

Since the automatic stay prevented the Securities Action from proceeding against WaMu, the Securities Claimants filed a proof of claim form, Claim Number 3515, in the amount of \$39,837,106,891.00 for violations of federal securities laws based on purchases of certain WaMu Mortgage Pass-Through Trust Certificates between January 26, 2006 and November 1, 2007, issued by WaMu-created Trusts. For the reasons set forth below, the Securities Claimants' Claim Number 3515 against WaMu should not be disallowed or expunged.

STATEMENT OF FACTS

On August 4, 2008, the Securities Claimants filed the Securities Action in Washington state court against WaMu, other WaMu entities, and certain individual defendants alleging violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§77a, *et seq.* The Securities Claimants filed the action on their own behalf and on behalf of a class of all persons and entities who purchased or otherwise acquired certain mortgage-backed Certificates between January 26, 2006 and November 1, 2007 (the "Class"), issued by twenty-six specific Washington Mutual Mortgage Pass-Through Trusts pursuant to a Registration Statement filed by WaMu Asset Acceptance Corp. ("WMAAC") with the Securities Exchange Commission ("SEC") on December 20, 2005, as supplemented on January 3, 2006 (the "Registration Statement").

On September 25, 2008, the Office of Thrift Supervision ("OTS") declared Washington Mutual Bank insolvent and appointed the Federal Deposit Insurance Company ("FDIC") as the Receiver for Washington Mutual Bank pursuant to 12 U.S.C. § 1821(c). Subsequently, on September 26, 2008, WaMu filed for Chapter 11 bankruptcy triggering the automatic stay. *See* 11 U.S.C.A. § 362. When the Securities Claimants filed their amended complaint on December 16, 2008, the automatic stay was in place and thus WaMu could not be sued in the amended

complaint. However, the Securities Claimants proceeded against the other WaMu entities and individual defendants who were not subject to the automatic stay.¹ On March 30, 2009, the Securities Claimants filed a proof of claim form with the Delaware Bankruptcy Court naming WaMu as the debtor.

NATURE OF THE CLAIM

The Securities Claimants' claim arises out of the wrongful actions of WaMu and related entities in connection with the issuance and sale of the Certificates.

WaMu, through its Home Loans Group segment, was one of the nation's largest home loan originators. Washington Mutual Bank was a wholly-owned subsidiary of WaMu, and WMACC was a wholly-owned subsidiary of Washington Mutual Bank. WMACC pooled many of the mortgage loans WaMu originated and securitized them into mortgage-backed securities ("MBS"). WMACC then sold the MBS to qualifying special purpose trusts it created (the "Issuing Trusts"). The Issuing Trusts, in turn, sold Certificates representing interests in the monthly distributions of principal and interest from the underlying mortgages to the Securities Claimants and members of the Class.

The Certificates were sold in offerings by means of the Registration Statement and through Prospectuses (the "Offering Documents"). WMACC acted as "Depositor" and "Issuer" within the meaning of the Securities Act in connection with the Certificate offerings.

Washington Mutual Mortgage Securities Corp. ("WMMSC"), a wholly-owned subsidiary of Washington Mutual Bank and an indirect wholly-owned subsidiary of WaMu, was the "servicer"

¹ Copies of both the August 4, 2008 Complaint and the December 16, 2008 Amended Complaint are attached hereto as Exhibits A and B respectively. The Amended Complaint no longer named WaMu due to the automatic stay.

of the mortgage loans, and acted as “Sponsor” of offerings under the Securities Act, and WaMu Capital Corp., an affiliate of WaMu, acted as sole “underwriter” of the offerings.

The Offering Documents repeatedly touted the supposedly strict underwriting standards WaMu employed in connection with the origination of the mortgage loans underlying the Certificates. They emphasized WaMu’s strict adherence to independent and objective real estate appraisal standards, and also set forth the loan-to-value (“LTV”) ratios WaMu used to qualify borrowers.

The crux of the Securities Action is that WaMu systematically and deliberately inflated the appraised values of the properties that secured the underlying mortgages. By pooling and selling the mortgages to the Issuing Trusts, WaMu and WMACC shifted the undisclosed and increased risk of loss to purchasers of the Certificates including the Securities Claimants and the Class. The scheme was ultimately revealed in a complaint filed by New York Attorney General Andrew Cuomo on November 1, 2007. The complaint cites numerous internal WaMu documents obtained through the New York AG’s investigation, and details a broad based scheme by WaMu to improperly pressure supposedly independent appraisers to artificially inflate real estate values in order to close more loans than would otherwise close, because absent the inflated values, the LTV ratios would have been too high for borrowers to qualify.

The Securities Action alleges that the Offering Documents contain materially false and misleading statements regarding WaMu’s underwriting practices and the LTV ratios in violation of the Securities Act that adversely impacted the value of the Certificates causing damage to the Securities Claimants and the Class.

ARGUMENT

I. THE SECURITIES CLAIMANTS' CLAIMS SHOULD NOT BE DISALLOWED OR EXPUNGED BASED ON THE EXCLUSION OF WAMU FROM THE AMENDED COMPLAINT

A. The Securities Claimants Excluded WaMu from the Amended Complaint because the Automatic Stay Barred Suit Against Wamu after the Petition was Filed.

In the Sixth Omnibus (Substantive) Objection to Claims, the Debtors seek to have the Court disallow or expunge the Securities Claimants' Claim Number 3515 because WaMu was not named as a defendant in the amended complaint. To the contrary, the Securities Claimants had no option but to exclude WaMu from the amended complaint because the bankruptcy triggered the automatic stay pursuant to section 362(a) of the Bankruptcy Code. *See In re Brown*, 311 B.R. 721, 729 (Bankr. W.D. Pa. 2004) ("As a general matter, post-petition judicial actions or proceedings in a forum other than bankruptcy court are void *ab initio* in the absence of relief from the automatic stay,"); *Rittenhouse Assocs., Inc. v. Frederic A. Potts & Co., Inc.*, CA No. 626, 1983 WL 103269, at *3 (Del. Ch. Aug. 1, 1983) ("Once a filing has been made, the Bankruptcy Court automatically becomes the initial forum from which a litigant may seek relief [and] [t]he mere filing of a petition triggers the [automatic stay] provisions of section 362[.]"). Accordingly, the Securities Claimants did not sue WaMu in the amended complaint. Debtors may not now assert that because the Securities Claimants were barred from naming WaMu in the amended complaint they no longer have any liability with respect to the claims in the Securities Action.

B. The Filing of an Amended Complaint, Post-Petition, that did not Name WaMu as Defendant, Does Not Preclude the Securities Claimants from Asserting Claims Against WaMu in Bankruptcy Court.

The Securities Claimants did not include WaMu in the amended complaint in the Securities Action and, as required under Bankruptcy Rule 3003(c)(2), filed a proof of claim form

naming WaMu as the debtor in Delaware Bankruptcy Court. *See Greystone Digital Tech., Inc. v. Alvarez*, CA No. 2796-VCP, 2007 WL 2088859, at *3 (Del. Ch. July 20, 2007) (“[A]ll creditors holding contingent, unliquidated, or disputed claims, must file a proof of claim with the bankruptcy court before a deadline (“bar date”) set by the court.”). Accordingly, the Securities Claimants’ claim is properly before this Court. *See In re Celotex Corp.*, 204 B.R. 586, 630 (Bankr. M.D. Fla. 1996) (“Except as otherwise expressly provided in the [Chapter 11] Plan, the Bankruptcy Court shall retain jurisdiction to hear and determine all Claims against and Interests in the Debtors ... and all other causes of action which may exist by or on behalf of the Debtors.”). Obviously the Securities Claimants could not sue WaMu in the amended complaint, since this bankruptcy had been filed. Thus, by requesting that this Court disallow or expunge the Securities Claimants’ claim against WaMu in Bankruptcy Court because they did not sue WaMu post-petition, Debtors are essentially attempting to prohibit the Securities Claimants from litigating their claim in any forum, thus preventing any possible recovery on their substantial claim. Because WaMu could not be sued in the Amended Complaint and the claim against WaMu was properly filed in this Court, the Securities Claimants claim against WaMu should not be disallowed or expunged.

II. DEBTORS’ SEVENTH OMNIBUS (NON-SUBSTANTIVE) OBJECTION IS MOOT.

In their Seventh Omnibus (Non-Substantive Objection), Debtors object to the Securities Claimants’ Claim Number 2589 on the basis that it was amended and superseded by Claim Number 3515. The Securities Claimants will agree to strike Claim Number 2589 provided that Claim Number 3515 remains.

CONCLUSION

Based upon the foregoing, the Securities Claimants' Claim Number 3515 should not be disallowed or expunged.

Respectfully submitted,

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Retirement Plan*

Dated: August 12, 2009

EXHIBIT A

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CASE NUMBER: 08-2-26210-3 SEA

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IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR THE COUNTY OF KING

NEW ORLEANS EMPLOYEES'
RETIREMENT SYSTEM and MARTA/ATU
LOCAL 732 EMPLOYEES RETIREMENT
PLAN, individually and on behalf of all others
similarly situated,

Plaintiffs,

v.

WASHINGTON MUTUAL, INC.;
WASHINGTON MUTUAL BANK; WAMU
ASSET ACCEPTANCE CORP.;
WASHINGTON MUTUAL MORTGAGE
SECURITIES CORP.; WAMU CAPITAL
CORP.; RICHARD CAREAGA; DAVID
BECK; DIANE NOVAK; THOMAS
GREEN; and ROLLAND JURGENS,

Defendants.

CLASS ACTION

Case No.

COMPLAINT FOR VIOLATIONS
OF SECTIONS 11, 12(A)(2) AND 15
OF THE SECURITIES ACT OF 1933

SUMMARY OF THE ACTION

1. This Complaint is brought pursuant to the Securities Act of 1933 (the "Securities Act") by New Orleans Employees' Retirement System and MARTA/ATU Local 732 Employees Retirement Plan (collectively "Plaintiffs"), on their own behalf and as a class action on behalf of all persons and entities who purchased or otherwise acquired WaMu Mortgage Pass-Through Trust Certificates (as defined below) between January 26, 2006 and November 1, 2007, inclusive (the "Class Period"), pursuant to a Registration Statement that WaMu Asset

COMPLAINT FOR VIOLATIONS OF SECTIONS 11,
12(A)(2) AND 15 OF THE SECURITIES ACT OF 1933 - 1

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1 Acceptance Corp. ("WMAAC") filed with the Securities and Exchange Commission
2 ("SEC") on December 30, 2005, as supplemented on January 3, 2006 (the "Registration
3 Statement"). The Securities Act imposes liability for omissions and misstatements in
4 registration statements and prospectuses and provides concurrent jurisdiction in state and federal
5 courts over alleged violations of the Act. *See* 15 U.S.C. § 77v.

6 2. Washington Mutual, Inc. ("Washington Mutual" or the "Company"), the parent
7 company of WMAAC, is among the nation's largest savings and loan institutions, ranking in the
8 top ten of all U.S.-based bank and thrift holding companies based on consolidated assets.
9 Washington Mutual is also one of the nation's largest home loan originators, having originated
10 more than \$200 billion in home loans in fiscal 2006.

11 3. Many of the loans Washington Mutual originated in 2006 were pooled together
12 and securitized into mortgage backed securities ("MBS") that were sold to qualifying special-
13 purpose entities, in this case referred to as the "Issuing Trusts". The Issuing Trusts, in turn, sold
14 "Certificates" to Plaintiffs and other members of the Class during the Class Period, providing
15 monthly distributions of interest and principal on future cash flows from the mortgages
16 underlying the Issuing Trusts. As borrowers paid their mortgages, distributions were made to
17 the Plaintiffs and members of the Class.

18 4. Washington Mutual, as originator of many of the mortgages underlying the Issuing
19 Trusts, repeatedly touted its supposedly strong underwriting standards to assure Plaintiffs and
20 other Class members that it issued mortgages only after the real-estate that collateralized the loans
21 had been subjected to objective and independent real-estate appraisals that met the standards of
22 the Uniform Standards of Professional Appraisal Practice ("USPAP").

23 5. In this regard, the Registration Statement included numerous representations
24 about the quality of the mortgage pools underlying the Issuing Trust, such as the loan-to-value
25 ("LTV") ratios used to qualify borrowers and the appraisal standards against which the real-
26 estate that collateralized the mortgages had been valued. These representations were repeated in
27

1 and incorporated into prospectuses and supplemental prospectuses that WMAAC filed with the
2 SEC in connection with the sale of Certificates to Plaintiffs and members of the Class.

3 6. Based in part on these representations, WMAAC obtained credit ratings for each
4 of the Certificates issued by the Issuing Trusts, and representations about these credit ratings were
5 included in the supplemental prospectuses filed with the SEC in connection with the sale of the
6 Certificates. All of this information was essential in valuing the investment quality of the
7 Certificates.

8 7. As it has now become known, throughout the Class Period, Washington Mutual
9 had systematically inflated the appraised values of the properties that secured the mortgages. By
10 inflating the appraised values, Washington Mutual was able to close more loans and earn more
11 fees by issuing mortgages to unqualified borrowers. Then by pooling and selling those mortgages
12 to the Issuing Trusts, Washington Mutual and WMAAC shifted the undisclosed and increased
13 risk of loss from mortgage defaults to Plaintiffs and other unwitting Class members.

14 8. The scheme was ultimately unraveled in a complaint that New York Attorney
15 General Andrew Cuomo (the "NYAG") filed on November 1, 2007 (the "NYAG Complaint"),
16 which cited emails showing how Washington Mutual had improperly pressured supposedly
17 independent appraisers to artificially inflate real-estate appraisals in order to close home loans
18 that would otherwise not have closed because, absent the inflated values, the LTV ratio would be
19 too high for the borrowers to qualify.

20 9. Contrary to Washington Mutual's material assurances in the Registration
21 Statement, mortgages that comprised the Issuing Trusts were not originated in accordance with
22 the stated underwriting standards of the USPAP or in accordance with applicable regulations and
23 laws. Instead, Washington Mutual improperly caused its employees to inflate appraisals, and as
24 the NYAG alleged, following the retention of outside appraisers (specifically, eAppraiseIT)
25 Washington Mutual then coerced third party appraisers to inflate property appraisals by directing
26 its appraisal work to a hand-picked group of appraisers that Washington Mutual knew would
27 provide inflated appraisals.

1 10. According to a November 1, 2007 press release issued by the NYAG:

2 In April 2006, EA [eAppraiseIT] began providing appraisal services for WaMu,
3 which became EA's biggest client. Within weeks, WaMu began complaining
4 to EA that its appraisals were not high enough. WaMu pressured EA to employ
5 exclusively a new panel of appraisers that WaMu hand-selected as "Proven
6 Appraisers." *This set of appraisers was chosen by WaMu specifically
7 because they inflated property appraisals. WaMu profited from these higher
8 appraisals because they could close more home loans, at greater values.* Over the
9 course of their relationship, between April 2006 and October 2007, EA provided
10 approximately 262,000 appraisals for WaMu.

11 *Attorney General Cuomo's investigation uncovered a series of e-mails between
12 executives at EA, First American, and WaMu that show EA officials were
13 willingly violating state and federal appraisal independence regulations to
14 comply with WaMu's demands...*

15 (Emphasis added)

16 11. Because of this misconduct, the Registration Statement and the prospectuses
17 and supplemental prospectuses that WMAAC filed with the SEC in connection with the
18 Issuing Trusts contained materially false and misleading statements concerning the Certificates'
19 value, investment risks, and the LTV ratios the mortgage pools underlying the Issuing
20 Trusts.

21 12. Furthermore, the systematic over-appraisal of the real-estate that collateralized
22 the mortgage pools underlying the Issuing Trusts materially and adversely impacted the value of
23 the Certificates, and Plaintiffs and members of the Class were damaged thereby.

24 JURISDICTION AND VENUE

25 13. The claims alleged herein arise under Sections 11, 12(a)(2) and 15 of the
26 Securities Act of 1933 (the "Securities Act"), 15 U.S.C. §§ 77k, 771(a)(2) and 77o.

27 14. This Court has jurisdiction over the subject matter of this action pursuant to
Section 22 of the Securities Act, 15 U.S.C. § 77v, which explicitly states that "The district courts
of the United States . . . shall have jurisdiction of offenses and violations under this
subchapter . . . and, concurrent with State and Territorial courts, except as provided in section
77p of this title with respect to covered class actions, of all suits in equity and actions at law
brought to enforce any liability or duty created by this subchapter." Section 22 further provides

1 that, “[e]xcept as provided in section 77p(c) [(Section 16 of the Securities Act)] of this title, no
2 case arising under this subchapter and brought in any State court of competent jurisdiction shall
3 be removed to any court of the United States.” Section 16(c) of the Securities Act refers to
4 “covered class actions.” This action asserts claims under the Securities Act and is not a covered
5 class action within the meaning of Section 16(c), and therefore, pursuant to Section 22 of the
6 Securities Act, this action is not removable. *See Luther v. Countrywide Home Loans Servicing*
7 *LP*, 2008 WL 2775483 (9th Cir. July 16, 2008).

8 15. Venue is proper in this Court because many of the acts and transgressions leading
9 to the violations of law complained of herein occurred in this County, including the preparation
10 and dissemination of materially false and misleading statements in the Registration Statement,
11 as well as the prospectuses and supplemental prospectuses, as further detailed below.
12 Furthermore, Washington Mutual is incorporated in Washington State, and along with
13 Washington Mutual Bank, Washington Mutual Mortgage Securities Corp., WMAAC, and WaMu
14 Capital Corp., conducts its business and is headquartered within this County.

15 PARTIES

16 16. Plaintiff, New Orleans Employees’ Retirement System (“NOERS”), purchased
17 WaMu Mortgage Pass-Through Certificates Series 2006-AR14, WaMu Mortgage Pass-Through
18 Certificates Series 2006-AR16, and WaMu Mortgage Pass-Through Certificates Series 2006-
19 AR18, during the Class Period, pursuant to and/or traceable to the Registration Statement,
20 and pursuant to and/or traceable to supplemental prospectuses that WMAAC filed with the
21 SEC on October 23, 2006, November 17, 2006, and December 19, 2006 respectively.

22 17. Plaintiff, MARTA/ATU Local 732 Employees Retirement Plan (“MARTA”)
23 purchased WaMu Mortgage Pass-Through Certificates Series 2006-AR2, WaMu Mortgage Pass-
24 Through Certificates Series 2006-AR16, WaMu Mortgage Pass-Through Certificates Series-
25 AR18, WaMu Mortgage Pass-Through Certificates Series 2007-HY2, WaMu Mortgage Pass-
26 Through Certificates Series 2007-HY4, and WaMu Mortgage Pass-Through Certificates Series
27 2007-HY7, during the Class Period, pursuant to and/or traceable to the Registration

1 Statement, and pursuant to and/or traceable to supplemental prospectuses that WMAAC
2 filed with the SEC on February 16, 2006, November 17, 2006, December 19, 2006,
3 February 14, 2007, March 23, 2007, and June 22, 2007, respectively.

4 18. As a direct and proximate cause of the false and misleading statements alleged
5 herein, NOERS and MARTA suffered damages when the truth became known and the price of
6 the Certificates dropped. Furthermore, during the Class Period, MARTA sold its WaMu
7 Mortgage Pass-Through Certificates Series 2006-AR2 at a loss and was damaged thereby.

8 19. Defendant Washington Mutual is a Washington corporation with its principal
9 executive offices located at 1301 Second Avenue, Seattle, Washington. Washington Mutual,
10 together with its subsidiaries, operates as a consumer and small business banking company in the
11 United States. The Company's Home Loans Group segment originates and services home loans,
12 services portfolios of home equity loans and lines of credit, originates and purchases mortgage
13 loans to borrowers, and provides financing and other banking services to mortgage bankers
14 for the origination of mortgage loans.

15 20. Defendant Washington Mutual Bank ("WMB") is a Washington corporation with
16 its principal executive offices located at 1301 Second Avenue, Seattle, Washington. WMB is a
17 wholly-owned subsidiary of Washington Mutual, and served various roles in the formation and
18 securitization of the Issuing Trusts, including as "Sponsor" of the Issuing Trusts, as further
19 detailed below.

20 21. Defendant Washington Mutual Mortgage Securities Corp. ("WMMSC") is a
21 Delaware corporation, a wholly-owned subsidiary of WMB, and an indirect wholly-owned
22 subsidiary of Washington Mutual. WMMSC engages in the business of (i) purchasing mortgage
23 loans; (ii) selling mortgage loans in whole loan transactions and securitizing mortgage loans
24 through affiliated and unaffiliated depositors; (iii) master servicing mortgage loans; (iv) acting
25 as administrative agent of WMB and its affiliates with respect to mortgage loans serviced by
26 WMB and its affiliates; and (v) providing securitization services. WMMSC served various
27 roles, including as "Sponsor" of the Issuing Trusts, as further described below.

1 22. Defendant WMAAC is a Delaware corporation and a wholly-owned subsidiary of
2 WMB. WMAAC was the "Depositor" in the securitization of the Issuing Trusts detailed below,
3 and was the "Issuer" of the Certificates within the meaning of the Securities Act, 15 U.S.C. §
4 77b(a)(4), and at times is referred to hereinafter as the "Issuing Defendant."

5 23. Defendant WaMu Capital Corp. ("WMCC"), an affiliate of Washington Mutual,
6 acted as sole underwriter of the Certificates, and pursuant to an underwriting agreement, sold and
7 distributed the Certificates to the investing public pursuant to the Registration Statement and related
8 prospectuses and supplemental prospectuses filed with the SEC in connection with Issuing
9 Trusts. As part of its duties as the underwriter, WMCC was required to conduct, prior to
10 the offerings, a due diligence investigation into, among other things, matters discussed in the
11 Registration Statement and related prospectuses and supplemental prospectuses filed with the
12 SEC in connection with the Issuing Trusts.

13 24. Washington Mutual, WMB, WMMSC, WMAAC, and WMCC are collectively
14 referred to as the "Corporate Defendants."

15 25. Defendant Richard Careaga ("Careaga") was at all relevant times herein
16 WMAAC's First Vice President.

17 26. Defendant David Beck ("Beck") was at all relevant times herein WMAAC's
18 President and a member of WMAAC's Board of Directors.

19 27. Defendant Diane Novak ("Novak") was at all relevant times herein a member of
20 WMAAC's Board of Directors.

21 28. Defendant Thomas Green ("Green") was at all relevant times herein WMAAC's
22 Chief Financial Officer ("CFO").

23 29. Defendant Rolland Jurgens ("Jurgens") was at all relevant times herein
24 WMAAC's Controller.

25 30. Defendants Careaga, Beck, Novak, Green, and Jurgens are collectively referred to
26 hereinafter as the "Individual Defendants."

27 31. Each of the Individual Defendants signed the Registration Statement.

1 32. The Corporate Defendants and the Individual Defendants are collectively referred
2 to herein as the "Defendants."

3 33. Collectively, the Issuing Trusts are:

4 Issuing Trusts	Principal Amount	Depositor	Underwriter	Sponsor
5 WaMu Mortgage Pass- 6 Through Certificates Series 7 2006-AR1 Trust	\$1,474,488,100	WMAAC	WMCC	WMB
8 WaMu Mortgage Pass- 9 Through Certificates Series 10 2006-AR2 Trust	\$332,239,100	WMAAC	WMCC	WMB
11 WaMu Mortgage Pass- 12 Through Certificates Series 13 2006-AR3 Trust	\$990,012,100	WMAAC	WMCC	WMB
14 WaMu Mortgage Pass- 15 Through Certificates Series 16 2006-AR4 Trust	\$909,714,200	WMAAC	WMCC	WMB
17 WaMu Mortgage Pass- 18 Through Certificates Series 19 2006-AR5 Trust	\$778,198,100	WMAAC	WMCC	WMB
20 WaMu Mortgage Pass- 21 Through Certificates Series 22 2006-AR6 Trust	\$448,667,100	WMAAC	WMCC	WMB
23 WaMu Mortgage Pass- 24 Through Certificates Series 25 2006-AR7 Trust	\$1,255,863,100	WMAAC	WMCC	WMB
26 WaMu Mortgage Pass- 27 Through Certificates Series 2006-AR8 Trust	\$1,208,887,100	WMAAC	WMCC	WMB
2006-AR9 Trust	\$1,402,610,100	WMAAC	WMCC	WMB
2006-AR10 Trust	\$1,328,647,642	WMAAC	WMCC	WMB
2006-AR11 Trust	\$1,615,625,100	WMAAC	WMCC	WMB

Issuing Trusts	Principal Amount	Depositor	Underwriter	Sponsor
WaMu Mortgage Pass-Through Certificates Series 2006-AR12 Trust	\$1,694,778,749	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR13 Trust	\$1,468,050,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR14 Trust	\$1,683,891,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR15 Trust	\$868,034,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR16 Trust	\$1,444,737,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR17 Trust	\$1,124,131,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR18 Trust	\$1,554,983,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR19 Trust	\$1,187,632,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2007-HY1 Trust	\$3,007,814,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2007-HY2 Trust	\$1,570,407,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2007-HY3 Trust	\$2,970,344,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2007-HY4 Trust	\$1,684,955,100	WMAAC	WMCC	WMB

Issuing Trusts	Principal Amount	Depositor	Underwriter	Sponsor
WaMu Mortgage Pass-Through Certificates Series 2007-HY5 Trust	\$1,619,028,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2007-HY6 Trust	\$3,417,433,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2007-HY7 Trust	\$2,795,936,100	WMAAC	WMCC	WMB

SUBSTANTIVE ALLEGATIONS

A. Background

1. The Mortgage Industry and Mortgage Securitization

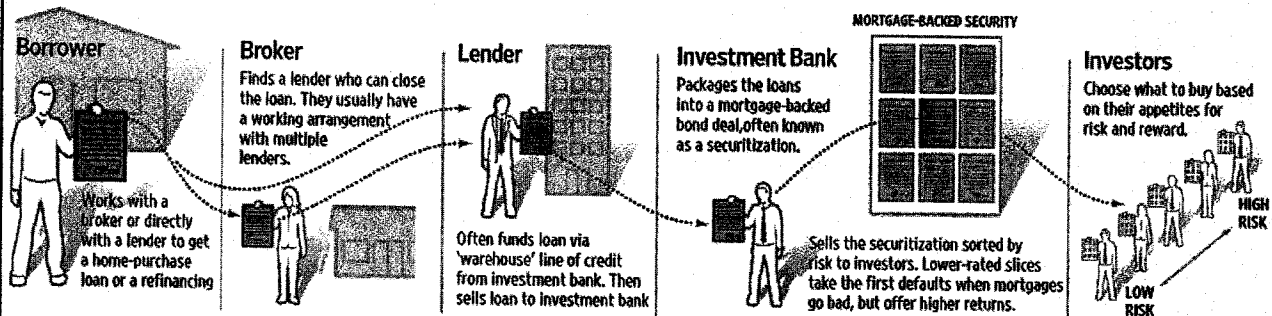
34. The mortgage industry was traditionally characterized by a lending institution (*i.e.*, the loan originator) holding a direct interest in the property as collateral for a mortgage in the event the borrower defaulted on the loan. Under the traditional model, the loan originator held the note until it matured and was exposed to the concomitant risk that the borrower would fail to repay the loan. As such, under the traditional model, the loan originator had a financial incentive to obtain an accurate property appraisal before issuing a mortgage to ensure that the mortgage was adequately collateralized in the event the borrower defaulted and the property was foreclosed.

35. Beginning in the 1990s, the traditional model of loan origination changed. Since that time, after a loan originator issues a mortgage to a borrower, the loan originator typically sells the mortgage in the financial markets to third-party financial institutions. By selling the mortgage, the loan originator obtains fees in connection with the issuance of the mortgage, receives upfront proceeds when it sells the mortgage into the financial markets, and thereby has new capital to issue more mortgages. The mortgages sold into the financial markets are typically pooled together and securitized into what are commonly referred to as "mortgage-backed securities" ("MBS"). In addition to receiving proceeds from the sale of the mortgage, the

1 loan originator no longer holds the risk that the borrower may default; that risk is transferred
2 with the mortgages to investors who purchase the MBSs.

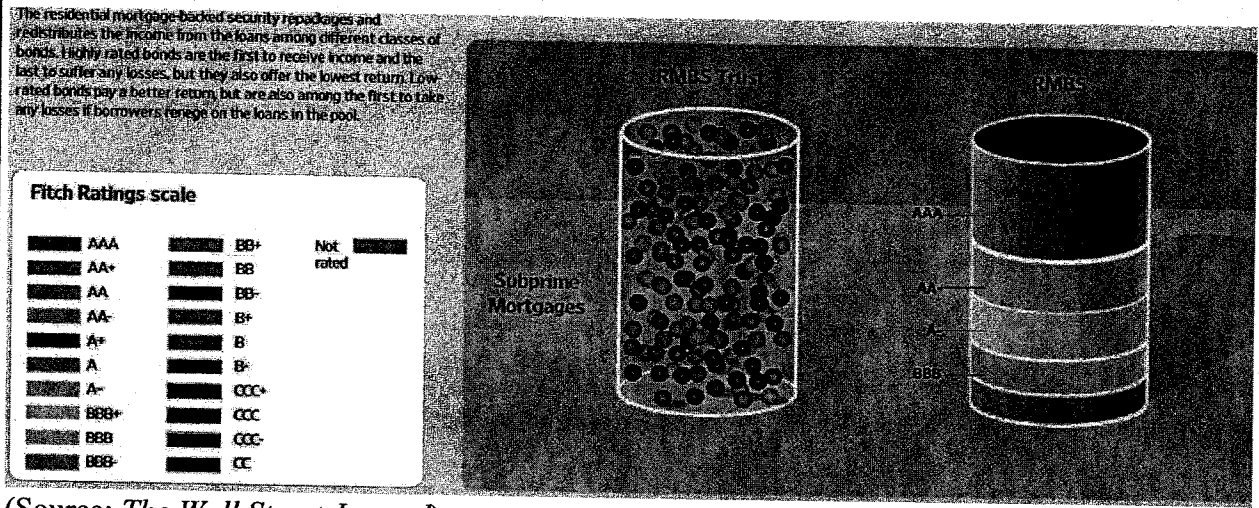
3 36. As illustrated below, mortgage securitization is a structured finance process in
4 which mortgage loans are acquired, pooled together, and then sold to investors, who acquire
5 rights in the income flowing from the mortgage pools.

6 **Follow the Mortgage** What happens to your mortgage after you sign on the dotted line



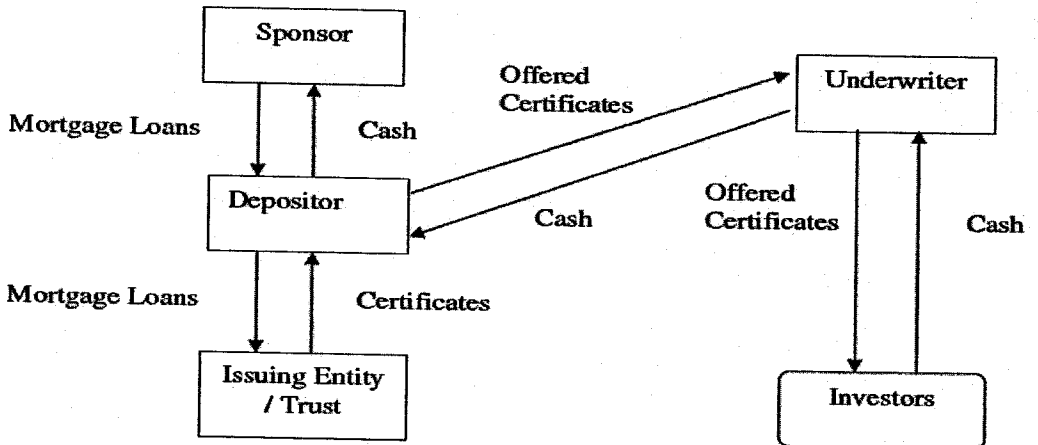
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14 37. The MBS pools together the cash-flow received when mortgage borrowers make
15 interest and principal payments as required by the underlying mortgages. That cash is then
16 distributed to the holders of the MBS certificates in order of priority based on the specific
17 tranche held by the MBS investors. The highest tranche (also referred to as the senior tranche) is
18 first to receive its share of the mortgage proceeds. Since the senior tranche is *first* to receive
19 payments, it is also the *last* tranche to absorb any losses should mortgage-borrowers become
20 delinquent or default on their mortgage. As a result, the senior tranches of most MBSs were
21 rated AAA by the Rating Agencies (The Rating Agencies are Moody's Corp., Fitch Inc., and
22 Standard & Poors (S&P)). After the senior tranche, the middle tranches (referred to as mezzanine
23 tranches) next receive their share of the proceeds. In accordance with their order of priority, the
24 mezzanine tranches were generally rated from AA to BB by the Rating Agencies. The process
25 of distributing the mortgage proceeds continues down the tranches through to the bottom tranches,
26 referred to as equity tranches. This process is repeated each month and all investors receive the
27 payments owed to them so long as the mortgage-borrowers are current on their mortgages. The

1 following diagram illustrates the concept of tranches within a MBS comprised of residential
 2 mortgages (often referred to as a “residential mortgage backed securities” or “RMBS”):



(Source: *The Wall Street Journal*)

38. As illustrated below, in the typical securitization transaction, participants in the
 transaction are the sponsor (who is often also the loan servicer), the depositor, the
 underwriter, the issuing trust and investors. On the closing date of a trust series, the mortgage
 loans supporting the trust are first sold by the sponsor of the securitization transaction to the
 depositor in return for cash. This has the effect of removing the loans from the sponsor’s
 financial statements. The depositor then sells those mortgage loans and related assets to the
 trust, in exchange for the trust issuing certificates to the depositor. The depositor then works with
 the underwriter of the trust to price and sell the certificates to investors.



1 39. Thereafter, the mortgage loans supporting the trusts are serviced by the servicer,
2 which earns monthly servicing fees by collecting principal and interest from mortgagors. After
3 subtracting a servicing fee, the servicer sends the remainder of the payments to a trustee for
4 administration and distribution to the trust, and ultimately, to investors.

5 40. With respect to the Certificates at issue here, the Registration Statement contained
6 material statements concerning, *inter alia*, (i) the underwriting process used for mortgages held
7 by the Issuing Trusts; (ii) the value of the real-estate underlying the Issuing Trusts; (iii) the
8 independence of the real-estate appraiser used to appraise the real-estate; (iv) the supposed strict
9 adherence to USPAP standards used in the appraisal process; and (v) the LTV ratios.

10 41. The Certificates sold to Plaintiffs and other Class members were sold pursuant to
11 a prospectus that was affixed to the Registration Statement (the "Prospectus"), and a series of
12 supplemental prospectuses filed with the SEC in accordance with Rule 424(b)(5), as identified
13 below:

- 14 (a) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
15 Series 2006-AR1, filed with the SEC on 1/26/2006;
- 16 (b) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
17 Series 2006-AR2, filed with the SEC on 2/16/2006;
- 18 (c) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
19 Series 2006-AR3, filed with the SEC on 2/22/2006;
- 20 (d) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
21 Series 2006-AR4, filed with the SEC on 4/21/2006;
- 22 (e) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
23 Series 2006-AR5, filed with the SEC on 5/24/2006;
- 24 (f) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
25 Series 2006-AR6, filed with the SEC on 6/23/2006;
- 26 (g) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
27 Series 2006-AR7, filed with the SEC on 6/26/2006;
- (h) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
 Series 2006-AR8, filed with the SEC on 7/25/2006;
- (i) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,

1 Series 2006-AR9, filed with the SEC on 7/25/2006;

2 (j) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
3 Series 2006-AR10, filed with the SEC on 8/23/2006;

4 (k) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
5 Series 2006-AR11, filed with the SEC on 8/23/2006;

6 (l) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
7 Series 2006-AR12, filed with the SEC on 9/25/2006;

8 (m) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
9 Series 2006-AR-13, filed with the SEC on 9/26/2006;

10 (n) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
11 Series 2006-AR14, filed with the SEC on 10/23/2006;

12 (o) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
13 Series 2006-AR15, filed with the SEC on 10/24/2006;

14 (p) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
15 Series 2006-AR16, filed with the SEC on 11/17/2006;

16 (q) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
17 Series 2006-AR17, filed with the SEC on 11/20/2006;

18 (r) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
19 Series 2006-AR18, filed with the SEC on 12/19/2006;

20 (s) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
21 Series 2006-AR19, filed with the SEC on 12/20/2006;

22 (t) Prospectus for Supplement WaMu Mortgage Pass-Through Certificates,
23 Series 2007-HY1, filed with the SEC on 1/23/2007;

24 (u) Prospectus Supplement for WaMu Mortgage Pass-Through Certificates,
25 Series 2007-HY2, filed with the SEC on 2/14/2007;

26 (v) Prospectus Supplement for WaMu Mortgage Pass-Through Certificates,
27 Series 2007-HY3, filed with the SEC on 2/26/2007;

(w) Prospectus Supplement for WaMu Mortgage Pass-Through Certificates,
Series 2007-HY4, filed with the SEC on 3/23/2007;

(x) Prospectus Supplement for WaMu Mortgage Pass-Through Certificates,
Series 2007-HY5, filed with the SEC on 4/24/2007;

(y) Prospectus Supplement for WaMu Mortgage Pass-Through Certificates,

1 Series 2007-HY6, filed with the SEC on 5/22/2007; and

2 (z) Prospectus Supplement for WaMu Mortgage Pass-Through Certificates,
3 Series 2007-HY7, filed with the SEC on 6/22/2007.

4 42. Each supplement prospectus (collectively referred to as the "Supplemental
5 Prospectuses") filed with the SEC in connection with the Registration Statement contained
6 substantially similar material representations and statements, such as the underwriting process
7 for mortgages held by the Issuing Trust, the independence of the real-estate appraisal and strict
8 adherence to USPAP standards, the appraised value of the real-estate underlying the Issuing
9 Trust, and the LTV ratios.

10 **2. Importance of Objective, Unbiased, and Accurate Property
11 Appraisals**

12 43. Independent and accurate real-estate appraisals are essential to the entire mortgage
13 lending and securitization process, providing borrowers, lenders, and investors in MBSs with
14 supposedly independent and accurate assessments of the value of the mortgaged properties.
15 Accurate appraisals ensure that a mortgage or home equity loan is not under-collateralized,
16 thereby protecting borrowers from financially over-extending themselves and protecting lenders and
17 investors in MBSs in the event a borrower defaults on a loan. Accurate appraisals also
18 provide investors with a basis for assessing the price and risk of MBSs.

19 44. As accurate appraisal is also critical in the determining the LTV ratio, which is a
20 financial metric that Wall Street analysts and investors commonly use when evaluating the
21 price and risk of MBSs. The LTV ratio is a mathematical calculation that expresses the
22 amount of a mortgage as a percentage of the total appraised value of the property. For
23 example, if a borrower seeks to borrow \$90,000 to purchase a house worth \$100,000, the LTV
24 ratio is \$90,000/\$100,000, or 90 percent. If, however, the appraised value of the house is
25 artificially increased to \$120,000, the LTV ratio drops to just 75 percent (\$90,000/\$120,000).

26 45. From a lender's perspective, a high LTV ratio is riskier because a borrower
27 with a small equity position in a property has less to lose if he/she defaults on the loan. Worse,

1 particularly in an era of falling housing prices, a high LTV ratio creates the heightened risk
2 that, should the borrower default, the amount of the outstanding loan may exceed the value
3 of the property.

4 46. Indeed, in its 2006 annual report filed on Form 10-K with the SEC on March 1,
5 2007, Washington Mutual acknowledged that the less equity a borrower has in his/her home,
6 the greater the credit risk of the borrower:

7 Home equity loans and lines of credit with combined loan-to-value ratios of
8 greater than 80 percent also expose the Company to greater credit risk than home
9 loans with loan-to-value ratios of 80 percent or less at origination. This greater
10 credit risk arises because, in general, both default risk and the severity of risk is
11 higher when borrowers have less equity in their homes.

12 47. For purchasers of the Certificates, an important representation in the Registration
13 Statement, Prospectuses and Supplemental Prospectuses was that the mortgages underlying the
14 Issuing Trusts were issued pursuant to strict mortgage-underwriting standards, and that the real-
15 estate collateralizing the mortgages had been subjected to real-estate appraisals performed by
16 independent, objective, and unbiased appraisers, pursuant to the stringent standards of the USPAP.

17 48. Specifically, the USPAP requires, *inter alia*, that:

18 An appraiser must perform assignments with impartiality, objectivity, and
19 independence, and without accommodation of personal interests;

20 In appraisal practice, an appraiser must not perform as an advocate for any
21 party or issue;

22 An appraiser must not accept an assignment that includes the reporting of
23 predetermined opinions and conclusions; and

24 It is unethical for an appraiser to accept an assignment, or to have a compensation
25 arrangement for an assignment, that is contingent on any of the following: 1. the
26 reporting of a predetermined result (e.g., opinion of value); 2. a direction in
27 assignment results that favors the cause of the client; 3. the amount of a value
28 opinion; 4. the attainment of a stipulated result; or 5. the occurrence of a
29 subsequent event directly related to the appraiser's opinions and specific to the
30 assignment's purpose.

31 49. Indeed, the Registration Statement assured that:

32 The adequacy of the mortgaged property as collateral generally is determined by
33 an appraisal made in accordance with pre-established appraisal guidelines. At
34 origination, all appraisals are required to conform to the Uniform Standards of

1 Professional Appraisal Practice adopted by the Appraisal Standards Board of the
2 Appraisal Foundation, and are made on forms acceptable to Fannie Mae and/or
3 Freddie Mac.

4 50. The Prospectuses and Supplemental Prospectuses stated that:

5 The adequacy of the mortgaged property as collateral generally is determined by an
6 appraisal made in accordance with pre-established appraisal guidelines. At
7 origination, *all appraisals are required to conform to the Uniform Standards of*
8 *Professional Appraisal Practice* adopted by the Appraisal Standards Board of the
9 Appraisal Foundation, and are made on forms acceptable to Fannie Mae and/or
10 Freddie Mac. Appraisers may be staff appraisers employed by Washington Mutual
11 Bank or independent appraisers selected in accordance with the pre-established
12 appraisal guidelines. Such guidelines generally require that the appraiser, or an
13 agent on its behalf, personally inspect the property and verify whether the property is
14 in adequate condition and, if the property is new construction, whether it is
15 substantially completed. However, in the case of mortgage loans underwritten
16 through an automated underwriting system, an automated valuation model may be
17 used, under which an appraiser does not inspect the property. *In either case, the*
18 *valuation normally is based upon a market data analysis of recent sales of*
19 *comparable properties and, in some cases, a replacement cost analysis based on*
20 *the current cost of constructing or purchasing a similar property.* In the case
21 of a streamline refinance, the appraisal guidelines may permit the property
22 value obtained for an existing mortgage loan (or a mortgage loan which was
23 previously refinanced) to be used.

24 (Emphasis added)

25 51. By securitizing the mortgages and selling them to Plaintiffs and members of the
26 Class, Washington Mutual reduced its exposure to the risk of a borrower's default.

27 52. Because Washington Mutual's profits were determined largely by the quantity of the
loans successfully closed and not on the quality of those loans, Washington Mutual pressured appraisers
to reach artificial appraised values to allow more loans to close, and to apparently satisfy the LTV
thresholds for sale to the securitization market.

28 **B. The Truth is Revealed**

29 **1. The New York Attorney General Complaint**

30 53. As it has now been revealed, Washington Mutual improperly pressured appraisers to
31 violate USPAP guidelines and inflate the value of the properties collateralizing the mortgages
32 that were securitized and sold to Plaintiffs and members of the Class throughout the Class Period.

1 54. An investigation by the NYAG exposed Washington Mutual's practices of
2 inflating appraisals of properties securing the mortgages it originated. By virtue of these
3 improper practices, the Corporate Defendants grew their market share in the origination,
4 securitization, and underwriting of residential loans, while simultaneously passing the risk of
5 mortgage defaults to those who invested in the securities created from those mortgages – *i.e.*, the
6 Certificates.

7 55. On November 1, 2007, the NYAG filed a lawsuit against eAppraiseIT
8 (“eAppraiseIT” or “EA”) and its parent corporation, First American Corp., alleging that EA
9 inflated real estate appraisals it performed for Washington Mutual. *See The People of the State of*
10 *New York by Andrew Cuomo v. First American Corporation and First American eAppraiseIT,*
11 *No. 07-406796 (N.Y. Sup. Ct. Filed Nov. 1, 2007).* Washington Mutual was reportedly not
12 named as a defendant because of jurisdictional limitations. Although not named as a defendant,
13 the NYAG Complaint provides specific details about Washington Mutual's role in inflating real
14 estate appraisals.

15 56. Prior to and during the Class Period, Washington Mutual systematically
16 encouraged its in-house appraisers to inflate appraisal values for loans. According to a news
17 article of interviews of its employees, as reported in *The Seattle Times* on April 15, 2008 in an
18 article titled “Appraisers Say WaMu Cut Corners to Increase Its Mortgage Business,” from as
19 early as 2001 it was commonplace for Washington Mutual to alter real-estate appraisal values so
20 that loans would close.

21 57. When federal regulations, implemented in 2006, required that all mortgage
22 originators use third-party appraisers to value their mortgaged properties (and thereby ensure
23 appraiser independence), Washington Mutual sought to continue its practice of inflating
24 appraisals by coercing the third-party appraisers that Washington Mutual had retained.

25 58. According to the NYAG Complaint, in order to circumvent the federal
26 regulations mandating that appraisers be independent from the loan originator, beginning in 2006
27 Washington Mutual selected EA and EA's top competitor, Lender Services, Inc. (“LSI”), to provide

1 property appraisals for Washington Mutual. By using EA and LSI, Washington Mutual
2 superficially met the appraiser independence requirements. However, behind the scenes, as set
3 forth below, Washington Mutual continued to control the appraisal process.

4 59. Based on EA's appraisals, Washington Mutual provided mortgages to borrowers
5 and calculated LTV ratios and other lending metrics. Eventually, mortgages relating to the
6 properties appraised by EA become part of the MBSs sold by the Issuing Trusts in this action.

7 60. Washington Mutual quickly became EA's top client, providing EA more than
8 \$50 million in fees in 2006.

9 a. **Washington Mutual's Contract with EA Includes a**
10 **"Reconsideration of Value" ("ROV") Provision**

11 61. According to the NYAG Complaint, the terms of the contract between Washington
12 Mutual and EA allowed Washington Mutual to "challenge an [EA] appraiser's conclusions by
13 requesting a 'reconsideration of value ('ROV') when [Washington Mutual] . . . disagrees
14 with an appraised home value set forth in an appraisal report." This, according to the NYAG
15 Complaint, "permits WaMu to ask eAppraiseIT to reconsider and raise the value assigned to
16 a home." According to the NYAG, Washington Mutual "frequently" requested ROVs from EA.

17 62. In an email dated September 29, 2006 (cited in the NYAG Complaint), a Washington
18 Mutual executive wrote to a senior executive at EA to define EA's responsibilities as to ROVs
19 and value disputes. In the September 29 email, the Washington Mutual executive wrote:

20 . . . the four appraisers/reviewers would be directly involved in escalations dealing
21 with: ROVs, Valuation issues where the purchase price and appraised value differ
22 with no reconciliations/justifications by the appraiser, Value cuts which we
23 continue to receive from your third party reviewers (Wholesale), *proactively*
24 *making a decision to override and correct the third party appraiser's value or*
25 *reviewer's value cut*, when considered appropriate and supported...

26 (Emphasis in NYAG Complaint)

27 63. According to the NYAG Complaint, on August 9, 2006, EA's President told
Washington Mutual executives that, "We need to address the ROV issue Many lenders in
today's environment . . . have no ROV issue. The value is the value. I don't know if WAMU

1 production will go for that The WAMU internal staff we are speaking with admonish us to be
2 certain we solve the ROV issue quickly or we will all be in for some pretty rough seas.”

3 **b. Washington Mutual Coerces First American to Adhere to its**
4 **Appraisal Demands In Exchange for Future Business**

5 64. Washington Mutual also coerced First American, the parent of EA, into
6 participating in the scheme by conditioning future business on EA’s adherence to Washington
7 Mutual’s appraisal demands. In a September 27, 2006 email cited by the NYAG, a First
8 American executive wrote, “[a Washington Mutual president] said that if the appraisal issues are
9 resolved and things are working well he would welcome conversations about expanding our
10 relationship including tax and flood.”

11 65. According to the NYAG Complaint, Washington Mutual not only conditioned
12 providing additional business on EA’s acceptance of Washington Mutual’s appraisal demands,
13 but in cases where EA employees failed to adhere to Washington Mutual’s demands, appraisals
14 were simply reassigned to other companies. In one example, the NYAG Complaint stated
15 that “[o]n October 5, 2006, in response to complaints from the WaMu production team –
16 particularly in Northern California, eAppraiseIT prepared a ‘WaMu Improvement
17 Implementation Plan.’ The plan was unsuccessful, however. By December 2006, WaMu had
18 reassigned all of its Northern California appraisal work to LSI.”

19 **c. Washington Mutual Controls the Appraisal Process by Pre-**
20 **Selecting Which Appraisers EA Could Use For Washington**
21 **Mutual Related Appraisals**

22 66. Concerned that appraisals provided by appraisers selected by EA were too low,
23 by February 2007 (according to the NYAG Complaint), Washington Mutual demanded that EA
24 use a group of appraisers hand selected by Washington Mutual for any Washington Mutual
25 related appraisals. The hand selected group was collectively referred to as the “Proven Panel”
26 or “Proven Appraisers.” A press release issued by the NYAG on November 1, 2007 announcing
27 the NYAG Complaint stated that, “This set of appraisers was *chosen by WaMu specifically*

1 *because they inflated property appraisals.* WaMu profited from these higher appraisals
2 because they could close more home loans, at greater values.” (Emphasis added.)

3 67. In a February 22, 2007 email (cited in the NYAG Complaint), EA’s President
4 explained to other senior First American executives the motives behind Washington Mutual
5 demanding the use of the “Proven Appraisers.” In the email, EA’s President wrote, “We had a
6 joint call with Wamu and LSI today. The attached document outlines the new appraiser
7 assigning process. In short, we will now assign all Wamu’s work to Wamu’s ‘Proven
8 Appraisers’ We will pay their appraisers whatever they demand. *Performance ratings to*
9 *retain position as a Wamu Proven Appraiser will be based on how many come in on value,*
10 *negating a need for an ROV.”* (Emphasis in the NYAG Complaint).

11 68. Washington Mutual had complete control over the Proven Panel: Washington
12 Mutual selected the members of the Proven Panel, assigned specific members of the Panel
13 work and in cases where members of the Panel refused to increase appraised values per
14 Washington Mutual’s demands, Washington Mutual removed appraisers from the Proven Panel.
15 Washington Mutual’s role in creating and directing work to members of the Proven Panel
16 directly violated several laws, including, USPAP; Office of Thrift Supervision (“OTS”)
17 regulations which explicitly state that, “Loan production staff should not select appraisers.”

18 69. Despite the inherent conflicts created by the Proven Panel system, EA acquiesced
19 to Washington Mutual’s demands. According to the NYAG Complaint:

20 In February 2007, eAppraiseIT simply capitulated to WaMu’s demands. In an
21 email on February 22, 2007, eAppraiseIT’s President told senior executives at
22 First American “we have agreed to roll over and just do it.” He explained that “we
23 were willing to live with the change if they would back us up with the appraisers
24 and tell them that simply because they are rated as Gold Preferred does not mean
25 that they can grab all the fees. They agreed.” In other words, for the right price
26 in fees, eAppraiseIT was willing to go along with the Proven Panel.

27 70. On March 5, 2007, Washington Mutual “confirmed the primary role of its loan
origination staff in picking appraisers in a follow-up email,” in which it stated that:

Proven Appraiser List is being created. This will replace the WaMu preferred list.
The initial list of names will be provided by lending with a minimum of two
appraisers per area/county. The list will then be reviewed and approved by the

1 Appraisal Business Oversight Team and will be checked against our most recent
2 ineligible list. Final list will be provided to VMC's [vendor management
3 companies]. Majority of work must be assigned to the appraisers on the Proven
4 Appraiser List on a Priority Basis.

5 (Emphasis in NYAG Complaint)

6 71. The inappropriate nature of Washington Mutual's methods for having properties
7 appraised was, by the spring of 2007, openly acknowledged as being inappropriate within EA.
8 For example in an internal EA email, one EA employee stated that the use of Washington
9 Mutual's hand selected Proven Panel "is way over the line."

10 72. In April 2007, EA executives discussed the legal implications of their actions.
11 According to the NYAG Complaint, on April 4, 2007, EA's Executive Vice President wrote an
12 email to senior EA executives regarding EA's legal liability for using Washington Mutual's
13 Proven Panel, stating:

14 the lender's responsibility since the OCC [Office of the Comptroller of the
15 Currency]/OTS only pertain to lenders. *However, we as an AMC need to retain
16 our independence from the lender or it will look like collusion. Imagine a simple
17 mortgage broker saying he will give us the work if we use his "proven"
18 appraiser. We say no. This is very similar to that except they are very big. . . .*

19 So the push back to WAMU needs to be (assuming we want to do this some
20 day), eAppraiseIT needs to choose the appraisers, not WAMU. Where it gets
21 really clear that eAppraiseIT is NOT choosing is the proven idea because they
22 always go first and MUST be selected unless there is a specific reason why not.
23 *eAppraiseIT is clearly being directed who to select. The reasoning that there
24 are fewer ROVs is bogus for many reasons including the most obvious — the
25 proven appraisers bring in the values.*

26 Fun, eh??

27 (Emphasis in the NYAG Complaint)

73. Again on April 17, 2007, an EA executive wrote an email to First American
executives stating that EA was violating laws mandating appraisers' independence by using
Washington Mutual's Proven Panel. The April 17, 2007 email attached a memo (sent to
Washington Mutual) which explained that the use of the Proven Panel was a violation of rules
demanding EA's independence from Washington Mutual. In the email, the EA executive

1 specifically wrote, "We view this as a violation of the OCC, OTS, FDIC and USPAP influencing
2 regulation."

3 74. According to the NYAG Complaint, the memo referenced in the April 17, 2007
4 email to Washington Mutual stated, in relevant part:

5 The various regulatory boards including OTS, OCC, FDIC and others prepared a
6 list of frequently asked questions on Independent Appraisal and Evaluation
7 Functions on March 21, 2005. These FAQs should be reviewed in conjunction
8 with prior guidelines published in 1994 and 2003. I have included the 2005
9 FAQs at the end of this document. We assume that you are very familiar with these
10 documents. We want to focus on appraiser independence. All three documents
11 address and re-address this issue. In the section titled Independence of the
12 Appraisal and Evaluation Function, the 1994 and 2003 document states, "Because
13 the appraisal and evaluation process is an integral component of the credit
14 underwriting process, it should be isolated from influence by the institutions's
15 loan production process." This is reinforced in the Selecting Individuals to
16 Perform Appraisals or Evaluations section from the 2003 document. ***It states that
17 it is important to ensure that the program is safeguarded from internal
18 influence and interference from an institution's loan production staff.
19 Individuals independent from the loan production area should oversee the
20 selection of appraisers and individuals providing evaluation services.***

21 (Emphasis added)

22 75. Applying the appraiser independence guidelines to the Proven Panel, the memo
23 stated:

24 Based on our conversations we have had with the WAMU oversight as well as the
25 questions and answers initiated by our competitor LSI, ***it is our interpretation
26 that the loan production staff has a great deal to do with selecting appraisers.
27 The PAL Proven Appraiser List has been selected by the loan production staff and
the continued use of these appraisers is being monitored by the loan
production staff.*** For example, on the LSI question #1 "Does WAMU want to be
updated transactionally on every order we can not assign to a PAL?", WAMU's
answer is "Yes,- we need a short sentence in the message log so that we can
monitor, - AND most important - lending can see why you didn't assign to a PAL
service provider. Not using a PAL appraiser will be an issue so we need to ensure
we've covered our bases as to why they're not utilized." ***This appears to be
directly in contradiction to the interagency guidelines unless you have a different
interpretation.***

* * *

This produces the following challenge - eAppraiseIT is operating under what
appears to be a mandate from WAMU in utilizing PAL selected appraisers (and
this selection is coming from the loan production staff). We are then asked to rep
and warrant this work. We are concerned about this arrangement from a risk
perspective

(Emphasis in NYAG Complaint)

1 76. Beyond selecting members for the Proven Panel, Washington Mutual also
2 assigned specific appraisals to individual members in the Proven Panel. According to the NYAG
3 Complaint, on April 19, 2007, EA's Chief Operating Officer wrote the following in an email to
4 EA's President and Executive Vice President: "Evidently, we do get calls/emails from the WaMu
5 Oversight Group to select a specific appraiser for an order. Now, normally, this would not be a
6 concern since the group is separate from [WaMu] lending. However, Vicky [at eAppraiseIT]
7 is also receiving a copy of an email from the LC [WaMu Loan Consultants] to Oversight
8 requesting the appraiser selection – then the subsequent email from Oversight directing the
9 assignment change." (Brackets in NYAG Complaint.)

10 77. According to the NYAG Complaint, on May 11, 2007, EA's Executive Vice
11 President informed EA's President that "*currently WAMU is controlling the appraiser panel.*
12 *They are selecting the appraisers and calling them 'proven' appraisers.* These appraisers are
13 being chosen by their sales force. First American eAppraiseIT (FA eAppraiseIT) is obligated to
14 use these appraisers." (Emphasis added.)

15 78. Additionally, the NYAG Complaint alleges that Washington Mutual controlled
16 the appraisal process by pressuring EA to have its appraisers appraise properties at specific
17 levels. After the NYAG Complaint was filed, Washington Mutual suspended its relationship
18 with EA.

19 **2. Allegations of Washington Mutual's Manipulation of the Appraisal**
20 **Process Extend Beyond the NYAG Complaint**

21 79. On December 21, 2007, *The Wall Street Journal* ("WSJ") reported that the SEC
22 was investigating how Washington Mutual reported loans based on "inflated home appraisals."
23 According to the WSJ, "The SEC's inquiry . . . involves several possible issues, including that
24 the appraisals satisfied the necessary loan to value ratios for inclusion of the mortgages in the
25 Issuing Trusts."

26 80. According to *The Seattle Times*, Washington Mutual spokeswoman Olivia Riley
27 sent an email to *The Seattle Times* confirming the SEC investigation, and which stated, "We are

1 voluntarily and fully cooperating with the SEC's inquiry as well as the OTS [Office of Thrift
2 Supervision, Washington Mutual's primary regulator]....”

3 81. In addition to the allegations asserted in the NYAG Complaint, according to an
4 April 15, 2008 story appearing in *The Seattle Times*, beginning in 2001, in order to increase its
5 mortgage business, Washington Mutual “eliminate[ed] [appraiser] oversight in pursuit of
6 profits,” according to an appraiser quoted in the article. In order to increase its business, among
7 other things, Washington Mutual instituted a compensation system that paid appraisers
8 “according to the volume of their work.” Also, the Company used a computer system that
9 eliminated appraisers’ comments impacting the price of a specific property (e.g., a home’s
10 proximity to railroad tracks, etc.).

11 82. Moreover, on January 9, 2008, Jennifer Wertz (“Wertz”), an appraiser formerly
12 used by Washington Mutual, filed a lawsuit in California Superior Court alleging that
13 Washington Mutual violated common and statutory law by blocking Wertz from receiving any
14 appraisal work from Washington Mutual because Wertz refused to revise a report she prepared at
15 the direction of a Washington Mutual sales manager. *See Wertz v. Wash. Mut. Bank, et al.*, Case
16 No. 34-2008-00000717-CU (Sup. Ct. Cal. 2008). According to Wertz’s complaint, in May of
17 2007, Susan Richter (“Richter”), a Washington Mutual sales manager, informed Wertz that an
18 appraisal prepared by Wertz indicating “declining” market conditions led to the rejection of a
19 loan. According to Wertz, Richter demanded that Wertz change her assessment of the market
20 conditions to “stable” so that the loan could be approved. If Wertz refused to make the change
21 (which was demanded without any support indicating that the change was necessary or
22 appropriate), according to Wertz’s complaint, Richter threatened to have Wertz blocked from
23 receiving future assignments from Washington Mutual. Wertz refused to make the change and
24 alleges that since June 2007 has not received any assignments from Washington Mutual.

25 83. Washington Mutual’s actions not only violated industry regulations but, as noted
26 *supra*, rendered the LTV ratios disclosed in the Registration Statement, Prospectuses, and
27 Supplemental Prospectuses to be false and misleading. For example, the appraised value of one

1 property cited by the NYAG was inflated by nearly 47%, from \$1,550,000 to \$2,270,000,
2 demonstrating that the collateral was wholly-inadequate to protect investors.

3 FALSE AND MISLEADING STATEMENTS

4 84. The Registration Statement contained (i) a basic prospectus, (ii) an illustrative
5 form of prospectus supplement for use in any offering of Mortgage Pass-Through Certificates,
6 (iii) an illustrative form of prospectus supplement for use in an offering of Mortgage Pass-
7 Through Certificates with a specified structure of multiple classes of senior and subordinate
8 certificates, and (iv) an illustrative form of prospectus supplement for use in an offering of
9 Mortgage-Backed Notes.

10 85. The Registration Statement made the following statement regarding the
11 underwriting standards that purportedly were applied to determine the value of the collateral
12 for mortgages included in the Issuing Trusts:

13 In determining the adequacy of the property as collateral, an appraisal is made of
14 each property considered for financing. The appraiser, or an agent on its behalf, is
15 generally required to personally inspect the property and verify that it is in
16 adequate condition and that construction, if new, has been substantially
17 completed. However, in some cases an automated valuation method may be used,
18 under which the appraiser does not personally inspect the property but instead
19 relies on public records regarding the mortgaged property and/or neighboring
20 properties. In either case, the appraisal normally is based upon a market data
21 analysis of recent sales of comparable properties and, when deemed applicable, a
22 replacement cost analysis based on the current cost of constructing or purchasing
23 a similar property. Some of the mortgage loans may be re-underwritten by a
24 mortgage loan seller. Certain states where mortgage properties may be located
25 are 'anti-deficiency' states, where, in general, lenders providing credit on one-to-
26 four-family properties must look solely to the property for repayment in the event
27 of foreclosure. See 'Legal Aspects of the Mortgage Loans -- Anti-Deficiency
Legislation and Other Limitation on Lenders'. Underwriting standards in all states
(including anti-deficiency states) will require that the underwriting officers be
satisfied that the value of the property being financed, as indicated by the
independent appraisal, currently supports and is anticipated to support in the
future the outstanding loan balance, and provides sufficient value to mitigate the
effects of adverse shifts in real estate values.

Registration Statement, at 44.

25 86. The above statement was materially false and misleading when made because it
26 failed to disclose that Washington Mutual systematically inflated appraisals for properties which
27

1 failed to satisfy its threshold for adequate LTV ratios for mortgages included in the Issuing
2 Trusts.

3 87. The Prospectus Supplements issued in connection with each of the Issuing Trusts
4 contained statements describing the underwriting standards by which the mortgages in the
5 Issuing Trusts were issued, the standards by which the mortgage collateral was valued, and the
6 LTV ratios of mortgages within the Issuing Trusts. As set forth below, these various statements
7 were materially false and misleading when made.

8 88. Each of the Prospectus Supplements issued in connection with the Issuing Trusts
9 represented that the mortgages in the mortgage pool held by each Issuing Trust were
10 underwritten in accordance with established industry guidelines. For example, in each of the
11 Prospectus Supplements, the following statement was made regarding the underwriting standards
12 for the constituent pools of mortgages:

13 All of the mortgage loans owned by the Trust have been originated in accordance
14 with the underwriting guidelines of the sponsor as described in this section.
15 Mortgage loans may have been underwritten directly by the sponsor or by
16 correspondent lenders with delegated underwriting approval.

17 The sponsor's underwriting guidelines generally are intended to evaluate the
18 prospective borrower's credit standing and repayment ability and the value and
19 adequacy of the mortgaged property as collateral. Some mortgage loans are
20 manually underwritten, in which case an underwriter reviews a loan application
21 and supporting documentation, if required, and a credit report of the borrower,
22 and based on that review determines whether to originate a loan in the amount and
23 with the terms stated in the loan application.

24 89. The above statement was false and misleading when made because the Defendants
25 failed to disclose that Washington Mutual did not meet the stated underwriting guidelines with
26 respect to the valuing of properties included in the Issuing Trusts, and the value and adequacy of
27 the mortgaged property as collateral was not evaluated in an independent and objective manner
because Washington Mutual had pressured appraisers to over-value the properties used to
collateralize the securities in violation of federal and state regulations.

28 90. With respect to the underwriting guidelines used to determine the value of the
29 underlying collateral for mortgages included in the Issuing Trusts, each Prospectus
30 Supplement made the following representation:

1 The adequacy of the mortgaged property as collateral generally is determined by
2 an appraisal made in accordance with pre-established appraisal guidelines. At
3 origination, all appraisals are required to conform to the Uniform Standards of
4 Professional Appraisal Practice adopted by the Appraisal Standards Board of the
5 Appraisal Foundation, and are made on forms acceptable to Fannie Mae and/or
6 Freddie Mac. Appraisers may be staff appraisers employed by the sponsor or
7 independent appraisers selected in accordance with the pre-established appraisal
8 guidelines. Such guidelines generally require that the appraiser, or an agent on its
9 behalf, personally inspect the property and verify whether the property is in
10 adequate condition and, if the property is new construction, whether it is
11 substantially completed. However, in the case of mortgage loans underwritten
12 through the sponsor's automated underwriting system, an automated valuation
13 method may be used, under which the appraiser does not personally inspect the
14 property but instead relies on public records regarding the mortgaged property
15 and/or neighboring properties. In either case, the appraisal normally is based upon
16 a market data analysis of recent sales of comparable properties and, when deemed
17 applicable, a replacement cost analysis based on the current cost of constructing
18 or purchasing a similar property. For mortgage loans underwritten under the
19 sponsor's streamline documentation programs, the appraisal guidelines in some
20 cases permit the appraisal obtained for an existing mortgage loan to be used. Title
21 insurance is required for all mortgage loans, except that for mortgage loans
22 secured by shares of cooperative apartments, title insurance is not required for the
23 cooperative apartment building (but a lien search is provided by the title
24 company). Specific additional title insurance coverage is required for some types
25 of mortgage loans.

14 91. The above statement was false and misleading when made because it failed to
15 disclose that the value and adequacy of the mortgaged property as collateral was not
16 evaluated in an independent and objective manner because Washington Mutual had pressured
17 appraisers to over-value the properties used to collateralize the securities in violation of federal
18 and state regulations.

19 92. Each Prospectus Supplement also described the process of calculating the LTV as
20 follows:

21 The value of a single-family property or cooperative unit generally is the
22 lesser of (a) the appraised value determined in an appraisal obtained by the
23 originator at origination of the loan and (b) if the mortgaged property is
24 being purchased in conjunction with the origination of the mortgage loan, the
25 sales price for the property.

26 The underwriting standards of the mortgage loan originator or mortgage loan
27 seller may require an internal review of the appraisal (a "*review appraisal*") used
to determine the loan-to-value of a mortgage loan which may be performed by
underwriters rather than a licensed appraiser. *Where the review appraisal results
in a valuation of the mortgaged property that is less than a specified
percentage of the original appraisal, the loan-to-value ratio of the related
mortgage loan will be based on the review appraisal.*

1 (Emphasis added)

2 93. This statement was false and misleading when made because as a result of the
3 over-appraisal of properties, the disclosed LTV ratios for the underlying mortgages were
4 materially higher than disclosed to investors, increasing substantially the risk of mortgage
5 defaults, and the "review appraisal" was used by the Issuing Defendant and Washington Mutual
6 to inflate the objective appraisal values assigned by independent appraisers.

7 94. The Prospectuses represented the average LTV ratios of the mortgages within the
8 Issuing Trusts. As set forth below, these statements were materially inaccurate because the stated
9 average LTV ratios were materially understated due to the inclusion of mortgages whose property
10 values were inflated by inflated appraisals.

11 95. According to the Prospectus for 2006-AR1 Trust, "At origination, the weighted
12 average loan-to-value ratio of the group 1 loans was approximately 71.1%. As of the Cut-Off
13 Date, the weighted average loan-to-value ratio of the group 1 loans was approximately 71.1 %."
14 (2006-AR1 Prospectus, at S-102) This statement was materially false and misleading
15 because the average LTV ratio was understated as a result of Washington Mutual's inflated
16 appraisals.

17 96. According to the Prospectus for the 2006-AR2 Trust, "At origination, the
18 weighted average loan-to-value ratio of the group 1 loans was approximately 67.5%. As of the
19 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
20 67.3%." (2006-AR2 Prospectus at S-77) This statement was materially false and misleading
21 because the average LTV ratio was understated as a result of Washington Mutual's inflated
22 appraisals.

23 97. According to the Prospectus for the 2006-AR3 Trust, "At origination, the
24 weighted average loan-to-value ratio of the mortgage loans was approximately 71.6%. As of the
25 Cut-Off Date, the weighted average loan-to-value ratio of the mortgage loans was approximately
26 71.5%." (2006-AR3 Prospectus at S-88) This statement was materially false and misleading
27

1 because the average LTV ratio was understated as a result of Washington Mutual's inflated
2 appraisals.

3 98. According to the Prospectus for the 2006-AR4 Trust, "At origination, the
4 weighted average loan-to-value ratio of the group 1 loans was approximately 68.6%. As of the
5 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
6 67.6%." (2006-AR4 Prospectus at S-122) This statement was materially false and misleading
7 because the average LTV ratio was understated as a result of Washington Mutual's inflated
8 appraisals.

9 99. According to the Prospectus for the 2006-AR5 Trust, "At origination, the
10 weighted average loan-to-value ratio of the mortgage loans was approximately 70.9%. As of the
11 Cut-Off Date, the weighted average loan-to-value ratio of the mortgage loans was approximately
12 70.8%." (2006-AR5 Prospectus at S-101) This statement was materially false and misleading
13 because the average LTV ratio was understated as a result of Washington Mutual's inflated
14 appraisals.

15 100. According to the Prospectus for the 2006-AR6 Trust, "At origination, the
16 weighted average loan-to-value ratio of the group 1 loans was approximately 68.7%. As of the
17 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
18 68.7%." (2006-AR6 Prospectus at S-77) This statement was materially false and misleading
19 because the average LTV ratio was understated as a result of Washington Mutual's inflated
20 appraisals.

21 101. According to the Prospectus for the 2006-AR7 Trust, "At origination, the
22 weighted average loan-to-value ratio of the group 1 loans was approximately 71.0%. As of the
23 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
24 70.7%." (2006-AR7 Prospectus at S-126) This statement was materially false and misleading
25 because the average LTV ratio was understated as a result of Washington Mutual's inflated
26 appraisals.

1 102. According to the Prospectus for the 2006-AR8 Trust, "At origination, the
2 weighted average loan-to-value ratio of the group 1 loans was approximately 68.1%. As of the
3 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
4 68.1%." (2006-AR8 Prospectus at S-89) This statement was materially false and misleading
5 because the average LTV ratio was understated as a result of Washington Mutual's inflated
6 appraisals.

7 103. According to the Prospectus for the 2006-AR9 Trust, "At origination, the
8 weighted average loan-to-value ratio of the group 1 loans was approximately 70.1%. As of the
9 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
10 70.0%." (2006-AR9 Prospectus at S-115) This statement was materially false and misleading
11 because the average LTV ratio was understated as a result of Washington Mutual's inflated
12 appraisals.

13 104. According to the Prospectus for the 2006-AR10 Trust, "At origination, the
14 weighted average loan-to-value ratio of the group 1 loans was approximately 67.9%. As of the
15 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
16 67.8%." (2006-AR10 Prospectus at S-94) This statement was materially false and misleading
17 because the average LTV ratio was understated as a result of Washington Mutual's inflated
18 appraisals.

19 105. According to the Prospectus for the 2006-AR11 Trust, "At origination, the
20 weighted average loan-to-value ratio of the group 1 loans was approximately 70.4%. As of the
21 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
22 70.4%." (2006-AR11 Prospectus at S-151) This statement was materially false and misleading
23 because the average LTV ratio was understated as a result of Washington Mutual's inflated
24 appraisals.

25 106. According to the Prospectus for the 2006-AR12 Trust, "At origination, the
26 weighted average loan-to-value ratio of the group 1 loans was approximately 68.3%. As of the
27 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately

1 68.3%.” (2006-AR12 Prospectus at S-100) This statement was materially false and
2 misleading because the average LTV ratio was understated as a result of Washington Mutual’s
3 inflated appraisals.

4 107. According to the Prospectus for the 2006-AR13 Trust, “At origination, the
5 weighted average loan-to-value ratio of the group 1 loans was approximately 70.9%. As of the
6 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
7 70.8%.” (2006-AR13 Prospectus at S-121) This statement was materially false and
8 misleading because the average LTV ratio was understated as a result of Washington Mutual’s
9 inflated appraisals.

10 108. According to the Prospectus for the 2006-AR14 Trust, “At origination, the
11 weighted average loan-to-value ratio of the group 1 loans was approximately 67.1%. As of the
12 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
13 67.1%.” (2006-AR14 Prospectus at S-82) This statement was materially false and misleading
14 because the average LTV ratio was understated as a result of Washington Mutual’s inflated
15 appraisals.

16 109. According to the Prospectus for the 2006-AR15 Trust, “At origination, the
17 weighted average loan-to-value ratio of the group 1 loans was approximately 70.5%. As of the
18 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
19 70.5%.” (2006-AR15 Prospectus at S-116) This statement was materially false and
20 misleading because the average LTV ratio was understated as a result of Washington Mutual’s
21 inflated appraisals.

22 110. According to the Prospectus for the 2006-AR16 Trust, “At origination, the
23 weighted average loan-to-value ratio of the group 1 loans was approximately 66.5%. As of the
24 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
25 66.5%.” (2006-AR16 Prospectus at S-86) This statement was materially false and misleading
26 because the average LTV ratio was understated as a result of Washington Mutual’s inflated
27 appraisals.

1 111. According to the Prospectus for the 2006-AR17 Trust, "At origination, the
2 weighted average loan-to-value ratio of the group 1 loans was approximately 69.6%. As of the
3 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
4 69.6%." (2006-AR17 Prospectus at S-119) This statement was materially false and misleading
5 because the average LTV ratio was understated as a result of Washington Mutual's inflated
6 appraisals.

7 112. According to the Prospectus for the 2006-AR18 Trust, "At origination, the
8 weighted average loan-to-value ratio of the group 1 loans was approximately 66.7%. As of the
9 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
10 66.7%." (2006-AR18 Prospectus at S-87) This statement was materially false and misleading
11 because the average LTV ratio was understated as a result of Washington Mutual's inflated
12 appraisals.

13 113. According to the Prospectus for the 2006-AR19 Trust, "At origination, the
14 weighted average loan-to-value ratio of the group 1 loans was approximately 69.5%. As of the
15 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
16 69.4%." (2006-AR19 Prospectus at S-123) This statement was materially false and
17 misleading because the average LTV ratio was understated as a result of Washington Mutual's
18 inflated appraisals.

19 114. Each Supplemental Prospectuses issued in connection with the Series 2007-HY
20 Registration Statement included similar material misrepresentations about the loan-to-value ratio
21 of the mortgages underlying the Issuing Trusts as set forth in the following chart:

<u>Supplemental Prospectus</u>	<u>Statement</u>	<u>Page</u>
WaMu Mortgage Pass-Through Certificates Series 2007-HY1 Trust	At origination, the weighted average loan-to-value ratio of the group 1 loans was approximately 67.9%. As of the Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately 67.9%.	S-105

1	WaMu Mortgage Pass- Through Certificates Series 2007-HY2 Trust	At origination, the weighted average loan-to-value ratio of the group 1 loans was approximately 73.2%. As of the Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately 72.8%.	S-95
2			
3			
4	WaMu Mortgage Pass- Through Certificates Series 2007-HY3 Trust	At origination, the weighted average loan-to-value ratio of the group 1 loans was approximately 67.9%. As of the Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans as approximately 67.9%.	S-97
5			
6			
7	WaMu Mortgage Pass- Through Certificates Series 2007-HY4 Trust	At origination, the weighted average loan-to-value ratio of the group 1 loans was approximately 68.6%. As of the Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately 68.5%.	S-105
8			
9	WaMu Mortgage Pass- Through Certificates Series 2007-HY5 Trust	At origination, the weighted average loan-to-value ratio of the group 1 loans was approximately 67.6%. As of the Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately 67.6%.	S-104
10			
11			
12	WaMu Mortgage Pass- Through Certificates Series 2007-HY6 Trust	At origination, the weighted average loan-to-value ratio of the group 1 loans was approximately 70.1%. As of the Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately 70.1%.	S-102
13			
14			
15	WaMu Mortgage Pass- Through Certificates Series 2007-HY7 Trust	At origination, the weighted average loan-to-value ratio of the group 1 loans was approximately 64.1%. As of the Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately 64.0%.	S-95
16			

17
18 115. Statements in the chart set forth immediately above were materially false and
19 misleading when made because the average LTV ratio was understated as a result of
20 Washington Mutual's inflated appraisals.

21 **THE MISREPRESENTATIONS HARMED PLAINTIFFS AND THE CLASS**

22 116. The risks that Defendants concealed from investors in the Issuing Trusts were
23 revealed through increasing default rates on the Issuing Trusts' mortgage pools and mounting
24 losses incurred on the Issuing Trusts' individual tranches. These defaults and increased losses
25 exceed the expected rates of default on the mortgage pools included in the Issuing Trusts and, as
26 a result, have led to diminishing value of the Issuing Trusts' securities. As set forth below, rating
27 agencies have downgraded the securities issued by the Issuing Trusts in response to the mounting

1 losses suffered by the Issuing Trusts. These actions have further reduced the market value of the
2 Issuing Trusts' securities.

3 117. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR1 Trust, as of
4 July 3, 2008, Moody's placed one tranche on review for a possible downgrade, and downgraded
5 four tranches by multiple ratings levels. On May 1, 2008, Standard & Poor's ("S&P")
6 downgraded two tranches by multiple levels.

7 118. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR3 Trust, as of
8 July 3, 2008, Moody's placed one tranche on review for a possible downgrade, and downgraded
9 six tranches by multiple ratings levels.

10 119. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR4 Trust, as of
11 July 3, 2008, Moody's placed three tranches on review for a possible downgrade, and
12 downgraded six tranches by multiple ratings levels.

13 120. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR5 Trust, as of
14 July 3, 2008, Moody's downgraded eleven tranches by multiple ratings levels.

15 121. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR6 Trust, as of
16 May 1, 2008, S&P downgraded two tranches by multiple rating levels.

17 122. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR7 Trust, as of
18 July 3, 2008, Moody's placed two tranches on review for possible downgrades, and downgraded
19 twelve tranches by multiple ratings levels.

20 123. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR8 Trust, as of
21 May 1, 2008, S&P downgraded four tranches by multiple rating levels.

22 124. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR9 Trust, as of
23 July 3, 2008, Moody's placed two tranches on review for possible downgrades, and downgraded
24 eleven tranches by multiple ratings levels.

25 125. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR10 Trust, on
26 May 1, 2008, S&P downgraded eight tranches by multiple ratings levels.

1 126. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR11 Trust, on
2 July 3, 2008, Moody's placed three tranches on review for possible downgrades, and twenty-two
3 tranches were downgraded multiple ratings levels, and remain under review for further
4 downgrades. On May 1, 2008, S&P downgraded twenty tranches by multiple rating levels.

5 127. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR12 Trust, as
6 of May 1, 2008, S&P downgraded five tranches by multiple rating levels.

7 128. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR13 Trust, as
8 of July 3, 2008, Moody's placed two tranches on review for possible downgrades, and eleven
9 were downgraded multiple ratings levels, and remain under review for further downgrades.

10 129. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR14 Trust, as
11 of May 1, 2008, S&P downgraded four tranches by multiple rating levels.

12 130. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR15 Trust, as
13 of July 3, 2008, Moody's placed two tranches on review for possible downgrades, and thirteen
14 tranches were downgraded multiple ratings levels, and remain under review for further
15 downgrades.

16 131. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR16 Trust, as
17 of May 1, 2008, S&P downgraded eight tranches by multiple rating levels.

18 132. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR17 Trust, as
19 of July 3, 2008, Moody's placed two tranches on review for possible downgrades, and twelve
20 tranches were downgraded multiple ratings levels, and remain under review for further
21 downgrades.

22 133. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR18 Trust, as
23 of May 1, 2008, S&P downgraded four tranches by multiple rating levels.

24 134. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR19 Trust, as
25 of July 3, 2008, Moody's placed three tranches on review for possible downgrades, and thirteen
26 tranches were downgraded multiple ratings levels, and remain under review for further
27 downgrades.

1 135. For the WaMu Mortgage Pass-Through Certificates, Series 2007-HY1 Trust, as of
2 March 17, 2008, S&P had placed four tranches on a negative ratings watch.

3 136. For the WaMu Mortgage Pass-Through Certificates, Series 2007-HY2, as of
4 March 17, 2008, S&P had placed four tranches on a negative ratings watch.

5 137. For the WaMu Mortgage Pass-Through Certificates, Series 2007-HY3, as of
6 March 17, 2008, S&P had placed five tranches on a negative ratings watch.

7 138. For the WaMu Mortgage Pass-Through Certificates, Series 2007-HY4, as of
8 March 17, 2008, S&P had placed six tranches on a negative ratings watch.

9 139. For the WaMu Mortgage Pass-Through Certificates, Series 2007-HY5 Trust, as
10 of November 16, 2007, S&P had downgraded three tranches by multiple rating levels. On March
11 28, 2008, S&P downgraded eight tranches by multiple ratings levels and projected that the Series
12 2007-HY5 Trust Certificates would have losses of in excess of \$1.5 billion.

13 140. For the WaMu Mortgage Pass-Through Certificates, Series 2007-HY6 Trust, as
14 of November 16, 2007, S&P had downgraded nine tranches by multiple rating levels. On March
15 28, 2008, S&P downgraded four tranches by multiple ratings levels and projected that the Series
16 2007-HY6 Trust Certificates would have losses of in excess of \$2.2 billion.

17 141. For the WaMu Mortgage Pass-Through Certificates, Series 2007-HY7, as of
18 November 16, 2007, S&P had downgraded nine tranches by multiple rating levels. On March
19 28, 2008, S&P downgraded five tranches by multiple ratings levels and projected that the Series
20 2007-HY7 Trust Certificates would have losses of in excess of \$2.8 billion.

21 142. As a direct and proximate cause of the false and misleading statements issued by
22 the Defendants in offering the Issuing Trusts' securities for sale, which concealed material facts
23 concerning the inflated value of the properties that collateralized the mortgages in the Issuing
24 Trusts, Plaintiffs have suffered damages.

25 **PLAINTIFFS' CLASS ACTION ALLEGATIONS**

26 143. Plaintiffs bring this action on their own behalf and as a class action pursuant to
27 Civil Rule 23 on behalf of all persons and entities who, between January 26, 2006 and

1 November 1, 2007 (the "Class Period"), purchased or otherwise acquired the Certificates of
2 the Issuing Trusts pursuant or traceable to the false and misleading Registration Statement,
3 Prospectuses and Supplemental Prospectuses, and who were damaged thereby (the "Class").

4 144. Excluded from the Class are the Defendants, their officers and directors at all
5 relevant times, members of their immediate families and their legal representatives, heirs,
6 successors or assigns and any entity in which Defendants have or had a controlling interest.

7 145. The members of the Class are so numerous that joinder of all members is
8 impracticable. While the exact number of Class members is unknown to Plaintiffs at this time
9 and can only be ascertained through appropriate discovery, Plaintiffs believe that there are
10 thousands of members in the proposed Class.

11 146. Plaintiffs will fairly and adequately protect the interests of the Class members
12 and have retained counsel competent and experienced in class action and securities litigation.
13 Plaintiffs have no interests that are contrary or in conflict with those of the Class members that
14 Plaintiffs seek to represent.

15 147. Plaintiffs' claims are typical of the claims of the Class members. Plaintiffs and all
16 members of the Class purchased the Certificates pursuant to a Registration Statement or
17 Prospectuses have sustained damages as a result of the wrongful conduct complained of herein.

18 148. A class action is superior to other available methods for the fair and efficient
19 adjudication of this controversy. Because the damages suffered by the individual Class members
20 may be relatively small, the expense and burden of individual litigation make it impossible for
21 Class members individually to redress for the wrongful conduct alleged herein.

22 149. Common questions of law and fact exist as to all members of the Class and
23 predominate over any questions affecting individual members of the Class. Among the
24 questions of law and fact common to the Class are:

- 25 (i) Whether the federal securities laws were violated by the
26 Defendants' acts and omissions as alleged herein;
27 (ii) Whether documents, including the Registration Statement,

1 Prospectuses and Supplemental Prospectuses, that WMAAC filed
2 with the SEC during the Class Period contained misstatements of
3 material fact or omitted to state material facts necessary in order to
4 make the statements made, in light of the circumstances under
5 which they were made, not misleading;

6 (iii) Whether the market prices of the Certificates during the Class
7 Period were artificially inflated due to the material
8 misrepresentations and omissions complained of herein; and

9 (iv) Whether the Class members have sustained damages and, if so,
10 the appropriate measure thereof.

11 150. Plaintiffs know of no difficulty that will be encountered in the management of
12 this litigation that would preclude its maintenance as a class action.

13 151. The names and addresses of the record owners of the Certificates purchased
14 during the Class Period are available from WMAAC and/or its transfer agent(s). Notice can be
15 provided to persons who purchased or otherwise acquired the Certificates by a combination of
16 published notice and first class mail, using techniques and forms of notice similar to those
17 customarily used in other class actions arising under in state and federal securities class actions.

18 CAUSES OF ACTION

19 COUNT ONE

20 **Against WMAAC, WMCC and the Individual Defendants for** 21 **Violation of Section 11 of the Securities Act**

22 152. Plaintiffs repeat and reallege each and every allegation above as if fully set forth
23 herein. This Count is brought pursuant to Section 11 of the Securities Act, 15 U.S.C. § 77k, on
24 behalf of the Plaintiffs and all Class members who purchased the Certificates pursuant or
25 traceable to the Registration Statement filed with the SEC on December 30, 2005, as amended on
26 January 3, 2006 and the corresponding Prospectuses and Supplemental Prospectuses

27 153. This Count is not based on and does not sound in fraud. All preceding allegations
of fraud or fraudulent conduct and/or motive are specifically excluded from this Count. This

1 Count is predicated upon Defendants' strict liability for making false and materially misleading
2 statements in the Registration Statement, the Prospectuses, and Supplemental Prospectuses.

3 154. This Count is asserted against (a) WMAAC, which issued the Certificates
4 offered to the investing public, (b) the Individual Defendants, all of whom signed the
5 Registration Statement and were officers and/or directors of WMAAC at the time, and (c)
6 WMCC which served as underwriter and was the seller of the Certificates within the meaning of
7 the Securities Act.

8 155. The Registration Statement and each of the Prospectuses and Supplemental
9 Prospectuses were materially false and misleading and contained untrue statements of material
10 fact and omitted to state material facts necessary to make the statement made therein, under the
11 circumstances in which they were made, not misleading, as set forth above.

12 156. None of the Defendants named in this Count made a reasonable investigation or
13 possessed reasonable grounds for the belief that the statements contained in the Registration
14 Statement and each of the Prospectuses and Supplemental Prospectuses were accurate and
15 complete in all material respects. Had they exercised reasonable care, the Defendants named in
16 this Count could have known of the material misstatements and omissions alleged herein.

17 157. At the time they purchased the Certificates, Plaintiffs and no member of the
18 Class knew, or by the reasonable exercise of care could have known, of the material
19 misstatements and omissions alleged herein.

20 158. In connection with the Registration Statement and offering of the Certificates, the
21 Defendants named in this Count, directly or indirectly, used the means and instrumentalities of
22 interstate commerce, the United States mails and a national securities exchange.

23 159. This Count is brought within one year after discovery of the untrue statements
24 and omissions in the Registration Statement, the Prospectuses and Supplemental Prospectuses,
25 and within three years after the Certificates were sold to Class members.

26 160. Plaintiffs and the Class members acquired the Certificates pursuant or traceable to
27 the Registration Statement before WMAAC made generally available to its security holders an

1 earnings statement covering a period of at least twelve months beginning after the effective date
2 of the Registration Statement.

3 161. By reason of the misconduct alleged herein, the Defendants named in this Count
4 violated Section 11 of the Securities Act and are liable to the Plaintiffs and the Class members
5 who purchased or acquired the Certificates pursuant or traceable to the Registration Statement,
6 each of whom has been damaged as a result of such violations.

7 **COUNT TWO**

8 **Against WMAAC and WMCC for Violation of**
9 **Section 12(a)(2) of the Securities Act**

10 162. Plaintiffs repeat and reallege each and every allegation contained above as if
11 fully set forth herein. This Count is brought pursuant to Section 12(a)(2) of the Securities Act,
12 15 U.S.C. § 771(a)(2) on behalf of the Plaintiffs and all members of the Class who purchased or
13 otherwise acquired the Certificates pursuant to the Registration Statement, Prospectuses and
14 Supplemental Prospectuses.

15 163. This Count is not based on and does not sound in fraud. All preceding allegations
16 of fraud or fraudulent conduct and/or motive are specifically excluded from this Count.

17 164. This Count is brought against WMAAC and WMCC each of whom offered and
18 sold Certificates to Class members by the use of communication in interstate commerce and/or
19 the United States mails, by means of the Registration Statement, Prospectuses and Supplemental
20 Prospectuses

21 165. Specifically, in connection with the Issuing Trusts, WMAAC selected WMCC to
22 underwrite and promote the Certificates. Pursuant to an underwriting agreement, WMAAC
23 issued and WMCC underwrote and promoted the sale of the Certificates to the investing public.

24 166. WMAAC and WMCC participated in the preparation and dissemination of the
25 false and misleading Registration Statement, Prospectuses and Supplemental Prospectuses for
26 their own financial benefit. But for their participation in the sale of the Certificates to the
27

1 investing public, including their solicitation as set forth herein, the sale of the Certificates could
2 not and would not have been accomplished. Specifically, WMAAC and WMCC:

- 3 (i) Made the decision to offer the Certificates for sale to the investing
4 public. WMAAC and WMCC drafted, revised and/or approved the
5 Registration Statement, Prospectuses and Supplemental
6 Prospectuses. These written materials were calculated to create
7 interest in the Certificates and were widely distributed by or on
8 behalf of the Defendants named in this Count for that purpose;
- 9 (ii) Finalized the Registration Statement, the Prospectuses and
10 Supplemental Prospectuses, and caused them to become effective;
11 and
- 12 (iii) Conceived and planned the sale of the Certificates and orchestrated
13 all activities necessary to affect the sale of the Certificates to the
14 investing public, by issuing the Certificates, promoting the
15 Certificates and supervising their distribution and ultimate sale to
16 the investing public.

17 167. As set forth more specifically above, the Registration Statement, Prospectuses and
18 Supplemental Prospectuses contained untrue statements of material fact and omitted to state
19 material facts necessary in order to make the statements, in light of circumstances in which they
20 were made, not misleading.

21 168. Plaintiffs and the members of the Class did not know, nor could they have
22 known, of the untruths or omissions contained in the Registration Statement, the Prospectuses
23 and Supplemental Prospectuses.

24 169. WMAAC and WMCC were obligated to make a reasonable and diligent
25 investigation of the statements contained in the Registration Statement, the Prospectuses and
26 Supplemental Prospectuses to ensure that such statements were true and that there was no
27 omission of material fact required to be stated in order to make the statements contained
therein not misleading. WMAAC and WMCC did not make a reasonable investigation and did
not possess reasonable grounds for the belief that the statements contained in the Registration
Statement, Prospectuses and Supplemental Prospectuses were accurate and complete in all

1 material respects. Had they done so, these Defendants could have known of the material
2 misstatements and omissions alleged herein.

3 170. This Count is brought within one year after discovery of the untrue statements
4 and omissions in the Registration Statement, the Prospectuses and Supplemental Prospectuses
5 and within three years after the Certificates were sold to Plaintiffs and Class members in
6 connection with the Issuing Trusts.

7 171. By reason of the misconduct alleged herein, the Defendants named in this Count
8 violated Section 12(a)(2) of the Securities Act and are liable to Plaintiffs and members of the
9 Class who purchased or acquired the Certificates pursuant or traceable to the Registration
10 Statement, the Prospectuses and Supplemental Prospectuses, each of whom has been damaged as
11 a result of such violation.

12 172. Plaintiffs and the members of the Class who purchased the Certificates pursuant to
13 the Registration Statement, the Prospectuses and Supplemental Prospectuses hereby seek
14 rescission of their purchases and tender to the Defendants named in this Count any Certificates
15 that Plaintiffs and other members of the Class continue to own, in return for the consideration
16 paid for those Certificates, together with interest thereon.

17 **COUNT THREE**

18 **Against Washington Mutual, WMB, WMSSC and the Individual Defendants**
19 **for Violation of Section 15 of the Securities Act**

20 173. Plaintiffs repeat and reallege each and every allegation above as if set forth fully
21 herein. This Count is brought pursuant to Section 15 of the Securities Act, 15 U.S.C. § 77o, on
22 behalf of the Plaintiffs and all members of the Class who purchased or otherwise acquired the
23 Certificates pursuant or traceable to the Registration Statement, Prospectuses and Supplemental
24 Prospectuses.

25 174. This Count is not based on and does not sound in fraud. All preceding
26 allegations of fraud or fraudulent conduct and/or motive are specifically excluded from this
27 Count.

1 175. For all the reasons set forth above in Counts One and Two, Washington Mutual,
2 WMB, WMSSC and the Individual Defendants are controlling entities or persons of WMAAC
3 and are liable to Plaintiffs and the members of the Class who purchased the Certificates pursuant
4 or traceable to the materially false and misleading statements and omissions contained in the
5 Registration Statement, Prospectuses and Supplemental Prospectuses, pursuant to Sections 11
6 and 12(a)(2) of the Securities Act, and were damaged thereby.

7 176. This Count is asserted against Washington Mutual, WMB, WMSSC, and the
8 Individual Defendants, each of whom was a control person of WMAAC during the Class Period,
9 within the meaning of Section 15 of the Securities Act, by virtue of their control, ownership,
10 offices, directorship, and specific acts. As control persons, Washington Mutual, WMB,
11 WMSSC, and the Individual Defendants had the power and influence, and exercised the same,
12 to cause WMAAC to engage in the acts described herein.

13 177. Washington Mutual's, WMB's, WMSSC's, and the Individual Defendants'
14 control, ownership and positions made them privy to and provided them with actual knowledge
15 of the material facts concealed from Plaintiffs and members of the Class.

16 178. By virtue of the conduct alleged herein, for which WMAAC is primarily liable, as
17 set forth above, defendants Washington Mutual, WMB, WMSSC, and the Individual Defendants
18 are jointly and severally liable with and to the same extent as WMAAC, pursuant to Section 15
19 of the Securities Act.


20 WHEREFORE, Plaintiffs pray for relief and judgment, as follows:

- 21 (a) Determining that this action is a proper class action pursuant to Civil Rule
22 23;
- 23 (b) Awarding compensatory damages in favor of Plaintiffs and the other Class
24 members against all Defendants, jointly and severally, for all damages
25 sustained as a result of Defendants' wrongdoing, in an amount to be
26 proven at trial, including interest thereon;
- 27 (c) Awarding Plaintiffs and the Class their reasonable costs and expenses
 incurred in this action, including counsel fees and expert fees; and

1 (d) Such other and further relief as the Court may deem just and proper.

2
3 DATED this 15th day of August, 2008.

4 KIPLING LAW GROUP PLLC

5
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Retirement System and MARTA/ATU Local 732
Employees Retirement Plan*

EXHIBIT B

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HONORABLE MICHAEL J. TRICKEY

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR THE COUNTY OF KING

NEW ORLEANS EMPLOYEES'
RETIREMENT SYSTEM and MARTA/ATU
LOCAL 732 EMPLOYEES RETIREMENT
PLAN, individually and on behalf of all others
similarly situated,

Plaintiffs,

v.

WASHINGTON MUTUAL BANK; WAMU
ASSET ACCEPTANCE CORP.;
WASHINGTON MUTUAL MORTGAGE
SECURITIES CORP.; WAMU CAPITAL
CORP.; RICHARD CAREAGA; DAVID
BECK; DIANE NOVAK; THOMAS
GREEN; and ROLLAND JURGENS,

Defendants.

CLASS ACTION

Case No. 08-2-26210-3 SEA

FIRST AMENDED COMPLAINT
FOR VIOLATIONS OF SECTIONS
11, 12(A)(2) AND 15 OF THE
SECURITIES ACT OF 1933

SUMMARY OF THE ACTION

1. This Complaint is brought pursuant to the Securities Act of 1933 (the "Securities Act") by New Orleans Employees' Retirement System and MARTA/ATU Local 732 Employees Retirement Plan (collectively "Plaintiffs"), on their own behalf and as a class action on behalf of all persons and entities who purchased or otherwise acquired WaMu Mortgage Pass-Through Trust Certificates (as defined below) between January 26, 2006 and November 1, 2007, inclusive (the "Class Period"), pursuant to a Registration Statement that WaMu Asset Acceptance Corp. ("WMAAC") filed with the Securities and Exchange Commission

1 (“SEC”) on December 30, 2005, as supplemented on January 3, 2006 (the “Registration
2 Statement”). The Securities Act imposes liability for omissions and misstatements in
3 registration statements and prospectuses and provides concurrent jurisdiction in state and federal
4 courts over alleged violations of the Act. *See* 15 U.S.C. § 77v.

5 2. Washington Mutual, Inc. (“Washington Mutual”), the parent company of
6 WMAAC, was among the nation’s largest savings and loan institutions, ranking in the top ten of
7 all U.S.-based bank and thrift holding companies based on consolidated assets. Washington
8 Mutual was also one of the nation’s largest home loan originators, having originated more than
9 \$200 billion in home loans in fiscal 2006.

10 3. Washington Mutual filed a voluntary petition for Chapter 11 bankruptcy
11 protection on September 26, 2008. Because of this bankruptcy filing, Washington Mutual is
12 not named as a defendant in this amended complaint.

13 4. WMAAC pooled together many of the loans Washington Mutual originated in
14 2006 and securitized them into mortgage backed securities (“MBS”) that were sold to qualifying
15 special-purpose entities, in this case referred to as the “Issuing Trusts”. The Issuing Trusts, in
16 turn, sold “Certificates” to Plaintiffs and other members of the Class during the Class Period,
17 providing monthly distributions of interest and principal on future cash flows from the mortgages
18 underlying the Issuing Trusts. As borrowers paid their mortgages, distributions were made to
19 the Plaintiffs and members of the Class. WMAAC was the “Depositor” in the securitization
20 transactions, and was the “Issuer” of the Certificates within the meaning of the Securities Act.

21 5. The Registration Statement repeatedly touted the supposedly strong underwriting
22 standards employed by Washington Mutual, as originator of many of the mortgages underlying
23 the Issuing Trusts, to assure Plaintiffs and other Class members that Washington Mutual issued
24 mortgages only after the real-estate that collateralized the loans had been subjected to objective
25 and independent real-estate appraisals that met the standards of the Uniform Standards of
26 Professional Appraisal Practice (“USPAP”).

1 6. In this regard, the Registration Statement included numerous representations
2 about the quality of the mortgage pools underlying the Issuing Trust, such as the loan-to-value
3 (“LTV”) ratios used to qualify borrowers and the appraisal standards against which the real-
4 estate that collateralized the mortgages had been valued. These representations were repeated in
5 and incorporated into prospectuses and supplemental prospectuses that WMAAC filed with the
6 SEC in connection with the sale of Certificates to Plaintiffs and members of the Class.

7 7. Based in part on these representations, WMAAC obtained credit ratings for each
8 of the Certificates issued by the Issuing Trusts, and representations about these credit ratings were
9 included in the supplemental prospectuses filed with the SEC in connection with the sale of the
10 Certificates. All of this information was essential in valuing the investment quality of the
11 Certificates.

12 8. As it has now become known, throughout the Class Period, Washington Mutual
13 had systematically inflated the appraised values of the properties that secured the mortgages. By
14 inflating the appraised values, Washington Mutual was able to close more loans and earn more
15 fees by issuing mortgages to unqualified borrowers. Then by pooling and selling those mortgages
16 to the Issuing Trusts, Washington Mutual and WMAAC shifted the undisclosed and increased
17 risk of loss from mortgage defaults to Plaintiffs and other unwitting Class members.

18 9. The scheme was ultimately unraveled in a complaint that New York Attorney
19 General Andrew Cuomo (the “NYAG”) filed on November 1, 2007 (the “NYAG Complaint”),
20 which cited emails showing how Washington Mutual had improperly pressured supposedly
21 independent appraisers to artificially inflate real-estate appraisals in order to close home loans
22 that would otherwise not have closed because, absent the inflated values, the LTV ratio would be
23 too high for the borrowers to qualify.

24 10. Contrary to the material assurances in the Registration Statement, mortgages that
25 comprised the Issuing Trusts were not originated in accordance with the stated underwriting
26 standards of the USPAP or in accordance with applicable regulations and laws. Instead,
27 Washington Mutual improperly caused its employees to inflate appraisals, and as the NYAG

1 alleged, following the retention of outside appraisers (specifically, eAppraiseIT) Washington
2 Mutual then coerced third party appraisers to inflate property appraisals by directing its appraisal
3 work to a hand-picked group of appraisers that Washington Mutual knew would provide inflated
4 appraisals.

5 11. According to a November 1, 2007 press release issued by the NYAG:

6 In April 2006, EA [eAppraiseIT] began providing appraisal services for WaMu,
7 which became EA's biggest client. Within weeks, WaMu began complaining
8 to EA that its appraisals were not high enough. WaMu pressured EA to employ
9 exclusively a new panel of appraisers that WaMu hand-selected as "Proven
10 Appraisers." *This set of appraisers was chosen by WaMu specifically
11 because they inflated property appraisals. WaMu profited from these higher
12 appraisals because they could close more home loans, at greater values.* Over the
13 course of their relationship, between April 2006 and October 2007, EA provided
14 approximately 262,000 appraisals for WaMu.

15 *Attorney General Cuomo's investigation uncovered a series of e-mails between
16 executives at EA, First American, and WaMu that show EA officials were
17 willingly violating state and federal appraisal independence regulations to
18 comply with WaMu's demands...*

19 (Emphasis added)

20 12. Because of this misconduct, the Registration Statement and the prospectuses
21 and supplemental prospectuses that WMAAC filed with the SEC in connection with the
22 Issuing Trusts contained materially false and misleading statements concerning the Certificates'
23 value, investment risks, and the LTV ratios of the mortgage pools underlying the Issuing
24 Trusts.

25 13. Furthermore, the systematic over-appraisal of the real-estate that collateralized
26 the mortgage pools underlying the Issuing Trusts materially and adversely impacted the value of
27 the Certificates, and Plaintiffs and members of the Class were damaged thereby.

28 JURISDICTION AND VENUE

29 14. The claims alleged herein arise under Sections 11, 12(a)(2) and 15 of the
30 Securities Act of 1933 (the "Securities Act"), 15 U.S.C. §§ 77k, 77l(a)(2) and 77o.

31 15. This Court has jurisdiction over the subject matter of this action pursuant to
32 Section 22 of the Securities Act, 15 U.S.C. § 77v, which explicitly states that "The district courts

1 of the United States . . . shall have jurisdiction of offenses and violations under this
2 subchapter . . . and, concurrent with State and Territorial courts, except as provided in section
3 77p of this title with respect to covered class actions, of all suits in equity and actions at law
4 brought to enforce any liability or duty created by this subchapter.” Section 22 further provides
5 that, “[e]xcept as provided in section 77p(c) [(Section 16 of the Securities Act)] of this title, no
6 case arising under this subchapter and brought in any State court of competent jurisdiction shall
7 be removed to any court of the United States.” Section 16(c) of the Securities Act refers to
8 “covered class actions.” This action asserts claims under the Securities Act and is not a covered
9 class action within the meaning of Section 16(c), and therefore, pursuant to Section 22 of the
10 Securities Act, this action is not removable. *See Luther v. Countrywide Home Loans Servicing*
11 *LP*, 533 F.3d 1031 (9th Cir. 2008).

12 16. Venue is proper in this Court because many of the acts and transgressions leading
13 to the violations of law complained of herein occurred in this County, including the preparation
14 and dissemination of materially false and misleading statements in the Registration Statement,
15 as well as the prospectuses and supplemental prospectuses, as further detailed below.
16 Furthermore, Washington Mutual is incorporated in Washington State, and along with
17 Washington Mutual Bank, Washington Mutual Mortgage Securities Corp., WMAAC, and WaMu
18 Capital Corp., conducts its business and is headquartered within this County.

19 PARTIES

20 17. Plaintiff, New Orleans Employees’ Retirement System (“NOERS”), purchased
21 WaMu Mortgage Pass-Through Certificates Series 2006-AR14, WaMu Mortgage Pass-Through
22 Certificates Series 2006-AR16, and WaMu Mortgage Pass-Through Certificates Series 2006-
23 AR18, during the Class Period, pursuant to and/or traceable to the Registration Statement,
24 and pursuant to and/or traceable to supplemental prospectuses that WMAAC filed with the
25 SEC on October 23, 2006, November 17, 2006, and December 19, 2006 respectively.

26 18. Plaintiff, MARTA/ATU Local 732 Employees Retirement Plan (“MARTA”)
27 purchased WaMu Mortgage Pass-Through Certificates Series 2006-AR2, WaMu Mortgage Pass-

1 Through Certificates Series 2006-AR16, WaMu Mortgage Pass-Through Certificates Series-
2 AR18, WaMu Mortgage Pass-Through Certificates Series 2007-HY2, WaMu Mortgage Pass-
3 Through Certificates Series 2007-HY4, and WaMu Mortgage Pass-Through Certificates Series
4 2007-HY7, during the Class Period, pursuant to and/or traceable to the Registration
5 Statement, and pursuant to and/or traceable to supplemental prospectuses that WMAAC
6 filed with the SEC on February 16, 2006, November 17, 2006, December 19, 2006,
7 February 14, 2007, March 23, 2007, and June 22, 2007, respectively.

8 19. As a direct and proximate cause of the false and misleading statements alleged
9 herein, NOERS and MARTA suffered damages when the truth became known and the price of
10 the Certificates dropped. Furthermore, during the Class Period, MARTA sold its WaMu
11 Mortgage Pass-Through Certificates Series 2006-AR2 at a loss and was damaged thereby.

12 20. At all relevant times, WMAAC was a Delaware corporation and a wholly-
13 owned subsidiary of WMB. WMAAC was the Depositor in the securitization of the
14 Issuing Trusts detailed below, and it also was the Issuer of the Certificates within the
15 meaning of the Securities Act, 15 U.S.C. § 77b(a)(4), and at times is referred to herein as
16 the "Issuing Defendant."

17 21. Defendant Washington Mutual Bank ("WMB") was at all relevant times a
18 Washington corporation with its principal executive offices located at 1301 Second Avenue,
19 Seattle, Washington. WMB is a wholly-owned subsidiary of Washington Mutual, and served
20 various roles in the formation and securitization of the Issuing Trusts, including as "Sponsor" of
21 the Issuing Trusts, as further detailed below. On September 25, 2008, the Office of Thrift
22 Supervision seized WMB and placed it into the receivership of the Federal Deposit Insurance
23 Corporation.

24 22. Defendant Washington Mutual Mortgage Securities Corp. ("WMMSC") was at all
25 relevant times a Delaware corporation, a wholly-owned subsidiary of WMB, and an indirect
26 wholly-owned subsidiary of Washington Mutual. WMMSC engages in the business of (i)
27 purchasing mortgage loans; (ii) selling mortgage loans in whole loan transactions and

1 securitizing mortgage loans through affiliated and unaffiliated depositors; (iii) master servicing
2 mortgage loans; (iv) acting as administrative agent of WMB and its affiliates with respect to
3 mortgage loans serviced by WMB and its affiliates; and (v) providing securitization services.

4 WMMSC served various roles, including as "Sponsor" of the Issuing Trusts, as further
5 described below.

6 23. Defendant WaMu Capital Corp. ("WMCC"), an affiliate of Washington Mutual,
7 acted as sole underwriter of the Certificates, and pursuant to an underwriting agreement, sold and
8 distributed the Certificates to the investing public pursuant to the Registration Statement and related
9 prospectuses and supplemental prospectuses filed with the SEC in connection with Issuing
10 Trusts. As part of its duties as the underwriter, WMCC was required to conduct, prior to
11 the offerings, a due diligence investigation into, among other things, matters discussed in the
12 Registration Statement and related prospectuses and supplemental prospectuses filed with the
13 SEC in connection with the Issuing Trusts.

14 24. WMB, WMMSC, WMAAC, and WMCC are collectively referred to as the
15 "Corporate Defendants."

16 25. Defendant Richard Careaga ("Careaga") was at all relevant times herein
17 WMAAC's First Vice President.

18 26. Defendant David Beck ("Beck") was at all relevant times herein WMAAC's
19 President and a member of WMAAC's Board of Directors.

20 27. Defendant Diane Novak ("Novak") was at all relevant times herein a member of
21 WMAAC's Board of Directors.

22 28. Defendant Thomas Green ("Green") was at all relevant times herein WMAAC's
23 Chief Financial Officer ("CFO").

24 29. Defendant Rolland Jurgens ("Jurgens") was at all relevant times herein
25 WMAAC's Controller.

26 30. Defendants Careaga, Beck, Novak, Green, and Jurgens are collectively referred to
27 hereinafter as the "Individual Defendants."

31. Each of the Individual Defendants signed the Registration Statement.

32. The Corporate Defendants and the Individual Defendants are collectively referred to herein as the "Defendants."

RELEVANT NON-PARTIES

33. During the Class Period, Washington Mutual was a Washington corporation with its principal executive offices located at 1301 Second Avenue, Seattle, Washington. Washington Mutual, together with its subsidiaries, operated as a consumer and small business banking company in the United States. Washington Mutual's Home Loans Group segment originated and serviced home loans, serviced portfolios of home equity loans and lines of credit, originated and provided mortgage loans to borrowers, and also provided financing and other banking services to mortgage bankers for the origination of mortgage loans. Washington Mutual filed a petition for bankruptcy on September 26, 2008. But for the bankruptcy filing, Washington Mutual would be named as a defendant in this action.

34. Collectively, the Issuing Trusts are:

Issuing Trusts	Principal Amount	Depositor	Underwriter	Sponsor
WaMu Mortgage Pass-Through Certificates Series 2006-AR1 Trust	\$1,474,488,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR2 Trust	\$332,239,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR3 Trust	\$990,012,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR4 Trust	\$909,714,200	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR5 Trust	\$778,198,100	WMAAC	WMCC	WMB

Issuing Trusts	Principal Amount	Depositor	Underwriter	Sponsor
WaMu Mortgage Pass-Through Certificates Series 2006-AR6 Trust	\$448,667,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR7 Trust	\$1,255,863,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR8 Trust	\$1,208,887,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR9 Trust	\$1,402,610,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR10 Trust	\$1,328,647,642	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR11 Trust	\$1,615,625,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR12 Trust	\$1,694,778,749	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR13 Trust	\$1,468,050,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR14 Trust	\$1,683,891,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR15 Trust	\$868,034,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR16 Trust	\$1,444,737,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR17 Trust	\$1,124,131,100	WMAAC	WMCC	WMB

Issuing Trusts	Principal Amount	Depositor	Underwriter	Sponsor
WaMu Mortgage Pass-Through Certificates Series 2006-AR18 Trust	\$1,554,983,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2006-AR19 Trust	\$1,187,632,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2007-HY1 Trust	\$3,007,814,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2007-HY2 Trust	\$1,570,407,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2007-HY3 Trust	\$2,970,344,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2007-HY4 Trust	\$1,684,955,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2007-HY5 Trust	\$1,619,028,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2007-HY6 Trust	\$3,417,433,100	WMAAC	WMCC	WMB
WaMu Mortgage Pass-Through Certificates Series 2007-HY7 Trust	\$2,795,936,100	WMAAC	WMCC	WMB

SUBSTANTIVE ALLEGATIONS

A. Background

1. The Mortgage Industry and Mortgage Securitization

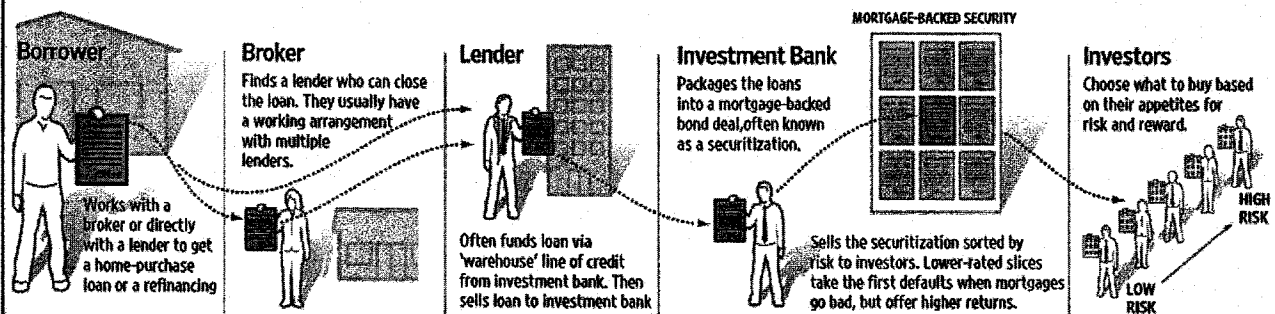
35. The mortgage industry has been traditionally characterized by a lending institution (*i.e.*, the loan originator) holding a direct interest in the property as collateral for a mortgage in the event the borrower defaulted on the loan. Under the traditional model, the loan originator held the note until it matured and was exposed to the concomitant risk that the

1 borrower would fail to repay the loan. As such, under the traditional model, the loan
2 originator had a financial incentive to obtain an accurate property appraisal before issuing a
3 mortgage to ensure that the mortgage was adequately collateralized in the event the borrower
4 defaulted and the property was foreclosed.

5 36. Beginning in the 1990s, the traditional model of loan origination changed. Under
6 the new model, after a loan originator issues a mortgage to a borrower, the loan originator
7 typically sells the mortgage in the financial markets to third-party financial institutions. By
8 selling the mortgage, the loan originator obtains fees in connection with the issuance of the
9 mortgage, receives upfront proceeds when it sells the mortgage into the financial markets, and
10 thereby has new capital to issue more mortgages. The mortgages sold into the financial
11 markets are typically pooled together and securitized into what are commonly referred to as
12 "mortgage-backed securities" ("MBS"). In addition to receiving proceeds from the sale of the
13 mortgage, the loan originator no longer holds the risk that the borrower may default; that risk is
14 transferred with the mortgages to investors who purchase the MBSs.

15 37. As illustrated below, mortgage securitization is a structured finance process in
16 which mortgage loans are acquired, pooled together, and then sold to investors, who acquire
17 rights in the income flowing from the mortgage pools.

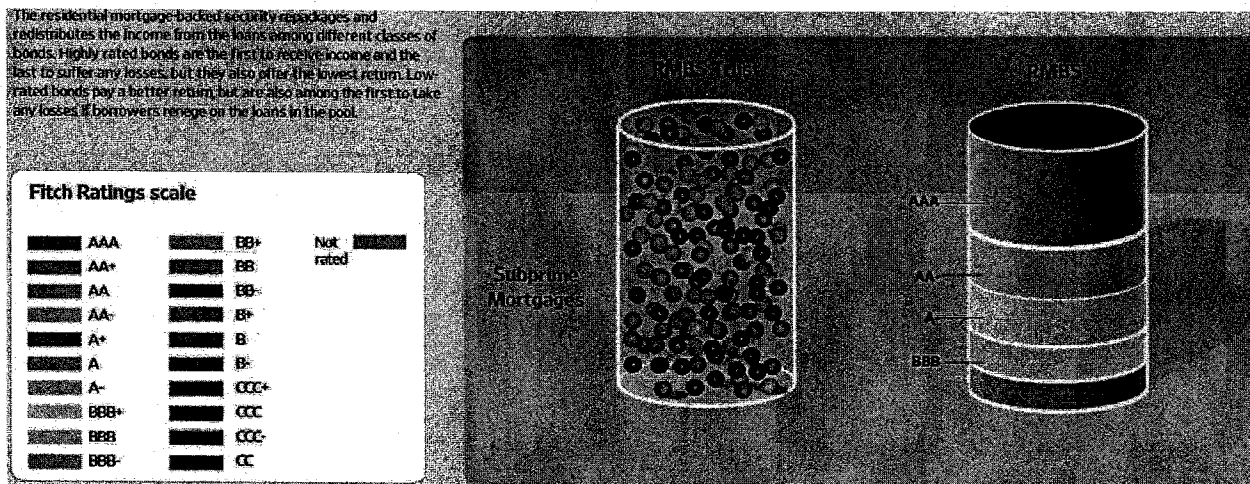
18 **Follow the Mortgage** What happens to your mortgage after you sign on the dotted line



25 (Source: *The Wall Street Journal*)

26 38. The MBS pools together the cash-flow received when mortgage borrowers make
27 interest and principal payments as required by the underlying mortgages. That cash is then

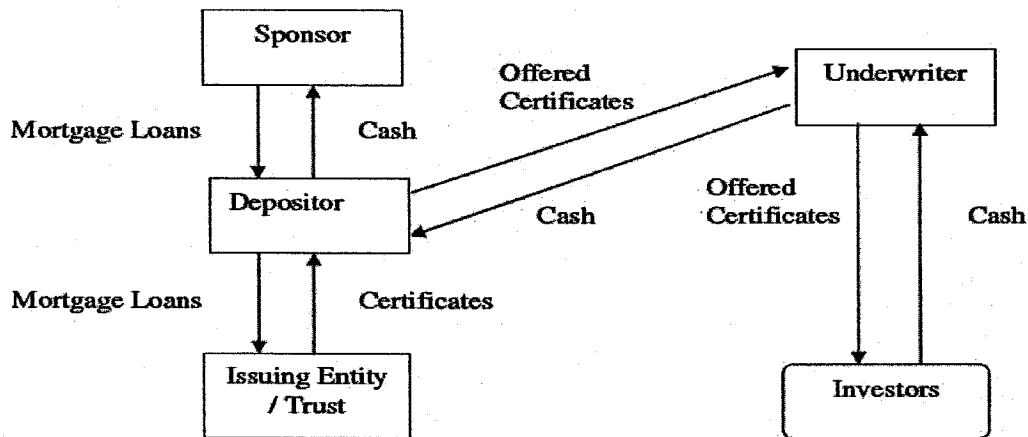
1 distributed to the holders of the MBS certificates in order of priority based on the specific
 2 tranche held by the MBS investors. The highest tranche (also referred to as the senior tranche) is
 3 first to receive its share of the mortgage proceeds. Since the senior tranche is *first* to receive
 4 payments, it is also the *last* tranche to absorb any losses should mortgage-borrowers become
 5 delinquent or default on their mortgage. As a result, the senior tranches of most MBSs were
 6 rated AAA by the Rating Agencies (The Rating Agencies are Moody's Corp., Fitch Inc., and
 7 Standard & Poors (S&P)). After the senior tranche, the middle tranches (referred to as mezzanine
 8 tranches) next receive their share of the proceeds. In accordance with their order of priority, the
 9 mezzanine tranches were generally rated from AA to BB by the Rating Agencies. The process
 10 of distributing the mortgage proceeds continues down the tranches through to the bottom tranches,
 11 referred to as equity tranches. This process is repeated each month and all investors receive the
 12 payments owed to them so long as the mortgage-borrowers are current on their mortgages. The
 13 following diagram illustrates the concept of tranches within a MBS comprised of residential
 14 mortgages (often referred to as a "residential mortgage backed securities" or "RMBS"):



23 (Source: *The Wall Street Journal*)

24 39. As illustrated below, in the typical securitization transaction, participants in the
 25 transaction are the sponsor (who is often also the loan servicer), the depositor, the
 26 underwriter, the issuing trust and investors. On the closing date of a trust series, the mortgage
 27 loans supporting the trust are first sold by the sponsor of the securitization transaction to the

1 depositor in return for cash. This has the effect of removing the loans from the sponsor's
 2 financial statements. The depositor then sells those mortgage loans and related assets to the
 3 trust, in exchange for the trust issuing certificates to the depositor. The depositor then works with
 4 the underwriter of the trust to price and sell the certificates to investors.



12
 13 40. Thereafter, the mortgage loans supporting the trusts are serviced by the servicer,
 14 which earns monthly servicing fees by collecting principal and interest from borrowers. After
 15 subtracting a servicing fee, the servicer sends the remainder of the payments to a trustee for
 16 administration and distribution to the trust, and ultimately, to investors.

17 41. With respect to the Certificates at issue here, the Registration Statement contained
 18 material statements concerning, *inter alia*, (i) the underwriting process used for mortgages held
 19 by the Issuing Trusts; (ii) the value of the real-estate underlying the Issuing Trusts; (iii) the
 20 independence of the real-estate appraiser used to appraise the real-estate; (iv) the supposed strict
 21 adherence to USPAP standards used in the appraisal process; and (v) the LTV ratios.

22 42. The Certificates sold to Plaintiffs and other Class members were sold pursuant to
 23 a prospectus that was affixed to the Registration Statement (the "Prospectus"), and a series of
 24 supplemental prospectuses filed with the SEC in accordance with Rule 424(b)(5), as identified
 25 below:

- 26 (a) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
 27 Series 2006-AR1, filed with the SEC on 1/26/2006;

- 1 (b) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
2 Series 2006-AR2, filed with the SEC on 2/16/2006;
- 3 (c) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
4 Series 2006-AR3, filed with the SEC on 2/22/2006;
- 5 (d) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
6 Series 2006-AR4, filed with the SEC on 4/21/2006;
- 7 (e) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
8 Series 2006-AR5, filed with the SEC on 5/24/2006;
- 9 (f) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
10 Series 2006-AR6, filed with the SEC on 6/23/2006;
- 11 (g) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
12 Series 2006-AR7, filed with the SEC on 6/26/2006;
- 13 (h) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
14 Series 2006-AR8, filed with the SEC on 7/25/2006;
- 15 (i) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
16 Series 2006-AR9, filed with the SEC on 7/25/2006;
- 17 (j) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
18 Series 2006-AR10, filed with the SEC on 8/23/2006;
- 19 (k) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
20 Series 2006-AR11, filed with the SEC on 8/23/2006;
- 21 (l) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
22 Series 2006-AR12, filed with the SEC on 9/25/2006;
- 23 (m) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
24 Series 2006-AR-13, filed with the SEC on 9/26/2006;
- 25 (n) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
26 Series 2006-AR14, filed with the SEC on 10/23/2006;
- 27 (o) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
Series 2006-AR15, filed with the SEC on 10/24/2006;
- (p) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
Series 2006-AR16, filed with the SEC on 11/17/2006;
- (q) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
Series 2006-AR17, filed with the SEC on 11/20/2006;

- 1 (r) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
2 Series 2006-AR18, filed with the SEC on 12/19/2006;
- 3 (s) Prospectus Supplement for WaMu Mortgage Pass Through Certificates,
4 Series 2006-AR19, filed with the SEC on 12/20/2006;
- 5 (t) Prospectus Supplement for WaMu Mortgage Pass-Through
6 Certificates, Series 2007-HY1, filed with the SEC on 1/23/2007;
- 7 (u) Prospectus Supplement for WaMu Mortgage Pass-Through Certificates,
8 Series 2007-HY2, filed with the SEC on 2/14/2007;
- 9 (v) Prospectus Supplement for WaMu Mortgage Pass-Through Certificates,
10 Series 2007-HY3, filed with the SEC on 2/26/2007;
- 11 (w) Prospectus Supplement for WaMu Mortgage Pass-Through Certificates,
12 Series 2007-HY4, filed with the SEC on 3/23/2007;
- 13 (x) Prospectus Supplement for WaMu Mortgage Pass-Through Certificates,
14 Series 2007-HY5, filed with the SEC on 4/24/2007;
- 15 (y) Prospectus Supplement for WaMu Mortgage Pass-Through Certificates,
16 Series 2007-HY6, filed with the SEC on 5/22/2007; and
- 17 (z) Prospectus Supplement for WaMu Mortgage Pass-Through Certificates,
18 Series 2007-HY7, filed with the SEC on 6/22/2007.

19 43. Each supplement prospectus (collectively referred to as the "Supplemental
20 Prospectuses") filed with the SEC in connection with the Registration Statement contained
21 substantially similar material representations and statements, such as the underwriting process
22 for mortgages held by the Issuing Trust, the independence of the real-estate appraisal and strict
23 adherence to USPAP standards, the appraised value of the real-estate underlying the Issuing
24 Trust, and the LTV ratios.

25 **2. Importance of Objective, Unbiased, and Accurate Property**
26 **Appraisals**

27 44. Independent and accurate real-estate appraisals are essential to the entire mortgage
lending and securitization process, providing borrowers, lenders, and investors in MBSs with
supposedly independent and accurate assessments of the value of the mortgaged properties.
Accurate appraisals ensure that a mortgage or home equity loan is not under-collateralized,

1 thereby protecting borrowers from financially over-extending themselves and protecting lenders and
2 investors in MBSs in the event a borrower defaults on a loan. Accurate appraisals also
3 provide investors with a basis for assessing the price and risk of MBSs.

4 45. An accurate appraisal is also critical in determining the LTV ratio, which is a
5 financial metric that Wall Street analysts and investors commonly use when evaluating the
6 price and risk of MBSs. The LTV ratio is a mathematical calculation that expresses the
7 amount of a mortgage as a percentage of the total appraised value of the property. For
8 example, if a borrower seeks to borrow \$90,000 to purchase a house worth \$100,000, the LTV
9 ratio is \$90,000/\$100,000, or 90 percent. If, however, the appraised value of the house is
10 artificially increased to \$120,000, the LTV ratio drops to just 75 percent (\$90,000/\$120,000).

11 46. From a lender's perspective, a high LTV ratio is riskier because a borrower
12 with a small equity position in a property has less to lose if he or she defaults on the loan.
13 Worse, particularly in an era of falling housing prices, a high LTV ratio creates the
14 heightened risk that, should the borrower default, the amount of the outstanding loan may
15 exceed the value of the property.

16 47. Indeed, in its 2006 annual report filed on Form 10-K with the SEC on March 1,
17 2007, Washington Mutual acknowledged that the less equity a borrower has in his/her home,
18 the greater the credit risk of the borrower:

19 Home equity loans and lines of credit with combined loan-to-value ratios of
20 greater than 80 percent also expose the Company to greater credit risk than home
21 loans with loan-to-value ratios of 80 percent or less at origination. This greater
22 credit risk arises because, in general, both default risk and the severity of risk is
23 higher when borrowers have less equity in their homes.

24 48. For purchasers of the Certificates, an important representation in the Registration
25 Statement, Prospectuses and Supplemental Prospectuses was that the mortgages underlying the
26 Issuing Trusts were issued pursuant to strict mortgage-underwriting standards, and that the real-
27 estate collateralizing the mortgages had been subjected to real-estate appraisals performed by
independent, objective, and unbiased appraisers, pursuant to the stringent standards of the USPAP.

1 49. Specifically, the USPAP requires, *inter alia*, that:

2 An appraiser must perform assignments with impartiality, objectivity, and
3 independence, and without accommodation of personal interests;

4 In appraisal practice, an appraiser must not perform as an advocate for any
5 party or issue;

6 An appraiser must not accept an assignment that includes the reporting of
7 predetermined opinions and conclusions; and

8 It is unethical for an appraiser to accept an assignment, or to have a compensation
9 arrangement for an assignment, that is contingent on any of the following: 1. the
10 reporting of a predetermined result (e.g., opinion of value); 2. a direction in
11 assignment results that favors the cause of the client; 3. the amount of a value
12 opinion; 4. the attainment of a stipulated result; or 5. the occurrence of a
13 subsequent event directly related to the appraiser's opinions and specific to the
14 assignment's purpose.

15 50. Indeed, the Registration Statement assured that:

16 The adequacy of the mortgaged property as collateral generally is determined by
17 an appraisal made in accordance with pre-established appraisal guidelines. At
18 origination, all appraisals are required to conform to the Uniform Standards of
19 Professional Appraisal Practice adopted by the Appraisal Standards Board of the
20 Appraisal Foundation, and are made on forms acceptable to Fannie Mae and/or
21 Freddie Mac.

22 51. The Prospectuses and Supplemental Prospectuses stated that:

23 The adequacy of the mortgaged property as collateral generally is determined by an
24 appraisal made in accordance with pre-established appraisal guidelines. At
25 origination, ***all appraisals are required to conform to the Uniform Standards of
26 Professional Appraisal Practice*** adopted by the Appraisal Standards Board of the
27 Appraisal Foundation, and are made on forms acceptable to Fannie Mae and/or
Freddie Mac. Appraisers may be staff appraisers employed by Washington Mutual
Bank or independent appraisers selected in accordance with the pre-established
appraisal guidelines. Such guidelines generally require that the appraiser, or an
agent on its behalf, personally inspect the property and verify whether the property is
in adequate condition and, if the property is new construction, whether it is
substantially completed. However, in the case of mortgage loans underwritten
through an automated underwriting system, an automated valuation model may be
used, under which an appraiser does not inspect the property. ***In either case, the
valuation normally is based upon a market data analysis of recent sales of
comparable properties and, in some cases, a replacement cost analysis based on
the current cost of constructing or purchasing a similar property.*** In the case
of a streamline refinance, the appraisal guidelines may permit the property
value obtained for an existing mortgage loan (or a mortgage loan which was
previously refinanced) to be used.

(Emphasis added)

1 52. By securitizing the mortgages and selling them to Plaintiffs and members of the
2 Class, Defendants reduced the exposure of the Corporate Defendants and Washington Mutual
3 reduced its exposure to the risk of a borrower's default.

4 53. Because Washington Mutual's profits were determined largely by the quantity of the
5 loans successfully closed and not on the quality of those loans, Washington Mutual pressured appraisers
6 to reach artificial appraised values to allow more loans to close, and to apparently satisfy the LTV
7 thresholds for sale to the securitization market.

8 **B. The Truth is Revealed**

9 **1. The New York Attorney General Complaint**

10 54. As it has now been revealed, Washington Mutual improperly pressured appraisers to
11 violate USPAP guidelines and inflate the value of the properties collateralizing the mortgages
12 that were securitized and sold to Plaintiffs and members of the Class throughout the Class Period.

13 55. An investigation by the NYAG exposed Washington Mutual's practices of
14 inflating appraisals of properties securing the mortgages it originated. By virtue of these
15 improper practices, the Corporate Defendants grew their market share in the origination,
16 securitization, and underwriting of residential loans, while simultaneously passing the risk of
17 mortgage defaults to those who invested in the securities created from those mortgages – *i.e.*, the
18 Certificates.

19 56. On November 1, 2007, the NYAG filed a lawsuit against eAppraiseIT
20 (“eAppraiseIT” or “EA”) and its parent corporation, First American Corp., alleging that, in
21 cooperation with Washington Mutual, EA inflated real estate appraisals it performed for
22 Washington Mutual. *See The People of the State of New York by Andrew Cuomo v. First*
23 *American Corporation and First American eAppraiseIT*, No. 07-406796 (N.Y. Sup. Ct. Filed
24 Nov. 1, 2007). Washington Mutual was reportedly not named as a defendant because of
25 jurisdictional limitations, although the NYAG Complaint provides specific details about
26 Washington Mutual's role in inflating real estate appraisals.

1 57. Prior to and during the Class Period, Washington Mutual systematically
2 encouraged its in-house appraisers to inflate appraisal values for loans. According to a news
3 article of interviews of its employees, as reported in *The Seattle Times* on April 15, 2008 in an
4 article titled “Appraisers Say WaMu Cut Corners to Increase Its Mortgage Business,” from as
5 early as 2001 it was commonplace for Washington Mutual to alter real-estate appraisal values so
6 that loans would close. According to the article, based on interviews with former employees, the
7 practice was occurring as early as 2001.

8 58. When federal regulations, implemented in 2006, required that all mortgage
9 originators use third-party appraisers to value their mortgaged properties (and thereby ensure
10 appraiser independence), Washington Mutual sought to continue its practice of inflating
11 appraisals by coercing the third-party appraisers that Washington Mutual had retained.

12 59. According to the NYAG Complaint, in order to circumvent the federal
13 regulations mandating that appraisers be independent from the loan originator, beginning in 2006
14 Washington Mutual selected EA and EA’s top competitor, Lender Services, Inc. (“LSI”), to provide
15 property appraisals for Washington Mutual. By using EA and LSI, Washington Mutual
16 superficially met the appraiser independence requirements. However, behind the scenes,
17 Washington Mutual continued to control the appraisal process.

18 60. Based on EA’s appraisals, Washington Mutual provided mortgages to borrowers
19 and calculated LTV ratios and other lending metrics. Eventually, mortgages relating to the
20 properties appraised by EA become part of the MBS sold by the Issuing Trusts in this action.

21 61. Washington Mutual quickly became EA’s top client, providing EA more than
22 \$50 million in fees in 2006.

23 a. **Washington Mutual’s Contract with EA Includes a**
24 **“Reconsideration of Value” (“ROV”) Provision**

25 62. According to the NYAG Complaint, the terms of the contract between Washington
26 Mutual and EA allowed Washington Mutual to “challenge an [EA] appraiser’s conclusions by
27 requesting a ‘reconsideration of value (‘ROV’) when [Washington Mutual] . . . disagrees

1 with an appraised home value set forth in an appraisal report.” This, according to the NYAG
2 Complaint, “permits WaMu to ask eAppraiseIT to reconsider and raise the value assigned to
3 a home.” According to the NYAG, Washington Mutual “frequently” requested ROVs from EA.

4 63. In an email dated September 29, 2006 (cited in the NYAG Complaint), a Washington
5 Mutual executive wrote to a senior executive at EA to define EA’s responsibilities as to ROVs
6 and value disputes. In the September 29 email, the Washington Mutual executive wrote:

7 . . . the four appraisers/reviewers would be directly involved in escalations dealing
8 with: ROVs, Valuation issues where the purchase price and appraised value differ
9 with no reconciliations/justifications by the appraiser, Value cuts which we
10 continue to receive from your third party reviewers (Wholesale), *proactively*
11 *making a decision to override and correct the third party appraiser’s value or*
12 *reviewer’s value cut*, when considered appropriate and supported...

13 (Emphasis in NYAG Complaint)

14 64. According to the NYAG Complaint, on August 9, 2006, EA’s President told
15 Washington Mutual executives that, “We need to address the ROV issue Many lenders in
16 today’s environment . . . have no ROV issue. The value is the value. I don’t know if WAMU
17 production will go for that The WAMU internal staff we are speaking with admonish[ed] us to
18 be certain we solve the ROV issue quickly or we will all be in for some pretty rough seas.

19 **b. Washington Mutual Coerces First American to Adhere to its**
20 **Appraisal Demands In Exchange for Future Business**

21 65. Washington Mutual also coerced First American, the parent of EA, into
22 participating in the scheme by conditioning future business on EA’s adherence to Washington
23 Mutual’s appraisal demands. In a September 27, 2006 email cited by the NYAG, a First
24 American executive wrote, “[a Washington Mutual president] said that if the appraisal issues are
25 resolved and things are working well he would welcome conversations about expanding our
26 relationship including tax and flood.”

27 66. According to the NYAG Complaint, Washington Mutual not only conditioned
providing additional business on EA’s acceptance of Washington Mutual’s appraisal demands,
but in cases where EA employees failed to adhere to Washington Mutual’s demands, appraisals
were simply reassigned to other companies. In one example, the NYAG Complaint stated

1 that “[o]n October 5, 2006, in response to complaints from the WaMu production team –
2 particularly in Northern California, eAppraiseIT prepared a ‘WaMu Improvement
3 Implementation Plan.’ The plan was unsuccessful, however. By December 2006, WaMu had
4 reassigned all of its Northern California appraisal work to LSI.”

5 c. **Washington Mutual Controls the Appraisal Process by Pre-
6 Selecting Which Appraisers EA Could Use For Washington
7 Mutual Related Appraisals**

8 67. Concerned that appraisals provided by appraisers selected by EA were too low,
9 by February 2007 (according to the NYAG Complaint), Washington Mutual demanded that EA
10 use a group of appraisers hand selected by Washington Mutual for any Washington Mutual
11 related appraisals. The hand selected group was collectively referred to as the “Proven Panel”
12 or “Proven Appraisers.” A press release issued by the NYAG on November 1, 2007 announcing
13 the NYAG Complaint stated that, “This set of appraisers was *chosen by WaMu specifically*
14 *because they inflated property appraisals*. WaMu profited from these higher appraisals
15 because they could close more home loans, at greater values.” (Emphasis added.)

16 68. In a February 22, 2007 email (cited in the NYAG Complaint), EA’s President
17 explained to other senior First American executives the motives behind Washington Mutual
18 demanding the use of the “Proven Appraisers.” In the email, EA’s President wrote, “We had a
19 joint call with Wamu and LSI today. The attached document outlines the new appraiser
20 assigning process. In short, we will now assign all Wamu’s work to Wamu’s ‘Proven
21 Appraisers’ We will pay their appraisers whatever they demand. *Performance ratings to*
22 *retain position as a Wamu Proven Appraiser will be based on how many come in on value,*
23 *negating a need for an ROV.*” (Emphasis in the NYAG Complaint).

24 69. Thus, Washington Mutual had complete control over the Proven Panel:
25 Washington Mutual selected the members of the Proven Panel, assigned specific members of
26 the Panel work and in cases where members of the Panel refused to increase appraised values per
27 Washington Mutual’s demands, Washington Mutual removed appraisers from the Proven Panel.
Washington Mutual’s role in creating and directing work to members of the Proven Panel

1 directly violated several laws, including, USPAP; Office of Thrift Supervision (“OTS”)
2 regulations which explicitly state that, “Loan production staff should not select appraisers.”

3 70. Despite the inherent conflicts created by the Proven Panel system, EA acquiesced
4 to Washington Mutual’s demands. According to the NYAG Complaint:

5 In February 2007, eAppraiseIT simply capitulated to WaMu’s demands. In an
6 email on February 22, 2007, eAppraiseIT’s President told senior executives at
7 First American “we have agreed to roll over and just do it.” He explained that “we
8 were willing to live with the change if they would back us up with the appraisers
9 and tell them that simply because they are rated as Gold Preferred does not mean
10 that they can grab all the fees. They agreed.” In other words, for the right price
11 in fees, eAppraiseIT was willing to go along with the Proven Panel.

12 71. On March 5, 2007, Washington Mutual “confirmed the primary role of its loan
13 origination staff in picking appraisers in a follow-up email,” in which it stated that:

14 Proven Appraiser List is being created. This will replace the WaMu preferred list.
15 *The initial list of names will be provided by lending* with a minimum of two
16 appraisers per area/county. The list will then be reviewed and approved by the
17 Appraisal Business Oversight Team and will be checked against our most recent
18 ineligible list. Final list will be provided to VMC’s [vendor management
19 companies]. Majority of work must be assigned to the appraisers on the Proven
20 Appraiser List on a Priority Basis.

21 (Emphasis in NYAG Complaint)

22 72. The inappropriate nature of Washington Mutual’s methods for having properties
23 appraised was, by the spring of 2007, openly acknowledged as being inappropriate within EA.
24 For example in an internal EA email, one EA employee stated that the use of Washington
25 Mutual’s hand selected Proven Panel “is way over the line.”

26 73. In April 2007, EA executives discussed the legal implications of their actions.
27 According to the NYAG Complaint, on April 4, 2007, EA’s Executive Vice President wrote an
28 email to senior EA executives regarding EA’s legal liability for using Washington Mutual’s
29 Proven Panel, stating:

30 the lender’s responsibility since the OCC [Office of the Comptroller of the
31 Currency]/OTS only pertain to lenders. *However, we as an AMC need to retain
32 our independence from the lender or it will look like collusion. Imagine a simple
33 mortgage broker saying he will give us the work if we use his “proven”
34 appraiser. We say no. This is very similar to that except they are very big. . . .*

1 So the push back to WAMU needs to be (assuming we want to do this some
2 day), eAppraiseIT needs to choose the appraisers, not WAMU. Where it gets
3 really clear that eAppraiseIT is NOT choosing is the proven idea because they
4 always go first and MUST be selected unless there is a specific reason why not.
*eAppraiseIT is clearly being directed who to select. The reasoning that there
are fewer ROVs is bogus for many reasons including the most obvious — the
proven appraisers bring in the values.*

5 Fun, eh??

6 (Emphasis in the NYAG Complaint)

7 74. Again on April 17, 2007, an EA executive wrote an email to First American
8 executives stating that EA was violating laws mandating appraisers' independence by using
9 Washington Mutual's Proven Panel. The April 17, 2007 email attached a memo (sent to
10 Washington Mutual) which explained that the use of the Proven Panel was a violation of rules
11 demanding EA's independence from Washington Mutual. In the email, the EA executive
12 specifically wrote, "We view this as a violation of the OCC, OTS, FDIC and USPAP influencing
13 regulation."

14 75. According to the NYAG Complaint, the memo referenced in the April 17, 2007
15 email to Washington Mutual stated, in relevant part:

16 The various regulatory boards including OTS, OCC, FDIC and others prepared a
17 list of frequently asked questions on Independent Appraisal and Evaluation
18 Functions on March 21, 2005. These FAQs should be reviewed in conjunction
19 with prior guidelines published in 1994 and 2003. I have included the 2005
20 FAQs at the end of this document. We assume that you are very familiar with these
21 documents. We want to focus on appraiser independence. All three documents
22 address and re-address this issue. In the section titled Independence of the
23 Appraisal and Evaluation Function, the 1994 and 2003 document states, "Because
24 the appraisal and evaluation process is an integral component of the credit
underwriting process, it should be isolated from influence by the institutions's
loan production process." This is reinforced in the Selecting Individuals to
Perform Appraisals or Evaluations section from the 2003 document. *It states that
it is important to ensure that the program is safeguarded from internal
influence and interference from an institution's loan production staff.
Individuals independent from the loan production area should oversee the
selection of appraisers and individuals providing evaluation services.*

25 (Emphasis added)

26 76. Applying the appraiser independence guidelines to the Proven Panel, the memo
27 stated:

1 Based on our conversations we have had with the WAMU oversight as well as the
2 questions and answers initiated by our competitor LSI, **it is our interpretation**
3 **that the loan production staff has a great deal to do with selecting appraisers.**
4 **The PAL Proven Appraiser List has been selected by the loan production staff and**
5 **the continued use of these appraisers is being monitored by the loan**
6 **production staff.** For example, on the LSI question #1 "Does WAMU want to be
7 updated transactionally on every order we can not assign to a PAL?", WAMU's
8 answer is "Yes,- we need a short sentence in the message log so that we can
9 monitor, – AND most important - lending can see why you didn't assign to a PAL
10 service provider. Not using a PAL appraiser will be an issue so we need to ensure
11 we've covered our bases as to why they're not utilized." **This appears to be**
12 **directly in contradiction to the interagency guidelines unless you have a different**
13 **interpretation.**

14 * * *

15 This produces the following challenge – eAppraiseIT is operating under what
16 appears to be a mandate from WAMU in utilizing PAL selected appraisers (and
17 this selection is coming from the loan production staff). We are then asked to rep
18 and warrant this work. We are concerned about this arrangement from a risk
19 perspective

20 (Emphasis in NYAG Complaint)

21 77. Beyond selecting members for the Proven Panel, Washington Mutual also
22 assigned specific appraisals to individual members in the Proven Panel. According to the NYAG
23 Complaint, on April 19, 2007, EA's Chief Operating Officer wrote the following in an email to
24 EA's President and Executive Vice President: "Evidently, we do get calls/emails from the WaMu
25 Oversight Group to select a specific appraiser for an order. Now, normally, this would not be a
26 concern since the group is separate from [WaMu] lending. However, Vicky [at eAppraiseIT]
27 is also receiving a copy of an email from the LC [WaMu Loan Consultants] to Oversight
28 requesting the appraiser selection – then the subsequent email from Oversight directing the
29 assignment change." (Brackets in NYAG Complaint.)

30 78. According to the NYAG Complaint, on May 11, 2007, EA's Executive Vice
31 President informed EA's President that "**currently WAMU is controlling the appraiser panel.**
32 **They are selecting the appraisers and calling them 'proven' appraisers.** These appraisers are
33 being chosen by their sales force. First American eAppraiseIT (FA eAppraiseIT) is obligated to
34 use these appraisers." (Emphasis added.)

35 79. Additionally, the NYAG Complaint alleges that Washington Mutual controlled
36 the appraisal process by pressuring EA to have its appraisers appraise properties at specific
37

1 levels. After the NYAG Complaint was filed, Washington Mutual suspended its relationship
2 with EA.

3 **2. Allegations of Washington Mutual's Manipulation of the Appraisal**
4 **Process Extend Beyond the NYAG Complaint**

5 80. On December 21, 2007, *The Wall Street Journal* ("WSJ") reported that the SEC
6 was investigating how Washington Mutual reported loans based on "inflated home appraisals."
7 According to the WSJ, "The SEC's inquiry . . . involves several possible issues, including that
8 the appraisals satisfied the necessary loan to value ratios for inclusion of the mortgages in the
9 Issuing Trusts."

10 81. According to *The Seattle Times*, Washington Mutual spokeswoman Olivia Riley
11 sent an email to *The Seattle Times* confirming the SEC investigation, and which stated, "We are
12 voluntarily and fully cooperating with the SEC's inquiry as well as the OTS [Office of Thrift
13 Supervision, Washington Mutual's primary regulator]...."

14 82. In addition to the allegations asserted in the NYAG Complaint, according to an
15 April 15, 2008 story appearing in *The Seattle Times*, beginning in 2001, in order to increase its
16 mortgage business, Washington Mutual "eliminate[ed] [appraiser] oversight in pursuit of
17 profits," according to an appraiser quoted in the article. In order to increase its business, among
18 other things, Washington Mutual instituted a compensation system that paid appraisers
19 "according to the volume of their work." Also, the Company used a computer system that
20 eliminated appraisers' comments impacting the price of a specific property (e.g., a home's
21 proximity to railroad tracks, etc.).

22 83. Moreover, on January 9, 2008, Jennifer Wertz ("Wertz"), an appraiser formerly
23 used by Washington Mutual, filed a lawsuit in California Superior Court alleging that
24 Washington Mutual violated common and statutory law by blocking Wertz from receiving any
25 appraisal work from Washington Mutual because Wertz refused to revise a report she prepared at
26 the direction of a Washington Mutual sales manager. *See Wertz v. Wash. Mut. Bank, et al.*, Case
27 No. 34-2008-00000717-CU (Sup. Ct. Cal. 2008). According to Wertz's complaint, in May of

1 2007, Susan Richter ("Richter"), a Washington Mutual sales manager, informed Wertz that an
2 appraisal prepared by Wertz indicating "declining" market conditions led to the rejection of a
3 loan. According to Wertz, Richter demanded that Wertz change her assessment of the market
4 conditions to "stable" so that the loan could be approved. If Wertz refused to make the change
5 (which was demanded without any support indicating that the change was necessary or
6 appropriate), according to Wertz's complaint, Richter threatened to have Wertz blocked from
7 receiving future assignments from Washington Mutual. Wertz refused to make the change and
8 alleges that since June 2007 has not received any assignments from Washington Mutual.

9 84. Washington Mutual's actions not only violated industry regulations but, as noted
10 *supra*, rendered the LTV ratios disclosed in the Registration Statement, Prospectuses, and
11 Supplemental Prospectuses to be false and misleading. For example, the appraised value of one
12 property cited by the NYAG was inflated by nearly 47%, from \$1,550,000 to \$2,270,000,
13 demonstrating that the collateral was wholly-inadequate to protect investors.

14 FALSE AND MISLEADING STATEMENTS

15 85. The Registration Statement contained (i) a basic prospectus, (ii) an illustrative
16 form of prospectus supplement for use in any offering of Mortgage Pass-Through Certificates,
17 (iii) an illustrative form of prospectus supplement for use in an offering of Mortgage Pass-
18 Through Certificates with a specified structure of multiple classes of senior and subordinate
19 certificates, and (iv) an illustrative form of prospectus supplement for use in an offering of
20 Mortgage-Backed Notes.

21 86. The Registration Statement made the following statement regarding the
22 underwriting standards that purportedly were applied to determine the value of the collateral
23 for mortgages included in the Issuing Trusts:

24 In determining the adequacy of the property as collateral, an appraisal is made of
25 each property considered for financing. The appraiser, or an agent on its behalf, is
26 generally required to personally inspect the property and verify that it is in
27 adequate condition and that construction, if new, has been substantially
completed. However, in some cases an automated valuation method may be used,
under which the appraiser does not personally inspect the property but instead
relies on public records regarding the mortgaged property and/or neighboring

1 properties. In either case, the appraisal normally is based upon a market data
2 analysis of recent sales of comparable properties and, when deemed applicable, a
3 replacement cost analysis based on the current cost of constructing or purchasing
4 a similar property. Some of the mortgage loans may be re-underwritten by a
5 mortgage loan seller. Certain states where mortgage properties may be located
6 are 'anti-deficiency' states, where, in general, lenders providing credit on one-to-
7 four-family properties must look solely to the property for repayment in the event
8 of foreclosure. See 'Legal Aspects of the Mortgage Loans -- Anti-Deficiency
9 Legislation and Other Limitation on Lenders'. Underwriting standards in all states
10 (including anti-deficiency states) will require that the underwriting officers be
11 satisfied that the value of the property being financed, as indicated by the
12 independent appraisal, currently supports and is anticipated to support in the
13 future the outstanding loan balance, and provides sufficient value to mitigate the
14 effects of adverse shifts in real estate values.

15 Registration Statement, at 44.

16 87. The above statement was materially false and misleading when made because it
17 failed to disclose that Washington Mutual systematically inflated appraisals for properties which
18 failed to satisfy its threshold for adequate LTV ratios for mortgages included in the Issuing
19 Trusts.

20 88. The Prospectus Supplements issued in connection with each of the Issuing Trusts
21 contained statements describing the underwriting standards by which the mortgages in the
22 Issuing Trusts were issued, the standards by which the mortgage collateral was valued, and the
23 LTV ratios of mortgages within the Issuing Trusts. As set forth below, these various statements
24 were materially false and misleading when made.

25 89. Each of the Prospectus Supplements issued in connection with the Issuing Trusts
26 represented that the mortgages in the mortgage pool held by each Issuing Trust were
27 underwritten in accordance with established industry guidelines. For example, in each of the
28 Prospectus Supplements, the following statement was made regarding the underwriting standards
29 for the constituent pools of mortgages:

30 All of the mortgage loans owned by the Trust have been originated in accordance
31 with the underwriting guidelines of the sponsor as described in this section.
32 Mortgage loans may have been underwritten directly by the sponsor or by
33 correspondent lenders with delegated underwriting approval.

34 The sponsor's underwriting guidelines generally are intended to evaluate the
35 prospective borrower's credit standing and repayment ability and the value and
36 adequacy of the mortgage property as collateral. Some mortgage loans are

1 manually underwritten, in which case an underwriter reviews a loan application
2 and supporting documentation, if required, and a credit report of the borrower,
3 and based on that review determines whether to originate a loan in the amount and
4 with the terms stated in the loan application.

5 90. The above statement was false and misleading when made because the Defendants
6 failed to disclose that Washington Mutual did not meet the stated underwriting guidelines with
7 respect to the valuing of properties included in the Issuing Trusts, and the value and adequacy of
8 the mortgaged property as collateral was not evaluated in an independent and objective manner
9 because Washington Mutual had pressured appraisers to over-value the properties used to
10 collateralize the securities in violation of federal and state regulations.

11 91. With respect to the underwriting guidelines used to determine the value of the
12 underlying collateral for mortgages included in the Issuing Trusts, each Prospectus
13 Supplement made the following representation:

14 The adequacy of the mortgaged property as collateral generally is determined by
15 an appraisal made in accordance with pre-established appraisal guidelines. At
16 origination, all appraisals are required to conform to the Uniform Standards of
17 Professional Appraisal Practice adopted by the Appraisal Standards Board of the
18 Appraisal Foundation, and are made on forms acceptable to Fannie Mae and/or
19 Freddie Mac. Appraisers may be staff appraisers employed by the sponsor or
20 independent appraisers selected in accordance with the pre-established appraisal
21 guidelines. Such guidelines generally require that the appraiser, or an agent on its
22 behalf, personally inspect the property and verify whether the property is in
23 adequate condition and, if the property is new construction, whether it is
24 substantially completed. However, in the case of mortgage loans underwritten
25 through the sponsor's automated underwriting system, an automated valuation
26 method may be used, under which the appraiser does not personally inspect the
27 property but instead relies on public records regarding the mortgaged property
and/or neighboring properties. In either case, the appraisal normally is based upon
a market data analysis of recent sales of comparable properties and, when deemed
applicable, a replacement cost analysis based on the current cost of constructing
or purchasing a similar property. For mortgage loans underwritten under the
sponsor's streamline documentation programs, the appraisal guidelines in some
cases permit the appraisal obtained for an existing mortgage loan to be used. Title
insurance is required for all mortgage loans, except that for mortgage loans
secured by shares of cooperative apartments, title insurance is not required for the
cooperative apartment building (but a lien search is provided by the title
company). Specific additional title insurance coverage is required for some types
of mortgage loans.

92. The above statement was false and misleading when made because it failed to
disclose that the value and adequacy of the mortgaged property as collateral was not

1 evaluated in an independent and objective manner because Washington Mutual had pressured
2 appraisers to over-value the properties used to collateralize the securities in violation of federal
3 and state regulations.

4 93. Each Prospectus Supplement also described the process of calculating the LTV as
5 follows:

6 The value of a single-family property or cooperative unit generally is the
7 lesser of (a) the appraised value determined in an appraisal obtained by the
8 originator at origination of the loan and (b) if the mortgaged property is
9 being purchased in conjunction with the origination of the mortgage loan, the
10 sales price for the property.

11 The underwriting standards of the mortgage loan originator or mortgage loan
12 seller may require an internal review of the appraisal (a "*review appraisal*") used
13 to determine the loan-to-value of a mortgage loan which may be performed by
14 underwriters rather than a licensed appraiser. *Where the review appraisal results
15 in a valuation of the mortgaged property that is less than a specified
16 percentage of the original appraisal, the loan-to-value ratio of the related
17 mortgage loan will be based on the review appraisal.*

18 (Emphasis added)

19 94. This statement was false and misleading when made because as a result of the
20 over-appraisal of properties, the disclosed LTV ratios for the underlying mortgages were
21 materially higher than disclosed to investors, increasing substantially the risk of mortgage
22 defaults, and the "review appraisal" was used by the Issuing Defendant and Washington Mutual
23 to inflate the objective appraisal values assigned by independent appraisers.

24 95. The Prospectuses represented the average LTV ratios of the mortgages within the
25 Issuing Trusts. As set forth below, these statements were materially inaccurate because the stated
26 average LTV ratios were materially understated due to the inclusion of mortgages whose property
27 values were inflated by inflated appraisals.

96. According to the Prospectus for 2006-AR1 Trust, "At origination, the weighted
average loan-to-value ratio of the group 1 loans was approximately 71.1%. As of the Cut-Off
Date, the weighted average loan-to-value ratio of the group 1 loans was approximately 71.1 %."
(2006-AR1 Prospectus, at S-102) This statement was materially false and misleading

1 because the average LTV ratio was understated as a result of Washington Mutual's inflated
2 appraisals.

3 97. According to the Prospectus for the 2006-AR2 Trust, "At origination, the
4 weighted average loan-to-value ratio of the group 1 loans was approximately 67.5%. As of the
5 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
6 67.3%." (2006-AR2 Prospectus at S-77) This statement was materially false and misleading
7 because the average LTV ratio was understated as a result of Washington Mutual's inflated
8 appraisals.

9 98. According to the Prospectus for the 2006-AR3 Trust, "At origination, the
10 weighted average loan-to-value ratio of the mortgage loans was approximately 71.6%. As of the
11 Cut-Off Date, the weighted average loan-to-value ratio of the mortgage loans was approximately
12 71.5%." (2006-AR3 Prospectus at S-88) This statement was materially false and misleading
13 because the average LTV ratio was understated as a result of Washington Mutual's inflated
14 appraisals.

15 99. According to the Prospectus for the 2006-AR4 Trust, "At origination, the
16 weighted average loan-to-value ratio of the group 1 loans was approximately 68.6%. As of the
17 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
18 67.6%." (2006-AR4 Prospectus at S-122) This statement was materially false and misleading
19 because the average LTV ratio was understated as a result of Washington Mutual's inflated
20 appraisals.

21 100. According to the Prospectus for the 2006-AR5 Trust, "At origination, the
22 weighted average loan-to-value ratio of the mortgage loans was approximately 70.9%. As of the
23 Cut-Off Date, the weighted average loan-to-value ratio of the mortgage loans was approximately
24 70.8%." (2006-AR5 Prospectus at S-101) This statement was materially false and misleading
25 because the average LTV ratio was understated as a result of Washington Mutual's inflated
26 appraisals.

1 101. According to the Prospectus for the 2006-AR6 Trust, "At origination, the
2 weighted average loan-to-value ratio of the group 1 loans was approximately 68.7%. As of the
3 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
4 68.7%." (2006-AR6 Prospectus at S-77) This statement was materially false and misleading
5 because the average LTV ratio was understated as a result of Washington Mutual's inflated
6 appraisals.

7 102. According to the Prospectus for the 2006-AR7 Trust, "At origination, the
8 weighted average loan-to-value ratio of the group 1 loans was approximately 71.0%. As of the
9 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
10 70.7%." (2006-AR7 Prospectus at S-126) This statement was materially false and misleading
11 because the average LTV ratio was understated as a result of Washington Mutual's inflated
12 appraisals.

13 103. According to the Prospectus for the 2006-AR8 Trust, "At origination, the
14 weighted average loan-to-value ratio of the group 1 loans was approximately 68.1%. As of the
15 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
16 68.1%." (2006-AR8 Prospectus at S-89) This statement was materially false and misleading
17 because the average LTV ratio was understated as a result of Washington Mutual's inflated
18 appraisals.

19 104. According to the Prospectus for the 2006-AR9 Trust, "At origination, the
20 weighted average loan-to-value ratio of the group 1 loans was approximately 70.1%. As of the
21 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
22 70.0%." (2006-AR9 Prospectus at S-115) This statement was materially false and misleading
23 because the average LTV ratio was understated as a result of Washington Mutual's inflated
24 appraisals.

25 105. According to the Prospectus for the 2006-AR10 Trust, "At origination, the
26 weighted average loan-to-value ratio of the group 1 loans was approximately 67.9%. As of the
27 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately

1 67.8%.” (2006-AR10 Prospectus at S-94) This statement was materially false and misleading
2 because the average LTV ratio was understated as a result of Washington Mutual’s inflated
3 appraisals.

4 106. According to the Prospectus for the 2006-AR11 Trust, “At origination, the
5 weighted average loan-to-value ratio of the group 1 loans was approximately 70.4%. As of the
6 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
7 70.4%.” (2006-AR11 Prospectus at S-151) This statement was materially false and misleading
8 because the average LTV ratio was understated as a result of Washington Mutual’s inflated
9 appraisals.

10 107. According to the Prospectus for the 2006-AR12 Trust, “At origination, the
11 weighted average loan-to-value ratio of the group 1 loans was approximately 68.3%. As of the
12 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
13 68.3%.” (2006-AR12 Prospectus at S-100) This statement was materially false and
14 misleading because the average LTV ratio was understated as a result of Washington Mutual’s
15 inflated appraisals.

16 108. According to the Prospectus for the 2006-AR13 Trust, “At origination, the
17 weighted average loan-to-value ratio of the group 1 loans was approximately 70.9%. As of the
18 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
19 70.8%.” (2006-AR13 Prospectus at S-121) This statement was materially false and
20 misleading because the average LTV ratio was understated as a result of Washington Mutual’s
21 inflated appraisals.

22 109. According to the Prospectus for the 2006-AR14 Trust, “At origination, the
23 weighted average loan-to-value ratio of the group 1 loans was approximately 67.1%. As of the
24 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
25 67.1%.” (2006-AR14 Prospectus at S-82) This statement was materially false and misleading
26 because the average LTV ratio was understated as a result of Washington Mutual’s inflated
27 appraisals.

1 110. According to the Prospectus for the 2006-AR15 Trust, "At origination, the
2 weighted average loan-to-value ratio of the group 1 loans was approximately 70.5%. As of the
3 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
4 70.5%." (2006-AR15 Prospectus at S-116) This statement was materially false and
5 misleading because the average LTV ratio was understated as a result of Washington Mutual's
6 inflated appraisals.

7 111. According to the Prospectus for the 2006-AR16 Trust, "At origination, the
8 weighted average loan-to-value ratio of the group 1 loans was approximately 66.5%. As of the
9 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
10 66.5%." (2006-AR16 Prospectus at S-86) This statement was materially false and misleading
11 because the average LTV ratio was understated as a result of Washington Mutual's inflated
12 appraisals.

13 112. According to the Prospectus for the 2006-AR17 Trust, "At origination, the
14 weighted average loan-to-value ratio of the group 1 loans was approximately 69.6%. As of the
15 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
16 69.6%." (2006-AR17 Prospectus at S-119) This statement was materially false and misleading
17 because the average LTV ratio was understated as a result of Washington Mutual's inflated
18 appraisals.

19 113. According to the Prospectus for the 2006-AR18 Trust, "At origination, the
20 weighted average loan-to-value ratio of the group 1 loans was approximately 66.7%. As of the
21 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately
22 66.7%." (2006-AR18 Prospectus at S-87) This statement was materially false and misleading
23 because the average LTV ratio was understated as a result of Washington Mutual's inflated
24 appraisals.

25 114. According to the Prospectus for the 2006-AR19 Trust, "At origination, the
26 weighted average loan-to-value ratio of the group 1 loans was approximately 69.5%. As of the
27 Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately

69.4%.” (2006-AR19 Prospectus at S-123) This statement was materially false and misleading because the average LTV ratio was understated as a result of Washington Mutual’s inflated appraisals.

115. Each Supplemental Prospectuses issued in connection with the Series 2007-HY Registration Statement included similar material misrepresentations about the loan-to-value ratio of the mortgages underlying the Issuing Trusts as set forth in the following chart:

<u>Supplemental Prospectus</u>	<u>Statement</u>	<u>Page</u>
WaMu Mortgage Pass-Through Certificates Series 2007-HY1 Trust	At origination, the weighted average loan-to-value ratio of the group 1 loans was approximately 67.9%. As of the Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately 67.9%.	S-105
WaMu Mortgage Pass-Through Certificates Series 2007-HY2 Trust	At origination, the weighted average loan-to-value ratio of the group 1 loans was approximately 73.2%. As of the Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately 72.8%.	S-95
WaMu Mortgage Pass-Through Certificates Series 2007-HY3 Trust	At origination, the weighted average loan-to-value ratio of the group 1 loans was approximately 67.9%. As of the Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans as approximately 67.9%.	S-97
WaMu Mortgage Pass-Through Certificates Series 2007-HY4 Trust	At origination, the weighted average loan-to-value ratio of the group 1 loans was approximately 68.6%. As of the Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately 68.5%.	S-105
WaMu Mortgage Pass-Through Certificates Series 2007-HY5 Trust	At origination, the weighted average loan-to-value ratio of the group 1 loans was approximately 67.6%. As of the Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately 67.6%.	S-104
WaMu Mortgage Pass-Through Certificates Series 2007-HY6 Trust	At origination, the weighted average loan-to-value ratio of the group 1 loans was approximately 70.1%. As of the Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately 70.1%.	S-102
WaMu Mortgage Pass-Through Certificates Series 2007-HY7 Trust	At origination, the weighted average loan-to-value ratio of the group 1 loans was approximately 64.1%. As of the Cut-Off Date, the weighted average loan-to-value ratio of the group 1 loans was approximately 64.0%.	S-95

1 116. The statements in the chart set forth immediately above were materially false
2 and misleading when made because the average LTV ratio was understated as a result of
3 Washington Mutual's inflated appraisals.

4 **THE MISREPRESENTATIONS HARMED PLAINTIFFS AND THE CLASS**

5 117. The risks that Defendants concealed from investors in the Issuing Trusts were
6 revealed through increasing default rates on the Issuing Trusts' mortgage pools and mounting
7 losses incurred on the Issuing Trusts' individual tranches. These defaults and increased losses
8 exceed the expected rates of default on the mortgage pools included in the Issuing Trusts and, as
9 a result, have led to diminishing value of the Issuing Trusts' securities. As set forth below, rating
10 agencies have downgraded the securities issued by the Issuing Trusts in response to the mounting
11 losses suffered by the Issuing Trusts. These actions have further reduced the market value of the
12 Issuing Trusts' securities.

13 118. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR1 Trust, on
14 May 1, 2008, Standard & Poor's ("S&P") downgraded two tranches by multiple levels. As of
15 July 3, 2008, Moody's placed one tranche on review for a possible downgrade, and downgraded
16 four tranches by multiple ratings levels.

17 119. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR3 Trust, as of
18 July 3, 2008, Moody's placed one tranche on review for a possible downgrade, and downgraded
19 six tranches by multiple ratings levels. On October 6, 2008, S&P downgraded eleven separate
20 tranches of the Series 2006-AR3 Trust by multiple rating levels, dropping some of these
21 Certificates below investment grade to speculative or junk ratings.

22 120. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR4 Trust, as of
23 July 3, 2008, Moody's placed three tranches on review for a possible downgrade, and
24 downgraded six tranches by multiple ratings levels. On October 6, 2008, S&P downgraded four
25 tranches of the Series 2006-AR4 Trust by multiple rating levels, dropping some of these
26 Certificates below investment grade to speculative or junk ratings.
27

1 121. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR5 Trust, as of
2 July 3, 2008, Moody's downgraded eleven tranches by multiple ratings levels. On October 6,
3 2008, S&P downgraded eleven tranches of the Series 2006-AR5 Trust by multiple rating levels,
4 dropping some of these Certificates below investment grade to speculative or junk ratings.

5 122. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR6 Trust, as of
6 May 1, 2008, S&P downgraded two tranches by multiple rating levels. On October 28, 2008,
7 S&P further downgraded 5 tranches of the Series 2006-AR6 Trust by multiple ratings levels,
8 dropping some of these Certificates below investment grade to speculative or junk ratings.

9 123. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR7 Trust, as of
10 July 3, 2008, Moody's placed two tranches on review for possible downgrades, and downgraded
11 twelve tranches by multiple ratings levels. On October 6, 2008, S&P downgraded three tranches
12 of the Series 2006-AR7 Trust by multiple rating levels, dropping some of these Certificates
13 below investment grade to speculative or junk ratings.

14 124. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR8 Trust, as of
15 May 1, 2008, S&P downgraded four tranches by multiple rating levels. On October 28, 2008,
16 S&P downgraded nine tranches of the Series 2006-AR8 Trust by multiple ratings levels. The
17 majority of these downgraded Certificates were downgraded by S&P again on September 22,
18 2008, and these further downgrades in October 2008 dropped some of the Series 2006-AR8
19 Trust Certificates below investment grade to speculative or junk ratings.

20 125. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR9 Trust, as of
21 July 3, 2008, Moody's placed two tranches on review for possible downgrades, and downgraded
22 eleven tranches by multiple ratings levels. After placing a number of tranches on watch for
23 downgrades on September 25, 2008, S&P, within weeks on October 6, 2008, downgraded ten
24 tranches multiple levels, dropping some of these Series 2006-AR9 Trust Certificates below
25 investment grade to speculative or junk ratings.

26 126. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR10 Trust, on
27 May 1, 2008, S&P downgraded eight tranches by multiple ratings levels. On October 28, 2008,

1 S&P downgraded eleven tranches of the Series 2006-AR10 Trust by multiple rating levels,
2 dropping some of these Certificates below investment grade to speculative or junk ratings.

3 127. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR11 Trust, on
4 July 3, 2008, Moody's placed three tranches on review for possible downgrades, and twenty-two
5 tranches were downgraded multiple ratings levels. On May 1, 2008, S&P downgraded twenty
6 tranches by multiple rating levels.

7 128. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR12 Trust, as
8 of May 1, 2008, S&P downgraded five tranches by multiple rating levels. On December 4, 2008,
9 S&P downgraded twenty-two tranches of the 2006-AR12 Trust by multiple ratings levels. The
10 majority of these downgraded Certificates had already been downgraded by S&P again on
11 October 28, 2008, and these further downgrades in December 2008 dropped some of the Series
12 2006-AR12 Trust Certificates below investment grade to speculative or junk ratings.

13 129. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR13 Trust, as
14 of July 3, 2008, Moody's placed two tranches on review for possible downgrades, and eleven
15 were downgraded multiple ratings levels. On October 28, 2008, S&P downgraded thirteen
16 tranches of the Series 2006-AR13 Trust by multiple rating levels, dropping some of these
17 Certificates below investment grade to speculative or junk ratings. As of October 13, 2008, S&P
18 projected that the Series 2006-AR13 Trust Certificates would have losses of in excess of \$90.60
19 million.

20 130. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR14 Trust, as
21 of May 1, 2008, S&P downgraded four tranches by multiple rating levels. On October 28, 2008,
22 S&P downgraded twelve tranches of the Series 2006-AR14 Trust by multiple rating levels,
23 dropping some of these Certificates below investment grade to speculative or junk ratings.

24 131. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR15 Trust, as
25 of July 3, 2008, Moody's placed two tranches on review for possible downgrades, and thirteen
26 tranches were downgraded multiple ratings levels. As of October 13, 2008, S&P projected that
27 the Series 2006-AR15 Trust Certificates would have losses of in excess of \$50.05 million, and

1 on October 27, 2008, S&P downgraded twelve tranches of the Series 2006-AR15 Trust by
2 multiple rating levels, dropping some of these Certificates below investment grade to speculative
3 or junk ratings.

4 132. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR16 Trust, as
5 of May 1, 2008, S&P downgraded eight tranches by multiple rating levels. On October 28,
6 2008, S&P downgraded eleven tranches of the Series 2006-AR16 Trust by multiple rating levels,
7 dropping some of these Certificates below investment grade to speculative or junk ratings.

8 133. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR17 Trust, as
9 of July 3, 2008, Moody's placed two tranches on review for possible downgrades, and twelve
10 tranches were downgraded multiple ratings levels, and remain under review for further
11 downgrades. On October 20, 2008, S&P downgraded twelve tranches of the Series 2006-AR17
12 Trust by multiple rating levels, dropping some of these Certificates below investment grade to
13 speculative or junk ratings. As of October 13, 2008, S&P projected that the Series 2006-AR17
14 Trust Certificates would have losses of in excess of \$73.84 million.

15 134. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR18 Trust, as
16 of May 1, 2008, S&P downgraded four tranches by multiple rating levels. On December 4,
17 2008, S&P downgraded fifteen tranches of the 2006-AR18 Trust by multiple ratings levels. The
18 majority of these downgraded Certificates had already been downgraded by S&P again on
19 October 28, 2008, and these further downgrades in December 2008 dropped some of the Series
20 2006-AR12 Trust Certificates below investment grade to speculative or junk ratings.

21 135. For the WaMu Mortgage Pass-Through Certificates, Series 2006-AR19 Trust, as
22 of July 3, 2008, Moody's placed three tranches on review for possible downgrades, and thirteen
23 tranches were downgraded multiple rating levels. As of October 13, 2008, S&P projected that
24 the Series 2006-AR19 Trust Certificates would have losses of in excess of \$94.58 million, and
25 on October 30, 2008, S&P severely downgraded nine tranches of the Series 2006-AR19 Trust by
26 multiple rating levels, dropping some of these Certificates below investment grade to speculative
27 or junk ratings.

1 136. For the WaMu Mortgage Pass-Through Certificates, Series 2007-HY1 Trust, as of
2 March 17, 2008, S&P had placed four tranches on a negative ratings watch. On May 22, 2008,
3 S&P downgraded 10 tranches by multiple rating levels, and on June 9, 2008, S&P downgraded
4 six tranches by multiple rating levels. Additionally, on August 12, 2008, S&P downgraded
5 sixteen tranches by multiple rating levels.

6 137. For the WaMu Mortgage Pass-Through Certificates, Series 2007-HY2, as of
7 March 17, 2008, S&P had placed four tranches on a negative ratings watch. On May 22, 2008,
8 S&P downgraded nine tranches by multiple rating levels, and on August 12, 2008, S&P
9 downgraded seven tranches by multiple rating levels.

10 138. For the WaMu Mortgage Pass-Through Certificates, Series 2007-HY3, as of
11 March 17, 2008, S&P had placed five tranches on a negative ratings watch. On May 22, 2008,
12 S&P downgraded thirteen tranches by multiple rating levels, and on August 12, 2008, S&P
13 downgraded fourteen tranches by multiple rating levels.

14 139. For the WaMu Mortgage Pass-Through Certificates, Series 2007-HY4, as of
15 March 17, 2008, S&P had placed six tranches on a negative ratings watch. On May 22, 2008,
16 S&P downgraded six tranches by multiple rating levels, and on December 5, 2008, S&P
17 downgraded eighteen tranches by multiple rating levels.

18 140. For the WaMu Mortgage Pass-Through Certificates, Series 2007-HY5 Trust, as
19 of November 16, 2007, S&P had downgraded three tranches by multiple rating levels. On March
20 28, 2008, S&P downgraded eight tranches by multiple rating levels. On May 28, 2008, S&P
21 downgraded seven tranches by multiple ratings levels, and on October 27, 2008, S&P
22 downgraded twelve tranches by multiple ratings levels. As of October 13, 2008, S&P projected
23 that the Series 2007-HY5 Trust Certificates would have losses of in excess of \$69.33 million.

24 141. For the WaMu Mortgage Pass-Through Certificates, Series 2007-HY6 Trust, as
25 of November 16, 2007, S&P had downgraded nine tranches by multiple rating levels. On March
26 28, 2008, S&P downgraded four tranches by multiple rating levels. On May 28, 2008, S&P
27 downgraded eight tranches by multiple rating levels. On October 27, 2008, S&P downgraded 21

1 tranches by multiple rating levels. As of October 13, 2008, S&P projected that the Series 2007-
2 HY6 Trust Certificates would have losses of in excess of \$119.58 million.

3 142. For the WaMu Mortgage Pass-Through Certificates, Series 2007-HY7, as of
4 November 16, 2007, S&P had downgraded nine tranches by multiple rating levels. On March
5 28, 2008, S&P downgraded five tranches by multiple rating levels. On May 28, 2008, S&P
6 downgraded twelve tranches by multiple rating levels. On October 30, 2008, S&P downgraded
7 fifteen tranches by multiple rating levels. As of October 13, 2008, S&P projected that the Series
8 2007-HY7 Trust Certificates would have losses of in excess of \$158.33 million.

9 143. As a direct and proximate cause of the false and misleading statements issued by
10 the Defendants in offering the Trusts' securities for sale, which concealed material facts
11 concerning the inflated value of the properties that collateralized the mortgages in the Trusts,
12 Plaintiffs have suffered damages.

13 PLAINTIFFS' CLASS ACTION ALLEGATIONS

14 144. Plaintiffs bring this action on their own behalf and as a class action pursuant to
15 Civil Rule 23 on behalf of all persons and entities who, between January 26, 2006 and
16 November 1, 2007 (the "Class Period"), purchased or otherwise acquired the Certificates of
17 the Issuing Trusts pursuant or traceable to the false and misleading Registration Statement,
18 Prospectuses and Supplemental Prospectuses, and who were damaged thereby (the "Class").

19 145. Excluded from the Class are the Defendants, their officers and directors at all
20 relevant times, members of their immediate families and their legal representatives, heirs,
21 successors or assigns and any entity in which Defendants have or had a controlling interest.

22 146. The members of the Class are so numerous that joinder of all members is
23 impracticable. While the exact number of Class members is unknown to Plaintiffs at this time
24 and can only be ascertained through appropriate discovery, Plaintiffs believe that there are
25 thousands of members in the proposed Class.

26 147. Plaintiffs will fairly and adequately protect the interests of the Class members
27 and have retained counsel competent and experienced in class action and securities litigation.

1 Plaintiffs have no interests that are contrary or in conflict with those of the Class members that
2 Plaintiffs seek to represent.

3 148. Plaintiffs' claims are typical of the claims of the Class members. Plaintiffs and all
4 members of the Class purchased the Certificates pursuant to a Registration Statement or
5 Prospectuses have sustained damages as a result of the wrongful conduct complained of herein.

6 149. A class action is superior to other available methods for the fair and efficient
7 adjudication of this controversy. Because the damages suffered by the individual Class members
8 may be relatively small, the expense and burden of individual litigation make it impossible for
9 Class members individually to redress for the wrongful conduct alleged herein.

10 150. Common questions of law and fact exist as to all members of the Class and
11 predominate over any questions affecting individual members of the Class. Among the
12 questions of law and fact common to the Class are:

- 13 (i) Whether the federal securities laws were violated by the
14 Defendants' acts and omissions as alleged herein;
- 15 (ii) Whether documents, including the Registration Statement,
16 Prospectuses and Supplemental Prospectuses, that WMAAC filed
17 with the SEC during the Class Period contained misstatements of
18 material fact or omitted to state material facts necessary in order to
19 make the statements made, in light of the circumstances under
20 which they were made, not misleading;
- 21 (iii) Whether the market prices of the Certificates during the Class
22 Period were artificially inflated due to the material
23 misrepresentations and omissions complained of herein; and
- 24 (iv) Whether the Class members have sustained damages and, if so,
25 the appropriate measure thereof.

26 151. Plaintiffs know of no difficulty that will be encountered in the management of
27 this litigation that would preclude its maintenance as a class action.

152. The names and addresses of the record owners of the Certificates purchased
during the Class Period are available from WMAAC and/or its transfer agent(s). Notice can be
provided to persons who purchased or otherwise acquired the Certificates by a combination of

1 published notice and first class mail, using techniques and forms of notice similar to those
2 customarily used in other class actions arising under in state and federal securities class actions.

3 **CAUSES OF ACTION**

4 **COUNT ONE**

5 **Against WMAAC, WMCC and the Individual Defendants for**
6 **Violation of Section 11 of the Securities Act**

7 153. Plaintiffs repeat and reallege each and every allegation above as if fully set forth
8 herein. This Count is brought pursuant to Section 11 of the Securities Act, 15 U.S.C. § 77k, on
9 behalf of the Plaintiffs and all Class members who purchased the Certificates pursuant or
10 traceable to the Registration Statement filed with the SEC on December 30, 2005, as amended on
11 January 3, 2006 and the corresponding Prospectuses and Supplemental Prospectuses.

12 154. This Count is not based on and does not sound in fraud. All preceding allegations
13 of fraud or fraudulent conduct and/or motive are specifically excluded from this Count. This
14 Count is predicated upon Defendants' strict liability for making false and materially misleading
15 statements in the Registration Statement, the Prospectuses, and Supplemental Prospectuses.

16 155. This Count is asserted against (a) WMAAC, which issued the Certificates
17 offered to the investing public, (b) the Individual Defendants, all of whom signed the
18 Registration Statement and were officers and/or directors of WMAAC at the time, and (c)
19 WMCC which served as underwriter and was the seller of the Certificates within the meaning of
20 the Securities Act.

21 156. The Registration Statement and each of the Prospectuses and Supplemental
22 Prospectuses were materially false and misleading and contained untrue statements of material
23 fact and omitted to state material facts necessary to make the statement made therein, under the
24 circumstances in which they were made, not misleading, as set forth above.

25 157. None of the Defendants named in this Count made a reasonable investigation or
26 possessed reasonable grounds for the belief that the statements contained in the Registration
27 Statement and each of the Prospectuses and Supplemental Prospectuses were accurate and

1 complete in all material respects. Had they exercised reasonable care, the Defendants named in
2 this Count could have known of the material misstatements and omissions alleged herein.

3 158. At the time they purchased the Certificates, Plaintiffs and members of the Class
4 did not know, or by the reasonable exercise of care could have known, of the material
5 misstatements and omissions alleged herein.

6 159. In connection with the Registration Statement and offering of the Certificates, the
7 Defendants named in this Count, directly or indirectly, used the means and instrumentalities of
8 interstate commerce, the United States mails and a national securities exchange.

9 160. This Count is brought within one year after discovery of the untrue statements
10 and omissions in the Registration Statement, the Prospectuses and Supplemental Prospectuses,
11 and within three years after the Certificates were sold to Class members.

12 161. Plaintiffs and the Class members acquired the Certificates pursuant or traceable to
13 the Registration Statement before WMAAC made generally available to its security holders an
14 earnings statement covering a period of at least twelve months beginning after the effective date
15 of the Registration Statement.

16 162. By reason of the misconduct alleged herein, the Defendants named in this Count
17 violated Section 11 of the Securities Act and are liable to the Plaintiffs and the Class members
18 who purchased or acquired the Certificates pursuant or traceable to the Registration Statement,
19 each of whom has been damaged as a result of such violations.

20 COUNT TWO

21 **Against WMAAC and WMCC for Violation of** 22 **Section 12(a)(2) of the Securities Act**

23 163. Plaintiffs repeat and reallege each and every allegation contained above as if
24 fully set forth herein. This Count is brought pursuant to Section 12(a)(2) of the Securities Act,
25 15 U.S.C. § 771(a)(2) on behalf of the Plaintiffs and all members of the Class who purchased or
26 otherwise acquired the Certificates pursuant to the Registration Statement, Prospectuses and
27 Supplemental Prospectuses.

1 164. This Count is not based on and does not sound in fraud. All preceding allegations
2 of fraud or fraudulent conduct and/or motive are specifically excluded from this Count.

3 165. This Count is brought against WMAAC and WMCC each of whom offered and
4 sold Certificates to Class members by the use of communication in interstate commerce and/or
5 the United States mails, by means of the Registration Statement, Prospectuses and Supplemental
6 Prospectuses.

7 166. Specifically, in connection with the Issuing Trusts, WMAAC selected WMCC to
8 underwrite and promote the Certificates. Pursuant to an underwriting agreement, WMAAC
9 issued and WMCC underwrote and promoted the sale of the Certificates to the investing public.

10 167. WMAAC and WMCC participated in the preparation and dissemination of the
11 false and misleading Registration Statement, Prospectuses and Supplemental Prospectuses for
12 their own financial benefit. But for their participation in the sale of the Certificates to the
13 investing public, including their solicitation as set forth herein, the sale of the Certificates could
14 not and would not have been accomplished. Specifically, WMAAC and WMCC:

- 15 (i) Made the decision to offer the Certificates for sale to the investing
16 public. WMAAC and WMCC drafted, revised and/or approved the
17 Registration Statement, Prospectuses and Supplemental
18 Prospectuses. These written materials were calculated to create
19 interest in the Certificates and were widely distributed by or on
20 behalf of the Defendants named in this Count for that purpose;
- 21 (ii) Finalized the Registration Statement, the Prospectuses and
22 Supplemental Prospectuses, and caused them to become effective;
23 and
- 24 (iii) Conceived and planned the sale of the Certificates and orchestrated
25 all activities necessary to affect the sale of the Certificates to the
26 investing public, by issuing the Certificates, promoting the
27 Certificates and supervising their distribution and ultimate sale to
the investing public.

168. As set forth more specifically above, the Registration Statement, Prospectuses and
Supplemental Prospectuses contained untrue statements of material fact and omitted to state

1 material facts necessary in order to make the statements, in light of circumstances in which they
2 were made, not misleading.

3 169. Plaintiffs and the members of the Class did not know, nor could they have
4 known, of the untruths or omissions contained in the Registration Statement, the Prospectuses
5 and Supplemental Prospectuses.

6 170. WMAAC and WMCC were obligated to make a reasonable and diligent
7 investigation of the statements contained in the Registration Statement, the Prospectuses and
8 Supplemental Prospectuses to ensure that such statements were true and that there was no
9 omission of material fact required to be stated in order to make the statements contained
10 therein not misleading. WMAAC and WMCC did not make a reasonable investigation and did
11 not possess reasonable grounds for the belief that the statements contained in the Registration
12 Statement, Prospectuses and Supplemental Prospectuses were accurate and complete in all
13 material respects. Had they done so, these Defendants could have known of the material
14 misstatements and omissions alleged herein.

15 171. This Count is brought within one year after discovery of the untrue statements
16 and omissions in the Registration Statement, the Prospectuses and Supplemental Prospectuses
17 and within three years after the Certificates were sold to Plaintiffs and Class members in
18 connection with the Issuing Trusts.

19 172. By reason of the misconduct alleged herein, the Defendants named in this Count
20 violated Section 12(a)(2) of the Securities Act and are liable to Plaintiffs and members of the
21 Class who purchased or acquired the Certificates pursuant or traceable to the Registration
22 Statement, the Prospectuses and Supplemental Prospectuses, each of whom has been damaged as
23 a result of such violation.

24 173. Plaintiffs and the members of the Class who purchased the Certificates pursuant to
25 the Registration Statement, the Prospectuses and Supplemental Prospectuses hereby seek
26 rescission of their purchases and tender to the Defendants named in this Count any Certificates
27

1 that Plaintiffs and other members of the Class continue to own, in return for the consideration
2 paid for those Certificates, together with interest thereon.

3 **COUNT THREE**

4 **Against WMB, WMSSC and the Individual Defendants**
5 **for Violation of Section 15 of the Securities Act**

6 174. Plaintiffs repeat and reallege each and every allegation above as if set forth fully
7 herein. This Count is brought pursuant to Section 15 of the Securities Act, 15 U.S.C. § 77o, on
8 behalf of the Plaintiffs and all members of the Class who purchased or otherwise acquired the
9 Certificates pursuant or traceable to the Registration Statement, Prospectuses and Supplemental
10 Prospectuses.

11 175. This Count is not based on and does not sound in fraud. All preceding
12 allegations of fraud or fraudulent conduct and/or motive are specifically excluded from this
13 Count.

14 176. For all the reasons set forth above in Counts One and Two, WMB, WMMSC and
15 the Individual Defendants are controlling entities or persons of WMAAC and are liable to
16 Plaintiffs and the members of the Class who purchased the Certificates pursuant or traceable to the
17 materially false and misleading statements and omissions contained in the Registration Statement,
18 Prospectuses and Supplemental Prospectuses, pursuant to Sections 11 and 12(a)(2) of the
19 Securities Act, and were damaged thereby.

20 177. This Count is asserted against WMB, WMMSC, and the Individual Defendants,
21 each of whom was a control person of WMAAC and/or WMCC during the Class Period, within
22 the meaning of Section 15 of the Securities Act, by virtue of their control, ownership, offices,
23 directorship, and specific acts. As control persons, Washington Mutual, WMB, WMMSC, and
24 the Individual Defendants had the power and influence, and exercised the same, to cause
25 WMAAC and WMCC to engage in the acts described herein.

1 178. Washington Mutual's, WMB's, WMMSC's, and the Individual Defendants'
2 control, ownership and positions made them privy to and provided them with actual knowledge
3 of the material facts concealed from Plaintiffs and members of the Class.

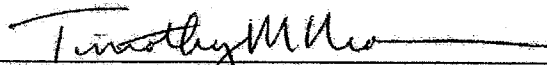
4 179. By virtue of the conduct alleged herein, for which WMAAC and WMCC are
5 primarily liable, as set forth above, defendants WMB, WMMSC, and the Individual Defendants
6 are jointly and severally liable with and to the same extent as WMAAC and WMCC, pursuant to
7 Section 15 of the Securities Act.

8 WHEREFORE, Plaintiffs pray for relief and judgment, as follows:

- 9 (a) Determining that this action is a proper class action pursuant to Civil Rule
10 23;
- 11 (b) Awarding compensatory and rescissory damages in favor of Plaintiffs and the
12 other Class members against all Defendants, jointly and severally, for all
13 damages sustained as a result of Defendants' wrongdoing, in an amount
14 to be proven at trial, including interest thereon;
- 15 (c) Awarding Plaintiffs and the Class their reasonable costs and expenses
16 incurred in this action, including counsel fees and expert fees; and
- 17 (d) Such other and further relief as the Court may deem just and proper.

18 DATED this 16th day of December, 2008.

19 KIPLING LAW GROUP PLLC

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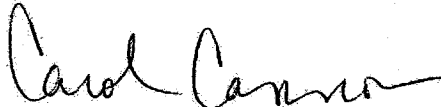
*Counsel for Plaintiffs New Orleans Employees'
Retirement System and MARTA/ATU Local 732
Employees Retirement Plan*

10 **CERTIFICATE OF SERVICE**

11 I do hereby certify that on this 16th day of December, 2008, I caused to be served a true
12 and correct copy of the foregoing *First Amended Class Action Complaint For Violations of*
13 *Sections 11, 12(a)(2) and 15 of the Securities Act of 1933* by method indicated below and
14 addressed to the following:

15 By: U.S. Mail Overnight Mail Facsimile Hand Delivered E-Mail

16 Stephen M. Rummage
17 Steven P. Caplow
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22 stevencaplow@dwt.com
23 *Counsel for Defendants*

24 
25 _____
26 Carol Cannon, Legal Assistant

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

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In re :
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:
WASHINGTON MUTUAL, INCORPORATED and : **Chapter 11**
WMI INVESTMENT CORPORATION, :
:
:
Creditors. : **Case No. 08-12229 (MFW)**
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I hereby certify that on this 12th day of August, 2009 I caused a true and correct copy of the foregoing Response to Debtors' Sixth Omnibus (Substantive) and Seventh Omnibus (Non-Substantive) Objection to Claims and exhibits to be served via electronic notice to the parties as provided by the Court's CM/ECF electronic filing system and via United States First Class Mail, postage prepaid, upon the following at the addresses listed below:

Brian S. Rosen, Esq.
Marcia L. Goldstein, Esq.
Michael F. Walsh, Esq.
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Counsel for Debtors

/s/ Richard G. Placey
Richard G. Placey (DE I.D. No. 4206)