SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

DEXIA SA/NV; DEXIA HOLDINGS, INC.; FSA ASSET MANAGEMENT LLC; DEXIA CRÉDIT LOCAL SA, Plaintiffs, v. BEAR, STEARNS & CO. INC., THE BEAR STEARNS COMPANIES, INC., BEAR STEARNS ASSET BACKED SECURITIES I LLC, EMC MORTGAGE LLC (f/k/a EMC MORTGAGE CORPORATION), STRUCTURED ASSET MORTGAGE INVESTMENTS II INC., J.P. MORGAN ACCEPTANCE CORPORATION I, J.P. MORGAN MORTGAGE ACQUISITION CORPORATION., J.P. MORGAN SECURITIES LLC (f/k/a JPMORGAN SECURITIES INC.), WAMU ASSET ACCEPTANCE CORP., WAMU CAPITAL CORP., WAMU MORTGAGE SECURITIES, JPMORGAN CHASE & CO., and JPMORGAN CHASE BANK, N.A., Defendants.	Index No. 650180/2012 **AMENDED COMPLAINT** **<u>JURY TRIAL DEMANDED</u>**

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Plaintiffs Dexia SA/NV, Dexia Holdings, Inc., FSA Asset Management LLC, and Dexia Crédit Local SA (collectively, "Dexia" or "Plaintiffs") hereby bring this amended complaint for common law fraud, fraud in the inducement, aiding and abetting fraudulent inducement, negligent misrepresentation and successor liability (the "Complaint") against Bear, Stearns & Co. Inc., The Bear Stearns Companies, Inc., Bear Stearns Asset Backed Securities I LLC, EMC Mortgage LLC (f/k/a EMC Mortgage Corporation), Structured Asset Mortgage Investments II Inc., J.P. Morgan Acceptance Corporation I, J.P. Morgan Mortgage Acquisition Corporation, JPMorgan Securities LLC (f/k/a JPMorgan Securities Inc.), WaMu Asset Acceptance Corp., WaMu Capital Corp., WaMu Mortgage Securities Corp., JPMorgan Chase & Co. and JPMorgan Chase Bank, N.A. (collectively, "Defendants").[1]

The allegations herein are made on personal knowledge as to Plaintiffs' own acts and on information and belief as to all other matters, such information and belief having been informed through the investigation conducted by, and under the supervision of, Plaintiffs' counsel, the materials referenced in this Complaint, and counsel's interviews with numerous former employees of Defendants and other percipient witnesses. Many of the facts related to Plaintiffs' allegations are known only by the Defendants named herein or are exclusively within their custody or control. Formal discovery, including document discovery and depositions of relevant witnesses, is expected to provide additional evidentiary support for the allegations herein. By and through counsel, Plaintiffs allege as follows:

[1] Throughout this Complaint, emphasis in quotations has been added, unless otherwise indicated. "¶__" refers to the corresponding paragraph(s) in this Complaint.

I. PRELIMINARY STATEMENT

1. This case concerns an egregious fraud perpetrated by Bear Stearns, JPMorgan and Washington Mutual. For more than three years, Defendants created, issued and sold residential mortgage-backed securities ("RMBS") from loans that they knew to be exceptionally bad—many of which Defendants originated themselves—while giving the false impression and making false statements asserting that the RMBS were prudent investments. Specifically, Bear Stearns quickly securitized loans before they suffered from "early payment defaults" (a clear indication of mortgage fraud) to transfer default risks to investors, purposefully undermined the due diligence process to increase volume at the expense of mortgage quality, and "waived in" ***50%*** of the mortgages that its own due diligence vendor had marked as fatally defective. JPMorgan knowingly securitized poor quality mortgages after falsely assuring investors that they were conservatively underwritten, waiving in ***51%*** of the mortgages that its due diligence vendor had marked as fatally defective. Likewise, Washington Mutual knowingly securitized fraudulent mortgages and off-loaded exceptionally poor loans from its balance sheet into securitizations ***after*** determining that those mortgages were of exceptionally poor quality and likely to default. In sum, Defendants knowingly included mortgages with a high risk of default into the mortgage pools that they securitized, disguised this course of conduct from investors and credit rating agencies, and fraudulently sold Plaintiffs supposedly conservative RMBS.

2. Plaintiffs purchased over $1.6 billion worth of Defendants' RMBS in fifty-one offerings between 2005 and 2007. The RMBS gave Plaintiffs an interest in the mortgage payments from designated pools of residential mortgages supporting the securitization, and an interest in the collateral for those mortgages in case borrowers defaulted on their mortgage

payments. Accordingly, the value of the RMBS depended on the quality of the mortgages in the designated pools, including the borrowers' ability to timely make their mortgage payments and the value of the collateral supporting the mortgages.

3. The mortgage industry has developed various metrics for assessing the quality of mortgages and the related risks of default and loss. Among other things, loan originators, investment banks, credit rating agencies and RMBS investors typically assess borrower credit scores, loan-to-value ratios, level of early payment defaults ("EPDs"), level of mortgage documentation, and occupancy rates to assess the risk that borrowers will not make their mortgage payments on time, and the potential losses suffered in case of borrower default. The reliability of these metrics depends on the loan origination and underwriting practices that were used to originate the mortgages in the mortgage pool. For example, credit scores assessing the borrowers' credit quality are only reliable if the loan files reflect the true FICO scores. Loan-to-value ratios assessing the level of borrower equity in the collateral are only reliable if the mortgage appraisals in the loan files are accurate. For these reasons, strict adherence to loan origination and underwriting standards—including verification of the value of the collateral and the borrowers' ability and incentives to make their mortgage payments on time—is essential for determining the quality and riskiness of the mortgage pool. Plaintiffs relied on Defendants' representations regarding the loan origination and underwriting standards in making its decision to invest in the RMBS at issue.

4. Defendants knew at all relevant times that cutting corners in the loan origination and securitization process exposes investors to unknown, catastrophic losses and the financial system to systemic risk. The adoption of prudent lending standards and underwriting guidelines

are addressed in numerous federal regulations requiring financial institutions to adopt acceptable loan-to-value ratios and minimum FICO credit scores.[2] The investment banks that selected, purchased and securitized billions of dollars in mortgage pools each year were paid millions of dollars to ensure that the loan originators adhered to their origination and underwriting standards, and to reject mortgages that they discovered to be defective. This fraud action arises from Defendants' scheme to do the exact opposite.

5. Defendants are sophisticated financial institutions which collectively securitized at least ***$325 billion*** in mortgages from 2005 to 2007. Throughout this time, Defendants were active in every aspect of the mortgage securitization business, including loan origination and underwriting, creating, sponsoring and issuing RMBS, and underwriting and selling RMBS to investors. For example, from 2005 to 2007, Bear Stearns was one of the largest underwriters of RMBS in the country, and securitized at least ***$162 billion*** in loans. During this same time, WaMu similarly securitized at least ***$103 billion*** in loans, while JPMorgan securitized at least ***$62 billion*** in loans.

6. As the creators and underwriters of the RMBS, Defendants had exclusive access to information about the quality of the mortgage pools that supported the securities, including access to the loan files and the results of their own due diligence. By contrast, Plaintiffs and other investors did not have access to the loan files or the due diligence results, and could not perform similar due diligence itself. Plaintiffs therefore reasonably relied on Defendants' representations regarding the quality of the mortgage pools backing the RMBS in Defendants' registration

[2] *See, e.g.*, 12 C.F.R. Part 34, subpart D (Office of the Comptroller of Currency Standards); 12 C.F.R. Part 208, subpart C (Federal Reserve standards); 12 C.F.R. Part 365 (Federal Deposit Insurance Corporation standards); 12 C.F.R. 560.100 and 12 C.F.R. 560.101 (Office of Thrift Supervision standards); and 12 C.F.R. 701.21 (National Credit Union Administration Standards).

statements, prospectuses, prospectus supplements, and marketing materials, including free writing prospectuses, term sheets and draft prospectuses (the “Offering Materials”). The Offering Materials contained numerous representations about the quality of mortgages and the related risks of default and loss, including representations about borrower credit scores, loan-to-value ratios, level of EPDs, and occupancy rates. The Offering Materials also contained representations about the credit ratings of the RMBS. Defendants provided the Offering Materials to Plaintiffs to induce the purchase of the RMBS.

7. Defendants’ representations about the quality of the mortgages in the Offering Materials upon which the buyers relied were false and misleading. The mortgage pools backing the RMBS were of much poorer quality, and the related risks of default and loss were much greater, than represented because Defendants purposefully securitized fraudulent mortgages and other mortgages they knew or recklessly disregarded to be of exceptionally poor quality.

8. Defendants’ Offering Materials upon which Plaintiffs relied also contained false and misleading representations about the RMBS credit ratings. Unbeknownst to Plaintiffs, Defendants provided the credit rating agencies with the same false information about the quality of the mortgage pools. Defendants also bullied the credit rating agencies into providing favorable credit ratings, including by threatening to withhold future business and targeting individual analysts who were not sufficiently attuned to Defendants’ demands. Gary Witt, former managing director at Moody’s, testified before the National Commission on the Causes of the Financial and Economic Crisis in the United States (the “Financial Crisis Inquiry Commission” or “FCIC”) that investment banks like Defendants threatened to withdraw their business if they did not get their desired rating, stating: “All the time. I mean, that’s routine. I mean, they would threaten you all

the time…It's like, 'Well, next time we're just going to go with Fitch and S&P.'" Defendants' threats were successful. Richard Michalek, former senior credit officer at Moody's, stated in his FCIC testimony that "***The threat of losing business to a competitor, even if not realized, absolutely tilted the balance away from an independent arbiter of risk towards a captive facilitator of risk transfer.***" Here, Defendants used their power over the rating agencies to fraudulently transfer excessive mortgage default and loss risks to Plaintiffs.

9. Defendants' fraudulent conduct resulted in RMBS that were much riskier than represented to investors, including the fifty-one securitizations at issue. Defendants knew this when they sold their RMBS to Plaintiffs. As a former regional vice-president at JPMorgan explained to the New York Times: "The bigwigs of the corporations knew this, but they figured we're going to make billions out of it, so who cares? The government is going to bail us out. And the problem loans will be out of here, maybe even overseas." Nicholas D. Kristof, *A Banker Speaks, With Regret*, *N.Y. Times* (Nov. 30, 2011). By contrast, the full extent of Defendants' scheme was not known, and could not have been known, to Plaintiffs until the FCIC published the findings of its investigation in January 2011 (the "FCIC Report") and the U.S. Senate Permanent Subcommittee on Investigations published its report titled, *Wall Street and the Financial Crisis: Anatomy of a Financial Collapse* (the "Senate Investigations Report") on April 13, 2011. Together, these reports revealed for the first time that Defendants were creating and selling RMBS backed by mortgage pools that they knew, or at the very least recklessly disregarded, to be much riskier than represented to Plaintiffs and other investors.

10. The consequences of Defendants' actions have been devastating, resulting in the collapse and subsequent takeover of Bear Stearns and WaMu by Defendant JPMorgan. As

JPMorgan's CEO, Jamie Dimon, testified before the FCIC on January 13, 2010, "new and poorly underwritten mortgage products were a significant contributor that proved costly for consumers, the entire financial system and our economy." This action seeks to hold Defendants and their successors-in-interest liable for the hundreds of millions of dollars in damages caused by their fraud.

II. JURISDICTION AND VENUE

11. Jurisdiction is proper because a number of Defendants are domiciled in New York County, as detailed below. This Court has jurisdiction over each of the non-domiciliary Defendants because each of them regularly and systematically does business within the State of New York, each of them transacts business within the State of New York within the meaning of CPLR § 302(a)(1), and each of them committed a tortious act inside the State of New York or outside the State of New York causing injury within the State of New York within the meaning of CPLR §§ 302(a)(2) and 302(a)(3). The amount in controversy exceeds $150,000.

12. Venue is proper in this Court because a number of Defendants maintain their principal places of business in New York County, as detailed below.

III. THE PARTIES

A. Plaintiffs

13. FSA Asset Management LLC ("FSAM") is a Delaware limited liability company with its principal place of business in New York, New York. FSAM is an indirect wholly-owned subsidiary of Plaintiffs Dexia SA/NV and Dexia Holdings, Inc., and an affiliate of Plaintiff Dexia Crédit Local SA, New York branch. The claims asserted herein arise from FSAM's purchase of RMBS certificates described on attached Exhibit A (the "Certificates"). FSAM made all of the investment purchase decisions concerning the Certificates.

14. Dexia SA/NV is a public limited company organized under Belgian law with its principal place of business in Belgium.

15. Dexia Crédit Local SA, New York Branch ("DCLNY") is the New York branch of a French banking institution which is licensed by the New York State Banking Department. DCLNY is a wholly-owned subsidiary of Dexia SA/NV.

16. Dexia Holdings, Inc. ("DHI") is a Delaware corporation with its principal place of business in New York, New York. DHI is an indirect wholly-owned subsidiary of Dexia SA/NV, is a subsidiary of DCL, and is an affiliate of DCL's New York branch.

17. FSAM, Dexia SA/NV, DCLNY, and DHI are collectively referred to herein as "Plaintiffs" or the "Dexia Plaintiffs."

18. FSAM has assigned and transferred the RMBS, including all "right, title and interest" in the RMBS assets (including all rights and remedies sought in this action), to the other Dexia Plaintiffs pursuant to intercompany agreements. Defendants' misconduct has caused Dexia SA/NV, DHI and DCL to suffer substantial losses on the RMBS Certificates.

B. Defendants

19. Defendant Bear, Stearns & Co. Inc. was at all relevant times an SEC-registered broker-dealer incorporated in Delaware, with its principal place of business at 383 Madison Avenue, New York, New York 10179. Bear, Stearns & Co. Inc. was a wholly-owned subsidiary of The Bear Stearns Companies, Inc., and served as the lead underwriter for 19 of the securitizations at issue here. Bear, Stearns & Co. Inc. directed the activities of its affiliates EMC Mortgage LLC, Structured Asset Mortgage Investments II Inc. and Bear Stearns Asset Backed Securities I LLC. On or about October 1, 2008, following the merger agreement dated March 16,

2008, Bear, Stearns & Co. Inc. merged with J.P. Morgan Securities LLC. All allegations against Bear, Stearns & Co. Inc. are also made against its successor-in-interest, J.P. Morgan Securities LLC.

20. Defendant EMC Mortgage LLC (f/k/a EMC Mortgage Corporation) was at all relevant times a Delaware corporation with its principal place of business at 2780 Lake Vista Drive, Lewisville, Texas 75067. EMC Mortgage LLC ("EMC Mortgage" or "EMC") was at all relevant times a wholly-owned subsidiary of The Bear Stearns Companies, Inc. and served as the sponsor for 9 of the securitizations at issue here. As a result of the merger between The Bear Stearns Companies, Inc. and JPMorgan Chase & Co., EMC became a wholly owned subsidiary of JPMorgan Chase & Co. All allegations against EMC are also made against its controlling parent company, The Bear Stearns Companies, Inc., and against JPMorgan Chase & Co. (as successor-in-interest to The Bear Stearns Companies, Inc.)

21. Defendant Structured Asset Mortgage Investments II Inc. ("SAMI II") was at all relevant times a Delaware corporation with its principal place of business at 383 Madison Avenue, New York, New York 10179. SAMI II was a wholly-owned subsidiary of The Bear Stearns Companies, Inc., and served as depositor for 4 of the securitizations at issue here. As a result of the merger between The Bear Stearns Companies, Inc. and JPMorgan Chase & Co., SAMI II became a wholly-owned subsidiary of JPMorgan Chase & Co. All allegations against SAMI II are also made against its controlling parent company, The Bear Stearns Companies, Inc., and against JPMorgan Chase & Co. (as successor-in-interest to The Bear Stearns Companies, Inc.).

22. Defendant Bear Stearns Asset Backed Securities I LLC ("BSABS I") was at all relevant times a Delaware limited liability company with its principal place of business at 383

Madison Avenue, New York, New York 10179. BSABS I was a limited purpose finance subsidiary of The Bear Stearns Companies, Inc., and an affiliate of Bear, Stearns & Co. Inc. BSABS I served as the depositor for 7 of the securitizations at issue here. As a result of the merger between The Bear Stearns Companies, Inc. and JPMorgan Chase & Co., BSABS I became a wholly-owned subsidiary of JPMorgan Chase & Co. All allegations against BSABS I are also made against its controlling parent company, The Bear Stearns Companies, Inc., and against JPMorgan Chase & Co., (as successor-in-interest to The Bear Stearns Companies, Inc.)

23. The Bear Stearns Companies, Inc. was at all relevant times a Delaware corporation with its principal place of business at 383 Madison Avenue, New York, New York 10017. The Bear Stearns Companies, Inc. was a holding company that provided investment banking, securities, and derivative trading services to its clients through its subsidiaries and, at the time of the securitizations at issue here, was the sole owner of Defendants Bear, Stearns & Co. Inc., BSABS I, EMC Mortgage, and SAMI II. On March 16, 2008, The Bear Stearns Companies, Inc. entered into an agreement and plan of merger (the "Merger") with JPMorgan Chase & Co., making The Bear Stearns Companies, Inc. a wholly-owned subsidiary of JPMorgan Chase & Co. All allegations against The Bear Stearns Companies, Inc. are also made against its successor-in-interest JPMorgan Chase & Co.

24. Defendants Bear, Stearns & Co., EMC, SAMI II, BSABS I, The Bear Stearns Companies, Inc., JPMorgan Chase & Co. (as successor-in-interest to The Bear Stearns Companies, Inc.) and J.P. Morgan Securities LLC (as successor-in-interest to Bear, Stearns & Co. Inc.) are collectively hereinafter referred to as "Bear Stearns" or the Bear Stearns Defendants."

25. Defendant JPMorgan Chase & Co. is a financial holding company incorporated

under Delaware law with its principal place of business at 270 Park Avenue, New York, New York 10017. JPMorgan Chase & Co. is one of the largest banking institutions in the United States and is the ultimate owner of Defendants JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC (f/k/a J.P. Morgan Securities Inc.), J.P. Morgan Acceptance Corporation I, and J.P. Morgan Mortgage Acquisition Corp. JPMorgan Chase & Co. is also the successor-in-interest to The Bear Stearns Companies, Inc.

26. Defendant JPMorgan Chase Bank, N.A. is a national banking association, a subsidiary of JPMorgan Chase & Co., and the sole owner of J.P. Morgan Mortgage Acquisition Corp. JPMorgan Chase Bank, N.A.'s main office is located in Columbus, Ohio. All allegations against JPMorgan Chase Bank, N.A. are also made against its controlling parent company, JPMorgan Chase & Co.

27. Defendant JP Morgan Securities LLC (f/k/a J.P. Morgan Securities Inc.) is a Delaware corporation with its principal place of business at 270 Park Avenue, New York, New York 10017. J.P. Morgan Securities LLC ("JPMorgan Securities") is a SEC-registered broker-dealer that engages in investment banking activities in the U.S., and served as the underwriter for 19 of the securitizations at issue here. All allegations against J.P. Morgan Securities LLC are also made against its controlling parent company, JPMorgan Chase & Co.

28. Defendant J.P. Morgan Mortgage Acquisition Corporation ("JPMorgan Mortgage") is a Delaware corporation with its principal place of business at 270 Park Avenue, New York, New York 10017. JPMorgan Mortgage is a direct, wholly-owned subsidiary of JPMorgan Chase Bank, N.A., and served as the sponsor for 13 of the securitizations at issue here.

All allegations against JPMorgan Mortgage are also made against its controlling parent company, JPMorgan Chase Bank, N.A.

29. Defendant J.P. Morgan Acceptance Corporation I ("J.P. Morgan Acceptance I" or "JPM Accept. I") is a Delaware corporation with its principal place of business at 270 Park Avenue, New York, New York 10017. J.P. Morgan Acceptance I is a direct, wholly-owned subsidiary of J.P. Morgan Securities Holdings LLC which, in turn, is a direct, wholly-owned subsidiary of JPMorgan Chase & Co. J.P. Morgan Acceptance I served as the depositor for 13 of the securitizations at issue here. All allegations against J.P. Morgan Acceptance I are also made against its ultimate controlling parent company, JPMorgan Chase & Co.

30. Defendants JPMorgan Chase & Co., JPMorgan Chase Bank, N.A., JPMorgan Securities, JPMorgan Mortgage, and J.P. Morgan Acceptance I are collectively hereinafter referred to as "JPMorgan" or the "JPMorgan Defendants."

31. Defendant WaMu Capital Corporation ("WaMu Capital") was at all relevant times an SEC-registered broker-dealer incorporated under Washington law, with its principal place of business at 1301 Second Avenue, WMC 3501A, Seattle, Washington 98101. WaMu Capital was a wholly-owned subsidiary of Washington Mutual Bank, and served as the underwriter for 13 of the securitizations at issue here. WaMu Capital is not currently affiliated with Washington Mutual Bank and is now a wholly-owned subsidiary of JPMorgan Chase Bank, N.A.

32. Defendant WaMu Asset Acceptance Corporation ("WaMu Asset") was at all relevant times a wholly-owned subsidiary of Washington Mutual Bank incorporated under Delaware law, with its principal place of business at 1301 Second Avenue, WMC 3501A, Seattle, Washington 98101. WaMu Asset served as the depositor for 6 of the securitizations at issue here.

WaMu Asset is not currently affiliated with Washington Mutual Bank and is now a wholly-owned subsidiary of JPMorgan Chase Bank, N.A.

33. Defendant WaMu Mortgage Securities Corporation ("WaMu Mortgage") was at all relevant times a wholly-owned subsidiary of Washington Mutual Bank incorporated under Delaware law, with its principal place of business at 1301 Second Avenue, WMC 3501A, Seattle, Washington 98101. WaMu Mortgage served as the sponsor for 4 of the securitizations at issue here. WaMu Mortgage is not currently affiliated with Washington Mutual Bank and is now a wholly-owned subsidiary of JPMorgan Chase Bank, N.A.

34. Defendants WaMu Capital Corporation, WaMu Mortgage, and WaMu Asset Acceptance Corporation are collectively hereinafter referred to as the "WaMu Defendants." WaMu Capital, WaMu Asset, WaMu Mortgage and non-parties Washington Mutual Bank, Long Beach Securities Corporation and Long Beach Mortgage Company are collectively referred to as "WaMu."

IV. BACKGROUND AND NATURE OF THE FRAUD

A. The Securitization Process

35. Residential mortgage backed securities provide investors with an interest in the income generated by one or more designated pools of residential mortgages. The actual securities themselves represent an interest in an "issuing trust" that holds the designated mortgage pools. Payments from the underlying borrowers are collected by a loan servicer and distributed, through the issuing trust, to holders of the certificates at regular distribution intervals throughout the life of the loan pool. Accordingly, the value of the RMBS depends on the quality of the mortgages in the designated pools, including the borrowers' ability to timely make their mortgage payments and the value of the collateral supporting the mortgages.

36. Although the structure and underlying collateral of the mortgages may vary from trust to trust, they all function in a similar manner: the cash flow from interest and principal payments is "passed through" to certificate holders, like Plaintiffs. Accordingly, failure by borrowers to make their mortgage payments directly, and negatively, impacts the value of the RMBS. Mortgage defaults reduce the available principal and interest payments to be passed through to investors. Defaults that are not cured will result in foreclosure, causing the trust to take possession or sell the collateral for the loan. Foreclosures will result in higher losses to the trust (and therefore to the RMBS investors) if the value of the collateral is lower than anticipated, for example because the appraisals overstated the value of the collateral. For these reasons, proper loan origination and underwriting of the mortgages underlying the RMBS—including verification of the value of the collateral and the borrowers' ability and incentives to make their mortgage payments on time—is essential to the value of the RMBS certificates.

37. The process of securitizing mortgages into RMBS involves a number of steps, each critical and necessary to finalize the securitization and sale to investors. First, a "sponsor" creates a loan pool from mortgages the sponsor has originated, or from mortgages the sponsor has purchased from other financial institutions. Prior to purchasing a mortgage pool from other financial institutions, sponsors generally will review a sample to verify compliance with the underwriting guidelines. The sponsors have the ability to reject loans from the pool before finalizing the purchase. In addition, the sponsor has the right to force the seller to repurchase or replace loans that do not meet represented quality standards after purchasing a mortgage pool.

38. Second, the sponsor transfers the loans to a "depositor," which segments the cash flows and risks in the loan pool among different levels of investment or "tranches." Generally,

cash flows from the payments by borrowers whose mortgages are in the loan pool are applied in order of seniority, going first to the most senior tranches. In addition, any losses to the loan pool due to defaults, delinquencies, foreclosure or otherwise, are applied in reverse order of seniority, and are applied first to the most junior tranches. The sponsor works together with the depositor in creating the structure of the securitization, including the determination of the collateral for each tranche, possible cross-collateralization between loan groups supporting different tranches, and potential level of over-collateralization to support the overall securitization.

39. In the meantime, the sponsor provides information about the RMBS tranche structure, the expected cash flows from the designated mortgage pool, and the value of the collateral supporting the loans in the mortgage pool to credit rating agencies ("CRAs") like Moody's and Standard & Poor's. Certificates in senior tranches are often rated as the best quality or "AAA." Junior tranches have subordinated rights to payment and are less insulated from risk, and therefore have lower credit ratings. The Plaintiffs' RMBS were all rated as "prime" investment grade securities at the time of issuance, with all of the securities at issue receiving the highest possible AAA/Aaa credit rating by Standard & Poor's and Moody's.

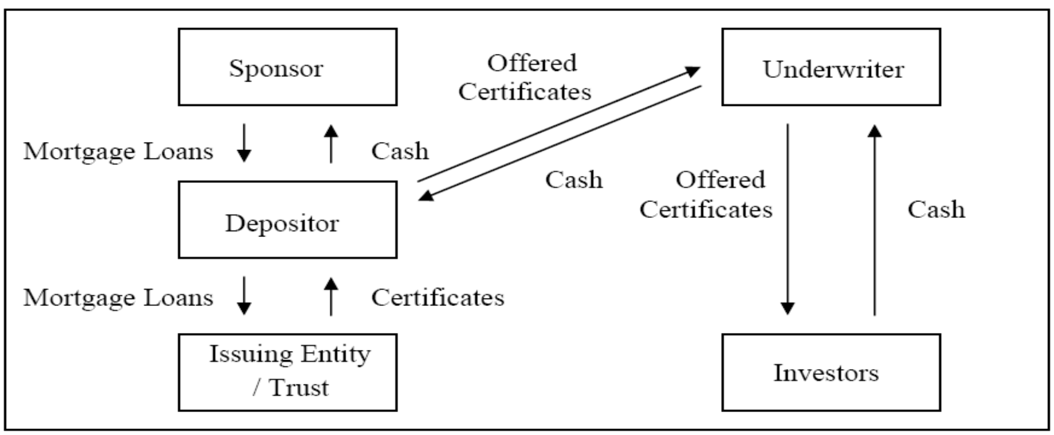
40. Third, the depositor transfers the mortgage pool to the issuing trust so that it can be used as collateral for RMBS that will be issued and sold to investors. Once the mortgage pool is deposited and the tranches are established, the issuing trust transfers RMBS in the tranches to the depositor as payment for the mortgages. In the meantime, RMBS underwriters reach out to potential investors—including by providing free writing prospectuses and term sheets prepared by the underwriters—to determine whether they might be interested in purchasing the certificates.

41. The depositor then passes the RMBS to the underwriters, who sell them to

investors in exchange for payment. After selling the RMBS to investors, the underwriters pass the payment back to the depositor, less any fees that are collected for serving as an underwriter of the securitization. At all relevant times, underwriters like Defendants collected fees, discounts, concessions, and/or commissions for serving as an underwriter of an RMBS securitization. On the securitizations at issue in this case, these commissions would have yielded Defendants tens of millions of dollars in underwriting fees.

42. As a sponsor and depositor of securitizations, Defendants earned even more. As the FCIC concluded in January 2011, after its investigation of Bear Stearns' role in the economic crisis: "In mortgage securitization, Bear followed a vertically integrated model that made money at every step, from loan origination through securitization and sale."

43. In sum, the steps in the securitization process can be depicted as follows:



B. Defendants' Unique and Non-Public Knowledge about the Certificates They Created, Issued and Sold

1. <u>Defendants' Control Over The Securitizations</u>

44. Bear Stearns, WaMu and JPMorgan were central actors in the mortgage securitization industry. From 2005 to 2007, Bear Stearns securitized more than $162 billion in loans, WaMu securitized more than $103 billion in loans, and JPMorgan securitized more than

$62 billion in loans that they then sold to investors. Because of their central role in creating, issuing and selling the RMBS, Defendants had exclusive access to information about the highly risky nature of the designated mortgage pools—information that Defendants fraudulently withheld from Plaintiffs and which Plaintiffs did not, and could not, have known.

45. Defendants utilized two methods to securitize the mortgages into RMBS for sale to investors. Specifically, Defendants either (1) acted as sponsor, depositor and underwriter of RMBS backed by mortgages that their own affiliates had originated or purchased, or (2) acted as an underwriter for RMBS that were sponsored by other financial institutions. Here, Defendants controlled the sponsor, the depositor, and the underwriter in thirty-five of the fifty-one securitizations at issue. The following table shows the sponsor, the depositor, and the underwriter as identified by the Offering Materials for each of these thirty-five securitizations.

Table 1

#	Offering	Sponsor	Depositor	Underwriter	Loan Originators
1	BALTA 2006-4	EMC	SAMI II	Bear Stearns	EMC* (67%)
2	BALTA 2006-7	EMC	SAMI II	Bear Stearns	EMC* (37%) Countrywide (51%)
3	BSABS 2006-EC2	EMC	BSABS I	Bear Stearns	Encore (100%)
4	BSABS 2006-HE8	EMC	BSABS I	Bear Stearns	EMC* (77%) Bear Stearns Res.† (20%)
5	BSABS 2006-IM1	EMC	BSABS I	Bear Stearns	Impac (100%)
6	BSABS 2007-2	EMC	BSABS I	Bear Stearns	Performance Credit (34%) Wells Fargo (30%)
7	SACO 2006-2	EMC	BSABS I	Bear Stearns	American Home (28%) SouthStar (18%) Impac 13%)
8	SAMI 2006-AR7	EMC	SAMI II	Bear Stearns	Countrywide (100%)
9	SAMI 2006-AR8	EMC	SAMI II	Bear Stearns	Countrywide (52%)

* Defendant in this Action.

† Affiliate of a Defendant in this Action.

10	JPALT 2006-A2	JPMorgan Mortgage	JPM Accept. I	JPMorgan Securities	Chase Originators†(16%) Countrywide (27%)
11	JPALT 2006-A3	JPMorgan Mortgage	JPM Accept. I	JPMorgan Securities	Chase Originators†(63%)
12	JPALT 2006-A5	JPMorgan Mortgage	JPM Accept. I	JPMorgan Securities	Chase Originators† (30%)
13	JPALT 2006-A6	JPMorgan Mortgage	JPM Accept. I	JPMorgan Securities	Chase Originators† (30%) Countrywide (28%)
14	JPALT 2006-A7	JPMorgan Mortgage	JPM Accept. I	JPMorgan Securities	Chase Originators† (17%) Flagstar Bank (50%) Countrywide (20%)
15	JPALT 2007-A1	JPMorgan Mortgage	JPM Accept. I	JPMorgan Securities	Chase Originators†(42%) GreenPoint (39%)
16	JPALT 2007-A2	JPMorgan Mortgage	JPM Accept. I	JPMorgan Securities	Chase Originators†(55%)
17	JPMAC 2006-CW1	JPMorgan Mortgage	JPM Accept. I	JPMorgan Securities	Countrywide (100%)
18	JPMAC 2006-HE3	JPMorgan Mortgage	JPM Accept. I	JPMorgan Securities	ResMAE (60%)
19	JPMAC 2006-NC1	JPMorgan Mortgage	JPM Accept. I	JPMorgan Securities	New Century (100%)
20	JPMAC 2006-RM1	JPMorgan Mortgage	JPM Accept. I	JPMorgan Securities	ResMAE (100%)
21	JPMAC 2006-WMC2	JPMorgan Mortgage	JPM Accept. I	JPMorgan Securities	WMC Mortgage (100%)
22	JPMAC 2006-WMC3	JPMorgan Mortgage	JPM Accept. I	JPMorgan Securities	WMC Mortgage (100%)
23	LBMLT 2006-3	Long Beach Mortgage	Long Beach Securities	WaMu Capital	Long Beach†(100%)
24	LBMLT 2006-4	Long Beach Mortgage	Long Beach Securities	WaMu Capital	Long Beach† (100%)
25	LBMLT 2006-5	Long Beach Mortgage	Long Beach Securities	WaMu Capital	Long Beach† (100%)
26	LBMLT 2006-6	WaMu Bank	Long Beach Securities	WaMu Capital	Long Beach† (100%)
27	LBMLT 2006-7	WaMu Bank	Long Beach Securities	WaMu Capital	Long Beach† (100%)
28	LBMLT 2006-8	WaMu Bank	Long Beach Securities	WaMu Capital	Long Beach† (100%)
29	LBMLT 2006-11	WaMu Bank	Long Beach Securities	WaMu Capital	Long Beach† (100%)
30	WAMU 2006-AR7	WaMu Bank	WaMu Asset	WaMu Capital	WaMu† (100%)
31	WMABS 2006-HE2	WaMu Mortgage	WaMu Asset	WaMu Capital	Long Beach† (33%) Mandalay (17%)

32	WMABS 2007-HE2	WaMu Mortgage	WaMu Asset	WaMu Capital	WMC Mortgage (50%)
33	WMALT 2007-HY1	WaMu Mortgage	WaMu Asset	WaMu Capital	WaMu† (71%)
34	WMALT 2007-OC2	WaMu Mortgage	WaMu Asset	WaMu Capital	WaMu† (60%)
35	WMHE 2007-HE2	WaMu Bank	WaMu Asset	WaMu Capital	WaMu†(100%)

46. Defendants controlled each step of the securitization process for each of the RMBS in Table 1, including: (i) the selection and acquisition of the loans in the pool; (ii) the creation of the securitization structure, including the segmentation of cash flows and risks into tranches; (iii) providing critical information about the quality of the mortgage pool to the credit rating agencies as part of the process of obtaining investment grade credit ratings for the RMBS; and (iv) the registration, underwriting and sale of the RMBS to Plaintiffs, including providing critical information about the quality of the mortgages that was used by investors to decide whether to purchase the RMBS. As a result, Defendants had unique, non-public insight into the loan origination and underwriting practices that were used for originating the loans included in these securitizations.

47. Defendants and their affiliates also originated 30% or more of the loans backing the RMBS for twenty of these thirty-five securitizations: BALTA 2006-4, BALTA 2006-7, BSABS 2006-HE8, JPALT 2006-3, JPALT 2006-5, JPALT 2007-A1, JPALT 2007-A2, LBMLT 2006-11, LBMLT 2006-3, LBMLT 2006-4, LBMLT 2006-5, LBMLT 2006-6, LBMLT 2006-7, LBMLT 2006-8, WAMU 2006-AR7, WMABS 2006-HE2, WMABS 2007-HE2, WMALT 2007-HY1, WMALT 2007-OC2, and WMHE 2007-HE2. For these offerings, Defendants controlled the entire mortgage process from origination to securitization and sale to Plaintiffs. As Bear Stearns reported in its 2006 Annual Report, such a "vertically integrated franchise ***allows us***

access to every step of the mortgage process, including origination, securitization, distribution and servicing."

2. Defendants' Control Over The Loan Pools Backing the RMBS

48. Before purchasing loans, Defendants performed credit, compliance and valuation due diligence on the mortgage loan pools. Credit due diligence involved examining a sample of the individual loans to assess their quality and compliance with the originators' loan underwriting guidelines, and is a critical tool for evaluating the risk that the borrowers of the mortgages in the pool will not make their mortgage payments on time. Compliance diligence focused on whether the loans were originated in compliance with state, federal and local laws, including predatory lending and truth-in-lending statutes. Valuation diligence used automated valuation models ("AVMs") to verify the accuracy of reported valuations of the collateral backing the mortgages in the pool. The value of the collateral is critical for determining the amount of equity a borrower has in the collateral—a key driver for determining whether the borrower will continue to make the mortgage payments and the potential recovery in case of default.

49. Defendants routinely used outside third-party due diligence providers, such as Clayton, the Bohan Group ("Bohan"), and Watterson Prime LLC, to perform due diligence on the mortgage pools they purchased for securitization. As part of this due diligence, the vendor calculated important data points, such as LTV ratios and debt-to-income ratios, and provided detailed quantitative and qualitative findings to Defendants, including a score for each loan. John Mongelluzzo, a former Bear Stearns due diligence manager, acknowledged in testimony before the FCIC that Bear Stearns received individual asset summary ("IAS") reports on a daily basis. Bear Stearns also received tracking reports showing the kinds of exceptions that were commonly

discovered for Defendants' top loan originators. Clayton's senior vice-president, Vicki Beal, testified before the FCIC that in developing these reports, Clayton received a lot of feedback from Bear Stearns of "things that would be helpful to them." Confidential witness ("CW") 1, a former EMC associate vice-president who worked at the company in various due diligence and compliance roles from 1998 through 2008 in Fort Worth, Texas, confirmed that Bear Stearns "knew the intimate details" of each loan that was reviewed in the due diligence process.

50. Defendants did not extrapolate the due diligence results for the samples reviewed by the due diligence vendors to the mortgage pools they purchased.

51. Defendants' due diligence efforts and access to the individual loan files gave them material, non-public knowledge about the true quality of the loans that were included in the securitizations at issue. Defendants' due diligence efforts and access to the loan files also provided comfort to investors that Defendants only securitized mortgage pools which conformed to the stated loan origination and underwriting standards. Investors did not have access to the loan files or Defendants' due diligence information, and could not conduct similar due diligence themselves. Plaintiffs therefore relied on Defendants' disclosure of the quality of the mortgage pools backing the RMBS. As the Attorney General for the State of Massachusetts explained, there are "two related ***information asymmetries*** that arise from the RMBS structure:"

> First, investment banks, through their diligence process, may discover that loans have poorer quantifiable criteria than present on the loan tape (for example, if the bank's review calls into question the quality of the appraisals underlying the calculation of the loan-to-value ratios). Second, investment banks may discover concentrations of otherwise unquantifiable risks like fraud.

Letter from Attorney General for the State of Massachusetts to the SEC dated August 2, 2010 regarding Proposed Rule Concerning Asset-Backed Securities, SEC Release Nos. 33-9117, 34-

61858; File number S7-08-10. These information asymmetries were even more acutely pronounced in securitizations that were created, sponsored and underwritten by Defendants, and backed by mortgages that Defendants and their affiliates had originated.

C. Defendants Fraudulently Included Poor Quality Loans in the Securitizations

1. <u>Bear Stearns</u>

52. Defendant EMC Mortgage was established to facilitate the purchase and servicing of whole loan portfolios. Since its inception in 1990, EMC purchased over $100 billion in residential loans and servicing rights. As stated in the BALTA 2006-4 Prospectus Supplement, when EMC purchased loans, it was "with the ultimate strategy of securitization into an array of Bear Stearns' securitizations." From 2003 to 2006, EMC securitized nearly $200 billion in residential mortgage loans.

53. EMC Mortgage was the sponsor for nine of the Bear Stearns securitizations at issue. EMC Mortgage and other Bear Stearns affiliates were also the originators for 37% or more of the loans backing three of those securitizations, as shown in Table 2:

Table 2

#	Offering	Sponsor	Underwriter	Loan Originators
1	BALTA 2006-4	EMC	Bear Stearns	EMC* (67%)
2	BALTA 2006-7	EMC	Bear Stearns	EMC* (37%) Countrywide (51%)
3	BSABS 2006-EC2	EMC	Bear Stearns	Encore (100%)
4	BSABS 2006-HE8	EMC	Bear Stearns	EMC* (77%) Bear Stearns Res† (20%)
5	BSABS 2006-IM1	EMC	Bear Stearns	Impac (100%)
6	BSABS 2007-2	EMC	Bear Stearns	Performance Credit (34%) Wells Fargo (30%)
7	SACO 2006-2	EMC	Bear Stearns	American Home (28%) SouthStar (18%)

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* Defendant in this Action.

† Affiliate of a Defendant in this Action.

8	SAMI 2006-AR7	EMC	Bear Stearns	Countrywide (100%)
9	SAMI 2006-AR8	EMC	Bear Stearns	Countrywide (52%)

54. Although identified as "originator" of the loans in three of these securitizations, EMC Mortgage did not originate any of the loans in the securitizations at issue. Instead, EMC Mortgage purchased loans from unidentified financial institutions while representing in the Offering Materials that those loans were "originated in accordance with the underwriting guidelines established by [EMC]." Former senior managing director and co-head of Bear Stearns' mortgage finance, Mary Haggerty, confirmed in testimony before the FCIC that EMC Mortgage did not originate loans, explaining that EMC Mortgage only purchased loans while making its underwriting guidelines available to financial institutions that wanted to sell loans to Bear Stearns: "EMC was a purchaser and seller of loans. EMC did not originate itself."

a. Bear Stearns' Undisclosed Policy to Securitize Loans before Expiration of the EPD Period

55. Until 2005, Bear Stearns had a policy preventing the securitization of mortgages before expiration of the early payment default ("EPD") period. If a loan defaulted during the EPD period—typically between 30 and 90 days after Bear Stearns purchased the loan from an originator—Bear Stearns could force the originator to repurchase the loan, to replace the loan, or to provide alternative compensation. Early payment defaults are recognized in the mortgage industry as an indicator of mortgage fraud and borrower inability to pay.

56. To increase the volume of its securitization business and overall profitability, Bear Stearns changed its EPD policy in 2005 to allow for the securitization of loans before expiration of the EPD period. Bear Stearns' revised EPD policy greatly increased the default and loss risks of the mortgage pools backing Bear Stearns' RMBS. At the same time, the revised EPD policy transferred the default and loss risks from Bear Stearns to investors, like Plaintiffs, while ensuring

that Bear Stearns could continue to collect the sponsor, depositor and underwriting fees for each securitization. This change created a strong financial incentive for Bear Stearns to churn out as many securitizations as possible, regardless of the quality of the supporting mortgage pools.

57. After changing the EPD policy, senior Bear Stearns executives pressured Bear Stearns' personnel to securitize acquired loans as quickly as possible regardless of loan quality, and in any event before expiration of the EPD period. For example, a June 13, 2006 email from senior managing director and head of whole loan trading, Jeffrey L. Verschleiser, reminded Bear Stearns' personnel of the need "to be certain we can securitize the loans with 1 month epd before the epd period expires." When his directive was not followed, Verschleiser demanded an explanation as to why loans "were dropped from deals and not securitized before their epd period expired." Similarly, a May 5, 2007 email from managing director Keith Lind demanded "to know why we are taking losses on 2nd lien loans from 2005 when they could have been securitized?????" These emails are consistent with the account of former EMC analyst Matt Van Leeuwen, reported in *The Atlantic* on May 14, 2010, that:

> Bear traders pushed EMC analysts to get loan analysis done in only one to three days. That way, Bear could sell them off fast to eager investors and didn't have to carry the cost of holding these loans on their books.

58. In a transcribed interview submitted in other litigation, Van Leeuwen explained that Bear Stearns purchased loans from other banks towards the end of the month and immediately put them into securitizations for sale to investors, like Plaintiffs. Van Leeuwen stated:

> We would typically buy loans – in the case of an [Alt-A] deal, we would buy loans from a Wells Fargo or a Countrywide or any other bank towards the end of the month, right around, you know, the 28th or the 29th, and they would often be put into a security that would close on the 30th or 31st of the month, so it was almost instantaneously that it would pass through. […]

> there were people who knew that these loans were not the best, but the whole focus was short term, ***I mean they were only going to be on our books for a very short time anyway, so who cares.*** […]
>
> ***In their mind, Bear had no risk in these deals. They were simply a middleman who had temporary ownership of the loans, so with that came the mind set to hurry up and get things moving through***.

59. Bear Stearns did not disclose to Plaintiffs that it had adopted a deliberate policy to securitize loans before expiration of the EPD period or that it was pressuring its employees to quickly securitize mortgages regardless of loan quality. Instead, Bear Stearns made extensive representations to investors that it had implemented and was applying controls to ensure the quality of the securitized loans. In a December 15, 2005 Bear Stearns Companies' Investor Conference Call, Bear Stearns underscored its commitment to loan quality to quiet any concerns about its rapid growth:

> [O]ur [origination and] conduit business…saw a significant increase in origination volume over the course of the year and that's important not only because it secures a direct pipeline of product for securitization and thereby allows us to maintain or increase share, but it also has a lot to do with the quality of the product that we're able to put out in the nonagency space.

60. Contrary to statements made to investors, Bear Stearns did not take steps or enforce any sort of "controls" to ensure the "quality of the product" and actively concealed material facts regarding its actual securitization practices and internal protocols. Indeed, "Bear took particular pride in its risk management, but let its standards slide in the hunt for higher returns during the mortgage mania." *Bear Naked Lenders, The Wall Street Journal,* March 18, 2008. It was foreseeable that investors who purchased Bear Stearns RMBS would suffer losses as a result.

b. Bear Stearns Deliberately Undermined the Due Diligence Process

61. As the sponsor, EMC Mortgage was responsible for selecting and evaluating the

mortgage pools for each of the Bear Stearns securitizations at issue here. EMC Mortgage operated under the strict supervision and control of Bear Stearns. CW 2, an assistant underwriting manager at EMC from June 2006 through May 2008 in Carrollton, Texas, stated that the EMC Mortgage loan selection process was closely overseen by Bear Stearns, noting that "EMC was basically a sub-company of Bear Stearns in New York, and of course they had a day to day influence as to what was being purchased from the various sellers." CW 2 further stated that "I know credit decisions and such were made out of New York." CW 3, a senior underwriter at Bear Stearns, EMC and JPMorgan from March 2000 through February 2009 in Dallas, Texas, independently confirmed CW 2's account, stating that "Bear Stearns made all the decisions. That's the mother ship right there. They're the ones who ran the show."

62. In addition to reducing its exposure to poor quality loans by changing the EPD policy, Bear Stearns undermined the due diligence process, which was now slowing down its securitizations machine. Specifically, Bear Stearns implemented a due diligence process that was designed to maximize the number of Bear Stearns securitizations regardless of the quality of the loans in the designated mortgage pools. CW 4, an auditor and senior product guideline analyst at EMC Mortgage from August 2005 through October 2007 in Lewisville, Alabama, stated that the Bear Stearns mindset was "***The more volume, the more money***."

63. Bear Stearns ensured the loan volume for its securitizations in a number of ways. First, Bear Stearns pressured its employees to purchase loans regardless of the quality of the mortgage pools. For example, on April 4, 2006, EMC senior vice-president Jo-Karen Whitlock informed her staff that she would hold them personally accountable if EMC Mortgage did not meet Bear Stearns' loan acquisition targets, stating:

> I refuse to receive any more emails from [senior managing director and head of whole loan trading, Jeffrey L. Verschleiser] (or anyone else) questioning why we're not funding more loans each day. ***I'm holding each of you responsible for making sure we fund at least 500 each and every day***. . . .
>
> [I]f we have 500+ loans in this office we MUST find a way to underwrite them and buy them. . . . I was not happy when I saw the funding numbers and I knew that NY would NOT BE HAPPY. I expect to see 500+ each day. . . . I'll do whatever is necessary to make sure you're successful in meeting this objective.

64. Second, EMC Mortgage did not conduct any due diligence on loans that were originated by Bear Stearns Residential Mortgage ("BSRM"), including for the BSRM mortgages included in BSABS 2006-HE8. Indeed, Mary Haggerty testified before the FCIC that after Clayton performed due diligence on BSRM's origination and underwriting practices for a brief period of time, Bear Stearns did not continue conducting due diligence on mortgage loans originated by BSRM.

65. Third, Bear Stearns limited the due diligence for subprime loan originators that were selling Bear Stearns large volumes of loans, such as Countrywide, GreenPoint and Impac. On February 11, 2005, Bear Stearns associate director Biff Rogers forwarded an email from due diligence manager John Mongelluzo to Bear Stearns' analysts, stating that the amount of due diligence on subprime loans would be reduced "in order to make us more competitive on bids with larger sub-prime sellers." Bear Stearns senior managing director and co-head of mortgage finance Baron Silverstein similarly testified before the FCIC that, "Bear Stearns would evaluate our due diligence strategy, depending upon who the seller was."

66. CW 2, an assistant underwriting manager at EMC Mortgage from June 2006 through May 2008, explained how this worked in practice, stating that "there were certain major lenders and very few of those loans were audited, they were just reviewed in bulk." According to CW 2, EMC Mortgage limited the due diligence sample for such major lenders to 10% of the loan

pool. Moreover, CW 2 stated that EMC Mortgage would not conduct credit due diligence on all of the loans in the 10% sample, using part of the sample only for a valuation review of the collateral. Former EMC loan analyst Matt Van Leeuwen confirmed CW 2's account, stating:

> So in about 2005, toward the end of 2005, the traders didn't like the fact that we had to review 10 to 20 percent of these loans before they went into a security, so the decision was made at the desk to go ahead, buy 100 percent of the loans, put them into a security and then review them under the due diligence process. […]
>
> So you have a pool of loans, some of them are going to fall out because of the due diligence, whether they didn't conform to the trade stipulations or some other reason. Usually what happens is those get removed and you buy the rest of them that conform to the trade stips, and the rest of them go into a security***. In this case, they would go ahead and buy them and put them into a security before taking a look at them.***

67. The statements of CW 2 and Van Leeuwen were confirmed by internal Bear Stearns audit reports in 2006, which concluded that Bear Stearns had reduced the number of loans in the loan samples that were reviewed as part of the due diligence process, was conducting due diligence only after the loans were processed ("post-closing" due diligence), had eliminated internal reports on defective loans, and was conducting no due diligence if such due diligence would interfere with mortgage pools being securitized. In combination with Bear Stearns' revised EPD policy, this meant in many instances that Bear Stearns conducted no due diligence before securitizing and selling the loans to Plaintiffs and other investors.

68. Finally, Bear Stearns pressured its due diligence vendors to limit the number of loans that were identified as defective. CW 5, a due diligence underwriter at Clayton and Bohan from June 2005 through January 2008 in Stamford, Connecticut and Irvine, California, stated that Bear Stearns pressured Clayton and Bohan to be more lenient with their credit and compliance due diligence, stating that Bear Stearns exerted "downward pressure" to ensure that more loans would be approved. For example, in an April 5, 2007 email, an EMC assistant manager for

quality control underwriting and vendor management instructed Bear Stearns' due diligence vendor not to review appraisals, not to verify occupancy status of the residence and employment, and not to identify misrepresentations regarding the occupancy of the property to Bear Stearns, stating:

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

69. Bear Stearns never disclosed to Plaintiffs that it pressured its personnel and due diligence vendors to approve loans regardless of credit quality, that it encouraged falsifying loan information, that it limited the due diligence for numerous loan originators, or that it failed to conduct any due diligence on loans originated by BSRM.

70. Bear Stearns knew that the representations it made about the quality of its due diligence were false and misleading.

c. Bear Stearns Knowingly Included Poor Quality Loans in Its Securitizations

71. Bear Stearns knew that numerous loans that it included in securitizations failed to meet the stated loan origination and underwriting standards, and were based on inflated property values. For example, CW 4, an auditor and senior product guideline analyst at EMC Mortgage from August 2005 through October 2007, reviewed many loan files in which the stated income was "way overstated" and the property values were "way overinflated"—causing both the borrowers' ability to pay and the value of the collateral to be overstated. EMC Mortgage would nevertheless approve and purchase those loans. As CW 4 stated, "as long as it was not totally

ridiculous, we took it."

72. In the individual asset summary and trending reports, Clayton reported discovering numerous defective loans in the mortgage samples that Clayton reviewed for Bear Stearns. For example, Clayton reported to the FCIC that, during the 18 months that ended June 30, 2007, it rated only 54% of all reviewed loans as meeting the stated underwriting guidelines. During this time, Clayton further determined that 18% of the loans did not meet the underwriting guidelines but had "compensating factors," and that 28% of the loans were fatally defective and should not be purchased. Discussing this data during his testimony before the FCIC, Clayton's former President and Chief Operating Officer, Keith Johnson, said: "That 54% to me says there [was] a quality control issue in the factory" for mortgage-backed securities. Bear Stearns was one of Clayton's largest customers and no exception to the quality control issues in the factory.

73. Bear Stearns routinely overruled its due diligence vendors and "waived in" materially defective loans. Clayton's data showed for the 18 months that ended June 30, 2007, that EMC Mortgage waived in ***50%*** of the loans that failed to meet credit and compliance underwriting standards—one of the highest waiver rates in the industry. Johnson explained during a June 8, 2010 interview with FCIC investigators that of all the RMBS issuers, ***Bear Stearns was the worst on exceptions***.

74. Loan traders, whose compensation depended in large measure on the volume of loans that Bear Stearns purchased and securitized, made the decision to waive in defective loans. CW 2, assistant underwriting manager at EMC Mortgage, stated that the decision to waive in materially defective loans was made by Bear Stearns traders in New York, stating that "they would be contacted as to whether an exception would be made." Between 2005 and 2007, Bear

Stearns securitized more than ***$14 billion*** of Countrywide loans, and its loan traders were not willing to jeopardize this lucrative business relationship (and their bonuses) by rejecting many defective loans for due diligence reasons. As discussed in §IV.D.3 below, Countrywide was one of the worst lenders in the country, originating billions of dollars in toxic mortgages between 2005 and 2007.

75. Bear Stearns also had strong incentives to "waive in" many defective loans that were originated by Impac and Encore. Between 2005 and 2007, Bear Stearns securitized more than ***$2.2 billion*** of Encore originated mortgages, and more than ***$1.4 billion*** of Impac Mortgage loans. In addition, Bear Stearns extended hundreds of millions of dollars in credit to Impac. Clayton's Keith Johnson explained to the FCIC that the practice of waiving in defective loans was particularly prevalent among investment banks, such as Bear Stearns, that extended warehouse lines of credit. To explain why, Johnson offered a hypothetical showing that these securitizers had a conflict of interest: *either* the securitizer could reject the loan and force the loan originator to take it back—resulting in a loss because the rejection would be financed with the warehouse line of credit extended by the securitizer—*or* the securitizer could waive the loan into the pool and pass the loss on to the RMBS investor. As Johnson explained:

> if Bob was originating for me as the client and I had a warehouse line to Bob, I think what happened is a conflict of interest. That if I put back loans to you, Bob and you don't have the financial capability to honor those, then I'm kind of caught; right? […] I'm going to take a loss on the warehouse line.

76. As a result, Bear Stearns included a startlingly high percentage of defective loans in loan pools that were securitized and sold to Plaintiffs and other investors. Bear Stearns never disclosed—and investors did not know, and could not have known—that Bear Stearns' due diligence vendors reported numerous defective loans in the loan pools that Bear Stearns purchased

for securitization, or that Bear Stearns waived in 50% of the loans that failed to meet minimum credit and compliance standards.

d. Bear Stearns Kept Hundreds of Millions of Dollars in Payments for the Poor Quality Loans That It Sold to Investors

77. In 2006, Bear Stearns developed a new reporting system to identify and track mortgages that were suffering from EPDs. CW 1, a former EMC associate vice-president who worked at the company in various due diligence and compliance roles from 1998 through 2008 in Fort Worth, Texas, stated that Bear Stearns had hired vice-president Robert Glenny to develop the technology, and that the reporting system was "very innovative." CW 1 further stated that the system would generate report cards for the loan sellers, and that this report card was "rolled up to a host of people," including to senior managing director and co-head of Bear Stearns' mortgage finance Mary Haggerty. According to CW 1, these report cards were also used during meetings to discuss delinquent loans.

78. Over the course of 2006 and 2007, Bear Stearns noticed that an increasing number of the loans it purchased and securitized were experiencing early payment defaults. Bear Stearns notified loan originators that their loans were suffering from EPDs. Bear Stearns did not inform the originators that the loans had already been securitized, or that it was seeking recovery on behalf of the securitization. Instead of demanding that the loan originator repurchase the loan or replace the loan in the securitization at full value, Bear Stearns pretended to accommodate the loan originators by requesting payment of a fraction of the purchase price to reflect the decrease in value caused by the EPD—a so-called "down bid."

79. Bear Stearns received hundreds of millions of dollars in down bids for defective loans that it had included in its securitizations. Documents and testimony obtained in other

litigation show, for example, that between April 2006 and April 2007, Bear Stearns resolved ***$1.9 billion*** in EPD claims against loan originators, and that "the largest percentage of those resolutions were settlements." Bear Stearns fraudulently pocketed the down bids, and never disclosed to Plaintiffs and other investors that it received payments from loan originators for defective loans that it had securitized and sold. Bear Stearns fraudulently kept hundreds of millions of dollars in recoveries for itself rather than crediting the trusts holding the defective mortgages for the benefit of Plaintiffs and other certificate holders.

e. Bear Stearns' Misconduct Had a Devastating Impact on the Performance of the RMBS Mortgage Pools

80. The Bear Stearns Defendants' misconduct dramatically affected the mortgage pools underlying the RMBS purchased by Plaintiffs. As of March 2012, on average, more than ***46%*** of the mortgage loans backing the Bear Stearns Certificates were over 60- or 90-days delinquent, in foreclosure, bankruptcy, or repossession, as reflected in Table 3:

Table 3

Collateral Performance of Securities Underwritten by Bear Stearns
Serious Delinquencies in % of mortgage pools (60 Day + 90 Day + Foreclosure + REO + Bankruptcy)

#	Offering	1 Yr.	2 Yrs.	3 Yrs.	4 Yrs.	Mar. 2012
1	BALTA 2006-4	10.72	28.82	41.90	49.04	44.62
2	BALTA 2006-7	11.34	25.28	39.96	41.42	41.41
3	BSABS 2006-EC2	16.82	36.90	55.69	65.52	54.50
4	BSABS 2006-HE8	20.47	40.81	58.62	51.63	50.70
5	BSABS 2006-IM1	7.96	30.35	42.69	45.13	42.55
6	BSABS 2007-2	46.55	58.42	64.42	57.41	54.62
7	SACO 2006-2	8.36	13.38	16.71	20.43	10.19
8	SAMI 2006-AR7	5.96	28.87	55.82	61.45	60.67
9	SAMI 2006-AR8	6.18	31.49	50.73	55.20	54.89
	Averages	**14.92**	**32.70**	**47.39**	**49.69**	**46.01**

2. Washington Mutual

81. Defendant WaMu Asset Acceptance Corporation ("WaMu Asset") was the depositor of six securitizations at issue. Its affiliate, Defendant WaMu Capital Corporation ("WaMu Capital") was the securitization arm of Washington Mutual and acted as the underwriter for the RMBS. WaMu, including its then-affiliates Defendant WaMu Mortgage, and non-party Long Beach Mortgage, was the sponsor of the securitizations and originated most of the mortgages for following Offerings in Table 4:

Table 4

#	Offering	Sponsor	Depositor	Underwriter	Loan Originators
1	LBMLT 2006-11	WaMu Bank	Long Beach Securities	WaMu Capital	Long Beach† (100%)
2	LBMLT 2006-3	Long Beach Mortgage	Long Beach Securities	WaMu Capital	Long Beach†(100%)
3	LBMLT 2006-4	Long Beach Mortgage	Long Beach Securities	WaMu Capital	Long Beach†(100%)
4	LBMLT 2006-5	Long Beach Mortgage	Long Beach Securities	WaMu Capital	Long Beach†(100%)
5	LBMLT 2006-6	WaMu Bank	Long Beach Securities	WaMu Capital	Long Beach†(100%)
6	LBMLT 2006-7	WaMu Bank	Long Beach Securities	WaMu Capital	Long Beach†(100%)
7	LBMLT 2006-8	WaMu Bank	Long Beach Securities	WaMu Capital	Long Beach†(100%)
8	WAMU 2006-AR7	WaMu Bank	WaMu Asset	WaMu Capital	WaMu† (100%)
9	WMABS 2006-HE2	WaMu Mortgage	WaMu Asset	WaMu Capital	Long Beach† (33%) Mandalay (17%)
10	WMABS 2007-HE2	WaMu Mortgage	WaMu Asset	WaMu Capital	WMC (50%)
11	WMALT 2007-HY1	WaMu Mortgage	WaMu Asset	WaMu Capital	WaMu† (71%)
12	WMALT 2007-OC2	WaMu Mortgage	WaMu Asset	WaMu Capital	WaMu† (60%)
13	WMHE 2007-HE2	WaMu Bank	WaMu Asset	WaMu Capital	WaMu† (100%)

† Affiliate of a Defendant in this Action.

a. WaMu's High Risk Lending Strategy Ignored Necessary Controls

82. In 2004, WaMu launched a five year strategic plan to dramatically grow the bank's revenues and profits. In a June 1, 2004 memorandum that was first publicly disclosed with the Senate Investigations Report in April 2011, WaMu's Chief Executive Officer, Kerry Killinger, stated that WaMu's financial targets for the next five years would be to "grow our asset base and revenues by approximately 10% per year while limiting our expense growth to about 5%," in order to "achieve an average [return on equity] of at least 18% and average [earnings per share] growth of at least 13%."

83. WaMu understood that it would undertake significant new risks to meet Killinger's ambitious goals. As Killinger's June 1, 2004 memorandum stated: "It is important that we all focus on growth initiatives and risk taking. Above average creation of shareholder value requires significant risk taking." In this regard, Killinger's memorandum identified residential nonprime and adjustable rate mortgages as key drivers for achieving WaMu's financial targets, noting that "there is a good opportunity to expand the origination of non-prime residential first and second mortgages through both our consumer banking and home loan stores."

84. On January 18, 2005, WaMu's board of directors approved WaMu's "High Risk Lending Strategy." WaMu implemented the High Risk Lending Strategy and immediately began to accelerate the origination and securitization of subprime and adjustable rate mortgages. WaMu's subprime mortgage subsidiary, the Long Beach Mortgage Company ("Long Beach"), was instrumental in realizing the expansion. WaMu's financial targets required Long Beach to originate $30 billion in subprime mortgages in 2005 and $36 billion in 2006.

85. As WaMu aggressively expanded the origination of highly risky loans, it made no effort to implement adequate oversight over its loan origination and underwriting practices. In fact, WaMu ***reduced*** its investment in loan underwriting. As Killinger explained in the June 1, 2004 memorandum, WaMu would need to significantly reduce mortgage origination costs if WaMu was to meet its ambitious financial targets, stating:

> ***We must significantly reduce the cost of originating mortgages by adopting automated underwriting and other loan fulfillment processes.*** Our multiple origination platforms have led to very poor efficiency. Our goal is to increase automated underwriting to **80%** or more, which we expect to have a positive effect on the cost of origination.

86. As a result, WaMu lost its ability to properly originate and underwrite mortgages. For example, WaMu's Chief Credit Officer warned Killinger in June 2005 that WaMu's business was growing so fast that it could not "catch up and quantify the risk." This was particularly true for the increased origination of subprime mortgages by Long Beach. An internal audit dated September 21, 2005 (publicly disclosed in April 2011 with the Senate Investigations Report) noted serious problems in Long Beach's loan underwriting practices, including:

- Underwriting guidelines established to mitigate the risk of unsound credit decisions were not always followed, and the decisioning methodology was not always fully documented.
- The majority of exceptions resulted from using unverified income or the unsupported exclusion of debt items in the debt-to-income calculation.
- Controls within the loan origination system can be overridden to allow employees without documented authority to approve loans.
- The loan approval forms documenting the clearing of conditions were not fully completed in 60% of the files reviewed.

87. WaMu never addressed Long Beach's inadequate loan acquisition practices. An internal audit dated September 28, 2007 (publicly disclosed in April 2011 with the Senate

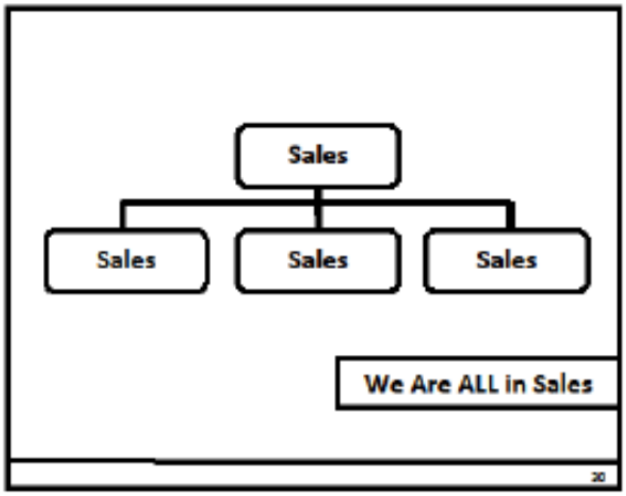
Investigations Report) continued to note serious problems in Long Beach's subprime loan underwriting practices, stating:

> The overall system of risk management and internal controls has deficiencies related to multiple, critical origination and underwriting processes.
>
> * * *
>
> Repeat Issue—Underwriting guidelines established to mitigate the risk of unsound underwriting are not always followed. […] Improvement in controls designed to ensure adherence to Exception Oversight Policy and Procedures is required […] ***Accurate reporting and tracking of exceptions to policy does not exist.***

b. WaMu Incentivized Employees to Originate High Risk Loans Regardless of Loan Quality

88. WaMu employees in charge of originating mortgages were paid according to volume, regardless of loan quality. In fact, WaMu employees received higher compensation for originating riskier loans. As CW 6, a senior underwriter, credit risk manager and credit quality manager at WaMu from April 2003 through February 2008 in Bellevue, Washington, stated, "***The more you slammed out, the more you made.***"

89. WaMu's sales message was reinforced from the top. In late 2006, WaMu Home Loans President David Schneider gave a presentation to thousands of WaMu employees, including loan underwriters and risk managers, emphasizing the importance of sales to WaMu. Schneider's presentation included the following slide:



90. Schneider testified before the Senate Investigations Subcommittee that "We Are ALL in Sales" was an appropriate message, including for WaMu's risk managers.

91. The Senate Investigations Report documents how WaMu's pervasive sales culture, ambitious financial targets, and lack of risk controls resulted in "shoddy lending practices" that produced billions of dollars in poor quality loans. WaMu's lending practices included: (i) offering high risk borrowers large loans; (ii) steering borrowers to higher risk loans; (iii) accepting loan applications without verifying the borrower's income; (iv) using loans with low teaser rates to entice borrowers to take out larger loans; and (v) promoting negative amortization loans which led to many borrowers increasing rather than paying down their debt over time. Numerous confidential witnesses who worked at WaMu during the relevant time period support these findings. For example:

- CW 7**,** a senior loan consultant at WaMu from September 2005 through December 2007 in Riverside, California, stated that WaMu's commission guidelines for loan origination personnel contained "extra commissions for teaser rate loans." CW 7 also recalled emails about "commission specials" that granted increased commissions for riskier non-conforming or subprime loans.

- CW 8, a WaMu loan closing coordinator from June 2003 through July 2007 in Bethel Park, Pennsylvania, stated that mortgages "were not explained properly to the buyer, so they didn't know the [interest] rate was going to go up."

- CW 9, a senior loan coordinator at WaMu from November 2006 through June 2007 in San Antonio, Texas, reported "tremendous pressure from the sales guys to approve loans" and that, with the involvement of WaMu management, even questionable loans "usually got taken care of one way or another." CW 9 further explained that WaMu's loan sales personnel and managers were "above [WaMu's] loan processors," and therefore WaMu's loan processors "were supposed to yield to whatever their needs were."

- CW 10, a senior underwriter at WaMu/Long Beach from November 2004 through April 2007 in Dallas, Texas, stated that WaMu routinely issued mortgages to borrowers without establishing their credit score if they provided "three alternative trade lines." An "alternative trade line" was anything that did not appear on the borrower's credit report, including documentation of car insurance payments, verification of rent payment, or a note from a person claiming the borrower had repaid a personal debt. CW 10 stated that by the end of 2006 these mortgages constituted a majority of first payment defaults—loans on which the borrower failed to make even the first payment—and that "***It was just a disaster***."

- CW 11, a senior loan coordinator and mortgage processor at WaMu in March 2007 through December 2007 in Jacksonville, Florida, stated that WaMu's companywide culture required employees to do "whatever it took to get loans closed."

- CW 12, a senior mortgage underwriter at WaMu from April 2004 through September 2007 in Illinois, stated that "***There really were no restrictions to approve a loan.***" For example, according to CW 12, WaMu allowed salespeople to give interest-rate exceptions to borrowers to push loans through. CW 12 stated that WaMu's rate of exceptions were "ridiculous," and some "really bad loans" went through. The attitude at WaMu was "push, push, push…***Basically, sales is what ran Long Beach Mortgage, it wasn't the Operations part.***"

- CW 13, a mortgage underwriter at Long Beach from 2003 through December 2006 in Lake Oswego, Oregon, stated that there was always a sense of working the underwriting guidelines to close loans, rather than to mitigate credit risk. CW 13 said that there was simply an environment to "approve, approve, approve" and that any exception that was needed to approve a loan was not only done, but was "sought after." CW 13 felt that Long Beach consistently pressured its underwriters to "find a way to make it work."

- CW 14, a senior underwriter at WaMu from July 2003 through September 2007 in Livermore, California, said that if Long Beach's competitors could not approve a loan, it was known to send the loan to Long Beach and they would make an exception to get the loan through. CW 14 explained that guidelines were "loose to the point of disbelief," describing Long Beach's lending approach as follows: "***If they were***

***breathing and had a heartbeat, you could probably get the loan done*.”**

92. Numerous additional witnesses who came forward after WaMu collapsed corroborate these accounts. For example, *The New York Times* published an article quoting Steven M. Knobel, founder of an appraisal company that did business with WaMu, saying that “If you were alive, [WaMu] would give you a loan. Actually, I think if you were dead, they would still give you a loan.” *Saying Yes, WaMu Built Empire on Shaky Loans, N.Y. Times*, Dec. 27, 2008.

c. WaMu Pressured Appraisers to Increase the Stated Value of the Collateral

93. Accurate appraisals are critical for properly evaluating the risk and magnitude of loss in case of borrower defaults. If the appraisal is artificially inflated, investors will be under the mistaken impression that the collateral supporting their investment is worth more than it really is.

94. Starting in 2006, WaMu outsourced the vast majority of its residential lending appraisal work to two appraisal companies, First American eAppraiseIT (“eAppraiseIT”) and LSI Appraisal (“LSI”). WaMu instructed eAppraiseIT and LSI to only use appraisers from a list of pre-approved appraisers. Use of the WaMu appraiser list was mandatory.

95. For example, CW 15, a chief appraiser at WaMu from 1990 through February 2002, who later worked for an appraisal management company that bid on work from WaMu, stated that a WaMu vice-president for appraisal oversight made it clear that CW 15’s company would only get the contract if it agreed to use appraisers on the WaMu appraiser list. CW 15 understood that WaMu wanted her company to use appraisers that would give WaMu loan originators the appraisals they needed to get loans approved—the same WaMu vice-president for

appraisal oversight told CW 15 that he had informed another appraisal company that it would "get the work if you can make the appraisal noise stop."

96. This "WaMu appraiser list" was created and continually updated by WaMu sales personnel with a financial interest in purchasing more mortgages regardless of the quality of the collateral. Moreover, appraisers who submitted appraisals that were too low to get loans approved were told to inflate their appraisals or risk exclusion from the WaMu appraiser list. Appraiser David Cassese described this pressure as follows: "We were being pressured with so much they wanted to change it. […] Because they're so adamant but we're adamant with, I'm going to say, threats, you know, you're not going to get work to feed your family, we're going to tell the banks not to use you. I mean, it was ridiculous." Cassese's statements were corroborated by former WaMu oversight officer Sabina Senorans, who testified as follows during a deposition in a civil action against eAppraiseIT by the New York Attorney General:

> Q. You're saying sales can threaten to take an appraiser off their list if they cannot get what they want. I guess my question is what did they want? Did they want the best quality?
>
> A. No. They wanted the appraisal value to come in. They wanted the value to be what they wanted to make the deal work.

97. The statements of Cassese, Senorans, and CW 15 are confirmed by internal documents that have only recently been disclosed, including an April 27, 2007 email from former WaMu oversight officer Sabina Senorans who discussed the WaMu appraiser list as follows:

> The sales people finally got their way at WAMU. The appraisal list that Eappraiseit and LSI is using has been totally scrubbed, but instead of keeping good appraisers, they went for the Badd [*sic*] ones…So many appraisers have been knocked off the list…I did manage to salvage a few in Nassau County, but other areas, forget about it. ***Now sales can easily threaten to take an appraiser off their list if they cannot get what they want. Scary, huh?***

98. During a conference call with senior WaMu executives in February 2007, eAppraiseIT president Anthony Merlo wrote an email to his colleagues while WaMu executives were discussing the policy to exclude appraisers who submitted appraisals that were too low to get loans approved from the WaMu appraiser list, stating: "The performance ratings to retain position, as a WaMu proven appraiser will be based on how many come in on value." When asked by representatives of the New York Attorney General about his response to WaMu's policy, Merlo testified: "***I didn't say a word other than sure we will do it.***"

99. After awarding appraisal contracts, WaMu continued to pressure its appraisal companies, including eAppraiseIT and LSI, to change appraisals by increasing the value of the collateral. CW 11, a senior loan coordinator and mortgage processor at WaMu in 2007 in Jacksonville, Florida, recalled meetings between WaMu senior managers and eAppraiseIT because WaMu was concerned that the "appraisals were coming out too low." One of CW 11's managers reported on those meetings, telling CW 11 that WaMu management had met with eAppraiseIT and LSI to demand less resistance against WaMu's efforts to obtain higher appraisal values, and that eAppraiseIT and LSI were going to "do everything possible within reason to accommodate [WaMu's] needs in terms of the appraised values." CW 11's statements are confirmed by internal eAppraisIT documents that have only recently been disclosed, including a "WaMu Improvement Implementation Plan" dated October 5, 2006, stating:

> Several weeks ago, eAppraiseIT developed a plan to bring our performance in line with client expectations. Primary targeted areas for improvement include: […]
>
> - utilizing a higher percentage of WaMu "approved" appraisers on order assignments
> - faster resolution of Reconsiderations of Value (ROVs)

100. WaMu's senior management also pressured WaMu employees to increase the value of appraisals for WaMu mortgages. CW 16, a loan coordinator at WaMu from July 2005 through September 2007 in Jacksonville, Florida, stated that management was always "on top of" loan coordinators such as herself to make loans go through. CW 16 explained that the pressure from management caused WaMu loan consultants to "work with appraisers to try to make loans go through." CW 16's statements are confirmed by internal eAppraisIT documents that have only recently been disclosed, including a February 21, 2007 email from eAppraiseIT business manager Teresa Cosie, to eAppraiseIT vice-president of operations, Vicky Hamilton, stating that "the lending folks at wamu want their values and care nothing for the appraisal process. They see the appraisal department as a stumbling block in their way."

101. CW 17, an appraisal coordinator at WaMu from December 2001 through October 2006 in Florida, explained how this worked in practice. When the appraised value was too low to support the mortgage, WaMu sales personnel submitted a "reconsideration of value" or "ROV" to the appraiser. CW 17 stated that "reconsiderations of value were done constantly" and that, compared with the number of ROVs between 2002 and 2005, the number of ROVs doubled or tripled during the period between 2005 and 2007. CW 17's statements were confirmed by the testimony of eAppraiseIT vice-president of operations, Vicky Hamilton, who stated that the "number of ROVs for WaMu was greatly more than what I had ever experienced…" eAppraisIT's former chief appraiser, Peter Gailitis, stated that "WaMu submitted considerably more ROVs than any other [eAppraisIT] client" and that "at one point WaMu loan officers filed some 400 ROVs each month." Gailities explained that "WaMu management would pass along the value-related complaints from retail to [eAppraisIT] management, including me, and threatened a loss of

business if 'the noise' (*i.e.* complaints) from retail did not stop." According to Gailitis, "WaMu was [eAppraisIT]'s biggest client at the time." As a result, eAppraisIT routinely complied with WaMu's reconsideration of value submissions. Former WaMu appraisal coordinator CW 17 stated that ***around 80% of the time when an ROV was requested by WaMu, the appraisal value was increased***.

102. WaMu also paid appraisers to increase the value of their appraisals for WaMu mortgages. CW 18, a loan consultant at WaMu from September 2003 through 2005 in Largo, Maryland, stated that many appraisers received kickbacks from loan consultants to reach certain values, describing the WaMu appraisal process as "dysfunctional." As eAppraiseIT vice-president Anthony Merlo testified, "[WaMu] wanted us to rotate primarily through their vetted and approved appraiser panel, ***and pay them what that appraiser pretty much demanded***, within reason."

103. WaMu's strategy allowed WaMu to originate billions of dollars in additional mortgages, but undermined the accuracy of the valuation of the collateral supporting those mortgages. WaMu transferred this risk to Plaintiffs and other investors by including those mortgages into securitizations, including into the WaMu securitizations at issue here. As the New York Attorney General stated in his complaint against eAppraiseIT, dated November 1, 2007:

> The integrity of our mortgage system depends on independent appraisers. ***Washington Mutual compromised the fairness of this system by illegally pressuring appraisers to provide inflated values***.

104. It was foreseeable that WaMu's improper appraisal strategy would cause enormous damage to Plaintiffs and other investors who purchased WaMu RMBS.

d. WaMu Consciously Securitized Fraudulent Mortgages

105. The Senate Investigations Report revealed that WaMu originated large volumes of

fraudulent mortgages, involving at least five separate WaMu loan offices in California alone. For example, in 2005, WaMu launched an internal investigation into the loan origination practices of two loan offices in Southern California that originated numerous WaMu mortgages, following "a sustained history of confirmed fraud findings over the past three years." A November 2005 memorandum summarizing the investigation stated that the investigation uncovered an "extensive level of loan fraud" virtually all of it stemming from employees "circumventing bank policy surrounding loan verification and review." The investigation discovered that "***42% of the loans reviewed contained suspect activity or fraud***, virtually all of it attributable to some sort of employee malfeasance or failure to execute company policy." A November 16, 2005 presentation by WaMu's Credit Risk Management stated that the fraud primarily involved "misrepresentations of loan qualifying data," including misrepresentations of income and employment, false credit letters and appraisal issues. WaMu undertook no action to address the fraud problems in these two offices—the persons responsible for the fraud remained in charge of the offices and continued to win WaMu awards for originating large volumes of mortgages.

106. A separate WaMu investigation into another WaMu loan office revealed "fabricated asset statements, altered statements, income misrepresentation and one statement that is believed to have been used in two separate loans." A WaMu sales employee stated that if it was too late to call the borrower, sales associates would take bank statements from other files and cut and paste the current borrower's name and address onto old bank statements. In addition, it was discovered that sales employees would manufacture asset statements from previous loan documents. As the sales employee explained, the pressure was "tremendous," and they were told to get the loans funded "with whatever it took."

107. Documents uncovered by the Senate Investigations Subcommittee also revealed that WaMu had no effective internal controls to prevent the securitization of fraudulent mortgages. Indeed, the Senate Investigations Subcommittee established that WaMu securitized mortgages ***after*** WaMu determined that they contained fraudulent information. For example, a WaMu Internal Corporate Credit Review memorandum discovered by the Senate Investigations Subcommittee stated:

> The controls that are intended to prevent the sale of loans that have been confirmed [...] to contain misrepresentations or fraud are not currently effective. There is not a systematic process to prevent a loan [...] confirmed to contain suspicious activity from being sold to an investor.
>
> * * *
>
> Of the 25 loans tested, 11 reflected a sale date after the completion of the investigation which confirmed fraud. There is evidence that this control weakness has existed for some time.

As a result, the Senate Investigations Report determined, "***even loans marked with a red flag indicating fraud were being sold to investors.***"

e. WaMu Deliberately Securitized Delinquency-Prone Mortgages

108. In September 2006, senior WaMu executives expressed concern about exposure to delinquencies in adjustable rate "option-arm" mortgages that the bank was holding in its Held For Investment ("HFI") portfolio. In response, WaMu began to explore the possibility of quickly selling these mortgages into securitizations. Documents discovered by the Senate Investigations Subcommittee show that, in the meantime, WaMu closely monitored the delinquencies in its HFI portfolio. For example, on February 14, 2007, WaMu research and portfolio executive Youyi Chen sent an email to the head of Defendant WaMu Capital, David Beck, informing him about the delinquencies in the HFI option-arm portfolio, noting that "Low fico, low doc, and newer vintages

are where most of the delinquency comes from." Beck immediately sent an email to WaMu Home Loans President David Schneider and WaMu Home Loans Cheryl Feltgen, urging the sale of HFI option-arm mortgages that WaMu was holding for investment, stating in part:

> The performance of newly minted option arm loans is causing us problems. Cheryl can validate but my view is our alt a (high margin) option arms [are] not performing well.
>
> We should address selling 1Q [first quarter] as soon as we can before we loose [*sic*] the oppty. We should have a figure out how to get this feedback to underwriting and fulfillment.

109. In light of its analysis that HFI option-arm loans were rapidly deteriorating, WaMu no longer wanted to treat those loans as investments it would keep, but sell them. Schneider and Feltgen agreed. Moreover, Feltgen informed Beck and Schneider that WaMu CEO Kerry Killinger had also expressed interest in the idea of selling HFI option-arm loans, and offered to help in analyzing the impact of selling "certain groupings of Option-Arms" on overall delinquencies. By removing delinquency-prone loans from WaMu's HFI option-arm portfolio, WaMu would be reducing the overall delinquencies. In response, Schneider formulated a plan of action, instructing Beck to select the HFI option-arm loans "along the lines we discussed at the [monthly business review]" and Feltgen to run credit scenarios. The documents discovered by the Senate Investigations Subcommittee reveal that during the referenced monthly business review, WaMu executives discussed a review of "the 2007 high margin production (Jan and Feb so far) and the seasoned COFI [Cost of Funds Index] book."

110. On February 20, 2007 Feltgen informed her team that WaMu was contemplating the sale of "a larger portion of our Option Arms than we have in the recent past," and asked for their recommendations as which loans were particularly delinquency-prone and should be included in upcoming securitizations, stating:

> In addition to the specific information that David Beck asks for, I would like your input on portions of the Option ARM portfolio that we should be considering selling. ***We may have a different view than David Beck's team as to the most desirable to sell and we should provide that input. Our suggestion, for instance, might include loans in California markets*** where housing prices are declining. There may be other factors.

111. A WaMu risk analyst responded the same day, noting that the HFI option-arm loans in January 2007 were suffering from 79% more 60+ day delinquencies than the HFI option-arm loans in January 2006, that WaMu was now holding ***$60.6 billion*** in loans with such severe delinquencies, and that more than one-third of these delinquent mortgages had been originated in California. Between January 2006 and January 2007, the 60+ day delinquency rate for delinquent mortgages in California had increased 312%.

112. On February 25, 2007, the head of Defendant WaMu Capital, David Beck, sent an email with the subject "***HFI Options Arms redirect to HFS***," informing WaMu's senior management that $3 billion in recent Option Arms would be sold into securitizations. Beck stated: "I would like to get these loans into HFS immediately so that [I] can sell as many as possible in Q1."

113. On February 29, 2007, WaMu executive Youyi Chen sent an email with the subject line "HFI selection criteria changes" to WaMu's Market Risk Management Department, copying Beck. The email informed WaMu's Market Risk Management Department that going forward, only certain unsellable loans would be held for investment: (a) Super Jumbos loans equal or greater than $3 million; (b) high LTV loans without mortgage insurance; (c) foreign nationals; and (d) 3-4 units (due to Standard Poor's rating model). Moreover, Chen requested that mortgages that did not meet these criteria and that were funded or locked between January 1, 2007 and March 7, 2007 be classified as Held for Sale. Chen described the impact of these changes as

follows:

> ***As a result of this change, we expected to securitize and settle about $2 billion more option/COFI ARMS in Q1-07 […] and going forward $1 billion per month potential incremental volume into the HFS*.**

114. The Senate Investigations Subcommittee determined that WaMu carried out this plan and transferred at least $1.5 billion of Option Arms originated in the first quarter of 2007 from the HFI to the HFS portfolio. None of the WaMu witnesses heard by the Senate Investigations Subcommittee denied that the loans that were reclassified from Held for Investment to Held for Sale were selected because of their propensity toward delinquency.

115. At least 2 WaMu securitizations at issue were created after WaMu changed its Option-Arm policy to include delinquency-prone Option-Arm loans: WMALT 2007-OC2 and WMHE 2007-HE2. Virtually all of the mortgages that WaMu included in these securitizations were originated in 2007. In addition, numerous mortgages backing these securitizations were originated in California.

116. Defendant WaMu Capital sold the RMBS at issue in this action without informing Plaintiffs about WaMu's change in policy to include delinquency-prone mortgages into the pool by reclassifying those mortgages from Held for Investment to Held for Sale. WaMu Capital knew or recklessly disregarded that this would cause damages to investors who purchased the WaMu Certificates.

f. WaMu's Misconduct Had a Devastating Impact on the Performance of the RMBS Mortgage Pools

117. The WaMu Defendants' misconduct has dramatically affected the mortgage pools underlying the RMBS purchased by Plaintiffs. As of March 2012, on average almost ***49%*** of the loans backing the Certificates were over 60- or 90-days delinquent, in foreclosure, bankruptcy, or

repossession as reflected in Table 5:

Table 5

Collateral Performance of Securities Underwritten by WaMu

Serious Delinquencies in % of mortgage pools (60 Day + 90 Day + Foreclosure + REO + Bankruptcy)

#	Offering	1 Yr.	2 Yrs.	3 Yrs	4 Yrs.	Mar. 2012
1	LBMLT 2006-11	24.15	38.05	53.71	48.43	44.87
2	LBMLT 2006-3	19.98	43.34	51.91	57.51	49.03
3	LBMLT 2006-4	20.03	43.49	50.03	56.29	49.01
4	LBMLT 2006-5	18.74	39.06	48.87	53.12	49.00
5	LBMLT 2006-6	18.79	42.26	50.76	53.84	48.81
6	LBMLT 2006-7	20.00	38.97	48.78	49.79	48.41
7	LBMLT 2006-8	20.58	42.82	51.34	48.98	45.08
8	WAMU 2006-AR7	0.99	9.31	27.49	34.61	31.87
9	WMABS 2006-HE2	12.95	39.59	47.14	50.96	44.88
10	WMABS 2007-HE2	31.22	48.62	58.63	52.90	49.54
11	WMALT 2007-HY1	10.63	25.13	33.75	35.24	29.58
12	WMALT 2007-OC2	24.29	44.07	46.09	41.13	34.93
13	WMHE 2007-HE2	26.86	41.46	52.83	49.77	44.85
	Averages	19.17	38.16	47.79	48.65	48.83

3. <u>JPMorgan</u>

118. As the sponsor, Defendant JPMorgan Mortgage was responsible for selecting and evaluating the mortgages backing thirteen of the RMBS at issue here. JPMorgan Mortgage operated under the strict supervision and control of its corporate parents, Defendants JPMorgan Chase Bank and JPMorgan Chase & Co. Additionally, Defendant JPMorgan Securities was lead underwriter of the Offerings in Table 6:

Table 6

#	Offering	Underwriter	Sponsor	Loan Originator
1	JPALT 2006-A2	JPMorgan Securities	JPMorgan Mortgage	Chase Originators† (16%) Countrywide (27%) PHH Mortgage (24%)

† Affiliate of a Defendant in this Action.

2	JPALT 2006-A3	JPMorgan Securities	JPMorgan Mortgage	Chase Originators† (63%)
3	JPALT 2006-A5	JPMorgan Securities	JPMorgan Mortgage	Chase Originators†(30%)
4	JPALT 2006-A6	JPMorgan Securities	JPMorgan Mortgage	Chase Originators† (30%) Countrywide (28%)
5	JPALT 2006-A7	JPMorgan Securities	JPMorgan Mortgage	Chase Originators† (17%) Flagstar Bank (50%) Countrywide (20%)
6	JPALT 2007-A1	JPMorgan Securities	JPMorgan Mortgage	Chase Originators†(42%) GreenPoint (39%)
7	JPALT 2007-A2	JPMorgan Securities	JPMorgan Mortgage	Chase Originators†(55%)
8	JPMAC 2006-CW1	JPMorgan Securities	JPMorgan Mortgage	Countrywide (100%)
9	JPMAC 2006-HE3	JPMorgan Securities	JPMorgan Mortgage	ResMAE (60%)
10	JPMAC 2006-NC1	JPMorgan Securities	JPMorgan Mortgage	New Century (100%)
11	JPMAC 2006-RM1	JPMorgan Securities	JPMorgan Mortgage	ResMAE (100%)
12	JPMAC 2006-WMC2	JPMorgan Securities	JPMorgan Mortgage	WMC (100%)
13	JPMAC 2006-WMC3	JPMorgan Securities	JPMorgan Mortgage	WMC (100%)

119. JPMorgan knew or recklessly disregarded that the loans it selected for securitization into the RMBS in Table 6 were of much poorer quality than represented to Plaintiffs and other investors.

a. JPMorgan's Lagging Performance in 2005 and 2006

120. In 2005, JPMorgan was seriously underperforming the market. By October 2005, JPMorgan's share price was down 12% and underperforming the S&P 500, the Dow Jones Industrial Average, the NASDAQ Composite, as well as every other major financial institution, including Bear Stearns, Washington Mutual, Morgan Stanley, and Goldman Sachs. This created intense pressure at JPMorgan to improve revenues. JPMorgan's CEO, Jamie Dimon, stated in JPMorgan's 2005 Annual Report:

> We are underperforming financially in many areas. We need to understand the reasons and focus our energy on making improvements, not excuses. We cannot afford to waste time justifying mediocrity. Each line of business now assesses its performance in a rigorous and very detailed way. Each compares results to targets in a variety of areas, including sales force productivity, customer service and systems development.

121. Dimon emphasized that it was "imperative" for JPMorgan to begin "designing the right products that are also profitable" to improve performance. As a result, JPMorgan began to expand its high risk loan origination and securitization activities with a focus on "new product expansion initiatives."

122. William Buell, a former managing director at JPMorgan Securities, confirmed in testimony before the FCIC that there was intense pressure JPMorgan to compete with other firms involved in the mortgage-backed securities market. Buell testified that JPMorgan and other investment banks believed that there had "been a long period of stability, there [was] a great appetite for people who want to borrow money, and there's a great appetite for investors and others who want to employ their money. And so there was a competition among a large variety of participants in the market to try to expand the range of products that were available."

123. In 2006, JPMorgan's performance was still trailing the performance of major competitors, including Bear Stearns, Morgan Stanley, and Goldman Sachs. Dimon identified increased origination and securitization of residential mortgages as a key area for JPMorgan's growth in 2007, stating in the 2006 Annual Report:

> Historically, our two businesses, Home Lending and the Investment Bank, barely worked together. In 2004, almost no Home Lending mortgages were sold through our Investment Bank. This past year, however, our Investment Bank sold 95% of the non-agency mortgages (approximately $25 billion worth) originated by Home Lending. As a result, Home Lending materially increased its product breadth and volume because it could distribute and price more competitively. This arrangement obviously helped our sales efforts, and the Investment Bank was able to build a better business with a clear, competitive advantage. In 2006, our Investment Bank moved up several places in the league-table rankings for mortgages. (Importantly, Home Lending maintained its high underwriting standards; more on this later.)

124. As JPMorgan was expanding its loan origination and securitization practices, JPMorgan understood that investors would be particularly focused on the underwriting practices with respect to the mortgages that JPMorgan securitized. JPMorgan's 2006 Annual Report reassured investors that JPMorgan had "materially tightened" its underwriting standards and would be "even more conservative" in originating mortgages.

125. In fact, by October 2006, JPMorgan had itself become alarmed by the increasing number of late payments in its own subprime portfolio, causing JPMorgan to sell its own investments in subprime mortgages. A February 17, 2010 article in *Bloomberg* reported that "In October 2006, Mr. Dimon, JPMorgan's CEO, told William A. King, its then head of securitized products, that [JPMorgan] needs to start selling its subprime mortgage positions." A September 2, 2008 article in *Fortune Magazine* quoted Dimon saying to King, "Billy, I really want you to watch out for subprime! … We need to sell a lot of our positions. I've seen it before. This stuff could go up in smoke!"

b. JPMorgan's High Risk Loan Origination Practices

126. As JPMorgan was selling its own subprime positions because it could "go up in smoke," JPMorgan aggressively expanded the origination and securitization of high risk mortgages. From 2006 to 2007, JPMorgan nearly doubled its securitizations of residential mortgages—from $16.8 billion in 2006 to $28.9 billion in 2007. To generate these enormous amounts of securities, JPMorgan incentivized its Chase Home Finance employees to originate high-risk mortgages, loosened underwriting standards, pressured appraisers, and included the resulting poor-quality mortgages into JPMorgan securitizations, including those in the RMBS at issue here.

127. JPMorgan did not tighten already conservative underwriting standards, as Dimon had represented. To the contrary, JPMorgan materially loosened already lax underwriting standards. In 2006 and 2007, JPMorgan incentivized its Chase Home Finance employees to originate high-risk loans. Former regional vice-president, James Theckston, was the recipient of the Chase Home Finance "sales manager of the year" award. He explained to the New York Times that 60% of his 2006 performance review depended on him increasing the origination of high-risk loans. *A Banker Speaks, With Regret*, *N.Y. Times*, Nov. 30, 2011. Theckston further stated that Chase Home Finance account executives could earn a commission for the origination of subprime loans that was seven times higher than for prime mortgages, and that they therefore looked for less savvy borrowers—those with less education, without previous mortgage experience, or without fluent English—and directed them toward subprime loans. According to Theckston, these borrowers were disproportionately African-American and Latino borrowers who, as a result of Chase Home Finance practices, ended up paying higher mortgage rates and were more likely to default and lose their homes.

128. Jamie Dimon acknowledged in his January 13, 2010 testimony before the FCIC, that underwriting standards at JPMorgan had considerably loosened from 2005 to 2007. Dimon stated that "the underwriting standards in our mortgage business…should have been higher." Dimon further conceded that JPMorgan had "misjudged the impact of more aggressive underwriting standards and should have acted sooner and more substantially to reduce the loan-to-value ratios."

129. CW 19, a senior mortgage underwriter at Chase Home Finance from 2002 through 2008 in Fort Washington, Pennsylvania, also confirmed Theckston's account. CW 19 stated that

for subprime mortgages, underwriters were compensated based on the number of mortgages that they approved, whereas prime mortgages underwriters were compensated based on the number of loans reviewed, regardless of whether the loan was approved—thus skewing the system in favor of approving subprime loans, regardless of quality. Moreover, CW 19 stated that underwriters who denied approval of subprime loans would not receive credit if their determinations were subsequently overruled by management—giving underwriters an extra financial incentive to approve high risk loans.

130. JPMorgan's skewed incentives encouraged its employees to find ways to circumvent stated loan underwriting and approval standards. For example, Chase Home Finance personnel circulated a JPMorgan memorandum explaining how to circumvent JPMorgan's automated loan underwriting system (referred to as "ZIPPY") in order to get high risk loans approved. A March 27, 2008 article from *The Oregonian*, described this JPMorgan memorandum as follows:

> The memo's title says it all: "Zippy Cheats & Tricks."
>
> It is a primer on how to get risky mortgage loans approved by Zippy, Chase's in-house automated loan underwriting system. ***The secret to approval? Inflate the borrowers' income or otherwise falsify their loan application.***

131. Numerous witnesses have independently confirmed that JPMorgan materially loosened its underwriting standards while it was incentivizing the origination and approval of low quality mortgages. For example:

- CW 20, a senior mortgage underwriter at Chase Home Finance from March 2002 through January 2008 in Covina, California, stated that CW 20 participated in meetings and conference calls with the manager of underwriting, who instructed underwriters to "loosen up because we were being too conservative."
- CW 21, a senior mortgage processor and junior underwriter at Chase Home Finance from December 2002 through October 2007, stated that underwriters were

"discouraged [from] checking out [the borrower's] place of employment" and other critical information reflecting mortgage quality. As an example, CW 21 recalled one instance where an underwriter wanted to confirm a borrower's employment and based on the result, denied the loan. CW 21 stated that the loan officer and branch manager came to the underwriter and said, "Can't you just pretend like you didn't check the job?"

- CW 22, a mortgage funder at Chase Home Finance from 2002 through 2006 in Thousand Oaks, California, stated that many of her co-workers shared her opinion that Chase Home Finance was originating riskier and riskier loans: "I remember coworkers saying, ***'What's going on? This is crazy…something bad's going to happen***."

132. JPMorgan also pressured appraisers to appraise homes at higher values than what the home was actually worth. For example, CW 41, an underwriting analyst at Chase Home Finance from February 2003 through April 2007 in Tampa, Florida, stated that "there were a lot of problems with inflated appraisals" and that the appraisals CW 41 saw were "always inflated." When asked whether there was pressure on appraisers or whether they were offered incentives, CW 22, a funder at Chase Home Finance in Thousand Oaks, California, between 2002 and 2006, confirmed "there was definitely pressure. There was pressure on everybody, all the way down because there were so many loans to get through." CW 21, a former senior processor and junior underwriter at Chase Home Finance, recalled a manager who "was trying to brow beat the appraiser guy and get him to raise his prices."

133. These accounts were confirmed by testimony from JPMorgan's Chief Risk Officer, Barry Zubrow, and JPMorgan's CEO, Jamie Dimon, before the FCIC. In August 2010, Zubrow testified that at JPMorgan "there was a tradeoff between certain financial covenants and protections versus a desire to maintain market share." Dimon testified during his October 2010 testimony before the FCIC that JPMorgan and other investment banks would lose business if they did not get "***more aggressive on underwriting***."

134. In JPMorgan CEO's annual letter to shareholders, released in March 2012, Jamie Dimon confirmed that JPMorgan had materially loosened its underwriting standards and issued problematic loans to borrowers. Dimon acknowledged "avoiding making bad loans-as we all learned again in this crisis-also is important" and that "traditional mortgage underwriting loosened over time." In discussing JPMorgan's role in the financial crisis, Dimon stated that "[m]any of our problems were inherited from Bear Stearns and WaMu…[b]ut we did participate in this disaster by originating mortgages that wouldn't have been given a decade earlier," and that "[w]e need to write a letter to the next generation that says, "Never forget: 80% loan to value and verify appropriate income."

135. Relying on poor underwriting, JPMorgan originated numerous mortgages that were destined to fail. As James Theckston stated to the *New York Times*, "If you had some old bag lady walking down the street and she had a decent credit score, she got a loan." The *New York Times* noted that, when asked for a response to Theckston's account, JPMorgan "***didn't deny the accounts of manic mortgage-writing*** … and noted that Chase no longer writes subprime or no-document mortgages."

c. JPMorgan Consciously Securitized Poor Quality Loans

136. JPMorgan routinely included poor quality mortgages in its securitizations. Indeed, Theckston noted that senior JPMorgan executives were more likely to turn a blind eye to mortgage origination and underwriting short cuts when mortgages were going to be securitized.

137. JPMorgan's low standards for mortgage quality with respect to its securitizations was confirmed by information that JPMorgan's due diligence vendor, Clayton, provided to the FCIC. Clayton stated that JPMorgan had waived in ***51%*** of the loans that Clayton had marked as

fatally defective into mortgage pools that JPMorgan securitized between January 2006 and June 2007—higher than any other financial institution during the same period.

138. In addition to Chase Finance loans, JPMorgan included loans originated by Countrywide, New Century, WMC, and ResMAE and GreenPoint into the JPALT 2006-A2, JPALT 2006-A3, JPALT 2006-A5, JPALT 2006-A6, JPALT 2006-A7, JPALT 2007-A1, JPALT 2007-A2, JPMAC 2006-CW1, JPMAC 2006-HE3, JPMAC 2006-NC1, JPMAC 2006-RM1, JPMAC 2006-WMC2, and JPMAC 2006-WMC3 RMBS. As discussed in §IV.D.3 below, these lenders were the worst loan originators in the country between 2005 and 2007, churning out billions of dollars in fraudulent and materially defective loans for securitization while JPMorgan had access to non-public insider information disclosing the exceptionally poor quality of the loans that JPMorgan included in its securitizations.

139. JPMorgan did not disclose to Plaintiffs that it was incentivizing its employees to originate and securitize high-risk loans, that it was loosening its underwriting standards, or that it was waiving in a majority of mortgages that its due diligence vendor had marked as fatally defective. To the contrary, JPMorgan reassured investors that it was using "even more conservative" and "materially tightened" underwriting standards for the mortgages it originated and securitized in 2007.

d. JPMorgan's Misconduct Had a Devastating Impact on the Performance of the RMBS Mortgage Pools

140. The JPMorgan Defendants' misconduct dramatically affected the mortgage pools underlying the JPMorgan RMBS purchased by Plaintiffs. As of March 2012, on average almost ***42%*** of the loans backing the JPMorgan RMBS were over 60- or 90-days delinquent, in foreclosure, bankruptcy, or repossession:

Table 7
Collateral Performance of Securities Underwritten by JPMorgan
Serious Delinquencies in % of mortgage pools (60 Day + 90 Day + Foreclosure + REO + Bankruptcy)

#	Offering	1 Yr.	2 Yrs.	3 Yrs	4 Yrs.	Mar. 2012
1	JPALT 2006-A2	4.32	15.11	32.97	37.82	33.41
2	JPALT 2006-A3	4.16	15.61	34.02	43.85	33.09
3	JPALT 2006-A5	5.22	18.30	35.26	41.96	36.38
4	JPALT 2006-A6	6.38	20.59	37.55	44.12	40.16
5	JPALT 2006-A7	8.00	23.48	42.57	47.74	39.87
6	JPALT 2007-A1	16.61	38.71	51.32	53.71	44.12
7	JPALT 2007-A2	21.07	44.73	53.17	53.05	44.97
8	JPMAC 2006-CW1	9.58	30.72	50.75	59.43	63.14
9	JPMAC 2006-HE3	22.65	41.24	55.10	46.71	44.01
10	JPMAC 2006-NC1	11.48	32.01	42.36	48.37	39.08
11	JPMAC 2006-RM1	21.80	45.17	55.64	44.57	40.10
12	JPMAC 2006-WMC2	16.43	38.35	47.94	49.57	43.53
13	JPMAC 2006-WMC3	17.50	37.34	53.68	45.14	43.48
Averages		12.70	30.87	45.56	47.38	41.94

D. Defendants' Involvement In Offerings Sponsored By Other Investment Banks

141. For sixteen of the securitizations at issue in this action, Defendants worked with the sponsors of the securitization as "lead underwriter" of the RMBS. In their capacity as lead underwriters, Defendants performed due diligence on the sponsors and depositors of each securitization, the loan originators whose loans were included in each securitization, and the quality of the loans that were included in the securitization. For each of the securitizations shown in Table 8 below, Defendants had access to critical, non-public information about these due diligence areas, including non-public information about (1) the loan selection and securitization practices of the sponsors and depositors, (2) the origination and underwriting practices of the loan originators, and (3) the quality of the loan pools, including credit and compliance due diligence results, detailed borrower information, and the underlying loan files. With this insider knowledge,

Defendants reviewed draft Offering Materials describing the quality of the loans included in the securitizations and the riskiness of the Certificates before distributing the Offering Materials to Plaintiffs.

Table 8

#	Offering	Sponsor	Depositor	Underwriter	Loan Originators
1	CARR 2006-NC3	Carrington	Carrington	Bear Stearns	New Century (100%)
2	CARR 2006-NC5	Carrington	Carrington	Bear Stearns	New Century (100%)
3	CARR 2006-RFC1	Carrington	Carrington	Bear Stearns	People's Choice (15%) FMF Capital (12%) Barclays (11%)
4	CARR 2007-FRE1	Carrington	Carrington	Bear Stearns	Fremont (100%)
5	IMM 2007-A	Impac	Impac	Bear Stearns	Impac (100%)
6	IMSA 2006-2	Impac	Impac	Bear Stearns	Impac (100%)
7	IMSA 2007-3	Impac	Impac	Bear Stearns	Impac (100%)
8	MSST 2007-1	Morgan Stanley	BSABS I	Bear Stearns	First NLC (54%)
9	NAA 2007-3	Nomura	Nomura	Bear Stearns	American Home (14%) Brooks America (12%)
10	NCMT 2007-1	Newcastle	BSABS I	Bear Stearns	Fremont (100%)
11	ARSI 2006-M2	Ameriquest	Argent	JPMorgan	Argent (90%) Ameriquest (9%)
12	ARSI 2006-W4	Ameriquest	Argent	JPMorgan	Argent (100%)
13	CBASS 2007-CB6	CBASS	C-BASS ABS	JPMorgan	New Century (42%) Ameriquest (10%)
14	INDX 2006-AR29	IndyMac	IndyMac	JPMorgan	IndyMac (100%)
15	RASC 2006-KS7	GMAC	GMAC	JPMorgan	GMAC (18%) Barclays (16%) HSBC (14%)
16	RASC 2007-KS2	GMAC	GMAC	JPMorgan	New Century (33%) GMAC 19%)

142. Bear Stearns and JPMorgan had very close relationships with the financial institutions that acted as sponsors for RMBS in Table 8. As a result, Bear Stearns and JPMorgan had unique access to non-public information about the loan selection and securitization practices that were used to select the loan pools for these securitizations and access to non-public credit and compliance due diligence results regarding the loan pools that were securitized. As discussed in

¶¶173-212 below, Defendants also had firsthand, non-public knowledge about the origination and underwriting practices of the loan originators whose loans were included in the securitizations in Table 8.

1. Defendants' Direct Involvement In Creating The Carrington, Nomura, Morgan Stanley and Newcastle Offerings

143. Defendants were directly involved in creating a number of securitizations in Table 8. For example, Bear Stearns structured each securitization at issue that was nominally sponsored by Carrington, thus determining the number of loans that were included in the securitization (to act as collateral and provide revenues from the underlying mortgage payments), the quality of the loans that were included in the securitization, and the payment and collateralization hierarchy among certificates in each securitization. As the Prospectus Supplements for CARR 2006-NC5, CARR 2006-RFC1, and CARR 2007-FRE1 stated: "***[t]he structuring of the offerings through the Carrington Securities' securitization program is done by the underwriters for each such securitization***." By structuring these securitizations, Bear Stearns not only had access to non-public knowledge about the riskiness of the Certificates, it directly participated in creating those Certificates in the first instance.

144. Moreover, Bear Stearns was a critical business partner for Carrington—between 2005 and 2007, Bear Stearns acted as lead underwriter for Carrington-sponsored offerings securitizing ***$8.7 billion*** in mortgages. As a result, Bear Stearns had access to material, non-public information and knew, or at a minimum recklessly disregarded, that CARR 2006-NC3, CARR 2006-NC5, CARR 2006-RFC1, and CARR 2007-FRE1 were backed by exceptionally poor quality loans.

145. Bear Stearns was also directly involved in creating the Nomura-sponsored

securitization, NAA 2007-3. As the Prospectus Supplements for NAA 2007-3 stated, "[t]he sponsor is responsible for pooling the mortgage loans to be securitized by the depositor, negotiating the principal securitization transaction documents and ***participating with the underwriters in the structuring of such transactions***."

146. Moreover, Bear Stearns was very familiar with Nomura's loan selection and securitization practices. Between 2005 and 2007, Bear Stearns acted as lead underwriter for Nomura-sponsored offerings securitizing ***$3 billion*** in mortgages. Bear Stearns obtained at least $45 million in fees for underwriting these securitizations. In its role as lead underwriters for these securitizations, Bear Stearns conducted due diligence and reviewed material, non-public information about Nomura's loan selection and securitization practices.

147. Nomura purchased the loans for the securitizations it sponsored. As part of structuring the securitizations, Nomura and Bear Stearns used third-party due diligence providers, such as Clayton Holdings, Inc. ("Clayton"), to perform due diligence on the mortgage pools it would purchase for securitization. As part of this due diligence, Clayton reviewed important credit risk and compliance information, such as LTV ratios and debt-to-income ratios, and provided detailed quantitative and qualitative findings to Nomura. However, instead of rejecting loans that were identified by Clayton as fatally defective—for example because the LTV ratio of the loan exceeded 100%— Nomura routinely overruled Clayton and "waived in" such poor-quality loans into the loan pools. Data from Clayton showed for the 18 months that ended June 30, 2007, that Nomura waived in ***58%*** of the loans that failed to meet credit and compliance underwriting standards. As a result of its close collaboration with Nomura, including its role in

structuring Nomura-sponsored securitizations, Bear Stearns knew, or at a minimum recklessly disregarded, that NAA 2007-3 was backed by exceptionally poor quality loans.

148. Bear Stearns was also very familiar with the loan selection and securitization practices of Morgan Stanley and Newcastle. For example, between 2005 and 2007, Bear Stearns acted as lead underwriter for Morgan Stanley-sponsored offerings securitizing ***$1.9 billion*** in mortgages (including MSST 2007-1), and for Newcastle-sponsored offerings securitizing more than ***$1 billion*** in mortgages (including NCMT 2007-1). Bear Stearns obtained at least $43 million in fees for underwriting these securitizations.

149. Bear Stearns was directly involved in creating the Morgan Stanley and Newcastle securitizations at issue here (MSST 2007-1, NCMT 2007-1). For example, Bear Stearns affiliate BSABS I acted as the depositor for MSST 2007-1 and NCMT 2007-1—depositing the loans into the trusts and passing the trust certificates to the Bear Stearns RMBS underwriter affiliate for sale to investors. In addition, the prospectus supplement for MSST 2007-1 made clear that Bear Stearns was also involved with structuring this securitization, stating that Morgan Stanley "works with rating agencies, co-sponsors, underwriters […] mortgage loan sellers and servicers in structuring the securitization transaction."

150. In its role as lead underwriter for Morgan Stanley and Newcastle securitizations and as a lead underwriter for Newcastle stock offerings, Bear Stearns conducted due diligence and reviewed material, non-public information about these institutions' loan selection and securitization practices, which were dismal. For example, Morgan Stanley routinely purchased loans that were much riskier and of much poorer quality than permitted under its own guidelines as long as the loans were to be included in a securitization. CW 24, who joined Morgan Stanley

in January 2006 as a transaction manager following a position at Clayton, stated that Morgan Stanley employees were well aware of the poor quality of loans Morgan Stanley purchased for securitization and that even though Morgan Stanley had a policy not to purchase loans with debt-to-income ratios exceeding 55%, Morgan Stanley frequently purchased loans with debt-to-income ratios in the 60s (63, 64, and 65) for securitization in violation of that policy. Mike Francis, a former executive director on Morgan Stanley's residential mortgage trading desk explained on National Public Radio that Morgan Stanley knew that the loans in its securitizations should never have been approved for origination, stating that "It felt very wrong way back when. And I wish we had never done it. Unfortunately what happened, we did it because everyone else was going it." Morgan Stanley also routinely overruled its credit quality due diligence vendor, Clayton, and "waived in" fatally effective loans for securitization. Specifically, data from Clayton showed for the 18 months that ended June 30, 2007, that Morgan Stanley waived in ***56%*** of the loans that failed to meet credit and compliance underwriting standards.

151. As a result of its close collaboration with Morgan Stanley and Newcastle—including its role as a depositor in accepting the loans and depositing them with the MSST 2007-1 and NCMT 2007-1 trusts—Bear Stearns knew, or at a minimum recklessly disregarded, that MSST 2007-1 and NCMT 2007-1 were backed by exceptionally poor quality loans.

2. Defendants' Access to Material, Non-Public Information Regarding Other Offerings

152. Defendants had very close relationships with Impac, Ameriquest, IndyMac, and GMAC subsidiary, Residential Funding. Between 2005 and 2007, these financial institutions were key business partners of the Defendants and, like the Defendants, among the worst mortgage securitizers and originators in the industry.

153. Bear Stearns was very familiar with the loan selection and securitization practices of Impac. Between 2005 and 2007, Bear Stearns acted as lead underwriter for Impac-sponsored offerings securitizing ***$12.7 billion*** in mortgages, including IMM 2007-A, IMSA 2006-2, and IMSA 2007-3. In addition, between 2005 and 2007, Bear Stearns securitized more than ***$1.4 billion*** of Impac-originated loans and was a major creditor providing approximately $300 million in loans to allow Impac to originate and fund new mortgages that Bear Stearns could securitize and sell to investors. As a major creditor Bear Stearns had the power to cut off hundreds of millions of dollars of operational funding, thereby ensuring that Bear Stearns had continuing access to material non-public information at all relevant times. After Bear Stearns declared Impac to be in default of its loan obligations and demanded payment of $286 million in September 2007, Impac discontinued substantially all of its mortgage operations. As a major creditor, and to protect its own interests, Bear Stearns conducted due diligence and reviewed material, non-public information about Impac's loan origination and underwriting practices, loan quality and performance, and loan selection and securitization practices.

154. All of the loans backing BSABS 2006-IM1 were Impac loans that were selected by Bear Stearns. (*Supra* at ¶45, Table 1). SACO 2006-2 was also backed by Impac loans that were selected by Bear Stearns. (*Id.*). As a result of its due diligence and its close business relationship with Impac, Bear Stearns knew, or at a minimum recklessly disregarded, that BSABS 2006-IM1, and SACO 2006-2 were backed by poor quality Impac loans.

155. IMSA 2006-2, IMM 2007-A, and IMSA 2007-3 were backed by Impac loans that were selected by Impac. (*Supra* at ¶141, Table 8). As a result of its close relationship with Impac

and its due diligence, Bear Stearns knew, or at a minimum recklessly disregarded, that IMSA 2006-2, IMM 2007-A, and IMSA 2007-3 were backed by poor quality loans.

156. ACC Capital and two of its subsidiaries, Ameriquest and Argent, were key business partners of JPMorgan. Between 2005 and 2007 JPMorgan acted as lead underwriter for offerings securitizing more than ***$8.7 billion*** in mortgages that were sponsored by Ameriquest and Argent. ACC Capital also retained JPMorgan in November 2006 as a financial advisor in connection with the potential sale of Ameriquest and Argent. Ultimately, Citigroup acquired Ameriquest and Argent from ACC Capital in September 2007. As a result of its close business relationship and due diligence, JPMorgan received material, non-public information about the loan origination and underwriting practices of ACC Capital's subsidiaries, loan quality and performance, and loan selection and securitization practices.

157. ACC Capital's business model was based on originating and securitizing large volumes of mortgages regardless of loan quality. ACC Capital paid its account executives less per mortgage than the competition while encouraging them to make up the difference by originating more loans. As ACC Capital's CEO, Aseem Mital, stated in 2005, "Our people make more volume per employee than the rest of the industry." At the same time, ACC Capital cut costs and reduced oversight to improve profitability.

158. Argent and Ameriquest both ranked in the top ten in the OCC's Index to the Worst Subprime Originators in the United States between 2005 and 2007. Argent was ranked as the third worst mortgage originator in the country; Ameriquest was ranked ninth.

159. Fraudulent loan origination practices were rampant. Ed Parker, the former head of Ameriquest's Mortgage Fraud Investigations Department, informed the FCIC that he discovered

fraud within one month of starting at Ameriquest in January 2003, but that senior management ignored his reports. As Parker told the FCIC, "***No one was watching***." After learning that other departments complained that he "looked too much" into the loans, Parker was downgraded from manager to supervisor in 2005, and then laid off in May 2006.

160. Parker's account was corroborated by Illinois Attorney General Lisa Madigan, who testified before the FCIC how a "multistate investigation of Ameriquest revealed that the company engaged in the kinds of fraudulent practices that other predatory lenders subsequently emulated on a wide scale," including "inflating home appraisals […] and promising borrowers that they could refinance their costly loans into loans with better terms in a few months or a year, even when borrowers no longer had any equity to absorb another refinance." Madigan noted that in 2006 Ameriquest agreed to pay $325 million to settle the allegations and, moreover, agreed to extensive injunctive provisions that were aimed, among other things, at ensuring that Ameriquest would deal at arms-length with appraisers and restricting serial refinancing borrowers.

161. ACC Capital's subsidiaries continued to engage in improper loan and underwriting practices. Citibank's chief underwriter for correspondent lending, Richard Bowen, III, was involved in the due diligence leading up to Citigroup's acquisition of Ameriquest and Argent in the summer of 2007. Bowen testified before the FCIC that he advised against the acquisition because "we sampled loans that were originated by Argent and we found large numbers that did not – that were not underwritten according to the representations that were there."

162. CW 25, a former senior compliance analyst and investor relations employee at Argent from September 2004 through 2007, confirmed Bowen's account. CW 25 explained that Argent extended loans to practically anyone who applied, regardless of their ability to make the

minimum loan payments, explaining that "basically they would take anything from anybody" and that it was common for Argent to extend loans with loan-to-value ratios of 125%. CW 25 recalled an Argent loan to a nanny allegedly making $110,000 per year, noting that when CW 25 reviewed the loan it, was "not more than four months old and it was already in default." Moreover, CW 25 noted that investors like JPMorgan routinely accepted defective Argent loans and that "[i]t seemed that they took everything carte blanche." According to CW 25, Argent would thus routinely sell loans that were in foreclosure, stating that "these investors were taking things they shouldn't be taking. A lot were already in foreclosure; probably 65%."

163. A December 7, 2008 article in the *Miami Herald* confirmed the accounts of Bowen and CW 25. The article reported that Argent's employees actively assisted mortgage brokers in falsifying borrowers' financial information by "tutoring … mortgage brokers in the art of fraud." The article reported that employees "taught brokers how to doctor credit reports, coached them to inflate [borrower] income on loan applications, and helped them invent phantom jobs for borrowers" to ensure that loans would be approved. Reviewing 129 Argent loan applications, the *Miami Herald* concluded that "at least 103 contained false and misleading information" and that at least one borrower claiming to work a job that did not exist "got enough money to buy four houses." As an Argent vice-president explained, "the accuracy of loan applications was not a priority."

164. ARSI 2006-M2 and ARSI 2006-W4 were exclusively backed by Argent and Ameirquest loans that were selected by Ameriquest. (*Supra* at ¶141, Table 8). In addition, CBASS 2007-CB6 was also supported by a substantial number of Ameriquest loans. *See id.* As a result of a close relationship with Ameriquest and Argent, and intimate knowledge of its due

diligence practices, JPMorgan knew, or at a minimum recklessly disregarded, that ARSI 2006-M2, ARSI 2006-W4, and CBASS 2007-CB6 were backed by poor quality Argent and Ameriquest loans.

165. JPMorgan also had a close relationship with IndyMac. Between 2005 and 2007, JPMorgan was lead underwriter for IndyMac-sponsored offerings securitizing ***$800 million*** in mortgages, including INDX 2006-AR29. In its role as lead underwriter, JPMorgan conducted due diligence and reviewed material, non-public information about IndyMac's loan origination and underwriting practices, loan quality and performance, and loan selection and securitization practices.

166. IndyMac specialized in originating and securitizing high risk non-prime mortgages, including adjustable rate mortgages, and ranked as the twelfth worst mortgage originator on the OCC Index to the Worst Subprime Originators between 2005 and 2007. An investigation by the Center for Responsible Lending ("CRL") uncovered "substantial evidence that IndyMac Bank and its parent, IndyMac Bancorp., engaged in unsound and abusive lending during the mortgage boom, routinely making loans without regard to borrowers' ability to pay." Based on its investigation including interviews with former IndyMac employees, CRL determined that IndyMac "pushed through loans based on bogus appraisals and income data that exaggerated borrowers' finances." For example, numerous former employees—most of whom were loan underwriters responsible for reviewing loan applications—"described an atmosphere where the hunger to close loans ruled" and stated that "***IndyMac pushed through loans with fudged or falsified information or simply lowered standards so dramatically that shaky loans were easy to approve.***" Wesley Miller, an IndyMac loan underwriter in California between 2005 and 2007,

stated that the refrain from IndyMac managers in response to his objections was simple: "***Find a way to make this work***."

167. On February 26, 2009 the Office of Inspector General of the U.S. Treasury Department issued a report entitled "Safety and Soundness: Material Loss Review of IndyMac Bank FSB," also finding that IndyMac encouraged the use of unsound underwriting practices and that for the loans reviewed by OIG, there was "little, if any review of borrower qualifications, including income, assets and employment." The OIG "also found weakness with property appraisals obtained to support the collateral of the loans" including for example "instances where IndyMac officials accepted appraisals that were not in compliance with the Uniform Standard of Professional Appraisal Practice (USPAP)." The OIG determined that IndyMac remained profitable despite its shoddy loan origination practices as long as it was able to sell the resulting poor-quality loans into securitizations. As the OIG reported:

> IndyMac often made loans without verification of the borrower's income or assets, and to borrowers with poor credit histories. Appraisals obtained by IndyMac on underlying collateral were often questionable as well. As an Alt-A lender, IndyMac's business model was to offer loan products to fit the borrower's needs, using an extensive array of risky option-adjustable-rate-mortgages (option ARMs), subprime loans, 80/20 loans, and other nontraditional products. Ultimately, loans were made to many borrowers who simply could not afford to make their payments. ***Regardless, [IndyMac] remained profitable as long as it was able to sell those loans in the secondary mortgage market.***

168. IndyMac's senior management was aware of IndyMac's widespread and systematic unsound lending and securitization practices. For example, IndyMac's internal audit group reported problems with IndyMac's loan origination practices to senior management in 2005. In addition, IndyMac's independent auditor reported IndyMac's division for purchasing and selling loans as a "financial reporting control deficiency" in 2006.

169. INDX 2006-AR29 was exclusively backed by IndyMac loans that were selected by IndyMac. (*Supra* at ¶141, Table 8). As a result of its close relationship with IndyMac, JPMorgan knew, or at a minimum recklessly disregarded, that INDX 2006-AR29 was backed by poor quality loans.

170. GMAC was one of the largest loan originators and securitizers in the country. Between 2005 and 2007, JPMorgan acted as lead underwriter for GMAC-sponsored offerings securitizing ***$15.1 billion*** in mortgages, including RASC 2006-KS7 and RASC 2007-KS2. As a major business partner, and to protect its own interests, JPMorgan conducted due diligence and reviewed material, non-public information about GMAC's loan origination and underwriting practices, loan quality and performance, and loan selection and securitization practices.

171. Counsel's investigation has revealed that GMAC abandoned its stated mortgage underwriting and appraisal standards in order to originate as many mortgages as possible for securitization. CW 39, a senior mortgage underwriter at GMAC from February 2003 through January 2005 in Troy, Michigan, described GMAC's "creative underwriting" of mortgages, explaining that if a loan required six months of income but the applicant lacked the necessary income history, GMAC mortgage underwriters would divide the applicant's bank balance by six and treat that amount as the required income. CW 39 saw quite a few "risky" loans where CW 39 didn't like the parameters or "didn't agree with the way things were done," so CW 39 passed these loans on to his supervisor, head of GMAC's underwriting for several states, who would promptly approve the loans. CW 40, a senior wholesale underwriter for GMAC from August 1997 to the spring of 2007, also stated that CW 40's supervisors frequently overrode underwriting decisions and approved poor quality mortgages**—**"***they were doing loans they knew were bad***." In addition,

CW 40 added that supervisors also routinely approved mortgages despite appraisals that "you knew damn well did not support the value."

172. As a result of its business relationship with GMAC, JPMorgan knew, or at a minimum recklessly disregarded, that RASC 2007-KS2 and RASC 2006-KS7 were backed by exceptionally poor quality GMAC loans.

3. Defendants' Unique Knowledge Of The Loan Origination Practices Used To Create the Mortgage Pools

173. In addition to having unique access and knowledge about the loan origination and securitization practices of the sponsors in Table 8, Defendants also had very close relationships with other financial institutions that originated loans for securitizations at issue in this action: Countrywide, New Century, Fremont, Encore/Performance Credit, American Home, and First NLC. The OCC included a number of these loan originators in its Index to the Worst Subprime Originators between 2005 and 2007, including Countrywide, New Century, Fremont, and American Home.

a. Countrywide

174. Bear Stearns and JPMorgan had firsthand knowledge of the quality of Countrywide-originated loans. Between 2005 and 2007, Bear Stearns selected at least ***$14 billion*** of Countrywide originated loans for offerings for which Bear Stearns acted as the sponsor, including BALTA 2006-7, SAMI 2006-AR7, and SAMI 2006-AR8. During the same time, JPMorgan selected nearly ***$10 billion*** of Countrywide originated loans for JPMorgan-sponsored offerings, including JPALT 2006-A2, JPALT 2006-A6, JPALT 2006-A7, and JPMAC 2006-CW1. In addition, JPMorgan assisted Countrywide with raising capital by acting as a lead underwriter in Countrywide bond issuances, and served as managing administrative agent to

material credit agreements for Countrywide, including a $2.64 billion revolving credit facility. As a result of these multi-billion dollar business relationships and their own due diligence, Bear Stearns and JPMorgan received material, non-public information about Countrywide's loan origination and underwriting practices, loan quality and loan performance.

175. Countrywide was one of the worst mortgage originators and securitizers in the country. In November 2008, the Office of the Comptroller of the Currency (part of the US Treasury Department), issued an "Index to the Worst Subprime Originators," based on the number of foreclosures on 2005-2007 loan originations in the 10 worst metropolitan areas, ranking Countrywide ranked as the eighth worst mortgage originator.[9] Counsel's investigation has shown that Countrywide originated and purchased loans regardless of their quality if Countrywide believed that it could sell those loans into a securitization. This fraudulent business model permeated every level of the organization.

176. From the beginning of 2005, Countrywide used three levels of loan origination and underwriting exceptions to generate billions of dollars in defective mortgages. First, if Countrywide's automated underwriting system discovered problems with a mortgage application because it failed to meet one of the standards underwriting criteria, including criteria used to assess borrower quality and collateral value, the application would be sent to a loan officer for manual underwriting in Countrywide's "Exception Processing System." If the loan officer could not approve the application, the loan would not be rejected. Rather the loan officer would request an "exception" from the guidelines from more senior underwriters at Countrywide's loan production structured lending desk ("Production SLD"), otherwise known as "the exception

[9] *Available at* http://www.occ.treas.gov/news-issuances/news-releases/2009/nr-occ-2009-112b.pdf.

desk." The Production SLD granted exceptions pursuant to Countrywide's "matching policy," also known as the "shadow guidelines"—any mortgage application would be approved if it "matched" the most aggressive mortgage approval policy of any loan origination competitors, even if the mortgage violated Countrywide's stated underwriting guidelines. Finally, if a mortgage application was still not approved pursuant to the shadow guidelines, it was sent to the secondary markets structured lending desk (the "Secondary Markets SLD") which would accept any loan – regardless of the risk level of likelihood of default – as long as the loan could be resold for securitization. As Countrywide's chief financial officer, David Sambol, stated in a February 13, 2005 email, Countrywide "should be willing to price virtually ***any loan that we reasonably believe we can sell/securitize without losing money, even if other lenders can't or won't do the deal***."

177. Countrywide managing director for secondary markets, Joshua Adler, confirmed during his deposition in an SEC enforcement action that Countrywide used different levels of exceptions and shadow guidelines to approve non-compliant loans in the ordinary course of business, and that Secondary Markets SLD did not review mortgages from an underwriting point of view, but only from their potential for securitization:

> Q. Do you know whether Countrywide sometimes originated loans that were considered to be exceptions to its underwriting guidelines?
>
> A. We did.
>
> Q. To your knowledge, was there a process by which such loans were approved?
>
> * * *
>
> A. There generally was, yes.
>
> Q. And what is your understanding of that process?

A. Well, I was -- I was at the tail end of that process. ***There was -- we had guidelines, we had kind of core guidelines, and then we had these shadow guidelines, which were the kind of the second tier guideline, if you will. And then there was this third tier which would come to me.***

But essentially there were -- the tiering of guidelines related to the kind of the exception process. And there was an underwriting, they called it, Structured Loan Desk process in the divisions where loans would get referred to the Structured Loan Desk if they were outside, I believe, of kind of the core guidelines. ***And then if those loans were outside of even the shadow guidelines, then they would be referred to Secondary Marketing to determine if the loan could be sold given the exception that was being asked for.***

* * *

Q. ***Was one of the criteria for granting exceptions at the Secondary Loan Desk in Secondary Marketing whether or not the loan could be sold into the secondary market?***

A. ***That was the only criteria that we followed.***

178. Most of the loans backing BALTA 2006-7, SAMI 2006-AR7, and SAMI 2006-AR8 were Countrywide loans that were selected by Bear Stearns. (*Supra* at ¶45, Table 1). As a result of its due diligence and close relationship with Countrywide, Bear Stearns knew, or at a minimum recklessly disregarded, that BALTA 2006-7, SAMI 2006-AR7, and SAMI 2006-AR8 were backed by poor quality Countrywide loans.

179. All of the loans backing JPMAC 2006-CW1 were Countrywide loans that were selected by JPMorgan. (*Supra* at ¶45, Table 1). JPALT 2006-A2, JPALT 2006-A6, and JPALT 2006-A7 were also substantially backed by Countrywide loans that were selected by JPMorgan. (*Id.*) As a result of its due diligence and close relationship with Countrywide, JPMorgan knew, or at a minimum recklessly disregarded, that JPMAC 2006-CW1, JPALT 2006-A2, JPALT 2006-A6, and JPALT 2006-A7 were backed by exceptionally poor quality Countrywide loans.

b. New Century

180. New Century ranked as the single worst mortgage originator on the OCC Index to the Worst Subprime Originators in the United States. In originating mortgages, New Century did not consider the borrower's credit history, repayment ability, or debt service-to-income ratio, did not verify information pertaining to borrower creditworthiness, did not use qualified disinterested appraisers to value the collateral, and generally flouted its own purported underwriting standards.

181. New Century's former vice-president of risk management, Patricia Lindsay, testified before the FCIC that, at New Century, "[***t***]***he definition of a good loan changed from 'One that pays' to 'One that can be sold***'." Because New Century originated loans for securitization, it made no effort to ensure the quality of the loans that it originated. As Lindsay explained to the FCIC, mortgage brokers "could get a ***loan pre-approval in 12 seconds or less*** with our proprietary system," and "we're selling them because we don't know if they're paying." Lindsay further stated that "[o]ur loans were sold before we even made them, which put pressure on the production groups to get loans closed." Moreover, exceptions to the underwriting guidelines were rampant. As Lindsay explained, "sales managers had the ability to make exceptions to guidelines on loans, which would result in loans closing with these exceptions, at times over the objections of seasoned appraisers, underwriters or risk personnel." When presented with a hypothetical maintenance mechanic who was allegedly making $200,000 per year, Lindsay stated that "[i]f he stated the income then it was not provable. And that [] would be considered a business decision." Furthermore, in Lindsay's experience, "fee appraisers hired to go to the properties were oftentimes pressured into coming in 'at value', fearing that if they didn't, they would lose future business and their livelihoods."

182. New Century's senior management encouraged New Century's reckless loan

origination practices. For example, after the company's Quality Assurance department reported in 2004 that they had found severe underwriting errors, including evidence of credit issues in 25% of the loans they audited in November and December 2003, the department was dissolved and its personnel terminated. After New Century's Internal Audit department identified numerous deficiencies in loan files and the loan production department's seven "unsatisfactory" ratings, New Century slashed the Internal Audit department's budget.

183. Numerous former New Century employees interviewed by counsel confirmed New Century's systematic abandonment of its stated loan origination and underwriting standards. For example, according to CW 26, a former New Century fraud investigator and senior loan underwriter who examined numerous New Century mortgage loans from January 1999 until April 2007, New Century "started to abandon prudent underwriting guidelines" at the end of 2003 in order to "push more loans through." CW 26 stated that ***New Century essentially "stopped underwriting."*** CW 27, another former New Century underwriter and risk manager employed at New Century from December 2001 until April 2007, explained that exceptions to underwriting guidelines were endemic and it was "more about quantity than quality," with the attitude being "get the volume on; get the volume on." Indeed, CW 27 reported that nine out of ten loans that CW 27 recommended denying were nevertheless approved by management. CW 28, a former New Century senior training development manager employed by New Century from March 2003 until March 2006 explained that underwriters often allowed borrowers to resubmit a rejected full-documentation loan (which had been rejected because the borrower's income was too low) as a "stated loan" with a new and higher income, which was then approved. CW 28 stated that this practice was "taboo" in the mortgage industry but routinely occurred and was a "running joke" at

New Century. CW 29, a former New Century vice-president and regional manager, Region 12, employed by New Century from September 1996 until May 2007 explained that New Century made very low quality and extremely risky loans, even for a sub-prime lender, noting that: "***If you had a heartbeat, we would give you a loan***."

184. New Century's Bankruptcy Examiner concluded after a lengthy investigation, that "New Century had a brazen obsession with increasing loan originations, without due regard to the risks associated with that business strategy." Based on 110 interviews of 85 fact witnesses, including members of New Century's board of directors and senior management, the Bankruptcy Examiner determined that ***the predominant standard for loan quality at New Century was whether the loan could be sold in the secondary market*** to investors like Bear Stearns and JPMorgan, not whether a borrower could meet the obligations under the terms of a loan.

185. JPMorgan and Bear Stearns were aware of New Century's improper loan origination practices between 2005 and 2007. During that time, JPMorgan securitized ***$1.8 billion*** of New Century loans while Bear Stearns extended an ***$800 million*** credit facility to New Century to originate and fund new mortgages that Bear Stearns could securitize and sell to investors. As major business partners and creditors, and to protect their own interests, JPMorgan and Bear Stearns conducted due diligence and reviewed material, non-public information about New Century's loan origination and underwriting practices, and loan quality and performance.

186. JPMAC 2006-NC1 was exclusively backed by New Century loans, and CBASS 2007-CB6 and RASC 2007-KS2 were largely backed by New Century loans. (*Supra* at ¶141, Table 8). JPMorgan knew, or at least recklessly disregarded that JPMAC 2006-NC1, CBASS 2007-CB6 and RASC 2007-KS2 were backed by exceptionally poor quality loans.

187. CARR 2006-NC3 and CARR 2006-NC5 were exclusively backed by New Century loans. (*Supra* at ¶141, Table 8). Based on their close relationship with Carrington, its due diligence, and its role in structuring these securitizations (*supra* at ¶¶143-44), Bear Stearns knew, or at least recklessly disregarded that CARR 2006-NC3 and CARR 2006-NC5 were backed by exceptionally poor quality New Century loans.

c. Fremont

188. Bear Stearns was a key business partner for Fremont, securitizing more than ***$958 million*** of Fremont originated loans between 2005 and 2007. Fremont ranked as the fifth worst mortgage originator on the OCC Index to the Worst Subprime Originators. Fremont was one of the country's largest and most reckless subprime mortgage lenders until it was closed down by the Federal Deposit Insurance Corporation ("FDIC") in March 2007. For example, on March 7, 2007, the FDIC issued an Order in *In re Fremont Investment & Loan Brea, California*, Docket No. FDIC-07-035b, requiring Fremont to "cease and desist" from a number of "unsafe and unsound banking practices and violations of the law and/or regulations" including:

- operating with inadequate underwriting criteria and excessive risk in relation to the kind and quality of assets held by the Bank;
- engaging in unsatisfactory lending practices;
- making mortgage loans without adequately considering the borrower's ability to repay the mortgage according to its terms.
- marketing and extending adjustable-rate mortgage ("ARM") products to subprime borrowers in an unsafe and unsound manner that greatly increases the risk that borrowers will default on the loans or otherwise cause losses to the Bank, including ARM products with one or more of the following characteristics:

  (i) qualifying borrowers for loans with low initial payments based on an introductory or "start" rate that will expire after an initial period, without

> an adequate analysis of the borrower's ability to repay the debt at the fully-indexed rate;
>
> (ii) approving borrowers without considering appropriate documentation and/or verification of their income; …
>
> (vi) approving borrowers for loans with inadequate debt-to-income analyses that do not properly consider the borrowers' ability to meet their overall level of indebtedness and common housing expenses; and/or
>
> (vii) approving loans or "piggyback" loan arrangements with loan-to-value ratios approaching or exceeding 100 percent of the value of the collateral.

189. Fremont's former regulatory compliance and risk manager, Roger Ehrnman, informed the FCIC on September 2, 2010 that Fremont repeatedly attempted to place rejected loans into pools of mortgages that were to be sold to investors until they were rejected three times. During his testimony before the FCIC, Clayton's former president and chief operating officer, Keith Johnson, referred to this practice as the "three strikes, you're out rule."

190. Numerous former employees of Fremont confirmed the findings of the FDIC and Ehrnman's testimony. For example, CW 31, who served as a senior underwriter for Fremont from September 2002 to August 2007 in Anaheim and Ontario, California stated that Fremont's primary concern was increasing the volume of mortgage loans that it issued, regardless of the borrower's ability to repay the mortgage loan. CW 32, a former underwriter at Fremont's Anaheim, California office from May 2005 until March 2007, explained that exceptions to Fremont's established underwriting guidelines "were done on a daily basis" and estimated that 30% of Fremont's loans contained some sort of exception. CW 33, a quality control investigator at Fremont for five years before leaving Fremont in September 2007 noted that "it just got stupid towards the end" because Fremont was "just giving anyone a loan who wants one." In addition to the poor underwriting practices that plagued Fremont, former Fremont employees also related

detailed accounts of the outright fraud that pervaded the lender. CW 33 discussed instances of Fremont brokers cutting and pasting bank statements and forging the signatures on borrowers' employment verification letters. According to CW 33, some of the fraud was so blatant that "you have to be brain dead if you didn't see it." CW 34, who served as former assistant vice-president and regulatory risk examiner for Fremont for three years until July 2008, and was involved with the FDIC's investigation of Fremont—agreed some of the fraud was "egregious" and that management consistently ignored the "obvious problems."

191. The Certificates in CARR 2007-FRE1 and NCMT 2007-1 were exclusively backed by Fremont loans. (*Supra* at ¶141, Table 8). Based on its close relationship with Fremont, and its role in structuring CARR 2007-FRE1 and NCMT 2007-1 (*supra* at ¶¶143-144), Bear Stearns knew, or at least recklessly disregarded that these securitizations were backed by exceptionally poor quality Fremont loans.

d. WMC Mortgage

192. Between 2005 and 2007, JPMorgan securitized over ***$10.7 billion*** in loans that were originated by General Electric's mortgage subsidiary, WMC Mortgage. WaMu securitized over ***$480 million*** in WMC originated loans. WMC was ranked fourth on the OCC's list of the worst loan originators in the country during the same time period. As *Reuters* has reported, WMC originated "some of the worst performing loans in the…$575 billion market for home equity asset-backed securities."

193. In a January 6, 2012 expose of the *Center for Public Integrity*, former WMC quality control manager David Riedel stated that his quality control team of a dozen people in Southern California found widespread mortgage fraud as early as 2005, including fake proofs of employment, fake verifications of borrower rent payment history, and fake borrower income

verifications. For example, Riedel discovered that WMC employees were fabricating borrower income verifications and creating bogus W-2 tax forms with computer software that allowed them to create W-2 forms from scratch.

194. In 2005, Riedel's team performed a loan audit revealing many instances of fraud and other defects such as missing documents. However, when Riedel reported the audit findings to officials at WMC's parent, General Electric, Riedel was demoted and forced to sit at a desk for months without an office, staff, or job title. As Riedel explained "I didn't have any files [and] I basically stared out of a window." Another former WMC executive confirmed Reidel's account, stating: "[h]e was branded as a whistleblower and not a team player. They didn't exactly fire him. They just marginalized him and he didn't really have anything to do." Riedel was not alone. The *Center for Public Integrity* investigation discovered that management also ignored reports of inflated borrower incomes and other fraudulent loan applications by WMC loan auditor Gail Roman in New York. As Roman stated, "[t]hey didn't want to hear what you found, even if you had enough documentation to show that there was fraud or questionable activity." Another former WMC fraud investigator confirmed the accounts of Reidel and Roman, stating: "***It was ugly. I would have nightmares about some of the things I'd find in a file. I'd wake up in the middle of the night going 'Oh my God, how did this happen?'"***

195. The *Center for Public Integrity* further uncovered that after Riedel was given back some responsibilities, he performed an audit of poorly-performing loans and began developing software to automatically detect fraudulent loan applications. In May 2006, Riedel presented the results of the audit to General Electric executives, noting that ***78% of the loans had been fraudulent, containing misrepresentations about borrowers' incomes or employment***. Again,

Riedel's message was not welcome, and the software program he developed was not adopted. As one WMC executive reportedly said, "***Fraud pays.***"

196. On January 12, 2012, the *Los Angeles Times* reported that the FBI is investigating WMC's potentially criminal business practices. As the newspaper reported, "[t]he government is asking whether WMC falsified paperwork, overstated income and other tactics to push through questionable loans" and focuses on "whether senior managers condoned improper practices that enabled fraudulent loans to be sold to investors."

197. JPMAC 2006-WMC2 and JPMAC 2006-WMC3 consisted entirely of WMC loans that were selected by JPMorgan, and WMABS 2007-HE2 contained a significant percentage of WMC loans, selected by Defendant WaMu Mortgage. As a result of their due diligence role in creating these securitizations, JPMorgan and WaMu Mortgage knew, or at a minimum recklessly disregarded, that JPMAC 2006-WMC2, JPMAC 2006-WMC3, and WMABS 2007-HE2, were backed by poor quality WMC loans.

e. Encore Mortgage

198. After securitizing more than ***$2.2 billion*** of Encore Mortgage originated loans, Bear Stearns purchased the subprime origination platform of ECC Capital, Encore Credit Corp., in October 2006. Following the acquisition, Bear Stearns maintained the Encore brand name and operated Encore as a division within Bear Stearns Residential Mortgage. ECC Capital renamed its remaining mortgage origination business—originating home equity loans—"Performance Credit Corporation." As a major business partner of ECC Capital, provider of a warehouse line of credit, and future owner of its subprime origination business, Bear Stearns had regular contact with ECC Capital executives, conducted due diligence, and reviewed material, non-public information about ECC Capital's loan origination and underwriting practices, loan quality and

performance, and reserve methodologies for nonperforming loans.

199. BSABS 2006-EC2 and BSABS 2007-2 were substantially backed by Encore/Performance Credit loans that were selected by Bear Stearns. (*Supra* at ¶53, Table 2). BSABS 2007-2 was created after Bear Stearns acquired Encore. As a result of its due diligence and control over Encore, Bear Stearns knew, or at a minimum recklessly disregarded, that BSABS 2006-EC2 and BSABS 2007-2 were backed by poor quality Encore/Performance Credit loans.

f. ResMAE

200. The OCC ranked ResMAE Mortgage ("ResMAE") as the tenth worst mortgage originator in the United Stated between 2005 and 2007. During that same time period, JPMorgan securitized over ***$1.7 billion*** in ResMAE originated loans.

201. Between 2004 and 2007, ResMAE routinely originated poor quality loans that did not meet its stated underwriting guidelines. CW 42, an area credit manager at ResMAE from 2004 through 2005 in Illinois, explained that ResMAE's sales department "push[ed]…through" stated income loans that listed implausible incomes. As an area credit manager, CW 42 was very concerned about these practices, stating: "that's where things got ridiculous, because as underwriters you were told that things have to make sense, you can't have somebody that is a waitress that is making $5,000 a month and we would say we want to go 'full documentation' and sales would say 'no' and push it through." CW 42 also recalled appraisal deficiencies at ResMAE, including instances where the appraisers clearly had not inspected the homes securing the mortgage. For example, CW 42 recalled a number of instanced where "the property didn't even exist, it was like a vacant lot, but yet we had an address and pictures."

202. ResMAE also routinely granted exceptions to the underwriting guidelines. CW 43, a regional credit manager at ResMAE from March 2004 through March 2007 in Illinois, stated

that "40% to 50%" of loans that ResMAE originated were issued pursuant to exceptions to ResMAE's underwriting guidelines. CW 43 described "fraud from appraisers, title companies and…borrowers. Yeah, they were altering documents and that kind of stuff; that was very big in 2005 and 2006. Especially the stated income, they would state that they made this income and they didn't, it was [a] misrepresentation."

203. ResMAE accepted numerous defective loans and sold them into securitizations. JPMAC 2006-RM1 was entirely backed by ResMAE loans that were selected by JPMorgan. (*Supra* at ¶118, Table 6). More than half of the loans that JPMorgan selected for JPMAC 2006-HE3 were also originated by ResMAE. As a result of its due diligence, JPMorgan knew, or at a minimum recklessly disregarded, that JPMAC 2006-RM1 and JPMAC 2006-HE3 were backed by poor quality ResMAE loans.

g. American Home

204. Bear Stearns also had a very close relationship with American Home—ranked as the eleventh worst mortgage originator on the OCC Index to the Worst Subprime Originators—giving Bear Stearns unique access to senior management and to material, non-public information. Between 2005 and 2007, Bear Stearns provided a $2.5 billion credit facility to American Home for the origination and funding of new mortgages that Bear Stearns could securitize and sell to investors. In its capacity as a major business partner and creditor, and to protect its own interests, Bear Stearns conducted due diligence and reviewed material, non-public information about American Home's loan origination and underwriting practices, loan quality and performance, and reserve methodologies for nonperforming loans. Bear Stearns also had the power to cut off hundreds of millions of dollars of operational funding, thereby ensuring that Bear Stearns had continuing access to material non-public information at all relevant times.

205. American Home originated a plurality of the loans backing SACO 2006-2 that were selected by Bear Stearns. (*Supra* at ¶53, Table 2). NAA 2007-3 was also materially backed by American Home loans. (*Supra* at ¶141, Table 8). As a result of its due diligence, and close business relationship with American Home, and its role in structuring SACO 2006-2 and NAA 2007-3 (*supra* at ¶53, Table 2 and ¶¶145-147), Bear Stearns knew, or at a minimum recklessly disregarded, that SACO 2006-2 and NAA 2007-3 were backed by poor quality American Home loans.

h. First NLC

206. First NLC was a non-prime loan originator that was owned by the investment bank Friedman, Billings, and Ramsey ("FBR"). In 2006, First NLC was a major subprime mortgage lender, originating over $7.4 billion in mortgage loans. Counsel's investigation has revealed that First NLC routinely originated fraudulent mortgages while deterring loan underwriters from protecting the company and investors who purchased certificates backed by First NLC mortgages. For example, CW 35, a mortgage underwriter at First NLC from April 2004 through November 2006 in Deerfield, Florida, stated that when objecting to loan applications that appeared to be fraudulent, sales representatives would object to CW 35's investigation and "scream bloody murder." CW 35 recalled that there were many instances where CW 35 did not feel comfortable about the loans that were being approved, but management overruled CW 35's objections because the loans would be securitized and sold to investors. As CW 35 explained, "***every loan had a problem with it…and seemed to have an exception***."

207. First NLC originated a majority of the loans backing MSST 2007-1. (*Supra* at ¶141, Table 8). As a result of its credit and compliance due diligence, its role as a depositor in accepting the loans and depositing them with the MSST 2007-1 trust, and its role "structuring"

MSST 2007-1 (*supra* at ¶141, Table 8; ¶¶148-151), Bear Stearns knew, or at a minimum recklessly disregarded, that MSST 2007-1 was backed by exceptionally poor quality First NLC loans.

i. GreenPoint

208. JPMorgan was an important business partner for GreenPoint. Between 2005 and 2007, JPMorgan securitized more than ***$1.6 billion*** of GreenPoint originated loans. Former GreenPoint executive vice-president, Kevin Hughes, testified that GreenPoint executives were in daily contact with large investors such as JPMorgan to provide them with extensive loan level data on the mortgages that GreenPoint was originating.

209. GreenPoint ranked as the thirteenth worst mortgage originator on the OCC Index to the Worst Subprime Originators. According to a review of documentation in connection with a lawsuit against GreenPoint based on the failures in GreenPoint's origination and underwriting practices, ***93%*** of the GreenPoint loans suffered from serious defects.[10] Discovered defects included:

- pervasive misrepresentations and/or negligence with respect to the statement of income, assets, or employment of the borrower;
- misrepresentations of the borrower's intent to occupy the property as the borrower's residence and subsequent failure to so occupy the property;
- inflated and fraudulent appraisal values; and
- pervasive violations of GreenPoint's own underwriting guidelines and prudent mortgage-lending practices, including loans made to borrowers (i) who made unreasonable claims as to their income, (ii) with multiple, unverified social-security numbers, (iii) with credit scores below the required minimum, (iv) with debt-to-income and/or loan-to-value ratios

[10] *U.S. Bank Nat'l Ass'n v. GreenPoint Mortg. Funding, Inc.*, Index No. 600352/2009 (Sup. Ct. New York County Feb. 5, 2009); *Bank of Am., N.A. v. GreenPoint Mortg. Funding, Inc.*, No. 09-cv-00071 (W.D.N.C. Feb. 26, 2009).

above the allowed maximum or (v) with relationships to GreenPoint or other non-arm's-length relationships.

210. The review of GreenPoint documents also determined that two years after the closing of the securitized transaction, approximately 29% of the loans in the original loan pool was either completely written off or severely delinquent. Another lawsuit—brought by a former senior GreenPoint underwriter—alleged that GreenPoint forced underwriters to approve mortgage loan applications containing fraudulent information.[11]

211. JPALT 2007-A1, was substantially backed by GreenPoint loans that were selected by JPMorgan. (*Supra* at ¶45, Table 1). As a result of their due diligence role in creating these securitizations, and close business relationship with GreenPoint, JPMorgan knew, or at a minimum recklessly disregarded, that JPALT 2007-A1 was backed by poor quality GreenPoint loans.

j. People's Choice

212. The Certificates in CARR 2006-RFC1, NAA 2007-3, and RASC 2006-KS7 were supported by an amalgamation of loans from different originators, including People's Choice, Barclays-subsidiary EFC Holdings, and HSBC-subsidiary Decision One Mortgage. (*Supra* at ¶141, Table 8). Counsel's investigation has revealed that these originators systematically ignored the stated loan underwriting guidelines and originated mortgages for securitization without regard for borrower ability to pay and collateral value. For example, James LaLiberte, former chief operating office of People's Choice, revealed a list of nearly 13,000 People Choice loans totaling $2 billion that included numerous instances of fraud. *If you had a pulse, we have you a loan*, MSNBC (March 22, 2009). The list included, for example, a $445,500 loan to a manicurist

[11] *Steinmetz v. GreenPoint Mortg. Funding, Inc.*, No. 08-cv-05367 (S.D.N.Y. June 13, 2008).

claiming an annual income of $200,000. When the borrower later filed for bankruptcy, court documents revealed her income to be $27,092. When LaLiberte attempted to implement controls, he was met with resistance. As People's Choice's chief appraiser explained to LaLiberte, "***Fraud is what we do. That's how we got where we are today.***"

4. Defendants' Misconduct Had a Devastating Impact on the Performance of the RMBS

213. Bear Stearns and JPMorgan knew, or at the very least recklessly disregarded, the poor quality of the mortgages backing the securitizations at issue. However, Defendants had strong financial incentives to ignore the toxic nature of the mortgages backing the securitizations, and to sell them as supposedly prudent investments to Plaintiffs and other investors. Bear Stearns and JPMorgan each obtained tens of millions of dollars in fees for underwriting these securitizations. Moreover, Bear Stearns and JPMorgan were not willing to jeopardize their lucrative repeat-business relationships with the sponsors and loan originators by sharing their non-public knowledge about the toxic nature of the mortgages backing these securitizations with Plaintiffs or other investors.

214. Defendants' misconduct dramatically affected the mortgage pools underlying the RMBS purchased by Plaintiffs. As of March 2012, on average, more than ***37%*** of the mortgage loans backing the securitizations in Table 9 were over 60- or 90-days delinquent, in foreclosure, bankruptcy, or repossession, as reflected in the table below:

Table 9

Collateral Performance of Securities Underwritten by Bear Stearns
Serious Delinquencies in % of mortgage pools (60 Day + 90 Day + Foreclosure + REO + Bankruptcy)

#	Offering	1 Yr.	2 Yrs.	3 Yrs.	4 Yrs.	Mar. 2012
1	CARR 2006-NC3	15.44	36.07	49.31	53.82	40.15

2	CARR 2006-NC5	20.51	42.88	53.92	52.41	45.23
3	CARR 2006-RFC1	11.04	32.75	37.44	51.22	38.67
4	CARR 2007-FRE1	24.03	49.59	67.43	72.98	66.89
5	IMM 2007-A	8.25	15.01	17.66	17.76	18.14
6	IMSA 2006-2	8.05	24.98	25.67	17.44	14.56
7	IMSA 2007-3	15.56	33.01	35.89	30.19	31.09
8	MSST 2007-1	28.78	49.71	50.61	31.18	29.41
9	NAA 2007-3	33.56	53.78	55.73	51.28	52.44
10	NCMT 2007-1	14.73	24.69	32.92	28.86	28.47
11	ARSI 2006-M2	19.72	41.76	45.56	39.34	34.27
12	ARSI 2006-W4	18.88	41.69	57.77	49.05	39.26
13	CBASS 2007-CB6	22.28	39.22	47.62	42.47	43.32
14	INDX 2006-AR29	7.39	26.68	40.74	38.01	31.77
15	RASC 2006-KS7	13.44	26.66	35.34	30.25	29.71
16	RASC 2007-KS2	21.12	33.71	45.91	32.35	32.07
	Averages	**17.67**	**35.76**	**43.72**	**39.91**	**35.96**

E. Defendants Manipulated the Credit Ratings

215. Defendants knew that, to sell their RMBS, they needed to obtain the highest possible "investment grade" ratings from the credit rating agencies ("CRAs")—Moody's and Standard & Poor's ("S&P"). Defendants featured the credit ratings prominently in the Offering Materials. Former EMC analyst Matt Van Leeuwen explained that ***credit ratings were "a major marketing piece for Bear Stearns"*** because "in theory, the ratings agency is supposed to help investors make an informed decision about the amount of risk they're going to bear with these securities now because these are so model based, there's no real market, there's no market price that I can really look out and see for these exact tranches."

216. Defendants knew that the ratings for the Certificates were not accurate or reliable because they were: (i) based on false information that Defendants provided to the CRAs and (ii) the result of improper influence exerted by Defendants over the CRAs.

1. Defendants Knowingly Supplied False Information to the Rating Agencies

217. RMBS credit ratings assess the risk of loss for each tranche in a securitization by determining the likelihood that the mortgage payments in the designated mortgage pool will be made on a timely basis. Standard & Poor's former North American Practice Leader for RMBS, Susan Barnes, testified before the Senate Investigations Subcommittee that: "[a]t their core, S&P credit ratings represent our opinion of the likelihood that a particular obligor or financial obligation will timely repay owed principal and interest." The Chairman and Chief Executive Officer of Moody's, Raymond McDaniel, similarly testified that "Moody's ratings provide predictive opinions on one characteristic of an entity—its likelihood to repay a debt in a timely manner."

218. CRAs review information concerning the borrowers' willingness and ability to pay, the value of the collateral, and the results of the credit, compliance and valuation due diligence of the mortgage pool. As Barnes testified, "S&P collects from the ***arranger of a securitization*** up to 70 different data points related to each underlying mortgage loan, including but not limited to: the amount of equity the borrower has in the home; the loan type; the extent of income verification; whether the borrower occupies the home; and the purpose of the loan. Our analysis of this data allows us to quantify multiple risk factors, or the layered risk, and allows us to assess the increased default probability that is associated with each factor."

219. Importantly, CRAs rely on the securitization's "arranger" or sponsor to provide this critical information, and do not undertake any independent due diligence. Barnes testified:

> At the time that it begins its analysis of a securitization, 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.***

McDaniel similarly testified on behalf of Moody's that "***We do not receive or review individual loan files***; ***we do not conduct due diligence;*** we do not structure the security; and we do not sell or in any way participate in the sales of a security." In addition, McDaniel explained that the credit ratings depended on the information that Moody's received from the sponsor and loan originators, stating that "***the quality of our opinions is directly tied to the quality of the information we receive from the originators and the investment banks***."

220. Defendants knew at all relevant times that the CRAs did not have access to the loan files and would not independently verify the information that Defendants provided concerning the quality of the mortgage pools backing the RMBS at issue. For example, Standard & Poor's standard terms and conditions—included with each S&P letter assigning credit ratings—stated that "Standard & Poor's undertakes no duty of due diligence or independent verification of information received from you or your agents." Gary Witt, former Moody's managing director acknowledged before the FCIC that at no time did the rating agencies "look through" the securities to the underlying subprime mortgages, making the rating agencies completely dependent on the investment banks for their information.

221. Former EMC analyst Matt Van Leeuwen explained the rating process as follows:

> When it comes time to generating a security, what would happen, an employee in New York whose express job is to work with the rating agencies, they would take characteristics of the pool that we were expecting to securitize and would send it to the rating agencies. Most specifically S&P and Moody's.
>
> The rating agencies would take a look at this kind of representative data and would say, based on this data you provided, we would issue this, this, this, and this according to the different classes or tranches.

> When it came time to actually creat[e] the securities, when it came time, meaning that Bear Stearns had already bought all the mortgages that were going into it … [b]asically what the rating agencies would do, would look at the two pools and see, you know, these really don't look different, there's really no difference, so you know, our original quote stands.

222. For each of the RMBS at issue, Defendants provided the CRAs with critical information about the quality of the mortgage pools backing those securities, including information about the borrowers' purported ability and willingness to pay, the value of the collateral, and the results of their due diligence of the mortgage pools. However, Defendants knew or, at a minimum, recklessly disregarded that the information they provided to the CRAs overstated the borrowers' ability to pay and the value of the collateral. For example, Bear Stearns did not disclose to the CRAs that it had adopted a deliberate policy to securitize loans before expiration of the EPD period. WaMu did not disclose that it was securitizing fraudulent mortgages and mortgages it had identified as delinquency-prone. And JPMorgan did not disclose that it was incentivizing its employees to originate and securitize high-risk mortgages while simultaneously loosening its underwriting standards. Defendants also did not disclose to the CRAs that they: (i) deliberately limited their due diligence of the mortgage pools; (ii) put pressure on their due diligence vendors to limit the number of identified fatally defective loans; and (iii) waived in numerous loans that they knew to be fatally defective.

223. The information in ¶222 above was material to the CRAs' ratings of the RMBS. If the CRAs had received full and accurate disclosures about the quality of the mortgage pools, Defendants' underwriting standards, and Defendants' due diligence results, they would not have issued investment grade credit ratings for the RMBS at issue.

2. Defendants Exerted Improper Pressure over the Rating Agencies

224. In April 2011, the Senate Investigations Report revealed that a number of investment banks, including Bear Stearns, JPMorgan, and WaMu, "were pressuring [the rating agencies] to ease rating standards" for RMBS. For example, Defendants routinely threatened to take their business to a different CRA. Defendants also blacklisted individual CRA analysts who refused to provide favorable credit ratings for the toxic mortgage portfolios they were offloading to investors.

225. Until recently, the CRAs were conservative institutions that provided independent opinions on the credit risk of corporations to a paying subscribership. This changed, however, with the transformation of the CRAs' subscriber fee-based businesses to a business that derived revenues largely from the issuers of the securities they rated, also known as the "issuer pays" model. Because CRAs are only compensated for rated deals, if an issuer did not like a particular rating on a deal, it would seek out a better rating from a competing CRA. From 2004 to 2007, Moody's and S&P—two CRAs that were regularly employed by Defendants that rated all of the RMBS at issue—produced a record number of ratings and revenues for rating structured finance products. During that time, S&P issued more than 5,500 RMBS ratings and Moody's issued over 4,000 RMBS ratings. To obtain an RMBS rating, CRAs charged issuers a fee ranging from $50,000 to more than $1 million. The CRAs also charged an additional surveillance fee per RMBS ranging from $35,000 to $50,000. As a result, S&P's net annual revenues nearly doubled from $517 million in 2002 to $1.16 billion in 2007, with the structured finance group's revenues tripling from $184 million in 2002 to $561 million in 2007. Moody's reported an increase in its gross revenues for credit ratings from approximately $61 million in 2002 to $208 million in 2006.

226. This change in the CRAs' business model created an acute conflict of interest, which Defendants skillfully exploited to the Plaintiffs' detriment. On June 11, 2008, former SEC Chairman Christopher Cox explained the conflict as follows:

> When the Congress passed the Credit Rating Agency Reform Act a year and a half ago, it was well understood that certain conflicts of interest were hardwired into the rating agency business model. But we have learned since then that the ratings of structured products in the subprime area made those conflicts of interest even more acute. That's because structured products were specifically designed for each tranche to achieve a particular credit rating – and the ratings agencies then made a lucrative business of consulting with issuers on exactly how to go about getting those ratings. Selling consulting service to entities that purchased ratings became a triple-A conflict of interest.

227. The pressure on CRAs was acknowledged by Moody's Chairman and CEO Raymond W. McDaniel who stated in an interview with *The Wall Street Journal* in 2008 that "[e]verybody always seeks to pressure us. Anyone with a position in the credit markets will hope that the credit-rating agencies agree with its opinion. It's a conflict of interest question. We can't avoid conflicts of interest."

228. The CRAs became dependent upon Defendants and other investment banks to generate business, and were therefore vulnerable to the threat that those banks would take their business elsewhere. As Moody's Chief Credit Officer, Andy Kimball, explained to the Senate Investigations Committee, the practice of "ratings shopping"—or choosing the ratings agency that offered the highest ratings—became prevalent during 2004-2007. Gary Witt, former Managing Director at Moody's, confirmed the widespread practice of ratings shopping during his testimony before the FCIC. When asked if investment banks frequently threatened to withdraw their business if they didn't get their desired rating, Witt responded: "Oh God, are you kidding? All the time. I mean, that's routine. I mean, they would threaten you all the time…It's like, 'Well, next

time we’re just going to go with Fitch and S&P.’”

229. The threat of ratings shopping had an immediate effect on the credit ratings issued by the CRAs. Richard Michalek, a former Moody’s vice-president and senior credit officer, explained during his testimony before the FCIC that “[t]he threat of losing business to a competitor, even if not realized, absolutely tilted the balance away from an independent arbiter of risk towards a captive facilitator of risk transfer.” Former Moody’s senior vice-president Mark Froeba explained to the FCIC that Moody’s senior management “put in place a new culture that would not tolerate for long any answer that hurt Moody’s bottom line,” resulting in a “a palpable erosion of institutional support for rating analysis that threatened market share.” Froeba stated:

> When I joined Moody’s in late 1997, an analyst’s worst fear was that he would contribute to the assignment of a rating that was wrong, damage Moody’s reputation for not getting the answer right and lose his job as a result.
>
> When I left Moody’s [in 2007], an analyst’s worst fear was that he would do something that would allow him to be singled out for jeopardizing Moody’s market share, for impairing Moody’s revenue or for damaging Moody’s relationships with its clients and lose his job as a result.

230. Defendants employed former CRA analysts to convince their former colleagues to accede to Defendants’ demands, and pressured individual CRA employees, whose jobs and compensation depended on the number of ratings they issued. For example, Defendants would complain to the CRAs’ senior management about specific ratings analysts who refused to go along with Defendants’ demands, causing those ratings analysts to be placed. A Moody’s managing director confirmed to *The Wall Street Journal,* that “Moody’s agreed to switch analysts on deals after bankers complained.” *Moody’s Opened Up*, The Wall Street Journal (April 11, 2008).

231. The accounts were confirmed by an SEC Summary Report of Issues Identified in the Commission Staff’s Examinations of Select Credit Rating Agencies (“SEC CRA Report”) in

July 2008. The SEC noted that ratings analysts were aware of the CRA's "business interests when securing the rating of the deal" and "discussed concerns about the firm's market share relative to other rating agencies, or losing deals to other rating agencies." These findings were based, *inter alia*, on the SEC's review of internal documents and emails, including an email from a CRA employee to colleagues stating "[w]e are meeting with your group this week to discuss adjusting criteria for rating CDOs of real estate assets this week because of the threat of losing deals."

232. Defendants routinely used their influence and leverage over the CRAs to obtain favorable ratings for the RMBS they created and sold. For example, the Senate Investigations Report revealed a February 20, 2007 email exchange between JPMorgan investment banker, Robert Miller, and Moody's Managing Director Mark DiRienz. Miller complained that Moody's was rating certain RMBS much lower than another CRA, noting that this would lead to serious investor concerns, stating: "the optics here are difficult. There's going to be a three notch difference when we print the deal if it goes out as is. I'm already having agita about the investor calls I'm going to get." DiRienz responded that Moody's would increase its credit rating for the RMBS, stating: "I spoke to Osmin earlier and confirmed that Jason is looking into some adjustments to his methodology that should be a benefit to you folks."

3. The Certificates Have Nearly All Been Downgraded to Junk

233. AAA/Aaa rated investments typically have an expected cumulative loss rate of less than 0.5%, with an annual loss rate of close to zero. In general, investment grade rated investments are not expected to suffer annual default rates exceeding 0.5%. For example, according to S&P, the default rate on all investment grade corporate bonds (including AA, A and BB) from 1981 to 2007 averaged about .094% per year.

234. The Certificates were all rated "prime" investment grade securities when they were purchased by Plaintiffs. At issuance, all of the Certificates were rated AAA/Aaa by S&P and Moody's, signifying an exceptional degree of creditworthiness and ability to make the required payments to the holders of these Certificates. As shown in Table 10, virtually all of the Certificates have since then been downgraded to junk, thereby confirming that Defendants included large numbers of exceptionally poor quality loans into these securitizations:

Table 10

	RMBS	Credit Rating (initial rating)[12]		Credit Rating (April 2012)		Downgraded below investment grade	
		Moody's	S&P	Moody's	S&P	Moody's	S&P
1	ARSI 2006-M2 A2D	Aaa	AAA	Ca	CCC	12/19/08	09/16/08
2	ARSI 2006-W4 A2C	Aaa	AAA	Ca	CCC	03/24/09	08/04/09
3	ARSI 2006-W4 A2D	Aaa	AAA	Ca	CCC	12/19/08	08/04/09
4	BALTA 2006-4 13A2	Aaa	AAA	C	D	08/27/08	10/30/08
5	BALTA 2006-7 1A2	Aaa	AAA	C	D	08/27/08	09/17/08
6	BSABS 2006-EC2 A4	Aaa	AAA	Aa1	AAA	---	---
7	BSABS 2006-HE8 1A3	Aaa	AAA	C	CCC	10/16/08	03/02/10
8	BSABS 2006-HE8 21A3	Aaa	AAA	Caa2	B-	09/24/10	07/18/11
9	BSABS 2006-IM1 A6	Aaa	AAA	C	D	03/19/09	09/17/08
10	BSABS 2006-IM1 A7	Aaa	AAA	C	D	09/24/08	09/17/08
11	BSABS 2007-2 A1	Aaa	AAA	A1	BB	---	10/26/09
12	CARR 2006-NC3 A4	Aaa	AAA	Ca	CCC	03/16/09	08/11/11
13	CARR 2006-NC5 A4	Aaa	AAA	Ca	CCC	03/16/09	10/21/11
14	CARR 2006-RFC1 A3	Aaa	AAA	Caa1	B-	04/29/10	10/21/11
15	CARR 2006-RFC1 A4	Aaa	AAA	Ca	B-	04/29/10	10/21/11
16	CARR 2007-FRE1 A3	Aaa	AAA	C	CCC	03/16/09	09/23/11
17	CBASS 2007-CB6 A3	Aaa	AAA	Ca	CCC	10/17/08	08/04/09
18	IMM 2007-A M1	Aaa	AAA	Aa3	AA-	03/11/09	---
19	IMSA 2006-2 1A12	Aaa	AAA	WR	D	04/24/08	08/20/08
20	IMSA 2007-3 A1B	Aaa	AAA	Caa3	CCC	02/20/09	10/22/09
21	INDX 2006-AR29 A5	Aaa	AAA	WR	D	08/19/08	11/11/08
22	JPALT 2006-A2 1A3	Aaa	AAA	B3	CCC	01/29/09	07/24/09
23	JPALT 2006-A2 1A5	Aaa	AAA	C	CCC	01/29/09	07/24/09
24	JPALT 2006-A3 1A3	Aaa	AAA	B2	CCC	01/29/09	07/24/09

[12] A few of the Certificates were rated by Fitch instead of Moody's or Standard & Poor's. To ensure legibility, Fitch ratings were not included in Table 10.

25	JPALT 2006-A5 1A5	Aaa	AAA	C	D	01/29/09	10/06/08
26	JPALT 2006-A6 1A5	Aaa	AAA	C	D	01/29/09	10/06/08
27	JPALT 2006-A7 1A4	Aaa	AAA	Ca	CCC	01/29/09	06/25/09
28	JPALT 2006-A7 1A5	Aaa	AAA	C	D	01/29/09	06/25/09
29	JPALT 2007-A1 1A4	Aaa	AAA	C	D	01/29/09	07/24/09
30	JPALT 2007-A1 1A5	Aaa	AAA	C	D	07/17/08	10/06/08
31	JPALT 2007-A2 12A3	Aaa	AAA	Ca	CCC	01/29/09	09/01/09
32	JPMAC 2006-CW1 A4	Aaa	AAA	Ba3	B-	03/24/09	10/21/11
33	JPMAC 2006-HE3 A5	Aaa	AAA	Ca	CCC	10/30/08	09/09/08
34	JPMAC 2006-NC1 A4	Aaa	AAA	Caa2	CCC	03/24/09	08/04/09
35	JPMAC 2006-NC1 A5	Aaa	AAA	Ca	CCC	03/24/09	08/04/09
36	JPMAC 2006-RM1 A5	Aaa	AAA	Ca	CCC	10/30/08	04/07/08
37	JPMAC 2006-WMC2 A4	Aaa	AAA	Ca	CCC	10/30/08	08/04/09
38	JPMAC 2006-WMC3 A5	Aaa	AAA	Ca	CCC	10/30/08	04/04/08
39	LBMLT 2006-11 2A2	Aaa	AAA	Ca	CCC	03/20/09	08/04/09
40	LBMLT 2006-3 2A3	Aaa	AAA	Ca	CCC	10/16/08	08/04/09
41	LBMLT 2006-3 2A4	Aaa	AAA	Ca	CCC	10/16/08	08/04/09
42	LBMLT 2006-4 2A3	Aaa	AAA	Ca	CCC	10/16/08	08/04/09
43	LBMLT 2006-4 2A4	Aaa	AAA	Ca	CCC	10/16/08	08/04/09
44	LBMLT 2006-5 2A3	Aaa	AAA	Ca	CCC	10/16/08	08/04/09
45	LBMLT 2006-5 2A4	Aaa	AAA	Ca	CCC	10/16/08	08/04/09
46	LBMLT 2006-6 2A2	Aaa	AAA	Caa3	CCC	03/20/09	08/04/09
47	LBMLT 2006-6 2A4	Aaa	AAA	Ca	CCC	10/16/08	09/09/08
48	LBMLT 2006-7 2A4	Aaa	AAA	Ca	CCC	04/07/08	04/07/08
49	LBMLT 2006-8 2A4	Aaa	AAA	Ca	CCC	04/07/08	04/02/08
50	MSST 2007-1 A3	Aaa	AAA	C	CCC	10/30/08	08/04/09
51	NAA 2007-3 A3	Aaa	AAA	Ca	D	02/04/09	10/30/08
52	NAA 2007-3 A4	Aaa	AAA	Ca	D	02/04/09	10/30/08
53	NCMT 2007-1 2A3	Aaa	AAA	Ca	CCC	03/19/09	07/18/11
54	RASC 2006-KS7 A4	Aaa	AAA	Ca	B-	03/20/09	08/04/09
55	RASC 2007-KS2 AI4	Aaa	AAA	C	CCC	10/17/08	08/04/09
56	SACO 2006-2 2A	Aaa	AAA	C	D	10/30/08	08/04/09
57	SAMI 2006-AR7 A13B	Aaa	AAA	C	CC	02/23/09	08/04/09
58	SAMI 2006-AR8 A6B	Aaa	AAA	C	D	02/23/09	08/04/09
59	WAMU 2006-AR7 C1B2	Aaa	AAA	C	D	02/23/09	12/09/09
60	WMABS 2006-HE2 A3	Aaa	AAA	Ca	CCC	03/17/09	08/04/09
61	WMABS 2007-HE2 2A2	Aaa	AAA	Ca	CCC	04/16/08	09/16/08
62	WMABS 2007-HE2 2A3	Aaa	AAA	Ca	CCC	04/16/08	09/16/08
63	WMALT 2007-HY1 A2B	Aaa	AAA	C	D	09/04/08	10/27/08
64	WMALT 2007-OC2 A2	Aaa	AAA	Caa3	CC	02/11/09	06/10/09
65	WMHE 2007-HE2 2A3	Aaa	AAA	Ca	CCC	10/16/08	09/09/08

235. In January 2011, the FCIC published the findings of its investigation into the causes of the financial crisis. The FCIC report provided for the first time information about

Defendants' conduct in originating and securitizing residential mortgages, including testimony from critical participants' in Defendants' fraudulent schemes. A few months later, on April 13, 2011, the Senate Investigations Subcommittee published its findings and numerous internal documents from Defendants. Together, these reports and the underlying information revealed for the first time that Defendants created securitizations from mortgage pools that they knew, or at the very least recklessly disregarded, to be much riskier, and therefore less valuable, than Defendants represented to Plaintiffs.

V. DEFENDANTS' FALSE AND MISLEADING STATEMENTS

236. Strict adherence to loan origination and underwriting standards—including verification of the borrowers' ability and incentives to make their mortgage payments, and the value of the collateral—is essential for determining the value of the RMBS. As sponsors, depositors, and underwriters of the RMBS, Defendants had exclusive access to the loan files and due diligence results, and were paid to ensure the quality of the mortgages in the pools backing the RMBS, as represented in the Offering Materials.

237. Defendants made specific representations about the quality of the mortgages backing the RMBS in the Offering Materials. Defendants sent Plaintiffs marketing materials, free writing prospectuses and term sheets describing the quality of the mortgage pools and the anticipated RMBS credit ratings to induce Plaintiffs to purchase certificates in the Offerings. Defendants made the same or substantially similar representations about the quality of the securitized mortgage pools and the final RMBS credit ratings in the registration statements, prospectuses and prospectus supplements that Defendants filed publicly with the SEC.

Defendants intended for investors to rely on their representations about the quality of the loan pool and the riskiness of the mortgage-backed securities in the Offering Materials.

A. Loan Origination and Underwriting Standards

238. In the Offering Materials, Defendants described the loan origination and underwriting standards that were purportedly used to originate the loans in the mortgage pools. For example, the Prospectus Supplement for BALTA 2006-4 stated:

> Performing loans purchased will have been originated pursuant to the Sponsor's underwriting guidelines or the originator's underwriting guidelines that are acceptable to the Sponsor.
>
> * * *
>
> The EMC mortgage loans have either been originated or purchased by an originator and were generally underwritten in accordance with the standards described herein.
>
> * * *
>
> Such underwriting standards are applied to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral.

239. The Offering Materials for BALTA 2006-7, BSABS 2006-EC2, BSABS 2006-HE8, BSABS 2006-IM1, BSABS 2007-2, SAMI 2006-AR7, SAMI 2006-AR8, SACO 2006-2, CARR 2006-NC3, CARR 2006-NC5, CARR 2006-RFC1, CARR 2007-FRE1, IMM 2007-A, IMSA 2006-2, IMSA 2007-3, MSST 2007-1, NAA 2007-3, and NCMT 2007-1 contained the same or substantially similar statements. *See* attached Exhibit B1.

240. The Offering Materials for WMABS 2006-HE2 stated:

> All of the mortgage loans owned by the trust have been originated generally in accordance with underwriting guidelines of the sponsor described in this section or the underwriting guidelines of Long Beach.
>
> * * *

> All of the mortgage loans purchased from Long Beach Mortgage Company have been either originated by Long Beach Mortgage Company through wholesale brokers or purchased by Long Beach Mortgage Company from approved correspondents and were underwritten or re-underwritten by Long Beach Mortgage Company generally in accordance with its underwriting guidelines as described in this prospectus supplement.
>
> * * *
>
> Additionally, the sponsor performs a monthly ongoing performance review of previously purchased mortgage loans for trends in delinquencies, losses and repurchases. The mortgage loan sellers' underwriting guidelines are reviewed for consistency with the sponsor's credit parameters and conformity with the underwriting standards described under "Underwriting of the Mortgage Loans" below and are either approved or approved with exceptions.

241. The Offering Materials for LBMLT 2006-11, LBMLT 2006-3, LBMLT 2006-4, LBMLT 2006-5, LBMLT 2006-6, LBMLT 2006-7, LBMLT 2006-8, WAMU 2006-AR7, WMHE 2007-HE2, WMABS 2007-HE2, WMALT 2007-HY1, and WMALT 2007-OC2 contained the same or substantially similar statements. *See* attached Exhibit B2.

242. The Offering Materials for JPALT 2007-A1 stated:

> The Chase Originator Mortgage Loans and GreenPoint Mortgage Loans were underwritten substantially in accordance with the underwriting criteria specified in this section for such Originator.
>
> * * *
>
> Underwriting standards are applied by or on behalf of a lender to evaluate a borrower's credit standing and repayment ability, and the value and adequacy of the related Mortgaged Property as collateral
>
> * * *
>
> The Sponsor selected the Mortgage Loans for sale to the Depositor from among its portfolio of mortgage loans based on a variety of considerations, including type of mortgage loan, geographic concentration, range of mortgage interest rates, principal balance, credit scores and other characteristics. In making this selection, the Sponsor took into account investor preferences and the Sponsor's

objective of obtaining the most favorable combination of ratings on the Certificates.

243. The Offering Materials for JPALT 2006-A2, JPALT 2006-A3, JPALT 2006-A5, JPALT 2006-A6, JPALT 2007-A7, JPALT 2007-A2, JPMAC 2006-CW1, JPMAC 2006-HE3, JPMAC 2006-NC1, JPMAC 2006-RM1, JPMAC 2006-WMC2, JPMAC 2006-WMC3, ARSI 2006-M2, ARSI 2006-W4, CBASS 2007-CB6, INDX 2006-AR29, RASC 2006-KS7, and RASC 2007-KS2 contained the same or substantially similar statements. *See* attached Exhibit B3.

244. Plaintiffs relied on the statements set forth above in ¶¶238-243 and the substantially similar statements in Exhibit B1, B2, and B3 to inform themselves about the quality of the mortgage pools. The reliability of commonly used metrics to assess the risk of borrower default and the value of the mortgage collateral depended on the originators' adherence to the stated loan origination and underwriting guidelines. Credit scores and loan-to-value ratios would not be reliable if the loan originators deviated from the stated loan origination and underwriting guidelines.

245. The statements set forth above at ¶¶238-243 and the substantially similar statements in Exhibit B1, B2, and B3 were materially false and misleading. In truth, Defendants were focused on increasing the volume of their mortgage origination, securitization and RMBS underwriting practice regardless of mortgage quality, and routinely included mortgages, and sold RMBS based on mortgages, that deviated from the stated loan origination and underwriting standards. As discussed above at ¶¶88-92, 105-107, WaMu routinely originated and securitized fraudulent mortgages. JPMorgan targeted borrowers who could be persuaded to take high-risk mortgages, knowing that those borrowers were likely to default and lose their homes in the future.

And Bear Stearns gave its sales personnel the authority to overrule determinations of credit and underwriting personnel. (*Supra* at ¶¶74-76)

246. Defendants knew that their own loan origination and underwriting practices, as well as the loan origination and underwriting practices of their loan origination partners, materially decreased the quality of the mortgages backing the securitizations. Defendants nevertheless included the resulting defective mortgages into the securitizations at issue, and sold them to Plaintiffs. In addition, Defendants knew, or at least recklessly disregarded, that the nominal third-party sponsors of the RMBS in Table 8 were securitizing defective loans into RMBS that Defendants sold to Plaintiffs. (*Supra* at ¶141; ¶¶143-172).

247. As a result of Defendants' fraudulent misconduct, Plaintiffs were misled into believing that the securitizations at issue were far less risky than they truly were. It was reasonably foreseeable that Plaintiffs would suffer a loss as a result of their reliance on Defendants' false and misleading statements.

B. Loan Selection and Due Diligence Practices

248. Defendants represented that the loans in the securitizations were carefully selected and properly underwritten. For example, the Prospectus Supplement for BSABS 2006-HE8 stated:

> During the underwriting process, BSRM calculates and verifies the loan applicant's sources of income (except documentation types, which do not require such information to be stated or independently verified), reviews the credit history of the applicant, calculates the debt-to-income ratio to determine the applicant's ability to repay the loan, and reviews the mortgaged property for compliance with the BSRM Underwriting Guidelines.

* * *

> EMC Mortgage Corporation, referred to in this prospectus supplement as EMC or the sponsor, in its capacity as seller, purchased the mortgage loans directly in privately negotiated transactions.
>
> * * *
>
> Loans are generally purchased with the ultimate strategy of securitization into an array of Bear Stearns' securitizations based upon product type and credit parameters, including those where the loan has become reperforming or cash-flowing. Performing loans include first lien fixed rate and ARMs, as well as closed end fixed rate second liens and lines of credit ("HELOCs"). ***Performing loans acquired by the Sponsor are subject to varying levels of due diligence prior to purchase.***

249. The Offering Materials for BALTA 2006-4, BALTA 2006-7, BSABS 2006-EC2, BSABS 2006-IM1, BSABS 2007-2, SACO 2006-2, SAMI 2006-AR7, SAMI 2006-AR8, CARR 2006-NC3, CARR 2006-NC5, CARR 2006-RFC1, CARR 2007-FRE1, IMM 2007-A, IMSA 2006-2, IMSA 2007-3, MSST 2007-1, NAA 2007-3, and NCMT 2007-1 contained the same or substantially similar statements. *See* attached Exhibit C1.

250. The Offering Materials for WMALT 2007-OC2 stated:

> For mortgage loans originated by Washington Mutual Bank, Washington Mutual Bank's credit risk oversight department conducts a quality control review of statistical samplings of originated mortgage loans on a regular basis.
>
> * * *
>
> The sponsor's credit risk oversight department conducts a credit, appraisal, and compliance review of adverse samplings (and, in some cases, statistical samplings) of mortgage loans prior to purchase from unaffiliated mortgage loan sellers. Sample size is determined by due diligence results for prior purchased pools from that seller, performance of mortgage loans previously purchased and characteristics of the pool presented for purchase.
>
> * * *
>
> The sponsor selected the mortgage loans from among its portfolio of mortgage loans held for sale based on a variety of considerations, including type of mortgage loan, geographic concentration, range of mortgage interest rates,

> principal balance, credit scores and other characteristics described in Appendix B to this prospectus supplement, and taking into account investor preferences and the depositor's objective of obtaining the most favorable combination of ratings on the certificates.

251. The Offering Materials for LBMLT 2006-11, LBMLT 2006-3, LBMLT 2006-4, LBMLT 2006-5, LBMLT 2006-6, LBMLT 2006-7, LBMLT 2006-8, WAMU 2006-AR7, WMABS 2006-HE2, WMABS 2007-HE2, WMALT 2007-HY1, and WMHE 2007-HE2 contained the same or substantially similar statements. *See* attached Exhibit C2.

252. The Offering Materials for JPALT 2007-A1 stated:

> The Sponsor selected the Mortgage Loans for sale to the Depositor from among its portfolio of mortgage loans based on a variety of considerations, including type of mortgage loan, geographic concentration, range of mortgage interest rates, principal balance, credit scores and other characteristics. In making this selection, the Sponsor took into account investor preferences and the Sponsor's objective of obtaining the most favorable combination of ratings on the Certificates.

253. The Offering Materials for JPALT 2006-A2, JPALT 2006-A3, JPALT 2006-A5, JPALT 2006-A6, JPALT 2007-A7, JPALT 2007-A2, JPMAC 2006-CW1, JPMAC 2006-HE3, JPMAC 2006-NC1, JPMAC 2006-RM1, JPMAC 2006-WMC2, JPMAC 2006-WMC3, ARSI 2006-M2, ARSI 2006-W4, CBASS 2007-CB6, INDX 2006-AR29, RASC 2006-KS7, and RASC 2007-KS2 contained the same or substantially similar statements. *See* attached Exhibit C3.

254. Plaintiffs relied on the statements set forth above in ¶¶248-253 and the substantially similar statements in Exhibit C1, C2, and C3 that Defendants carefully selected loans for securitization to ensure that the Certificates were backed by mortgages that met the represented quality standards. Plaintiffs reasonably relied on Defendants' representations regarding their loan selection due diligence practices, their selection of loans for securitization, and the overall quality of the mortgages backing the securitizations when Plaintiffs purchased the Certificates.

255. The statements set forth above at ¶¶248-253 and the substantially similar statements in Exhibit C1, C2, and C3 were materially false and misleading. WaMu had a duty to disclose that it adversely selected delinquency-prone loans on its balance sheet and offloaded them into securitizations. WaMu also failed to disclose that it securitized loans after determining that those loans were tainted by fraud. Bear Stearns and JPMorgan each failed to disclose that they waived in 50% or more of the loans which their due diligence vendor identified as fatally defective. In addition, Defendants knew, or at least recklessly disregarded, that the nominal third-party sponsors of the RMBS in Table 8 were securitizing defective loans into RMBS that Defendants sold to Plaintiffs. (*Supra* at ¶141; ¶¶143-172).

256. Defendants knew, or at least recklessly disregarded, that the loan selection and due diligence practices that were used materially decreased the quality of the mortgage pools backing the securitizations at issue. Defendants' misrepresentations and material omissions concerning the loan selection and due diligence practices rendered the Offering Materials false and misleading. As a result, Plaintiffs were misled into believing that the securitizations at issue were far less risky than they truly were. It was reasonably foreseeable that Plaintiffs would suffer a loss as a result of their reliance on the information provided by Defendants.

C. Defendants' False and Misleading Statements Regarding the Risk of Default

257. In the Offering Materials, Defendants provided detailed and quantitative information describing the risk of borrower default. For each mortgage pool, the Offering Materials described average borrower credit scores, occupancy rates, level of EPDs, and loan documentation. Defendants' statements were false and misleading, and materially understated the risk of default.

1. Borrower Credit Quality

258. Defendants made affirmative representations about the credit quality of the borrowers whose mortgages Defendants selected for securitization. For example, the Prospectus Supplement for JPALT 2007-A1 stated that:

> Credit scores are obtained by many mortgage lenders in connection with mortgage loan applications to help assess a borrower's creditworthiness. Credit scores are generated by models developed by third party credit reporting organizations which analyzed data on consumers in order to establish patterns which are believed to be indicative of a borrower's probability of default.

* * *

Credit Score[1]

Range of Credit Score	Number of Mortgage Loans	Aggregate Principal Balance Outstanding	Percent of Aggregate Principal Balance Outstanding
Not Applicable...............	5	$ 1,325,743.94	0.23%
601 - 620.........................	3	1,470,416.63	0.26
621 - 640.........................	38	16,773,844.90	2.94
641 - 660.........................	81	36,026,608.29	6.32
661 - 680.........................	243	111,956,035.01	19.63
681 - 700.........................	228	109,855,030.05	19.26
701 - 720.........................	200	94,024,288.55	16.49
721 - 740.........................	144	60,956,563.19	10.69
741 - 760.........................	135	56,512,656.44	9.91
761 - 780.........................	104	42,298,617.12	7.42
781 - 800.........................	77	31,547,724.16	5.53
801 - 820.........................	18	7,593,850.57	1.33
Total...........................	**1,276**	**$570,341,378.85**	**100.00%**

As of the Cut-off Date, the weighted average non-zero Credit Score of the Mortgage Loans in Pool 1A is expected to be approximately 709. See "Description of the Mortgage Pool - The Mortgage Loans" herein.

259. The Offering Materials for the other securitizations at issue contained the same or substantially similar statements. *See* attached Exhibit D.

260. Plaintiffs relied on the statements set forth above at ¶¶258-259 and the substantially similar statements in Exhibit D to assess the credit quality of the borrowers in the mortgage pools and to make their investment decision.

261. The statements set forth above at ¶¶258-259 and the substantially similar statements in Exhibit D were materially false and misleading. In truth, JPMorgan had loosened its underwriting standards and purposefully steered borrowers to high-risk mortgages that JPMorgan would securitize and sell to investors, knowing that they were likely to default. CW 10, a former senior underwriter at WaMu from November 2004 through April 2007, stated that WaMu granted "a significant amount" of loans to borrowers without establishing their credit score if they provided three alternative trade lines, such as a note from a person claiming the borrower had repaid a personal debt. Bear Stearns had a policy to quickly securitize mortgages regardless of the credit quality of the borrowers, expressly instructing its due diligence vendor not to verify credit scores. (*Supra* at ¶¶55-60). *The Atlantic* reported on May 14, 2010, that Bear Stearns encouraged EMC personnel to "just make up data like FICO scores if the lenders they purchased the loans in bulk from wouldn't get back to them promptly." In addition, JPMorgan and Bear Stearns waived in 50% or more of loans that their own due diligence vendor found fatally defective, including loans originated pursuant to Countrywide's policy of accepting any loan that could be sold into a securitization, and loans originated by WMC after an internal audit had determined that 78% of the loans were fraudulent. (*Supra* at ¶¶73, ¶137, ¶175, ¶195).

262. Defendants knew, or at least recklessly disregarded, that the loan origination and securitization practices that were used to create the Certificates caused the credit quality of the borrowers of the mortgages in the underlying mortgage pools to be much lower than represented in the Offering Materials. As a result, Plaintiffs were misled into believing that the securitizations at issue were far less risky than they truly were. Moreover, it was foreseeable that Plaintiffs

would suffer a loss as a result of their reliance on the false and misleading information provided by Defendants.

2. Occupancy Rates

263. Defendants made affirmative representations about the occupancy rates of the collateral. Occupancy rates indicate whether the residence that serves as the collateral for the mortgage is the primary residence of the borrower, a second home or an investment property. Plaintiffs relied on Defendants' representations because borrowers who occupy the property forming the collateral for the mortgage homes are less likely to default on their mortgage payments than borrowers who took out mortgages for a second home or for investment purposes. Moreover, small differences in the percentage of owner occupied residences securing the mortgages in the pool can have a significant effect on the overall risk of the securitization.

264. The Offering Materials for each securitization at issue represented the percentage of the mortgage loans for each category: (i) primary residence or owner occupied; (ii) second home or secondary residence; and (iii) investment or non-owner occupied. For example, the Prospectus Supplement for BSABS 2006-EC2 stated:

Occupancy Status of Mortgaged Properties in the Total Pool*

Occupancy Status	Number of Mortgage Loans	Aggregate Stated Principal Balance Outstanding as of cut-off date	% of Mortgage Pool	Weighted Average Credit Score	Weighted Average Original Loan-to-Value Ratio
Investor	120	$ 25,044,587	5.63	623	81.29 %
Owner Occupied	1,550	417,725,998	93.83	604	80.81
Second Home	13	2,406,614	0.54	650	85.46
Total	1,683	$ 445,177,198	100.00	606	80.86 %

*Based upon representation of the related mortgagors at the time of origination.

265. The Offering Materials for the other securitizations at issue contained the same or substantially similar statements. *See* attached Exhibit E.

266. Plaintiffs relied on the statements set forth above at ¶¶264-265 and the substantially similar statements in Exhibit E to assess the credit risk of the mortgage pool backing the RMBS and to make their investment decision.

267. The statements set forth above at ¶¶264-265 and the substantially similar statements in Exhibit E materially overstated the percentage of mortgages that were secured by owner occupied residences, and thereby materially understated the credit risk of the RMBS at issue. Defendants did not disclose that no due diligence was done on the vast majority of the loans included in the securitizations at issue, including New Century loans that could have been approved "in 12 seconds or less," and ResMAE loans where "the property didn't even exist, it was like a vacant lot, but yet we had an address and pictures." (*Supra* at ¶181, ¶201). In addition, Bear Stearns did not disclose that it expressly instructed its due diligence vendor that occupancy misrepresentations were not a securitization breach, and ordered the vendor not to verify the occupancy status and not to order occupancy inspections. (*Supra* at ¶68).

268. Defendants knew that their loan origination and securitization practices materially increased the risk that the mortgage pools backing the Certificates included many more mortgages that were not secured by an owner-occupied home than represented in the Offering Materials. As a result, Plaintiffs were misled into believing that the securitizations at issue were far less risky than they truly were. It was foreseeable that Plaintiffs would suffer a loss as a result of their reliance on the owner-occupancy information provided by Defendants.

3. Early Payment Defaults

269. Bear Stearns' Offering Materials represented that none of mortgages supporting the RMBS were in default at the time of the securitization. For example, the BSABS 2006-EC2 Prospectus Supplement stated that "***As of the cut-off Date, no scheduled payment on any mortgage loan was more than 30 days past due and no scheduled payment on any mortgage loan has been more than 30 days past due since origination.***" The Offering Materials for the other Bear Stearns securitizations contained the same or substantially similar statements. *See* attached Exhibit F.

270. Plaintiffs relied on the statements set forth above at ¶269 and the substantially similar statements in Exhibit F to assess the credit risk of the mortgage pools backing the Bear Stearns RMBS and to make their investment decision.

271. The statements set forth above at ¶269 and the substantially similar statements in Exhibit F were materially false and misleading. Having chosen to speak about the level of defaults in the mortgage pools, Bear Stearns had a duty to speak fully and truthfully on that subject. Thus, Bear Stearns had a duty to disclose that it had changed its policy to quickly securitize mortgages before expiration of the early payment default period. Bear Stearns knew that this change in policy materially increased the risk that its securitizations would suffer from default and termination events, and would suffer losses. Bear Stearns failure to disclose these facts rendered the Offering Materials false and misleading. As a result, Plaintiffs were misled into believing that the Bear Stearns securitizations at issue were far less risky than they truly were.

D. Defendants' False and Misleading Statements Concerning the Value of the Mortgage Collateral

272. The value of the collateral determines the risk of loss in case of borrower default and is critically important to investors. Property valuations are the denominator in the loan-to-value ratio, which is a key criterion for assessing the risk of loss. Higher loan-to-value ratios correspond to lower borrower equity in the home, and therefore: (i) less equity that can be used to avoid losses to the mortgage pool backing the securitization; and (ii) lower borrower incentives to continue to make their mortgage payments.

273. To induce Plaintiffs and other investors to purchase the RMBS, Defendants made affirmative representations about the value of the collateral, including loan-to-value ratios, and the independence of the appraisers who prepared the appraisals. For example, the JPALT 2006-3 prospectus supplement stated:

> The weighted average Loan-to-Value Ratio at origination of the Pool 1 Mortgage Loans is approximately 76.03%, and no Pool 1 Mortgage Loan had a Loan-to-Value Ratio at origination exceeding 100.00%.
>
> * * *
>
> The adequacy of the mortgaged property as security for repayment of the related mortgage loan will generally have been determined by an appraisal in accordance with pre-established appraisal procedure guidelines for appraisals established by or acceptable to the originator. All appraisals conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation and must be on forms acceptable to Fannie Mae and/or Freddie Mac. Appraisers may be staff appraisers employed by the originator or independent appraisers selected in accordance with preestablished appraisal procedure guidelines established by the originator. The appraisal procedure guidelines generally will have required the appraiser or an agent on its behalf to personally inspect the property and to verify whether the property was in good condition and that construction, if new, had been substantially completed..
>
> * * *

> CHF requires an appraisal to be made of each property to be financed. The appraisal is conducted by an independent fee appraiser. The person conducting the appraisal personally visits the property and estimates its market value on the basis of comparable properties. The independent appraisers do not receive any compensation dependent upon either the amount of the loan or its consummation. In normal practice, for purchaser transactions, the lower of purchase price or appraised value determines the maximum amount which will be advanced against the property. For refinances, generally the appraised value would be used.

274. The Offering Materials for the other securitizations at issue contained the same or substantially similar statements. *See* attached Exhibit G.

275. Defendants represented to Plaintiffs and other investors that mortgages with loan-to-value ratios exceeding 80% were carefully restricted to borrowers who were particularly creditworthy and presented a low risk of default, because there would be limited recovery in case of default. Mortgages with loan-to-value ratios exceeding 100% would provide no recovery in case of default. For example, the BALTA 2006-4 prospectus supplement stated that "High LTV Loans are underwritten with an emphasis on the creditworthiness of the related mortgagor." The Offering Materials for the other securitizations at issue contained the same or substantially similar statements. *See* attached Exhibit G.

276. Plaintiffs relied on the statements set forth above in ¶¶273-275 and the substantially similar statements in Exhibit G to assess the risk of loss in case of borrower default and to make their investment decision.

277. The statements set forth above in ¶¶273-275 and the substantially similar statements in Exhibit G materially overstated the value of the collateral securing the mortgages backing the RMBS, and thereby materially understated the risk of loss in case of borrower default. Defendants did not disclose that no due diligence was done on the vast majority of the loans included in the securitizations at issue. Defendants also did not disclose WaMu's policy to

blacklist appraisers who refused to artificially inflate the collateral value, or that appraisers increased the stated appraisal value 80% of the time that WaMu requested a Reconsideration of Value. (*Supra* at ¶101). Similarly, Bear Stearns did not disclose that it expressly instructed its due diligence vendor not to review appraisals, or that it frequently postponed all due diligence until after the loans were purchased and securitized. (*Supra* at ¶¶67-70).

278. Defendants knew, or recklessly disregarded, that their loan origination and securitization practices increased the risk that the mortgage pools backing the Certificates would suffer losses in case of borrower default and that their Offering Materials materially understated the LTV ratios of the mortgages backing the securitizations. It was foreseeable that Plaintiffs would suffer a loss as a result of their reliance on the information about the value of the collateral that Defendants provided in the Offering Materials.

E. Defendants' False and Misleading Statements Concerning the Credit Ratings

279. In the Offering Materials, Defendants represented that the RMBS purchased by Plaintiffs had been rated "AAA" by two Credit Rating Agencies, signifying that the risk of loss was virtually non-existent. For example, the SAMI 2006-AR7 Prospectus Supplement stated that the credit ratings "address the ***likelihood of the receipt by certificateholders of all distributions to which the certificateholders are entitled*,"** and that:

> It is a condition to the issuance of each class of Offered Certificates that it receives at least the ratings set forth below from S&P and Moody's:

	Rating	
Class	S&P	Moody's
A-1A	AAA	Aaa
Grantor Trust A-1B	AAA	Aaa
A-2A	AAA	Aaa
Grantor Trust A-2B	AAA	Aaa
A-3	AAA	Aaa
A-4	AAA	Aaa
A-5	AAA	Aaa
A-6	AAA	Aaa
A-8	AAA	Aaa
A-9	AAA	Aaa
A-10	AAA	Aaa
A-11	AAA	Aaa
A-12	AAA	Aaa
A-13A	AAA	Aaa
A-13B	AAA	Aaa

Class	S&P	Moody's
X	AAA	Aaa
B-1	AA+	Aaa
B-2	AA	Aa1
B-3	AA-	Aa1
B-4	A+	Aa3
B-5	A	A1
B-6	BBB	Baa2
B-7	BBB-	Baa3

280. The Offering Materials for the other securitizations at issue contained the same or substantially similar statements. *See* attached Exhibit H.

281. Defendants also represented that the CRAs made their determinations on an independent basis. The WMABS 2006-HE2 Prospectus Supplement stated:

> The rating assigned to each class of offered certificates by each rating agency is based on that rating agency's ***independent evaluation*** of that class of certificates.

282. The Offering Materials for LBMLT 2006-3, LBMLT 2006-4, LBMLT 2006-5, LBMLT 2006-6, LBMLT 2006-7, LBMLT 2006-8, LBMLT 2006-11, WAMU 2006-AR7, WMABS 2007-HE2, WMALT 2007-HY1, WMALT 2007-OC2, and WMHE 2007-HE2 contained the same or substantially similar statements. *See* attached Exhibit H.

283. Plaintiffs relied on the statements set forth above in ¶¶279-282, and the substantially similar statements in Exhibit H, to inform themselves about the accuracy and reliability of the credit ratings assigned to the RMBS they purchased, and to make their investment decision.

284. The statements set forth above at ¶¶279-282 and the substantially similar statements in Exhibit in H were materially false and misleading. Defendants pressured CRAs to provide them with AAA-ratings and threatened to use a different CRA if they did not receive the desired rating. Defendants also did not disclose to the CRAs that they deliberately undermined the due diligence process and waived in loans that had been rejected in third-party due diligence reviews because of credit and compliance defects. This was material information for the CRAs, and it was reasonably foreseeable that Plaintiffs and other investors who purchased the RMBS would suffer losses as a result of Defendants' practices.

VI. PLAINTIFFS REASONABLY RELIED ON DEFENDANTS' REPRESENTATIONS

285. Plaintiffs relied on Defendants' false representations and omissions in the Offering Materials regarding the loan origination, underwriting and securitization practices that were used for creating the Certificates and the underlying loans pools. But for Defendants' fraudulent representations and omissions, Plaintiffs would not have purchased the RMBS.

286. Plaintiff FSAM made all of the investment purchase decisions concerning the Certificates. FSAM followed detailed guidelines and criteria when making the investment decisions, including Underwriting Guidelines with specific investment requirements, guidelines, and limitations that were applied by FSAM personnel to determine whether RMBS were appropriate investment decisions. These Underwriting Guidelines were regularly updated

between 2005 and 2007, and provided, *inter alia*, the applicable investment process, the types of securities that could by purchased, the minimum credit rating requirements, and the approval process. At all relevant times, FSAM undertook a credit analysis of RMBS pursuant to Underwriting Guidelines requiring FSAM personnel to:

- "Focus on adequacy of the collateral cashflows to repay the bond;"
- "Estimate expected loss of underlying collateral"
- "Estimate value of credit protection. Account for all forms of protection such as subordination, overcollateralization, excess spread, insurance, etc." and
- "Measure the adequacy of identified credit protection by analyzing underlying bond structure, particularly cashflow, waterfall and performance triggers."

287. Plaintiff FSAM performed its investment and credit analyses as part of the investment decisions for all RMBS at issue. FSAM's investment and credit analyses were based on information provided by Defendants with respect to both the credit characteristics of the mortgage loan pool (including, for example, borrower characteristics, collateral value and owner-occupancy rates), and the structure of the securitization with respect to the seniority and risk characteristics of the particular tranche of RMBS (including, for example, the credit rating of the Certificate, the level of subordination, and position in the payment "waterfall"). FSAM's focus throughout this review was on the quality characteristics of the underlying collateral, the originators of the underlying loans, and the credit ratings assigned to the Certificates.

288. Plaintiffs reasonably relied on Defendants' representations in the Offering Materials to implement the applicable Underwriting Guidelines, and to make investment decisions to purchase the RMBS at issue. Plaintiffs did not know, and could not have known, that: (i) WaMu was securitizing fraudulent mortgages and mortgages that were deliberately selected because WaMu expected them to become delinquent; (ii) Bear Stearns had changed its EPD

policy and was knowingly including poor quality loans into its securitizations; (iii) Defendants were manipulating the credit ratings; (iv) Defendants knew or at least recklessly disregarded the materially inadequate securitization practices of the nominal third-party sponsors of the RMBS in Table 8; and (v) Defendants knew or at least recklessly disregarded systematic noncompliance by loan originators with stated underwriting and appraisal standards. If Plaintiffs had known these and other material facts regarding Defendants' fraudulent misrepresentations and omissions of material fact contained in the Offering Materials, Plaintiffs would not have purchased the RMBS.

289. Defendants' misrepresentations and omissions caused Plaintiffs to make investment decisions based on materially false information and suffer losses because the Certificates were far riskier—and the mortgage default and loss rates far higher—than Defendants represented them to be. As a result, Plaintiffs paid substantially more for the RMBS than they were actually worth.

VII. ADDITIONAL ALLEGATIONS DEMONSTRATING SCIENTER

290. In addition to the facts alleged above, numerous additional facts establish that Defendants' misstatements about the quality of the mortgage pools backing the RMBS at issue were intentional and reckless, including the facts that: (1) Defendants were all securitization experts with many years of experience in creating, issuing, and selling mortgage-backed securities; (2) the fraud was both massive and lengthy, taking place over a number of years, and resulting in massive losses threatening the global financial system; (3) numerous confidential witnesses have confirmed that Defendants were well aware of the improper origination and securitization practices; (4) Defendants reaped enormous profits from the fraud by creating, issuing and selling RMBS at artificially inflated prices, deriving millions of dollars in illicit

proceeds; and (5) Bear Stearns deliberately purged its records from the audit trail showing how many fatally flawed mortgages its due diligence vendor identified for each mortgage pool. These facts are discussed in more detail below.

A. Defendants Are Securitization Experts Who Consciously Included Poor Quality Loans in the Securitizations

291. As discussed in detail above, the fundamental principle at issue in this case is straightforward: any investment bank that creates, issues, and sells mortgage-backed securities is paid to act as a gatekeeper when it selects loans for securitization, and must provide accurate information concerning the mortgage pools to investors and the credit rating agencies. Unlike Defendants, Plaintiffs and the credit rating agencies did not have access to the loan files or the due diligence results, and could not independently verify Defendants' representations about the quality of the mortgages backing the RMBS at issue.

292. Defendants are sophisticated financial institutions who collectively securitized at least ***$325 billion*** of mortgages from 2005 to 2007. During this time, Defendants were active in every aspect of the mortgage securitization business, including loan origination and underwriting, creating and issuing RMBS, and underwriting and selling RMBS to investors. Defendants had separate mortgage trading, RMBS structuring, and RMBS underwriting groups, each employing highly qualified personnel specialized in creating, issuing and underwriting RMBS securitizations.

293. Given their extensive professional securitization experience, it is not plausible that Defendants inadvertently subverted the entire securitization process by including numerous fraudulent and toxic mortgages into the mortgage pools backing the RMBS at issue. As CW 5, a former due diligence underwriter at Clayton and Bohan, explained, Defendants knew that they were securitizing poor quality loans for securitization, but were playing a game of "financial hot

potato." Former Chase Home Finance vice-president, James Theckston, similarly stated that "the bigwigs" knew that they were taking improper shortcuts, "but they figured we're going to make billions out of it, so who cares? The government is going to bail us out. And the problem loans will be out of here, maybe even overseas."

B. Numerous Confidential Witnesses Confirm that Defendants Deliberately Securitized Poor Quality Loans

294. Numerous former employees who worked for Defendants during the relevant time period and who have direct knowledge of Defendants' origination and securitization practices have independently confirmed Defendants' fraudulent practices. CW 1, an associate vice-president at EMC from 1998 through 2008 in Fort Worth, Texas, CW 2, an assistant underwriting manager at EMC from June 2006 through May 2008 in Texas, CW 3, a senior underwriter at Bear Stearns, EMC and JPMorgan in Dallas, Texas from March 2000 through February 2009, CW 4, an auditor at EMC from August 2005 through October 2007 in Lewisville, Texas, and CW 5, a due diligence underwriter in Stamford, Connecticut and Irvine, California, described Bear Stearns' deliberate strategy to quickly securitize loans before expiration of the EPD period and, once default risks were transferred to unsuspecting investors like Plaintiffs, Bear Stearns' deliberate actions to undermine the due diligence process in order to increase volume regardless of mortgage quality. As CW 4 stated, the Bear Stearns mindset was "the more volume, the more money." These confidential witnesses further described Bear Stearns' state of the art tracking system to track the loans it purchased, and its use in demanding "down bids" from originators for low quality loans that Bear Stearns had already sold to investors in securitizations.

295. CW 6, a senior underwriter, credit risk manager, and credit quality manager at WaMu from April 2003 through February 2008, CW 7, a senior loan consultant at WaMu from

September 2005 through December 2007 in Riverside, California, CW 8, a loan closing coordinator at WaMu from June 2003 through July 2007 in Bethel Park, Pennsylvania, CW 9, a senior loan coordinator at WaMu from November 2006 through June 2007 in San Antonio, Texas, CW 10, a senior underwriter at WaMu from November 2004 through April 2007 in Dallas, Texas, CW 11, a senior loan coordinator and mortgage processor at WaMu from March 2007 through December 2007 in Jacksonville, Florida, CW 12, a senior underwriter at Long Beach from April 2004 through September 2007 in Illinois, CW 13, a mortgage underwriter at Long Beach from 2003 through December 2006 in Lake Oswego, Oregon, CW 14, a senior underwriter at WaMu from July 2003 through September 2007 in Livermore, California, CW 15, a chief appraiser at WaMu from 1990 through February 2002 in Seattle, Washington, CW 16, a loan coordinator at WaMu from July 2005 through September 2007 in Jacksonville, Florida, CW 17, an appraisal coordinator at WaMu from December 2001 through October 2006 in Florida, and CW 18, a loan consultant at WaMu from September 2003 through November 2005 in Largo, Maryland, described WaMu's deliberate strategy to originate and securitize mortgages regardless of their quality, resulting in the securitization of fraudulent and poor quality loans. This strategy included pressuring appraisers to increase the appraised value of the collateral, incentivizing employees with higher compensation for originating high risk loans, and extra commissions for teaser rate loans that were more likely to default. As CW 12 stated, WaMu created a companywide culture of "push, push, push" to close loans and to do whatever it took to make that happen.

296. CW 19, a senior mortgage underwriter at Chase Home Finance in Fort Washington, Pennsylvania from 2002 through 2008, CW 20, a senior mortgage underwriter at Chase Home Finance in Covina, California from March 2002 through January 2008, CW 21, a senior mortgage

processor and junior underwriter at Chase Home Finance from December 2002 through October 2007, CW 22, a mortgage funder at Chase Home Finance in Thousand Oaks, CA from 2002 through 2007, CW 23, a lending specialist and loan officer at Chase Home Finance in Fort Washington, Pennsylvania from October 2005 through 2008 described JPMorgan's deliberate practices of originating and securitizing poor quality mortgages to catch up with JPMorgan's competition, including by steering borrowers to high risk mortgages, loosening the underwriting standards, and encouraging the falsification of loan applications. As CW 23 stated, "As the market was changing, we would investigate to find out what our competitors were doing, and we'd try to do it too."

C. Defendants Profited Enormously from their Fraud

297. Defendants profited from every step of the defective securitization process: (i) loan origination fees; (ii) profits on sale of the loans to the securitization trusts; and (iii) fees from underwriting the mortgage-backed securities. Defendants' profits increased when the number of originated and securitized loans increased. However, Defendants suffered no downside for originating and securitizing poor quality loans because they passed on the default and loss risks to Plaintiffs and other investors who purchased their RMBS.

298. Defendants reaped enormous profits from securitizing and selling poor-quality loans to unsuspecting investors. Indeed, by serving as the depositor and underwriter, Defendants obtained tens of millions of dollars in fees for the securitizations at issue in this case. By serving as the sponsor and depositor for many of the securitizations, Defendants earned even more.

D. Bear Stearns Deliberately Purged Its Due Diligence Records

299. Bear Stearns interacted with its due diligence vendors, including Clayton, throughout the loan acquisition process. As discussed above at ¶49, Clayton sent Bear Stearns

"individual asset summary" reports showing which loans were defective on a daily basis. Defendants would discuss these defective loans with the due diligence vendor in an iterative process to determine whether defective loans should be included in the pool, with Bear Stearns making the final determination. At the end of the loan acquisition and due diligence process, the due diligence vendor would send a final report, showing the number of loans that were included in the acquired mortgage pool.

300. Discovery in other litigation has recently revealed that Bear Stearns implemented a standing policy to purge and destroy the daily individual asset summary reports once the loans were acquired, leaving only the final report in the deal file. As Bear Stearns' co-head of mortgage finance, Mary Haggerty, acknowledged in a deposition, this final report did not show how many loans the due diligence vendor had initially identified as materially defective, the back and forth communications with the due diligence vendor, or how many loans were included in the pool because Defendants overruled the due diligence vendor's determination that a loan was fatally defective.

301. Bear Stearns' decision to systematically purge the audit trail showing how many loans its due diligence providers identified as fatally defective before Bear Stearns purchased and securitized them is extremely troubling. Most plausibly, Bear Stearns was destroying evidence of its fraudulent loan origination and securitization policies in anticipation of enormous losses once the truth began to emerge.

VIII. PLAINTIFFS SUFFERED LOSSES BECAUSE OF DEFENDANTS' FRAUDULENT CONDUCT

302. Defendants' fraudulent practices caused Plaintiffs' RMBS to be much riskier than represented at the time of issuance. As a result, the true value of the RMBS was much less than

the amount Plaintiffs paid at the time of purchase. All of the RMBS purchased by Plaintiffs were rated "high grade" investment grade securities, and most were rated AAA/Aaa. Virtually all of the RMBS purchased by Plaintiffs have since been downgraded to junk.

303. As discussed above, Defendants' misconduct caused the mortgage pools supporting the RMBS to be much riskier than disclosed to Plaintiffs or the credit rating agencies, and the delinquency and foreclosure rates on the underlying mortgages have soared since issuance. As of March 2012, over ***41%*** of the loans backing the RMBS that Plaintiffs purchased were over 60- or 90-days delinquent, in foreclosure, bankruptcy, or repossession. The delinquency and foreclosure rates are all the more remarkable because they do not include loans that were already foreclosed upon since issuance and that are therefore no longer included within the loan pools.

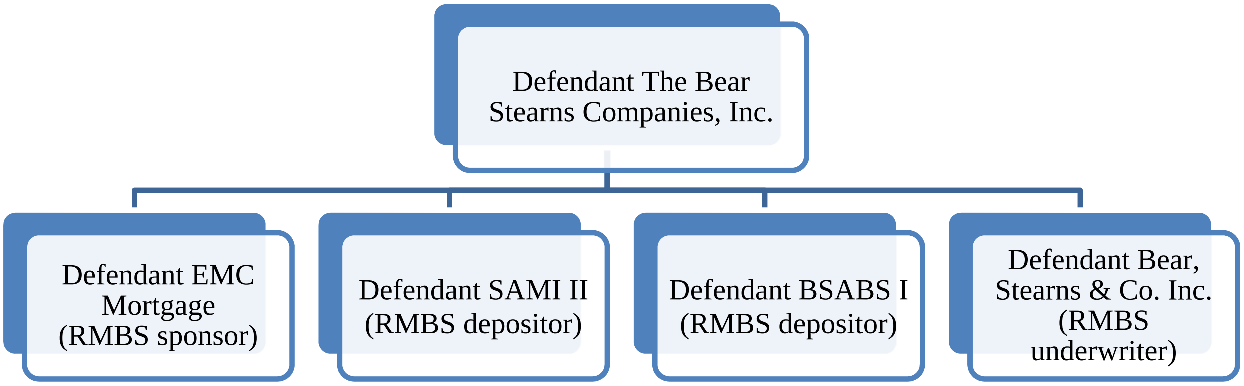
IX. CAUSES OF ACTION

FIRST CAUSE OF ACTION
(Common Law Fraud against the Bear Stearns Defendants)

304. Plaintiffs repeat and reallege the allegations set forth in the preceding paragraphs, as if fully set forth herein.

305. As alleged above, the Bear Stearns Defendants made fraudulent and false statements of material fact, and omitted material facts necessary to make their statements in their Offering Materials not misleading.

306. As a corporate parent, Defendant The Bear Stearns Companies, Inc. directed the activities of its wholly-owned and controlled subsidiaries Bear, Stearns & Co., EMC Mortgage, SAMI II, and BSABS I (collectively "Bear Stearns Subsidiaries"). All profits generated by the Bear Stearns Subsidiaries accrued to the benefit of Defendant The Bear Stearns Companies, Inc. An organizational chart of the Bear Stearns Defendants is set forth below:



307. Defendant The Bear Stearns Companies, Inc. used its control over the Bear Stearns Subsidiaries to commit the fraudulent misconduct alleged herein, thereby causing Plaintiffs' damages.

308. The Bear Stearns Defendants knew at the time they sold and marketed BALTA 2006-4, BALTA 2006-7, BSABS 2006-EC2, BSABS 2006-HE8, BSABS 2006-IM1, BSABS 2007-2, SACO 2006-2, SAMI 2006-AR7, SAMI 2006-AR8, CARR 2006-NC3, CARR 2006-NC5, CARR 2006-RFC1, CARR 2007-FRE1, IMM 2007-A, IMSA 2006-2, IMSA 2007-3, MSST 2007-1, NAA 2007-3, and NCMT 2007-1 (the "Bear Stearns RMBS") that the foregoing statements were false or, at the very least, made recklessly, without any belief in the truth of the statements. The Bear Stearns Defendants made these materially false and misleading statements and omissions for the purpose of inducing Plaintiffs to purchase its Certificates in the Bear Stearns RMBS, and it was foreseeable that Plaintiffs would suffer damages as a result. Furthermore, these statements related to these Defendants' own acts and omissions.

309. The Bear Stearns Defendants knew or recklessly disregarded that investors, including Plaintiffs, were relying on their securitization expertise and non-public knowledge of the mortgage pools supporting the Certificates. The Bear Stearns Defendants encouraged such

reliance through the Offering Materials and their public representations, as described herein.

310. The Bear Stearns Defendants knew or recklessly disregarded that investors like Plaintiffs would rely upon their representations in connection with their decision to purchase the Certificates. Defendants were in a position of unique and superior knowledge regarding the true facts concerning the foregoing material misrepresentations and omissions. It was only by making such misrepresentations and by omitting material information that Defendants were able to induce Plaintiffs to buy the Certificates. Plaintiffs would not have purchased or otherwise acquired the Certificates but for these Defendants' fraudulent representations and omissions about the quality of the Certificates in the Bear Stearns RMBS.

311. Plaintiffs justifiably, reasonably and foreseeably relied upon the Bear Stearns Defendants' false and misleading statements regarding the quality of the Bear Stearns RMBS.

312. As a result of the Bear Stearns Defendants' false and misleading statements and omissions, as alleged herein, Plaintiffs purchased Certificates that were worth far less than what they paid for them, and have suffered substantial damages.

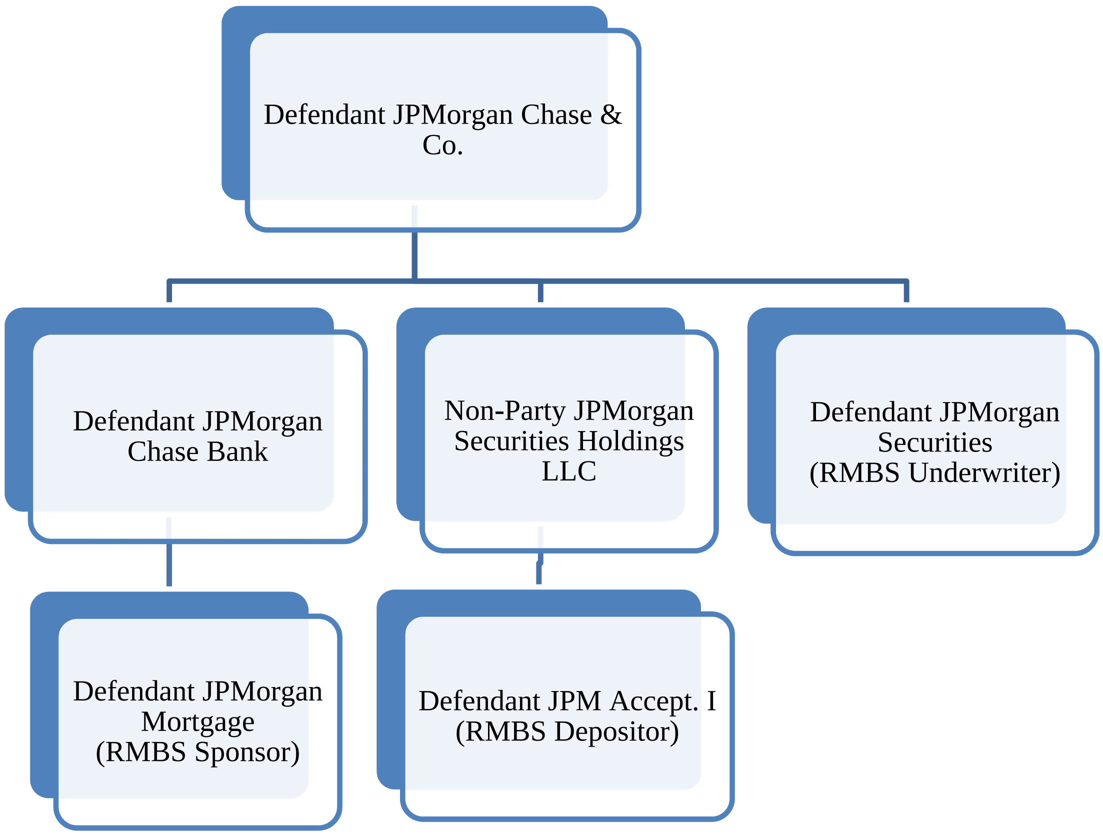
SECOND CAUSE OF ACTION
(Common Law Fraud against the JPMorgan Defendants)

313. Plaintiffs repeat and reallege the allegations set forth in the preceding paragraphs, as if fully set forth herein.

314. As alleged above, the JPMorgan Defendants made fraudulent and false statements of material fact, and omitted material facts necessary in order to make their statements in the Offering Materials not misleading.

315. As a corporate parent, Defendant JPMorgan Chase & Co. directed the activities of its wholly-owned and controlled subsidiaries JPMorgan Chase Bank, N.A., J.P. Morgan Securities

LLC, JPMorgan Mortgage and J.P. Morgan Acceptance Corporation I (collectively "JPMorgan Subsidiaries"). All profits generated by the JPMorgan Subsidiaries accrued to the benefit of Defendant JPMorgan Chase & Co. An organizational chart of the JPMorgan Defendants is set forth below:



316. Defendant JPMorgan Chase & Co. used its control over the JPMorgan Subsidiaries to commit the fraudulent misconduct alleged herein, thereby causing Plaintiffs' damages.

317. The JPMorgan Defendants knew at the time they sold and marketed JPALT 2006-A2, JPALT 2006-A3, JPALT 2006-A5, JPALT 2006-A6, JPALT 2007-A7, JPALT 2007-A1, JPALT 2007-A2, JPMAC 2006-CW1, JPMAC 2006-HE3, JPMAC 2006-NC1, JPMAC 2006-RM1, JPMAC 2006-WMC2, JPMAC 2006-WMC3, ARSI 2006-M2, ARSI 2006-W4, CBASS 2007-CB6, INDX 2006-AR29, RASC 2006-KS7, and RASC 2007-KS2 (the "JPMorgan RMBS")

that the foregoing statements were false or, at the very least, made recklessly, without any belief in the truth of the statements. The JPMorgan Defendants made these materially false and misleading statements and omissions for the purpose of inducing Plaintiffs to purchase the JPMorgan RMBS, and it was foreseeable that Plaintiffs would suffer damages as a result. Furthermore, these statements related to these Defendants' own acts and omissions.

318. The JPMorgan Defendants knew or recklessly disregarded that investors, including Plaintiffs, were relying on their securitization expertise and non-public knowledge of the mortgage pools supporting the Certificates. The JPMorgan Defendants encouraged such reliance through the Offering Materials and their public representations, as described herein.

319. The JPMorgan Defendants knew or recklessly disregarded that investors like Plaintiffs would rely upon their representations in connection with their decision to purchase the Certificates. Defendants were in a position of unique and superior knowledge regarding the true facts concerning the foregoing material misrepresentations and omissions. It was only by making such misrepresentations that the JPMorgan Defendants were able to induce Plaintiffs to buy its Certificates in the JPMorgan RMBS. Plaintiffs would not have purchased or otherwise acquired the Certificates but for these Defendants' fraudulent representations and omissions about the quality of the Certificates.

320. Plaintiffs justifiably, reasonably and foreseeably relied upon the JPMorgan Defendants' representations and false statements regarding the quality of the JPMorgan RMBS.

321. As a result of the JPMorgan Defendants' false and misleading statements and omissions, as alleged herein, Plaintiffs purchased Certificates that were worth far less than what they paid for them and have suffered substantial damages.

THIRD CAUSE OF ACTION
(Common Law Fraud against the WaMu Defendants)

322. Plaintiffs repeat and reallege the allegations set forth in the preceding paragraphs, as if fully set forth herein.

323. The WaMu Defendants knew at the time they sold and marketed LBMLT 2006-11, LBMLT 2006-3, LBMLT 2006-4, LBMLT 2006-5, LBMLT 2006-6, LBMLT 2006-7, LBMLT 2006-8, WAMU 2006-AR7, WMABS 2006-HE2, WMABS 2007-HE2, WMALT 2007-HY1, WMALT 2007-OC2, and WMHE 2007-HE2 (the "WaMu RMBS") that the foregoing statements were false or, at the very least, made recklessly without any belief in the truth of the statements. The WaMu Defendants made these materially false and misleading statements and omissions for the purpose of inducing Plaintiffs to purchase its Certificates in the WaMu RMBS. Furthermore, these statements related to these Defendant's own acts and omissions.

324. The WaMu Defendants knew or recklessly disregarded that investors, including Plaintiffs, were relying on their securitization expertise and non-public knowledge of the mortgage pools supporting the Certificates. The WaMu Defendants encouraged such reliance through the Offering Materials and their public representations, as described herein.

325. The WaMu Defendants knew or recklessly disregarded that investors like Plaintiffs would rely upon their representations in connection with their decision to purchase the Certificates. Defendants were in a position of unique and superior knowledge regarding the true facts concerning the foregoing material misrepresentations and omissions. It was only by making such misrepresentations that the WaMu Defendants were able to induce Plaintiffs to buy its Certificates in the WaMu RMBS. Plaintiffs would not have purchased or otherwise acquired the

Certificates but for these Defendants' fraudulent representations and omissions about the quality of the Certificates.

326. Plaintiffs justifiably, reasonably and foreseeably relied upon the WaMu Defendants' representations and false statements regarding the quality of the WaMu RMBS.

327. As a result of the WaMu defendants' false and misleading statements and omissions, as alleged herein, Plaintiffs purchased Certificates that were worth far less than what they paid for them and have suffered substantial damages.

FOURTH CAUSE OF ACTION
(Fraudulent Inducement against The Bear Stearns Companies, Inc. and Bear, Stearns & Co., Inc.)

328. Plaintiffs repeat and reallege the allegations set forth in the preceding paragraphs as if set forth herein.

329. Defendant The Bear Stearns Companies, Inc. directed the activities of the Bear Stearns Subsidiaries, including RMBS underwriter Defendant Bear, Stearns & Co. All profits generated by the Bear Stearns Subsidiaries accrued to the benefit of Defendant The Bear Stearns Companies, Inc. Defendant The Bear Stearns Companies, Inc. used its control over the Bear Stearns Subsidiaries to commit the fraudulent inducement alleged herein, thereby causing Plaintiffs' damages.

330. As alleged above, in the Offering Materials and in other communications to Plaintiffs, Defendant Bear, Stearns & Co., Inc. 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. Defendant Bear, Stearns & Co., Inc. knew at the time it sold and marketed each of the Bear Stearns RMBS that the foregoing

statements were false, or at the very least, made recklessly, without any belief in the truth of the statements.

331. Defendant Bear, Stearns & Co., Inc. made these materially misleading statements and omissions for the purpose of inducing Plaintiffs to purchase the Bear Stearns RMBS. Furthermore, these statements related to the acts and omissions of Defendant Bear, Stearns & Co., Inc. and its affiliates.

332. Defendant Bear, Stearns & Co., Inc. knew that, unlike Plaintiffs, it had exclusive access to critical information about the quality of the mortgage pools supporting the Bear Stearns RMBS, including access to the loan files and the due diligence results. Defendant Bear, Stearns & Co., Inc. was in a position of unique and superior knowledge regarding the true facts concerning the foregoing material misrepresentations and omissions.

333. Defendant Bear, Stearns & Co., Inc. knew that it had a greater level of expertise than Plaintiffs with respect to the Bear Stearns RMBS.

334. Defendant Bear, Stearns & Co., Inc. knew that Plaintiffs relied on its representations concerning the Bear Stearns RMBS in connection with the decision to purchase its Certificates, and Bear, Stearns & Co., Inc. encouraged such reliance through its representations, as described herein.

335. It was only by making such representations that Defendant Bear, Stearns & Co., Inc. was able to induce Plaintiffs to buy the Bear Stearns RMBS. Plaintiffs would not have purchased or otherwise acquired those RMBS but for Defendant's fraudulent representations and omissions about the quality of the Bear Stearns RMBS.

336. By virtue of Bear, Stearns & Co., Inc.'s false and misleading statements and

omissions, as alleged herein, Plaintiffs purchased Certificates that were worth far less than what they paid for them and have suffered substantial damages. Plaintiffs are also entitled to a rescission of the sale of the Bear Stearns RMBS or to rescissory damages.

FIFTH CAUSE OF ACTION
(Fraudulent Inducement against the JPMorgan Chase & Co. and JPMorgan Securities)

337. Plaintiffs repeat and reallege the allegations set forth in the preceding paragraphs as if set forth herein.

338. Defendant JPMorgan Chase & Co. directed the activities of the JPMorgan Subsidiaries, including RMBS underwriter Defendant JPMorgan Securities. All profits generated by the JPMorgan Subsidiaries accrued to the benefit of Defendant JPMorgan Chase & Co. Defendant JPMorgan Chase & Co. used its control over the JPMorgan Subsidiaries to commit the fraudulent inducement alleged herein, thereby causing Plaintiffs' damages.

339. As alleged above, in the Offering Materials and in other communications to Plaintiffs, Defendant JPMorgan Securities 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. Defendant JPMorgan Securities knew at the time it sold and marketed each of the JPMorgan RMBS that the foregoing statements were false, or at the very least, made recklessly, without any belief in the truth of the statements.

340. Defendant JPMorgan Securities made these materially misleading statements and omissions for the purpose of inducing Plaintiffs to purchase the JPMorgan RMBS. Furthermore, these statements related to the acts and omissions of Defendant JPMorgan Securities and its affiliates.

341. Defendant JPMorgan Securities knew that, unlike Plaintiffs, it had exclusive access to critical information about the quality of the mortgage pools supporting the JPMorgan RMBS, including access to the loan files and the due diligence results. Defendant JPMorgan Securities was in a position of unique and superior knowledge regarding the true facts concerning the foregoing material misrepresentations and omissions.

342. Defendant JPMorgan Securities knew that it had a greater level of expertise than Plaintiffs with respect to the JPMorgan RMBS.

343. Defendant JPMorgan Securities knew that Plaintiffs relied on its representations concerning the JPMorgan RMBS in connection with their decision to purchase the Certificates, and JPMorgan Securities encouraged such reliance through its representations, as described herein.

344. It was only by making such representations that Defendant JPMorgan Securities was able to induce Plaintiffs to buy the JPMorgan RMBS. Plaintiffs would not have purchased or otherwise acquired the JPMorgan RMBS but for Defendant's fraudulent representations and omissions about the quality of those RMBS.

345. By virtue of Defendant JPMorgan Securities's false and misleading statements and omissions, as alleged herein, Plaintiffs purchased Certificates that were worth far less than what they paid for them and have suffered substantial damages. Plaintiffs are also entitled to a rescission of the sale of the JPMorgan RMBS or to rescissory damages.

SIXTH CAUSE OF ACTION
(Fraudulent Inducement against WaMu Capital)

346. Plaintiffs repeat and reallege the allegations set forth in the preceding paragraphs as if set forth herein.

347. In the Offering Materials and in other communications to Plaintiffs, Defendant WaMu Capital 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. Defendant WaMu Capital knew at the time it sold and marketed each of the WaMu RMBS that the foregoing statements were false, or at the very least, made recklessly, without any belief in the truth of the statements.

348. Defendant WaMu Capital made these materially misleading statements and omissions for the purpose of inducing Plaintiffs to purchase the WaMu RMBS. Furthermore, these statements related to the acts and omissions of Defendant WaMu Capital and its affiliates.

349. Defendant WaMu Capital knew that, unlike Plaintiffs, it had exclusive access to critical information about the quality of the mortgage pools supporting the WaMu RMBS, including access to the loan files and due diligence results. Defendant WaMu Capital was in a position of unique and superior knowledge regarding the true facts concerning the foregoing material misrepresentations and omissions.

350. Defendant WaMu Capital knew that it had a greater level of expertise than Plaintiffs with respect to the WaMu RMBS.

351. Defendant WaMu Capital knew that Plaintiffs relied on its representations concerning the WaMu RMBS in connection with the decision to purchase the Certificates, and WaMu Capital encouraged such reliance through its representations as described herein.

352. It was only by making such representations that Defendant WaMu Capital was able to induce Plaintiffs to buy its Certificates in the WaMu RMBS. Plaintiffs would not have purchased or otherwise acquired the WaMu RMBS but for Defendants' fraudulent representations

and omissions about the quality of those RMBS.

353. By virtue of Defendants' false and misleading statements and omissions, as alleged herein, Plaintiffs purchased Certificates that were worth far less than what they paid for them and have suffered substantial damages and is also entitled to a rescission of the sale of the WaMu RMBS or to rescissory damages.

SEVENTH CAUSE OF ACTION
(Aiding and Abetting Fraud and Fraudulent Inducement against The Bear Stearns Companies, Inc., EMC Mortgage, SAMI II, and BSABS I)

354. Plaintiffs repeat and reallege the allegations set forth in the preceding paragraphs, as if fully set forth herein.

355. This is a claim against EMC Mortgage, SAMI II, and BSABS I (the "Bear Stearns Sponsor and Depositor Defendants") and The Bear Stearns Companies, Inc., for aiding and abetting the fraud and fraudulent inducement committed by the Bear Stearns Defendants. Each of the Bear Stearns Sponsor and Depositor Defendants aided and abetted the fraud and fraudulent inducement committed by and among all of the other Bear Stearns Defendants.

356. Defendant The Bear Stearns Companies, Inc. directed the activities of the Bear Stearns Subsidiaries, including the Bear Stearns Sponsor and Depositor Defendants. All profits generated by the Bear Stearns Subsidiaries accrued to the benefit of Defendant The Bear Stearns Companies, Inc. Defendant The Bear Stearns Companies, Inc. used its control over the Bear Stearns Sponsor and Depositor Defendants to commit the fraud and fraudulent inducement alleged herein, thereby causing Plaintiffs' damages.

357. As alleged above, the Bear Stearns Sponsor and Depositor Defendants knowingly selected and deposited exceptionally poor quality mortgages into the Bear Stearns securitizations

at issue. For example, the Bear Stearns Sponsor and Depositor Defendants waived in 50% of the mortgages that their due diligence vendor had marked as fatally defective. The Bear Stearns Sponsor and Depositor Defendants implemented a policy to purge the records revealing the Bear Stearns Defendants' fraudulent conduct.

358. The Bear Stearns Sponsor and Depositor Defendants participated in, or had actual knowledge of, the Bear Stearns Defendants' reckless or intentional dissemination of false and misleading information to the credit rating agencies. The Bear Stearns Sponsor and Depositor Defendants also participated in the Bear Stearns Defendants' failure to properly endorse and deliver the mortgage notes and security documents to the issuing trusts.

359. It was foreseeable to the Bear Stearns Sponsor and Depositor Defendants at the time they actively assisted in the commission of the fraud that Plaintiffs would be harmed as a result of their assistance.

360. Plaintiffs have suffered damages as a direct and natural result of the fraud committed by the Bear Stearns Defendants and the Bear Stearns Sponsor and Depositor Defendants' knowing and active participation therein.

EIGHTH CAUSE OF ACTION
(Aiding and Abetting Fraud and Fraudulent Inducement against JPMorgan Chase & Co., JPMorgan Chase Bank, NA, JPMorgan Mortgage, and JPMorgan Acceptance Corp. I)

361. Plaintiffs repeats and realleges the allegations set forth in the preceding paragraphs, as if fully set forth herein.

362. This is a claim against JPMorgan Chase Bank, NA, JPMorgan Mortgage, and JPMorgan Acceptance Corp. I (the "JPMorgan Sponsor and Depositor Defendants") and JPMorgan Chase & Co., for aiding and abetting the fraud and fraudulent inducement committed

by the JPMorgan Defendants. Each of the JPMorgan Sponsor and Depositor Defendants aided and abetted the fraud and fraudulent inducement committed by and among all of the other JPMorgan Defendants.

363. Defendant JPMorgan Chase & Co. directed the activities of the JPMorgan Subsidiaries, including the JPMorgan Sponsor and Depositor Defendants. All profits generated by the JPMorgan Subsidiaries accrued to the benefit of Defendant JPMorgan Chase & Co. Defendant JPMorgan Chase & Co. used its control over the JPMorgan Sponsor and Depositor Defendants to commit the fraud and fraudulent inducement alleged herein, thereby causing Plaintiffs' damages.

364. As alleged above, the JPMorgan Sponsor and Depositor Defendants knowingly selected and deposited exceptionally poor quality mortgages into the JPMorgan securitizations at issue. For example, the JPMorgan Sponsor and Depositor Defendants waived in 51% of the mortgages that their due diligence vendor had marked as fatally defective, knowing that their affiliates were loosening the JPMorgan mortgage underwriting standards.

365. The JPMorgan Sponsor and Depositor Defendants and JPMorgan Chase & Co. participated in, or had actual knowledge of, the JPMorgan Defendants' reckless or intentional dissemination of false and misleading information to the credit rating agencies. The JPMorgan Sponsor and Depositor Defendants also participated in the JPMorgan Defendants' failure to properly endorse and deliver the mortgage notes and security documents to the issuing trusts.

366. It was foreseeable to the JPMorgan Sponsor and Depositor Defendants and JPMorgan Chase & Co. at the time they actively assisted in the commission of the fraud that Plaintiffs would be harmed as a result of their assistance.

367. Plaintiffs have suffered damages as a direct and natural result of the fraud committed by the JPMorgan Defendants and the JPMorgan Sponsor and Depositor Defendants' and JPMorgan Chase & Co.'s knowing and active participation therein.

NINTH CAUSE OF ACTION
(Aiding and Abetting Fraud and Fraudulent Inducement against WaMu Asset and WaMu Mortgage)

368. Plaintiffs repeat and reallege the allegations set forth in the preceding paragraphs, as if fully set forth herein.

369. This is a claim against WaMu Asset and WaMu Mortgage for aiding and abetting the fraud by the WaMu Defendants. Defendant WaMu Asset and WaMu Mortgage knowingly deposited exceptionally poor quality mortgages into the WaMu securitizations at issue. For example, WaMu Asset and WaMu Mortgage knowingly included fraudulent mortgages and mortgages that were particularly delinquency-prone.

370. Defendant WaMu Asset and WaMu Mortgage participated in, or had knowledge of, WaMu's reckless or intentional dissemination of false and misleading information to the credit rating agencies. WaMu Asset and WaMu Mortgage also participated in WaMu's failure to properly endorse and deliver the mortgage notes and security documents to the issuing trust.

371. It was foreseeable to Defendants WaMu Asset and WaMu Mortgage at the time they actively assisted in the commission of the fraud that Plaintiffs would be harmed as a result of its assistance.

372. Plaintiffs have suffered damages as a direct and natural result of the fraud committed by the WaMu Defendants and WaMu Asset's and WaMu Mortgage's knowing and active participation therein.

TENTH CAUSE OF ACTION
(Negligent Misrepresentation against Bear, Stearns & Co., JPMorgan Securities, and WaMu Capital)

373. Plaintiffs repeat and reallege each and every allegation 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.

374. This is a claim for negligent misrepresentation against Bear, Stearns & Co., J.P. Morgan Securities, Inc., and WaMu Capital (the “RMBS Underwriter Defendants”).

375. The RMBS Underwriter Defendants had exclusive, non-public knowledge about the mortgages supporting the RMBS in the Offerings, including their quality, the nature of the underwriting, and the value of the collateral. Unlike Plaintiffs, the RMBS Underwriter Defendants had access to the loan files and the due diligence results. In addition, affiliates of the RMBS Underwriter Defendants originated all or a majority of the mortgages supporting twenty-two of the RMBS at issue.

376. Plaintiffs could not evaluate the loan files for the mortgage loans underlying the RMBS and did not have access to the due diligence results. Plaintiffs therefore reasonably relied on the RMBS Underwriter Defendants’ exclusive and non-public knowledge regarding the underlying mortgage loans to determine whether to make each purchase of RMBS. Plaintiffs were completely reliant on the RMBS Underwriter Defendants to provide accurate information regarding the mortgages in each securitization.

377. The RMBS Underwriter Defendants had exclusive, non-public knowledge about the mortgages supporting the RMBS in the Offerings. The RMBS Underwriter Defendants therefore had a duty to Plaintiffs to verify the accuracy of the Offering Materials and to provide

complete, accurate, and timely information regarding the mortgages in each securitization. Defendants breached their duty to provide such information to Plaintiffs.

378. Over the course of more than two years, for sixty-five separate investments, Plaintiffs relied on Defendants' exclusive and non-public knowledge regarding the underlying mortgage loans and their underwriting when determining whether to invest in the RMBS. This longstanding relationship, coupled with Defendants' unique and special knowledge about the underlying loans and the underwriting standards of the mortgage originators, created a special relationship of trust, confidence, and dependence between Defendants and Plaintiffs.

379. The RMBS Underwriter Defendants likewise made negligent misrepresentations to induce Plaintiffs' investment in the RMBS. The RMBS Underwriter Defendants provided the Offering Materials to Plaintiffs in connection with the RMBS for the purpose of informing Plaintiffs of material facts necessary to make an informed judgment about whether to purchase the RMBS. In providing these documents, the RMBS Underwriter Defendants knew that the information contained and incorporated therein would be used for a serious purpose, and that Plaintiffs, like other reasonably prudent investors, intended to rely on the information.

380. As alleged above, the Offering Materials contained materially false and misleading information. The RMBS Underwriter Defendants should have known that the information in the Offering Materials was materially false and misleading. Unaware that the Offering Materials contained materially false and misleading statements, Plaintiffs reasonably relied on those false and misleading statements when deciding to purchase the RMBS in the offerings.

381. Plaintiffs purchased the RMBS from the RMBS Underwriter Defendants and are therefore in privity with these defendants.

382. Based on Defendants' expertise and specialized knowledge, and in light of the false and misleading representations in the Offering Materials, the RMBS Underwriter Defendants owed Plaintiffs a duty to provide it with complete, accurate, and timely information regarding the quality of the RMBS, and breached their duty to provide such information to Plaintiffs.

383. Plaintiffs have suffered substantial damages as a result of the RMBS Underwriter Defendants' negligent misrepresentations.

ELEVENTH CAUSE OF ACTION
(Successor Liability Against JPMorgan Chase & Co. and JPMorgan Securities as successors-in-interest to Bear Stearns)

384. Plaintiffs repeat and reallege the allegations set forth in the preceding paragraphs, as if fully set forth herein.

385. On March 16, 2008, The Bear Stearns Companies, Inc. entered into an Agreement and Plan of Merger with JPMorgan Chase & Co. for the purpose of consummating a "strategic business combination transaction" between the two entities ("Bear Stearns Merger Agreement"). Pursuant to the Bear Stearns Merger Agreement, The Bear Stearns Companies merged with Bear Stearns Merger Corporation, a wholly-owned subsidiary of JPMorgan Chase & Co., making Bear Stearns a wholly-owned subsidiary of JPMorgan Chase & Co.

386. In a June 30, 2008 press release describing internal restructuring to be undertaken pursuant to the Merger, JPMorgan stated its intent to assume Bear Stearns and its debts, liabilities, and obligations as follows:

> Following completion of this transaction, Bear Stearns plans to transfer its broker-dealer subsidiary Bear, Stearns & Co. Inc. to JPMorgan Chase. In connection with such transfer, JPMorgan Chase will assume (1) all of Bear Stearns' then-outstanding registered U.S. debt securities; (2) Bear Stearns' obligations relating to trust preferred securities; (3) Bear Stearns' then-outstanding foreign debt securities; and (4) Bear Stearns' guarantees of then-

> outstanding foreign debt securities issued by subsidiaries of Bear Stearns, in each case, in accordance with the agreements and indentures governing these securities.

387. Following the merger, JPMorgan Chase & Co. became the ultimate corporate parent of The Bear Stearns Companies and its subsidiaries, including EMC, SAMI II, and BSABS I. JPMorgan Chase & Co. took immediate control of The Bear Stearns Companies' business and personnel decisions. An article in the *The New York Times* of April 6, 2008 cited an internal JPMorgan memo stating that "JPMorgan Chase, which is taking over the rival investment bank Bear Stearns, will dominate the management ranks of the combined investment banking and trading businesses." Of the 26 executive positions in the new merged investment banking and trading division, only five came from Bear Stearns.

388. Defendant Bear, Stearns & Co., Inc. merged with Defendant JPMorgan Securities and is now doing business as J.P. Morgan Securities, Inc. JPMorgan's 2008 Annual Report stated that "On October 1, 2008, J.P. Morgan Securities Inc. merged with and into Bear, Stearns & Co. Inc., and the surviving entity changed its name to J.P. Morgan Securities Inc."

389. The former Bear Stearns website, www.bearstearns.com, redirects visitors to JPMorgan Securities' website, and the EMC website, www.emcmortgagecorp.com, now identifies EMC Mortgage as a brand of Defendant JPMorgan Chase Bank, NA.

390. As a result of The Bear Stearns Companies' acquisition, JPMorgan Chase's transfer of substantially all of Bear Stearns' assets to JPMorgan Chase, and explicit and implicit assumption of Bear Stearns' debt, JPMorgan Chase & Co. is a mere continuation of The Bear Stearns Companies. As the successor-in-interest to Bear Stearns, JPMorgan Chase & Co. is

jointly and severally liable for The Bear Stearns Companies' wrongdoing in its entirety under the common law.

391. As a result of its merger with Bear, Stearns & Co., Inc., Defendant JPMorgan Securities is a mere continuation of Bear, Stearns & Co., Inc. As such, Defendant JPMorgan Securities is the successor-in-interest to Bear, Stearns & Co., Inc. and jointly and severally liable for Bear, Stearns & Co. Inc.'s wrongdoing in its entirety under the common law. Therefore, this action is brought against Defendant JPMorgan Chase & Co. and JPMorgan Securities in their own capacity and as the successors-in-interest to respectively The Bear Stearns Companies and Bear, Stearns & Co., Inc.

X. PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray for relief and judgment, as follows:

(a) Awarding compensatory and/or rescissionary damages in favor of Plaintiffs 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 Plaintiffs' common-law fraud claims;

(c) Awarding Plaintiffs' reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other relief as the court may deem just and proper.

Dated: May 18, 2012

BERNSTEIN LITOWITZ BERGER & GROSSMANN LLP

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