

SUPREME COURT OF THE STATE OF NEW YORK  
COUNTY OF NEW YORK

_____	X	
CHINA DEVELOPMENT INDUSTRIAL	:	
BANK,	:	Index No. 650957/2010
	:	
Plaintiff,	:	The Honorable Melvin L. Schweitzer
	:	
vs.	:	Individual Assignment Part 45
	:	
MORGAN STANLEY & CO.	:	EXPERT REPORT OF MARK N. FROEBA,
INCORPORATED, et al.,	:	PF2 SECURITIES EVALUATIONS, DATED
	:	AUGUST 13, 2012
Defendants.	:	
_____	X	



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August 13, 2012

## EXPERT REPORT OF MARK N. FROEBA

Re: *China Development Industrial Bank v. Morgan Stanley & Co. Inc., et al.*  
Supreme Court, County of New York, Index No.: 650957/2010

### I. SUMMARY

My name is Mark N. Froeba. I have academic and industry-related experience in analyzing structured products that are similar to the STACK CDO 2006-1 ("STACK CDO"), which is a collateralized debt obligation ("CDO") supported mostly by residential mortgage backed securities ("RMBS").

Specifically, I have over 15 years of experience working in the structured finance business. Since December of 1997, my work has focused on all forms of CDOs. I am currently a consultant with PF2 Securities Evaluations, Inc. ("PF2"), which provides consulting and evaluation services relating to various types of CDOs. Prior to joining PF2 in 2008, I was a Senior Vice President in the Derivatives Group at Moody's Investors Service, Inc. ("Moody's") where I worked for ten years. I was eventually appointed both Team Leader and Co-Chair of Rating Committees for Collateralized Loan Obligations ("CLOs") with joint responsibility for assigning ratings to CLOs and for evaluating and developing Moody's CLO rating criteria. Throughout this time, I co-chaired virtually every CLO Rating Committee convened at Moody's.

I have substantial experience conducting credit analysis of CDOs. During my ten years as an analyst at Moody's, I participated in assigning ratings to more than 250 CDOs, including CDOs of emerging market bonds, Collateralized Bond Obligations ("CBOs"), CLOs and various other types of CDOs. As the CDO market continued to develop, I was often selected to be part of the team that assigned ratings to new types of CDOs, including the first CLO of project finance loans, the first CDO of REIT bonds and the first CDO of CDOs and the first CDO of ABS.

I have made many public presentations on CDOs and related topics. I was frequently invited on behalf of Moody's to speak at (or moderate speaker panels at) securitization conferences. I also made presentations at Moody's annual CDO briefings on topics relating to Moody's CDO/CLO rating guidelines. In 2007, Moody's corporate group invited me to participate in a national tour of investor briefings to describe how changes to Moody's loan rating methodology would affect both existing CLOs and Moody's CLO rating methodology.

Since joining PF2, I have continued to speak publicly and write about CDOs, CLOs, the rating process and credit rating agencies. In August 2008, I was invited to make a presentation about CDOs to the annual training seminar sponsored by the Federal Financial Institutions Examination Council ("FFIEC").

I have written an investor's guide on the impact to CLO structures of excess concentrations of low-rated securities. I have also testified before the Senate Banking Committee on rating agency reform (August 2009) and the Financial Crisis Inquiry Commission on the role of rating agencies in the recent financial crisis (June 2010).

I earned my JD *cum laude* from Harvard Law School in 1990. After graduation, I practiced federal income tax law at Kirkland & Ellis LLP in Chicago. In 1994, I joined the Tax Department at Skadden, Arps, Slate, Meagher & Flom, LLP in New York where my tax practice expanded to include tax issues of structured finance transactions.

I have been asked by plaintiff's counsel in this matter to analyze the importance of information communicated in several documents to the inputs made when structuring STACK CDO.

The five Morgan Stanley documents are, in chronological order:

- Exhibit A hereto is an October 21, 2005 e-mail, containing the subject line "NCEN Update";
- Exhibit B hereto is a March 17, 2006 e-mail, containing the subject line "FW: FYI on Increasing Value Issues";
- Exhibit C hereto is a March 23, 2007 document, entitled "Clayton" and "Morgan / Top Five Sellers";
- Exhibit D hereto is a June 2007 document, entitled "Clayton" and "Morgan Stanley, Trending Reports Executive Summary"; and,
- Exhibit E hereto is a November 11, 2011 document, consisting of portions of deposition testimony by Mr. Anton Peterson.

I refer to these documents as the "MS Documents" for ease of reference.

The MS Documents do have practical and commercial relevance to STACK CDO and to the pool of assets held by STACK CDO, which consist primarily of RMBS backed by mortgage loans originated by Countrywide, New Century, Fremont, and other U.S. subprime loan originators.

The MS Documents are directly related to at least two inputs critical to the risk analysis and structuring of STACK CDO. Here I explain the commercial relevance of information known about, among other things, the appraisal quality and the due diligence processes discussed in the MS Documents in relation to (1) the correlation among the mortgages within the RMBS and among the RMBS within STACK CDO ("STACK Correlation Metrics") and (2) the default probability ("STACK Default Metrics").

I conclude that the MS Documents in question are relevant to the STACK Correlation Metrics and the STACK Default Metrics. These metrics would directly affect STACK CDO's credit ratings. I discuss these two points in turn.

## **II. STACK CORRELATION METRICS**

In the credit analysis of a CDO, the "correlation" of assets within the CDO's collateral pool is one of the key metrics used to analyze the behavior of the collateral pool over time and to evaluate the credit quality of the CDO's notes. Correlation analysis seeks to determine how similar the assets within a pool are to one another and how this will affect the performance of the pool over time.

According to the STACK CDO Offering Memorandum, the maximum STACK Correlation Metric that Morgan Stanley was supposed to use in modeling STACK CDO was 18.5%. This metric is also described in the STACK CDO pitchbook. What this 18.5% number means, in layman's terms, is that STACK CDO's Collateral

Assets were not so similar in nature that if one asset in the collateral pool suffered deterioration and default the same thing would happen to many or all of the other assets in the collateral pool for the same reasons.

To appreciate the relationship between the MS Documents and STACK CDO Correlation Metrics, I explain what STACK CDO's Collateral Assets were. The vast majority of STACK CDO's Collateral Assets consisted of RMBS, whose cashflows and economic success depended upon the quality of U.S. residential mortgages supporting those securities. Each RMBS is itself supported by a pool of thousands, and sometimes tens of thousands, of residential mortgages. In layman's terms, then, the benefit afforded to STACK CDO by investing in a large, diverse pool of mortgages securitized into RMBS – or a pool exhibiting low correlation – is to buffer against the effect of *idiosyncratic* risks associated with any individual mortgage. The lower the correlation, either between the mortgages or between the RMBS, the more protection is afforded against *idiosyncratic* risks, to an investor in senior notes of a CDO backed by RMBS, such as STACK CDO.

*Idiosyncratic* risks can be contrasted with common or systemic risks. As risks become more commonplace, or systemic, the benefits of investing in the pool (as opposed to in a single asset) are minimized, as the assets, all prone to the same risks, tend to act in tandem. For example, let us consider one idiosyncratic risk: the risk of a house being damaged by a hurricane. All else equal, a pool of mortgages all concentrated in close vicinity to one another will be more susceptible to this idiosyncratic risk occurring *on a large scale*, than if the pool were to be more geographically diverse.

I now turn to the relationship between the particular MS Documents in question here and STACK CDO Correlation Metric.

- Exhibit A shows that Morgan Stanley observed “a lot of this type of [mortgage] profile” where borrowers represented they earned substantial income while actually working at “knock off” golf club stores and a “tarot house.” (Emphasis added.) The fact that Morgan Stanley saw “a lot” of these types of loans tends to show Morgan Stanley was observing a systemic pattern of inaccurate income representations in mortgage loans. This kind of information could clearly impact correlation assumptions.
- Exhibit B shows that Morgan Stanley was noticing “deteriorating appraisal quality ... with all of the sellers” and that they were experiencing “the same issues across the board.” (Emphasis added.) In other words, these were not one-off idiosyncratic issues that could be expected to affect only a small portion of the loans in the subprime loan market, but were the “same issues” and they proliferated (were “very flagrant”) across “all of the sellers.” A situation in which one or more specific risks proliferates across a broad range of assets tends to decrease the diversification benefits afforded to the rated noteholders, such as STACK CDO and the plaintiff in this case. Evidence of a market-wide deterioration in appraisal quality could also clearly impact correlation assumptions.
- Exhibit C appears to be a report by Clayton Holdings, a well-known mortgage loan due diligence company that investment banks like Morgan Stanley used to analyze U.S. residential mortgage loan pools that they planned to securitize into RMBS, like those backing STACK CDO. The report shows a high level of “rejects” and a high level of “waivers” of loans. The high levels of problematic loans, across a number of different originators, tends to show the potential for correlation in the subprime mortgage loan industry. The commonality of these issues could also clearly impact correlation assumptions.
- Exhibit D is similar to Exhibit C, and appears to be a summary report by Clayton Holdings. In it, Clayton states that the entire industry waived 10.3% (the “Clayton Industry Average”) of loans into RMBS that had some credit issues. This type of information could also clearly impact correlation assumptions.



When viewed in combination, the MS Documents tend to show that the 18.5% correlation number referenced in STACK CDO as the maximum permitted could have been, in fact, distorted. The MS Documents tend to show that the actual correlation risk in the STACK CDO was materially higher. If the true correlation risk in STACK CDO was higher than reported, then the ratings on STACK CDO might have been worse than those assigned at closing.

### III. STACK DEFAULT METRICS

Default metrics are important to the credit analysis and structuring of structured products like STACK CDO. One widely-used metric of pool-wide CDO default probability is the weighted average rating factor (the "WARF") of the collateral pool. The governing documents of many CDOs specify a maximum "WARF" allowed for the collateral pool. For example, the STACK CDO pitchbook indicates that the maximum WARF allowed for the STACK CDO was 550. The WARF of a CDO collateral pool is a function of the default probability of each underlying asset. To calculate WARF, the rating of each underlying asset is first translated into a number. The weighted average of these numbers is the WARF value of the collateral pool. The number reflects the likelihood of default over a ten-year period. STACK CDO's WARF score of 550 indicates that the STACK CDO collateral pool was supposed to have a maximum probability of default over a ten-year period of 5.5%. (A WARF of 2200 would indicate a pool with a 22% probability of default over a ten-year period.)

In an RMBS-heavy CDO such as STACK CDO, the accuracy of the mortgage loan characteristics plays a critical role in determining the reliability of the maximum WARF, which is based on the rating factor of each RMBS. As discussed above, to assist it with this type of analysis, Morgan Stanley, as underwriter of RMBS or purchaser of mortgage loan portfolios, hired an independent third-party, Clayton, to conduct pre-securitization mortgage loan file reviews. See Exhibits C-D.

The purpose of the independent mortgage loan file review was to identify (and potentially eliminate) loans that did not meet the originator's underwriting guidelines as represented to investors. This review, if adequately performed, would serve to ensure that the credit quality of the collateral pool securing the RMBS conformed to specified guidelines. Exhibit B shows that Clayton underwrote or verified individual mortgage loans and generated Credit Event 3 reports for Morgan Stanley to review. Credit Event 3 loans were loans that fell outside of underwriting guidelines. As I understand it, in most cases an underwriter, like Morgan Stanley, had the power to waive these loans into a securitization, which would have resulted in the changing of a loan's grade to Credit Event 2 (See Exhibit E 128:15-130:14).

Exhibit C (page 8) shows that Morgan Stanley often overrode the independent review results and waived in 21-23% of Credit Event 3 loans. These loans suffered from appraisal deficiencies ("value used by lender not supported"), inadequate assets ("cash reserves less than required"), non-conforming terms and guidelines ("loan characteristics do not match any available program"), insufficient credit histories ("credit history insufficient for program/grade"), and myriad of other problems (See Exhibit C, pg. 29).

These waived-in loans could have caused significant inaccuracies both in the probability of default metrics for the related RMBS and in their expected stability over time. For example, appraisal deficiencies caused by unrealistically high valuation that was generated by using superior quality comparables to appraise the property supporting loan (see Exhibit B) may have the effect of underestimating the original loan-to-value ratio of the mortgage. A low original loan-to-value ratio could affect default probability, as a homeowner with positive equity in his property might be more likely to sell his property, rather than default on the mortgage, to avoid losing his equity. Likewise, insufficient borrower credit history could lead to an unreliable assessment of the borrower's credit and his likelihood of defaulting on the mortgage.

More importantly, the magnitude and scale of the rejects and waivers tends to show that U.S. subprime originators were creating defective loans, and that this was occurring "across the board," as Exhibit B

further indicates. This information brings attention to the possibility that STACK CDO's 550 WARF may not have adequately described the collateral pool's true default probability. STACK CDO's true default probability, if adjusted for this type of information, may have resulted in a much higher WARF. More evidence is necessary to conduct a more thorough analysis of this point, however.

#### **IV. CONCLUSION**

I conclude that the MS Documents in question are directly related to the STACK Default Metrics and the STACK Correlation Metrics from mathematical and commercial points of view. The MS Documents tend to show that both sets of metrics were wrong but more evidence – similar to the five documents discussed herein – is necessary to reach this conclusion in this case with greater certainty.

#### **V. DECLARATION**

I declare under penalty of perjury of the law of the United States of America and New York State that the foregoing is true and correct to the best of my information.



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Mark N. Froeba

# EXHIBIT A

From: Peterson, Anton (FID) [Anton.Peterson@morganstanley.com]  
Sent: Friday, October 21, 2005 2:24 PM  
To: Travis, Robert (FID); Barrow, Pamela (FID)  
Subject: RE: NCEN Update  
Pamela,

Rob, Adrienne, Steve and I had a call at 2 pm. Rob again gave good color to Steve on what he has seen on this trade, and at New Century in general, which is very helpful for Steve to respond to the client's concerns about pull-through.

Keep up the good work, Rob.

Tony P.

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From: Shapiro, Steven (FID)  
Sent: Friday, October 21, 2005 1:23 PM  
To: Travis, Robert (FID); Dicker, Adrienne (FID); Barrow, Pamela (FID)  
Cc: Peterson, Anton (FID); Atadika, Michael (FID); Teytel, Anna (FID)  
Subject: RE: NCEN Update

Can we have a quick internal call so I can get people updated on a call I had with Kevin Cloyd. I am available anytime after 2 pm est.

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From: Travis, Robert (FID)  
Sent: Friday, October 21, 2005 1:11 PM  
To: Shapiro, Steven (FID); Dicker, Adrienne (FID); Barrow, Pamela (FID)  
Cc: Peterson, Anton (FID); Atadika, Michael (FID); Teytel, Anna (FID)  
Subject: RE: NCEN Update

Steven,

A little of both...hard to say without dissecting each loan. Some may be within guidelines from a FICO standpoint but the credit profile is not a reflection of the credit score....make sense? Also, most of the loans have some type of exception/issue or Morgan would not have looked at it as a credit reject/exception. The loan may meet the FICO score but there is a private party VOR and no cancelled checks as required by the NCEN guidelines. There may be loan amount exceptions, time at job, etc. **The real issue is that the loan requests do not make sense.** \$900k in combined loans to a renter with no prior mtg history stated making \$16k a month as a manager of a knock off gold club distributor via the internet and mailings, **a borrower that makes \$12k a month as an operations manger of an unknown company--after research on my part I reveal it is a tarot reading house. Compound these issues with the fact that we are seeing what I would call a lot of this type of profile.**

Hope that helps a little

PLAINTIFF'S EXHIBIT  
703  
EM 11-22-11

MS\_RHI\_001422949



Rob

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**From:** Shapiro, Steven (FID)  
**Sent:** Friday, October 21, 2005 12:48 PM  
**To:** Travis, Robert (FID); Dicker, Adrienne (FID); Barrow, Pamela (FID)  
**Cc:** Peterson, Anton (FID); Atadika, Michael (FID); Teytel, Anna (FID)  
**Subject:** RE: NCEN Update

Rob,

Do these loans meet guidelines or are they outside of guidelines.

Steven

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**From:** Travis, Robert (FID)  
**Sent:** Monday, October 17, 2005 12:15 PM  
**To:** Shapiro, Steven (FID); Dicker, Adrienne (FID); Barrow, Pamela (FID)  
**Cc:** Peterson, Anton (FID); Atadika, Michael (FID); Teytel, Anna (FID)  
**Subject:** RE: NCEN Update

Steven,

There are the typical missing docs and credit issues that are just "missed". Specifically what I have been seeing that I am not comfortable with is the borrower with light credit, a qualifying FICO score, buying a high priced home on a stated income loan program. By light credit I mean less than \$2500 credit lines for 24 months. Additionally there are more LTV/CLTV exceptions than I remember seeing, and many of those are being made on non-owner occupied properties. Several of those borrowers have accumulated a number of N/O/O properties over the last year without a history of being able to manage that type of debt load. What adds to my concern is that many of these loans are stated income, and the amount if income stated is just not reasonable for the credit profile. Bottom line, there is not a lot of "common sense" being used when approving these types of loans.

As far as the underwrite goes. It was completed as scheduled on Friday October 14th. The amount of loans at that time that were with the lender for one reason or another was over 900 loans. We have a lot of HUD-1 responses that are being processed today, however that will still leave the credit/compliance kicks in the low 500 range. I have kept NCEN informed with status reports every other day, and they are aware of the magnitude of the credit kicks.

If there is anything else you need, please do not hesitate to ask.

Thank You

Rob

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**From:** Shapiro, Steven (FID)  
**Sent:** Monday, October 17, 2005 8:42 AM  
**To:** Dicker, Adrienne (FID); Travis, Robert (FID); Barrow, Pamela (FID)  
**Cc:** Peterson, Anton (FID); Atadika, Michael (FID); Teytel, Anna (FID)  
**Subject:** RE: NCEN Update

SCould I get a quick update on how the diligence is proceeding. Would be interested in if there are specific things causing the kickouts to be higher or if it is just credit across the entire pool.

Thanks  
Steven

---

**From:** Dicker, Adrienne (FID)  
**Sent:** Friday, October 07, 2005 4:40 PM  
**To:** Travis, Robert (FID); Barrow, Pamela (FID)  
**Cc:** Peterson, Anton (FID); Atadika, Michael (FID); Teytel, Anna (FID); Shapiro, Steven (FID)  
**Subject:** RE: NCEN Update

Rob – thanks again for the heads up and the additional color on the call; this is not surprising and we need to be maintaining our credit standards – if you think these loans need to be kicked let's not hesitate.

I've put a call into Bob Lent to make sure he's aware of the magnitude of loans pending response so that he can manage that process. It sounds like we may very well have a higher kick rate this month. Thanks for giving us the heads up so we can manage NCEN's response rate and expectations.

**Adrienne Dicker - Vice President**

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Phone: +1 212 761-1166  
Fax: +1 212 507-4023  
[Adrienne.Dicker@morganstanley.com](mailto:Adrienne.Dicker@morganstanley.com)

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**From:** Travis, Robert (FID)  
**Sent:** Friday, October 07, 2005 2:34 PM  
**To:** Dicker, Adrienne (FID); Barrow, Pamela (FID)  
**Cc:** Peterson, Anton (FID); Atadika, Michael (FID); Teytel, Anna (FID)  
**Subject:** RE: NCEN Update

Sure,

Call me on my cell and we can discuss

Rob

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**From:** Dicker, Adrienne (FID)  
**Sent:** Friday, October 07, 2005 2:30 PM  
**To:** Travis, Robert (FID); Barrow, Pamela (FID)  
**Cc:** Peterson, Anton (FID); Atadika, Michael (FID); Teytel, Anna (FID)  
**Subject:** RE: NCEN Update

Hi Rob -- would like to talk about this -- we have a call with Acoustic that probably will last 30-45 minutes; can we talk around say 3:30 pm EST? thx

**Adrienne Dicker - Vice President**

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Phone: +1 212 761-1166  
Fax: +1 212 507-4023  
[Adrienne.Dicker@morganstanley.com](mailto:Adrienne.Dicker@morganstanley.com)

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**From:** Travis, Robert (FID)  
**Sent:** Friday, October 07, 2005 2:14 PM  
**To:** Barrow, Pamela (FID)  
**Cc:** Peterson, Anton (FID); Atadika, Michael (FID); Dicker, Adrienne (FID); Teytel, Anna (FID)  
**Subject:** NCEN Update

I wanted to give a little color on the NCEN October trade at roughly half way through the underwrite.

As many of you know, the first two tapes were somewhat small and caused delays in underwriting. Roughly we are a day or so behind. Nothing we can't manage. My concern to date has more to do with the quality of the files and the product that the borrowers are being placed.

As of end of day Thursday Clayton has underwritten 1046 files, of which 789 were kicked (183 are HUD only). 606 loans passed to Morgan for review. Currently there are 554 loans on the Credit Event 3 report--more than half of the underwritten files (this does not include the responses that have been cleared to date).

40 Mass BBI loans kicked-- 30 are IO kicks with more to come.

High risk loans with first time homebuyers, meeting credit grade requirements, but purchasing high end properties at 100% CLTV Stated. Large loan amount exceptions, heavy payment shock, and N/O/O exceptions.

Overall I would say the loans are riskier than I have seen in the past, resulting in a heavier kick rate.

If you have any questions don't hesitate to call.

Rob

**Rob Travis**  
Morgan Stanley  
Field Due Diligence Manager  
(949) 466-1029 - Mobile  
[Robert.Travis@MorganStanley.com](mailto:Robert.Travis@MorganStanley.com)



# EXHIBIT B

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**From:** "Kaplan, Eric (FID)" <EK.Kaplan@morganstanley.com>  
**To:** "Telesca, Frank (FID)" <Frank.Telesca@morganstanley.com>; "Shapiro, Steven (FID)" <Steven.Shapiro@morganstanley.com>; "Groesbeck, Jonathan (FID)" <Jonathan.Groesbeck@morganstanley.com>; "Vanacker, Vanessa (FID)" <Vanessa.Vanacker@morganstanley.com>; "Riipel, Gabriel (FID)" <Gabriel.Riipel@morganstanley.com>  
**Cc:** "Kaplan, Eric (FID)" <EK.Kaplan@morganstanley.com>  
**Sent:** Friday, March 17, 2006 2:28 PM  
**Subject:** FW: FYI on Increasing Value Issues

Please see Brad's message below. I will try to get a sense of the magnitude of the issue so that we can be prepared for any discussions that may arise from this. Given the focus on pull-through, I don't want to take one step up and two steps back without understanding and communicating the reasons to our accounts.

We are also focusing - especially for New Century - on evaluating and possibly revising our valuation process. New Century complained that our process leads to too many loans on the table for tie-out, and Tony, Brad, Michael and I are looking at alternatives. We will keep you posted on this point so you know if we can or if we do change anything (without adversely affecting our risk profile, of course).

Eric

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**From:** Davis, Brad (FID)  
**Sent:** Friday, March 17, 2006 8:35 AM  
**To:** Kaplan, Eric (FID)  
**Cc:** Barrow, Pamela (FID); Peterson, Anton (FID); Jewell, Mary (FID)  
**Subject:** FW: FYI on Increasing Value Issues  
**Importance:** High

Eric,

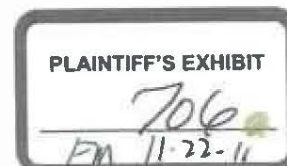
I have been receiving feedback from Mary Jewell and her team when it comes to the mitigation process of evaluating the BPO's and appraisals for the subprime trades. Across the board, Mary and her team have informed me that due to the deteriorating appraisal quality they are finding with all of the sellers, they are not able to mitigate as many loans into the trade as they use to be able to during this process. This will result in larger tie out populations with our clients and a higher kick out rate. This feedback has directly surrounded this months Accredited, Decision One, WMC, and New Century trades, but we are seeing the same issues across the board with the majority of all sellers.

The deteriorating appraisal quality that is very flagrant are the use of superior quality comparable sales, all comps taken from a higher market outside the subject neighborhood, use of all dated sales in declining markets, etc. In the past year, these issues have been there, but not to the magnitude we are starting to see.

I don't want to send this as an alarm, but more as an FYI. If you see the kick out rate start to increase, this is common with the market trends we are moving into. We will keep you posted on what we are seeing and give you a heads up to what sellers will be most impacted. If you have any questions, please let me know.

Thanks,  
Brad

*Brad Davis*  
Vice President - Valuations  
Morgan Stanley  
5002 T-Rex Avenue, Suite 300



*Boca Raton, FL 33431  
(561) 443-6048 (Phone)  
(561) 544-5692 (Fax)*

# EXHIBIT C

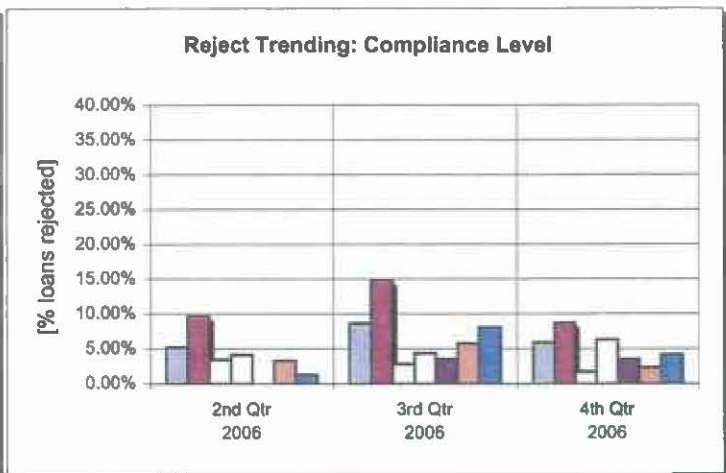
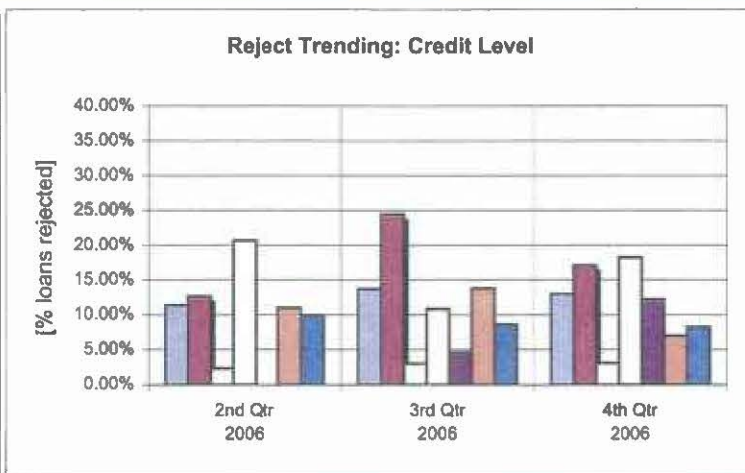
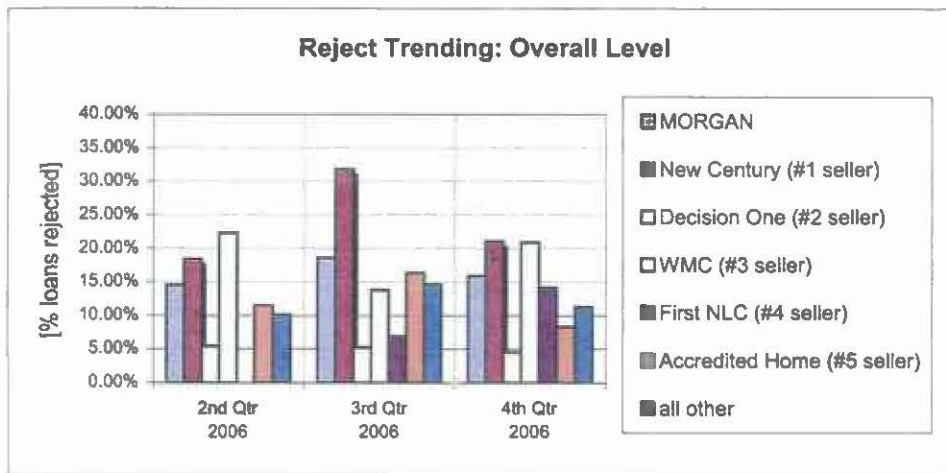


**CLAYTON**

**MORGAN / Top Five Sellers**

3/23/2007

**MORGAN / Top Five Sellers - Reject Trending - 2006**



**MORGAN / Top Five Sellers - Waiver Trending - 2006**

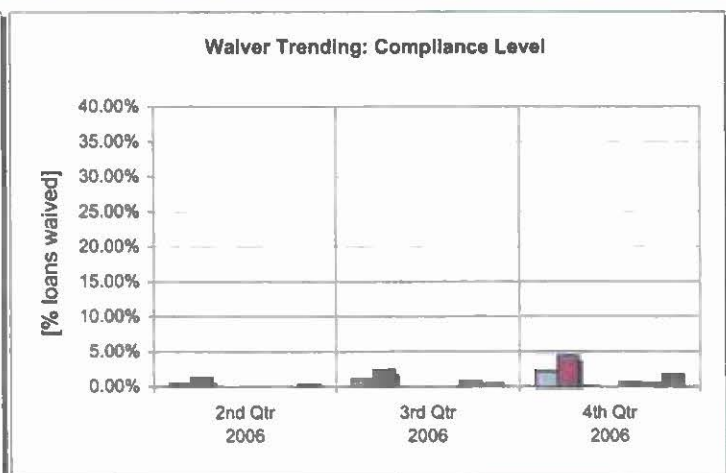
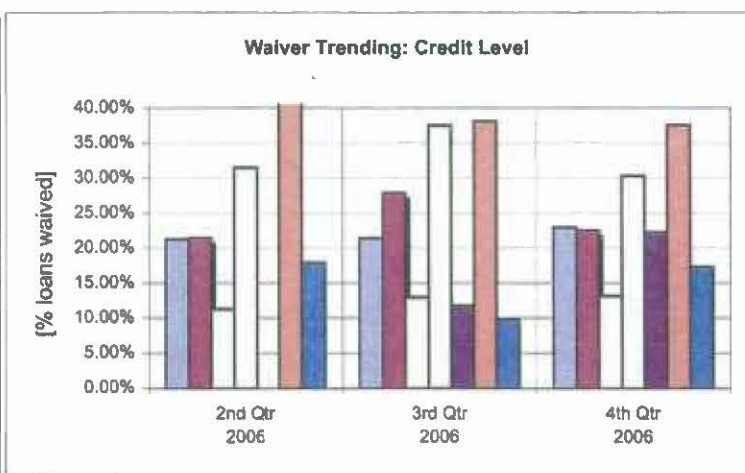
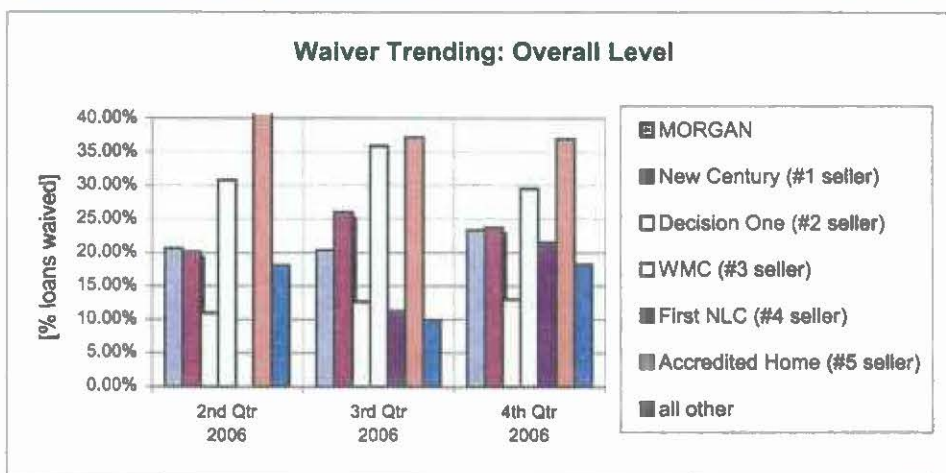


EXHIBIT  
 Plaintiffs  
 536  
 4/26/11 YC

	A	B	C	D	E	F	G	H	I	J	K
1	All Bear reviews										
2	YEAR	QUARTER	TOTAL LOANS	TOTAL EV3	TOTAL 2W/2T	CREDIT EV3	CREDIT 2T/2W	COMP EV3	COMP 2W/2T	2006 Reject Rate	2006 Waiver Rate
3	2006	2	13 015	1890	2683	1476	2773	672	40	15%	21%
4	2006	3	17 713	3288	3608	2419	3797	1531	183	19%	20%
5	2006	4	11 622	1849	2717	1507	2671	682	251	16%	23%
6	TOTAL		42 350	7 027	9 008	5 402	9 241	2 885	474	17%	21%
7											
8	New Century (#1 seller)										
9	YEAR	QUARTER	TOTAL LOANS	TOTAL EV3	TOTAL 2W/2T	CREDIT EV3	CREDIT 2T/2W	COMP EV3	COMP 2W/2T	2006 Reject Rate	2006 Waiver Rate
10	2006	2	3 303	607	665	416	709	319	39	18%	20%
11	2006	3	7 473	2376	1944	1825	2082	1101	173	32%	26%
12	2006	4	4 873	1026	1156	833	1099	423	215	21%	24%
13	TOTAL		15 649	4 009	3 765	3 074	3 890	1 843	427	26%	24%
14											
15	Decision One (#2 seller)										
16	YEAR	QUARTER	TOTAL LOANS	TOTAL EV3	TOTAL 2W/2T	CREDIT EV3	CREDIT 2T/2W	COMP EV3	COMP 2W/2T	2006 Reject Rate	2006 Waiver Rate
17	2006	2	4 770	260	524	110	538	165	0	5%	11%
18	2006	3	5 254	276	663	157	683	145	0	5%	13%
19	2006	4	1 644	75	214	51	216	28	1	5%	13%
20	TOTAL		11 668	611	1 401	318	1 437	338	1	5%	12%
21											
22	WMC (#3 seller)										
23	YEAR	QUARTER	TOTAL LOANS	TOTAL EV3	TOTAL 2W/2T	CREDIT EV3	CREDIT 2T/2W	COMP EV3	COMP 2W/2T	2006 Reject Rate	2006 Waiver Rate
24	2006	2	4 266	952	1313	881	1345	176	0	22%	31%
25	2006	3	1 434	198	515	155	538	62	0	14%	36%
26	2006	4	1 939	405	573	354	588	122	0	21%	30%
27	TOTAL		7 639	1 555	2 401	1 390	2 471	360	0	20%	31%
28											
29	First NLC (#4 seller)										
30	YEAR	QUARTER	TOTAL LOANS	TOTAL EV3	TOTAL 2W/2T	CREDIT EV3	CREDIT 2T/2W	COMP EV3	COMP 2W/2T	2006 Reject Rate	2006 Waiver Rate
31	2006	2	0	0	0	0	0	0	0	n/a	n/a
32	2006	3	1 149	79	129	53	135	40	0	7%	11%
33	2006	4	524	74	113	64	117	18	3	14%	22%
34	TOTAL		1 673	153	242	117	252	58	3	9%	14%
35											
36	Accredited Home (#5 seller)										
37	YEAR	QUARTER	TOTAL LOANS	TOTAL EV3	TOTAL 2W/2T	CREDIT EV3	CREDIT 2T/2W	COMP EV3	COMP 2W/2T	2006 Reject Rate	2006 Waiver Rate
38	2006	2	183	21	92	20	93	6	0	11%	50%
39	2006	3	436	71	162	60	166	25	3	16%	37%
40	2006	4	961	80	355	67	361	22	4	8%	37%
41	TOTAL		1 580	172	609	147	620	53	7	11%	39%
42											
43	All others										
44	YEAR	QUARTER	TOTAL LOANS	TOTAL EV3	TOTAL 2W/2T	CREDIT EV3	CREDIT 2T/2W	COMP EV3	COMP 2W/2T	2006 Reject Rate	2006 Waiver Rate
45	2006	2	493	50	89	49	88	6	1	10%	18%
46	2006	3	1 967	288	195	169	193	158	7	15%	10%
47	2006	4	1 681	189	306	138	290	69	28	11%	18%
48	TOTAL		4 141	527	590	356	571	233	36	13%	14%
49											
50	OVERALL										



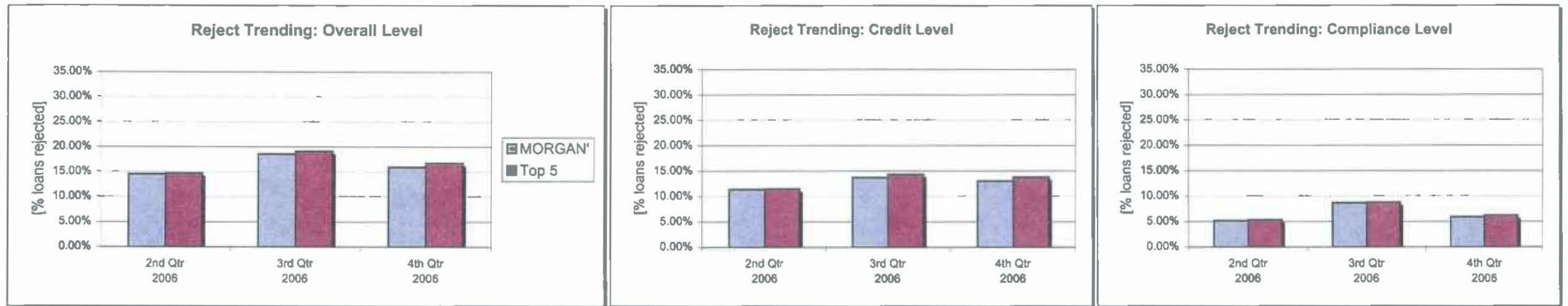
	A	B	C	D	E	F	G	H	I	J	K
51	Column1	MORGAN	New Century (#1 seller)	Decision One (#2 seller)	WMC (#3 seller)	First NLC (#4 seller)	Accredited Home (#5 seller)	all other			
52	2nd Qtr 2006	14.52%	18.38%	5.45%	22.32%	n/a	11.48%	10.14%			
53	3rd Qtr 2006	18.56%	31.79%	5.25%	13.81%	6.88%	16.28%	14.64%			
54	4th Qtr 2006	15.91%	21.05%	4.56%	20.89%	14.12%	8.32%	11.24%			
55											
56	CREDIT										
57	Column1	MORGAN	New Century (#1 seller)	Decision One (#2 seller)	WMC (#3 seller)	First NLC (#4 seller)	Accredited Home (#5 seller)	all other			
58	2nd Qtr 2006	11.34%	12.59%	2.31%	20.65%	n/a	10.93%	9.94%			
59	3rd Qtr 2006	13.66%	24.42%	2.99%	10.81%	4.61%	13.76%	8.59%			
60	4th Qtr 2006	12.97%	17.09%	3.10%	18.26%	12.21%	6.97%	8.21%			
61											
62	COMPLIANCE										
63	Column1	MORGAN	New Century (#1 seller)	Decision One (#2 seller)	WMC (#3 seller)	First NLC (#4 seller)	Accredited Home (#5 seller)	all other			
64	2nd Qtr 2006	5.16%	9.66%	3.46%	4.13%	n/a	3.28%	1.22%			
65	3rd Qtr 2006	8.64%	14.73%	2.76%	4.32%	3.48%	5.73%	8.03%			
66	4th Qtr 2006	5.87%	8.68%	1.70%	6.29%	3.44%	2.29%	4.10%			
67											
68	OVERALL 2W										
69	Column1	MORGAN	New Century (#1 seller)	Decision One (#2 seller)	WMC (#3 seller)	First NLC (#4 seller)	Accredited Home (#5 seller)	all other			
70	2nd Qtr 2006	20.61%	20.13%	10.99%	30.78%	n/a	50.27%	18.05%			
71	3rd Qtr 2006	20.37%	26.01%	12.62%	35.91%	11.23%	37.16%	9.91%			
72	4th Qtr 2006	23.38%	23.72%	13.02%	29.55%	21.56%	36.94%	18.20%			
73											
74	CREDIT										
75	Column1	MORGAN	New Century (#1 seller)	Decision One (#2 seller)	WMC (#3 seller)	First NLC (#4 seller)	Accredited Home (#5 seller)	all other			
76	2nd Qtr 2006	21.31%	21.47%	11.28%	31.53%	n/a	50.82%	17.85%			
77	3rd Qtr 2006	21.44%	27.86%	13.00%	37.52%	11.75%	38.07%	9.81%			
78	4th Qtr 2006	22.98%	22.55%	13.14%	30.32%	22.33%	37.57%	17.25%			
79											
80	COMPLIANCE										
81	Column1	MORGAN	New Century (#1 seller)	Decision One (#2 seller)	WMC (#3 seller)	First NLC (#4 seller)	Accredited Home (#5 seller)	all other			
82	2nd Qtr 2006	0.31%	1.18%	0.00%	0.00%	n/a	0.00%	0.20%			
83	3rd Qtr 2006	1.03%	2.32%	0.00%	0.00%	0.00%	0.69%	0.36%			
84	4th Qtr 2006	2.16%	4.41%	0.06%	0.00%	0.57%	0.42%	1.67%			
85											

CLAYTON

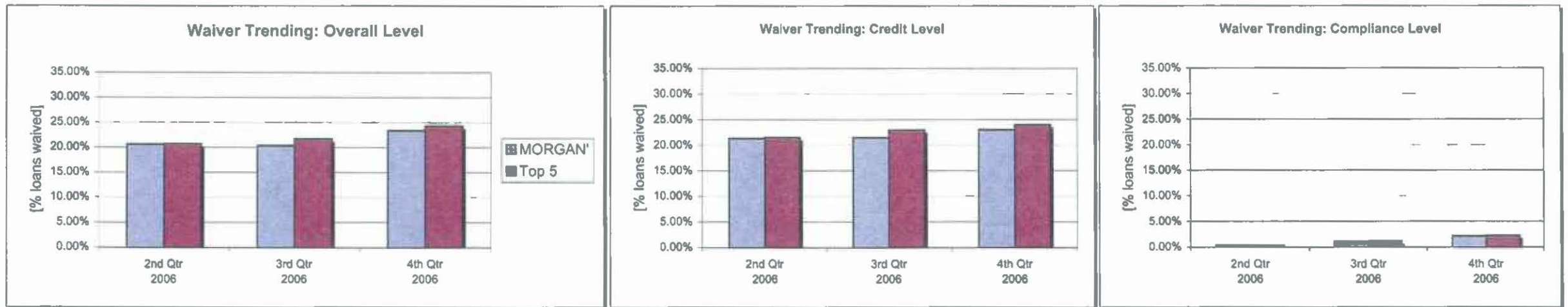
MORGAN' / Top 5

3/28/2007

MORGAN' / Top 5 - Reject Trending - YTD 2006



MORGAN' / Top 5 - Waiver Trending - YTD 2006





	A	B	C	D	E	F	G	H	I
1	<b>base</b>								
2	yy	qq	total	evtt3	evtt2w-t	evcr3	evcr2w-t	evcm3	evcm2w-t
3	2006	2	13 015	1890	2683	1476	2773	672	40
4	2006	3	17 713	3288	3608	2419	3797	1531	183
5	2006	4	11 622	1849	2717	1507	2671	682	251
6									
7	<b>sample</b>								
8	yy	qq	total	evtt3	evtt2w-t	evcr3	evcr2w-t	evcm3	evcm2w-t
9	2006	2	12 522	1840	2594	1427	2685	666	39
10	2006	3	15 746	3000	3413	2250	3604	1373	176
11	2006	4	9 941	1660	2411	1369	2381	613	223
12									
13	<b>OVERALL 3</b>			<b>CREDIT</b>			<b>COMPLIANCE</b>		
14	Column1	<b>MORGAN'</b>	<b>Top 5</b>	Column1	<b>Client Credit Event Level 3</b>	<b>Sample Event Level 3</b>	Column1	<b>Client Compl. Event Level 3</b>	<b>Sample Event Level 3</b>
15	2nd Qtr 2006	14.52%	14.69%	2nd Qtr 2006	11.34%	11.40%	2nd Qtr 2006	5.16%	5.32%
16	3rd Qtr 2006	18.56%	19.05%	3rd Qtr 2006	13.66%	14.29%	3rd Qtr 2006	8.64%	8.72%
17	4th Qtr 2006	15.91%	16.70%	4th Qtr 2006	12.97%	13.77%	4th Qtr 2006	5.87%	6.17%
18									
19	<b>OVERALL 2W</b>			<b>CREDIT ^</b>			<b>COMPLIANCE</b>		
20	Column1	<b>MORGAN'</b>	<b>Top 5</b>	Column1	<b>Client Event Level 2W</b>	<b>Sample Event Level 2W</b>	Column1	<b>Client Compl. Event Level 2W</b>	<b>Sample Event Level 2W</b>
21	2nd Qtr 2006	20.61%	20.72%	2nd Qtr 2006	21.31%	21.44%	2nd Qtr 2006	0.31%	0.31%
22	3rd Qtr 2006	20.37%	21.68%	3rd Qtr 2006	21.44%	22.89%	3rd Qtr 2006	1.03%	1.12%
23	4th Qtr 2006	23.38%	24.25%	4th Qtr 2006	22.98%	23.95%	4th Qtr 2006	2.16%	2.24%
24									
25									





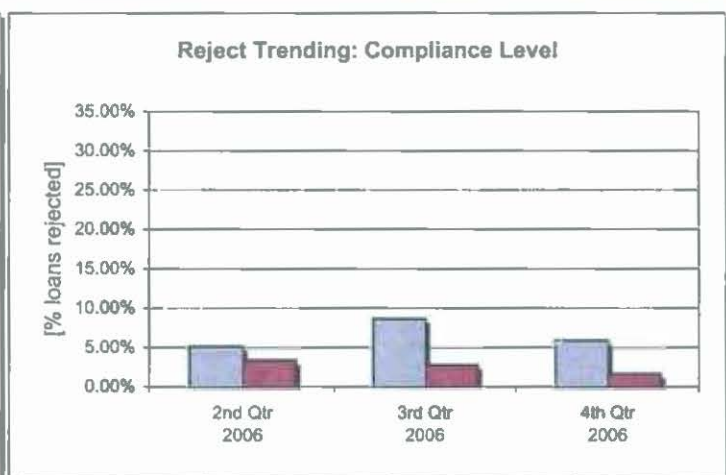
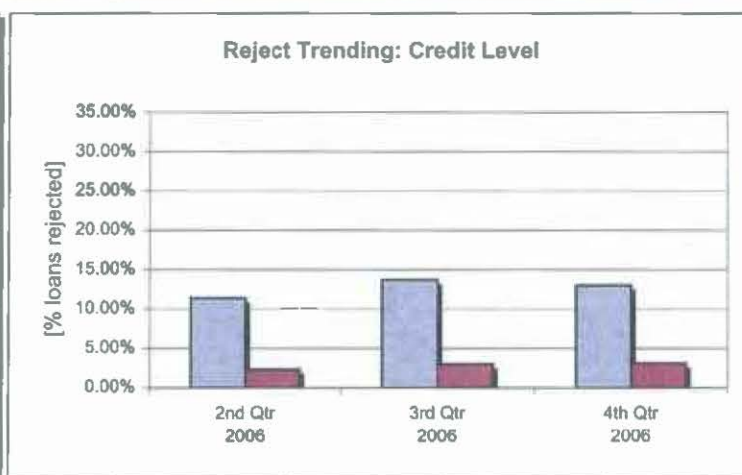
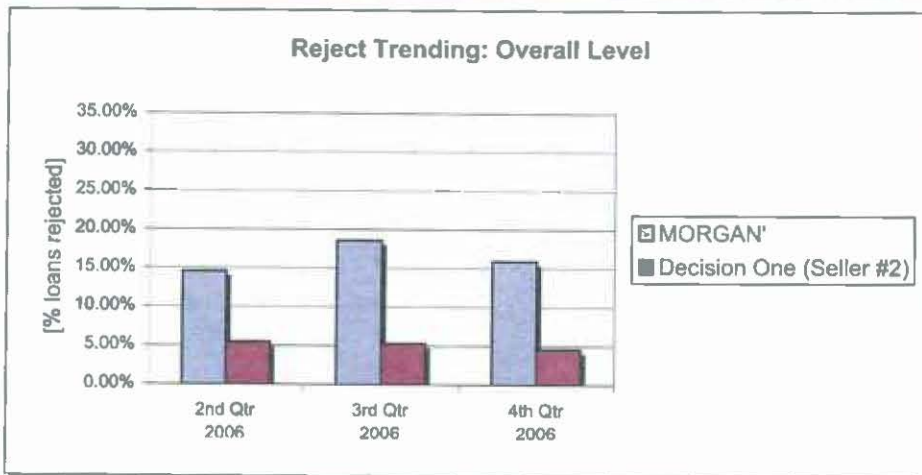
	A	B	C	D	E	F	G	H	I
1	<b>base</b>								
2	yy	qq	total	evtt3	evtt2w-t	evcr3	evcr2w-t	evcm3	evcm2w-t
3	2006	2	13,015	1890	2683	1476	2773	672	40
4	2006	3	17,713	3288	3608	2419	3797	1531	183
5	2006	4	11,622	1849	2717	1507	2671	682	251
6									
7	<b>sample</b>								
8	yy	qq	total	evtt3	evtt2w-t	evcr3	evcr2w-t	evcm3	evcm2w-t
9	2006	2	3,303	607	665	416	709	319	39
10	2006	3	7,473	2376	1944	1825	2082	1101	173
11	2006	4	4,873	1026	1156	833	1099	423	215
12									
13	<b>OVERALL 3</b>			<b>CREDIT</b>			<b>COMPLIANCE</b>		
14	Column1	<b>MORGAN'</b>	<b>New Century (Seller #1)</b>	Column1	<b>Client Credit Event Level 3</b>	<b>Sample Event Level 3</b>	Column1	<b>Client Compl. Event Level 3</b>	<b>Sample Event Level 3</b>
15	2nd Qtr 2006	14.52%	18.38%	2nd Qtr 2006	11.34%	12.59%	2nd Qtr 2006	5.16%	9.66%
16	3rd Qtr 2006	18.56%	31.79%	3rd Qtr 2006	13.66%	24.42%	3rd Qtr 2006	8.64%	14.73%
17	4th Qtr 2006	15.91%	21.05%	4th Qtr 2006	12.97%	17.09%	4th Qtr 2006	5.87%	8.68%
18									
19	<b>OVERALL 2W</b>			<b>CREDIT</b>			<b>COMPLIANCE</b>		
20	Column1	<b>MORGAN'</b>	<b>New Century (Seller #1)</b>	Column1	<b>Client Event Level 2W</b>	<b>Sample Event Level 2W</b>	Column1	<b>Client Compl. Event Level 2W</b>	<b>Sample Event Level 2W</b>
21	2nd Qtr 2006	20.61%	20.13%	2nd Qtr 2006	21.31%	21.47%	2nd Qtr 2006	0.31%	1.18%
22	3rd Qtr 2006	20.37%	26.01%	3rd Qtr 2006	21.44%	27.86%	3rd Qtr 2006	1.03%	2.32%
23	4th Qtr 2006	23.38%	23.72%	4th Qtr 2006	22.98%	22.55%	4th Qtr 2006	2.16%	4.41%
24									
25									

# CLAYTON

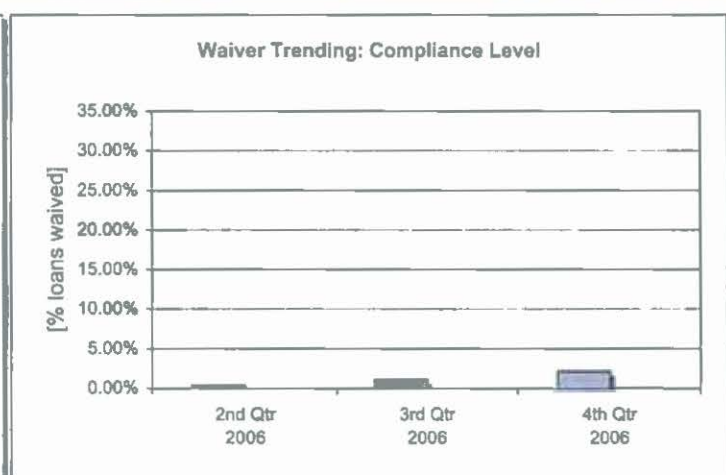
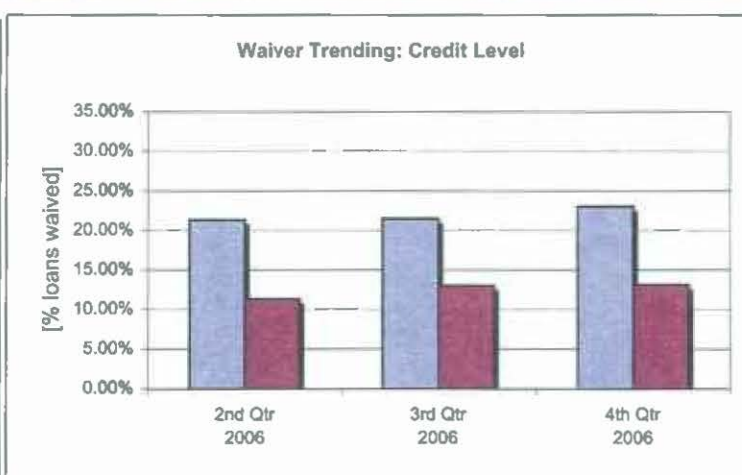
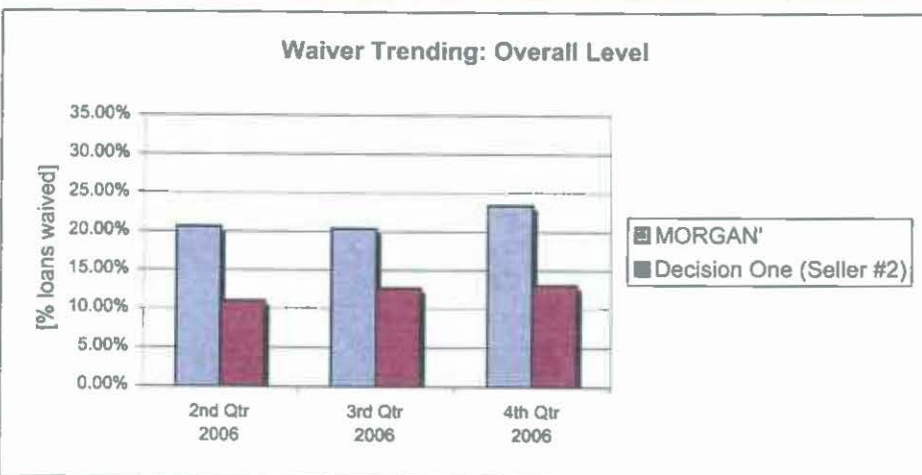
## MORGAN' / Decision One (Seller #2)

3/28/2007

### MORGAN' / Decision One (Seller #2) - Reject Trending - YTD 2006



### MORGAN' / Decision One (Seller #2) - Waiver Trending - YTD 2006



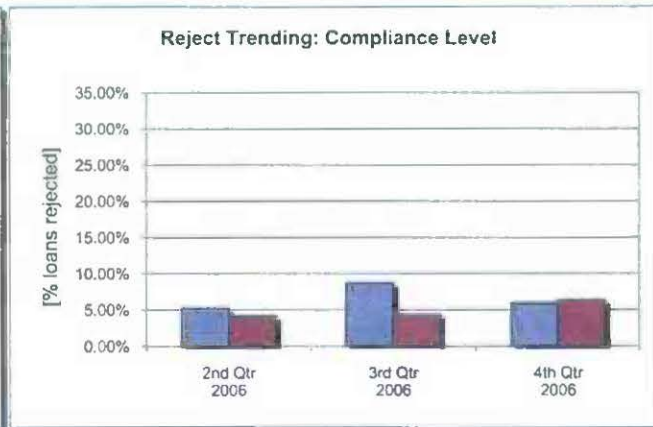
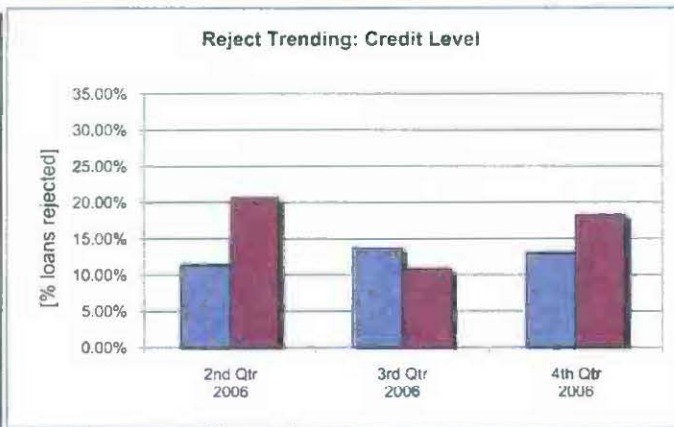
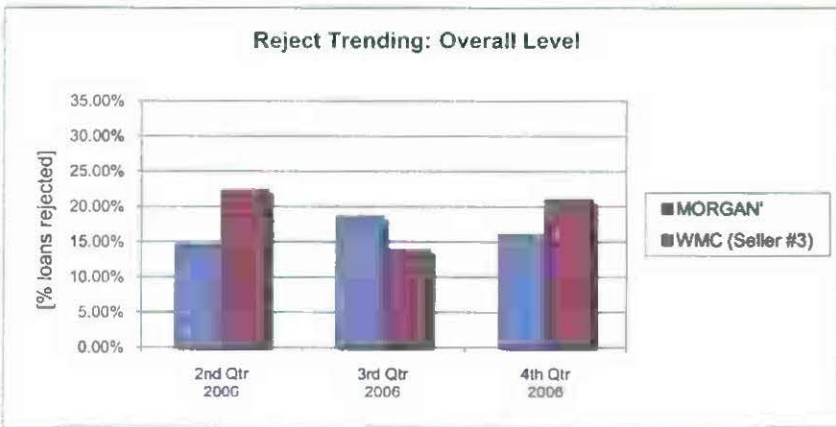


	A	B	C	D	E	F	G	H	I
1	<b>base</b>								
2	yy	qq	total	evtt3	evtt2w-t	evcr3	evcr2w-t	evcm3	evcm2w-t
3	2006	2	13 015	1890	2683	1476	2773	672	40
4	2006	3	17 713	3288	3608	2419	3797	1531	183
5	2006	4	11 622	1849	2717	1507	2671	682	251
6									
7	<b>sample</b>								
8	yy	qq	total	evtt3	evtt2w-t	evcr3	evcr2w-t	evcm3	evcm2w-t
9	2006	2	4 770	260	524	110	538	165	0
10	2006	3	5 254	276	663	157	683	145	0
11	2006	4	1 644	75	214	51	216	28	1
12									
13	<b>OVERALL 3</b>			<b>CREDIT</b>			<b>COMPLIANCE</b>		
14	Column1	<b>MORGAN'</b>	<b>Decision One (Seller #2)</b>	Column1	<b>Client Credit Event Level 3</b>	<b>Sample Event Level 3</b>	Column1	<b>Client Compl. Event Level 3</b>	<b>Sample Event Level 3</b>
15	2nd Qtr 2006	14.52%	5.45%	2nd Qtr 2006	11.34%	2.31%	2nd Qtr 2006	5.16%	3.46%
16	3rd Qtr 2006	18.56%	5.25%	3rd Qtr 2006	13.66%	2.99%	3rd Qtr 2006	8.64%	2.76%
17	4th Qtr 2006	15.91%	4.56%	4th Qtr 2006	12.97%	3.10%	4th Qtr 2006	5.87%	1.70%
18									
19	<b>OVERALL 2W</b>			<b>CREDIT</b>			<b>COMPLIANCE</b>		
20	Column1	<b>MORGAN'</b>	<b>Decision One (Seller #2)</b>	Column1	<b>Client Event Level 2W</b>	<b>Sample Event Level 2W</b>	Column1	<b>Client Compl. Event Level 2W</b>	<b>Sample Event Level 2W</b>
21	2nd Qtr 2006	20.61%	10.99%	2nd Qtr 2006	21.31%	11.28%	2nd Qtr 2006	0.31%	0.00%
22	3rd Qtr 2006	20.37%	12.62%	3rd Qtr 2006	21.44%	13.00%	3rd Qtr 2006	1.03%	0.00%
23	4th Qtr 2006	23.38%	13.02%	4th Qtr 2006	22.98%	13.14%	4th Qtr 2006	2.16%	0.06%
24									
25									

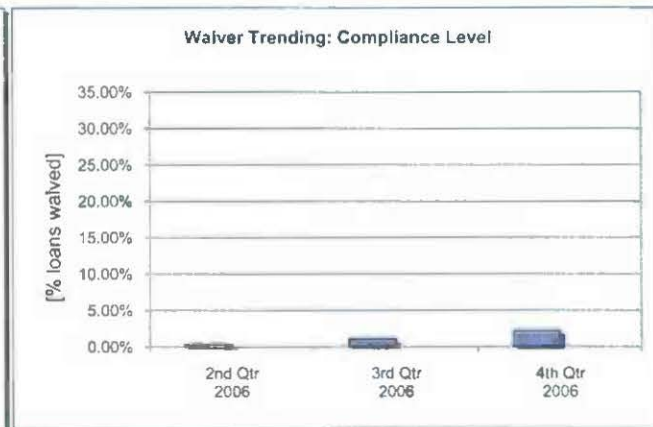
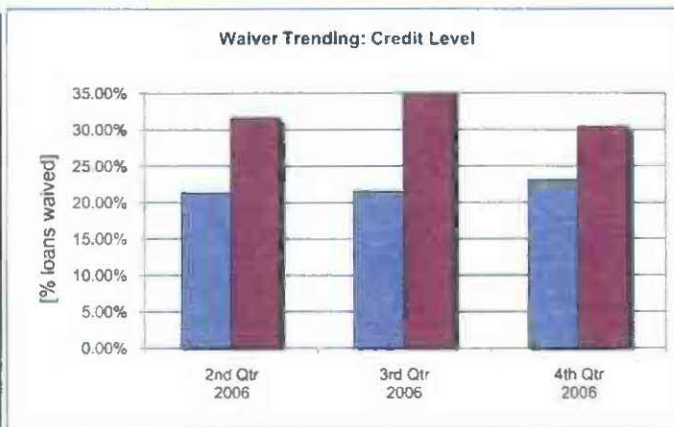
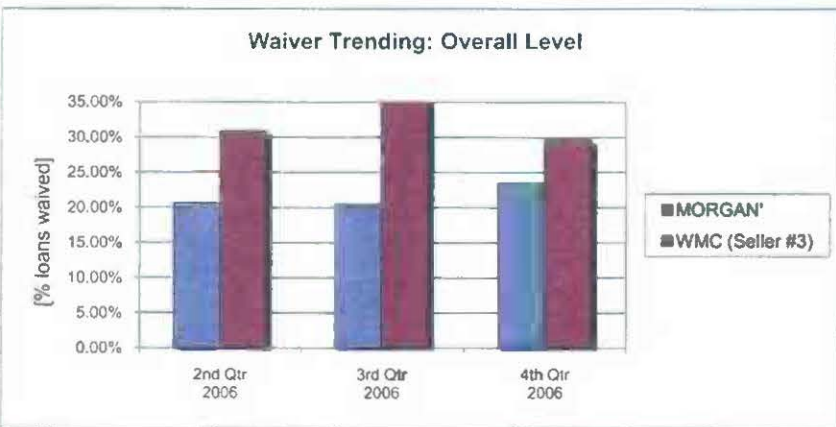


MORGAN' / WMC (Seller #3)  
3/28/2007

MORGAN' / WMC (Seller #3) - Reject Trending - YTD 2006



MORGAN' / WMC (Seller #3) - Waiver Trending - YTD 2006





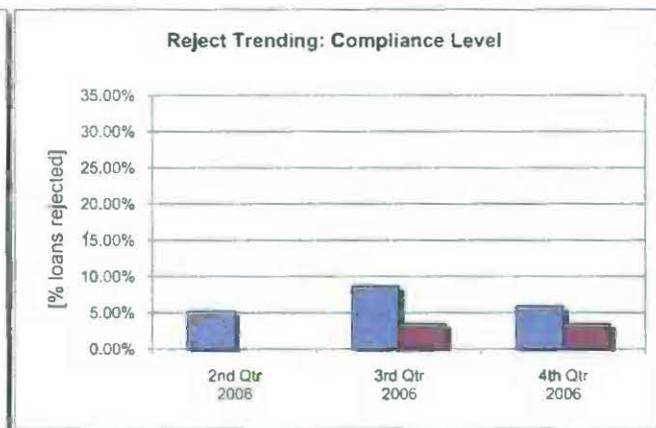
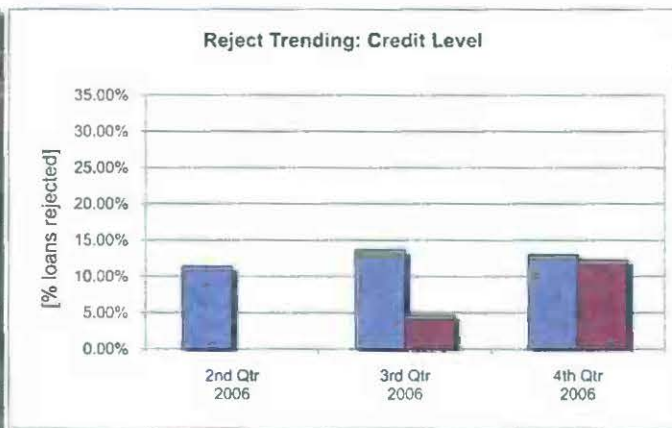
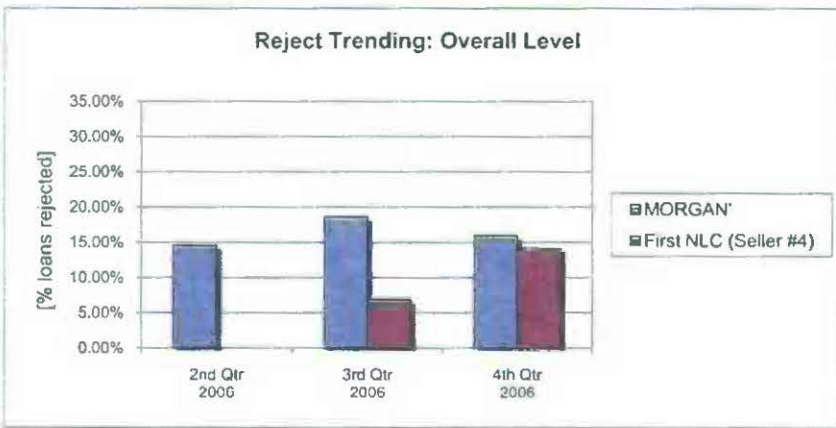
	A	B	C	D	E	F	G	H	I
1	<b>base</b>								
2	yy	qq	total	evtt3	evtt2w-t	evcr3	evcr2w-t	evcm3	evcm2w-t
3	2006	2	13,015	1890	2683	1476	2773	672	40
4	2006	3	17,713	3288	3608	2419	3797	1531	183
5	2006	4	11,622	1849	2717	1507	2671	682	251
6									
7	<b>sample</b>								
8	yy	qq	total	evtt3	evtt2w-t	evcr3	evcr2w-t	evcm3	evcm2w-t
9	2006	2	4,266	952	1313	881	1345	176	0
10	2006	3	1,434	198	515	155	538	62	0
11	2006	4	1,939	405	573	354	588	122	0
12									
13	<b>OVERALL 3</b>			<b>CREDIT</b>			<b>COMPLIANCE</b>		
14	Column1	MORGAN'	WMC (Seller #3)	Column1	Client Credit Event Level 3	Sample Event Level 3	Column1	Client Compl. Event Level 3	Sample Event Level 3
15	2nd Qtr 2006	14.52%	22.32%	2nd Qtr 2006	11.34%	20.65%	2nd Qtr 2006	5.16%	4.13%
16	3rd Qtr 2006	18.56%	13.81%	3rd Qtr 2006	13.66%	10.81%	3rd Qtr 2006	8.64%	4.32%
17	4th Qtr 2006	15.91%	20.89%	4th Qtr 2006	12.97%	18.26%	4th Qtr 2006	5.87%	6.29%
18									
19	<b>OVERALL 2W</b>			<b>CREDIT</b>			<b>COMPLIANCE</b>		
20	Column1	MORGAN'	WMC (Seller #3)	Column1	Client Event Level 2W	Sample Event Level 2W	Column1	Client Compl. Event Level 2W	Sample Event Level 2W
21	2nd Qtr 2006	20.61%	30.78%	2nd Qtr 2006	21.31%	31.53%	2nd Qtr 2006	0.31%	0.00%
22	3rd Qtr 2006	20.37%	35.91%	3rd Qtr 2006	21.44%	37.52%	3rd Qtr 2006	1.03%	0.00%
23	4th Qtr 2006	23.38%	29.55%	4th Qtr 2006	22.98%	30.32%	4th Qtr 2006	2.16%	0.00%
24									
25									

CLAYTON

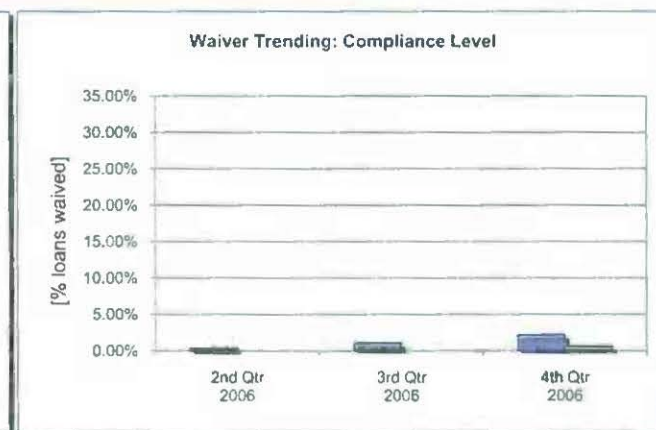
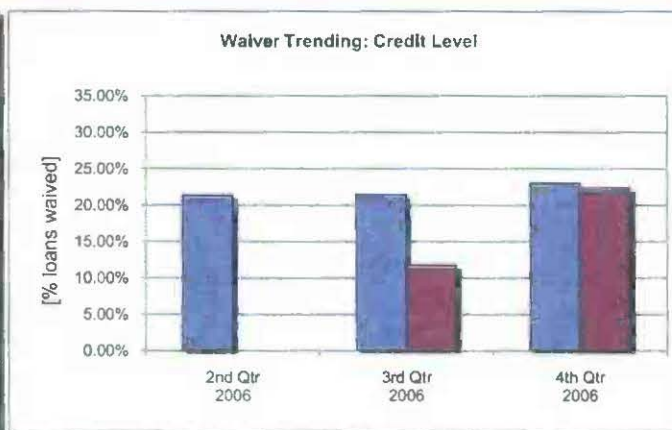
MORGAN' / First NLC (Seller #4)

3/28/2007

MORGAN' / First NLC (Seller #4) - Reject Trending - YTD 2006



MORGAN' / First NLC (Seller #4) - Waiver Trending - YTD 2006





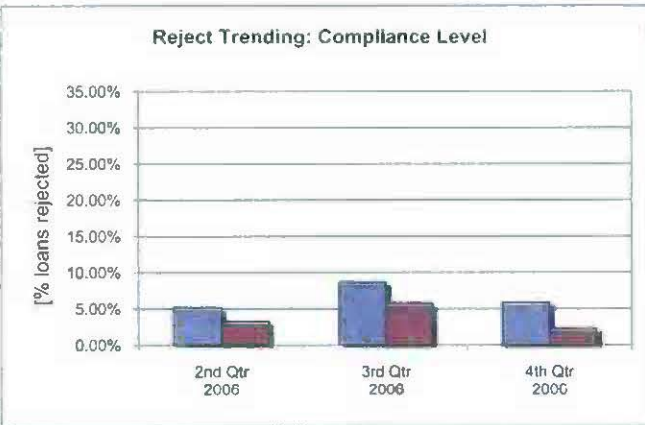
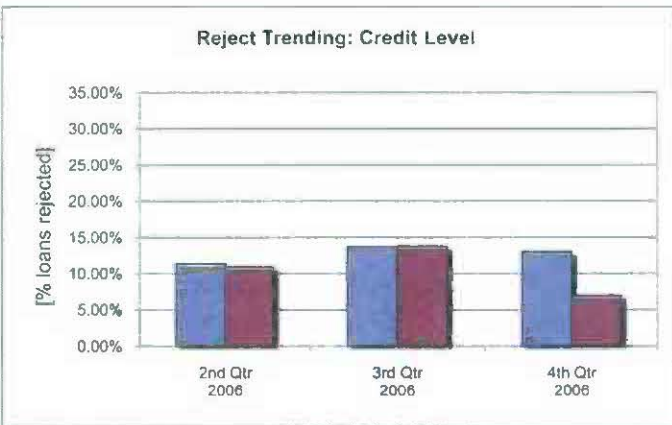
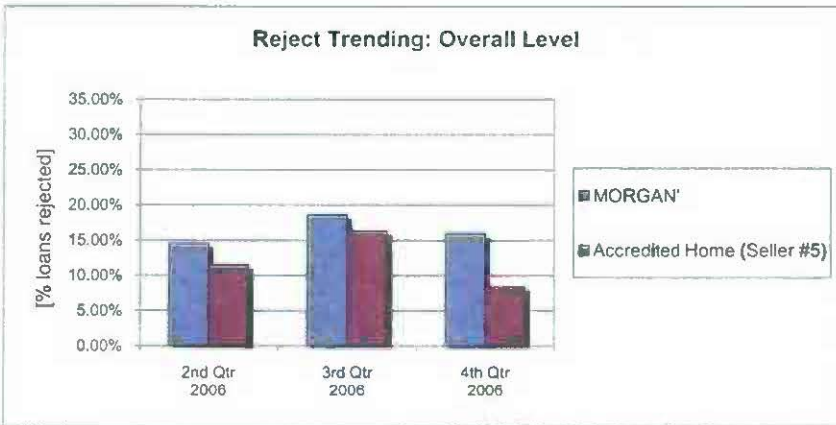
	A	B	C	D	E	F	G	H	I
1	<b>base</b>								
2	yy	qq	total	evtt3	evtt2w-t	evcr3	evcr2w-t	evcm3	evcm2w-t
3	2006	2	13,015	1890	2683	1476	2773	672	40
4	2006	3	17,713	3288	3608	2419	3797	1531	183
5	2006	4	11,622	1849	2717	1507	2671	682	251
6									
7	<b>sample</b>								
8	yy	qq	total	evtt3	evtt2w-t	evcr3	evcr2w-t	evcm3	evcm2w-t
9	2006	2	0	0	0	0	0	0	0
10	2006	3	1,149	79	129	53	135	40	0
11	2006	4	524	74	113	64	117	18	3
12									
13	<b>OVERALL 3</b>			<b>CREDIT</b>			<b>COMPLIANCE</b>		
14	Column1	MORGAN'	First NLC (Seller #4)	Column1	Client Credit Event Level 3	Sample Event Level 3	Column1	Client Compl. Event Level 3	Sample Event Level 3
15	2nd Qtr 2006	14.52%	#DIV/0!	2nd Qtr 2006	11.34%	#DIV/0!	2nd Qtr 2006	5.16%	#DIV/0!
16	3rd Qtr 2006	18.56%	6.88%	3rd Qtr 2006	13.66%	4.61%	3rd Qtr 2006	8.64%	3.48%
17	4th Qtr 2006	15.91%	14.12%	4th Qtr 2006	12.97%	12.21%	4th Qtr 2006	5.87%	3.44%
18									
19	<b>OVERALL 2W</b>			<b>CREDIT</b>			<b>COMPLIANCE</b>		
20	Column1	MORGAN'	First NLC (Seller #4)	Column1	Client Event Level 2W	Sample Event Level 2W	Column1	Client Compl. Event Level 2W	Sample Event Level 2W
21	2nd Qtr 2006	20.61%	#DIV/0!	2nd Qtr 2006	21.31%	#DIV/0!	2nd Qtr 2006	0.31%	#DIV/0!
22	3rd Qtr 2006	20.37%	11.23%	3rd Qtr 2006	21.44%	11.75%	3rd Qtr 2006	1.03%	0.00%
23	4th Qtr 2006	23.38%	21.56%	4th Qtr 2006	22.98%	22.33%	4th Qtr 2006	2.16%	0.57%
24									
25									

CLAYTON

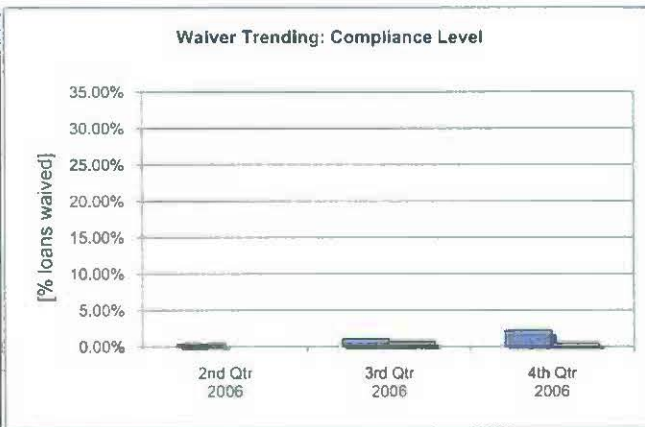
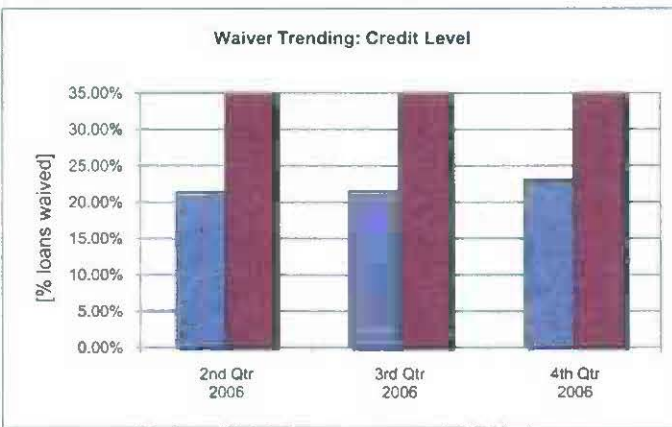
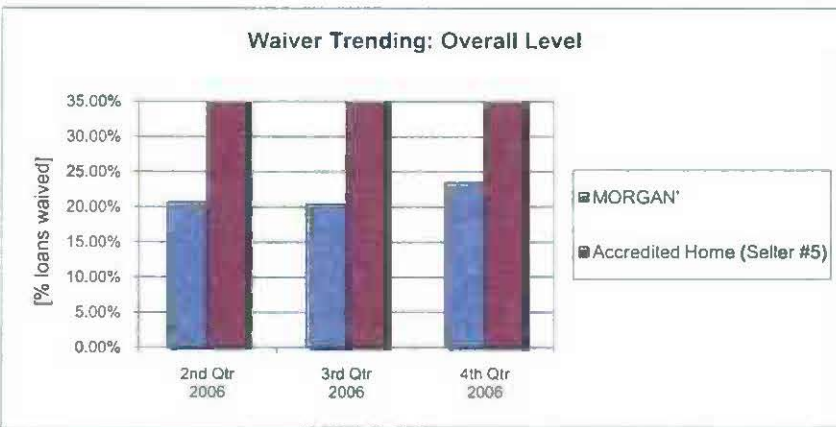
MORGAN' / Accredited Home (Seller #5)

3/28/2007

MORGAN' / Accredited Home (Seller #5) - Reject Trending - YTD 2006

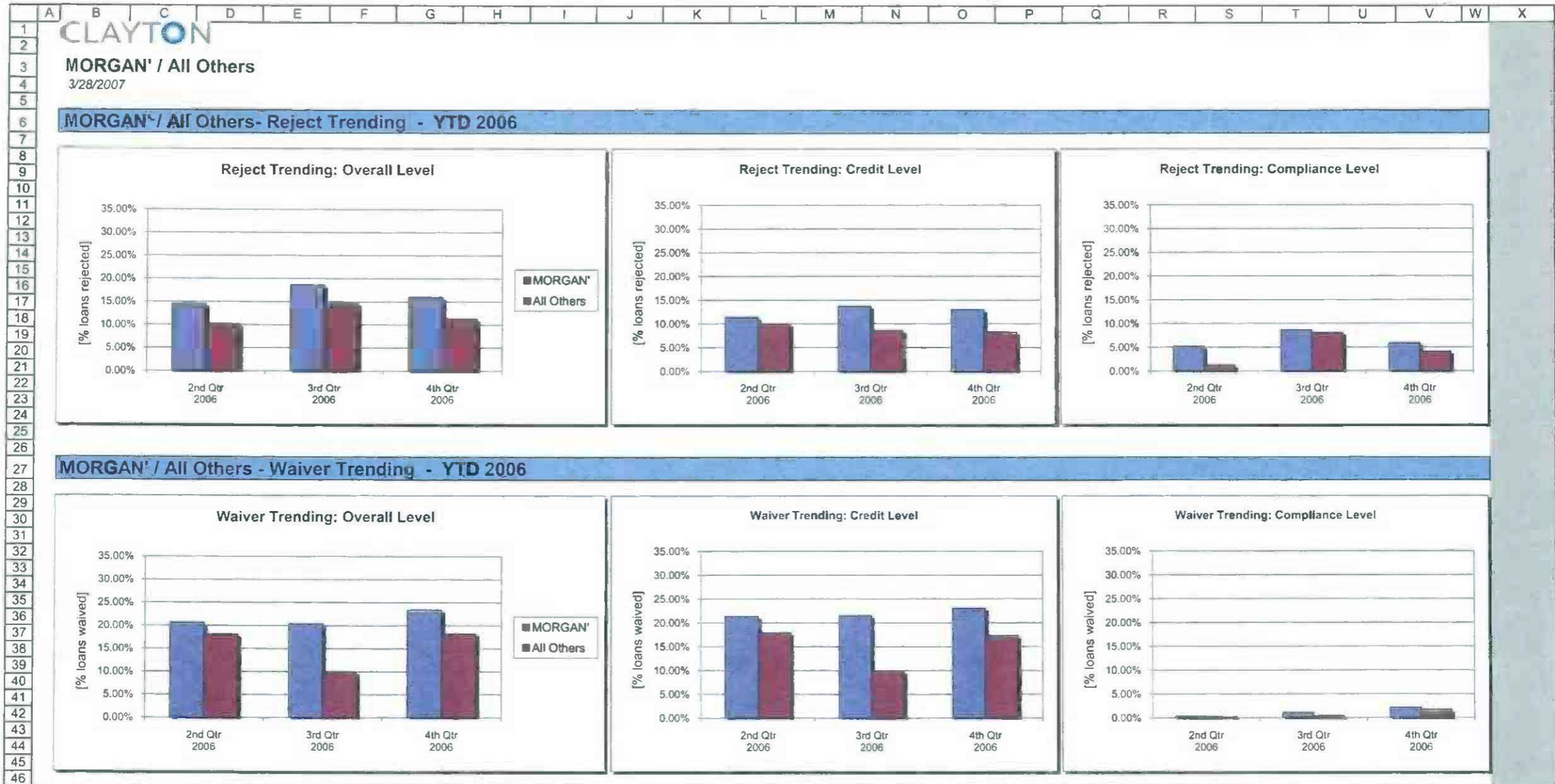


MORGAN' / Accredited Home (Seller #5) - Waiver Trending - YTD 2006



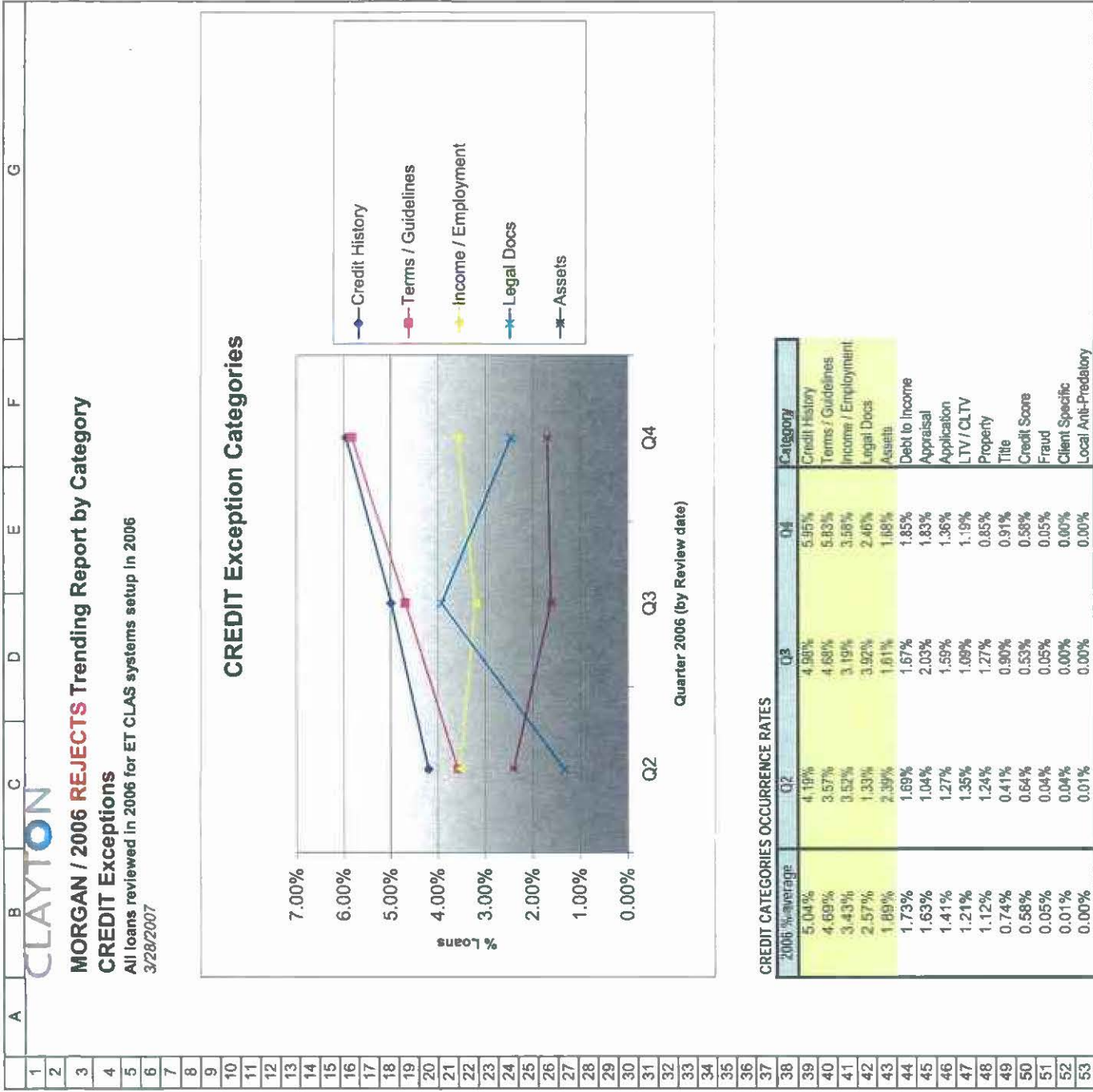


	A	B	C	D	E	F	G	H	I	
1	<b>base</b>									
2	yy	qq	total	evtt3	evtt2w-t	evcr3	evcr2w-t	evcm3	evcm2w-t	
3	2006		2	13,015	1890	2683	1476	2773	672	40
4	2006		3	17,713	3288	3608	2419	3797	1531	183
5	2006		4	11,622	1849	2717	1507	2671	682	251
6										
7	<b>sample</b>									
8	yy	qq	total	evtt3	evtt2w-t	evcr3	evcr2w-t	evcm3	evcm2w-t	
9	2006		2	183	21	92	20	93	6	0
10	2006		3	436	71	162	60	166	25	3
11	2006		4	961	80	355	67	361	22	4
12										
13	<b>OVERALL 3</b>			<b>CREDIT</b>			<b>COMPLIANCE</b>			
14	Column1	MORGAN'	Accredited Home (Seller #5)	Column1	Client Credit Event Level 3	Sample Event Level 3	Column1	Client Compl. Event Level 3	Sample Event Level 3	
15	2nd Qtr 2006	14.52%	11.48%	2nd Qtr 2006	11.34%	10.93%	2nd Qtr 2006	5.16%	3.28%	
16	3rd Qtr 2006	18.56%	16.28%	3rd Qtr 2006	13.66%	13.76%	3rd Qtr 2006	8.64%	5.73%	
17	4th Qtr 2006	15.91%	8.32%	4th Qtr 2006	12.97%	6.97%	4th Qtr 2006	5.87%	2.29%	
18										
19	<b>OVERALL 2W</b>			<b>CREDIT</b>			<b>COMPLIANCE</b>			
20	Column1	MORGAN'	Accredited Home (Seller #5)	Column1	Client Event Level 2W	Sample Event Level 2W	Column1	Client Compl. Event Level 2W	Sample Event Level 2W	
21	2nd Qtr 2006	20.61%	50.27%	2nd Qtr 2006	21.31%	50.82%	2nd Qtr 2006	0.31%	0.00%	
22	3rd Qtr 2006	20.37%	37.16%	3rd Qtr 2006	21.44%	38.07%	3rd Qtr 2006	1.03%	0.69%	
23	4th Qtr 2006	23.38%	36.94%	4th Qtr 2006	22.98%	37.57%	4th Qtr 2006	2.16%	0.42%	
24										
25										

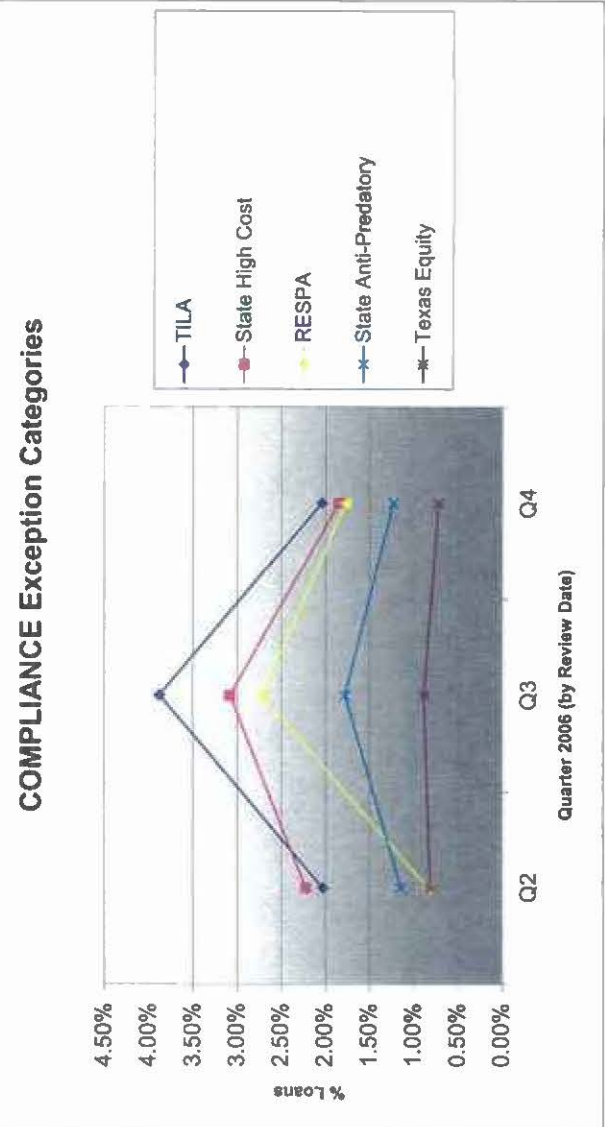




	A	B	C	D	E	F	G	H	I
1	<b>base</b>								
2	yy	qq	total	evtt3	evtt2w-t	evcr3	evcr2w-t	evcm3	evcm2w-t
3	2006	2	13,015	1890	2683	1476	2773	672	40
4	2006	3	17,713	3288	3608	2419	3797	1531	183
5	2006	4	11,622	1849	2717	1507	2671	682	251
6									
7	<b>sample</b>								
8	yy	qq	total	evtt3	evtt2w-t	evcr3	evcr2w-t	evcm3	evcm2w-t
9	2006	2	493	50	89	49	88	6	1
10	2006	3	1,967	288	195	169	193	158	7
11	2006	4	1,681	189	306	138	290	69	28
12									
13	<b>OVERALL 3</b>			<b>CREDIT</b>			<b>COMPLIANCE</b>		
14	Column1	<b>MORGAN'</b>	<b>All Others</b>	Column1	<b>Client Credit Event Level 3</b>	<b>Sample Event Level 3</b>	Column1	<b>Client Compl. Event Level 3</b>	<b>Sample Event Level 3</b>
15	2nd Qtr 2006	14.52%	10.14%	2nd Qtr 2006	11.34%	9.94%	2nd Qtr 2006	5.16%	1.22%
16	3rd Qtr 2006	18.56%	14.64%	3rd Qtr 2006	13.66%	8.59%	3rd Qtr 2006	8.64%	8.03%
17	4th Qtr 2006	15.91%	11.24%	4th Qtr 2006	12.97%	8.21%	4th Qtr 2006	5.87%	4.10%
18									
19	<b>OVERALL 2W</b>			<b>CREDIT</b>			<b>COMPLIANCE</b>		
20	Column1	<b>MORGAN'</b>	<b>All Others</b>	Column1	<b>Client Event Level 2W</b>	<b>Sample Event Level 2W</b>	Column1	<b>Client Compl. Event Level 2W</b>	<b>Sample Event Level 2W</b>
21	2nd Qtr 2006	20.61%	18.05%	2nd Qtr 2006	21.31%	17.85%	2nd Qtr 2006	0.31%	0.20%
22	3rd Qtr 2006	20.37%	9.91%	3rd Qtr 2006	21.44%	9.81%	3rd Qtr 2006	1.03%	0.36%
23	4th Qtr 2006	23.38%	18.20%	4th Qtr 2006	22.98%	17.25%	4th Qtr 2006	2.16%	1.67%
24									
25									



	A	B	C	D	E	F	G	H
1			<b>CLAYTON</b>					
2			<b>MORGAN / 2006 REJECTS Trending Report by Category</b>					
3			<b>COMPLIANCE Exceptions</b>					
4			All loans reviewed in 2006 for ET CLAS systems setup in 2006					
5			3/29/2007					
6								
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#### REJECT COMPLIANCE CATEGORIES OCCURRENCE RATES

2006 % average	Q2	Q3	Q4	Category
2.65%	2.03%	3.08%	2.04%	TILA
2.39%	2.22%	3.05%	1.84%	State High Cost
1.77%	0.80%	2.71%	1.76%	RESPA
1.38%	1.14%	1.77%	1.23%	State Anti-Predatory
0.80%	0.81%	0.88%	0.71%	Texas Equity
0.70%	0.46%	1.22%	0.43%	Other Federal
0.56%	0.82%	0.59%	0.28%	Local High Cost
0.61%	0.28%	0.29%	1.25%	Local Anti-Predatory
0.47%	0.30%	0.61%	0.50%	State Provisions
0.33%	0.32%	0.47%	0.20%	Section 32

	A	B	C	D
1	<b>TOTAL TIME REVIEWED BY REVIEW SCOPES</b>			
2				
3		Q2	Q3	Q4
4	CR SCOPE	12996	17312	11580
5	CM SCOPE	13015	17713	11622
6	Total Janyl	13015	17713	11622
7				
8	<b>COMPLIANCE</b>			
9				
10	<b>LOANS COUNT FOR ALL REJECT EXCEPTIONS</b>			
11	Category	Q2	Q3	Q4
12	TILA	264	687	237
13	State High Cost	289	546	214
14	RESPA	108	480	205
15	State Anti-Predatory	149	314	143
16	Texas Equity	105	156	83
17	Other Federal	60	216	50
18	Local High Cost	107	104	33
19	Local Anti-Predatory	36	52	145
20	State Provisions	39	108	58
21	Section 32	42	83	23
22				
23				
24				
25				
26				
27	<b>CREDIT</b>			
28				
29	<b>LOANS COUNT FOR ALL REJECT EXCEPTIONS</b>			
30	Category	Q2	Q3	Q4
31	Credit History	545	863	689
32	Terms / Guidelines	454	811	675
33	Income / Employment	457	553	414
34	Legal Docs	173	678	285
35	Assets	311	278	195
36	Debt to Income	219	288	214
37	Appraisal	135	351	212
38	Application	165	276	167
39	LTV / CLTV	176	188	138
40	Property	161	219	99
41	Title	53	156	105
42	Credit Score	83	91	67
43	Fraud	5	8	6
44	Client Specific	5	0	0
45	Local Anti-Predatory	1	0	0

Graphs Data







	A	B	C	D	E	F	G
116 QARL	State High Cost	CA High-Cost Loan - Excluded by Client		11	11	5	27
117 QREB	Other Federal	Note Missing; unable to evaluate compliance		1	20	4	25
118 QARL	Credit History	Credit report incomplete		7	10	7	24
119 QARL	State High Cost	CA High-Cost Loan - Excluded by Client		3	12	8	23
120 QREB	State High Cost	IL High-Cost Loan - Excluded by Client		6	13	4	23
121 QREB	Application	Borrower 2 SSN not disclosed in file		4	9	10	23
122 QREB	Credit Score	Credit Score Less than 500		9	10	4	23
123 QARL	Legal Docs	Missing Note		1	18	4	23
124 QARL	State Provisions	Late Charge exceeds state maximum		0	14	4	22
125 QARL	TLA	Right of Redemption not exercised by all title holders		7	11	4	22
126 QARL	Texas Equity	Missing Affidavit of Fair Market Value	TX	6	12	0	22
127 QARL	State Provisions	NU High Cost Loan		9	12	4	21
128 QARL	State Provisions	Prepayment penalty; balance formula exceeds maximum allowed		5	11	5	21
129 QREB	TLA	Regular Payment per TLA not equal to Note Original P&I		1	18	2	21
130 QARL	Other Federal	Approval is stale dated without recertification in file		5	9	7	21
131 QARL	State High Cost	FACTA Credit Disclosure has less than minimum info		8	8	6	20
132 QARL	State Provisions	CA High Cost - No evidence of Home Ownership Counseling		9	9	2	20
133 QARL	State Provisions	Prepayment penalty allowed only if loan paid in full		7	8	7	20
134 QARL	State High Cost	High Cost Home Loan		6	9	4	19
135 QARL	State High Cost	MAP not waived		6	9	4	19
136 QARL	TLA	Fraud TL Not Executed (Signature Line Exists)		4	9	6	19
137 QREB	Fraud	Potential Fraud Indicated		5	8	6	18
138 QARL	Local Anti-Predatory	Providence RI High Cost - Escape Fee Test (4.00%)		2	2	18	18
139 QARL	State High Cost	Financial Counseling verification not in file	IAA	6	6	8	18
140 QARL	State High Cost	MA High-Cost Loan - Excluded by Client		6	6	8	18
141 QREB	Appraisal	Appraisal form does not match property type		4	12	2	18
142 QREB	Terms / Guidelines	Ability to repay/ not demonstrated		0	3	15	18
143 QARL	State High Cost	CA High Cost - No evidence Red'd Prepay Disc'd provided		6	8	3	17
144 QARL	State High Cost	Financed Fees > 5% of loan amount	NY	2	12	3	17
145 QARL	State High Cost	Missing Aggregate Minority Debt Disclosures	IAA	6	6	5	17
146 QARL	State High Cost	NU High-Cost Loan - Excluded by Client		8	8	1	17
147 QARL	Texas Equity	Affidavit of Fair Market Value not signed by lender	TX	3	8	8	17
148 QREB	Property	Property is legal non-conforming use who required letter		7	4	4	17
149 QARL	Section 32	Application date late/nonmissing		0	15	1	16
150 QARL	State High Cost	IN High Cost		3	6	6	15
151 QARL	State High Cost	IN High-Cost Loan - Excluded by Client		3	6	6	15
152 QARL	State High Cost	NU Home Loan Counseling Certification not in file		8	6	1	15
153 QARL	State High Cost	No evidence High Cost Disclosure provided to borrower	IAA	5	5	4	15
154 QARL	Texas Equity	Missing Notice Concerning Extension of Credit (12-day)	TX	3	3	1	15
155 QREB	Credit History	Credit report was stale dated at closing		1	11	1	15
156 QREB	TX	No file evidence in file		1	7	7	15
157 QARL	State High Cost	Counseling Disclosure missing or not executed		3	5	6	14
158 QARL	State High Cost	FL High cost		2	2	2	14
159 QARL	TLA	Fraud TL Date after actual transaction date		4	9	1	14
160 QREB	State High Cost	Debt Ratio Exception >5% and <10%		6	3	5	14
161 QARL	Appraisal	High Cost Home Loan Disclosure lacks required information		3	5	5	13
162 QREB	Debt to Income	Quality of Appraisal Report Unacceptable		7	0	6	13
163 QREB	State Anti-Predatory	Debt Ratio Exception >= 10%		2	3	3	13
164 QARL	Legal Docs	Borrower Bill of Rights not in file		2	8	1	12
165 QARL	Legal Docs	NU Notice to Borrower not in file		7	5	0	12
166 QREB	Section 32	Discrepancy between Note and ARM Rider		2	4	8	12
167 QARL	State Anti-Predatory	MD Covered Loan with Prepayment Penalty		4	4	3	11
168 QARL	State Anti-Predatory	State High Cost		5	4	3	11
169 QARL	State High Cost	Unable to verify income/ability to repay	IAA	2	2	3	11
170 QARL	Texas Equity	TX 12-day disclosure not signed 12 days prior to close	TX	3	4	4	11
171 QARL	Data Edit	TX 12-day disclosure not signed 12 days prior to close	TX	4	4	4	11
172 QARL	State Anti-Predatory	Income data entry		0	10	1	11
173 QARL	State Anti-Predatory	Home Counseling Disclosure missing		3	4	3	10
174 QARL	TLA	Property Disclosure missing or not executed		3	3	4	10
175 QARL	Application	Stand Term not equal to the TLA Payment term		3	4	3	10
176 QREB	Appraisal	Borrower 1 Social Security Number is invalid		0	10	0	10
177 QREB	State High Cost	Redacted appraisal form does not meet guidelines		1	1	3	10
178 QARL	State Provisions	TX High Cost		2	8	1	9
179 QARL	TLA	Prepayment penalty exceeds maximum allowed (months interest)		1	2	6	9
180 QARL	TLA	Fraud TL - Terms Inapplicable		2	4	4	9
181 QARL	Texas Equity	TX 1st payment does not match Note 1st payment date		2	4	3	9
182 QARL	Appraisal	Texas Equity Loan with Prepayment Penalty	TX	4	3	2	9
183 QREB	Appraisal	Appraisal dated after closing		2	2	5	9
184 QREB	Section 32	Completion certificate form used is outdated		0	0	9	9
185 QARL	State Anti-Predatory	Balloon Payment unrelated on Sect32 Disc'd		3	3	0	8
186 QARL	State High Cost	MA Borrower Interest Worksheet dated after transaction		0	5	3	8
187 QARL	State High Cost	FL High-Cost Loan - Excluded by Client		6	1	1	8
188 QARL	State High Cost	Fid violation can also be separately enforced under UT Law		1	5	1	8
189 QARL	State High Cost	TX High-Cost Loan - Excluded by Client		0	8	1	8
190 QARL	TLA	Fin chg understated by more than \$35 (disclosures)(Pm Sm)		0	1	8	8
191 QARL	TLA	Unrelated ROR Expiration Date		3	4	1	8
192 QARL	Texas Equity	TX Equity - Laminated lease record balances		5	1	2	8
193 QARL	Local Anti-Predatory	Inventory Arbitration Warning not properly provided		2	0	2	7
194 QARL	State High Cost	FL APR Disclosure not in file		5	1	1	7
195 QARL	State High Cost	FL Notice to Borrower not in file		6	0	1	7
196 QARL	State Provisions	Missing and PPP language for L to L exclusion		0	7	7	7
197 QARL	TLA	Fraud TL not dated		1	4	2	7
198 QARL	Appraisal	ROR date change not included/documented by borrower		4	4	3	7
199 QREB	Assets	Appraisal form version used is outdated		0	2	2	7
200 QREB	Local Anti-Predatory	Occupying borrower contribution to down payment insufficient		3	2	2	7
201 QARL	Local Anti-Predatory	Credited Threshold Loan - Excluded by Client		0	6	0	6
202 QARL	Local Anti-Predatory	Home counseling not obtained		0	6	0	6
203 QARL	Local Anti-Predatory	Notice of Representation Warning not in file		3	3	3	6
204 QARL	RESPA	Prepayment Penalty Warning not in file		3	3	0	6
205 QARL	State Anti-Predatory	Yield Spread Premium not disclosed on HUD-1 Statement		2	3	1	6
206 QARL	State Anti-Predatory	MA Borrower Interest Worksheet incomplete/incorrect		1	3	1	5
207 QARL	State High Cost	MA Borrower Interest Worksheet not properly dated		2	4	4	5
208 QARL	State High Cost	Missing WV Division of Banking Triangle Hit Bureau Worksheet		1	5	1	5
209 QARL	State Provisions	Prepayment penalty not allowed upon sale of property		4	1	1	5
210 QARL	TLA	Sold prepay penalty language for insurance exclusion missing		0	0	0	5
211 QARL	TLA	ROR Transaction date not evident on disclosure	[28.23a]	1	5	0	5
212 QARL	Legal Docs	Variance in Total of Payments affects Frq. Change threshold		4	4	2	5
213 QREB	Legal Docs	Missing Mortgage		0	0	6	5
214 QREB	Property	PPP note missing		0	0	6	5
215 QREB	Local Anti-Predatory	Property is Non-Conforming ILLEGAL use		1	4	1	5
216 QREB	Section 32	Comments/Remarks file evidence missing		2	3	1	5
217 QARL	Section 32	Balloon Payment Warning not timely provided		4	3	0	5
218 QARL	Section 32	Sect32 Loan		0	3	2	5
219 QARL	State High Cost	AR High-Cost Loan - Excluded by Client		4	0	1	5
220 QARL	State High Cost	Application Fee Charged		0	0	4	5
221 QARL	State High Cost	Cancellation of Home Ownership Counseling not in file		1	0	1	5
222 QARL	State High Cost	MA High Cost - Prohibited balloon payment		2	0	3	5
223 QARL	State High Cost	AA High Cost - Unable to determine prior high cost loan		1	2	2	5
224 QARL	State High Cost	NC High Cost - Home Ownership Counseling disclosure missing		2	0	3	5
225 QARL	State High Cost	TX Anti-Predatory Disclosure not in file	TX	1	4	0	5
226 QARL	State High Cost	TX 12-day disclosure not signed by borrower/owners	TX	0	4	0	5
227 QARL	Texas Equity	Texas Equity Loan with LTV > 50%	TX	3	0	2	5
228 QARL	Texas Equity	Texas Equity		2	1	2	5

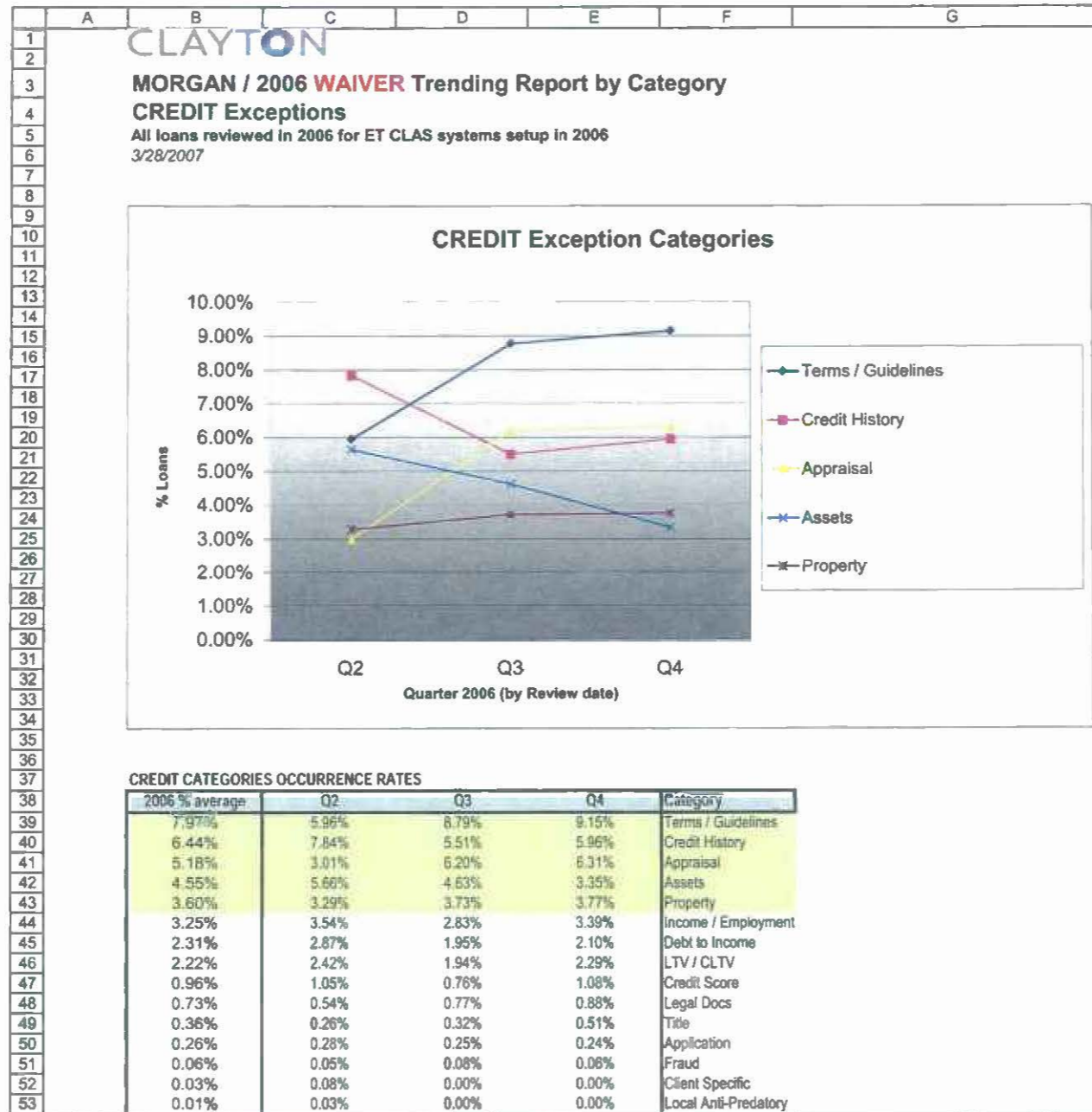
exception data dump - reflects



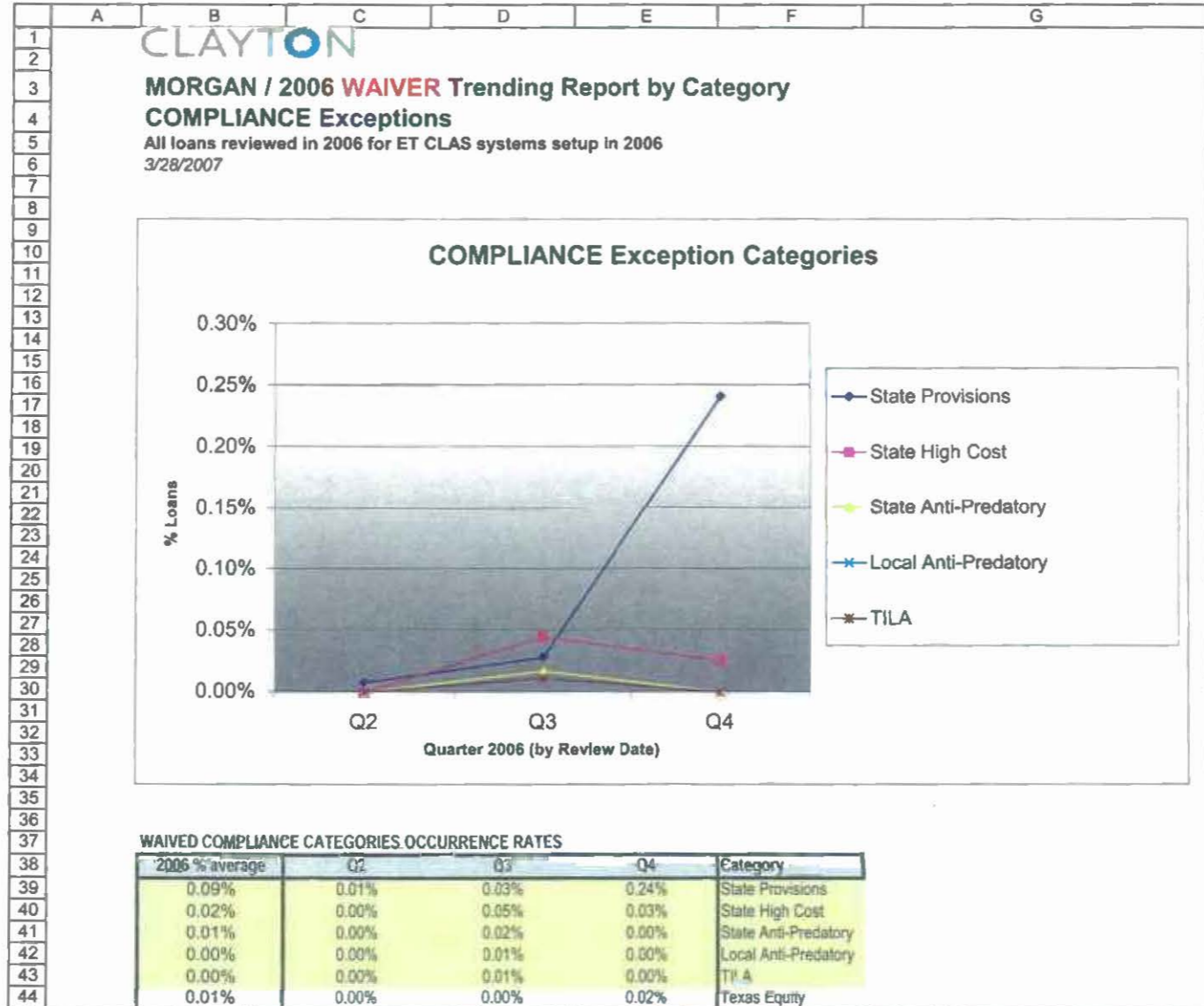
A	B	C	D	E	F	G
229	CRED	Borrower 1 SSN not disclosed in file	0	5	0	5
230	CRED	Client Credit Reject	5	0	0	5
231	CA/PL	Notice of Representation Warning not timely provided	4	0	0	4
232	CA/PL	Prepayment Penalty Warning not timely provided	4	0	0	4
233	CA/PL	Third Party Cost Warning not timely provided	4	0	0	4
234	CA/PL	Occupancy Type Unknown-Cannot Perform Complete Compliance Rev	0	4	0	4
235	CA/PL	Ref within 12 months/terminated	1	1	2	4
236	CA/PL	Financed Fees > 3% of loan amount	0	4	0	4
237	CA/PL	NJ Home Loan	0	0	4	4
238	CA/PL	Total fees + YSP greater than 6% allowable cap	0	3	1	4
239	CA/PL	Loan Charge amount exceeds state limits	3	1	0	4
240	CA/PL	Texas Equity Loan with Balloon Term	0	4	0	4
241	CRED	Borrower 1 SSN invalid - possible TIN	1	1	2	4
242	CRED	Borrower 2 Social Security Number is invalid	0	4	0	4
243	CRED	Missing authorization agreement for existing junior lien	0	2	2	4
244	CRED	State >10 acres	2	2	0	4
245	CA/PL	Balloon Payment Warning not in File	3	0	0	3
246	CA/PL	FACTA Notice to Borrower has less than minimum information	2	0	1	3
247	CA/PL	Lender PPP Did not signed by Borrower	0	3	0	3
248	CA/PL	CA High Cost - HOC disc. < 3 days to closing	1	0	2	3
249	CA/PL	IL High Cost; prohibited mandatory arbitration clause	1	2	0	3
250	CA/PL	NC High Cost - balloon term	1	0	2	3
251	CA/PL	No Evidence of Net Tangible Benefit Worksheet in file	0	1	2	3
252	CA/PL	No tangible benefit to borrower	0	2	1	3
253	CA/PL	Prior Note info not in file - unable to evaluate flipping	1	2	0	3
254	CA/PL	KS Consumer	2	0	1	3
255	CA/PL	Prepayment penalty not allowed on partial prepay	0	2	1	3
256	CA/PL	Finance charge understated by more than \$100 (Fin Chg)	0	3	0	3
257	CA/PL	Transaction date unacknowledged	1	0	2	3
258	CRED	Alibi/it of Fair Market Value not signed by borrower(TX)	0	2	0	2
259	CRED	FNMA Application form is outdated version	1	2	0	3
260	CRED	Unassigned mortgage	0	2	1	3
261	CRED	Loan amount is below guidelines minimum	0	2	1	3
262	CRED	Loan subject to mandatory arbitration clause	0	1	2	3
263	CA/PL	Adjustable Rate Warning not timely provided	0	2	0	2
264	CA/PL	984050 - No Evidence of Counseling	0	0	2	2
265	CA/PL	Mandatory Arbitration Warning not in File	1	1	0	2
266	CA/PL	More than 4% of loan amount Points and Fees financed	1	1	0	2
267	CA/PL	TIL vs Sec32 Disc APR not w/ 0.125% tolerance (Reg)	1	1	0	2
268	CA/PL	Consumer Caution/Homeworkshop Counseling Notice date unk.	1	1	0	2
269	CA/PL	Consumer Caution/Homeworkshop Counseling Notice not in file	2	0	0	2
270	CA/PL	Minnesota loan	0	1	1	2
271	CA/PL	Unable to determine date of Borrower's Bill of Rights	1	1	0	2
272	CA/PL	Borrower's Disclosure missing or not executed	1	0	1	2
273	CA/PL	CA High Cost-Lender-to-lender ref	2	0	0	2
274	CA/PL	DC High-Cost Loan - Excluded by Client	1	1	0	2
275	CA/PL	DC covered - Red Flag Warning Disclosure Notice not in file	1	1	0	2
276	CA/PL	FL Notice to Purchasers or Assignees not in file	0	1	1	2
277	CA/PL	IL High Cost, late payment due < 15 days after due date	1	1	0	2
278	CA/PL	MA High Cost - Prohibited prepay penalty	0	2	0	2
279	CA/PL	NM Home Loan	0	1	1	2
280	CA/PL	NY High Cost - prohibited call provision	0	1	1	2
281	CA/PL	NY High Cost Disc. not executed by all title holders	0	2	0	2
282	CA/PL	Reasonable tangible net benefit not evident	0	1	1	2
283	CA/PL	SC High Cost	1	0	1	2
284	CA/PL	SC High-Cost Loan - Excluded by Client	1	0	1	2
285	CA/PL	Stated ltr unreasonable; unable to verify ability to prepay(TX)	0	2	0	2
286	CA/PL	Unable to verify Prior PPP for High Cost last	0	0	2	2
287	CA/PL	WI High Cost	0	0	2	2
288	CA/PL	WI High-Cost Loan - Excluded by Client	1	0	1	2
289	CA/PL	Grace Period not adequate	0	2	0	2
290	CA/PL	Prepayment penalty exercised within 90 days of rate increase	2	0	0	2
291	CA/PL	WI state	0	0	2	2
292	CA/PL	APR unknown or out of range	0	1	1	2
293	CA/PL	Acknowledgment of non-recession prior to expiration date	1	1	0	2
294	CA/PL	Balloon Payment Not Disclosed	2	0	0	2
295	CA/PL	Disc. content does not meet minimum requirements [226.16]	0	2	0	2
296	CA/PL	ROR notice does not include minimum information [226.23b3]	1	1	0	2
297	CA/PL	Security does not meet required disclosure content [TX]	0	1	1	2
298	CA/PL	TX 12-day disc date unknown; unable to verify lineitem(TX)	0	0	2	2
299	CRED	Consumer links exceed grade limits	0	0	2	2
300	CRED	Unexecuted Note	0	2	0	2
301	CRED	Risk Upgrade Not Justified/Verified	0	2	0	2
302	CRED	Adjustable Rate Warning not in File	1	0	0	2
303	CA/PL	Fees and Points excessive (max of 6% or adjustable higher)	1	0	0	1
304	CA/PL	Home Loan Counseling required (APR)	1	0	0	1
305	CA/PL	Home Loan Counseling required (Points/Fees)	1	0	0	1
306	CA/PL	Unable to determine date of prior refinancing	0	0	0	1
307	CA/PL	Disclosed total amount borrowed out of allowable tolerance	0	1	0	1
308	CA/PL	Loan made without regard to repayment ability	0	0	1	1
309	CA/PL	Sec32 Disc. Reg. Prei differs from TIL by more than \$.05	0	0	1	1
310	CA/PL	Sec32 Disc. content does not have minimum info [226.31c1]	0	0	0	1
311	CA/PL	Sec32 Disc. not executed by all title holders	0	0	1	1
312	CA/PL	Borrower Bill of Rights not provided 3 days application	0	0	1	1
313	CA/PL	Broker Agreement Date missing or not timely	0	1	0	1
314	CA/PL	Broker Agreement not in file	0	1	0	1
315	CA/PL	Broker Prepay Penalty Disclosure not in file	0	1	0	1
316	CA/PL	Closing statement/LLD-1 not provided to borrower	0	0	1	1
317	CA/PL	Consumer Caution/Homeworkshop Counseling Notice not timely	0	0	1	1
318	CA/PL	Final Truth-in-Lending not provided to borrower	0	0	1	1
319	CA/PL	ID - Loan exhibits violation of Federal Law	0	0	1	1
320	CA/PL	Lender Fee Disc date missing or not timely	0	1	0	1
321	CA/PL	Lender PPP Disc date missing or not timely	0	1	0	1
322	CA/PL	PA Covered Loan - Disclosure not provided	0	1	0	1
323	CA/PL	PA Covered Loan - Excluded by Client	0	1	0	1
324	CA/PL	1st Lien - Finance Charges exceed 5% of loan amount [CIT]	0	1	0	1
325	CA/PL	CA High Cost - Extended w/o regard to repayment ability	0	0	1	1
326	CA/PL	CA High Cost - Prepay Disc. provided < 3 days to closing	1	0	0	1
327	CA/PL	CO High Cost - Unable to verify prior high cost loan < 1 yr	1	0	0	1
328	CA/PL	CO High-Cost Loan - Excluded by Client	0	1	0	1
329	CA/PL	Consumer Caution Notice less than 10 days prior to closing	0	1	0	1
330	CA/PL	Documentation insufficient to support borrower's ability to prepay	1	0	0	1
331	CA/PL	FL Notice to Borrower < 3 business days before closing	0	0	1	1
332	CA/PL	FL disc. of prepay; penalty benefit < 3 days before close	1	0	0	1
333	CA/PL	Financial Counseling disc. not in file	0	1	0	1
334	CA/PL	High Cost loan; Inadequate Negative Equity [IL]	0	1	0	1
335	CA/PL	Lender financed more than 6% points and fees [IL]	1	0	0	1
336	CA/PL	MA High Cost Disc. < 3 days prior to consummation [MA]	0	0	1	1
337	CA/PL	MAP participation waived before required 2-day waiting [IL]	0	1	0	1
338	CA/PL	Missing Texas 1% Disclosure	1	0	0	1
339	CA/PL	NC High Cost - Prepaid/Fees financed by lender	1	0	0	1
340	CA/PL	NJ Notice to Borrower < 3 days before closing date	1	0	0	1
341	CA/PL		1	0	0	1
342	CA/PL		1	0	0	1

exception: date dump - rejects

	A	B	C	D	E	F	G
343	CMPL	State High Cost	NY High Cost - Unable to determine prior high cost home loan	0	0	1	1
344	CMPL	State High Cost	No evidence High Cost Disclosure provided to borrower. (CC)	1	0	0	1
345	CMPL	State High Cost	Orig bal < \$150k; prepayment penalty [MC BA 1149]	1	0	0	1
346	CMPL	State High Cost	Prohibited fee charged [WV]	1	0	0	1
347	CMPL	State High Cost	Refinancing without benefit to borrower [NC]	0	0	1	1
348	CMPL	State High Cost	Unable to determine date of prior refinance	0	1	0	1
349	CMPL	State High Cost	Unable to determine previous loan information	1	0	0	1
350	CMPL	State High Cost	WV 1st lien - Prepayment penalty limit > .36 months	0	1	0	1
351	CMPL	State Provisions	Late Charge percentage exceeds state limits	1	0	0	1
352	CMPL	TILA	Finance charge understated by more than .35 (Fin Chg)	0	1	0	1
353	CMPL	Texas Equity	TX Equity - Unable to determine date of prior loan	0	1	0	1
354	CMPL	Texas Equity	TX Equity - not extended by a "qualified home equity lender"	1	0	0	1
355	CMPL	Texas Equity	Voluntary Same-Lender Debt disclosure not provided to borrower	0	1	0	1
356	CRFD	Application	Borrower 2 SSN invalid - possible TIN	1	0	0	1
357	CRFD	Legal Docs	Blanket Mortgage	0	0	1	1
358	CRFD	Legal Docs	Misleading modification	0	0	1	1
359	CRFD	Legal Docs	Unrecorded modification	0	1	0	1
360	CRFD	Local Anti-Predatory	Potential Fraud Indicated	0	1	0	1
361	CRFD	Property	Escrow for Repairs - Not Released	1	0	0	1
362	CRFD	Terms / Guidelines	Subordinate loan less than required percentage of first mtg	0	1	0	1
363	FNMA	Fannie Map	Loan extended w/out regard to borrower's ability to pay	0	1	0	1
364	FNMA	Fannie Map	Loan is High Cost in AR	0	1	0	1







	A	B	C	D	E
1	<b>TOTAL LOANS NOT WAIVED FOR REASONING STATE</b>				
2					
3		Q2	Q3	Q4	
4	CR SCOPE	12996	17312	11580	
5	CM SCOPE	13015	17713	11622	
6	Total (any)	13015	17713	11624	
7					
8	<b>COMPLIANCE</b>				
9					
10	<b>LOANS COUNT FOR ALL WAIVED EXCEPTIONS</b>				
11	Category	Q2	Q3	Q4	
12	State Provisions	1	5	28	
13	State High Cost	0	8	3	
14	State Anti-Predatory	0	3	0	
15	Local Anti-Predatory	0	2	0	
16	TILA	0	2	0	
17	Texas Equity	0	0	2	
18					
19					
20					
21					
22	<b>CREDIT</b>				
23					
24	<b>LOANS COUNT FOR ALL WAIVED EXCEPTIONS</b>				
25	Category	Q2	Q3	Q4	
26	Terms / Guidelines	775	1521	1060	
27	Credit History	1019	954	690	
28	Appraisal	391	1074	731	
29	Assets	735	802	388	
30	Property	428	646	436	
31	Income / Employment	460	490	393	
32	Debt to Income	373	338	243	
33	LTV / CLTV	314	336	255	
34	Credit Score	136	132	125	
35	Legal Docs	70	134	102	
36	Title	34	55	59	
37	Application	36	44	28	
38	Fraud	6	14	7	
39	Client Specific	10	0	0	
40	Local Anti-Predatory	4	0	0	

CLAY-ABUDHABI-00012.0003  
 CONFIDENTIAL



	A	B	C	D	E	F	G	H
1	GROUP CATEGORIES BY EXCEPTION FOR EACH QUARTER							
2	includes all material exceptions WAIVED							
3								
4	GROUP	CATEGORY	EXCEPTION	Q2	Q3	Q4	Total 2006	
5	CRED	Appraisal	Value used by lender not supported	272	511	397	1180	
6	CRED	Assets	Cash reserves less than required	450	452	207	1109	
7	CRED	Terms / Guidelines	Loan characteristics do not match any available program	279	467	339	1085	
8	CRED	Credit History	Credit history insufficient for program/grade	381	206	101	688	
9	CRED	Appraisal	Missing review appraisal	26	398	219	643	
10	CRED	Terms / Guidelines	Ownership seasoning does not meet minimum per guidelines	112	300	182	594	
11	CRED	Assets	Assets are not sufficient to close	174	279	122	575	
12	CRED	Income / Employment	Income docs do not meet guidelines for grade/doc type	157	187	189	533	
13	CRED	Debt to Income	Debt Ratio > 55%	207	151	140	498	
14	CRED	Credit History	Less than 12 months mortgage/rental history	137	230	108	475	
15	CRED	Terms / Guidelines	Cash Out Amount Exceeds Guidelines	101	243	105	449	
16	CRED	Terms / Guidelines	Loan amount exceeds guideline maximum	75	210	142	427	
17	CRED	LTV / CLTV	LTV Exception 5% or Less	132	181	108	421	
18	CRED	Debt to Income	Debt Ratio Exception 5% or Less	153	175	91	419	
19	CRED	Credit Score	Credit score below minimum required for program/grade	136	132	124	392	
20	CRED	Terms / Guidelines	Lender to Lender Refinance	75	183	131	389	
21	CRED	Income / Employment	Stated income not reasonable	187	130	68	385	
22	CRED	Property	Property Type unacceptable under guidelines	86	153	105	344	
23	CRED	Credit History	VOM or VOR missing/required	89	170	68	327	
24	CRED	Credit History	Mortgage/Rental lates exceed grade limits	99	128	96	323	
25	CRED	Property	Property Issues indicated	89	127	97	313	
26	CRED	Assets	Asset docs do not meet guidelines for grade/doc type	111	69	57	237	
27	CRED	LTV / CLTV	LTV Exception =>10%	58	87	89	234	
28	CRED	Credit History	Missing credit report	166	23	44	233	
29	CRED	Terms / Guidelines	Seller contributions exceed guideline limit	97	44	91	232	
30	CRED	Property	Business use of subject property	92	71	55	218	
31	CRED	Property	Property Shows Significant Deferred Maint. or Repairs Needed	31	97	84	212	
32	CRED	Legal Docs	Modification: Terms of Note changed	43	100	65	208	
33	CRED	Credit History	Bail out: Mortgage >90-days delinquent at close	42	69	92	203	
34	CRED	LTV / CLTV	CLTV exceeds grade limit	97	37	40	174	
35	CRED	Property	Marketability Issues: decl. values	28	64	66	158	
36	CRED	Title	Unresolved title issue	33	54	58	145	

	A	B	C	D	E	F	G	H
37	CRED	Income / Employment	Length of Empl./Self-Empl. Does Not Meet Grade Guidelines	44	35	54	133	
38	CRED	Appraisal	Appraisal incomplete (missing map)	26	71	32	129	
39	CRED	Income / Employment	Disposable/Residual income is insufficient	14	65	40	119	
40	CRED	Property	Natural Disaster Area	78	40	1	119	
41	CRED	Income / Employment	Payment shock exceeds lender/investor guidelines	52	37	19	108	
42	CRED	Credit History	Collections	23	49	36	108	
43	CRED	Credit History	Bankruptcy History Not within Grade Guidelines	42	34	27	103	
44	CRED	Credit History	Missing support docs for VOM/VOR (e.g. cancelled checks)	0	0	85	85	
45	CRED	Legal Docs	Legal document incorrect or incomplete	19	27	33	79	
46	CRED	LTV / CLTV	LTV Exception >5% and <10%	18	27	27	72	
47	CRED	Terms / Guidelines	Loan did not improve borrower's situation	11	33	26	70	
48	CRED	Credit History	Foreclosure History Not within Grade Guidelines	19	29	21	69	
49	CRED	Property	Site >10 acres	17	40	12	69	
50	CRED	Appraisal	Quality of Appraisal Report Unacceptable	16	20	24	60	
51	CRED	Application	Application is incomplete	22	20	9	51	
52	CRED	Terms / Guidelines	Fixed income borrower on an ARM.	18	22	17	57	
53	CRED	Income / Employment	Missing verbal VOE required by guidelines	2	28	21	51	
54	CRED	Appraisal	Appraisal photos missing or inadequate for review	12	23	12	47	
55	CRED	Property	Missing HOA Certificate/Questionnaire	1	33	11	45	
56	CRED	Terms / Guidelines	Loan amount is below guideline minimum	7	16	14	37	
57	CRED	Debt to Income	Debt Ratio Exception >5% and <10%	12	11	12	35	
58	CRED	Appraisal	Completed "Subject To" w/o Compltn Cert in File	12	13	4	29	
59	CRED	Appraisal	Appraisal is stale dated without recertification in file	7	17	4	28	
60	CRED	Appraisal	Completion certificate form used is outdated	0	0	27	27	
61	CRED	Fraud	Potential Fraud Indicated	6	14	7	27	
62	CMPL	State Provisions	Prepayment penalty prohibited by state	0	0	24	24	
63	CRED	Appraisal	Appraisal dated after closing	12	7	5	24	
64	CRED	Application	Occupancy status not supported by file documentation	5	11	6	22	
65	CRED	Property	Property is legal non-conforming use w/o rebuild letter	3	15	3	21	
66	CRED	Credit History	Consumer lates exceed grade limits	5	9	5	19	
67	CRED	Appraisal	Appraisal form does not match property type	3	10	3	16	
68	CRED	Income / Employment	No Income Documentation	4	8	2	14	
69	CRED	Terms / Guidelines	Ability to repay not demonstrated	0	2	12	14	
70	CRED	Credit History	Credit report incomplete	10	2	1	13	
71	CRED	Application	FNMA Application form is outdated version	7	2	2	11	
72	CRED	Application	Application Not Signed	1	1	8	10	



	A	B	C	D	E	F	G	H
73	CRED	Client Specific	Client Credit Reject	10	0	0	10	
74	CRED	Credit History	Credit report was stale dated at closing	2	4	4	10	
75	CRED	Appraisal	Appraisal form version used is outdated	5	2	1	8	
76	CRED	Credit History	No evidence of required debt payoff	4	1	2	7	
77	CRED	LTV / CLTV	CLTV > 100%	5	3	0	8	
78	CRED	Application	Missing Permanent Resident card req'd by guidelines	1	5	1	7	
79	CRED	LTV / CLTV	LTV > 100%	4	1	1	6	
80	CRED	Legal Docs	Missing legal docs or HUD-1 for senior or subordinate loan	6	0	0	6	
81	CMPL	State Provisions	Late Charge exceeds state maximum	0	5	0	5	
82	CRED	Application	Borrower 2 SSN not disclosed in file	0	4	0	4	
83	CRED	Assets	Occupying borrower contribution to down payment insufficient	0	2	2	4	
84	CRED	Legal Docs	Missing copy of 1st lien Note (subject is 2nd lien)	0	3	1	4	
85	CRED	Local Anti-Predatory	Potential Fraud Indicated	4	0	0	4	
86	CRED	Property	Condition of Subject below average	1	2	1	4	
87	CMPL	State High Cost	NJ Home Loan	0	0	3	3	
88	CRED	Appraisal	Reduced appraisal form does not meet guidelines	0	2	1	3	
89	CRED	Property	Property Is Non-Conforming ILLEGAL use	1	2	0	3	
90	CMPL	State High Cost	Counseling Disclosure missing or not executed	0	2	0	2	
91	CMPL	State High Cost	High Cost Home Loan Disclosure lacks required information	0	2	0	2	
92	CMPL	State High Cost	IN High Cost	0	2	0	2	
93	CMPL	State High Cost	IN High-Cost Loan - Excluded by Client	0	2	0	2	
94	CMPL	State Provisions	Missing soft PPP language for L to L exclusion	0	0	2	2	
95	CMPL	State Provisions	Soft prepay penalty language for insurance exclusion missing	0	0	2	2	
96	CMPL	Texas Equity	TX 12-day disclosure not signed by borrower/owners [TX]	0	0	2	2	
97	CRED	Application	Borrower 1 SSN invalid - possible TIN	0	0	2	2	
98	CRED	Debt to Income	Debt Ratio Exception =>10%	1	1	0	2	
99	CRED	Legal Docs	Missing copy of 2nd lien Note (subject is 1st lien)	0	1	1	2	
100	CRED	Legal Docs	Missing subordination agreement for existing junior lien	0	1	1	2	
101	CRED	Property	Property value is less than minimum required by guidelines	0	2	0	2	
102	CRED	Property	Subject Property Has Subsidized Rental Income	1	0	1	2	
103	CRED	Terms / Guidelines	Missing lender's loan approval/underwriting form	0	1	1	2	
104	CRED	Title	No title evidence in file	1	0	1	2	
105	CMPL	Local Anti-Predatory	Cleveland Threshold Loan - Excluded by Client	0	1	0	1	
106	CMPL	Local Anti-Predatory	More than 4% of loan amount Points and Fees financed	0	1	0	1	
107	CMPL	State Anti-Predatory	Borrowers Bill of Rights not in file	0	1	0	1	
108	CMPL	State Anti-Predatory	Borrowers Bill of Rights not provided 3 days application	0	1	0	1	



	A	B	C	D	E	F	G	H
109	CMPL	State Anti-Predatory	Consumer Caution/Homeownership Counseling Notice not timely	0	1	0	1	
110	CMPL	State Provisions	KS Consumer	1	0	0	1	
111	CMPL	TILA	Funding Date on/before required rescission period [226.23c1]	0	1	0	1	
112	CMPL	TILA	Regular pmt loan; underdisclosed APR > 0.125% [226.18d1]	0	1	0	1	
113	CRED	Application	Application Missing	0	1	0	1	
114	CRED	Appraisal	Appraisal not dated	0	0	1	1	
115	CRED	Appraisal	Appraisal not signed	0	0	1	1	
116	CRED	Credit Score	Credit score not available	0	0	1	1	
117	CRED	Legal Docs	Balloon ARM - Payment calculation verbiage not correct	1	0	0	1	
118	CRED	Legal Docs	Missing Mortgage	1	0	0	1	
119	CRED	Legal Docs	Missing copy of 1st lien HUD-1 (subject is 2nd lien)	0	0	1	1	
120	CRED	Legal Docs	Missing modification	0	1	0	1	
121	CRED	Legal Docs	Unexecuted modification	0	1	0	1	
122	CRED	Title	Commitment/Preliminary title evidence missing	0	1	0	1	

# EXHIBIT D

CLAYTON

Morgan Stanley

## Trending Reports Executive Summary

**Introduction:**

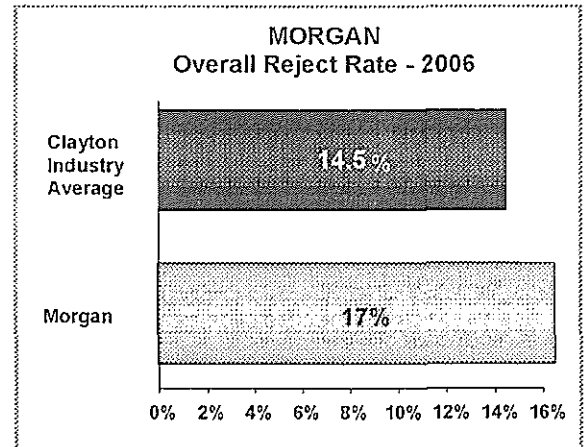
Clayton's Trending Reports comprise data and analysis on pools of loans we review on behalf of a client. In Morgan's case, these reports represent pools of loans Morgan asked us to review during 2006. This analysis covers Q2-Q4 of 2006 for Morgan Subprime transactions (MOR). Q1 2006 is not represented due to the fact that Morgan migrated to ET in that quarter and only a partial quarter of data is available. Trending can only be provided on ET deals.

**Rejects**

Morgan's overall reject rate in 2006 was 17%. This is slightly higher than the Clayton average of 14.5%. Of Morgan's top 5 clients\*, New Century has the highest overall reject rate at 26%, while Decision One has the lowest reject rate at 5%.

The largest single exception driving New Century rejects over this period is "Loan characteristics do not match any available program" which represented 2% of all exceptions in Q2, 4% of all exceptions in Q3, and 3% of all exceptions in Q4.

*In Morgan reviews, loans rejected for credit outweighed those rejected for compliance by almost 2 to 1.*

**Reject Categories**

Clayton aggregates exceptions into categories, to provide clients with higher level views of individual exceptions.

**Credit rejects**

The 5 most frequent credit category exceptions in Morgan reviews indicate a sharp increase in two categories: *Credit History*, which increased from 4.19% in Q2 to 5.95% in Q4, and *Terms and Guidelines*, again, increasing from 3.57% in Q2 to 5.95% in Q4. Many of these exceptions are driven by the guideline rejections in New Century reviews mentioned above. Other credit categories show a steady or downward trend.

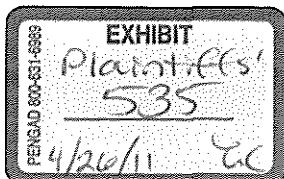
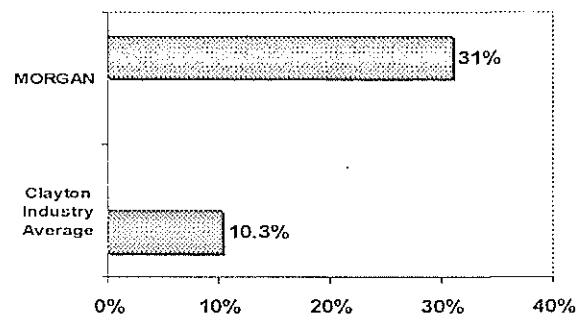
**Compliance rejects**

Overall, compliance rejects peaked sharply in Q3, then declined sharply in Q4. This is driven by a spike in missing HUD-1's in Q3 as well as issues related to MA Borrower Interest; Insufficient benefit calculated. These were primarily found in the New Century 0606 review.

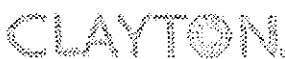
**Waivers**

Morgan waived, on average, 31% of the loans reviewed. This compares to the Clayton average of 10.3%. This could be due to the following factors:

- Morgan's Scope of review for Credit Requirements (i.e., Lender to Lender Refi's, Non-Arms Length Transactions, Layered Risk etc.)
- Morgan may elevate additional loans during the initial underwrite. (Clayton to look into Rate of Initial 3s for Morgan vs. Industry Average, i.e. value issues)







Morgan Stanley  
Trending Reports Executive Summary

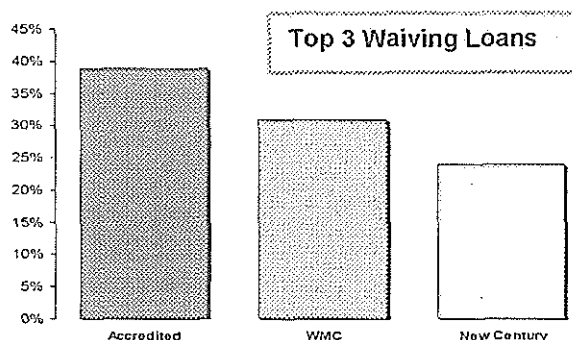
During this period, 64% of the exceptions Clayton identified as "material" were overturned by Morgan. Overall, Morgan waivers show a slight increasing trend through the end of 2006.

Accredited loans were approved by waiver in 39% of the loans reviewed, followed closely by WMC at 31% and New Century at 24%.

- Most frequent credit exceptions waived are below in chart.

Note: Of Morgan's top 5 clients\*, Decision One received the lowest waivers at 12%.

Credit waivers vastly outnumber compliance waivers.



**Credit waivers categories and exceptions**

Waivers for *Terms and Guideline* category issues rose sharply throughout the period. Issues related to credit history fell sharply between Q2 and Q3, and then remained steady.

The most consistently waived exception was *Value used by lender not supported* which was waived in about 8% of the loans reviewed. *Loan characteristics do not match any available program* was waived in about 7% of the loans.

Two exceptions, *Cash reserves less than required* and *Credit history insufficient for program/grade*, show significant decreases in waivers, moving from 14% and 12% respectively to 4% and 2%.

**Compliance waiver categories and exceptions**

Compliance issue waivers represent only a tiny portion of Morgan's waivers. The spike in Q4 is driven by waivers of *Prepayment penalty prohibited by state*, which all came from the Fremont 0611 deal.

- This was due to **Fremont** claiming the use of Federal Preemption (i.e. exporting of late fees)

**Exceptions with high waiver rates**

Certain exceptions have an **exceptionally high waiver rate**. Refining these exceptions or changing the default grade may streamline your reviews and reduce the workload of your transaction managers.

Exception description	# Clayton rejects	# final rejects	# final waivers	Waived as % of Clayton rejects
Value used by lender not supported	1296	116	1180	91%
Missing review appraisal	763	120	643	84%
Cash reserves less than required	1442	333	1109	77%
Ownership seasoning does not meet minimum per guidelines	797	203	594	75%
Credit history insufficient for program/grade	1004	316	688	69%
Assets are not sufficient to close	880	305	575	65%
Loan characteristics do not match any available program	1954	869	1085	56%

\*based on number of loans reviewed in Q2-4 of 2006.

# EXHIBIT E

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UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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ABU DHABI COMMERCIAL BANK, et al., )  
 Individually and On Behalf of All )  
 Others Similarly Situated, )  
 Plaintiffs, )

vs. ) CIVIL ACTION

MORGAN STANLEY & CO. INCORPORATED, ) NO. 1:08-CV-07508  
 ET AL., )  
 Defendants. )

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Videotaped Deposition of ANTON PETERSON,  
taken at 450 Lexington Avenue, New York,  
New York, commencing at 9:26 a.m., Tuesday,  
November 22, 2011, before Eileen Mulvenna,  
CSR, RMR, Notary Public

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1 mortgage loans, to my knowledge. 09:52:08

2 Q. What does that mean, the trading 09:52:12

3 desk? 09:52:13

4 A. They were the folks responsible for 09:52:14

5 making the decisions about purchase and exit of 09:52:16

6 subprime mortgage loans. 09:52:20

7 Q. Who did Mr. Telesca and Mr. Shapiro 09:52:24

8 report to during that time frame? 09:52:27

9 A. I don't know. 09:52:29

10 Q. What group was the trading desk in 09:52:36

11 at Morgan Stanley? 09:52:38

12 A. I don't recall. 09:52:40

13 Q. Was it in the same business unit as 09:52:47

14 the due diligence function? 09:52:48

15 A. I believe so. 09:52:51

16 Q. What was the name of the business 09:52:55

17 unit that you were in? 09:52:57

18 A. I believe we're part of securitized 09:53:01

19 products group, but I haven't looked at an org 09:53:03

20 chart in a long time. 09:53:06

21 Q. Was the valuation group also a part 09:53:11

22 of the securitized product group? 09:53:13

23 A. I believe so. 09:53:16

24 Q. Did the trading desk have a formal 09:53:20

25 name other than trading desk? 09:53:22

1 MR. BROOKS: Sure. 09:55:51

2 MR. RINGEL: Thank you. 09:55:51

3 A. I'm not familiar with the content of 09:55:52

4 the information they received as part of the 09:56:00

5 transaction process. 09:56:02

6 Q. Did you have regular communications 09:56:15

7 with Mr. Telesca and Mr. Shapiro? 09:56:16

8 A. Occasional communication, but 09:56:20

9 nothing that was on a regular schedule. 09:56:22

10 Q. You didn't have regular meetings 09:56:28

11 with Mr. Telesca or Mr. Shapiro? 09:56:30

12 A. No, I did not. 09:56:33

13 Q. Did you participate in regular 09:56:34

14 meetings with Mr. Telesca and Mr. Shapiro? 09:56:36

15 A. No. 09:56:38

16 Q. What was the contract finance team 09:57:20

17 at Morgan Stanley? 09:57:22

18 A. My understanding, it was a group of 09:57:25

19 employees who managed negotiation of the contract 09:57:27

20 terms between the companies that we were buying 09:57:32

21 pools of mortgage loans from. And they also 09:57:36

22 served a transaction management role, 09:57:38

23 coordinating all the parts of the transaction 09:57:40

24 that were taking place concurrently. 09:57:42

25 Q. Where were they located? 09:57:46

1 Q. Pan over, if you would, to Column 13:18:34  
2 FQ. And this column is "Credit Comments." 13:18:37  
3 And if you need to pan up in order 13:18:46  
4 to confirm that, go ahead. I'll represent to you 13:18:48  
5 that it's "Credit Comments." Tell me if you 13:18:52  
6 think differently. Okay? 13:18:54  
7 A. I don't think differently based on 13:18:56  
8 where it is in the report next to the grades. 13:18:57  
9 Q. And the credit comments are 13:18:59  
10 Clayton's comments; correct? 13:19:01  
11 A. I believe that's correct, yes. 13:19:05  
12 Q. And the comments are explaining why 13:19:06  
13 they graded the loan a 3; correct? 13:19:11  
14 MR. ROUHANDEH: Objection to form. 13:19:14  
15 A. These comments would explain 13:19:17  
16 guideline exceptions or potential risk issues 13:19:21  
17 that Clayton had identified or had documented per 13:19:23  
18 our instructions and would be the basis for why 13:19:27  
19 they then applied the grade of 3. 13:19:30  
20 Q. The comment here starts out -- it 13:19:36  
21 says, "Bailout exception." 13:19:39  
22 Do you see that? 13:19:42  
23 A. Yes. 13:19:42  
24 Q. What does that mean? 13:19:42  
25 A. This would indicate that this loan 13:19:43



1 was categorized as a bailout loan, which we 13:19:47  
2 talked about in the prior session. The 13:19:51  
3 additional comment that goes with that explains 13:19:52  
4 that the prior loan was 132 days past due when 13:19:54  
5 this loan was closed; that the notice of default 13:19:57  
6 had been filed and that the loan was in a 13:20:01  
7 Chapter 13 bankruptcy that was being paid off by 13:20:04  
8 this loan. The comment goes on to explain the 13:20:06  
9 borrowers had made the bankruptcy payments on 13:20:11  
10 time. 13:20:13  
11 Q. And there are two other issues 13:20:13  
12 identified; correct? 13:20:15  
13 A. There's a comment regarding a title 13:20:15  
14 issue from 1977 that was part of the Chapter 13. 13:20:18  
15 And then there's a comment regarding payment 13:20:21  
16 calculation verbiage in the balloon ARM section 13:20:24  
17 of the note. 13:20:28  
18 Q. And if you pan over to FR, these are 13:20:29  
19 the compensating factors that Clayton identified 13:20:37  
20 on the loan; correct? 13:20:39  
21 A. I believe so, based on what's 13:20:43  
22 described here. 13:20:44  
23 Q. And the first is that both had been 13:20:45  
24 employed by the County for 15 years; right? 13:20:49  
25 A. Yes. 13:20:53

1 Q. They had lived in the home for six 13:20:54  
2 years. That's the second one; right? 13:20:55  
3 A. Correct. 13:20:58  
4 Q. And the LTV was 58.39 percent? 13:20:58  
5 A. Correct. 13:21:03  
6 Q. And then pan over to FX. These are 13:21:04  
7 Morgan Stanley's comments; right? 13:21:10  
8 A. Yes. 13:21:11  
9 Q. And these comments indicate why 13:21:12  
10 Morgan Stanley changed the grade to a 2; correct? 13:21:14  
11 MR. ROUHANDEH: Objection to form. 13:21:21  
12 A. This explains why we decided to go 13:21:22  
13 ahead and accept this loan and apply a final 13:21:24  
14 grade of 2, yes. 13:21:26  
15 Q. The second-to-last sentence in that 13:21:36  
16 comment box reads, "Verbiage regarding balloon 13:21:40  
17 ARM payment calculation is incorrect. Credit 3." 13:21:43  
18 Do you see that? 13:21:46  
19 A. I do. 13:21:47  
20 Q. What does that mean? 13:21:47  
21 A. As I recall, when the 40-due-in-30 13:21:49  
22 product came on the market, lenders who were 13:21:58  
23 originating those loans did not make an 13:22:03  
24 adjustment to some of the ARM language on the ARM 13:22:05  
25 loans that discussed how the payment would be 13:22:08

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COUNTY OF NEW YORK )

I, Eileen Mulvenna, Notary Public  
within and for the State of New York, do hereby  
certify:

That I reported the proceedings in  
the within entitled matter, and that the within  
transcript is a true record of said proceedings.

I further certify that I am not  
related to any of the parties to the action by  
blood or marriage, and that I am in no way  
interested in the outcome of this matter.

IN WITNESS WHEREOF, I have hereunto  
set my hand this 9th day of December, 2011.



**Eileen Mulvenna, CSR/RMR**