ANNEX 1

STATEMENT OF FACTS

From May 2005 through 2007, Credit Suisse Securities (USA) LLC, itself and through certain of its U.S. affiliates (collectively, "Credit Suisse"), securitized hundreds of thousands of residential mortgage loans into residential mortgage-backed securities ("RMBS"). It sold these RMBS for tens of billions of dollars to investors. In marketing and selling its RMBS, Credit Suisse made numerous representations about the quality and characteristics of the underlying loans. These representations were made to RMBS investors and potential investors, ratings agencies, and others. As described below, in the diligence process, Credit Suisse repeatedly received information indicating that many of the loans reviewed did not conform to the representations that would be made by Credit Suisse to investors about the loans to be securitized.

I. Credit Suisse's RMBS Securitization Process

From May 2005 through 2007, Credit Suisse securitized and sold RMBS through both "third-party" and "principal" transactions. For third-party transactions, Credit Suisse served as an underwriter. In certain of those transactions, Credit Suisse served as the lead or co-lead underwriter. In that role, Credit Suisse, among other things, sold RMBS certificates to investors. For principal transactions, Credit Suisse acquired loans from numerous lending institutions, or "originators," and also originated loans to borrowers through mortgage brokers. For those principal transactions, it issued the RMBS itself, from its own inventory of loans.

For its principal RMBS transactions, Credit Suisse acquired the loans through two primary channels: (1) its "Bulk" channel, through which it purchased large pools of hundreds or thousands of loans bundled together from third-party originators, and (2) its "Conduit" channel,

through which it (a) purchased unbundled loans, or smaller pools of loans bundled together, from third-party originators, known as "Correspondent" and "Mini-bulk" loans, and (b) originated loans through mortgage brokers, known as "Wholesale" loans. The Bulk channel accounted for approximately 65-75 percent of the number of loans that Credit Suisse acquired from 2005 through 2007, whereas the Correspondent/Mini-bulk channels accounted for approximately 20-25 percent, and the Wholesale channel accounted for approximately 5-10 percent. Then, for each RMBS it issued, Credit Suisse selected which loans from its inventory would go into the RMBS, structured the RMBS transaction, securitized the loans under its own shelf registrations, and served as the sole underwriter, marketing and selling RMBS certificates to investors.

II. Credit Suisse's Representations to Investors

In connection with its RMBS offerings on principal transactions, Credit Suisse made representations about the loans it securitized. Those representations often varied from securitization to securitization. Credit Suisse made representations that, among other things:

1. The loans were originated generally in accordance with applicable underwriting guidelines, with exceptions to those guidelines being made when sufficient compensating factors were demonstrated by a prospective borrower.
2. For each loan, a determination had been made by the originator that the borrower had the ability to repay the monthly obligations on the loan and other debts.
3. Beginning in early 2006, Credit Suisse modified its representations in certain offering documents to state that each Correspondent loan was "in fact" originated in accordance with Credit Suisse's underwriting guidelines or guidelines that did not vary materially from such guidelines

and that Credit Suisse "employed . . . certain quality assurance procedures designed" to ensure that such loans were originated in accordance with the underwriting guidelines.

4. Each loan had been originated in compliance with all federal, state, and local laws and regulations, including all predatory and abusive lending laws.

5. For each loan, the adequacy of the mortgaged property as security for repayment generally had been determined by an appraisal in accordance with pre-established appraisal procedure guidelines for appraisals established by or acceptable to the originator.

6. The loans had various characteristics, including certain loan-to-value (LTV) ratios disclosed to the trustee in Mortgage Loan Schedules for each loan. The distribution of these LTVs in five- to ten-percent bands was also included in prospectus supplements. Other characteristics, such as borrower FICO scores, were disclosed as well. Credit Suisse represented to the trustee that these characteristics about the loans were complete, true, and correct for the loans as of the cut-off date for the securitization.

7. None of the loans had a loan-to-value ratio or, with respect to second lien mortgages, a combined loan-to-value ratio, in excess of 100 (i.e., none of the loans were "underwater").

8. Credit Suisse "will not include any mortgage loan in [the RMBS] if anything had come to [its] attention that would cause it to believe that the

> representations and warranties of a seller will not be accurate and complete in all material respects in respect of the related mortgage loan."

Credit Suisse also represented that if it later learned that any loan in an RMBS breached its representations in a material respect, it would cure the breach or repurchase or substitute that loan from the RMBS.

In various marketing materials, Credit Suisse made additional representations about the loans it securitized into RMBS, and its process for reviewing loans before it selected them for securitization. In these marketing materials, Credit Suisse told investors and others, among other things:

1. Credit Suisse conducted a "rigorous due diligence process" for reviewing loans.
2. All final loan decisions were made by Credit Suisse senior underwriters, not third-party contractors.
3. Credit Suisse conducted "quality control" reviews on its loans after purchasing or originating them.

As Credit Suisse employees discussed internally, Credit Suisse made these representations in order to "convince investors and insurers that [its] disciplined approach to underwriting [its] multi-layered origination process, and an eligibility matrix that utilize[d] a more layered risk view of performance will result in an acceptable level of delinquencies for [its] products."

III. Credit Suisse's RMBS Business

From May 2005 through 2007, Credit Suisse, and in particular the Co-Heads of Credit Suisse's Structured Products Group (the primary group within Credit Suisse that securitized and sold RMBS), attempted to increase the volume of loans Credit Suisse acquired, to increase how

many RMBS it could securitize and sell. For example, in September 2006, two senior Credit Suisse traders wrote emails to the Co-Head of the Structured Products Group and others about an RMBS that Credit Suisse had securitized and sold to investors several months earlier. The senior traders reported that a number of the loans had gone delinquent or into foreclosure within a few months after Credit Suisse sold the RMBS to investors. The Co-Head of the Structured Products Group responded, "Of course we would like higher quality loans. That's never been the identity of our conduit, and we're becoming less and less competitive in that space." Around the same time, one of the senior traders described his situation in a Bloomberg message: "I figure I could just capitulate . . . and keep buying all [these] crappy loans, but that would be suicide. And we still have almost $2.5B of conduit garbage to still distribute."

In October 2005, Credit Suisse's Head of Credit and Underwriting wrote to two senior Credit Suisse traders and others, "We are selling and securitizing loans with missing docs all the time through the other desks." (Missing documents included borrower credit reports, verifications of borrower income and assets, property appraisals, and legal compliance documents such as HUD-1 statements and Truth in Lending Act disclosures.) The Head of Credit and Underwriting continued, "It only becomes an issue when we are asked to repurchase the loan or we receive a complaint from a customer."

In April 2007, Credit Suisse's Co-Head of Transaction Management wrote to the Head of Credit and Underwriting and two senior traders that loans with potential defects "pile up in inventory and they won't be put back to originators (we are disproportionately the originator). So my theory is: we own the risk 1 way or another. I don't want to securitize loans that are obviously Section 32 cost, Georgia Fair Lending disasters with unlimited assignee liability and criminal sanctions. But I am inclined to securitize loans that are close calls or marginally non-

compliant, and take the risk that we'll have to repurchase, if we can't put them back, rather than adding to sludge in inventory. I think when we review the first monthly report, we'll see how it shakes out in actual practice." One of the senior traders responded, "Agree."

IV. Credit Suisse's Credit and Compliance Review of Bulk Loans

Credit Suisse conducted due diligence to review Bulk loans that it sought to acquire for securitization. This included reviewing (1) whether loans complied with underwriting guidelines or possessed sufficient compensating factors to warrant a deviation from the guidelines, including with respect to whether borrowers had the ability to repay their loans (known as a "credit" review) and (2) whether loans complied with applicable federal, state, and local laws and regulations (known as a "compliance" review).

Credit Suisse contracted with third-party due diligence vendors to review loans. Credit Suisse typically conducted this due diligence by selecting a sample of loans—a portion of loans from a given Bulk pool—and sending only that sample of loans to its vendors for review, rather than reviewing all of the loans in the pool.

For each sampled loan reviewed, the due diligence vendor assigned a separate grade for "credit" and for "compliance." In general, the vendor graded a loan "EV1" when the loan was underwritten according to the applicable underwriting guidelines and originated in compliance with applicable laws; "EV2" when the loan did not comply with applicable underwriting guidelines but where the loan had sufficient compensating factors warranting an exception to the underwriting guidelines; or "EV3" when the loan was not originated in compliance with applicable laws and regulations, the loan did not comply with applicable underwriting guidelines and lacked sufficient compensating factors, the loan file was missing a key piece of documentation, or Credit Suisse occasionally otherwise instructed the vendor to mark the loan EV3. From May 2005 through 2007, Credit Suisse's due diligence vendors provided Credit

Suisse reports reflecting that, for certain loan pools, the vendors had graded many of the sampled loans as EV3. In many cases, Credit Suisse purchased these loans and securitized them into RMBS.

In addition, Credit Suisse purchased certain pools of loans containing loans it did not sample without subjecting the unsampled loans to any credit or compliance review. Credit Suisse recognized that when its vendors' reports showed that many of the sampled loans had been graded as EV3, the unsampled loans likely included loans that had not been originated in compliance with the applicable underwriting guidelines and lacked sufficient compensating factors, and/or were not originated in compliance with applicable laws. As a Credit Suisse due diligence employee stated in an email, "I would imagine that the unsampled loans would exhibit similar characteristics to the sampled population." Credit Suisse nevertheless approved these unsampled loans even though those loans might have had a similar rate of credit or compliance defects as the loans Credit Suisse did sample.

Credit Suisse told investors and ratings agencies that it used a proprietary risk analysis model in its sampling process to identify high-risk loans in Bulk pools. The purpose of this model was to flag these high-risk loans for inclusion in due diligence samples. In many instances, however, Credit Suisse excluded loans that its own model had flagged as high risk from its samples. Through this practice, Credit Suisse approved some of these flagged loans without any credit or compliance due diligence review. Credit Suisse did not disclose this practice to investors.

<u>Examples:</u>

1. In December 2006, Credit Suisse bid on a Bulk pool of approximately 10,000 loans originated by Countrywide Home Loans ("Countrywide"). Before the bid, the senior Credit Suisse trader bidding on the pool wrote in an email, "Amazing that 8% of the pool is

already delinquent after 10 months, when a large part of it is Jumbo A!!!" He stated that the pool was "obviously plugged with the worst of paper." The senior trader then bid to purchase this pool and, when he was informed that Credit Suisse was the winning bidder, wrote in an email, "I'm ecstatic" with this trade.

Credit Suisse selected fewer than 10 percent of these loans for due diligence review. Reports from Credit Suisse's due diligence vendors showed that approximately 85 percent of the loans in this sample violated Countrywide's underwriting guidelines and/or applicable law. These loans included, for example, loans whose borrowers had debt-to-income ratios that were more than 10 percent higher than the amount allowed by underwriting guidelines; loans that were missing appraisal documentation; and loans flagged for "potential fraud." The Credit Suisse due diligence manager overseeing this review reported that Credit Suisse's vendor "has found a number of guideline exceptions (fico score exceptions, LTV [loan-to-value] exceptions, Program exceptions)[.] However I am not rejecting for these items." The Co-Head of Credit Suisse's Transaction Management department, wrote to the due diligence manager, "Thanks for working thru this mess. If it helps, it looks like we will make a killing on this trade."

Credit Suisse securitized over half of these loans into various RMBS it then sold to investors. Credit Suisse additionally securitized an additional $1.5 billion worth of unsampled—and therefore unreviewed—loans from this pool into various RMBS it then sold to investors.

2. In October 2005, Credit Suisse bid on a Bulk pool of approximately 4,000 loans from Wells Fargo Bank. Credit Suisse's risk analysis model flagged approximately 2,900 loans in the pool for heightened due diligence due to their risks. Among other things, Credit Suisse's risk analysis model estimated that approximately 2,000 loans in this pool had a greater-than-5 percent likelihood that the borrowers would miss three or more monthly payments in a row

within their first twelve months and flagged these loans for heightened due diligence. Credit Suisse represented to ratings agencies, "To choose the sample from the Wells pool, the loans first were run through our proprietary due diligence sampling model, which identifies loans for review based on credit characteristics, compliance (via location of subject loan), and soft market / fraud areas. Those chosen for full credit and compliance review consisted generally of those loans which the model found displaying the most risky characteristics."

But Credit Suisse wrote to Wells Fargo that "We are working to reduce this due diligence sample" and "We have worked to reduce this sample further," and sent its vendor a list of over 1,500 loans—over 58 percent of its sample—with the instructions "REMOVE from sample." Over 2,900 of the loans in this pool were flagged by its model, but Credit Suisse excluded approximately 60 percent from the due diligence sample it sent to its vendor. Credit Suisse's Head of Credit and Underwriting wrote in an email that these removed loans "would not receive a credit, compliance and in-file appraisal review[.]"

Credit Suisse's vendor reported to Credit Suisse that more than 10 percent of this reduced sample violated underwriting guidelines and/or applicable law. These loans included, for example, loans that lacked documented compliance with predatory lending laws; loans made to borrowers who had gone delinquent on prior mortgages, in violation of underwriting guidelines; and loans whose borrowers had higher debt-to-income ratios than allowed by underwriting guidelines, including one loan to a borrower whose monthly mortgage payment was over one-and-a-half times her entire monthly income. Despite these results, Credit Suisse did not expand its credit and compliance reviews to the rest of the loan pool as a whole, or even to the remaining loans that its risk analysis model had flagged. Instead, it approved the unsampled loans without

any credit or compliance due diligence, closed on its purchase of this pool, and securitized these loans into various RMBS it then sold to investors.

V. Credit Suisse's Credit and Compliance Review of Conduit Loans

Credit Suisse did not review Conduit loans in the same way that it reviewed Bulk loans. Instead of using its Bulk due diligence vendors, Credit Suisse contracted with different third-party vendors known as "fulfillment centers" to conduct this review. Credit Suisse designed the Conduit such that these fulfillment centers had the ability and authority to approve loans for purchase. When fulfillment centers approved loans, Credit or Underwriting employees rarely reviewed the loans or the approvals.

Credit Suisse represented to investors, ratings agencies, and others, that "Credit Suisse senior underwriters make final loan decisions, not contracted due diligence firms." For Conduit loans, these representations were false. As Credit Suisse employees discussed in internal emails, the loan review and approval process for Conduit loans was "virtually unmonitored." Fulfillment centers often cleared loans that were not subsequently reviewed by Credit Suisse senior underwriters prior to Credit Suisse purchasing the loans.

Internal Credit Suisse emails and reports discussed problems with the fulfillment centers. A September 2004 audit by Credit Suisse's audit department gave the Conduit a C rating on an A-D scale (the second worst possible rating) and a level 4 materiality score on a 1-4 scale (the highest possible score). That audit found, among other things, "loan appraisals [that were] not being compared to external sources for reasonableness as required; and approval of loans that did not have all of the required documentation (second appraisal/AVM) as prescribed in the Underwriting Guidelines." A March 2006 evaluation by Credit Suisse of one of its fulfillment centers similarly reported that "There are serious concerns as to compliance[.]" A senior Credit Suisse trader described the Conduit in a November 2006 email: "we make these underwriting

exceptions and then we have liability down the road when the loans go bad and people point out that we violated our own guidelines. . . . The fulfillment process is a joke."

As certain Credit Suisse employees were aware, Credit Suisse's contract with one of its fulfillment centers provided that it would pay the fulfillment center a fee for every loan the fulfillment center approved, but would reduce its fee for every loan the fulfillment center rejected. With respect to its other fulfillment center, the Credit Suisse employee in charge of overseeing the fulfillment centers wrote in a December 2006 email, "They make NO money if they don't hit the funded loan count with CS. Fund is there [sic] #1 priority to make revenue each month."

<u>Example:</u>

From May 2005 through 2007, Credit Suisse's fulfillment centers approved over $700 million worth of loans originated by Resource Bank. As early as the beginning of 2005, Credit Suisse received reports that Resource Bank should be placed on "Fraud Watch" and that a "higher percentage of [its] loans be reviewed . . . to monitor their ongoing loan quality." In 2006, Resource Bank was repeatedly identified in internal reports as being one of the top five originators cited for fraud. Credit Suisse employees, including two senior traders, discussed Resource Bank internally in emails, referring to Resource Bank loans as "complete crap" and "[u]tter complete garbage." One of the traders informed the Co-Heads of the Structured Products Group and others that "Resource Bank is the biggest culprit and our worst performer" in terms of delivering high combined loan-to-value (CLTV) loans, which "[are] performing progressively worse each quarter and [] rife with fraud."

Despite these concerns, Credit Suisse continued to buy loans from Resource Bank throughout the rest of 2005, 2006, and 2007, although Credit Suisse's purchases declined 23 percent from 2005 to 2006 and a further 82 percent from 2006 to 2007. During this same period,

the Head of Client Management noted that Resource Bank's repurchase obligations to Credit Suisse were "at an alarming level." Despite that fact, Credit Suisse provided Resource Bank with financial "incentives" in exchange for loan volume.

Credit Suisse securitized Resource Bank loans into various RMBS it then sold to investors.

VI. Credit Suisse's Valuation Review of Loans

Credit Suisse reported property values in its offering documents, as part of a ratio called the loan-to-value (LTV) ratio. This ratio reflected the size of a loan compared to the "value" of the underlying property. For purchase transactions, the "value" was established by using the lower of the appraisal or the purchase price at the time of origination. For refinance transactions, the value was established by an appraisal.

Credit Suisse conducted valuation review to check the appraisals. This valuation review was intended in part to determine whether the property's value was adequate to secure the loan. For this valuation review, Credit Suisse used methods such as automated valuation models (AVMs), broker price opinions (BPOs), and desk reviews. As with its credit and compliance reviews, Credit Suisse contracted with third-party vendors to perform this review.

To check whether the reported appraised values were sufficiently supported, Credit Suisse used thresholds or "tolerances." Credit Suisse instructed its vendors not to flag loans where the vendor determined the value of the property to be within a certain percentage or "tolerance" less than the appraisal. Even in cases where the loan was out of tolerance, Credit Suisse would not necessarily reject the loan. Rather, Credit Suisse would sometimes subject the loan to further review. If the vendor's initial valuation data had been derived from an AVM, Credit Suisse typically would not reject the loan for being out of tolerance without ordering a BPO (which was a more reliable indicator of property value than an AVM) to confirm whether

the AVM was reliable. If the BPO was then within the tolerance, Credit Suisse would accept the loan.

During this period, Credit Suisse employees were aware that the LTVs may have been calculated using appraisals with values that were inflated, and that Credit Suisse's approach could lead to the acceptance of inflated appraisals. As Credit Suisse's Head of Credit and Underwriting wrote in a November 2006 email, "originators can get away with potential appraisal inflation as long as it stays within 15%."

Credit Suisse employees expressed concern that loans with inflated appraisals were being approved as within its tolerances. For example, in August 2006, Credit Suisse's Head of Credit and Underwriting emailed two Credit Suisse senior traders in connection with loans Credit Suisse was buying from Accredited Home Lenders. He wrote, "20+% of their loans have value issues > 20% off – that is unheard of. [Accredited] is acknowledging that their values are inflated. There should be a 0% variance from an originator[']s standpoint. [Accredited] is saying that [it] knows and is okay with [its] values being off by up to 15%. Some would say this is predatory and criminal. How would investors react if we say that 20% of the pool have values off by 15%? If we are comfortable buying these loans, we should be comfortable telling investors."

From May 2005 through 2007, Credit Suisse received reports from vendors that it might have been acquiring and securitizing loans with inflated appraisals. During this period, despite those reports, Credit Suisse chose to continue to apply a 10-15 percent tolerance. In early 2007, Credit Suisse's Head of Credit and Underwriting wrote an email proposing to tighten Credit Suisse's variance "tolerances" to 10 percent for loans with LTVs below 75, and to 5 percent for loans with LTVs above 75, to "address the issue of inflated appraisal values and one of the issues

that create the high severity numbers we are seeing today." His boss, the Head of the Conduit group, responded in an email by writing, "I'd like to see what % of our current production would be effected [sic] by the new guidelines versus the old guidelines. Also would like to see statistics on BPO variances over the last 6 months and values we ultimately used. I'm trying to gauge the volume impact and level of customer interaction that will be required with these changes." Credit Suisse's internal analysis showed that 30-40 percent of the loans it reviewed and approved in the prior six months would have been rejected if it had used a 5 percent tolerance. Credit Suisse then did not implement any tolerance changes for two months. It then reduced tolerances only for loans with LTVs over 90 to 10 percent, but still left other tolerances at 15 percent.

VII. Credit Suisse's Whole Loan Business

On occasion, Credit Suisse sold pools of mortgage loans to other banks. Unlike RMBS investors, which generally were, as a practical matter, not able to conduct due diligence on the loans being securitized, these other banks conducted their own due diligence on the Credit Suisse loans before buying them. Those other banks found that loans that Credit Suisse marketed for sale violated underwriting guidelines or applicable law and refused to buy them.

Credit Suisse employees discussed these rejections by other banks. For example, in October 2006, a senior Credit Suisse trader, wrote to the Co-Head of Credit Suisse's Structured Products Group, "Our fulfillment process is a major problem. [The other bank] again came back with an embarrassing number of diligence kicks this month. You'll remember that last month they pointed out the loan file with 3 different applications, with 3 different stated incomes (amazingly, not the first time this has happened). This month's kicks include an employment verification kickout where the borrower never had a job, but rather had a letter stating his intent to get a job. Another employment verification kick where the employment letter stated the borrowers' employment would be terminated in July. Another kick where the borrower had

large deposits used to meet reserve requirements but no one could verify the source of funds. You get the idea. The point is that [that bank] is (a) our best customer (b) only scratches the surface of our conduit via a 20% sample. If their results are in any way representative of our compliance with our reps and warrants, we have major problems." But rather than holding those loans in its own inventory, Credit Suisse securitized certain of these loans into its RMBS.

<u>Examples:</u>

1. In or about July 2006, Credit Suisse attempted to sell a pool of loans to another bank. That bank rejected a number of the loans for violating underwriting guidelines. These rejected loans included, for example, a loan where the borrower had listed "2 completely different stated income amounts" on different parts of his/her loan application; a loan where the borrower's asset verification consisted of "altered (blacked-out) bank statements"; and a loan where the borrower had debts greater than 10 percent of the balance of the loan. The Credit Suisse Credit and Underwriting department reviewed these rejections and agreed that "[a]ll loan exceptions are outside of CS guidelines." Less than three weeks later, Credit Suisse securitized 11 out of 13 of those loans (including all of the examples listed above).

2. In or about January 2007, Credit Suisse attempted to sell a pool of loans to another bank. That bank rejected a number of the loans for being outside of Credit Suisse's underwriting guidelines. These loans included, for example, a loan for which an AVM reported that the property was worth approximately $140,000 and the BPO was $440,000 and within Credit Suisse's tolerances but where the "final market value" was more than $500,000 based on an appraisal with "seemingly incongruent selection of comparables, questionable comparable proximity, and possibly overstated adjustments"; a loan to a borrower whose credit score was "sub prime" at 603, which was below Credit Suisse's minimum requirement of 620 under its underwriting guidelines; a loan to a borrower with a "[m]inimal assets profile" who claimed two

job titles and different dates of employment in different parts of his loan application; and a loan to a borrower who stated two different incomes on different parts of his application, where Credit Suisse expressly noted that borrower's income "double[d] $10,000 to $27,500. . . . It appears income was increased to compensate for max DTI [debt-to-income]." The Credit Suisse Credit and Underwriting department reviewed these rejections and agreed that these loans were outside of Credit Suisse's underwriting guidelines. Less than two weeks later, Credit Suisse securitized 45 out of 48 of these loans (including all of the examples listed above).

VIII. Credit Suisse's Quality Control

Credit Suisse informed various investors and ratings agencies that it conducted a "quality control" review on a 3-5 percent sample of the loans it acquired for securitization. Credit Suisse contracted with vendors to provide it with quality control (QC) reports on a monthly basis. From May 2005 through 2007, Credit Suisse's vendors reported, overall, that more than 25 percent of the loans that they reviewed for quality control were designated "ineligible" because of credit, compliance, and/or property defects.

Credit Suisse employees observed in emails that the quality control results showed problems with the loans. A senior Credit Suisse trader wrote in a January 2007 email to one of the Co-Heads of the Structured Products Group, regarding Correspondent channel loans, "when we have a competent QC firm do an underwriting review, they flag all kinds of errors that our fullfillment [sic] centers did not catch. Moreover, our very own underwriting group agrees with the QC firm rather than our fullfillment [sic] center. I think a lot of the problems stem from the fact that our conduit and underwriting group send mixed messages. One [sic] on the one hand they profess horror that our deals are defaulting like banana republics, but on the other hand every time we try to tighten up our underwriting processes they push back claiming it makes us uncompetitive. Here are our takeaways: 1) Our fullfillment [sic] process is broken. Either they

don't know how to do their jobs, or they don't report defects because the conduit doesn't want them to create waves. 2) Our underwriting group needs independence. 3) Our conduit needs to spend less time marketing to sales, and more time looking at the gross operation defects of our business."

In emails, Credit Suisse's Co-Head of Transaction Management expressed concern that the quality control results could serve as a written record of defects, and sought to avoid documented confirmation of these defects. As Credit Suisse's Co-Head of Transaction Management wrote in a January 2007 email, "I am concerned that we have so many piecemeal QC/DD processes, internally and externally, that some of these reports could serve as no more than a written record of some potential defect that would require a repurchase [of loans] from a [RMBS] deal, but we do not have sufficient resources to verify the information or complete the repurchase. This is one of the concerns we've always had w/ [our vendor]'s role in the deals – we want to leverage your resources to improve the performance of our deals and improve our business, but not receive so much haphazard information that we do no more than create a record of potential problems."

In March 2007, several Credit Suisse employees, including the Co-Head of Transaction Management and the Head of Credit and Underwriting, discussed altering Credit Suisse's quality control process to focus primarily on loans that, in the event of a breach of representations and warranties, Credit Suisse could "put back" to a third-party originator. Under this altered approach, Credit Suisse would generally exclude from the quality control review any loans that Credit Suisse could not "put back" to other parties. This approach would exclude Wholesale loans, which Credit Suisse itself originated. The Co-Head of Transaction Management wrote in an email that this change was to "avoid the previous approach by which a lot of loans were QC'd

regardless of opportunity for put-back and lots of negative results were emailed to PBG [put-back group] but not widely seen, creating a record of possible rep/warrant breaches in deals but, I think, resulting in few if any put-backs to sellers other than for EPD [early payment default]." In May 2007, the Co-Head of the Structured Products Group, and others met with the Co-Head of Transaction Management and the Head of Credit and Underwriting to discuss implementing this reduction of quality control review.

<u>Examples:</u>

1. In May 2007, a Credit Suisse Servicing and Oversight employee identified two Wholesale loans "we will be taking a beating on due to value." The Servicing and Oversight employee wrote, "I would think that we would want to see loans like these that seem to represent confirmed problems, especially on our own originations. Why do we have an appraisal watch list and broker oversight group if we aren't going to review the bad ones and take action appropriately? Perhaps if a pattern is seen through these referrals the sampling can be tweaked in a more productive direction. I also provide a monthly list attached but frankly if qc doesn't think it adds any value then I'll stop or they can just go on ignoring them. I just see so many of these cross my desk, fraud, value, etc., it's hard to just let them go by and not do something." Credit Suisse's Co-Head of Transaction Management wrote in an email in response, "I think the idea is that we don't want to spend a lot of $ to generate a lot of QC results that give us no recourse anyway but generate a lot of negative data, so no need to order QC on each of these loans. Rather, we want to perform 'QC' based on predetermined sampling criteria to identify corrective issues . . . to follow up with the FCs [fulfillment centers], and 'Loss Mit[igation]' for targeted recourse opportunities. We just need to figure out how to fold in your findings into the QC reporting." The Servicing and Oversight employee forwarded that response to several colleagues, writing, "i think the lack of interest in bad loans is scary."

2. In June 2007, a Credit Suisse Underwriting employee identified 44 loans from Wholesale (i.e., originated by Credit Suisse itself) that had gone 60 days delinquent. Credit Suisse's Co-Head of Transaction Management wrote in response:

> As we've been discussing for a few months, in my opinion, if we already know: that the loans aren't performing, all of the characteristics of the loans, who the brokers were, the FC [fulfillment center], the individuals who underwrote the loans etc, the only thing QC will tell us is that there were compliance errors, occupancy misreps etc. I think we already know we have systemic problems in FC/UW [fulfillment centers/underwriting] re both compliance and credit.
>
> The downside of QC'ing these 44 loans is, after we get the QC results, we will be obligated to repurchase a fair chunk of the loans from deals, assuming the loans are securitized and the QC results look like the QC we've done in the past. So based on a wholesale QC historical fail rate of over 35% (major rep defects), the avg bal of wholesale loans and the loss severities, it is reasonable to expect this QC may cost us a few million dollars.

Credit Suisse did not inform investors or ratings agencies that its Wholesale loan channel had a "QC historical fail rate of over 35% (major rep defects)."