not always fully documented." *Id.* at 8. The number two "repeat issue" was identified as "[p]olicies and procedures defined to allow and monitor reasonable and appropriate exceptions to underwriting guidelines are not consistently followed." *Id.* at 10. An e-mail from a WaMu executive describes the Long Beach audit report as "the ultimate in bayonetting the wounded, if not the dead." Senate Exhibit 20 at 1.

219. In a WaMu internal report titled "[Long Beach] Post Mortem – Early Findings

Read Out," dated November 1, 2005, the authors note the following "common theme" surfacing: "Underwriting guidelines are not consistently followed and conditions are not consistently or effectively met." Senate Exhibit 9 at 1. The report goes on to note that 60% of First Payment Default cases could have been prevented "had current policy, procedures and guidelines been better executed." *Id.* at 2.

220. In Gretchen Morgenson's July 9, 2010, article titled *Mortgage Investors Turn to State Courts for Relief*, Morgenson of THE NEW YORK TIMES reported on a lawsuit filed by Cambridge Place Investment Management, an investment management firm that lost over a billion dollars in RMBS it bought for clients, against 15 banks, for abetting fraud. The complaint alleges that management at Long Beach directed underwriters to "'approve, approve, approve'" and highlights the "anything-goes" lending practices at Long Beach:

> One Long Beach program made loans to self-employed borrowers based on three letters of reference from past employers. A former worker said some letters amounted to "So-and-so cuts my lawn and does a good job," adding that the company made no attempt to verify the information, the complaint stated.

221. The OTS also reported concerns with subprime underwriting practices by Long Beach from 2006 to 2007. *See* Thorson Statement at 9-10.

222. As a result of its systematic disregard of underwriting standards, Long Beach also appeared in the 2008 "Worst Ten in the Worst Ten" Report. In fact, Long Beach was in the top five in every city other than Las Vegas, Nevada (1st in Stockton, California, Sacramento, California, Denver, Colorado, and Memphis, Tennessee; 2nd in Bakersfield, California and Detroit, Michigan; 3rd in Cleveland, Ohio and Miami, Florida; and 4th in Riverside, California). *See* 2008 "Worst Ten in the Worst Ten" Report. Long Beach again ranked near the top in nearly every city in the 2009 "Worst Ten in the Worst Ten" Report (1st in Stockton-Lodi, California, Merced, California, and Vallejo-Fairfield-Napa, California; 5th in Fort Pierce-Port St. Lucie,

Florida; and 6th in Riverside-San Bernardino, California). *See* 2009 "Worst Ten in the Worst Ten" Report.

E. Loans That Did Not Comply with the Underwriting Guidelines Were Routinely Collateral for Credit Suisse-Underwritten RMBS

223. A February 2010 report from J.P. Morgan noted that "[t]he outstanding balance of [private-label] mortgages grew from roughly $600 billion at the end of 2003 to $2.2 trillion at its peak in 2007." Gary J. Madich et al, *Non-Agency Mortgage-Backed Securities: Managing Opportunities and Risks*, J.P. Morgan Asset Management at 2 (Feb. 2010), *available at* http://www.jpmorganinstitutional.com/cm/BlobServer/Non-Agency_Mortgage-Backed_Securities.pdf?blobkey=id&blobwhere=1321504668623&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs&isAMIA=yes. While unknown to reasonable investors at that time, it now is apparent that this massive expansion in the origination of loans over a short period of time was accomplished by ignoring underwriting standards. The J.P. Morgan report also noted that home prices rose, requiring larger loans: "[private-label] mortgage providers initially met this need for larger loans while maintaining stringent qualifications. However, investment banks were willing to buy lower quality mortgages and bundle them for issuance into new and innovative forms of Asset Backed Securities (ABS) and Collateralized Debt Obligations (CDOs)." *Id*.

224. During the FCIC investigation referenced above (*supra* at Section VII.D.1), Clayton Holdings provided evidence that Credit Suisse securitized a significant number of loans that did not comply with the stated underwriting guidelines.

225. Clayton was the leading provider of due diligence services for RMBS offerings during the relevant time period. This gave Clayton "a unique inside view of the underwriting standards that originators were actually applying." FCIC Report at 166.

226. Banks routinely hired Clayton to inspect the mortgage loans that the banks securitized into RMBS. Clayton would determine whether the loans complied with the originators' stated underwriting guidelines, and prepare a report of its findings for the bank. *See* FCIC Testimony of Vicki Beal, Senior Vice President of Clayton Holdings (Sept. 23, 2010), available at http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0923-Beal.pdf.

227. From January 1, 2006 through June 30, 2007, Clayton reviewed 911,039 loans. Only 54% of those met the originators' underwriting guidelines. Clayton's former President and CEO, Keith Johnson, testified that the "54% says there [was] a quality control issue in the [originators]." FCIC Report at 166; Audiotape of FCIC Interview with Keith Johnson, former President of Clayton ("Johnson FCIC Interview") (Sept. 2, 2010) ("Even if the guideline was bad, [the loans] didn't adhere to the guideline . . . . To me in hindsight, [the data] just said there was a . . . fundamental breakdown."), available at http://fcic.law.stanford.edu/interviews/view/220. Another 18% of the loans failed the underwriting guidelines but were deemed to have adequate compensating factors. That left a large number – 28% – that did not meet the underwriting guidelines and had no compensating factors. *See* All Clayton Trending Reports, 1st Quarter 2006 – 2nd Quarter 2007, at 1 (2007), available at http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0923-Clayton-All-Trending-Report.pdf ("All Clayton Trending Report").

228. Clayton confirmed that the RMBS sold by Credit Suisse from the beginning of 2006 through the middle of 2007—which includes all of the certificates listed in Table 1 this Complaint—contained a substantial number of loans that were not originated in conformity with underwriting guidelines. *See* All Clayton Trending Report at 4.

229. As revealed during the FCIC investigation in 2010, Clayton routinely found large

numbers of loans that were not properly originated under the applicable underwriting guidelines. Despite identifying these defectively originated loans, Clayton stated that they often were included into the RMBS that was being sold to investors. *See* FCIC Report at 166-67; All Clayton Trending Report at 1.

230. Clayton reviewed 56,306 loans for Credit Suisse. It found that 18,026 (32%) did not comply with the stated underwriting guidelines and did not have compensating factors. Credit Suisse waived the defects for 6,021 of the 18,026 (33%).

231. Clayton typically performed due diligence on a small sample of the loans that were being securitized into an RMBS offering – approximately 10%. FCIC Testimony of Vicky Beal at 2. No due diligence was performed on the remaining loans. Thus, of the small sample of loans that Clayton did review, over 10% did not comply with the underwriting guidelines and did not have compensating factors, but were nonetheless securitized. Extrapolating Clayton's results shows that for the remaining 90% of loans that were not reviewed, over 30% did not comply with the underwriting guidelines and did not have compensating factors, but were nonetheless securitized. In total, Clayton's data shows that approximately 30% of the loans Credit Suisse securitized were defective. All Clayton Trending Reports at 4.

F. Additional Evidence Confirms That Defective Loans Were Routinely Packaged into Credit Suisse's RMBS.

232. Clayton officials offered an explanation for why so many defective loans were packaged into RMBS. When asked what caused the financial crisis, one pointed to the banks belief that they had no liability for loans' compliance with underwriting guidelines: "When it came to the underwriting [guidelines] . . . and [securitizers] could perhaps distribute that risk quickly, then that wasn't as high on their priorities." Johnson FCIC Interview.

233. A number of loan originators had an express policy of attempting to sell loans that

had already been rejected. Because only a small percentage of the pools were reviewed by a due diligence firm like Clayton (or its chief competitor, Bohan), there was a very strong likelihood that those defective loans would enter the pool on the second or third attempt. Clayton referred to this practice as the "three strikes, you're out rule." Transcript, FCIC Hearing, The Financial Crisis at the Community Level—Sacramento, CA at 178 (Sept. 23, 2010) (testimony of D. Keith Johnson, former President of Clayton), available at http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0923-transcript.pdf.

234. The FCIC Report also concluded that banks like Credit Suisse that securitized loans were reluctant to review or reject loans in greater numbers because doing so would endanger their relationship with originators. FCIC Report at 166 ("[Clayton's former CEO] concluded that his clients often waived in loans to preserve their business relationship with the loan originator—a high number of rejections might lead the originator to sell the loans to a competitor."); Paul Muolo and Matthew Padilla, Chain of Blame 228 (2010) ("There were two reasons the [Wall] Street firms reviewed only a small sample of the loans they were buying . . . . The most important reason was the relationship with the lender. 'The lower the sample you requested [of the lender], the more likely it was that you'd win the bid.'").

VIII. THE OFFERING DOCUMENTS CONTAINED UNTRUE STATEMENTS OF MATERIAL FACT

235. The Offering Documents included material untrue statements or omitted facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading.

236. For purposes of Section 11 liability, the prospectus supplements are part of and included in the registration statements of the offerings pursuant to 17 C.F.R. §§ 230.158, 230.430B (2008); *see also* Securities Offering Reform, 70 Fed. Reg. 44722-01, 44768-69 (Aug.

3, 2005).

237. Statements in the Offering Documents concerning the following subjects were material and untrue at the time they were made: (1) the loans adhered to the applicable underwriting guidelines, including that exceptions to those guidelines would only be granted when warranted by compensating factors; (2) the loans adhered to certain underwriting standards for reduced documentation programs; and (3) that appraisals were accurate, that loans had certain LTV ratios individually and in the aggregate, and that the borrowers had certain debt-to-income ("DTI") ratios.

238. The following table lists the originators that contributed loans to each RMBS, as identified in the Offering Documents. Under SEC's Regulation AB, the Offering Documents must disclose the originators that contributed more than 10% of the loans underlying the RMBS, and the Offering Documents must include underwriting guidelines for the originators that contributed more than 20% of the loans underlying the RMBS. *See* 17 C.F.R. § 229.1110 (2005). For the RMBS listed below, the Offering Documents included only those underwriting guidelines for the Originators that contributed more than 20% of the loans to the RMBS.

Table 6
Originators Supplying Loans for Each RMBS at Issue

CUSIP	Issuing Entity	Tranche	Originator(s)
00703QAD4	Adjustable Rate Mortgage Trust 2006-3	4-A-1-1	Countrywide Home Loans, Inc. (33.20%) DLJ Mortgage Capital (32.96%) Credit Suisse Financial Corporation (15.14%)
007037AE4	Adjustable Rate Mortgage Trust 2007-1	5-A-1	Credit Suisse Financial Corporation (35.80%) DLJ Mortgage Capital (32.74%)
00703AAD9	Adjustable Rate Mortgage Trust 2007-2	2-A-1	DLJ Mortgage Capital (42.88%) Credit Suisse Financial Corporation (21.62%) Countrywide Home Loans (15.86%)

CUSIP	Issuing Entity	Tranche	Originator(s)
437097AD0	Home Equity Asset Trust 2006-6	2-A-3	OwnIt Mortgage Solutions, Inc. (32.6%) Encore Credit Corporation (16.6%) Decision One Mortgage Company LLC (13.4%) Lime Financial Services Ltd. (13.1%)
225470W58	Home Equity Mortgage Trust 2006-2	2-A-1	CIT Consumer Finance (14.57%) Quicken Loans, Inc. (13.10%)
43710DAB8	Home Equity Mortgage Trust 2007-2	2-A-1-A	DLJ Mortgage Capital, Inc. (34.43%) New Century Mortgage Corporation (14.78%)
542514RL0	Long Beach Mortgage Loan Trust 2006-1	2-A-3	Long Beach Mortgage Company (100%)
54251RAD5	Long Beach Mortgage Loan Trust 2006-6	2-A-3	Long Beach Mortgage Company (100%)
75115VAA3	RALI Series 2006-QA9 Trust	A-1	Homecomings Financial, LLC (25.2%) GMAC Mortgage, LLC (14.3%) PHH Mortgage Corporation (28.5%)

239. Examples of material untrue statements and/or omissions of fact in the Offering Documents of the RMBS listed above follow.

A. Untrue Statements Concerning Adherence to Underwriting Guidelines

240. The Adjustable Rate Mortgage Trust 2007-2 Prospectus Supplement stated:

> The mortgage loans were originated or acquired generally in accordance with the underwriting guidelines described in this prospectus supplement.

Adjustable Rate Mortgage Trust 2007-2 Prospectus Supplement at S-16. *See also* Adjustable Rate Mortgage Trust 2006-3 Prospectus, June 28, 2006, at S-7; Adjustable Rate Mortgage Trust 2007-1 Prospectus Supplement at S-18; Home Equity Mortgage Trust 2006-2 Prospectus Supplement at S-48.

241. The Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement described DLJ's and Credit Suisse Financial Corporation's underwriting standards as follows:

> The underwriting standards applicable to the mortgage loans typically differ from, and are, with respect to a substantial number of mortgage loans, generally less stringent than, the underwriting standards established by Fannie Mae or Freddie

> Mac primarily with respect to original principal balances, loan to value ratios, borrower income, required documentation, interest rates, borrower occupancy of the mortgaged property and/or property types. To the extent the programs reflect underwriting standards different from those of Fannie Mae and Freddie Mac, the performance of the mortgage loans thereunder may reflect higher delinquency rates and/or credit losses. In addition, certain exceptions to the underwriting standards described herein are made in the event that compensating factors are demonstrated by a prospective borrower. Neither the depositor nor any affiliate, including the sponsor, has re underwritten any mortgage loan.
>
> Generally, each mortgagor will have been required to complete an application designed to provide to the original lender pertinent credit information concerning the mortgagor. As part of the description of the mortgagor's financial condition, other than with respect to "no income/asset" documentation, the mortgagor will have furnished information with respect to its assets, liabilities and income (except as described below) and credit history, employment history and personal information, and furnished an authorization to apply for a credit report which summarizes the mortgagor's credit history with local merchants and lenders and any record of bankruptcy. The mortgagor may also have been required to authorize verifications of deposits at financial institutions where the mortgagor had demand or savings accounts. In the case of investment properties and two to four unit dwellings, income derived from the mortgaged property may have been considered for underwriting purposes, in addition to the income of the mortgagor from other sources. With respect to mortgaged property consisting of vacation or second homes, no income derived from the property generally will have been considered for underwriting purposes.
>
> Based on the data provided in the application and certain verification (if required), a determination is made by the original lender that the mortgagor's monthly income (if required to be stated) will be sufficient to enable the mortgagor to meet its monthly obligations on the mortgage loan and other expenses related to the property such as property taxes, utility costs, standard hazard insurance and other fixed obligations other than housing expenses. Generally, scheduled payments on a mortgage loan during the first year of its term plus taxes and insurance and all scheduled payments on obligations that extend beyond ten months equal no more than a specified percentage of the prospective mortgagor's gross income. The percentage applied varies on a case by case basis depending on a number of underwriting criteria, including the LTV ratio of the mortgage loan. The sponsor may also consider the amount of liquid assets available to the mortgagor after origination.

Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement at S-46; S-47-48. *See also* Adjustable Rate Mortgage Trust 2007-2 Prospectus Supplement at S-40-41; Adjustable Rate Mortgage Trust 2007-1 Prospectus Supplement at S-35; Home Equity Mortgage Trust 2006-2

Prospectus Supplement at S-48-49; Home Equity Mortgage Trust 2007-2 Prospectus, Apr. 20, 2007, at 31-32.

242. The Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement provided the following description of Countrywide's underwriting guidelines:

> As part of its evaluation of potential borrowers, Countrywide Home Loans generally requires a description of income. If required by its underwriting guidelines, Countrywide Home Loans obtains employment verification providing current and historical income information and/or a telephonic employment confirmation. Such employment verification may be obtained, either through analysis of the prospective borrower's recent pay stub and/or W-2 forms for the most recent two years, relevant portions of the most recent two years' tax returns, or from the prospective borrower's employer, wherein the employer reports the length of employment and current salary with that organization. Self-employed prospective borrowers generally are required to submit relevant portions of their federal tax returns for the past two years.
>
> In assessing a prospective borrower's creditworthiness, Countrywide Home Loans may use FICO Credit Scores. "FICO Credit Scores" are statistical credit scores designed to assess a borrower's creditworthiness and likelihood to default on a consumer obligation over a two-year period based on a borrower's credit history. FICO Credit Scores were not developed to predict the likelihood of default on mortgage loans and, accordingly, may not be indicative of the ability of a borrower to repay its mortgage loan. FICO Credit Scores range from approximately 250 to approximately 900, with higher scores indicating an individual with a more favorable credit history compared to an individual with a lower score. Under Countrywide Home Loans' underwriting guidelines, borrowers possessing higher FICO Credit Scores, which indicate a more favorable credit history and who give Countrywide Home Loans the right to obtain the tax returns they filed for the preceding two years, may be eligible for Countrywide Home Loans' processing program (the "Preferred Processing Program").
>
> Periodically the data used by Countrywide Home Loans to complete the underwriting analysis may be obtained by a third party, particularly for mortgage loans originated through a loan correspondent or mortgage broker. In those instances, the initial determination as to whether a mortgage loan complies with Countrywide Home Loans' underwriting guidelines may be made by an independent company hired to perform underwriting services on behalf of Countrywide Home Loans, the loan correspondent or mortgage broker. In addition, Countrywide Home Loans may acquire mortgage loans from approved correspondent lenders under a program pursuant to which Countrywide Home Loans delegates to the correspondent the obligation to underwrite the mortgage loans to Countrywide Home Loans' standards. Under these circumstances, the

underwriting of a mortgage loan may not have been reviewed by Countrywide Home Loans before acquisition of the mortgage loan and the correspondent represents that Countrywide Home Loans' underwriting standards have been met. After purchasing mortgage loans under those circumstances, Countrywide Home Loans conducts a quality control review of a sample of the mortgage loans. The number of loans reviewed in the quality control process varies based on a variety of factors, including Countrywide Home Loans' prior experience with the correspondent lender and the results of the quality control review process itself.

Countrywide Home Loans' underwriting standards are applied by or on behalf of Countrywide Home Loans to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral. Under those standards, a prospective borrower must generally demonstrate that the ratio of the borrower's monthly housing expenses (including principal and interest on the proposed mortgage loan and, as applicable, the related monthly portion of property taxes, hazard insurance and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt to the monthly gross income (the "debt-to-income" ratios) are within acceptable limits.

Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement at S-38-39.

243. The Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement stated:

Exceptions to Countrywide Home Loan's underwriting guidelines may be made if compensating factors are demonstrated by a prospective borrower.

Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement at S-39.

244. The Home Equity Asset Trust 2006-6 Prospectus Supplement stated:

The mortgage loans originated or acquired by OwnIt Mortgage Solutions, Inc. were originated generally in accordance with the underwriting standards described below under "OwnIt Mortgage Solutions, Inc., as Originator." The remainder of the mortgage loans included in the trust were originated or acquired by various originators in accordance with such originators' underwriting standards generally comparable to the general underwriting standards described below under "General Underwriting Standards."

Home Equity Asset Trust 2006-6 Prospectus Supplement at S-36.

245. The Home Equity Asset Trust 2006-6 Prospectus Supplement further stated:

The General Underwriting Guidelines are a summary of the underwriting guidelines used by originators, other than OwnIt. All of the mortgage loans are "conventional mortgage loans" (i.e., loans which are not insured by the Federal

Housing Authority or partially guaranteed by the Veterans Administration). The underwriting standards applicable to the mortgage loans typically differ from, and, with respect to a substantial number of mortgage loans, are generally less stringent than, the underwriting standards established by Fannie Mae or Freddie Mac primarily with respect to original principal balances, loan-to-value ratios, mortgagor income, mortgagor credit history, mortgagor employment history, required documentation, interest rates, mortgagor occupancy of the mortgaged property and/or property types. To the extent the programs reflect underwriting standards different from those of Fannie Mae and Freddie Mac, the performance of the mortgage loans thereunder may reflect relatively higher delinquency rates and/or credit losses. In addition, certain exceptions to the underwriting standards described herein may be made in the event that compensating factors are demonstrated by a prospective mortgagor. In general, neither the seller nor the depositor has re-underwritten any mortgage loan.

Generally, each mortgagor will have been required to complete an application designed to provide to the original lender pertinent credit information concerning the mortgagor. As part of the description of the mortgagor's financial condition, such mortgagor generally will have furnished information (which may be supplied solely in such application) with respect to its assets, liabilities, income (except as described below), credit history, employment history and personal information, and furnished an authorization to apply for a credit report which summarizes the mortgagor's credit history with local merchants and lenders and any record of bankruptcy. The mortgagor may also have been required to authorize verifications of deposits at financial institutions where the mortgagor had demand or savings accounts. In the case of investment properties and two- to four-unit dwellings, income derived from the mortgaged property may have been considered for underwriting purposes, in addition to the income of the mortgagor from other sources. With respect to mortgaged property consisting of vacation or second homes, no income derived from the property generally will have been considered for underwriting purposes. In the case of certain mortgagors with acceptable payment histories, no income will have been required to be stated (or verified) in connection with the loan application.

Based on the data provided in the application and certain verifications (if required), a determination will have been made by the original lender that the mortgagor's monthly income (if required to be stated) should be sufficient to enable the mortgagor to meet its monthly obligations on the mortgage loan and other expenses related to the mortgaged property (such as property taxes, standard hazard insurance and other fixed obligations other than housing expenses). Generally, scheduled payments on a mortgage loan during the first year of its term plus taxes and insurance and other fixed obligations equal no more than a specified percentage of the prospective mortgagor's gross income. The percentage applied varies on a case by case basis depending on a number of underwriting criteria, including the loan-to-value ratio of the mortgage loan. The originator may also have considered the amount of liquid assets available to the mortgagor after origination.

Home Equity Asset Trust 2006-6 Prospectus Supplement at S-36-37.

246. With respect to Ownit's underwriting guidelines, the Home Equity Asset Trust 2006-6 Prospectus Supplement stated:

> OwnIt is the originator of the "RightLoan", a proprietary loan product that focuses on purchase, owner occupied, full documentation loans.
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> . . . .
>
> The Underwriting Guidelines and Credit Matrices of the RightLoan are designed to be used as a guide in determining the credit worthiness of the borrower and his/her ability to repay. The guidelines, a reasonable loan amount and the RightLoan itself offer a solution that also facilitates making logical exceptions to those guides. Exceptions to the guidelines will be made if the loan meets the primary criteria of the RightLoan and offers supported compensating factors when a deviation occurs. In all cases, the exception(s) and compensating factor(s) are clearly documented in the file and require branch manager approval and a second signature from the corporate underwriter.
>
> Using the three components, capacity, credit and collateral, the underwriter analyzes the loan profile. Capacity, which is the borrower's ability to repay, is determined by cash flow. It must be clearly shown that the borrower has a proven, historical cash flow, which will support the requested loan amount. This approach anticipates that the loan is going to be repaid from the borrower's recurring cash inflows, not from the sale of the collateral. Job stability and length of time in current residence are also strong factors in determining a borrower's capacity. Continuity of employment is a strong factor in establishing the income used as a basis for repayment. Credit is the borrower's willingness to repay his or her debts according to the contractual agreements. The most valuable resource in determining the borrower's ability to repay is the credit report. OwnIt underwriters will use the credit report and credit explanation letter when supplied in determining willingness. OwnIt uses the credit score as a primary factor in determining the borrower's willingness to repay his or her debts. Collateral is defined as the asset pledged by the borrower to the lender. Collateral is a secondary source of repayment; cash flow is the primary source of repayment. OwnIt will evaluate the property by reviewing uniform residential real estate appraisal reports, along with other data sources, to determine whether the collateral is sufficient to secure the mortgage.
>
> The underwriter's objective is to analyze an application individually with the understanding that no single characteristic will approve or deny a loan. The underwriter must utilize the credit report, loan application, asset verifications,

appraisal and all other supporting documents in determining credit worthiness and risk. Credit risk can be defined as, but is not restricted to, limited liquid assets or reserves, and derogatory credit history. The overall situation and profile of a borrower, including compensating factors, which may offset negative characteristics, must be taken into consideration in determining if the borrower is creditworthy. Credit worthiness is determined by the borrower's ability and willingness to repay his or her contractual debt and the value of the property securing the loan. A sufficient property value gives OwnIt the ability to recover its investment if the loan defaults.

. . . .

Capacity. Several aspects are considered in determining the borrower's capacity or ability to repay the loan. The key factors are employment documentation, history and amount of income used to derive the debt to income ratios. OwnIt offers three income documentation options: Full documentation includes traditional employment verification such as pay stubs, W2s or/and tax returns. A copy of the borrower's personal or business bank statements for the most recent 12 month period also constitutes full income documentation. Limited Income Verification (LIV) represents an average of 6 months bank statements. No Income Verification (NIV) uses the income stated by the borrower on the 1003 loan application to qualify. Satisfactory employment history is established with 2 years at the same job or similar, related field. Verbal employment verification is performed prior to funding for all documentation types and good probability of continuance is required. The actual method of calculating and documenting employment history and income depends on the borrower's credit score and LTV. Higher LTVs and lower credit scores require a longer period in which income must be verified. Base debt to income ratios are set at 45% or 50% depending on credit score, LTV, documentation type and if the borrower is a first time home buyer. In some cases the maximum debt ratio may increase to 55% based on meeting a minimum disposable income requirement.

Credit. A satisfactory credit history is the most reliable criterion in determining a borrower's credit worthiness. OwnIt relies on the scoring models developed by the national credit bureaus: Experian, Transunion and Equifax for much of that decision process. Using a credit score methodology that requires a 2 repository merged in file score, the Brokers' credit report and score is used for qualification purposes. OwnIt will run a back up report to audit the Brokers' report for material variances such as social security number, fingerprint or depth. The score used for qualification purposes is the middle of three or lower of two scores provided by the national bureaus for the primary wage earner. The primary wage earner is defined as the borrower earning 51% of the total income. A minimum trade history is required for all loan documentation types with certain accounts not considered valid trade lines. The minimum credit score for all programs is 540.

Certain events may restrict LTV and loan amount options available to a borrower. Bankruptcy and Foreclosure history is considered, as well as charge off, collections, judgments and liens. Liens that affect title must be paid off or subordinated. Other delinquent accounts must be paid off depending on the aggregate balance or seasoning; credit events that occurred over 24 months or have a balance less than $4,000 are not required to be paid. The mortgage history is viewed with respect to the payoff/demand statement. A prior mortgage history may not be greater than 59 days delinquent at closing or contractually 30 days late at closing.

Collateral. The collateral value and amount of equity in the subject property are important factors in assessing the risk of a particular loan. All properties must conform to the neighborhood and be in average or better condition. Acceptable property type includes: 1-2 family, 3-4 family, condominiums, planned unit developments (PUDs), modular homes and leasehold properties. Emphasis is placed on property type, location and occupancy to determine risk associated with specific LTV and credit score. Maximum financing is not available for rural properties, neighborhoods with declining values, oversupply of housing and/or marketing time over 6 months, or properties at the low or high end of value range with no comparable sales in the immediate area. Maximum financing is also not available on transactions involving a gift of equity. All appraisals should conform to the Uniform Standards of Professional Appraisal Practices. OwnIt requires the underwriter to review all appraisals for content and accuracy, pulling additional data if available or warranted. Certain types of transactions require an enhanced desk or field review. Loan amounts in excess of $650,000 require a second full appraisal. The minimum square footage is 700 and deferred maintenance must be cosmetic in nature, not resulting in a health or safety hazard and should not exceed $3,500 cost to cure.

Home Equity Asset Trust 2006-6 Prospectus Supplement at S-38-39.

247. The Home Equity Mortgage Trust 2007-2 Prospectus Supplement stated:

The sponsor acquired approximately 34.43% of the mortgage loans (by principal balance as of the cut-off date) through its whole-loan flow acquisition channel from originators that the sponsor has determined met its qualified correspondent requirements. Such standards require that the following conditions be satisfied: (i) the related mortgage loans were originated pursuant to a mortgage loan purchase agreement between the sponsor and the applicable qualified correspondent that contemplated that such qualified correspondent would underwrite mortgage loans from time to time, for sale to the sponsor, in accordance with underwriting guidelines designated by the sponsor ("Designated Guidelines") or guidelines that do not vary materially from such Designated Guidelines; (ii) such mortgage loans were in fact underwritten as described in clause (i) above and were acquired by the sponsor within 270 days after the related origination dates; (iii) the Designated Guidelines were, at the time such mortgage loans were underwritten, designated by the sponsor on a consistent basis for use by originators in originating mortgage loans to be purchased by the sponsor; and (iv) the sponsor employed, at the time such mortgage loans were acquired by the sponsor, certain quality assurance procedures designed to ensure that the applicable qualified correspondent from which it purchased the related mortgage loans properly applied the underwriting criteria designated by the sponsor. The Designated Guidelines are substantially similar to the guidelines described prospectus under "The Trust Fund--Underwriting Standards for Mortgage Loans--Single and Multi-Family Mortgage Loans."

Home Equity Mortgage Trust 2007-2 Prospectus Supplement at S-33.

248. The Long Beach Mortgage Trust 2006-1 Trust Prospectus Supplement stated:

The sponsor's underwriting guidelines are primarily intended to evaluate the applicant's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral for the mortgage loan.

Long Beach Mortgage Trust 2006-1 Trust Prospectus Supplement at S-11. *See also* Long Beach Mortgage Loan Trust 2006-6 Prospectus Supplement at S-35.

249. The Long Beach Mortgage Trust 2006-1 Trust Prospectus Supplement stated:

During the underwriting or re-underwriting process, the sponsor reviews and verifies the prospective borrower's sources of income (only under the full documentation residential loan program), calculates the amount of income from all such sources indicated on the loan application, reviews the credit history and credit score(s) of the prospective borrower and calculates the debt-to-income ratio to determine the prospective borrower's ability to repay the loan, and determines whether the mortgaged property complies with the sponsor's underwriting guidelines.

Long Beach Mortgage Trust 2006-1 Prospectus Supplement at S-35. *See also* Long Beach Mortgage Loan Trust 2006-6 Prospectus Supplement at S-35.

250. The Long Beach Mortgage Trust 2006-1 Trust Prospectus stated:

Initially, a prospective borrower is required to complete an application with respect to the applicant's liabilities, income and credit history and personal information, as well as an authorization to apply for a credit report that summarizes the borrower's reported credit history with local merchants and lenders and any record of bankruptcy. In addition, an employment verification is obtained that reports the borrower's current salary and may contain information regarding length of employment. If a prospective borrower is self-employed, the borrower is required to submit copies of signed tax returns or other proof of business income. The borrower may also be required to authorize verification of deposits at financial institutions where the borrower has demand or savings accounts. In the case of a multifamily loan, commercial loan or mixed-use loan, the mortgagor will also be required to provide certain information regarding the related mortgaged property, including a current rent roll and operating income statements which may be pro forma and unaudited. In addition, the originator will generally also consider the location of the mortgaged property, the availability of competitive lease space and rental income of comparable properties in the relevant market area, the overall economy and demographic features of the geographic area and the mortgagor's prior experience in owning and operating properties similar to the multifamily properties or commercial properties, as the case may be.

Long Beach Mortgage Trust Prospectus, Feb. 10, 2004, at 22-23. *See also* Long Beach Mortgage Loan Trust 2006-6 Prospectus, July 21, 2006 at 29.

251. The RALI Series 2006-QA9 Trust Prospectus stated:

> The depositor expects that the originator of each of the mortgage loans will have applied, consistent with applicable federal and state laws and regulations, underwriting procedures intended to evaluate the borrower's credit standing and repayment ability and/or the value and adequacy of the related property as collateral.

RALI Series 2006-QA9 Trust Prospectus, Oct. 26, 2006, at 12; RALI Series 2006-QA9 Trust Registration Statement, Jan. 23, 2006, at 13.

252. The RALI Series 2006-QA9 Trust Prospectus Supplement stated:

> Program Underwriting Standards. In accordance with the Seller Guide, the Expanded Criteria Program Seller is required to review an application designed to provide the original lender pertinent credit information concerning the mortgagor. As part of the description of the mortgagor's financial condition, each mortgagor is required to furnish information, which may have been supplied solely in the application, regarding its assets, liabilities, income (except as described below), credit history and employment history, and to furnish an authorization to apply for a credit report which summarizes the borrower's credit history with local merchants and lenders and any record of bankruptcy.

RALI Series 2006-QA9 Trust Prospectus Supplement at S-49; RALI Series 2006-QA9 Trust Registration Statement, Jan. 23, 2006, at S-43.

253. The RALI Series 2006-QA9 Trust Prospectus Supplement included the following statement with respect to the borrower's ability to pay the loan:

> Based on the data provided in the application and certain verifications, if required, a determination is made by the original lender that the mortgagor's monthly income, if required to be stated, will be sufficient to enable the mortgagor to meet its monthly obligations on the mortgage loan and other expenses related to the property, including property taxes, utility costs, standard hazard insurance and other fixed obligations.

RALI Series 2006-QA9 Trust Prospectus Supplement at S-49; RALI Series 2006-QA9 Trust Registration Statement, Jan. 23, 2006, at S-43.

254. UNTRUE STATEMENTS AND OMITTED INFORMATION: The preceding statements were material at the time they were made, because the quality of the loans in the mortgage pool directly affects the riskiness of the RMBS investment, and the quality of the loans is dependent upon the underwriting process employed. The preceding statements were untrue at the time they were made because, among other things, the Originators did not adhere to the stated underwriting guidelines, did not effectively evaluate the borrowers' ability or likelihood to repay the loans, did not properly evaluate whether the borrower's debt-to-income ratio supported a conclusion that the borrower had the means to meet his/her monthly obligations, and did not ensure that adequate compensating factors justified the granting of exceptions to guidelines.

B. Untrue Statements Concerning Adherence to Reduced Documentation Program Underwriting Guidelines

255. The Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement stated:

> A prospective borrower may be eligible for a loan approval process that limits or eliminates Countrywide Home Loans' standard disclosure or verification requirements or both. Countrywide Home Loans offers the following documentation programs as alternatives to its Full Documentation Program: an Alternative Documentation Loan Program (the "Alternative Documentation Program"), a Reduced Documentation Loan Program (the "Reduced Documentation Program"), a CLUES Plus Documentation Loan Program (the "CLUES Plus Documentation Program"), a No Income/No Asset Documentation Loan Program (the "No Income/No Asset Documentation Program"), a Stated Income/Stated Asset Documentation Loan Program (the "Stated Income/Stated Asset Documentation Program") and a Streamlined Documentation Loan Program (the "Streamlined Documentation Program").

Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement at S-40.

256. The Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement stated:

> In connection with the Standard Underwriting Guidelines, Countrywide Home Loans originates or acquires mortgage loans under the Full Documentation Program, the Alternative Documentation Program, the Reduced Documentation Program, the CLUES Plus Documentation Program or the Streamlined Documentation Program.
>
> The Alternative Documentation Program permits a borrower to provide W-2 forms instead of tax returns covering the most recent two years, permits bank statements in lieu of verification of deposits and permits alternative methods of employment verification.
>
> Under the Reduced Documentation Program, some underwriting documentation concerning income, employment and asset verification is waived. Countrywide Home Loans obtains from a prospective borrower either a verification of deposit or bank statements for the two-month period immediately before the date of the mortgage loan application or verbal verification of employment. Since information relating to a prospective borrower's income and employment is not verified, the borrower's debt-to-income ratios are calculated based on the information provided by the borrower in the mortgage loan application. The maximum Loan-to-Value Ratio ranges up to 95%.
>
> The CLUES Plus Documentation Program permits the verification of employment by alternative means, if necessary, including verbal verification of employment or reviewing paycheck stubs covering the pay period immediately prior to the date of the mortgage loan application. To verify the borrower's assets and the sufficiency of the borrower's funds for closing, Countrywide Home Loans obtains deposit or bank account statements from each prospective borrower for the month immediately prior to the date of the mortgage loan application. Under the CLUES Plus Documentation Program, the maximum Loan-to-Value Ratio is 75% and property values may be based on appraisals comprising only interior and exterior inspections. Cash-out refinances and investor properties are not permitted under the CLUES Plus Documentation Program.
>
> The Streamlined Documentation Program is available for borrowers who are refinancing an existing mortgage loan that was originated or acquired by Countrywide Home Loans provided that, among other things, the mortgage loan has not been more than 30 days delinquent in payment during the previous twelve-month period. Under the Streamlined Documentation Program, appraisals are obtained only if the loan amount of the loan being refinanced had a Loan-to-Value Ratio at the time of origination in excess of 80% or if the loan amount of the new loan being originated is greater than $650,000. In addition, under the Streamlined Documentation Program, a credit report is obtained but only a limited credit review is conducted, no income or asset verification is required, and

> telephonic verification of employment is permitted. The maximum Loan-to-Value Ratio under the Streamlined Documentation Program ranges up to 95%.

Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement at S-41.

257. The Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement also represented:

> In connection with the Expanded Underwriting Guidelines, Countrywide Home Loans originates or acquires mortgage loans under the Full Documentation Program, the Alternative Documentation Program, the Reduced Documentation Loan Program, the No Income/No Asset Documentation Program and the Stated Income/Stated Asset Documentation Program. Neither the No Income/No Asset Documentation Program nor the Stated Income/Stated Asset Documentation Program is available under the Standard Underwriting Guidelines.
>
> The same documentation and verification requirements apply to mortgage loans documented under the Alternative Documentation Program regardless of whether the loan has been underwritten under the Expanded Underwriting Guidelines or the Standard Underwriting Guidelines. However, under the Alternative Documentation Program, mortgage loans that have been underwritten pursuant to the Expanded Underwriting Guidelines may have higher loan balances and Loan-to-Value Ratios than those permitted under the Standard Underwriting Guidelines.
>
> Similarly, the same documentation and verification requirements apply to mortgage loans documented under the Reduced Documentation Program regardless of whether the loan has been underwritten under the Expanded Underwriting Guidelines or the Standard Underwriting Guidelines. However, under the Reduced Documentation Program, higher loan balances and Loan-to-Value Ratios are permitted for mortgage loans underwritten pursuant to the Expanded Underwriting Guidelines than those permitted under the Standard Underwriting Guidelines. The maximum Loan-to-Value Ratio, including secondary financing, ranges up to 90%. The borrower is not required to disclose any income information for some mortgage loans originated under the Reduced Documentation Program, and accordingly debt-to-income ratios are not calculated or included in the underwriting analysis. The maximum Loan-to-Value Ratio, including secondary financing, for those mortgage loans ranges up to 85%.
>
> Under the No Income/No Asset Documentation Program, no documentation relating to a prospective borrower's income, employment or assets is required and therefore debt-to-income ratios are not calculated or included in the underwriting analysis, or if the documentation or calculations are included in a mortgage loan file, they are not taken into account for purposes of the underwriting analysis. This program is limited to borrowers with excellent credit histories. Under the No Income/No Asset Documentation Program, the maximum Loan-to-Value Ratio, including secondary financing, ranges up to 95%. Mortgage loans originated

> under the No Income/No Asset Documentation Program are generally eligible for sale to Fannie Mae or Freddie Mac.
>
> Under the Stated Income/Stated Asset Documentation Program, the mortgage loan application is reviewed to determine that the stated income is reasonable for the borrower's employment and that the stated assets are consistent with the borrower's income. The Stated Income/Stated Asset Documentation Program permits maximum Loan-to-Value Ratios up to 90%. Mortgage loans originated under the Stated Income/Stated Asset Documentation Program are generally eligible for sale to Fannie Mae or Freddie Mac.

Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement at S-42-43.

258. With respect to DLJ’s and Credit Suisse Financial Corporation’s documentation programs, the Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement stated:

> The mortgage loans have been originated under “full documentation” or “alternative documentation,” “reduced documentation,” “stated income/stated assets” or “no income/no asset” programs. The “alternative documentation,” “reduced documentation,” “stated income/stated assets” and “no income/no asset” programs generally require either alternative or less documentation and verification than do full documentation programs which generally require standard Fannie Mae/Freddie Mac approved forms for verification of income/employment, assets and certain payment histories. Generally, an “alternative” documentation program requires information regarding the mortgagor’s income (i.e., W-2 forms, tax returns and/or pay stubs) and assets (i.e., bank statements) as does a “full documentation” loan, however, alternative forms of standard verifications are used. Generally, under both “full documentation” and “alternative documentation” programs at least one year of income documentation is provided. Generally, under a “reduced documentation” program, either no verification of a mortgagor’s stated income is undertaken by the originator or no verification of a mortgagor’s assets is undertaken by the originator. Reduced documentation loans may also include loans having only one year of income verification and loans to mortgagors with acceptable payment histories and credit scores but no information or verification of the mortgagor’s income. Under a “stated income/stated assets” program, no verification of either a mortgagor’s income or a mortgagor’s assets is undertaken by the originator although both income and assets are stated on the loan application and a “reasonableness test” is applied. Generally, under a “no income/no asset” program, the mortgagor is not required to state his or her income or assets and therefore, no verification of such mortgagor’s income or assets is undertaken by the originator. The underwriting for mortgage loans originated under the “no income/no asset” program may be based primarily or entirely on the estimated value of the mortgaged property and the LTV ratio at origination as well as on the payment history and credit score.

Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement at S-46-47; *see also* Adjustable Rate Mortgage Trust 2007-2 Prospectus Supplement at S-34; Adjustable Rate Mortgage Trust 2007-1 Prospectus Supplement at S-36-37.

259. The Home Equity Asset Trust 2006-6 Prospectus Supplement stated:

> The mortgage loans have been originated under "full" or "alternative," "reduced documentation," "stated income/stated assets" or "no income/no asset" programs. The "alternative," "reduced documentation," "stated income/stated assets" or "no income/no asset" programs generally require either alternative or less documentation and verification than do full documentation programs which generally require standard Fannie Mae/Freddie Mac approved forms for verification of income/employment, assets and certain payment histories. Generally, an "alternative" documentation program requires information regarding the mortgagor's income (i.e., W-2 forms, tax returns and/or pay stubs) and assets (i.e., bank statements) as does a "full" documentation loan, however, alternative forms of standard verifications are used. Generally, under both "full" and "alternative" documentation programs, at least one year of income documentation is provided. Generally, under a "reduced documentation" program, either no verification of a mortgagor's stated income is undertaken by the originator or no verification of a mortgagor's assets is undertaken by the originator. Under a "stated income/stated assets" program, no verification of either a mortgagor's income or a mortgagor's assets is undertaken by the originator although both income and assets are stated on the loan application and a "reasonableness test" is applied. Generally, under a "no income/no asset" program, the mortgagor is not required to state his or her income or assets and therefore, no verification of such mortgagor's income or assets is undertaken by the originator. The underwriting for such mortgage loans may be based primarily or entirely on the estimated value of the mortgaged property and the LTV ratio at origination as well as on the payment history and credit score.

Home Equity Asset Trust 2006-6 Prospectus Supplement at S-37; Home Equity Mortgage Trust 2006-2 Prospectus Supplement at S-49; Home Equity Mortgage Trust 2007-2 Prospectus, Apr. 20, 2007, at 32.

260. The Long Beach Mortgage Loan Trust 2006-1 Prospectus Supplement represented:

> The mortgage loans have been, or will be, originated or re-underwritten upon acquisition, generally in accordance with guidelines established by the sponsor under its full documentation, limited documentation or stated income

documentation residential loan programs.

Under the full documentation residential loan program, salaried prospective borrowers are generally required to submit their most recent W-2s and pay stubs and self-employed prospective borrowers are generally required to submit their most recent federal income tax return. Under the stated income documentation residential loan program, prospective borrowers are required to state their income on the application but are not required to submit any documents in support. Under the limited documentation residential loan program, salaried prospective borrowers or self-employed prospective borrowers are generally required to submit their most recent six months of personal bank statements or business bank statements. Under the limited documentation and stated income documentation residential loan programs, the prospective borrower's employment and income sources must be stated on the prospective borrower's application. The prospective borrower's income as stated must be reasonable for the related occupation and such determination as to reasonableness is subject to the loan underwriter's discretion. However, the prospective borrower's income as stated on the application is not independently verified. Verification of employment is required for salaried prospective borrowers. Maximum loan-to-value ratios under the stated income documentation residential loan programs are generally lower than those permitted under the full documentation and limited documentation residential loan programs. Generally, the same underwriting guidelines that apply to the full documentation and limited documentation residential loan programs, except as noted in this section, apply to the limited documentation and stated income documentation residential loan programs.

Long Beach Mortgage Loan Trust 2006-1 Prospectus Supplement at S-36-37. *See also*

Long Beach Mortgage Loan Trust 2006-6 Prospectus Supplement at S-37.

261. The RALI Series 2006-QA9 Trust Prospectus stated:

General Standards

In most cases, under a traditional "full documentation" program, each mortgagor will have been required to complete an application designed to provide to the original lender pertinent credit information concerning the mortgagor. As part of the description of the mortgagor's financial condition, the mortgagor will have furnished information, which may be supplied solely in the application, with respect to its assets, liabilities, income (except as described below), credit history, employment history and personal information, and furnished an authorization to apply for a credit report that summarizes the borrower's credit history with local merchants and lenders and any record of bankruptcy. The mortgagor may also have been required to authorize verifications of deposits at financial institutions where the mortgagor had demand or savings accounts. In the case of investment properties and two- to four-unit dwellings, income derived from the mortgaged

> property may have been considered for underwriting purposes, in addition to the income of the mortgagor from other sources. With respect to mortgaged property consisting of vacation or second homes, no income derived from the property will have been considered for underwriting purposes. In the case of certain borrowers with acceptable payment histories, no income will be required to be stated, or verified, in connection with the loan application.
>
> If specified in the accompanying prospectus supplement, a mortgage pool may include mortgage loans that have been underwritten pursuant to a streamlined documentation refinancing program. Such program permits some mortgage loans to be refinanced with only limited verification or updating of the underwriting information that was obtained at the time that the original mortgage loan was originated. For example, a new appraisal of a mortgaged property may not be required if the related original mortgage loan was originated up to 24 months prior to the refinancing. In addition, a mortgagor's income may not be verified, although continued employment is required to be verified. In certain circumstances, a mortgagor may be permitted to borrow up to 100% of the outstanding principal amount of the original mortgage loan. Each mortgage loan underwritten pursuant to this program will be treated as having been underwritten pursuant to the same underwriting documentation program as the mortgage loan that it refinanced, including for purposes of the disclosure in the accompanying prospectus supplement.
>
> If specified in the accompanying prospectus supplement, some mortgage loans may have been originated under "limited documentation," "stated documentation" or "no documentation" programs that require less documentation and verification than do traditional "full documentation" programs. Under a limited documentation, stated documentation or no documentation program, minimal investigation into the mortgagor's credit history and income profile is undertaken by the originator and the underwriting may be based primarily or entirely on an appraisal of the mortgaged property and the LTV ratio at origination.

RALI Series 2006-QA9 Trust Prospectus, Oct. 26, 2006, at 12-13; RALI Series 2006-QA9 Trust Registration Statement, Jan. 23, 2006, at 13-14.

262. UNTRUE STATEMENTS AND OMITTED INFORMATION: The preceding statements were material at the time they were made, because the quality of the loans in the mortgage pool directly affects the riskiness of the RMBS investment, and the quality of the loans is dependent upon the underwriting process employed. The preceding statements were untrue at the time they were made, because regardless of the documentation program purportedly

employed, the Originators systematically disregarded their underwriting guidelines.

C. Untrue Statements Concerning Loan-to-Value Ratios, and DTI Ratios

263. The Offering Documents provided statistical descriptions of the collateral, such as LTV ratios, combined LTV ratios, owner-occupancy rates, and DTI ratios. *See*, *e.g.*, RALI Series 2006-QA9 Trust Prospectus Supplement, at Annex I.

264. The Offering Documents represented that independent and objective appraisals were obtained for the properties. *See*, *e.g.*, Adjustable Rate Mortgage Tryst 2006-3 at pg.32 ("All appraisals conform to the Uniform Standards of the Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation and must be on forms acceptable to Fannie Mae and/or Freddie Mac.")

265. The Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement stated:

> Countrywide Home Loan's Standard Underwriting Guidelines for mortgage loans with non-conforming original principal balances generally allow Loan-to-Value Ratios at origination of up to 95% for purchase money or rate and term refinance mortgage loans with original principal balances of up to $400,000, up to 90% for mortgage loans with original principal balances of up to $650,000, up to 75% for mortgage loans with original principal balances of up to $1,000,000, up to 65% for mortgage loans with original principal balances of up to $1,500,000, and up to 60% for mortgage loans with original principal balances of up to $2,000,000.
>
> For cash-out refinance mortgage loans, Countrywide Home Loan's Standard Underwriting Guidelines for mortgage loans with non-conforming original principal balances generally allow Loan-to-Value Ratios at origination of up to 75% and original principal balances ranging up to $650,000. The maximum "cash-out" amount permitted is $200,000 and is based in part on the original Loan-to-Value Ratio of the related mortgage loan. As used in this prospectus supplement, a refinance mortgage loan is classified as a cash-out refinance mortgage loan by Countrywide Home Loans if the borrower retains an amount greater than the lesser of 2% of the entire amount of the proceeds from the refinancing of the existing loan or $2,000.
>
> Countrywide Home Loan's Standard Underwriting Guidelines for conforming balance mortgage loans generally allow Loan-to-Value Ratios at origination on owner occupied properties of up to 95% on 1 unit properties with principal balances up to $417,000 ($625,500 in Alaska and Hawaii) and 2 unit properties with principal balances up to $533,850 ($800,775 in Alaska and Hawaii) and up

to 80% on 3 unit properties with principal balances of up to $645,300 ($967,950 in Alaska and Hawaii) and 4 unit properties with principal balances of up to $801,950 ($1,202,925 in Alaska and Hawaii). On second homes, Countrywide Home Loan's Standard Underwriting Guidelines for conforming balance mortgage loans generally allow Loan-to-Value Ratios at origination of up to 95% on 1 unit properties with principal balances up to $417,000 ($625,500 in Alaska and Hawaii). Countrywide Home Loan's Standard Underwriting Guidelines for conforming balance mortgage loans generally allow Loan-to-Value Ratios at origination on investment properties of up to 90% on 1 unit properties with principal balances up to $417,000 ($625,500 in Alaska and Hawaii) and 2 unit properties with principal balances up to $533,850 ($800,775 in Alaska and Hawaii) and up to 75% on 3 unit properties with principal balances of up to $645,300 ($967,950 in Alaska and Hawaii) and 4 unit properties with principal balances of up to $801,950 ($1,202,925 in Alaska and Hawaii).

Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement at S-40-41.

266. The Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement continued:

Countrywide Home Loan's Expanded Underwriting Guidelines for mortgage loans with non-conforming original principal balances generally allow Loan-to-Value Ratios at origination of up to 95% for purchase money or rate and term refinance mortgage loans with original principal balances of up to $400,000, up to 90% for mortgage loans with original principal balances of up to $650,000, up to 80% for mortgage loans with original principal balances of up to $1,000,000, up to 75% for mortgage loans with original principal balances of up to $1,500,000 and up to 70% for mortgage loans with original principal balances of up to $3,000,000. Under certain circumstances, however, Countrywide Home Loan's Expanded Underwriting Guidelines allow for Loan-to-Value Ratios of up to 100% for purchase money mortgage loans with original principal balances of up to $375,000.

For cash-out refinance mortgage loans, Countrywide Home Loan's Expanded Underwriting Guidelines for mortgage loans with non-conforming original principal balances generally allow Loan-to-Value Ratios at origination of up to 90% and original principal balances ranging up to $1,500,000. The maximum "cash-out" amount permitted is $400,000 and is based in part on the original Loan-to-Value Ratio of the related mortgage loan.

Countrywide Home Loan's Expanded Underwriting Guidelines for conforming balance mortgage loans generally allow Loan-to-Value Ratios at origination on owner occupied properties of up to 100% on 1 unit properties with principal balances up to $417,000 ($625,500 in Alaska and Hawaii) and 2 unit properties with principal balances up to $533,850 ($800,775 in Alaska and Hawaii) and up to 85% on 3 unit properties with principal balances of up to $645,300 ($967,950 in Alaska and Hawaii) and 4 unit properties with principal balances of up to $801,950 ($1,202,925 in Alaska and Hawaii). On second homes, Countrywide

Home Loan's Expanded Underwriting Guidelines for conforming balance mortgage loans generally allow Loan-to-Value Ratios at origination of up to 95% on 1 unit properties with principal balances up to $417,000 ($625,500 in Alaska and Hawaii). Countrywide Home Loan's Expanded Underwriting Guidelines for conforming balance mortgage loans generally allow Loan-to-Value Ratios at origination on investment properties of up to 90% on 1 unit properties with principal balances up to $417,000 ($625,500 in Alaska and Hawaii) and 2 unit properties with principal balances up to $533,850 ($800,775 in Alaska and Hawaii) and up to 85% on 3 unit properties with principal balances of up to $645,300 ($967,950 in Alaska and Hawaii) and 4 unit properties with principal balances of up to $801,950 ($1,202,925 in Alaska and Hawaii).

Adjustable Rate Mortgage Trust 2006-3 Prospectus Supplement at S-41-42.

267. The Home Equity Asset Trust 2006-6 Prospectus Supplement stated:

Under the underwriting standards, various risk categories are used to grade the likelihood that the mortgagor will satisfy the repayment conditions of the mortgage loan. These categories generally establish the maximum permitted loan-to-value ratio and loan amount, given the occupancy status of the mortgaged property and the mortgagor's credit history and debt-to-income ratio. In general, higher credit risk mortgage loans are graded in categories that permit higher debt-to-income ratios and more (or more recent) major derogatory credit items such as outstanding judgments or prior bankruptcies; however, the underwriting standards establish lower maximum loan-to-value ratios and lower maximum loan amounts for loans graded in such categories. A substantial portion of the mortgage loans were classified in relatively low (i.e., relatively higher risk) credit categories. The incidence of delinquency, default and bankruptcy with respect to such mortgage loans is expected to be greater than if such mortgage loans had been classified in relatively higher categories.

Home Equity Asset Trust 2006-6 Prospectus Supplement at S-37. *See also* Home Equity Mortgage Trust 2006-2 Prospectus Supplement at S-50.

268. The Long Beach Mortgage Loan Trust 2006-1 Prospectus Supplement stated:

The sponsor's underwriting guidelines permit first lien mortgage loans with loan-to-value ratios at origination of up to 100%, or 80% if at the time of origination of the first lien mortgage loan, the originator also originated a second lien mortgage loan. The maximum allowable loan-to-value ratio varies based upon the residential loan program, income documentation, property type, creditworthiness and debt service-to-income ratio of the prospective borrower and the overall risks associated with the loan decision. The maximum combined loan-to-value ratio, including any second lien mortgage subordinate to the sponsor's first lien mortgage, is generally 100% under the "Premium A," "A," "A-," "B+" and "B" risk categories, and 95% under the "C" risk category.

Long Beach Mortgage Loan Trust 2006-1 Prospectus Supplement at S-36. *See also* Long Beach Mortgage Loan Trust 2006-6 Prospectus Supplement at S-36.

269. UNTRUE STATEMENTS AND OMITTED INFORMATION: The preceding statements were material at the time they were made because the riskiness of the RMBS investment is directly dependent on the quality of the collateral and creditworthiness of the borrowers. The preceding statements were untrue at the time they were made because the LTV ratios were higher than represented, and the DTI ratios were higher than represented.

IX. THE CLAIMS ARE TIMELY

270. For actions brought by the NCUA Board as Liquidating Agent, the FCUA extends the statute of limitations for at least three years from the date of the appointment of the NCUA Board as Conservator or Liquidating Agent. *See* 12 U.S.C. § 1787(b)(14)(B)(i).

271. The NCUA Board placed the Credit Unions into conservatorship on September 24, 2010. On October 31, 2010, the NCUA Board placed the Credit Unions into liquidation and appointed itself as Liquidating Agent.

272. Actions brought under Section 11 of the Securities Act must be:

> brought within one year after the discovery of the untrue statement or the omission, or after such discovery should have been made by the exercise of reasonable diligence . . . . In no event shall any such action be brought to enforce a liability created under section 77k or 77*l*(a)(1) of this title more than three years after the security was bona fide offered to the public, or under section 77*l*(a)(2) of this title more than three years after the sale.

15 U.S.C. § 77m.

273. Actions brought under Section 13 of the Illinois Blue Sky Law must be brought within:

> 3 years from the date of sale; provided, that if the party bringing the action neither

> knew nor in the exercise of reasonable diligence should have known of any alleged violation of subsection E, F, G, H, I or J of Section 12 of this Act which is the basis for the action, the 3 year period provided shall begin to run upon the earlier of:
>
> (1) the date upon which the party bringing the action has actual knowledge of the alleged violation of this Act; or
>
> (2) the date upon which the party bringing the action has notice of facts which in the exercise of reasonable diligence would lead to actual knowledge of the alleged violation of this Act; but in no event shall the period of limitation so extended be more than 2 years beyond the expiration of the 3 year period otherwise applicable.

815 Ill. Comp. Stat. Ann. 5/13(D).

274. Actions brought under Section 581-33 of the Texas Blue Sky Law must be brought no "(a) more than three years after discovery of the untruth or omission, or after discovery should have been made by the exercise of reasonable diligence; or (b) more than five years after the sale." Tex. Rev. Civ. Stat. Ann. Art. 581, § 33(H)(2).

275. As the Federal Reserve Board noted in November 2008, the "deteriorating lending standards" and "the surge in early payment defaults suggests that underwriting . . . deteriorated on dimensions that were less readily apparent to investors." Christopher J. Mayer *et al.*, *The Rise in Mortgage Defaults* 15-16 (Fed. Reserve Bd. Fin. & Econ. Discussion Series, Paper No. 2008-59).

276. The FSOC explained that the origination and securitization process contains inherent "information asymmetries" that put investors at a disadvantage regarding critical information concerning the quality and performance of RMBS. The FSOC Risk Retention Report described the information disadvantage for investors of RMBS:

> One important informational friction highlighted during the recent financial crisis has aspects of a "lemons" problem that exists between the issuer and investor. An originator has more information about the ability of a borrower to repay than an investor, because the originator is the party making the loan. Because the investor is several steps removed from the borrower, the investor may receive less robust

> loan performance information. Additionally, the large number of assets and the disclosures provided to investors may not include sufficient information on the quality of the underlying financial assets for investors to undertake full due diligence on each asset that backs the security.

FSOC Risk Retention Report at 9 (footnote omitted).

277. In addition, Southwest and/or the NCUA Board as its Liquidating Agent are or were members of putative classes in the cases listed in Table 7, below. Therefore, the NCUA Board's claims are subject to legal tolling of the various periods of limitation pursuant to *American Pipe & Constr. Co. v. Utah*, 414 U.S. 538 (1974) ("*American Pipe*") and its progeny.

Table 7
Purchases Subject to Tolling Under American Pipe

CUSIP	ISSUING ENTITY	PURCHASER	TRADE DATE	*AMERICAN PIPE* TOLLING COMMENCEMENT DATE
43710DAB8	Home Equity Mortgage Trust 2007-2	Southwest	4/20/2007	*NJ Carpenters Health Fund v. Home Equity Mortgage Trust*, No. 08-5653 (S.D.N.Y.) Amended Complaint **Filed: March 23, 2009**
75115VAA3	RALI Series 2006-QA9 Trust	Southwest	10/25/2006	*New Jersey Carpenters v. RALI*, No. 08-8781 (S.D.N.Y.) Consolidated Amended Complaint **Filed: May 18, 2009**

278. With respect to that RMBS purchase for which the NCUA Board asserts a claim for Southwest under Section 11 of the Securities Act (Count 1), the earliest date it was bona fide offered to the public – after accounting for *American Pipe* tolling – was not more than three years prior to September 24, 2010. Accordingly, the NCUA Board's Section 11 claim on behalf of Southwest are not time-barred.

279. With respect to those RMBS purchases for which the NCUA Board asserts claims under state law (Counts 2-3), the earliest purchase date/offering date with respect to those claims was January 26, 2006, or not more than five years prior to September 24, 2010. Accordingly, the

NCUA Board's state law claims are not time-barred.

X. CLAIMS FOR RELIEF

COUNT ONE
Section 11 of the Securities Act of 1933
(Home Equity Mortgage Trust 2007-2)

280. The NCUA Board realleges paragraphs 1 through 279 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the Home Equity Mortgage Trust 2007-2 offering.

281. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to Southwest's purchase of the Home Equity Mortgage Trust 2007-2 certificate against Defendant Credit Suisse, as the underwriter, and against Defendant Credit Suisse First Boston Mortgage Securities Corp. as the issuer.

282. At the time the registration statement became effective, it (including the prospectus and any prospectus supplements) contained untrue statements and omitted facts that were necessary to make the statements made not misleading, as alleged above.

283. The untrue statements and omitted facts were material because a reasonably prudent investor deciding whether to purchase the certificate would have viewed them as important and as substantially altering the total mix of information available, as alleged above.

284. Southwest purchased the certificate pursuant to and traceable to a defective registration statement, as alleged above.

285. At the time Southwest purchased the certificate, it did not know of the untrue statements and omissions contained in the registration statement.

286. Credit Suisse's and Credit Suisse First Boston Mortgage Securities Corp.'s conduct as alleged above violated Section 11.

287. Southwest and Plaintiff sustained damages as a result of Credit Suisse's and Credit Suisse First Boston Mortgage Securities Corp.'s violations of Section 11.

288. WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Credit Suisse and Defendant Credit Suisse First Boston Mortgage Securities Corp., jointly and severally, awarding all damages, in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

COUNT TWO

Violation of the Texas Securities Act
Tex. Rev. Civ. Stat. Ann. art. 581, § 33
(Adjustable Rate Mortgage Trust 2007-1, Adjustable Rate Mortgage Trust 2007-2, Adjustable Rate Mortgage Trust 2006-3, Home Equity Asset Trust 2006-6, Home Equity Mortgage Trust 2007-2, Long Beach Mortgage Loan Trust 2006-1, Long Beach Mortgage Loan Trust 2006-6, RALI Series 2006-QA9 Trust)

289. The NCUA Board realleges paragraphs 1 through 279 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the Adjustable Rate Mortgage Trust 2007-1, Adjustable Rate Mortgage Trust 2007-2, Adjustable Rate Mortgage Trust 2006-3, Home Equity Asset Trust 2006-6, Home Equity Mortgage Trust 2007-2, Long Beach Mortgage Loan Trust 2006-1, Long Beach Mortgage Loan Trust 2006-6, and RALI Series 2006-QA9 Trust offerings.

290. The NCUA Board brings this cause of action pursuant to Section 33 of the Texas Securities Act, with respect to Southwest's purchases of the Adjustable Rate Mortgage Trust 2007-1, Adjustable Rate Mortgage Trust 2007-2, Adjustable Rate Mortgage Trust 2006-3, Home Equity Asset Trust 2006-6, Home Equity Mortgage Trust 2007-2, Long Beach Mortgage Loan Trust 2006-1, Long Beach Mortgage Loan Trust 2006-6, and RALI Series 2006-QA9 Trust certificates against Defendant Credit Suisse as the seller of those certificates.

291. Defendant Credit Suisse offered to sell and sold the securities to Southwest by

means of written and/or oral communications which included untrue statements of material fact and/or omissions of material facts that were necessary to make the statements made not misleading, as alleged above.

292. The untrue statements of fact and omitted facts were material because a reasonably prudent investor deciding whether to purchase the certificates would have viewed them as important and as substantially altering the total mix of information available, as alleged above.

293. Defendant Credit Suisse sold the certificates to Southwest in Texas.

294. At the time Southwest purchased the certificates, it did not know of these untruths and omissions.

295. If Southwest had known about these untruths and omissions, it would not have purchased the certificates from Defendant Credit Suisse.

296. Defendant Credit Suisse's sales of the certificates violated Tex. Rev. Civ. Stat. Ann. art. 581, § 33(A)(2).

297. Southwest and Plaintiff sustained damages as a result of Defendant Credit Suisse's violations of Tex. Rev. Civ. Stat. Ann. art. 581, § 33(A)(2).

298. WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Credit Suisse, awarding a rescissory measure of damages, or in the alternative compensatory damages, in an amount to be proven at trial; costs, and such other relief as the Court deems appropriate and just.

COUNT THREE

Violation of the Illinois Securities Law of 1953
815 Ill. Comp. Stat. Ann. 5/12
(Adjustable Rate Mortgage Trust 2007-1, Home Equity Mortgage Trust 2006-2, Long Beach Mortgage Loan Trust 2006-1)

299. The NCUA Board realleges paragraphs 1 through 279 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the Adjustable Rate Mortgage Trust 2007-1, Home Equity Mortgage Trust 2006-2, and Long Beach Mortgage Loan Trust 2006-1 offerings.

300. The NCUA Board brings this cause of action pursuant to Section 12 of the Illinois Securities Law of 1953, with respect to Members United's purchases of the Adjustable Rate Mortgage Trust 2007-1, Home Equity Mortgage Trust 2006-2, and Long Beach Mortgage Loan Trust 2006-1 certificates against Defendant Credit Suisse as the seller of those certificates.

301. Defendant Credit Suisse offered to sell and sold the certificates to Members United by means of written and/or oral communications which included untrue statements of material fact and/or omissions of material facts that were necessary to make the statements made not misleading, as alleged above.

302. The untrue statements of material fact and omitted facts were material because a reasonably prudent investor deciding whether to purchase the certificates would have viewed them as important and as substantially altering the total mix of information available, as alleged above.

303. Defendant Credit Suisse sold the certificates to Members United in Illinois.

304. At the time Members United purchased the certificates, it did not know of these untruths and omissions.

305. If Members United had known about these untruths and omissions, it would not

have purchased the certificates from Defendant Credit Suisse.

306. Defendant Credit Suisse’s sales of the certificates violated 815 Ill. Comp. Stat. Ann. 5/12(G).

307. Members United and Plaintiff sustained damages as a result of Defendant Credit Suisse’s violations of 815 Ill. Comp. Stat. Ann. 5/12(G).

308. WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Credit Suisse, awarding rescission or a rescissory measure of damages, or in the alternative compensatory damages, in an amount to be proven at trial; costs, and such other relief as the Court deems appropriate and just.

Jury Demand

Plaintiff hereby demands a trial by jury of all issues properly triable.

Dated: September 23, 2013

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NATIONAL CREDIT UNION ADMINISTRATION BOARD,
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