

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

SEALINK FUNDING LIMITED,

Plaintiffs,

v.

BEAR STEARNS & CO. INC., BEAR STEARNS ASSET BACKED SECURITIES I LLC, EMC MORTGAGE LLC (f/k/a EMC MORTGAGE CORPORATION), STRUCTURED ASSET MORTGAGE INVESTMENTS II INC., J.P. MORGAN ACCEPTANCE CORPORATION I, J.P. MORGAN ACQUISITION CORPORATION., J.P. MORGAN SECURITIES LLC (f/k/a/ JPMORGAN SECURITIES INC.), WAMU ASSET ACCEPTANCE CORP., WAMU CAPITAL CORP., JPMORGAN CHASE & CO., and JPMORGAN CHASE BANK, N.A.

Defendants.

Index No.

SUMMONS**TO THE ABOVE-NAMED DEFENDANTS:**

J.P. Morgan Chase & Co. 4001 Governor Printz Boulevard Wilmington, Delaware 19802	JP Morgan Chase Bank, N.A. 1111 Polaris Parkway Columbus, Ohio 43240
J.P. Morgan Securities LLC (f/k/a/ JP Morgan Securities Inc.) 227 Park Avenue New York, New York 10017	J.P. Morgan Acquisition Corp. 270 Park Avenue New York, New York 10017
J.P. Morgan Acceptance Corp. I 270 Park Avenue New York, New York 10017	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 1017	EMC Mortgage LLC (f/k/a/ EMC Mortgage Corp.) 2780 Lake Vista Drive Lewisville, Texas 75067

Structured Asset Mortgage Investments II Inc., 383 Madison Avenue New York., New York 10179	WaMu Capital Corp. 1301 Second Avenue, WMC 3501A Seattle, Washington 98101
WaMu Asset Acceptance Corp. 1301 Second Avenue, WMC 3501A Seattle, Washington 98101	

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

Venue is proper in this Court because several of the Defendants maintain their principal places of business in New York County.

Dated: New York, New York
September 29, 2011

Respectfully submitted,

**BERNSTEIN LITOWITZ BERGER
& GROSSMANN LLP**

/s/ Gerald H Silk
Gerald H. Silk
Avi Josefson
Michael D. Blatchley
Ross Shikowitz
1285 Avenue of the Americas, 38th Floor
New York, NY 10019
Tel: (212) 554-1400
Fax: (212) 554-1444
jerry@blbglaw.com
avi@blbglaw.com
michaelb@blbglaw.com
ross@blbglaw.com

Counsel for Plaintiff

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

SEALINK FUNDING LIMITED,

Plaintiff,

v.

BEAR STEARNS & CO. INC., BEAR
STEARNS ASSET BACKED SECURITIES I
LLC, EMC MORTGAGE LLC (f/k/a EMC
MORTGAGE CORPORATION),
STRUCTURED ASSET MORTGAGE
INVESTMENTS II INC., J.P. MORGAN
ACCEPTANCE CORPORATION I, J.P.
MORGAN ACQUISITION CORPORATION.,
J.P. MORGAN SECURITIES LLC (f/k/a/
JPMORGAN SECURITIES INC.), WAMU
ASSET ACCEPTANCE CORP., WAMU
CAPITAL CORP., JPMORGAN CHASE &
CO., and JPMORGAN CHASE BANK, N.A.,

Defendants.

Index No.

COMPLAINT

JURY TRIAL DEMANDED

Plaintiff Sealink Funding Limited, as defined below (“Sealink”), by its attorneys Bernstein Litowitz Berger & Grossmann LLP, for its Complaint herein against Bear Stearns & Co. Inc., Bear Stearns Asset Backed Securities I LLC, EMC Mortgage LLC (f/k/a EMC Mortgage Corporation), Structured Asset Mortgage Investments II Inc., J.P. Morgan Acceptance Corporation I, J.P. Morgan Acquisition Corp., JP Morgan Securities LLC (f/k/a JP Morgan Securities Inc.), WaMu Asset Acceptance Corp., WaMu Capital Corp., JPMorgan Chase & Co., and JPMorgan Chase Bank, N.A. (collectively, “Defendants”), alleges as follows:

I. SUMMARY OF THE ACTION

1. This action arises from a fraud perpetrated by Defendants against Sealink, which invested in residential mortgage-backed securities (“RMBS”) that contained loans purchased, financed, and securitized by Defendants. Sealink invested in highly-rated RMBS, bearing AAA ratings, in reliance on Defendants’ representations that those mortgages were originated according to specific underwriting guidelines and collateralized by accurately appraised properties. Those representations and the AAA ratings the RMBS carried led Sealink to believe that the Defendants’ RMBS it purchased were safe investments.

2. Sealink purchased almost \$2.4 billion worth of Defendants’ RMBS in 37 offerings between 2005 and 2007 (the “Certificates”) in reliance on registration statements, prospectuses, draft prospectus supplements, prospectus supplements and term sheets (the “Offering Materials”) prepared by and provided to them, directly or indirectly, by Defendants. The Offering Materials contained numerous representations about the purportedly conservative mortgage underwriting standards applied by the mortgage originators, the appraisals of the mortgaged properties, and other facts regarding the collateral underlying the RMBS that were material to Sealink’s investment decisions.

3. In truth, and as Sealink and the world would only later discover, the originators whose loans collateralized the Defendants' RMBS purchased by Sealink were among the worst of the worst culprits in the subprime lending industry. These infamous lenders included subsidiaries of Bear Stearns such as EMC Mortgage Company ("EMC"), as well as other notorious originators such as Countrywide Home Loans ("Countrywide"), American Home Mortgage Investment Corporation ("American Home"), and Fremont Investment & Loan ("Fremont"). These originators have since folded up their operations, filed for bankruptcy or been shut down by regulators, and are the subject of numerous governmental investigations and private lawsuits alleging misconduct arising out of pervasive illegal and improper mortgage lending practices and other violations of law.

4. Defendants knew or recklessly disregarded that those lenders were issuing high-risk loans that did not conform to their respective underwriting standards. Defendants did, in fact, conduct extensive due diligence on the loans it purchased for securitization, as represented in the Offering Materials. In the course of that extensive due diligence process, which, in many instances, included an extensive re-underwriting review of the loans it purchased by an independent third-party due diligence provider, Clayton Holdings, Inc. ("Clayton"), Defendants learned that the originators routinely and flagrantly disregarded their own underwriting guidelines, originated loans based on wildly inflated appraisal values, and manipulated the underwriting process in order to issue loans to borrowers who had no plausible means to repay them. Indeed, documents released by the Federal Crisis Inquiry Commission ("FCIC") and Clayton reveal the extensive deficiencies identified through Defendants' due diligence. Specifically, 27% of the loans JPMorgan and Washington Mutual ("WaMu") evaluated for purchase and securitization at the height of the mortgage boom (from 2006 through mid-2007),

and over 16% of such loans evaluated by Bear Stearns (together with EMC), failed to meet the originators' own underwriting guidelines.

5. In fact, between January 2006 and June 2007, JPMorgan, WaMu and Bear Stearns (together with EMC) purchased and securitized 51%, 29% and 42% respectively, of the sampled loans that Clayton determined failed to meet the originator's underwriting guidelines, meaning that Defendants *knew* the loan pools it securitized were riddled with defective loans that were underwritten in a systematically deficient manner that flatly contradicted the representations in Defendants' Offering Materials.

6. Defendants not only concealed from Sealink the truth about the poor quality of the securitized loans, Defendants also knowingly provided false information to the credit rating agencies in order to secure a triple-A blessing for its RMBS. As a result of these practices, Defendants knew that the ratings assigned to its securitizations did not reflect the true credit quality of the Certificates Sealink purchased.

7. This misconduct has resulted in astounding rates of default on the loans underlying the Defendants' RMBS and massive downgrades of the Certificates, the vast majority of which are now considered "junk." Accordingly, the Certificates are no longer marketable or salable at or near the prices Sealink paid for them, and Sealink has suffered significant losses as a result of the fraud perpetrated by Defendants.

8. Sealink seeks compensatory and/or rescissory damages against Defendants for fraud, fraud in the inducement, aiding and abetting fraud, and negligent misrepresentation.

II. JURISDICTION AND VENUE

9. This Court has jurisdiction over each of the Defendants because each of them transacts business within the State of New York within the meaning of CPLR § 302(a)(1) and each of them committed a tortious act inside the State of New York or outside the State of New

York causing injury within the State of New York within the meaning of CPLR §§ 302(a)(2) and 302(a)(3). The amount in controversy exceeds \$150,000.

10. Venue is proper in this Court because several of the Defendants maintain their principal places of business in New York County.

III. THE PARTIES

A. Plaintiff

11. Plaintiff Sealink Funding Limited is a company incorporated under the laws of Ireland that was established to receive, hold and manage RMBS purchased by certain special purpose vehicles formerly sponsored by SachsenLB (the “SPVs”), and the claims asserted herein arise from the purchase of those RMBS by the SPVs. Sealink Funding Limited and the SPVs are hereinafter collectively referred to as “Sealink.”

B. Defendants

12. Defendant JPMorgan Chase & Co. is a financial holding company incorporated under Delaware law. JPMorgan Chase & Co. is one of the largest banking institutions in the United States and is the ultimate owner of Defendants JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC (f/k/a J.P. Morgan Securities Inc.), J.P. Morgan Acceptance Corporation, I, and J.P. Morgan Acquisition Corp. JPMorgan Chase & Co. is also the successor-in-interest to non-party The Bear Stearns Companies, Inc.

13. Defendant JPMorgan Chase Bank, N.A. is a national banking association, a subsidiary of JPMorgan Chase & Co., and the sole owner of J.P. Morgan Acquisition Corp. Its main office is located in Columbus, Ohio. JPMorgan Chase Bank, N.A. is also the successor-in-interest to Washington Mutual Bank.

14. Defendant J.P. Morgan Securities LLC (f/k/a J.P. Morgan Securities Inc.) is a Delaware corporation with its principal place of business at 277 Park Avenue, New York, New

York 10017. J.P Morgan Securities LLC is a SEC-registered broker-dealer that engages in investment banking activities in the U.S., and served as the underwriter for four of the securitizations at issue here.

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

16. Defendant J.P. Morgan Acceptance Corporation I, is a Delaware corporation with its principal executive offices at 270 Park Avenue, New York, New York 10017. J.P. Morgan Acceptance Corporation I is a direct, wholly-owned subsidiary of J.P. Morgan Securities Holdings LLC which, in turn, is a direct, wholly-owned subsidiary of JPMorgan Chase & Co. J.P. Morgan Acceptance Corporation I served as the depositor for three of the securitizations at issue here.

17. Defendants JPMorgan Chase & Co., JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC, J.P. Morgan Acquisition Corporation, and J.P. Morgan Acceptance Corporation I are collectively hereinafter referred to as “JPMorgan.”

18. Non-party The Bear Stearns Companies, Inc. was, at all relevant times, a holding company that provided investment banking, securities, and derivative trading services to its clients through its subsidiaries. The Bear Stearns Companies Inc. was the sole owner, at the time of the securitizations, of Bear Stearns & Co. Inc., Bear Stearns Asset Backed Securities I LLC, EMC Mortgage LLC (f/k/a EMC Mortgage Corporation), and Structured Asset Mortgage Investments II Inc. On March 16, 2008, The Bear Stearns Companies, Inc. entered into an agreement and plan of merger (the “Merger”) with JPMorgan Chase & Co., making The Bear Stearns Companies, Inc. a wholly-owned subsidiary of JPMorgan Chase & Co.

19. Defendant Bear Stearns & Co. Inc. was, at all relevant times, an SEC-registered broker-dealer with its principal place of business at 383 Madison Avenue, New York, New York 10179. Bear Stearns & Co. Inc. was a wholly-owned subsidiary of The Bear Stearns Companies, Inc., and served as the underwriter for 31 of the securitizations at issue here. Bear Stearns & Co. Inc. directed the activities of its affiliates EMC Mortgage LLC, Structured Asset Mortgage Investments II Inc. and Bear Stearns Asset Backed Securities I LLC. On or about October 1, 2008, following the merger effective May 30, 2008, Bear Stearns & Co. Inc. merged with J.P. Morgan Securities LLC (a subsidiary of JPMorgan Chase & Co.), and is now doing business as J.P. Morgan Securities LLC. All allegations against Bear Stearns & Co. Inc. are thus made against its successor-in-interest, J.P. Morgan Securities LLC as well.

20. Defendant EMC Mortgage LLC (f/k/a EMC Mortgage Corporation) is incorporated in Delaware and was, at all relevant times, a wholly-owned subsidiary of The Bear Stearns Companies, Inc. EMC Mortgage LLC served as sponsor for 19 of the securitizations at issue here. As a result of the merger between The Bear Stearns Companies, Inc. and JPMorgan Chase & Co., EMC Mortgage LLC became a wholly-owned subsidiary of JPMorgan Chase & Co.

21. Defendant Structured Asset Mortgage Investments II Inc. was, at all relevant times, a Delaware corporation with its principal place of business at 383 Madison Avenue, New York, New York 10179. Structured Asset Mortgage Investments II Inc. was a wholly-owned subsidiary of The Bear Stearns Companies, Inc., and served as depositor for 18 of the securitizations at issue here. As a result of the merger between The Bear Stearns Companies, Inc. and JPMorgan Chase & Co., Structured Asset Mortgage Investments II Inc. became a wholly-owned subsidiary of JPMorgan Chase & Co.

22. Defendant Bear Stearns Asset Backed Securities I LLC was, at all relevant times, a Delaware limited liability company and a limited purpose finance subsidiary of The Bear Stearns Companies, Inc., and an affiliate of Bear Stearns & Co., Inc. Bear Stearns Asset Backed Securities I LLC served as the depositor for three of the securitizations at issue here. As a result of the merger between The Bear Stearns Companies, Inc. and JPMorgan Chase & Co., Bear Stearns Asset Backed Securities I LLC became a wholly-owned subsidiary of JPMorgan Chase & Co.

23. Defendants Bear Stearns & Co. Inc., EMC Mortgage LLC, Structured Asset Mortgage Investments II Inc., Bear Stearns Asset Backed Securities I LLC, J.P. Morgan Securities LLC (as successor-in-interest to Bear Stearns & Co., Inc.), and JPMorgan Chase & Co. (as successor-in-interest to The Bear Stearns Companies, Inc.), are collectively hereinafter referred to as “Bear Stearns.”

24. At all relevant times, Washington Mutual Bank was a federal savings association that provided financial services to consumer and commercial clients. At the time of the securitizations, Washington Mutual Bank was the sole owner of Defendants WaMu Asset Acceptance Corporation and WaMu Capital Corporation. Washington Mutual Bank was also the sponsor of two of the securitizations at issue here. On September 25, 2008, JPMorgan Chase Bank, N.A. entered into a purchase and assumption agreement (the “PAA”) with the FDIC, under which JPMorgan Chase Bank, N.A. agreed to assume substantially all of Washington Mutual Bank’s liabilities and purchase substantially all of Washington Mutual Bank’s assets including WaMu Asset Acceptance Corporation and WaMu Capital Corporation. As such, this action is brought against JPMorgan Chase Bank, N.A. as the successor to Washington Mutual Bank.

25. Defendant WaMu Capital Corporation was, at all relevant times, an SEC-registered broker-dealer principally located at 1301 Second Avenue, WMC 3501A, Seattle, Washington 98101. WaMu Capital Corporation was a wholly-owned subsidiary of Washington Mutual Bank, and served as the underwriter for two of the securitizations at issue here. WaMu Capital Corporation is not currently affiliated with Washington Mutual Bank and is now a wholly-owned subsidiary of JPMorgan Chase Bank, N.A.

26. Defendant WaMu Asset Acceptance Corporation was, at all relevant times, a wholly-owned subsidiary of Washington Mutual Bank and was principally located at 1301 Second Avenue, WMC 3501A, Seattle, Washington 98101. WaMu Asset Acceptance Corporation served as the depositor for two of the securitizations at issue here. WaMu Asset Acceptance Corporation is not currently affiliated with Washington Mutual Bank and is now a wholly-owned subsidiary of JPMorgan Chase Bank, N.A, successor-in-interest to Washington Mutual Bank.

27. Defendants WaMu Capital Corporation, WaMu Asset Acceptance Corporation, and JPMorgan Chase Bank, N.A. (as successor-in-interest to Washington Mutual Bank) are collectively hereinafter referred to as “WaMu.”

IV. FACTUAL BACKGROUND UNDERLYING SEALINK’S CLAIMS

A. The Defendants’ RMBS Purchased By Sealink

28. RMBS, such as the Defendants’ RMBS purchased by Sealink, provide the RMBS investor with an interest in income generated by a pool of mortgages. The actual securities themselves represent a participating interest in an “issuing trust” that holds the mortgage loan pool. Although the structure and underlying collateral of the mortgages varies among the 37 offerings (and 43 tranches) of RMBS that Sealink purchased, they all function in a similar manner: The cash flows from the borrowers who make interest and principal payments

on the individual mortgages comprising the mortgage pool are “passed through” to the certificate holders, like Sealink. Accordingly, failure by those borrowers to make their mortgage payments directly impacts the returns Sealink earns on its investment. Moreover, a default resulting in foreclosure may cause the trust to sell the subject property at a loss – a risk that increases when the appraisals utilized in underwriting the loans overstated the value of the property that serves as collateral for the mortgage. For these reasons, the proper underwriting of the mortgages underlying the RMBS – including verifying the credit quality of the borrower and the value of the real estate – is essential to ensuring that the RMBS perform according to the representations made to investors like Sealink.

29. The first step in creating an RMBS is the acquisition by a “depositor” of an inventory of loans from a “sponsor” or “seller,” which either originates the loans or acquires the loans from other mortgage originators, in exchange for cash. The type of loans in the inventory varies, and can include conventional, fixed-rate or adjustable-rate mortgage loans, secured by first liens, junior liens, or a combination of first and junior liens, with various lifetimes to maturity. The depositor then transfers, or deposits, the acquired pool of loans to an “issuing trust.” Although there can be more than one “sponsor” or “depositor” in a given securitization, in most of the Defendants’ RMBS purchased by Sealink, affiliates and/or subsidiaries of the Defendants acted as the “depositor” and “sponsor” of the securitization.

30. The depositor then securitizes the pool of loans in the issuing trust so that the rights to the cash flows from the pool can be sold to investors. The securitization transactions are structured such that the risk of loss is divided among different levels of investment, or “tranches,” with each having a different level of risk and reward. Typically, losses on the underlying loans—whether due to default, delinquency, or otherwise—are generally applied in reverse order of seniority. As such, the most senior tranches of pass-through securities are rated

by credit rating agencies as the best quality, or “AAA/Aaa.” Junior tranches, which usually obtained lower ratings, ranging from “AA/Aa” to “BB/Ba,” are less insulated from risk, but offer greater potential returns in the form of higher rates of interest. All of the Defendants’ RMBS purchased by Sealink were among the most senior, risk-averse tranches of the relevant offerings and were all rated “AAA/Aaa” by at least one credit rating agency at issuance and when purchased by Sealink.

31. Once the tranches are established, the issuing trust passes the securities back to the depositor, which becomes the issuer of the RMBS. The depositor then passes the RMBS to the underwriter, which offers and sells the securities to Sealink and other investors in exchange for cash that is passed back to the depositor, less any fees collected by the underwriter. Typically, underwriters collect between 0.2% to 1.5% in discounts, concessions or commissions in serving as an underwriter of an RMBS securitization. By serving as a sponsor and depositor of the securitizations, the Defendants earned even more.

32. Defendants were involved in almost every step of the process of selling the RMBS to Sealink. Sponsors such as EMC Mortgage Corporation, J.P. Morgan Mortgage Acquisition Corp. and Washington Mutual Bank provided warehouse financing to the originators that issued the mortgage loans, acquired the mortgage loans from the originators, and initiated the securitization of the mortgage loans into RMBS by transferring the loans to the relevant depositor, such as Structured Asset Mortgage Investments II Inc. The relevant depositor, controlled by Defendants in most of the RMBS purchased by Sealink, obtained the mortgage loans from the relevant sponsor to place into the issuing trust for sale in privately negotiated transactions to investors like Sealink. Importantly, Defendants provided the information that Sealink used to decide whether to purchase the securities.

33. Because the cash flow from the loans in the collateral pool of a securitization is the source of funds to pay the holders of the RMBS issued by the trust, the credit quality of those securities depends upon the credit quality of the loans in the collateral pool. The most important information about the credit quality of the loans is contained in the “loan files” that the mortgage originator develops while making the loans. For residential mortgage loans, each loan file normally contains documents including: the borrower’s application for the loan; verification of the borrower’s income, assets, and employment; references; credit reports on the borrower; an appraisal of the property that will secure the loan and provide the basis for important measures of credit quality, such as loan-to-value ratios.

34. The collateral pool of loans for each securitization usually includes thousands of loans. Instead of each potential investor reviewing thousands of loan files, Defendants, in their roles as a sponsor and underwriter of the securitization, is responsible for gathering, verifying and presenting to potential investors accurate and complete information about the credit quality and characteristics of the loans that are deposited into the trust. Indeed, the single most important factors for Sealink—and, for any investor—in purchasing Defendants’ RMBS were: (1) the ability of the underlying borrowers to repay their mortgages; (2) the ability for the trust to recover its losses in case of default by ensuring the properties were appropriate collateral for the loans and were accurately valued; and (3) the rate of interest received on the RMBS. The loan files themselves are not provided or available to RMBS investors like Sealink, who must instead rely upon Defendants’ representations about the mortgages underlying the RMBS and the process used to select and review those loans.

35. As noted, all of the Defendants’ RMBS purchased by Sealink were rated triple-A at issuance, as set forth below:

	Offering & Tranche	Original Expenditure	Top Three Originators	Initial			Current		
				Moody's	Fitch	S&P	Moody's	Fitch	S&P
1	AABST 2005-5 1A3	\$51,315,000	Aegis Mortgage Corporation	Aaa	AAA	AAA	Baa3	B	AA+/ *_
2	AHM 2005-4 3A1	\$75,000,000	American Home Mortgage Investment Corp.	Aaa		AAA	Caa3		B
3	AHM 2006-3 11A2	\$50,000,000	American Home Mortgage Investment Corp.	Aaa		AAA	C		CC
4	BALTA 2005-9 11A1	\$80,000,000	EMC Mortgage Company Countrywide Home Loans	Aaa		AAA	Caa3		CCC
5	BALTA 2006-1 11A1	\$44,690,000	EMC Mortgage Corporation GMAC Mortgage Corporation Bear Stearns Residential Mortgage Corporation	Aaa		AAA	Caa2		CCC
6	BALTA 2006-3 1A1	\$57,500,000	EMC Mortgage Company	Aaa		AAA	Ca		CCC
7	BALTA 2006-4 11A1	\$75,000,000	EMC Mortgage Company Countrywide Home Loans	Aaa		AAA	Ca		CC
8	BALTA 2006-5 1A1	\$80,000,000	EMC Mortgage Company Countrywide Home Loans	Aaa		AAA	Ca		D
9	BALTA 2006-8 1A2	\$50,000,000	EMC Mortgage Company Mid America Bank fsb	Aaa		AAA	C		D
10	BALTA 2007-2 1A1	\$80,000,000	Bear Stearns Residential Mortgage EMC Mortgage Company	Aaa		AAA	Ca		CC
11	BALTA 2007-2 1A2	\$23,000,000	Bear Stearns Residential Mortgage EMC Mortgage Company	Aaa		AAA	C		D
12	BALTA 2007-3 1A1	\$69,986,328	EMC Mortgage Company Bear Stearns Residential Mortgage	Aaa		AAA	Ca		CC
13	BALTA 2007-3 1A2	\$50,416,151	EMC Mortgage Company Bear Stearns Residential Mortgage	Aaa		AAA	C		D
14	BMAT 2006-1A A2	\$30,209,357	Encore Credit Corporation	Aaa		AAA	Aa3		BBB
15	BSABS 2006-HE3 A2	\$60,000,000	Encore Credit Corporation Opteum Financial Services LLC	Aaa		AAA	Ba2		BB+
16	BSABS 2006-IM1 A1	\$93,977,000	Impac Funding Corporation	Aaa		AAA	Ca		D
17	BSMF 2006-AR2 1A2G	\$152,000,000	EMC Mortgage Company Bear Stearns Residential Mortgage	Aaa		AAA	C		CC
18	BSMF 2006-AR3 1A2G	\$51,418,000	EMC Mortgage Company Bear Stearns Residential Mortgage	Aaa		AAA	C		CCC
19	BSMF 2006-AR3 2A2G	\$57,293,000	Bear Stearns Residential Mortgage EMC Mortgage Company	Aaa		AAA	C		CCC
20	BSMF 2006-AR5 1A3	\$29,888,000	EMC Mortgage Company Bear Stearns Residential Mortgage	Aaa		AAA	C		D
21	BSMF 2007-AR1 1A3	\$12,718,000	Bear Stearns Residential Mortgage EMC Mortgage Company	Aaa		AAA	C		D

	Offering & Tranche	Original Expenditure	Top Three Originators	Initial			Current		
				Moody's	Fitch	S&P	Moody's	Fitch	S&P
22	BSMF 2007-AR4 G1A3	\$45,936,000	Bear Stearns Residential Mortgage EMC Mortgage Company	Aaa		AAA	C		CC
23	BSMF 2007-AR4 G2AB	\$50,000,000	Bear Stearns Residential Mortgage EMC Mortgage Company	Aaa		AAA	C		CCC
24	BSMF 2007-AR5 1A1G	\$50,000,000	Bear Stearns Residential Mortgage EMC Mortgage Company Quicken Loans, Inc	Aaa		AAA	Caa2		B+
25	BSMF 2007-AR5 1A2G	\$50,000,000	Bear Stearns Residential Mortgage EMC Mortgage Company Quicken Loans, Inc	Aaa		AAA	C		CCC
26	CARR 2006-OPT1 A3	\$42,000,000	Option One Mortgage Corporation	Aaa	AAA	AAA	Ba3	CCC	AA
27	CWL 2005-AB4 2A3	\$45,000,000	Countrywide Home Loans	Aaa		AAA	Caa3		CCC
28	GPMF 2005-AR5 3A1	\$57,715,000	GreenPoint Mortgage Funding, Inc.	Aaa		AAA	Ca		CCC
29	IMSA 2006-5 1A1C	\$50,000,000	Impac Funding Corporation American Home Mortgage	Aaa		CC	Caa3		CC
30	IMSA 2007-2 1A1B	\$55,000,000	Impac Funding Corporation	Aaa		AAA	Caa2		CC
31	IMSA 2007-3 A1B	\$40,500,000	Impac Funding Corporation	Aaa		AAA	Caa3		CCC
32	JPALT 2007-A1 1A4	\$42,736,000	Chase Originators Greenpoint Mortgage Funding Countrywide Home Loans Inc.	Aaa		AAA	C		D
33	JPALT 2007-A2 12A1	\$50,000,000	Chase American Home Mortgage Corp. Greenpoint Mortgage Funding	Aaa	AAA	AAA	Ca	C	CCC
34	JPMAC 2006-FRE2 A3	\$40,000,000	Fremont Investment & Loan	Aaa	AAA	AAA	Ba3	CCC	B-
35	LUM 2005-1 A1	\$60,000,000	EMC Mortgage Corp. Countrywide Home Loans Servicing LP PHH Mortgage Corp	Aaa		AAA	Caa3		CCC
36	LUM 2006-7 2A3	\$24,425,000	American Home Mortgage Corp. IndyMac Bank, FSB	Aaa		AAA	C		D
37	NHELI 2007-1 1A4	\$20,000,000	First National Bank of Nevada	Aaa		AAA	Ca		CCC
38	SAMI 2006-AR8 A4CG	\$156,058,000	Countrywide Home Loans SouthStar Funding LLC	Aaa		AAA	C		CCC
39	SAMI 2007-AR3 G14B	\$50,000,000	Countrywide Home Loans	Ba1		AAA	C		CCC

	Offering & Tranche	Original Expenditure	Top Three Originators	Initial			Current		
				Moody's	Fitch	S&P	Moody's	Fitch	S&P
40	SAMI 2007-AR3 G23B	\$53,323,000	Aegis Mortgage Corporation Opteum Financial Services LLC	Aaa		AAA	C		CC
41	SGMS 2006-FRE2 A2D	\$65,000,000	Fremont Investment & Loan	Aaa	AAA	AAA	Ca	C	CCC
42	WMHE 2007-HE1 2A4	\$37,625,000	Long Beach Mortgage Company	Aaa		AAA	Ca		CCC
43	WMHE 2007-HE4 2A3	\$20,000,000	Washington Mutual Bank	Aaa		AAA	Ca		CCC

B. Defendants' Activities In The Subprime Mortgage Arena

37. Defendants' activities as a buyer, financier and securitizer of residential mortgage loans have been the focus of numerous government investigations and prosecutions as well as private investor lawsuits.

38. Defendants' activities were integral to the growth and proliferation of high-risk mortgages that contributed to the financial crisis. Mortgage originators generated profits primarily through the sale of their loans to investment banks like Defendants, and the originators were therefore driven to originate and sell as many loans as possible. Increased demand for mortgages by banks like Defendants, which, as noted above, were competing to sell mortgage-backed products, 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.

39. One of the principal ways originators obtained such capital was by establishing a warehouse line of credit with an investment bank. The line of credit, in turn, would be secured by the very mortgage loans that the investment bank would purchase for securitization.

Investment banks, such as Defendants, earned fees and interest income on those warehouse lines of credit.

C. Defendants' Role Was To Ensure The Quality Of The Loans Backing The RMBS

40. Defendants and the mortgage originators utilized two methods to securitize mortgages into RMBS for sale to investors. Specifically, the originators aggregated the loans into pools and would either (1) deposit them into a trust that would issue RMBS backed by the loans (referred to herein as an "originator securitization"), or (2) sell the loan pools to an investment bank, and the investment bank would then deposit the securities into a trust that would issue securities backed by the loans ("principal securitization"). Under the first approach, Defendants profited by the fees they received by serving as an underwriter of the securities issued by the originator. Under the second approach, referred to herein as a "principal securitization" because the investment bank is securitizing the loans on its own behalf, Defendants profited off of the difference in the price it paid for the loan pools it purchased from the originator and that which it received from the sale of those loans as RMBS.

41. Most of the RMBS purchased by Sealink at issue in this action were securitized through principal securitization, whereby Defendants would first purchase loan pools originated by third-party originators and/or loan sellers and then sell those loans into the RMBS trust as the sponsor of a mortgage securitization. Some investors prefer principal securitizations to originator securitizations because the involvement of a sophisticated investment bank throughout the securitization process indicates a higher degree of oversight and due diligence on the mortgages being selected for inclusion in the RMBS.

42. Indeed, Defendants routinely used an outside third-party due diligence provider, Clayton Holdings, Inc. (“Clayton”), to perform due diligence on the pools of mortgages that Defendants would securitize.

43. Specifically, before purchasing loans from an originator in a principal securitization, Defendants would perform due diligence on the mortgage loan pools by examining three areas—credit, compliance and valuation. First, credit diligence examined a sampling of the individual loans in a given loan pool to assess their quality and compliance with the underwriting guidelines of the originator. An originator’s underwriting guidelines are a critical tool for investors to evaluate the risk of default on the loans that serve as collateral for RMBS. Prudent lending standards—as articulated in an originator’s underwriting guidelines—are addressed in numerous federal guidance statements requiring that federally-regulated institutions adopt well-defined underwriting parameters such as acceptable loan-to-value ratios, debt-to-income ratios, and minimum acceptable credit scores.¹ Those federal standards have been adopted by the subprime industry as a whole through substantially similar guidance published by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators. These standards are intended not only to protect borrowers to ensure that they can repay their loans, but also to ensure the safety and soundness of individual lending institutions and the financial system as a whole. Second, compliance diligence focused on whether the loans were originated in compliance with state, federal and local laws, including predatory lending and truth-in-lending statutes. Third, valuation diligence checked the accuracy of the originator’s reported property valuations of the collateral backing the loans. In a

¹ See, e.g., 12 C.F.R. Part 34, subpart D (Office of the Comptroller of Currency standards); 12 C.F.R. Part 208, subpart C (Board of Governors of the Federal Reserve standards); 12 C.F.R. Part 365 (Federal Deposit Insurance Corporation standards); 12 C.F.R. 560.100 and 12 C.F.R. 560.101 (Office of Thrift Supervision standards); and 12 CFR 701.21 (National Credit Union Administration standards).

principal securitization, this due diligence provides comfort to investors that Defendants has ensured that only mortgages that conform to the requirements of the RMBS at issue are being securitized.

44. In truth, Defendants routinely ignored the pervasive defects that their due diligence identified in the loans they had purchased for securitization. Defendants deliberately concealed these defects from Sealink and other investors in order to increase their own profits, preserve their ongoing business relationships with the RMBS originators, and move risk from their own balance sheet onto investors. Instead, as discussed in further detail below, Defendants used their asymmetrical informational advantage to reap illicit profits.

D. Factors Impacting The Quality Of The Defendants' RMBS

45. Federal regulators have long recognized the importance of sound lending and have for years issued guidance on subprime mortgage products to ensure that borrowers are able to repay their loans. For example, the 1993 Interagency Guidelines for Real Estate Lending, issued jointly by the Board of Governors of the Federal Reserve System (Defendants' primary federal regulator), the Office of the Comptroller of the Treasury, the Federal Depository Insurance Commission, the Office of Thrift Supervision, and the National Credit Union Administration, provided that prudently underwritten real estate loans (subprime or otherwise) "should reflect all relevant credit factors, including . . . the capacity of the borrower, or income from the underlying property, to adequately service the debt." Federal regulators responded to the growth of newer subprime products with enhanced guidance in 1999, warning that if risks associated with subprime lending were "not properly controlled, the agencies consider subprime lending a high-risk activity that is unsafe and unsound."

46. The 1999 guidance recognized the critical role that banks such as Defendants, which comprised the primary market for the sale of subprime loans, played in dictating and enforcing underwriting standards for subprime mortgage lending:

Institutions should not accept loans from originators that do not meet their underwriting criteria, and should regularly review loans offered to ensure that loans purchased continue to meet those criteria. Deterioration in the quality of purchased loans or in the portfolio's actual performance versus expectations requires a thorough reevaluation of the lenders or dealers who originated or sold the loans, as well as a reevaluation of the institution's criteria for underwriting loans and selecting dealers and lenders. Any such deterioration may also highlight the need to modify or terminate the correspondent relationship or make adjustments to underwriting and dealer/lender selection criteria.

47. The guidance also required that "institutions . . . perform an ongoing analysis of subprime loans," "have information systems in place to segment and stratify their portfolio (*e.g.*, by originator, loan-to-value, debt-to-income ratios, credit scores) and produce reports for management to evaluate the performance of subprime loans," determine "whether performance meets expectations," and "consider the source and characteristics of loans that do not meet expectations and make changes in their underwriting policies and loan administration procedures to restore performance to acceptable levels."

48. Indeed, the fundamental basis upon which RMBS are valued is the ability of the borrowers to repay the principal and interest on the underlying loans and the adequacy of the collateral. Thus, proper loan underwriting is critical to assessing the borrowers' ability to repay the loans, and a necessary consideration when purchasing and pooling loans. If the loans pooled in the RMBS suffer defaults and delinquencies in excess of the assumptions built into the certificate payment structure, RMBS investors suffer losses because of the diminished cash flow into the RMBS.

49. Likewise, independent and accurate appraisals of the collateralized real estate are essential to ensure that the mortgage or home equity loan can be satisfied in the event of a default and foreclosure on a particular property. An accurate appraisal is necessary to determine the likely price at which the foreclosed property can be sold and, thus, the amount of money available to pass through to certificate holders.

50. An accurate appraisal is also critical to calculating the loan-to-value (“LTV”) ratio, which is a financial metric commonly used to evaluate the price and risk of RMBS. The LTV ratio expresses the amount of mortgage or loan as a percentage of the appraised value of the collateral property. For example, if a borrower seeks to borrow \$90,000 to purchase a home worth \$100,000, the LTV ratio is equal to \$90,000 divided by \$100,000, or 90%. If, however, the appraised value of the house has been artificially inflated to \$100,000 from \$90,000, the real LTV ratio would be 100% (\$90,000 divided by \$90,000). The term combined loan-to-value ratio (“CLTV”) applies to the situation in which more than one loan is secured by a particular property. For example, a property valued at \$100,000 with a single mortgage of \$50,000 has an LTV of 50%. A similar property with a value of \$100,000 with a first mortgage of \$50,000 and a second lien mortgage of \$25,000 has an aggregate mortgage balance of \$75,000, and a CLTV of 75%.

51. From an investor’s perspective, a high LTV or CLTV ratio represents a greater risk of default on the loan. First, borrowers with a small equity position in the underlying property have “less to lose” in the event of a default. Second, even a slight drop in housing prices might cause a loan with a high LTV ratio to exceed the value of the underlying collateral, which might cause the borrower to default and would prevent the issuing trust from recouping its expected return in the case of foreclosure and subsequent sale of the property.

52. Consequently, the LTV ratios of the loans underlying the RMBS are important to investors' assessment of the value of such RMBS. Prospectuses typically provide information regarding the LTV ratios, and even guarantee certain LTV ratio limits for the loans that will support the RMBS. Each of the prospectus supplements expressly stated, in sum or substance, that none of the mortgage loans have loan-to-value ratios at origination, or with respect to second-lien mortgages, combined loan-to-value ratios at origination, in excess of 100%. As discussed below, this representation was false because a substantial portion of the loans purchased and securitized by Defendants had LTVs and CLTVs that exceeded 100% as calculated under independent property valuations obtained by Defendants.

53. Another important metric when considering a borrower's ability to repay a loan is a borrower's debt-to-income ratio, or DTI, which reflects the increased risk that borrowers whose debt is relatively high compared to their income will default on their loans. While a borrower's current DTI is good measure of his or her capacity to repay a fixed rate mortgage, other loan products, such as adjustable rate mortgages ("ARMs"), have initial "teaser" rates that reset at much higher index rates after a certain period. A "fully indexed rate" accounts for this interest rate reset, and represents the interest rate over the life of the loan, calculated by adding the index rate at origination and the margin that a lender adds to the index rate after the initial "teaser" period. For example, if the current index rate is 2.5%, and if the margin on a particular loan is 3%, the fully indexed rate on that loan is 5.5%. Because the fully indexed rate accounts for the current value of the interest rate index used by an ARM, it is a better measure of a borrower's ability to repay the loan.

54. In 2006, the interagency regulators, responding to the explosive growth of non-traditional mortgage products, provided revised guidance explicitly addressing how institutions should calculate a borrower's DTI. Specifically, the underwriting guidelines state that "[w]hen

an institution offers nontraditional mortgage loan products, underwriting standards should address the effect of a substantial payment increase on the borrower's capacity to repay when loan amortization begins." Moreover, according to the guidance:

For all nontraditional mortgage loan products, an institution's analysis of a borrower's repayment capacity should include an evaluation of their ability to repay the debt by final maturity at the fully indexed rate, assuming a fully amortizing repayment schedule. In addition, for products that permit negative amortization, the repayment analysis should be based upon the initial loan amount plus any balance increase that may accrue from the negative amortization provision.²

55. The federal guidance thus served to provide assurance to investors that investments in instruments backed by subprime mortgages could be safe and conservative products so long as the underlying loans were properly underwritten and scrutinized. Indeed, the federal guidance made clear that heightened attention to and rigorous compliance with strict underwriting standards was critical for institutions engaged in subprime lending due to the unique risks posed by that borrower population. As regulators made clear, in the context of RMBS such as those purchased by Sealink here, representations concerning underwriting guidelines, appraisals, LTVs and DTIs were paramount.

V. THE OFFERING MATERIALS MISREPRESENTED THE UNDERWRITING AND QUALITY OF THE LOANS BACKING THE DEFENDANTS' RMBS

56. Contrary to the statements in the Offering Materials and other communications by Defendants used to solicit Sealink's investment in the RMBS, the originators whose loans served as collateral for Sealink's investments routinely and egregiously violated their stated underwriting guidelines. As a result, the mortgages they originated and sold to Defendants for securitization presented a materially higher risk to investors than represented by Defendants in the Offering Materials.

² All emphasis added unless otherwise indicated.

57. For example, the BALTA 2005-9 prospectus supplement described EMC Mortgage Corporation's underwriting standards, in relevant part, as follows:

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

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

58. Further, like the other originators whose loans backed the Defendants' RMBS purchased by Sealink, the Offering Materials described the documentation that EMC purportedly required prospective borrowers to produce in order to properly obtain a mortgage loan. For example, the BALTA 2005-9 prospectus supplement stated, in relevant part, as follows:

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

59. The Offering Materials also provided information regarding the appraisal standards and practices employed by the Defendants. For example, the BALTA 2006-1 prospectus supplement described EMC Mortgage Corporation's appraisal practices as follows:

Each mortgaged property relating to an EMC mortgage loan has been appraised by a qualified independent appraiser who is approved by each lender. *All appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice*

adopted by the Appraisal Standard Board of the Appraisal Foundation. Each appraisal must meet the requirements of Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac require, among other things, that the appraiser, or its agent on its behalf, personally inspect the property inside and out, verify whether the property was in good condition and verify that construction, if new, had been substantially completed. The appraisal generally will have been based on prices obtained on recent sales of comparable properties, determined in accordance with Fannie Mae and Freddie Mac guidelines. In certain cases 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 may be used.

60. These statements of material fact, and materially similar statements appearing in all of the Defendants' RMBS Offering Materials, were false and misleading when made because the originators discussed below failed to adhere to their established underwriting standards. Indeed, the reckless practices of the mortgage originators whose loans backed the Defendants' RMBS rendered numerous statements concerning the originator's guidelines, the LTV ratios, property appraisal values, and the credit ratings assigned to the RMBS materially false and misleading. As such, the riskiness of the loans underlying the RMBS purchased by Sealink, and thus the true risk profile of the RMBS was materially misrepresented. Through Defendants' intimate knowledge of the originators' underwriting practices gleaned through its warehouse lending relationships with some of the most prominent originators that provided the loans backing the RMBS, Defendants knew of these violations, and concealed them from Sealink.

A. EMC Violated Its Underwriting Guidelines

61. EMC was one of the primary mortgage originators of the loans backing Sealink's Bear Stearns-related RMBS investments. The Offering Materials relied upon by Sealink in purchasing the RMBS backed by loans originated by EMC contained false and misleading statements of material fact regarding its underwriting practices and guidelines. For example,

the BALTA 2007-2 prospectus supplement described EMC's underwriting guidelines, in relevant part, as follows:

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

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

62. The Offering Materials relied upon by Sealink also contained misstatements of material fact concerning the documentation that EMC's prospective borrowers were purportedly required to submit in order to properly obtain a mortgage loan. For example, the BALTA 2007-2 prospectus supplement represented, in relevant part, as follows:

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

63. These statements were false and misleading when made. In fact, EMC systematically disregarded a borrower's ability to pay when originating or acquiring loans, without regard to any "compensating factors."

64. The Offering Materials for the BALTA 2007-2 used to solicit Sealink's purchase of Bear Stearns RMBS backed by EMC-originated loans also represented that EMC ensured

proper appraisals when issuing loans to borrowers. For example, the BALTA 2007-2 prospectus supplement explained that:

Each mortgaged property relating to an EMC mortgage loan has been appraised by a qualified independent appraiser who is approved by each lender. *All appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standard Board of the Appraisal Foundation.* Each appraisal must meet the requirements of Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac require, among other things, that the appraiser, or its agent on its behalf, personally inspect the property inside and out, verify whether the property was in good condition and verify that construction, if new, had been substantially completed. The appraisal generally will have been based on prices obtained on recent sales of comparable properties, determined in accordance with Fannie Mae and Freddie Mac guidelines. In certain cases 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 may be used.

65. These statements were false and misleading when made. In order to increase loan origination volume, EMC routinely originated or acquired mortgages that were issued utilizing biased appraisers and used inflated appraisals as a matter of course to issue loans to borrowers who would not otherwise qualify for the mortgage.

B. Countrywide Violated Its Underwriting Guidelines

66. Countrywide originated a substantial percentage of the loans in several of the Defendants' RMBS purchased by Sealink. The Offering Materials for such RMBS contained false and misleading statements of material fact regarding Countrywide's underwriting standards and practices. For example, the prospectus supplement for the BALTA 2006-4 RMBS represented Countrywide's underwriting guidelines, in relevant part, as follows:

As part of its evaluation of potential borrowers, Countrywide Home Loans generally requires a description of income. If required by its underwriting guidelines, Countrywide Home Loans obtains employment verification providing current and historical income information and/or a telephonic employment

confirmation. Such employment verification may be obtained, either through analysis of the prospective borrower's recent pay stub and/or W-2 forms for the most recent two years, relevant portions of the most recent two years' tax returns, or from the prospective borrower's employer, wherein the employer reports the length of employment and current salary with that organization. Self-employed prospective borrowers generally are required to submit relevant portions of their federal tax returns for the past two years.

* * *

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

* * *

The nature of the information that a borrower is required to disclose and whether the information is verified depends, in part, on the documentation program used in the origination process. ***In general under the Full Documentation Loan Program (the "Full Documentation Program"), each prospective borrower is required to complete an application which includes information with respect to the applicant's assets, liabilities, income, credit history, employment history and other personal information.*** Self-employed individuals are generally required to submit their two most recent federal income tax returns. Under the Full Documentation Program, the underwriter verifies the information contained in the application relating to employment, income, assets and mortgages.

* * *

Except with respect to the mortgage loans originated pursuant to its Streamlined Documentation Program, whose values were confirmed with a Fannie Mae proprietary automated valuation

model, Countrywide Home Loans obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans. The appraisers inspect and appraise the proposed mortgaged property and verify that the property is in acceptable condition. Following each appraisal, the appraiser prepares a report which includes a market data analysis based on recent sales of comparable homes in the area and, when deemed appropriate, a replacement cost analysis based on the current cost of constructing a similar home. ***All appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect.***

67. These statements were false and misleading when made in that they misrepresented that Countrywide: (i) systematically failed to follow its stated underwriting standards; (ii) allowed pervasive exceptions to its stated underwriting standards in the absence of compensating factors; (iii) disregarded credit quality in favor of generating increased loan volume; and (iv) violated its stated appraisal standards and in many instances materially inflated the values of the underlying mortgage properties in the loan origination and underwriting process.

C. American Home Violated Its Underwriting Guidelines

68. American Home originated a substantial percentage of the loans for several of the RMBS purchased by Sealink. The Offering Materials for such RMBS contained false and misleading statements of material fact regarding American Home's underwriting standards and practices. For example, the prospectus supplement for the AHM 2005-4 RMBS described American Home's underwriting guidelines, in relevant part, as follows:

American Home's underwriting philosophy is to weigh all risk factors inherent in the loan file, giving consideration to the individual transaction, borrower profile, the level of documentation provided and the property used to collateralize the debt. Because each loan is different, American Home expects and encourages underwriters to use professional judgment based on their experience in making a lending decision.

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

* * *

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

* * *

Every American Home mortgage loan is secured by a property that has been appraised by a licensed appraiser in accordance with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. The appraisers perform on site inspections of the property and report on the neighborhood and property condition in factual and specific terms. Each appraisal contains an opinion of value that represents the appraiser's professional conclusion based on market data of sales of comparable properties, a logical analysis with adjustments for differences between the comparable sales and the subject property and the appraiser's judgment. In addition, each appraisal is reviewed for accuracy and consistency by an American Home underwriter or a mortgage insurance company contract underwriter.

* * *

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

69. The above statements of material fact were false and misleading when they were made because they misrepresented that American Home: (i) systematically failed to follow its

own underwriting guidelines; (ii) allowed pervasive exceptions to its underwriting standards in the absence of qualifying compensating factors; (iii) disregarded credit quality to meet the demand for loans to securitize into RMBS; and (iv) violated its stated appraisal standards, and, in many instances, materially inflated the values of the underlying mortgaged properties in the loan origination and underwriting process.

D. Fremont Violated Its Underwriting Guidelines

70. Fremont originated a substantial percentage of the loans for several of the RMBS purchased by Sealink. The Offering Materials for such RMBS contained false and misleading statements of material fact regarding Fremont's underwriting standards and practices. For example, the prospectus supplement for the JPMAC 2006-FRE2 RMBS described Fremont's underwriting guidelines, in relevant part, as follows:

Mortgage loans are underwritten in accordance with Fremont's current underwriting programs, referred to as the Scored Programs ("Scored Programs"), subject to various exceptions as described in this section. Fremont began originating mortgage loans pursuant to Scored Programs in 2001. ***Fremont's underwriting guidelines 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.***

* * *

All of the mortgage loans were underwritten by Fremont's underwriters having the appropriate approval authority. Each underwriter is granted a level of authority commensurate with their proven judgment, experience and credit skills. ***On a case by case basis, Fremont may determine that, based upon compensating factors, a prospective mortgagor not strictly qualifying under the underwriting risk category guidelines described below is nonetheless qualified to receive a loan, i.e., an underwriting exception. Compensating factors may include, but are not limited to, low loan-to-value ratio, low debt to income ratio, substantial liquid assets, good credit history, stable employment and time in residence at the applicant's current address.*** It is expected that a substantial portion of the mortgage loans may represent such underwriting exceptions.

* * *

Fremont's underwriting guidelines are applied in accordance with a procedure which complies with applicable federal and state laws and regulations and require an appraisal of the mortgaged property, and if appropriate, a review appraisal. Generally, initial appraisals are provided by qualified independent appraisers licensed in their respective states. Review appraisals may only be provided by appraisers approved by Fremont. In some cases, Fremont 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 to become approved to do business with Fremont. 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.

* * *

Fremont conducts a number of quality control procedures, including a post-funding review as well as a full reunderwriting of a random selection of loans to assure asset quality. Under the funding review, all loans are reviewed to verify credit grading, documentation compliance and data accuracy. Under the asset quality procedure, a random selection of each month's originations is reviewed. *The loan review confirms the existence and accuracy of legal documents, credit documentation, appraisal analysis and underwriting decision.* A report detailing review findings and level of error is sent monthly to each loan production office for response. *The review findings and branch responses are then reviewed by Fremont's senior management.* Adverse findings are tracked monthly. This review procedure allows Fremont to assess programs for potential guideline changes, program enhancements, appraisal policies, areas of risk to be reduced or eliminated and the need for additional staff training.

71. The above statements of material fact were false and misleading when made because, in truth, Fremont: (i) abandoned its underwriting guidelines, verification procedures and quality control standards in order to increase loan originations; (ii) allowed pervasive exceptions

to its underwriting guidelines in the absence of existing compensating factors; (iii) consistently failed to properly document prospective borrowers' ability to repay their mortgage loans; and (iv) systematically disregarded its stated appraisal standards and in many instances materially inflated the values of the underlying mortgaged properties in the loan origination and underwriting process.

E. Washington Mutual Bank Violated Its Underwriting Guidelines

72. Washington Mutual Bank ("WaMu Bank") originated or acquired a substantial percentage of the loans for several of the RMBS purchased by Sealink. The Offering Materials for such RMBS contained false and misleading statements of material fact regarding WaMu Bank's underwriting standards and practices. For example, the prospectus supplement for the WMHE 2007-HE1 RMBS described WaMu Bank's underwriting guidelines, in relevant part, as follows:

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 WMB sub-prime underwriting standards described in this section. *The WMB sub-prime underwriting standards 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.*

* * *

Prospective borrowers are required to complete a standard loan application in which they provide financial information regarding the amount of income and related sources, liabilities and related monthly payments, credit history and employment history, as well as certain other personal information. During the underwriting or re-underwriting process, *the sponsor reviews and verifies* the prospective borrower's sources of income (only under the full documentation residential loan program), calculates the amount of income from all such sources indicated on the loan application, reviews the credit history and credit score(s) of the prospective borrower and calculates the debt-to-income ratio to

determine the prospective borrower's ability to repay the loan, and determines whether the mortgaged property complies with the WMB sub-prime underwriting standards.

* * *

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.

* * *

Underwriting Exceptions

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 WMB sub-prime 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.

Documentation Programs

The mortgage loans have been, or will be, originated or re-underwritten upon acquisition, generally in accordance with the WMB sub-prime underwriting standards under the WMB sub-prime full documentation, limited documentation or stated income documentation residential loan programs.

* * *

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.

73. The above statements of material fact were false and misleading when made because in truth, WaMu Bank: (i) abandoned its underwriting guidelines, verification procedures and quality control standards in order to increase loan originations; (ii) allowed pervasive exceptions to the company's underwriting guidelines in the absence of existing compensating factors; (iii) consistently failed to properly document prospective borrowers' ability to repay their mortgage loans; and (iv) systematically disregarded its stated appraisal standards and in many instances materially inflated the values of the underlying mortgaged properties in the loan origination and underwriting process.

F. Aegis Mortgage Corporation Violated Its Underwriting Guidelines

74. Aegis Mortgage Corporation ("Aegis") originated a substantial percentage of the loans for several of the RMBS purchased by Sealink. The Offering Materials for such RMBS contained false and misleading statements of material fact regarding Aegis' underwriting standards and practices. For example, the prospectus supplement for the SAMI 2007-AR3 RMBS described Aegis' underwriting guidelines, in relevant part, as follows:

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

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

Generally, each mortgagor will have been required to complete an application designed to provide to the lender pertinent credit information concerning the mortgagor. The mortgagor will have given information with respect to its assets, liabilities, income (except as described below), credit history, employment history and personal information, and will have furnished the lender with authorization to obtain a credit report which summarizes the mortgagor's credit history. In the case of investment properties and two- to four-unit dwellings, income derived from the mortgaged property may have been considered for underwriting purposes, in addition to the income of the mortgagor from other sources. With respect to second homes or vacation properties, no income derived from the property will have been considered for underwriting purposes.

* * *

Each mortgaged property relating to an AEGIS mortgage loan has been appraised by a qualified independent appraiser who is approved by each lender. *All appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standard Board of the Appraisal Foundation. Each appraisal must meet the requirements of Fannie Mae and Freddie Mac.* Fannie Mae and Freddie Mac require, among other things, that the appraiser, or its agent on its behalf, personally inspect the property inside and out, verify whether the property was in good condition and verify that construction, if new, had been substantially completed. The appraisal generally will have been based on prices obtained on recent sales of comparable properties, determined in accordance with Fannie Mae and Freddie Mac guidelines. In certain cases 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 may be used.

75. The above statements of material fact were false and misleading when made because in truth, Aegis: (i) abandoned its underwriting guidelines, verification procedures and

quality control standards in order to increase loan originations; (ii) allowed pervasive exceptions to the company's underwriting guidelines in the absence of existing compensating factors; (iii) consistently failed to properly document prospective borrowers' ability to repay their mortgage loans; and (iv) systematically disregarded its stated appraisal standards and in many instances materially inflated the values of the underlying mortgaged properties in the loan origination and underwriting process.

G. Impac Funding Corporation Violated Its Underwriting Guidelines

76. Impac Funding Corporation ("Impac") originated a substantial percentage of the loans for several of the RMBS purchased by Sealink. The Offering Materials for such RMBS contained false and misleading statements of material fact regarding Impac's underwriting standards and practices. For example, the prospectus supplement for the BSABS 2006-IM1 RMBS described Impac's underwriting guidelines, in relevant part, as follows:

Approximately 90.90% of the mortgage loans were underwritten pursuant to, or in accordance with, the standards of the Originator's Progressive Series Program.

* * *

The Progressive Series Program

*General. The underwriting guidelines utilized in the Progressive Series Program, as developed by the Originator, are intended to assess the borrower's ability and willingness to repay the mortgage loan obligation and to assess the adequacy of the mortgaged property as collateral for the mortgage loan. The Progressive Series Program is designed to meet the needs of borrowers with excellent credit, as well as those whose credit has been adversely affected. . . . The philosophy of the Progressive Series Program is that no single borrower characteristic should automatically determine whether an application for a mortgage loan should be approved or disapproved. **Lending decisions are based on a risk analysis assessment after the review of the entire mortgage loan file. Each mortgage loan is individually underwritten with emphasis placed on the overall quality of the mortgage loan.***

* * *

Each prospective borrower completes a mortgage loan application which includes information with respect to the applicant's liabilities, income, credit history, employment history and personal information. The Originator requires a credit report on each applicant from a credit reporting company. The report typically contains information relating to credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcies, repossessions or judgments.

* * *

Appraisals. The Originator does not publish an approved appraiser list for the conduit seller. Each conduit seller maintains its own list of appraisers, provided that each appraiser must:

- be a state licensed or certified appraiser;
- *meet the independent appraiser requirements for staff appraisers, or, if appropriate, be on a list of appraisers specified by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC and the Office of Thrift Supervision under their respective real estate appraisal regulations adopted in accordance with Title XI of the Financial Institutions Reform Recovery and Enforcement Act of 1989*, regardless of whether the seller is subject to those regulations;
- be experienced in the appraisal of properties similar to the type being appraised;
- be actively engaged in appraisal work; and
- subscribe to a code of ethics that is at least as strict as the code of the American Institute of Real Estate Appraisers or the Society of Real Estate Appraisers.

* * *

Variations. *The Originator uses the following parameters as guidelines only. On a case-by-case basis, the Originator may determine that the prospective mortgagor warrants an exception outside the standard program guidelines.* An exception may be allowed if the loan application reflects certain compensating factors, including instances where the prospective mortgagor:

- has demonstrated an ability to save and devote a greater portion of income to basic housing needs;
- may have a potential for increased earnings and advancement because of education or special job training, even if the prospective mortgagor has just entered the job market;
- has demonstrated an ability to maintain a debt free position;
- may have short term income that is verifiable but could not be counted as stable income because it does not meet the remaining term requirements; and
- has net worth substantial enough to suggest that repayment of the loan is within the prospective mortgagor's ability.

77. The above statements of material fact were false and misleading when made because in truth, Impac: (i) abandoned its underwriting guidelines, verification procedures and quality control standards in order to increase loan originations; (ii) allowed pervasive exceptions to the company's underwriting guidelines in the absence of existing compensating factors; (iii) consistently failed to properly document prospective borrowers' ability to repay their mortgage loans; and (iv) systematically disregarded its stated appraisal standards and in many instances materially inflated the values of the underlying mortgaged properties in the loan origination and underwriting process.

H. GreenPoint Mortgage Funding, Inc. Violated Its Underwriting Guidelines

78. GreenPoint Mortgage Funding, Inc. ("GreenPoint") originated a substantial percentage of the loans for several of the RMBS purchased by Sealink. The Offering Materials for such RMBS contained false and misleading statements of material fact regarding GreenPoint's underwriting standards and practices. For example, the prospectus supplement for

the JPALT 2007-A1 RMBS described GreenPoint's underwriting guidelines, in relevant part, as follows:

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

* * *

In determining whether a prospective borrower has sufficient monthly income available to meet the borrower's monthly obligation on the proposed mortgage loan and monthly housing expenses and other financial obligations, GreenPoint generally considers the ratio of those amounts to the proposed borrower's monthly gross income. These ratios vary depending on a number of underwriting criteria, including loan-to-value ratios ("LTV"), and are determined on a loan-by-loan basis. The ratios generally are limited to 40% but may be extended to 50% with adequate compensating factors, such as disposable income, reserves, higher FICO credit score, or lower LTV's.

* * *

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

* * *

In determining the adequacy of the property as collateral, an independent appraisal is generally made of each property

considered for financing. *All appraisals are required to conform the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standard Board of the Appraisal Foundation. Each appraisal must meet the requirements of Fannie Mae and Freddie Mac.* The requirements of Fannie Mae and Freddie Mac require, among other things, that the appraiser, or its agent on its behalf, personally inspect the property inside and out, verify whether the property is in a good condition and verify that construction, if new, has been substantially completed. The appraisal generally will have been based on prices obtained on recent sales of comparable properties determined in accordance with Fannie Mae and Freddie Mac guidelines.

79. The above statements of material fact were false and misleading when made because in truth, GreenPoint: (i) abandoned its underwriting guidelines, verification procedures and quality control standards in order to increase loan originations; (ii) allowed pervasive exceptions to the company's underwriting guidelines in the absence of existing compensating factors; (iii) consistently failed to properly document prospective borrowers' ability to repay their mortgage loans; and (iv) systematically disregarded its stated appraisal standards and in many instances materially inflated the values of the underlying mortgaged properties in the loan origination and underwriting process.

I. Encore Credit Corporation Violated Its Underwriting Guidelines

80. Encore Credit Corporation ("Encore") originated a substantial percentage of the loans for several of the RMBS purchased by Sealink. The Offering Materials for such RMBS contained false and misleading statements of material fact regarding Encore's underwriting standards and practices. For example, the prospectus supplement for the BSABS 2006-HE3 RMBS described Encore's underwriting guidelines, in relevant part, as follows:

Encore has developed internal underwriting processes and criteria that they believe generate quality loans and give it the ability to approve and fund loans quickly. *Encore's internal underwriting guidelines are designed to help it evaluate a borrower's credit*

history, capacity, willingness and ability to repay the loan, and the value and adequacy of the collateral.

* * *

If an individual loan application does not meet Encore's formal written underwriting guidelines, but the underwriter is confident both that the borrower has the ability and willingness to pay and that the property provides adequate collateral for the borrower's obligations, Encore's underwriters can make underwriting exceptions up to certain limits within their formal exception policies and approval authorities. All of Encore's loan programs have tiered exception levels whereby approval of certain exceptions, such as LTV ratio exceptions, loan amount exceptions, and debt-to-income exceptions, are escalated to higher loan approval authority levels.

* * *

In the event that an underwriting exception is required for approval, only specifically designated personnel, dictated by the exception needed, are authorized to make such exceptions.

* * *

The underwriting of a mortgage loan to be originated or purchased by Encore generally includes a review of the completed loan package, which includes the loan application, a current appraisal, a preliminary title report and a credit report. All loan applications and all closed loans offered to Encore for purchase must be approved by Encore in accordance with its underwriting criteria.

* * *

Verification of Borrower's Income. *Encore's mortgage programs include several levels of documentation used to verify the borrower's income. . . . A verification of employment and position is done for each stated income loan.*

Appraisal Review. An assessment of the adequacy of the real property as collateral for the loan is primarily based upon an appraisal of the property and a calculation of the LTV ratio of the loan applied for and the combined LTV to the appraised value of the property at the time of origination. *Appraisers determine 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.*

* * *

Quality Control. *Encore's quality control program is intended to monitor loan production with the overall goal of improving the quality of loan production generated by Encore's retail loan operation and independent mortgage broker channel.*

81. The above statements of material fact were false and misleading when made because in truth, Encore: (i) abandoned its underwriting guidelines, verification procedures and quality control standards in order to increase loan originations; (ii) allowed pervasive exceptions to the company's underwriting guidelines in the absence of existing compensating factors; (iii) consistently failed to properly document prospective borrowers' ability to repay their mortgage loans; and (iv) systematically disregarded its stated appraisal standards and in many instances materially inflated the values of the underlying mortgaged properties in the loan origination and underwriting process.

J. Opteum Financial Services, LLC Violated Its Underwriting Guidelines

82. Opteum Financial Services, LLC ("Opteum") originated a substantial percentage of the loans for several of the RMBS purchased by Sealink. The Offering Materials for such RMBS contained false and misleading statements of material fact regarding Opteum's underwriting standards and practices. For example, the prospectus supplement for the SAMI 2007-AR3 RMBS described Opteum's underwriting guidelines, in relevant part, as follows:

General. Loans originated under OFS's Five Star Series™ program, the Five Star Plus™ program as described within the guidelines originated through OFS's retail platform is designed for borrowers who have demonstrated an excellent credit history. *OFS generally – includes in its origination process by performing a pre-funding audit on each mortgage loan originated by OFS's retail and wholesale origination platforms including a review for compliance with the related program parameters and accuracy of the legal documents.* OFS generally performs verbal audits of the borrowers' income or employment and a verification of social security numbers of each borrower, and reviews the property

ownership history that is provided by outside services prior to the disbursement of the loan. For closed loans purchased under OFS's conduit flow programs, generally, an eligibility review is performed on each loan to insure compliance to the related program parameters and to review the accuracy of the legal documentation used at the closing of the loan transaction. The conduit-seller makes certain representations and warranties, in its respective agreement with OFS, for each of the mortgage loans purchased by the conduit. ***OFS also includes in its origination process a post-closing quality control review, which covers a minimum of 10% of the mortgage loans originated. This review generally includes a complete re-verification of income, liquid assets and employment that the borrower used to qualify for the mortgage loan, as well as procedures to detect evidence of fraudulent documentation and/or imprudent behavior or activity during the processing and funding of the mortgage loan.***

Exceptions. The following program parameters that are used by OFS are guidelines only. ***OFS, on a case-by-case basis, may determine that the prospective mortgagor warrants an exception outside the standard program guidelines. Exceptions may be granted if the loan application reflects certain compensating factors,*** including instances where the prospective mortgagor has demonstrated an ability to save and devote a greater portion of income to basic housing needs. Other compensating factors may include a low loan-to-value; an excellent mortgage pay history; the primary borrower possesses a higher credit score than required; a substantial net worth to suggest that the repayment of the loan is within the prospective mortgagor's ability and/or the borrower has demonstrated an ability to maintain a debt-free position and the value of the mortgaged property as collateral for the loan is adequate.

* * *

Appraisals. Neither OFS nor OFS's conduit division publishes an approved appraiser list. Each appraisal is completed on the applicable Fannie Mae Uniform Residential Appraisal Report along with applicable schedules and addendums if required. Each appraiser must be a state licensed or certified appraiser and meet the independent appraiser requirements for staff appraisers, or, if appropriate, be on a list of appraisers specified by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC and the Office of Thrift Supervision under their respective real estate appraisal regulations adopted in accordance with Title XI of the Financial Institutions Reform Recovery and Enforcement Act of 1989, regardless of

whether OFS is subject to those regulations. In addition, each appraiser must be actively engaged in appraisal work, must be experienced, and must subscribe to a code of ethics that is at least as strict as the code of the American Institute of Real Estate Appraisers or the Society of Real Estate Appraisers. *All appraisals must be in writing and preformed [sic] in strict accordance with all applicable local, state and federal laws, regulations and orders. In addition, all appraisals conform to the current Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation. Generally, each appraisal is reviewed in detail for completeness, accuracy and appraising logic in accordance with Fannie Mae guidelines.*

83. The above statements of material fact were false and misleading when made because in truth, Opteum: (i) abandoned its underwriting guidelines, verification procedures and quality control standards in order to increase loan originations; (ii) allowed pervasive exceptions to the company's underwriting guidelines in the absence of existing compensating factors; (iii) consistently failed to properly document prospective borrowers' ability to repay their mortgage loans; and (iv) systematically disregarded its stated appraisal standards and in many instances materially inflated the values of the underlying mortgaged properties in the loan origination and underwriting process.

K. The Chase Originators Violated Their Underwriting Guidelines

84. Chase Home Finance LLC and JPMorgan Chase Bank, N.A. (collectively, the "Chase Originators") originated a substantial percentage of the loans for several of the RMBS purchased by Sealink. The Offering Materials for such RMBS contained false and misleading statements of material fact regarding Chase's underwriting standards and practices. For example, the prospectus supplement for the JPALT 2007-A2 RMBS described Chase's underwriting guidelines, in relevant part, as follows:

The depositor believes that such Mortgage Loans subject to the exception in the previous sentence were originated generally in

accordance with the underwriting guidelines set forth under the heading “The Originators—General Underwriting Guidelines” in this prospectus supplement.

* * *

General Underwriting Guidelines

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, as well as an authorization to apply for a credit report which summarizes the borrower’s credit history with local merchants and lenders and any record of bankruptcy. In most cases, an employment verification is obtained from an independent source (typically the borrower’s employer), which verification reports, among other things, the length of employment with that organization, the current salary, and whether it is expected that the borrower will continue such employment in the future.

* * *

Based on the data provided in the application and certain verification (if required), ***a determination is made by the original lender that the mortgagor’s monthly income (if required to be stated) will be sufficient to enable the mortgagor to meet its monthly obligations on the mortgage loan and other expenses related to the property*** such as property taxes, utility costs, standard hazard insurance and other fixed obligations other than housing expenses.

* * *

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.***

* * *

From time to time, exceptions to a lender's underwriting policies may be made. Such exceptions may be made on a loan by loan basis at the discretion of the lender's underwriter. Exceptions may be made after careful consideration of certain mitigating factors such as borrower liquidity, employment and residential stability and local economic conditions.

85. The above statements of material fact were false and misleading when made because in truth, the Chase Originators: (i) abandoned their underwriting guidelines, verification procedures and quality control standards in order to increase loan originations; (ii) allowed pervasive exceptions to their underwriting guidelines in the absence of existing compensating factors; (iii) consistently failed to properly document prospective borrowers' ability to repay their mortgage loans; and (iv) systematically disregarded their stated appraisal standards and in many instances materially inflated the values of the underlying mortgaged properties in the loan origination and underwriting process.

L. Quicken Loans Inc. Violated Its Underwriting Guidelines

86. Quicken Loans Inc. ("Quicken") originated a substantial percentage of the loans for several of the RMBS purchased by Sealink. The Offering Materials for such RMBS contained false and misleading statements of material fact regarding Quicken's underwriting standards and practices. For example, the prospectus supplement for the BSMF 2007-AR5 RMBS described Quicken's underwriting guidelines, in relevant part, as follows:

The program requirements for the Quicken Loans' 5-Year and 7-Year Secure Option ARM Programs follow generally accepted mortgage industry underwriting guidelines for loans of this type and *are intended to evaluate the borrower's credit standing, repayment ability, and the value and adequacy of the proposed mortgaged property as collateral.*

* * *

In addition to the above program requirements, in order to qualify for the 5-Year or 7-Year Secure Option ARM program, borrowers generally have to meet the following requirements:

- A debt-to-income ratio of 45% or less;
- A minimum asset reserve equal to two months worth of principal, interest, taxes and insurance payments (six months reserve requirement on second home and investment properties);
- A maximum mortgage late frequency of 1 times 30 days delinquent in the past 12 months;
- A minimum of 2 years since the date of the borrower's last bankruptcy discharge or dismissal;
- A minimum of 3 years since the date the borrower's last foreclosure was reported, or from the date of the borrower's most recent "120+ days" mortgage payment delinquency.

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

* * *

In determining the adequacy of the home proposed as collateral, an independent mortgage loan appraisal is obtained for each property considered for financing. ***All appraisals obtained are required to conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation and are required to be on forms generally acceptable to Fannie Mae or Freddie Mac.*** The appraiser is required to inspect the property, and verify that it is in acceptable condition and that any recent construction is complete. The appraisal is based on the appraiser's opinion of values, giving appropriate weight to both the market value of comparable homes and the cost of replacing the improvements to the proposed property. The value and type of the property indicated in the appraisal obtained by Quicken Loans must support the initial loan amount in accordance with the program's loan-to-value requirements at the time the loan is originated. No assurance can be given that the value of any property will remain at the level indicated on the appraisal or other assessment tool.

87. The above statements of material fact were false and misleading when made because in truth Quicken: (i) abandoned its underwriting guidelines, verification procedures and quality control standards in order to increase loan originations; (ii) allowed pervasive exceptions to the company's underwriting guidelines in the absence of existing compensating factors; (iii) consistently failed to properly document prospective borrowers' ability to repay their mortgage loans; and (iv) systematically disregarded its stated appraisal standards and in many instances materially inflated the values of the underlying mortgaged properties in the loan origination and underwriting process.

M. IndyMac Bank, FSB Violated Its Underwriting Guidelines

88. IndyMac Bank, FSB ("IndyMac") originated a substantial percentage of the loans for at least one of the RMBS purchased by Sealink. The Offering Materials for such RMBS contained false and misleading statements of material fact regarding IndyMac's underwriting standards and practices. For example, the prospectus supplement for the LUM 2006-7 RMBS described IndyMac's underwriting guidelines, in relevant part, as follows:

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

* * *

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

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

* * *

In addition to the FICO credit score, other information regarding a borrower's credit quality is considered in the loan approval process, such as the number and degree of any late mortgage or rent payments within the preceding 12-month period, the age of any foreclosure action against any property owned by the borrower, the age of any bankruptcy action, the number of seasoned tradelines reflected on the credit report and any outstanding judgments, liens, charge-offs or collections.

* * *

IndyMac Bank originates and purchases loans that have been originated under one of seven documentation programs: Full/Alternate, FastForward, Bank Statement, Stated Income, No Income/No Asset, No Ratio and No Doc.

Under the Full/Alternate Documentation Program, the prospective borrower's employment, income and assets are verified through written or telephonic communications. All loans may be submitted under the Full/Alternate Documentation Program. The Full/Alternate Documentation Program also provides for alternative methods of employment verification generally using W-2 forms or pay stubs. Borrowers applying under the Full/Alternate Documentation Program may, based on certain credit and loan characteristics, qualify for IndyMac Bank's FastForward program and be entitled to income and asset documentation relief. Borrowers who qualify for FastForward must state their income, provide a signed Internal Revenue Service Form 4506 (authorizing IndyMac Bank to obtain copies of their tax returns), and state their assets; IndyMac Bank does not require any verification of income or assets under this program.

* * *

To determine the adequacy of the property to be used as collateral, an appraisal is generally made of the subject property in accordance with the Uniform Standards of Profession Appraisal Practice. The appraiser generally inspects the property, analyzes data including the sales prices of comparable properties and issues an opinion of value using a Fannie Mae/Freddie Mac appraisal report form, or other acceptable form. In some cases, an automated valuation model (AVM) may be used in lieu of an appraisal. AVMs are computer programs that use real estate information, such as demographics, property characteristics, sales

prices, and price trends to calculate a value for the specific property. The value of the property, as indicated by the appraisal or AVM, must support the loan amount.

89. The above statements of material fact were false and misleading when made because in truth IndyMac: (i) abandoned its underwriting guidelines, verification procedures and quality control standards in order to increase loan originations; (ii) allowed pervasive exceptions to the company's underwriting guidelines in the absence of existing compensating factors; (iii) consistently failed to properly document prospective borrowers' ability to repay their mortgage loans; and (iv) systematically disregarded its stated appraisal standards and in many instances materially inflated the values of the underlying mortgaged properties in the loan origination and underwriting process.

N. Option One Mortgage Corporation Violated Its Underwriting Guidelines

90. Option One Mortgage Corporation ("Option One") originated a substantial percentage of the loans for at least one of the RMBS purchased by Sealink. The Offering Materials for such RMBS contained false and misleading statements of material fact regarding Option One's underwriting standards and practices. For example, the prospectus supplement for the CARR 2006-OPT1 RMBS described Option One's underwriting guidelines, in relevant part, as follows:

The Mortgage Loans will have been originated generally in accordance with Option One's Guidelines (the "Option One Underwriting Guidelines"). *The Option One Underwriting Guidelines are primarily intended to assess the value of the mortgaged property, to evaluate the adequacy of such property as collateral for the mortgage loan and to assess the applicant's ability to repay the mortgage loan.* The Mortgage Loans were also generally underwritten with a view toward resale in the secondary market. The Mortgage Loans generally bear higher rates of interest than mortgage loans that are originated in accordance with customary Fannie Mae and Freddie Mac standards.

On a case-by-case basis, exceptions to the Option One Underwriting Guidelines are made where compensating factors exist.

* * *

Each mortgage loan applicant completes an application that includes information with respect to the applicant's liabilities, income, credit history, employment history and personal information.

* * *

Mortgaged properties that are to secure mortgage loans generally are appraised by qualified independent appraisers. Such appraisers inspect and appraise the subject property and verify that such property is in acceptable condition. Following each appraisal, the appraiser prepares a report which includes a market value analysis based on recent sales of comparable homes in the area and, when deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home. ***All appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation and are generally on forms acceptable to Fannie Mae and Freddie Mac.***

* * *

Option One Underwriting Guidelines require a reasonable determination of an applicant's ability to repay the loan. Such determination is based on a review of the applicant's source of income, calculation of a debt service-to-income ratio based on the amount of income from sources indicated on the loan application or similar documentation, a review of the applicant's credit history and the type and intended use of the property being financed. ***Except with respect to the No Documentation program that is described below, the Option One Underwriting Guidelines require verification or evaluation of the income of each applicant*** and, for purchase transactions, verification of the seasoning or source of funds (in excess of \$2,500) required to be deposited by the applicant into escrow.

91. The above statements of material fact were false and misleading when made because in truth Option One: (i) abandoned its underwriting guidelines, verification procedures

and quality control standards in order to increase loan originations; (ii) allowed pervasive exceptions to the company's underwriting guidelines in the absence of existing compensating factors; (iii) consistently failed to properly document prospective borrowers' ability to repay their mortgage loans; and (iv) systematically disregarded its stated appraisal standards and in many instances materially inflated the values of the underlying mortgaged properties in the loan origination and underwriting process.

O. PHH Mortgage Corporation Violated Its Underwriting Guidelines

92. PHH Mortgage Corporation ("PHH") originated a substantial percentage of the loans for at least one of the RMBS purchased by Sealink. The Offering Materials for such RMBS contained false and misleading statements of material fact regarding PHH's underwriting standards and practices. For example, the prospectus supplement for the LUM 2005-1 RMBS described PHH's underwriting guidelines, in relevant part, as follows:

The application of the underwriting standards represent a balancing of several factors that may affect the ultimate recovery of the loan amount, including but not limited to, the applicant's credit standing and ability to repay the loan, as well as the value and adequacy of the mortgaged property as collateral. PHH may adapt its underwriting guidelines based upon the nature of a specific private-label relationship.

General Underwriting Procedure. . . . From time to time, exceptions to PHH's underwriting policies may be made. Such exceptions are made on a loan-by-loan basis only at the discretion of PHH's underwriters and may be made only after careful consideration of certain compensating factors such as borrower capacity, liquidity, employment and residential stability. References to mortgage loans in this section only refer to those mortgage loans originated or acquired by PHH.

PHH's underwriting guidelines are applied to evaluate an applicant's credit standing, financial condition, and repayment ability, as well as the value and adequacy of the mortgaged property as collateral for any loan made. As part of the loan application process, the applicant is required to provide

information concerning his or her assets, liabilities, income and expenses (except as described below), along with an authorization to obtain any necessary third party verifications, including a credit report summarizing the applicant's credit history.

* * *

In evaluating the applicant's ability and willingness to repay the proposed loan, PHH reviews the applicant's credit history and outstanding debts, as reported on the credit report. If an existing mortgage or other significant debt listed on the loan application is not adequately reported on the credit report, PHH may request a written or oral verification of the balance and payment history of such debt from the servicer of such debt.

PHH verifies the applicant's liquid assets to ensure that the applicant has adequate liquid assets to apply toward any required down payment, closing costs, prepaid interest, and a specified amount of cash reserves after the closing of the related mortgage. Additional liquid assets may not be verified.

Except as described below, PHH also evaluates the applicant's income to determine its stability, probability of continuation, and adequacy to service the proposed PHH debt payment.

* * *

In determining the adequacy of the property as collateral for a first lien mortgage loan, a Fannie Mae/Freddie Mac conforming appraisal of the property is performed by an independent appraiser selected by PHH, except as noted below. The appraiser is required to inspect the property and verify that it is in good condition and that construction or renovation, if new, has been completed. The appraisal report indicates a value for the property and provides information concerning marketability, the neighborhood, the property site, interior and exterior improvements, and the condition of the property. In lieu of an appraisal, alternative collateral assessment products which comply with Fannie Mae/Freddie Mac criteria may be used.

93. The above statements of material fact were false and misleading when made because in truth PHH: (i) abandoned its underwriting guidelines, verification procedures and quality control standards in order to increase loan originations; (ii) allowed pervasive exceptions to the company's underwriting guidelines in the absence of existing compensating factors; (iii)

consistently failed to properly document prospective borrowers' ability to repay their mortgage loans; and (iv) systematically disregarded its stated appraisal standards and in many instances materially inflated the values of the underlying mortgaged properties in the loan origination and underwriting process.

P. First National Bank of Nevada Violated Its Underwriting Guidelines

94. First National Bank of Nevada ("FNBN") originated a substantial percentage of the loans for at least one of the RMBS purchased by Sealink. The Offering Materials for such RMBS contained false and misleading statements of material fact regarding FNBN's underwriting standards and practices. For example, the prospectus supplement for the NHELI 2007-1 RMBS described FNBN's underwriting guidelines, in relevant part, as follows:

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

* * *

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

* * *

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 preestablished 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.

* * *

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

In addition to the "full/alternate" underwriting guidelines, FNBN also originates or purchases loans that have been originated under certain limited documentation programs designed to streamline the loan underwriting process. These "stated income," "no ratio," "no income/no assets," "stated income/stated assets," "no documentation with assets," "no documentation" and "lite documentation" programs may not require income, employment or asset verifications. *Generally, in order to be eligible for a limited or no documentation program, the Mortgaged Property must have a loan-to-value ratio that supports the amount of the mortgage loan and the prospective borrower must have a credit history that demonstrates an established ability to repay indebtedness in a timely fashion.*

95. The above statements of material fact were false and misleading when made because in truth FNBN: (i) abandoned its underwriting guidelines, verification procedures and quality control standards in order to increase loan originations; (ii) allowed pervasive exceptions

to the company's underwriting guidelines in the absence of existing compensating factors; (iii) consistently failed to properly document prospective borrowers' ability to repay their mortgage loans; and (iv) systematically disregarded its stated appraisal standards and in many instances materially inflated the values of the underlying mortgaged properties in the loan origination and underwriting process.

VI. DEFENDANTS KNEW THE TRUTH ABOUT THE ORIGINATORS' LENDING PRACTICES

96. Defendants scrutinized the loans they purchased and identified the rampant underwriting deficiencies at the mortgage originators discussed above. Notwithstanding their knowledge about the real risks of default those loans presented, they securitized them into the RMBS sold to Sealink.

A. Defendants' Due Diligence Identified Defects In The Loan Pools Defendants Purchased For Securitization

97. Defendants learned, through their due diligence process, that a substantial portion of the loans they securitized woefully failed to meet the stated underwriting standards of those originators, had other deficiencies, violated state and federal law, and/or were based on inflated property valuations.

98. As described in the FCIC, Defendants rejected Clayton's credit due diligence findings as a matter of course. During its review, Clayton would assign each loan a number—1, 2 or 3—to reflect Clayton's evaluation of the soundness of the loan. The numbering referred to three different levels, "1" being the best—*i.e.*, the loan met the originators' underwriting guidelines—and a "3" being the worst.

99. As revealed by the FCIC and reports released by Clayton, approximately 27% of the JPMorgan- and WaMu-securitized loans sampled by Clayton during the height of the mortgage boom (from 2006 to mid-2007), and 16% of such Bear Stearns loans (together with

EMC loans), failed to meet the originator's underwriting guidelines. The FCIC's findings confirm that, over this same period, JPMorgan, WaMu and Bear Stearns (together with EMC) overruled Clayton's findings *and "waived" approximately 51%, 29%, and 42% respectively, of all such defective "exception" loans* and securitized them into RMBS that were sold to investors like Sealink.

100. Extrapolating the results of Defendants' "waive in" rate of the loans Clayton had rejected for failing to meet originator's guidelines to the entire loan pools backing their RMBS purchased by Sealink reveals the extent to which Defendants *knew* the loans they had securitized were destined to fail. As the FCIC Report concluded with regard to the Offering Materials for RMBS securitized by Defendants:

[M]any prospectuses indicated that the loans in the pool either met guidelines outright or had compensating factors, even though Clayton's records show that only a portion of the loans were sampled, and that of those that were sampled, a substantial percentage of Grade 3 loans were waived in....[O]ne could reasonably expect [the untested loans] to have many of the same deficiencies, at the same rate, as the sampled loans. *Prospectuses for the ultimate investors in the mortgage-backed securities did not contain this information, or information on how few of the loans were reviewed, raising the question of whether the disclosures were materially misleading, in violation of the securities laws.*

FCIC Report at 167, 170.

101. Defendants' astounding "waive in" rate, and the implications for the quality of the RMBS underwritten by Defendants, rendered materially false and misleading numerous statements in the Offering Materials relied on by Sealink in purchasing the RMBS. The Defendants' prospectus supplements represented, for example, that "[e]xceptions to Countrywide Home Loans' underwriting guidelines may be made if compensating factors are demonstrated by a prospective borrower." Defendants knew that these statements were

materially false and misleading because, through their due diligence process, they had determined that a substantial number of the loans were exception loans that did not have compensating factors and, in fact, deliberately included many of those exception loans in the loan pools they securitized. Moreover, given that the loans actually reviewed by Clayton represented only a fraction of the loans Defendants actually purchased and securitized, Defendants either knew or recklessly disregarded that a highly material number of the loans underlying their RMBS purchased by Sealink were not underwritten in compliance with the originator's guidelines.

102. Bear Stearns, WaMu and JPMorgan were also well aware of the true quality of the loans originated or acquired by their own origination subsidiaries such as EMC, Washington Mutual Bank and the Chase Originators, as defined above.

VII. DEFENDANTS KNEW THE CREDIT RATINGS ASSIGNED TO THE DEFENDANTS' RMBS MATERIALLY MISREPRESENTED THE CREDIT RISK OF THE RMBS

103. To bring its RMBS to market, Defendants knew that they needed to obtain the highest "investment grade" ratings possible from the credit rating agencies ("CRAs")—Moody's, S&P and Fitch—that rated Defendants' securitizations. Indeed, Defendants featured the ratings prominently in the Offering Materials and discussed at length the ratings received by the different tranches of the RMBS, and the bases for the ratings. Yet, Defendants knew that the ratings were not reliable because those ratings were supported by false information that Defendants provided.

104. "Investment grade" products are understood in the marketplace to be stable, secure and safe. Using S&P's scale, "investment grade" ratings are AAA, AA, A and BBB, and represent, high credit quality (AAA), upper-medium credit quality (AA and A) and medium

credit quality (BBB). Any instrument rated below BBB is considered below investment grade or “junk bond.”

105. The Offering Materials for the Defendants’ RMBS Sealink purchased state that the issuance of each tranche of the RMBS was conditioned on the assignment of particular investment-grade ratings, and listed the ratings in a chart. All of the tranches of RMBS purchased by Sealink were rated triple-A. The triple-A rating 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. For example, Bear Stearns represented in the BALTA 2006-5 prospectus supplement that:

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

Offered Certificates	S&P	Moody’s
Class I-A-1	AAA	Aaa
Class I-A-2	AAA	Aaa
Class I-M-1	AA	Aa2
Class I-M-2	A	A2
Class I-B-1	BBB+	Baa2
Class I-B-2	BBB	Baa3
Class II-A-1	AAA	Aaa
Class II-A-2	AAA	Aaa
Class II-A-3	AAA	Aaa
Class II-X-1	AAA	Aaa
Class II-X-2	AAA	Aaa
Class II-X-3	AAA	Aaa
Class II-B-1	AA	Aa2
Class II-B-2	A+	A2
Class II-B-3	BBB	Baa2

The ratings assigned by S&P and Moody’s to mortgage pass-through certificates address the likelihood of the receipt of all distributions on the mortgage loans by the related certificateholders under the agreements pursuant to which such certificates were issued. S&P’s and Moody’s ratings take into consideration the credit quality of the related mortgage pool, structural and legal aspects associated with such certificates, and the extent to which the payment stream in the mortgage pool is adequate to make

payments required under such certificates. S&P's and Moody's ratings on such certificates do not, however, constitute a statement regarding frequency of prepayments on the mortgages.

106. The above statements (and the substantially similar statements appearing in all of the Defendants' RMBS Offering Materials) regarding the ratings assigned to the Defendants' RMBS, as well as the ratings themselves, were materially false and misleading because Defendants touted these ratings while knowing that those ratings were based on the misleading information Defendants provided to the CRAs.

107. The credit ratings of the RMBS were further compromised by misinformation provided by Defendants regarding the abandonment of the originators' underwriting standards, rampant use of aggressive exceptions, Defendants' knowledge or reckless disregard of pervasive fraud in the stated income loan programs, and the inflated appraisals assigned to the underlying collateral, as described above. The Defendants knew that the AAA ratings assigned to the RMBS were false because the originators did not follow their own underwriting standards and, as such, no reliable estimate could be made concerning the level of enhancement necessary to ensure that the top tranches purchased by Sealink were of AAA quality. By including and endorsing these AAA ratings in the Offering Materials, Defendants made a false representation that it actually believed that the AAA ratings were an accurate reflection of the credit quality of the RMBS.

108. Subsequent downgrades confirm that the investment grade ratings reported in the Offering Materials were unjustifiably high and misstated the true credit risk of the RMBS purchased by Sealink. The RMBS purchased by Sealink—all of which were each initially awarded a triple-A rating—have almost without exception been downgraded to junk. The *en masse* downgrade of AAA-rated RMBS indicates that the ratings set forth in the Offering Materials were false, unreliable and inflated.

VIII. DEFENDANTS' FALSE AND MISLEADING MISSTATEMENTS AND OMISSIONS OF MATERIAL FACT IN THE OFFERING DOCUMENTS

109. The Offering Materials Sealink relied upon in purchasing the Defendants' RMBS contained numerous misrepresentations of material fact, or omitted to state material fact necessary to make the statements therein not misleading, regarding: (i) the originators' underwriting practices and guidelines by which the loans were originated, including the prevalence and type of exceptions to those guidelines being applied to the underlying loans, and the rampant fraud in stated income loans; (ii) the value of the underlying property securing the loans, in terms of LTV and CLTV ratios and the appraisal standards by which such mortgaged properties were measured; (iii) the due diligence that Defendants conducted into the mortgage loans backing the RMBS, which identified pervasive defects in the loans underlying the securitizations; (iv) the credit ratings assigned to the RMBS; and (v) the true risks of the RMBS. Indeed, as the FCIC Report concluded with regard to the Offering Materials for the Defendants' RMBS:

[M]any prospectuses indicated that the loans in the pool either met guidelines outright or had compensating factors, even though Clayton's records show that only a portion of the loans were sampled, and that of those that were sampled, a substantial percentage of Grade 3 loans were waived in...[O]ne could reasonably expect [the untested loans] to have many of the same deficiencies, at the same rate, as the sampled loans. *Prospectuses for the ultimate investors in the mortgage-backed securities did not contain this information, or information on how few of the loans were reviewed, raising the question of whether the disclosures were materially misleading, in violation of the securities laws.*

A. The Offering Materials Misrepresented The Originators' Underwriting Guidelines.

110. The originators discussed above originated the mortgage loans that backed the RMBS purchased by Sealink. The Offering Materials for the RMBS all contained identical or materially similar statements of material fact regarding the originators' underwriting guidelines

and practices. For example, the prospectus supplement for the AHM 2005-4 RMBS described American Home's underwriting guidelines, in relevant part, as follows:

American Home's underwriting philosophy is to weigh all risk factors inherent in the loan file, giving consideration to the individual transaction, borrower profile, the level of documentation provided and the property used to collateralize the debt. Because each loan is different, American Home expects and encourages underwriters to use professional judgment based on their experience in making a lending decision.

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

* * *

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

* * *

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

111. The above statements of material fact and similar statements regarding the originators whose loans back the Defendants' RMBS in which Sealink invested, were materially false and misleading when made because, as explained above, they misrepresented the true facts, known by Defendants, that the originators: (i) systematically and flagrantly failed to follow their

stated underwriting guidelines; (ii) allowed pervasive exceptions to their underwriting standards regardless of existing compensating factors; (iii) disregarded credit quality to fuel loan originations to sell to loan purchasers such as Defendants; and (iv) routinely allowed fraudulent representations of an applicant's stated income, failed to verify a prospective borrower's documentation or statements regarding income or assets, and, in many cases, knowingly falsified the borrower's stated or documented income or assets.

B. The Offering Materials Misrepresented The Appraisals And LTV Ratios Of The Securitized Loans

112. The adequacy of the mortgaged properties as security of the repayment of the loans was purportedly determined by appraisals. The Offering Materials represented that independent appraisals were prepared for each mortgaged property and that reports were prepared to substantiate these appraisals. For example, the BALTA 2006-1 prospectus supplement described EMC Mortgage Corporation's appraisal practices as follows:

Each mortgaged property relating to an EMC mortgage loan has been appraised by a qualified independent appraiser who is approved by each lender. All appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standard Board of the Appraisal Foundation. Each appraisal must meet the requirements of Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac require, among other things, that the appraiser, or its agent on its behalf, personally inspect the property inside and out, verify whether the property was in good condition and verify that construction, if new, had been substantially completed. The appraisal generally will have been based on prices obtained on recent sales of comparable properties, determined in accordance with Fannie Mae and Freddie Mac guidelines. In certain cases 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 may be used.

113. As discussed above, the representations regarding appraisals and LTV ratios were materially false and misleading in that they misrepresented that the appraisal process employed

by the originators, including, among others things, the fact that: (i) the appraisers were not independent from the respective mortgage lenders, which pressured appraisers to value the mortgaged property at a pre-determined, preconceived, inflated, and false appraisal value; (ii) the actual LTV ratios for many of the mortgage loans underlying the RMBS would have exceeded 100% if the mortgaged properties had been appraised by an independent appraiser as represented in the Offering Documents; (iii) sales managers employed by the respective originators had and utilized the authority to override and inflate an appraiser’s final professional valuation of the mortgaged property; and, as such, (iv) the appraisals failed to conform to the standards set by Fannie Mae and Freddie Mac.

C. Defendants Materially Misrepresented The Accuracy Of The Credit Ratings Assigned To The Certificates

114. Defendants represented in the Offering Materials that all of the RMBS purchased by Sealink were worthy of being rated “AAA,” signifying that the risk of loss was virtually non-existent.

115. By providing ratings, Defendants represented that they believed that the information provided to the rating agencies to support these ratings accurately reflected the Defendants’ underwriting guidelines and practices, and the specific qualities of the underlying loans. Specifically, the Offering Materials prepared by Defendants represented, in sum or substance, that:

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

Offered Certificates	S&P	Moody’s
Class I-A-1	AAA	Aaa
Class I-A-2	AAA	Aaa
Class I-M-1	AA	Aa2
Class I-M-2	A	A2
Class I-B-1	BBB+	Baa2

Class I-B-2	BBB	Baa3
Class II-A-1	AAA	Aaa
Class II-A-2	AAA	Aaa
Class II-A-3	AAA	Aaa
Class II-X-1	AAA	Aaa
Class II-X-2	AAA	Aaa
Class II-X-3	AAA	Aaa
Class II-B-1	AA	Aa2
Class II-B-2	A+	A2
Class II-B-3	BBB	Baa2

The ratings assigned by S&P and Moody's to mortgage pass-through certificates address the likelihood of the receipt of all distributions on the mortgage loans by the related certificateholders under the agreements pursuant to which such certificates were issued. S&P's and Moody's ratings take into consideration the credit quality of the related mortgage pool, structural and legal aspects associated with such certificates, and the extent to which the payment stream in the mortgage pool is adequate to make payments required under such certificates. S&P's and Moody's ratings on such certificates do not, however, constitute a statement regarding frequency of prepayments on the mortgages.

116. These statements regarding the ratings assigned to the RMBS were false and misleading because Defendants stated the assigned ratings while knowing that misleading information was provided to the rating agencies by Defendants to guarantee AAA ratings were assigned to the RMBS.

IX. SEALINK'S INVESTMENT IN THE RMBS AND RELIANCE ON DEFENDANTS' MISREPRESENTATIONS

117. The RMBS for all offerings were issued pursuant to the Offering Materials, which contained the false and misleading statements set forth above. These documents also generally explained the structure and provided an overview of the RMBS. The relevant depositor prepared the Offering Materials.

118. The Offering Materials contained detailed descriptions of the mortgage pools underlying the RMBS and provided the specific terms of the particular RMBS offering. The Offering Materials included tabular data concerning the loans underlying the RMBS, including

(but not limited to) the type of loans; the number of loans; the mortgage rate and net mortgage rate (the mortgage rate net of the premium for any lender paid mortgage insurance less the sum of the master servicing fee and the trustee fee on the mortgage loan); the aggregate scheduled principal balance of the loans; the weighted average original combined LTV ratio; occupancy rates; credit enhancement; and the geographic concentration of the mortgaged properties. The Offering Materials also contained a summary of the originators' underwriting and appraisal standards, guidelines and practices.

119. In deciding to purchase the RMBS, Sealink relied on the Defendants' false representations and omissions of material fact regarding their underwriting standards and the characteristics of the mortgage loans underlying the RMBS in the Offering Materials. But for the Defendants' fraudulent representations and omissions, Sealink would not have purchased the RMBS.

120. Sealink reasonably relied upon the Defendants' representations in the Offering Materials regarding the underlying loan quality. Sealink did not know at the time it purchased the RMBS, and could not have known, that the originators were not following their underwriting guidelines, leading to a drastic increase in the origination of risky loans, nor did Sealink know that the property appraisals secured by the originators were not independent and resulted in false appraisal values. Sealink also did not know that the originators knowingly or recklessly accepted false information about material fact such as borrowers' stated income, which caused the Defendants' representations to be false. Sealink did not know that Defendants' due diligence had identified significant problems with the originators' loans signifying that a substantial number of the loans underlying the RMBS would not be able to be repaid. If Sealink had known these and other material facts regarding Defendants' fraudulent

misrepresentations and omissions of material fact contained in the Offering Materials, Sealink would not have purchased the RMBS.

121. Defendants' misrepresentations and omissions of material fact caused Sealink to suffer losses on the RMBS, because the RMBS were far riskier—and their rate of default far higher—than the Offering Materials represented them to be. The mortgage loans underlying the RMBS experienced defaults and delinquencies at a much higher rate due to the originators' abandonment of their loan-origination guidelines.

122. Sealink purchased each RMBS in reliance on the information contained in the applicable Offering Materials. In connection with the offers and sales of the RMBS to Sealink, Defendants provided directly or indirectly to Sealink's investment personnel or managers the Offering Materials. Similar information was sent to and analyzed by Sealink's investment personnel and managers if the RMBS was sold to them in the secondary market.

123. Sealink reviewed and analyzed the Offering Materials provided directly or indirectly by Defendants with respect to each offering of RMBS and performed various analyses of the RMBS-specific data for each offering before deciding to purchase RMBS in the offering. The analyses conducted by Sealink before deciding to purchase a RMBS included various credit analyses based on the information provided by Defendants with respect to both the credit characteristics of the mortgage loan pool (including, for example, geographic concentration; weighted average life; fixed- or floating-rate loans; full-, low-, or no-documentation "stated income" loans; and owner-occupied, second home, or investment properties), and the structure of the securitization with respect to the seniority and risk characteristics of the particular tranche of RMBS (including, for example, position in the payment "waterfall").

124. Thus, Sealink justifiably relied on the Offering Materials provided directly or indirectly by Defendants for each offering of the RMBS. These documents contained numerous statements of material fact about the RMBS, including statements concerning: (i) the mortgage originators' underwriting guidelines that were purportedly applied to evaluate the ability of the borrowers to repay the loans underlying the RMBS; (ii) the appraisal guidelines that were purportedly applied to evaluate the value and adequacy of the mortgaged properties as collateral; (iii) the LTV ratios and debt to income ratios; (iv) Defendants' due diligence of the loans and the originators' underwriting practices; and (v) the ratings assigned to the RMBS.

125. These statements of material fact were untrue because: (i) the originators violated their stated underwriting guidelines and did not originate loans based on the borrowers' ability to repay; and (ii) inflated appraisals caused the listed LTV ratios and levels of credit enhancement to be untrue. In addition, metrics such as debt-to-income ratios were untrue as a result of the other mortgage originators' acceptance of untrue information from mortgage applicants. For example, Defendants and the mortgage originators allowed applicants for "stated income" loans to provide untrue income information and did not verify the applicants' purported income. In addition, the credit ratings on which Sealink relied were materially misleading, did not reflect the true credit quality of the RMBS and were the result of intentional manipulation.

X. BECAUSE OF DEFENDANTS' FRAUDULENT CONDUCT, SEALINK SUFFERED LOSSES ON ITS PURCHASES OF RMBS

126. The ratings on virtually all of the RMBS have since been downgraded and they are no longer marketable or salable at the prices paid for them by Sealink. All of the RMBS in which Sealink purchased interests were rated "AAA" at issuance and the vast majority have since been downgraded to junk.

127. Further, the delinquency, bank ownership and foreclosure rates on the underlying mortgages have soared since issuance. These current performance numbers do not reflect the number of loans which have been foreclosed since issuance and which are no longer included within the loan pools. A substantial number of the original loans contained in the loan pools have been removed from the pools, largely due to either foreclosure or early payout, negatively impacting the income payable to certificate-holders.

FIRST CAUSE OF ACTION

(Common Law Fraud Against Defendants)

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

129. As alleged above, in the Offering Materials and in their public statements, 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.

130. As a corporate parent, JPMorgan Chase & Co. directed the activities of JPMorgan Chase Bank, N.A. (which is the successor to Washington Mutual Bank), J.P. Morgan Securities LLC (which is the successor to Bear Stearns & Co. Inc.), J.P. Morgan Acquisition Corporation and J.P. Morgan Acceptance Corporation I.

131. Defendants knew at the time they sold and marketed each of the RMBS that the foregoing statements were false or, at the very least, made recklessly, without any belief in the truth of the statements.

132. Defendants made these materially false and misleading statements and omissions for the purpose of inducing Sealink to purchase the RMBS. Furthermore, these statements related to these Defendants' own acts and omissions.

133. Defendants knew or recklessly disregarded that investors like Sealink were relying on their expertise, and they encouraged such reliance through the Offering Materials and their public representations, as described herein. Defendants knew or recklessly disregarded that investors like Sealink would rely upon their representations in connection their decision to purchase the RMBS. Defendants were in a position of unique and superior knowledge regarding the true facts concerning the foregoing material misrepresentations and omissions.

134. It was only by making such representations that Defendants were able to induce Sealink to buy the RMBS. Sealink would not have purchased or otherwise acquired the RMBS but for Defendants' fraudulent representations and omissions about the quality of the RMBS.

135. Sealink justifiably, reasonably and foreseeably relied upon Defendants' representations and false statements regarding the quality of the RMBS.

136. As a result of the false and misleading statements and omissions, as alleged herein, Sealink has suffered substantial damages.

SECOND CAUSE OF ACTION

(Fraudulent Inducement Against Defendants)

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

138. As alleged above, in the Offering Materials and in other communications to Sealink, 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.

139. This is a claim for fraudulent inducement against Defendants. As a corporate parent, JPMorgan Chase & Co. directed the activities of JPMorgan Chase Bank, N.A. (which is the successor to Washington Mutual Bank), J.P. Morgan Securities LLC (which is the successor

to Bear Stearns & Co. Inc.), J.P. Morgan Acquisition Corporation and J.P. Morgan Acceptance Corporation I.

140. Defendants knew at the time they sold and marketed each of the RMBS that the foregoing statements were false or, at the very least, made recklessly, without any belief in the truth of the statements.

141. Defendants made these materially misleading statements and omissions for the purpose of inducing Sealink to purchase the RMBS. Furthermore, these statements related to these Defendants' own acts and omissions.

142. Defendants knew or recklessly disregarded that investors like Sealink were relying on their expertise, and they encouraged such reliance through the Offering Materials and their public representations, as described herein. Defendants knew or recklessly disregarded that investors like Sealink would rely upon their representations in connection with their decision to purchase the RMBS. Defendants were in a position of unique and superior knowledge regarding the true facts concerning the foregoing material misrepresentations and omissions.

143. It was only by making such representations that Defendants were able to induce Sealink to buy the RMBS. Sealink would not have purchased or otherwise acquired the RMBS but for Defendants' fraudulent representations and omissions about the quality of the RMBS.

144. Sealink justifiably, reasonably and foreseeably relied upon Defendants' representations and false statements regarding the quality of the RMBS.

145. By virtue of Defendants' false and misleading statements and omissions, as alleged herein, Sealink has suffered substantial damages and is also entitled to a rescission of the sale of the RMBS.

THIRD CAUSE OF ACTION

(Aiding And Abetting Fraud Against Defendants)

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

147. This is a claim against the above-named Defendants for aiding and abetting the fraud by Defendants. Each of these Defendants aided and abetted the fraud committed by and among all of the other Defendants.

148. As alleged above, each of the above-named Defendants knew that the RMBS were not backed by high quality loans and were not underwritten according to the originators' underwriting standards, conducted third-party due diligence on the loan pools securitized into the Defendants' RMBS purchased by Sealink that identified the originators' deviations from loan underwriting and appraisal standards, participated in those violations and had actual knowledge of their own acts, or participated in or had actual knowledge of Defendants' reckless or intentional dissemination of false and misleading information to the credit rating agencies.

149. Furthermore, the above-named Defendants provided to each other substantial assistance in advancing the commission of the fraud. As alleged above, each of the above-named Defendants participated in the violations of concealing the originators' deviations from their stated mortgage loan underwriting and appraisal standards, made false statements about the originators' mortgage loan underwriting and appraisal standards and Defendants' own underwriting guidelines, provided false information about the mortgage loans underlying the certificates to the credit rating agencies, provided false information for use in the Offering Materials, or participated in the failure to properly endorse and deliver the mortgage notes and security documents to the issuing trusts.

150. It was foreseeable to the above-named Defendants at the time they actively assisted in the commission of the fraud that Sealink would be harmed as a result of their assistance.

151. As a direct and natural result of the fraud committed by the Defendants, and the above-named Defendants' knowing and active participation therein, Sealink has suffered substantial damages.

FOURTH CAUSE OF ACTION

(Negligent Misrepresentation Against Defendants)

152. Sealink repeats and realleges each and every allegation set forth in the preceding paragraphs above as if fully set forth herein, except any allegations that Defendants made any untrue statements and omissions intentionally or recklessly. For the purposes of this Count, Sealink expressly disclaims any claim of fraud or intentional misconduct.

153. This is a claim for negligent misrepresentation against Defendants.

154. As a corporate parent, JPMorgan Chase & Co. directed the activities of JPMorgan Chase Bank, N.A. (which is the successor to Washington Mutual Bank), J.P. Morgan Securities LLC (which is the successor to Bear Stearns & Co. Inc.), J.P. Morgan Acquisition Corporation and J.P. Morgan Acceptance Corporation I.

155. Sealink made 43 separate investments in six offerings of RMBS that Defendants securitized and sold.

156. It is commonly accepted industry practice for underwriters of RMBS to perform due diligence on the loans backing the RMBS to ensure that the quality of the loans are as represented in the offering materials provided to investors. The understanding that RMBS underwriters generally perform such due diligence, caused Sealink to believe that it could reasonably rely upon the Offering Materials. Moreover, by virtue of the third-party due

diligence Defendants performed, and Defendants' extensive role in originating, purchasing, securitizing and selling the RMBS that Sealink purchased, Defendants had unique and special knowledge and expertise regarding the loans backing those securities, including their quality, the nature of the underwriting, and the value of the collateral.

157. In particular, because Sealink neither had the same level of information regarding the mortgage lenders for the loans purchased by Defendants nor had access to the loan files for the mortgage loans underlying the Defendants' RMBS, and because Sealink could not examine the underwriting quality of the mortgage loans in the securitizations on a loan-by-loan basis, Sealink was heavily dependent on the Defendants' unique and special knowledge regarding the underwriting standards of the relevant mortgage originators and the underlying loans when determining whether to invest in each RMBS. Sealink was entirely dependent on the Defendants to provide accurate information regarding the underwriting standards for the loans and the quality of those loans in engaging in their analysis. Accordingly, the Defendants were uniquely situated to evaluate the economics of each RMBS.

158. Because Sealink was without access to critical information regarding the underwriting standards of the mortgage originators for the Defendants' RMBS, coupled with the industry understanding that RMBS underwriters perform due diligence, Defendants had a duty to Sealink to verify the accuracy of the Offering Materials.

159. Over the course of almost two years, for 43 separate investments, Sealink relied on Defendants' unique and special knowledge regarding the quality of the underlying mortgage loans and their underwriting when determining whether to invest in the RMBS. This longstanding relationship, coupled with Defendants' unique and special knowledge about the underlying loans and the underwriting standards of the mortgage originators, created a special relationship of trust, confidence, and dependence between Defendants and Sealink.

160. Defendants were aware that Sealink relied on their unique and special expertise and experience and depended upon them for accurate and truthful information. Defendants also knew that the facts regarding the originators' compliance with their underwriting standards were exclusively within Defendants' knowledge.

161. Based on their expertise, superior knowledge, and relationship with Sealink, Defendants owed a duty to Sealink to provide complete, accurate, and timely information regarding the mortgage loans and the RMBS. Defendants breached their duty to provide such information to Sealink.

162. Defendants likewise made misrepresentations, which they were negligent in not knowing at the time to be false, in order to induce Sealink's investment in the RMBS. Defendants provided the Offering Materials to Sealink in connection with the RMBS for the purpose of informing Sealink of material facts necessary to make an informed judgment about whether to purchase the RMBS. In providing these documents, Defendants knew that the information contained and incorporated therein would be used for a serious purpose, and that Sealink, like other reasonably prudent investors, intended to rely on the information.

163. As alleged above, the Offering Materials contained materially false and misleading information.

164. Defendants should have known that the information in the Offering Materials was materially false and misleading.

165. Unaware that the Offering Materials contained materially false and misleading statements, Sealink reasonably relied on those false and misleading statements when deciding to purchase the RMBS in the offerings.

166. Sealink purchased RMBS from J.P. Morgan Acceptance Corporation I, EMC Mortgage LLC, Structured Asset Mortgage Investments II Inc., WaMu Asset Acceptance

Corporation, and from J.P. Morgan Securities LLC, Bear Stearns & Co. Inc., and WaMu Capital Corporation in the RMBS offerings, and is therefore in privity with J.P. Morgan Acceptance Corporation I, EMC Mortgage LLC, Structured Asset Mortgage Investments II Inc., WaMu Asset Acceptance Corporation, J.P. Morgan Securities LLC, Bear Stearns & Co. Inc., and WaMu Capital Corporation.

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

168. Sealink reasonably relied on the information provided by Defendants and have suffered substantial damages as a result of their misrepresentations.

FIFTH CAUSE OF ACTION

(Successor and Vicarious Liability Against JPMorgan Chase & Co., JPMorgan Chase Bank, N.A., and J.P. Morgan Securities LLC)

169. Sealink repeats and realleges each and every allegation set forth in the preceding paragraphs above as if fully set forth herein.

170. Defendant JPMorgan Chase & Co. is the successor to The Bear Stearns Companies, Inc., pursuant to the Merger JP Morgan Chase & Co. is liable for The Bear Stearns Companies, Inc.'s wrongdoing, in its entirety, under common law, because The Bear Stearns Companies, Inc. merged and consolidated with JPMorgan Chase & Co., because JPMorgan Chase & Co. has expressly or impliedly assumed The Bear Stearns Companies, Inc.'s tort liabilities, and because JPMorgan Chase & Co. is a mere continuation of The Bear Stearns Companies, Inc. As such, this action is brought against JPMorgan Chase & Co. both in its own capacity and as successor-in-interest to The Bear Stearns Companies Inc.

171. Defendant J.P. Morgan Securities LLC is the successor to Bear Stearns & Co. Inc., pursuant to the Merger. J.P. Morgan Securities LLC is liable for Bear Stearns & Co. Inc.'s wrongdoing, in its entirety, under common law, because Bear Stearns & Co. Inc. merged and consolidated with J.P. Morgan Securities LLC, because J.P. Morgan Securities LLC has expressly or impliedly assumed Bear Stearns & Co. Inc.'s tort liabilities, and because J.P. Morgan Securities LLC is a mere continuation of Bear Stearns & Co. Inc. This action is thus brought against J.P. Morgan Securities LLC both in its own capacity and as successor-in-interest to Bear Stearns & Co. Inc.

172. Defendant JPMorgan Chase Bank, N.A. succeeded to Washington Mutual Bank's liabilities pursuant to the PAA. JPMorgan Chase Bank, N.A. is liable for Washington Mutual Bank's wrongdoing, in its entirety, under common law, because Washington Mutual Bank merged and consolidated with JPMorgan Chase Bank, N.A., because JPMorgan Chase Bank, N.A. has expressly or impliedly assumed Washington Mutual Bank's tort liabilities, and because JPMorgan Chase Bank, N.A. is a mere continuation of Washington Mutual Bank. This action is thus brought against JPMorgan Chase Bank, N.A. both in its own capacity and as a successor to Washington Mutual Bank.

PRAYER FOR RELIEF

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

- (a) Awarding compensatory and/or rescissory damages in favor of Plaintiff against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;
- (b) Awarding punitive damages for Plaintiff's common-law fraud claims;
- (c) Awarding Plaintiff its reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and
- (d) Such other relief as the Court may deem just and proper.

JURY DEMAND

Plaintiffs demand a trial by jury on all claims so triable.

Dated: September 29, 2011
New York, New York

Respectfully Submitted,

**BERNSTEIN LITOWITZ BERGER
& GROSSMANN LLP**

/s/ Gerald H. Silk _____
Gerald H. Silk
Avi Josefson
Michael D. Blatchley
Ross Shikowitz
1285 Avenue of the Americas, 38th Floor
New York, NY 10019
Tel: (212) 554-1400
Fax: (212) 554-1444
jerry@blbglaw.com
avi@blbglaw.com
michaelb@blbglaw.com
ross@blbglaw.com

Counsel for Plaintiff