

The JS-44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for use of the Clerk of Court for the purpose of initiating the civil docket sheet.

MAY 18 2012

PLAINTIFFS

Federal Deposit Insurance Corporation as Receiver for Strategic Capital Bank

DEFENDANTS

J.P. Morgan Securities LLC; Citigroup Global Markets Inc.; Banc of America Securities LLC; and Deutsche Bank Securities Inc.

ATTORNEYS (FIRM NAME, ADDRESS, AND TELEPHONE NUMBER)

David J. Grais, Mark B. Holton, Leanne M. Wilson, Grais & Ellsworth LLP, 1211 Avenue of the Americas, New York, New York 10036, (212) 755-0100

ATTORNEYS (IF KNOWN)

CAUSE OF ACTION (CITE THE U.S. CIVIL STATUTE UNDER WHICH YOU ARE FILING AND WRITE A BRIEF STATEMENT OF CAUSE)

(DO NOT CITE JURISDICTIONAL STATUTES UNLESS DIVERSITY)

Violation of Section 11 of the Securities Act of 1933

Has this or a similar case been previously filed in SDNY at any time? No ☒ Yes ☐ Judge Previously Assigned

If yes, was this case Vol. ☐ Invol. ☐ Dismissed. No ☐ Yes ☐ If yes, give date _____ & Case No. _____

Is THIS AN INTERNATIONAL ARBITRATION CASE? No ☒ Yes ☐

(PLACE AN [x] IN ONE BOX ONLY)

NATURE OF SUIT

TORTS

ACTIONS UNDER STATUTES

CONTRACT

- ☐ 110 INSURANCE
- ☐ 120 MARINE
- ☐ 130 MILLER ACT
- ☐ 140 NEGOTIABLE INSTRUMENT
- ☐ 150 RECOVERY OF OVERPAYMENT & ENFORCEMENT OF JUDGMENT
- ☐ 151 MEDICARE ACT
- ☐ 152 RECOVERY OF DEFAULTED STUDENT LOANS (EXCL VETERANS)
- ☐ 153 RECOVERY OF OVERPAYMENT OF VETERANS' BENEFITS
- ☐ 160 STOCKHOLDERS SUITS
- ☐ 190 OTHER CONTRACT
- ☐ 195 CONTRACT PRODUCT LIABILITY
- ☐ 196 FRANCHISE

PERSONAL INJURY

- ☐ 310 AIRPLANE
- ☐ 315 AIRPLANE PRODUCT LIABILITY
- ☐ 320 ASSAULT, LIBEL & SLANDER
- ☐ 330 FEDERAL EMPLOYERS' LIABILITY
- ☐ 340 MARINE
- ☐ 345 MARINE PRODUCT LIABILITY
- ☐ 350 MOTOR VEHICLE
- ☐ 355 MOTOR VEHICLE PRODUCT LIABILITY
- ☐ 380 OTHER PERSONAL INJURY

ACTIONS UNDER STATUTES

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- ☐ 442 EMPLOYMENT
- ☐ 443 HOUSING/ACCOMMODATIONS
- ☐ 444 WELFARE
- ☐ 445 AMERICANS WITH DISABILITIES - EMPLOYMENT
- ☐ 446 AMERICANS WITH DISABILITIES - OTHER
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- ☐ 362 PERSONAL INJURY - MED MALPRACTICE
- ☐ 365 PERSONAL INJURY PRODUCT LIABILITY
- ☐ 368 ASBESTOS PERSONAL INJURY PRODUCT LIABILITY

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- ☐ 385 PROPERTY DAMAGE PRODUCT LIABILITY

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- ☐ 510 MOTIONS TO VACATE SENTENCE 20 USC 2255
- ☐ 530 HABEAS CORPUS
- ☐ 535 DEATH PENALTY
- ☐ 540 MANDAMUS & OTHER

PRISONER CIVIL RIGHTS

- ☐ 550 CIVIL RIGHTS
- ☐ 555 PRISON CONDITION

FORFEITURE/PENALTY

- ☐ 610 AGRICULTURE
- ☐ 620 OTHER FOOD & DRUG
- ☐ 625 DRUG RELATED SEIZURE OF PROPERTY
- ☐ 830 LIQUOR LAWS
- ☐ 840 RR & TRUCK
- ☐ 850 AIRLINE REGS
- ☐ 860 OCCUPATIONAL SAFETY/HEALTH
- ☐ 890 OTHER

LABOR

- ☐ 710 FAIR LABOR STANDARDS ACT
- ☐ 720 LABOR/MGMT RELATIONS
- ☐ 730 LABOR/MGMT REPORTING & DISCLOSURE ACT
- ☐ 740 RAILWAY LABOR ACT
- ☐ 790 OTHER LABOR LITIGATION
- ☐ 791 EMPL RET INC SECURITY ACT

IMMIGRATION

- ☐ 462 NATURALIZATION APPLICATION
- ☐ 463 HABEAS CORPUS-ALIEN DETAINEE
- ☐ 465 OTHER IMMIGRATION ACTIONS

BANKRUPTCY

- ☐ 422 APPEAL 28 USC 158
- ☐ 423 WITHDRAWAL 28 USC 157

PROPERTY RIGHTS

- ☐ 820 COPYRIGHTS
- ☐ 830 PATENT
- ☐ 840 TRADEMARK

SOCIAL SECURITY

- ☐ 861 HIA (1385(f))
- ☐ 862 BLACK LUNG (923)
- ☐ 863 DIWC/DIWW (405(g))
- ☐ 864 SSID TITLE XVI
- ☐ 865 RSI (405(g))

FEDERAL TAX SUITS

- ☐ 870 TAXES (U.S. Plaintiff or Defendant)
- ☐ 871 IRS-THIRD PARTY 26 USC 7809

OTHER STATUTES

- ☐ 400 STATE REAPPORTIONMENT
- ☐ 410 ANTITRUST
- ☐ 430 BANKS & BANKING
- ☐ 450 COMMERCE
- ☐ 460 DEPORTATION
- ☐ 470 RACKETEER INFLUENCED & CORRUPT ORGANIZATION ACT (RICO)
- ☐ 480 CONSUMER CREDIT
- ☐ 490 CABLE/SATELLITE TV
- ☐ 810 SELECTIVE SERVICE
- ☒ 850 SECURITIES/COMMODITIES/EXCHANGE
- ☐ 875 CUSTOMER CHALLENGE 12 USC 3410
- ☐ 890 OTHER STATUTORY ACTIONS
- ☐ 891 AGRICULTURAL ACTS
- ☐ 892 ECONOMIC STABILIZATION ACT
- ☐ 893 ENVIRONMENTAL MATTERS
- ☐ 894 ENERGY ALLOCATION ACT
- ☐ 895 FREEDOM OF INFORMATION ACT
- ☐ 900 APPEAL OF FEE DETERMINATION UNDER EQUAL ACCESS TO JUSTICE
- ☐ 950 CONSTITUTIONALITY OF STATE STATUTES

Check if demanded in complaint:

CHECK IF THIS IS A CLASS ACTION UNDER F.R.C.P. 23

DO YOU CLAIM THIS CASE IS RELATED TO A CIVIL CASE NOW PENDING IN S.D.N.Y.? IF SO, STATE:

DEMAND \$ _____ OTHER _____ JUDGE _____ DOCKET NUMBER _____

Check YES only if demanded in complaint

JURY DEMAND: ☒ YES ☐ NO

NOTE: Please submit at the time of filing an explanation of why cases are deemed related.

(PLACE AN x IN ONE BOX ONLY)

ORIGIN

- ☒ 1 Original Proceeding ☐ 2 Removed from State Court ☐ 3 Remanded from Appellate Court ☐ 4 Reinstated or Reopened ☐ 5 Transferred from (Specify District) ☐ 6 Multidistrict Litigation ☐ 7 Appeal to District Judge from Magistrate Judge Judgment
- ☐ a. all parties represented ☐ b. At least one party is pro se.

(PLACE AN x IN ONE BOX ONLY)

BASIS OF JURISDICTION

**IF DIVERSITY, INDICATE
CITIZENSHIP BELOW.
(28 USC 1322, 1441)**

- ☐ 1 U.S. PLAINTIFF ☐ 2 U.S. DEFENDANT ☒ 3 FEDERAL QUESTION (U.S. NOT A PARTY) ☐ 4 DIVERSITY

CITIZENSHIP OF PRINCIPAL PARTIES (FOR DIVERSITY CASES ONLY)

(Place an [X] in one box for Plaintiff and one box for Defendant)

	PTF	DEF		PTF	DEF		PTF	DEF
CITIZEN OF THIS STATE	1	1	CITIZEN OR SUBJECT OF A FOREIGN COUNTRY	3	3	INCORPORATED and PRINCIPAL PLACE OF BUSINESS IN ANOTHER STATE	5	5
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PLAINTIFF(S) ADDRESS(ES) AND COUNTY(IES)

Federal Deposit Insurance Corporation as Receiver for Citizens National Bank, 3501 Fairfax Drive, Arlington, Virginia 22226

DEFENDANT(S) ADDRESS(ES) AND COUNTY(IES)

Please see Addendum A.

DEFENDANT(S) ADDRESS UNKNOWN

REPRESENTATION IS HEREBY MADE THAT, AT THIS TIME, I HAVE BEEN UNABLE, WITH REASONABLE DILIGENCE, TO ASCERTAIN THE RESIDENCE ADDRESSES OF THE FOLLOWING DEFENDANTS:

Check one: THIS ACTION SHOULD BE ASSIGNED TO: ☐ WHITE PLAINS ☒ MANHATTAN
(DO NOT check either box if this a PRISONER PETITION/PRISONER CIVIL RIGHTS COMPLAINT.)

DATE SIGNATURE OF ATTORNEY OF RECORD

ADMITTED TO PRACTICE IN THIS DISTRICT

RECEIPT #

Leanne M. Wilson
Leanne M. Wilson

NO
YES (DATE ADMITTED Mo. 11 Yr. 2009)
Attorney Bar Code # LW1225

Magistrate Judge is to be designated by the Clerk of the Court.

MAG. JUDGE COTT

Magistrate Judge _____ is so Designated.

Ruby J. Krajick, Clerk of Court by _____ Deputy Clerk, DATED _____

UNITED STATES DISTRICT COURT (NEW YORK SOUTHERN)

Addendum A: Defendants' Names and Addresses

Defendant	Address	County
J.P. Morgan Securities LLC	J.P. Morgan Securities LLC 270 Park Avenue New York, New York 10017	New York
Citigroup Global Markets Inc.	Citigroup Global Markets Inc. 388 Greenwich Street New York, New York 10013	New York
Banc of America Securities LLC	Banc of America Securities LLC 40 West 57th Street New York, New York 10019	New York
Deutsche Bank Securities Inc.	Deutsche Bank Securities Inc. 60 Wall Street New York, New York 10005	New York

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Violation of Section 11 of the Securities Act of 1933

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IS THIS AN INTERNATIONAL ARBITRATION CASE? No ☒ Yes ☐

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NATURE OF SUIT

TORTS		ACTIONS UNDER STATUTES			
CONTRACT	PERSONAL INJURY	PERSONAL INJURY	FORFEITURE/PENALTY	BANKRUPTCY	OTHER STATUTES
[] 110 INSURANCE	[] 310 AIRPLANE	[] 362 PERSONAL INJURY - MED MALPRACTICE	[] 610 AGRICULTURE	[] 422 APPEAL	[] 400 STATE
[] 120 MARINE	[] 315 AIRPLANE PRODUCT LIABILITY	[] 365 PERSONAL INJURY PRODUCT LIABILITY	[] 620 OTHER FOOD & DRUG	28 USC 158	REAPPORTIONMENT
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[] 140 NEGOTIABLE INSTRUMENT	[] 330 FEDERAL EMPLOYERS' LIABILITY		21 USC 881	28 USC 157	[] 430 BANKS & BANKING
[] 150 RECOVERY OF OVERPAYMENT & ENFORCEMENT OF JUDGMENT	[] 340 MARINE	PERSONAL PROPERTY	[] 630 LIQUOR LAWS	PROPERTY RIGHTS	[] 450 COMMERCE
[] 151 MEDICARE ACT	[] 345 MARINE PRODUCT LIABILITY	[] 370 OTHER FRAUD	[] 640 RR & TRUCK	[] 820 COPYRIGHTS	[] 460 DEPORTATION
[] 152 RECOVERY OF DEFAULTED STUDENT LOANS (EXCL VETERANS)	[] 350 MOTOR VEHICLE	[] 371 TRUTH IN LENDING	[] 650 AIRLINE REGS	[] 830 PATENT	[] 470 RACKETEER INFLUENCED & CORRUPT ORGANIZATION ACT (RICO)
[] 153 RECOVERY OF OVERPAYMENT OF VETERANS' BENEFITS	[] 355 MOTOR VEHICLE PRODUCT LIABILITY	[] 380 OTHER PERSONAL PROPERTY DAMAGE	[] 660 OCCUPATIONAL SAFETY/HEALTH	[] 840 TRADEMARK	[] 480 CONSUMER CREDIT
[] 160 STOCKHOLDERS SUITS	[] 380 OTHER PERSONAL INJURY	[] 385 PROPERTY DAMAGE PRODUCT LIABILITY	[] 690 OTHER	SOCIAL SECURITY	[] 490 CABLE/SATELLITE TV
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[] 196 FRANCHISE	CIVIL RIGHTS	20 USC 2255	[] 720 LABOR/MGMT RELATIONS	[] 883 DIWC/DIWW (405(g))	[] 530 CUSTOMER CHALLENGE
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[] 210 LAND CONDEMNATION	[] 448 AMERICANS WITH DISABILITIES - OTHER	[] 550 CIVIL RIGHTS	[] 482 NATURALIZATION APPLICATION	26 USC 7809	[] 594 ENERGY ALLOCATION ACT
[] 220 FORECLOSURE	[] 440 OTHER CIVIL RIGHTS (Non-Prisoner)	[] 565 PRISON CONDITION	[] 483 HABEAS CORPUS - ALIEN DETAINEE		[] 595 FREEDOM OF INFORMATION ACT
[] 230 RENT LEASE & EJECTMENT			[] 485 OTHER IMMIGRATION ACTIONS		[] 900 APPEAL OF FEE DETERMINATION UNDER EQUAL ACCESS TO JUSTICE
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Please see Addendum A.

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DATE

SIGNATURE OF ATTORNEY OF RECORD

ADMITTED TO PRACTICE IN THIS DISTRICT

RECEIPT #

Leanne M. Wilson
Leanne M. Wilson

NO
YES DATE ADMITTED Mo. 11 Yr. 2009
Attorney Bar Code # LW1225

Magistrate Judge is to be designated by the Clerk of the Court.

MAG. JUDGE COTT

Magistrate Judge _____ is so Designated.

Ruby J. Krajick, Clerk of Court by _____ Deputy Clerk, DATED _____.

UNITED STATES DISTRICT COURT (NEW YORK SOUTHERN)

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Deutsche Bank Securities Inc.	Deutsche Bank Securities Inc. 60 Wall Street New York, New York 10005	New York

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

FEDERAL DEPOSIT INSURANCE
CORPORATION AS RECEIVER FOR
STRATEGIC CAPITAL BANK,

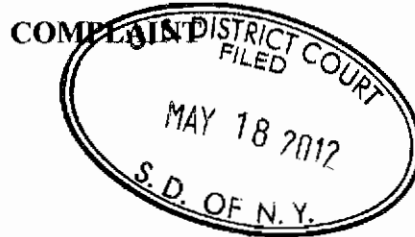
Plaintiff,

v.

J.P. MORGAN SECURITIES LLC.;
CITIGROUP GLOBAL MARKETS INC.;
BANC OF AMERICA SECURITIES LLC;
and DEUTSCHE BANK SECURITIES INC.,

Defendants.

Index No. 12 CV 4001



Plaintiff Federal Deposit Insurance Corporation as Receiver for Strategic Capital Bank, for its Complaint against J.P. Morgan Securities LLC; Citigroup Global Markets Inc.; Banc of America Securities LLC; and Deutsche Bank Securities Inc., alleges as follows:

I. NATURE OF THIS ACTION

1. This is an action for damages caused by violation of the federal Securities Act of 1933 (**1933 Act**) by the defendants. As alleged in detail below, defendants underwrote five securities known as "certificates," which were backed by collateral pools of residential mortgage loans in four securitizations. Strategic Capital Bank (referred to in this Complaint as **SCB**) purchased the certificates for approximately \$31 million. When they underwrote these certificates, the defendants made numerous statements of material facts about the certificates and, in particular, about the credit quality of the mortgage loans that backed them. Many of those statements were untrue. Moreover, the defendants omitted to state many material facts that were necessary in order to make their statements not misleading. For example, the defendants made untrue statements or omitted important information about such material facts as the loan-to-value ratios of the mortgage loans, the extent to which appraisals of the properties that secured the

loans were performed in compliance with professional appraisal standards, the number of borrowers who did not live in the houses that secured their loans (that is, the number of properties that were not primary residences), and the extent to which the entities that made the loans disregarded their own standards in doing so.

2. Based on an analysis of a random sample of the relevant loans in each of the securitizations, the defendants made such untrue or misleading statements or omissions about at least the following numbers of the loans.

Securitization No. ¹	Number of Loans about which Defendants Made Material Untrue or Misleading Statements ²	Number of Relevant Loans in the Securitizations	Percentage of Loans about which Defendants Made Material Untrue or Misleading Statements
1	1,243	1,884	66.0%
2	1,706	2,594	65.8%
3	383	713	53.7%
4	3,941	6,357	62.0%

3. The certificates are “securities” within the meaning of the 1933 Act. The defendants are liable as “underwriters” under Section 11 of the 1933 Act. Banc of America Securities LLC underwrote two of the certificates that SCB purchased. Citigroup Global Markets Inc. underwrote one of the certificates that SCB purchased. Deutsche Bank Securities Inc. underwrote one of the certificates that SCB purchased. J.P. Morgan Securities LLC underwrote two of the certificates that SCB purchased.

¹ One of the securitizations issued two of the certificates that SCB purchased.

² The method of random sampling that Plaintiff used ensures that conclusions about the entire collateral pool have a margin of error of no more than plus or minus 5% at a confidence level of 95% (that is, one can be 95% certain that the true percentage in the collateral pool as a whole is within 5% of the percentage measured in the sample). For example, one can be 95% certain that the number of loans in Securitization No. 1 about which defendants made untrue or misleading statements or omissions is within 5% of 1,243, that is, between 1,181 and 1,305. The same margin of error should be applied to all information in the Complaint and accompanying schedules that is based on a random sample of loans in a collateral pool.

II. PARTIES

4. Plaintiff is the receiver for SCB. Under the Federal Deposit Insurance Act, the Federal Deposit Insurance Corporation, a corporation organized and existing under the laws of the United States of America, is authorized to be appointed as receiver for failed insured depository institutions. Under the Federal Deposit Insurance Act, Plaintiff is empowered to sue and complain in any court of law and to do so to pursue claims held by banks of which it is the receiver. 12 U.S.C. § 1819. Thus, Plaintiff has authority to pursue claims held by SCB, including its claims made against the defendants in this action.

5. Defendant J.P. Morgan Securities LLC (formerly known as J.P. Morgan Securities, Inc., and referred to as **JP Morgan**) is a limited liability company organized under the laws of Delaware. JP Morgan underwrote two of the certificates that SCB purchased.

6. Defendant Citigroup Global Markets Inc. (referred to as **Citigroup**) is a corporation organized under the laws of New York. Citigroup underwrote one of the certificates that SCB purchased.

7. Defendant Banc of America Securities LLC (referred to as **BAS**) is a limited liability company organized under the laws of Delaware. BAS underwrote two of the certificates that SCB purchased.

8. Defendant Deutsche Bank Securities Inc. (referred to as **DBS**) is a corporation organized under the laws of Delaware. DBS underwrote one of the certificates that SCB purchased.

III. JURISDICTION AND VENUE

9. This Court has subject matter jurisdiction pursuant to 28 U.S.C. § 1331 because the Securities Act claims asserted herein arise under Section 11 of the Securities Act of 1933, 15 U.S.C. §§ 77k. This Court further has jurisdiction over the Securities Act claims pursuant to Section 22 of the Securities Act of 1933, 15 U.S.C. § 77v.

10. Venue is proper in this Court, pursuant to Section 22 of the Securities Act of 1933, 15 U.S.C. § 77v, because the defendants are found in this district, are inhabitants of this district, and transact business in this district.

IV. SECURITIZATION OF MORTGAGE LOANS

11. The securities that SCB purchased are so-called **residential mortgage-backed securities**, or **RMBS**, created in a process known as **securitization**. Securitization begins with loans on which the borrowers are to make payments, usually monthly. The entity that makes the loans is known as the **originator** of the loans. The process by which the originator decides whether to make particular loans is known as the **underwriting** of loans. The purpose of underwriting is to ensure that loans are made only to borrowers of sufficient credit standing to repay them and only against sufficient collateral. In the loan underwriting process, the originator applies its **underwriting standards**.

12. In general, residential mortgage lenders may hold some of the mortgage loans they originate in their own portfolios and may sell other mortgage loans they originate into securitizations.

13. In a securitization, a large number of loans, usually of a similar type, are grouped into a **collateral pool**. The originator of those loans sells them (and, with them, the right to receive the cash flow from them) to a **trust**. The trust pays the originator cash for the loans. The trust raises the cash to pay for the loans by selling **securities**, usually called **certificates**, to investors such as SCB. Each certificate entitles its holder to an agreed part of the cash flow from the loans in the collateral pool.

14. In a simple securitization, the holder of each certificate is entitled to a *pro rata* part of the overall monthly cash flow from the loans in the collateral pool.

15. In a more complex securitization, the cash flow is divided into different parts, usually called **tranches** (“tranche” is “slice” in French), and the certificates are divided into different **classes**, each with different rights. Each class of certificates is entitled to the cash flow in the tranche corresponding to that class.

16. One way in which the cash flow is divided — and the rights of different classes of certificates distinguished — is by priority of payment or, put differently, risk of nonpayment. The most **senior** class of certificates usually is entitled to be paid in full before the next most senior class, and so on. Conversely, losses from defaults in payment of the loans in the collateral pool are allocated first to the most **subordinate** class of certificates, then to the class above that, and so on. The interest rate on each class of certificates is usually proportional to the amount of risk that that class bears; the most senior certificates bear the least risk and thus pay the lowest rate of interest, the most subordinate, the opposite. This hierarchy of rights to payment is referred to as the **waterfall**.

17. The risk of a particular class of certificate is a function of both the riskiness of the loans in the collateral pool and the seniority of that class in the waterfall. Even if the underlying loans are quite risky, the certificates may bear so little of that risk that they may be rated as **triple-A**. (According to Moody's, "[o]bligations rated Aaa are judged to be of the highest quality, with minimal credit risk.") For example, assume a securitization of \$100 million of risky loans, on which the historical loss rate is 5%. Assume that there are two classes of certificates, a senior class of \$50 million and a subordinate class of \$50 million. Even though the underlying loans are quite risky, the senior class of certificates would be paid in full as long as the \$100 million of loans produced payments of at least \$50 million plus interest, that is, unless the loss rate on those loans exceeded 50%, fully ten times the historical average. All of the certificates referred to in this Complaint were rated triple-A when SCB purchased them.

18. Each securitization has a **sponsor**, the prime mover of the securitization. Sometimes the sponsor is the originator or an affiliate. In originator-sponsored securitizations, the collateral pool usually contains loans made by the originator that is sponsoring the securitization. Other times, the sponsor may be an investment bank, which purchases loans from one or more originators, aggregates them into a collateral pool, sells them to a trust, and securitizes them. The sponsor arranges for title to the loans to be transferred to an entity known as the **depositor**, which then transfers title to the loans to the trust.

19. The obligor of the certificates in a securitization is the trust that purchases the loans in the collateral pool. Because a trust has few assets other than the loans that it purchased, it may not be able to satisfy the liabilities of an issuer of securities (the certificates). The law therefore treats the depositor as the **issuer** of a residential mortgage-backed certificate.

20. **Securities underwriters**, like defendants, play a critical role in the process of securitization. They underwrite the sale of the certificates, that is, they purchase the certificates from the trust and then sell them to investors. Equally important, securities underwriters provide to potential investors the information that they need to decide whether to purchase certificates.

21. Because the cash flow from the loans in the collateral pool of a securitization is the source of funds to pay the holders of the certificates issued by the trust, the credit quality of those certificates is dependent upon the credit quality of the loans in the collateral pool (and upon the place of each certificate in the waterfall). The most important information about the credit quality of those loans is contained in the files that the originator develops while making the loans, the so-called “loan files.” For residential mortgage loans, each loan file normally contains comprehensive information from such important documents as the borrower’s application for the loan, credit reports on the borrower, and an appraisal of the property that will secure the loan. The loan file may also include notes from the person who underwrote the loan about whether and how the loan complied with the originator’s underwriting standards, including documentation of any “compensating factors” that justified any departure from those standards.

22. Potential investors in certificates are not given access to loan files. Instead, the securities underwriters are responsible for gathering, verifying, and presenting to potential investors the information about the credit quality of the loans that will be deposited into the trust. They do so by using information about the loans that has been compiled into a database known as a **loan tape**. The securities underwriters use the loan tape to compile numerous statistics about the loans, which are presented to potential investors in a **prospectus supplement**, a disclosure document that the underwriters are required to file with the Securities and Exchange

Commission. (SCB did not have access to the loan tape before they purchased the certificates, but Plaintiff has reviewed data from the loan tape in preparing this Complaint.)

23. As alleged in detail below, the information in the prospectus supplements and other offering documents about the credit quality of the loans in the collateral pools of the trusts contained many statements that were material to the credit quality of those loans, but were untrue or misleading.

V. DEFENDANTS' MATERIAL UNTRUE OR MISLEADING STATEMENTS ABOUT THE CERTIFICATES

24. SCB purchased certificates in four securitizations (referred to in this Complaint as Securitizations Nos. 1 through 4). Details of each trust and each certificate are stated in Item 24 of Schedules 1 through 4 of this Complaint. The Schedules correspond to Securitizations Nos. 1 through 4. Plaintiff incorporates into this paragraph 24 and alleges the contents of Item 24 of the Schedules.

25. The prospectus supplement for each of the four securitizations is available from the Securities and Exchange Commission's website. A URL for each prospectus supplement is included in Item 24 of each Schedule. Each prospectus supplement is incorporated into this Complaint by reference.

26. Plaintiff drew and analyzed random samples of 400 loans from the collateral pools of each of the securitizations in which SCB purchased certificates.

27. Many of the statements of material fact that the defendants made in the four prospectus supplements were untrue or misleading. These untrue or misleading statements included the following.

A. Untrue or Misleading Statements About the Loan-to-Value Ratios (LTVs) of the Mortgage Loans, and the Appraisals of the Properties, in the Collateral Pools

1. LTVs

(a) The materiality of LTVs

28. The loan-to-value ratio of a mortgage loan, or LTV, is the ratio of the amount of the mortgage loan to the lower of the appraised value or the sale price of the mortgaged property when the loan is made. For example, a loan of \$300,000 secured by a property valued at \$500,000 has an LTV of 60%; a loan of \$450,000 on the same property has an LTV of 90%. LTV is one of the most crucial measures of the risk of a mortgage loan, and the LTVs of the mortgage loans in the collateral pool of a securitization are therefore one of the most crucial measures of the risk of certificates sold in that securitization. LTV is a primary determinant of the likelihood of default. The lower the LTV, the lower the likelihood of default. For example, the lower the LTV, the less likely it is that a decline in the value of the property will wipe out the owner's equity and thereby give the owner an incentive to stop making mortgage payments and abandon the property, a so-called strategic default. LTV also is a primary determinant of the severity of losses on a loan that defaults. The lower the LTV, the lower the severity of losses if the loan defaults. Loans with lower LTVs provide greater "cushion," thereby increasing the likelihood that the proceeds of foreclosure will cover the unpaid balance of the mortgage loan.

29. Beyond these fundamental effects on the likelihood and severity of default, LTVs also affect prepayment patterns (that is, the number of borrowers who pay off their mortgage loans before maturity and when they do so) and therefore the expected lives of the loans. Prepayment patterns therefore affect many aspects of certificates that are material to the investors that purchase them, including the life of the certificate and the timing and amount of cash that the investor will receive during that life.

30. In addition, rating agencies use LTVs to determine the proper structuring and credit enhancement necessary for securities, such as the certificates that SCB purchased, to receive a particular rating. If the LTVs of the mortgage loans in the collateral pool of a

securitization are incorrect, the ratings of certificates sold in that securitization will also be incorrect.

31. An accurate denominator (that is, the value of the property) is essential to an accurate LTV. In particular, an inflated denominator will understate, sometimes greatly, the risk of a loan. To return to the example above, if the property whose actual value is \$500,000 is valued incorrectly at \$550,000, then the ostensible LTV of the \$300,000 loan falls from 60% to 54.5%, and the ostensible LTV of the \$450,000 loan falls from 90% to 81.8%. In either case, the LTV based on the incorrect appraised value understates the risk of the loan.

32. For these reasons, a reasonable investor considers LTV critical to the decision whether to purchase a certificate in a securitization of mortgage loans. Even small differences in the weighted average LTVs of the mortgage loans in the collateral pool of a securitization have a significant effect on both the risk and the rating of each certificate sold in that securitization and, thus, are essential to the decision of a reasonable investor whether to purchase any such certificate.

(b) Untrue or misleading statements about the LTVs of the mortgage loans in the collateral pools of these securitizations

33. In the prospectus supplements, the defendants made material untrue or misleading statements about the LTVs of the mortgage loans in the collateral pools of these securitizations. Each such statement is identified in Item 33 of the Schedules of this Complaint. Plaintiff incorporates into this paragraph 33, and alleges as though fully set forth in this paragraph, the contents of Item 33 of the Schedules.

34. The defendants made these statements as statements of fact. Plaintiff is informed and believes, and based thereon alleges, that the defendants intended that these statements be understood as statements of fact. SCB understood the statements about the LTVs as statements of fact. SCB had no access to appraisal reports or other documents or information from which it could verify the LTVs of the mortgage loans other than the statements that the defendants made about those LTVs.

(c) An automated valuation model demonstrates that the defendants' statements about the LTVs were untrue because they were based on overstated valuations of the properties in the collateral pools.

35. The stated LTVs of many of the mortgage loans in each securitization were significantly lower than the true LTVs because the denominators (that is, the value of the properties that secured those loans) that were used to determine the disclosed LTVs were overstated to a material extent. The weighted-average LTVs presented in the prospectus supplements were also, therefore, untrue and misleading.

36. Using a comprehensive, industry-standard automated valuation model (AVM), it is possible to determine the true market value of a certain property as of a specified date. An AVM is based on objective criteria like the condition of the property and the actual sale prices of comparable properties in the same locale shortly before the specified date, and is more consistent, independent, and objective than other methods of appraisal. AVMs have been in widespread use for many years. The AVM on which these allegations are based incorporates a database of 500 million sales covering ZIP codes that represent more than 97% of the homes, occupied by more than 99% of the population, in the United States. Independent testing services have determined that this AVM is the most accurate of all such models.

37. For many of the properties that secured the mortgage loans, the model reported that LTVs presented in the prospectus supplements were understated. In particular, the model reported that the denominator (that is, the appraised value of the property as stated in the loan tape and compiled into the tables in the prospectus supplement) that was used to determine the disclosed LTV was 105% or more of the true market value as determined by the model as of the time the loan was originated. The model reported that the denominator that was used to determine the disclosed LTV was 95% or less of the true market value on a much smaller number of properties. Thus, the number of properties on which the value was overstated exceeded by far the number on which the value was understated, and the aggregate amount overstated exceeded by far the aggregate amount understated.

Number of loans	2,594
Number of loans on which the stated value was 105% or more of the true market value as determined by the model	817
Aggregate amount by which the stated values of those properties exceeded their true market values as determined by the model	\$46,549,031
Number of loans on which the stated value was 95% or less of the true market value as determined by the model	246
Aggregate amount by which the true market values of those properties exceeded their stated values	\$12,784,194
Number of loans with LTVs over 95%, as stated by Defendants	0
Number of loans with LTVs over 95%, as determined by the model	162
Weighted-average LTV, as stated by Defendants	69.82%
Weighted-average LTV, as determined by the model	78.0%

41. The model produced similar results for the mortgage loans in the collateral pool of each securitization. Details of the results of the model for each securitization are stated in Item 41 of the Schedules of this Complaint. Plaintiff incorporates into this paragraph 41, and alleges as though fully set forth in this paragraph, the contents of Item 41 of the Schedules.

(d) These statements also were misleading because the defendants omitted to state that there were additional liens on a material number of the properties that secured the mortgage loans in the collateral pools.

42. As mentioned above, the LTV of a mortgage loan is a key determinant of the likelihood that the mortgagor will default in payment of the mortgage. The lower the LTV, the less likely that a decline in the value of the property will wipe out the owner's equity and thereby give the owner an incentive to stop making mortgage payments and abandon the property. Because LTV affects the behavior of borrowers so profoundly, accurate LTVs are essential to predicting defaults and prepayments by borrowers. Also as mentioned above, LTV affects the severity of loss on those loans that do default. The power of LTV to predict defaults, prepayments, and severities is a major reason why reasonable investors consider the LTVs of mortgage loans important to the decision whether to purchase a certificate in the securitization of those loans.

38. To take an example, in Securitization No. 2, there were 2,594 mortgage loans in the collateral pool. On 817 of the properties that secured those loans, the model reported that the denominator that was used to determine the disclosed LTV was 105% or more of the true market value and the amount by which the stated values of those properties exceeded their true market values in the aggregate was \$46,549,031. The model reported that the denominator that was used to determine the disclosed LTV was 95% or less of true market value on only 246 properties, and the amount by which the true market values of those properties exceeded the values reported in the denominators was \$12,784,194. Thus, the number of properties on which the value was overstated exceeded by more than three times the number on which the value was understated, and the aggregate amount overstated was three times the aggregate amount understated.

39. On one of the loans in Securitization No. 2, the amount of the loan was \$239,000 and the stated value of the property was \$320,000, resulting in a stated LTV of 75%. The model, however, determined that the true value of the property was \$201,000, resulting in a true LTV of 119%. Thus, the stated value was higher than the true value by 59%, and the stated LTV was lower than the true LTV by 44%. Both of these were huge discrepancies that were material to the credit quality of the loan.

40. The overstated values of 817 properties made virtually every statement by the defendants about the LTVs of the mortgage loans untrue or misleading. For example, the defendants stated that all mortgage loans had an LTV of 95% or less. In fact, 162 of the mortgage loans had LTVs of over 95%. Defendants also stated that the weighted-average LTV of the loans in the collateral pool was 69.82%. In fact, the weighted-average LTV of the loans was 78.0%. These differences were material for the reasons stated above.

43. The predictive power of the LTV of a mortgage loan is much reduced if there are additional liens on the same property. Additional liens reduce the owner's equity in the property and thereby increase the owner's incentive to stop making mortgage payments and abandon the property if the value of the property falls below the combined amount of all of the liens on the property (a strategic default). Additional liens also exacerbate delinquencies and defaults because they complicate the servicing of mortgage loans and the management of delinquencies and defaults. Servicers of the first-lien mortgage must then deal not only with the borrower, but also with the servicer of the second-lien mortgage. For example, the servicer of a single mortgage may want to grant a borrower forbearance while the borrower is unemployed and allow him or her to add missed payments to the principal of the loan and to resume payments when he or she is employed again. But the servicer of the second-lien mortgage may refuse such forbearance and initiate foreclosure and thereby force the borrower into default on the first mortgage as well.

44. According to land records, many of the properties that secured mortgage loans in the collateral pool of each securitization were subject to liens in addition to the lien of the mortgage in the pool at the time of the closing of these securitizations.³ The defendants failed to disclose any of these additional liens in the prospectus supplements. These additional liens increased the risk that those owners would default in payment of the mortgage loan in the pool.

45. To take an example, of the 2,594 properties that secured the mortgage loans in Securitization No. 2, at least 804 were subject to undisclosed liens in addition to the lien of the mortgage in the pool. For example, defendants stated that the weighted-average LTV of the properties was 69.82%, when, solely because of the additional liens on these 804 properties, the weighted-average combined LTVs of all of the loans in the pool was 74.1%.⁴ This is a significant difference. On one of the loans, the original balance of the mortgage loan was \$272,000, the

³ In order to ensure that liens that were paid off but were not properly removed from land records were not included in this calculation, additional liens referred to in this Complaint and the Schedules exclude liens on the loan tapes that were originated on or before the date on which the mortgage loans in the pools were originated.

⁴ The combined LTV is the ratio of all loans on a property to the value of the property.

represented value of the property was \$353,000, and the reported LTV was 77%. On the date of the closing of this securitization, however, there were undisclosed additional liens on this property of \$68,000. Thus, when all liens on the property were taken into account, the combined LTV of the loan was 96%, which was 84% higher than the stated LTV on that loan. This was a huge discrepancy that was material to the credit quality of the loan. In many cases, the amount of the undisclosed additional liens was much greater than the owner's ostensible equity, putting the owner "under water" on the day on which this securitization closed.

46. Details of the undisclosed additional liens in the securitizations are stated in Item 46 of the Schedules of this Complaint. Plaintiff incorporates into this paragraph 46, and alleges as though fully set forth in this paragraph, the contents of Item 46 of the Schedules. Plaintiff is informed and believes, and based thereon alleges, that discovery will demonstrate that the number of loans with additional liens is substantially higher than those disclosed in the Schedules.

47. Because the defendants did not disclose the existence or the amounts of these additional liens, all of the statements that they made about the LTVs of the mortgage loans were misleading.

2. Appraisals

48. As discussed above in paragraph 31, an accurate denominator (value of the mortgaged property) is essential to calculating an accurate LTV. An accurate appraisal of the property, in turn, is essential to identifying an accurate denominator.

49. In connection with these securitizations, there was undisclosed upward bias in appraisals of properties that secured mortgage loans and consequent understatement of the LTVs of those loans. This upward bias in appraisals caused the denominators that were used to calculate the LTVs of many mortgage loans to be overstated and, in turn, the LTVs to be understated. The defendants' statements regarding the LTVs of the mortgage loans in the collateral pools were misleading because they omitted to state that the appraisals of a material number of the properties that secured those loans were biased upwards. In addition, the

defendants stated that the appraisals conformed to the Uniform Standards of Professional Appraisal Practice (USPAP), the professional standards that govern appraisers and appraisals (or to the standards of Fannie Mae and Freddie Mac, which required compliance with USPAP). Those statements were false because upwardly biased appraisals do not conform to USPAP.

- (a) **The statements that the defendants made about the LTVs of the mortgage loans in the collateral pools were misleading because they omitted to state that the appraisals of a large number of the properties that secured those loans were biased upward, so that stated LTVs based on those appraisals were lower than the true LTVs of those mortgage loans.**

50. The defendants omitted to state that the appraisals in these securitizations used inaccurate property descriptions, ignored recent sales of the subject and comparable properties, and used sales of properties that were not comparable, all in order to inflate the values of the appraised properties. The appraisals used to compute the LTVs of many of the mortgage loans in the collateral pools were biased upwards. As alleged in paragraphs 36 through 41, in each trust, the number of properties for which the value was overstated exceeded by far the number for which the value was understated, and the aggregate amount overstated exceeded by far the aggregate amount understated. These ratios for each trust are summarized in the following table:

Securitization No.	Ratio of Number of Properties whose Value was Overstated to Number whose Value was Understated	Ratio of Amount of Overvaluation to Amount of Undervaluation
1	4.2	5.2
2	3.3	3.6
3	5.2	9.0
4	2.3	2.0

These lopsided results demonstrate the upward bias in appraisals of properties that secured the mortgage loans in the collateral pools.

51. Plaintiff is informed and believes, and based thereon alleges, that a material number of the upwardly biased appraisals were not statements of the appraisers' actual findings of the values of the properties based on their objective valuations.

- (b) **The statements by the defendants about compliance with USPAP were untrue because the appraisals of a large number of the properties that secured the mortgage loans were biased upward.**

52. Appraisers and appraisals are governed by USPAP, which is promulgated by the Appraisal Standards Board. The Preamble to USPAP states that its purpose “is to promote and maintain a high level of public trust in appraisal practice.” Both Fannie Mae and Freddie Mac require that appraisals comply with USPAP.

53. USPAP includes the following provisions:

(a) USPAP Standards Rule 2-1(b)(iii) requires that “Each written or oral real property appraisal report must clearly and accurately set forth the appraisal in a manner that will not be misleading.”

(b) USPAP Standards Rule 1-4(a) provides that “When a sales comparison approach is necessary for credible assignment results, an appraiser must analyze such comparable sales data as are available to indicate a value conclusion.”

(c) USPAP Standards Rule 1-4(b) provides that “When a cost approach is necessary for credible assignment results, an appraiser must:

- (i) develop an opinion of site value by an appropriate appraisal method or technique;
- (ii) analyze such comparable cost data as are available to estimate the cost new of the improvements (if any); and
- (iii) analyze such comparable data as are available to estimate the difference between the cost new and the present worth of the improvements (accrued depreciation).”

54. The Appraisal Standards Board, which promulgates USPAP, also issues Advisory Opinions. Although the Advisory Opinions do not establish new standards or interpret USPAP, they “are issued to illustrate the applicability of appraisal standards in specific situations.” Advisory Opinion 1 discussing “Sales History” states that “The requirement for the appraiser to

analyze and report sales history and related information is fundamental to the appraisal process. Just as the appraiser must analyze pending and recent sales of comparable properties, the appraiser must take into account all pending and recent sales of the subject property itself.”

55. In the prospectus supplements, the defendants made statements that the appraisals of properties that secured the mortgage loans in the collateral pools were made in compliance with USPAP or with the appraisal standards of Fannie Mae and Freddie Mac, which required compliance with USPAP. Details of each such statement are stated in Item 55 of the Schedules of this Complaint. Plaintiff incorporates into this paragraph 55, and alleges as though fully set forth in this paragraph, the contents of Item 55 of the Schedules.

56. Plaintiff is informed and believes, and based thereon alleges, that a material number of mortgage loans in the collateral pools had appraisals conducted that deviated from USPAP.

57. Each of the statements referred to in paragraph 55 was untrue because the appraisals of a material number of the properties referred to in each such statement did not conform to USPAP.

58. By each of the untrue and misleading statements referred to in paragraphs 33 and 55 above, the defendants materially understated the risk of the certificates that they underwrote.

B. Untrue or Misleading Statements About the Occupancy Status of the Properties That Secured the Mortgage Loans in the Collateral Pools

1. The materiality of occupancy status

59. Residential real estate is usually divided into primary residences, second homes, and investment properties. Mortgages on primary residences are less likely to default than mortgages on non-owner-occupied residences and therefore are less risky. Occupancy status also influences prepayment patterns.

60. Occupancy status (that is, whether the property that secures a mortgage is to be the primary residence of the borrower, a second home, or an investment property) is an important measure of the risk of a mortgage loan. The percentage of loans in the collateral pool of a

securitization that are not secured by mortgages on primary residences is an important measure of the risk of certificates sold in that securitization. Other things being equal, the higher the percentage of loans not secured by primary residences, the greater the risk of the certificates. A reasonable investor considers occupancy status important to the decision whether to purchase a certificate in a securitization of mortgage loans.

2. Untrue or misleading statements about the occupancy status of the properties that secured the mortgage loans in the collateral pools of these securitizations

61. In the prospectus supplements, the defendants made statements about the number of properties in the collateral pool of each securitization that were the primary residences of their owners. To return to the example of Securitization No. 2, the defendants stated that, of the 2,594 mortgage loans in the collateral pool, 2,156 were secured by primary residences and 438 were not. Details of each such statement in each securitization are stated in Item 61 of the Schedules of this Complaint. Plaintiff incorporates into this paragraph 61, and alleges as though fully set forth in this paragraph, the contents of Item 61 of the Schedules.

62. These statements were untrue or misleading because (i) the stated number of mortgage loans secured by primary residences was higher than the actual number of loans in that category or (ii) the stated number of mortgage loans not secured by primary residences was lower than the actual number of loans in that category.

3. Basis of the allegations above that these statements about the occupancy status of the properties that secured the mortgage loans in the collateral pools were untrue or misleading

63. Because they are less risky than other mortgage loans, mortgage loans on primary residences usually have more favorable terms, including lower interest rates and more lenient underwriting standards, than mortgage loans on second homes and investment properties. Applicants for loans on second homes and investment properties therefore have an incentive to state that the property will be their primary residence even when it will not. Plaintiff is informed

and believes, and based thereon alleges, that borrowers of many nonconforming securitized loans did so.

64. A significant number of the properties in the collateral pool of each securitization that were stated to be primary residences actually were not. Moreover, Plaintiff is informed and believes, and based thereon alleges, that there is additional evidence of occupancy fraud in the loan files of many more of the mortgage loans in each collateral pool.

65. With respect to some of the properties that were stated to be primary residences, the borrower instructed local tax authorities to send the bills for the taxes on the property to the borrower at an address other than the property itself. This is strong evidence that the mortgaged property was not the borrower's primary residence.

66. In some states and counties, owners of a property are able to designate whether that property is his or her "homestead," which may reduce the taxes on that property or exempt the property from assets available to satisfy the owner's creditors, or both. An owner may designate only one property, which he or she must occupy, as his or her homestead. The fact that an owner in one of these jurisdictions does not designate a property as his or her homestead when he or she can do so is strong evidence that the property was not his or her primary residence. With respect to some of the properties that were stated to be primary residences, the owner could have but did not designate the property as his or her homestead. That omission is strong evidence that the property was not the borrower's primary residence.

67. When a borrower actually occupies a newly mortgaged property, he or she normally notifies entities that send bills to him or her (such as credit card companies, utility companies, and local merchants) to send his or her bills to the address of the newly mortgaged property. Six months after the closing of the mortgage is ample time to complete this process. Six months after the closing of the mortgage, if the borrower is still receiving his or her bills at a different address, it is very likely that the borrower does not occupy the mortgaged property. For each securitization, a credit reporting agency specializing in mortgage loans compared the addresses in the borrowers' credit reports to the addresses of the mortgaged properties six

months after the closing of the mortgage loans. Many borrowers whose mortgage loans were secured by properties that were stated in the loan tapes to be owner-occupied did not receive any bills at the address of the mortgaged property but did receive their bills at another address or addresses. It is very likely that each of these borrowers did not occupy the mortgaged property.

68. In Securitization No. 2, 305 owners of properties that were stated to be primary residences instructed local tax authorities to send the bills for the taxes on those properties to them at different addresses; 292 owners of properties that were stated to be primary residences could have, but did not, designate those properties as their homesteads; and 246 owners of properties that were stated to be primary residences did not receive any of their bills there six months after the mortgages were originated. Eliminating duplicates, for one or more of these reasons, 674 of the 2,594 properties that were stated to be primary residences actually were not. Thus, the number of properties that were not primary residences was not 438, as defendants stated, but at least 1,112, a material difference. The numbers of such loans in the collateral pool of each securitization are stated in Item 68 of the Schedules of this Complaint. Plaintiff incorporates into this paragraph 68, and alleges as though fully set forth in this paragraph, the contents of Item 68 of the Schedules.

69. By each of the untrue and misleading statements referred to in paragraph 61, the defendants materially understated the risk of the certificates that they underwrote.

C. Untrue or Misleading Statements About the Underwriting Standards of the Originators of the Mortgage Loans in the Collateral Pools

1. The materiality of underwriting standards and the extent of an originator's disregard of them

70. Originators of mortgage loans have written standards by which they underwrite applications for loans. An important purpose of underwriting is to ensure that the originator makes mortgage loans only in compliance with those standards and that its underwriting decisions are properly documented. An even more fundamental purpose of underwriting mortgage loans is to ensure that loans are made only to borrowers with credit standing and financial resources to repay the loans and only against collateral with value, condition, and

marketability sufficient to secure the loans. An originator's underwriting standards, and the extent to which the originator does not follow its standards, are important indicators of the risk of mortgage loans made by that originator and of certificates sold in a securitization in which mortgage loans made by that originator are part of the collateral pool. A reasonable investor considers the underwriting standards of originators of mortgage loans in the collateral pool of a securitization, and whether an originator disregards its standards, important to the decision whether to purchase a certificate in that securitization.

2. Untrue or misleading statements about the underwriting standards of originators of the mortgage loans

71. In the prospectus supplements, the defendants made statements about the underwriting standards of Countrywide Home Loans, Inc., the originator of the mortgage loans in the collateral pools of the securitizations. Details of each such statement are stated in Item 71 of the Schedules of this Complaint. They included statements that Countrywide Home Loans, Inc. made mortgage loans in compliance with its underwriting standards and made exceptions to those standards only when compensating factors were present. Plaintiff incorporates into this paragraph 71, and alleges as though fully set forth in this paragraph, the contents of Item 71 of the Schedules.

72. Plaintiff is informed and believes, and based thereon alleges, that these statements were untrue or misleading because the defendants omitted to state that: (a) Countrywide Home Loans, Inc. was disregarding those underwriting standards; (b) Countrywide Home Loans, Inc. was making extensive exceptions to those underwriting standards when no compensating factors were present; (c) Countrywide Home Loans, Inc. was making wholesale, rather than case-by-case, exceptions to those underwriting standards; (d) Countrywide Home Loans, Inc. was making mortgage loans that borrowers could not repay; and (e) Countrywide Home Loans, Inc. was failing frequently to follow quality-assurance practices necessary to detect and prevent fraud intended to circumvent their underwriting standards.

3. Basis of the allegations that these statements about the underwriting standards of the originators of the mortgage loans in the collateral pools were untrue or misleading

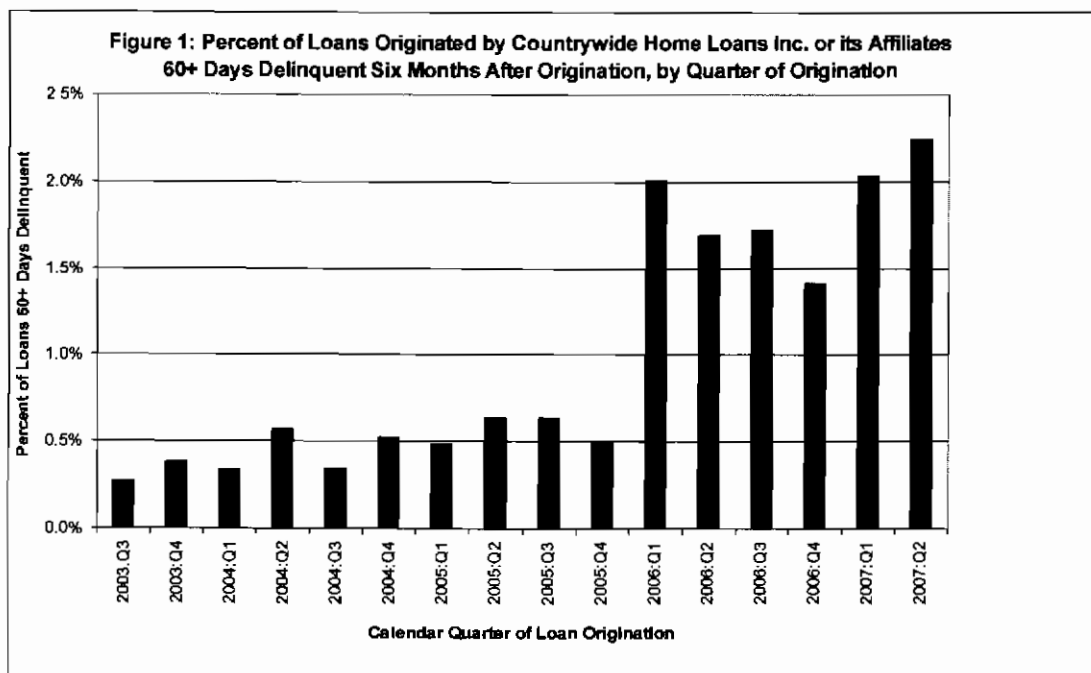
(a) The deterioration in undisclosed credit characteristics of mortgage loans made by these originators

73. Plaintiff is informed and believes, and based thereon alleges, that before and during the time of these securitizations Countrywide Home Loans, Inc. disregarded its stated underwriting standards. As a result, securitized mortgage loans made between 2004 and the dates of these securitizations have experienced high rates of delinquency and default.

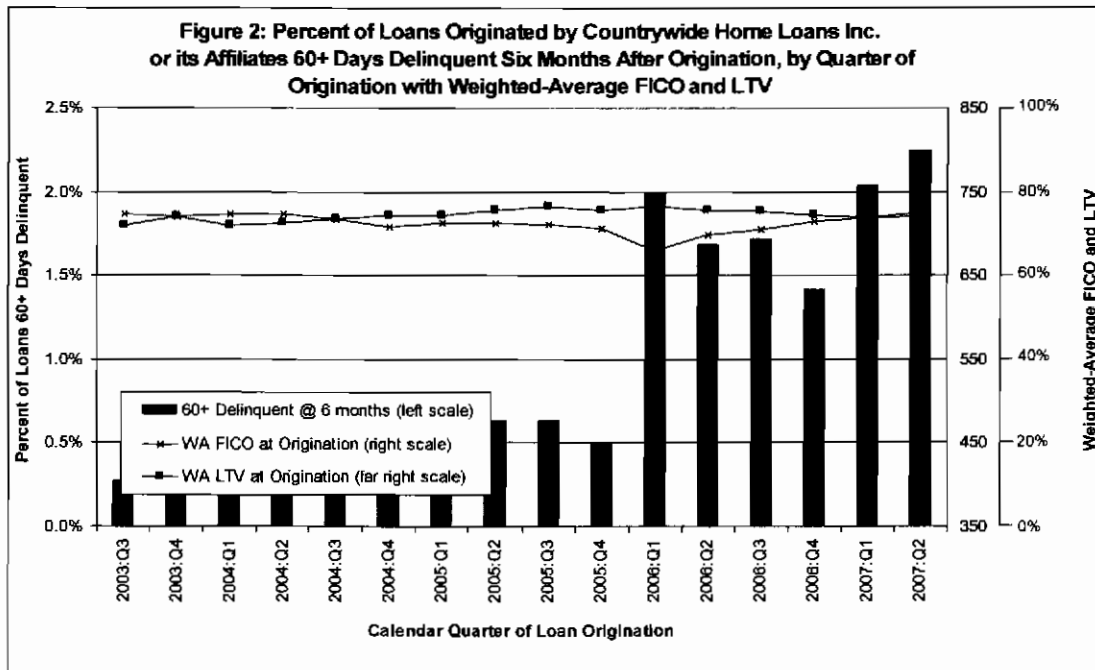
74. The high rates of delinquency and default were caused not so much by any deterioration in credit characteristics of the loans that were expressly embodied in underwriting standards and disclosed to investors, but rather by deterioration in credit characteristics that were not disclosed to investors.

75. Plaintiff is informed and believes that what was true about recently securitized mortgage loans in general was true in particular of loans originated by the entities that originated the loans in the collateral pools of these securitizations, as the following figures demonstrate. Figure 1 shows the rising incidence of early payment defaults (or **EPDs**), that is, the percent of loans (by outstanding principal balance) that were originated and sold into securitizations by Countrywide Home Loans, Inc. and that became 60 or more days delinquent within six months after they were made. An EPD is strong evidence that the originator did not follow its underwriting standards in making the loan. Underwriting standards are intended to ensure that loans are made only to borrowers who can and will make their mortgage payments. Because an EPD occurs so soon after the mortgage loan was made, it is much more likely that the default occurred because the borrower could not afford the payments in the first place (and thus that the underwriting standards were not followed), than because of changed external circumstances unrelated to the underwriting of the mortgage loan (such as that the borrower lost his or her job). The bars in Figure 1 depict the incidence of EPDs in loans originated by Countrywide Home Loans, Inc. that were sold into securitizations. The steady increase in EPDs is further evidence

that the deterioration in the credit quality of those loans was caused by disregard of underwriting standards.



76. Figure 2 shows the weighted-average disclosed LTVs of the same loans and weighted-average disclosed credit scores of the borrowers. These were nearly constant, showing that the deterioration in the credit quality of the loans was caused not by these disclosed factors, but rather by undisclosed factors.



(b) The poor performance of the loans in these pools demonstrates that the originators disregarded their underwriting guidelines when making these loans.

77. As noted above, an EPD is evidence that the originator may have disregarded its underwriting standards in making the loan. The mortgage loans in some of the collateral pools of these securitization experienced EPDs. These EPDs are evidence that the originators of those loans may have disregarded their underwriting standards when making those loans. The number and percent of the loans in each pool that suffered EPDs are stated in Item 77 of the Schedules of this Complaint. Plaintiff incorporates into this paragraph 77, and alleges as though fully set forth in this paragraph, the contents of Item 77 of the Schedules.

78. A high rate of delinquency at any time in a group of mortgage loans is also evidence that the originators of those loans may have disregarded their underwriting standards in making the loans. A common measure of serious delinquency is the number of loans on which the borrowers were ever 90 or more days delinquent in their payments. The mortgage loans in the collateral pools have experienced very high rates of delinquencies by this measure. This high rate of delinquencies is strong evidence that the originators of those loans may have disregarded

their underwriting standards when making those loans. The number and percent of the loans in each pool that suffered 90 or more days delinquencies are stated in Item 78 of the Schedules of this Complaint. Plaintiff incorporates into this paragraph 78, and alleges as though fully set forth in this paragraph, the contents of Item 78 of the Schedules.

79. A second common measure of delinquency is the number of loans on which the borrowers are 30 or more days delinquent at a given point in time. This high rate of delinquencies is strong evidence that the originators of those loans may have disregarded their underwriting standards when making those loans. The number and percent of the loans in each pool that were 30 or more days delinquent on January 31, 2012 are stated in Item 79 of the Schedules of this Complaint. Plaintiff incorporates into this paragraph 79, and alleges as though fully set forth in this paragraph, the contents of Item 79 of the Schedules.

(c) Other evidence shows that Countrywide Home Loans, Inc. disregarded its underwriting standards.

80. In addition to the statistical data cited above, other evidence shows that Countrywide Home Loans, Inc. (which originated or acquired all of the loans in the collateral pools of these securitizations), did not follow its stated underwriting standards.

81. Many loans that Countrywide originated were outside its already lax underwriting standards, because Countrywide frequently disregarded even those standards and made loans that borrowers could not afford to pay. *See* Complaint at 4, *S.E.C. v. Mozilo*, No. CV 09-3994-JFW (MANx) (C.D. Cal. 2009). In a memorandum dated December 13, 2007, the enterprise risk assessment officer at Countrywide stated that “borrower repayment capacity was not adequately assessed by the bank during the underwriting process for home equity mortgage loans.” *Id.* at 23-24. In an email dated June 1, 2006, Countrywide’s Chairman and CEO Angelo Mozilo wrote that borrowers “are going to experience a payment shock which is going to be difficult if not impossible for them to manage.” *Id.* at 37.

82. Moreover, Countrywide “viewed borrowers as nothing more than the means for producing more loans, originating loans with little or no regard to borrowers’ long-term ability to

afford them.” Complaint at 5, *California v. Countrywide Financial Corp.*, No. LC083076 (Cal. Super. 2008). Indeed, “to increase market share, [Countrywide] dispensed with many standard underwriting guidelines . . . to place unqualified borrowers in loans which ultimately they could not afford.” Complaint at 5, *Washington v. Countrywide Financial Corp.*, No. 09-2-01690-6 (Wash. Super. 2009).

83. Plaintiff is informed and believes, and based thereon alleges, that Countrywide did not adhere to its own underwriting standards, but instead abandoned, ignored, or disregarded them. According to internal Countrywide documents, Mozilo admitted that loans “had been originated ‘through our channels with disregard for process [and] compliance with guidelines.’” Complaint at 20-21, *S.E.C. v. Mozilo*, No. CV 09–3994–JFW (MANx) (C.D. Cal. 2009). Moreover, Countrywide did whatever it took to sell as many loans as it could, as quickly as possible, including by disregarding its underwriting standards. *See* Complaint at 5, *California v. Countrywide Financial Corp.*, No. LC083076 (Cal. Super. 2008).

84. Plaintiff is informed and believes, and based thereon alleges, that Countrywide made exceptions to its underwriting standards where no compensating factors existed, resulting in higher rates of default and used as “compensating factors” variables such as a borrower’s credit score and LTV, which had already been used to determine that the loan did not fall within the guidelines. Complaint at 20-21, *S.E.C. v. Mozilo*, No. CV 09–3994–JFW (MANx) (C.D. Cal. 2009). Such “compensating factors” did not actually compensate for anything and did not “offset” any risk.

85. According to the Financial Crisis Inquiry Commission, Countrywide made loans that it knew borrowers could not afford to pay. In its final report, the FCIC noted that “Countrywide recognized that many of the loans they were originating could result in ‘catastrophic consequences’” because the borrowers could not afford to pay. FINANCIAL CRISIS INQUIRY COMMISSION, *THE FINANCIAL INQUIRY REPORT* xxii (Public Affairs Reports, 2011).

86. Finally, Plaintiff is informed and believes, and based thereon alleges, that Countrywide did not apply its underwriting standards in accordance with all federal, state, and

local laws. Countrywide has entered into agreements to settle charges of violation of predatory lending, unfair competition, false advertising, and banking laws with the Attorneys General of at least 38 states, including Alaska, Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Michigan, Mississippi, Montana, Nebraska, Nevada, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Tennessee, Virginia, Washington, West Virginia, Wisconsin, and Wyoming. The Attorneys General of these states alleged that Countrywide violated state predatory lending laws by (i) making loans it could not have reasonably expected borrowers to be able to repay; (ii) using high pressure sales and advertising tactics designed to steer borrowers towards high-risk loans; and (iii) failing to disclose to borrowers important information about the loans, including the costs and difficulties of refinancing, the availability of lower cost products, the existence and nature of prepayment penalties, and that advertised low interest rates were merely “teaser” rates that would adjust upwards dramatically as soon as one month after closing. Eighty-eight percent of the mortgages that were covered by the settlement with the Attorneys General were sold into securitization trusts, like the four in which SCB purchased the certificates.

87. By each of the untrue and misleading statements referred to in paragraph 71 above, the defendants materially understated the risk of the certificates that they issued or underwrote. Moreover, Plaintiff is informed and believes, and based thereon alleges, that discovery will yield additional evidence that the originators disregarded their underwriting guidelines when making the mortgage loans in the collateral pools of these securitizations.

D. The Large Number of Mortgage Loans in the Collateral Pools About Which the Defendants Made Material Untrue or Misleading Statements Made Their Statements About the Ratings of SCB’s Certificates Untrue and Misleading.

88. In the prospectus supplements, the defendants made statements about the rating of each certificate by ratings agencies. They stated that the ratings agencies rated each such certificate investment grade. Details of each such statement are stated in Item 88 of the

Schedules of this Complaint. Plaintiff incorporates into this paragraph 88, and alleges as though fully set forth in this paragraph, the contents of Item 88 of the Schedules.

89. The ratings were important to the decision of any reasonable investor whether to purchase the certificates. Many investors, including SCB, have investment policies that require a certain minimum rating for all investments. The policy of SCB was to purchase only certificates that were rated at least A.

90. These statements by the defendants about the ratings of the certificates they underwrote were misleading because the defendants omitted to state that the ratings were affected by all the material untrue or misleading statements about specific mortgage loans in the collateral pools. These include:

- (a) loans in which the LTVs were materially understated as shown by the AVM;
- (b) loans in which the LTVs were misleading as a result of undisclosed additional liens;
- (c) loans that suffered EPDs, strong evidence that the originators may have disregarded the underwriting standards in making those loans; and
- (d) loans in which the properties were stated to be owner-occupied, but were not.

91. In Securitization No. 2, there were 817 loans whose LTVs were materially understated as shown by the AVM, 804 loans in which the LTVs were misleading because of undisclosed additional liens, 19 loans that suffered EPDs, and 674 loans in which the properties were stated to be owner-occupied but were not. Eliminating duplicates, there were 1,706 loans (or 65.8% of the loans in the collateral pool) about which defendants made untrue or misleading statements. The numbers of such loans in the collateral pool of each securitization are stated in Item 91 of the Schedules of this Complaint. Plaintiff incorporates into this paragraph 91, and alleges as though fully set forth in this paragraph, the contents of Item 91 of the Schedules.

92. Plaintiff is informed and believes, and based thereon alleges, that loan files and other documents available only through discovery will prove that those statements were untrue or misleading with respect to many more loans as well.

93. By these untrue and misleading statements, the defendants materially understated the risk of the certificates that they underwrote. Moreover, Plaintiff is informed and believes, and based thereon alleges, that the defendants materially understated the risk of the certificates that they underwrote.

VI. STATUTE OF LIMITATIONS

94. None of the claims in this Complaint was barred by the statute of limitations on May 22, 2009, the date on which Plaintiff became receiver for SCB, because, even in the exercise of reasonable diligence, SCB could not have discovered, and SCB did not discover, the untrue or misleading statements by defendants more than one year before that date. Under 12 U.S.C. § 1821(d)(14), the statute of limitations on all of the claims in this Complaint is extended to three years from May 22, 2009. Plaintiff discovered the untrue or misleading statements by defendants in 2011 in the course of its investigation of possible claims of SCB that Plaintiff is authorized to bring as receiver for SCB. The claims in this Complaint are timely.

VII. CAUSE OF ACTION

Untrue or Misleading Statements in a Registration Statement Under Section 11 of the 1933 Act

95. Plaintiff hereby incorporates by reference, as though fully set forth, paragraphs 1 through 94.

96. BAS is the underwriter of Securitizations Nos. 1 and 3. In doing the acts alleged, BAS violated Section 11 of the 1933 Act in connection with the sale to SCB of the certificates in Securitizations Nos. 1 and 3.

97. Citigroup is the underwriter of Securitization No. 2. In doing the acts alleged, Citigroup violated Section 11 of the 1933 Act in connection with the sale to SCB of the certificate in Securitization No. 2.

98. DBS is the underwriter of Securitization No. 3. In doing the acts alleged, DBS violated Section 11 of the 1933 Act in connection with the sale to SCB of the certificate in Securitization No. 3.

99. JP Morgan is the underwriter of Securitization No. 4. In doing the acts alleged, JP Morgan violated Section 11 of the 1933 Act in connection with the sale to SCB of the certificates in Securitization No. 4.

100. The certificates in these securitizations were issued pursuant or traceable to registration statements. Details of each registration statement and each certificate are stated in Item 24 of the Schedules.

101. The registration statements, as amended by the prospectus supplements, contained untrue statements of material fact and omitted to state material facts necessary in order to make the statements, in the light of the circumstances under which they were made, not misleading. These untrue and misleading statements included all of the untrue and misleading statements described in paragraphs 28 through 93.

102. SCB purchased each certificate before the issuer made an earning statement covering a period of at least twelve months generally available.

103. Plaintiff expressly excludes from this cause of action any allegation that could be construed as alleging fraud or intentional or reckless conduct. This cause of action is based solely on claims of strict liability or negligence under the 1933 Act.

104. SCB did not know when it purchased these certificates that the statements in the registration statements, as amended by the prospectus supplements, were untrue or misleading.

105. When they failed on May 22, 2009, SCB had not discovered that the defendants made untrue or misleading statements about the certificates. Plaintiff discovered that the defendants made untrue or misleading statements in the sale of the securities in 2011 in the course of its investigation.

106. SCB has suffered a loss on each of these certificates.

107. Plaintiff is entitled to recover damages as described in 15 U.S.C. § 77k(e).

VIII. JURY DEMAND

108. Pursuant to Federal Rule of Civil Procedure 38, Plaintiff demands a trial by jury of all issues triable by jury.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for judgment against defendants for damages in an amount to be determined at trial, but not less than \$11 million, plus attorneys' fees, costs of court, pre- and post-judgment interest at the appropriate allowable rates. Plaintiff further requests that the Court order any and all other relief at law and in equity to which Plaintiff is entitled.

Dated: May 18, 2012
New York, New York

Respectfully Submitted,

GRAIS & ELLSWORTH LLP

By 

David J. Grais (DG7118)
Mark B. Holton (MH4939)
Leanne M. Wilson (LW1225)
Grais & Ellsworth LLP
1211 Avenue of the Americas
New York, New York 10036
Phone: 212-755-0100

*Attorneys for Federal Deposit Insurance
Corporation as Receiver for Strategic Capital Bank*

SCHEDULE 1 OF THE COMPLAINT

To the extent that this Schedule is incorporated by reference into allegations in the Complaint, those allegations are made against defendant BAS.

Item 24. Details of trust and certificate(s).

(a) **Description of the trust:** Alternative Loan Trust, Mortgage Pass-Through Certificates, Series 2006-26CB was a securitization in July 2006 of 1,884 mortgage loans, in one pool. The mortgage loans in the collateral pool of this securitization were originated or acquired by Countrywide Home Loans, Inc. CWALT 2006-26CB Pros. Sup. S-40.

(b) **Description of the certificate(s) that SCB purchased:** BAS was an underwriter of the security that SCB purchased. SCB purchased a senior certificate in this securitization, in class A-18, for which SCB paid \$6,290,166 plus accrued interest on February 28, 2008.

(c) **Ratings of the certificate(s) when SCB purchased them:** Fitch: AAA; Moody's: Aaa; S&P: AAA.

(d) **Current ratings of the certificate(s):** Fitch: D; Moody's: Caa3; S&P: D.

(e) **URL of prospectus supplement for this securitization:**

<http://www.sec.gov/Archives/edgar/data/1269518/000095013406014405/v22165b5e424b5.txt>

(f) **Registration statement pursuant or traceable to which the certificate(s) were issued:** Certificates in this trust, including the certificate that SCB purchased, were issued pursuant or traceable to a registration statement filed by CWALT, Inc. with the SEC on form S-3 on February 7, 2006. Annexed to the registration statement was a prospectus. The prospectus was amended from time to time by prospectus supplements whenever a new series of certificates was issued pursuant or traceable to that registration statement.

Item 33. Untrue or misleading statements about the LTVs of the mortgage loans:

In the prospectus supplement, BAS made the following statements about the LTVs of the mortgage loans in the collateral pool of this securitization.

(a) As of the cut-off date, the weighted average original LTV ratio of the mortgage loans in the mortgage pool was 70.42%. CWALT 2006-26CB Pros. Sup. S-5.

(b) “No mortgage loan had a Loan-to-Value Ratio at origination of more than 95.00%.” CWALT 2006-26CB Pros. Sup. S-29.

(c) In the section of the prospectus supplement entitled “The Mortgage Pool,” BAS presented tables of statistics about the mortgage loans in the collateral pool. Each table focused on a certain characteristic of the loans (for example, current principal balance) and divided the loans into categories based on that characteristic (for example, loans with current principal balances of \$400,000.01 to 450,000.00, 450,000.01 to 500,000.00, 500,000.01 to 550,000.00, etc.). Each table then presented various data about the loans in each category. Among these data was the “Weighted Average Original Loan-to-Value Ratio.” There were 12 such tables in “The Mortgage Pool” section for the loans in the collateral pool. In each table the number of categories into which the loans were divided ranged from 3 to 28. Thus, in “The Mortgage Pool” section, BAS made many untrue or misleading statements about the original LTVs of the loans in the collateral pool. CWALT 2006-26CB Pros. Sup. S-31 to S-38.

(d) “As of the cut-off date, the weighted average original Loan-to-Value Ratio of the mortgage loans was approximately 70.42%.” CWALT 2006-26CB Pros. Sup. S-34.

Item 41. Details of the results of the AVM analysis:

Number of loans	1,884
Number of loans on which the stated value was 105% or more of the true market value as reported by the model	589
Aggregate amount by which the stated values of those properties exceeded their true market values as reported by the model	\$35,631,882
Number of loans on which the stated value was 95% or less of the true market value as reported by the model	141
Aggregate amount by which the true market values of those properties exceed their stated values	\$6,846,303
Number of loans with LTVs over 95%, as stated by defendants	0
Number of loans with LTVs over 95%, as determined by the model	127
Weighted-average LTV, as stated by defendants	70.42%
Weighted-average LTV, as determined by the model	80.7%

Item 46. Undisclosed additional liens:

- (a) **Minimum number of properties with additional liens:** 650
- (b) **Weighted average CLTV with additional liens:** 77.3%

Item 55. Untrue or misleading statements about compliance with USPAP:

In the prospectus supplement, BAS made the following statement about the appraisals of the properties that secured the mortgage loans originated or acquired by Countrywide Home Loans: "All appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect." CWALT 2006-26CB Pros. Sup. S-42.

Item 61. Untrue or misleading statements about owner-occupancy of the properties that secured the mortgage loans:

In the prospectus supplement, BAS made the following statements about the occupancy status of the properties that secured the mortgage loans in the collateral pool of this securitization.

- (a) In "The Mortgage Pool" section of the prospectus supplement, described in Item 33, BAS presented a table entitled "Occupancy Types." This table divided all of the mortgage loans in the collateral pool into the categories "Primary Residence,"

“Investment Property” and “Secondary Residence.” This table made untrue or misleading statements about, among other data, the number of mortgage loans, the aggregate principal balance outstanding, and the percent of mortgage loans in each of these categories. CWALT 2006-26CB Pros. Sup. S-36.

(b) In the “Occupancy Types” table, BAS stated that of the 1,884 mortgage loans in the collateral pool, 1,491 were secured by primary residences and 393 were not. CWALT 2006-26CB Pros. Sup. S-36.

Item 68. Details of properties in that were stated to be owner-occupied, but were not:

- (a) **Number of loans on which the owner of the property instructed tax authorities to send property tax bills to him or her at a different address: 132**
- (b) **Number of loans on which the owner of the property could have, but did not, designate the property as his or her homestead: 254**
- (c) **Number of loans on which the owner of the property did not receive bills at the address of the mortgaged property but did receive bills at a different address: 165**
- (d) **Eliminating duplicates, number of loans about which one or more of statements (a) through (c) is true: 396**

Item 71. Untrue or misleading statements about the underwriting standards of the originators of the mortgage loans:

On pages S-40 through S-45 of the prospectus supplement, BAS made statements about the underwriting guidelines of Countrywide Home Loans, Inc. All of those statements are incorporated herein by reference.

One of these statements was that: “Exceptions to Countrywide Home Loans’ underwriting guidelines may be made if compensating factors are demonstrated by a prospective borrower.” CWALT 2006-26CB Pros. Sup. S-41.

Another one of these statements was that: “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.” CWALT 2006-26CB Pros. Sup. S-41.

Item 77. Early payment defaults:

- (a) **Number of the mortgage loans that suffered EPDs: 11**
- (b) **Percent of the mortgage loans that suffered EPDs: 0.6%**

Item 78. 90+ days delinquencies:

- (a) **Number of the mortgage loans that suffered 90+ days delinquencies: 645**
- (b) **Percent of the mortgage loans that suffered 90+ days delinquencies: 34.2%**

Item 79. 30+ days delinquencies in this securitization:

- (a) **Number of the mortgage loans that were 30+ days delinquent on January 31, 2012: 546**
- (b) **Percent of the mortgage loans that were 30+ days delinquent on January 31, 2012: 29.0%**

Item 88. Statements about the ratings of the certificate(s) that SCB purchased:

On pages S-6 through S-8 and S-103 through S-104 of the prospectus supplement, BAS made statements about the ratings assigned to the certificates issued in this securitization. BAS stated that SCB’s certificate was rated AAA by Fitch Ratings, Aaa by Moody’s and AAA by Standard & Poor’s Ratings Services. CWALT 2006-26CB Pros. Sup. S-7. These were the highest ratings available from these three rating agencies.

BAS also stated: “The offered certificates will not be offered unless they are assigned the indicated ratings by Fitch Ratings . . . Moody’s Investors Services, Inc. . . . and Standard & Poor’s. . . .” CWALT 2006-26CB Pros. Sup. S-8.

BAS also stated: “It is a condition to the issuance of the offered certificates that they be assigned the respective ratings set forth in the Summary of this prospectus supplement.” CWHL 2006-26CB Pros. Sup. S-103.

- Item 91. Summary of loans about which the defendants made untrue or misleading statements:**
- (a) Number of loans whose LTVs were materially understated: 589**
 - (b) Number of loans whose LTVs were materially understated because of undisclosed additional liens: 650**
 - (c) Number of loans that suffered EPDs: 11**
 - (d) Number of loans in which the properties were stated to be owner-occupied but were not: 396**
 - (e) Eliminating duplicates, number of loans about which the defendants made untrue or misleading statements: 1,243**
 - (f) Eliminating duplicates, percent of loans about which the defendants made untrue or misleading statements: 66.0%**

SCHEDULE 2 OF THE COMPLAINT

To the extent that this Schedule is incorporated by reference into allegations in the Complaint, those allegations are made against defendant Citigroup.

Item 24. Details of trust and certificate(s).

(a) **Description of the trust:** Alternative Loan Trust, Mortgage Pass-Through Certificates, Series 2006-28CB was a securitization in August 2006 of 2,594 mortgage loans in one pool. The mortgage loans in the collateral pool of this securitization were originated or acquired by Countrywide Home Loans, Inc. CWALT 2006-28CB Pros. Sup. S-40.

(b) **Description of the certificate(s) that SCB purchased:** Citigroup was an underwriter of the security that SCB purchased. SCB purchased a senior certificate in this securitization, in class A-7, for which SCB paid \$6,439,830 plus accrued interest on January 22, 2008.

(c) **Ratings of the certificate(s) when SCB purchased them:** Fitch: AAA; Moody's: Aaa; S&P: AAA.

(d) **Current ratings of the certificate(s):** Fitch: D; Moody's: Caa3; S&P: D.

(e) **URL of prospectus supplement for this securitization:**
<http://www.sec.gov/Archives/edgar/data/1269518/000095012406005004/v23273b5e424b5.txt>

(f) **Registration statement pursuant or traceable to which the certificate(s) were issued:** Certificates in this trust, including the certificate that SCB purchased, were issued pursuant or traceable to a registration statement filed by CWALT, Inc. with the SEC on form S-3 on February 7, 2006. Annexed to the registration statement was a prospectus. The prospectus was amended from time to time by prospectus supplements whenever a new series of certificates was issued pursuant or traceable to that registration statement.

Item 33. Untrue or misleading statements about the LTVs of the mortgage loans:

In the prospectus supplement, Citigroup made the following statements about the LTVs of the mortgage loans in the collateral pool of this securitization.

(a) As of the cut-off date, the weighted-average original LTV ratio of all of the loans in the collateral pool was 69.82%. CWALT 2006-28CB Pros. Sup. S-5.

(b) “No mortgage loan had a Loan-to-Value Ratio at origination of more than 95%.” CWALT 2006-28CB Pros. Sup. S-28.

(c) In the section of the prospectus supplement entitled “The Mortgage Pool,” Citigroup presented tables of statistics about the mortgage loans in the collateral pool. Each table focused on a certain characteristic of the loans (for example, current principal balance) and divided the loans into categories based on that characteristic (for example, loans with current principal balances of \$0.01 to \$50,000, \$50,000.01 to \$100,000, \$100,000.01 to \$150,000, etc.). Each table then presented various data about the loans in each category. Among these data was the “Weighted Average Original Loan-to-Value Ratio.” There were 12 such tables in “The Mortgage Pool” section for all of the loans in the collateral pool. In each table the number of categories into which the loans were divided ranged from three to 32. Thus, in “The Mortgage Pool” section, Citigroup made many untrue or misleading statements about the original LTVs of all of the loans in the collateral pool. CWALT 2006-28CB Pros. Sup. S-31 to S-38.

(d) “As of the cut-off date, the weighted average original Loan-to-Value Ratio of the mortgage loans was approximately 69.82%.” CWALT 2006-28CB Pros. Sup. S-34.

Item 41. Details of the results of the AVM analysis:

Number of loans	2,594
Number of loans on which the stated value was 105% or more of the true market value as reported by the model	817
Aggregate amount by which the stated values of those properties exceeded their true market values as reported by the model	\$46,549,031
Number of loans on which the stated value was 95% or less of the true market value as reported by the model	246
Aggregate amount by which the true market values of those properties exceed their stated values	\$12,784,194
Number of loans with LTVs over 95%, as stated by defendants	0
Number of loans with LTVs over 95%, as determined by the model	162
Weighted-average LTV, as stated by defendants	69.82%
Weighted-average LTV, as determined by the model	78.0%

Item 46. Undisclosed additional liens:

- (a) **Minimum number of properties with additional liens:** 804
- (b) **Weighted-average CLTV with additional liens:** 74.1%

Item 55. Untrue or misleading statements about compliance with USPAP:

In the prospectus supplement, Citigroup made the following statement about the appraisals of the properties that secured the mortgage loans originated or acquired by Countrywide Home Loans: "All appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect." CWALT 2006-28CB Pros. Sup. S-42.

Item 61. Untrue or misleading statements about owner-occupancy of the properties that secured the mortgage loans:

In the prospectus supplement, Citigroup made the following statements about the occupancy status of the properties that secured the mortgage loans in the collateral pool of this securitization.

- (a) In "The Mortgage Pool" section of the prospectus supplement, described in Item 33, Citigroup presented a table entitled "Occupancy Types." This table divided all of the mortgage loans in the collateral pool into the categories "Primary Residence," "Investment Property," and "Secondary Residence." This table made untrue or

misleading statements about, among other data, the number of mortgage loans, the aggregate principal balance outstanding, and the percent of mortgage pool in each of these categories. CWALT 2006-28CB Pros. Sup. S-36.

(b) In the "Occupancy Types" table, Citigroup stated that of the 2,594 mortgage loans in the collateral pool, 2,156 were secured by primary residences and 438 were not. CWALT 2006-28CB Pros. Sup. S-36.

Item 68. Details of properties that were stated to be owner-occupied, but were not:

- (a) **Number of loans on which the owner of the property instructed tax authorities to send property tax bills to him or her at a different address: 305**
- (b) **Number of loans on which the owner of the property could have, but did not, designate the property as his or her homestead: 292**
- (c) **Number of loans on which the owner of the property did not receive bills at the address of the mortgaged property but did receive bills at a different address: 246**
- (d) **Eliminating duplicates, number of loans about which one or more of statements (a) through (c) is true: 674**

Item 71. Untrue or misleading statements about the underwriting standards of the originators of the mortgage loans:

On pages S-40 through S-45 of the prospectus supplement, Citigroup made statements about the underwriting guidelines of Countrywide Home Loans, Inc. All of those statements are incorporated herein by reference.

One of these statements was that: "Exceptions to Countrywide Home Loans' underwriting guidelines may be made if compensating factors are demonstrated by a prospective borrower." CWALT 2006-28CB Pros. Sup. S-41.

Another one of these statements was that: "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." CWALT 2006-28CB Pros. Sup. S-41.

Item 77. Early payment defaults:

- (a) Number of the mortgage loans that suffered EPDs: 19**
- (b) Percent of the mortgage loans that suffered EPDs: 0.7%**

Item 78. 90+ days delinquencies:

- (a) Number of the mortgage loans that suffered 90+ days delinquencies: 736**
- (b) Percent of the mortgage loans that suffered 90+ days delinquencies: 28.4%**

Item 79. 30+ days delinquencies in this securitization:

- (a) Number of the mortgage loans that were 30+ days delinquent on January 31, 2012: 624**
- (b) Percent of the mortgage loans that were 30+ days delinquent on January 31, 2012: 24.0%**

Item 88. Statements about the ratings of the certificate(s) that SCB purchased:

On pages S-6 through S-7 and S-109 through S-110 of the prospectus supplement, Citigroup made statements about the ratings assigned to the certificates issued in this securitization. Citigroup stated that SCB's certificate was rated AAA by Fitch Ratings, Aaa by Moody's Investors Service, Inc. and AAA by Standard & Poor's. CWALT 2006-28CB Pros. Sup. S-6. These were the highest ratings available from these two rating agencies.

Citigroup also stated: "The offered certificates will not be offered unless they are assigned the indicated ratings by Fitch Ratings . . . Moody's Investors Service, Inc. . . . and Standard & Poor's . . ." CWALT 2006-28CB Pros. Sup. S-7.

Citigroup also stated: "It is a condition to the issuance of the offered certificates that they be assigned the respective ratings set forth in the Summary of this prospectus supplement." CWALT 2006-28CB Pros. Sup. S-109.

- Item 91. Summary of loans about which the defendants made untrue or misleading statements:**
- (a) Number of loans whose LTVs were materially understated: 817**
 - (b) Number of loans in whose LTVs were materially understated because of undisclosed additional liens: 804**
 - (c) Number of loans that suffered EPDs: 19**
 - (d) Number of loans in which the properties were stated to be owner-occupied but were not: 674**
 - (e) Eliminating duplicates, number of loans about which the defendants made untrue or misleading statements: 1,706**
 - (f) Eliminating duplicates, percent of loans about which the defendants made untrue or misleading statements: 65.8%**

SCHEDULE 3 OF THE COMPLAINT

To the extent that this Schedule is incorporated by reference into allegations in the Complaint, those allegations are made against defendants DBS and BAS.

Item 24. Details of trust and certificate(s).

(a) **Description of the trust:** Alternative Loan Trust, Mortgage Pass-Through Certificates, Series 2007-16CB was a securitization in June 2007 of 7,330 mortgage loans in five groups. The mortgage loans in the collateral pool of this securitization were originated or acquired by Countrywide Home Loans, Inc. CWALT 2007-16CB Pros. Sup. S-41.

(b) **Description of the certificate(s) that SCB purchased:** DBS and BAS were underwriters of the security that SCB purchased. SCB purchased a senior certificate in this securitization, in class 5-A-4, for which SCB paid \$12,649,920 plus accrued interest on February 8, 2008. SCB's certificate was primarily paid by the 713 loans in loan group 5.

(c) **Ratings of the certificate(s) when SCB purchased them:** S&P: AAA; Moody's: Aaa.

(d) **Current ratings of the certificate(s):** S&P: CCC; Moody's: Caa3.

(e) **URL of prospectus supplement for this securitization:**

<http://www.sec.gov/Archives/edgar/data/1269518/000136231007001241/c70738e424b5.htm>

(f) **Registration statement pursuant or traceable to which the certificate(s) were issued:** Certificates in this trust, including the certificate that SCB purchased, were issued pursuant or traceable to a registration statement filed by CWALT, Inc. with the SEC on form S-3 on February 28, 2007. Annexed to the registration statement was a prospectus. The prospectus was amended from time to time by prospectus supplements whenever a new series of certificates was issued pursuant or traceable to that registration statement.

Item 33. Untrue or misleading statements about the LTVs of the mortgage loans:

In the prospectus supplement, DBS and BAS made the following statements about the LTVs of the mortgage loans in the collateral pool of this securitization.

(a) As of the cut-off date, the weighted-average original LTV ratio of the loans in loan group 5 was 66.80%. CWALT 2007-16CB Pros. Sup. S-6.

(b) “No mortgage loan in any loan group had a Loan-to-Value Ratio at origination of more than 100.00%.” CWALT 2007-16CB Pros. Sup. S-37.

(c) In Annex A of the prospectus supplement entitled “The Mortgage Pool,” DBS and BAS presented tables of statistics about the mortgage loans in the collateral pool. Each table focused on a certain characteristic of the loans (for example, current principal balance) and divided the loans into categories based on that characteristic (for example, loans with current principal balances of \$0.01 to \$50,000.00, \$50,000.01 to \$100,000.00, \$100,000.01 to \$150,000.00, etc.). Each table then presented various data about the loans in each category. Among these data was the “Weighted Average Original Loan-to-Value Ratio.” There were 13 such tables in “The Mortgage Pool” section about the loans in loan group 5. In each table the number of categories into which the loans were divided ranged from 2 to 17. Thus, in “The Mortgage Pool” section, DBS and BAS made many untrue or misleading statements about the original LTVs of the loans in the loan group 5. CWALT 2007-16CB Pros. Sup. A-39 to A-47.

(d) “As of the cut-off date, the weighted average original Loan-to-Value Ratio of the mortgage loans in loan group 5 was approximately 66.80%.” CWALT 2007-16CB Pros. Sup. A-42.

(e) “As of the cut-off date, the weighted average original Combined Loan-to-Value Ratio of the mortgage loans in loan group 5 was approximately 71.42%.” CWALT 2007-16CB Pros. Sup. A-43.

Item 41. Details of the results of the AVM analysis:

Number of loans in loan group 5	713
Number of loans on which the stated value was 105% or more of the true market value as reported by the model	260
Aggregate amount by which the stated values of those properties exceeded their true market values as reported by the model	\$23,496,018
Number of loans on which the stated value was 95% or less of the true market value as reported by the model	50
Aggregate amount by which the true market values of those properties exceed their stated values	\$2,614,357
Number of loans with LTVs over 100%, as stated by defendants	0
Number of loans with LTVs over 100%, as determined by the model	48
Weighted-average LTV, as stated by defendants	66.80%
Weighted-average LTV, as determined by the model	75.2%

Item 55. Untrue or misleading statements about compliance with USPAP:

In the prospectus supplement, DBS and BAS made the following statement about the appraisals of the properties that secured the mortgage loans originated or acquired by Countrywide Home Loans: “All appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect.” CWALT 2007-16CB Pros. Sup. S-43.

Item 61. Untrue or misleading statements about owner-occupancy of the properties that secured the mortgage loans:

In the prospectus supplement, DBS and BAS made the following statements about the occupancy status of the properties that secured the mortgage loans in the collateral pool of this securitization.

(a) In Annex A of the prospectus supplement, described in Item 33, DBS and BAS presented a table entitled “Occupancy Types.” This table divided the mortgage loans in loan group 5 into the categories “Primary Residence,” “Investment Property” and “Secondary Residence.” This table made untrue or misleading statements about, among other data, the number of mortgage loans, the aggregate principal balance outstanding, and the percent of mortgage loans in each of these categories. CWALT 2007-16CB Pros. Sup. S-A-45.

(b) In the "Occupancy Types" table, DBS and BAS stated that of the 713 mortgage loans in loan group 5, 588 were secured by primary residences and 125 were not. CWALT 2007-16CB Pros. Sup. A-45.

Item 68. Details of properties in loan group 5 that were stated to be owner-occupied, but were not:

- (a) Number of loans on which the owner of the property instructed tax authorities to send property tax bills to him or her at a different address: 61
- (b) Number of loans on which the owner of the property could have, but did not, designate the property as his or her homestead: 98
- (c) Number of loans on which the owner of the property did not receive bills at the address of the mortgaged property but did receive bills at a different address: 82
- (d) Eliminating duplicates, number of loans about which one or more of statements (a) through (c) is true: 184

Item 71. Untrue or misleading statements about the underwriting standards of the originators of the mortgage loans:

On pages S-41 through S-47 of the prospectus supplement, DBS and BAS made statements about the underwriting guidelines of Countrywide Home Loans, Inc. All of those statements are incorporated herein by reference.

One of these statements was that: "Exceptions to Countrywide Home Loans' underwriting guidelines may be made if compensating factors are demonstrated by a prospective borrower." CWALT 2007-16CB Pros. Sup. S-42.

Another one of these statements was that: "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." CWALT 2007-16CB Pros. Sup. S-42.

Item 77. Early payment defaults in loan group 5:

- (a) Number of the mortgage loans that suffered EPDs: 4
- (b) Percent of the mortgage loans that suffered EPDs: 0.6%

Item 78. 90+ days delinquencies in loan group 5:

- (a) Number of the mortgage loans that suffered 90+ days delinquencies: 255**
- (b) Percent of the mortgage loans that suffered 90+ days delinquencies: 35.8%**

Item 79. 30+ days delinquencies in loan group 5:

- (a) Number of the mortgage loans that were 30+ days delinquent on January 31, 2011: 203**
- (b) Percent of the mortgage loans that were 30+ days delinquent on January 31, 2012: 28.5%**

Item 88. Statements about the ratings of the certificate(s) that SCB purchased:

On pages S-7 through S-9 and S-133 through S-134 of the prospectus supplement, DBS and BAS made statements about the ratings assigned to the certificates issued in this securitization. DBS and BAS stated that SCB's certificate was rated AAA by Standard & Poor's Ratings Services and Aaa by Moody's Investors Service. CWALT 2007-16CB Pros. Sup. S-8. These were the highest ratings available from these two rating agencies.

DBS and BAS also stated: "The offered certificates will not be offered unless they are assigned the indicated ratings by Standard & Poor's. . . and Moody's Investors Service. . . ." CWALT 2007-16CB Pros. Sup. S-9.

DBS and BAS also stated: "It is a condition to the issuance of the offered certificates that they be assigned the respective ratings set forth in the Summary of this prospectus supplement." CWALT 2007-16CB Pros. Sup. S-133.

Item 91. Summary of loans in loan group 5 about which the defendants made untrue or misleading statements:

- (a) Number of loans whose LTVs were materially understated: 260**
- (b) Number of loans that suffered EPDs: 4**
- (c) Number of loans in which the properties were stated to be owner-occupied but were not: 184**
- (d) Eliminating duplicates, number of loans about which the defendants made untrue or misleading statements: 383**

- (e) **Eliminating duplicates, percent of loans about which the defendants made untrue or misleading statements: 53.7%**

SCHEDULE 4 OF THE COMPLAINT

To the extent that this Schedule is incorporated by reference into allegations in the Complaint, those allegations are made against defendant JP Morgan.

Item 24. Details of trust and certificate(s).

(a) **Description of the trust:** Alternative Loan Trust, Mortgage Pass-Through Certificates, Series 2005-46CB was a securitization in August 2005 of 6,027 mortgage loans, in one pool.¹ The mortgage loans in the collateral pool of this securitization were originated or acquired by Countrywide Home Loans, Inc. CWALT 2005-46CB Pros. Sup. S-4, S-27.

(b) **Description of the certificate(s) that SCB purchased:** JP Morgan was the underwriter of the securities that SCB purchased. SCB purchased two senior certificates in this securitization, in class A-2 and class A-14, for which SCB paid \$16,730,559 plus accrued interest on March 10, 2008, and \$9,200,000 plus accrued interest on February 8, 2008, respectively.

(c) **Ratings of the certificate(s) when SCB purchased them:** Fitch: AAA; Moody's: Aaa.

(d) **Current ratings of the certificate(s):** Fitch: CC; Moody's: Caa2.

(e) **URL of prospectus supplement for this securitization:**

<http://www.sec.gov/Archives/edgar/data/1269518/000095012905008886/v11891e424b5.txt>

(f) **Registration statement pursuant or traceable to which the certificate(s) were issued:** Certificates in this trust, including the certificates that SCB purchased, were issued pursuant or traceable to a registration statement filed by CWALT with the SEC on form S-3 on June 17, 2005. Annexed to the registration statement was a prospectus. The prospectus was amended from time to time by prospectus supplements whenever a new series of certificates was issued pursuant or traceable to that registration statement.

¹ CWALT 2005-46CB was a securitization with a supplemental loan account that enabled it to purchase additional mortgage loans. CWALT 2005-46CB Pros. Sup. S-5, S-15. On the closing date of the securitization there were 6,027 mortgage loans in the trust (the "Closing Date Mortgage Loans."). After the closing date of the securitization, the trust purchased an additional 330 mortgage loans. The data contained in the charts and tables in this schedule includes the additional 330 mortgage loans.

Item 33. Untrue or misleading statements about the LTVs of the mortgage loans:

In the prospectus supplement, JP Morgan made the following statements about the LTVs of the mortgage loans in the collateral pool of this securitization.

(a) “No Initial Mortgage Loan had a Loan-to-Value Ratio at origination of more than 100.00%.” CWALT 2005-46CB Pros. Sup. S-15.

(b) In the section of the prospectus supplement entitled “The Mortgage Pool,” JP Morgan presented tables of statistics about the mortgage loans in the collateral pool. Each table focused on a certain characteristic of the loans (for example, current principal balance) and divided the loans into categories based on that characteristic (for example, loans with current principal balances of \$0.01 to \$50,000.00, \$50,000.01 to \$100,000.00, \$100,000.01 to \$150,000.00, etc.). Each table then presented various data about the loans in each category. Among these data was the “Weighted Average Original Loan-to-Value Ratio.” There were 10 such tables in “The Mortgage Pool” section for all of the loans in the collateral pool. In each table the number of categories into which the loans were divided ranged from 3 to 53. Thus, in “The Mortgage Pool” section, JP Morgan made many untrue or misleading statements about the original LTVs of the mortgage loans in the collateral pool. CWALT 2005-46CB Pros. Sup. S-17 to S-24.

(c) “As of the initial cut-off date, the weighted average original Loan-to-Value Ratio of the Initial Mortgage Loans was approximately 71.79%.” CWALT 2005-46CB Pros. Sup. S-21.

Item 41. Details of the results of the AVM analysis:

Number of loans	6,357
Number of loans on which the stated value was 105% or more of the true market value as reported by the model	1,764
Aggregate amount by which the stated values of those properties exceeded their true market values as reported by the model	\$76,732,948
Number of loans on which the stated value was 95% or less of the true market value as reported by the model	779
Aggregate amount by which the true market values of those properties exceed their stated values	\$37,958,872
Number of loans with LTVs over 100%, as stated by defendants	0
Number of loans with LTVs over 100%, as determined by the model	318
Weighted-average LTV, as stated by defendants	71.79%
Weighted-average LTV, as determined by the model	78.5%

Item 46. Undisclosed additional liens:

- (a) **Minimum number of properties with additional liens:** 1,844
- (b) **Weighted-average CLTV with additional liens:** 76.8%

Item 55. Untrue or misleading statements about compliance with USPAP:

In the prospectus supplement, JP Morgan made the following statement about the appraisals of the properties that secured the mortgage loans originated or acquired by Countrywide Home Loans: "All appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect." CWALT 2005-46CB Pros. Sup. S-29.

Item 61. Untrue or misleading statements about owner-occupancy of the properties that secured the mortgage loans:

In the prospectus supplement, JP Morgan made the following statements about the occupancy status of the properties that secured the mortgage loans in the collateral pool of this securitization.

- (a) In "The Mortgage Pool" section of the prospectus supplement, described in Item 33, JP Morgan presented a table entitled "Occupancy Types." This table divided all of the mortgage loans in the collateral pool into the categories "Primary Residence," "Investment

Property,” and “Secondary Residence.” This table made untrue or misleading statements about, among other data, the number of initial mortgage loans, the aggregate principal balance outstanding, and the percent of the initial mortgage pool in each of these categories. CWALT 2005-46CB Pros. Sup. S-23.

(b) In the “Occupancy Types” table, JP Morgan stated that of the 6,027 initial mortgage loans in the collateral pool, 4,966 were secured by primary residences and 1,061 were not. CWALT 2005-46CB Pros. Sup. S-23.

Item 68. Details of properties that were stated to be owner-occupied, but were not:

- (a) **Number of loans on which the owner of the property instructed tax authorities to send property tax bills to him or her at a different address: 429**
- (b) **Number of loans on which the owner of the property could have, but did not, designate the property as his or her homestead: 811**
- (c) **Number of loans on which the owner of the property did not receive bills at the address of the mortgaged property but did receive bills at a different address: 493**
- (d) **Eliminating duplicates, number of loans about which one or more of statements (a) through (c) is true: 1,462**

Item 71. Untrue or misleading statements about the underwriting standards of the originators of the mortgage loans:

On pages S-27 through S-32 of the prospectus supplement, JP Morgan made statements about the underwriting guidelines of Countrywide Home Loans, Inc. All of those statements are incorporated herein by reference.

One of these statements was that: “Exceptions to Countrywide Home Loans’ underwriting guidelines may be made if compensating factors are demonstrated by a prospective borrower.” CWALT 2005-46CB Pros. Sup. S-28.

Another one of these statements was that: “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.” CWALT 2005-46CB Pros. Sup. S-28.

Item 77. Early payment defaults:

- (a) **Number of the mortgage loans that suffered EPDs: 19**
- (b) **Percent of the mortgage loans that suffered EPDs: 0.3%**

Item 78. 90+ days delinquencies:

- (a) **Number of the mortgage loans that suffered 90+ days delinquencies: 984**
- (b) **Percent of the mortgage loans that suffered 90+ days delinquencies: 15.5%**

Item 79. 30+ days delinquencies in this securitization:

- (a) **Number of the mortgage loans that were 30+ days delinquent on January 31, 2012: 866**
- (b) **Percent of the mortgage loans that were 30+ days delinquent on January 31, 2012: 13.6%**

Item 88. Statements about the ratings of the certificate(s) that SCB purchased:

On pages S-3 and S-80 through S-81 of the prospectus supplement, JP Morgan made statements about the ratings assigned to the certificates issued in this securitization. JP Morgan stated that SCB's certificate was rated AAA by Fitch Ratings and Aaa by Moody's Investors Service, Inc. These were the highest ratings available from these two rating agencies.

JP Morgan also stated: "The classes of certificates listed below will not be offered unless they are assigned the following ratings by Fitch, Inc. . . . [and]. . . Moody's Investors Service, Inc." The requirement for class A-2 was AAA from Fitch Ratings and Aaa from Moody's Investors Service, Inc. CWALT 2005-46B Pros. Sup. S-3.

JP Morgan also stated: "It is a condition to the issuance of the senior certificates that they be rated 'AAA' by Fitch Ratings, Inc. . . . and 'Aaa' by Moody's Investors Service, Inc. . . . " CWALT 2005-46CB Pros. Sup. S-80.

Item 91. Summary of loans about which the defendants made untrue or misleading statements:

- (a) **Number of loans whose LTVs were materially understated: 1,764**
- (b) **Number of loans whose LTVs were materially understated because of undisclosed additional liens: 1,844**
- (c) **Number of loans that suffered EPDs: 19**

- (d) **Number of loans in which the properties were stated to be owner-occupied but were not: 1,462**
- (e) **Eliminating duplicates, number of loans about which the defendants made untrue or misleading statements: 3,941**
- (f) **Eliminating duplicates, percent of loans about which the defendants made untrue or misleading statements: 62.0%**