INDEX NO. 653541/2013
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SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

ROYAL PARK INVESTMENTS SA/NV, Plaintiff, vs. THE ROYAL BANK OF SCOTLAND GROUP PLC, RBS SECURITIES INC., GREENWICH CAPITAL FINANCIAL PRODUCTS, INC., RBS ACCEPTANCE INC. and FINANCIAL ASSET SECURITIES CORP., Defendants.	:	Index No. SUMMONS

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TO: THE ABOVE NAMED DEFENDANTS

YOU ARE HEREBY SUMMONED to answer the complaint in this action and to serve a copy of your answer, or, if the complaint is not served with this summons, to serve a notice of appearance, on plaintiff's attorneys within 20 days after the service of this summons, exclusive of the day of service (or within 30 days after the service is complete if this summons is not personally delivered to you within the State of New York); and in case of your failure to appear or answer, judgment will be taken against you by default for the relief demanded in the complaint.

Plaintiff designates New York County as the place of trial. Venue is proper because the defendants do business in or derive substantial revenue from activities carried out in this County, and many of the wrongful acts alleged herein occurred in this County.

DATED: October 11, 2013

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SUPREME COURT OF THE STATE OF NEW YORK
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ROYAL PARK INVESTMENTS SA/NV, Plaintiff,	:	Index No.
vs.	:	COMPLAINT
THE ROYAL BANK OF SCOTLAND GROUP PLC, RBS SECURITIES INC., GREENWICH CAPITAL FINANCIAL PRODUCTS, INC., RBS ACCEPTANCE INC. and FINANCIAL ASSET SECURITIES CORP., Defendants.	:	
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I. SUMMARY OF THE ACTION

1. This action arises out of plaintiff's purchases of more than $1.615 billion worth of residential mortgage-backed securities ("RMBS").[1] The specific RMBS at issue are generally referred to as "certificates." The certificates are essentially bonds backed by a large number of residential real estate loans, which entitle their holders to receive monthly distributions derived from the payments made on those loans. The claims at issue herein arise from 84 separate certificate purchases made in 53 different offerings (the "RBS Offerings"), all of which were structured, marketed, and sold by defendants during the period from 2005 through 2007. *See* Appendix A hereto.

2. Defendants used U.S. Securities and Exchange Commission ("SEC") forms, such as registration statements, prospectuses and prospectus supplements, as well as other documents – such as pitch books, term sheets, loan tapes, offering memoranda, draft prospectus supplements, "red," "pink" and "free writing" prospectuses and electronic summaries of such materials – to market and sell the certificates to plaintiff. In addition, defendants also disseminated the key information in these documents to third parties – such as the rating agencies (the "Credit Rating Agencies"), broker-dealers and analytics firms, like Intex Solutions, Inc. ("Intex") – for the express purpose of marketing the certificates to plaintiff and other investors. Collectively, all of the documents and information disseminated by defendants for the purpose of marketing and/or selling the certificates to plaintiff are

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[1] As explained more fully *infra*, at §II.A., plaintiff obtained its claims through assignment. The certificates were initially purchased by subsidiaries of Fortis Bank SA/NV, but all rights, title, interest and causes of action to the certificates were assigned to plaintiff. Accordingly, all references herein to plaintiff's purchases of certificates refer to plaintiff's claims arising by assignment.

referred to herein as the "Offering Documents." Each purchase at issue herein was made in direct reliance on the information contained in the Offering Documents.[2]

3. As further detailed herein, the Offering Documents were materially false and misleading at the time they were issued by defendants and relied on by plaintiff and/or its assignors. Specifically, the Offering Documents both failed to disclose and affirmatively misrepresented material information regarding the very nature and credit quality of the certificates and their underlying loans. The Offering Documents further failed to disclose that, at the same time defendants were offering the certificates for sale to plaintiff, they were privately betting that similar certificates would soon default at significant rates. Defendants used these Offering Documents to defraud plaintiff and its assignors into purchasing supposedly "investment grade" certificates at falsely inflated prices. Plaintiff's certificates are now all rated at junk status or below, and are essentially worthless investments, while defendants, on the other hand, profited handsomely – both from their roles in structuring, marketing and selling the certificates, and from their massive "short" bets against the certificates they, themselves, sold to plaintiff.

II. PARTIES

A. Plaintiff

4. Plaintiff Royal Park Investments SA/NV ("RPI"), is a limited liability company incorporated under the laws of Belgium, with its principal place of business at Van Orley 15, 1000 Brussels, Belgium. RPI was created by the Belgian State, Ageas (formerly known as Fortis Holding

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[2] As further detailed *infra*, at §V.B, some of the purchase decisions at issue herein were made prior to the date of the final prospectus supplements for the offerings from which such certificates were purchased. On information and belief, however, all such purchases were made in direct reliance upon draft prospectus supplements that were distributed by defendants and were identical in all material respects to the final prospectus supplements for such offerings.

SA/NV), and BNP Paribas for the purpose of acquiring and managing a portion of Fortis Bank SA/NV's ("Fortis Bank") structured credit portfolio. The special purpose and mission statement of RPI is to minimize the downside risk and maximize recoveries on the legacy portfolio.

5. RPI brings its claims against defendants as an assignee of causes of action regarding securities that were initially purchased by Fortis Bank and three of its subsidiaries. The four original purchasers of the securities at issue herein are identified below:

(a) Fortis Bank is a Belgian limited liability company with its registered office at Montagne du Parc 3, 1000 Brussels, Belgium, and its principal place of business in Brussels, Belgium. Fortis Bank was the banking arm of Fortis Holding SA/NV ("Fortis Holding"), a Belgian insurance, banking, and investment management company. In 2008, Fortis Holding sold Fortis Bank to the Belgian State, which then sold 75% of Fortis Bank to BNP Paribas. Fortis Bank is now a subsidiary of BNP Paribas. The certificates initially purchased by Fortis Bank were assigned to RPI, along with all associated rights, title, interest, causes of action and claims in and related to such certificates, including all claims at issue herein.

(b) Fortis Proprietary Investment (Ireland) Limited ("Fortis Ireland"), is a company incorporated under the laws of Ireland, with its principal place of business in New York, New York. Fortis Ireland was at all relevant times a wholly-owned subsidiary of Fortis Bank, fully consolidated under Fortis Bank, and maintained its financial base in Belgium. The certificates initially purchased by Fortis Ireland were assigned to RPI, along with all associated rights, title, interest, causes of action and claims in and related to such certificates, including all claims at issue herein.

(c) Fortis Bank SA/NV, Cayman Islands Branch ("Fortis Cayman"), is a branch of, and wholly owned by, Fortis Bank. The certificates initially purchased by Fortis Cayman were assigned to RPI, along with all associated rights, title, interest, causes of action and claims in and related to such certificates, including all claims at issue herein.

(d) Scaldis Capital Limited ("Scaldis") is a conduit special purpose vehicle, created, along with co-issuer Scaldis Capital LLC, for placement of commercial paper in both the United States and European markets. Scaldis was created, fully controlled, and sponsored by Fortis Bank. All of Scaldis's assets, including the securities at issue herein, were consolidated into the balance sheet of Fortis Bank, and all losses on the securities were incurred by Fortis Bank. As the sponsor of Scaldis, Fortis Bank provided both credit and liquidity support for Scaldis and managed all its operations. During the relevant period, the individuals conducting the administrative duties of Scaldis's business (including the purchasing of the securities at issue herein) were Fortis Bank employees located in Amsterdam, the Netherlands. All decisions to purchase the securities at issue herein were made on behalf of Scaldis in Belgium by employees of Fortis Bank. The certificates initially purchased by Scaldis were assigned to RPI, along with all associated rights, title, interest, causes of action and claims in and related to such certificates, including all claims at issue herein.

6. Fortis Bank, Fortis Ireland, Fortis Cayman and Scaldis are referred to collectively herein as the "assigning entities."

7. RPI acquired the legal claims at issue in this case in exchange for good and valuable consideration. The certificates at issue in this case were severely damaged on or before the day they were transferred to RPI, and continued to be damaged, in an amount to be proven at trial. RPI has standing to sue defendants to recover those damages as an assignee of all rights, title, interest, causes of action and claims regarding securities initially purchased by the assignor identified above. As a result, use of the terms "plaintiff" and "RPI" herein shall also refer to each of the above-identified assigning entities.

B. The "RBS Defendants"

8. As further set forth below, each of the following defendants was actively involved with and/or liable for some or all of the RBS Offerings at issue herein, which are identified in §V, *infra*. Additional detailed information concerning each RBS Offering is also set forth in Appendix A, attached hereto.

9. Defendant The Royal Bank of Scotland Group plc is a multi-national corporation that delivers banking services throughout the world. The Royal Bank of Scotland Group plc is incorporated in the United Kingdom, and is the ultimate owner and controller of the other "RBS Defendants" alleged herein. The Royal Bank of Scotland Group plc directed and controlled the complained-of conduct by the other RBS Defendants, as alleged herein.

10. Defendant RBS Securities Inc. is an SEC-registered broker-dealer. RBS Securities Inc. is a Delaware corporation with offices in New York, New York and is a wholly-owned subsidiary of co-defendant The Royal Bank of Scotland Group plc. RBS Securities Inc. was formerly known as RBS Greenwich Capital, and prior to that, as Greenwich Capital Markets, Inc. Unless otherwise noted, use of the term "RBS Securities" herein refers collectively to RBS Securities Inc., RBS Greenwich Capital and Greenwich Capital Markets, Inc. RBS Securities was an underwriter and broker-dealer for each of the RBS Offerings alleged herein, and was thus intimately involved in such offerings, including investigating the loans at issue herein, and participating in drafting and disseminating the Offering Documents used to sell certificates in the RBS Offerings to plaintiff. Plaintiff purchased all of the certificates it purchased in the RBS Offerings directly from defendant RBS Securities in its capacity as underwriter and broker-dealer of such offerings.

11. Defendant Greenwich Capital Financial Products, Inc., now known as RBS Financial Products, Inc., is a Delaware corporation and a wholly-owned indirect subsidiary of co-defendant The Royal Bank of Scotland Group plc. Unless otherwise noted, use of the term "RBS Financial" herein

refers collectively to both RBS Financial Products, Inc. and Greenwich Capital Financial Products, Inc. RBS Financial was the sponsor for 52 of the certificates plaintiff purchased in the RBS Offerings alleged herein. In its capacity as the sponsor for such offerings, RBS Financial organized and initiated the deals by acquiring the mortgage loans to be securitized, negotiating the principal securitization transaction documents and working with the securities underwriters to structure the offerings.

12. Defendant RBS Acceptance Inc. is a wholly-owned indirect subsidiary of co-defendant The Royal Bank of Scotland Group plc. RBS Acceptance, Inc. is a Delaware corporation. Prior to August 2009, RBS Acceptance Inc. was known as Greenwich Capital Acceptance, Inc. Unless otherwise noted, use of the term "RBS Acceptance" herein refers collectively to both RBS Acceptance Inc. and Greenwich Capital Acceptance, Inc. Defendant RBS Acceptance was the depositor for 43 of the certificates plaintiff purchased in the RBS Offerings alleged herein. Under the U.S. securities laws, RBS Acceptance, as depositor, was also the "issuer" of the certificates sold to plaintiff in such offerings.

13. Defendant Financial Asset Securities Corp. ("Financial Asset") is a Delaware corporation and an indirect wholly-owned subsidiary of co-defendant The Royal Bank of Scotland Group plc. Financial Asset was the depositor for 17 of the certificates plaintiff purchased in the RBS Offerings alleged herein. Under the U.S. securities laws, Financial Asset, as depositor, was also the "issuer" of the certificates sold to plaintiff in such offerings.

14. Defendants The Royal Bank of Scotland Group plc, RBS Securities, RBS Financial, RBS Acceptance and Financial Asset are collectively referred to herein as either the "RBS Defendants" or "RBS."

III. JURISDICTION AND VENUE

15. This Court has subject matter jurisdiction over this action pursuant to Article VI, §7 of the New York State Constitution, which authorizes it to serve as a court of "general [and] original jurisdiction in law and equity." The amount in controversy exceeds the minimum threshold of $150,000 pursuant to §202.70(a) of the Uniform Civil Rules of the New York Supreme Court.

16. The Court's personal jurisdiction over defendants is founded upon C.P.L.R. §§301 and 302, as each defendant transacts business within the State of New York within the meaning of C.P.L.R. §302(a)(1), and each of them committed a tortious act inside the State of New York within the meaning of C.P.L.R. §302(a)(2).

17. Defendants regularly and systematically transact business within the State of New York and derive substantial revenue from activities carried out in New York. A majority of defendants' acts pertaining to the securitization of the RMBS giving rise to the causes of action alleged herein occurred in New York. Each defendant was actively involved in the creation, solicitation and/or sale of the subject certificates to plaintiff in the State of New York. Specifically, defendants originated and/or purchased the loans at issue, prepared, underwrote, negotiated, securitized and marketed the offerings, and sold and/or marketed the certificates to plaintiff, in substantial part, in New York County, New York.

18. Since numerous witnesses with information relevant to the case and key documents are located within the State of New York, any burdens placed on defendants by being brought under the State's jurisdiction will not violate fairness or substantial justice.

19. This Court also has personal jurisdiction over many of the defendants based on consent under C.P.L.R. §301 due to their unrevoked authorization to do business in the State of New York and their designations of registered agents for service of process in New York.

20. This Court has personal jurisdiction over any foreign defendants because they transact business within the State of New York either directly or through their wholly-owned subsidiaries, by selling securities in the State, and/or maintaining offices in the State. Any subsidiaries, affiliates and/or agents of such foreign defendants conducting business in this State are organized and operated as instrumentalities and/or alter egos of such foreign defendants. Such foreign defendants are the direct or indirect holding companies that operate through their subsidiaries, affiliates and/or agents in this State.

21. Venue is proper in this Court pursuant to C.P.L.R. §503(c) because most of the defendants maintain their principal place of business in New York County, and pursuant to C.P.L.R. §503(a) as designated by plaintiff. Many of the alleged acts and transactions, including the preparation and dissemination of the Offering Documents, also occurred in substantial part in New York County, New York.

IV. BACKGROUND ON RMBS OFFERINGS IN GENERAL AND DEFENDANTS' INVOLVEMENT IN THE PROCESS

A. The Mortgage-Backed Securities Market

22. This case involves securities that are supported by residential mortgages. Residential mortgages are loans made to homeowners that are secured by a piece of collateral – a residence. The loans generate specific, periodic payments, and the related collateral interest gives the lender the right to "foreclose" on the loan by seizing and selling the property to recover the amount of money that was loaned.

23. The mortgage-backed securities market has existed for decades. In 1980, the market's size was about $100 billion. By 2004, the size of that market had reached over $4.2 trillion. To place this figure in context, in 2004 the total size of the U.S. corporate debt market was $4.6 trillion.

Investors from all over the world purchased mortgage-backed securities, and that demand drove down mortgage borrowing costs in the United States.

24. RMBS are created through a process called "securitization," which is described in more detail immediately below.

B. Organizations and Defendant Entities Involved in the Securitization Process

25. The securitization process requires a number of parties, including: (1) mortgage originators; (2) borrowers; (3) RMBS sponsors (or "sellers"); (4) mortgage depositors; (5) securities underwriters; (6) trusts that issue certificates backed by mortgages; (7) Nationally Recognized Statistical Rating Organizations ("NRSROs"), such as Moody's Investors Services, Fitch Ratings and Standard & Poor's (the "Credit Rating Agencies"); and (8) investors. Following is a description of their roles in order.

26. ***Mortgage originators*** accept mortgage applications and other information from prospective borrowers. They set borrowing standards, purport to evaluate a borrower's ability to repay, and appraise the value of the collateral supporting the borrower's obligations. This process is called "underwriting" a mortgage. The key mortgage originators at issue herein are set forth in §§V.B. and VI.A., *infra*.

27. ***Borrowers*** who purport to satisfy the originators' underwriting criteria sign documentation memorializing the terms and conditions of the mortgages. Those documents typically include a promissory note and lien securing repayment – which together form what is known as the mortgage. Originators are then able to sell such mortgages to securitization sponsors in a large secondary market. Some of the specific borrowers at issue herein are described in §VI.A.19, *infra*.

28. ***Sponsors*** (or "sellers") typically organize and initiate the securitization aspect of the process by acquiring large numbers of mortgages, aggregating them, and then selling them through an

affiliated intermediary into an issuing trust. In this case, the sponsor for many of the RMBS offerings at issue herein was defendant RBS Financial. In this role, RBS Financial was generally responsible for pooling the mortgage loans to be securitized by the depositors, negotiating the principal securitization transaction documents and participating with the underwriters to structure the RMBS offerings.

29. ***Depositors*** typically buy the pools of mortgages from the sponsors (or "sellers"), settle the trusts, and deposit the mortgages into those trusts in exchange for the certificates to be offered to investors, which the depositors in turn sell to the underwriters, for ultimate sale to investors. Under the U.S. securities laws, depositors are technically considered "issuers" of the securities, and are strictly liable for material misrepresentations and omissions in any registration statement under the Securities Act of 1933. Defendants RBS Acceptance and Financial Asset served as depositors for many of the RMBS offerings at issue herein. A more detailed summary of the roles the depositors played in the offerings at issue herein follows:

(a) First, the depositors acquired discrete pools of mortgages from the offerings' "sponsors" (in many cases, RBS Financial). The sponsors typically transferred those mortgages to the depositor via written mortgage purchase agreements, which typically contained written representations and warranties about the mortgages ("Mortgage Purchase Agreements").

(b) Second, the depositors settled the issuing trusts, and purportedly "deposited" the discrete pools of mortgages acquired from the offering sponsors – along with their rights under the Mortgage Purchase Agreements – into the issuing trusts, in exchange for the certificates, which were then transferred to the underwriter for ultimate sale to investors such as plaintiff. The depositors were responsible for making sure the mortgage loans were properly and timely transferred to the trusts and/or trustees of the trusts. The mortgages and their rights, among other things, constitute the trusts' res. The trusts – their res, trustee and beneficiaries – are defined by a written pooling and servicing agreement ("Pooling Agreement").

(c) Third, the depositors, who are technically the "issuers" under the U.S. securities laws, filed "shelf" registration statements with the SEC, which enabled the depositors to issue securities rapidly in "shelf take-downs." In order to be offered through this method, it was necessary for the certificates to be deemed "investment grade" quality by the NRSRO processes described herein.

30. ***Securities underwriters*** purchase the certificates from the depositors and resell them to investors, such as plaintiff. The terms of a particular underwriter's liabilities and obligations in connection with the purchase, sale and distribution of RMBS certificates are typically set forth in a written agreement between the depositor and the underwriter ("Underwriting Agreement"). Moreover, the underwriters also have obligations and responsibilities placed upon them by U.S. securities laws, including, without limitation, that they investigate the loans and ensure representations about the loans in the offering documents are true and correct. The "underwriter defendant" at issue herein is RBS Securities, which served as underwriter in all of the RMBS offerings at issue herein.

31. ***Issuing trusts*** hold the mortgages and all accompanying rights under the Mortgage Purchase Agreements. Pursuant to the terms of the Pooling Agreements, the issuing trusts issue the certificates to the depositors, for ultimate sale to investors by the securities underwriters. The certificates entitle the investors to principal and interest payments from the mortgages held by the trusts. Trustees voluntarily agree to administer the trusts and voluntarily agree to satisfy contractual and common law duties to trust beneficiaries – the plaintiff certificate investors in this case.

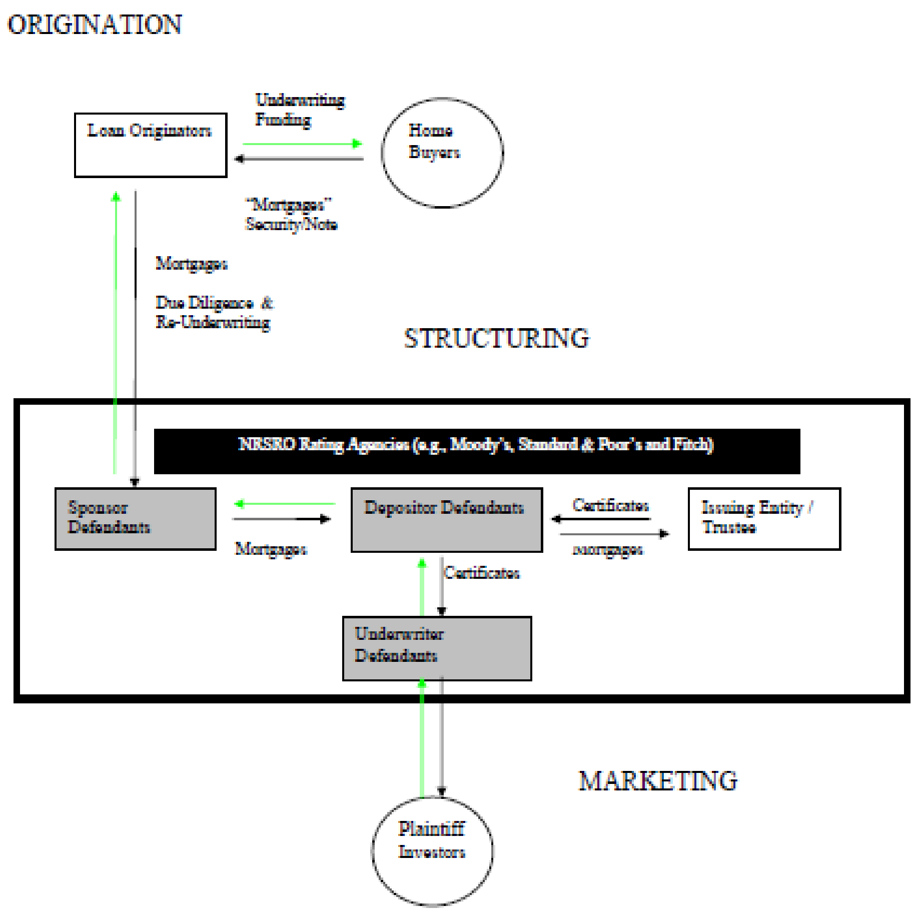
32. ***NRSROs***, which include the Credit Rating Agencies herein, analyze performance data on mortgage loans of every type and use that information to build software programs and models,

which are ultimately used to assign credit ratings to RMBS. These computer models generate various "levels" of subordination and payment priorities that are necessary to assign "investment grade" credit ratings to the certificates that the RMBS trusts issue. The rules generated by the NRSRO models are then written into the Pooling Agreements drafted by the sponsor and the securities underwriter(s). As alleged above, in order to be issued pursuant to a "shelf take-down," the certificates must receive "investment grade" credit ratings from the NRSROs.

33. ***Investors***, like plaintiff, purchase the RMBS certificates, and thus provide the funding that compensates all of the securitization participants identified above.

34. The illustration below further summarizes the roles of the various parties in an RMBS securitization. In this illustration, the green arrows – moving from investors to home buyers or borrowers – illustrate funds flow, and the grey cells identify certain defendant entities in the context of their roles in the securitization process:

SECURITIZATION – THREE MAJOR COMPONENTS



C. To Market the Certificates, Defendants Registered Them with the SEC on "Investment Grade" Shelves

35. Receiving strong credit ratings assigned to a particular RMBS is what enables securities dealers, like defendants, to register those securities on a "shelf" with the SEC. Issuing securities in this way involves two steps. First, an issuer must file a "shelf" registration statement with the SEC, governing potentially dozens of individual issuances of securities, or "shelf take-downs," that the issuer plans to conduct in the future. Second, to market a particular issuance, the issuer must file a prospectus "supplement" to the registration statement. The registration statement describes the shelf program in general, while the prospectus supplement and other offering documents describe in detail the particular securities offered to investors at that time.

36. Many of the securities at issue in this case were "taken down" from shelves that defendants created, a process that never would have been possible without investment grade ratings from the Credit Rating Agencies.

V. C.P.L.R. §3016 PARTICULARITY ALLEGATIONS

37. As detailed immediately below, all of the Offering Documents distributed by defendants and relied on by plaintiff and/or its assignors were materially false and misleading, as they omitted and affirmatively misrepresented material information regarding the certificates and their underlying loans. Moreover, as set forth *infra*, defendants were well aware of each of the following material misrepresentations and omissions. *See* §VII, *infra.*

A. Each of the Offering Documents Omitted Material Information

38. The Offering Documents for each of the 53 offerings at issue failed to disclose critical information within defendants' possession regarding the certificates and their underlying loans. Specifically, prior to selling the certificates to plaintiff, defendants hired Clayton Holdings, Inc. ("Clayton"), Watterson-Prime, LLC ("Watterson"), and/or other due diligence firms to re-underwrite samples of the loans underlying each of the specific certificates purchased by plaintiff.[3] For each of the 53 offerings, Clayton and/or the other due diligence providers determined that a significant percentage of the loans had been defectively underwritten and/or were secured by inadequate collateral, and were thus likely to default. In aggregate, during 2006 and 2007 – the time period during which the vast majority of offerings at issue here occurred – Clayton determined that ***18.4% of***

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[3] During the relevant time frame, Clayton reviewed loan samples for approximately 50% to 70% of all RMBS offerings brought to market by third-party investment banks, including the RBS Defendants. Based upon Clayton's re-underwriting of sampled loans, the due diligence firm was able to establish, at a 95% confidence level, the overall defect rate for the specific pool of loans underlying the offerings at issue.

all loans it reviewed for RBS's offerings were defective. This information was directly provided to the defendants prior to the offerings, but defendants affirmatively chose ***not*** to include it in the Offering Documents, even though Clayton expressly recommended that it be so included.

39. The Offering Documents also failed to disclose what defendants did with the material, undisclosed information they received from Clayton and/or their other due diligence providers. Specifically, with regard to the test samples of loans that were reviewed by Clayton, RBS knowingly "waived" back into the purchase pools for its offerings approximately ***53.3% of the specific loans that had been affirmatively identified as defective***. With regard to the unsampled portion of the purchase pools – *i.e.*, the vast majority of the loans – defendants simply purchased the loans in their entirety, ***sight unseen***, notwithstanding the significant defect rates Clayton and/or their other due diligence providers had uncovered. Moreover, on information and belief, defendants even used these significant, undisclosed material defect rates as leverage to force their loan suppliers to accept lower purchase prices for the loans, without passing the benefits of such discounts onto plaintiff and other investors. ***None*** of the foregoing information was disclosed in the Offering Documents relied on by plaintiff and their assignors, making such documents materially misleading.

40. It has recently been discovered that Clayton's statistics about the number of defective loans included in the offerings were actually ***understated***, as the deposition of a former Clayton employee revealed that RBS actually instructed both Clayton and Watterson to designate defective loans as non-defective, concealing the true, much higher number of loans that did not comply with the stated underwriting guidelines. A former underwriter for both Clayton and Watterson has testified in a pending case titled *Ambac Assurance Corp. v. EMC Mortgage LLC, et al.*, No. 650421/2011 (N.Y. Sup. Ct., N.Y. Cty.), that RBS instructed both Clayton and Watterson to "approve loans ***that often did not satisfy the underwriting guidelines***," to ignore defects in loan applications, to code defective loans as non-defective and to change many of the grades on loans that were coded as defective to

reflect that they were non-defective. For example, the former Clayton and Watterson employee testified that Clayton and Watterson underwriters were directed by RBS to overlook defects and to grade defective loans as non-defective, not to look for fraud in the loan files and to overlook any fraudulent documents, to grade loans as non-defective even where the underwriters determined that the borrower's incomes listed on loan applications were unreasonable, and utilize "compensating factors" that were not supported by the data in the loan files.

41. The Offering Documents also failed to disclose that, at the same time RBS sold the certificates to plaintiff, the bank was also purchasing large credit default swaps ("CDS") on various mortgage-backed securities which effectively served as massive bets that the ***same*** certificates sold to plaintiff – as well as other similar certificates issued from the same shelf registrations as certificates sold to plaintiff – would ***fail***.[4] In fact, the RBS Defendants received more than $1.1 billion in payments from AIG and AIG-related entities alone for their shorting of mortgage-related securities. *See* §VII.2, *infra.*

42. Unfortunately for plaintiff, ***none*** of defendants' Offering Documents made any mention of RBS's scheme to profit from the poor quality of its own RMBS offerings, rendering such documents materially misleading.

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[4] A CDS is a financial swap agreement in which the seller of the CDS agrees it will compensate the buyer in the event that the underlying asset defaults or experiences another specified credit event. Much like an insurance contract, the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if/when the default or other specified credit event occurs. Accordingly, the purchase of a CDS effectively amounts to a bet that the underlying asset will fail.

B. Each of the Offering Documents Contained Material Misrepresentations

1. The HVMLT 2006-4 Certificates

43. The HarborView Mortgage Loan Trust, Mortgage Loan Pass-Through Certificates, Series 2006-4 ("HVMLT 2006-4 Certificates") were issued pursuant to a Prospectus Supplement dated April 26, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2006-4 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

44. Plaintiff purchased the following HVMLT 2006-4 Certificates:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	2A1B	41161PL50	4/7/2006	$10,000,000	RBS Securities
Fortis Bank	2A1C	41161PL68	4/7/2006	$10,000,000	RBS Securities

45. The decision to purchase the above securities was made by Fortis Bank in direct reliance upon the HVMLT 2006-4 Offering Documents, including draft and/or final HVMLT 2006-4 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2006-4 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

46. The HVMLT 2006-4 Offering Documents disclosed that 100% of the HVMLT 2006-4 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator Countrywide Home Loans, Inc. ("Countrywide"). *See* HVMLT 2006-4 Prospectus Supplement ("Pros. Supp.") at S-26.

47. The HVMLT 2006-4 Offering Documents represented that "Countrywide['s] . . . underwriting standards are applied by or on behalf of Countrywide . . . to evaluate the prospective

borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *Id.* at S-82. The HVMLT 2006-4 Offering Documents also represented that:

> 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.

Id. In that respect, the HVMLT 2006-4 Offering Documents further represented that:

> Under its Standard Underwriting Guidelines, Countrywide . . . 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%.
>
> *   *   *
>
> Under its Expanded Underwriting Guidelines, Countrywide . . . generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the borrower's total monthly debt of up to 40%; provided, however, that if the Loan-to-Value Ratio exceeds 80%, the maximum permitted debt-to-income ratios are 33% and 38%, respectively.

Id. at S-84-S-85. Moreover, the HVMLT 2006-4 Offering Documents represented that, "[e]xcept with respect to mortgage loans originated pursuant to its Streamlined Documentation Program, whose values were confirmed with a Fannie Mae proprietary automated valuation model, Countrywide . . . obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans," and that "[a]ll appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect." *Id*. at S-83. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.2, *infra*.

b. Loan-to-Value Ratios

48. The HVMLT 2006-4 Offering Documents also made certain misrepresentations regarding the loan-to-value ("LTV") ratios associated with the loans supporting the HVMLT 2006-4 Certificates purchased by plaintiff.[5] Specifically, the HVMLT 2006-4 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's HVMLT 2006-4 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2006-4 Certificates had LTV ratios over 100%.

49. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2006-4 Certificates, which reveals that the LTV ratio percentages stated in the HVMLT 2006-4 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2006-4 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:[6]

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1B	41161PL50	Group 2	4.17%	48.19%	0.00%	9.32%
2A1C	41161PL68	Group 2	4.17%	48.19%	0.00%	9.32%

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5 For the reasons set forth *infra*, LTV ratios are very important to RMBS investors. *See* §§VI.B and IX.A, *infra*.

6 Consistent with defendants' representations in the Offering Documents, all LTV ratio percentages herein are stated as a percentage of the aggregate outstanding loan balance of the supporting loan group or groups at issue.

c. Owner Occupancy Rates

50. The HVMLT 2006-4 Offering Documents also made certain misrepresentations regarding the owner occupancy rates ("OOR" or "Primary Residence Percentages") associated with the loans supporting the HVMLT 2006-4 Certificates purchased by plaintiff.[7] Specifically, the HVMLT 2006-4 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2006-4 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

51. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2006-4 Certificates, which reveals that the OOR percentages stated in the HVMLT 2006-4 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2006-4 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:[8]

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A1B	41161PL50	Group 2	88.74%	79.87%	11.11%
2A1C	41161PL68	Group 2	88.74%	79.87%	11.11%

[7] For the reasons set forth *infra*, OOR percentages are very important to RMBS investors. *See* §§VI.C and IX.A, *infra*.

[8] Consistent with defendants' representations in the Offering Documents, all Primary Residence Percentages herein are stated as a percentage of the aggregate outstanding loan balance of the supporting loan group or groups at issue.

d. Credit Ratings

52. The HVMLT 2006-4 Offering Documents also represented that the HVMLT 2006-4 Certificates purchased by plaintiff had been assigned certain high "investment grade" credit ratings by Standard & Poor's ("S&P") and Moody's Investors Services ("Moody's"), indicating that the securities were very strong, safe investments with an extremely low probability of default.[9] Specifically, the HVMLT 2006-4 Offering Documents represented that plaintiff's HVMLT 2006-4 Certificates had each been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.[10]

53. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2006-4 Certificates should not have each received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2006-4 Certificates were extremely risky, speculative grade "junk" bonds ***or worse***, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's HVMLT 2006-4 Certificates was because defendants had fed them falsified information regarding the HVMLT 2006-4 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower debt-to-income ("DTI") ratios, and false OOR percentages.

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[9] For the reasons set forth *infra*, credit ratings are very important to RMBS investors. *See* §§VI.D and IX.B, *infra*.

[10] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §VI.D, *infra* (citing Carl Levin & Tom Coburn, *Wall Street and the Financial Crisis: Anatomy of a Financial Collapse*, Majority and Minority Staff Report, Permanent Subcommittee on Investigations, United States Senate, 112th Congress (Apr. 13, 2011) ("Levin-Coburn Report") at 6).

54. The falsity of the credit ratings set forth in the HVMLT 2006-4 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 47%[11] of the loans supporting plaintiff's HVMLT 2006-4 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them.[12] Moreover, plaintiff's "investment grade" HVMLT 2006-4 Certificates are now rated at ***below*** "junk" status. Clearly, plaintiff's HVMLT 2006-4 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the HVMLT 2006-4 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1B	41161PL50	Group 2	46.82%	Aaa	C	AAA	D
2A1C	41161PL68	Group 2	46.82%	Aaa	C	AAA	D

e. Transfer of Title

55. The HVMLT 2006-4 Offering Documents also represented that the loans underlying the HVMLT 2006-4 Certificates would be timely transferred to the issuing trust, so that the trust

[11] The default rates for all offerings at issue were obtained from trustee reports which were generally issued in or about May 2013.

[12] When used herein to describe the status of a loan or group of loans, the terms "in default," "into default" or "defaulted" are defined to include any loan or group of loans that is delinquent, in bankruptcy, foreclosed or bank owned.

would obtain good title to the mortgage loans comprising the pool for the offering.[13] Specifically, the HVMLT 2006-4 Offering Documents stated that:

> On the closing date, the depositor will transfer to the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the cut-off date.

See HVMLT 2006-4 Pros. Supp. at S-100. The HVMLT 2006-4 Offering Documents also stated that:

> The pooling agreement will require that, upon certain conditions and within the time period specified in the pooling agreement the seller will deliver to the trustee (or the custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreement.

Id. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

2. The HVMLT 2005-1 Certificates

56. The HarborView Mortgage Loan Trust 2005-1, Mortgage Loan Pass-Through Certificates, Series 2005-1 ("HVMLT 2005-1 Certificates") were issued pursuant to a Prospectus Supplement dated February 23, 2005. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2005-1 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

57. Plaintiff purchased the following HVMLT 2005-1 Certificates:

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[13] For the reasons set forth *infra*, transfer of title of the underlying loans was very important to RMBS investors. *See* §§VI.E and IX.D, *infra*.

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	2A1A	41161PLD3	2/3/2005	$15,000,000	RBS Securities
Fortis Bank	2A1B	41161PLE1	2/3/2005	$20,000,000	RBS Securities
Fortis Bank	2A2	41161PLF8	2/3/2005	$20,000,000	RBS Securities

58. The decision to purchase the above securities was made by Fortis Bank in direct reliance upon the HVMLT 2005-1 Offering Documents, including draft and/or final HVMLT 2005-1 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2005-1 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

59. The HVMLT 2005-1 Offering Documents disclosed that 100% of the HVMLT 2005-1 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator Countrywide. *See* HVMLT 2005-1 Pros. Supp. at S-25-S-26.

60. The HVMLT 2005-1 Offering Documents represented that "Countrywide's underwriting standards are applied by or on behalf of Countrywide to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *See* HVMLT 2005-1 Pros. Supp. at S-56. The HVMLT 2005-1 Offering Documents also represented that:

> 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.

Id. The HVMLT 2005-1 Offering Documents further represented that "[u]nder its underwriting guidelines, Countrywide 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%." *Id.* at S-58. Moreover, the HVMLT 2005-1 Offering Documents represented that, "[g]enerally, Countrywide obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans," and that "[a]ll appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.2, *infra*.

b. Loan-to-Value Ratios

61. The HVMLT 2005-1 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2005-1 Certificates purchased by plaintiff. Specifically, the HVMLT 2005-1 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's HVMLT 2005-1 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2005-1 Certificates had LTV ratios over 100%.

62. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2005-1 Certificates, which reveals that the LTV ratio percentages stated in the HVMLT 2005-1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2005-1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1A	41161PLD3	Group 2	1.18%	50.32%	0.00%	15.71%
2A1B	41161PLE1	Group 2	1.18%	50.32%	0.00%	15.71%
2A2	41161PLF8	Group 2	1.18%	50.32%	0.00%	15.71%

c. Owner Occupancy Rates

63. The HVMLT 2005-1 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2005-1 Certificates purchased by plaintiff. Specifically, the HVMLT 2005-1 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2005-1 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

64. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2005-1 Certificates, which reveals that the OOR percentages stated in the HVMLT 2005-1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2005-1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A1A	41161PLD3	Group 2	91.20%	80.81%	12.86%
2A1B	41161PLE1	Group 2	91.20%	80.81%	12.86%
2A2	41161PLF8	Group 2	91.20%	80.81%	12.86%

d. Credit Ratings

65. The HVMLT 2005-1 Offering Documents also represented that the HVMLT 2005-1 Certificates purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the HVMLT 2005-1 Offering Documents represented that plaintiff's HVMLT 2005-1 Certificates had each been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

66. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2005-1 Certificates should not have each received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2005-1 Certificates were extremely risky, speculative grade "junk" bonds ***or worse***, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's HVMLT 2005-1 Certificates was because defendants had fed them falsified information regarding the HVMLT 2005-1 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

67. The falsity of the credit ratings set forth in the HVMLT 2005-1 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 42% of the loans supporting plaintiff's HVMLT 2005-1 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2005-1 Certificates are now rated at "junk" status ***or below***. Clearly, plaintiff's HVMLT 2005-1 Certificates were not the highly rated, "investment grade" securities

defendants represented them to be. The evidence supporting the falsity of the HVMLT 2005-1 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1A	41161PLD3	Group 2	41.87%	Aaa	Caa2	AAA	B-
2A1B	41161PLE1	Group 2	41.87%	Aaa	C	AAA	D
2A2	41161PLF8	Group 2	41.87%	Aaa	C	AAA	D

e. Transfer of Title

68. The HVMLT 2005-1 Offering Documents also represented that the loans underlying the HVMLT 2005-1 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2005-1 Offering Documents stated that, "[o]n the closing date, the depositor will transfer to the trust all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the cut-off date." *See* HVMLT 2005-1 Pros. Supp. at S-66. The HVMLT 2005-1 Offering Documents also stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement the seller will deliver to the trustee (or a custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreement.

Id. The HVMLT 2005-1 Offering Documents further stated that:

> [T]he depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund:

> • the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;
>
> • the . . . mortgage . . . ;
>
> * * *
>
> • an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT 2005-1 Prospectus ("Pros.") at 62. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

3. The HVMLT 2005-9 Certificates

69. The HarborView Mortgage Loan Trust 2005-9, Mortgage Loan Pass-Through Certificates, Series 2005-9 ("HVMLT 2005-9 Certificates") were issued pursuant to a Prospectus Supplement dated August 22, 2005. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2005-9 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

70. Plaintiff purchased the following HVMLT 2005-9 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	2A1A	41161PSK0	7/21/2005	$40,000,000	RBS Securities

71. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the HVMLT 2005-9 Offering Documents, including draft and/or final HVMLT 2005-9 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2005-9 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

72. The HVMLT 2005-9 Offering Documents disclosed that 100% of the HVMLT 2005-9 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator Washington Mutual Bank ("WaMu"). *See* HVMLT 2005-9 Pros. Supp. at S-19.

73. The HVMLT 2005-9 Offering Documents represented that "[t]he underwriting guidelines are established to set acceptable criteria regarding credit history, repayment ability, adequacy of necessary liquidity, and adequacy of the collateral." *Id.* at S-46. The HVMLT 2005-9 Offering Documents also represented that "[u]nderwriting standards are applied by or on behalf of a lender to evaluate a prospective borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *See* HVMLT 2005-9 Pros. at 34. The HVMLT 2005-9 Offering Documents further represented that:

> Once all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available
>
> - to meet the borrower's monthly obligations on the proposed loan, generally determined on the basis of the monthly payments due in the year of origination, and other expenses related to the mortgaged property such as property taxes and hazard insurance, and
>
> - to meet monthly housing expenses and other financial obligations and monthly living expenses.

Id. at 35. Additionally, the HVMLT 2005-9 Offering Documents represented that:

> All applicants must complete a standard residential loan application that includes information on income, employment, assets, debts, payments and specific questions regarding credit history. Credit history is reviewed and independently confirmed using merged in-file credit reports. Calculations are made to establish the relationship between fixed expenses and gross monthly income, which should not exceed established guidelines. Fixed expenses and gross monthly income are reviewed with respect to the applicant's overall ability to repay the mortgage loan, including other income sources, commitment to the property as evidenced by loan-to-value ratio, credit history, other liquid resources, ability to accumulate assets and other compensating factors.

See HVMLT 2005-9 Pros. Supp. at S-47. Moreover, the HVMLT 2005-9 Offering Documents represented that:

> The adequacy of the collateral is generally determined by an appraisal made in accordance with pre-established appraisal procedural guidelines. At origination, all appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation and are made on forms acceptable to Fannie Mae and/or Freddie Mac.

Id. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that WaMu had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.8, *infra*.

b. Loan-to-Value Ratios

74. The HVMLT 2005-9 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2005-9 Certificate purchased by plaintiff. Specifically, the HVMLT 2005-9 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's HVMLT 2005-9 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2005-9 Certificate had LTV ratios over 100%.

75. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2005-9 Certificate, which reveals that the LTV ratio percentages stated in the HVMLT 2005-9 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2005-9 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1A	41161PSK0	Group 2	0.63%	34.93%	0.00%	12.75%

c. Owner Occupancy Rates

76. The HVMLT 2005-9 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2005-9 Certificate purchased by plaintiff. Specifically, the HVMLT 2005-9 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2005-9 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

77. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2005-9 Certificate, which reveals that the OOR percentages stated in the HVMLT 2005-9 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2005-9 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A1A	41161PSK0	Group 2	93.27%	82.49%	13.07%

d. Credit Ratings

78. The HVMLT 2005-9 Offering Documents also represented that the HVMLT 2005-9 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely

low probability of default. Specifically, the HVMLT 2005-9 Offering Documents represented that plaintiff's HVMLT 2005-9 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

79. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2005-9 Certificate should not have each received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2005-9 Certificate was an extremely risky bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's HVMLT 2005-9 Certificate was because defendants had fed them falsified information regarding the HVMLT 2005-9 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

80. The falsity of the credit ratings set forth in the HVMLT 2005-9 Offering Documents is confirmed by subsequent events. Specifically, ***more than 32% of the loans supporting plaintiff's HVMLT 2005-9 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Clearly, plaintiff's HVMLT 2005-9 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the HVMLT 2005-9 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1A	41161PSK0	Group 2	32.26%	Aaa	Ba1	AAA	AA+

e. Transfer of Title

81. The HVMLT 2005-9 Offering Documents also represented that the loans underlying the HVMLT 2005-9 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2005-9 Offering Documents stated that, "[o]n the closing date, the depositor will transfer to the trust all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the cut-off date." *See* HVMLT 2005-9 Pros. Supp. at S-56. The HVMLT 2005-9 Offering Documents also stated that:

> The pooling agreement will require that, upon certain conditions and within the time period specified in the pooling agreement the seller will deliver to the trustee (or a custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the related originator pursuant to the terms of the related underlying purchase agreement.

Id. The HVMLT 2005-9 Offering Documents further stated that:

> [T]he depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund:
>
> - the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;
>
> - . . . the mortgage . . . ;
>
> * * *
>
> - an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT 2005-9 Pros. at 62. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

4. The HVMLT 2005-10 Certificates

82. The HarborView Mortgage Loan Trust 2005-10, Mortgage Loan Pass-Through Certificates, Series 2005-10 ("HVMLT 2005-10 Certificates") were issued pursuant to a Prospectus Supplement dated August 26, 2005. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2005-10 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

83. Plaintiff purchased the following HVMLT 2005-10 Certificates:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	2A1A	41161PTN3	8/5/2005	$25,000,000	RBS Securities
Fortis Bank	2A1C	41161PTQ6	8/5/2005	$20,000,000	RBS Securities

84. The decision to purchase the above securities was made by Fortis Bank in direct reliance upon the HVMLT 2005-10 Offering Documents, including draft and/or final HVMLT 2005-10 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2005-10 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

85. The HVMLT 2005-10 Offering Documents disclosed that 100% of the HVMLT 2005-10 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator Countrywide. *See* HVMLT 2005-10 Pros. Supp. at S-22.

86. The HVMLT 2005-10 Offering Documents represented that "Countrywide's underwriting standards are applied by or on behalf of Countrywide to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *Id.* at S-49. The HVMLT 2005-10 Offering Documents also represented that:

> 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.

Id. In that respect, the HVMLT 2005-10 Offering Documents represented that:

> Under its Standard Underwriting Guidelines, Countrywide 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%.
>
> * * *
>
> Under its Expanded Underwriting Guidelines, Countrywide generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the borrower's total monthly debt of up to 40%; provided, however, that if the Loan-to-Value Ratio exceeds 80%, the maximum permitted debt-to-income ratios are 33% and 38%, respectively.

Id. at S-51-S-52. The HVMLT 2005-10 Offering Documents further represented that, "[e]xcept with respect to mortgage loans originated pursuant to its Streamlined Documentation Program, Countrywide obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans," and that "[a]ll appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect." *Id*. at S-50. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.2, *infra*.

b. Loan-to-Value Ratios

87. The HVMLT 2005-10 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2005-10 Certificates purchased by plaintiff. Specifically, the HVMLT 2005-10 Offering Documents represented that only

a very small percentage of the loans supporting plaintiff's HVMLT 2005-10 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2005-10 Certificates had LTV ratios over 100%.

88. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2005-10 Certificates, which reveals that the LTV ratio percentages stated in the HVMLT 2005-10 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2005-10 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
2A1A	41161PTN3	Group 2	4.33%	50.27%	0.00%	11.48%
2A1C	41161PTQ6	Group 2	4.33%	50.27%	0.00%	11.48%

c. Owner Occupancy Rates

89. The HVMLT 2005-10 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2005-10 Certificates purchased by plaintiff. Specifically, the HVMLT 2005-10 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2005-10 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

90. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2005-10 Certificates, which reveals that the OOR percentages stated in the HVMLT 2005-10 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2005-10

Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A1A	41161PTN3	Group 2	86.06%	77.24%	11.42%
2A1C	41161PTQ6	Group 2	86.06%	77.24%	11.42%

d. Credit Ratings

91. The HVMLT 2005-10 Offering Documents also represented that the HVMLT 2005-10 Certificates purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the HVMLT 2005-10 Offering Documents represented that plaintiff's HVMLT 2005-10 Certificates had each been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

92. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2005-10 Certificates should not have each received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2005-10 Certificates were extremely risky, speculative grade "junk" bonds ***or worse***, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's HVMLT 2005-10 Certificates was because defendants had fed them falsified information regarding the HVMLT 2005-10 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

93. The falsity of the credit ratings set forth in the HVMLT 2005-10 Offering Documents is confirmed by subsequent events. Specifically, ***more than 39% of the loans supporting plaintiff's HVMLT 2005-10 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2005-10 Certificates are now rated at "junk" status ***or below***. Clearly, plaintiff's HVMLT 2005-10 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the HVMLT 2005-10 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1A	41161PTN3	Group 2	39.60%	Aaa	Caa3	AAA	CCC
2A1C	41161PTQ6	Group 2	39.60%	Aaa	C	AAA	D

e. Transfer of Title

94. The HVMLT 2005-10 Offering Documents also represented that the loans underlying the HVMLT 2005-10 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2005-10 Offering Documents stated that:

> On the closing date for the closing date mortgage loans and on any subsequent transfer date for the Subsequent Mortgage Loans, the depositor will transfer to the trust all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the cut-off date.

See HVMLT 2005-10 Pros. Supp. at S-59. The HVMLT 2005-10 Offering Documents further stated that:

> The pooling agreement will require that, upon certain conditions and within the time period specified in the pooling agreement the seller will deliver to the trustee

> (or the custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreement.

Id. The HVMLT 2005-10 Offering Documents further stated that:

> [T]he depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund:
>
> • the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;
>
> • . . . the mortgage . . . ;
>
> *   *   *
>
> • an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT 2005-10 Pros. at 62. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

5. The HVMLT 2005-11 Certificates

95. The HarborView Mortgage Loan Trust 2005-11, Mortgage Loan Pass-Through Certificates, Series 2005-11 ("HVMLT 2005-11 Certificates") were issued pursuant to a Prospectus Supplement dated August 29, 2005. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2005-11 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

96. Plaintiff purchased the following HVMLT 2005-11 Certificates:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	2A1A	41161PUK7	8/17/2005	$30,000,000	RBS Securities
Fortis Bank	2A1C	41161PUM3	8/17/2005	$20,000,000	RBS Securities
Fortis Bank	2A1C	41161PUM3	10/25/2005	$42,163,000	RBS Securities

97. The decision to purchase the above securities was made by Fortis Bank in direct reliance upon the HVMLT 2005-11 Offering Documents, including draft and/or final HVMLT 2005-11 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2005-11 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

98. The HVMLT 2005-11 Offering Documents disclosed that approximately 13.97%, 13.79%, 13.11% and 12.22% of the loans underlying the HVMLT 2005-11 Certificates were originated by Paul Financial, LLC ("Paul Financial"), Plaza Home Mortgage, Inc. ("Plaza"), Secured Bankers Mortgage Company ("Secured Bankers") and Sierra Pacific Mortgage Co., Inc. ("Sierra Pacific"), respectively; and the remaining loans underlying the HVMLT 2005-11 Certificates were originated by other originators, none of which originated "more than 10% of the mortgage loans." *See* HVMLT 2005-11 Pros. Supp. at S-21.

99. With regard to the Paul Financial loans, the HVMLT 2005-11 Offering Documents represented that "Paul Financial's underwriting standards are applied by or on behalf of Paul Financial to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *Id.* at S-47. The HVMLT 2005-11 Prospectus Supplement also represented that "[a]n applicant's creditworthiness is determined based on the borrower's ability and willingness to repay the loan," and that "[t]he loan decision is based upon the applicant's financial information, employment and income stability, credit history and collateral value." *Id.* at S-46. The HVMLT 2005-11 Offering Documents further represented that:

> 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.

Id. at S-47. Additionally, the HVMLT 2005-11 Offering Documents represented that, "[t]he 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," and that "[i]n 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." *Id.* Moreover, the HVMLT 2005-11 Offering Documents represented that, "Paul Financial obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans," and that "[a]ll appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect." *Id*. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Paul Financial had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.10, *infra*.

100. With regard to the Plaza loans, the HVMLT 2005-11 Offering Documents represented that "Plaza'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." *See* HVMLT 2005-11 Pros. Supp. at S-50. The HVMLT 2005-11 Offering Documents also represented that, "[a]n applicant's creditworthiness is determined based on the borrower's ability and willingness to repay the loan," and that "[t]he loan decision is based upon the applicant's financial information, employment and income stability, credit history and collateral value." *Id.* at S-49. The HVMLT 2005-11 Offering Documents further represented that:

> 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, homeowners association dues and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt, which includes the proposed monthly housing costs and all other obligations with 10 or more monthly payments remaining (except auto leases), to the borrower's monthly gross income (the "debt-to-income ratios") are within acceptable limits.

Id. at S-50. Additionally, the HVMLT 2005-11 Offering Documents represented that: "The maximum acceptable debt-to-income ratios, determined on a loan-by-loan and/or product/program basis, vary depending on a number of underwriting criteria, including the loan-to-value ratio, loan purpose, loan amount and credit history of the borrower," and that "[i]n addition to meeting the guidelines for debt-to-income ratios, each prospective borrower is required to have sufficient cash resources to pay the down payment and closing costs." *Id.* Moreover, the HVMLT 2005-11 Offering Documents represented that "Plaza obtains appraisals using automated valuation models, independent appraisers or appraisal services for properties that are to secure mortgage loans," and that "[a]ll appraisals are required to conform to Uniform Standards of Professional Appraisal Practices." *Id*. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Plaza had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.1, *infra*.

101. With regard to the Secured Bankers loans, the HVMLT 2005-11 Offering Documents represented that "Secured Bankers applies its underwriting guidelines to evaluate the property and the applicant's income, employment, assets, and credit history in the context of the loan program and documentation requirements," and that "Secured Bankers applies the Option ARM underwriting standards to evaluate the prospective borrower's credit standing and repayment ability, and the value

and adequacy of the mortgaged property as collateral." *See* HVMLT 2005-11 Pros. Supp. at S-51, S-52. The HVMLT 2005-11 Offering Documents also represented that "Secured Bankers determines an applicant's creditworthiness based on the borrower's ability and willingness to repay the loan," and that "[t]he loan decision is based upon the applicant's financial information, employment and income stability, credit history and collateral value." *Id.* at S-51-S-52. The HVMLT 2005-11 Offering Documents further represented that:

> 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, homeowners association dues and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt, which includes the proposed monthly housing costs and all other obligations with 10 or more monthly payments remaining, to the borrower's monthly gross income (the "debt-to-income ratios") are within acceptable limits.

Id. at S-52. In that respect, the HVMLT 2005-11 Offering Documents represented that:

> The maximum acceptable debt-to-income (DTI) ratio is 40%. The AUS may approve loans with a higher DTI ratio if the loan has compensating factors and the characteristics of the loan. On manually underwritten loans, Secured Bankers may allow a DTI ratio slightly above 40% if the loan has compensating factors and the characteristics of the loan are lower risk.

Id. Moreover, the HVMLT 2005-11 Offering Documents represented that "Secured Bankers requires that the mortgage broker obtain the appraisal using an independent appraiser or appraisal service for properties that are to secure mortgage loans," and that "[o]n certain high-risk loans, or any time that the Secured Bankers underwriter requests it, Secured Bankers will obtain a second appraisal, field appraisal review, or a desk review to verify that the appraised value is reasonable." *Id.* at S-53. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Secured Bankers had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.1, *infra*.

102. With regard to the Sierra Pacific loans, the HVMLT 2005-11 Offering Documents represented that "Sierra Pacific's underwriting standards are applied to evaluate the prospective borrower's credit standing and willingness and ability to repay along with the value and adequacy of the mortgaged property as collateral." *See* HVMLT 2005-11 Pros. Supp. at S-53. The HVMLT 2005-11 Offering Documents also represented that:

> Under those standards, a prospective borrower must generally demonstrate that the ratio of the borrower's monthly housing expenses (including principal and interest, and, as applicable, property taxes, hazard insurance, flood insurance, mortgage insurance and homeowner association dues) to the borrower's gross monthly income (housing ratio) and the ratio of the total monthly debt to the borrower's gross monthly income (debt to income ratio) are within acceptable tolerances.

Id. at S-53-S-54. The HVMLT 2005-11 Offering Documents further represented that "[a]ll mortgage loans closed by Sierra Pacific must meet credit, appraisal and underwriting standards acceptable to Sierra Pacific," and that "appraisal reviews are occasionally required as part of the program guidelines or at Sierra Pacific's discretion." *Id.* at S-53. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Sierra Pacific had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.1, *infra*.

103. With regard to all of the loans underlying the HVMLT 2005-11 Certificates, the HVMLT 2005-11 Offering Documents represented that "[u]nderwriting standards are applied by or on behalf of a lender to evaluate a prospective borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *See* HVMLT 2005-11 Pros. at 34.

The HVMLT 2005-11 Offering Documents also stated that, "[a]s 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." *Id.* The HVMLT 2005-11 Offering Documents further represented that, "in determining the adequacy of the mortgaged property as collateral, an appraisal is made of each property considered for financing." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Paul Financial, Plaza, Secured Bankers, Sierra Pacific and the other various originators had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §§VI.A.1 and VI.A.10, *infra*.

b. Loan-to-Value Ratios

104. The HVMLT 2005-11 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2005-11 Certificates purchased by plaintiff. Specifically, the HVMLT 2005-11 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's HVMLT 2005-11 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2005-11 Certificates had LTV ratios over 100%.

105. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2005-11 Certificates, which reveals that the LTV ratio percentages stated in the HVMLT 2005-11 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2005-

11 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1A	41161PUK7	Group 2	2.92%	33.52%	0.00%	4.04%
2A1C	41161PUM3	Group 2	2.92%	33.52%	0.00%	4.04%

c. Owner Occupancy Rates

106. The HVMLT 2005-11 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2005-11 Certificates purchased by plaintiff. Specifically, the HVMLT 2005-11 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2005-11 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

107. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2005-11 Certificates, which reveals that the OOR percentages stated in the HVMLT 2005-11 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2005-11 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A1A	41161PUK7	Group 2	90.18%	83.14%	8.46%
2A1C	41161PUM3	Group 2	90.18%	83.14%	8.46%

d. Credit Ratings

108. The HVMLT 2005-11 Offering Documents also represented that the HVMLT 2005-11 Certificates purchased by ***plaintiff*** had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the HVMLT 2005-11 Offering Documents represented that plaintiff's HVMLT 2005-11 Certificates had each been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

109. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2005-11 Certificates should not have each received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2005-11 Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's HVMLT 2005-11 Certificates was because defendants had fed them falsified information regarding the HVMLT 2005-11 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

110. The falsity of the credit ratings set forth in the HVMLT 2005-11 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 24% of the loans supporting plaintiff's HVMLT 2005-11 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2005-11 Certificates are now rated at "junk" status or lower. Clearly, plaintiff's HVMLT 2005-11 Certificates were not the highly rated, "investment grade" securities

defendants represented them to be. The evidence supporting the falsity of the HVMLT 2005-11 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1A	41161PUK7	Group 2	24.01%	Aaa	B1	AAA	BB
2A1C	41161PUM3	Group 2	24.01%	Aaa	C	AAA	CC

e. Transfer of Title

111. The HVMLT 2005-11 Offering Documents also represented that the loans underlying the HVMLT 2005-11 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2005-11 Offering Documents stated that, "[o]n the closing date, the depositor will transfer to the trust all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the cut-off date." *See* HVMLT 2005-11 Pros. Supp. at S-61. The HVMLT 2005-11 Offering Documents also stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement the seller will deliver to the trustee (or a custodian) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreement.

Id. The HVMLT 2005-11 Offering Documents further stated that:

> [T]he depositor will deliver the following items to the trustee or a custodian the following items in connection with each loan in the related trust fund:
>
> - the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;

- . . . the mortgage . . . ;

* * *

- an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT Pros. 2005-11 at 62. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

6. The HVMLT 2005-13 Certificates

112. The HarborView Mortgage Loan Trust 2005-13, Mortgage Loan Pass-Through Certificates, Series 2005-13 ("HVMLT 2005-13 Certificates") were issued pursuant to a Prospectus Supplement dated September 28, 2005. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2005-13 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

113. Plaintiff purchased the following HVMLT 2005-13 Certificate:

Original Purchaser	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Purchased From**
Fortis Bank	2A1C	41161PWE9	10/25/2005	$19,587,000	RBS Securities

114. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the HVMLT 2005-13 Offering Documents, including draft and/or final HVMLT 2005-13 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2005-13 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

115. The HVMLT 2005-13 Offering Documents disclosed that 100% of the HVMLT 2005-13 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator Countrywide. *See* HVMLT 2005-13 Pros. Supp. at S-22.

116. The HVMLT 2005-13 Offering Documents represented that "Countrywide's underwriting standards are applied by or on behalf of Countrywide to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *Id.* at S-49. The HVMLT 2005-13 Offering Documents also represented that:

> 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.

Id. In that respect, the HVMLT 2005-13 Offering Documents further represented that:

> Under its Standard Underwriting Guidelines, Countrywide 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%.
>
> * * *
>
> Under its Expanded Underwriting Guidelines, Countrywide generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the borrower's total monthly debt of up to 40%; provided, however, that if the Loan-to-Value Ratio exceeds 80%, the maximum permitted debt-to-income ratios are 33% and 38%, respectively.

Id. at S-51-S-52. Moreover, the HVMLT 2005-13 Offering Documents represented that "Countrywide obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans," and that "[a]ll appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect." *Id*. at S-50. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.2, *infra*.

b. Loan-to-Value Ratios

117. The HVMLT 2005-13 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2005-13 Certificate purchased by plaintiff. Specifically, the HVMLT 2005-13 Offering Documents represented that less than 18% of the loans supporting plaintiff's HVMLT 2005-13 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2005-13 Certificate had LTV ratios over 100%.

118. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2005-13 Certificate, which reveals that the LTV ratio percentages stated in the HVMLT 2005-13 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2005-13 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1C	41161PWE9	Group 2	17.19%	54.82%	0.00%	15.22%

c. Owner Occupancy Rates

119. The HVMLT 2005-13 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2005-13 Certificate

purchased by plaintiff. Specifically, the HVMLT 2005-13 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2005-13 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

120. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2005-13 Certificate, which reveals that the OOR percentages stated in the HVMLT 2005-13 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2005-13 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
2A1C	41161PWE9	Group 2	80.97%	69.05%	17.27%

d. Credit Ratings

121. The HVMLT 2005-13 Offering Documents also represented that the HVMLT 2005-13 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the HVMLT 2005-13 Offering Documents represented that plaintiff's HVMLT 2005-13 Certificate had been assigned AAA/Aaae ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

122. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2005-13 Certificate should not have received AAA/Aaae credit ratings, because it

was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2005-13 Certificate was an extremely risky, speculative grade "junk" bond ***or worse***, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's HVMLT 2005-13 Certificate was because defendants had fed them falsified information regarding the HVMLT 2005-13 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

123. The falsity of the credit ratings set forth in the HVMLT 2005-13 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 44% of the loans supporting plaintiff's HVMLT 2005-13 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2005-13 Certificate is now rated ***at below*** "junk" status.. Clearly, plaintiff's HVMLT 2005-13 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the HVMLT 2005-13 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1C	41161PWE9	Group 2	43.94%	Aaae	C	AAA	D

e. Transfer of Title

124. The HVMLT 2005-13 Offering Documents also represented that the loans underlying the HVMLT 2005-13 Certificate would be timely transferred to the issuing trust, so that the trust

would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2005-13 Offering Documents stated that:

> On the closing date for the closing date mortgage loans and on any subsequent transfer date for the Subsequent Mortgage Loans, the depositor will transfer to the trust all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the cut-off date.

See HVMLT 2005-13 Pros. Supp. at S-59. The HVMLT 2005-13 Offering Documents also stated that:

> The pooling agreement will require that, upon certain conditions and within the time period specified in the pooling agreement the seller will deliver to the trustee (or the custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreement.

Id. The HVMLT 2005-13 Offering Documents further stated that:

> [T]he depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund:
>
> - the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;
>
> - . . . the mortgage . . . ;
>
> * * *
>
> - an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT 2005-13 Pros. at 63-64. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

7. The HVMLT 2005-15 Certificates

125. The HarborView Mortgage Loan Trust 2005-15, Mortgage Loan Pass-Through Certificates, Series 2005-15 ("HVMLT 2005-15 Certificates") were issued pursuant to Prospectus Supplements dated October 27, 2005 and October 31, 2005. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2005-15 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

126. Plaintiff purchased the following HVMLT 2005-15 Certificates:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Scaldis	2A11	41161PXH1	10/21/2005	$10,489,000	RBS Securities
Fortis Bank	3A12	41161PXN8	2/8/2006	$44,434,000	RBS Securities

127. The decision to purchase the above securities was made by Fortis Bank, on its own and Scaldis's behalf, in direct reliance upon the HVMLT 2005-15 Offering Documents, including draft and/or final HVMLT 2005-15 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2005-15 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

128. The HVMLT 2005-15 Offering Documents disclosed that approximately 32.03%, 13.69% and 11.90% of the Group 3 loans underlying the HVMLT 2005-15 Certificates were originated by Paul Financial, Secured Bankers and MortgageIT, Inc. ("Mortgage IT"), respectively; approximately 42.38% of the Group 3 loans underlying the HVMLT 2005-15 Certificates were originated by various other originators; approximately 20.45%, 14.18% and 11.17% of the Group 2 loans underlying the HVMLT 2005-15 Certificates were originated by Paul Financial, WaMu and Secured Bankers, respectively; and approximately 54.20% of the Group 2 loans underlying the

HVMLT 2005-15 Certificates were originated by other originators. *See* HVMLT 2005-15 Pros. Supp. at S-41, S-48.

129. With regard to the Paul Financial loans, the HVMLT 2005-15 Offering Documents represented that "Paul Financial's underwriting guidelines are applied to evaluate the applicant, the property and the applicant's income, employment and credit history in the context of the loan program and documentation requirements," and that "Paul Financial's underwriting standards are applied by or on behalf of Paul Financial to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *Id.* at S-56. The HVMLT 2005-15 Offering Documents also represented that, "[a]n applicant's creditworthiness is determined based on the borrower's ability and willingness to repay the loan," and that "[t]he loan decision is based upon the applicant's financial information, employment and income stability, credit history and collateral value." *Id.* at S-56. The HVMLT 2005-15 Offering Documents further represented that:

> 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.

Id. Additionally, the HVMLT 2005-15 Offering Documents represented that: "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," and that "[i]n 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." *Id.* at S-56-S-57. Moreover, the HVMLT 2005-15 Offering Documents represented that "Paul Financial obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans," and that "[a]ll appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect." *Id*. at S-57. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Paul Financial had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.10, *infra*.

130. With regard to all of the loans underlying the HVMLT 2005-15 Certificates, the HVMLT 2005-15 Offering Documents stated that the "[u]nderwriting standards are applied by or on behalf of a lender to evaluate a prospective borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *See* HVMLT 2005-15 Pros. at 35. The HVMLT 2005-15 Offering Documents also stated that: "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." *Id*. The HVMLT 2005-15 Offering Documents further represented that, "[i]n determining the adequacy of the mortgaged property as collateral, an appraisal is made of each property considered for financing." *Id.* at 36. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Paul Financial, Secured Bankers and MortgageIT, WaMu and the various originators had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §§VI.A.1, VI.A.5, VI.A.8 and VI.A.10, *infra*.

b. Loan-to-Value Ratios

131. The HVMLT 2005-15 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2005-15 Certificates purchased by plaintiff. Specifically, the HVMLT 2005-15 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's HVMLT 2005-15 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2005-15 Certificates had LTV ratios over 100%.

132. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2005-15 Certificates, which reveals that the LTV ratio percentages stated in the HVMLT 2005-15 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2005-15 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A11	41161PXH1	Group 2	2.36%	40.87%	0.00%	7.06%
3A12	41161PXN8	Group 3	2.86%	51.42%	0.00%	9.92%

c. Owner Occupancy Rates

133. The HVMLT 2005-15 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2005-15 Certificates purchased by plaintiff. Specifically, the HVMLT 2005-15 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2005-15 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

134. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2005-15 Certificates, which reveals that the OOR percentages stated in the HVMLT 2005-15 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2005-15 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
2A11	41161PXH1	Group 2	86.89%	78.26%	11.03%
3A12	41161PXN8	Group 3	93.84%	89.29%	5.10%

d. Credit Ratings

135. The HVMLT 2005-15 Offering Documents also represented that the HVMLT 2005-15 Certificates purchased by ***plaintiff*** had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the HVMLT 2005-15 Offering Documents represented that plaintiff's HVMLT 2005-15 Certificates had each been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

136. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2005-15 Certificates should not have received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2005-15 Certificates were extremely risky, speculative grade "junk" bonds, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to

plaintiff's HVMLT 2005-15 Certificates was because defendants had fed them falsified information regarding the HVMLT 2005-15 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

137. The falsity of the credit ratings set forth in the HVMLT 2005-15 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 29% of the Group 2 loans and more than 27% of the Group 3 loans supporting plaintiff's HVMLT 2005-15 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2005-15 Certificates are now rated at "junk" status. Clearly, plaintiff's HVMLT 2005-15 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the HVMLT 2005-15 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A11	41161PXH1	Group 2	28.48%	Aaa	Caa3	AAA	CCC
3A12	41161PXN8	Group 3	27.03%	Aaa	Caa2	AAA	CCC

e. Transfer of Title

138. The HVMLT 2005-15 Offering Documents also represented that the loans underlying the HVMLT 2005-15 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2005-15 Offering Documents stated that, "[o]n the closing date, the depositor will transfer to the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments

with respect to each mortgage loan due after the cut-off date." *See* HVMLT 2005-15 Pros. Supp. at S-66. The HVMLT 2005-15 Offering Documents also stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement the seller will deliver to the trustee (or a custodian) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreement.

Id. at S-67. The HVMLT 2005-15 Offering Documents further stated that:

> [T]he depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund:
>
> • the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;
>
> • . . . the mortgage . . . ;
>
> *   *   *
>
> • an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT 2005-15 Pros. at 63-64. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

8. The HVMLT 2005-16 Certificates

139. The HarborView Mortgage Loan Trust 2005-16, Mortgage Loan Pass-Through Certificates, Series 2005-16 ("HVMLT 2005-16 Certificates") were issued pursuant to a Prospectus Supplement dated November 28, 2005. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2005-16 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

140. Plaintiff purchased the following HVMLT 2005-16 Certificates:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	3A1A	41161PYZ0	11/8/2005	$30,000,000	RBS Securities
Fortis Bank	3A1A	41161PYZ0	12/1/2005	$10,000,000	RBS Securities

141. The decisions to purchase the above security were made by Fortis Bank in direct reliance upon the HVMLT 2005-16 Offering Documents, including draft and/or final HVMLT 2005-16 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2005-16 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

142. The HVMLT 2005-16 Offering Documents disclosed that 100% of the HVMLT 2005-16 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator Countrywide. *See* HVMLT 2005-16 Pros. Supp. at S-28.

143. The HVMLT 2005-16 Offering Documents represented that "Countrywide's underwriting standards are applied by or on behalf of Countrywide to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *Id.* at S-69. The HVMLT 2005-16 Prospectus Supplement also represented that:

> 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.

Id. In that respect, the HVMLT 2005-16 Offering Documents further represented that:

> Under its Standard Underwriting Guidelines, Countrywide 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%.
>
> * * *
>
> Under its Expanded Underwriting Guidelines, Countrywide generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the borrower's total monthly debt of up to 40%; provided, however, that if the Loan-to-Value Ratio exceeds 80%, the maximum permitted debt-to-income ratios are 33% and 38%, respectively.

Id. at S-71-S-72. Moreover, the HVMLT 2005-16 Offering Documents represented that, "[e]xcept with respect to mortgage loans originated pursuant to its streamlined documentation program, Countrywide obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans, and that "[a]ll appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect." *Id.* at S-70. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.2, *infra*.

b. Loan-to-Value Ratios

144. The HVMLT 2005-16 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2005-16 Certificates purchased by plaintiff. Specifically, the HVMLT 2005-16 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's HVMLT 2005-16 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2005-16 Certificates had LTV ratios over 100%.

145. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2005-16 Certificates, which reveals that the LTV ratio percentages stated in the HVMLT 2005-16 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2005-16 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
3A1A	41161PYZ0	Group 3	5.44%	40.23%	0.00%	7.04%

c. Owner Occupancy Rates

146. The HVMLT 2005-16 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2005-16 Certificates purchased by plaintiff. Specifically, the HVMLT 2005-16 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2005-16 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

147. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2005-16 Certificates, which reveals that the OOR percentages stated in the HVMLT 2005-16 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2005-16 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
3A1A	41161PYZ0	Group 3	80.90%	71.70%	12.83%

d. Credit Ratings

148. The HVMLT 2005-16 Offering Documents also represented that the HVMLT 2005-16 Certificates purchased by ***plaintiff*** had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the HVMLT 2005-16 Offering Documents represented that plaintiff's HVMLT 2005-16 Certificates had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

149. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2005-16 Certificates should not have received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2005-16 Certificates were extremely risky, speculative grade "junk" bonds, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's HVMLT 2005-16 Certificates was because defendants had fed them falsified information regarding the HVMLT 2005-16 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

150. The falsity of the credit ratings set forth in the HVMLT 2005-16 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 53% of the loans supporting***

plaintiff's HVMLT 2005-16 Certificates are currently in default because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2005-16 Certificates are now rated at "junk" status. Clearly, plaintiff's HVMLT 2005-16 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the HVMLT 2005-16 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
3A1A	41161PYZ0	Group 3	52.96%	Aaa	Caa3	AAA	CCC

e. Transfer of Title

151. The HVMLT 2005-16 Offering Documents also represented that the loans underlying the HVMLT 2005-16 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2005-16 Offering Documents stated that:

> On the closing date for the closing date mortgage loans and on any subsequent transfer date for the Subsequent Mortgage Loans, the depositor will transfer to the trust all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the cut-off date.

See HVMLT 2005-16 Pros. Supp. at S-85. The HVMLT 2005-16 Offering Documents also stated that:

> The pooling agreement will require that, upon certain conditions and within the time period specified in the pooling agreement the seller will deliver to the trustee (or the custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreement.

Id. Moreover, the HVMLT 2005-16 Offering Documents stated that:

> [T]he depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund:
>
> • the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;
>
> • . . . the mortgage . . . ;
>
> * * *
>
> • an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT 2005-16 Pros. at 63-64. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

9. The HVMLT 2006-1 Certificates

152. The HarborView Mortgage Loan Trust 2006-1, Mortgage Loan Pass-Through Certificates, Series 2006-1 ("HVMLT 2006-1 Certificates") were issued pursuant to a Prospectus Supplement dated January 25, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2006-1 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

153. Plaintiff purchased the following HVMLT 2006-1 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	2A1A	41161PA86	1/25/2006	$25,000,000	RBS Securities

154. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the HVMLT 2006-1 Offering Documents, including draft and/or final HVMLT 2006-1 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT

2006-1 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

155. The HVMLT 2006-1 Offering Documents disclosed that 100% of the HVMLT 2006-1 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator Countrywide. *See* HVMLT 2006-1 Pros. Supp. at S-27.

156. The HVMLT 2006-1 Offering Documents represented that "Countrywide['s] . . . underwriting standards are applied by or on behalf of Countrywide . . . to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *Id.* at S-61. The HVMLT 2006-1 Offering Documents also represented that:

> 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.

Id. at S-61-S-62. In that respect, the HVMLT 2006-1 Offering Documents further represented that:

> Under its Standard Underwriting Guidelines, Countrywide . . . 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%.
>
> * * *
>
> Under its Expanded Underwriting Guidelines, Countrywide . . . generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the borrower's total monthly debt of up to 40%; provided, however, that if the Loan-to-Value Ratio exceeds 80%, the maximum permitted debt-to-income ratios are 33% and 38%, respectively.

Id. at S-63-S-65. Moreover, the HVMLT 2006-1 Offering Documents represented that, "[e]xcept with respect to the mortgage loans originated pursuant to its Streamlined Documentation Program, whose values were confirmed with a Fannie Mae proprietary automated valuation model, Countrywide . . . obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans," and that "[a]ll appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect." *Id.* at S-62-S-63. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.2, *infra*.

b. Loan-to-Value Ratios

157. The HVMLT 2006-1 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2006-1 Certificate purchased by plaintiff. Specifically, the HVMLT 2006-1 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's HVMLT 2006-1 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2006-1 Certificate had LTV ratios over 100%.

158. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2006-1 Certificate, which reveals that the LTV ratio percentages stated in the HVMLT 2006-1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2006-1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1A	41161PA86	Group 2	7.88%	52.61%	0.00%	13.35%

c. Owner Occupancy Rates

159. The HVMLT 2006-1 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2006-1 Certificate purchased by plaintiff. Specifically, the HVMLT 2006-1 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2006-1 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

160. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2006-1 Certificate, which reveals that the OOR percentages stated in the HVMLT 2006-1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2006-1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A1A	41161PA86	Group 2	91.12%	80.54%	13.13%

d. Credit Ratings

161. The HVMLT 2006-1 Offering Documents also represented that the HVMLT 2006-1 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely

low probability of default. Specifically, the HVMLT 2006-1 Offering Documents represented that plaintiff's HVMLT 2006-1 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

162. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2006-1 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2006-1 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's HVMLT 2006-1 Certificate was because defendants had fed them falsified information regarding the HVMLT 2006-1 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

163. The falsity of the credit ratings set forth in the HVMLT 2006-1 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 50% of the loans supporting plaintiff's HVMLT 2006-1 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2006-1 Certificate is now rated at "junk" status. Clearly, plaintiff's HVMLT 2006-1 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the HVMLT 2006-1 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
2A1A	41161PA86	Group 2	49.39%	Aaa	Caa3	AAA	CCC

e. Transfer of Title

164. The HVMLT 2006-1 Offering Documents also represented that the loans underlying the HVMLT 2006-1 Certificate would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2006-1 Offering Documents stated that "[o]n the closing date, the depositor will transfer to the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the cut-off date." *See* HVMLT 2006-1 Pros. Supp. at S-80. The HVMLT 2006-1 Offering Documents also stated that:

> The pooling agreement will require that, upon certain conditions and within the time period specified in the pooling agreement the seller will deliver to the trustee (or the custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreement.

Id. The HVMLT 2006-1 Offering Documents further stated that:

> [T]he depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund:
>
> - the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;
>
> - . . . the mortgage . . . ;
>
> * * *
>
> - an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT 2006-1 Pros. at 63-64. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

10. The HVMLT 2006-5 Certificates

165. The HarborView Mortgage Loan Trust, Mortgage Loan Pass-Through Certificates, Series 2006-5 ("HVMLT 2006-5 Certificates") were issued pursuant to a Prospectus Supplement dated June 27, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2006-5 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

166. Plaintiff purchased the following HVMLT 2006-5 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Scaldis	2A1B	41161MAD2	6/8/2006	$20,000,000	RBS Securities

167. The decision to purchase the above security was made by Fortis Bank, on behalf of Scaldis, in direct reliance upon the HVMLT 2006-5 Offering Documents, including draft and/or final HVMLT 2006-5 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2006-5 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

168. The HVMLT 2006-5 Offering Documents disclosed that 100% of the HVMLT 2006-5 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator Countrywide. *See* HVMLT 2006-5 Pros. Supp. at S-25.

169. The HVMLT 2006-5 Offering Documents represented that "Countrywide['s] . . . underwriting standards are applied by or on behalf of Countrywide . . . to evaluate the prospective

borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *Id.* at S-66. The HVMLT 2006-5 Offering Documents also represented that:

> 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.

Id. In that respect, the HVMLT 2006-5 Offering Documents further represented that:

> Under its Standard Underwriting Guidelines, Countrywide . . . 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%.
>
> * * *
>
> Under its Expanded Underwriting Guidelines, Countrywide . . . generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the borrower's total monthly debt of up to 40%; provided, however, that if the Loan-to-Value Ratio exceeds 80%, the maximum permitted debt-to-income ratios are 33% and 38%, respectively.

Id. at S-68-S-69. Moreover, the HVMLT 2006-5 Offering Documents represented that, "[e]xcept with respect to the mortgage loans originated pursuant to its Streamlined Documentation Program, whose values were confirmed with a Fannie Mae proprietary automated valuation model, Countrywide . . . obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans," and that "[a]ll appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect." *Id*. at S-67. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.2, *infra*.

b. Loan-to-Value Ratios

170. The HVMLT 2006-5 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2006-5 Certificate purchased by plaintiff. Specifically, the HVMLT 2006-5 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's HVMLT 2006-5 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2006-5 Certificate had LTV ratios over 100%.

171. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2006-5 Certificate, which reveals that the LTV ratio percentages stated in the HVMLT 2006-5 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2006-5 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1B	41161MAD2	Group 2	7.07%	45.55%	0.00%	11.22%

c. Owner Occupancy Rates

172. The HVMLT 2006-5 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2006-5 Certificate purchased by plaintiff. Specifically, the HVMLT 2006-5 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2006-5 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

173. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2006-5 Certificate, which reveals that the OOR percentages stated in the HVMLT 2006-5 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2006-5 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
2A1B	41161MAD2	Group 2	89.85%	79.08%	13.62%

d. Credit Ratings

174. The HVMLT 2006-5 Offering Documents also represented that the HVMLT 2006-5 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the HVMLT 2006-5 Offering Documents represented that plaintiff's HVMLT 2006-5 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

175. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2006-5 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2006-5 Certificate was an extremely risky, speculative grade "junk" bond ***or worse***, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to

plaintiff's HVMLT 2006-5 Certificate was because defendants had fed them falsified information regarding the HVMLT 2006-5 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

176. The falsity of the credit ratings set forth in the HVMLT 2006-5 Offering Documents is confirmed by subsequent events. Specifically, ***almost 54% of the loans supporting plaintiff's HVMLT 2006-5 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2006-5 Certificate is now rated at ***below*** "junk" status. Clearly, plaintiff's HVMLT 2006-5 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the HVMLT 2006-5 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1B	41161MAD2	Group 2	53.64%	Aaa	C	AAA	D

e. Transfer of Title

177. The HVMLT 2006-5 Offering Documents also represented that the loans underlying the HVMLT 2006-5 Certificate would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2006-5 Offering Documents stated that, "[o]n the closing date, the depositor will transfer to the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments

with respect to each mortgage loan due after the cut-off date." *See* HVMLT 2006-5 Pros. Supp. at S-84. The HVMLT 2006-5 Offering Documents further stated that:

> The pooling agreement will require that, upon certain conditions and within the time period specified in the pooling agreement the seller will deliver to the trustee (or the custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreement.

Id. The HVMLT 2006-5 Offering Documents further stated that:

> [T]he depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund:
>
> - the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;
> - . . . the mortgage . . . ;
>
> * * *
>
> - an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT 2006-5 Pros. at 99. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

11. The HVMLT 2006-9 Certificates

178. The HarborView Mortgage Loan Trust, Mortgage Loan Pass-Through Certificates, Series 2006-9 ("HVMLT 2006-9 Certificates") were issued pursuant to a Prospectus Supplement dated October 3, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2006-9 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

179. Plaintiff purchased the following HVMLT 2006-9 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	2AC2	41161XAP1	9/8/2006	$25,000,000	RBS Securities

180. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the HVMLT 2006-9 Offering Documents, including draft and/or final HVMLT 2006-9 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2006-9 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

181. The HVMLT 2006-9 Offering Documents disclosed that 100% of the HVMLT 2006-9 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator Countrywide. *See* HVMLT 2006-9 Pros. Supp. at S-23.

182. The HVMLT 2006-9 Offering Documents represented that "Countrywide['s] . . . underwriting standards are applied by or on behalf of Countrywide . . . to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *Id.* at S-64. The HVMLT 2006-9 Offering Documents also represented that:

> 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.

Id. In that respect, the HVMLT 2006-9 Offering Documents further represented that:

> Under its Standard Underwriting Guidelines, Countrywide . . . 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%.

* * *

> Under its Expanded Underwriting Guidelines, Countrywide . . . generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the borrower's total monthly debt of up to 40%; provided, however, that if the Loan-to-Value Ratio exceeds 80%, the maximum permitted debt-to-income ratios are 33% and 38%, respectively.

Id. at S-65-S-67. Moreover, the HVMLT 2006-9 Offering Documents represented that:

> Except with respect to the mortgage loans originated pursuant to its Streamlined Documentation Program, whose values were confirmed with a Fannie Mae proprietary automated valuation model, Countrywide Home Loans obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans . . . [and that] [a]ll appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect.

Id. at S-65. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.2, *infra*.

b. Loan-to-Value Ratios

183. The HVMLT 2006-9 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2006-9 Certificate purchased by plaintiff. Specifically, the HVMLT 2006-9 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's HVMLT 2006-9 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2006-9 Certificate had LTV ratios over 100%.

184. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2006-9 Certificate, which reveals that the LTV ratio percentages stated in the HVMLT 2006-9 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2006-9

Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2AC2	41161XAP1	Group 2	5.84%	46.30%	0.00%	12.20%

c. Owner Occupancy Rates

185. The HVMLT 2006-9 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2006-9 Certificate purchased by plaintiff. Specifically, the HVMLT 2006-9 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2006-9 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

186. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2006-9 Certificate, which reveals that the OOR percentages stated in the HVMLT 2006-9 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2006-9 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2AC2	41161XAP1	Group 2	89.97%	79.88%	12.63%

d. Credit Ratings

187. The HVMLT 2006-9 Offering Documents also represented that the HVMLT 2006-9 Certificate purchased by ***plaintiff*** had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the HVMLT 2006-9 Offering Documents represented that plaintiff's HVMLT 2006-9 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

188. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2006-9 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2006-9 Certificate was an extremely risky, speculative grade "junk" bond ***or worse***, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's HVMLT 2006-9 Certificate was because defendants had fed them falsified information regarding the HVMLT 2006-9 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

189. The falsity of the credit ratings set forth in the HVMLT 2006-9 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 50% of the loans supporting plaintiff's HVMLT 2006-9 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2006-9 Certificate is now rated at ***below*** "junk" status. Clearly, plaintiff's HVMLT 2006-9 Certificate was not the highly rated, "investment grade" security defendants represented it to

be. The evidence supporting the falsity of the HVMLT 2006-9 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2AC2	41161XAP1	Group 2	49.53%	Aaa	C	AAA	D

e. Transfer of Title

190. The HVMLT 2006-9 Offering Documents also represented that the loans underlying the HVMLT 2006-9 Certificate would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2006-9 Offering Documents stated that:

> On the closing date, the depositor will transfer to the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the cut-off date.

See HVMLT 2006-9 Pros. Supp. at S-81. The HVMLT 2006-9 Offering Documents also stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement the seller will deliver to the trustee (or the custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreement.

Id. at S-82. The HVMLT 2006-9 Offering Documents further stated that:

> [T]he depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund:
>
> - the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;
>
> - . . . the mortgage . . . ;
>
> * * *

- an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT 2006-9 Pros. at 99. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

12. The HVMLT 2006-11 Certificates

191. The HarborView Mortgage Loan Trust, Mortgage Loan Pass-Through Certificates, Series 2006-11 ("HVMLT 2006-11 Certificates") were issued pursuant to a Prospectus Supplement dated November 10, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2006-11 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

192. Plaintiff purchased the following HVMLT 2006-11 Certificates:

Original Purchaser	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Purchased From**
Fortis Bank	A1A	41162GAA0	10/27/2006	$20,000,000	RBS Securities
Fortis Bank	A1B	41162GAB8	10/27/2006	$20,000,000	RBS Securities

193. The decision to purchase the above securities was made by Fortis Bank in direct reliance upon the HVMLT 2006-11 Offering Documents, including draft and/or final HVMLT 2006-11 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2006-11 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

194. The HVMLT 2006-11 Offering Documents disclosed that 100% of the HVMLT 2006-11 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator Countrywide. *See* HVMLT 2006-11 Pros. Supp. at S-18.

195. The HVMLT 2006-11 Offering Documents represented that "Countrywide['s] . . . underwriting standards are applied by or on behalf of Countrywide . . . to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *Id.* at S-35. The HVMLT 2006-11 Offering Documents also represented that:

> 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.

Id. In that respect, the HVMLT 2006-11 Offering Documents further represented that:

> Under its Standard Underwriting Guidelines, Countrywide . . . 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%.
>
> * * *
>
> Under its Expanded Underwriting Guidelines, Countrywide . . . generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the borrower's total monthly debt of up to 40%; provided, however, that if the Loan-to-Value Ratio exceeds 80%, the maximum permitted debt-to-income ratios are 33% and 38%, respectively.

Id. at S-36-S-38. Moreover, the HVMLT 2006-11 Offering Documents represented that:

> Except with respect to mortgage loans originated pursuant to its Streamlined Documentation Program, whose values were confirmed with a Fannie Mae proprietary automated valuation model, Countrywide Home Loans obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans . . . [and that] [a]ll appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect.

Id. at S-36. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.2, *infra*.

b. Loan-to-Value Ratios

196. The HVMLT 2006-11 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2006-11 Certificates purchased by plaintiff. Specifically, the HVMLT 2006-11 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's HVMLT 2006-11 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2006-11 Certificates had LTV ratios over 100%.

197. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2006-11 Certificates, which reveals that the LTV ratio percentages stated in the HVMLT 2006-11 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2006-11 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
A1A	41162GAA0	All	2.05%	51.82%	0.00%	13.35%
A1B	41162GAB8	All	2.05%	51.82%	0.00%	13.35%

c. Owner Occupancy Rates

198. The HVMLT 2006-11 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2006-11 Certificates purchased by plaintiff. Specifically, the HVMLT 2006-11 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2006-11 Certificates

were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

199. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2006-11 Certificates, which reveals that the OOR percentages stated in the HVMLT 2006-11 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2006-11 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
A1A	41162GAA0	All	84.15%	76.25%	10.36%
A1B	41162GAB8	All	84.15%	76.25%	10.36%

d. Credit Ratings

200. The HVMLT 2006-11 Offering Documents also represented that the HVMLT 2006-11 Certificates purchased by ***plaintiff*** had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the HVMLT 2006-11 Offering Documents represented that plaintiff's HVMLT 2006-11 Certificates had each been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

201. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2006-11 Certificates should not have received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2006-11 Certificates were

extremely risky, speculative grade "junk" bonds ***or worse***, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's HVMLT 2006-11 Certificates was because defendants had fed them falsified information regarding the HVMLT 2006-11 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

202. The falsity of the credit ratings set forth in the HVMLT 2006-11 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 40% of the loans supporting plaintiff's HVMLT 2006-11 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2006-11 Certificates are now rated at "junk" status ***or below***. Clearly, plaintiff's HVMLT 2006-11 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the HVMLT 2006-11 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
A1A	41162GAA0	All	40.06%	Aaa	Caa3	AAA	D
A1B	41162GAB8	All	40.06%	Aaa	C	AAA	D

e. Transfer of Title

203. The HVMLT 2006-11 Offering Documents also represented that the loans underlying the HVMLT 2006-11 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2006-11 Offering Documents stated that, "[o]n the closing date, the depositor will transfer

to the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the cut-off date." *See* HVMLT 2006-11 Pros. Supp. at S-50. The HVMLT 2006-11 Offering Documents also stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement the seller will deliver to the trustee (or the custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreement.

Id. The HVMLT 2006-11 Offering Documents further stated that:

> [T]he depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund:
>
> - the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;
>
> - . . . the mortgage . . . ;
>
> * * *
>
> - an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT 2006-11 Pros. at 99. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

13. The HVMLT 2006-12 Certificates

204. The HarborView Mortgage Loan Trust, Mortgage Loan Pass-Through Certificates, Series 2006-12 ("HVMLT 2006-12 Certificates") were issued pursuant to a Prospectus Supplement dated December 11, 2006. The following defendants played critical roles in the fraudulent

structuring, offering and sale of the HVMLT 2006-12 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

205. Plaintiff purchased the following HVMLT 2006-12 Certificates:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Scaldis	2A2A	41162DAF6	3/21/2007	$40,000,000	RBS Securities
Scaldis	2A2B	41162DAG4	10/19/2006	$20,000,000	RBS Securities
Fortis Bank	B2	41162DAK5	2/9/2007	$15,860,000	RBS Securities

206. The decision to purchase the above securities was made by Fortis Bank, both on its own and on Scaldis's behalf, in direct reliance upon the HVMLT 2006-12 Offering Documents, including draft and/or final HVMLT 2006-12 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2006-12 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

207. The HVMLT 2006-12 Offering Documents disclosed that 100% of the HVMLT 2006-12 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator Countrywide. *See* HVMLT 2006-12 Pros. Supp. at S-25.

208. The HVMLT 2006-12 Offering Documents represented that "Countrywide['s] . . . underwriting standards are applied by or on behalf of Countrywide . . . to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *Id.* at S-68. The HVMLT 2006-12 Offering Documents also represented that:

> 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.

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Id. In that respect, the HVMLT 2006-12 Offering Documents further represented that:

> Under its Standard Underwriting Guidelines, Countrywide . . . 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%.
>
> * * *
>
> Under its Expanded Underwriting Guidelines, Countrywide . . . generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the borrower's total monthly debt of up to 40%; provided, however, that if the Loan-to-Value Ratio exceeds 80%, the maximum permitted debt-to-income ratios are 33% and 38%, respectively.

Id. at S-70-S-71. Moreover, the HVMLT 2006-12 Offering Documents represented that, "[e]xcept with respect to mortgage loans originated pursuant to its Streamlined Documentation Program, whose values were confirmed with a Fannie Mae proprietary automated valuation model, Countrywide . . . obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans," and that "[a]ll appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect." *Id.* at S-69. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.2, *infra*.

b. Loan-to-Value Ratios

209. The HVMLT 2006-12 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2006-12 Certificates purchased by plaintiff. Specifically, the HVMLT 2006-12 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's HVMLT 2006-12 Certificates had LTV

ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2006-12 Certificates had LTV ratios over 100%.

210. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2006-12 Certificates, which reveals that the LTV ratio percentages stated in the HVMLT 2006-12 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2006-12 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
2A2A	41162DAF6	Group 2	5.45%	54.73%	0.00%	15.53%
2A2B	41162DAG4	Group 2	5.45%	54.73%	0.00%	15.53%
B2	41162DAK5	All	7.95%	53.82%	0.00%	14.43%

c. Owner Occupancy Rates

211. The HVMLT 2006-12 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2006-12 Certificates purchased by plaintiff. Specifically, the HVMLT 2006-12 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2006-12 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

212. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2006-12 Certificates, which reveals that the OOR percentages stated in the HVMLT 2006-12 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2006-12

Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A2A	41162DAF6	Group 2	90.11%	83.16%	8.36%
2A2B	41162DAG4	Group 2	90.11%	83.16%	8.36%
B2	41162DAK5	All	82.99%	80.95%	2.52%

d. Credit Ratings

213. The HVMLT 2006-12 Offering Documents also represented that the HVMLT 2006-12 Certificates purchased by ***plaintiff*** had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the HVMLT 2006-12 Offering Documents represented that plaintiff's HVMLT 2006-12 Certificates had been assigned AAA/Aaa, AAA/Aaa and AA/Aa1 ratings – signifying extremely safe and stable securities.

214. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2006-12 Certificates should not have each received AAA/Aaa, AAA/Aaa and AA/Aa1 credit ratings, because they were ***not*** safe, "investment grade" securities with an extremely low probability of incurring defaults. Rather, as defendants were well aware, plaintiff's HVMLT 2006-12 Certificates were extremely risky, speculative grade "junk" bonds ***or worse***, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's HVMLT 2006-12 Certificates was because defendants had fed them falsified information regarding the HVMLT 2006-12 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

215. The falsity of the credit ratings set forth in the HVMLT 2006-12 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 58% of the loans supporting plaintiff's HVMLT 2006-12 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2006-12 Certificates are now rated at "junk" status ***or below***. Clearly, plaintiff's HVMLT 2006-12 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the HVMLT 2006-12 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A2A	41162DAF6	Group 2	58.16%	Aaa	Caa3	AAA	CCC
2A2B	41162DAG4	Group 2	58.16%	Aaa	C	AAA	CC
B2	41162DAK5	All	57.82%	Aa1	WR	AA	D

e. Transfer of Title

216. The HVMLT 2006-12 Offering Documents also represented that the loans underlying the HVMLT 2006-12 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2006-12 Offering Documents stated that, "[o]n the closing date for the initial mortgage loans and on any subsequent transfer date for the subsequent mortgage loans, the depositor will transfer to the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the cut-off date or the applicable subsequent

cut-off date, as applicable." *See* HVMLT 2006-12 Pros. Supp. at S-87. The HVMLT 2006-12 Offering Documents also stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement, the seller will deliver to the trustee (or the custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreements.

Id. The HVMLT 2006-12 Offering Documents further stated that "the depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund: the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee; . . . the mortgage . . . ; an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System." *See* HVMLT 2006-12 Pros. at 99. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

14. The HVMLT 2006-14 Certificates

217. The HarborView Mortgage Loan Trust, Mortgage Loan Pass-Through Certificates, Series 2006-14 ("HVMLT 2006-14 Certificates") were issued pursuant to a Prospectus Supplement dated December 20, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2006-14 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

218. Plaintiff purchased the following HVMLT 2006-14 Certificate:

Original Purchaser	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Purchased From**
Fortis Bank	2A1B	41162NAD9	8/21/2007	$43,047,000	RBS Securities

219. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the HVMLT 2006-14 Offering Documents, including draft and/or final HVMLT 2006-14 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2006-14 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

220. The HVMLT 2006-14 Offering Documents disclosed that approximately 64.12% and 12.66% of the initial mortgage loans underlying the HVMLT 2006-14 Certificates were acquired by the sponsor, RBS Financial, from loan originators IndyMac Bank, F.S.B. ("IndyMac") and American Home Mortgage Corp. ("AHM"), respectively; and approximately 23.22% of the initial mortgage loans underlying the HVMLT 2006-14 Certificates were acquired by the sponsor RBS Financial Products from other originators, each of which originated less than 10% of the initial mortgage loans. *See* HVMLT 2006-14 Pros. Supp. at S-25-S-26. In addition, more than 20% of the subsequent mortgage loans underlying the HVMLT 2006-14 Certificates were acquired by the sponsor RBS Financial from loan originator BankUnited, FSB ("BankUnited"). *Id.*

221. With regard to the BankUnited loans, the HVMLT 2006-14 Offering Documents represented that BankUnited'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." *Id.* at S-65. The HVMLT 2006-14 Offering Documents also represented that, "[i]n determining whether a prospective borrower has sufficient monthly income available to meet the monthly housing expenses and other financial obligations on the proposed mortgage loan, BankUnited generally considers, when required by the applicable documentation type, the ratio of such amounts to the proposed borrower's acceptable stable monthly gross income." *Id.* at S-66. In that respect, the HVMLT 2006-14 Offering Documents represented that "[u]nder its One Month

MTA Guidelines, BankUnited generally permits a debt-to-income ratio based on the borrower's total monthly debt of 42%." *Id.* The HVMLT 2006-14 Offering Documents further represented that, concerning its "Foreign National Loans," "BankUnited generally permits a debt-to-income ratio based on the borrower's total monthly debt of 42%." *Id.* at S-68. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that BankUnited had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.16, *infra*.

222. With regard to the IndyMac loans, the HVMLT 2006-14 Offering Documents represented that "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." *See* HVMLT 2006-14 Pros. Supp. at S-69. The HVMLT 2006-14 Offering Documents also represented that, "[t]o determine the adequacy of the property to be used as collateral, an appraisal is generally made of the subject property in accordance with the Uniform Standards of Profession Appraisal Practice." *Id*. at S-71. The HVMLT 2006-14 Offering Documents further represented that "maximum total monthly debt payments-to-income ratios . . . may be applied," and that "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" are "factors [that] may be considered in determining loan eligibility." *Id.* at S-71. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that IndyMac had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual

repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.3, *infra*.

223. With regard to all of the loans underlying the HVMLT 2006-14 Certificates, the HVMLT 2006-14 Offering Documents represented that "[u]nderwriting standards are applied by or on behalf of a lender to evaluate a prospective borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *See* HVMLT 2006-14 Pros. at 63. The HVMLT 2006-14 Offering Documents also represented that, "[o]nce all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available[:] to meet the borrower's monthly obligations on the proposed loan, generally determined on the basis of the monthly payments due in the year of origination, and other expenses related to the mortgaged property such as property taxes and hazard insurance, and to meet monthly housing expenses and other financial obligations and monthly living expenses." *Id.* at 63-64. The HVMLT 2006-14 Offering Documents further represented that, "[i]n determining the adequacy of the mortgaged property as collateral, an appraisal is made of each property considered for financing," and that "the value of the property being financed, as indicated by the appraisal, must be such that it currently supports, and is anticipated to support in the future, the outstanding loan balance." *Id.* at 63. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that each of the loan originators had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, without any regard for borrowers' actual repayment ability or the true value and adequacy of mortgaged properties to serve as collateral. *See* §§VI.A.3, VI.A.4 and VI.A.16, *infra*.

b. Loan-to-Value Ratios

224. The HVMLT 2006-14 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2006-14 Certificate purchased by plaintiff. Specifically, the HVMLT 2006-14 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's HVMLT 2006-14 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2006-14 Certificate had LTV ratios over 100%.

225. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2006-14 Certificate, which reveals that the LTV ratio percentages stated in the HVMLT 2006-14 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2006-14 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1B	41162NAD9	All	7.45%	50.99%	0.00%	10.64%

c. Owner Occupancy Rates

226. The HVMLT 2006-14 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2006-14 Certificate purchased by plaintiff. Specifically, the HVMLT 2006-14 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2006-14 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

227. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2006-14 Certificate, which reveals that the OOR percentages stated in the HVMLT 2006-14 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2006-14 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
2A1B	41162NAD9	All	95.16%	83.16%	14.43%

d. Credit Ratings

228. The HVMLT 2006-14 Offering Documents also represented that the HVMLT 2006-14 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the HVMLT 2006-14 Offering Documents represented that plaintiff's HVMLT 2006-14 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

229. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2006-14 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2006-14 Certificate was an extremely risky, speculative grade "junk" bond ***or worse***, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to

plaintiff's HVMLT 2006-14 Certificate was because defendants had fed them falsified information regarding the HVMLT 2006-14 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

230. The falsity of the credit ratings set forth in the HVMLT 2006-14 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 33% of the loans supporting plaintiff's HVMLT 2006-14 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2006-14 Certificate is now rated at ***below*** "junk" status. Clearly, plaintiff's HVMLT 2006-14 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the HVMLT 2006-14 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1B	41162NAD9	All	32.85%	Aaa	C	AAA	D

e. Transfer of Title

231. The HVMLT 2006-14 Offering Documents also represented that the loans underlying the HVMLT 2006-14 Certificate would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2006-14 Offering Documents stated that:

> On the closing date for the initial mortgage loans and on any subsequent transfer date for the subsequent mortgage loans, the depositor will transfer to the trust all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all

> scheduled payments with respect to each mortgage loan due after the cut-off date or the applicable subsequent cut-off date, as applicable.

See HVMLT 2006-14 Pros. Supp. at S-88. The HVMLT 2006-14 Offering Documents also stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement, the seller will deliver to the trustee (or the custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originators pursuant to the terms of the underlying purchase agreement.

Id. at S-89. The HVMLT 2006-14 Offering Documents further stated that "the depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund: the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee; . . . the mortgage . . . ; an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System." *See* HVMLT 2006-14 Pros. at 99. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

15. The HVMLT 2006-BU1 Certificates

232. The HarborView Mortgage Loan Trust, Mortgage Loan Pass-Through Certificates, Series 2006-BU1 ("HVMLT 2006-BU1 Certificates") were issued pursuant to a Prospectus Supplement dated March 28, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2006-BU1 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

233. Plaintiff purchased the following HVMLT 2006-BU1 Certificates:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	2A1B	41161PG80	3/10/2006	$20,000,000	RBS Securities
Fortis Bank	2A1C	41161PG98	3/10/2006	$5,000,000	RBS Securities

234. The decision to purchase the above securities was made by Fortis Bank in direct reliance upon the HVMLT 2006-BU1 Offering Documents, including draft and/or final HVMLT 2006-BU1 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2006-BU1 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

235. The HVMLT 2006-BU1 Offering Documents disclosed that 100% of the HVMLT 2006-BU1 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator BankUnited. *See* HVMLT 2006-BU1 Pros. Supp. at S-23.

236. The HVMLT 2006-BU1 Offering Documents represented that BankUnited'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." *Id.* at S-55. The HVMLT 2006-BU1 Offering Documents also represented that:

> 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, BankUnited generally considers, when required by the applicable documentation type, the ratio of such amounts to the proposed borrower's acceptable stable monthly gross income.

Id. at S-56. In that respect, the HVMLT 2006-BU1 Offering Documents represented that, "[u]nder its One Month MTA Guidelines, BankUnited generally permits a debt-to-income ratio based on the borrower's total monthly debt of 42%." *Id.* The HVMLT 2006-BU1 Offering Documents further represented that "[i]n determining the adequacy of the mortgaged property as collateral, an appraisal is made of each property considered for financing," and that "the value of the property being financed, as indicated by the appraisal, must be such that it currently supports, and is anticipated to support in the future, the outstanding loan balance." *See* HVMLT 2006-BU1 Pros. at 20. Additionally, the HVMLT 2006-BU1 Offering Documents represented that:

> Once all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available to meet the borrower's monthly obligations on the proposed loan, generally determined on the basis of the monthly payments due in the year of origination, and other expenses related to the mortgaged property such as property taxes and hazard insurance, and to meet monthly housing expenses and other financial obligations and monthly living expenses.

Id. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that BankUnited had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.16, *infra*.

b. Loan-to-Value Ratios

237. The HVMLT 2006-BU1 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2006-BU1 Certificates purchased by plaintiff. Specifically, the HVMLT 2006-BU1 Offering Documents represented that less than 18% of the loans supporting plaintiff's HVMLT 2006-BU1 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2006-BU1 Certificates had LTV ratios over 100%.

238. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2006-BU1 Certificates, which reveals that the LTV ratio percentages stated in the HVMLT 2006-BU1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the

HVMLT 2006-BU1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1B	41161PG80	Group 2	17.29%	57.13%	0.00%	11.60%
2A1C	41161PG98	Group 2	17.29%	57.13%	0.00%	11.60%

c. Owner Occupancy Rates

239. The HVMLT 2006-BU1 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2006-BU1 Certificates purchased by plaintiff. Specifically, the HVMLT 2006-BU1 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2006-BU1 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

240. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2006-BU1 Certificates, which reveals that the OOR percentages stated in the HVMLT 2006-BU1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2006-BU1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A1B	41161PG80	Group 2	94.45%	72.75%	29.82%
2A1C	41161PG98	Group 2	94.45%	72.75%	29.82%

d. Credit Ratings

241. The HVMLT 2006-BU1 Offering Documents also represented that the HVMLT 2006-BU1 Certificates purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the HVMLT 2006-BU1 Offering Documents represented that plaintiff's HVMLT 2006-BU1 Certificates had each been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

242. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2006-BU1 Certificates should not have each received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2006-BU1 Certificates were extremely risky, speculative grade "junk" bonds ***or worse***, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's HVMLT 2006-BU1 Certificates was because defendants had fed them falsified information regarding the HVMLT 2006-BU1 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

243. The falsity of the credit ratings set forth in the HVMLT 2006-BU1 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 30% of the loans supporting plaintiff's HVMLT 2006-BU1 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2006-BU1 Certificates are now rated at "junk" status ***or below***. Clearly, plaintiff's HVMLT 2006-BU1 Certificates were not the highly rated, "investment

grade" securities defendants represented them to be. The evidence supporting the falsity of the HVMLT 2006-BU1 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1B	41161PG80	Group 2	29.27%	Aaa	C	AAA	D
2A1C	41161PG98	Group 2	29.27%	Aaa	C	AAA	NR

e. Transfer of Title

244. The HVMLT 2006-BU1 Offering Documents also represented that the loans underlying the HVMLT 2006-BU1 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2006-BU1 Offering Documents stated that, "[o]n the closing date, the depositor will transfer to the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the cut-off date." *See* HVMLT 2006-BU1 Pros. Supp. at S-75. The HVMLT 2006-BU1 Offering Documents also stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement the seller will deliver to the trustee (or the custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreement.

Id. The HVMLT 2006-BU1 Offering Documents further stated that:

> [T]he depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund:
>
> • the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;

- . . . the mortgage . . . ;

* * *

- an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT 2006-BU1 Pros. at 47-48. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

16. The HVMLT 2007-1 Certificates

245. The HarborView Mortgage Loan Trust 2007-1, Mortgage Loan Pass-Through Certificates, Series 2007-1 ("HVMLT 2007-1 Certificates") were issued pursuant to a Prospectus Supplement dated March 7, 2007. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2007-1 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

246. Plaintiff purchased the following HVMLT 2007-1 Certificates:

Original Purchaser	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Purchased From**
Scaldis	2A1B	41164MAD9	2/15/2007	$25,000,000	RBS Securities
Fortis Cayman	B3	41164MAH0	2/15/2007	$3,600,000	RBS Securities

247. The decision to purchase the above securities was made by Fortis Bank, on behalf of Scaldis, and by Fortis Cayman in direct reliance upon the HVMLT 2007-1 Offering Documents, including draft and/or final HVMLT 2007-1 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2007-1 offering. Fortis Bank's and Fortis Cayman's diligent investment processes are described in great detail in §§VIII.A and VIII.C, *infra*.

a. Underwriting Guidelines

248. The HVMLT 2007-1 Offering Documents disclosed that 100% of the HVMLT 2007-1 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator Countrywide. *See* HVMLT 2007-1 Pros. Supp. at S-23.

249. The HVMLT 2007-1 Offering Documents represented that "Countrywide['s] . . . underwriting standards are applied by or on behalf of Countrywide . . . to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *Id.* at S-30. The HVMLT 2007-1 Offering Documents also represented that, "[u]nder 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." *Id.* In that respect, the HVMLT 2007-1 Offering Documents further represented that:

> 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%.
>
> * * *
>
> Under its Expanded Underwriting Guidelines, Countrywide Home Loans generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the borrower's total monthly debt of up to 40%; provided, however, that if the Loan-to-Value Ratio exceeds 80%, the maximum permitted debt-to-income ratios are 33% and 38%, respectively.

Id. at S-32-S-33. Moreover, the HVMLT 2007-1 Offering Documents represented that, "[e]xcept with respect to mortgage loans originated pursuant to its Streamlined Documentation Program, whose values were confirmed with a Fannie Mae proprietary automated valuation model, Countrywide . . . obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans," and that "[a]ll appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect." *Id.* at S-31. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.2, *infra*.

b. Loan-to-Value Ratios

250. The HVMLT 2007-1 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2007-1 Certificates purchased by plaintiff. Specifically, the HVMLT 2007-1 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's HVMLT 2007-1 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2007-1 Certificates had LTV ratios over 100%.

251. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2007-1 Certificates, which reveals that the LTV ratio percentages stated in the HVMLT 2007-1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2007-1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1B	41164MAD9	Group 2	2.81%	58.81%	0.00%	17.08%
B3	41164MAH0	All	6.30%	56.20%	0.00%	15.29%

c. Owner Occupancy Rates

252. The HVMLT 2007-1 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2007-1 Certificates purchased by plaintiff. Specifically, the HVMLT 2007-1 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2007-1 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

253. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2007-1 Certificates, which reveals that the OOR percentages stated in the HVMLT 2007-1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2007-1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A1B	41164MAD9	Group 2	84.77%	78.04%	8.63%
B3	41164MAH0	All	81.11%	74.24%	9.26%

d. Credit Ratings

254. The HVMLT 2007-1 Offering Documents also represented that the HVMLT 2007-1 Certificates purchased by ***plaintiff*** had been assigned certain high "investment grade" credit ratings

by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the HVMLT 2007-1 Offering Documents represented that plaintiff's HVMLT 2007-1 Certificates had been assigned AAA/Aaa and AA-/Aa1 ratings – signifying extremely safe and stable securities.

255. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2007-1 Certificates should not have received AAA/Aaa and AA-/Aa1 credit ratings, because they were ***not*** safe, "investment grade" securities with an extremely low probability of incurring defaults. Rather, as defendants were well aware, plaintiff's HVMLT 2007-1 Certificates were extremely risky, speculative grade "junk" bonds ***or worse***, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's HVMLT 2007-1 Certificates was because defendants had fed them falsified information regarding the HVMLT 2007-1 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

256. The falsity of the credit ratings set forth in the HVMLT 2007-1 Offering Documents is confirmed by subsequent events. Specifically, ***more than 45% of the loans supporting plaintiff's HVMLT 2007-1 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2007-1 Certificates are now rated at "junk" status ***or below***. Clearly, plaintiff's HVMLT 2007-1 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the HVMLT 2007-1 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	**Current**	**Initial**	**Current**
2A1B	41164MAD9	Group 2	46.67%	Aaa	C	AAA	CC
B3	41164MAH0	All	45.15%	Aa1	WR	AA-	D

e. Transfer of Title

257. The HVMLT 2007-1 Offering Documents also represented that the loans underlying the HVMLT 2007-1 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2007-1 Offering Documents stated that, "[o]n the closing date, the depositor will transfer to the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the Cut-off Date." *See* HVMLT 2007-1 Pros. Supp. at S-48. The HVMLT 2007-1 Offering Documents also stated that:

> The pooling and servicing agreement will require that, on or before the closing date, the seller will deliver to the trustee (or the custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreements.

Id. at S-49. The HVMLT 2007-1 Offering Documents further stated that:

> The depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund:
>
> • the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;
>
> • . . . the mortgage . . . ;
>
> * * *
>
> • an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT 2007-1 Pros. at 100. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

17. The HVMLT 2007-2 Certificates

258. The HarborView Mortgage Loan Trust, Mortgage Loan Pass-Through Certificates, Series 2007-2 ("HVMLT 2007-2 Certificates") were issued pursuant to a Prospectus Supplement dated March 29, 2007. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2007-2 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

259. Plaintiff purchased the following HVMLT 2007-2 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Scaldis	2A1B	41164LAC3	3/1/2007	$20,520,000	RBS Securities

260. The decision to purchase the above security was made by Fortis Bank, on behalf of Scaldis, in direct reliance upon the HVMLT 2007-2 Offering Documents, including draft and/or final HVMLT 2007-2 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2007-2 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

261. The HVMLT 2007-2 Offering Documents disclosed that approximately 23.39% of the loans underlying plaintiff's HVMLT 2007-2 Certificate were acquired by the sponsor, RBS Financial, from loan originator Paul Financial; approximately 19.74% of the loans underlying plaintiff's HVMLT 2007-2 Certificate were acquired by the sponsor, RBS Financial, from loan originator AHM; approximately 19.44% of the loans underlying plaintiff's HVMLT 2007-2 Certificate were acquired by the sponsor, RBS Financial, from loan originator Pro30 Funding ("Pro30"); and approximately

37.43% of the loans underlying plaintiff's HVMLT 2007-2 Certificate were acquired by the sponsor, RBS Financial, from "other originators (each of which originated less than 10% of the initial mortgage loans . . . and the group 2 initial mortgage loans, respectively)." *See* HVMLT 2007-2 Pros. Supp. at S-32.

262. With regard to the Paul Financial loans, the HVMLT 2007-2 Offering Documents represented that "Paul Financial's underwriting standards are applied by or on behalf of Paul Financial to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *Id.* at S-36. The HVMLT 2007-2 Offering Documents also represented that "[a]n applicant's creditworthiness is determined based on the borrower's ability and willingness to repay the loan," and that "[t]he loan decision is based upon the applicant's financial information, employment and income stability, credit history and collateral value." *Id.* at S-35. The HVMLT 2007-2 Offering Documents further represented that:

> Except under the No Income programs, a prospective borrower must generally demonstrate that the ratio of the borrower's monthly housing expenses (including 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.

Id. at S-36. Additionally, the HVMLT 2007-2 Offering Documents represented that "[t]he 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," and that "[i]n 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." *Id.* Moreover, the HVMLT 2007-2 Offering Documents represented that "Paul Financial obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans." *Id.* at S-37. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Paul Financial had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.10, *infra*.

263. With regard to the AHM loans, the HVMLT 2007-2 Offering Documents represented that AHM "underwrites a borrower's creditworthiness based solely on information that [AHM] believes is indicative of the applicant's willingness and ability to pay the debt they would be incurring." *See* HVMLT 2007-2 Pros. Supp. at S-33. The HVMLT 2007-2 Offering Documents also represented that AHM'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." *Id.* The HVMLT 2007-2 Offering Documents further represented that, "[i]n addition to reviewing the borrower's credit history and credit score, [AHM] underwriters closely review the borrower's housing payment history." *Id.* at S-34. Additionally, the HVMLT 2007-2 Offering Documents represented that:

> 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 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.

Id. Moreover, the HVMLT 2007-2 Offering Documents represented that "[e]very mortgage loan is secured by a property that has been appraised by a licensed appraiser in accordance with the

Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation," and that "each appraisal is reviewed for accuracy and consistency by [AHM]'s vendor management company or an underwriter of [AHM] or a mortgage insurance company contract underwriter." *Id.* Furthermore, the HVMLT 2007-2 Offering Documents represented that "[t]he appraiser's value conclusion is used to calculate the ratio (loan-to-value) of the loan amount to the value of the property." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that AHM had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.4, *infra*.

264. With regard to all the loans underlying plaintiff's HVMLT 2007-2 Certificate, the HVMLT 2007-2 Offering Documents represented that "[u]nderwriting standards are applied by or on behalf of a lender to evaluate a prospective borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *See* HVMLT 2007-2 Pros. at 62. The HVMLT 2007-2 Offering Documents also represented that, "[i]n determining the adequacy of the mortgaged property as collateral, an appraisal is made of each property considered for financing," and that "[i]n any case, the value of the property being financed, as indicated by the appraisal, must be such that it currently supports, and is anticipated to support in the future, the outstanding loan balance." *Id.* at 63. The HVMLT 2007-2 Offering Documents further represented that

> Once all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available to meet the borrower's monthly obligations on the proposed loan, generally determined on the basis of the monthly payments due in the year of originations, and other expenses related to the mortgaged property such as property taxes and hazard insurance, and to meet monthly housing expenses and other financial obligations and monthly living expenses.

Id. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Paul Financial, AHM, Pro30 and the "other originators" had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §§VI.A.1, VI.A.4 and VI.A.10, *infra*.

b. Loan-to-Value Ratios

265. The HVMLT 2007-2 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2007-2 Certificate purchased by plaintiff. Specifically, the HVMLT 2007-2 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's HVMLT 2007-2 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2007-2 Certificate had LTV ratios over 100%.

266. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2007-2 Certificate, which reveals that the LTV ratio percentages stated in the HVMLT 2007-2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2007-2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
2A1B	41164LAC3	Group 2	4.42%	53.81%	0.00%	12.79%

c. Owner Occupancy Rates

267. The HVMLT 2007-2 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2007-2 Certificate purchased by plaintiff. Specifically, the HVMLT 2007-2 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2007-2 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

268. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2007-2 Certificate, which reveals that the OOR percentages stated in the HVMLT 2007-2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2007-2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
2A1B	41164LAC3	Group 2	93.09%	84.79%	9.79%

d. Credit Ratings

269. The HVMLT 2007-2 Offering Documents also represented that the HVMLT 2007-2 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the HVMLT 2007-2 Offering Documents represented that

plaintiff's HVMLT 2007-2 Certificate had been assigned CC/Aaa ratings[14] – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

270. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2007-2 Certificate should not have received CC/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2007-2 Certificate was an extremely risky, speculative grade "junk" bond or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's HVMLT 2007-2 Certificate was because defendants had fed them falsified information regarding the HVMLT 2007-2 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

271. The falsity of the credit ratings set forth in the HVMLT 2007-2 Offering Documents is confirmed by subsequent events. Specifically, ***more than 33% of the loans supporting plaintiff's HVMLT 2007-2 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2007-2 Certificate is now rated at below "junk" status. Clearly, plaintiff's HVMLT 2007-2 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the HVMLT 2007-2 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

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[14] The initial S&P rating stated herein corresponds to a junk-level rating because S&P first rated the security in 2011.

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
2A1B	41164LAC3	Group 2	33.75%	Aaa	C	CC	D

e. Transfer of Title

272. The HVMLT 2007-2 Offering Documents also represented that the loans underlying the HVMLT 2007-2 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2007-2 Offering Documents stated that, "[o]n the closing date for the initial mortgage loans and on any subsequent transfer date for the subsequent mortgage loans, the depositor will transfer to the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents." *See* HVMLT 2007-2 Pros. Supp. at S-60. The HVMLT 2007-2 Offering Documents also stated that "[t]he trustee's security interest in the mortgage loans will be perfected by delivery of the mortgage notes to the trustee, in its capacity as a custodian, and to Wells Fargo Bank, N.A. ('Wells Fargo'), in its capacity as a custodian, which will hold mortgage notes on behalf of the trustee." *Id.* The HVMLT 2007-2 Offering Documents further stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement, the seller will deliver to the trustee (or a custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originators pursuant to the terms of the related underlying purchase agreement.

Id. Moreover, the HVMLT 2007-2 Offering Documents stated that:

> [T]he depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related issuing entity:
>
> - the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;

- . . . the mortgage . . . ;

* * *

- an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT 2007-2 Pros. at 99. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

18. The HVMLT 2007-4 Certificates

273. The HarborView Mortgage Loan Trust, Mortgage Loan Pass-Through Certificates, Series 2007-4 ("HVMLT 2007-4 Certificates") were issued pursuant to a Prospectus Supplement dated June 13, 2007. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2007-4 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

274. Plaintiff purchased the following HVMLT 2007-4 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Scaldis	2A1	4116YAB7	5/31/2007	$40,000,000	RBS Securities

275. The decision to purchase the above security was made by Fortis Bank, on behalf of Scaldis, in direct reliance upon the HVMLT 2007-4 Offering Documents, including draft and/or final HVMLT 2007-4 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2007-4 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

276. The HVMLT 2007-4 Offering Documents disclosed that approximately 21.15% of the loans underlying plaintiff's HVMLT 2007-4 Certificate were acquired by the sponsor, RBS Financial,

from loan originator Paul Financial; approximately 15.50% of the loans underlying plaintiff's HVMLT 2007-4 Certificate were acquired by the sponsor, RBS Financial, from loan originator Plaza; approximately 11.04% of the loans underlying plaintiff's HVMLT 2007-4 Certificate were acquired by the sponsor, RBS Financial, from loan originator First Federal Bank of California ("First Federal"); and approximately 52.30% of the loans underlying plaintiff's HVMLT 2007-4 Certificate were acquired by the sponsor, RBS Financial, from "other originators." *See* HVMLT 2007-4 Pros. Supp. at S-30.

277. With regard to the Paul Financial loans, the HVMLT 2007-4 Offering Documents represented that "Paul Financial's underwriting standards are applied by or on behalf of Paul Financial to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *See* HVMLT 2007-4 Pros. Supp. at S-35. The HVMLT 2007-4 Offering Documents also represented that "[a]n applicant's creditworthiness is determined based on the borrower's ability and willingness to repay the loan," and that "[t]he loan decision is based upon the applicant's financial information, employment and income stability, credit history and collateral value." *Id.* at S-34. The HVMLT 2007-4 Offering Documents further represented that:

> Except under the No Income programs, a prospective borrower must generally demonstrate that the ratio of the borrower's monthly housing expenses (including 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.

Id. at S-35. Additionally, the HVMLT 2007-4 Offering Documents represented that "[t]he 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," and that, "[i]n 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." *Id.* at S-35-S-36. Moreover, the HVMLT 2007-4 Offering Documents represented that "Paul Financial obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans." *Id.* at S-36. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Paul Financial had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.10, *infra*.

278. With regard to all the loans underlying plaintiff's HVMLT 2007-4 Certificate, the HVMLT 2007-4 Offering Documents represented that "[u]nderwriting standards are applied by or on behalf of a lender to evaluate a prospective borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *See* HVMLT 2007-4 Pros. at 62. The HVMLT 2007-4 Offering Documents also represented that, "[i]n determining the adequacy of the mortgaged property as collateral, an appraisal is made of each property considered for financing," and that, "[i]n any case, the value of the property being financed, as indicated by the appraisal, must be such that it currently supports, and is anticipated to support in the future, the outstanding loan balance." *Id.* at 63. The HVMLT 2007-4 Offering Documents further represented that:

> Once all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available to meet the borrower's monthly obligations on the proposed loan, generally determined on the basis of the monthly payments due in the year of originations, and other expenses related to the mortgaged property such as property taxes and hazard insurance, and to meet monthly housing expenses and other financial obligations and monthly living expenses.

Id. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Paul Financial, Plaza, First Federal and the "other originators" had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §§VI.A.1 and VI.A.10, *infra*.

b. Loan-to-Value Ratios

279. The HVMLT 2007-4 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2007-4 Certificate purchased by plaintiff. Specifically, the HVMLT 2007-4 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's HVMLT 2007-4 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's HVMLT 2007-4 Certificate had LTV ratios over 100%.

280. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2007-4 Certificate, which reveals that the LTV ratio percentages stated in the HVMLT 2007-4 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2007-4 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1	41164YAB7	Group 2	2.87%	51.40%	0.00%	15.10%

c. Owner Occupancy Rates

281. The HVMLT 2007-4 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2007-4 Certificate

purchased by plaintiff. Specifically, the HVMLT 2007-4 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2007-4 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

282. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2007-4 Certificate, which reveals that the OOR percentages stated in the HVMLT 2007-4 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2007-4 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
2A1	41164YAB7	Group 2	89.94%	81.65%	10.15%

d. Credit Ratings

283. The HVMLT 2007-4 Offering Documents also represented that the HVMLT 2007-4 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by Fitch Ratings ("Fitch") and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the HVMLT 2007-4 Offering Documents represented that plaintiff's HVMLT 2007-4 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

284. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2007-4 Certificate should not have received AAA/Aaa credit ratings, because it

was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2007-4 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that Fitch and Moody's had assigned such high ratings to plaintiff's HVMLT 2007-4 Certificate was because defendants had fed them falsified information regarding the HVMLT 2007-4 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

285. The falsity of the credit ratings set forth in the HVMLT 2007-4 Offering Documents is confirmed by subsequent events. Specifically, ***more than 26% of the loans supporting plaintiff's HVMLT 2007-4 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2007-4 Certificate is now rated at "junk" status. Clearly, plaintiff's HVMLT 2007-4 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the HVMLT 2007-4 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**Fitch's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1	41164YAB7	Group 2	26.19%	Aaa	Caa2	AAA	CCC

e. Transfer of Title

286. The HVMLT 2007-4 Offering Documents also represented that the loans underlying the HVMLT 2007-4 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the

HVMLT 2007-4 Offering Documents stated that,"[o]n the closing date for the initial mortgage loans and on any subsequent transfer date for the subsequent mortgage loans, the depositor will transfer to the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents." *See* HVMLT 2007-4 Pros. Supp. at S-53. The HVMLT 2007-4 Offering Documents also stated that "[t]he trustee's security interest in the mortgage loans will be perfected by delivery of the mortgage notes to the trustee, in its capacity as a custodian, and to the other custodians, each of which will hold mortgage notes on behalf of the trustee." *Id.* The HVMLT 2007-4 Offering Documents further stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement, the seller will deliver to the trustee (or a custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originators pursuant to the terms of the related underlying purchase agreement.

Id. Moreover, the HVMLT 2007-4 Offering Documents stated that:

> [T]he depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related issuing entity:
>
> - the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;
>
> - . . . the mortgage . . . ;
>
> * * *
>
> - an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT 2007-4 Pros. at 99. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

19. The HVMLT 2007-5 Certificates

287. The HarborView Mortgage Loan Trust, Mortgage Loan Pass-Through Certificates, Series 2007-5 ("HVMLT 2007-5 Certificates") were issued pursuant to a Prospectus Supplement dated July 11, 2007. The following defendants played critical roles in the fraudulent structuring, offering and sale of the HVMLT 2007-5 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

288. Plaintiff purchased the following HVMLT 2007-5 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Scaldis	A1A	41165AAB8	7/27/2007	$40,000,000	RBS Securities

289. The decision to purchase the above security was made by Fortis Bank, on behalf of Scaldis, in direct reliance upon the HVMLT 2007-5 Offering Documents, including draft and/or final HVMLT 2007-5 Prospectus Supplements, all of which were distributed by the defendants associated with the HVMLT 2007-5 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

290. The HVMLT 2007-5 Offering Documents disclosed that 100% of the HVMLT 2007-5 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator AHM. *See* HVMLT 2007-5 Pros. Supp. at S-3.

291. The HVMLT 2007-5 Offering Documents represented that "[u]nderwriting standards are applied by or on behalf of a lender to evaluate a prospective borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *See* HVMLT 2007-5 Pros. at 62. The HVMLT 2007-5 Offering Documents also represented that AHM "underwrites a borrower's creditworthiness based solely on information that [AHM] believes is indicative of the applicant's willingness and ability to pay the debt they would be incurring," that

AHM'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," and that "[i]n addition to reviewing the borrower's credit history and credit score, [AHM] underwriters closely review the borrower's housing payment history." *See* HVMLT 2007-5 Pros. Supp. at S-29-S-30. The HVMLT 2007-5 Offering Documents further represented that:

> 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 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.

Id. at S-30. Moreover, the HVMLT 2007-5 Offering Documents represented that "[e]very mortgage loan is secured by a property that has been appraised by a licensed appraiser in accordance with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation," and that "each appraisal is reviewed for accuracy and consistency by [AHM]'s vendor management company or an underwriter of [AHM] or a mortgage insurance company contract underwriter." *Id.* at S-31. Furthermore, the HVMLT 2007-5 Offering Documents represented that "[t]he appraiser's value conclusion is used to calculate the ratio (loan-to-value) of the loan amount to the value of the property." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that AHM had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.4, *infra*.

b. Loan-to-Value Ratios

292. The HVMLT 2007-5 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the HVMLT 2007-5 Certificate purchased by plaintiff. Specifically, the HVMLT 2007-5 Offering Documents represented that a little over a third of the loans supporting plaintiff's HVMLT 2007-5 Certificate had LTV ratios over 80%, and that ***almost none*** of the loans supporting plaintiff's HVMLT 2007-5 Certificate had LTV ratios over 100%.

293. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's HVMLT 2007-5 Certificate, which reveals that the LTV ratio percentages stated in the HVMLT 2007-5 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the HVMLT 2007-5 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
A1A	41165AAB8	All	36.41%	70.65%	0.02%	30.18%

c. Owner Occupancy Rates

294. The HVMLT 2007-5 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the HVMLT 2007-5 Certificate purchased by plaintiff. Specifically, the HVMLT 2007-5 Offering Documents represented that a large percentage of the loans supporting plaintiff's HVMLT 2007-5 Certificate were issued to

borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

295. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's HVMLT 2007-5 Certificate, which reveals that the OOR percentages stated in the HVMLT 2007-5 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the HVMLT 2007-5 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
A1A	41165AAB8	All	82.84%	77.48%	6.92%

d. Credit Ratings

296. The HVMLT 2007-5 Offering Documents also represented that the HVMLT 2007-5 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the HVMLT 2007-5 Offering Documents represented that plaintiff's HVMLT 2007-5 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

297. These representations, however, were false and misleading when made. In truth, plaintiff's HVMLT 2007-5 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's HVMLT 2007-5 Certificate was an extremely

risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's HVMLT 2007-5 Certificate was because defendants had fed them falsified information regarding the HVMLT 2007-5 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

298. The falsity of the credit ratings set forth in the HVMLT 2007-5 Offering Documents is confirmed by subsequent events. Specifically, ***more than 40% of the loans supporting plaintiff's HVMLT 2007-5 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" HVMLT 2007-5 Certificate is now rated at "junk" status. Clearly, plaintiff's HVMLT 2007-5 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the HVMLT 2007-5 Certificate's credit ratings is set forth in further detail in §IV.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
A1A	41165AAB8	All	40.69%	Aaa	Caa2	AAA	CCC

e. Transfer of Title

299. The HVMLT 2007-5 Offering Documents also represented that the loans underlying the HVMLT 2007-5 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the HVMLT 2007-5 Offering Documents stated that, "[o]n the closing date for the initial mortgage loans and on any subsequent transfer date for the subsequent mortgage loans, the depositor will transfer to

the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents." *See* HVMLT 2007-5 Pros. Supp. at S-45. The HVMLT 2007-5 Offering Documents also stated that "[t]he trustee's security interest in the mortgage loans will be perfected by delivery of the mortgage notes to the trustee, in its capacity as the custodian." *Id.* at S-46. The HVMLT 2007-5 Offering Documents further stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement, the seller will deliver to the trustee (or a custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originators pursuant to the terms of the related underlying purchase agreement.

Id. at S-46. Moreover, the HVMLT 2007-5 Offering Documents stated that:

> [T]he depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related issuing entity:
>
> - the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;
>
> - . . . the mortgage. . . ;
>
> *   *   *
>
> - an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

See HVMLT 2007-5 Pros. at 99. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

20. AHMA 2005-2 Certificates

300. The American Home Mortgage Assets Trust 2005-2, Mortgage-Backed Pass-Through Certificates, Series 2005-2 ("AHMA 2005-2 Certificates") were issued pursuant to a Prospectus

Supplement dated December 21, 2005. RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the AHMA 2005-2 Certificates.

301. Plaintiff purchased the following AHMA 2005-2 Certificate:

Original Purchaser	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Purchased From**
Fortis Bank	1A1	02660VAY4	12/16/2005	$50,000,000	RBS Securities

302. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the AHMA 2005-2 Offering Documents, including draft and/or final AHMA 2005-2 Prospectus Supplements, all of which were distributed by the defendants associated with the AHMA 2005-2 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

303. The AHMA 2005-2 Offering Documents disclosed that 100% of the loans underlying plaintiff's AHMA 2005-2 Certificate were originated by AHM. *See* AHMA 2005-2 Pros. Supp. at S-19.

304. The AHMA 2005-2 Offering Documents represented that "[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." *See* AHMA 2005-2 Pros. at 9. The AHMA 2005-2 Offering Documents also represented that AHM'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." *See* AHMA 2005-2 Pros. Supp. at S-26. The AHMA 2005-2 Offering Documents further represented that AHM "underwrites a borrower's creditworthiness based solely on information that [AHM] believes is indicative of the applicant's

willingness and ability to pay the debt they would be incurring," and that "[i]n addition to reviewing the borrower's credit history and credit score, [AHM] underwriters closely review the borrower's housing payment history." *Id.* at S-27. Additionally, the AHMA 2005-2 Offering Documents represented that "[e]very [AHM] mortgage loan is secured by a property that has been appraised by a licensed appraiser in accordance with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation," that "[i]n addition, each appraisal is reviewed for accuracy and consistency by an [AHM] underwriter or a mortgage insurance company contract underwriter," and that "[t]he appraiser's value conclusion is used to calculate the ratio (loan-to-value) of the loan amount to the value of the property." *Id.* at S-27-S-28. Moreover, the AHMA 2005-2 Offering Documents represented that:

> 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 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.

Id. at S-28. Furthermore, the AHMA 2005-2 Offering Documents represented that:

> 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.

See AHMA 2005-2 Pros. at 9. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that AHM had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.4, *infra*.

b. Loan-to-Value Ratios

305. The AHMA 2005-2 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the AHMA 2005-2 Certificate purchased by plaintiff. Specifically, the AHMA 2005-2 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's AHMA 2005-2 Certificate had LTV ratios over 80%, and that none of the loans supporting plaintiff's AHMA 2005-2 Certificate had LTV ratios over 100%.

306. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's AHMA 2005-2 Certificate, which reveals that the LTV ratio percentages stated in the AHMA 2005-2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the AHMA 2005-2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
1A1	02660VAY4	Group 1	0.58 %	35.94%	0.00%	7.77%

c. Owner Occupancy Rates

307. The AHMA 2005-2 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the AHMA 2005-2 Certificate purchased by plaintiff. Specifically, the AHMA 2005-2 Offering Documents represented that a large percentage of the loans supporting plaintiff's AHMA 2005-2 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

308. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's AHMA 2005-2 Certificate, which reveals that the OOR percentages stated in the AHMA 2005-2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the AHMA 2005-2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
1A1	02660VAY4	Group 1	86.16%	78.07%	10.36%

d. Credit Ratings

309. The AHMA 2005-2 Offering Documents also represented that the AHMA 2005-2 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the AHMA 2005-2 Offering Documents represented that plaintiff's AHMA 2005-2 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit

ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

310. These representations, however, were false and misleading when made. In truth, plaintiff's AHMA 2005-2 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's AHMA 2005-2 Certificate was an extremely risky, speculative grade "junk" bond or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's AHMA 2005-2 Certificate was because defendants had fed them falsified information regarding the AHMA 2005-2 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

311. The falsity of the credit ratings set forth in the AHMA 2005-2 Offering Documents is confirmed by subsequent events. Specifically, ***more than 23% of the loans supporting plaintiff's AHMA 2005-2 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" AHMA 2005-2 Certificate is now rated at "junk" status or below. Clearly, plaintiff's AHMA 2005-2 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the AHMA 2005-2 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
1A1	02660VAY4	Group 1	23.38%	Aaa	Ca	AAA	NR

e. Transfer of Title

312. The AHMA 2005-2 Offering Documents also represented that the loans underlying the AHMA 2005-2 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the AHMA 2005-2 Offering Documents stated that:

> On or prior to the date the Certificates are issued, the Seller, pursuant to the Mortgage Loan Purchase Agreement, will convey each loan to the Depositor, and the Depositor, pursuant to the Agreement, will in turn, convey each loan, together with all principal and interest due on or with respect to such loans after the Cut-off Date, to the Trust . . . .

See AHMA 2005-2 Pros. Supp. at S-57. The AHMA 2005-2 Offering Documents also represented that:

> The Depositor will deliver to the Trustee, or Custodian on behalf of the Trustee, with respect to each mortgage loan (1) the mortgage note endorsed without recourse in blank or to the Trustee to reflect the transfer of the mortgage loan (2) the original mortgage with evidence of recording indicated thereon and (3) an assignment of the mortgage in recordable form to the Trustee, reflecting the transfer of the mortgage loan.

Id. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

21. AHMA 2007-3 Certificates

313. The American Home Mortgage Assets Trust 2007-3, Mortgage-Backed Pass-Through Certificates, Series 2007-3 ("AHMA 2007-3 Certificates") were issued pursuant to a Prospectus Supplement dated June 5, 2007. RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the AHMA 2007-3 Certificates.

314. Plaintiff purchased the following AHMA 2007-3 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Scaldis	12A1	026935AC0	6/1/2007	$30,000,000	RBS Securities

315. The decision to purchase the above security was made by Fortis Bank, on behalf of Scaldis, in direct reliance upon the AHMA 2007-3 Offering Documents, including draft and/or final AHMA 2007-3 Prospectus Supplements, all of which were distributed by the defendants associated with the AHMA 2007-3 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

316. The AHMA 2007-3 Offering Documents disclosed that 100% of the loans underlying plaintiff's AHMA 2007-3 Certificate were originated by AHM, or an affiliate thereof. *See* AHMA 2007-3 Pros. Supp. at S-9.

317. The AHMA 2007-3 Offering Documents represented that "[t]he 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." *See* AHMA 2007-3 Pros. at 8. The AHMA 2007-3 Offering Documents also represented that AHM'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." *See* AHMA 2007-3 Pros. Supp. at S-51. The AHMA 2007-3 Offering Documents further represented that "[AHM] underwrites a borrower's creditworthiness based solely on information that [AHM] believes is indicative of the applicant's willingness and ability to pay the debt they would be incurring," and that, "[i]n addition to reviewing the borrower's credit history and credit score, [AHM] underwriters closely review the borrower's housing payment history." *Id.* at S-52. Additionally, the AHMA 2007-3 Offering Documents represented that "[e]very [AHM] mortgage loan is secured by a property that has been appraised by a licensed appraiser in accordance with the Uniform Standards of Professional

Appraisal Practice of the Appraisal Foundation," that "[i]n addition, each appraisal is reviewed for accuracy and consistency by an [AHM] underwriter or a mortgage insurance company contract underwriter," and that "[t]he appraiser's value conclusion is used to calculate the ratio (loan-to-value) of the loan amount to the value of the property." *Id*. at S-53. Moreover, the AHMA 2007-3 Offering Documents represented that:

> 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 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.

Id. at S-52-S-53. Furthermore, the AHMA 2007-3 Offering Documents represented that:

> 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.

See AHMA 2007-3 Pros. at 9. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that AHM had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.4, *infra*.

b. Loan-to-Value Ratios

318. The AHMA 2007-3 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the AHMA 2007-3 Certificate purchased by plaintiff. Specifically, the AHMA 2007-3 Offering Documents represented that less than 10% of the loans supporting plaintiff's AHMA 2007-3 Certificate had LTV ratios over 80%, and that none of the loans supporting plaintiff's AHMA 2007-3 Certificate had LTV ratios over 100%.

319. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's AHMA 2007-3 Certificate, which reveals that the LTV ratio percentages stated in the AHMA 2007-3 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the AHMA 2007-3 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
12A1	026935AC0	Group 1 (1, 2)	9.93 %	62.93%	0.00%	30.88%

c. Owner Occupancy Rates

320. The AHMA 2007-3 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the AHMA 2007-3 Certificate purchased by plaintiff. Specifically, the AHMA 2007-3 Offering Documents represented that a large percentage of the loans supporting plaintiff's AHMA 2007-3 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

321. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's AHMA 2007-3 Certificate, which reveals that the OOR percentages stated in the AHMA 2007-3 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the AHMA 2007-3 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
12A1	026935AC0	Group 1 (1, 2)	72.35%	65.02%	11.27%

d. Credit Ratings

322. The AHMA 2007-3 Offering Documents also represented that the AHMA 2007-3 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the AHMA 2007-3 Offering Documents represented that plaintiff's AHMA 2007-3 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

323. These representations, however, were false and misleading when made. In truth, plaintiff's AHMA 2007-3 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's AHMA 2007-3 Certificate was an extremely risky, speculative grade "junk" bond or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's

AHMA 2007-3 Certificate was because defendants had fed them falsified information regarding the AHMA 2007-3 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

324. The falsity of the credit ratings set forth in the AHMA 2007-3 Offering Documents is confirmed by subsequent events. Specifically, ***more than 53% of the loans supporting plaintiff's AHMA 2007-3 Certificate are*** currently ***in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" AHMA 2007-3 Certificate is now rated at "junk" status or below. Clearly, plaintiff's AHMA 2007-3 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the AHMA 2007-3 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
12A1	026935AC0	Group 1 (1, 2)	53.21%	Aaa	Ca	AAA	D

e. Transfer of Title

325. The AHMA 2007-3 Offering Documents also represented that the loans underlying the AHMA 2007-3 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the AHMA 2007-3 Offering Documents stated that, "[o]n or prior to the date the Certificates are issued, the Sponsor, pursuant to the Mortgage Loan Purchase Agreement, will convey each mortgage loan to the Depositor, and the Depositor, pursuant to the Agreement, will in turn, convey each mortgage loan, together with all principal and interest due on or with respect to such mortgage loans after the Cut-off

Date, to the Issuing Entity." *See* AHMA 2007-3 Pros. Supp. at S-140. The AHMA 2007-3 Offering Documents also represented that "[t]he Depositor will deliver to the Trustee, or Custodian on behalf of the Trustee, with respect to each mortgage loan (1) the mortgage note endorsed without recourse in blank or to the Trustee to reflect the transfer of the mortgage loan (2) the original mortgage with evidence of recording indicated thereon and (3) an assignment of the mortgage in recordable form to the Trustee, reflecting the transfer of the mortgage loan." *Id.* These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

22. AMIT 2006-1 Certificates

326. The Aames Mortgage Investment Trust 2006-1, Mortgage Backed Certificates, Series 2006-1 ("AMIT 2006-1 Certificates") were issued pursuant to a Prospectus Supplement dated April 27, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the AMIT 2006-1 Certificates: Financial Asset (depositor) and RBS Securities (underwriter).

327. Plaintiff purchased the following AMIT 2006-1 Certificate:

Original Purchaser	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Purchased From**
Fortis Bank	A4	00252GAD1	4/27/2006	$12,641,000	RBS Securities

328. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the AMIT 2006-1 Offering Documents, including draft and/or final AMIT 2006-1 Prospectus Supplements, all of which were distributed by the defendants associated with the AMIT 2006-1 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

329. The AMIT 2006-1 Offering Documents disclosed that 100% of the loans underlying plaintiff's AMIT 2006-1 Certificate were originated or acquired by Aames Funding Corp ("Aames"). *See* AMIT 2006-1 Pros. Supp. at S-48, S-55.

330. With regard to all of the loans underlying plaintiff's AMIT 2006-1 Certificate, the AMIT 2006-1 Offering Documents represented that Aames's "underwriting guidelines are designed to assess the borrower's creditworthiness and the adequacy of the real property as collateral for the loan." *Id.* at S-55. The AMIT 2006-1 Offering Documents also represented that:

> The borrower's creditworthiness is assessed by examination of a number of factors, including calculation of debt-to-income ratios, which is the sum of the borrower's monthly debt payments divided by the borrower's monthly income before taxes and other payroll deductions, an examination of the borrower's credit history and credit score through standard credit reporting bureaus, and by evaluating the borrower's payment history with respect to existing mortgages, if any, on the property.

Id. The AMIT 2006-1 Offering Documents further represented that "[a]n assessment of the adequacy of the real property as collateral for the loan is primarily based upon an appraisal of the property and a calculation of the loan-to-value ratios of the loan applied for and of all mortgages existing on the property, including the loan applied for (the combined loan-to-value ratio), to the appraised value of the property at the time of origination," and that "[t]he underwriting of a mortgage loan to be originated by Aames . . . generally includes a review of . . . a current appraisal." *Id*. at S-56. Moreover, the AMIT 2006-1 Offering Documents represented that under Aames's "'Super Aim' Underwriting Guidelines," the maximum allowable debt-to-income ratio is 45% to 55%. *Id.* at S-56-S-57. As further detailed *infra,* these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Aames had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.12, *infra.*

b. Loan-to-Value Ratios

331. The AMIT 2006-1 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the AMIT 2006-1 Certificate purchased by plaintiff. Specifically, the AMIT 2006-1 Offering Documents represented that about 20% of the loans supporting plaintiff's AMIT 2006-1 Certificate had LTV ratios over 80%, and that a very small percentage of the loans supporting plaintiff's AMIT 2006-1 Certificate had LTV ratios over 100%.

332. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's AMIT 2006-1 Certificate, which reveals that the LTV ratio percentages stated in the AMIT 2006-1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the AMIT 2006-1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
A4	00252GAD1	All	20.50 %	66.15%	5.76%	27.25%

c. Credit Ratings

333. The AMIT 2006-1 Offering Documents also represented that the AMIT 2006-1 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the AMIT 2006-1 Offering Documents represented that plaintiff's AMIT 2006-1 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit

ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

334. These representations, however, were false and misleading when made. In truth, plaintiff's AMIT 2006-1 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's AMIT 2006-1 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's AMIT 2006-1 Certificate was because defendants had fed them falsified information regarding the AMIT 2006-1 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, and false borrower DTI ratios.

335. The falsity of the credit ratings set forth in the AMIT 2006-1 Offering Documents is confirmed by subsequent events. Specifically, ***more than 37% of the loans supporting plaintiff's AMIT 2006-1 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" AMIT 2006-1 Certificate is now rated at "junk" status. Clearly, plaintiff's AMIT 2006-1 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the AMIT 2006-1 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
A4	00252GAD1	All	37.71%	Aaa	B3	AAA	B+

d. Transfer of Title

336. The AMIT 2006-1 Offering Documents also represented that the loans underlying the AMIT 2006-1 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the AMIT 2006-1 Offering Documents stated that, "[o]n the Closing Date, the Mortgage Loans will be assigned to the Trust, together with all principal and interest received with respect to the Mortgage Loans on and after the Cut-off Date (other than Scheduled Payments due on that date)." *See* AMIT 2006-1 Pros. Supp. at S-75. The AMIT 2006-1 Offering Documents also represented that:

> As to each Mortgage Loan, the following documents, to the extent applicable, are generally to be delivered to the Indenture Trustee (or its custodian): (1) the related original Mortgage Note, endorsed without recourse to the Indenture Trustee or in blank, or a lost note affidavit conforming to the requirements of the Transfer and Servicing Agreement, together with a copy of the related Mortgage Note, (2) the original recorded Mortgage with evidence of recording indicated thereon . . . , (3) an original assignment of the Mortgage to the Indenture Trustee or in blank in recordable form (except as described below) . . . .

Id. The AMIT 2006-1 Offering Documents furthers stated that, "[w]hen the securities of a series are issued, the depositor named in the prospectus supplement will cause the loans comprising the related trust fund to be assigned to the trustee." *See* AMIT 2006-1 Pros. at 98. Moreover, the AMIT 2006-1 Offering Documents stated that:

> [T]he depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund:
>
> - the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee;
> - . . . the mortgage . . . ;
>
> * * *
>
> - an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System . . . .

Id. at 99. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

23. ARSI 2006-M3 Certificates

337. The Ameriquest Mortgage Securities Trust 2006-M3, Asset-Backed Pass-Through Certificates, Series ARSI 2006-M3 ("ARSI 2006-M3 Certificates") were issued pursuant to a Prospectus Supplement dated September 12, 2006. RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the ARSI 2006-M3 Certificates.

338. Plaintiff purchased the following ARSI 2006-M3 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Scaldis	A2D	03076MAE4	9/22/2006	$15,514,000	RBS Securities

339. The decision to purchase the above security was made by Fortis Bank, on behalf of Scaldis, in direct reliance upon the ARSI 2006-M3 Offering Documents, including draft and/or final ARSI 2006-M3 Prospectus Supplements, all of which were distributed by the defendants associated with the ARSI 2006-M3 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

340. The ARSI 2006-M3 Offering Documents disclosed that 93.31% of the loans underlying the ARSI 2006-M3 Certificates were originated by Argent Mortgage Company, L.L.C ("Argent"), and 6.69% of the loans underlying the ARSI 2006-M3 Certificates were originated by Ameriquest Mortgage ("Ameriquest"). *See* ARSI 2006-M3 Pros. Supp. at S-28.

341. With regard to all of the loans underlying the ARSI 2006-M3 Certificates, the ARSI 2006-M3 Offering Documents represented that they were "originated in accordance with

guidelines . . . as described [in the prospectus supplement]." *Id.* at S-29. The ARSI 2006-M3 Offering Documents also represented that "[t]he Underwriting Guidelines are primarily intended to evaluate: (1) the applicant's credit standing and repayment ability and (2) the value and adequacy of the mortgaged property as collateral." *Id.* The ARSI 2006-M3 Offering Documents further represented that:

> During the underwriting process, each Originator reviews and verifies the loan applicant's sources of income (except under the Stated Income and Limited Documentation types, under which programs such information may not be independently verified), calculates the amount of income from all such sources indicated on the loan application, 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 Underwriting Guidelines.

Id. at S-30. Additionally, the ARSI 2006-M3 Offering Documents represented that

> The Underwriting Guidelines . . . require[] either (A) (i) an appraisal of the mortgaged property which conforms to the Uniform Standards of Professional Appraisal Practice . . . and (ii) a review of such appraisal, which review may be conducted by a representative of the related Originator or a fee appraiser and may include a desk review of the original appraisal or a drive-by review appraisal of the mortgaged property or (B) in the case of Ameriquest's underwriting Guidelines, an insured automated valuation model.

Id. Moreover, the ARSI 2006-M3 Offering Documents represented that the maximum allowable debt-to-income ratio is 50%-55%. *Id.* at S-32-S-33. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Ameriquest and Argent had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §§VI.A.9 and VI.A.11, *infra*.

b. Loan-to-Value Ratios

342. The ARSI 2006-M3 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the ARSI 2006-M3 Certificate purchased by plaintiff. Specifically, the ARSI 2006-M3 Offering Documents represented that a little over 40% of the loans supporting plaintiff's ARSI 2006-M3 Certificate had LTV ratios over 80%, and that none of the loans supporting plaintiff's ARSI 2006-M3 Certificate had LTV ratios over 100%.

343. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's ARSI 2006-M3 Certificate, which reveals that the LTV ratio percentages stated in the ARSI 2006-M3 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the ARSI 2006-M3 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
A2D	03076MAE4	All	42.03 %	56.17%	0.00%	16.06%

c. Owner Occupancy Rates

344. The ARSI 2006-M3 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the ARSI 2006-M3 Certificate purchased by plaintiff. Specifically, the ARSI 2006-M3 Offering Documents represented that a large percentage of the loans supporting plaintiff's ARSI 2006-M3 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

345. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's ARSI 2006-M3 Certificate, which reveals that the OOR percentages stated in the ARSI 2006-M3 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the ARSI 2006-M3 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
A2D	03076MAE4	All	91.87%	82.74%	11.03%

d. Credit Ratings

346. The ARSI 2006-M3 Offering Documents also represented that the ARSI 2006-M3 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the ARSI 2006-M3 Offering Documents represented that plaintiff's ARSI 2006-M3 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

347. These representations, however, were false and misleading when made. In truth, plaintiff's ARSI 2006-M3 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's ARSI 2006-M3 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's ARSI 2006-

M3 Certificate was because defendants had fed them falsified information regarding the ARSI 2006-M3 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

348. The falsity of the credit ratings set forth in the ARSI 2006-M3 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 40% of the loans supporting plaintiff's ARSI 2006-M3 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" ARSI 2006-M3 Certificate is now rated at "junk" status. Clearly, plaintiff's ARSI 2006-M3 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the ARSI 2006-M3 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
A2d	03076MAE4	All	39.94%	Aaa	Ca	AAA	CCC

e. Transfer of Title

349. The ARSI 2006-M3 Offering Documents also represented that the loans underlying the ARSI 2006-M3 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the ARSI 2006-M3 Offering Documents stated that "[t]he Seller will sell the Mortgage Loans to the Depositor and the Depositor will convey the Mortgage Loans to the Trust in exchange for and concurrently with the delivery of the Certificates." *See* ARSI 2006-M3 Pros. Supp. at S-24. The ARSI 2006-M3 Offering Documents also represented that:

> The Depositor will deliver to the Trustee (or to a custodian on the Trustee's behalf) with respect to each Mortgage Loan (i) the mortgage note endorsed without

> recourse in blank to reflect the transfer of the Mortgage Loan, (ii) the original mortgage with evidence of recording indicated thereon and (iii) an assignment of the mortgage in recordable form endorsed in blank without recourse, reflecting the transfer of the Mortgage Loan.

Id. at S-87. The ARSI 2006-M3 Offering Documents further represented that "[a]t the time of issuance of any series of securities, the depositor will cause the pool of mortgage assets to be included in the related trust fund to be assigned to the trustee." *See* ARSI 2006-M3 Pros. at 26-27. Moreover, the ARSI 2006-M3 Offering Documents represented that:

> The depositor will, with respect to each mortgage asset, deliver or cause to be delivered to the trustee, or to the custodian hereinafter referred to:
>
> - With respect to each mortgage loan, (1) the mortgage note endorsed, without recourse, to the order of the trustee or in blank, (2) the original Mortgage with evidence of recording indicated thereon and an assignment of the Mortgage to the trustee or in blank . . . .

Id. at 27. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

24. ARSI 2006-W5 Certificates

350. The Argent Securities Trust 2006-W5, Asset-Backed Pass-Through Certificates, Series ARSI 2006-W5 ("ARSI 2006-W5 Certificates") were issued pursuant to a Prospectus Supplement dated May 12, 2006. RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the ARSI 2006-W5 Certificates.

351. Plaintiff purchased the following ARSI 2006-W5 Certificate:

Original Purchaser	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Purchased From**
Fortis Bank	M1	04012XAF2	5/12/2006	$4,000,000	RBS Securities

352. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the ARSI 2006-W5 Offering Documents, including draft and/or final ARSI 2006-W5 Prospectus Supplements, all of which were distributed by the defendants associated with the ARSI

2006-W5 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

353. The ARSI 2006-W5 Offering Documents disclosed that 100% of the loans underlying plaintiff's ARSI 2006-W5 Certificate were originated by Argent. *See* ARSI 2006-W5 Pros. Supp. at S-26, S-30.

354. The ARSI 2006-W5 Offering Documents represented that Argent's "Underwriting Guidelines are primarily intended to evaluate: (1) the applicant's credit standing and repayment ability and (2) the value and adequacy of the mortgaged property as collateral." *Id*. at S-30. The ARSI 2006-W5 Offering Documents also represented that "[d]uring the underwriting process, . . . [Argent] calculates the amount of income from all such sources indicated on the loan application, 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 Underwriting Guidelines." *Id.* at S-30-S-31. The ARSI 2006-W5 Offering Documents further represented that Argent's "Underwriting Guidelines . . . require[] (i) an appraisal of the mortgaged property which conforms to the Uniform Standards of Professional Appraisal Practice . . . and (ii) a review of such appraisal, which review may be conducted by a representative of the Originator or a fee appraiser and may include a desk review of the original appraisal or a drive-by review appraisal of the mortgaged property." *Id*. at S-31. Moreover, the ARSI 2006-W5 Offering Documents represented that the maximum allowable debt-to-income ratio under Argent's underwriting guidelines was 50% to 55%. *Id*. at S-33. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Argent had completely abandoned its stated underwriting guidelines and was simply seeking

to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.9, *infra*.

b. Loan-to-Value Ratios

355. The ARSI 2006-W5 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the ARSI 2006-W5 Certificate purchased by plaintiff. Specifically, the ARSI 2006-W5 Offering Documents represented that less than 40% of the loans supporting plaintiff's ARSI 2006-W5 Certificate had LTV ratios over 80%, and that none of the loans supporting plaintiff's ARSI 2006-W5 Certificate had LTV ratios over 100%.

356. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's ARSI 2006-W5 Certificate, which reveals that the LTV ratio percentages stated in the ARSI 2006-W5 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the ARSI 2006-W5 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
M1	04012XAF2	All	38.82 %	53.16%	0.00%	14.84%

c. Owner Occupancy Rates

357. The ARSI 2006-W5 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the ARSI 2006-W5 Certificate purchased by plaintiff. Specifically, the ARSI 2006-W5 Offering Documents represented that a large percentage of the loans supporting plaintiff's ARSI 2006-W5 Certificate were issued to borrowers

that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

358. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's ARSI 2006-W5 Certificate, which reveals that the OOR percentages stated in the ARSI 2006-W5 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the ARSI 2006-W5 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
M1	04012XAF2	All	90.68%	81.18%	11.71%

d. Credit Ratings

359. The ARSI 2006-W5 Offering Documents also represented that the ARSI 2006-W5 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the ARSI 2006-W5 Offering Documents represented that plaintiff's ARSI 2006-W5 Certificate had been assigned AA+/Aa1 ratings – signifying an extremely safe and stable security.

360. These representations, however, were false and misleading when made. In truth, plaintiff's ARSI 2006-W5 Certificate should not have received AA+/Aa1 credit ratings, because it was ***not*** a safe, "investment grade" security. Rather, as defendants were well aware, plaintiff's ARSI 2006-W5 Certificate was an extremely risky, speculative grade "junk" bond or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had

assigned such high ratings to plaintiff's ARSI 2006-W5 Certificate was because defendants had fed them falsified information regarding the ARSI 2006-W5 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

361. The falsity of the credit ratings set forth in the ARSI 2006-W5 Offering Documents is confirmed by subsequent events. Specifically, ***more than 41% of the loans supporting plaintiff's ARSI 2006-W5 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" ARSI 2006-W5 Certificate is now rated at "junk" status or below. Clearly, plaintiff's ARSI 2006-W5 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the ARSI 2006-W5 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
M1	04012XAF2	All	41.69%	Aa1	WR	AA+	D

e. Transfer of Title

362. The ARSI 2006-W5 Offering Documents also represented that the loans underlying the ARSI 2006-W5 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the ARSI 2006-W5 Offering Documents stated that "[t]he Seller will sell the Mortgage Loans to the Depositor and the Depositor will convey the Mortgage Loans to the Trust in exchange for and concurrently with the delivery of the Certificates." *See* ARSI 2006-W5 Pros. Supp. at S-25. The ARSI 2006-W5 Offering Documents also represented that "[t]he Depositor will deliver to the Trustee

(or to a custodian on the Trustee's behalf) with respect to each Mortgage Loan (i) the mortgage note endorsed without recourse in blank to reflect the transfer of the Mortgage Loan, (ii) the original mortgage with evidence of recording indicated thereon and (iii) an assignment of the mortgage in recordable form endorsed in blank without recourse, reflecting the transfer of the Mortgage Loan." *Id.* at S-88. The ARSI 2006-W5 Offering Documents further represented that, "[a]t the time of issuance of any series of securities, the depositor will cause the pool of mortgage assets to be included in the related trust fund to be assigned to the trustee." *See* ARSI 2006-W5 Pros. at 26. Moreover, the ARSI 2006-W5 Offering Documents represented that:

> The depositor will, with respect to each mortgage asset, deliver or cause to be delivered to the trustee, or to the custodian hereinafter referred to:
>
> - With respect to each mortgage loan, (1) the mortgage note endorsed, without recourse, to the order of the trustee or in blank, (2) the original Mortgage with evidence of recording indicated thereon and an assignment of the Mortgage to the trustee or in blank.

Id. at 27. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

25. BVMBS 2005-1 Certificates

363. The BellaVista Mortgage Trust 2005-1, Mortgage Pass-Through Certificates, Series 2005-1 ("BVMBS 2005-1 Certificates") were issued pursuant to a Prospectus Supplement dated January 26, 2005. RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the BVMBS 2005-1 Certificates.

364. Plaintiff purchased the following BVMBS 2005-1 Certificates:

Original Purchaser	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Purchased From**
Fortis Bank	1A1	07820QBL8	1/21/2005	$20,000,000	RBS Securities
Fortis Bank	2A	07820QBN4	1/21/2005	$50,000,000	RBS Securities

365. The decision to purchase the above securities was made by Fortis Bank in direct reliance upon the BVMBS 2005-1 Offering Documents, including draft and/or final BVMBS 2005-1 Prospectus Supplements, all of which were distributed by the defendants associated with the BVMBS 2005-1 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A.3, *infra*.

a. Underwriting Guidelines

366. The BVMBS 2005-1 Offering Documents disclosed that approximately 68.81% of the Group 2 loans underlying the BVMBS 2005-1 Certificates were originated or acquired by Countrywide; approximately 0.39% of the Group 2 loans underlying the BVMBS 2005-1 Certificates were originated or acquired by E-LOAN, Inc. ("E-LOAN"); approximately 23.99% of the Group 2 loans underlying the BVMBS 2005-1 Certificates were originated by National City Mortgage Co. ("National City"); and approximately 100% of the Group 1 loans underlying the BVMBS 2005-1 Certificates were originated by WaMu. *See* BVMBS 2005-1 Pros. Supp. at S-30, S-33, S-36, S-38.

367. With regard to the Countrywide loans, the BVMBS 2005-1 Offering Documents represented that "Countrywide['s] . . . underwriting standards are applied by or on behalf of Countrywide . . . to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *Id*. at S-31. The BVMBS 2005-1 Offering Documents also represented that "[u]nder 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," and that "[i]n 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." *Id.* The BVMBS 2005-1 Offering Documents further represented that "[g]enerally, Countrywide . . . obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans." *Id.* Additionally, the BVMBS 2005-1 Offering Documents represented that, "[u]nder its underwriting guidelines, Countrywide . . . 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%." *Id.* at S-32. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.2, *infra*.

368. With regard to the E-LOAN loans, the BVMBS 2005-1 Offering Documents represented that "E-LOAN considers the following general underwriting criteria in determining whether to approve a mortgage loan application: [e]mployment and income, [c]redit history, [p]roperty value and characteristics and [a]vailable assets." *See* BVMBS 2005-1 Pros. Supp. at S-33-S-34. The BVMBS 2005-1 Offering Documents also represented that "E-LOAN requires an appraisal on all first lien purchase and refinance mortgage loans originated . . . [that is] required to conform to the Uniform Standards of Professional Appraisal Practices," and that "[e]very appraisal is reviewed for property information specific to neighborhood information, description of improvements, review of at least three comparable sales as well as specific appraiser comments." *Id.* at S-34. The BVMBS 2005-1 Offering Documents further represented that "a borrower's past payment history" is reviewed. *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that E-LOAN had completely abandoned its stated underwriting guidelines and was simply

seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.1, *infra*.

369. With regard to the National City loans, the BVMBS 2005-1 Offering Documents represented that "[t]he National City 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." *See* BVMBS 2005-1 Pros. Supp. at S-36. The BVMBS 2005-1 Offering Documents also represented that "[i]n 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, National City generally considers, when required by the applicable documentation program, the ratio of such amounts to the proposed borrower's acceptable stable monthly gross income." *Id.* at S-37. The BVMBS 2005-1 Offering Documents further represented that "[e]ach National City mortgaged property has been appraised by a qualified independent appraiser" and "conform[s] to the Uniform Standards of Professional Appraisal Practice." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that National City had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.1, *infra*.

370. With regard to the WaMu loans, the BVMBS 2005-1 Offering Documents represented that WaMu's "underwriting guidelines are established to set acceptable criteria regarding credit history, repayment ability, adequacy of necessary liquidity, and adequacy of the collateral." *See* BVMBS 2005-1 Pros. Supp. at S-38. The BVMBS 2005-1 Offering Documents also represented that

"[c]alculations are made to establish the relationship between fixed expenses and gross monthly income, which should not exceed established guidelines but are reviewed with respect to the applicant's overall ability to repay the mortgage loan, including other income sources, commitment to the property as evidenced by loan-to-value ratio, credit history, other liquid resources, ability to accumulate assets and other compensating factors." *Id.* The BVMBS 2005-1 Offering Documents further represented that "[t]he adequacy of the collateral is generally determined by an appraisal" that "conform[s] to the Uniform Standards of Professional Appraisal Practice." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that WaMu had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.8, *infra*.

371. With regard to all of the loans underlying the BVMBS 2005-1 Certificates, including any loans originated by unidentified originators, the BVMBS 2005-1 Offering Documents represented that "[u]nderwriting standards are applied by or on behalf of a lender to evaluate the borrower's credit history and financial standing, often described as the ability and willingness to repay the principal balance of the loan." *See* BVMBS 2005-1 Pros. at 12. The BVMBS 2005-1 Offering Documents also represented that:

> In addition, lenders typically attempt to determine the value and adequacy of the related property as collateral in case the borrower is no longer able or willing to meet repayment conditions and the collateral has to be sold off to satisfy the loan obligations. To determine the value of the property as collateral, an appraiser will inspect the property, verify its condition and determine its value, based on a comparison to similar homes or the cost of replacing the home.

Id. The BVMBS 2005-1 Offering Documents further represented that "[b]ased on all the information obtained a determination generally is made as to whether the prospective borrower has sufficient monthly income available to meet the obligations on the proposed loan in addition to other monthly housing expenses, other financial obligations and monthly living expenses." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide, E-LOAN, National City, WaMu and any unidentified originators had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §§VI.A.1, VI.A.2 and VI.A.8, *infra*.

b. Credit Ratings

372. The BVMBS 2005-1 Offering Documents also represented that the BVMBS 2005-1 Certificates purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the BVMBS 2005-1 Offering Documents represented that plaintiff's BVMBS 2005-1 Certificates had each been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

373. These representations, however, were false and misleading when made. In truth, plaintiff's BVMBS 2005-1 Certificates should not have received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's BVMBS 2005-1 Certificates were extremely risky, speculative grade "junk" bonds, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's BVMBS 2005-1 Certificates was because defendants had fed them falsified information

regarding the BVMBS 2005-1 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false borrower FICO scores, and false borrower DTI ratios.

374. The falsity of the credit ratings set forth in the BVMBS 2005-1 Offering Documents is confirmed by subsequent events. Specifically, ***more than 26% of the Group 1 loans and 20% of the Group 2 loans supporting plaintiff's BVMBS 2005-1 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" BVMBS 2005-1 Certificates are now rated at "junk" status. Clearly, plaintiff's BVMBS 2005-1 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the BVMBS 2005-1 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
1A1	07820QBL8	Group 1	26.13%	Aaa	B2	AAA	BB
2A	07820QBN4	Group 2	20.76%	Aaa	Caa3	AAA	BB

c. Transfer of Title

375. The BVMBS 2005-1 Offering Documents also represented that the loans underlying the BVMBS 2005-1 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the BVMBS 2005-1 Offering Documents stated that, "[o]n the closing date, the depositor will transfer to the trust all of its right, title and interest in and to each Mortgage Loan and the mortgage note, mortgage and other documents relating to the Mortgage Loan . . . , including all payments received on or with respect to each Mortgage Loan on or after the cut-off date, but not including interest payments

due prior to the cut-off date." *See* BVMBS 2005-1 Pros. Supp. at S-28. The BVMBS 2005-1 Offering Documents also represented that:

> [T]he related Agreement will require that, within the time period specified therein, the depositor will also deliver or cause to be delivered to the trustee or, if so indicated in the prospectus supplement, a separate custodian appointed by the trustee pursuant to a custodial agreement, as to each mortgage loan or home equity loan, among other things:
>
> - the mortgage note or credit line agreement endorsed without recourse in blank or to the order of the trustee;
> - the mortgage . . . ;
> - an assignment of the mortgage to the trustee, which assignment will be in recordable form in the case of a mortgage assignment . . . .

See BVMBS 2005-1 Pros. at 33-34. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

26. CMALT 2007-A6 Certificates

376. The CitiMortage Alternative Loan Trust, Series 2007-A6, Senior and Subordinated REMIC Pass-Through Certificates ("CMALT 2007-A6 Certificates") were issued pursuant to a Prospectus dated on or about June 26, 2007. RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the CMALT 2007-A6 Certificates.

377. Plaintiff purchased the following CMALT 2007-A6 Certificate:

Original Purchaser	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Purchased From**
Fortis Ireland	1A10	18976GAK2	7/26/2007	$25,000,000	RBS Securities

378. The decision to purchase the above security was made by Fortis Ireland in direct reliance upon the CMALT 2007-A6 Offering Documents, including draft and/or final CMALT 2007-A6 Prospectus Supplements, all of which were distributed by the defendants associated with the

CMALT 2007-A6 offering. Fortis Ireland's diligent investment processes are described in great detail in §VIII.B, *infra*.

a. Underwriting Guidelines

379. The CMALT 2007-A6 Offering Documents disclosed that approximately 34.10% of the loans underlying the CMALT 2007-A6 Certificates were originated by ABN AMRO Mortgage Group, Inc. ("ABN AMRO"); approximately 26.73% of the loans underlying the CMALT 2007-A6 Certificates were originated by other "third-party originators," "[n]one of [which] originated as much as 10% of the mortgage loans in any pool"; and approximately 39.17% of the loans underlying the CMALT 2007-A6 Certificates were originated by the sponsor CitiMortgage, Inc. or its affiliates ("CitiMortgage"). *See* CMALT 2007-A6 Pros. Supp. at 11, 34; CMALT 2007-A6 Pros. at 51.

380. With regard to the loans originated by CitiMortgage and its affiliates, the CMALT 2007-A6 Offering Documents represented that "[m]ortgage loan underwriting assesses a prospective borrower's ability and willingness to repay, and the adequacy of the property as collateral for, a requested loan." *See* CMALT 2007-A6 Pros. at 89. The CMALT 2007-A6 Offering Documents also represented that "[e]ach affiliated originator uses a credit scoring system as part of its underwriting process," which "assesses a prospective borrower's ability and willingness to repay a mortgage loan based upon predetermined mortgage loan characteristics and credit risk factors." *Id.* The CMALT 2007-A6 Offering Documents further represented that "the affiliated originator decides[:] whether the prospective borrower has enough monthly income to meet monthly obligations on the proposed loan and related expenses as well as the prospective borrower's other financial obligations and monthly living expenses, and if the loan is for the purchase of the mortgaged property, whether the prospective borrower has enough liquid assets to acquire the mortgaged property and make the initial monthly mortgage payment." *Id.* at 90. Additionally, the CMALT 2007-A6 Offering Documents represented that "[t]he affiliated originators require the value of the mortgaged property, together with any other

collateral, to support the principal balance of the mortgage loan, with enough excess value to protect against minor declines in real estate values," and that "[e]ach affiliated originator requires an appraisal of each property to be financed." *Id.* at 91. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that CitiMortgage and its affiliates had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.1, *infra*.

381. With regard to the loans originated by ABN AMRO and the other "third-party originators," the CMALT 2007-A6 Offering Documents represented that they were originated "under guidelines that are substantially in accordance with CitiMortgage's guidelines for its own originations," and that "CitiMortgage believes that [ABN AMRO]'s underwriting procedures for the mortgage loans included in this series are not materially different from CitiMortgage's own underwriting procedures for similar loans." *See* CMALT 2007-A6 Pros. Supp. at 34. The CMALT 2007-A6 Offering Documents also represented that as the sponsor, "CitiMortgage will fully or partly credit score or re-underwrite the third-party loans to determine whether the original underwriting process adequately assessed the borrower's ability to repay and the adequacy of the property as collateral, based on CitiMortgage's underwriting standards." *See* CMALT 2007-A6 Pros. at 92. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that CitiMortgage, ABN AMRO and the other third-party originators had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.1, *infra*.

b. Loan-to-Value Ratios

382. The CMALT 2007-A6 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the CMALT 2007-A6 Certificate purchased by plaintiff. Specifically, the CMALT 2007-A6 Offering Documents represented that a very small percentage of the loans supporting plaintiff's CMALT 2007-A6 Certificate had LTV ratios over 80%, and that none of the loans supporting plaintiff's CMALT 2007-A6 Certificate had LTV ratios over 100%.

383. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's CMALT 2007-A6 Certificate, which reveals that the LTV ratio percentages stated in the CMALT 2007-A6 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the CMALT 2007-A6 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
1A10	18976GAK2	All	2.71 %	46.90%	0.00%	12.76%

c. Owner Occupancy Rates

384. The CMALT 2007-A6 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the CMALT 2007-A6 Certificate purchased by plaintiff. Specifically, the CMALT 2007-A6 Offering Documents represented that a large percentage of the loans supporting plaintiff's CMALT 2007-A6 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

385. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's CMALT 2007-A6 Certificate, which reveals that the OOR percentages stated in the CMALT 2007-A6 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the CMALT 2007-A6 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
1A10	18976GAK2	All	88.51%	79.36%	11.53%

d. Credit Ratings

386. The CMALT 2007-A6 Offering Documents also represented that the CMALT 2007-A6 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by Fitch and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the CMALT 2007-A6 Offering Documents represented that plaintiff's CMALT 2007-A6 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

387. These representations, however, were false and misleading when made. In truth, plaintiff's CMALT 2007-A6 Certificate should not have received AAA/Aaa credit ratings, because it was not a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's CMALT 2007-A6 Certificate was an extremely risky, speculative grade "junk" bond or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that Fitch and Moody's had assigned such high ratings to

plaintiff's CMALT 2007-A6 Certificate was because defendants had fed them falsified information regarding the CMALT 2007-A6 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

388. The falsity of the credit ratings set forth in the CMALT 2007-A6 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 26% of the loans supporting plaintiff's CMALT 2007-A6 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" CMALT 2007-A6 Certificate is now rated at "junk" status or below. Clearly, plaintiff's CMALT 2007-A6 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the CMALT 2007-A6 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**Fitch's Ratings**	
				Initial	**Current**	**Initial**	**Current**
1A10	18976GAK2	All	25.89%	Aaa	Caa3	AAA	D

e. Transfer of Title

389. The CMALT 2007-A6 Offering Documents also represented that the loans underlying the CMALT 2007-A6 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the CMALT 2007-A6 Offering Documents stated that, "[o]n the closing date, [the depositor, Citicorp Mortgage Securities, Inc. 'CMSI'] will assign the mortgage loans to the Trust, together with any principal and interest on the mortgage loans that belong to the Trust." *See* CMALT 2007-A6 Pros. at

87. The CMALT 2007-A6 Offering Documents also stated "CMSI will deliver to the mortgage note custodian for each mortgage loan, the original endorsed mortgage note, and to the servicer, other mortgage documents, such as . . . [the] original recorded mortgage," and "CMSI will deliver to the servicer a mortgage assignment in recordable form or a blanket assignment, which will not be in recordable form, together with a power of attorney empowering the Trustee to act for the originator in preparing, executing, delivering and recording in the Trust's name any instruments for assigning or recording the mortgages." *Id.* at 87, 88. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

27. The DSLA 2005-AR2 Certificates

390. The DSLA Mortgage Loan Trust 2005-AR2, DSLA Mortgage Pass-Through Certificates, Series 2005-AR2 ("DSLA 2005-AR2 Certificates") were issued pursuant to a Prospectus Supplement dated April 26, 2005. The following defendants played critical roles in the fraudulent structuring, offering and sale of the DSLA 2005-AR2 Certificates: RBS Acceptance (depositor); RBS Financial (seller) and RBS Securities (underwriter).

391. Plaintiff purchased the following DSLA 2005-AR2 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Scaldis	2A1A	23332UDC5	3/18/2005	$15,000,000	RBS Securities

392. The decision to purchase the above security was made by Fortis Bank, on behalf of Scaldis, in direct reliance upon the DSLA 2005-AR2 Offering Documents, including draft and/or final DSLA 2005-AR2 Prospectus Supplements, all of which were distributed by the defendants associated with the DSLA 2005-AR2 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

393. The DSLA 2005-AR2 Offering Documents disclosed that 100% of the loans underlying plaintiff's DSLA 2005-AR2 Certificates were acquired by the seller, RBS Financial, from loan originator Downey Savings and Loan Association F.A. ("Downey"). *See* DSLA 2005-AR2 Pros. Supp. at S-29.

394. The DSLA 2005-AR2 Offering Documents represented that "Downey's underwriting standards are applied by or on behalf of Downey to evaluate the prospective borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *Id.* at S-61. The DSLA 2005-AR2 Offering Documents also represented that "Downey's underwriting guidelines are applied to evaluate the applicant, the property and the applicant's income, employment and credit history, as applicable in the context of the loan program and documentation requirements." *Id.* at S-60. The DSLA 2005-AR2 Offering Documents further represented that "[a]n applicant's creditworthiness is determined based on the borrower's ability and willingness to repay the loan," and that "[t]he decision is based upon the applicant's financial information and credit history." *Id.* Additionally, the DSLA 2005-AR2 Offering Documents represented that:

> 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, homeowners association dues and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt, which includes the proposed monthly housing costs and all other obligations with 10 or more monthly payments remaining, to the borrower's monthly gross income (the "debt-to-income ratios") are within acceptable limits. The maximum acceptable debt-to-income ratios, which are determined on a loan-by-loan basis, vary 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 guidelines for debt-to-income ratios, each prospective borrower is required to have sufficient cash resources to pay the down payment and closing costs. Under its underwriting guidelines, Downey generally permits a housing payment-to-income ratio based on the prospective borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the prospective borrower's total monthly debt of up to 40%.

Id. at S-61. Moreover, the DSLA 2005-AR2 Offering Documents represented that "[u]nder each program, Downey obtains appraisals using staff appraisers, automated valuation models, independent appraisers or appraisal services for properties that are to secure mortgage loans." *Id.* at S-62. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Downey had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.13*, infra*.

b. Loan-to-Value Ratio

395. The DSLA 2005-AR2 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the DSLA 2005-AR2 Certificate purchased by plaintiff. Specifically, the DSLA 2005-AR2 Offering Documents represented that only a small percentage of the loans supporting plaintiff's DSLA 2005-AR2 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's DSLA 2005-AR2 Certificate had LTV ratios over 100%.

396. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's DSLA 2005-AR2 Certificate, which reveals that the LTV ratio percentages stated in the DSLA 2005-AR2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the DSLA 2005-AR2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1A	23332UDC5	Group 2	5.77 %	30.06%	0.00%	5.26%

c. Credit Ratings

397. The DSLA 2005-AR2 Offering Documents also represented that the DSLA 2005-AR2 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the DSLA 2005-AR2 Offering Documents represented that plaintiff's DSLA 2005-AR2 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

398. These representations, however, were false and misleading when made. In truth, plaintiff's DSLA 2005-AR2 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's DSLA 2005-AR2 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's DSLA 2005-AR2 Certificate was because defendants had fed them falsified information regarding the DSLA 2005-AR2 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores and false borrower DTI ratios.

399. The falsity of the credit ratings set forth in the DSLA 2005-AR2 Offering Documents is confirmed by subsequent events. Specifically, ***more than 25% of the loans supporting plaintiff's DSLA 2005-AR2 Certificate are currently in default*** because they were made to borrowers who

either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" DSLA 2005-AR2 Certificate is now rated at "junk" status. Clearly, plaintiff's DSLA 2005-AR2 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the DSLA 2005-AR2 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1A	23332UDC5	Group 2	25.63%	Aaa	Caa1	AAA	CCC

d. Transfer of Title

400. The DSLA 2005-AR2 Offering Documents represented that the loans underlying the DSLA 2005-AR2 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the DSLA 2005-AR2 Offering Documents stated that, "[o]n the closing date, the depositor will transfer to the trust all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the cut-off date." *See* DSLA 2005-AR2 Pros. Supp. at S-72. The DSLA 2005-AR2 Offering Documents also stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement, the seller will deliver to the trustee (or a custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the related originator pursuant to the terms of the related underlying purchase agreement.

Id. at S-73. The DSLA 2005-AR2 Offering Documents further stated that "the depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund: the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee . . . ; . . . the mortgage . . . ; [and] an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System." *See* DSLA 2005-AR2 Pros. at 62. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

28. The DSLA 2005-AR5 Certificates

401. The DSLA Mortgage Loan Trust 2005-AR5, DSLA Mortgage Pass-Through Certificates, Series 2005-AR5 ("DSLA 2005-AR5 Certificates") were issued pursuant to a Prospectus Supplement dated August 5, 2005. The following defendants played critical roles in the fraudulent structuring, offering and sale of the DSLA 2005-AR5 Certificates: RBS Acceptance (depositor); RBS Financial (seller) and RBS Securities (underwriter).

402. Plaintiff purchased the following DSLA 2005-AR5 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	2A1A	23332UFF6	7/28/2005	$40,000,000	RBS Securities

403. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the DSLA 2005-AR5 Offering Documents, including draft and/or final DSLA 2005-AR5 Prospectus Supplements, all of which were distributed by the defendants associated with the DSLA 2005-AR5 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

404. The DSLA 2005-AR5 Offering Documents disclosed that 100% of plaintiff's DSLA 2005-AR5 Certificates' underlying loans were acquired by the seller, RBS Financial, from loan originator Downey. *See* DSLA 2005-AR5 Pros. Supp. at S-28.

405. The DSLA 2005-AR5 Offering Documents represented that "Downey's underwriting standards are applied by or on behalf of Downey to evaluate the prospective borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *Id*. at S-60. The DSLA 2005-AR5 Offering Documents also represented that "Downey's underwriting guidelines are applied to evaluate the applicant, the property and the applicant's income, employment and credit history, as applicable in the context of the loan program and documentation requirements." *Id.* at S-59. The DSLA 2005-AR5 Offering Documents further represented that "[a]n applicant's creditworthiness is determined based on the borrower's ability and willingness to repay the loan," and that "[t]he decision is based upon the applicant's financial information and credit history." *Id.* Additionally, the DSLA 2005-AR5 Offering Documents represented that:

> 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, homeowners association dues and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt, which includes the proposed monthly housing costs and all other obligations with 10 or more monthly payments remaining, to the borrower's monthly gross income (the "debt-to-income ratios") are within acceptable limits. The maximum acceptable debt-to-income ratios, which are determined on a loan-by-loan basis, vary 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 guidelines for debt-to-income ratios, each prospective borrower is required to have sufficient cash resources to pay the down payment and closing costs. Under its underwriting guidelines, Downey generally permits a housing payment-to-income ratio based on the prospective borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the prospective borrower's total monthly debt of up to 40%.

Id. at S-60. Moreover, The DSLA 2005-AR5 Offering Documents represented that, "[u]nder each program, Downey obtains appraisals using staff appraisers, automated valuation models, independent appraisers or appraisal services for properties that are to secure mortgage loans." *Id.* at S-61. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Downey had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.13, *infra*.

b. Loan-to-Value Ratios

406. The DSLA 2005-AR5 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the DSLA 2005-AR5 Certificate purchased by plaintiff. Specifically, the DSLA 2005-AR5 Offering Documents represented that only a small percentage of the loans supporting plaintiff's DSLA 2005-AR5 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's DSLA 2005-AR5 Certificate had LTV ratios over 100%.

407. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's DSLA 2005-AR5 Certificate, which reveals that the LTV ratio percentages stated in the DSLA 2005-AR5 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the DSLA 2005-AR5 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1A	23332UFF6	Group 2	7.69 %	39.46%	0.00%	6.06%

c. Owner Occupancy Rates

408. The DSLA 2005-AR5 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the DSLA 2005-AR5 Certificate purchased by plaintiff. Specifically, the DSLA 2005-AR5 Offering Documents represented that a

large percentage of the loans supporting plaintiff's DSLA 2005-AR5 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

409. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's DSLA 2005-AR5 Certificate, which reveals that the OOR percentages stated in the DSLA 2005-AR5 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the DSLA 2005-AR5 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A1A	23332UFF6	Group 2	99.55%	93.37%	6.62%

d. Credit Ratings

410. The DSLA 2005-AR5 Offering Documents also represented that the DSLA 2005-AR5 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the DSLA 2005-AR5 Offering Documents represented that plaintiff's DSLA 2005-AR5 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

411. These representations, however, were false and misleading when made. In truth, plaintiff's DSLA 2005-AR5 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults."

Rather, as defendants were well aware, plaintiff's DSLA 2005-AR5 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's DSLA 2005-AR5 Certificate was because defendants had fed them falsified information regarding the DSLA 2005-AR5 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

412. The falsity of the credit ratings set forth in the DSLA 2005-AR5 Offering Documents is confirmed by subsequent events. Specifically, ***more than 14% of the loans supporting plaintiff's DSLA 2005-AR5 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" DSLA 2005-AR5 Certificate is now rated at "junk" status. Clearly, plaintiff's DSLA 2005-AR5 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the DSLA 2005-AR5 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
2A1A	23332UFF6	Group 2	14.16%	Aaa	Caa1	AAA	CCC

e. Transfer of Title

413. The DSLA 2005-AR5 Offering Documents also represented that the loans underlying the DSLA 2005-AR5 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the DSLA 2005-AR5 Offering Documents stated that, "[o]n the closing date, the depositor will transfer to

the trust all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the cut-off date." *See* DSLA 2005-AR5 Pros. Supp. at S-73. The DSLA 2005-AR5 Offering Documents also stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement, the seller will deliver to the trustee (or a custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the related originator pursuant to the terms of the related underlying purchase agreement.

Id. The DSLA 2005-AR2 Offering Documents further stated that "the depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund: the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee . . . ; . . . the mortgage . . . ; [and] an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System." *See* DSLA 2005-AR5 Pros. at 62. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

29. The DSLA 2006-AR1 Certificates

414. The DSLA Mortgage Loan Trust 2006-AR1, Mortgage Loan Pass-Through Certificates, Series 2006-AR1 ("DSLA 2006-AR1 Certificates") were issued pursuant to a Prospectus Supplement dated March 28, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the DSLA 2006-AR1 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor/seller) and RBS Securities (underwriter).

415. Plaintiff purchased the following DSLA 2006-AR1 Certificates:

Original	Tranche	CUSIP	Purchase	Original Face	Purchased From

Purchaser	Purchased		Date	Amount	
Fortis Bank	2A1B	23332UGN8	3/13/2006	$19,750,000	RBS Securities
Fortis Bank	2A1C	23332UGP3	3/13/2006	$30,000,000	RBS Securities

416. The decision to purchase the above securities was made by Fortis Bank in direct reliance upon the DSLA 2006-AR1 Offering Documents, including draft and/or final DSLA 2006-AR1 Prospectus Supplements, all of which were distributed by the defendants associated with the DSLA 2006-AR1 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*

a. Underwriting Guidelines

417. The DSLA 2006-AR1 Offering Documents disclosed that 100% of the loans underlying plaintiff's DSLA 2006-AR1 Certificates were acquired by the sponsor/seller, RBS Financial, from loan originator Downey. *See* DSLA 2006-AR1 Pros. Supp. at S-25.

418. The DSLA 2006-AR1 Offering Documents represented that "Downey's underwriting guidelines are applied to evaluate the applicant, the property and the applicant's income, employment and credit history, as applicable in the context of the loan program and documentation requirements." *Id*. at S-57. The DSLA 2006-AR1 Offering Documents also represented that "[a]n applicant's creditworthiness is determined based on the borrower's ability and willingness to repay the loan," and that "[t]he decision is based upon the applicant's financial information and credit history." *Id.* The DSLA 2006-AR1 Offering Documents further represented that:

> 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, homeowners association dues and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt, which includes the proposed monthly housing costs and all other obligations with 10 or more monthly payments remaining, to the borrower's monthly gross income (the "debt-to-income ratios") are within acceptable limits. The maximum acceptable debt-to-income ratios, which are determined on a loan-by-loan basis, vary 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 guidelines for debt-to-income ratios, each prospective borrower is required to have sufficient cash resources to pay the down payment and closing costs. Under its underwriting guidelines, Downey generally permits a housing payment-to-income ratio based on the prospective borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the prospective borrower's total monthly debt of up to 40%.

Id. at S-58. Moreover, the DSLA 2006-AR1 Offering Documents represented that "[u]nder each program, Downey obtains appraisals using staff appraisers, automated valuation models, independent appraisers or appraisal services for properties that are to secure mortgage loans." *Id.* at S-59. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Downey had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.13*, infra*.

b. Loan-to-Value Ratios

419. The DSLA 2006-AR1 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the DSLA 2006-AR1 Certificates purchased by plaintiff. Specifically, the DSLA 2006-AR1 Offering Documents represented that only a small percentage of the loans supporting plaintiff's DSLA 2006-AR1 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's DSLA 2006-AR1 Certificates had LTV ratios over 100%.

420. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's DSLA 2006-AR1 Certificates, which reveals that the LTV ratio percentages stated in the DSLA 2006-AR1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the DSLA 2006-

AR1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1B	23332UGN8	Group 2	10.35 %	46.10%	0.00%	5.60%
2A1C	23332UGP3	Group 2	10.35 %	46.10%	0.00%	5.60%

c. Owner Occupancy Rates

421. The DSLA 2006-AR1 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the DSLA 2006-AR1 Certificates purchased by plaintiff. Specifically, the DSLA 2006-AR1 Offering Documents represented that a large percentage of the loans supporting plaintiff's DSLA 2006-AR1 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

422. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's DSLA 2006-AR1 Certificates, which reveals that the OOR percentages stated in the DSLA 2006-AR1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the DSLA 2006-AR1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A1B	23332UGN8	Group 2	99.43%	93.79%	6.02%
2A1C	23332UGP3	Group 2	99.43%	93.79%	6.02%

d. Credit Ratings

423. The DSLA 2006-AR1 Offering Documents also represented that the DSLA 2006-AR1 Certificates purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the DSLA 2006-AR1 Offering Documents represented that plaintiff's DSLA 2006-AR1 Certificates had each been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

424. These representations, however, were false and misleading when made. In truth, plaintiff's DSLA 2006-AR1 Certificates should not have received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's DSLA 2006-AR1 Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's DSLA 2006-AR1 Certificates was because defendants had fed them falsified information regarding the DSLA 2006-AR1 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

425. The falsity of the credit ratings set forth in the DSLA 2006-AR1 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 28% of the loans supporting plaintiff's DSLA 2006-AR1 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" DSLA 2006-AR1 Certificates are now rated at below "junk" status. Clearly, plaintiff's DSLA 2006-AR1 Certificates were not the highly rated, "investment grade" securities

defendants represented them to be. The evidence supporting the falsity of the DSLA 2006-AR1 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1A	23332UGN8	Group 2	27.84%	Aaa	C	AAA	D
2A1A	23332UGP3	Group 2	27.84%	Aaa	C	AAA	D

e. Transfer of Title

426. The DSLA 2006-AR1 Offering Documents also represented that the loans underlying the DSLA 2006-AR1 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the DSLA 2006-AR1 Offering Documents stated that, "[o]n the closing date, the depositor will transfer to the trust all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the cut-off date." *See* DSLA 2006-AR1 Pros. Supp. at S-77. The DSLA 2006-AR1 Offering Documents also stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement the seller will deliver to the trustee (or a custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificate holders, together with the other related documents received by the seller from the related originator pursuant to the terms of the related underlying purchase agreement.

Id. The DSLA 2006-AR1 Offering Documents further stated that "the depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund: the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee; . . . the mortgage . . . ; [and] an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System." *See* DSLA 2006-AR1 Pros. at 47-48. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

30. The DSLA 2006-AR2 Certificates

427. The DSLA Mortgage Loan Trust, Mortgage Loan Pass-Through Certificates, Series 2006-AR2 ("DSLA 2006-AR2 Certificates") were issued pursuant to a Prospectus Supplement dated September 11, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the DSLA 2006-AR2 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

428. Plaintiff purchased the following DSLA 2006-AR2 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Scaldis	2A1A	23332QAC7	8/3/2006	$30,000,000	RBS Securities

429. The decision to purchase the above security was made by Fortis Bank, on behalf of Scaldis, in direct reliance upon the DSLA 2006-AR2 Offering Documents, including draft and/or final DSLA 2006-AR2 Prospectus Supplements, all of which were distributed by the defendants associated with the DSLA 2006-AR2 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

430. The DSLA 2006-AR2 Offering Documents disclosed that 100% of the DSLA 2006-AR2 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator Downey. *See* DSLA 2006-AR2 Pros. Supp. at S-23.

431. The DSLA 2006-AR2 Offering Documents represented that "Downey's underwriting guidelines are applied to evaluate the applicant, the property and the applicant's income, employment

and credit history, as applicable in the context of the loan program and documentation requirements," and that "Downey's underwriting standards are applied by or on behalf of Downey to evaluate the prospective borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *Id*. at S-55, S-56. The DSLA 2006-AR2 Offering Documents also represented that:

> 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, homeowners association dues and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt, which includes the proposed monthly housing costs and all other obligations with 10 or more monthly payments remaining, to the borrower's monthly gross income (the "debt-to-income ratios") are within acceptable limits.

Id. at S-56. The DSLA 2006-AR2 Offering Documents further represented that, "[u]nder its underwriting guidelines, Downey generally permits a housing payment-to-income ratio based on the prospective borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the prospective borrower's total monthly debt of up to 40%." *Id.* Moreover, the DSLA 2006-AR2 Offering Documents represented that "Downey obtains appraisals using staff appraisers, automated valuation models, independent appraisers or appraisal services for properties that are to secure mortgage loans." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Downey had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.13, *infra*.

b. Loan-to-Value Ratios

432. The DSLA 2006-AR2 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the DSLA 2006-AR2 Certificate purchased by plaintiff. Specifically, the DSLA 2006-AR2 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's DSLA 2006-AR2 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's DSLA 2006-AR2 Certificate had LTV ratios over 100%.

433. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's DSLA 2006-AR2 Certificate, which reveals that the LTV ratio percentages stated in the DSLA 2006-AR2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the DSLA 2006-AR2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1A	23332QAC7	Group 2	6.30%	45.52%	0.00%	7.59%

c. Owner Occupancy Rates

434. The DSLA 2006-AR2 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the DSLA 2006-AR2 Certificate purchased by plaintiff. Specifically, the DSLA 2006-AR2 Offering Documents represented that a large percentage of the loans supporting plaintiff's DSLA 2006-AR2 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

435. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's DSLA 2006-AR2 Certificate, which reveals that the OOR percentages stated in the DSLA 2006-AR2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the DSLA 2006-AR2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
2A1A	23332QAC7	Group 2	99.26%	93.03%	6.70%

d. Credit Ratings

436. The DSLA 2006-AR2 Offering Documents also represented that the DSLA 2006-AR2 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the DSLA 2006-AR2 Offering Documents represented that plaintiff's DSLA 2006-AR2 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

437. These representations, however, were false and misleading when made. In truth, plaintiff's DSLA 2006-AR2 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's DSLA 2006-AR2 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's DSLA

2006-AR2 Certificate was because defendants had fed them falsified information regarding the DSLA 2006-AR2 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

438. The falsity of the credit ratings set forth in the DSLA 2006-AR2 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 22% of the loans supporting plaintiff's DSLA 2006-AR2 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" DSLA 2006-AR2 Certificate is now rated at "junk" status. Clearly, plaintiff's DSLA 2006-AR2 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the DSLA 2006-AR2 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1A	23332QAC7	Group 2	21.89%	Aaa	Caa2	AAA	CCC

e. Transfer of Title

439. The DSLA 2006-AR2 Offering Documents also represented that the loans underlying the DSLA 2006-AR2 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the DSLA 2006-AR2 Offering Documents stated that, "[o]n the closing date for the initial mortgage loans and on any subsequent transfer date for the subsequent mortgage loans, the depositor will transfer to the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments

with respect to each mortgage loan due after the initial cut-off date or . . . the subsequent cutoff date, as applicable." *See* DSLA 2006-AR2 Pros. Supp. at S-73. The DSLA 2006-AR2 Offering Documents also stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement the seller will deliver to the trustee (or the custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreement.

Id. The DSLA 2006-AR2 Offering Documents further stated that "the depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund: the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee; . . . the mortgage . . . ; [and] an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System." *See* DSLA 2006-AR2 Pros. at 99. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

31. The DSLA 2007-AR1 Certificates

440. The DSLA Mortgage Loan Trust, Mortgage Loan Pass-Through Certificates, Series 2007-AR1 ("DSLA 2007-AR1 Certificates") were issued pursuant to a Prospectus Supplement dated February 21, 2007. The following defendants played critical roles in the fraudulent structuring, offering and sale of the DSLA 2007-AR1 Certificates: RBS Acceptance (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

441. Plaintiff purchased the following DSLA 2007-AR1 Certificate:

Original Purchaser	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Purchased From**
Fortis Bank	M2	23333YAG0	2/7/2007	$7,689,000	RBS Securities

442. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the DSLA 2007-AR1 Offering Documents, including draft and/or final DSLA 2007-AR1 Prospectus Supplements, all of which were distributed by the defendants associated with the DSLA 2007-AR1 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

443. The DSLA 2007-AR1 Offering Documents disclosed that 100% of the DSLA 2007-AR1 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator Downey. *See* DSLA 2007-AR1 Pros. Supp. at S-25.

444. The DSLA 2007-AR1 Offering Documents represented that "Downey's underwriting guidelines are applied to evaluate the applicant, the property and the applicant's income, employment and credit history, as applicable in the context of the loan program and documentation requirements," and that "Downey's underwriting standards are applied by or on behalf of Downey to evaluate the prospective borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *Id.* at S-32, S-33. The DSLA 2007-AR1 Offering Documents also represented that:

> 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, homeowners association dues and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt, which includes the proposed monthly housing costs and all other obligations with 10 or more monthly payments remaining, to the borrower's monthly gross income (the "debt-to-income ratios") are within acceptable limits.

Id. at S-33. The DSLA 2007-AR1 Offering Documents further represented that, "[u]nder its underwriting guidelines, Downey generally permits a housing payment-to-income ratio based on the prospective borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the prospective borrower's total monthly debt of up to 40%." *Id.* Moreover, the DSLA 2007-AR1 Offering Documents represented that "Downey obtains appraisals using staff appraisers, automated valuation models, independent appraisers or appraisal services for properties that are to secure mortgage loans." *Id.* at S-34. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Downey had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.13, *infra*.

b. Loan-to-Value Ratios

445. The DSLA 2007-AR1 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the DSLA 2007-AR1 Certificate purchased by plaintiff. Specifically, the DSLA 2007-AR1 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's DSLA 2007-AR1 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's DSLA 2007-AR1 Certificate had LTV ratios over 100%.

446. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's DSLA 2007-AR1 Certificate, which reveals that the LTV ratio percentages stated in the DSLA 2007-AR1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the DSLA 2007-AR1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
M2	23333YAG0	All	3.67%	44.13%	0.00%	6.32%

c. Owner Occupancy Rates

447. The DSLA 2007-AR1 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the DSLA 2007-AR1 Certificate purchased by plaintiff. Specifically, the DSLA 2007-AR1 Offering Documents represented that a large percentage of the loans supporting plaintiff's DSLA 2007-AR1 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

448. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's DSLA 2007-AR1 Certificate, which reveals that the OOR percentages stated in the DSLA 2007-AR1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the DSLA 2007-AR1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
M2	23333YAG0	All	92.63%	87.24%	6.18%

d. Credit Ratings

449. The DSLA 2007-AR1 Offering Documents also represented that the DSLA 2007-AR1 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely

low probability of default. Specifically, the DSLA 2007-AR1 Offering Documents represented that plaintiff's DSLA 2007-AR1 Certificate had been assigned AA/Aa1 ratings – signifying an extremely safe and stable security.

450. These representations, however, were false and misleading when made. In truth, plaintiff's DSLA 2007-AR1 Certificate should not have received AA/Aa1 credit ratings, because it was ***not*** a safe, "investment grade" security. Rather, as defendants were well aware, plaintiff's DSLA 2007-AR1 Certificate was an extremely risky, speculative grade "junk" bond ***or worse***, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's DSLA 2007-AR1 Certificate was because defendants had fed them falsified information regarding the DSLA 2007-AR1 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

451. The falsity of the credit ratings set forth in the DSLA 2007-AR1 Offering Documents is confirmed by subsequent events. Specifically, ***more than 20% of the loans supporting plaintiff's DSLA 2007-AR1 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" DSLA 2007-AR1 Certificate is now rated at "junk" status ***or below***. Clearly, plaintiff's DSLA 2007-AR1 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the DSLA 2007-AR1 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
M2	23333YAG0	All	20.28%	Aa1	WR	AA	D

e. Transfer of Title

452. The DSLA 2007-AR1 Offering Documents also represented that the loans underlying the DSLA 2007-AR1 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the DSLA 2007-AR1 Offering Documents stated that, "[o]n the closing date for the initial mortgage loans and on any subsequent transfer date for the subsequent mortgage loans, the depositor will transfer to the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents, including all scheduled payments with respect to each mortgage loan due after the initial cut-off date or the applicable subsequent cutoff date, as applicable." *See* DSLA 2007-AR1 Pros. Supp. at S-51. The DSLA 2007-AR1 Offering Documents also stated that:

> The pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement, the seller will deliver to the trustee the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents received by the seller from the originator pursuant to the terms of the underlying purchase agreement.

Id. at S-52. The DSLA 2007-AR1 Offering Documents further stated that "the depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund: the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee; . . . the mortgage . . . ; [and] an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS® System." *See* DSLA 2007-AR1 Pros. at 100. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

32. The FFML 2006-FF8 Certificates

453. The First Franklin Mortgage Loan Trust 2006-FF8, Asset-Backed Certificates, Series 2006-FF8 ("FFML 2006-FF8 Certificates") were issued pursuant to a Prospectus Supplement dated June 6, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the FFML 2006-FF8 Certificates: Financial Asset (depositor); RBS Financial (sponsor); RBS Securities (underwriter).

454. Plaintiff purchased the following FFML 2006-FF8 Certificate:

Original Purchaser	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Purchased From**
Scaldis	IIA4	320278AD6	6/6/2006	$31,940,000	RBS Securities

455. The decision to purchase the above security was made by Fortis Bank, on behalf of Scaldis, in direct reliance upon the FFML 2006-FF8 Offering Documents, including draft and/or final FFML 2006-FF8 Prospectus Supplements, all of which were distributed by the defendants associated with the FFML 2006-FF8 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

456. The FFML 2006-FF8 Offering Documents disclosed that 100% of the FFML 2006-FF8 Certificates' underlying loans were acquired by the sponsor, RBS Financial, from loan originator First Franklin, a division of National City Bank of Indiana ("First Franklin"). *See* FFML 2006-FF8 Pros. Supp. at S-5.

457. The FFML 2006-FF8 Offering Documents represented that "First Franklin['s] . . . acquisition 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." *Id.* at S-60. The FFML 2006-FF8 Offering Documents also represented that First Franklin's underwriting standards require consideration of, "among other things, a mortgagor's

credit history, repayment ability and debt service to income ratio ('Debt Ratio'), as well as the value, type and use of the mortgaged property." *Id.* at S-61. The FFML 2006-FF8 Offering Documents further represented that "[t]he Debt Ratio generally may not exceed 50.49% for all credit scores on full documentation and LIV loans. Loans meeting the residual income requirements may have a maximum Debt Ratio of 55.49%. The Debt Ratio for NIV loans may not exceed 50.49%." *Id.* at S-63. Moreover, the FFML 2006-FF8 Offering Documents represented that the underwriting process must "comply 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." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that First Franklin had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.6, *infra*.

b. Loan-to-Value Ratios

458. The FFML 2006-FF8 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the FFML 2006-FF8 Certificate purchased by plaintiff. Specifically, the FFML 2006-FF8 Offering Documents represented that less than 30% of the loans supporting plaintiff's FFML 2006-FF8 Certificate had LTV ratios over 80%, and that ***less than 1%*** of the loans supporting plaintiff's FFML 2006-FF8 Certificate had LTV ratios over 100%.

459. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's FFML 2006-FF8 Certificate, which reveals that the LTV ratio percentages stated in the FFML 2006-FF8 Offering Documents were materially false ***at the time they***

were made. The following chart summarizes the LTV ratio percentages stated in the FFML 2006-FF8 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
IIA4	320278AD6	All	28.53%	48.22%	0.13%	15.51%

c. Owner Occupancy Rates

460. The FFML 2006-FF8 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the FFML 2006-FF8 Certificate purchased by plaintiff. Specifically, the FFML 2006-FF8 Offering Documents represented that a large percentage of the loans supporting plaintiff's FFML 2006-FF8 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

461. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's FFML 2006-FF8 Certificate, which reveals that the OOR percentages stated in the FFML 2006-FF8 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the FFML 2006-FF8 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
IIA4	320278AD6	All	96.29%	82.31%	16.98%

d. Credit Ratings

462. The FFML 2006-FF8 Offering Documents also represented that the FFML 2006-FF8 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the FFML 2006-FF8 Offering Documents represented that plaintiff's FFML 2006-FF8 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

463. These representations, however, were false and misleading when made. In truth, plaintiff's FFML 2006-FF8 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's FFML 2006-FF8 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's FFML 2006-FF8 Certificate was because defendants had fed them falsified information regarding the FFML 2006-FF8 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

464. The falsity of the credit ratings set forth in the FFML 2006-FF8 Offering Documents is confirmed by subsequent events. Specifically, ***more than 45% of the loans supporting plaintiff's FFML 2006-FF8 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" FFML 2006-FF8 Certificate is now rated at "junk" status. Clearly, plaintiff's FFML 2006-FF8 Certificate was not the highly rated, "investment grade" security defendants represented it to be.

The evidence supporting the falsity of the FFML 2006-FF8 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
IIA4	320278AD6	All	45.16%	Aaa	Ca	AAA	B-

e. Transfer of Title

465. The FFML 2006-FF8 Offering Documents also represented that the loans underlying the FFML 2006-FF8 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the FFML 2006-FF8 Offering Documents stated that, "[o]n the Closing Date, the Depositor will transfer to the Trust all of its right, title and interest in and to each Mortgage Loan, the related mortgage note, Mortgage, assignment of mortgage in recordable form in blank or to the Trustee and other related documents (collectively, the 'Related Documents'), including all scheduled payments with respect to each such Mortgage Loan due after the Cut-off Date." *See* FFML 2006-FF8 Pros. Supp. at S-70. The FFML 2006-FF8 Offering Documents further stated that "[t]he Pooling Agreement will require that, within the time period specified therein, the Depositor will deliver or cause to be delivered to the Trustee (or a custodian on behalf of the Trustee) the mortgage notes endorsed to the Trustee on behalf of the Certificateholders and the Related Documents." *Id.* at S-70. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

33. The FHAMS 2006-FA2 Certificates

466. The First Horizon Alternative Mortgage Securities Trust 2006-FA2, Mortgage Pass-Through Certificates, Series 2006-FA2 ("FHAMS 2006-FA2 Certificates") were issued pursuant to a

Prospectus Supplement dated March 27, 2006. As the primary underwriter, defendant RBS Securities played a critical role in the fraudulent structuring, offering and sale of the FHAMS 2006-FA2 Certificates.

467. Plaintiff purchased the following FHAMS 2006-FA2 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	1A1	32051G2V6	4/19/2006	$30,000,000	RBS Securities

468. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the FHAMS 2006-FA2 Offering Documents, including draft and/or final FHAMS 2006-FA2 Prospectus Supplements, all of which were distributed by the defendants associated with the FHAMS 2006-FA2 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

469. The FHAMS 2006-FA2 Offering Documents disclosed that 100% of the FHAMS 2006-FA2 Certificates' underlying loans were acquired or originated by the sponsor, First Horizon Home Loan Corporation ("First Horizon"). *See* FHAMS 2006-FA2 Pros. Supp. at S-7.

470. The FHAMS 2006-FA2 Offering Documents represented that "[t]he First Horizon 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." *Id.* at S-32. The FHAMS 2006-FA2 Offering Documents also represented that, "[i]n 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, First Horizon generally considers, when required by the applicable documentation program, the ratio of such amounts to the proposed borrower's acceptable stable monthly gross income." *Id.* at S-33. The FHAMS 2006-FA2 Offering Documents

further represented that "[e]ach mortgaged property has been appraised by a qualified independent appraiser who is state licensed or certified," and the appraisals are "required to conform to the Uniform Standards of Professional Appraisal Practice." *Id.* Moreover, the FHAMS 2006-FA2 Offering Documents represented that "[t]he maximum monthly debt-to-income ratio will vary depending upon a borrower's credit grade and loan program but will not generally exceed 55%." *See* FHAMS 2006-FA2 Pros. at 28. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that First Horizon had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.14, *infra*.

b. Loan-to-Value Ratios

471. The FHAMS 2006-FA2 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the FHAMS 2006-FA2 Certificate purchased by plaintiff. Specifically, the FHAMS 2006-FA2 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's FHAMS 2006-FA2 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's FHAMS 2006-FA2 Certificate had LTV ratios over 100%.

472. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's FHAMS 2006-FA2 Certificate, which reveals that the LTV ratio percentages stated in the FHAMS 2006-FA2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the FHAMS 2006-FA2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
1A1	32051G2V6	Group I	1.81%	38.46%	0.00%	12.10%

c. Owner Occupancy Rates

473. The FHAMS 2006-FA2 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the FHAMS 2006-FA2 Certificate purchased by plaintiff. Specifically, the FHAMS 2006-FA2 Offering Documents represented that a large percentage of the loans supporting plaintiff's FHAMS 2006-FA2 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

474. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's FHAMS 2006-FA2 Certificate, which reveals that the OOR percentages stated in the FHAMS 2006-FA2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the FHAMS 2006-FA2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
1A1	32051G2V6	Group I	73.59%	64.23%	14.57%

d. Credit Ratings

475. The FHAMS 2006-FA2 Offering Documents also represented that the FHAMS 2006-FA2 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an

extremely low probability of default. Specifically, the FHAMS 2006-FA2 Offering Documents represented that plaintiff's FHAMS 2006-FA2 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

476. These representations, however, were false and misleading when made. In truth, plaintiff's FHAMS 2006-FA2 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's FHAMS 2006-FA2 Certificate was an extremely risky, speculative grade "junk" bond ***or worse***, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's FHAMS 2006-FA2 Certificate was because defendants had fed them falsified information regarding the FHAMS 2006-FA2 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

477. The falsity of the credit ratings set forth in the FHAMS 2006-FA2 Offering Documents is confirmed by subsequent events. Specifically, ***more than 24% of the loans supporting plaintiff's FHAMS 2006-FA2 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" FHAMS 2006-FA2 Certificate is now rated at "junk" status ***or below***. Clearly, plaintiff's FHAMS 2006-FA2 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the FHAMS 2006-FA2 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	**Current**	**Initial**	**Current**
1A1	32051G2V6	Group I	24.13%	Aaa	Caa3	AAA	D

e. Transfer of Title

478. The FHAMS 2006-FA2 Offering Documents also represented that the loans underlying the FHAMS 2006-FA2 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the FHAMS 2006-FA2 Offering Documents stated that "[p]ursuant to the pooling and servicing agreement and on the closing date, the depositor will sell, without recourse, all of its right, title and interest in the mortgage loans and the other assets included in the trust fund, including all principal and interest due and received on the mortgage loans after the cut-off date, to the trustee in trust for the benefit of the certificateholders." *See* FHAMS 2006-FA2 Pros. Supp. at S-38. The FHAMS 2006-FA2 Offering Documents further stated that:

> In connection with the sale, the depositor will deliver or cause to be delivered to FTBNA, as a custodian for the trustee, the mortgage file for each mortgage loan, which contains, among other things,
>
> - the original mortgage note, including any modifications or amendments, endorsed in blank without recourse . . . ,
> - the original mortgage . . . , [and]
> - an assignment in recordable form of the mortgage . . . .

Id. at S-38. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

34. The GMACM 2006-HE5 Certificates

479. The GMACM Home Equity Loan Trust 2006-HE5, GMACM Home Equity Loan-Backed Term Notes, Series 2006-HE5 ("GMACM 2006-HE5 Certificates") were issued pursuant to a

Prospectus Supplement dated November 28, 2006. As the primary underwriter, defendant RBS Securities played a critical role in the fraudulent structuring, offering and sale of the GMACM 2006-HE5 Certificates.

480. Plaintiff purchased the following GMACM 2006-HE5 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Scaldis	2A2	38012EAC9	11/21/2006	$20,000,000	RBS Securities

481. The decision to purchase the above security was made by Fortis Bank, on behalf of Scaldis, in direct reliance upon the GMACM 2006-HE5 Offering Documents, including draft and/or final GMACM 2006-HE5 Prospectus Supplements, all of which were distributed by the defendants associated with the GMACM 2006-HE5 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

482. The GMACM 2006-HE5 Offering Documents disclosed that approximately 14% of the initial loans underlying the GMACM 2006-HE5 Certificates were originated or acquired by GMAC Mortgage, LLC ("GMAC Mortgage"); approximately 86% of the initial loans underlying the GMACM 2006-HE5 Certificates were originated or acquired by GMAC Bank, an affiliate of GMAC Mortgage; and that "[n]o other originator originated 10% or more of the mortgage loans." *See* GMACM 2006-HE5 Pros. Supp. at S-5.

483. With regard to all of the GMACM 2006-HE5 Certificates' underlying loans, the GMACM 2006-HE5 Offering Documents represented that they "were underwritten generally in accordance with GMAC Mortgage['s] underwriting standards." *Id.* at S-34. The GMACM 2006-HE5 Offering Documents also represented that "consistent with applicable federal and state laws and regulations, underwriting procedures [are] intended to evaluate the borrower's credit standing and repayment ability and/or the value and adequacy of the related property as collateral." *See* GMACM

2006-HE5 Pros. at 19. The GMACM 2006-HE5 Offering Documents further represented that, "[o]nce 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." *See* GMACM 2006-HE5 Pros. Supp. at S-37. Additionally, the GMACM 2006-HE5 Offering Documents further represented that "loans were generally originated with a maximum total monthly debt to income ratio of 45%." *Id.* at S-36. Moreover, the GMACM 2006-HE5 Offering Documents represented that "[a]n appraisal may be made of the mortgaged property securing each mortgage loan," and that "[t]he appraisal may be either a full appraisal, a drive-by appraisal or a statistical property evaluation." *Id.* at S-37. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that GMAC Mortgage, GMAC Bank and any other originator had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.15, *infra*.

b. Credit Ratings

484. The GMACM 2006-HE5 Offering Documents also represented that the GMACM 2006-HE5 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the GMACM 2006-HE5 Offering Documents represented that plaintiff's GMACM 2006-HE5 Certificate had been assigned AAA/Aaa ratings – the

highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

485. These representations, however, were false and misleading when made. In truth, plaintiff's GMACM 2006-HE5 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's GMACM 2006-HE5 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's GMACM 2006-HE5 Certificate was because defendants had fed them falsified information regarding the GMACM 2006-HE5 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false borrower FICO scores, and false borrower DTI ratios.

486. The falsity of the credit ratings set forth in the GMACM 2006-HE5 Offering Documents is confirmed by subsequent events. Specifically, ***more than 5%***[15] ***of the loans supporting plaintiff's GMACM 2006-HE5 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" GMACM 2006-HE5 Certificate is now rated at "junk" status. Clearly, plaintiff's GMACM 2006-HE5 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the GMACM 2006-HE5 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

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[15] The default rate stated herein is based on a publically available "Monthly Servicer Certificate" issued in May 2013.

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
2A2	38012EAC9	All	5.44%	Aaa	Caa1	AAA	BB/*-

c. Transfer of Title

487. The GMACM 2006-HE5 Offering Documents also represented that the loans underlying the GMACM 2006-HE5 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the GMACM 2006-HE5 Offering Documents stated that, "[p]ursuant to an assignment by the depositor executed on the closing date, upon the transfer to the depositor, the initial mortgage loans will be transferred, without recourse, by the depositor to the issuing entity, as well as the depositor's rights in, to and under the purchase agreement." *See* GMACM 2006-HE5 Pros. Supp. at S-75. The GMACM 2006-HE5 Offering Documents further stated that:

> The purchase agreement will require that, within a specified time period, GMAC Mortgage, LLC deliver to a custodian, as agent for the indenture trustee, the mortgage notes, endorsed without recourse in blank, or a lost note affidavit. The remainder of the Initial Mortgage Documents will be held by the servicer, as agent for the indenture trustee on behalf of the noteholders. The remainder of the Initial Mortgage Documents held by the servicer will include the following:
>
> (1) the mortgage . . . ,
>
> (2) except with respect to mortgage loans registered in the name of MERS, an assignment in recordable form of the mortgage . . . .

Id. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trusts. *See* §VI.E, *infra*.

35. The INDX 2005-AR2 Certificates

488. The IndyMac INDX Mortgage Loan Trust 2005-AR2 Certificates ("INDX 2005-AR2 Certificates") were issued pursuant to a Prospectus Supplement dated January 25, 2005. Defendant

RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the INDX 2005-AR2 Certificates.

489. Plaintiff purchased the following INDX 2005-AR2 Certificates:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	2A1B	45660LCM9	1/5/2005	$10,000,000	RBS Securities
Fortis Bank	2A2A	45660LCN7	1/5/2005	$20,000,000	RBS Securities

490. The decisions to purchase the above securities were made by Fortis Bank in direct reliance upon the INDX 2005-AR2 Offering Documents, including draft and/or final INDX 2005-AR2 Prospectus Supplements, all of which were distributed by RBS Securities in connection with the INDX 2005-AR2 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

491. The INDX 2005-AR2 Offering Documents disclosed that 100% of the loans underlying plaintiff's INDX 2005-AR2 Certificates were originated or acquired by IndyMac. *See* INDX 2005-AR2 Pros. Supp. at S-18, S-29.

492. With regard to all of the loans underlying plaintiff's INDX 2005-AR2 Certificates, the INDX 2005-AR2 Offering Documents represented that IndyMac's "underwriting standards for conventionally underwritten mortgage loans are based on traditional underwriting factors, including the creditworthiness of the mortgagor, the capacity of the mortgagor to repay the mortgage loan according to its terms, and the value of the related mortgaged property." *Id.* at S-30. The INDX 2005-AR2 Offering Documents also represented that IndyMac "will consider such factors as loan-to-value ratios, debt-to-income ratio, FICO Credit Score, loan amount, and the extent to which IndyMac Bank can verify the mortgagor's application and supporting documentation." *Id.* The INDX 2005-AR2 Offering Documents further represented that "[u]nderwriting standards are applied by or on

behalf of a lender to evaluate the borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *See* INDX 2005-AR2 Pros. at 25. Additionally, the INDX 2005-AR2 Offering Documents represented that, "[i]n determining the adequacy of the mortgaged property as collateral, an appraisal is made of each property considered for financing." *Id.* Moreover, the INDX 2005-AR2 Offering Documents represented that:

> Once all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available to meet monthly housing expenses and other financial obligations and monthly living expenses and to meet the borrower'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 mortgaged property such as property taxes and hazard insurance).

Id. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that IndyMac had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.3, *infra*.

b. Loan-to-Value Ratios

493. The INDX 2005-AR2 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the INDX 2005-AR2 Certificates purchased by plaintiff. Specifically, the INDX 2005-AR2 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's INDX 2005-AR2 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's INDX 2005-AR2 Certificates had LTV ratios over 100%.

494. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's INDX 2005-AR2 Certificates, which reveals that the LTV ratio percentages stated in the INDX 2005-AR2 Offering Documents were materially false ***at the time they***

were made. The following chart summarizes the LTV ratio percentages stated in the INDX 2005-AR2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1B	45660LCM9	Group 2	0.57%	40.56%	0.00%	9.85%
2A2A	45660LCN7	Group 2	0.57%	40.56%	0.00%	9.85%

c. Owner Occupancy Rates

495. The INDX 2005-AR2 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the INDX 2005-AR2 Certificates purchased by plaintiff. Specifically, the INDX 2005-AR2 Offering Documents represented that a large percentage of the loans supporting plaintiff's INDX 2005-AR2 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

496. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's INDX 2005-AR2 Certificates, which reveals that the OOR percentages stated in the INDX 2005-AR2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the INDX 2005-AR2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A1B	45660LCM9	Group 2	97.40%	91.42%	6.54%
2A2A	45660LCN7	Group 2	97.40%	91.42%	6.54%

d. Credit Ratings

497. The INDX 2005-AR2 Offering Documents also represented that the INDX 2005-AR2 Certificates purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the INDX 2005-AR2 Offering Documents represented that plaintiff's INDX 2005-AR2 Certificates had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

498. These representations, however, were false and misleading when made. In truth, plaintiff's INDX 2005-AR2 Certificates should not have received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's INDX 2005-AR2 Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's INDX 2005-AR2 Certificates was because defendants had fed them falsified information regarding the INDX 2005-AR2 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

499. The falsity of the credit ratings set forth in the INDX 2005-AR2 Offering Documents is confirmed by subsequent events. Specifically, ***almost 36% of the loans supporting plaintiff's INDX 2005-AR2 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" INDX 2005-AR2 Certificates are now rated at "junk" status or below. Clearly, plaintiff's

INDX 2005-AR2 Certificates were not the highly rated, "investment grade" securities that defendants represented them to be. The evidence supporting the falsity of the INDX 2005-AR2 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1B	45660LCM9	Group 2	35.81%	Aaa	C	AAA	D
2A2A	45660LCN7	Group 2	35.81%	Aaa	Caa3	AAA	CCC

e. Transfer of Title

500. The INDX 2005-AR2 Offering Documents also represented that the loans underlying the INDX 2005-AR2 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the INDX 2005-AR2 Offering Documents stated that, "[p]ursuant to the pooling and servicing agreement, on the closing date the depositor will assign without recourse to the trustee in trust for the benefit of the certificateholders all interest of the depositor in each Mortgage Loan and all interest in all other assets included in IndyMac INDX Mortgage Loan Trust 2005-AR2." *See* INDX 2005-AR2 Pros. Supp. at S-28. The INDX 2005-AR2 Offering Documents also stated that, "[i]n connection with the assignment of the Mortgage Loans, the depositor will deliver, or cause to be delivered, to the trustee the mortgage file, which contains among other things, the original mortgage note (and any modification or amendment to it) endorsed in blank without recourse, . . . the original mortgage creating a first lien on the related mortgaged property with evidence of recording indicated thereon, [and] an assignment in recordable form of the mortgage." *Id.* The INDX 2005-AR2 Offering Documents further stated that "the depositor will deliver or cause to be delivered to the trustee (or to the custodian) for each mortgage loan[:] the mortgage note endorsed without recourse in blank or to the order of the trustee . . . , the mortgage, deed of trust or similar instrument with evidence of

recording indicated on it . . . , [and] an assignment of the mortgage to the trustee in recordable form." *See* INDX 2005-AR2 Pros. at 46. These statements were false and misleading. The promissory notes and security instruments were not legally and properly transferred to the issuing trust. *See* §VI.E, *infra*.

36. The INDX 2005-AR4 Certificates

501. The IndyMac INDX Mortgage Loan Trust 2005-AR4 Certificates ("INDX 2005-AR4 Certificates") were issued pursuant to a Prospectus Supplement dated February 2, 2005. Defendant RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the INDX 2005-AR4 Certificates.

502. Plaintiff purchased the following INDX 2005-AR4 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	2A1B	45660LEH8	1/24/2005	$5,000,000	RBS Securities

503. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the INDX 2005-AR4 Offering Documents, including draft and/or final INDX 2005-AR4 Prospectus Supplements, all of which were distributed by RBS Securities in connection with the INDX 2005-AR4 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

504. The INDX 2005-AR4 Offering Documents disclosed that 100% of the loans underlying plaintiff's INDX 2005-AR4 Certificate were originated or acquired by IndyMac. *See* INDX 2005-AR4 Pros. Supp. at S-19, S-30.

505. With regard to all of the loans underlying the INDX 2005-AR4 Certificates, the INDX 2005-AR4 Offering Documents represented that IndyMac's "underwriting standards for conventionally underwritten mortgage loans are based on traditional underwriting factors, including

the creditworthiness of the mortgagor, the capacity of the mortgagor to repay the mortgage loan according to its terms, and the value of the related mortgaged property." *Id*. at S-31. The INDX 2005-AR4 Offering Documents also represented that IndyMac "will consider such factors as loan-to-value ratios, debt-to-income ratio, FICO Credit Score, loan amount, and the extent to which IndyMac Bank can verify the mortgagor's application and supporting documentation." *Id.* The INDX 2005-AR4 Offering Documents further represented that, "[u]nderwriting standards are applied by or on behalf of a lender to evaluate the borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *See* INDX 2005-AR4 Pros. at 25. Additionally, the INDX 2005-AR4 Offering Documents represented that, "[i]n determining the adequacy of the mortgaged property as collateral, an appraisal is made of each property considered for financing." *Id.* Moreover, the INDX 2005-AR4 Offering Documents represented that "[o]nce all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available to meet monthly housing expenses and other financial obligations and monthly living expenses and to meet the borrower'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 mortgaged property such as property taxes and hazard insurance)." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that IndyMac had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.3, *infra*.

b. Loan-to-Value Ratios

506. The INDX 2005-AR4 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the INDX 2005-AR4 Certificate purchased by plaintiff. Specifically, the INDX 2005-AR4 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's INDX 2005-AR4 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's INDX 2005-AR4 Certificate had LTV ratios over 100%.

507. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's INDX 2005-AR4 Certificate, which reveals that the LTV ratio percentages stated in the INDX 2005-AR4 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the INDX 2005-AR4 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1B	45660LEH8	Group 2	1.28%	35.16%	0.00%	9.07%

c. Owner Occupancy Rates

508. The INDX 2005-AR4 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the INDX 2005-AR4 Certificate purchased by plaintiff. Specifically, the INDX 2005-AR4 Offering Documents represented that a large percentage of the loans supporting plaintiff's INDX 2005-AR4 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

509. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's INDX 2005-AR4 Certificate, which reveals that the OOR percentages stated in the INDX 2005-AR4 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the INDX 2005-AR4 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
2A1B	45660LEH8	Group 2	96.98%	92.09%	5.32%

d. Credit Ratings

510. The INDX 2005-AR4 Offering Documents also represented that the INDX 2005-AR4 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the INDX 2005-AR4 Offering Documents represented that plaintiff's INDX 2005-AR4 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

511. These representations, however, were false and misleading when made. In truth, plaintiff's INDX 2005-AR4 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's INDX 2005-AR4 Certificate was an extremely risky, speculative grade "junk" bond or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to

plaintiff's INDX 2005-AR4 Certificate was because defendants had fed them falsified information regarding the INDX 2005-AR4 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

512. The falsity of the credit ratings set forth in the INDX 2005-AR4 Offering Documents is confirmed by subsequent events. Specifically, ***almost 26% of the loans supporting plaintiff's INDX 2005-AR4 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" INDX 2005-AR4 Certificate is now rated at below "junk" status. Clearly, plaintiff's INDX 2005-AR4 Certificate was not the highly rated, "investment grade" security that defendants represented it to be. The evidence supporting the falsity of the INDX 2005-AR4 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1B	45660LEH8	Group 2	25.86%	Aaa	C	AAA	D

e. Transfer of Title

513. The INDX 2005-AR4 Offering Documents also represented that the loans underlying the INDX 2005-AR4 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the INDX 2005-AR4 Offering Documents stated that,"[p]ursuant to the pooling and servicing agreement, on the closing date the depositor will assign without recourse to the trustee in trust for the benefit of the certificateholders all interest of the depositor in each Mortgage Loan and all interest in all other assets included in IndyMac INDX Mortgage Loan Trust 2005-AR4." *See* INDX 2005-AR4 Pros.

Supp. at S-29. The INDX 2005-AR4 Offering Documents also stated that, "[i]n connection with the assignment of the Mortgage Loans, the depositor will deliver, or cause to be delivered, to the trustee the mortgage file, which contains among other things, the original mortgage note (and any modification or amendment to it) endorsed in blank without recourse, . . . , the original mortgage creating a first lien on the related mortgaged property with evidence of recording indicated thereon, [and] an assignment in recordable form of the mortgage." *Id.* The INDX 2005-AR4 Offering Documents further stated that "the depositor will deliver or cause to be delivered to the trustee (or to the custodian) for each mortgage loan[:] the mortgage note endorsed without recourse in blank or to the order of the trustee . . . , the mortgage, deed of trust or similar instrument with evidence of recording indicated on it . . . , [and] an assignment of the mortgage to the trustee in recordable form." *See* INDX 2005-AR4 Pros. at 46. These statements were false and misleading. The promissory notes and security instruments were not legally and properly transferred to the issuing trust. *See* §VI.E, *infra*.

37. The INDX 2005-AR8 Certificates

514. The IndyMac INDX Mortgage Loan Trust 2005-AR8 Certificates ("INDX 2005-AR8 Certificates") were issued pursuant to a Prospectus Supplement dated April 18, 2005. Defendant RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the INDX 2005-AR8 Certificates.

515. Plaintiff purchased the following INDX 2005-AR8 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Scaldis	2A1A	45660LJJ9	4/4/2005	$25,000,000	RBS Securities

516. The decision to purchase the above security was made by Fortis Bank, on behalf of Scaldis, in direct reliance upon the INDX 2005-AR8 Offering Documents, including draft and/or final INDX 2005-AR8 Prospectus Supplements, all of which were distributed by RBS Securities in

connection with the INDX 2005-AR8 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

517. The INDX 2005-AR8 Offering Documents disclosed that 100% of the loans underlying plaintiff's INDX 2005-AR8 Certificate were originated or acquired by IndyMac. *See* INDX 2005-AR8 Pros. Supp. at S-20, S-31.

518. With regard to all of the loans underlying plaintiff's INDX 2005-AR8 Certificate, the INDX 2005-AR8 Offering Documents represented that IndyMac's "underwriting standards for conventionally underwritten mortgage loans are based on traditional underwriting factors, including the creditworthiness of the mortgagor, the capacity of the mortgagor to repay the mortgage loan according to its terms, and the value of the related mortgaged property." *Id*. at S-32. The INDX 2005-AR8 Offering Documents also represented that IndyMac "will consider such factors as loan-to-value ratios, debt-to-income ratio, FICO Credit Score, loan amount, and the extent to which IndyMac Bank can verify the mortgagor's application and supporting documentation." *Id.* The INDX 2005-AR8 Offering Documents further represented that "[u]nderwriting standards are applied by or on behalf of a lender to evaluate the borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *See* INDX 2005-AR8 Pros. at 25. Additionally, the INDX 2005-AR8 Offering Documents represented that, "[i]n determining the adequacy of the mortgaged property as collateral, an appraisal is made of each property considered for financing." *Id.* Moreover, the INDX 2005-AR8 Offering Documents represented that "[o]nce all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available to meet monthly housing expenses and other financial obligations and monthly living expenses and to meet the borrower'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 mortgaged property such as property taxes and hazard insurance)." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that IndyMac had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.3, *infra*.

b. Loan-to-Value Ratios

519. The INDX 2005-AR8 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the INDX 2005-AR8 Certificate purchased by plaintiff. Specifically, the INDX 2005-AR8 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's INDX 2005-AR8 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's INDX 2005-AR8 Certificate had LTV ratios over 100%.

520. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's INDX 2005-AR8 Certificate, which reveals that the LTV ratio percentages stated in the INDX 2005-AR8 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the INDX 2005-AR8 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
2A1A	45660LJJ9	Group 2	0.23%	25.92%	0.00%	7.68%

c. Owner Occupancy Rates

521. The INDX 2005-AR8 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the INDX 2005-AR8 Certificate purchased by plaintiff. Specifically, the INDX 2005-AR8 Offering Documents represented that a large percentage of the loans supporting plaintiff's INDX 2005-AR8 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

522. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's INDX 2005-AR8 Certificate, which reveals that the OOR percentages stated in the INDX 2005-AR8 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the INDX 2005-AR8 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
2A1A	45660LJJ9	Group 2	98.02%	91.89%	6.67%

d. Credit Ratings

523. The INDX 2005-AR8 Offering Documents also represented that the INDX 2005-AR8 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the INDX 2005-AR8 Offering Documents represented that plaintiff's INDX 2005-AR8 Certificate had been assigned AAA/Aaa ratings – the highest, safest

credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

524. These representations, however, were false and misleading when made. In truth, plaintiff's INDX 2005-AR8 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's INDX 2005-AR8 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's INDX 2005-AR8 Certificate was because defendants had fed them falsified information regarding the INDX 2005-AR8 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

525. The falsity of the credit ratings set forth in the INDX 2005-AR8 Offering Documents is confirmed by subsequent events. Specifically, ***more than 27% of the loans supporting plaintiff's INDX 2005-AR8 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" INDX 2005-AR8 Certificate is now rated at "junk" status. Clearly, plaintiff's INDX 2005-AR8 Certificate was not the highly rated, "investment grade" security that defendants represented it to be. The evidence supporting the falsity of the INDX 2005-AR8 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1A	45660LJJ9	Group 2	27.27%	Aaa	Caa2	AAA	CCC

e. Transfer of Title

526. The INDX 2005-AR8 Offering Documents also represented that the loans underlying the INDX 2005-AR8 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the INDX 2005-AR8 Offering Documents stated that, "[p]ursuant to the pooling and servicing agreement, on the closing date the depositor will assign without recourse to the trustee in trust for the benefit of the certificateholders all interest of the depositor in each Mortgage Loan and all interest in all other assets included in IndyMac INDX Mortgage Loan Trust 2005-AR8." *See* INDX 2005-AR8 Pros. Supp. at S-30. The INDX 2005-AR8 Offering Documents also stated that, "[i]n connection with the assignment of the Mortgage Loans, the depositor will deliver, or cause to be delivered, to the trustee the mortgage file, which contains among other things, the original mortgage note (and any modification or amendment to it) endorsed in blank without recourse . . . , the original mortgage creating a first lien on the related mortgaged property with evidence of recording indicated thereon, [and] an assignment in recordable form of the mortgage." *Id.* The INDX 2005-AR8 Offering Documents further stated that "the depositor will deliver or cause to be delivered to the trustee (or to the custodian) for each mortgage loan[:] the mortgage note endorsed without recourse in blank or to the order of the trustee . . . , the mortgage, deed of trust or similar instrument with evidence of recording indicated on it . . . , [and] an assignment of the mortgage to the trustee in recordable form." *See* INDX 2005-AR8 Pros. at 46. These statements were false and misleading. The promissory notes and security instruments were not legally and properly transferred to the issuing trust. *See* §VI.E, *infra*.

38. The INDX 2006-AR6 Certificates

527. The IndyMac INDX Mortgage Loan Trust 2006-AR6 Certificates ("INDX 2006-AR6 Certificates") were issued pursuant to a Prospectus Supplement dated April 27, 2006. Defendant

RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the INDX 2006-AR6 Certificates.

528. Plaintiff purchased the following INDX 2006-AR6 Certificates:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Scaldis	2A1A	456612AC4	4/24/2006	$15,000,000	RBS Securities
Scaldis	2A1B	456612AD2	4/24/2006	$10,000,000	RBS Securities

529. The decisions to purchase the above securities were made by Fortis Bank, on behalf of Scaldis, in direct reliance upon the INDX 2006-AR6 Offering Documents, including draft and/or final INDX 2006-AR6 Prospectus Supplements, all of which were distributed by RBS Securities in connection with the INDX 2006-AR6 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

530. The INDX 2006-AR6 Offering Documents disclosed that 100% of the loans underlying plaintiff's INDX 2006-AR6 Certificates were originated or acquired by IndyMac. *See* INDX 2006-AR6 Pros. Supp. at S-30, S-50, S-51.

531. With regard to all of the loans underlying plaintiff's INDX 2006-AR6 Certificates, the INDX 2006-AR6 Offering Documents represented that IndyMac'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." *Id.* at S-51. The INDX 2006-AR6 Offering Documents also represented that "maximum total monthly debt payments-to-income ratios . . . may be applied," and that "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" are "factors [that] may be considered in determining loan eligibility." *Id.* at S-52. The INDX 2006-AR6 Offering

Documents further represented that, "[t]o determine the adequacy of the property to be used as collateral, an appraisal is generally made of the subject property in accordance with the Uniform Standards of Profession Appraisal Practice," and that "[t]he value of the property, as indicated by the appraisal or AVM, must support the loan amount." *Id.* at S-52, S-53. Additionally, the INDX 2006-AR6 Offering Documents represented that "[u]nderwriting standards are applied by or on behalf of a lender to evaluate the borrower's credit standing and repayment ability, and the value and adequacy of the Property as collateral." *See* INDX 2006-AR6 Pros. at 35. Moreover, the INDX 2006-AR6 Offering Documents represented that:

> Once all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available to meet monthly housing expenses and other financial obligations and monthly living expenses and to meet the borrower'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 Property such as property taxes and hazard insurance).

Id. at 35-36. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that IndyMac had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.3, *infra*.

b. Loan-to-Value Ratios

532. The INDX 2006-AR6 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the INDX 2006-AR6 Certificates purchased by plaintiff. Specifically, the INDX 2006-AR6 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's INDX 2006-AR6 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's INDX 2006-AR6 Certificates had LTV ratios over 100%.

533. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's INDX 2006-AR6 Certificates, which reveals that the LTV ratio percentages stated in the INDX 2006-AR6 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the INDX 2006-AR6 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
2A1A	456612AC4	All	2.48%	40.57%	0.00%	7.85%
2A1B	456612AD2	All	2.48%	40.57%	0.00%	7.85%

c. Owner Occupancy Rates

534. The INDX 2006-AR6 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the INDX 2006-AR6 Certificates purchased by plaintiff. Specifically, the INDX 2006-AR6 Offering Documents represented that a large percentage of the loans supporting plaintiff's INDX 2006-AR6 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

535. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's INDX 2006-AR6 Certificates, which reveals that the OOR percentages stated in the INDX 2006-AR6 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the INDX 2006-AR6 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A1A	456612AC4	All	94.11%	88.37%	6.49%
2A1B	456612AD2	All	94.11%	88.37%	6.49%

d. Credit Ratings

536. The INDX 2006-AR6 Offering Documents also represented that the INDX 2006-AR6 Certificates purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the INDX 2006-AR6 Offering Documents represented that plaintiff's INDX 2006-AR6 Certificates had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

537. These representations, however, were false and misleading when made. In truth, plaintiff's INDX 2006-AR6 Certificates should not have received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's INDX 2006-AR6 Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's INDX 2006-AR6 Certificates was because defendants had fed them falsified information regarding the INDX 2006-AR6 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

538. The falsity of the credit ratings set forth in the INDX 2006-AR6 Offering Documents is confirmed by subsequent events. Specifically, ***more than 32% of the loans supporting plaintiff's***

INDX 2006-AR6 Certificates are currently in default because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" INDX 2006-AR6 Certificates are now rated at "junk" status or below. Clearly, plaintiff's INDX 2006-AR6 Certificates were not the highly rated, "investment grade" securities that defendants represented them to be. The evidence supporting the falsity of the INDX 2006-AR6 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1A	456612AC4	All	32.67%	Aaa	Caa2	AAA	CCC
2A1B	456612AD2	All	32.67%	Aaa	C	AAA	D

e. Transfer of Title

539. The INDX 2006-AR6 Offering Documents also represented that the loans underlying the INDX 2006-AR6 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the INDX 2006-AR6 Offering Documents stated that, "[p]ursuant to the pooling and servicing agreement, on the closing date the depositor will assign without recourse to the trustee in trust for the benefit of the certificateholders . . . all interest of the depositor in each Mortgage Loan and all interest in all other assets included in IndyMac INDX Mortgage Loan Trust 2006-AR6." *See* INDX 2006-AR6 Pros. Supp. at S-49. The INDX 2006-AR6 Offering Documents also stated that, "[i]n connection with the assignment of the Mortgage Loans, the depositor will deliver or cause to be delivered to the trustee the mortgage file, which contains among other things, the original mortgage note (and any modification or amendment to it) endorsed in blank without recourse . . . , the original mortgage creating a first lien on the related mortgaged property with evidence of recording indicated thereon, [and] an assignment in recordable form of the mortgage." *Id.* The INDX 2006-AR6

Offering Documents further stated that "the depositor will deliver or cause to be delivered to the trustee (or to the custodian) for each mortgage loan[:] the mortgage note endorsed without recourse in blank or to the order of the trustee . . . , the mortgage, deed of trust or similar instrument with evidence of recording indicated on it . . . , [and] an assignment of the mortgage to the trustee in recordable form." *See* INDX 2006-AR6 Pros. at 64-65. These statements were false and misleading. The promissory notes and security instruments were not legally and properly transferred to the issuing trust. *See* §VI.E, *infra*.

39. The LBMLT 2006-2 Certificates

540. The Long Beach Mortgage Loan Trust 2006-2, Asset-Backed Certificates, Series 2006-2 ("the LBMLT 2006-2 Certificates") were issued pursuant to a Prospectus Supplement dated February 28, 2006. Defendant RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the LBMLT 2006-2 Certificates.

541. Plaintiff purchased the following LBMLT 2006-2 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	2A4	542514TU8	2/27/2006	$5,000,000	RBS Securities

542. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the LBMLT 2006-2 Offering Documents, including draft and/or final LBMLT 2006-2 Prospectus Supplements, all of which were distributed by RBS Securities in connection with the LBMLT 2006-2 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

543. The LBMLT 2006-2 Offering Documents disclosed that 100% of the LBMLT 2006-2 Certificate's underlying loans were originated or acquired by the sponsor, Long Beach Mortgage Company ("Long Beach"). *See* LBMLT 2006-2 Pros. Supp. at S-38.

544. With regard to ***all*** of the loans underlying the LBMLT 2006-2 Certificates, the LBMLT 2006-2 Offering Documents represented that Long Beach's "underwriting guidelines are primarily intended to evaluate the prospective borrower's credit standing and repayment ability as well as the value and adequacy of the mortgaged property as collateral." *Id.* The LBMLT 2006-2 Offering Documents also represented that "[d]uring the underwriting or re-underwriting process, [Long Beach] reviews and verifies the prospective borrower's sources of income . . . , reviews the credit history and credit score(s) of the prospective borrower and calculates the debt-to-income ratio to determine the prospective borrower's ability to repay the loan, and determines whether the mortgaged property complies with the sponsor's underwriting guidelines." *Id.* The LBMLT 2006-2 Offering Documents further represented that "[t]he adequacy of the mortgaged property as collateral is generally determined by an appraisal of the mortgaged property that generally conforms to Fannie Mae and Freddie Mac appraisal standards," and that "[e]very independent appraisal is reviewed by an employee of the servicer before the loan is funded or re-underwritten," which "appraisal review may include an administrative review, technical review, desk review or field review of the original appraisal." *Id.* at S-39. Moreover, the LBMLT 2006-2 Offering Documents represented that the maximum qualifying debt service-to-income ratio under the Long Beach underwriting guidelines is 55%. *Id.* at S-40, S-41. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Long Beach had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.8, *infra*.

b. Loan-to-Value Ratios

545. The LBMLT 2006-2 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the LBMLT 2006-2 Certificate

purchased by plaintiff. Specifically, the LBMLT 2006-2 Offering Documents represented that only about a fourth of the loans supporting plaintiff's LBMLT 2006-2 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's LBMLT 2006-2 Certificate had LTV ratios over 100%.

546. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's LBMLT 2006-2 Certificate, which reveals that the LTV ratio percentages stated in the LBMLT 2006-2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the LBMLT 2006-2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage Of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A4	542514TU8	All	25.59%	47.02%	0.00%	13.24%

c. Owner Occupancy Rates

547. The LBMLT 2006-2 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the LBMLT 2006-2 Certificate purchased by plaintiff. Specifically, the LBMLT 2006-2 Offering Documents represented that a large percentage of the loans supporting plaintiff's LBMLT 2006-2 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

548. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's LBMLT 2006-2 Certificate, which reveals that the OOR percentages stated in the LBMLT 2006-2 Offering Documents were materially false ***at the time they***

were made. The following chart summarizes the OOR percentages stated in the LBMLT 2006-2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
2A4	542514TU8	All	89.06%	78.04%	14.12%

d. Credit Ratings

549. The LBMLT 2006-2 Offering Documents also represented that the LBMLT 2006-2 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the LBMLT 2006-2 Offering Documents represented that plaintiff's LBMLT 2006-2 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

550. These representations, however, were false and misleading when made. In truth, plaintiff's LBMLT 2006-2 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's LBMLT 2006-2 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's LBMLT 2006-2 Certificate was because defendants had fed them falsified information regarding the LBMLT 2006-2 Certificate's underlying loans, including, without limitation, false loan underwriting

guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

551. The falsity of the credit ratings set forth in the LBMLT 2006-2 Offering Documents is confirmed by subsequent events. Specifically, ***more than 43% of the loans supporting plaintiff's LBMLT 2006-2 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" LBMLT 2006-2 Certificate is now rated at "junk" status. Clearly, plaintiff's LBMLT 2006-2 Certificate was not the highly rated, "investment grade" security that defendants represented it to be. The evidence supporting the falsity of the LBMLT 2006-2 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche	**CUSIP**	**Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A4	542514TU8	All	43.78%	Aaa	Ca	AAA	CCC

e. Transfer of Title

552. The LBMLT 2006-2 Offering Documents also represented that the loans underlying the LBMLT 2006-2 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the LBMLT 2006-2 Offering Documents stated that "[a] pool of mortgage loans, as described in this prospectus supplement, will be sold to the trust on or about March 7, 2006 (the 'closing date . . .')," and that, "[a]s of the Closing Date, the Depositor [will have] transferred all of its right, title and interest in the mortgage loans to the trustee on behalf of the trust." *See* LBMLT 2006-2 Pros. Supp. at S-43, S-68. The LBMLT 2006-2 Offering Documents also represented that "[t]he mortgage notes will be endorsed in blank or to the trustee and assignments of the mortgages to the trust will be

prepared in blank or to the trustee." *Id.* at S-43. The LBMLT 2006-2 Offering Documents further represented that, "[a]t the time of issuance of any series of securities, the depositor will cause the pool of mortgage assets to be included in the related trust fund to be assigned to the trustee," and that "[t]he depositor will, with respect to each mortgage asset, deliver or cause to be delivered to the trustee, or to the custodian, the mortgage note, an assignment (except as to any mortgage loan registered on the MERS® System) . . . [(]and unless otherwise indicated in the applicable prospectus supplement) to the trustee or in blank of the mortgage . . . , [and] the original recorded mortgage." *See* LBMLT 2006-2 Pros. at 27. These statements were false and misleading. The depositor failed to legally and properly transfer the promissory notes and security instruments to the trust. *See* §VI.E, *infra*.

40. The LUM 2006-4 Certificates

553. The Luminent Mortgage Trust 2006-4, Mortgage Loan Pass-Through Certificates, Series 2006-4 ("LUM 2006-4 Certificates") were issued pursuant to a Prospectus Supplement dated May 23, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the LUM 2006-4 Certificates: RBS Acceptance (depositor) and RBS Securities (underwriter).

554. Plaintiff purchased the following LUM 2006-4 Certificates:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	A1A	55027BAA6	5/23/2006	$35,000,000	RBS Securities
Fortis Bank	A1B	55027BAB4	5/23/2006	$15,000,000	RBS Securities

555. The decisions to purchase the above securities were made by Fortis Bank in direct reliance upon the LUM 2006-4 Offering Documents, including draft and/or final LUM 2006-4 Prospectus Supplements, all of which were distributed by the defendants associated with the LUM

2006-4 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

556. The LUM 2006-4 Offering Documents disclosed that approximately 30.94%, 19.51% and 11.87% of the LUM 2006-4 Certificates' underlying loans were originated by Residential Mortgage Capital ("RMC"), Paul Financial and GMAC, respectively; and the remaining loans underlying the LUM 2006-4 Certificates were originated by "various other originators." *See* LUM 2006-4 Pros. Supp. at S-4.

557. With regard to the RMC loans, the LUM 2006-4 Offering Documents represented that "[t]he objectives stated in the underwriting guidelines developed by RMC are to (a) determine that the borrower has a willingness to repay the loan according to its terms and conditions and (b) determine that the property securing the loan will provide sufficient value to recover the investment if the loan defaults." *Id.* at S-36. The LUM 2006-4 Offering Documents also represented that, "[i]n addition to loan-to-value limitations . . . , RMC also considers each mortgagor's debt service-to-income ratio," and that "RMC generally will not originate a mortgage loan if the prospective mortgagor's debt service-to-income ratio exceeds 55%." *Id.* The LUM 2006-4 Offering Documents further represented that the LUM 2006-4 Offering Documents represented that "RMC obtains appraisals from independent appraisers or appraisal services for the properties that are to secure mortgage loans." *Id.* at S-37. Moreover, the LUM 2006-4 Offering Documents represented that, "[u]nder its Jumbo A Underwriting Guidelines, RMC 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%," and that "[u]nder its ALT A Underwriting Guidelines, RMC generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the borrower's total monthly debt of up to 40%, provided that if the

Loan-to-Value Ratio exceeds 80%, the maximum permitted debt-to-income ratios are 33% and 38%, respectively." *Id.* at S-37, S-38. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that RMC had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.1, *infra*.

558. With regard to all other loans underlying the LUM 2006-4 Certificates, the LUM 2006-4 Offering Documents represented that "[u]nderwriting standards are applied by or on behalf of a lender to evaluate a prospective borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *See* LUM 2006-4 Pros. at 19. The LUM 2006-4 Offering Documents also represented that, "[i]n determining the adequacy of the mortgaged property as collateral, an appraisal is made of each property considered for financing," and that, "[i]n any case, the value of the property being financed, as indicate by the appraisal, must be such that it currently supports and is anticipated to support in the future, the outstanding loan balance." *Id.* at 20. The LUM 2006-4 Offering Documents further represented that, "[o]nce 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 loan, generally determined on the basis of the monthly payments due in the year of origination, and other expenses related to the mortgage property such as property taxes and hazard insurance, and to meet monthly housing expenses and other financial obligations and monthly living expenses." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that RMC, Paul Financial, GMAC and the "various other originators" had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any

regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §§VI.A.1, VI.A.10 and VI.A.15, *infra*.

b. Loan-to-Value Ratios

559. The LUM 2006-4 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the LUM 2006-4 Certificates purchased by plaintiff. Specifically, the LUM 2006-4 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's LUM 2006-4 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's LUM 2006-4 Certificates had LTV ratios over 100%.

560. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's LUM 2006-4 Certificates, which reveals that the LTV ratio percentages stated in the LUM 2006-4 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the LUM 2006-4 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
A1A	55027BAA6	All	0.85%	42.01%	0.00%	7.22%
A1B	55027BAB4	All	0.85%	42.01%	0.00%	7.22%

c. Owner Occupancy Rates

561. The LUM 2006-4 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the LUM 2006-4 Certificates purchased by plaintiff. Specifically, the LUM 2006-4 Offering Documents represented that a large percentage of the loans supporting plaintiff's LUM 2006-4 Certificates were issued to borrowers that actually lived

in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

562. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's LUM 2006-4 Certificates, which reveals that the OOR percentages stated in the LUM 2006-4 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the LUM 2006-4 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
A1A	55027BAA6	All	79.73%	74.88%	6.48%
A1B	55027BAB4	All	79.73%	74.88%	6.48%

d. Credit Ratings

563. The LUM 2006-4 Offering Documents also represented that the LUM 2006-4 Certificates purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the LUM 2006-4 Offering Documents represented that plaintiff's LUM 2006-4 Certificates had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

564. These representations, however, were false and misleading when made. In truth, plaintiff's LUM 2006-4 Certificates should not have received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's LUM 2006-4 Certificates were extremely risky,

speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's LUM 2006-4 Certificates was because defendants had fed them falsified information regarding the LUM 2006-4 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

565. The falsity of the credit ratings set forth in the LUM 2006-4 Offering Documents is confirmed by subsequent events. Specifically, ***23% of the loans supporting plaintiff's LUM 2006-4 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" LUM 2006-4 Certificates are now rated at "junk" status or below. Clearly, plaintiff's LUM 2006-4 Certificates were not the highly rated, "investment grade" securities that defendants represented them to be. The evidence supporting the falsity of the LUM 2006-4 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
A1A	55027BAA6	All	22.94%	Aaa	Caa3	AAA	CCC
A1B	55027BAB4	All	22.94%	Aaa	C	AAA	D

e. Transfer of Title

566. The LUM 2006-4 Offering Documents also represented that the loans underlying the LUM 2006-4 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the LUM 2006-4 Offering Documents stated that, "[o]n the closing date, the depositor will transfer to the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related

mortgage notes, mortgages and other related documents," and that "[t]he trustee's security interest in the mortgage loans will be perfected by delivery of the mortgage notes to the custodian, which will hold the mortgage notes on behalf of the trustee." *See* LUM 2006-4 Pros. Supp. at S-53. The LUM 2006-4 Offering Documents also stated that "[t]he pooling agreement will require that, upon certain conditions and within the time period specified in the pooling agreement the depositor will deliver to the trustee (or the custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents." *Id.* The LUM 2006-4 Offering Documents further stated that "the depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund: the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee; . . . the mortgage . . . ; [and] an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS System." *See* LUM 2006-4 Pros. at 47-48. These statements were false and misleading. Defendants did not legally and properly transfer the promissory notes and security instruments to the issuing trust. *See* §VI.E, *infra*.

41. The MHL 2005-4 Certificates

567. The MortgageIT Trust 2005-4, Mortgage-Backed Notes, Series 2005-4 ("MHL 2005-4 Certificates") were issued pursuant to a Prospectus Supplement dated August 19, 2005. Defendant RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the MHL 2005-4 Certificates.

568. Plaintiff purchased the following MHL 2005-4 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	A1	61913PAZ5	8/18/2005	$50,000,000	RBS Securities

569. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the MHL 2005-4 Offering Documents, including draft and/or final MHL 2005-4 Prospectus Supplements, all of which were distributed by RBS Securities in connection with the MHL 2005-4 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

570. The MHL 2005-4 Offering Documents disclosed that 100% of the loans underlying plaintiff's MHL 2005-4 Certificate were originated by MortgageIT. *See* MHL 2005-4 Pros. Supp. at S-21.

571. The MHL 2005-4 Offering Documents represented that "[t]he 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." *See* MHL 2005-4 Pros. at 12. The MHL 2005-4 Offering Documents also represented that "MortgageIT'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." *See* MHL 2005-4 Pros. Supp. at S-22. The MHL 2005-4 Offering Documents further represented that "MortgageIT underwrites a borrower's creditworthiness based solely on information that MortgageIT believes is indicative of the applicant's willingness and ability to pay the debt they would be incurring." *Id.* Additionally, the MHL 2005-4 Offering Documents further represented that "[e]very MortgageIT mortgage loan is secured by a property that has been appraised by a licensed appraiser in accordance with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation," and that "[t]he appraiser's value conclusion is used to calculate the ratio (loan-to-value) of the loan amount to the value of the property." *Id.* Moreover, the MHL 2005-4 Offering Documents represented that, "[i]n addition to reviewing the borrower's credit history and credit score, MortgageIT underwriters

closely review the borrower's housing payment history." *Id.* at S-23. Furthermore, the MHL 2005-4 Offering Documents represented that:

> 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 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.

Id. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that MortgageIT had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.5, *infra*.

b. Loan-to-Value Ratios

572. The MHL 2005-4 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the MHL 2005-4 Certificate purchased by plaintiff. Specifically, the MHL 2005-4 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's MHL 2005-4 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's MHL 2005-4 Certificate had LTV ratios over 100%.

573. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's MHL 2005-4 Certificate, which reveals that the LTV ratio percentages stated in the MHL 2005-4 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the MHL 2005-4

Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
A1	61913PAZ5	All	1.26%	45.20%	0.00%	5.98%

c. Owner Occupancy Rates

574. The MHL 2005-4 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the MHL 2005-4 Certificate purchased by plaintiff. Specifically, the MHL 2005-4 Offering Documents represented that a large percentage of the loans supporting plaintiff's MHL 2005-4 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

575. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's MHL 2005-4 Certificate, which reveals that the OOR percentages stated in the MHL 2005-4 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the MHL 2005-4 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
A1	61913PAZ5	All	88.92%	78.32%	13.54%

d. Credit Ratings

576. The MHL 2005-4 Offering Documents also represented that the MHL 2005-4 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the MHL 2005-4 Offering Documents represented that plaintiff's MHL 2005-4 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

577. These representations, however, were false and misleading when made. In truth, plaintiff's MHL 2005-4 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's MHL 2005-4 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's MHL 2005-4 Certificate was because defendants had fed them falsified information regarding the MHL 2005-4 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

578. The falsity of the credit ratings set forth in the MHL 2005-4 Offering Documents is confirmed by subsequent events. Specifically, ***13% of the loans supporting plaintiff's MHL 2005-4 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" MHL 2005-4 Certificate is now rated at "junk" status. Clearly, plaintiff's MHL 2005-4 Certificate was not the highly rated, "investment grade" security that defendants represented it to be. The evidence

supporting the falsity of the MHL 2005-4 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
A1	61913PAZ5	All	12.99%	Aaa	Caa1	AAA	BB+

e. Transfer of Title

579. The MHL 2005-4 Offering Documents also represented that the loans underlying the MHL 2005-4 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the MHL 2005-4 Offering Documents stated that, "[o]n or prior to the date the Notes are issued, the Seller, pursuant to the Mortgage Loan Purchase Agreement, will convey each mortgage loan to the Depositor, and the Depositor, pursuant to the Sale and Servicing Agreement, will in turn, convey each mortgage loan to the Issuer." *See* MHL 2005-4 Pros. Supp. at S-53. The MHL 2005-4 Offering Documents also stated that, "[i]n addition, the company will, as to each mortgage loan, . . . deliver, or cause to be delivered, to the related trustee (or to the custodian described below) the following documents: the mortgage note endorsed, without recourse, either in blank or to the order of the trustee (or its nominee), the mortgage with evidence of recording indicated on the mortgage . . . , [and] an assignment of the mortgage in blank or to the trustee (or its nominee) in recordable form." *See* MHL 2005-4 Pros. at 33. These statements were false and misleading. The promissory notes and security instruments were not legally and properly transferred to the trust. *See* §VI.E, *infra*.

42. The MHL 2006-1 Certificates

580. The MortgageIT Mortgage Loan Trust, Mortgage Loan Pass-Through Certificates, Series 2006-1 ("MHL 2006-1 Certificates") were issued pursuant to a Prospectus Supplement dated February 17, 2006. The following defendants played critical roles in the fraudulent structuring,

offering and sale of the MHL 2006-1 Certificates: RBS Acceptance (depositor) and RBS Securities (underwriter).

581. Plaintiff purchased the following MHL 2006-1 Certificates:

Original Purchaser	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Purchased From**
Fortis Bank	2A1A	61915RCJ3	2/17/2006	$25,000,000	RBS Securities
Fortis Bank	2A1B	61915RCK0	2/17/2006	$10,000,000	RBS Securities

582. The decisions to purchase the above securities were made by Fortis Bank in direct reliance upon the MHL 2006-1 Offering Documents, including draft and/or final MHL 2006-1 Prospectus Supplements, all of which were distributed by the defendants associated with the MHL 2006-1 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

583. The MHL 2006-1 Offering Documents disclosed that 100% of the loans underlying plaintiff's MHL 2006-1 Certificates were originated by MortgageIT. *See* MHL 2006-1 Pros. Supp. at S-64.

584. The MHL 2006-1 Offering Documents represented that "[u]nderwriting standards are applied by or on behalf of a lender to evaluate a prospective borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral." *See* MHL 2006-1 Pros. at 35. The MHL 2006-1 Offering Documents also represented that "MortgageIT'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." *See* MHL 2006-1 Pros. Supp. at S-64. The MHL 2006-1 Offering Documents further represented that "MortgageIT underwrites a borrower's creditworthiness based solely on information that MortgageIT believes is indicative of the applicant's willingness and ability

to pay the debt they would be incurring." *Id.* Additionally, the MHL 2006-1 Offering Documents represented that "[e]very MortgageIT mortgage loan is secured by a property that has been appraised by a licensed appraiser in accordance with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation," and that "[t]he appraiser's value conclusion is used to calculate the ratio (loan-to-value) of the loan amount to the value of the property." *Id.* Moreover, the MHL 2006-1 Offering Documents represented that "[i]n addition to reviewing the borrower's credit history and credit score, MortgageIT underwriters closely review the borrower's housing payment history." *Id.* at S-65. Furthermore, the MHL 2006-1 Offering Documents represented that:

> 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 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.

Id. at S-66. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that MortgageIT had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.5, *infra*.

b. Loan-to-Value Ratios

585. The MHL 2006-1 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the MHL 2006-1 Certificates purchased by plaintiff. Specifically, the MHL 2006-1 Offering Documents represented that only a small percentage

of the loans supporting plaintiff's MHL 2006-1 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's MHL 2006-1 Certificates had LTV ratios over 100%.

586. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's MHL 2006-1 Certificates, which reveals that the LTV ratio percentages stated in the MHL 2006-1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the MHL 2006-1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A1A	61915RCJ3	Group 2	8.66%	43.78%	0.00%	11.13%
2A1B	61915RCK0	Group 2	8.66%	43.78%	0.00%	11.13%

c. Credit Ratings

587. The MHL 2006-1 Offering Documents also represented that the MHL 2006-1 Certificates purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the MHL 2006-1 Offering Documents represented that plaintiff's MHL 2006-1 Certificates had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

588. These representations, however, were false and misleading when made. In truth, plaintiff's MHL 2006-1 Certificates should not have received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's MHL 2006-1 Certificates were extremely risky,

speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's MHL 2006-1 Certificates was because defendants had fed them falsified information regarding the MHL 2006-1 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores and false borrower DTI ratios.

589. The falsity of the credit ratings set forth in the MHL 2006-1 Offering Documents is confirmed by subsequent events. Specifically, ***more than 32% of the loans supporting plaintiff's MHL 2006-1 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" MHL 2006-1 Certificates are now rated at "junk" status or below. Clearly, plaintiff's MHL 2006-1 Certificates were not the highly rated, "investment grade" securities that defendants represented them to be. The evidence supporting the falsity of the MHL 2006-1 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1A	61915RCJ3	Group 2	32.60%	Aaa	Caa3	AAA	CCC
2A1B	61915RCK0	Group 2	32.60%	Aaa	C	AAA	D

d. Transfer of Title

590. The MHL 2006-1 Offering Documents also represented that the loans underlying the MHL 2006-1 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the MHL 2006-1 Offering Documents stated that, "[o]n the closing date, the depositor will transfer to the trust fund all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents," and that "[t]he trustee's security interest in

the mortgage loans will be perfected by delivery of the mortgage notes to the custodian, which will hold the mortgage notes on behalf of the trustee." *See* MHL 2006-1 Pros. Supp. at S-80. The MHL 2006-1 Offering Documents also stated that "[t]he pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement the seller will deliver to the trustee (or to the custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other documents related to the mortgage loan." *Id.* The MHL 2006-1 Offering Documents further stated that "the depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund: the mortgage note or contract, endorsed without recourse in blank or to the order of the trustee; . . . the mortgage . . . ; [and] an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS System." *See* MHL 2006-1 Pros. at 63-64. These statements were false and misleading. Defendants failed to legally and properly transfer the promissory notes and security instruments to the trust. *See* §VI.E, *infra*.

43. The NMFT 2006-MTA1 Certificates

591. The NovaStar Mortgage Funding Trust, Series 2006-MTA1, NovaStar Home Equity Loan Asset-Backed Notes, Series 2006-MTA1 ("NMFT 2006-MTA1 Certificates") were issued pursuant to a Prospectus Supplement dated June 6, 2006. Defendant RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the NMFT 2006-MTA1 Certificates.

592. Plaintiff purchased the following NMFT 2006-MTA1 Certificates:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Scaldis	2A1A	66988UAB6	5/30/2006	$15,000,000	RBS Securities
Scaldis	2A1B	66988UAC4	5/30/2006	$10,000,000	RBS Securities

593. The decisions to purchase the above securities were made by Fortis Bank, on behalf of Scaldis, in direct reliance upon the NMFT 2006-MTA1 Offering Documents, including draft and/or final NMFT 2006-MTA1 Prospectus Supplements, all of which were distributed by RBS Securities in connection with the NMFT 2006-MTA1 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

594. The NMFT 2006-MTA1 Offering Documents disclosed that approximately 23.23% of the NMFT 2006-MTA1 Certificates' underlying loans were originated by Paul Financial; approximately 23.14% of the NMFT 2006-MTA1 Certificates' underlying loans were originated by MortgageIT; approximately 13.53% of the NMFT 2006-MTA1 Certificates' underlying loans were originated by SBMC Mortgage ("SBMC"); approximately 13.37% of the NMFT 2006-MTA1 Certificates' underlying loans were originated by the sponsor, NovaStar Mortgage, Inc. ("NovaStar"); and approximately 26.72% of the NMFT 2006-MTA1 Certificates' underlying loans were originated by "various other originators." *See* NMFT 2006-MTA1 Pros. Supp. at S-69.

595. With regard to the MortgageIT loans, the NMFT 2006-MTA1 Offering Documents represented that "MortgageIT'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." *Id.* The NMFT 2006-MTA1 Offering Documents also represented that "MortgageIT underwrites a borrower's creditworthiness based solely on information that MortgageIT believes is indicative of the applicant's willingness and ability to pay the debt they would be incurring." *Id.* The NMFT 2006-MTA1 Offering Documents

further represented that "[e]very MortgageIT mortgage loan is secured by a property that has been appraised by a licensed appraiser in accordance with the Uniform Standards of Professional Appraisal Practice," and that "[t]he appraiser's value conclusion is used to calculate the ratio (loan-to-value) of the loan amount to the value of the property." *Id.* at S-70. Additionally, the NMFT 2006-MTA1 Offering Documents represented that, "[i]n addition to reviewing the borrower's credit history and credit score, MortgageIT underwriters closely review the borrower's housing payment history." *Id.* at S-71. Moreover, the NMFT 2006-MTA1 Offering Documents represented that:

> 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 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.

Id. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that MortgageIT had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.5, *infra*.

596. With regard to the Paul Financial loans, the NMFT 2006-MTA1 Offering Documents represented that "Paul Financial's underwriting standards are applied by or on behalf of Paul Financial to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *See* NMFT 2006-MTA1 Pros. Supp. at S-73. The NMFT 2006-MTA1 Offering Documents also represented that "[a]n applicant's creditworthiness

is determined based on the borrower's ability and willingness to repay the loan," and that "[t]he loan decision is based upon the applicant's financial information, employment and income stability, credit history and collateral value." *Id.*at S-72. The NMFT 2006-MTA1 Offering Documents further represented that, "[u]nder 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." *Id.* at S-73. Additionally, the NMFT 2006-MTA1 Offering Documents represented that "[t]he 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," and that "[i]n 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." *Id.* Moreover, the NMFT 2006-MTA1 Offering Documents represented that "Paul Financial obtains appraisals from licensed appraisers in accordance with the Uniform Standards of Professional Appraisal Practice . . . for properties that are to secure mortgage loans." *Id.* at S-73-S-74. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Paul Financial had completely abandoned its stated underwriting standards and was simply seeking to originate as many loans as possible, ***without*** any regard for borrowers' actual repayment ability or the true value and adequacy of mortgaged properties to serve as collateral. *See* §VI.A.10, *infra*.

597. With regard to the NovaStar loans, the NMFT 2006-MTA1 Offering Documents represented that "[t]he underwriting guidelines of the sponsor [NovaStar] are intended to evaluate the credit history of the potential borrower, the capacity and willingness of the borrower to repay the loan

and the adequacy of the collateral securing the loan." *See* NMFT 2006-MTA1 Pros. Supp. at S-75. The NMFT 2006-MTA1 Offering Documents also represented that "[a]n appraisal is also required on all loans and in many cases a review appraisal or second appraisal may be required." *Id.* The NMFT 2006-MTA1 Offering Documents further represented that the maximum allowable debt-to-income ratio under NovaStar's underwriting guidelines is 45%-60%. *Id.* at S-78. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that NovaStar had completely abandoned its stated underwriting guidelines and was simply seeking to originate and acquire as many loans as possible, ***without*** any regard for borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.17, *infra*.

b. Credit Ratings

598. The NMFT 2006-MTA1 Offering Documents also represented that the NMFT 2006-MTA1 Certificates purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the NMFT 2006-MTA1 Offering Documents represented that plaintiff's NMFT 2006-MTA1 Certificates had each been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

599. These representations, however, were false and misleading when made. In truth, plaintiff's NMFT 2006-MTA1 Certificates should not have received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's NMFT 2006-MTA1 Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings

to plaintiff's NMFT 2006-MTA1 Certificates was because defendants had fed them falsified information regarding the NMFT 2006-MTA1 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false borrower FICO scores and false borrower DTI ratios.

600. The falsity of the credit ratings set forth in the NMFT 2006-MTA1 Offering Documents is confirmed by subsequent events. Specifically, ***more than 23% of the loans supporting plaintiff's NMFT 2006-MTA1 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" NMFT 2006-MTA1 Certificates are now rated at "junk" status or below. Clearly, plaintiff's NMFT 2006-MTA1 Certificates were not the highly rated, "investment grade" securities that defendants represented them to be. The evidence supporting the falsity of the NMFT 2006-MTA1 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A1A	66988UAB6	All	23.73%	Aaa	Caa2	AAA	CCC
2A1B	66988UAC4	All	23.73%	Aaa	C	AAA	D

c. Transfer of Title

601. The NMFT 2006-MTA1 Offering Documents also represented that the loans underlying the NMFT 2006-MTA1 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the NMFT 2006-MTA1 Offering Documents stated that "the depositor will sell, transfer, assign, set over and otherwise convey without recourse to the issuing entity, all right, title and interest in and to each mortgage loan," and that, "[o]n the closing date, the sponsor will convey the mortgage

loans . . . to the depositor, who will in turn convey the mortgage loans . . . to the issuing entity." *See* NMFT 2006-MTA1 Pros. Supp. at S-86, S-90. The NMFT 2006-MTA1 Offering Documents also stated that:

> In connection with the sale, transfer, assignment or pledge of the mortgage loans to the issuing entity, the depositor will deliver or cause to be delivered to the custodian, on or prior to the closing date, the following documents with respect to each mortgage loan which constitute the mortgage file:
>
> (a) the original mortgage note, endorsed without recourse in blank or to the indenture trustee by the sponsor . . . ;
>
> (b) the related original mortgage with evidence of recording indicated thereon . . . ; [and]
>
> * * *
>
> (d) unless the mortgage is registered on the MERS system, a mortgage assignment in recordable form, which, if acceptable for recording in the relevant jurisdiction, may be included in a blanket assignment or assignments, of each mortgage from the sponsor to the indenture trustee.

Id. at S-90. These statements were false and misleading. The mortgage notes and security instruments were not legally and properly transferred to the issuing trust. *See* §VI.E, *infra*.

44. The OOMLT 2007-3 Certificates

602. The Option One Mortgage Loan Trust 2007-3, Asset-Backed Certificates, Series 2007-3 ("OOMLT 2007-3 Certificates") were issued pursuant to a Prospectus Supplement dated April 2, 2007. Defendant RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the OOMLT 2007-3 Certificates.

603. Plaintiff purchased the following OOMLT 2007-3 Certificate:

Original Purchaser	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Purchased From**
Fortis Bank	2A3	68402BAD8	4/10/2007	$27,701,000	RBS Securities

604. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the OOMLT 2007-3 Offering Documents, including draft and/or final OOMLT 2007-3

Prospectus Supplements, all of which were distributed by RBS Securities in connection with the OOMLT 2007-3 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

605. The OOMLT 2007-3 Offering Documents disclosed that 100% of the loans underlying plaintiff's OOMLT 2007-3 Certificate were originated or acquired by the sponsor, Option One Mortgage Corporation ("Option One"). *See* OOMLT 2007-3 Pros. Supp. at S-5, S-64.

606. With regard to all of the loans underlying plaintiff's OOMLT 2007-3 Certificate, the OOMLT 2007-3 Offering Documents represented that "[t]he Option One Underwriting Guidelines are primarily intended to assess the value of the mortgaged property, to evaluate the adequacy of such property as collateral for the mortgage loan and to assess the applicant's ability to repay the mortgage loan." *Id*. at S-66. The OOMLT 2007-3 Offering Documents also represented that the "Option One Underwriting Guidelines require a reasonable determination of an applicant's ability to repay the loan. Such determination is based on a review of the applicant's source of income, calculation of a debt service-to-income ratio based on the amount of income from sources indicated on the loan application or similar documentation, a review of the applicant's credit history and the type and intended use of the property being financed." *Id*. The OOMLT 2007-3 Offering Documents further represented that "[m]ortgaged properties that are to secure mortgage loans generally are appraised by qualified independent appraisers." *Id.* Moreover, the OOMLT 2007-3 Offering Documents represented that:

> The primary considerations in underwriting a Single Family Loan or Contract are the Mortgagor's employment stability and whether the Mortgagor has sufficient monthly income available (i) 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 (such as property taxes and hazard insurance) and (ii) 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.

See OOMLT 2007-3 Pros. at 19. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Option One had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.7, *infra*.

b. Loan-to-Value Ratios

607. The OOMLT 2007-3 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the OOMLT 2007-3 Certificate purchased by plaintiff. Specifically, the OOMLT 2007-3 Offering Documents represented that less than half of the loans supporting plaintiff's OOMLT 2007-3 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's OOMLT 2007-3 Certificate had LTV ratios over 100%.

608. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's OOMLT 2007-3 Certificate, which reveals that the LTV ratio percentages stated in the OOMLT 2007-3 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the OOMLT 2007-3 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A3	68402BAD8	All	49.58%	68.31%	0.00%	29.50%

c. Owner Occupancy Rates

609. The OOMLT 2007-3 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the OOMLT 2007-3 Certificate purchased by plaintiff. Specifically, the OOMLT 2007-3 Offering Documents represented that a large percentage of the loans supporting plaintiff's OOMLT 2007-3 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

610. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's OOMLT 2007-3 Certificate, which reveals that the OOR percentages stated in the OOMLT 2007-3 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the OOMLT 2007-3 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A3	68402BAD8	All	87.41%	80.32%	8.83%

d. Credit Ratings

611. The OOMLT 2007-3 Offering Documents also represented that the OOMLT 2007-3 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely

low probability of default. Specifically, the OOMLT 2007-3 Offering Documents represented that plaintiff's OOMLT 2007-3 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

612. These representations, however, were false and misleading when made. In truth, plaintiff's OOMLT 2007-3 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's OOMLT 2007-3 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's OOMLT 2007-3 Certificate was because defendants had fed them falsified information regarding the OOMLT 2007-3 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

613. The falsity of the credit ratings set forth in the OOMLT 2007-3 Offering Documents is confirmed by subsequent events. Specifically, ***more than 42% of the loans supporting plaintiff's OOMLT 2007-3 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" OOMLT 2007-3 Certificate is now rated at "junk" status. Clearly, plaintiff's OOMLT 2007-3 Certificate was not the highly rated, "investment grade" security that defendants represented it to be. The evidence supporting the falsity of the OOMLT 2007-3 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
2A3	68402BAD8	All	42.52%	Aaa	Ca	AAA	CCC

e. Transfer of Title

614. The OOMLT 2007-3 Offering Documents also represented that the loans underlying the OOMLT 2007-3 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the OOMLT 2007-3 Offering Documents stated that, "[o]n the Closing Date, the Depositor will transfer to the Trust all of its right, title and interest in and to each Mortgage Loan, the related mortgage note, Mortgage, assignment of Mortgage in recordable form in blank or to the Trustee and other related documents." *See* OOMLT 2007-3 Pros. Supp. at S-75. These statements were false and misleading. The promissory notes and security instruments were not legally and properly transferred to the issuing trust. *See* §VI.E, *infra*.

45. The OOMLT 2007-4 Certificates

615. The Option One Mortgage Loan Trust 2007-4, Asset-Backed Certificates, Series 2007-4 ("OOMLT 2007-4 Certificates") were issued pursuant to a Prospectus Supplement dated April 11, 2007. Defendant RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the OOMLT 2007-4 Certificates.

616. Plaintiff purchased the following OOMLT 2007-4 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	2A3	68403FAD8	4/11/2007	$35,000,000	RBS Securities

617. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the OOMLT 2007-4 Offering Documents, including draft and/or final OOMLT 2007-4

Prospectus Supplements, all of which were distributed by RBS Securities in connection with the OOMLT 2007-4 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

618. The OOMLT 2007-4 Offering Documents disclosed that 100% of the loans underlying plaintiff's OOMLT 2007-4 Certificate were originated or acquired by the sponsor, Option One. *See* OOMLT 2007-4 Pros. Supp. at S-5, S-64.

619. With regard to all of the loans underlying plaintiff's OOMLT 2007-4 Certificate, the OOMLT 2007-4 Offering Documents represented that "[t]he Option One Underwriting Guidelines are primarily intended to assess the value of the mortgaged property, to evaluate the adequacy of such property as collateral for the mortgage loan and to assess the applicant's ability to repay the mortgage loan." *Id.* at S-66. The OOMLT 2007-4 Offering Documents also represented that the "Option One Underwriting Guidelines require a reasonable determination of an applicant's ability to repay the loan. Such determination is based on a review of the applicant's source of income, calculation of a debt service-to-income ratio based on the amount of income from sources indicated on the loan application or similar documentation, a review of the applicant's credit history and the type and intended use of the property being financed." *Id*. The OOMLT 2007-4 Offering Documents further represented that "[m]ortgaged properties that are to secure mortgage loans generally are appraised by qualified independent appraisers." *Id.* Moreover, the OOMLT 2007-4 Offering Documents represented that:

> The primary considerations in underwriting a Single Family Loan or Contract are the Mortgagor's employment stability and whether the Mortgagor has sufficient monthly income available (i) 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 (such as property taxes and hazard insurance) and (ii) 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.

See OOMLT 2007-4 Pros. at 19. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Option One had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.7, *infra*.

b. Loan-to-Value Ratios

620. The OOMLT 2007-4 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the OOMLT 2007-4 Certificate purchased by plaintiff. Specifically, the OOMLT 2007-4 Offering Documents represented that less than half of the loans supporting plaintiff's OOMLT 2007-4 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's OOMLT 2007-4 Certificate had LTV ratios over 100%.

621. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's OOMLT 2007-4 Certificate, which reveals that the LTV ratio percentages stated in the OOMLT 2007-4 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the OOMLT 2007-4 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A3	68403FAD8	All	48.76%	69.92%	0.00%	30.51%

c. Owner Occupancy Rates

622. The OOMLT 2007-4 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the OOMLT 2007-4 Certificate purchased by plaintiff. Specifically, the OOMLT 2007-4 Offering Documents represented that a large percentage of the loans supporting plaintiff's OOMLT 2007-4 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

623. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's OOMLT 2007-4 Certificate, which reveals that the OOR percentages stated in the OOMLT 2007-4 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the OOMLT 2007-4 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A3	68403FAD8	All	88.66%	82.73%	7.18%

d. Credit Ratings

624. The OOMLT 2007-4 Offering Documents also represented that the OOMLT 2007-4 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely

low probability of default. Specifically, the OOMLT 2007-4 Offering Documents represented that plaintiff's OOMLT 2007-4 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

625. These representations, however, were false and misleading when made. In truth, plaintiff's OOMLT 2007-4 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's OOMLT 2007-4 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's OOMLT 2007-4 Certificate was because defendants had fed them falsified information regarding the OOMLT 2007-4 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

626. The falsity of the credit ratings set forth in the OOMLT 2007-4 Offering Documents is confirmed by subsequent events. Specifically, ***more than 44% of the loans supporting plaintiff's OOMLT 2007-4 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" OOMLT 2007-4 Certificate is now rated at "junk" status. Clearly, plaintiff's OOMLT 2007-4 Certificate was not the highly rated, "investment grade" security that defendants represented it to be. The evidence supporting the falsity of the OOMLT 2007-4 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
2A3	68403FAD8	All	44.12%	Aaa	Ca	AAA	CCC

e. Transfer of Title

627. The OOMLT 2007-4 Offering Documents also represented that the loans underlying the OOMLT 2007-4 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the OOMLT 2007-4 Offering Documents stated that, "[o]n the Closing Date, the Depositor will transfer to the Trust all of its right, title and interest in and to each Mortgage Loan, the related mortgage note, Mortgage, assignment of Mortgage in recordable form in blank or to the Trustee and other related documents." *See* OOMLT 2007-4 Pros. Supp. at S-74. These statements were false and misleading. The promissory notes and security instruments were not legally and properly transferred to the issuing trust. *See* §VI.E, *infra*.

46. The OOMLT 2007-5 Certificates

628. The Option One Mortgage Loan Trust 2007-5, Asset-Backed Certificates, Series 2007-5 ("OOMLT 2007-5 Certificates") were issued pursuant to a Prospectus Supplement dated April 19, 2007. Defendant RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the OOMLT 2007-5 Certificates.

629. Plaintiff purchased the following OOMLT 2007-5 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Cayman	M2	68403HAG7	4/26/2007	$5,000,000	RBS Securities

630. The decision to purchase the above security was made by Fortis Cayman in direct reliance upon the OOMLT 2007-5 Offering Documents, including draft and/or final OOMLT 2007-5 Prospectus Supplements, all of which were distributed by RBS Securities in connection with the

OOMLT 2007-5 offering. Fortis Cayman's diligent investment processes are described in great detail in §VIII.C, *infra*.

a. Underwriting Guidelines

631. The OOMLT 2007-5 Offering Documents disclosed that 100% of the loans underlying plaintiff's OOMLT 2007-5 Certificate were originated or acquired by the sponsor, Option One. *See* OOMLT 2007-5 Pros. Supp. at S-67.

632. With regard to all of the loans underlying plaintiff's OOMLT 2007-5 Certificate, the OOMLT 2007-5 Offering Documents represented that "[t]he Option One Underwriting Guidelines are primarily intended to assess the value of the mortgaged property, to evaluate the adequacy of such property as collateral for the mortgage loan and to assess the applicant's ability to repay the mortgage loan." *Id.* at S-69. The OOMLT 2007-5 Offering Documents also represented that the "Option One Underwriting Guidelines require a reasonable determination of an applicant's ability to repay the loan. Such determination is based on a review of the applicant's source of income, calculation of a debt service-to-income ratio based on the amount of income from sources indicated on the loan application or similar documentation, a review of the applicant's credit history and the type and intended use of the property being financed." *Id.* The OOMLT 2007-5 Offering Documents further represented that "[m]ortgaged properties that are to secure mortgage loans generally are appraised by qualified independent appraisers." *Id.* Moreover, the OOMLT 2007-5 Offering Documents represented that:

> The primary considerations in underwriting a Single Family Loan or Contract are the Mortgagor's employment stability and whether the Mortgagor has sufficient monthly income available (i) 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 (such as property taxes and hazard insurance) and (ii) 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.

See OOMLT 2007-5 Pros. at 19. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Option One had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.7, *infra*.

b. Loan-to-Value Ratios

633. The OOMLT 2007-5 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the OOMLT 2007-5 Certificate purchased by plaintiff. Specifically, the OOMLT 2007-5 Offering Documents represented that less than half of the loans supporting plaintiff's OOMLT 2007-5 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's OOMLT 2007-5 Certificate had LTV ratios over 100%.

634. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's OOMLT 2007-5 Certificate, which reveals that the LTV ratio percentages stated in the OOMLT 2007-5 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the OOMLT 2007-5 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
M2	68403HAG7	All	49.79%	68.82%	0.00%	28.90%

c. Owner Occupancy Rates

635. The OOMLT 2007-5 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the OOMLT 2007-5 Certificate purchased by plaintiff. Specifically, the OOMLT 2007-5 Offering Documents represented that a large percentage of the loans supporting plaintiff's OOMLT 2007-5 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

636. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's OOMLT 2007-5 Certificate, which reveals that the OOR percentages stated in the OOMLT 2007-5 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the OOMLT 2007-5 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
M2	68403HAG7	All	87.19%	79.22%	10.06%

d. Credit Ratings

637. The OOMLT 2007-5 Offering Documents also represented that the OOMLT 2007-5 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by

S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the OOMLT 2007-5 Offering Documents represented that plaintiff's OOMLT 2007-5 Certificate had been assigned AA/Aa2 ratings – signifying that it was an extremely safe and stable security.

638. These representations, however, were false and misleading when made. In truth, plaintiff's OOMLT 2007-5 Certificate should not have received AA/Aa2 credit ratings, because it was ***not*** a safe, "investment grade" security with an extremely low probability of incurring default. Rather, as defendants were well aware, plaintiff's OOMLT 2007-5 Certificate was an extremely risky, speculative grade "junk" bond or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's OOMLT 2007-5 Certificate was because defendants had fed them falsified information regarding the OOMLT 2007-5 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

639. The falsity of the credit ratings set forth in the OOMLT 2007-5 Offering Documents is confirmed by subsequent events. Specifically, ***more than 43% of the loans supporting plaintiff's OOMLT 2007-5 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" OOMLT 2007-5 Certificate is now rated at below "junk" status. Clearly, plaintiff's OOMLT 2007-5 Certificate was not the highly rated, "investment grade" security that defendants represented it to be. The evidence supporting the falsity of the OOMLT 2007-5 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
M2	68403HAG7	All	43.74%	Aa2	C	AA	D

e. Transfer of Title

640. The OOMLT 2007-5 Offering Documents also represented that the loans underlying the OOMLT 2007-5 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the OOMLT 2007-5 Offering Documents stated that, "[o]n the Closing Date, the Depositor will transfer to the Trust all of its right, title and interest in and to each Mortgage Loan, the related mortgage note, Mortgage, assignment of Mortgage in recordable form in blank or to the Trustee and other related documents." *See* OOMLT 2007-5 Pros. Supp. at S-77. These statements were false and misleading. The promissory notes and security instruments were not legally and properly transferred to the issuing trust. *See* §VI.E, *infra*.

47. The PFMLT 2005-1 Certificates

641. The Provident Funding Mortgage Loan Trust 2005-1, Provident Funding Mortgage Pass-Through Certificates, Series 2005-1 ("PFMLT 2005-1 Certificates") were issued pursuant to a Prospectus Supplement dated April 25, 2005. The following defendants played critical roles in the fraudulent structuring, offering and sale of the PFMLT 2005-1 Certificates: RBS Acceptance (depositor) and RBS Securities (underwriter).

642. Plaintiff purchased the following PFMLT 2005-1 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Scaldis	3A1	743873AY7	4/22/2005	$30,000,000	RBS Securities

643. The decision to purchase the above security was made by Fortis Bank, on behalf of Scaldis, in direct reliance upon the PFMLT 2005-1 Offering Documents, including draft and/or final

PFMLT 2005-1 Prospectus Supplements, all of which were distributed by the defendants associated with the PFMLT 2005-1 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

644. The PFMLT 2005-1 Offering Documents disclosed that 100% of the loans underlying plaintiff's PFMLT 2005-1 Certificate were originated or acquired by Provident Funding Associates, L.P. ("Provident Funding"). *See* PFMLT 2005-1 Pros. Supp. at S-45.

645. With regard to all of the loans underlying plaintiff's PFMLT 2005-1 Certificate, the PFMLT 2005-1 Offering Documents represented that "[u]nderwriting standards are applied by or on behalf of [Provident Funding] to evaluate a borrower's credit standing, financial condition and repayment ability, and the value and adequacy of the related mortgaged property as collateral." *Id*. The PFMLT 2005-1 Offering Documents also represented that "the borrower's credit history and . . . loan purpose, Loan to Value, and Debt to Income Ratio [are reviewed] to generate a credit analysis for the loan." *Id.* at S-46. The PFMLT 2005-1 Offering Documents further represented that "[m]ortgages with a loan amount less than or equal to $1,000,000 require a complete Uniform Residential Appraisal Report ('URAR') or an equivalent," and that "[a]n appraisal review by [Provident Funding]'s internal Appraisal Review Department" may be required. *Id.* Moreover, the PFMLT 2005-1 Offering Documents represented that "[o]nce all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available[:] to meet the borrower's monthly obligations on the proposed loan, generally determined on the basis of the monthly payments due in the year of origination, and other expenses related to the mortgaged property such as property taxes and hazard insurance, and to meet monthly housing expenses and other financial obligations and monthly living expenses." *See* PFMLT 2005-1 Pros. at 35. As further detailed *infra*, these representations were false

and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Provident Funding had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.1, *infra*.

b. Loan-to-Value Ratios

646. The PFMLT 2005-1 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the PFMLT 2005-1 Certificate purchased by plaintiff. Specifically, the PFMLT 2005-1 Offering Documents represented that only a very small percentage of the loans supporting plaintiff's PFMLT 2005-1 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's PFMLT 2005-1 Certificate had LTV ratios over 100%.

647. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's PFMLT 2005-1 Certificate, which reveals that the LTV ratio percentages stated in the PFMLT 2005-1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the PFMLT 2005-1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
3A1	743873AY7	All	1.23%	30.68%	0.00%	7.97%

c. Owner Occupancy Rates

648. The PFMLT 2005-1 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the PFMLT 2005-1 Certificate purchased by plaintiff. Specifically, the PFMLT 2005-1 Offering Documents represented that a large percentage of the loans supporting plaintiff's PFMLT 2005-1 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

649. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's PFMLT 2005-1 Certificate, which reveals that the OOR percentages stated in the PFMLT 2005-1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the PFMLT 2005-1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
3A1	743873AY7	All	98.72%	93.56%	5.52%

d. Credit Ratings

650. The PFMLT 2005-1 Offering Documents also represented that the PFMLT 2005-1 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the PFMLT 2005-1 Offering Documents represented that plaintiff's PFMLT 2005-1 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit

ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

651. These representations, however, were false and misleading when made. In truth, plaintiff's PFMLT 2005-1 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's PFMLT 2005-1 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's PFMLT 2005-1 Certificate was because defendants had fed them falsified information regarding the PFMLT 2005-1 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

652. The falsity of the credit ratings set forth in the PFMLT 2005-1 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 9% of the loans supporting plaintiff's PFMLT 2005-1 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" PFMLT 2005-1 Certificate is now rated at "junk" status. Clearly, plaintiff's PFMLT 2005-1 Certificate was not the highly rated, "investment grade" security that defendants represented it to be. The evidence supporting the falsity of the PFMLT 2005-1 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
3A1	743873AY7	All	8.82%	Aaa	Ba1	AAA	A+

e. Transfer of Title

653. The PFMLT 2005-1 Offering Documents also represented that the loans underlying the PFMLT 2005-1 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the PFMLT 2005-1 Offering Documents stated that, "[o]n the closing date, the depositor will transfer to the trust all of its right, title and interest in and to each of the mortgage loans, together with the related mortgage notes, mortgages and other related documents." *See* PFMLT 2005-1 Pros. Supp. at S-51. The PFMLT 2005-1 Offering Documents also represented that "[t]he pooling and servicing agreement will require that, upon certain conditions and within the time period specified in the pooling and servicing agreement, the seller will deliver to the trustee (or a custodian, as the trustee's agent for that purpose) the mortgage notes evidencing the mortgage loans endorsed in blank or to the trustee on behalf of the certificateholders, together with the other related documents." *Id.* The PFMLT 2005-1 Offering Documents further represented that "the depositor will deliver to the trustee or a custodian the following items in connection with each loan in the related trust fund: the original mortgage note or contract, endorsed without recourse in blank or to the order of the trustee; . . . the mortgage . . . ; [and] an assignment of the mortgage or contract to the trustee, which assignment will be in recordable form in the case of a mortgage assignment or evidence that the mortgage is held for the trustee through the MERS(R) System." *See* PFMLT 2005-1 Pros. at 62. These statements were false and misleading. Defendants did not legally and properly transfer the promissory notes and security instruments to the issuing trust. *See* §VI.E, *infra*.

48. The POPLR 2006-E Certificates

654. The Popular ABS Mortgage Pass-Through Trust 2006-E Certificates ("POPLR 2006-E Certificates") were issued pursuant to a Prospectus Supplement dated December 7, 2006. Defendant

RBS Securities, as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the POPLR 2006-E Certificates.

655. Plaintiff purchased the following POPLR 2006-E Certificates:

Original Purchaser	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Purchased From**
Scaldis	A3	73316TAC6	11/16/2006	$10,000,000	RBS Securities
Fortis Bank	M1	73316TAD4	11/16/2006	$10,595,000	RBS Securities

656. The decisions to purchase the above securities were made by Fortis Bank, on its own behalf and on behalf of Scaldis, in direct reliance upon the POPLR 2006-E Offering Documents, including draft and/or final POPLR 2006-E Prospectus Supplements, all of which were distributed by RBS Securities in connection with the POPLR 2006-E offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

657. The POPLR 2006-E Offering Documents disclosed that the sellers, one or more of: Equity One, Inc., a Delaware Corporation; Equity One, Inc., a Minnesota corporation; Equity One Consumer Loan Company, Inc.; Equity One, Inc., a Pennsylvania corporation (collectively, "Equity One"); and Popular Financial Services, LLC ("Popular Financial") originated or acquired the loans underlying the POPLR 2006-E Certificates, with no other entity originating more than 10% of the POPLR 2006-E Certificates' underlying loans. *See* POPLR 2006-E Pros. Supp. at S-6.

658. With regard to all of the loans underlying the POPLR 2006-E Certificates, the POPLR 2006-E Offering Documents represented that they were underwritten "in accordance with the Equity One Standards." *Id.* at S-47. The POPLR 2006-E Offering Documents represented that "[t]he Equity One Standards are primarily intended to evaluate the value and adequacy of the mortgaged property as collateral for the proposed mortgage loan, but also take into consideration the borrower's credit standing and repayment ability." *Id.* The POPLR 2006-E Offering Documents also represented that

"[e]xcept with respect to Borrower Retention Loans, the Equity One Standards require an independent appraisal that conforms to Fannie Mae standards of each mortgaged property securing each mortgage loan in excess of $15,000." *Id.* at S-48. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Equity One, Popular Financial and any other unnamed originator had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.1, *infra*.

b. Loan-to-Value Ratios

659. The POPLR 2006-E Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the POPLR 2006-E Certificates purchased by plaintiff. Specifically, the POPLR 2006-E Offering Documents represented that less than 70% of the loans supporting plaintiff's POPLR 2006-E Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's POPLR 2006-E Certificates had LTV ratios over 100%.

660. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's POPLR 2006-E Certificates, which reveals that the LTV ratio percentages stated in the POPLR 2006-E Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the POPLR 2006-E Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
A3	73316TAC6	All	69.52%	77.46%	0.00%	41.88%
M1	73316TAD4	All	69.52%	77.46%	0.00%	41.88%

c. Owner Occupancy Rates

661. The POPLR 2006-E Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the POPLR 2006-E Certificates purchased by plaintiff. Specifically, the POPLR 2006-E Offering Documents represented that a large percentage of the loans supporting plaintiff's POPLR 2006-E Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

662. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's POPLR 2006-E Certificates, which reveals that the OOR percentages stated in the POPLR 2006-E Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the POPLR 2006-E Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
A3	73316TAC6	All	90.57%	86.06%	5.24%
M1	73316TAD4	All	90.57%	86.06%	5.24%

d. Credit Ratings

663. The POPLR 2006-E Offering Documents also represented that the POPLR 2006-E Certificates purchased by plaintiff had been assigned certain high "investment grade" credit ratings by

S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. Specifically, the POPLR 2006-E Offering Documents represented that plaintiff's POPLR 2006-E Certificates had been assigned AAA/Aaa and AA/Aa2 ratings, respectively – signifying that these were extremely safe and stable securities.

664. These representations, however, were false and misleading when made. In truth, plaintiff's POPLR 2006-E Certificates should not have received AAA/Aaa or AA/Aa2 credit ratings, because they were ***not*** safe, "investment grade" securities with an extremely low probability of incurring defaults. Rather, as defendants were well aware, plaintiff's POPLR 2006-E Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's POPLR 2006-E Certificates was because defendants had fed them falsified information regarding the POPLR 2006-E Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

665. The falsity of the credit ratings set forth in the POPLR 2006-E Offering Documents is confirmed by subsequent events. Specifically, ***more than 31% of the loans supporting plaintiff's POPLR 2006-E Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" POPLR 2006-E Certificates are now rated at "junk" status or below. Clearly, plaintiff's POPLR 2006-E Certificates were not the highly rated, "investment grade" securities that defendants represented them to be. The evidence supporting the falsity of the POPLR 2006-E Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
A3	73316TAC6	All	31.31%	Aaa	Caa2	AAA	CCC
M1	73316TAD4	All	31.31%	Aa2	C	AA	CC

e. Transfer of Title

666. The POPLR 2006-E Offering Documents also represented that the loans underlying the POPLR 2006-E Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the POPLR 2006-E Offering Documents stated that, "[o]n the Closing Date, pursuant to the Pooling and Servicing Agreement, each Seller will convey without recourse to the Depositor all of its right, title and interest in and to each of its Initial Loans," and that "[t]he Depositor will then convey without recourse to the Trustee in trust for the benefit of the certificateholders all right, title and interest of the Depositor in and to the Initial Loan, including the related mortgage files." *See* POPLR 2006-E Pros. Supp. at S-43. The POPLR 2006-E Offering Documents further stated that:

> In connection with the conveyance of each of the Initial Loans and the Subsequent Loans and pursuant to the requirements of the Pooling and Servicing Agreement and any Subsequent Transfer Agreement, the Depositor or the Seller(s), as the case may be, will deliver or cause to be delivered to the Trustee, or a custodian for the Trustee, among other things,
>
> - the Mortgage Note . . . ,
> - the original instrument creating a first lien on the related mortgaged property . . . ,
> - . . . the title policy with respect to the related mortgaged property . . . ,
> - . . . all recorded intervening assignments of the Mortgage . . . , [and]
> - an original recorded assignment of the Mortgage to the Trustee.

Id. at S-46. These statements were false and misleading. The promissory notes and security instruments were not legally and properly transferred to the issuing trust. *See* §VI.E, *infra*.

49. The SVHE 2006-OPT2 Certificates

667. The Soundview Home Loan Trust 2006-OPT2, Asset-Backed Certificates, Series 2006-OPT2 ("SVHE 2006-OPT2 Certificates") were issued pursuant to a Prospectus Supplement dated March 14, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the SVHE 2006-OPT2 Certificates: Financial Asset (depositor) and RBS Securities (underwriter).

668. Plaintiff purchased the following SVHE 2006-OPT2 Certificate:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Bank	A4	83611MML9	3/14/2006	$9,750,000	RBS Securities

669. The decision to purchase the above security was made by Fortis Bank in direct reliance upon the SVHE 2006-OPT2 Offering Documents, including draft and/or final SVHE 2006-OPT2 Prospectus Supplements, all of which were distributed by the defendants associated with the SVHE 2006-OPT2 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

670. The SVHE 2006-OPT2 Offering Documents disclosed that 100% of the loans underlying plaintiff's SVHE 2006-OPT2 Certificate were originated or acquired by Option One. *See* SVHE 2006-OPT2 Pros. Supp. at S-25, S-37.

671. With regard to all of the loans underlying plaintiff's SVHE 2006-OPT2 Certificate, the SVHE 2006-OPT2 Offering Documents represented that "[t]he Option One Underwriting Guidelines are primarily intended to assess the value of the mortgaged property, to evaluate the adequacy of such property as collateral for the mortgage loan and to assess the applicant's ability to repay the mortgage loan." *Id.* at S-38. The SVHE 2006-OPT2 also represented that "Option One Underwriting Guidelines require a reasonable determination of an applicant's ability to repay the loan. Such

determination is based on a review of the applicant's source of income, calculation of a debt service-to-income ratio based on the amount of income from sources indicated on the loan application or similar documentation, a review of the applicant's credit history and the type and intended use of the property being financed." *Id.* at S-39. The SVHE 2006-OPT2 Offering Documents further represented that "[m]ortgaged properties that are to secure mortgage loans generally are appraised by qualified independent appraisers." *Id.* Additionally, the SVHE 2006-OPT2 Offering Documents represented that the maximum allowable debt-to-income ratio is 55%-60%. *Id.* at S-40. Moreover, the SVHE 2006-OPT2 Offering Documents represented that:

> Once all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available[:]
>
> - to meet the borrower's monthly obligations on the proposed loan, generally determined on the basis of the monthly payments due in the year of origination, and other expenses related to the mortgaged property such as property taxes and hazard insurance, and
>
> - to meet monthly housing expenses and other financial obligations and monthly living expenses.

See SVHE 2006-OPT2 Pros. at 36. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Option One had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.7, *infra*.

b. Loan-to-Value Ratios

672. The SVHE 2006-OPT2 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the SVHE 2006-OPT2 Certificate purchased by plaintiff. Specifically, the SVHE 2006-OPT2 Offering Documents represented that less

than 30% of the loans supporting plaintiff's SVHE 2006-OPT2 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's SVHE 2006-OPT2 Certificate had LTV ratios over 100%.

673. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's SVHE 2006-OPT2 Certificate, which reveals that the LTV ratio percentages stated in the SVHE 2006-OPT2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the SVHE 2006-OPT2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
A4	83611MML9	All	28.21%	62.81%	0.00%	22.82%

c. Owner Occupancy Rates

674. The SVHE 2006-OPT2 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the SVHE 2006-OPT2 Certificate purchased by plaintiff. Specifically, the SVHE 2006-OPT2 Offering Documents represented that a large percentage of the loans supporting plaintiff's SVHE 2006-OPT2 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

675. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's SVHE 2006-OPT2 Certificate, which reveals that the OOR percentages stated in the SVHE 2006-OPT2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the SVHE 2006-

OPT2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
A4	83611MML9	All	89.00%	80.15%	11.05%

d. Credit Ratings

676. The SVHE 2006-OPT2 Offering Documents also represented that the SVHE 2006-OPT2 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the SVHE 2006-OPT2 Offering Documents represented that plaintiff's SVHE 2006-OPT2 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

677. These representations, however, were false and misleading when made. In truth, plaintiff's SVHE 2006-OPT2 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's SVHE 2006-OPT2 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's SVHE 2006-OPT2 Certificate was because defendants had fed them falsified information regarding the SVHE 2006-OPT2 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

678. The falsity of the credit ratings set forth in the SVHE 2006-OPT2 Offering Documents is confirmed by subsequent events. Specifically, ***more than 45% of the loans supporting plaintiff's SVHE 2006-OPT2 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" SVHE 2006-OPT2 Certificate is now rated at "junk" status. Clearly, plaintiff's SVHE 2006-OPT2 Certificate was not the highly rated, "investment grade" security that defendants represented it to be. The evidence supporting the falsity of the SVHE 2006-OPT2 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
A4	83611MML9	All	45.45%	Aaa	Caa2	AAA	CCC

e. Transfer of Title

679. The SVHE 2006-OPT2 Offering Documents also represented that the loans underlying the SVHE 2006-OPT2 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the SVHE 2006-OPT2 Offering Documents stated that, "[o]n the Closing Date, the Depositor will transfer to the Trust all of its right, title and interest in and to each Mortgage Loan, the related mortgage note, Mortgage, assignment of Mortgage in recordable form in blank or to the Trustee and other related documents." *See* SVHE 2006-OPT2 Pros. Supp. at S-47. These statements were false and misleading. Defendants did not legally and properly transfer the promissory notes and security instruments to the issuing trust. *See* §VI.E, *infra*.

50. The SVHE 2006-OPT5 Certificates

680. The Soundview Home Loan Trust 2006-OPT5, Asset-Backed Certificates, Series 2006-OPT5 ("SVHE 2006-OPT5 Certificates") were issued pursuant to a Prospectus Supplement

dated May 24, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the SVHE 2006-OPT5 Certificates: Financial Asset (depositor) and RBS Securities (underwriter).

681. Plaintiff purchased the following SVHE 2006-OPT5 Certificate:

Original Purchaser	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Purchased From**
Scaldis	2A4	83612CAE9	5/24/2006	$7,000,000	RBS Securities

682. The decision to purchase the above security was made by Fortis Bank, on behalf of Scaldis, in direct reliance upon the SVHE 2006-OPT5 Offering Documents, including draft and/or final SVHE 2006-OPT5 Prospectus Supplements, all of which were distributed by the defendants associated with the SVHE 2006-OPT5 offering. Fortis Bank's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

683. The SVHE 2006-OPT5 Offering Documents disclosed that 100% of the loans underlying plaintiff's SVHE 2006-OPT5 Certificate were originated or acquired by Option One. *See* SVHE 2006-OPT5 Pros. Supp. at *The Originator and the Sponsor – General*.

684. With regard to all of the loans underlying plaintiff's SVHE 2006-OPT5 Certificate, the SVHE 2006-OPT5 Offering Documents represented that "[t]he Option One Underwriting Guidelines are primarily intended to assess the value of the mortgaged property, to evaluate the adequacy of such property as collateral for the mortgage loan and to assess the applicant's ability to repay the mortgage loan." *Id*. at *The Originator and the Sponsor – Underwriting Standards*. The SVHE 2006-OPT5 Offering Documents also represented that "Option One Underwriting Guidelines require a reasonable determination of an applicant's ability to repay the loan. Such determination is based on a review of the applicant's source of income, calculation of a debt service-to-income ratio based on the amount of income from sources indicated on the loan application or similar documentation, a review of the

applicant's credit history and the type and intended use of the property being financed." *Id.* The SVHE 2006-OPT5 Offering Documents further represented that "[m]ortgaged properties that are to secure mortgage loans generally are appraised by qualified independent appraisers." *Id.* Additionally, the SVHE 2006-OPT5 Offering Documents represented that the maximum allowable debt-to-income ratio is 55%-60%. *Id.* Moreover, the SVHE 2006-OPT5 Offering Documents represented that "[o]nce all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available[:] to meet the borrower's monthly obligations on the proposed loan, generally determined on the basis of the monthly payments due in the year of origination, and other expenses related to the mortgaged property such as property taxes and hazard insurance, and to meet monthly housing expenses and other financial obligations and monthly living expenses." *See* SVHE 2006-OPT5 Pros. at *Loan Program – Underwriting Standards*. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Option One had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.7, *infra*.

b. Loan-to-Value Ratios

685. The SVHE 2006-OPT5 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the SVHE 2006-OPT5 Certificate purchased by plaintiff. Specifically, the SVHE 2006-OPT5 Offering Documents represented that less than 40% of the loans supporting plaintiff's SVHE 2006-OPT5 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's SVHE 2006-OPT5 Certificate had LTV ratios over 100%.

686. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's SVHE 2006-OPT5 Certificate, which reveals that the LTV ratio percentages stated in the SVHE 2006-OPT5 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the SVHE 2006-OPT5 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
2A4	83612CAE9	All	39.71%	68.82%	0.00%	26.45%

c. Owner Occupancy Rates

687. The SVHE 2006-OPT5 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the SVHE 2006-OPT5 Certificate purchased by plaintiff. Specifically, the SVHE 2006-OPT5 Offering Documents represented that a large percentage of the loans supporting plaintiff's SVHE 2006-OPT5 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

688. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's SVHE 2006-OPT5 Certificate, which reveals that the OOR percentages stated in the SVHE 2006-OPT5 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the SVHE 2006-OPT5 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A4	83612CAE9	All	93.43%	85.42%	9.37%

d. Credit Ratings

689. The SVHE 2006-OPT5 Offering Documents also represented that the SVHE 2006-OPT5 Certificate purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default. Specifically, the SVHE 2006-OPT5 Offering Documents represented that plaintiff's SVHE 2006-OPT5 Certificate had been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.

690. These representations, however, were false and misleading when made. In truth, plaintiff's SVHE 2006-OPT5 Certificate should not have received AAA/Aaa credit ratings, because it was ***not*** a safe, "investment grade" security with "a less than 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiff's SVHE 2006-OPT5 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's SVHE 2006-OPT5 Certificate was because defendants had fed them falsified information regarding the SVHE 2006-OPT5 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

691. The falsity of the credit ratings set forth in the SVHE 2006-OPT5 Offering Documents is confirmed by subsequent events. Specifically, ***more than 43% of the loans supporting plaintiff's***

SVHE 2006-OPT5 Certificate are currently in default because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" SVHE 2006-OPT5 Certificate is now rated at "junk" status. Clearly, plaintiff's SVHE 2006-OPT5 Certificate was not the highly rated, "investment grade" security that defendants represented it to be. The evidence supporting the falsity of the SVHE 2006-OPT5 Certificate's credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
2A4	83612CAE9	All	43.57%	Aaa	Caa3	AAA	CCC

e. Transfer of Title

692. The SVHE 2006-OPT5 Offering Documents also represented that the loans underlying the SVHE 2006-OPT5 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the SVHE 2006-OPT5 Offering Documents stated that, "[o]n the Closing Date, the Depositor will transfer to the Trust all of its right, title and interest in and to each Mortgage Loan, the related mortgage note, Mortgage, assignment of mortgage in recordable form in blank or to the Trustee and other related documents." *See* SVHE 2006-OPT5 Pros. Supp. at *The Pooling Agreement – Assignment of the Mortgage Loans*. These statements were false and misleading. Defendants did not legally and properly transfer the promissory notes and security instruments to the issuing trust. *See* §VI.E, *infra*.

51. The SVHE 2007-OPT1 Certificates

693. The Soundview Home Loan Trust 2007-OPT1, Asset-Backed Certificates, Series 2007-OPT1 ("SVHE 2007-OPT1 Certificates") were issued pursuant to a Prospectus Supplement dated May 4, 2007. The following defendants played critical roles in the fraudulent structuring,

offering and sale of the SVHE 2007-OPT1 Certificates: Financial Asset (depositor), RBS Financial (sponsor), and RBS Securities (underwriter).

694. Plaintiff purchased the following SVHE 2007-OPT1 Certificates:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Cayman	M2	83612TAG7	5/8/2007	$7,500,000	RBS Securities
Fortis Cayman	M1	83612TAF9	5/8/2007	$3,800,000	RBS Securities
Fortis Cayman	M3	83612TAH5	5/8/2007	$1,500,000	RBS Securities

695. The decisions to purchase the above securities were made by Fortis Cayman in direct reliance upon the SVHE 2007-OPT1 Offering Documents, including draft and/or final SVHE 2007-OPT1 Prospectus Supplements, all of which were distributed by the defendants associated with the SVHE 2007-OPT1 offering. Fortis Cayman's diligent investment processes are described in great detail in §VIII.C, *infra*.

a. Underwriting Guidelines

696. The SVHE 2007-OPT1 Offering Documents disclosed that 100% of the loans underlying plaintiff's SVHE 2007-OPT1 Certificates were acquired by the sponsor, RBS Financial, from loan originator Option One. *See* SVHE 2007-OPT1 Pros. Supp. at S-71.

697. The SVHE 2007-OPT1 Offering Documents represented that "[t]he Option One Underwriting Guidelines are primarily intended to assess the value of the mortgaged property, to evaluate the adequacy of such property as collateral for the mortgage loan and to assess the applicant's ability to repay the mortgage loan." *Id.* at S-72. The SVHE 2007-OPT1 Offering Documents also represented that "Option One Underwriting Guidelines require a reasonable determination of an applicant's ability to repay the loan. Such determination is based on a review of the applicant's source of income, calculation of a debt service-to-income ratio based on the amount of income from sources indicated on the loan application or similar documentation, a review of the applicant's credit history and the type and intended use of the property being financed." *Id.* at S-73.

The SVHE 2007-OPT1 Offering Documents further represented that "[m]ortgaged properties that are to secure mortgage loans generally are appraised by qualified independent appraisers." *Id.* at S-72. Additionally, the SVHE 2007-OPT1 Offering Documents represented that the maximum allowable debt-to-income ratio is 55%-60%. *Id.* at S-74. Moreover, the SVHE 2007-OPT1 Offering Documents represented that "[o]nce all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available[:] to meet the borrower's monthly obligations on the proposed loan, generally determined on the basis of the monthly payments due in the year of origination, and other expenses related to the mortgaged property such as property taxes and hazard insurance, and to meet monthly housing expenses and other financial obligations and monthly living expenses." *See* SVHE 2007-OPT1 Pros. at 63. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Option One had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.7, *infra*.

b. Loan-to-Value Ratios

698. The SVHE 2007-OPT1 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the SVHE 2007-OPT1 Certificates purchased by plaintiff. Specifically, the SVHE 2007-OPT1 Offering Documents represented that approximately half of the loans supporting plaintiff's SVHE 2007-OPT1 Certificates had LTV ratios over 80%, and that ***less than half a percent*** of the loans supporting plaintiff's SVHE 2007-OPT1 Certificates had LTV ratios over 100%.

699. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's SVHE 2007-OPT1 Certificates, which reveals that the LTV

ratio percentages stated in the SVHE 2007-OPT1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the SVHE 2007-OPT1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
M2	83612TAG7	All	50.79%	70.95%	0.47%	30.05%
M1	83612TAF9	All	50.79%	70.95%	0.47%	30.05%
M3	83612TAH5	All	50.79%	70.95%	0.47%	30.05%

c. Owner Occupancy Rates

700. The SVHE 2007-OPT1 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the SVHE 2007-OPT1 Certificates purchased by plaintiff. Specifically, the SVHE 2007-OPT1 Offering Documents represented that a large percentage of the loans supporting plaintiff's SVHE 2007-OPT1 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

701. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's SVHE 2007-OPT1 Certificates, which reveals that the OOR percentages stated in the SVHE 2007-OPT1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the SVHE 2007-OPT1 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
M2	83612TAG7	All	94.46%	88.44%	6.81%
M1	83612TAF9	All	94.46%	88.44%	6.81%
M3	83612TAH5	All	94.46%	88.44%	6.81%

d. Credit Ratings

702. The SVHE 2007-OPT1 Offering Documents also represented that the SVHE 2007-OPT1 Certificates purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of incurring defaults. Specifically, the SVHE 2007-OPT1 Offering Documents represented that plaintiff's SVHE 2007-OPT1 Certificates had been assigned AA/Aa2, AA+/Aa1 and AA-/Aa3 credit ratings – signifying that these securities were extremely safe and stable investments.

703. These representations, however, were false and misleading when made. In truth, plaintiff's SVHE 2007-OPT1 Certificates should not have received AA/Aa2, AA+/Aa1 or AA-/Aa3 credit ratings, because they were ***not*** safe, "investment grade" securities with a low probability of incurring defaults. Rather, as defendants were well aware, plaintiff's SVHE 2007-OPT1 Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's SVHE 2007-OPT1 Certificates was because defendants had fed them falsified information regarding the SVHE 2007-OPT1 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

704. The falsity of the credit ratings set forth in the SVHE 2007-OPT1 Offering Documents is confirmed by subsequent events. Specifically, ***more than 43% of the loans supporting plaintiff's SVHE 2007-OPT1 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" SVHE 2007-OPT1 Certificates are now rated at below "junk" status. Clearly, plaintiff's SVHE 2007-OPT1 Certificates were not the highly rated, "investment grade" securities that defendants represented them to be. The evidence supporting the falsity of the SVHE 2007-OPT1 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
M2	83612TAG7	All	43.02%	Aa2	C	AA	D
M1	83612TAF9	All	43.02%	Aa1	C	AA+	D
M3	83612TAH5	All	43.02%	Aa3	C	AA-	D

e. Transfer of Title

705. The SVHE 2007-OPT1 Offering Documents also represented that the loans underlying the SVHE 2007-OPT1 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the SVHE 2007-OPT1 Offering Documents stated that, "[o]n the Closing Date, the Depositor will transfer to the Trust all of its right, title and interest in and to each Mortgage Loan, the related mortgage note, Mortgage, assignment of mortgage in recordable form in blank or to the Trustee and other related documents." *See* SVHE 2007-OPT1 Pros. Supp. at S-82. These statements were false and misleading. Defendants did not legally and properly transfer the promissory notes and security instruments to the issuing trust. *See* §VI.E, *infra*.

52. The SVHE 2007-OPT2 Certificates

706. The Soundview Home Loan Trust 2007-OPT2, Asset-Backed Certificates, Series 2007-OPT2 ("SVHE 2007-OPT2 Certificates") were issued pursuant to a Prospectus Supplement dated June 18, 2007. The following defendants played critical roles in the fraudulent structuring, offering and sale of the SVHE 2007-OPT2 Certificates: Financial Asset (depositor), RBS Financial (sponsor), and RBS Securities (underwriter).

707. Plaintiff purchased the following SVHE 2007-OPT2 Certificates:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Cayman	M4	83613DAJ5	6/19/2007	$3,350,000	RBS Securities
Fortis Cayman	M5	83613DAK2	6/19/2007	$2,430,000	RBS Securities
Fortis Cayman	M1	83613DAF3	6/19/2007	$2,358,000	RBS Securities
Fortis Cayman	M2	83613DAG1	6/19/2007	$2,000,000	RBS Securities
Fortis Cayman	M3	83613DAH9	6/19/2007	$1,461,000	RBS Securities

708. The decision to purchase the above securities was made by Fortis Cayman in direct reliance upon the SVHE 2007-OPT2 Offering Documents, including draft and/or final SVHE 2007-OPT2 Prospectus Supplements, all of which were distributed by the defendants associated with the SVHE 2007-OPT2 offering. Fortis Cayman's diligent investment processes are described in great detail in §VIII.C, *infra*.

a. Underwriting Guidelines

709. The SVHE 2007-OPT2 Offering Documents disclosed that 100% of the loans underlying plaintiff's SVHE 2007-OPT2 Certificates were acquired by the sponsor, RBS Financial, from loan originator Option One. *See* SVHE 2007-OPT2 Pros. Supp. at S-66.

710. The SVHE 2007-OPT2 Offering Documents represented that "[t]he Option One Underwriting Guidelines are primarily intended to assess the value of the mortgaged property, to evaluate the adequacy of such property as collateral for the mortgage loan and to assess the applicant's ability to repay the mortgage loan." *Id.* at S-67. The SVHE 2007-OPT2 Offering

Documents also represented that "Option One Underwriting Guidelines require a reasonable determination of an applicant's ability to repay the loan. Such determination is based on a review of the applicant's source of income, calculation of a debt service-to-income ratio based on the amount of income from sources indicated on the loan application or similar documentation, a review of the applicant's credit history and the type and intended use of the property being financed." *Id.* at S-68. The SVHE 2007-OPT2 Offering Documents further represented that "[m]ortgaged properties that are to secure mortgage loans generally are appraised by qualified independent appraisers." *Id.* at S-67. Additionally, the SVHE 2007-OPT2 Offering Documents represented that the maximum allowable debt-to-income ratio is 55%-60%. *Id.* at S-69. Moreover, the SVHE 2007-OPT2 Offering Documents represented that "[o]nce all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available[:] to meet the borrower's monthly obligations on the proposed loan, generally determined on the basis of the monthly payments due in the year of origination, and other expenses related to the mortgaged property such as property taxes and hazard insurance, and to meet monthly housing expenses and other financial obligations and monthly living expenses." *See* SVHE 2007-OPT2 Pros. at 63. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Option One had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.7, *infra*.

b. Loan-to-Value Ratios

711. The SVHE 2007-OPT2 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the SVHE 2007-OPT2 Certificates purchased by plaintiff. Specifically, the SVHE 2007-OPT2 Offering Documents represented that less

than half of the loans supporting plaintiff's SVHE 2007-OPT2 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's SVHE 2007-OPT2 Certificates had LTV ratios over 100%.

712. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's SVHE 2007-OPT2 Certificates, which reveals that the LTV ratio percentages stated in the SVHE 2007-OPT2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the SVHE 2007-OPT2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
M4	83613DAJ5	All	46.38%	68.21%	0.00%	28.21%
M5	83613DAK2	All	46.38%	68.21%	0.00%	28.21%
M1	83613DAF3	All	46.38%	68.21%	0.00%	28.21%
M2	83613DAG1	All	46.38%	68.21%	0.00%	28.21%
M3	83613DAH9	All	46.38%	68.21%	0.00%	28.21%

c. Owner Occupancy Rates

713. The SVHE 2007-OPT2 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the SVHE 2007-OPT2 Certificates purchased by plaintiff. Specifically, the SVHE 2007-OPT2 Offering Documents represented that a large percentage of the loans supporting plaintiff's SVHE 2007-OPT2 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

714. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's SVHE 2007-OPT2 Certificates, which reveals that the

OOR percentages stated in the SVHE 2007-OPT2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the SVHE 2007-OPT2 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
M4	83613DAJ5	All	90.82%	85.46%	6.27%
M5	83613DAK2	All	90.82%	85.46%	6.27%
M1	83613DAF3	All	90.82%	85.46%	6.27%
M2	83613DAG1	All	90.82%	85.46%	6.27%
M3	83613DAH9	All	90.82%	85.46%	6.27%

d. Credit Ratings

715. The SVHE 2007-OPT2 Offering Documents also represented that the SVHE 2007-OPT2 Certificates purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of incurring defaults. Specifically, the SVHE 2007-OPT2 Offering Documents represented that plaintiff's SVHE 2007-OPT2 Certificates had been assigned A+/A1, A/A2, AA+/Aa1, AA/Aa2 and AA-/Aa3 credit ratings – signifying that they were extremely safe and stable securities.

716. These representations, however, were false and misleading when made. In truth, plaintiff's SVHE 2007-OPT2 Certificates should not have received A+/A1, A/A2, AA+/Aa1, AA/Aa2 and AA-/Aa3 credit ratings, because they were ***not*** safe, "investment grade" securities with a low probability of incurring defaults. Rather, as defendants were well aware, plaintiff's SVHE 2007-OPT2 Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had

assigned such high ratings to plaintiff's SVHE 2007-OPT2 Certificates was because defendants had fed them falsified information regarding the SVHE 2007-OPT2 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

717. The falsity of the credit ratings set forth in the SVHE 2007-OPT2 Offering Documents is confirmed by subsequent events. Specifically, ***more than 42% of the loans supporting plaintiff's SVHE 2007-OPT2 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" SVHE 2007-OPT2 Certificates are now rated at below "junk" status. Clearly, plaintiff's SVHE 2007-OPT2 Certificates were not the highly rated, "investment grade" securities that defendants represented them to be. The evidence supporting the falsity of the SVHE 2007-OPT2 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
M4	83613DAJ5	All	42.67%	A1	C	A+	D
M5	83613DAK2	All	42.67%	A2	C	A	D
M1	83613DAF3	All	42.67%	Aa1	C	AA+	CCC
M2	83613DAG1	All	42.67%	Aa2	C	AA	D
M3	83613DAH9	All	42.67%	Aa3	C	AA-	D

e. Transfer of Title

718. The SVHE 2007-OPT2 Offering Documents also represented that the loans underlying the SVHE 2007-OPT2 Certificates would be timely transferred to the issuing trust, so that the trust would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the SVHE 2007-OPT2 Offering Documents stated that, "[o]n the Closing Date, the Depositor will transfer to the Trust all of its right, title and interest in and to each Mortgage Loan, the related mortgage note, Mortgage, assignment of mortgage in recordable form in blank or to the Trustee and

other related documents." *See* SVHE 2007-OPT2 Pros. Supp. at S-77. These statements were false and misleading. Defendants did not legally and properly transfer the promissory notes and security instruments to the issuing trust. *See* §VI.E, *infra*.

53. The SVHE 2007-OPT3 Certificates

719. The Soundview Home Loan Trust 2007-OPT3, Asset-Backed Certificates, Series 2007-OPT3 ("SVHE 2007-OPT3 Certificates") were issued pursuant to a Prospectus Supplement dated June 21, 2007. The following defendants played critical roles in the fraudulent structuring, offering and sale of the SVHE 2007-OPT3 Certificates: Financial Asset (depositor), RBS Financial (sponsor), and RBS Securities (underwriter).

720. Plaintiff purchased the following SVHE 2007-OPT3 Certificates:

Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Purchased From
Fortis Cayman	M4	83612KAJ0	7/6/2007	$10,175,000	RBS Securities
Fortis Cayman	M5	83612KAK7	7/6/2007	$6,600,000	RBS Securities
Fortis Cayman	M2	83612KAG6	6/25/2007	$1,921,000	RBS Securities
Fortis Cayman	M2	83612KAG6	7/6/2007	$3,300,000	RBS Securities
Fortis Cayman	M1	83612KAF8	6/25/2007	$2,500,000	RBS Securities

721. The decisions to purchase the above securities were made by Fortis Cayman in direct reliance upon the SVHE 2007-OPT3 Offering Documents, including draft and/or final SVHE 2007-OPT3 Prospectus Supplements, all of which were distributed by the defendants associated with the SVHE 2007-OPT3 offering. Fortis Cayman's diligent investment processes are described in great detail in §VIII.C, *infra*.

a. Underwriting Guidelines

722. The SVHE 2007-OPT3 Offering Documents disclosed that 100% of the loans underlying plaintiff's SVHE 2007-OPT3 Certificates were acquired by the sponsor, RBS Financial, from loan originator Option One. *See* SVHE 2007-OPT3 Pros. Supp. at S-66.

723. The SVHE 2007-OPT3 Offering Documents represented that "[t]he Option One Underwriting Guidelines are primarily intended to assess the value of the mortgaged property, to evaluate the adequacy of such property as collateral for the mortgage loan and to assess the applicant's ability to repay the mortgage loan." *Id.* at S-67. The SVHE 2007-OPT3 Offering Documents also represented that "Option One Underwriting Guidelines require a reasonable determination of an applicant's ability to repay the loan. Such determination is based on a review of the applicant's source of income, calculation of a debt service-to-income ratio based on the amount of income from sources indicated on the loan application or similar documentation, a review of the applicant's credit history and the type and intended use of the property being financed." *Id.* at S-68. The SVHE 2007-OPT3 Offering Documents further represented that "[m]ortgaged properties that are to secure mortgage loans generally are appraised by qualified independent appraisers." *Id.* at S-67. Additionally, the SVHE 2007-OPT3 Offering Documents represented that the maximum allowable debt-to-income ratio is 55%-60%. *Id.* at S-69. Moreover, the SVHE 2007-OPT3 Offering Documents represented that "[o]nce all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available[:] to meet the borrower's monthly obligations on the proposed loan, generally determined on the basis of the monthly payments due in the year of origination, and other expenses related to the mortgaged property such as property taxes and hazard insurance, and to meet monthly housing expenses and other financial obligations and monthly living expenses." *See* SVHE 2007-OPT3 Pros. at 63. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Option One had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral. *See* §VI.A.7, *infra*.

b. Loan-to-Value Ratios

724. The SVHE 2007-OPT3 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the SVHE 2007-OPT3 Certificates purchased by plaintiff. Specifically, the SVHE 2007-OPT3 Offering Documents represented that just over 45% of the loans supporting plaintiff's SVHE 2007-OPT3 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiff's SVHE 2007-OPT3 Certificates had LTV ratios over 100%.

725. Plaintiff, however, has performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiff's SVHE 2007-OPT3 Certificates, which reveals that the LTV ratio percentages stated in the SVHE 2007-OPT3 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the SVHE 2007-OPT3 Offering Documents, and the actual percentages that should have been stated according to plaintiff's industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
M4	83612KAJ0	All	46.02%	68.60%	0.00%	27.16%
M5	83612KAK7	All	46.02%	68.60%	0.00%	27.16%
M2	83612KAG6	All	46.02%	68.60%	0.00%	27.16%
M1	83612KAF8	All	46.02%	68.60%	0.00%	27.16%

c. Owner Occupancy Rates

726. The SVHE 2007-OPT3 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the SVHE 2007-OPT3 Certificates purchased by plaintiff. Specifically, the SVHE 2007-OPT3 Offering Documents represented that a large percentage of the loans supporting plaintiff's SVHE 2007-OPT3 Certificates

were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that such borrowers would default on their loans.

727. Plaintiff, however, has performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiff's SVHE 2007-OPT3 Certificates, which reveals that the OOR percentages stated in the SVHE 2007-OPT3 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the SVHE 2007-OPT3 Offering Documents, and the actual percentages that should have been stated according to plaintiff's investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
M4	83612KAJ0	All	88.70%	83.82%	5.83%
M5	83612KAK7	All	88.70%	83.82%	5.83%
M2	83612KAG6	All	88.70%	83.82%	5.83%
M1	83612KAF8	All	88.70%	83.82%	5.83%

d. Credit Ratings

728. The SVHE 2007-OPT3 Offering Documents also represented that the SVHE 2007-OPT3 Certificates purchased by plaintiff had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of incurring defaults. Specifically, the SVHE 2007-OPT3 Offering Documents represented that plaintiff's SVHE 2007-OPT3 Certificates had been assigned A+/A1, A/A2, AA/Aa2 and AA+/Aa1 ratings – signifying that these securities were extremely safe and stable investments.

729. These representations, however, were false and misleading when made. In truth, plaintiff's SVHE 2007-OPT3 Certificates should not have received A+/A1, A/A2, AA/Aa2 and AA+/Aa1 credit ratings, because they were ***not*** safe, "investment grade" securities with a low

probability of incurring defaults. Rather, as defendants were well aware, plaintiff's SVHE 2007-OPT3 Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiff's SVHE 2007-OPT3 Certificates was because defendants had fed them falsified information regarding the SVHE 2007-OPT3 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

730. The falsity of the credit ratings set forth in the SVHE 2007-OPT3 Offering Documents is confirmed by subsequent events. Specifically, ***more than 41% of the loans supporting plaintiff's SVHE 2007-OPT3 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiff's "investment grade" SVHE 2007-OPT3 Certificates are now rated at or below "junk" status. Clearly, plaintiff's SVHE 2007-OPT3 Certificates were not the highly rated, "investment grade" securities that defendants represented them to be. The evidence supporting the falsity of the SVHE 2007-OPT3 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
M4	83612KAJ0	All	41.03%	A1	C	A+	D
M5	83612KAK7	All	41.03%	A2	C	A	D
M2	83612KAG6	All	41.03%	Aa2	C	AA	D
M1	83612KAF8	All	41.03%	Aa1	C	AA+	CCC

e. Transfer of Title

731. The SVHE 2007-OPT3 Offering Documents also represented that the loans underlying the SVHE 2007-OPT3 Certificates would be timely transferred to the issuing trust, so that the trust

would obtain good title to the mortgage loans comprising the pool for the offering. Specifically, the SVHE 2007-OPT3 Offering Documents stated that, "[o]n the Closing Date, the Depositor will transfer to the Trust all of its right, title and interest in and to each Mortgage Loan, the related mortgage note, Mortgage, assignment of mortgage in recordable form in blank or to the Trustee and other related documents." *See* SVHE 2007-OPT3 Pros. Supp. at S-77. These statements were false and misleading. Defendants did not legally and properly transfer the promissory notes and security instruments to the issuing trust. *See* §VI.E, *infra*.

VI. DEFENDANTS' STATEMENTS AND OMISSIONS WERE MATERIALLY FALSE AND MISLEADING

A. Defendants' Statements that the Loan Underwriting Guidelines Were Designed to Assess a Borrower's Ability to Repay the Loan and to Evaluate the Adequacy of the Property as Collateral for the Loan Were Materially False and Misleading

732. As set forth above in §V, the Offering Documents for each RBS Offering represented that the underlying loans were originated pursuant to specific, prudent, underwriting guidelines, which the Offering Documents represented were generally intended to: (1) assess the borrowers' creditworthiness and/or ability to repay the loans; and/or (2) evaluate the adequacy of the underlying properties to serve as security for the loans.

733. These representations were incredibly material to plaintiff because they confirmed that, regardless of the technical guidelines being applied, the certificates' underlying loans were generally being originated on the basis of a valid determination that the borrower would be able to repay his or her loans and that the property serving as collateral would provide adequate security in the event of a default. In other words, these representations assured plaintiff that the loans supporting their investments were unlikely to default, and further, unlikely to incur a loss in the unlikely event of default. As such, they were material to plaintiff's investment decision.

734. Unfortunately for plaintiff, however, defendants' material representations regarding the underwriting guidelines purportedly being used to originate the certificates' underlying loans were false and misleading at the time defendants made them. As set forth immediately below, the originators of the certificates' underlying loans had, in fact, completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for the borrowers' actual repayment ability or the true value and adequacy of the mortgaged properties to serve as collateral.

1. The Loan Originators Had Systematically Abandoned the Underwriting Guidelines Set Forth in the RBS Offering Documents

735. The representations in the Offering Documents for the RBS Offerings concerning the loan originators' underwriting guidelines were false and misleading when made. In reality, the loan originators at issue herein were ***not*** originating loans in accordance with their stated underwriting guidelines and were ***not*** evaluating the borrowers' true repayment ability or assessing the actual value of the properties serving as collateral. Instead, during the relevant time period, 2004-2007 – when the loans underlying the offerings at issue herein were originated – the loan originators identified herein had abandoned their stated underwriting guidelines, and were simply making loans to nearly anyone they could, without regard for the borrowers' repayment ability or the adequacy of the mortgaged properties as collateral. These lenders made loans as fast as they possibly could and ignored the borrowers' true repayment ability because they knew defendants would purchase the loans ***regardless*** of whether the lenders had given any consideration to the borrowers' ability to repay, and ***regardless*** of whether the loans otherwise complied with the lenders' stated underwriting guidelines. This was the case because the demand for RMBS was skyrocketing during the relevant time period and defendants were making billions of dollars by satisfying that demand. Thus, defendants were scrambling to buy as many loans as they could, as fast as they could, so that they could quickly

bundle the loans into RMBS offerings like those at issue herein, and sell them to unsuspecting investors like plaintiff.

736. Defendants knew that, contrary to their affirmative representations in the Offering Documents, the certificates' underlying loans had not been originated pursuant to underwriting guidelines that were designed to evaluate the borrowers' ability to repay or assess the adequacy of the mortgaged properties to serve as collateral. Defendants also knew, as a result, that the loans were not likely to be repaid. Defendants, however, failed to disclose any of this information. Instead, they simply packaged the defective loans as quickly as they could, concealed them within the offerings, and passed the risk of their repayment on to plaintiff.

737. Contrary to their affirmative representations in the Offering Documents, defendants knew that the loan originators had, in fact, implemented loan underwriting policies that were simply designed to extend mortgages to as many borrowers as possible, regardless of whether those borrowers could actually repay them. These policies included, among other things:

- Falsifying borrowers' incomes and/or coaching borrowers to misstate their income on loan applications to qualify them for loans they could not afford to repay, while making it appear the loans complied with the stated underwriting guidelines;

- Coaching borrowers to omit or understate debts and expenses on loan applications to qualify them for loans they could not afford to repay, while making it appear the loans complied with the stated underwriting guidelines;

- Steering borrowers to loans that exceeded their borrowing capacity;

- Approving borrowers based on "teaser rates" for loans, despite knowing that the borrowers would not be able to afford the fully indexed rates when the loan rates adjusted; and

- Approving non-qualifying borrowers for loans under "exceptions" to the originators' underwriting standards based on purported "compensating factors," when no such compensating factors ever existed.

738. Further, the loan originators and their agents had become so aggressive at improperly approving and funding mortgage loans that many of the loans at issue herein were made to borrowers

who had either not submitted required documents or had falsely altered the required documentation. In many instances, required income/employment verifications were improperly performed because the lenders' clerical staff either did not have adequate verification skills or did not care to exercise such skills, and oftentimes verifications were provided by inappropriate contacts at a borrower's place of employment (*e.g.*, a friend of the borrower would complete the verification instead of the human resources department at the borrower's employer). In this way, many suspect and false income verifications and loan applications were accepted by the originators at issue herein.

739. In addition, borrowers who submitted "stated income" loan applications were routinely approved on the basis of stated income levels that were inflated to extreme levels relative to their stated job titles, in order to give the appearance of compliance with stated underwriting guidelines. In many cases, the loan originators herein actually coached the borrowers to falsely inflate their stated incomes in order to qualify under the originators' underwriting guidelines. Inflation of stated income was so rampant that a study cited by Mortgage Asset Research Institute later found that almost ***all*** stated income loans exaggerated the borrower's actual income by 5% or more, ***and more than half overstated income by at least 50%***.

740. This type of income inflation was a direct result of the loan originators' abandonment of their stated underwriting guidelines and their complete disregard for the borrowers' true repayment ability. For instance, many "stated income" borrowers were actually wage earners who could have supplied Internal Revenue Service ("IRS") Forms W-2 or other income-verifying documentation, but were not required to do so. Instead, they were steered to stated income loans by the lenders at issue herein, who then helped borrowers "state" falsely inflated incomes. Originators also routinely issued loans without requiring the borrowers to execute an IRS Form 4506, which would have allowed the lender to access such borrowers' tax returns from the IRS, because the originators simply did not want to know that the borrowers' true income levels were less than the income levels reported on the

loan applications. In other cases, lenders removed documentation of borrowers' incomes from loan files, because such documentation revealed that the borrowers' stated incomes were falsely inflated. The falsification of income levels by the borrowers and the loan originators at issue herein was rampant.

741. The originators at issue herein also routinely violated their stated underwriting guidelines by using falsely inflated appraisals and other valuations – which, in turn, resulted in falsely understated LTV ratios – in order to approve loans that otherwise would have never been made. The U.S. Government's Financial Crisis Inquiry Commission ("FCIC") investigation confirmed that, during the time the loans underlying plaintiff's certificates were originated, the lenders at issue herein were regularly pressuring appraisers to falsely inflate their appraisals in order to meet or exceed the amount needed for the subject loans to be approved. This was especially true for loans, such as those at issue here, which were originated by lenders with the intention of being pooled and sold to defendants for eventual re-sale to investors like plaintiff, who would ultimately bear the risk of default.

742. The constant pressure appraisers routinely faced from originators such as those at issue herein was described by Jim Amorin, President of the Appraisal Institute, who stated in his April 23, 2009 FCIC testimony that "***[i]n many cases, appraisers are ordered or severely pressured to doctor their reports and to convey a particular, higher value for a property, or else never see work from those parties again***. . . . ***[T]oo often state licensed and certified appraisers are forced into making a 'Hobson's Choice***.'" This complete lack of independence by appraisers was also noted by Alan Hummel, Chair of the Appraisal Institute, in his testimony before the U.S. Senate, where Hummel noted that the dynamic between lenders and appraisers created a "terrible conflict of interest" by which ***appraisers "experience[d] systemic problems with coercion" and were "ordered to doctor their reports" or else they would never "see work from those parties again" and were placed on***

"'***exclusionary appraiser lists***.'" Testimony on "Legislative Proposals on Reforming Mortgage Practices" presented by Alan E. Hummel before the House Committee on Financial Services, at 5 (Oct. 24, 2007).

743. As a result of such pressures, appraisers routinely provided the originators at issue herein with falsely inflated appraisals that had no reasonable basis in fact, in direct contravention of the Offering Documents' false and misleading representations that the certificates' underlying loans had been originated pursuant to underwriting guidelines that required the lenders to evaluate the adequacy of the mortgaged properties to serve as collateral for the loans. Moreover, the falsely inflated property values also resulted in artificially understated LTV ratios, which caused the loans and certificates to appear to plaintiff to be of much higher credit quality and to be much less risky than they actually were.

744. Following below are detailed allegations demonstrating that the loan originators for the offerings at issue herein did not comply with the loan underwriting guidelines stated in the Offering Documents, thereby rendering the Offering Documents false and misleading. While the allegations concerning these originators cover most of the offerings, plaintiff has not provided such allegations for every originator at issue herein, in an attempt to streamline the allegations. Nonetheless, on information and belief, plaintiff alleges that ***all*** of the loan originators at issue herein engaged in similar conduct, and that such allegations are factually supported by both the investigations of the FCIC and the U.S. Senate, each of which concluded, after extensive investigations, that the breakdown in residential loan underwriting standards alleged herein was systemic in the lending industry during the relevant time period (2004-2007). *See* The Financial Crisis Inquiry Report ("FCIC Report") at 125 ("***Lending standards collapsed, and there was a significant failure of accountability and responsibility throughout each level of the lending system***."); Levin-Coburn Report at 12 (One of four major causes of worldwide financial collapse was that "***[l]enders***

introduced new levels of risk into the U.S. financial system by selling . . . home loans with . . . poor underwriting."); *id.* at 50 ("***The Subcommittee investigation indicates that" there were "a host of financial institutions that knowingly originated, sold, and securitized billions of dollars in high risk, poor quality home loans***.").

745. In fact, in 2005, federal examiners and agencies conducted a "confidential . . . study of mortgage practices at six companies that together had originated . . . almost half the national total" of mortgages in that year. ***The study "'showed a very rapid increase in the volume of these irresponsible, very risky loans***,'" according to Sabeth Siddique, then head of credit risk at the Federal Reserve Board's Division of Banking Supervision and Regulation. ***For "[a] large percentage of the[] loans" reviewed, "the underwriting standards . . . had deteriorated***." FCIC Report at 172.

746. In addition, on December 30, 2007, *The Kansas City Star* published an article titled "American Dreams Built on a Shaky Foundation of Subprime Loans," analyzing the Nation's mortgage meltdown and the reasons behind it. The news article painted a picture of systematic abandonment of underwriting guidelines by lenders during the relevant time period (2004-2007). Kurt Eggert, a law professor and member of the Federal Reserve's Consumer Advisory Panel was quoted: "'***Originators were making loans based on quantity rather than quality. . . . They made loans even when they didn't make sense from an underwriting standpoint***.'" The news article further stated: "Mark Duda, a research affiliate at Harvard University's Joint Center for Housing Studies, said that because ***brokers were so intent to quickly sell off loans to investors, they had little incentive to make sure the loans were suitable for borrowers. 'They were setting people up to fail***,' Duda said." A news article in the *San Diego Union-Tribune* on November 16, 2008 echoed these sentiments, stating: "Bankruptcy specialists say part of what led to the housing market collapse ***was systemic. Lenders set themselves up for problems by not requiring buyers to prove they could afford the loans*** . . . ."

747. At a March 11, 2009 hearing of the U.S. House of Representatives Subcommittee investigating the Nation's mortgage meltdown, Representative Jeb Hensarling from the State of Texas was even more blunt about the pervasive abandonment of underwriting guidelines: "***Mortgage fraud ran rampant for a decade, on the lenders' side and on the borrower side . . . . We know that mortgage fraud ran rampant*** . . . ."

748. The systemic abandonment of stated underwriting guidelines by all of the originators identified herein during the period 2004-2007, which included the originators' complete failure to evaluate borrowers' repayment ability, is further corroborated by the following allegations, which demonstrate that the abandonment of loan underwriting guidelines was rampant, pervasive and commonplace in the residential lending industry during 2004-2007.

2. The Offering Documents Misrepresented Countrywide's Underwriting Guidelines

749. As detailed *supra*, Countrywide's supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, Countrywide had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for the borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

750. During the relevant time period, Countrywide was the largest independent mortgage lender and loan originator for RMBS offerings in the United States. Unfortunately for plaintiff, it was also one of the worst, as it repeatedly originated loans in violation of its stated loan underwriting guidelines and routinely extended loans to borrowers without any regard for such borrowers' true repayment ability, oftentimes relying on falsely inflated appraisals (and thus false LTV ratios), falsified occupancy data and other false information to do so.

751. In June 2009, the SEC initiated a securities fraud action in the United States District Court for the Central District of California against former Countrywide executives Angelo Mozilo ("Mozilo"), David Sambol ("Sambol") and Eric Sieracki ("Sieracki"). On September 16, 2010, the court denied the Countrywide executives' motions for summary judgment and held that ***the SEC had raised genuine issues of fact*** as to whether the defendants had misrepresented the quality of Countrywide's underwriting processes from 2005-2007. Specifically, the court held that ***the SEC presented evidence that Countrywide "routinely ignored its official underwriting guidelines to such an extent that Countrywide would underwrite <u>any</u> loan it could sell into the secondary mortgage market," and that "a significant percentage (typically in excess of 20%) of Countrywide's loans were issued as exceptions to its official underwriting guidelines***." *SEC v. Mozilo*, No. CV 09-3994-JFW (MANx), 2010 U.S. Dist. LEXIS 98203, at *33-*34 (C.D. Cal. Sept. 16, 2010). ***The court held that the evidence presented was such that "a reasonable jury could conclude that Countrywide all but abandoned managing credit risk through its underwriting guidelines***." *Id.* at *35. In 2010, Mozilo, Sambol and Sieracki paid over $73.1 million to settle the SEC action.

752. The testimony and documents only recently made available to plaintiff by way of the SEC's investigation confirm that Countrywide was systematically abusing "exceptions" and low-documentation processes in order to circumvent its own underwriting guidelines. For example, in an April 13, 2006 e-mail, Mozilo, who was Countrywide's co-founder and Chief Executive Officer ("CEO"), wrote to Sieracki and others that he was concerned that certain subprime loans had been originated "***with serious disregard for process [and] compliance with guidelines***," resulting in the delivery of loans "with deficient documentation." Mozilo further stated that: "***I have 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]***."

753. The testimony and documents produced in the SEC action also show that, on June 28, 2005, Sieracki attended a Corporate Credit Risk Committee meeting "in which he was informed that ***1/3 of the loans which were referred from CLUES [Countrywide's automated underwriting system] violated 'major' underwriting guidelines and 1/3 violated 'minor' guidelines***." At a similar meeting on March 12, 2007, "Risk Management reported that 12% of the loans reviewed through Countrywide's internal quality control process were rated ***severely unsatisfactory*** or high risk, and that one of ***the principal causes for such a rating was that loans had debt-to-income, loan to value, or FICO scores outside Countrywide's underwriting guidelines***."

754. A separate False Claims Act lawsuit brought by the U.S. Government against Countrywide and appraisal firm Land Safe Appraisal Services, Inc. ("Land Safe") confirms that Countrywide routinely violated its stated underwriting guidelines by using falsely inflated appraisals. *See* Complaint, *United States, ex rel. Kyle W. Lagow v. Countrywide Fin. Corp.*, No. 1:09-cv-02040-RJD-JMA (E.D.N.Y. May 13, 2009) ("*Lagow* Complaint"). According to the allegations of this action, which are based on the testimony of Kyle Lagow, a former Land Safe employee, Countrywide and Land Safe conspired together to systematically inflate appraisals. According to Lagow, Countrywide and Land Safe systematically inflated appraisals for Countrywide loans by, among other things: (a) paying above-market fees to appraisers who provided inflated appraisals; (b) rewarding appraisers that provided inflated appraisals with significant amounts of additional work; (c) black-listing, retaliating against and firing appraisers that refused to provide inflated appraisals; (d) improperly requiring appraisers to rely on information outside the relevant market that justified inflated appraisals; (e) providing appraisers with false information concerning "comparable" properties that led to inflated appraisals; and (f) retaliating against anyone who questioned or criticized Countrywide and Land Safe's appraisal inflation scheme. *Lagow* Complaint, ¶9. This

action was settled, as part of a global $1 billion settlement, with Countrywide's parent company, Bank of America Corp.

755. In addition, the FCIC Report, which was issued in January 2011, also set forth, *inter alia*, findings regarding Countrywide's key role in the financial crisis and the lender's general failure to evaluate the borrowers' repayment ability. Specifically, the FCIC Report stated:

> ***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***.

See FCIC Report at xxii.

756. According to evidence in the FCIC Report, Countrywide's loan products were simply not designed to evaluate the borrowers' repayment ability. Indeed, one of Countrywide's loan products was described as "***poison***" by the lender's own co-founder and CEO, Mozilo, who stated in an April 17, 2006 e-mail: "'***In all my years in the business I have never seen a more toxic [product]*** . . . .'" FCIC Report at 20. According to information contained in the FCIC Report, the reason Countrywide was willing to offer such products was because its sole focus was "'originating what was salable in the secondary market,'" *i.e.*, to Wall Street banks such as defendants. *Id.* at 105. According to the FCIC Report, Countrywide "sold or securitized 87% of the $1.5 trillion in mortgages it originated between 2002 and 2005." *Id.*

757. Moreover, former Countrywide employee Eileen Foster ("Foster") confirmed, in an interview with the FCIC, that fraud was rampant in connection with Countrywide's origination of loans. Foster worked as a mortgage fraud investigator at Countrywide, and confirmed that loans that Countrywide's fraud investigators or underwriters rejected due to fraud or non-conformance with the underwriting guidelines were routinely overruled and approved by Countrywide's sales unit, as "***the***

rules were bent and broken and twisted regularly and it was . . . an accepted mode of doing business." July 30, 2010 FCIC Staff Interview of Eileen Foster. Foster further stated that "all of the fraud that may have been taking place [was] being managed out by the sales units," or in other words, "'***concealed***.'" *Id.* She suspected that "there was quite a bit of fraud taking place" in connection with Countrywide's loan originations, which her audit manager "confirmed to [her]." *Id.*

758. In fact, according to the FCIC, Countrywide had tens of thousands of internal company referrals of potentially fraudulent activity in connection with its mortgage business during the period from 2005-2007. FCIC Report at 162.

759. Other former Countrywide employees have confirmed that Countrywide originated loans that did not comply with its stated underwriting criteria because its employees were incentivized to increase the number of loan originations without concern for the borrowers' repayment ability. Instead of evaluating repayment ability, ***Countrywide's Sales Training Facilitator Guide instructed originators to "look for ways to make the loan rather than turn it down***."

760. According to another former Countrywide manager, the mindset at the company was "***if you had a pulse, Countrywide gave you a loan***."

761. Countrywide's loan originators would "coach" borrowers as to the level of falsely inflated incomes they should claim in order to qualify for loans they could not otherwise afford. Countrywide itself also falsified borrowers' incomes, or facilitated falsified incomes by steering otherwise ineligible borrowers to "stated income" loans. According to a former Countrywide account manager, the company was "infested" with employees that ignored the company's underwriting guidelines.

762. Former Countrywide employees have revealed that as many as 80% of the loans originated by a Countrywide office in Florida did not meet loan underwriting guidelines. According to another former Countrywide employee, approximately 90% of all reduced documentation loans

sold out of a Chicago office had falsely inflated incomes and one of Countrywide's mortgage brokers, One Source Mortgage Inc., routinely doubled the amount of the potential borrowers' income on stated income mortgage applications in order to qualify borrowers for loans they could not afford.

763. Moreover, even in the cases where Countrywide employees actually obtained written income documentation (*i.e.*, a Form W-2) demonstrating that the borrower did not qualify for a loan, the documentation was ignored by Countrywide and the loan was re-submitted as a stated income loan with an inflated income number so as to obtain approval of the loan – a loan which the borrower could not afford to repay. These problems were systemic within Countrywide at the time the loans in the offerings at issue herein were originated.

764. Countrywide's general abandonment of its stated underwriting guidelines has also been the subject of numerous civil complaints and investigations by state attorneys general, each of which have alleged facts supporting plaintiff's allegations here that Countrywide's underwriting practices were not intended to evaluate borrowers' repayment ability. *See*, *e.g.*, *In re Countrywide Fin. Corp. Derivative Litig.*, No. 07-CV-06923-MRP (MANx) (C.D. Cal.); *In re Countrywide Fin. Corp. Sec. Litig.*, No. 07-CV-05295 MRP (MANx) (C.D. Cal.); *The People of the State of Illinois v. Countrywide Fin. Corp.*, No. 2008-CH-22994 (Cook Cty. Cir. Ct., Ch. Div. Ill.); *The People of the State of California v. Countrywide Fin. Corp.*, No. LC081846 (Cal. Super. Ct., Los Angeles Cty.); *State of Connecticut, et al. v. Countrywide Fin. Corp., et al.*, No. 08-cv-01301 (D. Conn.) (originally filed in Conn. Super. Ct., Hartford Jud. Dist.); *MBIA Ins. Corp. v. Countrywide*, No. 602825/2008 (N.Y. Sup. Ct., N.Y. Cty.). The sheer volume of the lawsuits, all alleging that Countrywide systematically abandoned its underwriting guidelines, is strong evidence that that is what in fact occurred.

765. Countrywide, unsurprisingly, made the list of the "Worst Ten in the Worst Ten" report by the U.S. Government's Office of the Comptroller of the Currency ("OCC"), which identified the

lenders with the highest number of foreclosures for loans originated between 2005 and 2007 in the ten metropolitan areas with the highest rates of foreclosures. The extremely high foreclosure rates for Countrywide's loans corroborate that the company did ***not*** comply with its purported underwriting guideline to evaluate borrowers' repayment ability. In addition, the U.S. Senate confirmed that Countrywide had abandoned its purported underwriting guidelines stated in the Offering Documents: ***Countrywide and other "lenders issued billions of dollars in high risk, poor quality home loans***." Levin-Coburn Report at 239.

3. The Offering Documents Misrepresented IndyMac's Underwriting Guidelines

766. As detailed *supra*, IndyMac's supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V, *supra*. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, IndyMac had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for the borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

767. IndyMac's concerted effort to fund as many loans as possible led it to become one of the country's largest and fastest-growing mortgage lenders from 2003-2006. Indeed, during this period, IndyMac's loan volume tripled, going from $29 billion to $90 billion in three short years. By 2008, however, IndyMac's reckless lending practices finally caught up with it, causing the bank to experience excessive losses that ultimately led to its undoing. On July 11, 2008, IndyMac was closed

by the Office of Thrift Supervision ("OTS") and taken under the control of the Federal Deposit Insurance Corporation ("FDIC").[16]

768. On June 30, 2008, the Center for Responsible Lending ("CRL") issued a report by Mike Hudson, entitled "IndyMac: What Went Wrong? How an 'Alt-A' Lender Fueled its Growth with Unsound and Abusive Mortgage Lending" (the "CRL Report"). The CRL Report, which was based on information obtained from 19 former IndyMac employees, concluded that IndyMac "engaged in ***unsound and abusive lending***" and "***routinely [made] loans without regard to borrowers' ability to repay***." CRL Report at 2.

769. According to the CRL Report, IndyMac's regular practice of originating loans that disregarded borrowers' ability to repay and failed to comply with the bank's stated underwriting and appraisal guidelines was ***not*** "caused by rogue brokers or by borrowers who lied." *Id*. at 1. Instead, this institutionalized practice was "spawned by top-down pressures that valued short-term growth over protecting borrowers and shareholders' interests over the long haul." *Id.* Indeed, the CRL Report describes the atmosphere at IndyMac as one "where the hunger to close loans ruled." *Id*. at 2. According to the CRL Report, this "hunger" led IndyMac to routinely "push[] through loans based on ***bogus appraisals*** and income data that ***exaggerated borrowers' finances***." *Id*.

770. The CRL Report details several accounts from former IndyMac employees which clearly demonstrate the bank's institutional disregard for its own stated underwriting and appraisal guidelines and borrowers' ability to repay their loans. Among other things, the CRL Report provides the following information:

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16 On March 19, 2009, the FDIC completed the sale of IndyMac's "assuming institution"– IndyMac Federal Bank, F.S.B. – to OneWest Bank, F.S.B.

- Audrey Streater, a former underwriter and underwriting team leader for IndyMac in New Jersey, stated in an interview: "'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. . . . I'm like, "What the Sam Hill? There's nothing in there to support this loan."'" *Id.* at 3.

- According to a former IndyMac vice president, former IndyMac CEO Michael Perry ("Perry") and other top managers "focused on increasing loan volume 'at all costs,' putting pressure on subordinates to disregard company policies and simply 'push loans through.'" *Id.*

- According to another former IndyMac employee, Perry once told him "'business guys rule'" and "'[expletive deleted] you to compliance guys,'" from which this former employee concluded that IndyMac was about "'production and nothing else.'" *Id.* at 4.

- According to Wesley E. Miller, a former underwriter for IndyMac in California, "when he rejected a loan, sales managers screamed at him and then went up the line to a senior vice president and got it okayed." *Id.* at 9.

- According to Scott Montilla, a former underwriter for IndyMac in Arizona, "when salespeople went over his head to complain about loan denials, higher-ups overruled his decisions roughly half of the time." *Id.*

- Montilla further stated in an interview: "'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" . . . . There were some loans that were just blatantly overstated.'" *Id.* at 10.

771. On February 26, 2009, the Office of Inspector General ("OIG") of the U.S. Department of Treasury issued a report entitled "Safety and Soundness: Material Loss Review of IndyMac Bank, FSB" (the "OIG Report"). The OIG Report found that "IndyMac's business model was to produce as many loans as possible and sell them in the secondary market," *i.e.*, to banks such as defendants. OIG Report at 21. According to the OIG Report, "[t]o facilitate this level of [loan] production . . . IndyMac often did not perform adequate underwriting." *Id.* Indeed, IndyMac frequently made loans with "little, if any, review of borrower qualifications, including income, assets, and employment." *Id.* at 11. As a result, the OIG concluded that IndyMac's loans "were made to many borrowers who simply could not afford to make their payments." *Id.* at 2.

772. Moreover, according to the OIG Report, "[a]ppraisals obtained by IndyMac on underlying collateral were often questionable as well." *Id.* The OIG Report found that "IndyMac officials accepted appraisals that were not in compliance with [the industry standard,] the Uniform Standard of Professional Appraisal Practice," and in some instances, IndyMac even "allowed the borrowers to select the appraiser" and/or accepted "appraisals where the property valuation was made without physical site inspection of the subject property or comparable properties." *Id.* at 12, 26.

773. IndyMac's improper and fraudulent lending practices were also documented in a separate action, *Fin. Guar. Ins. Co. v. IndyMac Bank, F.S.B.*, No. 08-CV-06010-LAP (S.D.N.Y. July 1, 2008) (the "*Fin. Guar.* Complaint"), where the complaint relied on the following information from former IndyMac employees:

- According to a former IndyMac central banking group vice president, IndyMac concocted "exceptions to its own underwriting guidelines that allowed IndyMac to make and approve mortgage loans that should have been denied under the actual guidelines and that direct fraud by IndyMac loan sales representatives was rampant in the mortgage loan origination process at IndyMac." *Fin. Guar*. Complaint, ¶37(b)(i).

- According to a former IndyMac loan underwriter, IndyMac's loan origination process had evolved into organized chaos where, at management's direction, any concessions or adjustments were made in order to close loans that would not normally be made, including inflating appraisals to make the loan work. *Id.*

- According to a former IndyMac vice president in IndyMac's mortgage banking segment, "in order to keep pace with its competition, IndyMac greatly loosened its underwriting guidelines in order to bring in more loans." *Id.*, ¶37(b)(iii).

- According to a former IndyMac senior auditor in IndyMac's central mortgage operations, "an increasing number of loans were made through apparently fraudulent or misrepresented documentation and there was an increase in defaults because of": (1) "these misrepresentations in the underwriting process"; (2) "the relaxation of the underwriting guidelines"; and (3) "approval of borderline loans." *Id.*, ¶37(b)(iv).

- According to a former IndyMac senior loan processor, "the increase in the number of IndyMac originated delinquent loans was due to misrepresentations and fraud occurring in the mortgage loan origination process." *Id.*, ¶37(b)(vi) [sic].

774. That IndyMac was not following its underwriting guidelines and attempting to determine whether its borrowers could actually afford to repay their loans is further corroborated by the fact that IndyMac made the OCC's "Worst Ten in the Worst Ten" list. If, as defendants represented, IndyMac was actually attempting to determine whether its borrowers could afford to repay their loans, the lender would not have experienced so many loan foreclosures.

4. The Offering Documents Misrepresented AHM's Underwriting Guidelines

775. As detailed *supra*, AHM's supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, AHM had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for the borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

776. The SEC instituted fraud charges against the former top executives of AHM's parent company, American Home Investment Corp. ("American Home Investment"), for their role in misleading investors regarding AHM's systematic disregard of sound underwriting standards and risky lending practices that ultimately led to the lender's bankruptcy on August 6, 2007. "'These senior executives did not just occupy a front row seat to the mortgage meltdown – they were part of the show,'" said Robert Khuzami, Director of the SEC's Division of Enforcement in a press release.[17] ***The SEC charged that AHM was not the "prime" lender it claimed to be, but rather routinely issued high-risk loans to borrowers with poor credit in order to drive growth and capture additional***

[17] SEC Press Release 2009-92, "SEC Charges Former American Home Mortgage Executives for Misleading Investors About Company's Financial Condition"(Apr. 28, 2009).

market share. American Home Investment's former CEO paid $2.5 million to settle the SEC's fraud charges.

777. Numerous statements from former AHM employees confirm that, in order to increase the volume of loan originations, AHM disregarded its stated underwriting guidelines, failing to evaluate the borrowers' true repayment ability and failing to obtain appraisals that complied with AHM's stated appraisal standards. A former Wholesale Account Executive, who worked at AHM from January 2005 through July 2007, stated that ***at AHM "anybody could buy a house with zero percent down and no proof of ability to pay [the loan] back***." According to this former employee, AHM regularly extended loans that are now classified as predatory. Likewise, a former Operations Manager in the lending division from 2002 through December 2006 stated that ***the borrowers' ability to repay the loan was not a consideration at AHM***.

778. Moreover, another former AHM Vice President from March 2003 through May 2007 confirmed that appraisal fraud was commonplace at AHM. Specifically, this former Vice President recounted how loan officers regularly pressured appraisers to falsely inflate their valuations in order to come up with the "right number." As a result, the appraisals upon which AHM's loans were based, as well as their resultant LTV ratios, falsely misrepresented the true level of risk associated with such loans.

779. Contrary to AHM's stated underwriting policy, AHM was not weighing all risk factors inherent in a loan file. Instead, according to former underwriters who worked at AHM, loans that were initially rejected for failing to comply with the underwriting guidelines were frequently approved by AHM's automated underwriting software.

780. According to former AHM loan underwriters during the relevant time period, AHM used automated underwriting software provided by Wall Street banks like defendants that approved loans that would not have been approved under AHM's stated underwriting guidelines. According to

a former Level 5 Underwriter who worked at AHM from 2004 until December 2006, AHM's initial rejections of loans because they did not comply with the stated underwriting guidelines were frequently overridden by defendants' automated underwriting software. Defendants' "guidelines" were based on what they could ultimately resell regardless of quality. This Underwriter pointed to a number of instances where the automated program approved loans that made no financial sense and were not likely to be paid back. As a result, AHM management routinely approved risky loans. This situation caused the Underwriter to "lose respect" for AHM, as the Underwriter believed that an underwriter's role was to look at the totality of the information in the loan application and ask "Does it fit?" and "Is it logical?" The Underwriter said that many of the loans approved by the automated underwriting software were loans on which he "would not have lent a dime."

781. In addition, although AHM's underwriting guidelines for stated income applications allowed for loans where there were "other compensating factors," such as higher credit scores or lower LTV ratios, in fact: (i) AHM allowed credit scores to be manipulated by the borrower, who would become an approved user on another person's credit card or other account who had better credit ratings; and (ii) AHM had no reasonable basis to believe that lower LTV ratios were accurate because AHM was aware that the appraisals being used by the company were inflated (thus leading to false, lower LTV ratios). Further, in order to achieve desired loan production, ***AHM was as a matter of course granting exceptions to its underwriting guidelines, even where actual "compensating factors" did not exist***. Because AHM's business was dependent on continually increasing volume, ***AHM granted exceptions as a matter of course, even when no real exception existed***.

782. In an effort to keep loan volume up despite a slowdown in activity, AHM's brokers became so aggressive that borrowers were given loans with different terms than they were originally promised. Borrowers have, in fact, complained that loans were switched on them by AHM, leaving them with mortgages they could not pay. Further evidence of AHM's poor underwriting practices

appeared when IndyMac hired over 1,400 of AHM's former employees. According to a former senior IndyMac underwriter, some of the AHM employees that IndyMac took in operated a "fraud shop" within IndyMac.

783. AHM also landed on the OCC's "Worst Ten in the Worst Ten" list of lenders with the highest numbers of foreclosures, further confirming that AHM did not originate loans pursuant to underwriting guidelines designed to evaluate repayment ability, as represented in the Offering Documents.

5. The Offering Documents Misrepresented MortgageIT's Underwriting Guidelines

784. In 2006, Deutsche Bank, AG ("Deutsche Bank") acquired MortgageIT, which acted as an originator for certain of the offerings at issue herein. As detailed *supra*, MortgageIT's supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, MortgageIT had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for the borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

785. As detailed by an August 22, 2011 complaint filed by the DOJ against Deutsche Bank and MortgageIT, the companies were accused of "knowingly, wantonly, and recklessly" permitting violations of underwriting guidelines. *See United States v. Deutsche Bank AG*, No. 11-cv-2976-LAK (S.D.N.Y. Aug. 22, 2011) (the "DOJ Complaint"). According to the DOJ Complaint, Deutsche Bank and MortgageIT "failed to implement basic quality control" procedures to ensure that the loans they originated conformed to these requirements. DOJ Complaint at 29. The DOJ further detailed MortgageIT's lax underwriting processes over several years. Among other things, the DOJ reported that MortgageIT had no in-house quality control procedures in place until late 2005; that it instead

contracted with a vendor who prepared letters detailing "serious underwriting violations"; and that MortgageIT employees, rather than reviewing and acting upon those findings, "stuffed the letters, unopened and unread, in a closet in MortgageIT's Manhattan headquarters." *Id.* at 31-32. Moreover, the DOJ Complaint alleges that, as early as May 2006, Deutsche Bank was aware of serious lapses in MortgageIT's underwriting practices, including its chronic failure to verify basic information concerning its subprime borrowers, such as income and employment status, and to review early payment defaults in the subprime loans it originated. *Id.* at 53-56.

786. According to the DOJ, these fundamental lapses in underwriting standards not only continued after Deutsche Bank acquired MortgageIT, they got worse. Beginning in 2006, MortgageIT, in an effort "[t]o increase sales," further cut down its quality control procedures, shifting the work of quality control personnel "from quality control reviews of closed mortgages . . . to assistance with production." ***This led the DOJ to conclude that "after Deutsche Bank acquired MortgageIT, it not only failed to fix the existing quality control deficiencies at MortgageIT, but it made a very bad problem even worse***." *Id.* at 35-36.

787. On May 10, 2012, MortgageIT and Deutsche Bank agreed to pay $202.3 million to settle the allegations in the DOJ Complaint. As part of the settlement, MortgageIT "***admit[ted], acknowledge[d], and accept[ed] responsibility***" that it: (1) did not maintain a quality control program that complied with HUD-FHA requirements; and (2) did not conduct a full review of all early payment defaults on loans endorsed for FHA insurance, and as a result, "contrary to the representations in MortgageIT's annual certifications, MortgageIT did not conform to all applicable HUD-FHA regulations" from 1999 through 2009. The HUD-FHA requirements that MortgageIT now admits it violated relate to the adequacy of the borrowers' ability to repay the loan, the borrowers' creditworthiness, and the appropriate valuation of the properties subject to the mortgages. DOJ Complaint at 13. In addition, MortgageIT admitted it issued loans which "did not meet all

underwriting requirements contained in HUD's handbooks and mortgagee letters, and therefore [was] not eligible for FHA mortgage insurance" from 1999 through 2009. Deutsche Bank also "***admit[ted], acknowledge[d], and accept[ed] responsibility***" as part of the settlement "for the fact" that after MortgageIT was acquired by Deutsche Bank, it was "***in a position to know that the operations of MortgageIT did not conform fully to all of HUD-FHA's regulations, policies, and handbooks***" and that "contrary to the representations in MortgageIT's annual certifications, MortgageIT did not conform to all applicable HUD-FHA regulations."

6. The Offering Documents Misrepresented First Franklin's Underwriting Guidelines

788. As detailed *supra*, First Franklin's supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, First Franklin had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for the borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

789. First Franklin was interested only in making large numbers of loans, not in whether borrowers could afford to repay the loans. On November 30, 2008, the *St. Petersburg Times* reported on the case of former First Franklin loan "closer" Inez Albury, who worked for First Franklin up until late 2007 processing loan applications. Albury reported that there was extreme pressure at the company to fund as many loans as quickly as possible, particularly during the 2006 to early 2007 time period. ***The St. Petersburg Times reported that First Franklin "[m]anagers made it clear [to Albury that] they needed to hit their numbers each month" and, as a result, Albury "reviewed as many as 20 loan applications a day . . . [yet] [s]he never rejected one." In a stunning admission that First Franklin did not even bother to check loan applications for compliance with First***

Franklin's underwriting guidelines, Albury stated: "'We had quotas we had to meet. . . . We didn't have time to look at [the loan applications]*.*'"

790. In another news article published on April 28, 2010, the *St. Petersburg Times* investigated a number of extremely risky loans made by First Franklin, revealing that First Franklin was not following its underwriting guideline of evaluating whether a borrower could afford to repay his or her mortgage loan. The news article focused on three loans First Franklin made in 2006. One was to a St. Petersburg, Florida woman "who owed the IRS several thousand dollars and had been unable to pay a $95,000 judgment." First Franklin loaned the woman $138,000, and did not require a down payment. Soon thereafter, the house went into foreclosure. A second loan was made to a Clearwater, Florida couple who had previously filed for bankruptcy, owing hundreds of thousands of dollars in debts. A "nothing down" loan to the couple was approved by First Franklin in 2006. That home also went into foreclosure shortly thereafter. The third loan was made to a Plant City, Florida man who also had previously gone bankrupt, also owing hundreds of thousands of dollars in debts. He too was given a nothing-down loan by First Franklin in 2006, and that home also quickly went into foreclosure. These examples demonstrate that First Franklin did not evaluate whether borrowers could afford to repay their loans.

791. First Franklin's lack of care or ignorance of its underwriting guidelines ensured that loans were ***not*** originated pursuant to those guidelines. However, the lender's lax underwriting practices not only led to a systematic abandonment of its stated guidelines, but also resulted in the lender becoming a hotbed for mortgage fraud. In fact, numerous news reports establish that mortgage fraud was endemic at First Franklin during the relevant period, and that numerous fraudulent loans that did not meet the underwriting guidelines were funded by First Franklin. Stunningly, in some cases, First Franklin's employees were either actively involved or complicit in mortgage frauds. For example, in the November 30, 2008 *St. Petersburg Times* exposé quoted above, a massive mortgage

fraud scheme was revealed by the newspapers' investigation, wherein First Franklin made at least six fraudulent loans in 2006, all of which went into default. The article described how fraudsters recruited straw buyers, corrupt appraisers that provided inflated appraisals, mortgage brokers who submitted false loan applications, and bank loan officers that approved the bogus loans. ***The newspaper consulted prosecutors and experts, who concluded that "'[t]he whole reason we're in this mess is because of the lenders.'" Those experts concluded "that often what allowed scams to work were banks that freely approved loans for borrowers who made absurd claims, like the carwash employee who supposedly earned $40,000 a month***." First Franklin was such a lender.

792. For example, in May 2008, the *Mansfield News Journal* reported that Ohioan Andrew Pfeifer pled guilty to fraudulently obtaining a mortgage loan from First Franklin in 2005. The news article reported that Pfeifer used falsified income, falsified liabilities and fake employment information on mortgage loan applications. The *Mansfield News Journal* article reported that ***Pfeifer claimed that lenders like First Franklin were involved with his fraudulent mortgage scheme: "[M]any people – bank staff, appraisers, accountants – participated in aspects of the scheme. Lending institutions encouraged him." The article quoted Pfeifer saying: "'I'm not the only one doing this***.'"

793. Similarly, the *Chicago Tribune* reported on February 22, 2009, that First Franklin borrower and Chicagoan Roy Shannon had sued First Franklin, claiming that First Franklin had fraudulently altered his loan application after he signed the loan documents. Shannon claimed that First Franklin falsely inflated his income on the loan application.

794. In Sacramento, California, Vera Kuzmenko and others were indicted for mortgage fraud, according to a news article in the *Sacramento Bee* published on November 8, 2011. Kuzmenko was charged with recruiting straw buyers for more than two dozen homes in 2006 and 2007, on which First Franklin provided loans. The loans were obtained by using loan applications with falsely

inflated income levels and assets. ***Kuzmenko "blamed the problems on lender First Franklin . . . . She said First Franklin's loan officers were responsible for any irregularities in the loan applications," according to the Sacramento Bee. A co-defendant also blamed First Franklin***.

795. First Franklin's lack of care and/or complicity in mortgage fraud led to numerous instances of fraudulent loans. For example, in Suffolk County, New York, *Newsday* reported in December 2008 that a borrower was indicted for mortgage fraud because he obtained loans in 2006 and 2007 from First Franklin by using straw buyers, inflated appraisals, overstated incomes, and false documents showing bogus borrower funds. *Newsday* reported that for all the loans, only a few payments were made before the homes went into foreclosure.

796. On October 4, 2008, the *New York Post* reported on the participants in a massive $200 million mortgage fraud scheme in New York and New Jersey. Garri Zhigun and others pled guilty to fraudulently obtaining loans in 2006 from First Franklin and other lenders, by using false documents, stolen identities, straw buyers, inflated sales prices, and misrepresentations that the borrowers would occupy the mortgaged properties.

797. On February 20, 2009, the *New York Post* reported on another mortgage fraud scheme involving properties in Long Island and Westchester County, New York, in 2006 and 2007. Inflated appraisals and falsified borrower information were used to obtain loans from several lenders, including First Franklin. ***The article quoted financial risk analyst Christopher Whalen criticizing the lenders and revealing their failure to abide by their underwriting guidelines: "Obviously, these people shouldn't have been qualified for loans if these [lenders] were doing their due diligence***."

798. On March 25, 2009, the *States News Service* reported on a federal indictment issued against 24 mortgage loan professionals, charging them with mortgage fraud. A mortgage broker in the Chicago area and an accomplice submitted a loan application to First Franklin containing false verifications of deposits and employment and a false accountant letter. First Franklin funded the loan.

799. Mortgage fraud involving First Franklin was rampant throughout the United States. For example, the *Pittsburgh Tribune Review* published an article on June 17, 2009, reporting on a borrower who fraudulently obtained a loan from First Franklin by using another person's social security number. On December 17, 2009, the *Targeted News Service* published a news article reporting on the indictment of a Portland, Oregon, mortgage broker who used falsified and inflated income and asset information on a borrower's loan application to obtain a loan from First Franklin in 2006. On February 9, 2010, the *Targeted News Service* reported on a Hood River, Oregon, man that pled guilty to mortgage fraud, in connection with obtaining a loan from First Franklin in 2006 by using falsified financial information, an inflated sales price, and a forged signature on the loan application. On May 12, 2011, the *States News Service* reported on a licensed loan originator in Portland, Oregon, that pled guilty to fraud in connection with obtaining a loan from First Franklin. The borrower used a false loan application to obtain the loan. On May 20, 2010, *Dow Jones Business News* reported that six people were indicted by the Justice Department in San Diego, California, for obtaining loans by submitting false loan applications for 36 loans worth $20.8 million to First Franklin and other lenders. The loans were obtained by using straw purchasers and false employment and salary histories. On September 15, 2011, the *Des Moines Register* reported that four Iowans had been indicted for at least 13 fraudulent mortgage loans funded between 2006 and 2008. At least one loan was from First Franklin and involved inflated income and a misrepresentation that the home would be owner occupied. On February 24, 2011, the *Targeted News Service* reported that six Kentuckians were indicted for fraud for obtaining mortgage loans by using false employment information, false bank account balances and other false information during the period from 2006 to 2008. First Franklin was one of the lenders involved. On November 2, 2010, the *Providence Journal* reported that Christopher Maselli, a Rhode Island state senator, was going to plead guilty to fraudulently obtaining two mortgage loans from First Franklin in 2007, by using a fake borrower,

misrepresenting the borrower's income, providing a fake lease agreement, and misrepresenting that the borrower would occupy the property. On July 21, 2011, the *States News Service* published a news article concerning a mortgage fraud scheme involving 48 properties and $7.5 million in loans in the Cleveland, Ohio area. Romero Minor, one of the participants in the scheme, pled guilty to recruiting straw buyers and submitting loan applications with false incomes and assets, inflated appraisals, and false representations that the properties would be owner occupied, during the period between 2003 and 2006. One of the lenders involved was First Franklin. On October 22, 2011, the *Sun-Sentinel* published a news article reporting on a Miami lawyer that was charged with participating in a mortgage fraud scheme. The Miami lawyer was reported to have inflated the prices of properties in 2006 to obtain loans from First Franklin.

800. Further confirming that First Franklin did not follow its underwriting guidelines is a lawsuit that was filed in August 2011 by several AIG companies against Bank of America Corp., Merrill Lynch, Countrywide and others, alleging that the defendants therein defrauded plaintiffs in connection with defendants' sale of RMBS to the plaintiffs therein. *See* Complaint, *American International Group, Inc., et al. v. Bank of America Corp., et al.*, No. 652199/2011 (N.Y. Sup. Ct., N.Y. Cty. Aug. 8, 2011) ("*AIG* Complaint"). In connection with drafting the allegations, the plaintiffs in the *AIG* case interviewed several former First Franklin employees. Those former employees confirmed that First Franklin had abandoned its underwriting guidelines. Those former First Franklin employees reported the following:

- ***A former First Franklin underwriter, from 2005 to 2007, stated that some of the lending practices at First Franklin were "'basically criminal,'" and that the company required underwriters to depart from First Franklin's stated underwriting guidelines in order to keep their jobs***. *AIG* Complaint, ¶20.

- ***This former underwriter also stated that managers pressured appraisers if they did not get the appraisal number they wanted and did so until a satisfactory number was returned***. *Id.*

- ***The former underwriter stated that she and another former underwriter were fired by First Franklin after they "'spoke out'" about the company's problematic lending practices***. *Id.*

- ***A former First Franklin senior underwriter until 2005 stated that her branch manager overrode her rejections of non-compliant loans because her branch manager thought that it was unlikely the defective loans would be identified by audits***. *Id.*, ¶302.

- ***The former senior underwriter stated that her branch manager routinely overrode the senior underwriter's rejections of loans with obviously falsely inflated incomes***. *Id.*

- ***The former senior underwriter also observed her branch manager approving obviously defective appraisals, instructing appraisers to omit material information that would have resulted in a lower appraisal value, and using appraisers that were known to generate inflated appraisals***. *Id.*, ¶303.

- ***Another former First Franklin underwriter stated that fellow underwriters "'would approve anything'" because their compensation was designed to incentivize the making of loans that did not comply with the underwriting guidelines***. *Id.*, ¶304.

- ***This former underwriter also stated that if underwriters rejected loans because they did not meet the underwriting guidelines, her manager would redirect the loan applications to a certain loan processor who would approve the loans anyway***. *Id.*

- ***The former underwriter recalled an instance where she found an obviously fraudulent loan application which she took to her manager; nonetheless, her manager approved the loan***. *Id.*

801. Further confirming that First Franklin systematically ignored its underwriting guidelines are the allegations set forth in two other lawsuits. In the first, insurer Ambac sued First Franklin, alleging that First Franklin breached representations and warranties it made concerning its mortgage loans that were subsequently insured by Ambac and then securitized. *See* Complaint, *Ambac Assurance Corporation, et al. v. First Franklin Fin. Corp., et al.*, No. 651217/2012 (N.Y. Sup. Ct., N.Y. Cty Apr. 16, 2012). According to the complaint, ***Ambac obtained and reviewed the loan files for 1,750 First Franklin loans. Ambac found an astounding 94% of the loans breached First Franklin's representations and warranties***. *Id.*, ¶10. ***The defects Ambac found included***:

- ***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 appraisals***; and
- ***Pervasive violations of the loan originator's own underwriting guidelines and prudent mortgage-lending practices, including loans made to borrowers (i) who made unreasonable claims as to their income, (ii) with debt-to-income and loan-to-value ratios above the allowed maximums, or (iii) with relationships to the applicable originator or other non-arm's length relationships***.

Id., ¶83.

802. First Franklin also made the OCC's list of lenders with the highest numbers of foreclosures in the ten metropolitan areas with the highest foreclosure rates. First Franklin had the seventh-highest numbers of foreclosures on loans it originated between 2005 and 2007. Had it actually been attempting to determine whether its borrowers could afford to repay their loans, First Franklin would not have had so many foreclosures.

7. The Offering Documents Misrepresented Option One's Underwriting Guidelines

803. As detailed *supra*, defendants' Offering Documents purported to describe the underwriting guidelines that were supposedly used by Option One in originating loans underlying plaintiff's certificates. *See* §V. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, Option One had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for the borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

804. In June 2008, the Massachusetts Attorney General sued Option One and others, alleging that, beginning in 2004, Option One "increasingly disregarded underwriting standards, created incentives for loan officers and brokers to disregard the interests of the borrowers and steer them into high-cost loans, and originated thousands of loans that [Option One] knew or should have known the borrowers would be unable to pay, all in an effort to increase loan origination volume so as to profit from the practice of packaging and selling the vast majority of [Option One's] residential subprime loans to the secondary market." *See* Complaint, ¶4, *Commonwealth of Massachusetts v. H&R Block, Inc., et al.*, No. SUCV2008-2474 (Mass. Super. Ct., Suffolk Cty. June 3, 2008). The Massachusetts Attorney General alleged that Option One's agents and brokers "frequently overstated an applicant's income and/or ability to pay, and inflated the appraised value of the applicant's home," and that Option One "avoided implementing reasonable measures that would have prevented or limited these fraudulent practices." *Id.*, ¶8. As a result, Option One's "origination policies . . . employed from 2004 through 2007 have resulted in an explosion of foreclosures." *Id.*, ¶10.

805. In November 2008, the Suffolk County Superior court granted a preliminary injunction in favor of the Massachusetts Attorney General, finding that "certain mortgage loans [issued by Option One] were 'presumptively unfair,' because they posed an unreasonable risk of default and foreclosure." On October 29, 2009, the Appeals Court of Massachusetts affirmed the preliminary injunction. *See Commonwealth v. Option One Mortg. Co.*, No. 09-P-134, 2009 Mass. App. LEXIS 1330 (Mass. App. Ct. Oct. 29, 2009).

806. On August 9, 2011, the Massachusetts Attorney General announced that H&R Block, Inc., Option One's parent company, had agreed to settle the suit for $125 million. *See* Press Release, Massachusetts Attorney General, "H&R BLOCK Mortgage Company Will Provide $125 Million in Loan Modifications and Restitutions" (Aug. 9, 2011). Media reports noted that the suit was being settled amidst ongoing discussions among multiple states' attorneys general, federal authorities, and

five major mortgage servicers, aimed at resolving investigations of the lenders' foreclosure and mortgage-servicing practices. The Massachusetts Attorney General released a statement saying that no settlement should include a release for conduct relating to the lenders' packaging of mortgages into securitizations. *See, e.g.*, David McLaughlin, *H&R Block, Massachusetts Reach $125 Million Accord in State Mortgage Suit*, Bloomberg, Aug. 9, 2011.

807. Similarly, in a lawsuit pending in the New York Supreme Court, former employees of Option One have provided information establishing that Option One did not comply with its stated underwriting guidelines. *See* Complaint, *Stichting Pensioenfonds ABP v. ACE Securities Corp, et al.*, No. 652460/2011 (N.Y. Sup. Ct., N.Y. Cty. Sept. 7, 2011). In that action, alleging misrepresentations in offering documents for RMBS like the instant action does, former Option One employees are the sources for the following allegations:

- ***A former Option One underwriter in Atlanta, Georgia, stated that for loans that were rejected by underwriters, the loans were escalated to the branch manager, who would overlook "red flags" and approve the loan at least 50% of the time. The same underwriter stated that loan applicants could lie about their incomes and that this false information was overlooked and the loans approved***. *Id.*, ¶152.

- ***An Option One underwriter in Marietta, Georgia, reported that stated income loans were approved even when the stated income was manifestly implausible***. *Id.*, ¶153.

- ***An Option One underwriter employed in Hawaii from November 2004 to January 2006 reported that the majority of stated income loans there had falsely stated incomes but he felt pressured to approve them anyway***. *Id.*

- ***An Option One staff review appraiser stated that during 2004-2007 he viewed Option One's appraisals as "bordering on fraudulent," and that whenever he objected his complaint would eventually be escalated to Option One's Appraisal Department at headquarters, whereupon the loan was approved***. *Id.*, ¶154.

808. News and media reports further confirm that Option One was originating loans that did not comply with its stated underwriting guidelines. For example, on October 26, 2007, *The Boston Globe* reported that a mortgage broker with which Option One did business was shut down by the

Massachusetts Division of Banks. The news article reported that the mortgage broker was shut down by the Commonwealth because it ***inflated the incomes of borrowers. The news article cited several examples of borrowers whose incomes had been falsely inflated, in some cases, nearly tripled***. In another instance, on January 22, 2010, *Dow Jones Newswire* reported on the story of Option One borrower Sarah Schrock, who "has a low credit score[,] . . . has had trouble holding on to jobs[, and] is deaf." In 2006, Schrock obtained a loan from Option One through a mortgage broker named Soldi Financial LLC. The news article reported that Schrock claimed a ***"Soldi loan broker falsified her income to get her into a loan [from Option One] whose monthly payment exceeded her income***." The article further reported that one of Soldi's regional managers was sentenced to prison for mortgage fraud unrelated to Schrock's loan. These news reports further confirm that Option One's loans did not comply with its underwriting guidelines.

809. Many consumer lawsuits have also been filed against Option One as a result of its questionable lending practices. In April 2009, a consumer lawsuit was filed in the United States District Court for the District of Massachusetts claiming Option One violated the Truth in Lending Act and the Real Estate Settlement Procedures Act by failing to disclose the true cost and interest rates associated with the borrower's mortgage. Another complaint filed in November 2009 alleged that Option One had intentionally inflated a borrower's income on the loan documentation to get the loan approved.

810. That Option One was not following its underwriting guidelines is corroborated by the OCC's "Worst Ten in the Worst Ten" list of lenders with the highest numbers of foreclosures on loans originated between 2005 and 2007. Option One had the sixth-highest number of foreclosures of any of the lenders on the OCC's list. Had Option One actually followed its underwriting guidelines and determined whether its borrowers could afford to repay their loans, Option One would not have had so many foreclosures.

811. Further support for the fact the Option One was not following its underwriting guidelines is found in the U.S. Senate Report. There, the Senate Subcommittee found that Option One had agreed to pay Goldman Sachs millions of dollars for defective loans that did not comply with Option One's underwriting guidelines, which Option One had originated and sold to Goldman Sachs. *See* Levin-Coburn Report at 487 n.2053. In addition, on December 30, 2007, *The Kansas City Star* reported that "Option One has shuttered its business and plans to write off $125 million in bad loans," another indicator that the company was not following its underwriting guidelines.

812. Finally, on April 24, 2012, the SEC sued Option One, alleging that it had misled investors concerning RMBS that Option One had sold. *See* Complaint for Violations of the Federal Securities Laws, *United States Securities and Exchange Commission v. Option One Mortgage Corp., et al.*, No. 12-cv-00633-JST-MLG (C.D. Cal. Apr. 24, 2012). In the complaint in that action, the SEC alleged that in 2007 Option One had concealed from investors that it was suffering financial difficulties as a result of, *inter alia*, the fact that Option One "***could not meet its loan repurchase obligations***." *Id.*, ¶10. ***Option One "was borrowing hundreds of millions of dollars to fund, among other things, loan repurchases***," according to the SEC's complaint. *Id.*, ¶60. The reason that Option One was required to repurchase so many loans was because they had not been originated pursuant to Option One's purported underwriting guidelines, thereby entitling the buyers of the loans to demand that Option One repurchase them. ***Option One's abandonment of its underwriting guidelines was so pervasive that it faced hundreds of millions in repurchase claims by 2007***. Option One settled the SEC's action for over $28 million.

8. The Offering Documents Misrepresented WaMu's and Long Beach's Underwriting Guidelines

813. Long Beach was a subsidiary of WaMu, and given that WaMu owned and controlled Long Beach during the relevant time period and was also an originator that engaged in the same type

of dubious lending practices, WaMu and Long Beach are discussed together herein. As detailed *supra*, the supposed underwriting guidelines used by WaMu and Long Beach were described by defendants in the Offering Documents. *See* §V. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, WaMu and Long Beach had completely abandoned their stated underwriting guidelines and were routinely originating loans without any regard for the borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

814. The U.S. Senate's Permanent Subcommittee on Investigations performed a "case study" on WaMu's and Long Beach's lending practices in connection with its investigation of the worldwide financial collapse. The investigation was based on the Subcommittee's collection and review of millions of documents from WaMu and others, including the review of internal e-mails, reports and memoranda, as well as interviews of at least 30 former WaMu employees and regulatory officials.

815. The U.S. Senate's investigation of WaMu and Long Beach conclusively established that, during 2004-2007 and before, WaMu and Long Beach ignored their stated underwriting and appraisal guidelines and made loans to borrowers who could not afford them. The Senate investigation expressly found, based on the interviews of former WaMu and Long Beach employees, as well as on the review of numerous internal company documents, that:

> ***WaMu and Long Beach engaged in a host of shoddy lending practices that contributed to a mortgage time bomb. Those practices included qualifying high risk borrowers for larger loans than they could afford; steering buyers to higher risk loans; accepting loan applications without verifying the borrower's income; . . . and authorizing loans with multiple layers of risk. In addition, WaMu and Long Beach failed to enforce compliance with their lending standards; allowed excessive loan error and exception rates; exercised weak oversight over the third party mortgage brokers who supplied half or more of their loans; and tolerated the issuance of loans with fraudulent or erroneous borrower information. They also designed compensation incentives that rewarded loan personnel for issuing a large volume of higher risk loans, valuing speed and volume over quality***.

Levin-Coburn Report at 49.

816. The U.S. Senate Report, based on an extensive investigation of the facts, further concluded that "WaMu and . . . Long Beach . . . used shoddy lending practices riddled with credit, compliance, and operational deficiencies to make tens of thousands of high risk home loans that too often contained excessive risk, fraudulent information, or errors." *Id*. at 50. The U.S. Senate investigation further found that "WaMu and Long Beach too often steered borrowers into home loans they could not afford," *id*. at 51, and also "securitized not just poor quality loans, but also loans that [their] own personnel had flagged as containing fraudulent information. That fraudulent information included, for example, misrepresentations of the borrower's income and of the appraisal value of the mortgaged property." *Id*. at 125.

817. The U.S. Senate Report detailed numerous instances where WaMu and Long Beach ignored their underwriting guidelines and engaged in outright lending fraud. *Id.* at 48-160.

818. Concerning WaMu, the U.S. Senate's investigation found:

> ***WaMu's combination of high risk loans, shoddy lending practices, and weak oversight produced hundreds of billions of dollars of poor quality loans that incurred early payment defaults, high rates of delinquency, and fraud.***

Levin-Coburn Report at 49.

819. The U.S. Senate Report also documented the following concerning WaMu:

> ***WaMu management knew of evidence of deficient lending practices, as seen in internal emails, audit reports, and reviews. Internal reviews of WaMu's loan centers, for example, described "extensive fraud" from employees "willfully" circumventing bank policy. An internal review found controls to stop fraudulent loans from being sold to investors were "ineffective." On at least one occasion, senior managers knowingly sold delinquency-prone loans to investors. . . . WaMu's President Steve Rotella described WaMu's prime home loan business as the "worst managed business" he had seen in his career.***
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> * * *
>
> ***From 2004 to 2008, WaMu originated a huge number of poor quality mortgages, most of which were then resold to investment banks and other investors***

> ***hungry for mortgage backed securities. . . . WaMu and Long Beach churned out a steady stream of high risk, poor quality loans and mortgage backed securities that later defaulted at record rates.***

Id.

820. The U.S. Senate investigation confirmed that on multiple occasions WaMu did not originate loans pursuant to its stated underwriting guidelines. For example, ***while "WaMu required its loan personnel to determine whether a loan applicant's stated income was reasonable, . . . evidence obtained by the Subcommittee indicates that requirement was not effectively implemented***." Levin-Coburn Report at 91. ***WaMu's ignoring of this underwriting guideline led to borrowers obtaining loans with "an income that was insufficient to support the mortgage amount being requested***." *Id.* at 92.

821. *The New York Times* published an article on WaMu on December 28, 2008, further confirming that WaMu routinely made loans to borrowers with insufficient income to repay their loans. The news article was based on the account of a former WaMu employee, John D. Parsons, a former WaMu supervisor at a mortgage processing center. He told *The New York Times* that ***he "'was accustomed to seeing baby sitters claiming salaries worthy of college presidents, and school-teachers with incomes rivaling stockbrokers'. He rarely questioned them. A real estate frenzy was under way and WaMu, as his bank was known, was all about saying yes." The news article further reported on the case of a borrower "claiming a six-figure income and an unusual profession: mariachi singer. Mr. Parsons could not verify the singer's income, so he had him photographed in front of his home dressed in his mariachi outfit. The photo went into a WaMu file. Approved***."

822. The U.S. Senate Report also found that a 2006 WaMu investigation of loans purchased by WaMu through its subprime conduit uncovered that ***the loans were "not underwritten to [WaMu's underwriting] standards***." Levin-Coburn Report at 89.

823. Numerous former employees are quoted in the U.S. Senate Report establishing many instances of departures from WaMu's underwriting guidelines. The U.S. Senate Report concluded that "WaMu's compensation policies," which rewarded employees for making loans instead of turning them down, "were rooted in the bank culture that put loan sales ahead of loan quality." *Id*. at 143. As a result, employees regularly ignored the lending guidelines and made loans that did not comply. As reported to the Senate Subcommittee, WaMu's Chief Credit Officer complained to the company's president that "'[a]ny attempts to enforce [a] more disciplined underwriting approach were continuously thwarted by an aggressive, and often times abusive group of Sales employees within the organization.'" *Id.*

824. WaMu was also infected with fraudulent loans that did not comply with the underwriting guidelines. These loans were subsequently sold and securitized into offerings like those at issue herein. *Id.* at 125. The U.S. Senate investigation noted several investigations within WaMu concerning fraudulent loans that confirmed extensive fraudulent lending by WaMu employees. Yet "***when senior management was informed of loans containing fraudulent information, [they] did little to stop the fraud***." *Id.* at 95. The U.S. Senate Report cited two investigations occurring in 2005 in Downey and Montebello, California, where it was found and reported to WaMu management that 58% and 83% of the loans reviewed from those respective offices had been fraudulently made and that WaMu employees were involved in the fraud. *Id*. at 96-101. The U.S. Senate Report found that nothing was done by WaMu's management – no one was fired or disciplined. Instead the employees involved in the fraud were allowed to continue to make loans and did so with a vengeance – subsequently winning company awards for high loan volumes. *Id.*

825. The U.S. Senate Report noted another investigation of the two California offices occurred two years later, in 2007, and again high levels of fraudulent loans were found. The U.S. Senate Report noted that this investigation found "***[e]xamples of fraudulent loan information***

uncovered in the 2007 review included falsified income documents, unreasonable income for the stated profession, false residency claims, inflated appraisal values, failure of the loan to meet [WaMu's underwriting] guidelines, suspect social security numbers, misrepresented assets, and falsified credit information." *Id.* at 99.

826. The U.S. Senate Report also cited a 2005 internal WaMu investigation of two high volume loan centers in Southern California that accepted loans from brokers. The investigation found that "'***78% of the funded retail broker loans reviewed were found to contain fraud***.'" *Id*. at 89.

827. The U.S. Senate Report also noted at least one instance where a WaMu sales associate confessed that he or she, and other WaMu sales associates, routinely falsified bank documents and asset statements of borrowers in order to get loans approved. This confessor stated that they did so because they were under extreme pressure to get loans funded and were instructed to do "'whatever it took.'" *Id*. at 101.

828. As further evidence that WaMu engaged in fraudulent lending, in June 2012, Edward Bangasser, a former loan officer at WaMu, was sentenced to 15 months in federal prison for his part in a fraudulent lending scheme that involved submitting false loan documents to secure loans during the period from 2004-2006.

829. With respect to Long Beach, the U.S. Senate investigation found that Long Beach was "known for issuing poor quality subprime loans [and that] [d]espite [its] reputation[] for poor quality loans, leading investment banks [such as defendants herein] continued to do business with [Long Beach] and helped [it and other lenders] sell or securitize hundreds of billions of dollars in home mortgages." Levin-Coburn Report at 21.

830. During the relevant period, Long Beach was overrun with loans that had not been originated pursuant to its underwriting guidelines. In 2004, Dave Griffin, a WaMu risk officer, was asked to review Long Beach. He prepared an internal memorandum concerning his findings and

stated: "'***[In] 2004: I conducted an informal but fairly intensive market risk audit of Long Beach . . . . We found a total mess***.'" *Id*. at 77. In 2005, a large number of Long Beach loans experienced early payment defaults, or EPDs, meaning the borrowers failed to make a payment within three months of the loans being sold to investors. EPDs "typically indicate[d] that ***there was a problem in the underwriting process***." *Id*. A review of the EPD loans was undertaken, and an internal company memorandum was prepared on November 11, 2005 detailing numerous violations of Long Beach's underwriting guidelines and/or fraudulent lending practices. The memorandum noted the following issues about the loans:

- "***High incident rate of potential fraud . . . .***"
- "***Underwriting guidelines are not consistently followed . . . .***"
- "***Stated Income should be reviewed more closely ([fraud] incidence rate of 35%) . . . .***"
- "***Signatures should be checked – 14% Borrowers signature vary[.]***"
- "***Altered documents are usually detectable – 5% White-out on documentation[.]***"

Id. at 78.

831. In addition, on April 17, 2006, WaMu's General Auditor conducted another audit of Long Beach's EPD loans and found that Long Beach had "'***breakdowns in manual underwriting processes***.'" *Id*. Other internal WaMu documents established that Long Beach was also engaging in a number of illegal predatory lending practices, also violations of its underwriting guidelines. *See* Levin-Coburn Report at 79. Things were so bad at Long Beach that ***WaMu president Rotella sent an e-mail to WaMu's CEO on September 14, 2006 describing Long Beach as "'terrible, in fact negative right now***.'" *Id*. at 80.

832. On January 2, 2007, WaMu's Chief Risk Officer, Ron Cathcart, forwarded an e-mail to colleagues concerning the "top five priority issues" at Long Beach. All of them dealt with failures at Long Beach to comply with its underwriting guidelines:

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

Id. at 82.

833. The Senate investigation uncovered several internal communications repeatedly documenting that Long Beach was not complying with its underwriting guidelines and/or was engaged in outright lending fraud. A sample of those documents contained the following quotes concerning Long Beach's underwriting (or more accurately the lack thereof):

- "'***[The review] confirmed fraud on 115 [loan applications] . . . .***'"
- "'***[U]nderwriting deficiencies is a repeat finding . . . .***'"
- "'***(71%) [of] stated income loans were identified for lack of reasonableness of income[.]***'"
- "'***(71%) had credit evaluation or loan decision errors . . . .***'"
- "'***(31%) had appraisal discrepancies or issues that raised concerns that the value was not supported.***'"
- "'***[T]he overall system . . . has deficiencies related to multiple, critical origination and underwriting processes . . . .***'"
- "'***Underwriting guidelines established to mitigate risk of unsound underwriting decisions are not always followed . . . .***'"
- "'***[A]ccurate reporting and tracking of exceptions to policy does not exist.***'"

Levin-Coburn Report at 84-85.

834. At a hearing before the U.S. Senate Subcommittee held on April 13, 2010, former WaMu Chief Risk Officer Jim Vanasek was asked if it was fair to say that WaMu was not worried

about the risk associated with Long Beach's loans because it sold those loans and passed the risk of such loans onto investors. Mr. Vanasek's answer was "'***Yes, I would say that was a fair characterization***.'" *Id.* at 85. This statement confirmed that neither WaMu nor Long Beach was worried about complying with their underwriting guidelines; instead they were only concerned with being able to sell their defective loans to defendants, which they were successful in achieving.

835. Because Long Beach was systematically abandoning its underwriting guidelines, it faced millions of dollars in loan repurchase demands from Goldman Sachs. *See* Levin-Coburn Report at 487 & n.2053. This is further evidence that the Offering Documents misrepresented that Long Beach originated loans pursuant to underwriting guidelines.

836. That the Offering Documents for offerings containing Long Beach loans were false is confirmed by the fact that Long Beach made the OCC's "Worst Ten in the Worst Ten" list of lenders with the highest numbers of foreclosures on loans it originated during 2005-2007. ***Only New Century – another originator at issue herein – had more foreclosures than Long Beach***. Long Beach's high foreclosure rate further corroborates the fact that, contrary to defendants' representations in the Offering Documents, it did ***not*** actually determine – or care – whether borrowers could afford to repay their loans.

9. The Offering Documents Misrepresented Argent's Underwriting Guidelines

837. As detailed *supra*, defendants' Offering Documents purported to describe the underwriting guidelines that were supposedly used by Argent in originating loans underlying plaintiff's certificates. *See* §V. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, Argent had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard

for the borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

838. Argent was a unit of Ameriquest, another of the originators at issue herein and discussed below. Like its parent company Ameriquest, Argent also had a corrupt culture and ignored its stated underwriting guidelines. Argent engaged in all the same deviations from its stated underwriting guidelines that Ameriquest did, *see id.* at §VI.A.11, and also engaged in the following additional conduct demonstrating that it did not originate loans pursuant to its stated underwriting guidelines.

839. The FCIC noted in its investigation that Argent went even further astray from its underwriting guidelines than Ameriquest did, with one of Argent's high-level executives engaging in not only fraudulent lending conduct but also ***criminal*** lending conduct. Starting in 2004, when some of the loans at issue herein were being originated, and continuing for "years" thereafter, when most of the rest of the loans at issue herein were being originated, Florida law enforcement investigated Argent's New York-based Vice President Orson Benn and others, concerning a scheme involving fraudulent mortgages. ***Argent's Vice President Benn and his accomplices "would prepare fraudulent loan documents . . . filled with information about invented employment and falsified salaries, and take out home equity loans" in others' names. FCIC Report at 164. "Benn, at Argent, received a $3,000 kickback for each loan he helped secure." Id. Benn eventually was convicted of his conduct of flouting Argent's underwriting guidelines, and was sentenced to 18 years in prison***.

840. In December 2008, the *Miami Herald* published a detailed article on Argent's lending practices in Florida. The *Miami Herald* article was based on interviews of borrowers, some of Benn's co-conspirators, and others. It was also based on the newspaper's review of 129 Argent loan files that the *Miami Herald* had obtained. The *Miami Herald* article disclosed that Benn was in charge of all

Argent lending in the state of Florida and approved more than $550 million in loans. The *Miami Herald*'s review of the loan files and interviews of relevant persons revealed the following deviations from Argent's underwriting guidelines:

- ***A borrower that claimed to work for a company that did not exist obtained a $170,000 loan***;
- ***A borrower that claimed to work at a job that did not exist obtained loans to buy four houses***;
- ***Phony backdated deeds were created and used***;
- ***At least 24 applications contained bogus telephone numbers for work references***;
- ***Three applications contained the telephone number of one of Benn's co-conspirators as a work reference number***;
- ***An application contained a bogus telephone number for a phony reference bank where the applicant purportedly had $63,000 on deposit***;
- ***Borrowers' actual incomes on applications had been fraudulently quintupled in at least one case without the borrowers' knowledge***;
- ***A former Argent employee obtained two mortgage loans on one home, one to pay for the property, while the other was illegally pocketed***;
- ***A borrower who was a clerk at a 7-11 convenience store showed a $55,000 increase in her net worth in just 20 days***; and
- ***Of the 129 loan files reviewed, 103 of them contained "red flags" such as "non-existent employers, grossly inflated salaries and sudden, dramatic increases in the borrower's net worth***."

841. The *Miami Herald* reported that ***Benn testified at his criminal trial that the accuracy of loan applications was not a priority at Argent***. In addition, Benn was not the only Argent employee involved in the fraud. Co-conspirator Sam Green, an Argent Account and Regional Production Manager, was also involved. Green was the former Argent employee that took out two mortgage loans for one property, and improperly pocketed the proceeds of one loan. Green was convicted and sentenced to nine years in prison for his part in the fraudulent scheme.

842. Argent's deviation from its loan underwriting guidelines went far beyond Benn's and Green's fraudulent scheme. Former Argent "Loan Closer" Tamara Loatman-Clark, who was based in New Jersey, also revealed to the American News Project in May 2009 that Argent did not comply with its stated underwriting guidelines. Loatman-Clark's job at Argent was to bundle and sell Argent's risky loans to Wall Street investment banks, *i.e.,* the defendants herein. In discussing the fraudulent practices occurring at Argent, Loatman-Clark stated: "***I mean, you did what you had to do, and again, if that meant manipulating [loan] documents, so that you can get them out, so that they could conform, that's what you did***."

843. Loatman-Clark further stated that Wall Street banks like the defendants wanted to buy Argent's loans very badly, and Argent wanted to get the loans off its books as quickly as possible. Therefore, when loan files were missing information or required documents, or contained errors, ***at Argent there was a great deal of "pressure" to make the loans quickly and, according to Loatman-Clark, "the incentive was to do whatever you needed to do to get the[] [loans] out, and that sometimes meant you manipulated documents to get them out" for sale to defendants***. Loatman-Clark estimated that ***90% or more*** of the Argent loans she was aware of were in a situation where the borrowers were either having difficulty making the loan payments or were facing foreclosure due to Argent's dubious practices.

844. In May 2008, the *Cleveland Plain Dealer* published a news article on mortgage fraud, in which it reported that "***[i]ndustry insiders say low echelon employees of companies like Argent actively participated in the fraud***." The article contained quotes from former Argent underwriter and account manager Jacqulyn Fishwick concerning Argent's lending practices. The article quoted Fishwick's characterization of her Argent colleagues' lending practices as "fast and loose," and she said she witnessed account managers removing documents from loan files and creating new

documents by "cutting and pasting them." Said Fishwick: "I personally saw some stuff I didn't agree with."

845. In addition, Argent's failure to truly assess the value and adequacy of the properties serving as collateral for its loans was the subject of a May 2010 report in *The Investigative Fund*. Specifically, the article provided an account from Steve Jernigan, a fraud investigator at Argent, who stated that he once went to check on a subdivision for which Argent had made loans, and the property addresses turned out to be in the middle of a cornfield. According to Jernigan, the appraisals had all been fabricated, with the same fake property picture being included in each file. Michael W. Hudson, *Silencing the Whistle-blowers*, The Investigative Fund, May 10, 2010.

846. Argent had the third-highest number of foreclosures of all lenders listed on the OCC's "Worst Ten in the Worst Ten" report of lenders with the highest numbers of foreclosures on loans originated between 2005 and 2007. Had Argent been following its stated underwriting guidelines and actually attempting to determine whether its borrowers could afford to repay their loans, it would not have experienced such a remarkably high foreclosure rate.

10. The Offering Documents Misrepresented Paul Financial's Underwriting Guidelines

847. As detailed *supra*, Paul Financial's supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, Paul Financial had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for the borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

848. In the Offering Documents describing Paul Financial's underwriting guidelines, defendants represented that such guidelines were primarily designed to evaluate the borrower's credit

standing and repayment ability, as well as the value and adequacy of the mortgaged property as collateral. These statements were false and misleading when made, for the following reasons.

849. According to a former Paul Financial Underwriting Assistant from 2004 through 2007, stated income loans "were real popular" at Paul Financial. However, she came to the realization that "a lot of people were lying about their incomes," according to this former employee.

850. Moreover, Paul Financial's underwriting guidelines, as described in the Offering Documents, represented that for stated income loans "the mortgage loan application is reviewed to determine that the stated income is reasonable for the borrower's employment." HVMLT 2005-11 Pros. Supp. at S-48. Notwithstanding this, no one at Paul Financial checked the reasonableness of the borrowers' stated incomes, according to the former Underwriting Assistant. In addition, even though Paul Financial required borrowers to sign IRS Forms 4506, which allowed Paul Financial to access the applicants' tax returns to verify income, this former employee never saw anyone at Paul Financial do so.

851. There were many instances of blatant falsifications of borrowers' incomes which were ignored by Paul Financial. According to a former Paul Financial Post-Closing and Broker Service Representative, who worked for the company from October 2003 until June 2005, he observed a number of occasions where a stated income applicant, working through a mortgage broker, was rejected for a loan because of insufficient income. However, after the rejections, the mortgage brokers would inquire as to what specific income amounts were needed to have the loans approved. Within minutes, higher income amounts were "stated" for the borrowers – inflated amounts that would qualify the borrowers for the loans – and the loans were then approved. According to this former employee, the inflation of stated incomes at Paul Financial as described above was a frequent occurrence. Approximately 70% to 80% of the loans that this former employee observed being funded during his tenure were stated income loans.

852. The foregoing pervasive practice of inflating borrowers' stated incomes was confirmed by a former Paul Financial Broker Service Representative and Account Executive, who worked for Paul Financial from 2005 through 2007. This former employee reported that Paul Financial allowed mortgage brokers to resubmit revised higher stated incomes for borrowers that had previously been denied loans because their initial stated incomes were insufficient.

853. The former Paul Financial Post-Closing and Broker Service Representative further revealed that real estate appraisers that worked with Paul Financial typically appraised the collateral ***at the exact purchase price***, which he found to be odd. This was simply another trick used by lenders during the relevant time period. As alleged elsewhere herein, appraisers were ordered to provide lenders with the inflated numbers that lenders demanded, or face being blackballed within the industry. In fact, the former Paul Financial Underwriting Assistant said that "a lot of times we felt [appraisals were] inflated."

854. The former Paul Financial Underwriting Assistant also observed that "a lot of times" when borrowers did not qualify for loans, they simply "changed [loan] programs," and thereafter were approved. This was another classic trick by which lenders during the relevant time period "qualified" borrowers for loans they could not actually afford. Indeed, the borrowers did not qualify for the loans in the first place, and the change of loan program was usually to a stated income loan "program," whereby the borrower, broker and/or lender could then falsely inflate the borrower's stated income.

855. In sum, Paul Financial lent money to nearly any borrower regardless of repayment ability. This is confirmed by the former Paul Financial Broker Service Representative and Account Executive, who reported that "it was extremely rare to get loans declined" at Paul Financial. It is also confirmed by the extremely high default rates for the loans in the offerings in which Paul Financial originated loans. *See, e.g.*, §V.B.17.d, *supra* (HVMLT 2007-2 offering has over 33% of loans from

relevant group in default); §V.B.7.d, *supra* (HVMLT 2005-15 offering has over 28% of loans from relevant group in default). Paul Financial had abandoned its underwriting guidelines.

11. The Offering Documents Misrepresented Ameriquest's Underwriting Guidelines

856. As detailed *supra*, defendants' Offering Documents purported to describe the underwriting guidelines that were supposedly used by Ameriquest in originating loans underlying plaintiff's certificates. *See* §V. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, Ameriquest had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for the borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

857. The FCIC documented how Ameriquest has long been one of the worst lenders in the United States. Rampant fraudulent lending practices occurred at Ameriquest both before and during the relevant time period. The FCIC obtained testimony from the former attorney general from Illinois, Lisa Madigan, who, along with a coalition of 49 states and the District of Columbia, investigated and sued Ameriquest for its abusive lending practices, ultimately settling with the company in 2006 for $325 million. Madigan's FCIC testimony revealed that Ameriquest routinely disregarded its borrowers' true repayment ability and violated its own stated underwriting guidelines by, among other things, "inflating home appraisals" and using other "fraudulent [lending] practices." FCIC Report at 12.

858. Ed Parker, the former head of Ameriquest's Fraud Investigations Department, told the FCIC that he detected lending fraud at the company within one month of joining it in January 2003. He sent reports to Ameriquest's senior management but they did nothing. He also heard that other company departments were complaining that he "'looked too much'" into the loans. *Id*. at 12. His

efforts to point out fraudulent lending practices at Ameriquest eventually led to first a demotion, and then subsequently to him being laid off by Ameriquest in May 2006. ***Parker reported that "fraudulent loans were very common at the company***" during his tenure at Ameriquest. *Id.* at 161. Ameriquest's dubious lending practices were so bad that the former president of the National Association of Mortgage Brokers told the FCIC that Ameriquest was "'***absolutely' corrupt***." *Id.* at 14.

859. The FCIC further found that "Ameriquest . . . originated vast numbers of high-risk, nontraditional mortgages that were . . . often beyond borrowers' ability to repay." *Id*. at 418. The FCIC also found that Ameriquest made loans "that would probably never be repaid." *Id*. at 424.

860. Other former Ameriquest employees have confirmed that the company had a culture of deception that ignored the underwriting guidelines even before the relevant time period. For example, Tyson Russum ("Russum"), a former Ameriquest Loan Officer, told a news reporter for National Public Radio in May 2007 that when he began work at Ameriquest in 2003, his first day consisted of watching a training video: "I think when I showed up for my first day there was three of us that were all new hires that came together and [they] told us to go into the conference room and watch a couple of videos. Well, the first video they threw in was a movie called 'Boiler Room.'" Boiler Room was a movie about corrupt stockbrokers selling stock in bogus companies. Russum stated that "[t]he impression I got was that they were trying to get across to us that it's basically ***make the sale at any cost***. And that kind of set the, I guess, set the mood for the next 11 to 12 months that I was with the organization."

861. Russum revealed that Ameriquest employees would white out income numbers on borrowers' Forms W-2 and bank statements and then fill in larger amounts to qualify borrowers for loans they could not afford. He stated that the practice was known within the company as taking the loan documents to the "art department." Russum also witnessed the forging of signatures on loan

documents. In addition, he witnessed the use of "bait-and-switch tactics," such as having borrowers unwittingly sign fake fixed-rate loan documents, thereby making the borrower believe he or she was obtaining a fixed-rate loan, but also including in the stack of papers the borrower was signing adjustable rate loan documents which the borrower then unknowingly signed. After the loan was extended, the faked fixed-rate loan documents were thrown away, locking the borrower into an adjustable rate loan that he or she did not want.

862. In addition, in other cases, Russum reported that Ameriquest managers encouraged loan officers to conceal from borrowers the actual costs and interest rates on loans and to lie to borrowers, putting the borrowers into loans they could not afford. For some loans made by Ameriquest, which had fixed payments for the first two years and then adjusted sharply upwards thereafter, managers instructed Russum to lie to the borrowers and tell them that the payments would be "fixed for as long as they need[ed] [them] to be," when in fact that was not true.

863. Ameriquest borrower Dianna Quartelli confirmed that such practices occurred, and also that Ameriquest put borrowers into loans they could not afford. She stated that Ameriquest initially told her that her loan payments would not increase. Subsequently, however, she received a letter advising her that her monthly payment of $849 was increasing to $1,200. Quartelli stated: "***[The letter] said now the mortgage [payment] was going to go up to $1,200. And also in that same letter, in six months, it was going up again, guaranteed not to go down. Well, we couldn't afford the $849 we were dealing [with]***."

864. Russum reported that Ameriquest personnel also routinely lied to borrowers by telling them that prepayment penalties on the loans would be waived, when in fact they were not. Some borrowers were required to pay more than $10,000 when they refinanced their loans early. Borrower Quartelli confirmed that Ameriquest had lied to her in this way also. Russum reported that one

borrower got so mad when he had been deceived in this way that he "threatened to come up and shoot us all in the head."

865. Russum confirmed that Ameriquest ignored its purported underwriting guidelines through the following statement that was reported by the American News Project in May 2009: "***[T]he entire system [at Ameriquest] [wa]s built to do whatever you can to close as many loans at the highest fee amount as possible***."

866. Former Ameriquest Loan Officer Omar Khan confirmed that the company falsified borrower incomes to qualify borrowers for loans they could not afford. In a news report from the American News Project in May 2009, Khan recalled situations where "***the borrower felt uncomfortable about signing the stated income letter***" – the portion of the loan application where the borrower was to report his income – "***because they didn't want to lie." Nonetheless, "the stated income letter would be filled out later on by the processing staff" at Ameriquest, and the loan was thereafter funded***. Khan also recalled "bait-and-switch" tactics at Ameriquest and said they occurred "because you could never get [the borrowers] to the table if you were honest."

867. Ameriquest's systemic abandonment of its stated underwriting guidelines, and its use of fraudulent loan practices, has led to the filing of numerous lawsuits against the company by its borrowers. The borrowers alleged that Ameriquest used faked documents, forged signatures, and falsified incomes to put borrowers into loans they did not want and which they could not afford.

868. That Ameriquest did not originate loans pursuant to its stated underwriting guidelines is corroborated by the fact that the company made the OCC's "Worst Ten in the Worst Ten" list of lenders with the highest numbers of foreclosures on loans originated between 2005 and 2007. Had Ameriquest actually followed its underwriting guidelines of determining whether borrowers could repay their loans, it would not have incurred so many foreclosures.

12. The Offering Documents Misrepresented Aames's Underwriting Guidelines

869. Aames was a California-based lender that originated loans for one of the offerings at issue herein. In May 2006, Aames was acquired by Accredited Home Lenders, Inc. ("Accredited"), another California-based lender. As a result of these lenders' consolidation during the period at issue herein, plaintiff's allegations regarding both Accredited's and Aames's conduct are set forth in the same section.

870. As detailed *supra*, defendants' Offering Documents purported to describe the underwriting guidelines that were supposedly used by Aames in originating loans underlying plaintiff's certificates. *See* §V. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, Aames had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for its borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

871. Accredited faced stiff competition from other lenders in a market that was rapidly expanding. As a result, in order to gain market share, the company deviated from its stated underwriting guidelines and disregarded both the borrowers' true repayment ability and the adequacy of the mortgaged properties to serve as collateral. According to a former Accredited Regional Manager, who worked for the company from 2003 through 2005, the constant refrain that he heard from Accredited's account executives was "if we don't do [the loan] somebody else will." He stated that the mortgage market "was screaming for new loans," and that Accredited's competitors, such as Argent and New Century, "were ready to fund the deal" no matter the quality of the loan. This created great pressures on Accredited's account executives to find ways to have their loans approved.

872. As a result, Accredited engaged in lending fraud. According to a former Senior Underwriter, who worked at Accredited's Austin, Texas branch from July 2006 through March 2007, the company originated numerous stated income loans with falsified incomes. According to the former Senior Underwriter, ***Accredited had a pattern and practice, on stated income loan applications, of falsely adjusting borrowers' incomes upward so that the borrowers would appear to qualify for the loans under the company's underwriting guidelines.*** This Senior Underwriter's manager routinely asked the Senior Underwriter to falsely increase borrowers' incomes. In fact, the Senior Underwriter's manager hosted a tour for visiting outside mortgage brokers at Accredited's Austin branch. The purpose of the tour was to attempt to have these independent mortgage brokers do business with Accredited, that is, to bring borrowers to Accredited. According to the former Senior Underwriter, during this tour, ***the Senior Underwriter's manager told the brokers that "unlike other originators [Accredited] will adjust stated incomes if necessary***." In addition, on another occasion, at a branch meeting for the operations team, the former Senior Underwriter recalled that a new employee had questioned the practice of allowing Accredited employees to adjust stated incomes. ***Accredited Operations Manager Will Shipp publicly responded: "It is common practice to change the stated income, but we will talk about that later***." The former Senior Underwriter found Accredited's practices involving stated income to be so objectionable that she resigned from the company.

873. The underwriting system at Accredited allowed loan processors, account executives and underwriters to adjust loan applications. Thus, according to the former Senior Underwriter, the underwriting system lacked any security feature, and therefore any employee was allowed to view and adjust loan applications. This left Accredited's loan applications open to manipulation, which frequently occurred. The Senior Underwriter recalled situations where she had rejected a loan only to later learn her rejection had been overridden and the loan approved.

874. According to a former Accredited Regional Manager, account executives would often bypass him and go over his head to seek approval for rejected loans and loans with unmet conditions from Lance Burt, Accredited's Divisional Manager for Southern California. The former Regional Manager stated that Burt had the final authority to approve loans and in fact "made the final approval of all loans." He described Burt's authority as "carte blanche" to approve any loans that he (Burt) wanted. The former Regional Manager joked that Burt had "the magic pen" and could make loans happen. He stated that Burt "routinely signed off" on rejected loans, approving them. The former Regional Manager also stated that he believed that Burt also approved non-compliant loans from high-producing independent mortgage brokers in order to maintain the business relationship between the company and the brokers. In other words, the decision to approve defective loans in these circumstances became a "business decision," according to the former Regional Manager.

875. The former Regional Manager recalled a situation where an Accredited account executive was terminated because the account executive had committed fraud with at least 10-15 funded loans. However, Accredited never reported the incident to law enforcement or anyone else, in order to avoid negative publicity and a potential decline in the company's stock price. He noted that the fired account executive began working at Countrywide within a few days.

876. According to a former Corporate Underwriter in Accredited's Orange, California, office, who worked for the company from 1995 until 2007, there were many problems in Accredited's loans. For example, the former Corporate Underwriter saw issues such as stated "income[s] [that were] out of whack" with the stated profession, and paystubs that appeared to be fraudulent. In other cases, she questioned whether or not the applicant actually "lived in the house" listed on the application as the current residence. ***This former Corporate Underwriter reported that Divisional Manager Burt also routinely overrode her rejections of loans, as he had done with the former***

Regional Manager. This former Corporate Underwriter stated that "[a] lot of loans" were approved by Burt which she believed lacked any credible basis for approval.

877. According to the former Corporate Underwriter, there were instances of account executives manipulating closing documents after loan approval with the assistance of document "drawers." She recalled an account executive "paying off" a document drawer "to turn the other way" while the account executive manipulated and falsified the loan documents on the document drawer's computer.

878. Further corroboration that Accredited routinely ignored its stated underwriting guidelines comes from a former Accredited Underwriter who worked in one of Accredited's Florida offices, from 2005 until 2006. The former Underwriter stated that, rather than following its stated underwriting guidelines, ***if the borrower came close to meeting the guidelines, Accredited approved the loan application***. Moreover, the former Underwriter reported that his Operations Manager regularly issued overrides for loans that did not comply with the underwriting guidelines, and approved them anyway.

879. A lawsuit filed against Accredited in late August 2007 confirms the accounts of the foregoing former Accredited employees that Accredited ignored its underwriting guidelines. In late August 2007, shareholders of Accredited's parent company, Accredited Home Lenders Holding Co., filed a complaint against the company and its officers and directors, alleging that they committed securities fraud by lying about the company's financial condition. *See* Corrected Consolidated Class Action Complaint, *Atlas v. Accredited Home Lenders Holding Co., et al.*, No. 07-cv-488-H (RBB) (S.D. Cal. Aug. 24, 2007) (the "*Atlas* Complaint"). In the *Atlas* Complaint, the plaintiffs cited to reports from at least 12 former Accredited and Aames employees. Those former employees reported a pervasive and systematic disregard by Accredited of its underwriting guidelines, including the following:

- ***According to a former Corporate Underwriter who worked at Accredited between June 2004 and March 2005, "the Company approved risky loans that did not comply with its underwriting guidelines"; his rejections of loans "were frequently overridden by managers on the sales side of the business"; and his overridden loan rejections involved loans containing improper "'straw borrower[s],'" employment that could not be verified, inflated incomes, and violations of Accredited's DTI, credit score, LTV and employment history requirements***. *Id*., ¶¶48-49.

- ***According to a former Accredited employee from 1998 until December 2006, pressure to approve loans, regardless of quality, was especially bad from mid-2005 until the time she left the company at the end of 2006, and Accredited's growing issue with problem loans was due to management's overrides of the underwriting and appraisal processes***. *Id*., ¶¶50-51.

- ***According to a former Corporate Underwriter at Accredited from August 2003 until February 2006, her decisions to reject loans were constantly overridden by management, and such overrides "were rampant***." *Id*., ¶¶56-57.

- ***According to a former Accredited Regional Manager who worked at the company throughout 2005, "the Company's underwriting guidelines were frequently overridden by senior management***." *Id*., ¶¶58-60.

- ***According to other former Accredited employees who worked at the company during the relevant time period (2004-2007), management frequently overrode underwriters' decisions to reject loans that did not comply with the underwriting guidelines. According to one underwriter, when underwriters challenged the overrides they were told by management: ""'You have to go forward with it."' If you made a big stink about it, they would raise their eyebrows and say "'Do you want a job?"'" Other former employees recounted loan applications that were approved with inflated incomes, inflated appraisals, and suspicious verifications of employment***. *Id*., ¶67.

- ***Several former Accredited employees who worked with appraisals reported that the company management overrode licensed appraisers' decisions and approved many loans based on inflated appraisals***. *Id*., ¶77.

- ***A former Aames and Accredited employee reported that both Aames and Accredited frequently made exceptions to their underwriting guidelines. According to this former employee, while Aames's violations of the underwriting guidelines were limited to one exception per loan, at Accredited it was common to see multiple exceptions per loan***. *Id*., ¶83.

880. Accredited ultimately paid $22 million to settle the shareholders' lawsuit in 2010.

13. The Offering Documents Misrepresented Downey's Underwriting Guidelines

881. As detailed *supra*, the supposed underwriting guidelines used by Downey were described by defendants in the Offering Documents. *See* §V. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, Downey had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for the borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

882. Contrary to its stated underwriting guidelines, Downey was lending to anyone, without regard to whether the borrowers could afford to repay their loans. According to a former Downey Loan Funder from 2000-2007, who was responsible for the final review of the loan file to make sure all conditions were met and signed off on, nine out of every ten loans Downey made had "exceptions," *i.e.*, they did not meet the underwriting guidelines. ***This former Downey employee stated that "absolutely anyone could get a loan" at Downey***. On many occasions, this former employee saw loans that made no financial sense. She saw obviously inflated stated incomes, and many loans that "shot up a red flag" because the borrower's job title and stated income did not make sense. She recalled one instance where an auto mechanic claimed $7,000 per month in income. The former Downey employee's husband was an auto mechanic and she knew that was not possible. When she brought these types of issues to the attention of her managers she was told not to question them and that it was "not her responsibility" to question such things. This former Loan Funder stated that Downey's management simply did not care.

883. The former Loan Funder reported that underwriters were simply not doing their jobs. A former Downey SEC Reporting Analyst from 2006 through 2007 confirmed this. This former

employee stated that underwriters used to "almost laugh about it: another guy who cuts lawn[s] just qualified for a million dollar loan."

884. In addition, according to a former Downey Branch Manager from 2001 through 2006, she and her employees were very uncomfortable selling certain Downey loan products to borrowers because the loans were not in the borrowers' best financial interests – borrowers were put into loans they could not afford.

885. According to a former Downey Senior Underwriter, who worked for the company from 2004 through 2007, Downey was one of the loosest lenders in the industry. This former employee complained to her superiors about the "bad loans" Downey was making. However, her superiors first ignored her, then told her to "turn the other cheek," and then proceeded to pressure her to pass defective loans through underwriting. This former employee stated that "doing the right thing was not a priority" at Downey. This former Downey Senior Underwriter stated that she felt that Downey's lending practices were wrong and that complaining about it did not make a difference.

886. According to a former Downey Operations Manager from 2005 through 2007, she complained to Downey's upper management on a regular basis that there was no way the borrowers would be able to pay back the loans Downey was making. She was told the following by upper management: "[D]on't try to fight this . . . this is just how we've always done things." This former employee recalled numerous loan applications with obviously inflated and false incomes which she brought to management's attention, only to be told "[t]hat's not your problem" or "[t]hat's not your business." She subsequently learned the loans were approved and funded. This former employee stated that approximately 70% to 80% of the loans she denied were subsequently approved by upper management. According to this former Downey employee, her complaints led to retaliation by the corporate office, by way of increased audits of her office and reductions in employees' bonuses. So

many loans that did not comply with the underwriting guidelines were approved by Downey that "exception[s]" to the underwriting guidelines "became the rule," according to this former employee.

887. A former Downey Special Projects Manager from 2004-2007, who was located at Downey's corporate offices with its executives, reported that the corporate culture was "get [the borrowers] to qualify however you could." Downey's executives did not care whether the borrowers could afford to repay their loans. Instead, according to the former Special Projects Manager, Downey's top executives' attitude was "take the money and run."

14. The Offering Documents Misrepresented First Horizon's Underwriting Guidelines

888. As detailed *supra*, the supposed underwriting guidelines used by First Horizon were described by defendants in the Offering Documents. *See* §V. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, First Horizon had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for the borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

889. First Horizon's abandonment of underwriting guidelines is confirmed by reports, lawsuits, and other sources that have described rampant underwriting failures by First Horizon throughout the relevant period. For example, on May 9, 2008, a group of plaintiffs filed a class action suit against First Horizon National Corporation, First Tennessee Bank, N.A., and certain individual defendants for ERISA violations based on their investment of employee retirement plans in First Horizon National Corporation's own stock. *See Sims v. First Horizon Nat'l Corp.*, No. 08-cv-2293 (W.D. Tenn. May 9, 2008). The plaintiffs claimed that First Horizon National Corporation required plan participants to invest in the company's stock, which was imprudent because First Horizon was

lowering its underwriting standards, and increasing its use of off-balance sheet transactions. In their Third Amended Complaint, the plaintiffs alleged:

- First Horizon's "national expansion strategy" consisted primarily of opening offices around the country while failing to create an appropriate credit review structure, audit and accounting infrastructure to provide adequate oversight for the greatly increased production. First Horizon placed insufficient emphasis on such functions as internal audit, accounting and governmental compliance, while pouring resources into production. *Id.*, ¶87.

- As of the beginning of 2006, First Horizon's real estate valuation processes did not comply with regulatory guidance. While this significant problem was the subject of numerous regulatory examinations and communications, the flaws in First Horizon's processes were so serious that the company failed to attain compliance with applicable regulatory guidance during 2006 and 2007. Internal reporting cited the fact that First Horizon did not have accurate locations recorded for all real estate collateral, and was unable to keep up with the identification of problem assets in the residential commercial real estate portfolio, which delayed timely recognition of losses and appropriate provisioning. The appraisal processes also had serious flaws which caused significant problems in the valuation of real estate. *Id.*, ¶93.

- First Horizon's compensation practices and staffing favored short-term product growth over proper risk management. As of January 1, 2006, compensation was not aligned with the prudent management of the institution and its risks. Product sales staff were hired without regard to whether First Horizon had sufficient management to oversee, account and reserve for the risks of such sales. *Id.*, ¶100.

- Once First Horizon began to use more appropriate methodologies and data analytics in internal auditing, audit reporting described significant problems and issued "unsatisfactory" ratings, including in the processes, procedures and controls used in consumer appraisal ordering, compliance with loan collateral requirements, and customer/credit risk due diligence for certain products, among other matters. *Id.*, ¶104.

890. On September 30, 2009, the United States District Court for the Western District of Tennessee denied in part the defendants' motions to dismiss the plaintiffs' claims, holding that the plaintiffs had adequately pleaded that the defendants breached their fiduciary duties to the plaintiffs by investing in First Horizon stock when it was no longer prudent to do so. *See generally Sims v. First Horizon Nat'l Corp.*, No. 08-cv-2293, 2009 WL 3241689 (W.D. Tenn. Sept. 30, 2009). On October 10, 2010, the court confirmed that order, denying the defendants' request for reconsideration.

891. First Horizon's poor originator practices eventually caught up to the company, and many entities that purchased loans from First Horizon forced the company to buy them back. As stated in its 2009 Annual Report, First Horizon admitted that it had "observed loss severities ranging between 50 percent and 60 percent of the principal balance of the repurchased loans and rescission rates between 30 and 40 percent of the repurchase and make-whole requests."

892. Additionally, in June 2010, shareholders filed a derivative suit on behalf of nominal defendant First Horizon National Corporation and against individual defendant Gerald L. Baker, among others, alleging that First Horizon National Corporation engaged in unlawful origination activities, failed to disclose the true risks and losses as a result of such unlawful origination activities, and failed to implement and follow controls designed to minimize risk and loss. *See Reid v. First Horizon Nat'l, et al.*, No. 10-cv-02413-STA-cgc (W.D. Tenn.). Though the complaint was dismissed on statute of limitations grounds, its allegations corroborate plaintiff's claims here that First Horizon systematically failed to adhere to its underwriting guidelines.

893. Borrower information from the offering at issue herein for which First Horizon originated loans further confirms that the company did not follow its stated underwriting guidelines. Indeed, large numbers of borrowers from the FHAMS 2006-FA2 offering have defaulted on their loans, thereby indicating that they could not afford them and revealing that First Horizon did not evaluate the borrowers' repayment ability as represented. *See* §V.B.33.d. These extremely high default rates confirm that First Horizon abandoned its stated underwriting guidelines.

894. Moreover, defendants' offering documents also stated that there were no loans within the offering with LTV ratios over 100%. Nonetheless, numerous loans within the relevant loan group of the FHAMS 2006-FA2 offering had LTV ratios in excess of 100%. *See* §V.B.33.b.

895. First Horizon was able to manipulate the LTV ratios artificially lower by using falsely inflated appraisals. By using inflated appraisals, First Horizon also violated its stated underwriting

guideline to evaluate the adequacy of the property to serve as collateral for the loan. The use of inflated appraisals rendered it impossible to evaluate the adequacy of the collateral.

15. The Offering Documents Misrepresented GMAC's Underwriting Guidelines

896. As detailed *supra*, GMAC Mortgage, LLC (f/k/a GMAC Mortgage Corporation), GMAC Bank and Homecomings Financial Network, Inc. (collectively, "GMAC") supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, GMAC had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for the borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

897. In the Offering Documents describing GMAC's underwriting guidelines, defendants represented that such guidelines required the lender to make a determination that the prospective borrower's monthly income was sufficient to repay the mortgage and all related expenses, and that an appraisal was generally performed in connection with each mortgage loan. These statements were false and misleading when made, for the following reasons.

898. The fact that the loans in the offerings identified above failed to adhere to GMAC's underwriting guidelines is confirmed by the allegations of a separate lawsuit concerning loans originated by GMAC. In particular, the complaint in *MBIA Ins. Corp. v. J.P. Morgan Securities LLC (f/k/a Bear, Stearns & Co., Inc.)*, No. 64676/2012 (N.Y. Sup. Ct., N.Y. Cty., Sept. 14, 2012) ("*MBIA* Complaint"), alleges that a substantial percentage of the loans underlying the GMACM 2006-HE4 offering "had not been originated in compliance with GMAC Mortgage's loan-underwriting guidelines or with applicable laws." *MBIA* Complaint, ¶¶2, 36-51.

899. Specifically, the *MBIA* Complaint alleges that, as part of its fraudulent plan to induce MBIA to issue a financial-guaranty-insurance policy related to the GMACM 2006-HE4 offering, Bears Stearns Co. engaged a third-party due diligence firm, Mortgage Data Management Corporation ("MDMC"), to conduct a review "designed to identify the extent to which the origination practices applied to the loans in the [GMACM 2006-HE4 offering] failed to comply with GMAC Mortgage's Underwriting Guidelines and applicable laws and regulations." *Id.*, ¶36. In order to accomplish this goal, MDMC reviewed the loan files for a sample of 150 loans from the collateral pool supporting the offering. *Id.*, ¶46. In reviewing the loan files, MDMC "checked for critical data deficiencies, deficiencies in legal documentation, adherence to GMAC Mortgage's Underwriting Guidelines, and compliance with federal, state, and local laws." *Id.* "The approximately 150 loans reviewed by MDMC were chosen by Bear Stearns as a random sample . . . so that the results could be extrapolated to the entire [2006-HE4] collateral pool." *Id.*, ¶47.

900. MDMC's initial results "identified 85 of the approximately 150 loans within the reviewed sample as receiving a credit or compliance decision of 'fails' or 'unacceptable.'" *Id.*, ¶48. Although MDMC was subsequently able to "clear" 33 of these loans, the due diligence provider's final report "continued to identify 52 of the approximately 150 loans in the sample – or approximately one-third – as receiving failing credit or compliance grades." *Id.*, ¶51. In other words, "approximately one-third of the loans in the sample had not been originated in compliance with GMAC Mortgage's loan-underwriting guidelines or with applicable laws." *Id.*, ¶4. Yet, "Bear Stearns did not seek to have any of the defective loans removed from the collateral pool." *Id.*, ¶51. These allegations confirm that GMAC's loans failed to confirm to its own stated underwriting guidelines.

16. The Offering Documents Misrepresented BankUnited's Underwriting Guidelines

901. As detailed *supra*, the supposed underwriting guidelines used by BankUnited were described by defendants in the Offering Documents. *See* §V. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, BankUnited had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for the borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

902. BankUnited routinely deviated from its underwriting standards, granted exceptions in the absence of compensating factors, and originated loans based on grossly unreasonable stated income and other fraudulent information. BankUnited's loan underwriting culture and practices were largely focused on originating as many loans as possible, without due regard for the borrowers' true repayment ability or the adequacy of the mortgaged properties to serve as collateral. This was confirmed by former BankUnited employees.

903. One such former employee was an Assistant Vice President ("AVP") of Secondary Marketing at BankUnited for ten years until January 2010. During that time, the former AVP's job duties included executing bulk or MBS sales to the federal agencies and investment banks, including RBS. According to this former employee, the defective underwriting practices at BankUnited permeated all of the lender's loans, not just "one loan here and one loan there." It became very apparent to the former AVP that BankUnited's underwriting personnel had "***dropped the ball a lot,***" and that there were "underwriting issues" with the loans which "should have been obvious" at the time these loans were originally underwritten. According to the former AVP, some of BankUnited's underwriters were "pretty generous" and "pretty loosey-goosey," which resulted in problematic loans

"happening over and over again." As a result of these "issues in the underwriting department," the former AVP began to be concerned about the quality of BankUnited's loans as early as 2006.

904. According to the former AVP, BankUnited personnel certainly knew there were problematic elements to the loans, even though BankUnited was representing and warranting that there was "no fraud" in the loans. In the witness's own words, the Vice President of Sales "***knew what he was dumping into the secondary market.***" In fact, according to the former employee, brokers had been "***sending [BankUnited] crap,***" because the "word on the street" was that BankUnited would approve almost anything. Moreover, the former AVP stated that she believed investment banks, such as defendants, frequently ***negotiated lower purchase prices for BankUnited's loans due to their failure to adhere to BankUnited's underwriting guidelines***.

905. According to the former AVP, there was "***huge pressure***" on BankUnited's sales and underwriting managers to make numbers. Underwriters were subordinate to sales, a fact which clearly compromised underwriting quality. The Vice President of Sales was essentially "running the show" and had final approval authority. As such, he would often approve loans that subordinate underwriters did not feel comfortable approving, due to the intense pressure from sales to "make numbers," which kept increasing. The former AVP recalled one specific month where BankUnited had closed $200 million in loans, and the loan production goal was raised to $300 million the next month and $400 million the following month. According to the former AVP, senior management, including the Vice President of Sales, profited from the increasing volume of loans because they received "***humungous bonuses***." And according to a former underwriting manager, as a result, "***there was pressure to approve borderline" loans and loans with "gray areas***."

906. Another witness who worked as an Underwriting Manager in the Walnut Creek, California, office from July 2005 to December 2012 added that for approximately 50% of the loans that were approved as exceptions to the underwriting guidelines, it was "hard to explain" what

compensating factors warranted the exception. Yet another witness who worked as a Secondary Market Analyst at BankUnited from 2005 to 2010 was not surprised that BankUnited loans purchased by RBS performed so poorly, because, according to this witness, the underwriting practices used to originate such loans were simply "too lax."

907. Moreover, according to witnesses, BankUnited routinely approved loans on the basis of falsely inflated borrower incomes and falsely inflated appraisals. The former AVP identified above echoed these sentiments about stated income loans at BankUnited, specifically recalling one instance where a ***tow-truck driver was approved for a loan based on a stated income of $36,000 per month***. According to this same former employee, there was "***a lot of fraud in [BankUnited's] loans***," in terms of borrowers and/or brokers submitting falsified Forms W-2 and pay stubs, inflated appraisals and incorrect information from the title companies.

908. In sum, contrary to defendants' representations in the Offering Documents, BankUnited systematically failed to evaluate the borrowers' repayment ability and the adequacy of the mortgaged properties to serve as collateral.

17. The Offering Documents Misrepresented NovaStar's Underwriting Guidelines

909. As detailed *supra*, defendants' Offering Documents purported to describe the underwriting guidelines that were supposedly used by NovaStar in originating loans underlying plaintiff's certificates. *See* §V. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, NovaStar had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for the borrowers' true repayment ability or the actual adequacy of the mortgaged properties to serve as collateral.

910. NovaStar's underwriting guidelines were applied unevenly and subjectively, and were interpreted differently by each of NovaStar's regional operations centers. NovaStar's loan underwriters were pressured by management to approve loans and were encouraged to "think outside the box," *i.e.*, find ways to approve loans that did not meet the underwriting guidelines. This conduct was condoned at the highest levels of the company, in an effort to have NovaStar originate as many loans as possible.

911. Promotional materials that NovaStar sent to its network of brokers expressly indicated that NovaStar ignored its underwriting guidelines. For example, brokers were sent a memo that stated "Did You Know NovaStar Offers to Completely Ignore Consumer Credit!," an obvious concession that NovaStar would not evaluate whether borrowers could afford to repay their loans. Another memo similarly stated: "Ignore the Rules and Qualify More Borrowers with our Credit Score Override Program!"

912. According to a former NovaStar employee in Ohio, who worked for the company from April 2002 until March 2007, and held several positions – first in NovaStar's Pre-Closing Quality Control/Fraud Audit Department, then as an Account Manager, and then ultimately as an Underwriter from 2003 until he was laid off in March 2007 – ***he approved loans that did not comply with the underwriting guidelines by granting "exceptions" without even seeing the loan file***. He was instructed by the Vice President of Sales to be aggressive in granting exceptions to loans that did not meet the underwriting guidelines so that company Account Executives could bring in more business. Consequently, this former employee granted exceptions most of the time because NovaStar wanted to build up its business.

913. This former Underwriter confirmed that NovaStar routinely ignored all but one of its stated underwriting guidelines – a borrower's credit score – with exceptions being routinely granted to all of the rest of NovaStar's underwriting guidelines. This former employee stated that NovaStar

treated its underwriting guidelines as simple parameters, with the actual "unspoken law" being to approve loans.

914. This former NovaStar employee described two particularly risky loan products that NovaStar sold in which fraudulent loan information was frequently used. One was called a "TIN" loan, which was made to resident aliens who lacked social security numbers but had "tax identification numbers" (hence, the acronym "TIN"). These borrowers typically had little or no credit histories and were allowed to "state" their incomes. He saw loans approved under this program where house cleaners and landscapers were falsely claiming to make $7,000 per month.

915. The other risky loan product that this former Underwriter saw at NovaStar was the "Condex" loan. These loans were for a certain type of condominium. This Underwriter stated that these loans ran counter to NovaStar's underwriting guidelines, violating a number of the guidelines, and underwriters were supposed to deny such loans. Yet NovaStar continued making these types of loans. He stated these loans were horrendous.

916. In addition to the foregoing, the former Underwriter saw many other instances of loans that violated the underwriting guidelines. He recalled an example of a loan he denied because of an inflated appraisal, only to see his denial overturned and the loan approved by his Regional Operations Supervisor. He further recalled examples where borrowers' incomes were at a level that caused their DTI ratios to be too high to qualify for a loan under the underwriting guidelines. Later, the same borrowers were resubmitted, but this time the borrowers' incomes had been falsely increased, just enough so that the borrowers' DTI ratios now fell within the underwriting guidelines, qualifying them for the loans. He also recalled examples where borrowers were switched from full documentation loans to stated income loans, because the borrowers' bank statements showed the borrowers made, for example, only $700 per month. Later, the same borrowers were switched to stated income loans, which now falsely "stated" that the borrowers' incomes were significantly higher. The former

Underwriter stated that company Underwriting Supervisors sometimes threw out the bank statement page that showed the lower income, and that his Regional Supervisor did this "a lot." He also stated that NovaStar improperly allowed borrowers' family members to verify borrowers' incomes and rent histories.

917. This former Underwriter noted that NovaStar did not make an example of brokers that made large numbers of loans even though it was known within NovaStar that they engaged in improper conduct, simply because they brought in a lot of business. He also confirmed that NovaStar Account Executives routinely made gifts to underwriters of cash, drugs and other things. Some underwriters approved loans because of the gifts. In summary, this former Underwriter stated that NovaStar lost its morals as the company grew.

918. Another former NovaStar employee who worked in various positions at the company – as an Account Manager and Underwriter from 2003 until May 2007 – confirmed that the company routinely approved loans which did not comply with the company's underwriting guidelines. This former NovaStar employee stated that he frequently "butted heads" with one of the company's "big dog" Account Executives, who wanted to get his loans approved. This former NovaStar employee would not approve the Account Executive's loans because they did not comply with NovaStar's underwriting guidelines. Accordingly, the "big dog" Account Executive went over the former employee's head, to the company's Vice President of Operations, and got the loans approved. This happened frequently to the former NovaStar employee. The loans that this Account Executive had approved by upper management included loans in obvious violation of NovaStar's underwriting guidelines.

919. This former NovaStar employee also recalled seeing loan files with fabricated employment information and misrepresentations about whether the loan was for a primary residence or an investment property.

18. Clayton's Findings Confirm that the Offering Documents Were False and Misleading

920. As previously alleged, defendants hired Clayton, an independent third-party due diligence provider, to assess the quality of the loans underlying plaintiff's certificates. Specifically, Clayton was tasked with testing small samples of the loans underlying plaintiff's certificates in order to determine whether the loans complied with their stated underwriting guidelines, or were subject to compensating factors that would merit an exception to such guidelines; were supported by valid appraisals/valuations; and had other valid characteristics. Clayton generally provided its findings to defendants in the form of written reports and updates, which were delivered to defendants on a daily basis throughout the duration of a typical due diligence project. This was first made public in late September 2010, when the FCIC released testimony and documents from Clayton.

921. In September 2010, Clayton provided to the FCIC trending reports it created that summarized its work for various Wall Street banks, including the RBS Defendants at issue herein. Among other things, these reports established that, during the period from January 1, 2006 through June 30, 2007 – when the vast majority of the loans at issue herein were originated, and when most of the certificates were being sold to plaintiff – Clayton determined that ***18.4% of the mortgage loans it tested for RBS did not comply with their stated underwriting guidelines, nor did they possess adequate compensating factors to warrant an exception to such guidelines.*** The same reports also established that, during the same time period, RBS actually "waived" back into the purchase pools for their offerings approximately ***53.3% of the specific loans that had been affirmatively identified as defective***. *See* Clayton Trending Reports, *available at* http://fcic.law.stanford.edu/hearings/testimony/the-impact-of-the-financial-crisis-sacramento#documents (last visited June 24, 2013).

922. The forgoing information from Clayton undisputedly establishes that defendants' representations in the Offering Documents – namely that the certificates' underlying loans complied with the stated underwriting guidelines – were false and misleading at the time defendants made them.

923. Moreover, defendants not only knowingly included in the offerings loans that had been affirmatively identified as defective, they also ***did no further testing on the vast majority of unsampled loans***, even in the face of Clayton's reports indicating – at a 95% confidence level – that such loans were subject to the same ***18.4% defect rate*** uncovered by Clayton's samples. In fact, defendants, fully aware of the situation, turned a blind eye to the information, did no further testing, and then ***included these defective loans into the offerings***, thereby rendering the Offering Documents materially false and misleading. As the FCIC later pointed out, "***one could reasonably expect [the untested loans] to have many of the same deficiencies, and at the same rate, as the sampled loans,***" and that defendants' failure to do any further testing or disclose Clayton's findings "***rais[ed] the question of whether" the Offering Documents "were materially misleading, in violation of the securities laws***." FCIC Report at 170.

924. Moreover, recently discovered evidence establishes that the above Clayton defect rates and numbers of defective loans that were "waived" into defendants' offerings were actually ***understated***. In a lawsuit entitled *Ambac Assurance Corp. v. EMC Mortgage LLC, et al.*, No. 650421/2011 (N.Y. Sup. Ct., N.Y. Cty.), excerpts of a deposition transcript of a former Clayton employee were recently filed. The former Clayton employee (whose identity was redacted) testified that ***all*** of Clayton's Wall Street clients (including the RBS Defendants) ***instructed Clayton to ignore defective loans, to code defective loans as non-defective, and to change loans that had been graded as defective to non-defective***. The essence of the former Clayton employee's testimony was that defendants instructed Clayton to fraudulently change defective, non-complying loans into compliant

loans. The effect of such efforts was that Clayton's reports ***understated*** the number of loans that were defective and which were included in defendants' offerings.

19. Actual Loan and Borrower Information Confirms that the Offering Documents Were False and Misleading

925. Plaintiff has obtained information concerning loans within the offerings at issue herein and the attendant borrowers from public bankruptcy filings and other sources. This information confirms that there was a systemic abandonment of the stated loan underwriting guidelines in this case by the loan originators at issue in this action. The following examples conclusively demonstrate that the loan originators used by the RBS Defendants did not originate loans in conformance with the underwriting guidelines set forth in the Offering Documents, and did not evaluate either the creditworthiness of the borrowers or their ability to repay the loans. Because of the large number of offerings at issue in this action, plaintiff has not provided examples from every offering. However, the examples provided are not aberrations or outliers. Rather, they are an accurate representative sample of the underwriting defects that permeated all of the loans and offerings at issue herein and loan originators in general during the relevant time period. Indeed, as previously alleged, former Clayton executive D. Keith Johnson confirmed in his testimony to the FCIC that the breakdown in lending standards was "systemic."

926. The systemic breakdown in loan underwriting guidelines with respect to the loans at issue in this action is further confirmed by, among many other things, the huge numbers of loans at issue herein that have subsequently defaulted. Indeed, as alleged more fully at §V, *supra*, nearly all of the loan groups supporting plaintiff's certificates have double-digit default rates, ***with the vast majority of the loan groups having stunning defaults rates between 40%-50%, and with many having default rates in excess of 50%.*** The fact that so many loans have defaulted is strong evidence

that the lenders at issue herein did not follow their loan origination guidelines and did not determine, or care, whether borrowers could afford to repay their loans.

927. The following information concerns loans and borrowers from the RBS Offerings at issue herein:

(1) AMIT 2006-1 Offering

928. A borrower obtained a loan for $168,000 in 2005 which was contained within the AMIT 2006-1 offering. The loan was originated through Aames, one of the loan originators identified in the Offering Documents. ***This borrower had income in 2005 of only $833 per month***, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $4,561, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy shortly after obtaining the loan at issue, in 2006.

(2) ARSI 2006-M3 Offering

929. A borrower obtained a loan for $636,000 in 2006 which was contained within the ARSI 2006-M3 offering. The loan was originated through Argent, one of the loan originators identified in the Offering Documents. This borrower and his wife had joint income in 2006 of $2,183 per month, according to their sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $5,537, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower and his wife declared bankruptcy shortly after obtaining the loan at issue, in 2007.

(3) FFML 2006-FF8 Offering

930. A borrower obtained a loan for $344,964 in 2006 which was contained within the FFML 2006-FF8 offering. The loan was originated through First Franklin, the loan originator identified in the Offering Documents. This borrower had income in 2006 of $7,200 per month, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $8,637, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy shortly after obtaining the loan at issue, in 2007.

(4) HVMLT 2005-13 Offering

931. A borrower obtained a loan for $600,000 in 2005 which was contained within the HVMLT 2005-13 offering. ***This borrower had income in 2005 of only $677 per month***, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $2,703, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy shortly after obtaining the loan at issue, in 2006.

(5) HVMLT 2007-5 Offering

932. A husband and wife obtained a loan for $427,500 in 2007 which was contained within the HVMLT 2007-5 offering. The loan was originated through AHM, the loan originator identified in the Offering Documents. These borrowers had income in 2007 of $3,416 per month, according to the borrowers' sworn bankruptcy filings. ***However, the borrowers' monthly debt payments were at least***

$8,078, far in excess of the borrowers' monthly income. The borrowers' monthly debt payments were in addition to the borrowers' monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, these borrowers could not afford to repay the loan. This is confirmed by the fact that the borrowers declared bankruptcy shortly after obtaining the loan, in 2007.

(6) LBMLT 2006-2 Offering

933. A borrower obtained a first-lien loan for $700,000, and a second-lien loan for $175,000 in 2005/2006 which were both contained within the LBMLT 2006-2 offering. The loans were originated through Long Beach, the loan originator identified in the Offering Documents. ***This borrower had monthly income in 2005 of only $1,416, and only $1,188 for 2006***, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $7,997, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, this borrower could not afford to repay the loans. This is confirmed by the fact that the borrower declared bankruptcy shortly after obtaining the loans at issue, in 2006.

(7) OOMLT 2007-3 Offering

934. A borrower obtained a loan for $509,865 in 2007 which was contained within the OOMLT 2007-3 offering. The loan was originated through Option One, the loan originator identified in the Offering Documents. This borrower had income in 2007 of $4,327 per month, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $4,642, more than the borrower's monthly income. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like***. Clearly, this borrower could not afford to repay the loan. This is

confirmed by the fact that the ***borrower declared bankruptcy shortly after obtaining the loan at issue, in 2007***.

(8) OOMLT 2007-4 Offering

935. A borrower obtained a loan for $748,000 in 2006 which was contained within the OOMLT 2007-4 offering. The loan was originated through Option One, the loan originator identified in the Offering Documents. ***This borrower had no income in 2006***, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $6,825, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy shortly after obtaining the loan at issue, in 2007.

(9) POPLR 2006-E Offering

936. A husband and wife obtained a loan for $281,000 in 2006 which was contained within the POPLR 2006-E offering. The loan was originated through Equity One, one of the loan originators identified in the Offering Documents. The borrowers had income in 2006 of $2,408 per month, according to the borrowers' sworn bankruptcy filings. ***However, the borrowers' monthly debt payments were at least $2,999, far in excess of the borrowers' monthly income***. The borrowers' monthly debt payments were in addition to the borrowers' monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, these borrowers could not afford to repay the loan. This is confirmed by the fact that the borrowers declared bankruptcy after obtaining the loan at issue, in 2008.

B. Defendants Made Material Misrepresentations Regarding the Underlying Loans' Loan-to-Value Ratios

937. As set forth *supra*, defendants' Offering Documents affirmatively misrepresented the LTV ratios associated with the certificates' underlying loans. *See* §V. For the reasons set forth immediately below, these misrepresentations were material to plaintiff's investments in the certificates.

938. An LTV ratio is calculated by dividing the loan amount into the value of the mortgaged property. LTV ratios are extremely important to both investors and the Credit Rating Agencies, because they are indicative of the credit quality and safety of a particular loan or group of loans. Generally speaking, a lower LTV ratio indicates a higher credit quality, safer loan. Conversely, a higher LTV ratio indicates a lower quality, riskier loan.

939. To explain, the mortgaged property serves as collateral and security for the repayment of the loan. If the borrower defaults on the loan, foreclosure occurs and the property is sold, with the proceeds of the sale going toward paying the outstanding loan balance, but only after all other expenses are paid. If there is insufficient collateral, *i.e.*, the sale proceeds (minus all expenses) are less than the outstanding loan balance, the investor suffers a loss. A low LTV ratio indicates that there is more collateral, or security, for the loan in the event of a foreclosure. In other words, the investor is less likely to face a situation where the sale proceeds net of expenses are less than the outstanding loan amount, and therefore the investor is less likely to suffer a loss. In addition, a lower LTV ratio indicates that the borrower has more "equity" committed to the property, and is thus less likely to default on the loan compared to a borrower with little or less equity, who consequently has less financial incentive to avoid defaulting on the loan. As a result, the lower the LTV ratio, the more likely it is the borrower will repay the loan, and the more likely it is that there will be sufficient

security to make the investor whole, and avoid a loss, in the event of a default and/or a decline in real estate values.

940. In any case, an investor ***never*** wants a group of loans with a large number of loans with LTV ratios over 100%, as that implies a ***certain loss*** in the event of foreclosure. Moreover, a group of loans with a high number of loans with LTV ratios over 100% is highly susceptible to default, because the borrowers have little financial incentive to continue making payments if their financial circumstances change or the value of the properties decline. An understanding of the true LTV ratios associated with the loans underlying a given RMBS is thus essential to an investor, as it allows the investor to properly gauge the risk associated with the investment.

941. Because LTV ratios are critically important to the risk analysis for a given RMBS, they also constitute one of the critical pieces of information used by the Credit Rating Agencies' computerized rating models to determine what credit ratings should be assigned to RMBS certificates. Generally, the lower the LTV ratios, the higher the ratings the Credit Rating Agencies assign to the certificates. Moreover, the lower the LTV ratios, the less credit enhancement the Credit Rating Agencies generally require to obtain "investment grade" credit ratings. And the less credit enhancement that is required, the less costly, and more profitable, the RMBS offering is to the entities structuring, marketing and selling the RMBS (*i.e.*, defendants here).[18]

942. Defendants were very aware of the foregoing. Accordingly, defendants affirmatively misrepresented the actual percentages of the certificates' underlying loans that had LTV ratios in

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[18] "Credit enhancements" can take numerous forms, but one common form is to require the sellers (defendants in this case) to include additional collateral, *i.e.*, additional loans or better credit quality loans, in the offering to help ensure the expected cash flow. Either way, the practical effect is that additional credit enhancements represent additional costs and/or decreased profit margins to the entities responsible for the offering.

excess of 80% and 100%. These representations were intended to convey that there was sufficient protection against losses in the event of defaults, and that the loans (and therefore the certificates) were of high credit quality, and were safe, solid investments. Unfortunately for plaintiff, defendants' representations concerning the LTV ratios associated with the certificates' underlying loans were false and misleading when made. *See* §V, *supra*.

943. Defendants accomplished their deception by using false and inflated appraisals and valuations for the relevant properties, as alleged above. Because false and inflated appraisals were used, defendants were able to generate artificially understated LTV ratios, which were then included in the Offering Documents.

944. The appraisers knew that their appraisals were false and inaccurate, and did not believe them to be true. The appraisers, and others providing valuations, were being strong-armed into providing inflated valuations by the lenders, who threatened the appraisers with being black-balled in the industry and excluded from future work unless the inflated valuations were provided. In other instances, appraisers were being bribed into providing inflated valuations by lenders who paid the appraisers above-market fees for inflated valuations and/or rewarded appraisers with substantial additional work for inflated appraisals. In yet other instances, lenders intentionally provided appraisers with false sales information designed to generate inflated appraisals and valuations. Lenders also required appraisers to rely on information outside the relevant market to support inflated valuations. Lenders and some appraisers further retaliated against any appraisers that questioned or criticized their corrupt practices.

945. Defendants were well aware that the appraisal valuation process was being actively manipulated by loan originators and appraisers, and therefore also knew that the reported property valuations and LTV ratios for the loans did not reflect accurate information. Defendants learned such facts when they performed due diligence on the loans, as well as through Clayton, and by virtue of

their participation in originating the loans, and through their ownership and control of lenders and their close relationships with them. Defendants had little incentive to correct the inflated appraisals – and did not – because inflated appraisals led to larger loan amounts, thereby increasing the size of defendants' RMBS offerings, and decreased credit enhancement requirements, all of which, in turn, increased defendants' compensation and profits. Accordingly, defendants knew that the LTV ratios reported in the Offering Documents were not accurate or reliable indicators of the credit quality of the loans, and that such LTV ratios had no reasonable basis in fact.

C. Defendants Made Material Misrepresentations Regarding the Underlying Loans' Owner Occupancy Rates

946. As set forth *supra*, the Offering Documents misrepresented the OOR percentages, or Primary Residence Percentages, associated with the loan groups supporting plaintiff's certificates. *See* §V. For the reasons set forth immediately below, these misrepresentations were material to plaintiff's investments in the certificates.

947. The purpose behind disclosing the OOR percentages associated with a particular group of loans supporting RMBS is to identify the percentage of such loans that are owner occupied or primary residences – that is, the percentage of loans issued to borrowers who purportedly lived in the mortgaged properties. Primary Residence Percentages are extremely important to investors like plaintiff, because borrowers are much less likely to default on loans secured by their primary homes, as opposed to loans secured by investment properties or second homes. Accordingly, higher Primary Residence Percentages indicate safer loans, and thus safer RMBS certificates, while lower Primary Residence Percentages indicate riskier loans, and thus lower credit quality certificates.

948. Because Primary Residence Percentages are critically important to the risk analysis for a given RMBS, they also constitute one of the critical pieces of information used by the Credit Rating Agencies' computerized rating models to determine what credit ratings should be assigned to RMBS

certificates. Generally, the higher the Primary Residence Percentages, the higher the ratings the Credit Rating Agencies assign to the certificates. Moreover, the higher the Primary Residence Percentages, the less credit enhancement the Credit Rating Agencies generally require to obtain "investment grade" credit ratings. And the less credit enhancement that is required, the less costly, and more profitable, the RMBS offering is to the entities responsible for structuring, marketing and selling the RMBS (*i.e.*, defendants here).

949. Well aware of this dynamic, defendants systematically overstated the Primary Residence Percentages associated with plaintiff's certificates, as set forth *supra*. As a result, defendants created the false impression that the loans and certificates were of higher credit quality than they in fact were. Indeed, in most instances, defendants materially overstated the actual Primary Residence Percentages by double-digit percentages. *See* §V, *supra*.

950. Defendants knew, based on their due diligence of the loans, Clayton's reports and their own active role in the loan origination process, that the Primary Residence Percentages for the certificates' underlying loans were being actively manipulated by loan originators and borrowers. Specifically, defendants were well aware that borrowers were misrepresenting their residency status in order to obtain lower interest rates and/or eligibility for higher LTV or DTI ratio loans. Defendants were further aware that the originators were also actively manipulating the Primary Residence Percentages in order to receive higher prices when selling their loans. Even though defendants were aware that the Primary Residence Percentages were falsely inflated, they did not challenge them or change them to reflect the true OORs because defendants knew that higher Primary Residence Percentages for the loans would result in higher credit ratings from the Credit Rating Agencies and less additional credit enhancement requirements for their offerings, thereby increasing defendants' profits in selling the certificates. As a result of the foregoing, defendants knew that the Primary

Residence Percentages stated in the Offering Documents were false and had no reasonable basis in fact.

D. Defendants Made Material Misrepresentations Regarding the Credit Ratings for the Certificates

951. As set forth *supra*, in each of the Offering Documents at issue herein, defendants represented that the certificates plaintiff was purchasing had or would have certain high, safe, "investment grade" credit ratings from at least two of the three major Credit Rating Agencies (S&P, Moody's and/or Fitch). *See* §V. For the reasons set forth *supra* and immediately below, these representations were both material and false.

952. Credit ratings are extremely important to investors in assessing the quality and safety of RMBS certificates. Credit ratings on such securities indicate how reliable and safe the investments are, and are used to predict the likelihood that they will perform, *i.e.*, pay, as expected and return the investor's principal at the end of the lending term. The credit ratings of the certificates were very important to plaintiff, as they were required to purchase only certificates that were rated "investment grade" by the Credit Rating Agencies. Indeed, many of the certificates purchased by plaintiff received the highest, safest credit ratings available – "Aaa" by Moody's or "AAA" by S&P and Fitch. These credit ratings indicated that the certificates were the "safest of the safe," as such ratings were ***the same as, or even higher than, the current credit rating of U.S. Treasury debt***. Indeed, "[t]raditionally, investments holding AAA ratings have had a ***less than 1% probability of incurring defaults***." Levin-Coburn Report at 6. Below is a chart setting forth the Credit Rating Agencies' credit grading systems, denoting the various investment grade and speculative grade ratings they provided:

Moody's Grades	S&P's Grades	Fitch's Grades
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA

Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
↑Investment Grade		
Speculative Grade↓		
Ba1	BB+	BB+
Ba2	BB	BB
Ba3	BB-	BB-
B1	B+	B+
B2	B	B
B3	B-	B-
Caa1	CCC+	CCC+
Caa2	CCC	CCC
Caa3	CCC-	CCC-
Ca	CC	CC
C	C	C
	D	D

953. As previously discussed, the certificates never should have received the safe, "investment grade" ratings touted by defendants in the Offering Documents. In truth, the certificates were anything but safe, "investment grade" securities, as defendants well knew. In fact, the certificates were exactly the opposite – extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. As defendants were well aware, the certificates were each backed by numerous loans that had not been originated pursuant to their stated underwriting guidelines, with many loans being made without any regard for the borrowers' true repayment ability, and/or on the basis of falsely inflated incomes and property values, as alleged above. Moreover, as also alleged above, the LTV ratios and Primary Residence Percentages for the loans had been falsified so as to make the loans (and thus, the certificates) appear to be of much higher credit quality than they actually were.

954. In order to obtain "investment grade" credit ratings for the certificates, defendants were required to work with the Credit Rating Agencies. Specifically, defendants were required to provide the Credit Rating Agencies with information concerning the underlying loans, which the Credit Rating Agencies then put into their computerized ratings models to generate the credit ratings. In order to procure the falsely inflated ratings defendants desired for the certificates, defendants fed the Credit Rating Agencies falsified information on the loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false Primary Residence Percentages. Among other things, defendants falsely represented to the Credit Rating Agencies that virtually none of the loans in any of the offerings had LTV ratios in excess of 100%. Defendants also misrepresented and underreported the numbers of loans that had LTV ratios in excess of 80% in many cases. Defendants further misrepresented that the loans had much higher Primary Residence Percentages than they actually did. Defendants also concealed from the Credit Rating Agencies that most of the loans were not originated pursuant to the underwriting guidelines stated in the Offering Documents and/or were supported by falsely inflated incomes, appraisals and valuations. Defendants also never informed the Credit Rating Agencies that Clayton had detected defect rates of 18.4% in the samples of loans it tested for the RBS Defendants or that RBS had put 53.3% of those identifiably defective loans into the offerings. Defendants also never told the Credit Rating Agencies that defendants did no further testing on the vast majority of loans despite their awareness that there were significant numbers of defective loans detected by the test samples.

955. That the credit ratings stated in the Offering Documents were false and misleading is confirmed by subsequent events, as set forth *supra*. Specifically, after the sales of the certificates to plaintiff were completed, staggering percentages of the loans underlying the certificates began to go into default because they had been made to borrowers who either could not afford them or never

intended to pay them. Indeed, ***in a majority of the loan groups at issue herein, at least 40% of the loans currently in the trusts are in default***. ***A substantial number of loan groups have default rates above 50% up to almost 60%.***

956. ***The average default rate for all the certificates at issue herein currently hovers at around 43%***. In other words, over four in ten loans currently in the trusts are in default. It is also important to understand that these reported default rates are for loans that are ***currently*** still in the trusts. Any ***prior*** loans that were in default and which had been previously liquidated or sold, and thus written off and taken out of the trusts, have not been included in the calculations. Therefore, the foregoing default rates do not include earlier defaults, and thus ***understate*** the cumulative default rates for all of the loans that were originally part of the trusts.

957. Further proving that the credit ratings stated in the Offering Documents were false and misleading is the fact that ***all*** of the certificates have since been downgraded to reflect their true credit ratings, now that the true credit quality (or more accurately, lack of quality) and riskiness of their underlying loans is known. Indeed, ***all of plaintiff's 84 certificates have now been downgraded to speculative "junk" status or below by Moody's and/or S&P***. Moreover, ***47 of plaintiff's 84 certificates now have a credit rating of "D" by S&P and/or "C" by Moody's, indicating that they are in "default***," and reflecting that they have suffered losses and/or writedowns, and/or have completely stopped paying. In other words, ***over 55% of plaintiff's certificates are in default***. This is strong evidence that defendants lied about the credit ratings. This is so because the high, "investment grade" credit ratings assigned to plaintiff's certificates had a probability of default of between "less than 1%" (Levin-Coburn Report at 6) for the highest rated certificates and 2.6% (according to Moody's) for certificates rated even lower than plaintiff's. The huge discrepancy in the actual default rates (55%) and the historically expected default rates (less than 2.6%) demonstrates the falsity of defendants' statements regarding the credit ratings.

958. These massive downgrades – in many cases, from "safest of the safe" "AAA" ratings to "junk" (anything below Baa3 or BBB-) – show that, due to defendants' knowing use of bogus loan data, the initial ratings for the certificates, as stated in the Offering Documents, were false. Indeed, the fact that 100% of the certificates are now rated at "junk" status or below by Moody's and/or S&P, and ***over 55% of the certificates are now in default***, is compelling evidence that the initial high ratings touted by defendants in the Offering Documents were grossly overstated and false.

E. Defendants Materially Misrepresented that Title to the Underlying Loans Was Properly and Timely Transferred

959. An essential aspect of the mortgage securitization process is that the issuing trust for each RMBS offering must obtain good title to the mortgage loans comprising the pool for that offering. This is necessary in order for plaintiff and the other certificate holders to be legally entitled to enforce the mortgage and foreclose in case of default. Accordingly, at least two documents relating to each mortgage loan must be validly transferred to the trust as part of the securitization process – a promissory note and a security instrument (either a mortgage or a deed of trust).

960. The rules for these transfers are governed by the law of the state where the property is located, by the terms of the pooling and servicing agreement ("PSA") for each securitization, and by the law governing the issuing trust (with respect to matters of trust law). Generally, state laws and the PSAs require that the trustee have physical possession of the original, manually signed note in order for the loan to be enforceable by the trustee against the borrower in case of default.

961. In addition, in order to preserve the bankruptcy-remote status of the issuing trusts in RMBS transactions, the notes and security instruments are generally not transferred directly from the mortgage loan originators to the trusts. Rather, the notes and security instruments are generally initially transferred from the originators to the sponsors of the RMBS offerings. After this initial transfer to the sponsor, the sponsor in turn transfers the notes and security instruments to the

depositor. The depositor then transfers the notes and security instruments to the issuing trust for the particular securitization. This is done to protect investors from claims that might be asserted against a bankrupt originator. Each of these transfers must be valid under applicable state law in order for the trust to have good title to the mortgage loans.

962. Moreover, the PSAs generally require the transfer of the mortgage loans to the trusts to be completed within a strict time limit – three months – after formation of the trusts in order to ensure that the trusts qualify as tax-free real estate mortgage investment conduits ("REMICs"). In order for the trust to maintain its tax free status, the loans must have been transferred to the trust no later than three months after the "startup day," *i.e.*, the day interests in the trust are issued. *See* Internal Revenue Code §860D(a)(4). That is, the loans must generally have been transferred to the trusts within at least three months of the "closing" dates of the offerings. In this action, all of the closing dates occurred in 2005, 2006 or 2007, as the offerings were sold to the public. If loans are transferred into the trust after the three-month period has elapsed, investors are injured, as the trusts lose their tax-free REMIC status and investors like plaintiff may face several adverse draconian tax consequences, including: (1) the trust's income becoming subject to corporate "double taxation"; (2) the income from the late-transferred mortgages being subject to a 100% tax; and (3) if late-transferred mortgages are received through contribution, the value of the mortgages being subject to a 100% tax. *See* Internal Revenue Code §§860D, 860F(a), 860G(d).

963. In addition, applicable state trust law generally requires strict compliance with the trust documents, including the PSAs, so that failure to strictly comply with the timeliness, endorsement, physical delivery, and other requirements of the PSAs with respect to the transfers of the notes and security instruments means the transfers would be void and the trust would ***not*** have good title to the mortgage loans.

964. To this end, all of the Offering Documents relied upon by plaintiff stated that the loans would be timely transferred to the trusts. *See* §V, *supra.* For example, the SVHE 2006-OPT2 Offering Documents represented that "[o]n the Closing Date, the Depositor will transfer to the Trust all of its right, title and interest in and to each Mortgage Loan." SVHE 2006-OPT2 Pros. Supp. at S-47. The Offering Documents for each of the offerings at issue herein contained either the same or very similar language, uniformly representing that defendants would ensure that the proper transfer of title to the mortgage loans to the trusts occurred in a timely fashion. *See* §V, *supra.*

965. However, defendants' statements were materially false and misleading when made. Contrary to defendants' representations that they would legally and properly transfer the promissory notes and security instruments to the trusts, defendants in fact systematically failed to do so. This failure was driven by defendants' desire to complete securitizations as fast as possible and maximize the fees they would earn on the deals they closed. Because ensuring the proper transfer of the promissory notes and mortgages hindered and slowed defendants' securitizations, defendants deliberately chose to disregard their promises to do so to plaintiff.

966. Defendants' failure to ensure proper transfer of the notes and the mortgages to the trusts at closing has already resulted in damages to investors in securitizations underwritten by defendants. Trusts are unable to foreclose on loans because they cannot prove they own the mortgages, due to the fact that defendants never properly transferred title to the mortgages at the closing of the offerings. Moreover, investors are only now becoming aware that, while they thought they were purchasing "***mortgaged-backed***" securities, in fact they were purchasing ***non***-mortgaged-backed securities.

967. In fact, Attorneys General from 49 states have investigated foreclosure practices after the discovery that mortgage servicers used faulty or falsified paperwork to improperly seize homes

from borrowers. The investigation culminated in a huge settlement of $25 billion with five large banks.

968. Facts disclosed in news reports and uncovered through government investigations and home owner foreclosure litigation over defendants' securitizations confirm widespread problems with defendants' failure to ensure proper transfer of the required mortgage documents, and highlight the damage that failure has caused to plaintiff's investments. In an interview on *60 Minutes*, Lynn Szymoniak, a lawyer and fraud investigator who has uncovered instances in which banks appear to have manufactured mortgage documentation, explained the issue as follows:

> "When you could make a whole lotta money through securitization. And every other aspect of it could be done electronically, you know, key strokes. This was the only piece where somebody was supposed to actually go get documents, transfer the documents from one entity to the other. And it looks very much like they just eliminated that stuff all together."

969. As part of its exposé, *60 Minutes* interviewed Chris Pendley, a temporary employee of a company called Docx. Pendley was paid $10 per hour to sign the name "Linda Green," who, on paper, purportedly served as vice president of at least 20 different banks at one time, to thousands of mortgage documents that were later used in foreclosure actions. Pendley said he and other employees of Docx were expected to sign at least 350 documents per hour using the names of other individuals on documents used to establish valid title. Asked if he understood what these documents were, Pendley said, "[n]ot really." He then explained that he signed documents as a "vice president" of five to six different banks per day. Purported transfers bearing the signature of "Linda Green" were used to transfer mortgages from major originators to the depositors.

970. Further illustrating the falsity of defendants' representations in the Offering Documents regarding proper transfer of the mortgage documents to the issuing trusts is attorney Szymoniak's letter to the SEC (the "SEC Letter"). In the SEC Letter, Szymoniak detailed the fraudulent alteration and manufacture of mortgage documents by employees of Lender Processing

Services, Inc. ("LPS"). LPS is a mortgage default company located in Jacksonville, Florida that, according to Szymoniak, "produced several missing Mortgage Assignments, using its own employees to sign as if they were officers of the original lenders." Szymoniak observed instances of mortgage transfers prepared by LPS employees that contained forged signatures, signatures of individuals as corporate officers on behalf of a corporation that never employed the individuals in any such capacity, and signatures of individuals as corporate officers on behalf of mortgage companies that had been dissolved by bankruptcy years prior to the transfers, among other things.

971. The fabrication of the mortgage transfers appears to have been intended to conceal the actual date that interests in the properties were acquired by the RMBS trusts. The fraudulent transfers uncovered in foreclosure litigation often show that the transfers were prepared and filed in 2008 and 2009, when, in reality, the mortgages and notes were intended and should have been transferred prior to the closing date of the trusts, in 2005, 2006 and 2007, as stated in the Offering Documents relied on by plaintiff. Moreover, Szymoniak published an article on *Phil's Stock World* on July 20, 2011, setting forth the huge numbers of "trusts that closed in 2005, 2006 and 2007 [that have] repeatedly filed mortgage assignments signed and notarized in 2011," years after the closing dates. These late transfers of mortgages are an obvious improper attempt by defendants to untimely transfer the mortgage loans to the trusts after-the-fact. As discussed above, even if such transfers are valid, plaintiff has been severely damaged because of defendants' failure to timely transfer the loans, as the trusts have potentially lost their tax-free status and the payments to investors might now be subject to various forms of draconian taxation.

972. Other public reports corroborate the fact that the loans were not properly transferred. For example, Cheryl Samons, an office manager for the Law Office of David J. Stern – a "foreclosure mill" under investigation by the Florida Attorney General for mortgage foreclosure fraud that was forced to shut down in March 2011 – signed tens of thousands of documents purporting to establish

mortgage transfers for trusts that closed in 2005 and 2006 in 2008, 2009 and 2010 from Mortgage Electronic Registration Services, an electronic registry that was intended to eliminate the need to file transfers in the county land records. In depositions in foreclosure actions, Samons has admitted that she had no personal knowledge of the facts recited on the mortgage transfers that were used in foreclosure actions to recover the properties underlying the mortgages backing RMBS. *See, e.g.*, Deposition of Cheryl Samons, *Deutsche Bank Nat'l Trust Co., as Trustee for Morgan Stanley ABS Capital 1 Inc. Trust 2006-HE4 v. Pierre*, No. 50-2008-CA-028558-XXX-MB (Fla. Cir. Ct., 15th Jud. Cir., Palm Beach City, May 20, 2009).

973. The need to fabricate or fraudulently alter mortgage assignment documentation provides compelling evidence that, in many cases, title to the mortgages backing the certificates plaintiff purchased was never properly or timely transferred. This fact is confirmed by an investigation conducted by plaintiff concerning one of the specific offerings at issue herein, which revealed that the vast majority of loans underlying the offering were not properly or timely transferred to the trust.

974. Specifically, plaintiff performed an investigation concerning the mortgage loans purportedly transferred to the trust for the RBS Defendants' HVMLT 2007-5 offering. The closing date for this offering was on or about July 12, 2007. Plaintiff reviewed the transfer history for 240 loans that were supposed to be timely transferred to this trust. Sixty-three (63) of the loans were not and have never been transferred to the trust. In addition, several other loans that were supposed to be transferred to the trust were transferred to entities other than the trust, but not to the trust. The remainder of the loans (approximately 123) were eventually transferred to the trust, but all such transfers occurred between 2008 and the present, well beyond the three-month time period required by the trust documents and far after the three-month period for the trust to maintain its tax-free

REMIC status. ***In other words, none of the reviewed mortgage loans were timely transferred to the trust, a 100% failure rate***.

975. The foregoing example, coupled with the public news, lawsuits and settlements discussed above, plainly establishes that defendants failed to properly and timely transfer title to the mortgage loans to the trusts. Moreover, it shows that defendants' failure to do so was widespread and pervasive. In fact, the specific example discussed above shows that defendants utterly and completely failed to properly and timely transfer title. Defendants' failure has caused plaintiff (and other RMBS investors) massive damages. As noted by law professor Adam Levitin of Georgetown University Law Center on November 18, 2010, in testimony he provided to the a U.S. House Subcommittee investigating the mortgage crisis, "[i]f the notes and mortgages were not properly transferred to the trusts, then the mortgage-backed securities that the investors[] purchased were in fact ***non-mortgaged-backed securities***" (emphasis in original), and defendants' failure "ha[d] profound implications for [R]MBS investors" like plaintiff.

VII. THE RBS DEFENDANTS KNEW THAT THE REPRESENTATIONS IN THE OFFERING DOCUMENTS WERE FALSE AND MISLEADING

976. Defendants' representations in the Offering Documents were not only false and misleading, but defendants also ***knew***, or were at least reckless in disregarding, that the misrepresentations identified herein were false and misleading at the time defendants made them.

977. Indeed, as set forth above and further detailed immediately below, defendants were explicitly informed by their own independent due diligence firms, such as Clayton and Watterson, that substantial percentages of the loans underlying plaintiff's certificates either did not comply with their stated guidelines, had been issued without regard for the borrowers' true repayment ability or were secured by inadequate collateral.

978. In addition, as further detailed below, defendants' undeniable awareness of the Offering Documents' misrepresentations is further established by several other publicly available sources of information, including governmental investigations and documents disclosed in other civil litigations.

1. RBS's Due Diligence Process Confirmed that the Certificates' Underlying Loans Did Not Conform to the Offering Documents' Representations

979. As alleged above, RBS, through defendant RBS Securities (formerly known as RBS Greenwich Capital and Greenwich Capital Markets, Inc.), was an underwriter for all of the RBS Offerings at issue herein. In this capacity, RBS – through RBS Securities – was required under U.S. securities laws to "perform a review of the pool assets underlying the [certificates]," *i.e.,* the loans, and ensure that the Offering Documents were "accurate in all material respects." 17 C.F.R. §230.193. Thus, RBS had a legal duty to investigate the loans underlying the RBS Offerings and ensure that the statements it made about such loans in the Offering Documents were true and accurate.

980. The RBS Defendants represented that they conducted such due diligence. For example, in the Offering Documents for the SVHE 2007-OPT1 offering, the RBS Defendants represented: "All loans acquired by the Sponsor [defendant RBS Financial] are subject to due diligence. Portfolios are reviewed for issues including, but not limited to, a thorough credit and compliance review with loan level testing." SVHE 2007-OPT1 Pros. Supp. at S-80-S-81. Nearly identical representations were made in the Offering Documents for many of the RBS Offerings. *See*, *e.g*., Prospectus Supplements for HVMLT 2007-5 and FFML 2006-FF8. On information and belief, the RBS Defendants conducted due diligence on every one of the RBS Offerings at issue herein.

981. Given RBS's legally mandated duty to conduct due diligence on the loans, as well as its repeated affirmative representations that it did so, the RBS Defendants' due diligence necessarily revealed to them the systemic abandonment of underwriting guidelines by loan originators alleged

herein, as well as the massive numbers of defective loans underlying their offerings caused by the systemic abandonment. The RBS Defendants learned through their due diligence that material numbers of loans underlying their offerings were not originated pursuant to the stated underwriting guidelines and had been made to borrowers who could not afford to repay them. The RBS Defendants further learned through their due diligence that there were numerous falsely inflated appraisals used on the underlying loans, resulting in significant numbers of loans with understated LTV ratios, and that there were also numerous loans that were represented to have been for primary residences that were not. The RBS Defendants further learned that all the foregoing defects in the loans rendered the investment grade credit ratings assigned to plaintiff's certificates false.

982. Given RBS's legally mandated duty to conduct due diligence on the loans, and its express affirmations that it did so, combined with the sheer number and magnitude of defective loans underlying the RBS Offerings – as demonstrated above by the astonishing loan defect rates, LTV understatements and OOR overstatements associated with the offerings herein, as well as the first-hand accounts of numerous witnesses with knowledge of the loan originators' conduct – it is impossible that RBS was unaware of the Offering Documents' misrepresentations regarding the nature and quality of the certificates' underlying loans. Indeed, given the blatant and systemic abandonment of loan underwriting guidelines then occurring, anyone conducting the due diligence RBS claimed it did would have discovered those facts – facts that contradicted RBS's contemporaneous statements made in the Offering Documents. Moreover, the magnitude of the errors regarding the LTV ratios and the Primary Residence Percentages, and the consistent repetitive nature of those errors – affecting nearly every offering – were so large and so frequent that, at the least, RBS had to have turned a blind eye to have repeatedly missed the errors. Moreover, given how the errors were always deceptively slanted to make the loans look safer than they actually were, thereby increasing RBS's profits at the time of securitization, it is virtually certain that the Offering

Documents' misrepresentations were ***intentionally*** and ***deliberately*** made by the RBS Defendants. Indeed, documents and testimony recently provided by one of RBS's hired due diligence providers, Clayton, unequivocally confirm as much.

983. As noted above, Clayton was one of three due diligence providers hired to test the samples of loans the RBS Defendants purchased and securitized into the RBS Offerings at issue herein. According to testimony provided to the FCIC, for the loans Clayton tested for the RBS Defendants from at least January 1, 2006 through June 30, 2007– which is the time when RBS sold the vast majority of the RBS Offerings to plaintiff ***– Clayton informed the RBS Defendants that at least 18.4% of the loans it tested did not comply with the underwriting guidelines, did not have compensating factors otherwise meriting approval, and/or had defective appraisals. Notwithstanding being informed of this, the RBS Defendants then knowingly and deliberately waived well over half of those defective loans (53.3%) into their RBS Offerings, and sold them to plaintiff, without disclosing the inclusion of the defective loans, and in fact falsely representing that all of the loans complied with the stated underwriting guidelines***. *See* Clayton Trending Reports, *available at* http://fcic.law.Stanford.edu/hearings/testimony/the-impact-of-the-financial-crisissacramento# documents.

984. Moreover, notwithstanding the fact that Clayton had identified a material number of defective loans which did not comply with the underwriting guidelines, and notwithstanding that "one could reasonably expect [the vast majority of the untested loans would] have many of the same deficiencies, and at the same rate, as the sampled loans," FCIC Report at 170, the RBS Defendants did no further testing on those loans, bought them sight unseen, and securitized them, assuring the RBS Offerings would be full of risky, defective loans. Indeed, that the RBS Offerings were full of defective loans is confirmed by the huge default rates the loans in the RBS Offerings experienced.

See §VI.D, *supra* (average default rate for the RBS Offerings hovers at around 43%, with a substantial number of the loans having default rates of over 50% up to almost 60%).

985. As the FCIC found, the RBS Defendants' deceitful actions "rais[ed] the question of whether the[ir] disclosures [in the Offering Documents] were materially misleading, in violation of the securities laws." FCIC Report at 170.

986. The fact that the RBS Defendants were expressly informed that material numbers of loans did not meet the stated underwriting guidelines, and yet they deliberately included those loans into their offerings, unequivocally establishes that the Offering Documents were intentionally false and misleading.

987. Recently uncovered evidence in the action titled *Ambac Assurance Corp. v. EMC Mortgage LLC, et al.*, No. 650421/2011 (N.Y. Sup. Ct., N.Y. Cty.), not only further supports the fact that the RBS Defendants acted fraudulently and intentionally, it also establishes that the RBS Defendants also actively attempted to conceal their fraudulent activities. In the *Ambac* case, a former employee of Clayton was deposed and excerpts of his deposition were recently filed with the court.[19] The deposition transcript revealed that the former Clayton employee testified under oath that Clayton was instructed by ***all*** of its Wall Street bank clients (RBS was a client of Clayton) to "approve loans ***that often did not satisfy the underwriting guidelines***," to ignore defects in loan applications, to code defective loans as non-defective and to change many of the grades on loans that were coded as defective to reflect that they were non-defective. According to the former Clayton employee, these instructions included ignoring appraisals which did not support the stated value of the properties and applications for which a borrower's stated income was "unreasonable" and not supported by

[19] The former Clayton employee's identity was redacted from the version of his deposition transcript that was filed with the court.

documentation. The former Clayton employee testified that the practice of failing to follow underwriting guidelines when re-underwriting loans at Clayton was pervasive, and that "[d]ue diligence underwriters like myself were forced to find compensating factors for defective loans where none existed." This indicates that the Clayton reports discussed above actually ***understated*** the numbers of defective loans that were "waived" into the RBS Offerings, because the RBS Defendants were instructing Clayton to re-designate defective loans as non-defective and telling Clayton to ignore other defective loans. More importantly, it clearly shows fraudulent intent, as the RBS Defendants instructed Clayton to essentially conceal the defective loans by either ignoring them or changing loans designated as defective to non-defective.

2. The RBS Defendants' Scienter Is Revealed by the Fact that They Were Shorting RMBS at the Same Time They Sold Plaintiff Certificates in the RBS Offerings and Represented that Such Certificates Were Investment Grade Securities

988. The RBS Defendants represented that each of the certificates plaintiff purchased in the RBS Offerings was a highly rated investment grade security, representing that many of them were safest-of-the-safe "AAA" rated securities. However, at the same time they were claiming that they were such great investments, the RBS Defendants were also selling RMBS like the ones they sold plaintiff "short."

989. In fact, as the FCIC Report demonstrates, the RBS Defendants sold RMBS short in a big way. The RBS Defendants received ***$1.1 billion in payments from AIG and AIG-related entities alone*** for their shorting activities. *See* FCIC Report at 377, Figure 20.4.

990. The fact that the RBS Defendants were shorting RMBS in such a huge way at the same time they were selling the certificates to plaintiff – while also representing they were extremely safe, highly rated investment grade securities – demonstrates that the RBS Defendants clearly knew that the certificates were investments doomed to fail. And fail they did, as demonstrated by the huge loan

default rates, steep credit ratings downgrades – from safest-of-the-safe "AAA" to junk or worse – and the plummeting value of the certificates. While plaintiff was stuck with horrible investments because the RBS Defendants never disclosed that the certificates were awful investments that they sold short, the RBS Defendants, on the other hand, profited handsomely, first from the fees received for selling the RBS Offerings to plaintiff and others in the first place, and then later, by receiving at least $1.1 billion more by shorting RMBS, based on their undisclosed, inside knowledge that the certificates were junk bonds.

991. The RBS Defendants' shorting activities demonstrate that they ***knew*** their statements in the Offering Documents were false. Indeed, the RBS Defendants actively used their inside knowledge to profit, further demonstrating their fraudulent intent.

3. Governmental Investigations and Lawsuits, as Well as Lawsuits by Other Investors, Reveal a Pattern and Practice of Fraud Related to the Sale of RMBS by the RBS Defendants

992. In addition to the foregoing facts showing that the RBS Defendants knowingly lied to plaintiff, numerous governmental investigations and actions, and at least one other investor suit, show that the RBS Defendants engaged in a pattern and practice of making misrepresentations in connection with their sale of RMBS.

993. For example, RBS faces ongoing investigations by the New York State Attorney General and the Nevada Attorney General. Both investigations concern similar RMBS issues as those alleged herein.

994. In addition, as a result of its participation in the securitization and sale of defective loans, defendant RBS Securities is being sued in five different lawsuits by the U.S. Government's Federal Housing Finance Agency. RBS Securities is a named defendant in each of those cases based on its underwriting of numerous RMBS offerings, like the ones at issue herein, wherein it is alleged, like here, that misrepresentations were made about the loans underlying the offerings.

995. Moreover, the National Credit Union Administration Board, an independent government agency, as the liquidating agent of the U.S. Central Federal Credit Union, has brought suit against RBS Securities based on allegedly false statements made in RMBS offerings. *See Nat'l Credit Union Admin. Bd. v. RBS Securities, Inc., et al.*, No. 2:11-cv-2340 (D. Kan. 2011).

996. Furthermore, in November 2011, the Attorney General for the Commonwealth of Massachusetts investigated RBS for its role "during the period from late 2005 through 2007, in [the] financing, purchase, and securitization of allegedly unfair residential mortgage loans," and whether RBS "facilitated the origination by others of unfair loans under Massachusetts law" to borrowers who could not afford to repay them. Assurance of Discontinuance at 1-2, *In re RBS Financial Products Inc., f/k/a Greenwich Capital Products, Inc.*, No. 11-4303 (Mass. Super. Ct., Suffolk Cty. Nov. 28, 2011). As a result of the Attorney General's investigation, RBS agreed to pay over $40 million to cease the investigation and to avoid legal proceedings.

997. In yet another lawsuit brought by Massachusetts Mutual Life Insurance Company ("Mass Mutual") against RBS Securities and its affiliates, Mass Mutual alleged, as does the plaintiff here, that RBS made misrepresentations in connection with the sale of RMBS. Like here, Mass Mutual alleged that RBS had misrepresented the LTV ratios and other information about the loans it was securitizing.

998. The foregoing government investigations and lawsuits, and the Mass Mutual action, coupled with the allegations herein, indicate a pattern and practice of deceit by the RBS Defendants in connection with their purchases and securitizations of residential mortgage loans. It indicates a *modus operandi* by the RBS Defendants that supports the inference that they made misrepresentations with fraudulent intent in this action.

4. The RBS Defendants' Scienter with Respect to the Certificates' Credit Ratings

999. Others have described the manner in which defendants used the false information in the Offering Documents to obtain investment grade and even "AAA" credit ratings, which were essential for marketing the certificates to plaintiff. As Susan Barnes, the North American Practice Leader for RMBS at S&P from 2005 to 2008, explained:

> The securitization process relies on the quality of the data generated about the loans going into [the offerings]. ***S&P relies on the data produced by others and reported to both S&P and investors about those loans***. At the time that it begins its analysis of a[n offering], S&P receives detailed data concerning the loan characteristics of each of the loans in the pool – up to 70 separate characteristics for each loan in a pool of, potentially, thousands of loans. ***S&P does not receive the original loan files for the loans in the pool. Those files are reviewed by the arranger or sponsor of the transaction, who is also responsible for reporting accurate information about the loans in the deal documents and offering documents to potential investors***.

Testimony of Susan Barnes Before the Senate Permanent Subcommittee on Investigations, Apr. 23, 2010.

1000. Defendants met with the Credit Rating Agencies prior to having the certificates rated, to discuss the proposed guidelines the Credit Rating Agencies would use to determine the ratings and how the Credit Rating Agencies would treat the loans in question. Defendants did this to ensure that they understood how the Credit Rating Agencies would determine the ratings. Defendants learned from these meetings – as well as from their prior knowledge of Fitch's, Moody's and S&P's ratings software from earlier RMBS securitizations – that using accurate information would not yield the required ratings. Accordingly, defendants fed the Credit Rating Agencies the same false loan-level data regarding LTV ratios, Primary Residence Percentages, home values, DTI ratios, FICO scores, underwriting guidelines and repayment ability that they provided to plaintiff in aggregate form in the Offering Documents. The Credit Rating Agencies then put this false data into their quantitative models to assess the supposed credit risk associated with the certificates, project likely future defaults, and ultimately, determine the credit ratings to be assigned to the certificates. Defendants essentially pre-determined the ratings by putting false data into the ratings system. In essence, defendants engaged in the maxim "garbage in, garbage out" – they fed the Credit Rating Agencies "garbage," in the form of falsified property valuations, borrower credit information, LTV ratios, OOR percentages, and the like, and the Credit Rating Agencies put "garbage out," in the form of inaccurate credit ratings that were based on defendants' falsified data. Unfortunately, as a former Wall Street insider revealed to the U.S. Senate in testimony concerning the mortgage crisis, "***most people believed in the ratings***." Levin-Coburn Report at 340.

1001. Because data supplied by defendants to the Credit Rating Agencies was already false and made the loans appear to be of higher credit quality, and safer and less risky than they actually were, the credit ratings were similarly affected – the Credit Rating Agencies' credit ratings always made the certificates appear safer and of higher credit quality than they actually were. But far from being the safe, high quality, investment grade securities their credit ratings depicted, the undisclosed truth was that the certificates were junk bonds, or worse. Because of defendants' knowing use of false data, the credit ratings contained in the Offering Documents had no reasonable basis in fact. As a result, the RMBS securities at issue in this case should never have been registered, marketed or sold by way of the SEC and other Offering Documents alleged herein.

5. The RBS Defendants Knowingly Misrepresented that Title to the Certificates' Underlying Loans Was Properly and Timely Transferred

1002. As previously alleged, defendants represented in the Offering Documents that they would properly and timely transfer title to the mortgage loans to the trusts that issued plaintiff's certificates. The Offering Documents represented that the depositor defendants would ensure that all right, title and interest in the mortgage loans would be transferred to the trusts at or about the "closing" or "cut-off" dates of the offerings, to ensure that plaintiff's certificates would be "mortgage-backed," as opposed to "***non***-mortgaged-backed" securities, as well as to ensure the trust maintained its tax-free status as a REMIC mortgage pass-through conduit.

1003. However, as is now evident, defendants, notwithstanding their promises, did not timely and/or effectively transfer title to the mortgage loans. This is evidenced by the news reports and lawsuits concerning the problems trustees are having with foreclosing on defaulting loans, the news reports of large scale forgeries and bogus assignments of loans after-the-fact, the mega-settlement with the Attorneys General of 49 states for $25 billion over such practices, and plaintiff's representative investigation concerning the loans in at least one of the trusts at issue herein, which revealed that nearly all of the loans were never properly or timely transferred to the trusts. *See* §VI.E, *supra*.

1004. The foregoing shows that defendants did not timely or effectively transfer title to the mortgage loans to plaintiff's trusts. Of course, defendants were aware of this failure, as it was they, themselves, who were responsible for carrying out such conduct. Defendants obviously know what they did or did not do – here, it is obvious they did nothing, and equally obvious that they are aware of that fact. This is evidenced by the fact that years after the offerings closed, defendants attempted to scramble and create assignments after-the-fact, once they realized the implications of their earlier failures to act. The mass of late assignments, forged assignments, and bogus assignment documents, is just further evidence of defendants' attempts to cover up their fraudulent scheme.

VIII. DEFENDANTS' MISREPRESENTATIONS AND OMISSIONS WERE MADE FOR THE PURPOSE OF INDUCING RPI TO RELY ON THEM AND RPI ACTUALLY AND JUSTIFIABLY RELIED ON DEFENDANTS' MISREPRESENTATIONS AND OMISSIONS

1005. RPI, through its assigning entities,[20] actually and justifiably relied upon the false information that defendants knowingly wrote into the Offering Documents and that was used to market the certificates.

1006. The Offering Documents contained detailed descriptions of the mortgage pools underlying the certificates. The Offering Documents provided the specific terms of the particular offerings. They included data concerning the loans underlying the offerings, including, without limitation: the types of loans; the number of loans; the mortgage rate; the aggregate scheduled principal balance of the loans; the LTV ratios; the OOR percentages, including the Primary Residence Percentages; the credit enhancements; and the geographic concentration of the mortgaged properties. The Offering Documents also contained a description of the loan originators' underwriting and appraisal/valuation standards, guidelines and practices. The Offering Documents further contained the investment grade credit ratings assigned to the certificates by the Credit Rating Agencies, and a promise that the relevant mortgage loans would be properly and timely transferred to the trusts.

1007. In deciding to purchase the certificates, the assigning entities actually relied on each of defendants' false representations and omissions of material fact in the prospectuses, pitch books, term sheets, loan tapes, "free writing" prospectuses, "red" and "pink" prospectuses, prospectus supplements and other offering documents alleged herein that defendants provided to the assigning entities, including the representations regarding the loan underwriting guidelines, the characteristics

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[20] In this section of the Complaint alleging justifiable reliance, all references to RPI include the entities that assigned their claims to RPI alleged herein and include those entities' justifiable reliance.

of the underlying mortgage loans (such as the LTV ratios and OOR percentages, including the Primary Residence Percentages), the credit ratings assigned by the Credit Rating Agencies, and the transfer of title to the mortgage loans. But for defendants' misrepresentations and omissions in the Offering Documents, plaintiff's assignors would not have purchased the certificates.

1008. RPI, through the assigning entities, reasonably and justifiably relied upon the information that defendants wrote into the Offering Documents and could not have discovered that defendants – some of the most sophisticated and then-respected commercial actors in the world – were omitting and misrepresenting material information exclusively within their possession, custody and control. RPI, through the assigning entities, performed a diligent investigation concerning the offerings, certificates and the underlying loans before purchasing the certificates and could not have learned that defendants were making material misrepresentations and omissions about the offerings, certificates and loans.

A. Fortis Bank Actually and Justifiably Relied on the False Information that Defendants Used to Sell the Subject Certificates

1009. Assigning entity Fortis Bank made the decisions to purchase certain of the certificates at issue for itself, and for its affiliate Scaldis. All of the certificates purchased by Fortis Bank and Scaldis were purchased for those entities' own accounts, with the intention to hold the certificates on their balance sheets.

1010. Fortis Bank employed highly qualified, conscientious, and experienced investment professionals to make investments on its behalf. The process involved screening and testing the quality of potential investments, which included portfolio and RMBS-level analyses. This process was diligently followed by Fortis Bank in purchasing the securities at issue and was eminently reasonable.

1011. Fortis Bank was only permitted to purchase securities for its asset-backed security ("ABS") portfolio that conformed to numerous investment parameters. For example, the security had to be a debt security, which, unlike equity, requires the obligor to return 100% of the invested principal amount by a date certain. Further, each debt security must have passed the major Credit Rating Agencies' own tests, qualifying as "investment grade" securities under those tests and analyses. Only if the particular security satisfied such portfolio-level criteria could it be considered for further review. Any security affected by defendants' misrepresentations and omissions would have been rejected at this first screening ***if*** defendants' misrepresentations and omissions ***could have*** been detected.

1012. After putting in place reasonable portfolio-level screens to weed out risky investments, Fortis Bank conducted a detailed, three-tiered analysis of each RMBS. This analysis consisted of analyzing: (1) the capital structure of the particular security; (2) the quality of the underlying collateral, including the loans' LTV ratios, OOR percentages, DTI ratios, underwriting standards, and types of loans; and (3) the parties participating in the creation of the RMBS, including the originator of the loans, the servicer, the manager, and the underwriter. Investment professionals at Fortis Bank reviewed term sheets or similar summary materials that defendants wrote and provided (including pitch books, offering circulars, draft and final prospectuses, and investor presentations) regarding a particular RMBS, analyzed the RMBS's yield and price relative to similar securities in the market, and made an initial recommendation about whether to purchase the RMBS.

1013. Fortis Bank also took into consideration which companies were originating the loans underlying the RMBS, based upon the originators' underwriting guidelines and historical performance. Fortis Bank regularly met with loan originators to discuss underwriting guidelines, at conferences and on-site. Fortis Bank continued to meet with both defendants and originators after purchasing the securities at issue, and both defendants and those originators continued to provide assurances that the loans underlying the securities were originated pursuant to underwriting guidelines. Fortis Bank relied upon the statements regarding the originators' underwriting guidelines in the Offering Documents in making its investment decisions.

1014. The next step in Fortis Bank's investment process involved conducting further credit analyses on the proposed RMBS. In that process, a credit analyst read marketing materials that defendants wrote, including the prospectus supplements and other Offering Documents. The process also involved using an expensive database and software system to detect any anomalies in a particular offering and to model the particular offering under various economic assumptions. This credit analysis further considered the level of structural subordination (or credit enhancement) supporting the proposed RMBS, and how sensitive the particular RMBS security was to various cashflow assumptions. The credit analysis focused on underwriting criteria, LTV ratios, FICO scores, OOR percentages, geographic dispersion, and the quality of the loan servicer supporting the transaction, among other pertinent credit characteristics.

1015. Following its credit analysis, Fortis Bank subjected a proposed RMBS purchase to even more screening. Fortis Bank gathered the foregoing portfolio-level data, pricing information and credit analysis data, including LTVs, OORs, credit ratings, and originator information, and subjected all of that data to review by Fortis Bank's investment committee. The investment committee was comprised of experienced senior investment professionals and a risk management officer, who were required to approve the particular RMBS prior to purchase.

1016. In fact, there were at least four different screens that Fortis Bank employed that would have rejected defendants' "junk" securities that were falsely masquerading as investment grade bonds. ***First***, the certificates at issue in this case never should have been rated "investment grade," because, as defendants knew, those ratings were based on "garbage in" the Credit Rating Agencies' rating models, resulting naturally in "garbage out" of those models. Thus, the certificates would have failed Fortis Bank's portfolio-level screening had the truth about defendants' misrepresentations been known. ***Second***, the subject certificates would have failed the initial RMBS-level screening, because the true qualitative and quantitative data would have exposed the certificates as being massively mispriced had it been accurately set forth in the certificates' Offering Documents. ***Third***, the subject certificates would have been thoroughly rejected by Fortis Bank's robust credit analysis, which, as noted, served to double check prior analyses and dive even deeper into the credit characteristics of the particular bond. ***Fourth***, if Fortis Bank's personnel had detected defendants' use of phony data, they would have rejected the certificates at every stage noted above and would have rejected the certificates at the investment committee phase of the investment process.

1017. In the end, none of Fortis Bank's expertise, databases, software, investment personnel, quality control checks or substantial investment in all of these processes really mattered. Indeed, where highly sophisticated commercial actors like defendants have material non-public information about a security and a premeditated plan to commit fraud, such as was the case here, even the most sophisticated systems in the world are insufficient to detect those misrepresentations and omissions. That is one of the many reasons why it has taken the full force of the U.S. Government and its agencies, exercising their subpoena power, through the U.S. Senate and the FCIC, to alert investors to the fact that defendants received reports from Clayton showing that the loans they were selling to investors – including plaintiff and its assigning entities – via the certificates were ***defective on the day they were made***.

B. Fortis Ireland Actually and Justifiably Relied on the False Information that Defendants Used to Sell the Subject Certificates

1018. Assigning entity Fortis Ireland, through Fortis Securities, LLC (New York branch), made the decisions to purchase certain of the certificates at issue. Fortis Ireland employed highly qualified, conscientious, and experienced investment professionals to make investments on its behalf.

The process involved screening and testing the quality of potential investments, which included portfolio and RMBS-level analyses. This process was diligently followed by Fortis Ireland in purchasing the securities at issue and was eminently reasonable.

1019. Similar to Fortis Bank, Fortis Ireland was only permitted to purchase securities for its ABS portfolio that conformed to numerous investment parameters. For example, the security had to be a debt security, which, unlike equity, requires the obligor to return 100% of the invested principal amount by a date certain. Further, each debt security must have passed the major Credit Rating Agencies' own tests, qualifying as "investment grade" securities under those tests and analyses. Only if the particular security satisfied such portfolio-level criteria could it be considered for further review. Any security affected by defendants' misrepresentations and omissions would have been rejected at this first screening ***if*** defendants' misrepresentations and omissions ***could have*** been detected.

1020. After putting in place reasonable portfolio-level screens to weed out risky investments, Fortis Ireland conducted a detailed, three-tiered analysis of each RMBS. This analysis consisted of analyzing: (1) the capital structure of the particular security; (2) the quality of the underlying collateral, including the loans' LTV ratios, OOR percentages, DTI ratios, underwriting standards, and consideration of the type of loans; and (3) the parties participating in the creation of the RMBS, including the originator of the loans, the servicer, the manager, and the underwriter. Investment professionals at Fortis Ireland reviewed term sheets or similar summary materials that defendants wrote and provided (including pitch books, offering circulars, draft and final prospectuses, and investor presentations) regarding a particular RMBS, analyzed the RMBS's yield and price relative to similar securities in the market, and made an initial recommendation about whether to purchase the RMBS.

1021. Fortis Ireland also took into consideration which companies were originating the loans underlying the RMBS, based upon the originators' underwriting guidelines and historical performance. Fortis Ireland regularly met with loan originators to discuss underwriting guidelines. Fortis Ireland continued to meet with both defendants and originators after purchasing the securities at issue, and both defendants and those originators continued to provide assurances that the loans underlying the securities were originated pursuant to underwriting guidelines. Fortis Ireland relied upon the statements regarding the originators' underwriting guidelines in the Offering Documents in making its investment decisions.

1022. The next step in Fortis Ireland's investment process involved conducting further credit analyses on the proposed RMBS. In that process, a credit analyst read marketing materials that defendants wrote, including the prospectus supplements and other Offering Documents. The process also involved using an expensive database and software system to detect any anomalies in a particular offering and to model the particular offering under various economic assumptions. This credit analysis further considered the level of structural subordination (or credit enhancement) supporting the proposed RMBS, and how sensitive the particular RMBS security was to various cashflow assumptions. Fortis Ireland's credit analysis focused on the loans' underwriting criteria, LTV ratios, FICO scores, OOR percentages, geographic dispersion, and the quality of the loan servicer supporting the transaction, among other pertinent credit characteristics.

1023. Following its credit analysis, Fortis Ireland subjected a proposed RMBS purchase to even more screening. Fortis Ireland gathered the foregoing portfolio-level data, pricing information and credit analysis data, including LTV ratios, OORs, credit ratings, and originator information, and subjected all of that data to review by Fortis Ireland's investment committee. The investment committee was comprised of experienced senior investment professionals and a risk management officer, who were required to approve the particular RMBS prior to purchase.

1024. In fact, there were at least four different screens that Fortis Ireland employed that would have rejected defendants' "junk" securities that were falsely masquerading as investment grade bonds. ***First***, the certificates at issue in this case never should have been rated "investment grade," because, as defendants knew, those ratings were based on "garbage in" the Credit Rating Agencies' rating models, resulting naturally in "garbage out" of those models. Thus, the certificates would have failed Fortis Ireland's portfolio-level screening had the truth about defendants' misrepresentations been known. ***Second***, the subject certificates would have failed the initial RMBS-level screening, because the true qualitative and quantitative data would have exposed the certificates as being massively mispriced had it been accurately set forth in the certificates' Offering Documents. ***Third***, the subject certificates would have been thoroughly rejected by Fortis Ireland's robust credit analysis, which, as noted, served to double check prior analyses and dive even deeper into the credit characteristics of the particular bond. ***Fourth***, if Fortis Ireland's personnel had detected defendants' use of phony data, they would have rejected the certificates at every stage noted above and would have rejected the certificates at the investment committee phase of the investment process.

1025. In the end, none of Fortis Ireland's expertise, databases, software, investment personnel, quality control checks or substantial investment in all of these processes really mattered. Indeed, where highly sophisticated commercial actors like defendants have material non-public information about a security and a premeditated plan to commit fraud, such as was the case here, even the most sophisticated systems in the world are insufficient to detect those misrepresentations and omissions. That is one of the many reasons why it has taken the full force of the U.S. Government and its agencies, exercising their subpoena power, through the U.S. Senate and the FCIC, to alert investors to the fact that defendants received reports from Clayton showing that the loans they were selling to investors – including plaintiff through the assigning entities – via the certificates were ***defective on the day they were made***.

C. Fortis Cayman Actually and Justifiably Relied on the False Information that Defendants Used to Sell the Subject Certificates

1026. Assigning entity Fortis Cayman hired professional asset investment managers, such as Fortis Investment Management ("FIM") and FSI Capital LLC ("FSI"), to conduct its investment activities. On information and belief, these investment managers, in turn, employed highly qualified, conscientious, and experienced investment professionals to make investments on behalf of their clients, reviewed the term sheets and/or similar summary materials that defendants wrote and provided (including pitch books, offering circulars, draft and final prospectuses, and investor presentations) regarding a particular RMBS, analyzed the RMBS's yield and price relative to similar securities in the market, and made a decision to purchase the RMBS based on that information.

1027. Fortis Cayman's investment managers, such as FIM and FSI, were only permitted to purchase securities for Fortis Cayman's portfolio that conformed to numerous investment parameters and criteria contained in the engagement letters between Fortis Cayman and its investment managers. Further, each debt security must have passed the major Credit Rating Agencies' own tests, qualifying as an "investment grade" security under those tests and analyses. Any security affected by defendants' misrepresentations and omissions would have been rejected at this first screening if defendants' misrepresentations and omissions could have been detected.

1028. In the end, none of Fortis Cayman's or its professional investment managers' expertise, investment personnel, quality control checks or substantial investment in all of these processes really mattered. Indeed, where highly sophisticated commercial actors like defendants have material non-public information about a security and a premeditated plan to commit fraud, such as was the case here, even the most sophisticated systems in the world are insufficient to detect those misrepresentations and omissions. That is one of the many reasons why it has taken the full force of the U.S. Government and its agencies, exercising their subpoena power, through the U.S. Senate and the FCIC, to alert investors to the fact that defendants received reports from Clayton showing that the loans they were selling to investors – including plaintiff through the assigning entities – via the certificates were ***defective on the day they were made***.

D. All of the Assignors and Plaintiff Were Reasonable and Could Not Have Discovered the Fraud Alleged Herein

1029. Plaintiff and the assigning entities did not learn that the defendants were making the misrepresentations and omissions alleged herein prior to purchasing the certificates because such information about the certificates and loans was peculiarly within defendants' knowledge and control, and defendants did not allow plaintiff and the assigning entities access to such information. The only way for plaintiff or the assigning entities to learn that defendants were making misrepresentations and omissions about the certificates and the underlying loans was to have access to the actual loan files or due diligence reports analyzing those loan files. Defendants had such access, but did not share it with plaintiff, the assigning entities, or other investors.

1030. At the time they purchased the certificates, plaintiff and the assigning entities could not determine from available information that defendants had made misrepresentations and omissions in the Offering Documents. The information that would have revealed defendants' misrepresentations and omissions – the loan files – was private information in the complete control and possession of defendants. Moreover, information such as "loan tapes," and the like, and other information defendants supplied to plaintiff before it purchased the certificates, would not have revealed borrowers' names or property addresses so that plaintiff could conduct an investigation. Such information also would not have revealed defendants' misrepresentations and omissions because the "loan tapes" and the other information defendants provided to plaintiff ***contained*** the falsified appraisal values, LTV ratios, OOR percentages, FICO scores and DTI ratios upon which defendants' scheme was premised, and thus, revealed nothing concerning the loans' true nature, characteristics and risks.

1031. In addition, at the time plaintiff bought the certificates – 2005 through 2007 – there were no loan databases available that contained sufficient data to conduct analyses concerning the LTV ratios and OOR percentages like the ones plaintiff was able to conduct before filing this complaint. In short, there was no information available to plaintiff at the time it bought the certificates – other than the loan files, which defendants did not share – that would have allowed plaintiff or the assigning entities to conduct an investigation that would have revealed that defendants were making misrepresentations and omitting material information in the Offering Documents.

1032. Indeed, plaintiff could not have learned, and did not learn, that defendants were defrauding it until late September 2010, when the FCIC investigation revealed for the first time that defendants: (1) were told by Clayton in 2006 and 2007 that significant portions of the loans within the offerings did not comply with the underwriting guidelines stated in the Offering Documents; and (2) ***defendants then knowingly included large numbers of those defective loans into the offerings***. It was only at that time that plaintiff and the public first learned that defendants were intentionally defrauding investors in connection with RMBS offerings. Specifically, the information disclosed by the FCIC in September 2010 revealed, for the first time, that defendants were expressly aware that their RMBS offerings were filled with defective loans, and that defendants knew so:

(a) ***before*** marketing the RMBS;

(b) ***before*** describing the collateral underlying the RMBS;

(c) ***before*** writing the prospectuses, prospectus supplements and other Offering Documents they used to market the certificates;

(d) ***before*** "structuring" the RMBS with the Credit Rating Agencies' data-sensitive models;

(e) ***before*** "pricing" the subject RMBS; and

(f) ***before*** conveying the false information to plaintiff or its agents.

1033. Moreover, it was not until late 2010, when the FCIC and U.S. Senate revealed that defendants were shorting investments like the certificates at the same time that defendants were selling the certificates to plaintiff and others, that the investing public first learned that defendants were profiting from their inside knowledge about the defective nature of their own RMBS offerings, at plaintiff's and other investors' expense.

1034. This information only came to light in late September 2010, and only after the U.S. Government compelled defendants, Clayton, and others to produce documents and testimony that finally revealed defendants' fraud. Only the unique power of the government to compel people, documents and testimony without bringing a legal action revealed defendants' fraud. Obviously, plaintiff does not and did not have such power or unique abilities. This further serves to demonstrate that plaintiff and the assigning entities could not have uncovered defendants' misconduct by any means available to them.

IX. DEFENDANTS' MATERIAL MISREPRESENTATIONS AND OMISSIONS CAUSED INJURY TO PLAINTIFF

1035. Defendants' material misrepresentations and omissions relate directly to plaintiff's economic losses. Sophisticated securities dealers like defendants have long known about the relationship between LTV ratios, OORs, credit ratings, title and ownership, and underwriting criteria on the one hand, and the price and performance of an RMBS certificate on the other hand. Defendants' misrepresentations were the actual and proximate causes of plaintiff's injuries.

A. The Relationship Between Original LTV Ratios, Owner Occupancy Data and RMBS Performance

1036. Original LTV or "OLTV" metrics are among the most important variables indicating whether a loan will default. Studies conducted by one industry participant, Smith Barney, demonstrate that there is a strong correlation between the likelihood of default of a mortgage loan and the loan's OLTV ratio. When home prices decrease, borrowers with lower OLTV ratios are more likely to retain more equity in their homes ***even if*** housing prices generally decline. Retaining such equity provides borrowers a powerful incentive to make loan payments, which reduces the propensity of a loan to default. Retaining such equity also enables the borrower to sell the property, repay the loan and recover value in the event of default.

1037. Conversely, if a borrower has a higher OLTV ratio, like those that were concealed in this case, there is much less incentive for the borrower to repay the loan if home prices decline or a borrower's financial condition changes, because such borrower would have little equity at risk of loss and therefore far less economic incentive to pay the loan. As a consequence, from an investor's perspective, a loan with a higher OLTV ratio is a much riskier investment, as there is a much higher chance of default and a much higher risk of incurring a loss because of insufficient collateral for the loan.

1038. When defendants misrepresented the OLTV ratios associated with the RMBS at issue in this case, they knew that they were also misrepresenting both the propensity of the loans to default ***and*** their propensity to recover any value and avoid a loss in the event of default.

1039. The relationship between those inaccurate numbers and plaintiff's harm is immediate and clear. Just as industry literature shows a direct relationship between OLTV ratios, defaults and loss severity, that literature shows the same relationship between OOR percentages and default probabilities. Under every market condition, the OLTV ratios and OOR percentages drive the probability of a loan defaulting. Under every market condition, OLTV ratios and OOR percentages also drive the degree of loss that will be suffered in the event of a loan default.

1040. But that is not the full extent of defendants' fraud as it relates to OLTV ratios and OOR percentages in this case. Defendants further inflated the prices of the RMBS in this case by entering inaccurate OLTV and OOR numbers into the Credit Rating Agencies' computerized ratings models to secure artificially inflated ratings. This misconduct also relates to plaintiff's losses.

B. The Relationship Between Credit Ratings and RMBS Performance

1041. It is already clear that defendants used "garbage" data to get overrated, inflated credit ratings assigned to the certificates at issue in this case. These false credit ratings, based on false facts, also contributed directly to plaintiff's damages.

1042. When the Credit Rating Agencies began downgrading the certificates at issue in this case to speculative or "junk" grade levels and below because of escalating default rates, it became apparent that the certificates did not have the creditworthiness defendants had portrayed. As a result, the market value of the certificates plummeted. Because of defendants' misrepresentations and omissions, plaintiff suffered damages in the form of overpaying for the certificates in the first instance. Plaintiff also suffered damages as a result of defendants' misrepresentations and omissions when the risky loans defaulted, causing plaintiff to lose principal and interest payments and incur writedowns to the loan pools underlying the certificates.

1043. Industry executives have explained how false credit ratings relate to losses on RMBS products like those defendants sold in this case. According to Charles Prince, the former CEO of Citigroup, the largest bank in the world, the Credit Rating Agencies' downgrades were "the precipitating event in the financial crisis."

1044. In the very documents that defendants wrote and used to market the securities at issue in this case, the RBS Defendants admit that a downgrade in credit ratings could affect the value of the certificates:

> Each rating agency rating the offered certificates may change or withdraw its initial ratings at any time in the future if, in its judgment, circumstances warrant a change. No person is obligated to maintain the ratings at their initial levels. If a rating agency reduces or withdraws its rating on one or more classes of the offered

> certificates the liquidity and market value of the affected certificates is likely to be reduced.

See LBMLT 2006-2 Pros. Supp. at S-32.

1045. Defendants had actual knowledge on the day they wrote falsified credit ratings into the Offering Documents at issue in this case that there was an immediate and direct relationship between credit ratings and market values. Defendants clearly foresaw the harm they would inflict on plaintiff by misrepresenting those ratings. When the credit ratings were downgraded, the certificates' market values predictably dropped – just as defendants said they would. Yet defendants elected not to balance their "risk" factor about credit ratings with a "reality" factor disclosing the truth that they had intentionally misrepresented those ratings in this case.

1046. Defendants warped those ratings so that they could sell the subject certificates at inflated values, and pocket a larger profit or "spread" between the amount of money they paid their originators for defective loans and the amount of money they received by selling those defective loans to plaintiff, via securitizations. Quite simply, defendants used inaccurate data to make and market the certificates so that they could make more money.

1047. Downgrades to junk revealed the truth that the original ratings – like the OLTV and OOR data – were based on false and inaccurate information on the day they were issued. It is not possible to ascribe this inaccurate information to mistakes in the origination or structuring processes outside of defendants' control. Rather, as revealed by the government's disclosure of the Clayton data in September 2010, defendants were well aware of reports detailing the inaccurate OLTV, OOR and ratings data used to structure the RMBS at issue in this case ***before*** making, structuring and selling their RMBS to plaintiff, and defendants nonetheless deliberately decided to misrepresent that data to plaintiff, the Credit Rating Agencies, and other investors, so that they could profit.

C. The Relationship Between Underwriting and RMBS Performance

1048. Defendants also concealed rampant, systematic violations of stated loan underwriting standards to maximize their profits at plaintiff's expense. Underwriting, by definition, refers to the process of determining a borrower's ability and willingness to repay a loan. As with LTV ratios, OORs and credit ratings, defendants' decision to misrepresent underwriting standards relates directly to plaintiff's economic damages.

1049. Government investigations demonstrate the direct link between defendants' misrepresentations about underwriting standards and plaintiff's economic harm. On or about March 13, 2008, for example, after a seven-month investigation requested by the President of the United States, a working group led by the Secretary of Treasury and including the chairmen of the Federal Reserve, the SEC, and the Commodities Futures Trading Commission, issued a report finding that: (i) "a significant erosion of market discipline by those involved in the securitization process, including originators, underwriters, credit rating agencies and global investors, related in part to failures to provide adequate risk disclosures"; and (ii) "[t]he turmoil in financial markets clearly was triggered by a dramatic weakening of underwriting standards for U.S. subprime mortgages."

1050. Indeed, contrary to defendants' expected efforts to claim that plaintiff's certificates declined in value because of this Nation's economic collapse, in fact, the opposite is true – defendants' systemic misrepresentations in the Offering Documents caused plaintiff's and many other investors' certificates to plummet in value, which in turn caused this Nation's financial collapse. Defendants' systemic misrepresentations and omissions concerning the loans at issue caused plaintiff's damages, and thereafter "***the high risk loans [defendants] issued became the fuel that ignited the financial crisis***." Levin-Coburn Report at 50; *see also id*. at 475 ("***The widespread losses caused by . . . RMBS securities originated by investment banks [which contained 'poor quality***

assets'] are a key cause of the financial crisis that affected the global financial system in 2007 and 2008.").

1051. When it became known that the loans in the offerings were much riskier than represented, through skyrocketing default rates that led to major credit downgrades to the certificates, it also became apparent that the loans had not been originated pursuant to the underwriting standards represented in the Offering Documents. It became apparent then that the loans had been originated in a slipshod fashion, with little regard to the most basic underwriting guideline of all – determining whether the borrower could repay the loan. This fact too was a cause of the plummeting value of plaintiff's certificates, and a contributing cause of plaintiff's damages. Therefore, defendants' misrepresentations about underwriting standards directly and proximately caused plaintiff's injuries.

D. The Relationship Between Proper and Timely Transfer of Title and Plaintiff's Damages

1052. Defendants' misrepresentations that the loans would be properly and timely transferred to the trusts were also a proximate cause of plaintiff's economic damages. Plaintiff believed it was purchasing mortgage-***backed*** securities. Given that the certificates are lacking much of the backing or collateral that was supposed to be providing security, and guaranteeing a source of funds if the loans defaulted, the certificates have lost value as it has become known that the RMBS might actually be ***non***-mortgage-backed securities. In other words, the lack of collateral underlying the certificates has caused an understandable and logical diminution in the value of the certificates. As Professor Levitin noted in his testimony to Congress in November 2010, the failure to properly or timely transfer title would have "profound implications for [R]MBS investors," and would cause trillions of dollars in damages. Defendants' misrepresentations concerning the transfer of title proximately caused plaintiff's damages.

FIRST CAUSE OF ACTION

(Common Law Fraud Against All Defendants)

1053. Plaintiff repeats and realleges the allegations set forth in the preceding paragraphs, as if fully set forth herein.

1054. As alleged above, in the Offering Documents, defendants made false and misleading statements of material fact, and omitted material facts necessary in order to make their statements, in light of the circumstances under which the statements were made, not misleading.

1055. As the corporate parent of its wholly-owned subsidiaries, defendant The Royal Bank of Scotland Group plc directed and controlled the activities of its co-defendants, and used them as conduits to conduct the RMBS offerings alleged herein.

1056. Defendants knew at the time they sold and marketed each of the certificates that the foregoing statements were false and misleading or, at the very least, were made recklessly.

1057. Defendants made these materially false and misleading statements and omissions for the purpose of inducing plaintiff (and the assigning entities) to purchase the certificates. Furthermore, these statements related to these defendants' own acts and omissions.

1058. Defendants knew or recklessly disregarded that investors like plaintiff (and the assigning entities) were relying on defendants' expertise, and defendants encouraged such reliance through the Offering Documents, as described herein. Defendants knew or recklessly disregarded that investors like plaintiff (and the assigning entities) would rely upon defendants' representations in connection with their decisions to purchase the certificates. As alleged herein, defendants were in a position of unique and superior knowledge regarding the true facts concerning the foregoing material misrepresentations and omissions.

1059. It was only by making such misrepresentations and omissions that defendants were able to induce plaintiff (and the assigning entities) to buy the certificates. Plaintiff (and the assigning entities) would not have purchased or otherwise acquired the certificates but for defendants' fraudulent representations and omissions about the quality of the certificates and the underlying loans.

1060. Plaintiff (and the assigning entities) actually, justifiably, reasonably, and foreseeably relied upon defendants' false and misleading representations and omissions regarding the certificates and the underlying loans.

1061. As a result of defendants' false and misleading statements and omissions, as alleged herein, plaintiff (and the assigning entities) have suffered substantial damages.

1062. The RBS Defendants also defrauded plaintiff (and the assigning entities) by concealing from plaintiff (and the assigning entities) that they were "shorting" RMBS like the certificates sold to plaintiff (and the assigning entities) at the same time defendants sold the certificates at issue to plaintiff (and the assigning entities).

1063. Because defendants committed these acts and omissions maliciously, wantonly and oppressively, and because the consequences of these acts knowingly affected the general public, including, but not limited to, all persons with interests in the RMBS, plaintiff (through itself and the assigning entities) is entitled to recover punitive damages.

SECOND CAUSE OF ACTION

(Fraudulent Inducement Against All Defendants)

1064. Plaintiff repeats and realleges the allegations set forth in the preceding paragraphs, as if fully set forth herein.

1065. As alleged above, in the Offering Documents defendants made fraudulent, false and misleading statements of material fact, and omitted material facts necessary in order to make their statements, in light of the circumstances under which the statements were made, not misleading. The RBS Defendants also omitted that they were "shorting" RMBS like plaintiff's (and the assigning entities') at the same time those defendants sold the certificates at issue herein to plaintiff (and the assigning entities).

1066. This is a claim for fraudulent inducement against all of the defendants. As the corporate parent, defendant The Royal Bank of Scotland Group plc directed the activities of its co-defendant subsidiaries and used them as conduits to conduct the RMBS offerings alleged herein.

1067. Defendants knew at the time they sold and marketed each of the certificates that the foregoing statements were false and misleading or, at the very least, were made recklessly.

1068. Defendants made these materially false and misleading statements and omissions for the purpose of inducing plaintiff (and the assigning entities) to purchase the certificates. Furthermore, these statements related to defendants' own acts and omissions.

1069. Defendants knew or recklessly disregarded that investors like plaintiff (and the assigning entities) were relying on defendants' expertise, and defendants encouraged such reliance through the Offering Documents, as described herein. Defendants knew or recklessly disregarded that investors like plaintiff (and the assigning entities) would rely upon defendants' representations in connection with their decisions to purchase the certificates. As alleged herein, defendants were in a position of unique and superior knowledge regarding the true facts concerning the foregoing material misrepresentations and omissions.

1070. It was only by making such misrepresentations and omissions that defendants were able to induce plaintiff (and the assigning entities) to buy the certificates. Plaintiff (and the assigning entities) would not have purchased or otherwise acquired the certificates but for defendants' fraudulent representations and omissions about the certificates and the underlying loans.

1071. Plaintiff (and the assigning entities) actually, justifiably, reasonably, and foreseeably relied upon defendants' false and misleading representations and omissions regarding the certificates and underlying loans.

1072. By virtue of defendants' false and misleading statements and omissions, as alleged herein, plaintiff (and the assigning entities) has suffered substantial damages.

1073. In addition, because defendants acted maliciously, wantonly and oppressively, and defendants' acts affected the general public, plaintiff is entitled to recover punitive damages.

THIRD CAUSE OF ACTION

(Aiding and Abetting Fraud Against All Defendants)

1074. Plaintiff repeats and realleges the allegations set forth in the preceding paragraphs, as if fully set forth herein.

1075. This is a claim against each of the defendants for aiding and abetting the fraud by their co-defendants. Specifically, each of the RBS Defendants aided and abetted each of the other RBS Defendants.

1076. Each of the defendants knew of the fraud perpetrated by the each of their co-defendants on plaintiff (and the assigning entities). As alleged in detail above, each of the defendants knew that the certificates were not backed by loans of the quality represented by defendants, and were not underwritten according to the originators' stated underwriting standards. In fact, defendants owned originators and/or conducted due diligence on the loan pools securitized into the offerings purchased by plaintiff (and the assigning entities) and identified the originators' deviations from the loan underwriting and appraisal standards set forth in the Offering Documents and knew that the LTV ratios, OOR percentages (including the Primary Residence Percentages) and credit ratings in the Offering Documents were false. Each of the defendants also knew that their representations that they had timely and properly transferred title to the mortgage loans were false. Each of the defendants participated in those violations by their co-defendants, and had actual knowledge of their own acts and participated in and had actual knowledge of their co-defendants' fraudulent acts alleged herein.

1077. Furthermore, each of the defendants provided their co-defendants with substantial assistance in advancing the commission of their frauds. As alleged in detail above, each of the defendants participated in the following acts constituting the fraud with their co-defendants: making false and misleading statements and omissions in the Offering Documents about the originators' loan underwriting and appraisal standards, the loans' LTV ratios, the loans' OOR percentages (including the Primary Residence Percentages), the certificates' credit ratings, and the transfer of title of the mortgage loans; providing false information about the loans underlying the certificates to the Credit Rating Agencies; providing false information for use in the Offering Documents; concealing from plaintiff (and the assigning entities) the originators' deviations from their stated mortgage loan underwriting and appraisal standards; and concealing from plaintiff (and the assigning entities) that some of their co-defendants were shorting investments like the certificates.

1078. It was foreseeable to each of the defendants at the time they actively assisted in the commission of their co-defendants' frauds that plaintiff (and the assigning entities) would be harmed as a result of each defendant's assistance of its co-defendants.

1079. As a direct and natural result of the frauds committed by each defendant and each defendant's knowing and active participation in each fraud committed by such defendant's co-defendants, plaintiff (and the assigning entities) has suffered substantial damages.

1080. In addition, because defendants acted maliciously, wantonly and oppressively, and defendants' acts affected the general public, plaintiff is entitled to recover punitive damages.

FOURTH CAUSE OF ACTION

(Negligent Misrepresentation Against All Defendants)

1081. Plaintiff repeats and realleges the allegations set forth in the preceding paragraphs, as if fully set forth herein, except any allegations that defendants made any untrue statements and omissions intentionally or recklessly. For the purposes of this cause of action, plaintiff expressly disclaims any claim of fraud or intentional or reckless misconduct.

1082. This is a claim for negligent misrepresentation against all defendants.

1083. Plaintiff (and the assigning entities) made 84 separate investments in 53 offerings of RMBS that the defendants securitized and sold.

1084. It is a required industry practice for underwriters of RMBS offerings to perform an investigation of the loans backing the certificates to ensure that the quality of the loans is as represented in the offering documents provided to investors. In fact, U.S. securities laws require defendants to "***perform a review of the pool assets underlying the asset-backed security***" and ensure that such information shall be disclosed in the Offering Documents and "***is accurate in all material respects***." 17 C.F.R. §230.193. In addition, "[p]rospective investors look to the underwriter – a fact well known to all concerned and ***especially to the underwriter*** – to pass on the soundness of the security and the correctness of the [offering documents]." *Chris-Craft Indus. v. Piper Aircraft Corp.*, 480 F.2d 341, 370 (2d Cir. 1973).

1085. Because of the foregoing, defendants conducted due diligence and investigated the loans that backed their RMBS offerings. The purpose and effect of defendants' legal obligations as underwriters to conduct due diligence and ensure the correctness of the statements in the Offering Documents, as well as the investing public's understanding that the RMBS underwriters perform such due diligence to ensure the accuracy of statements made in the Offering Documents, was to assure plaintiff (and the assigning entities) that it could reasonably rely upon the Offering Documents. Moreover, by virtue of the due diligence defendants performed, and their extensive role in originating, purchasing, securitizing and selling the certificates that plaintiff (and the assigning entities) purchased, defendants had extremely unique and special knowledge and expertise regarding the loans backing those certificates, including the loans' quality, the nature of their underwriting, their value and adequacy as collateral, their LTV ratios, their OOR percentages, and the title to such loans.

1086. In particular, because plaintiff (and the assigning entities) did not have access to the loan files for the mortgage loans, or defendants' due diligence and valuation reports, while only defendants did, and because plaintiff (and the assigning entities) could not examine the underwriting quality of the mortgage loans underlying the offerings on a loan-by-loan basis, plaintiff (and the assigning entities) was heavily dependent on defendants' unique and special knowledge and expertise regarding the loans that backed the certificates at issue herein when determining whether to invest in each certificate. Plaintiff (and the assigning entities) was entirely dependent on defendants to provide accurate and truthful information regarding the loans because plaintiff (and the assigning entities) had no access to the loan files, which were completely within defendants' control. Moreover, as alleged above, at the time plaintiff (and the assigning entities) purchased the certificates, plaintiff (and the assigning entities) had no ability to test the veracity of defendants' representations in the Offering Documents concerning the loans because there were no loan databases available in the 2005 to 2007 time period which would allow plaintiff (or the assigning entities) to conduct sufficient analyses, like the analyses plaintiff performed prior to filing this complaint. Accordingly, defendants were uniquely situated to evaluate the safety and economics of each certificate sold to plaintiff (and the assigning entities) and the loans underlying them.

1087. Because plaintiff (and the assigning entities) was without access to critical information regarding the loans backing the certificates, and defendants had a legal obligation to perform due diligence on the loans and ensure any statements made about the loans in the Offering Documents were truthful and accurate, and plaintiff (and the assigning entities) had the understanding that RMBS underwriters performed due diligence to ensure the accuracy of the Offering Documents, defendants had a duty to plaintiff (and the assigning entities) to verify the accuracy and truthfulness of the Offering Documents.

1088. Over the course of at least five years, plaintiff (and the assigning entities) relied on defendants' unique and special knowledge regarding the quality of the underlying mortgage loans and defendants' underwriting when determining whether to invest in the certificates. These longstanding relationships, coupled with defendants' unique and special position of knowledge about the underlying loans, created a special relationship of trust, confidence, and dependence between defendants and plaintiff (and the assigning entities).

1089. Defendants were aware that plaintiff (and the assigning entities) relied on defendants' unique and special position, expertise and experience, and depended upon defendants for accurate and truthful information. Defendants also knew that the actual true statistics regarding the loans and the loans' compliance with the stated underwriting standards were exclusively within defendants' knowledge.

1090. Based on defendants' expertise, superior knowledge, legal duties, and relationship with plaintiff (and the assigning entities), defendants owed a duty to plaintiff (and the assigning entities) to provide complete, accurate, truthful and timely information regarding the mortgage loans and the certificates. Defendants breached their duty to provide such information to plaintiff (and the assigning entities).

1091. Defendants likewise made misrepresentations which they knew, or were negligent in not knowing at the time, to be false and misleading in order to induce plaintiff's (and the assigning entities') investment in the certificates. Defendants provided the Offering Documents to plaintiff (and the assigning entities) in connection with the sale of the certificates for the purpose of informing plaintiff (and the assigning entities) of material facts necessary to make an informed judgment about whether to purchase the certificates in the offerings. In providing these documents, defendants knew that the information contained and incorporated therein would be used for a serious purpose, and that plaintiff (and the assigning entities), like other reasonably prudent investors, intended to rely on the information contained in the Offering Documents.

1092. As alleged above, the Offering Documents contained materially false and misleading information and omissions, including, without limitation, misrepresentations concerning the underwriting guidelines, appraisals, LTV ratios, Primary Residence Percentages, credit ratings, and the transfer of title to the loans, and the omission that the RBS Defendants were selling RMBS like the ones sold to plaintiff (and the assigning entities) "short" at the same time those defendants sold plaintiff (and the assigning entities) the certificates.

1093. Defendants acted negligently in making the materially false and misleading statements and omissions to plaintiff (and the assigning entities).

1094. Unaware that the Offering Documents contained materially false and misleading statements and omissions, plaintiff (and the assigning entities) reasonably relied on those false and misleading statements and omissions when deciding to purchase the certificates.

1095. Plaintiff (and the assigning entities) purchased certificates from defendant RBS Securities in the offerings, and is therefore in privity with them.

1096. Based on defendants' expertise and specialized knowledge, and in light of the false and misleading representations and omissions in the Offering Documents, defendants owed plaintiff (and the assigning entities) a duty to provide it with complete, accurate, truthful and timely information regarding the quality of the certificates and underlying loans, and their title, and defendants breached their duty to provide such information to plaintiff (and the assigning entities).

1097. Plaintiff (and the assigning entities) reasonably relied on the information provided by defendants and has suffered substantial damages as a result of defendants' misrepresentations.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for relief and judgment, as follows:

A. Awarding compensatory damages in favor of plaintiff against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

B. Awarding punitive damages for plaintiff's common-law fraud claims;

C. Awarding plaintiff its reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Such other relief, including equitable relief, as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a trial by jury on all claims so triable.

DATED: October 11, 2013

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Appendix A

Offering	Issue Date	Depositor	Sponsor	Defendant Underwriter	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Assigning Entity	Seller
AHMA 2005-2	12/28/2005	AHM Assets	AHM	RBS Securities	1A1	02660VAY4	12/16/2005	$50,000,000	Fortis Bank	RBS Securities
AHMA 2007-3	6/6/2007	AHM Assets	AHM	RBS Securities	12A1	026935AC0	6/1/2007	$30,000,000	Scaldis	RBS Securities
AMIT 2006-1	5/2/2006	Financial Asset	Aames	RBS Securities	A4	00252GAD1	4/27/2006	$12,641,000	Fortis Bank	RBS Securities
ARSI 2006-M3	9/27/2006	Ameriquest Mortg. Secs.	Ameriquest	RBS Securities	A2D	03076MAE4	9/22/2006	$15,514,000	Scaldis	RBS Securities
ARSI 2006-W5	5/25/2006	Argent Secs.	Ameriquest	RBS Securities	M1	04012XAF2	5/12/2006	$4,000,000	Fortis Bank	RBS Securities
BVMBS 2005-1	1/28/2005	BellaVista	Belvedere	RBS Securities	1A1	07820QBL8	1/21/2005	$20,000,000	Fortis Bank	RBS Securities
					2A	07820QBN4	1/21/2005	$50,000,000	Fortis Bank	RBS Securities
CMALT 2007-A6	6/1/2007	Citicorp Mortg. Secs.	CitiMortgage	RBS Securities	1A10	18976GAK2	7/26/2007	$25,000,000	Fortis Ireland	RBS Securities
DSLA 2005-AR2	4/29/2005	RBS Acceptance	RBS Financial	RBS Securities	2A1A	23332UDC5	3/18/2005	$15,000,000	Scaldis	RBS Securities
DSLA 2005-AR5	8/10/2005	RBS Acceptance	RBS Financial	RBS Securities	2A1A	23332UFF6	7/28/2005	$40,000,000	Fortis Bank	RBS Securities
DSLA 2006-AR1	3/30/2006	RBS Acceptance	RBS Financial	RBS Securities	2A1B	23332UGN8	3/13/2006	$19,750,000	Fortis Bank	RBS Securities
					2A1C	23332UGP3	3/13/2006	$30,000,000	Fortis Bank	RBS Securities
DSLA 2006-AR2	9/12/2006	RBS Acceptance	RBS Financial	RBS Securities	2A1A	23332QAC7	8/3/2006	$30,000,000	Scaldis	RBS Securities
DSLA 2007-AR1	2/22/2007	RBS Acceptance	RBS Financial	RBS Securities	M2	23333YAG0	2/7/2007	$7,689,000	Fortis Bank	RBS Securities
FFML 2006-FF8	6/29/2006	Financial Asset	RBS Financial	RBS Securities	IIA4	320278AD6	6/6/2006	$31,940,000	Scaldis	RBS Securities
FHAMS 2006-FA2	3/25/2006	First Horizon Asset Secs.	First Horizon	RBS Securities	1A1	32051G2V6	4/19/2006	$30,000,000	Fortis Bank	RBS Securities
GMACM 2006-HE5	11/29/2006	Res. Asset Mortg.	GMAC	RBS Securities	2A2	38012EAC9	11/21/2006	$20,000,000	Scaldis	RBS Securities
HVMLT 2005-1	2/28/2005	RBS Acceptance	RBS Financial	RBS Securities	2A1A	41161PLD3	2/3/2005	$15,000,000	Fortis Bank	RBS Securities
					2A1B	41161PLE1	2/3/2005	$20,000,000	Fortis Bank	RBS Securities
					2A2	41161PLF8	2/3/2005	$20,000,000	Fortis Bank	RBS Securities
HVMLT 2005-9	8/26/2005	RBS Acceptance	RBS Financial	RBS Securities	2A1A	41161PSK0	7/21/2005	$40,000,000	Fortis Bank	RBS Securities
HVMLT 2005-10	8/31/2005	RBS Acceptance	RBS Financial	RBS Securities	2A1A	41161PTN3	8/5/2005	$25,000,000	Fortis Bank	RBS Securities
					2A1C	41161PTQ6	8/5/2005	$20,000,000	Fortis Bank	RBS Securities
HVMLT 2005-11	8/31/2005	RBS Acceptance	RBS Financial	RBS Securities	2A1A	41161PUK7	8/17/2005	$30,000,000	Fortis Bank	RBS Securities
					2A1C	41161PUM3	8/17/2005	$20,000,000	Fortis Bank	RBS Securities
					2A1C	41161PUM3	10/25/2005	$42,163,000	Fortis Bank	RBS Securities

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HVMLT 2005-13	9/30/2005	RBS Acceptance	RBS Financial	RBS Securities	2A1C	41161PWE9	10/25/2005	$19,587,000	Fortis Bank	RBS Securities
HVMLT 2005-15	10/31/2005	RBS Acceptance	RBS Financial	RBS Securities	2A11	41161PXH1	10/21/2005	$10,489,000	Scaldis	RBS Securities
					3A12	41161PXN8	2/8/2006	$44,434,000	Fortis Bank	RBS Securities
HVMLT 2005-16	11/30/2005	RBS Acceptance	RBS Financial	RBS Securities	3A1A	41161PYZ0	11/18/2005	$30,000,000	Fortis Bank	RBS Securities
					3A1A	41161PYZ0	12/1/2005	$10,000,000	Fortis Bank	RBS Securities
HVMLT 2006-1	2/7/2006	RBS Acceptance	RBS Financial	RBS Securities	2A1A	41161PA86	1/25/2006	$25,000,000	Fortis Bank	RBS Securities
HVMLT 2006-4	4/28/2006	RBS Acceptance	RBS Financial	RBS Securities	2A1B	41161PL50	4/7/2006	$10,000,000	Fortis Bank	RBS Securities
					2A1C	41161PL68	4/7/2006	$10,000,000	Fortis Bank	RBS Securities
HVMLT 2006-5	6/29/2006	RBS Acceptance	RBS Financial	RBS Securities	2A1B	41161MAD2	6/8/2006	$20,000,000	Scaldis	RBS Securities
HVMLT 2006-9	10/4/2006	RBS Acceptance	RBS Financial	RBS Securities	2AC2	41161XAP1	9/8/2006	$25,000,000	Fortis Bank	RBS Securities
HVMLT 2006-11	11/13/2006	RBS Acceptance	RBS Financial	RBS Securities	A1A	41162GAA0	10/27/2006	$20,000,000	Fortis Bank	RBS Securities
					A1B	41162GAB8	10/27/2006	$20,000,000	Fortis Bank	RBS Securities
HVMLT 2006-12	12/13/2006	RBS Acceptance	RBS Financial	RBS Securities	2A2A	41162DAF6	3/21/2007	$40,000,000	Scaldis	RBS Securities
					2A2B	41162DAG4	10/19/2006	$20,000,000	Scaldis	RBS Securities
					B2	41162DAK5	2/9/2007	$15,860,000	Fortis Bank	RBS Securities
HVMLT 2006-14	12/22/2006	RBS Acceptance	RBS Financial	RBS Securities	2A1B	41162NAD9	8/21/2007	$43,047,000	Fortis Bank	RBS Securities
HVMLT 2006-BU1	3/30/2006	RBS Acceptance	RBS Financial	RBS Securities	2A1B	41161PG80	3/10/2006	$20,000,000	Fortis Bank	RBS Securities
					2A1C	41161PG98	3/10/2006	$5,000,000	Fortis Bank	RBS Securities
HVMLT 2007-1	3/9/2007	RBS Acceptance	RBS Financial	RBS Securities	2A1B	41164MAD9	2/15/2007	$25,000,000	Scaldis	RBS Securities
					B3	41164MAH0	2/15/2007	$3,600,000	Fortis Cayman	RBS Securities
HVMLT 2007-2	3/30/2007	RBS Acceptance	RBS Financial	RBS Securities	2A1B	41164LAC3	3/1/2007	$20,520,000	Scaldis	RBS Securities
HVMLT 2007-4	6/14/2007	RBS Acceptance	RBS Financial	RBS Securities	2A1	41164YAB7	5/31/2007	$40,000,000	Scaldis	RBS Securities
HVMLT 2007-5	7/12/2007	RBS Acceptance	RBS Financial	RBS Securities	A1A	41165AAB8	7/27/2007	$40,000,000	Scaldis	RBS Securities
INDX 2005-AR2	1/27/2005	IndyMac MBS	IndyMac	RBS Securities	2A1B	45660LCM9	1/5/2005	$10,000,000	Fortis Bank	RBS Securities
					2A2A	45660LCN7	1/5/2005	$20,000,000	Fortis Bank	RBS Securities
INDX 2005-AR4	2/7/2005	IndyMac MBS	IndyMac	RBS Securities	2A1B	45660LEH8	1/24/2005	$5,000,000	Fortis Bank	RBS Securities
INDX 2005-AR8	4/28/2005	IndyMac MBS	IndyMac	RBS Securities	2A1A	45660LJJ9	4/4/2005	$25,000,000	Scaldis	RBS Securities
INDX 2006-AR6	4/28/2006	IndyMac MBS	IndyMac	RBS Securities	2A1A	456612AC4	4/24/2006	$15,000,000	Scaldis	RBS Securities
					2A1B	456612AD2	4/24/2006	$10,000,000	Scaldis	RBS Securities
LBMLT 2006-2	3/7/2006	Long Beach Secs.	Long Beach	RBS Securities	2A4	542514TU8	2/27/2006	$5,000,000	Fortis Bank	RBS Securities
LUM 2006-4	5/25/2006	RBS Acceptance	Luminent Mortg.	RBS Securities	A1A	55027BAA6	5/23/2006	$35,000,000	Fortis Bank	RBS Securities
					A1B	55027BAB4	5/23/2006	$15,000,000	Fortis Bank	RBS Securities

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MHL 2005-4	8/24/2005	MortgageIT Secs.	MortgageIT	RBS Securities	A1	61913PAZ5	8/18/2005	$50,000,000	Fortis Bank	RBS Securities
MHL 2006-1	2/22/2006	RBS Acceptance	MortgageIT	RBS Securities	2A1A	61915RCJ3	2/17/2006	$25,000,000	Fortis Bank	RBS Securities
					2A1B	61915RCK0	2/17/2006	$10,000,000	Fortis Bank	RBS Securities
NMFT 2006-MTA1	6/8/2006	NovaStar Financing	NovaStar	RBS Securities	2A1A	66988UAB6	5/30/2006	$15,000,000	Scaldis	RBS Securities
					2A1B	66988UAC4	5/30/2006	$10,000,000	Scaldis	RBS Securities
OOMLT 2007-3	4/12/2007	Option One Mortg. Accept.	Option One	RBS Securities	2A3	68402BAD8	4/10/2007	$27,701,000	Fortis Bank	RBS Securities
OOMLT 2007-4	4/19/2007	Option One Mortg. Accept.	Option One	RBS Securities	2A3	68403FAD8	4/11/2007	$35,000,000	Fortis Bank	RBS Securities
OOMLT 2007-5	4/27/2007	Option One Mortg. Accept.	Option One	RBS Securities	M2	68403HAG7	4/26/2007	$5,000,000	Fortis Cayman	RBS Securities
PFMLT 2005-1	4/28/2005	RBS Acceptance	Provident Funding	RBS Securities	3A1	743873AY7	4/22/2005	$30,000,000	Scaldis	RBS Securities
POPLR 2006-E	12/7/2006	Popular ABS	Equity One	RBS Securities	A3	73316TAC6	11/16/2006	$10,000,000	Scaldis	RBS Securities
					M1	73316TAD4	11/16/2006	$10,595,000	Fortis Bank	RBS Securities
SVHE 2006-OPT2	4/7/2006	Financial Asset	Option One	RBS Securities	A4	83611MML9	3/14/2006	$9,750,000	Fortis Bank	RBS Securities
SVHE 2006-OPT5	6/19/2006	Financial Asset	Option One	RBS Securities	2A4	83612CAE9	5/24/2006	$7,000,000	Scaldis	RBS Securities
SVHE 2007-OPT1	5/15/2007	Financial Asset	RBS Financial	RBS Securities	M2	83612TAG7	5/8/2007	$7,500,000	Fortis Cayman	RBS Securities
					M1	83612TAF9	5/8/2007	$3,800,000	Fortis Cayman	RBS Securities
					M3	83612TAH5	5/8/2007	$1,500,000	Fortis Cayman	RBS Securities
SVHE 2007-OPT2	7/10/2007	Financial Asset	RBS Financial	RBS Securities	M4	83613DAJ5	6/19/2007	$3,350,000	Fortis Cayman	RBS Securities
					M5	83613DAK2	6/19/2007	$2,430,000	Fortis Cayman	RBS Securities
					M1	83613DAF3	6/19/2007	$2,358,000	Fortis Cayman	RBS Securities
					M2	83613DAG1	6/19/2007	$2,000,000	Fortis Cayman	RBS Securities
					M3	83613DAH9	6/19/2007	$1,461,000	Fortis Cayman	RBS Securities
SVHE 2007-OPT3	7/10/2007	Financial Asset	RBS Financial	RBS Securities	M4	83612KAJ0	7/6/2007	$10,175,000	Fortis Cayman	RBS Securities
					M5	83612KAK7	7/6/2007	$6,600,000	Fortis Cayman	RBS Securities
					M2	83612KAG6	6/25/2007	$1,921,000	Fortis Cayman	RBS Securities
					M2	83612KAG6	7/6/2007	$3,300,000	Fortis Cayman	RBS Securities
					M1	83612KAF8	6/25/2007	$2,500,000	Fortis Cayman	RBS Securities