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SUPERIOR COURT OF NEW JERSEY
CHANCERY DIVISION
MERCER COUNTY
DOCKET NO. MER-C-

JOHN J. HOFFMAN,
Acting Attorney General of New Jersey on behalf of
AMY KOPLETON,
Acting Chief of the New Jersey Bureau of Securities,

Plaintiff,

v.

CREDIT SUISSE SECURITIES (USA) LLC, CREDIT SUISSE FIRST BOSTON MORTGAGE SECURITIES CORP., and DLJ MORTGAGE CAPITAL, INC.

Defendants.

Civil Action

COMPLAINT

John J. Hoffman, Acting Attorney General of New Jersey, on behalf of Amy Kopleton, Acting Chief of the New Jersey Bureau of Securities ("Plaintiff"), allege the following by way of

Complaint against the above-named defendants:

SUMMARY

1. This case arises out of defendants' sale of billions of dollars in toxic residential mortgage backed securities ("RMBS") trust certificates to investors. These RMBS trusts included, but are not limited to, the Home Equity Mortgage Trusts ("HEMT") Series 2006-4, 2006-5, 2006-6, 2007-1 and 2007-2, and Home Equity Asset Trusts ("HEAT") Series 2006-4, 2006-5, 2006-6, 2006-7, 2006-8, 2007-1, 2007-2, and 2007-3. These securities were offered between May 1, 2006 and April 30, 2007, through offering materials that misrepresented to investors that, among other things: (1) the mortgages underlying the trusts would be in "substantial compliance" with the underwriting standards of the originators of the loans; (2) each loan originator not affiliated with Credit Suisse would originate loans "in accordance with accepted practices and prudent guidelines;" (3) defendants employed "certain quality assurances designed to ensure" that the correct loan underwriting criteria for certain originators would be "properly applied;" and (4) none of the loans had a negative equity because their combined loan to value ("CLTV") ratios did not exceed one hundred percent.

2. These representations were false and misleading, and omitted to disclose material information, in at least the following respects: (1) many of the loans were not in "substantial compliance" with applicable underwriting guidelines, which had been largely disregarded in order to maximize the amount of loans in the offering and therefore defendants' profits; (2) the loans had not been originated by entities that conducted themselves "in accordance with accepted practices and prudent guidelines," but had instead been acquired from originators with poor track records characterized by alarming levels of defaults and delinquencies; (3) significant numbers of loans had a negative equity as reflected by the most recent CLTV ratios in defendants'

possession; (4) defendants' traders had warned about the high risks of certain types of the loans being securitized and had even eliminated them from their matrix of products they were willing to purchase; and (5) defendants were pocketing for themselves tens of millions of dollars in settlements with originators due to defects in loans that had been securitized without passing those funds along to the trusts and the investors themselves. These facts were material because they would have disclosed that the mortgages that made up the RMBS posed a high risk of delinquency and default, which could – and ultimately did – inflict enormous losses on the investors who purchased these securities.

3. Within a relatively short period of time after their issuance, the HEMT and HEAT trusts reported skyrocketing rates of delinquency and default on the underlying loan pools. This resulted in significantly reduced distributions to investors, and write downs in the principal of underlying loans as they veered into foreclosure or bankruptcy. Standard & Poor's, Inc. ("S&P") and Moody's Investor Services, Inc. ("Moody's") (together the "Ratings Agencies") ultimately downgraded virtually all of these securities from investment grade to junk status. One of the reasons cited for the downgrades was the "aggressive underwriting" practices in the initial origination of the loans. Subsequent investigations and analyses of certain of these loan pools have shown that many of the loans had violated the underwriting guidelines of the sellers who originated the loans, but had nevertheless been waived into the trusts by defendants even though third-party due diligence firms retained by defendants had found that many of the loans had been originated in violation of the applicable guidelines. Billions of dollars in investor funds have been lost as a result.

4. While this Complaint focuses its discussion on HEMT Series 2006-4, 2006-5, 2006-6, 2007-1 and 2007-2, and HEAT Series 2006-4, 2006-5, 2006-6, 2006-7, 2006-8, 2007-1,

2007-2, amd 2007-3, upon information and belief, Credit Suisse's other RMBS trusts issued during this time period had similar records of false and misleading statements and material omissions in their offering materials and had similar delinquency and default experiences.

JURISDICTION AND VENUE

5. The New Jersey Bureau of Securities (the "Bureau") is the state regulatory agency charged with the administration and enforcement of the New Jersey Uniform Securities Law (1997) N.J.S.A. 49:3-47 et seq. ("Securities Law").

6. Jurisdiction is proper over defendants because each alleged violation of the Securities Law arises out of the offer or sale of securities in this State pursuant to N.J.S.A. 49:3-51.

7. Venue is proper pursuant to R. 4:3-2(a) because it lies where the cause of action arose.

8. The RMBS certificates that are the subject of this action are "securities" within the meaning of N.J.S.A. 49:3-49(m), and are covered securities by virtue of having been federally registered.

PARTIES

9. Plaintiff, Amy Kopleton, Acting Chief of the New Jersey Bureau of Securities, (the "Bureau Chief") has offices at 153 Halsey Street, 6th Floor, Newark, New Jersey 07102. The Bureau Chief brings this action for violations of the Securities Law, including:

a. N.J.S.A. 49:3-52(b) (making materially false and misleading statements or omitting facts necessary to make the statements made not misleading); and

b. N.J.S.A. 49:3-52(c) (engaging in any act or practice, or course of business which would operate as a fraud or deceit upon any person in connection

with the offer, sale or purchase of securities).

10. John J. Hoffman, Acting Attorney General of the State of New Jersey, with offices at 25 Market Street, Trenton, New Jersey 08625 and 124 Halsey Street, Newark, New Jersey 07101, commenced this action on behalf of the Bureau Chief under N.J.S.A. 49:3-69(a)(2).

11. Defendant Credit Suisse Securities (USA) LLC ("Credit Suisse Securities") is a Delaware limited liability corporation with its principal place of business at 11 Madison Avenue, New York, New York 10010. Credit Suisse Securities served as the underwriter of the RMBS trust certificates that are the subject of this action. Among other things, Credit Suisse Securities participated in the drafting, filing, and dissemination of the Prospectus and Prospectus Supplements for the RMBS trusts, and marketed and sold these securities to investors. Credit Suisse Securities is registered as a broker-dealer with the Bureau (CRD #816) and engages in the sale of securities to investors in New Jersey and across the nation.

12. Defendant Credit Suisse First Boston Mortgage Securities Corporation ("Credit Suisse First Boston") is a Delaware corporation with its principal place of business at 11 Madison Avenue, New York, New York 10010. Credit Suisse First Boston is the depositor who purchased the loans underlying the securitization from another Credit Suisse affiliated entity known as DLJ Mortgage Capital, Inc. ("DLJ"). After purchasing the loans from DLJ, Credit Suisse First Boston established the trusts into which the loans underlying the RMBS were deposited. Once the loans had been deposited into the trusts and the securitization structure had been established, the trusts then transferred certificates representing an interest in the trusts back to Credit Suisse First Boston. Credit Suisse First Boston then became the issuer of the securities that were in turn sold by Credit Suisse Securities to investors in New Jersey and elsewhere.

13. Defendant DLJ is a Delaware corporation with its principal place of business at 11 Madison Avenue, New York, New York 10010. DLJ was the sponsor of the trusts. As sponsor, DLJ acquired the loans in secondary market transactions from various underlying originators, or through its own origination efforts. DLJ then sold those loans to Credit Suisse First Boston for securitization, and for the ultimate sale of those securities by Credit Suisse Securities to the public.

14. The defendants (collectively referred to in this Complaint as "Credit Suisse") are all direct or indirect subsidiaries of Credit Suisse USA, which is in turn an indirect subsidiary of Credit Suisse Holdings USA, Inc., and of the Credit Suisse Group based in Switzerland. These defendant affiliates acted together from the same locations and utilized a common infrastructure to control every aspect of the loan acquisition, due diligence, securitization, underwriting, and sales process for the RMBS investments that are the subject matter of this action. Their names all appear prominently on the Prospectus and Prospectus Supplements. Thus all of the defendants made, authorized, or caused the misrepresentations, omissions, and other conduct alleged in this Complaint.

15. Defendants at all relevant times maintained an office located at 302 Carnegie Center, Princeton, New Jersey 08540 (the "Princeton Office"). The Princeton Office was involved in conducting and overseeing due diligence on a significant number of the loans being acquired for securitization by the trusts, reviewing and formulating underwriting standards, warehouse lending to certain loan originators, and performing internal quality control reviews on loans that had already been purchased and securitized.

FACTS

I. Overview of the RMBS Securitization Process

16. RMBS investments such as those offered by Credit Suisse consisted of thousands of residential mortgages that were pooled together and securitized into trusts from which principal and interest payments on the underlying mortgages were then passed through to the investors who owned interests in the trusts. These trusts were divided into different classes, or tranches, which would determine the priority in which the owners of certificates for those tranches would receive payments and absorb losses. The senior tranches were the first to be paid and the last to absorb a loss in the event of delinquencies or default on the underlying mortgages. The different certificate classes received separate individual ratings from the Rating Agencies, with the senior classes generally receiving the higher ratings. Investors could select which class of certificate(s) they wished to purchase.

17. The mortgage securitization industry has grown exponentially since the 1980s and the 1990s. Mortgage backed securities initially consisted largely of pools of mortgages that were owned by Government Sponsored Enterprises ("GSEs") such as the Federal National Mortgage Association ("FNMA" or "Fannie Mae") and the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac"). These were commonly known as "agency" mortgage backed securities due to their GSE backing, and presented little to no risk to investors of default or non-payment on the underlying mortgages.

18. The financial services industry also began to structure and underwrite "non-agency" RMBS, where the payments on underlying mortgage pools were not backed by one of the GSEs. Instead, the risk of delinquencies and defaults was borne by the investors who owned the securities.

19. The advent of securitized non-agency RMBS fundamentally shifted the risk of loss from the loan originator to the investor who owned the security. This had a significant impact on the economic incentives of loan originators and those who structured and sold the RMBS trusts.

20. Prior to the era of securitization, banks and other mortgage lenders traditionally had retained ownership of the mortgage throughout its duration. Lenders thus had a strong incentive to make prudent lending and underwriting decisions since they ultimately would bear the loss if the borrower defaulted and the collateral was insufficient to recoup the amount of the loan.

21. This shifting of the risk of loss from the lender to the RMBS investor in the era of securitization diminished the incentive of the lender to make careful and prudent lending decisions. It instead encouraged lenders to focus on loan volume rather than loan quality. It also gave rise to an entire industry of lending institutions that made large volumes of loans with no intention of owning them, but instead selling them to financial institutions for securitization where the risks of poor lending and underwriting decisions ultimately would be passed on to the RMBS investor. The more loans these originators could pump into the securitization channels, the more they profited.

22. New Century was one such originator that engaged in reckless and aggressive underwriting practices and was a significant source of loans for HEMT 2007-2, HEMT 2006-5, and other trusts as well. New Century filed for Chapter 11 bankruptcy protection on April 2, 2007. A February 29, 2008 report by the Bankruptcy Examiner concluded that New Century "had a brazen obsession with increasing loan originations, without due regard to the risks associated with that business strategy," that "[t]he increasingly risky nature of New Century's

loan originations created a ticking time bomb that detonated in 2007," and that "Senior Management turned a blind eye to the increasing risks of New Century's loan originations and did not take appropriate steps to manage those risks." New Century accounted for approximately 32 percent of the loans in HEMT 2006-5, 14 percent of the loans in HEMT 2007-2, and varying percentages of the loans in other trusts as well.

23. Given the incentive of loan originators to focus on volume rather than quality, investors relied on the sponsors, issuers, and underwriters of these products – such as Credit Suisse – to make truthful and accurate disclosures about the nature and characteristics of those loan pools to investors.

24. Credit Suisse profited on the sale of RMBS by selling the certificates to investors for a price in excess of what it had paid to acquire the underlying loans. It also made profits at other stages of the securtitzation process, including loan origination, servicing of the loans, warehouse lending, settlement of put back requests with loan originators, and trading. Once the certificates had been sold, the risks of delinquency and default once again passed to the investors who bought them.

25. At all relevant times, Credit Suisse maintained a RMBS organization that was charged with the responsibility of acquiring loans, overseeing due diligence and quality reviews, securitizing and structuring the RMBS, servicing the loan pools, monitoring the performance of the loans, and enforcing the rights of the trusts and defendants to put back loans to originators that breached the originators' representations and warranties.

26. The Credit Suisse RMBS Organization acquired loans through four different channels described below: (1) bulk; (2) mini-bulk; (3) loan-by-loan; and (4) wholesale.

27. Bulk loans consisted of loan pools exceeding $5 million that were acquired from

third-party originators through auctions held by the originator. Bulk loans were acquired by Credit Suisse's Non-Agency Trading Desks, which bid on and traded non-agency loans. Credit Suisse retained third-party due diligence firms, such as Clayton Holdings, Inc. ("Clayton") and The Bohan Group ("Bohan"), to conduct due diligence on loans purchased through the bulk channel, generally using the originator's underwriting guidelines.

28. Mini-bulk loans were similar to bulk loans except that they consisted of loan pools less than $5 million. Mini-bulk loans were purchased by Credit Suisse's Non-Agency Trading Desks in a process similar to bulk loans.

29. Loan-by-loan ("LBL") acquisitions consisted of acquisitions of individual loans (on a loan-by-loan basis) from loan originators. LBL loans were purchased through a system within Credit Suisse that allowed originators to submit loans one at a time, with the price set by the Non-Agency Trading Desks based on the loan characteristics of each individual loan. Due diligence on mini-bulk and LBL acquisitions was conducted by third-party Fulfillment Centers, such as Ocwen Financial Corporation ("Ocwen") and Lydian Mortgage Inc. ("Lydian"), that were retained and overseen by Credit Suisse.

30. Wholesale loans consisted of individual loans that were underwritten by third-party mortgage bankers, as well as loans that were referred to Credit Suisse through mortgage brokers and then underwritten and funded by Credit Suisse itself.

31. The non-agency RMBS securitization business was profitable not only for Credit Suisse but for other financial institutions and investment banks as well. Accordingly, Credit Suisse competed heavily with other financial institutions to acquire loans for securitization from the same pool of originators. This resulted in pressure on Credit Suisse (and its competitors) to reject as few loans as possible during the due diligence process. Not only would the rejection of

loans from the pool decrease the size of the pool available for securitization (and thus Credit Suisse's profits), but it might cause firms such as Credit Suisse to be excluded by the loan originators from further auctions if they rejected more loans than did their competitors.

32. It also led Credit Suisse to provide originators with incentives in the form of enhanced payments based on volume rather than quality. Those incentives were rarely reviewed internally by Credit Suisse, and encouraged originators to churn out poorly underwritten and even fraudulent loans to generate volume. The originators received increased payments (sometimes up to six percent) from Credit Suisse for the increased volume. Traders within Credit Suisse voiced repeated concern that incentives "are purely volume based, and not tied to performance," and that "[o]nce they are awarded they become almost life tenure and are seldom reviewed." One trader also noted that "[w]hen we adjust our pricing recently we somehow forget about all these ridiculous incentives we were arm twisted into over the years."

33. Once RMBS trusts were structured and securitized, they were sold by Credit Suisse's institutional sales force to prospective investors. These prospective investors consisted largely of institutions that included pension funds, charities, educational institutions, mutual funds, and other money managers that in turn invested the retirement funds of workers and the savings of individual retail investors. The RMBS trusts were marketed and sold through Prospectuses and Prospectus Supplements (collectively referred to as the "Prospectus" or "Prospectuses" unless otherwise indicated) that defendants prepared, and caused to be prepared, and that are mandated by N.J.S.A. 49:3-52(d). The Prospectuses were required to describe all material features that would be important to a reasonable investor, including the structure of the offering, the nature and composition of the underlying loans, the manner in which they were underwritten and subjected to due diligence, information about the loan originators, the manner

in which the loans would be serviced so that principal and interest payments would flow through to the investors, and similar information. Credit Suisse was required by the Securities Law not to make any misrepresentations of material fact, and not to omit to disclose any material facts necessary to make its statements not misleading, in the Prospectuses and in all other aspects of the offer or sale of securities.

II. Credit Suisse Misrepresented That the Loans It Securitized and Sold Substantially Complied With Underwriting Guidelines, and Failed to Disclose the Lack of a Meaningful Due Diligence Process to Ensure Such Compliance

34. The Prospectuses for the Credit Suisse RMBS investments represented to investors that the loans being securitized would be underwritten in accordance with the underwriting guidelines of the originator. To the extent the underwriting guidelines were not satisfied in full, investors were assured that the loans would be underwritten in substantial compliance with those guidelines and that any exceptions would be offset by compensating factors. What Credit Suisse did not disclose was that these alleged compensating factors became the exception that swallowed the rule that loans would be in substantial compliance with underwriting guidelines. Instead, as demonstrated below, there was a wholesale abandonment of underwriting guidelines in an effort to churn out as many of these high-risk offerings as possible.

35. The Prospectus for certain offerings, including HEMT 2006-5, 2006-6, 2007-1, and 2007-2, further stated that the sponsor (in this case DLJ) would employ "quality assurance procedures" designed to ensure that the originators of certain loans through its whole loan flow acquisition channel "properly applied the underwriting criteria designated by [DLJ]":

> *...the sponsor employed, at the time such mortgage loans were acquired by the sponsor, certain quality assurance procedures designed to ensure that the applicable qualified correspondent for which it purchases the related mortgage loans properly*

applied the underwriting criteria designated by the sponsor...

36. In Schedule IV of the Pooling and Servicing Agreement (which was part of the publicly filed Registration Statement along with the Prospectus for HEMT 2007-2) between DLJ and Credit Suisse First Boston, on the one hand, and the HEMT 2007-2 trust, on the other, DLJ and Credit Suisse First Boston represented as follows:

> *The origination, underwriting, servicing and collection practice with respect to each Mortgage Loan have been in all respects legal, proper, prudent and customary in the mortgage lending servicing business, as conducted by prudent lending institutions, which service mortgage loans of the same type in the jurisdiction in which the Mortgaged Property is located.*

37. As demonstrated below, Credit Suisse excused widespread non-compliance with underwriting guidelines and waived in tens of thousands of loans that breached the originators' underwriting criteria.

38. Under Credit Suisse's procedures, the loans were evaluated for compliance with the originator's underwriting guidelines by either the third-party due diligence firms (for bulk loans) or the Fulfillment Centers (in the case of mini-bulk and LBL purchases, as well as wholesale originations).

39. Each loan reviewed by the third-party providers was assigned an "Event Level," or "EV," rating. The ratings were as follows: (a) loans that satisfied the originator's underwriting guidelines, without the need for compensating factors, were assigned a rating of "EV1;" (b) loans that were outside the originator's underwriting guidelines, but that displayed sufficient compensating factors, were classified as "EV2;" and (c) loans that were outside the underwriting guidelines, and which did not have sufficient compensating factors to justify their

purchase, were assigned a rating of "EV3." EV3 loans were not eligible for purchase and securitization. Ultimately, Credit Suisse asked that the third-party providers add a rating of "EV4," to identify those loans that, despite meeting the originator's underwriting guidelines, required additional review by Credit Suisse due to particular concerns regarding that originator's guidelines.

40. There were, however, enormous flaws in the due diligence process that resulted in the purchase and securitization of significant numbers of loans that did not meet underwriting guidelines.

a. Purchasing Troubled Loan Pools Without Adequate Sampling

41. In many instances, Credit Suisse directed its third-party bulk due diligence providers to perform due diligence on a limited sample of the loan pools. Even if the due diligence uncovered significant problems with the limited portion of the loan pools that were sampled, Credit Suisse purchased the remainder of the unsampled loans for securitization without any further due diligence on the unsampled pool. This all but ensured that significant quantities of loans that breached underwriting guidelines were purchased and included in securitizations.

42. According to records produced by Credit Suisse, approximately 72 percent of the bulk loans in the following eleven trusts were sampled: HEMT 2006-4, 2006-5, 2006-6, and 2007-2, and HEAT Series 2006-4, 2006-5, 2006-7, 2006-8, 2007-1, 2007-2, and 2007-3. Of the loans sampled, approximately 16 percent were found by the third-party due diligence provider to have breached underwriting guidelines. Notwithstanding these findings, Credit Suisse purchased the remaining 28 percent of the loans in the entirety without any additional due diligence, knowing there was a high likelihood it was purchasing problematic loans as 16 percent of the

loans it had already sampled did not comply with applicable underwriting guidelines.

43. Moreover, an analysis of the pools on which Credit Suisse conducted only limited sampling reflects that such pools were even more likely to be infested with loans that violated underwriting guidelines. For the pools in which Credit Suisse requested that all of the loans be reviewed, the rejection rate was 13 percent. However, for the pools in which only 35 percent or less of the loans were sampled, nearly a third of the loans (approximately 31 percent) were found to be in breach of underwriting guidelines. Nonetheless, Credit Suisse bought the remaining 65 percent of the loans with no further sampling, despite the dismal due diligence results which its limited sampling had yielded. Similar results were found in pools where 36 to 50 percent and 51 to 65 percent of the loans were sampled, as illustrated by the chart below:

Sample Size	Number of Pools	Total Loans	Total Loans Sampled	Total Loans Declined	Percentage of Sampled Loans Declined v. Total Sampled Loans
0% - 34.99%	6	22772	6541	2050	31%
35% - 49.99%	29	25132	9998	2308	23%
50% - 64.99%	24	15863	8965	1547	17%
65% - 99.99%	15	16362	16362	3145	19%
100%	185	73430	73430	9588	13%
Total	259	115296	115296	18638	16%

44. This deficiency is illustrated by a pool of loans from bulk originator New Century, significant portions of which were included in HEMT 2006-5 and 2007-2 (and in other trusts as well). Credit Suisse had directed that only about 35 percent of the loans in the pool be sampled. Over 57 percent of the loans in this limited sample were found by the due diligence provider to be outside the originator's guidelines. Notwithstanding having been placed on notice that over half of the loans in the sampled pool did not meet even the loose underwriting standards of New Century, Credit Suisse nevertheless bought the remaining unsampled loans in the pool for inclusion in securitizations.

45. Credit Suisse also purchased another pool of loans from a different bulk originator. Only 41 percent of the loans in this pool were sampled. Out of this sample, over a third of the loans were rejected as being outside the originator's underwriting guidelines. Credit Suisse nevertheless waived in the vast majority of the rejected loans, and purchased the remainder of the loan pool for securitization.

b. Waiving in Tens of Thousands of Deficient Loans

46. In addition, Credit Suisse had the ability to override the third-party due diligence provider's ratings at will. This undermined the purpose of having such a due diligence process in the first place. Credit Suisse undermined the due diligence process by routinely waiving in large numbers of the loans that had been rejected by the due diligence provider as not meeting the applicable underwriting guidelines and not displaying sufficient compensating factors.

47. Credit Suisse's practice of routinely overriding the due diligence provider's findings, and waiving in thousands of non-conforming loans, is confirmed by one of Credit Suisse's primary outside due diligence providers, Clayton. In its Trending Reports for 2006 and the first two quarters of 2007, Clayton tracked the number of loans that it had rejected but that were nevertheless waived in by Credit Suisse. According to Clayton, it had rejected 21 percent of the 56,306 loans it reviewed for Credit Suisse in that period. Credit Suisse nevertheless waived in 33 percent of those rejected loans.

48. Nowhere did the Prospectuses for these trusts disclose this rampant abandonment of underwriting guidelines, including the facts that: (a) Credit Suisse was purchasing the unsampled portions of loan pools in their entirety no matter how many loans were revealed to be defective in the sampled pool; or (b) that Credit Suisse was waiving into the securitizations a significant volume of loans (approximately 33 percent, according to Clayton's figures) –

notwithstanding their having been rejected in the due diligence process as being outside the applicable underwriting guidelines and not displaying sufficient compensating factors. This was material information that should have been disclosed.

c. **Subsequent Defaults and Investigations by Investors and Downgrades**

49. The loan pools in certain trusts contained staggering amounts of violations of underwriting guidelines, as demonstrated below.

50. Within months of their issuance, the trusts reported significant defaults and delinquencies. At the time of issuance, the Prospectuses had represented that none of the loans in the trusts were delinquent as of the closing date. Within six months after the offerings, however, the trusts were reporting significant levels of non-performing loans (delinquencies and defaults). An analysis of the thirteen trusts revealed that, within six months of trust issuance, non-performing loan rates averaged approximately nine percent. These figures ranged from six percent (HEMT 2006-6) to 12 percent (HEAT 2007-1 and HEAT 2007-2). Within a year after issuance, the average non-performing loan rate was over 17 percent, ranging from 10 percent (HEAT 2006-4) to 24 percent (HEAT 2007-1).

Non-Performing Loans as a Percentage of Total Loans By Trust		
Trust Name	**6 Months After Issuance**	**12 Months After Issuance**
HEAT 2006-4	8%	10%
HEAT 2006-5	9%	14%
HEAT 2006-6	9%	15%
HEAT 2006-7	10%	20%
HEAT 2006-8	10%	20%
HEAT 2007-1	12%	24%
HEAT 2007-2	12%	23%
HEAT 2007-3	11%	20%
HEMT 2006-4	7%	13%
HEMT 2006-5	8%	16%
HEMT 2006-6	6%	16%
HEMT 2007-1	7%	14%
HEMT 2007-2	10%	23%
Average of 13 Trusts	9%	18%

51. These delinquencies have since mushroomed to rates in the vicinity of 20 to 25 percent, if not greater.

52. This led to investigations into the underwriting of the loans that were securitized in the trusts. These investigations reflected that, notwithstanding the representations in the Prospectuses, widespread abandonment of underwriting guidelines had occurred, as demonstrated below.

53. MBIA and Ambac Assurance Company ("Ambac") are insurers that provided financial guarantee insurance on two of Credit Suisse's 2007 securitizations, HEAT 2007-1 (Ambac) and HEMT 2007-2 (MBIA). Following substantial delinquencies and defaults that triggered the insurers' obligations to cover these shortfalls in payments to investors, both insurers reviewed the underlying loan files and conducted independent re-underwritings of a significant sample of the loan files for those trusts. Ambac's analysis found that approximately 80 percent of the 1,134 loans reviewed had been originated in breach of the applicable underwriting guidelines. Similarly, MBIA's review concluded that approximately 75 to 85 percent of the 1,798 loans it reviewed had breached underwriting guidelines.

54. The Federal Housing Finance Agency (the "FHFA"), in its role as conservator for FNMA and FHLMC, conducted a forensic review of 453 loans from HEAT 2007-1 and 1,489 loans from HEAT 2007-2. The FHFA's review found that approximately 67 percent and 71 percent, respectively, of the loans reviewed were not underwritten in accordance with applicable underwriting guidelines.

55. The trustee for HEAT 2007-1 reviewed 1,510 loans to determine whether Credit Suisse had breached its representations and warranties to the trust that the loans had been underwritten in accordance with applicable underwriting guidelines. The trustee's review

discovered that approximately 1,204, or 79 percent, of the loans breached underwriting guidelines.

56. The sheer volume of defaults, delinquencies, and credit downgrades to "junk" status – within a relatively short time following the issuance of the trusts – is further evidence that the loans were not underwritten in accordance with their underwriting guidelines. For example, within four months of the April 27, 2007 HEMT 2007-2 offering, Moody's downgraded HEMT 2006-1, HEMT 2006-3, and HEMT 2006-4 due to what it called "aggressive underwriting combined with prolonged, slowing home price appreciation." In June 2007, S&P also recalibrated their rating models to account for "loosened underwriting," resulting in a ratings downgrade for a number of the trusts. To date, virtually all of the trust certificates have been subjected to similar downgrades, to the point where they have been relegated to junk status.

57. Furthermore, an extraordinary number of loans purchased by Credit Suisse experienced an Early Payment Default ("EPD"), or a default on a payment, usually within the first 90 days after origination. This made the loans eligible for "put back requests" in which Credit Suisse could require the originator to repurchase the loans, replace them with a performing loan, or make a cash payment to Credit Suisse as settlement of the EPD claim. This further demonstrates the poor quality of the loan pools.

58. Indeed, Credit Suisse admitted in an internal presentation given in February 2007 that "CS [Credit Suisse] guidelines are still looser in 80% of underwriting criteria when compared to ALS [a Lehman Brothers subsidiary known as Aurora] or Bear [Stearns]."

59. In sum, this wholesale disregard of underwriting guidelines renders false the representations in the Prospectuses that the loans had been underwritten in substantial compliance with underwriting guidelines. Similarly, Credit Suisse's lack of meaningful due

diligence procedures to ensure that these representations were true was material information that should have been disclosed.

III. Credit Suisse Misrepresented and Omitted to Disclose the Poor Quality of the Loan Originators

60. The Prospectuses for the trusts at issue in this case all stated in the following, or substantially similar language, that:

> *Each seller unaffiliated with the depositor must be an institution experienced in originating conventional mortgage loans and/or FHA Loans or VA loans in accordance **with accepted practices and prudent guidelines**, and must maintain satisfactory facilities to originate those loans, or have such other origination or servicing experience as may be specified in the related prospectus supplement.* (emphasis added)

61. Credit Suisse omitted to disclose material information that several top loan originators were not originating loans in accordance with "accepted practices and prudent guidelines." This was demonstrated by certain originators' disproportionately high delinquency rates and poor track records of repurchasing problematic loans, their having been placed on Credit Suisse's Watch List, and in some cases their even having been suspended or terminated as originators altogether. Credit Suisse also failed to disclose the lack of meaningful internal controls and procedures to monitor the performance of loan originators and curtail purchases from originators who were performing poorly.

a. Originators on a Dysfunctional Watch List

62. Credit Suisse's internal policies called for a Watch List Committee to oversee the suspension and termination of risky mortgage originators that sold loans to Credit Suisse. A variety of Watch Lists were maintained, including Watch Lists for different channels of loan origination as well as Watch Lists for originators who had a significant volume of loans that

could be put back to them by Credit Suisse due to high levels of default and delinquency. The Watch List Committee was supposed to place loan originators on the Watch List based on factors such as poor loan performance, delinquencies, excessive unsatisfied repurchase requests, negative internal quality control reviews, negative findings on Mortgage Asset Research Institute ("MARI") databases, weakening financial condition, and reputational or management concerns.

63. Once an originator was placed on the Watch List, each of its loans was to be subjected to greater scrutiny in underwriting and to receive additional due diligence. Moreover, the Watch List Committee could restrict eligible products or loan sales to Credit Suisse, as well as suspend or terminate the originator.

64. Credit Suisse routinely securitized loans by originators who were on its Watch Lists due to the poor performance of their loans, without disclosing to investors the problems that put these originators on its Watch List or their presence on the Watch Lists or on similar Quality Control Scorecards. By way of example, based upon loan tapes and other documents provided by Credit Suisse:

a. three originators constituting over 32 percent of the loans in the September 29, 2006 HEAT 2006-7 trust had a critical rate of "High" on a September 20, 2006 Quality Control Scorecard. Originators of over 64 percent of the loans had a grade of four or worse (with one being the highest grade and five being the lowest) in the September 20, 2006 Correspondent Bulk and Mini-Bulk Rankings;

b. 11 originators accounting for approximately 60 percent of the loans in the November 30, 2006 HEAT 2006-8 offering were on the Repurchase Watch List as of November 24, 2006;

c. 23 originators accounting for approximately 47 percent of the loans in the December 29, 2006 HEMT 2006-6 trust were on the December 11, 2006 Repurchase Watch List;

d. 15 originators contributing approximately 45 percent of the loans in the February 1, 2007 HEAT 2007-1 offering were on the January 8, 2007 Repurchase Watch List or had Pre-Watch List status;

e. seven originators constituting approximately 10 percent of the loans in the April 27, 2007 HEMT 2007-2 offering were on the Correspondents' or Warehouse Watch Lists dated April 23 and 30, 2007, respectively; and

f. six originators who accounted for approximately 33 percent of the loans in the May 1, 2007 HEAT 2007-3 trust were on the April 30, 2007 Repurchase Watch List.

65. Within a day of the October 30, 2006 HEMT 2006-5 offering, 23 of the originators constituting approximately 28 percent of the loans in the trust were on an October 31, 2006 Repurchase Watch List.

66. Within two months of the June 28, 2006 HEAT 2006-5 offering, nine originators who contributed approximately 40 percent of the loans to the trust were among the top twenty originators on the August 31, 2006 Monthly Put Back and Premium Recapture Report.

67. Within approximately two months of the August 28, 2006 HEMT 2006-4 offering, 30 of the originators accounting for approximately 40 percent of the loans in HEMT 2006-4 had been put on the Repurchase Watch List.

68. Upon information and belief, the remaining trusts had comparable numbers of originators who were also on the Watch List due to similar problems with their loan quality and performance.

69. The Watch List Committee was also compromised by the sales-oriented bias of many of its members, which undermined the effectiveness of the process. In February 2007, a Credit Suisse trader emailed members of the Watch List Committee and other traders expressing concern about two originators. Regarding an originator which was recently added to the Watch List, the trader noted that the performance data for this originator was "dramatically worse" than the information discussed at the Watch List Committee meeting.

70. Another trader responded, "what is the point of having a watchlist meeting if the report . . . does not readily identify [a poor performing originator]? They've been on my watchlist for a while." He continued, "[w]e need to come up with a concrete plan before we buy too many more loans from this account. Their performance is so BAD that we can't afford not to."

71. A supervisor also expressed the concern that the Watch List Committee was "completely biased" toward maintaining good relationships with the originators at the expense of loan quality.

72. The trader agreed and complained that the Head of the Conduit (a key member of the Watch List Committee) was letting problem originators off too easily in exchange for promises of future business. Indeed, he characterized the Head of the Conduit as "the king of quietly forgiving" defaults by loan originators in exchange for future loan volume.

73. Credit Suisse nevertheless omitted to disclose that certain loan originators whose loans were being securitized had been placed on Credit Suisse's Watch List, and that they were

not receiving meaningful scrutiny due to the sales-oriented bias of many of its members. This was material information that should have been disclosed.

b. Poor Repurchase History

74. Pursuant to its Master Loan Purchase Agreements with loan originators, Credit Suisse retained the right to put back loans to these originators by forcing them to repurchase the loans if they experienced EPDs or breached other representations or warranties relevant to the quality and integrity of the loan.

75. Credit Suisse maintained various reports, such as Repurchase Watch Lists and Monthly Put Back and Premium Recapture Reports, listing the originators against which Credit Suisse had the largest volume of repurchase requests on these grounds. The following trusts had significant amounts of originators who were on the lists of the "worst 15," or the "top 20" originators whose loans were defaulting at such high rates that they were candidates for put back and repurchase requests at the time of the offering, based upon loan tapes and other documents provided by Credit Suisse:

a. 17 originators accounting for approximately 31 percent of the loans in the August 28, 2006 HEMT 2006-4 offering were on the "Top 20" list of outstanding put backs and/or premium recapture originators on the August 31, 2006 Monthly Put Back and Premium Recapture Report;

b. four originators constituting approximately 48 percent of the loans in the September 29, 2006 HEAT 2006-7 trust were among the "Worst" originators on the August 31, 2006 and September 29, 2006 Aging Put Back and Premium Recapture Reports;

c. the October 30, 2006 HEMT 2006-5 offering included 13 originators (constituting approximately 21 percent of the loans in the trust) who were among the top 20 originators on either the August 31, 2006 Monthly Put Back Report or the August 31, 2006 Monthly Premium Recapture Report. It also included seven of the "15 Worst" LBL and Wholesale Second Lien Loan originators (constituting over 13 percent of the loans in the trust) as of October 19, 2006;

d. six originators constituting approximately 57 percent of the loans in the November 20, 2006 HEAT 2006-8 offering were among the "Worst Originators" on the Aging Put Back and Repurchase Report dated September 29, 2006;

e. the December 29, 2006 HEMT 2006-6 trust included eight of the October 9, 2006 "15 Worst Originators – Delinquencies," constituting approximately nine percent of the loans in the trust;

f. eight originators constituting approximately 33 percent of the loans in the February 1, 2007 HEAT 2007-1 offering were among the "Worst Originators" on the January 31, 2007 Aging Put Back and Repurchase Report;

g. four of the originators constituting approximately 23 percent of the loans in the April 27, 2007 HEMT 2007-2 offering were among the "Worst Originators" on the March 30, 2007 Aging Put Back and Repurchase Report; and

h. five originators who accounted for approximately 30 percent of the loans in the May 1, 2007 HEAT 2007-3 offering were among the "Worst Originators" on the "Aging Put Back and Repurchase" Report issued slightly more than a month earlier on March 30, 2007.

76. In addition, five of the originators who made up approximately 57 percent of the loans in the May 1, 2006 HEAT 2006-4 trust were on the "Top 20" originators on the Monthly Put Back and Repurchase Report dated August 31, 2006, just several months after the offering.

77. Upon information and belief, the remaining trusts had comparable numbers of originators who were the subject of significant put back requests due to the high volume of their loans that were in default or in breach of other representations and warranties.

78. The fact that the trusts included significant amounts of loans from originators who had significant put back and repurchase requests at the time of the offering was material information that should have been disclosed.

c. Terminated and Inactive Originators

79. Credit Suisse also omitted to disclose that it was securitizing loans from originators that it had either placed on "inactive" status or terminated altogether due to its failure to honor put-back requests for loans that had experienced EPD or for other problems. In other words, Credit Suisse saddled the trusts with loans from originators with whom it would no longer be willing to deal in the future.

80. By way of example:

a. two originators, who accounted for approximately 30 percent of the loans in HEAT 2006-8, were "Suspended" at the time of the offering;

b. three originators, who accounted for approximately 25 percent of the loans in HEAT 2007-1, were "Suspended" at the time of the offering;

c. four originators, who constituted approximately 18 percent of the loans in for HEMT 2007-2, were "Inactive" or "Terminated" at the time of the offering; and

d. two originators, who accounted for approximately seven percent of the loans in HEAT 2007-3, were either "Suspended" or "Terminated" at the time of the offering.

81. Upon information and belief, the remaining trusts had comparable numbers of originators that had been either suspended, terminated, or placed on the inactive list at the time of their offerings.

82. Credit Suisse omitted to disclose all the foregoing facts about suspended and inactive troubled originators to potential investors. This is material information that should have been disclosed.

IV. Credit Suisse Made Materially Misleading Statements and Omissions of Material Facts Concerning the Loan-to-Value Ratios of the Loans in the Trusts

83. Credit Suisse also failed to disclose that it was in possession of numerous internal valuations reflecting that many of the loans in the pools had a negative equity at the time the trusts were sold to investors. As demonstrated below, this was material information that reflected the poor quality of the loans in the trusts and should have been disclosed.

84. The loan-to-value ("LTV") and combined loan-to-value ("CLTV") ratios are among the most important measures of the risk of a mortgage loan. The LTV and CLTV ratios are calculated by dividing the amount of the loan (the numerator) by the value of the property

(the denominator). These ratios measure the amount of equity that a borrower has in the mortgaged property, and are strong indicators of a mortgage loan's potential risk for default.

85. The higher the calculated LTV or CLTV percentage, the lower the equity that the borrower has in the property. When a property has a LTV or CLTV ratio of 100 percent or greater, the borrower has no equity in the property and may even owe more than what the property is worth. The impact of understated LTV and CLTV ratios are particularly material for high LTV and CLTV loans, especially in an environment of falling property values. Under such circumstances, there is strong temptation for borrowers with little or negative equity in their home to stop making mortgage payments and walk away from their homes as housing prices drop.

86. The lower the LTV and CLTV ratios, on the other hand, the greater the "equity cushion" available to cover the unpaid balance of the mortgage loan in the case of a foreclosure sale. Thus, even small differences in LTV and CLTV ratios of the mortgage loans materially impact the default risk and loss severity of such mortgage loans. In its Prospectus for HEMT 2007-2 (and other HEMT offerings as well), Credit Suisse stated that it used "the most recent valuation" of the related mortgage property in determining the CLTV:

> *The CLTV ratio of a mortgage loan at any given time is a fraction, expressed as a percentage, the numerator of which is the sum of the principal balance of the related mortgage loan at the date of determination and the principal balance of the related first lien as of either (i) the date of origination of that mortgage loan or (ii) the date of origination of the related first lien and the denominator of which is the most recent valuation of the related mortgaged property used to determine the CLTV ratio of the related mortgage loan by or on behalf of the sponsor.*

87. As the housing market declined, the disparity between the original appraisal and

the actual value of the underlying properties that were being considered for securitization often increased. This meant that any subsequent valuation would more accurately reflect the growing levels of risk associated with the loans. Credit Suisse did not, however, use "the most recent valuation" for determining the CLTV ratios that it included in the Prospectus. To the contrary, Credit Suisse used the earliest valuation – the original appraisal – for calculating the CLTV ratios which it provided to investors in the Prospectus. Credit Suisse did not disclose that it was often in possession of more recent valuations for many properties – that occurred after the original appraisal but prior to the issuance of the Prospectus – showing that their CLTV ratios were higher (and therefore that the loans were riskier) than as represented in the Prospectus.

88. These more recent valuations derived from an internal Credit Suisse valuation process – also not disclosed in the Prospectus – in which all subprime mortgages underwent at least two valuations (and for certain loans three valuations) prior to being eligible for securitization, consisted of:

a. the original appraisal that was performed as part of the loan origination process. This was the earliest of the valuations performed;

b. a second valuation that occurred after loan origination. As part of the Credit Suisse loan acquisition due diligence process, each property received an Automated Valuation Method ("AVM") value pursuant to an automated valuation system that generated a property valuation based upon several factors that affect a property's value. Credit Suisse's own Underwriting Guidelines recognized the validity of AVMs as an acceptable valuation method for determining the value of a property. The Credit Suisse Due Diligence Team would compare the AVM value with

the property's appraised value at origination; and

c. in the event that the comparison between the appraised valuation at origination and the AVM resulted in a negative variance greater than 10 percent (i.e. the AVM value was more than 10 percent lower than the appraised value at origination), a third valuation was performed on the property. As part of this step, the loan was either: (a) sent to the Credit Suisse Credit Desk for further assessment as to the property's value ("Desk Review"), or (b) sent to a third-party for a Broker Price Option ("BPO"). A BPO is an updated property valuation that is performed by an independent third-party real estate professional. According to Credit Suisse's guidelines, loans with BPO or Desk Review valuations that resulted in a negative variance of greater than 15 percent were supposed to be ineligible for purchase. These variances were not disclosed by Credit Suisse and no changes were made to these variances, despite the decline in home prices.

89. As such, all subprime loans (and varying percentages of other loan types) had multiple property valuations as part of the origination and securitization process. Many of these later valuations revealed that the value of the property had declined more than ten percent since the original appraisal, and that significant numbers of loans now had a negative equity. These material facts were not disclosed to investors.

90. Credit Suisse also omitted to disclose that it permitted any loan that was within a 15 percent negative variance from its appraisal value to be eligible for securitization. Accordingly, many of the foregoing loans that had dropped more than ten percent below the

appraised value, were nevertheless eligible for securitization. The fact that numerous loans had declined by more than ten percent was itself a material fact that should have been disclosed to investors, irrespective of whether Credit Suisse's inadequate internal guidelines allowed them to be packaged in the trusts and sold to investors.

91. In its Prospectuses for the HEMT trusts that are at issue in this case, Credit Suisse represented that each mortgage loan had a CLTV ratio at origination of 100 percent or less. This representation was misleading because it failed to disclose that Credit Suisse was in possession of more recent valuations – subsequent to "origination" – showing that numerous loans were underwater with a CLTV ratio in excess of 100 percent.

92. As a result of these more recent valuations, Credit Suisse knew that calculating the CLTV of the loans based on the original appraisal values would materially underestimate the CLTV values, and, by extension the risks, of the underlying loans.

93. According to records produced by Credit Suisse for ten HEAT and HEMT trusts, between 17 and 38 percent of the loans for which a subsequent valuation was performed (and for which the original CLTV and the appraisal values were available) had a CLTV in excess of 100 percent when the most recent valuation available to Credit Suisse was used as the denominator in calculating the CLTV. On average, approximately 25 percent of the loans on which a subsequent valuation was performed were underwater, with a negative equity in excess of 100 percent, as reflected by the chart below:

Trust	# of Loans With Post-Appraisal Valuation	Number of Loans With CLTV >100% When Latest Valuation is Used	Percentage of Loans with CLTV >100% When Latest Valuation is Used
HEAT 2006-4	1566	371	24%
HEAT 2006-7	1961	443	23%
HEAT 2006-8	3105	514	17%
HEAT 2007-1	2572	749	29%

HEAT 2007-2	3412	783	23%
HEAT 2007-3	1810	437	24%
HEMT 2006-4	798	300	38%
HEMT 2006-5	1761	481	27%
HEMT 2006-6	2705	203	25%
HEMT 2007-2	2595	859	32%
Total	20506	5139	25%

94. The above findings directly contradict Credit Suisse's representation in the HEMT Prospectuses that the CLTV valuations were based upon the "most recent" valuation. They also render misleading the representations in the Prospectuses that there were no loans with a CLTV above 100 percent. Further, Credit Suisse omitted to disclose that it used the original appraisal, as opposed to the more accurate and recent valuations, for purposes of calculating CLTV and that it was including loans over 100 percent CLTV in the HEAT trusts. This is material information that should have been disclosed.

95. The impact of Credit Suisse's misrepresentations and omissions was significant on both HEMT and HEAT trusts. In an analysis of the specific loans in these same ten trusts against the monthly trustee liquidation reports, it has been determined that loans with real CLTVs above 100 percent had an average liquidation rate (not including prepayments) of over 19 percent. That is almost double the rate of liquidation for loans with CLTV's below 100 percent by eighteen months after their issuance.

Trust Name	**Loans with CLTV < 100%**	**Loans with CLTV >100%**	**Absolute % Difference**	**Relative % Difference**
HEAT 2006-4	2.8%	4.3%	1.5%	56%
HEAT 2006-7	4.8%	11.5%	6.7%	142%
HEAT 2006-8	5.8%	13.6%	7.8%	134%
HEAT 2007-1	6.4%	17.4%	10.9%	170%
HEAT 2007-2	6.5%	18.4%	11.9%	185%
HEAT 2007-3	5.8%	13.5%	7.7%	133%

HEMT 2006-4	11.4%	26.0%	14.6%	128%
HEMT 2006-5	14.5%	22.0%	7.5%	52%
HEMT 2006-6	15.8%	32.5%	16.7%	105%
HEMT 2007-2	26.4%	34.8%	8.5%	32%
Average of 10 Trusts	**10.0%**	**19.4%**	**9.4%**	**94%**

V. Credit Suisse Failed to Disclose the Material Impact of Seller Concessions on CLTV Values

96. Credit Suisse failed to disclose the fact that seller concessions in the price of the property also were causing the CLTV values to be overstated.

97. Seller concessions are payments made on behalf of the buyer by the seller during the closing of a real estate transaction.

98. For example, if a property was sold for $100,000 and the seller agreed to provide a seller concession of six percent, the purchaser was, in fact, only spending $94,000 to purchase the property. Under Credit Suisse's program, if the purchaser secured a 100 percent CLTV loan, the purchaser could borrow $100,000 against the property even though he or she only paid $94,000 for the property. This would have resulted in a true CLTV in excess of 106 percent, which Credit Suisse would have nevertheless reported as a 100 percent CLTV.

99. Credit Suisse was aware of the impact of seller concessions on property values and understood the risks associated with seller concessions especially with high CLTV loans. In illustration of Credit Suisse's knowledge:

a. on March 7, 2007, a Second Lien Trader wrote: ">3% seller concession amount should be considered as excess especially for borrowers with little reserve at 100% cltv;"

b. on March 8, 2007, the Director of Underwriting ("Underwriting Director") in the Residential Conduit, wrote in an email: "we are fully aware of what

is and has been going on in the market. We have voiced our concerns about high cltv, low fico, seller concessions, over stated income, etc. for a while;"

c. on March 11, 2007, the Co-Head of the Non-Agency Trading Desk wrote: "Seller Concessions – for CLTV >90%, there should be no 6% seller concessions. The problem with the seller concessions is that they are so hard for us to price for. And at least below 90% CLTV the impact should be minimal. But >90% CLTV seems to invite a lot of naughty behavior on the part of the borrower;"

d. as one trader also testified, "my concern was that maybe a seller who was making the [6 percent seller] concession was really selling a $94,000 house, not a $100,000 house, so that the loan-to-value ratio might, in fact, have been higher than what they were appreciating;" and

e. the Credit Suisse Pull-Through Reports (which reflected which loans from a given pool are admitted into the securitization trust) equally highlighted how the presence of seller concessions caused CLTV ratios to exceed 100 percent. For example, in the Pull-Through report for one loan originator, the comments for one loan stated that "CLTV exceeds 100% by 0.5287% ($2182.24) due to Borrower Receiving Net Cash Out on Sale Due to Seller Concessions."

100. On March 19, 2007, Credit Suisse acted to limit its exposure to high seller concession percentages when it limited them to three percent on owner occupied homes with CLTV ratios of greater than 90 percent.

101. While Credit Suisse acted to limit its own exposure to excessive seller concessions, Credit Suisse did not similarly limit the loans in the RMBS trusts to loans that comported with its then current seller concession guidelines.

102. In an analysis of 4,484 loans that were part of the HEMT 2007-2 securitization, for example:

a. 265 of the loans had seller concessions;

b. 217 of the loans had CLTVs greater than 100 percent when adjusted for the seller concession; and

c. 120 loans had seller concessions of over three percent, even though three percent was the maximum allowable percentage under Credit Suisse's own internal guidelines at the time.

103. Upon information and belief, the remaining trusts had comparable numbers of loans in which seller concessions increased the CLTV values to a greater percentage than had been reported in the Prospectuses.

104. Credit Suisse omitted to disclose its seller concession practices, or their impact on property values and CLTV ratios, to potential investors. This is material information that should have been disclosed.

VI. Credit Suisse Omitted to Disclose Material Information That Credit Suisse and Its Traders Had Eliminated from Their Eligibility Matrix the Type of Reduced Documentation Loans That Were Being Securitized for Investors

105. As RMBS became a significant source of revenues for financial institutions, there was competition between Credit Suisse and other financial institutions to acquire loan pools from a finite group of sellers. This led to pressure on Credit Suisse's traders to bid as aggressively as possible on loan pools, and to bid on portions of those loan pools that may have been of lesser

quality than the rest of the pool. This led to escalating tension between Credit Suisse's traders (who were concerned about being saddled with delinquent loans in the pools on their books) and its sales force (who were concerned with loan volume and maintaining good relationships with the originators of the loans that the traders were increasingly reluctant to buy).

106. Credit Suisse maintained eligibility matrices for the types of loans that it would purchase through the LBL channel. Eligibility criteria included such factors as documentation (full, reduced, or no documentation), minimum credit scores, maximum loan amounts, and CLTV ratios. Once a particular type of loan was placed on the eligibility matrix, Credit Suisse's traders were required to bid on the loan and could not unilaterally refuse to do so, notwithstanding whatever concerns they may have about the risks of the loan.

107. Credit Suisse was aware by late 2006, if not earlier, that reduced and no documentation loans were defaulting at disproportionately high rates. In a November 30, 2006 email discussing eligibility changes, the Due Diligence Director recognized that certain types of reduced or no documentation loans (particularly Stated/Stated loans (stated (but unverified) income and assets), NINA (no income, no assets), and No Documentation loans) were experiencing seriously higher delinquency rates than other loans.

108. In a January 10, 2007 email, the Due Diligence Director noted that the Stated/Stated loans that Credit Suisse had purchased in 2006 were defaulting at five and a half times the rate of loans with full documentation. According to the Due Diligence Director, this was "because they [the borrowers in the "stated Doc" loans] are overstating their income on their application."

109. On February 9, 2007, a Second Lien Trader sent an email to his supervisors recommending that Credit Suisse immediately stop purchasing "No Documentation" second lien

mortgages with a CLTV greater than 95 percent. The Second Lien Trader based his recommendation on performance data showing that the ninety day delinquency percentage and risk of loss were "very high."

110. On February 11, 2007, the Second Lien Trader again sent an urgent email to management of the RMBS Organization and the Residential Conduit urging that "[w]e need to eliminate No Doc 2nd lien at CLTV over 95% from our conduit program immediately." Attached to this email was a chart showing that over eight percent of the over $28 million such loans that Credit Suisse had purchased in 2006 were either marked down or over 90 days delinquent.

111. On February 23, 2007, the Second Lien Trader sent another internal email questioning why Credit Suisse was still purchasing NINA second lien loans at 100 percent CLTV when they had decided to eliminate such loans from its eligibility matrix. The Co-Head of the RMBS Group responded that "I want to stop buying these loans now. There is no liquidity in the market, nor is it likely to come back anytime soon. We'll worry about market share/volume after the dust has settled."

112. The Second Lien Trader continued to urge the removal of a broader group of reduced documentation loans from the product eligibility matrix, warning that the rate of delinquency among loans with little to no borrower documentation was worsening, and that sellers of these types of mortgages appeared to have "no other outlet" for these loans. Ultimately, the Second Lien Trader recommended eliminating "all stated/stated and No Ratio docs [] with CLTV > 95% regardless of FICO" and "NINA [loans] with CLTV > 90%."

113. On February 28, 2007, Credit Suisse announced changes to its eligibility matrix to eliminate some of these loans. It nevertheless continued to acquire other reduced documentation

loans (including No Documentation and NINA loans with a CLTV over 90 percent) that its head of second lien trading had warned against acquiring.

114. Although Credit Suisse's traders continued to warn about the dangers of reduced documentation loans (another Credit Suisse trader emailed on March 15, 2007 that "we should not be doing any no docs in this environment and its questionable whether we should even do ninas"), these reduced and no documentations loans remained eligible for purchase and for securitization.

115. Although Credit Suisse knew that reduced and no documentation loans were experiencing high rates of default, and that its own traders did not want to buy them for fear they would be stuck with them on their books, Credit Suisse continued to securitize these loans and pass them along to investors. In the HEMT 2007-2 trust that was offered on April 27, 2007 – months after these email exchanges – these loans dominated the pool. The HEMT 2007-2 loan contained:

a. 10,152 reduced documentation loans with an average CLTV of 97 percent, representing approximately 69 percent of the total loan balance in the pool;

b. 1,521 Stated/Stated loans with an average CLTV of 96 percent, representing approximately 10 percent of the total loan balance; and

c. 755 NINA loans representing approximately four percent of the total loan balance.

116. Credit Suisse omitted to disclose that: (a) it knew there were disproportionately high default rates on certain reduced documentation loans of the types still maintained in its pools of loans; (b) certain types of these loans had been removed from its eligibility matrix and

the firm no longer was willing to risk purchasing and holding them for its own account; (c) the firm's traders had urged the firm to remove additional categories of reduced documentation loans from the eligibility matrix; and (d) the firm's traders had noted that the sellers of such mortgages were finding no outlet for these loans. This was material information that should have been disclosed.

VII. Credit Suisse Failed to Disclose Its Early Payment Default Settlement Practices

117. Credit Suisse also omitted to disclose that it was enriching itself by tens of millions of dollars through settling early payment default ("EPD") claims with loan originators for loans in the trusts that had defaulted on payments within the EPD period, without remitting that money to the trusts that owned the loans. Although the trusts were the owners of the delinquent loans, Credit Suisse did not repurchase the loans from the trusts and put them back to the originators for the benefit of the trust. Instead, Credit Suisse settled these claims by accepting monetary payments from the originators, which it kept for itself while the trusts remained stuck with the delinquent loans.

118. An EPD violation was well established as a red flag for possible breaches of underwriting standards or other loan origination problems, including fraud. In a Credit Suisse Fixed Income Research Report entitled "Early Payment Default, Repurchase and the Impact on Home Equity ABS" published on September 5, 2006, Credit Suisse stated that "most breaches are discovered only after a borrower fails to make one or more payments." The report went on to state that "the occurrence of an EPD is more likely driven by weak underwriting standards and potential fraud." Similarly, the Head of the Conduit wrote in an email that "a loan that misses its first pay is almost always a fraud."

119. Credit Suisse retained a contractual right in its Master Loan Purchase Agreements ("MLPAs") with mortgage loan originators to require the originator to repurchase any loan that breached an EPD provision.

120. Through its enforcement of the EPD provision, Credit Suisse generated substantial revenue, as follows:

a. in 2005, Credit Suisse received $195 million in total EPD payments;

b. for the first nine months of 2006, Credit Suisse received $334 million in total EPD payments; and

c. in 2007, Credit Suisse reached $499 million in EPD payments.

121. In addition to putting the loans back to the originator, Credit Suisse's internal guidelines also allowed for Credit Suisse to settle EPD claims by a variety of other extra-contractual methods. This included accepting cash payments from the originators representing the diminished value of the loans in lieu of actually putting back the loans themselves.

122. Through most of 2005, some of the Pooling and Service Agreements ("PSAs") between Credit Suisse and the RMBS trusts contained language that required Credit Suisse to repurchase delinquent loans from the trusts in cases of an EPD. Credit Suisse then embarked on a program to remove the EPD language from the PSAs.

123. Realizing that they were "leaving money on the table" by not aggressively pursuing EPD claims for securitized loans, Credit Suisse then incorporated language into its PSAs which no longer required Credit Suisse to put back loans to originators where the loans had already been sold and securitized.

124. This change to the PSAs was made for the benefit of Credit Suisse at the expense of the trusts. No longer was Credit Suisse required to repurchase the defaulted loan from the

trusts and put it back to the originator for the benefit of the trusts. Instead it only had the option of doing so. Increasingly, Credit Suisse chose not to exercise that option on behalf of the trusts.

125. Instead, Credit Suisse enriched itself at the expense of the trusts by settling the EPD claims with the originator for cash and then simply pocketing the cash for itself. The trusts remained saddled with the defective loans.

126. Credit Suisse took advantage of this loophole to generate tens of millions of dollars in cash settlements that it kept for itself without passing that money along to the trusts. Its cash settlements skyrocketed from $21.9 million in 2005 (when it was in some cases obligated to return that money to the trusts) to $172 million in 2007 (when it was not).

127. Credit Suisse's pursuit of EPD claims for securitized loans (and its pocketing of the settlement proceeds) also prevented the trusts from pursuing claims on their behalf, to the extent that the defaulting loans breached other representations and warranties in the PSAs that would have entitled the trusts to put the loans back to the originator. Settling the EPD claims for cash made it more difficult for the trusts to assert legitimate claims of breach of representations and warranties that would have resulted in a financial benefit to the trusts.

128. Credit Suisse's Put Back and Premium Recapture Summary Reports for 2005, 2006, and 2007 show how Credit Suisse manipulated this process to enrich itself to the detriment of the investors and the trusts. In 2005, Credit Suisse settled approximately 87 percent of all put back claims, regardless of whether the loans were in trusts or in Credit Suisse's inventory. This fact is not surprising given that several 2005 securitizations required repurchase for EPD violations.

129. After it changed the form of the PSAs to allow Credit Suisse to pocket EPD settlements on securitized loans for itself, Credit Suisse then enforced and settled its EPD rights

against originators for loans held in securitizations in a totally different fashion compared to loans held by Credit Suisse in inventory. For loans held in securitizations, Credit Suisse opted to settle the EPD claims by receiving cash, while the trusts remained stuck with the loans that had suffered the default. For loans held in Credit Suisse's inventory, by contrast, Credit Suisse would more typically require the loan to be repurchased by the originator, and would only agree to cash settlements when it appeared that the originator did not have the financial wherewithal or willingness to repurchase the loan, as demonstrated below.

130. The cash settlement of EPD claims for securitized loans from 2005 through 2007 grew exponentially by 690 percent. By contrast, the rate of growth in EPD settlements for loans held in inventory during the same time period was only 88 percent.

131. During the first nine months of 2006, Credit Suisse collected $91.8 million from originators in satisfaction of EPD claims for mortgage loans that had been securitized (and were no longer owned by Credit Suisse). In 2007, this figure rose to $173 million. The trusts never received this money.

132. In 2006, Credit Suisse only put back to the originators four percent of the securitized loans that had suffered an EPD by repurchasing the loans and remitting the money to the trusts. The other 96 percent were settled by other methods. By contrast, Credit Suisse put back to the originators 66 percent of the loans that were in its own inventory and had suffered an EPD. This was over sixteen times higher than the repurchase rate for the securitized loans.

133. In 2007, Credit Suisse put back 34 percent of securitized loans that had suffered an EPD by repurchasing and remitting the proceeds to the trust. By contrast, it put back to the originators 49 percent of the loans that were in its own inventory and that had sustained an EPD.

134. Credit Suisse was fully cognizant that investors were unaware of Credit Suisse's EPD practices and would be troubled by them. As one Credit Suisse employee wrote in a January 17, 2007 email:

> *[W]e receive CTO [a form of EPD payment] $ from originators for delq loans in our deals but we do not always repurchase the related loans from the deals or pass the $ to the deals, ... I know from my experience talking to our bond investors every day about EPDs that this would be a surprise and concern to them.*

135. The same employee stated that Credit Suisse should, at a minimum, use its Quality Control department to ensure that such loans did not also contain breaches of the securitization representations and warranties, warning that Credit Suisse would be obligated to repurchase the loans instead of keeping the settlement monies for its own profit.

136. Credit Suisse did not review defective loans beyond the EPD claims. To the contrary, by using EPD as a basis for put back demands to originators, Credit Suisse avoided creating a record of breaches of representations and warranties relating to underwriting standards, which would have otherwise triggered Credit Suisse's repurchase obligations to the trust.

137. Credit Suisse's approach toward EPD claims for loans held in securitizations was simple and straightforward: pursue the EPD claim without investigating the possibility of potential PSA representation and warranty violations. The following email exchange captured this approach:

> *As we discussed . . . we should proceed to collect as much as we can of what we are due . . . without regard to whether we own the loan or it is securitized. Our collections . . . will be based on EPD and reps that do not necessarily overlap with our obligations to securitizations.*

> *. . . we are in agreement that we should pursue sellers for as much as we can negotiate to collect without regard to potential repurchase obligations to trusts.*

138. Credit Suisse also intentionally frustrated investors' efforts to learn more about Credit Suisse's EPD practices and was unwilling to share EPD related information with them, as it would reveal that Credit Suisse's actions were detrimental to the interests of the investors. In an April 2007 email one trader wrote:

> *As most of you know, ARMT 06-3 is performing very poorly. The [residual buyer] has been apprised of our on-going QC efforts and putback activities. He is dismayed about a few things:*
>
> *1) Why don't we QC 100% of the foreclosures*
> *2) Why EPDs aren't bought out of the deal immediately*
> *3) How we determine if a QC issue is significant or not*
> *He would like to come in to discuss our QC results on this deal thus far. He also says that he wants us to QC 100% and share the actual results (loan file) with him as opposed to just our vague assurances that 'we looked at it, its fine, trust us'. It's my understanding that we are unwilling to do this for obvious reasons. We are at the point where I think someone will have to deliver the message that we won't share the loan files, or QC any more loans, and that we rectify breaches of rep and warrants based on our own internal QA controls only.*

139. In response another Credit Suisse senior manager acknowledged that: "We have/may have other similar situations."

140. Credit Suisse omitted to disclose its EPD settlement practices. This was material information that would have been important, and should have been disclosed, to a reasonable investor.

COUNT I

MAKING MATERIALLY FALSE AND MISLEADING STATEMENTS AND/OR OMITTING MATERIAL FACTS IN VIOLATION OF N.J.S.A. 49:3-52(b)

(As to Defendants Credit Suisse Securities (USA) LLC, Credit Suisse First Boston Mortgage Securities Corp., and DLJ Mortgage Capital, Inc.)

141. Plaintiff repeats the allegations in the preceding paragraphs as if fully set forth herein.

142. Defendants Credit Suisse Securities (USA) LLC, Credit Suisse First Boston Mortgage Securities Corp., and DLJ Mortgage Capital, Inc., through their officers, directors, employees, agents, attorneys, successors, or subsidiaries, directly and/or indirectly, made materially false and misleading statements and/or omitted material facts to investors in connection with the offer and sale of RMBS, as specifically alleged herein.

143. Among the omitted material facts not disclosed to investors by defendants Credit Suisse Securities (USA) LLC, Credit Suisse First Boston Mortgage Securities Corp., and DLJ Mortgage Capital, Inc., were that:

a. trusts contained a large volume of loans that were not underwritten in substantial accordance with the underwriting guidelines of the seller;

b. Credit Suisse purchased unsampled portions of loan pools in their entirety regardless of how many loans were defective in the sampled pool;

c. Credit Suisse overrode the due diligence reports and securitized loans even though no compensating factors were listed;

d. Credit Suisse "waived in" a voluminous amount of loans that were rejected by the due diligence process;

e. certain originators had a history of disproportionately high delinquency rates for their loans;

f. certain originators had a poor record for repurchasing problematic loans;

g. certain originators had been placed on various Watch Lists due to poor performance;

h. certain originators were either inactive and/or terminated and no longer approved to sell loans to Credit Suisse;

i. Credit Suisse was experiencing disproportionately high delinquency rates for reduced and no documentation loans;

j. Credit Suisse was no longer purchasing certain reduced and no documentation loans for its own account;

k. Credit Suisse traders advocated for stricter internal policies regarding reduced and no documentation mortgage loans;

l. Credit Suisse securitized a significant number of loans that had a negative equity with CTLVs exceeding 100 percent as of Credit Suisse's most recent valuations;

m. the Watch List Committee rarely met and did not effectively scrutinize the originators on the Watch List;

n. second-lien properties in trusts had at least two (and sometimes three) valuations as part of the origination and securitization process;

o. Credit Suisse permitted loans with as much as a 15 percent negative variance from its appraisal value to be eligible for securitization resulting in substantially understated CLTV ratios;

p. Credit Suisse allowed greater CLTV variances for loans acquired from third-party originators than for loans that Credit Suisse underwrote;

q. Credit Suisse excluded seller concessions in determining the value of a mortgaged property thereby understating CLTV ratios;

r. Credit Suisse securitized loans with CLTVs greater than 90 percent that included seller concessions as high as 6 percent, while limiting its own underwriting for similar loans to less than 3 percent in seller concessions;

s. Credit Suisse retained and did not remit to the trusts proceeds from settlement of its EPD claims arising from securitized loans;

t. Credit Suisse treated EPD settlements differently based on whether a loan was owned by Credit Suisse (held in inventory) or whether it was owned and held by a trust; and

u. Credit Suisse did not review defective loans beyond the EPD claim, and thus avoided creating a record of breaches of representations and warranties relating to underwriting standards.

144. Among other material misrepresentations or misleading statements in the Prospectus to RMBS investors were that:

a. the mortgages in the underlying trusts were in "substantial compliance" with the applicable underwriting standards;

b. each originator not affiliated with Credit Suise would originate loans "in accordance with accepted practicices and prudent guidelines;"

c. defendants employed "certain quality procedures designed to ensure that the correct loan underwriting criteria for certain originators would be

properly applied;"

d. the originator, underwriting, servicing and collection practices, with respect to each loan were "legal, proper, prudent, and customary;" and

e. the loans in the trusts had a CLTV ratio of 100 percent or less, according to "the most recent valuation."

145. Each omission or materially false or misleading statement was in violation of N.J.S.A. 49:3-52(b).

146. Each violation of N.J.S.A. 49:3-52(b) is a separate violation of the Securities Law and is cause for the imposition of a civil monetary penalty for each separate violation pursuant to N.J.S.A. 49:3-70.1.

COUNT II

ENGAGING IN ANY ACT OR PRACTICE WHICH WOULD OPERATE AS A FRAUD OR DECEIT UPON ANY PERSON IN CONNECTION WITH THE OFFER, SALE OR PURCHASE OF SECURITIES IN VIOLATION OF N.J.S.A. 49:3-52(c)

(Against Defendants Credit Suisse Securities (USA) LLC, Credit Suisse First Boston Mortgage Securities Corp., and DLJ Mortgage Capital, Inc.)

147. Plaintiff repeats the allegations in the preceding paragraphs as if fully set forth herein.

148. Defendants Credit Suisse Securities (USA) LLC, Credit Suisse First Boston Mortgage Securities Corp., and DLJ Mortgage Capital, Inc. engaged in an act, practice, and course of business that operated as a fraud and/or deceit upon the investors by, among other things:

a. purchasing loan pools that, based upon limited sampling conducted by due diligence providers, were infested with loans that did not meet the

underwriters' guidelines and that presented a high risk of default and delinquency;

b. waiving many loans that were rejected in the due diligence process, and where no compensating factors were listed on the relevant reports, into the securitized trusts;

c. including loans in trusts from troubled originators who had a history of disproportionately high delinquency rates, poor track records of repurchasing problematic loans, had been placed on the Watch List, and/or were no longer authorized to sell loans to Credit Suisse;

d. paying incentives to loan originators which encouraged the origination of risky loans, with an emphasis on the volume of loans rather than the quality;

e. misrepresenting the CLTV ratios by using the original appraisal values instead of the most recent valuations, and by omitting the effect of seller concessions on property values;

f. including loans in trusts that were no longer eligible for purchase by Credit Suisse for its own account, and which Credit Suisse's traders and underwriters recognized were giving rise to disproportionately high default and delinquency rates;

g. pursuing EPD claims to benefit Credit Suisse by retaining proceeds from settlements of its EPD claims rather than remitting the funds to the trust and failing to investigate possible representation and warranty breaches in the agreements between Credit Suisse and the trusts;

h. intentionally frustrating the efforts of investors to learn more about Credit Suisse's EPD practices, even when requested by investors, for fear that it would reveal that Credit Suisse's actions were detrimental to the interests of the certificate holders; and

i. making material misrepresentations and omitting material facts in the Prospectuses.

149. Each violation of N.J.S.A. 49:3-52(c) by defendants Credit Suisse Securities (USA) LLC, Credit Suisse First Boston Mortgage Securities Corp., and DLJ Mortgage Capital, Inc., upon each investor is a separate violation and is cause for the imposition of a civil monetary penalty for each separate violation pursuant to N.J.S.A. 49:3-70.1.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff respectfully requests the entry of a judgment pursuant to N.J.S.A. 49:3-47 et seq.:

A. Finding that defendants engaged in the acts and practices alleged above;

B. Finding that such acts and practices constitute violations of the Securities Law;

C. Enjoining defendants from violating the Securities Law in any manner;

D. Affording each purchaser of the securities issued by or on behalf of defendants that are the subject of this action, the option of rescinding such purchase and obtaining a refund of monies paid, plus interest and expenses incident to effecting the purchase and rescission;

E. Affording each purchaser of the securities issued by or on behalf of defendants that are the subject of this action, the option of receiving restitution of losses incurred on disposition of the securities, plus interest and expenses incident to

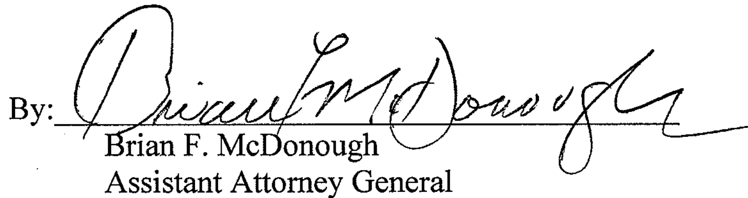
effecting the purchase and restitution;

F. Assessing civil monetary penalties against defendants, for each violation of the Securities Law in accordance with N.J.S.A. 49:3-70.1;

G. Requiring defendants to pay restitution and disgorge all profits and/or funds gained through the violations of the Securities Law alleged herein; and

H. Affording Plaintiff and affected third parties any additional relief the Court may deem just and equitable.

JOHN J. HOFFMAN
ACTING ATTORNEY GENERAL OF NEW JERSEY
Attorney for Plaintiff

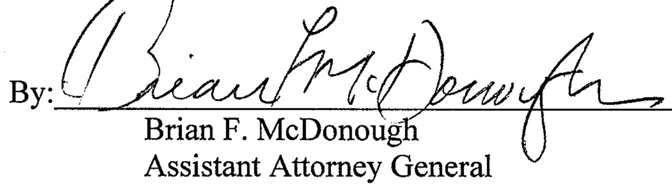
By: 
Brian F. McDonough
Assistant Attorney General

Dated: December 17, 2013
Newark, New Jersey

RULE 4:5-1 CERTIFICATION

I certify, to the best of my information and belief, that the matter in controversy in this action involving the aforementioned violations of the Securities Law, is not the subject of any other action pending in any other court of this State. I further certify, to the best of my information and belief, that the matter in controversy in this action is not the subject of a pending arbitration proceeding in this State, nor is any other action or arbitration proceeding contemplated. I certify that there is no other party who should be joined in this action at this time.

JOHN J. HOFFMAN
ACTING ATTORNEY GENERAL OF NEW JERSEY
Attorney for Plaintiff



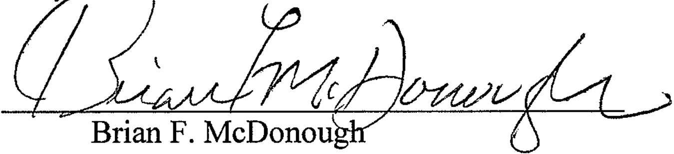
By: ______________________
Brian F. McDonough
Assistant Attorney General

Dated: December 17, 2013
Newark, New Jersey

RULE 1:38-7(c) CERTIFICATION OF COMPLIANCE

I certify that confidential personal identifiers have been redacted from documents now submitted to the court, and will be redacted from all documents submitted in the future in accordance with Rule 1:38-7(b).

JOHN J. HOFFMAN
ACTING ATTORNEY GENERAL OF NEW JERSEY
Attorney for Plaintiff



By:______________________________
Brian F. McDonough
Assistant Attorney General

Dated: December 17, 2013
Newark, New Jersey

DESIGNATION OF TRIAL COUNSEL

Pursuant to Rule 4:25-4, Assistant Attorney General Brian F.McDonough is hereby designated as trial counsel for the Plaintiff in this action.

JOHN J. HOFFMAN
ACTING ATTORNEY GENERAL OF NEW JERSEY
Attorney for Plaintiff

By: ______________________
Brian F. McDonough
Assistant Attorney General

Dated: December 17, 2013
Newark, New Jersey