A.G. Schneiderman Sues Credit Suisse For Fraudulent Residential Mortgage-Backed Securities

Lawsuit Charges Credit Suisse Misrepresented Loan Quality Review Process, Deceived Investors & Contributed To Mortgage Crisis

Continued Legal Action by State-Federal Residential Mortgage-Backed Securities Working Group

Schneiderman: Credit Suisse RMBS Trusts Incurred Billions In Losses And Will Be Held Accountable

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NEW YORK – Attorney General Eric T. Schneiderman today filed a Martin Act complaint against Credit Suisse Securities (USA) LLC and its affiliates for making fraudulent misrepresentations and omissions to promote the sale of residential mortgage-backed securities (RMBS) to investors. According to Attorney General Schneiderman's lawsuit, Credit Suisse deceived investors as to the care with which they evaluated the quality of mortgage loans packaged into residential mortgage-backed securities prior to 2008. RMBS sponsored and underwritten by Credit Suisse in 2006 and 2007 have suffered losses of approximately $11.2 billion.

Attorney General Schneiderman's complaint is the most recent enforcement action by the Residential Mortgage-Backed Securities Working Group, a state-federal task force created by President Obama earlier this year to investigate those responsible for misconduct contributing to the financial crisis through the pooling and sale of residential mortgage-backed securities. In October, Attorney General Schneiderman filed a Martin Act lawsuit against J.P. Morgan Securities LLC (formerly known as Bear, Stearns & Co. Inc.), JP Morgan Chase Bank, N.A., and EMC Mortgage LLC (formerly known as EMC Mortgage Corporation) for making fraudulent misrepresentations and omissions to promote the sale of residential mortgage-backed securities (RMBS) to investors.

"This lawsuit against Credit Suisse marks another significant step in our efforts to hold financial institutions accountable for the misconduct that led to the worst financial crisis in nearly a century," said **Attorney General Schneiderman**. "Our investigations and legal actions demonstrate that there must be one set of rules for all – no matter how big or powerful the institution may be – and that those rules will be enforced vigorously. We need real accountability for the illegal and deceptive conduct in the creation of the housing bubble in order to bring justice for New York's homeowners and investors."

According to Attorney General Schneiderman's complaint, Credit Suisse led its investors to believe that the quality of the loans in its mortgage-backed securities had been carefully evaluated and would be continuously monitored. In fact, as in the case of other RMBS market participants, Credit Suisse did neither. Instead, it systematically failed to adequately evaluate the loans, ignored defects that its limited review did uncover, and kept its investors in the dark about the inadequacy of its review procedures and defects in the loans. The loans in Credit Suisse's mortgage-backed securities included many that had been made to borrowers who were unable to repay the loans, were very likely to default, and ultimately did default in large numbers.

As explained in the Attorney General's complaint, filed today in New York State Supreme Court, RMBS were pools of mortgages deposited into trusts. Shares of the RMBS trusts were sold as securities to investors, who were to receive a stream of income from the mortgages packaged in the RMBS. In offering documents and marketing materials, Defendants led investors to believe that they had carefully evaluated—and would continue to monitor—the quality of the loans in the RMBS.

The Attorney General's lawsuit charges that Credit Suisse failed to abide by its representations that the loans underlying their RMBS were originated in accordance with the applicable underwriting guidelines, *i.e.*, the standards in place to ensure, among other things, that loans were extended to borrowers who demonstrated the willingness and ability to repay. Further, while Defendants claimed that they undertook "due diligence" to ensure that the loans they purchased from originators complied with the relevant guidelines, in reality, the due diligence review process was compromised by, among other things, Defendants' desire to maintain good relationships with loan originators.

By mid-2012, cumulative losses incurred in RMBS sponsored by Credit Suisse in 2006 and 2007 totaled over $11.2 billion, or approximately 12 percent of total initial balances of approximately $93.8 billion.

The Attorney General seeks investor damages to recoup these losses, as well as other equitable relief.

RMBS Working Group members contributed significantly to this effort. The Federal Housing Finance Agency Inspector General played a key role working with the New York Attorney General's Office on the investigation, providing investigators and lawyers, the U.S. Securities and Exchange Commission collaborated and assisted with the case, and the Department of Justice provided resources from U.S. Attorney's offices around the country as well as from the RMBS Coordinating Team.

"Credit Suisse allegedly engaged in a far-reaching scheme to defraud investors, including Fannie Mae and Freddie Mac," said **FHFA Inspector General Steve Linick**. "As victims, Fannie Mae and Freddie Mac have sustained significant losses, which to date have been borne by taxpayers. This lawsuit sends the clear message that reckless lending practices will not be tolerated."

"Today's filing by our working group partner and my fellow co-chair New York Attorney General Schneiderman, represents another step toward holding accountable those whose actions led to the financial crisis and hurt so many Americans," said **Principal Deputy Assistant Attorney General for the Civil Division Stuart Delery**. "This action demonstrates the value and strength of the working group model and was made possible by contributions from a variety of members of the working group, who contributed resources, personnel and expertise to the development of this case."

"The number and breadth of recent RMBS actions, and the coordination and sharing among enforcement authorities that underlie them, prove that the whole of the RMBS Working Group is greater than the sum of its parts," said **Robert Khuzami, Director of the SEC's Enforcement Division**.

Today's action is the latest part of Attorney General Schneiderman's multi-pronged strategy to stem foreclosures, provide relief to struggling homeowners and hold accountable those responsible for the mortgage crisis.

Earlier this year, Attorney General Schneiderman was appointed by President Obama to co-chair the Residential Mortgage-Backed Securities Working Group. This joint investigation brings together the Department of Justice (DOJ), Department of Housing and Urban Development, the Securities and Exchange Commission (SEC), Federal Housing Finance Agency Office of Inspector General (FHFA OIG) and other federal agencies to investigate those responsible for misconduct contributing to the financial crisis through the pooling and sale of residential mortgage-backed securities. It builds upon ongoing state and federal investigations, while also launching new ones.

Deputy Attorney General Virginia Chavez Romano supervised the investigation, which was conducted by Investor Protection Bureau Deputy Chief Thomas Teige Carroll, Senior Enforcement Counsel Harriet Rosen, and Assistant Attorneys General Veronica Montenegro, Christine Stecura and Brian Whitehurst. The Attorney General also received substantial support from the FHFA OIG during the course of the investigation.

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