JS 44C/SDNY
REV. 7/2012

13 CV 6705

CIVIL COVER SHEET

SEP 23 2013

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.

PLAINTIFFS	DEFENDANTS
NATIONAL CREDIT UNION ADMINISTRATION BOARD, as Liquidating Agent of Southwest Corporate Federal Credit Union and Members United Corporate Federal Credit Union	MORGAN STANLEY & CO., INC. and MORGAN STANLEY CAPITAL I INC.
ATTORNEYS (FIRM NAME, ADDRESS, AND TELEPHONE NUMBER PATTERSON BELKNAP WEBB & TYLER LLP 1133 Avenue of the Americas, New York, NY 10036-6710 Telephone: (212) 336-2000 (see attachment)	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(DO NOT CITE JURISDICTIONAL STATUTES UNLESS DIVERSITY)

15 U.S.C. §§ 77k, 77l(a)(2) - Misrepresentations of material fact and omissions of fact in registered offering documents.

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

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

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 VETERAN'S BENEFITS
- [ ] 160 STOCKHOLDERS SUITS
- [ ] 190 OTHER CONTRACT
- [ ] 195 CONTRACT PRODUCT LIABILITY
- [ ] 196 FRANCHISE

REAL PROPERTY

- [ ] 210 LAND CONDEMNATION
- [ ] 220 FORECLOSURE
- [ ] 230 RENT LEASE & EJECTMENT
- [ ] 240 TORTS TO LAND
- [ ] 245 TORT PRODUCT LIABILITY
- [ ] 290 ALL OTHER REAL PROPERTY

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
- [ ] 360 OTHER PERSONAL INJURY

ACTIONS UNDER STATUTES

CIVIL RIGHTS

- [ ] 441 VOTING
- [ ] 442 EMPLOYMENT
- [ ] 443 HOUSING/ ACCOMMODATIONS
- [ ] 444 WELFARE
- [ ] 445 AMERICANS WITH DISABILITIES - EMPLOYMENT
- [ ] 446 AMERICANS WITH DISABILITIES -OTHER
- [ ] 440 OTHER CIVIL RIGHTS (Non-Prisoner)

PERSONAL INJURY

- [ ] 362 PERSONAL INJURY - MED MALPRACTICE
- [ ] 365 PERSONAL INJURY PRODUCT LIABILITY
- [ ] 368 ASBESTOS PERSONAL INJURY PRODUCT LIABILITY

PERSONAL PROPERTY

- [ ] 370 OTHER FRAUD
- [ ] 371 TRUTH IN LENDING
- [ ] 380 OTHER PERSONAL PROPERTY DAMAGE
- [ ] 385 PROPERTY DAMAGE PRODUCT LIABILITY

PRISONER PETITIONS

- [ ] 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 21 USC 881
- [ ] 630 LIQUOR LAWS
- [ ] 640 RR & TRUCK
- [ ] 650 AIRLINE REGS
- [ ] 660 OCCUPATIONAL SAFETY/HEALTH
- [ ] 690 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

ACTIONS UNDER STATUTES

BANKRUPTCY

- [ ] 422 APPEAL 28 USC 158
- [ ] 423 WITHDRAWAL 28 USC 157

PROPERTY RIGHTS

- [ ] 820 COPYRIGHTS
- [ ] 830 PATENT
- [ ] 840 TRADEMARK

SOCIAL SECURITY

- [ ] 861 HIA (1395ff)
- [ ] 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 7609

OTHER STATUTES

- [ ] 400 STATE REAPPORTIONMENT
- [ ] 410 ANTITRUST
- [ ] 430 BANKS & BANKING
- [ ] 450 COMMERCE
- [ ] 460 DEPORTATION
- [ ] 470 RACKETEER INFLU-ENCED & CORRUPT ORGANIZATION ACT (RICO)
- [ ] 480 CONSUMER CREDIT
- [ ] 490 CABLE/SATELLITE TV
- [ ] 810 SELECTIVE SERVICE
- [x] 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

DEMAND $_____ OTHER _____

Check YES only if demanded in complaint
JURY DEMAND: ☒ YES ☐ NO

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

JUDGE Hon. Denise L. Cote DOCKET NUMBER 11-cv-6739

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

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

IF DIVERSITY, INDICATE CITIZENSHIP BELOW. (28 USC 1332, 1441)

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
CITIZEN OF ANOTHER STATE	[ ]2	[ ]2	INCORPORATED or PRINCIPAL PLACE OF BUSINESS IN THIS STATE	[ ]4	[ ]4	FOREIGN NATION	[ ]6	[ ]6

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

NATIONAL CREDIT UNION ADMINISTRATION BOARD
1775 Duke Street
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DEFENDANT(S) ADDRESS(ES) AND COUNTY(IES)

MORGAN STANLEY & CO, INC. and MORGAN STANLEY CAPITAL I INC.
1585 Broadway
New York, NY 10036

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

RECEIPT #

SIGNATURE OF ATTORNEY OF RECORD

ADMITTED TO PRACTICE IN THIS DISTRICT

[ ] NO

☒ YES (DATE ADMITTED Mo. Sept. Yr. 1996)

Attorney Bar Code # PT0669

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

Magistrate Judge _____ is so Designated.

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

UNITED STATES DISTRICT COURT (NEW YORK SOUTHERN)

CIVIL COVER SHEET
Attachment

NATIONAL CREDIT UNION ADMINISTRATION BOARD, as Liquidating Agent of Southwest Corporate Federal Credit Union and Members United Corporate Federal Credit Union

Plaintiffs,

v.

MORGAN STANLEY & CO, INC. and MORGAN STANLEY CAPITAL I INC.

Defendants.

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EXPLANATION OF RELATED CASES

This case is related to *Fed. Hous. Fin. Agency v. Morgan Stanley*, No. 11-CIV-6739 (S.D.N.Y. 2011) ("*FHFA*"), because the cases involve similar allegations of untrue statements of material facts and omissions of material facts in connection with the securitization of mortgage loans by the same defendant. Specifically, ten of the offerings alleged in this case as having Offering Documents containing material untrue statements and omissions of fact are also at issue in *FHFA*:

Morgan Stanley ABS Capital I Inc. Trust Mortgage Pass-Through Certificates 2006-HE6
Morgan Stanley ABS Capital I Inc. Trust Mortgage Pass-Through Certificates 2006-HE8
Morgan Stanley ABS Capital I Inc. Trust Mortgage Pass-Through Certificates 206-NC4
Morgan Stanley ABS Capital I Inc. Trust Mortgage Pass-Through Certificates 2006-WMC2
Morgan Stanley ABS Capital I Inc. Trust Mortgage Pass-Through Certificates 2006-HE5
Morgan Stanley Capital I Inc. Trust Mortgage Pass-Through Certificates 2006-HE2
Morgan Stanley Mortgage Loan Trust Mortgage Pass-Through Certificates 2006-16AX
Morgan Stanley Mortgage Loan Trust Mortgage Pass-Through Certificates 2007-2AX
Morgan Stanley Mortgage Loan Trust Mortgage Pass-Through Certificates 2007-5AX
Saxon Asset Securities Trust Mortgage Loan Asset Backed Notes 2007-2

There is therefore a similarity of facts and legal issues and the cases arise largely from the same transactions and events. S.D.N.Y. Rules for the Division of Business Among District Judges ("RDB") 50.3.1(a).

Designating this case as a related case will also lead to "a substantial saving of judicial resources." RDB 13(a). The Hon. Denies L. Cote has made numerous rulings in *FHFA* and related cases and her familiarity with the issues will advance "the just efficient and economic conduct of the litigation." *Id.*

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

NATIONAL CREDIT UNION ADMINISTRATION BOARD, as Liquidating Agent of Southwest Corporate Federal Credit Union and Members United Corporate Federal Credit Union,	)	13 CV 6705
Plaintiffs,	)	Case No.
v.	)	**JURY TRIAL DEMANDED**
MORGAN STANLEY & CO., INC. and MORGAN STANLEY CAPITAL I INC.,	)	
Defendants.	)	

COMPLAINT

FILED
U.S. DISTRICT COURT
13 SEP 23 PM 3:56
S.D. OF N.Y.

TABLE OF CONTENTS

I. NATURE OF THE ACTION 1

Table 1 2

II. PARTIES AND RELEVANT NON-PARTIES 4

III. JURISDICTION AND VENUE 6

IV. MORTGAGE ORIGINATION AND THE PROCESS OF SECURITIZATION 7

Figure 1
Illustration of the Securitization Process 10

V. RMBS CREDIT RATINGS AND CREDIT ENHANCEMENT 10

Table 2
Credit Ratings 11

VI. THE CREDIT UNIONS' PURCHASES 13

Table 3
Credit Ratings for the Credit Unions' RMBS Purchases 14

VII. THE ORIGINATORS SYSTEMATICALLY DISREGARDED THE UNDERWRITING GUIDELINES STATED IN THE OFFERING DOCUMENTS 16

A. The Surge in Mortgage Delinquency and Defaults Shortly After the Offerings and the High OTD Practices of the Originators Demonstrate Systematic Disregard of Underwriting Standards 17

Table 4
Delinquency and Default Rates for the Credit Unions' RMBS Purchases 18

Table 5
Originator "Originate-to-Distribute" Percentages 26

B. The Surge in Actual Versus Expected Cumulative Gross Losses is Evidence of the Originators' Systematic Disregard of Underwriting Standards 27

Figure 2
Illustration of Expected Gross Losses v. Actual Gross Losses for The Credit Unions' RMBS Purchases 30

C. The Collapse of the Certificates' Credit Ratings is Evidence of Systematic Disregard of Underwriting Guidelines 44

D. Revelations Subsequent to the Offerings Show That the Originators Systematically Disregarded Underwriting Standards 44

1. The Systematic Disregard of Underwriting Standards Was Pervasive as Revealed After the Collapse 44

2. American Home's Systematic Disregard of Underwriting Standards 49

3. Countrywide's Systematic Disregard of Underwriting Standards 53

4. Decision One's Systematic Disregard of Underwriting Standards 61

5. First National Bank of Nevada's Systematic Disregard of Underwriting Standards 62

6. GMAC's Systematic Disregard of Underwriting Standards 66

7. GreenPoint Mortgage Funding Inc.'s Systematic Disregard of Underwriting Standards 70

8. Homecomings's Systematic Disregard of Underwriting Standards 76

9. IndyMac Bank F.S.B.'s Systematic Disregard of Underwriting Standards 82

10. The Morgan Stanley Originators' Systematic Disregard of Underwriting Standards 87

11. MortgageIT, Inc.'s Systematic Disregard of Underwriting Standards 92

12. National City Mortgage's Systematic Disregard of Underwriting Standards 95

13. New Century's Systematic Disregard of Underwriting Standards 96

14. Saxon Funding Management, Inc.'s Systematic Disregard of Underwriting Standards 104

15. WMC Mortgage Corp.'s Systematic Disregard of Underwriting Standards 105

E. Loans That Did Not Meet the Originators' Underwriting Guidelines Were Routinely Collateral for Morgan Stanley-Underwritten RMBS 109

F. Additional Evidence Confirms that Defective Loans Were Routinely Packaged into Morgan Stanley's RMBS 112

VIII. THE OFFERING DOCUMENTS CONTAINED UNTRUE STATEMENTS OF MATERIAL FACT 114

Table 6
Originators Supplying Loans for Each RMBS at Issue 115

A. Untrue Statements Concerning Adherence to Underwriting Guidelines 117

B. Untrue Statements Concerning Loan-to-Value Ratios, Owner-Occupancy Rates, and DTI Ratios 141

IX. THE CLAIMS ARE TIMELY 143

Table 7
Purchases Subject to Tolling Under American Pipe 145

X. CLAIMS FOR RELIEF 148

COUNT ONE
Section 11 of the Securities Act of 1933
(Morgan Stanley Mortgage Loan Trust 2006-8AR, Morgan Stanley Mortgage Loan Trust 2006-9AR, Morgan Stanley Mortgage Loan Trust 2006-10SL, Morgan Stanley Mortgage Loan Trust 2006-13ARX, Morgan Stanley Mortgage Loan Trust 2006-16AX) 148

COUNT TWO
Section 12(a)(2) of the Securities Act of 1933
(Morgan Stanley Mortgage Loan Trust 2006-9AR, Morgan Stanley Mortgage Loan Trust 2006-10SL, Morgan Stanley Mortgage Loan Trust 2006-13ARX, Morgan Stanley Mortgage Loan Trust 2006-16AX) 150

COUNT THREE
Violation of the Texas Securities Act
Tex. Rev. Civ. Stat. Ann. art. 581, § 33
(Morgan Stanley ABS Capital I Inc. Trust 2006-HE4, Morgan Stanley ABS Capital I Inc. Trust 2006-HE6, Morgan Stanley ABS Capital I Inc. Trust 2006-HE8, Morgan Stanley ABS Capital I Inc. Trust 2006-NC4, Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2, Morgan Stanley ABS Capital I Inc. Trust 2007-HE4, Morgan Stanley ABS Capital I Inc. Trust 2007-HE5, Morgan Stanley Home Equity Loan Trust 2006-1, Morgan Stanley Home Equity Loan Trust 2007-2, Morgan Stanley IXIS Real Estate Capital Trust 2006-1, Morgan Stanley Mortgage Loan Trust 2005-11AR, Morgan Stanley Mortgage Loan Trust 2006-3AR, Morgan Stanley Mortgage Loan Trust 2006-8AR, Morgan Stanley Mortgage Loan Trust 2006-9AR, Morgan Stanley Mortgage Loan Trust 2006-10SL, Morgan Stanley Mortgage Loan Trust 2006-13ARX, Morgan Stanley Mortgage Loan Trust 2006-16AX, Natixis Real Estate Capital Trust 2007-HE2, RALI Series 2006-QA5 Trust, Saxon Asset Securities Trust 2007-2) 152

COUNT FOUR
Section 11 of the Securities Act of 1933
(Morgan Stanley Mortgage Loan Trust 2006-16AX, Morgan Stanley Mortgage Loan Trust 2007-2AX, Morgan Stanley Mortgage Loan Trust 2007-4SL, Morgan Stanley Mortgage Loan Trust 2007-5AX, Morgan Stanley Mortgage Loan Trust 2007-11AR) 154

COUNT FIVE
Section 12(a)(2) of the Securities Act of 1933
(Morgan Stanley Mortgage Loan Trust 2007-2AX, Morgan Stanley Mortgage Loan Trust 2007-4SL, Morgan Stanley Mortgage Loan Trust 2007-5AX, Morgan Stanley Mortgage Loan Trust 2007-11AR) 155

COUNT SIX
Violation of the Illinois Securities Law of 1953
815 Ill. Comp. Stat. Ann. 5/12
(Morgan Stanley Capital I Inc. Trust 2006-HE2, Morgan Stanley Mortgage Loan Trust 2006-16AX, Morgan Stanley Mortgage Loan Trust 2007-2AX, Morgan Stanley Mortgage Loan Trust 2007-4SL, Morgan Stanley Mortgage Loan Trust 2007-5AX, Morgan Stanley Mortgage Loan Trust 2007-11AR) 157

Plaintiff, the National Credit Union Administration Board ("NCUA Board"), brings this action in its capacity as Liquidating Agent of Southwest Corporate Federal Credit Union ("Southwest") and Members United Corporate Federal Credit Union ("Members United") (collectively "the Credit Unions") against Morgan Stanley & Co., Inc. ("Morgan Stanley"), as underwriter and seller, and against Morgan Stanley Capital I Inc. (the "Issuer Defendant"), as issuer, of certain residential mortgage-backed securities ("RMBS") purchased by the Credit Unions, and alleges as follows:

I. NATURE OF THE ACTION

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

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

3. The Issuer Defendant issued and Morgan Stanley underwrote and sold the RMBS pursuant to registration statements, prospectuses, prospectus supplements, term sheets, free writing prospectuses, and other written materials (collectively, the "Offering Documents"). These Offering Documents contained untrue statements of material fact or omitted to state material facts in violation of Sections 11 and 12(a)(2) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§ 77k, 77*l*(a)(2) ("Section 11" and "Section 12(a)(2)," respectively), the Texas Securities Act, Tex. Rev. Civ. Stat. Ann. art 581, § 33 ("Texas Blue Sky law"), and the Illinois Securities Law of 1953, 815 Ill. Comp. Stat. Ann. 5/12 & 13 ("Illinois Blue Sky law").

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

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

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

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

8. The Credit Unions purchased certain RMBS issued by the Issuer Defendant and underwritten and/or sold by Morgan Stanley as indicated in Table 1 (*infra*). Defendants are therefore liable for material untrue statements and omissions of fact in the Offering Documents for these RMBS under Section 11, Section 12(a)(2) and/or the Texas Blue Sky law and Illinois Blue Sky law as indicated in Table 1 (*infra*).

Table 1

CUSIP[1]	Issuing Entity	Depositor	Purchaser	Trade Date	Price Paid	Claims
61748BAC8	Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	Morgan Stanley ABS Capital I Inc.	Southwest	5/15/2006	$8,990,000	Texas Blue Sky
61748BAE4	Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	Morgan Stanley ABS Capital I Inc.	Southwest	5/15/2006	$5,000,000	Texas Blue Sky
61750FAE0	Morgan Stanley ABS Capital I Inc. Trust 2006-HE6	Morgan Stanley ABS Capital I Inc.	Southwest	9/8/2006	$4,500,000	Texas Blue Sky

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

CUSIP[1]	Issuing Entity	Depositor	Purchaser	Trade Date	Price Paid	Claims
61750SAE2	Morgan Stanley ABS Capital I Inc. Trust 2006-HE8	Morgan Stanley ABS Capital I Inc.	Southwest	11/16/2006	$15,000,000	Texas Blue Sky
61748LAD4	Morgan Stanley ABS Capital I Inc. Trust 2006-NC4	Morgan Stanley ABS Capital I Inc.	Southwest	10/23/2006	$20,003,038	Texas Blue Sky
61749KAE3	Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	Morgan Stanley ABS Capital I Inc.	Southwest	11/3/2006	$7,044,954	Texas Blue Sky
61749KAE3	Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	Morgan Stanley ABS Capital I Inc.	Southwest	5/25/2006	$8,000,000	Texas Blue Sky
61753VAD4	Morgan Stanley ABS Capital I Inc. Trust 2007-HE4	Morgan Stanley ABS Capital I Inc.	Southwest	3/15/2007	$15,000,000	Texas Blue Sky
61753KAD8	Morgan Stanley ABS Capital I Inc. Trust 2007-HE5	Morgan Stanley ABS Capital I Inc.	Southwest	4/11/2007	$11,500,000	Texas Blue Sky
617451EU9	Morgan Stanley Capital I Inc. Trust 2006-HE2	Morgan Stanley Capital I Inc.	Members United	3/14/2006	$15,000,000	Illinois Blue Sky
617451EW5	Morgan Stanley Capital I Inc. Trust 2006-HE2	Morgan Stanley Capital I Inc.	Members United	3/14/2006	$21,706,000	Illinois Blue Sky
61744CWY8	Morgan Stanley Home Equity Loan Trust 2006-1	Morgan Stanley ABS Capital I Inc.	Southwest	1/9/2006	$4,500,000	Texas Blue Sky
61752UAC9	Morgan Stanley Home Equity Loan Trust 2007-2	Morgan Stanley ABS Capital I Inc.	Southwest	3/23/2007	$16,430,000	Texas Blue Sky
61749QAD2	Morgan Stanley IXIS Real Estate Capital Trust 2006-1	Morgan Stanley ABS Capital I Inc.	Southwest	6/9/2006	$8,000,000	Texas Blue Sky
61748HTG6	Morgan Stanley Mortgage Loan Trust 2005-11AR	Morgan Stanley Capital I Inc.	Southwest	12/21/2005	$10,005,166	Texas Blue Sky
61748HWW7	Morgan Stanley Mortgage Loan Trust 2006-3AR	Morgan Stanley Capital I Inc.	Southwest	3/3/2006	$15,248,133	Texas Blue Sky
61749LAA9	Morgan Stanley Mortgage Loan Trust 2006-8AR	Morgan Stanley Capital I Inc.	Southwest	6/7/2006	$25,037,911	§ 11 and Texas Blue Sky
61748JAA5	Morgan Stanley Mortgage Loan Trust 2006-9AR	Morgan Stanley Capital I Inc.	Southwest	7/20/2006	$13,000,000	§ 11, § 12(a)(2) and Texas Blue Sky
61749TAA2	Morgan Stanley Mortgage Loan Trust 2006-10SL	Morgan Stanley Capital I Inc.	Southwest	7/14/2006	$4,000,000	§ 11, § 12(a)(2) and Texas Blue Sky
61750PAB4	Morgan Stanley Mortgage Loan Trust 2006-13ARX	Morgan Stanley Capital I Inc.	Southwest	9/15/2006	$6,800,000	§ 11, § 12(a)(2) and Texas Blue Sky
617487AC7	Morgan Stanley Mortgage Loan Trust 2006-16AX	Morgan Stanley Capital I Inc.	Southwest	10/19/2006	$10,000,000	§ 11, § 12(a)(2) and Texas Blue Sky
617487AC7	Morgan Stanley Mortgage Loan Trust 2006-16AX	Morgan Stanley Capital I Inc.	Members United	2/27/2007	$22,520,756	§ 11 and Illinois Blue Sky
61751TAC3	Morgan Stanley Mortgage Loan Trust 2007-2AX	Morgan Stanley Capital I Inc.	Members United	1/16/2007	$20,000,000	§ 11, § 12(a)(2) and Illinois Blue Sky
61751PAA5	Morgan Stanley Mortgage Loan Trust 2007-4SL	Morgan Stanley Capital I Inc.	Members United	2/23/2007	$46,221,000	§ 11, § 12(a)(2) and Illinois Blue Sky
61751GAC1	Morgan Stanley Mortgage Loan Trust 2007-5AX	Morgan Stanley Capital I Inc.	Members United	2/23/2007	$14,000,000	§ 11, § 12(a)(2) and Illinois Blue Sky
61754VAG6	Morgan Stanley Mortgage Loan Trust 2007-11AR	Morgan Stanley Capital I Inc.	Members United	6/21/2007	$15,070,000	§ 11, § 12(a)(2) and Illinois Blue Sky
638728AA3	Natixis Real Estate Capital Trust 2007-HE2	Morgan Stanley ABS Capital I Inc.	Southwest	4/18/2007	$15,000,000	Texas Blue Sky

CUSIP[1]	Issuing Entity	Depositor	Purchaser	Trade Date	Price Paid	Claims
75115BAA7	RALI Series 2006-QA5 Trust	Residential Accredit Loans, Inc.	Southwest	6/21/2006	$30,000,000	Texas Blue Sky
80556YAD7	Saxon Asset Securities Trust 2007-2	Saxon Asset Securities Company	Southwest	4/18/2007	$8,980,000	Texas Blue Sky

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

II. PARTIES AND RELEVANT NON-PARTIES

10. The National Credit Union Administration ("NCUA") is an independent agency of the Executive Branch of the United States Government that, among other things, charters and regulates federal credit unions, and operates and manages the National Credit Union Share Insurance Fund ("NCUSIF") and the Temporary Corporate Credit Union Stabilization Fund ("TCCUSF"). The TCCUSF was created in 2009 to allow the NCUA to borrow funds from the United States Department of the Treasury ("Treasury Department") for the purposes of stabilizing corporate credit unions under conservatorship or liquidation, or corporate credit unions threatened with conservatorship or liquidation. The NCUA must repay all monies borrowed from the Treasury Department for the purposes of the TCCUSF by 2021 through assessments against all federally insured credit unions in the country. The NCUSIF insures the deposits of account holders in all federal credit unions and the majority of state-chartered credit unions. The NCUA has regulatory authority over state-chartered credit unions that have their deposits insured by the NCUSIF. The NCUA is under the management of the NCUA Board. *See* Federal Credit Union Act, 12 U.S.C. §§ 1751, 1752a(a) ("FCU Act").

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

investment and financial services to other credit unions.

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

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

14. Pursuant to 12 U.S.C. § 1787(b)(2)(A), the NCUA Board as Liquidating Agent has succeeded to all rights, titles, powers, and privileges of the Credit Unions and of any member, account holder, officer or director of the Credit Unions, with respect to the Credit Unions and their assets, including the right to bring the claims asserted in this action. As Liquidating Agent, the NCUA Board has all the powers of the members, directors, officers, and committees of the Credit Unions, and succeeds to all rights, titles, powers, and privileges of the Credit Unions. *See* 12 U.S.C. §1787(b)(2)(A). The NCUA Board may also sue on the Credit Unions' behalf. *See* 12 U.S.C. §§ 1766(b)(3)(A), 1787(b)(2), 1789(a)(2).

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

16. Any recoveries from this legal action will reduce the total losses resulting from the failure of the Credit Unions. Losses from the Credit Unions' failures must be paid from the NCUSIF or the TCCUSF. Expenditures from these funds must be repaid through assessments against all federally insured credit unions. Because of the expenditures resulting from the Credit

Unions' failures, federally insured credit unions will experience larger assessments, thereby reducing federally insured credit unions' net worth. Reductions in net worth can adversely affect the dividends that individual members of credit unions receive for the savings on deposit at their credit union. Reductions in net worth can also make loans for home mortgages and automobile purchases more expensive and difficult to obtain. Any recoveries from this action will help to reduce the amount of any future assessments on credit unions throughout the system, reducing the negative impact on federally insured credit unions' net worth. Recoveries from this action will benefit credit unions and their individual members by increasing net worth resulting in more efficient and lower-cost lending practices.

17. Morgan Stanley is an SEC registered broker-dealer. Morgan Stanley acted as an underwriter of all the RMBS that are the subject of this Complaint as indicated in Table 1 (*supra*). Morgan Stanley is a Delaware corporation with its principal place of business in New York.

18. Morgan Stanley Capital I Inc. is the depositor and issuer of certain RMBS that are the subject of this Complaint as indicated in Table 1 (*supra*). Morgan Stanley Capital I Inc. is a Delaware corporation with its principal place of business in New York.

III. JURISDICTION AND VENUE

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

by any agency or officer thereof expressly authorized to sue by Act of Congress."

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

IV. MORTGAGE ORIGINATION AND THE PROCESS OF SECURITIZATION

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

22. Because residential mortgages are the assets collateralizing RMBS, the origination of mortgages commences the process that leads to the creation of RMBS. Originators decide whether to loan potential borrowers money to purchase residential real estate through a process called mortgage underwriting. The originator applies its underwriting standards or guidelines to determine whether a particular borrower is qualified to receive a mortgage for a particular property. The underwriting guidelines consist of a variety of metrics, including: the borrower's debt, income, savings, credit history and credit score; whether the property will be owner-occupied; and the LTV ratio, among other things. Loan underwriting guidelines are designed to ensure that: (1) the borrower has the means to repay the loan, (2) the borrower will likely repay the loan, and (3) the loan is secured by sufficient collateral in the event of default.

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

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

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

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

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

distribute" ("OTD").

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

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

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

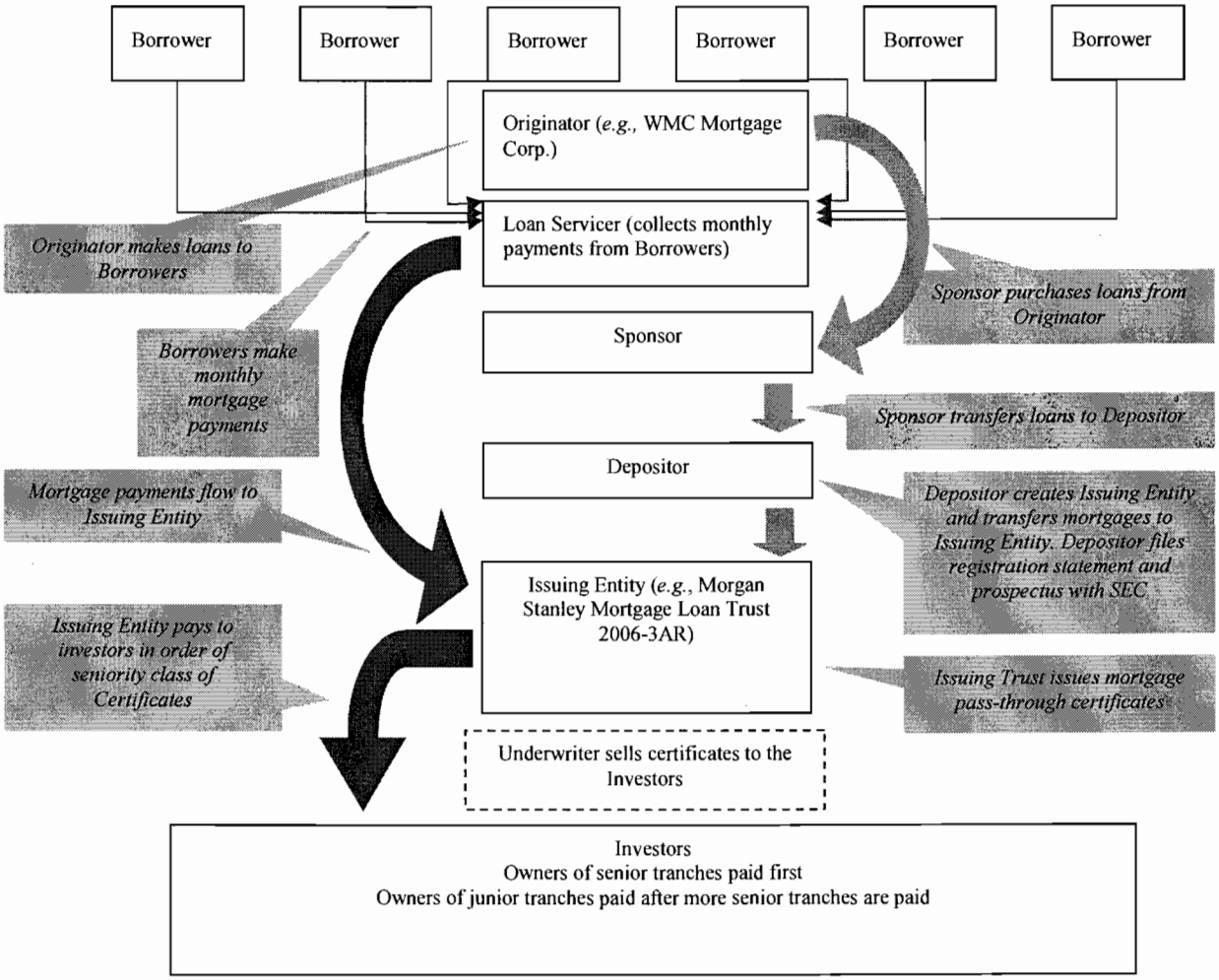
31. The depositor files required documents (such as registration statements and prospectuses) with the SEC so that the certificates can be offered to the public.

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

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

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

Figure 1
Illustration of the Securitization Process



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

V. RMBS CREDIT RATINGS AND CREDIT ENHANCEMENT

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

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

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

Table 2
Credit Ratings

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

39. Moody's purportedly awards the coveted "Aaa" rating to structured finance products that are "of the highest quality, with minimal credit risk." Moody's Investors Services,

Inc., Moody's Rating Symbols & Definitions at 6 (August 2003), *available at* http://www.rbcpa.com/Moody's_ratings_and_definitions.pdf. Likewise, S&P rates a product "AAA" when the "obligor's capacity to meet its financial commitment on the obligation is extremely strong." Standard & Poor's, Ratings Definitions, *available at* https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1019442&SctArtId=147045&from=CM&nsl_code=LIME.

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

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

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

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

44. Accordingly, senior tranches are deemed less risky than subordinate tranches and therefore receive higher credit ratings.

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

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

VI. THE CREDIT UNIONS' PURCHASES

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

Table 3

Credit Ratings for the Credit Unions' RMBS Purchases

CUSIP	ISSUING ENTITY	PURCHASER	Original Rating S&P	Original Rating Moody's	First Downgrade Below Investment Grade S&P	First Downgrade Below Investment Grade Moody's	Recent Rating S&P	Recent Rating Moody's
61748BAC8	Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	Southwest	AAA	Aaa	CCC 8/4/2009	B2 3/13/2009	CCC 8/4/2009	Ca 7/15/2010
61748BAE4	Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	Southwest	AA+	Aa1	B 9/16/2008	B3 10/30/2008	D 10/21/2011	C 3/13/2009
61750FAE0	Morgan Stanley ABS Capital I Inc. Trust 2006-HE6	Southwest	AAA	Aaa	CCC 8/4/2009	B2 10/30/2008	CCC 8/4/2009	Ca 7/15/2010
61750SAE2	Morgan Stanley ABS Capital I Inc. Trust 2006-HE8	Southwest	AAA	Aaa	CCC 8/4/2009	Ba1 10/30/2008	CCC 8/4/2009	Ca 7/15/2010
61748LAD4	Morgan Stanley ABS Capital I Inc. Trust 2006-NC4	Southwest	AAA	Aaa	CCC 8/4/2009	B2 3/13/2009	CCC 8/4/2009	Caa2 12/28/2010
61749KAE3	Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	Southwest	AAA	Aaa	CCC 8/4/2009	Ba2 4/16/2008	CCC 8/4/2009	Ca 7/15/2010
61753VAD4	Morgan Stanley ABS Capital I Inc. Trust 2007-HE4	Southwest	AAA	Aaa	BB 9/16/2008	Caa1 10/30/2008	CCC 8/4/2009	Ca 7/15/2010
61753KAD8	Morgan Stanley ABS Capital I Inc. Trust 2007-HE5	Southwest	AAA	Aaa	BB 1/13/2009	B3 10/30/2008	CCC 8/4/2009	Ca 7/15/2010
617451EU9	Morgan Stanley Capital I Inc. Trust 2006-HE2	Members United	AAA	Aaa	CCC 8/4/2009	B1 3/13/2009	CCC 8/4/2009	Ca 7/15/2010
617451EW5	Morgan Stanley Capital I Inc. Trust 2006-HE2	Members United	AA+	Aa1	BB 5/4/2009	B3 10/30/2008	D 5/25/2012	C 7/15/2010
61744CWY8	Morgan Stanley Home Equity Loan Trust 2006-1	Southwest	AA+	Aa1	BB+ 10/27/2010	Ba2 3/13/2009	B- 11/16/2012	Ca 12/28/2010
61752UAC9	Morgan Stanley Home Equity Loan Trust 2007-2	Southwest	AAA	Aaa	B-*- 2/2/2010	Ba1 10/30/2008	CCC 3/2/2010	Ca 7/15/2010

CUSIP	ISSUING ENTITY	PURCHASER	Original Rating S&P	Original Rating Moody's	First Downgrade Below Investment Grade S&P	First Downgrade Below Investment Grade Moody's	Recent Rating S&P	Recent Rating Moody's
61749QAD2	Morgan Stanley IXIS Real Estate Capital Trust 2006-1	Southwest	AAA	Aaa	CCC 8/4/2009	Ba1 10/30/2008	CCC 8/4/2009	Ca 7/15/2010
61748HTG6	Morgan Stanley Mortgage Loan Trust 2005-11AR	Southwest	AAA	Aaa	BB 10/10/2008	Caa1 2/4/2009	NR 12/10/2012	Caa3 4/26/2010
61748HWW7	Morgan Stanley Mortgage Loan Trust 2006-3AR	Southwest	AAA	Aa1	CC 5/11/2009	Ca 2/4/2009	NR 12/3/2012	WR 4/4/2013
61749LAA9	Morgan Stanley Mortgage Loan Trust 2006-8AR	Southwest	AAA	Aaa	BB 9/9/2008	B2 8/21/2008	CCC 10/8/2009	Ca 8/12/2010
61748JAA5	Morgan Stanley Mortgage Loan Trust 2006-9AR	Southwest	AAA	Aaa	CCC 7/24/2009	Caa1 2/4/2009	CCC 7/24/2009	Caa3 8/12/2010
61749TAA2	Morgan Stanley Mortgage Loan Trust 2006-10SL	Southwest	AAA	Aaa	BB 8/26/2008	Ca 10/28/2008	CCC 1/13/2010	C 6/4/2010
61750PAB4	Morgan Stanley Mortgage Loan Trust 2006-13ARX	Southwest	AAA	Aaa	B 12/16/2008	Caa2 2/4/2009	CCC 7/9/2009	Ca 8/12/2010
617487AC7	Morgan Stanley Mortgage Loan Trust 2006-16AX	Southwest/ Members United	AAA	Aaa	B+ 10/27/2008	Caa2 2/4/2009	CCC 7/24/2009	Ca 8/12/2010
61751TAC3	Morgan Stanley Mortgage Loan Trust 2007-2AX	Members United	AAA	Aaa	BB 10/6/2008	Caa1 2/4/2009	CCC 7/24/2009	Caa3 8/12/2010
61751PAA5	Morgan Stanley Mortgage Loan Trust 2007-4SL	Members United	AAA	Aaa	B 9/22/2008	Ca 10/28/2008	CC 4/2/2010	C 6/4/2010
61751GAC1	Morgan Stanley Mortgage Loan Trust 2007-5AX	Members United	AAA	Aaa	BB 9/17/2008	B1 8/21/2008	CCC 7/24/2009	Caa3 8/12/2010
61754VAG6	Morgan Stanley Mortgage Loan Trust 2007-11AR	Members United	AAA	Aaa	BB 8/25/2008	Caa2 2/4/2009	NR 1/30/2013	Ca 8/12/2010
638728AA3	Natixis Real Estate Capital Trust 2007-HE2	Southwest	AAA	Aaa	CCC 8/4/2009	Ba2 10/31/2008	CCC 8/4/2009	Ca 8/2/2010
75115BAA7	RALI Series 2006-QA5 Trust	Southwest	AAA	Aaa	BB 10/6/2008	Caa2 1/29/2009	D 2/24/2010	Ca 12/14/2010
80556YAD7	Saxon Asset Securities Trust 2007-2	Southwest	AAA	Aaa	BB- 4/21/2009	Ba1 10/22/2008	CCC 8/4/2009	Ca 7/16/2010

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

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

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

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

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

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

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

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

d. downgrades of the RMBS by credit rating agencies from high, investment-

grade ratings when purchased to much lower ratings, including numerous "junk" ratings (*see infra* Section VII.C and *supra* Table 3).

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

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

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

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

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

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

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

58. The pools of mortgages collateralizing the RMBS experienced delinquency and default rates up to 13.88% within the first three months, up to 24.36% at six months, and up to

43.88% at one year (*see infra* Table 4).

59. As of June 2013, 38.69% of the mortgage collateral across all the RMBS that the Credit Unions purchased was in delinquency, bankruptcy, foreclosure, or real estate owned ("REO"), which means that a bank or lending institution owns the property after a failed sale at a foreclosure auction (*see infra* Table 4).

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

Table 4
Delinquency and Default Rates for the Credit Unions' RMBS Purchases

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
61748BAC8 61748BAE4	Morgan Stanley ABS Capital I Inc. Trust 2006-HE4 (P.S. dated June 20, 2006)	0.57% were more than 30 days but less than 60 days Delinquent (S-26)	1.07% (July, p.10)	6.61% (July, p.10)	12.80% (July, p.10)	22.94% (June, p.10)	48.23% (June 2013, p.11)
	Morgan Stanley ABS Capital I Inc. Trust 2006-HE6: Aggregate (P.S. dated Sep. 21, 2006)	0.61% were more than 30 days but less than 60 days Delinquent (S-27)	1.54% (Oct, p.10)	8.72% (Dec, p.10)	16.04% (Mar, p.11)	28.07% (Sept, p.11)	62.20% (June 2013, p.11)
	Morgan Stanley ABS Capital I Inc. Trust 2006-HE6: Group 1	0.61% were more than 30 days but less than 60 days Delinquent (S-27)	0.93% (Oct, p.11)	6.93% (Dec, p.11)	14.46% (Mar, p.12)	25.58% (Sept, p.12)	58.56% (June 2013, p.16)
61750FAE0	Morgan Stanley ABS Capital I Inc. Trust 2006-HE6: Group 2 *Class A-2C in Group 2 (S-6)	0.61% were more than 30 days but less than 60 days Delinquent (S-27)	1.78% (Oct, p.12)	9.41% (Dec, p.12)	16.65% (Mar, p.13)	28.99% (Sept, p.13)	63.73% (June 2013, p.22)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	Morgan Stanley ABS Capital I Inc. Trust 2006-HE8: Aggregate (P.S. dated Nov. 21, 2006)	0.83% were more than 30 days but less than 60 days Delinquent (S-29)	2.62% (Dec., p.10)	9.09% (Feb., p.10)	13.56% (May, p.10)	27.39% (Nov., p.10)	45.97% (June 2013, p.10)
	Morgan Stanley ABS Capital I Inc. Trust 2006-HE8: Group 1	0.83% were more than 30 days but less than 60 days Delinquent (S-29)	.76% (Dec., p.11)	7.67% (Feb., p.11)	11.03% (May, p.11)	22.12% (Nov., p.11)	35.46% (June 2013, p.11)
61750SAE2	Morgan Stanley ABS Capital I Inc. Trust 2006-HE8: Group 2 *Class A-2C in Group 2 (S-7)	0.83% were more than 30 days but less than 60 days Delinquent (S-29)	3.06% (Dec., p.11)	9.43% (Feb., p.11)	14.15% (May, p.11)	28.57% (Nov., p.11)	48.53% (June 2013, p.11)
	Morgan Stanley ABS Capital I Inc. Trust 2006-NC4: Aggregate (P.S. dated May 19, 2006)	0.11% were more than 30 days but less than 60 days Delinquent (S-26)	1.12% (July, p.10)	6.43% (Sept, p.10)	13.46% (Dec, p.10)	24.15% (June, p.10)	47.14% (June 2013, p.10)
	Morgan Stanley ABS Capital I Inc. Trust 2006-NC4: Group 1	0.11% were more than 30 days but less than 60 days Delinquent (S-26)	0.73% (July, p.11)	5.18% (Sept, p.11)	12.00% (Dec, p.11)	23.19% (June, p.15)	43.03% (June 2013, p.15)
61748LAD4	Morgan Stanley ABS Capital I Inc. Trust 2006-NC4: Group 2 *Class A-2C in Group 2 (S-5)	0.11% were more than 30 days but less than 60 days Delinquent (S-26)	1.30% (July, p.12)	7.02% (Sept, p.12)	14.13% (Dec, p.12)	24.59% (June, p.16)	49.05% (June 2013, p.21)
	Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2: Aggregate (P.S. dated May 25, 2006)	Zero. (S-27)	0.24% (July, p.10)	5.46% (Sep., p.10)	12.19% (Dec., p.9)	21.65% (June, p.9)	51.48% (June 2013, p.9)
	Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2: Group 1A	Zero. (S-27)	0.27% (July, p.11)	4.33% (Sep., p.11)	9.87% (Dec., p.10)	19.96% (June, p.10)	56.11% (June 2013, p.10)
	Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2: Group 1B	Zero. (S-27)	0.21% (July, p.11)	1.72% (Sep., p.11)	5.03% (Dec., p.10)	8.85% (June, p.10)	38.16% (June 2013, p.10)
61749KAE3	Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2: Group 2A *Class A-2C in Group 2 (S-6)	Zero. (S-27)	0.28% (July, p.12)	6.68% (Sep., p.12)	15.02% (Dec., p.11)	26.55% (June, p.11)	56.53% (June 2013, p.11)
61749KAE3	Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2: Group 2B *Class A-2C in Group 2 (S-6)	Zero. (S-27)	0.14% (July, p.12)	5.15% (Sep., p.12)	10.37% (Dec., p.11)	15.43% (June, p.11)	46.76% (June 2013, p.11)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
61749KAE3	Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2: Group 2C *Class A-2C in Group 2 (S-6)	Zero. (S-27)	0% (July, p.13)	1.56% (Sep., p.13)	3.35% (Dec., p.12)	4.48% (June, p.2)	36.9% (June 2013, p.12)
61753VAD4	Morgan Stanley ABS Capital I Inc. Trust 2007-HE4 (P.S. dated Mar. 28, 2007)	0.96% were more than 30 days but less than 60 days Delinquent (S-28)	Trustee Report not available prior to March 2012				54.79% (June 2013, p.9)
	Morgan Stanley ABS Capital I Inc. Trust 2007-HE5: Aggregate (P.S. dated Apr. 24, 2007)	0.95% were more than 30 days but less than 60 days Delinquent (S-29)	4.26% (May, p.10)	9.10% (July, p.10)	16.84% (Oct., p.10)	32.49% (Apr., p.10)	44.41% (June 2013, p.10)
	Morgan Stanley ABS Capital I Inc. Trust 2007-HE5: Group 1	0.95% were more than 30 days but less than 60 days Delinquent (S-29)	2.66% (May, p.11)	6.41% (July, p.10)	12.97% (Oct., p.11)	29.08% (Apr., p.11)	45.67% (June 2013, p.11)
61753KAD8	Morgan Stanley ABS Capital I Inc. Trust 2007-HE5: Group 2 *Class A-2C in Group 2 (S-7)	0.95% were more than 30 days but less than 60 days Delinquent (S-29)	4.49% (May, p.11)	9.50% (July, p.10)	17.41% (Oct., p.11)	33.01% (Apr., p.11)	44.20% (June 2013, p.11)
617451EW5	Morgan Stanley Capital I Inc. Trust 2006-HE2: Aggregate (P.S. dated Apr. 24, 2006) *Class M-1 in all Groups (S-6)	0.75% were more than 30 days but less than 60 days Delinquent (S-26)	3.04% (May, p.9)	5.42% (July, p.9)	9.96% (Oct, p.10)	17.98% (Apr., p.9)	44.59% (June 2013, p.9)
	Morgan Stanley Capital I Inc. Trust 2006-HE2: Group 1A	0.75% were more than 30 days but less than 60 days Delinquent (S-26)	2.46% (May, p.10)	4.7% (July, p.10)	9.07% (Oct, p.11)	17.71% (Apr., p.10)	47.61% (June 2013, p.10)
	Morgan Stanley Capital I Inc. Trust 2006-HE2: Group 1B	0.75% were more than 30 days but less than 60 days Delinquent (S-26)	1.02% (May, p.10)	1.98% (July, p.10)	4.32% (Oct, p.11)	9.87% (Apr., p.10)	32.33% (June 2013, p.10)
617451EU9	Morgan Stanley Capital I Inc. Trust 2006-HE2: Group 2A *Class A-2C in Group 2 (S-6)	0.75% were more than 30 days but less than 60 days Delinquent (S-26)	3.34% (May, p.11)	5.9% (July, p.11)	10.68% (Oct, p.12)	19.41% (Apr., p.11)	45.77% (June 2013, p.11)
617451EU9	Morgan Stanley Capital I Inc. Trust 2006-HE2: Group 2B *Class A-2C in Group 2 (S-6)	0.75% were more than 30 days but less than 60 days Delinquent (S-26)	2.89% (May, p.11)	4.79% (July, p.11)	8.84% (Oct, p.12)	12.44% (Apr., p.11)	39.96% (June 2013, p.11)
61744CWY8	Morgan Stanley Home Equity Loan Trust 2006-1: Aggregate (P.S. dated Jan. 24, 2006) *Class M-1 in all Groups (S-60	0.61% were more than 30 days but less than 60 days Delinquent (S-27)	1.51% (Feb, p.10)	2.13% (Apr, p.10)	4.44% (July, p.10)	10.65% (Jan, p.10)	32.64% (June 2013, p.10)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	Morgan Stanley Home Equity Loan Trust 2006-1: Group 1	0.61% were more than 30 days but less than 60 days Delinquent (S-27)	1.53% (Feb, p.11)	1.93% (Apr, p.11)	4.68% (July, p.11)	11.32% (Jan, p.11)	36.61% (June 2013, p.15)
	Morgan Stanley Home Equity Loan Trust 2006-1: Group 2	0.61% were more than 30 days but less than 60 days Delinquent (S-27)	1.49% (Feb, p.12)	2.29% (Apr, p.12)	4.24% (July, p.12)	10.07% (Jan, p.12)	29.04% (June 2013, p.21)
61752UAC9	Morgan Stanley Home Equity Loan Trust 2007-2: Aggregate (P.S. dated Apr. 2, 2007)	0.15% were more than 30 days but less than 60 days Delinquent (S-27)	1.21% (Apr., p.9)	5.46% (June, p.9)	11.38% (Sep., p.9)	25.94% (Mar., p.9)	44.34% (June 2013, p.9)
61749QAD2	Morgan Stanley IXIS Real Estate Capital Trust 2006-1: Aggregate (P.S. dated June 27, 2006)	0.48% of the mortgage loans in the final mortgage loan pool, were more than 30 days but less than 60 days Delinquent. (S-27)	2.02% (July, p.9)	7.37% (Sep., p.9)	14.2% (Dec., p.9)	24.5% (June, p.9)	40.76% (June 2013, p.9)
61748HTG6	Morgan Stanley Mortgage Loan Trust 2005-11AR: Aggregate (P.S. dated Dec. 22, 2005)	Zero. (S-22)	0.06% (Jan., p.10)	5.39% (Mar., p.10)	5.14% (June, p.10)	8.65% (Dec., p.9)	25.39% (June 2013, p.9)
	Morgan Stanley Mortgage Loan Trust 2006-3AR: Aggregate (P.S. dated Feb. 24, 2006)	Zero. (S-33)	0.08% (Mar., p.11)	3.4% (May, p.11)	7.13% (Aug., p.11)	6.9% (Feb., p.11)	26.26% (June 2013, p.11)
	Morgan Stanley Mortgage Loan Trust 2006-3AR: Group 1	Zero. (S-33)	0.12% (Mar., p.12)	3.64% (May, p.12)	7.28% (Aug., p.12)	5.15% (Feb., p.12)	23.87% (June 2013, p.13)
	Morgan Stanley Mortgage Loan Trust 2006-3AR: Group 2	Zero. (S-33)	0.16% (Mar., p.13)	3.13% (May, p.13)	10.84% (Aug., p.13)	8.44% (Feb., p.12)	28.43% (June 2013, p.13)
61748HWW7	Morgan Stanley Mortgage Loan Trust 2006-3AR: Group 3 *Class 3-A-2 in Group 3	Zero. (S-33)	0% (Mar., p.13)	4.69% (May, p.13)	5.23% (Aug., p.13)	7.64% (Feb., p.14)	32.62% (June 2013, p.15)
	Morgan Stanley Mortgage Loan Trust 2006-8AR: Aggregate (P.S. dated May 25, 2006)	Zero. (S-43)	0.24% (June, p.17)	2.64% (Aug., p.17)	4.39% (Nov., p.17)	5.9% (May, p.16)	26.43% (June 2013, p.18)
61749LAA9	Morgan Stanley Mortgage Loan Trust 2006-8AR: Group 1 *Class 1-A-1 in Group 1 (S-14)	Zero. (S-43)	0% (June, p.18)	6.64% (Aug., p.18)	11.47% (Nov., p.18)	16.11% (May, p.17)	50.06% (June 2013, p.19)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	Morgan Stanley Mortgage Loan Trust 2006-8AR: Group 2	Zero. (S-43)	0% (June, p.18)	2.85% (Aug., p.18)	1.12% (Nov., p.18)	9.26% (May, p.19)	43.94% (June 2013, p.21)
	Morgan Stanley Mortgage Loan Trust 2006-8AR: Group 3	Zero. (S-43)	0% (June, p.19)	3.71% (Aug., p.19)	8.75% (Nov., p.19)	9.51% (May, p.19)	33.46% (June 2013, p.21)
	Morgan Stanley Mortgage Loan Trust 2006-8AR: Group 4	Zero. (S-43)	1.96% (June, p.19)	0% (Aug., p.19)	0% (Nov., p.19)	1.13% (May, p.20)	3.45% (June 2013, p.22)
	Morgan Stanley Mortgage Loan Trust 2006-8AR: Group 5	Zero. (S-43)	0.2% (June, p.20)	0.19% (Aug., p.20)	0% (Nov., p.20)	0.09% (May, p.20)	18.28% (June 2013, p.22)
	Morgan Stanley Mortgage Loan Trust 2006-8AR: Group 6	Zero. (S-43)	0% (June, p.20)	0.67% (Aug., p.20)	0.77% (Nov., p.20)	0.79% (May, p.21)	4.19% (June 2013, p.23)
61748JAA5	Morgan Stanley Mortgage Loan Trust 2006-9AR (P.S. dated July 26, 2006)	Zero. (S-31)	0% (Aug., p.9)	9.04% (Oct., p.9)	6.21% (Jan., p.9)	13.69% (July, p.9)	35.93% (June 2013, p.9)
61749TAA2	Morgan Stanley Mortgage Loan Trust 2006-10SL (P.S. dated July 20, 2006)	Less than 1.00% of the Mortgage Loans were more than 30 days delinquent. (S-21)	Trustee Report not available prior to April 2012				11.78% (June 2013)
61750PAB4	Morgan Stanley Mortgage Loan Trust 2006-13ARX (P.S. dated Sep. 26, 2006)	Zero. (S-31)	7.12% (Oct., p.9)	11.05% (Dec. p.9)	8.32% (Mar. p.9)	19.95% (Sep. p.9)	34.12% (June 2013, p.9)
	Morgan Stanley Mortgage Loan Trust 2006-16AX: Aggregate (P.S. dated Oct. 26, 2006)	Zero. (S-39)	4.31% (Nov., p.11)	3.67% (Jan., p.11)	6.02% (Apr., p.11)	16.41% (Oct., p.11)	35.28% (June 2013, p.11)
	Morgan Stanley Mortgage Loan Trust 2006-16AX: Group 1	Zero. (S-39)	3.01% (Nov., p.12)	3.59% (Jan., p.12)	5.57% (Apr., p.12)	15.93% (Oct., p.12)	34.41% (June 2013, p.12)
617487AC7	Morgan Stanley Mortgage Loan Trust 2006-16AX: Group 2 *Class 2-A-2 in Group 2 (S-80)	Zero. (S-39)	4.99% (Nov., p.12)	4.33% (Jan., p.13)	7.01% (Apr., p.13)	18.33% (Oct., p.13)	34.91% (June 2013, p.13)
	Morgan Stanley Mortgage Loan Trust 2006-16AX: Group 3	Zero. (S-39)	3.88% (Nov., p.13)	3.89% (Jan., p.12)	7.36% (Apr., p.12)	17.77% (Oct., p.12)	36.99% (June 2013, p.12)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	Morgan Stanley Mortgage Loan Trust 2007-2AX: Aggregate (P.S. dated Jan. 24, 2007)	Zero. (S-35)	.08% (Feb., p.9)	2.30% (Apr., p.9)	7.48% (July, p.9)	18.03% (Jan., p.9)	33.98% (June 2013, p.9)
	Morgan Stanley Mortgage Loan Trust 2007-2AX: Group 1	Zero. (S-35)	.15% (Feb., p.10)	1.72% (Apr., p.10)	5.65% (July, p.10)	16.25% (Jan., p.10)	28.67% (June 2013, p.10)
61751TAC3	Morgan Stanley Mortgage Loan Trust 2007-2AX: Group 2 *Class 2-A-2 in Group 2 (S-72)	Zero. (S-35)	.05% (Feb., p.10)	2.50% (Apr., p.10)	8.14% (July, p.10)	18.67% (Jan., p.10)	36.20% (June 2013, p.10)
61751PAA5	Morgan Stanley Mortgage Loan Trust 2007-4SL (P.S. dated Feb. 24, 2007)	Zero. (S-22)	.27% (Mar., p.12)	10.83% (May, p.13)	13.34% (Aug., p.13)	22.51% (Feb., p.14)	10.26% (June 2013, p.12)
	Morgan Stanley Mortgage Loan Trust 2007-5AX: Aggregate (Feb. 26, 2007)	Zero. (S-35)	0.0% (Mar., p.9)	4.65% (May, p.9)	13.29% (Aug., p.9)	28.04% (Feb., p.9)	38.14% (June 2013, p.9)
	Morgan Stanley Mortgage Loan Trust 2007-5AX: Group 1	Zero. (S-35)	0.0% (Mar., p.10)	4.22% (May, p.10)	9.51% (Aug., p.10)	26.72% (Feb., p.10)	36.20% (June 2013, p.10)
61751GAC1	Morgan Stanley Mortgage Loan Trust 2007-5AX: Group 2 *Class 2-A-2 in Group 2 (S-72)	Zero. (S-35)	0.0% (Mar., p.10)	4.79% (May, p.10)	14.50% (Aug., p.10)	28.45% (Feb., p.10)	38.69% (June 2013, p.10)
	Morgan Stanley Mortgage Loan Trust 2007-11AR: Aggregate (P.S. dated June 26, 2007)	Zero. (S-29)	8.99% (July, p.10)	12.61% (Sep., p.10)	19.65% (Dec., p.10)	31.89% (June, p.10)	38.35% (June 2013, p.10)
	Morgan Stanley Mortgage Loan Trust 2007-11AR: Group 1	Zero. (S-29)	7.82% (July, p.11)	13.35% (Sep., p.11)	18.03% (Dec., p.11)	29.05% (June, p.11)	40.34% (June 2013, p.12)
61754VAG6	Morgan Stanley Mortgage Loan Trust 2007-11AR: Group 2 *Class 2-A-5 in Group 2 (S-65)	Zero. (S-29)	9.11% (July, p.11)	12.53% (Sep., p.11)	19.83% (Dec., p.11)	32.21% (June, p.11)	38.15% (June 2013, p.12)
638728AA3	Natixis Real Estate Capital Trust 2007-HE2: Aggregate (P.S. dated Apr. 25, 2007)	Zero. (30)	5.67% (May, p.10)	13.88% (July, p.9)	24.36% (Oct., p.9)	43.88% (Apr., p.9)	29.80% (June 2013, p.9)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	RALI Series 2006-QA5 Trust: Aggregate (P.S. dated June 29, 2006)		1.10% (July, p.10)	4.08% (Sept, p.10)	6.72% (Dec, p.10)	11.80% (June, p.10)	27.61% (June 2013, p.11)
75115BAA7	RALI Series 2006-QA5 Trust: Group 1 *Class I-A-1 in Group 1 (S-28)	Zero. (S-44)	1.23% (July, p.11)	4.21% (Sept, p.11)	7.01% (Dec, p.11)	12.70% (June, p.11)	27.96% (June 2013, p.12)
	RALI Series 2006-QA5 Trust: Group 2	Zero. (S-46)	0.25% (July, p.12)	3.22% (Sept, p.12)	4.91% (Dec, p.12)	6.14% (June, p.12)	25.90% (June 2013, p.12)
	Saxon Asset Securities Trust 2007-2: Aggregate (P.S. dated Apr. 25, 2007)	0.23% of the mortgage loans were at least 30 but less than 60 days delinquent (S-53)	1.41% (May, p.10)	5.62% (July, p.10)	11.28% (Oct, p.10)	25.21% (Apr, p.10)	25.61% (June 2013, p.11)
	Saxon Asset Securities Trust 2007-2: Group 1	0.23% of the mortgage loans were at least 30 but less than 60 days delinquent (S-53)	1.00% (May, p.11)	3.31% (July, p.11)	8.10% (Oct, p.11)	19.24% (Apr, p.13)	21.98% (June 2013, p.16)
80556YAD7	Saxon Asset Securities Trust 2007-2: Group 2 *Class A-2C in Group 2 (S-8)	0.23% of the mortgage loans were at least 30 but less than 60 days delinquent (S-53)	1.57% (May, p.12)	6.57% (July, p.12)	12.59% (Oct, p.12)	27.66% (Apr, p.16)	27.20% (June 2013, p.22)

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

62. The phenomenon of borrower default shortly after origination of the loans is known as "Early Payment Default." Early Payment Default evidences borrower misrepresentations and other misinformation in the origination process, resulting from the systematic failure of the Originators to apply the underwriting guidelines described in the Offering Documents.

63. In January 2011, the Financial Stability Oversight Council ("FSOC"), chaired by United States Treasury Secretary Timothy Geithner, issued a report analyzing the effects of risk retention requirements in mortgage lending on the broader economy. *See* FIN. STABILITY

OVERSIGHT COUNCIL, MACROECONOMIC EFFECTS OF RISK RETENTION REQUIREMENTS (2011) ("FSOC Risk Retention Report"). The FSOC Risk Retention Report focused on stabilizing the mortgage lending industry through larger risk retention requirements in the industry that can "incent better lending decisions" and "help to mitigate some of the pro-cyclical effects securitization may have on the economy." *Id.* at 2.

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

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

Id. at 3.

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

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

67. Table 5 (*infra*) shows the percentage of loans originated for distribution relative to

all the loans made by the Originators for the years 2005, 2006 and 2007, for those Originators in this Complaint with high OTD percentages. The data was obtained from the Home Mortgage Disclosure Act database.

Table 5
Originator "Originate-to-Distribute" Percentages

Originator Name	OTD % 2005	OTD% 2006	OTD % 2007
Accredited Home Lenders, Inc.	100	100	100
American Home Mortgage Corp.	91.9	62.4	
American Home Mortgage Investment Corp.	100	100	100
Countrywide Home Loans, Inc.	98.5	96.5	98.4
Decision One Mortgage Company, LLC	97.5	88.2	97.3
First National Bank of Nevada	88	79.9	89.4
First NLC Financial Services, LLC	88.9	17.7	16.2
GMAC Bank		81	85
GMAC Mortgage Corp.	89.4	85.1	91.8
GreenPoint Mortgage Funding Inc.	89	87.1	95.6
Homecomings Financial, LLC	97.4	97.9	99.9
IndyMac Bank, F.S.B.	81.1	87.7	82.8
Master Financial, Inc.	97.8	98.9	
Meritage Mortgage Corp.	17.9	67	
Morgan Stanley Credit Corp.	37.1	49.4	60.3
MortgageIT, Inc.	55.1	98.8	100
New Century Mortgage Corp.	92.4	84.2	
Saxon Funding Management, LLC	94.8	91	98.4

Originator Name	OTD % 2005	OTD% 2006	OTD % 2007
Wachovia Mortgage Corp.	82.6	74.1	69.6
Wilmington Finance Company	100	100	99.9
WMC Mortgage Corp.	100	100	100

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

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

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

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

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

72. At the time a security is rated, the rating agency calculates an amount of "expected loss" using a model based on historical performance of similar securities. So

"expected gross loss" is the *expected* cumulative sum of the balance of the loans in default for a particular security. Likewise, "expected net loss" is the *expected* cumulative realized loss on defaulted loans after foreclosure. The amount of expected net loss drives the credit ratings assigned to the various tranches of RMBS.

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

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

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

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

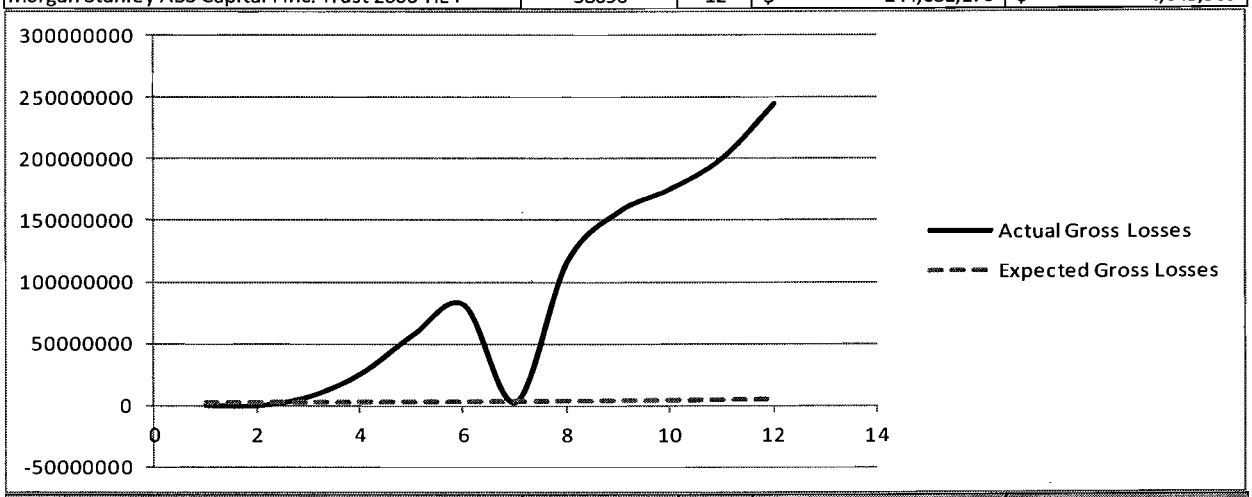
77. The actual gross loss data in Figure 2 (*infra*) was obtained from ABSNET, a resource for asset-backed securities related data. The expected gross losses were calculated by "grossing up" the rating-implied expected net losses using an expected recovery rate of 85%.

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

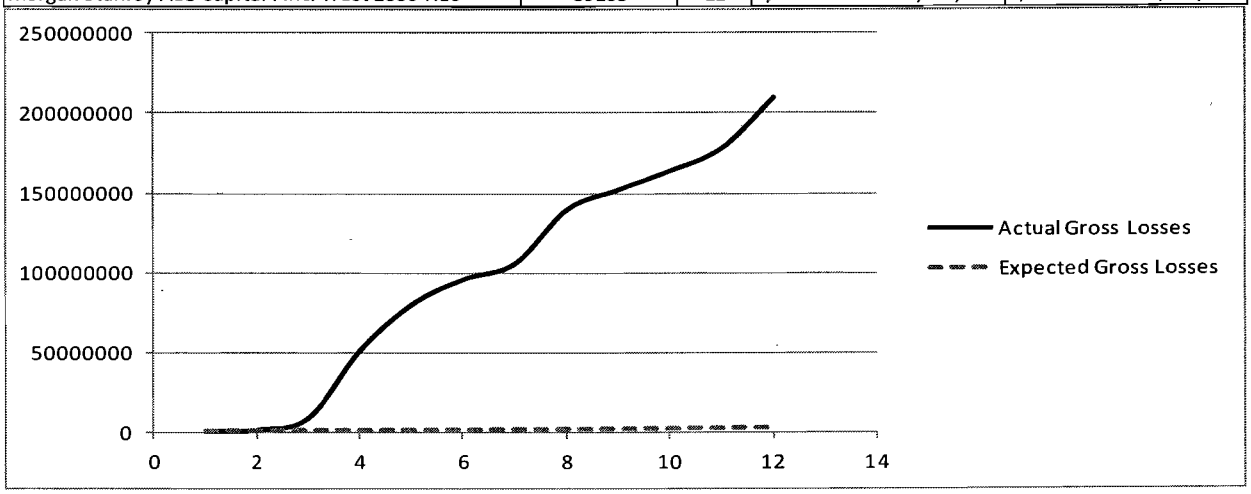
Figure 2

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

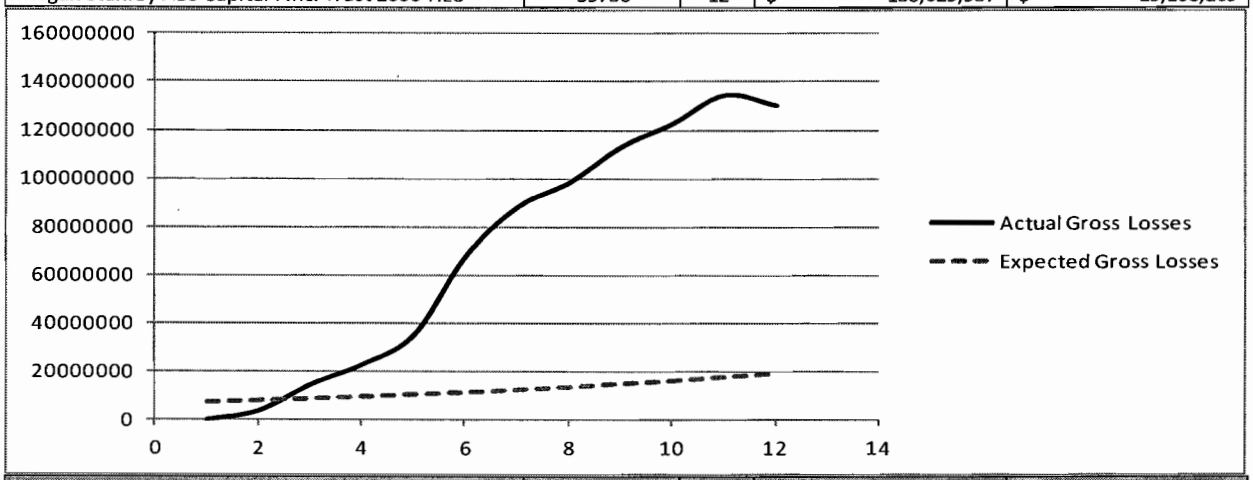
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	38096	1	$ -	$ 1,782,482
Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	38096	2	$ -	$ 1,946,916
Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	38096	3	$ 7,295,695	$ 2,126,174
Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	38096	4	$ 25,396,129	$ 2,321,527
Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	38096	5	$ 56,510,636	$ 2,534,340
Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	38096	6	$ 81,537,083	$ 2,766,081
Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	38096	7	$ 2,895,511	$ 3,018,323
Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	38096	8	$ 116,372,464	$ 3,292,749
Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	38096	9	$ 156,918,178	$ 3,591,155
Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	38096	10	$ 175,425,100	$ 3,915,452
Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	38096	11	$ 200,338,965	$ 4,267,672
Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	38096	12	$ 244,681,170	$ 4,649,965



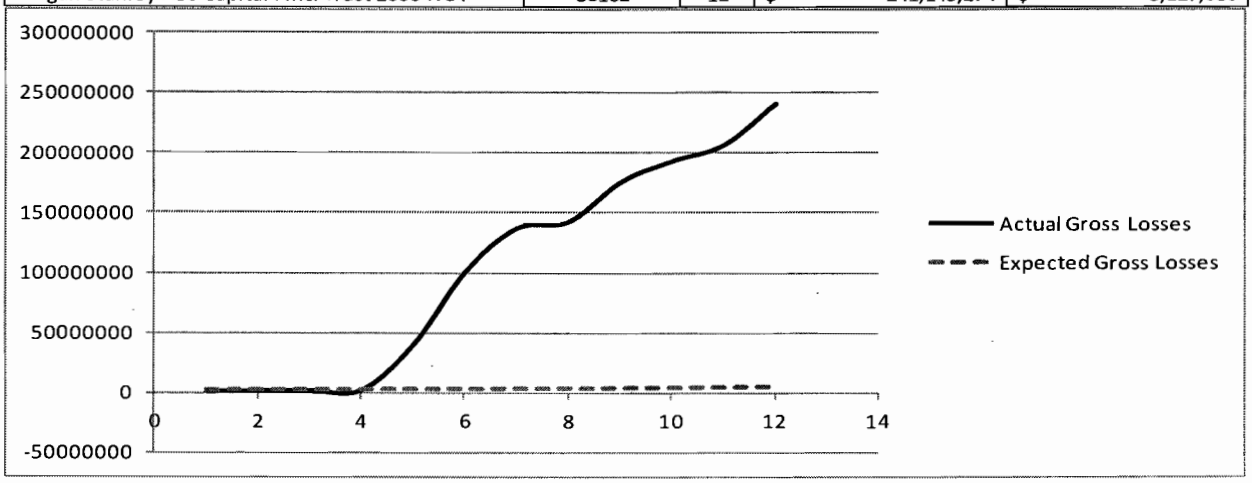
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley ABS Capital I Inc. Trust 2006-HE6	39103	1	$ -	$ 1,263,653
Morgan Stanley ABS Capital I Inc. Trust 2006-HE6	39103	2	$ 1,101,828	$ 1,380,225
Morgan Stanley ABS Capital I Inc. Trust 2006-HE6	39103	3	$ 8,718,987	$ 1,507,307
Morgan Stanley ABS Capital I Inc. Trust 2006-HE6	39103	4	$ 51,304,645	$ 1,645,798
Morgan Stanley ABS Capital I Inc. Trust 2006-HE6	39103	5	$ 80,024,897	$ 1,796,667
Morgan Stanley ABS Capital I Inc. Trust 2006-HE6	39103	6	$ 95,877,258	$ 1,960,955
Morgan Stanley ABS Capital I Inc. Trust 2006-HE6	39103	7	$ 105,765,581	$ 2,139,777
Morgan Stanley ABS Capital I Inc. Trust 2006-HE6	39103	8	$ 139,792,292	$ 2,334,326
Morgan Stanley ABS Capital I Inc. Trust 2006-HE6	39103	9	$ 152,339,557	$ 2,545,874
Morgan Stanley ABS Capital I Inc. Trust 2006-HE6	39103	10	$ 164,075,087	$ 2,775,778
Morgan Stanley ABS Capital I Inc. Trust 2006-HE6	39103	11	$ 178,428,177	$ 3,025,477
Morgan Stanley ABS Capital I Inc. Trust 2006-HE6	39103	12	$ 210,159,345	$ 3,296,495



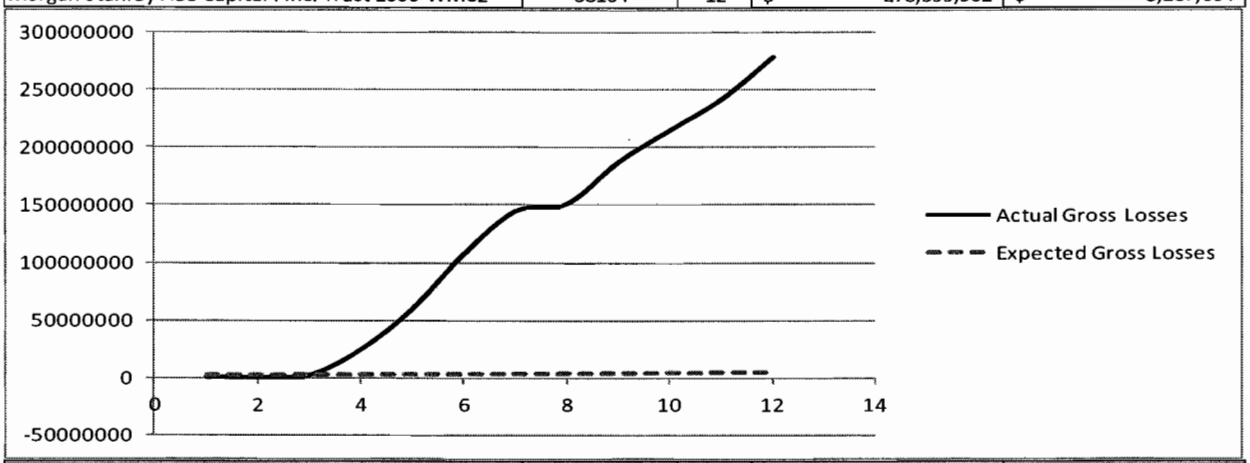
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley ABS Capital I Inc. Trust 2006-HE8	39736	1	$ -	$ 7,324,817
Morgan Stanley ABS Capital I Inc. Trust 2006-HE8	39736	2	$ 3,653,378	$ 8,000,532
Morgan Stanley ABS Capital I Inc. Trust 2006-HE8	39736	3	$ 14,446,351	$ 8,737,164
Morgan Stanley ABS Capital I Inc. Trust 2006-HE8	39736	4	$ 22,703,118	$ 9,539,934
Morgan Stanley ABS Capital I Inc. Trust 2006-HE8	39736	5	$ 35,012,345	$ 10,414,455
Morgan Stanley ABS Capital I Inc. Trust 2006-HE8	39736	6	$ 67,677,065	$ 11,366,758
Morgan Stanley ABS Capital I Inc. Trust 2006-HE8	39736	7	$ 88,044,852	$ 12,403,306
Morgan Stanley ABS Capital I Inc. Trust 2006-HE8	39736	8	$ 98,125,004	$ 13,531,014
Morgan Stanley ABS Capital I Inc. Trust 2006-HE8	39736	9	$ 112,721,735	$ 14,757,263
Morgan Stanley ABS Capital I Inc. Trust 2006-HE8	39736	10	$ 122,464,531	$ 16,089,911
Morgan Stanley ABS Capital I Inc. Trust 2006-HE8	39736	11	$ 134,204,331	$ 17,537,302
Morgan Stanley ABS Capital I Inc. Trust 2006-HE8	39736	12	$ 130,029,937	$ 19,108,269



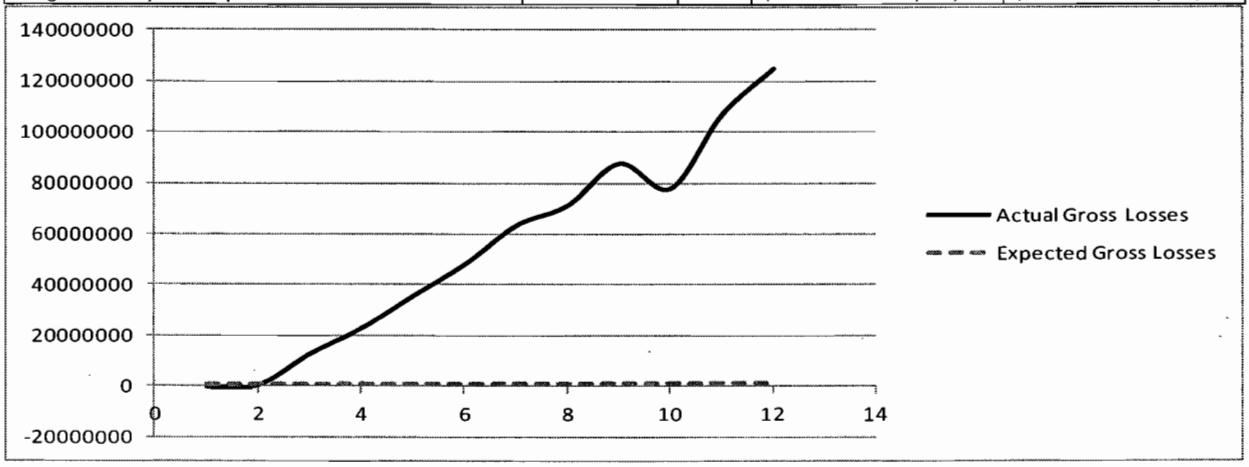
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley ABS Capital I Inc. Trust 2006-NC4	38102	1	$ 678,737	$ 1,965,378
Morgan Stanley ABS Capital I Inc. Trust 2006-NC4	38102	2	$ 961,135	$ 2,146,684
Morgan Stanley ABS Capital I Inc. Trust 2006-NC4	38102	3	$ 1,302,007	$ 2,344,336
Morgan Stanley ABS Capital I Inc. Trust 2006-NC4	38102	4	$ 1,601,798	$ 2,559,733
Morgan Stanley ABS Capital I Inc. Trust 2006-NC4	38102	5	$ 39,786,831	$ 2,794,382
Morgan Stanley ABS Capital I Inc. Trust 2006-NC4	38102	6	$ 100,688,136	$ 3,049,902
Morgan Stanley ABS Capital I Inc. Trust 2006-NC4	38102	7	$ 137,044,648	$ 3,328,026
Morgan Stanley ABS Capital I Inc. Trust 2006-NC4	38102	8	$ 142,613,095	$ 3,630,610
Morgan Stanley ABS Capital I Inc. Trust 2006-NC4	38102	9	$ 175,600,054	$ 3,959,634
Morgan Stanley ABS Capital I Inc. Trust 2006-NC4	38102	10	$ 193,340,206	$ 4,317,207
Morgan Stanley ABS Capital I Inc. Trust 2006-NC4	38102	11	$ 206,924,521	$ 4,705,568
Morgan Stanley ABS Capital I Inc. Trust 2006-NC4	38102	12	$ 241,145,274	$ 5,127,086



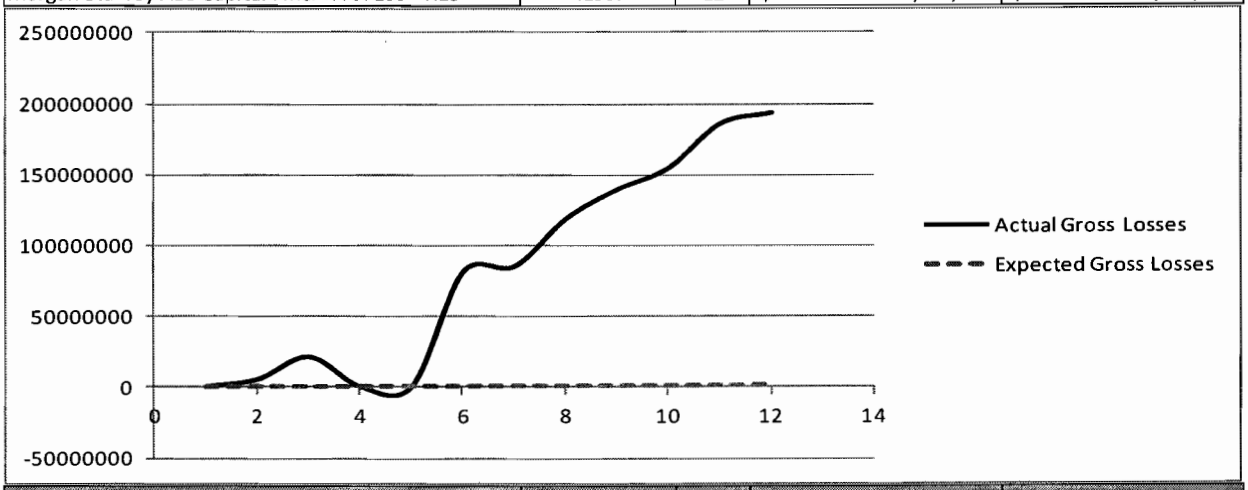
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	38104	1	$ -	$ 2,026,909
Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	38104	2	$ 125,303	$ 2,213,892
Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	38104	3	$ 2,141,855	$ 2,417,731
Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	38104	4	$ 24,690,117	$ 2,639,872
Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	38104	5	$ 60,438,877	$ 2,881,868
Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	38104	6	$ 108,100,400	$ 3,145,387
Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	38104	7	$ 144,628,933	$ 3,432,219
Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	38104	8	$ 151,333,073	$ 3,744,276
Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	38104	9	$ 187,692,667	$ 4,083,602
Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	38104	10	$ 215,197,065	$ 4,452,369
Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	38104	11	$ 241,911,897	$ 4,852,889
Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	38104	12	$ 278,599,902	$ 5,287,604



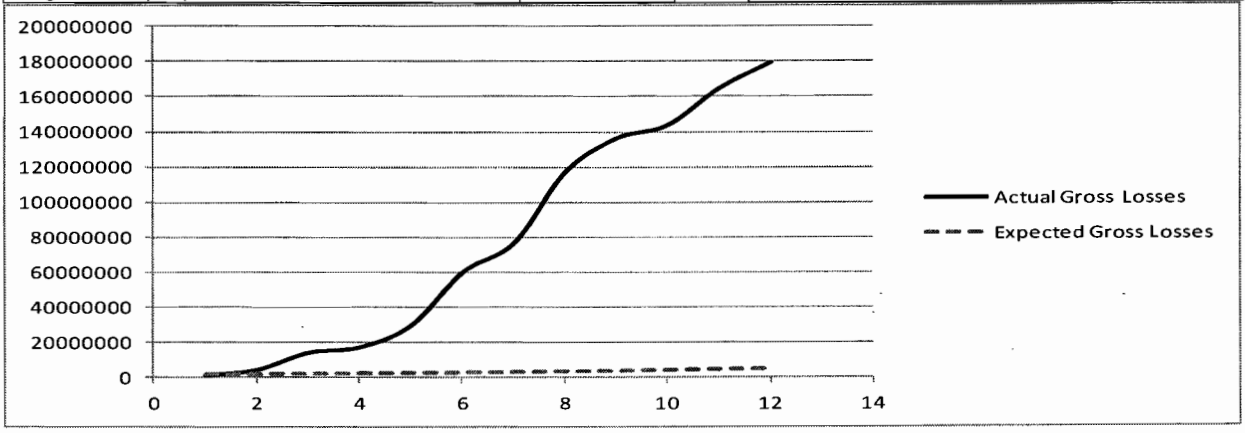
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley ABS Capital I Inc. Trust 2007-HE4	40790	1	$ -	$ 544,051
Morgan Stanley ABS Capital I Inc. Trust 2007-HE4	40790	2	$ 728,828	$ 594,239
Morgan Stanley ABS Capital I Inc. Trust 2007-HE4	40790	3	$ 13,008,280	$ 648,953
Morgan Stanley ABS Capital I Inc. Trust 2007-HE4	40790	4	$ 23,127,372	$ 708,579
Morgan Stanley ABS Capital I Inc. Trust 2007-HE4	40790	5	$ 35,884,012	$ 773,534
Morgan Stanley ABS Capital I Inc. Trust 2007-HE4	40790	6	$ 48,420,680	$ 844,266
Morgan Stanley ABS Capital I Inc. Trust 2007-HE4	40790	7	$ 63,665,601	$ 921,255
Morgan Stanley ABS Capital I Inc. Trust 2007-HE4	40790	8	$ 71,544,947	$ 1,005,016
Morgan Stanley ABS Capital I Inc. Trust 2007-HE4	40790	9	$ 87,819,927	$ 1,096,096
Morgan Stanley ABS Capital I Inc. Trust 2007-HE4	40790	10	$ 78,117,803	$ 1,195,078
Morgan Stanley ABS Capital I Inc. Trust 2007-HE4	40790	11	$ 107,020,494	$ 1,302,583
Morgan Stanley ABS Capital I Inc. Trust 2007-HE4	40790	12	$ 125,014,223	$ 1,419,267



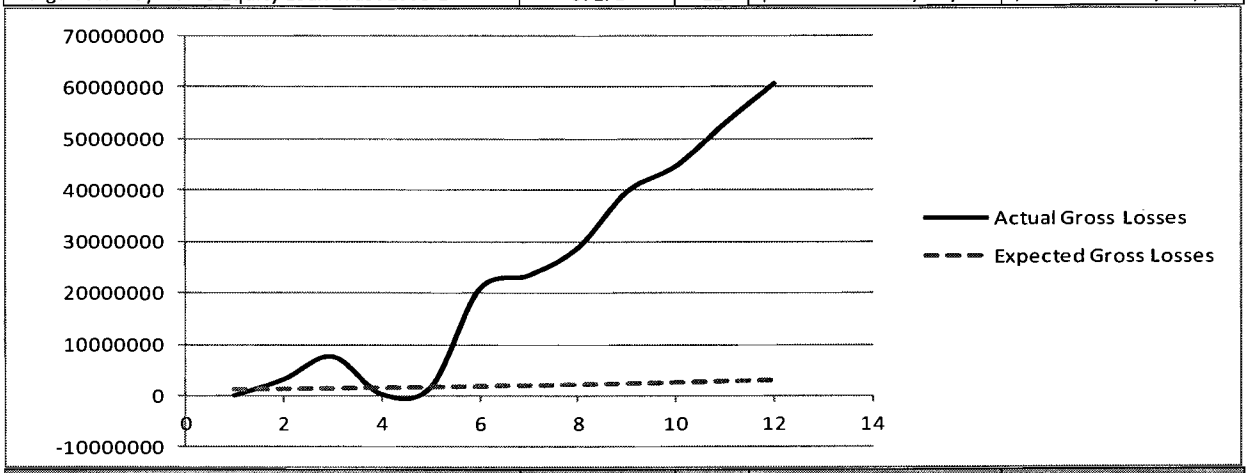
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley ABS Capital I Inc. Trust 2007-HE5	41567	1	$ -	$ 868,549
Morgan Stanley ABS Capital I Inc. Trust 2007-HE5	41567	2	$ 5,107,807	$ 948,672
Morgan Stanley ABS Capital I Inc. Trust 2007-HE5	41567	3	$ 21,064,060	$ 1,036,019
Morgan Stanley ABS Capital I Inc. Trust 2007-HE5	41567	4	$ -	$ 1,131,209
Morgan Stanley ABS Capital I Inc. Trust 2007-HE5	41567	5	$ -	$ 1,234,906
Morgan Stanley ABS Capital I Inc. Trust 2007-HE5	41567	6	$ 81,263,713	$ 1,347,827
Morgan Stanley ABS Capital I Inc. Trust 2007-HE5	41567	7	$ 85,024,786	$ 1,470,737
Morgan Stanley ABS Capital I Inc. Trust 2007-HE5	41567	8	$ 118,575,743	$ 1,604,456
Morgan Stanley ABS Capital I Inc. Trust 2007-HE5	41567	9	$ 139,426,940	$ 1,749,860
Morgan Stanley ABS Capital I Inc. Trust 2007-HE5	41567	10	$ 154,729,516	$ 1,907,880
Morgan Stanley ABS Capital I Inc. Trust 2007-HE5	41567	11	$ 186,057,996	$ 2,079,506
Morgan Stanley ABS Capital I Inc. Trust 2007-HE5	41567	12	$ 193,890,866	$ 2,265,785



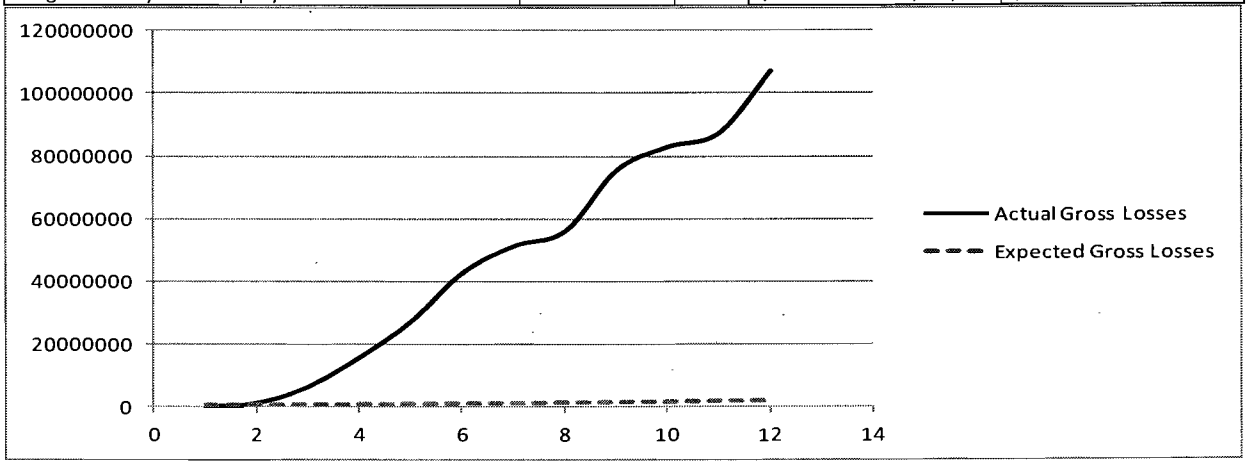
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley Capital I Inc. Trust 2006-HE2	37630	1	$ 814,896	$ 1,885,086
Morgan Stanley Capital I Inc. Trust 2006-HE2	37630	2	$ 4,178,935	$ 2,058,985
Morgan Stanley Capital I Inc. Trust 2006-HE2	37630	3	$ 13,942,687	$ 2,248,562
Morgan Stanley Capital I Inc. Trust 2006-HE2	37630	4	$ 17,021,593	$ 2,455,160
Morgan Stanley Capital I Inc. Trust 2006-HE2	37630	5	$ 29,458,880	$ 2,680,223
Morgan Stanley Capital I Inc. Trust 2006-HE2	37630	6	$ 59,795,517	$ 2,925,304
Morgan Stanley Capital I Inc. Trust 2006-HE2	37630	7	$ 76,535,281	$ 3,192,066
Morgan Stanley Capital I Inc. Trust 2006-HE2	37630	8	$ 116,877,651	$ 3,482,288
Morgan Stanley Capital I Inc. Trust 2006-HE2	37630	9	$ 136,050,058	$ 3,797,871
Morgan Stanley Capital I Inc. Trust 2006-HE2	37630	10	$ 143,590,594	$ 4,140,836
Morgan Stanley Capital I Inc. Trust 2006-HE2	37630	11	$ 164,586,112	$ 4,513,331
Morgan Stanley Capital I Inc. Trust 2006-HE2	37630	12	$ 179,397,254	$ 4,917,629



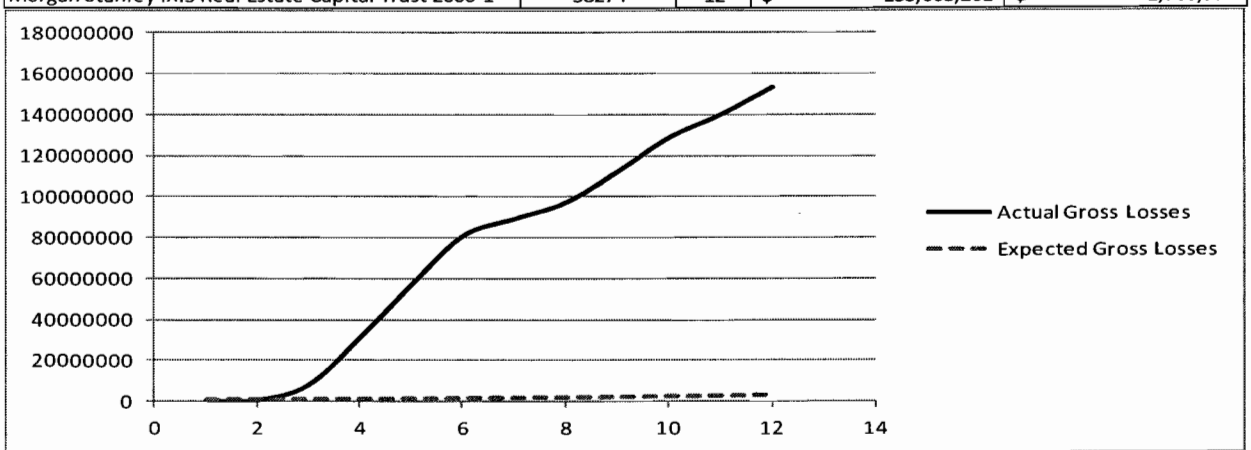
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley Home Equity Loan Trust 2006-1	37171	1	$ 51,558	$ 1,117,224
Morgan Stanley Home Equity Loan Trust 2006-1	37171	2	$ 3,182,053	$ 1,220,288
Morgan Stanley Home Equity Loan Trust 2006-1	37171	3	$ 7,630,762	$ 1,332,644
Morgan Stanley Home Equity Loan Trust 2006-1	37171	4	$ 319,953	$ 1,455,087
Morgan Stanley Home Equity Loan Trust 2006-1	37171	5	$ 1,721,691	$ 1,588,474
Morgan Stanley Home Equity Loan Trust 2006-1	37171	6	$ 20,855,084	$ 1,733,725
Morgan Stanley Home Equity Loan Trust 2006-1	37171	7	$ 23,483,821	$ 1,891,825
Morgan Stanley Home Equity Loan Trust 2006-1	37171	8	$ 28,860,494	$ 2,063,830
Morgan Stanley Home Equity Loan Trust 2006-1	37171	9	$ 39,772,809	$ 2,250,864
Morgan Stanley Home Equity Loan Trust 2006-1	37171	10	$ 44,789,238	$ 2,454,128
Morgan Stanley Home Equity Loan Trust 2006-1	37171	11	$ 53,176,906	$ 2,674,892
Morgan Stanley Home Equity Loan Trust 2006-1	37171	12	$ 60,866,738	$ 2,914,505



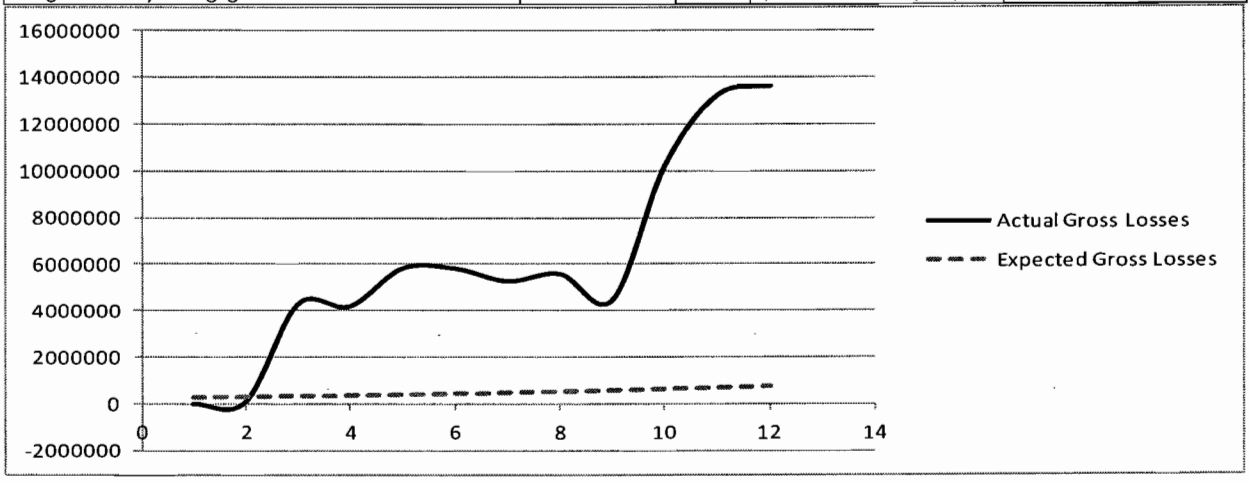
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley Home Equity Loan Trust 2007-2	40795	1	$ -	$ 696,746
Morgan Stanley Home Equity Loan Trust 2007-2	40795	2	$ 1,088,988	$ 761,020
Morgan Stanley Home Equity Loan Trust 2007-2	40795	3	$ 6,355,643	$ 831,090
Morgan Stanley Home Equity Loan Trust 2007-2	40795	4	$ 15,689,639	$ 907,450
Morgan Stanley Home Equity Loan Trust 2007-2	40795	5	$ 27,199,853	$ 990,636
Morgan Stanley Home Equity Loan Trust 2007-2	40795	6	$ 42,730,869	$ 1,081,220
Morgan Stanley Home Equity Loan Trust 2007-2	40795	7	$ 51,351,854	$ 1,179,818
Morgan Stanley Home Equity Loan Trust 2007-2	40795	8	$ 56,151,863	$ 1,287,087
Morgan Stanley Home Equity Loan Trust 2007-2	40795	9	$ 75,478,562	$ 1,403,729
Morgan Stanley Home Equity Loan Trust 2007-2	40795	10	$ 83,045,860	$ 1,530,492
Morgan Stanley Home Equity Loan Trust 2007-2	40795	11	$ 87,521,247	$ 1,668,170
Morgan Stanley Home Equity Loan Trust 2007-2	40795	12	$ 107,372,590	$ 1,817,602



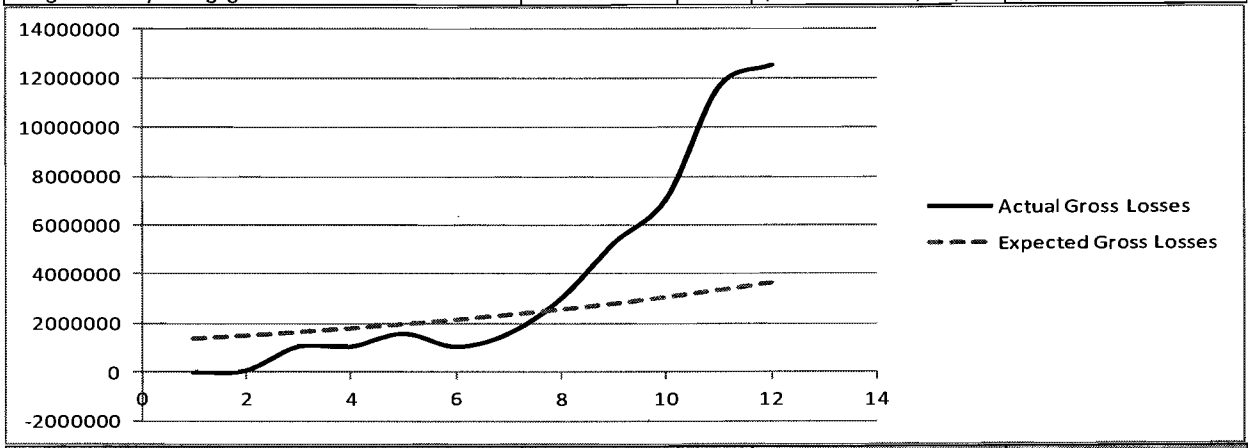
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley IXIS Real Estate Capital Trust 2006-1	38274	1	$ 287,009	$ 1,067,196
Morgan Stanley IXIS Real Estate Capital Trust 2006-1	38274	2	$ 738,954	$ 1,165,644
Morgan Stanley IXIS Real Estate Capital Trust 2006-1	38274	3	$ 8,179,500	$ 1,272,969
Morgan Stanley IXIS Real Estate Capital Trust 2006-1	38274	4	$ 31,385,541	$ 1,389,929
Morgan Stanley IXIS Real Estate Capital Trust 2006-1	38274	5	$ 57,181,107	$ 1,517,343
Morgan Stanley IXIS Real Estate Capital Trust 2006-1	38274	6	$ 81,022,252	$ 1,656,090
Morgan Stanley IXIS Real Estate Capital Trust 2006-1	38274	7	$ 89,498,221	$ 1,807,110
Morgan Stanley IXIS Real Estate Capital Trust 2006-1	38274	8	$ 97,459,566	$ 1,971,413
Morgan Stanley IXIS Real Estate Capital Trust 2006-1	38274	9	$ 112,411,966	$ 2,150,072
Morgan Stanley IXIS Real Estate Capital Trust 2006-1	38274	10	$ 128,936,682	$ 2,344,234
Morgan Stanley IXIS Real Estate Capital Trust 2006-1	38274	11	$ 140,293,193	$ 2,555,112
Morgan Stanley IXIS Real Estate Capital Trust 2006-1	38274	12	$ 153,663,261	$ 2,783,996



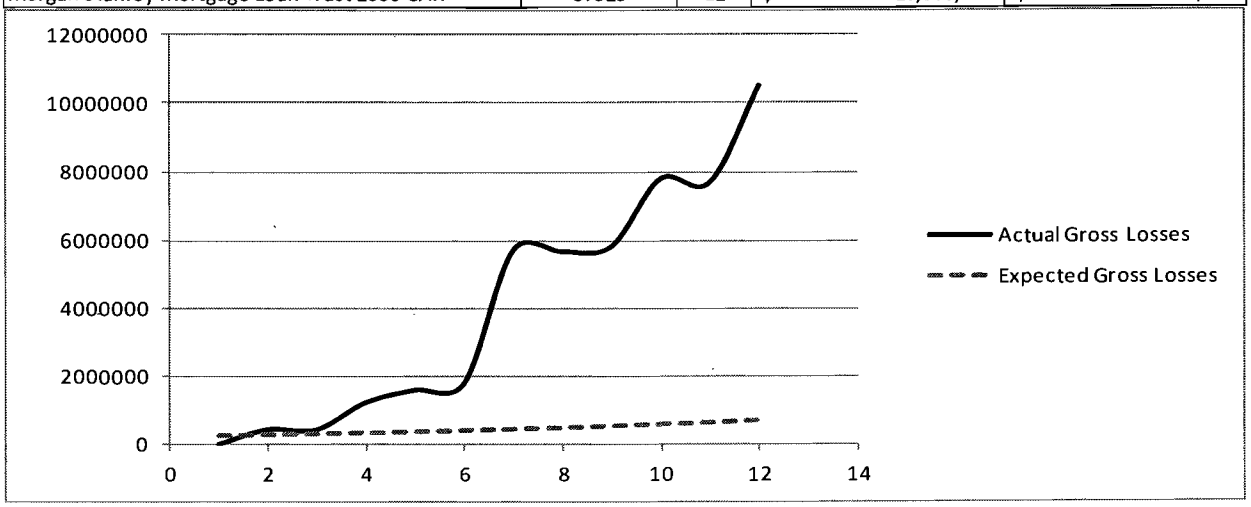
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley Mortgage Loan Trust 2005-11AR	36611	1	$ -	$ 286,728
Morgan Stanley Mortgage Loan Trust 2005-11AR	36611	2	$ 95,380	$ 313,178
Morgan Stanley Mortgage Loan Trust 2005-11AR	36611	3	$ 4,285,494	$ 342,013
Morgan Stanley Mortgage Loan Trust 2005-11AR	36611	4	$ 4,208,694	$ 373,438
Morgan Stanley Mortgage Loan Trust 2005-11AR	36611	5	$ 5,843,297	$ 407,670
Morgan Stanley Mortgage Loan Trust 2005-11AR	36611	6	$ 5,838,246	$ 444,948
Morgan Stanley Mortgage Loan Trust 2005-11AR	36611	7	$ 5,286,650	$ 485,523
Morgan Stanley Mortgage Loan Trust 2005-11AR	36611	8	$ 5,603,042	$ 529,667
Morgan Stanley Mortgage Loan Trust 2005-11AR	36611	9	$ 4,475,633	$ 577,668
Morgan Stanley Mortgage Loan Trust 2005-11AR	36611	10	$ 10,266,750	$ 629,834
Morgan Stanley Mortgage Loan Trust 2005-11AR	36611	11	$ 13,264,217	$ 686,492
Morgan Stanley Mortgage Loan Trust 2005-11AR	36611	12	$ 13,655,152	$ 747,987



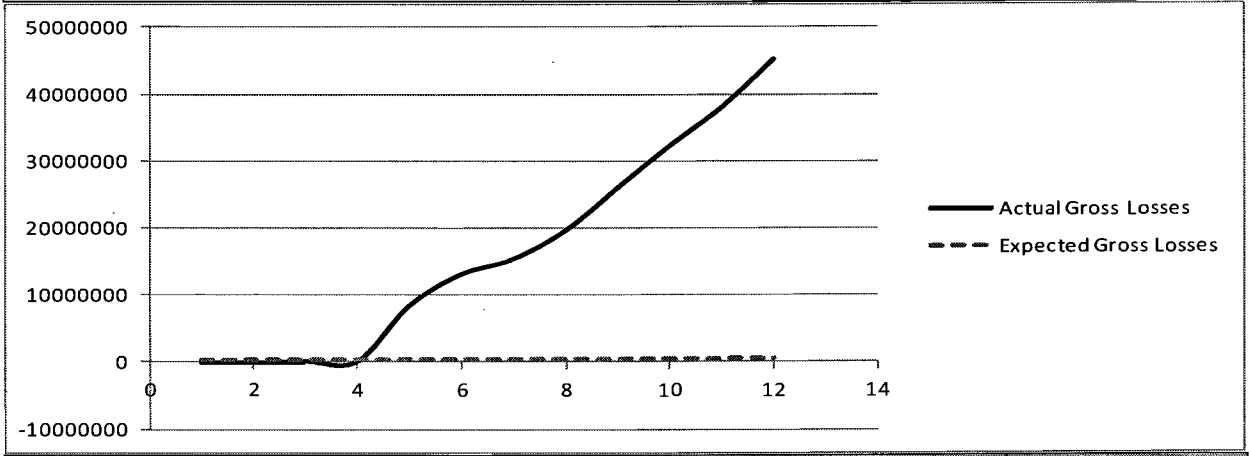
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley Mortgage Loan Trust 2006-3AR	36899	1	$ -	$ 1,400,085
Morgan Stanley Mortgage Loan Trust 2006-3AR	36899	2	$ 77,400	$ 1,529,243
Morgan Stanley Mortgage Loan Trust 2006-3AR	36899	3	$ 1,060,600	$ 1,670,045
Morgan Stanley Mortgage Loan Trust 2006-3AR	36899	4	$ 1,060,600	$ 1,823,488
Morgan Stanley Mortgage Loan Trust 2006-3AR	36899	5	$ 1,593,850	$ 1,990,647
Morgan Stanley Mortgage Loan Trust 2006-3AR	36899	6	$ 1,060,600	$ 2,172,672
Morgan Stanley Mortgage Loan Trust 2006-3AR	36899	7	$ 1,605,320	$ 2,370,801
Morgan Stanley Mortgage Loan Trust 2006-3AR	36899	8	$ 3,042,724	$ 2,586,354
Morgan Stanley Mortgage Loan Trust 2006-3AR	36899	9	$ 5,287,881	$ 2,820,743
Morgan Stanley Mortgage Loan Trust 2006-3AR	36899	10	$ 7,114,750	$ 3,075,469
Morgan Stanley Mortgage Loan Trust 2006-3AR	36899	11	$ 11,684,114	$ 3,352,127
Morgan Stanley Mortgage Loan Trust 2006-3AR	36899	12	$ 12,554,696	$ 3,652,406



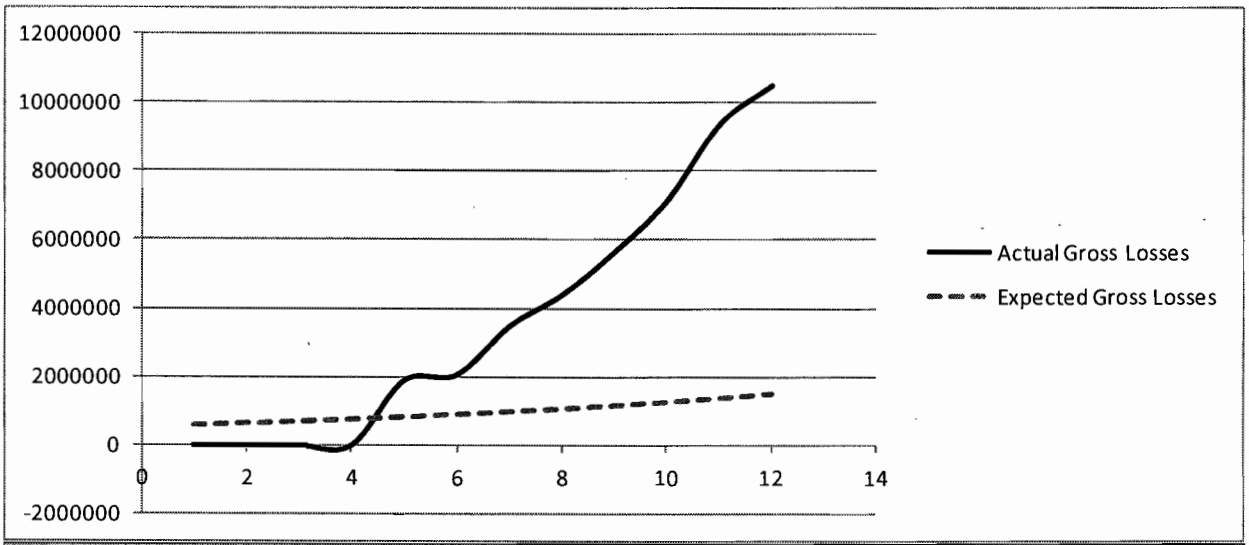
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley Mortgage Loan Trust 2006-8AR	37929	1	$ -	$ 278,862
Morgan Stanley Mortgage Loan Trust 2006-8AR	37929	2	$ 426,165	$ 304,587
Morgan Stanley Mortgage Loan Trust 2006-8AR	37929	3	$ 425,784	$ 332,632
Morgan Stanley Mortgage Loan Trust 2006-8AR	37929	4	$ 1,223,000	$ 363,194
Morgan Stanley Mortgage Loan Trust 2006-8AR	37929	5	$ 1,594,250	$ 396,488
Morgan Stanley Mortgage Loan Trust 2006-8AR	37929	6	$ 1,790,242	$ 432,743
Morgan Stanley Mortgage Loan Trust 2006-8AR	37929	7	$ 5,725,360	$ 472,205
Morgan Stanley Mortgage Loan Trust 2006-8AR	37929	8	$ 5,682,637	$ 515,138
Morgan Stanley Mortgage Loan Trust 2006-8AR	37929	9	$ 5,837,325	$ 561,822
Morgan Stanley Mortgage Loan Trust 2006-8AR	37929	10	$ 7,798,075	$ 612,557
Morgan Stanley Mortgage Loan Trust 2006-8AR	37929	11	$ 7,693,606	$ 667,661
Morgan Stanley Mortgage Loan Trust 2006-8AR	37929	12	$ 10,533,116	$ 727,469



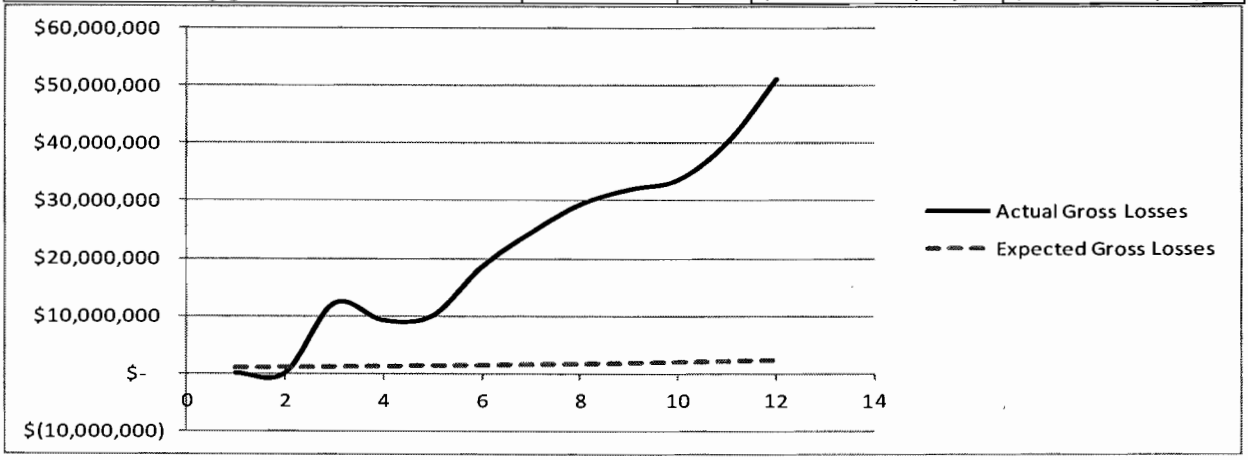
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley Mortgage Loan Trust 2006-9AR	38534	1	$ -	$ 226,017
Morgan Stanley Mortgage Loan Trust 2006-9AR	38534	2	$ -	$ 246,867
Morgan Stanley Mortgage Loan Trust 2006-9AR	38534	3	$ 194,750	$ 269,597
Morgan Stanley Mortgage Loan Trust 2006-9AR	38534	4	$ 194,750	$ 294,368
Morgan Stanley Mortgage Loan Trust 2006-9AR	38534	5	$ 8,477,230	$ 321,352
Morgan Stanley Mortgage Loan Trust 2006-9AR	38534	6	$ 13,190,104	$ 350,737
Morgan Stanley Mortgage Loan Trust 2006-9AR	38534	7	$ 15,460,882	$ 382,721
Morgan Stanley Mortgage Loan Trust 2006-9AR	38534	8	$ 19,726,200	$ 417,518
Morgan Stanley Mortgage Loan Trust 2006-9AR	38534	9	$ 26,107,275	$ 455,355
Morgan Stanley Mortgage Loan Trust 2006-9AR	38534	10	$ 32,321,446	$ 496,476
Morgan Stanley Mortgage Loan Trust 2006-9AR	38534	11	$ 38,059,855	$ 541,137
Morgan Stanley Mortgage Loan Trust 2006-9AR	38534	12	$ 45,272,814	$ 589,612



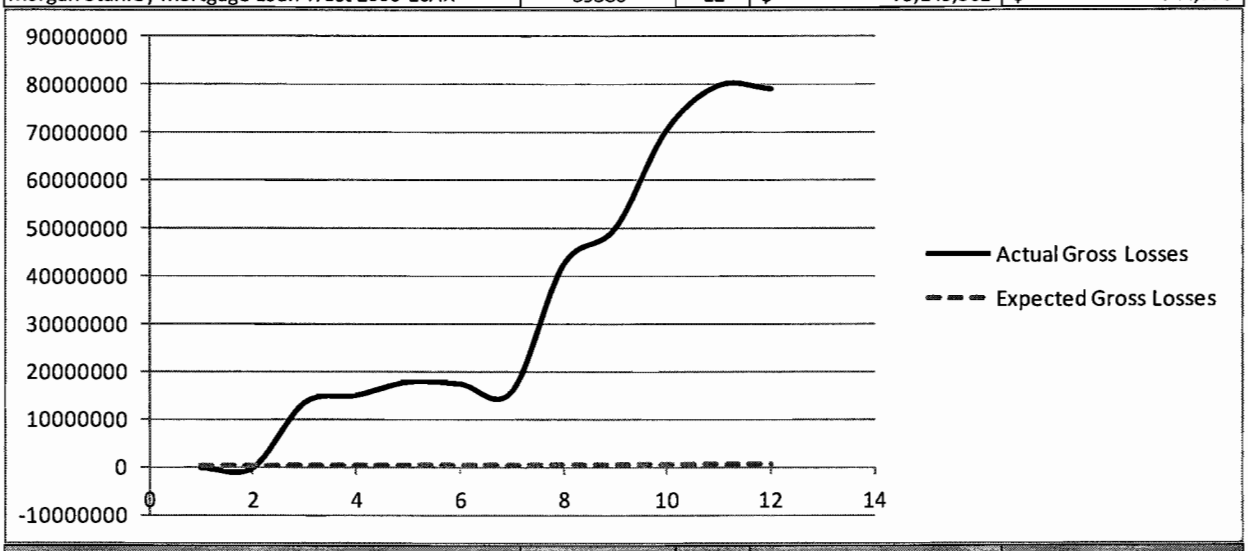
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley Mortgage Loan Trust 2006-10SL	38680	1	$ -	$ 577,388
Morgan Stanley Mortgage Loan Trust 2006-10SL	38680	2	$ -	$ 630,652
Morgan Stanley Mortgage Loan Trust 2006-10SL	38680	3	$ -	$ 688,718
Morgan Stanley Mortgage Loan Trust 2006-10SL	38680	4	$ -	$ 751,997
Morgan Stanley Mortgage Loan Trust 2006-10SL	38680	5	$ 1,902,309	$ 820,932
Morgan Stanley Mortgage Loan Trust 2006-10SL	38680	6	$ 2,076,689	$ 895,999
Morgan Stanley Mortgage Loan Trust 2006-10SL	38680	7	$ 3,487,306	$ 977,706
Morgan Stanley Mortgage Loan Trust 2006-10SL	38680	8	$ 4,411,963	$ 1,066,599
Morgan Stanley Mortgage Loan Trust 2006-10SL	38680	9	$ 5,673,522	$ 1,163,259
Morgan Stanley Mortgage Loan Trust 2006-10SL	38680	10	$ 7,163,400	$ 1,268,307
Morgan Stanley Mortgage Loan Trust 2006-10SL	38680	11	$ 9,384,927	$ 1,382,399
Morgan Stanley Mortgage Loan Trust 2006-10SL	38680	12	$ 10,527,315	$ 1,506,233



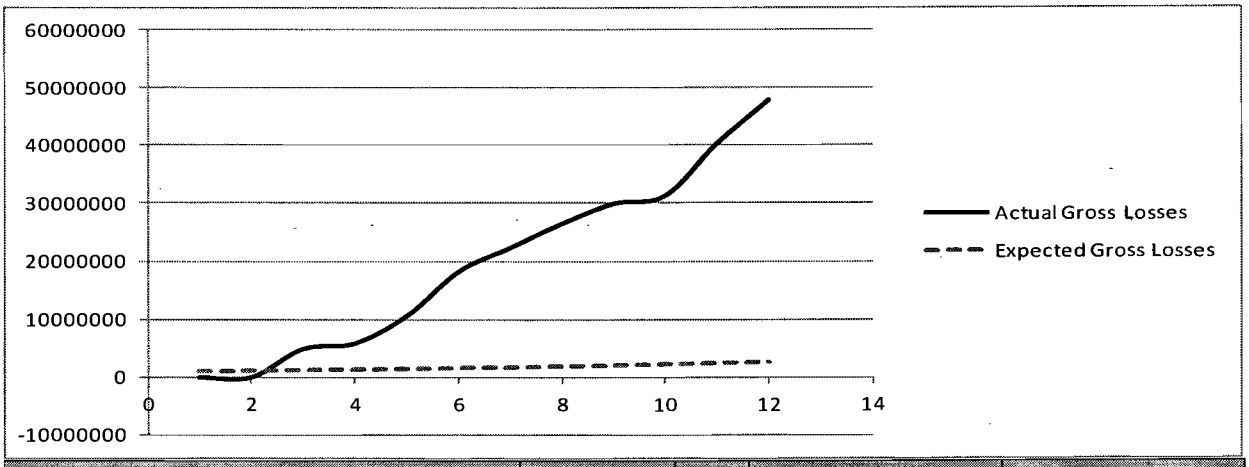
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley Mortgage Loan Trust 2006-13ARX	39177	1	$ -	$ 927,677
Morgan Stanley Mortgage Loan Trust 2006-13ARX	39177	2	$ -	$ 1,013,256
Morgan Stanley Mortgage Loan Trust 2006-13ARX	39177	3	$ 12,115,526	$ 1,106,549
Morgan Stanley Mortgage Loan Trust 2006-13ARX	39177	4	$ 9,203,512	$ 1,208,219
Morgan Stanley Mortgage Loan Trust 2006-13ARX	39177	5	$ 9,977,309	$ 1,318,975
Morgan Stanley Mortgage Loan Trust 2006-13ARX	39177	6	$ 18,549,977	$ 1,439,583
Morgan Stanley Mortgage Loan Trust 2006-13ARX	39177	7	$ 24,496,388	$ 1,570,861
Morgan Stanley Mortgage Loan Trust 2006-13ARX	39177	8	$ 29,420,524	$ 1,713,683
Morgan Stanley Mortgage Loan Trust 2006-13ARX	39177	9	$ 32,035,327	$ 1,868,986
Morgan Stanley Mortgage Loan Trust 2006-13ARX	39177	10	$ 33,724,646	$ 2,037,764
Morgan Stanley Mortgage Loan Trust 2006-13ARX	39177	11	$ 40,252,132	$ 2,221,074
Morgan Stanley Mortgage Loan Trust 2006-13ARX	39177	12	$ 51,287,305	$ 2,420,034



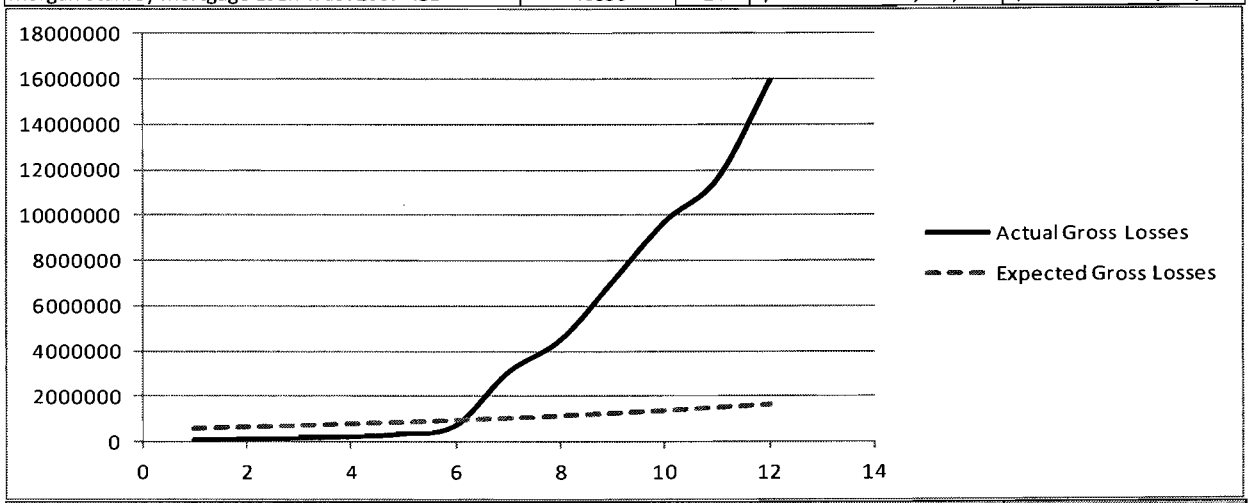
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley Mortgage Loan Trust 2006-16AX	39386	1	$ -	$ 285,494
Morgan Stanley Mortgage Loan Trust 2006-16AX	39386	2	$ -	$ 311,831
Morgan Stanley Mortgage Loan Trust 2006-16AX	39386	3	$ 13,554,475	$ 340,543
Morgan Stanley Mortgage Loan Trust 2006-16AX	39386	4	$ 15,099,892	$ 371,832
Morgan Stanley Mortgage Loan Trust 2006-16AX	39386	5	$ 17,885,629	$ 405,917
Morgan Stanley Mortgage Loan Trust 2006-16AX	39386	6	$ 17,514,088	$ 443,034
Morgan Stanley Mortgage Loan Trust 2006-16AX	39386	7	$ 15,870,902	$ 483,435
Morgan Stanley Mortgage Loan Trust 2006-16AX	39386	8	$ 42,538,501	$ 527,389
Morgan Stanley Mortgage Loan Trust 2006-16AX	39386	9	$ 50,173,493	$ 575,184
Morgan Stanley Mortgage Loan Trust 2006-16AX	39386	10	$ 70,705,756	$ 627,126
Morgan Stanley Mortgage Loan Trust 2006-16AX	39386	11	$ 79,855,377	$ 683,540
Morgan Stanley Mortgage Loan Trust 2006-16AX	39386	12	$ 79,149,361	$ 744,770



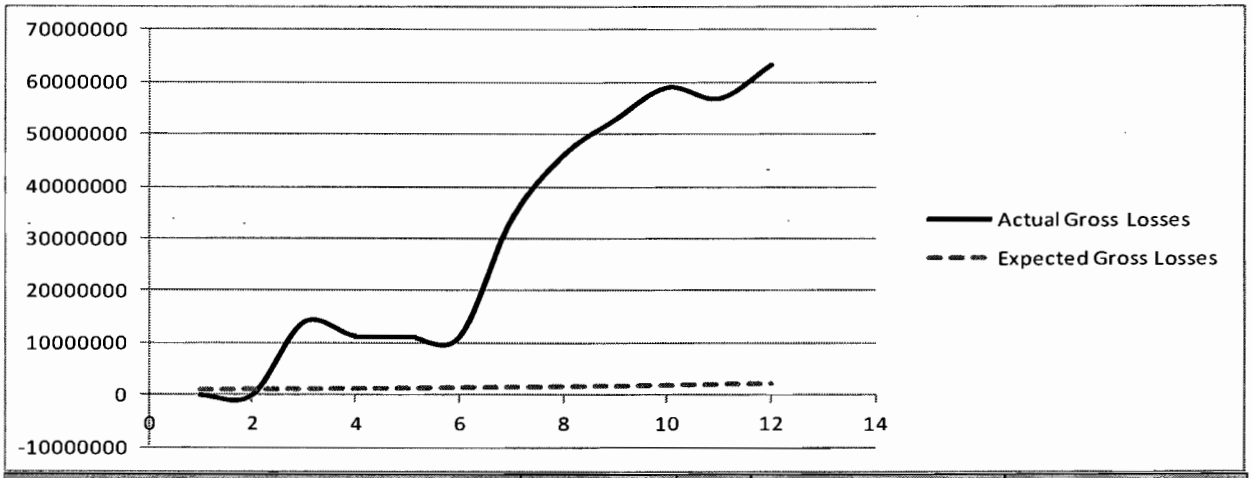
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley Mortgage Loan Trust 2007-2AX	40277	1	$ -	$ 948,853
Morgan Stanley Mortgage Loan Trust 2007-2AX	40277	2	$ -	$ 1,036,385
Morgan Stanley Mortgage Loan Trust 2007-2AX	40277	3	$ 4,928,713	$ 1,131,808
Morgan Stanley Mortgage Loan Trust 2007-2AX	40277	4	$ 5,879,696	$ 1,235,798
Morgan Stanley Mortgage Loan Trust 2007-2AX	40277	5	$ 10,597,650	$ 1,349,083
Morgan Stanley Mortgage Loan Trust 2007-2AX	40277	6	$ 18,218,029	$ 1,472,444
Morgan Stanley Mortgage Loan Trust 2007-2AX	40277	7	$ 22,375,002	$ 1,606,718
Morgan Stanley Mortgage Loan Trust 2007-2AX	40277	8	$ 26,550,797	$ 1,752,800
Morgan Stanley Mortgage Loan Trust 2007-2AX	40277	9	$ 30,017,658	$ 1,911,648
Morgan Stanley Mortgage Loan Trust 2007-2AX	40277	10	$ 31,416,630	$ 2,084,279
Morgan Stanley Mortgage Loan Trust 2007-2AX	40277	11	$ 40,412,878	$ 2,271,773
Morgan Stanley Mortgage Loan Trust 2007-2AX	40277	12	$ 48,068,423	$ 2,475,275



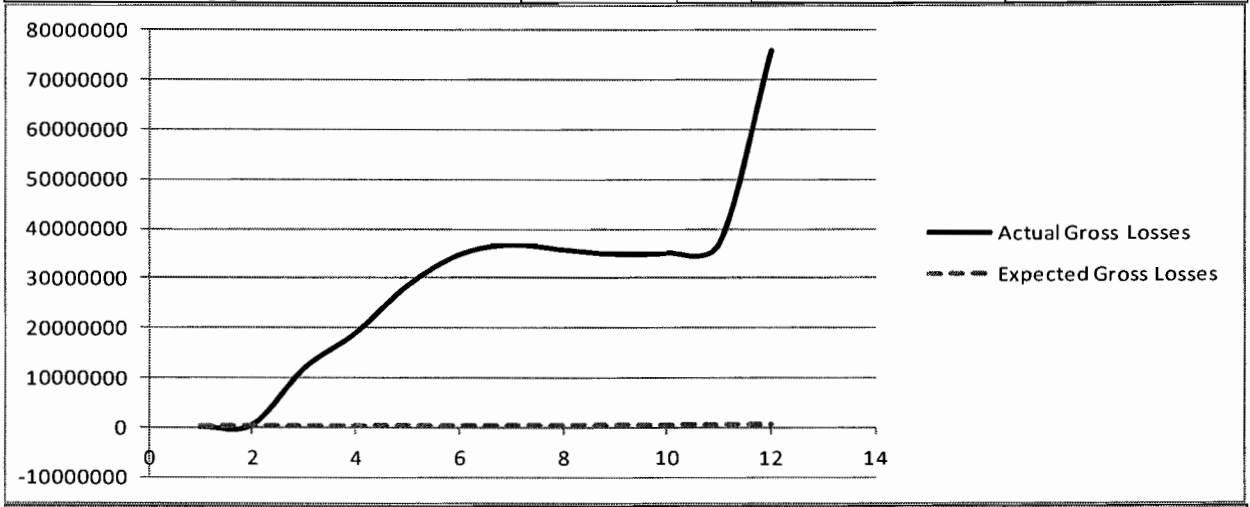
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley Mortgage Loan Trust 2007-4SL	40836	1	$ 103,557	$ 624,461
Morgan Stanley Mortgage Loan Trust 2007-4SL	40836	2	$ 148,366	$ 682,067
Morgan Stanley Mortgage Loan Trust 2007-4SL	40836	3	$ 207,755	$ 744,867
Morgan Stanley Mortgage Loan Trust 2007-4SL	40836	4	$ 262,774	$ 813,306
Morgan Stanley Mortgage Loan Trust 2007-4SL	40836	5	$ 379,282	$ 887,861
Morgan Stanley Mortgage Loan Trust 2007-4SL	40836	6	$ 756,950	$ 969,047
Morgan Stanley Mortgage Loan Trust 2007-4SL	40836	7	$ 3,088,286	$ 1,057,416
Morgan Stanley Mortgage Loan Trust 2007-4SL	40836	8	$ 4,514,867	$ 1,153,556
Morgan Stanley Mortgage Loan Trust 2007-4SL	40836	9	$ 7,121,031	$ 1,258,097
Morgan Stanley Mortgage Loan Trust 2007-4SL	40836	10	$ 9,760,019	$ 1,371,709
Morgan Stanley Mortgage Loan Trust 2007-4SL	40836	11	$ 11,631,024	$ 1,495,103
Morgan Stanley Mortgage Loan Trust 2007-4SL	40836	12	$ 15,961,166	$ 1,629,032



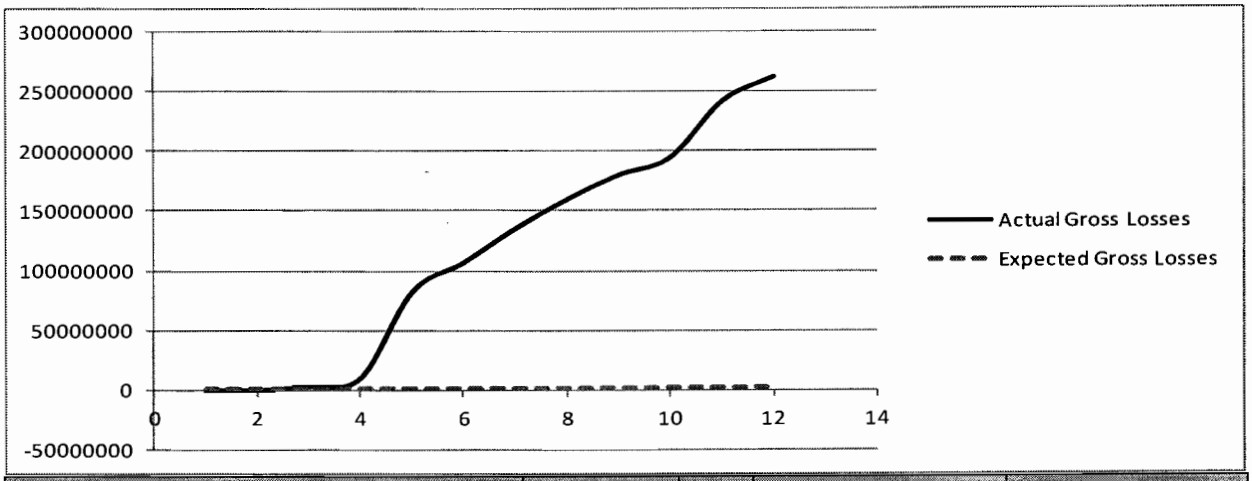
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley Mortgage Loan Trust 2007-5AX	40994	1	$ -	$ 870,623
Morgan Stanley Mortgage Loan Trust 2007-5AX	40994	2	$ -	$ 950,938
Morgan Stanley Mortgage Loan Trust 2007-5AX	40994	3	$ 13,975,475	$ 1,038,493
Morgan Stanley Mortgage Loan Trust 2007-5AX	40994	4	$ 11,371,439	$ 1,133,910
Morgan Stanley Mortgage Loan Trust 2007-5AX	40994	5	$ 11,292,547	$ 1,237,855
Morgan Stanley Mortgage Loan Trust 2007-5AX	40994	6	$ 11,132,627	$ 1,351,045
Morgan Stanley Mortgage Loan Trust 2007-5AX	40994	7	$ 33,610,576	$ 1,474,248
Morgan Stanley Mortgage Loan Trust 2007-5AX	40994	8	$ 45,979,921	$ 1,608,287
Morgan Stanley Mortgage Loan Trust 2007-5AX	40994	9	$ 52,847,155	$ 1,754,038
Morgan Stanley Mortgage Loan Trust 2007-5AX	40994	10	$ 59,008,722	$ 1,912,435
Morgan Stanley Mortgage Loan Trust 2007-5AX	40994	11	$ 56,889,404	$ 2,084,471
Morgan Stanley Mortgage Loan Trust 2007-5AX	40994	12	$ 63,358,578	$ 2,271,195



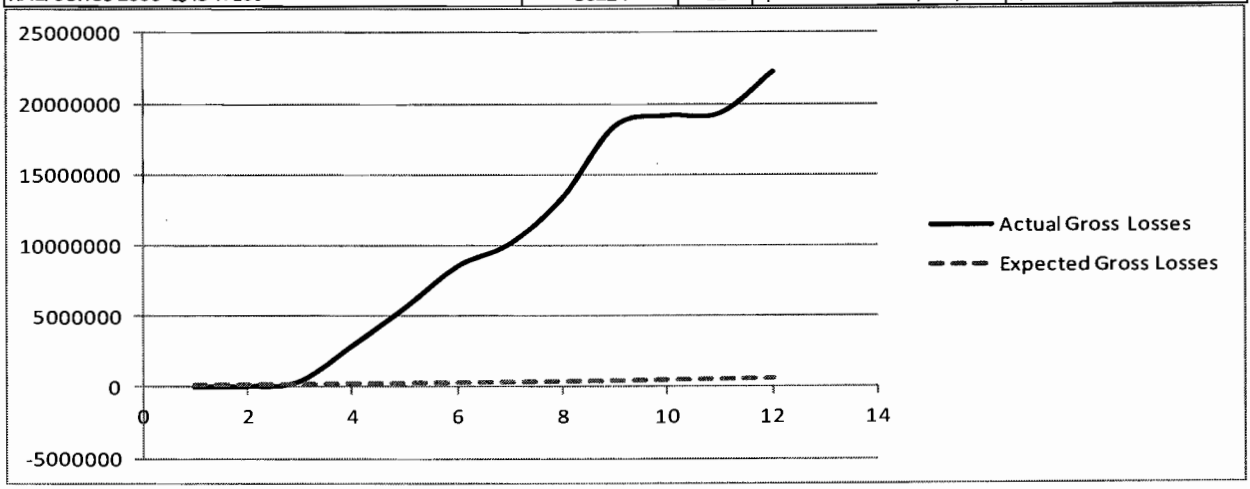
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Morgan Stanley Mortgage Loan Trust 2007-11AR	41816	1	$ -	$ 192,278
Morgan Stanley Mortgage Loan Trust 2007-11AR	41816	2	$ 391,193	$ 210,016
Morgan Stanley Mortgage Loan Trust 2007-11AR	41816	3	$ 11,724,473	$ 229,353
Morgan Stanley Mortgage Loan Trust 2007-11AR	41816	4	$ 18,887,814	$ 250,425
Morgan Stanley Mortgage Loan Trust 2007-11AR	41816	5	$ 28,393,760	$ 273,382
Morgan Stanley Mortgage Loan Trust 2007-11AR	41816	6	$ 34,630,786	$ 298,380
Morgan Stanley Mortgage Loan Trust 2007-11AR	41816	7	$ 36,616,772	$ 325,590
Morgan Stanley Mortgage Loan Trust 2007-11AR	41816	8	$ 35,631,722	$ 355,192
Morgan Stanley Mortgage Loan Trust 2007-11AR	41816	9	$ 34,742,880	$ 387,382
Morgan Stanley Mortgage Loan Trust 2007-11AR	41816	10	$ 35,013,666	$ 422,364
Morgan Stanley Mortgage Loan Trust 2007-11AR	41816	11	$ 36,918,641	$ 460,358
Morgan Stanley Mortgage Loan Trust 2007-11AR	41816	12	$ 75,802,625	$ 501,596



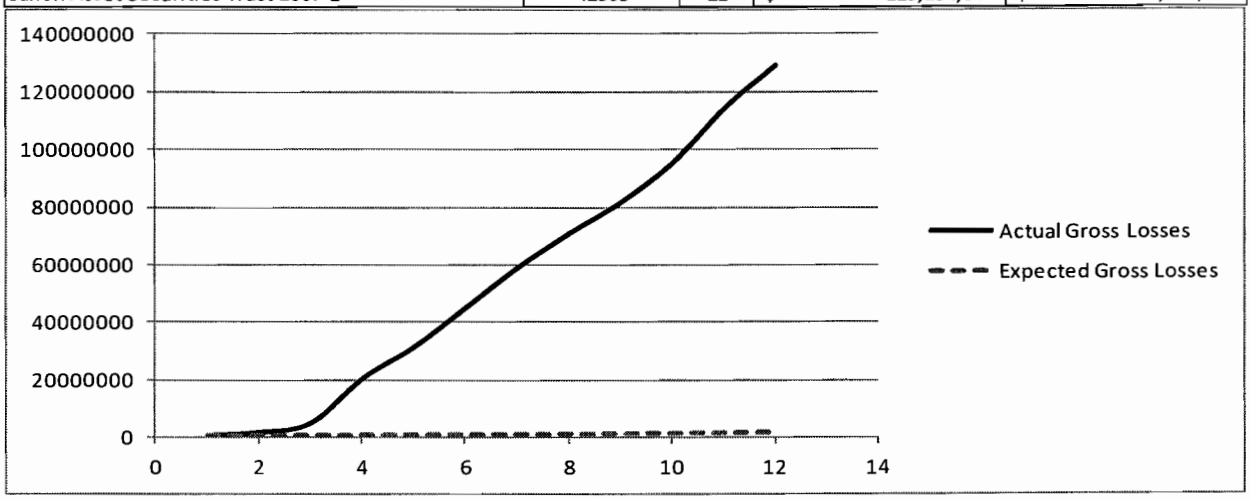
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Natixis Real Estate Capital Trust 2007-HE2	41935	1	$ -	$ 746,961
Natixis Real Estate Capital Trust 2007-HE2	41935	2	$ 191,597	$ 815,868
Natixis Real Estate Capital Trust 2007-HE2	41935	3	$ 3,202,408	$ 890,988
Natixis Real Estate Capital Trust 2007-HE2	41935	4	$ 10,544,937	$ 972,851
Natixis Real Estate Capital Trust 2007-HE2	41935	5	$ 82,737,062	$ 1,062,032
Natixis Real Estate Capital Trust 2007-HE2	41935	6	$ 107,070,583	$ 1,159,145
Natixis Real Estate Capital Trust 2007-HE2	41935	7	$ 135,383,126	$ 1,264,849
Natixis Real Estate Capital Trust 2007-HE2	41935	8	$ 159,916,620	$ 1,379,849
Natixis Real Estate Capital Trust 2007-HE2	41935	9	$ 180,485,799	$ 1,504,898
Natixis Real Estate Capital Trust 2007-HE2	41935	10	$ 195,033,262	$ 1,640,797
Natixis Real Estate Capital Trust 2007-HE2	41935	11	$ 242,043,005	$ 1,788,397
Natixis Real Estate Capital Trust 2007-HE2	41935	12	$ 262,434,616	$ 1,948,599



Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
RALI Series 2006-QA5 Trust	38224	1	$ -	$ 225,882
RALI Series 2006-QA5 Trust	38224	2	$ -	$ 246,719
RALI Series 2006-QA5 Trust	38224	3	$ 370,000	$ 269,436
RALI Series 2006-QA5 Trust	38224	4	$ 2,877,479	$ 294,191
RALI Series 2006-QA5 Trust	38224	5	$ 5,558,596	$ 321,160
RALI Series 2006-QA5 Trust	38224	6	$ 8,514,859	$ 350,527
RALI Series 2006-QA5 Trust	38224	7	$ 10,121,141	$ 382,492
RALI Series 2006-QA5 Trust	38224	8	$ 13,385,252	$ 417,268
RALI Series 2006-QA5 Trust	38224	9	$ 18,455,783	$ 455,083
RALI Series 2006-QA5 Trust	38224	10	$ 19,185,877	$ 496,179
RALI Series 2006-QA5 Trust	38224	11	$ 19,363,323	$ 540,813
RALI Series 2006-QA5 Trust	38224	12	$ 22,295,581	$ 589,258



Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Saxon Asset Securities Trust 2007-2	41509	1	$ 586,966	$ 775,257
Saxon Asset Securities Trust 2007-2	41509	2	$ 1,723,077	$ 846,774
Saxon Asset Securities Trust 2007-2	41509	3	$ 4,942,743	$ 924,739
Saxon Asset Securities Trust 2007-2	41509	4	$ 20,345,337	$ 1,009,704
Saxon Asset Securities Trust 2007-2	41509	5	$ 31,299,847	$ 1,102,263
Saxon Asset Securities Trust 2007-2	41509	6	$ 45,096,976	$ 1,203,055
Saxon Asset Securities Trust 2007-2	41509	7	$ 58,885,479	$ 1,312,763
Saxon Asset Securities Trust 2007-2	41509	8	$ 70,909,497	$ 1,432,119
Saxon Asset Securities Trust 2007-2	41509	9	$ 81,692,711	$ 1,561,905
Saxon Asset Securities Trust 2007-2	41509	10	$ 95,274,140	$ 1,702,952
Saxon Asset Securities Trust 2007-2	41509	11	$ 114,043,234	$ 1,856,143
Saxon Asset Securities Trust 2007-2	41509	12	$ 129,134,644	$ 2,022,414



79. As clearly shown in Figure 2 (*supra*), actual gross losses spiked almost immediately after issuance of the RMBS. Borrowers defaulted on the underlying mortgages soon after loan origination, rapidly eliminating the RMBS's credit enhancement. For example, in the Morgan Stanley ABS Capital I Inc. Trust 2006-HE4 offering, actual gross losses at month 12 exceeded $244 million, or more than 53 times the expected gross losses of approximately $4.6 million. (*See supra* Figure 2).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Id. at xvi.

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

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

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

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

Id.

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

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

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

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

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

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

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

FCIC Report at 187.

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

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

FSOC Risk Retention Report at 11 (footnote omitted).

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

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

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

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

2. American Home's Systematic Disregard of Underwriting Standards

102. American Home Mortgage Investment Corp. ("American Home") was a real estate investment trust that invested in RMBS consisting of loans originated, aggregated and serviced by its subsidiaries. It was the parent of American Home Mortgage Holdings, Inc., which in turn was the parent of American Home Mortgage Corp., a retail lender of mortgage loans. Collectively, these entities are referred to herein as "American Home."

103. American Home originated or contributed a critical number of loans to the mortgage pools underlying the Morgan Stanley Mortgage Loan Trust 2006-16AX offering. *See infra* Table 6.

104. Edmund Andrews, an economics reporter for the New York Times, recounted his

own experience using American Home as a lender. According to Andrews, he was looking to purchase a home in 2004, and his real estate agent referred him to a loan officer at American Home. The American Home loan officer began the ordeal by asking Andrews how large of a loan he needed. Andrews, who had a monthly take home pay of $2,777, advised the loan officer that he had hefty child support and alimony payments to an ex-wife. Andrews would be relying on his then-unemployed fiancée to earn enough money to meet his monthly obligations—including the mortgage. Andrews reported:

> As I quickly found out, American Home Mortgage had become one of the fastest-growing mortgage lenders in the country. One of its specialties was serving people just like me: borrowers with good credit scores who wanted to stretch their finances far beyond what our incomes could justify. In industry jargon, we were "Alt-A" customers, and we usually paid slightly higher rates for the privilege of concealing our financial weaknesses.
>
> I thought I knew a lot about go-go mortgages. I had already written several articles about the explosive growth of liar's loans, no-money-down loans, interest-only loans and other even more exotic mortgages. I had interviewed people with very modest incomes who had taken out big loans. Yet for all that, I was stunned at how much money people were willing to throw at me.
>
> [The American Home loan officer] called back the next morning. "Your credit scores are almost perfect," he said happily. "Based on your income, you can qualify for a mortgage of about $500,000."
>
> What about my alimony and child-support obligations? No need to mention them. What would happen when they saw the automatic withholdings in my paycheck? No need to show them. If I wanted to buy a house, [the American Home loan officer] figured, it was my job to decide whether I could afford it. His job was to make it happen.
>
> "I am here to enable dreams," he explained to me long afterward. [The American Home loan officer]'s view was that if I'd been unemployed for seven years and didn't have a dime to my name but I wanted a house, he wouldn't question my prudence. "Who am I to tell you that you shouldn't do what you want to do? I am here to sell money and to help you do what you want to do. At the end of the day, it's your signature on the mortgage—not mine."

Edmund L. Andrews, *My Personal Credit Crisis*, N.Y. TIMES, May 17, 2009, at MM46.

105. The American Home loan officer steered Andrews to a stated-income loan so that

he would not have to produce paychecks or tax returns that would reveal his alimony and child support obligations. The loan officer wanted to limit disclosure of Andrews's alimony and child support payments when an existing mortgage showed up under Andrews's name. Although his ex-wife was solely responsible for that mortgage under the terms of the couple's separation agreement, the only way Andrews could explain that fact would be to produce the agreement, which would also reveal his alimony and child support obligations. According to Andrews:

> [The American Home loan officer] didn't get flustered. If Plan A didn't work, he would simply move down another step on the ladder of credibility. Instead of "stating" my income without documenting it, I would take out a "no ratio" mortgage and not state my income at all. For the price of a slightly higher interest rate, American Home would verify my assets, but that was it. Because I wasn't stating my income, I couldn't have a debt-to-income ratio, and therefore, I couldn't have too much debt. I could have had four other mortgages, and it wouldn't have mattered. American Home was practically begging me to take the money.

Id.

106. American Home ultimately approved Andrews's application. Not surprisingly, Andrews was unable to afford his monthly mortgage payments.

107. American Home's lack of adherence to underwriting guidelines was set forth in detail in a 165-page amended class action complaint filed June 4, 2008, in *In re American Home Mortgage Sec Litig.*, No. 07-md-1898 (TCP) (E.D.N.Y.). Investors in American Home common/preferred stock alleged that the company misrepresented itself as a conservative lender, when, based on statements from more than 33 confidential witnesses and internal company documents, American Home in reality was a high risk lender, promoting quantity of loans over quality by targeting borrowers with poor credit, violating company underwriting guidelines, and providing incentives for employees to sell risky loans, regardless of the borrowers' creditworthiness. *See* Am. Class Action Compl., *In re American Home Mortgage Sec. Litig.*, No. 07-md-1898 (E.D.N.Y. filed June 4, 2008) ("American Home ACC").

108. According to the American Home ACC, former American Home employees recounted that underwriters were consistently bullied by sales staff when underwriters challenged questionable loans, while exceptions to American Home's underwriting guidelines were routinely applied. *See id.* ¶¶ 120-121.

109. The American Home ACC cited to witnesses who were former American Home employees. These witnesses reported that American Home management told underwriters not to decline a loan, regardless of whether the loan application included fraud. *See id.*

110. Another former American Home employee stated that American Home routinely made exceptions to its underwriting guidelines to be able to close loans. When American Home mortgage underwriters raised concerns to the sales department about the pervasive use of exceptions to American Home's mortgage underwriting practices, the sales department contacted American Home headquarters to get approval for the use of exceptions. Indeed, it was commonplace to overrule mortgage underwriters' objections to approving a loan to facilitate loan approval. *See id.* ¶ 123.

111. A former American Home auditor confirmed this account that American Home mortgage underwriters were regularly overruled when they objected to loan originations. *See id.* ¶ 124.

112. The parties settled the litigation on January 14, 2010, for $37.25 million.

113. American Home's lending practices landed it in the 2008 "Worst Ten in the Worst Ten" Report. American Home came in 8th in Las Vegas, Nevada, and 9th in both Detroit, Michigan, and Miami, Florida. *See* 2008 "Worst Ten in the Worst Ten" Report. When the OCC issued the 2009 "Worst Ten in the Worst Ten" Report, American Home again featured prominently, appearing in the top ten in six of the ten worst metropolitan areas (4th in both Fort

Pierce-Port St. Lucie, Florida, and Fort Myers-Cape Coral, Florida; 7th in Vallejo-Fairfield-Napa, California; 8th in Las Vegas, Nevada; 9th in Stockton-Lodi, California; and 10th in Bakersfield, California). *See* 2009 "Worst Ten in the Worst Ten" Report.

3. Countrywide's Systematic Disregard of Underwriting Standards

114. Countrywide Home Loans, Inc. ("Countrywide") was one of the largest originators of residential mortgages in the United States during the time period at issue in this Complaint. Countrywide originated or contributed a material portion of the loans in the mortgage pool underlying the Morgan Stanley Home Equity Loan Trust 2006-1 offering. *See infra* Table 6.

115. In October 2009, the House Committee on Oversight and Government Reform launched an investigation into the entire subprime mortgage industry, including Countrywide, focusing on "whether mortgage companies employed deceptive and predatory lending practices, or improper tactics to thwart regulation, and the impact of those activities on the current crisis." Press Release, Comm. on Oversight & Government Reform, Statement of Chairman Towns on Committee Investigation Into Mortgage Crisis at 1 (Oct. 23, 2009) (internal quotation marks omitted).

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

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

To highlight just how simple it could be to borrow money, Countrywide marketed one of its stated-income products as the "Fast and Easy loan."

As manager of Countrywide's office in Alaska, Kourosh Partow pushed Fast and Easy loans and became one of the company's top producers.

He said the loans were "an invitation to lie" because there was so little scrutiny of lenders. "We told them the income that you are giving us will not be verified. The asset that you are stating will not be verified."

He said they joked about it: "If you had a pulse, we gave you a loan. If you fog the mirror, give you a loan."

But it turned out to be no laughing matter for Partow. Countrywide fired him for processing so-called "liar loans" and federal prosecutors charged him with crimes. On April 20, 2007, he pleaded guilty to two counts of wire fraud involving loans to a real estate speculator; he spent 18 months in prison.

In an interview shortly after he completed his sentence, Partow said that the practice of pushing through loans with false information was common and was known by top company officials. "It's impossible they didn't know."

...

During the criminal proceedings in federal court, Countrywide executives portrayed Partow as a rogue who violated company standards.

But former senior account executive Bob Feinberg, who was with the company for 12 years, said the problem was not isolated. "I don't buy the rogue. I think it was infested."

He lamented the decline of what he saw as a great place to work, suggesting a push to be number one in the business led Countrywide astray. He blamed Angelo Mozilo, a man he long admired, for taking the company down the wrong path. It was not just the matter of stated income loans, said Feinberg. Countrywide also became a purveyor of loans that many consumer experts contend were a bad deal for borrowers, with low introductory interest rates that later could skyrocket.

In many instances, Feinberg said, that meant borrowers were getting loans that were "guaranteed to fail."

Chris Hansen, *'If You Had a Pulse, We Gave You a Loan,'* NBC Dateline (Mar. 22, 2009)

http://www.msnbc.msn.com/id/29827248/ns/dateline_nbc-the_hansen_files_with_chris_hansen.

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

119. Internal Countrywide e-mails the SEC released in connection with its lawsuit show the extent to which Countrywide systematically deviated from its underwriting guidelines. For instance, in an April 13, 2006 e-mail from Mozilo to other top Countrywide executives, Mozilo stated that Countrywide was originating home mortgage loans with "serious disregard for process, compliance with guidelines and irresponsible behavior relative to meeting timelines." E-mail from Angelo Mozilo to Eric Sieracki and other Countrywide Executives (Apr. 13, 2006 7:42 PM PDT). Mozilo also wrote that he had "personally observed a serious lack of compliance within our origination system as it relates to documentation and generally a deterioration in the quality of loans originated versus the pricing of those loan[s]." *Id.* (internal quotation marks omitted).

120. Indeed, in September 2004, Mozilo had voiced his concern over the "clear deterioration in the credit quality of loans being originated," observing that "the trend is getting worse" because of competition in the non-conforming loans market. With this in mind, Mozilo argued that Countrywide should "seriously consider securitizing and selling ([Net Interest

Margin Securities]) a substantial portion of [Countrywide's] current and future sub prime [sic] residuals." E-mail from Angelo Mozilo to Stan Kurland & Keith McLaughlin, Managing Directors, Countrywide (Sept. 1, 2004 8:17 PM PDT).

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

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

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

Id.

123. Countrywide sold a product called the "Pay Option ARM." This loan was a 30-year adjustable rate mortgage that allowed the borrower to choose between various monthly payment options, including a set minimum payment. In a June 1, 2006 e-mail, Mozilo noted that most of Countrywide's Pay Option ARMs were based on stated income and admitted that "[t]here is also some evidence that the information that the borrower is providing us relative to

their income does not match up with IRS records." E-mail from Angelo Mozilo to Carlos Garcia, former CFO of Countrywide Financial and Jim Furash, former President of Countrywide Bank (June 1, 2006 10:38 PM PST).

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

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

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

127. In a March 27, 2006 e-mail, Mozilo reaffirmed the need to "oversee all of the corrective processes that will be put into effect to permanently avoid the errors of both

judgement [sic] and protocol that have led to the issues that we face today" and that "the people responsible for the origination process understand the necessity for adhering to the guidelines for 100% LTV sub-prime product. This is the most dangerous product in existence and there can be nothing more toxic and therefore requires that no deviation from guidelines be permitted irrespective of the circumstances." E-mail from Angelo Mozilo to the former Countrywide Managing Directors (Mar. 27, 2006 8:53 PM PST).

128. Yet Countrywide routinely found exceptions to its underwriting guidelines without sufficient compensating factors. In an April 14, 2005 e-mail, Frank Aguilera, a Countrywide managing director, explained that the "spirit" of Countrywide's exception policy was not being followed. He noted a "significant concentration of similar exceptions" that "denote[d] a divisional or branch exception policy that is out side [sic] the spirit of the policy." E-mail from Frank Aguilera, Managing Director, Countrywide, to John McMurray, Managing Director, Countrywide (Apr. 14, 2005 12:14 PM PDT). Aguilera continued: "The continued concentration in these same categories indicates either a) inadequate controls in place to mange [sic] rogue production units or b) general disregard for corporate program policies and guidelines." *Id.* Aguilera observed that pervasive use of the exceptions policy was an industry-wide practice:

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

Id.

129. Internal reports months after an initial push to rein in the excessive use of exceptions with a "zero tolerance" policy showed the use of exceptions remained excessive.

E-mail from Frank Aguilera, Managing Director, Countrywide, to Brian Kuelbs, Managing Director, Countrywide, among others (June 12, 2006 10:13 AM PDT).

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

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

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

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

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

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

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

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

138. Not surprisingly, Countrywide's default rates reflected its approach to underwriting. *See* 2008 "Worst Ten in the Worst Ten" Report. Countrywide appeared on the top ten list in six of the ten markets: 4th in Las Vegas, Nevada; 8th in Sacramento, California; 9th in

Stockton, California and Riverside, California; and 10th in Bakersfield, California and Miami, Florida. When the OCC issued its updated 2009 "Worst Ten in the Worst Ten" Report, Countrywide appeared on the top ten list in every market, holding 1st place in Las Vegas, Nevada; 2nd in Reno, Nevada; 3rd in Merced, California; 6th in Fort Myers-Cape Coral, Florida, Modesto, California, and Stockton-Lodi, California; 7th in Riverside-San Bernardino, California and Fort Pierce-Port St. Lucie, Florida; 8th in Vallejo-Fairfield-Napa, California; and 9th in Bakersfield, California. *See* 2009 "Worst Ten in the Worst Ten" Report.

4. Decision One's Systematic Disregard of Underwriting Standards

139. Decision One Mortgage Co., LLC ("Decision One") was a major lender specializing in "mortgage loans that are commonly referred to as Alt-A lending options, and non-conforming or sub-prime loans." In 2006, Decision One ranked as the 14th largest subprime lender in the nation. Decision One contributed a critical number of mortgage loans to the Morgan Stanley ABS Capital I Inc. Trust 2006-HE4, Morgan Stanley ABS Capital I Inc. Trust 2006-HE6, Morgan Stanley ABS Capital I Inc. Trust 2006-HE8, Morgan Stanley ABS Capital I Inc. Trust 2007-HE4, Morgan Stanley ABS Capital I Inc. Trust 2007-HE5, Morgan Stanley Capital I Inc. Trust 2006-HE2, and Morgan Stanley Home Equity Loan Trust 2006-1 offerings. *See infra* Table 6.

140. A complaint filed by Allstate Insurance Company contains allegations based on confidential witness statements in which former Decision One employees "described Decision One's lax attitude towards its own origination and underwriting standards and explained that Decision One had been approving loans that should have never been issued." *Allstate Ins. Co. v. Morgan Stanley*, Case No. 651840/2011, 2011 WL 2634724, ¶ 95 (N.Y. Sup. filed July 5, 2011). On March 15, 2013, the Court granted Morgan Stanley's Motion to Dismiss with respect to a

negligent misrepresentation claim, but denied the Motion in all other respects.

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

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

5. First National Bank of Nevada's Systematic Disregard of Underwriting Standards

143. First National Bank of Nevada ("FNB Nevada") was a large subprime mortgage lender. It originated or contributed a material portion of the loans in the mortgage pool underlying the Morgan Stanley Mortgage Loan Trust 2005-11AR, Morgan Stanley Mortgage Loan Trust 2006-9AR, and Morgan Stanley Mortgage Loan Trust 2007-11AR offerings. *See infra* Table 6.

144. First National Bank Arizona ("FNB Arizona"), FNB Nevada, and First Heritage Bank were controlled by First National Bank Holding Company ("FNB Holding"), collectively ("FNB Group"). All were under common management. *See* Department of the Treasury, Office of the Inspector General, *Audit Report: Safety and Soundness: Material Loss Review of First National Bank of Nevada and First Heritage Bank, National Association* at 4 (Feb. 27, 2009) ("FNB Nevada OIG Report"), *available at* http://www.treasury.gov/about/organizational-

structure/ig/Documents/ oig09033.pdf; David Enrich and Damian Paletta, *Failed Lender Played Regulatory Angles*, Wall St. J. (Oct. 3, 2008), *available at* http://online.wsj.com/article/SB122298993937000343.html.

145. FNB Arizona ran the FNB Group's residential mortgage lending operation. *See* FNB Nevada OIG Report at 4.

146. The amount of mortgage loans originated by FNB Arizona grew from $1.5 billion in 2001 to $7 billion in 2006. *See* Enrich and Paletta, *Failed Lender Played Regulatory Angles*. FNB Arizona was an OTD lender; in 2006, $6.9 billion of its loans were packaged into RMBS. *See* FNB Nevada OIG Report at 5.

147. A series of investigations by the OCC detail how FNB Arizona achieved its rapid growth by pervasively disregarding its underwriting guidelines.

148. In 2004, the OCC inspected FNB Arizona and determined that it needed better "[p]rocedures to reduce underwriting exceptions" and better "[p]olicies and internal controls over the use of appraisers." FNB Nevada OIG Report at 44.

149. A 2005 OCC investigation found that "[c]redit underwriting and administration need improvement. The quickness of loan production has had priority over quality. Issues include loan appraisal violations (repeat issue) and inadequate practices over standby letters of credit." It recommended FNB Arizona "develop and implement procedures and accountability that are effective in reducing the high level of underwriting exceptions (repeat issue)" and reduce the number of employee and vendor errors in loan origination. It also cited FNB Arizona for two regulatory violations—failing to appraise properties prior to closing and failing to use independent appraisers. *Id.* at 44-46.

150. A 2006 investigation found that FNB Arizona still had not implemented

"effective procedures and processes to reduce the level and number of underwriting exceptions." The OCC also noted that appraisers' reports were often missing or incomplete. *Id.* at 47

151. In 2007, FNB Arizona's liquidity problems prompted the OCC to initiate an informal enforcement action. It cited several matters requiring the direct attention of the bank's board, including internal loan review that lacked independence due to executive management influence, understaffed internal loan review, staffing levels and expertise that were not commensurate with the complexities of the bank's operations, and (yet again) the need to reduce underwriting exceptions. *See id.* at 48-50.

152. FNB Arizona's underwriting practices became so poor that in 2007 it was unable to sell $683 million of residential mortgages to securitizers. It was also forced to repurchase a number of its poorly underwritten mortgages. This contributed to a liquidity crisis for the entire FNB Group. *See id.* at 2, 6.

153. On June 30, 2008 FNB Arizona merged into FNB Nevada. Shortly thereafter, the OCC closed FNB Nevada and appointed the FDIC as its receiver. Press Release, *OCC Closes First National Bank of Nevada and Appoints FDIC Receiver* (July 25, 2008), *available at* http://www.occ.gov/news-issuances/news-releases/2008/nr-occ-2008-87.html.

154. In its capacity as receiver for FNB Nevada, the FDIC sued the former directors and officers of the FNB Group. Compl., *FDIC v. Dorris*, No. 11-1652 (D. Ariz. filed Aug. 23, 2011). The FDIC alleged the same pervasive disregard of underwriting guidelines described above. *See id.* ¶¶ 38-42.

155. That complaint detailed how the bank's compensation structure was tied to the volume of loans originated, creating an incentive for bank employees to disregard the underwriting guidelines. *See id.* ¶ 30. FNB Arizona also used many mortgage brokers who had

the same volume-based incentive to disregard underwriting guidelines and to inflate appraisals. *See id.* ¶¶ 33-34.

156. The suit settled less than two months after it was filed. Final Judgment Order, *FDIC v. Dorris*, Doc. 15., No 11-1652 (D. Ariz. Oct. 13, 2011).

157. Evidence uncovered in *Plumbers' Union Local No. 12 Pension Fund v. Nomura Asset Acceptance Corp.*, No. 08-10446 (D. Mass. filed Oct. 1, 2012) further highlights FNB Arizona's disregard of its underwriting guidelines. There, the court allowed the Plumber's Union to engage in limited discovery, which uncovered four pertinent pieces of evidence:

- "[T]hree 'representative' no-document loans that [FNB Nevada] originated. In each of these 'No Doc' loans, the borrower's income was either unknown or unverified, or inadequate to make payments on the underlying mortgage, or if not, the borrower's debt to income ratio (DTI) belied any realistic probability that the borrower could keep up with mortgage payments over the life of the loan."

- "[T]he declaration of Susan Wright, who underwrote loans at [FNB Nevada] in 2006 and 2007 and generally corroborates the Complaint's allegations about [FNB Nevada]'s underwriting practices." "Wright describes [FNB Nevada]'s business model as trying to 'make as many loans as possible and then sell them as quickly as possible' and explains that their underwriting practices instructed underwriters to remove income and asset information already in the possession of [FNB Nevada] from 'No Doc' loans. She states that [FNB Nevada] regularly made loans to borrowers whom '[FNB Nevada] knowingly qualified on the basis of what appeared to be obviously false information [and] [FNB Nevada] did not appear to reasonably expect that the borrowers would be able to repay these loans.'"

- "[S]everal emails generated by [FNB Nevada] employees, including Mortgage Division President Pat Lamb; Vice President of Risk Management Renea Aderhold; 'SVP Ops/Communication Manager' Beth Rothmuller; Senior Vice President Lisa Sleeper; and Senior Vice President and Risk Officer Eric Meschen, which collectively paint a picture of a devil-may-care underwriting culture."

- "[T]he expert report of Ira Holt, an accountant who performed a forensic analysis of 408 of the Trusts' loans using the [FNB Nevada] guidelines that were in place when they were originated. Holt found that 108 (26.5%) had material defects that violated even [FNB Nevada]'s slack underwriting standards." "According to Holt, he was unable to 're-underwrite' some of the 408 loans because of the lack of documentation, as well as the 'scrubbing' of the applicant's disqualifying data by [FNB Nevada]. According to plaintiffs, the number of loans in the sample with material defects may be considerably higher than Holt's estimates."

Plumber's Union Local No. 12 Pension Fund v. Nomura Asset Acceptance Corp., 08-10446-RGS, 2012 WL 4480735, at *3 & nn. 6, 8 (D. Mass. Oct. 1, 2012).

158. The Court held allegations based on that evidence were sufficient to survive a motion to dismiss. *See id.* at *3 ("[D]efendants' efforts to impugn plaintiffs' evidence is largely factual in nature and better fitted to a summary judgment motion than the relaxed pleading standard that attaches to a Rule 12(b)(6) motion.").

159. Lehman Brothers has also sued FNB Arizona for selling mortgages containing misrepresentations about borrowers' finances, employment, and the nature of the property. That case settled for an undisclosed amount. *See* Philip Shiskin, *Bankers Escape Big Penalties in FDIC Failed Bank Case* (Feb. 23, 2012), *available at* http://www.reuters.com/article/2012/02/23/us-bankers-fdic-idUSTRE81M1UH20120223; Compl., *Lehman Mortg. Trust Mortg. v. First Nat'l Bank of Nev.*, Nos. CV2006-018929 (AZ Super. Ct., Maricopa Cnty. filed Dec. 12, 2006).

6. GMAC's Systematic Disregard of Underwriting Standards

160. GMAC Bank n/k/a Ally Bank and GMAC Mortgage originated or contributed a material portion of the loans in the mortgage pool underlying the RALI Series 2006-QA5 Trust offering. *See infra* Table 6.

161. GMAC's abandonment of its underwriting guidelines is at issue in suits filed by

MBIA, Inc. MBIA was a monoline insurer for loans in RMBS. *See* Compl., *MBIA Ins. Corp. v. Ally Fin., Inc.*, No. 12-18889 (MN Ct., Hennepin Cnty. filed Sept. 17, 2012) ("*MBIA v. Ally* Compl."); Compl., *MBIA Ins. Corp. v. GMAC Mortg., LLC*, No. 600837/2010 (N.Y. Sup. Ct. filed Apr. 1, 2010) ("*MBIA v. GMAC* Compl.").

162. MBIA's suits concern loans underlying the GMACM 2004-HE4, GMACM 2006-HE5 and GMACM 2007-HE1. Ally Bank f/k/a GMAC Bank and GMAC Mortgage were the principal originators for the loans in these offerings. *MBIA v. Ally* Compl. ¶¶ 7, 45; *MBIA v. GMAC* Compl. ¶¶ 2, 44.

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

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

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

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

- GMAC Mortgage used its proprietary automated electronic loan underwriting program, known as "Assetwise," to approve loans that did not comply with its Underwriting Guidelines. Assetwise assisted in the underwriting of mortgage loans by automating the process of determining whether a loan met prespecified

> underwriting criteria set up in the program. GMAC Mortgage used the program itself and also made the program available to its affiliates. Assetwise, however, failed to analyze proposed mortgage loans using the criteria set forth in GMAC Mortgage's Underwriting Guidelines. As a result, GMAC Mortgage routinely contributed loans to the Transactions that failed to comply with its own underwriting standards.

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

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

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

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

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

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

MBIA v. GMAC Compl. ¶ 78.

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

166. GMAC's disregard of its underwriting guidelines has led to the repurchase of loans it had sold to Fannie Mae. As of September 10, 2010, Fannie Mae had required GMAC to repurchase 2,887 loans because of violations of representations and warranties regarding those loans. They had a total unpaid principal balance of $544 million. *See* Letter to Gary Cohen, FCIC (Sept. 21, 2010), Attach. "Total Aggregate Recovery, Data as of 8/31/2010," at 1,

available at http://fcic-static.law.stanford.edu/cdn_media/fcic-docs/2010-09-21%20Fannie%20Mae%20Counsel%20letter%20to%20the%20FCIC.pdf.

7. GreenPoint Mortgage Funding Inc.'s Systematic Disregard of Underwriting Standards

167. GreenPoint Mortgage Funding Inc. ("GreenPoint") contributed a material portion of the loans in the mortgage pool underlying the Morgan Stanley Mortgage Loan Trust 2007-2AX offering. *See infra* Table 6.

168. GreenPoint, based in Novato, California, was the wholesale mortgage banking unit of Capital One Financial Corp. ("Capital One"). Capital One acquired GreenPoint when it purchased GreenPoint's holding company, North Fork Bancorp, in December 2006. Capital One shut down GreenPoint's operations less than one year later on August 21, 2007.

169. According to a press release issued by Capital One on August 20, 2007, GreenPoint had an "originate and sell" (*i.e.*, OTD) business model with a focus on "prime non-conforming and near-prime markets, especially the Alt-A mortgage sector." Capital One eventually liquidated GreenPoint in December 2008, taking an $850 million write-down due to mortgage-related losses associated with GreenPoint's origination business.

170. When originating stated income loans, GreenPoint often inflated the borrowers' income by more than 50%. A September 12, 2008, article on Bloomberg reports on GreenPoint's underwriting practices:

> Many Alt-A loans go to borrowers with credit scores higher than subprime and lower than prime, and carried lower interest rates than subprime mortgages.
>
> So-called no-doc or stated-income loans, for which borrowers didn't have to furnish pay stubs or tax returns to document their earnings, were offered by lenders such as GreenPoint Mortgage and Citigroup Inc. to small business owners who might have found it difficult to verify their salaries.
>
> . . .

> "To grow, the market had to embrace more borrowers, and the obvious way to do that was to move down the credit scale," said Guy Cecala, publisher of Inside Mortgage Finance. "Once the door was opened, it was abused."
> . . .
>
> Almost all stated-income loans exaggerated the borrower's actual income by 5 percent or more, and more than half increased the amount by more than 50 percent, according to a study cited by Mortgage Asset Research Institute in its 2006 report to the Washington-based Mortgage Bankers Association.

Dan Levy & Bob Ivry, *Alt-A Mortgages Next Risk for Housing Market as Defaults Surge*, BLOOMBERG, Sept. 12, 2008, *available at* http://www.bloomberg.com/apps/news?pid=newsarchive&sid=arb3xM3SHBVk.

171. U.S. Bank, the indenture trustee of GreenPoint Mortgage Funding Trust 2006-HE1, sued GreenPoint in order to force GreenPoint to repurchase the loans that GreenPoint had contributed to the RMBS. U.S. Bank alleged that GreenPoint "pervasive[ly] fail[ed] to follow its underwriting guidelines during the origination of the Loans." *U.S. Bank Nat'l Assoc. v. GreenPoint Mortg. Funding, Inc.*, No. 600352/09, 2010 WL 841367, at *7 (N.Y. Sup. Ct. Mar. 3, 2010); *see also* Compl., *U.S. Bank Nat'l Assoc. v. GreenPoint Mortg. Funding, Inc.*, 2009 WL 6084150, ¶ 35 (N.Y. Sup. Ct. Feb. 5, 2009) (alleging pervasive misrepresentations of borrowers' income, assets, employment, intent to occupy the property, inflated appraisal values, and violations of GreenPoint's underwriting guidelines regarding credit scores, debt-to-income ratios, and loan-to-value ratios).

172. U.S. Bank based its allegations on its forensic analysis of GreenPoint-originated loans. Of 1,030 randomly sampled loans, U.S. Bank found that 93% were in violation of GreenPoint's underwriting guidelines. *See id.* at *7 n.4. Its complaint survived a motion to dismiss. *See id.* at *8.

173. Syncora Guarantee, a monoline insurer, sued EMC in connection with an RMBS

sponsored by EMC, underwritten by Bear Stearns and exclusively collateralized by GreenPoint-originated loans. After sustaining large losses due to the poor performance of GreenPoint loans, Syncora hired an independent consultant to "reunderwrite" hundreds of the GreenPoint loans, 400 of which were randomly selected without regard to payment status. Over 85% of the randomly selected 400 loans contained misrepresentations. The misrepresentations uncovered include:

- Rampant fraud, primarily involving misrepresentation of the borrower's income, assets, employment, or intent to occupy the property as the borrower's residence (rather than as an investment), and subsequent failure to so occupy the property;
- Failure by the borrower to accurately disclose his or her liabilities, including multiple other mortgage loans taken out to purchase additional investment property;
- Inflated and fraudulent appraisals; and,
- Pervasive violations of GreenPoint's own underwriting guidelines and prudent mortgage lending practices, including loans made to borrowers (i) who made unreasonable claims as to their income, (ii) with multiple, unverified social-security numbers, (iii) with credit scores below the required minimum; (iv) with debt-to-income and loan-to-value ratios above the allowed maximums, or (v) with relationships to GreenPoint or other non-arm's-length relationships.

See Compl., *Syncora Guar. Inc. v. EMC Mortgage Corp.*, ¶¶ 6 , 50-51, No. 09-cv-3106 (PAC) (S.D.N.Y. filed Mar. 31, 2009).

174. GreenPoint's own employees have corroborated the findings of U.S. Bank and Syncora. A confidential witness in *Federal Home Loan Bank of Indianapolis v. Banc of America Mortgage Securities, Inc.*, confirmed that (1) GreenPoint employees faced intense pressure to close loans at any cost; (2) GreenPoint managers overrode employees' decisions to reject loans and approved loans based upon inflated incomes; (3) GreenPoint approved loans that contained

exceptions for which there were no reasonable compensating factors; and (4) GreenPoint failed to adhere to sound underwriting guidelines. This confidential witness was a senior loan underwriter at GreenPoint from October 1997 through August 2007. *See* Compl., *Fed. Home Loan Bank of Indianapolis v. Banc of Am. Mortg. Secs., Inc.*, ¶ 265, No. 49D051010PL045071 (Ind. Sup. Ct., Marion Cnty. filed Oct. 15, 2010) ("FHLB Indianapolis").

175. According to that confidential witness, sales staff and managers at GreenPoint received bonuses based on the number of loans closed. As she said, "sales had tremendous authority" at GreenPoint, and "[t]hey were in business to make more money. They would try to find any way to close a loan." *Id.* ¶ 266.

176. Between 2005 and 2007, the confidential witness said that stated income loans became increasingly popular and GreenPoint managers approved loans based upon inflated incomes that she believed should not have been approved. She saw a lot of loans with stated "income that was more than could be justified by the borrower's employment." When she denied loans because she believed the income was inflated, sometimes the underwriting managers, operations managers, and the regional operations manager overrode her decisions. *Id.* ¶ 267.

177. More often than not, the confidential witness believed that her managers overrode her denials due to the incentives that they received based upon loan volume. As she said, "They were making the decision because they had to hit certain sales numbers." She was aware of such targets because of comments made in operations meetings about the company needing to meet certain goals. *Id.* ¶ 268.

178. The FHLB Indianapolis suit survived a motion to dismiss, with the Court holding, "the plaintiff has, indeed, stated a claim upon which relief can be granted on the issue of

underwriting guidelines." *Fed. Home Loan Bank of Indianapolis v. Bank of Am. Mortg. Secs., Inc.*, No. 49D051010PL045071, 2012 WL 2844690 (Ind. Sup. Ct., Marion Cnty. July 3, 2012).

179. In *Allstate Bank v. J.P. Morgan Chase, N.A.*, Allstate, an RMBS investor, sued J.P. Morgan, the RMBS underwriter, for misrepresentations in RMBS offering documents. Allstate's complaint relied on several confidential witnesses. One confidential witness, who was an underwriting analyst at GreenPoint from 2003 to 2007, stated that GreenPoint reviewed only 10% of the loans it originated for fraud. He thought this was a "mistake" because the fraud and misrepresentation uncovered in the 10% sample indicated that many more loans likely contained fraud. But the remaining 90% of the loans were not reviewed. Am. Compl., *Allstate Bank v. JPMorgan Chase, N.A.*, ¶ 485, No. 11-1869 (S.D.N.Y. filed May 10, 2012).

180. That confidential witness also stated that sales personnel ran GreenPoint, and senior management was comprised of people from sales who were incentivized to push the volume of mortgage loans, not adherence to the underwriting guidelines or due diligence. Managers' bonuses were tied to production volume, and they were not penalized if loans were later found to be fraudulent or if the borrower defaulted on the first payment. He stated that GreenPoint's management deliberately overlooked misrepresentations from mortgage loan brokers, particularly if the broker brought in a high volume of loans. Problem brokers were rarely suspended, and even when they were, there was never a review of the loans they originated that were already in the pipeline. *Id.* ¶ 486.

181. Another confidential witness was a Wholesale Account Manager at GreenPoint from 2004 to 2006. That confidential witness stated that GreenPoint employees understood that if a mortgage loan could eventually be sold to Wall Street, GreenPoint was to approve and fund the mortgage loan. The majority of the loan products originated in the confidential witness's

office were stated income-stated asset loans and pay-option ARMs. Despite the risk inherent in these products, the sales force "never learned of negative loan performance" and their compensation was in no way tied to loan performance. *Id.* ¶ 487.

182. Another confidential witness was an Underwriting Supervisor at GreenPoint from 2005 to 2006 and supervised five Underwriters and three Conditions Specialists. That confidential witness stated that GreenPoint management authorized exceptions to loan underwriting guidelines in order to approve applications, even when there were no compensating factors justifying the exceptions. The confidential witness was aware that management overrode decisions to refuse funding in locations known for fraud and property flipping, even when evidence of fraud was found. According to the confidential witness, "if the borrower is breathing and could sign loan documents, they could get a loan" from GreenPoint. *Id.* at ¶ 488.

183. *Allstate's* complaint also alleged that many of GreenPoint's loans were granted by the over 18,000 brokers that were approved to transact with GreenPoint – a large enough number that GreenPoint could not exercise any realistic degree of control. Typically, new brokers were actively monitored for only the first five to seven loans submitted, usually during only the first 90 days of being approved. *Id.* ¶ 490.

184. This was problematic because mortgage brokers were known to commit fraud in order to get loan applications approved by originators. As one former mortgage wholesaler put it, "I'd walk into mortgage shops and see brokers openly cutting and pasting income documents and pay stubs, getting out the Wite-Out and changing Social Security numbers." Mara Der Hovanesian, *Sex, Lies, and Subprime Mortgages*, Bloomberg Businessweek (Nov. 12, 2008), *available at* http://www.businessweek.com/stories/2008-11-12/sex-lies-and-subprime-mortgages.

185. GreenPoint's pervasive disregard of underwriting standards resulted in its inclusion among the worst ten originators in the 2008 "Worst Ten in the Worst Ten" Report. GreenPoint was identified 7th worst in Stockton, California, and 9th worst in both Sacramento, California, and Las Vegas, Nevada. *See* 2008 "Worst Ten in the Worst Ten" Report. In the 2009 "Worst Ten in the Worst Ten" Report, GreenPoint was listed as 3rd worst in Modesto, California; 4th worst in Stockton, Merced, and Vallejo-Fairfield-Napa, California; 6th worst in Las Vegas, Nevada; and 9th in Reno, Nevada. *See* 2009 "Worst Ten in the Worst Ten" Report.

8. Homecomings's Systematic Disregard of Underwriting Standards

186. Homecomings Financial, LLC f/k/a Homecomings Financial Network, Inc. ("Homecomings") originated or contributed a material portion of the loans in the mortgage pool underlying the RALI Series 2006-QA5 Trust offering at issue and is a wholly-owned subsidiary of the sponsor of those offerings, Residential Funding Co., LLC f/k/a Residential Funding Corp. ("RFC"). *See infra* Table 6.

187. Following the purchase of the RALI 2006-QA5 Trust by Southwest, public disclosures revealed that Homecomings systematically disregarded its underwriting guidelines in favor of riskier, fee-driven mortgage lending practices including subprime, Alt-A and option-ARM loans, and engaged in predatory lending.

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

189. In March 2009, the Portland Tribune reported that Homecomings lending

practices allowed for the origination of shaky loans that precipitated a wave of foreclosures. The article reported:

> "In order to keep your market share, you had to be more aggressive," said Tim Boyd, who sold subprime loans in the Portland area for six years and then Alt A loans for seven years for Homecomings Financial.
>
> "The main focus was doing Alt A because that's where the money was," said Boyd, who left the industry. A loan officer arranging a $300,000 Option ARM loan could collect $10,500 in fees, he said.
>
> Lenders could unload shaky loans by selling them to investors, who often resold them in what amounted to a worldwide game of financial musical chairs. Wall Street's insatiable appetite for more loans kept the pipeline filled, even if the deals weren't always sound.
>
> "The V.P.s came down to the office beating the drums about Option ARMs," urging mortgage brokers to sell them to customers, [Bill Ridge, owner of Ridge Mortgage Services] said. "I had Wachovia march through there; I had GMAC."
> . . . .
>
> He said he knows of loan officers who'd tell title agents to keep quiet about Option ARM loan provisions during document-signing time.
>
> "They'd tell the title officer, 'Don't go over this; just glean through it quickly and get the thing signed.'"
>
> Tim Boyd said he drew the line at selling Option ARMs because he saw how that could get people into trouble. "It made me sick," he said.

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

190. The Offering Documents in the RALI Series 2006-QA5 Trust offering indicate that the underlying pools of mortgages were primarily comprised of "payment-option, hybrid adjustable-rate mortgage loans" ("Option ARMs") and/or Alt-A loans.

191. Homecomings' origination practices are also at issue in *Federal Home Loan Bank of Chicago v. Banc of America Funding Corp.*, No. 10 CH 45033 (Ill. Cir. Ct. Cook Cty. filed Oct. 15, 2010). There, the Federal Home Loan Bank of Chicago ("FHLB Chicago") alleges that

Homecomings systemically disregarded its underwriting guidelines when originating mortgages that were subsequently collateralized RMBS. *See* FHLB Chicago Am. Compl.

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

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

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

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

loan. We're going to do this deal." *Id.* ¶ 451.

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

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

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

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

200. The defendants in those suits include Ally Financial, Inc., RFC, and GMAC Mortgage, LLC ("GMAC Mortgage"). RFC, GMAC Mortgage, and Homecomings were all subsidiaries of GMAC Mortgage Group, LLC, which is now a subsidiary of Ally Financial. *See*

Ally Financial, Inc., Form 10-K, Ex. 21 (2011); GMAC LLC, Form 10-K, Ex. 21 (2006).

201. RFC and GMAC Mortgage sponsored the RMBS that MBIA insured. RFC also sponsored each of the RALI Series RMBS at issue in this suit.

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

203. After sustaining large losses, MBIA conducted forensic analyses of several thousand loans underlying the RMBS sponsored by RFC and GMAC, many of which were originated by Homecomings. MBIA found material misrepresentations in over 89% of those loans from GMAC-sponsored RMBS and over 93% of those loans from RFC-sponsored RMBS. The material misrepresentations included, among other things, routine disregard of underwriting guidelines, debt-to-income and combined loan-to-value ratios that exceeded the amounts allowed in the underwriting guidelines, failure to verify employment as required by underwriting guidelines, and improper reliance on the Assetwise program. *See MBIA v. Ally* Compl. ¶¶ 76-83; *MBIA v. GMAC* Compl. ¶¶ 70-79; *MBIA v. RFC* Compl. ¶¶ 42-48.

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

205. All three of MBIA's suits are still pending. Two have survived motions to dismiss. *See MBIA v. GMAC*, 914 N.Y.S.2d 604 (N.Y. Sup. Ct. 2010); *MBIA v. RFC*, Order, No.

603552/08 (N.Y. Sup. Ct. Dec. 22, 2009). There have been no rulings in the recently filed *MBIA v. Ally* suit.

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

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

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

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

210. As shown by statements from confidential witnesses, former employees in the FHLB Chicago Complaint, and MBIA's forensic analyses of Homecomings' loans, Homecomings' actual mortgage underwriting practices deviated widely from its stated guidelines. This systematic disregard of underwriting standards led to toxic loans being bundled into securities and sold to investors who did not know, and could not have known, about the true nature of the loans backing their securities.

9. IndyMac Bank F.S.B.'s Systematic Disregard of Underwriting Standards

211. IndyMac Bank F.S.B. ("IndyMac") originated or contributed a material portion of the loans in the mortgage pool underlying the Morgan Stanley Mortgage Loan Trust 2007-5AX offering. *See infra* Table 6.

212. On July 11, 2008, just four months after IndyMac filed its 2007 Annual Report, federal regulators seized IndyMac in what was among the largest bank failures in U.S. history. IndyMac's parent, IndyMac Bancorp, Inc., filed for bankruptcy on July 31, 2008.

213. On March 4, 2009, the Office of the Inspector General of the Treasury

Department ("Treasury OIG") issued Audit Report No. OIG-09-032, titled "Safety and Soundness: Material Loss Review of IndyMac Bank, FSB" (the "IndyMac OIG Report") reporting the results of Treasury OIG's review of the failure of IndyMac. The IndyMac OIG Report portrays IndyMac as a company determined to originate as many loans as possible, as quickly as possible, without regard for the quality of the loans, the creditworthiness of the borrowers, or the value of the underlying collateral.

214. According to the IndyMac OIG Report, "[t]he primary causes of IndyMac's failure were . . . associated with its" "aggressive growth strategy" of "originating and securitizing Alt-A loans on a large scale." IndyMac OIG Report at 2. The report found, "IndyMac often made loans without verification of the borrower's income or assets, and to borrowers with poor credit histories. Appraisals obtained by IndyMac on underlying collateral were often questionable as well." *Id.*

215. IndyMac "encouraged the use of nontraditional loans," engaged in "unsound underwriting practices" and "did not perform adequate underwriting," in an effort to "produce as many loans as possible and sell them in the secondary market." *Id.* at 11, 21. The IndyMac OIG Report reviewed a sampling of loans in default and found "little, if any, review of borrower qualifications, including income, assets, and employment." *Id.* at 11.

216. IndyMac was not concerned by the poor quality of the loans or the fact that borrowers simply "could not afford to make their payments" because, "as long as it was able to sell those loans in the secondary mortgage market," IndyMac could remain profitable. *Id.* at 2-3.

217. IndyMac's "risk from its loan products. . .was not sufficiently offset by other underwriting parameters, primarily higher FICO scores and lower LTV ratios." *Id.* at 31.

218. Unprepared for the downturn in the mortgage market and the sharp decrease in

demand for poorly underwritten loans, IndyMac found itself "hold[ing] $10.7 billion of loans it could not sell in the secondary market." *Id.* at 3. This proved to be a weight it could not bear, and IndyMac ultimately failed. *See id.*

219. In June 2008, the Center for Responsible Lending ("CRL") published a report entitled IndyMac: What Went Wrong? How an 'Alt-A' Leader Fueled its Growth with Unsound and Abusive Mortgage Lending (June 30, 2008) ("CRL Report"), *available at* http://www.responsiblelending.org/mortgage-lending/research-analysis/indymac_what_went_wrong.pdf. The CRL Report detailed the results of the CRL's investigation into IndyMac's lending practices. CRL based its report on interviews with former IndyMac employees and reviewed numerous lawsuits filed against IndyMac. The CRL Report summarized the results of its investigation as follows:

> IndyMac's story offers a body of evidence that discredits the notion that the mortgage crisis was caused by rogue brokers or by borrowers who lied to bankroll the purchase of bigger homes or investment properties. CRL's investigation indicates many of the problems at IndyMac were spawned by top-down pressures that valued short-term growth over protecting borrowers and shareholders' interests over the long haul.

CRL Report at 1.

220. CRL reported that its investigation "uncovered substantial evidence that [IndyMac] engaged in unsound and abusive lending during the mortgage boom, routinely making loans without regard to borrowers' ability to repay [the mortgage loans]." *Id.* at 2.

221. The CRL Report stated that "IndyMac pushed through loans with fudged or falsified information or simply lowered standards so dramatically that shaky loans were easy to approve." *Id.*

222. The CRL Report noted that "[a]s IndyMac lowered standards and pushed for more volume," "the quality of [IndyMac's] loans became a running joke among its employees." *Id.* at

3.

223. Former IndyMac mortgage underwriters explained that "loans that required no documentation of the borrowers' wages" were "[a] big problem" because "these loans allowed outside mortgage brokers and in-house sales staffers to inflate applicants' [financial information] . . . and make them look like better credit risks." *Id.* at 8. These "shoddily documented loans were known inside the company as 'Disneyland loans'—in honor of a mortgage issued to a Disneyland cashier whose loan application claimed an income of $90,000 a year." *Id.* at 3.

224. The CRL also found evidence that: (1) managers pressured underwriters to approve shaky loans in disregard of IndyMac's underwriting guidelines; and (2) managers overruled underwriters' decisions to deny loans that were based upon falsified paperwork and inflated appraisals. For instance, Wesley E. Miller, who worked as a mortgage underwriter for IndyMac in California from 2005 to 2007, told the CRL:

> [W]hen he rejected a loan, sales managers screamed at him and then went up the line to a senior vice president and got it okayed. "There's a lot of pressure when you're doing a deal and you know it's wrong from the get-go – that the guy can't afford it," Miller told CRL. "And then they pressure you to approve it."
>
> The refrain from managers, Miller recalls, was simple: "Find a way to make this work."

Id. at 9 (footnote omitted).

225. Likewise, Audrey Streater, a former IndyMac mortgage underwriting team leader, stated: "I would reject a loan and the insanity would begin. It would go to upper management and the next thing you know it's going to closing." *Id.* at 1, 3. Streater also said the "prevailing attitude" at IndyMac was that underwriting was "window dressing – a procedural annoyance that was tolerated because loans needed an underwriter's stamp of approval if they were going to be sold to investors." *Id.* at 8.

226. Scott Montilla, who was an IndyMac mortgage loan underwriter in Arizona during the same time period, told the CRL that IndyMac management would override his decision to reject loans about 50% of the time. *See id.* at 9. According to Montilla:

> "I would tell them: 'If you want to approve this, let another underwriter do it, I won't touch it – I'm not putting my name on it,'" Montilla says. "There were some loans that were just blatantly overstated. . . . Some of these loans are very questionable. They're not going to perform."

Id. at 10.

227. Montilla and another IndyMac mortgage underwriter told the CRL that borrowers did not know their stated incomes were being inflated as part of the application process. *See id.* at 14.

228. On July 2, 2010, the FDIC sued certain former officers of IndyMac's Homebuilder Division ("HBD"), alleging that IndyMac disregarded its underwriting practices, among other things, and approved loans to borrowers who were not creditworthy or for projects with insufficient collateral. *See* Compl. ¶ 6, *FDIC v. Van Dellen*, No. 2:10-cv-04915-DSF (C.D. Cal. filed July 2, 2010). The case was tried in late 2012, and the jury entered verdict in favor of the FDIC.

229. IndyMac currently faces a class action lawsuit alleging disregard of underwriting standards that adversely affected the value of the purchased RMBS. *See* Class Action Compl., *In re IndyMac Mortgage-Backed Sec. Litig.*, No. 09-4583 (S.D.N.Y. filed May 14, 2009). On June 21, 2010, the class action lawsuit survived a motion to dismiss.

230. IndyMac's failure to abide by its underwriting standards left investors holding severely downgraded junk securities. As a result of IndyMac's systematic disregard of its underwriting standards, the OCC included IndyMac in the OCC's 2008 "Worst Ten in the Worst Ten" Report. IndyMac ranked 10th in Las Vegas, Nevada in both 2008 and 2009, while coming

in at 10th in Merced, California, Riverside-San Bernardino, California, and Modesto, California in 2009. *See* 2008 "Worst Ten in the Worst Ten" Report; 2009 "Worst Ten in the Worst Ten" Report.

10. The Morgan Stanley Originators' Systematic Disregard of Underwriting Standards

231. Morgan Stanley Mortgage Capital, Inc., ("MSMC") now known as Morgan Stanley Mortgage Capital Holdings, LLC ("MSCH"), did not originate residential mortgages itself. Rather it purchased closed, first-lien and subordinate-lien residential mortgage loans for securitization or for its own investment from other lenders. MSMC acquired residential mortgage loans through bulk purchases and through purchases of single loans through its conduit loan purchase program. Morgan Stanley Credit Corporation ("MSCC") is an indirect wholly-owned subsidiary of Morgan Stanley and originated loans for borrowers who were Morgan Stanley clients. Collectively, these entities are called the "Morgan Stanley Originators."

232. The Morgan Stanley Originators contributed a material portion of the loans underlying the Morgan Stanley Mortgage Loan Trust 2006-3AR, Morgan Stanley Mortgage Loan Trust 2006-8AR, Morgan Stanley Mortgage Loan Trust 2006-9AR, Morgan Stanley Mortgage Loan Trust 2006-10SL, Morgan Stanley Mortgage Loan Trust 2006-13ARX, Morgan Stanley Mortgage Loan Trust 2006-16AX, Morgan Stanley Mortgage Loan Trust 2007-2AX, Morgan Stanley Mortgage Loan Trust 2007-4SL, Morgan Stanley Mortgage Loan Trust 2007-5AX and Morgan Stanley Mortgage Loan Trust 2007-11AR offerings. *See infra* Table 6.

233. On June 24, 2010, the Attorney General of the State of Massachusetts entered into an Assurance of Discontinuance with "Morgan Stanley & Co. Incorporated (together with its affiliates involved in the mortgage financing and securitization business…" "concerning its practices for buying and securitizing loans, largely from one key lender – New Century. The

Attorney General found:

- As part of its process for "purchasing and securitizing subprime loans, [Morgan Stanley] engaged in a number of reviews of the quality of the originators' lending practices and loans. These included, inter alia, determining whether the subprime loans were originated in accordance with the originators' underwriting guidelines and assessing compliance with applicable laws ('credit and compliance diligence'), and examining property values ('valuation diligence'). These reviews increasingly demonstrated shortcomings in some of New Century's lending practices and problems with a large number of individual subprime loans."
- Based on an internal analysis run by Morgan Stanley, New Century qualified borrowers based on a teaser interest rate, but when the fully indexed rate was taken into consideration, 45% of the borrowers in Massachusetts would not have qualified for the loan.
- Morgan Stanley hired Clayton to analyze a sampling of loans to be purchased to determine whether they were originated in accordance with underwriting guidelines. Although Clayton's analysis showed that New Century increasingly stretched "underwriting guidelines to encompass or approve loans not written in accordance with the guidelines," Morgan Stanley continued to buy such loans under pressure from New Century to avoid losing New Century's business to another loan buyer.
- During the period from 2006-2007, only 9% of those loans that were granted pursuant to exceptions had adequate compensating factors to offset the exception. Further, Morgan Stanley waived exceptions on a large number of loans Clayton

found to be generated in violation of guidelines without adequate compensating factors.

- Although Morgan Stanley had a stated policy not to purchase or securitize loans with a combined LTV ratio of greater than 100%, the reality was about a third of the loans securitized by Morgan Stanley in 2006-2007 had a CLTV greater than 100%.
- Morgan Stanley determined that New Century did not adequately evaluate the borrower's income on "stated income" loans.
- Despite Morgan Stanley's awareness of problems at New Century, it continued to fund, purchase and securitize New Century loans.

234. Under the Assurance of Discontinuance, Morgan Stanley agreed to institute procedures to ensure that loans it securitized conformed to underwriting guidelines and to pay $102 million to settle the charges against it.

235. In September 2011, Morgan Stanley Mortgage Capital Holdings, LLC "MSMCH" entered into a similar Assurance of Discontinuance with the Attorney General of the State of Nevada following an investigation into the origination practices of originators (primarily New Century) who originated loans that MSMCH purchased and sold via securitizations, including whether the originators misrepresented interest rates to borrowers, inflated appraisals, and failed to disclose payment shock to borrowers following expiration of the initial teaser interest rate. Under the agreement, Morgan Stanley agreed to provide relief to consumers valued between $21 million and $40 million and institute a process to review loans purchased for securitization to ensure compliance with the law.

236. MSMC/MSCH has also been the subject of numerous civil lawsuits alleging it did

not adequately conduct due diligence on loans it purchased and securitized.

237. For instance, in *Central Mortgage Co. v. Morgan Stanley Mortgage Capital Holdings, LLC*, Case No. 5140-VCS (Del. Chanc., filed Jan. 29, 2010), a servicer of loans sued MSCH (as "successor in interest" to MSMC) on a number of contract and fraud theories regarding the plaintiff's purchase of the servicing rights to thousands of loans from MSCH. The complaint alleged that plaintiff paid a premium for the right to service the loans, because MSCH had represented that they were "agency" loans, or loans originated in accordance with Fannie Mae Freddie Mac guidelines. The complaint alleged that the loans started experiencing high rates of delinquency. According to the complaint, a representative of Morgan Stanley admitted the loans had not been screened at Morgan Stanley's internal due diligence facility and were of poorer quality than originally represented. Fannie Mae and Freddie Mac began making repurchase requests regarding the loans. After initially honoring the repurchase requests, MSCH eventually stopped doing so despite having a contractual obligation to do so. The complaint alleged that the plaintiff conducted a review of the loans and found numerous "fields" in the "mortgage loan schedules" that were inaccurate --- borrower DTI, LTV, occupancy status, appraisal, etc. The complaint further alleged that the Morgan Stanley loans suffered delinquency rates far greater than loans purchased from others (45% v. 13.39%).

238. On August 18, 2011, the Delaware Supreme Court reversed the Chancery Court's decision dismissing the action, holding that the plaintiff had pleaded sufficient facts on its breach of contract and breach of the implied covenant of good faith and fair dealing claims to survive a motion to dismiss. *See Central Mortg. Co. v. Morgan Stanley Mortg. Capital Holdings LLC*, 27 A.3d 531, 533 (Del. Supr. 2011).

239. In *Federal Housing Finance Agency v. Morgan Stanley, et al.*, Case No. 11-cv-

06739-DLC (S.D.N.Y), the FHFA, as conservator of Fannie Mae and Freddie Mac, sued Morgan Stanley & Co., Inc., several of its subsidiaries, including Morgan Stanley Mortgage Capital Holdings LLC d/b/a Morgan Stanley Mortgage Capital, Inc., and others alleging that the defendants "falsely represented" that the mortgages collateralizing certain RMBS sold to Fannie Mae and Freddie Mac "complied with certain underwriting guidelines and standards, and presented a false picture of the characteristics and riskiness of those loans." The complaint further alleged that the FHFA conducted an analysis of a sampling of the loans, which revealed that a statistically significant rate of owner occupancy/LTV ratios were false. On Nov. 19, 2012, the court dismissed certain fraud-based aspects of the FHFA's complaint and dismissed other claims as untimely or because the defendant was not the seller of the certificates at issue, but upheld the remainder of the complaint. *Federal Housing Fin. Agency v. [Morgan] Stanley*, 2012 WL 5868300 (S.D.N.Y. Nov. 19, 2012).

240. Likewise, in *MBIA Ins. Co. v. Morgan Stanley, et al.*, Index No. 29951/10 (Super. Ct. N.Y. Co., filed Dec. 6, 2010), the monoline insurer MBIA sued Morgan Stanley, Morgan Stanley Mortgage Capital Holdings, LLC and Saxon Mortgage Services, Inc., alleging that its review of loan files securitized by the defendants revealed breaches of representations and warranties including an extraordinarily high incidence of material deviations from the underwriting standards that defendants represented would be followed. In May 2011, the court denied a motion to dismiss all but one count of the complaint. The parties settled the case in December 2011.

241. In *In re Morgan Stanley Mortg. Pass-Through Certificates Litig.*, 810 F.Supp.2d 650, 672 (S.D.N.Y. 2011), the court upheld the following allegations as adequately alleging actionable misstatements or omissions because the offering documents failed to disclose

MSCC's alleged systematic disregard of underwriting guidelines:

> According to a former MSCC underwriter, MSCC's goal was for underwriters to approve and close as many loans as possible rather than determine whether a borrower could repay the loan. (*Id.* ¶ 77.) The same former underwriter stated that, because most of MSCC's applicants were already Morgan Stanley clients, it accommodated them by approving loans so as to keep applicants from withdrawing already-invested assets and moving them to another company. (*Id.*) The former underwriter indicated that it was considered unprofessional to question an applicant's stated income relative to his or her job title, and therefore underwriters who had questions or concerns about a borrower's information remained quiet and took no action. (*Id.* ¶ 78.) MSCC put its underwriters on a quota system; if a certain number of loans were not approved in a given time period, the underwriters would be terminated. (*Id.* ¶ 79.) In addition, approving a certain number of loans above the quota would result in a bonus, thus incentivizing the underwriters' rapid, unverified approval of loan applications. (*Id.*)

Id. at 658.

11. MortgageIT, Inc.'s Systematic Disregard of Underwriting Standards

242. MortgageIT, Inc. ("MortgageIT") originated or contributed a material portion of the loans in the mortgage pool backing the Morgan Stanley Mortgage Loan Trust 2006-16AX offering. *See infra* Table 6.

243. MortgageIT is a residential mortgage banking company headquartered in New York, New York. On January 3, 2007, MortgageIT was acquired by Deutsche Bank Structured Products. Less than a year after the acquisition, MortgageIT began its precipitous decline from one of the largest mortgage originators in the country, laying off hundreds of employees and closing multiple branches.

244. MortgageIT faces a civil mortgage fraud lawsuit brought in May 2011 by the United States Department of Justice ("DOJ") that alleges MortgageIT made repeated false certifications to the U.S. Department of Housing and Urban Development ("HUD") in connection with its residential mortgage origination and sponsorship practices. *See United States*

v. Deutsche Bank AG and MortgageIT, Inc., No. 11-cv-02976 (S.D.N.Y.). An amended complaint was filed on August 22, 2011 ("DOJ Complaint").

245. The United States alleges that "MortgageIT repeatedly lied to be included in a Government program to select mortgages for insurance by Government. Once in that program, they recklessly selected mortgages that violated program rules in blatant disregard of whether the borrowers could make mortgage payments." DOJ Complaint ¶ 1.

246. According to the DOJ Complaint, "As of June 2011, HUD has paid more than $368 million in FHA insurance claims and related costs arising out of MortgageIT's approval of mortgages for FHA insurance. Many of those claims arose out of FHA mortgage insurance provided by HUD based on MortgageIT's false certifications of due diligence." *Id.* ¶ 233.

247. The complaint also alleges that MortgageIT chronically understaffed quality control: "Between 2006 and 2009, the sole employee at Deutsche Bank or MortgageIT conducting quality control reviews of closed FHA-insured mortgages was the Government Loan Auditor. His review of closed FHA-insured mortgages continually declined during that period, and declined most significantly after Deutsche Bank acquired MortgageIT. By the end of 2007, the Government Loan Auditor was no longer spending any time conducting quality control reviews of closed mortgage files. To increase sales, Deutsche Bank and MortgageIT shifted his work from quality control reviews of closed mortgages (i.e., quality control audits) to assistance with production. By the end of 2007, not a single person at Deutsche Bank or MortgageIT was conducting quality control reviews of closed FHA-insured mortgages, as required by HUD rules." *Id.* ¶ 143-144.

248. MortgageIT allegedly also ignored quality control measures. For example, MortgageIT contracted with an outside vendor to conduct quality control reviews of FHA-

insured loans. The vendor provided the reviews in letters detailing underwriting violations found in FHA-insured mortgages to MortgageIT. The findings included identification of serious underwriting violations. Instead of reading the letters, MortgageIT employees "stuffed the letters, unopened and unread, in a closet at MortgageIT's Manhattan headquarters." It was not until MortgageIT hired its first quality control manager that these letters were taken out of the closet and read. Accordingly, "MortgageIT's failure to read the audit reports from its outside vendor prevented MortgageIT from taking appropriate actions to address patterns of ongoing underwriting violations." *Id.* ¶ 111-124.

249. The Amended DOJ Complaint further alleges that "Deutsche Bank's and MortgageIT's failure to implement the required quality control systems rendered them unable to prevent patterns of mortgage underwriting violations and mortgage fraud." *Id.* ¶ 145.

250. Additionally, the complaint alleges that "contrary to the certifications appearing on each and every mortgage endorsed by MortgageIT, MortgageIT engaged in a nationwide pattern of failing to conduct due diligence in accordance with HUD rules and with sound and prudent underwriting principles." *Id.* ¶ 162.

251. The complaint cites many examples of MortgageIT's failure to perform due diligence. These examples, all violations of HUD rules, include the following:

- failure to develop a credit score for borrowers who had no credit score;
- failure to verify a borrower's cash investment in a property;
- failure to verify employment by telephone, and to record the name and telephone number of the person who verified employment on behalf of the employer;
- failure to verify the source of earnest money deposits that appear excessive in relation to the borrower's savings by completing a verification of deposit, or by collecting bank statements, to document that the borrower had sufficient funds to cover the deposit;

- failure to ensure that gift funds are not provided by a party to the sales transaction;

- failure to examine irregularities in mortgage applications such as conflicting records of employment in the same file;

- failure to obtain the required documentation to verify the borrower's mortgage payment history and income;

- failure to obtain the required documentation to verify the borrower's employment, income, and depositary assets;

- failure to verify a borrower's current employment and obtain the borrower's most recent pay stub, along with failure to obtain income tax returns for a self-employed borrower or borrower paid on commission; and

- and failure to obtain a credit report on all borrowers who will be obligated on the mortgage note.

See id. ¶¶ 162-230.

252. On May 9, 2012, the parties settled the case for $202.3 million.

12. National City Mortgage's Systematic Disregard of Underwriting Standards

253. National City Mortgage is a division of National City Bank which is a wholly owned subsidiary of National City Corporation. Collectively these entities are referred to as "National City." National City originated or contributed loans to the pool of mortgages underlying the RALI Series 2006-QA5 Trust offering. *See infra* Table 6.

254. Investors brought a securities fraud class action lawsuit against National City alleging that National City misrepresented the quality of its mortgage loans. *See* Am. Class Action Compl., *In Re National City Corp. Sec., Derivative & ERISA Litig.*, No. 08-NC-70004 (N.D. Ohio filed June 13, 2008). On August 8, 2011, it was announced that the case had settled for $168 million.

255. National City faced another class action lawsuit alleging, among other things, that National City did not adhere to its underwriting standards. *See* Second Am. Class Action Compl., *Argent Classic Convertible Arbitrage Fund (Bermuda) LTD. and Argent Classic Convertible Arbitrage Fund L.P. v. National City Corp.*, et. al., No. 08-NC-70016 (N.D. Ohio filed Feb. 19, 2010). On November 30, 2010, the case settled for $22.5 million.

13. New Century's Systematic Disregard of Underwriting Standards

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

257. New Century originated a material portion of the loans in the pool underlying the Morgan Stanley ABS Capital I Inc. Trust 2006-HE4, Morgan Stanley ABS Capital I Inc. Trust 2006-HE6, Morgan Stanley ABS Capital I Inc. Trust 2006-HE8, and Morgan Stanley ABS Capital I Inc. Trust 2006-NC4 offerings. *See infra* Table 6.

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

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

> The California-based mortgage company catered to the riskiest borrowers, even those with credit scores as low as 500. Its brokers cut deals by asking few questions and reviewing even fewer documents, investigators say.

> Homeowners struggling to pay their existing mortgages signed up for what they believed to be redemption: a new loan. They were unaware of the warnings from lending and legal experts that New Century loaned money with a devil-may-care-attitude.
>
> New Century typified the book-'em-at-any-cost mentality that fueled the national mania for high-rate mortgages, commonly called subprime.

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

260. The article continued:

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

Id.

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

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

263. The U.S. Bankruptcy Court of the District of Delaware presiding over New

Century's bankruptcy case appointed Michael J. Missal ("the Examiner") to examine "any and all accounting and financial statement irregularities, errors and misstatements" in connection with New Century's practices and procedures. The Examiner engaged a law firm, forensic accountants and financial advisors to assist in his investigation and reporting. His final report to the Bankruptcy Court dated February 29, 2008 (the "Examiner's Report") was unsealed and publicly released on March 26, 2008.

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

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

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

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

D. "New Century also made frequent exceptions to its underwriting guidelines for borrowers who might not otherwise qualify for a particular

loan. A Senior Officer of New Century warned in 2004 that the 'number one issue is exceptions to guidelines.' Moreover, many of the appraisals used to value the homes that secured the mortgages had deficiencies." *Id.* at 3-4.

E. "Senior Management turned a blind eye to the increasing risks of New Century's loan originations and did not take appropriate steps to manage those risks. New Century's former Chief Credit Officer noted in 2004 that the Company had "no standard for loan quality. Instead of focusing on whether borrowers could meet their obligations under the terms of the mortgages, a number of members of the Board of Directors and Senior Management told the Examiner that their predominant standard for loan quality was whether the loans New Century originated could be initially sold or securitized in the secondary market." *Id.* at 4.

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

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

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

267. From 2003 to 2006, New Century began peddling riskier and riskier products, yet failed to employ underwriting safeguards that might have mitigated the inherent risk associated

with such products. For instance, from March 2003 to June 2005, the percentage of interest-only loans New Century originated leapt from 0% to 38.49%. And from 2004 to 2005, the percentage of interest-only ARMs rose from 19.3% to 29.6% of the total volume of New Century's originations and purchases. New Century qualified borrowers based on their ability to pay the initial interest rate rather than the interest plus principal amortization, which was added after the first several years. *Id.* at 57, 125-26.

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

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

270. The Examiner found:

> New Century's Senior Management recognized that the Company had serious loan quality issues beginning as early as 2004. For example, in April 2004, New

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

Id. at 110.

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

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

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

274. The Examiner reported:

> New Century's loan originations grew at an enormous rate from 2000 through 2006, becoming the second largest subprime lender by the end of 2004 and remaining one of the largest in 2005. The Production Department was highly motivated and effective in originating such loans and apparently resisted changes that might have limited loan production volume. While both the Quality Assurance and Internal Audit Departments identified loan quality problems, and

> kick-out and EPD rates confirmed many of these problems, the Production Department devoted its resources to generating high volumes of loans, with relatively little attention to loan quality.

Id. at 113.

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

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

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

278. The Examiner's Report found that loan quality trends "worsened dramatically" at New Century in 2006 and early 2007. Although New Century made a belated effort to improve loan quality late in 2006, it was "too little too late" and even as late as December 2006, "the same sorts of problems, including defective appraisals and missing documentation continued to be the main reasons for investors kicking out increasing quantities of New Century loans." *Id.* at 157-58.

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

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

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

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

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

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

Id.

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

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

14. Saxon Funding Management, Inc.'s Systematic Disregard of Underwriting Standards

284. Saxon Funding Management, Inc. ("Saxon") originated a material portion of the loans in the pool underlying the Saxon Asset Securities Trust 2007-2 offering. *See infra* Table 6.

285. Saxon, headquartered in Fort Worth, Texas, is the subprime originating and servicing arm of Morgan Stanley, which purchased Saxon in December 2006. Amid the turmoil that struck the mortgage market shortly after the purchase, Morgan Stanley shut down the

wholesale lending division at Saxon and drastically cut back lending in general as a mounting number of lawsuits and Congressional Reports begin to focus on the former "King of Subprime."

286. Saxon also featured prominently in the news when it became the subject of a lawsuit filed by the Attorney General of New Mexico in May 2009. The New Mexico Office of Attorney General issued a press release announcing the lawsuit concerning, in part, the underwriting standards of Saxon:

> The Office of Attorney General Gary King today filed two separate legal actions that include stopping a foreclosure proceeding; seeking civil penalties; and restitution for alleged mortgage loan fraud. The lawsuits allege violations of the state's Mortgage Loan Company & Loan Broker Act, Unfair Practices Act and Home Loan Protection Act.
>
> ...
>
> The first case involves a 78-year-old Chimayo, N.M. woman, existing on a $501 per month Social Security benefit whose home is in foreclosure. The monthly mortgage payments are about $1500 per month for a $175,000 mortgage. In a complaint filed with the state, the woman claims her signature was forged and other mortgage application information was falsified. The Attorney General's lawsuit seeks to stop the foreclosure and to sue for damages to prevent this from reoccurring. Deutsche Bank, US Bancorp, Saxon Mortgage Brokerage, North American Specialty Insurance Co., Orlinda Martinez, Angelica Duran and Mountain View Mortgage are listed as defendants.

News Release, New Mexico Office of Attorney General, May 8, 2009, *available at* http://www.nmag.gov/Articles/newsArticle.aspx?ArticleID=687 (last visited 11/2/10).

15. WMC Mortgage Corp.'s Systematic Disregard of Underwriting Standards

287. In 2004, when General Electric ("GE") purchased it from a private equity firm, WMC Mortgage Corporation ("WMC") was the sixth-largest subprime lender in the country. WMC specialized in nonprime loans and jumbo loans of up to $1 million. WMC originated a material portion of the loans in the pool underlying the Morgan Stanley ABS Capital I Inc. Trust 2006-HE4, Morgan Stanley ABS Capital I Inc. Trust 2006-HE6, Morgan Stanley ABS Capital I Inc. Trust 2006-HE8, Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2, Morgan Stanley

ABS Capital I Inc. Trust 2007-HE4, Morgan Stanley ABS Capital I Inc. Trust 2007-HE5 and the Morgan Stanley Capital I Inc. Trust 2006-HE2 offerings. *See infra* Table 6.

288. On January 20, 2012, the Huffington Post reported that the FBI and the Department of Justice are investigating possible fraud at WMC.

289. Another article published that same day on iwatchnews.org elaborated on the investigation. According to the article, "the government is asking whether WMC used falsified paperwork, overstated borrowers' income and other tactics to push through questionable loans" with the probe focused on whether "senior managers condoned improper practices that enabled fraudulent loans to be sold to investors." The article reports:

> The FBI's San Francisco office indicated that it has been looking into WMC's business practices for nearly two years, according to one of the people who has knowledge of the investigation. The bureau has examined individual WMC loan files and has begun contacting former employees about how the lender handled the sale of mortgages to investors, this person said.

Michael Hudson, "Feds investigating possible fraud at GE's former subprime unit," iwatchnews.org, Jan. 20, 2012, *available at* http://www.publicintegrity.org/2012/01/20/7908/feds-investigating-possible-fraud-ge-s-former-subprime-unit.

290. In another iwatchnews.org article, Hudson provided a lengthy report on GE's purchase of WMC and the practices of WMC's sales staff to push through loans at any cost. According to the article, several ex-employees claim that many WMC sales staff "embraced fraud as a tool for pushing through loans that borrowers couldn't afford" and that WMC ignored reports of loans supported by falsified documents and inflated incomes. The article continues:

> Dave Riedel, a former compliance manager at WMC, says sales reps intent on putting up big numbers used falsified paperwork, bogus income documentation and other tricks to get loans approved and sold off to Wall Street investors. One WMC official, Riedel claims, went so far as to declare: "Fraud pays."
>
> . . . .

[Riedel] supervised a quality-control team of a dozen or more people who watched over WMC's lending in a broad area of Southern California where salespeople were pushing subprime loans as well as "Alt-A" mortgages, another type of risky home loan.

The team, Riedel says, found many examples of fraud committed by in-house staffers or the independent mortgage brokers who helped bring in customers to the lender. These included faking proofs of loan applicants' employment and faking verifications that would-be home buyers had been faithfully paying rent for years rather than, say, living with their parents.

Some employees also fabricated borrowers' incomes by creating bogus W-2 tax forms, he says. Some, he says, did it old-school, cutting and pasting numbers from one photocopy to another. Others, he says, had software on their computers that allowed them to create W-2s from scratch.

. . . .

'Business as usual'

While Dave Riedel was fighting battles inside WMC's California headquarters, Gail Roman was losing battles on the other side of the country.

Roman worked as a loan auditor at WMC's regional offices in Orangeburg, N.Y. She and other colleagues in quality control, she says, dug up persuasive evidence of inflated borrower incomes and other deceptions on loan applications.

It did little good. Management ignored their reports and approved the loans anyway, she says.

"They didn't want to hear what you found," Roman told iWatch News. "Even if you had enough documentation to show that there was fraud or questionable activity."

If GE made any progress against fraud at WMC, Roman says, she didn't notice it. Fraud was as bad at WMC in 2006 as it was when she started at the lender in 2004, she says.

"I didn't really see much of a change," Roman says.

Victor Argueta, the former risk analyst, says he didn't see much change either.

Meetings would be held. Executives from GE would agree fraud was a problem and something needed to be done. "But the next month it was business as usual," Argueta says.

. . . .

Argueta says one top sales staffer escaped punishment even though it was common knowledge he was using his computer to create fake documents to bolster applicants' chances of getting approved.

"Bank statements, W-2s, you name it, pretty much anything that goes into a file," Argueta says. "Anything to make the loan look better than what was the real story."

In one instance, Argueta says, he sniffed out salespeople who were putting down fake jobs on borrowers' loan applications — even listing their own cell phone numbers so they could pose as the borrowers' supervisors and "confirm" that the borrowers were working at the made-up employers.

Management gave him a pat on the back for pointing out the problem, he says, but did nothing about the salespeople he accused of using devious methods to make borrowers appear gainfully employed.

Nightmare loans

Roman and Argueta weren't alone in their concerns, according to other ex-employees who spoke on the condition they remain anonymous, because they still work in banking and fear being blackballed within the industry.

"It was ugly," one former fraud investigator at WMC recalls. "I would have nightmares about some of the things I'd find in a file. I'd wake up in the middle of the night going, 'Oh my God, how did this happen?' "

A former manager who worked for WMC in California claims that company officials transferred and essentially demoted her after she complained about fraud, including the handiwork of a sales rep who used an X-Acto knife to create bogus documents, cutting numbers from one piece of paper and pasting them onto another, then running the mock-up through a photocopier.

. . . .

By early 2006, Dave Riedel had begun to rebuild his career inside WMC.

He helped put together a presentation in May 2006 aimed at giving GE officials a sense of how serious WMC's fraud problems were. Riedel says an audit of soured loans that investors had asked WMC to repurchase indicated that 78 percent of them had been fraudulent; nearly four out of five of the loan applications backing these mortgages had contained misrepresentations about borrowers' incomes or employment.

Michael Hudson, "*Fraud and folly: The untold story of General Electric's subprime debacle*," iwatchnews.org, Jan. 6, 2012, *available at* http://www.publicintegrity.org/2012/01/06/7802/fraud-and-folly-untold-story-general-electric-s-subprime-debacle.

291. On the radio program "This American Life," broadcast May 9, 2008, reporter Alex Blumberg interviewed a WMC sales manager who made over a million dollars a year by making loans to "people [who] didn't have a pot to piss in." Blumberg reported that the manager "didn't worry about whether the loans were good. That's someone else's problem."

292. In June 2008, the Washington State Department of Financial Institutions filed a "Statement of Charges and Notice of Intention to Enter an Order to Revoke License, Prohibit From Industry, Impose Fine, Order Restitution and Collect Investigation Fees" against WMC and its owners. The Statement of Charges stemmed from an investigation that found WMC had originated loans with unlicensed or unregistered mortgage brokers, understated amounts of finance charges on multiple loans, understated amounts of payments made to escrow companies, understated annual percentage rates by almost 5%, and committed numerous other violations of Washington State deceptive and unfair practices laws. In July 2009, WMC entered a consent order under which it agreed to pay fines, restitution and the costs of the investigation to settle the matter.

293. WMC's lack of underwriting landed it fourth in the Comptroller of the Currency's 2009 "Worst Ten of the Worst Ten" list.

E. Loans That Did Not Meet the Originators' Underwriting Guidelines Were Routinely Collateral for Morgan Stanley-Underwritten RMBS

294. A February 2010 report from J.P. Morgan noted that "[t]he outstanding balance of [private-label] mortgages grew from roughly $600 billion at the end of 2003 to $2.2 trillion at its peak in 2007." Gary J. Madich et al, *Non-Agency Mortgage-Backed Securities: Managing*

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

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

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

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

298. From January 1, 2006 through June 30, 2007, Clayton reviewed 911,039 loans.

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

299. Clayton confirmed that the RMBS sold by Morgan Stanley from the beginning of 2006 through the middle of 2007—which includes all but one of the certificates listed in Table 1 of this Complaint—contained a substantial number of loans that were not originated in conformity with underwriting guidelines. *See* All Clayton Trending Report at 8.

300. As revealed during the FCIC investigation in 2010, Clayton routinely found large numbers of loans that were not properly originated under the applicable underwriting guidelines. Despite identifying these defectively originated loans, Clayton stated that they often were included into the RMBS that was being sold to investors. *See* FCIC Report at 166-67; All Clayton Trending Report at 1.

301. Clayton reviewed 62,940 loans for Morgan Stanley. It found that 23,154 (36.8%) did not comply with stated underwriting guidelines and did not have compensating factors.

Morgan Stanley waived the defects for 13,035 of the 23,154 (56.3%). *See* All Clayton Trending Report at 8.

302. Clayton typically performed due diligence on a small sample of the loans that were being securitized into an RMBS offering – approximately 10%. FCIC Testimony of Vicky Beal at 2. No due diligence was performed on the remaining loans. Of the small sample of loans that Clayton did review, approximately 21% of the Morgan Stanley loans securitized during the time period of first quarter 2006 through second quarter of 2007 did not comply with the underwriting guidelines and did not have compensating factors. Extrapolating Clayton's results shows that for the remaining 90% of loans that were not reviewed, Morgan Stanley securitized a significant number of loans that did not comply with the underwriting guidelines and did not have compensating factors. All Clayton Trending Reports at 8.

F. Additional Evidence Confirms that Defective Loans Were Routinely Packaged into Morgan Stanley's RMBS

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

304. During the course of the FCIC investigation, Clayton also explained that the practice of putting rejected loans into RMBS was particularly prevalent among banks, such as Morgan Stanley, that extended warehouse lines of credit to originators. Warehouse lending is a short-term revolving line of credit provided to an originator to fund the closing of mortgages. Clayton's former president stated "I think our data would show that, you know, we saw bigger exceptions to any client that had warehouse lines." *Id.* This was so because if the investment

bank forced an originator to take back too many defective loans, the originator would go bankrupt and default on the warehouse line of credit. On the other hand, the bank could waive the loan into the RMBS pool, and thereby pass the risk of default onto the RMBS investors. As Johnson explained: "if Bob was originating for me as the client and I had a warehouse line to you, I think what happened is a conflict of interest. That if I put back loans to you, Bob and you don't have the financial capability to honor those, then I'm kind of caught; right? [...] I'm going to take a loss on the warehouse line." *Id.*

305. Morgan Stanley provided warehouse lines of credit to at least one prominent originator at issue in this suit – New Century. Accordingly, Morgan Stanley had an incentive to accept loans that did not meet the applicable underwriting guidelines. *See* FCIC Report at 142.

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

307. The FCIC Report also concluded that banks like Morgan Stanley that securitized RMBS "were reluctant to review or reject loans in greater numbers because doing so would endanger their relationship with originators." FCIC Report at 166 ("[Clayton's former CEO] concluded that his clients often waived in loans to preserve their business relationship with the loan originator—a high number of rejections might lead the originator to sell the loans to a

competitor."); Paul Muolo and Matthew Padilla, Chain of Blame 228 (2010) ("There were two reasons the [Wall] Street firms reviewed only a small sample of the loans they were buying . . . . The most important reason was the relationship with the lender. 'The lower the sample you requested [of the lender], the more likely it was that you'd win the bid.'").

VIII. THE OFFERING DOCUMENTS CONTAINED UNTRUE STATEMENTS OF MATERIAL FACT

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

309. For purposes of Section 11 liability, the prospectus supplements are part of and included in the registration statements of the offerings pursuant to 17 C.F.R. §§ 230.158, 230.430B (2008); *see also* Securities Offering Reform, 70 Fed. Reg. 44722-01, 44768-69 (Aug. 3, 2005).

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

311. The following table lists the originators that contributed loans to each RMBS, as identified in the Offering Documents. Under SEC's Regulation AB, the Offering Documents must disclose the originators that contributed more than 10% of the loans underlying the RMBS, and the Offering Documents must include underwriting guidelines for the originators that

contributed more than 20% of the loans underlying the RMBS. *See* 17 C.F.R. § 229.1110 (2005). For the RMBS listed below, the Offering Documents included only those underwriting guidelines for the Originators that contributed more than 20% of the loans to the RMBS.

Table 6
Originators Supplying Loans for Each RMBS at Issue

CUSIP	Issuing Entity	Tranche	Originator(s)
61748BAC8 61748BAE4	Morgan Stanley ABS Capital I Inc. Trust 2006-HE4	A-3 M-1	WMC Mortgage Corp. (44.83%) Decision One Mortgage Company, LLC (36.53%) New Century Mortgage Corp. (18.52%)
61750FAE0	Morgan Stanley ABS Capital I Inc. Trust 2006-HE6	A-2C	New Century Mortgage Corp. (34.93% Group 2) WMC Mortgage Corp. (34.63% Group 2) Decision One Mortgage Company, LLC (30.44 % Group 2)
61750SAE2	Morgan Stanley ABS Capital I Inc. Trust 2006-HE8	A-2C	New Century Mortgage Corp. (56.66% Group 2) Decision One Mortgage Company, LLC (33.21% Group 2) WMC Mortgage Corp. (10.13% Group 2)
61748LAD4	Morgan Stanley ABS Capital I Inc. Trust 2006-NC4	A-2-C	New Century Mortgage Corp. (100%)
61749KAE3	Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2	A-2C	WMC Mortgage Corp. (100%)
61753VAD4	Morgan Stanley ABS Capital I Inc. Trust 2007-HE4	A-2C	Decision One Mortgage Company, LLC (53.97% Group 2) WMC Mortgage Corp. (46.03% Group 2)
61753KAD8	Morgan Stanley ABS Capital I Inc. Trust 2007-HE5	A-2C	WMC Mortgage Corp. (43.20% Group 2) Decision One Mortgage Company, LLC (56.80% Group 2)
617451EU9 617451EW5	Morgan Stanley Capital I Inc. Trust 2006-HE2	A-2C M-1	WMC Mortgage Corp. (72.84%) Decision One Mortgage Company (27.16%)
61744CWY8	Morgan Stanley Home Equity Loan Trust 2006-1	M-1	Decision One Mortgage Company, LLC (25.57%) First NLC Financial Services, LLC (23.86%) AIG Federal Savings Bank (through its Wilmington Finance division) Countrywide Home Loans, Inc. Accredited Home Lenders, Inc. Meritage Mortgage Corporation
61752UAC9	Morgan Stanley Home Equity Loan Trust 2007-2	A-3	First NLC Financial Services, LLC (35.13%) Wilmington Finance, Inc. (34.86%) Accredited Home Lenders, Inc. (30.01%)
61749QAD2	Morgan Stanley IXIS Real Estate Capital Trust 2006-1	A-3	AIG Federal Savings Bank (12.6%) Meritage Mortgage Corp. (18.07%) Accredited Home Lenders, Inc. (15.33%) First NLC Financial Services, LLC (27.18%)
61748HTG6	Morgan Stanley Mortgage Loan Trust 2005-11AR	A-1	First National Bank of Nevada (10.21%) Morgan Stanley Mortgage Capital (66.24%) Wachovia Mortgage Corporation (10.19%)

CUSIP	Issuing Entity	Tranche	Originator(s)
61748HWW7	Morgan Stanley Mortgage Loan Trust 2006-3AR	3-A-2	Morgan Stanley Credit Corp. (12.49% Group 3) Morgan Stanley Mortgage Capital (82.28% Group 3) Wachovia Mortgage Corporation (0.14% Group 3)
61749LAA9	Morgan Stanley Mortgage Loan Trust 2006-8AR	1-A-1	Morgan Stanley Mortgage Capital (71.19% Group 1) Wachovia Mortgage Corporation (23.62% Group1)
61748JAA5	Morgan Stanley Mortgage Loan Trust 2006-9AR	A-1	First National Bank of Nevada (15.34%) Morgan Stanley Mortgage Capital (76.01%)
61749TAA2	Morgan Stanley Mortgage Loan Trust 2006-10SL	A-1	Morgan Stanley Mortgage Capital (90.62%)
61750PAB4	Morgan Stanley Mortgage Loan Trust 2006-13ARX	A-2	Morgan Stanley Mortgage Capital (86.33%)
617487AC7	Morgan Stanley Mortgage Loan Trust 2006-16AX	2-A-2	American Home Mortgage Corp. (13.51% Group 2) MortgageIT, Inc. (8.79% Group 2) Morgan Stanley Mortgage Capital (77.43% Group 2)
61751TAC3	Morgan Stanley Mortgage Loan Trust 2007-2AX	2-A-2	Morgan Stanley Mortgage Capital (72.31% Group 2) Wachovia Mortgage Corporation (11.78% Group 2) GreenPoint Mortgage Funding, Inc. (3.45% Group 2)
61751PAA5	Morgan Stanley Mortgage Loan Trust 2007-4SL	A	Morgan Stanley Mortgage Capital (99.52%)
61751GAC1	Morgan Stanley Mortgage Loan Trust 2007-5AX	2-A-2	Morgan Stanley Mortgage Capital (77.39% Group 2) Wilmington Finance Company (10.12% Group 2) IndyMac Bank, F.S.B. (0.31% Group 2)
61754VAG6	Morgan Stanley Mortgage Loan Trust 2007-11AR	2-A-5	First National Bank of Nevada (19.97% Group 2) Morgan Stanley Mortgage Capital (73.92% Group 2)
638728AA3	Natixis Real Estate Capital Trust 2007-HE2	A-1	Master Financial, Inc. (51.4%) First NLC Financial Services, LLC (29.39%)
75115BAA7	RALI Series 2006-QA5 Trust	1-A-1	Homecomings Financial Network, Inc. (38.0% Group 1) GMAC Mortgage Corporation (22.7% Group 1) National City Mortgage Company (15.4% Group 1)
80556YAD7	Saxon Asset Securities Trust 2007-2	A-2-C	Saxon Funding Management, LLC (100%)

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

A. Untrue Statements Concerning Adherence to Underwriting Guidelines

313. The Morgan Stanley ABS Capital I Inc. Trust 2006-HE4 Prospectus Supplement stated:

> The mortgage loans have been either (i) originated generally in accordance with the underwriting guidelines established by WMC Mortgage Corp. (collectively, the "UNDERWRITING GUIDELINES") or (ii) purchased by WMC Mortgage Corp. after re-underwriting the mortgage loans generally in accordance with the Underwriting Guidelines. WMC Mortgage Corp. also originates certain other mortgage loans that are underwritten to the guidelines of specific investors, however, such mortgage loans are not included among those sold to the trust as described herein. The Underwriting Guidelines are primarily intended to (a) determine that the borrower has the ability to repay the mortgage loan in accordance with its terms and (b) determine that the related mortgaged property will provide sufficient value to recover the investment if the borrower defaults. On a case-by-case basis WMC Mortgage Corp. may determine that, based upon compensating factors, a prospective mortgagor not strictly qualifying under the underwriting risk category or other guidelines described below warrants an underwriting exception. Compensating factors may include, but are not limited to, low debt-to-income ratio ("DEBT RATIO"), good mortgage payment history, an abundance of cash reserves, excess disposable income, stable employment and time in residence at the applicant's current address. It is expected that a substantial number of the mortgage loans to be included in the trust will represent such underwriting exceptions.

Morgan Stanley ABS Capital I Inc. Trust 2006-HE4 Prospectus Supplement at S-28; *see also* Morgan Stanley ABS Capital I Inc. Trust 2006-HE6 Prospectus Supplement at S-33-34; Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2 Prospectus Supplement at S-29; Morgan Stanley ABS Capital I Inc. Trust 2007-HE4 Prospectus Supplement at S-32-33; Morgan Stanley ABS Capital I Inc. Trust 2007-HE5 Prospectus Supplement at S-31-32; Morgan Stanley Capital I Inc. Trust 2006-HE2 Prospectus Supplement at S-28.

314. The Morgan Stanley ABS Capital I Inc. Trust 2006-HE4 Prospectus Supplement stated:

> Under the Underwriting Guidelines, WMC Mortgage Corp. verifies the loan applicant's eligible sources of income for all products, calculates the amount of income from eligible sources indicated on the loan application, reviews the

> credit and mortgage payment history of the applicant and calculates the Debt Ratio to determine the applicant's ability to repay the loan, and reviews the mortgaged property for compliance with the Underwriting Guidelines. The Underwriting Guidelines are applied in accordance with a procedure which complies with applicable federal and state laws and regulations and requires, among other things, (1) an appraisal of the mortgaged property which conforms to Uniform Standards of Professional Appraisal Practice and (2) an audit of such appraisal by a WMC Mortgage Corp.-approved appraiser or by WMC Mortgage Corp.'s in-house collateral auditors (who may be licensed appraisers) and such audit may in certain circumstances consist of a second appraisal, a field review, a desk review or an automated valuation model.

Morgan Stanley ABS Capital I Inc. Trust 2006-HE4 Prospectus Supplement at S-28; Morgan Stanley ABS Capital I Inc. Trust 2006-HE6 Prospectus Supplement at S-34; Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2 Prospectus Supplement at S-29; Morgan Stanley ABS Capital I Inc. Trust 2007-HE4 Prospectus Supplement at S-33; Morgan Stanley ABS Capital I Inc. Trust 2007-HE5 Prospectus Supplement at S-32; Morgan Stanley Capital I Inc. Trust 2006-HE2 Prospectus Supplement at S-28.

315. With respect to Decision One's underwriting guidelines, the Morgan Stanley ABS Capital I Inc. Trust 2006-HE4 Prospectus Supplement stated:

> The Decision One Underwriting Guidelines are primarily intended to assess the borrower's ability to repay the mortgage loan, to assess the value of the mortgaged property and to evaluate the adequacy of the property as collateral for the mortgage loan. All of the mortgage loans in the mortgage loan pool were also underwritten with a view toward the resale of the mortgage loans in the secondary mortgage market. While Decision One's primary consideration in underwriting a mortgage loan is the value of the mortgaged property, Decision One also considers, among other things, a mortgagor's credit history, repayment ability and debt service to income ratio, as well as the type and use of the mortgaged property.
>
> The mortgage loans will have been originated in accordance with the Decision One Underwriting Guidelines. On a case by case basis, exceptions to the Decision One Underwriting Guidelines are made where compensating factors exist.
>
> Each applicant completes an application which includes information with respect to the applicant's liabilities, income, credit history, employment history and personal information. The Decision One Underwriting Guidelines require a credit

> report on each applicant from a credit reporting company. The report typically contains information relating to matters such as credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcies, repossessions or judgments. Mortgaged properties that are to secure mortgage loans are appraised by qualified independent appraisers. These appraisers inspect and appraise the subject property and verify that the property is in acceptable condition. Following each appraisal, the appraiser prepares a report which includes a market value analysis based on recent sales of comparable homes in the area, and when deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home. All appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation and are generally on forms acceptable to Fannie Mae and Freddie Mac.

Morgan Stanley ABS Capital I. Inc. Trust 2006-HE4 Prospectus Supplement at S-39; Morgan Stanley ABS Capital I. Inc. Trust 2006-HE6 Prospectus Supplement at S-44-45; Morgan Stanley ABS Capital I. Inc. Trust 2007-HE4 Prospectus Supplement at S-30; Morgan Stanley ABS Capital I. Inc. Trust 2007-HE5 Prospectus Supplement at S-43; Morgan Stanley Capital I Inc. Trust 2006-HE2 Prospectus Supplement at S-38-39; Morgan Stanley Home Equity Loan Trust 2006-1 Prospectus Supplement at S-29.

316. The Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Trust Prospectus Supplement stated:

> The mortgage loans were originated or acquired generally in accordance with the underwriting guidelines of the responsible parties. See "—Underwriting Guidelines" below for a summary of the underwriting guidelines for the responsible parties whose mortgage loans represent 20% or more of mortgage loans as of the cut-off date.

Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Prospectus Supplement at S-28. *See also* Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Free Writing Prospectus, Nov. 15, 2006, at S-28; Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Amended Registration Statement, Mar. 10, 2006, at S-35; Morgan Stanley ABS Capital I Inc. Trust 2006-HE6 Prospectus

Supplement at S-26; Morgan Stanley ABS Capital I Inc. Trust 2006-NC4 Prospectus Supplement at S-25.

317. The Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement stated with respect to First NLC's underwriting guidelines:

> General. First NLC's underwriting guidelines are designed to evaluate a borrower's credit history, his or her capacity, willingness and ability to repay the loan and the value and adequacy of the collateral. First NLC's underwriting guidelines are established by a group composed of First NLC's chief credit officers, assistant chief credit officers, senior credit officers and the President and Chief Operating Officer. First NLC also invites other credit officers and sales and operational managers to make contributions to these policies. The members of this group meet regularly to review proposed changes to the First NLC underwriting guidelines.
>
> First NLC has been originating subprime mortgage loans since 1999. Mortgage loans are processed, underwritten and closed in one of the 5 operation centers. For the 12 months ending December 31, 2006, First NLC originated approximately $7.4 billion in mortgages and in 2005 and 2004, it originated approximately $6.0 billion and $3.3 billion respectively.
>
> Underwriting and Personnel Teams. All underwriting is performed by internal underwriting personnel, who are a part of the underwriting and processing teams. First NLC does not delegate underwriting authority to any broker or sales staff. Underwriters review and underwrite each loan package and then either grant a conditional approval on the terms requested, provide a counteroffer approval on the best terms First NLC is willing to offer the borrower, or deny the application. Once a loan is conditionally approved, processors process the loan in accordance with the terms and conditions of the conditional approval. Before closing, each conditionally approved loan is reviewed a second time by an underwriter to determine that the conditions specified in the conditional approval have all been met.
>
> A senior credit officer, whom First NLC believes has the additional experience and leadership qualities necessary to make high-level credit decisions, oversees each loan origination team. The senior credit officer is responsible for managing the underwriters and processors on his or her team, as well as managing the loan pipeline and other customer service requirements. The senior credit officers report directly to an operations manager in their region. Additionally, they report to the assistant chief credit officer in their region for issues such as guideline changes, industry trends or other feedback relating to the loan origination process. First NLC's 15 senior credit officers each have a minimum of eight years of industry experience and its 5 assistant chief credit officers each have over 13 years

individually and a combined 94 years of industry experience.

> Loan Application and Documentation. Each borrower must complete a mortgage loan application that includes information with respect to the applicant's liabilities, income, credit history, employment history and other personal information. First NLC also requires independent documentation as part of its underwriting process. As part of this process, First NLC will pull its own tri-merged credit bureau from one of its approved vendors. First NLC also requires an appraisal, a title commitment, and other income-verification materials. The credit report contains information relating to such matters as credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcies, repossessions or judgments. Derogatory credit items are disregarded if they are included in the overall credit score. All serious derogatory credit items, such as bankruptcies or foreclosures, must be satisfactorily addressed by the applicant.

Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement at S-28-29. *See also* Morgan Stanley Home Equity Loan Trust 2006-1 Prospectus Supplement at S-30-31; Morgan Stanley IXIS Real Estate Capital Trust 2006-1 Prospectus Supplement at S-28-29; Natixis Real Estate Capital Trust 2007-HE2 Prospectus Supplement at 50.

318. With respect to Wilmington's underwriting guidelines, the Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement stated:

> Each mortgage loan originated by Wilmington was underwritten prior to the mortgage loan closing by Wilmington in general accordance with Wilmington's underwriting guidelines (the "Wilmington Underwriting Guidelines"). The Wilmington underwriting process is intended to assess a mortgage loan applicant's credit standing and repayment ability and the value and adequacy of the real property security as collateral for the proposed mortgage loan. Wilmington underwrites non-conforming and subprime mortgage loans with a view toward the resale of the mortgage loans in the secondary mortgage market. All underwriting is performed by Wilmington's underwriting personnel, and Wilmington does not delegate underwriting authority to any broker or other mortgage loan provider with respect to Wilmington mortgage loans. The following is a summary of the Wilmington Underwriting Guidelines for nonconforming and subprime mortgage loans generally applied, with some variation, in underwriting and originating the Wilmington mortgage loans.
>
> . . . .
>
> Each prospective mortgagor completed a mortgage loan application that included information with respect to the applicant's liabilities, income, credit history, employment history and personal information. At least one credit report on each

applicant from an independent, nationally recognized credit reporting company was required. The credit report typically contained information relating to such matters as credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcies, repossessions, or judgments.

Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement at S-35.

319. The Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement stated:

The Wilmington Mortgage Loans have been originated generally in accordance with the Wilmington Underwriting Guidelines. On a case-by-case basis, Wilmington makes exceptions to the underwriting guidelines, typically where compensating factors exist, including, but not limited to, reduced LTV, demonstrated pride of ownership, stability of employment, and stability of residence. It is expected that at least some of the mortgage loans in the trust fund that were originated by Wilmington will represent these exceptions.

Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement at S-36.

320. The Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement stated:

Each mortgage loan originated or acquired by Accredited is underwritten prior to loan closing, or re-underwritten after loan closing but prior to purchase by Accredited, in accordance with Accredited's underwriting guidelines. Accredited's underwriting process is intended to assess a mortgage loan applicant's credit standing and repayment ability and the value and adequacy of the real property security as collateral for the proposed mortgage loan. All underwriting and re-underwriting is performed by Accredited's underwriting personnel, and Accredited does not delegate underwriting authority to any broker, correspondent or other mortgage loan provider. Accredited's underwriting standards are applied in a standardized manner which complies with applicable federal and state laws and regulations.

All of Accredited's prospective mortgage brokers and correspondents are subjected to a pre-approval process, including verification that all required licenses are current, and are required to sign agreements pursuant to which they represent and warrant compliance with Accredited's underwriting guidelines and all applicable laws and regulations. Accredited periodically reviews each of its mortgage broker's and correspondent's performance relative to issues disclosed by Accredited's quality control review, and discontinues relationships with unacceptable performers.

> Each prospective mortgagor completes a mortgage loan application that includes information with respect to the applicant's liabilities, income, credit history, employment history and personal information. At least one credit report on each applicant from an independent, nationally recognized credit reporting company is required. The credit report typically contains information relating to such matters as credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcies, repossessions, or judgments. All derogatory credit items occurring within the preceding two years and all credit inquiries within the preceding 90 days must be addressed by the applicant to the satisfaction of Accredited.

Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement at S-37.

321. The Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Trust Prospectus Supplement stated:

> Underwriting Standards. The mortgage loans originated or acquired by New Century, referred to in this section as the originator, were done so in accordance with the underwriting guidelines established by it (collectively, the "New Century Underwriting Guidelines"). The following is a general summary of the New Century Underwriting Guidelines believed to be generally applied, with some variation, by the originator. This summary does not purport to be a complete description of the underwriting standards of New Century.
>
> The New Century Underwriting Guidelines are primarily intended to assess the borrower's ability to repay the mortgage loan, to assess the value of the mortgaged property and to evaluate the adequacy of the property as collateral for the mortgage loan. All of the mortgage loans in the mortgage pool were also underwritten with a view toward the resale of the mortgage loans in the secondary mortgage market. While New Century's primary consideration in underwriting a mortgage loan is the value of the mortgaged property, New Century also considers, among other things, a mortgagor's credit history, repayment ability and debt service-to-income ratio, as well as the type and use of the mortgaged property.

Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Prospectus Supplement at S-31. *See also* Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Free Writing Prospectus, Nov. 15, 2006, at S-31; Morgan Stanley ABS Capital I Inc. Trust 2006-HE6 Prospectus Supplement at S-29; Morgan Stanley ABS Capital I Inc. Trust 2006-NC4 Prospectus Supplement at S-27-28.

322. With respect to exceptions, the Morgan Stanley ABS Capital I Inc. Trust 2006-

HE8 Trust Prospectus Supplement stated:

> The mortgage loans will have been originated in accordance with the New Century Underwriting Guidelines. On a case-by-case basis, exceptions to the New Century Underwriting Guidelines are made where compensating factors exist. It is expected that a substantial portion of the mortgage loans will represent these exceptions.

Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Prospectus Supplement at S-31. *See also* Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Free Writing Prospectus, Nov. 15, 2006, at S-31; Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Free Writing Prospectus, Nov. 15, 2006, at S-31; Morgan Stanley ABS Capital I Inc. Trust 2006-HE6 Prospectus Supplement at S-29; Morgan Stanley ABS Capital I Inc. Trust 2006-NC4 Prospectus Supplement at S-28.

323. The Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Trust Prospectus Supplement stated:

> The New Century Underwriting Guidelines have the following categories and criteria for grading the potential likelihood that an applicant will satisfy the repayment obligations of a mortgage loan:
>
> "AA" Risk. Under the "AA" risk category, the applicant must have a FICO score of 500, or greater, based on loan-to-value ratio and loan amount. Two or more tradelines (one of which with 24 months history and no late payments) are required for loan-to-value ratios above 90%. The borrower must have no late mortgage payments within the last 12 months on an existing mortgage loan. An existing mortgage loan must be less than 60 days late at the time of funding of the loan. No bankruptcy may have occurred during the preceding year for borrowers with a FICO score of less than 550; provided, however, that a Chapter 7 bankruptcy for a borrower with a FICO score in excess of 550 (or 580 under the stated income documentation program) may have occurred as long as such bankruptcy is discharged at least one day prior to funding of the loan. A maximum loan-to-value ratio of 80% is permitted with respect to borrowers with a FICO score less than or equal to 550 (or 580 with respect to stated income documentation programs) with Chapter 7 bankruptcy, which Chapter 7 bankruptcy is discharged at least one day prior to loan funding. A borrower in Chapter 13 bankruptcy may discharge such bankruptcy with the proceeds of the borrower's loan (any such loan may not exceed a 90% loan-to-value ratio), provided that such borrower has a FICO score of at least 550, or 80% loan-to-value ratio provided that such borrower has a FICO score of less than 550). No notice of default filings or foreclosures (or submission of deeds in lieu of

foreclosure) may have occurred during the preceding two years. The mortgaged property must be in at least average condition.

...

"A+" Risk. Under the "A+" risk category, the applicant must have a FICO score of 500, or greater, based on loan-to-value ratio and loan amount. Two or more tradelines (one of which with 24 months history and no late payments), are required for loan-to-value ratios above 90%. A maximum of one 30 day late payment within the last 12 months is acceptable on an existing mortgage loan. An existing mortgage loan must be less than 60 days late at the time of funding of the loan. No bankruptcy may have occurred during the preceding year for borrowers with FICO scores of less than 550; provided, however, that a Chapter 7 bankruptcy for a borrower with a FICO score in excess of 550 (or 580 under the stated income documentation program) may have occurred as long as such bankruptcy is discharged at least one day prior to funding of the loan. A maximum loan-to-value ratio of 80% is permitted with respect to borrowers with a FICO score less than or equal to 550 (or 580 with respect to stated income documentation programs) with Chapter 7 bankruptcy, which Chapter 7 bankruptcy is discharged at least one day prior to loan funding. A borrower in Chapter 13 bankruptcy may discharge such bankruptcy with the proceeds of the borrower's loan (any such loan may not exceed a 90% loan-to-value ratio), provided that such borrower has a FICO score of at least 550 or 80% loan-to-value ratio provided that such borrower has a FICO score of less than 550). No notice of default filings or foreclosures (or submission of deeds in lieu of foreclosure) may have occurred during the preceding two years. The mortgaged property must be in at least average condition.

...

"A-" Risk. Under the "A-" risk category, an applicant must have a FICO score of 500, or greater, based on loan-to-value ratio and loan amount. A maximum of three 30 day late payments within the last 12 months is acceptable on an existing mortgage loan. An existing mortgage loan must be less than 60 days late at the time of funding of the loan. No bankruptcy may have occurred during the preceding year for borrowers with FICO scores of less than 550; provided, however, that a Chapter 7 bankruptcy for a borrower with a FICO score in excess of 550 (or 580 under the stated income documentation program) may have occurred as long as such bankruptcy is discharged at least one day prior to funding of the loan. A maximum loan-to-value ratio of 80% is permitted with respect to borrowers with a FICO score less than or equal to 550 (or 580 with respect to stated income documentation programs) with Chapter 7 bankruptcy, which Chapter 7 bankruptcy is discharged at least one day prior to loan funding. A borrower in Chapter 13 bankruptcy may discharge such bankruptcy with the proceeds of the borrower's loan (any such loan may not exceed a 90% loan-to-value ratio), provided that such borrower has a FICO score of at least 550 or 80% loan-to-value ratio provided that such borrower has a FICO score of less than 550). No notice of default filings or foreclosures (or submission of deeds in lieu

of foreclosure) may have occurred during the preceding two years. The mortgaged property must be in at least average condition.

...

"B" Risk. Under the "B" risk category, an applicant must have a FICO score of 500, or greater, based on loan-to-value ratio and loan amount. Unlimited 30 day late payments and a maximum of one 60 day late payment within the last 12 months is acceptable on an existing mortgage loan. An existing mortgage loan must be less than 90 days late at the time of funding of the loan. No bankruptcy may have occurred during the preceding year for borrowers with a FICO score less than or equal to 550; provided, however, that a Chapter 7 bankruptcy for a borrower with a FICO score in excess of 550 may have occurred as long as such bankruptcy has been discharged at least one day prior to funding of the loan. A borrower in Chapter 13 bankruptcy may discharge such bankruptcy with the proceeds of the borrower's loan (such loan may not exceed an 80% loan-to-value ratio for borrowers with a FICO score of less than 550). No notice of default filings or foreclosures (or submission of deeds in lieu of foreclosure) may have occurred during the preceding 18 months. The mortgaged property must be in at least average condition.

...

"C" Risk. Under the "C" risk category, an applicant must have a FICO score of 500, or greater, based on loan-to-value ratio and loan amount. Unlimited 30 day and 60 day late payments and a maximum of one 90 day late payment within the last 12 months is acceptable on an existing mortgage loan. An existing mortgage loan must be less than 120 days late at the time of funding of the loan. All bankruptcies must be discharged at least one day prior to funding of the loan; provided, however, that Chapter 13 bankruptcies may be discharged with loan proceeds. No notice of default filings may have occurred during the preceding 12 months. The mortgaged property must be in at least average condition.

...

"C-" Risk. Under the "C-" risk category, an applicant must have a FICO score of 500, or greater. Unlimited 30, 60 and 90 day late payments and a maximum of one 120 day late payment is acceptable on an existing mortgage loan. An existing mortgage loan must be less than 150 days late at the time of funding of the loan. There may be no current notice of default and all bankruptcies must be discharged at least one day prior to funding of the loan; provided, however, that Chapter 13 bankruptcies may be discharged with loan proceeds. The mortgaged property must be in at least average condition.

Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Prospectus Supplement at S-32-34. *See also*

Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Free Writing Prospectus, Nov. 15, 2006, at

S-32-34; Morgan Stanley ABS Capital I Inc. Trust 2006-HE6 Prospectus Supplement at S-231-32; Morgan Stanley ABS Capital I Inc. Trust 2006-NC4 Prospectus Supplement at S-29-31.

324. The Morgan Stanley Mortgage Loan Trust 2007-5AX Prospectus Supplement provided this description of MSMC's loan purchasing guidelines:

> Based on the data provided in the application and certain verification (if required), a determination is made by the original lender that the mortgagor's monthly income (if required to be stated) will be sufficient to enable the mortgagor to meet its monthly obligations on the mortgage loan and other expenses related to the property such as property taxes, utility costs, standard hazard insurance and other fixed obligations other than housing expenses. Generally, scheduled payments on a mortgage loan during the first year of its term plus taxes and insurance and all scheduled payments on obligations that extend beyond ten months equal no more than a specified percentage of the prospective mortgagor's gross income. The percentage applied varies on a case by case basis depending on a number of loan purchasing criteria, including the Loan-to-Value Ratio of the mortgage loan. The originator may also consider the amount of liquid assets available to the mortgagor after origination.
>
> . . . .
>
> The adequacy of the mortgaged property as security for repayment of the related mortgage loan will generally have been determined by an appraisal in accordance with pre-established appraisal procedure guidelines for appraisals established by or acceptable to the originator.

Morgan Stanley Mortgage Loan Trust 2007-5AX Prospectus Supplement at S-56-57. *See also* Morgan Stanley Mortgage Loan Trust 2007-5AX Registration Statement, Dec. 23, 2005, at S-26; Morgan Stanley Mortgage Loan Trust 2007-2AX Prospectus Supplement at S-54-55; Morgan Stanley Mortgage Loan Trust 2005-11AR Prospectus Supplement at S-32; Morgan Stanley Mortgage Loan Trust 2006-10SL Prospectus Supplement at S-30-31; Morgan Stanley Mortgage Loan Trust 2006-13ARX Prospectus Supplement at S-40-41; Morgan Stanley Mortgage Loan Trust 2006-16AX Prospectus Supplement at S-62-63; Morgan Stanley Mortgage Loan Trust 2006-3AR Prospectus Supplement at S-56-57; Morgan Stanley Mortgage Loan Trust 2006-8AR Prospectus Supplement at S-95-96; Morgan Stanley Mortgage Loan Trust 2006-9AR Prospectus

Supplement at S-41-42; Morgan Stanley Mortgage Loan Trust 2007-11AR Prospectus Supplement at S-47-48; Morgan Stanley Mortgage Loan Trust 2007-4SL Prospectus Supplement at S-32-33; Morgan Stanley Mortgage Loan Trust 2007-2AX Registration Statement, Dec. 23, 2005, at S-26; Morgan Stanley Mortgage Loan Trust 2006-13ARX Registration Statement, Dec. 23, 2005, at S-26.

325. With respect to exceptions to underwriting guidelines, the Morgan Stanley Mortgage Loan Trust 2007-5AX Prospectus Supplement stated:

> ...on a case-by-case basis, the Seller may determine that, based upon compensating factors, a prospective borrower not strictly qualifying under its loan purchasing guidelines warrants an underwriting exception. Compensating factors may include, but are not limited to, low loan-to-value ratios, low debt-to-income ratios, good credit history, stable employment, financial reserves, and time in residence at the applicant's current address. A significant number of the Mortgage Loans sold by the Seller to the Issuing Entity may represent underwriting exceptions.

Morgan Stanley Mortgage Loan Trust 2007-5AX Prospectus Supplement at S-56. *See also* Morgan Stanley Mortgage Loan Trust 2007-2AX Prospectus Supplement at S-54; Morgan Stanley Mortgage Loan Trust 2006-10SL Prospectus Supplement at S-30; Morgan Stanley Mortgage Loan Trust 2006-13ARX Prospectus Supplement at S-40; Morgan Stanley Mortgage Loan Trust 2006-16AX Prospectus Supplement at S-62; Morgan Stanley Mortgage Loan Trust 2006-8AR Prospectus Supplement at S-95; Morgan Stanley Mortgage Loan Trust 2006-9AR Prospectus Supplement at S-41; Morgan Stanley Mortgage Loan Trust 2007-11AR Prospectus Supplement at S-46; Morgan Stanley Mortgage Loan Trust 2007-4SL Prospectus Supplement at S-32.

326. The Morgan Stanley Mortgage Loan Trust 2007-5AX Prospectus Supplement also represented that MSMC performed due diligence regarding the lender from which it purchased the loans as follows:

> Prior to acquiring any residential mortgage loans, MSMC conducts a review of the related mortgage loan seller that is based upon the credit quality of the selling institution. MSMC's review process may include reviewing select financial information for credit and risk assessment and conducting an underwriting guideline review, senior level management discussion and/or background checks. The scope of the loan due diligence varies based on the credit quality of the mortgage loans.
>
> The underwriting guideline review entails a review of the mortgage loan origination processes and systems. In addition, such review may involve a consideration of corporate policy and procedures relating to state and federal predatory lending, origination practices by jurisdiction, historical loan level loss experience, quality control practices, significant litigation and/or material investors.

Morgan Stanley Mortgage Loan Trust 2007-5AX Prospectus Supplement at S-68. *See also* Morgan Stanley Mortgage Loan Trust 2007-5AX Registration Statement, Dec. 23, 2005, at S-34; Morgan Stanley Mortgage Loan Trust 2007-2AX Prospectus Supplement at S-67; Morgan Stanley Mortgage Loan Trust 2006-10SL Prospectus Supplement at S-32-33; Morgan Stanley Mortgage Loan Trust 2006-13ARX Prospectus Supplement at S-52; Morgan Stanley Mortgage Loan Trust 2006-16AX Prospectus Supplement at S-74; Morgan Stanley Mortgage Loan Trust 2006-3AR Prospectus Supplement at S-69; Morgan Stanley Mortgage Loan Trust 2006-8AR Prospectus Supplement at S-116; Morgan Stanley Mortgage Loan Trust 2006-9AR Prospectus Supplement at S-54; Morgan Stanley Mortgage Loan Trust 2007-11AR Prospectus Supplement at S-59; Morgan Stanley Mortgage Loan Trust 2007-4SL Prospectus Supplement at S-35; Morgan Stanley Mortgage Loan Trust 2007-2AX Registration Statement, Dec. 23, 2005, at S-34; Morgan Stanley Mortgage Loan Trust 2006-13ARX Registration Statement, Dec. 23, 2005, at S-34.

327. The Natixis Real Estate Capital Trust 2007-HE2 Prospectus Supplement stated:

> Master Financial's underwriting guidelines were designed to ensure that underwriting risk is properly evaluated. Master Financial's underwriting guidelines assess a borrower's credit history as well as their willingness, ability

and capacity to repay the loan in a timely manner. Additional emphasis was placed on determining the value and adequacy of the collateral.

....

The underwriting of a mortgage loan originated by Master Financial included a review of the completed loan package, which included the loan application, a current appraisal, a preliminary title report and a credit report. All loan applications offered to Master Financial were approved by Master Financial in accordance with its underwriting criteria.

Natixis Real Estate Capital Trust 2007-HE2 Prospectus Supplement at 45.

328. The RALI Series 2006-QA5 Trust Prospectus stated:

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

RALI Series 2006-QA5 Trust Prospectus, Mar. 3, 2006, at 12; RALI Series 2006-QA5 Trust Registration Statement, Jan. 23, 2006, at 13.

329. The RALI Series 2006-QA5 Trust Prospectus Supplement stated:

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

RALI Series 2006-QA5 Trust Prospectus Supplement at S-49-50; RALI Series 2006-QA5 Trust Registration Statement, Jan. 23, 2006, at S-43.

330. The RALI Series 2006-QA5 Trust Prospectus Supplement included the following statement with respect to the borrower's ability to pay the loan:

Based on the data provided in the application and certain verifications, if required, a determination is made by the original lender that the mortgagor's monthly

income, if required to be stated, will be sufficient to enable the mortgagor to meet its monthly obligations on the mortgage loan and other expenses related to the property, including property taxes, utility costs, standard hazard insurance and other fixed obligations.

RALI Series 2006-QA5 Trust Prospectus Supplement at S-50; RALI Series 2006-QA5 Trust Registration Statement at S-43.

331. The Saxon Asset Securities Trust 2007-2 Prospectus Supplement stated:

All of the mortgage loans (based on principal balance) to be included in the trust fund were generally originated or acquired in accordance with the underwriting guidelines of the Seller.

Saxon Asset Securities Trust 2007-2 Prospectus Supplement at S-48.

332. The Saxon Asset Securities Trust 2007-2 Prospectus Supplement made representations regarding the "non-conforming" nature of the loans in the pool:

As a general matter, the mortgage loans were originated in accordance with Saxon Mortgage, Inc.'s mortgage loan program for non-conforming credits—a mortgage loan which is ineligible for purchase by Fannie Mae or Freddie Mac due to credit characteristics that do not meet Fannie Mae or Freddie Mac guidelines.

Saxon Asset Securities Trust 2007-2 Prospectus Supplement at S-34.

333. With respect to Saxon's underwriting guidelines, the Saxon Asset Securities Trust 2007-2 Prospectus Supplement stated:

The Saxon Mortgage underwriting guidelines provide for an analysis of the overall situation of the borrower and take into account compensating factors which may be used to offset certain areas of weakness. Specific compensating factors include:

loan-to-value ratio;
mortgage payment history;
disposable income;
quality and condition of collateral;
length and quality of credit profile;
employment stability; and
number of years at residence.

Saxon Asset Securities Trust 2007-2 Prospectus Supplement at S-49. *See also* Saxon Asset Securities Trust 2007-2 Registration Statement, Feb. 9, 2006, at "The Mortgage Loan Pool" section.

334. The Saxon Asset Securities Trust 2007-2 Prospectus Supplement represented:

> Saxon Mortgage customarily employs underwriting guidelines to aid in assessing: the borrower's ability and willingness to repay a loan according to its terms; and whether the value of the property securing the loan will allow the lender to recover its investment if a loan default occurs.

Saxon Asset Securities Trust 2007-2 Prospectus Supplement at S-49. *See also* Saxon Asset Securities Trust 2007-2 Registration Statement at "The Mortgage Loan Pool" section.

335. The Saxon Asset Securities Trust 2007-2 Prospectus Supplement stated:

> Saxon Mortgage may, from time to time, apply underwriting criteria that are either more stringent or more flexible than the general guidelines of the underwriting programs outlined below depending on the economic conditions of a particular market.

Saxon Asset Securities Trust 2007-2 Prospectus Supplement at S-50. *See also* Saxon Asset Securities Trust 2007-2 Prospectus, Apr. 26, 2006, at 77.

336. The Morgan Stanley ABS Capital I Inc. Trust 2006-HE4 Prospectus Supplement stated:

> The Underwriting Guidelines require that the documentation accompanying each mortgage loan application include, among other things, a tri-merge credit report on the related applicant from a credit reporting company aggregator. The report typically contains information relating to such matters as credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcy, repossession, suits or judgments. In most instances, WMC Mortgage Corp. obtains a tri-merge credit score independent from the mortgage loan application from a credit reporting company aggregator. In the case of purchase money mortgage loans, WMC Mortgage Corp. generally validates the source of funds for the down payment. In the case of mortgage loans originated under the Full Documentation category, the Underwriting Guidelines require documentation of income (which may consist of (1) a verification of employment form covering a specified time period which varies with LTV, (2) two most recent pay stubs and two years of tax returns or W-2s, (3) verification of deposits and/or

(4) bank statements) and telephonic verification. Under the Full-Alternative Documentation category, only 24 months of bank statements are required (depending upon the LTV) and telephonic verification of employment, under the Limited Documentation category only 12 months of bank statements (or a W-2 for the most current year and a current pay stub) are required, and under the Lite Documentation category only six months of bank statements (or a current pay stub covering the six month period) are required. For mortgage loans originated under the Stated Income/Verified Assets (Streamlined) Documentation category, WMC Mortgage Corp. requires verification of funds equal to two months of principal, interest, taxes and insurance, sourced and seasoned for at least sixty days. In the case of mortgage loans originated under the Stated Income Documentation and Stated Income/Verified Assets (Streamlined) Documentation categories, the Underwriting Guidelines require (1) that income be stated on the application, accompanied by proof of self employment in the case of self-employed individuals, (2) that a WMC Mortgage Corp. pre-funding auditor conduct telephonic verification of employment, or in the case of self-employed individuals, telephonic verification of business line and (3) that stated income be consistent with type of work listed on the application.

Morgan Stanley ABS Capital I Inc. Trust 2006-HE4 Prospectus Supplement at S-29; Morgan Stanley ABS Capital I Inc. Trust 2006-HE6 Prospectus Supplement at S-34-35; Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2 Prospectus Supplement at S-30; Morgan Stanley ABS Capital I Inc. Trust 2007-HE4 Prospectus Supplement at S-33-34; Morgan Stanley ABS Capital I Inc. Trust 2007-HE5 Prospectus Supplement at S-32-33; Morgan Stanley Capital I Inc. Trust 2006-HE2 Prospectus Supplement at S-29.

337. The Morgan Stanley ABS Capital I Inc. Trust 2006-HE4 Prospectus Supplement stated:

The mortgage loans were originated consistent with and generally conform to the Decision One Underwriting Guidelines' full documentation, limited documentation and stated income documentation residential loan programs. Under each of the programs, Decision One reviews the applicant's source of income, calculates the amount of income from sources indicated on the loan application or similar documentation, reviews the credit history of the applicant, calculates the debt service to income ratio to determine the applicant's ability to repay the loan, reviews the type and use of the property being financed, and reviews the property. The Decision One Underwriting Guidelines require that mortgage loans be underwritten in a standardized procedure which complies with applicable federal and state laws and regulations and requires Decision One's

> underwriters to be satisfied that the value of the property being financed, as indicated by an appraisal and a review of the appraisal, currently supports the outstanding loan balance. In general, the maximum loan amount for mortgage loans originated under the programs is $750,000. The Decision One Underwriting Guidelines generally permit loans on one to four family residential properties to have a loan-to-value ratio at origination of up to 100% with respect to first-liens loans. The maximum loan-to-value ratio depends on, among other things, the purpose of the mortgage loan, a borrower's credit history, home ownership history, mortgage payment history or rental payment history, repayment ability and debt service to income ratio, as well as the type and use of the property.
>
> The Decision One Underwriting Guidelines require that the income of each applicant for a mortgage loan be verified. The income documentation required for Decision One's various programs is as follows: under the full documentation program, applicants are required to submit one form of verification from their employer(s) of stable income for at least 24 months; under the Bank Statement and Lite documentation programs, applicants are required to submit verification of stable income for at least 24 months along with consecutive and complete personal checking account bank statements; and under the stated income documentation program, an applicant may be qualified based upon monthly income as stated on the mortgage loan application/form 1003 if the applicant meets certain criteria. All the above mentioned programs require telephone verification of all the applicants' employment.

Morgan Stanley ABS Capital I Inc. Trust 2006-HE4 Prospectus Supplement at S-39; Morgan Stanley ABS Capital I. Inc. Trust 2006-HE6 Prospectus Supplement at S-45; Morgan Stanley ABS Capital I. Inc. Trust 2007-HE4 Prospectus Supplement at S-30; Morgan Stanley ABS Capital I. Inc. Trust 2007-HE5 Prospectus Supplement at S-43; Morgan Stanley Capital I Inc. Trust 2006-HE2 Prospectus Supplement at S-39; Morgan Stanley Home Equity Loan Trust 2006-1 Prospectus Supplement at S-29.

338. The Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement stated with respect to First NLC's documentation programs:

> Verification of Income. First NLC's underwriting guidelines require verification of the borrower's income. First NLC has two primary levels of income documentation requirements, referred to as "full documentation" and "stated income documentation" programs. Under each of these programs, First NLC reviews the loan applicant's source of income, calculate the amount of income from sources indicated on the loan application or similar documentation and

> calculate debt-to-income ratios to determine the applicant's ability to repay the loan. Under the full documentation program, applicants are required to submit income verification for the previous two calendar years as well as year-to-date information. Under the stated income documentation program, First NLC evaluates applicants based upon income as stated in the mortgage loan application. Under both programs, First NLC always verifies by telephone employment and/or proof of business existence and income, and self-employed applicants may be required to submit a business license. Verification of the source of funds, if any, required to be paid by the applicant at closing is generally required under both documentation programs in the form of a standard verification of deposit, bank statements or other acceptable documentation. First NLC verifies twelve months' mortgage payment or rental history with the related lender or landlord. First NLC also offers bank statement loans and "No-Doc" loans at a maximum LTV of 80%.

Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement at S-30. *See also* Morgan Stanley Home Equity Loan Trust 2006-1 Prospectus Supplement at S-31; Morgan Stanley IXIS Real Estate Capital Trust 2006-1 Prospectus Supplement at S-30; Natixis Real Estate Capital Trust 2007-HE2 Prospectus Supplement at 51-52.

339. The Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement stated:

> The Wilmington Underwriting Guidelines require verification or evaluation of the income of each applicant pursuant to the Wilmington "Full Documentation" or "Stated Income" programs. Under each of these programs, Wilmington reviews the mortgage loan applicant's source of income, calculates the amount of income from sources indicated on the mortgage loan application or similar documentation, and calculates debt service-to-income ratios to determine the applicant's ability to repay the mortgage loan. Under the Full Documentation program, applicants are generally required to submit the last two pay stubs, Forms W-2 or 1040 and, in the case of self-employed applicants, Forms 1120 or Schedule Cs, as applicable, and in some cases profit and loss statements for, at a minimum, the previous year. Bank statements are acceptable as Full Documentation with the submission of 12 months consecutive bank statements. Under the Stated Income program, applicants are evaluated based upon income as stated in the mortgage loan application. Under all programs, Wilmington may telephone to verify employment, business and income (on Full Documentation loans), and self-employed applicants may be required to submit a business license.
>
> Verification of the source of funds (if any) required to be paid by the applicant at

closing is generally required under all documentation programs and twelve months' mortgage payment or rental history must be verified by the related lender or landlord.

Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement at S-35-36.

340. The Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement stated:

Accredited's underwriting guidelines require verification or evaluation of the income of each applicant pursuant to Accredited's "Full Documentation," "Lite Documentation" or "Stated Income" programs. Under each of these programs, Accredited reviews the mortgage loan applicant's source of income, calculates the amount of income from sources indicated on the loan application or similar documentation, and calculates debt service-to-income ratios to determine the applicant's ability to repay the mortgage loan. Under the Full Documentation program, applicants are generally required to submit the most current YTD pay stub and written verification of income signed by the employer, Forms W-2 or 1040 and, in the case of self-employed applicants, most recent two years' complete tax returns, signed YTD profit and loss statement, or bank statements. Bank statements are acceptable as Full Documentation, with bank statements for the preceding 24 months acceptable for "Alt2" documentation type or bank statements for the preceding 12 months acceptable for "Alt1." Under the Lite Documentation program, applicants must be self-employed and are required to submit bank statements covering at least the preceding six months. Under the Stated Income program, applicants are evaluated based upon income as stated in the mortgage loan application. Under all programs, Accredited may verify by telephone employment, business and income, and self-employed applicants may be required to submit a business license. Verification of the source of funds (if any) required to be paid by the applicant at closing is generally required under all documentation programs in the form of a standard verification of deposit, two months' consecutive bank statements or other acceptable documentation. On Accredited's core mortgage loan products and on some of its specialty products, twelve months' mortgage payment or rental history must be verified by the related lender or landlord.

Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement at S-37-38.

341. The Morgan Stanley Mortgage Loan Trust 2007-5AX Prospectus Supplement stated:

Certain of the mortgage loans have been originated under alternative, reduced documentation, no-stated-income, no-documentation, no-ratio or stated income/stated assets programs, which require less documentation and verification

than do traditional full documentation programs. Generally, under an alternative documentation program, the borrower provides alternate forms of documentation to verify employment, income and assets. Under a reduced documentation program, no verification of one of either a mortgagor's income or a mortgagor's assets is undertaken by the originator. Under a no-stated-income program or a no-ratio program, certain borrowers with acceptable payment histories will not be required to provide any information regarding income and no other investigation regarding the borrower's income will be undertaken. Under a stated income/stated assets program, no verification of both a mortgagor's income and a mortgagor's assets is undertaken by the originator. Under a no-documentation program, no verification of a mortgagor's income or assets is undertaken by the originator and such information may not even be stated by the mortgagor. The loan purchasing decisions for such mortgage loans may be based primarily or entirely on an appraisal of the mortgaged property and the Loan-to-Value Ratio at origination.

Morgan Stanley Mortgage Loan Trust 2007-5AX Prospectus Supplement at S-56-57. *See also* Morgan Stanley Mortgage Loan Trust 2007-2AX Prospectus Supplement at S-55; Morgan Stanley Mortgage Loan Trust 2005-11AR Prospectus Supplement at S-32; Morgan Stanley Mortgage Loan Trust 2006-10SL Prospectus Supplement at S-31; Morgan Stanley Mortgage Loan Trust 2006-13ARX Prospectus Supplement at S-41; Morgan Stanley Mortgage Loan Trust 2006-16AX Prospectus Supplement at S-63; Morgan Stanley Mortgage Loan Trust 2006-3AR Prospectus Supplement at S-56-57; Morgan Stanley Mortgage Loan Trust 2006-8AR Prospectus Supplement at S-96; Morgan Stanley Mortgage Loan Trust 2006-9AR Prospectus Supplement at S-42; Morgan Stanley Mortgage Loan Trust 2007-11AR Prospectus Supplement at S-48; Morgan Stanley Mortgage Loan Trust 2007-4SL Prospectus Supplement at S-33.

342. The Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Prospectus Supplement stated:

> The mortgage loans were originated consistent with and generally conform to the New Century Underwriting Guidelines' full documentation, limited documentation and stated income documentation residential loan programs. Under each of the programs, New Century reviews the applicant's source of income, calculates the amount of income from sources indicated on the loan application or similar documentation, reviews the credit history of the applicant,

calculates the debt service-to-income ratio to determine the applicant's ability to repay the loan, reviews the type and use of the property being financed, and reviews the property.

....

The New Century Underwriting Guidelines require that the income of each applicant for a mortgage loan under the full and limited documentation programs be verified. The specific income documentation required for New Century's various programs is as follows: under the full documentation program, applicants usually are required to submit one written form of verification from the employer of stable income for at least 12 months for salaried employees and 24 months for self-employed applicants or for any special program applicant with a credit score of less than 580; under the limited documentation program, applicants usually are required to submit verification of stable income for at least 6 months, such as 6 consecutive months of complete personal checking account bank statements. Under the stated income program, an applicant may be qualified based upon monthly income as stated on the mortgage loan application if the applicant meets certain criteria. All the foregoing programs require that, with respect to salaried employees, there be a telephone verification of the applicant's employment.

Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Prospectus Supplement at S-32. *See also* Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Free Writing Prospectus, Nov. 15, 2006, at S-32; Morgan Stanley ABS Capital I Inc. Trust 2006-HE6 Prospectus Supplement at S-30; Morgan Stanley ABS Capital I Inc. Trust 2006-NC4 Prospectus Supplement at S-28-29.

343. The Natixis Real Estate Capital Trust 2007-HE2 Prospectus Supplement stated:

Master Financial's mortgage programs included several documentation types used to verify a borrower's income: Full Documentation, Lite Documentation and Stated Income Documentation. Each of these programs included a review of the borrower's source of income, calculated the amount of income from the sources indicated on the loan application or similar documentation and calculated DTI ratios to determine the borrower's ability to repay the loan.

Generally, the Full Documentation program required a stable, one year history of income, the Lite Documentation program required a six-month history of stable income, and the Stated Documentation program compared the borrower's income provided on the signed application to the borrower's line of work or profession for reasonableness. In addition, although no documentation of income was necessary under the Stated Documentation program, verification of two years employment history was generally required, and the company reserved the right to request verification of income.

Natixis Real Estate Capital Trust 2007-HE2 Prospectus Supplement at 46.

344. The RALI Series 2006-QA5 Trust Prospectus stated:

General Standards

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

If specified in the accompanying prospectus supplement, a mortgage pool may include mortgage loans that have been underwritten pursuant to a streamlined documentation refinancing program. Such program permits some mortgage loans to be refinanced with only limited verification or updating of the underwriting information that was obtained at the time that the original mortgage loan was originated. For example, a new appraisal of a mortgaged property may not be required if the related original mortgage loan was originated up to 24 months prior to the refinancing. In addition, a mortgagor's income may not be verified, although continued employment is required to be verified. In certain circumstances, a mortgagor may be permitted to borrow up to 100% of the outstanding principal amount of the original mortgage loan. Each mortgage loan underwritten pursuant to this program will be treated as having been underwritten pursuant to the same underwriting documentation program as the mortgage loan that it refinanced, including for purposes of the disclosure in the accompanying prospectus supplement.

If specified in the accompanying prospectus supplement, some mortgage loans may have been originated under "limited documentation," "stated documentation" or "no documentation" programs that require less documentation and verification than do traditional "full documentation" programs. Under a limited documentation, stated documentation or no documentation program, minimal

investigation into the mortgagor's credit history and income profile is undertaken by the originator and the underwriting may be based primarily or entirely on an appraisal of the mortgaged property and the LTV ratio at origination.

RALI Series 2006-QA5 Trust Prospectus at 12-13; RALI Series 2006-QA5 Trust Registration Statement at 13-14.

345. The Saxon Asset Securities Trust 2007-2 Prospectus Supplement made the following representations regarding the documentation programs employed by Saxon:

Saxon Mortgage has four income documentation programs:

- *Full Documentation*—underwriter review of documents that are provided to verify employment, income and bank deposits, such as W-2's and pay stubs, or signed tax returns for the past two years;
- *12 Months Personal Bank Statements* - the underwriter will review 12 months consecutive personal bank statements to document the borrowers stated cash flow;
- *Limited Documentation*— six months of personal and/or business bank statements are acceptable documentation of the borrower's stated cash flow; and
- *Stated Income*—the borrower's income as stated on the loan application must be reasonable for the related occupation because the income is not independently verified. The existence of the business and employment is, however, confirmed; and any self-employed business must have been in existence for at least two years.

Saxon Asset Securities Trust 2007-2 Prospectus Supplement at S-49-50. *See also* Saxon Asset Securities Trust 2007-2 Registration Statement at "The Mortgage Loan Pool" section.

346. UNTRUE STATEMENTS AND OMITTED INFORMATION: The preceding statements were material at the time they were made, because the quality of the loans in the mortgage pool directly affects the riskiness of the RMBS investment, and the quality of the loans is dependent upon the underwriting process employed. The preceding statements were untrue at the time they were made because, among other things, the Originators did not adhere to the stated underwriting guidelines, did not effectively evaluate the borrowers' ability or likelihood to repay the loans, did not properly evaluate whether the borrower's debt-to-income ratio supported

a conclusion that the borrower had the means to meet his/her monthly obligations, and did not ensure that adequate compensating factors justified the granting of exceptions to guidelines.

B. Untrue Statements Concerning Loan-to-Value Ratios, Owner-Occupancy Rates, and DTI Ratios

347. The Offering Documents provided statistical descriptions of the collateral, such as LTV ratios, CLTV ratios, owner-occupancy rates, and DTI ratios. *See, e.g.*, Morgan Stanley ABS Capital I Inc. Trust 2006-HE4 Prospectus Supplement at Annex III.

348. The Offering Documents represented that independent and objective appraisals were obtained for the properties. *See, e.g.*, Morgan Stanley ABS Capital I Inc. Trust 2006-HE4 Prospectus Supplement at S-28 (requiring "an appraisal of the mortgaged property which conforms to the Uniform Standards of Professional Appraisal Practice").

349. The Morgan Stanley ABS Capital I Inc. Trust 2006-HE4 Prospectus Supplement stated:

> The Underwriting Guidelines are less stringent than the standards generally acceptable to Fannie Mae and Freddie Mac with regard to the mortgagor's credit standing, Debt Ratios, documentation programs, and in certain other respects. Mortgagors who qualify under the Underwriting Guidelines may have payment histories and Debt Ratios that would not satisfy Fannie Mae and Freddie Mac underwriting guidelines and may have a record of major derogatory credit items such as outstanding judgments or prior bankruptcies. The Underwriting Guidelines establish the maximum permitted LTV for each loan type based upon these and other risk factors.

Morgan Stanley ABS Capital I Inc. Trust 2006-HE4 Prospectus Supplement at S-29; Morgan Stanley ABS Capital I Inc. Trust 2006-HE6 Prospectus Supplement at S-35; Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2 Prospectus Supplement at S-30; Morgan Stanley ABS Capital I Inc. Trust 2007-HE4 Prospectus Supplement at S-34; Morgan Stanley ABS Capital I Inc. Trust 2007-HE5 Prospectus Supplement at S-33; Morgan Stanley Capital I Inc. Trust 2006-HE2 Prospectus Supplement at S-29.

350. The Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Prospectus Supplement stated:

> The New Century Underwriting Guidelines generally permit loans on one to four family residential properties to have a loan-to-value ratio at origination of up to 95% with respect to first liens loans. The maximum loan-to-value ratio depends on, among other things, the purpose of the mortgage loan, a borrower's credit history, home ownership history, mortgage payment history or rental payment history, repayment ability and debt service-to-income ratio, as well as the type and use of the property.

The Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Prospectus Supplement at S-32. *See also* Morgan Stanley ABS Capital I Inc. Trust 2006-HE8 Free Writing Prospectus, Nov. 15, 2006, at S-32; Morgan Stanley ABS Capital I Inc. Trust 2006-HE6 Prospectus Supplement at S-30; Morgan Stanley ABS Capital I Inc. Trust 2006-NC4 Prospectus Supplement at S-29.

351. The Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement stated:

> With respect to Wilmington mortgage loan products, in general, "loan-to-value" ("LTV") maximums decreased with credit quality, and, within each credit classification, the LTV maximums vary depending on the property type. LTV maximums for mortgage loans secured by owner-occupied properties are generally higher than for mortgage loans secured by properties that are not owner-occupied. LTV maximums for Stated Income programs are generally lower than the LTV maximums for corresponding Full Documentation programs. Wilmington maximum debt-to-income ratios range from 50% to 55% for Full Documentation programs, and up to a maximum of 50% for Stated Income programs.

Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement at S-36.

352. The Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement stated:

> In general, Accredited's LTV maximums decrease with credit quality, and, within each credit classification, the LTV maximums vary depending on the property type. LTV maximums for mortgage loans secured by owner-occupied properties are higher than for mortgage loans secured by properties that are not owner-occupied. LTV maximums for Lite Documentation and Stated Income programs

> are generally lower than the LTV maximums for corresponding Full Documentation programs. Our maximum debt-to-income ratios range from 50% to 55% for Full Documentation programs, and maximum 50% for Lite Documentation and Stated Income Programs.

Morgan Stanley Home Equity Loan Trust 2007-2 Prospectus Supplement at S-38.

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

IX. THE CLAIMS ARE TIMELY

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

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

356. Actions brought under Sections 11 and 12(a)(2) of the Securities Act must be:

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

15 U.S.C. § 77m.

357. Actions brought under Section 13 of the Illinois Blue Sky law must be brought

within:

> 3 years from the date of sale; provided, that if the party bringing the action neither knew nor in the exercise of reasonable diligence should have known of any alleged violation of subsection E, F, G, H, I or J of Section 12 of this Act which is the basis for the action, the 3 year period provided shall begin to run upon the earlier of:
>
> (1) the date upon which the party bringing the action has actual knowledge of the alleged violation of this Act; or
>
> (2) the date upon which the party bringing the action has notice of facts which in the exercise of reasonable diligence would lead to actual knowledge of the alleged violation of this Act; but in no event shall the period of limitation so extended be more than 2 years beyond the expiration of the 3 year period otherwise applicable.

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

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

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

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

> One important informational friction highlighted during the recent financial crisis has aspects of a "lemons" problem that exists between the issuer and investor. An

> originator has more information about the ability of a borrower to repay than an investor, because the originator is the party making the loan. Because the investor is several steps removed from the borrower, the investor may receive less robust loan performance information. Additionally, the large number of assets and the disclosures provided to investors may not include sufficient information on the quality of the underlying financial assets for investors to undertake full due diligence on each asset that backs the security.

FSOC Risk Retention Report at 9 (footnote omitted).

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

Table 7
Purchases Subject to Tolling Under American Pipe

CUSIP	ISSUING ENTITY	PURCHASER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE
61749LAA9	Morgan Stanley Mortgage Loan Trust 2006-8AR	Southwest	6/7/2006	*Public Employees of Mississippi v. Morgan Stanley,* No. 00226005 (Cal. Super. Ct., Orange County) Complaint **Filed: Dec. 2, 2008** removed to No. 08-1469 (C.D.C.A.); transferred to No. 09-2137 (S.D.N.Y.) *West Virginia Investment v. Morgan Stanley,* No. 09-4414 (S.D.N.Y.) Complaint **Filed: May 7, 2009** consolidated with *In Re Morgan Stanley Pass-Through Certificates Litigation,* No. 09-2137 (S.D.N.Y.)
61748JAA5	Morgan Stanley Mortgage Loan Trust 2006-9AR	Southwest	7/20/2006	*Public Employees of Mississippi v. Morgan Stanley,* No. 00226005 (Cal. Super. Ct., Orange County) Complaint **Filed: Dec. 2, 2008** removed to No. 08-1469 (C.D.C.A.); transferred to No. 09-2137 (S.D.N.Y.) *West Virginia Investment v. Morgan Stanley,* No. 09-4414 (S.D.N.Y.) Complaint **Filed: May 7, 2009** consolidated with *In Re Morgan Stanley Pass-Through Certificates Litigation,* No. 09-2137 (S.D.N.Y.)

CUSIP	ISSUING ENTITY	PURCHASER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE
61749TAA2	Morgan Stanley Mortgage Loan Trust 2006-10SL	Southwest	7/14/2006	*Public Employees of Mississippi v. Morgan Stanley,* No. 00226005 (Cal. Super. Ct., Orange County) Complaint **Filed: Dec. 2, 2008** removed to No. 08-1469 (C.D.C.A.); transferred to No. 09-2137 (S.D.N.Y.) *West Virginia Investment v. Morgan Stanley,* No. 09-4414 (S.D.N.Y.) Complaint **Filed: May 7, 2009** consolidated with *In Re Morgan Stanley Pass-Through Certificates Litigation,* No. 09-2137 (S.D.N.Y.)
61750PAB4	Morgan Stanley Mortgage Loan Trust 2006-13ARX	Southwest	9/15/2006	*Public Employees of Mississippi v. Morgan Stanley,* No. 00226005 (Cal. Super. Ct., Orange County) Complaint **Filed: Dec. 2, 2008** removed to No. 08-1469 (C.D.C.A.); transferred to No. 09-2137 (S.D.N.Y.) *West Virginia Investment v. Morgan Stanley,* No. 09-4414 (S.D.N.Y.) Complaint **Filed: May 7, 2009** consolidated with *In Re Morgan Stanley Pass-Through Certificates Litigation,* No. 09-2137 (S.D.N.Y.)
617487AC7	Morgan Stanley Mortgage Loan Trust 2006-16AX	Southwest	10/19/2006	*Public Employees of Mississippi v. Morgan Stanley,* No. 00226005 (Cal. Super. Ct., Orange County) Complaint **Filed: Dec. 2, 2008** removed to No. 08-1469 (C.D.C.A.); transferred to No. 09-2137 (S.D.N.Y.) *West Virginia Investment v. Morgan Stanley,* No. 09-4414 (S.D.N.Y.) Complaint **Filed: May 7, 2009** consolidated with *In Re Morgan Stanley Pass-Through Certificates Litigation,* No. 09-2137 (S.D.N.Y.)

CUSIP	ISSUING ENTITY	PURCHASER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE
617487AC7	Morgan Stanley Mortgage Loan Trust 2006-16AX	Members United	2/27/2007	*Public Employees of Mississippi v. Morgan Stanley*, No. 00226005 (Cal. Super. Ct., Orange County) Complaint **Filed: Dec. 2, 2008** removed to No. 08-1469 (C.D.C.A.); transferred to No. 09-2137 (S.D.N.Y.) *West Virginia Investment v. Morgan Stanley*, No. 09-4414 (S.D.N.Y.) Complaint **Filed: May 7, 2009** consolidated with *In Re Morgan Stanley Pass-Through Certificates Litigation*, No. 09-2137 (S.D.N.Y.)
61751TAC3	Morgan Stanley Mortgage Loan Trust 2007-2AX	Members United	1/16/2007	*West Virginia Investment v. Morgan Stanley*, No. 09-4414 (S.D.N.Y.) Complaint **Filed: May 7, 2009** consolidated with *In Re Morgan Stanley Pass-Through Certificates Litigation*, No. 09-2137 (S.D.N.Y.)
61751PAA5	Morgan Stanley Mortgage Loan Trust 2007-4SL	Members United	2/23/2007	*West Virginia Investment v. Morgan Stanley*, No. 09-4414 (S.D.N.Y.) Complaint **Filed: May 7, 2009** consolidated with *In Re Morgan Stanley Pass-Through Certificates Litigation*, No. 09-2137 (S.D.N.Y.)
61751GAC1	Morgan Stanley Mortgage Loan Trust 2007-5AX	Members United	2/23/2007	*West Virginia Investment v. Morgan Stanley*, No. 09-4414 (S.D.N.Y.) Complaint **Filed: May 7, 2009** consolidated with *In Re Morgan Stanley Pass-Through Certificates Litigation*, No. 09-2137 (S.D.N.Y.)
61754VAG6	Morgan Stanley Mortgage Loan Trust 2007-11AR	Members United	6/21/2007	*West Virginia Investment v. Morgan Stanley*, No. 09-4414 (S.D.N.Y.) Complaint **Filed: May 7, 2009** consolidated with *In Re Morgan Stanley Pass-Through Certificates Litigation*, No. 09-2137 (S.D.N.Y.)
75115BAA7	RALI Series 2006-QA5 Trust	Southwest	6/21/2006	*New Jersey Carpenters v. RALI*, No. 08-8781 (S.D.N.Y.) Consolidated Amended Complaint **Filed: May 18, 2009**

362. With respect to those RMBS purchases for which the NCUA Board asserts claims for the Credit Unions under Section 11 of the Securities Act (Counts 1 and 4), the earliest date they were bona fide offered to the public – after accounting for *American Pipe* tolling – was not more than three years prior to September 24, 2010. Accordingly, the NCUA Board's Section 11 claims on behalf of the Credit Unions are not time-barred.

363. With respect to those RMBS purchases for which the NCUA Board asserts claims for the Credit Unions under Section 12(a)(2) of the Securities Act (Counts 2 and 5), the earliest sale date – after accounting for *American Pipe* tolling – was not more than three years prior to September 24, 2010. Accordingly, the NCUA Board's Section 12(a)(2) claims on behalf of the Credit Unions are not time barred.

364. With respect to those RMBS purchases for which the NCUA Board asserts claims under state law (Counts 3 and 6), the earliest purchase date/offering date with respect to those claims was December 21, 2005, or not more than five years prior to September 24, 2010. Accordingly, the NCUA Board's state law claims on behalf of the Credit Unions are not time-barred.

X. CLAIMS FOR RELIEF

COUNT ONE
Section 11 of the Securities Act of 1933
(Morgan Stanley Mortgage Loan Trust 2006-8AR, Morgan Stanley Mortgage Loan Trust 2006-9AR, Morgan Stanley Mortgage Loan Trust 2006-10SL, Morgan Stanley Mortgage Loan Trust 2006-13ARX, Morgan Stanley Mortgage Loan Trust 2006-16AX)

365. The NCUA Board realleges paragraphs 1 through 364 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the Morgan Stanley Mortgage Loan Trust 2006-8AR, Morgan Stanley Mortgage Loan Trust 2006-9AR,

Morgan Stanley Mortgage Loan Trust 2006-10SL, Morgan Stanley Mortgage Loan Trust 2006-13ARX and the Morgan Stanley Mortgage Loan Trust 2006-16AX offerings.

366. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to Southwest's purchases of the Morgan Stanley Mortgage Loan Trust 2006-8AR, Morgan Stanley Mortgage Loan Trust 2006-9AR, Morgan Stanley Mortgage Loan Trust 2006-10SL, Morgan Stanley Mortgage Loan Trust 2006-13ARX and Morgan Stanley Mortgage Loan Trust 2006-16AX certificates against Defendant Morgan Stanley, as the underwriter, and against Defendant Morgan Stanley Capital I Inc. as the issuer.

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

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

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

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

371. Morgan Stanley's and Morgan Stanley Capital I Inc.'s conduct as alleged above violated Section 11.

372. Southwest and Plaintiff sustained damages as a result of Morgan Stanley's and Morgan Stanley Capital I Inc.'s violations of Section 11.

373. WHEREFORE, the NCUA Board requests the Court to enter judgment in its

favor against Defendant Morgan Stanley and Defendant Morgan Stanley Capital I Inc., jointly and severally, awarding all damages, in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

COUNT TWO
Section 12(a)(2) of the Securities Act of 1933
(Morgan Stanley Mortgage Loan Trust 2006-9AR, Morgan Stanley Mortgage Loan Trust 2006-10SL, Morgan Stanley Mortgage Loan Trust 2006-13ARX, Morgan Stanley Mortgage Loan Trust 2006-16AX)

374. The NCUA Board realleges paragraphs 1 through 364 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the Morgan Stanley Mortgage Loan Trust 2006-9AR, Morgan Stanley Mortgage Loan Trust 2006-10SL, Morgan Stanley Mortgage Loan Trust 2006-13ARX and the Morgan Stanley Mortgage Loan Trust 2006-16AX offerings.

375. The NCUA Board brings this cause of action pursuant to Section 12(a)(2) of the Securities Act, with respect to Southwest's purchases of the Morgan Stanley Mortgage Loan Trust 2006-9AR, Morgan Stanley Mortgage Loan Trust 2006-10SL, Morgan Stanley Mortgage Loan Trust 2006-13ARX and Morgan Stanley Mortgage Loan Trust 2006-16AX certificates against Defendants Morgan Stanley and Morgan Stanley Capital I Inc. as the statutory sellers and/or offerors of those certificates.

376. Defendants Morgan Stanley and Morgan Stanley Capital I Inc. offered to sell and sold the certificates to Southwest through one or more instrumentalities of interstate commerce (*i.e.*, telephone, faxes, mails, email or other means of electronic communication).

377. Defendants Morgan Stanley and Morgan Stanley Capital I Inc. offered to sell and sold the certificates, for their own financial gain, to Southwest by means of the prospectuses and/or prospectus supplements, as alleged above, and/or oral communications related to the

prospectuses and/or prospectus supplements.

378. The prospectuses and/or prospectus supplements contained untrue statements and omitted facts that were necessary to make the statements made not misleading, as alleged above.

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

380. Southwest purchased the certificates on the initial offering pursuant to the prospectuses and/or prospectus supplements.

381. At the time Southwest purchased the certificates, it did not know of the untrue statements and omissions contained in the prospectuses and/or prospectus supplements.

382. Defendants Morgan Stanley's and Morgan Stanley Capital I Inc.'s conduct as alleged above violated Section 12(a)(2).

383. Southwest and the NCUA Board sustained damages as a result of Defendants Morgan Stanley's and Morgan Stanley Capital I Inc.'s violation of Section 12(a)(2).

384. Under Section 12(a)(2), the NCUA Board is entitled to rescind and recover the consideration Southwest paid for the certificates, minus principal and interest received.

385. WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendants Morgan Stanley and Morgan Stanley Capital I Inc., awarding a rescissory measure of damages, or in the alternative compensatory damages, in an amount to be proven at trial; costs, and such other relief as the Court deems appropriate and just.

COUNT THREE
Violation of the Texas Securities Act
Tex. Rev. Civ. Stat. Ann. art. 581, § 33

(Morgan Stanley ABS Capital I Inc. Trust 2006-HE4, Morgan Stanley ABS Capital I Inc. Trust 2006-HE6, Morgan Stanley ABS Capital I Inc. Trust 2006-HE8, Morgan Stanley ABS Capital I Inc. Trust 2006-NC4, Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2, Morgan Stanley ABS Capital I Inc. Trust 2007-HE4, Morgan Stanley ABS Capital I Inc. Trust 2007-HE5, Morgan Stanley Home Equity Loan Trust 2006-1, Morgan Stanley Home Equity Loan Trust 2007-2, Morgan Stanley IXIS Real Estate Capital Trust 2006-1, Morgan Stanley Mortgage Loan Trust 2005-11AR, Morgan Stanley Mortgage Loan Trust 2006-3AR, Morgan Stanley Mortgage Loan Trust 2006-8AR, Morgan Stanley Mortgage Loan Trust 2006-9AR, Morgan Stanley Mortgage Loan Trust 2006-10SL, Morgan Stanley Mortgage Loan Trust 2006-13ARX, Morgan Stanley Mortgage Loan Trust 2006-16AX, Natixis Real Estate Capital Trust 2007-HE2, RALI Series 2006-QA5 Trust, Saxon Asset Securities Trust 2007-2)

386. The NCUA Board realleges paragraphs 1 through 364 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the Morgan Stanley ABS Capital I Inc. Trust 2006-HE4, Morgan Stanley ABS Capital I Inc. Trust 2006-HE6, Morgan Stanley ABS Capital I Inc. Trust 2006-HE8, Morgan Stanley ABS Capital I Inc. Trust 2006-NC4, Morgan Stanley ABS Capital I Inc. Trust 2006-WMC2, Morgan Stanley ABS Capital I Inc. Trust 2007-HE4, Morgan Stanley ABS Capital I Inc. Trust 2007-HE5, Morgan Stanley Home Equity Loan Trust 2006-1, Morgan Stanley Home Equity Loan Trust 2007-2, Morgan Stanley IXIS Real Estate Capital Trust 2006-1, Morgan Stanley Mortgage Loan Trust 2005-11AR, Morgan Stanley Mortgage Loan Trust 2006-3AR, Morgan Stanley Mortgage Loan Trust 2006-8AR, Morgan Stanley Mortgage Loan Trust 2006-9AR, Morgan Stanley Mortgage Loan Trust 2006-10SL, Morgan Stanley Mortgage Loan Trust 2006-13ARX, Morgan Stanley Mortgage Loan Trust 2006-16AX, Natixis Real Estate Capital Trust 2007-HE2, RALI Series 2006-QA5 Trust and the Saxon Asset Securities Trust 2007-2 offerings.

387. The NCUA Board brings this cause of action pursuant to Section 33 of the Texas Securities Act, with respect to Southwest's purchases of the Morgan Stanley ABS Capital I Inc. Trust 2006-HE4, Morgan Stanley ABS Capital I Inc. Trust 2006-HE6, Morgan Stanley ABS Capital I Inc. Trust 2006-HE8, Morgan Stanley ABS Capital I Inc. Trust 2006-NC4, Morgan

Stanley ABS Capital I Inc. Trust 2006-WMC2, Morgan Stanley ABS Capital I Inc. Trust 2007-HE4, Morgan Stanley ABS Capital I Inc. Trust 2007-HE5, Morgan Stanley Home Equity Loan Trust 2006-1, Morgan Stanley Home Equity Loan Trust 2007-2, Morgan Stanley IXIS Real Estate Capital Trust 2006-1, Morgan Stanley Mortgage Loan Trust 2005-11AR, Morgan Stanley Mortgage Loan Trust 2006-3AR, Morgan Stanley Mortgage Loan Trust 2006-8AR, Morgan Stanley Mortgage Loan Trust 2006-9AR, Morgan Stanley Mortgage Loan Trust 2006-10SL, Morgan Stanley Mortgage Loan Trust 2006-13ARX, Morgan Stanley Mortgage Loan Trust 2006-16AX, Natixis Real Estate Capital Trust 2007-HE2, RALI Series 2006-QA5 Trust and the Saxon Asset Securities Trust 2007-2 certificates against Defendant Morgan Stanley as the seller of those certificates.

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

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

390. Defendant Morgan Stanley sold the certificates to Southwest in Texas.

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

392. If Southwest had known about these untruths and omissions, it would not have purchased the certificates from Defendant Morgan Stanley.

393. Defendant Morgan Stanley's sales of the certificates violated Tex. Rev. Civ. Stat. Ann. art. 581, § 33(A)(2).

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

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

COUNT FOUR
Section 11 of the Securities Act of 1933
(Morgan Stanley Mortgage Loan Trust 2006-16AX,
Morgan Stanley Mortgage Loan Trust 2007-2AX,
Morgan Stanley Mortgage Loan Trust 2007-4SL,
Morgan Stanley Mortgage Loan Trust 2007-5AX,
Morgan Stanley Mortgage Loan Trust 2007-11AR)

396. The NCUA Board realleges paragraphs 1 through 364 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the Morgan Stanley Mortgage Loan Trust 2006-16AX, Morgan Stanley Mortgage Loan Trust 2007-2AX, Morgan Stanley Mortgage Loan Trust 2007-4SL, Morgan Stanley Mortgage Loan Trust 2007-5AX and the Morgan Stanley Mortgage Loan Trust 2007-11AR offerings.

397. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to Members United's purchases of the Morgan Stanley Mortgage Loan Trust 2006-16AX, Morgan Stanley Mortgage Loan Trust 2007-2AX, Morgan Stanley Mortgage Loan Trust 2007-4SL, Morgan Stanley Mortgage Loan Trust 2007-5AX and the Morgan Stanley Mortgage Loan Trust 2007-11AR certificates against Defendant Morgan Stanley, as the underwriter, and against Defendant Morgan Stanley Capital I Inc. as the issuer.

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

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

400. Members United purchased the certificates pursuant to and traceable to a defective registration statement, as alleged above.

401. At the time Members United purchased the certificates, it did not know of the untrue statements and omissions contained in the registration statement.

402. Morgan Stanley's and Morgan Stanley Capital I Inc.'s conduct as alleged above violated Section 11.

403. Members United and Plaintiff sustained damages as a result of Morgan Stanley's and Morgan Stanley Capital I Inc.'s violations of Section 11.

404. WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Morgan Stanley and Defendant Morgan Stanley Capital I Inc., jointly and severally, awarding all damages, in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

COUNT FIVE
Section 12(a)(2) of the Securities Act of 1933
(Morgan Stanley Mortgage Loan Trust 2007-2AX, Morgan Stanley Mortgage Loan Trust 2007-4SL, Morgan Stanley Mortgage Loan Trust 2007-5AX, Morgan Stanley Mortgage Loan Trust 2007-11AR)

405. The NCUA Board realleges paragraphs 1 through 364 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the Morgan

Stanley Mortgage Loan Trust 2007-2AX, Morgan Stanley Mortgage Loan Trust 2007-4SL, Morgan Stanley Mortgage Loan Trust 2007-5AX and the Morgan Stanley Mortgage Loan Trust 2007-11AR offerings.

406. The NCUA Board brings this cause of action pursuant to Section 12(a)(2) of the Securities Act, with respect to Members United's purchases of the Morgan Stanley Mortgage Loan Trust 2007-2AX, Morgan Stanley Mortgage Loan Trust 2007-4SL, Morgan Stanley Mortgage Loan Trust 2007-5AX and the Morgan Stanley Mortgage Loan Trust 2007-11AR certificates against Defendants Morgan Stanley and Morgan Stanley Capital I Inc. as the statutory sellers and/or offerors of those certificates.

407. Defendants Morgan Stanley and Morgan Stanley Capital I Inc. offered to sell and sold the certificates to Members United through one or more instrumentalities of interstate commerce (*i.e.*, telephone, faxes, mails, email or other means of electronic communication).

408. Defendants Morgan Stanley and Morgan Stanley Capital I Inc. offered to sell and sold the certificates, for their own financial gain, to Members United by means of the prospectuses and/or prospectus supplements, as alleged above, and/or oral communications related to the prospectuses and/or prospectus supplements.

409. The prospectuses and/or prospectus supplements contained untrue statements and omitted facts that were necessary to make the statements made not misleading, as alleged above.

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

411. Members United purchased the certificates on the initial offering pursuant to the prospectuses and/or prospectus supplements.

412. At the time Members United purchased the certificates, it did not know of the untrue statements and omissions contained in the prospectuses and/or prospectus supplements.

413. Defendants Morgan Stanley's and Morgan Stanley Capital I Inc.'s conduct as alleged above violated Section 12(a)(2).

414. Members United and the NCUA Board sustained damages as a result of Defendants Morgan Stanley's and Morgan Stanley Capital I Inc.'s violation of Section 12(a)(2).

415. Under Section 12(a)(2), the NCUA Board is entitled to rescind and recover the consideration Members United paid for the certificates, minus principal and interest received.

416. WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendants Morgan Stanley and Morgan Stanley Capital I Inc., awarding a rescissory measure of damages, or in the alternative compensatory damages, in an amount to be proven at trial; costs, and such other relief as the Court deems appropriate and just.

COUNT SIX
Violation of the Illinois Securities Law of 1953
815 Ill. Comp. Stat. Ann. 5/12
(Morgan Stanley Capital I Inc. Trust 2006-HE2, Morgan Stanley Mortgage Loan Trust 2006-16AX, Morgan Stanley Mortgage Loan Trust 2007-2AX, Morgan Stanley Mortgage Loan Trust 2007-4SL, Morgan Stanley Mortgage Loan Trust 2007-5AX, Morgan Stanley Mortgage Loan Trust 2007-11AR)

417. The NCUA Board realleges paragraphs 1 through 364 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the Morgan Stanley Capital I Inc. Trust 2006-HE2, Morgan Stanley Mortgage Loan Trust 2006-16AX, Morgan Stanley Mortgage Loan Trust 2007-2AX, Morgan Stanley Mortgage Loan Trust 2007-4SL, Morgan Stanley Mortgage Loan Trust 2007-5AX and the Morgan Stanley Mortgage Loan Trust 2007-11AR offerings.

418. The NCUA Board brings this cause of action pursuant to Section 12 of the Illinois

Securities Law of 1953, with respect to Members United's purchases of the Morgan Stanley Capital I Inc. Trust 2006-HE2, Morgan Stanley Mortgage Loan Trust 2006-16AX, Morgan Stanley Mortgage Loan Trust 2007-2AX, Morgan Stanley Mortgage Loan Trust 2007-4SL, Morgan Stanley Mortgage Loan Trust 2007-5AX and Morgan Stanley Mortgage Loan Trust 2007-11AR certificates against Defendant Morgan Stanley, as the seller of those certificates.

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

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

421. Defendant Morgan Stanley sold the certificates to Members United in Illinois.

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

423. If Members United had known about these untruths and omissions, it would not have purchased the certificates from Defendant Morgan Stanley.

424. Defendant Morgan Stanley's sales of the certificates violated 815 Ill. Comp. Stat. Ann. 5/12(G).

425. Members United and Plaintiff sustained damages as a result of Defendant Morgan Stanley's violations of 815 Ill. Comp. Stat. Ann. 5/12(G).

426. WHEREFORE, the NCUA Board requests the Court to enter judgment in its

favor against Defendant Morgan Stanley, awarding rescission or a rescissory measure of damages, or in the alternative compensatory damages, in an amount to be proven at trial; costs, and such other relief as the Court deems appropriate and just.

Jury Demand

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

Dated: September 23, 2013

NATIONAL CREDIT UNION ADMINISTRATION BOARD,
as Liquidating Agent of Southwest Corporate Federal Credit Union and Members United Corporate Federal Credit Union

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