

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

FEDERAL HOUSING FINANCE AGENCY,
AS CONSERVATOR FOR THE FEDERAL
HOME LOAN MORTGAGE
CORPORATION,

Plaintiff,

-against-

GENERAL ELECTRIC COMPANY;
GENERAL ELECTRIC CAPITAL
SERVICES, INC. d/b/a GE CONSUMER
FINANCE or GE MONEY; GE MORTGAGE
HOLDING, L.L.C., GE-WMC SECURITIES,
L.L.C., MORGAN STANLEY & CO., INC.,
and CREDIT SUISSE SECURITIES (USA)
LLC f/k/a CREDIT SUISSE FIRST BOSTON
LLC,

Defendants.

Index No. _____

Date Purchased:

Plaintiff designates New York
County as the place of trial

The basis of venue is the
residence of one or more of the
parties pursuant to CPLR §503

SUMMONS

TO THE ABOVE NAMED DEFENDANTS:

YOU ARE HEREBY SUMMONED to answer the Complaint in this action and to serve a copy of your answer, or if the Complaint is not served with this summons, to serve a notice of appearance on Plaintiffs' attorneys within 20 days after the service of this summons, exclusive of the day of service (or within 30 days after the service is complete if this summons is not personally delivered to you within the State of New York); and in the case of your failure to appear or answer, judgment will be taken against you by default for the relief demanded in the Complaint.

DATED: New York, New York
September 2, 2011

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& FRIEDMAN LLP

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Mortgage Corporation*

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COMPLAINT

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Plaintiff Federal Housing Finance Agency (“Plaintiff” or “FHFA”), as Conservator of the Federal Home Loan Mortgage Corporation (“Freddie Mac”), by its attorneys, Kasowitz, Benson, Torres & Friedman LLP, for its Complaint against the defendants named herein (the “Defendants”), alleges as follows:

NATURE OF ACTION

1. This action arises from false and misleading statements and omissions in registration statements, prospectuses, and other offering materials pursuant to which certain residential mortgage-backed securities (“RMBS”) were purchased by Freddie Mac. Among other things, these documents falsely represented that the mortgage loans underlying the RMBS complied with certain underwriting guidelines and standards, and presented a false picture of the characteristics and riskiness of those loans. These representations were material to Freddie Mac, as they would have been to any reasonable investor, and their falsity violates Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, 15 U.S.C. § 77a *et seq.* (the “Securities Act”), as well as Sections 13.1-522(A)(ii) and 13.1-522(C) of the Virginia Code (the “Virginia Securities Act”). Freddie Mac justifiably relied on Defendants’ misrepresentations and omissions of material fact to their detriment. In addition to their strict statutory liability under federal securities law, Defendants’ statements and omissions give rise to liability under state common law principles.

2. Between September 28, 2005 and December 19, 2005, Freddie Mac purchased over \$549 million in RMBS (the “Certificates”) issued in connection with 2 securitizations (the

“Securitized”) in which GE-affiliated entities played crucial roles, along with certain underwriters.¹

3. The Certificates were offered for sale pursuant to a shelf registration statement (the “Shelf Registration Statement”) filed with the Securities and Exchange Commission (the “SEC”) by a GE special purpose vehicle. For each of the Securitized, the Certificates were sold to Freddie Mac pursuant to a prospectus (“Prospectus”) and prospectus supplement (“Prospectus Supplement”) that was filed with the SEC as part of the Registration Statement for that Securitized.² The Certificates were marketed and sold to Freddie Mac pursuant to the Registration Statement.

4. The Registration Statement contained representations concerning, among other things, the characteristics and credit quality of the mortgage loans underlying the Securitized, the creditworthiness of the borrowers on those underlying mortgage loans, and the origination and underwriting practices used to make and approve the loans. Such representations were material to a reasonable investor’s decision to invest in the Certificates, and they were material to Freddie Mac. Unbeknownst to Freddie Mac, those representations were false because, among other reasons, material percentages of the underlying mortgage loans were not originated in accordance with the represented underwriting standards and origination practices, and did not have the credit and other characteristics set forth in the Registration Statement.

¹ For purposes of this Complaint, the securities issued under the Registration Statement (as defined in note 2, *infra*) are referred to as “Certificates.” Holders of Certificates are referred to as “Certificateholders.”

² The term “Registration Statement” as used herein incorporates the Shelf Registration Statement, the Prospectus and the Prospectus Supplement for each referenced Securitized, except where otherwise indicated.

5. Among other misrepresentations, the Registration Statement falsely represented that WMC Mortgage Corporation – the mortgage loan originator who originated all of the loans that serve as collateral for the Certificates sold to Freddie Mac – adhered to its loan origination guidelines except in specified circumstances. In fact, the guidelines systematically were disregarded.

6. The Registration Statement also set forth for each Securitization statistical summaries of the characteristics of the underlying mortgage loans, such as the percentage of loans secured by owner-occupied properties and the percentage of the loan group’s aggregate principal balance with loan-to-value ratios within specified ranges. This information was material to reasonable investors, and it was material to Freddie Mac. However, a loan-level analysis of a statistically significant sample of loans for each Securitization—approximately one thousand mortgages for each Securitization—has revealed that the statistical summaries were false and misleading. The statistics reflected or were based upon misrepresentations of key characteristics of the mortgage loans and inflated property values.

7. The Prospectus Supplements also misrepresented several risk factors that are material to purchasers of Certificates such as Freddie Mac. For example, the percentage of owner-occupied properties in the loan pool underlying a RMBS is a material risk factor because a borrower who actually lives in a mortgaged property is generally less likely to stop paying the mortgage and more likely to take care of the property. The loan-level review, however, revealed that the true percentage of owner-occupied properties for the loans supporting the Certificates was materially lower than that represented in the Prospectus Supplements. Similarly, the loan-to-value ratio of the loan pool -- that is, the relationship between the principal amount of the loans and the true value of the mortgaged properties securing those loans – is a material risk

factor because it is a strong indicator of both the likelihood of default and recovery upon default. The loan-level review, however, revealed that the true loan-to-value ratio of the loans in the pool was materially worse than was represented in the Prospectus Supplements.

8. The Registration Statement also set forth ratings for each of the Securitizations. Those AAA ratings were material to a reasonable investor's decision to purchase the Securities, and they were material to Freddie Mac. The ratings for the Securitizations were materially inaccurate and were based upon false information supplied by the Defendants. Upon information and belief, neither the Defendants nor the rating agencies who issued the ratings believed or had any sound basis to believe in their truthfulness.

9. Defendants, who are issuers, sponsors, and/or underwriters of the Certificates purchased by Freddie Mac, are liable under the Securities Act for the misstatements and omissions of material fact contained in the Registration Statement and other offering materials because they prepared, signed, filed and/or used these documents to market and sell the Certificates to Freddie Mac. The remaining Defendants are liable under the Securities Act because they directed and controlled the issuers, sponsors, and/or underwriters of the Certificates purchased by Freddie Mac.

10. Defendants' misstatements and omissions of material facts have caused loss and injury to Freddie Mac. Freddie Mac purchased the most senior tranches of Certificates offered for sale by Defendants, and would not have purchased these Certificates but for Defendants' material misrepresentations and omissions concerning the mortgage loans underlying the RMBS. As the truth concerning the misrepresented and omitted facts has come to light, and as the hidden risks have materialized, the value of the Certificates purchased by Freddie Mac has declined considerably. Freddie Mac has suffered losses of tens of millions of dollars as a result of the

misrepresentations and omissions alleged herein. FHFA, as Conservator for Freddie Mac, now seeks rescission and damages for those losses.³

PARTIES

The Plaintiff

11. Plaintiff Federal Housing Finance Agency is a federal agency located at 1700 G Street, NW in Washington, D.C. FHFA was created on July 30, 2008 pursuant to the Housing and Economic Recovery Act of 2008, Pub L. No. 110-289, 122 Stat. 2654, codified at 12 U.S.C. § 4617 *et seq.* (“HERA”) to oversee Freddie Mac, the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Banks. On September 6, 2008, also pursuant to HERA, the Director of FHFA placed Freddie Mac into conservatorship and appointed FHFA as Conservator. In that capacity, FHFA has the authority to exercise all rights and remedies of Freddie Mac, including but not limited to, the authority to bring suits on its behalf of and/or for its benefit 12 U.S.C. § 4617(b)(2).

12. Freddie Mac is a government-sponsored enterprise (a “GSE”) chartered by Congress with a mission to provide liquidity, stability and affordability to the United States housing and mortgage markets. As part of this mission, Freddie Mac invests in RMBS. Freddie Mac is located at 8200 Jones Branch Drive in McLean, Virginia.

The Defendants

The GE Defendants

13. Defendant General Electric Company (“General Electric” or “GE”) is a leading, multi-national technology, services, and finance company with approximately \$739 billion of assets, and operations in more than 100 countries. General Electric is a corporation organized

³ The Certificates purchased by Freddie Mac are identified *infra* in Table 8 and 9 at paragraphs 98 and 100.

and existing under the laws of the State of Connecticut with its principal office in the United States at 3135 Easton Turnpike, Fairfield, CT 06828. General Electric is the parent and sole owner of Defendant GE Capital Services, and, upon information and belief, the ultimate parent of Defendants GE Holding and GE-WMC Securities. GE transacts billions of dollars in business within New York State annually in furtherance of its various businesses.

14. Defendant GE Capital Services (“GE Capital”), doing business as GE Consumer Finance or GE Money, is a leading multi-national financial services company with approximately \$605 billion in assets and operations in more than 50 countries. GE Capital Services is a corporation organized and existing under the laws of the State of Delaware with its principal office in the United States at 3135 Easton Turnpike, Fairfield, CT 06828. GE Capital maintains a branch office in New York City at 299 Park Avenue, New York, NY 10171.

15. Upon information and belief, GE Capital is the parent and sole shareholder of Defendant GE Mortgage Holding (“GE Holding”).

16. Prior to losing its license to operate in June 2008 for the non-payment of taxes, GE Holding was a limited liability company organized and existing under the laws of the State of Delaware. GE Holding was the parent and sole owner of GE-WMC Securities. For both Securitizations, GE Holding was the sponsor—the entity that acquires or originates the mortgage loans—and is sometimes referred to herein as the “Sponsor”. Upon information and belief, GE Capital is the parent and/or successor-in-interest to GE Holding.

17. Defendant GE-WMC Securities is a limited liability company organized and existing under the laws of the State of Delaware. GE-WMC Securities’ principal office is located at 3100 Thornton Avenue, Office 344, Burbank, CA 91504. GE-WMC Securities was the depositor who transfers the assets to the trust for both Securitizations, here, and is sometimes

referred to as the “Depositor.” GE-WMC Securities, as depositor, was also responsible for preparing and filing the Registration Statement required under the Securities Exchange Act of 1934 with respect to the Securitizations. In connection with the Securitizations, GE-WMC Securities delivered the mortgage loans to the Trustee, Bank of New York, in New York City. Collectively, GE, GE Capital, GE Holding, and GE-WMC Securities are referred to as the “GE Defendants.”

Underwriter Defendants

18. Defendant Morgan Stanley & Co., Inc. (“MS&Co.”) is an SEC-registered broker-dealer, incorporated in the State of Delaware, with its principal offices at 1585 Broadway, New York, NY 10036. MS&Co. is an SEC-registered broker-dealer, and was a selling underwriter for the GE-WMC 2005-1 Securitization. Freddie Mac purchased the Certificates for the GE-WMC 2005-1 Securitization from MS&Co.

19. Defendant Credit Suisse Securities (USA) LLC f/k/a Credit Suisse First Boston LLC (“Credit Suisse”) is a corporation organized and existing under the laws of the State of Delaware with its principal place of business at 11 Madison Ave., New York, NY 10010. Prior to January 16, 2006, Credit Suisse was known as Credit Suisse First Boston LLC. Credit Suisse is an SEC-registered broker-dealer, and was a selling underwriter for the GE-WMC 2005-2 Securitization. Freddie Mac purchased the Certificates for the GE-WMC 2005-2 Securitization from Credit Suisse. MS&Co. and Credit Suisse are referred to herein collectively as the “Underwriters” or “Underwriter Defendants.”

The Non-Party Originator

20. WMC Mortgage Corporation (“WMC”) was a mortgage banking company organized and existing under the laws of the State of California. Established in 1955, WMC developed a national mortgage origination franchise with a special emphasis on originating

single-family, alternative sub-prime mortgage loans. It had nine regional offices, including an office in New York. WMC was owned by a subsidiary of Weyerhaeuser Company until May 1997 when it was sold to WMC Finance. In 2004, Defendant GE Capital acquired WMC Finance and its subsidiary WMC.

21. WMC publicly touted its ability to finance up to 95 percent loan-to-value, working with applicants with FICO scores as low as 530. However, according to a March 2007 article published on *MortgageDaily.com*, WMC, faced with growing delinquencies, announced that it would no longer originate mortgages without a down payment. Shortly after, on September 20, 2007, Defendant GE Capital closed WMC's operations, taking a \$400 million write-down as a result.

22. GE Holding, the sponsor for each Securitization, acquired all of the loans underlying the Certificates from WMC, the originator. As discussed *infra*, it was only well after WMC ceased operations on September 20, 2007 that disclosures began to emerge regarding WMC's loan origination practices.

JURISDICTION AND VENUE

23. This Court has jurisdiction over this action pursuant to Section 22 of the Securities Act of 1933, 15 U.S.C. § 77v.

24. This court has personal jurisdiction over the Defendants pursuant to C.P.L.R. §§ 301-302. Defendants Credit Suisse and MS&Co. are domiciled in New York. Defendants GE and GE Capital are internationally renowned corporations that conduct billions of dollars in business annually in New York State through myriad divisions and business lines. Both GE and GE Capital have registered agents and branch offices in New York State. Defendant GE Holding is defunct, although its parent and sole shareholder, GE Capital, has the extensive New York

contacts described above. Defendant GE-WMC Securities transacted business in New York State, supplied goods (*i.e.*, the Certificates) to investors in New York State, and delivered the mortgage loans underlying the Certificates to the Trustee in New York State.

25. Venue is proper in this county pursuant to C.P.L.R. §503 because one or more of the parties resides in New York County, New York. The Underwriters reside or have their principal place of business in this district and many of the alleged acts and transactions, including the preparation and dissemination of the Registration Statement, occurred in substantial part within New York County, New York.

FACTUAL ALLEGATIONS

I. FACTUAL ALLEGATIONS APPLICABLE TO ALL CLAIMS

26. The factual allegations set forth in paragraphs below are made with respect to all causes of action against Defendants and are sufficient to establish Defendants' strict statutory liability under the Securities Act and the Virginia Securities Act. With respect to such liability, no allegations are made or intended, and none are necessary, concerning Defendants' state of mind. Defendants are strictly liable, without regard to intent on their part or reliance on Freddie Mac's part, for the misstatements in, and material omissions from, the Registration Statements under Sections 11 and 12 and, for control person defendants, under Section 15, of the Securities Act.

A. The Securitizations

1. Residential Mortgage-Backed Securitizations Generally

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

28. In the most common form of securitization of mortgage loans, a sponsor – the entity that acquires or originates the mortgage loans and initiates the securitization – directly or indirectly transfers a portfolio of mortgage loans to a trust. In many instances, the transfer of assets to the trust is a two-step process in which the sponsor first transfers the financial assets to an intermediate entity, typically referred to as a “depositor,” and then the depositor transfers the assets to a trust. The trust is established pursuant to a pooling and servicing agreement or a trust agreement entered into by, among others, the depositor for that securitization.

29. RMBS are the securities backed by the underlying mortgage loans in the trust. Some residential mortgage-backed securitizations are created from more than one cohort of loans, called collateral groups, in which case the trust issues different tranches of securities backed by different groups of loans. For example, a securitization may involve two groups of mortgages, with some securities backed primarily by the first group, and others primarily by the second group. Purchasers of the securities (in the form of certificates) acquire an ownership interest in the assets of the trust, which in turn owns the loans. These purchasers are thus dependent for repayment of principal and payment of interest upon the cash-flows from the designated group of mortgage loans – primarily mortgagors’ payments of principal and interest on the mortgage loans held by the related trust.

30. RMBS are generally issued and sold pursuant to registration statements filed with the SEC. These registration statements include prospectuses, which describe the general structure of the investment, and prospectus supplements, which set forth detailed descriptions of, among other things, the mortgage groups underlying the certificates. Certificates are issued by the trust and sold pursuant to the registration statement, the prospectus and prospectus supplement. Underwriters offer, sell, or distribute the Certificates to investors.

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

2. The Securitizations At Issue In This Case

32. This case involves the following two securitizations:

GE-WMC Asset-Backed Pass-Through Certificates, Series 2005-1
 ("GE-WMC 2005-1")

GE-WMC Asset-Backed Pass-Through Certificates, Series 2005-2
 ("GE-WMC 2005-2")

33. For each of the Securitizations, Table 1 identifies the: (1) sponsor; (2) depositor; (3) underwriter; (4) principal amount issued for the tranches⁴ purchased by Freddie Mac; (5) date of issuance; and (6) the loan group or groups backing the Certificate for that Securitization (referred to as the "Supporting Loan Groups").

Table 1

Transaction	Tranche	Sponsor	Depositor	Lead Underwriters	Principal Amount Issued (\$)	Date of Issuance	Supporting Loan Groups
GEWMC 2005-1	A1	GE Mortgage Holding, L.L.C	GE-WMC Securities, L.L.C.	MS&Co. Credit Suisse	230,365,000.00	09/28/05	Group 1

⁴ A tranche is one of the classes of debt securities issued as part of a single bond or instrument. Securities are often issued in tranches to meet different investor objectives for portfolio diversification.

GEWMC 2005-2	A1	GE Mortgage Holding, L.L.C	GE-WMC Securities, L.L.C.	MS&Co. Credit Suisse	319,314,000.00	12/19/05	Group 1
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3. The Securitization Process

a. The Sponsor Groups Mortgage Loans In Special Purpose Trusts

34. As the sponsor for each of the Securitizations, GE Holding sold the mortgage loans for the Securitizations that it sponsored to its subsidiary GE-WMC Securities.

35. Defendant Credit Suisse was the selling underwriter for GE-WMC 2005-2. MS&Co. was the selling underwriter for GE-WMC 2005-1.

36. GE-WMC Securities was a wholly-owned, limited-purpose financial subsidiary and limited-purpose affiliate of GE Holding. The sole purpose of GE-WMC Securities, as depositor, was to act as a conduit through which loans originated by its affiliate, WMC, could be securitized and sold to investors.

37. As depositor for each of the Securitizations, GE-WMC Securities transferred the relevant mortgage loans to the trusts, pursuant to a Mortgage Loan Purchase Agreement that contained various representations and warranties regarding the mortgage loans for the Securitizations.

38. As part of each Securitization, the trustee for that Securitization, on behalf of the Certificateholders, executed a Pooling and Servicing Agreement (“PSA”) with GE-WMC Securities and the relevant servicer. In each case, the trust, administered by the trustee, held the mortgage loans pursuant to the related PSA and issued certificates, including the Certificates, backed by such loans. Freddie Mac purchased the Certificates, through which it obtained an ownership interest in the assets of the trust, including the mortgage loans.

b. The Trusts Issue Securities Backed By The Loans

39. Once the mortgage loans were transferred to the trusts in accordance with the PSAs, each trust issued certificates backed by the underlying mortgage loans. The certificates were then sold to investors, including Freddie Mac. Each certificate entitles its holder to a specified portion of the cash flows from the underlying mortgages in the supporting loan group for that certificate. Therefore, the value of the certificates, derived in part from the likelihood of payment of principal and interest on Securitizations, depends upon the credit quality of the underlying mortgages, *i.e.* the risk of default by borrowers and the recovery value upon default of foreclosed-upon properties.

40. The Certificates were issued and sold pursuant to a Shelf Registration Statement filed with the SEC on a Form S-3. The Shelf Registration Statement (“S-3”) was amended by a Form S-3/A (the “Amendment” or “S-3/A”) filed with the SEC. The SEC filing number, registrants, signatories and filing dates for the Registration Statement with Amendment, as well as the Certificates covered by the Shelf Registration Statement, are reflected in Table 2 below.

Table 2

SEC File No.	Date S-3 Filed	Date(s) S-3/A(s) Filed	Registrants	Covered Certificates
333-127360	08/09/05	08/30/05	GE-WMC Securities	GE-WMC 2005-1
333-127360	08/09/05	08/30/05	GE-WMC Securities	GE-WMC 2005-2

41. The Prospectus Supplement for each Securitization describes the loan underwriting guidelines that purportedly were used in connection with the origination of the underlying mortgage loans. In addition, the Prospectus Supplements purport to provide accurate statistics regarding the mortgage loans in each group, including: the ranges of and weighted average FICO credit scores of the borrowers, the ranges of and weighted average loan-to-value (“LTV”) ratios of the loans, the ranges of and weighted average outstanding principal balances

of the loans, the debt-to-income ratios of the borrowers, the geographic distribution of the loans, the extent to which the loans were for purchase or refinance purposes, information concerning whether the loans were secured by a property to be used as a primary residence, second home, or investment property, and information concerning whether the loans were delinquent.

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

Table 3

Transaction	Date Prospectus Supplement Filed	Date Form 8-K Attaching PSA	Filing No. of Related Registration Statement
GE-WMC 2005-1	09/28/05	10/13/05	333-127360
GE-WMC 2005-2	12/16/05	01/04/06	333-127360

4. The Defendants' Participation In The Securitization Process

43. Each of the Defendants played a role in the securitization process and the marketing for some or all of the Certificates, which included purchasing the mortgage loans from the originator, arranging the Securitizations, selling the mortgage loans to the depositor, transferring the mortgage loans to the trustee on behalf of the Certificateholders, underwriting the public offering of the Certificates, structuring and issuing the Certificates, and marketing and selling the Certificates to investors such as Freddie Mac.

44. The Defendants are liable, jointly and severally, as participants in the registration, issuance and offering of the Certificates, including issuing, causing, or making materially misleading statements in the Registration Statement, and omitting material facts required to be stated therein or necessary to make the statements contained therein not misleading.

a. Defendant GE-WMC Securities

45. GE-WMC Securities was a wholly-owned subsidiary of GE Holding. GE-WMC Securities was a special purpose entity formed by GE Holding solely for the purpose of purchasing mortgage loans, filing registration statements with the SEC, forming issuing trusts, assigning mortgage loans and all of its rights and interests in such mortgage loans to the trustee for the benefit of the certificateholders, and depositing the underlying mortgage loans into the issuing trusts.

46. GE-WMC Securities was the depositor for each of the Securitizations. As depositor, GE-WMC Securities purchased the mortgage loans from GE Holding pursuant to Mortgage Loan Purchase Agreements. GE-WMC Securities then sold, transferred, or otherwise conveyed the mortgage loans to be securitized to the trusts. Together with the other Defendants, GE-WMC Securities was responsible for preparing and filing the Registration Statement pursuant to which the Certificates were offered for sale. The trusts in turn held the mortgage loans for the benefit of the Certificateholders, and issued the Certificates in public offerings for sale to investors including Freddie Mac.

b. Defendant GE Holding

47. Upon information and belief, GE Holding was a wholly owned subsidiary of GE Capital that was formed for the purpose of issuing securities through its wholly-owned subsidiary, GE-WMC Securities.

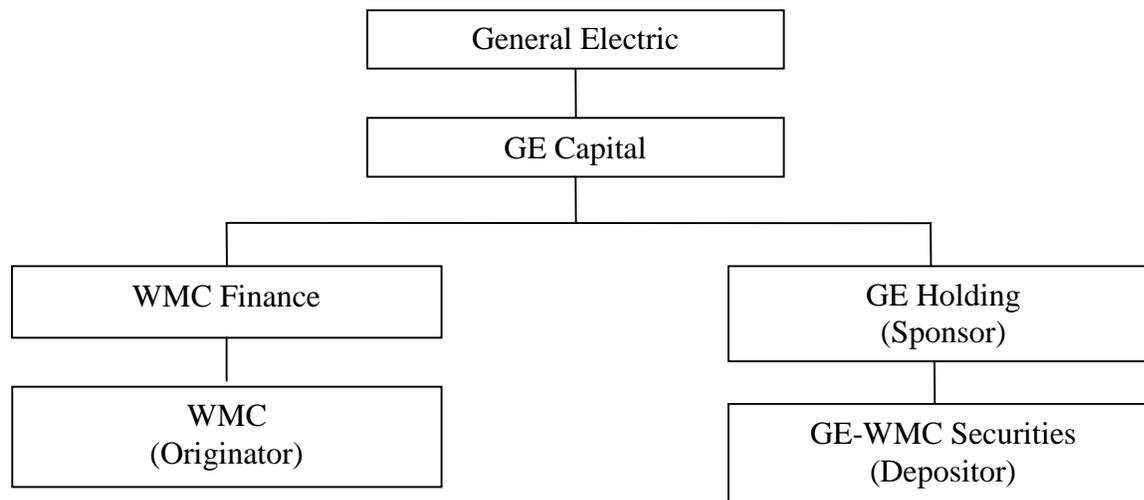
48. GE Holding was the sponsor of each of the Securitizations. As sponsor, GE Holding determined the structure of the Securitizations, initiated the Securitizations, purchased the mortgage loans to be securitized, determined distribution of principal and interest, and provided data to the rating agencies to secure investment grade ratings for the Certificates. GE Holding also selected its wholly owned subsidiary, GE-WMC Securities, as the special purpose

vehicle that would be used to transfer the mortgage loans from GE Holding to the trusts, and selected MS&Co. and Credit Suisse as the underwriters for the Securitizations. As sponsor, GE Holding knew and intended that the mortgage loans it purchased from its affiliate, WMC, would be sold in connection with the securitization process, and that certificates representing such loans would be issued by the relevant trusts.

c. Defendants GE Capital Services and General Electric

49. Upon information and belief, GE Capital wholly owns GE Holding. As the sole corporate parent of GE Holding, GE Capital had the practical ability, in connection with the Securitizations and the issuance and sale of the Certificates, to direct and control the actions of GE Holding, and in fact exercised such direction and control over these activities.

50. General Electric wholly owns GE Capital, and is also the ultimate parent of GE Holding and GE-WMC Securities. The chart below indicates the corporate structure of the GE Defendants.



d. The Underwriters

51. The Underwriters, Credit Suisse and MS&Co., were two of the nation's largest non-agency mortgage-backed securities underwriters between 2004 and 2007. During those years, Credit Suisse was one of the top ten underwriters of non-agency MBS, underwriting \$67.5 billion in 2004 (ranking 5th); \$89.2 billion in 2005 (ranking 5th); \$69.4 billion in 2006 (ranking 7th); and \$44.1 million in 2007 (ranking 6th). Likewise, MS&Co. was one of the top ten underwriters of non-agency MBS during most of those years, underwriting \$43.7 billion in 2004 (ranking 7th), \$53.9 billion in 2006 (ranking 10th); and \$40 billion in 2007 (ranking 8th).

52. As underwriters for the Securitizations, Credit Suisse and MS&Co. were responsible for underwriting and managing, and did underwrite and manage, the offer and sale of the Certificates to Freddie Mac, as well as other investors. Credit Suisse and MS&Co. were also obligated to conduct due diligence to ensure that the Registration Statement was free from material misstatements or omissions, including as to the manner in which the underlying mortgage loans were originated, transferred, and underwritten.

5. The Statements In The Prospectus Supplements

53. Plaintiff relies for its claims, in part, upon the Registration Statements in their entirety. The representations and warranties in the Registration Statement that form the basis for the claims herein are set forth for each Securitization in Appendix A hereto.

a. Statements Regarding Compliance With Underwriting Guidelines

54. The Prospectus Supplement for each of the Securitizations contained detailed descriptions of the underwriting guidelines used to originate the mortgage loans included in the Securitization. Because payment on, and the value of, the Certificates is based on the cash flows from the underlying mortgage pool, representations concerning compliance with the stated

underwriting guidelines were material to reasonable investors. Investors, including Freddie Mac, did not have access to information concerning the collateral pool, and were required to rely on the representations in the Prospectus Supplements concerning that collateral.

55. Among other consequences, the failure to originate mortgage loans in accordance with stated guidelines diminishes the value of the Certificates by increasing the risk that an investor will not be paid its principal and interest. Misrepresentations concerning, or failure accurately to disclose, borrower, loan and property characteristics bearing on the risk of default by the borrower as well as the severity of losses given default can artificially inflate the perceived value of the securities. Without complete and accurate information regarding the collateral pool, reasonable investors, including Freddie Mac, are unable to accurately and independently assess whether the price of an RMBS adequately accounts for the risks they are assuming when they purchase the security.

56. The Prospectus Supplements for each of the Securitizations contained several key statements with respect to the loan purchasing and underwriting standards of the entities that originated the loans in the Securitizations. For example, the Prospectus Supplements for each of the Securitizations, for which WMC was the originator, GE Holding was the sponsor, GE-WMC Securities was the depositor, and Credit Suisse and MS&Co. were the underwriters, stated:

“The mortgage loans have been either (i) originated generally **in accordance with the underwriting guidelines established by WMC Corp.** (collectively, the “Underwriting Guidelines”) or (ii) purchased from correspondent lenders after being re-underwritten by WMC Corp., generally in accordance with the Underwriting Guidelines.” (Emphasis added).

57. The Prospectus Supplement explained the importance of compliance with the Underwriting Guidelines as a means of limiting the risk of loss:

“The Underwriting Guidelines are primarily intended to **(a) determine that the borrower has the ability to repay the**

mortgage loan in accordance with its terms and (b) determine that the related mortgaged property will provide sufficient value to recover the investment of the borrower defaults.”

(Emphasis added).

The Underwriting Guidelines specified “various risk categories” for borrowers and “associated criteria for grading the potential likelihood that an applicant will satisfy the repayment obligations of a mortgage loan.”

58. In addition, with respect to the information evaluated by the originator, the

Prospectus Supplement for each Securitization stated:

“The Underwriting Guidelines require that the documentation accompanying each mortgage loan application include, among other things, a tri-merge credit report on the related applicant from a credit reporting company aggregator. The report⁵ typically contains information relating to such matters as credit history with loan and national merchants and lenders, installment debt payments and any record of defaults, bankruptcy, repossession, suits or judgments. In most instances, WMC Corp. obtains a tri-merge credit score independent from the mortgage loan application from a credit reporting company aggregator.”

“Under the Underwriting Guidelines, WMC Corp. verifies the loan applicant’s eligible sources of income for all products, calculates the amount of income from eligible sources indicated on the loan application, reviews the credit and mortgage payment history of the applicant and calculates the Debt Ratio to determine the applicant’s ability to repay the loan, and reviews the mortgaged property for compliance with the Underwriting Guidelines.”

59. The Prospectus Supplement further stated:

“The Underwriting Guidelines are applied in accordance with a procedure which complies with applicable federal and state laws and regulations and requires, among other things, (1) an appraisal of the mortgaged property which conforms to the Uniform Standards of Professional Appraisal Practice and (2) an audit of such appraisal by a WMC Corp.-approved appraiser or by WMC Corp’s in-house collateral auditors (who may be licensed appraisers) and such audit may in certain circumstances consist of

⁵ A tri-merge credit report is a credit report obtained from each of the three credit bureaus (Equifax, Experian, and Transunion).

a second appraisal, a field review, a desk review or an automated valuation model.”

60. Contrary to these representations, however, WMC abandoned completely its stated underwriting guidelines, as discussed *infra*. As a result, the purported compliance with underwriting guidelines and the inclusion and descriptions of those guidelines in the Prospectus Supplements were false and misleading, and the mortgages underlying each Securitization presented a materially greater risk to investors than that actually represented in the Prospectus Supplements.

61. As reflected more fully in the Appendix, for the vast majority of the Securitizations, the Prospectus Supplements included representations that (i) the mortgage loans were underwritten in accordance with the WMC’s underwriting guidelines in effect at the time of origination, subject only to limited exceptions; and (ii) the origination and collection practices used by WMC with respect to each mortgage note and mortgage were in all respects legal, proper, and customary in the mortgage origination and servicing business.

62. The inclusion of these representations in the Prospectus Supplements had the purpose and effect of providing assurances to investors regarding the quality of the mortgage collateral underlying the Securitizations and thus the likelihood of payment on the Certificates. These representations were material to a reasonable investor’s decision to purchase the Certificates, and they were material to Freddie Mac. As alleged more fully below, the representations were materially false.

b. Statements Regarding Occupancy Status of Borrower

63. The Prospectus Supplements for each Securitization set forth information about the occupancy status of the borrowers of the loans underlying the Securitization; that is, whether the property securing a mortgage is (i) the borrower’s primary residence, (ii) a second home, or

(iii) an investment property. This information was presented in tables, typically titled “Occupancy (All Mortgage Loans),” that assigned all the properties in the collateral group to one of the following categories: (i) “Primary”; (ii) “Second Home”; or (iii) “Investment.” For each category, the table stated the number of loans in that category. Occupancy statistics for the Supporting Loan Groups for each Securitization were reported in the Prospectus Supplements as follows:⁶

Table 4

Transaction	Supporting Loan Group	Primary	Second Home	Investment
GE-WMC 2005-1	Group I	91.48%	5.37%	3.15%
GE-WMC 2005-2	Group I	91.85%	4.78%	3.37%

64. As Table 4 makes clear, the Prospectus Supplements for each Securitization reported that at least 90 percent of the mortgage loans in the Supporting Loan Groups were owner-occupied.

65. Because information about occupancy status is an important factor in determining the credit risk associated with a mortgage loan -- and, therefore, the securitization that it backs -- the statements in the Prospectus Supplements concerning occupancy status were material to a reasonable investor’s decision to invest in the Certificates, and they were material to Freddie Mac. These statements were material because (among other reasons) borrowers who actually live in mortgaged properties are substantially less likely to default and more likely to care for their primary residence than borrowers who purchase homes as second homes or investments and live elsewhere. Accordingly, the percentage of loans in the collateral group of a securitization

⁶ Each Prospectus Supplement provides the total number of loans and the number of loans in the following categories: primary, second home, and investment. These numbers have been converted to percentages.

that are secured by mortgage loans on owner-occupied residences is an important measure of the risk of the certificates sold in that securitization.

66. Other things being equal, the lower the percentage of loans secured by owner-occupied residences, the greater the risk of loss to Certificateholders. Even modest differences in the percentages of primary/owner-occupied, second home/secondary, and investment properties in the collateral group of a securitization can have a significant effect on the risk of each certificate sold in that securitization, and thus, are important to the decision of a reasonable investor whether to purchase any such certificate. As discussed *infra* at paragraphs 77 through 81, the Prospectus Supplements for each Securitization materially overstated the percentage of loans in the Supporting Loan Groups that were owner-occupied, thereby misrepresenting the risk of the Certificates purchased by Freddie Mac.

c. Statements Regarding Loan-to-Value Ratios

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

68. The denominator in the LTV ratio is the value of the mortgaged property, and is generally the lower of the purchase price or the appraised value of the property. In a refinancing or home-equity loan, there is no purchase price to use as the denominator, so the denominator is often equal to the appraised value at the time of the origination of the refinanced loan or home-equity loan. Accordingly, an accurate appraisal is essential to an accurate LTV ratio. In particular, an inflated appraisal will understate, sometimes greatly, the credit risk associated with a given loan.

69. The Prospectus Supplements for the Securitizations contained information about the LTV ratio for each Supporting Loan Group. Table 5 below reflects two categories of important information reported in the Prospectus Supplements concerning the LTV ratios for

each Supporting Loan Group: (i) the percentage of loans with an LTV ratio of 80 percent or less; and (ii) the percentage of loans with an LTV ratio greater than 100 percent.⁷

Table 5

Transaction	Supporting Loan Group	Percentage of loans, by aggregate principal balance, with LTV less than or equal to 80%	Percentage of loans, by aggregate principal balance, with LTV greater than 100%
GE-WMC 2005-1	Group I	60.40%	0.00%
GE-WMC 2005-2	Group I	61.37%	0.00%

70. As Table 5 makes clear, the Prospectus Supplements for each of the Securitizations reported that the majority of mortgage loans in the Supporting Loan Groups had an LTV ratio of 80 percent or less. The Prospectus Supplements further stated that *none* of the Supporting Loan Groups contained a single loan with an LTV ratio over 100 percent.

71. The LTV ratio is among the most important measures of the risk of a mortgage loan for several reasons. First, the LTV ratio is a strong indicator of the likelihood of default, because a higher LTV ratio makes it more likely that a decline in the value of a property will completely eliminate a borrower’s equity, and will incentivize the borrower to stop making mortgage payments and abandon the property. Second, the LTV ratio is a strong predictor of the severity of loss in the event of a default, because the higher the LTV ratio, the smaller the “equity cushion,” and the greater the likelihood that the proceeds of foreclosure will not cover the unpaid balance of the mortgage loan.

⁷ As used in this Complaint, “LTV” refers to the loan-to-value ratio for first lien mortgages and for properties with second liens subordinate to the lien included in the securitization (*i.e.*, only the securitized lien is included in the numerator of the LTV calculation). Where the securitized lien is junior to another loan, the more senior lien has been added to the securitized one to determine the numerator in the LTV calculation (this latter calculation is sometimes referred to as the combined-loan-to-value ratio, or “CLTV”).

72. Thus, the LTV ratios were material to a reasonable investor's investment decision with respect to the Certificates, and they were material to Freddie Mac. Even small differences between the LTV ratios of the mortgage loans in the collateral group of a securitization have a significant effect on the likelihood that collateral groups will generate sufficient funds to pay certificateholders in that securitization. Such differences are important to the decision of a reasonable investor on whether to purchase any such certificate and they affect the intrinsic value of the certificate. As discussed *infra* at paragraphs 82 through 87, the Prospectus Supplements for the Securitizations materially *overstated* the percentage of loans in the Supporting Loan Groups with an LTV ratio at or less than 80 percent, and materially *understated* the percentage of loans in the Supporting Loan Groups with an LTV ratio over 100 percent, thereby misrepresenting the degree of risk to Certificateholders.

d. Statements Regarding Credit Ratings

73. Credit ratings are assigned to the tranches of mortgage-backed securitizations by the credit rating agencies, including Standard & Poor's, Moody's Investor Service, and Fitch Ratings. Each credit rating agency uses its own scale with letter designations to describe various levels of risk. In general, AAA or its equivalent ratings are at the top of the credit rating scale and are intended to designate the safest investments. C and D ratings are at the bottom of the scale and refer to investments that are currently in default and exhibit little or no prospect for recovery. At the time Freddie Mac purchased the Certificates, investments with AAA or its equivalent ratings historically experienced a loss rate of less than .05 percent. Investments with a BBB rating, or its equivalent, historically experienced a loss rate of less than one percent. As a result, securities with credit ratings between AAA or its equivalent through BBB- or its equivalent were generally referred to as "investment grade."

74. Rating agencies determine the credit rating for each tranche of a mortgage-backed securitization by comparing the likelihood of contractual principal and interest repayment to the “credit enhancements” available to protect investors. Rating agencies determine the likelihood of repayment by estimating cash flows based on the quality of the underlying mortgages by using sponsor provided loan-level data. Credit enhancements, such as subordination, represent the amount of “cushion” or protection from loss incorporated into a given securitization.⁸ This cushion is intended to improve the likelihood that holders of highly-rated certificates receive the interest and principal to which they are contractually entitled. The level of credit enhancement offered is based on the make-up of the loans in the underlying collateral group and entire securitization. Riskier loans underlying the securitization necessitate higher levels of credit enhancement to insure payment to senior certificate holders. If the collateral within the deal is of a higher quality, then rating agencies require less credit enhancement for an AAA or its equivalent rating.

75. For almost a hundred years, investors like pension funds, municipalities, insurance companies, and university endowments have relied heavily on credit ratings to assist them in distinguishing between safe and risky investments.

76. Each tranche of the Securitizations received a credit rating upon issuance, which purported to describe the riskiness of that tranche. The Defendants reported the credit ratings for each tranche in the Prospectus Supplements. The credit rating provided for each of the Certificates purchased by Freddie Mac was always AAA or its equivalent. The accuracy of these

⁸ “Subordination” refers to the fact that the certificates for a mortgage-backed securitization are issued in a hierarchical structure, from senior to junior. The junior certificates are “subordinate” to the senior certificates in that, should the underlying mortgage loans become delinquent or default, the junior certificates suffer losses first. These subordinate certificates thus provide a degree of protection to the senior certificates from losses on the underlying loans.

ratings was material to a reasonable investor's decision to purchase the Certificates, and it was material to Freddie Mac. Among other things, the ratings provided additional assurance that investors in the Certificates would receive the expected interest and principal payments. The ratings for the Securitizations, however, were false and inflated as a result of, among other things, the Defendants providing incorrect data concerning the attributes of the underlying mortgage collateral to the ratings agencies.

6. Falsity Of Statements In The Registration Statements And Prospectus Supplements

a. The Statistical Data Provided in the Prospectus Supplements Concerning Owner-Occupancy and Loan-To-Value Ratios Was Materially False

77. A review of loan-level data was conducted in order to assess whether the statistical information provided in the Prospectus Supplements was true and accurate. For each Securitization, the review included an analysis of either: (i) a sample of 1,000 loans randomly selected in from the Supporting Loan Group; or (ii) all of the loans in the Supporting Loan Group, if there were fewer than 1,000 such loans. The review of the sample data has confirmed, on a statistically-significant basis, that the data provided in the Prospectus Supplements concerning owner-occupancy and LTV ratios was materially false, and that the Prospectus Supplements contained material misrepresentations with respect to the underwriting standards employed by the originators, and certain key characteristics of the mortgage loans across the Securitizations.

b. Owner-Occupancy Data Was Materially False

78. The data review has revealed that the owner-occupancy statistics reported in the Prospectus Supplements were materially false and inflated. Indeed, the Prospectus Supplements overreported the number of underlying properties that were occupied by their owners, and

underreported the number of underlying properties that were held as second homes or investment properties.

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

80. For each Securitization, a significant number of the underlying loans failed two or more of these tests, demonstrating that the owner-occupancy statistics provided to Freddie Mac were materially false and misleading. For example, the Prospectus Supplement for the GE-WMC 2005-2 Securitization – for which GE Holding was the sponsor and Credit Suisse was the underwriter -- stated that 8.15 percent of the underlying properties by loan count in the Supporting Loan Group were not owner-occupied. But the data review revealed that, for 13.33 percent of the properties represented as owner-occupied, the owners lived elsewhere, indicating that the true percentage of non-owner-occupied properties⁹ was 20.39 percent, over 250 percent greater than the percentage reported in the Prospectus Supplement.

⁹ The true percentage of non-owner-occupied properties (Table 6 Column C) is calculated by adding the percentage reported in the Prospectus Supplement (Table 6 Column A) to the product of owner-occupied properties reported in the Prospectus Supplement (100 minus Column A) and the percentage of properties reported as owner-occupied but with strong indication of non-owner occupancy (Table 6 Column B).

81. The data review revealed that for each Securitization, the Prospectus Supplement misrepresented the percentage of non-owner-occupied properties. The true percentage of non-owner-occupied properties, as determined by the data review, versus the percentage stated in the Prospectus Supplement for each Securitization, is reflected in Table 6 below. Table 6 demonstrates that the percentage of non-owner-occupied properties reported in the Prospectus Supplement for each Securitization understated the actual percentage of non-owner-occupied properties by *more than half*.

Table 6

		A	B	C	D
Transaction	Supporting Loan Group	Reported Percentage of Non-Owner-Occupied Properties	Percentage of Properties Reported as Owner-Occupied That Were Not Owner- Occupied	Actual Percentage of Non-Owner-Occupied Properties	Prospectus Understatement of Non-Owner-Occupied Properties
GE-WMC 2005-1	Group I	8.52%	12.78%	20.21%	11.69%
GE-WMC 2005-2	Group I	8.15%	13.33%	20.39%	12.24%

c. Loan-to-Value Data Was Materially False

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

83. Applying the AVM to the available data for the properties securing the sampled loans shows that the retroactive appraised value given to such properties was significantly higher

than the actual value of such properties. The result of this overstatement of property values is a material understatement of LTV. That is, if a property's true value is significantly less than the value used in the loan underwriting, then the loan represents a significantly higher percentage of the property's value. This, of course, increases the risk a borrower will not repay the loan and the risk of greater losses in the event of a default. As stated in the Prospectus Supplement for GE-WMC 2005-1: "Certain of the mortgage loans may have high loan-to-value ratios or combined loan-to-value ratios, so that the related borrower has little or no equity in the related mortgage property, which may result in losses with respect to these mortgage loans allocated to the certificates."

84. For example, the Prospectus Supplement for the GE-WMC 2005-1 Securitization stated that "No mortgage loan purchased by the trust will have a loan-to-value ratio or combined loan-to-value ratio, as applicable, exceeding 100 percent at origination." In fact, 11.86 percent of the sample of loans included in the data review had LTV ratios above 100 percent. In addition, the Prospectus Supplement stated that 60.40 percent of the loans had LTV ratios at or below 80 percent, whereas the data review indicated that only 42.58 percent of the loans had LTV ratios at or below 80 percent.

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

percentage reported in the Prospectus Supplement. The percentages listed in Table 7 were calculated by aggregated principal balance.

Table 7

		PROSPECTUS	DATA REVIEW	PROSPECTUS	DATA REVIEW
Transaction	Supporting Loan Group	Percentage of Loans Reported to Have LTV Ratio At Or Less Than 80%	True Percentage of Loans With LTV Ratio At Or Less Than 80%	Percentage of Loans Reported to Have LTV Ratio Over 100%	True Percentage of Loans With LTV Ratio Over 100%
GE-WMC 2005-1	Group I	60.40%	42.58%	0.00%	11.86%
GE-WMC 2005-2	Group I	61.37%	38.89%	0.00%	15.45%

86. As Table 7 demonstrates, the Prospectus Supplements for each Securitization falsely reported that *none* of the mortgage loans in the Supporting Loan Groups had an LTV ratio over 100 percent: the data review revealed that more than 11 percent of the mortgages in the Supporting Loan Group for each Securitization had a true LTV ratio over 100 percent.

87. These misrepresentations with respect to reported LTV ratios also demonstrate that the representations in the Prospectus Supplements relating to appraisal practices were false, and that the appraisers, in many instances, furnished appraisals that they understood were inaccurate and that they knew bore no reasonable relationship to the actual value of the underlying properties. Indeed, independent appraisers following proper practices, and providing genuine estimates as to valuation, would not systematically generate appraisals that deviate so significantly (and so consistently upward) from the true values of the appraised properties. The Financial Crisis Inquiry Commission (“FCIC”), created by Congress to investigate the mortgage crisis and attendant financial collapse in 2008, identified “inflated appraisals” as a pervasive problem during the period of the Securitizations, and determined through its investigation that appraisers were often pressured by mortgage originators, among others, to produce inflated results. (See Financial Crisis Inquiry Commission, Final Report of the National Commission on

the Causes of the Financial and Economic Crisis in the United States (2011) (“FCIC Report”), at 91.)

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

88. The Prospectus Supplements each contained numerous material misstatements and omissions concerning the underwriting guidelines. Indeed, WMC, the originator for the loans underlying the Securitizations, systematically disregarded its Underwriting Guidelines in order to increase production and profits derived from its mortgage lending businesses. This is confirmed not only by the systematically mis-reported owner-occupancy and LTV figures, alleged *supra* at paragraphs 82 through 87, but also by: (1) government investigations and private actions relating to WMC’s underwriting practices, which have revealed widespread abandonment of their reported underwriting guidelines during the period of the Securitizations; (2) the decline of the Certificates’ credit ratings; and (3) the surge in delinquencies and defaults in the mortgages in the Securitizations.

e. Government and Private Investigations Confirm That the Originator of the Loans in the Securitizations Systematically Failed to Adhere to Its Underwriting Guidelines

89. An extraordinary volume of publicly-available information, including government reports and investigations, confirms that the originators whose loans were included by the Defendants in the Securitizations abandoned their loan origination guidelines throughout the period of the Securitizations.

90. WMC, which originated loans for each of the Securitizations, employed reckless underwriting standards and practices, as described more fully below, that resulted in a huge amount of foreclosures, ranking WMC fourth in the report presented to the FCIC in April 2010 identifying the “Worst Ten” mortgage originators in the “Worst Ten” metropolitan areas. (*See*

“Worst Ten in the Worst Ten,” Office of the Comptroller of the Currency Press Release, Nov. 13, 2008.) General Electric, which had purchased WMC in 2004, closed down operations at WMC in late 2007 and took a \$1.4 billion charge in the third quarter of that year. (*See, e.g.*, Diane Brady, *Adventures of a Subprime Survivor*, Bloomberg Businessweek, Oct. 29, 2007 (available at http://www.businessweek.com/magazine/content/107_44/b4056074.htm.)

91. WMC’s reckless loan origination practices did not go unnoticed by regulators. For example, in June 2008, the Washington State Department of Financial Institutions, Division of Consumer Services filed a statement of charges and Notice of Intention to Enter an Order to Revoke License, Prohibit from Industry, Impose Fine, Order Restitution and collect Investigation Fees (the “Statement of Charges”) against WMC and its principal owners individually. (*See* Statement of Charges, No. C-07-557-08-SC01, Jun. 4, 2008.) The Statement of Charges alleged that of 86 loan files reviewed by the regulator, at least 76 loans were defective or otherwise in violation of Washington state law. (*Id.*) Among other things, the investigation uncovered that WMC had originated loans with unlicensed or unregistered mortgage brokers, understated amounts of finance charges on loans, understated amounts of payments made to escrow companies, understated annual percentage rates to borrowers and committed many other violations of Washington State deceptive and unfair practices law.

92. WMC went beyond the systematic disregard of its own Underwriting Guidelines. The FCIC found that mortgage loan originators pressured appraisers, during the period of the Securitizations, to issue inflated appraisals that met or exceeded the amounts needed for the subject loans to be approved, regardless of the accuracy of such appraisals, and especially when the originators hoped to package the mortgages for securitization. Upon information and belief, these inflated appraisals resulted in materially inaccurate LTV ratios.

f. The Collapse of the Certificates' Credit Ratings Further Indicates that the Mortgage Loans were not Originated in Accordance with the Stated Underwriting Guidelines

93. The decline in the credit ratings of the Certificates is further evidence of the originators' systematic disregard of underwriting guidelines, underscoring that these securities were impaired from the start.

94. The Certificates purchased by Freddie Mac originally were assigned credit ratings of AAA or its equivalent, which purportedly reflected the description of the mortgage loan collateral and underwriting practices set forth in the Registration Statement. Those ratings artificially were inflated, however, upon information and belief in part as a result of the same misrepresentations that the Defendants made to investors in the Prospectus Supplements.

95. Defendants provided information to the rating agencies, including LTV ratios, owner-occupancy rates and other loan statistics, that the agencies used in part to calculate the assigned ratings of the Certificates purchased by Freddie Mac. Upon information and belief, because the information that Defendants provided, which information included, among other things, the Registration Statement or portions thereof, the ratings were inflated. As a result, the Certificates were offered and purchased at prices suitable for "investment grade" securities, when in fact the Certificates carried a severe risk of loss and inadequate credit enhancement.

96. Since the issuance of the Certificates, the ratings agencies have significantly downgraded their ratings to reflect the revelations regarding the true underwriting practices used to originate the mortgage loans, and the true value and credit quality of the mortgage loans.

g. The Surge in Mortgage Delinquency and Default Further Demonstrates that the Mortgage Loans Were Not Originated in Adherence to the Stated Underwriting Guidelines

97. Even though the Certificates were marketed as long-term, stable investments, a significant percentage of the mortgage loans backing these Certificates have defaulted, been

foreclosed upon, or are delinquent, resulting in massive losses to the Certificateholders. The overall poor performance of the mortgage loans is a direct consequence of the fact that they were not underwritten in accordance with applicable underwriting guidelines as represented in the Prospectus Supplements.

98. Loan groups that were properly underwritten and contained loans with the characteristics represented in the Prospectus Supplements would have experienced substantially fewer payment problems and substantially lower percentages of defaults, foreclosures, and delinquencies than occurred here. Table 8 reflects the percentage of loans in the Supporting Loan Groups that are in default, have been foreclosed upon, or are delinquent as of July 2011.

Table 8

Transaction	Supporting Loan Group	Percentage of Delinquent/Defaulted/Foreclosed Loans
GEWMC 2005-1	Group I	41.0%
GEWMC 2005-2	Group I	44.6%

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

7. Freddie Mac’s Purchases Of The Certificates And The Resulting Damages

100. Between September 28, 2005 and December 19, 2005, Freddie Mac purchased over \$549 million in RMBS issued in connection with the Securitizations. Table 9 reflects each

of Freddie Mac’s purchases of the Certificates.¹⁰ To date, the GSEs have not sold any of the Certificates and thus remain in possession of the Securities.

Table 9

Transaction	Tranche	CUSIP	Settlement Date of Purchase by Freddie Mac	Initial Unpaid Principal Balance	Purchase Price (% of Par)	Seller to Freddie Mac
GE-WMC 2005-1	A1	367910AA4	09/28/05	230,365,000.00	100	MS&Co.
GE-WMC 2005-2	A1	367910AR7	12/19/05	319,314,000.00	100	Credit Suisse

101. The statements and information in the Registration Statement regarding the credit quality and characteristics of the mortgage loans underlying the Certificates, and the origination and underwriting practices pursuant to which the mortgage loans purportedly were originated, were material to a reasonable investor. But for the misrepresentations and omissions in the Registration Statement concerning those matters, Freddie Mac would not have purchased the Certificates.

102. Based upon sales of the Certificates or similar certificates in the secondary market and other indications of value, Freddie Mac has incurred substantial losses on the Certificates due to a decline in value that is directly attributable to Defendants’ material misrepresentations and omissions. Among other things, the mortgage loans underlying the Certificates experienced defaults and delinquencies at a higher rate than would have been the case had the loans underlying the Certificates actually conformed to the origination guidelines, and had the Certificates merited the credit ratings set forth in the Registration Statement.

¹⁰ Purchases and holdings of securities in Table 9 are stated in terms of unpaid principal balance (“UPB”) of the relevant Certificates. Purchase prices are stated in terms of percentage of par.

103. Defendants' misstatements and omissions in the Registration Statement were the direct, proximate and actual cause of Freddie Mac's massive losses resulting from their purchase of the Certificates. The precise extent of Freddie Mac's injuries will be proven at trial.

104. At the time it purchased the Certificates, Freddie Mac was unaware of the Defendants' misrepresentations, omissions, and/or untrue statements. Plaintiff was appointed Conservator of Freddie Mac less than one year after the discovery of the untrue statements and omissions contained in the Registration Statement and within three years of the Certificates being offered for sale to the public. Despite the exercise of reasonable diligence, Freddie Mac could not reasonably have discovered the untrue statements and omissions in the Registration Statement more than one year prior to the appointment of the Plaintiff as Conservator. This action is timely pursuant to 12 U.S.C. § 4617(b)(12), which provides for extension or tolling of all time periods applicable to the claims brought herein.

II. Factual Allegations Applicable To Plaintiff's Common Law Claim

105. Separate and apart from Defendants' violations of the Securities Act and Virginia Securities Act giving rise to strict statutory liability without regard to intent or reliance, Defendants are also liable in tort for the misrepresentations in, and omissions from, the Registration Statement.

A. Defendants Were Incentivized to Fund Risky Residential Mortgage Loans and To Securitize and Sell Them to Investors

106. Securitizing large volumes of loans was a highly lucrative and competitive business for the Underwriters. Credit Suisse and MS&Co. underwrote RMBS securitizations on a massive scale during the relevant time period, with each doing multiple billions of dollars worth of securitizations during the period when they sold the Certificates to Freddie Mac. Fees, which were a percentage of the balance of the loan pool being purchased, and other transaction

revenues associated with the Underwriters' RMBS securitization business accounted for hundreds of millions of dollars in earnings in the relevant time period.

107. GE Capital and its affiliates shared this same pecuniary motive and desire to participate in the securitization boom. The more and the larger the securitizations these Defendants arranged and participated in, the greater their earnings. To that end, and in order to increase its Alt-A lending and securitization business, GE Capital acquired WMC on April 26, 2004. WMC, of course, was the sole originator for the 2 Securitizations sponsored by GE Holding, for which GE-WMC Securities served as depositor. This financial incentive – and the fact that GE-related entities participated in every step of the securitization process, from loan origination to securitization sales to Freddie Mac – may explain why the GE Defendants made statements to Freddie Mac about WMC's compliance with underwriting guidelines, and about the credit quality of the loan pools underlying the Certificates, with a negligent disregard for the truth and accuracy of those statements.

B. Freddie Mac Attempts to Minimize Risk by Requiring Certain Conditions Be Met Before Purchasing RMBS

108. Freddie Mac is a government-sponsored enterprise chartered by Congress to provide liquidity, stability, and affordability to the U.S. housing and mortgage markets. The liquidity provided by Freddie Mac serves the public by enhancing the availability of residential mortgage and community investment funds. In fulfilling this mission, Freddie Mac purchases mortgages and invests in RMBS.

109. Generally when purchasing RMBS, the GSEs require compliance with their investment requirements, as well as various representations and warranties concerning, among other things, the credit quality of the underlying loans, the evaluation of the borrower's ability to pay, the accuracy of the loan data provided, and adherence to applicable local, state and

federal law. Such representations and warranties were material to the GSEs' decisions to purchase RMBS, including the Certificates.

110. Because Freddie Mac lacked possession of the underlying loan files, these representations and warranties were material to its decision to purchase RMBS. If a seller refused to provide Freddie Mac with these assurances, the bonds were rejected for purchase outright.

C. Defendants' Material Misrepresentations and Omissions in the Offering Materials

111. In connection with the sale of the Certificates, the Depositor, the Sponsor, and the Underwriters (together, the "Negligent Misrepresentation Defendants") each made misrepresentations to Freddie Mac in term sheets, Registration Statement, Prospectuses, Prospectus Supplements, and other draft and final written offering documents (together, the "Offering Materials"). These Offering Materials described the credit quality and other characteristics of the underlying mortgage loans on an aggregate basis and were provided to investors, including the GSEs.

112. Freddie Mac therefore required the Negligent Misrepresentation Defendants to provide representations and warranties regarding the origination and quality of the mortgage loans, including that the mortgage loans had been underwritten by WMC pursuant to its stated underwriting guidelines.

113. Through term sheets or other offering documents, the Negligent Misrepresentation Defendants also furnished Freddie Mac with anticipated credit ratings on the proposed pool of mortgage loans intended for securitization. On information and belief, the Negligent Misrepresentation Defendants solicited the anticipated ratings from credit rating agencies based on misrepresentations as to the credit quality of the mortgage loans and the

amount of the overcollateralization in the deal. Both of the Securitizations had anticipated ratings of at least AAA or its equivalent.

114. Furthermore, the Negligent Misrepresentation Defendants were required to, and generally did, deliver Prospectus Supplements to Freddie Mac 48 hours prior to, or on the date of, settlement. The Prospectus Supplements included the same “loan-level” information about the loan pools underlying the Certificates. In the event that the Prospectus Supplements did not conform to the negotiated terms or the representations previously made, Freddie Mac required that the Negligent Misrepresentation Defendants resolve the discrepancy.

115. The Negligent Misrepresentation Defendants agreed that, in the event of a breach of any representation or warranty related to a mortgage loan, they would either cure the breach or repurchase or substitute eligible mortgage loans for the defective loans.

116. The Offering Materials included, among other things, (1) statements concerning WMC’s adherence to the stated underwriting guidelines; (2) statements concerning the percentage of owner-occupied properties in the loan pool; (3) statements concerning the average LTV ratios in the loan pools; and (4) statements concerning the credit ratings of the Certificates. Each misrepresentation created an additional, hidden layer of risk well beyond that known to be associated with non-agency loans or subprime loans.

117. First, the Negligent Misrepresentation Defendants’ statements regarding WMC’s compliance with its stated underwriting guidelines were false. The falsity of such representations is evident from disclosures concerning WMC’s systematic disregard of its stated underwriting guidelines, as well as the Certificates’ default rates and credit ratings. Indeed, WMC was cited among the country’s “worst ten” originators, and government and private investigations have confirmed that these originators failed to apply any standards at all when

making high-risk loans. Moreover, the high default rates and low credit ratings confirm that the loans were not properly underwritten in the first place. As shown in Tables 8 and 9, the average rate of default across the Securitizations is approximately 43 percent, although the Certificates that Freddie Mac invested were rated AAA (or its equivalent) at the time of purchase. As of July 31, 2011, both Certificates had been had been downgraded significantly. *See supra* at paragraphs 94-96.

118. The misstatements by the Negligent Misrepresentation Defendants were material because, as discussed above, the quality of loans in the pool determined the risk of the Certificates backed by those loans. Because a reasonable underwriting process had not been followed, the entire loan pool was much riskier and more prone to default and market losses than represented. The systemic underwriting failures decreased the reliability of *all* the information provided to Freddie Mac about the loans, and thus increased the actual risk to investors. As a result of those failures, the value of the Certificates was substantially lower than the price paid by Freddie Mac for those Certificates.

119. Second, as shown in Table 6, the Negligent Misrepresentation Defendants materially understated the non-owner-occupied status for each Securitization by *more than half*. This information was material to Freddie Mac because high owner-occupancy rates should have made the Certificates purchased by Freddie Mac safer investments than certificates backed by as many second homes or investment properties.

120. Third, the Negligent Misrepresentation Defendants understated the loan pools' average LTV ratios, which overstated the borrowers' equity "cushion" in the property. As Table 7 demonstrates, on average, only 40 percent of the loans actually had LTV ratios of less than 80 percent, as opposed to 60 percent as represented in the Prospectus Supplements. Moreover,

while all of the Certificates purchased by Freddie Mac were represented to have no loans with an LTV over 100 percent, in reality, approximately 13 percent of the loan pools were comprised of loans with greater than 100 percent LTV. In other words, in both Securitizations, a significant percentage of the mortgage loans either were under-secured or “under water” from the start. The understatement of LTV ratios was misleading because it misrepresented the risk of a borrower abandoning a property if the value dropped below the unpaid balance of the loan, as well as the risk that proceeds from a foreclosure sale would fail to cover the unpaid balance.

121. Further, the Negligent Misrepresentation Defendants failed to disclose that the Certificates’ credit ratings were false and misleading because Defendants provided to the ratings agencies the same misinformation found in the Offering Materials. In testimony before the Senate Permanent Subcommittee on Investigations, Susan Barnes, the North American Practice Leader for RMBS at S&P from 2005 to 2008, confirmed that the rating agencies relied upon investment banks to provide accurate information about the loan pools:

The securitization process relies on the quality of the data generated about the loans going into the securitizations. S&P relies on the data produced by others and reported to both S&P and investors about those loans S&P does not receive the original loan files for the loans in the pool. Those files are reviewed by the arranger or sponsor of the transaction, who is also responsible for reporting accurate information about the loans in the deal documents and offering documents to potential investors.

(SPSI hearing testimony, April 23, 2010.) As a result, the ratings failed to reflect accurately the actual risk underlying the Certificates purchased by Freddie Mac because the ratings agencies were analyzing a mortgage pool that had no relation to the pool that actually backed the Certificates purchased by Freddie Mac

122. The AAA (or equivalent) anticipated and final credit ratings were material to Freddie Mac, because the ratings provided additional assurances that Freddie Mac would receive

the expected interest and principal payments. Freddie Mac would not have purchased the Certificates without the AAA ratings assigned to them.

123. Each of the Negligent Misrepresentation Defendants is responsible for the representations made in or omitted from the Offering Materials. Specific false and misleading statements in the Registration Statement for the Certificates purchased by Freddie Mac are described *supra* and in Appendix A, which is incorporated by reference.

124. Because payment on the Certificates ultimately was funded by payments from the mortgagors, Freddie Mac faced a risk of non-payment if too many borrowers defaulted on their loans and the value of the mortgaged properties was insufficient to cover the unpaid principal balance. Accordingly, any representation bearing on the riskiness of the underlying mortgage loans was material to Freddie Mac.

125. As the FCIC found:

The Commission concludes that firms securitizing mortgages failed to perform adequate due diligence on the mortgages they purchased and at times knowingly waived compliance with underwriting standards. *Potential investors were not fully informed or were misled* about the poor quality of the mortgages contained in some mortgage-related securities. *These problems appear to have been significant.*

(FCIC Report at 187 (emphasis added).)

D. Freddie Mac Justifiably Relied on the Misrepresentations in the Offering Materials

126. The Negligent Misrepresentation Defendants knew that Freddie Mac had specific requirements for investing in non-agency mortgage-backed securities and that Freddie Mac would rely on their misstatements in the Offering Materials.

127. In fact, Freddie Mac did rely to their detriment on the Negligent Misrepresentation Defendants' misrepresentations and material omissions in the Offering Materials.

128. Freddie Mac's reliance was justifiable because Freddie Mac was necessarily required to rely on the Negligent Misrepresentation Defendants to provide complete and accurate information regarding the loans. Freddie Mac lacked access to the actual loan files and the loan-level data essential to perform statistical tests with respect to, among other things, owner-occupancy and LTV ratios.

129. Freddie Mac's reliance also was justifiable because industry practice was for an investor to rely upon the representations and warranties of the sponsors and underwriters regarding the quality of the mortgage loans and the standards under which they were originated. Information regarding the originators' compliance with underwriting guidelines, owner-occupancy rates, LTV ratios, and the information provided to credit ratings agencies, was solely within the knowledge of the Negligent Misrepresentation Defendants.

130. Freddie Mac was induced into buying the Certificates based on the false and misleading Offering Materials. It would not have purchased the Certificates had it known the truth concerning the matters alleged herein. Alternatively, Freddie Mac suffered damages because the price it paid for the Certificates was higher than their actual value.

131. Freddie Mac suffered injury from the day that the purchase of the Certificates was complete. As a result of Defendants' misrepresentations, the true value of the Certificates on the date of purchase was far lower than the price paid for them by Freddie Mac.

FIRST CAUSE OF ACTION

Violation of Section 11 of the Securities Act of 1933 (Against Defendants GE-WMC Securities, Credit Suisse and MS&Co)

132. Plaintiff realleges each allegation above as if fully set forth herein. For purposes of this cause of action, Plaintiff hereby expressly excludes any allegation that could be construed as sounding in fraud.

133. This claim is brought by FHFA pursuant to Section 11 of the Securities Act of 1933 and is asserted on behalf of Freddie Mac, which purchased the Certificates issued pursuant to the Registration Statement for the Securitizations described herein.

134. This claim is for strict liability based on the material misstatements and omissions in the Registration Statement that registered securities that were *bona fide* offered to the public on or after September 6, 2005 (as specified in Table 1, *supra*), and is asserted against GE-WMC Securities, Credit Suisse and MS&Co. (together, the “Section 11 Defendants”).

135. Credit Suisse and MS&Co., as underwriters for each of the Securitizations (as specified in Table 1, *supra*), directly and indirectly participated in distributing the Certificates, and directly and indirectly participated in drafting and disseminating the Registration Statement that registered securities that were *bona fide* offered to the public on or after September 6, 2005. As such, they are liable for the misstatements and omissions in the Registration Statement under Section 11 of the Securities Act.

136. GE-WMC Securities filed two Registration Statement (as specified in Table 2, *supra*), pursuant to which the Securitizations were carried out and is the “issuer” of the Certificates issued pursuant to the Registration Statement within the meaning of Section 2(a)(4) of the Securities Act, 15 U.S.C. § 77b(a)(4), and in accordance with Section 11(a), 15 U.S.C. § 77k(a).

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

138. The untrue statements of material fact and omissions of material fact in the Registration Statement are principally those set forth herein in Section I(A)(6) and Appendix A, and pertain to purported compliance with underwriting guidelines, occupancy status, loan-to-value ratios and credit ratings.

139. Freddie Mac purchased or otherwise acquired the Certificates pursuant to the false and misleading Registration Statement and made these purchases in the primary market. At the time it purchased the Certificates, Freddie Mac was not aware of the false and misleading statements and omissions alleged herein, and if it had known those facts, it would not have purchased the Certificates.

140. The Section 11 Defendants were obligated to make a reasonable investigation of the statements contained in the Registration Statements at the time they became effective to ensure that such statements were true and correct, and that there were no omissions of material facts required to be stated in order to make the statements contained therein not misleading.

141. The Section 11 Defendants did not exercise such due diligence and failed to conduct a reasonable investigation. In the exercise of reasonable care, these Defendants should have known of the false statements and omissions contained in or omitted from the Registration Statements filed in connection with the Securitizations, as set forth herein. In addition, although the performance of due diligence is not an affirmative defense available to the GE-WMC

Securities, they nonetheless also failed to take reasonable steps to ensure the accuracy of the representations made in the Registration Statements.

142. By virtue of the foregoing, Freddie Mac sustained substantial damages, including depreciation in the value of the securities, as a result of the misstatements and omissions in the Registration Statement. Plaintiff is therefore entitled to damages, jointly and severally, from each of the Section 11 Defendants.

143. By reason of the conduct herein alleged, each of GE-WMC Securities, MS& Co., and Credit Suisse is jointly and severally liable for its wrongdoing.

SECOND CAUSE OF ACTION

Violation of Section 12(a)(2) of the Securities Act of 1933 (Against GE-WMC Securities, Credit Suisse, and MS&Co.)

144. Plaintiff realleges each allegation above as if fully set forth herein. Plaintiff hereby expressly excludes any allegation that could be construed as sounding in fraud.

145. This claim is brought by FHFA pursuant to Section 12(a)(2) of the Securities Act of 1933 and is asserted on behalf of Freddie Mac, which purchased the Certificates issued pursuant to the Registration Statement in the Securitizations.

146. The Underwriters are prominently identified as underwriters in the Prospectuses that were used to sell the Certificates. The Underwriters offered, promoted, and/or sold the Certificates publicly, including selling to Freddie Mac, as set forth in the “Plan of Distribution” or “Underwriting” sections of the Prospectuses. The Underwriters offered, promoted, and/or sold the Certificates to Freddie Mac as specified in Table 2, *supra*.

147. The Underwriters offered, promoted, and/or sold the Certificates to Freddie Mac by means of the Prospectuses that contained untrue statements of material facts and omitted to state material facts necessary to make the statements, in light of the circumstances under which

they were made, not misleading. Upon information and belief, the Underwriters reviewed and participated in drafting the Prospectuses. The Underwriters successfully solicited Freddie Mac's purchases of the Certificates, and generated millions of dollars in commissions in connection with the sale of the Certificates. The Underwriters offered the Certificates for sale, sold them, and distributed them by the use of means or instruments of transportation and communication in interstate commerce.

148. GE-WMC Securities is prominently identified in the Prospectuses for the Securitizations carried out pursuant to the Registration Statement filed by GE-WMC Securities. GE-WMC Securities offered the Certificates publicly and actively solicited their sale, including to Freddie Mac.

149. GE-WMC Securities offered the Certificates to Freddie Mac by means of Prospectuses that contained untrue statements of material facts and omitted to state material facts necessary to make the statements, in the light of the circumstances under which they were made, not misleading. Upon information and belief, GE-WMC Securities reviewed and participated in drafting the Prospectuses.

150. GE-WMC Securities offered the Certificates for sale by the use of means or instruments of transportation and communication in interstate commerce.

151. GE-WMC Securities and the Underwriters actively participated in the solicitation of Freddie Mac's purchase of the Certificates, and did so in order to benefit themselves. Such solicitation included assisting in preparing the Registration Statement, filing the Registration Statement, and assisting in marketing and selling the Certificates.

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

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

154. GE-WMC Securities and the Underwriters offered and sold the Certificates offered pursuant to the Registration Statement directly to Freddie Mac pursuant to the false and misleading Prospectuses.

155. Freddie Mac acquired the Certificates in the primary market pursuant to the Prospectuses. Freddie Mac did not know of the misstatements and omissions contained in the Prospectuses at the time it purchased the Certificates. If Freddie Mac had known of those misstatements and omissions, it would not have purchased the Certificates.

156. Freddie Mac sustained substantial damages in connection with its investment in the Certificates and has the right to rescind and recover the consideration paid for the Certificates, with interest thereon. Freddie Mac hereby tenders the Certificates in connection with this request for rescission.

THIRD CAUSE OF ACTION

Violation of Section 15 of the Securities Act of 1933 (Against General Electric, GE Capital, and GE Holding)

157. Plaintiff realleges each allegation above as if fully set forth herein. Plaintiff hereby expressly excludes any allegation that could be construed as sounding in fraud.

158. This claim is brought under Section 15 of the Securities Act of 1933, 15 U.S.C. §77o (“Section 15”), against General Electric, GE Capital and GE Holding for control person liability with regard to the Section 11 and Section 12(a)(2) causes of actions set forth above.

159. GE Holding acted as Sponsor for the Securitizations carried out under the Registration Statement filed by GE-WMC Securities, and culpably participated in GE-WMC Securities’ violations of Sections 11 and 12(a)(2) by initiating the Securitizations, purchasing the mortgage loans to be securitized, determining the structure of the Securitizations, selecting GE-WMC Securities as the special purpose vehicle for the Securitizations, and selecting Credit Suisse and MS&Co. as the Underwriters. As Sponsor, GE Holding knew and intended that the mortgage loans it purchased would be securitized, and that certificates representing the ownership interests of investors in the mortgages would be issued by the relevant trusts.

160. GE Holding also acted as the seller of the mortgage loans for all the Securitizations carried out under the Registration Statement filed by GE-WMC Securities, in that it conveyed such mortgage loans to GE-WMC Securities pursuant to a Mortgage Loan Purchase Agreement.

161. GE Holding also controlled all aspects of the business of GE-WMC Securities as the direct parent of GE-WMC Securities, and GE-WMC Securities was merely a special purpose entity created by GE Holding for the purpose of acting as a pass-through for the issuance of the Certificates. As Sponsor, GE Holding was able to, and did in fact, control the contents of the Registration Statement filed by GE-WMC Securities, including the Prospectuses and Prospectus Supplements pertaining to each of the Securitizations. GE Holding had the practical ability to direct and control the actions of GE-WMC Securities in issuing and selling the Certificates, and

in fact exercised such direction and control over the activities of GE-WMC Securities in connection with the issuance and sale of the Certificates.

162. GE controlled the business operations of GE Capital, which in turn controlled the business operations of GE Holding. As the corporate parent of GE Capital, GE had the practical ability to direct and control the actions of GE Capital, who in turn had the practical ability to direct and control the actions of GE Holding and GE-WMC Securities in issuing and selling the Certificates, and in fact, exercised such direction and control over the activities of GE Holding and GE-WMC Securities in connection with the issuance and sale of the Certificates. As the corporate parent of GE Holding, GE Capital had the practical ability to direct and control the actions of GE Holding and GE-WMC Securities in issuing and selling the Certificates, and in fact, exercised such direction and control over the activities of GE Holding and GE-WMC Securities in connection with the issuance and sale of the Certificates.

163. GE and GE Capital culpably participated in the violations of Section 11 and 12(a)(2) set forth above. GE and GE Capital oversaw and directed the actions of their subsidiaries and allowed them to misrepresent the mortgage loans' characteristics in the Registration Statement and establish special-purpose financial entities such as GE-WMC Securities and the issuing trusts to serve as conduits for the mortgage loans.

164. Freddie Mac purchased the Certificates in the primary market, which were issued pursuant to the Registration Statement that included the Prospectuses and Prospectus Supplements. The facts misstated in and omitted from these Registration Statement were material to a reasonable investor reviewing the Registration Statement.

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

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

FOURTH CAUSE OF ACTION

Primary Violations of the Virginia Securities Act (Against GE-WMC Securities, Credit Suisse, and MS&Co)

167. Plaintiff realleges each allegation above as if fully set forth herein. Plaintiff hereby expressly excludes any allegation that could be construed as sounding in fraud.

168. This claim is brought by Plaintiff pursuant to Section 13.1-522(A)(ii) of the Virginia Code and is asserted on behalf of Freddie Mac with respect to those Certificates identified in Table 9 that were purchased by Freddie Mac and issued pursuant to the Registration Statements.

169. Defendant GE-WMC Securities made false and materially misleading statements in the Prospectuses (as supplemented by the Prospectus Supplements, hereinafter referred to in this Section as “Prospectuses”) for each Securitization. Defendants Credit Suisse and MS&Co made false and materially misleading statements in the Prospectuses for the Securitizations effected under the Shelf Registration Statements.

170. Credit Suisse and MS&Co. are prominently identified in the Prospectuses, the primary documents that they used to sell the Certificates. Credit Suisse and MS&Co. offered the Certificates publicly, including selling to Freddie Mac the Certificates, as set forth in the “Method of Distribution” or equivalent underwriting section of each Prospectus.

171. Credit Suisse and MS&Co. offered and sold the Certificates to Freddie Mac by means of the Prospectuses, which contained untrue statements of material facts and omitted to state material facts necessary to make the statements, in light of the circumstances under which they were made, not misleading. Credit Suisse and MS&Co. reviewed and participated in drafting the Prospectuses.

172. Credit Suisse and MS&Co. successfully solicited Freddie Mac's purchases of the Certificates. As underwriters, Credit Suisse and MS&Co. were paid a substantial commission based on the amount it received from the sale of the Certificates to the public.

173. Credit Suisse and MS&Co. offered the Certificates for sale, sold them, and distributed them to Freddie Mac in the State of Virginia.

174. GE-WMC Securities is prominently identified in the Prospectuses for the Securitizations carried out under the Registration Statements. These Prospectuses were the primary documents used to sell Certificates for the Securitizations under the Registration Statements. GE-WMC Securities offered the Certificates publicly and actively solicited their sale, including to Freddie Mac. GE-WMC Securities was paid a percentage of the total dollar amount of the offering upon completion of the Securitizations effected pursuant to the Shelf Registration Statements.

175. With respect to the Securitizations for which it filed the Shelf Registration Statements, including the related Prospectus Supplements, GE-WMC Securities offered the Certificates to Freddie Mac by means of Prospectuses which contained untrue statements of material facts and omitted to state material facts necessary to make the statements, in the light of the circumstances under which they were made, not misleading. GE-WMC Securities reviewed and participated in drafting the Prospectuses.

176. Each of Credit Suisse, MS&Co. and GE-WMC Securities actively participated in the solicitation of the Freddie Mac's purchase of the Certificates, and did so in order to benefit itself. Such solicitation included assisting in preparing the Registration Statements, filing the Registration Statements, and assisting in marketing the Certificates.

177. Each of the Prospectuses contained material misstatements of fact and omitted facts necessary to make the facts stated therein not misleading. The facts misstated and omitted were material to a reasonable investor reviewing the Prospectuses, and specifically to Freddie Mac.

178. The untrue statements of material facts and omissions of material facts in the Registration Statements, which include the Prospectuses, are set forth above, and include compliance with underwriting guidelines, occupancy status, loan-to-value ratios, and accurate credit ratings.

179. Credit Suisse and MS&Co. and GE-WMC Securities offered and sold the Certificates directly to Freddie Mac pursuant to the materially false, misleading, and incomplete Prospectuses.

180. Credit Suisse and MS&Co. each owed to Freddie Mac, as well as to other investors in these trusts, a duty to make a reasonable and diligent investigation of the statements contained in the Prospectuses, to ensure that such statements were true, and to ensure that there was no omission of a material fact required to be stated in order to make the statements contained therein not misleading. GE-WMC Securities owed the same duty with respect to the Prospectuses for the Securitizations effected under the Shelf Registration Statements.

181. Credit Suisse, MS&Co. and GE-WMC Securities failed to exercise such reasonable care. These Defendants in the exercise of reasonable care should have known that the

Prospectuses contained untrue statements of material facts and omissions of material facts at the time of the Securitizations, as set forth above.

182. In contrast, Freddie Mac did not know, and in the exercise of reasonable diligence could not have known, of the untruths and omissions contained in the Prospectuses at the time it purchased the Certificates. If Freddie Mac had known of those untruths and omissions, it would not have purchased the Certificates.

183. Freddie Mac sustained substantial damages in connection with its investments in the Certificates and has the right to rescind and recover the consideration paid for the Certificates, with interest thereon.

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

FIFTH CAUSE OF ACTION

Controlling Person Liability Under the Virginia Securities Act (Against General Electric, GE Capital, and GE Holding)

185. Plaintiff realleges each allegation above as if fully set forth herein. Plaintiff hereby expressly excludes any allegation that could be construed as sounding in fraud.

186. This claim is brought under Section 13.1-522(C) of the Virginia Code and is asserted on behalf of Freddie Mac, which purchased the Certificates (identified in Table 9) issued pursuant to the Registration Statements. This claim is brought against General Electric, GE Capital, and GE Holding (“Control Persons”) for controlling-person liability with regard to the claim brought by Plaintiff pursuant to Section 13.1-522(A)(ii).

187. GE Holding acted as Sponsor for the Securitizations carried out under the Registration Statements filed by GE-WMC Securities, and culpably participated in GE-WMC Securities’ violations of Section 13.1-522(A)(ii) by initiating the Securitizations, purchasing the

mortgage loans to be securitized, determining the structure of the Securitizations, selecting GE-WMC Securities as the special purpose vehicle for the Securitizations, and selecting Credit Suisse and MS&Co. as the Underwriters. As Sponsor, GE Holding knew and intended that the mortgage loans it purchased would be securitized, and that certificates representing the ownership interests of investors in the mortgages would be issued by the relevant trusts.

188. GE Holding acted as the seller of the mortgage loans for all the Securitizations carried out under the Registration Statements filed by GE-WMC Securities, in that it conveyed such mortgage loans to GE-WMC Securities pursuant to a Mortgage Loan Purchase Agreement.

189. GE Holding controlled all aspects of the business of GE-WMC Securities as the direct parent of GE-WMC Securities, and GE-WMC Securities was merely a special purpose entity created by GE Holding for the purpose of acting as a pass-through for the issuance of the Certificates. As Sponsor, GE Holding was able to control, and did in fact control, the contents of the Registration Statements filed by GE-WMC Securities, including the Prospectuses and Prospectus Supplements pertaining to each of the Securitizations. GE Holding had the practical ability to direct and control the actions of GE-WMC Securities in issuing and selling the Certificates, and in fact exercised such direction and control over the activities of GE-WMC Securities in connection with the issuance and sale of the Certificates.

190. GE controlled the business operations of GE Capital, which in turn controlled the business operations of GE Holding. As the corporate parent of GE Capital, GE had the practical ability to direct and control the actions of GE Capital, who in turn had the practical ability to direct and control the actions of GE Holding and GE-WMC Securities in issuing and selling the Certificates, and in fact, exercised such direction and control over the activities of GE Holding and GE-WMC Securities in connection with the issuance and sale of the Certificates. As the

corporate parent of GE Holding, GE Capital had the practical ability to direct and control the actions of GE Holding and GE-WMC Securities in issuing and selling the Certificates, and in fact, exercised such direction and control over the activities of GE Holding and GE-WMC Securities in connection with the issuance and sale of the Certificates.

191. GE and GE Capital culpably participated in the violations of Section 13.1-522(A)(ii) set forth above. GE and GE Capital oversaw and directed the actions of their subsidiaries and allowed them to misrepresent the mortgage loans' characteristics in the Registration Statements and establish special-purpose financial entities such as GE-WMC Securities and the issuing trusts to serve as conduits for the mortgage loans.

192. Freddie Mac purchased the Certificates, which were issued pursuant to the Registration Statements, including the Prospectuses and Prospectus Supplements, which contained material misstatements of fact and omitted facts necessary to make the facts stated therein not misleading. The facts misstated and omitted were material to a reasonable investor reviewing the Registration Statements, and specifically to Freddie Mac.

193. Freddie Mac did not know, and in the exercise of reasonable diligence could not have known, of the misstatements and omissions in the Registration Statements; had Freddie Mac known of those misstatements and omissions, it would not have purchased the Certificates.

194. Freddie Mac has sustained substantial damages as a result of the misstatements and omissions in the Registration Statements, for which it is entitled to compensation, and for which the Control Persons are jointly and severally liable.

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

SIXTH CAUSE OF ACTION

(Negligent Misrepresentation Against GE Holdings, GE-WMC Securities, Credit Suisse, and MS&Co.)

196. Plaintiff realleges each allegation above as if fully set forth herein.

197. The Sponsor, the Depositor, and the Underwriters each marketed and sold the Certificates to Freddie Mac as described above.

198. Because the Sponsor (GE Holding) acquired all of the loans underlying the Certificates from a wholly-owned subsidiary (*i.e.*, WMC) of its parent company (GE Capital), and then transferred those loans to a wholly-owned special purpose vehicle (GE-WMC Securities), and through its familiarity with the loan origination and transfer process and its possession of the loan files and other documentation, the Sponsor had unique, exclusive, and special knowledge about credit quality of the mortgage loans in the Securitizations.

199. Because the Depositor (GE-WMC Securities) acquired, owned and then conveyed the underlying mortgage loans to the issuing trusts, and through its familiarity with the loan origination and transfer process and its possession of the loan files and other documentation, the Depositor had unique, exclusive, and special knowledge about the credit quality of the mortgage loans in the Securitizations.

200. Because the Underwriters (MS&Co. and Credit Suisse) had access to (and ability to review) the information contained in the loan files underlying the Certificates, and were obligated to perform a reasonable investigation to ensure the accuracy of the Registration Statement, the underwriters had unique, exclusive, and special knowledge about the credit quality of the underlying mortgage loans in the Securitizations.

201. In contrast, Freddie Mac did not have access to the borrower loan files and could not evaluate the credit quality of the mortgage loans in the Securitizations – or whether WMC

had complied with its origination guidelines – on a loan-by-loan basis. Freddie Mac therefore necessarily relied, when determining whether to purchase the Certificates, on the information provided by the Sponsor, the Depositor, and the Underwriters concerning the credit quality of the loans and WMC’s purported compliance with its origination guidelines.

202. The Sponsor, the Depositor and the Underwriters provided Freddie Mac with information regarding the credit quality of the mortgage loans (including the LTV ratios and owner-occupancy rates of the loan pools) and WMC’s purported compliance with its origination guidelines in (i) the Registration Statement and (ii) direct communications with Freddie Mac’s trading department. Having provided Freddie Mac with this incomplete and/or misleading information, the Sponsor, the Depositor and the Underwriters had a duty to correct the misimpressions left by their statements, including with respect to any “half truths.”

203. The Sponsor, the Depositor and the Underwriters knew that Freddie Mac would reasonably rely on them to provide complete, accurate, and timely information. The actual credit quality of the loans, and the standards by which WMC originated the mortgage loans, were known to these Defendants and were not known, and could not be determined, by Freddie Mac prior to the closing of the Securitizations. Freddie Mac therefore reasonably relied upon these Defendants’ misrepresentations and omissions in the Offering Materials.

204. The Sponsor, the Depositor and the Underwriters breached their duty of disclosure by making false or misleading statements of material facts to Freddie Mac in connection with Freddie Mac’s purchase of the Certificates, and these defendants were negligent in failing to learn of the falsity of these statements. These false statements are described above and in Appendix A to the Complaint.

205. Freddie Mac reasonably relied on the information provided by the Sponsor, the Depositor and the Underwriters, and as a result, suffered damages in an amount to be determined at trial.

PRAYER FOR RELIEF

WHEREFORE Plaintiff respectfully requests that judgment be entered:

An award in favor of Plaintiff against all Defendants, jointly and severally, for:

- a. Rescission and recovery of the consideration paid for the Certificates, with interest thereon (in connection with this request for rescission, the Certificates are hereby tendered to the Defendants);
- b. Freddie Mac's monetary losses, including any diminution in value of the Certificates, as well as lost principal and lost interest payments thereon;
- c. Punitive damages;
- d. Attorneys' fees and costs;
- e. Prejudgment interest at the maximum legal rate; and
- f. Such other and further relief as the Court may deem just and proper.

DATED: New York, New York
September 2, 2011

KASOWITZ, BENSON, TORRES
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