SUPREME COURT OF THE STATE OF NEW YORK
NEW YORK COUNTY

STICHTING PENSIOENFONDS ABP,

Plaintiff,

v.

JPMORGAN CHASE & CO.; JPMORGAN CHASE BANK N.A.; J.P. MORGAN MORTGAGE ACQUISITION CORP.; J.P. MORGAN SECURITIES, LLC. f/k/a J.P. MORGAN SECURITIES INC.; J.P. MORGAN ACCEPTANCE CORPORATION I; EMC MORTGAGE LLC f/k/a EMC MORTGAGE CORPORATION; BEAR STEARNS AND CO. INC.; BEAR STEARNS ASSET BACKED SECURITIES I LLC; STRUCTURED ASSET MORTGAGE INVESTMENTS II INC.; WAMU ASSET ACCEPTANCE CORP.; WASHINGTON MUTUAL MORTGAGE SECURITIES CORP.; WAMU CAPITAL CORP.; LONG BEACH SECURITIES CORP.; BANC OF AMERICA SECURITIES LLC; CREDIT SUISSE SECURITIES (USA) LLC; DAVID BECK; BRIAN BERNARD; RICHARD CAREAGA; THOMAS W. CASEY; CHRISTINE E. COLE; DAVID M. DUZYK; STEPHEN FORTUNATO; MICHAEL J. GIAMPAOLO; ROLLAND JURGENS; WILLIAM A. KING; EDWIN F. MCMICHAEL; LOUIS SCHIOPPO, JR.; KATHERINE GARNIEWSKI; THOMAS GREEN; JOSEPH T. JURKOWSKI, JR.; THOMAS LEHMANN; KIM LUTTHANS; THOMAS F. MARANO; JEFFREY MAYER; SAMUEL L. MOLINARO, JR.; MICHAEL B. NIERENBERG; DIANE NOVACK; MATTHEW E. PERKINS; JOHN F. ROBINSON; JEFFREY VERSCHLEISER; DONALD WILHELM; DAVID H. ZIELKE.

Defendants.

Index No.

SUMMONS

The basis of the venue is each of the defendants either resides in New York or conducts continuous and systematic business in New York.
(CPLR §§ 301 & 302)

TO THE ABOVE-NAMED DEFENDANTS

J.P. Morgan Chase & Co. 4001 Governor Printz Boulevard Wilmington, Delaware 19802	J.P. Morgan Chase Bank, N.A. 1111 Polaris Parkway Columbus, Ohio 43240
J.P.Morgan Acquisition Corp. 270 Park Avenue New York, New York 10017	J.P. Morgan Securities LLC (f/k/a JPMorgan Securities Inc.) 227 Park Avenue New York, New York 10017
J.P. Morgan Acceptance Corporation I 270 Park Avenue New York, New York 10017	EMC Mortgage LLC (f/k/a EMC Mortgage Corporation) 2780 Lake Vista Drive Lewisville, Texas 75067
Bear Stearns & Co., Inc. 383 Madison Avenue New York, New York 10179	Bear Stearns Asset Backed Securities I LLC. 383 Madison Avenue New York, New York 10179
Structured Asset Mortgage Investments II Inc. 383 Madison Avenue New York, New York 10179	WaMu Asset Acceptance Corp. 1301 Second Avenue, WMC 3501A Seattle, Washington 98101
Washington Mutual Mortgage Securities Corp. c/o The Corporation Trust Company Corporation Trust Center 1209 Orange Street Wilmington, Delaware 19801	WaMu Capital Corp. c/o CT Corporation System 1801 West Bay Drive NW, Suite 206 Olympia, Washington 98502
Long Beach Securities Corp. c/o The Corporation Trust Company Corporation Trust Center 1209 Orange Street Wilmington, Delaware 19801	Banc of America Securities LLC c/o CT Corporation System 150 Fayetteville Street Raleigh, North Carolina 27601
Credit Suisse Securities (USA) LLC c/o Corporation Service Company 80 State Street Albany, New York 12207-2543	David Beck 71 Whahackme Road New Cannan, CT 06840
Brian Bernard c/o J.P. Morgan Acceptance Corporation I 270 Park Avenue New York, New York 10017	Richard Careaga 7613 Portstewart Drive Bradenton, Florida 34202
Thomas W. Casey 401 100th Avenue NE, Apt 321 Bellevue, Washington 98004	Christine Cole 1042 Greenwood Avenue Wilmette, IL 60091
David Duzyk 1151 Delong Road Lexington, KY 40515	Stephen Fortunato

Michael Giampaolo	Rolland Jurgens
William A. King	Edwin F. McMichael
Louis Schioppo, Jr. 24 Forest Lake Monroe Township, New Jersey 08831	Katherine Garniewski 4602 Beechwold Avenue Wilmington, Delaware 19803
Thomas Green	Joseph T. Jukowski, Jr. 315 W. 70th Street, Apt. 15B1 New York, New York 10023
Thomas Lehmann 25660 North Countryside Drive Barrington, Illinois 60010	Kim Lutthans
Thomas F. Marano 15 Olde Greenhouse Lane Madison, New Jersey 07940	Jeffrey Mayer
Samuel L. Molinaro, Jr. 413 Ponus Ridge New Canaan, CT 06840	Michael B. Nierenberg 14 Plum Beach Point Road Port Washington, NY 11050
Diane Novack 12051 Greenwood Avenue North Seattle, Washington 98133	Matthew E. Perkins
John F. Robinson	Jeffrey L. Verschleiser President of Structured Asset Mortgage Investments (SAMI) 944 5th Avenue, #3 New York, New York 10021
Donald Wilhelm	David H. Zielke First VP and Assistant General Counsel of Washington Mutual Mortgage Securities 8610 NE 123rd Place Kirkland, Washington 98034

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<tr>
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Defendants.</td>
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COMPLAINT

<u>JURY TRIAL DEMANDED</u></td>
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INTRODUCTION

Plaintiff Stichting Pensioenfonds ABP ("ABP"), by its attorneys, Grant & Eisenhofer P.A., brings this action pursuant to Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 (the "Securities Act"), 15 U.S.C. §§77k, 771(a)(2), and 77o; and the common law. This action is brought against Defendants JPMorgan Chase & Co. ("JPMorgan Chase"); J.P. Morgan Chase Bank, N.A. ("JPMorgan Bank"); J.P. Morgan Mortgage Acquisition Corp. ("JPMM Acquisition"); J.P. Morgan Securities, LLC ("JPMS"); J.P. Morgan Acceptance Corporation I ("JPM Acceptance"); EMC Mortgage LLC ("EMC"); Bear Stearns & Co. Inc ("Bear Stearns"); Bear Stearns Asset Backed Securities I LLC ("BSABS"); Structured Asset Mortgage Investments II Inc. ("SAMI"); WaMu Asset Acceptance Corp. ("WAAC"); Washington Mutual Mortgage Securities Corp. ("WMMSC"); WaMu Capital Corp. ("WaMu Capital"); Long Beach Securities Corp. ("LBSC"); Banc of America Securities LLC ("Banc of America"); Credit Suisse Securities (USA) LLC "("Credit Suisse"); David Beck; Brian Bernard; Richard Careaga; Thomas W. Casey; Christine E. Cole; David M. Duzyk; Stephen Fortunato; Michael J. Giampaolo; Rolland Jurgens; William A. King; Edwin F. McMichael; Louis Schioppo, Jr.; Katherine Garniewski; Thomas Green; Joseph T. Jurkowski, Jr.; Thomas Lehmann; Kim Lutthans; Thomas F. Marano; Jeffrey Mayer; Samuel L. Molinaro, Jr.; Michael B. Nierenberg; Diane Novack; Matthew E. Perkins; John F. Robinson; Jeffrey Verschleiser; Donald Wilhelm; and David H. Zielke (collectively, the "Defendants").

Plaintiff makes the allegations in this Complaint based upon personal knowledge as to matters concerning Plaintiff and its own acts, and upon information and belief as to all other matters. This information is derived from the investigation by Plaintiff's counsel, which has included a review and analysis of annual reports and publicly filed documents, reports of governmental investigations by the United States Securities and Exchange Commission (the

"SEC"), the Financial Crisis Inquiry Commission (the "FCIC"), the United States Department of Justice (the "DOJ"), the United States Senate Permanent Subcommittee on Investigations (the "PSI"), and numerous investigations by other federal and state governmental units, as well as press releases, news articles, analysts' statements, conference call transcripts and presentations, and transcripts from speeches and remarks given by Defendants. In addition, Plaintiff's counsel conferred with counsel for other plaintiffs who have filed other complaints against these Defendants based on the same or similar activities. Based on the foregoing, Plaintiff believes that substantial additional evidentiary support exists for the allegations herein, which Plaintiff will find after a reasonable opportunity for discovery.

SUMMARY OF ALLEGATIONS

1. This action arises out of ABP's purchases of certain residential mortgage-backed securities ("RMBS"), as evidenced in the form of "Certificates", in reliance on the false and misleading statements that were made by Defendants. Based on these material misrepresentations and omissions, ABP purchased securities that were far riskier than had been represented, backed by mortgage loans worth significantly less than had been represented, and that had been made to borrowers who were much less creditworthy than had been represented.

2. The securities purchased by ABP were collateralized against mortgages originated and/or acquired by Defendants JPMorgan Bank, EMC, and non-defendants such as Bear Stearns Residential Mortgage Corporation ("BSRMC"); Performance Credit Corp. ("Performance") f/k/a Encore Credit Corp. ("Encore"); Long Beach Mortgage ("Long Beach"); and Washington Mutual Bank ("WaMu Bank"), as well as various other third-party originators defined in ¶ 71 below (collectively the "Originators").

3. These Originators did not, however, hold the mortgage loans they originated and/or acquired. Rather, taking advantage of an unprecedented boom in the securitization

industry, these Originators flipped their mortgage loans to investment banks, which then repackaged the loans and sold the loans as RMBS to investors seeking safe investments, such as Plaintiff ABP. In the case of the loans underlying ABP's Certificates, the entities that sold the RMBS were JPMorgan Chase, Bear Stearns, WaMu and Long Beach. Specifically, each of these entities pooled the mortgage loans made by the Originators; deposited the loans into special purpose entities or "trusts"; and then repackaged the loans for sale to investors in the form of RMBS. Underwriters, in most cases, affiliates of JPMorgan Chase, Bear Stearns and WaMu, sold the RMBS to investors such as ABP.

4. The Certificates entitled investors to receive monthly distributions of interest and principal on cash flows from the mortgages held by the trusts. The Certificates issued by each trust were divided into several classes (or "tranches") that had different seniority, priorities of payment, exposure to default, and interest payment provisions. Rating agencies, such as Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Corporation ("S&P"), DBRS, Inc. ("DBRS") and/or Fitch, Inc. ("Fitch"),[1] rated the investment quality of all tranches of Certificates based upon information provided by the Defendants about the quality of the mortgages in each mortgage pool and the seniority of the Certificate among the various Certificates issued by each trust. These ratings, in part, determined the price at which these Certificates were offered to investors.

5. In selling the Certificates, the Defendants prepared and filed with the SEC certain registration statements (the "Registration Statements"), prospectuses (the "Prospectuses"), prospectus supplements (the "Prospectus Supplements", and free writing prospectuses (the "Free

[1] Moody's, Fitch, DBRS and S&P are approved by the SEC as "Nationally Recognized Statistical Rating Organizations" and provide credit ratings that are used to distinguish among grades of creditworthiness of various securities under the federal securities laws.

Writing Prospectuses", and together with the Registration Statements, Prospectuses, and Prospectus Supplements, the "Offering Documents"). In these Offering Documents, Defendants repeatedly touted the strength of the Originators' underwriting guidelines and standards; the fact that the underwriting guidelines and standards were designed to ensure the ability of the borrowers to repay the principal and interest on the underlying loans and the adequacy of the collateral; and that the mortgages underlying the Certificates were originated in accordance with those stated underwriting guidelines and standards. In addition, in the Offering Documents, Defendants repeatedly assured investors as to the soundness of the appraisals used to arrive at the value of the underlying properties and, specifically, that the real estate collateralizing the loans had been subjected to objective and independent real estate appraisals that complied with the Uniform Standards of Professional Appraisal Practice ("USPAP") and, in some cases, that they met the even more rigorous appraisal requirements of the Federal National Mortgage Association ("Fannie Mae) and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Defendants emphasized their quality control procedures such as re-underwriting of a random selection of mortgage loans, conducting post-funding audits of origination files, and/or re-verifying information to assure asset quality.

6. Defendants JPMorgan, Bear Stearns, WaMu, and Long Beach were obligated to perform due diligence on the mortgage loans they acquired from third parties. Defendants represented in the Offering Documents, which Plaintiff relied on, that they performed such due diligence and undertook certain quality control measures to ensure that shoddily underwritten mortgages were ***not*** included in the Certificates they underwrote and sold. *See, e.g.*, Prospectus Supplement for WaMu Series 2007-HE2 Trust (Form 424B5), at S-32 (Apr. 6, 2007): "As part of its quality control system, the sponsor re-verifies information that has been provided by the

mortgage brokerage company prior to funding a loan and the sponsor conducts a post-funding audit of every origination file."

7. As set forth below, the Offering Documents contained material misstatements and omitted material information. Contrary to Defendants' assurances, the Originators of the underlying loans had not followed their touted underwriting guidelines and standards when originating and/or acquiring the mortgage loans. To the contrary, the Originators had engaged in a wholesale and systematic abandonment of their underwriting guidelines, thereby granting mortgage loans to borrowers who did not satisfy the eligibility criteria as described in the Offering Documents. In addition, the mortgages underlying the Certificates had been extended based on collateral appraisals that were not performed in accordance with USPAP or Fannie Mae or Freddie Mac, so that the value of the underlying properties had been overstated, thereby exposing investors such as ABP to additional losses in the event of foreclosure. Defendants did not apply rigorous quality control procedures to uncover these lapses, and when they learned of such lapses, they deliberately overlooked them.

8. The practices of financial institutions such as JPMorgan, Bear Stearns, WaMu, and Long Beach and their role in inflating the housing bubble have been and continue to be the subject of intense regulatory scrutiny. As recently as May 21, 2011, the WALL STREET JOURNAL reported that New York State Attorney General Eric Schneiderman had requested informal meetings with executives from several financial firms, including JPMorgan, as part of an investigation by his office into mortgage practices and the packaging and sale of loans to investors.

9. Defendants' conduct with respect to mortgage-backed securities has also been detailed in both the January 27, 2011, Final Report of the National Commission on the Causes of

the Financial and Economic Crisis in the United States (the "FCIC Report") and the April 13, 2011, report issued by the PSI, chaired by Senator Carl Levin, entitled WALL STREET AND THE FINANCIAL CRISIS: ANATOMY OF A FINANCIAL COLLAPSE (the "Levin Report"). Both reports and their supporting testimony and exhibits have shed significant light on the extent to which Defendants intentionally securitized bad mortgage loans and sold them to investors like Plaintiff ABP. Numerous other investigations have been launched by the DOJ, the SEC, and various state Attorneys General.

10. As a result of the untrue statements and omissions in the Offering Documents, Plaintiff purchased Certificates that were far riskier than represented and that were not equivalent to other investments with the same credit ratings. The rating agencies have now significantly downgraded the Certificates purchased by Plaintiff, all of which were represented in the Offering Documents to be rated Aaa, the highest possible rating on the Moody's scale, or AAA, the highest possible rating on the S&P scale, at the time of purchase The Certificates, therefore, are no longer marketable at anywhere near the purchase prices paid by Plaintiff. As a consequence, Plaintiff has suffered losses on its purchases of the Certificates.

11. Defendants JPMorgan, Bear Stearns, WaMu, and Long Beach knew about the poor quality of the loans they securitized and sold to investors like Plaintiff ABP, because in order to continue to keep their scheme running, they completely vertically integrated their RMBS operations by having affiliated entities at every stage of the process.

JURISDICTION AND VENUE

12. This Court has personal jurisdiction over all of the Defendants pursuant to New York Civil Practice Law and Rules ("CPLR") §§ 301 and 302.

13. Venue is proper in this Court pursuant to CPLR § 503. Many of the acts and transactions alleged herein, including the negotiation, preparation and dissemination of many of

the material misstatements and omissions contained in the Registration Statements, Prospectuses, Prospectus Supplements, and Free Writing Prospectuses filed in connection with the Offerings, occurred in substantial part in this State. Additionally, the Certificates were actively marketed and sold in this State.

PARTIES

A. PLAINTIFF

14. Plaintiff ABP is an independent administrative pension fund established under the laws of the Kingdom of the Netherlands. ABP serves as the pension fund for public employees in the governmental and education sectors in the Netherlands. With assets under management of approximately € 250 billion, ABP is one of the three largest pension funds in the world. ABP purchased the Certificates from the trusts listed in the table in ¶ 85, below.

B. DEFENDANTS

1. JPMorgan Corporate Entities

15. JPMorgan Chase. Defendant JPMorgan Chase is a Delaware corporation whose principal office is located in New York. JPMorgan Chase is a global financial services firm and one of the largest banking institutions in the United States. It is the direct or indirect parent of all of the JPMorgan, Bear Stearns, and WaMu corporate defendants in this action.

16. JPMorgan Bank. Defendant JPMorgan Bank is a national banking association, a wholly-owned bank subsidiary of JPMorgan Chase, and a New York corporation. Its main office is located in Columbus, Ohio. JPMorgan Bank is also the successor-in-interest to WaMu Bank, as discussed more fully in Section XIII.B below. JPMorgan Bank, either directly or through its affiliates, originated the mortgage loans underlying certain of the Certificates identified below.

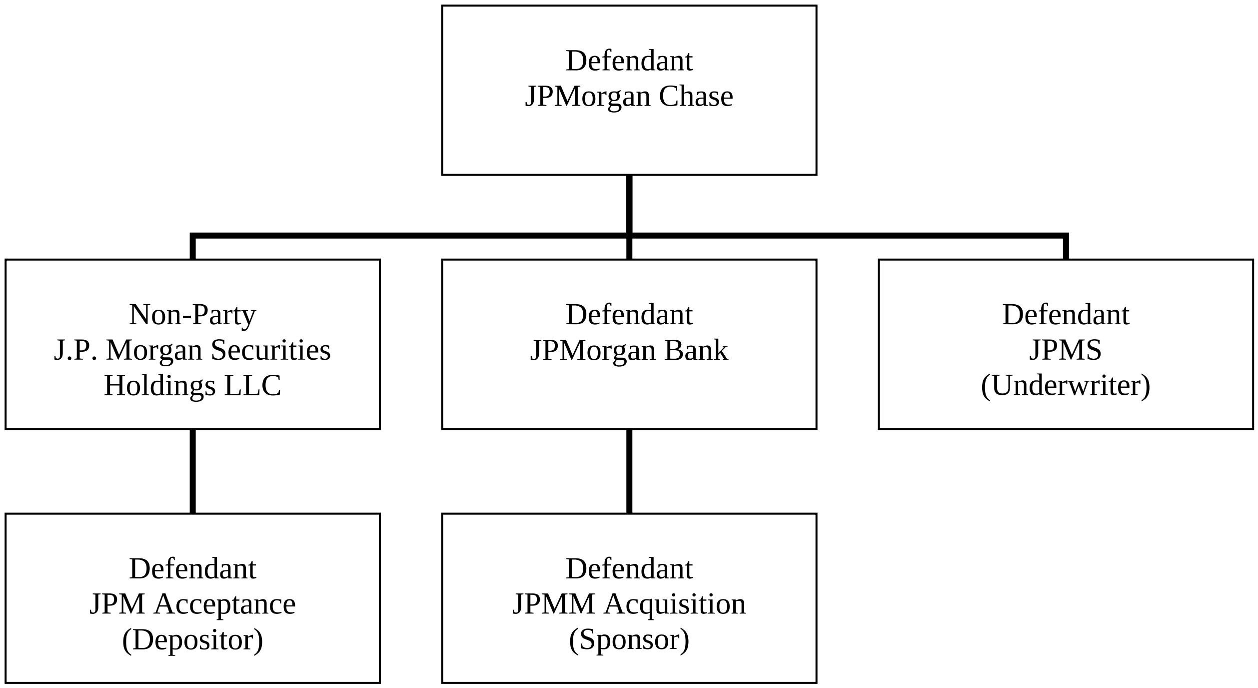
17. The JPMorgan Sponsor Defendant. Defendant JPMM Acquisition is a Delaware corporation with its principal executive offices located in New York. JPMM Acquisition

engages in the securitization of assets and services loans through its affiliates. JPMM Acquisition is a direct, wholly-owned subsidiary of Defendant JPMorgan Bank. JPMM Acquisition acted as the sponsor and seller with regard to each of the JPMorgan Trusts listed in ¶ 85, below.

18. The JPMorgan Issuing Defendant. Defendant JPM Acceptance is a Delaware corporation with its principal place of business in New York. JPM Acceptance 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. JPM Acceptance acted as the depositor in the securitization of each the JPMorgan Trusts listed in ¶ 85, below. As depositor, JPM Acceptance filed relevant Registration Statements with the SEC.

19. The JPMorgan Underwriter Defendant. Defendant JPMS is a Delaware corporation with its principal place of business in New York. JPMS was formerly known as J.P. Morgan Securities, Inc. JPMS engages in investment banking activities in the United States and is the primary nonbank subsidiary of JPMorgan Chase. JPMS is also the successor-in-interest to Bear Stearns, as discussed more fully in Section XIII.A below. JPMS acted as the sole underwriter of the Certificates issued by each of the JPMorgan Trusts listed in ¶ 85, below. As the sole underwriter of the JPMorgan-issued Certificates, JPMS participated in the drafting and dissemination of the Offering Documents pursuant to which all of the JPMorgan Certificates were sold to Plaintiff.

20. Defendants JPMorgan Bank, JPM Acceptance, JPMM Acquisition, and JPMS are referred to collectively hereinafter as "JPMorgan." An organizational chart of JPMorgan is set forth below.



2. JPMorgan Individual Defendants

21. Defendant Brian Bernard ("Bernard") was, at relevant times, a President of Defendant JPM Acceptance. Bernard signed the JPMorgan Registration Statement dated April 23, 2007, governing certain of the JPMorgan Trusts at issue herein.

22. Defendant Christine E. Cole ("Cole") was, at relevant times, a Director of Defendant JPM Acceptance. Cole signed the Registration Statements for each of the JPMorgan securitizations listed in ¶ 27, below.

23. Defendant David M. Duzyk ("Duzyk") was, at relevant times, the President and a Director of Defendant JPM Acceptance. Duzyk signed the Registration Statements for each of the JPMorgan securitizations listed in ¶ 27, below.

24. Defendant William A. King ("King") was, at relevant times, the President and a Director of Defendant JPM Acceptance. King signed the JPMorgan Registration Statement dated April 23, 2007, governing certain of the JPMorgan Trusts at issue herein.

25. Defendant Edwin F. McMichael ("McMichael") was, at relevant times, a Director of Defendant JPM Acceptance. McMichael signed the Registration Statements for each of the JPMorgan securitizations listed in ¶ 27, below.

26. Defendant Louis Schioppo, Jr. ("Schioppo") was, at relevant times, the Controller and Chief Financial Officer of Defendant JPM Acceptance. Schioppo signed the Registration Statements for each of the JPMorgan securitizations listed in ¶ 27, below.

27. Defendants Bernard, Cole, Duzyk, King, McMichael, and Schioppo are referred to hereinafter collectively as the "Individual JPMorgan Defendants," and together with JP Morgan are referred to hereinafter collectively as the "JPMorgan Defendants." A summary of the Registration Statements signed by the Individual JPMorgan Defendants is listed in the table below.

Issuing Trust(s)	**Document Date**	**Registration Statement / File No.**	**Signatories**
JPMAC 2006-HE3 JPMAC 2006-RM1 JPMAC 2006-WMC4	03/31/2006	Form S-3/A 333-130192	David M. Duzyk Louis Schioppo, Jr. Christine E. Cole Edwin F. McMichael
JPMAC 2007-CH3 JPMAC 2007-CH4	04/23/2007	Form S-3/A 333-141607	Brian Bernard Louis Schioppo, Jr. Christine E. Cole David M. Duzyk Edwin F. McMichael William King

3. Bear Stearns Corporate Entities

28. The Bear Stearns Sponsor Defendant. Defendant EMC is a Delaware corporation with its principal place of business in Lewisville, Texas and was established as a mortgage banking company to facilitate the purchase and servicing of whole loan portfolios. EMC was, at all relevant times, a wholly-owned subsidiary of the Bear Stearns Companies Inc. ("BSCI").

EMC acted as the sponsor and seller with regard to each of the Bear Stearns Trusts listed in ¶ 85, below. EMC also originated mortgage loans that were included in Issuing Trusts from which Plaintiff purchased certain Certificates identified below. Pursuant to a Merger Agreement effective May 30, 2008, EMC's parent company BSCI merged with Bear Stearns Merger Corporation, a wholly-owned subsidiary of Defendant JPMorgan Chase, making EMC a wholly-owned indirect subsidiary of Defendant JPMorgan Chase.

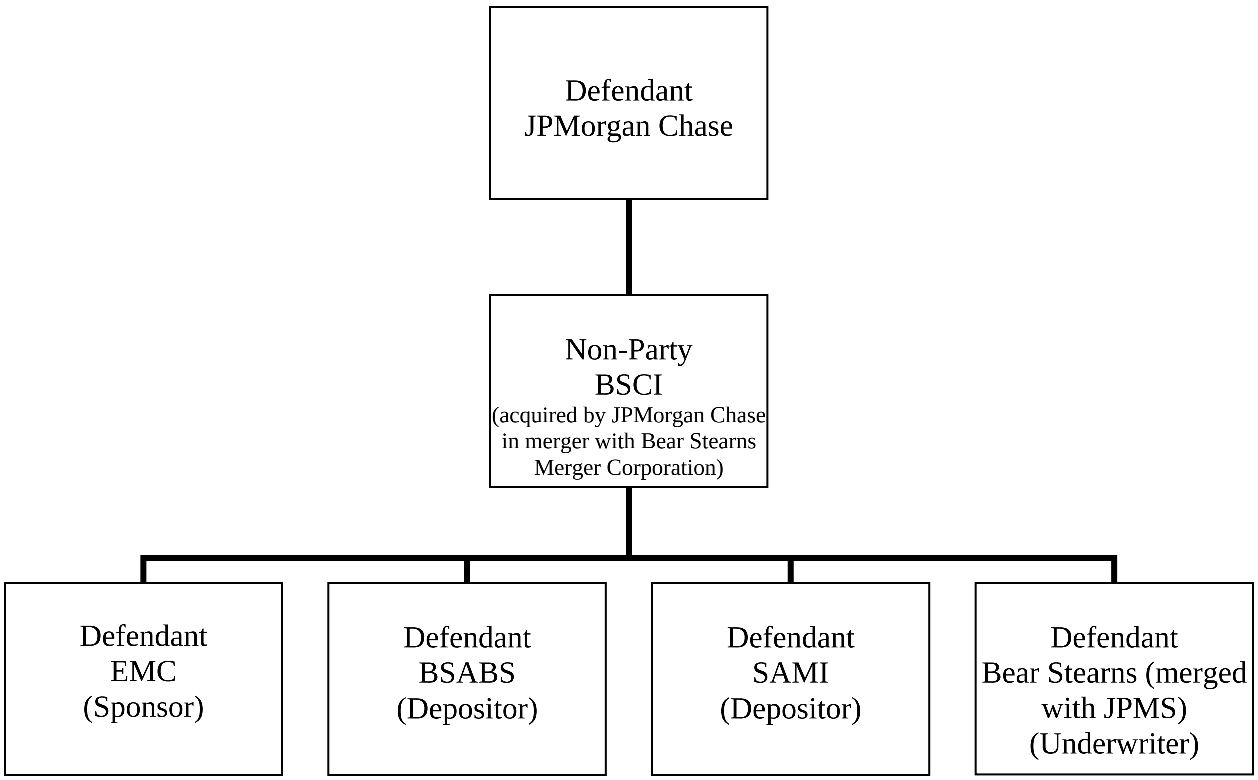
29. The Bear Stearns Issuing Defendants. Defendant BSABS, a Delaware corporation with its principal place of business in New York, was organized for the sole purpose of serving as a private secondary mortgage market conduit. BSABS was a wholly-owned subsidiary of BSCI, and is now therefore a wholly-owned indirect subsidiary of Defendant JPMorgan Chase. BSABS acted as the depositor in the securitization of certain Certificates identified below. As depositor, BSABS filed relevant Registration Statements with the SEC.

30. Defendant SAMI is a Delaware corporation with its principal place of business in New York. SAMI was a wholly-owned subsidiary of BSCI, and is now therefore a wholly-owned indirect subsidiary of JPMorgan Chase. SAMI acted as the depositor in the securitization of Bear Stearns ALT-A Trust 2004-6. As depositor, SAMI filed the relevant Registration Statement with the SEC.

31. The Bear Stearns Underwriter Defendant. Defendant Bear Stearns is a Delaware corporation with its principal place of business in New York. Bear Stearns was a wholly-owned subsidiary of BSCI. Bear Stearns acted as the underwriter of the Certificates issued by the Bear Stearns Trusts listed in ¶ 85, below. As the sole underwriter, Bear Stearns participated in the drafting and dissemination of the Offering Documents pursuant to which all of the Bear Stearns Certificates were sold to Plaintiff. Pursuant to a merger agreement, on or about October 1, 2008,

Bear Stearns merged with JPMS and is now doing business as JPMS. All allegations against Bear Stearns are thus made against its successor-in-interest, JPMS

32. Defendants BSABS, SAMI, EMC, and Bear Stearns are referred to hereinafter collectively as "Bear Stearns." An organizational chart of Bear Stearns is set forth below.



4. Bear Stearns Individual Defendants

33. Defendant Katherine Garniewksi ("Garniewski") was, at relevant times, a Director of Defendant BSABS. Garniewski signed the Bear Stearns Registration Statements dated June 14, 2005 and March 31, 2006, governing certain of the Bear Stearns Trusts identified in ¶ 42, below.

34. Defendant Joseph T. Jurkowski, Jr. ("Jurkowski") was, at relevant times, the Vice President of Defendant BSABS. Jurkowski signed the Bear Stearns Registration Statements for all of the Bear Stearns securitizations listed in ¶ 42, below.

35. Defendant Kim Lutthans ("Lutthans") was, at relevant times, an Independent Director of Defendant BSABS. Lutthans signed the Bear Stearns Registration Statements dated June 14, 2005 and March 31, 2006, governing certain of the Bear Stearns Trusts identified in ¶ 42, below.

36. Defendant Thomas F. Marano (Marano") was, at relevant times, a Director of Defendants BSABS and SAMI. Marano signed the Bear Stearns Registration Statements for all of the Bear Stearns securitizations listed in ¶ 42, below.

37. Defendant Jeffrey Mayer ("Mayer") was, at relevant times, a Director of Defendants BSABS and SAMI. Mayer signed the Bear Stearns Registration Statement dated May 11, 2004, governing Bear Stearns ALT-A Trust 2004-6.

38. Defendant Samuel L. Molinaro, Jr. ("Molinaro") was, at relevant times, the Treasurer and a Director of Defendant BSABS. Molinaro signed the Bear Stearns Registration Statements dated June 14, 2005 and March 31, 2006, governing certain of the Bear Stearns Trusts identified in ¶ 42, below.

39. Defendant Michael B. Nierenberg ("Nierenberg") was, at relevant times, the Treasurer of Defendant SAMI. Nierenberg signed the Bear Stearns Registration Statement dated May 11, 2004, governing Bear Stearns ALT-A Trust 2004-6.

40. Defendant Matthew E. Perkins ("Perkins") was, at relevant times, the President and a Director of Defendant BSABS. Perkins signed the Bear Stearns Registration Statements dated June 14, 2005 and March 31, 2006, governing certain of the Bear Stearns Trusts identified in ¶ 42, below.

41. Defendant Jeffrey L. Verschleiser ("Verschleiser") was, at relevant times, the President of Defendant SAMI. Verschleiser signed the Bear Stearns Registration Statement dated May 11, 2004, governing Bear Stearns ALT-A Trust 2004-6.

42. Defendants Garniewski, Jurkowski, Lutthans, Marano, Mayer, Molinaro, Nierenberg, Perkins, and Verschleiser are referred to collectively hereinafter as the "Individual Bear Stearns Defendants," and together with Bear Stearns are referred to hereinafter collectively as the "Bear Stearns Defendants." A summary of the Registration Statements signed by the Individual Bear Stearns Defendants is listed in the table below.

Issuing Trust(s)	Document Date	Registration Statement / File No.	Signatories
BSABS 2006-HE7 BSABS 2006-HE9 BSABS 2007-2 BSABS 2007-HE1 BSABS 2007-HE2 BSABS 2007-HE3 BSABS 2007-HE4 BSABS 2007-HE5	03/31/2006	Form S-3/A 333-131374	Matthew E. Perkins Samuel L. Molinaro, Jr. Thomas F. Marano Kim Lutthans Katherine Garniewski Joseph T. Jurkowski, Jr.
BALTA 2004-6	05/11/2004	Form S-3/A 333-115122	Jeffrey L. Verschleiser Michael B. Nierenberg Jeffrey Mayer Thomas F. Marano Joseph T. Jurkowski, Jr.
SACO 2005-5	06/14/2005	S-3/A 333-125422	Matthew E. Perkins Samuel L. Molinaro, Jr. Thomas F. Marano Kim Lutthans Katherine Garniewski Joseph T. Jurkowski, Jr.

5. WaMu Corporate Entities

43. The WaMu Sponsor Defendants. Defendant WMMSC was a wholly-owned subsidiary of WaMu Bank and is now a wholly-owned subsidiary of Defendant JPMorgan Bank, successor-in-interest to WaMu Bank. WMMSC acted as the sponsor and seller with regard to certain Certificates identified below and at issue herein.

44. Defendant JPMorgan Bank is the successor-in-interest to WaMu Bank, which was a federal savings association and an indirect wholly-owned subsidiary of Washington Mutual, Inc. ("WMI"). WaMu Bank acted as the sponsor and seller with regard to certain Certificates identified below.

45. On September 25, 2008, JPMorgan Bank agreed to assume substantially all of WaMu Bank's liabilities and purchase substantially all of WaMu Bank's assets, including Defendants WaMu Capital, WAAC, WMMSC, and LBSC. Therefore, this action is brought against JPMorgan Bank as the successor-in-interest to WaMu Bank. WaMu Bank and its former parent, WMI, are not defendants in this action.

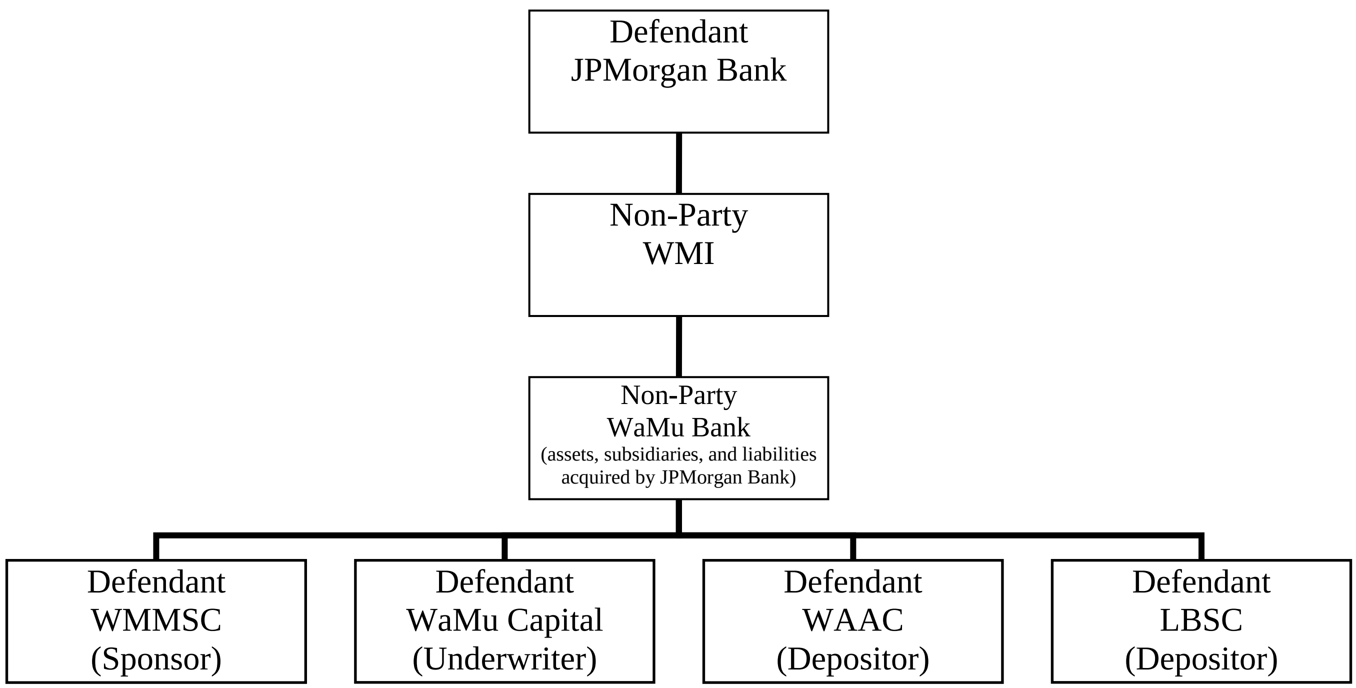
46. The WaMu Issuing Defendants. Defendant WAAC was a wholly-owned subsidiary of WaMu Bank, and is now a wholly-owned subsidiary of JPMorgan Bank, successor-in-interest to WaMu Bank. WAAC engages in no activities other than securitizing assets. WAAC acted as the depositor in the securitization of certain Certificates identified below. As depositor, WAAC filed the relevant Registration Statements with the SEC.

47. Defendant LBSC was a wholly-owned subsidiary of Long Beach Mortgage Company. As of July 1, 2006, Long Beach Mortgage Company became a division of WaMu Bank. LBSC is now a subsidiary of JPMorgan Bank. LBSC was organized for the purpose of serving as a private secondary mortgage market conduit, and engages in no activities other than

securitizing assets. LBSC acted as the depositor in the securitization of certain Certificates identified below. As depositor, LBSC filed the relevant Registration Statements with the SEC.

48. The WaMu Underwriter Defendants. Defendant WaMu Capital was a wholly owned subsidiary of WaMu Bank and is now a wholly-owned subsidiary of Defendant JPMorgan Bank. WaMu Capital acted as an underwriter of the Certificates issued by the WaMu Trusts listed in ¶ 85, below. As an underwriter, WaMu Capital participated in the drafting and dissemination of the Offering Documents pursuant to which all of the WaMu Certificates were sold to Plaintiff.

49. Defendants WMMSC, WAAC, LBSC, and WaMu Capital, as well as non-defendants WMI and WaMu Bank, are referred to collectively hereinafter as "WaMu." An organizational chart of WaMu is set forth below.



6. WaMu Individual Defendants

50. Defendant David Beck ("Beck") was, at relevant times, the President and a Director of Defendant WAAC. Beck signed the WaMu Registration Statements dated January 3, 2006, and April 9, 2007, governing certain of the WaMu Trusts identified in ¶ 63, below.

51. Defendant Richard Careaga ("Careaga") was, at relevant times, the First Vice President of Defendant WAAC. Careaga signed the WaMu Registration Statement dated January 3, 2006, governing certain of the WaMu Trusts identified in ¶ 63, below.

52. Defendant Thomas W. Casey ("Casey") was, at relevant times, a Director of Defendant LBSC. Casey signed the WaMu Registration Statement dated March 21, 2006, governing certain of the WaMu Trusts identified in ¶ 63, below.

53. Defendant Stephen Fortunato ("Fortunato") was, at relevant times, the Chief Financial Officer of Defendant LBSC and Defendant WAAC. Fortunato signed the WaMu Registration Statements dated March 21, 2006 and April 9, 2007, governing certain of the WaMu Trusts identified in ¶ 63, below.

54. Defendant Michael J. Giampaolo ("Giampaolo") was, at relevant times the Principal Executive Officer of Defendant LBSC. Giampaolo signed the WaMu Registration Statement dated March 21, 2006, governing certain of the WaMu Trusts identified in ¶ 63, below.

55. Defendant Thomas Green ("Green") was, at relevant times, Chief Financial Officer of Defendant WAAC. Green signed the WaMu Registration Statement dated January 3, 2006, governing certain of the WaMu Trusts identified in ¶ 63, below.

56. Defendant Rolland Jurgens ("Jurgens") was, at relevant times, Controller of Defendants WAAC and LBSC. Jurgens signed the WaMu Registration Statements dated

January 3, 2006 and March 21, 2006, governing certain of the WaMu Trusts identified in ¶ 63, below.

57. Defendant Thomas Lehmann ("Lehmann") was, at relevant times, the President and a Director of Defendant WAAC and First Vice President, Director and Senior Counsel of Defendant WMMSC. Lehmann signed the WaMu Registration Statement dated April 9, 2007, governing Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2007-OC2.

58. Defendant Diane Novak ("Novak") was, at relevant times, a Director of Defendant WAAC. Novak signed the WaMu Registration Statements dated January 3, 2006, and April 9, 2007, governing certain of the WaMu Trusts identified in ¶ 63, below.

59. Defendant John F. Robinson ("Robinson") was, at relevant times, a Director of Defendant LBSC. Robinson signed the WaMu Registration Statement dated March 21, 2006, governing certain of the WaMu Trusts identified in ¶ 63, below.

60. Defendant Donald Wilhelm ("Wilhelm") was, at relevant times, Controller of Defendant WAAC. Wilhelm signed the WaMu Registration Statement dated April 9, 2007, governing Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2007-OC2.

61. Defendant David H. Zielke ("Zielke") was, at relevant times, First Vice President and Assistant General Counsel of LBSC. Zielke signed the WaMu Registration Statements dated April 9, 2007, governing Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2007-OC2.

62. Defendants Beck, Careaga, Casey, Fortunato, Giampaolo, Green, Jurgens, Lehmann, Novak, Robinson, Wilhelm, and Zielke are referred to collectively hereinafter as the "Individual WaMu Defendants," and together with WaMu are referred to hereinafter

collectively as the "WaMu Defendants." A summary of the Registration Statements signed by the Individual WaMu Defendants is listed in the table below.

63. The Individual JPMorgan Defendants, Individual Bear Stearns Defendants, and Individual WaMu Defendants are referred to collectively hereinafter as the "Individual Defendants."

Issuing Trust(s)	Document Date	Registration Statement / File No.	Signatories
LBMLT 2006-10 LBMLT 2006-11 LBMLT 2006-6 LBMLT 2006-9	03/21/2006	Form S-3/A 333-131252	Thomas W. Casey John F. Robinson Michael J. Giampaolo Stephen Fortunato Rolland Jurgens
WMHE 2007-HE1 WMHE 2007-HE2 WMALT 2006-AR10 WMALT 2007-HY1	01/03/2006	Form S-3/A 333-130795	David Beck Diane Novak Thomas Green Rolland Jurgens Richard Careaga
WMALT 2007-OC2	04/09/2007	Form S-3A 333-141255	David Beck Diane Novak Thomas Lehmann Stephen Fortunato Donald Wilhelm David H. Zielke

7. Other Underwriter Defendants

64. Defendant Banc of America is an SEC-registered broker-dealer with its principal place of business in New York. Banc of America acted as an underwriter of the Certificates issued by the following WaMu Trusts: Long Beach Mortgage Loan Trust 2006-6; Long Beach Mortgage Loan Trust 2006-9; WaMu Asset-Backed Certificates WaMu Series 2007-HE1 Trust; and WaMu Series 2007-HE2 Trust. As an underwriter, Banc of America participated in the drafting and dissemination of the Offering Documents pursuant to which the WaMu Certificates were sold to Plaintiff.

65. Defendant Credit Suisse Securities (USA) LLC ("Credit Suisse") is a Delaware corporation with its principal place of business in New York. Credit Suisse acted as an underwriter of the Certificates issued by Long Beach Mortgage Loan Trust 2006-6. As an underwriter, Credit Suisse participated in the drafting and dissemination of the Offering Documents pursuant to which the WaMu Certificates were sold to Plaintiff.

66. Defendants JPMM Acquisition, EMC, WMMSC, and JPMorgan Bank (in its capacity as successor-in-interest to non-defendant WaMu Bank), are referred to collectively hereinafter as the "Sponsor Defendants."

67. Defendants JPM Acceptance, BSABS, SAMI, WAAC, and LBSC are referred to collectively hereinafter as the "Issuing Defendants."

68. Defendants JPMS, BSC, WaMu Capital, Banc of America, and Credit Suisse are referred to collectively hereinafter as the "Underwriter Defendants."

69. All Defendants identified in ¶¶ 15-19, 28-31, 43, and 46-48 are hereinafter collectively referred to as the "Corporate Defendants."

C. RELEVANT NON-PARTIES

1. Issuing Trusts

70. Non-parties, the "Issuing Trusts", are common law trusts formed under the laws of the State of New York and/or statutory trusts formed under the laws of the State of Delaware. The Issuing Trusts were created and structured by JPMorgan, Bear Stearns and WaMu to issue billions of dollars worth of RMBS. The Issuing Trusts issued the Certificates purchased by Plaintiff. The non-party Issuing Trusts are:

- J.P. Morgan Mortgage Acquisition Trust 2006-HE3
- J.P. Morgan Mortgage Acquisition Trust 2006-RM1
- J.P. Morgan Mortgage Acquisition Trust 2006-WMC4

- J.P. Morgan Mortgage Acquisition Trust 2007-CH3
- J.P. Morgan Mortgage Acquisition Trust 2007-CH4

(together, the "**JPMorgan Trusts**")

- Bear Stearns ALT-A Trust 2004-6
- Bear Stearns Asset Backed Securities I Trust 2006-HE7
- Bear Stearns Asset Backed Securities I Trust 2006-HE9
- Bear Stearns Asset Backed Securities Trust 2007-2
- Bear Stearns Asset Backed Securities I Trust 2007-HE1
- Bear Stearns Asset Backed Securities I Trust 2007-HE2
- Bear Stearns Asset Backed Securities I Trust 2007-HE3
- Bear Stearns Asset Backed Securities I Trust 2007-HE4
- Bear Stearns Asset Backed Securities I Trust 2007-HE5
- SACO I Trust 2005-5

(together, the "**Bear Stearns Trusts**")

- Long Beach Mortgage Loan Trust 2006-6
- Long Beach Mortgage Loan Trust 2006-9
- Long Beach Mortgage Loan Trust 2006-10
- Long Beach Mortgage Loan Trust 2006-11
- WaMu Asset-Backed Certificates WaMu Series 2007-HE1
- WaMu Asset-Backed Certificates WaMu Series 2007-HE2
- Washington Mutual Asset-Backed Certificates WMABS Series 2007-HE2
- Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2006-AR10
- Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2007-HY1

- Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2007-OC2

(together, the "**WaMu Trusts**").

2. Third Party Originators

71. Many of the loans underlying the Certificates were acquired by the sponsor for each securitization from unaffiliated third-party originators, each of which is discussed in greater detail, *infra*. These third-party originators include the following:

- Aegis Mortgage Corporation ("Aegis")
- Argent Mortgage Company ("Argent")
- Chevy Chase Bank, F.S.B. ("Chevy Chase")
- CIT Group/ Consumer Finance, Inc. ("CIT Group")
- EquiFirst Corporation ("Equifirst")
- Fieldstone Mortgage Company ("Fieldstone")
- GMAC Mortgage Corporation ("GMAC")
- GreenPoint Mortgage Funding, Inc. ("Greenpoint")
- Lenders Direct Capital Corporation ("Lenders")
- Novastar Mortgage, Inc. ("Novastar")
- Quicken Loans, Inc. ("Quicken")
- ResMAE Mortgage Corporation ("ResMAE")
- Wells Fargo Bank, N.A. ("Wells Fargo") and
- WMC Mortgage Corp. ("WMC Mortgage")

(collectively the "**Originators**").[2]

[2] Other non-party originators and/or acquirers of mortgage loans pooled into the Issuing Trusts included SouthStar Funding LLC, Finance America LLC and Cendant Mortgage Company.

SUBSTANTIVE ALLEGATIONS

I. THE SECURITIZATION PROCESS GENERALLY

72. Traditionally, the process for extending mortgage loans to borrowers involved a lending institution (the loan originator) making a loan to a home buyer in exchange for a promise, documented in the form of a promissory note, by the home buyer to repay the principal and interest on the loan. The loan originator obtained a lien against the home as collateral in the event the home buyer defaulted on its obligation. Under this simple model, the loan originator held the promissory note until it matured and was exposed to the risk that the borrower might fail to repay the loan. As such, the loan originator had a financial incentive to ensure that the borrower had the financial wherewithal to repay the loan, and that the underlying property had sufficient value to enable the originator to recover its principal and interest in the event that the borrower defaulted.

73. Beginning in the 1990s, however, banks and other mortgage lending institutions increasingly used securitization to finance the extension of mortgage loans to borrowers. Under the securitization process, after a loan originator issues a mortgage to a borrower, the loan originator sells the mortgage to a third-party financial institution. By selling the mortgage, the loan originator not only obtains fees, but receives the proceeds from the sale of the mortgage up front, and thereby has new capital with which to issue more mortgages. The financial institutions which purchase the mortgages then pool the mortgages together and securitize the mortgages into what are commonly referred to as residential mortgage-backed securities or RMBS. In this manner, unlike the traditional process for extending mortgage loans, the loan originator is no longer subject to the risk that the borrower may default; that risk is transferred with the mortgages to investors who purchase the RMBS.

74. The securitization of residential mortgage loans, and the creation of RMBS collateralized against these loans, typically follows the same structure and pattern in each transaction. First, a loan originator, such as a mortgage lender or bank, originates the underlying residential mortgage loans. After a loan has been made, a "sponsor" or "seller" (who either originated the loans itself or acquired the loans from other loan originators) sells the mortgage loans to a "depositor." The depositor pools these loans and deposits them into a special purpose entity or trust created by the depositor. One trust is established to hold the pool of mortgages for each proposed offering. In order to facilitate multiple offerings of RMBS, a depositor sets up multiple trusts to hold the different pools of mortgages that are to be securitized. With respect to each offering, in return for the pool of mortgages acquired from the depositor, the trust issues and distributes RMBS certificates to the depositor. The depositor then works with an underwriter to price and sell the certificates to investors. Thereafter, a servicer is appointed to service the mortgage loans held by the trust, *i.e.*, to collect the mortgage payments from the borrower in the form of principal and interest, and to remit them to the trust for administration and distribution to the RMBS investors. The diagram below illustrates the typical structure of a securitization:

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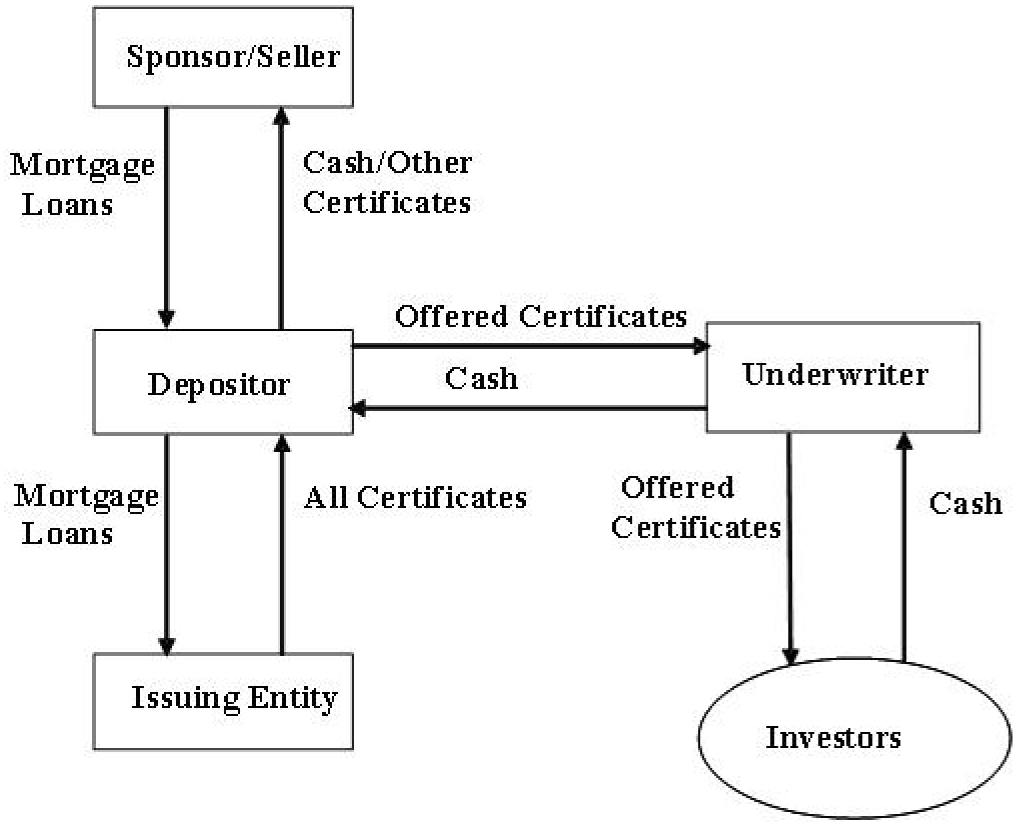

75. In selling the certificates to investors, the depositor and underwriters disseminate to investors various disclosure or offering documents describing the certificates being sold. The offering documents comprise: (1) a "shelf" registration statement (under SEC Rule 415, an issuer may file one registration statement covering several offerings of securities made during a period of up to three years after the filing of the registration statement); (2) a "base" prospectus (3) a "prospectus supplement"; and (4) a post-filing free writing prospectus, which may include information the substance of which is not included in the registration statement. Because a depositor will create a different trust for each offering of RMBS (as described above), the depositor files one shelf registration statement and one base prospectus that apply to multiple trusts that the depositor proposes to establish. With respect to each specific trust, however, the depositor also files a prospectus supplement that applies only to that particular trust. Thus, for any given offering of securities, the relevant offering documents will typically be a shared

registration statement and shared base prospectus, as well as an individual, trust-specific prospectus supplement, and sometimes a free-writing prospectus.

76. Each investor who purchases an RMBS certificate is entitled to receive monthly payments of principal and interest from the trust. The order of priority of payment to each investor, the interest rate to be paid to each investor, and other payment rights accorded to each investor depend on which class or tranche of certificates the investor purchases.

77. The highest or senior tranche is the first to receive its share of the mortgage payments and is also the last to absorb any losses should mortgage borrowers become delinquent or default on their mortgages. Accordingly, these senior tranches receive the highest investment rating by the rating agencies, usually Aaa. After the senior tranche, the middle tranches (referred to as mezzanine tranches) next receive their share of the proceeds. These mezzanine tranches are generally rated from Aa2 to Ba2 by the rating agencies. The process of distributing the mortgage proceeds continues down the tranches through to the bottom tranches, referred to as equity tranches. This process is repeated each month and all investors receive the payments owed to them so long as the mortgage borrowers are current on their mortgages. All Certificates were also overcollateralized so payments could be made in the event that mortgage borrowers fell behind.

II. THE SECURITIZATIONS ASSOCIATED WITH THE PLAINTIFF'S CERTIFICATES AND ITS INVESTMENTS IN THE CERTIFICATES

A. JPMORGAN TRUSTS

78. The Certificates that Plaintiff purchased from JPMorgan Trusts were structured and sold by JPMorgan. The depositor that created the Issuing Trusts was a JPMorgan entity, Defendant JPM Acceptance. The sponsor and/or seller for the Issuing Trusts was also a JPMorgan entity, specifically, Defendant JPMM Acquisition. In addition, the underwriter was

another JPMorgan entity, Defendant JPMS. As such, the vast majority of the transactions among the sponsor/seller, depositor, underwriter and the Issuing Trusts were not arm's-length transactions, as JPMorgan Chase controlled all the entities. This vertical integration allowed JPMorgan Chase to both control and manipulate the loan-level documentation and specifically to ensure that loans would be approved by its in-house loan underwriters.

79. In connection with its role as depositor for the JP Morgan Trusts that are the subject of this action, Defendant JPM Acceptance prepared and filed with the SEC the following shelf registration statements, to which registration statements the Certificates purchased by Plaintiff are traceable:

JPMorgan Trusts

Registration Statement	Date Filed	Amount Registered
333-130192	3/31/2006	$55,957,035,908
333-141607	4/23/2007	$54,817,583,388

B. BEAR STEARNS TRUSTS

80. The Certificates Plaintiff purchased from the Bear Stearns Trusts were structured and sold by Bear Stearns. The depositors that created the Issuing Trusts were Bear Stearns entities: Defendants BSABS and SAMI. The sponsor and/or seller for the Issuing Trusts was also a Bear Stearns entity, specifically, Defendant EMC. In addition, Bear Stearns underwrote its own offerings. As such, the vast majority of the transactions among the sponsor/seller, depositor, underwriter, and the Issuing Trusts were not arm's-length transactions, as Bear Stearns controlled all the entities. This vertical integration allowed Bear Stearns to both control and manipulate the loan-level documentation and specifically to ensure that loans would be approved by its in-house loan underwriters.

81. In connection with their role as the depositors for the Bear Stearns Trusts that are the subject of this action, Defendants BSABS and SAMI prepared and filed with the SEC the following shelf registration statements, to which registration statements the Certificates purchased by Plaintiff are traceable:

Bear Stearns Trusts

Registration Statement	Date Filed	Amount Registered
333-115122	5/11/2004	$25,000,000,000
333-125422	6/14/2005	$35,000,000,000
333-131374	3/31/2006	$50,000,000,000

C. WAMU AND LONG BEACH TRUSTS

82. The Certificates Plaintiff purchased from the WaMu Trusts were structured and sold by WaMu and Long Beach. The depositors that created the Issuing Trusts were WaMu entities: Defendants WAAC and LBSC. The sponsor and/or seller for the Issuing Trusts were also WaMu entities, specifically, Defendant WMMSC or non-defendant WaMu Bank. In addition, another WaMu entity, Defendant WaMu Capital, was an underwriter for each of the Issuing Trusts. As such, the vast majority of the transactions among the sponsor/seller, depositor and the Issuing Trusts were not arm's-length transactions, as WaMu controlled all the entities. Similarly, this vertical integration allowed WaMu to both control and manipulate the loan-level documentation and to ensure that loans would be approved by its in-house loan underwriters.

83. In connection with their role as the depositors for the WaMu Trusts that are the subject of this action, Defendants WAAC and LBSC prepared and filed with the SEC the following shelf registration statements, to which registration statements the Certificates purchased by Plaintiff are traceable:

WaMu and Long Beach Trusts

Registration Statement	Date Filed	Amount Registered
333-130795	1/3/2006	$100,000,000,000
333-131252	3/31/2006	$1,000,000[3]
333-141255	4/9/2007	$400,000,000,000

84. At the time of filing, each Registration Statement, identified in ¶ 85, above contained an illustrative form of a prospectus supplement that would be used in the various offerings of Certificates. At the effective date of a particular offering of Certificates, the Underwriter Defendants prepared and filed a final Prospectus Supplement with the SEC containing a description of the mortgage pool for that particular offering of Certificates, and the underwriting standards by which the mortgages were originated. The Underwriter Defendants then marketed and sold the Certificates pursuant to these Prospectus Supplements.

85. The following chart summarizes and identifies (1) each Issuing Trust that issued and sold the Certificates purchased by Plaintiff; (2) the dates of the Registration Statements and Prospectus Supplements pursuant to which ABP purchased the Certificates; and (3) the identities of the depositor, the issuer, underwriters, and the sponsor/seller for each offering.

Amended Registration File No. and Date	Issuing Trust	Prospectus Supplement Date	Depositor	Underwriter(s)	Sponsor/ Seller
333-115122 (5/11/2004)	Bear Stearns ALT-A Trust 2004-6	7/1/2004	SAMI	Bear Stearns	EMC

[3] The minimum size for a single issuer RMBS pool is one million dollars for fixed-rate securities. According to the Registration Statement, the one million dollar figure is used "solely for the purpose of calculating the registration fee." Despite diligent research, the actual amount of securities issued to ABP pursuant to the relevant Registration Statement is unknown.

Amended Registration File No. and Date	Issuing Trust	Prospectus Supplement Date	Depositor	Underwriter(s)	Sponsor/ Seller
333-125422 (6/14/2005)	SACO I Trust 2005-5	8/19/2005	BSABS	Bear Stearns	EMC
333-130795 (1/3/2006)	Washington Mutual Pass-Through Certificates, WMALT Series 2006-AR10	12/27/2006	WAAC	WaMu Capital	WMMSC
	WaMu Asset-Backed Certificates WaMu Series 2007-HE1 Trust	1/16/2007	WAAC	WaMu Capital Banc of America	WaMu Bank
	Washington Mutual Pass-Through Certificates, WMALT Series 2007-HY1	1/29/2007	WAAC	WaMu Capital	WMMSC
	Washington Mutual Asset-Backed Certificates WMABS Series 2007-HE2 Trust	3/9/2007	WAAC	WaMu Capital	WMMSC
	WaMu Asset-Backed Certificates WaMu Series 2007-HE2 Trust	4/6/2007	WAAC	WaMu Capital Lehman Brothers Banc of America	WaMu Bank
333-131252 (3/31/2006)	Long Beach Mortgage Loan Trust 2006-6	7/25/2006	LBSC	WaMu Capital Lehman Brothers Credit Suisse	WaMu Bank

Amended Registration File No. and Date	Issuing Trust	Prospectus Supplement Date	Depositor	Underwriter(s)	Sponsor/ Seller
	Long Beach Mortgage Loan Trust 2006-9	10/10/2006	LBSC	WaMu Capital Banc of America	WaMu Bank
	Long Beach Mortgage Loan Trust 2006-11	12/13/2006	LBSC	WaMu Capital Goldman Sachs	WaMu Bank
	Long Beach Mortgage Loan Trust 2006-10	11/7/2006	LBSC	WaMu Capital Lehman Brothers	WaMu Bank
333-131374 (3/31/2006)	Bear Stearns Asset Backed Securities I Trust 2006-HE7	8/30/2006	BSABS	Bear Stearns	EMC
	Bear Stearns Asset Backed Securities I Trust 2006-HE9	12/1/2006	BSABS	Bear Stearns	EMC
	Bear Stearns Asset Backed Securities I Trust 2007-HE1	1/31/2007	BSABS	Bear Stearns	EMC
	Bear Stearns Asset Backed Securities I Trust 2007-HE2	2/28/2007	BSABS	Bear Stearns	EMC

Amended Registration File No. and Date	Issuing Trust	Prospectus Supplement Date	Depositor	Underwriter(s)	Sponsor/ Seller
	Bear Stearns Asset Backed Securities I Trust 2007-HE3	4/2/2007	BSABS	Bear Stearns	EMC
	Bear Stearns Asset Backed Securities I Trust 2007-HE4	4/27/2007	BSABS	Bear Stearns	EMC
	Bear Stearns Asset Backed Securities Trust 2007-2	5/18/2007	BSABS	Bear Stearns	EMC
	Bear Stearns Asset Backed Securities I Trust 2007-HE5	5/30/2007	BSABS	Bear Stearns	EMC
333-130192 (4/3/2006)	J.P. Morgan Acquisition Trust 2006-RM1	9/28/2006	JPM Acceptance	JPMS	JPMM Acquisition
	J.P. Morgan Acquisition Trust 2006-HE3	11/13/2006	JPM Acceptance	JPMS	JPMM Acquisition
	J.P. Morgan Acquisition Trust 2006-WMC4	12/20/2006	JPM Acceptance	JPMS	JPMM Acquisition

Amended Registration File No. and Date	Issuing Trust	Prospectus Supplement Date	Depositor	Underwriter(s)	Sponsor/ Seller
333-141255 (4/9/2007)	Washington Mutual Pass-Through Certificates, WMALT Series 2007-OC2	6/26/2007	WAAC	WaMu Capital	WMMSC
333-141607 (4/23/2007)	J.P. Morgan Acquisition Trust 2007-CH3	5/11/2007	JPM Acceptance	JPMS	JPMM Acquisition
	J.P. Morgan Acquisition Trust 2007-CH4	6/15/2007	JPM Acceptance	JPMS	JPMM Acquisition

III. IMPORTANT FACTORS IN THE DECISION OF INVESTORS SUCH AS PLAINTIFF TO INVEST IN THE CERTIFICATES

86. In purchasing the Certificates, Plaintiff, like other investors, attached critical importance to: (a) the underwriting standards used to originate the loans underlying the Certificates; (b) the appraisal methods used to value the properties securing the underlying mortgage loans; (c) the ratings assigned to the Certificates; (d) the ability of the Issuing Trusts to establish legal title to the underlying loans; and (e) the level of credit enhancement applicable to the Certificates.

87. Sound underwriting was critically important to Plaintiff because the ability of borrowers to repay principal and interest was the fundamental basis upon which the investments in the Certificates were valued. Reflecting the importance of the underwriting standards, the Offering Documents contained representations concerning the standards purportedly used to originate the mortgages held by the Issuing Trusts.

88. For example, the April 23, 2007 Registration Statement issued by Defendant JPM Acceptance stated that: "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. In general, a prospective borrower applying for a loan is required to fill out a detailed application designed to provide to the underwriting officer pertinent credit information. As part of the description of the borrower's financial condition, the borrower generally is required to provide a current list of assets and liabilities and a statement of income and expenses..."

89. With respect to loans acquired from third-party originators, the Offering Documents represented that stated underwriting guidelines required them to consider, among other things, the mortgagor's credit history, repayment ability, and debt-to-income ratio, as well as the type and use of the mortgaged property. In addition, the Offering Documents represented that in order to submit loan packages, the loans must have been made in compliance with the terms of a signed mortgage loan purchase agreement.

90. Independent and accurate real estate appraisals were also critically important to investors such as Plaintiff because they ensured that the mortgage loans underlying the Certificates were not under-collateralized, thereby protecting RMBS investors in the event a borrower defaulted on a loan. As such, by allowing RMBS investors to assess the degree to which a mortgage loan was adequately collateralized, accurate appraisals provided investors such as ABP with a basis for assessing the price and risk of the Certificates.

91. One measure that uses the appraisal value to assess whether mortgage loans are under-collateralized is the loan-to-value ("LTV") ratio. The LTV ratio is a mathematical calculation that expresses the amount of a mortgage as a percentage of the total value of the

property, as obtained from the appraisal. For example, if a borrower seeks to borrow $900,000 to purchase a house worth $1,000,000, the LTV ratio is $900,000/$1,000,000, or 90%. If, however, the appraised value of the house is artificially increased to $1,200,000, the LTV ratio misleadingly drops to just 75% ($900,000/$1,200,000).

92. The Prospectus Supplement for J.P. Morgan Mortgage Acquisition Trust 2007-CH4, one of the Certificates purchased by Plaintiff, provided the following representations regarding the underlying assets.

Original LTV (%) (Aggregate Pool)

Original LTV (%)	# of Loans	Current Principal Balance	Pct by Curr Prin Balance	Weighted Average Current Mortgage Rate	Weighted Average Stated Remaining Term	Weighted Average Combined Orig LTV	Weighted Average Credit Score	Weighted Average DTI
0.01 - 50.00	488	$58,420,063.56	5.22%	8.094%	325	39.34%	608	37.72%
50.01 - 55.00	158	24,995,744.04	2.23	7.869	328	52.93	613	37.75
55.01 - 60.00	260	42,473,495.88	3.79	7.957	335	57.96	605	37.11
60.01 - 65.00	268	48,724,749.16	4.35	7.827	336	63.23	607	38.72
65.01 - 70.00	490	88,564,025.15	7.91	7.910	344	68.53	607	39.93
70.01 - 75.00	484	84,616,976.62	7.56	8.151	339	73.85	605	38.24
75.01 - 80.00	1,710	339,980,984.04	30.38	7.918	345	79.73	635	40.28
80.01 - 85.00	871	154,193,174.07	13.78	8.083	334	84.46	622	40.13
85.01 - 90.00	923	167,492,971.97	14.96	8.378	339	89.61	616	40.07
90.01 - 95.00	460	77,916,972.17	6.96	8.880	334	94.75	623	40.44
95.01 - 100.00	238	31,852,644.04	2.85	9.500	331	99.77	647	40.86
Total:	**6,350**	**$1,119,231,800.70**	**100.00%**	**8.144%**	**339**	**77.89%**	**621**	**39.70%**

Id. at 36.

93. Thus, fewer than 3% of the loans were represented to have an LTV greater than 95% and fewer than 10% total had LTV ratios greater than 90%, providing the appearance of a conservative portfolio.

94. From a lender's perspective, the higher the LTV ratio, the riskier the loan because it indicates the borrower has a lower equity stake, and a borrower with a lower equity position has less to lose if s/he defaults on the loan. The LTV ratio is a significant measure of credit risk, because both the likelihood of default and the severity of loss are higher when borrowers have less equity to protect in the event of foreclosure. Worse, particularly in an era of falling housing

prices, a high LTV ratio creates the heightened risk that, should the borrower default, the amount of the outstanding loan may ***exceed*** the value of the property.

95. As stated above, real estate appraisals are governed by USPAP, which are the generally accepted standards for professional appraisal practice in North America promulgated by the Appraisal Standards Board of the Appraisal Foundation, as authorized by Congress. With respect to real estate appraisals, USPAP requires the following:

> ***An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests.***
>
> ***In appraisal practice, an appraiser must not perform as an advocate for any party or issue.***
>
> ***An appraiser must not accept an assignment that includes the reporting of predetermined opinions and conclusions.***
>
> * * * * *
>
> ***It is unethical for an appraiser to accept an assignment, or to have a compensation arrangement for an assignment, that is contingent on any of the following:***
>
> ***1. the reporting of a predetermined result (*e.g.*, opinion of value);***
>
> ***2. a direction in assignment results that favors the cause of the client;***
>
> ***3. the amount of a value opinion;***
>
> ***4. the attainment of a stipulated result; or***
>
> ***5. the occurrence of a subsequent event directly related to the appraiser's opinions and specific to the assignment's purpose.***

96. Reflecting the importance of independent and accurate real estate appraisals to investors such as Plaintiff, the Offering Documents contained extensive disclosures concerning

the value of the collateral underlying the mortgages pooled in the Issuing Trusts and the appraisal methods by which such values were obtained.

97. For example, the Offering Documents represented that the property securing the mortgages was to be appraised by a qualified, independent appraiser in conformity with USPAP or that each appraisal was required to satisfy applicable government regulations and be on forms acceptable to Fannie Mae and Freddie Mac.

98. In addition, the Prospectus Supplements represented that the appraisal procedure guidelines used by the loan originators required an appraisal report that included market data analyses based on recent sales of comparable homes in the area. If appropriate, the guidelines required a review appraisal, consisting of an enhanced desk or field review, or automated valuation report confirming or supporting the original appraisal value of the mortgaged property.

99. The rating assigned to each of the Certificates was another important factor in ABP's decision to purchase the Certificates. ABP and other investors relied on the ratings as an indicator of the safety and likelihood of default of the mortgage loans underlying a particular Certificate. Consistent with its conservative corporate investment guidelines, ABP purchased the Certificates because they all were rated Aaa.

100. In purchasing the Certificates, ABP relied on the ability of each of the Issuing Trusts to demonstrate that it in fact had legal title to the underlying mortgage loans. ABP would never have purchased any of the Certificates from Defendants if there was any doubt as to whether the Issuing Trusts had legal title to any of the mortgage loans that were pooled for each offering.

101. Finally, the Prospectus Supplements contained representations regarding the level of credit enhancement, or loss protection, associated with the Certificates. Credit enhancements

impact the overall credit rating that a Certificate receives. The amount of credit enhancements built into the Certificates purchased by Plaintiff was overstated, which exposed ABP to additional losses. These levels of credit enhancement were material to ABP.

IV. DEFENDANTS KNEW THAT A LARGE PERCENTAGE OF THE MORTGAGE LOANS UNDERLYING PLAINTIFF'S CERTIFICATES WERE MADE AS A RESULT OF THE SYSTEMATIC ABANDONMENT OF PRUDENT UNDERWRITING GUIDELINES AND APPRAISAL STANDARDS

102. Prior to underwriting and selling the Certificates to investors like ABP, Defendants had identified but failed to disclose the widespread underwriting and appraisal deficiencies by the mortgage originators described below, many of which were, in fact, owned by or affiliated with Defendants. This was in direct contrast to the representations in the Offering Documents accompanying the Certificates sold to ABP.

103. As has now come to light, contrary to the representations in the Offering Documents, Defendants JPMorgan Bank and EMC, non-defendants Encore, Long Beach, and WaMu Bank, as well as the third-party originators that originated the mortgages underlying the Certificates, knowingly departed from the underwriting standards that were represented in the Offering Documents.

104. In the early 2000s, an unprecedented boom in the housing market began to unfold. Between 1994 and 2004, the housing market experienced a dramatic rise in home ownership, as 12 million more Americans became homeowners. Likewise, the subprime market, that is, the market for credit that is lent to people of questionable or limited credit histories, grew dramatically, enabling more and more borrowers to obtain credit who traditionally would have been unable to access it. According to INSIDE MORTGAGE FINANCE, from 1994 to 2006, subprime lending increased from an estimated $35 billion, or 4.5% of all one-to-four family mortgage originations, to $600 billion, or 20% of originations.

105. To ride this housing boom, Wall Street financial firms aggressively pushed into the complex, high-margin business of securitization, *i.e.*, packaging mortgages and selling them to investors as RMBS. This aggressive push created a boom for the mortgage lending industry. Mortgage originators generated profits primarily through the sale of their loans to investment banks like JPMorgan Chase, Bear Stearns, and Washington Mutual, and the originators were therefore driven to originate and sell as many loans as possible. Increased demand for mortgages by banks like JPMorgan Chase, Bear Stearns, and Washington Mutual led to increased volume in mortgage originations. That increased volume, in turn, led to a decrease in the gain-on-sale margins that mortgage originators received from selling pools of loans. As a result, originators began to borrow money from the same large banks that were buying their mortgages in order to fund the origination of even more mortgages. By buying and packaging mortgages, Wall Street firms enabled the lenders to extend credit even as the dangers grew in the housing market. Indeed, according to the FBI's 2006 Mortgage Fraud Report, a fraud analytics company analyzed more than 3 million loans and found that between 30 and 70 percent of early payment defaults were linked to significant misrepresentations in the original loan applications.

106. In the instant action, the players that structured the Certificates purchased by Plaintiff were JPMorgan Chase, Bear Stearns, and Washington Mutual, and their affiliated entities. Defendants embarked on a scheme to profit from the housing boom by acquiring or partnering with subprime lenders, such as the Originators described in ¶¶ 241-325, *infra*, and then directing or encouraging these lenders to originate and purchase large numbers of mortgage loans, regardless of the borrower's ability to pay, so that the loans could then be quickly flipped at a profit on to an unsuspecting secondary market (that is, RMBS investors such as Plaintiff).

107. Defendants reaped massive profits from their activities in the RMBS space during the U.S. housing boom. At nearly every stage in the mortgage securitization process, Defendants garnered enormous profits—pocketing the difference between what they paid for a pool of mortgage loans and what they received from selling those loans into a securitization; from collecting underwriting fees and commissions from selling the RMBS they had securitized to investors; to earning interest and fees from the warehouse lending arrangements they established with subprime originators to facilitate the issuance of the loans underlying those securities.

108. As a result of these efforts, between 2000 and 2007, WaMu and Long Beach together securitized approximately $77 billion in subprime loans. Starting in 2003, the JPMorgan Defendants increased their origination and securitization of mortgage loans extensively. During the 2003, 2004, 2005,and 2006 fiscal years, JPMM Acquisition, the issuer for every JPMorgan Chase Certificate at issue in the case, securitized approximately $545 million, $5 billion, $2.1 billion, and $40.6 billion of residential mortgage loans, respectively. Moreover, the securitization of residential mortgage loans by Defendant JPM Acceptance increased by more than five times between 2004 and 2005, from approximately $4.5 billion to $24 billion. Likewise, from 2003 to 2004, the securitization of mortgage loans by the Bear Stearns Defendants, mainly through Defendant EMC, increased by almost three times from 86,000 loans to 230,000 loans. This represented an increase from approximately $20 billion to $48 billion. In 2005, the amount of mortgage loans securitized by EMC increased to 389,000 loans valued at almost $75 billion. In 2006, more than 345,000 loans were securitized by the EMC, valued at nearly $69 billion. Overall, from 2003 to 2007, Defendant EMC purchased and securitized more than one million mortgage loans originally valued at over $212 billion.

109. Defendants had direct insight into the true -- very poor -- quality of the loans underlying the Certificates they issued to Plaintiff ABP. This is evidenced by Defendants' financial relationships with the third-party originators, such as through warehouse lending arrangements, and is most prominently evidenced by their origination of badly defective loans through their own mortgage origination units, including Defendants JPMorgan Bank and EMC, and non-defendants Encore, Long Beach, and WaMu Bank. Additionally, Defendants were aware of the scope of the poorly underwritten loans in the RMBS they issued through their roles as sponsors of RMBS and their roles as RMBS trustees.

110. Instead of disclosing the true nature of these loans to investors such as Plaintiff ABP, however, Defendants routinely placed defective loans into securitizations to be sold to investors in order to reap enormous fees with no perceived risk and, at times, to eliminate loans from their own balance sheets that they knew would decline in value.

A. DEFENDANT JPMORGAN CHASE ABANDONED UNDERWRITING STANDARDS AND APPRAISAL GUIDELINES IN ITS VERTICALLY INTEGRATED SECURITIZATION PROCESS

111. JPMorgan Chase had ample information about the sorry state of the loans that it was securitizing. Its retail operations gave JPMorgan Chase a window into the fraud and abuses that were prevalent in the mortgage market, and JPMorgan's due diligence vendor told it about underwriting failures in the loans that it had purchased. Indeed, the misrepresentations in JPMorgan's Offering Documents were so pervasive that JPMorgan Chase either knew or recklessly disregarded such misrepresentations. JPMorgan Chase executives understood that its RMBS were deeply unstable investments, but nonetheless continued to market them as investment-grade securities.

112. JPMorgan Chase's practices, including the subjects of the false statements, misrepresentations and omissions in the Offering Documents, have been and continue to be a

part of multiple federal investigations and proceedings. On May 12, 2010, the WALL STREET JOURNAL reported that federal prosecutors, working with the SEC, had begun the early stages of a criminal probe into whether several Wall Street banks, including JPMorgan Chase, "misled investors about their roles in mortgage-bond deals." The article also stated that JPMorgan Chase was among several banks to receive a civil subpoena from the SEC. On June 21, 2011, the WALL STREET JOURNAL reported that JPMorgan Chase agreed to pay $153.6 million to settle charges that it "failed to disclose to investors in a $1.1 billion synthetic collateralized debt obligation ("CDO") in early 2007 that Illinois-based hedge fund Magnetar Capital LLC helped pick the assets underpinning the CDO portfolio and stood to profit if they defaulted." According to the article, JPMorgan Chase, instead of shutting down the deal and taking a $40 million mark-to-market loss, initiated an aggressive selling campaign to "move early losses on the deal to other investors." When its traditional investors were not interested, the article explains, JPMorgan Chase rushed to shed $40 million in early losses to outside investors, urging its salespeople to make selling this deal the "top priority from the top of the bank all the way down." This is further evidence of a pattern and practice of JPM doing whatever it had to do to protect itself, even at the expense of investors.

1. JPMorgan Chase Disregarded Underwriting Guidelines and Appraisal Standards In Its Own Mortgage Lending Operations

113. To maximize profits and ensure control over each aspect of the securitization process, from origination through securitization and sale to investors, such as Plaintiff ABP, JPMorgan Chase maintained a vertically integrated operation. One way JPMorgan Chase kept the securitization machine running was by directing its own affiliated mortgage loan originators to churn out loans as quickly as possible with increasingly less concern for satisfying underwriting guidelines or obtaining independent appraisals. JPMorgan Bank originated

mortgages, either directly or through an affiliate, that were included in Issuing Trusts from which Plaintiff purchased Certificates.

114. James Theckston, a former regional vice president for the JPMorgan subsidiary Chase Home Finance, LLC ("Chase") in southern Florida, was interviewed regarding Chase's lending and securitization practices for a November 30, 2011 NEW YORK TIMES article, "A Banker Speaks, With Regret." Theckston's team wrote $2 billion in mortgages in 2007 alone. According to Theckston, Chase engaged in high-risk lending practices such as making no-documentation loans to borrowers with insufficient resources. "On the application, you don't put down a job; you don't show income; you don't show assets; but you still got a nod," he said. "If you had some old bag lady walking down the street and she had a decent credit score, she got a loan… You've got somebody making $20,000 buying a $500,000 home, thinking that she'd flip it. It was crazy, but the banks put programs together to make those kinds of loans."

115. These excesses were driven by JPMorgan's vertically integrated securitization business model. "The bigwigs of the corporations knew [about declining lending standards], but they figured we're going to make billions out of it, so who cares?" Theckston said. "The government is going to bail us out. And the problem loans will be out of here, maybe even overseas." Because risky loans were securitized and sold to investors such as Plaintiff, Chase created incentive structures that rewarded risky lending. Theckston said that some Chase account executives earned commissions seven times higher from subprime loans rather than prime mortgages. As a result, those executives looked for unsophisticated borrowers with less education or limited English abilities and convinced them to take out subprime loans. Theckston's own 2006 performance review indicated that 60% of his evaluation depended on him increasing the production of high-risk loans.

116. According to the Federal Home Loan Bank of Boston ("FHLBB") investigation into the origination practices of JPMorgan Bank, a senior underwriter at JPMorgan Bank stated that managers "often overturned the decisions of lower-level underwriters to reject stated-income loans … If the manager felt the income made sense and the underwriter didn't, the manager could overturn it." FHLBB has interviewed a number of former loan personnel at Chase. One witness, a loan processor and assistant to the branch manager at a Florida branch of Chase from April 2006 until August 2007, noted that many employees inflated borrowers' income on orders from the branch manager to get loans approved, saying, "It was very common to take stuff out of the loan file." Loan officers would often bring their loans to the branch manager for instructions on what the stated income should be to make a loan close. Branch managers would also call the regional managers above them for instructions on problem loans.

117. Another witness, a senior loan underwriter at Chase from December 2004 to August 2005, said that Chase loan personnel knowingly permitted borrowers to submit false income data, saying that, "[y]ou'd see self-employed people, like a landscaper, who stated they made $10,000 a month." When borrowers stated unreasonable income levels, management would push the loans through regardless. The witness said that in addition to being told to accept unreasonable stated incomes, employees were not permitted to question appraisals that appeared to be inflated. He recalled a subdivision in California in which Chase accepted appraisal values that were double the sales prices of identical homes sold just a few months ago.

118. According to an investigation of the origination practices of Chase by Plumbers' & Pipefitters' Local #562 Supplemental Plan & Trust, a former senior underwriter from March 2002 through January 2008 at Chase, said that when processing loans that required verification of assets, "we really were not verifying them, what we would do is look to see if a borrower was

making, say $15,000 a month, if that's [what] they were listing. We would hope to see assets that would compare to or be comparable to that type of income."

119. Additionally, according to one witness, a former senior processor, junior underwriter, and compliance controller who worked at Chase between December 2002 and October 2007, loan processors weren't provided with all of the relevant borrower information: "there was some information that was being withheld from us."

120. JPMorgan's fraudulent origination and purchasing practices are also evidenced by information obtained from Allstate Insurance Company ("Allstate"), the Federal Housing Finance Agency, acting as conservator for Fannie Mae and Freddie Mac (the "FHFA"), and Massachusetts Mutual Life Insurance Company ("Mass Mutual"). Each of these entities conducted loan-level analyses of JPMorgan-issued RMBS that they had purchased. As discussed more fully below, these forensic analyses, which covered thousands of individual mortgage loans, found substantial breaches of the representations and warranties in the relevant prospectus supplements, particularly with respect to LTV ratios and owner-occupancy statistics. On information and belief, the mortgages that JPMorgan and its subsidiaries sold to Allstate, Fannie Mae/Freddie Mac and Mass Mutual were originated through substantially the same channels and methods as the mortgages underlying Plaintiff's Certificates.

121. Additionally, according to documents provided to the FCIC, as of August 31, 2010, Fannie Mae has required JPMorgan to repurchase 6,456 loans originated by its subsidiaries JPMorgan Bank and Chase with an unpaid principal balance of $1.359 billion. Fannie Mae has also requested that JPMorgan repurchase an additional 1,561 JPMorgan Bank and Chase loans with an outstanding principal balance of $345 million. Likewise, between 2007 and August 31,

2007, Freddie Mac required JPMorgan to repurchase 5,427 Chase loans with an unpaid principal balance of $1.188 billion.

122. In a March 27, 2008 article, THE OREGONIAN revealed that an internal memorandum circulated at Chase provided employees with information on how to fraudulently game ZiPPy, Chase's in-house automated loan underwriting system. The memorandum, aptly titled "ZiPPy Cheats & Tricks," cheerfully encouraged loan personnel to inflate borrower incomes and enter false information into the program to "get the findings you need." It specifically recommended the following three "handy steps" for getting stated-income loans with LTV ratios of up to 100% approved:

> 1. Make sure you input all income in base income. DO NOT break it down by overtime, commissions or bonus.
>
> 2. If your borrower is getting a gift, add it to a bank account along with the rest of the assets. Be sure to remove any mention of gift funds.
>
> 3. If you do not get [the desired results], try resubmitting with slightly higher income. Inch it up $500 to see if you can get the findings you want. Do the same for assets.

123. The memorandum noted that manipulating Chase's underwriting software was not difficult, stating, "It's super easy! Give it a try!"

124. In testimony before the FCIC, JPMorgan Chase CEO Jamie Dimon ("Dimon") admitted that JPMorgan Chase's underwriting standards "should have been higher." He also testified that before the collapse of the housing bubble, JPMorgan Chase "misjudged the impact of more aggressive underwriting standards" and that JPMorgan Chase "should have acted sooner and more substantially to reduce the loan-to-value ratios."

2. JPMorgan Chase Management Was Aware That Third Party Originators Were Abandoning Their Underwriting Guidelines and Appraisal Standards

125. During the housing boom, JPMorgan Chase, and other issuers of RMBS hired Clayton Holdings Inc. ("Clayton") to conduct due diligence to review whether the loans to be included in a particular RMBS offering complied with the law and met the lending standards that mortgage companies said that they were using. Clayton's Form 10-K filed on March 14, 2008, represented that Clayton provides "services to the leading buyers and sellers of, and investors in, residential and commercial loan portfolios and securities … includ[ing] major capital markets firms, banks and lending institutions, including the largest MBS issuers/dealers."

126. On September 23, 2010, hearings were held by the FCIC in Sacramento, California. Part of the hearings involved the role that Clayton played in the mortgage securitization process. Clayton's current Senior Vice President of Transaction Management Vicki Beal ("Beal") suggested that, rather than directing due diligence firms to conduct thorough portfolio reviews that would most likely identify defective loans, the investment banks, such as JPMorgan Chase, pressured loan reviewers to disregard the problematic loans through the use of exceptions and offsets, even in cases where such practices did not satisfy the applicable underwriting guidelines.

127. Clayton reviewed 911,000 loans for 23 investment or commercial banks, including JPMorgan Chase ("Trending Report"). The Trending Report covered roughly 10% of the total number of mortgages Clayton was contracted to review. Clayton graded each loan for credit and compliance by using the following grading scale: Event 1, loans that meet guidelines; Event 2, loans that do not meet guidelines but have sufficient compensating factors; and Event 3, loans that do not meet guidelines and have insufficient compensating factors.

128. Of the mortgage loans reviewed, only 54% met the lenders' underwriting standards. About 28% of the loans sampled were initially rejected, as they were unable to meet numerous underwriting standards. According to the testimony of Beal and D. Keith Johnson, the former President and Chief Executive Officer of Clayton, however, 39% of these troubled loans were waived back into the mortgage pools and sold to investors like Plaintiff ABP during the period.

129. Clayton provided a trending report which contained the rejection and waiver rates for the loans that were pooled into RMBS by JPMorgan Chase and sold to investors such as Plaintiff. Clayton found that of the JPMorgan securitized loans that Clayton reviewed for underwriting compliance, 27% neither met underwriting guidelines nor possessed compensating factors to justify an exception to be included into securitizations (Event 3). However, JPMorgan Chase ignored many of these underwriting failures and waived ***51%*** of those rejected loans back into its mortgage pools – the highest waiver rate of any of the 23 institutions that Clayton analyzed – and sold RMBS containing these non-compliant loans to investors like Plaintiff ABP.

130. In their capacity as the underwriters for all of the Certificates purchased by ABP, Defendants JPMS, BSC, WaMu Capital, Banc of America, and Credit Suisse had an obligation to conduct due diligence regarding the accuracy and completeness of the Offering Documents prior to their dissemination to investors such as ABP. In connection with that due diligence process, the Underwriter Defendants had access to various sources of information, including the Clayton Report, which should have alerted them to the various originators' systematic and widespread abandonment of stated underwriting guidelines and appraisal methods. The Underwriter Defendants were supposed to play a "gatekeeper" role for public investors like

Plaintiff, who did not have access to non-public information through which to test the assertions in the Offering Documents.

131. However, it is evident that the Underwriter Defendants did not fulfill their obligation to ensure that investors, like ABP, were provided with Offering Documents containing accurate and complete information. For example, Ms. Beal told the FCIC in her prepared remarks, "[t]o our knowledge, prospectuses do not refer to Clayton and its due diligence work." She further stated that "Clayton does not participate in the securities sales process, nor does it have knowledge of our loan exception reports being provided to investors or the rating agencies as part of the securitization process." Additionally, Mr. Johnson confirmed to investigators that Clayton's findings should have been disclosed to investors.

3. JPMorgan Chase Benefited From The Securitization of Defective Loans At The Expense of Investors

132. By late 2006, the heads of JPMorgan Chase realized that the deterioration of underwriting standards had reached a critical level. In a September 2, 2008 article, FORTUNE magazine reported that Dimon received a report from JPMorgan's chief of loan servicing in October 2006, showing that late payments on subprime loans were rising at an alarming rate. Dimon placed a call to Defendant King, JPMorgan's then-chief of securitized products, warning him to "watch out for subprime" and that "[t]his stuff could go up in smoke." Yet, while warnings were circulated internally on the dangers of subprime mortgage loans, JPMorgan, in order to maximize its fees, continued to originate, securitize and sell them to investors such as ABP. JPMorgan's Chief Risk Officer Barry Zubrow told the FCIC on September 1, 2010, that "there was a tradeoff between certain financial covenants and protections versus a desire to maintain market share."

133. According to FORTUNE magazine, in October 2006 Dimon suggested to Defendant King that JPMorgan Chase needed to start unloading its subprime-mortgage exposure, stating, "We need to sell a lot of our positions." JPMorgan subsequently sold more than $12 billion in subprime mortgage debt from its own balance sheet and encouraged select clients to sell securities backed by RMBS. But when questioned by the FCIC on risk management procedures in place at JP Morgan during this time period, Mr. Dimon's response was simply that "[i]n mortgage underwriting, somehow we just missed, you know, that home prices don't go up forever and that it's not sufficient to have stated income in home [loans]."

134. It is apparent that Defendants knew or acted with reckless disregard with respect to the risk that a substantial number of the loans that were included in the securitizations purchased by Plaintiff ABP were not underwritten in compliance with the originator's underwriting guidelines.

135. Contrary to the representations in the Offering Documents, the mortgage loans underlying Plaintiff's Certificates not only did not comply with the underwriting standards as represented, but these standards were knowingly and systemically ignored by Defendants in order to achieve the goal of originating and securitizing as many loans as possible in order to maximize its fees.

136. As represented in the Offering Documents, Defendants' underwriting guidelines were primarily intended to assess the ability and willingness of the borrower to repay the mortgage loan, apart from the adequacy of the mortgaged property as collateral for the loan. Accordingly, the underwriting guidelines required the consideration of, among other things, the borrower's assets, liabilities, income, employment history and credit history.

137. Notwithstanding these explicit requirements in their underwriting guidelines, the originators extended numerous loans even though the borrower's financial and employment information was not provided, or even if it was, where that information was patently false and the originators knew that the borrower was misrepresenting her or his income, occupation and other information, and was engaged in outright mortgage fraud.

138. Defendants had access to due diligence reports revealing that a significant number of loans underlying the RMBS they issued were flawed. This did not, however, stop investment banks such as JPMorgan from using the trending reports to their own advantage. Johnson further testified that Clayton's clients used Clayton's due diligence to "negotiate better prices on pools of loans they [we]re considering for purchase, and negotiate expanded representations and warranties in purchase and sale agreements from sellers."

139. Since JPMorgan Chase was paying a lower price to acquire troubled loans from the various originators, it could have passed these discounts on to investors like Plaintiff ABP. Instead, Defendants charged investors such as Plaintiff ABP the same high prices that were associated with better-quality loans, thereby increasing their own profits on securitizations that ***they knew*** were problematic.

140. RMBS investors such as Plaintiff lacked the ability to review individual loan files, and depended on issuers such as JPMorgan to carry out this function. Moreover, RMBS investors such as Plaintiff paid issuers such as JPMorgan significant fees for carrying out due diligence reviews. By cynically ignoring the results of its due diligence and waiving loans that it knew to be defective into securitization pools, JPMorgan neglected a job that it had been paid to do and abdicated its gatekeeper role.

B. DEFENDANT BEAR STEARNS ABANDONED ITS UNDERWRITING STANDARDS AND APPRAISAL GUIDELINES IN ITS VERTICALLY INTEGRATED SECURITIZATION PROCESS

141. Bear Stearns was a pioneer in the "vertically integrated" mortgage model. Through the affiliates and subsidiaries that it controlled, it had a hand in virtually every aspect of mortgage lending and a deep institutional knowledge of the marketplace. Bear Stearns originated loans, pooled them, packaged them into RMBS, sold the RMBS to investors, and serviced the securitized loans on behalf of the issuing trusts, collecting fees at each step. Bear Stearns knew that underwriting standards were disintegrating across the mortgage industry and chose to compete in this race to the bottom, weakening its own underwriting so as not to be left behind. According to *Inside Mortgage Finance*, Bear Stearns was the underwriter for approximately $130.8 billion and $103.4 billion of mortgage-backed securities in 2005 and 2006, contributing to a 123% jump in the firm's revenue between 2003 and 2006.

142. Bear Stearns' ultimate goal was to underwrite as many loans as possible by whatever means necessary, even if this meant sacrificing quality. As Jo-Karen Whitlock, Senior Vice President of Conduit Operations for EMC wrote in an April 4, 2006 email, "[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."[4]

143. Bear Stearns personnel were acutely aware of the effect that its reduced underwriting standards had on asset quality and on the performance of the RMBS that they were selling to investors such as Plaintiff. For example, in the summer of 2006, Bear Stearns Vice

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[4] Unless otherwise noted, all emphases are added and internal citations are omitted.

President Nicholas Smith, the deal manager responsible for a Bear Stearns RMBS, characterized the deal as a "SACK OF SHIT" and a "shitbreather" in internal emails to Managing Director Keith Lind. Likewise Bear Stearns mortgage finance analyst Charles Mehl referred to another such transaction as a "going out of business sale" in an April 5, 2007 email to Lind, and Bear Stearns Associate Director John Tokarczyk told Jeffrey Maggard, the transaction's deal manager, that it was a "DOG" in an April 30, 2007 missive.

144. Bear Stearns also abused the securitization process on the back end by demanding that third-party originators who sold it defective loans compensate it for their breaches of representations and warranties without passing these recoveries on to the RMBS investors who suffered losses from the breaches. Because it controlled the securitization process from beginning to end, Bear Stearns was capable of manipulating the system for maximum profit.

1. Bear Stearns Abandoned Underwriting Guidelines and Appraisal Standards In Its Own Mortgage Lending Operations

145. One of the reasons that Bear Stearns knew that underwriting standards had not been followed with respect to the loans underlying its RMBS was because it had originated many of those loans itself. Bear Stearns originated subprime mortgage loans through subsidiary entities such as BSRMC.

146. Bear Stearns created BSRMC in April 2005 as a mortgage originator that would support Bear Stearns' securitization operations. In 2006, its first full year of business, it originated more than $4.3 billion in loans, most of which were Alt-A mortgages. Alt-A loans fall into a risk category between prime and subprime, and are generally characterized by less than full documentation, lower credit scores and higher LTV ratios.

147. This dramatic one-year rise would not have been possible in a crowded marketplace had BSRMC applied prudent lending standards. BSRMC rejected loan applicants at

a rate ***less than half the national average***. According to an article in THE WALL STREET JOURNAL, BSRMC turned away only about 13% of applications in 2006, compared to a nationwide rate of 29%. In 2006 alone, BSRMC originated 19,715 mortgages worth $4.37 billion.

148. A derivative lawsuit brought by the State Treasurer of Michigan as lead plaintiff (the “Michigan litigation”) quotes a sales manager who worked at BSRMC until February 2008, as saying that his office was under great pressure to “dig deeper” and originate riskier loans that “cut corners” with respect to credit scores and LTV ratios. Likewise, a quality control analyst who worked at EMC from April 2006 through August 2007, whose job duties entailed reviewing loan origination and portfolio statistics and creating reports for EMC senior management, said that EMC would buy almost everything, including loans where the borrower’s income could not be verified.

149. This rush to originate mortgages, regardless of quality, resulted in many fraudulent and/or imprudent loans being made. For example, BSRMC made $6.8 million dollars in mortgage loans to an Atlanta-based fraud ring. One of those indicted received a $1.8 million mortgage after claiming that he earned more than $600,000 per year as the top officer of a marketing firm and had $3 million in assets, when in fact he was a phone technician earning only $105,000 per year and had assets of $35,000.

150. Other confidential witnesses quoted in the Michigan litigation confirm that management understood that Bear Stearns’ high-volume business model led to risky purchases. A former collateral analyst who worked for Bear Stearns in the first half of 2007 reported that during late 2006 and early 2007 EMC was “buying everything” without regard for risk due to the profitability of securitization, and that Bear Stearns managers did not enforce basic underwriting

standards. An underwriting supervisor and compliance analyst who worked for EMC from September 2004 until February 2007 reported that the Bear Stearns traders who purchased the high-risk loans were aware of their weaknesses, and ignored due diligence findings that the borrowers had insufficient income.

151. In 2007, BSRMC further expanded its origination operations with the acquisition of Encore. Encore was a wholly-owned subsidiary of ECC Capital Corporation ("ECC Capital"), a mortgage finance real estate investment trust that originated and invested in residential mortgage loans. On February 9, 2007, BSRMC purchased ECC Capital's subprime mortgage origination business for $26 million.

152. Encore disregarded its own underwriting guidelines and used inflated appraisals, leading to multiple lawsuits. In May 2009, Encore was listed as number 17 on the Center for Public Integrity's list of top 25 subprime lenders responsible for the subprime economic meltdown based on the over ***$22 billion*** in high-risk, high-interest loans originated between 2005 and 2007.

153. In January 2009, a lawsuit was filed in the Eastern District of California against Encore and several other defendants, alleging that it engaged in a scheme to coerce low income borrowers into loans that they could not afford. The complaint alleged that defendants did not assess borrowers' credit risk, debt-to-income ratios, or any other objective factors designed to assess repayment ability. Moreover, the plaintiffs claimed that Encore encouraged appraisers to overstate and did overstate appraisal values in order to push more loans through the system. Plaintiffs' Truth In Lending Act ("TILA") claims were dismissed on statute of limitations grounds. In July 2009, a similar complaint was filed in the Central District of California against

Encore and several other defendants, alleging that Encore was involved in originating loans based upon false and inflated appraisal values.

154. Moreover, unlike ABP, Ambac Assurance Corporation ("Ambac"), an insurer that provided insurance for Bear Stearns RMBS, had access to complete loan files for certain Bear Stearns securitizations that are part of the same sequence of offerings as some of the Bear Stearns Certificates at issue here. Ambac made its analyses public for the first time in November 2009, but expanded it in January 2011. These analyses reveal that Bear Stearns misrepresented key elements of the mortgage loans, including widespread disregard of underwriting guidelines.

155. Ambac's analysis involved four offerings that were part of the same series of offerings in which ABP invested: SACO 2005-10, SACO 2006-2, SACO 2006-8, and BSSLT 2007-1. These offerings involved the same types of collateral originated at roughly the same time and by the same entities that originated the mortgage loans underlying ABP's Bear Stearns Certificates.

156. Ambac reviewed 1,486 loans from these offerings, and found that ***89%*** involved breaches of representations and warranties made by EMC in the insurance contracts, including "[t]he most prevalent and troubling of the breaches … (1) rampant misrepresentation about borrower income, employment, assets, and intentions to occupy the purchased properties, and (2) the loan originators' abject failures to adhere to proper and prudent mortgage-lending practices, including their own underwriting guidelines."

157. Based on its investigation, Ambac concluded that "the entire pool of loans that EMC securitized in each Transaction is plagued by rampant fraud and an abdication of sound mortgage-origination and underwriting practice." As such, these fraudulent practices implicated not only EMC, but the entire "Bear Stearns securitization machine," which Ambac described as

"a house of cards, supported not by real value and sound practices but by Bear Stearns's appetite for loans and disregard as to the risks those loans presented."

158. Ambac's random sampling of loans – which included loans from the same series and time period as offerings in which ABP invested – produced the following results:

- Of the sample of 372 randomly selected loans in the SACO 2005-10 Transaction, Ambac identified breaches of representations and warranties in 336 loans, or 90%;
- Of the sample of 369 randomly selected loans in the SACO 2006-2 Transaction, Ambac identified breaches of representations and warranties in 337 loans, or 91%;
- Of the sample of 379 randomly selected loans in the SACO 2006-8 Transaction, Ambac identified breaches of representations and warranties in 334 loans, or 88%;
- Of the sample of 366 randomly selected loans in the BSSLT Transaction, Ambac identified breaches of representations and warranties in 325 loans, or 88%; and
- The analysis described above demonstrates with a high degree of certainty that breaches of representations and warranties exist in a comparable percentage of loans in the total loan pool in each Transaction.

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159. Assured Guaranty Corp. ("Assured"), another RMBS insurer, made similar discoveries about the fraudulent practices of Bear Stearns Defendants through its analysis of loan files associated with EMC's SACO 2005-GP1 offering. Assured wrote insurance for the offering and had access to some of the complete files for loans that were included in the trust pool.

160. Assured conducted two separate analyses of samples of defaulted loans from the offering, which were made public in July 2010. Assured's first review of a sample of 430 defaulted loans revealed "widespread breaches of EMC's representations and warranties in over 88% of the loans examined." Assured's second review of an additional sample of 476 defaulted

loans uncovered "widespread breaches of EMC's representations and warranties in over 92% of the loans examined." These widespread defaults involved the same types of loans during the same time period as those underlying ABP's Bear Stearns Certificates.

2. Bear Stearns Was Aware That Third Party Originators Were Abandoning Their Underwriting Guidelines and Appraisal Standards

161. In addition to originating loans through entities that it directly controlled, such as BSRMC and Encore, Bear Stearns also purchased loans from third-party originators. In its Form 10-K Annual Report for the period ending November 30, 2006, BSCI stated that, "EMC, in addition to purchasing loans from [BSRMC] for securitization, purchases loan portfolios from financial institutions and other secondary mortgage-market sellers. Prior to bidding on a portfolio of loans for purchase, an analysis of the portfolio is undertaken by experienced mortgage-loan underwriters."

162. Despite these representations, Bear Stearns did not have consistent due diligence practices for analyzing the loans it purchased from third-party originators. Instead, according to the deposition testimony of Managing Director Baron Silverstein, originators, "typically would stipulate the terms of a portfolio which would include the due diligence strategy. Bear Stearns would evaluate the due diligence that was being stipulated by the seller in order to determine whether or not we were comfortable to purchase a pool of mortgage loans based upon that strategy… Bear Stearns' due diligence strategy continually changed based upon the marketplace, transactions and sellers."

163. Bear Stearns' lack of consistent due diligence practices allowed it to ratchet down its standards so as to compete for loans with other Wall Street securitization firms. An internal Bear Stearns email sent from Vice President of Due Diligence John Mongelluzzo to Managing Director Mary Haggerty and other Bear Stearns employees on February 11, 2005 reveals that

Senior Managing Director Chris Scott ordered the amount of required due diligence to be reduced on a trade by trade basis "in order to make us more competitive on bids with larger subprime sellers." In a follow-up email to Haggerty, Mongelluzzo, and others sent on February 11, 2005, Exchange employee Biff Rogers noted that as a result of this change, Bear Stearns would no longer have complete due diligence files to rely on.

164. Bear Stearns executives realized that their due diligence was inadequate but did nothing to remedy the situation. Like JPMorgan, Bear Stearns made use of Clayton as a third party vendor of due diligence services. In a March 23, 2006 email chain regarding Clayton, Defendant Verschleiser, the head of Bear Stearns' mortgage and asset-backed securities trading desk, said, "We are waisting [sic] way too much money on Bad Due Diligence." A year later, in a March 15, 2007 email chain, Verschleiser said, "We are just burning money hiring [Clayton]."

165. An internal Bear Stearns email chain dated March 24, 2006 reveals that due to Bear Stearns' slipshod procedures, some types of loans were placed into securitizations without ***ever*** having been cleared through due diligence. Deal manager Robert Durden wrote to Bear Stearns Managing Director Stephen Golden that, "I agree the flow loans were not flagged appropriately and we securitized many of them which are still to this day not cleared. I think the ball was dropped big time on the flow processes involved in the post close [due diligence], from start to finish."

166. When Bear Stearns' due diligence vendors did report underwriting failures, Bear Stearns frequently decided to overlook them. Clayton's data revealed that of the securitizations sponsored by Defendant EMC, the Sponsor for all Bear Stearns issued Certificates purchased by Plaintiff ABP, which Clayton reviewed for underwriting compliance, 16% neither met underwriting guidelines nor possessed compensating factors to justify an exception to be

included into securitizations (Event 3). However, EMC ignored many of these underwriting failures, waived ***42%*** of those rejected loans back into its mortgage pools, and sold RMBS containing these non-compliant loans to investors like Plaintiff ABP. An employee of Watterson-Prime, another vendor that Bear Stearns used for due diligence reviews, said in a May 27, 2008 NPR interview that about 75% of the time, loans that should have been rejected were put into the pool and sold. Adfitech, Inc. ("Adfitech"), yet another third party firm that EMC hired to "review loans to evaluate if they meet investor quality guidelines, if sound underwriting judgment was used, and if the loan is devoid of all misrepresentation or fraud characteristics," found that ***38.8***% of the loans it sampled were defective according to EMC's stated quality control guidelines.

167. When Bear Stearns' due diligence reviews revealed massive underwriting failures, Bear Stearns made a conscious decision to ignore this information and ***further*** reduce the amount of due diligence it performed. Around May 2005, John Mongelluzzo, the head of Bear Stearns' due diligence department, proposed that Bear Stearns begin tracking the performance of loans that had received exceptions. This would have permitted Bear Stearns to examine the impact that its liberal use of exceptions was having on default rates and the overall riskiness of its RMBS, and ensure that the due diligence managers were making appropriate decisions. Instead, Bear Stearns chose to grant exceptions blindly. Not only did it ignore the effects that its exceptions were having, it directed its personnel to purge the daily reports that it received from its due diligence firms so as not to leave an audit trail.

168. Likewise, in an April 5, 2007 email, an EMC assistant manager for quality control underwriting and vendor management ordered Adfitech to halt certain procedures to verify loan file information, stating that:

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

169. Former EMC mortgage analyst Matthew Van Leeuwen was quoted in a May 2010 article in THE ATLANTIC, as saying that Bear Stearns adopted unreasonably short time frames for its mortgage due diligence analyses, told analysts to make up missing data if mortgage originators did not respond to requests, and accepted loans with weak verification rather than requesting clarification from the originators. According to the FHFA complaint, Van Leeuwen also told the FHFA in a March 30, 2009 e-mail that "the pressure was pretty great for everybody to just churn the mortgages on through the system," and that analysts were encouraged to "just fill in the holes" when data was missing. Another EMC analyst told THE ATLANTIC, "[F]rom Bear's perspective, we didn't want to overpay for the loans, but we don't want to waste the resources on deep investigation: that's not how the company makes money. That's not our competitive advantage – it eats into profits."

3. Bear Stearns Offloaded Loans That It Had Identified As Fraudulent And/Or Likely To Default Onto Unsuspecting Investors

170. Bear Stearns was aware that third party originators routinely sold it loans that did not comply with representations and warranties, as evidenced by its aggressive pursuit of claims against third party originators for selling it defective loans. Bear Stearns filed $2.5 billion in claims for representation and warranty violations in 2006, an increase of 78% from the previous year, and resolved $1.7 billion in claims, an increase of over 227% from the previous year, according to a February 26, 2007 audit report addressed to Managing Director Mary Haggerty.

171. However, although Bear Stearns recognized that thousands of the loans it had securitized involved breaches of the third party originators' stated underwriting standards, it did not remove these flawed assets from the RMBS mortgage pools it securitized and sold to unsuspecting investors such as Plaintiff, who did not have the same access to loan-level data and instead relied on the representations made by issuers such as Bear Stearns. Rather than demand that the third-party originators repurchase the defective loans from the RMBS mortgage pools, Bear Stearns offered them alternatives such as price adjustments, cash settlements or credits for future loan purchases, and then pocketed the funds that it received without notice or compensation to the RMBS investors.

172. An internal audit report from Bear Stearns' external auditor PriceWaterhouseCoopers ("PWC") dated August 31, 2006, noted the impropriety of this practice. PWC stated that when Bear Stearns identified a clear breach in loan quality standards it should immediately buy back the defective loan from the issuing trust "to match common industry practices, the expectation of investors and to comply with the provisions in the [Pooling and Servicing Agreement]." PWC also recommended that Bear Stearns promptly bring its repurchase procedures into compliance with SEC regulations.

173. As one example of Bear Stearns' abuse of the representations and warranties claim process, Bear Stearns entered into a settlement agreement with SouthStar Funding LLC dated January 30, 2007, pursuant to which SouthStar agreed to pay $2,604,515 in lieu of repurchasing certain loans that were defective for reasons including misrepresentations concerning owner-occupancy. On information and belief, this recovery was not passed on to the RMBS investors who had purchased the SouthStar loans. The FHFA has identified two additional 2007 settlements in which originators agreed to pay a total of $13 million to Bear

Stearns in lieu of repurchasing loans. Bear Stearns deal manager Robert Durden testified in a December 11, 2009, deposition that he could not identify a single instance in which Bear Stearns disclosed to RMBS investors that it was recovering settlements from originators with regard to securitized loans and not putting the money into the appropriate trusts. Bear Stearns did not implement a policy to promptly review defective loans for securitization breaches until September 2007, at the earliest.

174. Bear Stearns' repurchase activities not only provided it with detailed knowledge of the poor quality of the assets in its mortgage pools and further evidence of an epidemic of underwriting failures amongst third party originators, but also incentivized it to securitize loans that were more likely to default. In such instances, Bear Stearns stood to gain by requiring third party originators to compensate it for representation and warranty breaches, while the RMBS investors who owned the defective loans unknowingly faced all the risk of loss.

175. The majority of the repurchase claims that Bear Stearns filed against its originators were based on early payment defaults ("EPDs"). EPDs occur when a borrower defaults on a payment within 90 days of taking out of a loan, and are considered a strong indication that the loan was fraudulent or otherwise should never have been made. Because Bear Stearns had recourse against the originators of loans that experienced an EPD, its initial policy was to keep loans in its inventory and not securitize them until the EPD period ran. However, by the end of 2005, Bear Stearns dropped this important safeguard. Not only did it begin placing loans directly into securitizations without any waiting period to ensure that payments were being made, it rushed to securitize newly-acquired loans ***before*** the EPD period had run. For example, in a June 13, 2006 email, Defendant Verschleiser wrote to Deal Manager Robert Durden and Managing Director Keith Lind that Bear Stearns needed "to be certain we can securitize the

loans with 1 month epd before the epd period expires." On the same day, Verschleiser also demanded an explanation from Managing Director Haggerty as to why some loans "were dropped from deals and not securitized before their epd period expired." This revised policy greatly increased risks for RMBS investors, but ensured that Bear Stearns would collect both securitization fees and any EPD repurchase claims that would arise when the loans defaulted, as Bear Stearns anticipated they would. In a May 5, 2007 email, Lind demanded "to know why we are taking losses on 2nd lien loans from 2005 when they could have been securitized?????"

176. Bear Stearns acquired and securitized so many defective loans that it became unable to process all of its repurchase claims. A recently discovered internal audit report dated February 28, 2006, identified a backlog consisting of at least 9,000 outstanding claims worth over $720 million.

C. WAMU ABANDONED UNDERWRITING STANDARDS AND APPRAISAL GUIDELINES IN ITS VERTICALLY INTEGRATED SECURITIZATION PROCESS

177. WaMu was aware of the fault lines in its underwriting as early as September 2004, when James Vanasek, who was then WaMu's Chief Risk Officer, circulated an internal memorandum entitled, "Perspective." The memorandum stated in part:

> In the midst of all this change and stress [in the mortgage area of the bank], patience is growing thin. We understand that. We also know that loan originators are pushing very hard for deals. But we need to put all of this in perspective.
>
> At this point in the mortgage cycle with prices having increased far beyond the rate of increase in personal incomes, there clearly comes a time when prices must slow down or perhaps even decline. There have been so many warnings of a Housing Bubble that we all tend now to ignore them because thus far it has not happened. I am not in the business of forecasting, but I have a healthy respect for the underlying data which says ultimately this environment is no longer sustainable. Therefore I would conclude that now is not the time to be pushing appraisal values. If anything we should be a bit more conservative across the board....

> This is a point where we should be much more careful about exceptions. It is highly questionable as to how strong this economy may be; there is clearly no consensus on Wall Street. If the economy stalls, the combinations of low FICOs, high LTVs and inordinate numbers of exceptions will come back to haunt us.

178. Mr. Vanasek's testimony before the PSI was consistent. He stated that as early as 2004, circumstances within WaMu and in the broader market made "clear to me that [mortgage lending] practices were fundamentally unsound, and it couldn't go on forever. We had housing prices increasing much more rapidly than incomes and you knew that ultimately there was a limit to this. It just practically could not go on … [T]hat was part of my … urgent message to management that we needed to drop these practices and become more conservative at that point in time."

179. This prescient warning conflicted with WaMu's desire for short-term growth and profit and was therefore disregarded. In January 2005, the WaMu Bank Board of Directors formally adopted a policy document entitled, "Higher Risk Lending Strategy," detailing a plan to shift focus from originating low-risk fixed-rate loans to higher risk subprime, home equity and option adjustable-rate mortgage ("Option ARM") loans, because the more hazardous loans were more profitable to sell for securitization. According to the Levin Report, at the time, subprime loans were eight times more profitable for WaMu than fixed rate loans. The plan called upon WaMu to do the opposite of what its most senior risk officer had recommended and originate more loans to borrowers with low FICO scores, more loans with high LTV ratios, and more loans to borrowers who could not verify their incomes.

180. The FCIC characterized the "Higher Risk Lending Strategy" as "a high risk strategy to issue high risk mortgages." Vanasek testified before the PSI that by mid-2005, WaMu management had shifted the company's focus in an attempt to transform it into "more of a higher risk, sub-prime lender." Vanasek said that, "Washington Mutual was a reflection of the

mortgage industry characterized by very fast growth, rapidly expanding product lines and deteriorating credit underwriting."

181. Later in his testimony before the PSI, Vanasek poignantly summarized the behavior of WaMu and others that resulted in the global financial crisis, stating that the breakdown in subprime mortgage lending, "was both the result of individual failures and systematic failures fueled by self interest, failure to adhere to lending policies, very low interest rates, untested product innovations, weak regulatory oversight, astonishing rating agency lapses, weak oversight by boards of directors, a cavalier environment on Wall Street, and very poorly structured incentive compensation systems that paid for growth rather than quality."

182. Under the "Higher Risk Lending Strategy," WaMu management purposefully weakened the company's lending standards and ignored known underwriting failures at Long Beach, which was one of WaMu's top originators. Long Beach was the sole originator of the mortgage loans underlying several securitizations purchased by Plaintiff ABP that are at issue in this case. When WaMu's due diligence revealed that many of the loans it was securitizing did not meet underwriting guidelines, WaMu permitted those loans to be securitized anyway. Indeed, WaMu intentionally securitized loans that it knew were likely to default so that it could get these loans off of its own books.

1. WaMu Abandoned Underwriting Guidelines and Appraisal Standards In Its Own Mortgage Lending Operations

183. WaMu zealously pursued the "Higher Risk Lending Strategy" adopted by management, almost doubling the percentage of higher risk loans that it originated and purchased from 36% to 67% from 2003 to 2007. WaMu's subprime securitizations jumped from approximately $4.5 billion in 2003 to $29 billion in 2006. By 2006, WaMu had increased its securitization business so dramatically, increasing WaMu's market share in the subprime

mortgage market from 4% to 12%, that it became the second ranked RMBS issuer by volume in the country.

184. The only way that WaMu could originate (and ultimately securitize) so many high risk loans was to willfully disregard loan underwriting standards. The FCIC identified a host of poor lending practices at WaMu and Long Beach, including offering high risk borrowers large loans, steering borrowers to high risk loans, offering "no income verification" loans, offering loans with deceptively low teaser rates, exercising weak oversight over loan personnel and third-party mortgage brokers, encouraging shoddy underwriting by compensating underwriting personnel based on volume rather than quality, and tolerating, indeed encouraging, mortgage fraud. The sales department was incentivized to seek out the riskiest loans, since commissions on those were higher than for traditional, conservative products. For example, according to WaMu documents obtained by the THE SEATTLE TIMES, a loan consultant selling a $300,000 Option ARM would earn a $1200 commission — $240 more than for a fixed-rate loan of the same amount. WaMu also provided compensation incentives to sell loans with prepayment penalties.

185. WaMu systematically weakened its underwriting and shoved aside personnel and institutions that tried to maintain reasonable standards. According to an internal WaMu newsletter obtained by the THE SEATTLE TIMES, dated October 31, 2005, risk managers were instructed not to be a "regulatory burden" and that they needed to "shift [their] ways of thinking" towards supporting growth plans. The memorandum also instructed risk managers to rely less on examining borrower documentation and more on automated processes.

186. In 2004, Vanasek approached WaMu CEO Kerry Killinger and asked him to publicly disavow irresponsible lending practices such as making subprime loans with 100% LTV

ratios. This request was ignored. Likewise, in early 2005, Vanasek sent a memorandum to WaMu's then President and Chief Operating Officer, Steve Rotella, complaining that attempts to enforce underwriting discipline were "continuously thwarted by an aggressive, and often times abusive group of Sales employees within the organization."

187. From 2000 to 2007, WaMu's compliance department had nine different leaders. Most of this turnover was caused by compliance officers leaving WaMu or being fired. In March 2007, an Office of Thrift Supervision ("OTS") examiner noted that "The Board of Directors should commission an evaluation of why smart, successful effective managers can't succeed in this position … (HINT: It has to do with top management not buying into the importance of compliance and turf warfare and [WaMu CEO Kerry Killinger] not liking bad news.)"

188. One of the ways that WaMu increased its loan origination was by ignoring the credit histories of its borrowers. Regulatory agencies including the FDIC and OTS have said that "prime" loans should only be offered to borrowers with FICO scores of 660 or higher. However, according to a WaMu training document entitled, "Specialty Lending UW [Underwriter] HLCA [Home Loans Credit Authority] Training," WaMu considered borrowers with FICO scores over 619 to be "prime" borrowers. WaMu told its underwriters that even certain borrowers with bankruptcies within the past four years, or with credit scores as low as 540 were approved for "prime" loans.

189. WaMu also placed borrowers into exotic loans that it knew were inappropriate for them. For example, an Option ARM loan is a type of loan under which the borrower had a number of different payment options, including interest-only payments and minimum payments that did not even cover interest and therefore caused the principal of the loan to ***increase*** over

time rather than decrease. If the principal level rises above a certain threshold the interest rate on the loan automatically increases, in many cases resulting in a "price shock" as the borrower is suddenly forced to make higher payments than he or she can afford. The nonprofit Center for Responsible Lending has said that these complicated loans are "ideally suited for misrepresentation."

190. As the result of its own internal focus group research, WaMu knew that most borrowers did not fully understand Option ARMs, and that only a few focus group participants understood how the interest rates on Option ARMs functioned. Nonetheless, Option ARMs were a mainstay of WaMu's loan production. In 2005 alone, WaMu originated $32.3 billion of these high-risk loans. According to a December 23, 2009 SEATTLE TIMES article, "Reckless Strategies Doomed WaMu," Craig Davis, the executive in charge of WaMu's lending and financial services operations, pushed WaMu to increase Option ARM production. "[Davis] only wanted production," said former WaMu Executive Vice President Lee Lannoye. "It was someone else's problem to worry about credit quality, all the details."

191. WaMu former Chief Legal Officer Fay Chapman has told the SEATTLE TIMES that, "[ARMs] were just nasty products – just awful for the consumers" and that, "Mortgage brokers put people into the product who shouldn't have been." WaMu loan officer Renee Larsen was so disturbed by the complaints she received from Option ARM customers that she contacted the Florida Attorney General. "I feel like [WaMu] perpetuated fraud with my help," Larsen told THE SEATTLE TIMES.

192. Another way that WaMu increased loan volume at the cost of quality was by making increased use of third party lenders and brokers. The Office of the Inspector General found that from 2003 to 2007, between 48% and 70% of WaMu's single-family residential loans

came through third-party originators. Loans generated by third-party originators were attractive to WaMu because they were much cheaper to close than loans generated through WaMu's retail operations. However, the cost of this practice was that WaMu had much less oversight over loan quality. The OIG found consistent weaknesses in WaMu's supervision of the originators it did business with. In 2007, WaMu had only 14 employees overseeing more than 34,000 third-party brokers. Predictably, a 2006 internal WaMu analysis discovered that loans issued by third-party brokers had issues including abnormal delinquency rates, delinquency at the time of purchase, failure to meet underwriting standards, and lower credit quality.

193. WaMu also increased loan volume by vastly expanding its use of "no documentation" loans. According to the Levin Report, by the end of 2007, WaMu had not verified borrower income for 50% of its subprime loans and 90% of its home equity loans. Stated income loans were intended to be a product for borrowers who had strong credit but could not provide documentation of their income. However, WaMu "layered" risk by offering these loans to borrowers with weak credit. A WaMu agent told THE NEW YORK TIMES that if a borrower's job or income was sketchy, the WaMu agent would instruct brokers to leave parts of applications blank so as to avoid prompting verification. Nancy Erken, a WaMu loan consultant in Seattle, told THE SEATTLE TIMES that, "The big saying [at WaMu] was, 'a skinny file is a good file'." According to Erken, when she took files to be processed, WaMu staff would ask her, "Nancy, why do you have all this stuff in here? We're just going to take this stuff and throw it out." Chief Legal Officer Faye Chapman, said that WaMu made a loan to O.J. Simpson. When she asked how such a loan could be foreclosed on, given the large civil judgment outstanding against him, she was told that there was a letter in the file from Simpson saying, "The judgment is no good, because I didn't do it."

194. WaMu also did not take precautions to ensure that borrowers' stated incomes were reasonable. For example, according to a December 27, 2008 NEW YORK TIMES article, one WaMu borrower who claimed a $12,000 monthly income as a gardener, but could not provide a verifiable business license, only a photograph of his truck emblazoned with the name of his landscaping business, was approved for a loan. Steven M. Knobel, the founder of an appraisal company that did business with WaMu until 2007, compared WaMu's lending standards to the Wild West. He said, "If you were alive, they would give you a loan. Actually, I think if you were dead, they would still give you a loan."

195. WaMu's attitude towards mortgage fraud was similarly cavalier. For example, in 2005 an internal WaMu review discovered substantial evidence of loan fraud at its Downey and Montebello branch loan offices in Southern California. A full 42% of the loans reviewed contained suspect activity or fraud, primarily involving misrepresentations of income and employment, false credit letters, and appraisal issues. The loan delinquency rate for Luis Fragoso, the loan officer heading the Montebello office was "289% worse than the delinquency performance for the entire open/active retail channel book of business," and 83% of Fragoso's loans were confirmed as fraudulent. The loan delinquency rate for Thomas Ramirez, the loan officer heading the Downey loan office, was 157% worse than the average, and 58% of his loans were found to be fraudulent. The review further noted that this malfeasance could have been prevented with improved processes and controls, and recommended firm action against Ramirez and Fragoso. However, even when confronted with documented proof of blatant and repeated fraud, WaMu management took no action whatsoever. Over the next two years, Ramirez and Fragoso continued to issue high volumes of fraudulent loans, and even won luxury Hawaiian vacations as rewards for their "productivity."

196. Rich compensation incentives for loan origination, combined with lax procedures for preventing or discovering abuses, created an atmosphere in which fraud was prevalent. In a November 1, 2008 NEW YORK TIMES article entitled, "Was There A Loan It Didn't Like?" former WaMu Senior Mortgage Underwriter Keysha Cooper said that brokers offered her bribes in exchange for approving loans, and that management insisted that even suspicious loans be approved. When Cooper rejected a loan file filled with inconsistencies, her supervisor scolded her, saying, "there is no reason you cannot make this loan work." Cooper said, "I explained to her the loan was not good at all, but she said I had to sign it." Her supervisor even went so far as to complain to the team manager about the rejection and ask that a formal letter of complaint be placed in Cooper's personnel file. Four months later, the borrower had not made a single payment and the loan was in default. "I swear 60 percent of the loans I approved I was made to," Cooper said.

197. In Vanasek's prepared statement to the PSI, he said:

> There have been questions about policy and adherence to policy. This was a continuous problem at Washington Mutual where line managers particularly in the mortgage area not only authorized but encouraged policy exceptions. There had likewise been issues regarding fraud. Because of the compensation systems rewarding volume vs quality and the independent structure of the loan originators, I am confident that at times borrowers were coached to fill out applications with overstated incomes or net worth adjusted to meet the minimum underwriting policy requirements. Catching this kind of fraud was difficult at best and required the support of line management. Not surprisingly, Loan originators constantly threatened to quit and go to Countrywide or elsewhere if their loan applications were not approved.

198. From 2004 to 2008, WaMu's regulators repeatedly criticized WaMu for failure to exercise oversight over its loan personnel or abide by its own credit standards. In August 2005, WaMu received a Report of Examination from OTS stating that, "the level of deficiencies, if

unchecked, could erode the credit quality of the portfolio." A June 2008 OTS report identified multiple longstanding problems with WaMu's fraud detection processes, including:

- Specific WaMu offices were identified as hotbeds of fraud in 2005 and 2007 reviews, but these concerns were not acted upon in a timely manner;
- WaMu's sales-focused culture stressed production volume more heavily than quality, with a limited focus on individual accountability;
- WaMu had no formal process to deal with instances of mortgage fraud brought to its attention by third parties; and
- WaMu production personnel were allowed to participate in income, employment and asset verification, presenting a clear conflict of interest.

199. The report noted that these issues had been brought to the attention of WaMu management in previous reports, but that management had not adequately addressed them.

200. In 2008, a review of underwriting quality and compliance by Radian Guaranty Inc., one of WaMu's insurers, gave WaMu Bank an overall rating of "Unacceptable." Of 133 loans reviewed, it found 11 or 8% had "insufficient documents to support the income used to qualify the borrower and exceptions to approved guidelines." Of the 10 delinquent loans it reviewed, it found that half had "questionable property values, occupancy and possible strawbuyers [sic]."

201. An internal September 2008 review found that controls intended to prevent the sale of fraudulent loans to investors were "not currently effective" and there was no "systematic process to prevent a loan … confirmed to contain suspicious activity from being sold to an investor." In other words, even where a loan was marked with a red flag indicating fraud, that did not stop the loan from being sold to investors. The 2008 review found that of 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." This review was sent to

WaMu's new CEO, Alan Fishman, as well as its President, Chief Financial Officer, Chief Enterprise Risk Officer, and General Auditor.

202. On March 16, 2011, the Federal Deposit Insurance Corp. ("FDIC") filed a complaint against WaMu CEO Killinger, COO Rotella, and Schneider, president of WaMu's home loans division. *Fed. Deposit Ins. Corp. v. Killinger, et al.*, No. 2:11-cv-00459 (W. Dist. Wash. filed March 16, 2011). The suit seeks to recover $900 million from the executives, and accuses them of "[leading] the bank on a 'lending spree' knowing that the housing market was in a bubble and fail[ing] to put in place the proper risk management systems and internal controls." According to the complaint, Killinger, Rotella and Schneider focused on high-risk loans that would create short term gains and increase defendants' compensation, which totaled some $95 million over 2005 to 2008, all the while ignoring internal and external warning signs about problems in the subprime mortgage markets, and ultimately causing WaMu to lose billions of dollars.

203. The FDIC's complaint cites a 2005 memorandum sent to Defendant Rotella from WaMu's Chief Credit Officer, stating that "The organization is at significant risk in its Option ARM … portfolio of payment shock created by abnormally low Start – or teaser – rates, and aggressively low underwriting rates… It is our contention that in the upwardly sloping rate environment and expected flattening of housing appreciation, we are putting borrowers in homes they simply cannot afford." The complaint alleges that in June 2005, WaMu's Chief Credit Officer met personally with Killinger and expressed the same concerns.

2. WaMu Was Aware That Its Subsidiary Long Beach Was Abandoning Its Underwriting Guidelines And Appraisal Standards

204. In addition to its existing mortgage origination arms, WaMu sought to expand its capacity for mortgage loan production. In 1999, WaMu's parent company WMI purchased Long

Beach's parent company. Long Beach made loans for the express purpose of securitizing them. It did not have its own loan officers and relied entirely on third party mortgage brokers to generate loans. After WaMu acquired Long Beach, loan originations and securitizations increased more than tenfold between 2000 to 2006, from $2.5 billion to $30 billion.

205. Long Beach was one of the worst performing originators in the mortgage market. Its loans repeatedly experienced early payment defaults, high delinquency rates and losses due to its failure to apply basic underwriting standards. According to the Levin Report, every one of the 75 Long Beach mortgage backed securities tranches rated AAA by S&P in 2006 have since been downgraded to junk status, defaulted or been withdrawn, and most of the 2006 Long Beach securitizations have delinquency rates of 50% or higher. The Certificates purchased by Plaintiff ABP have likewise experienced the same downgrades to junk status and high delinquency rates. *See infra*, ¶ 528.

206. Diane Kosch, a Long Beach underwriter, told THE HUFFINGTON POST that she was only given 15 minutes per loan file to review for evidence of fraud, and that when she noticed matters such as suspicious incomes, questionable appraisals, or missing documentations, the loans were usually approved nevertheless. "Most of the time everything that we wanted to stop the loan for went above our heads to upper management," Kosch said. "We were basically the black sheep of the company, and we knew it." Furthermore, in some instances, pages were removed from loan files. Suspicions of fraud led some members of her quality control team to make their own copies of problematic files so as to protect themselves. In some instances, account executives would offer loan reviewers bribes so as to overlook loan deficiencies. "They'd offer kickbacks of money," said Antoinette Hendryx, a former Long Beach underwriter, "Or I'll buy you a bottle of Dom Perignon. It was just crazy."

207. Karan Weaver, another former Long Beach underwriter, told THE HUFFINGTON POST that "A lot of brokers were forging [loan documentation]," and Pam Tellinger, a former Long Beach account executive said, "I knew brokers who were doing fraudulent documents all day long." According to a former account executive, in some cases Long Beach sales team members would coach brokers in creating false loan documents.

208. WaMu was keenly aware of Long Beach's many failings as an originator. In 2003, a WaMu internal analysis of Long Beach's first quarter lending found that 40% of the loans reviewed were unacceptable, and WaMu's legal department froze all Long Beach securitizations until the company improved its performance. A corporate credit review confirmed that "credit management and portfolio oversight practices were unsatisfactory." In an August 2007 email chain, WaMu President Steven Rotella described Long Beach as "a business with no financial management … manual underwriting, no P&Ls, a wholly inadequate servicing shop, no credit staff and a culture that was totally sales driven."

209. The securitization freeze forced Long Beach to hold loans on its warehouse balance sheet, straining the company's liquidity and viability. WaMu's General Counsel, Chapman, initiated a review that included an evaluation of the loans that had accumulated during the freeze. Her team deemed that out of 4,000 loans reviewed, fewer than a quarter could be sold to investors, that another 800 could not be sold, and that the rest possessed significant deficiencies. A WaMu risk officer describing the results of a Long Beach audit said, "We found a total mess."

210. WaMu permitted Long Beach to resume securitizations in 2004, but WaMu personnel recognized that Long Beach's loans were still too dangerous to hold. Instead, WaMu offloaded them onto unsuspecting investors such as ABP. For example, in November 2004, a

WaMu risk officer noted that a number of Long Beach loans representing "our favorite toxic combo of low FICO borrower and [high LTV] loan" were "of such dubious credit quality that they can't possibly be sold for anything close to their 'value' if we held on to them[.]" Another WaMu risk officer forwarded these comments to the head of Long Beach, saying, "I think it would be prudent for us to just sell all of these loans."

211. In early 2005, a wave of EPDs on Long Beach loans forced Long Beach to repurchase loans totaling nearly $837 million in unpaid principal. According to a WaMu report, EPDs are preventable and/or detectable in nearly all cases. WaMu conducted yet another review of Long Beach's lending practices, analyzing the files of 213 Long Beach loans that experienced EPDs, and found evidence of widespread fraud that should have been easily detected, including variations in borrower signatures and White-Out on loan documents. WaMu concluded that a relaxation of underwriting guidelines, combined with breakdowns in manual underwriting processes, inexperienced personnel, a push to increase loan volume, and the lack of automated fraud monitoring tools had all contributed to the deterioration in loan quality.

212. By 2005, WaMu leadership recognized the challenges they faced in order to keep the company's well-oiled securitization scheme running. In an internal e-mail, WaMu Bank's former CEO Killinger explained to Vanasek, "I suspect the toughest thing for us will be to navigate through a period of high home prices, increased competitive conditions for reduced underwriting standards, and our need to grow the balance sheet."

213. Partly in response to this concern, WaMu purchased Long Beach on March 1, 2006, ostensibly to obtain greater control over the lender. However, Long Beach continued to be swamped by EPDs resulting from poorly underwritten loans. In 2006, more than 5,200 Long Beach loans were repurchased at a cost of $857 million. An astounding 43% of these

repurchases involved borrowers who did not make even the first payments on their loans. In January 2007, an internal WaMu review of the quality of Long Beach loans found:

- Appraisal deficiencies that could impact value and were not addressed;
- Material misrepresentations relating to credit evaluation;
- Legal documents were missing or contained errors or discrepancies;
- Credit evaluation or loan decision errors; and
- Missing or insufficient credit documentation.

214. In addition to the information that WaMu received from its internal reviews, regulators continually brought Long Beach's shortcomings to WaMu's attention. At each annual review, regulators from the OTS formally requested that the WaMu Board take action to resolve the deficiencies in Long Beach's lending.

215. The many problems associated with Long Beach were well known by WaMu's leadership. In September 2006, Rotella informed Killinger that Long Beach Mortgage was "terrible" due, among other things to, "repurchases, EPDs, manual underwriting, very weak servicing/collections practices and a weak staff."

216. In 2007, Rotella wrote a reflective e-mail to Killinger, titled "Looking back." Mr. Rotella noted his early apprehension about Long Beach, stating, "I began to express my concerns about Long Beach...mid 2005. ***The business approach was solely market share driven***." He continued, "I said the other day that HLs [Washington Mutual's home-loan division] was the worst managed business I had seen in my career. (That is, until we got below the hood of Long Beach)."

217. Thus, beginning in 1999, WaMu received countless indications that Long Beach was ignoring underwriting guidelines and churning out toxic loans. Yet instead of ensuring that its subsidiary implemented common-sense procedures to ensure underwriting quality, WaMu

pressed Long Beach to further increase its lending and permitted its problems to fester. Vanasek testified that Long Beach did not have effective risk management procedures when he arrived at WaMu in 1999, and that it had not developed effective risk management procedures when he retired at the end of 2005. He also testified that it was a "fair characterization" to say that WaMu did not worry about the risk associated with Long Beach subprime mortgages because those loans were sold and passed on to investors.

218. A January 2007 report by WaMu's Corporate Credit Review team noted that Long Beach's deterioration had only accelerated under WaMu's stewardship, with each year's loans since 2002 having performed worse than the previous year's. As late as August 2007, WaMu internal auditors ***still*** found that Long Beach had multiple, critical failures in its origination and underwriting processes, that Long Beach personnel did not always follow underwriting guidelines, and that Long Beach did not even track and report its underwriting exceptions.

219. In a February, 2008 internal e-mail, WaMu Bank's outgoing Chief Enterprise Risk Officer Ronald Cathcart told John McMurray, his successor as Chief Enterprise Risk Officer of WaMu Bank, "[P]oor underwriting quality … in some cases causes our origination data to be suspect particularly with respect to DTI [debt-to-income ratios]. Long Beach was a chronic problem."

220. Cathcart, WaMu's Chief Enterprise Risk Officer from 2006 to 2008, testified before the PSI in April 2010. According to his testimony, a WaMu review of first payment defaults at Long Beach he oversaw found that of 132 sampled loans that suffered first payment defaults, 115 had confirmed instances of fraud, 80 had unreasonably high incomes, and 133 had evaluation or loan decision errors.

221. In describing WaMu's lending criteria during his tenure, Cathcart illustrated how WaMu's poor underwriting practices doomed its aggressive mortgage lending strategy to failure:

> The source of repayment for each mortgage shifted away from the individual and their credit profile to the value of the home. This approach of focusing on the asset rather than on the customer ignores the reality that portfolio performance is ultimately determined by customer selection and credit evaluation. Even the most rigorous efforts to measure, monitor and control risk cannot overcome poor product design and weak underwriting and organization practices.

222. In his testimony before the PSI, Cathcart also explained that banks were even extending loans to borrowers with very low FICO credit scores of 550 and below, and that such "loan[s] will default with high probability." Despite being aware of this high likelihood that the loan would default, banks were able, according to Cathcart's testimony, to mix these loans in with other higher-quality loans through securitization such that the average FICO score was not affected, and thus the credit rating of the security was not affected. Cathcart agreed with Senator Kaufman's response that "If we did this in any other business and then sold it to somebody like we sold the mortgage-backed securities, *that would be fraud*. I mean, essentially, if you did this, if a car company did it, they got five cars, junkers and good ones, and put them together and sold them at the auction market, they would be called back and say, you can't do that."

223. Cathcart also testified to the "significant part [that] the rating agencies played in the outsized nature of the securitization market. The ratings - - first of all, the incentives, I think, are inappropriate where the issuers pay for the rating … [It is] inappropriate that the issuer should pay the rating agency to rate the issuer's paper. It seems to me the investor should be paying for it if they are looking for third-party verification."

224. Similarly, Randy Melby, former General Auditor of WaMu, testified before the PSI that "relaxed credit guidelines, breakdowns in manual underwriting processes, inexperienced

subprime personnel, … coupled with a push to increase loan volume and the lack of an automated fraud monitoring tool exacerbated the deterioration in loan quality." He further testified as to his belief that line managers at WaMu were often aware that loan originators were knowingly sponsoring mortgage applications that contained misstatements, and that several independent investigation in which he participated supported this conclusion.

3. WaMu Was Aware That Third Party Originators Were Abandoning Their Underwriting Guidelines and Appraisal Standards

225. In addition to originating loans through its own vertically integrated operations, WaMu management made a conscious decision to acquire risky loans through the conduit program via which it made bulk purchases of subprime loans from the third-party originators discussed below. An April 18, 2006 PowerPoint presentation to the WaMu Board of Directors notes that the goal of the conduit program was to "Focus exclusively on high-margin products," including subprime and Alt-A loans. Indeed, an excerpt from WaMu's lender closing instructions shows that third party originators who sold risky loans were eligible for yield premium spreads.

226. These bulk purchases of high-risk loans were important to WaMu's emergence as a major RMBS issuer. A PowerPoint presentation by Defendant Beck dated June 11, 2007 states, "We can opportunistically acquire products and strategically distribute them through the most profitable channels. By managing the distribution process we have access to information that allows us to refine our origination efforts and improve execution," and "[i]n just three years, we've become the #2 ranked Non-Agency MBS issuer in 2006. Our rapid rise in the rankings is fueled by our Conduit Program (2004), which focuses on high margin products."

227. According to WaMu's 10-K filing, at the end of 2006, WaMu's investment portfolio included $4 billion in subprime loans from Long Beach and about $16 billion in

subprime loans from other parties. According to an OIG report on regulatory oversight of WaMu, loan purchases from third party lenders and brokers represented between 48 and 70% of WaMu's single family residential loan production from 2003 to 2007.

228. WaMu maintained even lower underwriting standards in its conduit program than it did in its own lending operations. A May 16, 2007 email chain from the OTS, WaMu's regulator, discusses the documentation standards that WaMu imposed on loans purchased from third parties. In response to a query, "Does WAMU have any plans to amend its policies per no doc loans?" OTS employee Benjamin Franklin wrote, "I have checked for this in the past and found that they didn't do true NINAs (no income or assets collected or verified) and the current team also indicated that they still don't do any. I replied as such to Magrini; however, at a recent meeting, I double checked on this and found out that the Bank began doing NINA's in 2006 through their conduit program. As such, all these loans are held for sale."

229. By acquiring these loans from third parties rather than through its own operations, WaMu hoped to dodge regulatory scrutiny. An April 27, 2006 email from WaMu CEO Killinger states, "The Long Beach problems will no doubt be fodder for the OTS to caution us from ramping up sub prime loans in portfolio. This may lead us to focus on the conduit and SMF program to increase these assets for awhile."

230. WaMu's loan portfolio eventually suffered from rising defaults, which it passed on to investors such as Plaintiff. The minutes to the December 12, 2006 meeting of the WaMu Market Risk Committee note that:

> Mr. Lehmann then alerted the Committee to an analysis in-process whose preliminary results show an abnormally high number of delinquencies in a number of the 2006 Conduit Program securitizations. Mr. Lehmann noted that delinquency behavior was flagged in October for further review and analysis when recent securitization deals appeared to have more severe delinquency

> behavior than experienced in past deals. The primary factors contributing to increased delinquency appear to be caused by process issues including the sale and securitization of delinquent loans, loans not underwritten to standards, lower credit quality loans and seller servicers reporting false delinquent payment status.

231. WaMu was also notified of poor underwriting on the part of third party originators through the efforts of its due diligence vendor. Like JPMorgan and Bear Stearns, WaMu contracted with Clayton to perform due diligence on loans that it had pooled for securitization. Between the first quarter of 2006 and the second quarter of 2007, Clayton reviewed 35,008 WaMu loans for underwriting compliance. Clayton determined that 27% of these loans neither met underwriting guidelines nor possessed compensating factors sufficient to justify making exceptions to the underwriting guidelines (Event 3). WaMu ignored many of these underwriting failures, waiving ***29%*** of those rejected loans back into its mortgage pools, and sold RMBS containing these non-compliant loans to investors like Plaintiff ABP.

4. WaMu Offloaded Loans That It Had Identified as Fraudulent And/Or Likely To Default Onto Unsuspecting Investors

232. Even though WaMu's deficient lending and securitization practices were repeatedly criticized by the OTS and FDIC, as well as WaMu's own internal auditors and reviewers, WaMu and Long Beach securitized loans that they had flagged as being especially likely to default or containing fraudulent information. Defendant Beck testified before the PSI that he did not check to see if loans "with identified fraud or underwriting defects" were removed from securitization pools.

233. In September 2008, WaMu's Corporate Credit Review team reported that, "The controls that are intended to prevent the sale of loans that have been confirmed by Risk Mitigation to contain misrepresentations or fraud are not currently effective. There is not a systematic process to prevent a loan in the Risk Mitigation inventory and/or confirmed to contain

suspicious activity from being sold to an investor," and that, "Exposure is considerable and immediate corrective action is essential." The report also noted that the resources devoted to fraud prevention were insufficient and that there was a lack of training focused on fraud awareness and prevention. WaMu's increased "strong reliance" on low documentation and stated income loans was explicitly named as a driver of fraud.

234. Indeed, WaMu was not only employing inadequate safeguards with respect to poorly performing loans, it was actively offloading the lowest quality loans to investors and keeping the best for itself. Unbeknownst to investors like Plaintiff ABP, WaMu filled the loan pools for some RMBS by picking out toxic loans that it wanted to remove from its own inventory, since it considered them especially likely to default. For example, a recently released email from John Drastal, Managing Director of trading for WaMu Capital, to Defendant Beck, dated September 14, 2006, notes that after an investor conference in which equity investors expressed concerns about the housing market, Defendant Casey "asked about the ability to offload some Long Beach production."

235. Likewise, an October 17, 2006 PowerPoint presentation to the WaMu Bank Board of Directors by WaMu Home Loans President David Schneider, a document recently released by the PSI, discusses how WaMu Bank dealt with the risks relating to Option ARMs. Teaser rates, increasing principal balances and higher loss rates are all listed as "concerns," and "periodic non performing asset sales to manage credit risk," is listed as a "mitigating procedure."

236. Internal WaMu emails and memoranda obtained by the PSI show that on February 14, 2007, Defendant Beck, the head of WaMu's Capital Markets Division, identified certain recently-issued ARM loans as performing poorly and wanted to sell them "as soon as we can before we loose [sic] the oppty." In a later email, the Chief Risk Officer Cheryl Feltgen noted

that this would help address the problem of rising delinquencies in WaMu's portfolio, stating, "Gain on sale is attractive and this could be a way to address California concentration, rising delinquencies, falling house prices in California with a favorable arbitrage given that the markets seems not yet to be discounting a lot for these factors." Likewise, in a February 20, 2007 email forwarding data on the largest contributors to delinquency, Feltgen wrote, "I know that this is mostly an exercise about gain on sale, but we might be able to accomplish the other purpose of reducing risk and delinquency at the same time." Having identified loans that were particularly prone to default, WaMu proceeded to securitize as many of them as possible, retaining for its own portfolio only those that were completely unsalable. WaMu securitized more than $1 billion of these adversely selected Option ARM loans. As of February 2010, more than half of them were in default.

D. THE THIRD PARTY ORIGINATORS OF THE MORTGAGE LOANS UNDERLYING THE CERTIFICATES ABANDONED THEIR UNDERWRITING GUIDELINES AND APPRAISAL STANDARDS

237. As discussed above, many of the underlying mortgage loans that the Defendants packaged into securities and sold to Plaintiff were originated by third-party institutions and then sold en masse to JPMorgan, Bear Stearns, WaMu, or Long Beach. The Offering Documents associated with each of Plaintiff's Certificates described each of the specific originators' underwriting guidelines.

238. Defendants were aware of a collapse in underwriting standards on the part of the Originators with whom they did business, including widespread failure to abide by stated underwriting guidelines, permitting sales personnel and management to routinely override underwriting decisions, pressuring appraisers to artificially inflate the values of mortgaged properties, and making no efforts to verify the income of borrowers. Defendants were also aware that, as a result of the Originators' fraudulent appraisal practices, which made the

borrowers appear to have more collateral than they actually did, the LTV values of the loans were inflated. However, rather than putting an end to these corrupt practices or refusing to purchase these defective loans, Defendants urged the Originators to make more and riskier loans.

239. The Offering Documents represented that the underlying mortgage loans were originated in compliance with the underwriting and appraisal standards of the originators. Several of the relevant originators involved in these transactions are now known to have, among other things, ignored their own underwriting guidelines and used inflated appraisals during loan generation. The questionable practices that were employed by many of these originators have led to numerous allegations and investigations into their operations. In fact, as noted below, faulty underwriting has led to the downfall of several of the originators whose loans JPMorgan, Bear Stearns, WaMu and Long Beach bundled in these offerings.

240. The third party originators of the mortgage loans underlying the Certificates that departed from stated underwriting guidelines with respect to the mortgages underlying Plaintiff's Certificates included, but are not limited to the following:

1. Aegis Mortgage Corporation

241. Aegis originated mortgage loans that were included in Issuing Trusts from which Plaintiff purchased Certificates, including Bear Stearns Asset Backed Securities I Trust 2007-HE4, and Bear Stearns Asset Backed Securities I Trust 2007-HE5. Aegis started as a privately held mortgage banking company owned by three individuals. By 1998, the company was generating $1 billion in annual loan volume. In 1998 and 1999, Cerberus Capital Management, LP ("Cerberus") made a $45 million investment in Aegis. With this cash, Aegis acquired two extremely distressed mortgage production operations, UC Lending and New America Financial. These and subsequent acquisitions enabled Aegis to grow from 150 employees in nine locations in 1999 to 3,800 employees in over 100 locations in 2005. By 2006, Aegis was ranked as the

13th largest subprime lender in the country, generating close to $20 billion in annual originations. In eight years, the company's subprime originations grew by an incredible 1,750%.

242. Aegis' astronomic growth was fueled by an insatiable appetite for high fee, high-risk mortgages. "In late 2006, the company … couldn't issue mortgages fast enough for the Wall Street machine that used them to create high-risk, very profitable bonds." Katie Benner, *The Darker Side of Buyout Firms*, FORTUNE, August 20, 2007. To satisfy its enormous appetite, Aegis loosened its loan underwriting standards to the point of near abandonment by 2006. A large portion of the loans Aegis originated during this time were in fact purchased from unlicensed mortgage brokers. Because Aegis was selling all the loans it originated to investment banks like JPMorgan Chase, Bear Stearns, and WaMu for securitization, underwriting standards were thrown by the wayside. Quantity became more important than quality, as guidelines were consistently ignored and more and more loans approved.

243. Eventually, the bad loans caught up with Aegis. A news report issued on August 6, 2007, announced that Aegis could not meet all of its existing funding obligations. Alistair Blair, *Aegis Mortgage Suspends All Loan Originations*, MARKET WATCH, August 6, 2007. On August 13, 2007, the company was forced to file for bankruptcy protection. Jonathan Stempel, *Aegis Mortgage Files for Chapter 11 Bankruptcy*, REUTERS August 13, 2007.

244. In November of 2008, the Office of the Comptroller of the Currency ("OCC") compiled an analysis of the ten mortgage originators with the highest rate of non-performing subprime and Alt-A loans, originated from 2005 to 2007, in the ten U.S. metropolitan areas with the highest foreclosure rates in the first half of 2008. This report was titled "Worst Ten in the Worst Ten." Alarmingly, only 21 mortgage originators, in various combinations, occupied the "Worst Ten" slots in the "Worst Ten" metropolitan areas with the highest foreclosure rates.

Aegis was named one of the "Worst Ten" in this report. By the first half of 2008, 2,058 subprime or Alt-A mortgage loans originated by Aegis, in the ten metropolitan areas hardest-hit by foreclosures, were already in foreclosure.

2. Argent Mortgage Company

245. Argent originated mortgage loans that were included in Issuing Trusts from which Plaintiff purchased Certificates, including Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2007-HY1. Argent was incorporated in 2001 and was a wholly-owned subsidiary of ACC Capital, operating as one of the nation's largest subprime lenders.

246. Argent's success in the mortgage-lending market was attributable to its loan originations using fraudulent loan applications and its departure from sound underwriting practices. In 2005, the Florida Attorney General initiated an investigation against Argent after numerous complaints alerted the office that Argent was providing mortgages to homeowners for home repair projects using fraudulent documents and loan applications. Investigators discovered nearly 130 loans funding nearly $13 million that were approved based on fraudulent applications. As a result of these investigations, Argent's former vice president Orson Benn was sentenced to 18 years in prison in September 2008, for racketeering, mortgage fraud and grand theft.

247. According to a December 7, 2008, article describing its investigation into Argent's dismal lending practices, the MIAMI HERALD discovered that several former Argent employees engaged in mortgage fraud, including Benn, who actively assisted mortgage brokers in falsifying borrowers' financial information by "tutoring … mortgage brokers in the art of fraud." Benn himself stated that the "accuracy of loan applications was not a priority," but rather, the company made money by bundling mortgages and selling them to investors on Wall Street. To increase the flow of loans generated, Benn taught brokers to prepare phony income statements and doctor credit reports.

248. During the course of its investigation, the MIAMI HERALD obtained every loan application generated by one Argent broker between May 2004 and September 2005. In a January 29, 2009 article, the paper revealed that out of 129 applications, 103 contained "red flags," such as "non-existent employers, grossly inflated salaries and sudden, drastic increases in the borrower's net worth." The article stated that the "simplest way for a bank to confirm someone's income is to call the employer. But in at least two dozen cases, the applications show[ed] bogus telephone numbers for work references." Argent's verification process was so deficient that a "borrower [who] claimed to work a job that didn't exist … got enough money to buy four houses." Another borrower "claimed to work for a company that didn't exist – and got a $170,000 loan."

249. The CLEVELAND PLAIN DEALER also reported in a May 11, 2008, article that industry leaders believed that "lower-echelon employees of companies like Argent actively participated in fraud." For example, Jacqulyn Fishwick, who worked for over two years as an underwriter and account manager at an Argent loan-processing center near Chicago, had personally seen "some stuff [she] didn't agree with" and witnessed some Argent employees who "played fast and loose with the rules." Fishwick also saw "[Argent] account managers remove documents from files and create documents by cutting and pasting them."

250. In April 2010, the FCIC heard testimony from several former Citigroup executives as part of the FCIC's investigation regarding the causes of the subprime lending meltdown. Richard Bowen, Citigroup's former chief underwriter for CitiMortgage, told the FCIC panel in his April 7, 2010, testimony that "he had warned management … of the company's mortgage risk beginning in 2006," when he discovered that more than 60% of the

mortgages being bought and sold by Argent were defective; advice apparently not heeded, since Citigroup acquired Argent in 2007.

3. Chevy Chase Bank, F.S.B.

251. Chevy Chase Bank, F.S.B. ("Chevy Chase") originated mortgage loans that were included in Issuing Trusts from which Plaintiff purchased Certificates, including Bear Stearns ALT-A Trust 2004-6.

252. Chevy Chase, a federally chartered savings and loan association doing business primarily in the District of Columbia, Maryland, and Virginia, was purchased by Capital One Financial Corporation ("Capital One") in February of 2009, in a transaction valued at approximately $520 million. As part of the purchase, Capital One was required to write off approximately "$1.75 billion in anticipated losses from Chevy Chase's big portfolio of toxic mortgage loans." *Capital One Buys a Rival Bank for $520 Million*, THE NEW YORK TIMES, December 3, 2008.

253. According to a December 4, 2008, article in THE WASHINGTON POST titled *Capital One to Buy Chevy Chase*, Chevy Chase encountered financial trouble as a result of the subprime mortgage crisis due to its heavy emphasis on originating particularly risky "option adjustable-rate mortgages." These loans allowed borrowers to defer part of the monthly payment for an established term. During 2007 and 2008, Chevy Chase's financial performance suffered as the deferred payments came due and significant numbers of borrowers defaulted on their mortgages. Chevy Chase's non-performing mortgage assets "more than tripled to $490 million between September 2007 and June 2008." As of December 2008, Chevy Chase still held approximately $4 billion in option ARM mortgage loans.

254. According to another WASHINGTON POST article the next day, Chevy Chase "continued making loans even as the market was getting worse in 2007 and held more of these risky [option-ARM] mortgages than many other banks, according to Capitol One executives."

255. On April 20, 2011, the Federal Home Loan Bank of Boston ("FHLBB") initiated an action alleging that subprime mortgage originators, including Chevy Chase, disregarded credit risk and quality controls, exerted pressure on appraisers to inflate their appraisals, and engaged in predatory lending in order to generate higher subprime loan volumes. *See Fed. Home Loan Bank of Boston v Ally Fin., Inc.*, Civ. A. No. 11-1533 (Mass. Sup. Ct. Apr, 20, 2011). The complaint similarly alleges that Chevy Chase effectively abandoned its underwriting standards in connection with originating subprime mortgages by, *inter alia*, allowing systematic exceptions to their stated underwriting standards without adequate justification.

256. After abandoning originating standards, Chevy Chase engaged in a campaign of deception to ensure securitization of the originated mortgages and the profits that followed, misrepresenting the LTVs of the collateralized mortgages, deceiving ratings agencies, and lying about confirming clean chain of title.

257. The failure of Chevy Chase to apply their stated underwriting guidelines and the success of their campaign of deception is evident in the high rates of delinquency and foreclosure in mortgage pools held by the FHLBB. As of May 26, 2011, fully 29.57% of the loans securitized by Chevy Chase and sold to the FHLBB were at least 90 days delinquent, had foreclosure proceedings pending, or the mortgage holder had recovered title from the borrower.

258. On January 16, 2007, a federal district court in Wisconsin found that Chevy Chase violated the Truth In Lending Act ("TILA") by failing to disclose salient features of a mortgage. The plaintiffs alleged Chevy Chase offered them a "cashflow payment option" loan, a

type of “option ARM” mortgage, whereby Plaintiffs made fixed low minimum monthly payments based on a static interest rate, but the interest rate charged actually adjusted monthly so that while the payment amount stayed fixed, the outstanding balance of the loan increased through negative amortization (capped at 110% of the original loan). Plaintiffs alleged that Chevy Chase’s disclosures were misleading and that they believed the initial interest rate was fixed. The stamp used by Chevy Chase on its disclosure forms stated “WS Cashflow 5-Year Fixed Note Interest Rate 1.950%.” The district court granted summary judgment in favor of Plaintiffs, authorizing rescission of the mortgage contract and awarding attorney’s fees to Plaintiffs.

4. CIT Group / Consumer Finance, Inc.

259. CIT Group originated mortgage loans that were included in Issuing Trusts from which Plaintiff purchased Certificates, including Washington Mutual Asset-Backed Certificates WMABS Series 2007-HE2 Trust. CIT Group originally began its operations as a commercial lender, but after Jeffrey M. Peek joined the company as CEO in 2003, CIT Group got more involved in the consumer finance arena and ramped up its home mortgage loan portfolio. By 2005, the company had originated or acquired more than $4.3 billion in subprime loans.

260. CIT Group practiced unscrupulous subprime lending and underwriting practices, such as providing loans to borrowers with poor credit ratings, funding loans with little or no supporting financial documentation and offering mortgages with high loan-to-value ratios, all in an effort to increase the amount of CIT Group’s loan originations even further. By the third quarter of 2006, the company’s subprime loan assets soared to $9.8 billion.

261. On July 25, 2008, a securities class action lawsuit was filed in the United States District Court for the Southern District of New York against CIT Group and its officers. *See In re CIT Group Inc. Secs. Litig.*, No. 1:08-cv-06613 (S.D.N.Y. filed July 25, 2008). The complaint

alleged, *inter alia*, that the company made false statements and omissions regarding its subprime home lending business and financial results. Specifically, the complaint claimed that CIT Group and its officers did not disclose that: (i) the company was observing reduced credit standards in an effort to boost loan originations; (ii) by the end of 2006, CIT Group had "substantially reduced the amount of documentation necessary, as well as the minimum FICO score, for subprime loan approval"; (iii) the company had been engaging in increasingly risky home loans, "including no documentation, stated income loans…"; and (iv) the company was using adjustable rate mortgages ("ARMs") and "very loose" lending standards to drive loan origination.

262. CIT Group and the other defendants thereafter filed a motion to dismiss the complaint. On June 10, 2010, the court denied defendants' motion to dismiss in its entirety, specifically finding that plaintiffs had adequately alleged that CIT Group had made false statements, including claims that the defendants: (1) "failed to disclose the lowering of CIT's credit standards…"; (2) "misrepresented the performance of CIT's subprime home lending and student loan portfolios"; (3) made "several changes in CIT's lending standards that effectively loosened requirements for a subprime home loan, and [that the defendants] were aware of and approved these changes"; and (4) "made written and oral statements indicating that CIT had 'disciplined lending standards' …[,] was 'much more conservative' than other lenders …and that CIT had 'tightened home lending underwriting, … [and] raised minimum FICA requirements.'" A motion for class certification is currently pending. *In re CIT Group Inc. Secs. Litig.*, No. 1:08-cv-06613 (S.D.N.Y., Opinion and Order dated June 10, 2010).

263. CIT Group announced in August 2007 that it was shutting down its home lending business as a result of weak investor demand and heavy losses. On July 1, 2008, the company

sold its home lending business to Lone Star Funds for $1.5 billion in cash, plus $4.4 billion of assumed debt. In December 2008, the federal government agreed to award CIT Group "bank holding company" status and gave the company $2.33 billion in Troubled Asset Relief Program ("TARP") funds. The funds did not, however, resolve CIT Group's financial struggles, and by the end of 2009, the company had filed for Chapter 11 bankruptcy reorganization.

5. EquiFirst Corporation

264. EquiFirst originated mortgage loans that were included in Issuing Trusts from which Plaintiff purchased Certificates, including Bear Stearns Asset Backed Securities Trust 2007-2. EquiFirst was engaged in the business of originating and selling "non-conforming" loan products, including subprime, Alt-A, and jumbo mortgage loans collateralized by one-to-four family residential properties. For 2006, EquiFirst's subprime and Alt-A residential mortgage originations totaled approximately ***$10.7 billion***. In 2007, EquiFirst was the twelfth-largest subprime wholesale mortgage originator in the United States, originating $3.8 billion of subprime home loans.

265. EquiFirst focused on "innovative" subprime products that relied on, among other things, inappropriately lax underwriting standards and temporary payment reductions, offering loans to borrowers with credit scores as low as 520. As a consequence, EquiFirst's residential loan portfolio (including subprime mortgages), significantly deteriorated. Regions Financial Corporation ("Regions"), the then-parent company of EquiFirst, recorded $142 million in after-tax losses which it later attributed to significant and rapid deterioration of the subprime market during the first three months of 2007. Additionally, Regions' 2007 10-K revealed loan losses from continuing operations (including subprime mortgages made by EquiFirst) that more than tripled from 2006 levels, increasing from $142.4 million by the end of 2006 to $555 million by the end of 2007.

266. On January 19, 2007, Barclays Bank, PLC announced that it had entered into an agreement with Regions to acquire EquiFirst for $76 million. Regions CEO Dowd Ritter later said, "I would have given [EquiFirst] away. If we didn't get rid of it, the whole company would be gone by now." *Triumph and Turmoil Define CEO's Legacy*, THE BIRMINGHAM NEWS, March 28, 2010. On February 17, 2009, less than two years after the acquisition, Barclays shut down EquiFirst due to the decline in the market for subprime mortgages.

267. In September 2011, U.S. Bank National Association ("U.S. Bank") initiated a lawsuit in federal court in Minneapolis against EquiFirst and others, alleging that EquiFirst falsely assured buyers of the creditworthiness of the loans being offered, and that as of June 2011, over 45% of the original loan balance had been liquidated, while over 30% of the remaining loans were delinquent. *See U.S. Bank Nat'l Ass'n v. WMC Mortgage Corp., et al.*, No. 0:11-cv-02542 (D. Minn. filed Sept. 2, 2011). According to a September 6, 2011, article in BLOOMBERG about the case, one investor reviewed 200 loan filed related to the securities at issue, and identified material breaches of representations or warranties in 150, or ***75%*** of them. In 55 of the loans, according to the article, the investor found misrepresentations of borrower income and/or employment. In one example, a borrower's loan application stated that he earned over $14,000 per month for performing "account analysis." According to the borrower's income-tax returns, however, he earned $1,548 per month as a taxi driver.

268. These allegations are echoed in a September 2, 2011 complaint filed by the Federal Housing Finance Agency, which states that EFC Holdings, through its EquiFirst unit, routinely and egregiously departed from its stated underwriting guidelines when originating subprime mortgages. *See Fed. Hous. Fin. Agency v. Ally Fin. Inc., et al.*, No. 652441-2011 (Sup. Ct., NY Co. filed Sept. 2, 2011). This led, the suit alleges, to material false and misleading

statements or omissions regarding compliance with underwriting guidelines in the Prospectus Supplements for several securities purchased by Freddie Mac, in violation of federal securities laws.

6. Fieldstone Mortgage Company

269. Fieldstone originated mortgage loans that were included in Issuing Trusts from which Plaintiff purchased Certificates, including J.P. Morgan Mortgage Acquisition Trust 2006-HE3, Bear Stearns Asset Backed Securities I Trust 2007-HE3, and Bear Stearns Asset Backed Securities I Trust 2006-HE9. Fieldstone had a national wholesale origination business serving 4,300 independent mortgage brokers, as well as a national retail origination business with 32 processing offices. Fieldstone originated approximately $12.5 billion of loans in 2005 and 2006 and was at one point among the top 20 subprime lenders in the nation.

270. A January 5, 2008, article in THE BALTIMORE SUN, "A Lender's Recipe for Downfall," outlined Fieldstone's culture of excessive risk taking and blatant disregard for sound underwriting practices. A prime example of this culture was the loan program called "South Street" which allowed ultra-low credit score consumers just exiting bankruptcy to get a mortgage with few questions, and without submitting pay stubs or tax returns. The program was explicitly created to keep loan origination volume up as competitors started flooding the market during the real estate boom.

271. Fieldstone's underwriting standards were so poor that in 2009, it was a target of a joint undercover FBI/Department of Housing and Urban Development ("HUD") investigation "Operation Madhouse." The investigation had undercover law enforcement agents pose as straw buyers of houses seeking assistance in financing and closing fraudulent mortgage transactions.

272. During Operation Madhouse, a Fieldstone loan officer was led to believe that a prospective borrower was using a fictitious name and intended to default on the loan. In fact, the

borrower was a government informant. The loan officer prepared and submitted a loan application that she knew to be fraudulent and gave the informant the name of a man who would provide a false verification of employment. The loan officer was ultimately indicted for wire fraud.

273. In September 2007, Morgan Stanley Mortgage Capital Holdings LLC filed suit against Fieldstone, demanding that Fieldstone repurchase 72 mortgage loans that had experienced first payment defaults, experienced EPDs, or whose loan files contained misrepresentations.

274. Fieldstone filed for protection under Chapter 11 of the U.S. Bankruptcy Code in November 2007. In its bankruptcy filings it disclosed approximately $67.5 in liabilities to Wall Street investment banks, including $38.4 million in liability to Morgan Stanley and $15.3 million in liability to Bear Stearns.

7. GMAC Mortgage Corporation

275. GMAC originated mortgage loans that were included in Issuing Trusts from which Plaintiff purchased Certificates, including Bear Stearns ALT-A Trust 2004-6.

276. GMAC was founded in 1985 by the finance subsidiary of General Motors and grew to be the fourth largest U.S. mortgage loan originator by 2010, originating tens of billions of dollars of mortgages every year. In addition to selling loans to financial institutions like Bear Stearns, GMAC also used some of the loans it originated to issue its own RMBS. The quality of the loans in these GMAC securitizations provides information as to the underwriting standards applied by GMAC, or the lack thereof. MBIA Insurance Corporation has analyzed the loan files for 4,804 of the delinquent loans in three GMAC RMBS pursuant to a securities fraud lawsuit against GMAC and found that 89% of the loans reviewed contained one or more breaches of the mortgage loan representations that had been made in the offering documents. *See MBIA v.*

GMAC Mortgage, LLC, No. 600837-2010 (Sup. Ct., NY Co. filed Apr. 1, 2010). These included routine breaches of underwriting standards, unreasonable stated incomes in loan applications, failure to verify borrower employment or prior mortgage payment history, approval of loans to borrowers with ineligible collateral or credit scores, incomplete documentation and missing title instruments, and breaches of state predatory lending laws.

277. Former GMAC personnel interviewed by Thrivent Financial ("Thrivent") in connection with a separate securities fraud lawsuit confirm that GMAC management was aware of and encouraged employees to disregard of underwriting standards so as to generate more loans. *See Thrivent Fin. for Lutherans v. Countrywide Fin. Corp.*, No. 11-5830 (Minn. State Dist. Ct. filed Apr. 27, 2011); A senior wholesale underwriter stated that her supervisors frequently overrode her underwriting decisions and closed loans that they knew were unlikely to be repaid. Her supervisors' bonuses depended on the volume of closed loans, so they were motivated to push even questionable loans through, waiving faulty appraisals and unreasonable stated incomes. The witness also stated that GMAC did many no-income-verification loans, and that GMAC personnel referred to these loans as, "liar loans, because we knew damn well they were lying. You can't tell me a manicurist in L.A. was making $12,000 a month." The witness linked the inappropriate lending to GMAC's securitization business, noting that the trading desk would grant exceptions merely to fill loan pools and that trading personnel with no underwriting experience were permitted to sign off on loans.

278. In addition to adopting skewed incentive structures and tolerating mortgage fraud, GMAC Mortgage also weakened its underwriting standards by utilizing badly flawed underwriting software. Ninety percent of loans were sent through the company's Desktop

Underwriter program, which did not require documentation, and the program rarely turned down a loan.

279. Former employees quoted in the complaint brought by Thrivent have discussed the failings of Desktop Underwriter. One witness, a senior underwriter at GMAC Mortgage from 1986 to 2008, said that GMAC Mortgage used human underwriters only to approve loans that could not be processed through its software, and that the software did not require verification of income or assets.

280. GMAC could have detected fraudulent loans had it chosen to look beyond the basic information in the computer files. However, because the underwriting was automated, mortgage brokers could submit information based on the criteria needed to close a loan rather than the borrower's actual circumstances.

281. Freddie Mac performed an analysis of individual loan files underlying RMBS in connection with its lawsuit against GMAC. Its analysis covered 21 RMBS and revealed that in each case, the offering materials had overstated the owner-occupancy rates by between 8.48% and 13.10%. Freddie Mac's review similarly revealed that in each case, the offering documents overstated the percentage of loans with low loan-to-value ("LTV") ratios (defined as LTV ratios less than 80%) by between 12.24% and 49.08%. The offering documents also understated the percentage of underwater loans (loans with LTV ratios greater than 100%) by between 8.18% and 33.81%.

282. A similar review undertaken by Mass Mutual also revealed significant misrepresentations of LTV data. Mass Mutual found that for 17 of the 18 GMAC RMBS it analyzed, the offering documents had understated the weighted average LTV ratio by between 4.23% and 16.77% and understated the percentage of loans with high LTV ratios (defined as

LTV ratios greater than 90% or 100%) by between 4.54% and 39.08%. Only one of the RMBS examined did not misrepresent the percentage of loans with high LTV ratios.

8. GreenPoint Mortgage Funding, Inc.

283. Greenpoint originated mortgage loans that were included in Issuing Trusts from which Plaintiff purchased Certificates, including Bear Stearns ALT-A Trust 2004-6; SACO I Trust 2005-5; and Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2007-OC2. GreenPoint specialized in non-conforming and Alt-A mortgages which generated higher origination fees than standard loans. At one time, GreenPoint originated $25 billion of mortgage loans a year nationwide and was one of the nation's largest originators of Alt-A loans.

284. Like the other third-party originators, GreenPoint's apparent business success was built upon the abandonment of its stated underwriting guidelines. For example, according to GreenPoint's origination guidelines, the loans it originated were supposed to be based on borrower creditworthiness and the value of the collateral underlying the mortgage loan. Although stated income or no documentation loans were based on a borrower's representations about his or her ability to repay, with little or no documentation to substantiate those representations, GreenPoint's underwriting guidelines generally required the highest level credit scores and low LTV ratios for these loans. GreenPoint's employees, however, routinely extended these loans to borrowers with weak credit.

285. According to a November 13, 2008, BUSINESSWEEK article entitled, *Sex, Lies and Subprime Mortgages*, GreenPoint's employees and independent mortgage brokers targeted more and more borrowers who had no realistic ability to repay the loans being offered to them. In addition, GreenPoint created a system for overriding loan rejections. If underwriters denied an application based upon creditworthiness, managers could override their decisions and approve

the loans anyway. GreenPoint employees used this system to increase their own commissions at the expense of their underwriting guidelines.

286. In 2006, Capital One acquired GreenPoint as part of the acquisition of North Fork Bancorp. In October 2007, GreenPoint ceased accepting new loan applications. GreenPoint was eventually liquidated by Capital One in December 2008. As stated by the WASHINGTON BUSINESS JOURNAL in an August 21, 2007, article entitled *Capital One to shutter mortgage-banking unit, cut 1,900 jobs*, Capital One took an $860 million write-down due to mortgage-related losses associated with GreenPoint's origination business.

287. GreenPoint's business model depended on others' acceptance of its representations regarding the quality of its products and its commitment to cover any losses resulting from breaches of those representations. GreenPoint, however, assured its investors that its "no-doc" or "low-doc" loan originations were amply supported by borrowers' ability to repay loans in a timely fashion. GreenPoint also maintained that it conducted a quality control review of the loans that it acquired from approved correspondent lenders.

288. As a result of these misrepresentations, GreenPoint has been the subject of lawsuits relating to its loan origination practices and lax underwriting standards. In February 2009, U.S. Bank filed a breach of contract action against GreenPoint in the Supreme Court of New York for failure to repurchase $1.83 billion in loans that GreenPoint originated between September 2005 and July 2006. *See U.S. Bank Nat'l Ass'n v. GreenPoint Mortgage Funding, Inc.*, No. 09-600352 (Sup. Ct., NY Co. filed Feb. 5, 2009). The complaint alleged that the company violated numerous representations and warranties, including:

- pervasive misrepresentations and/or negligence with respect to the statement of the 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 minimums, (iv) with debt-to-income and/or loan-to-value ratios above the allowed maximum or (v) with relationships to GreenPoint or other non-arm's-length relationships….

289. U.S. Bank hired a consultant to review the loan documentation for compliance with GreenPoint's representations and warranties regarding the sales. The consultant found that an overwhelming 93%, or 963 out of a sample of 1,030 loans sold, with a total principal balance of $91.8 million, did not comply with GreenPoint's representations and warranties contained in the sale agreements. Defendants filed a motion to dismiss the complaint, and on March 3, 2010, the court denied the motion in part, allowing all of the claims against GreenPoint to proceed. *U.S. Bank Nat'l Ass'n. v. GreenPoint Mortgage Funding, Inc.*, No. 09-600352 (Sup. Ct., NY Co. Order dated Mar. 3, 2010).

9. Lenders Direct Capital Corporation

290. Lenders Direct originated mortgage loans that were included in Issuing Trusts from which Plaintiff purchased Certificates, including Washington Mutual Asset-Backed Certificates WMABS Series 2007-HE2 Trust. Lenders Direct was one of the riskiest mortgage lenders in the U.S, according to a 2007 study by SMR Research Corp. The study examined county courthouse lien records and data filed with the federal government and assigned each lender a risk score based on six credit risk criteria, namely, LTV ratios; the percentage of loans made to subprime borrowers; the percentage of stated income loans; how often the lender packaged two loans together; the percentage of loans originated with adjustable rates; and the

percentage of loans with low "teaser" starting rates. A risk score of 1,000 was the industry average, and nearly all lenders with risk scores above 1,750 were bankrupt, sold, closed, or partially closed. Lenders Direct's risk score was 2,610, making it the third-riskiest lender in the country.

291. Lenders Direct closed its wholesale division in February 2007, citing lack of investor demand and the state of the subprime lending industry.

292. In June 2007, Household Financial Services filed suit against Lenders Direct, demanding that Lenders Direct repurchase mortgage loans that did not meet representations and warranties, for reasons including inflated borrower incomes and assets, inflated appraisal values, misrepresentations regarding borrower occupations, misrepresentations regarding owner-occupancy, falsified documents, EPDs, and first payment defaults. *HSBC Mortgage Servs., Inc. v. Lenders Direct Capital Corp.*, No. 1:07-cv-03115 (N.D. Ill. filed June 4, 2007).

10. Novastar Mortgage, Inc.

293. Novastar originated mortgage loans that were included in Issuing Trusts from which Plaintiff purchased Certificates, including J.P. Morgan Mortgage Acquisition Trust 2006-HE3. NovaStar was one of the top twenty mortgage originators in 2007. Like the other Originators described herein, NovaStar's rise was accompanied by material departures from its stated underwriting guidelines.

294. According to a federal securities class action lawsuit filed on October 19, 2007 in the United States District Court for the Western District of Missouri, from at least January 2006 onwards, NovaStar routinely deviated from its underwriting guidelines so that more and more loans could be approved and then securitized, earning NovaStar large profits. For example, NovaStar began granting numerous exceptions, such as LTV exceptions, credit score exceptions, and also inflated property value appraisals. According to a former underwriter at NovaStar's

Independence, Ohio office, the Company maintained a phone-in "help desk," referred to as "NovaStar Solutions," that aided the account executives in pre-clearing exceptions for loans that were unusual and that would not be approved in the normal underwriting process. In fact, the "NovaStar Solutions" help desk had more authority to grant exceptions for loans prior to closing than the underwriters who examined the loans. In March 2006, NovaStar weakened its underwriting standards further when it lowered the minimum required credit score for individuals seeking a 100% LTV loan to 580.

295. According to another former underwriter, NovaStar advocated "transactional thinking," whereby, underwriters were told to approve or deny a loan application by assessing whether a particular loan "made sense," regardless of NovaStar's guidelines. Essentially, underwriters could be creative with the underwriting guidelines and use their personal judgment in applying them, except for the credit score. For example, the guidelines provided that a borrower needed "time on job" of at least two years. However, if a borrower had an employment gap of six months but had not missed a credit payment during that time, then the underwriter could make an exception. In this sense, the guidelines were just parameters and the "unspoken law" was to make loans.

296. A further way by which NovaStar departed from its underwriting guidelines was to allow for loans to be *re-written*, even during the underwriting process, to ensure approval. For example, according to one witness, loans that were presented to the underwriters as complete, full documentation loans often were in fact incomplete, lacking proof of salary information or clearly showing that a proposed borrower's bank statements contradicted the information they had affirmed on the application. In many such cases, rather than rejecting the loan because of

the defects, the underwriters and account executives would merely discard the contradicting information and approve it as a low documentation or no documentation loan.

297. At the same time that it was facilitating the abandonment of its underwriting guidelines, NovaStar began to dismantle the internal checks that had previously been installed to monitor deviations from underwriting guidelines. PFQC was created to periodically report to the NovaStar's Credit Committee about trends in the underwriting process. Beginning in late 2005, PFQC saw a massive increase in deviations from the policies and practices that underwriters and account executives were supposed to follow in the loan funding process. Where loans in the past were granted one exception in the underwriting process, the PFQC auditors were routinely seeing three and four exceptions in loans.

298. As the number of loans deviating from NovaStar's underwriting guidelines increased, NovaStar took steps to reduce the number of PFQC auditors, as well as other auditors, thus preventing the performance of many audits on the loans NovaStar was funding. According to a former quality control auditor who worked in the Post-Closing department in Kansas City, the result of this was that fewer funded loans were audited for quality; of those loans that were audited and reviewed, many variances from and exceptions to the underwriting guidelines that previously were flagged and recorded as "high risk" were overlooked in the audit process and removed from the company's system; and it became much more difficult to address and resolve questions raised by outside investors concerning the specific loans in the pools they were considering purchasing. By March 2006, two of the managers of the PFQC group, including the Company's Chief Credit Officer, departed from the company.

299. In February 2007, NovaStar disclosed that loans made in 2006 were defaulting at a "torrid" rate. According to an April 1, 2007 NEW YORK TIMES article authored by Gretchen

Morgenson and Julie Creswell, entitled *Borrowing Trouble*, 53% of the loans underwritten by NovaStar in 2006 did not have full borrower documentation attached to them, and NovaStar's early payment default rate for loans underwritten in 2006 was 8.19%.

300. NovaStar's complete abandonment of its underwriting guidelines brought about its eventual collapse. In early 2008, NovaStar completely discontinued its mortgage lending operations and sold its mortgage servicing rights to Saxon Mortgage Services, Inc. On September 12, 2008, an involuntary petition for liquidation under Chapter 7 was filed against it in the U.S. Bankruptcy Court for the District of Delaware.

11. Quicken Loans, Inc.

301. Quicken originated mortgage loans that were included in Issuing Trusts from which Plaintiff purchased Certificates, including SACO I Trust 2005-5 and Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2006-AR10. Quicken is the nation's largest online mortgage lender and the fifth largest retail mortgage lender. It closed more than $25 billion in home loans in 2009. Quicken originated risky loans, including Alt-A loans and Option ARMs. Quicken customers, salespeople and loan purchasers have all alleged that Quicken inflated borrower incomes and knowingly relied on false appraisals.

302. In June 2008, Wells Fargo Bank N.A. filed suit against Quicken, demanding that Quicken repurchase approximately $4 million of mortgage loans that did not meet representations and warranties, for reasons including inflated borrower incomes and appraisal values. *Wells Fargo Bank, N.A. v. Quicken Loans, Inc.*, No. 2:08-cv-12408-SJM-SDP (E.D. Mich. filed June 6, 2008).

303. A number of other lawsuits have been filed in West Virginia and Michigan alleging that Quicken used false and inflated appraisals to approve loans. In one of these cases, the appraisal obtained by Quicken assigned a value of $194,500 to a house worth only

approximately $117,000. In another, Quicken indicated to a borrower that it valued a property at $120,000, only to accept an appraisal value of $153,0000 several months later.

304. According to a February 4, 2011 article from the Center For Public Integrity, former Quicken loan salespeople have testified that Quicken management urged them to falsify borrower incomes on loan applications and lock customers into higher interest rates even if they qualified for lower rates. One employee testified that her sales director told her, "to simply pick an income level that would be approved by underwriting rather than use the customers' actual income." Another testified that he sometimes increased loan applicants' incomes by as much as 400%.

12. ResMAE Mortgage Corporation

305. ResMAE originated mortgage loans that were included in Issuing Trusts from which Plaintiff purchased Certificates, including J.P. Morgan Mortgage Acquisition Trust 2006-HE3 and J.P. Morgan Mortgage Acquisition Trust 2006-RM1. ResMAE Mortgage Corporation was a nationwide mortgage banking company which, originated, sold, and serviced subprime mortgages. By 2006, ResMAE was one of the fastest growing subprime lenders in the United States.

306. Because ResMAE lacked the finances to fund loans, it would enter into agreements with financial institutions like JPMorgan Chase to provide a line of credit. Shortly after originating the loan, ResMAE would sell it to repay its line of credit to the financial institution.

307. According to BLOOMBERG, ResMAE made $7.7 billion in loans during 2006, up 11% from 2005, placing it twenty-first among U.S. subprime lenders. Unfortunately, ResMAE's loans proved to be poorly underwritten due to ResMAE's abandonment of its underwriting standards. DataQuick, a national database of real estate information, reported that approximately

two-thirds of the loans that ResMAE made in 2006 are now in default. On February 12, 2007, ResMAE filed for Chapter 11 bankruptcy.

308. The Offering Documents for the loans ResMAE originated contained the following statements regarding ResMAE's underwriting guidelines:

> The underwriting standards of ResMAE are primarily intended to assess the ability and willingness of the borrowers to repay the debt and to evaluate the adequacy of the mortgaged property as collateral for the mortgage loan. ResMAE considers, among other things, a mortgagor's credit history, repayment ability and debt service-to income ratio (referred to herein as the "Debt Ratio"), as well as the value, type and use of the mortgaged property.
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> * * *
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> On a case by case basis, ResMAE may determine that, based upon compensating factors, a prospective mortgagor not strictly qualifying under the underwriting risk category guidelines described below warrants an underwriting exception. Compensating factors may include, but are not limited to, low loan-to-value ratio, low Debt Ratio, substantial liquid assets, good credit history, stable employment, and time in residence at applicant's current address.

J.P. Morgan Acquisition Trust 2006-HE3 Prospectus Supplement at S-53.

309. In reference to the loans that ResMAE originated, the Offering Materials represented that the property underlying the loan was properly appraised and subject to adequate quality control procedures:

> The underwriting guidelines of ResMAE are applied in accordance with a procedure which complies with applicable federal and state laws and regulations and generally require an appraisal of the mortgaged property which conforms to Freddie Mac and/or Fannie Mae standards, and if appropriate, a review appraisal… Each Uniform Residential Appraisal Report includes a market data analysis based on recent sales of comparable homes in the area and, where deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home

J.P. Morgan Acquisition Trust 2006-HE3 Prospectus Supplement at S-53—S-54.

310. The statements in the Offering Documents regarding ResMAE's underwriting standards were materially false and misleading because ResMAE systematically disregarded its stated underwriting standards and regularly made exceptions to its underwriting guidelines in the absence of sufficient compensating factors, and with no concern as to the borrower's ability to repay the loan.

311. Former ResMae personnel interviewed in connection with a separate lawsuit, confirm that employees were to disregard underwriting standards in order to generate more loans. *See Plumbers' & Pipefitters' Local #562 Supplemental Plan & Trust et al. v. J.P. Morgan Acceptance Corp. I et al.*, 2:08-cv-01713-ERK-WDW (E.D.N.Y. filed March 26, 2008). A former credit manager at ResMAE from 2004 through 2005, stated that exceptions to ResMAE's underwriting guidelines accounted for "50 percent" of all underwritten loans. A former Senior Vice President of ResMAE from 2003 through 2006 confirmed that "exceptions were not uncommon, there were [a] significant [amount of] exceptions…as much as 50%." Exceptions depended on "the quality of the individual doing [the loan], everybody was incentivized by commissions to [generate a high loan] volume.

312. According to the former credit manager at ResMAE, the sales department "push[ed]…through" stated income loans that listed incomes that were obviously false. "[T]hat'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."

313. A former regional credit manager at ResMAE from March 2004 through March 2007 also noticed problems with stated income loans and appraisals, especially in 2005 and 2006. She saw "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." During the last six months of her employment at ResMAE, she saw a large percentage of exceptions as a result of "an effort to increase [loan] production."

314. In addition, the former ResMae credit manager noted that she witnessed a lot of borrowers that would list the property as "owner occupied" on their loan applications when in fact the property was not. In those situations, underwriters were told not to "dig [too] deep" when they suspected that the buyer had made a misrepresentation. There were even several instances where the property "didn't even exists, it was like a vacant lot, but yet we had an address and pictures, but when the review appraiser went out there was no property."

315. ResMAE's reckless origination practices and disregard for appropriate underwriting procedures led to devastating downgrades of the Certificates for which ResMAE acted as an originator.

13. Wells Fargo Bank, N.A.

316. Wells Fargo originated mortgage loans that were included in Issuing Trusts from which Plaintiff purchased Certificates, including Bear Stearns ALT-A Trust 2004-6 and Bear Stearns Asset Backed Securities Trust 2007-2. Wells Fargo originated both prime and subprime, high-cost residential mortgage loans and was one of the nation's largest and most successful mortgage finance companies until the subprime mortgage industry collapsed.

317. Beginning in 2005, Wells Fargo began abandoning its previously stable lending habits in favor of more profitable "discretionary underwriting," whereby the company encouraged its employees to undertake more aggressive lending practices. Between 2005 and 2007, Wells Fargo vigorously loosened its underwriting standards and engaged in the systematic practices of steering borrowers with poor credit into mortgages with fraudulently inflated

property values, introducing borrowers to high-risk mortgage products, such as adjustable-rate, interest-only loans and "stated income" loans, and utilizing a compensation structure that rewarded employees for placing borrowers into high-cost mortgages. By the end of 2008, Wells Fargo's corrupt lending practices forced the company to take significant write-downs as a result of its massive subprime market exposure and, in October 2008, the company received a $25 billion subsidy from the federal government as part of the Federal Emergency Economic Stabilization Act. In 2010, Wells Fargo was identified by the Office of the Comptroller of the Currency as the thirteenth worst subprime lender in the country.

318. As a result, Wells Fargo became the target of several lawsuits and government investigations relating to its lending practices. As reported by an August 18, 2008 article in the WASHINGTON BUSINESS JOURNAL, "Woman Sues Over Subprime Loan, Wins," one borrower filed a complaint against Wells Fargo in Montgomery County Circuit Court in Maryland after being locked into a subprime loan that she could not afford and subsequently defaulted. The borrower was awarded $1.25 million in damages after a jury convicted Wells Fargo of fraud, negligence and other charges as a result of the company's practice of intentionally inflating the plaintiff's income and assets in her mortgage application.

319. On March 27, 2009, a securities class action was filed against Wells Fargo and others in the Northern District of California, alleging that the company violated the Securities Act by engaging in a systematic practice of ignoring stated underwriting guidelines in favor of increased loan generation. *General Retirement Sys. of the City of Detroit v. The Wells Fargo Mortgage Backed Secs. Trust 2006-AR18 Trust, et al.,* No. 5:09-cv-1376-LHK (N.D. Cal. filed Mar. 27, 2009). Specifically, the plaintiffs alleged that Wells Fargo engaged in substandard lending practices, such as providing loans to borrowers with poor credit, allowing stated income

loans and no documentation loans to be offered to unqualified borrowers, and originating loans based on fraudulently inflated appraisal values resulting in investment ratings that were inherently flawed.

320. Witnesses have described Wells Fargo's practice of placing "intense pressure" on loan officers to close loans using fraudulent and deceptive means. Loan officers were instructed to coerce borrowers into submitting inflated income statements and would use that information to qualify loans without conducting any investigation into the borrower, and would ignore situations where the information provided was false or blatantly implausible. The complaint also alleged that the appraisals acquired for the properties underlying the loans were fraudulently inflated in order to hide the fact that the value of the mortgages often exceeded the true value of the properties.

14. WMC Mortgage Corp.

321. WMC Mortgage originated mortgage loans that were included in Issuing Trusts from which Plaintiff purchased Certificates, including J.P. Morgan Mortgage Acquisition Trust 2006-WMC4 and Washington Mutual Asset-Backed Certificates WMABS Series 2007-HE2 Trust. WMC, founded in 1955, was formerly known as the Weyerhaeuser Mortgage Company. The company was acquired by General Electric Co. ("GE") in 2004, when WMC was the sixth-largest subprime lender in the nation.

322. WMC's apparent success was marked by its reputation in the industry for engaging in risky lending practices, originating subprime loans that were extended to less-than-creditworthy borrowers and departing from sound underwriting guidelines. In March 2007, REUTERS described WMC as "responsible for some of the worst-performing loans…[in] the $575 billion market for home equity asset-backed securities." It also reported that WMC often did not require borrowers to prove their ability to repay loans, extended 100% loan-to-value mortgages

to undeserving borrowers and would permit "piggyback" second mortgages that stripped borrowers of equity.

323. WMC has been involved in numerous lawsuits stemming from its fraudulent lending practices. For example, in December 2007, PMI Mortgage Insurance Company ("PMI") and PMI Guaranty Co. ("PGC"), affiliated insurance companies, filed suit against WMC and GE in the Superior Court of California, Los Angeles County, seeking to force WMC to buy back or replace more than 120 mortgage loans that the firm was hired to insure and that it claimed were fraudulently made or that were in violation of WMC's stated underwriting guidelines. *See PMI Mortgage Ins. Co. v. WMB Mortgage Corp.*, No. BC381972 (Cal. Super. Ct. filed Dec. 2007). The complaint alleged that WMC breached representations and warranties made in the sale agreement by providing loans lacking proper documentation, particularly with respect to borrowers' employment and income information. A review of loans found "a systemic failure by WMC to apply sound underwriting standards and practices."

324. WMC has also been bombarded with a flurry of consumer lawsuits alleging TILA and other violations. For example, in February 2009, a consumer filed a TILA lawsuit in the United States District Court for the Eastern District of California seeking to rescind her mortgage for GMC's failure to adequately disclose material information about the loan, including the actual interest rates, loan amount, and finance charges. *See Parreira v. WMC Mortgage, LLC*, No. 1:09-cv-00229 (E.D. Cal. filed Feb. 4, 2009). WMC was similarly targeted by the Washington State Department of Financial Institutions, Division of Consumer Services ("Department") in June 2008, when the Department filed a Statement of Charges and Notice of Intention to Enter an Order to Revoke License against WMC for inadequate disclosures given to borrowers and failure to comply with provisions of the Consumer Loan Act. *See In re WMC*

Mortgage Corp., No. C-07-557-08-SC01 (Wash. Dept. Fin. Institutions, Div. Consumer Services, filed June 2008).

325. WMC announced in April 2007 that it would be initiating layoffs and, due to a rise in delinquencies affecting the entire subprime market, stated that it would no longer be writing loans to borrowers with credit scores below 600 or who could not make a down payment. GE later reported that it would be setting aside $330 million in the first quarter of 2007 for loan-loss reserves and expected a $50 million second-quarter loss as a consequence of WMC's subprime lending scheme. By December 2007, GE had shut down WMC altogether, taking a $1 billion loss.

V. DEFENDANTS SYSTEMATICALLY MISREPRESENTED THAT APPRAISALS FOR THE SECURITIZED MORTGAGES WERE CONDUCTED IN ACCORDANCE WITH INDUSTRY STANDARDS

326. As stated above, with the emergence of the RMBS market, mortgage lenders, including the Originators found that they could reap the benefits of unrestrained lending while offloading the risks onto investors such as ABP. As a result, the Originators had little to no financial interest in whether the mortgaged properties would provide sufficient collateral in case of default, as long as they were able to sell their mortgage loans into securitizations.

327. The Originators responded to these perverse incentives in part by disregarding USPAP uniform appraisal standards and systematically inflating appraisal values, in many instances lending more than the mortgaged properties were really worth.

328. Some appraisers were openly instructed to alter their valuations for the benefit of the mortgage lenders. On June 26, 2007, Alan Hummel, the chair of the Appraisal Institute's Government Relations Committee, testified before the House Committee on Financial Services on "Legislative Proposals on Reforming Mortgage Practices" as follows: "Unfortunately, these parties with a vested interest in the transaction are often the same people managing the appraisal

process within many financial institutions, and therein is a terrible conflict of interest... [I]t is common for a client to ask an appraiser to remove details about the material condition of the property to avoid problems in the underwriting process." A 2007 study conducted by the October Research Corporation reported that 90% of appraisers had been pressured to raise property valuations so that deals could go through, and that 75% of appraisers reported "negative ramifications" if they did not alter their appraisals accordingly.

329. According to one witness, a former Senior Processor, Junior Underwriter, and Compliance Controller who worked at Chase between December 2002 and October 2007, underwriters at JPMorgan Bank and Chase received bonuses "not based on the length of the loan or the delinquency rate. The bonus was based just on putting through the loan." In order to have these loans approved and bonuses increased these employees would pressure appraisers to appraise properties at artificially high levels or they would not be hired again, resulting in appraisals being done on a "drive-by" basis where appraisers issued their appraisals without reasonable bases for doing so. This former employee regularly saw managers at Chase "brow beating" appraisers to get their prices up.

330. According to a former loan officer for Chase, through at least 2004 and potentially later, loan officers would state the actual the target price on the appraisal request in order for the mortgage to be approved. If the desired price was not obtained, the loan officers would call the appraiser again and "see what they could do to get the price changed and get the loan approved." It was in the appraiser's interest to obtain the desired value in order to continue to work with Chase. Additionally, the loan officer stated that Chase changed the policy around 2005, so loan officers could only select appraisal firms from an approved list which Chase provided.

331. Even absent explicit coercion or collusion, mortgage originators could inflate apparent home values simply by offering work only to compliant appraisers. According to the April 7, 2010 testimony of Richard Bitner ("Bitner"), a former executive of a subprime mortgage originator, before the FCIC, "[B]rokers didn't need to exert direct influence. Instead they picked another appraiser until someone consistently delivered the results they needed."

332. Widespread and systematic overvaluations by mortgage originators set into motion a snowball effect that inflated housing prices all across the country and further distorted the RMBS market. As Bitner testified, "If multiple properties in an area are overvalued by 10%, they become comparable sales for future appraisals. The process then repeats itself. We saw it on several occasions. We'd close a loan in January and see the subject property show up as a comparable sale in the same neighborhood six months later. Except this time, the new subject property, which was nearly identical in size and style to the home we financed in January, was being appraised for 10% more… In the end, the subprime industry's willingness to consistently accept overvalued appraisals significantly contributed to the run-up in property values experienced throughout the country."

333. Reflecting the importance of independent and accurate real estate appraisals to investors such as ABP, the Offering Documents contained extensive disclosures concerning the value of the collateral underlying the mortgages pooled in the Issuing Trusts, and the appraisal methods by which such values were obtained. Each Prospectus Supplement also reported the average LTV ratios of the mortgage loans pooled in the Issuing Trusts.

334. Because investors such as ABP would not have invested in the Certificates had it known of Originators' abandonment of prudent appraisal methods, Defendants falsely claimed in the Offering Documents that the mortgaged properties securing the Certificates had been

appraised by qualified independent appraisers in conformance with USPAP. Defendants further claimed in the Offering Documents that their appraisal values were based on market data analyses of recent sales of comparable properties.

335. Defendants' claims regarding LTV ratios were also false and misleading. Due to the Originators' systematic abuse of the appraisal process and disregard for USPAP appraisal standards, the reported value of the properties securing the mortgage loans was substantially overstated. This distorted the loan-to-value ratio, making the Certificates appear to be safer investments than they actually were.

336. As discussed in Section III *supra*, the LTV ratio is one of the most important measures of the riskiness of a loan. In the Offering Documents, Defendants acknowledge that loans with high LTV ratios are more likely to default. For example, the Prospectus Supplement (Form 4245B) for J.P. Morgan MAT 2006-WMC4, filed on December 20, 2006**,** states that, "[m]ortgage loans with high loan-to-value ratios may present a greater risk of loss than mortgage loans with lower loan-to-value ratios." Furthermore, if a borrower does default and the property enters foreclosure, the Issuing Trust is much more likely to recover the outstanding balance on the loan through a foreclosure sale if the LTV ratio is low.

337. Mortgage loans that are "underwater" **–** that is to say, those where the LTV ratio is greater than 100% because the value of the outstanding loan exceeds the value of the collateral – are extremely risky investments. In these cases, the borrower has a strong incentive to default, the possibility that the borrower will be capable of refinancing are virtually nil, and if the mortgage enters foreclosure the Issuing Trust will definitely incur a loss.

338. Appraisals that do not conform to USPAP standards can artificially lower LTV ratios by overstating the value of the mortgaged properties. In instances where LTV values have

been distorted by faulty appraisals, RMBS investors are unaware of the true value of their collateral until default and foreclosure occur. The FCIC Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States discussed this problem.

> As the housing market expanded, another problem emerged, in subprime and prime mortgages alike: inflated appraisals. For the lender, inflated appraisals meant greater losses if a borrower defaulted. But for the borrower or for the broker or loan officer who hired the appraiser, an inflated value could make the difference between closing and losing the deal. Imagine a home selling for $200,000 that an appraiser says is actually worth only $175,000. In this case, a bank won't lend a borrower, say, $180,000 to buy the home. The deal dies. Sure enough, appraisers began feeling pressure. One 2003 survey found that 55% of appraisers had felt pressed to inflate the value of homes; by 2006, this had climbed to 90%.

339. Defendants had a responsibility to ensure that the LTV figures they presented in the Offering Documents were not the product of fraudulent appraisals. As the PSI stated in its staff report, 'Wall Street and the Financial Crisis: Anatomy of a Financial Collapse,' "Whether appraisals are conducted internally by the bank or through a vendor, the bank must take responsibility for establishing a standard process to ensure accurate, unbiased home appraisal values."

340. Mass Mutual and the FHFA's reviews of the loans underlying 34 JP Morgan-issued RMBS, 44 Bear Stearns-issued RMBS, 27 WaMu-issued RMBS, and 16 Long Beach-issued RMBS – which included loans from the same series and time period as offerings in which ABP invested – revealed that, in addition to consistently misrepresenting owner-occupancy rates, as discussed more fully below, Defendants also consistently misrepresented the LTV ratios of the underlying mortgages and the number of properties with high LTV ratios. For each loan they examined, Mass Mutual and the FHFA used an industry standard automated valuation model

("AVM") to calculate the value of the mortgaged property at the time of origination. AVMs are commonly used in the real estate industry and rely upon similar data as appraisers, including county records, tax records, and data on comparable properties.

341. FHFA's review of 31 JPMorgan RMBS, revealed that in each case, the Offering Documents overstated the percentage of loans with low LTV ratios (defined as LTV ratios less than 80%) by between 14.24% and 44.79%. The Offering Documents understated the percentage of underwater loans (loans with LTV ratios greater than 100%) by between 5.81% and 23.87%.

342. FHFA's review of 31 Bear Stearns RMBS revealed that in each case, the Offering Documents overstated the percentage of loans with low LTV ratios (*i.e.*, less than 80%) by between .05% and 55.02%. The Offering Documents understated the percentage of underwater loans by between 5.89% and 60.70%. Only two of the RMBS examined did not misrepresent the percentage of loans with high LTV ratios.

343. FHFA's review of 22 WaMu RMBS revealed that in each case, the offering documents overstated the percentage of loans with low LTV ratios (*i.e.*, less than 80%) by between 6.48% and 42.23%. The offering documents understated the percentage of underwater loans by between 3.72% and 26.24%. Only three of the RMBS examined did not misrepresent the percentage of loans with high LTV ratios.

344. FHFA's review of 16 Long Beach RMBS revealed that in each case, the offering documents overstated the percentage of loans with low LTV ratios (defined as LTV ratios less than 80%) by between 22.77% and 43.87%. The offering documents understated the percentage of underwater loans (loans with LTV ratios greater than 100%) by between 6.45% and 21.35%.

Only four of the RMBS examined did not misrepresent the percentage of loans with high LTV ratios.

345. Although Mass Mutual presented its data differently than the FHFA did, its review also revealed significant misrepresentations of LTV data. Mass Mutual found that for all four of the JPMorgan RMBS it analyzed, the offering documents had understated the weighted average LTV ratio by between 6.09 and 10.41% and understated the percentage of loans with high LTV ratios (defined as LTV ratios greater than 90%) by between 11.7 % and 24.78%. Likewise, for each of the 13 Bear Stearns RMBS that Mass Mutual reviewed, the offering documents had understated the weighted average LTV ratio by between 8.97% and 15.04% and understated the percentage of loans with high LTV ratios (*i.e.*, greater than 90%) by between 7.68% and 32.99%. Finally, for each of the five WaMu RMBS that Mass Mutual reviewed, the offering documents had understated the weighted average LTV ratio by between 9.76% and 14.57% and understated the percentage of loans with high LTV ratios (*i.e.*, greater than 90%) by between 16.2 and 30.38%.

346. On information and belief, the mortgage loans underlying all of the Certificates purchased by Plaintiff – which included loans from the same series and time period as offerings in which ABP invested – suffer from similar deficiencies as the mortgage loans underlying the Certificates purchased by Mass Mutual and Freddie Mac. The loan-level analyses demonstrate that Defendants have engaged in a systematic practice of understating LTV ratios and the number of underwater properties.

VI. A SIGNIFICANT NUMBER OF THE MORTGAGE LOANS WERE MADE TO BORROWERS WHO DID NOT OCCUPY THE PROPERTIES IN QUESTION

347. The Offering Documents contained information regarding the purported occupancy status of the mortgaged properties, including whether they were primary homes,

investment property, or second homes. These representations were material to investors such as Plaintiff because loans for owner-occupied properties are much less likely to default than loans for second homes or investment properties. Owner-occupancy rates are an important metric for judging the safety of a mortgage pool.

348. Allstate, the FHFA, and Mass Mutual each conducted loan-level analyses of JPMorgan related RMBS that they had purchased. These forensic analyses covered thousands of individual mortgage loans. To determine whether a given borrower actually occupied the property, Allstate, the FHFA, and Mass Mutual investigated tax information for the sampled loans. Additionally, credit records, property records and lien records were reviewed in an effort to determine whether the borrowers were in fact residing at the mortgaged property.

349. Allstate found that for each of the six JPMorgan RMBS that it reviewed, the Offering Documents had overstated the percentage of borrowers who occupied the mortgaged properties by between 8.7% and 13.8%. Likewise, for each of the six Bear Stearns RMBS that Allstate reviewed, the Offering Documents had overstated the percentage of borrowers who occupied the mortgaged properties by between 7.44% and 11.96%. For each of the five WaMu RMBS that Allstate reviewed, the Offering Documents had overstated the percentage of borrowers who occupied the mortgaged properties by between 14% and 16.8%.

350. The FHFA's analysis revealed that for the 31 JPMorgan RMBS that it reviewed, the Offering Documents had overstated the percentage of borrowers who occupied the mortgaged properties by an average of 11.14%. Likewise, for each of the 31 Bear Stearns RMBS that the FHFA reviewed, the Offering Documents had overstated the percentage of borrowers who occupied the mortgaged properties by an average of 9.77%. For each of the 22 WaMu RMBS that the FHFA reviewed, the Offering Documents had overstated the percentage

of borrowers who occupied the mortgaged properties by an average of 11.95%. Finally, for each of the 16 Long Beach RMBS reviewed by the FHFA, the Offering Documents had overstated the percentage of borrowers occupying the mortgaged properties by an average of 10.22%.

351. Finally, Mass Mutual's analysis found that for the four JPMorgan RMBS that it reviewed, the Offering Documents had overstated the percentage of borrowers who occupied the mortgaged properties by between 8.74% and 11.32%. Likewise, for each of the 13 Bear Stearns RMBS that Mass Mutual reviewed, the Offering Documents had overstated the percentage of borrowers who occupied the mortgaged properties by between 5.95% and 13.53%. For each of the five WaMu RMBS that Mass Mutual reviewed, the Offering Documents had overstated the percentage of borrowers who occupied the mortgaged properties by between 8.11% and 15.16%.

352. On information and belief, the mortgage loans underlying all of the Certificates purchased by Plaintiff ABP – which included loans from the same series and time period as offerings in which ABP invested – suffer from similar deficiencies as the mortgage loans underlying the Certificates purchased by Allstate, Mass Mutual, and Fannie Mae/Freddie Mac. Three separate analyses covering a total of 41 JPMorgan, 50 Bear Stearns, 32 WaMu, and 16 Long Beach RMBS offerings have uncovered material overstatements of the owner-occupancy ratio in every single offering. There is no reason to believe that the systematic and pervasive misrepresentation of owner-occupancy rates identified by Allstate, Mass Mutual, and the FHFA were confined to the RMBS they examined.

VII. DEFENDANTS' "CREDIT ENHANCEMENTS" WERE INTENDED TO MANIPULATE CREDIT RATINGS RATHER THAN PROVIDE SECURITY

353. Defendants used a variety of credit enhancements. The most common was "subordination" in which the Defendants created a hierarchy of loss absorption among the tranche securities. To create that hierarchy, Defendants placed the pool's tranches in an order,

with the lowest tranche required to absorb any losses first, before the next highest tranche. Losses might occur, for example, if borrowers defaulted on their mortgages and stopped making mortgage payments into the pool. Lower level tranches most at risk of having to absorb losses typically received noninvestment grade ratings from the credit rating agencies, while the higher level tranches that were supposed to be protected from loss typically received investment grade ratings. One key task for both Defendants and the credit rating agencies was to calculate the amount of subordination required to ensure that the higher tranches in a pool were protected from loss and could be given AAA or other investment grade ratings.

354. A second common form of credit enhancement was "over-collateralization." In this credit enhancement, the Defendants ensured that the revenues expected to be produced by the assets in a pool exceeded the revenues designated to be paid out to each of the tranches. That excess amount provided a financial cushion for the pool and was used to create an "equity" tranche, which was the first tranche in the pool to absorb losses if the expected payments into the pool were reduced. This equity tranche was subordinate to all the other tranches in the pool and did not receive any credit rating. The larger the excess, the larger the equity tranche, and the larger the cushion created to absorb losses and protect the more senior tranches in the pool. In some pools, the equity tranche was also designed to pay a relatively higher rate of return to the party or parties who held that tranche due to its higher risk.

355. Still another common form of credit enhancement was the creation of "excess spread," which involved designating an amount of revenue to pay the pool's monthly expenses and other liabilities, but ensuring that the amount was slightly more than what was likely needed for that purpose. Any funds not actually spent on expenses would provide an additional financial cushion to absorb losses, if necessary.

356. Former ratings agency analysts and managers told the PSI that investment banks pressured them to get their deals done quickly, increase the size of the tranches that received AAA ratings and reduce the credit enhancements protecting the AAA tranches from loss. In an October 2007 memorandum, Moody's Chief Credit Officer Andrew Kimball wrote, "The real problem is not that the market does underweights [sic] ratings quality but rather that in some sectors, it actually penalizes quality by awarding rating mandates based on the lowest credit enhancement needed for the highest rating."

357. As set forth below, representations regarding the inclusion and scope of these credit enhancements were made in all of the Offering Documents. These representations were false and misleading because all of the purported "enhancements" depended on or derived from inflated appraisals of the mortgaged properties, which caused the listed LTV ratios and levels of credit enhancement to be untrue.

VIII. THE CREDIT RATINGS ASSIGNED TO THE CERTIFICATES MATERIALLY MISREPRESENTED THE CREDIT RISK OF THE CERTIFICATES

358. The AAA credit ratings of the Certificates were an important factor in Plaintiff's decision to purchase the Certificates. Because Plaintiff is a conservative institutional investor, it purchased only investment grade Certificates, all of which were rated AAA.

359. Investment grade securities are understood by investors to be stable, secure and safe. A rating of AAA denotes high credit quality, and is the same rating as those typically assigned to bonds backed by the full faith and credit of the United States Government, such as treasury bills. Historically, before 2007, investments with AAA ratings had an expected cumulative loss rate of less than 0.5 percent, with an annual loss rate of close to zero. According to S&P, the default rate on all investment grade corporate bonds (including AA, A and BBB)

from 1981 to 2007, for example, averaged about .094% per year and was not higher than 0.41% in any year.

360. The Defendants well understood (and banked on) the importance that purchasers of mortgage-backed securities attached to credit ratings. In most cases, the purchasers were institutional investors such as Plaintiff who did not have the knowledge, means, or wherewithal to independently analyze the mortgage pools underlying any particular offering to verify for themselves that the ratings were accurately determined.

361. Accordingly, Defendants featured the ratings prominently in the Offering Documents and discussed at length the ratings assigned to the Certificates, and the bases for the ratings. Each Prospectus Supplement stated that the issuance of each tranche of the Certificates was conditioned on the assignment of particular, investment-grade ratings, and listed the ratings in a chart. All the Certificates purchased by Plaintiff were AAA-rated securities when issued and purchased.

362. Unbeknownst to Plaintiff, at all relevant times, Defendants knew that the ratings were not reliable because those ratings were bought and paid for, and were supported by, flawed information provided by Defendants to the rating agencies. In fact, Defendants manipulated the rating agencies to obtain the desired ratings for the Certificates.

363. Specifically, the ratings of the Certificates were significantly compromised by the misinformation provided by Defendants to the rating agencies. Among other matters, Defendants did not disclose to the rating agencies that the Originators had abandoned their underwriting standards by, among other things, manipulating the assets, liabilities, income and other important information concerning borrowers, using false metrics to qualify borrowers, and aggressively using exceptions to qualify borrowers. Defendants did not disclose their knowledge

that, in obtaining appraisals to value the underlying collateral, the Originators used inflated appraisals that departed from industry approved standards. Defendants did not otherwise disclose their knowledge of the pervasive fraud that affected the mortgages underlying the Certificates.

364. Apart from supplying incomplete and false information to the rating agencies, Defendants also manipulated their relationships with the rating agencies in order to achieve the desired ratings. The rating agencies received enormous revenues from the issuers who paid them for rating their securities. Because the desired rating of a securitized product was the starting point for any securities offering, the rating agencies were actively involved in helping Defendants structure the products to achieve the requested rating. As a result, the rating agencies essentially worked backwards, starting with Defendants' target rating and then working toward a structure that would yield the desired rating. Among other things, the rating agencies instructed Defendants on how much "credit enhancement" to provide to each tranche of the Certificates, in order to secure the desired ratings.

365. When the rating agencies did exercise independent judgment, Defendants were quick to retaliate. For example, by October 2007, the rating agencies had become increasingly concerned with rising mortgage default rates and as a result, S&P and Moody's downgraded certain RMBS issued by Bear Stearns. Defendant Marano responded with a furious attempt to bully them into compliance, using fees as a club. According to a complaint filed by Ambac Assurance Corp. against EMC, in an October 17, 2007, email, Marano instructed his staff to suspend payment to the rating agencies, writing, "My intention is to contact my peer at each firm as well as the investors who bought the deals. From there, we are going to demand a waiver of fees. In the interim, ***do not pay a single fee to either rating agency. Hold every fee up***."

Ambac Assurance Corp. v. EMC Mortgage, Corp., No. 08-9464 (S.D.N.Y. filed Jan. 20, 2011) (emphasis added in complaint).

366. In this manner, Defendants were able to manipulate the rating agencies to achieve the inflated ratings they desired. Through repeated communications with the rating agencies, Defendants were effectively able to reverse engineer aspects of the ratings models and then modify the structures of their offerings to improve the ratings without actually improving the underlying credit quality.

367. In a 2008 Report entitled "Summary Report of Issues Identified in the Commission Staff's Examinations of Select Credit Rating Agencies", the SEC confirms that the issuers and the rating agencies worked together so that securities would receive the highest ratings:

> Typically, if the analyst concludes that the capital structure of the RMBS does not support the desired ratings, this preliminary conclusion would be conveyed to the arranger. The arranger could accept that determination and have the trust issue the securities with the proposed capital structure and the lower rating or adjust the structure to provide the requisite credit enhancement for the senior tranche to get the desired highest rating. Generally, arrangers aim for the largest possible senior tranche, i.e., to provide the least amount of credit enhancement possible, since the senior tranche -- as the highest rated tranche -- pays the lowest coupon rate of the RMBS' tranches and, therefore, costs the arranger the least to fund.

368. The rating process was further compromised by the practice of "rating shopping." Defendants did not pay for the credit rating agencies' services until after the agencies submitted a preliminary rating. Essentially, this practice created bidding wars in which the issuers would hire the agency that was providing the highest rating for the lowest price. The credit rating agencies were only paid if they delivered the desired investment grade ratings, and only in the

event that the transaction closed with those ratings. "Ratings shopping" jeopardized both the integrity and independence of the rating process.

369. As a result, the Certificates were not worthy of the investment grade ratings given to them, as evidenced most clearly by the fact that many of the Certificates – all initially awarded the highest possible ratings – have now been downgraded to junk, a vast number of the underlying loans have been foreclosed upon, and the remaining underlying loans are suffering from crippling deficiencies and face serious risks of default. The collective downgrade of the Aaa rated Certificates indicates that the ratings set forth in the Offering Documents were false, unreliable and inflated. As JPMorgan Chase CEO Jamie Dimon admitted, "[t]here was a large failure of common sense" because "[v]ery complex securities shouldn't have been rated as if they were easy-to-value bonds." Roger Lowenstein, *"Triple-A Failure,"* THE NEW YORK TIMES (Apr. 27, 2008).

370. By including and endorsing the Aaa ratings contained in the Offering Documents, Defendants falsely represented that they actually believed that the ratings were an accurate reflection of the credit quality of the Certificates.

IX. DEFENDANTS FAILED TO ENSURE THAT TITLE TO THE UNDERLYING MORTGAGE LOANS WAS EFFECTIVELY TRANSFERRED

371. A fundamental aspect of the mortgage securitization process is that the issuing trust for each offering must obtain good title to the mortgage loans comprising the pool for that offering. This is necessary in order for the holders of the RMBS to be legally entitled to enforce the mortgage loans in the event of default. Two documents relating to each mortgage loan must be validly transferred to the trust as part of the securitization process – a promissory note and a security instrument (either a mortgage or a deed of trust).

372. The rules for these transfers are governed by the law of the state where the property is located, by the terms of the pooling and servicing agreement ("PSA") for each securitization, and by the law governing the issuing trust (with respect to matters of trust law). In general, state laws and the PSAs require the promissory note and security instrument to be transferred by indorsement, in the same way that a check can be transferred by indorsement, or by sale. In addition, state laws generally require that the trustee of the issuing trust have physical possession of the original, manually signed promissory note in order for the loan to be enforceable by the trustee against the borrower in the event of a default by the borrower.

373. In order to preserve the bankruptcy-remote status of the issuing trusts in RMBS transactions, the notes and security instruments are generally not directly transferred from the mortgage loan originator to the trust. Rather, the notes and security instruments are initially transferred from the originator to the depositor, either directly or via one or more special-purpose entities. After this initial transfer to the depositor, the depositor transfers the notes and security interests to the issuing trust for the particular securitization. Each of these transfers must be valid under applicable state law in order for the trust to have good title to the mortgage loans.

374. To ensure that the trust qualifies as a tax-free real estate mortgage investment conduit, the PSA generally requires the transfers to the trust to be completed within a strict time limit after formation of the trust. Furthermore, the applicable trust law in each state generally requires strict compliance with the trust documents, including the PSA, so that failure to comply strictly with the timeliness, indorsement, physical delivery and other requirements of the PSA with respect to the transfers of the notes and security instruments means that the transfers would be void and the trust would not have good title to the mortgage loans. Adam Levitin, a professor of law at Georgetown University, testified before the United States House Subcommittee on

Housing and Community Opportunity, that, "If the notes and mortgages were not properly transferred to the trusts, then the mortgage-backed securities that the investors purchased were in fact *non-mortgage backed securities*."

375. On November 18, 2010, Professor Levitin testified about the importance of the chain of title to investors and the consequences of faulty transfers before a hearing of the House Financial Services Committee:

> Concerns about securitization chain of title also go to the standing question; if the mortgages were not properly transferred in the securitization process (including through the use of MERS to record the mortgages), then the party bringing the foreclosure does not in fact own the mortgage and therefore lacks standing to foreclose. If the mortgage was not properly transferred, there are profound implications too for investors, as the mortgage-backed securities they believed they had purchased would, in fact be non-mortgage-backed securities, which would almost assuredly lead investors to demand that their investment contracts be rescinded[.]
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> Securitization is the legal apotheosis of form over substance, and if securitization is to work it must adhere to its proper, prescribed form punctiliously. The rules of the game with securitization, as with real property law and secured credit are, and always have been, that dotting "i's" and crossing "t's" matter, in part to ensure the fairness of the system and avoid confusions about conflicting claims to property. Close enough doesn't do it in securitization; if you don't do it right, you cannot ensure that securitized assets are bankruptcy remote and thus you cannot get the ratings and opinion letters necessary for securitization to work. Thus, it is important not to dismiss securitization problems as merely "technical;" these issues are no more technicalities than the borrower's signature on a mortgage. Cutting corners may improve securitization's economic efficiency, but it undermines its legal viability.

376. On October 27, 2010, Katherine Porter, then a visiting a professor at Harvard Law School specializing in consumer credit, consumer protection regulation, and mortgage servicing, provided similar testimony before the Congressional Oversight Panel:

> The implications of problems with transfer are serious. If the [securitization] trust does not have the loan, homeowners may have been making payments to the wrong party. If the trust does not have the note or mortgage, it may not have standing to foreclose or legal authority to negotiate a loan modification. To the extent that these transfers are being completed retroactively, it raises issues about honesty in creating and dating the assignments/transfers and about what parties can do, if anything, if an entity in the securitization chain, such as Lehman Brothers or New Century, is no longer in existence. Moreover, retroactive transfers may violate the terms of the trust, which often prohibit the addition of new assets, or may cause the trust to lose its REMIC status, a favorable treatment under the Internal Revenue Code. Chain of title problems have the potential to expose the banks to investor lawsuits and to hinder their legal authority to foreclose or even to do loss mitigation.
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> * * *
>
> I want to share with the Panel that the lawyers that I have met over years of my research on mortgage servicing both creditor lawyers and debtor lawyers have nearly universally expressed that they believe a very large number (perhaps virtually all) securitized loans made in the boom period in the mid-2000s contain serious paperwork flaws, did not meet underwriting or other requirements of the trust, and have not been serviced properly as to default and foreclosure.

377. It is now clear that Defendants did not transfer securitized loans to the Issuing Trusts in a timely fashion, if they did so at all. According to a Federal Reserve press release, these banking organizations engaged in "a pattern of misconduct and negligence related to deficient practices in residential mortgage loan servicing and foreclosure processing. These deficiencies represent significant and pervasive compliance failures and unsafe and unsound practices at these institutions."

378. The Offering Documents for the Certificates represented in substance that the Issuing Trust for each respective offering had obtained good title to the mortgage loans comprising the pool underlying the offering. However, in actual fact, Originators and

Defendants routinely and systematically failed to comply with the requirements of applicable state laws and the PSAs for valid transfers of the notes and security instruments.

379. MERS, the electronic mortgage registry used by the banking industry a unit of Merscorp Inc of Reston, Virginia, has faced multiple investigations for its role in thousands of problematic U.S. foreclosure cases. MERS tracks servicing rights and ownership interests in mortgage loans on its electronic registry, allowing banks to buy and sell loans without recording transfers with individual counties.

380. Most recently, MERS has been the subject of a joint Delaware-New York probe. The registry has been sued by the Delaware Attorney General, which accuses MERS of deceptive practices that led to unlawful shortcuts in dealing with the foreclosure crisis. *See State of Del v. MERSCORP Inc.*, C.A. No. 6987 (Del. Ch. Oct. 27, 2011). The Delaware complaint alleges that "MERS engaged and continues to engage in a range of deceptive trade practices that sow confusion among consumers, investors and other stakeholders in the mortgage finance system, damage the integrity of Delaware's land records, and lead to unlawful foreclosure practices."

381. New York's attorney general has also taken action against MERS, subpoenaing the registry for information about how it is used by major banks, including JPMorgan Chase, and a foreclosure law firm.

382. On September 29, 2010, JPMorgan announced that it was freezing foreclosure proceedings in 23 states due to defects in its loan files and foreclosure documents. According to an October 13, 2010 BLOOMBERG article, all 50 state attorneys general have launched a coordinated investigation into whether banks including JPMorgan used false documents to justify foreclosing on mortgages for which they did not possess legal title.

X. DEFENDANTS' SPECIFIC MATERIAL MISSTATEMENTS AND OMISSIONS IN THE OFFERING DOCUMENTS

383. In light of the numerous departures from underwriting guidelines and appraisal standards by the Originators described above, the Offering Documents (Registration Statements and Prospectus Supplements) disseminated by Defendants in the course of selling the Certificates contained numerous misstatements and omissions, as set forth below.

A. DEFENDANTS MADE FALSE AND MISLEADING STATEMENTS REGARDING UNDERWRITING STANDARDS AND PRACTICES

384. Defendants issued Offering Documents that contained the following misrepresentations concerning the underwriting guidelines and practices of JPMorgan, Bear Stearns, WaMu and Long Beach, using identical or substantially similar language:

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

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for J.P. Morgan MAT 2006-RM1 (Form 424B5), at 49 (Sep. 21, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-HE3 (Form 424B5), at 53 (Oct. 27, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-WMC4 (Form 424B5), at 44 (Dec. 15, 2006); Prospectus Supplement for J.P. Morgan MAT 2007-CH3 (Form 424B5), at 79 (May 3, 2007); Prospectus Supplement for J.P. Morgan MAT 2007-CH4 (Form 424B5), at 80 of (Jun. 7, 2007); Registration Statement (333-130192) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am. 3), at 85 (Mar. 31, 2006); Registration Statement (333-141607) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am. 1), at 102 (Apr. 23, 2007).

(b) The underwriting of the mortgage loans generally consisted of analyzing the following as standards applicable to the mortgage loans: ***the creditworthiness of a borrower based on both a credit score and mortgage history; the income sufficiency of a borrower's projected family income relative to the mortgage payment and to other fixed obligations, including in certain instances rental income from investment property; and the adequacy of the mortgaged property, expressed in terms of loan-to-value ratio, to serve as the collateral for a mortgage loan.***

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE5 (Form 424B5), at 23 (May 29, 2007); Prospectus Supplement for Bear Stearns ALT-A Trust 2004-6 (Form 424B5), at S-34 (Jun. 29, 2004); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE7 (Form 424B5), at 48 (Aug. 28, 2006); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE9 (Form 424B5), at 34 (Nov. 29, 2006); Prospectus Supplement for Bear Stearns ABS Trust 2007-2 (Form 424B5), at S-39 (May 14, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE1 (Form 424B5), at 39 (Jan. 29, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE2 (Form 424B5), at 38 (Feb. 27, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE3 (Form 424B5), at 31 (Mar. 29, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE4 (Form 424B5), at 27 (Apr. 26, 2007); Prospectus Supplement for SACO I Trust 2005-5 (Form 424B5), at S-37 (Jul. 28, 2005); Registration Statement (333-115122) filed by Structured Asset Mort. Investments II Inc. (Form S-3/A, Am. 1), at 14 (May 11, 2004); Registration Statement (333-125422) filed by Bear Stearns ABS I LLC (Form S-3/A, Am. 1), at 90 (Jun. 14, 2005); Registration Statement (333-131374) filed by Bear Stearns ABS I LLC (Form S-3/A, Am. 5), at S-42 (Mar. 31, 2006).

(c) All of the mortgage loans owned by the trust have been originated generally in accordance with the underwriting guidelines of the sponsor described in this section. ***The sponsor's underwriting guidelines are primarily intended***

> ***to evaluate the prospective borrower's credit standing and repayment ability as well as the value and adequacy of the mortgaged property as collateral.***

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for WMABS Series 2007-HE2 Trust (Form 424B5), at S-39 (Mar. 7, 2007); Prospectus Supplement for WMALT Series 2006-AR10 Trust (Form 424B5), at S-24 (Dec. 26, 2006); Prospectus Supplement for WMALT Series 2007-HY1 Trust (Form 424B5), at S-25 (Jan. 26, 2007); Prospectus Supplement for WMALT Series 2007-OC2 Trust (Form 424B5), at S-26 (Jun. 25, 2007); Prospectus Supplement for WaMu Series 2007-HE1 Trust (Form 424B5), at S-27 (Jan. 12, 2007); Prospectus Supplement for WaMu Series 2007-HE2 Trust (Form 424B5), at S-29 (Apr. 5, 2007); Registration Statement (333-141255) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at S-30 (Apr. 9, 2007); Registration Statement (333-130795) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at S-28 (Jan. 3, 2006).

> (d) All of the mortgage loans owned by the trust have been, or will be, originated by the sponsor through wholesale brokers or re-underwritten upon acquisition from correspondents by the sponsor generally in accordance with the Long Beach underwriting guidelines described in this section. ***The Long Beach underwriting guidelines are primarily intended to evaluate the prospective borrower's credit standing and repayment ability as well as the value and adequacy of the mortgaged property as collateral.*** The term "sponsor" as used in this "Underwriting of the Mortgage Loans" section of this prospectus supplement refers to Long Beach Mortgage Company for mortgage loans owned by the trust that were originated or acquired prior to July 1, 2006.

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for Long Beach MLT 2006-6 (Form 424B5), at S-35 (Jul. 21, 2006); Prospectus Supplement for Long Beach MLT 2006-9 (Form 424B5), at S-35 (Oct. 6, 2006); Prospectus Supplement for Long Beach MLT 2006-10 (Form 424B5), at S-36 (Nov. 3, 2006); Prospectus

Supplement for Long Beach MLT 2006-11 (Form 424B5), at S-36 (Dec. 11, 2006); Registration Statement (333-131252) filed by Long Beach Sec. Corp. (Form S-3/A, Am. 1), at 26 (Mar. 21, 2006).

385. The above statements of material fact were untrue when made because they represented that the Originators applied underwriting guidelines to assess the value of the mortgaged properties, evaluate the adequacy of such properties as collateral for the mortgage loans, and assess the applicants' abilities to repay their mortgage loans, when in fact the Originators had actually abandoned these standards so that they could increase the volume of loan origination and the resulting fees that they earned. For further discussion of Originators' disregard of their stated underwriting guidelines, see Section IV, *supra*.

B. DEFENDANTS MADE FALSE AND MISLEADING STATEMENTS REGARDING QUALITY CONTROL PROCEDURES

386. The Offering Documents represented that numerous quality control procedures were conducted with respect to the loans underlying the Certificates. For example, the Offering Documents contained, in sum or substance, the following representations:

> (a) Performing loans acquired by the sponsor are subject to varying levels of due diligence prior to purchase. Portfolios may be reviewed for credit, data integrity, appraisal valuation, documentation, as well as compliance with certain laws. 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 above misstatement was contained in the following Offering Documents: Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE7 (Form 424B5), at 55 (Aug. 30, 2006); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE9 (Form 424B5), at 38 (Dec. 1, 2006); Prospectus Supplement for Bear Stearns ABS Trust 2007-2 (Form 424B5), at S-62 (May 18, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE1 (Form 424B5), at 43-

44 (Jan. 31, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE2 (Form 424B5), at 42 (Feb. 28, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE3 (Form 424B5), at 40 (Apr. 2, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE4 (Form 424B5), at 29 (Apr. 27, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE5 (Form 424B5), at 25 (May 30, 2007).

(b) ***Quality Control Review***

> As part of its quality control system, the sponsor re-verifies information that has been provided by the mortgage brokerage company prior to funding a loan and the sponsor conducts a post-funding audit of every origination file. ***In addition, Washington Mutual Bank periodically audits files based on a statistical sample of closed loans.*** In the course of its pre-funding review, the sponsor re-verifies the income of each prospective borrower or, for a self-employed prospective borrower, reviews the income documentation obtained under the full documentation and limited documentation residential loan programs. The sponsor generally requires evidence of funds to close on the mortgage loan.

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for WaMu Series 2007-HE2 Trust (Form 424B5), at S-32 (Apr. 6, 2007);Prospectus Supplement for WaMu Series 2007-HE1 Trust (Form 424B5), at S-29 (Jan. 16, 2007); Prospectus Supplement for WMABS Series 2007-HE2 Trust (Form 424B5), at S-41 (Mar. 9, 2007); Prospectus Supplement for WMALT Series 2006-AR10 Trust (Form 424B5), at S-27 (Dec. 27, 2006); Prospectus Supplement for WMALT Series 2007-OC2 Trust (Form 424B5), at S-29 (Jun. 26, 2007); Prospectus Supplement for WMALT Series 2007-HY1 Trust (Form 424B5), at S-28 (Jan. 29, 2007); Registration Statement (333-141255) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at S-32 (Apr. 9, 2007); Registration Statement (333-130795) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at S-30 (Jan. 3, 2006); Prospectus Supplement for Long Beach MLT 2006-6 (Form 424B5), at S-37 (Jul. 25, 2006); Prospectus Supplement for Long Beach MLT 2006-9 (Form 424B5), at S-37 (Oct. 10, 2006); Prospectus Supplement for Long Beach MLT 2006-10 (Form 424B5), at S-38 (Nov. 7, 2006); Prospectus Supplement for Long Beach MLT 2006-11 (Form 424B5), at S-38 (Dec. 13, 2006); Registration Statement (333-131252) filed by Long Beach Sec. Corp. (Form S-3/A, Am. 1), at S-40 (Mar. 21, 2006).

387. WaMu and Long Beach also made the following misrepresentations:

Strong Compliance Culture

- ✓ Compliance reporting lines are independent of business units
- ✓ LBM compliance officers dedicated to loan fulfillment centers
- ✓ High cost calculations automated in the loan origination system and prohibit approval of high cost loans
- ✓ ***100% of loans are reviewed for, among other things, compliance with key consumer regulations prior to funding***
- ✓ 100% of refinance loans must pass a net tangible benefits test
- ✓ ***Corporate Compliance Risk reviews a sample of closed loans every month for compliance by loan fulfillment center and the grades are part of the loan fulfillment center's Key Performance Indicators***

The above misstatements were contained in the following Offering Documents: Free Writing Prospectus filed by Long Beach Sec. Corp. (Form FWP), at 26 (Nov. 17, 2006); Free Writing Prospectus filed by WaMu Asset Acceptance Corp. (Form FWP), at 29 (Jan. 26, 2007).

388. WaMu and Long Beach also made the following misrepresentations:

Risk Management – Sellers

- ▪ Seller due diligence focused on developing a long-term profitable relationship

– Thorough ***review of business and lending practices, underwriting philosophy and guidelines***

- Comparison to industry standards
- ***Focus on prudent risk management of seller***

The above misstatements, in identical or substantially similar language, were contained in the following Offering Documents: Free Writing Prospectus filed by Long Beach Sec. Corp. (Form FWP), at 29 (Nov. 17, 2006); Free Writing Prospectus filed by WaMu Asset Acceptance Corp. (Form FWP), at 32 (Jan. 26, 2007); Free Writing Prospectus filed by WaMu Asset Acceptance Corp. (Form FWP), at 22 (Jun. 8, 2007).

389. WaMu and Long Beach also made the following misrepresentations:

Risk Management – Mortgages

- Extensive use of models drives performance expectations
  - Models are constantly re-calibrated to incorporate recent performance history
- Clearly established minimum standards
  - Credit standards reviewed and approved by Washington Mutual Credit Policy Committee
  - Seller pools are filtered to so that loans meet minimum standards prior to due diligence
  - NO FICO < 500
  - MAX LTV/CLTV 100
  - NO High-risk property types: MH, 5+ units, condotels, coops, time shares
- ***Significant level of loan level due diligence by third-party due diligence firms***
  - ***100% complete re-underwrite on pools purchased from new sellers***
  - ***25% - 100% complete re-underwrite for repeat sellers***
  - ***100% - validation of appraisal using third-party appraisal valuation product***
  - ***20% - 100% appraisals reviewed using appraiser drive-by review***
  - ***100% collateral file review by custodian***
  - 100% review for consumer compliance

- 100% review for predatory practices: flipping, equity stripping, fraud
- ***Washington Mutual management reviews all due diligence decisions by third-parties***

The above misstatements, in identical or substantially similar language, were contained in the following Offering Documents: Free Writing Prospectus filed by Long Beach Sec. Corp. (Form FWP), at 30 (Nov. 17, 2006); Free Writing Prospectus filed by WaMu Asset Acceptance Corp. (Form FWP), at 33 (Jan. 26, 2007); Free Writing Prospectus filed by WaMu Asset Acceptance Corp. (Form FWP), at 22 (Jun. 8, 2007).

390. The above statements of material facts were untrue when made because they failed to disclose that the Sponsors and Originators did not, in fact, apply quality control measures to assess the value of the mortgaged properties, evaluate the adequacy of such properties as collateral for the mortgage loans, or assess the applicants' ability to repay their mortgage loans.

C. DEFENDANTS MADE FALSE AND MISLEADING STATEMENTS REGARDING UNDERWRITING EXCEPTIONS

391. Defendants issued Offering Documents that contained the following misrepresentations concerning the policy with respect to underwriting exceptions:

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

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for J.P. Morgan MAT 2006-RM1 (Form 424B5), at 50 (Sep. 21, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-HE3 (Form 424B5), at 53 (Oct. 27, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-WMC4 (Form 424B5), at 44 (Dec. 15, 2006); Prospectus Supplement for J.P. Morgan MAT 2007-CH3 (Form 424B5), at 79 (May 3, 2007); Prospectus Supplement for J.P. Morgan MAT 2007-CH4 (Form 424B5), at 80 (Jun. 7, 2007); Registration Statement (333-130192) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am. 3), at 85 (Mar. 31, 2006); Registration Statement (333-141607) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am. 1), at 102 (Apr. 23, 2007).

> (b) Exceptions. As described above, the indicated underwriting standards applicable to the mortgage loans to be included in each trust include the foregoing categories and characteristics as guidelines only. ***On a case-by-case basis, it may be determined that an applicant warrants a debt service-to-income ratio exception, a pricing exception, a loan-to-value ratio exception, an exception from certain requirements of a particular risk category, etc. An exception may be allowed if the application reflects compensating factors,*** such as: low loan-to-value ratio; stable ownership; low debt ratios; strong residual income; a maximum of one 30-day late payment on all mortgage loans during the last 12 months; and stable employment or ownership of current residence of four or more years. Based on the indicated underwriting standards applicable for mortgage loans with risk features originated thereunder, those mortgage loans are likely to experience greater rates of delinquency, foreclosure and loss, and may experience substantially greater rates of delinquency, foreclosure and loss than mortgage loans underwritten under more stringent underwriting standards.

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE5 (Form 424B5), at 25 (May 29, 2007); Prospectus Supplement for Bear Stearns ALT-A Trust 2004-6 (Form 424B5), at S-34 (Jun. 29, 2004); Prospectus Supplement for Bear Stearns ABS I

Trust 2006-HE7 (Form 424B5), at 49 (Aug. 28, 2006); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE9 (Form 424B5), at 34 (Nov. 29, 2006); Prospectus Supplement for Bear Stearns ABS Trust 2007-2 (Form 424B5), at S-41 (May 14, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE1 (Form 424B5), at 39 (Jan. 29, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE2 (Form 424B5), at 38 (Feb. 27, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE3 (Form 424B5), at 31 (Mar. 29, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE4 (Form 424B5), at 27 (Apr. 26, 2007); Prospectus Supplement for SACO I Trust 2005-5 (Form 424B5), at S-37 (Jul. 28, 2005); Registration Statement (333-125422) filed by Bear Stearns ABS I LLC (Form S-3/A, Am. 1), at 91 (Jun. 14, 2005); Registration Statement (333-131374) filed by Bear Stearns ABS I LLC (Form S-3/A, Am. 5), at S-42 (Mar. 31, 2006).

> (c) ***Exceptions to the underwriting standards described above may be made on a case-by-case basis if compensating factors are present.*** In those cases, the basis for the exception is documented. Compensating factors may include, but are not limited to, low loan-to-value ratio, low debt-to-income ratio, good credit standing, the availability of other liquid assets, stable employment and time in residence at the prospective borrower's current address.

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for WMALT Series 2007-OC2 Trust (Form 424B5), at S-29 (Jun. 25, 2007); Prospectus Supplement for WMABS Series 2007-HE2 Trust (Form 424B5), at S-43 (Mar. 7, 2007); Prospectus Supplement for WMALT Series 2006-AR10 Trust (Form 424B5), at S-26 (Dec. 26, 2006); Prospectus Supplement for WMALT Series 2007-HY1 Trust (Form 424B5), at S-27 (Jan. 26, 2007); Prospectus Supplement for WaMu Series 2007-HE1 Trust (Form 424B5), at S-29 (Jan. 12, 2007); Prospectus Supplement for WaMu Series 2007-HE2 Trust (Form 424B5), at S-31 (Apr. 5, 2007); Registration Statement

(333-141255) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at S-32 (Apr. 9, 2007); Registration Statement (333-130795) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at S-30 (Jan. 3, 2006).

> (d) ***On a case-by-case basis and only with the approval of an employee with appropriate risk level authority, the sponsor may determine that, based upon compensating factors, a prospective borrower not strictly qualifying under the Long Beach underwriting risk category guidelines warrants an underwriting exception.*** Compensating factors may include, but are not limited to, low loan-to-value ratio, low debt-to-income ratio, good credit history, stable employment and time in residence at the prospective borrower's current address. It is expected that some of the mortgage loans owned by the trust will be underwriting exceptions.

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for Long Beach MLT 2006-6 (Form 424B5), at S-36-37 (Jul. 21, 2006); Prospectus Supplement for Long Beach MLT 2006-9 (Form 424B5), at S-36-37 (Oct. 6, 2006); Prospectus Supplement for Long Beach MLT 2006-10 (Form 424B5), at S-37-38 (Nov. 3, 2006); Prospectus Supplement for Long Beach MLT 2006-11 (Form 424B5), at S-37-38 (Dec. 11, 2006); Registration Statement (333-131252) filed by Long Beach Sec. Corp. (Form S-3/A, Am. 1), at S-39 (Mar. 21, 2006).

392. The above statements of material facts were untrue when made because they failed to disclose that, in order to generate increased loan volume for securitizations, and in contravention of Defendants' and the third party originators' underwriting guidelines, Defendants and the third party originators allowed non-qualifying borrowers to be approved for loans under "exceptions" to their underwriting standards, even though there were no "compensating factors" that could possibly justify such an exception.

D. DEFENDANTS MADE UNTRUE STATEMENTS AND OMISSIONS REGARDING LOAN-TO-VALUE RATIOS AND APPRAISALS

393. The Offering Documents represented that independent appraisals were prepared for each mortgaged property and that reports were prepared to substantiate these appraisals. For example, the Offering Documents contained, in sum or substance, the following representations:

Original LTV (%) (Aggregate Pool)

Original LTV (%)	# of Loans	Current Principal Balance	Pct by Curr Prin Balance	Weighted Average Current Mortgage Rate	Weighted Average Stated Remaining Term	Weighted Average Combined Orig LTV	Weighted Average Credit Score	Weighted Average DTI
0.01 - 50.00	488	$58,420,063.56	5.22%	8.094%	325	39.34%	608	37.72%
50.01 - 55.00	158	24,995,744.04	2.23	7.869	328	52.93	613	37.75
55.01 - 60.00	260	42,473,495.88	3.79	7.957	335	57.96	605	37.11
60.01 - 65.00	268	48,724,749.16	4.35	7.827	336	63.23	607	38.72
65.01 - 70.00	490	88,564,025.15	7.91	7.910	344	68.53	607	39.93
70.01 - 75.00	484	84,616,976.62	7.56	8.151	339	73.85	605	38.24
75.01 - 80.00	1,710	339,980,984.04	30.38	7.918	345	79.73	635	40.28
80.01 - 85.00	871	154,193,174.07	13.78	8.083	334	84.46	622	40.13
85.01 - 90.00	923	167,492,971.97	14.96	8.378	339	89.61	616	40.07
90.01 - 95.00	460	77,916,972.17	6.96	8.880	334	94.75	623	40.44
95.01 - 100.00	238	31,852,644.04	2.85	9.500	331	99.77	647	40.86
Total:	**6,350**	**$1,119,231,800.70**	**100.00%**	**8.144%**	**339**	**77.89%**	**621**	**39.70%**

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for J.P. Morgan MAT 2007-CH4 (Form 424B5), at 36 (Jun. 15, 2007); Prospectus Supplement for J.P. Morgan MAT 2006-HE3 (Form 424B5), at 27 (Nov. 13, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-RM1 (Form 424B5), at 27 (Sep. 28, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-WMC4 (Form 424B5), at 22-23 (Dec. 20, 2006); Prospectus Supplement for J.P. Morgan MAT 2007-CH3 (Form 424B5), at 35 (May 11, 2007).

Original Loan-to-Value Ratios* in Total Portfolio

Loan-to-Value Ratios (%)	Number of Mortgage Loans	Aggregate Scheduled Principal Balance Outstanding as of Cut-off Date	% of Mortgage Loans
0.01 - 30.00	16	$ 3,097,354	0.36 %
30.01 - 40.00	13	3,256,879	0.38
40.01 - 50.00	47	14,909,113	1.73
50.01 - 55.00	36	10,934,435	1.27
55.01 - 60.00	55	21,096,195	2.45
60.01 - 65.00	92	28,567,729	3.32
65.01 - 70.00	166	55,991,803	6.51
70.01 - 75.00	224	60,559,098	7.04
75.01 - 80.00	2,386	537,263,474	62.43
80.01 - 85.00	57	11,280,297	1.31
85.01 - 90.00	369	65,881,126	7.66
90.01 - 95.00	242	44,839,610	5.21
95.01 - 100.00	15	2,883,840	0.34
Total	3,718	$ 860,560,954	100.00 %

Weighted Average Original Loan-to-Value: 77.88%

*Loan to value ratios are calculated by taking the Original Principal Balance and dividing the lesser of the original appraised value and sell price of the property.

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for Bear Stearns ALT-A Trust 2004-6 (Form 424B5), at A-25 (Ju1. 1, 2004); Prospectus Supplement for SACO I Trust 2005-5 (Form 424B5), at A-2 (Aug. 19, 2005); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE7 (Form 424B5), at 165 (Aug. 30, 2006); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE9 (Form 424B5), at 142 (Dec. 1, 2006); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE1 (Form 424B5), at 150] (Jan. 31, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE2 (Form 424B5), at 153 (Feb. 28, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE3 (Form 424B5), at 105-106 (Apr. 2, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE4 (Form 424B5), at 88-89 (Apr. 27, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE5 (Form 424B5), at 71 (May 30, 2007).

(a) ***The loan-to-value ratio for each mortgage loan was no greater than 100% at the time of origination….***

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for WMABS Series 2007-HE2 Trust (Form 424B5), at S-67 (Mar. 9, 2007); Prospectus Supplement for WMALT Series 2006-AR10 Trust (Form 424B5), at S-90 (Dec. 27, 2006); Prospectus Supplement for WaMu Series 2007-HE1 Trust (Form 424B5), at S-55 (Jan. 16, 2007); Prospectus Supplement for WMALT Series 2007-HY1 Trust (Form 424B5), at S-92 (Jan. 29, 2007); Prospectus Supplement for WaMu Series 2007-HE2 Trust (Form 424B5), at S-57 (Apr. 6, 2007); Prospectus Supplement for WMALT Series 2007-OC2 Trust (Form 424B5), at S-93 (Jun. 26, 2007).

> (b) ***No mortgage loan had a loan-to-value ratio at origination in excess of 100%***

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for Long Beach MLT 2006-6 (Form 424B5), at S-63 (Jul. 25, 2006); Prospectus Supplement for Long Beach MLT 2006-9 (Form 424B5), at S-63 (Oct. 10, 2006); Prospectus Supplement for Long Beach MLT 2006-10 (Form 424B5), at S-64 (Nov. 7, 2006); Prospectus Supplement for Long Beach MLT 2006-11 (Form 424B5), at S-64 (Dec. 13, 2006).

> (c) ResMAE originates loans secured by 1-4 unit residential properties made to eligible borrowers with a vested fee simple (or in some cases a leasehold) interest in the property. ***The underwriting guidelines of ResMAE are applied in accordance with a procedure which complies with applicable federal and state laws and regulations and generally require an appraisal of the mortgaged property which conforms to Freddie Mac and/or Fannie Mae standards, and if appropriate, a review appraisal. Generally, appraisals are provided by qualified independent appraisers licensed in their respective states. Review appraisals may only be provided by appraisers approved by the Originator.*** In most cases, ResMAE relies on a statistical appraisal methodology provided by a third-party. Qualified independent appraisers must meet minimum standards of licensing and provide errors and omissions insurance in states where it is required in order to become approved to do business with ResMAE. Each

> Uniform Residential Appraisal Report includes a market data analysis based on recent sales of comparable homes in the area and, where deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home. The review appraisal may be a desk review, field review or an automated valuation report that confirms or supports the original appraiser's value of the mortgaged premises.

The above misstatement was contained in the following Offering Documents Prospectus Supplement for J.P. Morgan MAT 2006-RM1 (Form 424B5), at 50 (Sep. 28, 2006).

> (d) The adequacy of the mortgaged property as security for repayment of the related mortgage loan will generally have been determined by an appraisal in accordance with pre-established appraisal procedure guidelines for appraisals established by or acceptable to the originator. ***All appraisals conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation and must be on forms acceptable to Fannie Mae and/or Freddie Mac. Appraisers may be staff appraisers employed by the originator or independent appraisers selected in accordance with pre-established appraisal procedure guidelines established by or acceptable to 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. The appraisal generally will have been based upon a market data analysis of recent sales of comparable properties and, when deemed applicable, an analysis based on income generated from the property or a replacement cost analysis based on the current cost of constructing or purchasing a similar property.

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for J.P. Morgan MAT 2006-HE3 (Form 424B5), at 52 (Nov. 13, 2006).

> (e) Under the Underwriting Guidelines, WMC verifies the loan applicant's eligible sources of income for all products, calculates the amount of income from eligible sources indicated on the loan application, reviews the credit and

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

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for J.P. Morgan MAT 2006-WMC4 (Form 424B5), at 45 (Dec. 20, 2006).

> (f) The value of each property proposed as security for a mortgage loan is determined by either a full appraisal, an automated valuation model ("AVM"), a limited appraisal conducted on a drive-by basis, or a statistical valuation. Two full appraisals are generally required if the mortgage loan exceeds $500,000 and beginning with loans originated on or after April 23, 2006, $650,000. Origination means for purposes of the following description of the underwriting guidelines, the date of submission of a mortgage application.

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for J.P. Morgan MAT 2007-CH3 (Form 424B5), at 74 (May 11, 2007); Prospectus Supplement for J.P. Morgan MAT 2007-CH4 (Form 424B5), at 75 (Jun. 15, 2007).

> (g) ***Mortgaged properties that are to secure mortgage loans generally are appraised by qualified independent appraisers. These appraisals are required to conform to the Uniform Standard of Professional Appraisal Practice adopted by the Appraisal Standards Board of the***

Appraisal Foundation and are generally on forms acceptable to Fannie Mae and Freddie Mac.

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for Bear Stearns ABS Trust 2007-2 (Form 424B5), at S-60 (May 18, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE3 (Form 424B5), at 30 (Apr. 2, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE4 (Form 424B5), at 26 (Apr. 27, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE7 (Form 424B5), at 53 (Aug. 30, 2006); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE9 (Form 424B5), at 32 (Dec. 1, 2006); Prospectus Supplement for SACO I Trust 2005-5 (Form 424B5), at S-42 (Aug. 19, 2005); Registration Statement (333-125422) filed by Bear Stearns ABS I LLC (Form S-3/A, Am. 1), at 90 (Jun. 14, 2005); Registration Statement (333-131374) filed by Bear Stearns ABS I LLC (Form S-3/A, Am. 5), at S-42 (Mar. 31, 2006).

(h) ***Mortgaged properties generally will be appraised by licensed appraisers or through an automated valuation system***. A licensed appraiser will generally address neighborhood conditions, site and zoning status and condition and valuation of improvements. In the case of mortgaged properties secured by single family loans, the appraisal report will generally include a reproduction cost analysis (when appropriate) based on the current cost of constructing a similar home and a market value analysis based on recent sales of comparable homes in the area. With respect to multifamily properties, commercial properties and mixed-use properties, the appraisal must specify whether an income analysis, a market analysis or a cost analysis was used. An appraisal employing the income approach to value analyzes a property's projected net cash flow, capitalization and other operational information in determining the property's value. The market approach to value analyzes the prices paid for the purchase of similar properties in the property's area, with adjustments made for variations between those other properties and the property being appraised. The cost approach to value requires the appraiser to make an estimate of land value and then

> determine the current cost of reproducing the improvements less any accrued depreciation. In any case, the value of the property being financed, as indicated by the appraisal, must support, and support in the future, the outstanding loan balance. ***All appraisals by licensed appraisers are required to be on forms acceptable to Fannie Mae or Freddie Mac.*** Automated valuation systems generally rely on publicly available information regarding property values and will be described more fully in the related prospectus supplement. An appraisal for purposes of determining the Value of a mortgaged property may include an automated valuation.

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Registration Statement (333-115122) filed by Structured Asset Mort. Investments II Inc. (Form S-3/A, Am. 1), at 15 (May 11, 2004); Prospectus Supplement for Bear Stearns ALT-A Trust 2004-6 (Form 424B5), at 15 (Ju1. 1, 2004); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE5 (Form 424B5), at 22 (May 30, 2007).

> (i) ***Appraisal Review***. An assessment of the adequacy of the real property as collateral for the loan was made, primarily based upon an appraisal of the property and a calculation of the LTV ratio of the loan applied for and the combined LTV to the appraised value of the property at the time of origination. Appraisers determined a property's value by reference to the sales prices of comparable properties recently sold, adjusted to reflect the condition of the property as determined through inspection. As lenders that generally specialize in loans made to credit impaired borrowers, PCC implemented an appraisal review process to support the value used to determine the LTV ratio. PCC used a variety of steps in its appraisal review process in order to attempt to ensure the accuracy of the value provided by the initial appraiser. This includes obtaining an independent automated property review on a majority of the loans that it originates. PCC's review process required a written review on every appraisal report either by a qualified independent underwriter or by a staff appraiser. PCC employed several methods to determine which appraisals are higher risk and attempted to direct those reviews to one of its staff appraisers. The criteria for identifying higher risk appraisal reports included those properties receiving lower scores from the automated

> property review, properties with larger loan amounts and those units and properties that fail a scoring template used by the internal underwriting staff. PCC also employed an appraisal review staff consisting mostly of staff appraisers. As part of their review process, the review department where available, verified the subject property's sales history, those of comparable properties as well as reviews additional comparable data. In some cases the value of the property used to determine the LTV ratio was reduced where it was determined by PCC's staff appraisers that the original appraised value cannot be supported.

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE1 (Form 424B5), at 40-41 (Jan. 31, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE2 (Form 424B5), at 39 (Feb. 28, 2007).

(j) ***Evaluation of the Adequacy of Collateral***

> The adequacy of the mortgaged property as collateral is generally determined by an appraisal of the mortgaged property that generally conforms to Fannie Mae and Freddie Mac appraisal standards and a review of that appraisal. ***The mortgaged properties are appraised by licensed independent appraisers who have satisfied the servicer's appraiser screening process***. In most cases, properties in below average condition, including properties requiring major deferred maintenance, are not acceptable under the WMB sub-prime underwriting programs. Each appraisal includes a market data analysis based on recent sales of comparable homes in the area and, where deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home.

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for WaMu Series 2007-HE1 Trust (Form 424B5), at S-28 (Jan. 16, 2007); Prospectus Supplement for WaMu Series 2007-HE2 Trust (Form 424B5), at S-31 (Apr. 6, 2007); Prospectus Supplement for WMABS Series 2007-HE2 Trust (Form 424B5), at S-40 (Mar. 9, 2007).

(k) Evaluation of the Adequacy of the Collateral

> The adequacy of the mortgaged property as collateral generally is determined by an appraisal made in accordance with pre-established appraisal guidelines. At origination, all appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation, and are made on forms acceptable to Fannie Mae and/or Freddie Mac. ***Appraisers may be staff appraisers employed by Washington Mutual Bank or independent appraisers selected in accordance with the pre-established appraisal guidelines.*** Such guidelines generally require that the appraiser, or an agent on its behalf, personally inspect the property and verify whether the property is in adequate condition and, if the property is new construction, whether it is substantially completed. However, in the case of mortgage loans underwritten through an automated underwriting system, an automated valuation model may be used, under which an appraiser does not inspect the property. In either case, the valuation normally is based upon a market data analysis of recent sales of comparable properties and, in some cases, a replacement cost analysis based on the current cost of constructing or purchasing a similar property. In the case of a streamline refinance, the appraisal guidelines may permit the property value obtained for an existing mortgage loan (or a mortgage loan which was previously refinanced) to be used. Title insurance is required for all mortgage loans, except that for mortgage loans secured by shares of cooperative apartments, title insurance is not required for the cooperative apartment building (but a lien search is provided by the title company). Specific additional title insurance coverage is required for some types of mortgage loans.

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for WMALT Series 2006-AR10 Trust (Form 424B5), at S-25-26 (Dec. 27, 2006); Prospectus Supplement for WMALT Series 2007-HY1 Trust (Form 424B5), at S-26 (Jan. 29, 2007); Prospectus Supplement for WMALT Series 2007-OC2 Trust (Form 424B5), at S-27-28 (Jun. 26, 2007); Registration Statement (333-130795) filed by WaMu Asset Acceptance Corp.

(Form S-3/A, Am. 1), at S-29 (Jan. 3, 2006); Registration Statement (333-141255) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at S-31 (Apr. 9, 2007).

(l) ***Evaluation of the Adequacy of Collateral***

> The adequacy of the mortgaged property as collateral is generally determined by an appraisal of the mortgaged property that generally conforms to Fannie Mae and Freddie Mac appraisal standards and a review of that appraisal. The mortgaged properties are appraised by licensed independent appraisers who have satisfied the servicer's appraiser screening process. In most cases, properties in below average condition, including properties requiring major deferred maintenance, are not acceptable under the Long Beach underwriting programs. Each appraisal includes a market data analysis based on recent sales of comparable homes in the area and, where deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home.

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for Long Beach MLT 2006-6 (Form 424B5), at S-36 (Jul. 25, 2006); Prospectus Supplement for Long Beach MLT 2006-9 (Form 424B5), at S-36 (Oct. 10, 2006); Prospectus Supplement for Long Beach MLT 2006-10 (Form 424B5), at S-37 (Nov. 7, 2006); Prospectus Supplement for Long Beach MLT 2006-11 (Form 424B5), at S-37 (Dec. 13, 2006); Registration Statement (333-131252) filed by Long Beach Sec. Corp. (Form S-3/A, Am. 1), at S-39 (Mar. 21, 2006).

394. WaMu and Long Beach misrepresented that in March 2006 they lowered the maximum loan-to-value ratio for Full Doc "C" borrowers and that they "[i]mplemented DISSCO ["data integrity search and score system"] screening for all loan submissions to minimize fraud related to incorrect applicant information and property overvaluation." These misstatements were contained in the following Offering Documents: Free Writing Prospectus filed by Long Beach Sec. Corp. (Form FWP), at 13 (Nov. 17, 2006); Free Writing Prospectus filed by WaMu

Asset Acceptance Corp. (Form FWP), at 13 (Jan. 26, 2007); Free Writing Prospectus filed by WaMu Asset Acceptance Corp. (Form FWP), at 14 (Jun. 8, 2007). WaMu also misrepresented that in March 2007 it "[r]educed the maximum LTV/CLTV to 95% for all transactions." This misstatement was contained in the following Offering Document: Free Writing Prospectus filed by WaMu Asset Acceptance Corp. (Form FWP), at 16 (Jun. 8, 2007).

395. WaMu and Long Beach also made the following misrepresentations:

Risk Management – Appraisal Review

- 100 appraisal review by Long Beach Mortgage underwriters
- 100% appraisal review to Washington Mutual standards

The above misstatements were contained in the following Offering Documents: Free Writing Prospectus filed by Long Beach Sec. Corp. (Form FWP), at 24 (Nov. 17, 2006); Free Writing Prospectus filed by WaMu Asset Acceptance Corp. (Form FWP), at 28 (Jan. 26, 2007); Free Writing Prospectus filed by WaMu Asset Acceptance Corp. (Form FWP), at 19 (Jun. 8, 2007).

396. The above representations were materially false and misleading in that they omitted to state that: (i) Defendants violated their stated appraisal standards and in many instances materially inflated the values of the underlying mortgaged properties used to collateralize the Certificates; (ii) the appraisers were not independent, and Defendants in fact exerted pressure on appraisers to come back with pre-determined, inflated and false appraisal values; (iii) the inflated appraisals obtained by Defendants did not conform to USPAP, Fannie Mae or Freddie Mac standards and were not market data analyses of comparable homes in the area or analyses of the cost of construction of a comparable home; and (iv) the forms of credit enhancement applicable to certain tranches of the Certificates were affected by the total value of the underlying properties, and thus were inaccurate as stated. Defendants omitted to disclose that

they subordinated proper appraisals to the goal of originating and securitizing as many mortgage loans as they could.

397. All of the representations regarding LTV ratios, described above, were materially false and misleading because the underlying appraisals used to determine the LTVs were improperly performed. The actual LTV ratios for numerous mortgage loans underlying the Certificates would have exceeded 100% if the underlying properties had been appraised by an independent appraiser according to USPAP, Freddie Mac or Fannie Mae as represented in the Offering Documents.

E. DEFENDANTS MATERIALLY MISREPRESENTED THE ACCURACY OF THE CREDIT RATINGS ASSIGNED TO THE CERTIFICATES

398. Defendants represented in the Offering Documents that the all of the Certificates purchased by Plaintiff were rated Aaa signifying that the risk of loss was virtually non-existent.

> (a) It is a condition to the issuance of the securities of each series offered by this prospectus that they shall have been rated in one of the four highest rating categories by the nationally recognized statistical rating agency or agencies specified in the related prospectus supplement.

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for J.P. Morgan MAT 2007-CH3 (Form 424B5), at 40 (May 11, 2007); Prospectus Supplement for J.P. Morgan MAT 2007-CH4 (Form 424B5), at 40 (Jun. 15, 2007); Prospectus Supplement for J.P. Morgan MAT 2006-HE3 (Form 424B5), at 122 (Nov. 13, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-RM1 (Form 424B5), at 122 (Sep. 28, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-WMC4 (Form 424B5), at 122 (Dec. 20, 2006); Registration Statement (333-130192) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am. 3), at 158 (Apr. 3, 2006); Registration Statement (333-141607) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am. 1), at 122 (Apr. 23, 2007).

(b) It is a condition to the issuance of any class of offered securities that they shall have been rated not lower than investment grade, that is, in one of the four highest rating categories, by at least one Rating Agency.

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for Bear Stearns ALT-A Trust 2004-6 (Form 424B5), at 160 (Jul. 1, 2004); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE7 (Form 424B5), at 299 (Aug. 30, 2006); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE9 (Form 424B5), at 245 (Dec. 1, 2006); Prospectus Supplement for Bear Stearns ABS Trust 2007-2 (Form 424B5), at 142 (May 18, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE1 (Form 424B5), at 449 (Jan. 31, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE2 (Form 424B5), at 276 (Feb. 28, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE3 (Form 424B5), at 225 (Apr. 2, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE4 (Form 424B5), at 184 (Apr. 27, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE5 (Form 424B5), at 157 (May 30, 2007); Prospectus Supplement for SACO I Trust 2005-5 (Form 424B5), at 129 (Aug. 19, 2005); Registration Statement (333-125422) filed by Bear Stearns ABS I LLC (Form S-3/A, Am. 1), at 76 (Jun. 14, 2005); Registration Statement (333-131374) filed by Bear Stearns ABS I LLC (Form S-3/A, Am. 5), at 137 (Mar. 31, 2006); Registration Statement (333-115122) filed by Structured Asset Mort. Investments II Inc. (Form S-3/A, Am. 1), at 158 (May 11, 2004).

(c) It is a condition to the issuance of any class of securities that they shall have been rated not lower than investment grade, that is, in one of the four highest rating categories, by at least one nationally recognized statistical rating organization.

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for WMABS Series 2007-HE2 Trust (Form 424B5), at 137 (Mar. 9, 2007);

Prospectus Supplement for WMALT Series 2006-AR10 Trust (Form 424B5), at 137 (Dec. 27, 2006); Prospectus Supplement for WMALT Series 2007-HY1 Trust (Form 424B5), at 137 (Jan. 29, 2007); Prospectus Supplement for WMALT Series 2007-OC2 Trust (Form 424B5), at 141 (Jun. 26, 2007); Prospectus Supplement for WaMu Series 2007-HE1 Trust (Form 424B5), at 138 (Jan. 16, 2007); Prospectus Supplement for WaMu Series 2007-HE2 Trust (Form 424B5), at 137 (Apr. 6, 2007); Registration Statement (333-141255) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at 141 (Apr. 9, 2007); Registration Statement (333-130795) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at 140 (Jan. 3, 2006); Prospectus Supplement for Long Beach MLT 2006-6 (Form 424B5), at 131 (Jul. 25, 2006); Prospectus Supplement for Long Beach MLT 2006-9 (Form 424B5), at 131 (Oct. 10, 2006); Prospectus Supplement for Long Beach MLT 2006-10 (Form 424B5), at 131 (Nov. 7, 2006); Prospectus Supplement for Long Beach MLT 2006-11 (Form 424B5), at 131 (Dec. 13, 2006); Registration Statement (333-131252) filed by Long Beach Sec. Corp. (Form S-3/A, Am. 1), at 129 (Mar. 21, 2006).

399. By touting the ratings of the Certificates, and in making the above statements in the Offering Documents, Defendants represented that they believed that the information provided to the rating agencies to support these ratings accurately reflected the guidelines and practices of Defendants JPMorgan Bank and EMC, as well as those of BSRMC, Encore, Long Beach, WaMu Bank and the third party originators, and the specific qualities of the underlying loans. These representations were false because Defendants did not disclose to the rating agencies the extent of their and the third party originator's improper underwriting and appraisals and that Defendants otherwise gamed the rating agencies to ensure that they obtained the highest ratings even when

those ratings were not warranted. The falsity of these representations is further evidenced by the rapid downgrades of all of the Certificates within a few years of issuance.

F. DEFENDANTS MADE UNTRUE STATEMENTS REGARDING THE CREDIT ENHANCEMENTS APPLICABLE TO THE CERTIFICATES

400. Each Prospectus Supplement sets forth a particular amount by which the aggregate stated principal balance of the mortgage loans is greater than the aggregate class principal of the Certificates:

(a) CREDIT ENHANCEMENT

> Subordination. The subordinate classes of certificates will provide credit enhancement for the senior certificates…If the mortgage loans in any group experience losses, then, generally… the principal amount of the subordinate class of certificates that is lowest in seniority and still outstanding will be reduced by the amount of those realized losses until the total outstanding principal balance of such class equals zero.
>
> * * *
>
> Subordination is intended to enhance the likelihood of regular distributions of interest and principal on the more senior certificates and to afford those certificates protection against realized losses on the mortgage loans.
>
> * * *
>
> Overcollateralization. The mortgage loans bear interest each month in an amount that is expected to exceed the amount needed to pay monthly interest on the certificates and to pay the fees and expenses of the trust … A portion of this excess interest will be applied to absorb realized losses on the mortgage loans and pay principal on the offered certificates until the required level of overcollateralization is restored. This application will reduce the class principal amounts of the offered certificates faster than the principal balances of the mortgage loans. As a result, the aggregate principal balance of the mortgage loans is expected to exceed the aggregate class principal amount of the offered certificates … This feature is referred to as "overcollateralization."

*   *   *

> Excess Interest. The mortgage loans bear interest each month that in the aggregate is expected to exceed the amount needed to pay monthly interest on the certificates and to pay the fees and expenses of the trust … The excess interest from the mortgage loans each month will be available to absorb realized losses on the mortgage loans and to maintain overcollateralization at required levels as described in the pooling agreement.

The above misstatements, in identical or substantially similar language, were contained in the following Offering Documents: Prospectus Supplement for J.P. Morgan MAT 2006-HE3 (Form 424B5), at 9-10 (Nov. 13, 2006); Prospectus Supplement for J.P. Morgan MAT 2007-CH3 (Form 424B5), at 12-14 (May 11, 2007); Prospectus Supplement for J.P. Morgan MAT 2007-CH4 (Form 424B5), at 12-14 (Jun. 15, 2007); Prospectus Supplement for J.P. Morgan MAT 2006-RM1 (Form 424B5), at 10-12 (Sep. 28, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-WMC4 (Form 424B5), at 8-9 (Dec. 20, 2006); Registration Statement (333-130192) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am. 3), at 8 (Apr. 3, 2006); Registration Statement (333-141607) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am. 1), at 12 (Apr. 23, 2007).

(b) Credit Enhancement — General

> Credit enhancement provides limited protection to holders of specified certificates against shortfalls in payments received on the mortgage loans. This transaction employs the following forms of credit enhancement.
>
> Excess Spread and Overcollateralization
>
> The mortgage loans are expected to generate more interest than is needed to pay interest on the offered certificates because we expect the weighted average net interest rate of the mortgage loans to be higher than the weighted average pass-through rate on the offered certificates. In addition, as overcollateralization increases, such higher interest rate is paid on a principal balance of

> mortgage loans that is larger than the principal balance of the certificates. Interest payments received in respect of the mortgage loans in excess of the amount that is needed to pay interest on the offered certificates and related trust expenses will be used to reduce the total principal balance of the certificates until a required level of overcollateralization has been achieved. As of the closing date, the aggregate principal balance of the mortgage loans is approximately equal to the aggregate principal balance of the certificates.
>
> * * *
>
> Subordination; Allocation of Losses
>
> By issuing senior certificates and subordinate certificates, the trust has increased the likelihood that senior certificateholders will receive regular payments of interest and principal.
>
> In general, this loss protection is accomplished by allocating any realized losses in excess of available excess spread and any current overcollateralization to the subordinate certificates, beginning with the subordinate certificates with the lowest payment priority, until the certificate principal balance of that subordinate class has been reduced to zero and then allocating any loss to the next most junior class of subordinate certificates, until the certificate principal balance of each class of subordinate certificates is reduced to zero.

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for Bear Stearns ALT-A Trust 2004-6 (Form 424B5), at S-11-12 (Jul. 1, 2004); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE7 (Form 424B5), at 15-17 (Aug. 30, 2006); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE9 (Form 424B5), at 13-15 (Dec. 1, 2006); Prospectus Supplement for Bear Stearns ABS Trust 2007-2 (Form 424B5), at S-9-10 (May 18, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE1 (Form 424B5), at 16-18 (Jan. 31, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE2 (Form 424B5), at 16-18 (Feb. 28, 2007);

Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE3 (Form 424B5), at 12-14 (Apr. 2, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE4 (Form 424B5), at 11-12 (Apr. 27, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE5 (Form 424B5), at 8-9 (May 30, 2007); Prospectus Supplement for SACO I Trust 2005-5 (Form 424B5), at S-10-12 (Aug. 19, 2005); Registration Statement (333-125422) filed by Bear Stearns ABS I LLC (Form S-3/A, Am. 1), at 138-39 (Jun. 14, 2005); Registration Statement (333-131374) filed by Bear Stearns ABS I LLC (Form S-3/A, Am. 5), at S-12 (Mar. 31, 2006); Registration Statement (333-115122) filed by Structured Asset Mort. Investments II Inc. (Form S-3/A, Am. 1), at S-32-33 (May 11, 2004).

(c) CREDIT ENHANCEMENTS

> Overcollateralization. The initial principal balance of the mortgage loans is expected to exceed the aggregate class principal balance of the certificates…by approximately 0.55% of the initial principal balance of the mortgage loans. This overcollateralization will be available to absorb losses on the mortgage loans. The level of overcollateralization may increase or decrease over time.
>
> Excess Spread. The mortgage loans bear interest each month in an amount that in the aggregate (together with any net swap payments received from the swap counterparty), and after deducting related servicing fees and any net swap payments payable to the swap counterparty, may exceed the amount needed to pay monthly interest on the certificates. This excess interest will be applied to pay principal on the certificates entitled to principal in order to, among other things, maintain the required level of overcollateralization. We cannot assure you that such excess interest will be generated by the mortgage loans or that it will be sufficient to maintain the required level of overcollateralization.
>
> Subordination. The senior certificates will have a payment priority over the subordinate certificates. Each class of subordinate certificates will be subordinate to each other class of subordinate certificates with a higher payment priority.

The above misstatements, in identical or substantially similar language, were contained in the following Offering Documents: Prospectus Supplement for WMALT Series 2007-HY1 Trust (Form 424B5), at S-10 (Jan. 29, 2007); Prospectus Supplement for WMABS Series 2007-HE2 Trust (Form 424B5), at S-10-11 (Mar. 9, 2007); Prospectus Supplement for WMALT Series 2006-AR10 Trust (Form 424B5), at S-10 (Dec. 27, 2006); Prospectus Supplement for WMALT Series 2007-OC2 Trust (Form 424B5), at S-10 (Jun. 26, 2007); Prospectus Supplement for WaMu Series 2007-HE1 Trust (Form 424B5), at S-4-5 (Jan. 16, 2007); Prospectus Supplement for WaMu Series 2007-HE2 Trust (Form 424B5), at S-4-5 (Apr. 6, 2007); Registration Statement (333-141255) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at S-87 (Apr. 9, 2007); Registration Statement (333-130795) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at 2 (Jan. 3, 2006).

(d) CREDIT ENHANCEMENT

> Subordination is intended to enhance the likelihood of regular distributions on the more senior classes of certificates in respect of interest and principal and to afford such certificates protection against realized losses on the mortgage loans.
>
> Excess Interest
>
> The mortgage loans bear interest each month that in the aggregate is expected to exceed the amount needed to pay monthly interest on the certificates, the fees and expenses of the trust, certain net amounts owed to the swap counterparty and certain amounts required to be deposited in the final maturity reserve account, if applicable. The excess interest from the mortgage loans each month will be available to absorb realized losses on the mortgage loans and to maintain overcollateralization at required levels as described in the pooling agreement.
>
> * * *
>
> Overcollateralization

As of the closing date, the aggregate principal balance of the mortgage loans as of the cut-off date will exceed the aggregate certificate principal balance of the Class A Certificates, the Mezzanine Certificates, the Class B Certificates and the Class P Certificates on the closing date by approximately $22,684,869, which will be equal to the original certificate principal balance of the Class C Certificates. Such amount represents approximately 2.25% of the aggregate principal balance of the mortgage loans as of the cut-off date, and is approximately equal to the initial amount of overcollateralization that will be required to be provided under the pooling agreement. Excess interest generated by the mortgage loans will be distributed as a payment of principal to the offered certificates and the Class B Certificates then entitled to distributions of principal to the extent necessary to maintain the required level of overcollateralization. The required level of overcollateralization may be permitted to step down as provided in the pooling agreement. We cannot assure you that sufficient interest will be generated by the mortgage loans to maintain the required level of overcollateralization.

* * *

Allocation of Losses

If, on any distribution date, excess interest, overcollateralization and any net payments by the swap counterparty pursuant to the swap agreement are not sufficient to absorb realized losses on the mortgage loans as described…in this prospectus supplement, then realized losses on such mortgage loans will be allocated to [certain tranches in order of seniority].

* * *

Cross-Collateralization

The trust provides for limited cross-collateralization of the Group I Senior Certificates and the Group II Senior Certificates through the application of interest generated by one loan group to fund interest shortfalls on the Class A Certificates primarily supported by the other loan group and through the application of principal generated by one loan group to fund certain distributions of principal on the Class A Certificates primarily supported by the other loan group.

The above misstatements, in identical or substantially similar language, were contained in the following Offering Documents: Prospectus Supplement for Long Beach MLT 2006-10 (Form 424B5), at S-7-8 (Nov. 7, 2006); Prospectus Supplement for Long Beach MLT 2006-6 (Form 424B5), at S-6-7 (Jul. 25, 2006); Prospectus Supplement for Long Beach MLT 2006-9 (Form 424B5), at S-6-8 (Oct. 10, 2006); Prospectus Supplement for Long Beach MLT 2006-11 (Form 424B5), at S-6-8 (Dec. 13, 2006); Registration Statement (333-131252) filed by Long Beach Sec. Corp. (Form S-3/A, Am. 1), at ii (Mar. 21, 2006).

401. The above statements were materially false and misleading when made because they failed to disclose that because the loan originators systematically ignored their underwriting standards and abandoned their property appraisal standards, borrowers would not be able to repay their loans, foreclosure sales would not recoup the full value of the loans, and the aggregate expected principal payments would not, nor could they be expected to, exceed the aggregate class principal of the Certificates. As such, the Certificates were not protected with the level of credit enhancement and overcollateralization represented to investors in the Prospectus Supplements.

G. DEFENDANTS MADE UNTRUE STATEMENTS REGARDING OWNER-OCCUPANCY STATISTICS

402. Each of the Prospectus Supplements disseminated by Defendants in the course of selling the Certificates contained tables substantially similar to that below, purporting to provide data on the owner occupancy rates of mortgage loans underlying the Certificates. However, the figures contained in these tables were materially false and misleading because the Issuing Defendants systematically overstated the owner occupancy rates.

403. For example, the following table appears in the Prospectus Supplement for WaMu Series 2007-HE2 Trust (Form 424B5), at S-130 (Apr. 6, 2007), which was purchased in the offering by ABP:

Occupancy Status	Number of Mortgage Loans	Scheduled Principal Balance as of the Cut-off Date	% of Aggregate Scheduled Principal Balance as of the Cut-off Date
Investor	529	$ 85,092,599.74	8.62%
Owner-Occupied	2,984	886,251,532.67	89.78
Second Home	45	15,844,382.78	1.61
Total	3,558	$ 987,188,515.19	100.00%

404. But an analysis by Mass Mutual of this same Certificate found that the true owner occupancy rate for the loans included in this particular mortgage pool was only 67.23% not 83.87% for the loans in Group II as represented above. *See* Section VI, *supra*.[5]

405. Similar tables can be found in the following Offering Documents: Prospectus Supplement for WMALT Series 2006-AR10 Trust (Form 424B5), at S-91 (Dec. 27, 2006); Prospectus Supplement for WaMu Series 2007-HE1 Trust (Form 424B5), at S-122 (Jan. 16, 2007); Prospectus Supplement for WMALT Series 2007-HY1 Trust (Form 424B5), at S-93 (Jan. 29, 2007); Prospectus Supplement for WMABS Series 2007-HE2 Trust (Form 424B5), at S-159 (Mar. 9, 2007); Prospectus Supplement for WMALT Series 2007-OC2 Trust (Form 424B5), at S-94 (Jun. 26, 2007).

406. Similarly, the following table appears in the Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE3 (Form 424B5), at 109 (Apr. 2, 2007), which was purchased in the offering by ABP:

[5] Mass Mutual calculated the percentage of the <u>number</u> of mortgage loans identified as owner-occupied (*i.e.*, 100*2984/3558 = 83.87%) rather than the percent aggregate principal balance of the loans identified as owner-occupied in the prospectus supplement.

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	.	256	$ 44,799,609	4.62%	633	77.60%
Owner Occupied	.	4,155	917,019,629	94.48	623	83.25
Second Home	.	34	8,743,054	0.90	638	76.97
Total .	.	4,445	$ 970,562,291	100.00%	624	82.93%

407. An analysis by Mass Mutual of this same Certificate found that the true owner occupancy rate for the loans included in this particular mortgage pool was only 85.28% not 94.48% for the loans in Group II as represented above. *See* Section VI, *supra*.

408. Likewise, the following tables appear in the Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE2 (Form 424B5), at 167 (Feb. 28, 2007):

Occupancy Status of Mortgaged Properties in Subgroup II-2*

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...	....	30	$ 7,077,938	6.83%	643	85.54%
Owner Occupied......................................	....	508	95,509,938	92.19	623	85.55
Second Home...	....	4	1,013,010	0.98	587	80.78
Total.........	....	542	$ 103,600,886	100.00%	624	85.50%

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

and

Occupancy Status of Mortgaged Properties in Subgroup II-3*

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..	44	$ 8,963,875	8.41%	635	83.19%
Owner Occupied..	402	96,530,468	90.54	620	85.09
Second Home..	6	1,120,987	1.05	676	87.66
Total.........	452	$ 106,615,330	100.00%	622	84.96%

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

409. An analysis by the FHFA found that the true owner occupancy rate for the loans included in these particular mortgage pools was only 87.15% not 93.73% for the loans in Group II-2 and 82.59% not 88.94% for the loans in the Group II-3 as represented above. *See* Section VI, *supra*.

410. Although Plaintiff purchased Group II-1 securities, the owner occupied numbers in that table were similar to those above. Additionally, the prospectus supplement also included a table that showed aggregate data for Group II loans.

Occupancy Status of Mortgaged Properties in Subgroup II-1*

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..	98	$ 20,997,424	5.44%	638	75.41%
Owner Occupied...	1,478	362,686,869	93.88	614	79.77
Second Home..	11	2,631,546	0.68	642	84.48
Total.........	1,587	$ 386,315,839	100.00%	615	79.56%

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

and

Occupancy Status of Mortgaged Properties in Loan Group II*

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	....	172	$ 37,039,237	6.21%	638	79.23%
Owner Occupied	....	2,388	554,727,275	92.99	616	81.69
Second Home	....	21	4,765,544	0.80	638	84.44
Total	....	2,581	$596,532,055	100.00%	618	81.56%

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

The tables above appear in the Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE2 (Form 424B5), at 156-57, 186 (Feb. 28, 2007).

411. Because the FHFA found owner occupancy discrepancies in two of the subgroups of the Group II securities, it is highly likely that the third subgroup, purchased by Plaintiff, has owner occupancy discrepancies as well.

412. In addition, the following tables appear in the Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE1 (Form 424B5), at 162, 171 (Jan. 31, 2007):

Occupancy Status of Mortgaged Properties in Subgroup II-2*

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	39	$ 7,086,561	4.32%	620	77.53%
Owner Occupied	830	155,583,002	94.92	609	80.00
Second Home	7	1,246,804	0.76	651	74.82
Total	876	$ 163,916,367	100.00%	610	79.86%

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

and

Occupancy Status of Mortgaged Properties in Subgroup II-3*

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..	57	$ 11,268,070	8.85%	635	80.56%
Owner Occupied.......................................	531	114,519,086	89.90	610	79.93
Second Home...	7	1,598,301	1.25	647	89.85
Total.........	595	$ 127,385,457	100.00%	612	80.11%

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

413. An analysis by the Federal Housing Finance Agency found that the true owner occupancy rates for the loans included in these particular mortgage pools were only 84.06% not 94.75% for the loans in Group II-2 and 80.41% not 89.24% for the loans in the Group II-3 as represented above. *See* Section VI, *supra*.[6]

414. Although Plaintiff purchased Group II-1 securities, the owner occupied numbers in that table were similar to those above. Additionally, the prospectus supplement also included a table that showed aggregate data for Group II loans.

Occupancy Status of Mortgaged Properties in Subgroup II-1*

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..	62	$ 12,359,363	3.93%	635	82.05%
Owner Occupied...	1,221	296,284,648	94.18	617	82.50
Second Home..	23	5,942,707	1.89	635	89.37
Total.........	1,306	$ 314,586,717	100.00%	618	82.62%

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

and

[6] FHFA, like Mass Mutual, calculated the percentage of the number of mortgage loans identified as owner-occupied rather than the percent aggregate principal balance of the loans identified as owner-occupied in the prospectus supplement.

Occupancy Status of Mortgaged Properties in Loan Group II*

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..	158	$ 30,713,994	5.07%	632	80.46%
Owner Occupied...	2,582	566,386,736	93.48	613	81.30
Second Home..	37	8,787,811	1.45	640	87.39
Total.........	2,777	$ 605,888,542	100.00%	614	81.34%

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

The tables above appear in the Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE1 (Form 424B5), at 153, 179-80 (Jan. 31, 2007).

415. Again, because the Federal Housing Finance Agency found owner occupancy discrepancies in two of the subgroups of the Group II securities, it is likely that the third subgroup, purchased by Plaintiff has owner occupancy discrepancies as well.

416. Similar tables can be found in the following Offering Documents: Prospectus Supplement for Bear Stearns ALT-A Trust 2004-6 (Form 424B5), at A-5 (Ju1. 1, 2004); Prospectus Supplement for SACO I Trust 2005-5 (Form 424B5), at A-6 (Aug. 19, 2005); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE7 (Form 424B5), at 168 (Aug. 30, 2006); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE9 (Form 424B5), at 116 (Dec. 1, 2006); Prospectus Supplement for Bear Stearns ABS Trust 2007-2 (Form 424B5), at A-4 (May 18, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE1 (Form 424B5), at 153 (Jan. 31, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE2 (Form 424B5), at 156-57 (Feb. 28, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE4 (Form 424B5), at 91 (Apr. 27, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE5 (Form 424B5), at 73 (May 30, 2007).

417. The other Offering Documents represented similar information regarding owner occupancy statistics. For example, the Offering Documents contained, in sum or substance, the following representations:

Occupancy Status	# of Loans	Current Principal Balance	Pct by Curr Prin Balance	Weighted Average Current Mortgage Rate	Weighted Average Stated Remaining Term	Weighted Average Combined Orig LTV	Weighted Average Credit Score	Weighted Average DTI
Primary Home	9,261	$1,846,730,989.83	96.59%	8.317%	355	82.46%	641	43.15%
Second Home	254	40,991,370.86	2.14	8.408	354	84.44	692	43.97
Investment	122	24,270,071.93	1.27	8.441	355	84.52	663	40.59
Total:	**9,637**	**$1,911,992,432.62**	**100.00%**	**8.320%**	**355**	**82.53%**	**642**	**43.13%**

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for J.P. Morgan MAT 2006-WMC4 (Form 424B5), at 25 (Dec. 20, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-HE3 (Form 424B5), at 30 (Nov. 13, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-RM1 (Form 424B5), at 30 (Sep. 28, 2006); Prospectus Supplement for J.P. Morgan MAT 2007-CH3 (Form 424B5), at 39 (May 11, 2007); Prospectus Supplement for J.P. Morgan MAT 2007-CH4 (Form 424B5), at 40 (Jun. 15, 2007).

Occupancy Status	Number of Mortgage Loans	Scheduled Principal Balance as of the Cut-off Date	% of Aggregate Scheduled Principal Balance as of the Cut-off Date
Owner Occupied	3,058	$896,834,318.83	90.16%
Non-Owner Occupied	533	82,973,390.93	8.34
Second Home	49	14,870,977.30	1.50
Total	3,640	$994,678,687.06	100.00%

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for Long Beach MLT 2006-11 (Form 424B5), at S-150 (Dec. 13, 2006); Prospectus Supplement for Long Beach MLT 2006-6 (Form 424B5), at S-152 (Jul. 25, 2006); Prospectus Supplement for Long Beach MLT 2006-9 (Form

424B5), at S-152 (Oct. 10, 2006); Prospectus Supplement for Long Beach MLT 2006-10 (Form 424B5), at S-151 (Nov. 7, 2006).

418. The results of these loan-level reviews establish that, contrary to Defendants' representations, a far lower percentage of borrowers did, in fact, occupy the mortgaged properties than was represented to investors such as Plaintiff ABP in the Offering Documents.

H. DEFENDANTS MADE UNTRUE STATEMENTS REGARDING THE TRANSFER OF TITLE TO THE ISSUING TRUSTS

419. Defendants stated in each of the Offering Documents, using identical or substantially similar language, that:

> (a) Each seller or originator of loans that are included in a trust fund for a series of securities will have made representations and warranties in respect of the loans sold by that seller or originated by that originator. Unless otherwise specified in the related prospectus supplement, the representations and warranties typically include the following: …
>
> - ***The seller or originator had good title to each loan and that loan was subject to no offsets, defenses, counterclaims or rights of rescission except to the extent that any buydown agreement may forgive some indebtedness of a borrower***….

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for J.P. Morgan MAT 2007-CH4 (Form 424B5), at 28 (Jun. 15, 2007); Prospectus Supplement for J.P. Morgan MAT 2007-CH3 (Form 424B5), at 28 (May 11, 2007); Prospectus Supplement for J.P. Morgan MAT 2006-HE3 (Form 424B5), at 30 (Nov. 13, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-RM1 (Form 424B5), at 30 (Sep. 28, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-WMC4 (Form 424B5), at 30 (Dec. 20, 2006); Registration Statement (333-130192) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am.

3), at 38 (Apr. 3, 2006); Registration Statement (333-141607) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am. 1), at 30 (Apr. 23, 2007).

> (b) *Assignment of Agency and Private Label Securities*. The depositor will cause the Agency and Private Label Securities to be registered in the name of the trustee (or its nominee or correspondent). The trustee (or its nominee or correspondent) will take possession of any certificated Agency or Private Label Securities. The trustee will not typically be in possession of, or be assignee of record of, any loans underlying the Agency or Private Label Securities. See "The Trust Funds—Private Label Securities" in this prospectus. Each Agency and Private Label Security will be identified in a schedule appearing as an exhibit to the related agreement, which will specify the original principal amount, principal balance as of the cut-off date, annual pass-through rate or interest rate and maturity date for each Agency and Private Label Security conveyed to the related trust fund. In the agreement, the depositor will represent and warrant to the trustee that: ...
>
> - ***immediately prior to the conveyance of the Agency or Private Label Securities, the depositor had good title and was the sole owner of the Agency or Private Label Securities….***

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE9 (Form 424B5), at 197 (Dec. 1, 2006); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE7 (Form 424B5), at 251 (Aug. 30, 2006); Prospectus Supplement for Bear Stearns ABS Trust 2007-2 (Form 424B5), at 64(May 18, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE1 (Form 424B5), at 228 (Jan. 31, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE2 (Form 424B5), at 233-34 (Feb. 28, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE3 (Form 424B5), at 183-84 (Apr. 2, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE4 (Form 424B5), at 147 (Apr. 27, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE5 (Form 424B5), at 127 (May 30, 2007); Prospectus Supplement for SACO I Trust 2005-5 (Form 424B5), at 61-62 (Aug. 19, 2005); Registration Statement (333-125422) filed by Bear Stearns ABS I LLC (Form S-3/A, Am. 1), at 36 (Jun. 14, 2005); Registration Statement (333-131374) filed by Bear Stearns ABS I LLC (Form S-3/A, Am. 5), at 63 (Mar. 31, 2006).

> (c) Each Seller will have made representations and warranties in respect of the mortgage loans and/or mortgage securities sold by the Seller and evidenced by a series of securities. In the case of mortgage loans, representations and warranties will generally include, among other things, that as to each mortgage loan: …
>
> • ***the Seller has good title to the mortgage loan*** and the mortgage loan was subject to no offsets, defenses or counterclaims except as maybe provided under the Relief Act and except to the extent that any buydown agreement exists for a buydown mortgage loan;
>
> - there are no mechanics' liens or claims for work, labor or material affecting the related mortgaged property which are, or may be a lien prior to, or equal with, the lien of the related mortgage (subject only to permissible title insurance exceptions)….

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for Bear Stearns ALT-A Trust 2004-6 (Form 424B5), at 16-17 (Jul. 1, 2004); Registration Statement (333-115122) filed by Structured Asset Mort. Investments II Inc. (Form S-3/A, Am. 1), at 16-17 (May 11, 2004).

> (d) Under the mortgage loan purchase agreement pursuant to which the sponsor will sell the mortgage loans to the depositor, the sponsor will make representations and warranties in respect of the mortgage loans, which representations and warranties the depositor will assign to the trust pursuant to the pooling agreement. Among those representations and warranties are the following: …
>
> - ***Immediately prior to the assignment of the mortgage loans to the depositor, the sponsor had good title to, and was the sole legal and beneficial owner of, each mortgage loan***, free and clear of any pledge, lien, encumbrance or security interest and has full right and

> authority, subject to no interest or participation of, or agreement with, any other party to sell and assign the mortgage loan….

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for WMABS Series 2007-HE2 Trust (Form 424B5), at S-66 (Mar. 9, 2007); Prospectus Supplement for WaMu Series 2007-HE1 Trust (Form 424B5), at S-54 (Jan. 16, 2007); Prospectus Supplement for WaMu Series 2007-HE2 Trust (Form 424B5), at S-56 (Apr. 6, 2007).

> (e) Under the pooling agreement, the depositor will make the following representation and warranty to the trust in respect of the mortgage loans:
>
> - ***Immediately prior to the sale and assignment by the depositor to the trustee on behalf of the trust of each mortgage loan, the depositor had good and marketable title to each mortgage loan*** subject to no prior lien, claim, participation interest, mortgage, security interest, pledge, charge or other encumbrance or other interest of any nature….

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for Long Beach MLT 2006-6 (Form 424B5), at S-67 (Jul. 25, 2006); Prospectus Supplement for Long Beach MLT 2006-9 (Form 424B5), at S-67 (Oct. 10, 2006); Prospectus Supplement for Long Beach MLT 2006-10 (Form 424B5), at S-68 (Nov. 7, 2006); Prospectus Supplement for Long Beach MLT 2006-11 (Form 424B5), at S-68 (Dec. 13, 2006); Registration Statement (333-131252) filed by Long Beach Sec. Corp. (Form S-3/A, Am. 1), at 36 (Mar. 21, 2006).

420. These representations were false because Defendants routinely failed to physically deliver the original promissory notes and security instruments for the mortgage loans to the issuing trusts, as required by applicable state laws and the PSAs. These representations were also false because Defendants routinely failed to execute valid endorsements of the

documents at the time of the purported transfer, as also required by applicable state laws and the PSAs. The Issuing Trusts therefore did not possess good title to many of the mortgage loans and lacked legal authority to enforce many of the mortgage loans against the borrowers in the event of default.

I. DEFENDANTS MADE FALSE AND MISLEADING STATEMENTS REGARDING THE CHARACTERISTICS OF THE MORTGAGE POOLS

421. Defendants issued Offering Documents that contained the following misrepresentations concerning the characteristics of the mortgage pools issued by JPMorgan, Bear Stearns, WaMu and Long Beach:

> (a) Certain general information with respect to the Mortgage Loans is set forth below. Prior to the Closing Date, Mortgage Loans may be removed from the Trust Fund and other mortgage loans may be substituted therefor. ***The Depositor believes that the information set forth herein with respect to the Mortgage Loans as presently constituted is representative of the characteristics of the Mortgage Loans as they will be constituted at the Closing Date, although the numerical data and certain other characteristics of the Mortgage Loans described herein may vary within a range of plus or minus 5%.***

The above misstatements, in identical or substantially similar language, were contained in the following Offering Documents: Prospectus Supplement for J.P. Morgan MAT 2007-CH3 (Form 424B5), at 30 (May 11, 2007); Prospectus Supplement for J.P. Morgan MAT 2007-CH4 (Form 424B5), at 31 (Jun. 15, 2007); Prospectus Supplement for J.P. Morgan MAT 2006-HE3 (Form 424B5), at 24 (Nov. 13, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-RM1 (Form 424B5), at 24 (Sep. 28, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-WMC4 (Form 424B5), at 20 (Dec. 20, 2006); Registration Statement (333-130192) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am. 3), at 13 (Apr. 3, 2006); Registration Statement (333-141607) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am. 1), at 19 (Apr. 23, 2007).

(b) The following is a brief description of the assets expected to be included in the trust funds. If specific information respecting the trust fund assets is not known at the time the related series of securities initially is offered, more general information of the nature described in this prospectus will be provided in the related prospectus supplement, and specific information will be set forth in a Current Report on Form 8-K to be filed with the SEC within fifteen days after the initial issuance of those securities. A copy of the agreement with respect to each series of securities will be attached to the Form 8-K and will be available for inspection at the corporate trust office of the trustee specified in the related prospectus supplement. A schedule of the loans, agency securities and/or private mortgage-backed securities relating to a series will be attached to the agreement delivered to the trustee upon delivery of the securities. If so specified in the related prospectus supplement, the actual statistical characteristics of a pool as of the closing date may differ from those set forth in the prospectus supplement. ***However, in no event will more than five percent of the assets as a percentage of the cut-off date pool principal balance vary from the characteristics described in the related prospectus supplement.***

The above misstatements, in identical or substantially similar language, were contained in the following Offering Documents: Prospectus Supplement for J.P. Morgan MAT 2007-CH3 (Form 424B5), at 171-72 (May 11, 2007); Prospectus Supplement for J.P. Morgan MAT 2007-CH4 (Form 424B5), at 175-76 (Jun. 15, 2007); Prospectus Supplement for J.P. Morgan MAT 2006-HE3 (Form 424B5), at 121 (Nov. 13, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-RM1 (Form 424B5), at 118 (Sep. 28, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-WMC4 (Form 424B5), at 103-04 (Dec. 20, 2006); Registration Statement (333-130192) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am. 3), at 82 (Apr. 3, 2006); Registration Statement (333-141607) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am. 1), at 98 (Apr. 23, 2007).

(c) ***If specific information about the loans is not known to the depositor at the time the related securities are initially***

> ***offered, more general information of the nature described above will be provided in the related prospectus supplement, and specific information will be set forth in the Current Report on Form 8-K filed within 15 days of the closing date.***

The above misstatements, in identical or substantially similar language, were contained in the following Offering Documents: Prospectus Supplement for J.P. Morgan MAT 2007-CH3 (Form 424B5), at 175 (May 11, 2007); Prospectus Supplement for J.P. Morgan MAT 2007-CH4 (Form 424B5), at 179 (Jun. 15, 2007); Prospectus Supplement for J.P. Morgan MAT 2006-HE3 (Form 424B5), at 124 (Nov. 13, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-RM1 (Form 424B5), at 121 (Sep. 28, 2006); Prospectus Supplement for J.P. Morgan MAT 2006-WMC4 (Form 424B5), at 106 (Dec. 20, 2006); Registration Statement (333-130192) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am. 3), at 85 (Apr. 3, 2006); Registration Statement (333-141607) filed by JPMorgan Acceptance Corp. I (Form S-3/A, Am. 1), at 101 (Apr. 23, 2007).

> (d) We have provided below and in Schedule A to this prospectus supplement information with respect to the mortgage loans that we expect to include in the pool of mortgage loans in the trust fund. Prior to the closing date of May 16, 2007, we may remove mortgage loans from the mortgage pool and we may substitute other mortgage loans for the mortgage loans we remove. ***The depositor believes that the information set forth herein will be representative of the characteristics of the mortgage pool as it will be constituted at the time the certificates are issued, although the range of mortgage rates and maturities and other characteristics of the mortgage loans may vary.*** The actual mortgage loans included in the trust fund as of the closing date may vary from the mortgage loans as described in this prospectus supplement by up to plus or minus 5% as to any of the material characteristics described herein. ***If, as of the closing date, any material pool characteristics differs by 5% or more from the description in this prospectus supplement, revised disclosure will be provided either in a supplement to this prospectus supplement, or in a current report on Form 8-K.*** Unless we have otherwise indicated, the information we present below and in Schedule A is expressed as of the cut-off date,

> which is April 1, 2007. The mortgage loan principal balances that are transferred to the trust will be the aggregate principal balance as of the cut-off date, April 1, 2007.
>
> ***The mortgage loans will be selected for inclusion in the mortgage pool based on rating agency criteria, compliance with representations and warranties, and conformity to criteria relating to the characterization of securities for tax, ERISA, SMMEA, Form S-3 eligibility and other legal purposes***.

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for Bear Stearns ABS Trust 2007-2 (Form 424B5), at S-32 (May 18, 2007); Prospectus Supplement for Bear Stearns ALT-A Trust 2004-6 (Form 424B5), at AX-7, 12-13 (Jul. 1, 2004); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE7 (Form 424B5), at 33 (Aug. 30, 2006); Prospectus Supplement for Bear Stearns ABS I Trust 2006-HE9 (Form 424B5), at 26 (Dec. 1, 2006); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE1 (Form 424B5), at 30 (Jan. 31, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE2 (Form 424B5), at 31 (Feb. 28, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE3 (Form 424B5), at 25 (Apr. 2, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE4 (Form 424B5), at 21-22 (Apr. 27, 2007); Prospectus Supplement for Bear Stearns ABS I Trust 2007-HE5 (Form 424B5), at 17 (May 30, 2007); Prospectus Supplement for SACO I Trust 2005-5 (Form 424B5), at S-33 (Aug. 19, 2005); Registration Statement (333-125422) filed by Bear Stearns ABS I LLC (Form S-3/A, Am. 1), at 132 (Jun. 14, 2005); Registration Statement (333-131374) filed by Bear Stearns ABS I LLC (Form S-3/A, Am. 5), at S-33 (Mar. 31, 2006); Registration Statement (333-115122) filed by Structured Asset Mort. Investments II Inc. (Form S-3/A, Am. 1), at S-39 (May 11, 2004).

(e) The description of the mortgage pool and the mortgaged properties in this section and in Appendix B is based on the mortgage loans as of the close of business on the Cut-Off Date, after deducting the scheduled principal payments due on or before that date, whether or not actually received. All references in this prospectus supplement to "principal balance" refer to the principal balance as of the Cut-Off Date, unless otherwise specifically stated or required by the context. Due to rounding, percentages may not sum to 100%. References to percentages of mortgage loans refer in each case to the percentage of the aggregate principal balance of the mortgage loans, based on the outstanding principal balances determined as described above. References to weighted averages refer in each case to weighted averages by principal balance as of the Cut-Off Date of the mortgage loans determined in the same way. Before the issuance of the certificates, mortgage loans may be removed from the mortgage pool as a result of Payoffs, delinquencies or otherwise. If that happens, other mortgage loans may be included in the mortgage pool. ***The depositor believes that the information in this prospectus supplement for the mortgage pool is representative of the characteristics of the mortgage pool as it will actually be constituted when the certificates are issued, although the range of mortgage interest rates and other characteristics of the mortgage loans in the mortgage pool may vary.*** See "—Additional Information" in this prospectus supplement.

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for WMALT Series 2007-HY1 Trust (Form 424B5), at S-43 (Jan. 29, 2007); Prospectus Supplement for WMALT Series 2006-AR10 Trust (Form 424B5), at S-42 (Dec. 27, 2006); Prospectus Supplement for WMALT Series 2007-OC2 Trust (Form 424B5), at S-45 (Jun. 26, 2007); Registration Statement (333-141255) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at S-15 (Apr. 9, 2007).

(f) The composition and characteristics of a mortgage pool containing revolving credit loans may change from time to time as a result of any draws made after the related cut-off date under the related credit line agreements. If mortgage assets are transferred to or repurchased from the trust after the date of the related prospectus supplement other than as a result of any draws under credit line agreements relating

> to revolving credit loans, the addition or deletion will be noted in a Distribution Report on Form 10-D or a Current Report on Form 8-K, as appropriate. ***In no event, however, will more than 5%, by principal balance at the cut-off date, of the mortgage assets deviate from the characteristics of the mortgage assets set forth in the related prospectus supplement other than as a result of any draws under credit line agreements relating to revolving credit loans.***

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for WMALT Series 2007-HY1 Trust (Form 424B5), at 35 (Jan. 29, 2007); Prospectus Supplement for WMALT Series 2006-AR10 Trust (Form 424B5), at 35 (Dec. 27, 2006); Prospectus Supplement for WMALT Series 2007-OC2 Trust (Form 424B5), at 37 (Jun. 26, 2007); Prospectus Supplement for WaMu Series 2007-HE1 Trust (Form 424B5), at 34 (Jan. 16, 2007); Prospectus Supplement for WaMu Series 2007-HE2 Trust (Form 424B5), at 35 (Apr. 6, 2007); Registration Statement (333-141255) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at 37 (Apr. 9, 2007).

> (g) ***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***.

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for WMALT Series 2007-HY1 Trust (Form 424B5), at S-48 (Jan. 29, 2007); Prospectus Supplement for WMABS Series 2007-HE2 Trust (Form 424B5), at S-68 (Mar. 9, 2007); Prospectus Supplement for WMALT Series 2006-AR10 Trust (Form 424B5), at S-47 (Dec. 27, 2006); Prospectus Supplement for WMALT Series 2007-OC2 Trust (Form 424B5), at S-50 (Jun. 26, 2007); Prospectus Supplement for WaMu Series 2007-HE1 Trust (Form 424B5), at S-55 (Jan. 16, 2007); Prospectus Supplement for WaMu Series 2007-HE2 Trust (Form 424B5), at S-58 (Apr. 6, 2007); Registration Statement (333-141255) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at S-19 (Apr. 9, 2007); Registration Statement (333-130795) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at S-19 (Jan. 3, 2006).

> (h) ***The sponsor used no adverse selection procedures in selecting the mortgage loans*** from among the outstanding adjustable rate conventional mortgage loans owned by it which were available for sale and as to which the representations and warranties in the mortgage loan sale agreement could be made….

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for WMALT Series 2007-HY1 Trust (Form 424B5), at S-48 (Jan. 29, 2007); Prospectus Supplement for WMALT Series 2006-AR10 Trust (Form 424B5), at S-47 (Dec. 27, 2006); Prospectus Supplement for WMALT Series 2007-OC2 Trust (Form 424B5), at S-50 (Jun. 26, 2007); Registration Statement (333-141255) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at S-19 (Apr. 9, 2007); Registration Statement (333-130795) filed by WaMu Asset Acceptance Corp. (Form S-3/A, Am. 1), at S-18 (Jan. 3, 2006).

> (i) The statistical information presented in this prospectus supplement relates to the mortgage loans and related mortgaged properties in each loan group as of July 1, 2006, the cut-off date. As of the cut-off date, the mortgage pool will consist of approximately 7,958 mortgage loans with an aggregate scheduled principal balance as of the cut-off date of approximately $1,688,108,026 consisting of approximately 3,552 Group I mortgage loans with an aggregate scheduled principal balance as of the cut-off date of approximately $529,123,697 and approximately 4,406 Group II mortgage loans with an aggregate scheduled principal balance as of the cut-off date of approximately $1,158,984,329. Prior to the closing date, mortgage loans may be removed from the mortgage pool as a result of incomplete documentation, delinquency, payment in full, insufficient collateral value or otherwise if the depositor deems such removal necessary or desirable, and may be prepaid at any time, and some mortgage loans may be

> added to the mortgage pool. ***As a result, the characteristics of the mortgage loans on the closing date may differ from the characteristics presented in this prospectus supplement; however, such differences are not expected to be material***.

The above misstatement, in identical or substantially similar language, was contained in the following Offering Documents: Prospectus Supplement for Long Beach MLT 2006-6 (Form 424B5), at S-61 (Jul. 25, 2006); Prospectus Supplement for Long Beach MLT 2006-9 (Form 424B5), at S-61 (Oct. 10, 2006); Prospectus Supplement for Long Beach MLT 2006-10 (Form 424B5), at S-62 (Nov. 7, 2006); Prospectus Supplement for Long Beach MLT 2006-11 (Form 424B5), at S-62 (Dec. 13, 2006); Registration Statement (333-131252) filed by Long Beach Sec. Corp. (Form S-3/A, Am. 1), at S-15 (Mar. 21, 2006).

> (j) ***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 A (which is incorporated by reference into this prospectus supplement) 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***.

The above misstatement was contained in the following Offering Documents: Prospectus Supplement for Long Beach MLT 2006-6 (Form 424B5), at S-67-68 (Jul. 25, 2006); Prospectus Supplement for Long Beach MLT 2006-9 (Form 424B5), at S-68 (Oct. 10, 2006); Prospectus Supplement for Long Beach MLT 2006-10 (Form 424B5), at S-69 (Nov. 7, 2006); Prospectus Supplement for Long Beach MLT 2006-11 (Form 424B5), at S-69 (Dec. 13, 2006); Registration Statement (333-131252) filed by Long Beach Sec. Corp. (Form S-3/A, Am. 1), at S-69 (Mar. 21, 2006).

422. These representations were false because Defendants were not concerned with investor preferences and instead included mortgage loans in the mortgage pools that were in fact the kinds of risky loans that conservative investors such as Plaintiff avoided. Indeed, Defendants did purposefully and intentionally use adverse selection procedures when choosing those risky and soon-to-fail mortgages to be securitized.

XI. DEFENDANTS KNEW THAT THE OFFERING DOCUMENTS CONTAINED MATERIAL MISSTATEMENTS AND OMISSIONS

423. The allegations below are made in support of Plaintiff's claims under the common-law fraud, fraudulent inducement and aiding and abetting claims, and not in support of its negligent misrepresentation claim and Securities Act claims, which are based solely on negligence.

424. As set forth above, at all relevant times, Defendants knew that the Offering Documents contained material misstatements and omissions. Defendants' knowledge is evidenced by, among other things, the following:

- Defendants' loan personnel, and loan personnel at Defendants' subsidiaries and affiliates, engaged in such practices as entering false information into underwriting programs, accepting false appraisals, not verifying borrower incomes, accepting unrealistic stated incomes, and altering loan documents. These practices were put into place by management personnel seeking to maximize loan volume to fill the securitization pipeline. Defendants were aware that their loan personnel were committing fraud and did nothing to remedy it or alert investors. *See* ¶¶ 113-124; 135; 139-140; 145-160; 175-224, *supra*.

- As the housing boom accelerated, Defendants relaxed their loan underwriting standards and purchased loans from third-party originators whom they knew to be unreliable. Defendants were aware that their underwriting processes were not adequate to assess the quality of the purchased loans, and that in some instances loans were securitized without ever having been cleared through due diligence. *See* ¶¶ 125-131; 161-170; 225-231, *supra*.

- The limited due diligence that Defendants did perform on the mortgage loans being pooled for securitization demonstrated that there were significant and extensive defects in the mortgage loans. Defendants commissioned due diligence reports from various external parties which showed that a significant proportion of the sampled loans analyzed had defects, including breaches of the Originators' underwriting guidelines and improper appraisals. Despite this knowledge, Defendants waived the breaches and allowed large numbers of these defective mortgages to be included in the mortgage pools used to collateralize the Certificates sold to Plaintiff. *See id.*

- The Defendants also knew that those mortgages were being issued to borrowers that were likely to default, as evidenced by the high percentage of loans underlying the Certificates that are currently in foreclosure, as well as the percentage of loans underlying the Certificates that are currently delinquent by more than 90 days. *See supra* ¶¶ 192; 205; *infra* ¶¶ 475; 528.

- Defendants sought out the loans on their books that they considered most likely to default and rushed to securitize them before they could become unsalable, placing these adversely-selected assets into mortgage pools so as to offload the risks onto unsuspecting investors such as Plaintiff. *See* ¶¶ 132-135; 139-140; 170-175; 231-236, *supra*.

- Defendants asserted billions of dollars in repurchase claims against third-party originators that sold them defective loans. However, rather than demand that the originators repurchase the loans, which would have required Defendants to repurchase the loans from the Issuing Trusts and replace them with higher-quality collateral, Defendants entered into settlements with the originators for their own benefit, thereby obtaining compensation for defects in assets that they no longer owned. Defendants did not inform their RMBS investors that they had identified defects in trust assets or recovered funds from the originators. *See* ¶¶ 171-176, *supra*.

- Defendants knew that the mortgages they were acquiring from the various originators as quickly as possible and packaging into the Certificates sold to investors such as Plaintiffs were not worthy of their high credit ratings. The ratings of the Certificates, which were investment grade and in most cases rated AAA at the time they were sold to the Plaintiffs, have declined substantially to their current non-investment grade and/or junk ratings. *See* ¶¶ 355-364, *supra*.

XII. THE LIABILITY OF THE CONTROL PERSON DEFENDANTS

A. DEFENDANT JPMORGAN CHASE

425. Defendant JPMorgan Chase was in a position to and in fact controlled each of Defendants JPM Acceptance, JPMM Acquisition, and JPMS. Defendant JPMorgan Chase operated its consolidated subsidiaries as a collective enterprise, making significant strategic decisions for its subsidiaries, monitoring enterprise-wide risk, and maximizing profit for JPMorgan Chase.

426. JPMorgan Chase encouraged and/or allowed its subsidiaries to misrepresent the mortgage loans' characteristics in the Registration Statements and establish special-purpose financial entities such as Defendant JPM Acceptance, and the JP Morgan Trusts to serve as conduits for the mortgage loans.

427. Unlike arm's-length securitizations where the loan originator, depositor, underwriters, and issuers are unrelated third parties, here the transactions among the sponsor (JPMM Acquisition); the depositor (JPM Acceptance) and the JPMorgan Trusts were not arm's-length transactions at all, as JPMorgan Chase controlled every aspect of the securitization processes. Furthermore, the JPMorgan Chase-controlled entity JPMS was the underwriter for the securitizations.

428. Some of the mortgage loans underlying the Certificates were originated by third party originators and acquired by the sponsor, JPMM Acquisition. JPMorgan Chase created JPM Acceptance to acquire mortgage loans from JPMM Acquisition and to transfer the loans to the JPMorgan Trusts for sale to investors as RMBS. As the depositor, JPM Acceptance was a shell corporation with no assets of its own, and had the same directors and officers as other JPMorgan entities. Through these executives, JPMorgan Chase exercised actual day-to-day

control over JPM Acceptance. Revenues flowing from the issuance and sale of the Certificates were passed through to JPMorgan Chase.

429. JPM Acceptance in turn created the JPMorgan Trusts. Like the Issuing Defendants, the JPMorgan Trusts were shell entities that were established for the sole purpose of holding the pools of mortgage loans assembled by the Issuing Defendants, and issuing Certificates collateralized against these mortgage pools to underwriters for sale to the public. Through JPM Acceptance, JPMorgan Chase also exercised actual control over the JPMorgan Trusts.

430. Once the JPMorgan Trusts issued the Certificates, the Certificates were purchased and resold by the JPMorgan entity JPMS, which acted as the underwriter for the Certificates.

431. JPMorgan Chase also participated in creating the Offering Documents. In sum, JPMorgan Chase maintained a high level of day-to-day scrutiny and control over its subsidiaries, and controlled the entire process leading to the sale of the Certificates to ABP.

432. In its SEC filings, JPMorgan Chase discussed its practice of securitizing loans and underwriting securitizations by acting through its subsidiaries. For example, JPMorgan Chase's 10-K Annual Report, filed on March 1, 2007 for the period ending December 31, 2006, states, *inter alia*, that:

- "[I]n 2006, the Firm securitized approximately $16.8 billion of residential mortgage loans and $9.7 billion of credit card loans, resulting in pretax gains on securitization of $85 million and $67 million, respectively."
- "JPMorgan Chase securitizes and sells a variety of its consumer and wholesale loans… JPMorgan Chase-sponsored securitizations utilize [special purpose entities] as part of the securitization process."
- "The Firm also conducts securities underwriting, dealing and brokerage activities through JPMorgan Securities and other broker-dealer subsidiaries[.]"

- "The following table summarizes new securitization transactions that were completed during 2006, 2005 and 2004; the resulting gains arising from such securitizations; certain cash flows received from such securitizations; and the key economic assumptions used in measuring the retained interests, as of the date of such sales."

433. JPMorgan Chase also touted its purported underwriting standards in its SEC filings, asserting that it followed established policies and procedures to ensure asset quality. JPMorgan Chase's 10-K Annual Report, filed on March 1, 2007 for the period ending December 31, 2006, states, *inter alia*, that:

> As part of the Firm's loan securitization activities, as described in Note 14 on pages 114-118 of this Annual Report, the Firm provides representations and warranties that certain securitized loans meet specific requirements. The Firm may be required to repurchase the loans and/or indemnify the purchaser of the loans against losses due to any breaches of such representations or warranties. Generally, the maximum amount of future payments the Firm would be required to make under such repurchase and/or indemnification provisions would be equal to the current amount of assets held by such securitization-related SPEs as of December 31, 2006, plus, in certain circumstances, accrued and unpaid interest on such loans and certain expenses. ***The potential loss due to such repurchase and/or indemnity is mitigated by the due diligence the Firm performs before the sale to ensure that the assets comply with the requirements set forth in the representations and warranties.*** Historically, losses incurred on such repurchases and/or indemnifications have been insignificant, and therefore management expects the risk of material loss to be remote.

434. Thus, according to JPMorgan Chase's own SEC filings, it was responsible for performing due diligence on the assets included in its subsidiaries' RMBS offerings.

435. JPMorgan Chase culpably participated in the violations of its subsidiaries discussed above. JPMorgan Chase approved the manner in which it sold the loans it elected to securitize and controlled the disclosures made in connection with those securitizations. Among other misconduct, JPMorgan Chase oversaw the actions of its subsidiaries and allowed them,

including Defendants JPMM Acquisition, JPM Acceptance, and JPMS, to misrepresent the mortgage loans' characteristics in the Offering Documents.

B. DEFENDANT JPMM ACQUISITION

436. Defendant JPMM Acquisition was in a position to and in fact controlled Defendant JPM Acceptance. JPMM Acquisition was one of the entities through which Defendant JPMorgan controlled the securitization process. JPMM Acquisition acquired the mortgage loans underlying the Certificates from third party originators and transferred them to the Depositor Defendant JPM Acceptance for securitization.

437. JPMM Acquisition also participated in creating the Offering Documents. In the Offering Documents, JPMM Acquisition made statements regarding its responsibilities and controlling role in the securitizations, as well as the track records of prior securitizations for which it had served as a sponsor. For example, the 424B3 Prospectus for J.P. Morgan Mortgage Acquisition Trust 2006-RM1, filed on September 20, 2006, states that,

- "Unless otherwise specified in the prospectus supplement, J.P. Morgan Mortgage Acquisition Corp. will act as sponsor of the trust fund… ***A sponsor will organize and initiate a securitization***[.]"

- "[JPMM Acquisition] has been engaged in the securitization of assets since its incorporation. ***In connection with these activities, [JPMM Acquisition] uses special purpose entities, such as the depositor,*** primarily for (but not limited to) the securitization of commercial and residential mortgages and home equity loans."

- "During fiscal years 2004 and 2003, [JPMM Acquisition] securitized approximately $275,299,016 and $ 4,510,234,249 of residential mortgages, respectively. During this period, no securitizations sponsored by [JPMM Acquisition] have defaulted or experienced an early amortization or trigger event."

- "In the normal course of its securitization program, [JPMM Acquisition] acquires loans from third party originators and through its affiliates. ***Employees of [JPMM Acquisition] or its affiliates structure securitization transactions in which the loans are sold to the depositor.*** In consideration for the Assets which [JPMM Acquisition] sells to the depositor, the depositor issues the securities supported by the cash flows generated by the Assets."

- "Pursuant to the agreement conveying Assets from [JPMM Acquisition] to the depositor, [JPMM Acquisition] may make representations and warranties regarding the Assets."

438. Thus, in its role as a securitization sponsor, JPMM Acquisition had control over matters including the acquisition of mortgage loans, the selection of mortgage loans to be transferred into the Issuing Trusts, and the structuring of the securitizations. JPMM Acquisition oversaw the actions of Defendant JPM Acceptance, and allowed it to misrepresent the mortgage loans' characteristics in the Offering Documents.

C. JPMORGAN INDIVIDUAL CONTROL PERSON DEFENDANTS

439. Defendant Bernard was, at relevant times, a President of Defendant JPM Acceptance. By virtue of his senior management position, Bernard had the power to control and influence, and did control and influence, Defendant JPM Acceptance.

440. Defendant Cole was, at relevant times, a Director of Defendant JPM Acceptance. Cole was also, at relevant times, a Managing Director of JPMorgan Chase, and a co-head of JPMorgan Chase's securitized products business. By virtue of her senior management positions, Cole had the power to control and influence, and did control and influence, Defendant JPM Acceptance.

441. Defendant Duzyk was, at relevant times, a President and a Director of Defendant JPM Acceptance. Duzyk was also, at relevant times, a Managing Director of JPMorgan Chase, and the head of term asset-backed security and mortgage-backed security origination at JPMorgan Chase. By virtue of his senior management positions, Duzyk had the power to control and influence, and did control and influence, Defendant JPM Acceptance.

442. Defendant King was, at relevant times, a Director of Defendant JPM Acceptance. King was also, at relevant times, a Managing Director of JPMorgan Chase, and a co-head of JPMorgan Chase's securitized products business. By virtue of his senior management positions, King had the power to control and influence, and did control and influence, Defendant JPM Acceptance.

443. Defendant McMichael was, at relevant times, a Director of Defendant JPM Acceptance. By virtue of his senior management position, McMichael had the power to control and influence, and did control and influence, Defendant JPM Acceptance.

444. Defendant Schioppo, Jr. was, at relevant times, the Controller and Chief Financial Officer of Defendant JPM Acceptance. Schioppo was also, at relevant times, a Managing Director of JPMS and Chief Financial Officer of a risk unit within JPMS. By virtue of his senior management positions, Schioppo had the power to control and influence, and did control and influence, Defendant JPM Acceptance.

D. NON-DEFENDANT BSCI

445. Non-Defendant BSCI was in a position to and in fact controlled each of Defendants EMC, BSABS, SAMI, and Bear Stearns. BSCI operated its consolidated subsidiaries as a collective enterprise, making significant strategic decisions for its subsidiaries, monitoring enterprise-wide risk, and maximizing profit for BSCI. As discussed in Section XIII.A, below, JPMorgan Chase is the successor in liability to BSCI.

446. Non-Defendant BSCI encouraged and/or allowed its subsidiaries to misrepresent the mortgage loans' characteristics in the Registration Statements and establish special-purpose financial entities such as Defendants BSABS and SAMI, and the Bear Stearns Trusts to serve as conduits for the mortgage loans.

447. Unlike arm's-length securitizations where the loan originator, depositor, underwriters, and issuers are unrelated third parties, here the transactions among the sponsor (EMC); the depositor (BSABS or SAMI) and the Bear Stearns Trusts were not arm's-length transactions at all, as BSCI controlled every aspect of the securitization processes. Furthermore, the BSCI-controlled entity Bear Stearns was the underwriter for the securitizations.

448. The mortgage loans underlying the Certificates were originated by the Bear Stearns entities BSRMC and Encore, or by third party originators, and acquired by the sponsor, EMC. BSCI created BSABS and SAMI to acquire mortgage loans from EMC and to transfer the loans to the Bear Stearns Trusts for sale to investors as RMBS. As the depositors, BSABS and SAMI were shell corporations with no assets of their own, and had the same directors and officers as other Bear Stearns entities. Through these executives, BSCI exercised actual day-to-day control over BSABS and SAMI. Revenues flowing from the issuance and sale of the Certificates were passed through to BSCI.

449. BSABS and SAMI in turn created the Bear Stearns Trusts. Like the Issuing Defendants, the Bear Stearns Trusts were shell entities that were established for the sole purpose of holding the pools of mortgage loans assembled by the Issuing Defendants, and issuing Certificates collateralized against these mortgage pools to underwriters for sale to the public. Through BSABS and SAMI, BSCI also exercised actual control over the Bear Stearns Trusts.

450. Once the Bear Stearns Trusts issued the Certificates, the Certificates were purchased and resold by Bear Stearns, which acted as the underwriter for the Certificates.

451. BSCI also participated in creating the Offering Documents. In sum, BSCI maintained a high level of day-to-day scrutiny and control over its subsidiaries, and controlled the entire process leading to the sale of the Certificates to ABP.

452. In its SEC filings, BSCI discussed its practice of securitizing loans and underwriting securitizations by acting through its subsidiaries. For example, BSCI's 10-K Annual Report, filed on January 29, 2008 for the period ending November 30, 2007, states, *inter alia*, that:

- "The business of the Company includes … engaging in commercial and residential mortgage loan origination and securitization activities[.]"
- "The Company purchases and originates commercial and residential mortgage loans through its subsidiaries in the U.S., Europe and Asia. The Company is a leading underwriter or and market-maker in, residential and commercial mortgages, US agency-backed mortgage products, asset-backed securities, collateralized debt obligations and is active in all areas of secured lending, structured finance and securitization products."
- "The Company, in the normal course of business, may establish SPEs [special purpose entities], sell assets to SPEs, underwrite, distribute, and make a market in securities or other beneficial interests issued by SPEs, transact derivatives with SPEs, own securities or other beneficial interests, including residuals, in SPEs, and provide liquidity or other guarantees for SPEs."
- "The Company is a market leader in mortgage-backed securitizations and other structured financing arrangements. In the normal course of business, the Company regularly securitizes commercial and residential mortgages, consumer receivables, and other financial assets. Securitization transactions are generally treated as sales, provided that control has been relinquished. In connection with securitization transactions, the Company establishes special-purpose entities ("SPEs") in which transferred assets, including commercial and residential mortgages, consumer receivables and other financial assets are sold to an SPE and repackaged into securities or similar beneficial interests."

453. BSCI also touted its purported underwriting standards in its SEC filings, asserting that it followed established policies and procedures to ensure asset quality. BSCI's 10-K Annual Report, filed on January 29, 2008 for the period ending November 30, 2007, states, *inter alia*, that:

> The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions, including certain asset sales and securitizations and

> occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. To mitigate these risks with respect to assets being securitized that have been originated by third parties, the Company seeks to obtains appropriate representations and warranties from such third-party originators upon acquisition of such assets. ***The Company generally performs due diligence on assets purchased and maintains underwriting standards for assets originated.***

454. Thus, according to BSCI's own SEC filings, it was responsible for performing due diligence on the assets included in its subsidiaries' RMBS offerings.

455. BSCI culpably participated in the violations of its subsidiaries discussed above. BSCI approved the manner in which it sold the loans it elected to securitize and controlled the disclosures made in connection with those securitizations. Among other misconduct, BSCI oversaw the actions of its subsidiaries and allowed them, including Defendants EMC, BSABS, SAMI, and Bear Stearns, to misrepresent the mortgage loans' characteristics in the Offering Documents.

E. DEFENDANT EMC

456. Defendant EMC was in a position to and in fact controlled each of Defendants BSABS and SAMI. EMC was one of the entities through which Non-Defendant BSCI controlled the securitization process. EMC acquired the mortgage loans underlying the Certificates from third party originators or originated them itself and transferred them to the Depositor Defendants BSABS and SAMI for securitization.

457. EMC also participated in creating the Offering Documents. In the Offering Documents, EMC made statements regarding its responsibilities and controlling role in the securitizations, as well as the number of prior securitizations for which it had served as a sponsor. For example, the 424B5 Prospectus Supplement for Bear Stearns Asset Backed Securities I Trust 2007-HE5, filed on May 30, 2007, states that,

- “The sponsor [EMC] was established as a mortgage banking company to facilitate the purchase and servicing of whole loan portfolios containing various levels of quality[.]”

- “Since its inception in 1990, [EMC] has purchased over $100 billion in residential whole loans and servicing rights, which include the purchase of newly originated alternative A, jumbo (prime) and sub-prime loans… . [EMC] is one of the United States’ largest purchasers of scratch and dent, sub-performing and non-performing residential mortgages and REO from various institutions, including banks, mortgage companies, thrifts and the U.S. government. 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 re-performing or cash-flowing.”

- Performing loans acquired by the sponsor are subject to varying levels of due diligence prior to purchase. Portfolios may be reviewed for credit, data integrity, appraisal valuation, documentation, as well as compliance with certain laws. 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 sponsor has been securitizing residential mortgage loans since 1999. The following table describes size, composition and growth of the sponsor’s total portfolio of assets it has securitized as of the dates indicated.

458. Thus, in its role as a securitization sponsor, EMC had control over matters including the acquisition of mortgage loans, the due diligence and underwriting guidelines to be applied to those loans, and the selection of mortgage loans to be transferred to the Depositor Defendants and into the Issuing Trusts. EMC oversaw the actions of Defendants BSABS and SAMI, and allowed them to misrepresent the mortgage loans’ characteristics in the Offering Documents.

F. BEAR STEARNS INDIVIDUAL CONTROL PERSON DEFENDANTS

459. Defendant Garniewksi was, at relevant times, an Independent Director of Defendant BSABS. By virtue of her senior management position, Garniewski had the power to control and influence, and did control and influence, Defendant BSABS.

460. Defendant Jurkowski, Jr. was, at relevant times, the Vice President of Defendant BSABS. By virtue of his senior management positions, Jurkowski had the power to control and influence, and did control and influence, Defendants BSABS and SAMI.

461. Defendant Lutthans was, at relevant times, an Independent Director of Defendant BSABS. By virtue of her senior management position, Lutthans had the power to control and influence, and did control and influence, Defendant BSABS.

462. Defendant Marano was, at relevant times, a Director of Defendants BSABS and SAMI. Marano was also, at relevant times, a Senior Managing Director of Bear Stearns, and head of Bear Stearns' Mortgage-Backed Securities, Asset-Backed Securities and Commercial Mortgage-Backed Securities departments. Marano had control over Bear Stearns' relations with the rating agencies, and at one point ordered his underlings to suspend fees to the rating agencies in retaliation for a rating adjustment. *See* Section VII, *supra*. By virtue of his senior management positions, Marano had the power to control and influence, and did control and influence, Defendants BSABS and SAMI.

463. Defendant Mayer was, at relevant times, a Director of Defendant SAMI. Mayer was also, at relevant times, a Senior Managing Director of Bear Stearns and Bear Stearns' co-head of Fixed Income. By virtue of his senior management positions, Mayer had the power to control and influence, and did control and influence, Defendant SAMI.

464. Defendant Molinaro was, at relevant times, the Treasurer and a Director of Defendant BSABS. Molinaro was also, at relevant times, the Chief Financial Officer and a Senior Managing Director of Bear Stearns. By virtue of his senior management positions, Molinaro had the power to control and influence, and did control and influence, Defendant BSABS.

465. Defendant Nierenberg was, at relevant times, the Treasurer of Defendant SAMI. Nierenberg was also, at relevant times, a Senior Managing Director of Bear Stearns, and the head of Bear Stearns' adjustable rate mortgage and collateralized debt obligation trading desks. By virtue of his senior management positions, Nierenberg had the power to control and influence, and did control and influence, Defendant SAMI.

466. Defendant Perkins was, at relevant times, the President and a Director of Defendant BSABS. Perkins was also, at relevant times, a Senior Managing Director of Bear Stearns, and the co-head of asset-based securities and RMBS banking at Bear Stearns. By virtue of his senior management positions, Perkins had the power to control and influence, and did control and influence, Defendant BSABS.

467. Defendant Verschleiser was, at relevant times, the President of Defendant SAMI. Verschleiser was also, at relevant times, a Senior Managing Director of Bear Stearns and the head of Bear Stearns' mortgage and asset-backed securities trading desks, with direct control over matters including securitization and due diligence reviews. By virtue of his senior management positions, Verschlesier had the power to control and influence, and did control and influence, Defendant SAMI.

G. DEFENDANT JPMORGAN BANK (AS SUCCESSOR TO WAMU BANK)

468. Non-Defendant WaMu Bank was in a position to and in fact controlled each of Defendants WMMSC, WAAC, LBSC, and WaMu Capital. WaMu Bank operated its consolidated subsidiaries as a collective enterprise, making significant strategic decisions for its subsidiaries, monitoring enterprise-wide risk, and maximizing profit for WaMu Bank. As discussed in Section XIII.B below, Defendant JPMorgan Bank is the successor in liability to WaMu Bank.

469. Non-Defendant WaMu Bank encouraged and/or allowed its subsidiaries to misrepresent the mortgage loans' characteristics in the Registration Statements and establish special-purpose financial entities such as Defendants WAAC and LBSC, and the WaMu Trusts to serve as conduits for the mortgage loans.

470. Unlike arm's-length securitizations where the loan originator, depositor, underwriters, and issuers are unrelated third parties, here the transactions among the sponsor (WMMSC); the depositor (WAAC or LBSC) and the WaMu Trusts were not arm's-length transactions at all, as WaMu Bank controlled every aspect of the securitization processes. Furthermore, the WaMu Bank-controlled entity WaMu Capital was the underwriter for the securitizations.

471. The mortgage loans underlying the Certificates were originated by WaMu Bank-controlled entities or third party originators and acquired by the sponsor, WMMSC. WaMu Bank created WAAC and LBSC to acquire mortgage loans from WMMSC and to transfer the loans to the WaMu Trusts for sale to investors as RMBS. As the depositors, WAAC and LBSC were shell corporations with no assets of their own, and had the same directors and officers as other WaMu Bank entities. Through these executives, WaMu Bank exercised actual day-to-day control over WAAC and LBSC. Revenues flowing from the issuance and sale of the Certificates were passed through to WaMu Bank.

472. WAAC and LBSC in turn created the WaMu Trusts. Like the Issuing Defendants, the WaMu Trusts were shell entities that were established for the sole purpose of holding the pools of mortgage loans assembled by the Issuing Defendants, and issuing Certificates collateralized against these mortgage pools to underwriters for sale to the public. Through WAAC and LBSC, WaMu Bank also exercised actual control over the WaMu Trusts.

473. Once the WaMu Trusts issued the Certificates, the Certificates were purchased and resold by the WaMu Bank-controlled entity WaMu Capital, which acted as the underwriter for the Certificates.

474. WaMu Bank also participated in creating the Offering Documents. In sum, WaMu Bank maintained a high level of day-to-day scrutiny and control over its subsidiaries, and controlled the entire process leading to the sale of the Certificates to ABP.

475. The Levin Report discusses WaMu Bank's securitization activities and control over the securitization process at length. It found that "[WaMu Bank and LBMC] securitized over $77 billion in subprime home loans and billions more in other high risk home loans, used Wall Street firms to sell the securities to investors worldwide, and polluted the financial system with mortgage backed securities which later incurred high rates of delinquency and loss… At times, [WaMu Bank] selected and securitized loans that it had identified as likely to go delinquent, without disclosing its analysis to investors who bought securities, and also securitized loans tainted by fraudulent information, without notifying purchasers of the fraud that was discovered." Securitization was an integral component of WaMu Bank's business model, specifically its High Risk Lending Strategy.

476. Specifically regarding Defendants WaMu Capital, WMMSC, and WAAC, the Levin Report further notes that:

> When [WaMu Bank] began securitizing its loans, it was dependent upon investment banks to help underwrite and sell its securitizations. In order to have greater control of the securitization process and to keep securitization underwriting fees in house, rather than paying them to investment banks, [WaMu Bank] acquired a company able to handle securitizations and renamed it Washington Mutual Capital Corporation (WCC), which became a wholly-owned subsidiary of the bank. WCC was a registered broker-dealer and began to act as an underwriter of WaMu and Long Beach securitizations. WCC worked with two

> other bank subsidiaries, [WMMSC] and [WAAC], that provided warehousing for WaMu loans before they were securitized. WCC helped to assemble RMBS pools and sell the resulting RMBS securities to investors. At first it worked with other investment banks; later it became the sole underwriter of some WaMu securitizations.

477. Defendant Beck testified before the PSI in a prepared statement that during the period when he was the head of capital markets for WaMu Bank, the people who were responsible for overseeing WMMSC and WAAC reported to him.

478. WaMu Bank culpably participated in the violations of its subsidiaries discussed above. WaMu Bank approved the manner in which it sold the loans it elected to securitize and controlled the disclosures made in connection with those securitizations. Among other misconduct, WaMu Bank oversaw the actions of its subsidiaries and allowed them, including Defendants WMMSC, WAAC, LBSC, and WaMu Capital, to misrepresent the mortgage loans' characteristics in the Offering Documents.

H. DEFENDANT WMMSC

479. Defendant WMMSC was in a position to and in fact controlled each of Defendants WAAC and LBSC. WMMSC was one of the entities through which Defendant WaMu Bank controlled the securitization process. WMMSC acquired the mortgage loans underlying the Certificates from WaMu Bank-controlled entities or third party originators and transferred them to the Depositor Defendants WAAC and LBSC for securitization.

480. WMMSC also participated in creating the Offering Documents. In the Offering Documents, WMMSC made statements regarding its responsibilities and controlling role in the securitizations, the underwriting guidelines of the third party originators that it purchased loans from, and the number of prior securitizations for which it had served as a sponsor. For example,

the 424B5 Prospectus Supplement for Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2007-OC2, filed on June 26, 2007, states that:

- "The sponsor engages in the business of (i) purchasing mortgage loans on a servicing retained and servicing released basis, (ii) selling mortgage loans in whole loan transactions and securitizing mortgage loans through affiliated and unaffiliated depositors, (iii) master servicing mortgage loans, (iv) acting as administrative agent of Washington Mutual Bank and its affiliates with respect to mortgage loans serviced by Washington Mutual Bank and its affiliates and (v) providing securitization services. The sponsor generally acts as master servicer or administrative agent with respect to all mortgage loans securitized by the sponsor."

- "Securitization of mortgage loans is an integral part of the sponsor's conduit program. It has engaged in securitizations of first lien single-family residential mortgage loans through WaMu Asset Acceptance Corp., as depositor, since 2005, and has acted as its own depositor from 1979 until 2005."

- "The following table shows, for each indicated period, the aggregate principal balance of first and second lien single-family residential mortgage loans purchased by the sponsor during that period (except mortgage loans purchased in its capacity as depositor from an affiliated sponsor) and the portion of those mortgage loans securitized during that period in securitization transactions for which it or WaMu Asset Acceptance Corp. acted as depositor."

- "In initially approving a mortgage loan seller, the sponsor takes into account the following: annual origination volume, tenure of business and key staff in originating loans, policies and procedures for originating loans including quality control and appraisal review, review audits performed on mortgage loan seller by rating agencies, regulatory agencies and government sponsored entities, the mortgage loan seller's financial statements, errors and omissions insurance coverage and fidelity bond and liability insurance coverage. Approved mortgage loan sellers' financial statements, insurance coverage and new review audits are reviewed on an annual basis. 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. The mortgage loan sellers represent to the sponsor upon sale that the mortgage loans have been underwritten in accordance with the approved underwriting guidelines."

- "All of the mortgage loans owned by the Trust have been originated in accordance with the underwriting standards of the sponsor or the underwriting guidelines of Washington Mutual Bank as described in this section."

481. Thus, in its role as a securitization sponsor, WMMSC had control over matters including the acquisition of mortgage loans and the approval of third party originators, the underwriting standards applied to the mortgages, the selection of mortgage loans to be transferred into the Issuing Trusts, and the structuring of the securitizations. WMMSC oversaw the actions of Defendants WAAC and LBSC, and allowed them to misrepresent the mortgage loans' characteristics in the Offering Documents.

I. WAMU INDIVIDUAL CONTROL PERSON DEFENDANTS

482. Defendant Beck was, at relevant times, the President and a Director of Defendant WAAC. Beck was also, at relevant times, the head of WaMu Bank's capital markets division. In testimony before the PSI, Beck stated that, during the time he was head of capital markets for WaMu Bank, he had authority over the officers responsible for overseeing the WaMu entities that purchased and held loans that were to be sold into the secondary market, including WAAC and WMMSC. By virtue of his senior management positions, Beck had the power to control and influence, and did control and influence, Defendants WAAC and WMMSC.

483. Defendant Careaga was, at relevant times, the Vice President of Defendant WAAC. Careaga was also, at relevant times, Senior Vice President and Associate General Counsel for WaMu Bank, where he was the principal in-house counsel responsible for asset backed securities and secondary mortgage market transactions, securities underwriting and related home loan servicing matters. By virtue of his senior management positions, Careaga had the power to control and influence, and did control and influence, Defendant WAAC.

484. Defendant Casey was, at relevant times, a Director of Defendant LBSC. Casey was also, at relevant times, the Chief Financial Officer of WMI. By virtue of his senior management positions, Casey had the power to control and influence, and did control and influence, Defendant LBSC.

485. Defendant Fortunato was, at relevant times, the Chief Financial Officer of Defendants LBSC and WAAC. Fortunato was also, at relevant times, the Chief Financial Officer of the Home Loans Group at WMI or WaMu Bank, and the Senior Vice President for Finance and Risk Management at WMI or WaMu Bank. By virtue of his senior management positions, Fortunato had the power to control and influence, and did control and influence, Defendants LBSC and WAAC.

486. Defendant Giampaolo was, at relevant times, the Principal Executive Officer of Defendant LBSC. Giampaolo was also, at relevant times, the Chief Operating Officer of Long Beach Mortgage Company and the Channel Director for Nonprime Wholesale Lending at Long Beach Mortgage Company. By virtue of his senior management positions, Giampaolo had the power to control and influence, and did control and influence, Defendant LBSC.

487. Defendant Green was, at relevant times, Chief Financial Officer of Defendant WAAC. Green was also, at relevant times, a Director of Real Estate Owned Subprime Operations at WMI or WaMu Bank By virtue of his senior management positions, Beck had the power to control and influence, and did control and influence, Defendant WAAC.

488. Defendant Jurgens was, at relevant times, Principal Accounting Officer of Defendants LBSC and WAAC. Jurgens was also, at relevant times, a Senior Vice President and Capital Markets Controller of WMI or WaMu Bank, where he was responsible for matters including capital markets accounting and loan sale and securitization accounting. By virtue of

his senior management positions, Jurgens had the power to control and influence, and did control and influence, Defendants LBSC and WAAC.

489. Defendant Lehmann was, at relevant times, the President and a Director of Defendant WAAC. Lehmann was also a Senior Vice President of WMI or WaMu Bank responsible for matters including loan operations, capital markets compliance, and transaction management. By virtue of his senior management positions, Lehmann had the power to control and influence, and did control and influence, Defendant WAAC.

490. Defendant Novak was, at relevant times, a Director of Defendant WAAC. Novak was also, at relevant times, a Senior Vice President and Senior Compliance Officer of WMI or WaMu Bank, and a member of the WMI or WaMu Bank Market Risk Committee. By virtue of her senior management positions, Novak had the power to control and influence, and did control and influence, Defendant WAAC.

491. Defendant Robinson was, at relevant times, a Director of Defendant LBSC. Robinson was also, at relevant times, an Executive Vice President of corporate risk management and a Vice President of Regulatory Relations for WMI. By virtue of his senior management positions, Robinson had the power to control and influence, and did control and influence, Defendant LBSC.

492. Defendant Wilhelm was, at relevant times, Principal Accounting Officer of Defendant WAAC. By virtue of his senior management position, Wilhelm had the power to control and influence, and did control and influence, Defendant WAAC.

493. Defendant Zielke was, at relevant times First Vice President and Assistant General Counsel for Capital Markets of WaMu Bank. By virtue of his senior management

positions, Zielke had the power to control and influence, and did control and influence, Defendant WAAC.

XIII. PLAINTIFF ABP RELIED ON DEFENDANTS' MISREPRESENTATIONS TO ITS DETRIMENT

494. ABP through its agents purchased senior classes of mortgage-backed securities (*i.e.*, those rated AAA/Aaa by the rating agencies Standard & Poor's and Moody's Investors Service). The Certificates were purchased to generate income and total return through safe investments. The securities were purchased with the expectation that the investments could be—and indeed some would be and were—purchased and sold on the secondary market.

495. In making the investments, ABP and/or its agents relied upon Defendants' representations and assurances regarding the quality of the mortgage collateral underlying the Certificates, including the quality of the underwriting processes related to the underlying mortgage loans. ABP and/or its agents received, reviewed, and relied upon the Offering Documents, which described in detail the mortgage loans underlying each offering. Offering Documents containing the representations outlined above (or nearly identical, materially similar counterparts thereto) were obtained, reviewed, and relied upon before any purchase was made.

496. In purchasing the Certificates, ABP and/or its agents justifiably relied on Defendants' false representations and omissions of material fact detailed above, including the misstatements and omissions in the Offering Documents. These representations materially altered the total mix of information upon which ABP and/or its agents made its purchasing decisions.

497. But for the misrepresentations and omissions in the Offering Documents, ABP and its agents would not have purchased or acquired the Certificates as it ultimately did, because

those representations and omissions were material to its decision to acquire the Certificates, as described above.

498. As discussed *supra*, Plaintiff is a conservative institutional investor that relied on Defendants' representations in the Offering Documents that the Certificates purchased by Plaintiff were safe, AAA-rated securities. Because ABP did not have access to the loan files, appraisals or other supporting documentation for the loans underlying the Certificates, ABP had no reasonable means or ability to conduct its own due diligence regarding the quality of the mortgage pool. As such, ABP and its agents were forced to and did rely on the representations made by Defendants in the Offering Documents, and it was because of those representations that Plaintiff purchased the Certificates at issue in this Complaint.

XIV. PLAINTIFF HAS SUFFERED LOSSES AS A RESULT OF ITS PURCHASES OF THE CERTIFICATES

499. The false and misleading statements of material facts and omissions of material facts in the Offering Documents directly caused Plaintiff damage, because the Certificates were in fact far riskier than Defendants had described them to be. As set forth below, the loans underlying the Certificates experienced default and delinquency at very high rates due to Defendants' abandonment of their purported underwriting guidelines. The resulting downgrades to the Certificates ratings made them unmarketable at anywhere near the prices Plaintiff paid, causing losses to Plaintiff when those Certificates were sold.

500. Plaintiff purchased Certificates issued by JPMAC 2006-HE3 on November 10, 2006, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded three times and are currently rated Ca. At the time of filing of this complaint, the Certificates were trading at just approximately 65% of par.

501. Plaintiff purchased Certificates issued by JPMAC 2006-RM1 on September 27, 2006, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded three times and are currently rated Ca. At the time of filing of this complaint, the Certificates were trading at just approximately 28% of par.

502. Plaintiff purchased Certificates issued by JPMAC 2006-WMC4, Tranche A2 on December 20, 2006, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded three times and are currently rated Ca. At the time of filing of this complaint, the Certificates were trading at just approximately 31% of par.

503. Plaintiff purchased Certificates issued by JPMAC 2006-WMC4, Tranche A3 on December 20, 2006, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded three times and are currently rated Ca. At the time of filing of this complaint, the Certificates were trading at just approximately 31% of par.

504. Plaintiff purchased Certificates issued by JPMAC 2007-CH3, Tranche A2 on May 15, 2007, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded twice and are currently rated Ba2. At the time of filing of this complaint, the Certificates were trading at just approximately 95% of par.

505. Plaintiff purchased Certificates issued by JPMAC 2007-CH3, Tranche A3 on May 15, 2007, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded three times and are currently rated Caa1. At the time of filing of this complaint, the Certificates were trading at just approximately 71% of par.

506. Plaintiff purchased Certificates issued by JPMAC 2007-CH4 on June 15, 2007, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been

downgraded twice and are currently rated Ba2. At the time of filing of this complaint, the Certificates were trading at just approximately 94% of par.

507. Plaintiff purchased Certificates issued by BSABS 2007-HE1 on January 30, 2007, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded once and are currently rated Ba1. At the time of filing of this complaint, the Certificates were trading at just approximately 95% of par.

508. Plaintiff purchased Certificates issued by BSABS 2007-HE2 on February 28, 2007, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded twice and are currently rated Baa3. At the time of filing of this complaint, the Certificates were trading at just approximately 99% of par.

509. Plaintiff purchased Certificates issued by BSABS 2007-HE3, Tranche 1A1 on March 30, 2007, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded three times and are currently rated Ba3. At the time of filing of this complaint, the Certificates were trading at just approximately 96% of par.

510. Plaintiff purchased Certificates issued by BSABS 2007-HE3, Tranche 1A2 on March 30, 2007, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded three times and are currently rated Caa2. At the time of filing of this complaint, the Certificates were trading at just approximately 59% of par.

511. Plaintiff purchased Certificates issued by BSABS 2007-HE4 on April 30, 2007, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded three times and are currently rated Caa1. At the time of filing of this complaint, the Certificates were trading at just approximately 94% of par.

512. Plaintiff purchased Certificates issued by BSABS 2006-HE7 on August 30, 2006, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded once and are currently rated Ba2. At the time of filing of this complaint, the Certificates were trading at just approximately 97% of par.

513. Plaintiff purchased Certificates issued by BALTA 2004-6, when they were rated Aaa by Moody's, but the Certificates have since been downgraded twice and are currently rated Baa2. At the time of filing of this complaint, the Certificates were trading at just approximately 56% of par.

514. Plaintiff purchased Certificates issued by BSABS 2007-2 on May 14, 2007, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded once and are currently rated A1. At the time of filing of this complaint, the Certificates were trading at just approximately 94% of par.

515. Plaintiff purchased Certificates issued by BSABS 2007-HE5 on May 30, 2007, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded three times and are currently rated Caa1. At the time of filing of this complaint, the Certificates were trading at just approximately 67% of par.

516. Plaintiff purchased Certificates issued by BSABS 2006-HE9 on November 29, 2006, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded once and are currently rated Baa2. At the time of filing of this complaint, the Certificates were trading at just approximately 97% of par.

517. Plaintiff purchased Certificates issued by SACO 2005-5 when they were rated Aaa by Moody's, but the Certificates have since been downgraded once and are currently rated

B2. At the time of filing of this complaint, the Certificates were trading at just approximately 98% of par.

518. Plaintiff purchased Certificates issued by WMHE 2007-HE1 on January 16, 2007, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded twice and are currently rated Ca. At the time of filing of this complaint, the Certificates were trading at just approximately 41% of par.

519. Plaintiff purchased Certificates issued by WMHE 2007-HE2 on April 10, 2007, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded three times and are currently rated Caa2. At the time of filing of this complaint, the Certificates were trading at just approximately 76% of par.

520. Plaintiff purchased Certificates issued by WMALT 2006-AR10 on December 28, 2006, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded three times and are currently rated Caa3. At the time of filing of this complaint, the Certificates were trading at just approximately 46% of par.

521. Plaintiff purchased Certificates issued by WMALT 2007-HY1 on January 30, 2007, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded three times and are currently rated Caa3. At the time of filing of this complaint, the Certificates were trading at just approximately 54 % of par.

522. Plaintiff purchased Certificates issued by WMALT 2007-OC2 on June 27, 2007, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded three times and are currently rated Caa3. At the time of filing of this complaint, the Certificates were trading at just approximately 46% of par.

523. Plaintiff purchased Certificates issued by WMABS 2007-HE2 on March 13, 2007 in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded three times and are currently rated Ca. At the time of filing of this complaint, the Certificates were trading at just approximately 30% of par.

524. Plaintiff purchased Certificates issued by LBMLT 2006-6 on July 26, 2006, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded twice and are currently rated Caa3. At the time of filing of this complaint, the Certificates were trading at just approximately 33% of par.

525. Plaintiff purchased Certificates issued by LBMLT 2006-9 on October 12, 2006, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded three times and are currently rated Ca. At the time of filing of this complaint, the Certificates were trading at just approximately 29% of par.

526. Plaintiff purchased Certificates issued by LBMLT 2006-10 on November 9, 2006, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded twice and are currently rated Ca. At the time of filing of this complaint, the Certificates were trading at just approximately 31% of par.

527. Plaintiff purchased Certificates issued by LBMLT 2006-11 on December 14, 2006, in the offering, when they were rated Aaa by Moody's, but the Certificates have since been downgraded twice and are currently rated Ca. At the time of filing of this complaint, the Certificates were trading at just approximately 33% of par.

528. As a result of the multiple and material misrepresentations contained in the Offering Documents, Plaintiff has suffered losses on its purchases of Certificates. As of the filing of this Complaint, the mortgage loans in the pools held by the Issuing Trusts and

underlying Plaintiff's Certificates have suffered escalating default rates and mounting foreclosures, resulting in across-the-board ratings downgrades and other negative actions by the rating agencies, as described in the table below.

Certificates Purchased by ABP	Percentage of Loans Underlying the Certificates in Foreclosure	Percentage of Loans Underlying the Certificates Delinquent by More than 90 Days	Moody's Ratings at Purchase	Current Moody's Ratings
BSABS 2007-HE1	30.26	54.21	Aaa	Ba1
BSABS 2007-HE2	33.70	56.45	Aaa	Baa3
BSABS 2007-HE3	30.47	51.81	Aaa	Ba3
BSABS 2007-HE4	16.79	34.19	Aaa	Caa1
BSABS 2006-HE7	33.08	50.35	Aaa	Ba2
BALTA 2004-6	10.14	19.31	Aaa	Baa2
BSABS 2007-2	36.13	54.78	Aaa	A1
BSABS 2007-HE3	30.47	51.81	Aaa	Caa2
BSABS 2007-HE5	27.03	47.02	Aaa	Caa1
BSABS 2006-HE9	35.58	59.09	Aaa	Baa2
SACO 2005-5	0.47	10.69	Aaa	B2
JPMAC 2006-HE3	27.92	43.50	Aaa	Ca
JPMAC 2006-RM1	25.89	43.66	Aaa	Ca
JPMAC 2006-WMC4 A2/A2	35.29	50.28	Aaa	Ca/Ca
JPMAC 2007-CH3 A2/A3	32.31	42.36	Aaa	Ba2/Caa1
JPMAC 2007-CH4	30.48	40.63	Aaa	Ba2
WMHE 2007-HE1	24.14	45.95	Aaa	Ca
WMHE 2007-HE2	24.72	48.07	Aaa	Caa2
WMALT 2006-AR10	19.96	29.10	Aaa	Caa3
WMALT 2007-HY1	18.76	31.77	Aaa	Caa3
WMALT 2007-OC2	23.30	38.83	Aaa	Caa3
WMABS 2007-HE2	38.11	52.86	Aaa	Ca
LBMLT 2006-10	26.73	52.32	Aaa	Ca
LBMLT 2006-11	21.12	42.86	Aaa	Ca

Certificates Purchased by ABP	Percentage of Loans Underlying the Certificates in Foreclosure	Percentage of Loans Underlying the Certificates Delinquent by More than 90 Days	Moody's Ratings at Purchase	Current Moody's Ratings
LBMLT 2006-6	30.35	54.11	Aaa	Caa3
LBMLT 2006-9	23.75	48.08	Aaa	Ca

XV. JPMORGAN CHASE AND JPMORGAN BANK'S LIABILITY AS SUCCESSORS-IN-INTEREST

A. JPMORGAN IS LIABLE AS SUCCESSOR-IN-INTEREST TO THE BEAR STEARNS ENTITIES

529. In addition to ABP's claims based on JPMorgan's own offers or sales of Certificates to ABP, ABP also brings claims against JPMorgan as successor-in-interest to the Bear Stearns entities.

530. On March 16, 2008, BSCI entered into an Agreement and Plan of Merger with JPMorgan Chase for the purpose of consummating a "strategic business combination transaction" between the two entities (the "Merger").

531. Pursuant to the Merger, BSCI merged with Bear Stearns Merger Corporation, a wholly-owned subsidiary of JPMorgan Chase, making BSCI a wholly-owned subsidiary of JPMorgan Chase. As such, upon the May 30, 2008 effective date of the Merger, JPMorgan Chase became the ultimate corporate parent of BSCI's subsidiaries Bear Stearns, EMC, SAMI and BSABS.

532. According to an April 6, 2008 NEW YORK TIMES article, "JPMorgan dominates management after Bear Stearns merger," JPMorgan took immediate control of Bear Stearns' business and personnel decisions. Citing an internal JPMorgan memo, the article states 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 26 executives named to executive positions in the [newly merged] investment banking and trading division … only five are from Bear Stearns."

533. 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, resulting in a transfer of substantially all of Bear Stearns' assets 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.

534. According to JPMorgan's 2008 Annual Report, the transaction was a merger: "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."

535. Bear Stearns' former website, www.bearstearns.com, now redirects to the JPMS website, and the EMC website, www.emcmortgagecorp.com, now identifies EMC as a brand of JPMorgan Bank.

536. JPMS was fully aware of the pending claims and potential claims against Bear Stearns when it consummated the merger and took steps to expressly and impliedly assume Bear Stearns' liabilities, for example by paying to defend and settle lawsuits brought against Bear Stearns.

537. As a result of BSCI's acquisition, JPMorgan Chase's "transfer of substantially all of Bear Stearns' assets to JPMorgan Chase," and explicit assumption of Bear Stearns' debt,

JPMorgan Chase is the successor-in-interest to BSCI and is jointly and severally liable for the misstatements and omissions of material fact alleged herein of BSCI.

538. As a result of its merger with Bear Stearns, JPMS is the successor-in-interest to Bear Stearns and is jointly and severally liable for the misstatements and omissions of material fact alleged herein of Bear Stearns.

539. Therefore, this action is brought against JPMorgan Chase as the successor to BSCI and JPMS as successor to Bear Stearns. BSCI is not a defendant in this action.

B. JPMORGAN IS LIABLE AS SUCCESSOR-IN-INTEREST TO THE WAMU AND LONG BEACH ENTITIES

540. In addition to ABP's claims based on JPMorgan's own offers or sales of Securities to ABP, ABP also brings claims against JPMorgan as successor-in-interest to WaMu and Long Beach.

541. The Office of Thrift Supervision closed WaMu Bank on September 25, 2008, and named the FDIC as receiver. Shortly thereafter, the FDIC and JPMorgan Bank entered into a Purchase and Assumption Agreement (the "PAA") for JPMorgan Bank to "purchase substantially all of the assets and assume all deposit and substantially all other liabilities of" WaMu Bank, including Long Beach Mortgage and Long Beach Securities.

542. The PAA described the assets purchased by JPMorgan Bank as:

> **3.1 Assets Purchased by Assuming Bank.** Subject to Sections 3.5, 3.6 and 4.8, the Assuming Bank hereby purchases from the Receiver, and the Receiver hereby sells, assigns, transfers, conveys, and delivers to the Assuming Bank, all right, title, and interest of the Receiver in and to all of the assets (real, personal and mixed, wherever located and however acquired) ***including all subsidiaries, joint ventures, partnerships, and any and all other business combinations or arrangements, whether active, inactive, dissolved or terminated, of the Failed Bank whether or not reflected on the books of the Failed Bank as of Bank Closing.*** Assets are purchased hereunder by the Assuming Bank subject to all liabilities for indebtedness collateralized by Liens affecting

> such Assets to the extent provided in Section 2.1. The subsidiaries, joint ventures, partnerships, and any and all other business combinations or arrangements, whether active, inactive, dissolved or terminated being purchased by the Assuming Bank includes, but is not limited to, the entities listed on Schedule 3.1a. Notwithstanding Section 4.8, the Assuming Bank specifically purchases all mortgage servicing rights and obligations of the Failed Bank.

PAA § 3.1.

543. Pursuant to the PAA, JPMorgan Bank purchased "all subsidiaries" of WaMu Bank, including WaMu Capital, WaMu Acceptance, WaMu Securities, and Long Beach Securities. As such, WaMu Capital, WaMu Acceptance, WaMu Securities, and Long Beach Securities became wholly-owned subsidiaries of JPMorgan Bank.

544. JPMorgan Bank also assumed nearly all the liabilities of WaMu Bank:

> **2.1 Liabilities Assumed by Assuming Bank.** Subject to Sections 2.5 [Borrower Claims] and 4.8 [Agreement with Respect to Certain Existing Agreements], the Assuming Bank expressly assumes at Book Value (subject to adjustment pursuant to Article VIII) ***and agrees to pay, perform, and discharge, all of the liabilities of the Failed Bank which are reflected on the Books and Records of the Failed Bank as of Bank Closing,*** including the Assumed Deposits and all liabilities associated with any and all employee benefit plans, except as listed on the attached Schedule 2.1, and as otherwise provided in this Agreement (such liabilities referred to as "Liabilities Assumed"). Notwithstanding Section 4.8, the Assuming Bank specifically assumes all mortgage servicing rights and obligations of the Failed Bank.

PAA § 2.1.

545. JPMorgan Bank thus assumed all liabilities relating to the WaMu Securitizations, as the WaMu Securitizations were "reflected on the Books and Records" of WaMu Bank as of the date of its closing, and were not expressly disclaimed by JPMorgan Bank in the PAA.

546. The FDIC itself asserts that JPMorgan Bank assumed the liabilities associated with the securitization activities of WaMu Bank. In a Reply Memorandum filed on February 11,

2011, in *Deutsche Bank Nat'l Trust Co. v. FDIC (as receiver for WaMu Bank) and JPMorgan Chase Bank, N.A.*, No. 09-1656 RMC (D.D.C.), concerning whether WaMu Bank or the FDIC retained the trust-related liabilities for WaMu Bank's securitization activities, the FDIC asserted that "the liabilities and obligations at issue were assumed in their entirety by [JPMorgan Bank] under the P&A Agreement, thereby extinguishing any potential liability by FDIC Receiver."

547. The FDIC also stated, in a November 22, 2010 filing, that "FDIC Receiver's exercise of the transfer provision in this case is consistent with the general principle that when an entity purchases the assets of an ongoing business and expressly or impliedly assumes the related liabilities, the acquiring entity succeeds to the pre-sale debts and obligations of the business, thereby extinguishing the liability of the seller." Moreover, "[i]n connection with that purchase, FDIC Receiver transferred to [JPMorgan Bank], and [JPMorgan Bank] expressly agreed to 'assume' and to 'pay, perform and discharge,' substantially all of [WaMu Bank's] liabilities." *Id.* (citing PAA § 2.1).

548. The Final Report of the Examiner ("Examiner's Report"), submitted by the court-appointed Examiner on November 1, 2010 during Washington Mutual, Inc.'s bankruptcy, further supports FHFA's and the FDIC's assertion that all liabilities associated with the WaMu Securitizations were transferred to JPMorgan Bank as a result of the PAA. *In re Washington Mutual, Inc.*, No. 08-12229 MFW (Bankr. D. Del. Nov. 1, 2010) (filed publicly with exhibits on Nov. 22, 2010).

549. Per the exhibits to the Examiner's Report, the FDIC offered five different transaction structures to prospective bidders for the assets of WaMu Bank. JPMorgan Bank elected to bid on what was described as "Transaction #3":

> C. **Transaction #3 Whole Bank, All Deposits.** Under this transaction, the Purchase and Assumption (Whole Bank), the

> Potential Acquirer whose Bid is accepted by the Corporation assumes the Assumed Deposits of the Bank and all other liabilities but specifically excluding the preferred stock, non-asset related defensive litigation, subordinated debt and senior debt, and purchases all of the assets of the Bank, excluding those assets identified as excluded assets in the Legal Documents and subject to the provisions thereof.

Exam. Report Ex. JPMCD 000001550.00009 (Instructions for Potential Acquirers); JPMCD_000002773.0001 (JPMorgan Bank Bid Form). This is in contrast with Transactions #4 and #5, which offered JPMorgan Bank the option of assuming "only certain other liabilities." Exam. Report Ex. JPMCD 000001550.00009.

550. Additionally, during the drafting process, the FDIC posted a "FAQ" for potential acquirers with respect to the WaMu Bank transaction. The FDIC's unequivocal position was that the mortgage securitization obligations passed to the acquirer:

> 9. Are the off-balance sheet credit card portfolio and mortgage securitizations included in the transaction? Do you expect the acquirer to assume the servicing obligations? If there are pricing issues associated with the contracts (e.g., the pricing is disadvantageous to the assuming institution), can we take advantage of the FDIC's repudiation powers to effect a repricing?
>
> Answer: The bank's interests and obligations associated with the off-balance sheet credit card portfolio and mortgage securitizations pass to the acquirer. Only contracts and obligations remaining in the receivership are subject to repudiation powers.

Examiner's Report Ex. JPMCD 000001550.00212 – JPMCD 000001550.00213.

551. In fact, JPMorgan Bank knew and expressed concern that the PAA and Section 2.1, as drafted, included the transfer of liabilities relating to the WaMu securitizations from WaMu Bank to JPMorgan Bank. On September 23, 2008, JPMorgan Bank wrote in an e-mail to the FDIC:

> Let's say there is a contract between the thrift and the Parent and that is included in the Books and Records (not something like "accrued for on the books of the Failed Bank," which probably

> would fix the problem) of the thrift at the time of closing. Any liability under that contract is then arguably a liability reflected in the Books and Records. Therefore one would most likely conclude that liabilities under that contract are assumed under 2.1 … So the way that [indemnification provision] 12.1 reads is we are indemnified for a claim by Wamu (shareholder of Failed Bank) with respect to that contract only to the extent the liability was not assumed -- indeed they are free to sue us for a breach by the Failed Bank that occurred before the closing. In a normal P&A between commercial parties this is not something a buyer would ever assume and it really doesn't make sense (nor frankly is it fair) here.

Examiner's Report Ex. JPM_EX00034958, e-mail from Dan Cooney of JPMorgan Bank to David Gearin of the FDIC. The language at issue was not altered, despite JPMorgan Bank's protests.

552. The above-quoted passage—"indeed they are free to sue us for a breach by the Failed Bank that occurred before the closing"—also demonstrates that, under the language of the PAA, JPMorgan Bank knew that it would be the appropriate successor for all liabilities and obligations not disclaimed in the PAA. *Id.*

553. Further, JPMorgan Chase's SEC filings following its purchase and assumption of WaMu Bank accounted for the additional liability associated with the WaMu Securitizations. For instance, in a Prospectus Supplement filed on December 12, 2009, JPMorgan Chase cautions that "repurchase and/or indemnity obligations arising in connection with the sale and securitization of loans … by us and certain of our subsidiaries, as well as entities acquired by us as part of the Bear Stearns, Washington Mutual and other transactions, could materially increase our costs and lower our profitability, and could materially and adversely impact our results of operations and financial condition."

554. JPMorgan Bank was fully aware of the pending claims and potential claims against WaMu Bank when it purchased and assumed WaMu Bank's assets and liabilities.

JPMorgan Bank has further evinced its intent to assume WaMu Banks' liabilities by paying to defend and settle lawsuits brought against WaMu Bank and its subsidiaries.

555. Moreover, the former WaMu Bank website, www.wamu.com, redirects visitors to a JPMorgan Chase website proposing that visitors "update [their] favorites" to include www.chase.com.

556. Similarly, the former WaMu Securities website, www.wamusecurities.com, redirects visitors to a JPMorgan Chase-branded website with the text "Washington Mutual Mortgage Securities Corp. (WMMSC), a wholly owned subsidiary of JPMorgan Chase Bank, National Association."

557. As a result of the purchase and assumption of "substantially all of the assets and ... all deposit and substantially all other liabilities of" WaMu Bank, JPMorgan Bank is the successor-in-interest to WaMu Bank and is jointly and severally liable for the misstatements and omissions of material fact alleged herein of WaMu Bank.

558. Therefore, this action is brought against JPMorgan Bank as the successor to WaMu Bank. WaMu Bank is not a defendant in this action.

XVI. TOLLING OF THE SECURITIES ACT OF 1933 CLAIMS

559. The statutory claims raised by Plaintiff herein are currently the subject of class action lawsuits. ABP is a putative class member of four class action lawsuits (the "Class Actions") for its purchases of Certificates from the following trusts:

> JPMAC 2006-HE3; JPMAC 2006-RM1; JPMAC 2006-WMC4; JPMAC 2007-CH3; JPMAC 2007-CH4; BSABS 2007-HE3; BSABS 2007-HE4; BSABS 2007-HE5 and WMALT 2007-OC2

A. THE JP MORGAN CLASS ACTIONS

1. Plumbers' & Pipefitters

560. On March 26, 2008, a class action was filed against several JP Morgan entities and certain former JP Morgan officers and directors on behalf of a class of investors who purchased or otherwise acquired specific certificates that JP Morgan issued, underwrote or sold. *See Plumbers' & Pipefitters' Local #562 Supplemental Plan & Trust. v. J.P. Morgan Acceptance Corp. I*, Case No. 5765/08 (Sup. Ct Nassau Co. 2008) (the "Plumbers' Class Action"). The case was later consolidated and removed to the United States District Court for the Eastern District of New York and assigned case number 2:08-cv-01713-ERK-GRB (E.D.N.Y.). The Plumbers' Class Action complaint alleges claims under Sections 11, 12(a)(2) and 15 of the Securities Act.

561. Plaintiff ABP was included in the defined class in the Plumbers' Class Action with respect to its investments in: JPMAC 2006-HE3, JPMAC 2006-RM1, and JPMAC 2006-WMC4.

562. Defendants JPMS, JPMM Acquisition, Cole, Duzyk, McMichael and Schioppo in this Complaint are also defendants in the Plumbers' Class Action, for the same statutory causes of action asserted herein.

2. The Fort Worth Class Action

563. On March 12, 2009, a class action was filed against several JP Morgan entities and certain former JP Morgan officers and directors on behalf of a class of investors who purchased or otherwise acquired specific certificates that JP Morgan issued, underwrote or sold. *See Fort Worth Employees' Ret. Fund v. J.P. Morgan Chase & Co.,* Case No. 600767/2009 (Sup. Ct. Nassau Co. 2009) (the "Fort Worth Class Action"). The case was later consolidated and removed to the United States District Court for the Southern District of New York and

assigned case number 1:09-cv-03701-JPO (S.D.N.Y.). The Fort Worth Class Action complaint alleges claims under Sections 11, 12(a)(2) and 15 of the Securities Act.

564. Plaintiff ABP was included in the defined class in the Fort Worth Class Action with respect to its investments in: JPMAC 2007-CH3 and JPMAC 2007-CH4.

565. Defendants JPMS, JPMM Acquisition, Bernard, Cole, Duzyk, King, McMichael and Schioppo in this Complaint are also defendants in the Fort Worth Class Action, for the same statutory causes of action asserted herein.

B. THE BEAR STEARNS CLASS ACTION

566. On August 20, 2008, a class action was filed against several Bear Stearns entities, and certain present and former Bear Stearns officers and directors on behalf of a class of investors who purchased or otherwise acquired specific certificates that Bear Stearns issued, underwrote or sold. *See New Jersey Carpenters Health Fund v. Bear Stearns Mort. Funding Trust 2006-AR1, et al.*, Case No. 602426/08 (Sup. Ct. Nassau Co. 2008) (the "Bear Stearns Class Action"). The Bear Stearns Class Action was later removed and consolidated into *In re Bear Stearns Mort. Pass-Through Certificates Litig.*, S.D.N.Y. Master File No. 08-cv-8093 (LTS) (KNF). The Bear Stearns Class Action complaint alleges claims under Sections 11, 12(a)(2), and 15 of the Securities Act.

567. Plaintiff ABP was included in the defined class in the Bear Stearns Class Action with respect to its investments in: BSABS 2007-HE3 and BSABS 2007-HE4.

568. Defendants Bear Stearns, BSABS, EMC, SAMI, Garniewski, Jurkowski, Lutthans, Marano, Mayer, Molinaro, Nierenberg, Perkins, and Verschleiser in this Complaint are also defendants in the Bear Stearns Class Action, for the same statutory causes of action asserted herein.

C. THE WAMU CLASS ACTION

569. On August 4, 2008, a class action was filed against several WaMu entities, and certain present and former WaMu officers and directors on behalf of a class of investors who purchased or otherwise acquired specific certificates that WaMu issued, underwrote or sold. *See New Orleans Employees' Ret. Sys. v. WaMu Mort. Pass Through Certificate*s, *Series 2006-AR1*, *et al.,* Case No. 08-2-26210-3 (Super. Ct. King Co. 2008) (the "WaMu Class Action"). The WaMu Class Action was later removed to the United States District Court for the Western District of Washington, consolidated with *Boilermakers Nat'l Annuity Trust Fund v WaMu Mort. Pass Through Certificates et al.*, renamed *In re Washington Mutual Mortgage-Backed Securities Litigation*, and assigned case number 2:09-cv-00037-MJP.

570. The WaMu Class Action complaint alleges Sections 11, 12(a)(2), and 15 of the Securities Act.

571. Plaintiff ABP was included in the defined class in the WaMu Class Action with respect to its investments in: WMALT 2007-OC2.

572. Defendants WaMu, WAAC, WaMu Capital, Beck, Novak, Green, Jurgens, and Careaga in this Complaint are also defendants in the WaMu Class Action, for the same statutory causes of action asserted herein.

* * * * *

573. Plaintiff ABP reasonably and justifiably relied on the class action tolling doctrines of *American Pipe & Constr. Co. v. Utah,* 414 U.S. 538 (1974) and *In re WorldCom Secs Litig.*, 496 F.3d 245, 256 (2d Cir. 2007) to toll the statute of limitations on its 1933 Act claims. Under *American Pipe*, all putative class members are treated as if they filed their own individual actions until they either opt out or until a certification decision excludes them. *American Pipe*, 414 U.S. at 255. As the Second Circuit stated in WorldCom "because Appellants were members of a class

asserted in a class action complaint, their limitations period was tolled under the doctrine of *American Pipe* until such time as they ceased to be members of the asserted class." *WorldCom*, 496 F.3d at 256; see also *In re Morgan Stanley Mortg. Pass-Through Certificates Litig*., No. 09 Civ. 2137 (LTS) (MHD), 2011 WL 4089580 (S.D.N.Y. Sept. 15, 2011) (rejecting defendants' argument that *American Pipe* tolling does not apply when the original plaintiffs did not purchase the same certificates as the new plaintiffs and therefore did not have standing to bring the new plaintiffs' claims).

574. Plaintiff ABP has chosen to file this separate action and to assert its Securities Act claims, which have been tolled by the pendency of these Class Actions.

CAUSES OF ACTION

FIRST CAUSE OF ACTION
Violation of Section 11 of the Securities Act
(Against All Defendants)

575. Plaintiff repeats and realleges each and every allegation above as if set forth fully herein.

576. This Cause of Action is brought pursuant to Section 11 of the Securities Act against all Defendants. This Cause of Action is predicated upon Defendants' strict liability and/or negligence for making material untrue statements and omissions in the Offering Documents. For purposes of this Cause of Action, Plaintiff expressly excludes and disclaims any allegation that could be construed as alleging fraud or intentional misconduct.

577. The Registration Statements for the Certificate offerings were materially misleading, contained untrue statements of material fact, and omitted to state other facts necessary to make the statements not misleading. Each Defendant issued and disseminated, caused to be issued or disseminated, and/or participated in the issuance and dissemination of the material statements and omissions that were contained in the Offering Documents.

578. Defendants JPM Acceptance, BSABS, SAMI, WAAC and LBSC, as the depositors, were "issuers" within the meaning of the Securities Act, 15 U.S.C. § 77b(a)(4), and are strictly liable to Plaintiff for making the misstatements and omissions in issuing the Certificates.

579. The Individual Defendants were executive officers and representatives of the respective companies responsible for the contents and dissemination of the Shelf Registration Statements. Each of the Individual Defendants was a director of their respective companies at the time the Shelf Registration Statement became effective as to each Certificate. Each Individual Defendant signed the relevant Registration Statements, or documents incorporated by reference, in their capacities as officers or directors of their respective companies, and caused and participated in the issuance of the Registration Statements. By reasons of the conduct alleged herein, each of these Individual Defendants violated Section 11 of the Securities Act.

580. The Underwriter Defendants each acted as an underwriter in the sale of Certificates issued by the Issuing Trusts, directly and indirectly participated in the distribution of the Certificates, and directly and indirectly participated in drafting and disseminating the Offering Documents for the Certificates.

581. Defendants JPMM Acquisition, EMC and WMMSC directly and indirectly participated in the distribution of the Certificates, and directly and indirectly participated in drafting and disseminating the Offering Documents for the Certificates, and therefore also acted as underwriters in the sale of Certificates issued by the Issuing Trusts.

582. Defendants owed to Plaintiff the duty to make a reasonable and diligent investigation of the statements contained in the Offering Documents at the time they became effective to ensure that such statements were true and correct and that there was no omission of

material facts required to be stated in order to make the statements contained therein not misleading.

583. Defendants failed to possess a reasonable basis for believing, and failed to make a reasonable investigation to ensure, that statements contained in the Offering Documents were true and/or that there was no omission of material facts necessary to make the statements contained therein not misleading. The facts misstated or omitted were material to a reasonable investor in the securities sold pursuant to the Offering Documents.

584. By reason of the conduct alleged herein, each of the Defendants violated Section 11 of the Securities Act, and are liable to Plaintiff.

585. Plaintiff acquired Certificates pursuant to the false and misleading Offering Documents, including the Registration Statements. At the time Plaintiff obtained the Certificates, it did so without knowledge of the facts concerning the misstatements and omissions alleged herein.

586. This action is brought within one year of the discovery of the materially untrue statements and omissions in the Offering Documents, and brought within three years of the effective date of the Offering Documents, by virtue of the timely filing of the Class Actions and by the tolling of ABP's claims afforded by such filings.

587. ABP has sustained damages measured by the difference between the price ABP paid for the Certificates and (1) the value of the Certificates at the time this suit is brought, or (2) the price at which ABP sold the Certificates in the market prior to the time suit is brought. ABP's Certificates lost substantial market value subsequent to and due to the materially untrue statements of facts and omissions of material facts in the Offering Documents alleged herein.

588. By virtue of the foregoing, Plaintiff is entitled to damages, jointly and severally from each of the Defendants, as set forth in Section 11 of the Securities Act.

SECOND CAUSE OF ACTION
Violation of Section 12(a)(2) of the Securities Act
(Against the Issuing and Underwriter Defendants)

589. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

590. This Cause of Action is brought pursuant to Section 12(a)(2) of the Securities Act against the Issuing and Underwriter Defendants from whom Plaintiff acquired the Certificates. For purposes of this Cause of Action, Plaintiff expressly excludes and disclaims any allegation that could be construed as alleging fraud or intentional misconduct. This Cause of Action is based solely on claims of strict liability and/or negligence under the Securities Act.

591. The Issuing and Underwriter Defendants offered, promoted, and/or sold the Certificates to Plaintiff by means of the Offering Documents, including the Prospectuses and Prospectus Supplements, which contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading, and concealed and failed to disclose material facts. The facts misstated and omitted were material to a reasonable investor reviewing the Prospectuses.

592. Plaintiff purchased Certificates directly from the Issuing and Underwriter Defendants in the Offerings, pursuant to the Offering Documents, including the Prospectuses and Prospectus Supplements which contained untrue statements and omissions, as reflected in ¶ 85. Defendants sold these Certificates for their own financial gain.

593. The Issuing and Underwriter Defendants owed to Plaintiff the duty to make a reasonable and diligent investigation of the statements contained in the Offering Documents, including the Prospectuses and Prospectus Supplements, to ensure that such statements were true

and that there was no omission to state a material fact required to be stated in order to make the statements contained therein not misleading. The Issuing and Underwriter Defendants knew of, or in the exercise of reasonable care should have known of, the misstatements and omissions contained in the Offering Documents, including the Prospectuses and Prospectus Supplements as set forth above.

594. Each of the Issuing and Underwriter Defendants actively participated in the solicitation of ABP's purchase of the Certificates, and did so in order to benefit themselves. Such solicitation included assisting in preparing the Offering Documents, filing the Offering Documents, and assisting in marketing the Certificates.

595. Plaintiff purchased or otherwise acquired Certificates pursuant to the defective Offering Documents, including the Prospectuses and Prospectus Supplements. Plaintiff did not know, or in the exercise of reasonable diligence could not have known, of the untruths and omissions contained in the Offering Documents, including the Prospectuses and Prospectus Supplements.

596. ABP acquired the Certificates in the primary market pursuant to the Offering Documents, including the Prospectuses and Prospectus Supplements, except for BALTA 2004-6 and SACO 2005-5.

597. This action is brought within one year of the discovery of the materially untrue statements and omissions in the Offering Documents, and brought within three years of the effective date of the Offering Documents, by virtue of the timely filing of the Class Actions and by the tolling of ABP's claims afforded by such filings.

598. By reason of the conduct alleged herein, the Issuing and Underwriter Defendants violated Section 12(a)(2) of the Securities Act. As a direct and proximate result of such

violations, Plaintiff sustained material damages in connection with its purchases of the Certificates. Plaintiff has the right to rescind and recover the consideration paid for its Certificates, and hereby elects to rescind and tender its securities to the Issuing and Underwriter Defendants, except as to any Certificates that Plaintiff has sold, as to which Plaintiff seeks damages to the extent permitted by law.

THIRD CAUSE OF ACTION
Violation of Section 15 of the Securities Act
(Against JPMorgan Chase, JPMM Acquisition, EMC, WMMSC, JPMorgan Bank, and the Individual Defendants)

599. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein, except any allegations that the Defendants made any untrue statements and omissions intentionally or recklessly. For the purposes of this Count, ABP expressly disclaims any claim of fraud or intentional misconduct.

600. This Cause of Action is asserted against JPMorgan Chase (in its own capacity and as successor-in-interest to BSCI), JPMM Acquisition, EMC, WMMSC, JPMorgan Bank (as successor-in-interest to WaMu Bank) and the Individual Defendants under Section 15 of the Securities Act.

601. Each of JPMorgan Chase (in its own capacity and as successor-in-interest to BSCI), JPMM Acquisition, EMC, WMMSC, JPMorgan Bank (as successor-in-interest to WaMu Bank) and the Individual Defendants by virtue of its control, ownership, offices, directorship, and specific acts was, at the time of the wrongs alleged herein and as set forth herein, a controlling person of the Issuing Defendants within the meaning of Section 15 of the Securities Act. JPMorgan Chase (in its own capacity and as successor-in-interest to BSCI), JPMM Acquisition, EMC, WMMSC, JPMorgan Bank (as successor-in-interest to WaMu Bank) and the Individual Defendants conducted and participated, directly and indirectly in the conduct of the

Issuing Defendants' business affairs, and had the power and influence and exercised the same to cause the Issuing Defendants to engage in the acts described herein.

602. JPMorgan Chase (in its own capacity and as successor-in-interest to BSCI), JPMM Acquisition, EMC, WMMSC, JPMorgan Bank (as successor-in-interest to WaMu Bank) and the Individual Defendants' control, ownership and position made them privy to and provided them with knowledge of the material facts concealed from Plaintiff.

603. Because of their positions of authority and control as senior officers and directors, the above-named Individual Defendants were able to, and in fact did, control the contents of the applicable Registration Statements, including the related Prospectus Supplements, that each is associated with as set forth above. These materials contained material misstatements of fact and omitted facts necessary to make the facts stated therein not misleading.

604. Defendants JPMorgan Chase (in its own capacity and as successor-in-interest to BSCI), JPMM Acquisition, EMC, WMMSC, JPMorgan Bank (as successor-in-interest to WaMu Bank) and the Individual Defendants culpably participated in the violations of Sections 11 and 12(a)(2) set forth above with respect to the offering of the Certificates purchased by ABP, by initiating these securitizations, purchasing the mortgage loans to be securitized, determining the structure of the securitizations, selecting the entities to issue the Certificates, and selecting the underwriters. In these roles, these Defendants knew and intended that the mortgage loans they purchased would be sold in connection with the securitization process, and that the Certificates would be issued by the relevant trusts.

605. This action is brought within one year of the discovery of the materially untrue statements and omissions in the Offering Documents, and brought within three years of the

effective date of the Offering Documents, by virtue of the timely filing of the Class Actions and by the tolling of ABP's claims afforded by such filings.

606. By virtue of the conduct alleged herein, JPMorgan Chase (in its own capacity and as successor-in-interest to BSCI), JPMM Acquisition, EMC, WMMSC, JPMorgan Bank (as successor-in-interest to WaMu Bank) and the Individual Defendants are liable for the aforesaid wrongful conduct and are liable to Plaintiff for damages suffered as a result.

FOURTH CAUSE OF ACTION
Negligent Misrepresentation
(Against All Defendants)

607. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein, except any allegations that the Defendants made any untrue statements and omissions intentionally or recklessly. For the purposes of this Count, ABP expressly disclaims any claim of fraud or intentional misconduct.

608. Defendants originated or acquired all of the underlying mortgage loans and underwrote and sponsored the securitizations at issue. Based on due diligence they conducted on the loan pools and the Originators, they had unique and special knowledge about underwriting defects in the loans in the offerings. Defendants were uniquely situated to evaluate the economics of each securitization.

609. As the sponsors, underwriters and depositors of the Certificates, Defendants were uniquely situated to explain the details, attributes, and conditions of each security. Defendants made the misrepresentations described above to induce ABP to purchase the Certificates.

610. ABP did not possess the loan files for the mortgage loans underlying its Certificates and thus it could not conduct a loan-level analysis of the underwriting quality or servicing practices for the mortgage loans.

611. Defendants were aware that Plaintiff relied on Defendants' unique and special knowledge and experience and depended upon Defendants for accurate and truthful information regarding the quality of the underlying mortgage loans and their underwriting when determining whether to invest in the Certificates at issue in this action. Defendants also knew that the facts regarding whether or not the Originators of the underlying loans complied with their stated underwriting standards and appraisal methods were exclusively within Defendants' knowledge and control.

612. Over the course of almost two years, for 25 separate investments, ABP relied on the Defendants' unique and special knowledge regarding the quality of the underlying mortgage loans and their underwriting when determining whether to invest in the Certificates. This longstanding relationship, coupled with the Defendants' unique and special knowledge about the underlying loans, created a special relationship of trust, confidence, and dependence between the Defendants and ABP.

613. At the time it made these misrepresentations, Defendants knew, or at a minimum were negligent in not knowing, that these statements were false, misleading, and incorrect. Such information was known to Defendants but not known to ABP, and Defendants knew that ABP was acting in reliance on mistaken information.

614. Based on their expertise, superior knowledge, and relationship with ABP, Defendants had a duty to provide ABP with complete, accurate, and timely information regarding the underwriting standards and appraisal methods used. Defendants breached their duty to provide such information to ABP.

615. ABP reasonably relied on the information Defendants did provide which Defendants undertook no attempt to correct. Without these material misrepresentations, ABP would not have bought the Certificates.

616. ABP has suffered substantial damages as a result of Defendants' misrepresentations.

FIFTH CAUSE OF ACTION
Common Law Fraud
(Against the Corporate and Underwriter Defendants)

617. Plaintiff realleges each and every allegation contained above as if fully set forth herein.

618. This claim is brought against the Corporate and Underwriter Defendants.

619. The Corporate and Underwriter Defendants promoted and sold the Certificates purchased by Plaintiff pursuant to the defective Offering Documents. The Offering Documents contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading, and concealed and failed to disclose material facts.

620. Each of the Corporate and Underwriter Defendants knew their representations and omissions were false and/or misleading at the time they were made. Each of the Corporate and Underwriter Defendants made the misleading statements with an intent to defraud ABP.

621. Each of the Corporate and Underwriter Defendants knew that their representations and omissions were false and/or misleading at the time they were made or at the very least, recklessly made such representations and omissions without knowledge of their truth or falsity.

622. Each of the Corporate and Underwriter Defendants made the misleading statements and omissions with an intent to defraud Plaintiff and to induce Plaintiff into purchasing the Certificates. Furthermore, these statements related to these Defendants' own acts and omissions.

623. The Corporate and Underwriter Defendants knew or recklessly disregarded that investors such as ABP were relying on their expertise, and they encouraged such reliance through the Offering Documents and their public representations. These Defendants knew or recklessly disregarded that investors such as ABP would rely upon their representations in connection their decision to purchase the Certificates. These Defendants were in a position of unique and superior knowledge regarding the true facts concerning the foregoing material misrepresentations and omissions.

624. ABP reasonably, justifiably and foreseeably relied on the Corporate and Underwriter Defendants' false representations and misleading omissions.

625. It was only by making such representations that the Corporate and Underwriter Defendants were able to induce ABP to buy the Certificates. ABP would not have purchased or otherwise acquired the Certificates but for these Defendants' fraudulent representations and omissions about the quality of the Certificates.

626. Had ABP known the true facts regarding the loans underlying the Certificates, including the Corporate Defendants' and the Originators' abandonment of their underwriting practices, the Corporate Defendants' and Originators' improper appraisal methods, the inaccuracy of the ratings assigned by the rating agencies, and the failure to convey to the Issuing Trusts legal title to the underlying mortgages, Plaintiff would not have purchased the Certificates.

627. As a result of the Corporate and Underwriter Defendants' false and misleading statements and omissions, Plaintiff suffered damages in connection with its purchase of the Certificates.

628. Because the Corporate and Underwriter Defendants committed these acts and omissions maliciously, wantonly and oppressively, and because the consequences of these acts knowingly affected the general public, including but not limited to all persons with interests in the RMBS, ABP is entitled to recover punitive damages.

629. In the alternative, ABP hereby demands rescission and makes any necessary tender of Certificates.

SIXTH CAUSE OF ACTION
Fraudulent Inducement
(Against the Corporate and Underwriter Defendants)

630. Plaintiff realleges each and every allegation contained above as if fully set forth herein.

631. This is a claim for fraudulent inducement against the Corporate and Underwriter Defendants.

632. As alleged above, in the Offering Documents and in their public statements, the Corporate and Underwriter Defendants made fraudulent and false 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.

633. The Issuing and Underwriter Defendants knew at the time they sold and marketed each of the Certificates that the foregoing statements were false, or, at the very least, made recklessly, without any belief in the truth of the statements.

634. The Corporate and Underwriter Defendants made these materially misleading statements and omissions for the purpose of inducing Plaintiff to purchase the Certificates. Furthermore, these statements related to these Defendants' own acts and omissions.

635. The Corporate and Underwriter Defendants knew or recklessly disregarded that investors such as ABP were relying on their expertise, and they encouraged such reliance

through the Offering Documents and their public representations. These Defendants knew or recklessly disregarded that investors such as ABP would rely upon their representations in connection with their decision to purchase the Certificates. These Defendants were in a position of unique and superior knowledge regarding the true facts concerning the foregoing material misrepresentations and omissions.

636. It was only by making such representations that the Corporate and Underwriter Defendants were able to induce Plaintiff to buy the Certificates. Plaintiff would not have purchased or otherwise acquired the Certificates but for the Corporate and Underwriter Defendants' fraudulent representations and omissions about the quality of the Certificates.

637. Plaintiff justifiably, reasonably and foreseeably relied on the Corporate Defendants' representations and false statements regarding the quality of the Certificates.

638. By virtue of the Corporate and Underwriter Defendants' false and misleading statements and omissions, as alleged herein, Plaintiff has suffered substantial damages and is also entitled to rescission or rescissory damages.

SEVENTH CAUSE OF ACTION
Aiding & Abetting Fraud
(Against JPMorgan Chase and the JPMorgan Defendants)

639. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

640. This is a claim against JPMorgan Chase and the JPMorgan Defendants for aiding and abetting the fraudulent and reckless misrepresentations by each other. Each of JPMorgan Chase and the JPMorgan Defendants aided and abetted the fraud committed by JPMorgan Chase and all of the other JPMorgan Defendants.

641. As alleged in detail above, JPMorgan Chase and the JPMorgan Defendants knowingly promoted and sold Certificates to ABP pursuant to materially misleading Offering

Documents, thereby damaging ABP. Each of the above-named Defendants knew of the fraud perpetrated on ABP by the other Defendants. Indeed, each of these Defendants directed, supervised and otherwise knew of the abandonment of underwriting practices and the utilization of improper appraisal methods; the inaccuracy of the ratings assigned by the rating agencies; and the failure to convey to the Issuing Trusts legal title to the underlying mortgages.

642. JPMorgan Chase and the JPMorgan Defendants provided each other with substantial assistance in perpetrating the fraud by participating in the violation of mortgage loan underwriting and appraisal standards; making false public statements about mortgage loan underwriting and appraisal standards; providing false information about the mortgage loans underlying the Certificates to the rating agencies; providing false information for use in the Offering Documents; and/or participating in the failure to properly endorse and deliver the mortgage notes and security documents to the Issuing Trusts.

643. It was foreseeable to JPMorgan Chase and each JPMorgan Defendant at the time he, she or it actively assisted in the commission of the fraud that ABP would be harmed as a result of their assistance.

644. As a direct and natural result of the fraud committed by JPMorgan Chase and the JPMorgan Defendants, and the knowing and active participation by these Defendants, Plaintiff has suffered substantial damages.

EIGHTH CAUSE OF ACTION
Aiding & Abetting Fraud
(Against the Bear Stearns Defendants)

645. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

646. This is a claim against the Bear Stearns Defendants for aiding and abetting the fraudulent and reckless misrepresentations by each other. Each of the Bear Stearns Defendants aided and abetted the fraud committed by all of the other Bear Stearns Defendants.

647. As alleged in detail above, the Bear Stearns Defendants knowingly promoted and sold Certificates to ABP pursuant to materially misleading Offering Documents, thereby damaging ABP. Each of the Bear Stearns Defendants knew of the fraud perpetrated on ABP by the other Bear Stearns Defendants. Indeed, each of these Defendants directed, supervised and otherwise knew of the abandonment of underwriting practices and the utilization of improper appraisal methods; the inaccuracy of the ratings assigned by the rating agencies; and the failure to convey to the Issuing Trusts legal title to the underlying mortgages.

648. The Bear Stearns Defendants provided each other with substantial assistance in perpetrating the fraud by participating in the violation of mortgage loan underwriting and appraisal standards; making false public statements about mortgage loan underwriting and appraisal standards; providing false information about the mortgage loans underlying the Certificates to the rating agencies; providing false information for use in the Offering Documents; and/or participating in the failure to properly endorse and deliver the mortgage notes and security documents to the Issuing Trusts.

649. It was foreseeable to each Bear Stearns Defendant at the time he, she or it actively assisted in the commission of the fraud that ABP would be harmed as a result of their assistance.

650. As a direct and natural result of the fraud committed by the Bear Stearns Defendants, and the knowing and active participation by these Defendants, Plaintiff has suffered substantial damages.

NINTH CAUSE OF ACTION
Aiding & Abetting Fraud
(Against the WaMu Defendants, JPMorgan Bank, LBSC, Banc of America, and Credit Suisse)

651. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

652. This is a claim against the WaMu Defendants, JPMorgan Bank (as successor in liability to WaMu Bank), LBSC, Banc of America, and Credit Suisse for aiding and abetting the fraudulent and reckless misrepresentations by each other. Each of the WaMu Defendants, WaMu Bank, LBSC, Banc of America, and Credit Suisse aided and abetted the fraud committed by the WaMu Defendants, WaMu Bank, LBSC, Banc of America, and Credit Suisse.

653. As alleged in detail above, the WaMu Defendants, WaMu Bank, LBSC, Banc of America, and Credit Suisse knowingly promoted and sold Certificates to ABP pursuant to materially misleading Offering Documents, thereby damaging ABP. Each of the above-named Defendants knew of the fraud perpetrated on ABP by the other Defendants. Indeed, each of these Defendants directed, supervised and otherwise knew of the abandonment of underwriting practices and the utilization of improper appraisal methods; the inaccuracy of the ratings assigned by the rating agencies; and the failure to convey to the Issuing Trusts legal title to the underlying mortgages.

654. The WaMu Defendants, WaMu Bank, LBSC, Banc of America, and Credit Suisse provided each other with substantial assistance in perpetrating the fraud by participating in the violation of mortgage loan underwriting and appraisal standards; making false public statements about mortgage loan underwriting and appraisal standards; providing false information about the mortgage loans underlying the Certificates to the rating agencies; providing false information for

use in the Offering Documents; and/or participating in the failure to properly endorse and deliver the mortgage notes and security documents to the Issuing Trusts.

655. It was foreseeable to each of the WaMu Defendants, WaMu Bank, LBSC, Banc of America, and Credit Suisse at the time he, she or it actively assisted in the commission of the fraud that ABP would be harmed as a result of their assistance.

656. As a direct and natural result of the fraud committed by the WaMu Defendants, WaMu Bank, LBSC, Banc of America, and Credit Suisse, and the knowing and active participation by these Defendants, Plaintiff has suffered substantial damages.

TENTH CAUSE OF ACTION
Successor and Vicarious Liability
(Against JPMorgan Chase, JPMS, and JPMorgan Bank)

657. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

658. Defendant JPMorgan Chase is the successor to BSCI, pursuant to the Merger. JPMorgan Chase is liable for BSCI's wrongdoing, in its entirety, under common law, because BSCI merged and consolidated with JPMorgan Chase, because JPMorgan Chase has expressly or impliedly assumed BSCI's tort liabilities, and because JPMorgan Chase is a mere continuation of BSCI. This action is thus brought against JPMorgan Chase both in its own capacity and as successor to BSCI.

659. Defendant JPMS is the successor to Bear Stearns, pursuant to the Merger. JPMS is liable for Bear Stearns's wrongdoing, in its entirety, under common law, because Bear Stearns merged and consolidated with JPMS, because JPMS has expressly or impliedly assumed Bear Stearns's tort liabilities, and because JPMS is a mere continuation of Bear Stearns. This action is thus brought against JPMS both in its own capacity and as successor to Bear Stearns.

660. Defendant JPMorgan Bank succeeded to WaMu Bank's liabilities pursuant to the PAA. JPMorgan Bank is liable for WaMu Bank's wrongdoing, in its entirety, under common law, because WaMu Bank merged and consolidated with JPMorgan Bank, because JPMorgan Bank has expressly or impliedly assumed WaMu Bank's tort liabilities, and because JPMorgan Bank is a mere continuation of WaMu Bank. This action is thus brought against JPMorgan Bank both in its own capacity and as successor to WaMu Bank.

PRAYER FOR RELIEF

WHEREFORE, ABP prays for relief and judgment, as follows:

An award in favor of ABP against Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, but including at a minimum:

(a) ABP's monetary losses, including loss of market value and loss of principal and interest payments;

(b) Rescission and recovery of the consideration paid for the Certificates, with interest thereon;

(c) ABP's costs and disbursements in this suit, including reasonable attorneys' fees and expert fees;

(d) Prejudgment interest at the maximum legal rate; and

(e) Such other and further relief as the Court deems just and proper.

JURY DEMAND

Plaintiff hereby demands a trial by jury.

Dated: December 7, 2011

Respectfully submitted,

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