UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

CITY OF ANN ARBOR EMPLOYEES' RETIREMENT SYSTEM, Individually and On Behalf of All Others Similarly Situated, Plaintiff, vs. CITIGROUP MORTGAGE LOAN TRUST INC., et al. Defendants.	Civil Action No. 08-CV-01418 <u>CLASS ACTION</u> AMENDED COMPLAINT FOR VIOLATION OF §§11, 12 AND 15 OF THE SECURITIES ACT OF 1933 <u>DEMAND FOR JURY TRIAL</u>

NATURE OF THE ACTION

1. This is a securities class action on behalf of all persons or entities who acquired the Mortgage Pass-Through Certificates and Asset-Backed Pass-Through Certificates (collectively, the "Certificates") of Citigroup Mortgage Loan Trust Inc. ("Citigroup Mortgage" or the "Depositor") pursuant and/or traceable to the false and misleading Registration Statement and Prospectus Supplements issued during 2007 (collectively, the "Registration Statement"). This action involves solely strict liability and negligence claims brought pursuant to the Securities Act of 1933 ("1933 Act").

2. Citigroup Mortgage is a Delaware corporation formed for the purpose of acquiring, owning and transferring mortgage loan assets and selling interests in them. Citigroup Mortgage is an affiliate of defendant Citigroup Global Markets Inc. ("Citigroup Global"). The issuers of the various offerings (the "Defendant Issuers") are Citigroup Mortgage and the Trusts identified in ¶13, established by Citigroup Mortgage to issue billions of dollars worth of Certificates in 2007.

3. On December 12, 2006, the Defendant Issuers caused a Registration Statement to be filed with the Securities and Exchange Commission ("SEC") in connection with and for the purpose of issuing billions of dollars of Certificates. The Certificates were issued pursuant to Prospectus Supplements, each of which was incorporated into the Registration Statement. The Certificates were supported by pools of mortgage loans Citigroup Mortgage purchased from various originators. The Registration Statement represented that the mortgage pools would primarily consist of loans generally secured by liens on residential properties, including conventional and adjustable-rate mortgage loans.

4. Plaintiffs and members of the class purchased the Certificates based upon three primary factors: return (in the form of interest payments), timing of principal and interest payments, and safety (risk of default of the underlying mortgage loan assets). The Registration Statement

included false statements and/or omissions about: (i) the underwriting standards purportedly used in connection with the origination of the underlying mortgage loans; (ii) the maximum loan-to-value ("LTV") ratios used to qualify borrowers; (iii) the appraisals of properties underlying the mortgage loans; (iv) the debt-to-income ratios permitted on the loans; and (v) the ratings of the Certificates.

5. The true facts which were omitted from the Registration Statement were:

- The originators of the underlying mortgage loans who sold them to Citigroup Mortgage were issuing many of the mortgage loans to borrowers who: (i) were not in compliance with the prudent or maximum debt-to-income ratio purportedly required by the lenders; (ii) did not provide adequate documentation to support the income and assets required to issue the loans pursuant to the lenders' stated guidelines; (iii) were steered to stated income/asset and low documentation ("low-doc") mortgage loans by lenders, lenders' correspondents or lenders' agents, such as mortgage brokers, because the borrowers could not qualify for mortgage loans that required full documentation; and (iv) did not have the income or assets required by the lenders' own guidelines to afford the required mortgage loan payments, which resulted in a mismatch between the needs and capacity of the borrowers.

- The originators or their agents knew that the borrowers either could not provide the required documentation or the borrowers refused to provide it.

- The underwriting, quality control, and due diligence practices and policies utilized in connection with the approval and funding of the mortgage loans were so weak that borrowers were being extended loans based on stated income in the mortgage loan applications with purported income amounts that could not possibly be reconciled with the jobs claimed on the loan application or through a check of free "online" salary databases such as www.salary.com.

- The appraisals of many properties were inflated, as appraisers were pressured by lenders, lenders' correspondents and/or their mortgage brokers/agents to provide the desired appraisal value regardless of the actual value of the underlying property so the loans would be approved and funded. In this way many appraisers were rewarded for their willingness to support preconceived or predetermined property values violating USPAP regulations.[1]

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1 The Uniform Standards of Professional Appraisal Practice ("USPAP") are the generally accepted standards for professional appraisal practice in North America. USPAP contains standards for all types of appraisal services. Standards are included for real estate, personal property, business and mass appraisal.

6. As a result, the Certificates sold to plaintiffs and the Class were secured by assets that had a much greater risk profile than represented in the Registration Statement. In this way, defendants were able to obtain superior ratings on the tranches or classes of Certificates, when in fact these tranches or classes were not equivalent to other investments with the same credit ratings.

7. By the fall of 2007, the truth about the performance of the mortgage loans that secured the Certificates began to be revealed to the public, disclosing the risks that the Certificates would likely receive less absolute cash flow in the future and that investors would not receive it on a timely basis. The credit rating agencies also began to put negative watch labels on the Certificate tranches or classes. At present, Certificates in every single Trust have been downgraded. As an additional result, the Certificates are no longer marketable at prices anywhere near the price paid by plaintiffs and the Class, and the holders of the Certificates are exposed to much more risk with respect to both the timing and absolute cash flow to be received than the Registration Statement/Prospectus Supplements represented.

JURISDICTION AND VENUE

8. The claims alleged herein arise under §§11, 12(a)(2) and 15 of the 1933 Act, 15 U.S.C. §§77k, 77l(a)(2) and 77o. Jurisdiction is conferred by §22 of the 1933 Act and venue is proper pursuant to §22 of the 1933 Act.

9. The violations of law complained of herein occurred in this District, including the dissemination of materially false and misleading statements complained of herein into this District. Defendants conduct business in this District.

PARTIES

10. Lead Plaintiff City of Ann Arbor Employees' Retirement System acquired Certificates pursuant and traceable to the Registration Statement and Prospectus Supplements and has been damaged thereby.

11. Lead Plaintiff Greater Kansas City Laborers Pension Fund acquired Certificates pursuant and traceable to the Registration Statement and Prospectus Supplements and has been damaged thereby.

12. Defendant Citigroup Mortgage is a Delaware corporation headquartered in New York, New York. It is a special purpose corporation formed in 2002. Defendant Citigroup Mortgage was the Depositor and an issuer of the various Certificates.

13. The Defendant Issuers of the various Certificates are Citigroup Mortgage and 18 New York common law trusts. Through each of these Trusts Citigroup Mortgage issued hundreds of million of dollars worth of Certificates pursuant to a Prospectus Supplement which listed numerous classes of the Certificates. The Trusts are:

Citigroup Mortgage Loan Trust 2007-2	Citigroup Mortgage Loan Trust 2007-WFHE4
Citigroup Mortgage Loan Trust 2007-6	Citigroup Mortgage Loan Trust 2007-AHL1
Citigroup Mortgage Loan Trust 2007-AHL2	Citigroup Mortgage Loan Trust 2007-AHL3
Citigroup Mortgage Loan Trust 2007-AMC1	Citigroup Mortgage Loan Trust 2007-AMC2
Citigroup Mortgage Loan Trust 2007-AMC3	Citigroup Mortgage Loan Trust 2007-AMC4
Citigroup Mortgage Loan Trust 2007-AR1	Citigroup Mortgage Loan Trust 2007-AR4
Citigroup Mortgage Loan Trust 2007-AR5	Citigroup Mortgage Loan Trust 2007-AR7
Citigroup Mortgage Loan Trust 2007-OPX1	Citigroup Mortgage Loan Trust 2007-WFHE1[2]
Citigroup Mortgage Loan Trust 2007-WFHE2	Citigroup Mortgage Loan Trust 2007-WFHE3

14. Defendant Citigroup Global is a securities firm which provides a range of financial services, including engaging in the mortgage banking business. Citigroup Global is a corporation based in New York, New York. Citigroup Global acted as the underwriter in the sale of all the Citigroup Mortgage offerings, helping to draft and disseminate the offering documents. Citigroup Global was the underwriter for all of the Trusts.

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[2] The WFHE Certificates are Asset-Backed Pass-Through Certificates whereas the other Trust Series are Mortgage Pass-Through Certificates.

15. Defendant Randall Costa ("Costa") was Principal Executive Officer, President and director of Citigroup Mortgage during the relevant time period. Defendant Costa signed the December 12, 2006 Registration Statement.

16. Defendant Scott Friedenrich ("Friedenrich") was Principal Financial Officer and Treasurer of Citigroup Mortgage during the relevant time period. Defendant Friedenrich signed the December 12, 2006 Registration Statement.

17. Defendant Peter Patricola ("Patricola") was Controller of Citigroup Mortgage during the relevant time period. Defendant Patricola signed the December 12, 2006 Registration Statement.

18. Defendant Mark I. Tsesarsky ("Tsesarsky") was a director of Citigroup Mortgage during the relevant time period. Defendant Tsesarsky signed the December 12, 2006 Registration Statement.

19. Defendant Jeffrey Perlowitz ("Perlowitz") was a director of Citigroup Mortgage during the relevant time period. Defendant Perlowitz signed the December 12, 2006 Registration Statement.

20. Defendant Evelyn Echevarria ("Echevarria") was a director of Citigroup Mortgage during the relevant time period. Defendant Echevarria signed the December 12, 2006 Registration Statement.

21. The defendants identified in ¶¶15-20 are referred to herein as the "Individual Defendants." The Individual Defendants functioned as directors to the Trusts as they were directors to Citigroup Mortgage and signed the Registration Statement for the registration of the securities issued by the Trusts.

22. These defendants aided and abetted, and/or participated with and/or conspired with the other named defendants in the wrongful acts and course of conduct or otherwise caused the

damages and injuries claimed herein and are responsible in some manner for the acts, occurrences and events alleged in this Complaint.

CLASS ACTION ALLEGATIONS

23. Plaintiffs bring this action as a class action on behalf of a class consisting of all persons or entities who acquired the Certificates between January 2007 and October 2007 pursuant and/or traceable to the false and misleading Registration Statement (Registration No. 333-138237) and who were damaged thereby (the "Class"). Excluded from the Class are defendants, the officers and directors of the defendants, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

24. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to plaintiffs at this time and can only be ascertained through appropriate discovery, plaintiffs believe that there are hundreds of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Citigroup Mortgage and Citigroup Global or their transfer agents and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions. The Registration Statement issued billions of dollars worth of Certificates.

25. Plaintiffs' claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

26. Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class and securities litigation.

27. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are: whether defendants violated the 1933 Act; whether the Registration Statement issued by defendants to the investing public negligently omitted and/or misrepresented material facts about the underlying mortgage loans comprising the pools; and to what extent the members of the Class have sustained damages and the proper measure of damages.

28. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

BACKGROUND

Residential Mortgage Loan Categories

29. Borrowers who require funds to finance the purchase of a house, or to refinance an existing mortgage, apply for residential mortgage loans with a loan originator. These loan originators assess a borrower's ability to make payments on the mortgage loan based on, among other things, the borrower's Fair Isaac & Company ("FICO") credit score. Borrowers with higher FICO scores were able to receive loans with less documentation during the approval process, as well as higher LTVs. Using a person's FICO score, a loan originator assesses a borrower's risk profile to determine the rate of the loan to issue, the amount of the loan (LTV), and the general structure of the loan.

30. A loan originator will issue a "prime" mortgage loan to a borrower who has a high credit score and who can supply the required documentation evidencing their income, assets,

employment background, and other documentation that supports their financial health. Borrowers who are issued "prime" mortgage loans are deemed to be the most credit-worthy and receive the best rates and structure on mortgage loans.

31. If a borrower has the required credit score for a "prime" mortgage loan, but is unable to supply supporting documentation of his financial health, then a loan originator will issue the borrower a loan referred to as a "low-doc" or Alt-A loan, and the interest rate on that loan will be higher than that of a prime mortgage loan and the general structure of the loan will not be as favorable as it would be for a prime borrower. While borrowers of "low-doc" or Alt-A loans typically have clean credit histories, the risk profile of the "low-doc" or Alt-A loan increases because of, among other things, higher LTV, higher debt-to-income ratios or inadequate documentation of the borrower's income and assets/reserves.

32. A borrower will be classified as "sub-prime" if the borrower has a lower credit score and higher debt ratios. Borrowers that have low credit ratings are unable to obtain a conventional mortgage because they are considered to have a larger-than-average risk of defaulting on a loan. For this reason, lending institutions often charge interest on sub-prime mortgages at a rate that is higher than a conventional mortgage in order to compensate themselves for assuming more risk.

The Secondary Market

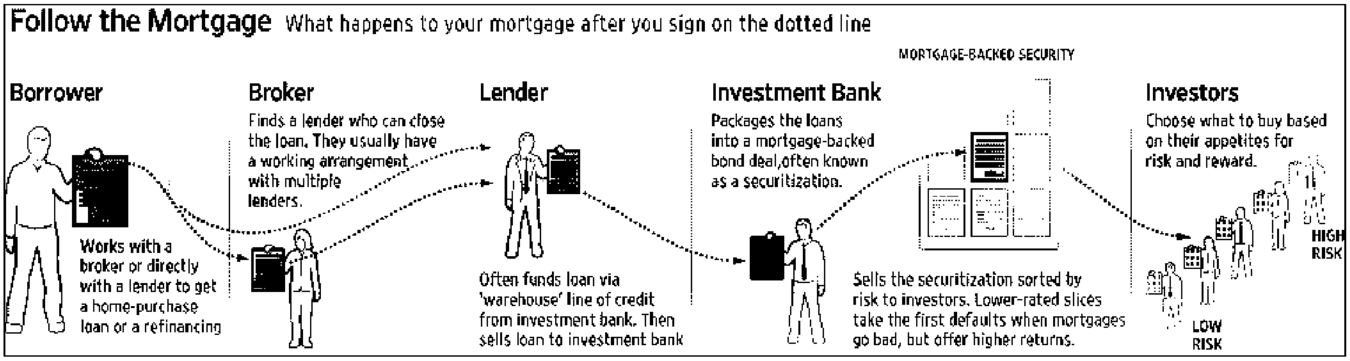
33. Traditionally, the model for a mortgage loan involved a lending institution (*i.e.*, the loan originator) extending a loan to a prospective home buyer in exchange for a promissory note from the home buyer to repay the principal and interest on the loan. The loan originator also held a lien against the home as collateral in the event the home buyer defaulted on the obligation. Under this simple model, the loan originator held the promissory note until it matured and was exposed to the concomitant risk that the borrower may fail to repay the loan. As such, under the traditional model, the loan originator had a financial incentive to ensure that (1) the borrower had the

financial wherewithal and ability to repay the promissory note, and (2) the underlying property had sufficient value to enable the originator to recover its principal and interest in the event that the borrower defaulted on the promissory note.

34. Beginning in the 1990s, persistent low interest rates and low inflation led to a demand for mortgages. As a result, banks and other mortgage lending institutions took advantage of this opportunity, introducing financial innovations in the form of asset securitization to finance an expanding mortgage market. As discussed below, these innovations altered (1) the foregoing traditional lending model, severing the traditional direct link between borrower and lender, and (2) the risks normally associated with mortgage loans.

35. Unlike the traditional lending model, an asset securitization involves the sale and securitization of mortgages. Specifically, after a loan originator issues a mortgage to a borrower, the loan originator sells the mortgage in the financial markets to a third-party financial institution. By selling the mortgage, the loan originator obtains fees in connection with the issuance of the mortgage, receives upfront proceeds when it sells the mortgage into the financial markets, and thereby has new capital to issue more mortgages. The mortgages sold into the financial markets are typically pooled together and securitized into what are commonly referred to as mortgage-backed securities or MBS. In addition to receiving proceeds from the sale of the mortgage, the loan originator is no longer subject to the risk that the borrower may default; that risk is transferred with the mortgages to investors who purchase the MBS.

36. As illustrated below, in a mortgage securitization, mortgage loans are acquired, pooled together or "securitized," and then sold to investors in the form of MBS, whereby the investors acquire rights in the income flowing from the mortgage pools:

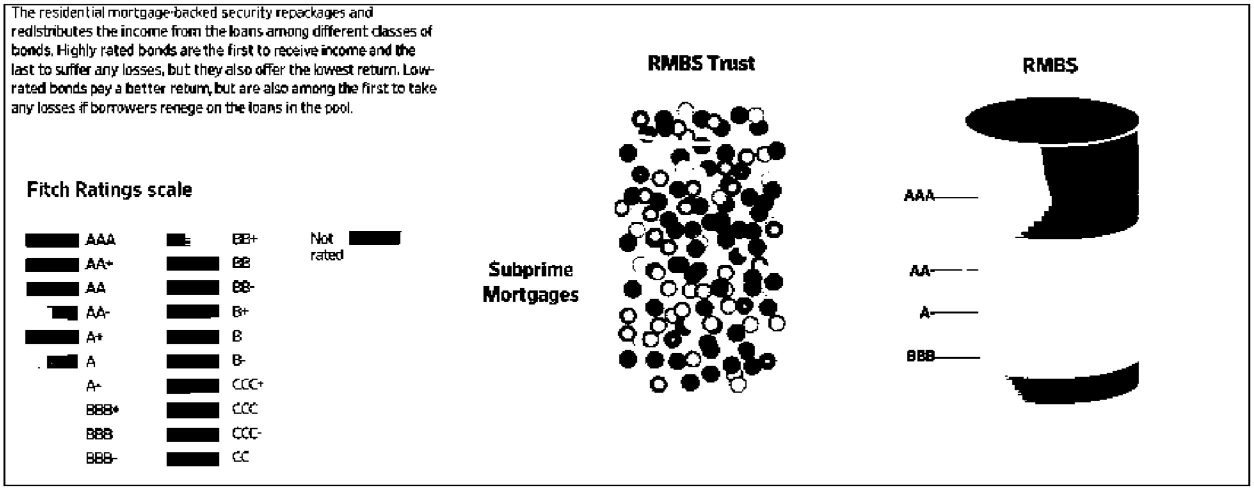


(Source: *The Wall Street Journal*)

37. When mortgage borrowers make interest and principal payments as required by the underlying mortgages, the cash-flow is distributed to the holders of the MBS certificates in order of priority based on the specific tranche held by the MBS investors. The highest tranche (also referred to as the senior tranche) is first to receive its share of the mortgage proceeds and is also the last to absorb any losses should mortgage-borrowers become delinquent or default on their mortgage. Of course, since the investment quality and risk of the higher tranches is affected by the cushion afforded by the lower tranches, diminished cash flow to the lower tranches results in impaired value of the higher tranches.

38. In this MBS structure, the senior tranches received the highest investment rating by the Rating Agencies, usually AAA. After the senior tranche, the middle tranches (referred to as mezzanine tranches) next receive their share of the proceeds. In accordance with their order of priority, the mezzanine tranches were generally rated from AA to BBB by the Rating Agencies.

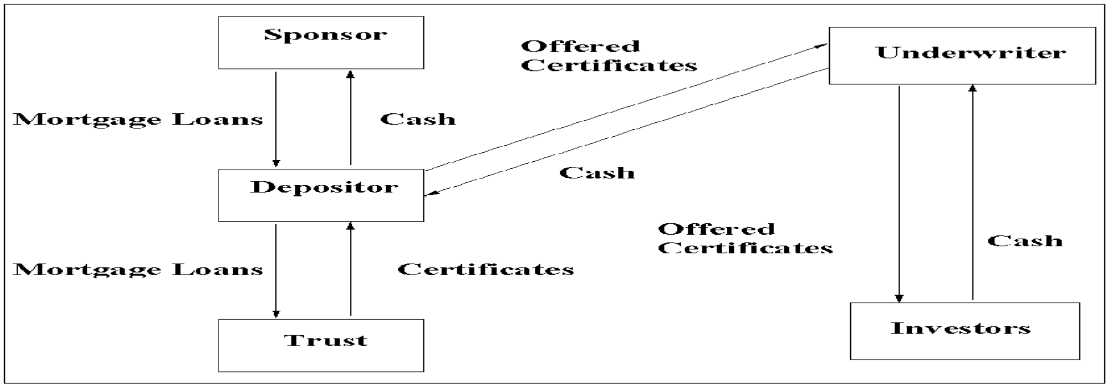
39. The process of distributing the mortgage proceeds continues down the tranches through to the bottom tranches, referred to as equity tranches. This process is repeated each month and all investors receive the payments owed to them so long as the mortgage-borrowers are current on their mortgages. The following diagram illustrates the concept of tranches within a MBS comprised of residential mortgages (often referred to as a "residential mortgage backed securities" or "RMBS"):



(Source: *The Wall Street Journal*)

40. As illustrated below in ¶41, in the typical securitization transaction, participants in the transaction are (1) the servicer of the loans to be securitized, often called the "sponsor", (2) the depositor of the loans in a trust or entity for securitization, (3) the underwriter of the MBS, (4) the entity or trust responsible for issuing the MBS, often called the "trust," and (5) the investors in the MBS.

41. The securitization process begins with the sale of mortgage loans by the sponsor—the original owner of the mortgages – to the depositor in return for cash. The depositor then sells those mortgage loans and related assets to the trust, in exchange for the trust issuing certificates to the depositor. The depositor then works with the underwriter of the trust to price and sell the certificates to investors:



42. Thereafter, the mortgage loans held by the trusts are serviced, *i.e* principal and interest are collected from mortgagors, by the servicer, which earns monthly servicing fees for collecting such principal and interest from mortgagors. After subtracting a servicing fee, the servicer sends the remainder of the mortgage payments to a trustee for administration and distribution to the trust, and ultimately, to the purchasers of the MBS certificates.

Sub-Prime and Low Documentation Alt-A Loans and the Secondary Market

43. Over the past 30 years, the sub-prime mortgage market has evolved from being just a small percentage of the overall U.S. home mortgage market to one that has originated hundreds of billions of dollars of sub-prime loans annually. While several important legislative and regulatory changes have induced such growth, the sub-prime mortgage market would not have experienced such enormous growth without the development of a strong secondary market for home mortgage loans.

44. During the 1980s, credit rating agencies began rating privately-issued MBS, which made them more suitable to a wider range of investors and expanded the market for MBS. By 1988, 52% of outstanding residential mortgage loans had been securitized, up from 23% four years earlier.

45. This rapid expansion of the secondary mortgage market significantly increased mortgage lenders' access to capital and dramatically reduced the need for loan originators to possess

a large deposit base in order to maintain their liquidity. As a result, non-depository mortgage lenders proliferated, comprising approximately 32% of lenders of home mortgage loans by 1989.

46. During the early to mid-1990s, rising interest rates decreased the demand for prime mortgage loans. To spur continued sales of mortgages, lenders became amenable to originating sub-prime mortgages. This willingness, coupled with technological advances that helped credit rating companies accumulate credit information on a greater number of debtors, increased the market for sub-prime mortgage loans. By 1998, approximately $150 billion in sub-prime mortgage loans were originated, up from approximately $35 billion in 1994.

47. The growth in the sub-prime mortgage loan market during the 1990s was also aided by mechanisms that allocated and/or moderated risk in sub-prime MBS. These mechanisms, called "credit enhancements," allowed issuers to obtain investment-grade ratings on all, or part of, their MBS, despite the higher risk on the sub-prime mortgages upon which the MBS were based.

48. As a result of these credit enhancement mechanisms, MBS were deemed to be suitable to a wider market of investors, and the value of sub-prime MBS sold in the secondary mortgage market grew from $10 billion in 1991 to more than $60 billion in 1997. These sales of MBS provided lenders, including non-depository and mortgage-only companies who were responsible for much of the sub-prime mortgage lending, with ample liquidity to originate new sub-prime loans. By 2005, the amount of new sub-prime mortgage loans that were originated grew to over $620 billion.

49. During the 1990s, a new category of mortgage loans emerged. These loans, which became very popular between 2004 through 2006, offered more lenient lending standards than "prime" loans, but were considered less risky than "sub-prime" loans. This loan category, which consisted primarily of Alt-A loans, was originally designed for self-employed borrowers who had

high FICO scores and were able to document assets, but could not easily document their income. The Alt-A loans enabled these borrowers to be approved for a mortgage without extensive supporting documentation of their financial history or income.

50. While Alt-A loans generally have hard to define characteristics, their most distinctive attribute is that borrowers are not required to provide supporting documentation with their applications. For example, a borrower typically does not provide complete documentation of his assets or the amount or source of his income. Other characteristics of Alt-A loans include: (i) loan to value ratio in excess of 80%, but that lacks primary mortgage insurance; (ii) a borrower who is a temporary resident alien; (iii) the loan is secured by non-owner occupied property; or (iv) a debt-to-income ratio above normal limits. MBS that are backed by Alt-A loans are appealing because Alt-A loans are perceived to offer temporary protection from prepayment risk, which is the risk that borrowers will pay off their loans immediately. Mortgage loan securitizations were traditionally valued using prepayment speeds as an important component. Alt-A loan borrowers show greater resistance to prepayments during the first nine to twelve months following their origination. Prime borrowers, by contrast, tend to be very sensitive to changing interest rates and they refinance or prepay their mortgage loans on a continual basis as interest rates decline.

51. The market for Alt-A loans has increased faster than that of sub-prime. A record $400 billion of Alt-A loans were originated in 2006 and accounted for 13.4% of all mortgages offered last year, up from 2.1% in 2003. However, the delinquency rate for Alt-A loans also increased. After 18 months, Alt-A loans that were originated in 2006 had a delinquency rate of 4.71%, versus 1.97% for such loans from 2005 and 1.07% for 2004. The trend for 2007 loans was even worse than 2006.

52. Additionally, over the past several years, the quality of the borrowers of Alt-A-type mortgage loans has weakened. During this time, Alt-A-type loans were extended to borrowers who should otherwise have qualified for: (i) sub-prime loans; (ii) much smaller dollar value loans at lower LTVs; or (iii) no mortgage loans at all. These lower quality Alt-A-type loans were either Alt-B loans, sub-prime loans, or loans for completely unqualified borrowers and included increased risk such as a high LTV ratio and the lack of supporting financial documentation. Essentially, these Alt-B loans are sub-prime loans in disguise and should not have been securitized without sufficient disclosures as to the true quality of the loans. However, certain of these Alt-B mortgage loans were securitized and improperly presented as being the higher-quality Alt-A loans.

53. Citigroup Mortgage is engaged in mortgage lending and other real estate finance-related businesses, including mortgage loan banking, mortgage loan warehouse lending, and insurance underwriting. Citigroup Mortgage was set up to acquire mortgage loan pools that were transferred to the Trusts, from which the Certificates of various classes were sold to investors pursuant to the Registration Statement and Prospectus Supplements. While these offering documents contained data about the mortgage loans, some of the most important information for plaintiffs and the other members of the Class, which was omitted from the Registration Statement and Prospectus Supplements, involved the underwriting, quality control, due diligence, approval and funding practices and policies for the mortgage loans and the likelihood and ability of borrowers to repay the mortgage loans according to the terms of the mortgage note and the mortgage or the deed of trust. This depended on several factors, including creditworthiness of borrowers, debt-to-income levels, LTV ratios, assets of the borrower, occupancy of the property securing the mortgage loan, and the accuracy of other data collected during the origination of the mortgage loans.

Citigroup Mortgage's Underwriting Standards Were Designed to Acquire from Originators as Many Loans as Possible and Citigroup Mortgage Underwriters Were Pressured to Accept All Loans Regardless of Whether or Not the Borrower Would Be Able to Successfully Repay

54. Underwriters evaluating pools of loans that Citigroup Mortgage would buy were under pressure to accept all loans, and the underwriting guidelines were set low enough so that "anything" would pass even when a common sense reading of the borrower's circumstances revealed that there was no way the borrower could successfully repay the loan. Citigroup management repeatedly told underwriters to "look at it again," and to accept virtually any loan.

55. The due diligence mortgage underwriting department which underwrote the loans transferred to Citigroup Mortgage evaluated and selected pools of loans to be bought from various originators and pooled to back the certificates Citigroup Global would sell to investors.

56. According to a former Citigroup senior underwriter, due diligence underwriting involved reviewing and determining the validity of "closed" mortgage loans. Closed loans are those that already had been underwritten, accepted and funded by the originators or initial lenders, who offered them in pools for sale to Citigroup Mortgage. According to this former senior underwriter, Citigroup Mortgage's underwriting standards were "too loose" in that they allowed for very aggressive lending practices. The loan pools varied in size, with the larger pools containing thousands of loans. The loans were non-prime and included both Alt-A and sub-prime loans. Many of the companies from which the loans were purchased began going out of business in the latter half of 2007 when the sub-prime residential mortgage loan market began to implode.

57. According to this former senior underwriter, Citigroup Mortgage's underwriting standards were "too easy-going," as they allowed for very aggressive lending practices. Citigroup Mortgage continued to loosen their standards by changing their guidelines so frequently that due diligence underwriters received new guidelines by email, "nearly every other day." Underwriters

conducting the underwriting for Citigroup Mortgage knew the borrowers could not afford the loans, but the guidelines allowed approval of the loans, so they were approved nonetheless. Even though the loan might fit the guidelines, common sense revealed it would not work. At the end of the day, the underwriter was expected to validate the loans being offered and find them acceptable as Citigroup Mortgage purchases. According to this former senior underwriter team leaders would tell due diligence underwriters to look at problematic loans again meaning they should "find a way to accept it."

58. Citigroup Mortgage shifted toward purchasing loans resulting from progressively more aggressive lending during 2005 and 2006, and ultimately "conventional lending ideas went out the window." In 2005, underwriting guidelines began to become very loose, as the loan programs shed the usual restraints that would help control their riskiness. The loosened requirements included the combination of less stringent guidelines for the use of adjustable rate mortgages ("ARMs"), FICO scores, documentation of income and indebtedness, and higher LTV ceilings. In April 2006, the guidelines were further loosened with respect to each of the aforementioned guideline items that served as loan qualification requirements, as Citigroup Mortgage faced increasing competition. According to this former senior underwriter, in effect, "almost anything would pass" the underwriting standards that served as the due diligence guidelines underwriters followed.

59. Citigroup Mortgage accepted very risky loans by purchasing loans that combined ARMs, stated income (meaning no documentation of income required) and so-called "piggyback loans," which meant that a first lien was given for 80% of the property value, and a second mortgage was given for the remaining 20%, so that the borrower had a 100% loan to value ratio and made no down payment. That meant that the borrowers had no equity at stake to incentivize them to pay on the loan when the monthly payment rose or the property value fell. Citigroup Mortgage was very

aggressive, driven by competition, and took huge risks by combining a number of very liberal loan requirements. In other words, Citigroup Mortgage did what was necessary to compete for the opportunity to buy and resell these loans.

THE FALSE AND MISLEADING REGISTRATION STATEMENT/PROSPECTUS SUPPLEMENTS

60. Defendants caused the Registration Statement/Prospectus Supplements to be filed with the SEC between December 2006 and October 2007 in connection with the issuance of billions of dollars in Certificates. The Registration Statement/Prospectus Supplements were false and misleading. The Registration Statement incorporated by reference the subsequently filed Prospectus Supplements. The December 12, 2006 Registration Statement represented that:

> This Registration Statement consists of (i) a basic prospectus for use in a residential or multifamily transaction and (ii) two forms of prospectus supplement (one form to be used in offering a Series of Senior/Subordinate Certificates and the second form to be used in offering Mortgage-Backed Notes). Each basic prospectus used (in either preliminary or final form) will be accompanied by the applicable prospectus supplement.

61. Citigroup Mortgage caused the Registration Statement, dated December 12, 2006, to be filed with the SEC. The Registration Statement discussed the mortgage loans contained in the mortgage pools held by the Trusts.

The Registration Statement/Prospectus Supplements Misrepresented and Omitted Material Facts Regarding the Underwriting Standards Applied by the Loan Originators

62. The Registration Statement/Prospectus Supplements emphasized the underwriting standards utilized to generate the underlying mortgage loans purchased by Citigroup and eventually transferred to the Trusts, but omitted material facts related thereto. The Registration Statement stated that each originator of mortgage loans would be "experienced in originating … mortgage loans in accordance with accepted practices and prudent guidelines." The Registration Statement also represented that with respect to each mortgage loan, underwriting standards were applied by or

on behalf of a lender to evaluate the borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral. The Registration Statement further stated that in many cases an employment verification was obtained from an independent source. The verification purportedly confirmed, among other things, the length of employment with an organization, the borrower's actual salary and whether it is expected that the borrower would continue employment in the future. Where a prospective borrower was self-employed, the Registration Statement/Prospectus Supplements stated that the borrower was required to submit other verification materials.

63. Contrary to these representations, the originators of the mortgages transferred to the Trusts were not originating loans in accordance with prudent guidelines and were not reviewing loan applications in order to determine whether borrowers had sufficient income to meet their monthly mortgage obligations. Rather, the originators implemented policies designed to extend mortgages to borrowers regardless of whether they were able to meet their obligations under the mortgage such as:

- Coaching borrowers to misstate their income on loan applications to qualify for mortgage loans under the underwriters' underwriting standards, including directing applicants to no-documentation ("no-doc") loan programs when their income was insufficient to qualify for full documentation loan programs;
- Steering borrowers to loans that exceeded their borrowing capacity;
- Encouraging borrowers to borrow more than they could afford by suggesting No Income No Assets ("NINA") and Stated Income Stated Assets ("SISA") loans when they could not qualify for full documentation loans based on their actual incomes;
- 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
- Allowing non-qualifying borrowers to be approved for loans under exceptions to the underwriters' underwriting standards based on so-called "compensating factors" without requiring documentation for such compensating factors.

64. Further, the originators of loans transferred to the Trusts and the originators' agents, such as mortgage brokers, had become so aggressive in approving and funding the mortgage loans that many of the mortgage loans were made to borrowers who had either not submitted or had altered the required documentation. Moreover, in many instances the income/employment verifications that were purportedly completed by the originators were insufficient because the clerical staff at the lenders typically did not have proper verification skills, the mortgage brokers or their agents often completed verifications that were suspect, and oftentimes verifications were provided by inappropriate contacts at the borrower's place of employment (*e.g.*, a friend of the borrower would complete the verification instead of human resources). Unbeknownst to investors, these factors had the effect of dramatically increasing the risk profile of the Certificates.

65. Similarly, those borrowers who were actually required to submit stated income applications would include income levels which were routinely inflated to extreme levels, relative to the stated job titles, in order to get the mortgage loans approved and funded. Inflation of stated income was so rampant that a study cited by Mortgage Asset Research Institute found that almost all stated-income loans exaggerated the borrower's actual income by 5 percent or more, ***and more than half increased the amount by more than 50 percent***.

66. The originators' lack of underwriting controls essentially encouraged this type of income inflation. For instance, many stated income borrowers were actually wage earners who could have supplied W-2s or other income-verifying documentation, but did not. Numerous mortgages transferred to the trusts were issued without requiring the borrowers to execute a Form 4506, which would have allowed the lender to access the borrower's tax returns from the Internal Revenue Service ("IRS"), out of fear that they would then learn of information that was inconsistent with the income level that the borrower reported on his or her loan application.

67. Further, the originators were not limiting their grant of reduced documentation loans to instances where borrowers could demonstrate ***acceptable compensating factors***. Instead, the originators were granting "reduced documentation" and "no-doc" loans to borrowers with high loan to value ratios, low credit scores, and stated income that was not reasonable given the borrower's stated job title.

The Registration Statement/Prospectus Supplements Misrepresented and Omitted Material Facts Regarding the Appraisals Conducted by or for the Loan Originators

68. The Registration Statement and Prospectus Supplements also represented that in determining the adequacy of the property to be used as collateral, the originators would obtain an appraisal for each property considered for financing. In instances where appraisals were conducted, the appraisers were purportedly required to inspect the property to verify that it was in good repair and that, if new, construction had been completed. The Registration Statement asserted that appraisals were purportedly based on the market value of comparable homes, the estimated rental income (if considered applicable by the appraiser) and the cost of replacing the home, and adhered to established appraisal guidelines (*i.e.*, USPAP regulations and requirements).

69. Independent and accurate real-estate appraisals are essential to the entire mortgage lending and securitization process, providing borrowers, lenders, and investors in MBS with supposedly independent and accurate assessments of the value of the mortgaged properties. Accurate appraisals ensure that a mortgage or home equity loan is not under-collateralized, thereby protecting borrowers from financially over-extending themselves and protecting lenders and investors in MBS in the event a borrower defaults on a loan. Accurate appraisals also provide investors with a basis for assessing the price and risk of MBS.

70. An accurate appraisal is also critical in determining the LTV ratio, which is a financial metric that Wall Street analysts and investors commonly use when evaluating the price and

risk of MBS. The LTV ratio is a mathematical calculation that expresses the amount of a mortgage as a percentage of the total appraised value of the property. For example, if a borrower seeks to borrow $90,000 to purchase a house worth $100,000, the LTV ratio is $90,000/$100,000, or 90%. If, however, the appraised value of the house is artificially increased to $120,000, the LTV ratio drops to just 75% ($90,000/$120,000).

71. A high LTV ratio is riskier because a borrower with a small equity position in a property has less to lose if he, or she defaults on the loan. Worse, particularly in an era of falling housing prices, a high LTV ratio creates the heightened risk that, should the borrower default, the amount of the outstanding loan may exceed the value of the property.

72. To ensure the accuracy of appraisals, the USPAP imposes certain requirements on appraisers. With respect to real estate appraisals, the USPAP provide:

(a) An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests;

(b) In appraisal practice, an appraiser must not perform as an advocate for any party or issue;

(c) An appraiser must not accept an assignment that includes the reporting of predetermined opinions and conclusions; and

(d) It is unethical for an appraiser to accept an assignment, or to have a compensation arrangement for an assignment, that is contingent on any of the following:

(i) The reporting of a predetermined result (*e.g.*, opinion of value);

(ii) A direction in assignment results that favors the cause of the client;

(iii) The amount of a value opinion;

(iv) The attainment of a stipulated result; or

(v) The occurrence of a subsequent event directly related to the appraiser's opinions and specific to the assignment's purpose.

73. The representations regarding appraisals were materially false and misleading in that they omitted to state that the appraisals were inaccurate due to: (i) a complete lack of controls at the originators and Citigroup Mortgage; and (ii) contrary to USPAP, the appraisers were not independent from the brokers such that the lenders and/or their agents, such as mortgage brokers, exerted pressure on appraisers to come back with pre-determined, preconceived, inflated and false appraisal values.

74. For instance, in retail or in-house mortgage loan originations, many lenders allowed the sales personnel or account executives to order and control the appraisals. These sales personnel were typically on a commission-only pay structure and were therefore motivated to close as many loans as possible. These sales personnel and account executives would secretly pressure appraisers to appraise properties at artificially high levels or they would not be hired again, resulting in appraisals being done on a "drive-by" basis where appraisers issued their appraisals without reasonable bases for doing so.

75. This lack of independence was noted by Alan Hummel, Chair of the Appraisal Institute, in his testimony before the Senate Committee on Banking. Hummel noted this dynamic created a "terrible conflict of interest" where appraisers "experience systemic problems of coercion" and were "ordered to doctor their reports" or else they would never "see work from these parties again" and were "placed on exclusionary or 'do-not-use' lists." Too often, this pressure succeeded in generating artificially high appraisals and appraisals being done on a "drive-by" basis where appraisers issued their appraisal without reasonable bases for doing so.

76. A 2007 survey of 1,200 appraisers conducted by October Research Corp., – a firm in Richfield, Ohio, who publishes Valuation Review – found that 90% of appraisers reported that mortgage brokers and others pressured them to raise property valuations to enable deals to go through. This figure was nearly double the findings of a similar study conducted just three years earlier. The 2007 study also "found that 75% of appraisers reported 'negative ramifications' if they did not cooperate, alter their appraisal, and provide a higher valuation." Adding to these problems was the fact that, lenders, for originations completed by mortgage brokers, generally lacked ***knowledge of the accuracy of the appraisals*** since they were typically located far from the actual property and knew very little about the general area where the property was located.

77. As a result of this conduct, loans were frequently based on inflated appraisals stating that the home securing the loan was worth more than it really was. For example, in one instance, a lender named Silver State Mortgage ("Silver State"), a key originator of loans in three of the Trusts, extended two mortgage loans on a single home to a buyer, totaling $176,400-$19,600, more than the home was worth. Due to inflated appraisals, the home appraised at $196,000, giving the property a LTV ratio of approximately 90% ($176,400/$196,000). However, taking into account the true price of the home, the true LTV was actually 105% ($176,400/$168,400). This activity was commonplace and impacted each of the Trusts at issue.

78. As but one other example, Wells Fargo Bank, N.A. ("Wells Fargo"), a key original of loans in more than half of the Trusts, provided $599,800 in financing – ***$130,800 more than the asking price for a home***. Based on the recorded price of nearly $600,000, the property had a LTV ratio of approximately 100% ($599,800/$600,000). However, taking into account the true price of the home, ***the true LTV ratio was approximately 128%***. As a result of this conduct there was

rampant inflation of the appraised value of homes underlying loans which were transferred to the Trusts at issue.

79. Numerous appraisers have confirmed that the inflation of appraisals was common place. For example, the owner of a small Midwest residential real estate appraisal firm in Illinois – who was approved and/or utilized by Countrywide Home Loans, Inc. ("Countrywide"), Wells Fargo, American Home Mortgage Corp. ("AHM") and Aames Capital Corporation and its subsidiary Aames Funding ("Aames" or "Aames Funding") (each of which were originators for the Trusts) in approximately 200 transactions – stated that mortgage brokers would call him and say "I need this number." This appraiser also stated that he was frequently threatened with, "either give us this home value or you will never do business for us again." Citigroup Mortgage bought loans from each of these originators for the purpose of selling the certificates at issue in this case.

80. An independent appraiser from Florida who was approved by Countrywide, AHM and Aames stated that she was told by brokers and/or lenders that: "WE NEED THIS NUMBER, OR YOU WILL NEVER WORK FOR US AGAIN." In order to stay in business she gave the valuations the broker or lender demanded, even if it required driving 20 miles away for a comparable sale. During the relevant period this appraiser completed 100+ appraisals for Countrywide and AHM that were over inflated. During this period of time this appraiser also completed at least 50 appraisals for Aames and Argent Mortgage Company, LLC ("Argent") that were also inflated.

81. A real estate appraiser in Las Vegas stated that when "the Vegas market had peaked, Countrywide and Wells Fargo were requiring appraisers to come up with real estate appraisals reflecting escalating values or they would black ball them." This appraiser conducted over 300 appraisals that in his opinion were inflated for Countrywide, Wells Fargo, Silver State, Aames,

Argent and Ameriquest Mortgage ("Ameriquest"). According to this appraiser, typically the appraisals demanded by these lenders were 15% to 25% over the actual market.

82. Another independent appraiser stated that Wells Fargo mortgage brokers and Countrywide in-house or outside loan officers demanded inflated numbers from him in Compton and Watts, California. He also indicated that he had similar experiences with Aames, Argent, Ameriquest, and AHM. The lenders told him to either give them the appraisal numbers they wanted or that he would be "done" and that he would be blackballed by every lender doing business in California. According to this appraiser, "I did over 100 over-inflated appraisals just for Wells Fargo and Countrywide." In some cases he was appraising houses that he described as "crack houses" that should have been bulldozed, for $100,000 more than they were worth. The neighborhoods were so bad, sometimes he never even got out of his car. He would simply drive by and take pictures of the house and give the broker or the lender the number they demanded.

Countrywide Home Loans, Inc.'s Underwriting Practices

83. The Prospectus Supplements omitted material facts about the underwriting practices of Countrywide, which was the key originator in the following Trusts:

2007-6
2007-AR1
2007-AR4
2007-AR7

84. For example, the Prospectus Supplements for each of the above trusts stated:

> 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.

Omitted Information:

85. While the Prospectus Supplements represented that Countrywide's underwriting of mortgages was designed to ensure the borrower's ability to repay the mortgage and the adequacy of

the collateral supporting the mortgage, in reality, however, Countrywide's underwriting standards were designed to originate as many mortgage loans as possible without regard to the ability of its borrowers to afford such mortgages. Indeed, contrary to the representations in the Prospectus Supplements, it has now been revealed that Countrywide's loan originators systematically disregarded and/or manipulated the income, assets and employment status of borrowers seeking mortgage loans in order to qualify these borrowers for mortgages that were then pooled and sold ultimately to plaintiffs and the Class. In many instances, this was done by inflating borrowers' stated income, or facilitating income inflation by encouraging ineligible borrowers to resort to "no documentation loans" and "stated income loans." In other cases, Countrywide customers were steered to more expensive, higher interest loans that they would be unable to repay, such as sub-prime and "alternative" mortgages, to increase its supply of mortgages sold to the secondary mortgage markets.

86. Attorneys General from various states have launched investigations into Countrywide's lending practices and also have alleged that Countrywide systematically departed from the underwriting standards it professed using for originating residential loans.

87. For example, the Illinois Attorney General (the "Illinois AG") launched an investigation into Countrywide's loan practices that has culminated in the action styled *The People of the State of Illinois v. Countrywide Financial Corporation, et al.*, No. 08CH22994, originally filed on June 25, 2008 in the Chancery Division of the Circuit Court of Cook County, Illinois (the "Illinois AG Complaint"). In 2004, 2005 and 2006, Countrywide was Illinois' largest mortgage originator, originating and selling approximately 94,000 mortgage loans to Illinois consumers.

88. According to Countrywide employees who the Illinois AG interviewed, Countrywide originated loans that did not meet its underwriting criteria because Countrywide employees were

incentivized to increase the number of loan originations without concern for whether the borrower was able to repay the loan.

89. With respect to stated income loans, Countrywide employees explained to the Illinois AG that while the company had a "reasonableness standard" in order to check fraudulent stated income, employees were only required to use their judgment in deciding whether or not a stated income loan seemed reasonable. To supplement an employee's judgment as to whether or not a potential borrower's income was "reasonable," beginning in 2005, Countrywide required its employees to utilize a website, www.salary.com, in order to determine if the potential borrower's stated income was indeed reasonable. The website only provides a range of salaries based on the zip code and stated job title of the potential borrower. Even though Countrywide required the use of www.salary.com, if the stated salary was outside of the range provided by the website, Countrywide employees could still approve the loan. The Illinois AG contends that the foregoing "reasonableness" test contravened proper underwriting practices.

90. The Illinois AG Complaint also alleges that Countrywide employees did not properly ascertain whether a potential borrower could afford the offered loan, and many of Countrywide's stated income loans were based on inflated estimates of borrowers' income. For example: (1) a Countrywide employee estimated that approximately 90% of all reduced documentation loans sold out of a Chicago office had inflated incomes; and (2) one of Countrywide's mortgage brokers, One Source Mortgage Inc., routinely doubled the amount of the potential borrower's income on stated income mortgage applications.

91. Likewise, the *Chicago Tribune* reported that a review of 100 stated income loans by the Mortgage Asset Research Institute revealed that 60% of the income amounts were inflated by more than 50% and that 90% of the loans had inflated income of at least 5%.

92. Countrywide also originated and sold ARMs to borrowers who could not afford the ARMs once the initial or "teaser" interest rate expired. Indeed, the company admitted in a May 7, 2007 letter to the Office of Thrift Supervision that in the fourth quarter of 2006 alone "almost 60% of the borrowers who obtained sub-prime hybrid ARMs [from Countrywide] would not have qualified at the fully indexed rate" and that "25% of the borrowers would not have qualified for any other [Countrywide] product."

93. The fully indexed rate ("FIR") is the amount of interest that is payable on an ARM once the teaser rate is removed. The "teaser rate," typically 1%-1.25% is only applied to the loan for the first month. Once the teaser rate is removed, the interest on the mortgage begins accruing according to the FIR.

94. The FIR can change over time and is dependent on fluctuations in the current value of the chosen rate index, such as the 11th District Cost of Funds Index ("COFI"), the 12 Month Treasury Average Index or the London Interbank Offer Rate. The FIR is calculated by taking the current value of the rate index (which fluctuates monthly) and adding the margin agreed to by the borrower. The margin remains static for the life of the loan. The margin on Countrywide loans could be as high as 4%. Thus, if the Countrywide ARM identifies the rate index as COFI (which was at 2.8% in July 2008) and the margin as 4%, then once the cap or "teaser rate" has expired, the borrower will be subject to an interest rate equal to the FIR or 6.8% for that month.

95. Because the borrower has the option of making monthly payments as though the interest rate had not changed, most of those who had Countrywide ARMs paid only the "minimum" payment – a payment that is based on the teaser rate of 1% to 1.25% as opposed to the FIR of 6.8%, meaning that borrowers were making payments that were less than the amount of interest accruing on the loan after the teaser rate expired. The unpaid interest that accrued while the borrower was

making payments based on the teaser rate was tacked on to the principal. Once the principal was 115% of the original loan, then the borrower's monthly payment immediately was raised to a level that would pay off the new balance (original principal plus the unpaid interest) of the loan. This was called "payment shock."

96. Countrywide thus admitted to the Office of Thrift Supervision that even though 60% of its potential borrowers would not have qualified for a Countrywide loan with an interest rate of 6.8%, these same borrowers were qualified for a loan whose interest rate reached 6.8% once the teaser rate of 1.25% expired.

97. Even when Countrywide employees received proper income documentation (*i.e.*, a W-2 form) demonstrating that the borrower did not qualify for a loan, the documentations was ignored and the loan was submitted as a stated income loan so as to obtain approval of the loan.

98. The California Attorney General ("California AG") also commenced an investigation into Countrywide's lending activities and filed a complaint in the Northwest District of the Superior Court for Los Angeles County, styled *The People of the State of California v. Countrywide Financial Corporation, et al*, No. LC081846 (the "California AG Complaint"). The California AG's complaint also alleged that Countrywide departed from its stated underwriting standards. For example, the Complaint alleged that employees were pressured to issue loans to unqualified borrowers by permitting exceptions to underwriting standards, incentivizing employees to extend more loans without regard to the underwriting standards for such loans, and failing to verify documentation and information provided by borrowers that allowed them to qualify for loans.

99. According to the California AG, Countrywide used a system called CLUES or Countrywide Loan Underwriting Expert System. A Countrywide underwriter would enter the borrower's financial and credit information and the terms of the loan into CLUES, which would then

provide a loan analysis report that indicated whether the loan was within Countrywide's underwriting guidelines. CLUES reports stating that a borrower was not within Countrywide's underwriting guidelines often were ignored in order to effectuate the loan.

100. Moreover, like the employees interviewed by the Illinois AG, California Countrywide employees cited in the California AG Complaint claimed to have utilized the website www.salary.com purportedly to confirm a borrower's stated income. According to the California AG Complaint, California employees would know ahead of time the range of salaries that www.salary.com would provide for a particular job and, therefore, know by how much they could overstate a borrower's income. A former California loan officer for Countrywide further explained that its loan officers typically explained to potential borrowers that "with your credit score of X, for this house, and to make X payment, X is the income that you need to make" after which the borrower would state the he or she made X amount of income.

101. The California AG Complaint alleged that Countrywide's practice of approving loans based on the borrower's ability to pay the teaser rate (as opposed to the FIR), as admitted to by the company in the May 7, 2007 letter to the Office of Thrift Supervision, commenced in 2005.

102. The Connecticut Attorney General (the "Connecticut AG") filed a complaint in Superior Court, Judicial District of Hartford styled *State of Connecticut v. Countrywide Financial Corporation, et al.*, alleging that Countrywide's employees inflated borrowers' incomes in order to qualify them for loans they otherwise would not have received. The Connecticut AG's complaint further bolsters the allegations that Countrywide employees circumvented the company's underwriting procedures and guidelines to grow the number of Countrywide loan originations.

103. Many of the allegations in the Illinois, California and Connecticut complaints were confirmed by investigations in other states such as Washington, West Virginia, Indiana and Florida,

revealing the nationwide scope of Countrywide's departures from the underwriting standards set forth in the Prospectus Supplements. Significantly, on October 6, 2008, Countrywide announced that it had settled the fraud claims brought by 11 states, including California and Illinois for an estimated $8.4 billion, which, according to the California AG, is likely the largest settlement of allegations of predatory lending.

104. Press reports and articles further highlight the excess lending and lax underwriting that existed throughout Countrywide during the relevant time period, when the mortgages supporting the Issuing Trusts were originated. For example, on August 26, 2007, in an article by Gretchen Morgenson entitled "Inside the Countrywide Lending Spree," the *New York Times* described how Countrywide's focus on underwriting was not the ability of a borrower to repay a loan, but on the amount of fees that Countrywide could generate from the loan. As such, Countrywide steered borrowers to loans with the highest interest rates and the most fees, while concealing less expensive loan products that those customers could afford. The result: greater delinquencies.

105. Similarly, on February 23, 2008, *The Wall Street Journal* reported in an article entitled "Mortgage Chief Picked by BofA Sparks Worries – Countrywide Executive Spearheaded Pursuit of Subprime Business" that Countrywide's stated underwriting standards were not followed and warnings from risk-control managers at Countrywide were not heeded during the time the Registration Statements and Prospectus Supplements were issued.

106. *The Wall Street Journal* further reported that Countrywide strove to close more loans in 2006 while third party risk analysts concluded that the computer risk models used by Countrywide to project defaults on its sub-prime loans materially underestimated the number of at risk loans.

107. Countrywide's underwriting standards are also the subject of an investigation by the Federal Bureau of Investigation ("FBI"), which was first reported on March 8, 2008, by *The Wall*

Street Journal in an article entitled "FBI Investigates Countrywide – U.S. Scrutinizes Filings on Financial Strength, Loan Quality for Fraud." The FBI investigation is focused on "whether company officials made misrepresentations about the company's financial position and the quality of its mortgage loans in securities filings."

108. On March 11, 2008, *The Wall Street Journal* published another article further detailing the FBI's investigation of Countrywide's lending practices. According to the sources interviewed by *The Wall Street Journal*, federal investigators were finding that "Countrywide's loan documents often were marked by dubious or erroneous information about its mortgage clients, according to people involved in the matter. ***The company . . . packaged many of those mortgages into securities and sold them to investors, raising the additional question of whether Countrywide understated the risks such investments carried.***"

109. On September 30, 2008, MBIA Insurance Corp. ("MBIA") filed a complaint against Countrywide in New York state court alleging that Countrywide had fraudulently induced it to provide insurance for certain investment certificates. The case is styled *MBIA Insurance Corp. v. Countrywide, et al.*, No. 08/602825, currently pending in the Supreme Court of the State of New York, County of New York. MBIA was able to obtain some 19,000 loan files for the Certificates it insured as a result of its contractual agreements with Countrywide. After reviewing the portfolios and basically re-underwriting each loan provided by Countrywide, MBIA discovered that there was an "extraordinarily high incidence of material deviations from the underwriting guidelines Countrywide represented it would follow." MBIA discovered that many of the loan applications "lack[ed] key documentation, such as a verification of borrower assets or income; include[d] an invalid or incomplete appraisal; demonstrate[d] fraud by the borrower on the face of the application; or reflect[ed] that any borrower income, FICO score, or debt, or [debt-to-income ("DTI")] or CLTV,

fail[ed] to meet stated Countrywide guidelines (without any permissible exception)." Significantly, "MBIA's re-underwriting review . . . revealed that almost 90% of defaulted or delinquent loans in the Countrywide Securitizations show material discrepancies."

110. A complaint filed in an action styled, *In re Countrywide Financial Corporation Securities Litigation*, No. 07-CV-05295 (MRP) (MANx), currently pending in the Central District of California, also detailed Countrywide's underwriting practices. The complaint cited information obtained from several former Countrywide employees. One of these former employees described Countrywide as a "sweatshop" where underwriters were under constant pressure to approve increasing quantities of loans without regard to quality. This employee stated that the general rule at Countrywide was that loan applications were not to be scrutinized and underwriters were not to exercise professional judgment. Rather, loans were to be approved automatically unless there was a "blatant" problem on the face of the loan application. The culture at Countrywide – as described by senior management to those below them – was that you could make any loan work, and "if you don't make loans, you don't have a job."

111. This employee described how underwriters and underwriting managers were required to create a "paper trail" in loan files to support their loan approvals. These underwriters and managers were fully aware that in many cases borrowers were making false statements about their income and assets. Nevertheless, underwriters had to "paper the file" and "build a case" that a loan was purportedly appropriate. The employee was told that underwriters had to create this paper trail because Countrywide needed to be able to sell its loans on the secondary market. To do so, the loan files had to include sufficient documentation regarding borrower creditworthiness and loan quality.

112. To create the necessary paper trail, this employee and his/her colleagues would look for documentation, such as printouts from the website www.salary.com, to support the borrower's

claims about his or her stated income so that the loan could later be sold on the secondary market. Because www.salary.com merely contained a range of salaries for a stated job title, the employee could use a www.salary.com printout to establish that it was possible that the borrower's stated income was reasonable given the borrower's stated job title. However, this method was abused by loan officers who would point to the www.salary.com salary ranges in support of a borrower's income even in instances where the loan officer knew that the borrower's actual income was lower than what the borrower stated on his or her application and below the range of salaries given on www.salary.com.

113. Also according to this employee, if a borrower applying for a SISA loan provided a bank name, address and account number, it was the practice that bank balances would not be verified. Rather, underwriters would simply accept whatever bank balance the borrower put on the application. According to the employee, the underwriters knew that many of these bank balances were inflated and therefore called SISA loans "***liar loans***." The absence of readily obtainable asset verifications was also reported in an April 6, 2008 article in the *New York Times*. The article noted that even though Countrywide had the right to verify stated income on an application through the IRS (and this check took less than one day to complete), income was verified with the IRS on only 3%-5% of all loans funded by Countrywide in 2006.

114. The poor to non-existent underwriting practices were due, in part, to the fact that underwriters had powerful incentives to approve loans regardless of their quality. Underwriters were paid a monthly bonus, and, because they received relatively low salaries, depended on these bonuses to make ends meet. Bonuses were based on the volume of the underwriter's loan production, and calculated using a point system. Points were assigned to each loan depending on a variety of factors including the type of loan that was underwritten. The more points the underwriter accumulated, the

larger the bonus. If an underwriter denied a loan, he or she received a lower number of points toward his or her monthly bonus than if the underwriter approved the loan.

115. Indeed, according to a February 2008 article in *The Wall Street Journal*, Countrywide was so focused on growing loan originations that in at least one building, oversized replicas of monthly bonus checks were hung above employees' cubicles so everyone could see which employees were most successful in originating new mortgages.

116. Another former Countrywide employee, who was involved in overseeing loan originations and became familiar with Countrywide corporate policies and procedures, described Countrywide's underwriting as exceptionally weak. According to this employee, borrowers in Countrywide's prime "no-doc" and "low-doc" loan programs did not provide any meaningful documentation to support their loan applications. Thus, meaningful underwriting was virtually impossible to perform.

117. This employee stated that Countrywide's loan origination standards and procedures were not designed to produce high quality loans. Rather, the rule at Countrywide, as stated in its Sales Training Facilitator Guide, was that "***we always look for ways to make the loan rather than turn it down***." Countrywide's loan origination standards and procedures were focused on enabling the company to generate revenue growth and capture an increased share of the mortgage loan market.

118. According to another former Countrywide employee – Brian Koss, who spent four years as a regional Senior Vice President at Countrywide where he ran 54 branches in New England and upstate New York – Countrywide became a victim of "public company panic." According to Mr. Koss, management was "reacting to each quarter's earnings and making short term decisions. They approached making loans like making widgets, focusing on cost to produce and not risk or

compliance." According to Mr. Koss, Countrywide's loan programs where the income and assets were stated and not verified "were open to abuse and misuse. ***The fiduciary responsibility of making sure whether the loan should truly be done was not as important as getting the deal done.*** As long as people had jobs and values were on the rise, life was good."

119. In an action commenced against Countrywide for wrongful termination, styled *Zachary v. Countrywide Financial Corporation*, No. 4:08-cv-00214, currently pending in the United States District Court for the Southern District of Texas, the plaintiff, Mark Zachary ("Zachary"), a Regional Vice President of Countrywide KB Homes Loans, Inc. ("CWKB"), alleged that CWKB, a 50-50 joint venture between Countrywide and KB Home Loans ("KB Home"), engaged in a host of mortgage origination and underwriting activities that did not comport with stated and standard practices. Zachary described how loan officers would go so far as to help the loan applicant submit a loan application with ***false income amounts***, so that the applicant would get the loan under false pretenses.

120. According to Mr. Zachary, one of these practices involved CWKB's practice of "flipping" a loan application from a "full documentation" loan program to a "stated income" or NINA loan program. He learned that loans were being canceled at the prime regional operations center as full documentation loans and transferred to the sub-prime operations center in Plano, Texas, as SISA loans, a "low-doc" loan, or NINA loans, a "no-doc" loan. Like the SISA loans, NINA loans were also known as "liar loans" and allowed a borrower to simply state their income without providing any documentation or proof of this income. Thus, rather than denying an applicant based on the information revealed in the original mortgage application, Countrywide pretended that it did not see the disqualifying information, such as insufficient income or assets, and

instead, allowed applicants to apply for a low or no documentation loan, implicitly encouraging them to lie on these renewed applications.

121. Furthermore, Mr. Zachary explained that while a material number of Countrywide's loan applicants were ***not*** eligible for ***any*** loan program requiring documentation based on the applicant's verified income level and/or job status, CWKB loan officers would: (1) cancel the application for the loan program that required documentation; (2) re-do the application as a SISA or a NINA loan through the company's sub-prime originators in Plano, Texas; and (3) coach the loan applicant as to what income level he or she would need to state in order to qualify for the "low-doc" or "no-doc" loan.

122. Investigations into Countrywide's business practices document testimony by other former Countrywide employees that corroborate Zachary's allegations and portray a systemic departure from Countrywide's underwriting standards.

123. On February 15, 2008, Countrywide shareholders filed a consolidated complaint alleging derivative claims against the officers and directors of Countrywide in an action styled *In re Countrywide Financial Corp. Derivative Litigation*, No. 07-CV-06293-MRP-(MANx), currently pending in the United States District Court for the Central District of California. This complaint cited information obtained from several former Countrywide employees who stated that the vast majority of Countrywide's loans were underwritten in contravention of the company's stated underwriting standards. For example, a former "Underwriter II" – a Countrywide employment classification – based in a Jacksonville, Florida, processing center between June 2006 and April 2007 stated that in Countrywide's campaign to increase the volume of loan originations, as much as 80% of the loans originated by Countrywide in that office involved significant variations from the underwriting standards.

124. This former underwriter further stated that since late 2004, Countrywide's Structured Loan Desks employed software called the Exception Processing System or ("EPS") in order to obtain approval for loans that were exceptions to and should have been rejected by Countrywide's underwriting standards. As many as 15% to 20% of the loans generated each day at the company's Structured Loan Desks were run through EPS and very few were ever rejected. This practice was confirmed by documents publicly filed in an Alaskan criminal case against a former Countrywide manager charged with extending improper loans, which reveal that the objectives of EPS were to "[a]pprove virtually every borrower and loan profile." In fact, the creator of EPS stated that EPS was used by company management in order to approve loans that "violated the rules" or to overrule parameters set by Countrywide's loan origination guidelines. EPS gave management the opportunity to approve loans that, on their surface, should have been rejected. In particular, EPS permitted management to override underwriters and actually allow the origination of loans with unacceptably low credit scores. According to this former underwriter, these facially defective loans were approved and funded as a matter of routine.

125. Underwriters who raised concerns about loans were silenced by their superiors. One underwriter described how senior management expected underwriters to "keep quiet" regarding risky loans. For example, this underwriter detected a borrower who applied for a jumbo loan that was purportedly for his primary residence. However, the underwriter noted that this "primary" residence was really the borrower's fourth residence, and Countrywide had previously funded the loans on the borrower's other three homes. When the underwriter pointed this out to a supervisor, the supervisor responded: "We only consider the information presented on this particular loan. We don't try to investigate." The underwriter was reprimanded later that day.

126. Another former employee described the lengths some underwriters went to have loans approved. In early 2004, the former employee discovered that a fellow employee – Nick Markopoulos, a very productive loan officer in Massachusetts – was engaged in cutting and pasting documents from the internet to create a fraudulent verification of employment in support of a loan application. The employee referred Markopoulos' conduct to Countrywide's Human Resources Department but no investigation was started. Markopoulos then left the company of his own accord, but was rehired by Countrywide about a year later as a branch manager. The employee then contacted the supervising Regional Vice President and objected to Markopoulos' rehiring, citing Markopoulos' prior participation in fraud. The Regional Vice President overruled the employee's objection, noting Markopoulos' high level of productivity.

127. Countrywide's risky underwriting practices were noted by people outside of Countrywide too. A former independent mortgage broker and Senior Loan Officer with Family First Mortgage Corporation in Florida compared Countrywide's lending practices to those of Countrywide's competitors, characterizing Countrywide's as the loosest in the entire industry. This broker became familiar with Countrywide's lending practices (and those of Countrywide's competitors) because the broker regularly ran loans through the Tampa, Florida office of Countrywide's Wholesale Lending Division and through the offices of other lenders – including Fremont Mortgage, New Century Mortgage Corporation, and Citibank. The broker recalled that although many mortgage lenders began to tighten credit and appraisal standards in or about 2005, Countrywide's standards remained lax and the company "let things slide."

128. Given these practices, it is unsurprising that Senator Charles Schumer from New York publicly stated, "Countrywide did more to contribute to the sub-prime mortgage crisis than anyone else."

129. The Prospectus Statements for Trusts 2007-AR1, 2007-AR4, 2007-6 and 2007-AR7 also stated:

> The credit report typically contains information relating to such matters as credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcy, dispossession, suits or judgments. All adverse information in the credit report is required to be explained by the prospective borrower to the satisfaction of the lending officer.

Omitted Information: In fact, however, lending officers were regularly ignoring such adverse information in borrower's credit reports. Lending officers and originators also knew that borrowers frequently disputed adverse information in the reports even though the adverse information was in fact true, knowing that the credit agencies, if they could not confirm the adverse information within a specified time period, would remove the adverse information from the report.

130. The Prospectus Statements for Trusts 2007-6, 2007-AR1, 2007-AR4 and 2007-AR7 further stated:

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

Omitted Information: Contrary to the above representations in the Prospectus Supplements, the appraisals obtained by Countrywide underwriters were not independent, but rather, were obtained from appraisers who understood that unless appraisals were generated at inflated predetermined amounts that would enable a loan to be approved, they would no longer continue to get business from Countrywide or brokers working with Countrywide. The effect was that purportedly independent appraisals generated in connection with Countrywide home loans were artificially inflated and not prepared in conformance with Fannie Mae or Freddie Mac appraisal standards. Countrywide failed to confirm that appraisers were following the guidelines described, and this, combined with the implied or express pressures placed on appraisers to appraise to the desired value, created enormous upward pressure on appraisal values, distorting LTV ratios and making the mortgage loans in the pool much riskier than suggested by the Prospectus Supplements/Registration Statement. This was particularly true in 2006-2007 when real estate values in many of the locations where the mortgage pools were located had stopped increasing at the rapid pace of 2004-2005. Thus, the aggressive lending practices introduced during those years (where borrowers were granted large mortgages in excess of their ability to pay with the assurance that refinancing would be possible in a short time) were extremely risky and likely to lead to significant defaults in years when real estate prices did not increase or decreased.

131. For example, since at least 2005, loan officers from Countrywide's origination divisions were permitted to: (i) hire appraisers of their own choosing; (ii) discard appraisals that did not support loan transactions; and (iii) substitute more favorable appraisals by replacement appraisers when necessary to obtain a more favorable LTV ratio so as to qualify the loan for approval. Countrywide loan officers demanded that appraisers assign particular values to a property in order to support the closing of a loan.

132. Countrywide's pressuring of appraisers was described in the *In re Countrywide Financial Corporation Securities Litigation* complaint. The complaint recounts the experiences Capitol West Appraisals, LLC ("Capitol West") had with Countrywide. Capitol West – a company that has provided real estate appraisals to mortgage brokers and lenders since 2005, and is a "review appraiser" for Wells Fargo, Washington Mutual ("WaMu") and other lenders – claimed that Countrywide engaged in a pattern and practice of pressuring real estate appraisers to artificially

increase appraisal values for properties underlying mortgages Countrywide originated and/or underwrote. Capitol West stated that Countrywide loan officers sought to pressure Capitol West to increase appraisal values for three separate loan transactions. When Capitol West refused to vary the appraisal values from what it independently determined was appropriate, Countrywide retaliated in a manner that, according to Capitol West, was consistent with Countrywide's course of conduct with respect to all independent appraisers, one designed to undermine that independence and cause appraisers to act in conformity with Countrywide's improper scheme to inflate real estate values.

133. In particular, according to Capitol West, Countrywide maintained a database titled the "Field Review List" containing the names of appraisers whose reports Countrywide would not accept unless the mortgage broker also submitted a report from a second appraiser. Capitol West was placed on the Field Review List after refusing to buckle under to pressure to inflate real estate values. The practical effect of being placed on the Field Review List was to be blacklisted as no mortgage broker would hire an appraiser appearing on the Field Review List to appraise real estate for which Countrywide would be the lender because neither the broker nor the borrower would pay to have two appraisals done. Instead, the broker would simply retain another appraiser who was not on the Field Review List.

134. According to Capitol West, Countrywide created certain procedures to further enforce its blacklisting of uncooperative appraisers. Specifically, if a mortgage broker were to hire an appraiser that happened to be on the Field Review List, Countrywide's computer systems automatically flagged the underlying property for a "field review" of the appraisal by LandSafe Appraisals, Inc. ("LandSafe"), a wholly owned subsidiary of Countrywide. LandSafe would then issue another appraisal for the subject property that, without exception, would be designed to "shoot holes" in the appraisal performed by the blacklisted appraiser such that the mortgage transaction

could not close based on that appraisal. Indeed, in every instance, LandSafe would find defects in the appraisal from the blacklisted appraiser, even if another, non-blacklisted appraiser arrived at the same value for the underlying property. According to Capitol West, this exact set of facts happened with respect to an appraisal it submitted after it was placed on the Field Review List.

135. Because Countrywide was one of the nation's largest mortgage lenders, a substantial portion of any mortgage broker's loans may have been submitted to Countrywide. Because a broker could not rule out that Countrywide would be the ultimate lender, and because mortgage brokers knew from the blacklist that a field review would be required if a blacklisted appraiser were chosen, with the likely result that a mortgage would not be issued with that appraisal, and, in any event, its mortgage applicant would have to incur the cost of retaining another appraiser, such a broker had a strong incentive to refrain from using a blacklisted appraiser. By these means, Countrywide systematically enlisted appraisers in its scheme to inflate appraisals.

136. Additionally, several complaints have been filed against Countrywide and LandSafe, as well as several of the appraisal companies that Countrywide utilized (including eAppraiseIT.com, Lender Services Inc. and LandAmerica Lender Services) alleging that the appraisals obtained were inflated.

137. Three lawsuits have been filed against Countrywide and LandSafe regarding the use of inflated LandSafe appraisals to obtain loans for individuals through the *Zachary* Complaint and two class actions brought by KB Home purchasers: (1) *Zaldana, et al. v. KB Home, et al.*, No. CV 08-3399 (EDL), currently pending in the United States District Court for the Northern District of California (the "*Zaldana* Complaint"); and (2) *Bolden, et al v. KB Home, et al.*, No. BC385040, currently pending in Los Angeles County Superior Court (the "*Bolden* Complaint").

138. Mark Zachary stated that while he was employed at CWKB, LandSafe – the only appraiser employed by CWKB to appraise the homes on behalf of the joint venture – was encouraged to inflate the value of appraised homes by as much as 6% in order to allow the borrower to "roll up" the closing costs into the mortgage. This practice resulted in the actual home value being less than the mortgaged amount, putting the home buyer "upside down" on the home immediately after purchasing it. It also put the lender and secondary market end investor at risk because they were unaware of the true value of their asset.

139. Deborah and Lonnie Bolden describe in the *Bolden* Complaint how CWKB inflated appraisals in a KB development in Live Oak, California. According to the Bolden Complaint, CWKB required the use of LandSafe. When one of the Bolden's neighbors refused to use CWKB as the lender, they sought an independent appraisal of their property. The independent appraiser concluded that the neighbor's property was worth $408,000, or approximately 13% less than the $469,000 value appraised by CWKB. Upon further investigation, the Boldens discovered that the appraisal performed by CWKB provided inflated values of purportedly "comparable" properties to justify an inflated value for the Bolden's home. Specifically, the Boldens' appraisal report listed two properties as having sold for $461,000 and $480,500, while the public records from the county recorder's office indicated that the homes were actually sold for $408,500 and $410,000, respectively.

140. Countrywide, LandSafe and eAppraiseIT.com have been sued by investors of Fannie Mae and Freddie Mac on behalf of the companies for damages as a result of generating artificially high and unjustified appraisals for property underlying mortgage packages sold to both Fannie Mae and Freddie Mac.

141. Additionally, former appraisers for Countrywide have stated that the company applied pressure on them to inflate appraisals. For example, Jennifer Wertz, a licensed Real Estate Appraiser in California sued eAppraiseIT.com and Lender Services Inc., among others, after she refused to replace a reference to "declining market conditions" in an appraisal with "stable market conditions" in two appraisals for WaMu. Thereafter, eAppraiseIT.com and Lender Services Inc. failed to give Wertz any work (even non-WaMu work) because she refused to alter her appraisals.

142. Moreover, individuals who received Countrywide loans and are now seeking to refinance are discovering that the appraised value of their homes has plummeted because the prior appraised "value" of the homes were inflated. For example, an individual living in Portland, Maine discovered that his 1820's Cape Code style home was falsely described in an earlier appraisal done by Countrywide's LandSafe unit in December 2005 as having four bedrooms and two full bathrooms in order to inflate its value. This same house was appraised by the same LandSafe appraiser in November 2007 for $100,000 less in part because the house actually only had three bedrooms, 1.75 bathrooms and was 200 square feet smaller. When asked for an explanation, the LandSafe-approved appraiser stated that Countrywide had changed its rules after previously allowing their appraisers to overvalue properties to substantiate large loans.

143. The Prospectus Supplements further represented:

> Under its Standard Underwriting Guidelines, Countrywide Home Loans generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 33% and a debt-to-income ratio based on the borrower's total monthly debt of up to 38%.

Omitted Information: Countrywide's debt-to-income ratios were misstated (understated) by the previously alleged falsely reported income levels on loan applications, many times with the knowledge of the mortgage broker. Countrywide took no meaningful steps to prevent these practices as Countrywide was highly motivated to close and securitize loans – regardless of the underlying risk profile. In fact, during the summer of 2007, when there was increasing publicity about suspect lending practices, Countrywide did an audit of lending practices by certain mortgage brokers and found many inconsistencies in loan applications, but did nothing about it.

144. The Prospectus Supplements also stated:

> Under the Stated Income/Stated Asset Documentation Program, the mortgage loan application is reviewed to determine that the stated income is reasonable for the borrower's employment and that the stated assets are consistent with the borrower's income. The Stated Income/Stated Asset Documentation Program permits maximum Loan-to-Value Ratios up to 90%. Mortgage loans originated under the Stated Income/Stated Asset Documentation Program are generally eligible for sale to Fannie Mae or Freddie Mac.

Omitted Information: In fact, false stated income amounts far in excess of those reasonable for the borrowers' employment were regularly ignored in order to approve loans under the SISA asset documentation programs. In addition, Countrywide was offering SISA loans up to 100% LTV until March 2007. In fact, in March 2007, Countrywide assured borrowers that 100% financing was still available:

> "We want to assure homeowners that there is still an extensive selection of mortgage loans to suit a multitude of personal and financial circumstances," said Tom Hunt, managing director of Countrywide Home Loans. "We recognize it's been widely reported that some major lenders, like Countrywide, no longer offer 100% financing. In fact, we have made changes to certain subprime and other special mortgage programs, but we have not eliminated 100% financing. We still offer one of the widest selections of low- and no-downpayment options to qualified customers, including those with less-than-perfect credit."

Silver State Mortgage's Underwriting Practices

145. The Registration Statement omitted material facts about the underwriting practices of Silver State, an originator in the following Trusts:

2007-6
2007-AR1
2007-AR7

146. For example, the Registration Statement stated:

> Each originator of mortgage loans must be an institution experienced in originating and servicing conventional mortgage loans in accordance with accepted practices and prudent guidelines.

Omitted Information: As detailed below, Silver State's defective underwriting practices and guidelines were anything but prudent. This fact was admitted by CitiMortgage, a corporate affiliate of Citigroup Mortgage, in a lawsuit styled *CitiMortgage Inc. v. Silver State Financial Services, Inc. DBA Silver State Mortgage*, 4:07-cv-01533 (E.D. Mo. 2008). In that suit, CitiMortgage admitted that between 2004 and 2006, Silver State sold 48 loans to CitiMortgage:

(a) that were underwritten and/or originated based upon materially inaccurate information or on material misrepresentations made by the borrower, Silver State, Silver State's directors, officers, employees, agents, independent contractors and/or affiliates;

(b) where CitiMortgage has discovered discrepancies regarding property ownership, mortgage or other debts, and occupancy;

(c) that suffer[ed] from first payment/early payment defaults; and/or

(d) that have turned out to be otherwise defective or not in compliance with the Citigroup Mortgage Manual or sales contracts between the parties.

147. The *CitiMortgage* lawsuit resulted in a $12,118,344.78 default judgment being entered against Silver State.

148. Lawsuits by other entities who purchased loans from Silver State alleged similar underwriting defects. In a lawsuit styled *Indymac Bank v. Silver State Mortgage*, 2:07-cv-00405 (D. Nev. 2007), Indymac Bank ("Indymac") alleged that in 2006, Silver State sold 36 loans to Indymac, 35 of which had at least one of the following defects:

- were Early Payment Defaults because the borrowers did not make their first payment after Indymac's purchase of the loan and failed to make a timely payment to anyone within the first three months after Indymac's purchase of the loan;

- contained misrepresentations of borrower's income and assets;
- contained misrepresentations of the occupancy status of the subject property;
- contained defective appraisals;
- had incomplete documentation – including incomplete purchase contracts and/or deeds of trust;
- were "flip transactions" in that the property had sold within the proceeding nine months at an increased price with no explanation for the increased value; and
- title issues were not resolved prior to the sale as required in the preliminary title report.

149. In a lawsuit styled *Terwin Advisors LLC et al. v. Silver State Financial Services, Inc. et al*, 1:07-cv-03647 (S.D.N.Y. 2007), Terwin Advisors LLC alleged, *inter alia*, that a number of the loans it purchased from Silver State between 2004 and 2007 were early payment defaults. The court entered a default judgment against Silver State in the amount of $4,498,517.91.

150. In a lawsuit styled *UBS Real Estate Securities Inc. v. Silver State Financial Services, Inc. d/b/a Silver State Mortgage*, 1:07-cv-03702 (S.D.N.Y. 2007), UBS Real Estate Securities Inc. alleged that a number of loans it purchased from Silver State between 2005 and 2007 were early payment defaults. On January 15, 2008, the court entered a default judgment against Silver State in the amount of $2,955,603.55.

151. Mike Garner ("Garner") a former employee of Silver State described these practices to Alex Blumberg ("Blumberg") during an interview on the radio program *This American Life*:

> Garner: The next guideline lower is just stated income, stated assets. That came out. So then you basically state what you make and state what's in your bank account. They call and make sure you work where you say you work. And then an accountant has to say that for your field it is possible to make what you say you make. But they don't say what you make, they just say it's possible that they could make that.
>
> Blumberg: It's just so funny that instead of just asking the people to prove what they make, there's this sort of theater in place, that you have to find an accountant to say yes, this person who is sitting right in front of me and who could very easily provide

> a W-2 form, but we're not asking for a W-2 form, but we do want this accountant to say yeah, what they're making is plausible in some universe.
>
> Garner: Yeah, and loan officers would have an accountant they could call up and say "Can you write a statement saying a truck driver can make this much money?" Then the next one, came along, and it was no income, verified assets. So you don't have to tell the people what you do for a living. You don't have to tell the people what you do for work. All you have to do is state you have a certain amount of money in your bank account. And then, the next one, is just no income, no asset. You don't have to state anything. Just have to have a credit score and a pulse.
>
> *   *   *
>
> Garner: Yeah. And my boss was in the business for 25 years. He hated those loans. He hated them and used to rant and say, "It makes me sick to my stomach the kind of loans that we do." He fought the owners and sales force tooth and neck about these guidelines. He got same answer. Nope, other people are offering it. We're going to offer them too. We're going to get more market share this way. House prices are booming, everything's gonna be good. And . . . the company was just rolling in the cash. The owners and the production staff were just raking it in.

152. According to a former conditions group member at Silver State the quality of Silver State's loans declined prior to the period that the loans backing the certificates at issue here were originated, as Silver State offered a variety of loans that became increasingly more aggressive. During this time period Silver State's underwriting guidelines were consistent with its increasingly aggressive loan programs and it became less stringent as if the loan programs and underwriting guidelines were in a race to the bottom. Many of the loans were "stated income" (no verification of income), "stated asset" (no verification of assets), or "stated-stated" (no verification of either income or assets). In some cases a DTI ratio was not even required, but when DTI was required, it was permissible to calculate it using the stated income if stated income was the income figure permitted by the loan program. Of course, using the stated income in the calculation of the DTI ratio meant that the DTI ratio was not verified. In checking a borrower's employment status, Silver State often could not verify that the borrower actually had a job because only the "employer's" mobile telephone number was provided and such numbers were not reliable for employment verification.

Nevertheless, Silver State deemed such verification sufficient, and than sold the loans to secondary market investors such as Citigroup Mortgage.

153. Many of the loans sold to investors such as Citigroup Mortgage by Silver State were essentially blind loans without verification. Reviews of loan packages showed that it became very easy for borrowers to lie about their unverified loans and assets. Yet such loans were approved and funded because Silver State wanted to prevent disqualification of the loan. Some loan officers pushed borrowers into the loan product that was the easiest fit from an approval standpoint (rather than choose a product that was a rational choice for the borrower), or the product that carried the largest commission.

154. According to this same former conditions group member the risk problem went beyond the fact that loan programs did not require verification. In some cases, verification of one piece of information provided evidence that an unverified piece of information could not be accurate, but that evidence was ignored both in Silver State's underwriting and in the due diligence review by secondary market investors such as Citigroup Mortgage. Loan files often contained conflicting information with respect to stated income and assets yet the loans were still conveyed to secondary investors like Citigroup Mortgage. The lack of verification and the acceptance of conflicting information led to unqualified borrowers obtaining loans which were transferred to Citigroup Mortgage.

155. Silver State permitted appraisers to use a questionable method of determining comparable property value. This technique used comparable property value from higher priced areas not within the neighborhood of the property under appraisal. This maneuver helped attain the objective of justifying a higher appraisal value for the borrower's property, and thus increased the likelihood that the loans would be approved.

156. Silver State set up a group within its business to qualify suspect applicants for loans. The group known as the Conditions Group attempted to cure conditions that otherwise would disqualify a loan from acceptance by the investor purchasing the pool of loans that Silver State was offering for sale in the secondary market.

157. Silver State made loans where the stated income was not believable and no verification was required or provided. Fictitious income figures were accepted by Silver State as they would re-sell the loans to secondary investors such as Citigroup Mortgage who did little if anything to verify the underwriting used to generate the underlying loans. In addition to stated income loans, there were also stated asset loans, where the borrowers stated their assets but for which no verification was required or provided. These loans were often very questionable because of the absence of verification and the unreasonable nature of the assets asserted. Underwriters repeatedly signed off on these blind loans.

158. According to a former loan processing manager, Silver State's loan programs were very aggressive, and "[y]ou could get a loan if you had a pulse." Whatever deficiencies a prospective borrower might have, there was a loan program that could avoid disqualification on the basis of those deficiencies. Silver State made 100% LTV loans for "investment property," referring to residential properties that were purchased by persons who did not intend to live in them, but intended to rent them out or resell them.

159. In light of Silver State's conduct, it is not surprising that the Nevada Mortgage Lending Division launched an investigation into Silver State's February 2007 collapse. By March of 2007, Scott Bice, Nevada's Mortgage Lending commissioner, said his agency's investigation revealed some evidence of fiduciary mismanagement at Silver State and moved to revoke the mortgage broker licenses of Michael Stoddart and Lynn Woodrum, Silver State's owners.

Argent Mortgage Company, LLC's Underwriting Practices

160. The Prospectus Supplements and Registration Statements included false statements about the underwriting practices of Argent, now a division of Citigroup and a key originator for the following Trusts:

2007-AMC1
2007-AMC2
2007-AMC3
2007-AMC4

161. The Prospectus Supplements for the above Trusts described the underwriting standards applicable to each of the originators who originated loans for the Trusts as follows:

> Each originator's underwriting standards are intended to assess the value of the mortgaged property and to evaluate the adequacy of the property as collateral for the mortgage loan and consider, among other things, a mortgagor's credit history, repayment ability and debt service-to-income ratio, as well as the type and use of the mortgaged property.

162. Further, the Registration Statement provided:

> Unless otherwise specified in the related prospectus supplement, the underwriting standards are applied by the originators to evaluate the borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral. Initially, a prospective borrower is required to fill out a detailed application regarding pertinent credit information. As part of the description of the borrower's financial condition, the borrower is required to provide a current balance sheet describing assets and liabilities and a statement of income and expenses, as well as an authorization to apply for a credit report that summarizes the borrower's credit history with local merchants and lenders and any record of bankruptcy. In addition, an employment verification is obtained that reports the borrower's current salary and may contain information regarding length of employment and whether it is expected that the borrower will continue such employment in the future.

Omitted Information: Argent's underwriting practices were not applied to evaluate the borrower's credit history, credit standing, and repayment ability. Nor was Argent verifying borrower employment. In fact, Argent approved hundreds of loans worth tens of millions of dollars that were based on fraudulent supporting documents, including false employment verifications. Far from evaluating its prospective borrower's ability to repay loans, according to a December 7, 2008 article in the *Miami Herald*, Argent's employees, including a vice president named Orson Benn, actively assisted mortgage brokers in falsifying borrowers' financial information by "tutoring . . . mortgage brokers in the art of fraud." These employees, "taught [brokers] how to doctor credit reports, coached them to inflate [borrower] income on loan applications, and helped them invent phantom jobs for borrowers" so that loans could be approved. According to Benn himself, "the accuracy of loan applications was not a priority." None of the Prospectus Supplements specified that Argent would depart from the underwriting standards described in this paragraph. Thus, the Registration Statement and Prospectus Supplements represented that Argent would abide by these general underwriting standards.

163. The *Miami Herald* examined the applications for 129 loans funded by Argent and "found at least 103 that contained false and misleading information" and "red flags: non-existent employers, grossly inflated salaries and sudden, drastic increases in the borrower's net worth." As noted by the newspaper, "The simplest way for a bank to confirm someone's income is to call the employer. But in at least two dozen cases, the applications show bogus telephone numbers for work references . . . ."

164. Argent's lack of verification was so poor that a "borrower [who] claimed to work a job that didn't exist . . . got enough money to buy four houses." Another borrower "claimed to work for a company that didn't exist – and got a $170,000 loan."

165. It is therefore not surprising that according to a May 11, 2008 *Cleveland Plain Dealer* article, Jacqulyn Fishwick, who worked for more than two years at an Argent loan processing center near Chicago as an underwriter and account manager, noted that "some Argent employees played fast and loose with the rules" and stated "'I personally saw some stuff I didn't agree with.'" Ms.

Fishwick "saw [Argent] account managers remove documents from files and create documents by cutting and pasting them."

166. In addition to Argent's utter lack of underwriting, Argent had also been granting stated income loans at high LTV ratios and was failing to monitor brokers and correspondents and failing to perform due diligence of brokers and correspondents, including reconciling adverse information found in database searches during the broker approval process.

167. The Registration Statement also provided:

> In determining the adequacy of the property as collateral, an appraisal is made of each property considered for financing, except in the case of new manufactured homes, as described under "The Trust Funds." Each appraiser is selected in accordance with predetermined guidelines established for appraisers. The appraiser is required to inspect the property and verify that it is in good condition and that construction, if new, has been completed.

Omitted Information: Appraisers were, in fact, selected according to their willingness to inflate appraisals to specified values and not based upon objective appraisal standards.

Wells Fargo Bank, N.A.'s Underwriting Practices

168. The Prospectus Supplements made false statements about the loans originated by Wells Fargo which was a key originator for the following Trusts:

2007-2	2007-AR7
2007-6	2007-WFHE1
2007-AR1	2007-WFHE2
2007-AR4	2007-WFHE3
2007-AR5	2007-WFHE4

169. The Prospectus Supplement dated March 29, 2007, for Series 2007-AR5 stated in part:

> Wells Fargo Bank's underwriting standards are applied by or on behalf of Wells Fargo Bank to evaluate the applicant's credit standing and ability to repay the loan, as well as the value and adequacy of the mortgaged property as collateral.

170. In regard to "stated income" loans, the Prospectus Supplement stated:

> The borrower's income as stated must be reasonable for the borrower's occupation as determined at the discretion of the loan underwriter.

Omitted Information: Contrary to the representations in the Prospectus Supplement, Wells Fargo's underwriting standards were not concerned with the borrower's ability to repay their loan. Wells Fargo went as far as firing one senior underwriter for choosing not to compromise his underwriting standards when he was pressured to do so. Wells Fargo's mortgage underwriting was a "production based shop," meaning that underwriters had to make the numbers, regardless of risk, and were expected to "find a way" to deem the loans as acceptable, when in fact they did not meet the required standards. As a result of its poor underwriting Wells Fargo sold sub par loans to Citigroup Mortgage that should never have been made in the first instance. All that was required for acceptance by Wells Fargo was some evidence of a credit score high enough to qualify for the loan product, and the other qualifications were either ignored, or "made to fit."

171. Loan applications were originated by a stable of residential mortgage loan brokers affiliated with Wells Fargo's wholesale mortgage loan broker channel, and these brokers submitted the loan application packages from prospective borrowers to Wells Fargo's account executives.

172. As a result of its lax underwriting, Wells Fargo's Alt-A Division underwrote loans that overwhelmingly were sub-prime loans or sub-par loans, or loans that should not ever have been made to the people to whom they were given. One Senior Underwriter was terminated from his job for bringing to the attention of superiors that these loans were being made to people who could not repay them.

173. In late 2005/early 2006, the Controller of the Currency conducted an audit or examination of the Wells Fargo Des Moines, IA facility, and one of the managers told the underwriting group not to mention to the examiners the fact that they were underwriting sub-prime loans in the Alt-A division.

174. Wells Fargo's Alt-A group was a "production based shop" where people had to make the numbers regardless of risk. There were about 40 underwriters in this group, and generally speaking, each was expected to underwrite eight to ten loans per day. The primary objective of this group was to increase sales and meet sales targets which meant that underwriters could not underwrite to quality loan standards, but were expected to "find a way" to deem the loans as acceptable when in fact they did not meet the required standards.

175. The resulting loans were sub-par because all that was required was some evidence of a credit score high enough to qualify for the loan product, and other qualifications were either ignored, or "made to fit." In some cases even the credit scores were problematic because sometimes they were wholly fictitious, and generally the underwriting guidelines did not include performing a thorough examination of whether the credit score matched the borrower's profile in terms of such indicators as age, time on the job, time in the neighborhood, savings history, and other factors. Some loan products required a certain number of "trade lines," meaning the borrower had to have a certain number of credit-related transactions from which to confirm a record of good credit. However, if a prospective borrower did not have enough trade lines, then "alternative measures" of credit were accepted, and this meant that almost any credit history would qualify.

176. The group underwrote Alt-A loans and a wide variety of sub-prime loans, including a variety of loan products that did not require the borrower to provide documentation of basic information relevant to the risk that the borrower would not be able to repay the loan. The loan products were known by a variety of names such as "no-doc," or stated income (without verification), light documentation, no income verification, and NINA verification. The products also included a variety of ARMs and low payment loans, such as interest-only for a certain period of time, with payment escalation afterwards.

177. During 2006 and into 2007, the number of loans being underwritten and funded began to decline. To sustain revenues, the Des Moines group was required to increase production, and as a result the underwriting standards were stretched, or more accurately, simply "ignored." The process practiced in this group was as follows, according to a former employee: Get a file, look at the credit score, and if the credit score is okay, then find any scrap of information concerning income and take it at face value without any investigation, and ignore all negative information on the grounds that it "has no bearing on the file." One Senior underwriter was terminated for bringing to his managers' attention what he believed was an obviously fraudulent loan application that he would not sign off on as the assigned underwriter.

178. Wells Fargo's departure from its underwriting standards was also highlighted in a lawsuit styled *Mayor and City Counsel of Baltimore v. Wells Fargo Bank, N.A. et al.*, 08-cv-062 (D. Md. 2008) that alleged Wells Fargo extended loans without regard to "the borrower's ability to repay." This case is currently pending. Also, contrary to the representations in the Prospectus Supplement, Wells Fargo did not, for its "stated income" loans, ensure that "The borrower's income as stated must be reasonable for the borrower's occupation as determined in the discretion of the loan underwriter." Rather, as alleged in a lawsuit styled *Wells Fargo Bank, N.A. v. Quicken Loans Inc.*, 2:08-cv-12408 (E.D. Mich. 2008), Wells Fargo expected that their borrowers would overstate their income on "stated income" loan applications and that these borrowers would not have the ability to make their monthly mortgage loan payments. In fact, contrary to the representations in the Prospectus Supplement, Wells Fargo viewed verification of its borrowers' income as unnecessary given the then appreciating value of homes.

179. Wells Fargo acknowledged its poor underwriting practices in its 2007 Annual Report. In a section entitled "Credit Quality: What We Did Wrong" Wells Fargo noted:

> We made some mistakes . . . . Too many of our home equity loans had "loan-to-value" ratios that were too high . . . . Sometimes we did not require full documentation for these home equity loans we purchased from brokers because these were prime borrowers who had high credit scores with lower expected risk of default . . . . We should not have offered such lenient loan terms . . . , and we made the mistake of taking on too much risk. We should have known better.

180. The Prospectus Supplement dated March 29, 2007 for Series 2007-AR5 further represented that:

> With respect to all mortgage loans underwritten by Wells Fargo Bank, Wells Fargo Bank's underwriting of a mortgage loan may be based on data obtained by parties other than Wells Fargo Bank that are involved at various stages in the mortgage origination or acquisition process. This typically occurs under circumstances in which loans are subject to an alternative approval process, as when Correspondents, certain mortgage brokers or similar entities that have been approved by Wells Fargo Bank to process loans on its behalf, or independent contractors hired by Wells Fargo Bank to perform underwriting services on its behalf ("contract underwriters") make initial determinations as to the consistency of loans with Wells Fargo Bank underwriting guidelines. Wells Fargo Bank may also permit these third parties to utilize scoring systems in connection with their underwriting process. The underwriting of mortgage loans acquired by Wells Fargo Bank may also permit these third parties to utilize scoring systems in connection with their underwriting process. The underwriting of mortgage loans acquired by Wells Fargo Bank pursuant to a Delegated Underwriting arrangement with a Correspondent is not reviewed prior to acquisition of the mortgage loan by Wells Fargo Bank although the mortgage loan file is reviewed by Wells Fargo Bank to confirm that certain documents are included in the file. In addition, in order to be eligible to sell mortgage loans to Wells Fargo Bank pursuant to a Delegated Underwriting arrangement, the originator must meet certain requirements including, among other things, certain quality, operational and financial guidelines.

Omitted Information: In fact, Wells Fargo did not attempt to confirm the standards actually used by mortgage brokers, correspondents and other third parties from which Wells Fargo acquired mortgages. These third parties were able to engage in serious underwriting deficiencies without review or correction by Wells Fargo. Wells Fargo has subsequently attributed much of its $1.3 billion mortgage-related write-down to loans it held which were originated by third parties.

American Home Mortgage Corp.'s Underwriting Practices

181. The Prospectus Supplements omitted material facts about the underwriting practices of AHM, which was a key originator in the following Trusts:

2007-6
2007-AR1
2007-AR7

182. For example, the Prospectus Supplement dated January 30, 2007, for Series 2007-AR1 and the Prospectus Supplement dated June 1, 2007, for Series 2007-AR7, stated:

> American Home's underwriting philosophy is to weigh all risk factors inherent in the loan file, giving consideration to the individual transaction, borrower profile, the level of documentation provided and the property used to collateralize the debt. These standards are applied in accordance with applicable federal and state laws and regulations. Exceptions to the underwriting standards may be permitted where compensating factors are present. In the case of investment properties and two-to four-unit dwellings, income derived from the mortgaged property may have been considered for underwriting purposes, in addition to the income of the mortgagor from other sources. With respect to second homes and vacation properties, no income derived from the property will have been considered for underwriting purposes. Because each loan is different, American Home expects and encourages underwriters to use professional judgment based on their experience in making a lending decision.

Omitted Information: The standards applied in connection with the underwriting of loans generated by AHM were not in compliance with applicable federal and state laws and regulations. In fact, in order to continue to avoid a decline in loan volume, AHM regularly granted exceptions even where "compensating factors" were not present. A third of its mortgages were pay-option ARMs which allowed borrowers to make payments of less than even the interest accruing on the loan. This option not only failed to reduce the principal, but actually added the deferred interest payments to the principal balance. In fact, AHM encouraged underwriters to generate loans regardless of the applicable risk factors and without regard to reasonable professional judgment in order to generate loan production, because its business relied on volume. Thus, AHM was granting exceptions as a matter of course whether or not they were merited.

183. AHM's loan programs were very questionable and risky, and the underwriting standards were commensurately lax. According to one AHM district manager the loan pools sold to Citigroup Mortgage and other Wall Street banks were made up of "nothing but junk." Managers were told to ignore issues such as the borrower's ability to repay, and just sell these programs.

184. Because AHM was a mortgage banker that used its line of credit to fund residential mortgage loans, create a loan pool, and then, to replenish its funds, it would sell the loans in bulk, as soon as possible, to investors. The investors were Wall Street firms such as Citigroup Mortgage that sought the loan pools as collateral for their mortgage backed securities. These Wall Street firms initiated the lending process by actually designing and delivering the loan programs or types of loans that could be sold by AHM to ultimately form the backing for the Wall Street firms' mortgage backed certificates. The volume of business was very large and in the 2006 time-frame, AHM was funding mortgages amounting to about $5 billion per month.

185. AHM sales representatives would contact loan brokers (and others who facilitated loans for borrowers) and would arrange with the loan brokers to offer whatever loan programs the AHM representatives were promoting at the time. One AHM district manager referred to this effort as "selling the loan programs." The AHM sales representatives promoted the loan products that the Wall Street firms, such as Citigroup Mortgage, were interested in purchasing from them to form the backing for their mortgage backed certificates. AHM loan programs were questionable and risky. The underwriting standards were lax in that they required very little in the way of documentation to qualify borrowers for the loan programs.

186. According to a former District Manager at AHM, even loan pools that were ultimately rated AAA were made up of "nothing but junk." AHM underwriting guidelines were designed to comply with the needs of the Wall Street firms that sought the loan pools to use as

collateral for their securitizations. When this former AHM District Manager learned that the rating agencies rated AHM's loan pools as AAA, it left him "wondering" how they could be rated so high. But AHM, continued to sell these pools to Citigroup Mortgage and other Wall Street banks, who sold the certificates at issue in this litigation which were backed by the questionable loan pools.

187. According to this same former AHM District Manager, Representatives of the Wall Street firms that purchased AHM's loans essentially told AHM, "Take our product and sell it." Wall Street such as Citigroup Mortgage firms did not want to "miss out on the housing boom" and needed investment opportunities to soak up the funds coming in particularly from foreign investors. AHM ignored issues such as the borrower's ability to repay, and just originated the loans which could than be resold to Citigroup Mortgage and the other Wall Street banks. According to a former AHM employee, Wall Street firms "fed off each other, and could not get enough of these loan pools, and these Wall Street firms were packaging these pools and securitizing them as fast as they could, and they sold these securities all over the world. . . . They distributed this toxic waste throughout the worldwide system."

188. The Prospectus Supplements for the 2007-ARI and 2007-AR7 Trusts also stated:

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

Omitted Information: AHM was granting loans to applicants whose creditworthiness was impaired in order to generate loan volume regardless of the applicants' ability or willingness to repay the debt they were incurring. In fact, AHM was, as a matter of course, awarding loans, without properly verifying income, to speculators who were not occupying the homes. AHM knew the high proportion of non-owner occupied loans would decrease the borrowers' "willingness" to continue to make their loan payments if home prices stagnated or dropped. AHM subsequently suffered massive losses due to the failure of loans made to ***borrowers whose income AHM hadn't verified***.

189. These Prospectus Supplements further stated:

> Non-conforming loans are generally documented to the requirements of Fannie Mae and Freddie Mac, in that the borrower provides the same information on the loan application along with documentation to verify the accuracy of the information on the application such as income, assets, other liabilities, etc. Certain non-conforming stated income or stated asset products allow for less verification documentation than Fannie Mae or Freddie Mac require. Certain non-conforming Alt-A products also allow for less verification documentation than Fannie Mae or Freddie Mac require. For these Alt-A products, the borrower may not be required to verify employment income, assets required to close or both. For some other Alt-A products, the borrower is not required to provide any information regarding employment income, assets required to close or both. ***Alt-A products with less verification documentation generally have other compensating factors such as higher credit score or lower loan-to-value requirements.***

Omitted Information: Granting loans under stated income applications enhanced the importance of accurate property appraisals and credit score data. However, prior to 2007 the appraisal process had been substantially eroded such that many of the real estate properties underlying the Alt-A loans were not the subject of legitimate appraisals done in compliance with USPAP standards, including many of the appraisals done in Texas and Illinois. Moreover, the credit scores of many AHM borrowers were manipulated.

190. These Prospectus Supplements further stated:

> In order to determine if a borrower qualifies for a non-conforming loan, the loans have been either approved by Fannie Mae's Desktop Underwriter, Freddie Mac's Loan Prospector automated underwriting systems, a customized form of Fannie Mae's Desktop Underwriter called Custom Desktop Underwriter, or they have been manually underwritten by American Home's underwriters. American Home's Alt-A loan products generally have been approved manually by contract underwriters provided by certain mortgage insurance companies or by American Home's senior underwriters. American Home Solutions products must receive an approval from the Assetwise automated underwriting system. For manually underwritten loans, the underwriter must ensure that the borrower's income will support the total housing expense on an ongoing basis. Underwriters may give consideration to borrowers who have demonstrated an ability to carry a similar or greater housing expense for an extended period. In addition to the monthly housing expense, the underwriter must evaluate the borrower's ability to manage all recurring payments on all debts, including the monthly housing expense. When evaluating the ratio of all monthly debt payments to the borrower's monthly income (debt-to-income ratio), the underwriter should be aware of the degree and frequency of credit

> usage and its impact on the borrower's ability to repay the loan. For example, borrowers who lower their total obligations should receive favorable consideration and borrowers with a history of heavy usage and a pattern of slow or late payments should receive less flexibility.

Omitted Information: Contrary to the representations in the Registration Statement and Prospectus Supplements about the strict qualifications and standards used to underwrite conforming loans, loans were being regularly granted where the borrowers' income did not support the total housing expense on an ongoing basis. In fact, many of the loans granted did not comply with the requirements of the underwriting systems used and/or were granted notwithstanding their failure to meet the existing processing standards. In fact, AHM was not nearly as meticulous with evaluating borrowers as the statement above implies. Borrowers were extended loans despite problems with lack of documentation, ability to pay and appraisals as well as abusive bait and switch tactics. During 2007, there were repeated complaints due to AHM's efforts in 2006-2007 to inflate its loan volume. In fact, during 2007 borrowers lodged repeated complaints that loans were switched on them by AHM, leaving them with mortgages they could not pay.

191. In addition, these Prospectus Supplements further stated:

> Every mortgage loan is secured by a property that has been appraised by a licensed appraiser in accordance with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. The appraisers perform on-site inspections of the property and report on the neighborhood and property condition in factual and specific terms. Each appraisal contains an opinion of value that represents the appraiser's professional conclusion based on market data of sales of comparable properties and a logical analysis with adjustments for differences between the comparable sales and the subject property and the appraiser's judgment. In addition, each appraisal is reviewed for accuracy and consistency by American Home's vendor management company or an underwriter of American Home or a mortgage insurance company contract underwriter.
>
> The appraiser's value conclusion is used to calculate the ratio (loan-to-value) of the loan amount to the value of the property. For loans made to purchase a property, this ratio is based on the lower of the sales price of the property and the appraised value. American Home sets various maximum loan-to-value ratios based on the loan amount, property type, loan purpose and occupancy of the subject property securing the loan. In general, American Home requires lower loan-to-value

> ratios for those loans that are perceived to have a higher risk, such as high loan amounts, loans in which additional cash is being taken out on a refinance transaction, loans on second homes or loans on investment properties. A lower loan-to-value ratio requires a borrower to have more equity in the property, which is a significant additional incentive to the borrower to avoid default on the loan. In addition, for all loans in which the loan-to-value ratio exceeds 80%, American Home requires that the loan be insured by a private mortgage insurance company that is approved by Fannie Mae and Freddie Mac. Loans with higher loan-to-value ratios require higher coverage levels. For example, non-conforming loans with loan-to-value ratios of 85%, 90% and 95% require mortgage insurance coverage of 12%, 25% and 30%, respectively. Alt-A loans with full or alternative documentation and loan-to-value ratios of 85%, 90%, 95% and 97% require mortgage insurance coverage of 12-20%, 25%, 30% and 35%, respectively. Alt-A loans with loan-to-value ratios up to 100% require 35% coverage.

Omitted Information: In fact, appraisals were not done with vigorous onsite inspections of each property and in compliance with USPAP standards, but rather were regularly inflated in order to generate a preordained value to justify loan approval. Moreover, the appraisals were subject to only a cursory review and/or no review at all for accuracy and consistency by AHM and/or its representatives. Loans were regularly being extended with high LTV ratios without requiring higher coverage levels and/or being approved via the use of inflated appraisals. AHM's LTV ratios assumed valid appraisals were performed. This was not the case, as appraisers were pressured to appraise to predetermined inflated values such that artificially inflated appraisals were common.

192. These Prospectus Supplements further stated:

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

Omitted Information: AHM was using anything but "common sense" in granting mortgages to customers with little or no money down. Exceptions were not made for "quality" loans, but rather were granted as a matter of course in order to increase AHM's loan volume. In fact, one third of the mortgages held in the pools were pay-option ARMs, many of which were made to speculators.

Opteum Financial Services, LLC's Underwriting Practices

193. The Prospectus Supplements included false statements about the loan underwriting practices of Opteum Financial Services, LLC ("Opteum" or "OFS") which was a key originator for the following Trusts:

2007-6
2007-AR7
2007-OPX1

194. For example, the Prospectus Supplement for Trust Series 2007-OPX1, dated February 15, 2007, stated:

> Exceptions. The following program parameters that are used by OFS are guidelines only. OFS, on a case-by-case basis, may determine that the prospective mortgagor warrants an exception outside the standard program guidelines. Exceptions may be granted if the loan application reflects certain compensating factors, including instances where the prospective mortgagor has demonstrated an ability to save and devote a greater portion of income to basic housing needs. Other compensating factors may include a low loan-to-value; an excellent mortgage pay history; the primary borrower possesses a higher credit score than required; a substantial net worth to suggest that the repayment of the loan is within the prospective mortgagor's ability and/or the borrower has demonstrated an ability to maintain a debt-free position and the value of the mortgaged property as collateral for the loan is adequate.
>
> *   *   *
>
> OFS allows the following variances from its underwriting guidelines with respect to mortgage loans originated by national builders: 1) verifying documentation relating to completion of work; 2) appraisal review requirements for owner occupied loan amounts less than $1 million are not required; 3) real estate commissions are allowed up to a maximum of 10%; and 4) exceptions for debt to income ratios allowed. Also, national builders originate loans under the "Skip It" program which allows borrowers who owner occupy the property to have no payments for the first (6) six months on their fist mortgage lien. The total dollar amount of the payments required for the first six months are paid by the builder to OFS at the time of purchasing of the loan.

Omitted Information: Opteum, partially owned by Citigroup, was a lender that provided funding for homebuilders, who were some of the most aggressive in pushing borrowers into loans. Opteum served as a middleman between Wall Street and builders. Opteum provided developers with financing for their mortgage operations, then resold the loans to investment banks, which packaged them as securities and sold them to investors. The whole process made it easier for developers to build and sell homes when demand was otherwise declining. It also made it possible for Opteum to continue to generate fee income. Contrary to what was represented in the Prospectus Supplements, exceptions to guidelines were granted as a matter of course – not just where compensating factors existed. The exceptions were granted so that loans would be issued to borrowers even when compensating factors were not present. Further, in some instances, Opteum would permit its borrowers to misstate their income in support of loan applications. Such practices were alleged in a lawsuit styled *Aldridge, et al. v. Premium Connections, Inc., et al.*, 2:08-cv-359 (M.D. Fla. 2008).

195. The Prospectus Supplements further stated:

> OFS generally includes in its origination process by performing a pre-funding audit on each mortgage loan originated by OFS's retail and wholesale origination platforms including a review for compliance with the related program parameters and accuracy of the legal documents. OFS generally performs verbal audits of the borrower's income or employment and a verification of social security numbers of each borrower, and reviews the property ownership history that is provided by outside services prior to the disbursement of the loan.

Omitted Information: OFS did not in fact verify borrower information obtained via its origination process prior to disbursement, resulting in excessive early payment defaults and delinquencies. Ultimately, OFS had to completely correct its underwriting practices which were not as represented and were much looser than suggested by the Registration Statement and Prospectus Supplements.

Accredited Home Lenders, Inc.'s and Aames' Underwriting Practices

196. The Prospectus Supplements made false statements about the underwriting practices of Accredited Home Lenders, Inc. ("Accredited") which, on its own and through its acquisition of Aames was a key originator in the following Trusts:

2007-AHL1
2007-AHL2
2007-AHL3

197. The Prospectus Supplements for each of the above Trusts stated either: (1) "Accredited's underwriting process is intended to assess a mortgage loan applicant's credit standing and repayment ability and the value and adequacy of the real property security as collateral for the proposed mortgage loan"; or (2) that Accredited's underwriting standards "are intended to assess the value of the mortgaged property and to evaluate the adequacy of the property as collateral for the mortgage loan and consider, among other things, a mortgagor's credit history, repayment ability and debt service-to-income ratio, as well as the type and use of the mortgaged property."

Omitted Information: In fact, Accredited and Aames were regularly extending loans without regard to the borrowers' creditworthiness or the adequacy of the underlying real property, which served as collateral for the loan. Instead of taking into account the potential borrower's debt-to-income ratios and credit history, credit score and appraisals, Accredited and Aames Funding were granting loans without regard to creditworthiness. Accredited and Aames had little or no internal controls over their underwriting practices. In fact, Aames Funding was making loans to low-income elderly borrowers without regard to their ability to continue to fund the ongoing mortgage payment as long as the potential borrower purportedly had substantial equity in the property. Indicative of its aggressiveness was a mailer sent to elderly low-income borrowers:

> Even if you have credit problems, we can probably still help you out. That's because it's your equity, not your income or credit that matters most.

198. Aames' emphasis on sub-prime borrowers resulted in it increasing the percentage of its loans to such borrowers by over 80% between 2004 and 2005, reaching 90% of all loans made by 2005. Accredited's and Aames' stated underwriting guidelines were disregarded in an effort to increase the volume of loans that Accredited originated. As detailed below, the exceptions to the company's policies were so numerous that they became the rule.

199. Accredited's underwriting guidelines and underwriting decisions were frequently overridden by managers on the sales side of the business. By no later than the early part of 2005, the company approved risky loans that did not comply with its own underwriting guidelines in an effort to reach monthly sales targets. Underwriters approved widespread exceptions to the company's underwriting policies as they were under substantial pressures to approve loans at the end of reporting periods in an effort to meet financial targets.

200. A number of loans on which underwriter denials were overridden included explicit notes delineating glaring problems with the loan application such as: (1) the borrower was acting as a "straw borrower" for someone else; (2) employment could not be verified; (3) income claimed on a stated-income loan was way above that which could be possible for the stated job title; and (4) multiple exceptions to Accredited's underwriting guidelines regarding debt-to-income, minimum credit score, LTV, or previous employment history.

201. Sales Managers were also strongly encouraged to "push loans through," *i.e.*, to approve loans, regardless of quality. One National Sales manager stated that "The pressure became so bad, I felt like they were undermining my integrity." This individual actually transferred from his sales position to Loss Mitigation to avoid the pressure to approve bad loans.

202. Between August 2003 and February 2006 Accredited suffered from a tremendous decrease in the quality of its underwriting. Underwriters' decisions to reject loan applications were

constantly overridden by operations managers and senior operations managers. According to a former Accredited corporate underwriter "The problem with the whole system was the overrides. The overrides were rampant, especially during the last few days of each month when they wanted to ramp up production. During those last few days of the month it was 'balls to the wall' to get loans approved. If the borrower breathed, he got the loan."

203. Accredited was very aggressive in lending to persons with very bad credit. A borrower could get a loan one day out of bankruptcy. A borrower could get a loan at 100% LTV. Accredited even had a program where you could get a loan at more than 100% LTV.

204. Accredited's underwriting guidelines were frequently overridden by senior management. Overrides on individual loans were frequently approved by persons as high as the Director of Retail Operations, Joseph Rutter. Rutter and others in senior management approved loans that did not comply with Accredited's underwriting guidelines because in 2005 institutional investors only reviewed a small fraction of the loans that they purchased from Accredited. Because only a small fraction of the loans being purchased were reviewed, a former employee stated that Accredited's senior management "hoped that the investors wouldn't check the loan file. They sort of slipped it in there."

205. At the end of each month and at the end of financial reporting periods, Accredited made increasing exceptions to its underwriting standards to inflate the volume of loans originated in an attempt to meet financial projections. Accredited's lending became especially aggressive towards the end of each month, as the branches were trying to hit their monthly loan volume targets. For example, Accredited's retail branches would even fund loans at the end of a month where the borrower had not yet supplied all of the required documentation. According to a former Accredited Regional Manager in its retail lending division, "The

underwriting was pretty damn aggressive towards the end of the month. That is when they would pull the trigger and start funding lots of things." Accredited underwriters who reviewed and denied loans were being overridden, frequently resulting in the company making many loans that did not comply with its own underwriting guidelines. The number of overrides grew to be so large that, in 2005, the company was forced to institute a system to track such overrides, which included a box on the loan file that needed to be checked off by an underwriter if the loan was approved "as a business decision" by a higher-level manager over the recommendation of the underwriter to reject the application.

206. Whenever Accredited was behind in making its projected numbers, managers would pressure underwriters to approve loans that did not qualify under the company's underwriting guidelines. If Accredited's loan output was down and needed to be increased, management would pressure underwriters to approve loans that otherwise would not have been approved. Senior managers would pressure underwriters to approve loans where there was no mitigating value except to get the loan on the books. Some of the loans were not even profitable — the pricing was a giveaway.

207. In the early part of 2006 the company was increasingly originating "questionable" loans and underwriters who worked on these loans were being "favored because they produced more loans." One Accredited underwriter was laid off in December 2006 because she had been vocal about Accredited's credit quality problems and the extent to which the sales staff was overriding credit decisions made by underwriters.

208. Accredited's corporate underwriters repeatedly tried to challenge loans that were almost certainly bad credit risks. Yet, their objections were repeatedly rejected by credit managers or sales managers. One corporate underwriter stated that: "Over and over again we tried to

challenge these loans and were told '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?'"

209. According to a former Accredited corporate underwriter, salespersons constantly overrode the decisions being made by underwriters and "[g]iving the salespeople signing authority made appraisal review and corporate underwriting into a laughingstock."

210. Accredited's California division placed enormous pressure on underwriters to approve loan files, especially at the end of a month when account executives needed to make their quotas. According to a former corporate underwriter in Accredited's San Diego office, "At the end of the month, [underwriters] were handed loan files and told to just sign them with no audit." The company approved many loans of a dubious nature. For instance, inflated income on "stated-income" loans was a common problem and it was not unusual to see housekeepers who claimed to make $8,000 per month or landscapers who claimed to make $10,000 or $12,000 per month. Inflated property appraisals were another common problem, as were fraudulent certified public accountant letters used to verify self-employment.

211. Account executives (also referred to herein as "AEs") who originated loans made no effort to ensure that they were making quality loans. According to a former senior underwriter and auditor in Accredited's Austin, Texas office, "The AEs were just trying to make money. As an AE, you could lose your job for not having enough deals. Accredited just wanted to show income; they wanted to show loans coming in. If a loan was turned down in sub-prime, they tried to make it work in Alt-A. If it was turned down in Alt-A, they tried to make it work in sub-prime."

212. Accredited got very loose on extending credit. It was common to see four, five or six exceptions on a loan. At Accredited, they actually promoted making exceptions. At Accredited

there were about two dozen types of exceptions that could be made on a loan. These included policy exceptions relating to: verification of employment, debt-to-income ratio, the interest rate on the loan, the margin on the loan, the two-year residence requirement, the two-year employment requirement, LTV guidelines, property appraisal guidelines, and rules relating to the need for the borrower to pay off previously existing debts.

213. One underwriter stated, "I was frequently overridden on loans that I thought were pieces of crap. They wanted units and dollar volume and didn't care how they got there."

214. A senior underwriter at Accredited from October 2006 through March 2007 in its Irvine, California office, stated that he was frequently pressured by senior managers to make exceptions to the company's standard underwriting procedures.

215. The Prospectus Supplements further stated:

> All underwriting and re-underwriting is performed by Accredited's underwriting personnel, and Accredited does not delegate underwriting authority to any broker, correspondent or other mortgage loan provider. Accredited's underwriting standards are applied in a standardized manner which complies with applicable federal and state laws and regulations.
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> * * *
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> A full appraisal of the property proposed to be pledged as collateral is required in connection with the origination of each first priority mortgage loan and each second priority mortgage loan greater than $50,000. Appraisals are performed by licensed, third-party, fee-based appraisers and include, among other things, an inspection of the exterior and interior of the subject property. Appraisals are also required to address neighborhood conditions, site and zoning status and the condition and value of improvements. Following each appraisal, the appraiser prepares a report which includes a reproduction costs analysis (when appropriate) based on the current cost of constructing a similar home and market value analysis based on recent sales of comparable homes in the area. Appraisals generally conform to the Uniform Standards of Professional Appraisal Practice and must be on forms acceptable to Freddie Mac and Fannie Mae.

Omitted Information: Accredited was not exercising reasonable control over brokers to prevent them from pressuring appraisers to appraise to certain values, causing larger numbers of inflated (and hence worthless) appraisals. Because of the credit problems of many of the borrowers, the appraisals were extremely important and the omission of the information about weakness in the appraisal process was significant. Accredited relaxed collateral requirements for loans. This was done by falsifying and/or manipulating property appraisals so they would purport to comply with the company's underwriting policies. According to the Chief Appraiser at Accredited for five years between 2002 and June 2007, Accredited allowed both corporate underwriters and sales managers to override the decisions of licensed property appraisers. In many cases, an appraisal reviewer working for Accredited would reject a loan application after concluding that the appraisal submitted with the application was inflated. According to the former Chief Appraiser, the account executive who submitted the loan application would become annoyed by the rejection and appeal the decision to a sales manager who then would overturn the appraisal reviewer's decision without any valid justification. According to the former Chief Appraiser, overrides of appraisers' decisions were rampant: "As of June 2006, between 12% and 15% of our business was being done through management overrides."

216. One employee responsible for reviewing appraisals stated that he was constantly under pressure to approve appraisals. This individual stated that: "There was a lot of pressure on us to give them the value that they needed to do that loan, and that is why I left Accredited."

217. The Prospectus Supplement dated February 27, 2007, for Series 2007-AHL1, further stated:

> A critical function of Aames Funding's underwriting process was to identify the level of credit risk associated with each applicant for a mortgage loan. Aames Funding established six principal classifications, with respect to the credit profile of potential borrowers, and assigned a rating to each loan based upon these classifications. Aames Funding assigned credit grades by analyzing mortgage payment history, consumer credit history, credit score, bankruptcy history and debt-to-income ratio. If an individual loan application did not meet Aames Funding's formal written underwriting guidelines, its underwriters could make underwriting

> exceptions up to certain limits within its formal exception policies and approval authorities. From time to time, Aames Funding may have applied underwriting criteria that were either more stringent or more flexible depending upon the economic conditions of a particular geographic market.

Omitted Information: Aames Funding was not assessing credit risk as represented. As a predatory lender Aames Funding granted exceptions to its underwriting guidelines as a matter of course in order to achieve volume goals. And for this reason, Aames Funding later experienced a large number of foreclosures.

218. The Prospectus Supplement also provided that:

> The underwriting of a mortgage loan to be originated or purchased by Aames Funding generally included a review of the completed loan package, which included the loan application, a current appraisal, a preliminary title report and a credit report. All loan applications and all closed loans offered to Aames Funding for purchase were required to be approved by Aames Funding in accordance with its underwriting criteria. Aames Funding regularly reviewed its underwriting guidelines and made changes when appropriate to respond to market conditions, the performance of loans representing a particular loan product or changes in laws or regulations.

Omitted Information: Aames Funding's review of purportedly completed loan packages was cursory and in some cases non-existent. Thus, it was not true that all of the loan applications and loans closed were approved in accordance with Aames Funding's underwriting criteria. In fact, due to Aames Funding's lack of controls over its brokers, there was often little, if any, review of the underwriting process. In fact, the opposite was true, since the loans were being sold off via securitizations as quickly as possible, brokers were compensated only for getting loans approved – not disapproved – and there were no material adverse consequences to the broker if the loan subsequently went bad.

The Prospectus Supplements Misstated the True LTV Ratios Associated with the Underlying Mortgages

219. The Prospectus Supplements contained detailed information about the LTV ratios of the loans underlying the trusts. In a series of charts, investors were provided with LTV ratio data,

including information about the number of loans containing LTV ratios within a given range. The following chart, taken from the January 30, 2007 Prospectus Supplement for Citigroup Mortgage Loan Trust 2007-AR1, is representative of the type of LTV ratio information provided in the other Prospectus Supplements:

Loan-to-Value Ratios of the Mortgage Loans at Origination

Loan-to-Value Ratio (%)	Number of Mortgage Loans	Aggregate Principal Balance Outstanding as of the Cut-off Date	% of Aggregate Principal Balance Outstanding as of the Cut-off Date	Weighted Average Mortgage Rate (%)	Weighted Average FICO	Weighted Average Original LTV (%)
7.08 - 15.00	2	$ 655,205.11	0.08%	5.553%	769	7.15%
15.01 - 20.00	1	103,000.00	0.01	6.250	704	16.75
20.01 - 25.00	4	1,228,735.91	0.15	6.350	743	22.48
25.01 - 30.00	6	1,104,640.15	0.13	6.813	703	27.85
30.01 - 35.00	6	641,360.51	0.08	6.769	739	32.27
35.01 - 40.00	12	3,088,703.23	0.37	6.215	715	37.89
40.01 - 45.00	14	4,546,008.02	0.55	6.211	708	41.95
45.01 - 50.00	24	7,567,681.37	0.92	6.074	730	48.00
50.01 - 55.00	20	8,462,407.46	1.03	6.380	736	52.74
55.01 - 60.00	37	16,657,322.95	2.02	6.537	712	57.41
60.01 - 65.00	82	32,440,655.48	3.94	6.781	707	63.29
65.01 - 70.00	539	151,502,338.97	18.38	7.036	716	69.38
70.01 - 75.00	297	120,657,148.04	14.64	7.036	711	74.23
75.01 - 80.00	1,301	422,369,511.51	51.25	6.976	716	79.69
80.01 - 85.00	19	3,964,199.54	0.48	7.043	701	83.56
85.01 - 90.00	83	20,399,266.09	2.48	7.021	723	89.62
90.01 - 95.00	45	9,571,790.49	1.16	7.284	710	94.45
95.01 - 100.00	82	19,142,049.06	2.32	7.338	738	99.90
Total	2,574	$824,102,023.89	100.00%	6.969%	716	75.62%

The weighted average loan-to-value ratio at origination of the Mortgage Loans was approximately 75.62%. No Mortgage Loan had a loan-to-value ratio at origination greater than approximately 100.00% or less than approximately 7.08%.

Omitted Information: As alleged above, the appraisals of the properties underlying the mortgage loans were inaccurate and inflated. Furthermore, due to hidden incentives, the stated sales price of properties underlying the mortgage loans did not accurately reflect the true value of the properties. These inflated appraisals and misleading sales price figures were used to form the LTV ratios listed in the Prospectus Supplements. Incorporating an inflated appraisal into the LTV calculation will result in a lower LTV ratio for a given loan. For instance, as described above, if a borrower seeks to borrow $90,000 to purchase a house worth $100,000, the LTV ratio is $90,000/$100,000 or 90 percent. If, however, the appraised value of the house is artificially increased to $120,000, the LTV ratio drops to just 75 percent ($90,000/$120,000). Due to the inflated appraisals, the LTV ratios listed in the Prospectus Supplements were artificially low, making it appear that the loans underlying the trusts were safer and less risky than they really were.

The Prospectus Supplements Misstated the Certificates' True Investment Rating

220. Each of the Prospectus Supplements stated that the Certificates would not be offered unless they received ratings from a rating agency – such as Standard & Poor's Rating Services ("S&P"), Moody's Investors Services, Inc. ("Moody's"), or Fitch Rating – that were at least as high as those set forth in the Prospectus Supplements. Both Moody's and S&P rated Certificates in 14 of the 18 Trusts. The remaining four Trusts were rated by either Moody's or S&P but not both. All of the ratings set forth in the Prospectus Supplements were within the "Investment Grade" range of Moody's (Aaa through Baa3) and S&P (AAA through BBB).

221. ***Omitted Information***: The ratings stated in the Prospectus Supplements were based, as alleged below, on outdated assumptions, relaxed ratings criteria, and inaccurate loan information. These flaws produced artificially high credit ratings for the Certificates, making them appear safer and less risky than they really were.

The Models that Produced the Certificates' Ratings Were Based upon Outdated Assumptions Regarding Loan Performance

222. Moody's and S&P used models to produce the ratings for the Certificates. These models were based upon loan performance ***prior*** to the year 2000. However, an unprecedented decline and deterioration in mortgage lending standards occurred ***after*** 2000. For instance, from 2001 through 2005, (i) the percentage of "sub-prime" mortgage loans tripled; (ii) the combined LTV

ratio of loans in excess of 90% tripled; (iii) "limited documentation" loans (or "liar loans") nearly quadrupled; (iv) "interest only" and "option" ARMs quintupled; (v) "piggy back" or second-lien mortgages doubled; (vi) the amount of equity U.S. homeowners stripped out of their homes tripled; (vii) the volume of loans originated for "second homes" more than tripled; (viii) the percentage of loans including "silent seconds" – a nearly non-existent phenomenon a few years prior to the issuance of the Certificates – experienced over a 16,000% increase; and (ix) the volume of nontraditional mortgages more than quintupled.

223. This decline in lending standards and increase in riskier exotic mortgage products during the 2001 through 2005 time period rendered Moody's and S&P's pre-2000 loan performance data obsolete. However, these agencies did not update their models to reflect these changes. Thus, by the time the agencies provided "investment grade" certifications to the Certificates their historical data no longer reflected the reality that mortgage credit quality was rapidly deteriorating.

224. Moody's and S&P continued to use these outmoded models even though more current and accurate models were available. According to Frank Raiter – the Managing Director and Head of RMBS Ratings at S&P from March 1995 to April 2005 – S&P had developed models that accounted for the new type of mortgage products available after 2000 (particularly Alt-A type loans). These models better captured the changes in the post-2000 mortgage landscape and were therefore better at determining default risks posed by these new mortgages. However, S&P did not implement these models due to their cost and because improving the model would not add to S&P's revenues (as S&P's RMBS group already enjoyed the largest ratings market share amongst the three major rating agencies). As Raiter explained, the unfortunate consequences of continuing to use out-dated versions of the rating model included "the failure to capture changes in performance of the new non-prime products" and "the unprecedented number of AAA downgrades and subsequent collapse of

prices in the RMBS market." The current President of S&P, Deven Sharma, agreed, noting "It is by now clear that a number of the assumptions we used in preparing our ratings on mortgage-backed securities issued between the last quarter of 2005 and the middle of 2007 did not work. . . . [E]vents have demonstrated that the historical data we used and the assumptions we made significantly underestimated the severity of what has actually occurred."

225. Executives at Moody's also acknowledged a lack of investment in Moody's rating models and the failure of Moody's rating models to capture the deterioration in lending standards. In an internal e-mail, Raymond McDaniel, the current Chairman and Chief Executive Officer of Moody's, noted that a lack of investment in updating the rating models can put ratings accuracy at risk and acknowledged that "Moody's Mortgage Model (M3) needs investment." McDaniel also acknowledged that Moody's models did not sufficiently capture the changed mortgage landscape. Brian Clarkson – the former President and Chief Operating Officer of Moody's – also recognized Moody's failure to incorporate decreased lending standards into their ratings, stating: "We should have done a better job monitoring that [decline in underwriting standards]."

226. Not only were Moody's and S&P's models based on outmoded data, but they were often constructed by people who were not familiar with the housing markets in the areas that they were rating. And in some instances real estate investments were graded by analysts who never actually reviewed the investment and who merely relied upon ratings assigned by a competitor rating agency.

The Rating Agencies' Relaxing of Ratings Criteria Led to Artificially High Ratings for the Certificates

227. In addition to using flawed models to generate ratings, Moody's and S&P repeatedly eased their ratings standards in order to capture more market share of the ratings business. This easing of ratings standards was due in large part to the fact that rating agencies like Moody's and

S&P were compensated by the very entities that they provided ratings to, and the fact that those entities were free to shop around for the rating agency that would provide them with the highest ratings. As former S&P Managing Director – Richard Gugliada – explained, the easing of standards as a "***market-share war where criteria were relaxed***" and admitted "***I knew it was wrong at the time . . . [i]t was either that or skip the business***. That wasn't my mandate. My mandate was to find a way. Find the way." According to Gugliada, when the subject of tightening S&P's rating criteria came up, the co-director of CDO ratings, David Tesher, said "Don't kill the golden goose." This comment reflected Tesher's belief that if S&P implemented more stringent rating criteria than its competitors (and thereby began assigning lower ratings to investments that it rated), entities that needed their investments rated – such as the defendants herein – would avoid S&P. Instead, these entities would seek ratings from S&P's competitors who, because they had weaker rating criteria, would assign a higher rating to the investment.

228. The loosening of ratings standards is exemplified by the following "instant message" conversation between Rahul Shah ("Shah") and Shannon Mooney ("Mooney") – two S&P analysts describing S&P's rating of an investment similar to the Trusts:

> Shah: btw – that deal is ridiculous
>
> Mooney: i know right . . . **[model def does not capture half of the rish [sic]]**
>
> Mooney: ***risk***
>
> Shah: ***we should not be rating it***
>
> Mooney: ***we rate every deal***
>
> Mooney: ***it could be structured by cows and we would rate it***
>
> Shah: but there's a lot of risk associated with it – I personally don't feel comfy signing off as a committee member.

229. In another e-mail, an S&P analytical manager in the same group as Shah and Mooney wrote to a senior analytical manager that the "[r]ating agencies continue to create and [sic] ***even bigger monster – the CDO market. Let's hope we are all wealthy and retired by the time this house of cards falters***."

230. The loosening of ratings criteria due to market share considerations was evident at Moody's also. Jerome Fons, a former Managing Director for Credit Quality at Moody's, indicated that due to profit concerns, a loosening of ratings standards took place at his company: "[T]he focus of Moody's shifted from protecting investors to being a marketing-driven [sic] organization" and "management's focus increasingly turned to maximizing revenues" at the expense of ratings quality.

231. Fons explained that the originators of structured securities were free to shop around for the rating agency that would give them the highest rating and "***typically chose the agency with the lowest standards, engendering a race to the bottom in terms of rating quality***." Fons noted that the rating agencies' "drive to maintain or expand market share made [them] willing participants in this [rating] shopping spree" and made it "relatively easy for the major banks to play the agencies off one another." Fons said it was this business model that "***prevented analysts from putting investor interests first***."

232. McDaniel of Moody's also acknowledged the degradation of ratings standards. In a presentation to Moody's board of directors in October 2007, McDaniel told his board "The real problem is not that the market . . . underweight[s] ratings quality but rather that in some sectors, it actually penalizes quality . . . . It turns out that ***ratings quality has surprisingly few friends***." He noted the pressure exerted on analysts to come up with high ratings, explaining "[a]nalysts and MDs [managing directors] are continually 'pitched' by bankers, issuers, investors" and sometimes "we 'drink the kool-aid.'" In fact, *The Wall Street Journal* found that in at least one instance, Moody's

increased the amount of a mortgage deal that was rated triple-A after its client complained and said it might go with a different rating firm.

233. As McDaniel noted, this degradation of ratings quality was not limited to Moody's: "What happened in '04 and '05 with respect to subordinated tranches is that our competition, ***Fitch and S&P, went nuts. Everything was investment grade. It didn't really matter***."

Due to Defects in the Underwriting Process, Inaccurate Data was Entered into the Ratings Models Thereby Yielding Inaccurate Ratings

234. In addition to the eroding rating standards and the flawed rating models alleged above, Moody's and S&P's ratings were also based on inaccurate information. The rating agencies rated the Certificates based in large part on data about each of the mortgage loans that Citigroup Mortgage provided to them – including appraisal values, LTV ratios, and borrower credit-worthiness and the amount of documentation provided by borrowers to verify their assets and/or income levels. As alleged above, much of this data was inaccurate due to the inflated appraisal values, inaccurate LTV ratios, borrower income inflation and falsification, and the other facets of defective underwriting alleged herein. Neither Moody's nor S&P engaged in any due diligence or otherwise sought to verify the accuracy or quality of the loan data underlying the RMBS pools they rated (and specifically disclaimed any due diligence responsibilities). Nor did they seek representations from sponsors that due diligence was performed. During a "Town Hall Meeting" hosted by Moody's McDaniel, executives at Moody's acknowledged that the Rating Agencies used inaccurate data to form their ratings:

> "We're on notice that a lot of things that we relied on before just weren't true . . . [W]e relied on reps and warrantees that no loans were originated in violation of any state or federal law. We know that's a lie."

* * *

> "There's a lot of fraud that's involved there, things that we didn't see . . . We're sort of retooling those to make sure that we capture a lot of the things that we relied on in the past that we can't rely on, on a going forward basis."
>
> * * *
>
> "[W]e're being asked to figure out how much everyone lied. . . . [If] all of the information was truthful and comprehensive and complete, we wouldn't have an issue here.
>
> * * *
>
> What we're really being asked to do is figure out how much lying is going on and bake that into a credit [rating] . . . which is a pretty challenging thing to do. I'm not sure how you tackle that from a modeling standpoint.

235. In response to the "Town Hall Meeting," a Moody's employee noted:

> [W]hat really went wrong with Moody's subprime ratings leading to massive downgrades and potential more downgrades to come? We heard 2 answers yesterday: 1. people lied, and 2. there was an unprecedented sequence of events in the mortgage markets. As for #1, it seems to me that ***we had blinders on and never questioned the information we were given***. Specifically, why would a rational borrower with full information sign up for a floating rate loan that they couldn't possibly repay, and why would an ethical and responsible lender offer such a loan? As for #2, ***it is our job to think of the worst case scenarios and model for them***. . . . ***Combined, these errors make us look either incompetent at credit analysis, or like we sold our soul to the devil for revenue, or a little bit of both***.

236. Because Moody's and S&P were using flawed information and models to generate their ratings, the ratings assigned to the Certificates did not accurately reflect their risk. Certificates were given investment grade ratings when in reality they were not of investment grade quality. As such, the statements regarding the ratings of the Certificates were false and misleading.

237. The problems identified above were not disclosed to the public and resulted in artificially high ratings for the Certificates. These artificially high ratings, which were published in the Prospectus Supplements, were false and misleading in that they did not reflect the true risk of the Certificates.

DISCLOSURES EMERGE ABOUT PROBLEMS WITH LOANS UNDERLYING THE CERTIFICATES

238. After the sale of the Certificates, the rating on Certificates within each of the Trusts have been downgraded. In some instances, Certificates that received the highest rating of AAA at issuance have fallen many notches and are now rated CCC – a rating many levels below the threshold for "junk status."

239. These downgrades have occurred because the original ratings did not accurately reflect the risk associated with the assets underlying the Certificates. Further, the delinquency rates on the underlying mortgage loans have skyrocketed. In one of the trusts (2007-AMC1), the 60+ day delinquency rate is ***in excess of 50 percent*** (the "60+ day delinquency rate" includes loans that are foreclosures, loans that are 60 days or more delinquent, and loans in which the real estate collateral was retaken by the lender). In all but three of the trusts, the 60+ day delinquency rate is in excess of 25% – with many trusts experiencing 60+ day delinquency rates in excess of 40 percent. The Trusts' foreclosure rates are also staggering. In one trust (2007-AHL1), more than twenty percent of the mortgage loans are in foreclosure. All but three of the trusts have experienced double digit foreclosure rates. The massive foreclosure rates and extraordinary delinquencies have further confirmed defendants' misrepresentations concerning the lending practices detailed above.

COUNT I
Violations of §11 of the 1933 Act Against All Defendants

240. Plaintiffs repeat and re-allege the allegations set forth above as if set forth fully herein. For purposes of this cause of action, plaintiffs expressly exclude and disclaim any allegation that could be construed as alleging fraud or intentional or reckless misconduct, as this cause of action is based solely on claims of strict liability and/or negligence under the 1933 Act. This cause of

action is brought pursuant to §11 of the 1933 Act, 15 U.S.C. §77k, on behalf of the Class, against all defendants.

241. The Registration Statement for the Certificate offerings was inaccurate and misleading, contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading, and omitted to state material facts required to be stated therein.

242. Each of the Defendant Issuers are strictly liable to plaintiffs and the Class for the misstatements and omissions complained of herein.

243. The Individual Defendants signed the Registration Statement which was false due to the misstatements described above.

244. Defendant Citigroup Global was an underwriter of the Certificates and sold and marketed these investments to members of the Class.

245. None of these defendants made a reasonable investigation to ensure that the statements contained in the Registration Statement were true and not misleading. Nor did they possess reasonable grounds to represent that these statements were true and not misleading.

246. By reason of the conduct herein alleged, each defendant named herein violated, and/or controlled a person who violated, §11 of the 1933 Act.

247. Citigroup Global was the underwriter for the following issuances:

Citigroup Mortgage Loan Trust 2007-2	Citigroup Mortgage Loan Trust 2007-AHL1
Citigroup Mortgage Loan Trust 2007-6	Citigroup Mortgage Loan Trust 2007-AHL3
Citigroup Mortgage Loan Trust 2007-AHL2	Citigroup Mortgage Loan Trust 2007-AMC2
Citigroup Mortgage Loan Trust 2007-AMC1	Citigroup Mortgage Loan Trust 2007-AMC4
Citigroup Mortgage Loan Trust 2007-AMC3	Citigroup Mortgage Loan Trust 2007-AR4
Citigroup Mortgage Loan Trust 2007-AR1	Citigroup Mortgage Loan Trust 2007-AR7
Citigroup Mortgage Loan Trust 2007-AR5	Citigroup Mortgage Loan Trust 2007-WFHE1
Citigroup Mortgage Loan Trust 2007-OPX1	Citigroup Mortgage Loan Trust 2007-WFHE2
Citigroup Mortgage Loan Trust-2007-WFHE3	Citigroup Mortgage Loan Trust 2007-WFHE4

248. Plaintiffs acquired the Certificates pursuant and/or traceable to the Registration Statement.

249. Plaintiffs and the Class have sustained damages as the value of the Certificates has declined substantially subsequent to the disclosures of defendants' misconduct.

250. At the time of their purchases of the Certificates, plaintiffs and other members of the Class were without knowledge of the facts concerning the wrongful conduct alleged herein and could not have reasonably discovered those facts prior to early January 2008. Less than one year has elapsed from the time that plaintiffs discovered or reasonably could have discovered the facts upon which the initial complaint was based to the time that plaintiffs filed this complaint. Less than three years elapsed between the time that the securities upon which this Count is brought were offered to the public and the time plaintiffs filed the initial complaint.

COUNT II
Violations of §12(a)(2) of the 1933 Act
Against All Defendants

251. Plaintiffs repeat and re-allege the allegations above as if set forth fully herein. For purposes of this cause of action, plaintiffs expressly exclude and disclaim any allegation that could be construed as alleging fraud or intentional or reckless misconduct, as this cause of action is based solely on claims of strict liability and/or negligence under the 1933 Act.

252. By means of the defective Prospectus Supplements, defendants promoted and sold the Certificates to plaintiffs and other members of the Class.

253. The Prospectus Supplements contained untrue statements of material fact, and concealed and failed to disclose material facts, as alleged above. Defendants owed plaintiffs and the other members of the Class who purchased the Certificates pursuant to the Prospectus Supplements the duty to make a reasonable and diligent investigation of the statements contained in the Prospectus Supplements to ensure that such statements were true and that there was no omission to

state a material fact required to be stated in order to make the statements contained therein not misleading. Defendants, in the exercise of reasonable care, should have known of the misstatements and omissions contained in the Prospectus Supplements as set forth above.

254. Plaintiffs did not know, nor in the exercise of reasonable diligence could they have known, of the untruths and omissions contained in the Prospectus Supplements at the time they acquired the Certificates.

255. By reason of the conduct alleged herein, defendants violated §12(a)(2) of the 1933 Act. As a direct and proximate result of such violations, plaintiffs and the other members of the Class who purchased the Certificates pursuant to the Prospectus Supplements sustained substantial damages in connection with their purchases of the Certificates. Accordingly, plaintiffs and the other members of the Class who hold the Certificates issued pursuant to the Prospectus Supplements have the right to rescind and recover the consideration paid for their shares, and hereby tender their Certificates to the Defendants sued herein. Class members who have sold their Certificates seek damages to the extent permitted by law.

COUNT III
Violations of §15 of the 1933 Act
Against the Individual Defendants and Citigroup Mortgage

256. Plaintiffs repeat and re-allege each and every allegation contained above.

257. This Cause of Action is brought pursuant to §15 of the 1933 Act against the Individual Defendants and Citigroup Mortgage.

258. Each of the Individual Defendants was a control person of Citigroup Mortgage and of the Trusts by virtue of his or her position as a director and/or senior officer of Citigroup Mortgage. The Individual Defendants were responsible for the preparation of the contents of the Registration Statement which incorporated by reference the statements in the Prospectus Supplements.

259. Each of the Individual Defendants was a participant in the violations alleged herein, based on their having prepared, signed or authorized the signing of the Registration Statement and having otherwise participated in the consummation of the offerings detailed herein.

260. Citigroup Mortgage was the Depositor and an Issuer for the offerings. The defendants named herein were responsible for overseeing the formation of the Defendant Issuers as well as the operations of the Defendant Issuers, including routing payments from the borrowers to investors.

261. Citigroup Mortgage and the Individual Defendants prepared, reviewed and/or caused the Registration Statement and Prospectus Supplements to be filed and disseminated.

PRAYER FOR RELIEF

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

A. Determining that this action is a proper class action and certifying plaintiffs as Class representatives;

B. Awarding compensatory damages in favor of plaintiffs and the other Class members 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;

C. Awarding plaintiffs and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees;

D. Awarding rescission or a rescissory measure of damages; and

E. Awarding such additional equitable/injunctive or other relief as deemed appropriate by the Court.

JURY DEMAND

Plaintiffs hereby demands a trial by jury.

DATED: April 6, 2009

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CERTIFICATE OF SERVICE

I hereby certify that on April 6, 2009, I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the e-mail addresses denoted on the attached Electronic Mail Notice List, and I hereby certify that I have mailed the foregoing document or paper via the United States Postal Service to the non-CM/ECF participants indicated on the attached Manual Notice List.

I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on April 6, 2009.

s/ Arthur C. Leahy

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Manual Notice List

The following is the list of attorneys who are **not** on the list to receive e-mail notices for this case (who therefore require manual noticing). You may wish to use your mouse to select and copy this list into your word processing program in order to create notices or labels for these recipients.

- (No manual recipients)