IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

NATIONAL CREDIT UNION ADMINISTRATION BOARD, as Liquidating Agent of U.S. Central Federal Credit Union, Western Corporate Federal Credit Union, Southwest Corporate Federal Credit Union, and of Members United Corporate Federal Credit Union,

Plaintiff,

v.

BEAR, STEARNS & CO., INC n/k/a J.P. MORGAN SECURITIES, LLC; STRUCTURED ASSET MORTGAGE INVESTMENTS II, INC.; BEAR STEARNS ASSET BACKED SECURITIES I, LLC; and INDYMAC MBS, INC.

Defendants.

Case No. 12-cv-2781 JTM/KGG

JURY TRIAL DEMANDED

COMPLAINT

TABLE OF CONTENTS

Page

Plaintiff, National Credit Union Administration Board ("NCUA Board"), brings this action in its capacity as Liquidating Agent of U.S. Central Federal Credit Union ("U.S. Central"), Western Corporate Federal Credit Union ("WesCorp"), Southwest Corporate Federal Credit Union ("Southwest"), and Members United Corporate Federal Credit Union ("Members United") (collectively the "Credit Unions") against Bear, Stearns & Co., Inc. ("Bear Stearns"), (n/k/a J.P. Morgan Securities, LLC) as underwriter and/or seller, and against Structured Asset Mortgage Investments II, Inc., Bear Stearns Asset Backed Securities I, LLC, and IndyMac MBS, Inc. (collectively, "the Issuer Defendants"), as issuers, 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 Credit Unions where Bear Stearns 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 Defendants issued and Bear Stearns underwrote and sold the RMBS pursuant to registration statements, prospectuses, and/or prospectus supplements (collectively, the "Offering Documents"). The 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), and the Kansas Uniform Securities Act, Kan. Stat. Ann. § 17-12a509 ("Kansas Blue Sky law"), the California Corporate Securities Law of 1968 ("California Blue Sky law"), Cal. Corp. Code §§ 25401, 25501, the Illinois Securities Law of 1953, 815 Ill. Comp. Stat. Ann. 5/12 & 13 ("Illinois Blue Sky law"), and the Texas Securities Act, Tex. Rev. Civ. Stat. Ann. art 581, § 33 ("Texas Blue Sky law").

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

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. Also, properties were routinely overvalued at the time of origination, rendering the average LTV ratios inaccurate. Indeed, a material percentage of the loans collateralizing the RMBS were all but certain to become delinquent or default shortly after origination. As a result, the RMBS were destined from inception to perform poorly.

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 the RMBS listed in Table 1 (*infra*) through initial offerings directly from Bear Stearns by means of prospectuses or oral communications. Thus, Bear Stearns is liable for material untrue statements and omissions of fact under Section 11, Section 12(a)(2), and/or the Kansas, California, Illinois, and Texas Blue Sky laws for the RMBS listed in Table 1 (*infra*).

Table 1

CUSIP[1]	ISSUING ENTITY	DEPOSITOR DEFENDANT	PURCHASER	TRADE DATE	PRICE PAID
65538NAE3	Nomura Asset Acceptance Corp , Alternative Loan Trust 2007-1 (“**NAA 2007-1**”)	-	U S Central	5/4/2007	$71,561,000
65537UAA6	Nomura Asset Acceptance Corp , Alternative Loan Trust 2007-3 (“**NAA 2007-3**”)	-	Members United	6/29/2007	$20,021,000
65537UAB4	NAA 2007-3	-	Members United	6/29/2007	$24,036,000
65537UAA6	NAA 2007-3	-	Southwest	6/29/2007	$15,000,000
02660CAC4	American Home Mortgage Investment Trust 2007-2 **(“AHM 2007-2”)**	-	U S Central	4/19/2007	$12,338,000
02660CAD2	AHM 2007-2	-	U S Central	4/19/2007	$49,000,000
02660CAE0	AHM 2007-2	-	U S Central	4/19/2007	$13,973,000
07388AAB0	Bear Stearns Asset Backed Securities I Trust 2006-HE4 (“**BSABS 2006-HE4**”)	Bear Stearns Asset Backed Securities I LLC	U S Central	4/17/2006	$45,324,000
07388AAC8	BSABS 2006-HE4	Bear Stearns Asset Backed Securities I LLC	U S Central	4/17/2006	$17,077,000
07387LAA9	Bear Stearns Asset Backed Securities Trust 2007-SD3 (“**BSABS 2007-SD3**”)	Bear Stearns Asset Backed Securities I LLC	US Central	5/17/2007	$272,699,000
07401WAA7	Bear Stearns Second Lien Trust 2007-1 (“**BSSLT 2007-1**”)	Bear Stearns Asset Backed Securities I LLC	U S Central	4/16/2007	$50,479,000
07401WAP4	BSSLT 2007-1	Bear Stearns Asset Backed Securities I LLC	U S Central	4/27/2007	$50,000,000
07401WBA6	BSSLT 2007-1	Bear Stearns Asset Backed Securities I LLC	U S Central	4/27/2007	$46,500,000
07386HF89	Bear Stearns ALT-A Trust 2006-2 **(“BALTA 2006-2”)**	Structured Asset Mortgage Investments II Inc	WesCorp	2/7/2006	$9,456,645
07386HF48	BALTA 2006-2	Structured Asset Mortgage Investments II Inc	WesCorp	2/7/2006	$18,473,318
073871AA3	Bear Stearns ALT-A Trust 2006-4 (“**BALTA 2006-4**”)	-	Southwest	5/19/2006	$17,000,000
073871AE5	BALTA 2006-4	-	Southwest	6/9/2006	$20,000,000

[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 DEFENDANT	PURCHASER	TRADE DATE	PRICE PAID
073873AA9	Bear Stearns ALT-A Trust 2006-5 (“**BALTA 2006-5**”)	Structured Asset Mortgage Investments II Inc	Southwest	7/18/2006	$15,000,000
073868AX9	Bear Stearns ALT-A Trust 2006-6 **(“BALTA 2006-6”)**	Structured Asset Mortgage Investments II Inc	WesCorp	9/12/2006	$34,983,224
073868BG5	BALTA 2006-6	Structured Asset Mortgage Investments II Inc	WesCorp	9/12/2006	$29,140,536
073868AA9	BALTA 2006-6	Structured Asset Mortgage Investments II Inc	Southwest	8/31/2006	$15,000,000
073875AA4	Bear Stearns ALT-A Trust 2006-7 **(“BALTA 2006-7”)**	Structured Asset Mortgage Investments II Inc	Southwest	10/5/2006	$19,250,000
07386XAA4	Bear Stearns ALT-A Trust 2007-1 **(“BALTA 2007-1”)**	Structured Asset Mortgage Investments II Inc	Members United	1/24/2007	$20,000,000
073882AE2	Bear Stearns ARM Trust 2006-4 (“**BSARM 2006-4**”)	Structured Asset Mortgage Investments II, Inc	WesCorp	9/6/2006	$24,701,230
07401AAC1	Bear Stearns Mortgage Funding Trust 2006-AR2 **(“BSMF 2006-AR2”)**	Structured Asset Mortgage Investments II Inc	WesCorp	9/8/2006	$37,110,000
07400HAB9	Bear Stearns Mortgage Funding Trust 2006-AR3 (“**BSMF 2006-AR3**”)	Structured Asset Mortgage Investments II Inc	WesCorp	10/10/2006	$50,000,000
07400HAD5	BSMF 2006-AR3	Structured Asset Mortgage Investments II Inc	WesCorp	10/10/2006	$13,975,000
07401JAA6	Bear Stearns Mortgage Funding Trust 2006-AR4 **(“BSMF 2006-AR4”)**	Structured Asset Mortgage Investments II Inc	Members United	11/03/2006	$20,000,000
07401JAB4	BSMF 2006-AR4	Structured Asset Mortgage Investments II Inc	U S Central	10/27/2006	$183,633,000
07401NAB5	Bear Stearns Mortgage Funding Trust 2006-AR5 **(“BSMF 2006-AR5”)**	Structured Asset Mortgage Investments II Inc	WesCorp	12/7/2006	$55,000,000
07401NAC3	BSMF 2006-AR5	Structured Asset Mortgage Investments II Inc	WesCorp	12/7/2006	$28,980,000
07401MAB7	Bear Stearns Mortgage Funding Trust 2007-AR1 **(“BSMF 2007-AR1”)**	Structured Asset Mortgage Investments II Inc	WesCorp	1/5/2007	$34,417,000
07401MAC5	BSMF 2007-AR1	Structured Asset Mortgage Investments II Inc	WesCorp	1/5/2007	$12,717,000
07401VAB7	Bear Stearns Mortgage Funding Trust 2007-AR3 **(“BSMF 2007-AR3”)**	Structured Asset Mortgage Investments II Inc	WesCorp	2/23/2007	$74,016,000
07401VAC5	BSMF 2007-AR3	Structured Asset Mortgage Investments II Inc	WesCorp	2/23/2007	$17,336,000
07401VAQ4	BSMF 2007-AR3	Structured Asset Mortgage Investments II Inc	WesCorp	2/28/2007	$61,000,000

CUSIP[1]	ISSUING ENTITY	DEPOSITOR DEFENDANT	PURCHASER	TRADE DATE	PRICE PAID
07401VAR2	BSMF 2007-AR3	Structured Asset Mortgage Investments II Inc	WesCorp	2/28/2007	$35,366,000
07400NAC4	Bear Stearns Mortgage Funding Trust 2007-AR5 **("BSMF 2007-AR5")**	Structured Asset Mortgage Investments II Inc	WesCorp	6/8/2007	$69,357,000
07400NAE0	BSMF 2007-AR5	Structured Asset Mortgage Investments II Inc	WesCorp	6/8/2007	$39,785,000
07400NAT7	BSMF 2007-AR5	Structured Asset Mortgage Investments II Inc	WesCorp	6/22/2007	$25,011,562
07400NAU4	BSMF 2007-AR5	Structured Asset Mortgage Investments II Inc	WesCorp	6/22/2007	$30,014,000
38012UAC3	GMACM Home Equity Loan Trust 2006-HE4 ("**GMACM 2006-HE4**")	-	U S Central	9/22/2006	$76,500,000
45257BAE0	Impac Secured Assets Corp , Mortgage Pass-Through Certificates, Series 2006-4 **("IMSA 2006-4")**	-	WesCorp	11/3/2006	$63,910,000
45257BAC4	IMSA 2006-4	-	Southwest	11/3/2006	$13,500,000
45257EAD6	Impac Secured Assets Corp , Mortgage Pass-Through Certificates, Series 2006-5 **("IMSA 2006-5")**	-	WesCorp	12/20/2006	$122,637,425
452570AD6	Impac Secured Assets Corp , Mortgage Pass-Through Certificates, Series 2007-2 **("IMSA 2007-2")**	-	WesCorp	3/27/2007	$90,000,000
452570AD6	IMSA 2007-2	-	U S Central	3/27/2007	$97,406,000
452570AD6	IMSA 2007-2	-	Members United	3/27/2007	$25,000,000
45257VAD8	Impac Secured Assets Trust 2007-3 **("IMSA 2007-3")**	-	U S Central	4/20/2007	$90,380,000
45257VAD8	IMSA 2007-3	-	Southwest	4/20/2007	$27,000,000
45661FAC5	IndyMac Residential Mortgage-Backed Trust, Series 2006-L2 **("INDYL 2006-L2")**	IndyMac MBS, Inc	Southwest	6/14/2006	$5,000,000
71085PDG5	Peoples Choice Home Loan Securities Trust Series 2005-4 **("PCHLT 2005-4")**	-	WesCorp	10/19/2005	$20,000,000
71085PDH3	PCHLT 2005-4	-	WesCorp	10/19/2005	$30,000,000
785778RD5	SACO I Trust 2006-4 ("**SACO 2006-4**")	Structured Asset Mortgage Investments II Inc	U S Central	3/22/2006	$30,000,000
86360KAW8	Structured Asset Mortgage Investments II Trust 2006-AR3 ("**SAMI 2006-AR3**")	-	Southwest	4/12/2006	$29,271,000

CUSIP[1]	ISSUING ENTITY	DEPOSITOR DEFENDANT	PURCHASER	TRADE DATE	PRICE PAID
86360QAD7	Structured Asset Mortgage Investments II Trust 2006-AR4 (“**SAMI 2006-AR4**”)	Structured Asset Mortgage Investments II Inc	WesCorp	5/11/2006	$5,300,000
86360QAG0	SAMI 2006-AR4	Structured Asset Mortgage Investments II Inc	WesCorp	5/11/2006	$18,076,000
86360QAL9	SAMI 2006-AR4	Structured Asset Mortgage Investments II Inc	WesCorp	5/11/2006	$4,800,000
86360QAP0	SAMI 2006-AR4	Structured Asset Mortgage Investments II Inc	WesCorp	5/11/2006	$7,433,000
86361WAH4	Structured Asset Mortgage Investments II Trust 2006-AR8 (“**SAMI 2006-AR8**”)	Structured Asset Mortgage Investments II Inc	WesCorp	9/18/2006	$57,305,000
86361WAJ0	SAMI 2006-AR8	Structured Asset Mortgage Investments II Inc	WesCorp	9/18/2006	$14,120,000
86363NAZ2	Structured Asset Mortgage Investments II Trust 2007-AR3 **(“SAMI 2007-AR3”)**	Structured Asset Mortgage Investments II Inc	WesCorp	3/30/2007	$39,622,614

9. The Credit Unions purchased each RMBS listed in Table 2 (*infra*) pursuant to and traceable to registration statements containing untrue statements of material fact or that omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading. Bear Stearns was an underwriter for all but one of the securities listed in Table 2 (Alternative Loan Trust 2006-OA16). Bear Stearns also acted as seller for ten of the Certificates listed in Table 2. Thus, Bear Stearns is liable for material untrue statements and omissions of fact under Section 11 for the RMBS listed in Table 2 and/or for material untrue statements and omissions of fact under the California Blue Sky law for those ten Certificates.

Table 2

CUSIP	ISSUING ENTITY	SELLER	DEPOSITOR DEFENDANT	BUYER	TRADE DATE	PRICE PAID
026935AD8	American Home Mortgage Assets Trust 2007-3 **(“AHMA 2007-3”)**		-	WesCorp	6/1/2007	$30,339,000
07401LAC7	Bear Stearns Mortgage Funding Trust 2006-AR1 **(“BSMF 2006-AR1”)**	Bear Stearns	Structured Asset Mortgage Investments II Inc	WesCorp	3/19/2007	$15,376,477

CUSIP	ISSUING ENTITY	SELLER	DEPOSITOR DEFENDANT	BUYER	TRADE DATE	PRICE PAID
07401AAX5	BSMF 2006-AR2	Bear Stearns	Structured Asset Mortgage Investments II Inc	WesCorp	5/16/2007	$34,289,436
07400HAD5	BSMF 2006-AR3		Structured Asset Mortgage Investments II Inc	WesCorp	3/27/2007	$14,831,000
07401NAP4	BSMF 2006-AR5	Bear Stearns	Structured Asset Mortgage Investments II Inc	WesCorp	5/16/2007	$54,641,317
07401NAQ2	BSMF 2006-AR5	Bear Stearns	Structured Asset Mortgage Investments II Inc	WesCorp	5/11/2007	$60,627,411
07401NAR0	BSMF 2006-AR5		Structured Asset Mortgage Investments II Inc	U S Central	4/10/2007	$45,736,000
07401YAQ8	Bear Stearns Mortgage Funding Trust 2007-AR4 **("BSMF 2007-AR4")**	Bear Stearns	Structured Asset Mortgage Investments II Inc	WesCorp	5/16/2007	$98,691,000
23242GBA1	Alternative Loan Trust 2006-OA16 ("**CWALT 2006-OA16**")	Bear Stearns	-	WesCorp	3/12/2007	$36,857,054
43709RAA2	Home Equity Mortgage Loan Asset-Backed Trust, Series INDS 2006-3 **("INDS 2006-3")**		-	U S Central	11/17/2006	$125,000,000
43708DAA4	Home Equity Mortgage Loan Asset-Backed Trust, Series INDS 2007-1 **("INDS 2007-1")**		-	U S Central	2/5/2007	$80,000,000
45257BAA8	IMSA 2006-4	Bear Stearns	-	WesCorp	11/27/2006	$25,000,000
452559AD9	Impac Secured Assets Corp , Mortgage Pass-Through Certificates, Series 2007-1 **("IMSA 2007-1")**		-	WesCorp	2/15/2007	$60,000,000
55028BAB3	Luminent Mortgage Trust 2006-7 **("LUM 2006-7")**	Bear Stearns	-	WesCorp	1/18/2007	$27,270,844
65537KAY6	Nomura Home Equity Loan, Inc , Home Equity Loan Trust, Series 2007-1 **("NHELI 2007-1")**		-	U S Central	1/25/2007	$50,000,000
65537KAB6	NHELI 2007-1		-	WesCorp	1/23/2007	$40,000,000
65537KAC4	NHELI 2007-1		-	WesCorp	1/23/2007	$30,000,000
86360KAC2	SAMI 2006-AR3		Structured Asset Mortgage Investments II Inc	WesCorp	10/26/2006	$40,000,000
86360UAH9	Structured Asset Mortgage Investments II Trust 2006-AR6 **("SAMI 2006-AR6")**	Bear Stearns	Structured Asset Mortgage Investments II Inc	WesCorp	3/13/2007	$28,399,059

CUSIP	ISSUING ENTITY	SELLER	DEPOSITOR DEFENDANT	BUYER	TRADE DATE	PRICE PAID
86361HAR5	Structured Asset Mortgage Investments II Trust 2006-AR7 **("SAMI 2006-AR7")**		Structured Asset Mortgage Investments II Inc	WesCorp	1/4/2007	$82,575,237
86361WAJ0	SAMI 2006-AR8	Bear Stearns	Structured Asset Mortgage Investments II Inc	WesCorp	11/13/2006	$13,914,546

10. 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

11. 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 by 2021 through assessments against all federally-insured credit unions. 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) ("FCUA").

12. U.S. Central was a federally chartered corporate credit union with its offices and principal place of business in Lenexa, Kansas. As a corporate credit union, U.S. Central provided investment and financial services to other corporate credit unions.

13. WesCorp was a federally chartered corporate credit union with its offices and principal place of business in San Dimas, California. As a corporate credit union, WesCorp provided investment and financial services to other credit unions.

14. 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.

15. 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.

16. The NCUA Board placed U.S. Central and WesCorp into conservatorship on March 20, 2009 pursuant to the FCUA, 12 U.S.C. § 1751 et seq. On September 24, 2010, the NCUA Board placed Members United and Southwest into conservatorship. On October 1, 2010, the NCUA Board placed U.S. Central and WesCorp into involuntary liquidation and appointed itself Liquidating Agent. On October 31, 2010, the NCUA Board placed Members United and Southwest into involuntary liquidation, appointing itself Liquidating Agent.

17. 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 by them 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).

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

19. 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 federally insured 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.

20. Defendant Bear Stearns was a United States Securities and Exchange Commission ("SEC") registered broker-dealer and a subsidiary of The Bear Stearns Companies, Inc. ("Bear Parent"). In October 2008, following a merger between Bear Parent and a wholly owned subsidiary of JPMorgan Chase & Co., Defendant Bear Stearns merged with and into an existing JPMorgan Chase & Co. subsidiary named J.P. Morgan Securities, Inc. In September 2010, J.P. Morgan Securities, Inc. was converted to a limited liability company called J.P. Morgan Securities, LLC.

Accordingly, J.P. Morgan Securities, LLC is Defendant Bear Stearns's legal successor, and all allegations against Bear Stearns are made against J.P. Morgan Securities, LLC as such.

21. Structured Asset Mortgage Investments II Inc. is the depositor and issuer of the BALTA 2006-2, BALTA 2006-4, BALTA 2006-5, BALTA 2006-6, BALTA 2006-7, BALTA 2007-1, BSARM 2006-4, BSMF 2006-AR1, BSMF 2006-AR2, BSMF 2006-AR3, BSMF 2006-AR4, BSMF 2006-AR5, BSMF 2007-AR1, BSMF 2007-AR3, BSMF 2007-AR4, BSMF 2007-AR5, SACO 2006-4, SAMI 2006-AR3, SAMI 2006-AR4, SAMI 2006-AR6, SAMI 2006-AR7, SAMI 2006-AR8, and the SAMI 2007-AR3 Offerings. Structured Asset Mortgage Investments II, Inc. was a wholly-owned subsidiary of Bear Parent, which is now a subsidiary of J.P. Morgan Chase & Co. Structured Asset Mortgage Investments II Inc. is a Delaware corporation with its principal place of business in New York.

22. Bear Stearns Asset Backed Securities I LLC is the depositor and issuer of the BSABS 2006-HE4 and the BSABS 2007-SD3 Offerings. Bear Stearns Asset Backed Securities I LLC was a wholly-owned subsidiary of Bear Parent, which is now a wholly owned subsidiary of J.P. Morgan Chase & Co. Bear Stearns Asset Backed Securities I LLC is a Delaware corporation with its principal place of business in New York.

23. IndyMac MBS, Inc. is the depositor and issuer of the INDYL 2006-L2 Offering. IndyMac MBS, Inc. is a Delaware corporation with its principal place of business in California.

III. JURISDICTION AND VENUE

24. 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."

25. Venue is proper in this District under Section 22 of the Securities Act, 15 U.S.C. § 77v(a), because Defendants transacted business and may be found in Kansas.

26. Bear Stearns and JP Morgan Securities each sold more than $1.1 billion worth of Certificates to U.S. Central in Kansas. Bear Stearns and JP Morgan Securities also provided investment banking services to U.S. Central in Kansas, including being the counter-party to more than $4.4 and $7.3 billion of interest-rate swaps, respectively.

27. JP Morgan Securities is a registered business and registered broker-dealer in Kansas.

28. JP Morgan Retirement Plan Services is a registered business in Kansas and employs 800 people in an office in Overland Park, Kansas.

29. Bear Stearns Mortgage Capital Corp., Bear Stearns Residential Mortgage Corp., and EMC Residential Mortgage Corp. were companies that obtained mortgages for Bear Stearns. They were registered businesses in Kansas during the relevant time periods.

30. EMC Mortgage Corp. n/k/a EMC Mortgage LLC was a corporate affiliate of Bear Stearns and was a registered business in Kansas. It acquired mortgages for Bear Stearns and serviced mortgages across the country (including Kansas).

31. This Court has personal jurisdiction over each Defendant because they offered/sold the RMBS at issue in this Complaint to U.S. Central in this District; prepared/disseminated the Offering Documents containing untrue statements or omissions of material fact as alleged herein to U.S. Central in this District; and/or are residents of/conduct business in this District.

IV. MORTGAGE ORIGINATION AND THE PROCESS OF SECURITIZATION

32. 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.

33. Because residential mortgages are the assets collateralizing RMBS, the origination of the 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 amount of the loan compared to the value of the property at issue (the "loan-to-value" or "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.

34. 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.

35. 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 loans" 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.

36. More recently, originators, often working with investment banks, began securitizing "non-conforming loans"—loans originated (in theory) according to private guidelines adopted by the originators. Non-conforming loans are also known as "nonprime" or "private label" loans 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.

37. All of the loans collateralizing the RMBS at issue in this Complaint are private-label mortgage loans.

38. 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").

39. 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."

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

41. 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).

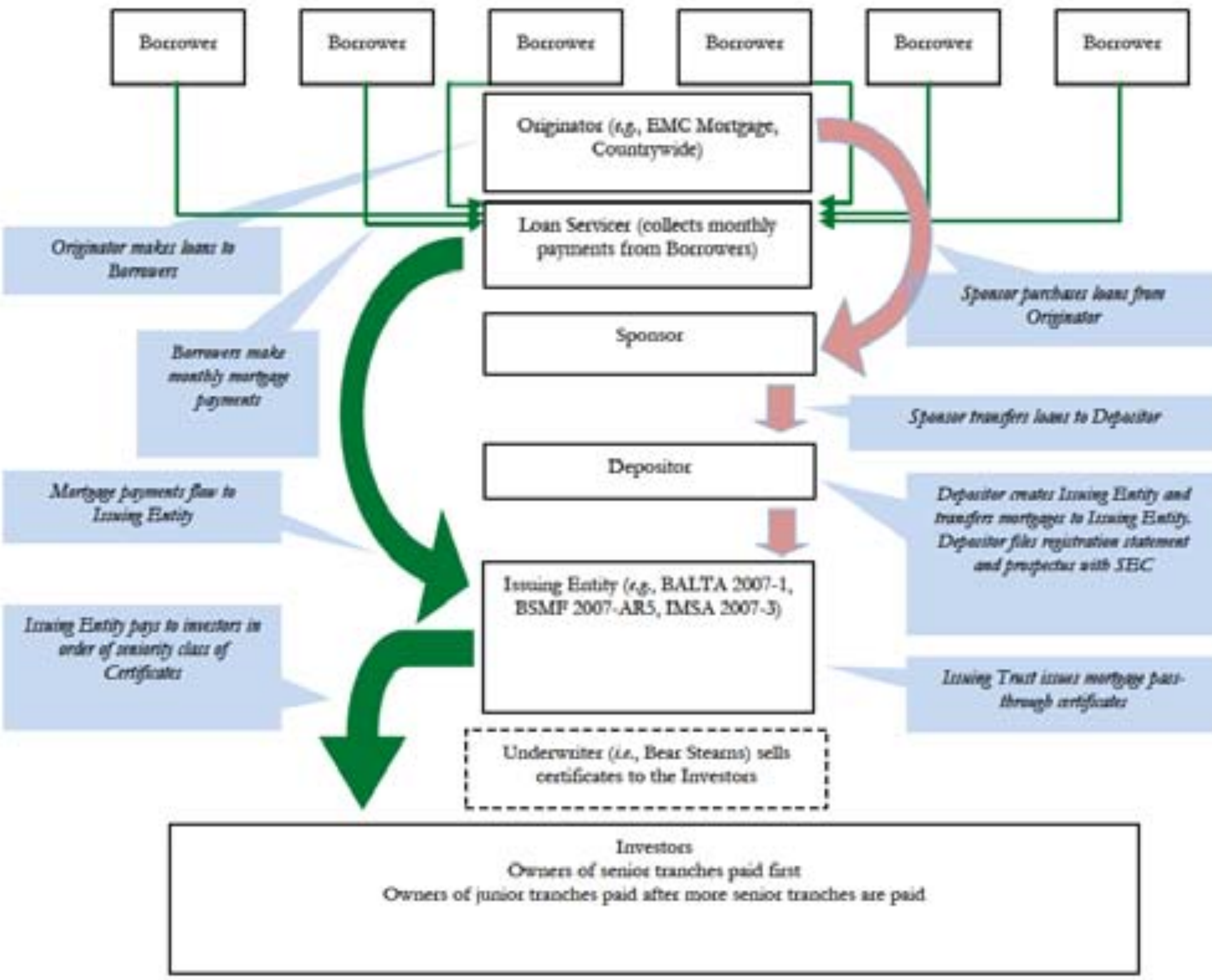
42. The depositor files required documents (such as registration statements and prospectuses) with the SEC so that the certificates can be offered to the public.

43. One or more "underwriters"—like Bear Stearns—then sell the notes or certificates to investors.

44. 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.

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

Figure 1
Illustration of the Securitization Process



46. 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

47. 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.

48. 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 ratings agencies that assigned credit ratings to the RMBS in this case.

49. The credit rating agencies use letter-grade rating systems as shown in Table 3 (*infra*).

Table 3
Credit Rating System

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	CCC+	In Poor Standing	

Caa3			
Ca	CCC CCC-	**Extremely Speculative**	
C	-	**May be in Default**	
-	D	**Default**	

50. 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* http://www.standardandpoors.com/ratings/articles/en/us/?assetID=1245303711350.

51. In fact, RMBS could not have been 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 was institutional investors, such as the Credit Unions, which were 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 with long-term ratings 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).

52. 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 rating on the higher tranches of RMBS.

53. 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.

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

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

56. 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.

57. Other forms of credit enhancement include "excess spread," monoline insurance, obtaining a letter of credit, and "cross-collateralization." "Excess spread" involves increasing the interest rate paid to the purchasers of the RMBS relative to the interest rate received on the cash flow from the underlying mortgages. Monoline insurance, also known as "wrapping" the deal, involves purchasing insurance to cover losses from any defaults. Finally, some RMBS are "cross-collateralized," *i.e.*, when a tranche 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

58. 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 4).

Table 4
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
65538NAE3	NAA 2007-1	U S Central	AAA	Aaa	CC 8-4-2009	Ba3 4-13-2009	D 6-23-2010	WR 1-5-2012
65537UAB4	NAA 2007-3	Members United	AAA	Aaa	CC 8-4-2009	Ba3 4-13-2009	D 6-23-2010	Ca 9-2-2010
65537UAA6	NAA 2007-3	Southwest/ Members United	AAA	Aaa	CC 8-4-2009	Ba3 4-13-2009	D 6-23-201	Ca 9-2-2010
02660CAC4	AHM 2007-2	U S Central	AAA	Aaa	BB 9-9-2008	B1 10-16-2008	D 4-19-2010	C 12-22-2010
02660CAD2	AHM 2007-2	U S Central	AAA	Aaa	CC 7-9-2009	Caa3 2-23-2009	D 6-21-2011	Caa3 2-23-2009
02660CAE0	AHM 2007-2	U S Central	AAA	Aaa	BB 9-9-2008	B1 10-16-2008	D 4-19-2010	C 12-22-2010
026935AD8	AHMA 2007-3	WesCorp	AAA	Aaa	B 10-30-2008	C 2-2-2009	D 2-24-2010	WR 1-5-2012
07388AAB0	BSABS 2006-HE4	U S Central	AAA	Aaa	CCC 8-4-2009	Caa2 3-24-2009	CC 11-28-2012	Caa3 5-21-2010
07388AAC8	BSABS 2006-HE4	U S Central	AAA	Aaa	Ca 3-24-2009	CCC 8-4-2009	CC 11-28-2012	C 5-21-2010
07387LAA9	BSABS 2007-SD3	U S Central	AAA	Aaa	B 9-4-2009	B3 4-24-2009	D 2-21-2012	Caa2 5-20-2011
07401WAA7	BSSLT 2007-1	U S Central	AA	Aaa	CCC 8-4-2009	Ba3 4-13-2009	N/A	C 11-10-2010
07401WAP4	BSSLT 2007-1	U S Central	AA	Aaa	CC 8-4-2009	Ba3 4-13-2009	N/A	C 11-10-2010
07401WBA6	BSSLT 2007-1	U S Central	AA	Aaa	CC 8-4-2009	Ba3 4-13-2009	N/A	C 11-10-2010
07386HF89	BALTA 2006-2	WesCorp	AAA	Aaa	B 3-19-2009	Ca 1-30-2009	D 6-23-2010	C 9-16-2010
07386HF48	BALTA 2006-2	WesCorp	AAA	Aaa	B 3-19-2009	Ca 1-30-2009	D 11-25-2009	WR 1-5-2012
073871AA3	BALTA 2006-4	Southwest	AAA	Aaa	CCC 7-24-2009	Caa3 1-30-2009	CC 2-16-2010	Ca 9-16-2010
073871AE5	BALTA 2006-4	Southwest	AAA	Aaa	CCC 7-24-2009	Caa3 1-30-2009	D 11-24-2010	Ca 9-16-2010
073873AA9	BALTA 2006-5	Southwest	AAA	Aaa	CCC 7-24-2009	Caa3 1-30-2009	D 10-22-2010	Ca 9-16-2010

CUSIP	ISSUING ENTITY	PURCHASER	ORIGINAL RATING S&P	ORIGINAL RATING MOODY'S	First Downgrade Below Investment Grade S&P	First Downgrade Below Investment Grade MOODY'S	RECENT RATING S&P	RECENT RATING MOODY'S
073868AX9	BALTA 2006-6	WesCorp	AAA	Aa1	B 11-24-2008	WR 5-10-2007	D 1-25-2010	WR 5-10-2007
073868BG5	BALTA 2006-6	WesCorp	AAA	Aa1	B 11-24-2008	WR 5-10-2007	D 12-24-2009	WR 5-10-2007
073868AA9	BALTA 2006-6	Southwest	AAA	Aaa	B 3-19-2009	Caa3 1-30-2009	D 8/25/2010	Ca 9/16/2010
073875AA4	BALTA 2006-7	Southwest	AAA	Aaa	CCC 7-24-2009	Caa3 1-30-2009	D 10-21-2011	Caa3 9/16/2010
07386XAA4	BALTA 2007-1	Members United	AAA	Aaa	B+ 10-27-2008	Caa3 1-30-2009	D 3/18/2011	Ca 9/16/2010
073882AE2	BSARM 2006-4	WesCorp	AAA	n/a	B 10-30-2008	n/a	D 5-19-2011	n/a
07401LAC7	BSMF 2006-AR1	WesCorp	AAA	Aaa	B 2-9-2009	Ba3 9-2-2008	D 12-24-2009	C 12-07-2010
07401AAC1	BSMF 2006-AR2	WesCorp	AAA	Aaa	BB- 10-14-2008	Ba1 9-2-2008	D 4-19-2010	C 12-07-2010
07401AAX5	BSMF 2006-AR2	WesCorp	AAA	Aaa	B 3-19-2009	B3 2-23-2009	CCC 8-11-2011	Caa3 12-07-2010
07400HAB9	BSMF 2006-AR3	WesCorp	AAA	Aaa	CCC 9-2-2009	Ca 2-23-2009	D 3-22-2012	C 12-7-2010
07400HAD5	BSMF 2006-AR3	WesCorp	AAA	Aaa	CCC 9-2-2009	Ca 2-23-2009	D 8-25-2010	C 12-7-2010
07401JAB4	BSMF 2006-AR4	U S Central	AAA	Aaa	B 8-4-2009	Ba3 4-13-2009	D 9-24-2010	C 12-07-2010
07401JAA6	BSMF 2006-AR4	Members United	AAA	Aaa	B- 8-14-2009	Ba3 2-23-2009	CCC 8-3-2011	Caa3 12-7-2010
07401NAB5	BSMF 2006-AR5	WesCorp	AAA	Aaa	BB 3-30-2009	Ca 2-23-2009	D 5-25-2012	C 12-07-2010
07401NAC3	BSMF 2006-AR5	WesCorp	AAA	Aaa	CCC 3-30-2009	Ca 2-23-2009	D 4-19-2010	C 12-07-2010
07401NAP4	BSMF 2006-AR5	WesCorp	AAA	Aaa	BB- 8-19-2009	Ba3 2-23-2009	CCC 8-11-2011	Caa2 12-07-2010
07401NAQ2	BSMF 2006-AR5	WesCorp	AAA	Aaa	B 3-30-2009	Ca 2-23-2009	D 8-30-2012	C 12-07-2010
07401NAR0	BSMF 2006-AR5	U S Central	AAA	Aaa	B 11-5-2008	B1 9-2-2008	D 2-25-2011	C 12-07-2010
07401MAB7	BSMF 2007-AR1	WesCorp	AAA	Aaa	CCC 8-19-2009	Ca 2-23-2009	D 7-31-2012	C 12-07-2010
07401MAC5	BSMF 2007-AR1	WesCorp	AAA	Aaa	BB- 10-9-2008	Ca 2-23-2009	D 5-25-2010	C 12-07-2010
07401VAB7	BSMF 2007-AR3	WesCorp	AAA	Aaa	BB 10-9-2008	Ca 2-23-2009	D 6-28-2012	C 12-07-2010
07401VAC5	BSMF 2007-AR3	WesCorp	AAA	Aaa	B 10-9-2008	Ca 2-23-2009	D 6-23-2010	C 12-07-2010

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
07401VAQ4	BSMF 2007-AR3	WesCorp	AAA	Aaa	BB 10-9-2008	Ca 2-23-2009	D 11-19-2012	C 12-07-2010
07401VAR2	BSMF 2007-AR3	WesCorp	AAA	Aaa	B 10-9-2008	Ba3 9-2-2008	D 10-21-2011	C 12-07-2010
07401YAQ8	BSMF 2007-AR4	WesCorp	AAA	Aaa	CCC 9-1-2009	Ba1 2-23-2009	CCC 9-1-2009	Caa3 12-07-2010
07400NAC4	BSMF 2007-AR5	WesCorp	AAA	Aaa	CCC 9-2-2009	B2 2-23-2009	CCC 9-2-2009	C 12-07-2010
07400NAE0	BSMF 2007-AR5	WesCorp	AAA	Aaa	CCC 9-2-2009	Caa1 2-23-2009	CC 10-31-2011	C 12-07-2010
07400NAT7	BSMF 2007-AR5	WesCorp	AAA	Aaa	CCC 9-2-2009	Ba3 2-23-2009	CCC 9-2-2009	Ca 12-07-2010
07400NAU4	BSMF 2007-AR5	WesCorp	AAA	Aaa	BB 10-9-2008	Caa1 2-23-2009	CC 10-31-2011	C 12-07-2010
23242GBA1	CWALT 2006-OA16	WesCorp	AAA	Aaa	CCC 9-1-2009	Ba1 9-3-2008	D 5-25-2012	C 2/19/2009
38012UAC3	GMACM 2006-HE4	U S Central	AAA	Aaa	BB+ 10-14-2009	B3 2-18-2009	B 1-14-2011	Caa2 11-21-2012
43709RAA2	INDS 2006-3	U S Central	AAA	Aaa	CC 8-4-2009	Ba3 4-13-2009	CC 8-4-2009	Ca 4-16-2010
43708DAA4	INDS 2007-1	U S Central	AAA	Aaa	BB+ 10-14-2009	B3 2-18-2009	B 1-14-2011	Caa3 11-21-2012
45661FAC5	INDYL 2006-L2	Southwest	AAA	Aaa	BB 5-8-2008	B1 12-9-2008	D 10-19-2012	C 9-30-2009
45257BAE0	IMSA 2006-4	WesCorp	AAA	Aaa	B 10-27-2008	Ba3 4-24-2008	D 1-25-2010	C 7-22-2010
45257BAC4	IMSA 2006-4	Southwest	AAA	Aaa	BB 10-27-2008	Ba1 9-24-2008	D 3-18-2011	Caa3 2-20-2009
45257BAA8	IMSA 2006-4	WesCorp	AAA	Aaa	BB 10-27-2008	Ba1 9-24-2008	D 3-18-2011	Caa3 2-20-2009
45257EAD6	IMSA 2006-5	WesCorp	AAA	Aaa	B 12-15-2008	Ba2 4-24-2008	D 1-25-2010	C 7-22-2010
452559AD9	IMSA 2007-1	WesCorp	AAA	Aaa	B 11-12-2008	Ba2 9-24-2008	D 4-19-2010	C 7-22-2010
452570AD6	IMSA 2007-2	WesCorp, U S Central, Members United	AAA	Aaa	CCC 8-4-2009	Ba3 4-13-2009	D 5-25-2010	C 7-22-2010
45257VAD8	IMSA 2007-3	U S Central, Southwest	AAA	Aaa	CCC 8-4-2009	Ba3 4-13-2009	D 5-25-2010	C 7-22-2010
55028BAB3	LUM 2006-7	WesCorp	AAA	NR	CCC 8-19-2009	N/A	D 3-23-2010	NR
65537KAY6	NHELI 2007-1	U S Central	AAA	Aaa	B 10-6-2008	Ba3 7-25-2008	CCC 7-24-2009	Ca 9-2-2010
65537KAB6	NHELI 2007-1	WesCorp	AAA	Aaa	B+ 10-6-2008	Ba3 7-25-2008	D 11-25-2009	Ca 9-2-2010
65537KAC4	NHELI 2007-1	WesCorp	AAA	Aaa	B 10-6-2008	Caa1 7-25-2008	D 6-25-2009	C 9-2-2010

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
71085PDG5	PCHLT 2005-4	WesCorp	AA+	Aa1	CCC 9-17-2009	Ba2 3-13-2009	CCC 9-17-2009	C 7-21-2010
71085PDH3	PCHLT2005-4	WesCorp	AA+	Aa2	B 1-26-2009	B3 3-13-2009	D 11-16-2012	C 7-21-2010
785778RD5	SACO 2006-4	U S Central	AAA	Aaa	BB 8-26-2008	Caa3 10-30-2008	D 11-25-2009	C 9-2-2010
86360KAC2	SAMI 2006-AR3	WesCorp	AAA	Aaa	B 5-4-2009	Ca 2-23-2009	D 10-29-2012	C 12-14-2010
86360KAW8	SAMI 2006-AR3	Southwest	AAA	Aaa	B 5-4-2009	B3 2-23-2009	CCC 1-8-2010	Caa2 12-14-2010
86360QAD7	SAMI 2006-AR4	WesCorp	AAA	Aaa	BB+ 10-14-2008	Ca 2-23-2009	D 9-23-2011	C 12-14-2010
86360QAG0	SAMI 2006-AR4	WesCorp	AAA	Aaa	BB+ 10-14-2008	Ca 2-23-2009	D 9-23-2011	C 12-14-2010
86360QAL9	SAMI 2006-AR4	WesCorp	AAA	Aaa	BB+ 10-14-2008	Ca 2-23-2009	D 9-23-2011	C 12-14-2010
86360QAP0	SAMI 2006-AR4	WesCorp	AAA	Aaa	BB+ 10-14-2008	Ca 2-23-2009	D 9-23-2011	C 12-14-2010
86360UAH9	SAMI 2006-AR6	WesCorp	AAA	Aaa	CCC 4-21-2009	Ca 2-23-2009	D 5-25-2012	C 12-14-2010
86361HAR5	SAMI 2006-AR7	WesCorp	AAA	Aaa	CCC 7-24-2009	Ca 2-23-2009	D 3-22-2012	C 12-14-2010
86361WAH4	SAMI 2006-AR8	WesCorp	AAA	Aaa	CCC 8-14-2009	Caa3 2-23-2009	D 10-29-2012	C 12-14-2010
86361WAJ0	SAMI 2006-AR8	WesCorp	AAA	Aaa	BB 10-27-2008	Ba1 9-8-2008	D 12-27-2011	C 12-14-2010
86363NAZ2	SAMI 2007-AR3	WesCorp	AAA	Aaa	CCC 7-24-2009	Caa2 2-23-2009	D 12-3-2012	C 12-14-2010

59. 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—the Credit Unions would not have purchased the certificates.

60. 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

61. 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 underlying mortgage loans.

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

- a surge in borrower delinquencies and defaults on the mortgages in the pools (*see infra* Section VII.A and Table 5);
- 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);
- a high percentage of the underlying mortgage loans were originated for distribution, as explained below (*see infra* Table 6 and accompanying allegations); and
- 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 4).

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

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

65. This conclusion is further corroborated by evidence that the RMBS underwritten by Bear Stearns at issue in this Complaint were collateralized by a substantial number of defective loans that were originated contrary to the stated underwriting standards (*see infra* Sections 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

66. 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.

67. The surge of delinquencies and defaults following the offerings evidence the systematic flaws in the Originators' underwriting process (*see infra* Table 5).

68. The Offering Documents reported zero or near zero delinquencies and defaults at the time of the offerings (*see infra* Table 5).

69. The pools of mortgages collateralizing the RMBS experienced delinquency and default rates up to 16.32% within the first three months, up to 23.04% at six months, and up to 43.78% at one year (*see infra* Table 5).

70. As of December 13, 2012, approximately half (43.57% on average) of the mortgage collateral across all of the RMBS that the Credit Unions purchased was in delinquency, bankruptcy, foreclosure, or was real estate owned ("REO"), which means that the noteholder owns the property after foreclosure (*see infra* Table 5).

71. Table 5 (*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 as 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 5
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
	NAA 2007-1 (P S dated May 10, 2007)	Zero (S-56)	0 01% (May, p 12)	4 10% (July, p 12)	10 91% (Oct , p 12)	26 16% (Apr , p 12)	44 33% (November 2012, p 12
	NAA 2007-1 Group 1 (Fixed)	Zero (S-56)	01% (May, p 14)	3 69% (July, p 14)	9 10% (Oct , p 14)	20 19% (Apr , p 14)	43 93% (November 2012, p 13)
65538NAE3	NAA 2007-1: Group II ***Class II-AM**	Zero (S-56)	0 00% (May, p 14)	4 55% (July, p 14)	12 84% (Oct , p 14)	32 37% (Apr , p 14)	44 94% (November 2012, p 13)
65537UAB4 65537UAA6	NAA 2007-3: Aggregate	Zero (S-36)	0 00% (Jul , p 9)	7 64% (Sep , p 9)	17 37% (Dec , p 9)	35 56% (Jun , p 9)	52 97% (November 2012, p 9)
	AHM 2007-2: Aggregate (P S dated April 20, 2007)	Zero (S-35)	81% (May, p 10)	3 16% (Jul , p 10)	7 84% (Oct , p 11)	13 64% (Apr , p 11)	31 72% (November 2012, p 11)
02660CAC4	AHM 2007-2: Group I-1 ***Class I-1A-3 in group I-1. (S-12)**	Zero (S-35)	0% (May, p 11)	34% (Jul , p 11)	4 66% (Oct , p 12)	15 94% (Apr , p 12)	44 80% (November 2012, p 12)
02660CAD2 02660CAE0	AHM 2007-2: Group I-2 ***Class I-2A-1 & I-2A-2 in group I-2. (S-12)**	Zero (S-35)	1 91% (May, p 11)	3 6% (Jul , p 11)	9 11% (Oct , p 12)	20 57% (Apr , p 12)	34 87% (November 2012, p 12)
	AHM 2007-2: Group I-3	Zero (S-35)	4% (May, p 12)	1 58% (Jul , p 12)	3 47% (Oct , p 13)	9 06% (Apr , p 13)	30 02% (November 2012, p 13)
	AHM 2007-2: Group II	Zero (S-35)	1 65% (May, p 12)	8 86% (Jul , p 12)	21 16% (Oct , p 11)	22 73% (Apr , p 13)	15 97% (November 2012, p 13)
	AHMA 2007-3 (P S dated June 5, 2007)	Zero (S-40)	0% (June pg 10)	4 99% (Aug p 10)	13 90% (Nov p 10)	27 47% (May p 10)	43 71% (November 2012, p 11)
	AHMA 2007-3: Group I-1	Zero (S-40)	0% (June p 12)	2 62% (Aug p 12)	8 63% (Nov p 12)	23 58% (May p 12)	43 01% (November 2012, p 12)
026935AD8	AHMA 2007-3: Group I-2 ***Class I-2A-2 in Group I-2. (S-12)**	Zero (S-40)	0% (June p 12)	9 63% (Aug p 12)	23 04% (Nov p 12)	43 78% (May p 12)	58 15% (November 2012, p 12)
	AHMA 2007-3: Group II-1	Zero (S-40)	0% (June p 13)	2 04% (Aug p 13)	5 74% (Nov p 13)	15 73% (May p 13)	39 57% (November 2012, p 13)
	AHMA 2007-3: Group II-2	Zero (S-40)	0% (June p 13)	3 72% (Aug p 13)	12 44% (Nov p 13)	25 55% (May p 13)	43 21% (November 2012, p 13)
	AHMA 2007-3: Group III	Zero (S-40)	0% (June p 14)	5 16% (Aug p 14)	16 35% (Nov p 14)	18 05% (May p 14)	10 71% (November 2012, p 14)
07388AAC8 07388AAB0	BSABS 2006-HE4	Zero (S-30)	0 89% (May, p 15)	5 68% (Jul , p 16)	10 14% (Oct , p 16)	19 20% (Apr , p 16)	51 59% (November 2012, p 24)
07387LAA9	BSABS 2007-SD3	8 14% are 30 or more days delinquent (S-24)	13 56% (May, p 10)	16 32% (Jul , p 10)	20 85% (Oct , p 10)	24 02% (Apr , p 10)	33 61% (November 2012, p 10)
07401WAA7	BSSLT 2007-1: Group I	Zero (*See* "Mortgage Pool")	5 07% (May, p 26)	8 62% (Jul , p 30)	13 94% (Oct , p 28)	18 80% (Apr , p 28)	13 66% (November 2012, p 30)
07401WAP4	BSSLT 2007-1: Group II	Zero (*See* "Mortgage Pool")	1 60% (May, p 27)	4 62% (Jul , p 31)	12 11% (Oct , p 29)	21 05% (Apr , p 29)	16 15% (November 2012, p 31)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
07401WBA6	BSSLT 2007-1: Group III	Zero (*See* "Mortgage Pool")	2 30% (May, p 28)	6 06% (Jul , p 32)	11 89% (Oct , p 30)	20 43% (Apr , p 30)	10 18% (November 2012, p 31)
	BALTA 2006-2: Aggregate (P S dated March 28, 2006)	Zero (12)	1% (Apr , p 12)	1 91% (Jun , p 12)	4 09% (Sep , p 12)	10 42% (Mar , p 11)	36 88% (November 2012, p 12)
	BALTA 2006-2: Group I	Zero (12)	25% (Apr , p 13)	3 65% (Jun , p 13)	8 04% (Sep , p 13)	20 12% (Mar , p 12)	46 55% (November 2012, p 13)
	BALTA 2006-2: Group II-1	Zero (12)	0% (Apr , p 13)	1 87% (Jun , p 13)	1 15% (Sep , p 14)	8 42% (Mar , p 12)	32 72% (November 2012, p 13)
07386HF89	BALTA 2006-2: Group II-3 ***Class II-3A-2 in group II-3. (S-7)**	Zero (12)	0% (Apr , p 14)	1 29% (Jun , p 14)	94% (Sep , p 15)	5 68% (Mar , p 13)	38 78% (November 2012, p 14)
07386HF48	BALTA 2006-2: Group II-2 ***Class II-2A-2**	Zero (12)	0% (Apr , p 14)	45% (Jun , p 14)	2 48% (Sep , p 14)	4 03% (Mar , p 13)	29 35% (November 2012, p 14)
	BALTA 2006-2: Group II-4	Zero (12)	0% (Apr , p 15)	0% (Jun , p 15)	4 09% (Sep , p 12)	3 33% (Mar , p 14)	38 67% (November 2012, p 15)
	BALTA 2006-4: Aggregate	Zero (12)	0 56% (Jul , p 18)	2 40% (Sep , p 18)	5 50% (Dec , p 17)	12 93% (Jun , p 17)	42 48% (November 2012, p 20)
073871AA3	BALTA 2006-4: Group I-1	Zero (12)	1 16% (Jul , p 19)	5 25% (Sep , p 19)	10 95% (Dec , p 18)	25 49% (Jun , p 18)	52 35% (November 2012, p 23)
	BALTA 2006-4: Group I-2	Zero (12)	0 90% (Jul , p 19)	3 56% (Sep , p 19)	8 18% (Dec , p 18)	19 24% (Jun , p 18)	45 50% (November 2012, p 23)
073871AE5	BALTA 2006-4: Group I-3	Zero (12)	0 29% (Jul , p 20)	2 46% (Sep , p 20)	6 50% (Dec , p 19)	15 66% (Jun , p 19)	47 64% (November 2012, p 24)
	BALTA 2006-4: Group II-1	Zero (12)	0 47% (Jul , p 20)	1 21% (Sep , p 20)	1 56% (Dec , p 19)	3 57% (Jun , p 19)	36 28% (November 2012, p 24)
	BALTA 2006-4: Group II-2	Zero (12)	0 47% (Jul , p 20)	0 96% (Sep , p 21)	2 10% (Dec , p 20)	5 57% (Jun , p 20)	32 88% (November 2012, p 25)
	BALTA 2006-4: Group II-3	Zero (12)	0 45% (Jul , p 21)	1 42% (Sep , p 21)	3 39% (Dec , p 20)	10 11% (Jun , p 20)	41 72% (November 2012, p 25)
	BALTA 2006-4: Group III-1	Zero (12)	0 17% (Jul , p 22)	0 39% (Sep , p 22)	0 79% (Dec , p 21)	1 68% (Jun , p 21)	31 22% (November 2012, p 26)
	BALTA 2006-4: Group III-2	Zero (12)	0 12% (Jul , p 22)	0 58% (Sep , p 22)	1 81% (Dec , p 21)	3 65% (Jun , p 21)	41 18% (November 2012, p 26)
	BALTA 2006-4: Group III-3	Zero (12)	0 0% (Jul , p 23)	0 67% (Sep , p 23)	2 94% (Dec , p 22)	5 92% (Jun , p 22)	43 90% (November 2012, p 27)
	BALTA 2006-5: Aggregate	Zero (12)	0 02% (Aug , p 11)	3 02% (Oct , p 11)	7 97% (Jan , p 10)	19 57% (Jul , p 10)	43 83% (November 2012, p 10)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
073873AA9	BALTA 2006-5: Group I	Zero (12)	0 03% (Aug , p 12)	3 91% (Oct , p 11)	9 93% (Jan , p 11)	24 92% (Jul , p 11)	49 14% (November 2012, p 11)
	BALTA 2006-5: Group II	Zero (12)	0 0% (Aug , p 12)	0 63% (Oct , p 11)	2 74% (Jan , p 11)	5 81% (Jul , p 11)	35 21% (November 2012, p 11)
	BALTA 2006-6: Aggregate (P S dated September 28, 2006)	< 0 15% (S-43, 12)	1% (Oct , p 22)	2 72% (Dec , p 22)	6% (Mar , p 22)	15 6% (Sep , p 22)	43 61% (November 2012, p 22)
073868AA9	BALTA 2006-6: Group I *Class I-A-1 in group 1 (S-2)	0 15% (S-43, 12)	04% (Oct , p 23)	5 33% (Dec , p 23)	12 08% (Mar , p 23)	28 1% (Sep , p 23)	53 94% (November 2012, p 23)
	BALTA 2006-6: Group II	Zero (12)	44% (Oct , p 23)	72% (Dec , p 23)	1 53% (Mar , p 23)	5% (Sep , p 23)	34 56% (November 2012, p 23)
073868AX9	BALTA 2006-6: Group III-1 ***Class III-1A-3 in subgroup III-1. (S-4)**	Zero (12)	02% (Oct , p 24)	1 05% (Dec , p 24)	1 99% (Mar , p 24)	7 75% (Sep , p 24)	42 17% (November 2012, p 24)
073868BG5	BALTA 2006-6: Group III-2 ***Class III-2A-3 in subgroup III-2. (S-4)**	Zero (12)	03% (Oct , p 24)	1 62% (Dec , p 24)	3 94% (Mar , p 24)	13 27% (Sep , p 24)	41 79% (November 2012, p 24)
073875AA4	BALTA 2006-7	Zero (12)	0 36% (Nov , p 12)	3 52% (Jan , p 11)	6 90% (Apr , p 11)	13 32% (Oct , p 11)	40 45% (November 2012, p 11)
07386XAA4	BALTA 2007-1	Zero (12)	0% (Feb , p 12)	2 26% (Apr , p 12)	7 50% (Jun , p 12)	18 60% (Jan , p 12)	44 98% (November 2012, p 12)
	BSARM 2006-4: Aggregate	Zero (12)	0 11% (Oct , p 10)	0 94% (Dec , p 9)	1 22% (Mar , p 9)	3 39% (Sep , p 9)	25 84% (November 2012, p 9)
	BSARM 2006-4: Group I	Zero (12)	0% (Oct , p 11)	0% (Dec , p 10)	1 15% (Mar , p 10)	8 01% (Sep , p 10)	22 94% (November 2012, p 10)
073882AE2	BSARM 2006-4: Group II	Zero (12)	0% (Oct , p 11)	0 91% (Dec , p 10)	1 21% (Mar , p 10)	3 58% (Sep , p 10)	25 04% (November 2012, p 10)
	BSARM 2006-4: Group III	Zero (12)	0% (Oct , p 12)	1 50% (Dec , p 11)	1 23% (Mar , p 11)	2 75% (Sep , p 11)	29 29% (November 2012, p 11)
	BSARM 2006-4: Group IV	Zero (12)	0 58% (Oct , p 12)	0 10% (Dec , p 11)	1 24% (Mar , p 11)	3 15% (Sep , p 11)	21 48% (November 2012, p 11)
	BSMF 2006-AR1: Aggregate (P S dated July 28, 2006)	Zero (12)	03% (Aug , p 13)	61% (Oct , p 13)	1 51% (Jan , p 12)	6 47% (Jul , p 12)	44 14% (November 2012, p 12)
07401LAC7	BSMF 2006-AR1: Group I ***Class I-A-3 in group I. (S-2)**	Zero (12)	06% (Aug , p 14)	41% (Oct , p 14)	1 07% (Jan , p 13)	4 94% (Jul , p 13)	43 49% (November 2012, p 13)
	BSMF 2006-AR1: Group II	Zero (12)	0% (Aug , p 14)	79% (Oct , p 13)	1 92% (Jan , p 12)	7 96% (Jul , p 13)	44 82% (November 2012, p 13)
	BSMF 2006-AR2: Aggregate (P S dated September 27, 2006)	Zero (12)	05% (Oct , p 12)	1 13% (Dec , p 12)	2 29% (Mar , p 12)	8 86% (Sep , p 12)	43 44% (November 2012, p 12)
07401AAC1	BSMF 2006-AR2: Group 1A ***Class I-A-3 in group I senior certificates. (S-2)**	Zero (12)	1% (Oct , p 13)	73% (Dec , p 13)	1 48% (Mar , p 13)	7 06% (Sep , p 13)	44 06% (November 2012, p 13)
	BSMF 2006-AR2: Group 1B	Zero (12)	0% (Oct , p 13)	22% (Dec , p 13)	25% (Mar , p 13)	5 03% (Sep , p 13)	43 06% (November 2012, p 13)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
07401AAX5	BSMF 2006-AR2: Group 2 ***Class II-A-1 in group II. (S-2)**	Zero (12)	0% (Oct , p 14)	2 01% (Dec , p 13)	4 17% (Mar , p 13)	12 68% (Sep , p 14)	42 66% (November 2012, p 14)
	BSMF 2006-AR3: Aggregate	Zero (12)	0% (Nov , p 12)	1 11% (Jan , p 11)	2 12% (Apr , p 11)	9 87% (Oct , p 11)	44 65% (November 2012, p 11)
07400HAB9 07400HAD5	BSMF 2006-AR3: I-A	Zero (12)	0% (Nov , p 13)	97% (Jan , p 12)	0% (Apr , p 12)	3 36% (Oct , p 12)	45 92% (November 2012, p 12)
	BSMF 2006-AR3: I-B	Zero (12)	0% (Nov , p 13)	48% (Jan , p 12)	1 66% (Apr , p 12)	7 53% (Oct , p 12)	40 69% (November 2012, p 12)
	BSMF 2006-AR3: II	Zero (12)	0% (Nov , p 14)	1 67% (Jan , p 13)	3 15% (Apr , p 13)	13 89% (Oct , p 11)	48 47% (November 2012, p 13)
07401JAB4 07401JAA6	BSMF 2006-AR4	Zero (12)	0% (Dec , p 10)	1 50% (Feb , p 10)	3 42% (May , p 10)	12 18% (Nov , p 10)	45 40% (November 2012, p 10)
	BSMF 2006-AR5: Aggregate (P S date December 28, 2006)	Zero (12)	0% Jan , p 11)	1 02% (Mar , p 11)	2 88% (Jun , p 12)	12 66% (Dec , p 12)	46 97% (November 2012, p 12)
07401NAB5 07401NAC3	BSMF 2006-AR5: Group I-A ***Class I-A-2 & I-A-3 in group I-A. (S-2)**	Zero (12)	0% Jan , p 12)	76% (Mar , p 12)	2 14% (Jun , p 13)	9 81% (Dec , p 13)	49 09% (November 2012, p 13)
	BSMF 2006-AR5: Group I-B	Zero (12)	0% Jan , p 12)	38% (Mar , p 12)	1 39% (Jun , p 13)	10 43% (Dec , p 13)	49 00% (November 2012, p 13)
	BSMF 2006-AR5: Group I-C	Zero (12)	0% Jan , p 13)	81% (Mar , p 13)	4 9% (Jun , p 14)	11 04% (Dec , p 14)	48 85% (November 2012, p 14)
07401NAP4 07401NAQ2 07401NAR0	BSMF 2006-AR5: Group II ***Class II-A-1, II-A-2, II-A-3 in group II-A. (S-2)**	Zero (12)	0% Jan , p 13)	1 29% (Mar , p 13)	3 51% (Jun , p 14)	14 87% (Dec , p 14)	44 96% (November 2012, p 14)
	BSMF 2007-AR1: Aggregate (P S dated January 29, 2007)	Zero (12)	03% (Feb , p 11)	1 17% (Apr , p 12)	3 68% (Jul , p 12)	15 2% (Jan , p 12)	44 82% (November 2012, p 11)
07401MAB7 07401MAC5	BSMF 2007-AR1: Group I ***Class I-A-2 & I-A-3 in group I. (S-2)**	Zero (12)	0% (Feb , p 12)	8% (Apr , p 13)	1 89% (Jul , p 13)	10 04% (Jan , p 13)	39 14% (November 2012, p 12)
	BSMF 2007-AR1: Group II	Zero (12)	04% (Feb , p 12)	1 3% (Apr , p 13)	4 32% (Jul , p 13)	17% (Jan , p 13)	47 09% (November 2012, p 12)
	BSMF 2007-AR3: Aggregate (P S dated March 29, 2007)	Zero (12)	01% (Apr , p 13)	1 35% (Jun , p 13)	4 23% (Sep , p 13)	16 33% (Mar , p 13)	52 50% (November 2012, p 12)
07401VAB7 07401VAC5	BSMF 2007-AR3: Group I ***Class I-A-2 & I-A-3 in group I. (S-2)**	Zero (12)	05% (Apr , p 14)	1 08% (Jun , p 14)	2 58% (Sep , p 14)	12 89% (Mar , p 14)	52 41% (November 2012, p 13)
07401VAQ4 07401VAR2	BSMF 2007-AR3: Group II ***Class II-1A-2 & II-1A-3 in group II-1. (S-2)**	Zero (12)	0% (Apr , p 14)	1 47% (Jun , p 14)	4 92% (Sep , p 14)	17 78% (Mar , p 14)	52 54% (November 2012, p 13)
07401VAQ4 07401VAR2	BSMF 2007-AR3: Subgroup II-1 ***Class II-1A-2 & II-1A-3 in group II-1. (S-2)**	Zero (12)	0% (Apr , p 15)	1 67% (Jun , p 15)	5 55% (Sep , p 15)	19 78% (Mar , p 15)	54 17% (November 2012, p 14)
	BSMF 2007-AR3: Subgroup II-2	Zero (12)	0% (Apr , p 15)	96% (Jun , p 15)	3 33% (Sep , p 14)	12 66% (Mar , p 15)	48 57% (November 2012, p 14)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	BSMF 2007-AR4: Aggregate (P S dated April 27, 2007)	Zero (12)	0% (May, p 14)	7% (Jul , p 14)	3 8% (Oct , p 13)	15 03% (Apr , p 13)	46 25% (November 2012, p 13)
	BSMF 2007-AR4: Group 1	Zero (12)	0% (May, p 15)	23% (Jul , p 15)	2 73% (Oct , p 14)	13 05% (Apr , p 14)	46 24% (November 2012, p 14)
07401YAQ8	BSMF 2007-AR4: Group 2 ***Class II-A-1 in Group II. (S-2)**	Zero (12)	0% (May, p 15)	99% (Jul , p 15)	4 31% (Oct , p 14)	15 97% (Apr , p 14)	46 26% (November 2012, p 14)
	BSMF 2007-AR5: Aggregate (P S dated June 28, 2007)	Zero (12)	15% (Jul , p 13)	91% (Sep , p 13)	3 31% (Dec , p 13)	11 53% (Jun , p 13)	45 12% (November 2012, p 13)
07400NAC4 07400NAE0	BSMF 2007-AR5: Group I ***Class I-A-2A & I-A-3 in group 1. (S-2)**	Zero (12)	27% (Jul , p 14)	28% (Sep , p 14)	3 56% (Dec , p 14)	12 13% (Jun , p 14)	48 17% (November 2012, p 14)
07400NAT7 07400NAU4	BSMF 2007-AR5: Group II ***Class II-A-2 & II-A-3 in group 2. (S-2)**	Zero (12)	07% (Jul , p 14)	1 24% (Sep , p 14)	3 19% (Dec , p 14)	11 25% (Jun , p 14)	43 62% (November 2012, p 14)
23242GBA1	CWALT 2006-OA16	Zero (S-30)	2 21% (Sep , p 12)	2 66% (Nov , p 12)	4 44% (Feb , p 12)	10 57% (Aug , p 12)	55 27% (November 2012, p 12)
38012UAC3	GMACM 2006-HE4	Zero (S-40)	0 00% (Oct)	0 65% (Dec)	1 45% (Mar)	3 08% (Sep)	5 14% (November 2012, p 13)
43709RAA2	INDS 2006-3 (P S dated December 6, 2006)	Zero (S-12)	0 03% (Jan , p 10)	2 22% (Mar , p 10)	5 50% (June, p 10)	17 18% (Dec , p 10)	6 71% (November 2012, p 11)
43708DAA4	INDS 2007-1 (P S February 13, 2007)	Zero (S-12)	0 00% (Mar , p 10)	3 33% (May, p 10)	7 75% (Aug , p 10)	21 53% (Feb , p 10)	93 69% (November 2012, p 11)
45257BAE0 45257BAC4 45257BAA8	IMSA 2006-4	Zero (S-26)	40% (Dec , p 10)	3 5% (Feb , p 10)	7 31% (May, p 10)	17 46% (Nov , p 10)	34 34% (November 2012, p 10)
	IMSA 2006-5 Aggregate (P S dated December 20, 2006)	Zero (S-33)	51% (Jan , p 12)	2 2% (Mar , p 12)	4 53% (Jun , p 12)	11 32% (Dec , p 12)	25 72% (November 2012, p 12)
45257EAD6	IMSA 2006-5: Group 1 ***Class 1-AM in Group 1. (S-7-S-8)**	Zero (S-33)	53% (Jan , p 13)	2 77% (Mar , p 13)	5 81% (Jun , p 13)	14 91% (Dec , p 13)	31 25% (November 2012, p 17)
452559AD9	IMSA 2007-1	Zero (S-29)	76% (Mar , p 11)	3 39% (May, p 11)	6 44% (Aug , p 11)	16 04% (Feb , p 11)	29 10% (November 2012, p 11)
	IMSA -2007-2 Aggregate (P S dated March 29, 2007)	Zero (S-38)	0% (Apr , p 13)	1 92% (Jun , p 13)	6 39% (Sep , p 13)	15 43% (Mar , p 13)	27 52% (November 2012, p 12)
452570AD6	IMSA 2007-2: Group 1 ***Class 1-AM in Group 1. (S-9)**	Zero (S-38)	0% (Apr , p 14)	2 3% (Jun , p 14)	7 68% (Sep , p 14)	18 45% (Mar , p 15)	33 38% (November 2012, p 17)
	IMSA 2007-2: Group 2	Zero (S-38)	0% (Apr , p 15)	0% (Jun , p 15)	0% (Sep , p 15)	71% (Mar , p 17)	3 95% (November 2012, p 23)
45257VAD8	IMSA Trust 2007-3	Zero (S-31)	1% (May, p 12)	1 78% (Jul , p 12)	7 15% (Oct , p 12)	18 13% (Apr , p 12)	34 03% (November 2012, p 13)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
45661FAC5	INDYL 2006-L2	Zero ("The Mortgage Pool" section)	1 68% (Jul , p 10)	3 26% (Sep , p 10)	3 17% (Dec , p 10)	7 13% (Jun , p 10)	90 67% (November 2012, p 11)
	LUM 2006-7 (P S dated January 24, 2007)	As of November 1, 2006, 1 0% of loans are delinquent (S-25)	2 49% (Jan , p 11)	1 53% (Mar , p 11)	1 81% (June, p 11)	9 40% (Dec , p 11)	37 32% (November 2012, p 11)
55028BAB3	LUM 2006-7: Group 1 ***Class I-A-2 in Group 1. (S-3)**	As of November 1, 2006, 7% of loans are delinquent (S-25)	1 77% (Jan , p 13)	2 94% (Mar , p 13)	3 14% (June, p 13)	11 01% (Dec , p 13)	33 37% (November 2012, p 12)
	LUM 2006-7: Group 2	As of November 1, 2006, 1 1% of loans are delinquent (S-25)	2 86% (Jan , p 13)	0 88% (Mar , p 13)	1 20% (June, p 13)	8 63% (Dec , p 13)	38 89% (November 2012, p 12)
	NHELI 2007-1	Zero (S-57)	16% (Feb , p 13)	5 05% (Apr , p 13)	11 90% (July, p 13)	24 01% (Jan , p 13)	48 16% (October 2012, p 13)
65537KAY6	NHELI 2007-1 Group 1 ***Class I-A-4 in Group 1. (S-i)**	Zero (S-57)	11% (Feb , p 14)	2 21% (Apr , p 15)	8 49% (July, p 15)	18 80% (Jan , p 15)	47 19% (October 2012, p 14)
65537KAB6 65537KAC4	NHELI 2007-1 Group 2 ***Classes 2-A-1A and 2-A-1B in Group 2. (S-i)**	Zero (S-57)	19% (Feb , p 14)	7 00% (Apr , p 15)	14 26% (July, p 15)	27 54% (Jan , p 15)	49 12% (October 2012, p 14)
71085PDG5 71085PDH3	PCHLT 2005-4 (P S dated October 24, 2005) ***Classes M1, M2, and M3 are in all Groups. (S-6-7)**	Zero (S-22)	0 05% (Nov , p 7)	2 33% (Jan , p 9)	4 92% (Apr , p 9)	9 62% (Oct , p 10)	41 33% (November 2012, p 11)
	PCHLT 2005-4 Group 1 ARM	Zero (S-22)	0 12% (Nov , p 8)	3 49% (Jan , p 10)	6 80% (Apr , p 10)	13 36% (Oct , p 11)	49 13% (November 2012, p 12)
	PCHLT 2005-4 Group 1 Fixed	Zero (S-22)	0 00% (Nov , p 8)	1 82% (Jan , p 10)	4 51% (Apr , p 10)	7 36% (Oct , p 11)	38 12% (November 2012, p 12)
	PCHLT 2005-4 Group 2 ARM	Zero (S-22)	0 00% (Nov p 9)	1 71% (Jan , p 11)	3 82% (Apr , p 11)	7 39% (Oct , p 12)	46 27% (November 2012, p 13)
	PCHLT 2005-4 Group 2 Fixed	Zero (S-22)	0 00% (Nov , p 9)	0 12% (Jan , p 11)	1 26% (Apr , p 11)	3 21% (Oct , p 12)	24 81% (November 2012, p 13)
785778RD5	SACO 2006-4	Zero (12)	1.08% (Apr., p.11)	2.85% (Jun., p.11)	4.05% (Sep., p.11)	11.05% (Mar., p.11)	9 48% (November 2012, p 14)
	SAMI 2006-AR3: Aggregate (P S dated July 17, 2006)	Zero (12)	1 81% (May, p 20)	2 33% (July, p 21)	3 98% (Oct , p 21)	7 69% (Apr , p 19)	58 30% (November 2012, p 20)
86360KAC2	SAMI 2006-AR3: Group I-1 ***Class I-1A-3 in subgroup I-1. (S-16)**	Zero (12)	1 68% (May, p 21)	1 76% (July, p 22)	3 30% (Oct , p 22)	7 45% (Apr , p 20)	65 45% (November 2012, p 21)
	SAMI 2006-AR3: Group I-2	Zero (12)	2 14% (May, p 21)	2 63% (July, p 22)	4 49% (Oct , p 22)	7 01% (Apr , p 20)	57 50% (November 2012, p 21)
86360KAW8	SAMI 2006-AR3: Group II-1	Zero (12)	2 87% (May, p 22)	3 19% (July, p 23)	3 09% (Oct , p 23)	13 39% (Apr , p 21)	26 19% (November 2012, p 22)
	SAMI 2006-AR3: Group II-2	Zero (12)	2 33% (May, p 22)	2 34% (July, p 23)	5 04% (Oct , p 23)	14 05% (Apr , p 21)	50 97% (November 2012, p 22)
	SAMI 2006-AR3: Group II-3	Zero (12)	2 12% (May, p 23)	5 06% (July, p 24)	2 46% (Oct , p 24)	6 68% (Apr , p 22)	44 35% (November 2012, p 23)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	SAMI 2006-AR3: Group II-4	Zero (12)	2 16% (May, p 23)	3 65% (July, p 24)	7 13% (Oct , p 24)	17 50% (Apr , 22)	49 10% (November 2012, p 23)
	SAMI 2006-AR3: Group III	Zero (12)	0 00% (May, p 24)	1 05% (July, p 25)	1 77% (Oct , p 25)	3 73% (Apr , p 23)	54 31% (November 2012, p 24)
	SAMI 2006-AR4: Aggregate	Zero (12)	0 87% (July, p 12)	9 97% (Sep , p 11)	2 81% (Dec , p 11)	6 04% (June , p 11)	47 43% (November 2012, p 12)
	SAMI 2006-AR4: Group I	Zero (12)	0 94% (July, p 13)	1 53% (Sep , p 12)	1 50% (Dec , p 12)	4 75% (June , p 12)	37 41% (November 2012, p 13)
86360QAD7	SAMI 2006-AR4: Group II	Zero (12)	0 51% (July, p 13)	0 91% (Sep , p 12)	3 44% (Dec , p 12)	5 90% (June , p 12)	44 81% (November 2012, p 13)
86360QAG0	SAMI 2006-AR4: Group III	Zero (12)	1 24% (July, p 14)	1 35% (Sep , p 13)	3 30% (Dec , p 13)	5 86% (June , p 13)	42 26% (November 2012, p 14)
86360QAL9	SAMI 2006-AR4: Group IV	Zero (12)	0 78% (July, p 14)	30 58% (Sep , p 13)	2 68% (Dec , p 13)	7 35% (June , p 13)	61 66% (November 2012, p 14)
86360QAP0	SAMI 2006-AR4: Group V	Zero (12)	0 56% (July, p 15)	28 71% (Sep , p 14)	3 27% (Dec , p 14)	7 21% (June , p 14)	63 67% (November 2012, p 15)
	SAMI 2006-AR6: Aggregate	Zero (12)	0 71% (Aug , p 12)	2 93% (Oct , p 12)	3 89% (Dec , p 11)	7 82% (July , p 11)	57 75% (November 2012, p 11)
	SAMI 2006-AR6: Group I	Zero (12)	0 34% (Aug , p 13)	1 96% (Oct , p 13)	2 91% (Dec , p 12)	6 91% (July , p 12)	61 60% (November 2012, p 12)
86360UAH9	SAMI 2006-AR6: Group II	Zero (12)	1 21% (Aug , p 13)	4 20% (Oct , p 13)	5 12% (Dec , p 12)	8 91% (July , p 12)	54 11% (November 2012, p 12)
86361HAR5	SAMI 2006-AR7	Zero (S-35)	0 39% (Sep , p 10)	2 79% (Nov , p 10)	3 87% (Feb , p 10)	8 80% (Aug , p 10)	60 28% (November 2012, p 10)
86361WAH4 86361WAJ0	SAMI 2006-AR8	Zero (S-36)	0 93% (Nov , p10)	3 24% (Jan , p 10)	4 17% (Apr , p 10)	11 13% (Oct , p 10)	52 89% (November 2012, p 10)
	SAMI 2007-AR3: Group 1	Zero (S-40)	0 98% (May, p 13)	4 09% (July, p 13)	7 73% (Oct , p 13)	17 08% (Apr , p 13)	60 06% (November 2012, p 12)
86363NAZ2	SAMI 2007-AR3: Group II ***Class 2-A-2 in Group II**	3 27% as of April 1, 2007, but zero as of April 24, 2007 (S-40)	3 11% (May, p 12)	5 00% (July, p 12)	9 48% (Oct , p 12)	21 18% (Apr , p 12)	53 70% (November 2012, p 12)

72. 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.

73. The phenomenon of borrower default shortly after origination of the loans is known as "Early Payment Default." Early Payment Default ("EPD") evidences borrower

misrepresentations and other misinformation in the origination process, resulting from systematic failure of the Originators to apply the underwriting guidelines described in the Offering Documents.

74. Internal Bear Stearns documents uncovered in other litigation revealed that Bear Stearns itself recognized that Early Payment Default ("EPD") evidences defects in the underwriting process, defining EPD as "Loans which become delinquent more than 90+ days in their first year. Although a fraud flag can be raised, many such loans contain some form of misrepresentation and should not have been made." *Ambac Assurance Corp. v. EMC Mortg. LLC*, No. 08-9464, Docket # 117-9 (Bear Stearns Whole Loan Repurchase Project: Repurchases, Current Processes, p. 30, dated June 21, 2006) (S.D.N.Y. filed Jan. 20, 2011).

75. A November 2008 Federal Reserve Board study attributed the rise in defaults, in part, to "[d]eteriorating lending standards" and posits that "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* at 15-16 (Fed. Reserve Bd. Fin. & Econ. Discussion Series, Paper No. 2008-59).

76. 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.

77. 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 loan 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.

78. 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.

79. 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.

80. Table 6 (*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 6
Originator "Originate-to-Distribute" Percentages

Originator	OTD% 2005	OTD% 2006	OTD% 2007
Aegis Mortgage Corporation	100	100	-
American Home Mortgage Corp.	91.9	62.4	-
American Home Mortgage Investment Corp.	100	100	100

Originator	OTD% 2005	OTD% 2006	OTD% 2007
Bear Stearns Residential Mortgage Corp.	-	-	87.7
Countrywide Home Loans, Inc.	98.5	96.5	98.4
CTX Mortgage Company LLC	98.3	98.4	99.9
First Horizon Home Loans	99.0	98.3	-
First National Bank of Nevada	88.0	79.8	89.4
GMAC Bank	-	81	84.9
GMAC Mortgage Corporation	89.4	85.1	91.8
GreenPoint Mortgage Funding, Inc.	89.0	87.0	95.6
HomeBanc Mortgage Corporation	99.9	91.9	77.7
Impac Funding Corporation	96.3	23.7	93.4
IndyMac Bank, F.S.B.	81.1	87.7	82.8
Lehman Brothers Bank	87.9	81.5	36.8
New Century Mortgage Corporation	92.4	84.2	-
Opteum Financial Services	92.9	86.2	98.3
People's Choice Home Loan, Inc.	83.4	87.8	-
Quicken Loans, Inc.	89.5	86.7	91.3
ResMae Mortgage Corporation	46.6	84.6	67.4
SouthStar Funding, LLC	100	100	-
Wells Fargo Bank, N.A.	73.5	67.1	61.6

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

81. 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.

82. 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."

83. 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."

84. "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.

85. 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.

86. 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.

87. 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.

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

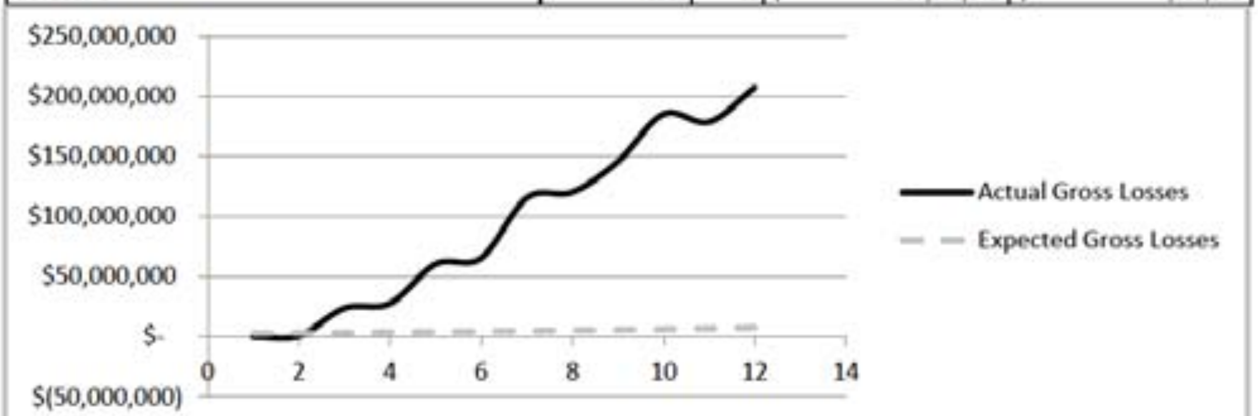
89. A comparison of actual gross losses to expected gross losses for a particular security can be made graphically by plotting the actual versus expected loss data on a line graph. Figure 2 (*infra*) is a series of such line graphs. Figure 2 illustrates the actual gross loss (again, actual defaults) for the pools backing the RMBS purchased by the Credit Unions experienced in the first 12 months after issuance compared to the expected gross loss (again, expected defaults) for those pools during the same time period.

90. 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%.

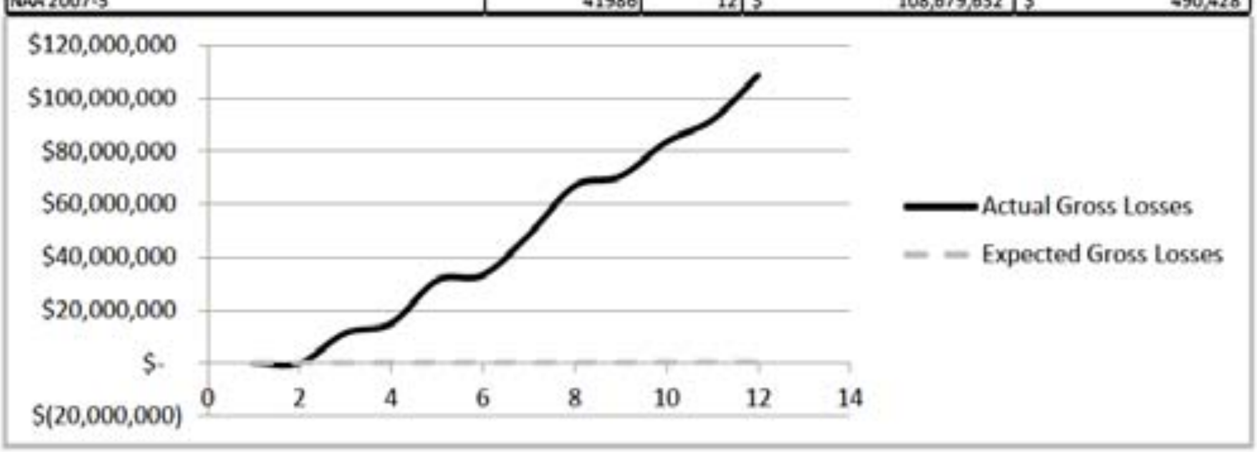
91. As the graphs show, the actual gross losses (the solid lines) far exceeded the expected gross losses (the dotted lines) for the period analyzed. That means that the actual balance of defaulted loans in the first 12 months following issuance far exceeded the expected balance of defaulted loans based on historical performance.

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

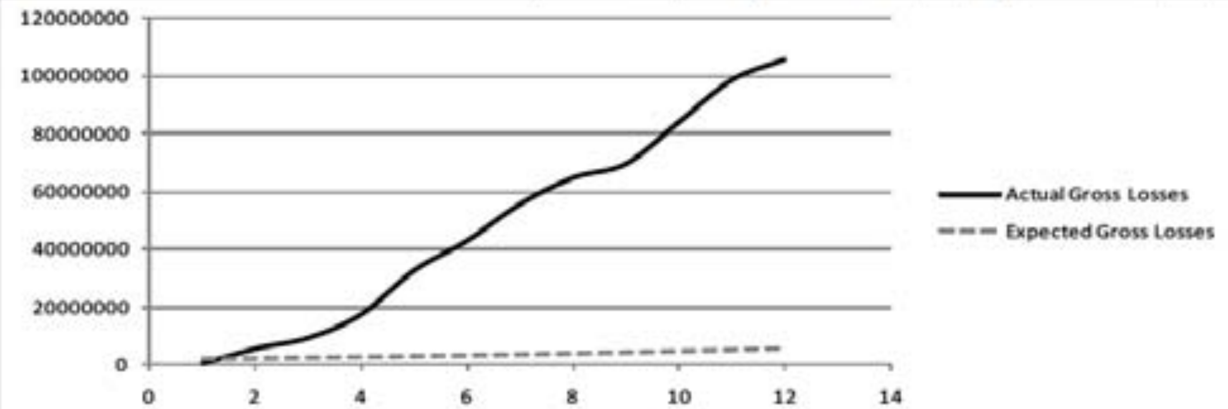
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
NAA 2007-1	41510	1	$ 97,430	$ 2,934,766
NAA 2007-1	41510	2	$ 715,827	$ 3,205,498
NAA 2007-1	41510	3	$ 23,827,055	$ 3,500,638
NAA 2007-1	41510	4	$ 27,829,515	$ 3,822,276
NAA 2007-1	41510	5	$ 60,510,868	$ 4,172,662
NAA 2007-1	41510	6	$ 65,618,924	$ 4,554,213
NAA 2007-1	41510	7	$ 115,441,911	$ 4,969,517
NAA 2007-1	41510	8	$ 120,221,313	$ 5,421,345
NAA 2007-1	41510	9	$ 145,789,538	$ 5,912,655
NAA 2007-1	41510	10	$ 185,140,488	$ 6,446,595
NAA 2007-1	41510	11	$ 178,590,041	$ 7,026,507
NAA 2007-1	41510	12	$ 207,391,642	$ 7,655,932



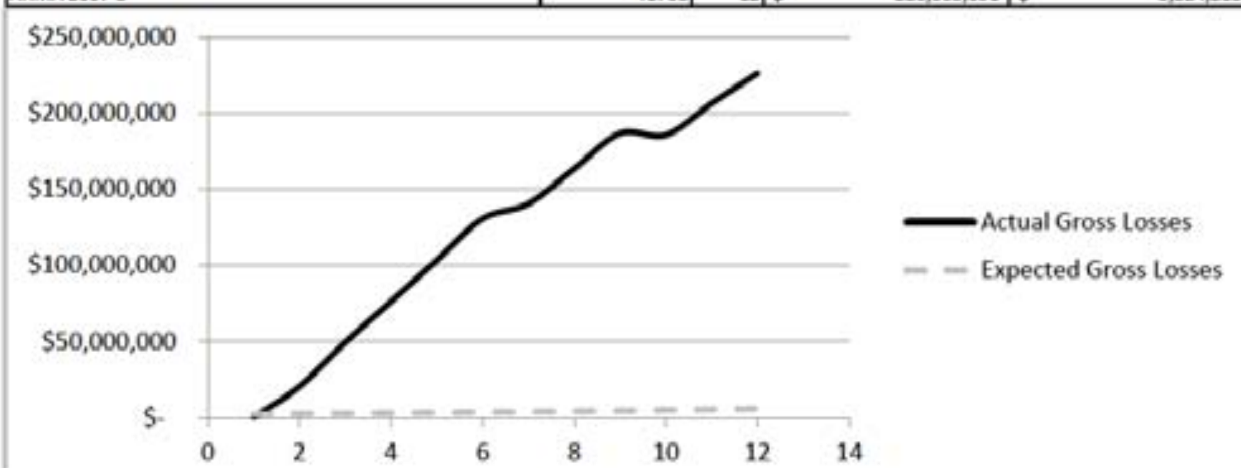
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
NAA 2007-3	41986	1	$ -	$ 187,997
NAA 2007-3	41986	2	$ -	$ 205,340
NAA 2007-3	41986	3	$ 11,496,788	$ 224,246
NAA 2007-3	41986	4	$ 15,096,371	$ 244,849
NAA 2007-3	41986	5	$ 31,388,539	$ 267,295
NAA 2007-3	41986	6	$ 33,319,396	$ 291,736
NAA 2007-3	41986	7	$ 48,549,786	$ 318,340
NAA 2007-3	41986	8	$ 66,982,983	$ 347,283
NAA 2007-3	41986	9	$ 70,532,856	$ 378,756
NAA 2007-3	41986	10	$ 83,565,555	$ 412,959
NAA 2007-3	41986	11	$ 91,834,149	$ 450,108
NAA 2007-3	41986	12	$ 108,679,632	$ 490,428



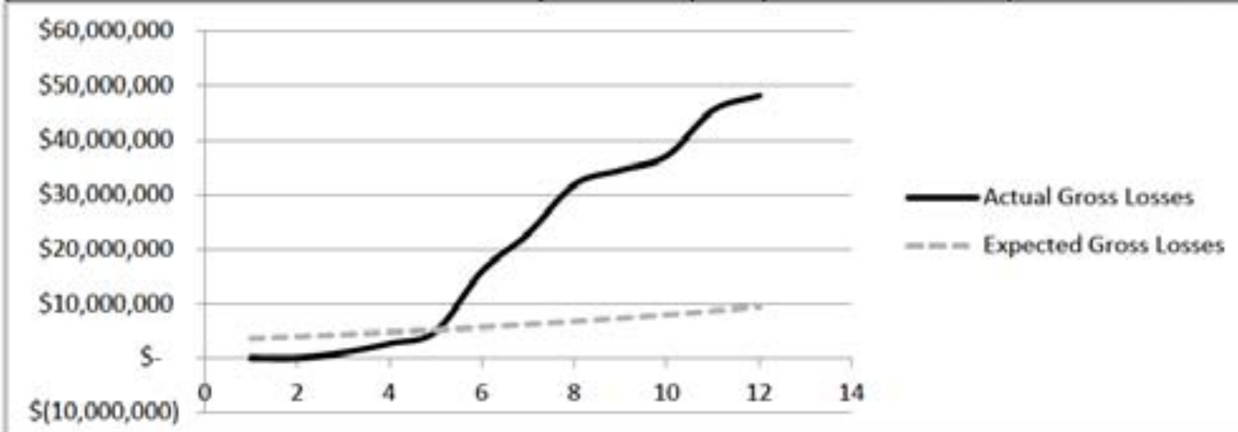
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
AHM 2007-2	41782	1	$ 371,120	$ 2,296,680
AHM 2007-2	41782	2	$ 5,500,207	$ 2,508,549
AHM 2007-2	41782	3	$ 9,207,038	$ 2,739,518
AHM 2007-2	41782	4	$ 17,407,513	$ 2,991,225
AHM 2007-2	41782	5	$ 32,558,422	$ 3,265,429
AHM 2007-2	41782	6	$ 42,837,312	$ 3,564,021
AHM 2007-2	41782	7	$ 55,456,629	$ 3,889,028
AHM 2007-2	41782	8	$ 64,491,287	$ 4,242,619
AHM 2007-2	41782	9	$ 69,383,697	$ 4,627,106
AHM 2007-2	41782	10	$ 83,773,518	$ 5,044,955
AHM 2007-2	41782	11	$ 98,310,575	$ 5,498,781
AHM 2007-2	41782	12	$ 105,490,915	$ 5,991,354



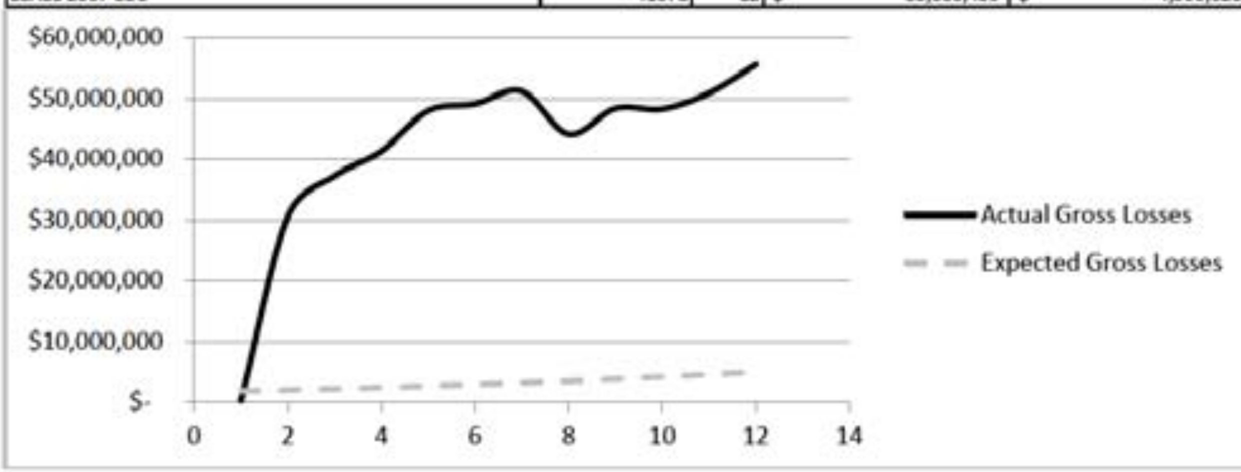
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
AHMA 2007-3	41708	1	$ -	$ 2,232,609
AHMA 2007-3	41708	2	$ 20,399,980	$ 2,438,567
AHMA 2007-3	41708	3	$ 49,464,549	$ 2,663,093
AHMA 2007-3	41708	4	$ 76,378,883	$ 2,907,778
AHMA 2007-3	41708	5	$ 103,617,642	$ 3,174,333
AHMA 2007-3	41708	6	$ 130,873,934	$ 3,464,595
AHMA 2007-3	41708	7	$ 140,742,932	$ 3,780,536
AHMA 2007-3	41708	8	$ 163,847,101	$ 4,124,262
AHMA 2007-3	41708	9	$ 187,001,069	$ 4,498,024
AHMA 2007-3	41708	10	$ 185,965,334	$ 4,904,215
AHMA 2007-3	41708	11	$ 206,785,530	$ 5,345,381
AHMA 2007-3	41708	12	$ 226,605,691	$ 5,824,213



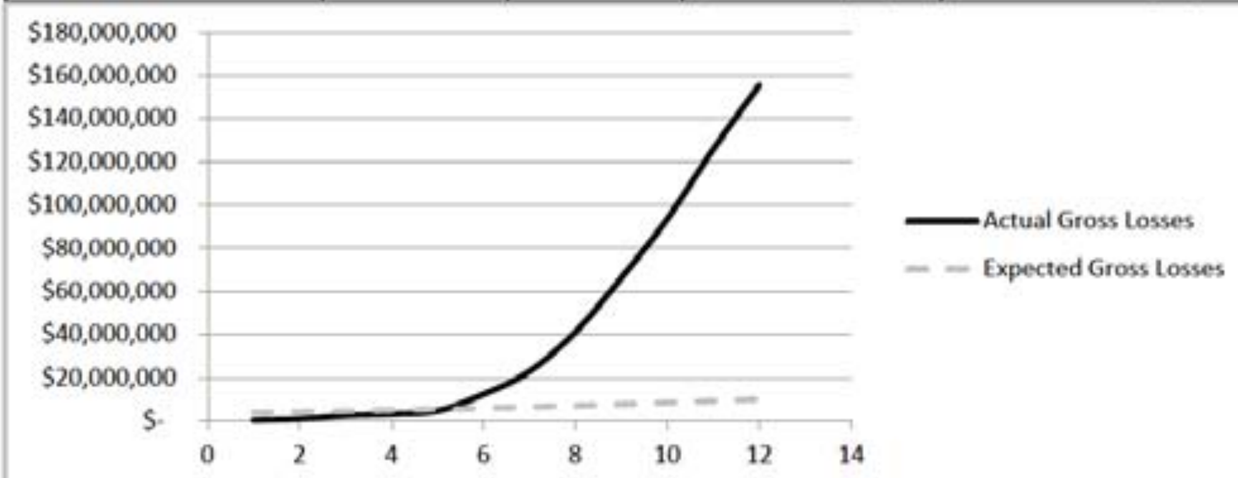
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BSABS 2006-HE4	38678	1	$ -	$ 3,628,019
BSABS 2006-HE4	38678	2	$ -	$ 3,962,704
BSABS 2006-HE4	38678	3	$ 959,597	$ 4,327,561
BSABS 2006-HE4	38678	4	$ 2,645,577	$ 4,725,177
BSABS 2006-HE4	38678	5	$ 4,951,982	$ 5,158,332
BSABS 2006-HE4	38678	6	$ 15,925,912	$ 5,630,012
BSABS 2006-HE4	38678	7	$ 22,857,446	$ 6,143,420
BSABS 2006-HE4	38678	8	$ 31,808,274	$ 6,701,980
BSABS 2006-HE4	38678	9	$ 34,515,320	$ 7,309,347
BSABS 2006-HE4	38678	10	$ 37,100,389	$ 7,969,414
BSABS 2006-HE4	38678	11	$ 45,449,609	$ 8,686,314
BSABS 2006-HE4	38678	12	$ 48,244,097	$ 9,464,422



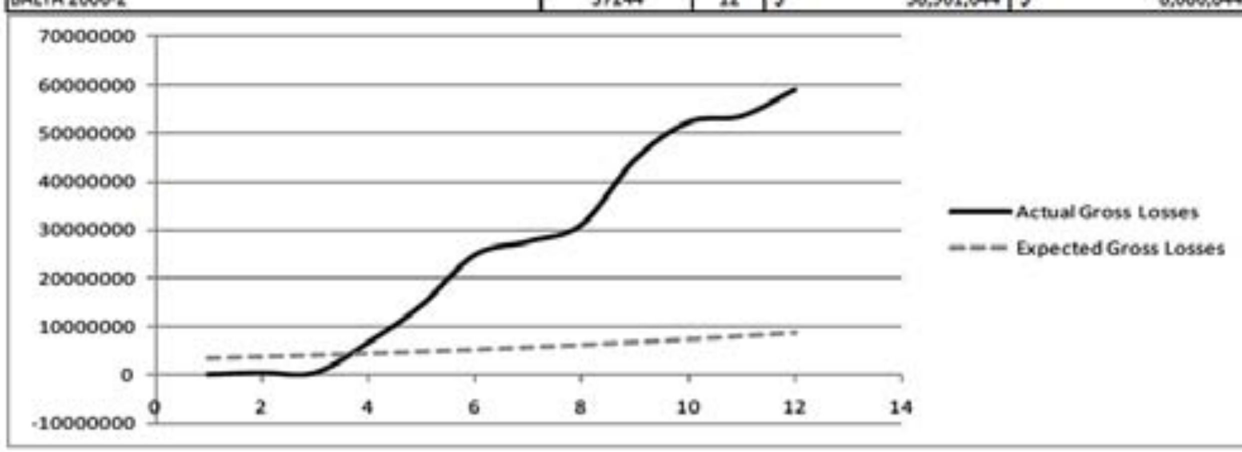
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BSABS 2007-SD3	41678	1	$ 303,358	$ 1,916,518
BSABS 2007-SD3	41678	2	$ 30,543,951	$ 2,093,317
BSABS 2007-SD3	41678	3	$ 37,250,233	$ 2,286,055
BSABS 2007-SD3	41678	4	$ 41,341,947	$ 2,496,098
BSABS 2007-SD3	41678	5	$ 47,999,690	$ 2,724,914
BSABS 2007-SD3	41678	6	$ 49,121,337	$ 2,974,081
BSABS 2007-SD3	41678	7	$ 51,211,946	$ 3,245,291
BSABS 2007-SD3	41678	8	$ 44,112,829	$ 3,540,353
BSABS 2007-SD3	41678	9	$ 48,372,648	$ 3,861,198
BSABS 2007-SD3	41678	10	$ 48,276,885	$ 4,209,881
BSABS 2007-SD3	41678	11	$ 50,917,208	$ 4,588,587
BSABS 2007-SD3	41678	12	$ 55,606,459	$ 4,999,626



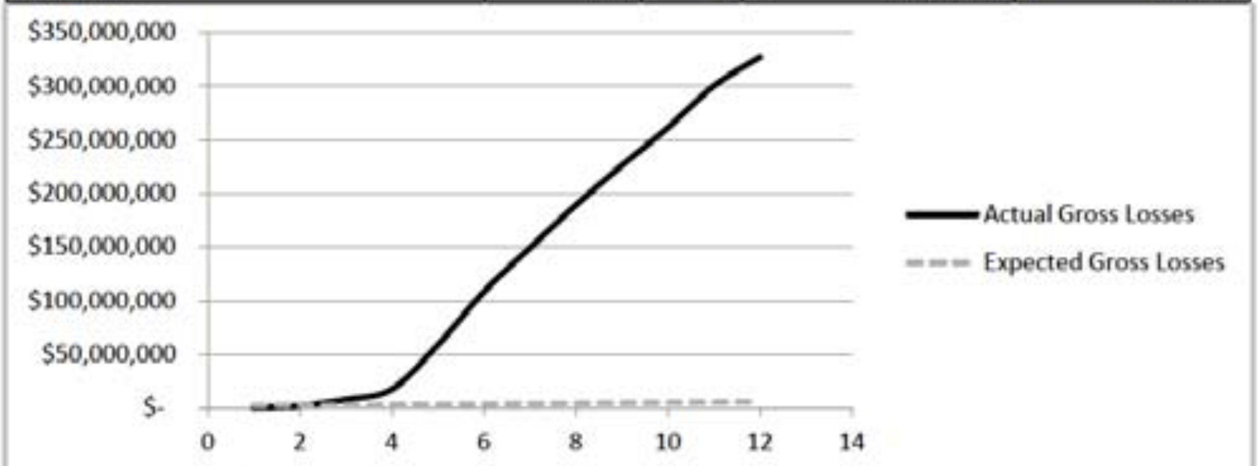
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BSSLT 2007-1	42792	1	$ 257,152	$ 3,841,957
BSSLT 2007-1	42792	2	$ 881,158	$ 4,196,378
BSSLT 2007-1	42792	3	$ 2,477,106	$ 4,582,751
BSSLT 2007-1	42792	4	$ 3,181,023	$ 5,003,814
BSSLT 2007-1	42792	5	$ 4,706,484	$ 5,462,511
BSSLT 2007-1	42792	6	$ 12,313,864	$ 5,962,006
BSSLT 2007-1	42792	7	$ 22,981,885	$ 6,505,688
BSSLT 2007-1	42792	8	$ 41,267,636	$ 7,097,185
BSSLT 2007-1	42792	9	$ 66,356,463	$ 7,740,368
BSSLT 2007-1	42792	10	$ 93,652,671	$ 8,439,358
BSSLT 2007-1	42792	11	$ 125,933,000	$ 9,198,533
BSSLT 2007-1	42792	12	$ 155,596,550	$ 10,022,525



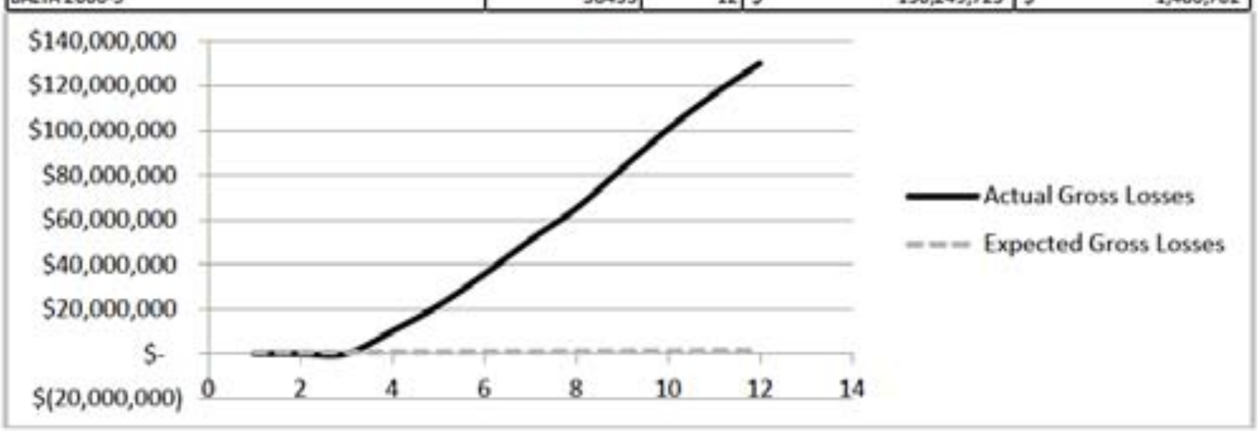
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BALTA 2006-2	37244	1	$ -	$ 3,329,948
BALTA 2006-2	37244	2	$ 355,190	$ 3,637,136
BALTA 2006-2	37244	3	$ 355,058	$ 3,972,018
BALTA 2006-2	37244	4	$ 6,596,067	$ 4,336,966
BALTA 2006-2	37244	5	$ 14,351,598	$ 4,734,534
BALTA 2006-2	37244	6	$ 24,749,712	$ 5,167,462
BALTA 2006-2	37244	7	$ 27,475,649	$ 5,638,689
BALTA 2006-2	37244	8	$ 31,026,409	$ 6,151,358
BALTA 2006-2	37244	9	$ 44,468,068	$ 6,708,825
BALTA 2006-2	37244	10	$ 52,187,828	$ 7,314,663
BALTA 2006-2	37244	11	$ 53,460,880	$ 7,972,664
BALTA 2006-2	37244	12	$ 58,961,644	$ 8,686,844



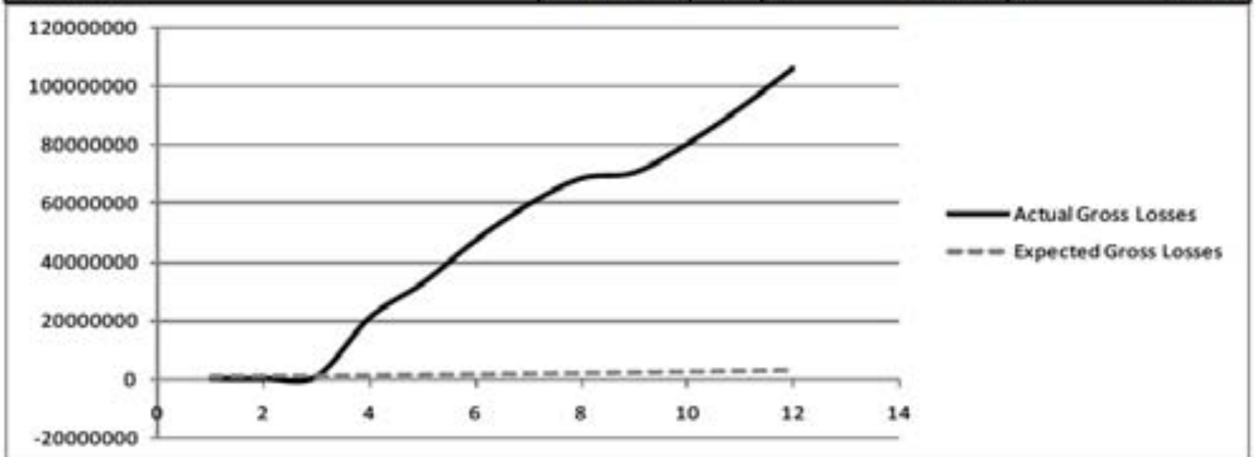
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BALTA 2006-4	38269	1	$ 538,522	$ 2,235,119
BALTA 2006-4	38269	2	$ 2,056,046	$ 2,441,309
BALTA 2006-4	38269	3	$ 7,892,434	$ 2,666,087
BALTA 2006-4	38269	4	$ 17,678,288	$ 2,911,047
BALTA 2006-4	38269	5	$ 58,929,310	$ 3,177,901
BALTA 2006-4	38269	6	$ 108,395,611	$ 3,468,490
BALTA 2006-4	38269	7	$ 149,191,136	$ 3,784,786
BALTA 2006-4	38269	8	$ 189,085,482	$ 4,128,899
BALTA 2006-4	38269	9	$ 226,048,050	$ 4,503,080
BALTA 2006-4	38269	10	$ 261,262,685	$ 4,909,729
BALTA 2006-4	38269	11	$ 300,107,742	$ 5,351,391
BALTA 2006-4	38269	12	$ 327,083,164	$ 5,830,761



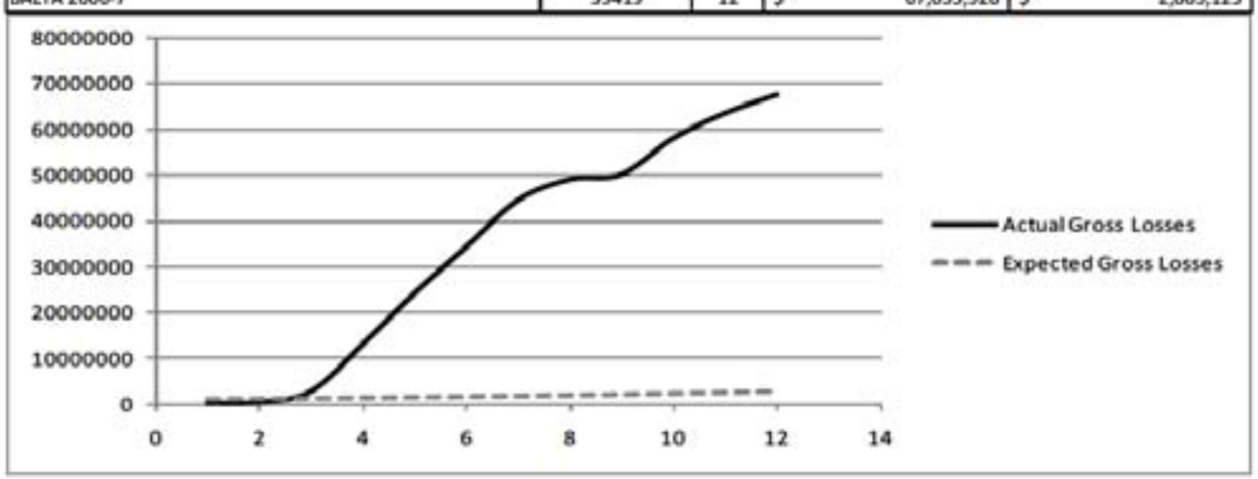
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BALTA 2006-5	38433	1	$ -	$ 569,901
BALTA 2006-5	38433	2	$ -	$ 622,474
BALTA 2006-5	38433	3	$ -	$ 679,787
BALTA 2006-5	38433	4	$ 10,231,036	$ 742,246
BALTA 2006-5	38433	5	$ 21,642,950	$ 810,287
BALTA 2006-5	38433	6	$ 35,689,670	$ 884,380
BALTA 2006-5	38433	7	$ 51,018,077	$ 965,028
BALTA 2006-5	38433	8	$ 65,141,535	$ 1,052,768
BALTA 2006-5	38433	9	$ 83,113,872	$ 1,148,176
BALTA 2006-5	38433	10	$ 100,751,567	$ 1,251,861
BALTA 2006-5	38433	11	$ 116,394,810	$ 1,364,474
BALTA 2006-5	38433	12	$ 130,249,723	$ 1,486,702



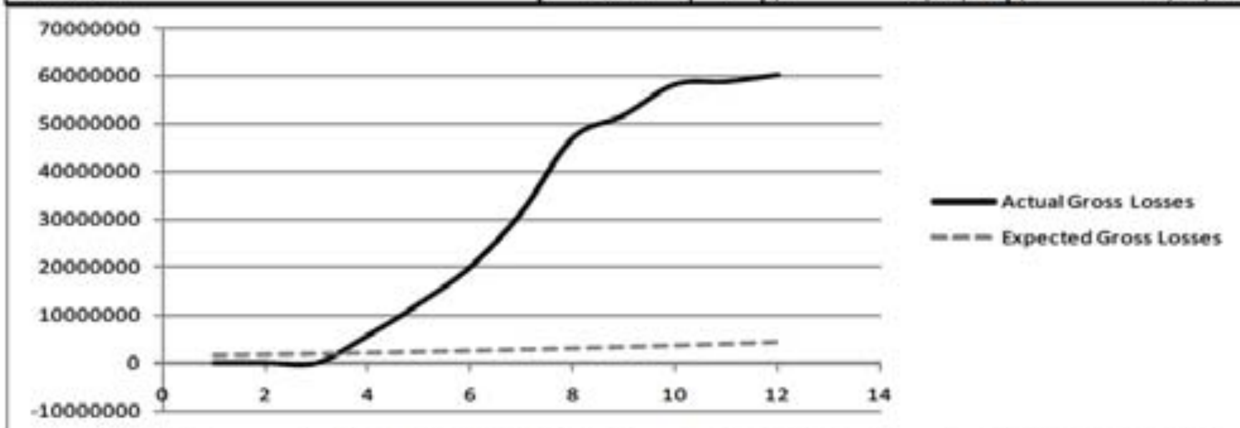
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BALTA 2006-6	39139	1	$ -	$ 1,120,063
BALTA 2006-6	39139	2	$ -	$ 1,223,389
BALTA 2006-6	39139	3	$ 883,120	$ 1,336,029
BALTA 2006-6	39139	4	$ 20,866,826	$ 1,458,784
BALTA 2006-6	39139	5	$ 32,598,136	$ 1,592,510
BALTA 2006-6	39139	6	$ 47,146,914	$ 1,738,130
BALTA 2006-6	39139	7	$ 59,344,141	$ 1,896,632
BALTA 2006-6	39139	8	$ 68,257,207	$ 2,069,073
BALTA 2006-6	39139	9	$ 70,284,432	$ 2,256,583
BALTA 2006-6	39139	10	$ 80,031,776	$ 2,460,363
BALTA 2006-6	39139	11	$ 92,177,308	$ 2,681,688
BALTA 2006-6	39139	12	$ 105,882,807	$ 2,921,910



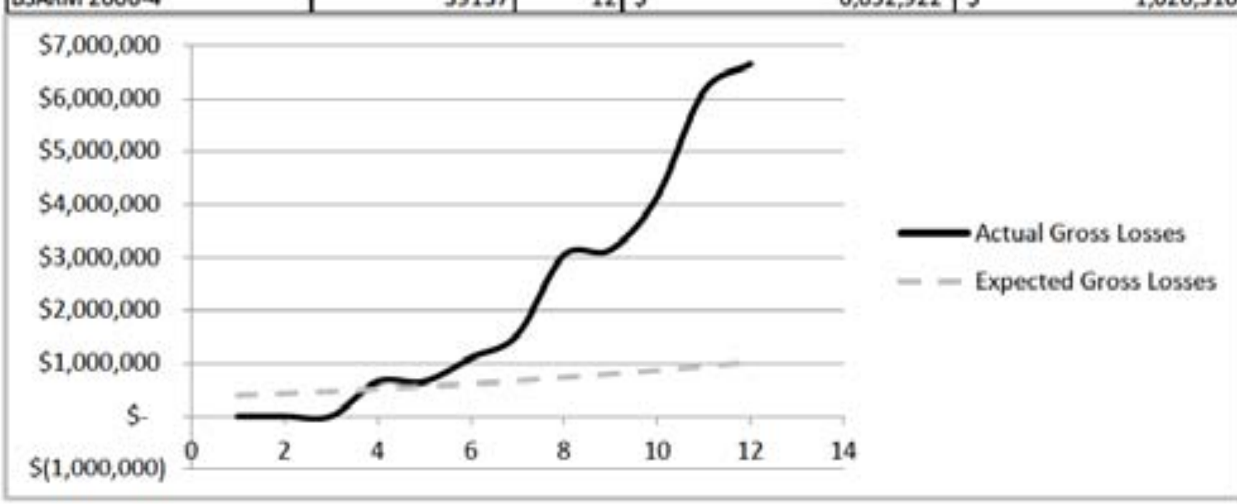
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BALTA 2006-7	39419	1	$ 182,000	$ 1,098,295
BALTA 2006-7	39419	2	$ 413,890	$ 1,199,613
BALTA 2006-7	39419	3	$ 2,808,104	$ 1,310,065
BALTA 2006-7	39419	4	$ 13,115,894	$ 1,430,433
BALTA 2006-7	39419	5	$ 24,250,916	$ 1,561,561
BALTA 2006-7	39419	6	$ 34,398,638	$ 1,704,350
BALTA 2006-7	39419	7	$ 44,594,323	$ 1,859,772
BALTA 2006-7	39419	8	$ 49,122,080	$ 2,028,863
BALTA 2006-7	39419	9	$ 50,229,692	$ 2,212,728
BALTA 2006-7	39419	10	$ 58,104,968	$ 2,412,548
BALTA 2006-7	39419	11	$ 63,581,587	$ 2,629,572
BALTA 2006-7	39419	12	$ 67,655,928	$ 2,865,125



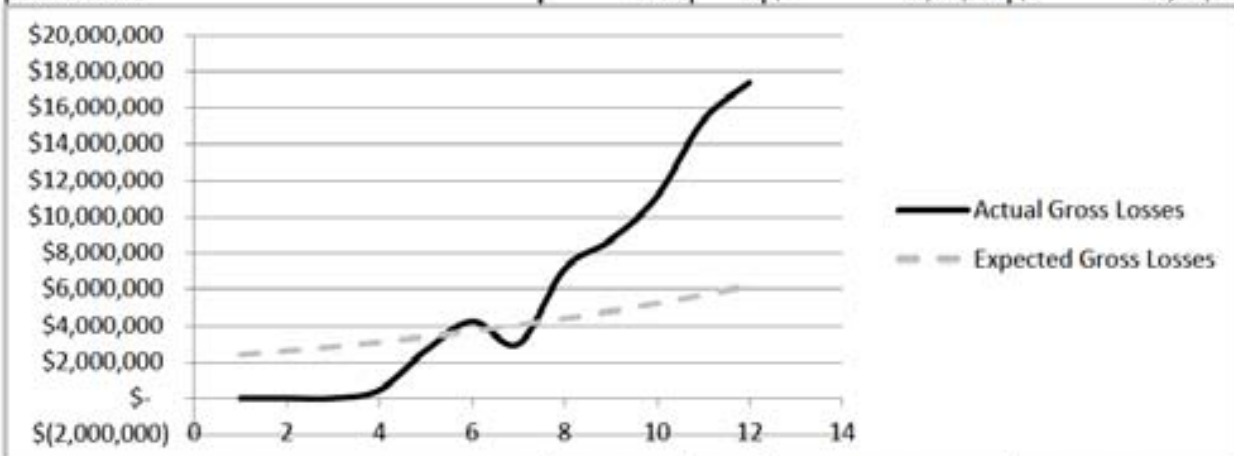
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BALTA 2007-1	39664	1	$ -	$ 1,667,403
BALTA 2007-1	39664	2	$ -	$ 1,821,221
BALTA 2007-1	39664	3	$ -	$ 1,988,906
BALTA 2007-1	39664	4	$ 5,703,306	$ 2,171,647
BALTA 2007-1	39664	5	$ 12,332,098	$ 2,370,721
BALTA 2007-1	39664	6	$ 20,024,864	$ 2,587,501
BALTA 2007-1	39664	7	$ 31,416,771	$ 2,823,458
BALTA 2007-1	39664	8	$ 46,864,236	$ 3,080,167
BALTA 2007-1	39664	9	$ 51,647,308	$ 3,359,307
BALTA 2007-1	39664	10	$ 58,072,684	$ 3,662,667
BALTA 2007-1	39664	11	$ 58,649,060	$ 3,992,148
BALTA 2007-1	39664	12	$ 60,072,490	$ 4,349,759



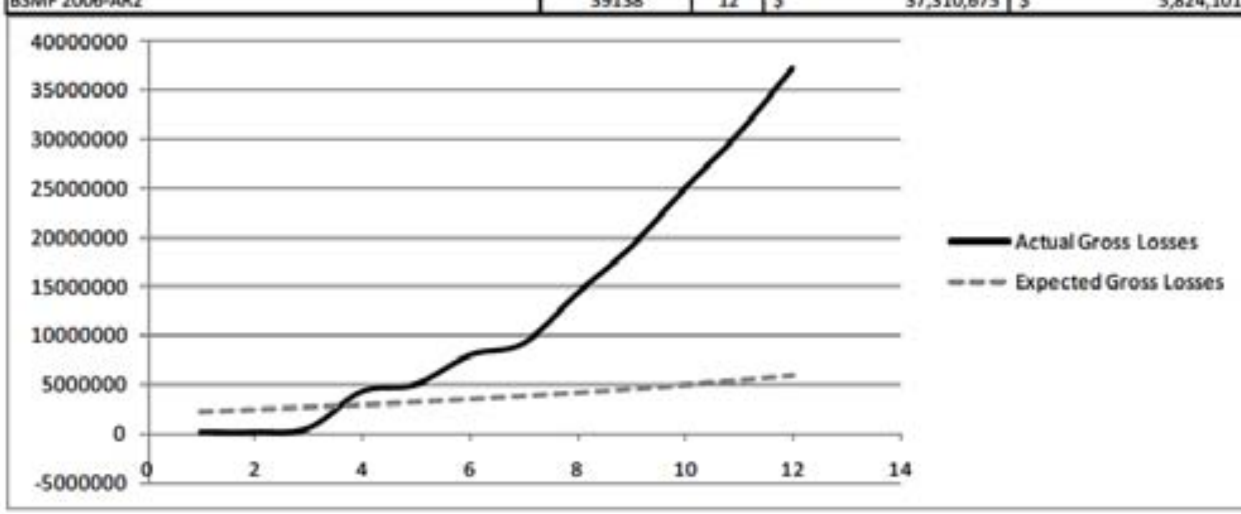
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BSARM 2006-4	39137	1	$ -	$ 393,418
BSARM 2006-4	39137	2	$ -	$ 429,710
BSARM 2006-4	39137	3	$ -	$ 469,275
BSARM 2006-4	39137	4	$ 650,000	$ 512,392
BSARM 2006-4	39137	5	$ 650,000	$ 559,363
BSARM 2006-4	39137	6	$ 1,098,950	$ 610,511
BSARM 2006-4	39137	7	$ 1,538,050	$ 666,185
BSARM 2006-4	39137	8	$ 3,040,663	$ 726,754
BSARM 2006-4	39137	9	$ 3,142,774	$ 792,616
BSARM 2006-4	39137	10	$ 4,142,774	$ 864,193
BSARM 2006-4	39137	11	$ 6,131,922	$ 941,933
BSARM 2006-4	39137	12	$ 6,652,922	$ 1,026,310



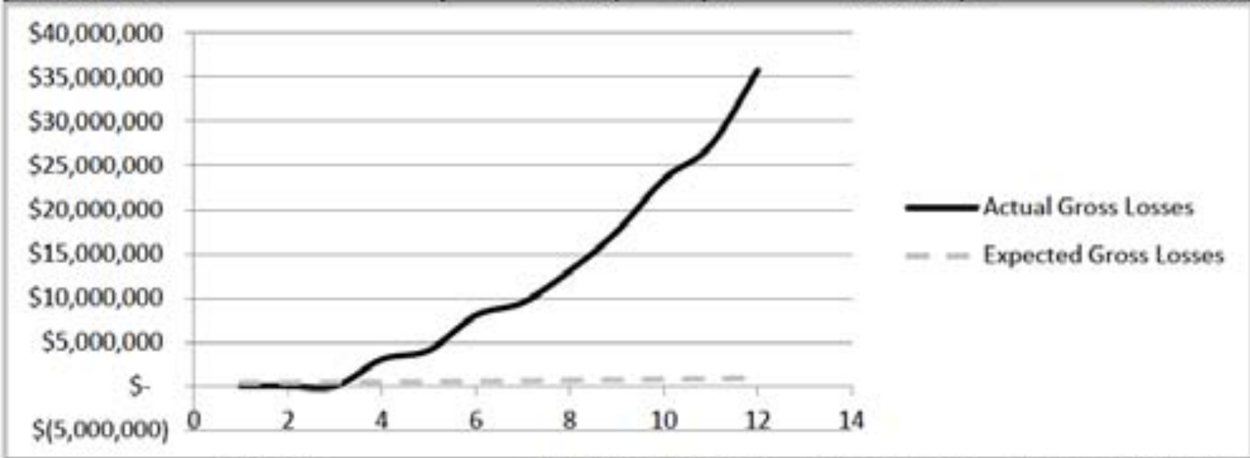
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BSMF 2006-AR1	38451	1	$ -	$ 2,381,855
BSMF 2006-AR1	38451	2	$ -	$ 2,601,582
BSMF 2006-AR1	38451	3	$ -	$ 2,841,117
BSMF 2006-AR1	38451	4	$ 471,575	$ 3,102,158
BSMF 2006-AR1	38451	5	$ 2,643,575	$ 3,386,532
BSMF 2006-AR1	38451	6	$ 4,240,580	$ 3,696,198
BSMF 2006-AR1	38451	7	$ 3,001,208	$ 4,033,259
BSMF 2006-AR1	38451	8	$ 7,134,477	$ 4,399,962
BSMF 2006-AR1	38451	9	$ 8,730,640	$ 4,798,709
BSMF 2006-AR1	38451	10	$ 11,133,108	$ 5,232,054
BSMF 2006-AR1	38451	11	$ 15,307,755	$ 5,702,711
BSMF 2006-AR1	38451	12	$ 17,412,380	$ 6,213,552



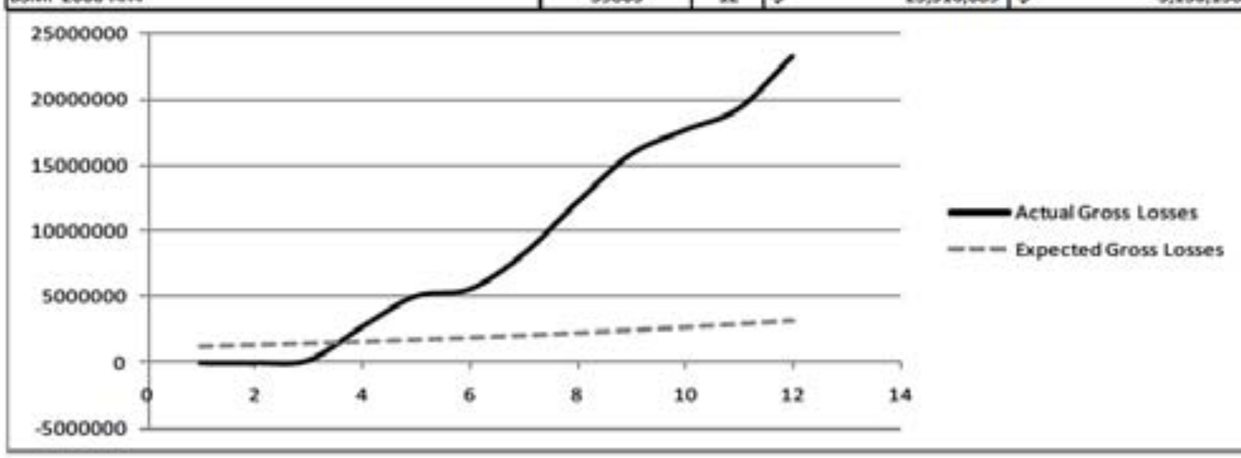
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BSMF 2006-AR2	39138	1	$ -	$ 2,232,566
BSMF 2006-AR2	39138	2	$ -	$ 2,438,520
BSMF 2006-AR2	39138	3	$ 425,050	$ 2,663,042
BSMF 2006-AR2	39138	4	$ 4,223,522	$ 2,907,722
BSMF 2006-AR2	39138	5	$ 4,927,290	$ 3,174,272
BSMF 2006-AR2	39138	6	$ 7,905,904	$ 3,464,529
BSMF 2006-AR2	39138	7	$ 9,136,035	$ 3,780,463
BSMF 2006-AR2	39138	8	$ 14,240,453	$ 4,124,183
BSMF 2006-AR2	39138	9	$ 19,028,903	$ 4,497,937
BSMF 2006-AR2	39138	10	$ 24,986,660	$ 4,904,121
BSMF 2006-AR2	39138	11	$ 30,637,365	$ 5,345,278
BSMF 2006-AR2	39138	12	$ 37,310,675	$ 5,824,101



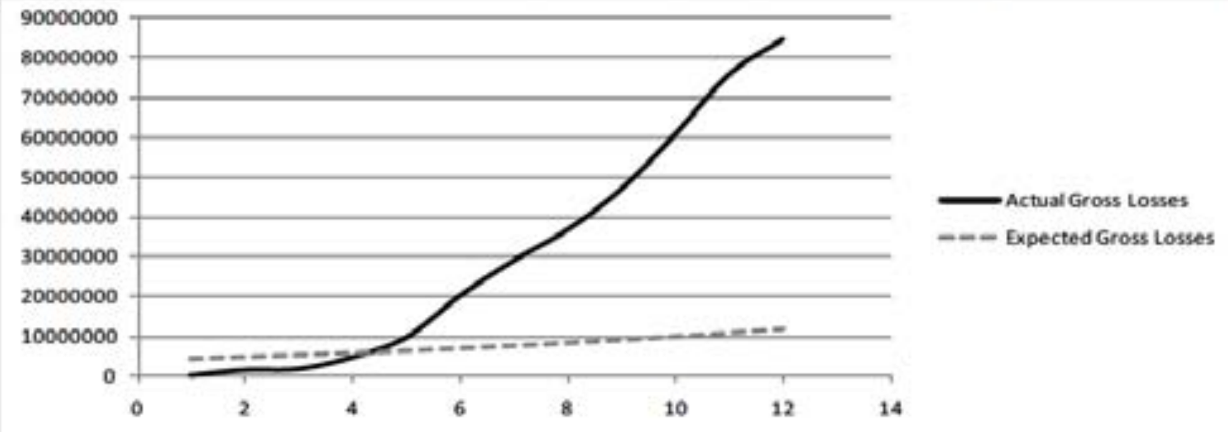
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BSMF 2006-AR3	39428	1	$ -	$ 359,192
BSMF 2006-AR3	39428	2	$ -	$ 392,328
BSMF 2006-AR3	39428	3	$ -	$ 428,450
BSMF 2006-AR3	39428	4	$ 3,036,000	$ 467,816
BSMF 2006-AR3	39428	5	$ 4,094,929	$ 510,701
BSMF 2006-AR3	39428	6	$ 8,009,658	$ 557,400
BSMF 2006-AR3	39428	7	$ 9,506,500	$ 608,230
BSMF 2006-AR3	39428	8	$ 13,076,451	$ 663,530
BSMF 2006-AR3	39428	9	$ 17,516,125	$ 723,662
BSMF 2006-AR3	39428	10	$ 23,420,642	$ 789,012
BSMF 2006-AR3	39428	11	$ 27,283,364	$ 859,989
BSMF 2006-AR3	39428	12	$ 35,757,393	$ 937,026



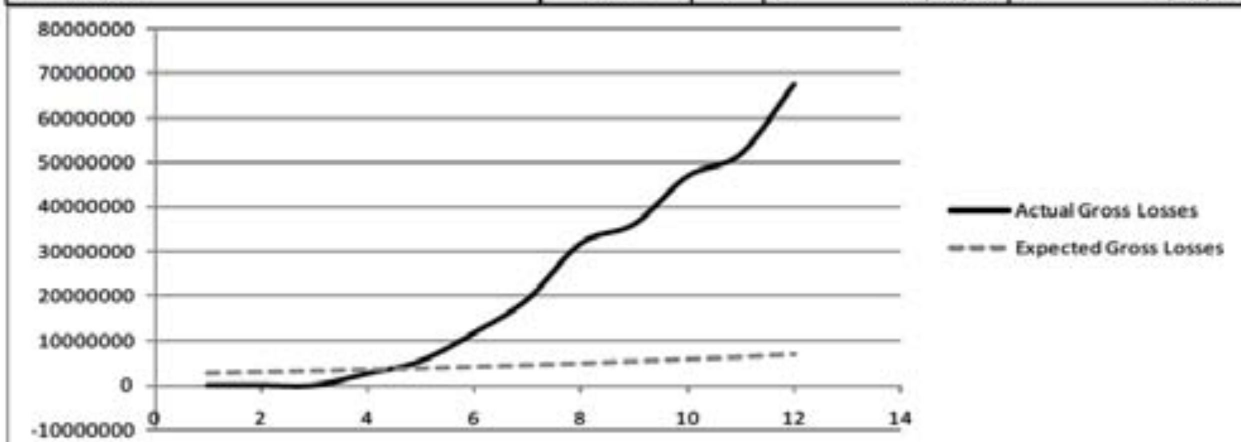
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BSMF 2006-AR4	39803	1	$ -	$ 1,199,883
BSMF 2006-AR4	39803	2	$ -	$ 1,310,572
BSMF 2006-AR4	39803	3	$ 213,601	$ 1,431,241
BSMF 2006-AR4	39803	4	$ 2,748,730	$ 1,562,743
BSMF 2006-AR4	39803	5	$ 5,075,028	$ 1,705,999
BSMF 2006-AR4	39803	6	$ 5,613,595	$ 1,861,996
BSMF 2006-AR4	39803	7	$ 8,275,844	$ 2,031,794
BSMF 2006-AR4	39803	8	$ 12,214,479	$ 2,216,524
BSMF 2006-AR4	39803	9	$ 15,871,665	$ 2,417,397
BSMF 2006-AR4	39803	10	$ 17,689,712	$ 2,635,699
BSMF 2006-AR4	39803	11	$ 19,324,596	$ 2,872,797
BSMF 2006-AR4	39803	12	$ 23,316,689	$ 3,130,138



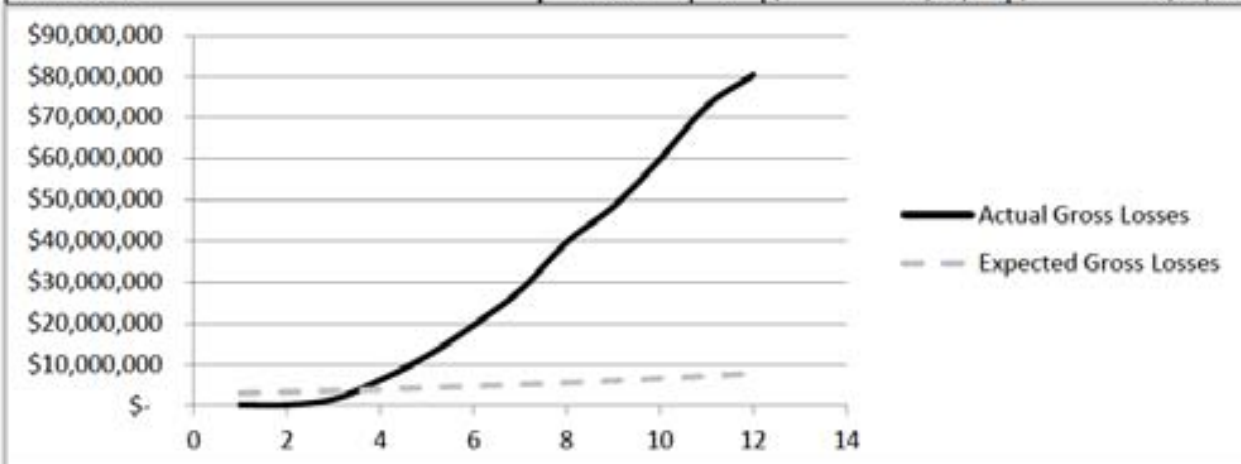
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BSMF 2006-AR5	40056	1	$ -	$ 4,457,836
BSMF 2006-AR5	40056	2	$ 1,341,950	$ 4,869,072
BSMF 2006-AR5	40056	3	$ 1,646,480	$ 5,317,382
BSMF 2006-AR5	40056	4	$ 4,613,290	$ 5,805,942
BSMF 2006-AR5	40056	5	$ 9,539,844	$ 6,338,170
BSMF 2006-AR5	40056	6	$ 20,021,198	$ 6,917,736
BSMF 2006-AR5	40056	7	$ 28,883,265	$ 7,548,572
BSMF 2006-AR5	40056	8	$ 36,641,852	$ 8,234,888
BSMF 2006-AR5	40056	9	$ 46,891,487	$ 8,981,176
BSMF 2006-AR5	40056	10	$ 60,604,326	$ 9,792,216
BSMF 2006-AR5	40056	11	$ 75,641,925	$ 10,673,089
BSMF 2006-AR5	40056	12	$ 84,514,340	$ 11,629,170



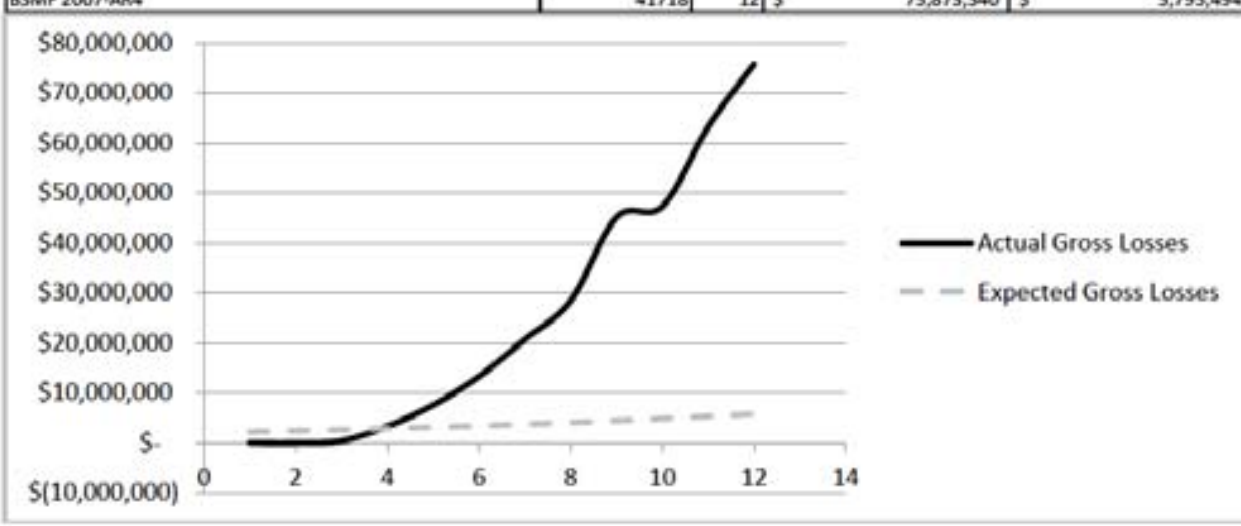
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BSMF 2007-AR1	40294	1	$ -	$ 2,679,690
BSMF 2007-AR1	40294	2	$ -	$ 2,926,892
BSMF 2007-AR1	40294	3	$ -	$ 3,196,379
BSMF 2007-AR1	40294	4	$ 2,570,400	$ 3,490,062
BSMF 2007-AR1	40294	5	$ 5,468,841	$ 3,809,994
BSMF 2007-AR1	40294	6	$ 11,771,877	$ 4,158,382
BSMF 2007-AR1	40294	7	$ 19,325,133	$ 4,537,590
BSMF 2007-AR1	40294	8	$ 31,922,365	$ 4,950,148
BSMF 2007-AR1	40294	9	$ 36,221,509	$ 5,398,755
BSMF 2007-AR1	40294	10	$ 46,996,670	$ 5,886,287
BSMF 2007-AR1	40294	11	$ 52,043,813	$ 6,415,796
BSMF 2007-AR1	40294	12	$ 67,748,102	$ 6,990,515



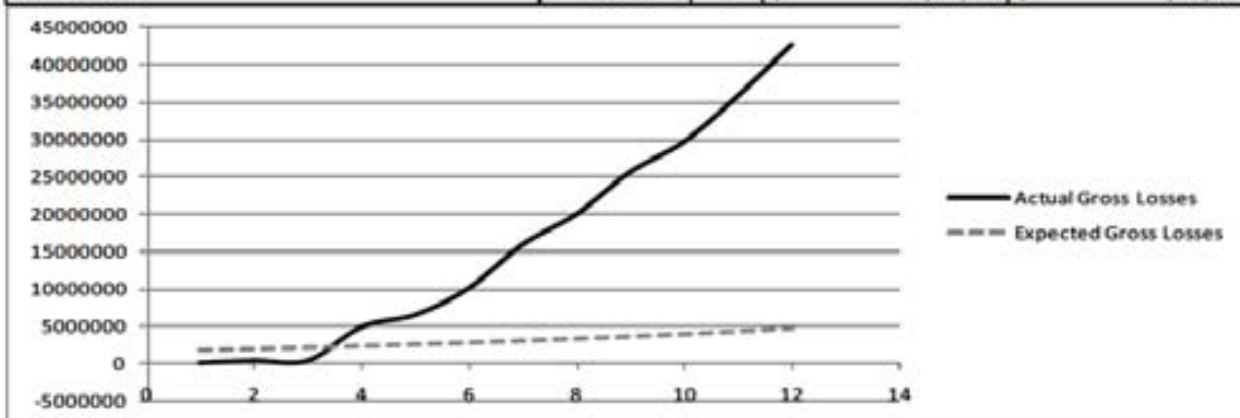
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BSMF 2007-AR3	40921	1	$ 186,121	$ 3,026,150
BSMF 2007-AR3	40921	2	$ 186,121	$ 3,305,312
BSMF 2007-AR3	40921	3	$ 1,609,335	$ 3,609,642
BSMF 2007-AR3	40921	4	$ 6,290,102	$ 3,941,296
BSMF 2007-AR3	40921	5	$ 12,113,279	$ 4,302,592
BSMF 2007-AR3	40921	6	$ 19,627,088	$ 4,696,024
BSMF 2007-AR3	40921	7	$ 28,077,905	$ 5,124,260
BSMF 2007-AR3	40921	8	$ 39,771,414	$ 5,590,157
BSMF 2007-AR3	40921	9	$ 48,454,953	$ 6,096,765
BSMF 2007-AR3	40921	10	$ 60,023,343	$ 6,647,331
BSMF 2007-AR3	40921	11	$ 72,808,435	$ 7,245,301
BSMF 2007-AR3	40921	12	$ 80,384,440	$ 7,894,325



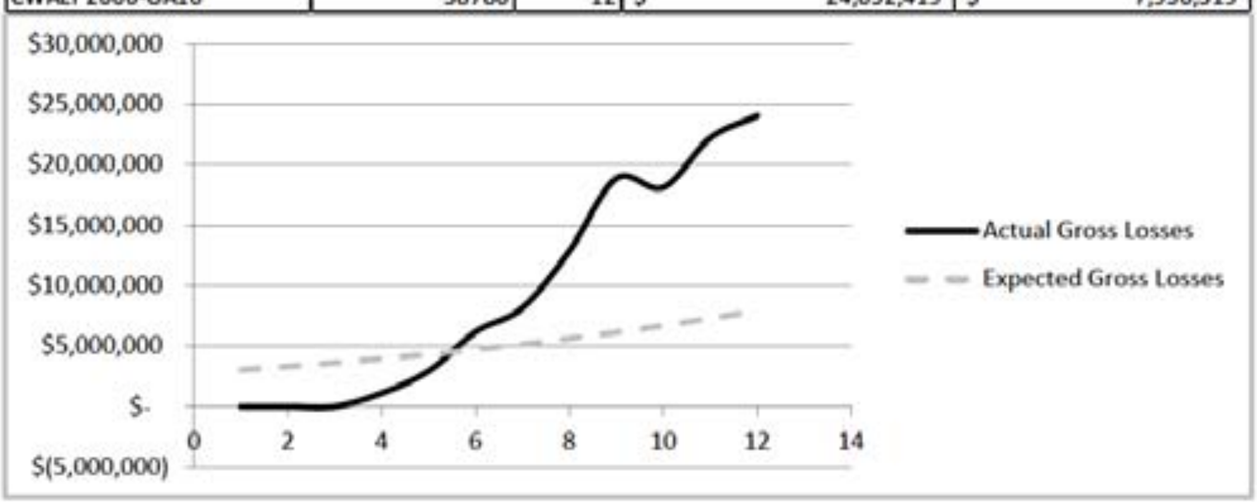
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BSMF 2007-AR4	41718	1	$ -	$ 2,221,600
BSMF 2007-AR4	41718	2	$ -	$ 2,426,543
BSMF 2007-AR4	41718	3	$ 411,764	$ 2,649,962
BSMF 2007-AR4	41718	4	$ 3,348,918	$ 2,893,440
BSMF 2007-AR4	41718	5	$ 7,595,606	$ 3,158,680
BSMF 2007-AR4	41718	6	$ 13,341,140	$ 3,447,511
BSMF 2007-AR4	41718	7	$ 20,751,947	$ 3,761,894
BSMF 2007-AR4	41718	8	$ 28,525,328	$ 4,103,925
BSMF 2007-AR4	41718	9	$ 45,173,824	$ 4,475,844
BSMF 2007-AR4	41718	10	$ 47,366,291	$ 4,880,033
BSMF 2007-AR4	41718	11	$ 63,309,894	$ 5,319,023
BSMF 2007-AR4	41718	12	$ 75,873,340	$ 5,795,494



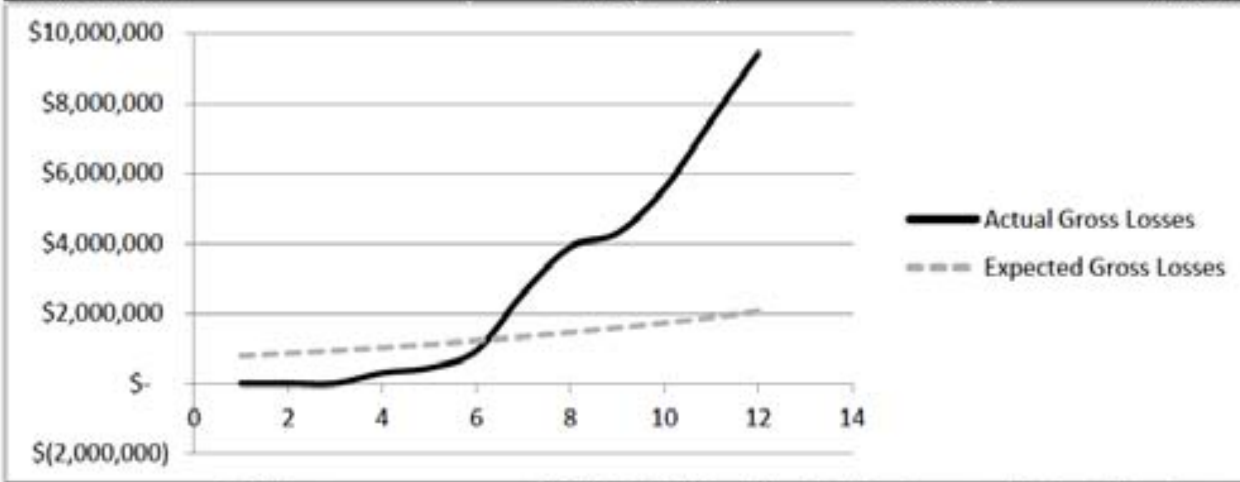
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
BSMF 2007-AR5	41719	1	$ -	$ 1,820,231
BSMF 2007-AR5	41719	2	$ 304,560	$ 1,988,148
BSMF 2007-AR5	41719	3	$ 304,560	$ 2,171,202
BSMF 2007-AR5	41719	4	$ 4,800,849	$ 2,370,692
BSMF 2007-AR5	41719	5	$ 6,435,669	$ 2,588,012
BSMF 2007-AR5	41719	6	$ 10,047,652	$ 2,824,662
BSMF 2007-AR5	41719	7	$ 15,904,248	$ 3,082,246
BSMF 2007-AR5	41719	8	$ 19,964,708	$ 3,362,484
BSMF 2007-AR5	41719	9	$ 25,626,258	$ 3,667,209
BSMF 2007-AR5	41719	10	$ 29,685,773	$ 3,998,374
BSMF 2007-AR5	41719	11	$ 35,851,047	$ 4,358,054
BSMF 2007-AR5	41719	12	$ 42,749,737	$ 4,748,442



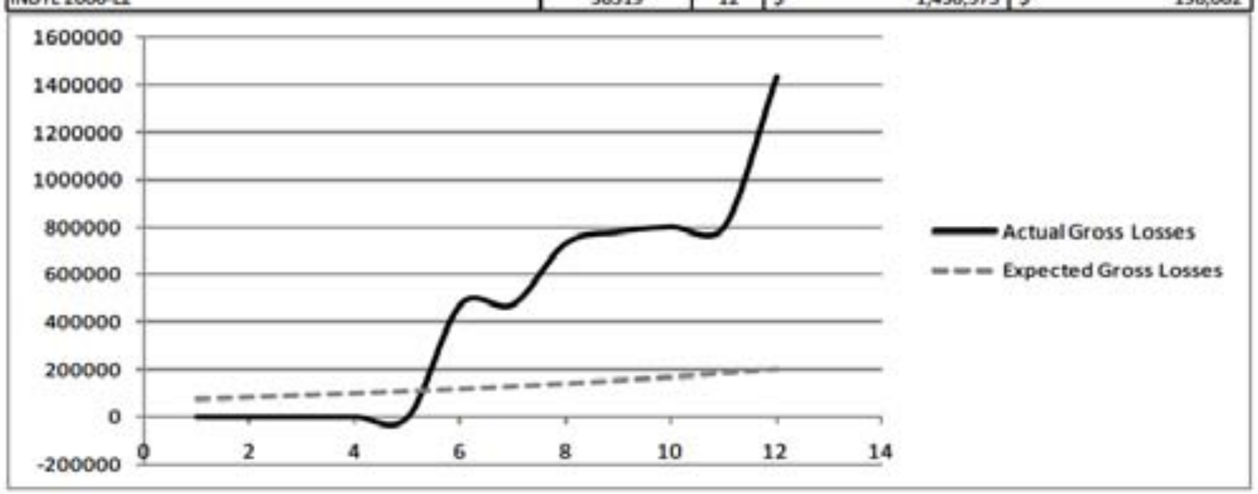
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
CWALT 2006-OA16	38780	1	$ -	$ 3,049,914
CWALT 2006-OA16	38780	2	$ -	$ 3,331,269
CWALT 2006-OA16	38780	3	$ -	$ 3,637,988
CWALT 2006-OA16	38780	4	$ 1,117,718	$ 3,972,246
CWALT 2006-OA16	38780	5	$ 2,957,892	$ 4,336,380
CWALT 2006-OA16	38780	6	$ 6,179,565	$ 4,732,901
CWALT 2006-OA16	38780	7	$ 8,183,300	$ 5,164,500
CWALT 2006-OA16	38780	8	$ 12,885,494	$ 5,634,056
CWALT 2006-OA16	38780	9	$ 18,875,184	$ 6,144,643
CWALT 2006-OA16	38780	10	$ 18,119,686	$ 6,699,532
CWALT 2006-OA16	38780	11	$ 22,208,892	$ 7,302,198
CWALT 2006-OA16	38780	12	$ 24,052,419	$ 7,956,319



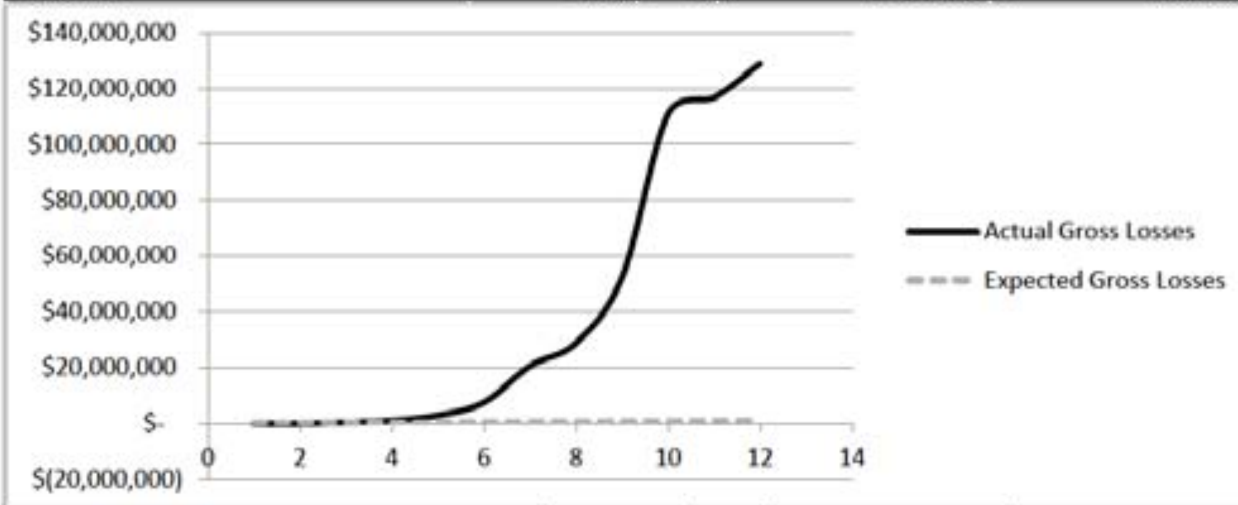
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
GMACM 2006-HE4	39185	1	$ -	$ 790,312
GMACM 2006-HE4	39185	2	$ -	$ 863,218
GMACM 2006-HE4	39185	3	$ -	$ 942,697
GMACM 2006-HE4	39185	4	$ 302,728	$ 1,029,312
GMACM 2006-HE4	39185	5	$ 450,836	$ 1,123,669
GMACM 2006-HE4	39185	6	$ 940,828	$ 1,226,417
GMACM 2006-HE4	39185	7	$ 2,577,830	$ 1,338,256
GMACM 2006-HE4	39185	8	$ 3,895,769	$ 1,459,930
GMACM 2006-HE4	39185	9	$ 4,288,391	$ 1,592,236
GMACM 2006-HE4	39185	10	$ 5,559,427	$ 1,736,023
GMACM 2006-HE4	39185	11	$ 7,499,285	$ 1,892,189
GMACM 2006-HE4	39185	12	$ 9,428,878	$ 2,061,689



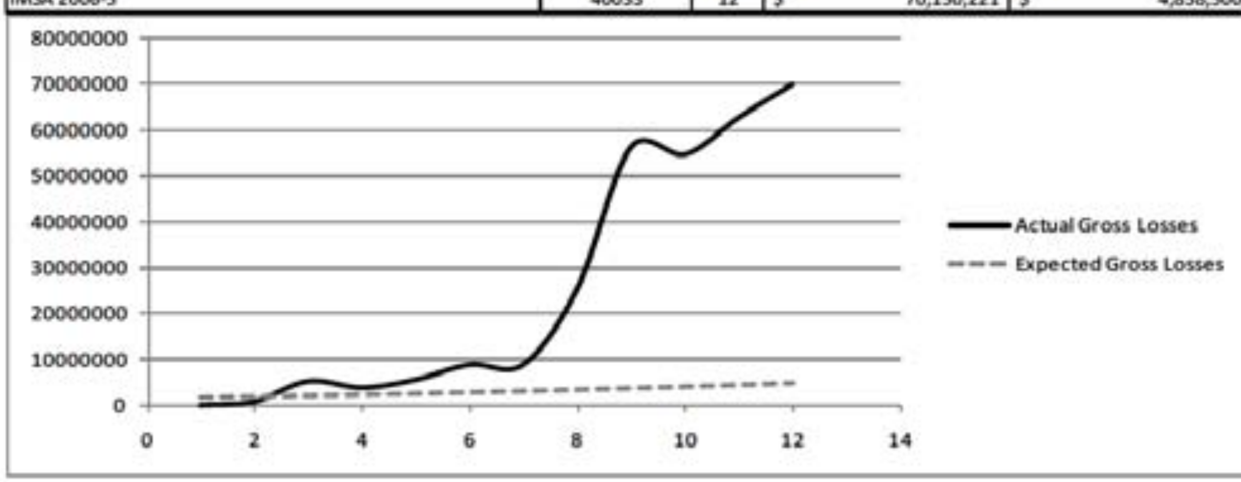
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
INDYL 2006-L2	38519	1	$ -	$ 75,923
INDYL 2006-L2	38519	2	$ -	$ 82,927
INDYL 2006-L2	38519	3	$ -	$ 90,563
INDYL 2006-L2	38519	4	$ -	$ 98,884
INDYL 2006-L2	38519	5	$ -	$ 107,948
INDYL 2006-L2	38519	6	$ 475,776	$ 117,819
INDYL 2006-L2	38519	7	$ 475,780	$ 128,563
INDYL 2006-L2	38519	8	$ 734,195	$ 140,252
INDYL 2006-L2	38519	9	$ 781,329	$ 152,963
INDYL 2006-L2	38519	10	$ 802,209	$ 166,776
INDYL 2006-L2	38519	11	$ 801,921	$ 181,778
INDYL 2006-L2	38519	12	$ 1,436,575	$ 198,062



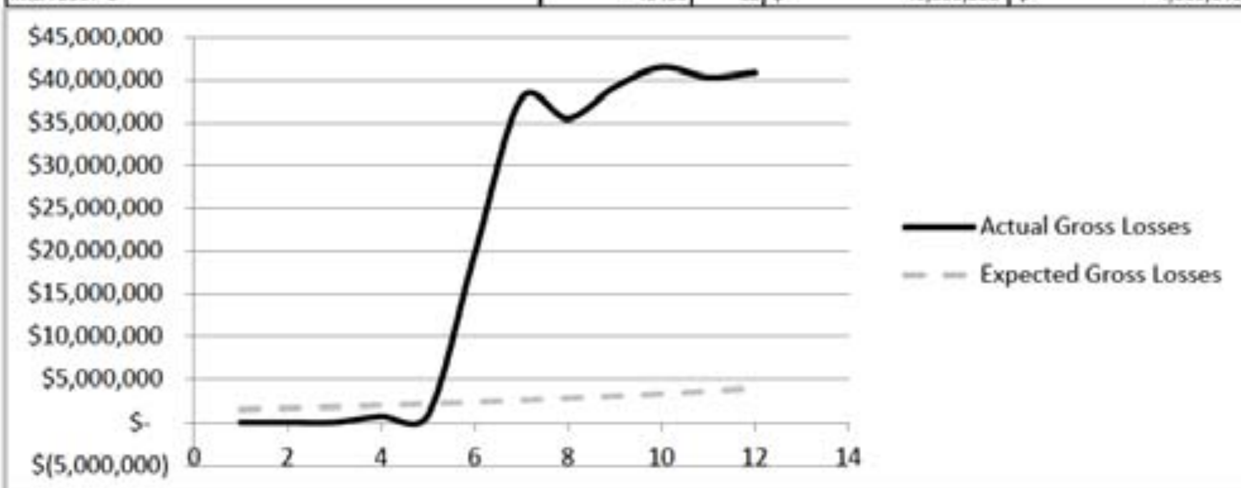
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
IMSA 2006-4	39658	1	$ -	$ 399,148
IMSA 2006-4	39658	2	$ -	$ 435,969
IMSA 2006-4	39658	3	$ 460,000	$ 476,110
IMSA 2006-4	39658	4	$ 1,100,000	$ 519,855
IMSA 2006-4	39658	5	$ 2,964,903	$ 567,510
IMSA 2006-4	39658	6	$ 7,565,701	$ 619,403
IMSA 2006-4	39658	7	$ 20,653,049	$ 675,888
IMSA 2006-4	39658	8	$ 28,908,850	$ 737,339
IMSA 2006-4	39658	9	$ 52,546,725	$ 804,161
IMSA 2006-4	39658	10	$ 111,013,994	$ 876,780
IMSA 2006-4	39658	11	$ 116,837,372	$ 955,652
IMSA 2006-4	39658	12	$ 129,065,789	$ 1,041,258



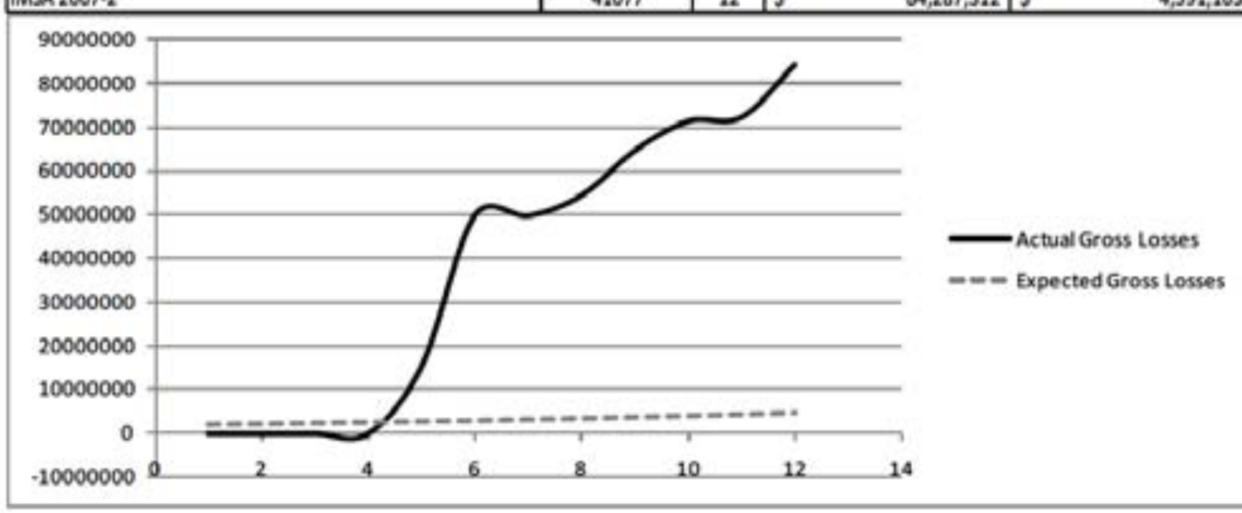
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
IMSA 2006-5	40033	1	$ 63,000	$ 1,862,420
IMSA 2006-5	40033	2	$ 851,029	$ 2,034,229
IMSA 2006-5	40033	3	$ 5,252,786	$ 2,221,526
IMSA 2006-5	40033	4	$ 3,832,097	$ 2,425,639
IMSA 2006-5	40033	5	$ 5,609,461	$ 2,647,997
IMSA 2006-5	40033	6	$ 8,842,729	$ 2,890,131
IMSA 2006-5	40033	7	$ 8,911,940	$ 3,153,685
IMSA 2006-5	40033	8	$ 25,535,145	$ 3,440,418
IMSA 2006-5	40033	9	$ 56,408,331	$ 3,752,206
IMSA 2006-5	40033	10	$ 54,757,767	$ 4,091,048
IMSA 2006-5	40033	11	$ 62,838,966	$ 4,459,064
IMSA 2006-5	40033	12	$ 70,150,221	$ 4,858,500



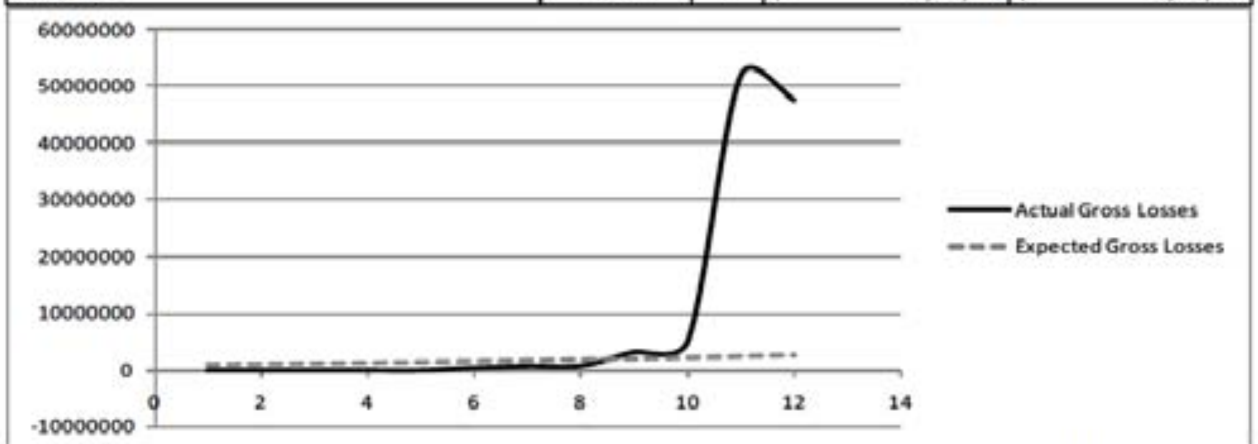
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
IMSA 2007-1	40469	1	$ -	$ 1,536,833
IMSA 2007-1	40469	2	$ -	$ 1,678,606
IMSA 2007-1	40469	3	$ -	$ 1,833,160
IMSA 2007-1	40469	4	$ 738,723	$ 2,001,591
IMSA 2007-1	40469	5	$ 858,535	$ 2,185,076
IMSA 2007-1	40469	6	$ 19,611,694	$ 2,384,880
IMSA 2007-1	40469	7	$ 37,802,611	$ 2,602,360
IMSA 2007-1	40469	8	$ 35,462,468	$ 2,838,967
IMSA 2007-1	40469	9	$ 39,148,514	$ 3,096,248
IMSA 2007-1	40469	10	$ 41,463,672	$ 3,375,853
IMSA 2007-1	40469	11	$ 40,327,641	$ 3,679,533
IMSA 2007-1	40469	12	$ 40,850,202	$ 4,009,141



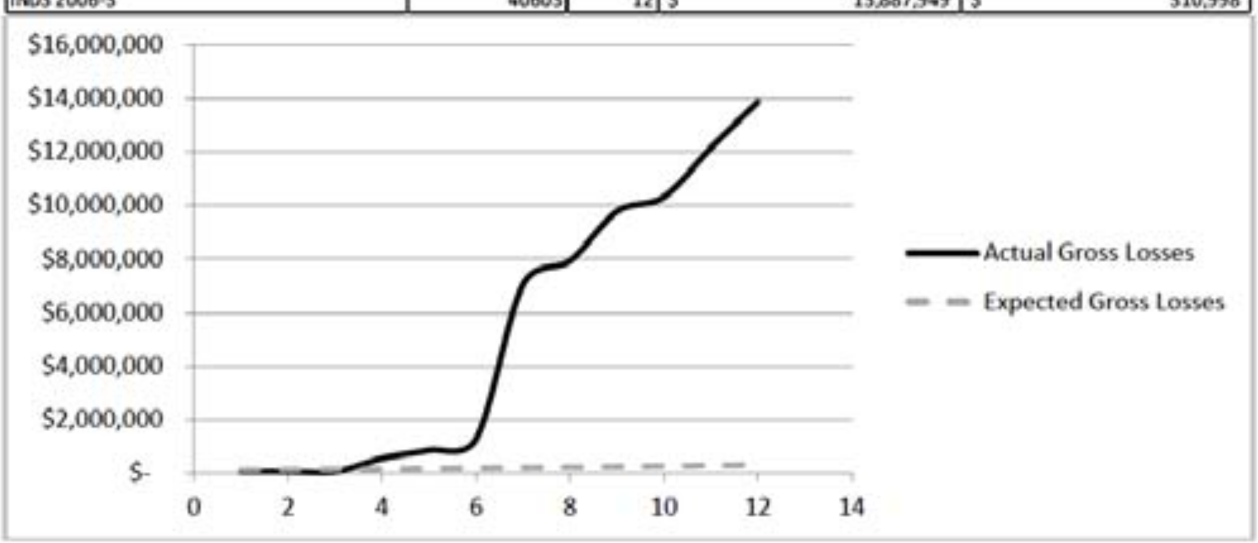
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
IMSA 2007-2	41077	1	$ -	$ 1,759,941
IMSA 2007-2	41077	2	$ -	$ 1,922,296
IMSA 2007-2	41077	3	$ -	$ 2,099,287
IMSA 2007-2	41077	4	$ -	$ 2,292,169
IMSA 2007-2	41077	5	$ 15,435,061	$ 2,502,291
IMSA 2007-2	41077	6	$ 49,879,547	$ 2,731,102
IMSA 2007-2	41077	7	$ 49,700,777	$ 2,980,155
IMSA 2007-2	41077	8	$ 54,402,818	$ 3,251,110
IMSA 2007-2	41077	9	$ 64,627,245	$ 3,545,742
IMSA 2007-2	41077	10	$ 71,317,177	$ 3,865,939
IMSA 2007-2	41077	11	$ 72,208,994	$ 4,213,705
IMSA 2007-2	41077	12	$ 84,287,312	$ 4,591,163



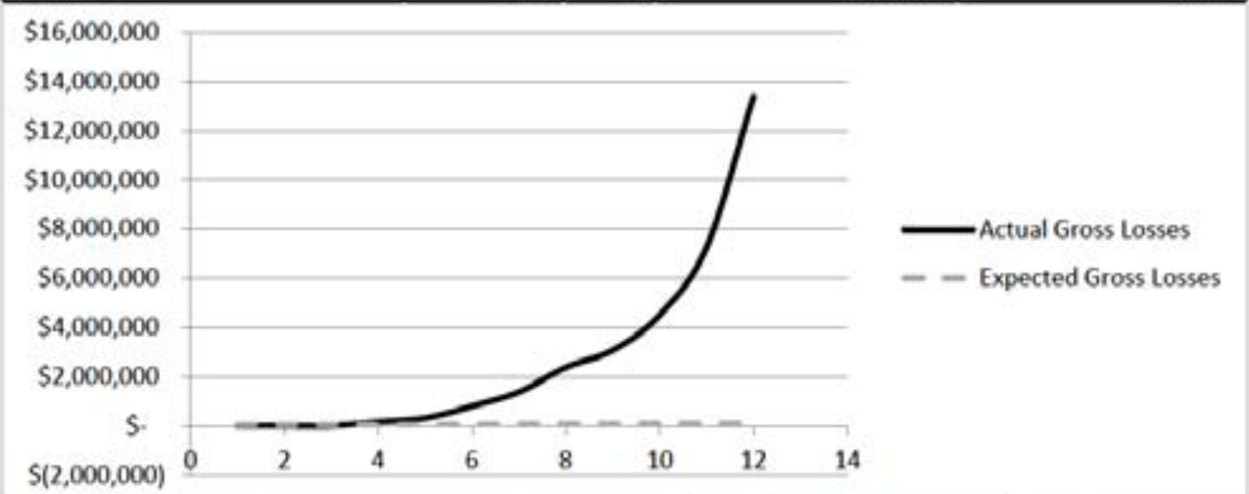
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
IMSA 2007-3	41792	1	$ -	$ 1,040,817
IMSA 2007-3	41792	2	$ -	$ 1,136,832
IMSA 2007-3	41792	3	$ -	$ 1,241,504
IMSA 2007-3	41792	4	$ -	$ 1,355,573
IMSA 2007-3	41792	5	$ -	$ 1,479,838
IMSA 2007-3	41792	6	$ 438,900	$ 1,615,155
IMSA 2007-3	41792	7	$ 745,093	$ 1,762,443
IMSA 2007-3	41792	8	$ 816,362	$ 1,922,684
IMSA 2007-3	41792	9	$ 3,163,850	$ 2,096,927
IMSA 2007-3	41792	10	$ 5,063,116	$ 2,286,289
IMSA 2007-3	41792	11	$ 51,939,220	$ 2,491,956
IMSA 2007-3	41792	12	$ 47,515,656	$ 2,715,181



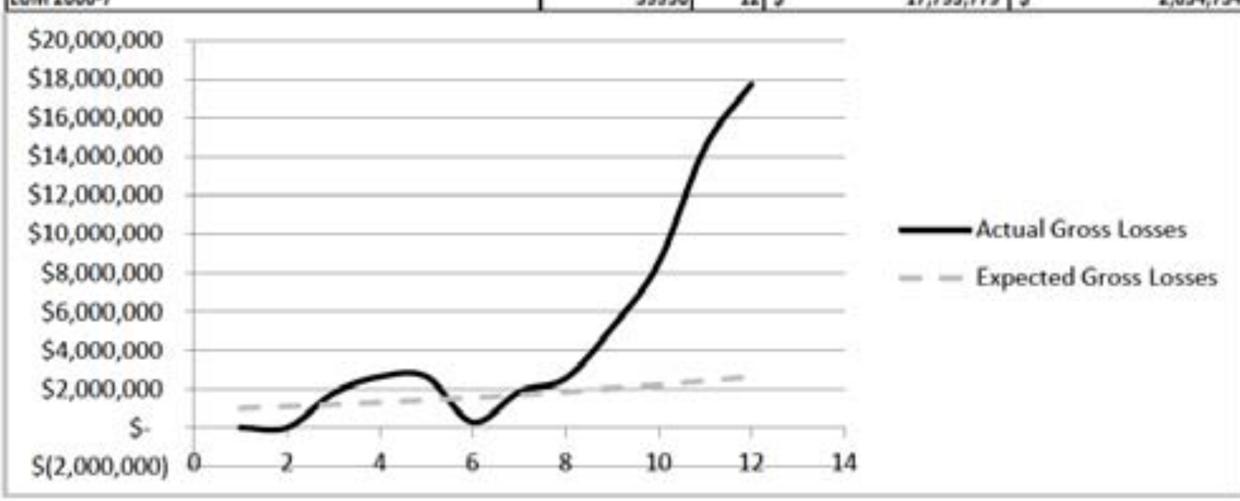
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
INDS 2006-3	40603	1	$ 62,939	$ 119,216
INDS 2006-3	40603	2	$ 62,918	$ 130,213
INDS 2006-3	40603	3	$ 62,897	$ 142,202
INDS 2006-3	40603	4	$ 555,868	$ 155,268
INDS 2006-3	40603	5	$ 857,944	$ 169,501
INDS 2006-3	40603	6	$ 1,288,120	$ 185,001
INDS 2006-3	40603	7	$ 7,055,714	$ 201,871
INDS 2006-3	40603	8	$ 7,933,881	$ 220,225
INDS 2006-3	40603	9	$ 9,780,584	$ 240,183
INDS 2006-3	40603	10	$ 10,328,531	$ 261,873
INDS 2006-3	40603	11	$ 12,162,724	$ 285,430
INDS 2006-3	40603	12	$ 13,887,949	$ 310,998



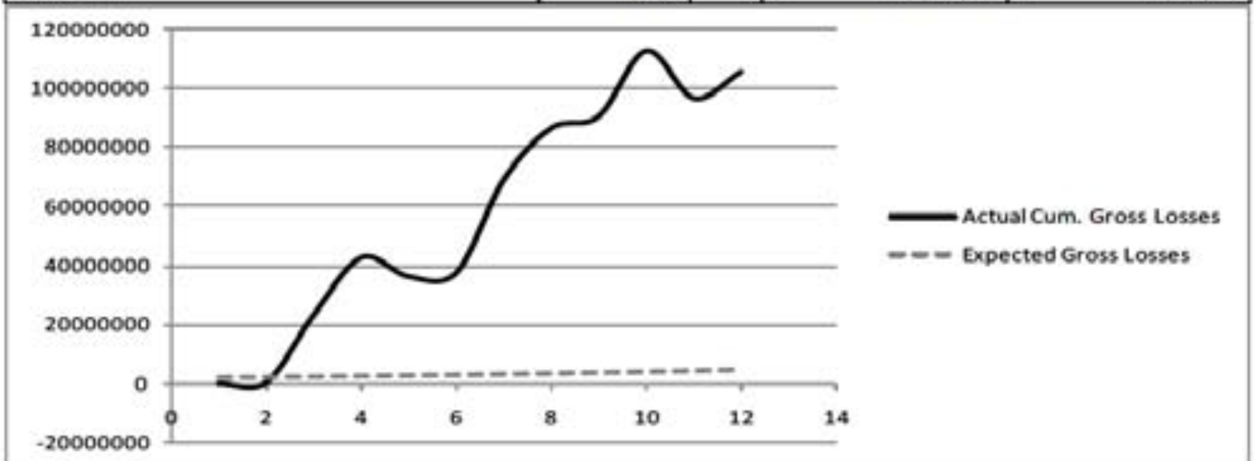
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
INDS 2007-1	41041	1	$ -	$ 37,379
INDS 2007-1	41041	2	$ -	$ 40,827
INDS 2007-1	41041	3	$ -	$ 44,586
INDS 2007-1	41041	4	$ 158,799	$ 48,683
INDS 2007-1	41041	5	$ 314,115	$ 53,145
INDS 2007-1	41041	6	$ 796,463	$ 58,005
INDS 2007-1	41041	7	$ 1,377,454	$ 63,295
INDS 2007-1	41041	8	$ 2,381,397	$ 69,049
INDS 2007-1	41041	9	$ 3,074,650	$ 75,307
INDS 2007-1	41041	10	$ 4,513,522	$ 82,107
INDS 2007-1	41041	11	$ 7,278,127	$ 89,494
INDS 2007-1	41041	12	$ 13,397,709	$ 97,510



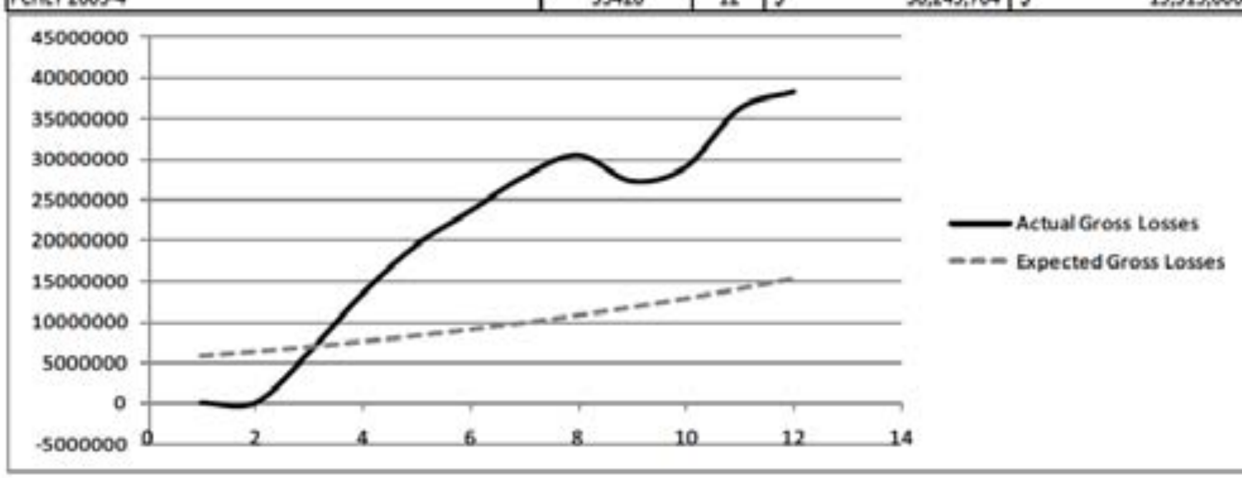
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
LUM 2006-7	39950	1	$ -	$ 1,017,653
LUM 2006-7	39950	2	$ -	$ 1,111,532
LUM 2006-7	39950	3	$ 1,797,650	$ 1,213,874
LUM 2006-7	39950	4	$ 2,644,450	$ 1,325,404
LUM 2006-7	39950	5	$ 2,644,450	$ 1,446,903
LUM 2006-7	39950	6	$ 287,988	$ 1,579,209
LUM 2006-7	39950	7	$ 1,863,750	$ 1,723,219
LUM 2006-7	39950	8	$ 2,563,695	$ 1,879,894
LUM 2006-7	39950	9	$ 5,196,874	$ 2,050,259
LUM 2006-7	39950	10	$ 8,540,143	$ 2,235,407
LUM 2006-7	39950	11	$ 14,504,349	$ 2,436,496
LUM 2006-7	39950	12	$ 17,793,779	$ 2,654,754



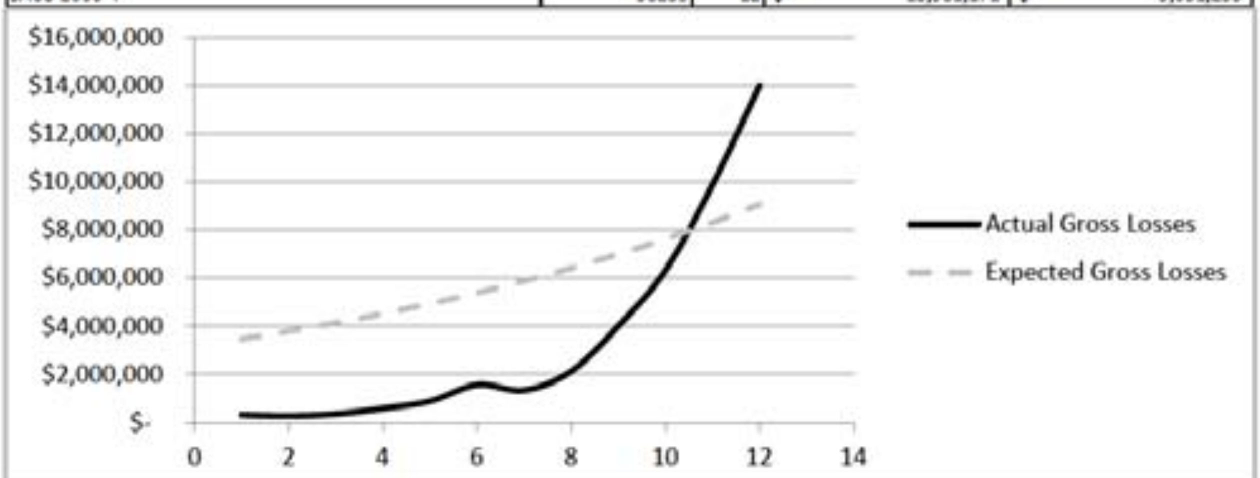
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
NHELI 2007-1	40291	1	$ 159,200	$ 1,737,954
NHELI 2007-1	40291	2	$ 619,200	$ 1,898,280
NHELI 2007-1	40291	3	$ 23,542,962	$ 2,073,060
NHELI 2007-1	40291	4	$ 42,794,130	$ 2,263,533
NHELI 2007-1	40291	5	$ 36,287,162	$ 2,471,030
NHELI 2007-1	40291	6	$ 37,717,522	$ 2,696,982
NHELI 2007-1	40291	7	$ 69,224,811	$ 2,942,923
NHELI 2007-1	40291	8	$ 86,609,785	$ 3,210,493
NHELI 2007-1	40291	9	$ 90,655,311	$ 3,501,444
NHELI 2007-1	40291	10	$ 112,784,673	$ 3,817,641
NHELI 2007-1	40291	11	$ 96,635,919	$ 4,161,062
NHELI 2007-1	40291	12	$ 105,724,469	$ 4,533,804



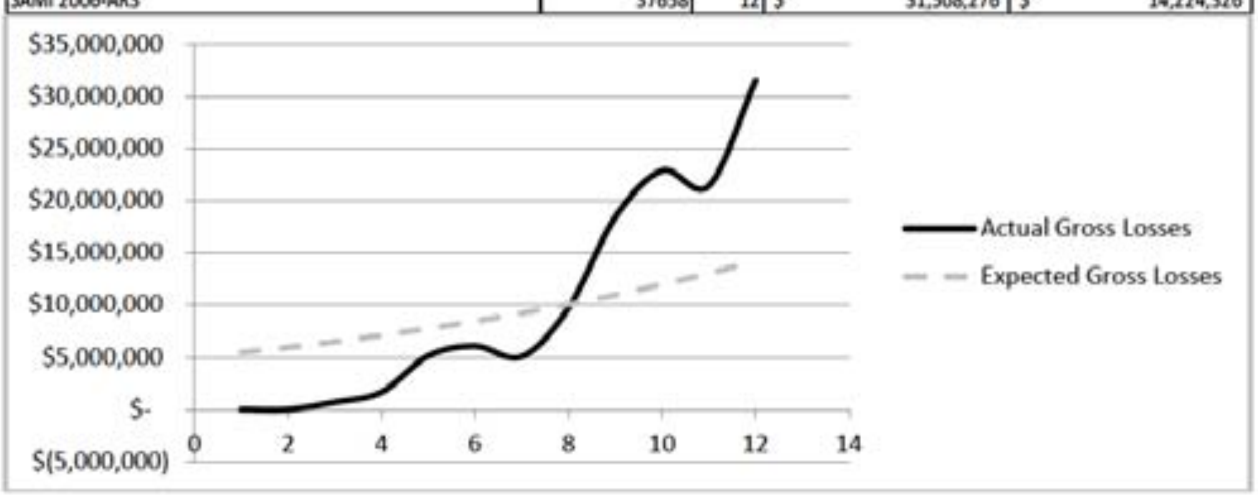
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
PCHLT 2005-4	35428	1	$ -	$ 5,870,737
PCHLT 2005-4	35428	2	$ -	$ 6,412,313
PCHLT 2005-4	35428	3	$ 6,211,709	$ 7,002,713
PCHLT 2005-4	35428	4	$ 13,474,121	$ 7,646,121
PCHLT 2005-4	35428	5	$ 19,438,286	$ 8,347,038
PCHLT 2005-4	35428	6	$ 23,609,954	$ 9,110,295
PCHLT 2005-4	35428	7	$ 27,851,123	$ 9,941,074
PCHLT 2005-4	35428	8	$ 30,470,818	$ 10,844,916
PCHLT 2005-4	35428	9	$ 27,278,074	$ 11,827,737
PCHLT 2005-4	35428	10	$ 28,997,185	$ 12,895,835
PCHLT 2005-4	35428	11	$ 36,185,409	$ 14,055,899
PCHLT 2005-4	35428	12	$ 38,245,764	$ 15,315,006



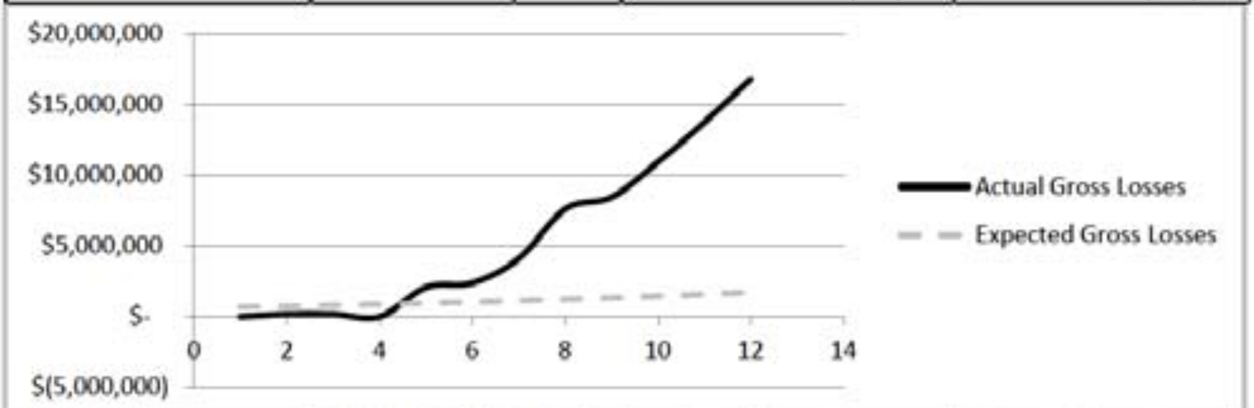
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
SACO 2006-4	38239	1	$ 324,484	$ 3,469,640
SACO 2006-4	38239	2	$ 281,616	$ 3,789,714
SACO 2006-4	38239	3	$ 364,887	$ 4,138,645
SACO 2006-4	38239	4	$ 587,459	$ 4,518,903
SACO 2006-4	38239	5	$ 887,177	$ 4,933,148
SACO 2006-4	38239	6	$ 1,572,628	$ 5,384,238
SACO 2006-4	38239	7	$ 1,351,593	$ 5,875,233
SACO 2006-4	38239	8	$ 2,134,652	$ 6,409,409
SACO 2006-4	38239	9	$ 4,012,819	$ 6,990,262
SACO 2006-4	38239	10	$ 6,321,820	$ 7,621,514
SACO 2006-4	38239	11	$ 9,867,064	$ 8,307,119
SACO 2006-4	38239	12	$ 13,981,171	$ 9,051,259



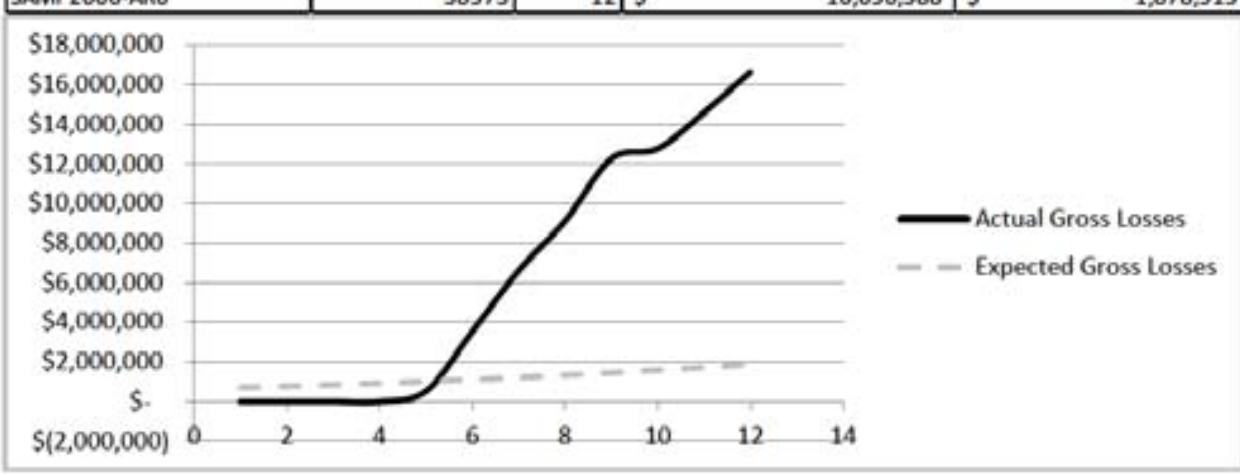
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
SAMI 2006-AR3	37658	1	$ -	$ 5,452,643
SAMI 2006-AR3	37658	2	$ -	$ 5,955,650
SAMI 2006-AR3	37658	3	$ 695,253	$ 6,504,005
SAMI 2006-AR3	37658	4	$ 1,687,353	$ 7,101,592
SAMI 2006-AR3	37658	5	$ 5,149,095	$ 7,752,591
SAMI 2006-AR3	37658	6	$ 6,083,103	$ 8,461,492
SAMI 2006-AR3	37658	7	$ 5,078,489	$ 9,233,105
SAMI 2006-AR3	37658	8	$ 9,752,810	$ 10,072,579
SAMI 2006-AR3	37658	9	$ 18,429,760	$ 10,985,407
SAMI 2006-AR3	37658	10	$ 22,857,891	$ 11,977,439
SAMI 2006-AR3	37658	11	$ 21,417,312	$ 13,054,887
SAMI 2006-AR3	37658	12	$ 31,508,276	$ 14,224,326



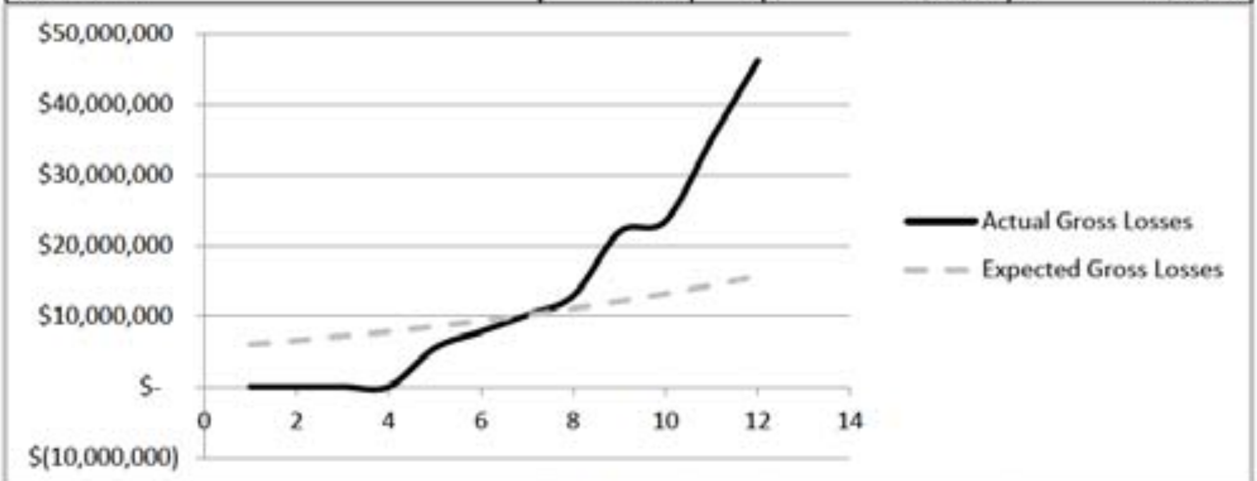
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
SAMI 2006-AR4	38225	1	$ -	$ 664,743
SAMI 2006-AR4	38225	2	$ 175,738	$ 726,066
SAMI 2006-AR4	38225	3	$ 175,738	$ 792,917
SAMI 2006-AR4	38225	4	$ -	$ 865,770
SAMI 2006-AR4	38225	5	$ 2,074,792	$ 945,135
SAMI 2006-AR4	38225	6	$ 2,383,280	$ 1,031,558
SAMI 2006-AR4	38225	7	$ 4,116,850	$ 1,125,627
SAMI 2006-AR4	38225	8	$ 7,621,292	$ 1,227,969
SAMI 2006-AR4	38225	9	$ 8,464,684	$ 1,339,254
SAMI 2006-AR4	38225	10	$ 10,959,857	$ 1,460,195
SAMI 2006-AR4	38225	11	$ 13,781,480	$ 1,591,549
SAMI 2006-AR4	38225	12	$ 16,842,740	$ 1,734,117



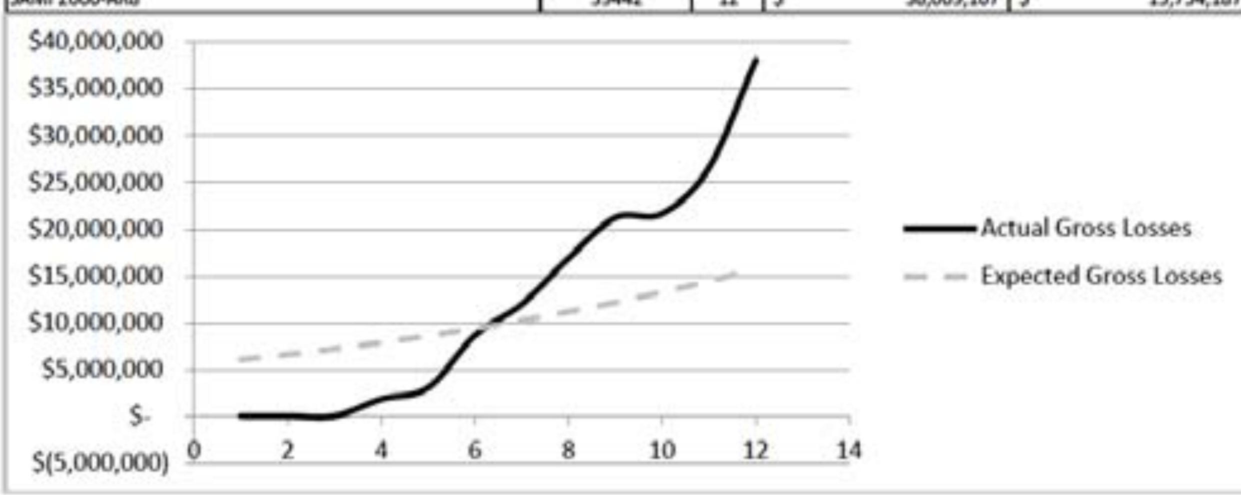
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
SAMI 2006-AR6	38573	1	$ -	$ 720,095
SAMI 2006-AR6	38573	2	$ -	$ 786,524
SAMI 2006-AR6	38573	3	$ -	$ 858,942
SAMI 2006-AR6	38573	4	$ -	$ 937,861
SAMI 2006-AR6	38573	5	$ 538,338	$ 1,023,835
SAMI 2006-AR6	38573	6	$ 3,551,490	$ 1,117,455
SAMI 2006-AR6	38573	7	$ 6,622,962	$ 1,219,357
SAMI 2006-AR6	38573	8	$ 9,128,308	$ 1,330,221
SAMI 2006-AR6	38573	9	$ 12,266,979	$ 1,450,772
SAMI 2006-AR6	38573	10	$ 12,771,892	$ 1,581,783
SAMI 2006-AR6	38573	11	$ 14,605,267	$ 1,724,075
SAMI 2006-AR6	38573	12	$ 16,656,388	$ 1,878,515



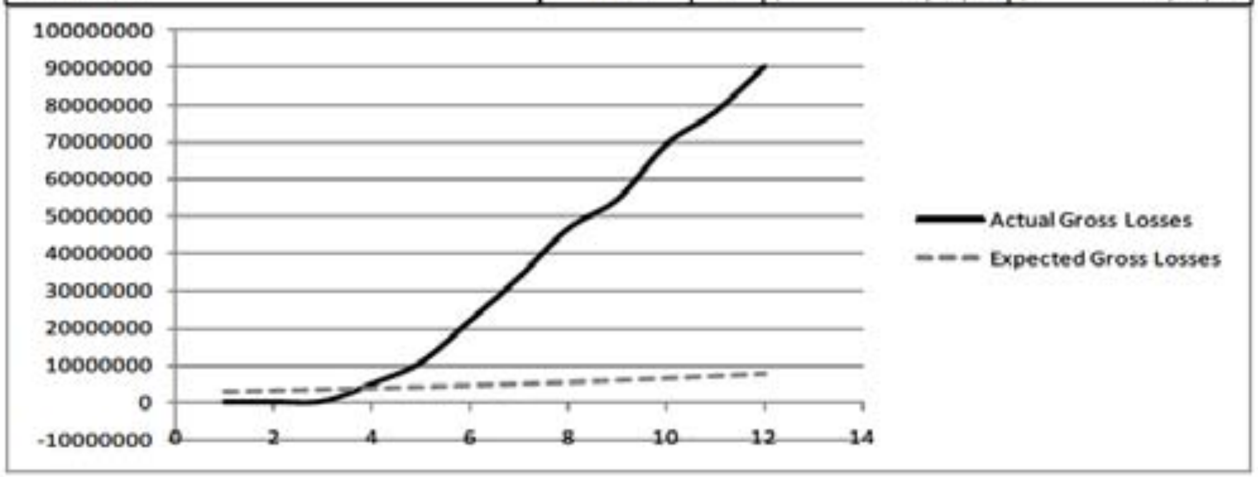
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
SAMI 2006-AR7	38437	1	$ -	$ 5,989,801
SAMI 2006-AR7	38437	2	$ -	$ 6,542,361
SAMI 2006-AR7	38437	3	$ -	$ 7,144,735
SAMI 2006-AR7	38437	4	$ -	$ 7,801,193
SAMI 2006-AR7	38437	5	$ 5,459,301	$ 8,516,324
SAMI 2006-AR7	38437	6	$ 7,781,581	$ 9,295,061
SAMI 2006-AR7	38437	7	$ 10,134,172	$ 10,142,689
SAMI 2006-AR7	38437	8	$ 12,860,033	$ 11,064,862
SAMI 2006-AR7	38437	9	$ 21,880,717	$ 12,067,616
SAMI 2006-AR7	38437	10	$ 23,462,422	$ 13,157,376
SAMI 2006-AR7	38437	11	$ 35,011,162	$ 14,340,967
SAMI 2006-AR7	38437	12	$ 46,121,931	$ 15,625,610



Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
SAMI 2006-AR8	39442	1	$ -	$ 6,039,089
SAMI 2006-AR8	39442	2	$ -	$ 6,596,195
SAMI 2006-AR8	39442	3	$ -	$ 7,203,526
SAMI 2006-AR8	39442	4	$ 1,816,036	$ 7,865,385
SAMI 2006-AR8	39442	5	$ 3,033,545	$ 8,586,401
SAMI 2006-AR8	39442	6	$ 8,623,241	$ 9,371,546
SAMI 2006-AR8	39442	7	$ 11,957,580	$ 10,226,149
SAMI 2006-AR8	39442	8	$ 16,887,251	$ 11,155,910
SAMI 2006-AR8	39442	9	$ 21,223,380	$ 12,166,915
SAMI 2006-AR8	39442	10	$ 21,653,516	$ 13,265,642
SAMI 2006-AR8	39442	11	$ 26,572,851	$ 14,458,972
SAMI 2006-AR8	39442	12	$ 38,069,167	$ 15,754,187



Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
SAMI 2007-AR3	41177	1	$ -	$ 2,905,958
SAMI 2007-AR3	41177	2	$ -	$ 3,174,033
SAMI 2007-AR3	41177	3	$ 209,571	$ 3,466,276
SAMI 2007-AR3	41177	4	$ 4,942,050	$ 3,784,756
SAMI 2007-AR3	41177	5	$ 10,765,623	$ 4,131,703
SAMI 2007-AR3	41177	6	$ 21,993,271	$ 4,509,508
SAMI 2007-AR3	41177	7	$ 33,676,145	$ 4,920,736
SAMI 2007-AR3	41177	8	$ 46,761,282	$ 5,368,129
SAMI 2007-AR3	41177	9	$ 54,595,601	$ 5,854,616
SAMI 2007-AR3	41177	10	$ 69,408,891	$ 6,383,314
SAMI 2007-AR3	41177	11	$ 78,221,089	$ 6,957,535
SAMI 2007-AR3	41177	12	$ 90,412,524	$ 7,580,781



92. As clearly shown in Figure 2 (*supra*), actual 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 BALTA 2006-6 offering (shown in Figure 2 above), actual losses at month 12 approached $106 million, 36 times the expected losses of approximately $2.92 million (*see supra* Figure 2).

93. 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.

94. 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

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

96. Moody's and S&P have since downgraded the RMBS the Credit Unions purchased to well below investment grade (*see supra* Table 4).

97. The total collapse in the credit ratings of the RMBS 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 securities were impaired from the outset.

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

98. 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

99. 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.

100. 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.

101. Recent government reports and investigations and newspaper reports have uncovered the extent of the 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 ("WaMu") 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).

102. 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").

103. The FCIC Report concluded that there was a "systemic breakdown in accountability and ethics" during the housing and financial crisis. "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 that the current economic crisis had its genesis in the housing boom:

> [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.

104. 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.*

105. 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.

106. 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.

107. 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).

108. 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 sometimes 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.

109. 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.

110. The lack of disclosure regarding the true underwriting practices of the Originators in the Offering Documents at issue in this Complaint put the Credit Unions at a severe disadvantage. 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).

111. 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 lowering underwriting standards, securitization may have increased the amount of credit extended, resulting in riskier and unsustainable loans that otherwise may not have been originated.

Id. at 11 (footnote omitted).

112. 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.*

113. 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=1321487765101&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.*

114. During the FCIC investigation, Clayton Holdings provided evidence about the originators' pervasive disregard of their stated underwriting guidelines. 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.

115. 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.

116. 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").

117. Clayton confirmed that the RMBS sold by Bear Stearns from the beginning of 2006 through the middle of 2007—which includes all of the RMBS listed in Tables 1 and 2 of this Complaint—contained a substantial number of loans that were not originated in conformity with underwriting guidelines.

118. 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. According to the statistics maintained by Clayton, a large number of the loans that Clayton found did not meet underwriting guidelines and did not have adequate compensating factors nonetheless were included into RMBS. Specifically, Clayton found that 29% of such loans were included in RMBS underwritten by Bear Stearns. *See* All Clayton Trending Report at 2.

119. 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.

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

2. Alliance Bancorp Systematic Disregard of Underwriting Standards

121. Alliance Bancorp originated or contributed a material portion of the loans in the mortgage pool underlying the BSSLT 2007-1 offering. *See infra* Table 7. Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with these offerings.

122. Alliance Bancorp's abandonment of its guidelines was revealed in a suit by the Federal Home Loan Bank of Boston ("FHLB Boston"), an RMBS investor like the Credit Unions. FHLB Boston conducted a review of nine loans from Alliance Bancorp. Each deviated from the underwriting guidelines. *See* Am. Compl., *FHLB Boston v. Ally Fin. Inc.*, No. 11-10952, ¶¶ 629-636 & App. VIII (D. Mass. filed June 29, 2012).

123. The types of deviations from the guidelines uncovered include:

- A loan file with no credit documentation whatsoever, making it impossible to evaluate the borrower's ability to repay the loan. *Id.* ¶ 635.

- A cash-out refinance loan for a property with an unrealistic appraisal value of $2.8 million. Less than 16 months before the appraisal, the home had sold for just $1.55 million. *Id.* at ¶ 634.

- A loan made using an improper appraised value. For refinance loans that had been purchased within the prior year, the underwriting guidelines required that the sale price of the property be used to calculate the LTV ratio. If the sale price had been used, the loan could not have been made because the CLTV exceeded 100%. Because an appraised value was used instead of the sale price, the CLTV dropped below 100% and the loan was made. *Id.* App. VIII at 1-2.

- A loan to a janitor, for whom the 75th percentile income was $3,317 per month. The borrower's monthly obligations alone – including the subject transaction – were $5,587, far exceeding what could have been a reasonable repayment amount. *Id.* App. VIII at 6.

3. American Home's Systematic Disregard of Underwriting Standards

124. American Home Mortgage Investment Corp. was a real estate investment trust that invested in RMBS consisting of loans originated 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." American Home originated or contributed a material portion of the loans in the mortgage pool underlying the NAA 2007-3, AHMA 2007-3, AHM 2007-2, IMSA 2006-4, IMSA

2006-5, IMSA 2007-1, LUM 2006-7, SACO 2006-4 offerings. *See infra* Table 7. Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with these offerings.

125. American Home is involved in several criminal probes and investigations, and federal prosecutors have convicted one American Home sales executive, Kourash Partow, of mortgage fraud. *See* Judgment in a Criminal Case, *U.S. v. Partow*, Case No. 3:06-CR-00070-08- HRH, Aug. 31, 2007; *see also U.S. v. Partow,* 283 F. App'x 476 (9th Cir. 2008). After conviction, Partow, who worked for Countrywide before joining American Home, sought a lighter sentence on the grounds that his former employers (Countrywide and American Home) both had knowledge of the loan document inaccuracies and in fact encouraged manipulation by intentionally misrepresenting the performance of loans and the adequacy of how the loans were underwritten. Partow admitted that he would falsify clients' income or assets in order to get loans approved, and that American Home did not require documentary verification of such figures. Glenn R. Simpson, *Loan Data Focus of Probe, Countrywide Files May Have Included Dubious Information*, Wall St. J. (Mar. 11, 2008) *available at* http://online.wsj.com/article/SB120519470504525747.html; Chris Hansen, '*If You Had a Pulse, We Gave You a Loan,*' NBC Dateline (Mar. 22, 2009) *available at* http://www.msnbc.msn.com/id/29827248/ns/dateline_nbc-the_hansen_files_with_chris_hansen/.

126. 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.

127. 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.

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

129. 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").

130. 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.

131. 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.*

132. 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.

133. 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.

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

135. American Home's lax 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.

4. Bear Stearns Residential Mortgage Corporation's Systematic Disregard of Underwriting Standards

136. Bear Stearns Residential Mortgage Corp. ("BSRMC") was formerly known as EMC Residential Mortgage Corporation. The company was founded in 1994 and is based in Scottsdale, Arizona. BSMRC operated as a subsidiary of The Bear Stearns Companies, LLC. It is now a subsidiary of JP Morgan.

137. BSRMC originates mortgage-backed securities. It also offered solutions for financing home mortgage loans to mortgage brokers. The company also provided BearDirect.net, a Web interface, enabling brokers to receive feedback on mortgage loan product and pricing scenarios.

138. BSRMC originated or contributed a material portion of the loans in the mortgage pool underlying the BSSLT 2007-1, BSMF 2006-AR1, BSMF 2006-AR2, BSMF 2006-AR3, BSMF 2006-AR4, BSMF 2006-AR5, BSMF 2007-AR1, BSMF 2007-AR3, BSMF 2007-AR4, BSMF 2007-AR5, and SAMI 2006-AR4 offerings (*see infra* Table 7). Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with these offerings.

139. BSRMC originated defective mortgages that even other risky subprime lenders would not. According to data from the Federal Reserve, BSRMC originated 19,715 mortgages in excess of $4.37 billion in its first full year of operation. Further, the data revealed that BSRMC rejected only 13% of applications, compared with the significantly higher national denial rate of 29%. *See* Michael Corkery, *Fraud Seen as Driver in Wave of Foreclosures-Atlanta Ring Scams Bear Stearns,*

Getting $6.8 Million in Loans, Wall St. J. A1 (Dec. 21, 2007), *available at* http://online.wsj.com/article/SB119820566870044163.html.

140. The Federal Housing Finance Agency ("FHFA") acting as conservator for Fannie Mae and Freddie Mac has sued Bear Stearns for making material misstatements and omissions in RMBS Offering Documents. *See* Am. Compl., *FHFA v. JP Morgan*, No. 11-6188 (S.D.N.Y. filed June 13, 2012).

141. Confidential witnesses in the FHFA's complaint described BSRMC's disregard of its underwriting guidelines. According to one confidential witness, who was a former senior underwriter for BSRMC during the relevant time period, supervisors pressured the confidential witness to push the loans through. If the confidential witness declined to approve a loan, supervisors insisted that the confidential witness was not following guidelines. The confidential witness stated that many of the loans should have been declined because they had unreasonable stated incomes or the income was not verified, but the confidential witness was forced to approve the loans regardless. If an underwriter questioned the income statements, supervisors would question the underwriter's adherence to the guidelines and threaten to fire them. *Id.* ¶ 222.

142. According to another confidential witness, who was an underwriter for BSRMC during the relevant time period, underwriters were not permitted to investigate or question an applicant's ability to pay back the loan. The underwriters in the confidential witness's office were told to approve the loans and not to perform any due diligence as this would upset the loan brokers. These instructions came from senior management. If the confidential witness refused to approve a loan, the loan would be elevated to someone more senior who would approve the loan. Further, the confidential witness believed that many of the loan applications contained fraudulent documents. The confidential witness believed that these fraudulent documents were coming from the broker level, but the underwriters were only permitted to perform a limited amount of due diligence. The

underwriters in confidential witness's office complained that there wasn't a loan that BSRMC didn't like. *Id.* ¶ 223.

143. The FHFA also conducted a forensic review of loans for an RMBS that contained significant amounts of loans from BSRMC. This review consisted of an analysis of the loan origination file for each loan, including the documents submitted by the individual borrowers in support of their loan applications, as well as an analysis of information extrinsic to each loan file, such as the borrower's motor vehicle registration documentation with pertinent information indicating a borrower's assets or residence, and other information that was available at the time of the loan application, as well as the borrower's filings in bankruptcy proceedings and other sources of information. *Id.* ¶ 362.

144. The FHFA reviewed 535 loan files for the Group II-2 pool in the BSMF 2007-AR3 offering—an RMBS that is also at issue in this case. BSRMC originated 16.49% of the loans in the Group II-2 pool. The FHFA's review revealed that 98% of the loans (523 out of 535) were not underwritten in accordance with the underwriting guidelines or otherwise breached the representations contained in the transaction documents. Of the 523 loans that did not comply with the underwriting guidelines, none had sufficient compensating factors to warrant an exception. *Id.* ¶¶ 359, 367.

145. The FHFA noted several specific examples of how BSRMC disregarded its underwriting guidelines.

146. In two of FHFA's examples, BSRMC ignored its underwriting guidelines's requirement that "[i]ncome must be reasonable for employment stated":

> A loan that closed in February 2007 with a principal amount of $142,400 was originated pursuant to BSRM's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. This loan was a rate-term refinance. The loan application stated that the borrower was employed as a school cook earning $6,500 per month. The Bureau of Labor Statistics reported that the average salary at the 90th percentile for a cook in the same geographic region in 2006 was $2,669 per

> month. The borrower's stated income exceeded the Bureau of Labor Statistics' 90th percentile by over 2 times, which should have put a reasonably prudent underwriter on notice for potential misrepresentation. The loan file contains no evidence that the loan underwriter assessed the reasonableness of the borrower's stated income. Moreover, in a Statement of Financial Affairs filed by the borrower as part of a May 2010 Chapter 7 bankruptcy proceeding, the borrower reported an income in 2008, the year following the subject loan's closing in 2007, of only $1,680 per month. It is unlikely the borrower's income would have decreased considering, per Schedule I of the bankruptcy petition, the borrower was still employed by the same employer. A recalculation of DTI based on the borrower's verified next year income and additional undisclosed debt yields a DTI of 252.53 percent, which exceeds the guideline maximum allowable DTI of 50 percent. The borrower defaulted and the loan was subsequently foreclosed on with a remaining balance of $151,206.91, or 106.18 percent of the original loan balance.
>
> A loan that closed in February 2007 with a principal amount of $67,900 was originated pursuant to BSRM's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The loan application stated that the borrower was employed as a training specialist earning $18,583 per month. The Bureau of Labor Statistics reported that the average salary at the 90th percentile for a training specialist in the same geographic region in 2007 was $7,568 per month. The borrower's stated income exceeded the Bureau of Labor Statistics' 90th percentile by over 2 times, which should have put a reasonably prudent underwriter on notice for potential misrepresentation. Moreover, the initial loan application indicated the borrower earned $10,250 per month and the co-borrower earned $8,333 per month; however, the final 1003 application reflects the borrower's stated income as $18,583 and the co-borrower's stated income as $0, which also should have put a reasonably prudent underwriter on notice for potential misrepresentation. Despite these red flags, the loan file contains no evidence that the loan underwriter assessed the reasonableness of the borrower's stated income. The borrower provided a pay stub for the pay period ending August 2009 in connection with a post-closing review. The pay stub revealed the borrower's actual income was $7,056 per month. It is unlikely the borrower's income would have decreased considering the borrower was still employed by the same employer and in the same position. A recalculation of DTI based on the borrower's verified income yields a DTI of 120.63 percent, which exceeds the guideline maximum allowable DTI of 50 percent. The borrower defaulted and the loan was subsequently foreclosed on with a remaining balance of $76,184.38, or 112.20 percent of the original loan balance.

Id. ¶¶ 378-379.

147. In another of the FHFA's examples, BSRMC underwriters ignored obvious red flags of misrepresentations on the loan application:

> A loan that closed in January 2007 with a principal amount of $170,000 was originated pursuant to BSRM's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The loan closed as an owner-occupied cash-out

> refinance. The underwriting guidelines for this loan required that at least one of the borrowers occupy the subject property and the loan was represented as owner occupied. The final loan application indicated that the borrower was occupying the subject property as a primary residence. However, a review of the loan file revealed that the borrower was in the process of purchasing a primary residence, not the subject property and out of state, at the time of loan application. Furthermore, the loan file contained a hardship letter obtained in connection with a post-closing request for a loan modification, which revealed that the borrower moved from the subject property in January 2007, the same month as the subject loan closing, to occupy the out of state residence purchased in February 2007. Moreover, the hardship letter also revealed that the borrower retained the subject property as an investment property. No evidence in the file indicates that the underwriting process addressed these inconsistencies, and the loan was underwritten as if the property was owner occupied. The borrower defaulted and the loan was subsequently foreclosed on with a remaining balance of $184,968.78, or 108.81 percent of the original loan balance.

Id. ¶ 381.

148. The FHFA provided two more examples where BSRMC underwriters ignored red flags that the borrower had undisclosed debt obligations:

> A loan that closed in February 2007 with a principal amount of $67,900 was originated pursuant to BSRM's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The applicable guidelines required a qualified credit report to be present in the loan file. A qualified credit report includes credit inquiries for the previous 90 days. The origination underwriter should have determined whether any recent credit inquiries listed on the report resulted in additional debt undisclosed on the loan application. Despite this requirement, the underwriter failed to investigate the borrower's credit history. There was no evidence in the file that the underwriter requested or obtained an explanation from the borrower for the 9 inquiries, dated from November 5, 2006 through January 30, 2007, listed on the origination credit report dated January 30, 2007. A recalculation of DTI based on the borrower's undisclosed debt yields a DTI of 120.63 percent, which exceeds the guideline maximum allowable DTI of 50 percent. The borrower defaulted and the loan was subsequently foreclosed on with a remaining balance of $76,184.38, or 112.20 percent of the original loan balance.

> A loan that closed in February 2007 with a principal amount of $142,400 was originated pursuant to BSRM's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The applicable guidelines required a qualified credit report to be present in the loan file. A qualified credit report includes credit inquiries for the previous 90 days and, further, lender's guidelines required the lender to investigate the borrower's credit. The origination underwriter should have determined whether any recent credit inquiries listed on the report resulted in additional debt undisclosed on the loan application. Despite this requirement, the underwriter failed to investigate the borrower's credit history. There was no

> evidence in the file that the underwriter requested or obtained an explanation from the borrower for the 6 inquiries, dated from September 12, 2006 through November 29, 2006, listed on the origination credit report dated November 29, 2006. A recalculation of DTI based on the borrower's verified income and undisclosed debt yields a DTI of 252.53 percent which exceeds the guideline maximum allowable DTI of 50 percent. The borrower defaulted and the loan was subsequently foreclosed on with a remaining balance of $151,206.91, or 106.18 percent of the original loan balance.

Id. ¶ 383.

149. And finally, the FHFA highlighted an instance in which BSRMC failed to evaluate a borrower's ability to repay in light of all of the liabilities that the underwriting guidelines required it to consider:

> A loan that closed in January 2007 with a principal amount of $228,000 was originated pursuant to BSRM's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The lender failed to properly calculate the borrower's debts. A review of the audit credit report revealed that the borrower opened an installment loan in December 2006 in the amount of $9,036 with a monthly payment of $201 and failed to disclose this debt on the loan application. The origination credit report dated January 18, 2007 revealed 6 inquiries, one of which lead to the undisclosed installment loan. A recalculation of DTI based on the borrower's undisclosed debt yields a DTI of 118.27 percent, which exceeds the guideline maximum allowable DTI of 50 percent. The borrower defaulted and the loan was subsequently liquidated for a loss of $138,989.71, or 60.96 percent of the original loan balance.
>
> A loan that closed in February 2007 with a principal amount of $67,900 was originated pursuant to BSRM's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The lender failed to properly calculate the borrower's debts. A review of the audit credit report and Mortgage Electronic Registration Systems revealed 6 undisclosed mortgages opened within 30 days of the subject loan's closing. The following mortgages were undisclosed on the loan application: A mortgage in the amount of $80,100 and a monthly payment of $546 opened January 2007, a mortgage in the amount of $88,200 and a monthly payment of $602 opened January 2007, a mortgage in the amount of $94,500 and a monthly payment of $645 opened January 2007, a mortgage in the amount of $27,000 and a monthly payment of $170 opened February 2007, a mortgage in the amount of $88,900 and a monthly payment of $606 opened February 2007, and a mortgage in the amount of $114,300 and a monthly payment of $780 opened February 2007. Moreover, the origination credit report dated January 30, 2007 revealed 9 inquiries dated from November 5, 2006 through January 30, 2007, and the loan file contained a lease agreement for a rental property not disclosed on the loan application, both of which should have put a reasonably prudent underwriter on notice for potential misrepresentation. A recalculation of DTI based on the borrower's undisclosed debt

> yields a DTI of 120.63 percent, which exceeds the guideline maximum allowable DTI of 50 percent. The borrower defaulted and the loan was subsequently foreclosed on with a remaining balance of $76,184.38, or 112.20 percent of the original loan balance.

Id. ¶ 385.

150. In fact, the FHFA determined that 89 of the 535 loans (25.2%) it reviewed from the BSMF 2007-AR3 offering incorrectly calculated the borrower's debts which, if corrected, would have caused the debt-to-income ratio to exceed the applicable underwriting guidelines. *Id.* ¶ 386.

151. In FHFA's suit, the district court denied Bear Stearns's motion to dismiss, holding that the FHFA's allegations "amply support FHFA's assertion that the Offering Documents for the Securitizations contained false statements regarding originators' compliance with underwriting standards." *FHFA v. JPMorgan Chase & Co.*, No. 11-6188, 2012 WL 5395646, at *8 (S.D.N.Y Nov. 5, 2012).

152. Bear Stearns shareholders brought a class action complaint against Bear Stearns regarding its mortgage-backed securities business. The complaint contained allegations by confidential witnesses. One confidential witness was an Area Sales Manager who began work for Encore Credit Corporation, which was purchased by Bear Stearns in early 2007. The confidential witness continued to work at BSRMC until February 2008. The confidential witness's office was under great pressure to "dig deeper" and originate riskier loans that "cut corners" with respect to credit scores or LTV ratios. Compl., *In re Bear Stearns Cos., Sec., Derivative, & ERISA Litig.*, No. 08-2793, ¶ 54 (S.D.N.Y filed Feb. 27, 2009).

5. Countrywide Home Loans, Inc.'s Systematic Disregard of Underwriting Standards

153. 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 pools

underlying the BALTA 2006-2, BALTA 2006-4, BALTA 2006-5, BALTA 2006-6, BALTA 2006-7, BALTA 2007-1, BSARM 2006-4, CWALT 2006-OA16, SAMI 2006-AR3, SAMI 2006-AR4, SAMI 2006-AR6, SAMI 2006-AR7, SAMI 2006-AR8, and SAMI 2007-AR3 offerings. *See infra* Table 7. Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with these offerings.

154. 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).

155. 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.

156. 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."

157. 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.

158. 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).

159. 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).

160. 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.

161. 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.

162. 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).

163. 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).

164. 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.

165. 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.*

166. 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).

167. 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.

168. 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).

169. 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).

170. 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).

171. 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 combined loan-to-value ratio ("CLTV") 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).

172. 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.

173. 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.

174. 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.*

175. 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.

176. 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.

177. 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.

6. EMC Mortgage's Systematic Disregard of Underwriting Guidelines

178. EMC Mortgage Company ("EMC") is a mortgage servicer and purchased loans from loan originators and others for securitization. Presently, EMC is a subsidiary of J.P. Morgan Chase & Co.

179. EMC originated or contributed a material portion of the loans in the mortgage pools underlying the BALTA 2006-2, BALTA 2006-4, BALTA 2006-5, BALTA 2006-6, BALTA 2006-7, BALTA 2007-1, BSMF 2006-AR1, BSMF 2006-AR2, BSMF 2006-AR3, BSMF 2006-AR4, BSMF 2006-AR5, BSMF 2007-AR1, BSMF 2007-AR3, BSMF 2007-AR4 and BSMF 2007-AR5 offerings. *See infra* Table 7. Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with these offerings.

180. In 2008, EMC and Bear Stearns settled charges with the Federal Trade Commission ("FTC") over allegations that the EMC engaged in unlawful loan servicing practices that had their genesis in the lack of integrity in EMC's documentation of borrower's loan applications. This September 9, 2008 press release from the FTC reports:

> The Bear Stearns Companies, LLC and its subsidiary, EMC Mortgage Corporation, have agreed to pay $28 million to settle Federal Trade Commission charges that they engaged in unlawful practices in servicing consumers' home mortgage loans. The companies allegedly misrepresented the amounts borrowers owed, charged unauthorized fees, such as late fees, property inspection fees, and loan modification fees, and engaged in unlawful and abusive collection practices. Under the proposed settlement they will stop the alleged illegal practices and institute a data integrity program to ensure the accuracy and completeness of consumers' loan information.
>
> "Like other companies that send a bill, mortgage servicers must make sure that the amount they say is due really is the amount due," said Lydia B. Parnes, Director of

> the FTC's Bureau of Consumer Protection. "Consumers have the right to expect accuracy from the company that collects their mortgage payments.
>
> As stated in the FTC's complaint, Bear Stearns and EMC have played a prominent role in the secondary market for residential mortgage loans. During the explosive growth of the mortgage industry in recent years, they acquired and securitized loans at a rapid pace, but they allegedly paid inadequate attention to the integrity of consumers' loan information and to sound servicing practices. As a result, in servicing consumers' loans, they neglected to obtain timely and accurate information on consumers' loans, made inaccurate claims to consumers, and engaged in unlawful collection and servicing practices. These practices occurred prior to JP Morgan Chase & Co.'s acquisition of Bear Stearns, which became effective on May 30, 2008.
>
> …
>
> The proposed settlement requires Bear Stearns and EMC to pay $28 million to redress consumers who have been injured by the illegal practices alleged in the complaint. In addition, the settlement bars the defendants from future law violations and imposes new restrictions and requirements on their business practices.

Press Release, *Bear Stearns and EMC Mortgage to Pay $28 Million to Settle FTC Charges of Unlawful Mortgage Servicing and Debt Collection Practices*, Federal Trade Comm'n (Sept. 9, 2008), *available at* http://www.ftc.gov/opa/2008/09/emc.shtm.

181. The New York Attorney General's office opened an investigation into possible criminal activity at EMC in "supplying bad information to ratings agencies about the quality of the mortgages they signed off on." This May 14, 2010 article in The Atlantic reported:

> Made up FICO scores? Twenty-minute speed ratings to AAA? If government prosecutors like New York Attorney General Andrew Cuomo want answers to why the mortgage-backed securities market was so screwed up, they should talk to Matt Van Leeuwen from Bear Stearn's servicing arm EMC.
>
> Reports indicated on Thursday that Cuomo is pursuing a criminal investigation surrounding banks supplying bad information to rating agencies about the quality of the mortgages they signed off on….
>
> …
>
> Employed during the go-go years of 2004-2006, and speaking in an interview taped by BlueChip Films for a documentary in final production called Confidence Game, Van Leeuwen sheds some light onto the shenanigans going on during the mortgage boom that might surprise even Cuomo. As a former mortgage analyst at Dallas-based EMC mortgage, which was wholly owned by Bear Stearns, he had first-hand

> experience working with Bear's mortgage-backed securitization factory. EMC was the "third-party" firm Bear was using to vet the quality of loans that would purchase from banks like Countrywide and Wells Fargo.
>
> Van Leeuwen says Bear traders pushed EMC analysts to get loan analysis done in only one to three days. That way, Bear could sell them off fast to eager investors and didn't have to carry the cost of holding these loans on their books.
>
> According to two EMC analysts, they were encouraged to just make up data like FICO scores if the lenders they purchased loans in bulk from wouldn't get back to them promptly. Every mortgage security Bear Stearns sold emanated out of EMC. The EMC analysts had the nitty-gritty loan-level data and knew better than anyone that the quality of loans began falling off a cliff in 2006. But as the cracks in lending standards were coming more evident the Bear traders in New York were pushing them to just get the data ready for the raters by any means necessary.
>
> In another case, as more exotic loans were being created by lenders, the EMC analyst didn't even know how to classify the documentation associated with the loan. This was a data point really important to the bonds ratings. When Bear would buy individual loans from lenders the EMC analyst said they couldn't tell if it should be labeled a no-doc or full doc loan. Van Leeuwen explains, "I wasn't allowed to make the decision for how to classify the documentation level of the loans. We'd call analysts in Bear's New York office to get guidance." Time was of the essence here. "So, a snap decision would be made up there (in NY) to code a documentation type without in-depth research of the lender's documentation standards," says Van Leeuwen.
>
> Two EMC analysts said instead of spending time to go back to the lender and demand clarification, like if verification of income actually backed these loans, the executives at Bear would just make the loan type fit. Why? One EMC analyst explains, "from Bear's perspective, we didn't want to overpay for the loans, but we don't want to waste the resources on deep investigation: that's not how the company makes money. That's not our competitive advantage – it eats into profits."

Teri Buhl, *More Corruption: Bear Stearns Falsified Information as Raters Shrugged*, The Atlantic, May 14, 2010, *available at* http://www.theatlantic.com/business/archive/2010/05/more-corruption-bear-stearns-falsified-information-as-raters-shrugged/56753/.

182. The FHFA as conservator for Fannie Mae and Freddie Mac has also sued Bear Stearns for making material misstatements and omissions in RMBS Offering Documents. *See* Am. Compl., *FHFA v. JP Morgan*, No. 11-6188 (S.D.N.Y. filed June 13, 2012).

183. The FHFA conducted a forensic review of loans for an RMBS that contained significant amounts of loans from EMC. This review consisted of an analysis of the loan origination file for each loan, including the documents submitted by the individual borrowers in support of their loan applications, as well as an analysis of information extrinsic to each loan file, such as the borrower's motor vehicle registration documentation with pertinent information indicating a borrower's assets or residence, and other information that was available at the time of the loan application, as well as the borrower's filings in bankruptcy proceedings and other sources of information. *Id.* ¶ 362.

184. The FHFA reviewed 535 loan files for Group II-2 pool for the BSMF 2007-AR3—an RMBS that is also at issue in this case. EMC originated 41.49% of the loans in the Group II-2 pool. The FHFA's review revealed that 98% of the loans (523 out of 535) were not underwritten in accordance with the underwriting guidelines or otherwise breached the representations contained in the transaction documents. Of the 523 loans that did not comply with the underwriting guidelines, none had sufficient compensating factors to warrant an exception. *Id.* ¶¶ 359, 367.

185. The FHFA noted several specific examples of how EMC disregarded its underwriting guidelines:

186. In one of FHFA's examples, EMC ignored its underwriting guidelines's requirement that "[i]ncome must be reasonable for employment stated":

> A loan that closed in January 2007 with a principal amount of $368,000 was originated pursuant to EMC's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The loan application stated that the borrower was employed as an inspector/foreman of a fire systems company earning $13,500 per month. The Bureau of Labor Statistics reported that the average salary at the 90th percentile for an inspector in the same geographic region in 2006 was $7,675 per month. The borrower's stated income exceeded the Bureau of Labor Statistics' 90th percentile by over 1.5 times, which should have put a reasonably prudent underwriter on notice for potential misrepresentation. The loan file contains no evidence that the loan underwriter assessed the reasonableness of the borrower's stated income. Moreover, the loan file contained the borrower's 2006 and 2007 tax returns provided for modification purposes, which revealed an income for 2006 of only $6,835 per

> month and indicated the same line of work for both 2006 and 2007. Furthermore, in a Statement of Financial Affairs filed by the borrower as part of a May 2008 Chapter 13 bankruptcy proceeding, the borrower also reported an income in 2006 of only $6,835 per month. A recalculation of DTI based on the borrower's verified same year income yields a DTI of 88.37 percent, which exceeds the guideline maximum allowable DTI of 50 percent. The borrower defaulted and the loan was subsequently liquidated for a loss of $248,583.81, or 67.55 percent of the original loan balance.

Id. ¶¶ 378-379.

187. In two of the FHFA's examples, EMC underwriters ignored obvious red flags of misrepresentations on the loan application:

> A loan that closed in December 2006 with a principal amount of $266,000 was originated pursuant to EMC's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The loan closed as an owner-occupied limited cash out refinance. The underwriting guidelines for this loan required that at least one of the borrowers occupy the subject property and the loan was represented as owner-occupied. The loss mitigation portion of the loan file includes a copy of the borrower's 2006 tax return that reflects the subject property was a rental residence since December 2005. The loan file also contains copies of the borrower's bank statements and HUD-1, which reflect the borrower's current address as the previous address listed on the loan application. No evidence in the file indicates that the underwriting process addressed these inconsistencies, and the loan was underwritten as if the property was owner-occupied. The borrower defaulted and the loan was subsequently liquidated for a loss of $184,115.84, or 69.22 percent of the original loan balance, and
>
> A loan that closed in January 2007 with a principal amount of $232,000 was originated pursuant to EMC's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The loan closed as an owner-occupied rate-term refinance. The applicable guidelines for this loan required that the borrower on the mortgage note occupy the subject property and the loan was represented as owner-occupied. Public records revealed an address for a utility bill from 2004 to 2010 at the subject property address for a person other than the borrower. Public records also revealed a utility bill for the Borrower at an address other than the subject from August 1997 to July 2011. No evidence in the file indicates that the underwriting process addressed these inconsistencies, and the loan was underwritten as if the property was owner-occupied. The borrower defaulted and the loan was subsequently liquidated for a loss of $194,761.55, or 83.95 percent of the original loan balance.

Id. ¶ 381.

188. And finally, the FHFA highlighted an instance in which EMC had failed to evaluate a borrower's ability to repay by not considering all of the liabilities that the underwriting guidelines required it to consider:

> A loan that closed in January 2007 with a principal amount of $240,000 was originated pursuant to EMC's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The lender failed to properly calculate the borrower's debts. The audit credit report revealed an undisclosed installment loan for $23,424 opened in October 2006, 3 months prior to the loan application, with a payment of $406 per month. The loan was not yet reporting on the origination credit report and the borrower failed to disclose the debt on the loan application. There was no evidence in the loan file that the underwriter requested or obtained an explanation from the borrower for the 4 inquiries, dated from October 28, 2006 through November 20, 2006, listed on the origination credit report. A recalculation of DTI based on the borrower's undisclosed debt and verified income yields a DTI of 137.37 percent, which exceeds the guideline maximum allowable DTI of 55 percent. The borrower defaulted and the loan was subsequently liquidated for a loss of $184,875.88, or 77.03 percent of the original loan balance.

Id. ¶ 385.

189. In fact, the FHFA determined that 89 of the 535 loans (25.2%) it reviewed from the BSMF 2007-AR3 offering incorrectly calculated the borrower's debts which, if corrected, would have caused the debt-to-income ratio to exceed the applicable underwriting guidelines. *Id.* ¶ 386.

190. The FHFA also alleged that, in an effort to securitize even more loans, EMC told third-party due diligence firms to reduce the scrutiny given to loan files. In an e-mail dated April 5, 2007, an EMC Assistant Manager for Quality Control Underwriting and Vendor Management ordered Adfitech, Inc. ("Adfitech") not to take efforts to verify information in a loan file, directing:

- "Effective immediately, in addition to not ordering occupancy inspections and review appraisals, DO NOT PERFORM REVERIFICATIONS OR RETRIEVE CREDIT REPORTS ON THE SECURITIZATION BREACH AUDITS,"
- Do not "make phone calls on employment," and
- "Occupancy misrep is not a securitization breach.

Id. ¶ 479.

191. According to the FHFA, former EMC mortgage analyst Matthew Van Leeuwen—the same individual interviewed in the aforementioned *Atlantic* article—confirmed in a March 30, 2009 e-mail that "the pressure was pretty great for everybody to just churn the mortgages on through the system," so that if there were "outstanding data issues" analysts should just "fill in the holes." According to Van Leeuwen, "missing credit score would magically become a 680 in Bear's system, things like that." For example, EMC's Senior Vice President of Conduit Operations, Jo-Karen Whitlock, told her staff to do "whatever is necessary" to meet Bear Stearns' objectives for desired loan production. Her April 14, 2006 e-mail further stated:

> I refuse to receive any more emails … questioning why we're not funding more loans each day. I'm holding each of you responsible for making sure we fund at least 500 each and every day…. [I]f we have 500+ loans in this office we MUST find a way to … buy them…. I expect to see 500+ each day…. I'll do whatever is necessary to make sure you're successful in meeting this objective.

Id. ¶¶ 482, 489.

192. In FHFA's suit, the district court denied Bear Stearns's motion to dismiss, holding that the FHFA's allegations "amply support FHFA's assertion that the Offering Documents for the Securitizations contained false statements regarding originators' compliance with underwriting standards." *FHFA v. JPMorgan Chase & Co.*, No. 11-6188, 2012 WL 5395646, at *8 (S.D.N.Y Nov. 5, 2012).

193. Bear Stearns shareholders brought a class action complaint against Bear Stearns regarding its mortgage-backed securities business. The complaint contained allegations by several confidential witnesses. One confidential witness was a Quality Control and Reporting Analyst at EMC from April 2006 through August 2007, and reviewed and examined loan origination and loan portfolio statistics on subprime loans purchased by EMC, and also created reports for upper management at EMC. That confidential witness confirmed that EMC would buy almost everything, including extremely risky loans where the borrower's income and ability to pay could not be verified.

Compl., *In re Bear Stearns Cos., Sec., Derivative, & ERISA Litig.* No. 08-2793, ¶ 58 (S.D.N.Y filed Feb. 27, 2009).

194. Another confidential witness, who was a Collateral Analyst with Bear Stearns in the first half of 2007, revealed that Bear Stearns understood that the loans it was purchasing through EMC were unusually risky. That confidential witness reported that during the latter part of 2006 and the beginning of 2007 EMC was "buying everything" without regard for the riskiness of the loan. The confidential witness explained that because of the potential for profits from securitizing these loans Bear Stearns managers looked the other way and did not enforce basic underwriting standards. *Id.* ¶ 59.

195. The complaint also alleged that Bear Stearns, through EMC, aggressively purchased exceptionally risky mortgages that were already in default in the hopes of bringing the borrower back into compliance and securitizing the loan along with other acquired and originated mortgages (so called "scratch and dent" loans). A special desk at Bear Stearns was designated to securitize the "scratch and dent" loans and sell them to investors. *Id.* ¶ 62.

196. The Bear Stearns' shareholder suit settled for $275 million. *See* Chris Dolmetsch, *Bear Stearns Settlement Gets U.S. Judge's Approval*, Bloomberg (Nov. 9, 2012), *available at* http://www.bloomberg.com/news/2012-11-09/bear-stearns-settlement-gets-u-s-judge-s-approval.html.

197. Bear Stearns has also been sued by Ambac Assurance Corp. ("Ambac"). Ambac provided monoline insurance for several Bear Stearns-underwritten RMBS that contained loans from EMC. After suffering staggering losses, EMC conducted a loan-level review of 6,309 of the loans. It found that 5,724 (90%) breached one or more of EMC's representations and warranties, including:

- 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 the loan originators' 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 debt-to-income and loan-to-value ratios above the allowed maximums, or (v) with relationships to the applicable originator or other non-arm's-length relationships.

First Am. Compl., *Ambac Assurance Corp. v. EMC Mortg. LLC*, No. 650421/2011, ¶ 280 (N.Y. Sup. Ct. filed July 18, 2011).

198. On October 1, 2012, the People of the State of New York took action against J.P. Morgan Securities. The Complaint highlights EMC's extensive disregard of underwriting standards, alleging that:

> The review of loans that Defendants purchased through the flow channel was equally superficial and focused on quantity at the expense of quality. EMC underwriters were typically required to underwrite fifteen to twenty loan files per day, and the pressure to review this high volume of loans often came in second half of the month if the volume of funded loans was not on track to meet the monthly target.
>
> …
>
> To drive home the point, that same manager stressed to her staff that EMC "hit the target number," which was a funding volume of $2 billion for that month. In other words, EMC had to underwrite and purchase $2 billion worth of mortgage loans in a single month. Multiple confidential witnesses, former employees of EMC, have confirmed Defendants' "whatever is necessary" approach to achieve aggressive volume goals.
>
> As the volume of loans acquired by EMC through its flow channel increased dramatically, Defendants took measures to expedite their loan review, which had the effect of reducing the amount of due diligence for originators in certain designated

> "tiers." For example, EMC divided its flow channel sellers into five tiers based on the volume and the estimated quality of the loans supplied to EMC, and performed "streamline," or abridged, reviews for loans from certain of these sellers. Moreover, as mentioned above, the review process itself – which gave underwriters and Team Leads discretion to approve but not to reject loans – was set up so as to make approval of a loan the path of least resistance.

199. Compl., *New York v. J.P. Morgan Sec.*, No. 451556-2012, ¶¶ 55, 57-58 (N.Y. Sup. filed Oct. 1, 2012).

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

200. First National Bank of Arizona ("FNB Nevada") was a large subprime mortgage lender. It originated or contributed a material portion of the loans in the mortgage pool underlying the NAA 2007-1 and NHELI 2007-1 offerings. *See infra* Table 7. Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with these offerings.

201. 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.

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

203. 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.

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

205. 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.

206. 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.

207. 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

208. 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.

209. 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.

210. 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.

211. 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.

212. 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.

213. 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).

214. 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).

215. 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.").

216. 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).

8. GMAC's Systematic Disregard of Underwriting Standards

217. 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 GMACM 2006-HE4 offering. *See infra* Table 7. Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from this offering. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with this offering.

218. 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.").

219. MBIA's suits concern loans underlying the GMACM 2004-HE4, GMACM 2006-HE4 (at issue in this suit as well), 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.

220. 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.

221. 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.

222. 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).

223. 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.

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

224. GreenPoint Mortgage Funding Inc. ("GreenPoint") originated or contributed a material portion of the loans in the mortgage pool underlying the BSSLT 2007-1 and LUM 2006-7

offerings. *See infra* Table 7. Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from this offering. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with this offering.

225. 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.

226. 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.

227. When originating stated income loans, GreenPoint often inflated the borrowers' income by as much as 5%. 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.

228. 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).

229. 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.

230. Syncora Guarantee, a monoline insurer, sued JP Morgan Securities as successor to Bear Stearns in connection with an RMBS 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" 1,431 GreenPoint loans, 400 of which were randomly selected without regard to payment status. More than 92% of the 1,431 loans contained misrepresentations, and more than 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 without adequate, or any, compensating factors, and in disregard of 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 the applicable originator or other non-arm's-length relationships.

Compl., *Syncora Guar. Inc. v. J.P. Morgan Secs. LLC*, No. 651566/2011, ¶¶ 7, 181-82 (N.Y. Sup. Ct. filed June 6, 2011). Syncora's suit against JP Morgan Securities survived a combined motion to dismiss and motion for summary judgment. *See* Decision and Order, *Syncora Guar. Inc. v. J.P. Morgan Secs. LLC*, Doc. 50, No. 651566/2011 (N.Y. Sup. Ct. May 2, 2012).

231. GreenPoint's own employees have corroborated the findings of U.S. Bank and Syncora. A confidential witness in the *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., *Federal Home Loan Bank of Indianapolis v. Banc of Am. Mortg. Secs., Inc.*, No. 49D051010PL045071, ¶ 265 (Ind. Sup. Ct., Marion Cnty. filed Oct. 15, 2010) ("FHLB Indianapolis").

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

233. 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.

234. 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.

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

236. In *Allstate Bank v. J.P. Morgan Case, N.A.*, Allstate, an RMBS investor, sued J.P. Morgan, the RMBS underwriter, for misrepresentations. 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. JP Morgan Chase, N.A.*, No. 11-1869, ¶ 485 (S.D.N.Y. filed May 10, 2012).

237. 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.

238. 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 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.

239. Another confidential witness was an Underwriting Supervisor at GreenPoint from 2005 to 2006 and the witness 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.* ¶ 488.

240. *Allstate's* complaint also alleged that many of GreenPoint's loans were granted by the more than 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.

241. 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.

242. 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.

10. Impac's Systematic Disregard of Underwriting Standards

243. Impac Funding Corporation ("Impac") is a mortgage company that acquires, purchases, and sells mortgage loans. It is a California corporation which is headquartered in Irvine, California. Impac originated or contributed a material portion of the loans in the mortgage pool underlying the BSMF 2007-AR3, IMSA 2006-4, IMSA 2006-5, IMSA 2007-1, IMSA 2007-2, and IMSA 2007-3 offerings. *See infra* Table 7. Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with these offerings.

244. Massachusetts Mutual Life Ins. Co. ("Mass. Mutual"), an RMBS investor like the Credit Unions, recently sued Impac regarding RMBS for which Impac was the sponsor. Mass. Mutual conducted a forensic analysis of loans underlying IMSA 2006-4, an RMBS at issue in this case. The analysis revealed that 48% of the loans tested had appraisals inflated by 10% or more, and 34% of the loans tested had LTVs that were 10 or more points more than represented. Additionally, 15.45% of the loans that had been represented to be owner occupied were determined not to be owner occupied. *See* Compl., *Massachusetts Mutual Life Ins. Co. v. Impac Funding Corp.*, No. 11- 30127, ¶¶ 87-88, 95 (D. Mass. filed May 6, 2011).

245. Impac's faulty loan origination practices were the subject of a suit by a class of its shareholders. Their complaint contained detailed accounts of former employees regarding Impac's

disregard of its underwriting guidelines. *See* Third Am. Compl., *Pittleman v. Impac. Mortg. Holdings, Inc.*, No. 07-970 (C.D. Cal. filed Oct. 27, 2008).

246. One former employee (Employee #1) was an underwriting manager in charge of loan due diligence from October 2003 until July 2006. Employee #1's job was to perform due diligence on bulk loans by conducting a sampling of each loan pool. That job included interacting with individual mortgage brokers who would sell loans to Impac in bulk, evaluating bulk loans and making recommendations as to whether or not Impac should buy particular loans and/or loan portfolios which were then resold in the secondary markets. Bulk loans were typically valued in the $5 million dollar range and higher. *Id.* ¶ 46.

247. Employee #1 reported to Kevin Gillespie, Vice President of Underwriting, and Scott Hedbon, Chief Credit Officer. Both Gillespie and Hedbon reported to William Ashmore, Impac's President, and Gillespie and Ashmore (plus Joseph Tomkinson, Impac's CEO) were members of the Loan Committee. After conducting due diligence on a bulk loan, Employee #1 would generate a detailed report regarding that loan pool, which included an approval or rejection recommendation. Every report was then e-mailed to Employee #1's superiors, including Tomkinson and Ashmore. *Id.* ¶ 47.

248. Employee #1 stated that Impac's underwriting guidelines were applied to bulk loans. He said that the bulk guidelines were revised on a regular basis and that bulk guidelines would change on a broker to broker basis. Employee #1 further stated that when bulk loan pools did not satisfy Impac guidelines, they were still approved by management on a regular basis, and specifically by Ashmore. Ashmore's rationale for constantly reversing rejection recommendations was that everyone in the industry was engaging in this type of practice. Ashmore would justify his overriding the underwriting department recommendations by stating that "everybody is doing it" or "if we didn't do it, someone else would." *Id.* ¶ 48.

249. One method of reversing bulk loan rejection recommendations was as follows. Employee #1 would conduct due diligence on a bulk loan pool by reviewing a sampling of the bulk loan, for example 10 loans. If 5 of the 10 loans did not comply with Impac underwriting guidelines, the loan pool was recommended for rejection. However, Impac management, under the direction of Ashmore and in violation of standard due diligence procedures, would simply replace the 5 non-compliant loans with 5 loans that "satisfied" Impac underwriting guidelines and then approve the *entire* bulk loan pool for sale to investors. *Id.* ¶ 49.

250. Employee #1 also noted that certain companies were notorious for selling bulk loan pools to Impac that did not meet underwriting guidelines. These companies included Pinnacle Financial Corporation (a company that Impac eventually acquired), Windham Mortgage, and American Home Loans. Employee #1 specifically recalled numerous instances of bad loan pools which were purchased from third parties, some of which had to be repurchased by Impac. He remembers significant pressure to approve a loan pool from Windham Mortgage which was valued in the millions. He also recalled that Impac was forced to repurchase approximately $50 million worth of loans by Impac from Countrywide, in June-July of 2006, because the loans sold by Impac did not meet underwriting guidelines. During the same time frame, he stated that Novelle was a division of Impac that had so many bad loans (loans that did not comply with Impac's underwriting guidelines), that the division was closed and the loans were securitized and sold to investors. These loans were worth tens of millions of dollars, if not more. *Id.* ¶ 50.

251. Employee #1 left Impac out of frustration because he said the majority of loans that were being recommended for rejection were regularly approved for sale to investors. As a result, he felt that performing due-diligence on bulk loan pools was a waste of his time when Ashmore would just override the results of the due diligence. According to Employee # 1, all management was looking for was a due-diligence officer to "rubber-stamp" the loan pools

because investors in the securitized loan pools required a certain level of quality control concerning these financial instruments. *Id.* ¶ 51.

252. Employee #1 cited another example, in April or May of 2006, where Impac was offered a loan pool from a seller with a past history of selling bad loans to Impac. Employee #1 notified Linda Sepulveda, Vice President of Operations, that Impac had previously "uncovered fraud" in past loans from this seller, and recommended that Impac (a) decline to purchase the loan pool and (b) permanently remove the seller from Impac's list of approved customers. Employee # 1, Sepulveda, and Sepulveda's boss, Executive Vice President of Operations Kathy Murray discussed the loan pool and the recommendation, which Murray then provided to Ashmore. Employee #1 stated that Sepulveda and Murray generally agreed with his rejection recommendations on loan pools. Ashmore overrode the recommendation of the underwriting department and caused Impac to buy the loan pool. Murray told Employee #1 that she went so far as to warn Ashmore that purchase of the loan pool could negatively affect Impac's employee retirement fund, which was invested in Impac stock, telling Ashmore that "this is our retirement we're talking about." However, Employee #1 indicated that companies providing bulk loan pools would threaten to pull their business from Impac if it didn't purchase bad loan pools. *Id.* ¶ 52.

253. Another former employee ("Employee #2") was employed by Impac from January 2005 through October 2007, and was in Wholesale Loan Set-up. Employee #2 was involved in the set up of Alt-A loans. He reported that many borrowers had credit scores that were low or did not have enough income. He also reported that whatever loan came in, the goal was to pass it on to the next step for approval which was underwriting. Employee #2 stated that the "system" was to pull credit scores to determine if the prospective borrower's reported credit score was high enough to qualify for the loan, a critical measure where documented income verification was absent in Alt-A loans. Employee #2 said that a low credit score,

however, would not "kill" the loan. Rather, the loan would then go to the "deal desk," where deals were regularly made to get loans approved. *Id.* ¶ 56.

254. Indeed, Impac repeatedly inflated the reported incomes of applicants in order to approve loans for which the applicant would not otherwise qualify. The absence of documented income verification permitted Impac to engage in such conduct. For instance, Employee #2 recalled on one occasion that he and other co-workers were told in advance that a senior executive of Impac had a relative that was going to request a loan for at least $1 million, and that management told them to "make it work." Thus, if an applicant was not making enough money to qualify for a particular loan, Impac employees would make it look like the applicant was making more money than stated. The way to accomplish this was to enter the required information into the system. For example, if an applicant was making $700 per week, it would be increased to $1,000 per week. *Id.* ¶ 57.

255. Employee #2 stated that he was required to process at least 15 loans a day. *Id.* ¶ 58.

256. Another employee ("Employee #3") was employed by Impac from May 2004 through October 2007 in Quality Control, primarily for closed loans where money had already been disbursed. Employee #3 checked for and investigated fraud. Employee #3 stated that overstating the income of applicants made everyone happy, realtors, account executives, and Impac senior management. *Id.* ¶ 59.

257. Employee #3 stated that in processing 15 loans a day, there would not be enough time to check and follow the seller guides which were documented in great detail. He confirmed that management encouraged the selling of loans to customers who should have not been eligible for Alt-A loans. Employee #3 stated that this was accomplished because 90% of the loans done at Impac did not have documentation of income. *Id.* ¶ 60.

258. Another former employee ("Employee #4") was employed by Impac from June 1997 through July 2007 and worked in Underwriting inside the Conduit Division. After loans were received in the office and reviewed by underwriting, Employee #4 would work with brokers to resolve problems. *Id.* ¶ 61.

259. Employee #4 stated that Impac upper management tried to find a way to get loans done and remembers disagreements regarding the loan approval process on a regular basis. He recalled a specific loan that was denied by underwriting and then approved by management, and loan guidelines, with the exception of Credit Scores, were routinely overridden by upper management. *Id.* ¶ 62.

260. Employee #4 also stated that underwriters could deny loans up to five hundred thousand dollars ($500,000), but recalled that all denied loans went to upper management, which included Gillespie and/or Assistant Vice President of Underwriting Bob Corridan. Employee #4 stated, "if there was a way to make the loan, then they (upper management) wanted to do it." He further stated that "management's theory was to approve loans," and restated that all loans denied by underwriters went to senior management. Employee #4 recalled a particular loan submitted by a broker who was a former IMH employee. This loan of seven hundred and fifty thousand dollars ($750,000) was denied by underwriting but reinstated by management. *Id.* ¶ 63.

261. Employee #4 believed that Impac was not flexible about FICO Credit Scores—the only hard, documented number they could not get around—but all other qualifications such as Payment History, Rent History, Employment History, Square Footage, Charge Offs, Collections, Judgments, Cash outs, Cash Reserves, Related Liens, and LTV Ratios were open to adjustment by Gillespie and Corridan in order to make the loan. This witness stated that bulk loans from lenders and brokers were "bad half the time." *Id.* ¶ 64.

262. Employee #4 believed that Impac failed because it did not abide by its stated underwriting standards. In response to questions about how Impac arrived at underwriting standards, Employee #4 stated that they were written by the Vice President of Guidelines, Lonna Smith. Smith obtained these guidelines from other Alt-A funders and "was told what to write by upper management." This witness remembers frequent conversations with Smith regarding the guidelines in which Smith would say, in reference to the guidelines, "this is crazy," and that when management would relax the guidelines Smith tried to get management to tighten them up. Employee #4 stated that he "saw it all the time where we'd deny it [a loan] and they say, yeah, we could do this." *Id.* ¶ 65.

263. The FHFA as conservator for Fannie Mae and Freddie Mac has also sued Bear Stearns in connection with material misstatements and omissions in RMBS Offering Documents. *See* Am. Compl., *FHFA v. JP Morgan*, No. 11-6188 (S.D.N.Y. filed June 13, 2012).

264. The FHFA conducted a forensic review of loans for an RMBS that contained significant amounts of loans from Impac. This review consisted of an analysis of the loan origination file for each loan, including the documents submitted by the individual borrowers in support of their loan applications, as well as an analysis of information extrinsic to each loan file, such as the borrower's motor vehicle registration documentation with pertinent information indicating a borrower's assets or residence, and other information that was available at the time of the loan application, as well as the borrower's filings in bankruptcy proceedings and other sources of information. *Id.* ¶ 362.

265. The FHFA reviewed 535 loan files for Group II-2 pool for the BSMF 2007-AR3—an RMBS that is also at issue in this case. Impac originated 13.56% of the loans in the Group II-2 pool. The FHFA's review revealed that 98% of the loans (523 out of 535) were not underwritten in accordance with the underwriting guidelines or otherwise breached the representations contained in

the transaction documents. Of the 523 loans that did not comply with the underwriting guidelines, none had sufficient compensating factors to warrant an exception. *Id.* ¶¶ 359, 367.

266. Of the 535 loans reviewed from the BSMF 2007-AR3 Securitization, 89 loans (or 25.2 percent) revealed an incorrect calculation of the borrower's debts which, when corrected, caused the debt-to-income ratio to exceed the applicable underwriting guidelines for the product type. *Id.* ¶ 386.

11. IndyMac Bank, FSB's Systematic Disregard of Underwriting Standards

267. IndyMac Bank, FSB ("IndyMac") originated or contributed a material portion of the loans in the mortgage pool underlying the BALTA 2006-4, INCS 2006-3, INCS 2007-1, INDYL 2006-L2, and LUM 2006-7 offerings. *See infra* Table 7. Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with these offerings.

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

269. On March 4, 2009, the Office of the Inspector General of the United States Department of the Treasury ("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.

270. 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.*

271. 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.

272. 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.

273. 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.

274. 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.*

275. 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.

276. 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.

277. 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.*

278. 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.

279. 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.

280. 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).

281. 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.

282. 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.

283. 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.

284. 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., *FDIC v. Van Dellen*, No. 10-4915, ¶ 6 (C.D. Cal. filed July 2, 2010). On December 7, 2012, a jury returned a verdict almost unanimously in favor of the FDIC for $168,813,475.

285. 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 suit survived a motion to dismiss.

286. 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.

12. New Century's Systematic Disregard of Underwriting Standards

287. New Century Capital Corporation and New Century Mortgage Corporation were subsidiaries of New Century Financial Corp. ("New Century"). New Century originated or contributed a material portion of the loans in the mortgage pool underlying the SACO 2006-4 offering. *See infra* Table 7. Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be

material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with these offerings.

288. 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.

289. New Century failed dramatically in April 2007 amid a wave of loan defaults, revelations that its prior year's 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 that was far more concerned with originating mortgages to fuel the securitization machine than in the quality of those mortgages.

290. 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 securitizers' demand for subprime mortgages.
>
> …
>
> 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.

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

291. 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.

292. 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.

293. 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.

294. The U.S. Bankruptcy Court of the District of Delaware, which presided over New Century's bankruptcy, 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, *available at* http://graphics8.nytimes.com/packages/pdf/business/ Final_Report_New_Century.pdf:

> 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.

> 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. … 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. …
>
> 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. …
>
> 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. …
>
> 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.

Examiner's Report at 3-4.

295. 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.

296. 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.

297. 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. Despite the riskiness of those products, 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.

298. 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. "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. Despite the risks already inherent in such products, New Century actively discouraged its employees from even seeking to verify whether a prospective borrower's stated income was reasonable. *See id.* at 57-58, 127 n.314.

299. 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.

300. 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.

301. 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. *Id.* at 152.

302. 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.

303. 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.

304. 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.

305. 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." Even after Flanagan left the company, New Century's prioritization of volume, rather than quality, continued. *Id.* at 89.

306. 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.

307. 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. *Id.* at 169 n.337.

308. 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.

309. 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.

310. 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 Financial Crisis Inquiry Commission. 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.

Testimony*, 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).

311. 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.

312. 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.*

313. New Century's collapse has led to numerous civil and criminal investigations and lawsuits. For instance, in early 2007, the Ohio Attorney General filed a civil suit against New Century. The Attorney General obtained a temporary restraining order prohibiting New Century from initiating any new loans or pursuing any foreclosure actions in Ohio. The injunction acted as a moratorium on New Century foreclosures in Ohio, thus giving the Attorney General's Office an opportunity to review the loans for evidence of predatory practices. After the investigation, the local newspaper reported:

> New Century's underwriting standards were so low "that they would have sold a loan to a dog," said Ohio Assistant Attorney General Robert M. Hart. "Most people believe their broker has a duty to get them the best deal," Hart said. But New Century's brokers had incentives "to do the worst deal for borrowers." They earned more money when they made high-rate loans and tacked on fees or prepayment penalties.

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

314. In December 2009, the SEC filed a complaint charging three former New Century executives with securities fraud. *See SEC v. Morrice*, No. SACV09-01426 JVS (C.D. Cal. 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 more than $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.

315. The FHFA as conservator for Fannie Mae and Freddie Mac has also sued Bear Stearns for making material misstatements and omissions in RMBS Offering Documents. *See* Am. Compl., *FHFA v. JP Morgan*, No. 11-6188 (S.D.N.Y. filed June 13, 2012).

316. The FHFA conducted a forensic review of loans for an RMBS that contained significant amounts of loans from New Century. This review consisted of an analysis of the loan origination file for each loan, including the documents submitted by the individual borrowers in support of their loan applications, as well as an analysis of information extrinsic to each loan file, such as the borrower's motor vehicle registration documentation with pertinent information indicating a borrower's assets or residence, and other information that was available at the time of the loan application, as well as the borrower's filings in bankruptcy proceedings and other sources of information. *Id.* ¶ 362.

317. The FHFA reviewed 100 loan files for the Group I pool for the CBASS 2006-CB7 offering. New Century originated 25.61% of the loans in that pool. The FHFA's review revealed that 79% of the loans (79 out of 100) were not underwritten in accordance with the underwriting guidelines or otherwise breached the representations contained in the transaction documents. Of the 79 loans that did not comply with the underwriting guidelines, none had sufficient compensating factors to warrant an exception. *Id.* ¶¶ 371, 375.

318. Of the 535 loans reviewed from the BSMF 2007-AR3 Securitization, 89 loans (or 25.2 percent) revealed an incorrect calculation of the borrower's debts which, when corrected, caused the debt-to-income ratio to exceed the applicable underwriting guidelines for the product type. *Id.* ¶ 386.

319. The FHFA highlighted an example of New Century's breach of its underwriting guidelines:

> A loan that closed in July 2006 with a principal amount of $346,750 was originated pursuant to New Century's Full Documentation Program and included in the

> CBASS 2006-CB7 Securitization. The loan underwriter approved the borrower with a 42.13 percent DTI by including debts totaling $2,224. A forensic review of the loan file reveals that the payment for the second lien mortgage associated with the subject property was incorrectly calculated. The underwriter qualified the borrower based on a second mortgage payment of $226 per month; however, the actual second mortgage payment was $655 per month. There is no evidence in the file to support the underwriter's calculation of the second mortgage payment. A recalculation of the DTI based on the borrower's properly calculated debts results in an increase in the DTI from 42.125 percent to 53.48 percent, which exceeds the guideline maximum allowable DTI of 50 percent. The borrower defaulted and the loan was subsequently liquidated for a loss of $216,208, or 62.35 percent of the original loan balance.

Id. ¶ 385.

13. Opteum Financial Service's Systematic Disregard of Underwriting Standards

320. Opteum originated or contributed a material portion of the loans in the mortgage pool underlying the BSSLT 2007-1 and SAMI 2007-AR3 offerings. *See infra* Table 7. Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with these offerings.

321. Opteum's disregard of its underwriting guidelines came to light in a shareholder securities class action. *See* Am. Compl., *In re Opteum, Inc. Sec. Litig.*, No. 07-14278 (S.D. Fla. filed Oct. 12, 2009).

322. According to a confidential witness who was a retail loan officer at Opteum, it was unusual for a loan to be turned down. Even if an underwriter said "no," another underwriter or manager could usually be found who would say "yes." *Id.* ¶ 23.

323. Another confidential witness was a senior underwriter in the Conduit Division and was responsible for reviewing and approving mortgages that Opteum purchased from smaller mortgage firms. That confidential witness would deny applications if he discovered that borrowers lied about their job titles. However, management consistently overrode those denials. The confidential witness described the loans as "foreclosures looking for a place to happen." In one instance, Opteum purchased a $700,000 loan that was granted "literally [to] a maid and a cherry picker." The confidential witness's boss was told by Senior Vice President Mary Glass to "push all of the loans through … it did not matter how risky they were." *Id.* ¶ 24.

324. According to another confidential witness who was a loan officer, it became prevalent in the Northeast region to encourage and permit potential borrowers to misrepresent their adjusted gross income. Just before leaving the company in February 2007, the confidential witness learned that it was common for loan applicants to misrepresent their adjusted gross incomes by having their accountaints prepare oen tax return for the IRS and another for loan officers. *Id.* ¶ 25.

325. Another confidential witness was a capital markets analyst who worked in Secondary Marketing. That confidential witness recounted how a trader in the Structured Finance department said Opteum was a high-risk operation and that the trader was "going to get the hell out of there" as soon as possible. *Id.* ¶ 26.

326. The same confidential witness was responsible for reviewing loans for pooling. The confidential witness received "boxes, and boxes, and boxes" of loans from the Conduit Department. "[L]oan after loan" made no sense; stated income loans were given to people who "clearly could not afford them." "[G]ardeners and low wage employees" were getting loans for hundreds of thousands of dollars. *Id.* ¶ 28.

327. The same confidential witness stated that one of the reasons loan officers approved such "high risk" loans was that Opteum's CEO, Jeffrey Zimmer, made it "very clear" that if people did not meet their quota, they were out the door. Zimmer increased quotas, making it "very hard for these guys" to keep up. Further, the loan officers were primarily paid on commission; without commission pay, they made "basically no money." *Id.* ¶ 29.

328. The shareholder suit subsequently settled.

14. People's Choice Home Loans's Systematic Disregard of Underwriting Standards

329. People's Choice was a subprime mortgage lender headquartered in Irvine, California. People's Choice filed for bankruptcy in March 2007, seeking Chapter 11 protection. People's Choice originated or contributed a material portion of the loans in the mortgage pool underlying the PCHLT 2005-4 offering. *See infra* Table 7. Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with these offerings.

330. People's Choice was at the heart of the subprime mortgage crisis, participating in systematic disregard of its underwriting standards in order to reap greater profit.

331. People's Choice was prominently featured in a March 22, 2009 program on Dateline NBC which highlighted the underhanded lending practices committed by various mortgage companies:

> James LaLiberte joined People's Choice in 2004 as the chief credit officer, overseeing the underwriting. Later, he was promoted to one of the top positions, chief operating officer, and was in charge of all operations and setting credit guidelines.

He presented Dateline with a list of nearly 13,000 loans People's Choice funded in one year from April 2004 through March 2005, totaling more than $2 billion. Many of the loans, he said, were questionable; some possibly fraudulent.

In an interview, he said that when he came on board, the company's reputation was "spotty at best," though he acknowledged the company was more conservative than many other subprime lenders.

…

Income discrepancies

Dateline independently researched dozens of the stated income loans on the list LaLiberte presented and found many instances where incomes apparently were inflated.

Examples on the People's Choice list included a registered massage therapist who claimed an income of $15,000 a month ($180,000 a year) and whom People's Choice loaned $640,000. According to the Web site Salary.com, which is often used by lenders, the median income in the zip code where the borrower lived is $3,799 a month, about one quarter of the amount the borrower claimed.

A manicurist who borrowed $445,500 in 2004 claimed monthly income of $16,800, more than $200,000 a year. Later, she filed for bankruptcy and submitted papers to the court reporting her 2005 annual income as $27,092, meaning $2,258 a month (plus approximately $4,500 a year in child support).

Another borrower in 2005 listed herself as director of development for a charity earning $15,500 a month ($186,000 a year) and obtained $655,000. But a review of the charity's publicly-filed tax returns shows that the director of development that year was paid $69,808, or $5,817 a month. Surprisingly, that person has a different name from the borrower. A call to the charity elicited the information that the borrower indeed had worked there at the time the loan was issued, but held a position below director of development.

Former People's Choice COO LaLiberte said that he used the list of loans as a training tool. He put the spreadsheet up on a screen to highlight the types of loans the company should stop issuing.

"The initial reaction was laughter," LaLiberte said. "And then I said, 'Well, wait a minute here. Y'all think it's funny. I think it's funny, too, sort of. But these are loans that we funded. These are loans that we wired the money on.'"

He said that when he tried to implement more controls, he ran into resistance. "The chief appraiser once said, 'Fraud is what we do.' That's how we got where we are today.'" Another former executive told Dateline he was present when the comment was made and confirmed the accuracy of LaLiberte's account.

…

Eileen Loiacono was an underwriter at People's Choice from 2003 until September 2005. She said LaLiberte tried to do the right thing, but lost out to more powerful forces.

She and several other underwriters told Dateline that they felt pressured by sales staff to approve questionable applications. While their work as underwriters was supervised by a chief credit officer, they said that for administrative and basic personnel matters, they reported to sales managers.

One former People's Choice manager who spoke on condition of anonymity said, "That place was run by the sales people," some making $200,000 to $300,000 a month. That did create pressure on underwriters, the former manager said. "There was a lot of 'keep your mouth shut' going on, meaning you just didn't ask questions about things you knew were wrong."

Loiacono said that the problems and pressure were not restricted to stated income loans, but also involved full documentation applications for which borrowers submitted records to prove how much they made.

Falsified documents

She said she saw numerous instances of falsified W-2s, tax returns, and bank statements, including crude cut-and-paste jobs. "They would use someone else's tax returns, and then they'd put someone else's name in them," she said.

She said that she challenged about a third of all loan applications but was overruled by company executives the vast majority of the time.

According to Loiacono and several other underwriters, in a few instances, sales people offered incentives to sign off on loans. Loaicono claimed the offers included breast implants, cars, and cash. She said she declined all such offers and reported them to the human resources department. She said nothing was done, as far as she knows.

Loiacono said that some sales people engaged in intimidation, threatening, for instance, to slash the tires of an uncooperative underwriter Another underwriter, who requested anonymity, told Dateline her car was scratched up with a key by a sales person she crossed.

The environment became too uncomfortable, Loiacono said, so she quit in September 2005. "I wanted to be able to sleep at night without feeling like I was coming into a fight every day about something that I knew needed to be done right, and was not being done right."

Hansen, '*If You Had a Pulse, We Gave You a Loan*.'

15. ResMae's Systematic Disregard of Underwriting Standards

332. ResMae Mortgage Corporation ("ResMae") originated or contributed a material portion of the loans in the mortgage pool underlying the BSABS 2006-HE4 offering. *See infra* Table 7. Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with these offerings.

333. ResMae was founded in late 2001 by Jack Mayesh, Edward Resendez and William Komperda, who had sold Long Beach Financial (one of the worst originators in terms of disregard for underwriting guidelines), another subprime lender they founded, to Washington Mutual.

334. ResMae exploded into the market in the early 2000s and quickly became a top 20 subprime lender in the U.S. However, by early 2005, loan originations began to wane along with their profits.

335. Merrill Lynch was the largest buyer of ResMae's loans through late 2007 until they asked ResMae to repurchase more than $300 million worth of loans. The catastrophic put-back request crippled ResMae's operations and forced the company to file for bankruptcy in November of 2007.

336. ResMae's Offering Documents contained materially untrue statements and omission in regards to its stated underwriting standards because ResMae systematically disregarded its stated underwriting standards and frequently made exceptions to its underwriting guidelines in the absence of sufficient compensating factors.

337. Underwriting abuses were so rampant at ResMae that, according to a recent DataQuick study, 73.9% of the loans made by ResMae in 2006 in the State of California were in default within three years. *See* Chris Palmeri, *Which Home Lenders Made the Worst Home Loans?,* Bloomberg Businessweek, October 21, 2009, *available at* http://www.businessweek.com/ the_thread/hotproperty/archives/2009/10/which_lenders_made_the_worst_home_loans.html.

338. Prudential Insurance, an RMBS investor like the Credit Unions, brought suit against Nomura Securities regarding an RMBS that contained ResMae originated loans. Statements by confidential witnesses in that case detail ResMae's faulty underwriting practices. Compl., *Prudential Ins. Co. v. Nomura Sec. Int'l, Inc.*, No. L571012 (Sup. Ct. N.J. filed Aug. 1, 2012).

339. According to a confidential witness, who was an underwriter in ResMae's Schaumburg, Illinois office from early 2005 through 2007, more than 50% of the loans underwritten by ResMae's Schaumburg office had LTV ratios above 95%, which, according to the confidential witness, often meant the loan was outside the underwriting guidelines. In these circumstances, however, the loans were "almost always" approved by an underwriting manager anyway. The confidential witness recalled that ResMae made a lot of exceptions to the underwriting guidelines "above and beyond" what the confidential witness was comfortable with. *Id.* ¶ 197.

340. At least half of the mortgages that confidential witness underwrote were based on stated income. The confidential witness noted that he did not review a single tax return during the course of his employment at ResMae. The confidential witness was not comfortable approving stated income loans where the borrower's income was not close to the median income shown by third-party reports. More often than not, however, the underwriting manager who reviewed the loan accepted the borrower's stated income and approved the loan. Further, according to the confidential witness, if an underwriting manager approved the appraised value of the subject home, it was no longer a factor whether a borrower's stated income was reasonable or not. *Id.* ¶ 198.

341. A separate confidential witness was a ResMae Senior Vice President over risk management functions in Brea, California. That confidential witness was responsible for ensuring that the representations and warranties made by the borrower were accurate. According to the confidential witness, a typical practice at ResMae was to submit loans for underwriting that previously had been kicked out of a prior loan pool. The confidential witness often objected to doing this because the confidential witness was responsible for ensuring that the representations and warranties in the loan pooling and sale agreements with the investors were accurate. Investors were supposed to be made aware of this practice and were required to approve the inclusion of previously rejected loans in a new pool. However, at ResMae, this necessary notification and approval did not occur. *Id.* ¶ 199.

342. Allstate Insurance, an RMBS investor like the Credit Unions, brought suit against Merrill Lynch. At issue was an RMBS containing only loans originated by ResMae. A loan level review of the loans in that RMBS revealed that the owner-occupancy ratio for the loans had been overstated by 10.79%, that the LTV ratio had been understated by 4.91%, and that the CLTV ratio had been understated by 16.86%. Compl., *Allstate Ins. Co. v. Merrill Lynch Co.*, No. 11-1869, ¶¶ 106-122, 149 (S.D.N.Y. filed May 10, 2012).

343. ResMae's foreclosure rates reflected its inattention to underwriting standards. Indeed, ResMae appeared in the OCC's 2008 "Worst Ten in the Worst Ten" reports based on 2005-7 originations.

344. In 2008, ResMae appeared at 8th position for the Riverside market and at 10th for the Sacramento market.

345. When the OCC issued its updated 2009 "Worst Ten in the Worst Ten" Report, ResMae was once again on the list at the 12th position.

346. In 2009, ResMae appeared, once again, on the Riverside market list at the 9th position.

16. Silver State Mortgage Company's Systematic Disregard of Underwriting Standards

347. Silver State Mortgage Company ("Silver State") was a national wholesale and residential mortgage lender headquartered in Las Vegas, Nevada. Silver State originated or contributed a material portion of the loans in the mortgage pool underlying the NAA 2007-1 offering. *See infra* Table 7. Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with these offerings.

348. Silver State ceased operations in February 2007 amid the turmoil of the subprime mortgage crisis. The details of Silver State's mortgage lending practices slowly emerged after it ceased operations.

349. A former Silver State employee recounted his experiences as a loan officer with Silver State in a May 9, 2008 This American Life story on NPR entitled "The Giant Pool of Money." Mike Garner, the former Silver State employee, related how Silver State did not adequately assess whether the income of borrowers under Silver State's "stated income" product was reasonable compared to the borrowers' line of work:

> Garner: The next guideline lower is just stated income, stated assets. Then you state what you make and state what's in your bank account. They call and make sure you work where you say you work. Then an accountant has to say for your field it is possible to make what you said you make. But they don't say what you make, they just say it's possible that they could make that.

Alex Blumberg & Adam Davidson, *The Giant Pool of Money* (National Public Radio broadcast May 9, 2008), *transcript available at* http://www.thisamericanlife.org/sites/default/files/355_transcript.pdf.

350. Alex Blumberg, one of the NPR interviewers, commented on how easy it could have been to simply provide a W-2. Garner responded by describing the means by which loan officers would determine whether the income was reasonable for the occupation:

> Blumberg: It's just so funny that instead of just asking people to prove what they make, there's this theater in place of you have to find an accountant sitting right in front of me who could very easily provide a W2, but we're not asking for a W2 form, but we do want this accountant to say yeah, what they're saying is plausible in some universe.
>
> Garner: Yeah, and loan officers would have an accountant they could call up and say "Can you write a statement saying a truck driver can make this much money?" Then the next one, came along, and it was no income, verified assets. So you don't have to tell the people what you do for a living. You don't have to tell the people what you do for work. All you have to do is state you have a certain amount of money in your bank account. And then, the next one, is just no income, no asset. You don't have to state anything. Just have to have a credit score and a pulse.

Id.

351. Garner recounted how his boss at Silver State despised these types of loan products that permitted such wanton disregard of underwriting standards. Garner concluded:

> Garner: Yeah. And my boss was in the business for 25 years. He hated those loans. He hated them and used to rant and say, "It makes me sick to my stomach the kind of loans that we do." He fought the owners and sales force tooth and neck about these guidelines. He got [the] same answer. Nope, other people are offering it. We're going to offer them too. We're going to get more market share this way. House prices are booming, everything's gonna [sic] be good. And . . . the company was just rolling in the cash. The owners and the production staff were just raking it in.

Id.

352. Instead, Silver State, like many other originators, focused on keeping up with the competition, sacrificing adherence to underwriting guidelines. This quixotic quest for higher profits and more market share ultimately failed as Silver State ceased operations in 2007, no longer maintaining any share of the mortgage market.

17. Wells Fargo's Systematic Disregard of Underwriting Standards

353. Wells Fargo originated or contributed a material portion of the loans in the mortgage pool underlying the BSABS 2007-SD3 offering. *See infra* Table 7. Accordingly, a reasonable investor would have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings. In addition, a reasonable investor would also have considered information that this originator systematically disregarded underwriting standards to be material to the decision whether to purchase from these offerings because that information would have cast doubt on the quality of the loan pool as a whole and the reliability of the procedures used in connection with these offerings.

354. The City of Memphis sued Wells Fargo over their mortgage practices claiming violations of the Fair Housing Act. *See* First Am. Compl., *City of Memphis v. Wells Fargo Bank, N.A.*, No. 09-2857, Doc. 29 (W.D. Tenn. filed Apr. 7, 2010) ("*Memphis* Compl."). The complaint includes sworn declarations from former Wells Fargo employees describing Wells Fargo's abandonment of underwriting guidelines.

355. Camille Thomas was a loan processor at Wells Fargo from January 2004 to January 2008. She was responsible for handling the paperwork involved in the loan, including processing the file for review and approval by the underwriters. In order to do her job, she had to be familiar with Wells Fargo's underwriting guidelines. Ms. Thomas recounted how the bonus structure placed pressure on credit managers to make loans that should not have been made. She stated that managers manipulated LTV ratios by using inflated appraisals that they were not accurate. She also knew that documents were falsified to inflate borrowers' incomes. When she complained, a branch manager told her, "we gotta do what we gotta do." Finally, she stated that borrowers were not informed that their loans were adjustable-rate mortgages with low "teaser rates," or about

prepayment penalties, potential violations of lending laws, which would also be violations of the underwriting guidelines. *Memphis* Compl., Doc. 29-4, Thomas Decl. (W.D. Tenn. filed Apr. 7, 2010).

356. Doris Dancy was a credit manager at Wells Fargo from July 2007 to January 2008 in the Memphis area. Her responsibility was to find potential borrowers. She stated that the district manager put pressure on credit managers to convince people to apply for loans even if the person could not afford the loan or did not qualify for it. To her shock, many people with very bad credit scores and high debt-to-income ratios were approved for subprime loans. Ms. Dancy would shake her head in disbelief and ask herself, "how could that happen?" She knew that Wells Fargo violated its underwriting guidelines in order to make those loans. Although she never witnessed it herself, she heard also from other employees that some branch managers falsified information in order to get customers to qualify for subprime loans. She stated that a bonus system was used to pressure her to make loans that she thought should not be made. *Memphis* Compl., Doc. 29-1, Dancy Decl. (W.D. Tenn. filed Apr. 7, 2010).

357. Michael Simpson was a credit and branch manager at Wells Fargo from 2002 to 2008 in the Memphis area. According to Mr. Simpson, Wells Fargo managers falsified the mileage on car loan applications so that the loan would be approved. He also stated that Wells Fargo was "very aggressive" in mortgage lending. The culture was "completely results driven." According to Mr. Simpson, Wells Fargo employees did not tell customers about the fees and costs associated with closing a loan – again, potential violations of lending laws, and thus also violations of the underwriting guidelines. He also knew managers who falsified information in loan files, such as income documentation, in order to get loans approved. Mr. Simpson further confirmed that Wells Fargo's bonus system was "lucrative" for those employees generating the loans. *Memphis* Compl., Doc. 29-2, Simpson Decl. (W.D. Tenn. filed Apr. 7, 2010).

358. Mario Taylor was a Wells Fargo credit manager from June 2006 to February 2008 in the Memphis area. His job was to find potential borrowers and to get them to apply for loans. His manager pressured him to push loan on borrowers regardless of whether they were qualified for the loan or could pay back the loan. He was also told to mislead borrowers by only telling them the "teaser rate" without disclosing the rate was adjustable and by not telling them about the "fine print." One of his branch managers changed pay stubs and used white-out on documents to alter the borrower's income. Finally, Mr. Taylor confirmed that Wells Fargo employees were heavily incentivized by the bonus structure to generate large volumes of loans. *Memphis* Compl., Doc. 29-3, Taylor Decl. (W.D. Tenn. filed Apr. 7, 2010).

359. Elizabeth Jacobson was a loan officer and sales manager at Wells Fargo from 1998 to December 2007 in the Maryland area. She described the financial incentives to sign borrowers up for loans. In two years, she made more than $1.2 million in sales commissions. She knew loan officers who would lie to potential borrowers about whether they would be able to refinance their loan once the "teaser rate" period expired. Ms. Jacobson also knew loan officers who actually falsified loan applications in order to qualify them for loans that they should not have been given. One loan officer would "cut and paste" the credit report of an approved borrower into other borrowers' applications. She reported this conduct to management but was not aware of any action that was taken to correct the problems. *Memphis* Compl., Doc. 29-7, Jacobson Decl. (W.D. Tenn. filed Apr. 7, 2010).

360. The district court denied a motion to dismiss. *City of Memphis v. Wells Fargo Bank, N.A.*, 2011 WL 1706756 (W.D. Tenn. May 4, 2011). The case subsequently settled.

361. The FCIC's investigation supports the affidavits of these former Wells Fargo employees. The FCIC interviewed Darcy Parmer, a former employee of Wells Fargo, who worked as an underwriter and a quality assurance analyst from 2001 until 2007. According to Ms. Parmer, at

least half the loans she flagged as fraudulent were approved nonetheless. She also told the FCIC that "hundreds and hundreds and hundreds of fraud cases" within Wells Fargo were never referred to the Department of Treasury's Financial Crimes Enforcement Network. FCIC Report at 162.

362. In July 2011, the Federal Reserve Board issued a consent cease and desist order, and assessed an $85 million civil money penalty against Wells Fargo & Co. and Wells Fargo Financial, Inc. At the time, this was the largest penalty assessed by the Board in a consumer-protection enforcement action. Among other things, the order addressed allegations that Wells Fargo had falsified income information in mortgage applications. These practices were allegedly fostered by Wells Fargo's incentive compensation and sales quota programs and the lack of adequate controls to manage the risks resulting from these programs. Press Release, Federal Reserve Board (July 20, 2011), *available at* http://www.federalreserve.gov/newsevents/press/enforcement/20110720a.htm.

VIII. THE OFFERING DOCUMENTS CONTAINED UNTRUE STATEMENTS OF MATERIAL FACT

363. 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.

364. 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. 44,722-01, 44,768-69 (Aug. 3, 2005).

365. Statements in the Offering Documents concerning the following subjects were material and untrue at the time they were made: (1) the Originators' evaluation of the borrower's likelihood and capacity to repay the loan through application of the stated underwriting standards, including the calculation and use of an accurate "debt-to-income" ratio and the frequency and use of exceptions to those standards; (2) adherence to stated underwriting standards for reduced documentation programs; (3) the accurate calculation of the "loan-to-value" ratio for the mortgaged

property and the accuracy of appraisals; and (4) the existence of credit enhancement to minimize the risk of loss.

366. The following chart, Table 7, 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 7

CUSIP(S)	ISSUING ENTITY	TRANCHE	ORIGINATOR
65538NAE3	NAA 2007-1	2AM	Group I: Wells Fargo Bank, N.A. (38.01%) First National Bank of Nevada (15.60%) Group II: Silver State Financial Services, Inc. (17.40%)
65537UAB4 65537UAA6	NAA 2007-3	A1 A2	American Home (14.18%) Brooks America Mortgage Corp (12.09%)
026935AD8	AHMA 2007-3	12A2	American Home Mortgage Corp. (100%)
02660CAC4 02660CAD2 02660CAE0	AHM 2007-2	11A3 12A1 12A2	American Home (100%)
07386HF48 07386HF89	BALTA 2006-2	22A2 23A2	Group 1: EMC (95.01%) Group II-1: EMC (40.40%); Countrywide (37.94%) Group II-2: EMC (90.50%) Group II-3: EMC (71.00%); Countrywide (13.60%) Group II-4: EMC (21.98%); Countrywide (39.95%)
073871AA3 073871AE5	BALTA 2006-4	11A1 13A1	Group I-1: EMC (63.95%); Countrywide (20.87%) Group I-2: EMC (91.80%) Group I-3: EMC (67.34%); IndyMac (25.41%) Group II-1: EMC (61.81%); IndyMac (7.34%) Group II-2: EMC (76.70%); IndyMac (11.11%) Group II-3: EMC (78.94%); IndyMac (8.13%)
073873AA9	BALTA 2006-5	1A1	Group I: EMC (73.42%); Countrywide (4.30%) Group II: EMC (6.57%); Countrywide (89.48%)

CUSIP(S)	ISSUING ENTITY	TRANCHE	ORIGINATOR
073868AX9 073868BG5 073868AA9	BALTA 2006-6	31A3 32A3 1A1	Group I: EMC (73.30%); Countrywide (9.64%) Group II: EMC (12.29%); Countrywide (86.47%) Group III-1: EMC (23.46%); Countrywide (52.90%) Group III-2: EMC (44.42%); Countrywide (49.46%)
073875AA4	BALTA 2006-7	1A1	Group I: EMC (37.40%); Countrywide (50.98%); HomeBank (5.32%); Group II-1: EMC (42.28%); HomeBank (39.02%) Group II-2: EMC (5.76%); Countrywide (71.33%); HomeBank (22.73%) Group II-3: EMC (16.56%); Countrywide (35.49%); HomeBank (44.93%)
07386XAA4	BALTA 2007-1	1A1	Group I: EMC (70.91%); Countrywide (28.31%) Group II-1: Countrywide (96.12%) Group II-2: Countrywide (96.50%)
073882AE2	BSARM 2006-4	2A3	Group I: Countrywide (25.19%); HomeBanc (47.67%) Group II: Countrywide (52.12%); HomeBanc (26.20%) Group III: Countrywide (56.65%); HomeBanc (41.70%) Group IV: Countrywide (81.05%); HomeBanc (18.39%)
07388AAB0 07388AAC8	BSABS 2006-HE4	1A2 1A3	Aggregate: ResMAE Mortgage Corporation (45.63%) Aames Capital Corporation (15.00%) Group I: ResMAE Mortgage Corporation (50.68%) Aames Capital Corporation (10.75%) Group II: ResMAE Mortgage Corporation (39.82%) Aames Capital Corporation (19.90%)
07387LAA9	BSABS 2007-SD3	A1	Wells Fargo Bank, N.A. (31.41%) Capital One, N.A. (15.83%) SunTrust Mortgage, Inc. (14.95%)
07401WAA7 07401WAP4 07401WBA6	BSSLT 2007-1	1A 2A 3A	Group I: GreenPoint (47.21%); PMC Bancorp (15.67%) Just Mortgage (12.74%); SouthStar Funding (11.16%) Group II: BSRMC (31.35%) Group III: Alliance Bancorp. (11.70%); SouthStar Funding (12.50%); CTX Mortgage (11.34%); Opteum Financial Services (10.16%)
07401LAC7	BSMF 2006-AR1	1A3	Group I: BSRMC (43.64%); EMC (56.36%) Group II: BSRMC (100%)
07401AAC1 07401AAX5	BSMF 2006-AR2	1A3 2A1	Group I: BSRMC (37.98%); EMC (62.02%) Group II: BSRMC (92.12%); EMC (7.88%)
07400HAB9 07400HAD5	BSMF 2006-AR3	1A2A 1A3	Group I: BSRMC (38.24%); EMC (61.76%) Group II: BSRMC (51.94%); EMC (48.06%)
07401JAA6 07401JAB4	BSMF 2006-AR4	A1 A2	BSRMC (36.38%); EMC (63.62%)

CUSIP(S)	ISSUING ENTITY	TRANCHE	ORIGINATOR
07401NAB5 07401NAC3 07401NAP4 07401NAQ2 07401NAR0	BSMF 2006-AR5	1A2 1A3 2A1 2A2 2A3	Group I: BSRMC (35.97%); EMC (64.03%) Group II: BSRMC (36.20%); EMC (63.80%)
07401MAB7 07401MAC5	BSMF 2007-AR1	1A2 1A3	Group I: BSRMC (38.86%); EMC (61.14%) Group II: BSRMC (33.11%); EMC (66.89%)
07401VAB7 07401VAC5 07401VAQ4 07401VAR2	BSMF 2007-AR3	1A2 1A3 21A2 21A3	Group I: BSRMC (23.04%); EMC (64.01%); SouthStar Funding (9.71%) Group II-1: BSRMC (14.52%); EMC (41.63%); SouthStar Funding (8.85%); Impac (14.77%); Aegis (10.52%) Group II-2: BSRMC (16.49%); EMC (41.49%); SouthStar Funding (15.59%); Impac (13.56%); Aegis (6.72%)
07401YAQ8	BSMF 2007-AR4	2A1	Group I: BSRMC (56.24%); EMC (25.02%) Group II: BSRMC (48.37%); EMC (48.39%)
07400NAC4 07400NAE0 07400NAT7 07400NAU4	BSMF 2007-AR5	1A2A 1A3 2A2 2A3	Group I: BSRMC (48.84%); EMC (23.90%) Group 2: BSRMC (25.10%); EMC (34.79%); Quicken (17.58%)
23242GBA1	CWALT 2006-OA16	A5	Countrywide (67.11%); MortgageIT (20.79%)
38012UAC3	GMACM 2006-HE4	A3	GMAC Mortgage (17.81%); GMAC Bank (82.19%)
43709RAA2	INDS 2006-3	A	IndyMac (100%)
43708DAA4	INDS 2007-1	A	IndyMac (100%)
45257BAE0 45257BAA8 45257BAC4	IMSA 2006-4	AM A1 A2B	Impac; American Home
45257EAD6	IMSA 2006-5	1AM	Group I: Impac (60.56%); American Home (29.66%) Group II: Impac (100%)
452559AD9	IMSA 2007-1	AM	Impac (81.90%); American Home (18.10%)
452570AD6	IMSA 2007-2	1AM	Group I: Impac Group II: Impac (100%)
45257VAD8	IMSA 2007-3	AM	Impac
45661FAC5	INDYL 2006-L2	A3	IndyMac (100%)

CUSIP(S)	ISSUING ENTITY	TRANCHE	ORIGINATOR
55028BAB3	LUM 2006-7	IA2	Group I: Lehman (46.61%); National City Mortgage (32.19%); GreenPoint (21.20%) Group II: American Home (74.41%); IndyMac (25.59%)
65537KAY6 65537KAB6 65537KAC4	NHELI 2007-1	1A4 2A1A 2A1B	Group I: FNB Nevada (35.88%) Group II: Silver State (31.67%)
71085PDG5 71085PDH3	PCHLT 2005-4	M1 M2 M3	People's Choice Home Loan, Inc. (100%)
785778RD5	SACO 2006-4	A1	American Home Mortgage Investment Corp. (14.63%) New Century Mortgage Corporation (10.23%)
86360KAC2 86360KAW8	SAMI 2006-AR3	11A3 21A1	Group I: Countrywide (100%) Group II: Countrywide (80.02%) Group II-1: Countrywide (40.67%) Group II-2: Countrywide (59.20%) Group II-3: Countrywide (100%) Group II-4: Countrywide (99.05%) Group III: Bank of America (100%)
86360QAD7 86360QAG0 86360QAL9 86360QAP0	SAMI 2006-AR4	2A3 3A3 4A3 5A3	Group II: SouthStar (14.17%); BSRMC (17.30%); First Horizon (28.09%) Group III: SouthStar (42.00%); BSRMC (14.02%) Group IV: Countrywide (70.69%); First Horizon (22.55%); SouthStar (3.03%) Group V: Countrywide (94.59%); SouthStar (5.13%)
86360UAH9	SAMI 2006-AR6	2A3	Countrywide (100%)
86361HAR5	SAMI 2006-AR7	A13A	Countrywide (100%)
86361WAH4 86361WAJ0	SAMI 2006-AR8	A5 A6A	Countrywide (51.87%); SouthStar Funding (23.55%)
86363NAZ2	SAMI 2007-AR3	2A2	Group I: Countrywide (100%) Group II: Aegis (59.48%); Opteum Financial Services (21.72%)

367. Examples of material untrue statements and/or omissions of fact from the RMBS listed above follow.

A. Untrue Statements Concerning Evaluation of the Borrower's Capacity and Likelihood To Repay the Mortgage Loan

368. The NAA 2007-1 Prospectus Supplement represented:

> Silver State's underwriting guidelines are primarily intended to evaluate the prospective borrower's credit standing and ability to repay the loan, as well as the value and adequacy of the proposed mortgage property as collateral. A prospective borrower applying for a mortgage loan is required to complete an application, which elicits pertinent information about the prospective borrower including, depending upon the loan program, the prospective borrower's financial condition (assets, liabilities, income and expenses), the property being financed and the type of loan desired. . . .
>
> Based on the data provided in the application and certain verifications (if required), a determination will have been made that the borrower's monthly income (if required to be stated or verified) should be sufficient to enable the borrower to meet its monthly obligations on the mortgage loan and other expenses related to the mortgaged property (such as property taxes, standard hazard insurance and other fixed obligations other than housing expenses). Generally, scheduled payments on a mortgage loan during the first year of its term plus taxes and insurance and other fixed obligations equal no more than a specified percentage of the prospective borrower's gross income. The percentage applied varies on a case-by-case basis depending on a number of underwriting criteria including, but not limited to, the loan-to-value ratio of the mortgage loan or the amount of liquid assets available to the borrower after origination.

NAA 2007-1 Prospectus Supplement at S-79.

369. The NAA 2007-3 Prospectus Supplement represented that the sponsor of the offering, Nomura Capital & Credit, purchased mortgage loans "from various banks, savings and loan associations, mortgage bankers and other mortgage loan originators and purchasers of mortgage loans in the secondary market" and that the loans "were originated generally in accordance with the underwriting criteria described in this section." NAA 2007-3 Prospectus Supplement at S-49.

370. The NAA 2007-3 Prospectus Supplement stated:

> Based on the data provided in the application and certain verifications (if required), a determination is made by the original lender that the borrower's monthly income (if required to be stated) will be sufficient to enable the borrower to meet their 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 not in excess of 60% of the prospective borrower's gross income. The percentage applied varies on a case-by-case basis depending on a number of underwriting criteria, including, without limitation, the loan-to-value ratio of the mortgage loan. The originators may also consider the amount of liquid assets available to the borrower after origination.

NAA 2007-3 Prospectus Supplement at S-50.

371. The AHMA 2007-3 Prospectus Supplement stated:

> The Originator's underwriting philosophy is to weigh all risk factors inherent in the loan file, giving consideration to the individual transaction, borrower profile, the level of documentation provided and the property used to collateralize the debt. Because each loan is different, the Originator expects and encourages underwriters to use professional judgment based on their experience in making a lending decision.
>
> The Originator underwrites a borrower's creditworthiness based solely on information that the Originator believes is indicative of the applicant's willingness and ability pay the debt they would be incurring.

AHMA 2007-3 Prospectus Supplement at S-51-52. *See also* AHM 2007-2 Prospectus Supplement at S-46-47; AHM 2007-2 Free Writing Prospectus, Apr. 18, 2007, at the "Underwriting Guidelines" section.

372. The AHMA 2007-3 Prospectus Supplement stated:

> In addition to reviewing the borrower's credit history and credit score, the Originator underwriters closely review the borrower's housing payment history. In general, for non-conforming loans the borrower should not have made any mortgage payments over thirty days after the due date for the most recent twelve months. In general, for Alt-A loans the borrower may have no more than one payment that was made over thirty days after the due date for the most recent twelve months.

AHMA 2007-3 Prospectus Supplement at S-52. *See also* AHM 2007-2 Prospectus Supplement at S-47; AHM 2007-2 Free Writing Prospectus, Apr. 18, 2007, at the "Underwriting Guidelines" section.

373. The AHMA 2007-3 Prospectus Supplement stated:

> In order to determine if a borrower qualifies for a non-conforming loan, the loans have been either approved by Fannie Mae's Desktop Underwriter or Freddie Mac's Loan Prospector automated underwriting systems or they have been manually underwritten by the Originator underwriters. The Originator's Alt-A loan products

> have been approved manually by contract underwriters provided by certain mortgage insurance companies. American Home Solutions products must receive an approval from the Assetwise automated underwriting system. For manually underwritten loans, the underwriter must ensure that the borrower's income will support the total housing expense on an ongoing basis. Underwriters may give consideration to borrowers who have demonstrated an ability to carry a similar or greater housing expense for an extended period. In addition to the monthly expense the underwriter must evaluate the borrower's ability to manage all recurring payments on all debts, including the monthly housing expense. When evaluating the ratio of all monthly debt payments to the borrower's monthly income (debt-to-income ratio), the underwriter should be aware of the degree and frequency of credit usage and its impact on the borrower's ability to repay the loan. For example, borrowers who lower their total obligations should receive favorable consideration and borrowers with a history of heavy usage and a pattern of slow or late payments should receive less flexibility.

AHMA 2007-3 Prospectus Supplement at S-52-53. *See also* AHM 2007-2 Prospectus Supplement at S-47-48; AHM 2007-2 Free Writing Prospectus, Apr. 18, 2007, at the "Underwriting Guidelines" section.

374. The AHMA 2007-3 Prospectus Supplement stated:

> The Originator realizes that there may be some acceptable quality loans that fall outside published guidelines and encourages "common sense" underwriting. Because a multitude of factors are involved in a loan transaction, no set of guidelines can contemplate every potential situation. Therefore, each case is weighed individually on its own merits and exceptions to the Originator's underwriting guidelines are allowed if sufficient compensating factors exist to offset any additional risk due to the exception.

AHMA 2007-3 Prospectus Supplement at S-53. *See also* AHM 2007-2 Prospectus Supplement at S-48; AHM 2007-2 Free Writing Prospectus, Apr. 18, 2007, at the "Underwriting Guidelines" section.

375. The BSABS 2006-HE4 Prospectus Supplement represented that ResMAE's underwriting standards:

> are primarily intended to assess the ability and willingness of the borrower to repay the debt and to evaluate the adequacy of the mortgaged property as collateral for the mortgage loan. ResMAE considers, among other things, a mortgagor's credit history, repayment ability and debt service-to income ratio (referred herein as the Debt Ratio), as well as the value, type and use of the mortgaged property.

BSABS 2006-HE4 Prospectus Supplement at S-36.

376. The BSABS 2006-HE4 Prospectus Supplement stated:

> ResMAE has one underwriting program called the "TotalScore Program." Within this underwriting program, there are three documentation types, the "Full Documentation," the "Limited Documentation" and the "Stated Income." While each underwriting program is intended to assess the risk of default, the TotalScore Program makes greater use of credit bureau risk scores (referred to herein as the Credit Bureau Risk Score). The Credit Bureau Risk Score is used in conjunction with, among other factors, mortgage payment history and seasoning on bankruptcy and/or foreclosure and as an aid to, not a substitute for, the underwriter's judgment. The underwriting staff fully reviews each loan to determine whether ResMAE's guidelines for income, assets, employment and collateral are met.
>
> The TotalScore Program was developed to simplify the origination process for the licensed mortgage brokers approved by ResMAE. In contrast to assignment of credit grades according to traditional non-agency credit assessment methods (*i.e.*, mortgage and other credit delinquencies), the TotalScore Program relies upon a borrower's Credit Bureau Risk Score, mortgage ratings and seasoning on bankruptcy and/or foreclosure initially to determine a borrower's likely future credit performance. Licensed mortgage brokers are able to access Credit Bureau Risk Scores at the initial phases of the loan application process and use the score to determine a borrower's interest rate based upon the TotalScore Program risk-based pricing matrix (subject to final loan approval by ResMAE).

BSABS 2006-HE4 Prospectus Supplement at S-36.

377. The BSABS 2006-HE4 Prospectus Supplement represented:

> All of the mortgage loans were underwritten by ResMAE's underwriters having the appropriate signature authority. Each underwriter is granted a level of authority commensurate with their proven judgment, maturity and credit skills. On a case by case basis, ResMAE may determine that, based upon compensating factors, a prospective mortgagor not strictly qualifying under the underwriting risk category guidelines described below warrants an underwriting exception. Compensating factors may include, but are not limited to, low loan-to-value ratio, low Debt Ratio, substantial liquid assets, good credit history, stable employment and time in residence at the applicant's current address. A substantial portion of the Mortgage Loans represent such underwriting exceptions.

BSABS 2006-HE4 Prospectus Supplement at S-37.

378. The BSABS 2006-HE4 Prospectus Supplement represented:

> *Appraisal Review.* ResMAE originates loans secured by 1-4 unit residential properties made to eligible borrowers with a vested fee simple (or in some cases a leasehold) interest in the property. The underwriting guidelines of ResMAE are applied in accordance with a procedure which complies with applicable federal and state laws and regulations and generally require an appraisal of the mortgaged property which

> conforms to Freddie Mac and/or Fannie Mae standards, and if appropriate, a review appraisal. Generally, appraisals are provided by qualified independent appraisers licensed in their respective states. Review appraisals may only be provided by appraisers approved by the Originator. In most cases, ResMAE relies on a statistical appraisal methodology provided by a third-party. Qualified independent appraisers must meet minimum standards of licensing and provide errors and omissions insurance in states where it is required in order to become approved to do business with ResMAE. Each Uniform Residential Appraisal Report includes a market data analysis based on recent sales of comparable homes in the area and, where deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home. The review appraisal may be a desk review, field review or an automated valuation report that confirms or supports the original appraiser's value of the mortgaged premises.

BSABS 2006-HE4 Prospectus Supplement at S-37.

379. The BSABS 2007-SD3 Prospectus Supplement stated:

> Wells Fargo Bank's underwriting standards are applied by or on behalf of Wells Fargo Bank to evaluate the applicant's credit standing and ability to repay the loan, as well as the value and adequacy of the mortgaged property as collateral. The underwriting standards that guide the determination represent a balancing of several factors that may affect the ultimate recovery of the loan amount, including, among others, the amount of the loan, the ratio of the loan amount to the property value (i.e., the lower of the appraised value of the mortgaged property and the purchase price), the borrower's means of support and the borrower's credit history.

BSABS 2007-SD3 Prospectus Supplement at S-48.

380. The BSABS 2007-SD3 Prospectus Supplement stated:

> In general, borrowers applying for loans must demonstrate that the ratio of their total monthly debt to their monthly gross income does not exceed a certain maximum level. Such maximum level varies depending on a number of factors including Loan-to-Value Ratio, a borrower's credit history, a borrower's liquid net worth, the potential of a borrower for continued employment advancement or income growth, the ability of the borrower to accumulate assets or to devote a greater portion of income to basic needs such as housing expense, a borrower's Mortgage Score and the type of loan for which the borrower is applying. These calculations are based on the amortization schedule and the interest rate of the related loan, with the ratio being computed on the basis of the proposed monthly mortgage payment.

BSABS 2007-SD3 Prospectus Supplement at S-50.

381. The BSABS 2007-SD3 Prospectus Supplement stated:

> The mortgage loans, other than the mortgage loans originated by Wells Fargo Bank, have been originated generally in accordance with the underwriting guidelines set forth below. On a case-by-case basis, the related originator may determine that, based upon compensating factors, a prospective mortgagor not qualifying under the underwriting guidelines warrants an underwriting exception. Compensating factors may include, but are not limited to, low loan-to-value ratio, low debt-to-income ratio, good credit history, stable employment, pride of ownership and time in residence at the applicant's current address.

BSABS 2007-SD3 Prospectus Supplement at S-60.

382. The BSMF 2006-AR4 Prospectus Supplement stated:

> The EMC mortgage loans have either been originated or purchased by an originator and were generally underwritten in accordance with the standards described herein. Exceptions to the underwriting guidelines are permitted when the seller's performance supports such action and the variance request is approved by credit management.

BSMF 2006-AR4 Prospectus Supplement at S-25; BSMF 2006-AR3 Prospectus Supplement at S-34; BSMF 2006-AR2 Prospectus Supplement at S-32-33; BSMF 2006-AR1 Prospectus Supplement at S-31; BSMF 2006-AR5 Prospectus Supplement at S-30; BSMF 2007-AR1 Prospectus Supplement at S-30; BSMF 2007-AR3 Prospectus Supplement at S-33; BSMF 2007-AR4 Prospectus Supplement at S-37; BSMF 2007-AR5 Prospectus Supplement at S-36; BSMF 2006-AR4 Free Writing Prospectus, Oct. 23, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR2 Free Writing Prospectus, Sept. 7, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR5 Free Writing Prospectus, Dec. 6, 2006, at the "Underwriting Guidelines" section; BSMF 2007-AR1 Free Writing Prospectus, Jan. 5, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR3 Free Writing Prospectus, Feb. 22, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR5 Free Writing Prospectus, June 19, 2007, at the "Underwriting Guidelines" section.

383. The BSMF 2006-AR4 Prospectus Supplement stated:

> Such underwriting standards are applied to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral.

BSMF 2006-AR4 Prospectus Supplement at S-25; BSMF 2006-AR3 Prospectus Supplement at S-34; BSMF 2006-AR2 Prospectus Supplement at S-33; BSMF 2006-AR1 Prospectus Supplement at S-31; BSMF 2006-AR5 Prospectus Supplement at S-30; BSMF 2007-AR1 Prospectus Supplement at S-30; BSMF 2007-AR3 Prospectus Supplement at S-33; BSMF 2007-AR4 Prospectus Supplement at S-37; BSMF 2007-AR5 Prospectus Supplement at S-36; BSMF 2006-AR4 Free Writing Prospectus, Oct. 23, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR2 Free Writing Prospectus, Sept. 7, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR5 Free Writing Prospectus, Dec. 6, 2006, at the "Underwriting Guidelines" section; BSMF 2007-AR1 Free Writing Prospectus, Jan. 5, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR3 Free Writing Prospectus, Feb. 22, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR5 Free Writing Prospectus, June 19, 2007, at the "Underwriting Guidelines" section.

384. The BSMF 2006-AR4 Prospectus Supplement stated:

> Generally, each mortgagor will have been required to complete an application designed to provide to the lender pertinent credit information concerning the mortgagor. The mortgagor will have given information with respect to its assets, liabilities, income (except as described below), credit history, employment history and personal information, and will have furnished the lender with authorization to obtain a credit report which summarizes the mortgagor's credit history.

BSMF 2006-AR4 Prospectus Supplement at S-25; BSMF 2006-AR3 Prospectus Supplement at S-34; BSMF 2006-AR2 Prospectus Supplement at S-33; BSMF 2006-AR1 Prospectus Supplement at S-31; BSMF 2006-AR5 Prospectus Supplement at S-30; BSMF 2007-AR1 Prospectus Supplement at S-30; BSMF 2007-AR3 Prospectus Supplement at S-33; BSMF 2007-AR4 Prospectus Supplement at S-37; BSMF 2007-AR5 Prospectus Supplement at S-36; BSMF 2006-AR4 Free Writing Prospectus, Oct. 23, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR2 Free Writing Prospectus, Sept. 7, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR5 Free Writing Prospectus, Dec. 6, 2006, at the "Underwriting Guidelines" section; BSMF 2007-AR1 Free Writing Prospectus, Jan. 5, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR3 Free Writing Prospectus, Feb. 22, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR5 Free Writing Prospectus, June 19, 2007, at the "Underwriting Guidelines" section.

385. The BSMF 2006-AR4 Prospectus Supplement stated:

> In determining whether a prospective borrower has sufficient monthly income available (i) to meet the borrower's monthly obligation on their proposed mortgage loan and (ii) to meet the monthly housing expenses and other financial obligations on the proposed mortgage loan, each lender generally considers, when required by the applicable documentation program, the ratio of such amounts to the proposed borrower's acceptable stable monthly gross income. Such ratios vary depending on a number of underwriting criteria, including loan-to-value ratios, and are determined on a loan-by-loan basis.

BSMF 2006-AR4 Prospectus Supplement at S-26; BSMF 2006-AR3 Prospectus Supplement at S-34; BSMF 2006-AR2 Prospectus Supplement at S-33; BSMF 2006-AR1 Prospectus Supplement at S-31; BSMF 2006-AR5 Prospectus Supplement at S-31; BSMF 2007-AR1 Prospectus Supplement at S-31; BSMF 2007-AR3 Prospectus Supplement at S-34; BSMF 2007-AR4 Prospectus Supplement at S-38; BSMF 2007-AR5 Prospectus Supplement at S-36; BSMF 2006-AR4 Free Writing Prospectus, Oct. 23, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR2 Free Writing Prospectus, Sept. 7, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR1 Registration Statement, June 20, 2003, at 14; BSMF 2006-AR5 Free Writing Prospectus, Dec. 6, 2006, at the "Underwriting Guidelines" section; BSMF 2007-AR1 Free Writing Prospectus, Jan. 5, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR3 Free Writing Prospectus, Feb. 22, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR5 Free Writing Prospectus, June 19, 2007, at the "Underwriting Guidelines" section.

386. The BSMF 2006-AR4 Prospectus Supplement stated: "Each lender also examines a prospective borrower's credit report." BSMF 2006-AR4 Prospectus Supplement at S-26. *See also* BSMF 2006-AR3 Prospectus Supplement at S-34; BSMF 2006-AR2 Prospectus Supplement at S-33; BSMF 2006-AR1 Prospectus Supplement at S-31; BSMF 2006-AR5 Prospectus Supplement at S-31; BSMF 2007-AR1 Prospectus Supplement at S-31; BSMF 2007-AR3 Prospectus Supplement at S-34;

BSMF 2007-AR4 Prospectus Supplement at S-38; BSMF 2007-AR5 Prospectus Supplement at S-36; BSMF 2006-AR4 Free Writing Prospectus, Oct. 23, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR2 Free Writing Prospectus, Sept. 7, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR5 Free Writing Prospectus, Dec. 6, 2006, at the "Underwriting Guidelines" section; BSMF 2007-AR1 Free Writing Prospectus, Jan. 5, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR3 Free Writing Prospectus, Feb. 22, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR5 Free Writing Prospectus, June 19, 2007, at the "Underwriting Guidelines" section.

387. The BSMF 2006-AR4 Prospectus Supplement stated: "BSRM has represented to the depositor that the mortgage loans were originated generally in accordance with [the underwriting] policies." BSMF 2006-AR4 Prospectus Supplement at S-27. *See also* BSSLT 2007-1 Group II and III Prospectus Supplement at S-43; BSMF 2006-AR3 Prospectus Supplement at S-35; BSMF 2006-AR2 Prospectus Supplement at S-34; BSMF 2006-AR1 Prospectus Supplement at S-32; BSMF 2006-AR5 Prospectus Supplement at S-32; BSMF 2007-AR1 Prospectus Supplement at S-32; BSMF 2007-AR3 Prospectus Supplement at S-36; BSMF 2007-AR4 Prospectus Supplement at S-40; BSMF 2007-AR5 Prospectus Supplement at S-39; BSMF 2006-AR4 Free Writing Prospectus, Oct. 23, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR2 Free Writing Prospectus, Sept. 7, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR5 Free Writing Prospectus, Dec. 6, 2006, at the "Underwriting Guidelines" section; BSMF 2007-AR1 Free Writing Prospectus, Jan. 5, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR3 Free Writing Prospectus, Feb. 22, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR5 Free Writing Prospectus, June 19, 2007, at the "Underwriting Guidelines" section.

388. The BSMF 2006-AR4 Prospectus Supplement stated: "The BSRM Alt-A Underwriting Guidelines are intended to ensure that (i) the loan terms relate to the borrower's willingness and ability to repay and (ii) the value and marketability of the property are acceptable."

BSMF 2006-AR4 Prospectus Supplement at S-27. *See also* BSSLT 2007-1 Group II and III Prospectus Supplement at S-43; BSMF 2006-AR3 Prospectus Supplement at S-36; BSMF 2006-AR2 Prospectus Supplement at S-35; BSMF 2006-AR1 Prospectus Supplement at S-33; BSMF 2006-AR5 Prospectus Supplement at S-32; BSMF 2007-AR1 Prospectus Supplement at S-32; BSMF 2007-AR3 Prospectus Supplement at S-36; BSMF 2007-AR4 Prospectus Supplement at S-41; BSMF 2007-AR5 Prospectus Supplement at S-40; BSMF 2006-AR4 Free Writing Prospectus, Oct. 23, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR2 Free Writing Prospectus, Sept. 7, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR5 Free Writing Prospectus, Dec. 6, 2006, at the "Underwriting Guidelines" section; BSMF 2007-AR1 Free Writing Prospectus, Jan. 5, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR3 Free Writing Prospectus, Feb. 22, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR5 Free Writing Prospectus, June 19, 2007, at the "Underwriting Guidelines" section.

389. The BSMF 2006-AR4 Prospectus Supplement stated:

> During the underwriting process, BSRM calculates and verifies the loan applicant's sources of income (except documentation types, which do not require such information to be stated or independently verified), reviews the credit history of the applicant, calculates the debt-to-income ratio to determine the applicant's ability to repay the loan, and reviews the mortgaged property for compliance with the BSRM Underwriting Guidelines. The mortgage loan file also contains a credit report on each applicant from an approved credit reporting company. Credit history is measured on credit depth, number of obligations, delinquency patterns and demonstrated intent to repay debts, which can be used to underwrite any file.

BSMF 2006-AR4 Prospectus Supplement at S-27; BSSLT 2007-1 Group II and III Prospectus Supplement at S-44; BSMF 2006-AR3 Prospectus Supplement at S-36; BSMF 2006-AR2 Prospectus Supplement at S-35; BSMF 2006-AR1 Prospectus Supplement at S-33; BSMF 2006-AR5 Prospectus Supplement at S-33; BSMF 2007-AR1 Prospectus Supplement at S-33; BSMF 2007-AR3 Prospectus Supplement at S-37; BSMF 2007-AR4 Prospectus Supplement at S-41; BSMF 2007-AR5 Prospectus Supplement at S-40; BSMF 2006-AR4 Free Writing Prospectus, Oct. 23, 2006, at the "Underwriting

Guidelines" section; BSMF 2006-AR2 Free Writing Prospectus, Sept. 7, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR5 Free Writing Prospectus, Dec. 6, 2006, at the "Underwriting Guidelines" section; BSMF 2007-AR1 Free Writing Prospectus, Jan. 5, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR3 Free Writing Prospectus, Feb. 22, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR5 Free Writing Prospectus, June 19, 2007, at the "Underwriting Guidelines" section.

390. The BSMF 2006-AR4 Prospectus Supplement stated:

> Exceptions to the BSRM Underwriting Guidelines are considered with reasonable compensating factors on a case-by-case basis and at the sole discretion of senior management. When exception loans are reviewed, all loan elements are examined as a whole to determine the level of risk associated with approving the loan including appraisal, credit report, employment, compensating factors and borrower's willingness and ability to repay the loan. Compensating factors may include, but are not limited to, validated or sourced/seasoned liquid reserves in excess of the program requirements, borrower's demonstrated ability to accumulate savings or devote a greater portion of income to housing expense and borrowers' potential for increased earnings based on education, job training, etc. Loan characteristics such as refinance transactions where borrowers are reducing mortgage payments and lowering debt ratios may become compensating factors as well.

BSMF 2006-AR4 Prospectus Supplement at S-28; BSSLT 2007-1 Group II and III Prospectus Supplement at S-44; BSMF 2006-AR3 Prospectus Supplement at S-37; BSMF 2006-AR2 Prospectus Supplement at S-36; BSMF 2006-AR1 Prospectus Supplement at S-34; BSMF 2006-AR5 Prospectus Supplement at S-33; BSMF 2007-AR1 Prospectus Supplement at S-33; BSMF 2007-AR3 Prospectus Supplement at S-37; BSMF 2007-AR4 Prospectus Supplement at S-42; BSMF 2007-AR5 Prospectus Supplement at S-41; BSMF 2006-AR4 Free Writing Prospectus, Oct. 23, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR2 Free Writing Prospectus, Sept. 7, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR5 Free Writing Prospectus, Dec. 6, 2006, at the "Underwriting Guidelines" section; BSMF 2007-AR1 Free Writing Prospectus, Jan. 5, 2007, at the "Underwriting Guidelines" section; BSMF 2007-AR3 Free Writing Prospectus, Feb. 22, 2007, at the "Underwriting

Guidelines" section; BSMF 2007-AR5 Free Writing Prospectus, June 19, 2007, at the "Underwriting Guidelines" section.

391. The BSSLT 2007-1 Prospectus Supplement stated:

> The 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 mortgaged property as collateral for the mortgage loan.
>
> . . .
>
> On a case-by-case basis, exceptions to the underwriting guidelines are made where compensating factors exist. It is expected that a substantial portion of the mortgage loans in the mortgage pool that were originated by the originators will represent these exceptions.
>
> . . .
>
> Mortgaged properties that are to secure mortgage loans generally 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 that includes a market value analysis based on recent sales of comparable homes in the area and, when deemed appropriate, market rent analysis based on the rental of comparable homes in the area. All appraisals are required to conform to the Uniform Standard 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.
>
> . . .
>
> The mortgage loans were originated consistent with and generally conform to the underwriting guidelines' full/alternative documentation, stated income documentation and limited documentation residential loan programs. Under each of the programs, the originator 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, if required, to determine the applicant's ability to repay the loan, and reviews the appraisal.

BSSLT 2007-1 Group II and Group III Prospectus Supplement at S-41-42; *see also* BSSLT 2007-1 Group I Prospectus Supplement.

392. The BSMF 2007-AR5 Prospectus Supplement stated:

> The program requirements for the Quicken Loans' 5-Year and 7-Year Secure Option ARM Programs follow generally accepted mortgage industry underwriting guidelines

for loans of this type and are intended to evaluate the borrower's credit standing, repayment ability, and the value and adequacy of the proposed mortgaged property as collateral. The 5-Year and the 7-Year Secure Option ARM loans originated by Quicken Loans have the following characteristics:

- A hybrid ARM with a 5- or 7- year fixed rate period and a six-month ARM thereafter;
- Four monthly payment options:
  - a minimum payment amount which is an interest only payment based on the introductory interest rate (note rate - 3%) that is only available during the 5- or 7- year fixed rate period or until the loan reaches the maximum principal balance cap (as described below),
  - an interest only payment based on the note rate,
  - a 30 year fully amortizing payment, or
  - a 15 year fully amortizing payment;
- A maximum principal balance cap is 115% (or 110% in New York) of the original loan amount;
- A 10 year interest only period;
- A margin of 2.25%;
- An index tied to the six-month LIBOR;
- Payment caps that are 5/1/5; and
- No subordinated financing allowed.

Borrowers are required to sign a mortgage loan application which includes information furnished by the borrowers and from other sources about their assets, liabilities, income, credit history, employment history and other related items. Quicken Loans obtains the borrower's credit report from each of the three primary credit bureaus and uses the middle score of the primary wage earner to further evaluate the borrower's credit worthiness.

BSMF 2007-AR5 Prospectus Supplement at S-44.

393. The BSMF 2007-AR5 Prospectus Supplement stated:

> In addition to the above program requirements, in order to qualify for the 5-Year or 7-Year Secure Option ARM program, borrowers generally have to meet the following requirements:
>
> - A debt-to-income ratio of 45% or less;
> - A minimum asset reserve equal to two months worth of principal, interest, taxes and insurance payments (six months reserve requirement on second home and investment properties);
> - A maximum mortgage late frequency of 1 times 30 days delinquent in the past 12 months;
> - A minimum of 2 years since the date of the borrower's last bankruptcy discharge or dismissal;
> - A minimum of 3 years since the date the borrower's last foreclosure was reported, or from the date of the borrower's most recent "120+ days" mortgage payment delinquency.

BSMF 2007-AR5 Prospectus Supplement at S-45.

394. The BSMF 2007-AR5 Prospectus Supplement continued:

> Although borrowers are assessed against the program requirements, prudent exceptions may be made on a case by case basis. Exceptions may be allowed if the application reflects strong compensating factors, such as, a lower debt-to-income ratio, higher credit scores, low loan-to-value ratio, significant asset reserves, stable employment or ownership at current residence.

BSMF 2007-AR5 Prospectus Supplement at S-45.

395. The BALTA 2007-1 Prospectus Supplement stated:

> The EMC mortgage loans have either been originated or purchased by an originator and were generally underwritten in accordance with the standards described herein. Exceptions to the underwriting guidelines are permitted when the seller's performance supports such action and the variance request is approved by credit management.

BALTA 2007-1 Prospectus Supplement at S-43; BALTA 2006-7 Prospectus Supplement at S-52; BALTA 2006-6 Prospectus Supplement at S-55; BALTA 2006-2 Prospectus Supplement at S-52; *see* BALTA 2007-1 Free Writing Prospectus, Jan. 10, 2007, at the "EMC Underwriting Guidelines" section; BALTA 2006-6 Free Writing Prospectus, Aug. 30, 2006, at the "EMC Underwriting Guidelines" section.

396. The BALTA 2007-1 Prospectus Supplement stated:

> Such underwriting standards are applied to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral. These standards are applied in accordance with the applicable federal and state laws and regulations. Exceptions to the underwriting standards are permitted where compensating factors are present and are managed through a formal exception process.

BALTA 2007-1 Prospectus Supplement at S-43; BALTA 2006-7 Prospectus Supplement at S-52; BALTA 2006-6 Prospectus Supplement at S-55; BALTA 2006-5 Prospectus Supplement at S-42; BALTA 2006-4 Prospectus Supplement at S-60-61; BALTA 2006-2 Prospectus Supplement at S-52; BALTA 2007-1 Free Writing Prospectus, Jan. 10, 2007, at the "EMC Underwriting Guidelines" section; BALTA 2006-6 Free Writing Prospectus, Aug. 30, 2006, at the "EMC Underwriting Guidelines" section; BALTA 2006-2 Free Writing Prospectus, June 24, 2005, at S-27.

397. The BALTA 2007-1 Prospectus Supplement stated:

> Generally, each mortgagor will have been required to complete an application designed to provide to the lender pertinent credit information concerning the mortgagor. The mortgagor will have given information with respect to its assets, liabilities, income (except as described below), credit history, employment history and personal information, and will have furnished the lender with authorization to obtain a credit report which summarizes the mortgagor's credit history.

BALTA 2007-1 Prospectus Supplement at S-43; BALTA 2006-7 Prospectus Supplement at S-52; BALTA 2006-6 Prospectus Supplement at S-56; BALTA 2006-5 Prospectus Supplement at S-42-43; BALTA 2006-4 Prospectus Supplement at S-61; BALTA 2006-2 Prospectus Supplement at S-52; BALTA 2007-1 Free Writing Prospectus, Jan. 10, 2007, at the "EMC Underwriting Guidelines" section; BALTA 2006-6 Free Writing Prospectus, Aug. 30, 2006, at the "EMC Underwriting Guidelines" section; BALTA 2006-2 Free Writing Prospectus, June 24, 2005, at S-27.

398. The BALTA 2007-1 Prospectus Supplement stated:

> In determining whether a prospective borrower has sufficient monthly income available (i) to meet the borrower's monthly obligation on their proposed mortgage loan and (ii) to meet the monthly housing expenses and other financial obligations on the proposed mortgage loan, each lender generally considers, when required by the applicable documentation program, the ratio of such amounts to the proposed borrower's acceptable stable monthly gross income. Such ratios vary depending on a number of underwriting criteria, including loan-to-value ratios, and are determined on a loan-by-loan basis.

BALTA 2007-1 Prospectus Supplement at S-44; BALTA 2006-7 Prospectus Supplement at S-53; BALTA 2006-6 Prospectus Supplement at S-56; BALTA 2006-5 Prospectus Supplement at S-43; BALTA 2006-4 Prospectus Supplement at S-61-62; BALTA 2006-2 Prospectus Supplement at S-53; BALTA 2007-1 Free Writing Prospectus, Jan. 10, 2007, at the "EMC Underwriting Guidelines" section; BALTA 2006-6 Free Writing Prospectus, Aug. 30, 2006, at the "EMC Underwriting Guidelines" section; BALTA 2006-2 Free Writing Prospectus, June 24, 2005, at S-27-28.

399. The BALTA 2007-1 Prospectus Supplement stated:

> As part of its evaluation of potential borrowers, Countrywide Home Loans generally requires a description of income. If required by its underwriting guidelines, Countrywide Home Loans obtains employment verification providing current and historical income information and/or a telephonic employment confirmation. Such employment verification may be obtained, either through analysis of the prospective borrower's recent pay stub and/or W-2 forms for the most recent two years, relevant portions of the most recent two years' tax returns, or from the prospective borrower's employer, wherein the employer reports the length of employment and current salary with that organization. Self-employed prospective borrowers generally are required to submit relevant portions of their federal tax returns for the past two years.

BALTA 2007-1 Prospectus Supplement at S-46; BALTA 2006-7 Prospectus Supplement at S-55; BALTA 2006-6 Prospectus Supplement at S-58-59; BALTA 2006-5 Prospectus Supplement at S-46; BALTA 2006-4 Prospectus Supplement at S-64; BALTA 2006-2 Prospectus Supplement at S-55; BALTA 2007-1 Free Writing Prospectus, Jan. 10, 2007, at the "Underwriting Standards" section; BALTA 2006-7 Registration Statement, Mar. 3, 2006, at S-35 (Registration Form S-3 filed in SAMI, Reg. No. 333-132232 (SEC)); BALTA 2006-6 Free Writing Prospectus, Aug. 30, 2006, at the

"Underwriting Standards" section; BALTA 2006-2 Free Writing Prospectus, June 24, 2005, at S-29; BSARM 2006-4 Prospectus Supplement at S-43; CWALT 2006-OA16 Prospectus Supplement at S-47; SAMI 2006-AR8 Prospectus Supplement at S-47; SAMI 2006-AR7 Prospectus Supplement at S-44; SAMI 2006-AR3 Prospectus Supplement at S-68; SAMI 2006-AR4 Prospectus Supplement at S-50; SAMI 2006-AR6 Prospectus Supplement at S-42; SAMI 2006-AR8 Registration Statement, Mar. 6, 2006, at S-35.

400. The BALTA 2007-1 Prospectus Supplement states:

> Periodically the data used by Countrywide Home Loans to complete the underwriting analysis may be obtained by a third party, particularly for mortgage loans originated through a loan correspondent or mortgage broker. In those instances, initial determination as to whether a mortgage loan complies with Countrywide Home Loans' underwriting guidelines may be made by an independent company hired to perform underwriting services on behalf of Countrywide Home Loans, the loan correspondent or mortgage broker. In addition, Countrywide Home Loans may acquire mortgage loans from approved correspondent lenders under a program pursuant to which Countrywide Home Loans delegates to the correspondent the obligation to underwrite the mortgage loans to Countrywide Home Loans' standards. Under these circumstances, the underwriting of a mortgage loan may not have been reviewed by Countrywide Home Loans before acquisition of the mortgage loan and the correspondent represents that Countrywide Home Loans' underwriting standards have been met. After purchasing mortgage loans under those circumstances, Countrywide Home Loans conducts a quality control review of a sample of mortgage loans. The number of loans reviewed in the quality control process varies based on a variety of factors, including Countrywide Home Loans' prior experience with the correspondent lender and the results of the quality control review process itself.

BALTA 2007-1 Prospectus Supplement at S-47; BALTA 2006-7 Prospectus Supplement at S-56; BALTA 2006-6 Prospectus Supplement at S-59; BALTA 2006-5 Prospectus Supplement at S-46; BALTA 2006-4 Prospectus Supplement at S-64; BALTA 2006-2 Prospectus Supplement at S-55; BALTA 2007-1 Free Writing Prospectus, Jan. 10, 2007, at the "Underwriting Standards" section; BALTA 2006-7 Registration Statement, Mar. 3, 2006, at S-36; BALTA 2006-6 Free Writing Prospectus, Aug. 30, 2006, at the "Underwriting Standards" section; BALTA 2006-2 Free Writing Prospectus, June 24, 2005, at S-29-30; BSARM 2006-4 Prospectus Supplement at S-43; CWALT

2006-OA16 Prospectus Supplement at S-47; SAMI 2006-AR8 Prospectus Supplement at S-47-48; SAMI 2006-AR7 Prospectus Supplement at S-44-45; SAMI 2006-AR3 Prospectus Supplement at S-69; SAMI 2006-AR4 Prospectus Supplement at S-51; SAMI 2006-AR6 Prospectus Supplement at S-42; SAMI 2006-AR8 Registration Statement, Mar. 6, 2006, at S-36.

401. The BALTA 2007-1 Prospectus Supplement stated:

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

BALTA 2007-1 Prospectus Supplement at S-47; BALTA 2006-7 Prospectus Supplement at S-56; BALTA 2006-6 Prospectus Supplement at S-59; BALTA 2006-5 Prospectus Supplement at S-46; BALTA 2006-4 Prospectus Supplement at S-65; BALTA 2006-2 Prospectus Supplement at S-55-56; BALTA 2007-1 Free Writing Prospectus, Jan. 10, 2007, at the "Underwriting Standards" section; BALTA 2006-7 Registration Statement, Mar. 3, 2006, at S-36; BALTA 2006-6 Free Writing Prospectus, Aug. 30, 2006, at the "Underwriting Standards" section; BALTA 2006-2 Free Writing Prospectus, June 24, 2005, at S-30; BSARM 2006-4 Prospectus Supplement at S-44; CWALT 2006-OA16 Prospectus Supplement at S-47; SAMI 2006-AR8 Prospectus Supplement at S-48; SAMI 2006-AR7 Prospectus Supplement at S-45; SAMI 2006-AR3 Prospectus Supplement at S-69; SAMI 2006-AR4 Prospectus Supplement at S-51; SAMI 2006-AR6 Prospectus Supplement at S-43; SAMI 2006-AR8 Registration Statement, Mar. 6, 2006, at S-36.

402. The BALTA 2007-1 Prospectus Supplement stated:

> The maximum acceptable debt-to-income ratio, which is determined on a loan-by-loan basis varies depending on a number of underwriting criteria, including the Loan-to-Value Ratio, loan purpose, loan amount and credit history of the borrower. In addition to meeting the debt-to-income ratio guidelines, each prospective

> borrower is required to have sufficient cash resources to pay the down payment and closing costs. Exceptions to Countrywide Home Loans' underwriting guidelines may be made if compensating factors are demonstrated by a prospective borrower.

BALTA 2007-1 Prospectus Supplement at S-47-48; BALTA 2006-7 Prospectus Supplement at S-56; BALTA 2006-6 Prospectus Supplement at S-60; BALTA 2006-5 Prospectus Supplement at S-47; BALTA 2006-4 Prospectus Supplement at S-65; BALTA 2006-2 Prospectus Supplement at S-56; BALTA Free Writing Prospectus, Jan. 10, 2007, at the "Underwriting Standards" section; BALTA 2006-7 Registration Statement, Mar. 3, 2006, at S-36; BALTA 2006-6 Free Writing Prospectus, Aug. 30, 2006, at the "Underwriting Standards" section; BALTA 2006-2 Free Writing Prospectus, June 24, 2005, at S-30; BSARM 2006-4 Prospectus Supplement at S-44; CWALT 2006-OA16 Prospectus Supplement at S-47-48; SAMI 2006-AR8 Prospectus Supplement at S-48; SAMI 2006-AR7 Prospectus Supplement at S-45; SAMI 2006-AR3 Prospectus Supplement at S-69; SAMI 2006-AR4 Prospectus Supplement at S-51; SAMI 2006-AR6 Prospectus Supplement at S-43; SAMI 2006-AR8 Registration Statement, Mar. 6, 2006, at S-36.

403. The BALTA 2007-1 Prospectus Supplement stated:

> Under its Standard Underwriting Guidelines, Countrywide Home Loans generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 33% and a debt-to-income ratio based on the borrower's total monthly debt of up to 38%.

BALTA 2007-1 Prospectus Supplement at S-50; BALTA 2006-7 Prospectus Supplement at S-58; BALTA 2006-6 Prospectus Supplement at S-62; BALTA 2006-5 Prospectus Supplement at S-49; BALTA 2006-4 Prospectus Supplement at S-67; BALTA 2006-2 Prospectus Supplement at S-58; BALTA 2007-1 Free Writing Prospectus, Jan. 10, 2007, at the "Underwriting Standards" section; BALTA 2006-6 Free Writing Prospectus, Aug. 30, 2006, at the "Underwriting Standards" section; BALTA 2006-2 Free Writing Prospectus, June 24, 2005, at S-32; BSARM 2006-4 Prospectus Supplement at S-46; CWALT 2006-OA16 Prospectus Supplement at S-49; SAMI 2006-AR8 Prospectus Supplement at S-50; SAMI 2006-AR7 Prospectus Supplement at S-47; SAMI 2006-AR3

Prospectus Supplement at S-71; SAMI 2006-AR4 Prospectus Supplement at S-53; SAMI 2006-AR6 Prospectus Supplement at S-45.

404. The BALTA 2006-7 Prospectus Supplement stated:

> HBMC's underwriting guidelines are intended to facilitate the funding and ultimate sale of mortgage loans in the secondary mortgage market and funding through securitizations. The HBMC underwriting guidelines allow HBMC to evaluate an applicant's credit standing, financial condition and repayment ability, as well as the value and adequacy of the mortgaged property as collateral for any loan that HBMC reviews. HBMC seeks to match the amount of disclosure required by applicants to appropriate loan products. As part of the loan application process, the applicant is generally required to provide information concerning his or her assets, liabilities, income and expenses, subject to certain of the provisions below, along with an authorization permitting HBMC to obtain any necessary third-party verifications, including a credit report summarizing the applicant's credit history. However, in some cases loans are underwritten without the independent verification of the applicant's stated income or employment in the related loan application.

BALTA 2006-7 Prospectus Supplement at S-61-62.

405. The BALTA 2006-7 Prospectus Supplement stated:

> In evaluating an applicant's ability and willingness to repay the proposed loan, HBMC also reviews the applicant's credit history and outstanding debts, as reported on the credit report that HBMC obtains. If an existing mortgage or other significant debt listed on the loan application is not adequately reported on the credit report, HBMC may request a written or oral verification of the balance and payment history of that debt from the servicer of the debt. HBMC verifies the applicant's liquid assets for a general indication of creditworthiness and to determine whether the applicant has adequate liquid assets to cover any required down payment, closing costs and prepaid interest, while maintaining a minimum cash reserve equal to the sum of three to six monthly PITI payments plus, in certain cases, the sum of three to six monthly payments of all other debt obligations included in determination of the "debt[-]to-income" ratio. In addition, HBMC uses information regarding the applicant's liquid assets, together with information regarding the applicant's debt obligations to gauge the reasonableness of the applicant's stated income.
>
> HBMC also evaluates the applicant's income to determine stability, probability of continuation and adequacy to service the proposed HBMC debt payment. HBMC's guidelines for verifying income and employment of a potential borrower are generally as follows:
>
> - For salaried applicants, HBMC typically requires a written verification of employment from the applicant's employer, or a copy of the applicant's two most recent federal tax returns, or a current pay stub and verbal verification of employment from the employer;

- For non-salaried applicants, including self-employed applicants, HBMC requires copies of the applicant's two most recent federal income tax returns, along with all supporting schedules; and

- For self-employed applicants, HBMC also generally requires the submission of a signed profit and loss statement.

BALTA 2006-7 Prospectus Supplement at S-62.

406. The BALTA 2006-7 Prospectus Supplement stated:

> In addition to the foregoing, the approval process generally requires that the potential borrower have a total debt-service-to-income ratio, or "DTI" ratio, that typically does not exceed 45%. HBMC may raise this limit to 50% or greater, if the potential borrower demonstrates satisfactory disposable income and/or other mitigating factors are present.

BALTA 2006-7 Prospectus Supplement at S-62.

407. The BALTA 2006-7 Prospectus Supplement stated:

> The underwriting standards described above are guidelines of general applicability. On a case-by-case basis, it may be determined that an applicant warrants an exception to these guidelines. An exception may be allowed by underwriting personnel with appropriate credit authority and only if the application reflects compensating factors, such as: a low loan-to-value ratio; stable ownership; low debt-to-income ratios; or excess cash reserves or similar mitigating circumstances.

BALTA 2006-7 Prospectus Supplement at S-63.

408. The GMACM 2006-HE4 Prospectus Supplement stated:

> All of the mortgage loans were underwritten generally in accordance with GMAC Mortgage Corporation's underwriting standards.
>
> . . .
>
> In addition, the GMAC Mortgage Corporation underwriting guidelines now provide for loans underwritten under Accelerated Automated Approval (AAA). Based on the borrower's information as well as loan product details, the underwriting engines perform analysis of the risk involved in making the loan, and determines if the risk is acceptable. A findings report is generated identifying the characteristics of the loan along with the decision and any associated conditions/stipulations required for processing the loan. Loans determined as eligible for Accelerated Automated Approval will receive minimal conditioning as statistical modeling determined the loan's characteristics have a low propensity to default and have a low risk rating.
>
> . . .

> The underwriting standards set forth in the GMAC Mortgage Corporation underwriting guidelines with respect to mortgage loans originated under the GMAC Mortgage Corporation Home Equity Program may be varied in appropriate cases. …
>
> GMAC Mortgage Corporation's underwriting standards include a set of specific criteria pursuant to which the underwriting evaluation is made. However, the application of those underwriting standards does not imply that each specific criterion was satisfied individually. Rather, a mortgage loan will be considered to be originated in accordance with a given set of underwriting standards if, based on an overall qualitative evaluation, the loan is in substantial compliance with those underwriting standards. For example, a mortgage loan may be considered to comply with a set of underwriting standards, even if one or more specific criteria included in the underwriting standards were not satisfied, if other factors compensated for the criteria that were not satisfied or if the mortgage loan is considered to be in substantial compliance with the underwriting standards.
>
> . . .
>
> Once all applicable employment, credit and property information is received, a determination is made as to whether the prospective borrower has sufficient monthly income available to meet the borrower's monthly obligations on the proposed mortgage loan and other expenses related to the home, such as property taxes and hazard insurance, and other financial obligations, including debt service on any related mortgage loan secured by a senior lien on the related mortgaged property. For qualification purposes the monthly payment is based solely on the payment of interest only on the loan.

GMACM 2006-HE4 Prospectus Supplement at S-45-49.

409. The IMSA 2007-3 Prospectus Supplement states:

> The underwriting guidelines utilized in the Progressive Series Program, as developed by Impac Funding, are intended to assess the borrower's ability and willingness to repay the mortgage loan obligation and to assess the adequacy of the mortgaged property as collateral for the mortgage loan.

IMSA 2007-3 Prospectus Supplement at S-47; IMSA 2007-2 Prospectus Supplement at S-67; IMSA 2007-1 Prospectus Supplement at S-46; IMSA 2006-5 Prospectus Supplement at S-62; IMSA 2006-4 Prospectus Supplement at S-42; IMSA 2007-3 Free Writing Prospectus, Apr. 19, 2007, at 47; IMSA 2007-2 Free Writing Prospectus, Mar. 26, 2007, at "The Originators" section; IMSA 2007-1 Registration Statement, Jan. 27, 2006, at the "Underwriting Standards" section; IMSA 2006-5

Registration Statement, Oct. 20, 2006, at S-32; IMSA 2006-4 Registration Statement, Jan. 27, 2006, at the "Underwriting Standards" section.

410. The IMSA 2007-3 Prospectus Supplement states: "The Progressive Series Program is designed to meet the needs of borrowers with excellent credit, as well as those whose credit has been adversely affected." IMSA 2007-3 Prospectus Supplement at S-47; IMSA 2007-2 Prospectus Supplement at S-67; IMSA 2007-1 Prospectus Supplement at S-46; IMSA 2006-5 Prospectus Supplement at S-62; IMSA 2006-4 Prospectus Supplement at S-42; IMSA 2007-3 Free Writing Prospectus, Apr. 19, 2007, at 47; IMSA 2007-2 Free Writing Prospectus, Mar. 26, 2007, at "The Originators" section; IMSA 2007-1 Registration Statement, Jan. 27, 2006, at the "Underwriting Standards" section; IMSA 2006-5 Registration Statement, Oct. 20, 2006, at S-32; IMSA 2006-4 Registration Statement, Jan. 27, 2006, at the "Underwriting Standards" section.

411. The IMSA 2007-3 Prospectus Supplement states:

> The philosophy of the Progressive Series Program is that no single borrower characteristic should automatically determine whether an application for a mortgage loan should be approved or disapproved. Lending decisions are based on a risk analysis assessment after the review of the entire mortgage loan file.

IMSA 2007-3 Prospectus Supplement at S-48. *See also* IMSA 2007-2 Prospectus Supplement at S-67; IMSA 2007-1 Prospectus Supplement at S-46; IMSA 2006-5 Prospectus Supplement at S-63; IMSA 2006-4 Prospectus Supplement at S-42; IMSA 2007-3 Free Writing Prospectus, Apr. 19, 2007, at 47; IMSA 2007-2 Free Writing Prospectus, Mar. 26, 2007, at "The Originators" section; IMSA 2007-1 Registration Statement, Jan. 27, 2006, at the "Underwriting Standards" section; IMSA 2006-5 Registration Statement, Oct. 20, 2006, at S-32; IMSA 2006-4 Registration Statement, Jan. 27, 2006, at the "Underwriting Standards" section.

412. The IMSA 2007-3 Prospectus Supplement states:

> Under the Progressive Series Program, Impac Funding underwrites one to four family mortgage loans with loan to value ratios at origination of up to 100%,

> depending on, among other things, a borrower's credit history, repayment ability and debt service to income ratio, as well as the type and use of the mortgaged property.

IMSA 2007-3 Prospectus Supplement at S-48. *See also* IMSA 2007-2 Prospectus Supplement at S-68; IMSA 2007-1 Prospectus Supplement at S-46; IMSA 2006-5 Prospectus Supplement at S-63; IMSA 2006-4 Prospectus Supplement at S-42; IMSA 2007-3 Free Writing Prospectus, Apr. 19, 2007, at 48; IMSA 2007-2 Free Writing Prospectus, Mar. 26, 2007, at "The Originators" section; IMSA 2007-1 Registration Statement, Jan. 27, 2006, at the "Underwriting Standards" section; IMSA 2006-5 Registration Statement, Oct. 20, 2006, at S-32; IMSA 2006-4 Registration Statement, Jan. 27, 2006, at the "Underwriting Standards" section.

413. The IMSA 2007-3 Prospectus Supplement states:

> Under the "Stated Income Stated Assets" program available to borrowers in the Series I & II program, the borrower provides income and asset information, which Impac Funding is not required to verify, on the mortgage loan application. However, a debt-to-income ratio is calculated. Employment information is provided and is verbally verified. Permitted maximum loan to value ratios (including secondary financing) under the Stated Income Stated Asset program generally are limited.

IMSA 2007-3 Prospectus Supplement at S-50; IMSA 2007-2 Prospectus Supplement at S-70; IMSA 2007-1 Prospectus Supplement at S-48; IMSA 2006-5 Prospectus Supplement at S-65; IMSA 2006-4 Prospectus Supplement at S-44; IMSA 2007-3 Free Writing Prospectus, Apr. 19, 2007, at 50; IMSA 2007-2 Free Writing Prospectus, Mar. 26, 2007, at "The Originators" section.

414. The IMSA 2006-5 Prospectus Supplement states:

> American Home's underwriting philosophy is to weigh all risk factors inherent in the loan file, giving consideration to the individual transaction, borrower profile, the level of documentation provided and the property used to collateralize the debt. These standards are applied in accordance with applicable federal and state laws and regulations. Exceptions to the underwriting standards may be permitted where compensating factors are present.

IMSA 2006-5 Prospectus Supplement at S-82; IMSA 2006-4 Prospectus Supplement at S-52.

415. The IMSA 2006-5 Prospectus Supplement states:

> American Home underwrites a borrower's creditworthiness based solely on information that American Home believes is indicative of the applicant's willingness and ability to pay the debt they would be incurring.

IMSA 2006-5 Prospectus Supplement at S-82; IMSA 2006-4 Prospectus Supplement at S-52.

416. The IMSA 2006-5 Prospectus Supplement states: "Alt-A products with less verification documentation generally have other compensating factors such as higher credit score or lower loan-to-value requirements." IMSA 2006-5 Prospectus Supplement at S-82; IMSA 2006-4 Prospectus Supplement at S-52.

417. The IMSA 2006-5 Prospectus Supplement states:

> In addition to reviewing the borrower's credit history and credit score, American Home underwriters closely review the borrower's housing payment history. In general, for non-conforming loans the borrower should not have made any mortgage payments over 30 days after the due date for the most recent twelve months. In general, for Alt-A loans, the borrower may have no more than one payment that was made over 30 days after the due date for the most recent twelve months.

IMSA 2006-5 Prospectus Supplement at S-83; IMSA 2006-4 Prospectus Supplement at S-53.

418. The IMSA 2006-5 Prospectus Supplement states:

> American Home's Alt-A loan products generally have been approved manually by contract underwriters provided by certain mortgage insurance companies or by American Home's senior underwriters. American Home Solutions products must receive an approval from the Assetwise automated underwriting system. For manually underwritten loans, the underwriter must ensure that the borrower's income will support the total housing expense on an ongoing basis. Underwriters may give consideration to borrowers who have demonstrated an ability to carry a similar or greater housing expense for an extended period. In addition to the monthly housing expense, the underwriter must evaluate the borrower's ability to manage all recurring payments on all debts, including the monthly housing expense. When evaluating the ratio of all monthly debt payments in the borrower's monthly income (debt-to-income ratio), the underwriter should be aware of the degree and frequency of credit usage and its impact on the borrower's ability to repay the loan.

IMSA 2006-5 Prospectus Supplement at S-83; IMSA 2006-4 Prospectus Supplement at S-53.

419. The INDS 2006-3 Prospectus Supplement stated:

> Mortgage loans that are acquired by IndyMac Bank are underwritten by IndyMac Bank according to IndyMac Bank's underwriting guidelines, which also accept mortgage loans meeting Fannie Mae or Freddie Mac guidelines regardless of whether

> such mortgage loans would otherwise meet IndyMac Bank's guidelines, or pursuant to an exception to those guidelines based on IndyMac Bank's procedures for approving such exceptions. Conventional mortgage loans are loans that are not insured by the FHA or partially guaranteed by the VA. Conforming mortgage loans are loans that qualify for sale to Fannie Mae and Freddie Mac, whereas non-conforming mortgage loans are loans that do not so qualify. IndyMac Bank's underwriting standards for mortgage loans are primarily intended to evaluate the borrower's creditworthiness and the value and adequacy of the mortgaged property as collateral for the proposed mortgage loan, as well as the type and intended use of the mortgaged property. Non-conforming mortgage loans originated or purchased by IndyMac Bank pursuant to its underwriting programs typically differ from conforming loans primarily with respect to loan-to-value ratios, borrower income, required documentation, interest rates, borrower occupancy of the mortgaged property and/or property types. To the extent that these programs reflect underwriting standards different from those of Fannie Mae and Freddie Mac, the performance of loans made pursuant to these different underwriting standards may reflect higher delinquency rates and credit losses.

INDS 2006-3 Prospectus Supplement S-25-26. *See also* INDS 2007-1 Prospectus Supplement at S-23; INDS 2006-3 Registration Statement, June 2, 2006, at S-38; INDS 2007-1 Registration Statement, June 2, 2006, at S-38.

420. The INDS 2006-3 Prospectus Supplement stated:

> IndyMac Bank has two principal underwriting methods designed to be responsive to the needs of its mortgage loan customers: traditional underwriting and e-MITS (Electronic Mortgage Information and Transaction System) underwriting. E-MITS is an automated, internet-based underwriting and risk-based pricing system. IndyMac Bank believes that e-MITS generally enables it to estimate expected credit loss, interest rate risk and prepayment risk more objectively than traditional underwriting and also provides consistent underwriting decisions. IndyMac Bank has procedures to override an e-MITS decision to allow for compensating factors.

INDS 2006-3 Prospectus Supplement S-26. *See also* INDS 2007-1 Prospectus Supplement at S-23; INDS 2006-3 Registration Statement, June 2, 2006, at S-38; INDS 2007-1 Registration Statement, June 2, 2006, at S-38.

421. The INDS 2006-3 Prospectus Supplement stated:

> Underwriting procedures vary by channel of origination. Generally, mortgage loans originated through the mortgage professional channel will be submitted to e-MITS for assessment and subjected to a full credit review and analysis. Mortgage loans that do not meet IndyMac Bank's guidelines may be manually re-underwritten and approved under an exception to those underwriting guidelines. Mortgage loans

> originated through the consumer direct channel are subjected to essentially the same procedures, modified as necessary to reflect the fact that no third-party contributes to the preparation of the credit file.

INDS 2006-3 Prospectus Supplement S-27. *See also* INDS 2007-1 Prospectus Supplement at S-25; INDS 2006-3 Registration Statement, June 2, 2006, at S-40; INDS 2007-1 Registration Statement, June 2, 2006, at S-40.

422. The INDS 2006-3 Prospectus Supplement stated:

> Exceptions to underwriting standards are permitted in situations in which compensating factors exist. Examples of these factors are significant financial reserves, a low loan-to-value ratio, significant decrease in the borrower's monthly payment and long-term employment with the same employer.

INDS 2006-3 Prospectus Supplement at S-28. *See also* INDS 2007-1 Prospectus Supplement at S-25; INDS 2006-3 Registration Statement, June 2, 2006, at S-41; INDS 2007-1 Registration Statement, June 2, 2006, at S-41.

423. The INDS 2006-3 Prospectus Supplement stated:

> Additionally, maximum total monthly debt payments-to-income ratios and cash-out limits may be applied. Other factors may be considered in determining loan eligibility such as a borrower's residency and immigration status, whether a non-occupying borrower will be included for qualification purposes, sales or financing concessions included in any purchase contract, the acquisition cost of the property in the case of a refinance transaction, the number of properties owned by the borrower, the type and amount of any subordinate mortgage, the amount of any increase in the borrower's monthly mortgage payment compared to previous mortgage or rent payments and the amount of disposable monthly income after payment of all monthly expenses.

INDS 2006-3 Prospectus Supplement at S-27. *See also* INDS 2007-1 Prospectus Supplement at S-25; INDS 2006-3 Registration Statement, June 2, 2006, at S-40; INDS 2007-1 Registration Statement, June 2, 2006, at S-40.

424. The INDS 2006-3 Prospectus Supplement stated:

> IndyMac Bank's underwriting criteria for traditionally underwritten mortgage loans includes an analysis of the borrower's credit history, ability to repay the mortgage loan and the adequacy of the mortgaged property as collateral. Traditional underwriting decisions are made by individuals authorized to consider compensating

> factors that would allow mortgage loans not otherwise meeting IndyMac Bank's guidelines.

INDS 2006-3 Prospectus Supplement at S-26. *See also* INDS 2007-1 Prospectus Supplement at S-24; INDS 2006-3 Registration Statement, June 2, 2006, at S-38; INDS 2007-1 Registration Statement, June 2, 2006, at S-38.

425. The INDYL 2006-L2 Prospectus states:

> In general, where a loan is subject to full underwriting review, a prospective borrower applying for a mortgage loan is required to fill out a detailed application designed to provide to the underwriting officer pertinent credit information. As part of the description of the borrower's financial condition, the borrower generally is required to provide a current list of assets and liabilities and a statement of income and expenses, as well as 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.

INDYL 2006-L2 Prospectus, June 14, 2006, at 35. *See also* INDYL 2006-L2 Registration Statement, Feb. 24, 2006, at 36.

426. The INDYL 2006-L2 Prospectus Supplement stated:

> Most of the mortgage loans were originated in accordance with IndyMac Bank's underwriting standards described below. Mortgage loans not originated under these underwriting standards as, for instance, mortgage loans acquired through bulk purchases, were originated in accordance with underwriting standards approved by IndyMac Bank at the time of acquisition and generally comparable to IndyMac Bank's underwriting standards.

INDYL 2006-L2 Prospectus Supplement at S-25. *See also* INDYL 2006-L2 Free Writing Prospectus, June 12, 2006, at the "Underwriting Standards" section.

427. The INDYL 2006-L2 Prospectus Supplement continued:

> IndyMac Bank's underwriting guidelines (the "***Underwriting Guidelines***") are primarily intended to assess (i) the value of the mortgaged property and to evaluate the adequacy of such property as collateral for the residential lot loan and (ii) the creditworthiness of the related mortgagor.

INDYL 2006-L2 Prospectus Supplement at S-25. *See also* INDYL 2006-L2 Free Writing Prospectus, June 12, 2006, at the "Underwriting Standards" section.

428. With respect to exceptions, the INDYL 2006-L2 Prospectus Supplement stated:

> The foregoing criteria are guidelines only. On a case-by-case basis, it may be determined that an applicant warrants a debt service-to-income ratio exception, a pricing exception, a mortgage loan-to-value exception or an exception from certain FICO score requirements (collectively called an "upgrade" or an "exception"). An exception may generally be allowed if the application reflects certain compensating factors, among others: a low Loan-to-Value Ratio, a stable employment history, ownership of current residence of five or more years, cash reserves, or credit history. Accordingly, certain borrowers may qualify for a residential lot loan that, in the absence of such compensating factors, would not satisfy the criteria of the Underwriting Guidelines.

INDYL 2006-L2 Prospectus Supplement at S-27. *See also* INDYL 2006-L2 Free Writing Prospectus, June 12, 2006, at the "Underwriting Standards" section.

429. The PCHLT 2005-4 Prospectus Supplement stated:

> All of the [People's Choice Home Loan, Inc. ("PCHLI")] mortgage loans were originated by PCHLI in accordance with the underwriting criteria described in this section. Approximately 90% of PCHLI loan production consists of wholesale loan transactions. To obtain a loan in this manner, an independent third-party mortgage broker receives a mortgage loan application from a borrower, gathers information needed to make a credit decision, processes that information, and provides that information to PCHLI. PCHLI then reviews the information provided by the mortgage broker and makes a credit decision based on the borrower's application for a mortgage loan. PCHLI thoroughly reviews all credit, income, character and collateral information provided by the broker for completeness, accuracy and authenticity. For example, PCHLI orders its own tri-merged credit report, verbally verifying employment, verifying income where available, and completing an internal independent review of each appraisal submitted for consideration. They also use third-party vendors to verify the customer information disclosed on the borrower's credit application.
>
> For PCHLI's fiscal year-ended December 31, 2004, approximately 10% of PCHLI loan production consists of retail loan transactions. A PCHLI loan officer receives a mortgage loan application from a borrower, gathers information needed to make a credit decision, processes that information, packages and checks the information for inaccuracies prior to submitting it for underwriting, and provides that information to PCHLI underwriters. PCHLI thoroughly reviews all credit, income, character and collateral information provided by the PCHLI loan officer and makes a credit decision based on the borrower's application for a mortgage loan using the same processes and guidelines used in wholesale transactions. PCHLI typically conducts a final pre-funding check of the underwriting packages prior to wiring money to fund a mortgage loan.

PCHLT 2005-4 Prospectus Supplement at S-57.

430. The PCHLT 2005-4 Prospectus Supplement continued:

> The mortgage loans are generally consistent with and conform to the Underwriting Guidelines for "full documentation," "lite documentation," and "stated income documentation" residential loan programs. On a case-by-case basis, exceptions to the Underwriting Guidelines are made where compensating factors exist. It is expected that some portion of the PCHLI loans will represent those exceptions. In addition, PCHLI documents all exceptions in its loan files and has recently adopted a policy completely prohibiting exceptions for borrowers with credit scores of 540 or lower and for any borrowers that use stated income documentation for the 80/20 combination (100% LTV) loan program. Under each program, PCHLI 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 appraisal. In determining the ability of the applicant to repay the loan, a loan rate is assigned that is generally equal to the interest rate established under the Underwriting Guidelines. The Underwriting Guidelines require that mortgage loans be underwritten in a standardized procedure and require the underwriters to be satisfied that the value of the property being financed, as reflected by an appraisal and a review of the appraisal, supports the outstanding loan balance at time of loan funding.

PCHLT 2005-4 Prospectus Supplement at S-58.

431. PCHLT 2005-4 Prospectus Supplement stated:

> In evaluating the credit quality of borrowers, PCHLI utilizes Credit Scores, mortgage or rent payment history, job stability and income. The Underwriting Guidelines require all borrowers to have demonstrated a willingness to pay.

PCHLT 2005-4 Prospectus Supplement at S-58.

432. The PCHLT 2005-4 Prospectus Supplement stated:

> Under the Underwriting Guidelines, PCHLI has established eight principal risk categories ranging from "AAA" to "C," with respect to the credit profile of potential borrowers, and assigns a rating to each mortgage loan based upon these classifications, assessing the likelihood the applicant will repay the mortgage loan. These risk categories establish the maximum permitted LTV, the maximum loan amount and the allowed use of loan proceeds given the borrower's mortgage payment history, consumer credit history, liens/charge-offs/bankruptcy history, debt-to-income ratio, use of proceeds, documentation type and other factors.
>
> In general, higher credit risk mortgage loans are graded in categories that require lower debt to income ratios and lower LTV ratios and permit more (or more recent) major derogatory credit items, such as outstanding judgments or prior bankruptcies.

PCHLT 2005-4 Prospectus Supplement at S-58.

433. The SACO 2006-4 Prospectus Supplement stated:

> The mortgage loans, as well as mortgage loans underlying mortgage securities will have been originated in accordance with underwriting standards described below.
>
> . . .
>
> The underwriting standards to be used in originating the mortgage loans are primarily intended to assess the creditworthiness of the mortgagor, the value of the mortgaged property and the adequacy of the property as collateral for the mortgage loan.
>
> . . .
>
> The primary considerations in underwriting a mortgage loan are the mortgagor's employment stability and whether the mortgagor has sufficient monthly income available (1) to meet the mortgagor's monthly obligations on the proposed mortgage loan (generally determined on the basis of the monthly payments due in the year of origination) and other expenses related to the home (including property taxes and hazard insurance) and (2) to meet monthly housing expenses and other financial obligations and monthly living expenses. However, the Loan-to-Value Ratio of the mortgage loan is another critical factor. In addition, a mortgagor's credit history and repayment ability, as well as the type and use of the mortgaged property, are also considerations.

SACO 2006-4 Prospectus Supplement at 17.

434. The SAMI 2006-AR8 Prospectus Supplement states:

> SouthStar's Underwriting Guidelines are applied to evaluate an applicant's credit standing, financial condition, and repayment ability, as well as the value and adequacy of the mortgaged property as collateral for any loan made by SouthStar. As part of the loan application process, the applicant is required to provide information concerning his or her assets, liabilities, income and expenses, along with an authorization permitting SouthStar to obtain any necessary third party verifications, including a credit report summarizing the applicant's credit history.
>
> In evaluating the applicant's ability and willingness to repay the proposed loan, SouthStar reviews the applicant's credit history and outstanding debts, as reported on the credit report. If an existing mortgage or other significant debt listed on the loan application is not adequately reported on the credit report, SouthStar may request a written or oral verification of the balance and payment history of such debt from the servicer of such debt.

> SouthStar verifies the applicant's liquid assets to ensure that the client has adequate liquid assets to apply toward any required down payment, closing costs, prepaid interest and at least two months' worth of cash reserves.
>
> SouthStar also evaluates the applicant's income to determine its stability, probability of continuation, and adequacy to service the proposed SouthStar debt payment. SouthStar's guidelines for verifying an applicant's income and employment are generally as follows. For salaried applicants, SouthStar typically requires a written verification of employment from the applicant's employer, or a copy of the applicant's two most recent IRS form 1040 or W-2, a current pay stub with year-to-date earnings, and a verbal verification of employment. For non-salaried applicants, including self-employed applicants, SouthStar requires copies of the applicant's two most recent federal tax returns, along with all supporting schedules. A self-employed applicant is generally required to submit a signed year-to-date profit and loss statement.

SAMI 2006-AR8 Prospectus Supplement at S-53; SAMI 2006-AR4 Prospectus Supplement at S-56-57.

435. The SAMI 2006-AR8 Prospectus Supplement states:

> Once sufficient employment, credit and property information is obtained, the decision as to whether to approve the loan is based on the applicant's income and credit history, the status of time to the mortgaged property and the appraised value of the property. SouthStar also reviews the level of an applicant's liquid assets as an indication of creditworthiness. The approval process generally requires that the applicant have good credit history and a total debt-to-income ("DTI") that generally does not exceed 38%; however, this limit may be raised if the borrower demonstrates satisfactory disposable income and/or other mitigating factors are present. The DTI ratio is calculated as the ratio of the borrower's total monthly debt obligations, divided by the borrower's total verified monthly income. In general, it is SouthStar's belief that the DTI ratio is only one of several factors, such as loan-to-value ("LTV"), credit history and reserves that should be considered in making a determination of an applicant's ability to repay the proposed loan.
>
> As part of the underwriting process, SouthStar typically reviews an applicant's credit score. Credit scores are obtained by mortgage lenders in connection with mortgage loan applications to help assess a borrower's credit-worthiness. Credit scores are obtained from credit reports provided by various credit reporting organizations, each of which may employ differing computer models and methodologies. The credit score is designed to assess a borrower's credit history at a single point in time, using objective information currently on file for the borrower at a particular credit reporting organization. Information utilized to create a credit score may include, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of credit history, types of credit, and bankruptcy experience. Credit scores range from approximately 620 to approximately 800+, with higher scores indicating an individual with a more favorable credit history

> compared to an individual with a lower score. However, a credit score purports only to be a measurement of the relative degree of risk a borrower represents to a lender, i.e., a borrower with a higher score is statistically expected to be less likely to default in payment than a borrower with a lower score. In addition, it should be noted that credit scores were developed to indicate a level of default probability over a two-year period, which does not correspond to the life of a mortgage loan. Furthermore, credit scores were not developed specifically for use in connection with mortgage loans, but for consumer loans in general, and assesses only the borrower's past credit history. Therefore, a credit score does not take into consideration the differences between mortgage loans and consumer loans generally, or the specific characteristics of the related mortgage loan, for example, the LTV ratio, the collateral for the mortgage loan, or the DTI ratio. SouthStar generally requires a minimum credit score of 620. It is not SouthStar's practice to accept or reject an application based solely on the basis of the applicant's credit score.

SAMI 2006-AR8 Prospectus Supplement at S-54; SAMI 2006-AR4 Prospectus Supplement at S-57-58.

436. The SAMI 2007-AR3 Prospectus Supplement states:

> Aegis's underwriting standards, as well as any other underwriting standards that may be applicable to any first lien mortgage loans, generally include a set of specific criteria pursuant to which the underwriting evaluation is made. However, the application of those underwriting standards does not imply that each specific criterion was satisfied individually. Rather, a mortgage loan will be considered to be originated in accordance with a given set of underwriting standards if, based on an overall qualitative evaluation, the loan substantially complies with the underwriting standards. For example, a mortgage loan may be considered to comply with a set of underwriting standards, even if one or more specific criteria included in the underwriting standards were not satisfied, if other factors compensated for the criteria that were not satisfied or if the mortgage loan is considered to be in substantial compliance with the underwriting standards.
>
> Aegis established a ALTA Option ARMS loan program by which it could aggregate acceptable loans into a grouping considered to have substantially similar characteristics. A more detailed description of the loan program applicable to the mortgage loans is set forth below. Aegis's underwriting of the mortgage loans generally consisted of analyzing the following as standards applicable to the mortgage loans:
>
> - the creditworthiness of a borrower based on both a credit score and credit history which includes the mortgage history,
> - the income sufficiency of a borrower's projected family income relative to the mortgage payment and to other fixed obligations, including in certain instances rental income from investment property, and

- the adequacy of the mortgaged property expressed in terms of loan-to- value ratio, to serve as the collateral for a mortgage loan, expressed in terms of loan-to- value ratio.

The underwriting criteria applicable to any loan program under which mortgage loans may be originated and reviewed may provide that qualification for the loan, or the availability of specific loan features, such as maximum loan amount, maximum loan-to-value ratio, property type and use, and documentation level, may depend on the borrower's credit score.

SAMI 2007-AR3 Prospectus Supplement at S-63-64.

437. The SAMI 2007-AR3 Prospectus Supplement states:

The following is a description of the underwriting policies customarily employed by AEGIS with respect to the residential mortgage loans that AEGIS originated during the period of origination of the mortgage loans. AEGIS has represented to the Depositor that the mortgage loans were originated generally in accordance with such policies.

The mortgage loans originated by AEGIS, or AEGIS mortgage loans, are "conventional non-conforming mortgage loans" (i.e., loans that are not insured by the Federal Housing Authority, or FHA, or partially guaranteed by the Veterans Administration or which do not qualify for sale to Fannie Mae or Freddie Mac) and are secured by first liens on one-to four-family residential properties. These loans typically differ from those underwritten to the guidelines established by Fannie Mae and Freddie Mac primarily with respect to the original principal balances, loan-to-value ratios, borrower income, required documentation, interest rates, borrower occupancy of the mortgaged property, property types and/or mortgage loans with loan-to-value ratios over 80% that do not have primary mortgage insurance. The AEGIS mortgage loans have either been originated or purchased by an originator and were generally underwritten in accordance with the standards described herein. Exceptions to the underwriting guidelines are permitted when the seller's performance supports such action and the variance request is approved by credit management.

Such underwriting standards are applied to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral. These standards are applied in accordance with the applicable federal and state laws and regulations. Exceptions to the underwriting standards are permitted where compensating factors are present and are managed through a formal exception process.

Generally, each mortgagor will have been required to complete an application designed to provide to the lender pertinent credit information concerning the mortgagor. The mortgagor will have given information with respect to its assets, liabilities, income (except as described below), credit history, employment history and personal information, and will have furnished the lender with authorization to

> obtain a credit report which summarizes the mortgagor's credit history. 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 second homes or vacation properties, no income derived from the property will have been considered for underwriting purposes.

SAMI 2007-AR3 Prospectus Supplement at S-65-66.

438. The SAMI 2007-AR3 Prospectus Supplement states:

> In determining whether a prospective borrower has sufficient monthly income available (i) to meet the borrower's monthly obligation on their proposed mortgage loan and (ii) to meet the monthly housing expenses and other financial obligations on the proposed mortgage loan, each lender generally considers, when required by the applicable documentation program, the ratio of such amounts to the proposed borrower's acceptable stable monthly gross income. Such ratios vary depending on a number of underwriting criteria, including loan-to-value ratios, and are determined on a loan-by-loan basis.

Structured Asset Mortgage Investments II Trust 2007-AR3 Prospectus Supplement at S-66.

439. The SAMI 2007-AR3 Prospectus Supplement states:

> Some of the mortgage loans were underwritten pursuant to underwriting standards similar to those described below while others were underwritten pursuant to underwriting standards with varying documentation types, loan-to-value ratios, combined loan-to-value ratios and/or credit standards etc. OFS allows the following variances from its underwriting guidelines with respect to mortgage loans originated by national builders: 1) verifying documentation relating to completion of work; 2) appraisal review requirements for owner occupied loan amounts less than $1 million are not required; 3) real estate commissions are allowed up to a maximum of 10%; and 4) exceptions for debt to income ratios allowed. Also, national builders originate loans under the "Skip It" program which allows borrowers who owner occupy the property to have no payments for the first (6) six months on their first mortgage lien. The total dollar amount of the payments required for the first six months are paid by the builder to OFS at the time of purchasing of the loan. Loans originated by conduit sellers under alternative guidelines may have been underwritten with varying reserve requirements, appraisal reviews; credit trade requirements; lack of payment shock guideline; installment late requirements; collections; age of previous bankruptcy and/or foreclosures; etc.
>
> *Program Details of OFS*
>
> Loans originated under OFS's Five Star Series™ and Five Star Plus programs – include the following specific details:

> *General*. Loans originated under OFS's Five Star Series™ program, the Five Star Plus™ program as described within the guidelines originated through OFS's retail platform is designed for borrowers who have demonstrated an excellent credit history. OFS generally – includes in its origination process by performing a pre-funding audit on each mortgage loan originated by OFS's retail and wholesale origination platforms including a review for compliance with the related program parameters and accuracy of the legal documents. OFS generally performs verbal audits of the borrowers' income or employment and a verification of social security numbers of each borrower, and reviews the property ownership history that is provided by outside services prior to the disbursement of the loan. For closed loans purchased under OFS's conduit flow programs, generally, an eligibility review is performed on each loan to insure compliance to the related program parameters and to review the accuracy of the legal documentation used at the closing of the loan transaction. The conduit-seller makes certain representations and warranties, in its respective agreement with OFS, for each of the mortgage loans purchased by the conduit. OFS also includes in its origination process a post-closing quality control review, which covers a minimum of 10% of the mortgage loans originated. This review generally includes a complete re-verification of income, liquid assets and employment that the borrower used to qualify for the mortgage loan, as well as procedures to detect evidence of fraudulent documentation and/or imprudent behavior or activity during the processing and funding of the mortgage loan.
>
> *Exceptions*. The following program parameters that are used by OFS are guidelines only. OFS, on a case-by-case basis, may determine that the prospective mortgagor warrants an exception outside the standard program guidelines. Exceptions may be granted if the loan application reflects certain compensating factors, including instances where the prospective mortgagor has demonstrated an ability to save and devote a greater portion of income to basic housing needs. Other compensating factors may include a low loan-to-value; an excellent mortgage pay history; the primary borrower possesses a higher credit score than required; a substantial net worth to suggest that the repayment of the loan is within the prospective mortgagor's ability and/or the borrower has demonstrated an ability to maintain a debt-free position and the value of the mortgaged property as collateral for the loan is adequate. Some examples of exceptions that may be granted are for, but not limited to, documentation requirements for varying document types, increased loan amounts, debt ratios, cash out allowed to borrowers on refinance loans or loan-to-value ratios that exceed program guidelines, consumer credit or number of minimum trade lines required, credit score exceptions, payment shock, reserve requirements, and the number of mortgages financed to a single borrower, etc.

SAMI 2007-AR3 Prospectus Supplement at S-70-71.

440. The SAMI 2007-AR3 Prospectus Supplement states:

> Generally, the age of the appraisal will not be less than 120 days old at the time of closing and generally will require a recertification of value when the appraisals is [sic] greater than 120 days old. Appraisals with recertification are acceptable up to six

months after the original appraisal date and generally a new appraisal is required after six months unless an exception is granted.

SAMI 2007-AR3 Prospectus Supplement at S-72.

441. The SAMI 2007-AR3 Prospectus Supplement states:

OFS's Five Star Series™ Program

General. The underwriting guidelines utilized in The Five Star Series™ program, as developed by OFS, are intended to evaluate an applicant's credit score, credit history, financial condition, and repayment ability as well as to evaluate the adequacy of the mortgaged property as collateral for the loan. The Five Star Series™ program provides for consistent credit criteria for all documentation types with specific reserve requirements, qualifying ratios, loan-to-value and combined loan-to-value restrictions for each type of program offered. The philosophy of The Five Star Series™ program encompasses a complete review of the entire mortgage loan application together with the collateral being secured and an analysis of the risk assessment of the attributes of the particular loan with emphasis on the overall quality of the mortgage loan. Each mortgage loan is individually underwritten for loans originated under their retail and wholesale platforms. OFS's conduit division requires prior underwriting for clients with certain net worth requirements and offers delegated underwriting to those clients who qualify under Sponsor eligibility.

SAMI 2007-AR3 Prospectus Supplement at S-72.

442. The LUM 2006-7 Prospectus Supplement states:

The LBB Underwriting Guidelines are generally not as strict as Fannie Mae or Freddie Mac guidelines. The LBB Underwriting Guidelines are intended to evaluate the value and adequacy of the mortgaged property as collateral and to consider the borrower's credit standing and repayment ability. On a case-by-case basis, the underwriter may determine that, based upon compensating factors, a prospective borrower not strictly qualifying under the applicable underwriting 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 may represent underwriting exceptions.

LUM 2006-7 Prospectus Supplement at S-39.

443. The LUM 2006-7 Prospectus Supplement states:

Each prospective borrower completes an application that includes information with respect to the applicant's liabilities, assets, income and employment history (except with respect to certain "no documentation" mortgage loans described below), as well as certain other personal information. Each originator requires 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, bankruptcy, repossession, suits or judgments.

LUM 2006-7 Prospectus Supplement at S-40.

444. The LUM 2006-7 Prospectus Supplement states:

The originator's underwriting standards are applied to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral. These standards are applied in accordance with the applicable federal and state laws and regulations. Exceptions to the underwriting standards are permitted where compensating factors are present. Generally, each mortgagor will have been required to complete an application designed to provide to the lender pertinent credit information concerning the mortgagor. The mortgagor will have given information with respect to its assets, liabilities, income (except as described below), credit history, employment history and personal information, and will have furnished the lender with authorization to obtain a credit report which summarizes the mortgagor's credit history.

LUM 2006-7 Prospectus Supplement at S-43.

445. The LUM 2006-7 Prospectus Supplement states:

In determining whether a prospective borrower has sufficient monthly income available (i) to meet the borrower's monthly obligation on their proposed mortgage loan and (ii) to meet the monthly housing expenses and other financial obligation on the proposed mortgage loan, the originator generally considers, when required by the applicable documentation program, the ratio of such amounts to the proposed borrower's acceptable stable monthly gross income. Such ratios vary depending on a number of underwriting criteria, including loan-to-value ratios, and are determined on a loan-by-loan basis.

LUM 2006-7 Prospectus Supplement at S-44.

446. The LUM 2006-7 Prospectus Supplement states:

Generally, the GreenPoint underwriting guidelines are applied to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral. Exceptions to the guidelines are permitted where compensating factors are present. The GreenPoint underwriting guidelines are generally not as strict as Fannie Mae or Freddie Mac guidelines. GreenPoint's underwriting guidelines are applied in accordance with applicable federal and state laws and regulations.

LUM 2006-7 Prospectus Supplement at S-46-47; BSSLT 2007-1 Group I Prospectus Supplement.

447. The LUM 2006-7 Prospectus Supplement states:

> As part of its evaluation of potential borrowers, GreenPoint generally requires a description of the borrower's income. If required by its underwriting guidelines, GreenPoint obtains employment verification providing current and historical income information and/or a telephonic employment confirmation. Employment verification may be obtained through analysis of the prospective borrower's recent pay stubs and/or W-2 forms for the most recent two years or relevant portions of the borrower's most recent two years' tax returns, or from the prospective borrower's employer, wherein the employer reports the borrower's length of employment and current salary with that organization. Self-employed prospective borrowers generally are required to submit relevant portions of their federal tax returns for the past two years.

LUM 2006-7 Prospectus Supplement at S-47; BSSLT 2007-1 Group I Prospectus Supplement.

448. The LUM 2006-7 Prospectus Supplement states:

> In determining whether a prospective borrower has sufficient monthly income available to meet the borrower's monthly obligation on the proposed mortgage loan and monthly housing expenses and other financial obligations, GreenPoint generally considers the ratio of those amounts to the proposed borrower's monthly gross income. These ratios vary depending on a number of underwriting criteria, including loan-to-value ratios ("LTV"), and are determined on a loan-by-loan basis. The ratios generally are limited to 40% but may be extended to 50% with adequate compensating factors, such as disposable income, reserves, higher FICO credit score, or lower LTV's. Each mortgage loan has a required amount of reserves, with the minimum being three months of principal, interest, taxes and insurance for full documentation loans. Depending on the LTV and occupancy types, these reserve requirements may be increased to compensate for the additional risk.

LUM 2006-7 Prospectus Supplement at S-47; BSSLT 2007-1 Group I Prospectus Supplement.

449. The NHELI 2007-1 Prospectus Supplement stated:

> In addition to its originations, FNBN also acquires mortgage loans from approved correspondent lenders under a program pursuant to which the correspondent agrees to originate the mortgage loans in accordance with the underwriting guidelines of FNBN. . . . FNBN generally conducts a quality control review of a sample of these mortgage loans within 45 [sic] after the origination or purchase of such mortgage loan. The number of loans reviewed in the quality control process varies based on a variety of factors, including FNBN's prior experience with the correspondent lender and the results of the quality control review process itself.

NHELI 2007-1 Prospectus Supplement at S-104.

450. The NHELI 2007-1 Prospectus Supplement stated:

> FNBN's underwriting guidelines are primarily intended to evaluate the prospective borrower's credit standing and ability to repay the loan, as well as the value and adequacy of the proposed Mortgaged Property as collateral. A prospective borrower applying for a mortgage loan is required to complete an application, which elicits pertinent information about the prospective borrower including, depending upon the loan program, the prospective borrower's financial condition (assets, liabilities, income and expenses), the property being financed and the type of loan desired.

NHELI 2007-1 Prospectus Supplement at S-105.

451. The NHELI 2007-1 Prospectus Supplement stated:

> Based on the data provided in the application and certain verifications (if required), a determination will have been made that the borrower's monthly income (if required to be stated or verified) should be sufficient to enable the borrower to meet its monthly obligations on the mortgage loan and other expenses related to the Mortgaged Property (such as property taxes, standard hazard insurance and other fixed obligations other than housing expenses). Generally, scheduled payments on a mortgage loan during the first year of its term plus taxes and insurance and other fixed obligations equal no more than a specified percentage of the prospective borrower's gross income. The percentage applied varies on a case-by-case basis depending on a number of underwriting criteria including, but not limited to, the loan-to-value ratio of the mortgage loan or the amount of liquid assets available to the borrower after origination.

NHELI 2007-1 Prospectus Supplement at S-105.

452. The NHELI 2007-1 Prospectus Supplement stated:

> FNBN's underwriting guidelines are applied in a standard procedure that is intended to comply with applicable federal and state laws and regulations. However, the application of FNBN's underwriting guidelines does not imply that each specific criterion was satisfied individually. FNBN will have considered a mortgage loan to be originated in accordance with a given set of underwriting guidelines if, based on an overall qualitative evaluation, in FNBN's discretion such mortgage loan is in substantial compliance with such underwriting guidelines or if the borrower can document compensating factors. A mortgage loan may be considered to comply with a set of underwriting guidelines, even if one or more specific criteria included in such underwriting guidelines were not satisfied, if other factors compensated for the criteria that were not satisfied or the mortgage loan is considered to be in substantial compliance with the underwriting guidelines.

NHELI 2007-1 Prospectus Supplement at S-105-106.

453. The NHELI 2007-1 Prospectus Supplement stated:

> Silver State Mortgage's underwriting guidelines are primarily intended to evaluate the prospective borrower's credit standing and ability to repay the loan, as well as the value and adequacy of the proposed Mortgaged Property as collateral. A prospective borrower applying for a mortgage loan is required to complete an application, which elicits pertinent information about the prospective borrower including, depending upon the loan program, the prospective borrower's financial condition (assets, liabilities, income and expenses), the property being financed and the type of loan desired.

NHELI 2007-1 Prospectus Supplement at S-107.

454. The NHELI 2007-1 Prospectus Supplement stated:

> Based on the data provided in the application and certain verifications (if required), a determination will have been made that the borrower's monthly income (if required to be stated or verified) should be sufficient to enable the borrower to meet its monthly obligations on the mortgage loan and other expenses related to the Mortgaged Property (such as property taxes, standard hazard insurance and other fixed obligations other than housing expenses).

NHELI 2007-1 Prospectus Supplement at S-108.

455. The NHELI 2007-1 Prospectus Supplement stated:

> All of the Mortgage Loans have been purchased by the sponsor from various banks, savings and loan associations, mortgage bankers and other mortgage loan originators and purchasers of mortgage loans in the secondary market, and were originated generally in accordance with the underwriting criteria described in this section.

NHELI 2007-1 Prospectus Supplement at S-108.

456. 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, as alleged herein, 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. Rather,

as alleged herein, the Originators systematically disregarded the stated underwriting guidelines in order to increase the volume of mortgages originated (*see supra* Section VII.D). Further evidence of the fact that the loans in the pools collateralizing the Certificates at issue are the product of a systematic disregard of underwriting guidelines is found in, among other things, the surge in delinquencies and defaults shortly after the offerings (*see supra* Table 5), the rate at which actual losses outpaced expected losses within the first year after the offerings (*see supra* Figure 2), the collapse of the credit ratings (*see supra* Table 4), and the fact that the Originators were engaged in high OTD lending (*see supra* Table 6).

B. Untrue Statements Concerning Reduced Documentation Programs

457. For loans originated under reduced documentation programs, the NAA 2007-1 and NAA 2007-3 Prospectus Supplements stated:

> Certain of the Mortgage Loans have been originated under reduced documentation, no-documentation or no-ratio programs, which require less documentation and verification than do traditional full documentation programs. Generally, under a reduced documentation program, verification of either a borrower's income or assets, but not both, is undertaken by the originator. Under a no-ratio program, certain borrowers with acceptable compensating factors will not be required to provide any information regarding income and no other investigation regarding the borrower's income will be undertaken. Under a no-documentation program, no verification of a borrower's income or assets is undertaken by the originator. The underwriting for such Mortgage Loans may be based primarily or entirely on an appraisal of the Mortgaged Property, the loan-to-value ratio at origination and/or the borrower's credit score.

NAA 2007-1 Prospectus Supplement at S-97; NAA 2007-3 Prospectus Supplement at S-51.

458. The AHMA 2007-3 Prospectus Supplement stated:

> Certain non-conforming stated income or stated asset products allow for less verification documentation than Fannie Mae or Freddie Mac require. Certain non-conforming Alt-A products also allow for less verification documentation than Fannie Mae or Freddie Mac require. For these Alt-A products the borrower may not be required to verify employment income, assets required to close or both. For some other Alt-A products, the borrower is not required to provide any information regarding employment income, assets required to close or both. Alt-A products with less verification documentation generally have other compensating factors such as higher credit score or lower loan-to-value requirements.

AHMA 2007-3 Prospectus Supplement at S-52. *See also* AHM 2007-2 Prospectus Supplement at S-47; AHM 2007-2 Free Writing Prospectus, Apr. 18, 2007, at the "Underwriting Guidelines" section.

459. The BSABS 2006-HE4 Prospectus Supplement stated:

> *Full and Limited Income Documentation.* ResMAE's underwriters verify the income of each applicant under the Full Documentation and Limited Documentation programs. Under Full Documentation, applicants are generally required to submit verification of stable year to date income and the preceding year's income; under Limited Documentation, the borrower is qualified based on verification of adequate cash flow by means of personal or business bank statements. Under Stated Income, applicants are qualified based on monthly income as stated on the mortgage application. Under all programs, the income stated must be reasonable and customary for the applicant's line of work; also, a pre-closing audit is conducted to confirm that the borrower is employed as stated on the mortgage application. Verification may be made through phone contact to the place of business, obtaining a valid business license or through Nexis On-Line Services.

BSABS Prospectus Supplement at S-37.

460. The BSABS 2007-SD3 Prospectus Supplement stated:

> In the case of the "Stated" program (such Mortgage Loans, "Stated Loans"), the borrower's income would not have been verified and the borrower's assets may have been verified and certain minimum "cash reserves" are required. Under the "Stated" program the borrower's employment, income sources and assets must be stated on the signed loan application. The borrower's income as stated must be reasonable for the borrower's occupation as determined in the discretion of the loan underwriter. Similarly, the borrower's assets as stated must be reasonable for the borrower's occupation as determined in the discretion of the loan underwriter.

BSABS 2007-SD3 Prospectus Supplement at S-55.

461. The BSMF 2007-AR3 Prospectus Supplement stated:

> The mortgage loans have been underwritten under one of the following documentation programs: "Full/Alternative Documentation" (Full/ALT Doc), "Stated Income/Verified Assets" (SIVA), "Limited Documentation", "Lite Documentation", "No Ratio/Verified Assets" (No Ratio), "No Income/No Employment/Verified Assets" (NIVA), "Stated Income/Stated Assets" (SISA), "No Income/No Assets/Verified Employment" (NINA w/employment), and "No Income/No Assets/No Employment" (NINA (No Doc)). All of the programs require that the applicant submit a signed and dated current Fannie Mae Residential Loan Application Form 1003.
>
> *Full/Alternative (Full/ALT Doc)*: The Full/ALT Doc type is based upon current year to date income documentation as well as the previous two year's income

documentation (i.e., W-2 forms for salaried borrowers and tax returns, including schedules, for self-employed borrowers). Salaried borrowers must submit a written verification of employment (VOE) or most recent pay stub(s) covering a 30-day period and indicating year-to-date earnings. Each loan is required to have a verbal VOE within 10 calendar days of funding. In addition, the borrower must submit a written verification of deposit (VOD) with 2 months' average balance or his/her most recent bank statements covering a 2-month period. The borrower's employment must be located within 100 miles of his or her residence. In addition, self-employed borrowers must provide a year to date profit-and-loss statement and a signed IRS Form 4506-T (as revised on June 1, 2004). Business funds for such applicant may be used in the provision of the required VOD as long as the business is a sole proprietorship and a CPA letter is provided asserting that (i) 100% of the funds can be withdrawn and (ii) there will be no negative impact on the business as a result of such withdrawal of funds.

Stated Income/Verified Assets (SIVA): Under the SIVA program, more emphasis is placed on the value and adequacy of the mortgaged property as collateral, credit history and other assets of the borrower than on the verified income of the borrower. Income is stated on the application. However, the income must be reasonable given the employment stated. The borrower's assets are verified. In addition, the applicant must submit a written verification of deposit with 2 months' average balance or his/her most recent bank statements covering a 2-month period. A verbal verification of employment is required within 10 calendar days of funding the loan, and the borrower's employment must be located within 100 miles of his or her residence. For self-employed borrowers, a CPA's certification or a copy of a business license is also required.

Limited Documentation: The Limited Documentation program is based on the recent twelve (12) months of consecutive personal bank statements (or business bank statements for sole proprietors). All individuals shown on the bank statement must be borrowers on the loan, and the income must be reasonable given the employment stated. In determining the borrower's eligibility for a loan, monthly income is calculated by averaging deposits of a consistent amount for each month. Large and unusual deposits are excluded as are deposits transferred from another account or line of credit. Particular attention is paid to borrowers whose income is derived from seasonal employment and recurrences of insufficient and overdraft charges. Assets must be verified for reserves, closing costs and required down payment, as applicable. A verbal verification of employment is required within 10 calendar days of funding the loan, and the borrower's employment must be located within 100 miles of his or her residence. For self-employed borrowers, a CPA's certification or a copy of a business license is also required.

Lite Documentation: The Lite Documentation type is based on the recent six (6) months of personal bank statements (or business bank statements for sole proprietorships). The borrower's Form 1003 covers a 2-year period. All individuals shown on the bank statement must be borrowers on the loan, and the borrower's income must be reasonable given the employment stated. In determining the borrower's eligibility for a loan, monthly income is calculated by averaging deposits of a consistent amount for each month. Large and unusual deposits are excluded as are deposits transferred from another account or line of credit. Particular attention is paid to borrowers whose income is derived from seasonal employment and recurrences of insufficient and overdraft charges. Assets must be verified for reserves, closing costs and required down payment, as applicable. A verbal verification of employment is required within 10 calendar days of funding the loan, and the borrower's employment must be located within 100 miles of his or her residence. For self-employed borrowers, a CPA's certification or a copy of a business license is also required.

No Ratio/Verified Assets (No Ratio): Under the No Ratio program, the borrower's employment and assets are stated on the Form 1003, but his/her income is not stated. The borrower's assets are verified through a written verification of deposit with 2 months' average balance or his/her most recent bank statements covering a 2-month period. In addition, a verbal verification of employment is required within 10 calendar days of funding the loan, and the borrower's employment must be located within 100 miles of his or her residence. For self-employed borrowers, a CPA's certification or a copy of a business license is also required.

No Income/No Employment/Verified Assets (NIVA): The NIVA program requires that the borrower state his/her assets on the Form 1003, but the borrower's employment or income need not be stated. The applicant must submit a written verification of deposit with 2 months' average balance or his/her most recent bank statements covering a 2-month period. Any large increases between the average balance and the current balance of the account must be satisfactorily explained.

Stated Income/Stated Assets (SISA): Under the SISA program, the borrower's employment, income and assets are stated on the Form 1003, but income and assets are not verified. The borrower's income must be reasonable given the employment stated. A verbal verification of employment is required within 10 calendar days of funding the loan, and the borrower's employment must be located within 100 miles of his or her residence. For self-employed borrowers, a CPA's certification or a copy of a business license is also required.

No Income/No Assets/Verified Employment (NINA w/Employment): Under the NINA w/employment program, the borrower states his/her employment on the Form 1003 but not his/her income or assets. A verbal verification of employment is required within 10 calendar days of funding the loan, and the borrower's employment must be located within 100 miles of his or her residence. For self-employed borrowers, a CPA's certification or a copy of a business license is also required.

No Income/No Assets/No Employment (NINA (No Doc)): Under the NINA (No Doc) program, the borrower does not provide his/her employment, income, or assets on the Form 1003.

BSMF 2007-AR3 Prospectus Supplement at S-34-35. *See also* BSMF 2007-AR4 Prospectus Supplement at S-38-40; BSMF 2007-AR5 Prospectus Supplement at S-37-38.

462. The BSMF 2007-AR3 Prospectus Supplement stated:

> The BSRM mortgage loans were originated in accordance with guidelines established by BSRM with one of the following documentation types: "Full Documentation"; "Limited Documentation"; "Lite Documentation"; "Stated Income/Verified Assets"; "No Ratio/Verified Assets"; "Stated Income/Stated Assets"; "No Income/No Assets (NINA)"; "No Doc"; and "No Doc with Assets". The nature of the information that a borrower is required to disclose and whether the information is verified depends, in part, on the documentation type used in the origination process.
>
> *Full Documentation*: The Full Documentation type is based upon current year to date income documentation as well as the previous two year's income documentation (i.e., tax returns and/or W-2 forms) and either one recent pay-stub with current year income on pay stub or two recent pay-stubs within 30 days of closing if year to date income is not provided on pay-stub) or bank statements for the previous 24 months. Self-employed borrowers must be self-employed in the same business or have received 1099 income in the same job for the past two years. Borrowers self-employed for less than two years (but at least one year) are considered on a case-by-case basis subject to a two-year history of previous successful employment in the same occupation or related field. Assets must be documented and independently verified by means of a written verification of deposit with two (2) months' average balance; most recent bank statements, stocks or securities statements covering a two (2) month period. The borrower must demonstrate that they have sufficient reserves (sourced and seasoned) of greater than or equal to three months principal, interest, taxes and insurance. A verbal verification of employment is also completed within 10 days of funding the loan.
>
> *Limited Documentation*: The Limited Documentation type is based on the recent twelve (12) months of consecutive bank statements. Self-employed borrowers must be self-employed in the same business or have received 1099 income in the same job for the past two years. Assets must be documented and independently verified by means of a written verification of deposit with two (2) months' average balance; most recent bank statements, stocks or securities statements covering a two (2) month period. The borrower must demonstrate that they have sufficient reserves (sourced and seasoned) of greater than or equal to three months principal, interest, taxes and insurance. A verbal verification of employment is also completed within 10 days of funding the loan.
>
> *Lite Documentation*: The Lite Documentation type is based on the recent six (6) months of consecutive bank statements. Self-employed borrowers must be self-employed in the same business or have received 1099 income in the same job for the past two years. Assets must be documented and independently verified by means of a written verification of deposit with two (2) months' average balance; most recent

bank statements, stocks or securities statements covering a two (2) month period. The borrower must demonstrate that they have sufficient reserves (sourced and seasoned) of greater than or equal to three months principal, interest, taxes and insurance. A verbal verification of employment is also completed within 10 days of funding the loan.

Stated Income: The Stated Income documentation type requires the applicant's employment and income sources covering the past two (2) year period to be stated on the application. Self-employed borrowers must be self-employed in the same business or have received 1099 income in the same job for the past two years. The applicant's income as stated must be reasonable for the related occupation, borrowers' credit profile and stated asset, in the loan underwriter's discretion. However, the applicant's income as stated on the application is not independently verified. Assets must be documented and independently verified by means of a written verification of deposit with two (2) months' average balance; most recent bank statements, stocks or securities statements covering a two (2) month period. The borrower must demonstrate that they have sufficient reserves (sourced and seasoned) of greater than or equal to three months principal, interest, taxes and insurance. A verbal verification of employment is also completed within 10 days of funding the loan.

No Ratio: The No Ratio documentation type requires the applicant's employment sources covering the past two (2) year period to be stated on the application. Self-employed borrowers must be self-employed in the same business or have received 1099 income in the same job for the past two years. The applicant's employment is independently verified through a verbal verification of employment, however the income is not stated on the application. Assets must be documented and independently verified by means of a written verification of deposit with two (2) months' average balance; most recent bank statements, stocks or securities statements covering a two (2) month period. The borrower must demonstrate that they have sufficient reserves (sourced and seasoned) of greater than or equal to three months principal, interest, taxes and insurance.

Stated Income/Stated Assets: The Stated Income/Stated Assets documentation type requires the applicant's employment and income sources covering the past two (2) year period to be stated on the application. Self-employed borrowers must be self-employed in the same business or have received 1099 income in the same job for the past two years. The applicant's income as stated must be reasonable for the related occupation, borrowers' credit profile and stated asset, in the loan underwriter's discretion. However, the applicant's income as stated on the application is not independently verified. Assets as stated on the application are not independently verified. The borrower must demonstrate that they have sufficient reserves (sourced and seasoned) of greater than or equal to three months principal, interest, taxes and insurance. A verbal verification of employment is also completed within 10 days of funding the loan.

No Income/No Assets (NINA): The NINA documentation type requires the applicant's employment sources covering the past two (2) year period to be stated on

> the application. Self-employed borrowers must be self-employed in the same business or have received 1099 income in the same job for the past two years. The applicant's employment is independently verified through a verbal verification of employment; however the income and the assets are not stated on the application. Borrower's ability to repay the loan is based upon past credit history and FICO score.
>
> *No Doc*: The No Doc documentation type does not require the applicant's income, employment sources or assets to be stated on the application. Borrower's ability to repay the loan is based upon past credit history and FICO score.
>
> *No Doc with Assets*: The No Doc with Assets documentation type does not require the applicant's income, employment sources to be stated on the application. Assets must be documented and independently verified by means of a written verification of deposit with two (2) months' average balance; most recent bank statements, stocks or *securities* statements covering a two-(2) month period. The borrower must demonstrate that they have sufficient reserves (sourced and seasoned) of greater than or equal to three months principal, interest, taxes and insurance. Borrower's ability to repay the loan is based upon past credit history; FICO score and verified assets.

BSMF 2007-AR3 Prospectus Supplement at S-37-39. *See also* BSSLT 2007-1 Group II and III Prospectus Supplement at S-43-45; BSMF 2006-AR1 Prospectus Supplement at S-34-35; BSMF 2006-AR2 Prospectus Supplement at S-36-37; BSMF 2006-AR3 Prospectus Supplement at S-37-38; BSMF 2006-AR4 Prospectus Supplement at S-28-30; BSMF 2006-AR5 Prospectus Supplement at S-33-35; BSMF 2007-AR1 Prospectus Supplement at S-33-35; BSMF 2007-AR4 Prospectus Supplement at S-42-43; BSMF 2007-AR5 Prospectus Supplement at S-41-42; BSMF 2006-AR2 Free Writing Prospectus, Sept. 7, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR4 Free Writing Prospectus, Oct. 23, 2006, at the "Underwriting Guidelines" section.

463. The BSSLT 2007-1 Prospectus Supplement stated:

> The underwriting guidelines require that the income of each applicant for a mortgage loan under the full/alternative documentation program be verified. The specific income documentation required for the originator's various programs is as follows: under the full/alternative documentation program, applicants are required to submit one written form of verification from the employer of stable income for at least 12 months. The documentation may take the form of a Verification of Employment form provided by the employer, the most recent pay stub with year-to-date earnings and the most recent W-2 or a copy of the borrower's federal tax returns. Under the limited documentation program the borrower may choose to submit 12 consecutive months of personal checking account bank statements. Under the stated income

> documentation program, an applicant may be qualified based upon monthly income as stated on the mortgage loan application if the applicant meets certain criteria. Income stated on the application is not verified under the stated income documentation program. All of the foregoing programs require that, with respect to salaried employees, there be a telephone verification of the applicant's employment. Verification of the source of funds to close the loan, if any, deposited by the applicant into escrow in the case of a purchase money loan is required.

BSSLT 2007-1 Group II and Group III Prospectus Supplement at S-42-43; *see also* BSSLT 2007-1 Group I Prospectus Supplement.

464. The BSMF 2007-AR5 Prospectus Supplement stated:

> The 5-Year and 7-Year Secure Option ARM loans originated by Quicken Loans are originated under two documentation programs: *full documentation* and *stated income/verified assets*. Under Quicken Loans' *full documentation program*, underwriting efforts are undertaken to obtain written substantiation of information furnished by the borrower with respect to his or her liabilities, income and assets. Acceptable documentation for income verification may include, but is not limited to, the borrower's most recent pay stubs or previous two years of W2 forms and telephonic verification of employment. The borrower's assets are generally verified by obtaining two consecutive months of bank/brokerage account statements and such statements are reviewed to ensure that sufficient funds are available to meet the asset reserve requirements of the program. Generally, under the *stated income/verified assets* program, the borrower furnishes information with respect to his/her income and two years of employment history. Quicken Loans verifies the borrower's employment history without confirmation of income either telephonically or in writing. The borrower's assets are verified as indicated above.

BSMF 2007-AR5 Prospectus Supplement at S-45-46.

465. With regard to loans originated by Countrywide under its reduced documentation programs, the BALTA 2006-7 Prospectus Supplement stated:

> Under the Reduced Documentation Program, some underwriting documentation concerning income, employment and asset verification is waived. Countrywide Home Loans obtains from a prospective borrower either a verification of deposit or bank statements for the two-month period immediately before the date of the mortgage loan application or verbal verification of employment. Since information relating to a prospective borrower's income and employment is not verified, the borrower's debt-to-income ratios are calculated based on the information provided by the borrower in the mortgage loan application. The maximum Loan-to-Value Ratio ranges up to 95%.
>
> The CLUES Plus Documentation Program permits the verification of employment by alternative means, if necessary, including verbal verification of employment or

reviewing paycheck stubs covering the pay period immediately prior to the date of the mortgage loan application. To verify the borrower's assets and the sufficiency of the borrower's funds for closing, Countrywide Home Loans obtains deposit or bank account statements from each prospective borrower for the month immediately prior to the date of the mortgage loan application. Under the CLUES Plus Documentation Program, the maximum Loan-to-Value Ratio is 75% and property values may be based on appraisals comprising only interior and exterior inspections. Cash-out refinances and investor properties are not permitted under the CLUES Plus Documentation Program.

The Streamlined Documentation Program is available for borrowers who are refinancing an existing mortgage loan that was originated or acquired by Countrywide Home Loans provided that, among other things, the mortgage loan has not been more than 30 days delinquent in payment during the previous twelve-month period. Under the Streamlined Documentation Program, appraisals are obtained only if the loan amount of the loan being refinanced had a Loan-to-Value Ratio at the time of origination in excess of 80% or if the loan amount of the new loan being originated is greater than $650,000. In addition, under the Streamlined Documentation Program, a credit report is obtained but only a limited credit review is conducted, no income or asset verification is required, and telephonic verification of employment is permitted. The maximum Loan-to-Value Ratio under the Streamlined Documentation Program ranges up to 95%.

. . .

In connection with the Expanded Underwriting Guidelines, Countrywide Home Loans originates or acquires mortgage loans under the Full Documentation Program, the Alternative Documentation Program, the Reduced Documentation Loan Program, the No Income/No Asset Documentation Program and the Stated Income/Stated Asset Documentation Program. Neither the No Income/No Asset Documentation Program nor the Stated Income/Stated Asset Documentation Program is available under the Standard Underwriting Guidelines.

The same documentation and verification requirements apply to mortgage loans documented under the Alternative Documentation Program regardless of whether the loan has been underwritten under the Expanded Underwriting Guidelines or the Standard Underwriting Guidelines. However, under the Alternative Documentation Program, mortgage loans that have been underwritten pursuant to the Expanded Underwriting Guidelines may have higher loan balances and Loan-to-Value Ratios than those permitted under the Standard Underwriting Guidelines.

Similarly, the same documentation and verification requirements apply to mortgage loans documented under the Reduced Documentation Program regardless of whether the loan has been underwritten under the Expanded Underwriting Guidelines or the Standard Underwriting Guidelines. However, under the Reduced Documentation Program, higher loan balances and Loan-to-Value Ratios are permitted for mortgage loans underwritten pursuant to the Expanded Underwriting Guidelines than those permitted under the Standard Underwriting Guidelines. The

> maximum Loan-to-Value Ratio, including secondary financing, ranges up to 90%. The borrower is not required to disclose any income information for some mortgage loans originated under the Reduced Documentation Program, and accordingly debt-to-income ratios are not calculated or included in the underwriting analysis. The maximum Loan-to-Value Ratio, including secondary financing, for those mortgage loans ranges up to 85%.
>
> Under the No Income/No Asset Documentation Program, no documentation relating to a prospective borrower's income, employment or assets is required and therefore debt-to-income ratios are not calculated or included in the underwriting analysis, or if the documentation or calculations are included in a mortgage loan file, they are not taken into account for purposes of the underwriting analysis. This program is limited to borrowers with excellent credit histories. Under the No Income/No Asset Documentation Program, the maximum Loan-to-Value Ratio, including secondary financing, ranges up to 95%. Mortgage loans originated under the No Income/No Asset Documentation Program are generally eligible for sale to Fannie Mae or Freddie Mac.
>
> Under the Stated Income/Stated Asset Documentation Program, the mortgage loan application is reviewed to determine that the stated income is reasonable for the borrower's employment and that the stated assets are consistent with the borrower's income. The Stated Income/Stated Asset Documentation Program permits maximum Loan-to-Value Ratios up to 90%. Mortgage loans originated under the Stated Income/Stated Asset Documentation Program are generally eligible for sale to Fannie Mae or Freddie Mac.

BALTA 2006-7 Prospectus Supplement at S-59-61. *See also* BALTA 2006-2 Prospectus Supplement at S-58-60; BALTA 2006-5 Prospectus Supplement at S-49-51; BALTA 2006-4 Prospectus Supplement at S-67-69; BALTA 2006-6 Prospectus Supplement at S-62-64; BALTA 2007-1 Prospectus Supplement at S-50-52; BALTA 2006-2 Free Writing Prospectus, June 24, 2005, at S-32-35; BALTA 2006-6 Free Writing Prospectus, Aug. 30, 2006, at the "Underwriting Standards" section; BALTA 2007-1 Free Writing Prospectus, Jan. 10, 2007, at the "Underwriting Standards" section; BSARM 2006-4 Prospectus Supplement at S-46-48; CWALT 2006-OA16 Prospectus Supplement at S-49-51; SAMI 2006-AR8 Prospectus Supplement at S-50-52; SAMI 2006-AR3 Prospectus Supplement at S-71-74; SAMI 2006-AR7 Prospectus Supplement at S-47-49; SAMI 2006-AR4 Prospectus Supplement at S-53-56; SAMI 2006-AR6 Prospectus Supplement at S-45-47.

466. The GMACM 2006-HE4 Prospectus Supplement stated:

> Under the GMAC Mortgage Corporation underwriting guidelines, loans may also be originated under the "Stated Income Program," a no income verification program for self employed borrowers and salaried borrowers. For those loans, only a credit check and an appraisal are required. Those loans are generally limited to primary residences and second homes. In addition, the borrower may be qualified under either the "No Income/No Appraisal" or "Stated Value" programs. Under such programs, a credit check is required, and the CLTV Ratio is limited to 100% for both the No Income No Appraisal and Stated Income style. … In addition, the borrower may be qualified under a "No Income Verification" or "Stated Income" program. Under that program, a credit check is required, and the CLTV Ratio is limited to 100%. The borrower is qualified based on the income stated on the application. Those loans are generally limited to an amount of $130,000 or less, and are limited to primary residences. These loans require a drive by appraisal or statistical property evaluation for property values of $500,000 or less or when the loan amount is less than or equal to $200,000, a 2055 appraisal report is required for all loan amounts greater than $200,000 and for all manufacture, investment and three and four unit properties.
>
> "GoFast" is a no income/no asset verification program that generally requires a minimum FICO score of 680 for up to a maximum 95% CLTV and limits the loan amount to $130,000. A property valuation is required under the GoFast program.
>
> . . .
>
> The underwriting standards set forth in the GMAC Mortgage Corporation underwriting guidelines may be varied for certain refinance transactions, including "limited documentation" or "reduced documentation" mortgage loan refinances. Limited or reduced documentation refinances, including the programs "Streamline," "Super Express," and "Express," generally permit fewer supporting documents to be obtained or waive income, appraisal, asset, credit score and employment documentation requirements. Limited or reduced documentation refinances generally compensate for increased credit risk by placing greater emphasis on the borrower's payment history. Generally, in order to be eligible for a limited or reduced documentation refinance, a borrower must be an existing customer of GMAC Mortgage Corporation, have a good credit history and stable employment and the mortgage loan must demonstrate other compensating factors, such as a relatively low CLTV Ratio or other favorable underwriting factors.

GMACM 2006-HE4 Prospectus Supplement at S-46-49.

467. The NHELI 2007-1 Prospectus Supplement stated:

> All of the mortgage loans have been originated either under FNBN's "full" or "alternative" underwriting guidelines (i.e., the underwriting guidelines applicable to the mortgage loans typically are less stringent than the underwriting guidelines established by Fannie Mae or Freddie Mac primarily with respect to the income

> and/or asset documentation which borrower is required to provide). To the extent the programs reflect underwriting guidelines different from those of Fannie Mae and Freddie Mac, the performance of the mortgage loans there under may reflect relatively higher delinquency rates and/or credit losses. In addition, FNBN may make certain exceptions to the underwriting guidelines described herein if, in FNBN's discretion, compensating factors are demonstrated by a prospective borrower.

NHELI 2007-1 Prospectus Supplement at S-104.

468. The INDS 2006-3 Prospectus Supplement stated:

> The Stated Income Documentation Program requires prospective borrowers to provide information regarding their assets and income. Information regarding a borrower's assets, if applicable, is verified through written communications. Information regarding income is not verified and employment verification may not be written.

INDS 2006-3 Prospectus Supplement at S-27. *See also* INDS 2007-1 Prospectus Supplement at S-24; INDS 2006-3 Registration Statement, June 2, 2006, at S-39; INDS 2007-1 Registration Statement, June 2, 2006, at S-39.

469. The INDYL 2006-L2 Prospectus Supplement states:

> Regardless of the mortgage loan program, each applicant completes an application that includes information with respect to the applicant's assets, liabilities, income, credit history, employment history and personal information. The Underwriting Guidelines require a credit report on each applicant from a credit reporting company. 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 late payments, defaults, bankruptcies, repossessions, judgments or tax liens.
>
> The mortgage loan application also verifies the borrower's identity as required of financial institutions under the USA Patriot Act. Residential lot loans are not available to nonpermanent resident aliens and foreign nationals.
>
> <u>Full/Alternate Documentation Program</u>. Under the Full/Alternate Documentation Program, the prospective borrower's employment, income and assets are verified through written or telephonic communications. All residential lot loans may be submitted under the Full/Alternate Documentation Program. The Full/Alternate Documentation Program also provides for alternative methods of employment verification generally using W-2 forms or pay stubs.
>
> <u>Stated Income Program</u>. Under the Stated Income Program, which covers both the "Reduced Documentation Program" and the "No Ratio Program," more emphasis is

> placed on the prospective borrower's credit score and on the value and adequacy of the mortgaged property as collateral and other assets of the prospective borrower than on income underwriting. The Reduced Income Documentation Program requires prospective borrowers to provide information regarding their assets and income. Information regarding assets is verified through written communications. Information regarding income is not verified. The No Ratio Program requires prospective borrowers to provide information regarding their assets, which is then verified through written communications. The No Ratio Program does not require prospective borrowers to provide information regarding their income. Employment is orally verified under both programs.

INDYL 2006-L2 Prospectus Supplement at S-25-26. *See also* INDYL 2006-L2 Free Writing Prospectus, June 12, 2006, at the "Underwriting Standards" section.

470. The PCHLT 2005-4 Prospectus Supplement stated:

> The specific income documentation required for PCHLI's various programs varies as follows: under the full documentation program, applicants usually are required to submit one written form of verification of stable income for at least 12 months. Under the lite 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 or business (limited to 50% of the funds in a business account; corporate accounts do not qualify) checking account bank statements or a current paycheck stub with year-to-date information. Under the stated income documentation program, an applicant will be qualified based upon monthly income as stated on the mortgage loan application if the applicant meets certain criteria. All of these programs require, for salaried employees, a telephone verification of the applicant's employment, and verification of funds, if any, deposited by the applicant into escrow (if any) in the case of a purchase money loan. For a self-employed borrower, there is a telephone verification as well as additional documentation to verify the existence of the business owned by the borrower.

PCHLT 2005-4 Prospectus Supplement at S-58.

471. The SACO 2006-4 Prospectus Supplement stated:

> The mortgage loans will be originated under "full/alternative", "stated income/verified assets", "stated income/stated assets", "no documentation" or "no ratio" programs. The "full/alternative" documentation programs generally verify income and assets in accordance with Fannie Mae/Freddie Mac automated underwriting requirements. The stated income/verified assets, stated income/stated assets, no documentation or no ratio programs generally require less documentation and verification than do full documentation programs which generally require standard Fannie Mae/Freddie Mac approved forms for verification of income/employment, assets and certain payment histories. Generally, under both "full/alternative" documentation programs, at least one month of income documentation is provided. This documentation is also required to include year-to-

> date income or prior year income in case the former is not sufficient to establish consistent income. Generally under a "stated income verified assets" program no verification of a mortgagor's income is undertaken by the origination however, verification of the mortgagor's assets is obtained. Under a "stated income/stated assets" program, no verification of either a mortgagor's income or a mortgagor's assets is undertaken by the originator although both income and assets are stated on the loan application and a "reasonableness test" is applied. Generally, under a "no documentation" program, the mortgagor is not required to state his or her income or assets and therefore, no verification of such mortgagor's income or assets is undertaken by the originator. The underwriting for such mortgage loans may be based primarily or entirely on the estimated value of the mortgaged property and the LTV ratio at origination as well as on the payment history and credit score. Generally, under a "no ratio" program, the mortgagor is not required to disclose their income although the nature of employment is disclosed. Additionally, on a "no ratio" program assets are verified.

SACO 2006-4 Prospectus Supplement at 17.

472. The SAMI 2007-AR3 Prospectus Supplement stated:

> Salaried prospective borrowers generally are required to submit pay stubs covering a consecutive 30-day period and their W-2 form for the most recent year. In addition, Aegis may require either a verbal or written verification of employment from the prospective borrower's employer depending on the documentation type selected in the program. If a prospective borrower is self-employed, the borrower may or may not be required to submit copies of signed tax returns or provide bank statements.
>
> Some of the mortgage loans have been originated under "Stated Income", "No Ratio and "No Doc" documentation programs which requires less documentation and verification than do traditional "Full" documentation programs. Under a "Stated Income" documentation program, borrowers are required to state their income. No other investigation regarding the borrower's income will be undertaken, except verification of employment. Under a "No Ratio" documentation program, applicants are not required to state their income and no other investigation regarding the borrower's income, except verification of employment, will be undertaken. Under "No Doc" documentation program income or employment is not required to be disclosed by the applicant. Generally, in order for a borrower to be eligible for the program, the loan- to-value ratio must meet applicable guidelines, the borrower must have a good credit history and the borrower's eligibility for this type of program may be determined by use of a credit-scoring model.

SAMI 2007-AR3 Prospectus Supplement at S-64.

473. The SAMI 2007-AR3 Prospectus Supplement stated:

> *AEGIS Documentation Types*

The mortgage loans have been underwritten under one of the following documentation programs: "Full/Alternative Documentation" (Full/ALT Doc), "Stated Income/Verified Assets" (SIVA), "Limited Documentation", "Lite Documentation", "No Ratio/Verified Assets" (No Ratio), "No Income/No Employment/Verified Assets" (NIVA), "Stated Income/Stated Assets" (SISA), "No Income/No Assets/Verified Employment" (NINA w/employment), and "No Income/No Assets/No Employment" (NINA (No Doc)). All of the programs require that the applicant submit a signed and dated current Fannie Mae Residential Loan Application Form 1003.

Full/Alternative (Full/ALT Doc): The Full/ALT Doc type is based upon current year to date income documentation as well as the previous two year's income documentation (i.e., W-2 forms for salaried borrowers and tax returns, including schedules, for self-employed borrowers). Salaried borrowers must submit a written verification of employment (VOE) or most recent pay stub(s) covering a 30-day period and indicating year-to-date earnings. Each loan is required to have a verbal VOE within 10 calendar days of funding. In addition, the borrower must submit a written verification of deposit (VOD) with 2 months' average balance or his/her most recent bank statements covering a 2-month period. The borrower's employment must be located within 100 miles of his or her residence. In addition, self-employed borrowers must provide a year to date profit-and-loss statement and a signed IRS Form 4506-T (as revised on June 1, 2004). Business funds for such applicant may be used in the provision of the required VOD as long as the business is a sole proprietorship and a CPA letter is provided asserting that (i) 100% of the funds can be withdrawn and (ii) there will be no negative impact on the business as a result of such withdrawal of funds.

Stated Income/Verified Assets (SIVA): Under the SIVA program, more emphasis is placed on the value and adequacy of the mortgaged property as collateral, credit history and other assets of the borrower than on the verified income of the borrower. Income is stated on the application. However, the income must be reasonable given the employment stated. The borrower's assets are verified. In addition, the applicant must submit a written verification of deposit with 2 months' average balance or his/her most recent bank statements covering a 2-month period. A verbal verification of employment is required within 10 calendar days of funding the loan, and the borrower's employment must be located within 100 miles of his or her residence. For self-employed borrowers, a CPA's certification or a copy of a business license is also required.

Limited Documentation: The Limited Documentation program is based on the recent twelve (12) months of consecutive personal bank statements (or business bank statements for sole proprietors). All individuals shown on the bank statement must be borrowers on the loan, and the income must be reasonable given the employment stated. In determining the borrower's eligibility for a loan, monthly income is calculated by averaging deposits of a consistent amount for each month. Large and unusual deposits are excluded as are deposits transferred from another account or line of credit. Particular attention is paid to borrowers whose income is derived from seasonal employment and recurrences of insufficient and overdraft charges.

Assets must be verified for reserves, closing costs and required down payment, as applicable. A verbal verification of employment is required within 10 calendar days of funding the loan, and the borrower's employment must be located within 100 miles of his or her residence. For self-employed borrowers, a CPA's certification or a copy of a business license is also required.

Lite Documentation: The Lite Documentation type is based on the recent six (6) months of personal bank statements (or business bank statements for sole proprietorships). The borrower's Form 1003 covers a 2-year period. All individuals shown on the bank statement must be borrowers on the loan, and the borrower's income must be reasonable given the employment stated. In determining the borrower's eligibility for a loan, monthly income is calculated by averaging deposits of a consistent amount for each month. Large and unusual deposits are excluded as are deposits transferred from another account or line of credit. Particular attention is paid to borrowers whose income is derived from seasonal employment and recurrences of insufficient and overdraft charges. Assets must be verified for reserves, closing costs and required down payment, as applicable. A verbal verification of employment is required within 10 calendar days of funding the loan, and the borrower's employment must be located within 100 miles of his or her residence. For self-employed borrowers, a CPA's certification or a copy of a business license is also required.

No Ratio/Verified Assets (No Ratio): Under the No Ratio program, the borrower's employment and assets are stated on the Form 1003, but his/her income is not stated. The borrower's assets are verified through a written verification of deposit with 2 months' average balance or his/her most recent bank statements covering a 2-month period. In addition, a verbal verification of employment is required within 10 calendar days of funding the loan, and the borrower's employment must be located within 100 miles of his or her residence. For self-employed borrowers, a CPA's certification or a copy of a business license is also required.

No Income/No Employment/Verified Assets (NIVA): The NIVA program requires that the borrower state his/her assets on the Form 1003, but the borrower's employment or income need not be stated. The applicant must submit a written verification of deposit with 2 months' average balance or his/her most recent bank statements covering a 2-month period. Any large increases between the average balance and the current balance of the account must be satisfactorily explained.

Stated Income/Stated Assets (SISA): Under the SISA program, the borrower's employment, income and assets are stated on the Form 1003, but income and assets are not verified. The borrower's income must be reasonable given the employment stated. A verbal verification of employment is required within 10 calendar days of funding the loan, and the borrower's employment must be located within 100 miles of his or her residence. For self-employed borrowers, a CPA's certification or a copy of a business license is also required.

No Income/No Assets/Verified Employment (NINA w/Employment): Under the NINA w/employment program, the borrower states his/her employment on the Form

1003 but not his/her income or assets. A verbal verification of employment is required within 10 calendar days of funding the loan, and the borrower's employment must be located within 100 miles of his or her residence. For self-employed borrowers, a CPA's certification or a copy of a business license is also required.

No Income/No Assets/No Employment (NINA (No Doc)): Under the NINA (No Doc) program, the borrower does not provide his/her employment, income, or assets on the Form 1003.

SAMI 2007-AR3 Prospectus Supplement at S-67-68.

474. The SAMI 2007-AR3 Prospectus Supplement stated:

Each borrower completes a Residential Loan Application (Fannie Mae Form 1003 or Freddie Mac Form 65). The Five Star Series™ program allows for approval of an application pursuant to various documentation types as defined: (a) Full/Alternative Documentation program, (b) Stated Income, Verified Assets (SIVA), (c) Stated Employment/Verified Assets (NIVA), (d) Stated Income/Stated Assets (SISA), (e) No Income/No Assets (NINA) and (f) No Income/No Employment/Verified Assets (NINEVA). The Five Star Plus™ program originates mortgage loans under Full and Stated Income with verified assets only.

The Full/Alternative Documentation program requires a Uniform Residential Loan Application, a Statement of Assets and Liabilities and a Uniform Residential Appraisal Report on the appropriate Fannie Mae or Freddie Mac forms, a credit report, verification of income with a complete two-year employment history, verification of deposits for all liquid assets, and verification of minimum cash reserves as required by the product guidelines. Full/Alternative documentation allows for the use of certain alternative documents in lieu of the some of these forms. Self employed borrowers must provide federal tax returns for the previous two years, additional documents and a signed IRS Form 4506 (Request for Copy of Tax Returns). The debt to income ratio generally does not exceed 50% on loans above 80% loan to value and 60% on loans below 80% loan to value.

Stated Income, Verified Assets (SIVA). Under this program the borrower provides income information on the mortgage loan application, and the debt service to income ratio is calculated generally not to exceed 50%. However, income is not verified. OFS obtains the prospective borrower's verification of deposits or bank statements for the most recent two month period preceding the mortgage loan application.

Stated Employment (No Income)/Verified Assets (NIVA). Under this documentation type, the borrower provides no income information, but provides employment and asset information. OFS verifies the asset information on the mortgage loan application.

> *Stated Income/Stated Assets (SISA).* Under this documentation type, the borrower states their employment, income and assets on the mortgage loan application, none of which are verified.
>
> Limited Documentation (12 Months Bank Statements). Under this documentation type, a borrower who is a wage earner provides a two-year employment history required and 12 consecutive months of personal bank statements. For self-employed borrowers, proof of existence of business for 2 years and 12 consecutive months personal bank statements (average of bank deposits will determine steady income stream). 12 months business bank statements, in lieu of 12 months personal bank statements, will only be considered for borrowers who are sole proprietors of a DBA business. Monthly income is calculated for qualifying purposes by averaging deposits of a consistent amount each month and reviewed to be reasonable for their employment.
>
> *No Income/No Assets (NINA).* Under this documentation type, the borrower provides no income, employment or asset information on the mortgage loan application.
>
> *No Income/No Employment/Verified Assets) (NINEVA).* Under this documentation type, the borrower provides no income or employment information on the mortgage loan application but provides asset information. OFS obtains the prospective borrower's verification of deposits or bank statements for the most recent two months.
>
> Under The Five Star Series™ program, generally, OFS or the conduit seller in the case of a purchase of a closed loan verbally verifies the borrower's employment prior to the closing of the mortgage loan. Credit history, collateral quality and the amount of the down payment are important factors in evaluating a mortgage originated under one of the available documentation types. In addition, under the limited documentation products, the mortgage loan must conform to certain criteria regarding maximum loan amount, property type and occupancy status. Generally, for mortgage loans originated for self-employed borrowers under one of the limited documentation types, except for the No Income and No Asset program ("NINA") and the No Income/No Employment/Verified Assets program ("NINEVA"), borrowers are required to provide either a business license if applicable for their business or a certified public accountant letter stating the borrower has been filing their tax returns as self employed for the past two years.
>
> In all cases, liquid assets must support the level of income of the borrower as stated in proportion to the type of employment of the borrower. Additional documentation is requested by the underwriter if, in the judgment of the underwriter, the compensating factors are insufficient for loan approval under the Five Star Series™ program.

SAMI 2007-AR3 Prospectus Supplement at S-73-74.

475. UNTRUE STATEMENTS AND OMITTED INFORMATION: The preceding statements were material at the time they were made, because the quality of the loans in the mortgage pool directly affects the riskiness of the RMBS investment, and the quality of the loans is dependent upon the underwriting process employed. The preceding statements were untrue at the time they were made, because regardless of the documentation program purportedly employed, the Originators systematically disregarded their underwriting guidelines in order to increase the volume of mortgages originated, emphasizing quantity of loans rather than the quality of those loans (*see supra* Section VII.D). Further evidence of the fact that the loans in the pools collateralizing the Certificates at issue are the product of a systematic disregard of underwriting guidelines is found in, among other things, the surge in delinquencies and defaults shortly after the offerings (*see supra* Table 5), the huge discrepancy between expected and actual losses (*see supra* Figure 2), the collapse of the credit ratings (*see supra* Table 4), and the fact that the Originators were engaged in high OTD lending (*see supra* Table 6).

C. Untrue Statements Concerning Loan-to-Value Ratios

476. The NAA 2007-1 Prospectus Supplement represented that for loans originated by Silver State:

> 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. All appraisals conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation and must be on forms acceptable to Fannie Mae and/or Freddie Mac. Appraisers may be staff appraisers employed by the originator or independent appraisers selected in accordance with pre-established appraisal procedure guidelines established by or acceptable to Silver State.
>
> The appraisal procedure guidelines generally will have required the appraiser or an agent on its behalf to personally inspect the property and to verify whether the property was in good condition and that construction, if new, had been substantially completed. The appraisal generally will have been based upon a market data analysis of recent sales of comparable properties and, when deemed applicable, an analysis

> based on income generated from the property or a replacement cost analysis based on the current cost of constructing or purchasing a similar property.

NAA 2007-1 Prospectus Supplement at S-80.

477. The NAA 2007-3 Prospectus Supplement stated:

> 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 standards for appraisals established by or acceptable to the originators. All appraisals conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation and must be on forms acceptable to Fannie Mae and/or Freddie Mac. Appraisers may be staff appraisers employed by the originators or independent appraisers selected in accordance with pre-established appraisal procedure standards established by the originators. The appraisal procedure standards generally will have required the appraiser or an agent on its behalf to personally inspect the Mortgaged Property and to verify whether the Mortgaged Property was in good condition and that construction, if new, had been substantially completed. The appraisal generally will have been based upon a market data analysis of recent sales of comparable properties and, when deemed applicable, an analysis based on the current cost of constructing or purchasing a similar property.

NAA 2007-3 Prospectus Supplement at S-50-51.

478. The AHMA 2007-3 Prospectus Supplement stated:

> The Originator sets various maximum loan-to-value ratios based on the loan amount, property type, loan purpose and occupancy of the subject property securing the loan. In general, the Originator requires lower loan-to-value ratios for those loans that are perceived to have a higher risk, such as high loan amounts, loans in which additional cash is being taken out on a refinance transaction or loans on second homes. A lower loan-to-value ratio requires a borrower to have more equity in the property which is a significant additional incentive to the borrower to avoid default on the loan.

AHMA 2007-3 Prospectus Supplement at S-53. *See also* AHM 2007-2 Prospectus Supplement at S-48; AHM 2007-2 Free Writing Prospectus, Apr. 18, 2007, at the "Underwriting Guidelines" section.

479. The BSABS 2006-HE4 Prospectus Supplement stated:

> *Appraisal Review.* ResMAE originates loans secured by 1-4 unit residential properties made to eligible borrowers with a vested fee simple (or in some cases a leasehold) interest in the property. The underwriting guidelines of ResMAE are applied in accordance with a procedure which complies with applicable federal and state laws and regulations and generally require an appraisal of the mortgaged property which conforms to Freddie Mac and/or Fannie Mae standards, and if appropriate, a review

appraisal. Generally, appraisals are provided by qualified independent appraisers licensed in their respective states. Review appraisals may only be provided by appraisers approved by the Originator. In most cases, ResMAE relies on a statistical appraisal methodology provided by a third-party. Qualified independent appraisers must meet minimum standards of licensing and provide errors and omissions insurance in states where it is required in order to become approved to do business with ResMAE. Each Uniform Residential Appraisal Report includes a market data analysis based on recent sales of comparable homes in the area and, where deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home. The review appraisal may be a desk review, field review or an automated valuation report that confirms or supports the original appraiser's value of the mortgaged premises.

BSABS 2006-HE4 Prospectus Supplement at S-37.

480. The BSABS 2007-SD3 Prospectus Supplement stated:

Appraisals generally conform to current Fannie Mae and Freddie Mac secondary market requirements for residential property appraisals. All appraisals are subject to an internal appraisal review by the loan underwriter irrespective of the loan-to-value ratio, the amount of the Mortgage Loan or the identity of the appraiser. Certain loans require a third party review in the form of either a desk review or field review. At the discretion of Wells Fargo Bank, any Mortgage Loan originated under the Alt-A Minus program is subject to further review in the form of a desk review, field review or additional full appraisal.

BSABS 2007-SD3 Prospectus Supplement at S-56.

481. The BSMF 2007-AR3 Prospectus Supplement states:

With respect to purchase money or rate/term refinance loans secured by single family residences the following loan-to-value ratios and original principal balances are allowed: loan-to-value ratios at origination of up to 97% for EMC mortgage loans with original principal balances of up to $375,000 if the loan is secured by the borrower's primary residence, up to 95% for EMC mortgage loans secured by one-to-four family, primary residences and single family second homes with original principal balances of up to $650,000, up to 90% for EMC mortgage loans secured by one-to-four family, primary residences, single family second homes with original principal balances of up to $1,000,000 and up to 70% for mortgage loans secured by one-to-four, primary residences and single family second homes with original principal balances of up to $2,000,000, or super jumbos. For cash out refinance loans, the maximum loan-to-value ratio generally is 95% and the maximum "cash out" amount permitted is based in part on the original amount of the related EMC mortgage loan.

With respect to mortgage loans secured by investment properties, loan-to-value ratios at origination of up to 90% for mortgage loans with original principal balances up to $500,000 are permitted. Mortgage loans secured by investment properties may

> have higher original principal balances if they have lower loan-to-value ratios at origination. For cash out refinance loans, the maximum loan-to-value ratio generally is 90% and the maximum "cash out" amount permitted is based in part on the original amount of the related mortgage loan.

BSMF 2007-AR3 Prospectus Supplement at S-33. *See also* BSMF 2007-AR4 Prospectus Supplement at S-37-38; BSMF 2007-AR5 Prospectus Supplement at S-36; BSMF 2006-AR1 Prospectus Supplement at S-31; BSMF 2006-AR2 Prospectus Supplement at S-33; BSMF 2006-AR3 Prospectus Supplement at S-34; BSMF 2006-AR4 Prospectus Supplement at S-25; BSMF 2006-AR5 Prospectus Supplement at S-30-31; BSMF 2007-AR1 Prospectus Supplement at S-30-31; BSMF 2006-AR2 Free Writing Prospectus, Sept. 7, 2006, at the "Underwriting Guidelines" section; BSMF 2006-AR4 Free Writing Prospectus, Oct. 23, 2006, at the "Underwriting Guidelines" section.

482. The BSMF 2007-AR3 Prospectus Supplement states:

> The maximum allowable loan-to-value ratio varies based upon the income documentation, property type, creditworthiness, debt service-to-income ratio of the applicant and the overall risks associated with the loan decision.
>
> . . .
>
> With respect to purchase money or rate/term refinance loans secured by single family residences the following loan-to-value ratios and original principal balances are allowed: loan-to-value ratios at origination of up to 95% for BSRM mortgage loans with original principal balances of up to $500,000 if the loan is secured by the borrower's primary residence, up to 90% for BSRM mortgage loans secured by one-to-two family, primary residences with original balances up to $650,000, up to 80% for BSRM mortgage loans secured by one-to-two family, primary residences with original balances up to $1,000,000, up to 75% for mortgage loans secured by one-to-two family, primary residences with original principal balances of up to $3,000,000, up to 90% for BSRM mortgage loans secured by single family second homes with original principal balances of up to $500,000, up to 80% for BSRM mortgage loans secured by single family second homes with original principal balances of up to $1,000,000, up to 70% for mortgage loans secured by single family second homes with original principal balances of up to $1,500,000 and up to 65% for mortgage loans secured by single family second homes with original principal balances of up to $2,000,000. For cash out refinance loans, the maximum loan-to-value ratio generally is 90% and the maximum "cash out" amount permitted is based in part on the original amount of the related BSRM mortgage loan.
>
> With respect to mortgage loans secured by investment properties, loan-to-value ratios at origination of up to 90% for mortgage loans with original principal balances

> up to $650,000 are permitted. Mortgage loans secured by investment properties may have higher original principal balances if they have lower loan-to-value ratios at origination. For cash out refinance loans, the maximum loan-to-value ratio generally is 90% and the maximum "cash out" amount permitted is based in part on the original amount of the related mortgage loan.

BSMF 2007-AR3 Prospectus Supplement at S-37. *See also* BSMF 2007-AR4 Prospectus Supplement at S-41-42; BSMF 2007-AR5 Prospectus Supplement at S-40-41; BSMF 2006-AR1 Prospectus Supplement at S-33-34; BSMF 2006-AR2 Prospectus Supplement at S-35-36; BSMF 2006-AR3 Prospectus Supplement at S-36-37; BSMF 2006-AR4 Prospectus Supplement at S-28; BSMF 2006-AR5 Prospectus Supplement at S-33; BSMF 2007-AR1 Prospectus Supplement at S-33.

483. The GMACM 2006-HE4 Prospectus Supplement stated:

> The mortgage loans included in the mortgage pool generally were originated subject to a maximum CLTV Ratio of 100.00%.
>
> . . .
>
> An appraisal may be made of the mortgaged property securing each mortgage loan. The appraisal may be either a full appraisal, a drive-by appraisal or a statistical property evaluation. Any appraisals may be performed by appraisers independent from or affiliated with the GMAC Mortgage Corporation or their affiliates. Appraisals, however, will not establish that the mortgaged properties provide assurance of repayment of the mortgage loans. See "Risk Factors The Mortgaged Properties Might Not be Adequate Security for the Mortgage Loans" in this prospectus supplement. If a full appraisal is required, the appraiser may be required to inspect the property and verify that it is in good condition and that construction, if new, has been completed. If a drive-by appraisal is required, the appraiser is only required to perform an exterior inspection of the property. The appraisal is based on various factors, including the market value of comparable homes and the cost of replacing the improvements. The GMAC Mortgage Corporation underwriting standards provide that a statistical property evaluation may be completed in lieu of a drive-by appraisal by a third-party who performs an electronic comparison of the stated value of the mortgaged properties with comparable properties in the area. GMAC Mortgage Corporation believes that no more than 70% (by aggregate principal balance as of the cut-off date) of the initial mortgage loans are secured by mortgaged properties which may have been appraised using the statistical property evaluation method. Each appraisal is required to be dated no more than 180 days (for new construction) or 120 days (for existing construction) prior to the date of approval of the mortgage loan; provided, that depending on the credit limit for that mortgage loan, an earlier appraisal may be utilized if that appraisal was made not earlier than one year prior to the date of origination of the mortgage loan and the related appraiser certifies that the value of the related mortgaged property has not

> declined since the date of the original appraisal or if a field review or statistical property evaluation is obtained.

GMACM 2006-HE4 Prospectus Supplement at S-47-48.

484. The LUM 2006-7 Prospectus Supplement states:

> Each appraisal includes a market data analysis based on recent sales of comparable homes in the area. The LBB Underwriting Guidelines generally permit mortgage loans with loan-to-value ratios at origination of up to 100% (or, with respect to certain mortgage loans, up to 95%) for the highest credit-grading category, depending on the creditworthiness of the borrower, the type and use of the property, the debt-to-income ratio and the purpose of the loan application.

LUM 2006-7 Prospectus Supplement at S-40.

485. The INDS 2006-3 Prospectus Supplement represented: "Maximum loan-to-value and combined loan-to-value ratios and loan amounts are established according to the occupancy type, loan purpose, property type, FICO Credit Score, number of previous late mortgage payments, and the age of any bankruptcy or foreclosure actions." INDS 2006-3 Prospectus Supplement at S-27. *See also* INDS 2007-1 Prospectus Supplement at S-25; INDS 2006-3 Registration Statement, June 2, 2006, at S-40; INDS 2007-1 Registration Statement, June 2, 2006, at S-40.

486. The INDYL 2006-L2 Prospectus Supplement stated:

> The Underwriting Guidelines permit the mortgage loans to have Loan-to-Value Ratios at origination of up to 90% for the Full/Alternate Documentation program and 85% for the Stated Income Documentation programs, depending on, among other things, the mortgage loan amount and credit score. The Loan-to-Value of each residential lot loan is based on the lesser of the valuation set forth in the original appraisal and the purchase price. There can be no assurance that the value of a mortgaged property estimated in any appraisal or review is equal to the actual value of such mortgaged property at the time of such appraisal or review. Furthermore, there can be no assurance that the actual value of a mortgaged property has not declined subsequent to the time of such appraisal or review.

INDYL 2006-L2 Prospectus Supplement at S-26. *See also* INDYL 2006-L2 Free Writing Prospectus, June 12, 2006, at the "Underwriting Standards" section.

487. The PCHLT 2005-4 Prospectus Supplement stated:

> The maximum LTV depends on, among other things, the loan size, the purpose of the mortgage loan, borrower's credit history, repayment ability and debt service-to-income ratio, as well as the type and occupancy of the property.

PCHLT 2005-4 Prospectus Supplement at S-58.

488. The IMSA 2007-3 Prospectus Supplement states:

> All of the mortgage loans originated under the Progressive Series I, II and III Programs are prior approved and/or underwritten either by employees of Impac Funding or underwritten by contracted mortgage insurance companies or delegated conduit sellers. Generally all of the mortgage loans originated under the Series III+, IV, V and VI Programs are prior approved and/or underwritten by employees of Impac Funding and underwritten by designated conduit sellers. Generally, all of the Series I, Series II and Series III Program mortgage loans with loan to value ratios at origination in excess of 80% have mortgage insurance which may include insurance by Radian, Republic Mortgage Insurance Corporation, PMI or United Guaranty Insurance. The borrower may elect to have primary mortgage insurance covered by their loan payment. If the borrower makes such election, a loan to value ratio between 80.01% and 85.00% requires 12% coverage, a loan to value ratio between 85.01% and 90.00% requires 25% coverage, a loan to value ratio between 90.01% and 95.00% requires 30% coverage and a loan to value ratio between 95.01% and 100% requires 35% coverage. Generally, when the borrower does not make such an election, the related mortgage loan will be covered by a selected mortgage insurance policy issued by Radian or PMI based on the borrowers [sic] credit grade and documentation type to Impac Funding providing coverage of (i) 12% coverage for a mortgage loan with a loan to value ratio between 80.01% and 85.00%, (ii) 25% coverage for a mortgage loan with a loan to value ratio between 85.01% and 90.00%, (iii) 30% coverage for a mortgage loan with a loan to value ratio between 90.01% and 95.00% and (iv) 35% coverage for a mortgage loan with a loan to value ratio between 95.01% and 100%.

IMSA 2007-3 Prospectus Supplement at S-48-49. *See also* IMSA 2007-2 Prospectus Supplement at S-68; IMSA 2007-1 Prospectus Supplement at S-47; IMSA 2006-5 Prospectus Supplement at S-63-64; IMSA 2006-4 Prospectus Supplement at S-43; IMSA 2007-3 Free Writing Prospectus, Apr. 19, 2007, at 48; IMSA 2007-2 Free Writing Prospectus, Mar. 26, 2007, at "The Originators" section.

489. The SACO 2006-4 Prospectus stated:

> High LTV Loans are underwritten with an emphasis on the creditworthiness of the related mortgagor.
>
> . . .

> Mortgaged properties generally will be appraised by licensed appraisers or through an automated valuation system. A licensed appraiser will generally address neighborhood conditions, site and zoning status and condition and valuation of improvements. In the case of mortgaged properties secured by single family loans, the appraisal report will generally include a reproduction cost analysis (when appropriate) based on the current cost of constructing a similar home and a market value analysis based on recent sales of comparable homes in the area. With respect to multifamily properties, commercial properties and mixed-use properties, the appraisal must specify whether an income analysis, a market analysis or a cost analysis was used. An appraisal employing the income approach to value analyzes a property's projected net cash flow, capitalization and other operational information in determining the property's value. The market approach to value analyzes the prices paid for the purchase of similar properties in the property's area, with adjustments made for variations between those other properties and the property being appraised. The cost approach to value requires the appraiser to make an estimate of land value and then determine the current cost of reproducing the improvements less any accrued depreciation. In any case, the value of the property being financed, as indicated by the appraisal, must support, and support in the future, the outstanding loan balance. All appraisals by licensed appraisers are required to be on forms acceptable to Fannie Mae or Freddie Mac. Automated valuation systems generally rely on publicly available information regarding property values and will be described more fully in the related prospectus supplement. An appraisal for purposes of determining the Value of a mortgaged property may include an automated valuation.

SACO 2006-4 Prospectus Supplement at 17-18.

490. The SAMI 2006-AR8 Prospectus Supplement states:

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

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

SAMI 2006-AR8 Prospectus Supplement at S-49-50. *See also* SAMI 2006-AR7 Prospectus Supplement at S-46-47; SAMI 2006-AR3 Prospectus Supplement at S-71; SAMI 2006-AR4 Prospectus Supplement at S-53; SAMI 2006-AR6 Prospectus Supplement at S-44-45; CWALT 2006-OA16 Prospectus Supplement at S-49; BALTA 2007-1 Prospectus Supplement at S-49; BALTA 2006-7 Prospectus Supplement at S-58; BALTA 2006-6 Prospectus Supplement at S-61-62; BALTA 2006-2 Prospectus Supplement at S-57-58; BALTA 2007-1 Free Writing Prospectus, Jan. 10, 2007, at the "Underwriting Standards" section; BALTA 2006-6 Free Writing Prospectus, Aug. 30, 2006, at the "Underwriting Standards" section; BALTA 2006-2 Free Writing Prospectus, June 24, 2005, at S-31-32; BSARM 2006-4 Prospectus Supplement at S-45-46.

491. The SAMI 2006-AR8 Prospectus Supplement continued:

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

> Guidelines allow for Loan-to-Value Ratios of up to 100% for purchase money mortgage loans with original principal balances of up to $375,000.
>
> For cash-out refinance mortgage loans, Countrywide Home Loans' Expanded Underwriting Guidelines for mortgage loans with non-conforming original principal balances generally allow Loan-to-Value Ratios at origination of up to 90% and original principal balances ranging up to $1,500,000. The maximum "cash-out" amount permitted is $400,000 and is based in part on the original Loan-to-Value Ratio of the related mortgage loan.
>
> Countrywide Home Loans' Expanded Underwriting Guidelines for conforming balance mortgage loans generally allow Loan-to-Value Ratios at origination on owner occupied properties of up to 100% on 1 unit properties with principal balances up to $417,000 ($625,500 in Alaska and Hawaii) and 2 unit properties with principal balances up to $533,850 ($800,775 in Alaska and Hawaii) and up to 85% on 3 unit properties with principal balances of up to $645,300 ($967,950 in Alaska and Hawaii) and 4 unit properties with principal balances of up to $801,950 ($1,202,925 in Alaska and Hawaii). On second homes, Countrywide Home Loans' Expanded Underwriting Guidelines for conforming balance mortgage loans generally allow Loan-to-Value Ratios at origination of up to 95% on 1 unit properties with principal balances up to $417,000 ($625,500 in Alaska and Hawaii). Countrywide Home Loans' Expanded Underwriting Guidelines for conforming balance mortgage loans generally allow Loan-to-Value Ratios at origination on investment properties of up to 90% on 1 unit properties with principal balances up to $417,000 ($625,500 in Alaska and Hawaii) and 2 unit properties with principal balances up to $533,850 ($800,775 in Alaska and Hawaii) and up to 85% on 3 unit properties with principal balances of up to $645,300 ($967,950 in Alaska and Hawaii) and 4 unit properties with principal balances of up to $801,950 ($1,202,925 in Alaska and Hawaii).

SAMI 2006-AR8 Prospectus Supplement at S-51-52. *See also* SAMI 2006-AR7 Prospectus Supplement at S-48-49; SAMI 2006-AR3 Prospectus Supplement at S-72-73; SAMI 2006-AR4 Prospectus Supplement at S-54-55; SAMI 2006-AR6 Prospectus Supplement at S-46-47; CWALT 2006-OA16 Prospectus Supplement at S-50-51; BALTA 2007-1 Prospectus Supplement at S-49; BALTA 2006-7 Prospectus Supplement at S-59-60; BALTA 2006-6 Prospectus Supplement at S-63; BALTA 2006-2 Prospectus Supplement at S-59; BALTA 2007-1 Free Writing Prospectus, Jan. 10, 2007, at the "Underwriting Standards" section; BALTA 2006-6 Free Writing Prospectus, Aug. 30, 2006, at the "Underwriting Standards" section; BALTA 2006-2 Free Writing Prospectus, June 24, 2005, at S-33-34; BSARM 2006-4 Prospectus Supplement at S-47.

492. The SAMI 2006-AR8 Prospectus Supplement stated:

> SouthStar's Underwriting Guidelines generally allow an LTV at origination of up to 95% for purchase money or rate and term refinance mortgage loans with original principal balances of up to $400,000, up to 90% for mortgage loans with original principal balances of up to $500,000, up to 80% for mortgage loans with original principal balances up to $1,000,000, up to 75% for mortgage loans with original principal balances up to $1,500,000, and up to 70% for mortgage loans with original principal balances up to $3,000,000. For cash-out refinance mortgage loans with original principal balances of up to $650,000, SouthStar generally allows LTV ratios at origination of up to 80%, up to 75% for mortgage loans with original principal balances up to $1,000,000, and up to 70% for mortgage loans with principal balances up to $1,500,000. In addition, SouthStar will allow secondary financing with a Combined Loan-to-Value Ratio of up to 100% for mortgage loans secured by primary residences and up to 95% for mortgage loans secured by second/vacation homes. SouthStar's practice is to continuously review LTV limits and to adjust such limits where economic conditions dictate that such adjustments are appropriate. Any negative comments concerning the quality, condition and current market conditions as noted in the appraisal report may result in a reduction of the maximum LTV permitted for the loan.

SAMI 2006-AR8 Prospectus Supplement at S-54-55; SAMI 2006-AR4 Prospectus Supplement at S-58.

493. The SAMI 2007-AR3 Prospectus Supplement stated:

> With respect to purchase money or rate/term refinance loans secured by single family residences the following loan-to-value ratios and original principal balances are allowed: loan-to-value ratios at origination of up to 95% for AEGIS mortgage loans with original principal balances of up to $500,000 if the loan is secured by the borrower's primary residence, up to 90% for AEGIS mortgage loans secured by primary residences with original principal balances of up to $650,000, up to 80% for AEGIS mortgage loans secured by primary residences, single family second homes with original principal balances of up to $1,000,000 and up to 75% for mortgage loans secured by primary residences with original principal balances of up to $2,000,000, or super jumbos. For cash out refinance loans, the maximum loan-to-value ratio generally is 90% and the maximum "cash out" amount permitted is based in part on the original amount of the related AEGIS mortgage loan.
>
> With respect to mortgage loans secured by investment properties, loan-to-value ratios at origination of up to 80% for mortgage loans with original principal balances up to $650,000 are permitted. Mortgage loans secured by investment properties may have higher original principal balances if they have lower loan-to-value ratios at origination. For cash out refinance loans, the maximum loan-to-value ratio generally is 80% and the maximum "cash out" amount permitted is based in part on the original amount of the related mortgage loan.

SAMI 2007-AR3 Prospectus Supplement at S-66.

494. The SAMI 2007-AR3 Prospectus Supplement stated:

> OFS underwrites one-to-four-family mortgage loans with loan-to-value ratios at origination of up to 100% depending on, among other things, a borrower's credit history, repayment ability and debt service-to-income ratio as well as the type and use of the mortgaged property.

SAMI 2007-AR3 Prospectus Supplement at S-73.

495. 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 underwriting process and adequate assessment and limits on loan-to-value ratios (in addition to accurate appraisals) is key to that process. The preceding statements were untrue at the time they were made because the Originators did not adhere to the maximum loan-to-value ratios as represented in the Offering Documents, encouraged inflated appraisals and frequently granted loans with high loan-to-value ratios with no meaningful assessment of the borrower's ability to repay the loan based on the borrower's credit profile (*see supra* Section VII.D). Further evidence of the fact that the loans in the pools collateralizing the Certificates at issue are the product of a systematic disregard of underwriting guidelines is found in, among other things, the surge in delinquencies and defaults shortly after the offering (*see supra* Table 5), the huge discrepancy between expected and actual losses (*see supra* Figure 2), the collapse of the credit ratings (*see supra* Table 4), and the fact that the Originators were engaged in high OTD lending (*see supra* Table 6).

D. Untrue Statements Concerning Credit Enhancement

496. The NAA 2007-1 Prospectus Supplement stated:

> Credit enhancements provide limited protection to holders of specified certificates against shortfalls in payments received on the Mortgage Loans in the related loan group.

NAA 2007-1 Prospectus Supplement at S-9; *see* NAA 2007-3 Prospectus Supplement at S-5.

497. The AHM 2007-2 Prospectus Supplement represented:

> The credit enhancement features described in the summary of this prospectus supplement are intended to enhance the likelihood that holders of the Class I-A Notes and Class II-A Notes and to a more limited extent, the holders of the Class I-M Notes and Class II-M Notes, will receive regular payments of interest and principal, as applicable.

AHM 2007-2 Prospectus Supplement at S-29. *See also* AHM 2007-2 Free Writing Prospectus, Apr. 18, 2007, at the "Risk Factors" section; AHMA 2007-3 Prospectus Supplement at S-32.

498. The BSABS 2006-HE4 Prospectus Supplement stated: "Credit enhancement provides limited protection to holders of specified certificates against shortfalls in payments received on the mortgage loans." BSABS 2006-HE4 Prospectus Supplement at S-10; *see also* BSABS 2007-SD3 Prospectus Supplement at S-10; BSSLT 2007-1 Group II and III Prospectus Supplement at S-11; BSSLT 2007-1 Group I Prospectus Supplement.

499. The BSMF 2007-AR3 Prospectus Supplement stated:

> Credit enhancement provides limited protection to holders of specified certificates against shortfalls in payments received on the mortgage loans. This transaction employs the following forms of credit enhancement.
>
> *Excess Spread and Overcollateralization.* The mortgage loans are expected to generate more interest than is needed to pay interest on the related certificates because we expect the weighted average net interest rate of the mortgage loans to be higher than the weighted average pass-through rate on the related certificates. In addition, such higher interest rate is paid on a principal balance of mortgage loans that is larger than the current principal amount of the related certificates. Interest payments received in respect of the mortgage loans in excess of the amount that is needed to pay interest on the related certificates, related trust expenses and, with respect to the group I mortgage loans, on and after the distribution date occurring in April 2017, any amounts paid into the final maturity reserve account, will be used to reduce the total current principal amount of the related certificates until a required level of overcollateralization has been achieved.
>
> See *"Description of the Certificates—Excess Spread and Overcollateralization Provisions"* in this prospectus supplement.
>
> *Subordination; Allocation of Losses.* By issuing senior certificates and subordinate certificates, the trust has increased the likelihood that senior certificateholders will receive regular payments of interest and principal.

> The senior certificates will have a payment priority over the related subordinate certificates. Among the classes of subordinate certificates, each class of Class B Certificates in a loan group with a lower numerical class designation will have payment priority over each class of Class B Certificates in such loan group with a higher numerical class designation.
>
> Subordination provides the holders of certificates having a higher payment priority protection against losses realized when the remaining unpaid principal balance on a related mortgage loan exceeds the amount of proceeds recovered upon the liquidation of that mortgage loan. In general, this loss protection is accomplished by allocating any realized losses in excess of available excess spread and any current overcollateralization to the related subordinate certificates, beginning with the related subordinate certificates with the lowest payment priority, until the current principal amount of that subordinate class has been reduced to zero and then allocating any loss to the next most junior class of related subordinate certificates, until the current principal amount of each class of subordinate certificates is reduced to zero. If no related subordinate certificates remain outstanding, the principal portion of realized losses on the mortgage loans in each loan group or sub-loan group, as applicable, will be allocated to the related senior certificates thereof in accordance with the priorities set forth herein under "*Description of the Certificates--Allocation of Realized Losses; Subordination.*"

BSMF 2007-AR3 Prospectus Supplement at S-11. *See also* BSSLT 2007-1 Group II and III Prospectus Supplement at S-11-12; BSSLT 2007-1 Group I Prospectus Supplement; BSMF 2007-AR4 Prospectus Supplement at S-12; BSMF 2007-AR5 Prospectus Supplement at S-12-13; BSMF 2006-AR1 Prospectus Supplement at S-9-10; BSMF 2006-AR2 Prospectus Supplement at S-10-11; BSMF 2006-AR3 Prospectus Supplement at S-11; BSMF 2006-AR4 Prospectus Supplement at S-6-7; BSMF 2006-AR5 Prospectus Supplement at S-10; BSMF 2007-AR1 Prospectus Supplement at S-10.

500. The BALTA 2006-2 Prospectus Supplement represented: "Credit enhancement provides limited protection to holders of specified certificates against shortfalls in payments received on the mortgage loans." BALTA 2006-2 Prospectus Supplement at S-17. *See also* BALTA 2006-4 Prospectus Supplement at S-24; BALTA 2006-5 Prospectus Supplement at S-13; BALTA 2006-6 Prospectus Supplement at S-21; BALTA 2006-7 Prospectus Supplement at S-17; BALTA 2007-1 Prospectus Supplement at the S-14; CWALT 2006-OA16 Prospectus Supplement at S-10.

501. The IMSA 2007-3 Prospectus Supplement represented:

> The credit enhancement features described in this prospectus supplement are intended to enhance the likelihood that holders of the Class A Certificates, and to a limited extent, the holders of the subordinate certificates, will receive regular payments of interest and principal.

IMSA 2007-3 Prospectus Supplement at S-13; IMSA 2006-5 Prospectus Supplement at S-12; IMSA 2006-4 Prospectus Supplement at S-9; IMSA 2007-2 Prospectus Supplement at S-14; IMSA 2007-1 Prospectus Supplement at S-12; IMSA 2007-3 Free Writing Prospectus, Apr. 19, 2007, at 13; IMSA 2007-2 Free Writing Prospectus, Mar. 26, 2007, at the "Risk Factors" section.

502. The INDS 2006-3 Prospectus Supplement represented: "The credit enhancement features described in this prospectus supplement are intended to enhance the likelihood that holders of the Class A Certificates will receive regular distributions of interest and principal." INDS 2006-3 Prospectus Supplement at S-13. *See also* INDS 2007-1 Prospectus Supplement at S-13.

503. The INDYL 2006-L2 Prospectus Supplement stated:

> Credit enhancements provide limited protection to holders of certain certificates against shortfalls in payments received on the mortgage loans. This transaction employs the following forms of credit enhancement:
>
> *Subordination*
>
> On each distribution date, classes that are lower in order of distribution priority will not receive payments until the classes that are higher in order of distribution priority have been paid. If there is not enough money from the mortgage loans on a distribution date to pay all classes of Class A Certificates, the subordinated classes will be the first to forgo payment.
>
> *Application of Realized Losses*
>
> If, on any distribution date, after the balances of the certificates have been reduced by the amount of principal distributed on that date, the total principal balance of the certificates is greater than the total principal balance of the mortgage loans, the principal balance of the outstanding Subordinated Certificates that are lowest in order of distribution priority will be reduced by the amount of that excess.
>
> *Overcollateralization*

Beginning with the distribution date in October 2006, excess interest as described below will be used to make payments of principal on the certificates so that, the aggregate of the class certificate balances of the Class A, Class M and Class B Certificates will be less than the total stated principal balance of the mortgage loans resulting in overcollateralization. The class certificate balance of the Class C Certificates will equal the amount of such overcollateralization. Such payments of principal, to the extent of excess interest available, will continue until the overcollateralization target amount required by the pooling and servicing agreement is reached. The target level of overcollateralization required by the pooling and servicing agreement for each distribution date prior to the distribution date in October 2006 will be zero. For any distribution date beginning in October 2006 and prior to the stepdown date the target level of overcollateralization is 1.50%. On any distribution date, the amount of any overcollateralization will be available to absorb losses from liquidated mortgage loans. If the level of overcollateralization falls below what is required, excess interest will again be paid to the certificates as principal. This will have the effect of reducing the principal balance of the certificates faster than the principal balance of the mortgage loans so that the required level of overcollateralization is restored.

Excess Interest

The mortgage loans are expected to generate more interest than is needed to pay interest on the certificates because the weighted average interest rate of the mortgage loans is expected to be higher than the weighted average pass-through rate on the certificates and expenses of the trust fund. Generally, the excess interest will be used, up to and including the distribution date in September 2006, to pay the holders of the Class C Certificates, and thereafter, to build, restore or maintain the level of overcollateralization to the required amount and to reimburse the Subordinated Certificates for losses that they experienced previously.

See "Description of the Certificates—Overcollateralization Provisions" in this prospectus supplement.

The Policy

An irrevocable and unconditional financial guaranty insurance policy will be issued by Financial Guaranty Insurance Company with respect to the Class A Certificates. The financial guaranty insurance policy will guarantee the timely distribution of interest and the ultimate distribution of principal on the Class A Certificates, subject to the limitations described in this prospectus supplement. The financial guaranty insurance policy will not cover any interest shortfalls due to the application of the cap on the amount of interest based on the net mortgage interest rates, principal prepayments or the application of the Servicemembers Civil Relief Act, as amended or any comparable state or local laws. Additionally, the financial guaranty insurance policy will not cover any Net Cap Carryforward Amounts (as defined herein). If the certificate insurer were unable to pay under the financial guaranty insurance policy, the Class A Certificates could be subject to losses. No class of certificates other than the Class A Certificates will be covered by the financial guaranty insurance policy.

> *See "Description of the Certificates—The Policy" and "The Certificate Insurer" herein for additional information.*

INDYL 2006-L2 Prospectus Supplement at S-9-10. *See also* INDYL 2006-L2 Free Writing Prospectus, June 12, 2006, at the "Credit Enhancement" section.

504. The PCHLT 2005-4 Prospectus Supplement stated:

> In order to maximize the likelihood of a payment in full of amounts of interest and principal to be paid to the holders of the Class 1A1, Class 1A2, Class 1A3 and Class 2A1 Notes on each payment date, holders of the Class 1A1, Class 1A2, Class 1A3 and Class 2A1 Notes have a right to payment of the related Interest Funds and Principal Funds that is prior to the rights of the holders of the Class M Notes. In addition, overcollateralization and the application of Net Monthly Excess Cashflow will also increase the likelihood of payment in full of interest and principal to the Class 1A1, Class 1A2, Class 1A3, Class 2A1 and Class M Notes on each payment date. In order to maximize the likelihood of a payment in full of amounts of interest and principal to be paid to the holders of the Class M Notes on each payment date, holders of the Class M Notes have a right to payment of the related Interest Funds and Principal Funds that is prior to the rights of the holders of the Class M Notes with a lower payment priority.

PCHLT 2005-4 Prospectus Supplement at S-75.

505. The SACO 2006-4 Prospectus Supplement stated: "Credit enhancement provides limited protection to holders of specified certificates against shortfalls in payments received on the mortgage loans." SACO 2006-4 Prospectus Supplement at S-8.

506. The SAMI 2007-AR3 Prospectus Supplement stated:

> *Group II Certificates*
>
> *Excess Spread and Overcollateralization.* The group II mortgage loans are expected to generate more interest than is needed to pay interest on the group II adjustable rate certificates (with respect to the grantor trust Class II-A-3B Certificates, indirectly through the underlying Class II-A-3B Certificates) because we expect the weighted average net interest rate of the group II mortgage loans to be higher than the weighted average pass-through rate on the group II adjustable rate certificates. In addition, such higher interest rate is paid on a principal balance of the group II mortgage loans that is larger than the principal balance of the related certificates. Interest payments received in respect of the group II mortgage loans in excess of the amount that is needed to pay interest on the group II adjustable rate certificates, related trust expenses, will be used to reduce the total principal balance of the group II adjustable rate certificates until a required level of overcollateralization has been achieved.

See "Description of the Certificates—Excess Spread and Overcollateralization Provisions" in this prospectus supplement.

Subordination; Allocation of Losses. By issuing group II senior certificates and group II subordinate certificates, the issuing entity has increased the likelihood that the holders of the group II senior certificates and the group II subordinate certificates having a higher payment priority will receive regular payments of interest and principal.

The group II senior certificates will have payment priority over the group II subordinate certificates. Among the classes of group II subordinate certificates,

- the Class II-B-1 Certificates will have a payment priority over the Class II-B-2, the Class II-B-3, the Class II-B-4, the Class II-B-5 and the Class II-B-6 Certificates;
- the Class II-B-2 Certificates will have a payment priority over the Class II-B-3, the Class II-B-4, the Class II-B-5 and the Class II-B-6 Certificates;
- the Class II-B-3 Certificates will have a payment priority over the Class II-B-4, the Class II-B-5 and the Class II-B-6 Certificates;
- the Class II-B-4 Certificates will have a payment priority over the Class II-B-5 and the Class II-B-6 Certificates;
- the Class II-B-5 Certificates will have a payment priority over the Class II-B-6 Certificates.

In general, this loss protection is accomplished by allocating any realized losses on the group II mortgage loans in excess of available excess spread and any current overcollateralization for the group II adjustable rate certificates to the group II subordinate certificates, beginning with the group II subordinate certificates with the lowest payment priority, until the certificate principal balance of that class of group II subordinate certificates has been reduced to zero and then allocating any loss to the next most junior class of group II subordinate certificates, until the certificate principal balance of each class of group II subordinate certificates has been reduced to zero. If no group II subordinate certificates remain outstanding, the principal portion of realized losses on the group II mortgage loans will be allocated to the Class II-A Certificates, in the order of priority set forth in "*Description of the Certificates—Allocation of Realized Losses; Subordination*" in this prospectus supplement.

Subordination provides the holders of the group II senior certificates and the group II subordinate certificates having a higher payment priority with protection against losses realized when the remaining unpaid principal balance on a group II mortgage loan exceeds the amount of proceeds recovered upon the liquidation of that mortgage loan.

SAMI 2007-AR3 Prospectus Supplement at S-19-20. *See also* SAMI 2006-AR8 Prospectus Supplement at S-16-17; Structured Asset Mortgage Investment II Trust 2006-AR7 Prospectus Supplement at S-15-16; SAMI 2006-AR3 Prospectus Supplement at S-24-26; SAMI 2006-AR4 Prospectus Supplement at S-17-18; SAMI 2006-AR6 Prospectus Supplement at S-14-15.

507. The LUM 2006-7 Prospectus Supplement stated:

Credit Enhancement

Credit enhancement is intended to reduce the loss caused to holders of the certificates as a result of shortfalls in payments received and losses realized on the mortgage loans. The credit enhancement for each of the Class I and Class II offered certificates includes subordination, excess interest, overcollateralization and realized loss allocation with respect to the related group of mortgage loans.

. . .

Subordination

The rights of the holders of the more junior class I and class II of certificates to receive distributions will be subordinated to the rights of the holders of the more senior classes of related certificates to receive distributions. The rights of priority on distributions are intended to increase the likelihood that the holders of Class A certificates of each class will receive regular distributions of interest and principal. *See "Description of the Offered Certificates—Credit Enhancement—Subordination" in this prospectus supplement.*

Excess Interest

Each of the group I and group II mortgage loans bears an amount of interest that, in the aggregate, is expected to exceed the amount needed to pay monthly interest on the related certificates and certain fees and expenses of the issuing entity. This "excess interest" received from the mortgage loans each month will be available to absorb losses realized on the mortgage loans, abate any impairment and maintain overcollateralization at the required levels. *See "Risk Factors—Risks Related to the Certificates" and "Description of the Offered Certificates—Credit Enhancement—Excess Interest" in this prospectus supplement.*

Overcollateralization

The overcollateralization amount is the excess, if any, of the aggregate stated principal balance of the group I or group II mortgage loans over the aggregate certificate principal balance of the class I or class II certificates, as applicable. On the closing date, the aggregate scheduled principal balance of the group I mortgage loans is expected to exceed the aggregate certificate principal balance of the class I certificates by approximately $949,318, which represents approximately 0.35% of the aggregate scheduled principal balance of the group I mortgage loans as of the cut-off date. On the closing date, the aggregate scheduled principal balance of the group II mortgage loans is expected to exceed the aggregate certificate principal balance of the class II certificates by approximately $5,807,383, which represents approximately 1.10% of the aggregate scheduled principal balance of the mortgage loans as of the cut-off date. This excess in each case is referred to in this prospectus supplement as "overcollateralization." After the closing date, to the extent described in this prospectus supplement, a portion of the excess cash flow of a group may be distributed as principal on the related certificates, which may (a) reduce the aggregate certificate principal balance of the related certificates at a faster rate than the aggregate scheduled principal balance of the mortgage loans is being reduced and (b) maintain or restore the required level of overcollateralization for the related class of certificates. We cannot assure you, however, that sufficient excess cash flow will be generated by the mortgage loans to maintain or restore the required level of overcollateralization. *See "Risk Factors—Risks Related to the Certificates" and "Description of the Offered Certificates—Credit Enhancement—Overcollateralization" in this prospectus supplement.*

Allocation of Realized Losses

As described in this prospectus supplement, realized losses on each group of mortgage loans (to the extent that such losses exceed excess interest and any overcollateralization, as described in this prospectus supplement) will be applied to first reduce the certificate principal balances of the related classes of class B certificates sequentially, in reverse numerical order, until the certificate principal balance of each such class of certificates has been reduced to zero. Thereafter, (i) realized losses on the group I mortgage loans will be applied to reduce the certificate principal balance of the Class I-A-2 certificates, and the Class I-A-1 Certificates sequentially, in that order, in each case until the certificate principal balances thereof have been reduced to zero and (ii) realized losses on the group II mortgage loans will be applied to reduce the certificate principal balances of the Class II-A-3 certificates, the Class II-A-2 certificates and the Class II-A-1 certificates, sequentially, in each case until the certificate principal balances thereof have been reduced to zero. If a realized loss has been allocated to reduce the certificate principal balance of a class, such certificate principal balance will not be reinstated (except in the case of subsequent recoveries) and it is unlikely that holders of such class of certificates will receive any payment in respect of that reduction. *See "Description of the Offered Certificates—Credit Enhancement—Realized Losses" in this prospectus supplement.*

LUM 2006-7 Prospectus Supplement at S-6-7.

508. The NHELI 2007-1 Prospectus Supplement stated:

Credit Enhancement

Credit enhancements provide limited protection to holders of specified certificates against shortfalls in payments received on the Mortgage Loans in the related loan group. This transaction employs the following forms of credit enhancement:

Group I Offered Certificates

Subordination. By issuing senior certificates and subordinated certificates which are entitled to distributions from amounts advanced or received on the Group I Mortgage Loans, the trust has increased the likelihood that senior certificateholders will receive regular payments of interest and principal. The Class I-A-1, Class I-A-2, Class I-A-3 and Class I-A-4 Certificates constitute the senior certificates, and the Class I-M-1, Class I-M-2 and Class I-M-3 Certificates constitute the subordinated certificates.

The rights of the holders of the Group I Mezzanine Certificates to receive distributions will be subordinated, to the extent described in this prospectus supplement, to the rights of the holders of the Group I Senior Certificates.

. . .

Subordination is intended to enhance the likelihood of regular distributions on the more senior certificates in respect of interest and principal and to protect the holders of certificates having a higher payment priority against losses realized when the remaining unpaid principal balance on a Group I Mortgage Loan exceeds the amount of proceeds recovered upon the liquidation of that Group I Mortgage Loan net of amounts payable or reimbursable to the servicers, the master servicer, the custodian, the securities administrator and the trustee.

We refer you to "Description of the Certificates—Subordination and Allocation of Realized Losses on the Group I Certificates" in this prospectus supplement.

Allocation of Realized Losses. If, on any distribution date, there is not sufficient excess interest or overcollateralization (represented by the Class I-X Certificates) to absorb realized losses on the Group I Mortgage Loans, then realized losses on the Group I Mortgage Loans will be allocated to the Class I-M-3, Class I-M-2 and Class I-M-1 Certificates, in that order, in each case until the certificate principal balance of each such class has been reduced to zero. The pooling and servicing agreement does not permit the allocation of realized losses on the Group I Mortgage Loans to the Group I Senior Certificates; however, investors in the Group I Senior Certificates should realize that under certain loss scenarios, there will not be enough principal and interest on the Group I Mortgage Loans to pay the Group I Senior Certificates all interest and principal amounts to which those certificates are then entitled. See "Description of the Certificates—Subordination and Allocation of Realized Losses—The Group I Certificates" in this prospectus supplement.

Once realized losses are allocated to the Group I Mezzanine Certificates, their certificate principal balances will be reduced by the amount so allocated.

Excess Spread and Overcollateralization. We expect the Group I Mortgage Loans to generate more interest than is needed to pay interest on the Group I Offered Certificates because we expect the weighted average net mortgage rate of the Group I Mortgage Loans to be higher than the weighted average pass-through rate on the Group I Offered Certificates. As the amount of overcollateralization increases, such higher mortgage rate is paid on the Group I Mortgage Loans with an aggregate principal balance that is larger than the certificate principal balance of the Group I Offered Certificates. On the closing date, it is expected that the aggregate principal balance of the Group I Mortgage Loans will exceed the aggregate certificate principal balance of the Group I Offered Certificates by approximately $670. The amount of overcollateralization required by the pooling and servicing agreement with respect to the Group I Mortgage Loans will not be met at issuance, but over time is targeted to increase as set forth in this prospectus supplement. Interest payments received in respect of the Group I Mortgage Loans in excess of the amount that is needed to pay interest on the Group I Offered Certificates and related expenses of the trust and the supplemental interest trust will be available to absorb realized losses on the Group I Mortgage Loans and to achieve, maintain or restore the required level of overcollateralization.

We refer you to "Description of the Certificates—Excess Spread and Overcollateralization Provisions—The Group I Certificates" in this prospectus supplement.

Group II Offered Certificates

Subordination. By issuing Group II Senior Certificates and Group II Mezzanine Certificates which are subordinated, to the extent described in this prospectus supplement, to the Group II Senior Certificates, the trust has increased the likelihood that holders of the Group II Senior Certificates will receive regular payments of interest and principal from amounts received or advanced on the related Group II Mortgage Loans.

. . .

Subordination is intended to enhance the likelihood of regular distributions on the more senior classes of Group II Offered Certificates in respect of interest and principal and to protect the holders of those certificates having a higher payment priority against losses realized when the remaining unpaid principal balance on a Group II Mortgage Loan exceeds the amount of proceeds recovered upon the liquidation of that Group II Mortgage Loan net of amounts payable or reimbursable to the servicer, the master servicer, the credit risk manager, the custodian, the securities administrator and the trustee.

We refer you to "Description of the Certificates—Credit Enhancement—The Group II Certificates Subordination" in this prospectus supplement.

Allocation of Realized Losses. If, on any distribution date, there is not sufficient excess interest or overcollateralization (represented by the Class II-X Certificates) to absorb realized losses on the Group II Mortgage Loans, then realized losses on the Group II Mortgage Loans will be allocated to the Class II-M-8, Class II-M-7, Class II-M-6, Class II-M-5, Class II-M-4, Class II-M-3, Class II-M-2 and Class II-M-1 Certificates, in that order, in each case until the certificate principal balance of each such class has been reduced to zero. Any remaining Realized Losses on the Group II-1 Mortgage Loans will be allocated the Class II-1-A Certificates and any remaining Realized Losses on the Group II-2 Mortgage Loans will be allocated concurrently to the Class II-2-A-1A, Class II-2-A-1B, Class II-2-A-2, Class II-2-A-3, Class II-2-A-4A and Class II-2-A-4B Certificates, on a pro rata basis, until the certificate principal balance of each such class has been reduced to zero provided, however, that the pro rata portion of realized losses otherwise allocable to the Class II-2-A-1A Certificates will be allocated first to the Class II-2-A-1B Certificates, until the certificate principal balance thereof has been reduced to zero and then, to the Class II-2-A-1A Certificates until the certificate principal balance thereof has been reduced to zero; provided further, that the pro rata portion of realized losses otherwise allocable to the Class II-2-A-4A Certificates will be allocated first to the Class II-2-A-4B Certificates, until the certificate principal balance thereof has been reduced to zero and then, to the Class II-2-A-4A Certificates until the certificate principal balance thereof has been reduced to zero. *See "Description of the Certificates—Credit Enhancement-The Group II Certificates—Application of Realized Losses" in this prospectus supplement.*

Once realized losses on the Group II Mortgage Loans are allocated to a class of Group II Offered Certificates, its certificate principal balance will be reduced by the amount so allocated. However, the amount of any realized losses allocated to the Group II Offered Certificates may be distributed to the holders of such Group II Offered Certificates on subsequent distribution dates to the extent of funds available as described under "Description of the Certificates—Credit Enhancement—The Group II Certificates" and "—The Group II Interest Rate Swap Agreement" in this prospectus supplement.

Excess Spread and Overcollateralization. We expect the Group II Mortgage Loans to generate more interest than is needed to pay interest on the Group II Offered Certificates because we expect the weighted average net mortgage rate of the Group II Mortgage Loans to be higher than the weighted average pass-through rate on the Group II Offered Certificates. On the Closing Date, it is expected that the aggregate principal balance of the Group II Mortgage Loans will exceed the aggregate certificate principal balance of the Group II Offered Certificates by approximately $4,503,528, which is the amount of overcollateralization required by the pooling and servicing agreement. Interest payments received in respect of the Group II Mortgage Loans in excess of the amount that is needed to pay interest on the Group II Offered Certificates and related trust expenses and supplemental interest trust expenses will be available to absorb realized losses on the Group II Mortgage Loans and to maintain or restore the required level of overcollateralization.

We refer you to "Description of the Certificates—Credit Enhancement—The Group II Certificates—Overcollateralization" in this prospectus supplement.

NHELI 2007-1 Prospectus Supplement at S-10-13.

509. UNTRUE STATEMENTS AND OMITTED INFORMATION: The preceding statements were material at the time they were made, because the Credit Unions nearly always purchased the highest-rated tranches of the RMBS, and those highly-rated tranches relied on the credit enhancement, which purportedly afforded protection against financial loss. The preceding statements were untrue at the time they were made, because, due to the Originators' systematic disregard of underwriting standards, the mortgages in the pools were fatally impaired at the outset and destined to fail. This rendered the protection allegedly afforded by the credit enhancement in the highest tranches illusory (*see supra* Section VII.D). Further evidence of the fact that the loans in the pools collateralizing the Certificates at issue are the product of a systematic disregard of underwriting guidelines is found in, among other things, the surge in delinquencies and defaults shortly after the offerings (*see supra* Table 5); the huge discrepancy between expected and actual losses (*see supra* Figure 2); the collapse of the credit ratings (*see supra* Table 4); and the Originators' high OTD lending (*see supra* Table 6).

IX. THE CLAIMS ARE TIMELY

510. 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).

511. The NCUA Board placed U.S. Central and WesCorp into conservatorship on March 20, 2009 and appointed itself conservator. On October 1, 2010, the NCUA Board placed U.S. Central and WesCorp into liquidation and appointed itself as Liquidating Agent.

512. On September 24, 2010, the NCUA Board placed Members United and Southwest into conservatorship. On October 31, 2010, the NCUA Board placed Members United and Southwest into involuntary liquidation, appointing itself Liquidating Agent.

513. Actions brought under Sections 11 and 12 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.

514. Actions brought under Section 17-12a509 of the Kansas Blue Sky law must be brought "within the earlier of two years after discovery of the facts constitution the violation or five years after the violation." Kan. Stat. Ann. § 17-12a509(j).

515. Actions brought under section 25501 of the California Corporate Securities Law must be brought within "five years after the act or transaction constituting the violation or the expiration of two years after the discovery by the plaintiff of the facts constituting the violation, whichever shall first expire." Cal. Corp. Code § 25506(b).

516. Actions brought under section 13 of the Illinois Securities Law of 1953 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).

517. Actions brought under section 581-33 of the Texas Securities Act 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).

518. 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." Mayer *et al.*, *The Rise in Mortgage Defaults* at 15-16; *see also* FSOC Risk Retention Report at 9.

519. 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).

520. Accordingly, U.S. Central and WesCorp did not discover and could not have discovered the untrue statements and/or misleading omissions in the Offering Documents more than one year prior to March 20, 2009, the date on which the NCUA Board placed U.S. Central and WesCorp into conservatorship. Nor could Members United and Southwest have discovered the untrue statements and/or misleading omissions in the Offering Documents more than one year prior to September 24, 2010, the date on which the NCUA Board placed them into conservatorship.

521. In addition, the Credit Unions and/or the NCUA Board, as Liquidating Agent of the Credit Unions, is or was a member of putative classes in the cases listed below. Therefore, the

NCUA Board's claims are subject to legal tolling of the statute of limitations and statute of repose under the doctrine announced in *American Pipe & Construction Co. v. Utah*, 414 U.S. 538 (1974) ("American Pipe doctrine"), and its progeny. *See* Table 8 (Appendix).

522. With respect to those RMBS purchases for which the NCUA Board asserts claims for WesCorp and U.S. Central under Section 11 of the Securities Act (Counts 1-6, 9-11, 13-16), the earliest date they were bona fide offered to the public was March 28, 2006, or not more than three years prior to March 20, 2009. Accordingly, the NCUA Board's Section 11 claims on behalf of WesCorp and U.S. Central are not time-barred.

523. The certificates purchased by Members United and Southwest in the BALTA 2006-5, BALTA 2006-6, BALTA 2006-7, BALTA 2007-1, BSMF 2006-AR4, and INDYL 2006-L2 offerings, were not bona fide offered to the public – after accounting for *American Pipe* tolling – not more than three years prior to September 24, 2010 (Counts 7-8, 12). Accordingly, the NCUA Board's Section 11 claims on behalf of Members United and Southwest are not time barred.

524. With respect to those RMBS purchases for which the NCUA Board asserts claims on behalf of U.S. Central and WesCorp under Section 12(a)(2) (Count 17-18), the earliest sale was March 22, 2006, or not more than three years prior to March 20, 2009. Accordingly, the NCUA Board's Section 12 claims on behalf of U.S. Central and WesCorp are not time-barred.

525. The certificates purchased by Members United and Southwest in the BALTA 2006-5, BALTA 2006-6, BALTA 2006-7, BALTA 2007-1, BSMF 2006-AR4, and INDYL 2006-L2 offerings, were sold to them – after accounting for *American Pipe* tolling – more than three years prior to September 24, 2010 (Counts 19-20). Accordingly, the NCUA Board's Section 12 claims on behalf of Members United and Southwest are not time barred.

526. With respect to those RMBS purchases for which the NCUA Board asserts claims on behalf of U.S. Central under Kansas law (Count 22), the earliest purchase date/offering date with

respect to those claims was March 22, 2006, or not more than five years prior to March 20, 2009. Accordingly, the NCUA Board's state law claims are not time-barred.

527. With respect to those RMBS purchases for which the NCUA Board asserts claims on behalf of WesCorp under California law (Count 21), the earliest purchase date/offering date with respect to those claims was October 19, 2005, or not more than five years prior to March 20, 2009. Accordingly, the NCUA Board's state law claims are not time-barred.

528. With respect to those RMBS purchases for which the NCUA Board asserts claims on behalf of Members United under Illinois law (Count 24), the earliest purchase date/offering date with respect to those claims was November 3, 2006, or not more than five years prior to September 24, 2010. Accordingly, the NCUA Board's state law claims are not time-barred.

529. With respect to those RMBS purchases for which the NCUA Board asserts claims on behalf of Southwest under Texas law (Count 23), the earliest purchase date/offering date with respect to those claims was April 12, 2006, or not more than five years prior to September 24, 2010. Accordingly, the NCUA Board's state law claims are not time-barred.

530. In addition, NCUA entered into a tolling agreement with Bear Stearns for the period between October 18, 2010 and December 14, 2012.

X. CLAIMS FOR RELIEF

FIRST COUNT FOR RELIEF
Section 11 of the Securities Act of 1933
(NAA 2007-1)

531. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the NAA 2007-1 offering.

532. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to U.S. Central's purchase of NAA 2007-1 certificates respectively against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter.

533. 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.

534. 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.

535. U.S. Central purchased the Certificates pursuant to and traceable to the defective registration statement, as alleged above.

536. At the time U.S. Central purchased the Certificates, they did not know of the untrue statements and omissions contained in the registration statement.

537. Bear Stearns's n/k/a JP Morgan Securities conduct as alleged above violated Section 11.

538. U.S. Central and Plaintiff NCUA Board sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, awarding all damages, in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

SECOND COUNT FOR RELIEF
Section 11 of the Securities Act of 1933
(AHM 2007-2)

539. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the AHM 2007-2 offering.

540. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to U.S. Central's purchases of AHM 2007-2 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter.

541. 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.

542. 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.

543. U.S. Central purchased the Certificates pursuant to and traceable to the defective registration statement, as alleged above.

544. At the time U.S. Central purchased the Certificates, it did not know of the untrue statements and omissions contained in the registration statement.

545. Bear Stearns's n/k/a JP Morgan Securities conduct as alleged above violated Section 11.

546. U.S. Central and Plaintiff NCUA Board sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities awarding all damages, in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

<u>THIRD COUNT FOR RELIEF</u>
Section 11 of the Securities Act of 1933
(AHMA 2007-3)

547. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the AHMA 2007-3 offering.

548. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to WesCorp's purchase of the AHMA 2007-3 certificate against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter.

549. 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.

550. 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.

551. WesCorp purchased the Certificates pursuant to and traceable to the defective registration statement, as alleged above.

552. At the time WesCorp purchased the Certificate, it did not know of the untrue statements and omissions contained in the registration statement.

553. Bear Stearns's n/k/a JP Morgan Securities conduct as alleged above violated Section 11.

554. WesCorp and Plaintiff NCUA Board sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities awarding all damages, in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

FOURTH COUNT FOR RELIEF
Section 11 of the Securities Act of 1933
(BSABS 2006-HE4, BSABS 2007-SD3, BSSLT 2007-1)

555. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to the Issuer Defendants other than Bear Stearns Asset Backed Securities I LLC, or specific to offerings other than the BSABS 2006-HE4, BSABS 2007-SD3, and BSSLT 2007-1 offerings.

556. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to U.S. Central's purchases of the BSABS 2006-HE4, BSABS 2007-SD3, and BSSLT 2007-1 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter, and against Defendant Bear Stearns Asset Backed Securities I LLC, as the issuer.

557. 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.

558. 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.

559. U.S. Central purchased the Certificates pursuant to and traceable to the defective registration statement, as alleged above.

560. At the time U.S. Central purchased the Certificates, it did not know of the untrue statements and omissions contained in the registration statement.

561. Bear Stearns's n/k/a JP Morgan Securities and Bear Stearns Asset Backed Securities I LLC's conduct as alleged above violated Section 11.

562. U.S. Central and Plaintiff NCUA Board sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities and Bear Stearns Asset Backed Securities I LLC, 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.

FIFTH COUNT FOR RELIEF

Section 11 of the Securities Act of 1933
(BALTA 2006-2, BALTA 2006-6, BSARM 2006-4, BSMF 2006-AR1, BSMF 2006-AR2, BSMF 2006-AR3, BSMF 2006-AR5, BSMF 2007-AR1, BSMF 2007-AR3, BSMF 2007-AR4, BSMF 2007-AR5, SAMI 2006-AR3, SAMI 2006-AR4, SAMI 2006-AR6, SAMI 2006-AR7, SAMI 2006-AR8, SAMI 2007-AR3)

563. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to the Issuer Defendants other than Structured Asset Mortgage Investments II Inc., or specific to offerings other than the BALTA 2006-2, BALTA 2006-6, BSARM 2006-4, BSMF 2006-AR1, BSMF 2006-AR2, BSMF 2006-AR3, BSMF 2006-AR5, BSMF 2007-AR1, BSMF 2007-AR3, BSMF 2007-AR4, BSMF 2007-AR5, SAMI 2006-AR3, SAMI 2006-AR4, SAMI 2006-AR6, SAMI 2006-AR7, SAMI 2006-AR8, and SAMI 2007-AR3 offerings.

564. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to WesCorp's purchases of the BALTA 2006-2, BALTA 2006-6, BSARM 2006-4, BSMF 2006-AR1, BSMF 2006-AR2, BSMF 2006-AR3, BSMF 2006-AR5, BSMF 2007-AR1, BSMF 2007-AR3, BSMF 2007-AR4, BSMF 2007-AR5, SAMI 2006-AR3, SAMI 2006-AR4, SAMI 2006-AR6, SAMI 2006-AR7, SAMI 2006-AR8, and SAMI 2007-AR3 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter, and against Defendant Structured Asset Mortgage Investments II Inc., as the issuer.

565. 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.

566. 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.

567. WesCorp purchased the Certificates pursuant to and traceable to the defective registration statement, as alleged above.

568. At the time WesCorp purchased the Certificates, they did not know of the untrue statements and omissions contained in the registration statement.

569. Bear Stearns n/k/a JP Morgan Securities and Structured Asset Mortgage Investments II Inc.'s conduct as alleged above violated Section 11.

570. WesCorp and Plaintiff NCUA Board sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities and Defendant Structured Asset Mortgage Investments II 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.

SIXTH COUNT FOR RELIEF
Section 11 of the Securities Act of 1933
(BSMF 2006-AR4, BSMF 2006-AR5, SACO 2006-4)

571. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to the Issuer Defendants other than Structured Asset Mortgage Investments II Inc., or specific to offerings other than the BSMF 2006-AR4, BSMF 2006-AR5, and SACO 2006-4 offerings.

572. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to U.S. Central's purchases of the BSMF 2006-AR4, BSMF 2006-AR5, and SACO 2006-4 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter, and against Defendant Structured Asset Mortgage Investments II Inc., as the issuer.

573. 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.

574. 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.

575. U.S. Central purchased the Certificates pursuant to and traceable to the defective registration statement, as alleged above.

576. At the time U.S. Central purchased the Certificates, they did not know of the untrue statements and omissions contained in the registration statement.

577. Bear Stearns's n/k/a JP Morgan Securities and Structured Asset Mortgage Investments II Inc.'s conduct as alleged above violated Section 11.

578. U.S. Central and Plaintiff NCUA Board sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities and Defendant Structured Asset Mortgage Investments II 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.

SEVENTH COUNT FOR RELIEF
Section 11 of the Securities Act of 1933
(BALTA 2007-1, BSMF 2006-AR4)

579. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to the Issuer Defendants other than Structured Asset Mortgage Investments II Inc., or specific to offerings other than the BALTA 2007-1 and BSMF 2006-AR4 offerings.

580. 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 BALTA 2007-1 and BSMF 2006-AR4 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter, and against Defendant Structured Asset Mortgage Investments II Inc., as the issuer.

581. 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.

582. 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.

583. Members United purchased the Certificates pursuant to and traceable to the defective registration statement, as alleged above.

584. At the time Members United purchased the Certificates, they did not know of the untrue statements and omissions contained in the registration statement.

585. Bear Stearns's n/k/a JP Morgan Securities and Structured Asset Mortgage Investments II Inc.'s conduct as alleged above violated Section 11.

586. Members United and Plaintiff NCUA Board sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities and Defendant Structured Asset Mortgage Investments II 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.

EIGHTH COUNT FOR RELIEF
Section 11 of the Securities Act of 1933
(BALTA 2006-5, BALTA 2006-6, BALTA 2006-7)

587. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to the Issuer Defendants other than Structured Asset Mortgage Investments II Inc., or specific to offerings other than the BALTA 2006-5, BALTA 2006-6, and BALTA 2006-7 offerings.

588. 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 BALTA 2006-5, BALTA 2006-6, and BALTA 2006-7 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter, and against Defendant Structured Asset Mortgage Investments II Inc., as the issuer.

589. 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.

590. 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.

591. Southwest purchased the Certificates pursuant to and traceable to the defective registration statement, as alleged above.

592. At the time Southwest purchased the Certificates, they did not know of the untrue statements and omissions contained in the registration statement.

593. Bear Stearns's n/k/a JP Morgan Securities and Structured Asset Mortgage Investments II Inc.'s conduct as alleged above violated Section 11.

594. Southwest and Plaintiff NCUA Board sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities and Defendant Structured Asset Mortgage Investments II 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.

NINTH COUNT FOR RELIEF
Section 11 of the Securities Act of 1933
(GMACM 2006-HE4)

595. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the GMACM 2006-HE4 offering.

596. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to U.S. Central's purchases of GMACM 2006-HE4 certificate against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter.

597. 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.

598. 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.

599. U.S. Central purchased the certificate pursuant to and traceable to the defective registration statement, as alleged above.

600. At the time U.S. Central purchased the certificate, it did not know of the untrue statements and omissions contained in the registration statement.

601. Bear Stearns's n/k/a JP Morgan Securities conduct as alleged above violated Section 11.

602. U.S. Central and Plaintiff sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, awarding all damages, in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

TENTH COUNT FOR RELIEF
Section 11 of the Securities Act of 1933
(IMSA 2006-4, IMSA 2006-5, IMSA 2007-1, IMSA 2007-2)

603. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the IMSA 2006-4, IMSA 2006-5, IMSA 2007-1, and IMSA 2007-2 offerings.

604. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to WesCorp's purchases of IMSA 2006-4, IMSA 2006-5, IMSA 2007-1, and IMSA 2007-2 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter.

605. 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.

606. 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.

607. WesCorp purchased the certificates pursuant to and traceable to the defective registration statement, as alleged above.

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

609. Bear Stearns's n/k/a JP Morgan Securities conduct as alleged above violated Section 11.

610. WesCorp and Plaintiff sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, awarding all damages, in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

ELEVENTH COUNT FOR RELIEF
Section 11 of the Securities Act of 1933
(IMSA 2007-2, IMSA 2007-3)

611. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the IMSA 2007-2 and IMSA 2007-3 offerings.

612. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to U.S. Central's purchases of IMSA 2007-2 and IMSA 2007-3 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter.

613. 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.

614. 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.

615. U.S. Central purchased the certificates pursuant to and traceable to the defective registration statement, as alleged above.

616. At the time U.S. Central purchased the certificates, it did not know of the untrue statements and omissions contained in the registration statement.

617. Bear Stearns's n/k/a JP Morgan Securities conduct as alleged above violated Section 11.

618. U.S. Central and Plaintiff sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, awarding all damages, in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

TWELFTH COUNT FOR RELIEF
Section 11 of the Securities Act of 1933
(INDYL 2006-L2)

619. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to the Issuer Defendants other than IndyMac MBS, Inc., or specific to offerings other than the INDYL 2006-L2 offering.

620. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to Southwest's purchase of the INDYL 2006-L2 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter, and against Defendant IndyMac MBS, Inc., as the issuer.

621. 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.

622. 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.

623. Southwest purchased the Certificates pursuant to and traceable to the defective registration statement, as alleged above.

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

625. Bear Stearns's n/k/a JP Morgan Securities and IndyMac MBS, Inc.'s conduct as alleged above violated Section 11.

626. Southwest and Plaintiff NCUA Board sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, and Defendant IndyMac MBS, 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.

THIRTEENTH COUNT FOR RELIEF
Section 11 of the Securities Act of 1933
(INDS 2006-3, INDS 2007-1)

627. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the INDS 2006-3 and INDS 2007-1 offerings.

628. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to U.S. Central's purchases of INDS 2006-3 and INDS 2007-1 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter.

629. 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.

630. 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.

631. U.S. Central purchased the Certificates pursuant to and traceable to the defective registration statement, as alleged above.

632. At the time U.S. Central purchased the Certificates, it did not know of the untrue statements and omissions contained in the registration statement.

633. Bear Stearns's n/k/a JP Morgan Securities conduct as alleged above violated Section 11.

634. U.S. Central and Plaintiff NCUA Board sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, awarding all damages, in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

<u>FOURTEENTH COUNT FOR RELIEF</u>
Section 11 of the Securities Act of 1933
(LUM 2006-7)

635. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the LUM 2006-7 offering.

636. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to WesCorp's purchase of the LUM 2006-7 certificate against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter.

637. 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.

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

639. WesCorp purchased the Certificate pursuant to and traceable to the defective registration statement, as alleged above.

640. At the time WesCorp purchased the Certificate, it did not know of the untrue statements and omissions contained in the registration statement.

641. Bear Stearns's n/k/a JP Morgan Securities conduct as alleged above violated Section 11.

642. WesCorp and Plaintiff sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, awarding all damages, in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

FIFTEENTH COUNT FOR RELIEF
Section 11 of the Securities Act of 1933
(NHELI 2007-1)

643. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the NHELI 2007-1 offering.

644. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to WesCorp's purchase of the NHELI 2007-1 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter.

645. 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.

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

647. WesCorp purchased the certificates pursuant to and traceable to the defective registration statement, as alleged above.

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

649. Bear Stearns's n/k/a JP Morgan Securities conduct as alleged above violated Section 11.

650. WesCorp, and Plaintiff NCUA Board sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, and Defendant Nomura Home Equity Loan, 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.

SIXTEENTH COUNT FOR RELIEF
Section 11 of the Securities Act of 1933
(NHELI 2007-1)

651. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the NHELI 2007-1 offering.

652. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to U.S. Central's purchase of the NHELI 2007-1 certificate against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter.

653. 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.

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

655. U.S. Central purchased the certificate pursuant to and traceable to the defective registration statement, as alleged above.

656. At the time U.S. Central purchased the certificate, it did not know of the untrue statements and omissions contained in the registration statement.

657. Bear Stearns's n/k/a JP Morgan Securities conduct as alleged above violated Section 11.

658. U.S. Central and Plaintiff NCUA Board sustained damages as a result of Defendants' violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, awarding all damages, in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

SEVENTEENTH COUNT FOR RELIEF

Section 12(a)(2) of the Securities Act of 1933
(BALTA 2006-6, BSARM 2006-4, BSMF 2006-AR2, BSMF 2006-AR3, BSMF 2006-AR5, BSMF 2007-AR1, BSMF 2007-AR3, BSMF 2007-AR5, IMSA 2006-4, IMSA 2006-5, IMSA 2007-2, SAMI 2006-AR4, SAMI 2006-AR8, SAMI 2007-AR3)

659. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the BALTA 2006-6, BSARM 2006-4, BSMF 2006-AR2, BSMF 2006-AR3, BSMF 2006-AR5, BSMF 2007-AR1, BSMF 2007-AR3, BSMF 2007-AR5, IMSA 2006-4, IMSA 2006-5, IMSA 2007-2, SAMI 2006-AR4, SAMI 2006-AR8, and SAMI 2007-AR3 offerings.

660. The NCUA Board brings this cause of action pursuant to Section 12(a)(2) of the Securities Act of 1933, with respect to WesCorp's purchases of the BALTA 2006-6, BSARM 2006-4, BSMF 2006-AR2, BSMF 2006-AR3, BSMF 2006-AR5, BSMF 2007-AR1, BSMF 2007-AR3, BSMF 2007-AR5, IMSA 2006-4, IMSA 2006-5, IMSA 2007-2, SAMI 2006-AR4, SAMI 2006-AR8, and SAMI 2007-AR3 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter and seller of those certificates.

661. Defendant Bear Stearns n/k/a JP Morgan Securities offered to sell and sold the securities to WesCorp through one or more instrumentalities of interstate commerce (i.e., telephone, faxes, mails, e-mail, or other means of electronic communication).

662. Defendant Bear Stearns n/k/a JP Morgan Securities offered to sell and sold the securities, for its own financial gain, to WesCorp by means of the prospectus and/or prospectus supplements, as alleged above, and/or oral communications related to the prospectuses and/or prospectus supplements.

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

664. 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.

665. WesCorp purchased the certificates on the initial offering pursuant to the prospectus and/or prospectus supplements.

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

667. Defendant Bear Stearns's n/k/a JP Morgan Securities' conduct as alleged above violated Section 12(a)(2).

668. WesCorp and Plaintiff NCUA Board sustained damages as a result of Defendant Bear Stearns n/k/a JP Morgan Securities' violations of Section 12(a)(2).

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

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, 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.

EIGHTEENTH COUNT FOR RELIEF
Section 12(a)(2) of the Securities Act of 1933
(NAA 2007-1, AHM 2007-2, BSABS 2006-HE4, BSABS 2007-SD3, BSSLT 2007-1, BSMF 2006-AR4, GMACM 2006-HE4, IMSA 2007-2, IMSA 2007-3, SACO 2006-4)

670. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the NAA 2007-1, AHM 2007-2, BSABS 2006-HE4, BSABS 2007-SD3, BSSLT 2007-1, BSMF 2006-AR4, GMACM 2006-HE4, IMSA 2007-2, IMSA 2007-3, and SACO 2006-4 offerings.

671. The NCUA Board brings this cause of action pursuant to Section 12(a)(2) of the Securities Act of 1933, with respect to U.S. Central's purchases of the NAA 2007-1, AHM 2007-2, BSABS 2006-HE4, BSABS 2007-SD3, BSSLT 2007-1, BSMF 2006-AR4, GMACM 2006-HE4, IMSA 2007-2, IMSA 2007-3, SACO 2006-4 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter and seller of those certificates.

672. Defendant Bear Stearns n/k/a JP Morgan Securities offered to sell and sold the securities to U.S. Central through one or more instrumentalities of interstate commerce (*i.e.*, telephone, faxes, mails, e-mail, or other means of electronic communication).

673. Defendant Bear Stearns n/k/a JP Morgan Securities offered to sell and sold the securities, for its own financial gain, to U.S. Central by means of the prospectus and/or prospectus supplements, as alleged above, and/or oral communications related to the prospectuses and/or prospectus supplements.

674. 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.

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

676. U.S. Central purchased the certificates on the initial offering pursuant to the prospectus and/or prospectus supplements.

677. At the time U.S. Central purchased the certificates, it did not know of the untrue statements and omissions contained in the prospectuses and/or prospectus supplements.

678. Defendant Bear Stearns's n/k/a JP Morgan Securities' conduct as alleged above violated Section 12(a)(2).

679. U.S. Central and Plaintiff NCUA Board sustained damages as a result of Defendant Bear Stearns n/k/a JP Morgan Securities' violations of Section 12(a)(2).

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

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, 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.

NINETEENTH COUNT FOR RELIEF
Section 12(a)(2) of the Securities Act of 1933
(BALTA 2006-5, BALTA 2006-6, BALTA 2006-7, INDYL 2006-L2)

681. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the BALTA 2006-5, BALTA 2006-6, BALTA 2006-7, and INDYL 2006-L2 offerings.

682. The NCUA Board brings this cause of action pursuant to Section 12(a)(2) of the Securities Act of 1933, with respect to Southwest's purchases of the BALTA 2006-5, BALTA 2006-6, BALTA 2006-7, and INDYL 2006-L2 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter and seller of those certificates.

683. Defendant Bear Stearns n/k/a JP Morgan Securities offered to sell and sold the securities to Southwest through one or more instrumentalities of interstate commerce (i.e., telephone, faxes, mails, e-mail, or other means of electronic communication).

684. Defendant Bear Stearns n/k/a JP Morgan Securities offered to sell and sold the securities, for its own financial gain, to Southwest by means of the prospectus and/or prospectus supplements, as alleged above, and/or oral communications related to the prospectuses and/or prospectus supplements.

685. 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.

686. 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.

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

688. 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.

689. Defendant Bear Stearns's n/k/a JP Morgan Securities' conduct as alleged above violated Section 12(a)(2).

690. Southwest and Plaintiff NCUA Board sustained damages as a result of Defendant Bear Stearns n/k/a JP Morgan Securities' violations of Section 12(a)(2).

691. 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.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, 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.

TWENTIETH COUNT FOR RELIEF
Section 12(a)(2) of the Securities Act of 1933
(BALTA 2007-1, BSMF 2006-AR4)

692. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the BALTA 2007-1 and BSMF 2006-AR4 offerings.

693. The NCUA Board brings this cause of action pursuant to Section 12(a)(2) of the Securities Act of 1933, with respect to Members United's purchases of the BALTA 2007-1 and BSMF 2006-AR4 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the underwriter and seller of those certificates.

694. Defendant Bear Stearns n/k/a JP Morgan Securities offered to sell and sold the securities to Members United through one or more instrumentalities of interstate commerce (i.e., telephone, faxes, mails, e-mail, or other means of electronic communication).

695. Defendant Bear Stearns n/k/a JP Morgan Securities offered to sell and sold the securities, for its own financial gain, to Members United by means of the prospectus and/or prospectus supplements, as alleged above, and/or oral communications related to the prospectuses and/or prospectus supplements.

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

697. 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.

698. Members United purchased the certificates on the initial offering pursuant to the prospectus and/or prospectus supplements.

699. 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.

700. Defendant Bear Stearns's n/k/a JP Morgan Securities' conduct as alleged above violated Section 12(a)(2).

701. Members United and Plaintiff sustained damages as a result of Defendant Bear Stearns n/k/a JP Morgan Securities' violations of Section 12(a)(2).

702. 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.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, 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.

TWENTY-FIRST COUNT FOR RELIEF

Violation of the California Corporate Securities Law of 1968
Cal. Corp. Code §§ 25401 and 25501
(BALTA 2006-2, BALTA 2006-6, BSARM 2006-4, BSMF 2006-AR1, BSMF 2006-AR2, BSMF 2006-AR3, BSMF 2006-AR5, BSMF 2007-AR1, BSMF 2007-AR3, BSMF 2007-AR4, BSMF 2007-AR5, CWALT 2006-OA16, IMSA 2006-4, IMSA 2006-5, IMSA 2007-2, LUM 2006-7, PCHLT 2005-4, SAMI 2006-AR4, SAMI 2006-AR6, SAMI 2006-AR8, SAMI 2007-AR3)

703. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the BALTA 2006-2, BALTA 2006-6, BSARM 2006-4, BSMF 2006-AR1, BSMF 2006-AR2, BSMF 2006-AR3, BSMF 2006-AR5, BSMF 2007-AR1, BSMF 2007-AR3, BSMF 2007-AR4, BSMF 2007-AR5, CWALT 2006-OA16, IMSA 2006-4, IMSA 2006-5, IMSA 2007-2, LUM 2006-7, PCHLT 2005-4, SAMI 2006-AR4, SAMI 2006-AR6, SAMI 2006-AR8, and SAMI 2007-AR3 offerings.

704. The NCUA Board brings this cause of action pursuant to Sections 25401 and 25501 of the California Corporate Securities Law of 1968, with respect to WesCorp's purchases of the BALTA 2006-2, BALTA 2006-6, BSARM 2006-4, BSMF 2006-AR1, BSMF 2006-AR2, BSMF 2006-AR3, BSMF 2006-AR5, BSMF 2007-AR1, BSMF 2007-AR3, BSMF 2007-AR4, BSMF 2007-AR5, CWALT 2006-OA16, IMSA 2006-4, IMSA 2006-5, IMSA 2007-2, LUM 2006-7, PCHLT 2005-4, SAMI 2006-AR4, SAMI 2006-AR6, SAMI 2006-AR8, SAMI 2007-AR3 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the seller of those certificates.

705. Defendant Bear Stearns n/k/a JP Morgan Securities offered to sell and sold the securities to WesCorp 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.

706. 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.

707. At the time WesCorp purchased the certificates, it did not know of these untruths or omissions.

708. Defendant Bear Stearns n/k/a JP Morgan Securities sold the certificates to WesCorp in California.

709. Defendant Bear Stearns n/k/a JP Morgan Securities' sales of the certificates violated Cal. Corp. Code § 25401.

710. WesCorp and Plaintiff sustained damages as a result of Defendant Bear Stearns n/k/a JP Morgan Securities' violations of Cal. Corp. Code § 25401.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, 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.

TWENTY-SECOND COUNT FOR RELIEF
Violation of the Kansas Uniform Securities Act
Kan. Stat. Ann. § 17-12a509
(NAA 2007-1, AHM 2007-2, BSABS 2006-HE4, BSABS 2007-SD3, BSSLT 2007-1, BSMF 2006-AR4, GMACM 2006-HE4, IMSA 2007-2, IMSA 2007-3, SACO 2006-4)

711. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the NAA 2007-1, AHM 2007-2, BSABS 2006-HE4, BSABS 2007-SD3, BSSLT 2007-1, BSMF 2006-AR4, GMACM 2006-HE4, IMSA 2007-2, IMSA 2007-3, and SACO 2006-4 offerings.

712. The NCUA Board brings this cause of action pursuant to Section 17-12a509 of the Kansas Uniform Securities Act, with respect to U.S. Central's purchases of the NAA 2007-1, AHM 2007-2, BSABS 2006-HE4, BSABS 2007-SD3, BSSLT 2007-1, BSMF 2006-AR4, GMACM 2006-HE4, IMSA 2007-2, IMSA 2007-3, and SACO 2006-4 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the seller of those certificates.

713. Defendant Bear Stearns n/k/a JP Morgan Securities offered to sell and sold the securities to U.S. Central 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.

714. 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.

715. Defendant Bear Stearns n/k/a JP Morgan Securities sold the Certificates to U.S. Central in Kansas.

716. U.S. Central did not know of these untruths and omissions.

717. If U.S. Central had known about these untruths and omissions, it would not have purchased the securities from Defendant.

718. Defendant Bear Stearns n/k/a JP Morgan Securities' sales of the Certificates violated Kan. Stat. Ann. § 17-12a509(b).

719. U.S. Central and Plaintiff sustained damages as a result of Defendant Bear Stearns n/k/a JP Morgan Securities' violations of Kan. Stat. Ann. § 17-12a509(b).

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, 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.

TWENTY-THIRD COUNT FOR RELIEF
Violation of the Texas Securities Act
Tex. Rev. Civ. Stat. Ann. art. 581, § 33
(NAA 2007-3, BALTA 2006-4, BALTA 2006-5, BALTA 2006-6, BALTA 2006-7, IMSA 2006-4, IMSA 2007-3, INDYL 2006-L2, SAMI 2006-AR3)

720. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the NAA 2007-3, BALTA 2006-4, BALTA 2006-5, BALTA 2006-6, BALTA 2006-7, IMSA 2006-4, IMSA 2007-3, INDYL 2006-L2, and SAMI 2006-AR3 offerings.

721. 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 NAA 2007-3, BALTA 2006-4, BALTA 2006-5, BALTA 2006-6, BALTA 2006-7, IMSA 2006-4, IMSA 2007-3, INDYL 2006-L2, and SAMI 2006-AR3 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the seller of those certificates.

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

723. 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.

724. Defendant Bear Stearns n/k/a JP Morgan Securities sold the certificates to Southwest in Texas.

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

726. If Southwest had known about these untruths and omissions, it would not have purchased the securities from Defendant Bear Stearns n/k/a JP Morgan Securities.

727. Defendant Bear Stearns n/k/a JP Morgan Securities' sales of the certificates Tex. Rev. Civ. Stat. Ann. art. 581, § 33(A)(2).

728. Southwest and Plaintiff sustained damages as a result of Defendant Bear Stearns n/k/a JP Morgan Securities' violations of Tex. Rev. Civ. Stat. Ann. art. 581, § 33(A)(2).

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, 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.

TWENTY-FOURTH COUNT FOR RELIEF
Violation of the Illinois Securities Law of 1953
815 Ill. Comp. Stat. Ann. 5/12
(NAA 2007-3, BALTA 2007-1, BSMF 2006-AR4, IMSA 2007-2)

729. The NCUA Board realleges paragraphs 1 through 530 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the NAA 2007-3, BALTA 2007-1, BSMF 2006-AR4, and IMSA 2007-2 offerings.

730. 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 NAA 2007-3, BALTA 2007-1, BSMF 2006-AR4, and IMSA 2007-2 certificates against Defendant Bear Stearns n/k/a JP Morgan Securities, as the seller of those certificates.

731. Defendant Bear Stearns n/k/a JP Morgan Securities offered to sell and sold the securities 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.

732. 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.

733. Defendant Bear Stearns n/k/a JP Morgan Securities sold the certificates to Members United in Illinois.

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

735. If Members United had known about these untruths and omissions, it would not have purchased the securities from Defendant.

736. Defendant Bear Stearns n/k/a JP Morgan Securities' sales of the certificates violated 815 Ill. Comp. Stat. Ann. 5/12(G).

737. Members United and Plaintiff sustained damages as a result of Defendant Bear Stearns n/k/a JP Morgan Securities' violations of 815 Ill. Comp. Stat. Ann. 5/12(G).

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns n/k/a JP Morgan Securities, 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 and Designation of Place of Trial

Plaintiff hereby demands a trial by jury of all issues properly triable. Pursuant to Local Rule 40.2(a), Plaintiff hereby designates Kansas City, Kansas as the place of trial of this action.

Dated: December 14, 2012

NATIONAL CREDIT UNION ADMINISTRATION BOARD, as Liquidating Agent of U.S. Central Federal Credit Union, Western Corporate Federal Credit Union, Southwest Corporate Federal Credit Union, and of Members United Federal Credit Union,

By: ______________________________

Norman E. Siegel (D. Kan. # 70354)
Rachel E. Schwartz (Kan. # 21782)
STUEVE SIEGEL HANSON LLP
460 Nichols Road, Suite 200
Kansas City, MO 64112
Tel: (816) 714-7100
Fax: (816) 714-7101
siegel@stuevesiegel.com
schwartz@stuevesiegel.com

David C. Frederick
Wan J. Kim
Mark C. Hansen
KELLOGG, HUBER, HANSEN, TODD, EVANS & FIGEL, P.L.L.C.
Sumner Square
1615 M Street, N.W.
Suite 400
Washington, D.C. 20036
Phone: (202) 326-7900
Fax: (202) 326-7999
dfrederick@khhte.com
wkim@khhte.com
mhansen@khhte.com

George A. Zelcs
KOREIN TILLERY LLC
205 North Michigan Avenue
Suite 1950
Chicago, Illinois 60601
Phone: (312) 641-9760
Fax: (312) 641-9751
GZelcs@koreintillery.com

Stephen M. Tillery
Douglas R. Sprong
Peter H. Rachman
Robert L. King
Diane E. Moore
KOREIN TILLERY LLC
505 North Seventh Street
Suite 3600
St. Louis, Missouri 63101-1625
Phone: (314) 241-4844
Fax: (314) 241-3525

Of Counsel
Michael J. McKenna, General Counsel
John K. Ianno, Associate General Counsel
NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street
Alexandria, Virginia 22314

APPENDIX

Table 8

CUSIP	ISSUING ENTITY	PURCHASER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE
073873AA9	Bear Stearns ALT-A Trust 2006-5	Southwest	7/18/2006	*Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))
073868AX9 073868BG5	Bear Stearns ALT-A Trust 2006-6	WesCorp	9/12/2006	*Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))
073868AA9	Bear Stearns ALT-A Trust 2006-6	Southwest	8/31/2006	*Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))
073875AA4	Bear Stearns ALT-A Trust 2006-7	Southwest	10/5/2006	*Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))
07386XAA4	Bear Stearns ALT-A Trust 2007-1	Members United	1/24/2007	*Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))
073882AE2	Bear Stearns ARM Trust 2006-4	WesCorp	9/6/2006	*Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))

CUSIP	ISSUING ENTITY	PURCHASER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE
07401LAC7	Bear Stearns Mortgage Funding Trust 2006-AR1	WesCorp	3/19/2007	*New Jersey Carpenters v. Bear Stearns,* No. 08-602426 (Sup. Ct. of the State of N.Y.) Complaint **Filed: August 20, 2008** (Removed to 08-8093 (S.D.N.Y.)
07401AAC1	Bear Stearns Mortgage Funding Trust 2006-AR2	WesCorp	9/8/2006	*New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))
07401AAX5	Bear Stearns Mortgage Funding Trust 2006-AR2	WesCorp	5/16/2007	*New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))
07400HAB9 07400HAD5	Bear Stearns Mortgage Funding Trust 2006-AR3	WesCorp	10/10/2006	*New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))

CUSIP	ISSUING ENTITY	PURCHASER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE
07400HAD5	Bear Stearns Mortgage Funding Trust 2006-AR3	WesCorp	3/27/2007	*New Jersey Carpenters v. Bear Stearns*, No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage*, No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns*, No. 08-8093 (S.D.N.Y.))
07401JAA6	Bear Stearns Mortgage Funding Trust 2006-AR4	Members United	11/03/06	*New Jersey Carpenters v. Bear Stearns*, No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage*, No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns*, No. 08-8093 (S.D.N.Y.))
07401JAB4	Bear Stearns Mortgage Funding Trust 2006-AR4	U.S. Central	10/27/2006	*New Jersey Carpenters v. Bear Stearns*, No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage*, No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns*, No. 08-8093 (S.D.N.Y.))
07401NAP4	Bear Stearns Mortgage Funding Trust 2006-AR5	WesCorp	5/16/2007	*New Jersey Carpenters v. Bear Stearns*, No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage*, No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns*, No. 08-8093 (S.D.N.Y.))

CUSIP	ISSUING ENTITY	PURCHASER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE
07401NAB5 07401NAC3	Bear Stearns Mortgage Funding Trust 2006-AR5	WesCorp	12/7/2006	*New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))
07401NAQ2	Bear Stearns Mortgage Funding Trust 2006-AR5	WesCorp	5/11/2007	*New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))
07401NAR0	Bear Stearns Mortgage Funding Trust 2006-AR5	U.S. Central	4/10/2007	*New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))
07401MAB7 07401MAC5	Bear Stearns Mortgage Funding Trust 2007-AR1	WesCorp	1/5/2007	*New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))

CUSIP	ISSUING ENTITY	PURCHASER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE
07401VAB7 07401VAC5	Bear Stearns Mortgage Funding Trust 2007-AR3	WesCorp	2/23/2007	*New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))
07401VAQ4 07401VAR2	Bear Stearns Mortgage Funding Trust 2007-AR3	WesCorp	2/28/2007	*New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))
45661FAC5	IndyMac Residential Mortgage-Backed Trust, Series 2006-L2	Southwest	6/14/2006	*IBEW Local 103 v. IndyMac,* No. BC405843 (Cal. Super. Ct. L.A. County) Complaint **Filed: January 20, 2009** (Removed to No. 09-1520 (C.D.C.A.)); *Wyoming State Treasurer v. Olinski,* No. 09-5933 (S.D.N.Y.) Complaint **Filed: June 29, 2009** (Consolidated with *In re IndyMac Mortgage-Backed Securities Litigation,* No. 09-4583 (S.D.N.Y.))
86360QAD7 86360QAG0 86360QAL9 86360QAP0	Structured Asset Mortgage Investments II Trust 2006-AR4	WesCorp	5/11/2006	*New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**

CUSIP	ISSUING ENTITY	PURCHASER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE
86360UAH9	Structured Asset Mortgage Investments II Trust 2006-AR6	WesCorp	3/13/2007	*New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))
86361HAR5	Structured Asset Mortgage Investments II Trust 2006-AR7	WesCorp	1/4/2007	*New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))
86361WAH4 86361WAJ0	Structured Asset Mortgage Investments II Trust 2006-AR8	WesCorp	9/18/2006	*New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))

CUSIP	ISSUING ENTITY	PURCHASER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE
86361WAJ0	Structured Asset Mortgage Investments II Trust 2006-AR8	WesCorp	11/13/2006	*New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.) First Consolidated Amended Complaint **Filed: May 15, 2009**; *Pension Trust Fund for Operating Engineers v. Structured Asset Mortgage,* No. 09-6172 (S.D.N.Y.) Complaint **Filed: July 9, 2009** (Consolidated with *New Jersey Carpenters v. Bear Stearns,* No. 08-8093 (S.D.N.Y.))