SUPREME COURT OF THE STATE OF NEW YORK

COUNTY OF NEW YORK

PHOENIX LIGHT SF LIMITED, BLUE HERON FUNDING II LTD., BLUE HERON FUNDING V LTD., BLUE HERON FUNDING VI LTD., BLUE HERON FUNDING VII LTD., BLUE HERON FUNDING IX LTD., SILVER ELMS CDO II LIMITED and KLEROS PREFERRED FUNDING V PLC,	Index No.
Plaintiffs,	SUMMONS
vs.	
THE GOLDMAN SACHS GROUP, INC., GOLDMAN SACHS & CO., GOLDMAN SACHS MORTGAGE COMPANY and GS MORTGAGE SECURITIES CORP.,	
Defendants.	

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TO: THE ABOVE NAMED DEFENDANTS

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

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

DATED: July 3, 2013

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PHOENIX LIGHT SF LIMITED, BLUE HERON FUNDING II LTD., BLUE HERON FUNDING V LTD., BLUE HERON FUNDING VI LTD., BLUE HERON FUNDING VII LTD., BLUE HERON FUNDING IX LTD., SILVER ELMS CDO II LIMITED and KLEROS PREFERRED FUNDING V PLC, Plaintiffs, vs. THE GOLDMAN SACHS GROUP, INC., GOLDMAN SACHS & CO., GOLDMAN SACHS MORTGAGE COMPANY and GS MORTGAGE SECURITIES CORP., Defendants.	Index No. COMPLAINT

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Plaintiffs Phoenix Light SF Limited ("Phoenix"), Blue Heron Funding II Ltd. ("Blue Heron II"), Blue Heron Funding V Ltd. ("Blue Heron V"), Blue Heron Funding VI Ltd. ("Blue Heron VI"), Blue Heron Funding VII Ltd. ("Blue Heron VII"), Blue Heron Funding IX Ltd. ("Blue Heron IX"), Silver Elms CDO II Limited ("Silver Elms II") and Kleros Preferred Funding V PLC ("Kleros V") (collectively, "plaintiffs"), by their attorneys Robbins Geller Rudman & Dowd LLP, for their complaint herein against defendants The Goldman Sachs Group, Inc., Goldman Sachs & Co., Goldman Sachs Mortgage Company and GS Mortgage Securities Corp. (collectively, "defendants"), allege, on information and belief, except as to plaintiffs' own actions, as follows:

I. SUMMARY OF THE ACTION

1. This action arises out of plaintiffs' purchases of more than $450 million worth of residential mortgage-backed securities ("RMBS").[1] The specific RMBS at issue are generally referred to as "certificates." The certificates are essentially bonds backed by a large number of residential real estate loans, which entitle their holders to receive monthly distributions derived from the payments made on those loans. The claims at issue herein arise from 45 separate certificate purchases made in 23 different offerings (the "Goldman Sachs Offerings"), all of which were structured, marketed, and sold by defendants during the period from 2005 through 2007. *See* Appendix A.

2. Defendants used U.S. Securities and Exchange Commission ("SEC") forms, such as registration statements, prospectuses and prospectus supplements, as well as other documents – such

[1] As further explained *infra*, at §II.A, some of plaintiffs' purchases consisted of purchases by plaintiffs (including their agents) directly from defendants or others. However, in other cases, plaintiffs obtained their claims through assignment. That is, for some of the certificate purchases alleged herein, the certificates were initially purchased by third parties but all rights, title, interest and causes of action in and related to the certificates were assigned to plaintiffs. Accordingly, all references herein to plaintiffs' purchases of certificates include both plaintiffs' direct purchases as well as plaintiffs' claims arising by assignment.

as pitch books, term sheets, loan tapes, offering memoranda, draft prospectus supplements, "red," "pink" and "free writing" prospectuses and electronic summaries of such materials – to market and sell the certificates to plaintiffs. In addition, defendants also disseminated the key information in these documents to third parties – such as the rating agencies (the "Credit Rating Agencies"), broker-dealers and analytics firms, like Intex Solutions, Inc. ("Intex") – for the express purpose of marketing the certificates to plaintiffs and other investors. Collectively, all of the documents and information disseminated by defendants for the purpose of marketing and/or selling the certificates to plaintiffs are referred to herein as the "Offering Documents." Each purchase at issue herein was made in direct reliance on the information contained in the Offering Documents.[2]

3. As further detailed herein, the Offering Documents were materially false and misleading at the time they were issued by defendants and relied on by plaintiffs and/or their assignors. Specifically, the Offering Documents both failed to disclose and affirmatively misrepresented material information regarding the very nature and credit quality of the certificates and their underlying loans. The Offering Documents further failed to disclose that, at the same time Goldman Sachs was offering the certificates for sale to plaintiffs, the bank was privately betting that the same and similar certificates would soon default at significant rates. Defendants used these Offering Documents to defraud plaintiffs and their assignors into purchasing supposedly "investment grade" certificates at falsely inflated prices. Plaintiffs' certificates are now all rated at junk status or below, and are essentially worthless investments, while defendants, on the other hand, have profited

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

handsomely – both from their roles in structuring, marketing and selling the certificates, and from their massive "short" bets against the certificates they, themselves, sold to plaintiffs.

II. PARTIES

A. Plaintiffs

4. Plaintiff Phoenix is a limited liability company incorporated in Ireland, with its principal place of business in Dublin, Ireland. Phoenix brings its claims against defendants as an assignee of claims regarding certificates that were initially purchased by three separate and distinct legal entities that collapsed or nearly collapsed as a direct result of defendants' misconduct, as alleged herein. The three assignors are identified below:

(a) During the relevant time period, WestLB AG ("WestLB") was a German corporation with its principal place of business in Düsseldorf, Germany. On July 1, 2012, WestLB underwent a restructuring, pursuant to which WestLB transferred the majority of its remaining assets to a public winding-up agency known as Erste Abwicklungsanstalt ("EAA"). As a result of the restructuring measures, WestLB discontinued its banking business and now operates solely as a global provider of portfolio management services, under the name of Portigon AG. As further set forth infra, WestLB purchased certificates at issue herein, which were subsequently assigned to Phoenix, along with all associated rights, title, interest, causes of action and claims in and related to such certificates, including all claims at issue herein.

(b) During the relevant time period, Greyhawk Funding LLC ("Greyhawk") was a Delaware limited liability company, which maintained its principal place of business in Delaware and was controlled by an independent board of directors. Greyhawk was an asset-backed commercial paper program, which issued commercial paper to numerous external investors. Greyhawk was subsequently liquidated and is no longer active. During the relevant time period, Greyhawk was an independent company that invested in RMBS and other securities, and hired

Brightwater Capital Management ("Brightwater") to manage such investments. As further set forth infra, Greyhawk purchased a certificate at issue herein, which was subsequently assigned to Phoenix, along with all associated rights, title, interest, causes of action and claims in and related to such certificate, including all claims at issue herein.

(c) During the relevant time period, Blue Heron Funding III Ltd. ("Blue Heron III") was a Cayman Islands company with its principal place of business in George Town, Cayman Islands. Blue Heron III was organized as a fully independent special purpose vehicle, with a board of directors functioning to control its operations. During the relevant time period, Blue Heron III invested in RMBS and other securities, and hired Brightwater to manage such investments. Blue Heron III was subsequently liquidated and is no longer a legally viable entity. As further set forth infra, Blue Heron III purchased a certificate at issue herein, which was subsequently assigned to Phoenix, along with all associated rights, title, interest, causes of action and claims in and related to such certificate, including all claims at issue herein.

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

6. Plaintiff Blue Heron II is a Cayman Islands company with its principal place of business in George Town, Cayman Islands. Blue Heron II is a fully independent special purpose vehicle with a board of directors who controls its operations. Blue Heron II has numerous investors holding debt and income securities issued by the company. Blue Heron II was organized for the

purpose of investing in RMBS and other securities. Each of the claims asserted herein by Blue Heron II relate to certificates that were purchased by Blue Heron II in accordance with investment parameters developed by Blue Heron II's external agents and professional investors.

7. Plaintiff Blue Heron V is a Cayman Islands company with its principal place of business in George Town, Cayman Islands. Blue Heron V is a fully independent special purpose vehicle with a board of directors who controls its operations, and numerous investors holding securities issued by the company. Blue Heron V was organized for the purpose of investing in RMBS and other securities. Each of the claims asserted herein by Blue Heron V relate to certificates that were purchased by Blue Heron V in accordance with investment parameters developed by Blue Heron V's external agents and professional investors.

8. Plaintiff Blue Heron VI is a Cayman Islands company with its principal place of business in George Town, Cayman Islands. Blue Heron VI is a fully independent special purpose vehicle with a board of directors who controls its operations, and numerous investors holding securities issued by the company. Blue Heron VI was organized for the purpose of investing in RMBS and other securities. Each of the claims asserted herein by Blue Heron VI relate to certificates that were purchased by Blue Heron VI in accordance with investment parameters developed by Blue Heron VI's external agents and professional investors.

9. Plaintiff Blue Heron VII is a Cayman Islands company with its principal place of business in George Town, Cayman Islands. Blue Heron VII is a fully independent special purpose vehicle with a board of directors who controls its operations, and numerous investors holding securities issued by the company. Blue Heron VII was organized for the purpose of investing in RMBS and other securities. Each of the claims asserted herein by Blue Heron VII relate to certificates that were purchased by Blue Heron VII in accordance with investment parameters developed by Blue Heron VII's external agents and professional investors.

10. Plaintiff Blue Heron IX is a Cayman Islands company with its principal place of business in George Town, Cayman Islands. Blue Heron IX is a fully independent special purpose vehicle with a board of directors who controls its operations, and numerous investors holding securities issued by the company. Blue Heron IX was organized for the purpose of investing in RMBS and other securities. Each of the claims asserted herein by Blue Heron IX relate to certificates that were purchased by Blue Heron IX in accordance with investment parameters developed by Blue Heron IX's external agents and professional investors.

11. Plaintiff Silver Elms II is a public limited company incorporated under the laws of Ireland with its principal place of business in Dublin, Ireland. Silver Elms II is a fully independent company with a board of directors who controls its operations. Silver Elms II has numerous investors holding debt and income securities issued by the company. Silver Elms II asserts its claims herein as an assignee of certificates that were initially purchased by other entities and were subsequently assigned to Silver Elms II, along with all associated rights, title, interest, causes of action and claims in and related to such certificates, including all claims at issue herein. As further set forth *infra*, the certificates assigned to Silver Elms II were initially purchased by WestLB and an entity known as Paradigm Funding LLC ("Paradigm"). Paradigm was a Delaware limited liability company during the relevant time period but is now defunct.

12. Plaintiff Kleros V is a public limited company organized under the laws of Ireland, with its principal place of business in Dublin, Ireland. Kleros V is a fully independent special purpose vehicle with a board of directors who controls its operations. Kleros V was organized for the purpose of investing in RMBS and other securities and has numerous investors holding debt and income securities issued by the company. Kleros V asserts claims herein both as an initial purchaser and as an assignee of certificates purchased by WestLB. The certificates initially purchased by WestLB were assigned to Kleros V, along with all associated rights, title, interest, causes of action

and claims in and related to such certificates, including all claims at issue herein. The certificate initially purchased by Kleros V was acquired in accordance with investment parameters developed by Kleros V's external agents and professional investors.

13. All of these entities are collectively referred to herein as "plaintiffs," except where there are differences in the methods that they employed to make the subject investments. Moreover, unless otherwise noted, all references herein to plaintiffs' purchases of certificates include both plaintiffs' direct purchases as well as plaintiffs' claims arising by assignment.

B. The "Goldman Sachs Defendants"

14. As further set forth below, each of the following defendants was actively involved with and/or liable for some or all of the Goldman Sachs Offerings at issue herein. *See* §IV, *infra*. Additional detailed information concerning each Goldman Sachs Offering is also set forth in Appendix A, attached hereto.

15. Defendant The Goldman Sachs Group, Inc. is incorporated in Delaware with its principal place of business in New York, New York. The Goldman Sachs Group, Inc. is a financial holding company and is the ultimate parent company of co-defendants Goldman Sachs & Co. (the selling and lead underwriter of all Goldman Sachs Offerings alleged herein), Goldman Sachs Mortgage Company (the sponsor for 19 of the 23 Goldman Sachs Offerings at issue herein) and GS Mortgage Securities Corp. (the depositor for 19 of the 23 Goldman Sachs Offerings at issue herein). Defendant The Goldman Sachs Group, Inc. directly participated in and exercised dominion and control over the business operations and conduct alleged herein of the other Goldman Sachs Defendants during the relevant time period.

16. Defendant Goldman Sachs & Co. is incorporated in New York and has its principal place of business in New York, New York. Goldman Sachs & Co. is a wholly-owned subsidiary of co-defendant The Goldman Sachs Group, Inc. and is its principal U.S. broker-dealer. Goldman

Sachs & Co. was an underwriter and broker-dealer for each of the Goldman Sachs Offerings alleged herein. Plaintiffs purchased all but 2 of the 45 certificates they purchased in the Goldman Sachs Offerings directly from defendant Goldman Sachs & Co. in its capacity as underwriter and broker-dealer of such offerings. Goldman Sachs & Co., as underwriter, was intimately involved in the Goldman Sachs Offerings alleged herein, as it investigated the loans at issue herein, and participated in the drafting and dissemination of the Offering Documents used to sell the certificates to plaintiffs.

17. Defendant Goldman Sachs Mortgage Company ("GSMC") is a New York limited partnership and has its principal place of business in New York, New York. GSMC is the parent company of co-defendant GS Mortgage Securities Corp. (the depositor for 19 of the 23 Goldman Sachs Offerings alleged herein), and an affiliate of co-defendant Goldman Sachs & Co. (the lead underwriter in all of the Goldman Sachs Offerings herein) through their mutual ultimate parent ownership by co-defendant The Goldman Sachs Group, Inc. GSMC served as the sponsor for 19 of the 23 Goldman Sachs Offerings alleged herein. In its capacity as the sponsor for such offerings, GSMC organized and initiated the deals by acquiring the mortgage loans to be securitized, negotiating the principal securitization transaction documents and working with the securities underwriters to structure the offerings. By the end of 2006, GSMC had sponsored the securitization of over $160 billion of residential mortgage loans. *See* GSAMP 2007-NC1 Prospectus Supplement ("Pros. Supp.") (dated Feb. 15, 2007).

18. Defendant GS Mortgage Securities Corp. ("GSMSC") is incorporated in Delaware and has its principal place of business in New York, New York. GSMSC is a wholly-owned subsidiary of co-defendant The Goldman Sachs Group, Inc. and an affiliate of co-defendants Goldman Sachs & Co. and GSMC. GSMSC served as the depositor for 19 of the 23 Goldman Sachs Offerings alleged herein. Accordingly, under the U.S. securities laws, GSMSC was the "issuer" of all of the certificates sold to plaintiffs in these Goldman Sachs Offerings.

19. Defendants The Goldman Sachs Group, Inc., Goldman Sachs & Co., GSMC and GSMSC are collectively referred to herein as either "defendants," the "Goldman Sachs Defendants" or "Goldman Sachs."

III. JURISDICTION AND VENUE

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

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

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

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

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

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

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

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

A. The Mortgage-Backed Securities Market

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

28. The mortgage-backed securities market has existed for decades. In 1980, the market's size was about $100 billion. By 2004, the size of that market had reached over $4.2 trillion. To place this figure in context, in 2004 the total size of the U.S. corporate debt market was $4.6 trillion. Investors from all over the world purchased mortgage-backed securities, and that demand drove down mortgage borrowing costs in the United States.

29. Creating RMBS involves a process called "securitization."

B. Organizations and Defendant Entities Involved in the Securitization Process

30. The securitization process requires a number of parties, including: (1) mortgage originators; (2) borrowers; (3) RMBS sponsors (or "sellers"); (4) mortgage depositors; (5) securities underwriters; (6) trusts that issue certificates backed by mortgages; (7) Nationally Recognized Statistical Rating Organizations ("NRSROs"), three of which are the Credit Rating Agencies; and (8) investors. Following is a description of their roles in order.

31. ***Mortgage originators*** accept mortgage applications and other information from prospective borrowers. They set borrowing standards, purport to evaluate a borrower's ability to repay, and appraise the value of the collateral supporting the borrower's obligations. This process is called "underwriting" a mortgage. The key mortgage originators at issue herein are set forth in ¶¶385-511.

32. ***Borrowers*** who purport to satisfy the originators' underwriting criteria sign documentation memorializing the terms and conditions of the mortgages. Those documents typically include a promissory note and lien securing repayment – which together form what is known as the mortgage. Originators are then able to sell such mortgages to securitization sponsors in a large secondary market. Some of the specific borrowers at issue herein are described in ¶¶55,

68, 81, 95, 110, 123, 138, 153, 169, 183, 198, 213, 228, 242, 256, 269, 282, 295, 308, 321, 334, 347 and 360.

33. ***Sponsors*** (or "sellers") typically organize and initiate the securitization aspect of the process by acquiring large numbers of mortgages, aggregating them, and then selling them through an affiliated intermediary into an issuing trust. In this case, the sponsor for most of the RMBS offerings at issue herein was defendant GSMC. GSMC was generally responsible for pooling the mortgage loans to be securitized by the depositors, negotiating the principal securitization transaction documents and participating with the underwriters to structure the RMBS offerings.

34. ***Depositors*** typically buy the pools of mortgages from the sponsors (or "sellers"), settle the trusts, and deposit the mortgages into those trusts in exchange for the certificates to be offered to investors, which the depositors in turn sell to the underwriters, for ultimate sale to investors. Under the U.S. securities laws, depositors are technically considered "issuers" of the securities, and are strictly liable for material misrepresentations and omissions in any registration statement under the Securities Act of 1933. Defendant GSMSC acted as depositor in most of the RMBS offerings at issue herein. A more detailed summary of the role of that GSMSC performed in connection with plaintiffs' certificates follows:

(a) First, GSMSC acquired discrete pools of mortgages from the offering's "sponsor," in most cases, GSMC. The sponsor typically transferred those mortgages to the depositor via written mortgage purchase agreements that typically contained written representations and warranties about the mortgages ("Mortgage Purchase Agreements").

(b) Second, the depositor settled the issuing trusts, and "deposited" the discrete pools of mortgages acquired from the offering sponsor, along with their rights under the Mortgage Purchase Agreements, into the issuing trusts, in exchange for the certificates, which were then transferred to the underwriter for ultimate sale to investors such as plaintiffs. The sponsor was

responsible for making sure title to the mortgage loans was properly and timely transferred to the trusts and/or trustees of the trusts. The mortgages and their rights, among other things, constitute the trusts' res. The trusts – their res, trustee and beneficiaries – are defined by a written pooling and servicing agreement ("Pooling Agreement").

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

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

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

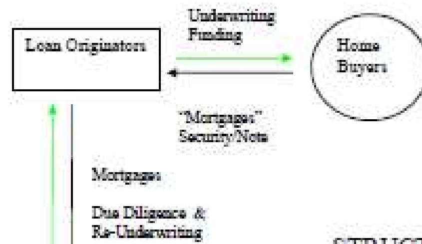
37. ***NRSROs***, which include the Credit Rating Agencies herein, analyze performance data on mortgage loans of every type and use that information to build software programs and models, which are ultimately used to assign credit ratings to RMBS. These computer models generate various "levels" of subordination and payment priorities that are necessary to assign "investment grade" credit ratings to the certificates that the RMBS trusts issue. The rules generated by the NRSRO models are then written into the Pooling Agreements drafted by the sponsor and the securities underwriter(s). As alleged above, in order to be issued pursuant to a "shelf take-down," the certificates must receive "investment grade" credit ratings from the NRSROs.

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

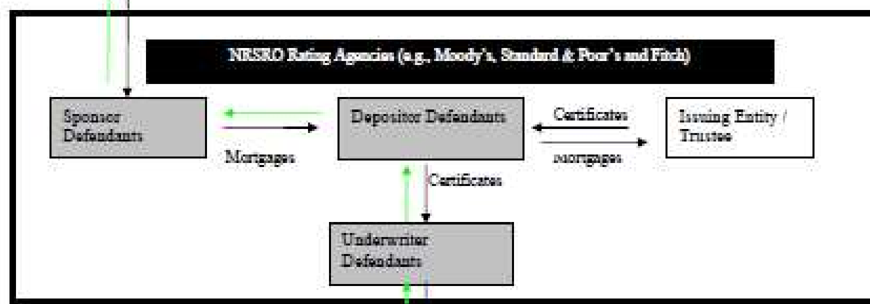
39. The illustration below further summarizes the roles of the various parties in an RMBS securitization. In this illustration, the green arrows – moving from investors to home buyers or borrowers – illustrate funds flow, and the grey cells identify certain defendant entities in the context of their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

SECURITIZATION – THREE MAJOR COMPONENTS

ORIGINATION



STRUCTURING



MARKETING

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

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

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

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

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

A. Each of the Offering Documents Omitted Material Information

42. The Offering Documents for each of the 23 offerings at issue failed to disclose critical information within defendants' possession regarding the Certificates and their underlying loans. Specifically, prior to selling the Certificates to plaintiffs, defendants hired Clayton Holdings, Inc. ("Clayton") and/or other due diligence providers to re-underwrite samples of the loans underlying each of the specific certificates purchased by plaintiffs.[3] For each of the 23 offerings, Clayton and/or the other due diligence providers determined that a significant percentage of the loans had been defectively underwritten and/or were secured by inadequate collateral, and were thus likely to default. In aggregate, during 2006 and 2007 – the time period during which the vast majority of offerings at issue here occurred – Clayton determined that ***23% of all loans it reviewed for Goldman Sachs' offerings were defective***. This information was directly provided to the defendants prior to

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

the offerings, but defendants affirmatively chose ***not*** to include it in the Offering Documents, even though Clayton expressly recommended that it be so included.

43. The Offering Documents also failed to disclose what defendants did with the material, undisclosed information they received from Clayton and/or their other due diligence providers. Specifically, with regard to the test samples of loans that were reviewed by Clayton, defendants actually "waived" back into the purchase pools for their offerings approximately ***30% of the specific loans that had been affirmatively identified as defective***. In addition, former employees of Bohan Group ("Bohan"), another firm who performed due diligence of loans purchased by Goldman Sachs, have confirmed that from 2005 through 2007 Goldman Sachs ignored Bohan's findings that loans did not meet underwriting guidelines, exerted constant pressure to stop Bohan underwriters from removing defective loans from pools, and would even alter underwriting guidelines to allow more defective loans into loan pools. One former Bohan due diligence underwriter from 2005 through 2007 who reviewed loans purchased by Goldman Sachs stated that 50% of the loans she reviewed were defective, that "you would have to be an idiot not to know that the loans were no good," and that the Wall Street banks – including Goldman Sachs – knew they were purchasing defective loans because they received daily reports summarizing the due diligence findings.

44. With regard to the unsampled portion of the purchase pools – *i.e.*, the vast majority of the loans – defendants simply purchased the loans in their entirety, ***sight unseen***. Moreover, on information and belief, defendants also used the significant, undisclosed material defect rates uncovered by their due diligence providers as leverage to force their loan suppliers to accept lower purchase prices for the loans, without passing the benefits of such discounts onto plaintiffs and other investors. None of the foregoing information was disclosed in the Offering Documents relied on by plaintiffs and their assignors, making such documents materially misleading.

45. The Offering Documents also failed to disclose that, at the same time Goldman Sachs was offering the certificates for sale to plaintiffs, the bank was also acquiring a massive "short" position on the RMBS market, through the use of credit default swaps ("CDSs") and other similar instruments, essentially betting that the very same certificates they were selling would default at significant rates.[4] *See* §VII.C, *infra*. As the Levin-Coburn Report described it, "Goldman obtained CDS protection and ***essentially bet against*** the very securities it was selling to clients. In each case, Goldman profited from the fall in value of the same securities it sold to its clients and which caused those clients to suffer substantial losses." Levin-Coburn Report at 516.[5]

46. In fact, Goldman Sachs shorted some of the very securities it sold to plaintiffs here. On May 17, 2007, a trader on Goldman Sachs' Mortgage Department's ABS Desk wrote to his supervisor about losses in the LBMLT 2006-A offering: "[B]ad news . . . [the loss] wipes out the m6s [mezzanine tranche] and makes a wipeout of the m5 imminent. . . . [C]osts us about 2.5 [million dollars]. . . . [G]ood news . . . [w]e own 10 [million dollars] protection at the m6 . . . [w]e make $5 [million]." *Id.* at 514. As explained by the Levin-Coburn Report, while "Goldman lost $2.5 million from the unsold Long Beach securities still on its books, [it] gained $5 million from the CDS contract shorting those same securities. Overall, Goldman profited from the decline of the same type of securities it had earlier sold to its customers." *Id.*

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[4] A CDS is a financial swap agreement in which the seller of the CDS agrees it will compensate the buyer in the event of a default or other credit event. Much like an insurance contract, the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if the credit event occurs. Goldman Sachs used CDS to bet certain RMBS would suffer credit events and decline in value.

[5] Carl Levin & Tom Coburn, *Wall Street and the Financial Crisis: Anatomy of a Financial Collapse*, Majority and Minority Staff Report, Permanent Subcommittee on Investigations, United States Senate, 112th Congress (Apr. 13, 2011) ("Levin-Coburn Report").

47. These short bets – which were placed with the benefit of material, undisclosed information provided to Goldman Sachs by its due diligence providers and otherwise through the bank's role in the RMBS structuring and offering process – ultimately made the Goldman Sachs Defendants billions of dollars in profits, in addition to the hefty fees the bank raked in for the structuring and sale of the certificates to plaintiffs and other investors. Indeed, the Goldman Sachs Defendants received ***at least $14 billion*** in CDS-related payments from AIG and AIG-related entities alone. *See* The Financial Crisis Inquiry Report ("FCIC Report") at 376-78. As Daniel Sparks, head of Goldman Sachs' mortgage department, bragged internally to fellow Goldman Sachs colleagues in January 2007, ***Goldman Sachs used its CDS scheme "'to make some lemonade from some big old lemons***.'" *Id.* at 236. Plaintiffs, however, were not nearly as fortunate, as this information was never disclosed in the Offering Documents distributed to and relied on by plaintiffs, making such documents materially misleading. Accordingly, it is no surprise that defendant Goldman Sachs & Co.'s own Chairman and CEO, Lloyd Blankfein, subsequently admitted to the Financial Crisis Inquiry Commission ("FCIC") on January 13, 2010, that defendants' conduct of selling certificates to investors like plaintiffs, while simultaneously purchasing CDSs and shorting the certificates, was "***improper***." *See* §VII.C, *infra*.

48. As a recent magazine article explained it, Goldman Sachs' undisclosed shorting scheme "was like a car dealership that realized it had a whole lot full of cars with faulty brakes. Instead of announcing a recall, it surged ahead with a two-fold plan to make a fortune: first, by dumping the dangerous products on other people, and second, by taking out life insurance against the fools who bought the deadly cars." Matt Taibbi, *The People vs. Goldman Sachs*, Rolling Stone, May 26, 2011, *available at* http://www.rollingstone.com/politics/news/the-people-vs-goldman-sachs-20110511. Similarly, a leading structured finance expert recently called this undisclosed scheme

'"the most cynical use of credit information that I have ever seen,' and compared it to 'buying fire insurance on someone else's house and then committing arson.'" *See* FCIC Report at 236.

B. Each of the Offering Documents Contained Material Misrepresentations

1. The GSAA 2007-1 Certificates

49. The GSAA Home Equity Trust 2007-1, Asset-Backed Certificates, Series 2007-1 ("GSAA 2007-1 Certificates") were issued pursuant to a Prospectus Supplement dated January 26, 2007. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAA 2007-1 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

50. Plaintiffs and/or their assignors purchased the following GSAA 2007-1 Certificates:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Phoenix	WestLB	A4A	3622EQAE5	1/30/2007	$10,000,000	Goldman Sachs & Co.
Phoenix	WestLB	A4B	3622EQAF2	1/30/2007	$17,651,000	Goldman Sachs & Co.

51. Each of the above purchases was made by WestLB's investment manager, Dynamic Credit Partners ("DCP"), in direct reliance upon the GSAA 2007-1 Offering Documents, including draft and/or final GSAA 2007-1 Prospectus Supplements. DCP's diligent investment processes are described in great detail in §VIII.D.2, *infra*.

a. Underwriting Guidelines

52. The GSAA 2007-1 Offering Documents disclosed that: approximately 43.26% of the GSAA 2007-1 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator Countrywide Home Loans, Inc. ("Countrywide"); approximately 50.27% of the GSAA 2007-1 Certificates' underlying loans were acquired by the sponsor, GSMC, through the Goldman

Sachs Mortgage Conduit Program ("GS Conduit Program"); and approximately 6.48% of the GSAA 2007-1 Certificates' underlying loans were acquired by the sponsor, GSMC, from "one (1) other [undisclosed] mortgage loan seller." *See* GSAA 2007-1 Prosp. Supp. at S-46.

53. With regard to the Countrywide loans, the GSAA 2007-1 Offering Documents represented that "Countrywide['s] . . . 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." *Id.* at S-54. The GSAA 2007-1 Offering Documents further represented that "a prospective borrower must generally demonstrate that the ratio of the borrower's monthly housing expenses (including principal and interest on the proposed mortgage loan and, as applicable, the related monthly portion of property taxes, hazard insurance and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt to the monthly gross income (the 'debt-to-income' ratios) are within acceptable limits." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.4, *infra*.

54. With regard to the GS Conduit Program loans, the GSAA 2007-1 Offering Documents represented that "the originating lender makes a determination about whether the borrower's monthly income (when verified or stated) will be sufficient to enable the borrower to meet their monthly obligations on the mortgage loan (including taxes and insurance) and their other non-housing obligations (such as installment and revolving loans)," and that "[g]enerally, the ratio of total monthly obligations divided by total monthly gross income is less than or equal to 50%." *See*

GSAA 2007-1 Prosp. Supp. at S-60. The GSAA 2007-1 Offering Documents further represented that "[a]n appraisal is generally conducted on each mortgaged property by the originating lender." *Id*. at S-62. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, VII, *infra*.

55. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a loan for $851,200 in 2006 which was contained within the GSAA 2007-1 offering. The loan was originated through the GS Conduit Program, one of the loan originators identified in the GSAA 2007-1 Offering Documents. ***This borrower had income in 2006 of only $875 per month***, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $8,064, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy after obtaining the loan at issue, in 2007.

b. Loan-to-Value Ratios

56. The GSAA 2007-1 Offering Documents also made certain misrepresentations regarding the loan-to-value ("LTV") ratios associated with the loans supporting the GSAA 2007-1

Certificates purchased by plaintiffs and/or their assigning entities.[6] Specifically, the GSAA 2007-1 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' GSAA 2007-1 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAA 2007-1 Certificates had LTV ratios over 100%.

57. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' GSAA 2007-1 Certificates, which reveals that the LTV ratio percentages stated in the GSAA 2007-1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the GSAA 2007-1 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis[7]:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage Of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
A4A	3622EQAE5	All	2.91%	39.52%	0.00%	7.76%
A4B	3622EQAF2	All	2.91%	39.52%	0.00%	7.76%

c. Owner Occupancy Rates

58. The GSAA 2007-1 Offering Documents also made certain misrepresentations regarding the owner occupancy rates ("OOR" or "Primary Residence Percentages") associated with the loans supporting the GSAA 2007-1 Certificates purchased by plaintiffs and/or their assigning

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

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

entities.[8] Specifically, the GSAA 2007-1 Offering Documents represented that a large percentage of the loans supporting plaintiffs' GSAA 2007-1 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

59. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSAA 2007-1 Certificates, which reveals that the OOR percentages stated in the GSAA 2007-1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the Primary Residence Percentages stated in the GSAA 2007-1 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:[9]

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
A4A	3622EQAE5	All	80.27%	72.54%	10.65%
A4B	3622EQAF2	All	80.27%	72.54%	10.65%

d. Credit Ratings

60. The GSAA 2007-1 Offering Documents also represented that the GSAA 2007-1 Certificates purchased by plaintiffs had been assigned certain high "investment grade" credit ratings by Standard & Poor's ("S&P") and Moody's Investor Services ("Moody's"), indicating that the

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

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

securities were very strong, safe investments with an extremely low probability of default.[10] Specifically, the GSAA 2007-1 Offering Documents represented that plaintiffs' GSAA 2007-1 Certificates had each been assigned AAA/aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.[11]

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

62. The falsity of the credit ratings set forth in the GSAA 2007-1 Offering Documents is confirmed by subsequent events. Specifically, ***more than 30% of the loans supporting plaintiffs' GSAA 2007-1 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them.[12] Moreover, each of plaintiffs' "investment

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

[11] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §VI.D, *infra* (citing Levin-Coburn Report at 6).

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

grade" GSAA 2007-1 Certificates is now rated at "junk" status. Clearly, plaintiffs' GSAA 2007-1 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the GSAA 2007-1 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
A4A	3622EQAE5	All	31.18%	Aaa	Ca	AAA	CCC
A4B	3622EQAF2	All	31.18%	Aaa	C	AAA	CCC

2. The LBMLT 2006-A Certificates

63. The Long Beach Mortgage Loan Trust 2006-A, Mortgage Pass-Through Certificates, Series 2006-A ("LBMLT 2006-A Certificates") were issued pursuant to a Prospectus Supplement dated April 26, 2006. Defendant Goldman Sachs & Co., as co-lead underwriter, played a critical role in the fraudulent structuring, offering and sale of the LBMLT 2006-A Certificates.

64. Plaintiffs and/or their assignors purchased the following LBMLT 2006-A Certificates:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Blue Heron II	Blue Heron II	M1	542515AD3	4/27/2006	$3,000,000	Goldman Sachs & Co.
Blue Heron IX	Blue Heron IX	M1	542515AD3	4/27/2006	$3,000,000	Goldman Sachs & Co.
Blue Heron V	Blue Heron V	M1	542515AD3	4/27/2006	$3,000,000	Goldman Sachs & Co.
Blue Heron VI	Blue Heron VI	M1	542515AD3	4/27/2006	$3,000,000	Goldman Sachs & Co.
Blue Heron VII	Blue Heron VII	M1	542515AD3	4/27/2006	$3,000,000	Goldman Sachs & Co.
Phoenix	Blue Heron III	M1	542515AD3	4/27/2006	$3,000,000	Goldman Sachs & Co.

65. The above purchases were made by the original purchasers' investment manager, Brightwater, in direct reliance upon the LBMLT 2006-A Offering Documents, including draft and/or

final LBMLT 2006-A Prospectus Supplements. Brightwater's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

66. The LBMLT 2006-A Offering Documents disclosed that 100% of the LBMLT 2006-A Certificates' underlying loans were acquired from loan originator Long Beach Mortgage Company ("Long Beach"). *See* LBMLT 2006-A Prosp. Supp. at S-1.

67. The LBMLT 2006-A Offering Documents represented that Long Beach's "underwriting guidelines are primarily intended to evaluate the applicant's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral for the mortgage loan." *Id.* at S-10; *see also id.* at S-27. The LBMLT 2006-A Offering Documents further represented that Long Beach's "considerations in underwriting a mortgage loan include a mortgagor's credit history, repayment ability and debt service-to-income ratio and the value and adequacy of the mortgaged property as collateral, as well as the type and use of the mortgaged property." *Id.* at S-10; *see also id.* at S-27. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Long Beach had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.10, *infra*.

68. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a second-lien loan for $155,000 in 2005 which was contained within the LBMLT 2006-A offering. The loan was originated through Long Beach, the loan originator identified in the

LBMLT 2006-A Offering Documents. This borrower had income in 2005 of $3,653 per month, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $5,835, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy shortly after obtaining the loan at issue, in 2006.

b. LTV Ratios

69. The LBMLT 2006-A Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the LBMLT 2006-A Certificates purchased by plaintiffs and/or their assigning entities.[13] Specifically, the LBMLT 2006-A Offering Documents represented that ***none*** of the loans supporting plaintiffs' LBMLT 2006-A Certificates had LTV ratios over 100%.

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

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

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

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
M1	542515AD3	All	0.00%	27.80%

c. Owner Occupancy Rates

71. The LBMLT 2006-A Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the LBMLT 2006-A Certificates purchased by plaintiffs and/or their assigning entities.[14] Specifically, the LBMLT 2006-A Offering Documents represented that 100% of the loans supporting plaintiffs' LBMLT 2006-A Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

72. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' LBMLT 2006-A Certificates, which reveals that the OOR percentages stated in the LBMLT 2006-A Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the LBMLT 2006-A Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
M1	542515AD3	All	100%	94.70%	5.60%

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

d. Credit Ratings

73. The LBMLT 2006-A Offering Documents also represented that the LBMLT 2006-A Certificates purchased by plaintiffs had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default.[15] Specifically, the LBMLT 2006-A Offering Documents represented that plaintiffs' LBMLT 2006-A Certificates had each been assigned AA/Aa2 ratings – signifying extremely safe and stable securities.

74. These representations, however, were false and misleading when made. In truth, plaintiffs' LBMLT 2006-A Certificates should not have received AA/Aa2 credit ratings, because they were ***not*** safe, "investment grade" securities. Rather, as defendants were well aware, plaintiffs' LBMLT 2006-A Certificates were extremely risky, speculative grade "junk" bonds, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiffs' LBMLT 2006-A Certificates was because defendants had fed them falsified information regarding the LBMLT 2006-A Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

75. The falsity of the credit ratings set forth in the LBMLT 2006-A Offering Documents is confirmed by subsequent events. Specifically, ***nearly 20% of the loans supporting plaintiffs' LBMLT 2006-A Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, each of plaintiffs' "investment grade" LBMLT 2006-A Certificates is now rated at "junk" status. Indeed, the ratings have been officially withdrawn by the rating agencies. Clearly, plaintiffs' LBMLT 2006-A

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

Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the LBMLT 2006-A Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
M1	542515AD3	All	18.49%	Aa2	WR	AA	NR

3. The FFML 2006-FF13 Certificates

76. The First Franklin Mortgage Loan Trust 2006-FF13, Mortgage Pass-Through Certificates, Series 2006-FF13 ("FFML 2006-FF13 Certificates") were issued pursuant to a Prospectus Supplement dated September 26, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the FFML 2006-FF13 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

77. Plaintiffs and/or their assignors purchased the following FFML 2006-FF13 Certificate:

Plaintiff	**Original Purchaser**	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Seller**
Phoenix	WestLB	A2D	30247DAE1	9/28/2006	$30,000,000	Goldman Sachs & Co.

78. The above purchase was made by WestLB's investment manager, DCP, in direct reliance upon the FFML 2006-FF13 Offering Documents, including draft and/or final FFML 2006-FF13 Prospectus Supplements. DCP's diligent investment processes are described in great detail in §VII.D.2, *infra*.

a. Underwriting Guidelines

79. The FFML 2006-FF13 Offering Documents disclosed that 100% of the FFML 2006-FF13 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator First Franklin Financial Corporation ("First Franklin"). *See* FFML 2006-FF13 Prosp. Supp. at S-9.

80. The FFML 2006-FF13 Offering Documents represented that First Franklin's "acquisition underwriting standards are primarily intended to assess the ability and willingness of the borrower to repay the debt and to evaluate the adequacy of the mortgaged property as collateral for the mortgage loan." *Id.* at S-37. The FFML 2006-FF13 Offering Documents further represented that "the third party originators must consider, among other things, a mortgagor's credit history, repayment ability and debt service to income ratio ('Debt Ratio'), as well as the value, type and use of the mortgaged property." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that First Franklin had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.7, *infra*.

81. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a loan for $907,000 in 2006 which was contained within the FFML 2006-FF13 offering. The loan was originated through First Franklin, the loan originator identified in the FFML 2006-FF13 Offering Documents. This borrower had income in 2006 of $6,774 per month, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $9,353, far in excess of the borrower's monthly income***. The borrower's monthly debt

payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy after obtaining the loan at issue, in 2007.

b. LTV Ratios

82. The FFML 2006-FF13 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the FFML 2006-FF13 Certificate purchased by plaintiffs and/or their assigning entities.[16] Specifically, the FFML 2006-FF13 Offering Documents represented that only a small percentage of the loans supporting plaintiffs' FFML 2006-FF13 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' FFML 2006-FF13 Certificate had LTV ratios over 100%.

83. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' FFML 2006-FF13 Certificate, which reveals that the LTV ratio percentages stated in the FFML 2006-FF13 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the FFML 2006-FF13 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
A2D	30247DAE1	Group II	29.25%	46.49%	0.00%	13.24%

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

c. Owner Occupancy Rates

84. The FFML 2006-FF13 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the FFML 2006-FF13 Certificate purchased by plaintiffs and/or their assigning entities.[17] Specifically, the FFML 2006-FF13 Offering Documents represented that a large percentage of the loans supporting plaintiffs' FFML 2006-FF13 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

85. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' FFML 2006-FF13 Certificate, which reveals that the OOR percentages stated in the FFML 2006-FF13 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the FFML 2006-FF13 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
A2D	30247DAE1	Group II	96.25%	82.66%	16.44%

d. Credit Ratings

86. The FFML 2006-FF13 Offering Documents also represented that the FFML 2006-FF13 Certificate purchased by plaintiffs had been assigned a high "investment grade" credit rating by S&P and Moody's, indicating that the security was a very strong, safe investment with an

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

extremely low probability of default.[18] Specifically, the FFML 2006-FF13 Offering Documents represented that plaintiffs' FFML 2006-FF13 Certificate had been assigned a AAA/Aaa rating – the highest, safest credit rating available, which is in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.[19]

87. These representations, however, were false and misleading when made. In truth, plaintiffs' FFML 2006-FF13 Certificate should not have received a AAA/Aaa credit rating, because it was ***not*** a safe, "investment grade" security with "less than [a] 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiffs' FFML 2006-FF13 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such a high rating to plaintiffs' FFML 2006-FF13 Certificate was because defendants had fed them falsified information regarding the FFML 2006-FF13 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

88. The falsity of the credit ratings set forth in the FFML 2006-FF13 Offering Documents is confirmed by subsequent events. Specifically, ***more than 47% of the loans supporting plaintiffs' FFML 2006-FF13 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiffs' "investment grade" FFML 2006-FF13 Certificate is now rated at "junk" status. Clearly, plaintiffs' FFML 2006-FF13 Certificate was not the highly rated, "investment grade" security defendants represented it to

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

[19] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §VI.D, *infra* (citing Levin-Coburn Report at 6).

be. The evidence supporting the falsity of the FFML 2006-FF13 Certificate's credit rating is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
A2D	30247DAE1	Group II	47.67%	Aaa	Caa3	AAA	CCC

4. The GSAA 2006-10 Certificates

89. The GSAA Home Equity Trust 2006-10, Asset-Backed Certificates, Series 2006-10 ("GSAA 2006-10 Certificates") were issued pursuant to a Prospectus Supplement dated June 26, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAA 2006-10 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

90. Plaintiffs and/or their assignors purchased the following GSAA 2006-10 Certificates:

Plaintiff	**Original Purchaser**	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Seller**
Silver Elms II	WestLB	AF5	362375AE7	5/26/2006	$7,000,000.00	Goldman Sachs & Co.
Silver Elms II	WestLB	M4	362375AK3	5/26/2006	$4,579,000.00	Goldman Sachs & Co.
Silver Elms II	WestLB	M5	362375AL1	5/26/2006	$2,000,000.00	Goldman Sachs & Co

91. Each of the above purchases was made by WestLB's investment manager, Eiger Capital ("Eiger"), in direct reliance upon the GSAA 2006-10 Offering Documents, including draft and/or final GSAA 2006-10 Prospectus Supplements. Eiger's diligent investment processes are described in great detail in §VIII.C.2, *infra*.

a. Underwriting Guidelines

92. The GSAA 2006-10 Offering Documents disclosed that approximately 49.74% of the GSAA 2006-10 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan

originator American Home Mortgage Corp. ("American Home"); approximately 36.35% of the GSAA 2006-10 Certificates' underlying loans were acquired by the sponsor, GSMC, through the GS Conduit Program; and approximately 13.91% of the GSAA 2006-10 Certificates' underlying loans were acquired by the sponsor, GSMC, from "six other mortgage loan sellers." *See* GSAA 2006-10 Prosp. Supp. at S-38.

93. With regard to the American Home loans, the GSAA 2006-10 Offering Documents represented that "[t]he Originator's underwriting philosophy is to weigh all risk factors inherent in the loan file, giving consideration to the individual transaction, borrower profile, the level of documentation provided and the property used to collateralize the debt," and that "[t]he Originator underwrites a borrower's creditworthiness based solely on information that the Originator believes is indicative of the applicant's willingness and ability to pay the debt they would be incurring." *Id.* at S-42. The GSAA 2006-10 Offering Documents also represented that "[i]n addition to the monthly housing expense, the underwriter must evaluate the borrower's ability to manage all recurring payments on all debts, including the monthly housing expense," and that "[w]hen evaluating the ratio of all monthly debt payments to the borrower's monthly income (debt-to-income ratio), the underwriter should be aware of the degree and frequency of credit usage and its impact on the borrower's ability to repay the loan." *Id.* at S-43. The GSAA 2006-10 Offering Documents further represented that "[e]very mortgage loan is secured by a property that has been appraised by a licensed appraiser in accordance with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that American Home had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual

repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.6, *infra*.

94. With regard to the GS Conduit Program loans, the GSAA 2006-10 Offering Documents represented that "the originating lender makes a determination about whether the borrower's monthly income (if required to be stated) will be sufficient to enable the borrower to meet its monthly obligations on the mortgage loan and other expenses related to the property, including property taxes, utility costs, standard hazard insurance and other fixed and revolving obligations other than housing expenses," and that "[g]enerally, scheduled payments on a mortgage loan during the first twelve months of its term plus taxes and insurance and all scheduled payments on obligations that extend beyond ten months may equal no more than a specified percentage of the prospective borrower's gross income . . . determined on the basis of various underwriting criteria, including the LTV ratio of the mortgage loan and, in certain instances, the amount of liquid assets available to the borrower after origination." *See* GSAA 2006-10 Prosp. Supp. at S-45. The GSAA 2006-10 Offering Documents further represented that "[a]n appraisal is generally conducted on each mortgaged property by the originating lender . . . in accordance with established appraisal procedure guidelines acceptable to the originator in order to determine the adequacy of the mortgaged property as security for repayment of the related mortgage loan." *Id*. at S-47. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, VII, *infra*.

95. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a loan for $2,000,000 in 2006 which was contained within the GSAA 2006-10 offering. The loan was originated by American Home, one of the loan originators identified in the GSAA 2006-10 Offering Documents. This borrower had income in 2006 of $4,696 per month, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $16,934, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy after obtaining the loan at issue, in 2007.

b. LTV Ratios

96. The GSAA 2006-10 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSAA 2006-10 Certificates purchased by plaintiffs and/or their assigning entities.[20] Specifically, the GSAA 2006-10 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' GSAA 2006-10 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAA 2006-10 Certificates had LTV ratios over 100%.

97. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' GSAA 2006-10 Certificates, which reveals that the LTV ratio percentages stated in the GSAA 2006-10 Offering Documents were materially false ***at the time***

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

they were made. The following chart summarizes the LTV ratio percentages stated in the GSAA 2006-10 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
AF5	362375AE7	All	5.85%	39.59%	0.00%	11.09%
M4	362375AK3	All	5.85%	39.59%	0.00%	11.09%
M5	362375AL1	All	5.85%	39.59%	0.00%	11.09%

c. Owner Occupancy Rates

98. The GSAA 2006-10 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSAA 2006-10 Certificates purchased by plaintiffs and/or their assigning entities.[21] Specifically, the GSAA 2006-10 Offering Documents represented that a large percentage of the loans supporting plaintiffs' GSAA 2006-10 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

99. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSAA 2006-10 Certificates, which reveals that the OOR percentages stated in the GSAA 2006-10 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSAA 2006-10 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

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

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
AF5	362375AE7	All	71.72%	60.87%	17.83%
M4	362375AK3	All	71.72%	60.87%	17.83%
M5	362375AL1	All	71.72%	60.87%	17.83%

d. Credit Ratings

100. The GSAA 2006-10 Offering Documents also represented that the GSAA 2006-10 Certificates purchased by plaintiffs had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default.[22] Specifically, the GSAA 2006-10 Offering Documents represented that plaintiffs' GSAA 2006-10 Certificates had each been assigned Aaa/AAA[23], A1/A+ and A2/A ratings, respectively, signifying that they were extremely safe "investment grade" securities.

101. These representations, however, were false and misleading when made. In truth, plaintiffs' GSAA 2006-10 Certificates should not have received Aaa/AAA, A1/A+ and A2/A credit ratings, because they were ***not*** safe, "investment grade" securities. Rather, as defendants were well aware, plaintiffs' GSAA 2006-10 Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiffs' GSAA 2006-10 Certificates was because defendants had fed them falsified information regarding the GSAA 2006-10 Certificates'

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

[23] Aaa/AAA are the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt. As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* ¶VI.D, *infra* (citing Levin-Coburn Report at 6).

underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

102. The falsity of the credit ratings set forth in the GSAA 2006-10 Offering Documents is confirmed by subsequent events. Specifically, ***over 27% of the loans supporting plaintiffs' GSAA 2006-10 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, each of plaintiffs' "investment grade" GSAA 2006-10 Certificates is now rated at "junk" status or below. Clearly, plaintiffs' GSAA 2006-10 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the GSAA 2006-10 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
AF5	362375AE7	All	27.38%	Aaa	Caa3	AAA	D
M4	362375AK3	All	27.38%	A1	WR	A+	D
M5	362375AL1	All	27.38%	A2	WR	A	D

5. The GSAA 2006-11 Certificates

103. The GSAA Home Equity Trust 2006-11, Asset-Backed Certificates, Series 2006-11 ("GSAA 2006-11 Certificates") were issued pursuant to a Prospectus Supplement dated June 29, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAA 2006-11 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

104. Plaintiffs and/or their assignors purchased the following GSAA 2006-11 Certificate:

Plaintiff	**Original Purchaser**	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Seller**
Phoenix	WestLB	2A3B	362367AE4	6/30/2006	$26,748,000.00	Goldman Sachs & Co.

105. The above purchase was made by WestLB's investment manager, DCP, in direct reliance upon the GSAA 2006-11 Offering Documents, including draft and/or final GSAA 2006-11 Prospectus Supplements. DCP's diligent investment processes are described in great detail in §VIII.D.2, *infra*.

a. Underwriting Guidelines

106. The GSAA 2006-11 Offering Documents disclosed that: approximately 42.33% of the GSAA 2006-11 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator Countrywide; approximately 12.32% of the GSAA 2006-11 Certificates' underlying loans were acquired by the sponsor, GSMC, through the GS Conduit Program; approximately 14.25% of the GSAA 2006-11 Certificates' underlying loans were acquired by the sponsor, GSMC, through loan originator National City Mortgage Co. ("National City"); approximately 13.48% of the GSAA 2006-11 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator GreenPoint Mortgage Funding, Inc. ("GreenPoint"); and approximately 17.61% of the GSAA 2006-11 Certificates' underlying loans were acquired by the sponsor, GSMC, from "the other two (2) mortgage loan sellers." *See* GSAA 2006-11 Prosp. Supp. at S-44.

107. With regard to the Countrywide loans, the GSAA 2006-11 Offering Documents represented that "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." *Id.* at S-52. The GSAA 2006-11 Offering Documents further represented that "a prospective borrower must generally demonstrate that the ratio of the borrower's monthly housing expenses (including principal and interest on the proposed mortgage loan and, as applicable, the related monthly portion of property taxes, hazard insurance and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt to the monthly gross income (the 'debt-to-income' ratios) are within

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

108. With regard to the GS Conduit Program loans, the GSAA 2006-11 Offering Documents represented that "the originating lender makes a determination about whether the borrower's monthly income (if required to be stated) will be sufficient to enable the borrower to meet its monthly obligations on the mortgage loan and other expenses related to the property, including property taxes, utility costs, standard hazard insurance and other fixed and revolving obligations other than housing expenses," and that "[g]enerally, scheduled payments on a mortgage loan during the first twelve months of its term plus taxes and insurance and all scheduled payments on obligations that extend beyond ten months may equal no more than a specified percentage of the prospective borrower's gross income." *See* GSAA 2006-11 Prosp. Supp. at S-58. The GSAA 2006-11 Offering Documents further represented that "[a]n appraisal is generally conducted on each mortgaged property by the originating lender." *Id*. at S-61. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, VII, *infra*.

109. With regard to the National City and the GreenPoint loans, and "the other two" mortgage loan sellers' loans, the GSAA 2006-11 Offering Documents represented that these mortgage loans "were originated or acquired generally in accordance with the underwriting guidelines described in [the] prospectus supplement" of either Countrywide or the GS Conduit Program. *See* GSAA 2006-11 Prosp. Supp. at S-45. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, VII, *infra*.

110. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a loan for $680,000 in 2006 which was contained within the GSAA 2006-11 offering. The loan was originated by GreenPoint, one of the loan originators identified in the GSAA 2006-11 Offering Documents. ***This borrower had income in 2006 of only $340 per month***, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $6,452, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy after obtaining the loan at issue, in 2007.

b. LTV Ratios

111. The GSAA 2006-11 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSAA 2006-11 Certificate purchased by plaintiffs and/or their assigning entities.[24] Specifically, the GSAA 2006-11 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' GSAA 2006-11 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAA 2006-11 Certificate had LTV ratios over 100%.

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

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
2A3B	362367AE4	All	5.92 %	37.57%	0.00%	7.84%

c. Owner Occupancy Rates

113. The GSAA 2006-11 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSAA 2006-11 Certificate purchased by plaintiffs and/or their assigning entities.[25] Specifically, the GSAA 2006-11 Offering

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

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

Documents represented that a large percentage of the loans supporting plaintiffs' GSAA 2006-11 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

114. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSAA 2006-11 Certificate, which reveals that the OOR percentages stated in the GSAA 2006-11 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSAA 2006-11 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
2A3B	362367AE4	All	80.52%	71.16%	13.15%

d. Credit Ratings

115. The GSAA 2006-11 Offering Documents also represented that the GSAA 2006-11 Certificate purchased by plaintiffs had been assigned a high "investment grade" credit rating by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default.[26] Specifically, the GSAA 2006-11 Offering Documents represented that plaintiffs' GSAA 2006-11 Certificate had been assigned a AAA/Aaa rating – the highest, safest credit rating available, which is in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.[27]

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

[27] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* ¶VI.D, *infra* (citing Levin-Coburn Report at 6).

116. These representations, however, were false and misleading when made. In truth, plaintiffs' GSAA 2006-11 Certificate should not have received a AAA/Aaa credit rating, because it was ***not*** a safe, "investment grade" security with "less than [a] 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiffs' GSAA 2006-11 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such a high rating to plaintiffs' GSAA 2006-11 Certificate was because defendants had fed them falsified information regarding the GSAA 2006-11 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

117. The falsity of the credit ratings set forth in the GSAA 2006-11 Offering Documents is confirmed by subsequent events. Specifically, ***more than 30% of the loans supporting plaintiffs' GSAA 2006-11 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiffs' "investment grade" GSAA 2006-11 Certificate is now rated at "junk" status. Clearly, plaintiffs' GSAA 2006-11 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the GSAA 2006-11 Certificate's credit rating is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
2A3B	362367AE4	All	31.23%	Aaa	C	AAA	CCC

6. The GSAA 2006-13 Certificates

118. The GSAA Home Equity Trust 2006-13, Asset-Backed Certificates, Series 2006-13 ("GSAA 2006-13 Certificates") were issued pursuant to a Prospectus Supplement dated August 23,

2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAA 2006-13 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

119. Plaintiffs and/or their assignors purchased the following GSAA 2006-13 Certificates:

Plaintiff	**Original Purchaser**	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Seller**
Silver Elms II	West LB	AF4	36244SAD0	8/4/2006	$10,000,000	Goldman Sachs & Co.
Silver Elms II	West LB	AF5	36244SAE8	8/4/2006	$10,000,000	Goldman Sachs & Co.

120. Each of the above purchases was made by West LB's investment manager, Eiger, in direct reliance upon the GSAA 2006-13 Offering Documents, including draft and/or final GSAA 2006-13 Prospectus Supplements. Eiger's diligent investment processes are described in great detail in §VIII.C.2, *infra*.

a. Underwriting Guidelines

121. The GSAA 2006-13 Offering Documents disclosed that: approximately 66.51% of the GSAA 2006-13 Certificates' underlying loans were acquired by the sponsor, GSMC, through the GS Conduit Program, from loan originator Opteum Financial Services, LLC ("Opteum"); approximately 11.05% of the GSAA 2006-13 Certificates' underlying loans were acquired by the sponsor, GSMC, through the GS Conduit Program from originator DHI Mortgage Company, Ltd. ("DHI"); and approximately 22.44% of the GSAA 2006-13 Certificates' underlying loans were acquired by GSMC from "various other [undisclosed] mortgage loan sellers" under the GS Conduit Program. *See* GSAA 2006-13 Prosp. Supp. at S-37.

122. With regard to the GS Conduit Program loans, the GSAA 2006-13 Offering Documents represented that "the originating lender makes a determination about whether the borrower's monthly income (if required to be stated) will be sufficient to enable the borrower to meet its monthly obligations on the mortgage loan and other expenses related to the property,

including property taxes, utility costs, standard hazard insurance and other fixed and revolving obligations other than housing expenses." *Id.* at S-54. The GSAA 2006-13 Offering Documents further represented that "[a]n appraisal is generally conducted on each mortgaged property by the originating lender." *Id.* at S-56. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, VII, *infra*.

123. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a loan for $616,750 in 2006 which was contained within the GSAA 2006-13 offering. The loan was originated by Opteum, one of the loan originators identified in the GSAA 2006-13 Offering Documents. This borrower had income in 2006 of $4,465 per month, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $8,697, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy shortly after obtaining the loan at issue, in 2007.

b. LTV Ratios

124. The GSAA 2006-13 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSAA 2006-13 Certificates purchased by plaintiffs and/or their assigning entities.[28] Specifically, the GSAA 2006-13 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' GSAA 2006-13 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAA 2006-13 Certificates had LTV ratios over 100%.

125. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' GSAA 2006-13 Certificates, which reveals that the LTV ratio percentages stated in the GSAA 2006-13 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the GSAA 2006-13 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
AF4	36244SAD0	All	7.42%	42.16%	0.00%	11.20%
AF5	36244SAE8	All	7.42%	42.16%	0.00%	11.20%

c. Owner Occupancy Rates

126. The GSAA 2006-13 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSAA 2006-13 Certificates

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

purchased by plaintiffs and/or their assigning entities.[29] Specifically, the GSAA 2006-13 Offering Documents represented that a large percentage of the loans supporting plaintiffs' GSAA 2006-13 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

127. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSAA 2006-13 Certificates, which reveals that the OOR percentages stated in the GSAA 2006-13 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSAA 2006-13 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
AF4	36244SAD0	All	83.06%	72.54%	14.51%
AF5	36244SAE8	All	83.06%	72.54%	14.51%

d. Credit Ratings

128. The GSAA 2006-13 Offering Documents also represented that the GSAA 2006-13 Certificates purchased by plaintiffs had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default.[30] Specifically, the GSAA 2006-13 Offering Documents represented that plaintiffs' GSAA 2006-13 Certificates had each been assigned AAA/aaa ratings –

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

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

the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.[31]

129. These representations, however, were false and misleading when made. In truth, plaintiffs' GSAA 2006-13 Certificates should not have received AAA/aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "less than [a] 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiffs' GSAA 2006-13 Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiffs' GSAA 2006-13 Certificates was because defendants had fed them falsified information regarding the GSAA 2006-13 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

130. The falsity of the credit ratings set forth in the GSAA 2006-13 Offering Documents is confirmed by subsequent events. Specifically, ***more than 30% of the loans supporting plaintiffs' GSAA 2006-13 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, each of plaintiffs' "investment grade" GSAA 2006-13 Certificates is now rated at "junk" status or below. Clearly, plaintiffs' GSAA 2006-13 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the GSAA 2006-13 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

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[31] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §VI.D, *infra* (citing Levin-Coburn Report at 6).

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
AF4	36244SAD0	All	30.82%	Aaa	Caa3	AAA	D
AF5	36244SAE8	All	30.82%	Aaa	Caa3	AAA	D

7. The GSAA 2006-14 Certificates

131. The GSAA Home Equity Trust 2006-14, Asset-Backed Certificates, Series 2006-14 ("GSAA 2006-14 Certificates") were issued pursuant to a Prospectus Supplement dated August 23, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAA 2006-14 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

132. Plaintiffs and/or their assignors purchased the following GSAA 2006-14 Certificates:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Phoenix	WestLB	A3A	36298YAC4	8/16/2006	$8,024,000.00	Goldman Sachs & Co.
Phoenix	WestLB	A3B	36298YAD2	8/16/2006	$20,837,000.00	Goldman Sachs & Co.

133. Each of the above purchases was made by WestLB's investment manager, DCP, in direct reliance upon the GSAA 2006-14 Offering Documents, including draft and/or final GSAA 2006-14 Prospectus Supplements. DCP's diligent investment processes are described in great detail in §VIII.D.2, *infra*.

a. Underwriting Guidelines

134. The GSAA 2006-14 Offering Documents disclosed that: approximately 40.04% of the GSAA 2006-14 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator Countrywide; approximately 22.35% of the GSAA 2006-14 Certificates' underlying loans were acquired by the sponsor, GSMC, through the GS Conduit Program; approximately 16.99% of

the GSAA 2006-14 Certificates' underlying loans were acquired by the sponsor, GSMC, through loan originator National City; approximately 15.85% of the GSAA 2006-14 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator GreenPoint; and approximately 4.78% of the GSAA 2006-14 Certificates' underlying loans were acquired by the sponsor, GSMC, from "the two other mortgage loan sellers." *See* GSAA 2006-14 Prosp. Supp. at S-41.

135. With regard to the Countrywide loans, the GSAA 2006-14 Offering Documents represented that "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." *Id.* at S-47. The GSAA 2006-14 Offering Documents further represented that "a prospective borrower must generally demonstrate that the ratio of the borrower's monthly housing expenses (including principal and interest on the proposed mortgage loan and, as applicable, the related monthly portion of property taxes, hazard insurance and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt to the monthly gross income (the 'debt-to-income' ratios) are within acceptable limits." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.4, *infra*.

136. With regard to the GS Conduit Program loans, the GSAA 2006-14 Offering Documents represented that "the originating lender makes a determination about whether the borrower's monthly income (if required to be stated) will be sufficient to enable the borrower to meet its monthly obligations on the mortgage loan and other expenses related to the property,

including property taxes, utility costs, standard hazard insurance and other fixed and revolving obligations other than housing expenses," and that "[g]enerally, scheduled payments on a mortgage loan during the first twelve months of its term plus taxes and insurance and all scheduled payments on obligations that extend beyond ten months may equal no more than a specified percentage of the prospective borrower's gross income." *See* GSAA 2006-14 Prosp. Supp. at S-53. The GSAA 2006-14 Offering Documents further represented that "[a]n appraisal is generally conducted on each mortgaged property by the originating lender." *Id*. at S-55. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, VII, *infra*.

137. With regard to the National City and GreenPoint loans, the GSAA 2006-14 Offering Documents represented that these mortgage loans "were originated or acquired generally in accordance with the underwriting guidelines described in [the] prospectus supplement" of either Countrywide or the GS Conduit Program. *See* GSAA 2006-14 Prosp. Supp. at S-41. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, VII, *infra*.

138. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, two borrowers obtained a loan for $468,000 in 2006 which was contained within the GSAA 2006-14 offering. The loan was originated through the GS Conduit Program, one of the loan originators identified in the GSAA 2006-14 Offering Documents. The borrowers had joint income in 2006 of $8,933.33 per month, according to their sworn bankruptcy filings. ***However, the borrowers' monthly debt payments were at least $14,591, far in excess of their monthly income***. The borrowers' monthly debt payments were in addition to the borrowers' monthly expenses for things such as taxes, utilities, groceries, health care, transportation and the like. Clearly, these borrowers could not afford to repay the loan. This is confirmed by the fact that the borrowers declared bankruptcy after obtaining the loan at issue, in 2007.

b. LTV Ratios

139. The GSAA 2006-14 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSAA 2006-14 Certificates purchased by plaintiffs and/or their assigning entities.[32] Specifically, the GSAA 2006-14 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' GSAA 2006-14 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAA 2006-14 Certificates had LTV ratios over 100%.

140. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' GSAA 2006-14 Certificates, which reveals that the LTV ratio percentages stated in the GSAA 2006-14 Offering Documents were materially false ***at the time***

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

they were made. The following chart summarizes the LTV ratio percentages stated in the GSAA 2006-14 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
A3A	36298YAC4	All	6.64 %	39.36%	0.00%	7.38%
A3B	36298YAD2	All	6.64 %	39.36%	0.00%	7.38%

c. Owner Occupancy Rates

141. The GSAA 2006-14 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSAA 2006-14 Certificates purchased by plaintiffs and/or their assigning entities.[33] Specifically, the GSAA 2006-14 Offering Documents represented that a large percentage of the loans supporting plaintiffs' GSAA 2006-14 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

142. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSAA 2006-14 Certificates, which reveals that the OOR percentages stated in the GSAA 2006-14 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSAA 2006-14 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

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

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
A3A	36298YAC4	All	78.04%	67.62%	15.40%
A3B	36298YAD2	All	78.04%	67.62%	15.40%

d. Credit Ratings

143. The GSAA 2006-14 Offering Documents also represented that the GSAA 2006-14 Certificates purchased by plaintiffs had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default.[34] Specifically, the GSAA 2006-14 Offering Documents represented that plaintiffs' GSAA 2006-14 Certificates had each been assigned AAA/Aaa ratings – the highest, safest credit ratings available, which are in fact the same, or even higher than, the current credit rating of U.S. Treasury debt.[35]

144. These representations, however, were false and misleading when made. In truth, plaintiffs' GSAA 2006-14 Certificates should not have received AAA/Aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "less than [a] 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiffs' GSAA 2006-14 Certificates were extremely risky, speculative grade "junk" bonds, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiffs' GSAA 2006-14 Certificates was because defendants had fed them falsified information regarding the GSAA 2006-14 Certificates' underlying loans, including, without limitation, false loan

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

[35] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §VI.D, *infra* (citing Levin-Coburn Report at 6).

underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

145. The falsity of the credit ratings set forth in the GSAA 2006-14 Offering Documents is confirmed by subsequent events. Specifically, ***more than 30% of the loans supporting plaintiffs' GSAA 2006-14 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, each of plaintiffs' "investment grade" GSAA 2006-14 Certificates is now rated at "junk" status. Clearly, plaintiffs' GSAA 2006-14 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the GSAA 2006-14 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
A3A	36298YAC4	All	30.63%	Aaa	Caa3	AAA	CCC
A3B	36298YAD2	All	30.63%	Aaa	C	AAA	CCC

8. The GSAA 2006-16 Certificates

146. The GSAA Home Equity Trust 2006-16, Asset-Backed Certificates, Series 2006-16 ("GSAA 2006-16 Certificates") were issued pursuant to a Prospectus Supplement dated September 27, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAA 2006-16 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

147. Plaintiffs and/or their assignors purchased the following GSAA 2006-16 Certificate:

Plaintiff	**Original Purchaser**	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Seller**
Phoenix	WestLB	A3A	362256AC3	9/28/2006	$30,000,000.00	Goldman Sachs & Co.

148. The above purchase was made by WestLB's investment manager, DCP, in direct reliance upon the GSAA 2006-16 Offering Documents, including draft and/or final GSAA 2006-16 Prospectus Supplements. DCP's diligent investment processes are described in great detail in §VIII.D.2, *infra*.

a. Underwriting Guidelines

149. The GSAA 2006-16 Offering Documents disclosed that: approximately 33.39% of the GSAA 2006-16 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator Countrywide; approximately 31.30% of the GSAA 2006-16 Certificates' underlying loans were acquired by the sponsor, GSMC, through the GS Conduit Program; approximately 10.18% of the GSAA 2006-16 Certificates' underlying loans were acquired by the sponsor, GSMC, through loan originator PHH Mortgage Corporation ("PHH"); approximately 15.79% of the GSAA 2006-16 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator GreenPoint; and approximately 9.35% of the GSAA 2006-16 Certificates' underlying loans were acquired by the sponsor, GSMC, from "the four other mortgage loan sellers." *See* GSAA 2006-16 Prosp. Supp. at S-41.

150. With regard to the Countrywide loans, the GSAA 2006-16 Offering Documents represented that "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." *Id.* at S-47. The GSAA 2006-16 Offering Documents further represented that "a prospective borrower must generally demonstrate that the ratio of the borrower's monthly housing expenses (including principal and interest on the proposed mortgage loan and, as applicable, the related monthly portion of property taxes, hazard insurance and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt to the monthly gross income (the 'debt-to-income' ratios) are within

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

151. With regard to the GS Conduit Program loans, the GSAA 2006-16 Offering Documents represented that "the originating lender makes a determination about whether the borrower's monthly income (if required to be stated) will be sufficient to enable the borrower to meet its monthly obligations on the mortgage loan and other expenses related to the property, including property taxes, utility costs, standard hazard insurance and other fixed and revolving obligations other than housing expenses," and that "[g]enerally, scheduled payments on a mortgage loan during the first twelve months of its term plus taxes and insurance and all scheduled payments on obligations that extend beyond ten months may equal no more than a specified percentage of the prospective borrower's gross income." *See* GSAA 2006-16 Prosp. Supp. at S-53. The GSAA 2006-16 Offering Documents further represented that "[a]n appraisal is generally conducted on each mortgaged property by the originating lender." *Id*. at S-55. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, VII, *infra*.

152. With regard to the PHH and GreenPoint loans, and "the four other" mortgage loan sellers' loans, the GSAA 2006-16 Offering Documents represented that these mortgage loans "were originated or acquired generally in accordance with the underwriting guidelines described in [the] prospectus supplement" of either Countrywide or the GS Conduit Program. *See* GSAA 2006-16 Prosp. Supp. at S-41. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through Countrywide and the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, VII, *infra*.

153. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a first-lien loan for $650,000 in 2006 which was contained within the GSAA 2006-16 offering. The loan was originated through the GS Conduit Program, one of the loan originators identified in the GSAA 2006-16 Offering Documents. The borrower also obtained a second mortgage on the property at the same time he obtained the first-lien loan. The borrower had joint (with his wife) income in 2006 of $4,167 per month, according to the borrower's sworn bankruptcy filings. ***However, the borrower's debt payments on the subject property alone were at least $5,971.52 per month, far in excess of the borrower's monthly income, plus the borrower had other additional monthly debts***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation and the like. Clearly, this borrower, whose mortgage payments on the subject property alone

exceeded his income, could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy after obtaining the loan at issue, in 2007.

b. LTV Ratios

154. The GSAA 2006-16 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSAA 2006-16 Certificate purchased by plaintiffs and/or their assigning entities.[36] Specifically, the GSAA 2006-16 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' GSAA 2006-16 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAA 2006-16 Certificate had LTV ratios over 100%.

155. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' GSAA 2006-16 Certificate, which reveals that the LTV ratio percentages stated in the GSAA 2006-16 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the GSAA 2006-16 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
A3A	362256AC3	All	7.55 %	43.04%	0.00%	8.72%

c. Owner Occupancy Rates

156. The GSAA 2006-16 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSAA 2006-16 Certificate

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

purchased by plaintiffs and/or their assigning entities.[37] Specifically, the GSAA 2006-16 Offering Documents represented that a large percentage of the loans supporting plaintiffs' GSAA 2006-16 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

157. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSAA 2006-16 Certificate, which reveals that the OOR percentages stated in the GSAA 2006-16 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSAA 2006-16 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
A3A	362256AC3	All	78.90%	69.83%	12.99%

d. Credit Ratings

158. The GSAA 2006-16 Offering Documents also represented that the GSAA 2006-16 Certificate purchased by plaintiffs had been assigned a high "investment grade" credit rating by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default.[38] Specifically, the GSAA 2006-16 Offering Documents represented that plaintiffs' GSAA 2006-16 Certificate had been assigned a AAA/Aaa rating – the highest, safest

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

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

credit rating available, which is in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.[39]

159. These representations, however, were false and misleading when made. In truth, plaintiffs' GSAA 2006-16 Certificate should not have received a AAA/Aaa credit rating, because it was ***not*** a safe, "investment grade" security with "less than [a] 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiffs' GSAA 2006-16 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such a high rating to plaintiffs' GSAA 2006-16 Certificate was because defendants had fed them falsified information regarding the GSAA 2006-16 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

160. The falsity of the credit ratings set forth in the GSAA 2006-16 Offering Documents is confirmed by subsequent events. Specifically, ***more than 30% of the loans supporting plaintiffs' GSAA 2006-16 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiffs' "investment grade" GSAA 2006-16 Certificate is now rated at "junk" status. Clearly, plaintiffs' GSAA 2006-16 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the GSAA 2006-16 Certificate's credit rating is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

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[39] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §VI.D, *infra* (citing Levin-Coburn Report at 6).

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
A3A	362256AC3	All	31.65%	Aaa	Ca	AAA	CCC

9. The GSAA 2006-17 Certificates

161. The GSAA Home Equity Trust 2006-17, Asset-Backed Certificates, Series 2006-17 ("GSAA 2006-17 Certificates") were issued pursuant to a Prospectus Supplement dated October 26, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAA 2006-17 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

162. Plaintiffs and/or their assignors purchased the following GSAA 2006-17 Certificate:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Phoenix	WestLB	A3B	362257AD9	10/17/2006	$19,875,000.00	Goldman Sachs & Co.

163. The above purchase was made by WestLB's investment manager, DCP, in direct reliance upon the GSAA 2006-17 Offering Documents, including draft and/or final GSAA 2006-17 Prospectus Supplements. DCP's diligent investment processes are described in great detail in §VIII.D., *infra*.

a. Underwriting Guidelines

164. The GSAA 2006-17 Offering Documents disclosed that: approximately 29.36% of the GSAA 2006-17 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator Countrywide; approximately 22.94% of the GSAA 2006-17 Certificates' underlying loans were acquired by the sponsor, GSMC, through the GS Conduit Program; approximately 22.29% of the GSAA 2006-17 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator SunTrust Mortgage, Inc. ("SunTrust"); approximately 11.97% of the GSAA 2006-17

Certificates' underlying loans were acquired by the sponsor, GSMC, through loan originator IndyMac Bank, F.S.B ("IndyMac"); and approximately 13.43% of the GSAA 2006-17 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator GreenPoint. *See* GSAA 2006-17 Prosp. Supp. at S-42.

165. With regard to the Countrywide loans, the GSAA 2006-17 Offering Documents represented that "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." *Id.* at S-48. The GSAA 2006-17 Offering Documents further represented that "a prospective borrower must generally demonstrate that the ratio of the borrower's monthly housing expenses (including principal and interest on the proposed mortgage loan and, as applicable, the related monthly portion of property taxes, hazard insurance and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt to the monthly gross income (the 'debt-to-income' ratios) are within acceptable limits." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.4, *infra*.

166. With regard to the GS Conduit Program loans, the GSAA 2006-17 Offering Documents represented that "the originating lender makes a determination about whether the borrower's monthly income (if required to be stated) will be sufficient to enable the borrower to meet its monthly obligations on the mortgage loan and other expenses related to the property, including property taxes, utility costs, standard hazard insurance and other fixed and revolving

obligations other than housing expenses," and that "[g]enerally, scheduled payments on a mortgage loan during the first twelve months of its term plus taxes and insurance and all scheduled payments on obligations that extend beyond ten months may equal no more than a specified percentage of the prospective borrower's gross income." *See* GSAA 2006-17 Prosp. Supp. at S-54. The GSAA 2006-17 Offering Documents further represented that "[a]n appraisal is generally conducted on each mortgaged property by the originating lender." *Id*. at S-56. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, without any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, IV, *infra*.

167. With regard to the SunTrust loans, the GSAA 2006-17 Offering Documents represented that their "underwriting guidelines generally follow standard Fannie Mae guidelines. They are designed to evaluate the borrower's capacity to repay the loan, to evaluate the credit history of the borrower, to verify the availability of funds required for closing and cash reserves for fully documented loans, and to evaluate the acceptability and marketability of the property to be used as collateral." *Id.* at S-58. The GSAA 2006-17 Offering Documents further represented that "generally an independent appraisal is made of each mortgaged property considered for financing." *Id.* at S-59. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that SunTrust had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.12, *infra*.

168. With regard to the IndyMac and GreenPoint loans, the GSAA 2006-17 Offering Documents represented that these mortgage loans "were originated or acquired generally in accordance with the underwriting guidelines described in [the] prospectus supplement" of either Countrywide, the GS Conduit Program or SunTrust. *See* GSAA 2006-17 Prosp. Supp. at S-42, S-43. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, without any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §VI.A.2.

169. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a loan for $371,068 in 2006 which was contained within the GSAA 2006-17 offering. The loan was originated through the GS Conduit Program, one of the loan originators identified in the GSAA 2006-17 Offering Documents. This borrower had joint (with his wife) income in 2006 of $4,472 per month, according to the borrower's and his wife's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $5,841, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower and his wife declared bankruptcy after obtaining the loan at issue, in 2007.

b. LTV Ratios

170. The GSAA 2006-17 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSAA 2006-17 Certificate purchased by plaintiffs and/or their assigning entities.[40] Specifically, the GSAA 2006-17 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' GSAA 2006-17 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAA 2006-17 Certificate had LTV ratios over 100%.

171. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' GSAA 2006-17 Certificate, which reveals that the LTV ratio percentages stated in the GSAA 2006-17 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the GSAA 2006-17 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
A3B	362257AD9	All	4.42 %	44.36%	0.00%	11.09%

c. Owner Occupancy Rates

172. The GSAA 2006-17 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSAA 2006-17 Certificate purchased by plaintiffs and/or their assigning entities.[41] Specifically, the GSAA 2006-17 Offering

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[40] For the reasons set forth *infra*, LTV ratios are very important to RMBS investors. *See* §§VI.B, IX.A-B, *infra*.

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

Documents represented that a large percentage of the loans supporting plaintiffs' GSAA 2006-17 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

173. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSAA 2006-17 Certificate, which reveals that the OOR percentages stated in the GSAA 2006-17 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSAA 2006-17 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
A3B	362257AD9	All	81.74%	71.07%	15.02%

d. Credit Ratings

174. The GSAA 2006-17 Offering Documents also represented that the GSAA 2006-17 Certificate purchased by plaintiffs had been assigned a high "investment grade" credit rating by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default.[42] Specifically, the GSAA 2006-17 Offering Documents represented that plaintiffs' GSAA 2006-17 Certificate had been assigned a AAA/Aaa rating – the highest, safest credit rating available, which is in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.[43]

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

[43] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §IV.D, *infra* (citing Levin-Coburn Report at 6).

175. These representations, however, were false and misleading when made. In truth, plaintiffs' GSAA 2006-17 Certificate should not have received a AAA/Aaa credit rating, because it was ***not*** a safe, "investment grade" security with "less than [a] 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiffs' GSAA 2006-17 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such a high rating to plaintiffs' GSAA 2006-17 Certificate was because defendants had fed them falsified information regarding the GSAA 2006-17 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

176. The falsity of the credit ratings set forth in the GSAA 2006-17 Offering Documents is confirmed by subsequent events. Specifically, ***over 35% of the loans supporting plaintiffs' GSAA 2006-17 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiffs' "investment grade" GSAA 2006-17 Certificate is now rated at "junk" status. Clearly, plaintiffs' GSAA 2006-17 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the GSAA 2006-17 Certificate's credit rating is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
A3B	362257AD9	All	35.58%	Aaa	C	AAA	CCC

10. The GSAA 2006-19 Certificates

177. The GSAA Home Equity Trust 2006-19, Asset-Backed Certificates, Series 2006-19 ("GSAA 2006-19 Certificates") were issued pursuant to a Prospectus Supplement dated November 21, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAA 2006-19 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

178. Plaintiffs and/or their assignors purchased the following GSAA 2006-19 Certificates:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Phoenix	WestLB	A3A	362244AC9	11/17/2006	$18,006,000	Goldman Sachs & Co.
Phoenix	WestLB	A3B	362244AD7	11/17/2006	$9,612,000	Goldman Sachs & Co.

179. Each of the above purchases was made by WestLB's investment manager, DCP, in direct reliance upon the GSAA 2006-19 Offering Documents, including draft and/or final Prospectus Supplements. DCP's diligent investment processes are described in great detail in §VIII.D.2, *infra*.

a. Underwriting Guidelines

180. The GSAA 2006-19 Offering Documents disclosed that: approximately 32.16% of the GSAA 2006-19 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator Countrywide; approximately 17.46% of the GSAA 2006-19 Certificates' underlying loans were acquired by the sponsor, GSMC, from SunTrust; approximately 17.17% of the mortgage loans were acquired by GSMC from First National Bank of Nevada ("FNBN"); approximately 16.06% of the GSAA 2006-19 certificates' underlying loans were acquired by GSMC through the GS Conduit Program from "various other [undisclosed] mortgage loan sellers"; approximately 13.47% of the GSAA 2006-19 Certificates' underlying loans were acquired by the sponsor, GSMC, from GreenPoint; and approximately 3.66% of the CSAA 2006-19 Certificates' underlying loans were acquired by GSMC from "one additional [undisclosed] mortgage loan seller." *See* GSAA 2006-19 Prosp. Supp. at S-41.

181. With regard to the Countrywide loans, the GSAA 2006-19 Offering Documents represented that "Countrywide['s] . . . 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." *Id.* at S-47. The GSAA 2006-19 Offering Documents further represented that "a prospective borrower must generally demonstrate that the ratio of the borrower's monthly housing expenses (including principal and interest on the proposed mortgage loan and, as applicable, the related monthly portion of property taxes, hazard insurance and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt to the monthly gross income (the 'debt-to-income' ratios) are within acceptable limits." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.4, *infra*.

182. With regard to the SunTrust, FNBN, GreenPoint, and GS Conduit Program loans, the GSAA 2006-19 Offering Documents represented that these mortgage loans "were originated or acquired generally in accordance with the underwriting guidelines described in [the] prospectus supplement" of either Countrywide or the GS Conduit Program. *See* GSAA 2006-19 Prosp. Supp. at S-42. The GSAA 2006-19 Offering Documents stated that before a loan was purchased into the GS Conduit Program, "the originating lender makes a determination about whether the borrower's monthly income (if required to be stated) will be sufficient to enable the borrower to meet its monthly obligations on the mortgage loan and other expenses related to the property, including property taxes, utility costs, standard hazard insurance and other fixed and revolving obligations

other than housing expenses." *See id.* at S-53. The GSAA 2006-19 Offering Documents further represented that "[a]n appraisal is generally conducted on each mortgaged property by the originating lender." *Id.* at S-55. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, VII, *infra*.

183. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a loan for $337,850 in 2006 which was contained within the GSAA 2006-19 offering. The loan was originated through the GS Conduit Program, one of the loan originators identified in the GSAA 2006-19 Offering Documents. ***This borrower had income in 2006 of only $540 per month***, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $3,179, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy after obtaining the loan at issue, in 2006.

b. LTV Ratios

184. The GSAA 2006-19 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSAA 2006-19 Certificates

purchased by plaintiffs and/or their assigning entities.[44] Specifically, the GSAA 2006-19 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' GSAA 2006-19 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAA 2006-19 Certificates had LTV ratios over 100%.

185. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' GSAA 2006-19 Certificates, which reveals that the LTV ratio percentages stated in the GSAA 2006-19 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the GSAA 2006-19 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
A3A	362244AC9	All	4.72%	42.96%	0.00%	11.84%
A3B	362244AD7	All	4.72%	42.96%	0.00%	11.84%

c. Owner Occupancy Rates

186. The GSAA 2006-19 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSAA 2006-19 Certificates purchased by plaintiffs and/or their assigning entities.[45] Specifically, the GSAA 2006-19 Offering Documents represented that a large percentage of the loans supporting plaintiffs' GSAA 2006-19

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

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

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

187. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSAA 2006-19 Certificates, which reveals that the OOR percentages stated in the GSAA 2006-19 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSAA 2006-19 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
A3A	362244AC9	All	75.42%	64.76%	16.46%
A3B	362244AD7	All	75.42%	64.76%	16.46%

d. Credit Ratings

188. The GSAA 2006-19 Offering Documents also represented that the GSAA 2006-19 Certificates purchased by plaintiffs had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default.[46] Specifically, the GSAA 2006-19 Offering Documents represented that plaintiffs' GSAA 2006-19 Certificates had each been assigned AAA/aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.[47]

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

[47] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §VI.D, *infra* (citing Levin-Coburn Report at 6).

189. These representations, however, were false and misleading when made. In truth, plaintiffs' GSAA 2006-19 Certificates should not have received AAA/aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "less than [a] 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiffs' GSAA 2006-19 Certificates were extremely risky, speculative grade "junk" bonds, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiffs' GSAA 2006-19 Certificates was because defendants had fed them falsified information regarding the GSAA 2006-19 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

190. The falsity of the credit ratings set forth in the GSAA 2006-19 Offering Documents is confirmed by subsequent events. Specifically, ***more than 37% of the loans supporting plaintiffs' GSAA 2006-19 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, each of plaintiffs' "investment grade" GSAA 2006-19 Certificates is now rated at "junk" status. Clearly, plaintiffs' GSAA 2006-19 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the GSAA 2006-19 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
A3A	362244AC9	All	37.21%	Aaa	Ca	AAA	CCC
A3B	362244AD7	All	37.21%	Aaa	C	AAA	CCC

11. The GSAA 2006-20 Certificates

191. The GSAA Home Equity Trust 2006-20, Asset-Backed Certificates, Series 2006-20 ("GSAA 2006-20 Certificates") were issued pursuant to a Prospectus Supplement dated December 26, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAA 2006-20 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

192. Plaintiffs and/or their assignors purchased the following GSAA 2006-20 Certificate:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Phoenix	WestLB	A4B	362351AF5	12/13/2006	$15,000,000	Goldman Sachs & Co.

193. The above purchase was made by WestLB's investment manager, DCP, in direct reliance upon the GSAA 2006-20 Offering Documents, including draft and/or final GSAA 2006-20 Prospectus Supplements. DCP's diligent investment processes are described in great detail in §VIII.D.2, *infra*.

a. Underwriting Guidelines

194. The GSAA 2006-20 Offering Documents disclosed that: approximately 23.31% of the GSAA 2006-20 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator Countrywide; approximately 35.96% of the GSAA 2006-20 Certificates' underlying loans were acquired by the sponsor, GSMC, through the GS Conduit Program; approximately 10.65% of the GSAA 2006-20 Certificates' underlying loans were acquired by the sponsor, GSMC, from National City; approximately 16.62% of the GSAA 2006-20 Certificates' underlying loans were acquired by the sponsor, GSMC, from SunTrust; and approximately 13.46% of the GSAA 2006-20 Certificates' underlying loans were acquired by the sponsor, GSMC, from "the other two (2) mortgage loan sellers." *See* GSAA 2006-20 Prosp. Supp. at S-45.

195. With regard to the Countrywide loans, the GSAA 2006-20 Offering Documents represented that "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." *See* GSAA 2006-20 Prosp. Supp. at S-53. The GSAA 2006-20 Offering Documents further represented that "a prospective borrower must generally demonstrate that the ratio of the borrower's monthly housing expenses (including principal and interest on the proposed mortgage loan and, as applicable, the related monthly portion of property taxes, hazard insurance and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt to the monthly gross income (the 'DEBT-TO-INCOME' ratios) are within acceptable limits." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.4, *infra*.

196. With regard to the GS Conduit Program loans, the GSAA 2006-20 Offering Documents represented that "the originating lender makes a determination about whether the borrower's monthly income (when verified or stated) will be sufficient to enable the borrower to meet their monthly obligations on the mortgage loan (including taxes and insurance) and their other non housing obligations (such as installment and revolving loans)," and that "[g]enerally, the ratio of total monthly obligations divided by total monthly gross income is less than or equal to 50%." *See* GSAA 2006-20 Prosp. Supp. at S-59. The GSAA 2006-20 Offering Documents further represented that "[a]n appraisal is generally conducted on each mortgaged property by the originating lender." *Id*. at S-61. As further detailed *infra*, these representations were false and misleading at the time

they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, VII, *infra*.

197. With regard to the National City and SunTrust loans as well as the loans from the "two (2) mortgage loan sellers," the GSAA 2006-20 Offering Documents represented that these mortgage loans "were originated or acquired generally in accordance with the underwriting guidelines described in [the] prospectus supplement" of either Countrywide or the GS Conduit Program, described above. *See* GSAA 2006-20 Prosp. Supp. at S-45. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, without any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.7, VI.A.12.

198. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a loan for $324,080 in 2006 which was contained within the GSAA 2006-20 offering. The loan was originated by IndyMac, one of the originators at issue in this case. This borrower had income in 2006 of $2,010 per month, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $2,256, more than the borrower's monthly income***. This borrower subsequently sued her lender, alleging that the lender

"knew her monthly income was less than the projected monthly [loan] payments." The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy after obtaining the loan at issue, in 2007.

b. LTV Ratios

199. The GSAA 2006-20 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSAA 2006-20 Certificate purchased by plaintiffs and/or their assigning entities.[48] Specifically, the GSAA 2006-20 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' GSAA 2006-20 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAA 2006-20 Certificate had LTV ratios over 100%.

200. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' GSAA 2006-20 Certificate, which reveals that the LTV ratio percentages stated in the GSAA 2006-20 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the GSAA 2006-20 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
A4B	362351AF5	All	3.68%	43.71%	0.00%	11.21%

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

c. Owner Occupancy Rates

201. The GSAA 2006-20 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSAA 2006-20 Certificate purchased by plaintiffs and/or their assigning entities.[49] Specifically, the GSAA 2006-20 Offering Documents represented that a large percentage of the loans supporting plaintiffs' GSAA 2006-20 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

202. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSAA 2006-20 Certificate, which reveals that the OOR percentages stated in the GSAA 2006-20 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSAA 2006-20 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
A4B	362351AF5	All	77.85%	69.21%	12.48%

d. Credit Ratings

203. The GSAA 2006-20 Offering Documents also represented that the GSAA 2006-20 Certificate purchased by plaintiffs had been assigned a high "investment grade" credit rating by S&P and Moody's, indicating that the security was a very strong, safe investments with an extremely low

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

probability of default.[50] Specifically, the GSAA 2006-20 Offering Documents represented that plaintiffs' GSAA 2006-20 Certificate had been assigned a Aaa/AAA rating – the highest, safest credit rating available, which is in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.[51]

204. These representations, however, were false and misleading when made. In truth, plaintiffs' GSAA 2006-20 Certificate should not have received a Aaa/AAA credit rating, because it was ***not*** a safe, "investment grade" security with "less than [a] 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiffs' GSAA 2006-20 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such a high rating to plaintiffs' GSAA 2006-20 Certificate was because defendants had fed them falsified information regarding the GSAA 2006-20 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

205. The falsity of the credit ratings set forth in the GSAA 2006-20 Offering Documents is confirmed by subsequent events. Specifically, ***more than 30% of the loans supporting plaintiffs' GSAA 2006-20 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiffs' "investment grade" GSAA 2006-20 Certificate is now rated at "junk" status. Clearly, plaintiffs' GSAA 2006-20 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The

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

[51] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §VI.D, *infra* (citing Levin-Coburn Report at 6).

evidence supporting the falsity of the GSAA 2006-20 Certificate's credit rating is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
A4B	362351AF5	All	30.49%	Aaa	C	AAA	CCC

12. The GSAA 2006-5 Certificates

206. The GSAA Home Equity Trust 2006-5, Asset-Backed Certificates, Series 2006-5 ("GSAA 2006-5 Certificates") were issued pursuant to a Prospectus Supplement dated March 28, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAA 2006-5 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

207. Plaintiffs and/or their assignors purchased the following GSAA 2006-5 Certificates:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Silver Elms II	Paradigm	M3	362334GW8	3/26/2006	$2,000,000.00	Goldman Sachs & Co.
Silver Elms II	Paradigm	M4	362334GX6	3/26/2006	$2,000,000.00	Goldman Sachs & Co.
Silver Elms II	Paradigm	M5	362334GY4	3/26/2006	$2,000,000.00	Goldman Sachs & Co.

208. Each of the above purchases was made by Paradigm's investment manager, Eiger, in direct reliance upon the GSAA 2006-5 Offering Documents, including draft and/or final GSAA 2006-5 Prospectus Supplements. Eiger's diligent investment processes are described in great detail in §VIII.C.2, *infra*.

a. Underwriting Guidelines

209. The GSAA 2006-5 Offering Documents disclosed that: approximately 15.14% of the GSAA 2006-5 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator Countrywide; approximately 36.28% of the GSAA 2006-5 Certificates' underlying loans were acquired by the sponsor, GSMC, through the GS Conduit Program; approximately 22.59% of

the GSAA 2006-5 Certificates' underlying loans were acquired by the sponsor, GSMC, from GreenPoint; and approximately 25.99% of the GSAA 2006-5 Certificates' underlying loans were acquired by the sponsor, GSMC, from "four other mortgage loan sellers." *See* GSAA 2006-5 Prosp. Supp. at S-42.

210. With regard to the GreenPoint loans, the GSAA 2006-5 Offering Documents represented that "[g]enerally, 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." *Id.* at S-53. The GSAA 2006-5 Prospectus Supplement also provided that "[i]n 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," and that "[t]he ratios generally are limited to 40% but may be extended to 50% with adequate compensating factors." *Id.* at S-54. The GSAA 2006-5 Prospectus Supplement further provided that "[i]n determining the adequacy of the property as collateral, an independent appraisal is generally made of each property considered for financing." *Id.* at S-55. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that GreenPoint had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.8, *infra*.

211. With regard to the GS Conduit Program loans, the GSAA 2006-5 Offering Documents represented that "the originating lender makes a determination about whether the borrower's monthly income (if required to be stated) will be sufficient to enable the borrower to meet their monthly obligations on the mortgage loan and other expenses related to the property,

including property taxes, utility costs, standard hazard insurance and other fixed and revolving obligations other than housing expenses," and that "[g]enerally, scheduled payments on a mortgage loan during the first twelve months of its term plus taxes and insurance and all scheduled payments on obligations that extend beyond ten months may equal no more than a specified percentage of the prospective borrower's gross income . . . [which] permitted percentage is determined on the basis of various underwriting criteria, including the loan-to-value ratio of the mortgage loan and, in certain instances, the amount of liquid assets available to the borrower after origination." *See* GSAA 2006-5 Prosp. Supp. at S-49. The GSAA 2006-5 Offering Documents further represented that "[a]n appraisal is generally conducted on each mortgaged property by the originating lender." *Id.* at S-52. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, VII, *infra*.

212. With regard to the Countrywide loans and the loans from "four other . . . loan sellers," GSAA 2006-5 Offering Documents represented that these mortgage loans "were originated or acquired generally in accordance with the underwriting guidelines described in [the] prospectus supplement" of either GreenPoint or the GS Conduit Program. *See* GSAA 2006-5 Prosp. Supp. at S-43. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible,

without any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §VI.A.4.

213. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a loan for $303,950 in 2005 which was contained within the GSAA 2006-5 offering. This borrower had income in 2005 of $3,193 per month, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $3,266, more than the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy after obtaining the loan at issue, in 2007.

b. LTV Ratios

214. The GSAA 2006-5 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSAA 2006-5 Certificates purchased by plaintiffs and/or their assigning entities.[52] Specifically, the GSAA 2006-5 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' GSAA 2006-5 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAA 2006-5 Certificates had LTV ratios over 100%.

215. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' GSAA 2006-5 Certificates, which reveals that the LTV

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

ratio percentages stated in the GSAA 2006-5 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the GSAA 2006-5 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
M3	362334GW8	All	3.65%	43.39%	0.00%	9.54%
M4	362334GX6	All	3.65%	43.39%	0.00%	9.54%
M5	362334GY4	All	3.65%	43.39%	0.00%	9.54%

c. Owner Occupancy Rates

216. The GSAA 2006-5 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSAA 2006-5 Certificates purchased by plaintiffs and/or their assigning entities.[53] Specifically, the GSAA 2006-5 Offering Documents represented that a large percentage of the loans supporting plaintiffs' GSAA 2006-5 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

217. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSAA 2006-5 Certificates, which reveals that the OOR percentages stated in the GSAA 2006-5 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSAA 2006-5 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

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

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
M3	362334GW8	All	76.20%	67.54%	12.81%
M4	362334GX6	All	76.20%	67.54%	12.81%
M5	362334GY4	All	76.20%	67.54%	12.81%

d. Credit Ratings

218. The GSAA 2006-5 Offering Documents also represented that the GSAA 2006-5 Certificates purchased by plaintiffs had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default.[54] Specifically, the GSAA 2006-5 Offering Documents represented that plaintiffs' GSAA 2006-5 Certificates had each been respectively assigned Aa3/AA-, A1/A and A3/A- ratings.

219. These representations, however, were false and misleading when made. In truth, plaintiffs' GSAA 2006-5 Certificates should not have received Aa3/AA-, A1/A and A3/A- credit ratings, because they were ***not*** safe, "investment grade" securities. Rather, as defendants were well aware, plaintiffs' GSAA 2006-5 Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiffs' GSAA 2006-5 Certificates was because defendants had fed them falsified information regarding the GSAA 2006-5 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

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

220. The falsity of the credit ratings set forth in the GSAA 2006-5 Offering Documents is confirmed by subsequent events. Specifically, ***more than 28% of the loans supporting plaintiffs' GSAA 2006-5 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, each of plaintiffs' "investment grade" GSAA 2006-5 Certificates is now rated at "junk" status or below. Clearly, plaintiffs' GSAA 2006-5 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the GSAA 2006-5 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
M3	362334GW8	All	28.39%	Aa3	WR	AA-	D
M4	362334GX6	All	28.39%	A1	WR	A	D
M5	362334GY4	All	28.39%	A3	WR	A-	D

13. The GSAA 2006-6 Certificates

221. The GSAA Home Equity Trust 2006-6, Asset-Backed Certificates, Series 2006-6 ("GSAA 2006-6 Certificates") were issued pursuant to a Prospectus Supplement dated April 26, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAA 2006-6 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

222. Plaintiffs and/or their assignors purchased the following GSAA 2006-6 Certificates:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Silver Elms II	WestLB	AF4	362334MF8	4/3/2006	$10,000,00.00	Goldman Sachs & Co.
Silver Elms II	WestLB	M1	362334MJ0	4/3/2006	$2,000,000.00	Goldman Sachs & Co.
Silver Elms II	WestLB	M4	362334MM3	4/3/2006	$3,317,000.00	Goldman Sachs & Co

223. Each of the above purchases was made by WestLB's investment manager, Eiger, in direct reliance upon the GSAA 2006-6 Offering Documents, including draft and/or final GSAA 2006-6 Prospectus Supplements. Eiger's diligent investment processes are described in great detail in §VIII.D.2, *infra*.

a. Underwriting Guidelines

224. The GSAA 2006-6 Offering Documents disclosed that: approximately 92.02% of the GSAA 2006-6 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator American Home; approximately 7.61% of the GSAA 2006-6 Certificates' underlying loans were acquired by the sponsor, GSMC, through the GS Conduit Program; and approximately 0.36% of the GSAA 2006-6 Certificates' underlying loans were acquired by the sponsor, GSMC, from "one additional mortgage loan seller." *See* GSAA 2006-6 Prosp. Supp. at S-39.

225. With regard to the American Home loans, the GSAA 2006-6 Offering Documents represented that "[t]he Originator's underwriting philosophy is to weigh all risk factors inherent in the loan file, giving consideration to the individual transaction, borrower profile, the level of documentation provided and the property used to collateralize the debt," and that "[t]he Originator underwrites a borrower's creditworthiness based solely on information that the Originator believes is indicative of the applicant's willingness and ability to pay the debt they would be incurring." *See id.* at S-43. The GSAA 2006-6 Offering Documents also represented that "[i]n addition to the monthly housing expense, the underwriter must evaluate the borrower's ability to manage all recurring payments on all debts, including the monthly housing expense. When evaluating the ratio of all

monthly debt payments to the borrower's monthly income (debt-to-income ratio), the underwriter should be aware of the degree and frequency of credit usage and its impact on the borrower's ability to repay the loan." *Id.* at S-44. The GSAA 2006-6 Offering Documents further represented that "[e]very mortgage loan is secured by a property that has been appraised by a licensed appraiser in accordance with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that American Home had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.6, *infra*.

226. With regard to the GS Conduit Program loans, the GSAA 2006-6 Offering Documents represented that "the originating lender makes a determination about whether the borrower's monthly income (if required to be stated) will be sufficient to enable the borrower to meet its monthly obligations on the mortgage loan and other expenses related to the property, including property taxes, utility costs, standard hazard insurance and other fixed and revolving obligations other than housing expenses," and that "[g]enerally, scheduled payments on a mortgage loan during the first twelve months of its term plus taxes and insurance and all scheduled payments on obligations that extend beyond ten months may equal no more than a specified percentage of the prospective borrower's gross income . . . determined on the basis of various underwriting criteria, including the loan-to-value ratio of the mortgage loan and, in certain instances, the amount of liquid assets available to the borrower after origination." *See* GSAA 2006-6 Prosp. Supp. at S-46. The GSAA 2006-6 Offering Documents further represented that "[a]n appraisal is generally conducted on each mortgaged property by the originating lender . . . in accordance with established appraisal

procedure guidelines acceptable to the originator in order to determine the adequacy of the mortgaged property as security for repayment of the related mortgage loan." *Id.* at S-48. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §VI.A.2, VII, *infra*.

227. With regard to the loans acquired by the sponsor, GSMC, from "one additional mortgage loan seller," these loans "were originated or acquired generally in accordance with the underwriting guidelines described in [the] prospectus supplement" of either American Home or the GS Conduit Program. *See* GSAA 2006-6 Prosp. Supp. at S-39. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, without any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §VI.A.2.

228. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a loan for $259,000 in 2005 which was contained within the GSAA 2006-6 offering. The loan was originated through American Home, one of the loan originators identified in the GSAA 2006-6 Offering Documents. This borrower had income in 2005 of $2,958 per month,

according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $3,575, more than the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy shortly after obtaining the loan at issue, in 2006.

b. LTV Ratios

229. The GSAA 2006-6 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSAA 2006-6 Certificates purchased by plaintiffs and/or their assigning entities.[55] Specifically, the GSAA 2006-6 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' GSAA 2006-6 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAA 2006-6 Certificates had LTV ratios over 100%.

230. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' GSAA 2006-6 Certificates, which reveals that the LTV ratio percentages stated in the GSAA 2006-6 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the GSAA 2006-6 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

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

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

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
AF4	362334MF8	All	7.17%	49.32%	0.00%	16.87%
M1	362334MJ0	All	7.17%	49.32%	0.00%	16.87%
M4	362334MM3	All	7.17%	49.32%	0.00%	16.87%

c. Owner Occupancy Rates

231. The GSAA 2006-6 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSAA 2006-6 Certificates purchased by plaintiffs and/or their assigning entities.[56] Specifically, the GSAA 2006-6 Offering Documents represented that a large percentage of the loans supporting plaintiffs' GSAA 2006-6 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

232. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSAA 2006-6 Certificates, which reveals that the OOR percentages stated in the GSAA 2006-6 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSAA 2006-6 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
AF4	362334MF8	All	74.00%	65.46%	13.05%
M1	362334MJ0	All	74.00%	65.46%	13.05%
M4	362334MM3	All	74.00%	65.46%	13.05%

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

d. Credit Ratings

233. The GSAA 2006-6 Offering Documents also represented that the GSAA 2006-6 Certificates purchased by plaintiffs had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default. [57] Specifically, the GSAA 2006-6 Offering Documents represented that plaintiffs' GSAA 2006-6 Certificates had each been assigned Aaa/AAA[58], Aa1/AA+ and A1/AA- ratings, respectively, which are safe "investment grade" ratings.

234. These representations, however, were false and misleading when made. In truth, plaintiffs' GSAA 2006-6 Certificates should not have received Aaa/AAA, Aa1/AA+ and A1/AA- credit ratings, because they were ***not*** safe, "investment grade" securities. Rather, as defendants were well aware, plaintiffs' GSAA 2006-6 Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiffs' GSAA 2006-6 Certificates was because defendants had fed them falsified information regarding the GSAA 2006-6 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

235. The falsity of the credit ratings set forth in the GSAA 2006-6 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 29% of the loans supporting plaintiffs' GSAA 2006-6 Certificates are currently in default*** because they were made to borrowers

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

[58] Aaa/AAA ratings are the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt. As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §VI.D, *infra* (citing Levin-Coburn Report at 6).

who either could not afford them or never intended to repay them. Moreover, each of plaintiffs' "investment grade" GSAA 2006-6 Certificates is now rated at "junk" status or below. Clearly, plaintiffs' GSAA 2006-6 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the GSAA 2006-6 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
AF4	362334MF8	All	28.80%	Aaa	Caa3	AAA	D
M1	362334MJ0	All	28.80%	Aa1	WR	AA+	D
M4	362334MM3	All	28.80%	A1	WR	AA-	D

14. The GSAA 2006-7 Certificates

236. The GSAA Home Equity Trust 2006-7, Asset-Backed Certificates, Series 2006-7 ("GSAA 2006-7 Certificates") were issued pursuant to a Prospectus Supplement dated April 25, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAA 2006-7 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

237. Plaintiffs and/or their assignors purchased the following GSAA 2006-7 Certificates:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Silver Elms II	WestLB	AF4A	362334ND2	4/12/2006	$9,500,000.00	Goldman Sachs & Co.
Silver Elms II	WestLB	M4	362334NJ9	4/12/2006	$744,000.00	Goldman Sachs & Co.

238. Each of the above purchases was made by WestLB's investment manager, Eiger, in direct reliance upon the GSAA 2006-7 Offering Documents, including draft and/or final GSAA 2006-7 Prospectus Supplements. Eiger's diligent investment processes are described in great detail in §VIII.C.2, *infra*.

a. Underwriting Guidelines

239. The GSAA 2006-7 Offering Documents disclosed that: approximately 24.37% of the GSAA 2006-7 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator PHH; and approximately 75.63% of the GSAA 2006-7 Certificates' underlying loans were acquired by the sponsor, GSMC, through the GS Conduit Program. *See* GSAA 2006-7 Prosp. Supp. at S-40.

240. With regard to the PHH loans, the GSAA 2006-7 Offering Documents represented that "[t]he 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," and that "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." *See* GSAA 2006-7 Prosp. Supp. at S-49-S-50. The GSAA 2006-7 Offering Documents further represented that "[i]n 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," "PHH also evaluates the applicant's income to determine its stability, probability of continuation, and adequacy to service the proposed PHH debt payment," and that "[i]n 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 in this prospectus supplement." *Id.* at S-50. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that PHH had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as

possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.11, *infra*.

241. With regard to the GS Conduit Program loans, the GSAA 2006-7 Offering Documents represented that "the originating lender makes a determination about whether the borrower's monthly income (if required to be stated) will be sufficient to enable the borrower to meet its monthly obligations on the mortgage loan and other expenses related to the property, including property taxes, utility costs, standard hazard insurance and other fixed and revolving obligations other than housing expenses," and that "[g]enerally, scheduled payments on a mortgage loan during the first twelve months of its term plus taxes and insurance and all scheduled payments on obligations that extend beyond ten months may equal no more than a specified percentage of the prospective borrower's gross income [which] permitted percentage is determined on the basis of various underwriting criteria, including the LTV [loan-to-value] ratio of the mortgage loan and, in certain instances, the amount of liquid assets available to the borrower after origination." *See* GSAA 2006-7 Prosp. Supp. at S-44. The GSAA 2006-7 Offering Documents further represented that "[a]n appraisal is generally conducted on each mortgaged property by the originating lender." *Id*. at S-46. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, VII, *infra*.

242. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one

borrower obtained a loan for $284,000 in 2005 which was contained within the GSAA 2006-7 offering. The loan was originated through either PHH or the GS Conduit Program, both of which were identified in the GSAA 2006-7 Offering Documents. ***This borrower had no employment income but instead had unemployment and rental income of $2,369 per month in 2005, according to the borrower's sworn bankruptcy filings. However, the borrower's monthly debt payments were at least $2,997, more than the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation and the like. This borrower could not afford to repay the loan, which was confirmed by the fact that the borrower declared bankruptcy in 2007.

b. LTV Ratios

243. The GSAA 2006-7 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSAA 2006-7 Certificates purchased by plaintiffs and/or their assigning entities.[59] Specifically, the GSAA 2006-7 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' GSAA 2006-7 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAA 2006-7 Certificates had LTV ratios over 100%.

244. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' GSAA 2006-7 Certificates, which reveals that the LTV ratio percentages stated in the GSAA 2006-7 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the GSAA 2006-7 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

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[59] For the reasons set forth *infra*, LTV ratios are very important to RMBS investors. *See* §§VI.B, IX.B, *infra*.

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
AF4A	362334ND2	All	5.32%	31.11%	0.00%	7.64%
M4	362334NJ9	All	5.32%	31.11%	0.00%	7.64%

c. Owner Occupancy Rates

245. The GSAA 2006-7 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSAA 2006-7 Certificates purchased by plaintiffs and/or their assigning entities.[60] Specifically, the GSAA 2006-7 Offering Documents represented that a large percentage of the loans supporting plaintiffs' GSAA 2006-7 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

246. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSAA 2006-7 Certificates, which reveals that the OOR percentages stated in the GSAA 2006-7 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSAA 2006-7 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
AF4A	362334ND2	All	76.89%	68.79%	11.78%
M4	362334NJ9	All	76.89%	68.79%	11.78%

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

d. Credit Ratings

247. The GSAA 2006-7 Offering Documents also represented that the GSAA 2006-7 Certificates purchased by plaintiffs had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default.[61] Specifically, the GSAA 2006-7 Offering Documents represented that plaintiffs' GSAA 2006-7 Certificates had each been assigned Aaa/AAA and A2/A ratings, respectively – the former being the highest, safest credit rating available, which is in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.[62]

248. These representations, however, were false and misleading when made. In truth, plaintiffs' GSAA 2006-7 Certificates should not have received Aaa/AAA and A2/A credit ratings, because they were ***not*** safe, "investment grade" securities. Rather, as defendants were well aware, plaintiffs' GSAA 2006-7 Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiffs' GSAA 2006-7 Certificates was because defendants had fed them falsified information regarding the GSAA 2006-7 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

249. The falsity of the credit ratings set forth in the GSAA 2006-7 Offering Documents is confirmed by subsequent events. Specifically, ***more than 18% of the loans supporting plaintiffs' GSAA 2006-7 Certificates are currently in default*** because they were made to borrowers who either

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

[62] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §VI.D, *infra* (citing Levin-Coburn Report at 6).

could not afford them or never intended to repay them. Moreover, each of plaintiffs' "investment grade" GSAA 2006-7 Certificates is now rated at "junk" status or below. Clearly, plaintiffs' GSAA 2006-7 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the GSAA 2006-7 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
AF4A	362334ND2	All	18.40%	Aaa	Caa3	AAA	D
M4	362334NJ9	All	18.40%	A2	WR	A	D

15. The GSAA 2007-2 Certificates

250. The GSAA Home Equity Trust 2007-2, Asset-Backed Certificates, Series 2007-2 ("GSAA 2007-2 Certificates") were issued pursuant to a Prospectus Supplement dated February 21, 2007. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAA 2007-2 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

251. Plaintiffs and/or their assignors purchased the following GSAA 2007-2 Certificates:

Plaintiff	**Original Purchaser**	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Seller**
Blue Heron IX	Blue Heron IX	AF3	3622EUAC0	2/8/2007	$12,500,000	Goldman Sachs & Co.
Blue Heron V	Blue Heron V	AF3	3622EUAC0	2/8/2007	$12,500,000	Goldman Sachs & Co.

252. Each of the above purchases was made by Blue Heron IX and Blue Heron V's investment manager, Brightwater, in direct reliance upon the GSAA 2007-2 Offering Documents, including draft and/or final GSAA 2007-2 Prospectus Supplements. Brightwater's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

253. The GSAA 2007-2 Offering Documents disclosed that: approximately 36.68% of the GSAA 2007-2 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator SunTrust; approximately 28.98% of the GSAA 2007-2 Certificates' underlying loans were acquired by the sponsor, GSMC, from "various other [undisclosed] mortgage loan sellers" through the GS Conduit Program; approximately 16.73% of the GSAA 2007-2 Certificates' underlying loans were acquired by the sponsor, GSMC, from HSBC Mortgage Corporation (USA) ("HSBC"); approximately 14.44% of the mortgage loans were acquired by the sponsor from GreenPoint; and approximately 3.18% of the mortgage loans were acquired by the sponsor from "one other [undisclosed] mortgage loan seller." *See* GSAA 2007-2 Prosp. Supp. at S-42.

254. With regard to the SunTrust loans, the GSAA 2007-2 Offering Documents represented that "SunTrust underwriting guidelines are designed to evaluate the borrower's capacity to repay the loan, to evaluate the credit history of the borrower, to verify the availability of funds required for closing and cash reserves for fully documented loans, and to evaluate the acceptability and marketability of the property to be used as collateral." *Id.* at S-46. The GSAA 2007-2 Offering Documents further represented that SunTrust's origination process included requirements that "the borrower's sources of income have the probability of continuance, are stable sources and are sufficient to support repayment of the mortgage loan requested when disclosure and verification is required," and that "an independent appraisal" generally be made of each mortgaged property considered for financing. *Id.* at S-46-S-47. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that SunTrust had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its

borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.12, *infra*.

255. With regard to the HSBC loans, the GreenPoint loans, the "[undisclosed] seller" loans, and the GS Conduit Program loans, the GSAA 2007-2 Offering Documents represented that these mortgage loans "were originated or acquired generally in accordance with the underwriting guidelines described in [the] prospectus supplement" of either SunTrust or the GS Conduit Program. *See* GSAA 2007-2 Prosp. Supp. at S-43. The GSAA 2007-2 Offering Documents stated that, prior to a loan being purchased through the GS Conduit Program, "the originating lender makes a determination about whether the borrower's monthly income (when verified or stated) will be sufficient to enable the borrower to meet their monthly obligations on the mortgage loan (including taxes and insurance) and their other non housing obligations (such as installment and revolving loans)," and that "[g]enerally, the ratio of total monthly obligations divided by total monthly gross income is less than or equal to 50%." *See* GSAA 2007-2 Prosp. Supp. at S-48. The GSAA 2007-2 Offering Documents further represented that "[a]n appraisal is generally conducted on each mortgaged property by the originating lender." *Id*. at S-51. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, VII, *infra*.

256. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one

borrower obtained a loan for $324,000 in 2006 which was contained within the GSAA 2007-2 offering. The loan was originated through the GS Conduit Program, one of the loan originators identified in the GSAA 2007-2 Offering Documents. ***This borrower had no income in 2006***, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $3,191.80, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy after obtaining the loan at issue, in 2007.

b. LTV Ratios

257. The GSAA 2007-2 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSAA 2007-2 Certificates purchased by plaintiffs and/or their assigning entities.[63] Specifically, the GSAA 2007-2 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' GSAA 2007-2 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAA 2007-2 Certificates had LTV ratios over 100%.

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

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

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
AF3	3622EUAC0	All	6.21%	47.43%	0.00%	13.24%

c. Owner Occupancy Rates

259. The GSAA 2007-2 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSAA 2007-2 Certificates purchased by plaintiffs and/or their assigning entities.[64] Specifically, the GSAA 2007-2 Offering Documents represented that a large percentage of the loans supporting plaintiffs' GSAA 2007-2 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

260. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSAA 2007-2 Certificates, which reveals that the OOR percentages stated in the GSAA 2007-2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSAA 2007-2 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
AF3	3622EUAC0	All	85.15%	73.38%	16.04%

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

d. Credit Ratings

261. The GSAA 2007-2 Offering Documents also represented that the GSAA 2007-2 Certificates purchased by plaintiffs had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default.[65] Specifically, the GSAA 2007-2 Offering Documents represented that plaintiffs' GSAA 2007-2 Certificates had each been assigned AAA/aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.[66]

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

263. The falsity of the credit ratings set forth in the GSAA 2007-2 Offering Documents is confirmed by subsequent events. Specifically, ***approximately 40% of the loans supporting***

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

[66] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §VI.D, *infra* (citing Levin-Coburn Report at 6).

plaintiffs' GSAA 2007-2 Certificates are currently in default because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, each of plaintiffs' "investment grade" GSAA 2007-2 Certificates is now rated at "junk" status. Clearly, plaintiffs' GSAA 2007-2 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the GSAA 2007-2 Certificates' credit ratings is set forth in further detail in §VI.D., *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
AF3	3622EUAC0	All	39.61%	Aaa	Ca	AAA	CCC

16. The GSAMP 2005-NC1 Certificates

264. The GSAMP Trust 2005-NC1, Mortgage Pass-Through Certificates, Series 2005-NC1 ("GSAMP 2005-NC1 Certificates") were issued pursuant to a Prospectus Supplement dated February 16, 2005. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAMP 2005-NC1 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

265. Plaintiffs and/or their assignors purchased the following GSAMP 2005-NC1 Certificate:

Plaintiff	**Original Purchaser**	**Tranche Purchased**	**CUSIP**	**Purchase Date**	**Original Face Amount**	**Seller**
Kleros V	WestLB	M3	36242DUJ0	12/13/2006	$2,514,000	Merrill Lynch

266. The above purchase was made by WestLB's investment manager, Strategos Capital Management LLC ("Strategos"), in direct reliance upon the GSAMP 2005-NC1 Offering Documents, including draft and/or final GSAMP 2005-NC1 Prospectus Supplements. Strategos's diligent investment processes are described in great detail in §VIII.B., *infra*.

a. Underwriting Guidelines

267. The GSAMP 2005-NC1 Offering Documents disclosed that GSMC, the sponsor, acquired ***100%*** of the loans underlying the GSAMP 2005-NC1 Certificates from NC Capital Corporation, an affiliate of the loans' originator, New Century Mortgage Corporation ("New Century"). *See* GSAMP 2005-NC1 Prosp. Supp. at S-24.

268. With regard to the New Century loans, the GSAMP 2005-NC1 Offering Documents represented that New Century originated the loans in accordance with underwriting guidelines "primarily intended to assess the borrower's ability to repay the mortgage loan, to assess the value of the mortgaged property and to evaluate the adequacy of the property as collateral for the mortgage loan." *Id.* at S-28. The GSAMP 2005-NC1 Offering Documents further represented that "[e]ach applicant completes an application which includes information with respect to the applicant's liabilities, income, credit history, employment history and personal information," and that "properties that are to secure mortgage loans generally are appraised by qualified independent appraisers . . . [that] inspect and appraise the subject property and verify that the property is in acceptable condition." *Id.* at S-28. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that New Century had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.3, *infra*.

269. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a loan for $390,000 in 2004 which was contained within the GSAMP 2005-NC1

offering. The loan was originated through New Century, the loan originator identified in the GSAMP 2005-NC1 Offering Documents. ***While this borrower had income in 2004 of $4,333 per month, according to her sworn bankruptcy filings, she also had monthly debt payments of at least $3,091, which gave this borrower a DTI ratio of over 71%, far in excess of the 50% to 55% DTI ratio limits allowed by New Century's loan underwriting guidelines described in the GSAMP 2005-NC1 Offering Documents. Indeed, according to a prominent Wall Street investment bank, a borrower with a "DTI [ratio] . . . beyond 50% leav[es] little for the borrower to pay other expenses," demonstrating that this borrower, with a 71% DTI ratio, clearly could not afford to repay her loan***. Moreover, this borrower also had multiple money judgments entered against her, plus an outstanding auto loan, other outstanding debts, plus basic monthly recurring expenses for utilities, food, and the like that were not factored into the calculation of her DTI ratio, further establishing that she could not afford to repay the loan. As a result, the borrower declared bankruptcy shortly after obtaining the loan at issue, in 2005.

b. LTV Ratios

270. The GSAMP 2005-NC1 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSAMP 2005-NC1 Certificate purchased by plaintiffs and/or their assigning entities.[67] Specifically, the GSAMP 2005-NC1 Offering Documents represented that less than 40% of the loans supporting plaintiffs' GSAMP 2005-NC1 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAMP 2005-NC1 Certificate had LTV ratios over 100%.

271. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' GSAMP 2005-NC1 Certificate, which reveals that the LTV

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

ratio percentages stated in the GSAMP 2005-NC1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the GSAMP 2005-NC1 Offering Documents and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
M3	36242DUJ0	All	37.28%	55.29%	0.00%	14.93%

c. Owner Occupancy Rates

272. The GSAMP 2005-NC1 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSAMP 2005-NC1 Certificate purchased by plaintiffs and/or their assigning entities.[68] Specifically, the GSAMP 2005-NC1 Offering Documents represented that a large percentage of the loans supporting plaintiffs' GSAMP 2005-NC1 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

273. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSAMP 2005-NC1 Certificate, which reveals that the OOR percentages stated in the GSAMP 2005-NC1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSAMP 2005-NC1 Offering Documents and the actual percentages that should have been stated according to plaintiffs' investigation:

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

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
M3	36242DUJ0	All	94.82%	85.12%	11.39%

d. Credit Ratings

274. The GSAMP 2005-NC1 Offering Documents also represented that the GSAMP 2005-NC1 Certificate purchased by plaintiffs had been assigned a high "investment grade" credit rating by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default.[69] Specifically, the GSAMP 2005-NC1 Offering Documents represented that plaintiffs' GSAMP 2005-NC1 Certificate had been assigned an A3/A- rating.

275. These representations, however, were false and misleading when made. In truth, plaintiffs' GSAMP 2005-NC1 Certificate should not have received an A3/A- credit rating, because it was ***not*** a safe, "investment grade" security. Rather, as defendants were well aware, plaintiffs' GSAMP 2005-NC1 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such a high rating to plaintiffs' GSAMP 2005-NC1 Certificate was because defendants had fed them falsified information regarding the GSAMP 2005-NC1 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

276. The falsity of the credit ratings set forth in the GSAMP 2005-NC1 Offering Documents is confirmed by subsequent events. Specifically, ***42% of the loans supporting plaintiffs' GSAMP 2005-NC1 Certificate are currently in default*** because they were made to

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

borrowers who either could not afford them or never intended to repay them. Moreover, plaintiffs' "investment grade" GSAMP 2005-NC1 Certificate is now rated at "junk" status. Clearly, plaintiffs' GSAMP 2005-NC1 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the GSAMP 2005-NC1 Certificate's credit rating is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
M3	36242DUJ0	All	41.99%	A3	C	A-	CC

17. The GSAMP 2006-FM2 Certificates

277. The GSAMP Trust 2006-FM2, Mortgage Pass-Through Certificates, Series 2006-FM2 ("GSAMP 2006-FM2 Certificates") were issued pursuant to a Prospectus Supplement dated September 28, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAMP 2006-FM2 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

278. Plaintiffs and/or their assignors purchased the following GSAMP 2006-FM2 Certificate:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Phoenix	WestLB	A2D	36245DAE0	9/27/2006	$10,000,000.00	Goldman Sachs & Co.

279. The above purchase was made by WestLB's investment manager, DCP, in direct reliance upon the GSAMP 2006-FM2 Offering Documents, including draft and/or final GSAMP 2006-FM2 Prospectus Supplements. DCP's diligent investment processes are described in great detail in §VIII.D, *infra*.

a. Underwriting Guidelines

280. The GSAMP 2006-FM2 Offering Documents disclosed that all of the GSAMP 2006-FM2 Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator Fremont Investment & Loan ("Fremont"). *See* GSAMP 2006-FM2 Prosp. Supp. at S-11, S-39.

281. With regard to the Fremont loans, the GSAMP 2006-FM2 Offering Documents represented that "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." *Id.* at S-40. The GSAMP 2006-FM2 Offering Documents further represent that "Fremont's underwriting guidelines . . . require an appraisal of the mortgaged property, and if appropriate, a review appraisal." *Id.* at S-41. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Fremont had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.5, *infra*.

282. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originator's failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a loan for $454,000 in 2006 which was contained within the GSAMP 2006-FM2 offering. The loan was originated through Fremont, the loan originator identified in the GSAMP 2006-FM2 Offering Documents. This borrower had monthly income in 2006 of $5,968, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $7,566, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities,

groceries, health care, transportation and the like. Clearly, this borrower, who was also supporting five minor children, could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy after obtaining the loan at issue, in 2007.

b. LTV Ratios

283. The GSAMP 2006-FM2 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSAMP 2006-FM2 Certificate purchased by plaintiffs and/or their assigning entities.[70] Specifically, the GSAMP 2006-FM2 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' GSAMP 2006-FM2 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAMP 2006-FM2 Certificate had LTV ratios over 100%.

284. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' GSAMP 2006-FM2 Certificate, which reveals that the LTV ratio percentages stated in the GSAMP 2006-FM2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the GSAMP 2006-FM2 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Stated Percentage of Loans Having LTV Ratios Over 80%**	**Actual Percentage of Loans Having LTV Ratios Over 80%**	**Stated Percentage of Loans Having LTV Ratios Over 100%**	**Actual Percentage of Loans Having LTV Ratios Over 100%**
A2D	36245DAE0	All	26.27%	64.66%	0.00%	18.13%

[70] For the reasons set forth *infra*, LTV ratios are very important to RMBS investors. *See* §VI.B, *infra*.

c. Owner Occupancy Rates

285. The GSAMP 2006-FM2 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSAMP 2006-FM2 Certificate purchased by plaintiffs and/or their assigning entities.[71] Specifically, the GSAMP 2006-FM2 Offering Documents represented that a large percentage of the loans supporting plaintiffs' GSAMP 2006-FM2 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

286. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSAMP 2006-FM2 Certificate, which reveals that the OOR percentages stated in the GSAMP 2006-FM2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSAMP 2006-FM2 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
A2D	36245DAE0	All	94.21%	81.14%	16.11%

d. Credit Ratings

287. The GSAMP 2006-FM2 Offering Documents also represented that the GSAMP 2006-FM2 Certificate purchased by plaintiffs had been assigned a high "investment grade" credit rating by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely

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

low probability of default.[72] Specifically, the GSAMP 2006-FM2 Offering Documents represented that plaintiffs' GSAMP 2006-FM2 Certificate had been assigned a AAA/aaa rating – the highest, safest credit rating available, which is in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.[73]

288. These representations, however, were false and misleading when made. In truth, plaintiffs' GSAMP 2006-FM2 Certificate should not have received a AAA/aaa credit rating, because it was ***not*** a safe, "investment grade" security with "less than a 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiffs' GSAMP 2006-FM2 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such a high rating to plaintiffs' GSAMP 2006-FM2 Certificate was because defendants had fed them falsified information regarding the GSAMP 2006-FM2 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

289. The falsity of the credit ratings set forth in the GSAMP 2006-FM2 Offering Documents is confirmed by subsequent events. Specifically, ***more than 45% of the loans supporting plaintiffs' GSAMP 2006-FM2 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiffs' "investment grade" GSAMP 2006-FM2 Certificate is now rated at "junk" status. Clearly, plaintiffs' GSAMP 2006-FM2 Certificate was not the highly rated, "investment grade" security

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

[73] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §VI.D, *infra* (citing Levin-Coburn Report at 6).

defendants represented it to be. The evidence supporting the falsity of the GSAMP 2006-FM2 Certificate's credit rating is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
A2D	36245DAE0	All	45.58%	Aaa	Ca	AAA	CCC

18. The GSAMP 2007-NC1 Certificates

290. The GSAMP Trust 2007-NC1, Mortgage Pass-Through Certificates, Series 2007-NC1 ("GSAMP 2007-NC1 Certificates") were issued pursuant to a Prospectus Supplement dated February 15, 2007. The following defendants played critical roles in the fraudulent structuring, offering and sale of the GSAMP 2007-NC1 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

291. Plaintiffs and/or their assignors purchased the following GSAMP 2007-NC1 Certificate:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Kleros V	Kleros V	M4	3622MGAJ7	6/21/2007	$5,469,000	Goldman Sachs & Co.

292. The above purchase was made by Kleros V's investment manager, Strategos, in direct reliance upon the GSAMP 2007-NC1 Offering Documents, including draft and/or final GSAMP 2007-NC1 Prospectus Supplements. Strategos's diligent investment processes are described in great detail in §VIII.B, *infra*.

a. Underwriting Guidelines

293. The GSAMP 2007-NC1 Offering Documents disclosed that GSMC, the sponsor, acquired ***100%*** of the loans underlying the GSAMP 2007-NC1 Certificates from NC Capital

Corporation, an affiliate of the loans' originator, New Century. *See* GSAMP 2007-NC1 Prosp. Supp. at S-12.

294. With regard to the New Century loans, the GSAMP 2007-NC1 Offering Documents represented that New Century originated the loans in accordance with underwriting guidelines "primarily intended to assess the borrower's ability to repay the mortgage loan, to assess the value of the mortgaged property and to evaluate the adequacy of the property as collateral for the mortgage loan." *Id.* at S-45. The GSAMP 2007-NC1 Offering Documents further represented that "[e]ach applicant completes an application that includes information with respect to the applicant's liabilities, income, credit history, employment history and personal information," and that "properties that are to secure mortgage loans generally are appraised by qualified independent appraisers . . . [that] inspect and appraise the subject property and verify that the property is in acceptable condition." *Id.* at S-46. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that New Century had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.3, *infra*.

295. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originator's failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a loan for $696,000 in 2006 which was contained within the GSAMP 2007-NC1 offering. The loan was originated through New Century, the loan originator identified in the GSAMP 2007-NC1 Offering Documents. This borrower had income in 2006 of up to $4,841 per month, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly***

debt payments were at least $5,513, far in excess of the borrower's monthly income. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy after obtaining the loan at issue, in 2007.

b. LTV Ratios

296. The GSAMP 2007-NC1 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSAMP 2007-NC1 Certificate purchased by plaintiffs and/or their assigning entities.[74] Specifically, the GSAMP 2007-NC1 Offering Documents represented that less than 40% of the loans supporting plaintiffs' GSAMP 2007-NC1 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSAMP 2007-NC1 Certificate had LTV ratios over 100%.

297. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' GSAMP 2007-NC1 Certificate, which reveals that the LTV ratio percentages stated in the GSAMP 2007-NC1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the GSAMP 2007-NC1 Offering Documents and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
M4	3622MGAJ7	All	39.26%	63.14%	0.00%	19.68%

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

c. Owner Occupancy Rates

298. The GSAMP 2007-NC1 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSAMP 2007-NC1 Certificate purchased by plaintiffs and/or their assigning entities.[75] Specifically, the GSAMP 2007-NC1 Offering Documents represented that a large percentage of the loans supporting plaintiffs' GSAMP 2007-NC1 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

299. Plaintiffs, however, have performed an in-depth investigation of actual borrowers, loans and properties underlying plaintiffs' GSAMP 2007-NC1 Certificate, which reveals that the OOR percentages stated in the GSAMP 2007-NC1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSAMP 2007-NC1 Offering Documents and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Primary Residence Percentage Stated in the Offering Documents**	**Actual Primary Residence Percentage**	**Percent Overstatement of Actual Primary Residence Percentage**
M4	3622MGAJ7	All	90.55%	83.20%	8.84%

d. Credit Ratings

300. The GSAMP 2007-NC1 Offering Documents also represented that the GSAMP 2007-NC1 Certificate purchased by plaintiffs had been assigned a high "investment grade" credit rating by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely

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

low probability of default.[76] Specifically, the GSAMP 2007-NC1 Offering Documents represented that plaintiffs' GSAMP 2007-NC1 Certificate had been assigned an A1/A+ rating.

301. These representations, however, were false and misleading when made. In truth, plaintiffs' GSAMP 2007-NC1 Certificate should not have received an A1/A+ credit rating, because it was ***not*** a safe, "investment grade" security. Rather, as defendants were well aware, plaintiffs' GSAMP 2007-NC1 Certificate was an extremely risky, speculative grade "junk" bond or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such a high rating to plaintiffs' GSAMP 2007-NC1 Certificate was because defendants had fed them falsified information regarding the GSAMP 2007-NC1 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

302. The falsity of the credit ratings set forth in the GSAMP 2007-NC1 Offering Documents is confirmed by subsequent events. Specifically, ***over 36% of the loans supporting plaintiffs' GSAMP 2007-NC1 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiffs' "investment grade" GSAMP 2007-NC1 Certificate is now rated at "junk" status or below. Clearly, plaintiffs' GSAMP 2007-NC1 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of plaintiffs' GSAMP 2007-NC1 Certificate's credit rating is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

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

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
M4	3622MGAJ7	All	36.01%	A1	WR	A+	D

19. The NCAMT 2006-ALT2 Certificates

303. The New Century Alternative Mortgage Loan Trust 2006-ALT2, Asset-Backed Certificates, Series 2006-ALT2 ("NCAMT 2006-ALT2 Certificates") were issued pursuant to a Prospectus Supplement dated October 26, 2006. The following defendants played critical roles in the fraudulent structuring, offering and sale of the NCAMT 2006-ALT2 Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

304. Plaintiffs and/or their assignors purchased the following NCAMT 2006-ALT2 Certificates:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Blue Heron IX	Blue Heron IX	AF3	643529AC4	10/19/2006	$5,000,000	Goldman Sachs & Co.
Blue Heron V	Blue Heron V	AF3	643529AC4	10/19/2006	$12,000,000	Goldman Sachs & Co.
Blue Heron VI	Blue Heron VI	AF3	643529AC4	10/19/2006	$23,000,000	Goldman Sachs & Co.
Blue Heron VII	Blue Heron VII	AF3	643529AC4	10/19/2006	$5,000,000	Goldman Sachs & Co.

305. Each of the above purchases was made by Blue Heron IX, Blue Heron V, Blue Heron VI and Blue Heron VII's mutual investment manager, Brightwater, in direct reliance upon the NCAMT 2006-ALT2 Offering Documents, including draft and/or final NCAMT 2006-ALT2 Prospectus Supplements. Brightwater's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

306. The NCAMT 2006-ALT2 Offering Documents disclosed that New Century, or Home123 Corporation, its affiliate, originated ***100%*** of the mortgage loans (the "New Century loans") underlying the NCAMT 2006-ALT2 Certificates. *See* NCAMT 2006-ALT2 Prosp. Supp. at S-37, S-40. Both entities are wholly owned subsidiaries of New Century Financial Corporation. *Id.* at S-40.

307. With regard to the New Century loans, the NCAMT 2006-ALT2 Offering Documents represented that New Century originated the loans in accordance with underwriting guidelines "primarily intended to assess the borrower's ability to repay the mortgage loan, to assess the value of the mortgaged property and to evaluate the adequacy of the property as collateral for the mortgage loan." *Id.* at S-41. The NCAMT 2006-ALT2 Offering Documents further represented that "[e]ach prospective borrower completes an application that includes information with respect to the applicant's liabilities, income, credit history, employment history and personal information," and that "[q]ualified independent appraisers in accordance with pre-established appraisal guidelines appraise mortgaged properties that are to secure mortgage loans . . . and verify that the property is in acceptable condition." *Id.* at S-41-S-42. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that New Century had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.3, *infra*.

308. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one

borrower obtained a loan for $616,000 in 2006 which was contained within the NCAMT 2006-ALT2 offering. The loan was originated through New Century, one of the loan originators identified in the NCAMT 2006-ALT2 Offering Documents. This borrower had income in 2006 of $2,250 per month, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $12,039, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy shortly after obtaining the loan, in 2007.

b. LTV Ratios

309. The NCAMT 2006-ALT2 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the NCAMT 2006-ALT2 Certificates purchased by plaintiffs and/or their assigning entities.[77] Specifically, the NCAMT 2006-ALT2 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' NCAMT 2006-ALT2 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' NCAMT 2006-ALT2 Certificates had LTV ratios over 100%.

310. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' NCAMT 2006-ALT2 Certificates, which reveals that the LTV ratio percentages stated in the NCAMT 2006-ALT2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the NCAMT 2006-ALT2 Offering Documents and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

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

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
AF3	643529AC4	All	2.42%	49.59%	0.00%	12.57%

c. Owner Occupancy Rates

311. The NCAMT 2006-ALT2 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the NCAMT 2006-ALT2 Certificates purchased by plaintiffs and/or their assigning entities.[78] Specifically, the NCAMT 2006-ALT2 Offering Documents represented that a large percentage of the loans supporting plaintiffs' NCAMT 2006-ALT2 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

312. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' NCAMT 2006-ALT2 Certificates, which reveals that the OOR percentages stated in the NCAMT 2006-ALT2 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the NCAMT 2006-ALT2 Offering Documents and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
AF3	643529AC4	All	89.39%	80.77%	10.67%

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

d. Credit Ratings

313. The NCAMT 2006-ALT2 Offering Documents also represented that the NCAMT 2006-ALT2 Certificates purchased by plaintiffs had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default.[79] Specifically, the NCAMT 2006-ALT2 Offering Documents represented that plaintiffs' NCAMT 2006-ALT2 Certificates had each been assigned AAA/aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.[80]

314. These representations, however, were false and misleading when made. In truth, plaintiffs' NCAMT 2006-ALT2 Certificates should not have received AAA/aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "less than a 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiffs' NCAMT 2006-ALT2 Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiffs' NCAMT 2006-ALT2 Certificates was because defendants had fed them falsified information regarding the NCAMT 2006-ALT2 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

315. The falsity of the credit ratings set forth in the NCAMT 2006-ALT2 Offering Documents is confirmed by subsequent events. Specifically, ***more than 20% of the loans***

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

[80] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §VI.D, *infra* (citing Levin-Coburn Report at 6).

supporting plaintiffs' NCAMT 2006-ALT2 Certificates are currently in default because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, each of plaintiffs' "investment grade" NCAMT 2006-ALT2 Certificates is now rated at "junk" status or below. Clearly, plaintiffs' NCAMT 2006-ALT2 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the NCAMT 2006-ALT2 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		S&P's Ratings	
				Initial	Current	Initial	Current
AF3	643529AC4	All	20.11%	Aaa	Caa3	AAA	D

20. The NCHET 2006-S1 Certificates

316. The New Century Home Equity Loan Trust 2006-S1, Asset-Backed Notes, Series 2006-S1 ("NCHET 2006-S1 Certificates") were issued pursuant to a Prospectus Supplement dated February 17, 2006. Goldman Sachs & Co., as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the NCHET 2006-S1 Certificates.

317. Plaintiffs and/or their assignors purchased the following NCHET 2006-S1 Certificates:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Blue Heron VI	Blue Heron VI	A2b	64352VQN4	2/24/2006	$16,560,500	Goldman Sachs & Co.
Blue Heron VII	Blue Heron VII	A2b	64352VQN4	2/24/2006	$16,560,500	Goldman Sachs & Co.

318. Each of the above purchases was made by Blue Heron VI and Blue Heron VII's investment manager, Brightwater, in direct reliance upon the NCHET 2006-S1 Offering Documents,

including draft and/or final NCHET 2006-S1 Prospectus Supplements. Brightwater's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

319. The NCHET 2006-S1 Offering Documents disclosed that New Century originated ***100%*** of the mortgage loans underlying the NCHET 2006-S1 Certificates. *See* NCHET 2006-S1 Prosp. Supp. at S-30.

320. With regard to the New Century loans, the NCHET 2006-S1 Offering Documents represented that New Century originated the loans in accordance with underwriting guidelines "primarily intended to assess the borrower's ability to repay the related mortgage loan, to assess the value of the mortgaged property and to evaluate the adequacy of the property as collateral for the mortgage loan." *Id.* at S-31. The NCHET 2006-S1 Offering Documents further represented that "[e]ach [loan] applicant completes an application that includes information with respect to the applicant's liabilities, income, credit history, employment history and personal information," and that "properties that are to secure mortgage loans generally are appraised by qualified independent appraisers . . . [who] inspect and appraise the subject property and verify that the property is in acceptable condition." *Id.* at S-31-S-32. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that New Century had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.3, *infra*.

321. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originator's failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one

borrower obtained a second-lien loan for $98,504 in 2005, which was contained within the NCHET 2006-S1 offering. The loan was originated through New Century, the loan originator identified in the NCHET 2006-S1 Offering Documents. ***This borrower had income in 2005 of only $598 per month***, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $5,281, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy after obtaining the loan at issue, in 2007.

b. Credit Ratings

322. The NCHET 2006-S1 Offering Documents also represented that the NCHET 2006-S1 Certificates purchased by plaintiffs had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default.[81] Specifically, the NCHET 2006-S1 Offering Documents represented that plaintiffs' NCHET 2006-S1 Certificates had each been assigned AAA/aaa ratings – the highest, safest credit ratings available, which are in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.[82]

323. These representations, however, were false and misleading when made. In truth, plaintiffs' NCHET 2006-S1 Certificates should not have received AAA/aaa credit ratings, because they were ***not*** safe, "investment grade" securities with "less than a 1% probability of incurring

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

[82] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §VI.D, *infra* (citing Levin-Coburn Report at 6).

defaults." Rather, as defendants were well aware, plaintiffs' NCHET 2006-S1 Certificates were extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiffs' NCHET 2006-S1 Certificates was because defendants had fed them falsified information regarding the NCHET 2006-S1 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false borrower FICO scores and false borrower DTI ratios.

324. The falsity of the credit ratings set forth in the NCHET 2006-S1 Offering Documents is confirmed by subsequent events. Specifically, ***10% of the loans supporting plaintiffs' NCHET 2006-S1 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, each of plaintiffs' "investment grade" NCHET 2006-S1 Certificates is now rated at "junk" status or below. Clearly, plaintiffs' NCHET 2006-S1 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the NCHET 2006-S1 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
A2b	64352VQN4	All	10.03%	Aaa	C	AAA	D

21. The GSR 2006-8F Certificates

325. The GSR Mortgage Loan Trust 2006-8F, Mortgage Pass-Through Certificates, Series 2006-8F ("GSR 2006-8F Certificates") were issued pursuant to a Prospectus Supplement dated August 24, 2006. The following defendants played critical roles in the fraudulent structuring,

offering and sale of the GSR 2006-8F Certificates: GSMSC (depositor); GSMC (sponsor); Goldman Sachs & Co. (underwriter).

326. Plaintiffs and/or their assignors purchased the following GSR 2006-8F Certificate:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Kleros V	WestLB	3A10	362611BC8	12/19/2006	$7,130,000.00	Robert W. Baird & Co.

327. The above purchase was made by WestLB's investment manager, Strategos, in direct reliance upon the GSR 2006-8F Offering Documents, including draft and/or final GSR 2006-8F Prospectus Supplements. Strategos's diligent investment processes are described in great detail in §VIII.B, *infra*.

a. Underwriting Guidelines

328. The GSR 2006-8F Offering Documents disclosed that: approximately 28.38% of the GSR 2006-8F Certificates' underlying loans were acquired by the sponsor, GSMC, from loan originator Countrywide; approximately 26.63% of the GSR 2006-8F Certificates' underlying loans were acquired by the sponsor, GSMC, from National City; approximately 27.48% of the GSR 2006-8F Certificates' underlying loans were acquired by the sponsor, GSMC, from Washington Mutual Bank ("WaMu"); approximately 8.90% of the GSR 2006-8F Certificates' underlying loans were acquired by the sponsor, GSMC, through the GS Conduit Program; and approximately 8.62% of the GSR 2006-8F Certificates' underlying loans were acquired by the sponsor, GSMC, from PHH. *See* GSR 2006-8F Prosp. Supp. at S-B-9, S-42.

329. With regard to the Countrywide loans, the GSR 2006-8F Offering Documents represented that Countrywide's "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." *See id.* at S-48. The GSR 2006-8F

Offering Documents further represented that "a prospective borrower must generally demonstrate that the ratio of the borrower's monthly housing expenses (including principal and interest on the proposed mortgage loan and, as applicable, the related monthly portion of property taxes, hazard insurance and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt to the monthly gross income (the 'debt-to-income' ratios) are within acceptable limits." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Countrywide had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.4, *infra*.

330. With regard to the GS Conduit Program loans, the GSR 2006-8F Offering Documents represented that "the originating lender makes a determination about whether the borrower's monthly income (if required to be stated) will be sufficient to enable the borrower to meet its monthly obligations on the mortgage loan and other expenses related to the property, including property taxes, utility costs, standard hazard insurance and other fixed and revolving obligations other than housing expenses," and that "scheduled payments on a mortgage loan during the first twelve months of its term plus taxes and insurance and all scheduled payments on obligations that extend beyond ten months may equal no more than a specified percentage of the prospective borrower's gross income," which "is determined on the basis of various underwriting criteria, including the LTV ratio of the mortgage loan and, in certain instances, the amount of liquid assets, available to the borrower after origination. " *See* GSR 2006-8F Prosp. Supp. at S-44. The GSR 2006-8F Offering Documents further represented that "[a]n appraisal is generally conducted on each mortgaged property by the originating lender . . . in accordance with established appraisal procedure guidelines acceptable to the originator in order to determine the adequacy of the mortgaged property

as security for repayment of the related mortgage loan." *Id*. at S-46. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the loans acquired through the GS Conduit Program were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §§VI.A.2, VII, *infra*.

331. With regard to the National City loans, the GSR 2006-8F Offering Documents represented that "[t]he originator's underwriting standards are applied to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *See* GSR 2006-8F Prospectus Supplement at S-52. The GSR 2006-8F Offering Documents further represented that "[i]n determining whether a prospective borrower has sufficient monthly income available (i) to meet the borrower's monthly obligation on their proposed mortgage loan and (ii) to meet the monthly housing expenses and other financial obligation on the proposed mortgage loan, the originator generally considers, when required by the applicable documentation program, the ratio of such amounts to the proposed borrower's acceptable stable monthly gross income." *Id.* at S-53. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that National City had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, without any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.7, *infra*.

332. With regard to the PHH loans, the GSR 2006-8F Offering Documents represented that "[t]he 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." *See* GSR 2006-8F Prospectus Supplement at S-56-S-57. The GSR 2006-8F Offering Documents also represented that "PHH Mortgage'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," and that "[i]n evaluating the applicant's ability and willingness to repay the proposed loan, PHH Mortgage reviews the applicant's credit history and outstanding debts, as reported on the credit report." *Id.* at S-57. According to the GSR 2006-8F Offering Documents, "PHH Mortgage also evaluates the applicant's income to determine its stability, probability of continuation, and adequacy to service the proposed PHH Mortgage debt payment." *Id.* The GSR 2006-8F Offering Documents further represented that "[i]n 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 Mortgage, except as noted in this prospectus supplement." *Id.* As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that the PHH loans were originated by lenders that had completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for their borrowers' actual repayment abilities or the true value and adequacy of their mortgaged properties to serve as collateral. *See* §VI.A.11, *infra*.

333. With regard to the WaMu loans, the GSR 2006-8F Offering Documents represented that "WAMU's underwriting guidelines generally are intended to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral." *See* GSR 2006-8F Prosp. Supp. at S-63. The GSR 2006-8F Offering

Documents also represented that "[i]n evaluating a prospective borrower's ability to repay a mortgage loan, the loan underwriter considers the ratio of the borrower's mortgage payments, real property taxes and other monthly housing expenses to the borrower's gross income (referred to as the 'housing-to income ratio' or 'front end ratio'), and the ratio of the borrower's total monthly debt (including non-housing expenses) to the borrower's gross income (referred to as the 'debt-to-income ratio' or 'back end ratio')." *Id.* The GSR 2006-8F Offering Documents further represented that "[t]he adequacy of the mortgaged property as collateral generally is determined by an appraisal made in accordance with pre-established appraisal guidelines." *Id.* at S-64. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that WaMu had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.10, *infra*.

334. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originators' failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, two borrowers obtained a loan for $664,000 in 2006 which was contained within the GSR 2006-8F offering. The loan was originated through Countrywide, one of the loan originators identified in the GSR 2006-8F Offering Documents. These borrowers had income in 2006 of $4,799 per month, according to the borrowers' sworn bankruptcy filings. ***However, the borrowers' monthly debt payments were at least $5,213, far in excess of the borrowers' monthly income***. The borrowers' monthly debt payments were in addition to the borrowers' monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, these borrowers could not

afford to repay the loan. This is confirmed by the fact that the borrowers declared bankruptcy after obtaining the loan at issue, in 2008.

b. LTV Ratios

335. The GSR 2006-8F Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the GSR 2006-8F Certificate purchased by plaintiffs and/or their assigning entities.[83] Specifically, the GSR 2006-8F Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' GSR 2006-8F Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' GSR 2006-8F Certificate had LTV ratios over 100%.

336. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' GSR 2006-8F Certificate, which reveals that the LTV ratio percentages stated in the GSR 2006-8F Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the GSR 2006-8F Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
3A10	362611BC8	All	2.96%	29.77%	0.00%	10.85%

c. Owner Occupancy Rates

337. The GSR 2006-8F Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the GSR 2006-8F Certificate

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

purchased by plaintiffs and/or their assigning entities.[84] Specifically, the GSR 2006-8F Offering Documents represented that a large percentage of the loans supporting plaintiffs' GSR 2006-8F Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

338. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' GSR 2006-8F Certificate, which reveals that the OOR percentages stated in the GSR 2006-8F Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the GSR 2006-8F Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
A4A	362611BC8	All	92.65%	82.46%	12.36%

d. Credit Ratings

339. The GSR 2006-8F Offering Documents also represented that the GSR 2006-8F Certificate purchased by plaintiffs had been assigned a high "investment grade" credit rating by Moody's and Fitch, indicating that the security was a very strong, safe investment with an extremely low probability of default.[85] Specifically, the GSR 2006-8F Offering Documents represented that plaintiffs' GSR 2006-8F Certificate had been assigned an Aaa/AAA rating – the highest, safest credit

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

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

rating available, which is in fact the same as, or even higher than, the current credit rating of U.S. Treasury debt.[86]

340. These representations, however, were false and misleading when made. In truth, plaintiffs' GSR 2006-8F Certificate should not have received an Aaa/AAA credit rating, because it was ***not*** a safe, "investment grade" security with "less than a 1% probability of incurring defaults." Rather, as defendants were well aware, plaintiffs' GSR 2006-8F Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that Moody's and Fitch had assigned such a high rating to plaintiffs' GSR 2006-8F Certificate was because defendants had fed them falsified information regarding the GSR 2006-8F Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

341. The falsity of the credit ratings set forth in the GSR 2006-8F Offering Documents is confirmed by subsequent events. Specifically, ***more than 19% of the loans supporting plaintiffs' GSR 2006-8F Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiffs' "investment grade" GSR 2006-8F Certificate is now rated at "junk" status or below. Clearly, plaintiffs' GSR 2006-8F Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the GSR 2006-8F Certificate's credit rating is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**Fitch's Ratings**	
				Initial	**Current**	**Initial**	**Current**

[86] As explained *infra*, "[t]raditionally, investments holding AAA ratings have had ***a less than 1% probability of incurring defaults***." *See* §VI.D, *infra* (citing Levin-Coburn Report at 6).

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Current Percentage of Outstanding Loan Balance in Default	Moody's Ratings		Fitch's Ratings	
				Initial	Current	Initial	Current
A4A	362611BC8	All	19.82%	Aaa	Caa1	AAA	C

22. The LBMLT 2006-WL1 Certificates

342. The Long Beach Mortgage Loan Trust 2006-WL1, Mortgage Pass-Through Certificates, Series 2006-WL1 ("LBMLT 2006-WL1 Certificates") were issued pursuant to a Prospectus Supplement dated January 25, 2006. Defendant Goldman Sachs & Co., as underwriter, played a critical role in the fraudulent structuring, offering and sale of the LBMLT 2006-WL1 Certificates.

343. Plaintiffs and/or their assignors purchased the following LBMLT 2006-WL1 Certificate:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Phoenix	Greyhawk	M1	542514QW7	1/10/2006	$15,000,000	Goldman Sachs & Co.

344. The above purchase was made by the original purchasers' investment manager, Brightwater, in direct reliance upon the LBMLT 2006-WL1 Offering Documents, including draft and/or final LBMLT 2006-WL1 Prospectus Supplements. Brightwater's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

345. The LBMLT 2006-WL1 Offering Documents disclosed that 100% of the LBMLT 2006-WL1 Certificates' underlying loans were acquired from loan originator Long Beach. *See* LBMLT 2006-WL1 Prosp. Supp. at S-1.

346. The LBMLT 2006-WL1 Offering Documents represented that Long Beach's "underwriting guidelines are primarily intended to evaluate the applicant's credit standing and

repayment ability and the value and adequacy of the mortgaged property as collateral for the mortgage loan." *Id.* at S-11; *see also id.* at S-34. The LBMLT 2006-WL1 Offering Documents further represented that Long Beach's "considerations in underwriting a mortgage loan include a mortgagor's credit history, repayment ability and debt service-to-income ratio and the value and adequacy of the mortgaged property as collateral, as well as the type and use of the mortgaged property." *Id.* at S-11; *see also id.* at S-34. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Long Beach had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.10, *infra*.

347. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originator's failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower obtained a loan for $560,000 in 2005 which was contained within the LBMLT 2006-WL1 offering. The loan was originated through Long Beach, the loan originator identified in the LBMLT 2006-WL1 Offering Documents. This borrower had income in 2005 of $3,750 per month, according to the borrower's sworn bankruptcy filings. ***However, the borrower's monthly debt payments were at least $11,268, far in excess of the borrower's monthly income***. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation, and the like. Clearly, this borrower could not afford to repay the loan. This is confirmed by the fact that the borrower declared bankruptcy after obtaining the loan, in 2007.

b. LTV Ratios

348. The LBMLT 2006-WL1 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the LBMLT 2006-WL1 Certificate purchased by plaintiffs and/or their assigning entities.[87] Specifically, the LBMLT 2006-WL1 Offering Documents represented that only a small percentage of the loans supporting plaintiffs' LBMLT 2006-WL1 Certificate had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' LBMLT 2006-WL1 Certificate had LTV ratios over 100%.

349. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' LBMLT 2006-WL1 Certificate, which reveals that the LTV ratio percentages stated in the LBMLT 2006-WL1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the LBMLT 2006-WL1 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
M1	542514QW7	All	24.30%	47.92%	0.00%	12.80%

c. Owner Occupancy Rates

350. The LBMLT 2006-WL1 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the LBMLT 2006-WL1 Certificate purchased by plaintiffs and/or their assigning entities.[88] Specifically, the LBMLT 2006-

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

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

WL1 Offering Documents represented that a large percentage of the loans supporting plaintiffs' LBMLT 2006-WL1 Certificate were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

351. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' LBMLT 2006-WL1 Certificate, which reveals that the OOR percentages stated in the LBMLT 2006-WL1 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the LBMLT 2006-WL1 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
M1	542514QW7	All	91.65%	81.41%	12.57%

d. Credit Ratings

352. The LBMLT 2006-WL1 Offering Documents also represented that the LBMLT 2006-WL1 Certificate purchased by plaintiffs had been assigned a high "investment grade" credit rating by S&P and Moody's, indicating that the security was a very strong, safe investment with an extremely low probability of default.[89] Specifically, the LBMLT 2006-WL1 Offering Documents represented that plaintiffs' LBMLT 2006-WL1 Certificate had been assigned an AA+/Aa1 rating – signifying an extremely safe and stable security.

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

353. These representations, however, were false and misleading when made. In truth, plaintiffs' LBMLT 2006-WL1 Certificate should not have received an AA+/Aa1 credit rating, because it was ***not*** a safe, "investment grade" security. Rather, as defendants were well aware, plaintiffs' LBMLT 2006-WL1 Certificate was an extremely risky, speculative grade "junk" bond, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such a high rating to plaintiffs' LBMLT 2006-WL1 Certificate was because defendants had fed them falsified information regarding the LBMLT 2006-WL1 Certificate's underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

354. The falsity of the credit ratings set forth in the LBMLT 2006-WL1 Offering Documents is confirmed by subsequent events. Specifically, ***nearly 40% of the loans supporting plaintiffs' LBMLT 2006-WL1 Certificate are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, plaintiffs' "investment grade" LBMLT 2006-WL1 Certificate is now rated at "junk" status. Clearly, plaintiffs' LBMLT 2006-WL1 Certificate was not the highly rated, "investment grade" security defendants represented it to be. The evidence supporting the falsity of the LBMLT 2006-WL1 Certificate's credit rating is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
M1	542514QW7	All	38.13%	Aa1	C	AA+	CCC

23. The ACCR 2005-4 Certificates

355. The Accredited Mortgage Loan Trust 2005-4, Asset-Backed Notes, Series 2005-4 ("ACCR 2005-4 Certificates") were issued pursuant to a Prospectus Supplement dated November

18, 2005. Goldman Sachs & Co., as the primary underwriter, played a critical role in the fraudulent structuring, offering and sale of the ACCR 2005-4 Certificates.

356. Plaintiffs and/or their assignors purchased the following ACCR 2005-4 Certificates:

Plaintiff	Original Purchaser	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Seller
Blue Heron VI	Blue Heron VI	M1	004375EK3	11/10/2005	$10,000,000	Goldman Sachs & Co.
Blue Heron VII	Blue Heron VII	M1	004375EK3	11/10/2005	$10,000,000	Goldman Sachs & Co.

357. Each of the above purchases was made by Blue Heron VI and Blue Heron VII's investment manager, Brightwater, in direct reliance upon the ACCR 2005-4 Offering Documents, including draft and/or final ACCR 2005-4 Prospectus Supplements. Brightwater's diligent investment processes are described in great detail in §VIII.A, *infra*.

a. Underwriting Guidelines

358. The ACCR 2005-4 Offering Documents disclosed that all of the ACCR 2005-4 Certificates' underlying loans were "originated or purchased by the sponsor," Accredited Home Lenders, Inc. ("Accredited"). *See* ACCR 2005-4 Prosp. Supp. at S-26.

359. With regard to the Accredited loans, the ACCR 2005-4 Offering Documents represented that "Accredited's underwriting process is intended to assess a loan applicant's credit standing and repayment ability and the value and adequacy of the real property security as collateral for the proposed loan." *Id.* at S-83. The ACCR 2005-4 Offering Documents also represented that "Accredited's underwriting guidelines require verification or evaluation of the income of each applicant. . . . Accredited reviews the loan applicant's source of income, calculates the amount of income from sources indicated on the loan application or similar documentation, and calculates debt service-to-income ratios to determine the applicant's ability to repay the loan," and that "[a] full

appraisal of the property proposed to be pledged as collateral is required in connection with the origination of each first priority loan and each second priority loan greater than $50,000." *Id.* at S-83. The ACCR 2005-4 Offering Documents further represented that "each [subprime mortgage loan] program relies upon Accredited's analysis of each borrower's ability to repay, the risk that the borrower will not repay the loan, the fees and rates Accredited charges, the value of the collateral, the benefit Accredited believes it is providing to the borrower, and the loan amounts relative to the risk Accredited believes it is taking." *Id.* at S-85. Finally, the ACCR 2005-4 Offering Documents stated that Accredited's "maximum debt-to-income ratios range from 50% to 55% for Full Documentation programs, and maximum 45% for Lite Documentation and Stated Income Programs." *Id.* at S-86. As further detailed *infra*, these representations were false and misleading at the time they were made. Contrary to defendants' affirmative representations, the truth was that Accredited had completely abandoned its stated underwriting guidelines and was simply seeking to originate as many loans as possible, ***without*** any regard for its borrowers' actual repayment abilities or the true value and adequacy of its mortgaged properties to serve as collateral. *See* §VI.A.9, *infra*.

360. The following example, based upon public bankruptcy filings and other sources, provides further specificity with respect to how the originator's failure to comply with guidelines resulted in loans being issued to borrowers who could not afford to repay them. Specifically, one borrower within the ACCR 2005-4 offering obtained a loan for $369,000 in 2005. The loan was originated through Accredited, one of the loan originators identified in the ACCR 2005-4 Offering Documents. The borrower had income in 2005 of $2,989 per month, according to the borrower's sworn bankruptcy filings. However, the borrower's monthly debt payments were at least $3,689, far in excess of the borrower's monthly income. The borrower's monthly debt payments were in addition to the borrower's monthly expenses for things such as taxes, utilities, groceries, health care, transportation and the like. Clearly, a cursory check of this borrower's financial situation would

have revealed that she could not afford to repay her loan. This is confirmed by the fact that the borrower declared bankruptcy shortly after obtaining the loan at issue, in 2006.

b. LTV Ratios

361. The ACCR 2005-4 Offering Documents also made certain misrepresentations regarding the LTV ratios associated with the loans supporting the ACCR 2005-4 Certificates purchased by plaintiffs and/or their assigning entities.[90] Specifically, the ACCR 2005-4 Offering Documents represented that only a very small percentage of the loans supporting plaintiffs' ACCR 2005-4 Certificates had LTV ratios over 80%, and that ***none*** of the loans supporting plaintiffs' ACCR 2005-4 Certificates had LTV ratios over 100%.

362. Plaintiffs, however, have performed an industry-accepted historical valuation analysis on the actual loans underlying plaintiffs' ACCR 2005-4 Certificates, which reveals that the LTV ratio percentages stated in the ACCR 2005-4 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the LTV ratio percentages stated in the ACCR 2005-4 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' industry-accepted analysis:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Stated Percentage of Loans Having LTV Ratios Over 80%	Actual Percentage of Loans Having LTV Ratios Over 80%	Stated Percentage of Loans Having LTV Ratios Over 100%	Actual Percentage of Loans Having LTV Ratios Over 100%
M1	004375EK3	All	21.40%	49.90%	0.00%	14.31%

c. Owner Occupancy Rates

363. The ACCR 2005-4 Offering Documents also made certain misrepresentations regarding the OOR percentages associated with the loans supporting the ACCR 2005-4 Certificates

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

purchased by plaintiffs and/or their assigning entities.[91] Specifically, the ACCR 2005-4 Offering Documents represented that a large percentage of the loans supporting plaintiffs' ACCR 2005-4 Certificates were issued to borrowers that actually lived in the properties serving as collateral for their loans, significantly decreasing the likelihood that those borrowers would default on their loans.

364. Plaintiffs, however, have performed an in-depth investigation of the actual borrowers, loans and properties underlying plaintiffs' ACCR 2005-4 Certificates, which reveals that the OOR percentages stated in the ACCR 2005-4 Offering Documents were materially false ***at the time they were made***. The following chart summarizes the OOR percentages stated in the ACCR 2005-4 Offering Documents, and the actual percentages that should have been stated according to plaintiffs' investigation:

Tranche Purchased	CUSIP	Applicable Supporting Loan Group	Primary Residence Percentage Stated in the Offering Documents	Actual Primary Residence Percentage	Percent Overstatement of Actual Primary Residence Percentage
M1	004375EK3	All	96.12%	85.24%	12.77%

d. Credit Ratings

365. The ACCR 2005-4 Offering Documents also represented that the ACCR 2005-4 Certificates purchased by plaintiffs had been assigned certain high "investment grade" credit ratings by S&P and Moody's, indicating that the securities were very strong, safe investments with an extremely low probability of default.[92] Specifically, the ACCR 2005-4 Offering Documents represented that plaintiffs' ACCR 2005-4 Certificates had each been assigned Aa1/AA+ ratings.

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

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

366. These representations, however, were false and misleading when made. In truth, plaintiffs' ACCR 2005-4 Certificates should not have received Aa1/AA+ credit ratings, because they were ***not*** safe, "investment grade" securities. Rather, as defendants were well aware, plaintiffs' ACCR 2005-4 Certificates were extremely risky, speculative grade "junk" bonds, backed by low credit quality, extremely risky loans. Indeed, one of the primary reasons that S&P and Moody's had assigned such high ratings to plaintiffs' ACCR 2005-4 Certificates was because defendants had fed them falsified information regarding the ACCR 2005-4 Certificates' underlying loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false OOR percentages.

367. The falsity of the credit ratings set forth in the ACCR 2005-4 Offering Documents is confirmed by subsequent events. Specifically, ***more than 30% of the loans supporting plaintiffs' ACCR 2005-4 Certificates are currently in default*** because they were made to borrowers who either could not afford them or never intended to repay them. Moreover, each of plaintiffs' "investment grade" ACCR 2005-4 Certificates is now rated at "junk" status. Clearly, plaintiffs' ACCR 2005-4 Certificates were not the highly rated, "investment grade" securities defendants represented them to be. The evidence supporting the falsity of the ACCR 2005-4 Certificates' credit ratings is set forth in further detail in §VI.D, *infra*, and summarized by the following chart:

Tranche Purchased	**CUSIP**	**Applicable Supporting Loan Group**	**Current Percentage of Outstanding Loan Balance in Default**	**Moody's Ratings**		**S&P's Ratings**	
				Initial	**Current**	**Initial**	**Current**
M1	004375EK3	All	30.55%	Aa1	B3	AA+	CCC

VI. DEFENDANTS' STATEMENTS AND OMISSIONS WERE MATERIALLY FALSE AND MISLEADING

A. Defendants' Statements that the Loan Underwriting Guidelines Were Designed to Assess a Borrower's Ability to Repay the Loan and to Evaluate the Adequacy of the Property as Collateral for the Loan Were Materially False and Misleading

368. As set forth above in §V, the Offering Documents for each Goldman Sachs Offering represented that the underlying loans were originated pursuant to specific, prudent, underwriting guidelines, which the Offering Documents represented were generally intended to: (1) assess the borrowers' creditworthiness and/or ability to repay the loans; and/or (2) evaluate the adequacy of the underlying properties to serve as security for the loans.

369. These representations were incredibly material to plaintiffs because they confirmed that, regardless of the technical guidelines being applied, the certificates' underlying loans were generally being originated on the basis of a valid determination that the borrower would be able to repay his or her loans and that the property serving as collateral would provide adequate security in the event of a default. In other words, these representations assured plaintiffs that the loans supporting their investments were unlikely to default, and further, unlikely to incur a loss in the unlikely event of default. As such, they were material to plaintiffs' investment decision.

370. Unfortunately for plaintiffs, however, defendants' material representations regarding the underwriting guidelines purportedly being used to originate the certificates' underlying loans were false and misleading at the time defendants made them. As set forth immediately below, the originators of the certificates' underlying loans had, in fact, completely abandoned their stated underwriting guidelines and were simply seeking to originate as many loans as possible, ***without*** any regard for borrowers' actual repayment abilities or the true value and adequacy of mortgaged properties to serve as collateral.

1. The Loan Originators Had Systematically Abandoned the Underwriting Guidelines Set Forth in the Goldman Sachs Offering Documents

371. The representations in the Offering Documents for the Goldman Sachs Offerings concerning the loan originators' underwriting guidelines were false and misleading when made. In reality, the loan originators at issue herein were ***not*** originating loans in accordance with their stated underwriting guidelines and were ***not*** evaluating their borrowers' true repayment abilities or assessing the actual value of the property serving as collateral. Instead, during the relevant time period, 2004-2007 – when the loans underlying the offerings at issue herein were originated – the loan originators identified herein had abandoned their stated underwriting guidelines, and were simply making loans to nearly anyone they could, without regard for the borrowers' repayment abilities or the adequacy of the mortgaged property as collateral. These lenders made loans as fast as they possibly could and ignored borrowers' true repayment abilities because they knew defendants would purchase the loans ***regardless*** of whether the lenders had given any consideration to the borrowers' abilities to repay, and ***regardless*** of whether the loans otherwise complied with the lenders' stated underwriting guidelines. This was the case because the demand for RMBS was skyrocketing during the relevant time period and defendants were making billions of dollars by satisfying that demand. Thus, defendants were scrambling to buy as many loans as they could, as fast as they could, so that they could quickly bundle the loans into RMBS offerings like those at issue herein, and sell them to unsuspecting investors like plaintiffs.

372. Defendants knew that, contrary to their affirmative representations in the Offering Documents, the certificates' underlying loans had not been originated pursuant to underwriting guidelines that were designed to evaluate borrowers' ability to repay or assess the adequacy of the mortgaged property to serve as collateral. Defendants also knew, as a result, that the loans were not likely to be repaid. Defendants, however, failed to disclose any of this information. Instead, they

simply packaged the defective loans as quickly as they could, concealed them within the offerings, and passed the risk of their repayment on to plaintiffs.

373. Contrary to their affirmative representations in the Offering Documents, defendants knew that the loan originators had, in fact, implemented loan underwriting policies that were simply designed to extend mortgages to as many borrowers as possible, regardless of whether those borrowers could actually repay them. These policies included, among other things:

- Falsifying borrowers' incomes and/or coaching borrowers to misstate their income on loan applications to qualify them for loans they could not afford to repay, while making it appear the loans complied with the stated underwriting guidelines;

- Coaching borrowers to omit or understate debts and expenses on loan applications to qualify them for loans they could not afford to repay, while making it appear the loans complied with the stated underwriting guidelines;

- Steering borrowers to loans that exceeded their borrowing capacity;

- Approving borrowers based on "teaser rates" for loans, despite knowing that the borrower would not be able to afford the fully indexed rate when the loan rate adjusted; and

- Approving non-qualifying borrowers for loans under "exceptions" to the originators' underwriting standards based on purported "compensating factors," when no such compensating factors ever existed.

374. Further, the loan originators and their agents had become so aggressive at improperly approving and funding mortgage loans that many of the loans at issue herein were made to borrowers who had either not submitted required documents or had falsely altered the required documentation. In many instances, required income/employment verifications were improperly performed because the lenders' clerical staff either did not have adequate verification skills or did not care to exercise such skills, and oftentimes verifications were provided by inappropriate contacts at a borrower's place of employment (*e.g.*, a friend of the borrower would complete the verification instead of the human resources department at the borrower's employer). In this way, many suspect and false income verifications and loan applications were accepted by the originators at issue herein.

375. In addition, borrowers who submitted "stated income" loan applications were routinely approved on the basis of stated income levels that were inflated to extreme levels relative to their stated job titles, in order to give the appearance of compliance with stated underwriting guidelines. In many cases, the loan originators herein actually coached the borrowers to falsely inflate their stated incomes in order to qualify under the originators' underwriting guidelines. Inflation of stated income was so rampant that a study cited by Mortgage Asset Research Institute later found that almost ***all*** stated income loans exaggerated the borrower's actual income by 5% or more, ***and more than half overstated income by at least 50%***.

376. This type of income inflation was a direct result of the loan originators' abandonment of their stated underwriting guidelines and their complete disregard for borrowers' true repayment abilities. For instance, many "stated income" borrowers were actually wage earners who could have supplied Internal Revenue Service ("IRS") Forms W-2 or other income-verifying documentation, but were not required to do so. Instead, they were steered to stated income loans by the lenders at issue herein, who then helped the borrowers "state" falsely inflated incomes. Originators also routinely issued loans without requiring the borrower to execute an IRS Form 4506, which would have allowed the lender to access such borrower's tax returns from the IRS, because the originators simply did not want to know that the borrower's true income level was less than the income level reported on the loan application. In other cases, lenders removed documentation of a borrower's income from loan files, because such documentation revealed that the borrower's stated income was falsely inflated. The falsification of income levels by the borrowers and the loan originators at issue herein was rampant.

377. The originators at issue herein also routinely violated their stated underwriting guidelines by using falsely inflated appraisals and other valuations – which, in turn, resulted in falsely understated LTV ratios – in order to approve loans that otherwise would have never been

made. The U.S. Government's FCIC investigation confirmed that, during the time the loans underlying plaintiffs' certificates were originated, the lenders at issue herein were regularly pressuring appraisers to falsely inflate their appraisals in order to meet or exceed the amount needed for the subject loans to be approved. This was especially true for loans, such as those at issue here, which were originated by lenders with the intention of being pooled and sold to defendants for eventual re-sale to investors like plaintiffs, who would ultimately bear the risk of default.

378. The constant pressure appraisers routinely faced from originators such as those at issue herein was described by Jim Amorin, President of the Appraisal Institute, who stated in his April 23, 2009 FCIC testimony that "***[i]n many cases, appraisers are ordered or severely pressured to doctor their reports and to convey a particular, higher value for a property, or else never see work from those parties again***. . . . ***[T]oo often state licensed and certified appraisers are forced into making a 'Hobson's Choice***.'" This complete lack of independence by appraisers was also noted by Alan Hummel, Chair of the Appraisal Institute, in his testimony before the U.S. Senate, where Hummel noted that the dynamic between lenders and appraisers created a "terrible conflict of interest" by which ***appraisers "experience[d] systemic problems with coercion" and were "ordered to doctor their reports" or else they would never "see work from those parties again" and were placed on "'exclusionary appraiser lists***.'" Testimony on "Legislative Proposals on Reforming Mortgage Practices" presented by Alan E. Hummel before the House Committee on Financial Services, at 5 (Oct. 24, 2007).

379. As a result of such pressures, appraisers routinely provided the originators at issue herein with falsely inflated appraisals that had no reasonable basis in fact, in direct contravention of the Offering Documents' false and misleading representations that the certificates' underlying loans had been originated pursuant to underwriting guidelines that required the lenders to evaluate the adequacy of the mortgaged properties to serve as collateral for the loans. Moreover, the falsely

inflated property values also resulted in artificially understated LTV ratios, which caused the loans and certificates to appear to plaintiffs to be of much higher credit quality and to be much less risky than they actually were.

380. Following below are detailed allegations demonstrating that the loan originators for the offerings at issue herein did not comply with the loan underwriting guidelines stated in the Offering Documents, thereby rendering the Offering Documents false and misleading. While the allegations concerning these originators cover most of the offerings, plaintiffs have not provided such allegations for every originator at issue herein, in an attempt to streamline the allegations. Nonetheless, on information and belief, plaintiffs allege that ***all*** of the loan originators at issue herein engaged in similar conduct, and that such allegations are factually supported by both the investigations of the FCIC and the U.S. Senate, each of which concluded, after extensive investigations, that the breakdown in residential loan underwriting standards alleged herein was systemic in the lending industry during the relevant time period (2004-2007). *See* FCIC Report at 125 ("***Lending standards collapsed, and there was a significant failure of accountability and responsibility throughout each level of the lending system***."); Levin-Coburn Report at 12 (One of four major causes of worldwide financial collapse was that "***[l]enders introduced new levels of risk into the U.S. financial system by selling . . . home loans with . . . poor underwriting***."); *id.* at 50 ("***The Subcommittee investigation indicates that" there were "a host of financial institutions that knowingly originated, sold, and securitized billions of dollars in high risk, poor quality home loans***.").

381. In fact, in 2005, federal examiners and agencies conducted a "confidential . . . study of mortgage practices at six companies that together had originated . . . almost half the national total" of mortgages in that year. ***The study "'showed a very rapid increase in the volume of these irresponsible, very risky loans***,'" according to Sabeth Siddique, then head of credit risk at the

Federal Reserve Board's Division of Banking Supervision and Regulation. ***For "[a] large percentage of the[] loans" reviewed, "the underwriting standards . . . had deteriorated***." FCIC Report at 172.

382. In addition, on December 30, 2007, *The Kansas City Star* published an article titled "American Dreams Built on a Shaky Foundation of Subprime Loans," analyzing the Nation's mortgage meltdown and the reasons behind it. The news article painted a picture of systematic abandonment of underwriting guidelines by lenders during the relevant time period (2004-2007). Kurt Eggert, a law professor and member of the Federal Reserve's Consumer Advisory Panel was quoted: "'***Originators were making loans based on quantity rather than quality. . . . They made loans even when they didn't make sense from an underwriting standpoint***.'" The news article further stated: "Mark Duda, a research affiliate at Harvard University's Joint Center for Housing Studies, said that because ***brokers were so intent to quickly sell off loans to investors, they had little incentive to make sure the loans were suitable for borrowers. 'They were setting people up to fail***,' Duda said." A news article in the *San Diego Union-Tribune* on November 16, 2008 echoed these sentiments, stating: "Bankruptcy specialists say part of what led to the housing market collapse ***was systemic. Lenders set themselves up for problems by not requiring buyers to prove they could afford the loans*** . . . ."

383. At a March 11, 2009 hearing of the U.S. House of Representatives Subcommittee investigating the Nation's mortgage meltdown, Representative Jeb Hensarling from the State of Texas was even more blunt about the pervasive abandonment of underwriting guidelines: "***Mortgage fraud ran rampant for a decade, on the lenders' side and on the borrower side . . . . We know that mortgage fraud ran rampant*** . . . ."

384. The systemic abandonment of stated underwriting guidelines by all of the originators identified herein during the period 2004-2007, which included the originators' complete failure to

evaluate borrowers' repayment abilities, is further corroborated by the following allegations, which demonstrate that the abandonment of loan underwriting guidelines was rampant, pervasive and commonplace in the residential lending industry during 2004-2007.

2. The Offering Documents Misrepresented the GS Conduit Program's Underwriting Standards

385. As detailed *supra*, the underwriting guidelines that were purportedly used to originate loans acquired through the GS Conduit Program were described by defendants in the Offering Documents. *See* §V, *supra.* These representations were false and misleading when made. In reality, neither the Goldman Sachs Defendants, through the GS Conduit Program, nor the lenders from which the loans were purchased, actually determined whether the borrowers' incomes were sufficient to meet their loan repayment requirements. Nor did the Goldman Sachs Defendants or the lenders from which they acquired the loans determine the adequacy of the properties to serve as security for the loans. Additional detail regarding this conduct is described in §VII *infra*.

386. In addition, as set forth herein in §V, *supra*, the GS Conduit Program's failure to follow its own underwriting guidelines and assess its borrowers' true repayment abilities is further demonstrated by the fact that loans were made to borrowers who ***clearly*** could never afford them. In one instance, the borrower's DTI ratio was an astounding ***912% ($8,064 in monthly debts divided by only $875 in monthly income)***, clearly indicating that the borrower's debts were ***more than five times*** larger than his/her income. *See* ¶55. In other instances, the borrowers' DTI ratios were ***588% ($3,179 in monthly debts divided by only $540 in monthly income)*** and 163% – again, all clearly indicating each borrower's inability to afford the loan. *See* ¶¶183, 138.

387. These examples are not isolated incidents. In fact, stunning numbers of borrowers for the offerings in which the loans were originated through the GS Conduit Program have defaulted on their loans, obviously because, among other things, the borrowers' abilities to repay the loans were

ignored. Indeed, in the offerings in which the loans were originated through the GS Conduit Program, the default rates were extremely high. *See* §VI.D. These extremely high default rates for ***all*** of the offerings in which the GS Conduit Program originated loans ***demonstrate a systemic failure by the GS Conduit Program to determine whether borrowers could afford to repay their loans***. *See id.*

388. The Offering Documents' representations that the GS Conduit Program's underwriting guidelines prohibited the making of any loan with an LTV ratio in excess of 100% were also false and misleading, because the GS Conduit Program routinely ignored this guideline as well. This is demonstrated by the fact that in all of the offerings in which the GS Conduit Program originated loans, there were numerous loans with LTV ratios in excess of 100%. *See* §VI.B. Indeed, in all of such offerings, there were many loans with LTV ratios in excess of 100%, with some offerings containing double-digit percentages of such risky loans, guaranteeing losses to investors when the loans defaulted (as they did in large numbers, as discussed immediately above). *Id.* This unequivocally establishes that the GS Conduit Program routinely disregarded this underwriting guideline.

389. The LTV ratios in the Offering Documents were all fraudulently understated. The GS Conduit Program had fraudulently understated those LTV ratios by using falsely inflated appraisals, the effect of which was to make the LTV ratios appear to be lower and in compliance with the stated underwriting guidelines. The use of inflated appraisals, however, was also a violation of the underwriting guidelines, as the GS Conduit Program thereby failed to properly evaluate whether the properties were adequate collateral for the loans.

390. The foregoing demonstrates that, during the relevant time period (2004-2007), the GS Conduit Program abandoned its stated underwriting guidelines and failed to evaluate both the true

repayment abilities of its borrowers and the adequacy of the properties used as collateral for its loans.

3. The Offering Documents Misrepresented the New Century Originators' Underwriting Guidelines

391. New Century Mortgage Corporation, Home 123 Corporation, and NC Capital Corporation are three affiliated companies that originated loans for the offerings at issue herein. All three companies were subsidiaries of New Century Financial Corporation. New Century Mortgage Corporation and Home123 Corporation originated and/or acquired loans directly and sold them to the sponsors for the offerings at issue herein. For the offerings at issue herein identifying NC Capital Corporation as an originator, NC Capital Corporation acquired the loans from New Century Mortgage Corporation and then transferred the loans to the sponsors for such offerings. Because New Century Mortgage Corporation, Home 123 Corporation, and NC Capital Corporation all operated under the dominion and control of New Century Financial Corporation, and because the loans they contributed to the trusts at issue herein were all products of the same dubious loan origination practices, these three originators are collectively referred to herein as "New Century."

392. As detailed *supra*, New Century's supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V, *supra*. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, New Century had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for its borrowers' true repayment abilities or the actual adequacy of the mortgaged properties to serve as collateral.

393. The U.S. Senate investigation found that New Century "w[as] known for issuing poor quality subprime loans," but "[d]espite [its] reputation[] for poor quality loans, leading investment banks [such as the Goldman Sachs Defendants] continued to do business with [New Century] and

helped [it and other lenders] sell or securitize hundreds of billions of dollars in home mortgages." Levin-Coburn Report at 21.

394. In 2007, New Century went into bankruptcy. An examiner was appointed by the bankruptcy court to investigate New Century and its collapse. After reviewing "a large volume of documents" from numerous sources, including New Century, and interviewing over 100 fact witnesses, the bankruptcy examiner filed a detailed report concerning New Century. *See* Final Report of Michael J. Missal, *In re: New Century TRS Holdings, Inc.*, No. 07-10416 (D. Del. Feb. 29, 2008) ("Examiner's Report") at 14, 16. The examiner confirmed that New Century routinely failed to follow its stated underwriting guidelines when originating loans during the relevant time period. The examiner, after his comprehensive fact-gathering process, "conclude[d] that New Century engaged in a number of significant improper and imprudent practices related to its loan originations." *Id.* at 2. Among other things, the examiner found that:

- "***New Century had a brazen obsession with increasing loan originations, without due regard to the risks associated with that business strategy . . . and trained mortgage brokers to originate New Century loans in the aptly named 'CloseMore University***.'" *Id.* at 3.

- "***The increasingly risky nature of New Century's loan originations created a ticking time bomb that detonated in 2007***." *Id.*

- "***New Century . . . layered the risks of loan products upon the risks of loose underwriting standards in its loan originations to high risk borrowers***." *Id.*

- ***A New Century employee had informed the company's senior management in 2005 that, under New Century's underwriting guidelines, "'we are unable to actually determine the borrowers' ability to afford a loan***.'" *Id.*

- "***New Century also made frequent [unmerited] exceptions to its underwriting guidelines for borrowers who might not otherwise qualify for a particular loan," so much so that a senior officer of New Century warned internally that the "'number one issue is exceptions to guidelines***.'" *Id.* at 3-4.

- ***New Century's Chief Credit Officer had noted as early as 2004 that New Century had "'no standard for loan quality.'" Id. at 4 "'[L]oan quality'" referred to "New***

Century's loan origination processes, which were supposed to ensure that New Century loans met its own internal underwriting guidelines . . . ." *Id*. at 109.

- "***Instead of focusing on whether borrowers could meet their obligations under the terms of the mortgages, a number of members of [New Century's] Board of Directors and Senior Management told the Examiner that their predominant standard for loan quality was whether the loans New Century originated could be sold or securitized*** . . . ." *Id*. at 4.

- ***A large number of New Century's loans did not meet its underwriting guidelines, suffering from defects such as "defective appraisals, incorrect credit reports and missing documentation***." *Id*. at 109.

- ***From 2003 forward, New Century's Quality Assurance and Internal Audit departments identified "significant flaws in New Century's loan origination processes***." *Id*. at 110.

- ***Notwithstanding all the foregoing facts, New Century's Board of Directors and Senior Management did little to nothing to remedy the company's abandonment of its stated underwriting guidelines***. *Id.*

395. The FCIC found that New Century "ignored early warnings that its own loan quality was deteriorating and stripped power from two risk-control departments that had noted the evidence." FCIC Report at 157. The FCIC reported that New Century's Quality Assurance staff "had found severe underwriting errors," while New Century's Internal Audit department had "identified numerous deficiencies in loan files," with seven out of nine reviews of the company's loan production department resulting in "'unsatisfactory'" ratings. *Id.* New Century's senior management's reaction to the revelation of this information – establishing that New Century was not complying with its underwriting guidelines – was not what one would expect. Instead of making efforts designed to bring the company into compliance with its underwriting guidelines, New Century's management directed that the negative results be removed from the company's loan tracking performance, that the Quality Assurance department be dissolved, and that the Internal Audit department's budget be cut. *Id.*

396. New Century thereafter continued making numerous loans in violation of the company's stated underwriting guidelines, and then sold them to defendants. Indeed, New Century had a practice during the relevant time period whereby if a loan it attempted to sell to one securitizer was rejected because it was found not to comply with New Century's underwriting guidelines, New Century would put that defective loan into a subsequent pool of loans and sell it to another RMBS securitizer, *i.e.*, another defendant herein.

397. Patricia Lindsay ("Lindsay"), a former fraud specialist for New Century, told the FCIC that New Century's definition of a "good" loan changed during the relevant time period: "'The definition of a good loan changed from "one that pays" to "one that could be sold.'"" FCIC Report at 105. The import of this statement was that New Century no longer cared if the loan met its stated underwriting guideline of determining whether the borrower could afford to repay the loan. Rather, the guideline was ignored, as it only mattered if defendants would purchase the loan. As will become more evident, defendants did buy huge quantities of such loans – even when the borrowers could not afford to repay them – and defendants did so knowingly. In fact, Lindsay pointed out that defendants, *i.e.*, "'Wall Street[,] was very hungry for our product. We had loans sold three months in advance, ***before they were even made at one point***.'" FCIC Report at 117. Given that defendants bought New Century's defective loans ***before*** they were even made, and thus could not possibly have determined whether the loans met the stated underwriting guidelines, it is evident that defendants did not bother to determine whether the statements in the Offering Documents were true. In any event, as alleged more fully below, ***defendants did in fact know that the Offering Documents were false***.

398. Lindsay also confirmed to the FCIC that New Century subjected its appraisers to the pressures described above. Specifically, Lindsay stated that New Century's appraisers "fear[ed]" for their "livelihoods," and therefore cherry picked data "that would help support the needed value

rather than finding the best comparables to come up with the most accurate value." Written Testimony of Patricia Lindsay to the FCIC, April 7, 2010, at 5.

399. The Attorney General for the Commonwealth of Massachusetts ("Attorney General") similarly found that New Century originated numerous loans to borrowers who could not afford them, and which were illegal and not in compliance with New Century's purported underwriting guidelines. On June 24, 2010, the Attorney General announced a settlement with Morgan Stanley related to its purchase, financing and securitization of New Century loans. Morgan Stanley agreed to pay $102 million to settle charges that it assisted New Century in making and securitizing awful loans to borrowers who could not afford to repay them. In announcing the settlement, the Attorney General also released the findings of its investigation. The Attorney General found the following with respect to New Century's loans:

- The Attorney General found that ***New Century was making unfair and illegal loans to borrowers in Massachusetts who could not afford to repay them***. The Attorney General found that New Century unlawfully qualified borrowers for adjustable rate mortgages by using "teaser" rates, instead of using the "fully indexed rates," as required by law. By using teaser rates, New Century was able to calculate artificially low DTI ratios to qualify borrowers for loans they could not afford. The Attorney General found that if the borrowers' DTI ratios had been properly calculated, 41% of the loans Morgan Stanley purchased from New Century were to borrowers who could not afford them. Assurance of Discontinuance at 13, *In re: Morgan Stanley & Co. Incorporated*, No. 10-2538 (Mass. Super. Ct., Suffolk Cty. June 24, 2010).

- The Attorney General found that, by late 2005, New Century engaged in "***sloppy underwriting for many loans and stretching of underwriting guidelines to encompass or approve loans not written in accordance with the guidelines***." *Id*. at 9.

- The Attorney General found that ***New Century successfully pressured Morgan Stanley into buying loans which both parties knew did not comply with the underwriting guidelines***. In March 2006, New Century complained to Morgan Stanley that it was rejecting too many loans and further pressured Morgan Stanley to buy more loans, by suggesting that it would begin shifting its business to other buyers if Morgan Stanley did not buy more loans. ***The very next month, in April 2006, Morgan Stanley's senior bankers purchased hundreds of New Century loans that Morgan Stanley's due diligence team had rejected***. In addition, "Morgan

Stanley's due diligence teams began to be more responsive to New Century's desire to include additional [defective] loans in the purchase pools." *Id.* at 10.

- The Attorney General found that ***the majority of loans Morgan Stanley purchased from New Century and securitized in 2006 and 2007 did not comply with the underwriting guidelines***. According to the Attorney General, Clayton was hired to determine whether samples of New Century's loans "complied with the originator's underwriting guidelines and whether the loans were in compliance with applicable laws. When Clayton's examination uncovered loans that were in violation of guidelines or law in any respect, it graded the loans as 'exceptions.'" ***The Attorney General's investigation found that "[i]n Morgan Stanley's 2006-2007 New Century [loan] pools, the large majority of the loans reviewed by Clayton were identified by Clayton as having some type of exception. Most loans had multiple exceptions." The Attorney General further found that "[d]uring 2006 and 2007, Morgan Stanley waived exceptions on and purchased a large number of the loans found by Clayton to violate guidelines without sufficient compensating factors. In the last three quarters of 2006, Morgan Stanley waived more than half of all material exceptions found by Clayton . . . and purchased a substantial number of New Century loans found by Clayton to violate guidelines without sufficient compensating factors***." *Id.*

- The Attorney General also found that New Century "***loans with certain exceptions such as high DTI ratios or high LTV or CLTV ratios that were in excess of underwriting guidelines but within a tolerance found acceptable to Morgan Stanley were purchased without a review by Clayton for compensating factors***." *Id.*

- ***The Attorney General found that large numbers of New Century's loans had LTV ratios exceeding 100%, contrary to representations in the offering documents***. In the offering documents, defendants represented that pursuant to the underwriting guidelines, almost none of the loans had LTV ratios over 100%. However, the Attorney General found that "***31% of the New Century loans on properties checked via BPOs . . . and securitized by Morgan Stanley in 2006 and 2007 had []LTV ratios . . . that were greater than 100%***." *Id.* at 13.

- The Attorney General found that ***New Century's "stated income" loans contained falsely inflated borrower incomes***. The Attorney General found that "***[a]s early as October 2005, Morgan Stanley's diligence team determined . . . that the stated income on a number of New Century loans was unreasonable. In early 2006, a Morgan Stanley employee commented that stated income credit was not adequately evaluated by New Century. . . . On average, the stated income of these borrowers was approximately 42% higher than the income of fully documented borrowers***." *Id.* at 13-14.

- ***The Attorney General found that New Century's deficient and illegal lending practices went on unabated throughout the relevant time period***. The Attorney General found that "***[n]otwithstanding the problems identified above, Morgan***

Stanley continued to . . . purchase and securitize New Century's subprime mortgages through 2006 and the first half of 2007." *Id*. at 14.

400. New Century also made the U.S. Government's Office of the Comptroller of the Currency's ("OCC") "Worst Ten in the Worst Ten" list of lenders, which identified the lenders with the highest number of foreclosures in the ten metropolitan areas with the highest foreclosure rates. ***Indeed, New Century was the worst of all the lenders – New Century's loans had more foreclosures than any other lender's loans originated during the 2005-2007 time period***. This corroborates the fact that New Century did not determine whether borrowers could afford to repay the loans, thereby rendering the Offering Documents false and misleading.

4. The Offering Documents Misrepresented Countrywide's Underwriting Standards

401. As detailed *supra*, Countrywide's supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V, *supra*. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, Countrywide had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for its borrowers' true repayment abilities or the actual adequacy of the mortgaged properties to serve as collateral.

402. During the relevant time period, Countrywide was the largest independent mortgage lender and loan originator for RMBS offerings in the United States. Unfortunately for plaintiffs, it was also one of the worst, as it repeatedly originated loans in violation of its stated loan underwriting guidelines and routinely extended loans to borrowers without any regard for such borrowers' true repayment abilities, oftentimes relying on falsely inflated appraisals (and thus false LTV ratios), falsified occupancy data and other false information to do so.

403. In June 2009, the SEC initiated a securities fraud action in the United States District Court for the Central District of California against former Countrywide executives Angelo Mozilo

("Mozilo"), David Sambol ("Sambol") and Eric Sieracki ("Sieracki"). On September 16, 2010, the court denied the Countrywide executives' motions for summary judgment and held that ***the SEC had raised genuine issues of fact*** as to whether the defendants had misrepresented the quality of Countrywide's underwriting processes from 2005-2007. Specifically, the court held that ***the SEC presented evidence that Countrywide "routinely ignored its official underwriting guidelines to such an extent that Countrywide would underwrite any loan it could sell into the secondary mortgage market," and that "a significant percentage (typically in excess of 20%) of Countrywide's loans were issued as exceptions to its official underwriting guidelines***." *SEC v. Mozilo*, No. CV 09-3994-JFW (MANx), 2010 U.S. Dist. LEXIS 98203, at *33-*34 (C.D. Cal. Sept. 16, 2010). ***The court held that the evidence presented was such that "a reasonable jury could conclude that Countrywide all but abandoned managing credit risk through its underwriting guidelines***." *Id*. at *35. In 2010, Mozilo, Sambol and Sieracki paid over $73.1 million to settle the SEC action.

404. The testimony and documents only recently made available to plaintiffs by way of the SEC's investigation confirm that Countrywide was systematically abusing "exceptions" and low-documentation processes in order to circumvent its own underwriting guidelines. For example, in an April 13, 2006 e-mail, Mozilo, who was Countrywide's co-founder and Chief Executive Officer ("CEO"), wrote to Sieracki and others that he was concerned that certain subprime loans had been originated "***with serious disregard for process [and] compliance with guidelines***," resulting in the delivery of loans "with deficient documentation." Mozilo further stated that "***I have personally observed a serious lack of compliance within our origination system as it relates to documentation and generally a deterioration in the quality of loans originated versus the pricing of those loan[s]***."

405. The testimony and documents produced in the SEC action also show that, on June 28, 2005, Sieracki attended a Corporate Credit Risk Committee meeting, "in which he was informed that ***1/3 of the loans which were referred from CLUES [Countrywide's automated underwriting system] violated 'major' underwriting guidelines and 1/3 violated 'minor' guidelines***." At a similar meeting on March 12, 2007, "Risk Management reported that 12% of the loans reviewed through Countrywide's internal quality control process were rated ***severely unsatisfactory*** or high risk, and that one of ***the principal causes for such a rating was that loans had debt-to-income, loan to value, or FICO scores outside Countrywide's underwriting guidelines***."

406. A separate False Claims Act lawsuit brought by the U.S. Government against Countrywide and appraisal firm Land Safe Appraisal Services, Inc. ("Land Safe") confirms that Countrywide routinely violated its stated underwriting guidelines by using falsely inflated appraisals. *See* Complaint, *United States, ex rel. Kyle W. Lagow v. Countrywide Fin. Corp.*, No. 1:09-cv-02040-RJD-JMA (E.D.N.Y. May 13, 2009) ("*Lagow* Complaint"). According to the allegations of this action, which are based on the testimony of Kyle Lagow, a former Land Safe employee, Countrywide and Land Safe conspired together to systematically inflate appraisals. According to Lagow, Countrywide and Land Safe systematically inflated appraisals for Countrywide loans by, among other things: (a) paying above-market fees to appraisers who provided inflated appraisals; (b) rewarding appraisers that provided inflated appraisals with significant amounts of additional work; (c) black-listing, retaliating against and firing appraisers that refused to provide inflated appraisals; (d) improperly requiring appraisers to rely on information outside the relevant market that justified inflated appraisals; (e) providing appraisers with false information concerning "comparable" properties that led to inflated appraisals; and (f) retaliating against anyone who questioned or criticized Countrywide and Land Safe's appraisal inflation scheme. *Lagow* Complaint, ¶9. This

action was settled, as part of a global $1 billion settlement, with Countrywide's parent company, Bank of America Corp.

407. In addition, the FCIC's final report, which was issued in January 2011, also set forth, *inter alia*, findings regarding Countrywide's key role in the financial crisis and the lender's general failure to evaluate its borrowers' repayment abilities. Specifically, the FCIC Report stated:

> ***Lenders made loans that they knew borrowers could not afford and that could cause massive losses to investors in mortgage securities. As early as September 2004, Countrywide executives recognized that many of the loans they were originating could result in "catastrophic consequences." Less than a year later, they noted that certain high-risk loans they were making could result not only in foreclosures but also in "financial and reputational catastrophe" for the firm. But they did not stop.***

See FCIC Report at xxii.

408. According to evidence in the FCIC Report, Countrywide's loan products were simply not designed to evaluate borrowers' repayment abilities. Indeed, one of Countrywide's loan products was described as "***poison***" by the lender's own co-founder and CEO, Mozilo, who stated in an April 17, 2006 e-mail: "'***In all my years in the business I have never seen a more toxic [product]*** . . . .'" FCIC Report at 20. According to information contained in the FCIC Report, the reason Countrywide was willing to offer such products was because its sole focus was "'originating what was salable in the secondary market,'" *i.e.*, to Wall Street banks such as defendants. *Id.* at 105. According to the FCIC Report, Countrywide "sold or securitized 87% of the $1.5 trillion in mortgages it originated between 2002 and 2005." *Id.*

409. Moreover, former Countrywide employee Eileen Foster ("Foster") confirmed, in an interview with the FCIC, that fraud was rampant in connection with Countrywide's origination of loans. Foster worked as a mortgage fraud investigator at Countrywide, and confirmed that loans that Countrywide's fraud investigators or underwriters rejected due to fraud or non-conformance with the underwriting guidelines were routinely overruled and approved by Countrywide's sales unit, as "***the***

rules were bent and broken and twisted regularly and it was . . . an accepted mode of doing business." July 30, 2010 FCIC Staff Interview of Eileen Foster. Foster further stated that "all of the fraud that may have been taking place [was] being managed out by the sales units," or in other words, "'***concealed***.'" *Id.* She suspected that "there was quite a bit of fraud taking place" in connection with Countrywide's loan originations, which her audit manager "confirmed to [her]." *Id.*

410. In fact, according to the FCIC, Countrywide had tens of thousands of internal company referrals of potentially fraudulent activity in connection with its mortgage business during the period from 2005-2007. FCIC Report at 162.

411. Other former Countrywide employees have confirmed that Countrywide originated loans that did not comply with its stated underwriting criteria because its employees were incentivized to increase the number of loan originations without concern for borrowers' repayment ability. Instead of evaluating repayment ability, ***Countrywide's Sales Training Facilitator Guide instructed originators to "look for ways to make the loan rather than turn it down***."

412. According to another former Countrywide manager, the mindset at the company was "***if you had a pulse, Countrywide gave you a loan***."

413. Countrywide's loan originators would "coach" borrowers as to the level of falsely inflated incomes they should claim in order to qualify for loans they could not otherwise afford. Countrywide itself also falsified borrowers' incomes, or facilitated falsified incomes by steering otherwise ineligible borrowers to "stated income" loans. According to a former Countrywide account manager, the company was "infested" with employees that ignored the company's underwriting guidelines.

414. Former Countrywide employees have revealed that as many as 80% of the loans originated by a Countrywide office in Florida did not meet loan underwriting guidelines.[93] According to another former Countrywide employee, approximately 90% of all reduced documentation loans sold out of a Chicago office had falsely inflated incomes and one of Countrywide's mortgage brokers, One Source Mortgage Inc., routinely doubled the amount of the potential borrowers' income on stated income mortgage applications in order to qualify borrowers for loans they could not afford.[94]

415. Moreover, even in the cases when Countrywide employees actually obtained written income documentation (*i.e.*, a Form W-2) demonstrating that the borrower did not qualify for a loan, the documentation was ignored by Countrywide and the loan was re-submitted as a stated income loan with an inflated income number so as to obtain approval of the loan – a loan which the borrower could not afford to repay. These problems were systemic within Countrywide at the time the loans in the offerings at issue herein were originated.

416. Countrywide's general abandonment of its stated underwriting guidelines has also been the subject of numerous civil complaints and investigations by state attorneys general, each of which have alleged facts supporting plaintiffs' allegations here that Countrywide's underwriting practices were not intended to evaluate borrowers' repayment abilities. *See*, *e.g.*, *In re Countrywide Fin. Corp. Derivative Litig.*, No. 07-CV-06923-MRP (MANx) (C.D. Cal.); *In re Countrywide Fin. Corp. Sec. Litig.*, No. 07-CV-05295 MRP (MANx) (C.D. Cal.); *The People of the State of Illinois v. Countrywide Fin. Corp.*, No. 2008-CH-22994 (Cook Cty. Cir. Ct., Ch. Div. Ill.); *The People of the*

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[93] Loans originated in Florida were included in offerings at issue herein where Countrywide was identified as a lender.

[94] Loans originated in Illinois were included in offerings at issue herein where Countrywide was identified as a lender.

State of California v. Countrywide Fin. Corp., No. LC081846 (Cal. Super. Ct., Los Angeles Cty.); *State of Connecticut, et al. v. Countrywide Fin. Corp., et al.*, No. 08-cv-01301 (D. Conn.) (originally filed in Conn. Super. Ct., Hartford Jud. Dist.); *MBIA Ins. Corp. v. Countrywide*, No. 602825/2008 (N.Y. Sup. Ct., N.Y. Cty.). The sheer volume of the lawsuits, all alleging that Countrywide systematically abandoned its underwriting guidelines, is strong evidence that that is what in fact occurred.

417. Countrywide, unsurprisingly, made the list of the "Worst Ten in the Worst Ten" report by the U.S. Government's OCC, which identified the lenders with the highest number of foreclosures for loans originated between 2005 and 2007 in the ten metropolitan areas with the highest rates of foreclosures. The extremely high foreclosure rates for Countrywide's loans corroborate that the company did ***not*** comply with its purported underwriting guideline to evaluate borrowers' repayment ability. In addition, the U.S. Senate confirmed that Countrywide had abandoned its purported underwriting guidelines stated in the Offering Documents: ***Countrywide and other "lenders issued billions of dollars in high risk, poor quality home loans***." Levin-Coburn Report at 239.

5. The Offering Documents Misrepresented Fremont's Underwriting Standards

418. As detailed *supra*, Fremont's supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V, *supra*. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, Fremont had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for its borrowers' true repayment abilities or the actual adequacy of the mortgaged properties to serve as collateral.

419. The U.S. Senate investigation found that Fremont "became known inside the industry for issuing high risk, poor quality loans yet during the years leading up to the financial crisis [Fremont was] able to securitize and sell [its] home loans with few problems." Levin-Coburn Report at 21. Moreover, "[d]espite [Fremont's] reputation[] for poor quality loans, leading investment banks [such as the Goldman Sachs Defendants] continued to do business with [Fremont] and helped [it] sell or securitize hundreds of billions of dollars in home mortgages." Id.

420. In March 2007, the Federal Deposit Insurance Corporation ("FDIC") issued a "cease and desist" order against Fremont (the "FDIC March 7 Order"), requiring the lender to end its subprime loan business, due to '"unsafe and unsound banking practices and violations of law,'" including operating with '"a large volume of poor quality loans'"; '"unsatisfactory lending practices'"; '"excessive risk'"; and "inadequate capital." Levin-Coburn Report at 238; FDIC March 7 Order at 2-3. The FDIC determined that Fremont lacked effective risk management practices, lacked adequate mortgage underwriting criteria, and was '"approving loans with loan to-value ratios approaching or exceeding 100 percent of the value of the collateral.'" Levin-Coburn Report at 238; FDIC March 7 Order at 4. In addition, the FDIC concluded that Fremont had been engaging in unsatisfactory lending practices, by "***marketing and extending [ARM] products to subprime borrowers in an unsafe and unsound manner" that "greatly increase[d] the risk that borrowers will default***." FDIC March 7 Order at 3. The FDIC further found that Fremont was "***approving borrowers without considering appropriate documentation and/or verification of their income . . . [and] making mortgage loans without adequately considering the borrower's ability to repay the mortgage according to its terms***." *Id.* at 3-4.

421. In addition, on October 4, 2007, the Massachusetts Attorney General brought an enforcement action against Fremont. Many of the loans in the offerings at issue herein were originated in Massachusetts by Fremont. The action was for "unfair and deceptive business

conduct" "on a broad scale" against Fremont. Complaint, *Commonwealth of Mass. v. Fremont Investment & Loan, et al.*, No. SUCV2007-4373 (Mass. Super. Ct., Suffolk Cty. Oct. 4, 2007) (the "*Fremont* Complaint"). According to the *Fremont* Complaint, ***Fremont (a) "approve[ed] borrowers without considering or verifying the relevant documentation related to the borrower's credit qualifications, including the borrower's income"; (b) "approv[ed] borrowers for loans with inadequate debt-to-income analyses that do not properly consider the borrowers' ability to meet their overall level of indebtedness and common housing expenses"; (c) "failed to meaningfully account for [ARM] payment adjustments in approving and selling loans"; (d) "approved borrowers for these ARM loans based only on the initial fixed 'teaser' rate, without regard for borrowers' ability to pay after the initial two year period"; (e) "consistently failed to monitor or supervise brokers' practices or to independently verify the information provided to Fremont by brokers"; and (f) "ma[de] loans based on information that Fremont knew or should have known was inaccurate or false, including, but not limited to, borrowers' income, property appraisals, and credit scores***." *Fremont* Complaint, ¶¶24, 25, 35, 139.

422. On December 9, 2008, a Massachusetts appeals court affirmed the lower court's order enjoining Fremont from foreclosing on thousands of its loans issued to Massachusetts residents. The court found that the ***factual record*** supported the lower court's conclusions that "***Fremont made no effort to determine whether borrowers could 'make the scheduled payments under the terms of the loan***,'" and that "***Fremont knew or should have known that [its lending practices and loan terms] would operate in concert essentially to guarantee that the borrower would be unable to pay and default would follow***." *Commonwealth v. Fremont Inv. & Loan*, 897 N.E.2d 548, 556, 558 (Mass. 2008). The terms of the preliminary injunction were made permanent by a settlement reached on June 9, 2009.

423. In addition, the FCIC found that Fremont had a company policy whereby any loan that was rejected by a securitizer because it did not comply with Fremont's underwriting guidelines was nonetheless put into a subsequent pool of Fremont loans and offered for sale to another securitizer. These defective loans remained in the pools offered for sale until they were either sold or were rejected by securitizers at least three times. D. Keith Johnson, the former president of Clayton, the firm that sampled such loan pools for defendants, called this practice the "'three strikes, you're out rule.'" FCIC Report at 168.

424. In another instance, the FCIC reported on the case of a real estate appraiser in Bakersfield, California who had discovered multiple instances of lending fraud. When he contacted a quality assurance officer at Fremont to inform them of the fraudulent activity he was told: "'Don't put your nose where it doesn't belong.'" *Id*. at 14-15.

425. The findings of the Levin-Coburn Report, the FDIC, the FCIC, and the Commonwealth of Massachusetts are confirmed by statements from former Fremont employees in several complaints alleging that Fremont disregarded its established underwriting guidelines in order to increase the volume of its loan originations. For example, in *Teachers Insurance & Annuity Ass'n v. Deutsche Bank AG, et al.*, No. 11-cv-6141 (S.D.N.Y. Aug. 1, 2011) (the "*TIAA* Complaint"), the plaintiffs cited statements from a senior underwriter for Fremont from September 2002 to August 2007. This former underwriter reported that Fremont engaged in unsatisfactory lending practices, and that its primary concern was increasing the volume of mortgage loans that it issued and sold to Wall Street, ***regardless of the borrower's ability to repay***. The senior underwriter further revealed that exceptions to Fremont's stated underwriting guidelines were a "'standing joke'" and "'the exception was the rule.'" *TIAA* Complaint, ¶98 n.8. Another former underwriter at Fremont's Anaheim, California, office from May 2005 until March 2007, stated exceptions to the underwriting guidelines "'were done on a daily basis'" and estimated that 30% of Fremont's loans contained some

sort of exception. *Id.* Many of the loans in the offerings at issue herein were originated by Fremont in California. The *TIAA* Complaint also cites to another Fremont employee who stated that outright fraud occurred at Fremont from at least 2002-2007, including instances where Fremont brokers would cut and paste bank statements and forge letters of reference for prospective borrowers. According to this witness, ***the fraud was so blatant that "'you ha[d] to be brain dead if you didn't see it***'" and that ***Fremont was "'just giv[ing] anyone a loan who wants one***.'" *Id.*, ¶¶5, 99. In addition, in another case, *Dexia SA/NV, et al. v. Deutsche Bank AG, et al.*, No. 11-05672 (S.D.N.Y.), these same former Fremont employees are cited to support other claims that Fremont did not comply with its stated underwriting guidelines.

426. Fremont also made the OCC's "Worst Ten in the Worst Ten" list of originators with the most foreclosures. Fremont had the fifth-highest number of foreclosures on loans originated between 2005 and 2007. This corroborates that Fremont had abandoned its purported underwriting guidelines, which were supposedly designed to evaluate borrowers' repayment abilities.

427. Indeed, the U.S. Senate confirmed as much in its report: "***[L]enders [such as Fremont] issued billions of dollars in high risk, poor quality home loans***." Levin-Coburn Report at 239. According to the Levin-Coburn Report, the Goldman Sachs Defendants discovered that up to 50% of the loans they purchased from Fremont and subsequently securitized did not comply with stated underwriting guidelines. *Id.* at 486, 515.

6. The Offering Documents Misrepresented American Home's Underwriting Standards

428. As detailed *supra*, American Home's supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V, *supra*. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, American Home had completely abandoned its stated underwriting guidelines and

was routinely originating loans without any regard for its borrowers' true repayment abilities or the actual adequacy of the mortgaged properties to serve as collateral.

429. The SEC instituted fraud charges against the former top executives of American Home's parent company, American Home Investment Corp. ("American Home Investment"), for their role in misleading investors regarding American Home's systematic disregard of sound underwriting standards and risky lending practices that ultimately led to the lender's bankruptcy on August 6, 2007. "'These senior executives did not just occupy a front row seat to the mortgage meltdown – they were part of the show,'" said Robert Khuzami, Director of the SEC's Division of Enforcement in a press release.[95] ***The SEC charged that American Home was not the "prime" lender it claimed to be, but rather routinely issued high-risk loans to borrowers with poor credit in order to drive growth and capture additional market share***. American Home Investment's former CEO paid $2.5 million to settle the SEC's fraud charges.

430. Numerous statements from former American Home employees confirm that, in order to increase the volume of loan originations, American Home disregarded its stated underwriting guidelines, failing to evaluate its borrowers' true repayment abilities and failing to obtain appraisals that complied with American Home's stated appraisal standards. A former Wholesale Account Executive, who worked at American Home from January 2005 through July 2007, stated that ***at American Home "anybody could buy a house with zero percent down and no proof of ability to pay [the loan] back***." According to this former employee, American Home regularly extended loans that are now classified as predatory. Likewise, a former Operations Manager in the lending division from 2002 through December 2006 stated that ***the borrower's ability to repay the loan was not a consideration at American Home***.

[95] SEC Press Release 2009-92, "SEC Charges Former American Home Mortgage Executives for Misleading Investors About Company's Financial Condition" (Apr. 28, 2009).

431. Moreover, another former American Home Vice President from March 2003 through May 2007 confirmed that appraisal fraud was commonplace at American Home. Specifically, this former Vice President recounted how loan officers regularly pressured appraisers to falsely inflate their valuations in order to come up with the "right number." As a result, the appraisals upon which American Home's loans were based, as well as their resultant LTV ratios, falsely misrepresented the true level of risk associated with such loans.

432. Contrary to American Home's stated underwriting policy, American Home was not weighing all risk factors inherent in a loan file. Instead, according to former underwriters who worked at American Home, loans that were initially rejected for failing to comply with the underwriting guidelines were frequently approved by American Home's automated underwriting software.

433. According to former American Home loan underwriters during the relevant time period, American Home used automated underwriting software provided by Wall Street banks like defendants which approved loans that would not have been approved under American Home's stated underwriting guidelines. According to a former Level 5 Underwriter who worked at American Home from 2004 until December 2006, American Home's initial rejections of loans because they did not comply with the stated underwriting guidelines were frequently overridden by defendants' automated underwriting software. Defendants' "guidelines" were based on what they could ultimately resell regardless of quality. This Underwriter pointed to a number of instances where the automated program approved loans that made no financial sense and were not likely to be paid back. As a result, American Home management routinely approved risky loans. This situation caused the Underwriter to "lose respect" for American Home, who believed that an underwriter's role was to look at the totality of the information in the loan application and ask "Does it fit?" and "Is it

logical?" The Underwriter said that many of the loans approved by the automated underwriting software were loans on which he "would not have lent a dime."

434. In addition, although American Home's underwriting guidelines for stated income applications allowed for loans when there were "other compensating factors," such as higher credit scores or lower LTV ratios, in fact: (i) American Home allowed credit scores to be manipulated by the borrower, who would become an approved user on another person's credit card or other account who had better credit ratings; and (ii) American Home had no reasonable basis to believe that lower LTV ratios were accurate because American Home was aware that the appraisals being used by the company were inflated (thus leading to a false, lower LTV ratio). Further, in order to achieve desired loan production, ***American Home was as a matter of course granting exceptions to its underwriting guidelines even where actual "compensating factors" did not exist***. Because American Home's business was dependent on continually increasing volume, ***American Home granted exceptions as a matter of course even when no real exception existed***.

435. In an effort to keep loan volume up despite a slowdown in activity, American Home's brokers became so aggressive that borrowers were given loans with different terms than they were originally promised. Borrowers have, in fact, complained that loans were switched on them by American Home, leaving them with mortgages they could not pay. Further evidence of American Home's poor underwriting practices appeared when IndyMac hired over 1,400 of American Home's former employees. According to a former Senior IndyMac Underwriter, some of the American Home employees that IndyMac took in operated a "fraud shop" within IndyMac.

436. American Home also landed on the OCC's "Worst Ten in the Worst Ten" list of lenders with the highest numbers of foreclosures, further confirming that American Home did not originate loans pursuant to underwriting guidelines designed to evaluate repayment ability, as represented in the Offering Documents.

7. The Offering Documents Misrepresented National City's and First Franklin's Underwriting Standards

437. National City was a lender based in Ohio, which was a subsidiary of parent company National City Corporation. Defendant First Franklin was also a mortgage lender and a subsidiary of National City Corporation, until First Franklin was acquired by Merrill Lynch in December 2006. Because First Franklin was owned and controlled by National City Corporation for a majority of the period at issue herein, and because First Franklin engaged in the same dubious lending practices both during that time and after its acquisition by Merrill Lynch, National City and First Franklin are discussed together herein.

438. As detailed *supra*, National City's and/or First Franklin's supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V, *supra*. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, National City and First Franklin had completely abandoned their stated underwriting guidelines and were routinely originating loans without any regard for their borrowers' true repayment abilities or the actual adequacy of the mortgaged properties to serve as collateral.

439. With respect to First Franklin, the company was interested only in making large numbers of loans, not in whether borrowers could afford to repay the loans. On November 30, 2008, the *St. Petersburg Times* reported on the case of former First Franklin loan "closer" Inez Albury, who worked for First Franklin up until late 2007, processing loan applications. Albury reported that there was extreme pressure at the company to fund as many loans as quickly as possible, particularly during the 2006 to early 2007 time period. ***The St. Petersburg Times reported that First Franklin "[m]anagers made it clear [to Albury that] they needed to hit their numbers each month" and, as a result, Albury "reviewed as many as 20 loan applications a day . . . [yet] [s]he never rejected one." In a stunning admission that First Franklin did not even bother to check loan applications***

for compliance with First Franklin's underwriting guidelines, Albury stated: "'We had quotas we had to meet. . . . We didn't have time to look at them [the loan applications].'"

440. In another news article published on April 28, 2010, the *St. Petersburg Times* investigated a number of extremely risky loans made by First Franklin, revealing that First Franklin was not following its underwriting guideline of evaluating whether a borrower could afford to repay his or her mortgage loan. The news article focused on three loans First Franklin made in 2006. One was to a St. Petersburg, Florida woman "who owed the IRS several thousand dollars and had been unable to pay a $95,000 judgment." First Franklin loaned the woman $138,000, and did not require a down payment. Soon thereafter, the house went into foreclosure. A second loan was made to a Clearwater, Florida couple who had previously filed for bankruptcy, owing hundreds of thousands of dollars in debts. A "nothing down" loan to the couple was approved by First Franklin in 2006. That home also went into foreclosure shortly thereafter. The third loan was made to a Plant City, Florida man who also had previously gone bankrupt, also owing hundreds of thousands of dollars in debts. He too was given a nothing-down loan by First Franklin in 2006, and that home also quickly went into foreclosure. These examples demonstrate that First Franklin did not evaluate whether borrowers could afford to repay their loans.

441. First Franklin's (and National City's as well, as discussed below) lack of care or ignorance of its underwriting guidelines ensured that loans were ***not*** originated pursuant to those guidelines. However, the lenders' lax underwriting practices not only led to a systematic abandonment of their stated guidelines, but also resulted in the lenders becoming hotbeds for mortgage fraud. In fact, numerous news reports establish that mortgage fraud was endemic at First Franklin and National City during the relevant period, and that numerous fraudulent loans that did not meet the underwriting guidelines were funded by those lenders. Stunningly, in some cases, First Franklin's and National City's employees were either actively involved or complicit in mortgage

frauds. For example, in the November 30, 2008 *St. Petersburg Times* exposé quoted above, a massive mortgage fraud scheme was revealed by the newspapers' investigation, wherein First Franklin made at least six fraudulent loans in 2006, all of which went into default. The article described how fraudsters recruited straw buyers, corrupt appraisers that provided inflated appraisals, mortgage brokers who submitted false loan applications, and bank loan officers that approved the bogus loans. ***The newspaper consulted prosecutors and experts, who concluded that "'[t]he whole reason we're in this mess is because of the lenders.'" Those experts concluded "that often what allowed scams to work were banks that freely approved loans for borrowers who made absurd claims, like the carwash employee who supposedly earned $40,000 a month***." First Franklin and National City were such lenders.

442. For example, in May 2008, the *Mansfield News Journal* reported that Ohioan Andrew Pfeifer pled guilty to fraudulently obtaining a mortgage loan from First Franklin in 2005. The news article reported that Pfeifer used falsified income, falsified liabilities and fake employment information on mortgage loan applications. The *Mansfield News Journal* article reported that ***Pfeifer claimed that lenders like First Franklin were involved with his fraudulent mortgage scheme: "[M]any people – bank staff, appraisers, accountants – participated in aspects of the scheme. Lending institutions encouraged him." The article quoted Pfeifer saying: "'I'm not the only one doing this***.'"

443. Similarly, the Chicago Tribune reported on February 22, 2009 that First Franklin borrower and Chicagoan Roy Shannon had sued First Franklin, claiming that First Franklin had fraudulently altered his loan application after he signed the loan documents. Shannon claimed that First Franklin falsely inflated his income on the loan application.

444. In Sacramento, California, Vera Kuzmenko and others were indicted for mortgage fraud, according to a news article in the *Sacramento Bee* published on November 8, 2011.

Kuzmenko was charged with recruiting straw buyers for more than two dozen homes in 2006 and 2007, on which First Franklin provided loans. The loans were obtained by using loan applications with falsely inflated income levels and assets. ***Kuzmenko "blamed the problems on lender First Franklin . . . . She said First Franklin's loan officers were responsible for any irregularities in the loans applications," according to the Sacramento Bee. A co-defendant also blamed First Franklin***.

445. First Franklin's lack of care and/or complicity in mortgage fraud led to numerous instances of fraudulent loans. For example, in Suffolk County, New York, *Newsday* reported in December 2008 that a borrower was indicted for mortgage fraud because he obtained loans in 2006 and 2007 from First Franklin by using straw buyers, inflated appraisals, overstated incomes, and false documents showing bogus borrower funds. *Newsday* reported that for all the loans, only a few payments were made before the homes went into foreclosure.

446. On October 4, 2008, the *New York Post* reported on the participants in a massive $200 million mortgage fraud scheme in New York and New Jersey. Garri Zhigun and others pled guilty to fraudulently obtaining loans in 2006 from First Franklin and other lenders, by using false documents, stolen identities, straw buyers, inflated sales prices, and misrepresentations that the borrowers would occupy the mortgaged properties.

447. On February 20, 2009, the *New York Post* reported on another mortgage fraud scheme involving properties in Long Island and Westchester County, New York, in 2006 and 2007. Inflated appraisals and falsified borrower information were used to obtain loans from several lenders, including First Franklin. ***The article quoted financial risk analyst Christopher Whalen criticizing the lenders and revealing their failure to abide by their underwriting guidelines: "Obviously, these people shouldn't have been qualified for loans if these [lenders] were doing their due diligence***."

448. On March 25, 2009, the *States News Service* reported on a federal indictment issued against 24 mortgage loan professionals, charging them with mortgage fraud. A mortgage broker in the Chicago area and an accomplice submitted a loan application to First Franklin containing false verifications of deposits and employment and a false accountant letter. First Franklin funded the loan.

449. Mortgage fraud involving First Franklin was rampant throughout the United States. For example, the *Pittsburgh Tribune Review* published an article on June 17, 2009, reporting on a borrower who fraudulently obtained a loan from First Franklin by using another person's social security number. On December 17, 2009, the *Targeted News Service* published a news article reporting on the indictment of a Portland, Oregon, mortgage broker who used falsified and inflated income and asset information on a borrower's loan application to obtain a loan from First Franklin in 2006. On February 9, 2010, the *Targeted News Service* reported on a Hood River, Oregon, man that pled guilty to mortgage fraud, in connection with obtaining a loan from First Franklin in 2006 by using falsified financial information, an inflated sales price, and a forged signature on the loan application. On May 12, 2011, the *States News Service* reported on a licensed loan originator in Portland, Oregon, that pled guilty to fraud in connection with obtaining a loan from First Franklin. The borrower used a false loan application to obtain the loan. On May 20, 2010, the *Dow Jones Business News* reported that six people were indicted by the Justice Department in San Diego, California, for obtaining loans by submitting false loan applications for 36 loans worth $20.8 million to First Franklin and other lenders. The loans were obtained by using straw purchasers, and false employment and salary histories. On September 15, 2011, the *Des Moines Register* reported that four Iowans had been indicted for at least 13 fraudulent mortgage loans funded between 2006 and 2008. At least one loan was from First Franklin and involved inflated income and a misrepresentation that the home would be owner occupied. On February 24, 2011, the *Targeted*

News Service reported that six Kentuckians were indicted for fraud, for obtaining mortgage loans by using false employment information, false bank account balances and other false information during the period from 2006 to 2008. First Franklin was one of the lenders involved. On November 2, 2010, the *Providence Journal* reported that Christopher Maselli, a Rhode Island state senator, was going to plead guilty to fraudulently obtaining two mortgage loans from First Franklin in 2007, by using a fake borrower, misrepresenting the borrower's income, providing a fake lease agreement, and misrepresenting that the borrower would occupy the property. On July 21, 2011, the *States News Service* published a news article concerning a mortgage fraud scheme involving 48 properties and $7.5 million in loans in the Cleveland, Ohio area. Romero Minor, one of the participants in the scheme, pled guilty to recruiting straw buyers and submitting loan applications with false incomes and assets, inflated appraisals, and false representations that the properties would be owner occupied, during the period between 2003 and 2006. One of the lenders involved was First Franklin. On October 22, 2011, the *Sun-Sentinel* published a news article reporting on a Miami lawyer that was charged with participating in a mortgage fraud scheme. The Miami lawyer was reported to have inflated the prices of properties in 2006 to obtain loans from First Franklin.

450. Further confirming that First Franklin did not follow its underwriting guidelines is a lawsuit that was filed in August 2011 by several AIG companies against Bank of America Corp., Merrill Lynch, Countrywide and others, alleging that the defendants therein defrauded plaintiffs in connection with defendants' sale of RMBS to the plaintiffs therein. *See* Complaint, *American International Group, Inc. et al. v. Bank of America Corp., et al.*, No. 652199/2011 (N.Y. Sup. Ct., N.Y. Cty. Aug. 8, 2011) ("*AIG* Complaint"). In connection with drafting the allegations, the plaintiffs in the *AIG* case interviewed several former First Franklin employees. Those former employees confirmed that First Franklin had abandoned its underwriting guidelines. Those former First Franklin employees reported the following:

- ***A former First Franklin underwriter, from 2005 to 2007, stated that some of the lending practices at First Franklin were "'basically criminal,'" and that the company required underwriters to depart from First Franklin's stated underwriting guidelines in order to keep their jobs***. *AIG* Complaint, ¶20.

- ***This former underwriter also stated that managers pressured appraisers if they did not get the appraisal number they wanted and did so until a satisfactory number was returned***. *Id.*

- ***The former underwriter stated that she and another former underwriter were fired by First Franklin after they "'spoke out'" about the company's problematic lending practices***. *Id.*

- ***A former First Franklin senior underwriter until 2005 stated that her branch manager overrode her rejections of non-compliant loans because her branch manager thought that it was unlikely the defective loans would be identified by audits***. *Id.*, ¶302.

- ***The former senior underwriter stated that her branch manager routinely overrode the senior underwriter's rejections of loans with obviously falsely inflated incomes***. *Id.*

- ***The former senior underwriter also observed her branch manager approving obviously defective appraisals, instructing appraisers to omit material information that would have resulted in a lower appraisal value, and using appraisers that were known to generate inflated appraisals***. *Id.*, ¶303.

- ***Another former First Franklin underwriter stated that fellow underwriters "'would approve anything'" because their compensation was designed to incentivize the making of loans that did not comply with the underwriting guidelines***. *Id.*, ¶304.

- ***This former underwriter also stated that if underwriters rejected loans because they did not meet the underwriting guidelines, her manager would redirect the loan applications to a certain loan processor who would approve the loans anyway***. *Id.*

- ***The former underwriter recalled an instance where she found an obviously fraudulent loan application which she took to her manager; nonetheless, her manager approved the loan***. *Id.*

451. Further confirming that First Franklin systematically ignored its underwriting guidelines are the allegations set forth in two other lawsuits. In the first, insurer Ambac sued First Franklin, alleging that First Franklin breached representations and warranties it made concerning its mortgage loans that were subsequently insured by Ambac and then securitized. *See* Complaint,

Ambac Assurance Corporation, et al. v. First Franklin Fin. Corp., et al., No. 651217/2012 (N.Y. Sup. Ct., N.Y. Cty Apr. 16, 2012). According to the complaint, ***Ambac obtained and reviewed the loan files for 1,750 First Franklin loans. Ambac found an astounding 94% of the loans breached First Franklin's representations and warranties***. *Id.*, ¶10. ***The defects Ambac found included***:

- ***Rampant fraud, primarily involving misrepresentation of the borrower's income, assets, employment, or intent to occupy the property as the borrower's residence (rather than as an investment), and subsequent failure to so occupy the property***;
- ***Failure by the borrower to accurately disclose his or her liabilities, including multiple other mortgage loans taken out to purchase additional investment property***;
- ***Inflated appraisals***; and
- ***Pervasive violations of the loan originator's own underwriting guidelines and prudent mortgage-lending practices, including loans made to borrowers (i) who made unreasonable claims as to their income, (ii) with debt-to-income and loan-to-value ratios above the allowed maximums, or (iii) with relationships to the applicable originator or other non-arm's length relationships***.

Id., ¶83.

452. In addition, the U.S. Senate Report revealed that First Franklin was one of the lenders for which Goldman Sachs made the most loan repurchase demands. *See* Levin-Coburn Report at 487 n.2051. This meant that First Franklin was originating large numbers of loans that did not comply with its stated underwriting guidelines.

453. First Franklin also made the OCC's list of lenders with the highest numbers of foreclosures in the ten metropolitan areas with the highest foreclosure rates. First Franklin had the seventh-highest numbers of foreclosures on loans it originated between 2005 and 2007. Had it actually been attempting to determine whether its borrowers could afford to repay their loans, First Franklin would not have had so many foreclosures.

454. Like First Franklin, National City ignored its stated underwriting guidelines and completely disregarded its borrowers' true payment abilities. Indeed, like First Franklin, National

City ignored its underwriting guidelines to such an extent that it too became a hotbed of fraudulent lending activities. In fact, numerous National City employees have engaged in lending activities that not only violated the company's underwriting guidelines but also violated criminal statutes. For example, in October 2011, in Providence, Rhode Island, National City Loan Officer Juan Hernandez pled guilty to participating in a fraudulent lending scheme. Hernandez pled guilty to fraudulently obtaining loans from National City and other lenders at issue herein (such as New Century) by using "straw purchasers" and providing false information to qualify borrowers for loans they would not have otherwise qualified for. From October 2006 through August 2007, Hernandez prepared false loan applications for phony borrowers containing falsified borrower incomes and debts, and misrepresenting that the properties would be owner occupied when they were not.

455. Hernandez had a co-conspirator in the fraud who also was a National City employee. Hernandez was joined in the fraud by Miguel Valerio, a National City Loan Processor. Valerio also pled guilty to the fraudulent scheme in December 2011.

456. In the Cleveland, Ohio area, in February 2011, at least two National City employees were indicted for lending fraud, along with 15 other co-conspirators. Loren Segal and Krystal Hill, both National City employees, were indicted for assisting in a fraudulent lending scheme that spanned the period from March 2005 through November 2007. The scheme included using straw purchasers, inflated appraisals, falsified borrower incomes, fake bank statements, and false verifications of borrowers' funds. Both Segal and Hill pled guilty to participating in the scheme.

457. In New Jersey, in February 2012, an attorney pled guilty to participating in a scheme to fraudulently obtain a loan from National City, by submitting false loan applications containing inflated income and asset information. One of the attorney's unindicted co-conspirators was a National City loan originator.

458. National City's systemic failure to follow its underwriting guidelines and evaluate its borrowers' true repayment abilities, and the fraudulent loans that followed, required National City's parent company, National City Corporation, to take a charge of ***$4.2 billion*** in the first quarter of 2008 for its defective loans. Moreover, National City's abject failure to follow its underwriting guidelines led to the SEC investigating National City's underwriting standards in 2008. In addition, in mid-2008, National City's parent company entered into a confidential agreement with the OCC, "effectively putting the bank on probation," according to a *Wall Street Journal* article published on June 6, 2008. While the terms of the agreement were not made public, *The Wall Street Journal* reported that the OCC's action was a likely result of National City needing to improve its lending standards. Indeed, according to securities analyst Frank Barkocy, "[s]ome of their [National City's] underwriting standards got a little lax, and that led to problems."

8. The Offering Documents Misrepresented GreenPoint's Underwriting Standards

459. As detailed *supra*, GreenPoint's supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V, *supra*. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, GreenPoint had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for its borrowers' true repayment abilities or the actual adequacy of the mortgaged properties to serve as collateral.

460. GreenPoint's underwriting guidelines were not applied to evaluate the prospective borrower's credit standing, repayment ability, or the value and adequacy of the mortgaged property as collateral. Rather, GreenPoint systematically ignored its stated underwriting guidelines and instead used guidelines which were unsound and failed to truly evaluate the borrowers' repayment abilities or the value and adequacy of the loans' collateral. ***As a former GreenPoint VP/Wholesale***

Branch Operations Manager – who worked for GreenPoint from July 2003 to January 2008 – explained, from GreenPoint's perspective repayment ability was irrelevant as long as a loan met the guidelines provided by the investment bank.

461. GreenPoint's Wall Street-based underwriting guidelines were woefully inadequate. As described by a former GreenPoint Account Executive – who worked in the Queens, New York branch from July 2003 through September 2007 – beginning in 2005, GreenPoint's underwriting standards became increasingly lenient, especially towards higher-risk borrowers. This Account Executive characterized GreenPoint's underwriting guidelines as "loose" and becoming progressively "looser" during the 2005-2006 timeframe. This Account Executive attributed GreenPoint's loosening of its underwriting standards to its desire to remain competitive in the lending market, explaining that as other lenders relaxed their loan underwriting standards and began extending loans to people who were unlikely to repay their loans, GreenPoint had to do the same in order to remain competitive. GreenPoint began to significantly relax the requirements that borrowers would have to satisfy to qualify for a given loan program, including relaxing requirements involving documentation of repayment ability, maximum LTV ratios and minimum credit scores.

462. Additionally, GreenPoint did not limit its granting of exceptions to circumstances where actual compensating factors existed. Rather, it was systematically granting exceptions even in the absence of any real compensating factors. Many of the loans were granted by the over 18,000 brokers that were approved to transact with GreenPoint – a large enough number that GreenPoint could not exercise any degree of realistic control or supervision. Typically, new brokers were actively monitored for only the first five to seven loans submitted, usually during only the first ninety days of work. This lack of monitoring was particularly problematic because, as noted by many regulators, brokers were interested mainly in generating upfront fees triggered by making the

loans, and did not determine whether borrowers were actually qualified for the loans or whether there were exceptions to the guidelines due to compensating factors.

463. GreenPoint did not verify the income of borrowers as represented and cut corners on loan underwriting. In addition, many of GreenPoint's loans were actually subprime loans in disguise, a practice later copied by others. GreenPoint's practice of disguising subprime loans was confirmed by the former GreenPoint Account Executive mentioned above. This former Account Executive stated that GreenPoint offered loans it represented to be of higher quality even though their qualifying requirements were those of "junk" loans.

464. Additional corroboration of the fact that GreenPoint did not originate loans pursuant to its stated underwriting guidelines and failed to evaluate its borrowers' true repayment abilities comes from a lawsuit filed in February 2009 by U.S. Bank against GreenPoint. *See* Complaint, *U.S. Bank, N.A., et al. v. GreenPoint Mortgage Funding, Inc.*, No. 600352/2009 (N.Y. Sup. Ct., N.Y. Cty. Feb. 5, 2009). In that case, the trustee of an RMBS trust sued GreenPoint alleging that the loans in the trust, which were originated by GreenPoint, were not originated pursuant to GreenPoint's underwriting guidelines, as previously represented. A sample of GreenPoint's loans were reviewed in this case and it was found that an astounding ***93% of the loans primarily contained underwriting defects***. *Id.*, ¶2.

465. That GreenPoint was not complying with the underwriting guidelines set forth in the Offering Documents is further confirmed by the fact that GreenPoint was one of the lenders on the OCC's "Worst Ten in the Worst Ten" foreclosure list. If GreenPoint was truly evaluating its borrowers' repayment abilities, it would not have had so many foreclosures.

9. The Offering Documents Misrepresented Accredited's Underwriting Standards

466. As detailed *supra*, Accredited's supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V, *supra*. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, Accredited had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for its borrowers' true repayment abilities or the actual adequacy of the mortgaged properties to serve as collateral.

467. Accredited faced stiff competition from other lenders in a market that was rapidly expanding. As a result, in order to gain market share, the company deviated from its stated underwriting guidelines and disregarded both borrowers' true repayment abilities and the adequacy of properties to serve as collateral. According to a former Accredited Regional Manager, who worked for the company from 2003 through 2005, the constant refrain that he heard from Accredited's account executives was "if we don't do [the loan] somebody else will." He stated that the mortgage market "was screaming for new loans," and that Accredited's competitors, such as Argent and New Century, "were ready to fund the deal" no matter the quality of the loan. This created great pressures on Accredited's account executives to find ways to have their loans approved.

468. As a result, Accredited engaged in lending fraud. According to a former Senior Underwriter, who worked at Accredited's Austin, Texas branch from July 2006 through March 2007, the company originated numerous stated income loans with falsified incomes. According to the former Senior Underwriter, ***Accredited had a pattern and practice, on stated income loan applications, of falsely adjusting borrowers' incomes upward so that the borrowers would appear to qualify for the loans under the company's underwriting guidelines.*** This Senior Underwriter's

manager routinely asked the Senior Underwriter to falsely increase borrowers' incomes. In fact, the Senior Underwriter's manager hosted a tour for visiting outside mortgage brokers at Accredited's Austin branch. The purpose of the tour was to attempt to have these independent mortgage brokers do business with Accredited, that is, to bring borrowers to Accredited. According to the former Senior Underwriter, during this tour, ***the Senior Underwriter's manager told the brokers that "unlike other originators [Accredited] will adjust stated incomes if necessary***." In addition, on another occasion, at a branch meeting for the operations team, the former Senior Underwriter recalled that a new employee had questioned the practice of allowing Accredited employees to adjust stated incomes. ***Accredited Operations Manager Will Shipp publicly responded: "It is common practice to change the stated income, but we will talk about that later***." The former Senior Underwriter found Accredited's practices involving stated income to be so objectionable that she resigned from the company.

469. The underwriting system at Accredited allowed loan processors, account executives and underwriters to adjust loan applications. Thus, according to the former Senior Underwriter, the underwriting system lacked any security feature, and therefore any employee was allowed to view and adjust loan applications. This left Accredited's loan applications open to manipulation, which was frequently done. The Senior Underwriter recalled situations where she had rejected a loan only to later learn her rejection had been overridden and the loan approved.

470. According to a former Accredited Regional Manager, account executives would often bypass him and go over his head to seek approval for rejected loans and loans with unmet conditions from Lance Burt, Accredited's Divisional Manager for Southern California. The former Regional Manager stated that Burt had the final authority to approve loans and in fact "made the final approval of all loans." He described Burt's authority as "carte blanche" to approve any loans that he (Burt) wanted. The former Regional Manager joked that Burt had "the magic pen" and could make loans

happen. He stated that Burt "routinely signed off" on rejected loans, approving them. The former Regional Manager also stated that he believed that Burt also approved non-compliant loans from high-producing independent mortgage brokers in order to maintain the business relationship between the company and the brokers. In other words, the decision to approve defective loans in these circumstances became a "business decision," according to the former Regional Manager.

471. The former Regional Manager recalled a situation where an Accredited account executive was terminated because the account executive had committed fraud with at least 10-15 funded loans. However, Accredited never reported the incident to law enforcement or anyone else, in order to avoid negative publicity and a potential decline in the company's stock price. He noted that the fired account executive began working at Countrywide within a few days.

472. According to a former Corporate Underwriter in Accredited's Orange, California, office, who worked for the company from 1995 until 2007, there were many problems in Accredited's loans. For example, the former Corporate Underwriter saw issues such as stated "income[s] [that were] out of whack" with the stated profession, and paystubs that appeared to be fraudulent. In other cases, she questioned whether or not the applicant actually "lived in the house" listed on the application as the current residence. ***This former Corporate Underwriter reported that Divisional Manager Burt also routinely overrode her rejections of loans, as he had done with the former Regional Manager. This former Corporate Underwriter stated that "[a] lot of loans" were approved by Burt which she believed lacked any credible basis for approval***.

473. According to the former Corporate Underwriter, there were instances of account executives manipulating closing documents after loan approval with the assistance of document "drawers." She recalled an account executive "paying off" a document drawer "to turn the other way" while the account executive manipulated and falsified the loan documents on the document drawer's computer.

474. Further corroboration that Accredited routinely ignored its stated underwriting guidelines comes from a former Accredited Underwriter who worked in one of Accredited's Florida offices, from 2005 until 2006. The former Underwriter stated that, rather than following its stated underwriting guidelines, ***if the borrower came close to meeting the guidelines, Accredited approved the loan application***. Moreover, the former Underwriter reported that his Operations Manager regularly issued overrides for loans that did not comply with the underwriting guidelines, and approved them anyway.

475. A lawsuit filed against Accredited in late August 2007 confirms the accounts of the foregoing former Accredited employees that Accredited ignored its underwriting guidelines. In late August 2007, shareholders of Accredited's parent company, Accredited Home Lenders Holding Co., filed a complaint against the company and its officers and directors, alleging that they committed securities fraud by lying about the company's financial condition. *See* Corrected Consolidated Class Action Complaint, *Atlas v. Accredited Home Lenders Holding Co., et al.*, No. 07-cv-488-H (RBB) (S.D. Cal. Aug. 24, 2007) (the "*Atlas* Complaint"). In the *Atlas* Complaint, the plaintiffs cited to reports from at least 12 former Accredited and Aames employees. Those former employees reported a pervasive and systematic disregard by Accredited of its underwriting guidelines, including the following:

- ***According to a former Corporate Underwriter who worked at Accredited between June 2004 and March 2005, "the Company approved risky loans that did not comply with its underwriting guidelines"; his rejections of loans "were frequently overridden by managers on the sales side of the business"; and his overridden loan rejections involved loans containing improper "'straw borrower[s],'" employment that could not be verified, inflated incomes, and violations of Accredited's DTI, credit score, LTV and employment history requirements***. *Id.*, ¶¶48-49.
- ***According to a former Accredited employee from 1998 until December 2006, pressure to approve loans, regardless of quality, was especially bad from mid-2005 until the time she left the company at the end of 2006, and Accredited's growing issues with problem loans was due to management's overrides of the underwriting and appraisal processes***. *Id.*, ¶¶50-51.

- ***According to a former Corporate Underwriter at Accredited from August 2003 until February 2006, her decisions to reject loans were constantly overridden by management, and such overrides "were rampant*.**" *Id*., ¶¶56-57.

- ***According to a former Accredited Regional Manager who worked at the company throughout 2005, "the Company's underwriting guidelines were frequently overridden by senior management*.**" *Id*., ¶¶58-60.

- ***According to other former Accredited employees who worked at the company during the relevant time period (2004-2007), management frequently overrode underwriters' decisions to reject loans that did not comply with the underwriting guidelines. According to one underwriter, when underwriters challenged the overrides they were told by management: """You have to go forward with it.'" If you made a big stink about it, they would raise their eyebrows and say '"Do you want a job?""" Other former employees recounted loan applications that were approved with inflated incomes, inflated appraisals, and suspicious verifications of employment***. *Id*., ¶67.

- ***Several former Accredited employees who worked with appraisals reported that the company management overrode licensed appraisers' decisions and approved many loans based on inflated appraisals***. *Id*., ¶77.

- ***A former Aames and Accredited employee reported that both Aames and Accredited frequently made exceptions to their underwriting guidelines. According to this former employee, while Aames' violations of the underwriting guidelines were limited to one exception per loan, at Accredited it was common to see multiple exceptions per loan***. *Id*., ¶83.

476. Accredited ultimately paid $22 million to settle the shareholders' lawsuit in 2010.

10. The Offering Documents Misrepresented WaMu's and Long Beach's Underwriting Standards

477. As detailed *supra*, the supposed underwriting guidelines used by WaMu and/or one of its subsidiaries, Long Beach, were described by defendants in the Offering Documents. *See* §V, *supra*. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, WaMu and Long Beach had completely abandoned their stated underwriting guidelines and were routinely originating loans without any regard for their borrowers' true repayment abilities or the actual adequacy of the mortgaged properties to serve as collateral. Given that WaMu owned and controlled Long Beach during the relevant time period, and

both originators engaged in the same types of dubious lending practices, they are discussed together herein.

478. The U.S. Senate's Permanent Subcommittee on Investigations performed a "case study" on WaMu's and Long Beach's lending practices in connection with its investigation of the worldwide financial collapse. The investigation was based on the Subcommittee's collection and review of millions of documents from WaMu and others, including the review of internal e-mails, reports and memoranda, as well as interviews of at least 30 former WaMu employees and regulatory officials.

479. The U.S. Senate's investigation of WaMu and Long Beach conclusively established that, during 2004-2007 and before, WaMu and Long Beach ignored their stated underwriting and appraisal guidelines and made loans to borrowers who could not afford them. The Senate investigation expressly found, based on the interviews of former WaMu and Long Beach employees, as well as on the review of numerous internal company documents, that:

> ***WaMu and Long Beach engaged in a host of shoddy lending practices that contributed to a mortgage time bomb. Those practices included qualifying high risk borrowers for larger loans than they could afford; steering buyers to higher risk loans; accepting loan applications without verifying the borrower's income; . . . and authorizing loans with multiple layers of risk. In addition, WaMu and Long Beach failed to enforce compliance with their lending standards; allowed excessive loan error and exception rates; exercised weak oversight over the third party mortgage brokers who supplied half or more of their loans; and tolerated the issuance of loans with fraudulent or erroneous borrower information. They also designed compensation incentives that rewarded loan personnel for issuing a large volume of higher risk loans, valuing speed and volume over quality***.

Levin-Coburn Report at 49.

480. The U.S. Senate Report, based on an extensive investigation of the facts, further concluded that "WaMu and . . . Long Beach . . . used shoddy lending practices riddled with credit, compliance, and operational deficiencies to make tens of thousands of high risk home loans that too often contained excessive risk, fraudulent information, or errors." Id. at 50. The U.S. Senate

investigation further found that "WaMu and Long Beach too often steered borrowers into home loans they could not afford," *id*. at 51, and also "securitized not just poor quality loans, but also loans that its own personnel had flagged as containing fraudulent information. That fraudulent information included, for example, misrepresentations of the borrower's income and of the appraisal value of the mortgaged property." Id. at 125.

481. The U.S. Senate Report detailed numerous instances where WaMu and Long Beach ignored their underwriting guidelines and engaged in outright lending fraud. *Id.* at 48-160.

482. Concerning WaMu, the U.S. Senate's investigation found:

> ***WaMu's combination of high risk loans, shoddy lending practices, and weak oversight produced hundreds of billions of dollars of poor quality loans that incurred early payment defaults, high rates of delinquency, and fraud.***

Levin-Coburn Report at 49.

483. The U.S. Senate Report also documented the following concerning WaMu:

> ***WaMu management knew of evidence of deficient lending practices, as seen in internal emails, audit reports, and reviews. Internal reviews of WaMu's loan centers, for example, described "extensive fraud" from employees "willfully" circumventing bank policy. An internal review found controls to stop fraudulent loans from being sold to investors were "ineffective." On at least one occasion, senior managers knowingly sold delinquency-prone loans to investors. . . . WaMu's President Steve Rotella described WaMu's prime home loan business as the "worst managed business" he had seen in his career.***
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> * * *
>
> ***From 2004 to 2008, WaMu originated a huge number of poor quality mortgages, most of which were then resold to investment banks and other investors hungry for mortgage backed securities. . . . WaMu and Long Beach churned out a steady stream of high risk, poor quality loans and mortgage backed securities that later defaulted at record rates.***

Id.

484. The U.S. Senate investigation confirmed that on multiple occasions WaMu did not originate loans pursuant to its stated underwriting guidelines. For example, ***while "WaMu required***

its loan personnel to determine whether a loan applicant's stated income was reasonable, . . . evidence obtained by the Subcommittee indicates that requirement was not effectively implemented." Levin-Coburn Report at 91. ***WaMu's ignoring of this underwriting guideline led to borrowers obtaining loans with "an income that was insufficient to support the mortgage amount being requested***." *Id.* at 92.

485. *The New York Times* published an article on WaMu on December 28, 2008, further confirming that WaMu routinely made loans to borrowers with insufficient income to repay their loans. The news article was based on the account of a former WaMu employee, John D. Parsons, a former WaMu supervisor at a mortgage processing center. He told *The New York Times* that ***he "'was accustomed to seeing baby sitters claiming salaries worthy of college presidents, and school-teachers with incomes rivaling stockbrokers'. He rarely questioned them. A real estate frenzy was under way and WaMu, as his bank was known, was all about saying yes." The news article further reported on the case of a borrower "claiming a six-figure income and an unusual profession: mariachi singer. Mr. Parsons could not verify the singer's income, so he had him photographed in front of his home dressed in his mariachi outfit. The photo went into a WaMu file. Approved***."

486. The U.S. Senate Report also found that a 2006 WaMu investigation of loans purchased by WaMu through its subprime conduit uncovered that ***the loans were "not underwritten to [WaMu's underwriting] standards***." Levin-Coburn Report at 89.

487. Numerous former employees are quoted in the U.S. Senate Report establishing many instances of departures from WaMu's underwriting guidelines. The U.S. Senate Report concluded that "WaMu's compensation policies," which rewarded employees for making loans instead of turning them down, "were rooted in the bank culture that put loan sales ahead of loan quality." *Id*. at 143. As a result, employees regularly ignored the lending guidelines and made loans that did not

comply. As reported to the Senate Subcommittee, WaMu's Chief Credit Officer complained to the company's president that "'[a]ny attempts to enforce [a] more disciplined underwriting approach were continuously thwarted by an aggressive, and often times abusive group of Sales employees within the organization.'" *Id*.

488. WaMu was also infected with fraudulent loans that did not comply with the underwriting guidelines. These loans were subsequently sold and securitized into offerings like those at issue herein. *Id.* at 125. The U.S. Senate investigation noted several investigations within WaMu concerning fraudulent loans that confirmed extensive fraudulent lending by WaMu employees. Yet "***when senior management was informed of loans containing fraudulent information, [they] did little to stop the fraud***." *Id.* at 95. The U.S. Senate Report cited two investigations occurring in 2005 in Downey and Montebello, California, where it was found and reported to WaMu management that 58% and 83% of the loans reviewed from those respective offices had been fraudulently made and that WaMu employees were involved in the fraud. *Id*. at 96-101. The U.S. Senate Report found that nothing was done by WaMu's management – no one was fired or disciplined. Instead the employees involved in the fraud were allowed to continue to make loans and did so with a vengeance – subsequently winning company awards for high loan volumes. *Id.*

489. The U.S. Senate Report noted another investigation of the two California offices occurred two years later, in 2007, and again high levels of fraudulent loans were found. The U.S. Senate Report noted that this investigation found "***[e]xamples of fraudulent loan information uncovered in the 2007 review included falsified income documents, unreasonable income for the stated profession, false residency claims, inflated appraisal values, failure of the loan to meet [WaMu's underwriting] guidelines, suspect social security numbers, misrepresented assets, and falsified credit information***." *Id.* at 99.

490. The U.S. Senate Report also cited a 2005 internal WaMu investigation of two high volume loan centers in Southern California that accepted loans from brokers. The investigation found that "'***78% of the funded retail broker loans reviewed were found to contain fraud***.'" *Id.* at 89.

491. The U.S. Senate Report also noted at least one instance where a WaMu sales associate confessed that he or she, and other WaMu sales associates, routinely falsified bank documents and asset statements of borrowers in order to get loans approved. This confessor stated that they did so because they were under extreme pressure to get loans funded and were instructed to do "'whatever it took.'" *Id.* at 101.

492. As further evidence that WaMu engaged in fraudulent lending, in June 2012, Edward Bangasser, a former loan officer at WaMu, was sentenced to 15 months in federal prison for his part in a fraudulent lending scheme that involved submitting false loan documents to secure loans during the period from 2004-2006.

493. With respect to Long Beach, the U.S. Senate investigation found that Long Beach was "known for issuing poor quality subprime loans [and that] [d]espite [its] reputation[] for poor quality loans, leading investment banks [such as defendants herein] continued to do business with [Long Beach] and helped [it and other lenders] sell or securitize hundreds of billions of dollars in home mortgages." Levin-Coburn Report at 21.

494. During the relevant period, Long Beach was overrun with loans that had not been originated pursuant to its underwriting guidelines. In 2004, Dave Griffin, a WaMu risk officer, was asked to review Long Beach. He prepared an internal memorandum concerning his findings and stated: "'***[In] 2004: I conducted an informal but fairly intensive market risk audit of Long Beach . . . . We found a total mess***.'" *Id.* at 77. In 2005, a large number of Long Beach loans experienced early payment defaults, or EPDs, meaning the borrowers failed to make a payment within three

months of the loans being sold to investors. EPDs "typically indicate[d] that ***there was a problem in the underwriting process***." *Id.* A review of the EPD loans was undertaken, and an internal company memorandum was prepared on November 11, 2005 detailing numerous violations of Long Beach's underwriting guidelines and/or fraudulent lending practices. The memorandum noted the following issues about the loans:

- "***High incident rate of potential fraud . . . .***"
- "***Underwriting guidelines are not consistently followed . . . .***"
- "***Stated Income should be reviewed more closely ([fraud] incidence rate of 35%) . . . .***"
- "***Signatures should be checked – 14% Borrowers signature vary[.]***"
- "***Altered documents are usually detectable – 5% White-out on documentation[.]***"

Id. at 78.

495. In addition, on April 17, 2006, WaMu's General Auditor conducted another audit of Long Beach's EPD loans and found that Long Beach had "'***breakdowns in manual underwriting processes***.'" *Id.* Other internal WaMu documents established that Long Beach was also engaging in a number of illegal predatory lending practices, also violations of its underwriting guidelines. *See* Levin-Coburn Report at 79. Things were so bad at Long Beach that ***WaMu president Rotella sent an e-mail to WaMu's CEO on September 14, 2006 describing Long Beach as "'terrible, in fact negative right now***.'" *Id.* at 80.

496. On January 2, 2007, WaMu's Chief Risk Officer, Ron Cathcart, forwarded an e-mail to colleagues concerning the "top five priority issues" at Long Beach. All of them dealt with failures at Long Beach to comply with its underwriting guidelines:

> "***Appraisal deficiencies that could impact value and were not addressed[;]***
> ***Material misrepresentations relating to credit evaluation were confirmed[;]***
> ***Legal documents were missing or contained errors or discrepancies[;]***

Credit evaluation or loan decision errors[; and]
Required credit documentation was insufficient or missing from the file."

Id. at 82.

497. The Senate investigation uncovered several internal communications repeatedly documenting that Long Beach was not complying with its underwriting guidelines and/or was engaged in outright lending fraud. A sample of those documents contained the following quotes concerning Long Beach's underwriting (or more accurately the lack thereof):

- "'***[The review] confirmed fraud on 115 [loan applications] . . . .***'"
- "'***[U]nderwriting deficiencies is a repeat finding . . . .***'"
- "'***(71%) [of] stated income loans were identified for lack of reasonableness of income[.]***'
- "'***(71%) had credit evaluation or loan decision errors . . . .***'"
- "'***(31%) had appraisal discrepancies or issues that raised concerns that the value was not supported.***'"
- "'***[T]he overall system . . . has deficiencies related to multiple, critical origination and underwriting processes . . . .***'"
- "'***Underwriting guidelines established to mitigate risk of unsound underwriting decisions are not always followed . . . .***'"
- "'***[A]ccurate reporting and tracking of exceptions to policy does not exist.***'"

Levin-Coburn Report at 84-85.

498. At a hearing before the U.S. Senate Subcommittee held on April 13, 2010, former WaMu Chief Risk Officer Jim Vanasek was asked if it was fair to say that WaMu was not worried about the risk associated with Long Beach's loans because it sold those loans and passed the risk of such loans onto investors. Mr. Vanasek's answer was "'***Yes, I would say that was a fair characterization***.'" *Id.* at 85. This statement confirmed that neither WaMu nor Long Beach was

worried about complying with their underwriting guidelines; instead they were only concerned with being able to sell their defective loans to defendants, which they were successful in achieving.

499. Because Long Beach was systematically abandoning its underwriting guidelines, it faced millions of dollars in loan repurchase demands from the Goldman Sachs Defendants. *See* Levin-Coburn Report at 487 & n.2053. This is further evidence that the Offering Documents misrepresented that Long Beach originated loans pursuant to underwriting guidelines.

500. That the Offering Documents for offerings containing Long Beach loans were false is confirmed by the fact that Long Beach made the OCC's "Worst Ten in the Worst Ten" list of lenders with the highest numbers of foreclosures on loans it originated during 2005-2007. ***Only New Century – another originator at issue herein – had more foreclosures than Long Beach***. Long Beach's high foreclosure rate further corroborates the fact that, contrary to defendants' representations in the Offering Documents, it did ***not*** actually determine – or care – whether borrowers could afford to repay their loans.

11. The Offering Documents Misrepresented PHH's Underwriting Standards

501. As detailed *supra*, PHH's supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V, *supra*. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, PHH had completely abandoned its stated underwriting guidelines and was routinely originating loans without any regard for its borrowers' true repayment abilities or the actual adequacy of the mortgaged properties to serve as collateral.

502. PHH systematically disregarded its underwriting standards, granted exceptions in the absence of compensating factors, required less documentation, and granted no or limited-documentation loans to individuals without good credit histories. In addition, PHH consistently

inflated appraisals on mortgaged properties and informed new appraisers that if they appraised under certain levels they would not be hired by PHH again. ***In its SEC Form 10-Q filed August 8, 2008, PHH admitted to making "loans with origination flaws***" and that the demand for its mortgages in the secondary market had therefore declined.

503. The fact that PHH did not follow its own underwriting standards when originating the loans was confirmed by a former PHH Manager and Vice President of Trading and Structured Finance, who worked out of PHH's headquarters in New Jersey and who worked for PHH for over 15 years. This former PHH employee had direct knowledge of PHH's underwriting practices, was directly involved in PHH's structured finance and mortgage securitizations from 1996-2007, and witnessed PHH's origination, closing and funding of high-risk mortgages used to collateralize RMBS. This former PHH employee stated that for at least one RMBS offering in which PHH was the loan originator, the mortgage loan collateral underlying the offering was "very weak," as the loans were made to borrowers who qualified by having only a "***heartbeat and a pen***," and that "this was all the qualification [PHH required] to get a mortgage." ***PHH did this because it was not interested in whether the borrower could repay the loans***. Rather, PHH's objective was simply to maximize the value of the loans it could sell. This former employee also stated that virtually all of the loans underlying the particular offering were "liar loans" for which PHH did not require any documentation of the borrowers' income or assets. This former PHH employee stated that the collateral for the offering was "not right" and that "the fall would come," and he expressed his opinion to the members of PHH management ultimately responsible for overseeing the assembly of the loan pools for the offerings. The warnings, however, were ignored.

504. PHH's improper and fraudulent lending practices were also documented in the complaint filed in the action titled *Federal Home Loan Bank of Boston v. Ally Fin. Inc.*, No. 11-cv-10952-GAO (D. Mass.) (removed from Massachusetts Superior Court, original case number 11-

1533, filed April 20, 2011) (the "*FHLB* Complaint"). The *FHLB* Complaint cites statements from a former loan counselor and junior underwriter at PHH from 1997 until October 2007 who revealed that: (1) PHH employees faced intense pressure to close loans at any cost; (2) PHH increasingly approved risky, low or no-documentation loans without adequate review; and (3) PHH employees manipulated data in order to close loans. *FHLB* Complaint, Appendix IX, ¶116, at 37 (Dkt. No. 1-10, at 39). The *FHLB* Complaint cited this former PHH employee as stating:

- "[She] worked directly with borrowers and financial advisors to process loans. When she became an underwriter in May 2005, she transitioned to evaluating high-risk mortgage loan applications to determine whether the loans met PHH Mortgage's guidelines. Loan officers at PHH Mortgage received commissions based on the number of loans closed. As a result, employees were pressured to value quantity over quality." *Id.*, ¶117, at 37.

- "[S]he underwrote loans that clearly contained inflated income values. She knew that the values were inflated because the stated incomes seemed unreasonable; for example, a hairstylist would be making a lot more money per month than was typical for someone in that industry." *Id.*, ¶118, at 37.

- "[She] said that she looked at the loans and thought, 'There's no way.' Nevertheless, [the witness] approved the loans because the income was 'stated and we had to take [the borrower's] word for it.'" *Id.*

- "PHH Mortgage had a policy which prohibited underwriters from investigating the veracity of stated income. Consequently, underwriters at PHH Mortgage did not use any tools like Salary.com to verify the borrowers' income. Between 2005 and 2007, [the former employee] explained that it was common practice across the mortgage industry to accept stated income without further investigation. 'They called them liar loans for a reason,' said [the former employee], 'It was the nature of the beast back then.'" *Id.*, ¶119, at 38.

- "[The former employee] also reviewed loan documents that she knew had been altered by the borrower or a loan officer at PHH Mortgage because 'the data did not match up.' As an example, [the former employee] recalled situations in which the borrower's bank statements did not agree with other documents in the loan file." *Id.*, ¶120, at 38.

505. The fact that PHH did not follow its own underwriting guidelines is confirmed by statements from former PHH employees in another lawsuit, *Allstate Bank v. JPMorgan Chase Bank, NA*, No. 650398/2011 (N.Y. Sup. Ct., N.Y. Cty.) (the "*Allstate* Complaint"). The *Allstate* Complaint

alleges that ***PHH employees revealed that they "faced intense pressure to close loans at any cost***, primarily because their commissions were based on the number of loans they closed." *Allstate* Complaint, ¶331. The *Allstate* Complaint further alleges that "***PHH employees manipulated data in order to close loans, and knowingly included false information and inflated values in loan applications." The PHH employees further stated that "PHH had a policy that prohibited underwriters from investigating the veracity of the income stated on loan applications[ ]; and PHH increasingly approved risky, low- or no-documentation loans without adequate review***." *Id.* The *Allstate* Complaint also alleges that:

> PHH's defective underwriting practices have been confirmed by extensive empirical studies of mortgage loans made and sold into securitizations during this period. For example, economists at the University of Michigan and elsewhere have found that the number of loans relating to PHH or its affiliates that suffered from a particular performance problem – 60 or more days delinquent as of six months after origination – skyrocketed beginning in mid-2006, *i.e.*, around the exact time many of the mortgage loans at issue here were being originated and securitized.

Id., ¶332.

506. PHH did not follow its own underwriting guidelines and instead of making only occasional and justified exceptions to the guidelines, variance from the stated standards was the normal practice. Quantity of loans was emphasized over quality, and most loans were made with little-to-no underwriting or effort to evaluate the borrower's ability to repay.

12. The Offering Documents Misrepresented SunTrust's Underwriting Standards

507. As detailed *supra*, SunTrust's supposed underwriting guidelines were described by defendants in the Offering Documents. *See* §V, *supra*. For the reasons set forth immediately below, these representations were false and misleading at the time defendants made them. In truth, SunTrust had completely abandoned its stated underwriting guidelines and was routinely originating

loans without any regard for its borrowers' true repayment abilities or the actual adequacy of the mortgaged properties to serve as collateral.

508. SunTrust's business model was to get the loans out the door with as little delay as possible. This meant that the loans that SunTrust purchased or originated were to be immediately pooled and sold off to entities like the defendants. According to a former SunTrust contract Senior Underwriter, who worked for the company from 2001 through November 2007, starting in 2004, SunTrust greatly de-emphasized quality control and relaxed its underwriting guidelines – so much so that it seemed that "nobody was accountable for anything." This former Senior Underwriter stated that because demand for loans from Wall Street was so heavy, the quality of the loans did not matter to the Wall Street purchasers. To this former employee, the rules seemed to have changed to "make the loan so we can sell it, so we can make more money." As a result, many of SunTrust's loans did not comply with its stated underwriting guidelines.

509. In order to speed up the underwriting process to meet demand, SunTrust instituted an automated underwriting process, which used various software programs to review and approve loan applications. According to the former Senior Underwriter, about 75% of SunTrust's loan applications that she saw were processed through the automated system. If the automated system approved a loan, no further underwriting was done, and the loan was approved, funded and closed, according to both this former employee and to a former SunTrust Branch Operations Manager in 2007.

510. However, the automated system had flaws. According to the former SunTrust Branch Operations Manager, the automated system approved loans that had DTI ratios of 60%. This resulted in risky loans being approved that exceeded the maximum DTI ratios allowed under SunTrust's stated underwriting guidelines. The former Branch Operation Manager estimated that

between 10%-20% of the loans approved by the automated system would have been denied if a manual underwriting review of the loan files would have been undertaken.

511. The former SunTrust Senior Underwriter also stated that if she or other underwriters rejected a loan application because it did not conform to SunTrust's underwriting guidelines, SunTrust's managers would override her and the other underwriters' decisions and approve the loans.

13. Clayton Holdings Confirmed that the Offering Documents Were False and Misleading

512. As previously alleged, from at least January 1, 2006 through June 30, 2007, defendants hired Clayton to test samples of the loans defendants were placing into their offering to determine whether the loans: met the stated underwriting guidelines or had compensating factors meriting approval; were supported by valid appraisals/valuations; and had other valid characteristics. Clayton tested small samples of loans and provided written reports (daily reports in most cases) to defendants with the testing results. This was first made public in late September 2010, when the FCIC released testimony and documents from Clayton.

513. In September 2010, Clayton provided to the FCIC trending reports it created, which summarized its work for various Wall Street banks, including defendants herein. These reports established that, during the period from January 1, 2006 through June 30, 2007, when most of the loans at issue herein were being originated, and when most of the certificates were being sold to plaintiffs, ***22.9% of the mortgage loans Clayton tested for the Goldman Sachs Defendants did not comply with the stated underwriting guidelines and did not have compensating factors that would merit approval. The trending reports also revealed that defendants "waived" back in 29.2% of the defective loans; that is, defendants included 29.2% of those defective loans into the RMBS offerings defendants sold to the plaintiffs***! *See* Clayton Trending Reports, *available at*

http://fcic.law.stanford.edu/hearings/testimony/the-impact-of-the-financial-crisis-sacramento#documents (last visited June 24, 2013).

514. The forgoing information from Clayton undisputedly establishes that defendants' representations in the Offering Documents – namely that the certificates' underlying loans complied with the stated underwriting guidelines – were false and misleading at the time defendants made them.

515. Not only did defendants knowingly include in the offerings loans that had been affirmatively identified as defective, they also did no further testing on the vast majority of unsampled loans, even in the face of Clayton's reports indicating – at a 95% confidence level – that the unsampled loans possessed the same defect rate. In fact, defendants, fully aware of the situation, turned a blind eye to the information, did no further testing, and then ***included these defective loans into the offerings***, thereby rendering the Offering Documents materially false and misleading. As the FCIC later pointed out, "***one could reasonably expect [the untested loans] to have many of the same deficiencies, and at the same rate, as the sampled loans,***" and that defendants' failure to do any further testing or disclose Clayton's findings "***rais[ed] the question of whether" the Offering Documents "were materially misleading, in violation of the securities laws***." FCIC Report at 170.

516. Moreover, recently discovered evidence establishes that the above Clayton defect rates and numbers of defective loans that were "waived" into defendants' offerings were actually ***understated***. In a lawsuit entitled *Ambac Assurance Corp. v. EMC Mortgage LLC, et al.*, No. 650421/2011 (N.Y. Sup. Ct., N.Y. Cty.), excerpts of a deposition transcript of a former Clayton employee were recently filed. The former Clayton employee (whose identity was redacted) testified that ***all*** of Clayton's Wall Street clients (including Goldman Sachs, a client of Clayton's) ***instructed Clayton to ignore defective loans, to code defective loans as non-defective, and to change loans that had been graded as defective to non-defective***. The essence of the former Clayton employee's

testimony was that defendants instructed Clayton to fraudulently change defective, non-complying loans into compliant loans. The effect of such efforts was that Clayton's reports ***understated*** the number of loans that were defective and which were included in defendants' offerings.

B. Defendants Made Material Misrepresentations Regarding the Underlying Loans' LTV Ratios

517. As set forth *supra*, defendants' Offering Documents affirmatively misrepresented the LTV ratios associated with the certificates' underlying loans. *See* §V, *supra*. For the reasons set forth immediately below, these misrepresentations were material to plaintiffs' investments in the certificates.

518. An LTV ratio is calculated by dividing the loan amount into the value of the mortgaged property. LTV ratios are extremely important to both investors and the Credit Rating Agencies, because they are indicative of the credit quality and safety of a particular loan or group of loans. Generally speaking, a lower LTV ratio indicates a higher credit quality, safer loan. Conversely, a higher LTV ratio indicates a lower quality, riskier loan.

519. To explain, the mortgaged property serves as collateral and security for the repayment of the loan. If the borrower defaults on the loan, foreclosure occurs and the property is sold, with the proceeds of the sale going toward paying the outstanding loan balance, but only after all other expenses are paid. If there is insufficient collateral, *i.e.*, the sale proceeds (minus all expenses) are less than the outstanding loan balance, the investor suffers a loss. A low LTV ratio indicates that there is more collateral, or security, for the loan in the event of a foreclosure. In other words, the investor is less likely to face a situation where the sale proceeds net of expenses are less than the outstanding loan amount, and therefore the investor is less likely to suffer a loss. In addition, a lower LTV ratio indicates that the borrower has more "equity" committed to the property, and is thus less likely to default on the loan compared to a borrower with little or less equity, who consequently has

less financial incentive to avoid defaulting on the loan. As a result, the lower the LTV ratio, the more likely it is the borrower will repay the loan, and the more likely it is that there will be sufficient security to make the investor whole, and avoid a loss, in the event of a default and/or a decline in real estate values.

520. In any case, an investor ***never*** wants a group of loans with a large number of loans with LTV ratios over 100%, as that implies a ***certain loss*** in the event of foreclosure. Moreover, a group of loans with a high number of loans with LTV ratios over 100% is highly susceptible to default, because the borrowers have little financial incentive to continue making payments if their financial circumstances change or the value of the properties decline. An understanding of the true LTV ratios associated with the loans underlying a given RMBS is thus essential to an investor, as it allows the investor to properly gauge the risk associated with the investment.

521. Because LTV ratios are critically important to the risk analysis for a given RMBS, they also constitute one of the critical pieces of information used by the Credit Rating Agencies' computerized rating models to determine what credit ratings should be assigned to RMBS certificates. Generally, the lower the LTV ratios, the higher the ratings the Credit Rating Agencies assign to the certificates. Moreover, the lower the LTV ratios, the less credit enhancement the Credit Rating Agencies generally require to obtain "investment grade" credit ratings. And the less credit enhancement that is required, the less costly, and more profitable, the RMBS offering is to the entities for structuring, marketing and selling the RMBS (*i.e.*, defendants here). [96]

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[96] "Credit enhancements" can take numerous forms, but one common form is to require the sellers (defendants in this case) to include additional collateral, *i.e.*, additional loans or better credit quality loans, in the offering to help ensure the expected cash flow. Either way, the practical effect is that additional credit enhancements represent additional costs and/or decreased profit margins to the entities responsible for the offering.

522. Defendants were very aware of the foregoing. Accordingly, defendants affirmatively misrepresented the actual percentages of the certificates' underlying loans that had LTV ratios in excess of 80% and 100%. These representations were intended to convey that there was sufficient protection against losses in the event of defaults, and that the loans (and therefore the certificates) were of high credit quality, and were safe, solid investments. Unfortunately for plaintiffs, defendants' representations concerning the LTV ratios associated with the certificates' underlying loans were false and misleading when made. *See* §V, *supra*.

523. Defendants accomplished their deception by using false and inflated appraisals and valuations for the relevant properties, as alleged above. Because false and inflated appraisals were used, defendants were able to generate artificially understated LTV ratios, which were then included in the Offering Documents.

524. The appraisers knew that their appraisals were false and inaccurate, and did not believe them to be true. The appraisers, and others providing valuations, were being strong-armed into providing inflated valuations by the lenders, who threatened the appraisers with being black-balled in the industry and excluded from future work unless the inflated valuations were provided. In other instances, appraisers were being bribed into providing inflated valuations by lenders who paid the appraisers above-market fees for inflated valuations and/or rewarded appraisers with substantial additional work for inflated appraisals. In yet other instances, lenders intentionally provided appraisers with false sales information designed to generate inflated appraisals and valuations. Lenders also required appraisers to rely on information outside the relevant market to support inflated valuations. Lenders and some appraisers further retaliated against any appraisers that questioned or criticized their corrupt practices.

525. Defendants were well aware that the appraisal valuation process was being actively manipulated by loan originators and appraisers, and therefore also knew that the reported property

valuations and LTV ratios for the loans did not reflect accurate information. Defendants learned such facts when they performed due diligence on the loans, as well as through Clayton, and by virtue of their participation in originating the loans, and through their ownership and control of lenders and their close relationships with them. Defendants had little incentive to correct the inflated appraisals – and did not – because inflated appraisals led to larger loan amounts, thereby increasing the size of defendants' RMBS offerings, and decreased credit enhancement requirements, all of which, in turn, increased defendants' compensation and profits. Accordingly, defendants knew that the LTV ratios reported in the Offering Documents were not accurate or reliable indicators of the credit quality of the loans, and that such LTV ratios had no reasonable basis in fact.

C. Defendants Made Material Misrepresentations Regarding the Underlying Loans' Owner Occupancy Rates

526. As set forth *supra*, the Offering Documents misrepresented the OOR percentages, or Primary Residence Percentages, associated with the loan groups supporting plaintiffs' certificates. *See* §V, *supra*. For the reasons set forth immediately below, these misrepresentations were material to plaintiffs' investments in the certificates.

527. The purpose behind disclosing the OOR percentages associated with a particular group of loans supporting RMBS is to identify the percentage of such loans that are owner occupied or primary residences – that is, the percentage of loans issued to borrowers who purportedly lived in the mortgaged properties. Primary Residence Percentages are extremely important to investors like plaintiffs, because borrowers are much less likely to default on loans secured by their primary homes, as opposed to loans secured by investment properties or second homes. Accordingly, higher Primary Residence Percentages indicate safer loans, and thus safer RMBS certificates, while lower Primary Residence Percentages indicate riskier loans, and thus lower credit quality certificates.

528. Because Primary Residence Percentages are critically important to the risk analysis for a given RMBS, they also constitute one of the critical pieces of information used by the Credit Rating Agencies' computerized rating models to determine what credit ratings should be assigned to RMBS certificates. Generally, the higher the Primary Residence Percentages, the higher the ratings the Credit Rating Agencies assign to the certificates. Moreover, the higher the Primary Residence Percentages, the less credit enhancement the Credit Rating Agencies generally require to obtain "investment grade" credit ratings. And the less credit enhancement that is required, the less costly, and more profitable, the RMBS offering is to the entities responsible for structuring, marketing and selling the RMBS (*i.e.*, defendants here).

529. Well aware of this dynamic, defendants systematically overstated the Primary Residence Percentages associated with plaintiffs' certificates, as set forth *supra*. As a result, defendants created the false impression that the loans and certificates were of higher credit quality than they in fact were. Indeed, in most instances, defendants materially overstated the actual Primary Residence Percentages by double-digit percentages. *See* §V, *supra*.

530. Defendants knew, based on their due diligence of the loans, Clayton's reports and their own active role in the loan origination process, that the Primary Residence Percentages for the certificates' underlying loans were being actively manipulated by loan originators and borrowers. Specifically, defendants were well aware that borrowers were misrepresenting their residency status in order to obtain lower interest rates and/or eligibility for higher LTV or DTI ratio loans. Defendants were further aware that the originators were also actively manipulating the Primary Residence Percentages in order to receive higher prices when selling their loans. Even though defendants were aware that the Primary Residence Percentages were falsely inflated, they did not challenge them or change them to reflect the true OORs because defendants knew that higher Primary Residence Percentages for the loans would result in higher credit ratings from the Credit

Rating Agencies and less additional credit enhancement requirements for their offerings, thereby increasing defendants' profits in selling the certificates. As a result of the foregoing, defendants knew that the Primary Residence Percentages stated in the Offering Documents were false and had no reasonable basis in fact.

D. Defendants Made Material Misrepresentations Regarding the Credit Ratings for the Certificates

531. As set forth *supra*, in each of the Offering Documents at issue herein, defendants represented that the certificates plaintiffs were purchasing had or would have certain high, safe, "investment grade" credit ratings from at least two of the three major Credit Rating Agencies (S&P, Moody's and/or Fitch). *See* §V, *supra*. For the reasons set forth *supra* and immediately below, these representations were both material and false.

532. Credit ratings are extremely important to investors in assessing the quality and safety of RMBS certificates. Credit ratings on such securities indicate how reliable and safe the investments are, and are used to predict the likelihood that they will perform, *i.e.*, pay, as expected and return the investor's principal at the end of the lending term. The credit ratings of the certificates were very important to plaintiffs, as they were required to purchase only certificates that were rated "investment grade" by the Credit Rating Agencies. Indeed, many of the certificates purchased by plaintiffs received the highest, safest credit ratings available – "Aaa" by Moody's or "AAA" by S&P and Fitch. These credit ratings indicated that the certificates were the "safest of the safe," as such ratings were ***the same as, or even higher than, the current credit rating of U.S. Treasury debt***. Indeed, "[t]raditionally, investments holding AAA ratings have had a ***less than 1% probability of incurring defaults***." Levin-Coburn Report at 6. Below is a chart setting forth the Credit Rating Agencies' credit grading systems, denoting the various investment grade and speculative grade ratings they provided:

Moody's Grades	S&P's Grades	Fitch's Grades
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
↑Investment Grade		
Speculative Grade↓		
Ba1	BB+	BB+
Ba2	BB	BB
Ba3	BB-	BB-
B1	B+	B+
B2	B	B
B3	B-	B-
Caa1	CCC+	CCC+
Caa2	CCC	CCC
Caa3	CCC-	CCC-
Ca	CC	CC
C	C	C
	D	D

533. As previously discussed, the certificates never should have received the safe, "investment grade" ratings touted by defendants in the Offering Documents. In truth, the certificates were anything but safe, "investment grade" securities, as defendants well knew. In fact, the certificates were exactly the opposite – extremely risky, speculative grade "junk" bonds or worse, backed by low credit quality, extremely risky loans. As defendants were well aware, each of the certificates was backed by numerous loans that had not been originated pursuant to their stated underwriting guidelines, with many loans being made without any regard for the borrowers' true repayment ability, and/or on the basis of falsely inflated incomes and property values, as alleged above. Moreover, as also alleged above, the LTV ratios and Primary Residence Percentages for the loans had been falsified so as to make the loans (and thus, the certificates) appear to be of much higher credit quality than they actually were.

534. In order to obtain "investment grade" credit ratings for the certificates, defendants were required to work with the Credit Rating Agencies. Specifically, defendants were required to provide the Credit Rating Agencies with information concerning the underlying loans, which the Credit Rating Agencies then put into their computerized ratings models to generate the credit ratings. In order to procure the falsely inflated ratings defendants desired for the certificates, defendants fed the Credit Rating Agencies falsified information on the loans, including, without limitation, false loan underwriting guidelines, false LTV ratios, false borrower FICO scores, false borrower DTI ratios, and false Primary Residence Percentages. Among other things, defendants falsely represented to the Credit Rating Agencies that virtually none of the loans in any of the offerings had LTV ratios in excess of 100%. Defendants also misrepresented and underreported the numbers of loans that had LTV ratios in excess of 80% in many cases. Defendants further misrepresented that the loans had much higher Primary Residence Percentages than they actually did. Defendants also concealed from the Credit Rating Agencies that most of the loans were not originated pursuant to the underwriting guidelines stated in the Offering Documents and/or were supported by falsely inflated incomes, appraisals and valuations. Defendants also never informed the Credit Rating Agencies that Clayton had detected defect rates of 22.9% in the samples of loans it tested for defendants, or that defendants had put 29.2% of those identifiably defective loans into the offerings. Defendants also never told the Credit Rating Agencies that defendants did no further testing on the vast majority of loans, despite their awareness that there were significant numbers of defective loans detected by the test samples.

535. That the credit ratings stated in the Offering Documents were false and misleading is confirmed by subsequent events, as set forth *supra*. Specifically, after the sales of the certificates to plaintiffs were completed, staggering percentages of the loans underlying the certificates began to go into default because they had been made to borrowers who either could not afford them or never

intended to pay them. Indeed, ***in a majority of the loan groups at issue herein, at least 20% of the loans currently in the trusts are in default***.

536. ***The average default rate for all the offerings at issue herein currently hovers at around 31%***. In other words, approximately 3 in 10 loans currently in the trusts are in default. It is also important to understand that these reported default rates are for loans that are ***currently*** still in the trusts. Any ***prior*** loans that were in default and which had been previously liquidated or sold, and thus written off and taken out of the trusts, have not been included in the calculations. Therefore, the foregoing default rates do not include earlier defaults, and thus ***understate*** the cumulative default rates for all of the loans that were originally part of the trusts.

537. Further proving that the credit ratings stated in the Offering Documents were false and misleading is the fact that ***all*** of the certificates have since been downgraded to reflect their true credit ratings, now that the true credit quality (or more accurately, lack of quality) and riskiness of their underlying loans is known. Indeed, ***all of the 45 certificates plaintiffs bought have now been downgraded to speculative "junk" status or below***. Moreover, ***20 of the 45 certificates plaintiffs bought now have a credit rating of "D," which means they are in "default***," and reflects that they have suffered losses and/or writedowns, and/or have completely stopped paying. In other words, approximately ***43.5% of plaintiffs' certificates are in default***. This is strong evidence that defendants lied about the credit ratings. This is so because the high, "investment grade" credit ratings assigned to plaintiffs' certificates had a probability of default of between "less than 1%" (Levin-Coburn Report at 6) for the highest rated certificates and 2.6% (according to Moody's) for certificates rated even lower than plaintiffs'. The huge discrepancy in the actual default rates (43.5%) and the historically expected default rates (less than 2.6%) demonstrates the falsity of defendants' statements regarding the credit ratings.

538. These massive downgrades – in many cases, from "safest of the safe" "AAA" ratings to "junk" (anything below Baa3 or BBB-) – show that, due to defendants' knowing use of bogus loan data, the initial ratings for the certificates, as stated in the Offering Documents, were false. Indeed, the fact that ***all*** of the certificates are now rated at "junk" status or below, and ***more than 43.5% of the certificates are now in default***, is compelling evidence that the initial high ratings touted by defendants in the Offering Documents were grossly overstated and false.

E. Defendants Materially Misrepresented that Title to the Underlying Loans Was Properly and Timely Transferred

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

540. The rules for these transfers are governed by the law of the state where the property is located, by the terms of the pooling and servicing agreement ("PSA") for each securitization, and by the law governing the issuing trust (with respect to matters of trust law). Generally, state laws and the PSAs require that the trustee have physical possession of the original, manually signed note in order for the loan to be enforceable by the trustee against the borrower in case of default.

541. In addition, in order to preserve the bankruptcy-remote status of the issuing trusts in RMBS transactions, the notes and security instruments are generally not transferred directly from the mortgage loan originators to the trusts. Rather, the notes and security instruments are generally initially transferred from the originators to the sponsors of the RMBS offerings. After this initial transfer to the sponsor, the sponsor in turn transfers the notes and security instruments to the

depositor. The depositor then transfers the notes and security instruments to the issuing trust for the particular securitization. This is done to protect investors from claims that might be asserted against a bankrupt originator. Each of these transfers must be valid under applicable state law in order for the trust to have good title to the mortgage loans.

542. Moreover, the PSAs generally require the transfer of the mortgage loans to the trusts to be completed within a strict time limit – three months – after formation of the trusts in order to ensure that the trusts qualify as tax-free real estate mortgage investment conduits ("REMICs"). In order for the trust to maintain its tax free status, the loans must have been transferred to the trust no later than three months after the "startup day," *i.e.*, the day interests in the trust are issued. *See* Internal Revenue Code §860D(a)(4). That is, the loans must generally have been transferred to the trusts within at least three months of the "closing" dates of the offerings. In this action, all of closing dates occurred in 2005, 2006 or 2007, as the offerings were sold to the public. If loans are transferred into the trust after the three-month period has elapsed, investors are injured, as the trusts lose their tax-free REMIC status and investors like plaintiffs face several adverse draconian tax consequences: (1) the trust's income is subject to corporate "double taxation"; (2) the income from the late-transferred mortgages is subject to a 100% tax; and (3) if late-transferred mortgages are received through contribution, the value of the mortgages is subject to a 100% tax. *See* Internal Revenue Code §§860D, 860F(a), 860G(d).

543. In addition, applicable state trust law generally requires strict compliance with the trust documents, including the PSAs, so that failure to strictly comply with the timeliness, endorsement, physical delivery, and other requirements of the PSAs with respect to the transfers of the notes and security instruments means the transfers would be void and the trust would ***not*** have good title to the mortgage loans.

544. To this end, all of the Offering Documents relied upon by plaintiffs stated that the loans would be timely transferred to the trusts. For example, in the GSAA 2006-13 offering, the Goldman Sachs Defendants represented that "[p]ursuant to the trust agreement, the Depositor will sell, without recourse, to the trust, all right, title and interest in and to each mortgage loan." GSAA 2006-13 Pros. Supp. at S-74. The Offering Documents for each of the offerings at issue herein contained either the same or very similar language, uniformly representing that defendants would ensure that the proper transfer of title to the mortgage loans to the trusts occurred in a timely fashion.

545. However, defendants' statements were materially false and misleading when made. Rather than ensuring that they legally and properly transferred the promissory notes and security instruments to the trusts, as they represented they would do in the Offering Documents, defendants instead did not do so. This failure was driven by defendants' desire to complete securitizations as fast as possible and maximize the fees they would earn on the deals they closed. Because ensuring the proper transfer of the promissory notes and mortgages hindered and slowed defendants' securitizations, defendants deliberately chose to disregard their promises to do so to plaintiffs.

546. Defendants' failure to ensure proper transfer of the notes and the mortgages to the trusts at closing has already resulted in damages to investors in securitizations underwritten by defendants. Trusts are unable to foreclose on loans because they cannot prove they own the mortgages, due to the fact that defendants never properly transferred title to the mortgages at the closing of the offerings. Moreover, investors are only now becoming aware that, while they thought they were purchasing "***mortgaged-backed***" securities, in fact they were purchasing ***<u>non</u>***-mortgaged-backed securities.

547. In fact, several defendants are currently being investigated by the Attorneys General of New York and Delaware to discern whether the mortgage documentation for the loans backing RMBS sold by defendants was properly completed and transferred. Meanwhile, Attorneys General

from 49 states have investigated foreclosure practices after the discovery that mortgage servicers used faulty or falsified paperwork to improperly seize homes from borrowers. The investigation culminated in a huge settlement of $25 billion with five large banks.

548. Facts disclosed in recent news reports and uncovered through government investigations and home owner foreclosure litigation over defendants' securitizations confirm widespread problems with defendants' failure to ensure proper transfer of the required mortgage documents, and highlight the damage that failure has caused to plaintiffs' investments. In an interview on *60 Minutes*, Lynn Szymoniak, a lawyer and fraud investigator who has uncovered instances in which banks appear to have manufactured mortgage documentation, explained the issue as follows:

> "When you could make a whole lotta money through securitization. And every other aspect of it could be done electronically, you know, key strokes. This was the only piece where somebody was supposed to actually go get documents, transfer the documents from one entity to the other. And it looks very much like they just eliminated that stuff all together."

549. As part of its exposé, *60 Minutes* interviewed Chris Pendley, a temporary employee of a company called Docx. Pendley was paid $10 per hour to sign the name "Linda Green" who, on paper, purportedly served as vice president of at least 20 different banks at one time, to thousands of mortgage documents that were later used in foreclosure actions. Pendley said he and other employees of Docx were expected to sign at least 350 documents per hour using the names of other individuals on documents used to establish valid title. Asked if he understood what these documents were, Pendley said, "[n]ot really." He then explained that he signed documents as a "vice president" of five to six different banks per day. Purported transfers bearing the signature of "Linda Green" were used to transfer mortgages from major originators to the depositors.

550. Further illustrating the falsity of defendants' representations in the Offering Documents regarding proper transfer of the mortgage documents to the issuing trusts is attorney

Szymoniak's letter to the SEC (the "SEC Letter"). In the SEC Letter, Szymoniak detailed the fraudulent alteration and manufacture of mortgage documents by employees of Lender Processing Services, Inc. ("LPS"). LPS is a mortgage default company located in Jacksonville, Florida that, according to Szymoniak, "produced several missing Mortgage Assignments, using its own employees to sign as if they were officers of the original lenders." Szymoniak observed instances of mortgage transfers prepared by LPS employees that contained forged signatures, signatures of individuals as corporate officers on behalf of a corporation that never employed the individuals in any such capacity, and signatures of individuals as corporate officers on behalf of mortgage companies that had been dissolved by bankruptcy years prior to the transfers, among other things.

551. The fabrication of the mortgage transfers appears to have been intended to conceal the actual date that interests in the properties were acquired by the RMBS trusts. The fraudulent transfers uncovered in foreclosure litigation often show that the transfers were prepared and filed in 2008 and 2009, when, in reality, the mortgages and notes were intended and should have been transferred prior to the closing date of the trusts, in 2005, 2006 and 2007, as stated in the Offering Documents relied on by plaintiffs. Moreover, Szymoniak published an article on *Phil's Stock World* on July 20, 2011, setting forth the huge numbers of "trusts that closed in 2005, 2006 and 2007 [that have] repeatedly filed mortgage assignments signed and notarized in 2011," years after the closing dates. Nearly all of the securitizers at issue in this case are identified in Szymoniak's article. These late transfers of mortgages are an obvious improper attempt by defendants to untimely transfer the mortgage loans to the trusts after-the-fact. As discussed above, even if such transfers are valid, plaintiffs have been severely damaged because of defendants' failure to timely transfer the loans, as the trusts have potentially lost their tax-free status and the payments to investors might now be subject to various forms of draconian taxation.

552. Other public reports corroborate the fact that the loans were not properly transferred. For example, Cheryl Samons, an office manager for the Law Office of David J. Stern, a "foreclosure mill" under investigation by the Florida Attorney General for mortgage foreclosure fraud that was forced to shut down in March 2011, signed tens of thousands of documents purporting to establish mortgage transfers for trusts that closed in 2005 and 2006 purporting to establish the transfers of thousands of mortgages in 2008, 2009 and 2010 from Mortgage Electronic Registration Services, an electronic registry that was intended to eliminate the need to file transfers in the county land records. In depositions in foreclosure actions, Samons has admitted that she had no personal knowledge of the facts recited on the mortgage transfers that were used in foreclosure actions to recover the properties underlying the mortgages backing RMBS. *See, e.g.*, Deposition of Cheryl Samons, *Deutsche Bank Nat'l Trust Co., as Trustee for Morgan Stanley ABS Capital 1 Inc. Trust 2006-HE4 v. Pierre*, No. 50-2008-CA-028558-XXX-MB (Fla. Cir. Ct., 15th Jud. Cir., Palm Beach City, May 20, 2009).

553. Further confirming the endemic problems of defective transfers in the defendants' RMBS, servicers that act on behalf of trustees have also been unable to properly foreclose on mortgaged properties serving as collateral for plaintiffs' investments. For example, sworn deposition testimony from a longtime Countrywide employee (Countrywide is one of the key originators at issue in this case) regarding Countrywide-originated loans demonstrates that Countrywide systematically failed to properly transfer or assign the mortgage documents. In *Kemp v. Countrywide Home Loans, et al.*, No. 08-02448-JHW (Bankr. D.N.J.), Linda DeMartini, a ten-year employee of Countrywide's servicing division, testified that not delivering the original note to the trustee was standard Countrywide practice, stating that the "normal course of business . . . would include retaining the documents" and that Countrywide "transferred the rights . . . not the physical documents." Based on this testimony, Chief Bankruptcy Judge Judith Wizmur held that the fact that

the issuing trustee "never had possession of the note[] is fatal to its enforcement" and, thus, that the trustee could not enforce the mortgage loan. *Kemp v. Countrywide Home Loans, Inc.*, No. 08-02448-JHW, slip op. at *10-*11 (Bankr. D.N.J. Nov. 16, 2010). Countrywide originated loans in many of the offerings at issue herein.

554. The need to fabricate or fraudulently alter mortgage assignment documentation provides compelling evidence that, in many cases, title to the mortgages backing the certificates plaintiffs purchased was never properly or timely transferred. In fact, plaintiffs have conducted investigations on the loans underlying several of the offerings at issue herein to determine whether the loans were properly transferred to the trusts. In each case investigated, the vast majority of loans underlying the offerings were not properly or timely transferred to the trusts.

555. For example, plaintiffs performed an investigation concerning the mortgage loans purportedly transferred to the trust for the Goldman Sachs Defendants' GSAA 2006-16 offering. The closing date for this offering was on or about September 28, 2006. Plaintiffs reviewed the transfer history for 261 loans that were supposed to be timely transferred to this trust. Thirty-four (34) of the loans were not and have never been transferred to the trust. In addition, several other loans that were supposed to be transferred to the trust were transferred to entities other than the trust, but not to the trust. The remainder of the loans (approximately 156) were eventually transferred to the trust, but all such transfers occurred between 2008 and the present, well beyond the three-month time period required by the trust documents and far after the three-month period for the trust to maintain its tax-free REMIC status. ***In other words, none of the reviewed mortgage loans were timely transferred to the trust, a 100% failure rate***.

556. The foregoing example, coupled with the public news, lawsuits and settlements discussed above, establish that defendants failed to properly and timely transfer title to the mortgage loans to the trusts. Moreover, they show that defendants' failure to do so was widespread and

pervasive. In fact, the specific examples discussed above show that defendants utterly and completely failed to properly and timely transfer title. Defendants' failure has caused plaintiffs (and other RMBS investors) massive damages. As noted by law professor Adam Levitin of Georgetown University Law Center on November 18, 2010, in testimony he provided to the a U.S. House Subcommittee investigating the mortgage crisis, "[i]f the notes and mortgages were not properly transferred to the trusts, then the mortgage-backed securities that the investors[] purchased were in fact ***non-mortgaged-backed securities***" (emphasis in original), and defendants' failure "ha[d] profound implications for [R]MBS investors" like plaintiffs. Indeed, Professor Levitin noted in his testimony that widespread failures to properly transfer title would appear to provide investors with claims for rescission that could amount to trillions of dollars in claims.

VII. THE GOLDMAN SACHS DEFENDANTS KNEW THAT THE REPRESENTATIONS IN THE OFFERING DOCUMENTS WERE FALSE AND MISLEADING

557. Defendants' representations in the Offering Documents were not only false and misleading, but defendants also ***knew***, or were reckless in disregarding, that they were falsely misrepresenting the underwriting guidelines used and the risk profiles of the loans and certificates.

A. Goldman Sachs Knew, Based on Its Own Due Diligence, that the Loans Were Not Adequately Underwritten

558. In the Offering Documents, the Goldman Sachs Defendants stated that Goldman Sachs conducted due diligence on the lenders who originated the loans, and reviewed their underwriting standards. For example, in the GSAMP 2007-NC1 Prospectus Supplement, Goldman Sachs represented that:

> Prior to acquiring any mortgage loans, [defendant Goldman Sachs Mortgage Company ("GSMC")] will conduct a review of the related mortgage loan seller. GSMC's review process consists of reviewing select financial information for credit and risk assessment and underwriting guideline review, senior level management

> discussion and background checks. The scope of the loan due diligence will depend on the credit quality of the mortgage loans.

559. In addition, the Offering Documents represented that Goldman Sachs reviewed the adequacy of the loan seller's underwriting guidelines, including its mortgage loan origination processes, systems and quality control procedures. For example, in the GSAMP 2007-NC1 Prospectus Supplement, Goldman Sachs represented that:

> The underwriting guideline review considers mortgage loan origination processes and systems. In addition, such review considers corporate policy and procedures relating to HOEPA and state and federal predatory lending, origination practices by jurisdiction, historical loan level loss experience, quality control practices, significant litigation and material investors.

560. The Offering Documents also stated that Goldman Sachs would re-underwrite sample pools of the loans it purchased to determine whether they were originated in compliance with applicable underwriting guidelines. For example, in the GSAMP 2007-NC1 Prospectus Supplement, Goldman Sachs explained that it had the option to re-underwrite a sample of the RMBS loan pool:

> We may, in connection with the acquisition of mortgage loans, re-underwrite the mortgage loans based upon criteria we believe are appropriate depending to some extent on our or our affiliates' prior experience with the lender and the servicer, as well as our prior experience with a particular type of loan or with loans relating to mortgaged properties in a particular geographical region. A standard approach to re-underwriting will be to compare loan file information and information that is represented to us on a tape with respect to a percentage of the mortgage loans we deem appropriate in the circumstances.

Similar representations were made in other Goldman Sachs Offering Documents.

561. The Levin-Coburn Report confirms that Goldman Sachs regularly conducted due diligence on the mortgage loan pools that it purchased and securitized. Specifically, the Levin-Coburn Report noted that "Goldman, either directly or through a third party due diligence firm, routinely conducted due diligence reviews of the mortgage loan pools it bought from lenders or third party brokers for use in its securitizations." Levin-Coburn Report at 483. These due diligence

activities revealed to Goldman Sachs that its loan originators had abandoned prudent loan underwriting practices, contrary to its representations in the Offering Documents.

562. Defendant Goldman Sachs & Co. served as an underwriter in all of the Goldman Sachs Offerings at issue herein. In this capacity, Goldman Sachs was required under U.S. securities laws to "perform a review of the pool assets underlying the [certificates]," and had a legal duty to ensure that the information it reported about the loans in the Offering Documents was "accurate in all material respects." 17 C.F.R. §230.193. As such, Goldman Sachs had a legal duty to ensure that the statements in the Offering Documents were true and accurate, and had a corresponding duty to investigate the underlying loans to ensure statements made about them in the Offering Documents were not false.

563. Given the Goldman Sachs Defendants' legal duties to conduct due diligence to ensure that the Offering Documents were accurate, as well as their affirmations that they did such investigations, Goldman Sachs was undoubtedly aware that there was a system-wide breakdown in residential loan underwriting. Goldman Sachs' due diligence necessarily revealed to it that there were numerous, risky, defective loans that were supported by inflated appraisals/valuations and not originated pursuant to the stated underwriting guidelines set forth in the Offering Documents. As a result, such due diligence would have also revealed to Goldman Sachs that the Offering Documents contained numerous misstatements regarding the underwriting guidelines, LTV ratios, and Primary Residence Percentages associated with the certificates' underlying loans. Based on all of the above, Goldman Sachs also knew that the certificates' credit ratings were grossly inflated. Indeed, as set forth in §VI, and the charts at §V, the underwriting guidelines, LTV ratios and Primary Residence Percentages reported in the Offering Documents were not just misstated in a few offerings – rather, some or all of that data was materially and systematically misrepresented in every single one of the Goldman Sachs Offerings at issue herein. The magnitude of the errors, as set forth in the charts

referenced above, was very large, as were the discrepancies in borrowers' ability to repay and their DTI ratios, thus indicating that a reasonable person conducting even the most perfunctory due diligence would have discovered such large errors. Alternatively, given Goldman Sachs' strict legal due diligence duties and the huge numbers of defective loans within the offerings, Goldman Sachs was reckless in disregarding such large, eye-popping, systematic underwriting failures.

564. In addition, the misstated data was nearly always suspiciously misstated in only one way – a way that, in nearly every offering, made the loans look to be of higher credit quality, and safer and less risky, than they actually were. Given this, it is improbable that the Goldman Sachs Defendants' misrepresentations were innocent or negligent. Rather, the inescapable conclusion is that Goldman Sachs purposefully, intentionally, and systematically overstated the credit quality of the loans and concealed their riskiness in order to make the certificates look like prudent, "investment grade" securities, in order to facilitate their sale to plaintiffs. In fact, given Goldman Sachs' involvement in every step of the RMBS securitization process – as a loan originator, loan purchaser, sponsor, depositor, marketing materials creator, seller and market maker of Goldman Sachs' RMBS – it was racked with conflicts of interest and incentives to lie about the loans and certificates it sold to plaintiffs. The Goldman Sachs Defendants had huge incentives to encourage and endorse inflated appraisals, loose underwriting standards, falsified LTV ratios, understated DTI ratios and overstated OOR percentages, because they allowed defendants to securitize numerous risky loans that otherwise never would have been saleable, and then pass them off to unsuspecting investors while making obscene profits. In addition, the Goldman Sachs Defendants received fees based on the size of the offerings, that is, the larger the offering, the larger their fee. Therefore, the Goldman Sachs Defendants were incentivized to securitize the highest number of loans possible at the largest loan amounts. This motivated the Goldman Sachs Defendants to originate and/or

acquiesce in large loans to borrowers who could not afford them and which were supported by inflated appraisals.

B. Goldman Sachs Had Actual Knowledge of the Defective Loans It Was Securitizing

565. The Goldman Sachs Defendants used the GS Conduit Program to purchase and securitize loans that backed their RMBS offerings. Through the GS Conduit Program, Goldman Sachs purchased loans from various mortgage loan originators who purportedly evaluated whether the borrowers could afford to repay the loans, and/or the adequacy of the property as collateral for the loan. Indeed, in the Offering Documents, the Goldman Sachs Defendants made such representations. Of the 23 Goldman Sachs Offerings at issue herein, loans from the GS Conduit Program were used in at least 13 of the offerings.

566. According to the Offering Documents, mortgage loans acquired by Goldman Sachs through its GS Conduit Program were acquired in accordance with the underwriting criteria specified in such Offering Documents.

567. In connection with the GS Conduit Program, however, the Goldman Sachs Defendants intentionally purchased and securitized loans that they knew had not been originated pursuant to the stated underwriting guidelines. In fact, according to a former Goldman Sachs Client Relations Manager from 2006 to 2008, who served as a liaison between Goldman Sachs' personnel who bought loans and the loan originators who sold the loans to Goldman Sachs, ***the Goldman Sachs Defendants knowingly purchased what they knew were "bad loans." According to this former Goldman Sachs employee, defendants did so because they knew they were passing the risks of defaults or non-payment onto the buyers of their RMBS – plaintiffs and other investors***.

568. As alleged above, in addition to performing their own due diligence, Goldman Sachs retained outside vendors, such as Clayton and Bohan, to review samples of the loans. In connection

with its sampling of loans for Goldman Sachs, Clayton provided defendants with reports of its findings. Clayton provided such reports to the Goldman Sachs Defendants as it sampled loans throughout 2006 and 2007. According to Clayton Vice President Vicki Beal ("Beal"), Clayton provided Goldman Sachs with daily reports concerning the loans it tested during this time period and Goldman Sachs reviewed all such reports. As the FCIC described, in the internal Clayton "Trending Report" made public by the government in conjunction with testimony given in September 2010, between January 1, 2006 and June 30, 2007, Goldman Sachs received regular reports regarding defective loans, and 22.9% of the loans Clayton reviewed for Goldman Sachs did not meet the stated underwriting guidelines. In addition, these loans were not subject to any proper "exceptions," as they did not have any "compensating factors." In other words, these loans were plainly defective.

569. Nonetheless, despite high levels of nonconforming loans, Goldman Sachs continued utilizing, and indeed funding, the same originators who had supplied these defective loans for Goldman Sachs' securitizations. Moreover, ***Goldman Sachs "waived" into its offerings at least 29.2% of those toxic loans that Clayton had identified to Goldman Sachs as being outside the guidelines***. These knowing waivers of obviously defective loans into the Goldman Sachs Offerings were never disclosed to plaintiffs – or any investor – who purchased certificates in the Goldman Sachs Offerings. Moreover, as previously alleged, a former Clayton employee testified under oath in another case that Clayton's Wall Street clients, such as Goldman Sachs, instructed Clayton to re-classify defective loans as non-defective loans, and further instructed Clayton to ignore defective loans. Therefore, the Goldman Sachs Defendants actually "waived" even higher numbers of defective loans into their offerings than Clayton reported. The foregoing also shows that the Goldman Sachs Defendants actively attempted to conceal the defective loans within their offerings.

570. In any event, Clayton's data provides compelling evidence that Goldman Sachs knew the underwriting guidelines for the loans it was securitizing were being routinely violated and

ignored, and that Goldman Sachs was so informed. Indeed, Goldman Sachs conducted due diligence on all the originators from whom it purchased loans and the loans included in its offerings, to determine whether there was compliance with the stated underwriting guidelines. The results of these reviews confirm that loan originators were routinely violating the stated underwriting standards and were originating numerous non-conforming loans, and that Goldman Sachs knew this, yet knowingly securitized a large number of defective loans that did not comply with the stated underwriting standards. A review of the Goldman Sachs Offering Documents also confirms that Goldman Sachs never disclosed that its offerings were filled with these defective loans, and that it instead misrepresented that all of the loans complied with the stated underwriting guidelines.

571. In addition, the deposition testimony of a former Clayton employee further reveals Goldman Sachs' fraudulent intent, as it establishes that Goldman Sachs not only knew it was securitizing defective loans, but was also actively attempting to conceal such defective loans, by instructing Clayton to ignore such loans, or reclassify them as non-defective.

572. Goldman Sachs did not use its due diligence reviews to protect investors from defective loans. Rather, Goldman Sachs used its knowledge that loans in its securitizations did not comply with the underwriting guidelines to force loan originators to accept lower prices for the loan pools, thereby providing itself even greater profits when it re-sold the defective loan pools to investors such as plaintiffs. According to the September 2010 FCIC testimony of Clayton's former president, D. Keith Johnson, investment banks like Goldman Sachs would use Clayton's reports as leverage to negotiate lower prices for themselves, and not to benefit investors at all. Johnson told the FCIC in September 2010 that:

> I don't think that we added any value to the investor, the end investor . . . [to] get down to your point . . . I think only our value was done in negotiating the purchase between the seller and securitizer. Perhaps the securitizer was able to negotiate a lower price and could maximize their buying but we added no value to the investor and to the rating agencies.

September 2, 2010 FCIC staff interview of D. Keith Johnson, *available at* http://fcic.law.stanford.edu/resource/interviews. Indeed, the U.S. Senate Subcommittee investigating the mortgage crisis specifically identified Goldman Sachs as one of the Wall Street investment banks that operated in this way:

> Goldman or a third party due diligence firm it hired typically examined a sample of the loans. Based on the number of problem loans found in the sample, Goldman or the due diligence firm extrapolated the total percentage of problem loans likely to be contained in the pool. This information was then factored into the price Goldman paid for the pool.

Levin-Coburn Report at 484 n.2036.

573. Employees of Bohan, another third-party due diligence firm that Goldman Sachs used, have also confirmed that Goldman Sachs knew the loans it was buying did not meet the stated underwriting guidelines. One former due diligence underwriter for Bohan from 2005 to 2008, who performed due diligence on loans purchased by Goldman Sachs, has stated that Goldman Sachs often ignored underwriters' findings that loans were defective. This former due diligence underwriter stated that Bohan was instructed by the Wall Street banks (specifically including Goldman Sachs) to "make it work" – meaning find a way to permit the loan to remain in the pool, even when the due diligence underwriter found that the loan did not conform to the underwriting guidelines. The Wall Street banks instructed Bohan that loan rejections should be held to a minimum. Bohan was also instructed by the Wall Street banks to find a way to interpret the loan file as meeting the underwriting guidelines, regardless of the actual quality of the loan, and that underwriters could not consider the fact that loans with several questionable characteristics were particularly risky because those characteristics comprised a layering of risk. Each night, Bohan would provide the Wall Street banks with current reports of the daily underwriting results, and the banks would review the reports and direct Bohan to make adjustments. This former due diligence underwriter stated that often loan

files were adjusted-up to Level 1 and remained in the loan pool even after a Bohan underwriter had graded it a Level 2 and removed it from the pool.

574. Another former due diligence underwriter for Bohan from 2005 through 2007, who performed due diligence on loans purchased by Goldman Sachs, has estimated that 50% of the loans she reviewed were defective, and that "you would have to be an idiot not to know that the loans were no good." Goldman Sachs "had to know that they were buying defective loans" because they received daily reports from Bohan which provided the clients with knowledge of the quality of the loans under examination, and informed the clients of the extent to which the clients were purchasing defective loans. This former underwriter stated that the Wall Street banks would use the daily reports to amend the underwriting standards to permit acceptance of more, rather than fewer, loans, stating, "[i]f we had a lot of kicks, the client would change our guidelines," in other words "massaging or manipulating" the guidelines. Specifically, this former underwriter stated that problems often arose with loans in which the stated maximum LTV ratio was exceeded or it was clear the property would not be owner occupied, but that Bohan was instructed by its clients that they wanted the loans to remain in the pool they were purchasing, and that they generally found ways to resolve the issue so that such loans could remain in the pool.

575. Melissa Toy and Irma Aninger, two contract risk analysts who reviewed loan files for Bohan from 2004 to 2006, reported that their supervisors overrode the majority of their challenges to shaky loans on behalf of Goldman Sachs and other firms:

> They couldn't recall specific examples involving loans bought by Goldman, but they said their supervisors cleared half-million dollar loans to a gardener, a housekeeper and a hairdresser.
>
> Aninger, whose job was to review the work of other contract analysts, said that [when] she objected to numerous applications for loans that required no income verification, her supervisor would typically tell her, "You can't call him a liar . . . You have to take (his) word for it."

> "I don't even know why I was there," she said, "because the stuff was gonna get pushed through anyway."
>
> Toy said she concluded that the reviews were mostly "for appearances," because the Wall Street firms planned to repackage "bogus" loans swiftly and sell them as bonds, passing any future liabilities to the buyers. The investment banks and mortgage lenders each seemed to be playing "hot potato," trying to pass the risks "before they got burned," she said.
>
> "***There was nobody involved in this who didn't know what was going on, no matter what they say," she said. "We all knew***."

Greg Gordon, *Why did Goldman stop scrutinizing loans it bought?*, McClatchy Washington Bureau, Nov. 1, 2009.

576. Despite the large number of defective loans Goldman Sachs knew were being produced by its originators, Goldman Sachs continued purchasing loans from such originators as part of its massive RMBS machine that generated records profits for the company.

C. Goldman Sachs Shorted the Very RMBS It Was Selling to Its Clients, Including Plaintiffs, Demonstrating that It Knew Its Statements in the Offering Documents Were False

577. As set forth *supra*, at the same time Goldman Sachs was offering the certificates for sale to plaintiffs, the bank was also acquiring a massive "short" position on the RMBS market, through the use of CDSs and other similar instruments, essentially betting that the very same certificates defendants were selling to plaintiffs – and/or other similar certificates – would default at significant rates. This information – which clearly demonstrates defendants' awareness that the certificates they sold to plaintiffs were anything but the safe, "investment grade" securities defendants represented them to be – has been confirmed by the U.S. Senate's Levin-Coburn Report and the FCIC Report. Unfortunately for plaintiffs, it was never disclosed by defendants.

578. As set forth *supra*, the Goldman Sachs Defendants made ***billions*** of dollars from their "short" bets against plaintiffs' certificates and other similar RMBS – all of which came ***in addition*** to the hefty fees defendants pocketed for structuring and selling the certificates to plaintiffs. Indeed,

the Goldman Sachs Defendants received ***at least $14 billion*** in CDS-related payments from AIG and AIG-related entities alone. *See* FCIC Report at 376-78. Moreover, defendants made even more additional profits by shorting the RMBS market through the "ABX Index," an index that tracked RMBS, just like those sold to plaintiffs here. In fact, in the first quarter of 2007, Goldman Sachs earned "a record $266 million" through its mortgage business, "driven primarily by short positions, including a $10 billion short position on the bellweather ABX BBB Index." FCIC Report at 236.

579. As set forth in the FCIC Report, beginning in December 2006, Goldman Sachs began to reduce its exposure to RMBS by selling all the RMBS in its inventory that it possibly could, and by also shorting them. With respect to Goldman Sachs' attempts to sell its inventory of RMBS, Goldman Sachs CEO Lloyd Blankfein internally and derisively referred to Goldman Sachs' RMBS – the same RMBS that Goldman Sachs was selling to plaintiffs – as "'***dogs***.'" FCIC Report at 236 (February 11, 2007 e-mail from Blankfein to Goldman Sachs colleague Tom Montag stating: "[A]re we doing enough right now to sell off cats and dogs . . . ?"). Other Goldman Sachs employees were even more blunt about the poor quality of Goldman Sachs' RMBS. In describing one Goldman Sachs CDO[97] offering, Montag, a senior Goldman Sachs executive, sent Daniel Sparks an e-mail in June 2007, calling the offering "'***one shitty deal***.'" *See* Levin-Coburn Report at 394-95. In another instance, in October 2006, a Goldman Sachs trader referred to Goldman Sachs' RMBS offerings as "'***junk***.'" *Id.* at 543 n.2374.

580. Defendants' institutional decision to short the very RMBS they were selling to Goldman Sachs' clients, including some of the exact securities sold to plaintiffs, clearly demonstrates defendants' awareness that the statements in the Offering Documents – namely, that the certificates were "investment grade" securities backed by loans that had been originated pursuant

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[97] "CDO" is an acronym for "collateralized debt obligation." CDOs are collections of various RMBS.

to stated guidelines generally designed to evaluate borrowers' ability to repay and the adequacy of mortgaged properties to serve as collateral – were patently false at the time they were made. After all, if defendants really believed the certificates were prudent investment grade securities, they never would have shorted them in the huge way that they did. To the contrary, at and around the time defendants sold the certificates to plaintiffs, Goldman Sachs' internal, proprietary models and data showed that RMBS like the certificates were likely to decline by up to 70% from their face amounts. For this reason, in January 2007, "Daniel Sparks, the head of Goldman's mortgage department, extolled Goldman's success in reducing its subprime inventory, writing that the team had 'structured like mad and traveled the world, and worked their tails off to ***make some lemonade from some big old lemons***.'" FCIC Report at 236.

581. Even more damning than Goldman Sachs' general shorting of the RMBS market are the huge bets Goldman Sachs placed against the very certificates it was selling to plaintiffs and other investors. In order to reduce its massive financial exposure to the subprime mortgage market, Goldman Sachs began purchasing CDS protection, or "shorts," on the very RMBS positions it sold into the market. <u>***In fact, Goldman Sachs shorted one of the very securities it sold to plaintiffs, without ever disclosing it to plaintiffs***</u>.

582. In the spring of 2006, the Goldman Sachs Defendants sold plaintiffs six certificates, with a face amount of $18 million, in the Goldman Sachs-underwritten LBMLT 2006-A offering. As confirmed by the Levin-Coburn Report, the loan originator for that offering, Long Beach, was ***known*** to Goldman Sachs as one of the worst originators in the business, one which routinely flouted its stated underwriting guidelines. Goldman Sachs knew this based on its extensive business ties to WaMu (Long Beach's parent company) and Long Beach. Goldman Sachs and the two lenders had collaborated on at least $14 billion in loan sales and securitizations, including at least two of the Goldman Sachs Offerings at issue herein. Despite knowing what it did about Long Beach's non-

existent underwriting practices and reckless originations, Goldman Sachs underwrote the offering which was completely backed by Long Beach's defective loans.

583. While selling plaintiffs certificates in the LBMLT 2006-A offering, and representing that such certificates were investment grade securities, ***Goldman Sachs also took out a CDS, betting those same securities would decline***. In February 2007, less than one year after certificates in the LBMLT 2006-A offering were sold to plaintiffs, a Goldman Sachs analyst reported that all of Goldman Sachs' 2006 subprime second-lien RMBS securities, including the LBMLT 2006-A offering, were deteriorating in performance, with "'deals backed by Fremont and Long Beach [loans] hav[ing] underperformed the most." Levin-Coburn Report at 488 n.2057.

584. On May 17, 2007, a trader on Goldman Sachs' Mortgage Department's ABS Desk wrote to his supervisor about losses in the LBMLT 2006-A offering: "[B]ad news . . . [the loss] wipes out the m6s [mezzanine tranche] and makes a wipeout of the m5 imminent. . . . [C]osts us about 2.5 [million dollars]. . . . [G]ood news . . . [w]e own 10 [million dollars] protection at the m6 . . . ***[w]e make $5 [million]***." As explained by the Levin-Coburn Report, while "Goldman lost $2.5 million from the unsold Long Beach securities still on its books, [it] gained $5 million from the CDS contract shorting those same securities. Overall, Goldman profited from the decline of the same type of securities it had earlier sold to its customers." *Id.* at 514.

585. Nor was this an isolated incident. According to the Levin-Coburn Report, Goldman Sachs was aware that Fremont – another lender that originated loans in at least one of the Goldman Sachs Offerings at issue herein (the GSAMP 2006-FM2 offering) – did not comply with its underwriting guidelines. Indeed, the U.S. Senate Subcommittee investigation found that "[d]espite . . . indications of Fremont's poor quality loans, Goldman continued to underwrite and market securities backed by Fremont loans." Levin-Coburn Report at 515. But Goldman Sachs also

simultaneously bought CDS short positions against Fremont-backed RMBS which it created in March 2007, exposing its knowledge that Fremont's loans were awful:

> Goldman marketed and sold the Fremont securities to its customers, while at the same time purchasing $15 million in CDS contracts referencing some of the Fremont securities it underwrote. Seven months later, by October 2007, the ratings downgrades had begun; by August 2009, every tranche in the GSAMP securitization had been downgraded to junk status.
>
> In both examples involving Long Beach and Fremont RMBS securities, ***Goldman obtained CDS protection and essentially bet against the very securities it was selling to clients***. In each case, Goldman profited from the fall in value of the same securities it sold to its clients and which caused those clients to suffer substantial losses.

Id. at 516.

586. As the Levin-Coburn Report explained, throughout 2006 and 2007, Goldman Sachs continued to use its shorting strategy as a way to reduce its own mortgage risk while also continuing to clear toxic loans off its books by creating and selling more mortgage-related products to its clients. In 2006, Goldman Sachs' massive short bet that mortgage-backed assets like those it sold to plaintiffs would collapse had grown to $9 billion, demonstrating that Goldman Sachs ***knew*** the RMBS products it was simultaneously selling to plaintiffs were awful. Goldman Sachs' net short position continued to rise – by 2007, it reached as high as $13.9 billion. *Id.* at 430.

587. The Levin-Coburn Report gave the public a unique glimpse into the mind of Goldman Sachs during 2006 and 2007 – the same period when it sold most of the certificates at issue herein to plaintiffs. It found that Goldman Sachs knew that RMBS investments like those it sold to plaintiffs were horrible investments. The Senate Report showed how cynical and ruthless Goldman Sachs behaved, as it used its non-public inside knowledge to fleece its customers without thinking twice (or even at all). The Senate Report found that "at the same time" Goldman Sachs "sold RMBS securities to customers," telling them such securities were prudent and investment grade, Goldman Sachs was also "shorting the securities and . . . betting that they would lose value." Levin-Coburn

Report at 513. In sum, the U.S. Senate Subcommittee found that Goldman Sachs "sold RMBS and CDO securities to its clients without disclosing its own net short position against the subprime market or its purchase of CDS contracts to gain from the loss in value of some of the very securities it was selling to its clients." *Id.* at 9.

588. In his book, *Money and Power: How Goldman Sachs Came to Rule the World* (2011), William D. Cohan explained how Goldman Sachs, after learning of the systemic breakdown in lending standards and the masses of defective loans, used such inside knowledge to profit at plaintiffs' (and other investors') expense:

> [Goldman's RMBS] model could analyze all the underlying mortgages and value the cash flows, as well as what would happen if interest rates changed, if prepayments were made, or if the mortgages were refinanced. The model could also spit out a valuation if defaults suddenly spiked upward.
>
> [Goldman's] proprietary model was telling [Goldman] that it would not take much to wipe out the value of tranches of a mortgage-backed security that had previously looked very safe, at least in the estimation of the credit-rating agencies that had been paid (by Wall Street) to rate them investment grade.
>
> * * *
>
> By tweaking the various assumptions based on events that seemed increasingly likely, [Goldman's] models were showing a marked decrease in the value of mortgage-related securities. "[Goldman's] models said even if you don't believe housing prices are going to go down, even if we apply low-probability scenarios about it going negative . . . there's no way this stuff can be worth anywhere near one hundred [cents on the dollar]." . . . [Goldman's] models had them pegged anywhere between 30 cents and 70 cents . . . .

Id. 494-95.

589. According to a former Goldman Sachs employee, these models, as well as the other inside information concerning the massive underwriting failures which were in Goldman Sachs' exclusive possession, showed "'the writing on the wall in this market as early as 2005'" (Gretchen Morgenson & Louise Story, *Banks Bundled Debt, Bet Against It and Won*, N.Y. Times, Dec. 24, 2009) and into the "the early summer of 2006" (Levin-Coburn Report at 398). Goldman Sachs

exploited its asymmetric access to, and possession of, inside information about the weakness in the mortgage loans collateralizing the certificates it marketed and sold.

590. The culture of ripping off customers was rewarded at Goldman Sachs. As Greg Smith, a former executive director at Goldman Sachs and head of the firm's United States equity derivatives business in Europe, the Middle East and Africa, stated in a *New York Times* Op-Ed on March 14, 2012:

> What are three quick ways to become a leader [at Goldman]? a) Execute on the firm's "axes," which is Goldman-speak for persuading your clients to invest in the stocks or other products that we are trying to get rid of because they are not seen as having a lot of potential profit. b) "Hunt Elephants." In English: get your clients — some of whom are sophisticated, and some of whom aren't — to trade whatever will bring the biggest profit to Goldman. Call me old-fashioned, but I don't like selling my clients a product that is wrong for them.
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> * * *
>
> It makes me ill how callously people talk about ripping their clients off. Over the last 12 months I have seen five different managing directors refer to their own clients as "muppets," sometimes over internal e-mail.

591. As another magazine article explained, "Goldman was like a car dealership that realized it had a whole lot full of cars with faulty brakes. Instead of announcing a recall, it surged ahead with a two-fold plan to make a fortune: first, by dumping the dangerous products on other people, and second, by taking out life insurance against the fools who bought the deadly cars." Matt Taibbi, *The People vs. Goldman Sachs*, Rolling Stone, May 26, 2011, *available at* http://www.rollingstone.com/politics/news/the-people-vs-goldman-sachs-20110511. Similarly, a leading structured finance expert reportedly called Goldman Sachs' practice "the most cynical use of credit information that I have ever seen," and compared it to "buying fire insurance on someone else's house and then committing arson." FCIC Report at 236.

592. Further displaying Goldman Sachs' fraudulent intent is the fact that the Goldman Sachs Defendants never disclosed that they were engaged in such nefarious activities at the same

time that they were selling the certificates to plaintiffs. Indeed, the Chairman and CEO of defendant Goldman Sachs & Co., ***Lloyd Blankfein, subsequently admitted to the FCIC on January 13, 2010, that defendants' conduct of selling the certificates to investors like plaintiffs while simultaneously purchasing CDS was "improper***." Specifically, the FCIC Report noted the following:

> ***During a FCIC hearing, Goldman CEO Lloyd Blankfein was asked if he believed it was a proper, legal, or ethical practice for Goldman to sell clients mortgage securities that Goldman believed would default, while simultaneously shorting them. Blankfein responded, "I do think that the behavior is improper and we regret the result – the consequence [is] that people have lost money."***

593. FCIC Report at 236.

594. The U.S. Senate Subcommittee's Report similarly noted:

> ***Goldman Sachs . . . underwrote securities using loans from subprime lenders known for issuing high risk, poor quality mortgages, and sold risky securities to investors across the United States and around the world. [Goldman Sachs] also enabled the lenders to acquire new funds to originate still more high risk, poor quality loans. [Goldman Sachs] sold CDO securities [which contained RMBS like those sold to plaintiffs] without full disclosure of the negative views of some of their employees regarding the underlying assets and . . . without full disclosure that it was shorting the very CDO securities [which contained RMBS like those sold to plaintiffs] it was marketing, raising questions about whether Goldman complied with its obligations to issue suitable investment recommendations and disclose material adverse interests***.

Levin-Coburn Report at 11.

595. The Goldman Sachs Defendants made absolutely no disclosure that they were actually then engaged in this activity in the Offering Documents or in any other manner before selling plaintiffs certificates in the Goldman Sachs Offerings. Nor did they disclose that they thought that the RMBS they were selling to plaintiffs were "crap," "big old lemons," "shitty deal[s]," "dogs" and "junk." This plainly demonstrates the Goldman Sachs Defendants' fraudulent intent and deceit in their business dealings.

D. Evidence from Government Investigations Confirms that Goldman Sachs Acted with Scienter

596. Goldman Sachs has been the subject of numerous criminal and regulatory probes related to its mortgage securitization and securities underwriting practices. *See* Susan Pulliam, Kara Scannell, Aaron Lucchetti & Serena Ng, *Wall Street Probe Widens*, Wall St. J., May 13, 2010, at A1 (reporting on federal criminal and regulatory investigations of whether Goldman Sachs and others "misled investors about their roles in mortgage-bond deals"). These investigations further confirm that the Goldman Sachs' misrepresentations alleged herein were not mere isolated, innocent mistakes, but the result of the company's widespread corporate culture and policies that elevated fraudulent conduct over fair play.

597. For example, Goldman Sachs' misconduct prompted the Attorney General of Massachusetts to examine whether Goldman Sachs:

- failed to ascertain whether loans purchased from originators complied with the originators' stated underwriting guidelines;
- failed to take sufficient steps to avoid placing problem loans into securitization pools;
- failed to correct inaccurate information in securitization trustee reports concerning repurchases of loans; and
- failed to make available to potential investors certain information concerning allegedly unfair or problem loans, including information obtained during loan due diligence and the pre-securitization process, as well as information concerning Goldman Sachs' practices in making repurchase claims relating to loans in and out of securitizations.

598. Goldman Sachs settled with the Commonwealth of Massachusetts over the foregoing misconduct, paying $60 million. In announcing the settlement, the Massachusetts Attorney General stated that Goldman Sachs did not take "sufficient steps to avoid placing problem loans in securitization pools." Goldman Sachs was also required to forgive all or portions of the balances on

many loans it had bought and securitized, which resulted in tens of millions of dollars in additional expenses to Goldman Sachs for its wrongful practices.

599. Similarly, the Senate Report, after an extensive investigation of the facts concerning Goldman Sachs' RMBS securitizations, concluded that the Goldman Sachs Defendants intentionally and deliberately defrauded investors like plaintiffs. It concluded that ***Goldman Sachs "knowingly sold high risk, poor quality mortgage products to clients around the world, saturating financial markets with complex, financially engineered instruments that magnified risk and losses when their underlying assets began to fail***." Levin-Coburn Report at 476. Further establishing the Goldman Sachs Defendants' fraudulent state of mind, the Senate Report further found that "***Goldman originated and sold RMBS securities that it knew had poor quality loans that were likely to incur abnormally high rates of default***." *Id.* at 513. Goldman Sachs' fraudulent intent could not be made more clear.

600. On September 1, 2011, the Federal Reserve Board sanctioned Goldman Sachs for "a pattern of ***misconduct*** and negligence relating to deficient practices" in its former mortgage unit, Litton Loan Servicing LP. ("Litton"), including those involving "robo-signing" – a practice often necessitated by the failure to properly execute and transfer loan documents when depositing loans in RMBS trusts, as is alleged herein. As a result of this sanction, Goldman Sachs was required to retain an independent consultant to review certain foreclosure proceedings initiated by Litton. The Federal Reserve has also announced that it believes monetary sanctions are appropriate against Goldman Sachs and plans to announce monetary penalties. Goldman Sachs' serial and repetitive "pattern of misconduct" is further evidence that Goldman Sachs knew its representations in the Offering Documents at issue herein were false and misleading.

601. On February 28, 2012, Goldman Sachs announced in an SEC Form 10-K that it had received a Wells notice from the SEC, notifying it that the SEC intended to bring an enforcement

action against it. According to media reports, the Wells notice related to mortgage securitizations similar, if not identical, to the Goldman Sachs Offerings at issue herein.

602. As the foregoing illustrates, the Goldman Sachs Defendants were very much aware of the numerous facts that contradicted their representations in the Offering Documents. Indeed, the Goldman Sachs Defendants affirmatively profited in a huge way from those very facts, demonstrating that they acted fraudulently.

E. Plaintiffs Did Not and Could Not Have Discovered Defendants Were Acting Fraudulently Until Late 2010

603. Plaintiffs could not have learned and did not learn that defendants were defrauding them until late September 2010, when the FCIC investigation revealed for the first time that defendants: (1) were told by Clayton in 2006 and 2007 that significant portions of the loans within the offerings did not comply with the underwriting guidelines stated in Offering Documents; and (2) ***defendants then knowingly included large numbers of those defective loans into the offerings***. It was only at that time that plaintiffs learned that defendants' misrepresentations and omissions were ***intentional***, thereby informing plaintiffs that defendants had acted fraudulently.

604. Indeed, it was not until September 2010 that the public first learned that defendants were intentionally defrauding investors in connection with RMBS offerings. That was when the U.S. Government, acting through the FCIC, released testimony and documents to the public showing for the first time that the Goldman Sachs Defendants received the Clayton reports, were informed that loans did not comply with stated underwriting guidelines, and intentionally included large numbers of defective loans into RMBS offerings sold to the investing public. These reports revealed for the first time that defendants were expressly aware that their RMBS offerings were filled with defective loans, and that defendants knew so:

(a) ***before*** marketing the RMBS;

(b) ***before*** describing the collateral underlying the RMBS;

(c) ***before*** writing the prospectuses, prospectus supplements and other Offering Documents they used to market the certificates;

(d) ***before*** "structuring" the RMBS with the Credit Rating Agencies' data-sensitive models;

(e) ***before*** "pricing" the subject RMBS; and

(f) ***before*** conveying the false information to plaintiffs or their agents.

605. Defendants hid Clayton's findings from plaintiffs, just as they hid those findings from other investors, and never disclosed the foregoing in the Offering Documents or anywhere else.

606. Moreover, it was not until late 2010, when the FCIC and U.S. Senate revealed that defendants were shorting investments like the certificates at the same time that defendants were selling the certificates to plaintiffs and others, that the investing public first learned that defendants were profiting from their short sales, at plaintiffs' and other investors' expense.

VIII. DEFENDANTS' MISREPRESENTATIONS AND OMISSIONS WERE MADE FOR THE PURPOSE OF INDUCING PLAINTIFFS TO RELY ON THEM AND PLAINTIFFS ACTUALLY AND JUSTIFIABLY RELIED ON DEFENDANTS' MISREPRESENTATIONS AND OMISSIONS

607. Plaintiffs and their assigning entities actually and justifiably relied upon the false information that defendants knowingly wrote into the Offering Documents and that were used to market the certificates.

608. The Offering Documents contained detailed descriptions of the mortgage pools underlying the certificates. The Offering Documents provided the specific terms of the particular offering. They included data concerning the loans underlying the offering, including, without limitation: the type of loans; the number of loans; the mortgage rate; the aggregate scheduled principal balance of the loans; the LTV ratios; OOR percentages, including the Primary Residence

Percentages; credit enhancement; and the geographic concentration of the mortgaged properties. The Offering Documents also contained a description of the loan originators' underwriting and appraisal/valuation standards, guidelines and practices. The Offering Documents further contained the investment grade credit ratings assigned to the certificates by the Credit Rating Agencies, and a promise that the relevant mortgage loans would be properly and timely transferred to the trusts.

609. In deciding to purchase the certificates, plaintiffs and the assigning entities actually relied on defendants' false representations and omissions of material fact in the prospectuses, pitch books, term sheets, loan tapes, "free writing" prospectuses, "red" and "pink" prospectuses, prospectus supplements and other Offering Documents alleged herein that defendants provided to plaintiffs, including the representations regarding the loan underwriting guidelines, the characteristics of the underlying mortgage loans (such as the LTV ratios and OOR percentages, including the Primary Residence Percentages), the credit ratings assigned by the Credit Rating Agencies, and the transfer of title to the mortgage loans. But for defendants' misrepresentations and omissions in the Offering Documents, plaintiffs and the assigning entities would not have purchased the certificates.

610. Plaintiffs and the assigning entities reasonably and justifiably relied upon the information that defendants wrote into the Offering Documents and could not have discovered that defendants – the most sophisticated and then-respected commercial actors in the world – were omitting and misrepresenting material information exclusively within their possession, custody and control. Plaintiffs and the assigning entities performed a diligent investigation concerning the offerings, certificates and the underlying loans before they purchased the certificates and could not have learned that defendants were making material misrepresentations and omissions about the offerings, certificates and loans.

611. Each of the plaintiffs or their assignors hired skilled, experienced, professional asset managers who diligently conducted their investment activities. They could not and did not detect defendants' misrepresentations and omissions.

A. The Brightwater-Managed Entities Actually and Justifiably Relied on the False Information that Defendants Used to Sell the Subject Certificates

612. Assignors Greyhawk and Blue Heron III, and plaintiffs Blue Heron II, Blue Heron V, Blue Heron VI, Blue Heron VII and Blue Heron IX each hired a professional asset investment manager, Brightwater, to conduct their investment activities. Brightwater, in turn, employed highly qualified, conscientious, and experienced investment professionals to make investments on behalf of its clients. The process involved screening and testing the quality of potential investments, which included portfolio and RMBS-level analyses. This process was diligently followed by Brightwater and eminently reasonable.

1. Portfolio-Level Screening

613. Before any Brightwater-managed entity was even permitted to purchase a particular security, that security had to conform to numerous investment parameters. For example, the security had to be a debt security, which, unlike equity, requires the obligor to return 100% of the invested principal amount by a date certain. Further, each debt security must have passed the major Credit Rating Agencies' own tests, qualifying as an "investment grade" security under those tests and analyses. In addition, each debt security had to be rated "investment grade" by at least two of the Credit Rating Agencies. Only if the particular security satisfied such portfolio-level criteria could it be considered for further review. Any security affected by defendants' misrepresentations and omissions would have been rejected at this first screening ***if*** defendants' misrepresentations and omissions ***could have*** been detected.

2. RMBS-Level Screening

614. Even after putting in place reasonable screens to weed out bad investments, Brightwater conducted further analyses. Specifically, Brightwater reviewed term sheets or similar summary materials (sometimes called "pitch books") provided regarding a particular RMBS, analyzed the RMBS's yield and price relative to similar securities in the market, and made an initial recommendation about whether to purchase the RMBS. After this step, Brightwater conducted even deeper analyses into the proposed RMBS.

615. The next step in Brightwater's investment process involved conducting further credit analyses on the proposed RMBS. In that process, a credit analyst read marketing materials, including prospectus supplements and other offering documents. The process also involved using an expensive database and software system to detect any anomalies in a particular offering and to model the particular offering under various economic assumptions. This credit analysis further considered the level of structural subordination (or credit enhancement) supporting the proposed RMBS, and how sensitive the particular RMBS security was to various cashflow assumptions. The credit analysis focused on underwriting criteria, LTV ratios, FICO scores, OOR percentages, geographic dispersion, and the quality of the loan servicer supporting the transaction, among other pertinent credit characteristics.

616. Following its credit analysis, Brightwater subjected a proposed RMBS purchase to even more screening. Brightwater gathered the foregoing portfolio-level data, pricing information and credit analysis data, and subjected all of that information to review by a seasoned investment committee. If the investment committee did not unanimously approve the particular RMBS for one of its client's portfolios, then the RMBS was rejected.

617. In fact, there were at least four different screens that Brightwater employed that would have rejected defendants' "junk" securities that were falsely masquerading as investment

grade bonds. ***First***, the certificates at issue in this case never should have been rated "investment grade," because, as defendants knew, those ratings were based on "garbage in" the Credit Rating Agencies' rating models, resulting naturally in "garbage out" of those models. Thus, the certificates would have failed Brightwater's portfolio-level screening had the truth about defendants' misrepresentations been known. ***Second***, the subject certificates would have failed the initial RMBS-level screening, because the true qualitative and quantitative data would have exposed the certificates as being massively mispriced had it been accurately set forth in the certificates' Offering Documents. ***Third***, the subject certificates would have been thoroughly rejected by Brightwater's robust credit analysis, which, as noted, served to double check prior analyses and dive even deeper into the credit characteristics of the particular bond. ***Fourth***, if Brightwater's personnel had detected defendants' use of phony data, they would have rejected the certificates at every stage noted above and would have rejected the certificates at the investment committee phase of the investment process.

618. In the end, none of Brightwater's expertise, databases, software, investment personnel, quality control checks or substantial investment in all of these processes really mattered. Indeed, where highly sophisticated commercial actors like defendants have material non-public information about a security and a premeditated plan to commit fraud, such as was the case here, even the most sophisticated systems in the world are insufficient to detect those misrepresentations and omissions. That is one of the many reasons why it has taken the full force of the U.S. Government and its agencies, exercising their subpoena power, through the U.S. Senate and the FCIC, to alert investors to the fact that defendants received reports from Clayton showing that the loans they were selling to investors – including plaintiffs – via the certificates were ***defective on the day they were made***.

B. The Strategos-Managed Entity – Plaintiff Kleros V – Actually and Justifiably Relied on the False Information that Defendants Used to Sell the Subject Certificates

619. Similar to the Brightwater-managed entities, plaintiff Kleros V actually and reasonably relied on the false data that defendants used to sell the subject certificates. Kleros V invested most of its capital in RMBS and other securities tied to RMBS. Kleros V had sound investment processes in place that would have avoided fraudulent junk bonds like the ones defendants sold in this case, ***if*** defendants' fraud could have been detected. Kleros V's sound investment processes focused on its portfolio and RMBS-level screening processes.

1. Portfolio-Level Screening

620. To avoid junk bonds like the ones defendants sold to Kleros V in this case, Kleros V had 37 different tests that every potential security had to pass before it could even be eligible for Kleros V to buy. For example, every potential security had to be a debt or fixed-income bond, which, unlike equity investments, require the obligor to repay an investor's entire principal plus stated interest during the period in which the borrower holds the investor's funds. Kleros V could not even consider buying a bond that was not rated by the two major Credit Rating Agencies, Moody's and S&P. Nor could it buy a bond that was not rated at least "Baa1" by Moody's or "BBB+" by S&P (both "investment grade" ratings). Moody's quantifies the probability of default associated with a bond that it rates as Baa1 as having a 2.6% chance of defaulting over a ten-year period. As such, even the "riskiest" bonds that Kleros V was permitted to purchase were supposed to have at least a 97.4% likelihood of repaying Kleros V its principal investment.

621. All of Kleros V's proposed investments had to satisfy even more quality control tests. Kleros V used computer software called the Standard & Poor's CDO Monitor to make certain that the proposed RMBS would not inhibit Kleros V from repaying its own investors. This computer software provided another layer of investment screening.

2. RMBS-Level Screening

622. To further strengthen Kleros V's investment processes, it hired an experienced external asset manager to help select RMBS that satisfied the portfolio-level screening described above, and to subject the proposed RMBS to additional investment screens. The manager was Strategos.

623. Strategos followed a systematic approach to purchasing RMBS for Kleros V. Among other things, Strategos analyzed three major components of each RMBS and considered distinct pieces of information within each of those components. First, it analyzed the originator and servicers supporting each RMBS. The types of information that Strategos considered in this review category included originators' financial strength, management experience, business strategy, underwriting experience and historical loan performance.

624. Second, with respect to each RMBS, Strategos analyzed the characteristics of the collateral underlying the RMBS. Specifically, it relied upon the LTV ratios, the occupancy status of the loan (*i.e.*, whether the borrower owned the property or was an investor in it) and the underwriting criteria that the originator followed to make the loan (*i.e.*, the type of documentation program, such as full, stated or no-doc criteria). In addition to these data points, Strategos relied upon many others, such as the purpose of the loan, the borrower's FICO score, and the DTI ratio associated with the loan.

625. Third, with respect to each RMBS, Strategos analyzed the structural features of the bond. For example, among other things, it analyzed the principal and interest "waterfall" supporting the bond, the level of credit enhancement or subordination beneath the particular certificate issued by the subject RMBS issuing trust, and how the particular certificate would perform under a break-even cash flow analysis. All of these factors were part of Strategos's investment process and complemented the portfolio-level analysis that Strategos conducted, which depended upon the

ratings assigned to the various RMBS in the Kleros V portfolio, as well as their correlation and concentration levels. Strategos, like other investors, reviewed the data that defendants wrote in the relevant RMBS Offering Documents, such as term sheets, pitch books, loan tapes, various prospectuses and prospectus supplements, and electronic summaries of information in those documents, and other Offering Documents, that defendants provided to industry investment platforms, including Intex.

626. To execute the tasks described above, Strategos made substantial investments in information technology and personnel. Some of the software programs that Strategos used to make and manage Kleros V's investments included CDOnet (to perform portfolio analysis) and a program called "Synergy" that provided collateral-level information on RMBS. Strategos conducted surveillance of the RMBS it purchased on behalf of Kleros V by subscribing to expensive data services such as Intex, Bloomberg, Realpoint and Lewtan Technologies, and by monitoring ratings assigned to the RMBS by the Credit Rating Agencies. Strategos likewise invested in skilled professionals, experienced in credit analysis, finance and economics.

627. Due to the fact that WestLB's New York branch sponsored and provided funding to Kleros V, Kleros V had yet another quality control screen in place. WestLB employed a skilled professional who – in advance of Kleros V's committing to purchase an RMBS – reviewed documents that defendants wrote and filed with the SEC for the purpose of describing the relevant RMBS. WestLB reviewed such materials, including the various prospectuses and prospectus supplements, as an additional credit check on each bond that Kleros V wished to purchase. This analysis focused on RMBS collateral data such as the LTV ratios, OOR percentages (such as the Primary Residence Percentages) and FICO scores of the borrowers supporting the RMBS. Through this process, Kleros V again relied upon the credit ratings assigned to the RMBS, as reflected in the

Offering Documents that defendants wrote. This final screen did not detect and could not have detected defendants' misrepresentations and omissions.

628. If a proposed RMBS failed to pass any one of the diligent investment screening processes described above, then that RMBS would have been rejected and Kleros V would not have bought it. Short of conducting a government-sponsored investigation backed by the full subpoena power of the U.S. Government, Kleros V could not have discovered – and did not discover – the fraud alleged herein at any time before late September 2010, when the government released the Clayton documents to the public. Kleros V justifiably relied upon the false data that defendants used to market the certificates. Defendants cannot blame Kleros V for their own misconduct in corrupting the data and ratings that defendants used to market and sell the RMBS that Kleros V purchased.

C. Plaintiff Silver Elms II Actually and Justifiably Relied on the False Information that Defendants Used to Sell the Subject Certificates

629. Plaintiff Silver Elms II actually and reasonably relied on the false data that defendants used to sell the subject RMBS certificates. Silver Elms II invested a material amount of capital in RMBS and other securities tied to RMBS.

1. Portfolio-Level Screening

630. Silver Elms II had over 60 portfolio-level tests that it applied to any bond that it even considered purchasing and holding. Approximately 25 of these tests focused on the types and percentages of securities that Silver Elms II would consider purchasing.

631. For example, none of defendants' certificates in this case would have passed Silver Elms II's rating screens ***if*** it was possible to determine that defendants had corrupted the Credit Rating Agencies' computer models with "garbage" data. Moody's models never accounted for this "garbage" data, according to Moody's former President, Brian Clarkson, at the time it rated the RMBS certificates at issue in this case.

632. This is significant because Silver Elms II required every bond in its portfolio to possess an "investment grade" rating of at least "A-" (in the case of S&P) or "A3" (in the case of Moody's). Over a ten-year period, the odds of an A3-rated bond defaulting are 1.8%, according to Moody's data. Thus, the "riskiest" bonds that Silver Elms II would even consider purchasing were supposed to have at least a 98.2% likelihood of repaying Silver Elms II its principal investment. For the reasons already stated, defendants at all times knew exactly how ratings metrics impacted pricing and modeling techniques that were used by investors like Silver Elms II during the relevant time period.

633. All of Silver Elms II's proposed investments had to satisfy even more quality control tests. It used computer software called the Standard & Poor's CDO Monitor to make certain that the proposed RMBS would not inhibit it from repaying its own investors. This computer software provided another layer of investment screening.

2. RMBS-Level Screening

634. Silver Elms II also hired seasoned asset manager Princeton Advisory Group, Inc. ("Princeton") to ensure that all of the RMBS that Silver Elms II purchased satisfied all of the credit and quality control steps outlined above. Princeton, like other asset managers, invested in technology and personnel to make prudent investment decisions and to make every effort to avoid bonds that were tainted by fraud. To start, Princeton never would have permitted Silver Elms II to buy any bonds that did not satisfy the portfolio-level screens summarized above. Princeton's investment processes were regimented, and involved selectively choosing assets for inclusion in the portfolio based on disciplined asset selection.

635. Among other things, Princeton's investment process involved credit due diligence focusing on originators, RMBS collateral, the structure of each RMBS and cash flow analyses of RMBS. Princeton would not have allowed a bond into Silver Elms II's portfolio if it had known that

defendants knowingly used inaccurate LTV, OOR, or underwriting information to describe the bond's credit characteristics and credit ratings. Princeton analyzed RMBS and relied upon these and other data that defendants wrote and disseminated, including pitch books, the various prospectuses and prospectus supplements.

636. The personnel whom Princeton employed to conduct these tasks were experienced and had skills in analyzing the credit quality of RMBS. Most of Princeton's employees held graduate or postgraduate certifications, such as being Chartered Financial Analysts ("CFA"), a prestigious and difficult certification to obtain. Princeton required all individuals involved in giving any investment advice to have the highest ethical standards and technical abilities necessary to meet its clients' – including Silver Elms II's – needs. In addition to hiring skilled personnel, Princeton also invested in computer software and technology to help manage Silver Elms II's portfolio.

637. Moreover, Silver Elms II's RMBS were also screened by another seasoned investor, Eiger. Eiger was an investment management company specializing in RMBS, whose members came from top investment banks, institutional investors, and accounting or consulting firms. Eiger employed a "bottoms-up" investment approach through its Investment Group, consisting of 17 persons with Masters or Post Graduate degrees and who were CFAs or CFA candidates. Eiger's review of the RMBS before being purchased by Silver Elms II consisted of a rigorous credit review of the RMBS, *i.e.*, a review of the credit characteristics of the loans, such as LTV ratios, OORs and credit ratings, as well as a review of the structure of the RMBS and a relative value assessment. A complete analysis of the underlying collateral pool of an RMBS was conducted by Eiger before purchase by Silver Elms II. Further, purchases were made only after Eiger's Investment Policy Committee thoroughly reviewed and approved the RMBS for purchase. Notwithstanding Eiger's exhaustive review, defendants' well-concealed fraud could not be detected.

638. Silver Elms II also had a WestLB professional review defendants' documents that they filed with the SEC, along with the other Offering Documents, before Silver Elms II purchased any of the certificates at issue herein. Similar to other plaintiffs, due to the fact that WestLB's New York branch sponsored and provided funding to Silver Elms II, Silver Elms II had yet another quality control screen in place. WestLB employed a skilled professional who – in advance of Silver Elms II's committing to purchase an RMBS – reviewed documents that defendants wrote and filed with the SEC for the purpose of describing the relevant RMBS. WestLB reviewed such materials, including the various prospectuses and the prospectus supplements described herein, as an additional credit check on each bond that Silver Elms II wished to purchase. This analysis focused on RMBS collateral data, such as the LTV ratios, OORs, and FICO scores associated with the loans supporting the RMBS. Through this process, Silver Elms II again relied upon the credit ratings assigned to the proposed RMBS, as reflected in the prospectuses, prospectus supplements and other Offering Documents that defendants wrote. This final screen did not detect and could not have detected defendants' fraud because defendants actively concealed their misconduct.

639. In the end, it never really mattered how much intellectual capital, time, or money Silver Elms II or any of the other plaintiffs spent on data, professionals and systems to analyze defendants' RMBS, because only defendants could access the data that revealed the truth about the certificates. Only defendants had access to the loan files for the RMBS they sold, and only defendants received Clayton's summaries detailing how defective the loans truly were. None of these persons and entities hired by the plaintiffs and the entities that originally purchased the certificates that were assigned to plaintiffs received the loan files or the Clayton summaries that defendants received.

D. WestLB Actually and Justifiably Relied on the False Information that Defendants Used to Sell the Subject Certificates

640. Assignor WestLB actually and reasonably relied on the false data that defendants used to sell the subject certificates. WestLB invested in RMBS and other securities tied to RMBS via sound investment processes that would have avoided fraudulent junk bonds like the ones defendants sold in this case, ***if*** defendants' fraud could have been detected. WestLB's sound investment processes focused on its portfolio and RMBS-level screening processes.

1. Portfolio-Level Screening

641. To avoid junk bonds like the ones defendants sold to WestLB in this case, WestLB had numerous different tests that every potential security had to pass before it could even be eligible to buy. For example, every potential security had to be a debt or fixed-income bond, which, unlike equity investments, require the obligor to repay an investor's entire principal plus stated interest during the period in which the borrower holds the investor's funds. WestLB could not even consider buying a bond that was not rated by the two major Credit Rating Agencies, Moody's and S&P. Nor could it buy a bond that was not rated at least "Aa2" by Moody's or "AA" by S&P (both "investment grade" ratings).

2. RMBS-Level Screening

642. To further strengthen WestLB's investment processes, it hired an experienced external asset manager to help select RMBS that satisfied the portfolio-level screening described above, and to subject the proposed RMBS to additional investment screens. The manager that assisted in the purchase of the securities at issue here was DCP.

643. DCP followed a systematic approach to recommending RMBS for WestLB. Among other things, DCP's review of the RMBS before being purchased by WestLB consisted of a rigorous credit review of the RMBS, *i.e.*, a review of the credit characteristics of the loans, such as LTV

ratios, OORs and credit ratings, as well as a review of the structure of the RMBS, the performance of the issuer and the servicer, and a relative value assessment. A complete analysis of the underlying collateral pool of an RMBS was conducted by DCP before purchase by WestLB, including review of all offering documents, risk statistics, and structural protections. Moreover, purchases were further made only after DCP's investment committee (made up of DCP principals) thoroughly reviewed and unanimously approved the RMBS for purchase. Notwithstanding DCP's exhaustive review, defendants' well-concealed fraud could not be detected.

644. WestLB also employed skilled professionals who – in advance of WestLB committing to purchase an RMBS – reviewed offering documents for the relevant RMBS. WestLB reviewed such materials, including the various prospectuses and prospectus supplements, as an additional credit check on each bond that WestLB wished to purchase. This analysis focused on RMBS collateral data such as the LTV ratios, OOR percentages (such as the Primary Residence Percentages) and FICO scores of the borrowers supporting the RMBS. Through this process, WestLB again relied upon the credit ratings assigned to the proposed RMBS, as reflected in the Offering Documents that defendants wrote. This final screen did not detect and could not have detected defendants' misrepresentations and omissions.

645. If a proposed RMBS failed to pass any one of the diligent investment screening processes described above, then that RMBS would have been rejected and WestLB would not have bought it. Short of conducting a government-sponsored investigation backed by the full subpoena power of the U.S. Government, WestLB could not have discovered – and did not discover – the fraud alleged herein at any time before late September 2010, when the government released the Clayton documents to the public. WestLB justifiably relied upon the false data that defendants used to market the certificates. Defendants cannot blame WestLB for defendants' own misconduct in

corrupting the data and ratings that defendants used to market and sell the RMBS on which WestLB relied.

E. All of the Assignors and Plaintiffs Were Reasonable and Could Not Have Discovered the Fraud Alleged Herein

646. Plaintiffs and the assigning entities did not learn that the defendants were making the misrepresentations and omissions alleged herein prior to purchasing the certificates because such information about the certificates and loans was peculiarly within defendants' knowledge and control, and defendants did not allow plaintiffs and the assigning entities access to such information. The only way for plaintiffs or the assigning entities to learn that defendants were making misrepresentations and omissions about the certificates and the underlying loans was to have access to the actual loan files, or Clayton's and similar due diligence reports summarizing those loan files. Defendants had such access, but did not share it with plaintiffs, the assigning entities, or other investors.

647. At the time they purchased the certificates, plaintiffs and the assigning entities could not determine from available information that defendants had made misrepresentations and omissions in the Offering Documents. The information that would have revealed defendants' misrepresentations and omissions – the loan files – was private information in the complete control and possession of defendants. Moreover, information such as "loan tapes," and the like, and other information defendants supplied to plaintiffs before they purchased the certificates, would not have revealed borrowers' names or property addresses so that plaintiffs could conduct an investigation. Such information also would not have revealed defendants' misrepresentations and omissions because the "loan tapes" and the other information defendants provided to plaintiffs ***contained*** falsified appraisal values, LTV ratios, OOR percentages, FICO scores, DTI ratios, and the like, and

revealed nothing concerning whether the loans were actually originated pursuant to the stated underwriting guidelines.

648. In addition, at the time plaintiffs bought the certificates – 2005 through 2007 – there were no loan databases available that contained sufficient data to conduct analyses concerning the LTV ratios and OOR percentages like the ones plaintiffs were able to conduct immediately before they filed this complaint. In short, there was no information available to plaintiffs at the time they bought the certificates – other than the loan files, which defendants did not share – that would have allowed plaintiffs or the assigning entities to conduct an investigation that would have revealed that defendants were making misrepresentations and omitting material information in the Offering Documents.

649. Defendants' fraudulent misrepresentations and omissions only came to light in late September 2010, and only after the U.S. Government compelled defendants, Clayton, and others to produce documents and testimony that finally revealed defendants' fraud. Only the unique power of the government to compel people, documents and testimony without bringing a legal action revealed defendants' fraud. Obviously, plaintiffs do not and did not have such power or unique abilities. This further serves to demonstrate that plaintiffs and the assigning entities could not have uncovered defendants' misconduct by any means available to them.

IX. DEFENDANTS' MATERIAL MISREPRESENTATIONS AND OMISSIONS CAUSED INJURY TO PLAINTIFFS

650. Defendants' material misrepresentations and omissions relate directly to plaintiffs' economic losses. Sophisticated securities dealers like defendants have long known about the relationship between LTV ratios, OORs, credit ratings, title and ownership, and underwriting criteria on the one hand, and the price and performance of an RMBS certificate on the other hand. Defendants' misrepresentations were the actual and proximate causes of plaintiffs' injuries.

A. The Relationship Between Original LTV Ratios, Owner Occupancy Data and RMBS Performance

651. Original LTV or "OLTV" metrics are among the most important variables indicating whether a loan will default. Studies conducted by one industry participant, Smith Barney, demonstrate that there is a strong correlation between the likelihood of default of a mortgage loan and the loan's OLTV ratio. When home prices decrease, borrowers with lower OLTV ratios are more likely to retain more equity in their homes ***even if*** housing prices generally decline. Retaining such equity provides borrowers a powerful incentive to make loan payments, which reduces the propensity of a loan to default. Retaining such equity also enables the borrower to sell the property, repay the loan and recover value in the event of default.

652. Conversely, if a borrower has a higher OLTV ratio, like those that were concealed in this case, there is much less incentive for the borrower to repay the loan if home prices decline or a borrower's financial condition changes, because such borrower would have little equity at risk of loss and therefore far less economic incentive to pay the loan. As a consequence, from an investor's perspective, a loan with a higher OLTV ratio is a much riskier investment, as there is a much higher chance of default and a much higher risk of incurring a loss because of insufficient collateral for the loan.

653. When defendants misrepresented the OLTV ratios associated with the RMBS at issue in this case, they knew that they were also misrepresenting both the propensity of the loans to default ***and*** their propensity to recover any value and avoid a loss in the event of default.

654. Defendants had actual knowledge of the relationship between the OLTV ratios and the value of the RMBS certificates at issue in this case. *See*, *e.g.*, GSAA 2006-19 Pros. Supp. at S-29. Thus, the very documents that defendants wrote to market the RMBS at issue in this case demonstrate that defendants understood the relationship between the misrepresentations that

defendants made concerning LTV ratios and plaintiffs' economic harm: an increase in LTV ratios creates a greater risk of loss on the RMBS certificates.

655. Defendants also illustrated the causal link between falsely inflated property appraisals and valuations and plaintiffs' damages caused by such conduct. For example, in the GSAA 2006-6 Prospectus Supplement, the Goldman Sachs Defendants warned that, "[i]f a mortgaged property fails to provide adequate security for the mortgage loan, you will incur a loss on your investment if the credit enhancements are insufficient to cover the loss" (*id.* at S-27), thus acknowledging that an inflated appraisal and/or deficient underwriting practices that do not truly assess the adequacy of the property as collateral do indeed cause plaintiffs' losses.

656. The foregoing demonstrates that defendants clearly knew that the false OLTV ratios, and the related inflated appraisals they used to sell the certificates, would cause plaintiffs' damages. The relationship between those inaccurate numbers and plaintiffs' harm is immediate and clear. Just as industry literature shows a direct relationship between OLTV ratios, defaults and loss severity, that literature shows the same relationship between OOR percentages and default probabilities. Under every market condition, the OLTV ratios and OOR percentages drive the probability of a loan defaulting. Under every market condition, OLTV ratios and OOR percentages also drive the degree of loss that will be suffered in the event of a loan default. As illustrated above, defendants say as much in their own Offering Documents.

657. But that is not the full extent of defendants' fraud as it relates to OLTV ratios and OOR percentages in this case. Defendants further inflated the prices of the RMBS in this case by entering inaccurate OLTV and OOR numbers into the Credit Rating Agencies' computerized ratings models to secure artificially inflated ratings. This misconduct also relates to plaintiffs' losses.

B. The Relationship Between Credit Ratings and RMBS Performance

658. It is already clear that defendants used "garbage" data to get overrated, inflated credit ratings assigned to the certificates at issue in this case. These false credit ratings, based on false facts, also contributed directly to plaintiffs' damages.

659. When the Credit Rating Agencies began downgrading the certificates at issue in this case to speculative or "junk" grade levels and below because of escalating default rates, it became apparent that the certificates did not have the creditworthiness defendants had portrayed. As a result, the market value of the certificates plummeted. Because of defendants' misrepresentations and omissions, plaintiffs and the assigning entities suffered damages in the form of overpaying for the certificates in the first instance. Plaintiffs and the assigning entities also suffered damages as a result of defendants' misrepresentations and omissions when the risky loans defaulted, causing plaintiffs to lose principal and interest payments and incur writedowns to the loan pools underlying the certificates. Twenty of the 45 certificates are now in default.

660. Industry executives have explained how false credit ratings relate to losses on RMBS products like those defendants sold in this case. According to Charles Prince, the former CEO of Citigroup, the largest bank in the world, the Credit Rating Agencies' downgrades were "the precipitating event in the financial crisis."

661. Returning to the very documents that defendants wrote and used to market the securities at issue in this case, the Goldman Sachs Defendants admit that a downgrade in credit ratings could affect the value of the certificates. GSAA 2006-14 Pros. Supp. at S-36. Defendants had actual knowledge on the day they wrote falsified credit ratings into the Offering Documents at issue in this case that there was an immediate and direct relationship between credit ratings and market values. Defendants clearly foresaw the harm they would inflict on plaintiffs by misrepresenting those ratings. When the credit ratings were downgraded, the certificates' market

values predictably dropped – just as defendants said they would. Yet defendants elected not to balance their "risk" factor about credit ratings with a "reality" factor disclosing the truth that they had intentionally misrepresented those ratings in this case.

Defendants warped those ratings so that they could sell the subject certificates at inflated values, and pocket a larger profit or "spread" between the amount of money they paid their originators for defective loans and the amount of money they received by selling those defective loans to plaintiffs, via securitizations. Quite simply, defendants used inaccurate data to make and market the certificates so that they could make more money.

662. Downgrades to junk revealed the truth that the original ratings – like the OLTV and OOR data – were based on false and inaccurate information on the day they were issued. It is not possible to ascribe this inaccurate information to mistakes in the origination or structuring processes outside of defendants' control. Rather, as revealed by the government's disclosure of the Clayton data in September 2010, defendants were well aware of reports detailing the inaccurate OLTV, OOR and ratings data used to structure the RMBS at issue in this case ***before*** making, structuring and selling their RMBS to plaintiffs, and defendants nonetheless deliberately decided to misrepresent that data to plaintiffs, the Credit Rating Agencies, and other investors, so that they could profit.

C. The Relationship Between Underwriting and RMBS Performance

663. Defendants also concealed rampant, systematic violations of stated loan underwriting standards to maximize their profits at plaintiffs' expense. Underwriting, by definition, refers to the process of determining a borrower's ability and willingness to repay a loan. As with LTV ratios, OORs and credit ratings, defendants' decision to misrepresent underwriting standards relates directly to plaintiffs' economic damages.

664. Government investigations demonstrate the direct link between defendants' misrepresentations about underwriting standards and plaintiffs' economic harm. On or about March

13, 2008, for example, after a seven-month investigation requested by the President of the United States, a working group led by the Secretary of Treasury and including the chairmen of the Federal Reserve, the SEC, and the Commodities Futures Trading Commission, issued a report finding that: (i) "a significant erosion of market discipline by those involved in the securitization process, including originators, underwriters, credit rating agencies and global investors, related in part to failures to provide adequate risk disclosures"; and (ii) "[t]he turmoil in financial markets clearly was triggered by a dramatic weakening of underwriting standards for U.S. subprime mortgages."

665. Indeed, contrary to defendants' expected efforts to claim that plaintiffs' certificates declined in value because of this Nation's economic collapse, in fact the opposite is true – defendants' systemic misrepresentations in the Offering Documents caused plaintiffs' and many other investors' certificates to plummet in value, which in turn caused this Nation's financial collapse. Defendants' systemic misrepresentations and omissions concerning the loans at issue caused plaintiffs' damages, and thereafter "***the high risk loans [defendants] issued became the fuel that ignited the financial crisis***." Levin-Coburn Report at 50; *see also id*. at 475 ("***The widespread losses caused by . . . RMBS securities originated by investment banks [which contained "poor quality assets"] are a key cause of the financial crisis that affected the global financial system in 2007 and 2008***.").

666. When it became known that the loans in the offerings were much riskier than represented, through skyrocketing default rates that led to major credit downgrades to the certificates, it also became apparent that the loans had not been originated pursuant to the underwriting standards represented in the Offering Documents. It became apparent then that the loans had been originated in a slipshod fashion, with little regard to the most basic underwriting guideline of all – determining whether the borrower could repay the loan. This fact too was a cause of the plummeting value of plaintiffs' certificates, and a contributing cause of plaintiffs' damages.

Therefore, defendants' misrepresentations about underwriting standards directly and proximately caused plaintiffs' injuries.

D. The Relationship Between Proper and Timely Transfer of Title and Plaintiffs' Damages

667. Defendants' misrepresentations that the loans would be properly and timely transferred to the trusts were also a proximate cause of plaintiffs' economic damages. Plaintiffs believed they were purchasing mortgage-***backed*** securities. Given that the certificates are lacking much of the backing or collateral that was supposed to be providing security, and guaranteeing a source of funds if the loans defaulted, the certificates have lost value as it has become known that the RMBS might actually be ***non***-mortgage-backed securities. In other words, the lack of collateral underlying the certificates has caused an understandable and logical diminution in the value of the certificates. As Professor Levitin noted in his testimony to Congress in November 2010, the failure to properly or timely transfer title would have "profound implications for [R]MBS investors," and would cause trillions of dollars in damages. Defendants' misrepresentations concerning the transfer of title proximately caused plaintiffs' damages.

FIRST CAUSE OF ACTION

(Common Law Fraud Against All Defendants)

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

669. As alleged above, in the Offering Documents, defendants made false and misleading statements of material fact, and omitted material facts necessary in order to make their statements, in light of the circumstances under which the statements were made, not misleading.

670. As corporate parent of its wholly-owned subsidiaries, The Goldman Sachs Group, Inc., directed and controlled the activities of its respective co-defendants, and used them as conduits to conduct the RMBS offerings alleged herein.

671. Defendants knew at the time they sold and marketed each of the certificates that the foregoing statements were false and misleading or, at the very least, were made recklessly.

672. Defendants made these materially false and misleading statements and omissions for the purpose of inducing plaintiffs (and the assigning entities) to purchase the certificates. Furthermore, these statements related to these defendants' own acts and omissions.

673. Defendants knew or recklessly disregarded that investors like plaintiffs (and the assigning entities) were relying on defendants' expertise, and defendants encouraged such reliance through the Offering Documents, as described herein. Defendants knew or recklessly disregarded that investors like plaintiffs (and the assigning entities) would rely upon defendants' representations in connection with their decisions to purchase the certificates. As alleged herein, defendants were in a position of unique and superior knowledge regarding the true facts concerning the foregoing material misrepresentations and omissions.

674. It was only by making such misrepresentations and omissions that defendants were able to induce plaintiffs (and the assigning entities) to buy the certificates. Plaintiffs (and the assigning entities) would not have purchased or otherwise acquired the certificates but for defendants' fraudulent representations and omissions about the quality of the certificates and the underlying loans.

675. Plaintiffs (and the assigning entities) actually, justifiably, reasonably, and foreseeably relied upon defendants' false and misleading representations and omissions regarding the certificates and the underlying loans.

676. As a result of defendants' false and misleading statements and omissions, as alleged herein, plaintiffs (and the assigning entities) have suffered substantial damages.

677. The Goldman Sachs Defendants also defrauded plaintiffs (and the assigning entities) by concealing from plaintiffs (and the assigning entities) that such defendants were "shorting" RMBS like the certificates sold to plaintiffs (and the assigning entities) at the same time those defendants sold the certificates at issue to plaintiffs (and the assigning entities). The Goldman Sachs Defendants further defrauded plaintiffs (and the assigning entities) by concealing that they called the certificates and other like RMBS "big old lemons," "shitty deal[s]" and "junk," at the same time they sold the certificates to plaintiffs (and the assigning entities) while also shorting them.

678. Because defendants committed these acts and omissions maliciously, wantonly and oppressively, and because the consequences of these acts knowingly affected the general public, including, but not limited to, all persons with interests in the RMBS, plaintiffs (through themselves and the assigning entities) are entitled to recover punitive damages.

SECOND CAUSE OF ACTION

(Fraudulent Inducement Against All Defendants)

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

680. As alleged above, in the Offering Documents defendants made fraudulent, false and misleading statements of material fact, and omitted material facts necessary in order to make their statements, in light of the circumstances under which the statements were made, not misleading. The Goldman Sachs Defendants also omitted that they were "shorting" RMBS like plaintiffs' certificates (and the assigning entities') at the same time those defendants sold the certificates at issue herein to plaintiffs (and the assigning entities). The Goldman Sachs Defendants omitted that

they called them "big old lemons," "shitty deal[s]" and "junk," at the time they sold them to plaintiffs (and the assigning entities) while also shorting them.

681. This is a claim for fraudulent inducement against all of the defendants. As a corporate parent, defendant The Goldman Sachs Group, Inc. directed the activities of its respective co-defendant subsidiaries and used them as conduits to conduct the RMBS offerings alleged herein.

682. Defendants knew at the time they sold and marketed each of the certificates that the foregoing statements were false and misleading or, at the very least, made recklessly.

683. Defendants made these materially false and misleading statements and omissions for the purpose of inducing plaintiffs (and the assigning entities) to purchase the certificates. Furthermore, these statements related to defendants' own acts and omissions.

684. Defendants knew or recklessly disregarded that investors like plaintiffs (and the assigning entities) were relying on defendants' expertise, and defendants encouraged such reliance through the Offering Documents, as described herein. Defendants knew or recklessly disregarded that investors like plaintiffs (and the assigning entities) would rely upon defendants' representations in connection with their decisions to purchase the certificates. As alleged herein, defendants were in a position of unique and superior knowledge regarding the true facts concerning the foregoing material misrepresentations and omissions.

685. It was only by making such misrepresentations and omissions that defendants were able to induce plaintiffs (and the assigning entities) to buy the certificates. Plaintiffs (and the assigning entities) would not have purchased or otherwise acquired the certificates but for defendants' fraudulent representations and omissions about the certificates and the underlying loans.

686. Plaintiffs (and the assigning entities) actually, justifiably, reasonably, and foreseeably relied upon defendants' false and misleading representations and omissions regarding the certificates and underlying loans.

687. By virtue of defendants' false and misleading statements and omissions, as alleged herein, plaintiffs (and the assigning entities) have suffered substantial damages and are also entitled to rescission or rescissory damages.

688. In addition, because defendants acted maliciously, wantonly and oppressively, and defendants' acts affected the general public, plaintiffs are entitled to recover punitive damages.

THIRD CAUSE OF ACTION

(Aiding and Abetting Fraud Against All Defendants)

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

690. This is a claim against each of the defendants for aiding and abetting the fraud by their respective co-defendants. Specifically, each of the Goldman Sachs Defendants aided and abetted each of the other Goldman Sachs Defendants.

691. Each of the defendants knew of the fraud perpetrated by the each of their respective co-defendants on plaintiffs (and the assigning entities). As alleged in detail above, each of the defendants knew that the certificates were not backed by loans of the quality represented by defendants, and were not underwritten according to the originators' stated underwriting standards. In fact, defendants owned originators and/or conducted due diligence on the loan pools securitized into the offerings purchased by plaintiffs (and the assigning entities) and identified the originators' deviations from the loan underwriting and appraisal standards set forth in the Offering Documents and knew that the LTV ratios, OOR percentages (including the Primary Residence Percentages) and credit ratings in the Offering Documents were false. Each of the defendants also knew that their representations that they had timely and properly transferred title to the mortgage loans were false. Each of the defendants concealed from plaintiffs (and the assigning entities) that some of their respective co-defendants thought that RMBS, like the certificates, were "big old lemons," "shitty

deal[s]" and "junk," and were simultaneously "shorting" the same types of investments that they were selling to plaintiffs (and the assigning entities). Each of the defendants participated in those violations of their respective co-defendants, and had actual knowledge of their own acts and participated in and had actual knowledge of their respective co-defendants' fraudulent acts alleged herein.

692. Furthermore, each of the defendants provided their co-defendants with substantial assistance in advancing the commission of their fraud. As alleged in detail above, each of the defendants participated in the following acts constituting the fraud with their respective co-defendants: making false and misleading statements and omissions in the Offering Documents about the originators' loan underwriting and appraisal standards, the loans' LTV ratios, the loans' OOR percentages (including the Primary Residence Percentages), the certificates' credit ratings, and the transfer of title of the mortgage loans; providing false information about the loans underlying the certificates to the Credit Rating Agencies; providing false information for use in the Offering Documents; concealing from plaintiffs (and the assigning entities) the originators' deviations from their stated mortgage loan underwriting and appraisal standards; concealing from plaintiffs (and the assigning entities) that some of their respective co-defendants called RMBS like the certificates sold to plaintiffs (and the assigning parties) "big old lemons," "shitty deal[s]" or "junk"; and concealing from plaintiffs (and the assigning entities) that some of their respective co-defendants were shorting investments like the certificates.

693. It was foreseeable to each of the defendants at the time they actively assisted in the commission of their respective co-defendants' respective frauds that plaintiffs (and the assigning entities) would be harmed as a result of each of the defendants' assistance of their respective co-defendants.

694. As a direct and natural result of the frauds committed by each defendant, and each defendant's knowing and active participation in each fraud committed by such defendant's co-defendants, plaintiffs (and the assigning entities) have suffered substantial damages.

695. In addition, because defendants acted maliciously, wantonly and oppressively, and defendants' acts affected the general public, plaintiffs are entitled to recover punitive damages.

FOURTH CAUSE OF ACTION

(Negligent Misrepresentation Against All Defendants)

696. Plaintiffs repeat and reallege the allegations set forth in the preceding paragraphs, as if fully set forth herein, except any allegations that defendants made any untrue statements and omissions intentionally or recklessly. For the purposes of this cause of action, plaintiffs expressly disclaim any claim of fraud or intentional or reckless misconduct.

697. This is a claim for negligent misrepresentation against all defendants.

698. Plaintiffs (and the assigning entities) made 45 separate investments in 23 offerings of RMBS that the defendants securitized and sold.

699. It is a required industry practice for underwriters of RMBS offerings to perform an investigation of the loans backing the certificates to ensure that the quality of the loans is as represented in the offering documents provided to investors. In fact, U.S. securities laws require defendants to "***perform a review of the pool assets underlying the asset-backed security***" and ensure that such information shall be disclosed in the offering documents and "***is accurate in all material respects***." 17 C.F.R. §230.193. In addition, "[p]rospective investors look to the underwriter – a fact well known to all concerned and ***especially to the underwriter*** – to pass on the soundness of the security and the correctness of the [offering documents]." *Chris-Craft Indus. v. Piper Aircraft Corp.*, 480 F.2d 341, 370 (2d Cir. 1973).

700. Because of the foregoing, defendants conducted due diligence and investigated the loans that backed their RMBS offerings. The purpose and effect of defendants' legal obligations as underwriters to conduct due diligence and ensure the correctness of the statements in the Offering Documents, as well as the investing public's understanding that the RMBS underwriters perform such due diligence to ensure the accuracy of statements made in the Offering Documents, was to assure plaintiffs (and the assigning entities) that they could reasonably rely upon the Offering Documents. Moreover, by virtue of the due diligence defendants performed, and their extensive role in originating, purchasing, securitizing and selling the certificates that plaintiffs (and the assigning entities) purchased, defendants had extremely unique and special knowledge and expertise regarding the loans backing those certificates, including the loans' quality, the nature of their underwriting, their value and adequacy as collateral, their LTV ratios, their OOR percentages, and the title to such loans.

701. In particular, because plaintiffs (and the assigning entities) did not have access to the loan files for the mortgage loans, or defendants' due diligence and valuation reports, while only defendants did, and because plaintiffs (and the assigning entities) could not examine the underwriting quality of the mortgage loans underlying the offerings on a loan-by-loan basis, plaintiffs (and the assigning entities) were heavily dependent on defendants' unique and special knowledge and expertise regarding the loans that backed the certificates at issue herein when determining whether to invest in each certificate. Plaintiffs (and the assigning entities) were entirely dependent on defendants to provide accurate and truthful information regarding the loans because plaintiffs (and the assigning entities) had no access to the loan files, which were completely within defendants' control. Moreover, as alleged above, at the time plaintiffs (and the assigning entities) purchased the certificates, plaintiffs (and the assigning entities) had no ability to test the veracity of defendants' representations in the Offering Documents concerning the loans because there were no

loan databases available in the 2005 to 2007 time period which would allow plaintiffs (or the assigning entities) to conduct sufficient analyses, like the analyses plaintiffs performed just prior to filing this complaint. Accordingly, defendants were uniquely situated to evaluate the safety and economics of each certificate sold to plaintiffs (and the assigning entities) and the loans underlying them.

702. Because plaintiffs (and the assigning entities) were without access to critical information regarding the loans backing the certificates, and defendants had a legal obligation to perform due diligence on the loans and ensure any statements made about the loans in the Offering Documents were truthful and accurate, and plaintiffs (and the assigning entities) had the understanding that RMBS underwriters performed due diligence to ensure the accuracy of the Offering Documents, defendants had a duty to plaintiffs (and the assigning entities) to verify the "accuracy" and truthfulness of the Offering Documents.

703. Over the course of over three years, for 45 separate investments, plaintiffs (and the assigning entities) relied on defendants' unique and special knowledge regarding the quality of the underlying mortgage loans, and defendants' underwriting when determining whether to invest in the certificates. This longstanding relationship, coupled with defendants' unique and special position of knowledge about the underlying loans, created a special relationship of trust, confidence, and dependence between defendants and plaintiffs (and the assigning entities).

704. Defendants were aware that plaintiffs (and the assigning entities) relied on defendants' unique and special position, expertise and experience, and depended upon defendants for accurate and truthful information. Defendants also knew that the actual true statistics regarding the loans and the loans' compliance with the stated underwriting standards were exclusively within defendants' knowledge.

705. Based on defendants' expertise, superior knowledge, legal duties, and relationship with plaintiffs (and the assigning entities), defendants owed a duty to plaintiffs (and the assigning entities) to provide complete, accurate, truthful and timely information regarding the mortgage loans and the certificates. Defendants breached their duty to provide such information to plaintiffs (and the assigning entities).

706. Defendants likewise made misrepresentations which they knew, or were negligent in not knowing at the time, to be false and misleading in order to induce plaintiffs' (and the assigning entities') investment in the certificates. Defendants provided the Offering Documents to plaintiffs (and the assigning entities) in connection with the sale of the certificates, for the purpose of informing plaintiffs (and the assigning entities) of material facts necessary to make an informed judgment about whether to purchase the certificates in the offerings. In providing these documents, defendants knew that the information contained and incorporated therein would be used for a serious purpose, and that plaintiffs (and the assigning entities), like other reasonably prudent investors, intended to rely on the information contained in the Offering Documents.

707. As alleged above, the Offering Documents contained materially false and misleading information and omissions, including, without limitation, misrepresentations concerning the underwriting guidelines, appraisals, LTV ratios, Primary Residence Percentages, credit ratings, and the transfer of title to the loans, and the omissions that the Goldman Sachs Defendants were selling RMBS like the ones sold to plaintiffs (and the assigning entities) "short" at the same time those defendants sold plaintiffs (and the assigning entities) the certificates, and while some of those defendants called them "big old lemons," "shitty deal[s]" and "junk."

708. Defendants acted negligently in making the materially false and misleading statements and omissions to plaintiffs (and the assigning entities).

709. Unaware that the Offering Documents contained materially false and misleading statements and omissions, plaintiffs (and the assigning entities) reasonably relied on those false and misleading statements and omissions when deciding to purchase the certificates.

710. Plaintiffs (and the assigning entities) purchased certificates from defendant Goldman Sachs & Co. in the offerings, and are therefore in privity with them.

711. Based on defendants' expertise and specialized knowledge, and in light of the false and misleading representations and omissions in the Offering Documents, defendants owed plaintiffs (and the assigning entities) a duty to provide them with complete, accurate, truthful and timely information regarding the quality of the certificates and underlying loans, and their title, and defendants breached their duty to provide such information to plaintiffs (and the assigning entities).

712. Plaintiffs (and the assigning entities) reasonably relied on the information provided by defendants and have suffered substantial damages as a result of defendants' misrepresentations.

FIFTH CAUSE OF ACTION

(Rescission Based upon Mutual Mistake
Against Goldman Sachs & Co.)

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

714. Based on the representations in the Offering Documents, both the underwriter defendant Goldman Sachs & Co., which sold the certificates, and the plaintiffs (and the assigning entities), which purchased them, believed that the mortgages and notes described in the Offering Documents had been validly assigned to the trusts and/or trustees at the time the certificates were purchased.

715. As alleged above, however, the vast majority of the mortgages and notes were, in fact, not timely or properly assigned to the trusts and/or trustees at the time the certificates were purchased by plaintiffs (and the assigning entities).

716. Therefore, a mutual mistake existed at the time that plaintiffs (and the assigning entities) contracted for the sale of the certificates.

717. The assignment of the mortgages and notes to the trusts and/or trustees was a crucial fact that went to the heart of each of the offerings at issue here. Without proper assignments, the trustees for the trusts have no legal right to foreclose on the collateral in the event a borrower defaults, the trusts do not own the mortgages and the notes, and the trusts do not qualify for REMIC tax classification. Without proper and timely assignments, the trusts bear a substantial risk of being subjected to heavy tax assessments and penalties which are ultimately borne by investors such as plaintiffs.

718. These were significant risks that were undisclosed due to the misrepresentations in the Offering Documents, and were neither part of plaintiffs' (or the assigning entities') investment objectives, nor defendants' purported investment offer. Had plaintiffs (and the assigning entities) known that the mortgages and notes had not been properly and timely assigned to the trusts, they would not have purchased the certificates.

719. Because a mutual mistake of a material fact existed at the time plaintiffs (and the assigning entities) contracted for the sale of the certificates, the transactions are void and plaintiffs are therefore entitled to rescission.

PRAYER FOR RELIEF

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

(a) Awarding compensatory damages in favor of plaintiffs against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon.

(b) Awarding punitive damages for plaintiffs' common-law fraud claims.

(c) Alternatively, awarding plaintiffs the right to rescission and/or rescissory damages, as to all defendants, sustained as a result of defendants' wrongdoing and/or mutual mistake.

(d) Awarding plaintiffs their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(e) Such other relief, including equitable relief, as the Court may deem just and proper.

JURY DEMAND

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

DATED: July 3, 2013

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Attorneys for Plaintiffs

Appendix A

Offering	Issue Date	Depositor	Sponsor	Defendant Underwriter	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Plaintiff	Original Purchaser	Seller
ACCR 2005-4	11/23/2005	Accredited Mortg. Loan	Accredited	Goldman Sachs & Co.	M1	004375EK3	11/10/2005	$10,000,000	Blue Heron VI	Blue Heron VI	Goldman Sachs & Co.
					M1	004375EK3	11/10/2005	$10,000,000	Blue Heron VII	Blue Heron VII	Goldman Sachs & Co.
FFML 2006-FF13	9/28/2006	GSMSC	GSMC	Goldman Sachs & Co.	A2D	30247DAE1	9/28/2006	$30,000,000	Phoenix	WestLB	Goldman Sachs & Co.
GSAA 2006-10	6/1/2006	GSMSC	GSMC	Goldman Sachs & Co.	AF5	362375AE7	5/26/2006	$7,000,000	Silver Elms II	WestLB	Goldman Sachs & Co.
					M4	362375AK3	5/26/2006	$4,579,000	Silver Elms II	WestLB	Goldman Sachs & Co.
					M5	362375AL1	5/26/2006	$2,000,000	Silver Elms II	WestLB	Goldman Sachs & Co.
GSAA 2006-11	6/30/2006	GSMSC	GSMC	Goldman Sachs & Co.	2A3B	362367AE4	6/30/2006	$26,748,000	Phoenix	WestLB	Goldman Sachs & Co.
GSAA 2006-13	8/1/2006	GSMSC	GSMC	Goldman Sachs & Co.	AF4	36244SAD0	8/4/2006	$10,000,000	Silver Elms II	WestLB	Goldman Sachs & Co.
					AF5	36244SAE8	8/4/2006	$10,000,000	Silver Elms II	WestLB	Goldman Sachs & Co.
GSAA 2006-14	8/25/2006	GSMSC	GSMC	Goldman Sachs & Co.	A3A	36298YAC4	8/16/2006	$8,024,000	Phoenix	WestLB	Goldman Sachs & Co.
					A3B	36298YAD2	8/16/2006	$20,837,000	Phoenix	WestLB	Goldman Sachs & Co.
GSAA 2006-16	9/28/2006	GSMSC	GSMC	Goldman Sachs & Co.	A3A	362256AC3	9/28/2006	$30,000,000	Phoenix	WestLB	Goldman Sachs & Co.
GSAA 2006-17	10/30/2006	GSMSC	GSMC	Goldman Sachs & Co.	A3B	362257AD9	10/17/2006	$19,875,000	Phoenix	WestLB	Goldman Sachs & Co.
GSAA 2006-19	11/24/2006	GSMSC	GSMC	Goldman Sachs & Co.	A3A	362244AC9	11/17/2006	$18,006,000	Phoenix	WestLB	Goldman Sachs & Co.
					A3B	362244AD7	11/17/2006	$9,612,000	Phoenix	WestLB	Goldman Sachs & Co.
GSAA 2006-20	12/29/2006	GSMSC	GSMC	Goldman Sachs & Co.	A4B	362351AF5	12/13/2006	$15,000,000	Phoenix	WestLB	Goldman Sachs & Co.
GSAA 2006-5	3/30/2006	GSMSC	GSMC	Goldman Sachs & Co.	M3	362334GW8	3/26/2006	$2,000,000	Silver Elms II	Paradigm	Goldman Sachs & Co.
					M4	362334GX6	3/26/2006	$2,000,000	Silver Elms II	Paradigm	Goldman Sachs & Co.
					M5	362334GY4	3/26/2006	$2,000,000	Silver Elms II	Paradigm	Goldman Sachs & Co.
GSAA 2006-6	4/1/2006	GSMSC	GSMC	Goldman Sachs & Co.	AF4	362334MF8	4/3/2006	$10,000,000	Silver Elms II	WestLB	Goldman Sachs & Co.

Offering	Issue Date	Depositor	Sponsor	Defendant Underwriter	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Plaintiff	Original Purchaser	Seller
					M1	362334MJ0	4/3/2006	$2,000,000	Silver Elms II	WestLB	Goldman Sachs & Co.
					M4	362334MM3	4/3/2006	$3,317,000	Silver Elms II	WestLB	Goldman Sachs & Co.
GSAA 2006-7	4/1/2006	GSMSC	GSMC	Goldman Sachs & Co.	AF4A	362334ND2	4/12/2006	$9,500,000	Silver Elms II	WestLB	Goldman Sachs & Co.
					M4	362334NJ9	4/12/2006	$744,000	Silver Elms II	WestLB	Goldman Sachs & Co.
GSAA 2007-1	1/30/2007	GSMSC	GSMC	Goldman Sachs & Co.	A4A	3622EQAE5	1/30/2007	$10,000,000	Phoenix	WestLB	Goldman Sachs & Co.
					A4B	3622EQAF2	1/30/2007	$17,651,000	Phoenix	WestLB	Goldman Sachs & Co.
GSAA 2007-2	2/1/2007	GSMSC	GSMC	Goldman Sachs & Co.	AF3	3622EUAC0	2/8/2007	$12,500,000	Blue Heron IX	Blue Heron IX	Goldman Sachs & Co.
					AF3	3622EUAC0	2/8/2007	$12,500,000	Blue Heron V	Blue Heron V	Goldman Sachs & Co.
GSAMP 2005-NC1	2/25/2005	GSMSC	GSMC	Goldman Sachs & Co.	M3	36242DUJ0	12/13/2006	$2,514,000	Kleros V	WestLB	Merrill Lynch
GSAMP 2006-FM2	9/29/2006	GSMSC	GSMC	Goldman Sachs & Co.	A2D	36245DAE0	9/27/2006	$10,000,000	Phoenix	WestLB	Goldman Sachs & Co.
GSAMP 2007-NC1	2/20/2007	GSMSC	GSMC	Goldman Sachs & Co.	M4	3622MGAJ7	6/21/2007	$5,469,000	Kleros V	Kleros V	Goldman Sachs & Co.
GSR 2006-8F	8/1/2006	GSMSC	GSMC	Goldman Sachs & Co.	3A10	362611BC8	12/19/2006	$7,130,000	Kleros V	WestLB	Robert W. Baird & Co.
LBMLT 2006-A	5/10/2006	Long Beach Secs.	Long Beach	Goldman Sachs & Co.	M1	542515AD3	4/27/2006	$3,000,000	Blue Heron II	Blue Heron II	Goldman Sachs & Co.
					M1	542515AD3	4/27/2006	$3,000,000	Blue Heron IX	Blue Heron IX	Goldman Sachs & Co.
					M1	542515AD3	4/27/2006	$3,000,000	Blue Heron V	Blue Heron V	Goldman Sachs & Co.
					M1	542515AD3	4/27/2006	$3,000,000	Blue Heron VI	Blue Heron VI	Goldman Sachs & Co.
					M1	542515AD3	4/27/2006	$3,000,000	Blue Heron VII	Blue Heron VII	Goldman Sachs & Co.
					M1	542515AD3	4/27/2006	$3,000,000	Phoenix	Blue Heron III	Goldman Sachs & Co.
LBMLT 2006-WL1	2/8/2006	Long Beach Secs.	Long Beach	Goldman Sachs & Co.	M1	542514QW7	1/10/2006	$15,000,000	Phoenix	Greyhawk	Goldman Sachs & Co.
NCAMT 2006-ALT2	10/1/2006	GSMSC	GSMC	Goldman Sachs & Co.	AF3	643529AC4	10/19/2006	$5,000,000	Blue Heron IX	Blue Heron IX	Goldman Sachs & Co.
					AF3	643529AC4	10/19/2006	$12,000,000	Blue Heron V	Blue Heron V	Goldman Sachs & Co.

Offering	Issue Date	Depositor	Sponsor	Defendant Underwriter	Tranche Purchased	CUSIP	Purchase Date	Original Face Amount	Plaintiff	Original Purchaser	Seller
					AF3	643529AC4	10/19/2006	$23,000,000	Blue Heron VI	Blue Heron VI	Goldman Sachs & Co.
					AF3	643529AC4	10/19/2006	$5,000,000	Blue Heron VII	Blue Heron VII	Goldman Sachs & Co.
NCHET 2006-S1	2/27/2006	New Century Mortg. Secs.	New Century	Goldman Sachs & Co.	A2B	64352VQN4	2/24/2006	$16,560,500	Blue Heron VI	Blue Heron VI	Goldman Sachs & Co.
					A2B	64352VQN4	2/24/2006	$16,560,500	Blue Heron VII	Blue Heron VII	Goldman Sachs & Co.