UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

FEDERAL HOUSING FINANCE AGENCY, AS CONSERVATOR FOR THE FEDERAL NATIONAL MORTGAGE ASSOCIATION AND THE FEDERAL HOME LOAN MORTGAGE CORPORATION, Plaintiff, -against- SG AMERICAS, INC.; SG AMERICAS SECURITIES HOLDINGS, LLC; SG AMERICAS SECURITIES, LLC; SG MORTGAGE FINANCE CORP.; SG MORTGAGE SECURITIES, LLC; DEUTSCHE BANK SECURITIES INC.; J.P. MORGAN SECURITIES LLC; ARNAUD DENIS; ABNER FIGUEROA; TONY TUSI; and ORLANDO FIGUEROA, Defendants.	**___ CIV. ___ (___)** **COMPLAINT** **JURY TRIAL DEMANDED**

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Plaintiff Federal Housing Finance Agency ("FHFA"), as conservator of The Federal National Mortgage Association ("Fannie Mae") and The Federal Home Loan Mortgage Corporation ("Freddie Mac"), by its attorneys Kasowitz, Benson, Torres & Friedman LLP, for its Complaint herein against SG Americas, Inc. ("SG Americas"), SG Americas Securities Holdings, LLC ("SG Holdings"), SG Americas Securities, LLC ("SG Securities"), SG Mortgage Finance Corp. ("SGMF"), and SG Mortgage Securities, LLC ("SGMS") (collectively, "SocGen"), Deutsche Bank Securities Inc. ("DB Securities"), J.P. Morgan Securities LLC ("JPM Securities"), and Arnaud Denis, Abner Figueroa, Tony Tusi, and Orlando Figueroa (collectively, the "Individual Defendants") (together with SocGen, DB Securities, and JPM Securities, the "Defendants"), alleges as follows:

NATURE OF ACTION

1. This action arises out of Defendants' actionable conduct in connection with the offer and sale of certain residential mortgage-backed securities ("RMBS") to Fannie Mae and Freddie Mac (collectively, the "Government Sponsored Enterprises" or "GSEs"). These securities were sold pursuant to registration statements, including prospectuses and prospectus supplements that formed part of those registration statements, which contained materially false or misleading statements and omissions. Defendants falsely represented that the underlying mortgage loans complied with certain underwriting guidelines and standards, including representations that significantly overstated the ability of borrowers to repay their mortgage loans. These representations were material to the GSEs, as reasonable investors, and their falsity violates Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, 15 U.S.C. § 77a *et seq.*, Sections 13.1-522(A)(ii) and 13.1-522(C) of the Virginia Code, Sections 31-5606.05(a)(1)(B) and 31-5606.06(c) of the District of Columbia Code, and constitutes negligent misrepresentation.

2. Between May 11, 2006 and December 14, 2006, Fannie Mae and Freddie Mac purchased nearly $1.3 billion in RMBS (the "Certificates") issued in connection with three SocGen-sponsored and SocGen-underwritten securitizations.[1] The Certificates purchased by Freddie Mac, along with date and amount of the purchases, are listed below in Table 10. The Certificates purchased by Fannie Mae, along with date and amount of the purchases, are listed below in Table 11. The three securitizations at issue are:

(i) SG Mortgage Securities Trust Asset-Backed Certificates, Series 2006-FRE1 ("SGMS 2006-FRE1");

(ii) SG Mortgage Securities Trust Asset-Backed Certificates, Series 2006-FRE2 ("SGMS 2006-FRE2");

(iii) SG Mortgage Securities Trust Asset-Backed Certificates, Series 2006-OPT2 ("SGMS 2006-OPT2");

(collectively, the "Securitizations").

3. The Certificates were offered for sale pursuant to one of two shelf registration statements (the "Shelf Registration Statements") filed with the Securities and Exchange Commission (the "SEC"). Defendant SGMS filed both Shelf Registration Statements that pertained to the three Securitizations at issue in this action. The Individual Defendants signed those Shelf Registration Statements and the amendments thereto. With respect to each Securitization, SG Securities was a co-lead underwriter. SG Securities also was the underwriter who sold the Certificates issued in the SGMS 2006-FRE2 Securitization to Freddie Mac and in the SGMS 2006-OPT2 Securitization to Freddie Mac and Fannie Mae.

[1] For purposes of this Complaint, the securities issued under the Registration Statements (as defined in note 2 below) are referred to as "Certificates," while the particular Certificates that Fannie Mae and Freddie Mac purchased are referred to as the "Certificates." Holders of Certificates are referred to as "Certificateholders."

4. For each Securitization, a prospectus ("Prospectus") and prospectus supplement ("Prospectus Supplement") were filed with the SEC as part of the Registration Statement[2] for that Securitization. The Certificates were marketed and sold to Fannie Mae and Freddie Mac pursuant to the Registration Statements, including the Shelf Registration Statements and the corresponding Prospectuses and Prospectus Supplements.

5. The Registration Statements contained statements about the characteristics and credit quality of the mortgage loans underlying the Securitizations and the origination and underwriting practices used to make and approve the loans. Such statements were material to a reasonable investor's decision to invest in mortgage-backed securities by purchasing the Certificates. Unbeknownst to Fannie Mae and Freddie Mac, these statements were materially false, as significant percentages of the underlying mortgage loans were not originated in accordance with the represented underwriting standards and origination practices and had materially poorer credit quality than what was represented in the Registration Statements.

6. The Registration Statements also contained statistical summaries of the groups of mortgage loans in each Securitization, such as the percentage of loans secured by owner-occupied properties and the percentage of the loan group's aggregate principal balance with loan-to-value ratios within specified ranges. This information also was material to reasonable investors. However, a loan-level analysis of a statistically significant sample of loans for each Securitization—a review that encompassed thousands of mortgages across all the Securitizations—has revealed that these statistics also were false and omitted material facts due to inflated property values and misstatements of other key characteristics of the mortgage loans.

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[2] The term "Registration Statement" as used herein incorporates the Shelf Registration Statement, the Prospectus and the Prospectus Supplement for each referenced Securitization, except where otherwise indicated.

7. For example, the percentage of owner-occupied properties is a material risk factor to the purchasers of Certificates, such as Fannie Mae and Freddie Mac, since a borrower who lives in a mortgaged property is generally less likely to stop paying his or her mortgage and more likely to take better care of the property. The loan-level review reveals that the true percentage of owner-occupied properties for the loans supporting the Certificates was materially lower than what was stated in the Prospectus Supplements. Likewise, the Prospectus Supplements misrepresented other material factors, including the true value of the mortgaged properties relative to the amount of the underlying loans and the actual ability of the individual mortgage holders to satisfy their debts.

8. Defendants SG Securities (which underwrote the three Securitizations and sold the SGMS 2006-FRE2 Securitization to Freddie Mac and the SGMS 2006-OPT2 Securitization to Freddie Mac and Fannie Mae), SGMS (which acted as the depositor for the three Securitizations), and the Individual Defendants (who signed the Registration Statements) are directly responsible for the misstatements and omissions of material fact contained in the Registration Statements because they prepared, signed, filed, and/or used these documents to market and sell the Certificates to Fannie Mae and Freddie Mac. DB Securities (which underwrote and then sold the SGMS 2006-FRE1 Securitization to Fannie Mae) and JPM Securities, as successor-in-interest to Bear, Stearns & Co. Inc. (which underwrote and then sold the SGMS 2006-FRE2 Securitization to Fannie Mae) also are responsible for the misstatements and omissions of material fact contained in the Registration Statements pursuant to which these Securitizations were carried out.

9. Defendants SGMF, SG Americas, and SG Holdings also are responsible for the misstatements and omissions of material fact contained in the Registration Statements by virtue

of their direction and control over Defendants SG Securities and SGMS. SG Americas directly participated in and exercised dominion and control over the business operations of Defendants SG Holdings and SGMF. SG Holdings directly participated in and exercised dominion and control over the business operations of Defendant SG Securities. SGMF (the sponsor) directly participated in and exercised dominion and control over the business operations of Defendant SGMS.

10. Fannie Mae and Freddie Mac purchased nearly $1.3 billion of the Certificates pursuant to the Registration Statements filed with the SEC. These documents contained misstatements and omissions of material facts concerning the quality of the underlying mortgage loans and the practices used to originate and underwrite such loans. As a result of Defendants' misstatements and omissions of material fact, Fannie Mae and Freddie Mac have suffered substantial losses as the value of their holdings has significantly deteriorated.

11. FHFA, as Conservator of Fannie Mae and Freddie Mac, brings this action against the Defendants for violations of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, 15 U.S.C. §§77k, 77*l*(a)(2), 77o, Sections 13.1-522(A)(ii) and 13.1-522(C) of the Virginia Code, Sections 31-5606.05(a)(1)(B) and 31-5606.06(c) of the District of Columbia Code, and for negligent misrepresentation.

PARTIES

The Plaintiff and the GSEs

12. The Federal Housing Finance Agency is a federal agency located at 1700 G Street, NW in Washington, D.C. FHFA was created on July 30, 2008 pursuant to the Housing and Economic Recovery Act of 2008 ("HERA"), Pub. L. No. 110-289, 122 Stat. 2654 (2008) (codified at 12 U.S.C. §4617), to oversee Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. On September 6, 2008, under HERA, the Director of FHFA placed Fannie Mae and

Freddie Mac into conservatorship and appointed FHFA as conservator. In that capacity, FHFA has the authority to exercise all rights and remedies of the GSEs, including, but not limited to, the authority to bring suits on behalf of and/or for the benefit of Fannie Mae and Freddie Mac. 12 U.S.C. § 4617(b)(12).

13. Fannie Mae and Freddie Mac are government-sponsored enterprises chartered by Congress with a mission to provide liquidity, stability, and affordability to the United States housing and mortgage markets. As part of this mission, Fannie Mae and Freddie Mac invested in RMBS. Fannie Mae is located at 3900 Wisconsin Avenue, NW in Washington, D.C. Freddie Mac is located at 8200 Jones Branch Drive in McLean, Virginia.

The Defendants

14. Defendant SG Americas is a wholly owned subsidiary of Société Générale, the global investment bank based in Paris, France. SG Americas, which provides corporate and investment banking services, is a Delaware corporation that has its principal place of business in New York, New York.

15. Defendant SG Holdings is a Delaware limited liability company with its principal place of business in New York, New York. SG Holdings is a wholly owned subsidiary of Defendant SG Americas.

16. Defendant SG Securities is an SEC-registered broker-dealer and wholly owned subsidiary of Defendant SG Holdings. SG Securities is a Delaware limited liability company with its principal place of business in New York, New York. SG Securities was a co-lead underwriter for each of the Securitizations, and was intimately involved in the offerings. Fannie Mae purchased the Certificates for the SGMS 2006-OPT2 Securitization, and Freddie Mac purchased the Certificates for the SGMS 2006-FRE2 and SGMS 2006-OPT2 Securitizations, from SG Securities in its capacity as underwriter.

17. Defendant SGMF is a wholly owned subsidiary of Defendant SG Americas with its principal place of business in New York, New York. SGMF was the sponsor of all three Securitizations.

18. Defendant SGMS is a Delaware limited liability company with its principal place of business in New York, New York. SGMS is a wholly owned subsidiary of Defendant SGMF. SGMS was the depositor for all three Securitizations. SGMS, as depositor, also was responsible for preparing and filing reports required under the Securities Exchange Act of 1934.

19. Defendant DB Securities is an SEC-registered broker-dealer with its principal place of business in New York, New York. DB Securities is a Delaware corporation and is a wholly owned subsidiary of Deutsche Bank AG, the German investment bank. DB Securities was a co-lead underwriter for the SGMS 2006-FRE1 and SGMS 2006-OPT2 Securitizations, and was intimately involved in those offerings. Fannie Mae purchased the Certificates for the SGMS 2006-FRE1 Securitization from DB Securities in its capacity as underwriter.

20. Defendant JPM Securities is an SEC-registered broker-dealer with its principal place of business in New York, New York. JPM Securities is the successor-in-interest to Bear, Stearns & Co. Inc. ("BSC"), a Delaware corporation with its principal place of business in New York, New York. JPM Securities was a co-lead underwriter for the SGMS 2006-FRE2 Securitization, and was intimately involved in that offering. Fannie Mae purchased the Certificates for the same Securitization from BSC in its capacity as underwriter. Pursuant to a Merger Agreement effective May 30, 2008, Bear Stearns' parent company, The Bear Stearns Companies Inc. ("BSCI"), merged with Bear Stearns Merger Corporation, a wholly owned subsidiary of JPMorgan Chase & Co. ("JPMorgan Chase"), making BSC a wholly owned indirect subsidiary of JPMorgan Chase. Following the merger, on or about October 1, 2008,

BSC merged with a subsidiary of JPMorgan Chase, J.P. Morgan Securities Inc., which subsequently changed its name to J.P. Morgan Securities LLC. Thus, BSCI is now doing business as Defendant JPM Securities.

21. Defendant Arnaud Denis is an individual residing in Mamaroneck, New York and was Manager and President of SGMS, the depositor for the Securitizations. Mr. Denis signed or authorized another to sign on his behalf both Shelf Registration Statements and the amendments thereto.

22. Defendant Abner Figueroa is an individual residing in Manalapan, New Jersey and was Vice President and Chief Financial Officer of SGMS, the depositor for the Securitizations. Mr. Figueroa signed or authorized another to sign on his behalf both Shelf Registration Statements and the amendments thereto.

23. Defendant Tony Tusi is an individual residing in Verona, New Jersey and was Treasurer and Controller of SGMS, the depositor for the Securitizations. Mr. Tusi signed or authorized another to sign on his behalf both Shelf Registration Statements and the amendments thereto.

24. Defendant Orlando Figueroa is an individual residing in Woodside, New York and was Independent Manager of SGMS, the depositor for the Securitizations. Mr. Figueroa signed or authorized another to sign on his behalf both Shelf Registration Statements and the amendments thereto.

The Non-Party Originators

25. The loans underlying the Certificates were acquired by SGMF, the sponsor for each Securitization, from non-party mortgage originators. The originators responsible for the loans underlying the Certificates were Fremont Investment & Loan ("Fremont") and Option One Mortgage Corporation ("Option One").

JURISDICTION AND VENUE

26. Jurisdiction of this Court is founded upon 28 U.S.C. § 1345, which gives federal courts non-exclusive original jurisdiction over claims brought by FHFA in its capacity as conservator of Fannie Mae and Freddie Mac.

27. Jurisdiction of this Court also is founded upon 28 U.S.C. § 1331 because the Securities Act claims asserted herein arise under Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, 15 U.S.C. §§ 77k, 77*l*(a)(2), 77o. This Court further has jurisdiction over the Securities Act claims pursuant to Section 22 of the Securities Act of 1933, 15 U.S.C. § 77v.

28. This Court has jurisdiction over the statutory claims of violations of Sections 13.1-522(A)(ii) and 13.1-522(C) of the Virginia Code and Sections 31-5606.05(a)(1)(B) and 31-5606.06(c) of the District of Columbia Code, pursuant to this Court's supplemental jurisdiction under 28 U.S.C. §1367(a). This Court also has jurisdiction over the common law claim of negligent misrepresentation, pursuant to this Court's supplemental jurisdiction under 28 U.S.C. §1367(a).

29. Venue is proper in this district pursuant to Section 22 of the Securities Act of 1933, 15 U.S.C. § 77v, and 28 U.S.C. §1391(b). The SocGen Defendants, DB Securities, and JPM Securities are principally located in this district, and many of the acts and transactions alleged herein, including the preparation and dissemination of the Registration Statements, occurred in substantial part within this district. Additionally, the Certificates were actively marketed and sold from this district. Defendants also are subject to personal jurisdiction in this district.

FACTUAL ALLEGATIONS

I. The Securitizations

A. Residential Mortgage-Backed Securitizations In General

30. Asset-backed securitization distributes risk by pooling cash-producing financial assets and issuing securities backed by those pools of assets. In residential mortgage-backed securitizations, the cash-producing financial assets are residential mortgage loans.

31. The most common form of securitization of mortgage loans involves a sponsor—the entity that acquires or originates the mortgage loans and initiates the securitization—and the creation of a trust, to which the sponsor directly or indirectly transfers a portfolio of mortgage loans. The trust is established pursuant to a Pooling and Servicing Agreement entered into by, among others, the "depositor" for that securitization. In many instances, the transfer of assets to a trust "is a two-step process: the financial assets are transferred by the sponsor first to an intermediate entity, often a limited purpose entity created by the sponsor . . . and commonly called a depositor, and then the depositor will transfer the assets to the [trust] for the particular asset-backed transactions." Asset-Backed Securities, Securities Act Release No. 33-8518, Exchange Act Release No. 34-50905, 84 SEC Docket 1624 (Dec. 22, 2004).

32. RMBS are backed by the underlying mortgage loans. Some residential mortgage-backed securitizations are created from more than one cohort of loans called collateral groups, in which case the trust issues securities backed by different groups. For example, a securitization may involve two groups of mortgages, with some securities backed primarily by the first group, and others primarily by the second group. Purchasers of the securities acquire an ownership interest in the assets of the trust, which in turn owns the loans. Within this framework, the purchasers of the securities acquire rights to the cash-flows from the designated mortgage group,

such as homeowners' payments of principal and interest on the mortgage loans held by the related trust.

33. RMBS are issued pursuant to registration statements filed with the SEC. These registration statements include prospectuses, which explain the general structure of the investment, and prospectus supplements, which contain detailed descriptions of the mortgage groups underlying the certificates. Certificates are issued by the trust pursuant to the registration statement and the prospectus and prospectus supplement. Underwriters sell the certificates to investors.

34. A mortgage servicer is necessary to manage the collection of proceeds from the mortgage loans. The servicer is responsible for collecting homeowners' mortgage loan payments, which the servicer remits to the trustee after deducting a monthly servicing fee. The servicer's duties include making collection efforts on delinquent loans, initiating foreclosure proceedings, and determining when to charge off a loan by writing down its balance. The servicer is required to report key information about the loans to the trustee. The trustee (or trust administrator) administers the trust's funds and delivers payments due each month on the certificates to the investors.

B. The Securitizations At Issue In This Case

35. This case involves the three Securitizations listed in paragraph 2 above, all of which were sponsored by SGMF. For each of the three Securitizations, Table 1 identifies: (1) the sponsor; (2) the depositor; (3) the co-lead underwriters; (4) the principal amount issued for the tranches[3] purchased by the GSEs; (5) the date of issuance; and (6) the loan group or groups

[3] A tranche is one of a series of certificates or interests created and issued as part of the same transaction.

backing the GSE Certificate for that Securitization (referred to as the "Supporting Loan Groups").

Table 1

Transaction	Tranche	Sponsor	Depositor	Co-Lead Underwriters	Principal Amount Issued ($)	Date of Issuance	Supporting Loan Group(s)
SGMS 2006-FRE1	A1A	SGMF	SGMS	SG Securities DB Securities	248,785,000	May 11, 2006	Group 1
SGMS 2006-FRE2	A1	SGMF	SGMS	SG Securities BSC (now JPM Securities)	583,193,000	July 13, 2006	Group 1
SGMS 2006-OPT2	A1	SGMF	SGMS	SG Securities DB Securities	148,233,000	Dec. 14, 2006	Group 1
	A2	SGMF	SGMS	SG Securities DB Securities	206,241,000	Dec. 14, 2006	Group 2

C. The Securitization Process

1. SGMF Groups Mortgage Loans in Special Purpose Trusts

36. As the sponsor for the three Securitizations, SGMF purchased the mortgage loans underlying the Certificates for the Securitizations directly from the originators after the loans were originated.

37. SGMF then sold the mortgage loans to SGMS, which was a wholly owned, limited-purpose subsidiary of SGMF. The sole purpose of SGMS as depositor was to act as a conduit through which loans acquired by the sponsor could be securitized and sold to investors.

38. As depositor for the Securitizations, SGMS transferred the relevant mortgage loans to the trusts, pursuant to a Pooling Agreement or Pooling and Servicing Agreement ("PSA") that contained various representations and warranties regarding the mortgage loans for the Securitizations.

39. As part of each of the Securitizations, the trustee, on behalf of the Certificateholders, executed the PSA with the depositor and the parties responsible for monitoring and servicing the mortgage loans in that Securitization. The trust, administered by the trustee, held the mortgage loans pursuant to the related PSA and issued Certificates,

including the Certificates, backed by such loans. The GSEs purchased the Certificates, through which they obtained an ownership interest in the assets of the trust, including the mortgage loans.

2. The Trusts Issue Securities Backed by the Loans

40. Once the mortgage loans were transferred to the trusts in accordance with the PSAs, each trust issued Certificates backed by the underlying mortgage loans. The Certificates were then sold to investors like Fannie Mae and Freddie Mac, which thereby acquired an ownership interest in the assets of the corresponding trust. Each Certificate entitles its holder to a specified portion of the cashflows from the underlying mortgages in the Supporting Loan Group. The level of risk inherent in the Certificates was a function of the capital structure of the related transaction and the credit quality of the underlying mortgages.

41. The Certificates were issued pursuant to one of two Shelf Registration Statements filed with the SEC on a Form S-3. The Shelf Registration Statements were amended by one or more Forms S-3/A filed with the SEC. Each Individual Defendant signed or authorized another to sign on his behalf the two Shelf Registration Statements, including any amendments thereto, which were filed by SGMS. The SEC filing number, registrants, signatories, and filing dates for both Shelf Registration Statements and amendments thereto, as well as the Certificates covered by each Shelf Registration Statement, are reflected in Table 2 below.

Table 2

SEC File No.	Date Registration Statement Filed	Date(s) Amended Registration Statement Filed	Registrant	Covered Certificates	Signatories of Registration Statement	Signatories of Amendments
333-125307	5/27/2005	7/22/2005	SGMS	SGMS 2006-FRE1	Arnaud Denis; Abner Figueroa; Tony Tusi; Orlando Figueroa	Arnaud Denis; Abner Figueroa; Tony Tusi; Orlando Figueroa
333-131973	2/21/2006	4/18/2006 6/6/2006 6/16/2006 7/12/2006	SGMS	SGMS 2006-FRE2 SGMS 2006-OPT2	Arnaud Denis; Abner Figueroa; Tony Tusi; Orlando Figueroa	Arnaud Denis; Abner Figueroa; Tony Tusi; Orlando Figueroa

42. The Prospectus Supplement for each Securitization describes the underwriting guidelines that purportedly were used in connection with the origination of the underlying mortgage loans. In addition, the Prospectus Supplements purport to provide accurate statistics regarding the mortgage loans in each group, including the ranges of and weighted average FICO credit scores of the borrowers, the ranges of and weighted average loan-to-value ratios of the loans, the ranges of and weighted average outstanding principal balances of the loans, the debt-to-income ratios, the geographic distribution of the loans, the extent to which the loans were for purchase or refinance purposes, information concerning whether the loans were secured by a property to be used as a primary residence, second home, or investment property, and information concerning whether the loans were delinquent.

43. The Prospectus Supplement associated with each Securitization was filed with the SEC as part of the Registration Statement. The Form 8-K attaching the PSA for each Securitization also was filed with the SEC. The date on which the Prospectus Supplement and Form 8-K were filed for each Securitization, as well as the filing number of the Shelf Registration Statement related to each, are set forth in Table 3 below.

Table 3

Transaction	Date Prospectus Supplement Filed	Date Form 8-K Attaching PSA	Filing No. of Related Registration Statement
SGMS 2006-FRE1	5/10/2006	5/25/2006	333-125307
SGMS 2006-FRE2	7/13/2006	8/1/2006	333-131973
SGMS 2006-OPT2	12/14/2006	12/29/2006	333-131973

44. The Certificates were issued pursuant to the PSAs, and Defendants SG Securities, DB Securities, and BSC (now JPM Securities) offered and sold the Certificates to Fannie Mae and Freddie Mac pursuant to the Registration Statements, which, as noted previously, included the Prospectuses and Prospectus Supplements.

II. The Defendants' Participation in the Securitization Process

A. The Role of Each of the Defendants

45. Each of the Defendants, including the Individual Defendants, had a role in the securitization process and the marketing for most or all of the Certificates, which included purchasing the mortgage loans from the originators, arranging the Securitizations, selling the mortgage loans to the depositor, transferring the mortgage loans to the trustee on behalf of the Certificateholders, underwriting the public offering of the Certificates, structuring and issuing the Certificates, and marketing and selling the Certificates to investors such as Fannie Mae and Freddie Mac.

46. With respect to each Securitization, the depositor, underwriters, and Individual Defendants who signed the Registration Statement, as well as the Defendants who exercised control over their activities, are liable, jointly and severally, as participants in the registration, issuance, and offering of the Certificates, including issuing, causing, or making materially misleading statements in the Registration Statement, and omitting material facts required to be stated therein or necessary to make the statements contained therein not misleading.

1. SGMF

47. SGMF was formed in 2005 as a wholly owned subsidiary of SG Americas for the purpose of purchasing residential mortgage loans for securitization. As stated in the Prospectus Supplement for the SGMS 2006-OPT2 Securitization, SGMF sponsored its first securitization in 2005, securitizing mortgage loans with an aggregate principal balance of approximately $493 million. The following year, the volume of mortgage loans SGMF securitized increased by over five times, to approximately $2.68 billion in aggregate principal balance.

48. Defendant SGMF was the sponsor of all three Securitizations. In that capacity, SGMF determined the structure of the Securitizations, initiated the Securitizations, purchased the

mortgage loans to be securitized, determined distribution of principal and interest, and provided data to the credit rating agencies to secure ratings for the Certificates. SGMF also selected its wholly owned subsidiary, SGMS, as the special purpose vehicle that would be used to transfer the mortgage loans from SGMF to the trusts, and selected SG Securities, DB Securities, and BSC (now JPM Securities) as the underwriters for the Securitizations. In its role as sponsor, SGMF knew and intended that the mortgage loans it purchased would be sold in connection with the securitization process, and that certificates representing such loans would be issued by the relevant trusts.

49. For each Securitization, SGMF also conveyed the mortgage loans to SGMS, as depositor, pursuant to Mortgage Loan Purchase Agreements. In these agreements, SGMF made certain representations and warranties to SGMS regarding the groups of loans collateralizing the Certificates. These representations and warranties were assigned by SGMS to the trustees for the benefit of the Certificateholders.

2. SGMS

50. Defendant SGMS has been engaged in the securitization of mortgage loans as a depositor since its incorporation in 2005. It is a special purpose entity formed solely for the purposes of purchasing mortgage loans, filing registration statements with the SEC, forming issuing trusts, assigning mortgage loans and all of its rights and interests in such mortgage loans to the trustee for the benefit of the certificateholders, and depositing the underlying mortgage loans into the issuing trusts.

51. SGMS was the depositor for all three Securitizations. In its capacity as depositor, SGMS purchased the mortgage loans from SGMF (as sponsor) pursuant to Mortgage Loan Purchase Agreements. SGMS then sold, transferred, or otherwise conveyed the mortgage loans to be securitized to the trusts. SGMS, together with the other Defendants, also was responsible

for preparing and filing the Registration Statements pursuant to which the Certificates were offered for sale. The trusts in turn held the mortgage loans for the benefit of the Certificateholders, and issued the Certificates in public offerings for sale to investors such as Fannie Mae and Freddie Mac.

3. SG Securities

52. Defendant SG Securities is an integrated, full-service U.S. securities and investment banking firm. It was, at all relevant times, a registered broker-dealer.

53. SG Securities was a co-lead underwriter for all three Securitizations, and sold the Certificates to Freddie Mac in the SGMS 2006-FRE2 Securitization and to Freddie Mac and Fannie Mae in the SGMS 2006-OPT2 Securitization. As a co-lead underwriter, SG Securities was responsible for underwriting and managing the offer and sale of the Certificates to Fannie Mae and Freddie Mac and other investors. SG Securities also was obligated to conduct meaningful due diligence to ensure that the Registration Statements did not contain any material misstatements or omissions, including as to the manner in which the underlying mortgage loans were originated, transferred, and underwritten.

4. DB Securities

54. Defendant DB Securities is an investment bank and was, at all relevant times, a registered broker/dealer and a leading underwriter of mortgage and other asset-backed securities in the United States.

55. DB Securities was a co-lead underwriter for the SGMS 2006-FRE1 Securitization and the SGMS 2006-OPT2 Securitization and sold the Certificates to Fannie Mae in the SGMS 2006-FRE1 Securitization. As a co-lead underwriter, DB Securities was responsible for underwriting and managing the offer and sale of the Certificates to Fannie Mae and other investors. DB Securities also was obligated to conduct meaningful due diligence to ensure that

the Registration Statements did not contain any material misstatements or omissions, including as to the manner in which the underlying mortgage loans were originated, transferred, and underwritten.

5. JPM Securities

56. As discussed above at paragraph 20, Defendant JPM Securities is the successor-in-interest to BSC and liable for BSC's actions related to the Securitizations.

57. BSC was an investment bank that was, at all relevant times, a registered broker/dealer and a leading underwriter of mortgage and other asset-backed securities in the United States.

58. BSC was a co-lead underwriter for the SGMS 2006-FRE2 Securitization and sold the Certificates to Fannie Mae in that Securitization. As a co-lead underwriter, BSC was responsible for underwriting and managing the offer and sale of the Certificates to Fannie Mae and other investors. BSC also was obligated to conduct meaningful due diligence to ensure that the Registration Statements did not contain any material misstatements or omissions, including as to the manner in which the underlying mortgage loans were originated, transferred, and underwritten.

6. SG Holdings

59. Defendant SG Holdings employed its wholly owned subsidiary, SG Securities, as co-lead underwriter for all three Securitizations. As the sole, direct parent of SG Securities, SG Holdings had the practical ability to direct and control the actions of SG Securities related to the Securitizations, and in fact exercised such direction and control over the activities of SG Securities related to the issuance and sale of the Certificates.

7. SG Americas

60. Defendant SG Americas employed its wholly owned direct and indirect subsidiaries, SGMF, SGMS, and SG Securities, in the key steps of the securitization process. Unlike typical arms' length securitizations, the Securitizations here involved various subsidiaries of SG Americas at virtually each step in the chain. With respect to all the Securitizations, the sponsor was SGMF, the depositor was SGMS, and the co-lead underwriter was SG Securities. SG Americas profited substantially from this vertically integrated approach to mortgage-backed securitization.

61. As the direct or ultimate corporate parent of SGMF, SGMS, and SG Securities, SG Americas had the practical ability to direct and control the actions of SGMF, SGMS, and SG Securities related to the Securitizations, and in fact exercised such direction and control over the activities of these entities related to the issuance and sale of the Certificates.

8. The Individual Defendants

62. Defendant Arnaud Denis was the Manager and President of SGMS. Mr. Denis signed or authorized another to sign on his behalf both Shelf Registration Statements and the amendments thereto.

63. Defendant Abner Figueroa was the Vice President and CFO of SGMS. Mr. Figueroa signed or authorized another to sign on his behalf both Shelf Registration Statements and the amendments thereto.

64. Defendant Tony Tusi was the Treasurer and Controller of SGMS. Mr. Tusi signed or authorized another to sign on his behalf both Shelf Registration Statements and the amendments thereto.

65. Defendant Orlando Figueroa was an Independent Manager for SGMS. Mr. Figueroa signed or authorized another to sign on his behalf both Shelf Registration Statements and the amendments thereto.

B. The Defendants' Failure To Conduct Proper Due Diligence

66. Defendants failed to conduct adequate and sufficient due diligence to ensure that the mortgage loans underlying the Securitizations complied with the representations in the Registration Statements.

67. After a late start entering the U.S. RMBS market in 2005, SocGen quickly accelerated its involvement in the mortgage-backed securitization market. It formed a separate group, the U.S. Residential Mortgage-Backed Securities Group, to structure and underwrite securities backed by U.S. residential mortgages. As related above, SGMF securitized mortgage loans worth approximately $493 million in original principal balance in its first year of operations and increased its volume fivefold—to approximately $2.68 billion in original principal balance—the following year. SocGen went from underwriting $0 of subprime mortgages in 2005 to $814 million in 2006. *See* Compass Point Research & Trading LLC, "Mortgage Finance" at 8, August 17, 2010.

68. Defendants had enormous financial incentives to complete as many offerings as quickly as possible without regard to ensuring the accuracy or completeness of the Registration Statements, or conducting adequate and reasonable due diligence. For example, SGMS, as the depositor, was paid a percentage of the total dollar amount of the offerings upon completion of the Securitizations, and SG Securities, DB Securities, and BSC (now JPM Securities), as the underwriters, were paid commissions based on the amount they received from the sale of the Certificates to the public.

69. The push to securitize large volumes of mortgage loans contributed to the absence of controls needed to prevent the inclusion of untrue statements of material facts and omissions of material facts in the Registration Statements. In particular, Defendants failed to conduct adequate diligence or otherwise to ensure the accuracy of the statements in the Registrations Statements pertaining to the Securitizations.

70. For instance, SocGen retained third-parties, including Clayton Holdings, Inc. ("Clayton"), to analyze the loans it was considering placing in its securitizations, but waived a significant number of loans into the Securitizations that these firms had recommended for exclusion, and did so without taking adequate steps to ensure that these loans had in fact been underwritten in accordance with applicable guidelines or had compensating factors that excused the loans' non-compliance with those guidelines. On January 27, 2008, Clayton revealed that it had entered into an agreement with the New York Attorney General (the "NYAG") to provide documents and testimony regarding its due diligence reports, including copies of the actual reports provided to its clients. According to *The New York Times*, as reported on January 27, 2008, Clayton told the NYAG "that starting in 2005, it saw a significant deterioration of lending standards and a parallel jump in lending expectations" and "some investment banks directed Clayton to halve the sample of loans it evaluated in each portfolio."

71. SocGen was negligent in allowing into the Securitizations a substantial number of mortgage loans that, as reported to SocGen by third-party due diligence firms, did not conform to the underwriting standards stated in the Registration Statements, including the Prospectuses and Prospectus Supplements. Even upon learning from the third-party due diligence firms that there were high percentages of defective or at least questionable loans in the sample of loans reviewed by the third-party due diligence firms, SocGen failed to take any additional steps to verify that

the population of loans in the Securitizations did not include a similar percentage of defective and/or questionable loans.

72. Clayton's trending reports revealed that in the period from the second quarter of 2006 to the first quarter of 2007, 46 percent of the mortgage loans SocGen submitted to Clayton to review in RMBS groups were rejected by Clayton as falling outside the applicable underwriting guidelines. Of the mortgage loans that Clayton found defective, 33 percent of the loans were subsequently waived in by SocGen without proper consideration and analysis of compensating factors and included in securitizations such as the ones in which Fannie Mae and Freddie Mac invested here. *See* Clayton Trending Reports, available at http://fcic.law.stanford.edu/hearings/testimony/the-impact-of-the-financial-crisis-sacramento#documents.

C. Additional Allegations Regarding the Liability Of JP Morgan Securities As Successor To BSC

73. On March 16, 2008, BSC's parent company, BSCI, entered into an Agreement and Plan of Merger with JPMorgan Chase for the purpose of consummating a "strategic business combination transaction" between the two entities.

74. It was pursuant to this Agreement that, as described above at paragraph 20, BSCI merged with Bear Stearns Merger Corporation, a wholly-owned subsidiary of JPMorgan Chase, making BSCI a wholly owned subsidiary of JPMorgan Chase. As such, upon the May 30, 2008, effective date of the Merger, JPMorgan Chase became the ultimate corporate parent of BSCI's subsidiaries, including BSC.

75. According to *The New York Times* in an article published on April 6, 2008, JPMorgan took immediate control of BSCI's business and personnel decisions. The article cited an internal JPMorgan memo, revealing that "JPMorgan Chase, which is taking over the rival

investment bank Bear Stearns, will dominate the management ranks of the combined investment banking and trading businesses." It was planned that of the 26 executive positions in the newly merged investment banking and trading division, only five would be drawn from Bear Stearns.

76. In a June 30, 2008 press release describing internal restructuring to be undertaken pursuant to the Merger, JPMorgan Chase stated its intent to assume BSC and its debts, liabilities, and obligations as follows:

> Following completion of this transaction, Bear Stearns plans to transfer its broker-dealer subsidiary Bear, Stearns & Co. Inc. to JPMorgan Chase, resulting in a transfer of substantially all of Bear Stearns' assets to JPMorgan Chase. In connection with such transfer, JPMorgan Chase will assume (1) all of Bear Stearns' then-outstanding registered U.S. debt securities; (2) Bear Stearns' obligations relating to trust preferred securities; (3) Bear Stearns' then-outstanding foreign debt securities; and (4) Bear Stearns' guarantees of then-outstanding foreign debt securities issued by subsidiaries of Bear Stearns, in each case, in accordance with the agreements and indentures governing these securities.

77. BSC subsequently merged with J.P. Morgan Securities Inc. and is now doing business as J.P. Morgan Securities Inc. JPMorgan's 2008 Annual Report described the transaction as a merger, stating that "[o]n October 1, 2008, J.P. Morgan Securities Inc. merged with and into Bear, Stearns & Co. Inc., and the surviving entity changed its name to J.P. Morgan Securities Inc."

78. Further, the former BSC website, www.bearstearns.com, redirects Bear Stearns visitors to J.P. Morgan Securities Inc.'s website.

79. J.P. Morgan Securities Inc. was fully aware of the pending and potential claims against BSC when it consummated the Merger. J.P. Morgan Securities Inc. has further evinced its intent to assume BSC's liabilities by paying to defend and settle lawsuits brought against BSC.

80. J.P. Morgan Securities Inc. later announced its intention to "convert to a limited liability company, effective September 1, 2010," as part of which it changed its name to J.P. Morgan Securities LLC.

81. As a result of the Merger, Defendant JPM Securities is the successor-in-interest to BSC and is jointly and severally liable for the misstatements and omissions of material fact alleged herein of BSC. This action is brought against JPM Securities as successor to BSC.

III. The Registration Statements and the Prospectus Supplements

A. Compliance With Underwriting Guidelines

82. The Prospectus Supplements for each Securitization describe the underwriting guidelines pursuant to which the mortgage loans underlying the related Securitizations were to have been originated. These guidelines were intended to assess the creditworthiness of the borrower, the ability of the borrower to repay the loan, and the adequacy of the mortgaged property as security for the loan.

83. The statements made in the Prospectus Supplements, which, as discussed, formed part of the Registration Statement for each Securitization, were material to a reasonable investor's decision to purchase and invest in the Certificates because the failure to originate a mortgage loan in accordance with the applicable guidelines creates a higher risk of delinquency and default by the borrower, as well as a risk that losses upon liquidation will be higher, thus resulting in a greater economic risk to an investor.

84. As set forth in more detail below, , in fact, the originators of the mortgage loans in the Supporting Loan Group for the Securitizations did not

adhere to their stated underwriting guidelines, thus rendering the description of those guidelines in the Prospectus Supplements false and misleading.

1. The SGMS 2006-FRE1 and SGMS 2006-FRE2 Securitizations

85. Fremont originated the mortgage loans underlying the SGMS 2006-FRE1 and SGMS 2006-FRE2 Securitizations. The representations relating to compliance with underwriting guidelines were the same in the Prospectus Supplement relating to each Securitization.

86. The Prospectus Supplements represented that "[a]ll of the mortgage loans were originated or acquired by Fremont, generally in accordance with the underwriting criteria described in this section."

87. The Prospectus Supplements further represented that "Fremont's underwriting guidelines are primarily intended to assess the ability and willingness of the borrower to repay the debt and to evaluate the adequacy of the mortgaged property as collateral for the mortgage loan."

88. With respect to the information evaluated by Fremont in originating the loans, the Prospectus Supplements represented that Fremont's underwriters verify the income of each applicant, according to the documentation type of the loan: "[U]nder Full Documentation, applicants are generally required to submit verification of stable income for the periods of one to two years preceding the application dependent on credit profile; under Easy Documentation, the borrower is qualified based on verification of adequate cash flow by means of personal or business bank statements; under Stated Income, applicants are qualified based on monthly income as stated on the mortgage application. The income is not verified under the Stated Income program; however, the income stated must be reasonable and customary for the applicant's line of work."

89. The Prospectus Supplements emphasized that any exceptions to underwriting guidelines must be justified by "compensating factors": "On a case by case basis, Fremont may determine that, based upon compensating factors, a prospective mortgagor not strictly qualifying under the underwriting risk category guidelines described below is nonetheless qualified to receive a loan, *i.e.*, an underwriting exception."

90. The Prospectus Supplements also emphasized Fremont's quality control procedures: "Fremont conducts a number of quality control procedures, including a post-funding review as well as a full re-underwriting of a random selection of loans to assure asset quality. Under the funding review, all loans are reviewed to verify credit grading, documentation compliance and data accuracy. Under the asset quality procedure, a random selection of each month's originations is reviewed. The loan review confirms the existence and accuracy of legal documents, credit documentation, appraisal analysis and underwriting decision. A report detailing review findings and level of error is sent monthly to each loan production office for response."

2. The SGMS 2006-OPT2 Securitization

91. Option One originated the mortgage loans underlying the SGMS 2006-OPT2 Securitization.

92. The Prospectus Supplement represented that "[t]he mortgage loans will have been originated generally in accordance with . . . the 'Option One Underwriting Guidelines.'"

93. The Prospectus Supplement further represented that "[t]he Option One Underwriting Guidelines are primarily intended to assess the value of the mortgaged property, to evaluate the adequacy of such property as collateral for the mortgage loan and to assess the applicant's ability to repay the mortgage loan."

94. The Prospectus Supplement emphasized the variety of factors reviewed to assess an applicant's ability to repay the mortgage loan: "Option One Underwriting Guidelines require a reasonable determination of an applicant's ability to repay the loan. Such determination is based on a review of the applicant's source of income, calculation of a debt service-to-income ratio based on the amount of income from sources indicated on the loan application or similar documentation, a review of the applicant's credit history and the type and intended use of the property being financed."

95. The Prospectus Supplement represented that Option One verified an applicant's information, including by obtaining a credit report and a verbal verification of employment: "Each mortgage loan applicant completes an application that includes information with respect to the applicant's liabilities, income, credit history, employment history and personal information. The Option One Underwriting Guidelines require a credit report and, if available, a credit score on each applicant from a credit-reporting agency." Furthermore, "[f]or wage earning borrowers, all documentation types require a verbal verification of employment to be conducted within 48 hours prior to funding."

96. The Prospectus Supplement emphasized that any exceptions to underwriting guidelines must be justified by "compensating factors": "On a case-by-case basis, it may be determined that an applicant warrants a debt-to-income ratio exception, a pricing exception, a loan-to-value exception, a credit score exception or an exception from certain requirements of a particular risk category. An upgrade will be granted if the application reflects certain compensating factors, among others: a relatively lower LTV; a maximum of one 30-day late payment on all mortgage loans during the last 12 months; stable employment; a fixed source of income that is greater than 50% of all income; ownership of current residence of four or more

years; or cash reserves equal to or in excess of three monthly payments of principal, interest, taxes and insurance."

3. Additional Representations

97. Further, the Prospectus and Prospectus Supplement for each Securitization included additional representations by the originators and sponsor regarding the purported quality of the mortgage loans that collateralized the Certificates. The Prospectus Supplement for each Securitization stated, "Under the Mortgage Loan Purchase Agreement, the Originator and the Sponsor will make certain representations and warranties to the Depositor (which will be assigned to the Trustee) relating to, among other things . . . certain characteristics of the Mortgage Loans."

98. Each Prospectus Supplement stated that the originator had made representations and warranties:

- as to the accuracy in all material respects of certain information furnished to the Trustee with respect to each mortgage loan (e.g., principal balance and the mortgage rate);
- that, as of the closing date, at the time of transfer of each mortgage loan to the sponsor, the originator had "full right to transfer and sell the Mortgage Loan to the Sponsor free and clear of any encumbrance, equity, lien, pledge, charge, claim or security interest"; and
- that each mortgage loan "complied, in all material respects with the requirements of applicable state and federal laws applicable to the origination and servicing of loans of a type similar to the Mortgage Loans."

99. The inclusion of these representations in the Prospectuses and Prospectus Supplements had the purpose and effect of providing additional assurances to investors regarding the quality of the mortgage collateral underlying the Securitizations and the compliance of that collateral with the underwriting guidelines described in the Prospectuses and Prospectus

Supplements. These representations were material to a reasonable investor's decision to purchase the Certificates.

B. Statements Regarding Occupancy Status of Borrower

100. The Prospectus Supplements contained collateral group-level information about the occupancy status of the borrowers of the loans in the Securitizations. Occupancy status refers to whether the property securing a mortgage is to be the primary residence of the borrower, a second home, or an investment property. The Prospectus Supplements for each of the Securitizations presented this information in tabular form, in a table entitled "Occupancy Status." This table divided all the loans in the collateral group by occupancy status, *e.g.*, into the categories: (i) "Primary"; (ii) "Second Home"; and (iii) "Investment." For each category, the table stated the number of loans in that category. Occupancy statistics for the Supporting Loan Groups for each Securitization were reported in the Prospectus Supplements as follows:[4]

Table 4

Transaction	Supporting Loan Group	Primary (%)	Second Home (%)	Investor (%)
SGMS 2006-FRE1	Group I	94.02	0.53	5.45
SGMS 2006-FRE2	Group I	93.55	0.79	5.65
SGMS 2006-OPT2	Group I	94.95	0.73	4.31
SGMS 2006-OPT2	Group II	90.51	1.65	7.85

101. As Table 4 makes clear, the Prospectus Supplement for each Securitization reported that an overwhelming majority of the mortgage loans in the Supporting Loan Groups were owner occupied, while a small percentage were reported to be non-owner occupied (*i.e.* a second home or investment property).

[4] Each Prospectus Supplement provides the total number of loans and the number of loans in the following categories: primary, investor, and second home. These numbers have been converted to percentages.

102. The statements about occupancy status were material to a reasonable investor's decision to invest in the Certificates. Information about occupancy status is an important factor in determining the credit risk associated with a mortgage loan and, therefore, the securitization that it collateralizes. Because borrowers who reside in mortgaged properties are more likely to care for their primary residence and less likely to default than borrowers who purchase homes as second homes or investments and live elsewhere, the percentage of loans in the collateral group of a securitization that are secured by mortgage loans on owner-occupied residences is an important measure of the risk of the certificates sold in that securitization.

103. Other things being equal, the higher the percentage of loans not secured by owner-occupied residences, the greater the risk of loss to the certificateholders. Even small differences in the percentages of primary, second home, and investment properties in the collateral group of a securitization can have a significant effect on the risk of each certificate sold in that securitization, and thus, are important to the decision of a reasonable investor whether to purchase any such certificate. As discussed below at paragraphs 115 through 121, the Registration Statement for each Securitization materially overstated the percentage of loans in the Supporting Loan Groups that were owner occupied, thereby misrepresenting the degree of risk of the Certificates.

C. Statements Regarding Loan-to-Value Ratios

104. The loan-to-value ratio of a mortgage loan, or LTV, is the ratio of the balance of the mortgage loan to the value of the mortgaged property when the loan is made.

105. The denominator in the LTV ratio is the value of the mortgaged property, and is generally the lower of the purchase price or the appraised value of the property. In a refinancing or home-equity loan, there is no purchase price to use as the denominator, so the denominator is often equal to the appraised value at the time of the origination of the refinanced loan.

Accordingly, an accurate appraisal is essential to an accurate LTV ratio. In particular, an inflated appraisal will understate, sometimes greatly, the credit risk associated with a given loan.

106. The Prospectus Supplement for each Securitization also contained group-level information about the LTV ratio for the underlying group of loans as a whole. The percentage of loans with an LTV ratio at or less than 80 percent, and the percentage of loans with an LTV ratio greater than 100 percent as reported in the Prospectus Supplements for the Supporting Loan Groups are reflected in Table 5 below.[5]

Table 5

Transaction	Supporting Loan Group	Percentage of loans, by aggregate principal balance, with LTV less than or equal to 80%	Percentage of loans, by aggregate principal balance, with LTV greater than 100%
SGMS 2006-FRE1	Group I	64.03	0.00
SGMS 2006-FRE2	Group I	70.24	0.00
SGMS 2006-OPT2	Group I	65.33	0.00
SGMS 2006-OPT2	Group II	63.82	0.00

107. As Table 5 makes clear, the Prospectus Supplement for each Securitization reported that the majority of the mortgage loans in the Supporting Loan Groups had an LTV ratio of 80 percent or less and that *zero* mortgage loans in the Supporting Loan Groups had an LTV ratio over 100 percent.

108. The LTV ratio is among the most important measures of the risk of a mortgage loan, and, thus, it is one of the most important indicators of the default risk of the mortgage loans

[5] As used in this Complaint, "LTV" refers to the original loan-to-value ratio for first lien mortgages and for properties with second liens that are subordinate to the lien that was included in the securitization (*i.e.*, only the securitized lien is included in the numerator of the LTV calculation). However, for second lien mortgages, where the securitized lien is junior to another loan, the more senior lien has been added to the securitized one to determine the numerator in the LTV calculation (this latter calculation is sometimes referred to as the combined-loan-to-value ratio, or "CLTV").

underlying the Certificates. The lower the ratio, the less likely that a decline in the value of the property will wipe out an owner's equity, and thereby give an owner an incentive to stop making mortgage payments and abandon the property. This ratio also predicts the severity of loss in the event of default. The lower the LTV, the greater the "equity cushion," so the greater the likelihood that the proceeds of foreclosure will cover the unpaid balance of the mortgage loan.

109. Thus, the LTV ratio is a material consideration to a reasonable investor in deciding whether to purchase a certificate in a securitization of mortgage loans. Even small differences in the LTV ratios of the mortgage loans in the collateral group of a securitization have a significant effect on the likelihood that the collateral groups will generate sufficient funds to pay certificateholders in that securitization, and thus are material to the decision of a reasonable investor whether to purchase any such certificate. As discussed below at paragraphs 122 through 129, the Registration Statements for the Securitizations materially *overstated* the percentage of loans in the Supporting Loan Groups with an LTV ratio at or less than 80 percent, and materially *understated* the percentage of loans in the Supporting Loan Groups with an LTV ratio over 100 percent, thereby misrepresenting the degree of risk of the Certificates.

D. Statements Regarding Credit Ratings

110. Credit ratings are assigned to the tranches of mortgage-backed securitizations by the credit rating agencies, including Moody's Investors Service, Standard & Poor's, and Fitch Ratings. Each credit rating agency uses its own scale with letter designations to describe various levels of risk. In general, AAA or its equivalent ratings are at the top of the credit rating scale and are intended to designate the safest investments. C and D ratings are at the bottom of the scale and refer to investments that are currently in default and exhibit little or no prospect for recovery. At the time the GSEs purchased the Certificates, investments with AAA or its equivalent ratings historically experienced a loss rate of less than .05 percent. Investments with

a BBB rating, or its equivalent, historically experienced a loss rate of less than one percent. As a result, securities with credit ratings between AAA or its equivalent through BBB- or its equivalent were generally referred to as "investment grade."

111. Rating agencies determine the credit rating for each tranche of a mortgage-backed securitization by comparing the likelihood of contractual principal and interest repayment to the "credit enhancements" available to protect investors. Rating agencies determine the likelihood of repayment by estimating cashflows based on the quality of the underlying mortgages by using sponsor-provided, loan-level data. Credit enhancements, such as subordination, represent the amount of "cushion" or protection from loss incorporated into a given deal.[6] This cushion is intended to improve the likelihood that holders of highly rated certificates receive the interest and principal to which they are contractually entitled. The level of credit enhancement offered is based on the make-up of the loans in the underlying collateral group and entire securitization. Riskier loans underlying the securitization necessitate higher levels of credit enhancement to insure payment to senior certificateholders. If the collateral within the deal is of a higher quality, then rating agencies require less credit enhancement for AAA or its equivalent rating.

112. Credit ratings have been an important tool to gauge risk. For almost a hundred years, investors like pension funds, municipalities, insurance companies, and university endowments have relied heavily on credit ratings to assist them in distinguishing between safe and risky investments. Fannie Mae and Freddie Mac's respective internal policies limited their

[6] "Subordination" refers to the fact that the certificates for a mortgage-backed securitization are issued in a hierarchical structure, from senior to junior. The junior certificates are "subordinate" to the senior certificates in that, should the underlying mortgage loans become delinquent or default, the junior certificates suffer losses first. These subordinate certificates thus provide a degree of protection to the senior certificates from losses on the underlying loans.

purchases of private label RMBS to those rated AAA (or its equivalent), and in very limited instances, AA or A bonds (or their equivalent).

113. Each tranche of the Securitizations received a credit rating upon issuance, which purported to describe the riskiness of that tranche. The Defendants reported the credit ratings for each tranche in the Prospectus Supplements. The credit rating provided for each of the Certificates was "investment grade," always AAA or its equivalent. The accuracy of these ratings was material to a reasonable investor's decision to purchase the Certificates. As set forth in Table 8below at paragraph 144, the ratings for the Securitizations were inflated as a result of Defendants' provision of incorrect data concerning the attributes of the underlying mortgage collateral to the ratings agencies, and, as a result, Defendants sold and marketed the Certificates as AAA (or its equivalent) when, in fact, they were not.

IV. Falsity of Statements in the Registration Statements and Prospectus Supplements

A. The Statistical Data Provided in the Prospectus Supplements Concerning Owner Occupancy and LTV Ratios Was Materially False

114. A review of loan-level data was conducted in order to assess whether the statistical information provided in the Prospectus Supplements was true and accurate. For each Securitization, the sample consisted of 1,000 randomly selected loans per Supporting Loan Group. The sample data confirms, on a statistically significant basis, material misrepresentations of underwriting standards and of certain key characteristics of the mortgage loans across the Securitizations. The data review demonstrates that the data concerning owner-occupancy and LTV ratios was materially false and misleading.

1. Owner-Occupancy Data Was Materially False

115. The data review has revealed that the owner-occupancy statistics reported in the Prospectus Supplements were materially false and inflated. In fact, far fewer underlying

properties were occupied by their owners than disclosed in the Prospectus Supplements, and more correspondingly were held as second homes or investment properties.

116. To determine whether a given borrower actually occupied the property as claimed, a number of tests were conducted, including, *inter alia*, whether, months after the loan closed, the borrower's tax bill was being mailed to the property or to a different address; whether the borrower had claimed a tax exemption on the property; and whether the mailing address of the property was reflected in the borrower's credit reports, tax records, or lien records. Failing two or more of these tests is a strong indication that the borrower did not live at the mortgaged property and instead used it as a second home or an investment property, both of which make it much more likely that a borrower will not repay the loan.

117. A significant number of the loans failed two or more of these tests, indicating that the owner-occupancy statistics provided to Fannie Mae and Freddie Mac were materially false and misleading.

118. For the SGMS 2006-FRE1 Securitization, for which SGMF was the sponsor, SGMS the depositor, and SG Securities and DB Securities the co-lead underwriters, the Prospectus Supplement stated that 5.98 percent of the underlying properties by loan count in the Supporting Loan Group were not owner occupied. But the data review revealed that, for 12.15 percent of the properties represented as owner occupied, the owners lived elsewhere, indicating that the true percentage of non-owner-occupied properties was 17.41 percent, nearly three times the percentage reported in the Prospectus Supplement.[7]

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[7] This conclusion is arrived at by summing (a) the stated non-owner-occupied percentage in the Prospectus Supplement (here, 5.98 percent), and (b) the product of (i) the stated owner-occupied percentage (here, 94.02 percent) and (ii) the percentage of the properties represented as owner-occupied in the sample that showed strong indications that their owners in fact lived elsewhere (here, 12.15 percent).

119. For the SGMS 2006-FRE2 Securitization, for which for which SGMF was the sponsor, SGMS the depositor, and SG Securities and BSC (now JPM Securities) the co-lead underwriters, the Prospectus Supplement stated that 6.45 percent of the underlying properties by loan count in the Supporting Loan Group were not owner occupied. But the data review revealed that, for 11.86 percent of the properties represented as owner occupied, the owners lived elsewhere, indicating that the true percentage of non-owner-occupied properties was 17.54 percent, again nearly three times the percentage reported in the Prospectus Supplement.

120. For the two Supporting Loan Groups in the SGMS 2006-OPT2 Securitization, for which SGMF was the sponsor, SGMS the depositor, and SG Securities and DB Securities were the co-lead underwriters, the Prospectus Supplement stated that 5.05 and 9.49 percent, respectively, of the underlying properties by loan count in the Supporting Loan Groups were not owner occupied. The data revealed, however, that for 9.19 percent of the properties in Group 1 represented as owner occupied, and 9.94 percent of the properties in Group 2, the owners lived elsewhere. The true percentage of non-owner-occupied properties was accordingly 13.77 percent for Group 1 and 18.49 percent for Group 2, again far higher than the percentages reported in the Prospectus Supplement.

121. The data review thus revealed that, for each Securitization, the Prospectus Supplement misrepresented the percentage of non-owner-occupied properties. The true percentage of non-owner-occupied properties, as determined by the data review, versus the percentage stated in the Prospectus Supplement for each Securitization, is summarized in Table 6 below.

Table 6

Transaction	Supporting Loan Group	Reported Percentage of Non-Owner-Occupied Properties	Percentage of Properties Reported as Owner Occupied With Strong Indication of Non-Owner Occupancy[8]	Actual Percentage of Non-Owner-Occupied Properties	Prospectus Understatement of Non-Owner-Occupied Properties (%)
SGMS 2006-FRE1	Group I	5.98	12.15	17.41	11.43
SGMS 2006-FRE2	Group I	6.45	11.86	17.54	11.09
SGMS 2006-OPT2	Group I	5.05	9.19	13.77	8.73
	Group II	9.49	9.94	18.49	9.00

2. Loan-to-Value Data Was Materially False

122. The data review has further revealed that the LTV ratios disclosed in the Prospectus Supplements were materially false and understated, as more specifically set out below. For each of the sampled loans, an industry standard automated valuation model ("AVM") was used to calculate the value of the underlying property at the time the mortgage loan was originated. AVMs are routinely used in the industry as a way of valuing properties during prequalification, origination, portfolio review, and servicing. AVMs rely upon similar data as appraisers—primarily county assessor records, tax rolls, and data on comparable properties. AVMs produce independent, statistically-derived valuation estimates by applying modeling techniques to this data.

123. Applying the AVM to the available data for the properties securing the sampled loans shows that the appraised value given to such properties was significantly higher than the actual value of such properties. The result of this overstatement of property values is a material understatement of LTV. That is, if a property's true value is significantly less than the value

[8] As described more fully in paragraph 116, failing two or more tests of owner-occupancy is a strong indication that the borrower did not live at the mortgaged property and instead used it as a second home or an investment property.

used in the loan underwriting, then the loan represents a significantly higher percentage of the property's value. This, of course, increases the risk a borrower will not repay the loan and the risk of greater losses in the event of a default. As stated in the Prospectus Supplement for the SGMS 2006-FRE1 Securitization: "Mortgage Loans with higher loan-to-value ratios may present a greater risk of loss than mortgage loans with loan-to-value ratios of 80% or below."

124. For example, for the SGMS 2006-FRE1 Securitization, the Prospectus Supplement stated that no LTV ratios for the Supporting Loan Group were above 100 percent. In fact, 19.63 percent of the sample of loans included in the data review, based on total principal balance, had LTV ratios above 100 percent. In addition, the Prospectus Supplement stated that 64.03 percent of the loans had LTV ratios at or below 80 percent. The data review revealed that only 37.58 percent of the loans had LTV ratios at or below 80 percent.

125. For the SGMS 2006-FRE2 Securitization, the Prospectus Supplement stated that no LTV ratios for the Supporting Loan Group were above 100 percent. In fact, 21.77 percent of the sample of loans included in the data review, based on total principal balance, had LTV ratios above 100 percent. In addition, the Prospectus Supplement stated that 70.24 percent of the loans had LTV ratios at or below 80 percent. The data review indicated that only 39.05 percent of the loans had LTV ratios at or below 80 percent.

126. For the two Supporting Loan Groups for the SGMS 2006-OPT2 Securitization, the Prospectus Supplement stated that no LTV ratios were above 100 percent. In fact, 17.13 percent of the sample of Group I loans and 18.51 of Group II loans included in the data review, based on total principal balance, had LTV ratios above 100 percent. In addition, the Prospectus Supplement stated that 65.33 percent of the Group I loans and 63.82 Group II loans had LTV

ratios at or below 80 percent. The data review, however, indicated that only 46.67 percent of the Group I loans and 43 percent of the Group II loans had LTV ratios at or below 80 percent.

127. The data review thus revealed that, for each Securitization, the Prospectus Supplement misrepresented the percentage of loans with an LTV ratio that were above 100 percent, as well the percentage of loans that had an LTV ratio at or below 80 percent. Table 7 reflects (i) the true percentage of mortgages in the Supporting Loan Group with LTV ratios above 100 percent, versus the percentage reported in the Prospectus Supplement, and (ii) the true percentage of mortgages in the Supporting Loan Group with LTV ratios at or below 80 percent, versus the percentage reported in the Prospectus Supplement. The percentages listed in Table 7 were calculated by aggregated principal balance.

Table 7

		PROSPECTUS	DATA REVIEW	PROSPECTUS	DATA REVIEW
Transaction	**Supporting Loan Group**	**Percentage of Loans Reported to Have LTV Ratio At Or Less Than 80%**	**True Percentage of Loans With LTV Ratio At Or Less Than 80%**	**Percentage of Loans Reported to Have LTV Ratio Over 100%**	**True Percentage of Loans With LTV Ratio Over 100%**
SGMS 2006-FRE1	Group I	64.03	37.58	0.00	19.63
SGMS 2006-FRE2	Group I	70.24	39.05	0.00	21.77
SGMS 2006-OPT2	Group I	65.33	46.67	0.00	17.13
	Group II	63.82	43.00	0.00	18.51

128. As Table 7 demonstrates, the Prospectus Supplements for all the Securitizations reported that *none* of the mortgage loans in the Supporting Loan Groups had an LTV ratio over 100 percent. In contrast, the data review revealed that between 17.13 and 21.77 percent of the mortgage loans in each Supporting Loan Group had an LTV ratio over 100 percent.

129. These inaccuracies with respect to reported LTV ratios also indicate that the representations in the Registration Statements relating to appraisal practices were false, and that the appraisers themselves, in many instances, furnished appraisals that they understood were

inaccurate and that they knew bore no reasonable relationship to the actual value of the underlying properties. Indeed, independent appraisers following proper practices, and providing genuine estimates as to valuation, would not systematically generate appraisals that deviate so significantly (and so consistently upward) from the true values of the appraised properties. This conclusion is further confirmed by the findings of the Financial Crisis Inquiry Commission (the "FCIC"), which identified "inflated appraisals" as a pervasive problem during the period of the Securitizations, and determined through its investigation that appraisers were often pressured by mortgage originators, among others, to produce inflated results. *See* FCIC, Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States (January 2011).

B. The Originators of the Underlying Mortgage Loans Systematically Disregarded Their Underwriting Guidelines

130. The Registration Statements contained material misstatements and omissions regarding compliance with underwriting guidelines. Indeed, the originators for the loans underlying the Securitizations systematically disregarded their respective underwriting guidelines in order to increase production and profits derived from their mortgage lending businesses. This is confirmed by the systematically misreported owner occupancy and LTV statistics, discussed above, and by (1) government investigations into originators' underwriting practices, which have revealed widespread abandonment of originators' reported underwriting guidelines during the relevant period; (2) the collapse of the Certificates' credit ratings; and (3) the surge in delinquency and default in the mortgages in the Securitizations.

1. Government Investigations Have Confirmed That the Originators of the Loans in the Securitizations Systematically Failed to Adhere to Their Underwriting Guidelines

131. The abandonment of underwriting guidelines is confirmed by several government reports and investigations that have described rampant underwriting failures throughout the period of the Securitizations and, more specifically, have described underwriting failures by the very originators whose loans were included by the Defendants in the Securitizations.

132. For instance, in November 2008, the Office of the Comptroller of the Currency, an office within the United States Department of the Treasury, issued a report identifying the "Worst Ten" mortgage originators in the "Worst Ten" metropolitan areas. The worst originators were defined as those with the largest number of non-prime mortgage foreclosures for 2005-2007 originations. Fremont, which originated the loans in the SGMS 2006-FRE1 and SGMS 2006-FRE2 Securitizations, and Option One, which originated the loans in the SGMS 2006-OPT2 Securitization, were both on that list. *See* "Worst Ten in the Worst Ten," Office of the Comptroller of the Currency Press Release, November 13, 2008.

133. Option One has been identified in multiple reports and investigations for its faulty underwriting. On June 3, 2008, for instance, the Attorney General for the Commonwealth of Massachusetts filed an action against Option One (the "Option One Complaint"), and its past and present parent companies, for their unfair and deceptive origination and servicing of mortgage loans. *See* Complaint, *Commonwealth v. H&R Block, Inc.*, CV NO. 08-2474-BLS (Mass. Super. Ct. June 3, 2008). According to the Massachusetts Attorney General, since 2004, Option One had "increasingly disregarded underwriting standards . . . and originated thousands of loans that [Option One] knew or should have known the borrowers would be unable to pay, all in an effort to increase loan origination volume so as to profit from the practice of packaging and selling the

vast majority of [Option One's] residential subprime loans to the secondary market." *See* Option One Complaint.

134. The Massachusetts Attorney General alleged that Option One's agents and brokers "frequently overstated an applicant's income and/or ability to pay, and inflated the appraised value of the applicant's home," and that Option One "avoided implementing reasonable measures that would have prevented or limited these fraudulent practices." Option One's "origination policies . . . employed from 2004 through 2007 have resulted in an explosion of foreclosures." *Id.* at 1.

135. On November 24, 2008, the Superior Court of Massachusetts granted a preliminary injunction that prevented Option One from foreclosing on thousands of its loans issued to Massachusetts residents. *Commonwealth v. H&R Block, Inc.*, No. 08-2474-BLS1, 2008 WL 5970550 (Mass. Super. Ct. Nov. 24, 2008). On October 29, 2009, the Appeals Court of Massachusetts affirmed the preliminary injunction. *See Commonwealth v. Option One Mortgage Co.*, No. 09-P-134, 2009 WL 3460373 (Mass. App. Ct. Oct. 29, 2009).

136. On August 9, 2011, the Massachusetts Attorney General announced that H&R Block, Inc., Option One's parent company, had agreed to settle the suit for approximately $125 million. *See* Massachusetts Attorney General Press Release, "H&R Block Mortgage Company Will Provide $125 Million in Loan Modifications and Restitutions," Aug. 9, 2011. Media reports noted that the suit was being settled amidst ongoing discussions among multiple states' attorneys general, federal authorities, and five major mortgage servicers, aimed at resolving investigations of the lenders' foreclosure and mortgage-servicing practices. The Massachusetts Attorney General released a statement saying that no settlement should include a release for conduct relating to the lenders' packaging of mortgages into securitizations. *See, e.g.*,

Bloomberg.com, H&R Block, Massachusetts Reach $125 Million Accord in State Mortgage Suit, Aug. 9, 2011.

137. On October 4, 2007, the Commonwealth of Massachusetts, through its Attorney General, brought an enforcement action against Fremont, which originated loans for two of the Securitizations, for an array of "unfair and deceptive business conduct," "on a broad scale." *See* Complaint, *Commonwealth v. Fremont Investment & Loan and Fremont General Corp.*, No. 07-4373 (Mass. Super. Ct.) (the "Fremont Complaint"). According to the Massachusetts Attorney General's complaint, Fremont "approve[ed] borrowers without considering or verifying the relevant documentation related to the borrower's credit qualifications, including the borrower's income"; "approv[ed] borrowers for loans with inadequate debt-to-income analyses that do not properly consider the borrowers' ability to meet their overall level of indebtedness and common housing expenses"; "failed to meaningfully account for [ARM] payment adjustments in approving and selling loans"; "approved borrowers for these ARM loans based only on the initial fixed 'teaser' rate, without regard for borrowers' ability to pay after the initial two year period"; "consistently failed to monitor or supervise brokers' practices or to independently verify the information provided to Fremont by brokers"; and "ma[de] loans based on information that Fremont knew or should have known was inaccurate or false, including, but not limited to, borrowers' income, property appraisals, and credit scores." *See* Fremont Complaint.

138. On December 9, 2008, the Supreme Judicial Court of Massachusetts affirmed a preliminary injunction that prevented Fremont from foreclosing on thousands of its loans issued to Massachusetts residents. As a basis for its unanimous ruling, the Supreme Judicial Court found that the record supported the lower court's conclusions that "Fremont made no effort to determine whether borrowers could 'make the scheduled payments under the terms of the loan,'"

and that "Fremont knew or should have known that [its lending practices and loan terms] would operate in concert essentially to guarantee that the borrower would be unable to pay and default would follow." *Commonwealth v. Fremont Inv. & Loan*, 897 N.E.2d 548, 556 (Mass. 2008). The terms of the preliminary injunction were made permanent by a settlement reached on June 9, 2009.

139. The originators of the mortgage loans underlying the Securitizations went beyond their systematic disregard of their own underwriting guidelines. Indeed, as the FCIC has confirmed, mortgage loan originators throughout the industry pressured appraisers, during the period of the Securitizations, to issue inflated appraisals that met or exceeded the amount needed for the subject loans to be approved, regardless of the accuracy of such appraisals, and especially when the originators aimed at putting the mortgages into a package of mortgages that would be sold for securitization. This resulted in lower LTV ratios, discussed below, which in turn made the loans appear to the investors less risky than they were.

140. As described by Patricia Lindsay, a former wholesale lender who testified before the FCIC in April 2010, appraisers "fear[ed]" for their "livelihoods," and therefore cherry-picked data "that would help support the needed value rather than finding the best comparables to come up with the most accurate value." *See* Written Testimony of Patricia Lindsay to the FCIC, April 7, 2010, at 5. Likewise, Jim Amorin, President of the Appraisal Institute, confirmed in his testimony that "[i]n many cases, appraisers are ordered or severely pressured to doctor their reports and to convey a particular, higher value for a property, or else never see work from those parties again . . . [T]oo often state licensed and certified appraisers are forced into making a 'Hobson's Choice.'" *See* Testimony of Jim Amorin to the FCIC, available at www.appraisalinstitute.org/newsadvocacy/downloads/ltrs_tstmny/2009/AI-ASA-ASFMRA-

NAIFATestimonyonMortgageReform042309final.pdf. Faced with this choice, appraisers systematically abandoned applicable guidelines and over-valued properties in order to facilitate the issuance of mortgages that could then be collateralized into mortgage-backed securitizations.

2. The Collapse of the Certificates' Credit Ratings Further Indicates that the Mortgage Loans Were Not Originated in Adherence to the Stated Underwriting Guidelines

141. The total collapse in the credit ratings of the Certificates, from AAA or its equivalent to non-investment speculative grade, is further evidence of the originators' systematic disregard of underwriting guidelines, indicating that the Certificates were impaired from the start.

142. The Certificates that Fannie Mae and Freddie Mac purchased were originally assigned credit ratings of AAA or its equivalent, which purportedly reflected the description of the mortgage loan collateral and underwriting practices set forth in the Registration Statements. These ratings were artificially inflated, however, as a result of the very same misrepresentations that the Defendants made to investors in the Prospectus Supplements.

143. SocGen provided or caused to be provided loan-level information to the rating agencies that they relied upon in order to calculate the Certificates' assigned ratings, including the borrower's LTV ratio, owner-occupancy status, and other loan-level information described in aggregation reports in the Prospectus Supplements. Because the information that SocGen provided or caused to be provided was false, the ratings were inflated, and the level of subordination that the rating agencies required for the sale of AAA (or its equivalent) certificates was inadequate to provide investors with the level of protection that those ratings signified. As a result, the GSEs paid Defendants inflated prices for purported AAA (or its equivalent) Certificates, unaware that those Certificates actually carried a severe risk of loss and carried inadequate credit enhancement.

144. Since the issuance of the Certificates, the ratings agencies have dramatically downgraded their ratings to reflect the revelations regarding the true underwriting practices used to originate the mortgage loans, and the true value and credit quality of the mortgage loans. Table 8 details the extent of the downgrades.[9]

Table 8

Transaction	Tranche	Ratings at Issuance (Moody's/S&P/Fitch)	Rating as of July 2011 (Moody's/S&P/Fitch)
SGMS 2006-FRE1	A1A	Aaa/AAA/AAA	Caa2/CCC/CC
SGMS 2006-FRE2	A1	Aaa/AAA/AAA	Ca/CCC/C
SGMS 2006-OPT2	A1	Aaa/AAA/AAA	Caa2/B-/CC
SGMS 2006-OPT2	A2	Aaa/AAA/AAA	Caa3/B-/CC

3. The Surge in Mortgage Delinquencies and Defaults Further Demonstrates that the Mortgage Loans Were Not Originated in Adherence to the Stated Underwriting Guidelines

145. Even though the Certificates purchased by Fannie Mae and Freddie Mac were supposed to represent long-term, stable investments, a significant percentage of the mortgage loans backing the Certificates have defaulted, have been foreclosed upon, or are delinquent, resulting in massive losses to the Certificateholders. The overall poor performance of the mortgage loans is a direct consequence of the fact that they were not underwritten in accordance with applicable underwriting guidelines as represented in the Registration Statements.

146. Loan groups that were properly underwritten and contained loans with the characteristics represented in the Registration Statements would have experienced substantially fewer payment problems and substantially lower percentages of defaults, foreclosures, and delinquencies than occurred here. Table 9 reflects that between 41.6 and 50.9 percent of loans in

[9] Applicable ratings are shown in sequential order separated by forward slashes: Moody's/S&P/Fitch.

the Supporting Loan Groups are in default, have been foreclosed upon, or are delinquent as of July 2011.

Table 9

Transaction	Supporting Loan Group	Percentage of Delinquent/Defaulted/Foreclosed Loans as of July 2011
SGMS 2006-FRE1	Group I	50.9
SGMS 2006-FRE2	Group I	50.7
SGMS 2006-OPT2	Group I	44.3
	Group II	41.6

147. The confirmed misstatements concerning owner occupancy and LTV ratios, the confirmed systematic underwriting failures by the originators responsible for the mortgage loans across the Securitizations, and the extraordinary drop in credit rating and rise in delinquencies across those Securitizations, all confirm that the mortgage loans in the Supporting Loan Groups, contrary to the representations in the Registration Statements, were not originated in accordance with the stated underwriting guidelines.

V. Fannie Mae's and Freddie Mac's Purchases of the Certificates and the Resulting Damages

148. In total, between May 11, 2006 and December 14, 2006, Fannie Mae and Freddie Mac purchased nearly $1.3 billion in RMBS issued in connection with the Securitizations. Table 10 reflects each of Freddie Mac's purchases of the Certificates.[10]

[10] Purchased securities in Tables 10 and 11 are stated in terms of unpaid principal balance of the relevant Certificates. Purchase prices are stated in terms of percentage of par. To date, Fannie Mae and Freddie Mac have not sold any of their holdings purchased as described in this section.

Table 10

Transaction	Tranche	CUSIP	Settlement Date of Purchase by Freddie Mac	Initial Unpaid Principal Balance	Purchase Price (% of Par)	Seller to Freddie Mac
SGMS 2006-FRE2	A1	784208AA8	7/13/2006	291,596,500	100.00	SG Securities
SGMS 2006-OPT2	A2	78420MAB5	12/14/2006	206,241,000	100.00	SG Securities

149. Table 11 reflects each of Fannie Mae's purchases of the Certificates:

Table 11

Transaction	Tranche	CUSIP	Settlement Date of Purchase by Fannie Mae	Initial Unpaid Principal Balance	Purchase Price (% of Par)	Seller to Fannie Mae
SGMS 2006-FRE1	A1A	81879MAS8	5/11/2006	248,785,000	100.00	DB Securities
SGMS 2006-FRE2	A1	784208AA8	7/13/2006	291,596,500	100.00	BSC (now JPM Securities)
SGMS 2006-OPT2	A1	78420MAA7	12/14/2006	148,233,000	100.00	SG Securities

150. The statements and assurances in the Registration Statements regarding the credit quality and characteristics of the mortgage loans underlying the Certificates, and the origination and underwriting practices pursuant to which the mortgage loans were originated, which were summarized in such documents, were material to a reasonable investor's decision to purchase the Certificates.

151. The false statements of material facts and omissions of material facts in the Registration Statements, including the Prospectuses and Prospectus Supplements, directly caused Fannie Mae and Freddie Mac to significant damages, including without limitation depreciation in the value of the securities. The mortgage loans underlying the Certificates experienced defaults and delinquencies at a much higher rate than they would have had the loan originators adhered to the underwriting guidelines set forth in the Registration Statements, and the payments to the trusts were therefore much lower than they would have been had the loans been underwritten as described in the Registration Statements.

152. Fannie Mae's and Freddie Mac's losses have been much greater than they would have been if the mortgage loans had the credit quality represented in the Registration Statements.

153. Defendants' misstatements and omissions in the Registration Statements regarding the true characteristics of the loans were the proximate cause of Fannie Mae's and Freddie Mac's losses relating to their purchase of the Certificates. Based upon sales of the Certificates or similar certificates in the secondary market, Defendants proximately caused singificant damages to Fannie Mae and Freddie Mac in an amount to be determined at trial.

FIRST CAUSE OF ACTION

Violation of Section 11 of the Securities Act of 1933 (Against Defendants SG Securities, DB Securities, JPM Securities, SGMS, and the Individual Defendants)

154. Plaintiff realleges each allegation above as if fully set forth herein, except to the extent that Plaintiff expressly excludes any allegation that could be construed as alleging fraud.

155. This claim is brought by Plaintiff pursuant to Section 11 of the Securities Act of 1933 and is asserted on behalf of Fannie Mae and Freddie Mac, which purchased the Certificates issued pursuant to the Registration Statements. This claim is brought against Defendants SG Securities, DB Securities, and JPM Securities (as successor-in-interest to BSC) with respect to the Registration Statements corresponding to the Securitizations they underwrote, and is brought against SGMS and the Individual Defendants with respect to the Registration Statements filed by SGMS that registered securities that were bona fide offered to the public on or after September 6, 2005.

156. This claim is predicated upon the strict liability of Defendants SG Securities, DB Securities, and JPM Securities (as successor-in-interest to BSC) for making false and materially misleading statements in the Registration Statements applicable to one or more Securitizations and for omitting facts necessary to make the facts stated therein not misleading. Defendants

SGMS and the Individual Defendants are strictly liable for making false and materially misleading statements in the Registration Statements that registered securities that were *bona fide* offered to the public on or after September 6, 2005, and for omitting facts necessary to make the facts stated therein not misleading.

157. SG Securities, DB Securities, and BSC served as underwriters for one or more Securitizations (as specified above in Table 1, at paragraph 35), and as such, are liable for the misstatements and omissions in the Registration Statements under Section 11 of the Securities Act. As discussed above at paragraphs 73 to 81, JPM Securities is the successor-in-interest to BSC's liabilities.

158. As depositor, Defendant SGMS filed each of the Registration Statements and is the issuer of the Certificates issued pursuant to the Registration Statements it filed within the meaning of Section 2(a)(4) of the Securities Act, 15 U.S.C. § 77b(a)(4), and in accordance with Section 11(a), 15 U.S.C. § 77k(a). As such, it is liable under Section 11 of the Securities Act for the misstatements and omissions in the Registration Statements that registered securities that were bona fide offered to the public on or after September 6, 2005.

159. At the time Defendant SGMS filed the Registration Statements applicable to all of the Securitizations, the Individual Defendants were officers and/or directors of SGMS. In addition, they signed or authorized another to sign on their behalf the Registration Statements and the amendments to those Registration Statements. As such, the Individual Defendants are liable under Section 11 of the Securities Act for the misstatements and omissions in the Registration Statements that registered securities that were *bona fide* offered to the public on or after September 6, 2005.

160. At the time that they became effective, the Registration Statements contained material misstatements of fact and omitted information necessary to make the facts stated therein not misleading, as set forth above. The facts misstated or omitted were material to a reasonable investor reviewing the Registration Statements.

161. The untrue statements of material facts and omissions of material fact in the Registration Statements are set forth above in Section IV and pertain to compliance with underwriting guidelines, occupancy status, and loan-to-value ratios.

162. Fannie Mae and Freddie Mac purchased or otherwise acquired the Certificates pursuant to the false and misleading Registration Statements. Fannie Mae and Freddie Mac made these purchases in the primary market. At the time they purchased the Certificates, Fannie Mae and Freddie Mac did not know of the facts concerning the false and misleading statements and omissions alleged herein, and if the GSEs would have known those facts, they would not have purchased the Certificates.

163. SG Securities, DB Securities, and BSC (now JPM Securities) owed to Fannie Mae, Freddie Mac, and other investors a duty to make a reasonable and diligent investigation of the statements contained in the Registration Statements applicable to the Securitizations they underwrote at the time they became effective to ensure that such statements were true and correct and that there were no omissions of material facts required to be stated in order to make the statements contained therein not misleading. The Individual Defendants owed the same duty with respect to the Registration Statements that they signed and that were filed by SGMS that registered securities that were bona fide offered to the public on or after September 6, 2005.

164. SG Securities, DB Securities, BSC (now JPM Securities), and the Individual Defendants did not exercise such due diligence and failed to conduct a reasonable investigation.

In the exercise of reasonable care, these Defendants should have known of the false statements and omissions contained in or omitted from the Registration Statements filed in connection with the Securitizations, as set forth herein. In addition, SGMS, though subject to strict liability without regard to whether it performed diligence, also failed to take reasonable steps to ensure the accuracy of the representations.

165. Fannie Mae and Freddie Mac sustained substantial damages as a result of the misstatements and omissions in the Registration Statements.

166. This action is brought within three years of the date that the FHFA was appointed as Conservator of Fannie Mae and Freddie Mac, and is thus timely under 12 U.S.C. § 4617(b)(12).

167. By reason of the conduct herein alleged, SG Securities, DB Securities, JPM Securities, SGMS, and the Individual Defendants are jointly and severally liable for their wrongdoing.

SECOND CAUSE OF ACTION

Violation of Section 12(a)(2) of the Securities Act of 1933 (Against SG Securities, DB Securities, JPM Securities, and SGMS)

168. Plaintiff realleges each allegation above as if fully set forth herein, except to the extent that Plaintiff expressly excludes any allegation that could be construed as alleging fraud.

169. This claim is brought by Plaintiff pursuant to Section 12(a)(2) of the Securities Act of 1933 and is asserted on behalf of Fannie Mae and Freddie Mac, which purchased the Certificates issued pursuant to the Registration Statements in the Securitizations listed in paragraph 2.

170. This claim is predicated upon the negligence of SG Securities, DB Securities, and JPM Securities (as successor-in-interest to BSC), as selling underwriters to Freddie Mac and

Fannie Mae (as specified above in Tables 10 and 11, at paragraphs 148 and 149), for making false and materially misleading statements in the Prospectuses (as supplemented by the Prospectus Supplements, hereinafter referred to in this Section as "Prospectuses") for one or more Securitizations. As discussed above at paragraphs 73 to 81, JPM Securities is the successor-in-interest to BSC's liabilities. Defendant SGMS was negligent in making false and materially misleading statements in the Prospectuses applicable to each of the three Securitizations.

171. SG Securities, DB Securities, and BSC (now JPM Securities) are prominently identified in the Prospectuses, the primary documents that they used to sell the Certificates. SG Securities, DB Securities, and BSC (now JPM Securities) offered the Certificates publicly, including selling to Fannie Mae and Freddie Mac their Certificates, as set forth in the "Plan of Distribution" or "Underwriting" sections of the Prospectuses.

172. SG Securities, DB Securities, and BSC (now JPM Securities) offered and sold the Certificates to Fannie Mae and Freddie Mac by means of the Prospectuses, which contained untrue statements of material facts and omitted to state material facts necessary to make the statements, in light of the circumstances under which they were made, not misleading. SG Securities, DB Securities, and BSC (now JPM Securities) reviewed and participated in drafting the Prospectuses.

173. SG Securities, DB Securities, and BSC (now JPM Securities) successfully solicited Fannie Mae's and Freddie Mac's purchases of the Certificates. As underwriters, SG Securities, DB Securities and BSC (now JPM Securities) obtained substantial commissions based upon the amount received from the sale of the Certificates to the public.

174. SG Securities, DB Securities, and BSC (now JPM Securities) offered the Certificates for sale, sold them, and distributed them by the use of means or instruments of transportation and communication in interstate commerce.

175. SGMS is prominently identified in the Prospectuses for all the Securitizations. These Prospectuses were the primary documents used to sell Certificates. SGMS offered the Certificates publicly and actively solicited their sale, including to Fannie Mae and Freddie Mac.

176. SGMS offered the Certificates to Fannie Mae and Freddie Mac by means of Prospectuses which contained untrue statements of material facts and omitted to state material facts necessary to make the statements, in light of the circumstances under which they were made, not misleading. SGMS reviewed and participated in drafting the Prospectuses.

177. SGMS offered the Certificates for sale by the use of means or instruments of transportation and communication in interstate commerce.

178. Each of SG Securities, DB Securities, BSC (now JPM Securities), and SGMS actively participated in the solicitation of the GSEs' purchase of the Certificates, and did so in order to benefit themselves. Such solicitation included assisting in preparing the Registration Statements, filing the Registration Statements, and assisting in marketing the Certificates.

179. Each of the Prospectuses contained material misstatements of fact and omitted information necessary to make the facts stated therein not misleading. The facts misstated and omitted were material to a reasonable investor reviewing the Prospectuses.

180. The untrue statements of material facts and omissions of material fact in the Registration Statements, which include the Prospectuses, are set forth above in Section IV, and pertain to compliance with underwriting guidelines, occupancy status, and loan-to-value ratios.

181. SG Securities, DB Securities, BSC (now JPM Securities) and SGMS offered and sold the Certificates offered pursuant to the Registration Statements directly to Fannie Mae and Freddie Mac, pursuant to the false and misleading Prospectuses.

182. SG Securities, DB Securities, and BSC (now JPM Securities) owed to Fannie Mae and Freddie Mac, as well as to other investors in these trusts, a duty to make a reasonable and diligent investigation of the statements contained in the Prospectuses for the Securitizations they underwrote, to ensure that such statements were true, and to ensure that there was no omission of a material fact required to be stated in order to make the statements contained therein not misleading. SGMS owed the same duty with respect to all the Prospectuses, which it filed.

183. SG Securities, DB Securities, BSC (now JPM Securities), and SGMS failed to exercise such reasonable care. These defendants in the exercise of reasonable care should have known that the Prospectuses contained untrue statements of material facts and omissions of material facts at the time of the Securitizations as set forth above.

184. In contrast, Fannie Mae and Freddie Mac did not know of the untruths and omissions contained in the Prospectuses at the time they purchased the Certificates. If the GSEs would have known of those untruths and omissions, they would not have purchased the Certificates.

185. Fannie Mae and Freddie Mac acquired the Certificates in the primary market pursuant to the Prospectuses.

186. Fannie Mae and Freddie Mac sustained substantial damages in connection with their investments in the Certificates and have the right to rescind and recover the consideration paid for the Certificates, with interest thereon. Plaintiff hereby seeks rescission and makes any

necessary tender of its Certificates. In the alternative, Plaintiff seeks damages according to proof.

187. This action is brought within three years of the date that the FHFA was appointed as Conservator of Fannie Mae and Freddie Mac, and is thus timely under 12 U.S.C. § 4617(b)(12).

THIRD CAUSE OF ACTION

Violation of Section 15 of the Securities Act of 1933 (Against SGMF, SG Holdings, SG Americas, and the Individual Defendants)

188. Plaintiff realleges each allegation above as if fully set forth herein, except to the extent that Plaintiff expressly excludes any allegation that could be construed as alleging fraud.

189. This claim is brought under Section 15 of the Securities Act of 1933, 15 U.S.C. §77o ("Section 15"), against SG Americas, SG Holdings, SGMF, and the Individual Defendants for controlling-person liability with regard to the Section 11 and Section 12(a)(2) causes of actions set forth above.

190. The Individual Defendants at all relevant times participated in the operation and management of SGMS and its related subsidiaries, and conducted and participated, directly and indirectly, in the conduct of SGMS's business affairs. Defendant Arnaud Denis was the Manager and President of SGMS. Defendant Abner Figueroa was the Vice President and Chief Financial Officer of SGMS. Defendant Tony Tusi was the Treasurer and Controller of SGMS. Defendant Orlando Figueroa was the Independent Manager of SGMS.

191. Defendant SGMF was the sponsor for all three Securitizations and culpably participated in the violations of Sections 11 and 12(a)(2) set forth above with respect to the offering of the Certificates by initiating these Securitizations, purchasing the mortgage loans to be securitized, determining the structure of the Securitizations, selecting SGMS as the special

purpose vehicle, and selecting SG Securities, DB Securities, and BSC (now JPM Securities) as underwriters. In its role as sponsor, SGMF knew and intended that the mortgage loans it purchased would be sold in connection with the securitization process, and that certificates representing the ownership interests of investors in the cashflows would be issued by the relevant trusts.

192. Defendant SGMF also acted as the seller of the mortgage loans for all three Securitizations, in that it conveyed such mortgage loans to SGMS pursuant to a Mortgage Loan Purchase Agreement.

193. Defendant SGMF also controlled all aspects of the business of SGMS, as SGMS was merely a special purpose entity created for the purpose of acting as a pass-through for the issuance of the Certificates. In addition, because of its position as sponsor, SGMF was able to, and did in fact, control the contents of the Registration Statements, including the Prospectuses and Prospectus Supplements, which contained material misstatements of fact and omitted facts necessary to make the facts stated therein not misleading.

194. Defendant SG Holdings controlled the business operations of SG Securities. Defendant SG Holdings is the corporate parent of SG Securities. As the direct corporate parent of SG Securities, SG Holdings had the practical ability to direct and control the actions of SG Securities in issuing and selling the Certificates, and in fact exercised such direction and control over the activities of SG Securities in connection with the issuance and sale of the Certificates.

195. SG Holdings culpably participated in the violations of Section 11 and 12(a)(2) set forth above. It oversaw the actions of SG Securities and allowed its subsidiary to misrepresent the mortgage loans' characteristics in the Registration Statements.

196. Defendant SG Americas wholly owns SGMF and SG Holdings, and is the ultimate parent of SGMS and SG Securities. As the direct corporate parent of SGMF and SG Holdings, SG Americas had the practical ability to direct and control the actions of SGMS (through SGMF) and SG Securities (through SG Holdings) in issuing and selling the Certificates, and in fact exercised such direction and control over the activities of SGMS and SG Securities in connection with the issuance and sale of the Certificates.

197. SG Americas expanded its share of the residential mortgage-backed securitization market in order to increase revenue and profits. The push to securitize large volumes of mortgage loans contributed to the inclusion of untrue statements of material facts and omissions of material facts in the Registration Statements.

198. SG Americas culpably participated in the violations of Section 11 and 12(a)(2) set forth above. It oversaw the actions of its subsidiaries and allowed them to misrepresent the mortgage loans' characteristics in the Registration Statements and establish special-purpose financial entities such as SGMS and the issuing trusts to serve as conduits for the mortgage loans.

199. SG Americas, SG Holdings, SGMF, and the Individual Defendants are controlling persons within the meaning of Section 15 by virtue of their actual power over, control of, ownership of, and/or directorship of SGMS and SG Securities at the time of the wrongs alleged herein and as set forth herein, including their control over the content of the Registration Statements.

200. Fannie Mae and Freddie Mac purchased in the primary market Certificates issued pursuant to the Registration Statements, including the Prospectuses and Prospectus Supplements, which, at the time they became effective, contained material misstatements of fact and omitted

facts necessary to make the facts stated therein not misleading. The facts misstated and omitted were material to a reasonable investor reviewing the Registration Statements.

201. Fannie Mae and Freddie Mac did not know of the misstatements and omissions in the Registration Statements; had the GSEs known of those misstatements and omissions, they would not have purchased the Certificates.

202. Fannie Mae and Freddie Mac have sustained damages as a result of the misstatements and omissions in the Registration Statements, for which they are entitled to compensation.

203. This action is brought within three years of the date that the FHFA was appointed as Conservator of Fannie Mae and Freddie Mac and is thus timely under 12 U.S.C. § 4617(b)(12).

FOURTH CAUSE OF ACTION

Violation of Section 13.1-522(A)(ii) of the Virginia Code (Against SG Securities and SGMS)

204. Plaintiff realleges each allegation above as if fully set forth herein, except to the extent that Plaintiff expressly excludes any allegation that could be construed as alleging fraud.

205. This claim is brought by Plaintiff pursuant to Section 13.1-522(A)(ii) of the Virginia Code and is asserted on behalf of Freddie Mac with respect to the GSE Certificates for the SGMS 2006-OPT2 Securitization and SGMS 2006-FRE2 Securitization (as used in paragraphs 204 through 236 only, the "SGMS Securitizations"), which were issued pursuant to a Registration Statement.

206. This claim is predicated upon SG Securities' negligence for making false and materially misleading statements in the Prospectus for the SGMS Securitizations. Defendant

SGMS also acted negligently in making false and materially misleading statements in these Prospectuses.

207. SG Securities is prominently identified in the Prospectuses, the primary documents it used to sell the GSE Certificate for the SGMS Securitizations. SG Securities offered the GSE Certificates publicly, including selling the GSE Certificates to Freddie Mac.

208. SG Securities offered and sold the GSE Certificates for the SGMS Securitizations to Freddie Mac by means of the Prospectus, which contained untrue statements of material facts and omitted to state material facts necessary to make the statements, in light of the circumstances under which they were made, not misleading. SG Securities reviewed and participated in drafting the Prospectuses.

209. SG Securities successfully solicited Freddie Mac's purchase of the GSE Certificates for the SGMS Securitizations. As underwriter, SG Securities obtained substantial commissions based upon the amount received from the sale of the GSE Certificates to the public.

210. SGMS is prominently identified in the Prospectuses for the SGMS Securitizations, which were carried out under a Registration Statement. These Prospectuses were the primary document used to sell the GSE Certificates for the SGMS Securitizations under that Registration Statement. SGMS offered the GSE Certificates publicly and actively solicited their sale, including to Freddie Mac.

211. SGMS offered the GSE Certificates for the SGMS Securitizations to Freddie Mac by means of a Prospectus which contained untrue statements of material facts and omitted to state material facts necessary to make the statements, in light of the circumstances under which they were made, not misleading. SGMS reviewed and participated in drafting the Prospectuses.

212. SG Securities and SGMS actively participated in the solicitation of Freddie Mac's purchase of the GSE Certificates for the SGMS Securitizations, and did so in order to benefit themselves. Such solicitation included assisting in preparing the Registration Statement, filing the Registration Statement, and assisting in marketing the GSE Certificates.

213. The Prospectuses contained material misstatements of fact and omitted information necessary to make the facts stated therein not misleading. The facts misstated and omitted were material to a reasonable investor reviewing the Prospectuses.

214. The untrue statements of material facts and omissions of material fact in the Registration Statement, which includes the Prospectuses, are set forth above in Section IV, and pertain to compliance with underwriting guidelines, occupancy status, and loan-to-value ratios.

215. SG Securities and SGMS offered and sold the GSE Certificates for the SGMS Securitizations pursuant to the Registration Statement directly to Freddie Mac, pursuant to the false and misleading Prospectus.

216. SG Securities owed to Freddie Mac, as well as to other investors in these trusts, a duty to make a reasonable and diligent investigation of the statements contained in the Prospectuses for the SGMS Securitizations that it underwrote, to ensure that such statements were true, and to ensure that there was no omission of a material fact required to be stated in order to make the statements contained therein not misleading. SGMS owed the same duty with respect to the Prospectuses for the SGMS Securitizations, which it filed.

217. SG Securities and SGMS failed to exercise such reasonable care. These defendants in the exercise of reasonable care should have known that the Prospectus contained untrue statements of material facts and omissions of material facts at the time of the SGMS Securitizations as set forth above.

218. In contrast, Freddie Mac did not know of the untruths and omissions contained in the Prospectus at the time it purchased the GSE Certificates for the SGMS Securitizations. If Freddie Mac would have known of those untruths and omissions, it would not have purchased the GSE Certificates.

219. Freddie Mac sustained substantial damages in connection with its investment in the GSE Certificates for the SGMS Securitizations and has the right to rescind and recover the consideration paid for the GSE Certificates, with interest thereon. Plaintiff hereby seeks rescission and makes any necessary tender of its Certificates. In the alternative, Plaintiff seeks damages according to proof.

220. This action is timely under 12 U.S.C. § 4617(b)(12), which provides for extension or tolling of all time periods applicable to the claims brought herein.

FIFTH CAUSE OF ACTION

Violation of Section 13.1-522(C) of the Virginia Code (Against SGMF, SG Holdings, SG Americas, and the Individual Defendants)

221. Plaintiff realleges each allegation above as if fully set forth herein, except to the extent that Plaintiff expressly excludes any allegation that could be construed as alleging fraud.

222. This claim is brought under Section 13.1-522(C) of the Virginia Code and is asserted on behalf of Freddie Mac, which purchased the GSE Certificates for the SGMS Securitizations, which were issued pursuant to the Registration Statement. This claim is brought against SG Americas, SG Holdings, SGMF, and the Individual Defendants for controlling-person liability with regard to the Fourth Cause of Action set forth above.

223. The Individual Defendants at all relevant times participated in the operation and management of SGMS and its related subsidiaries, and conducted and participated, directly and indirectly, in the conduct of SGMS's business affairs. Defendant Arnaud Denis was the

Manager and President of SGMS. Defendant Abner Figueroa was the Vice President and Chief Financial Officer of SGMS. Defendant Tony Tusi was the Treasurer and Controller of SGMS. Defendant Orlando Figueroa was the Independent Manager of SGMS.

224. Defendant SGMF was the sponsor for the SGMS Securitizations and culpably participated in the violations of Section 13.1-522(A)(ii) set forth above with respect to the offering of the GSE Certificates by initiating the SGMS Securitizations, purchasing the mortgage loans to be securitized, determining the structure of the SGMS Securitizations, selecting SGMS as the special purpose vehicle, and selecting SG Securities as the underwriter. In its role as sponsor, SGMF knew and intended that the mortgage loans it purchased would be sold in connection with the securitization process, and that certificates representing the ownership interests of investors in the cashflows would be issued by the relevant trust.

225. Defendant SGMF also acted as the seller of the mortgage loans for the SGMS Securitizations, in that it conveyed such mortgage loans to SGMS pursuant to a Mortgage Loan Purchase Agreement.

226. Defendant SGMF also controlled all aspects of the business of SGMS, as SGMS was merely a special purpose entity created for the purpose of acting as a pass-through for the issuance of the Certificates. In addition, because of its position as sponsor, SGMF was able to, and did in fact, control the content of the Registration Statement, including the Prospectus and Prospectus Supplement, which contained material misstatements of fact and omitted facts necessary to make the facts stated therein not misleading.

227. Defendant SG Holdings controlled the business operations of SG Securities. Defendant SG Holdings is the corporate parent of SG Securities. As the direct corporate parent of SG Securities, SG Holdings had the practical ability to direct and control the actions of SG

Securities in issuing and selling the Certificates, and in fact exercised such direction and control over the activities of SG Securities in connection with the issuance and sale of the Certificates.

228. SG Holdings culpably participated in the violations of Section 13.1-522(A)(ii) set forth above. It oversaw the actions of SG Securities and allowed its subsidiary to misrepresent the mortgage loans' characteristics in the Registration Statement.

229. Defendant SG Americas wholly owns SGMF and SG Holdings, and is the ultimate parent of SGMS and SG Securities. As the direct corporate parent of SGMF and SG Holdings, SG Americas had the practical ability to direct and control the actions of SGMS (through SGMF) and SG Securities (through SG Holdings) in issuing and selling the Certificates, and in fact exercised such direction and control over the activities of SGMS and SG Securities in connection with the issuance and sale of the GSE Certificate for the SGMS Securitizations.

230. SG Americas expanded its share of the residential mortgage-backed securitization market in order to increase revenue and profits. The push to securitize large volumes of mortgage loans contributed to the inclusion of untrue statements of material facts and omissions of material facts in the Registration Statement.

231. SG Americas culpably participated in the violations of Section 13.1-522(A)(ii) set forth above. It oversaw the actions of its subsidiaries and allowed them to misrepresent the mortgage loans' characteristics in the Registration Statement and establish special-purpose financial entities such as SGMS and the issuing trusts to serve as conduits for the mortgage loans.

232. SG Americas, SG Holdings, SGMF, and the Individual Defendants are controlling persons within the meaning of Section 13.1-522(C) by virtue of their actual power over, control of, ownership of, and/or directorship of SGMS and SG Securities at the time of the wrongs

alleged herein and as set forth herein, including their control over the content of the Registration Statement.

233. Freddie Mac purchased the GSE Certificates for the SGMS Securitizations, issued pursuant to the Registration Statement, including the Prospectus and Prospectus Supplement, which, at the time they became effective, contained material misstatements of fact and omitted facts necessary to make the facts stated therein not misleading. The facts misstated and omitted were material to a reasonable investor reviewing the Registration Statement.

234. Freddie Mac did not know of the misstatements and omissions in the Registration Statement; had Freddie Mac known of those misstatements and omissions, it would not have purchased the GSE Certificates.

235. Freddie Mac has sustained damages as a result of the misstatements and omissions in the Registration Statement, for which it is entitled to compensation.

236. This action is timely under 12 U.S.C. § 4617(b)(12), which provides for extension or tolling of all time periods applicable to the claims brought herein.

SIXTH CAUSE OF ACTION

Violation of Section 31-5606.05(a)(1)(B) of the District of Columbia Code (Against SG Securities, DB Securities, JPM Securities, and SGMS)

237. Plaintiff realleges each allegation above as if fully set forth herein, except to the extent that Plaintiff expressly excludes any allegation that could be construed as alleging fraud.

238. This claim is brought by Plaintiff pursuant to Section 31-5606.05(a)(1B) of the District of Columbia Code and is asserted on behalf of Fannie Mae with respect to the Certificates for the three Securitizations, which were purchased by Fannie Mae as reflected in Table 11 above, and which were issued pursuant to the Registration Statements.

239. This claim is predicated upon the negligence of SG Securities, DB Securities, and JPM Securities (as successor-in-interest to BSC) for making false and materially misleading statements in the Prospectuses for the three Securitizations listed in paragraph 2. Defendant SGMS was negligent in making false and materially misleading statements in the Prospectuses for the three Securitizations.

240. SG Securities, DB Securities, and BSC (now JPM Securities) are prominently identified in the Prospectuses, the primary documents that they used to sell the Certificates. SG Securities, DB Securities, and BSC (now JPM Securities) offered the Certificates publicly, including selling to Fannie Mae its Certificates, as set forth in the "Plan of Distribution" or "Underwriting" sections of the Prospectuses.

241. SG Securities, DB Securities, and BSC (now JPM Securities) offered and sold the Certificates to Fannie Mae by means of the Prospectuses, which contained untrue statements of material facts and omitted to state material facts necessary to make the statements, in light of the circumstances under which they were made, not misleading. SG Securities, DB Securities, and BSC (now JPM Securities) reviewed and participated in drafting the Prospectuses.

242. SG Securities, DB Securities, and BSC (now JPM Securities) successfully solicited Fannie Mae's purchases of the Certificates. As underwriters, SG Securities, DB Securities and BSC (now JPM Securities) obtained substantial commissions based upon the amount received from the sale of the Certificates to the public.

243. SGMS is prominently identified in the Prospectuses for the three Securitizations. These Prospectuses were the primary documents used to sell the Certificates. SGMS offered the Certificates publicly and actively solicited their sale, including to Fannie Mae.

244. SGMS offered the Certificates to Fannie Mae by means of Prospectuses which contained untrue statements of material facts and omitted to state material facts necessary to make the statements, in light of the circumstances under which they were made, not misleading. SGMS reviewed and participated in drafting the Prospectuses.

245. Each of SG Securities, DB Securities, BSC (now JPM Securities), and SGMS actively participated in the solicitation of the GSEs' purchase of the Certificates, and did so in order to benefit themselves. Such solicitation included assisting in preparing the Registration Statements, filing the Registration Statements, and assisting in marketing the Certificates.

246. Each of the Prospectuses contained material misstatements of fact and omitted information necessary to make the facts stated therein not misleading. The facts misstated and omitted were material to a reasonable investor reviewing the Prospectuses.

247. The untrue statements of material facts and omissions of material fact in the Registration Statements, which include the Prospectuses, are set forth above in Section IV, and pertain to compliance with underwriting guidelines, occupancy status, and loan-to-value ratios.

248. SG Securities, DB Securities, BSC (now JPM Securities) and SGMS offered and sold the Certificates offered pursuant to the Registration Statements directly to Fannie Mae, pursuant to the false and misleading Prospectuses.

249. SG Securities, DB Securities, and BSC (now JPM Securities) owed to Fannie Mae, as well as to other investors in these trusts, a duty to make a reasonable and diligent investigation of the statements contained in the Prospectuses for the Securitizations they underwrote, to ensure that such statements were true, and to ensure that there was no omission of a material fact required to be stated in order to make the statements contained therein not

misleading. SGMS owed the same duty with respect to all the Prospectuses for the three Securitizations, which were carried out under the Registration Statements it filed.

250. SG Securities, DB Securities, BSC (now JPM Securities), and SGMS failed to exercise such reasonable care. These defendants in the exercise of reasonable care should have known that the Prospectuses contained untrue statements of material facts and omissions of material facts at the time of the Securitizations as set forth above.

251. In contrast, Fannie Mae did not know of the untruths and omissions contained in the Prospectuses at the time it purchased the Certificates. If Fannie Mae would have known of those untruths and omissions, it would not have purchased the Certificates.

252. Fannie Mae sustained substantial damages in connection with its investment in the Certificates and has the right to rescind and recover the consideration paid for the Certificates, with interest thereon. Plaintiff hereby seeks rescission and makes any necessary tender of its Certificates. In the alternative, Plaintiff seeks damages according to proof.

253. This action is timely under 12 U.S.C. § 4617(b)(12), which provides for extension or tolling of all time periods applicable to the claims brought herein.

SEVENTH CAUSE OF ACTION

Violation of Section 31-5606.05(c) of the District of Columbia Code (Against SGMF, SG Holdings, SG Americas, and the Individual Defendants)

254. Plaintiff realleges each allegation above as if fully set forth herein, except to the extent that Plaintiff expressly excludes any allegation that could be construed as alleging fraud.

255. This claim is brought under Section 31-5606.05(c) of the District of Columbia Code and is asserted on behalf of Fannie Mae, which as reflected in Table 11 above purchased the Certificates for the three Securitizations, which were issued pursuant to the Registration Statements. This claim is brought against SG Americas, SG Holdings, SGMF, and the

Individual Defendants for controlling-person liability with regard to the Sixth Cause of Action set forth above.

256. The Individual Defendants at all relevant times participated in the operation and management of SGMS and its related subsidiaries, and conducted and participated, directly and indirectly, in the conduct of SGMS's business affairs. Defendant Arnaud Denis was the Manager and President of SGMS. Defendant Abner Figueroa was the Vice President and Chief Financial Officer of SGMS. Defendant Tony Tusi was the Treasurer and Controller of SGMS. Defendant Orlando Figueroa was the Independent Manager of SGMS.

257. Defendant SGMF was the sponsor for all three Securitizations and culpably participated in the violations of Section 31-5606.06(a)(1)(B) set forth above with respect to the offering of the Certificates by initiating these Securitizations, purchasing the mortgage loans to be securitized, determining the structure of the Securitizations, selecting SGMS as the special purpose vehicle, and selecting SG Securities, DB Securities, and BSC (now JPM Securities) as underwriters. In its role as sponsor, SGMF knew and intended that the mortgage loans it purchased would be sold in connection with the securitization process, and that certificates representing the ownership interests of investors in the cashflows would be issued by the relevant trusts.

258. Defendant SGMF also acted as the seller of the mortgage loans for all three Securitizations, in that it conveyed such mortgage loans to SGMS pursuant to a Mortgage Loan Purchase Agreement.

259. Defendant SGMF also controlled all aspects of the business of SGMS, as SGMS was merely a special purpose entity created for the purpose of acting as a pass-through for the issuance of the Certificates. In addition, because of its position as sponsor, SGMF was able to,

and did in fact, control the contents of the Registration Statements, including the Prospectuses and Prospectus Supplements, which contained material misstatements of fact and omitted facts necessary to make the facts stated therein not misleading.

260. Defendant SG Holdings controlled the business operations of SG Securities. Defendant SG Holdings is the corporate parent of SG Securities. As the direct corporate parent of SG Securities, SG Holdings had the practical ability to direct and control the actions of SG Securities in issuing and selling the Certificates, and in fact exercised such direction and control over the activities of SG Securities in connection with the issuance and sale of the Certificates.

261. SG Holdings culpably participated in the violations of Section 31-5606.05(a)(1)(B) set forth above. It oversaw the actions of SG Securities and allowed its subsidiary to misrepresent the mortgage loans' characteristics in the Registration Statements.

262. Defendant SG Americas wholly owns SGMF and SG Holdings, and is the ultimate parent of SGMS and SG Securities. As the direct corporate parent of SGMF and SG Holdings, SG Americas had the practical ability to direct and control the actions of SGMS (through SGMF) and SG Securities (through SG Holdings) in issuing and selling the Certificates, and in fact exercised such direction and control over the activities of SGMS and SG Securities in connection with the issuance and sale of the Certificates.

263. SG Americas expanded its share of the residential mortgage-backed securitization market in order to increase revenue and profits. The push to securitize large volumes of mortgage loans contributed to the inclusion of untrue statements of material facts and omissions of material facts in the Registration Statements.

264. SG Americas culpably participated in the violations of Section 31-5606.05(a)(1)(B) set forth above. It oversaw the actions of its subsidiaries and allowed them

to misrepresent the mortgage loans' characteristics in the Registration Statements and establish special-purpose financial entities such as SGMS and the issuing trusts to serve as conduits for the mortgage loans.

265. SG Americas, SG Holdings, SGMF, and the Individual Defendants are controlling persons within the meaning of Section 31-5606.05(c) by virtue of their actual power over, control of, ownership of, and/or directorship of SGMS and SG Securities at the time of the wrongs alleged herein and as set forth herein, including their control over the content of the Registration Statements.

266. Fannie Mae purchased Certificates issued pursuant to the Registration Statements, including the Prospectuses and Prospectus Supplements, which, at the time they became effective, contained material misstatements of fact and omitted facts necessary to make the facts stated therein not misleading. The facts misstated and omitted were material to a reasonable investor reviewing the Registration Statements.

267. Fannie Mae did not know of the misstatements and omissions in the Registration Statements; had Fannie Mae known of those misstatements and omissions, it would not have purchased the Certificates.

268. Fannie Mae has sustained damages as a result of the misstatements and omissions in the Registration Statements, for which it is entitled to compensation.

269. This action is timely under 12 U.S.C. § 4617(b)(12), which provides for extension or tolling of all time periods applicable to the claims brought herein.

EIGHTH CAUSE OF ACTION

Common Law Negligent Misrepresentation (Against SG Securities, DB Securities, JPM Securities, and SGMS)

270. Plaintiff realleges each allegation above as if fully set forth herein, except to the extent that Plaintiff expressly excludes any allegation that could be construed as alleging fraud.

271. This is a claim for common law negligent misrepresentation against Defendants SG Securities, DB Securities, JPM Securities (as successor-in-interest to BSC), and SGMS.

272. Between May 11, 2006 and December 14, 2006, SG Securities, DB Securities, BSC (now JPM Securities), and SGMS sold the Certificates to the GSEs as described above. Because SGMS, as depositor, owned and then conveyed the underlying mortgage loans that collateralized the Securitizations, SGMS had unique, exclusive, and special knowledge about the mortgage loans in the Securitizations through its possession of the loan files and other documentation.

273. Likewise, as co-lead underwriter for the three Securitizations and selling underwriter for two, SG Securities was obligated—and had the opportunity—to perform sufficient due diligence to ensure that the Registration Statements for those Securitizations, including without limitation the corresponding Prospectus Supplements, did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. DB Securities, as co-lead underwriter for two of the Securitizations and selling underwriter for one of the Securitizations, and BSC (now JPM Securities), as co-lead and selling underwriter for one Securitization, had the same obligation and opportunity. As a result of this privileged position as underwriters—which gave them access to loan file information and obligated them to perform adequate due diligence to ensure the accuracy of the Registration Statements—SG Securities, DB Securities, and BSC (now JPM Securities) had unique, exclusive, and special knowledge about the underlying mortgage loans in the Securitizations.

274. SG Securities, DB Securities, and BSC (now JPM Securities) also had unique, exclusive, and special knowledge of the work of third-party due diligence providers, such as Clayton, who identified significant failures of originators to adhere to the underwriting standards represented in the Registration Statements. The GSEs, like other investors, had no access to borrower loan files prior to the closing of the Securitizations and their purchase of the Certificates. Accordingly, when determining whether to purchase the Certificates, the GSEs could not evaluate the underwriting quality or the servicing practices of the mortgage loans in the Securitizations on a loan-by-loan basis. The GSEs therefore reasonably relied on SG Securities', DB Securities', and BSC's (now JPM Securities) knowledge and their express representations made prior to the closing of the Securitizations regarding the underlying mortgage loans.

275. SG Securities, DB Securities, BSC (now JPM Securities), and SGMS were aware that the GSEs reasonably relied on their reputations and unique, exclusive, and special expertise and experience, as well as their express representations made prior to the closing of the Securitizations, and that the GSEs depended upon these Defendants for complete, accurate, and timely information. The standards under which the underlying mortgage loans were actually originated were known to these Defendants and were not known, and could not be determined, by the GSEs prior to the closing of the Securitizations. In purchasing the Certificates from these Defendants, the GSEs relied on their long-standing relationships with these Defendants, and the purchases were made, in part, in reliance on that relationship.

276. Based upon their unique, exclusive, and special knowledge and expertise about the loans held by the trusts in the Securitizations, SG Securities, DB Securities, BSC (now JPM Securities), and SGMS had a duty to provide the GSEs complete, accurate, and timely information regarding the mortgage loans and the Securitizations. SG Securities, DB Securities,

BSC (now JPM Securities), and SGMS negligently breached their duty to provide such information to the GSEs by instead making to the GSEs untrue statements of material facts in the Securitizations, or otherwise misrepresenting to the GSEs material facts about the Securitizations. The misrepresentations are set forth in Section IV above, and include misrepresentations as to compliance with underwriting guidelines for the mortgage loans.

277. In addition, having made actual representations about the underlying collateral in the Securitizations and the facts bearing on the riskiness of the Certificates, SG Securities, DB Securities, BSC (now JPM Securities), and SGMS had a duty to correct misimpressions left by their statements, including with respect to any "half truths." The GSEs were entitled to rely upon Defendants' representations about the Securitizations, and Defendants failed to correct in a timely manner any of their misstatements or half truths, including misrepresentations as to compliance with underwriting guidelines for the mortgage loans.

278. Fannie Mae and Freddie Mac purchased the Certificates based upon the representations by SocGen as the sponsor and depositor for the three Securitizations and as the lead and selling underwriter for two of these Securitizations. Fannie Mae also purchased the Certificates based upon the representations by DB Securities and BSC (now JPM Securities), as the lead and selling underwriter for one Securitization each. The GSEs received term sheets containing critical data as to the Securitizations, including with respect to anticipated credit ratings by the credit rating agencies, loan-to-value and combined loan-to-value ratios for the underlying collateral, and owner-occupancy statistics, which term sheets were delivered, upon information and belief, by SocGen, DB Securities, and BSC (now JPM Securities). This data was subsequently incorporated into Prospectus Supplements that were received by the GSEs upon the close of each Securitization.

279. The GSEs relied upon the accuracy of the data transmitted to them and subsequently reflected in the Prospectus Supplements. In particular, the GSEs relied upon the credit ratings that the credit rating agencies indicated they would bestow on the Certificates based on the information provided by SG Securities, DB Securities, JPM Securities (as successor-in-interest to BSC), and SGMS relating to the collateral quality of the underlying loans and the structure of the Securitizations. These credit ratings represented a determination by the credit rating agencies that the Certificates were "AAA" quality (or its equivalent)—meaning the Certificates had an extremely strong capacity to meet the payment obligations described in the respective PSAs.

280. SocGen, as sponsor and depositor for the three Securitizations and selling underwriter for two, provided detailed information about the underlying collateral and structure of each Securitization it sponsored to the credit rating agencies. The credit rating agencies based their ratings on the information provided to them by SocGen, and the agencies' anticipated ratings of the Certificates were dependent on the accuracy of that information. The GSEs relied on the accuracy of the anticipated credit ratings and the actual credit ratings assigned to the Certificates by the credit rating agencies, and upon the accuracy of SocGen's representations in the term sheets and Prospectus Supplements.

281. In addition, the GSEs relied on the fact that the originators of the mortgage loans in the Securitizations had acted in conformity with their underwriting guidelines, which were described in the Prospectus Supplements. Compliance with underwriting guidelines was a precondition to the GSE's purchase of the Certificates in that the GSEs' decision to purchase the Certificates was directly premised on their reasonable belief that the originators complied with applicable underwriting guidelines and standards.

282. In purchasing the Certificates, the GSEs justifiably relied on SocGen's, DB Securities', and BSC's (now JPM Securities) false representations and omissions of material fact detailed above, including the misstatements and omissions in the term sheets about the underlying collateral, which were reflected in the Prospectus Supplements.

283. But for the above misrepresentations and omissions, the GSEs would not have purchased or acquired the Certificates as they ultimately did, because those representations and omissions were material to their decision to acquire the Certificates, as described above.

284. The GSEs were damaged in an amount to be determined at trial as a direct, proximate, and foreseeable result of these Defendants' misrepresentations, including any half truths.

285. This action is timely under 12 U.S.C. § 4617(b)(12).

PRAYER FOR RELIEF

WHEREFORE Plaintiff prays for relief as follows:

286. An award in favor of Plaintiff against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, but including:

a. Rescission and recovery of the consideration paid for the Certificates, with interest thereon;

b. Each GSE's monetary losses, including any diminution in value of the Certificates, as well as lost principal and lost interest payments thereon;

c. Attorneys' fees and costs;

d. Prejudgment interest at the maximum legal rate; and

e. Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

287. Pursuant to Federal Rule of Civil Procedure 38(b), Plaintiff hereby demands a trial by jury on all issues triable by jury.

DATED: New York, New York
September 2, 2011

KASOWITZ, BENSON, TORRES
& FRIEDMAN LLP

By: _____
Marc E. Kasowitz (mkasowitz@kasowitz.com)
Hector Torres (htorres@kasowitz.com)
Michael S. Shuster (mshuster@kasowitz.com)
Christopher P. Johnson (cjohnson@kasowitz.com)
Michael A. Hanin (mhanin@kasowitz.com)
Kanchana Wangkeo Leung (kleung@kasowitz.com)

1633 Broadway
New York, New York 10019
(212) 506-1700

Attorneys for the Plaintiff
Federal Housing Finance Agency