

STATE OF NEW JERSEY  
BUREAU OF SECURITIES  
153 Halsey Street  
P.O. Box 4709  
Newark, New Jersey 07101

IN THE MATTER OF:

CREDIT SUISSE SECURITIES (USA) LLC  
(CRD #816), CREDIT SUISSE FIRST  
BOSTON MORTGAGE SECURITIES CORP.,  
and DLJ MORTGAGE CAPITAL, INC.

RESPONDENTS.

**ADMINISTRATIVE  
CONSENT ORDER**

Pursuant to the authority granted to Amy G. Kopleton, Acting Chief of the New Jersey Bureau of Securities (“Bureau Chief”), under the New Jersey Uniform Securities Law (1997), N.J.S.A. 49:3-47 to -89 (“Securities Law” or “NJUSL”), and after investigation and careful review and with due consideration of the facts and statutory provisions set forth below, the Bureau Chief hereby finds that there is good cause, it is in the public interest, and it will preserve resources to enter into this Administrative Consent Order (“ACO”) with Credit Suisse Securities (USA) LLC (CRD #816), Credit Suisse First Boston Mortgage Securities Corp., and DLJ Mortgage Capital, Inc. (collectively, “Credit Suisse” or “Respondents”), and Credit Suisse hereby agrees to resolve any and all issues in controversy regarding the conduct described herein on the terms set forth in this ACO (the Bureau Chief and Credit Suisse, the “Parties,” and each a “Party”).

**WHEREAS**, the New Jersey Bureau of Securities (the “Bureau”) is the State agency with the responsibility to administer and enforce the Securities Law;

**WHEREAS**, N.J.S.A. 49:3-67 authorizes the Bureau Chief from time to time to issue such Orders as are necessary to carry out the provisions of the Securities Law, upon a finding that the

action is necessary and appropriate, in the public interest, or for the protection of investors or consistent with the purposes fairly intended by the provisions of the Securities Law;

**WHEREAS**, the Bureau has conducted an investigation into certain conduct of Credit Suisse as set forth in this ACO and the Amended Complaint filed in *Ruotolo v. Credit Suisse Securities (USA) LLC, et al.*, No. MER-C-137-13<sup>1</sup> (the “Enforcement Action”);

**WHEREAS**, the Enforcement Action on behalf of the Bureau Chief under N.J.S.A. 49:3-69(a)(2) and N.J.S.A. 49:3-51 was brought for alleged violations of the following provisions of the Securities Law: 1) N.J.S.A. 49:3-52(b) (making materially false and misleading statements or omitting facts necessary to make the statements made not misleading in connection with the offer, sale or purchase of securities); and 2) N.J.S.A. 49:3-52(c) (engaging in any act or practice, or course of business which would operate as a fraud or deceit upon any person in connection with the offer, sale or purchase of securities) (collectively, the “NJUSL Claims”);

**WHEREAS**, Credit Suisse has simultaneously executed a Consent Order and Final Judgment (“Consent Judgment”) to fully and finally resolve the Enforcement Action;

**WHEREAS**, the Consent Judgment enters a judgment jointly and severally against Credit Suisse in the total amount of \$495,000,000 (“Settlement Amount”);

**WHEREAS**, as used herein, “Relevant Conduct” means the conduct alleged in the Amended Complaint filed in the Enforcement Action and the conduct described in the following Findings of Fact and Conclusions of Law, which Credit Suisse neither admits nor denies; and

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<sup>1</sup> Under R. 4:34-4, the caption has been revised from its original form to reflect the designated Acting Attorney General for this case, Lyndsay V. Ruotolo, and current Acting Chief of the New Jersey Bureau of Securities, Amy G. Kopleton.

**WHEREAS**, the Parties have entered into this ACO to resolve the NJUSL Claims as to the Relevant Conduct and thereby avoid significant expense, inconvenience, and uncertainty of a trial over the NJUSL Claims and Credit Suisse’s defenses thereto.

The Bureau Chief makes the following findings of fact and conclusions of law, which are solely for the purpose of settling this proceeding. Credit Suisse neither admits nor denies these findings and conclusions.

## **FINDINGS OF FACT**

### **I. Introduction.**

1. From 2005 to 2007, Credit Suisse acquired thousands of residential mortgages, securitized them into thirteen residential mortgage-backed securities (“RMBS”) trusts (“Trusts”) with an original face value over \$10 billion, and offered and sold certificates in those Trusts to investors (collectively, the “RMBS Offerings”).<sup>2</sup> Credit Suisse did so through a vertically integrated RMBS business that controlled every step of its RMBS offering process, including: (1) acquiring and reviewing the loans; (2) securitizing and structuring the RMBS; and (3) marketing and selling the RMBS. Credit Suisse’s Princeton, New Jersey office (“Princeton”) played a central role in the RMBS offering process.

2. As detailed below, in connection with the RMBS Offerings, Credit Suisse made materially false and misleading statements and omitted material information about both the quality and characteristics of the loans backing the Trusts and its RMBS processes. Among other false and misleading statements, Credit Suisse represented that: (1) the underlying loans substantially complied with applicable underwriting guidelines; (2) each loan originator not affiliated with

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<sup>2</sup> The relevant trusts include Home Equity Mortgage Trust (“HEMT”) Series 2006-4, 2006-5, 2006-6, 2007-1, and 2007-2, and Home Equity Asset Trust (“HEAT”) Series 2006-4, 2006-5, 2006-6, 2006-7, 2006-8, 2007-1, 2007-2, and 2007-3.

Credit Suisse would originate loans “in accordance with accepted practices and prudent guidelines”; (3) Credit Suisse used “certain quality assurances designed to ensure” that the correct loan underwriting criteria would be “properly applied”; and (4) none of the loans in the Trusts had a combined loan-to-value (“CLTV”) ratio over 100 percent (or “negative equity”). Credit Suisse also did not disclose that when the loans backing the Trusts had early payment defaults (“EPDs”), it was entering into cash settlements with the loan originators and keeping the proceeds.

## **II. The Respondents.**

3. Respondent Credit Suisse Securities (USA) LLC (“Credit Suisse Securities”) is registered as a broker-dealer with the Bureau (CRD #816). Credit Suisse Securities is a Delaware limited liability company with its principal place of business at 11 Madison Avenue, New York, New York 10010. During the relevant time period, Credit Suisse Securities was also located at 302 Carnegie Center, Suite 102, Princeton, New Jersey 08540. Credit Suisse Securities served as the underwriter of the Trust certificates.

4. Respondent Credit Suisse First Boston Mortgage Securities Corp. (“CSFB”) is a Delaware corporation with its principal place of business at 11 Madison Avenue, New York, New York 10010. CSFB was the depositor that purchased the loans underlying the Trust certificates from Respondent DLJ Mortgage Capital, Inc. (“DLJ”).

5. Respondent DLJ is a Delaware corporation with its principal place of business at 11 Madison Avenue, New York, New York 10010. DLJ was the sponsor of the Trusts.

6. Together, the Respondents controlled all aspects of Credit Suisse’s RMBS offering process.

## **III. Overview Of Credit Suisse’s RMBS Offering Process.**

7. RMBS consist of thousands of residential mortgages pooled together into trusts.

When borrowers make principal and interest payments on the underlying mortgages, those payments pass through the trusts and flow to the investors who own trust certificates. These trusts are divided into different classes, or tranches, which determine the priority in which certificateholders receive payments and absorb losses. Senior tranches are paid first, and are the last to absorb losses in the event of delinquencies or default on the underlying mortgages. The different certificate classes receive separate, individual ratings from credit rating agencies, with the senior classes generally receiving higher ratings.

8. As noted above, Credit Suisse controlled all aspects of a three-step RMBS offering process: (A) loan acquisition and quality assurance; (B) structure and securitization; and (C) marketing and sale. The three steps of that process are outlined below.

**A. Loan Acquisition And Quality Assurance.**

9. Credit Suisse's RMBS offering process began with mortgage loan origination and acquisition. In deciding whether to approve a loan, mortgage lenders (or "originators") assess the credit risk associated with lending money to the borrower in a process called "mortgage loan underwriting." During the underwriting process, the originator applies underwriting guidelines to evaluate whether a particular borrower is qualified to receive a mortgage. Underwriting guidelines contain the rules that originators must follow to determine whether a borrower qualifies for a mortgage.

10. Credit Suisse acquired the loans that it securitized into the Trusts through four different channels: (1) bulk; (2) mini-bulk; (3) loan-by-loan ("LBL"); and (4) wholesale. Bulk loans were purchased from third-party originators in pools of hundreds to thousands for amounts exceeding \$5 million. Mini-bulk loans were similar to bulk loans, but were purchased for less than \$5 million per pool. LBL loans were acquired from originators individually, on a loan-by-loan

basis. Wholesale loans were originated by Credit Suisse itself and consisted of individual loans referred to Credit Suisse through mortgage brokers and then underwritten and funded by Credit Suisse. For the Trusts, approximately 70% of the loans were acquired through the bulk channel, 11% were acquired through the mini-bulk channel, 13% were acquired through the LBL channel, and approximately 6% were originated through the wholesale channel.

11. Due diligence review typically occurred after Credit Suisse won a bid for a pool of loans, but before it bought them. Credit Suisse purported to conduct three types of due diligence: (1) credit review, in which loan origination files were examined to determine if the loans complied with underwriting guidelines; (2) compliance review, in which the files were examined to determine if the loans complied with federal, state, and local laws and regulations; and (3) valuation review, which assessed the accuracy and reasonableness of the appraisals of the properties that served as collateral for the loans.

12. As detailed below, Credit Suisse's due diligence varied for its different loan channels. Credit Suisse retained third-party due diligence firms to conduct due diligence on loans purchased through the bulk channel, generally using the originator's underwriting guidelines. For mini-bulk and LBL loans, Credit Suisse retained third-party fulfillment centers to perform due diligence.

13. After acquiring loan pools, Credit Suisse purported to perform quality-control reviews on samples of loans to confirm the accuracy of due diligence, identify defective loans, and flag problematic originators for closer monitoring, suspension, or termination. Credit Suisse had a five-person "Watchlist Committee," which was charged with scrutinizing poorly performing originators and had the power to terminate, restrict, or limit originators' ability to sell loans to Credit Suisse based on "poor loan performance, excessive unsatisfied repurchase requests,

negative [quality control] results, . . . weakening financial condition, and reputational/management concerns.”

**B. Structuring And Securitization.**

14. After acquiring and originating loans, Credit Suisse identified loans that were eligible for securitization and pooled and deposited them into the Trusts under pooling and servicing agreement (“PSAs”). The PSAs included Credit Suisse’s representations and warranties about the underlying loans, and defined the rights and obligations of the parties to the transaction.

15. RMBS issuances hinge on receiving credit ratings from national rating agencies. Credit ratings reflect a judgment about the credit risk of owning a security. In assigning credit ratings, agencies rely on the accuracy of loan tapes provided by the sponsor or underwriter. Credit Suisse obtained credit ratings for each of the Trusts.

**C. Marketing And Sale.**

16. Credit Suisse marketed and sold the RMBS Offerings through a variety of offering materials, including registration statements, prospectuses, PSAs, prospectus supplements, slide deck (or “PitchBook”) presentations, and other offering materials (collectively, the “Offering Materials”). These Offering Materials included statements about the characteristics and credit quality of the loans in the Trusts, as well as Credit Suisse’s loan acquisition, due diligence, and oversight processes, including that:

- a. Loans were originated “generally in accordance” with applicable “underwriting guidelines.”
- b. Exceptions to underwriting guidelines were made only when adequate compensating factors existed.
- c. Each originator not affiliated with Credit Suisse was experienced in originating loans “in accordance with accepted practices and prudent guidelines.”
- d. Credit Suisse’s origination, underwriting, servicing, and collection practices

were “legal, proper, prudent, and customary.”

17. As explained below, these representations were false or omitted critical information, and flaws in the ways that Credit Suisse set up its profit-focused business – including emphasizing acquiring high volumes of loans over quality ones – all but assured that was the case. And because the credit quality of loans – and Credit Suisse’s processes for ensuring that only quality loans entered the RMBS – related to the likelihood of timely loan payments, the false and omitted information was material to investors.

#### **IV. Credit Suisse’s Bulk Loan Due Diligence.**

18. Credit Suisse engaged third-party due diligence providers to review bulk loans for, among other things, compliance with the originator’s underwriting guidelines. Credit Suisse typically conducted this due diligence by selecting a sample of loans from a bulk pool, and having its due diligence providers review only that sample, rather than all loans in the pool.

19. Due diligence vendors assigned grades to loans. In general, an “EV1” grade meant the loan was underwritten according to the applicable underwriting guidelines and originated in compliance with applicable laws. “EV2” meant the loan did not comply with applicable underwriting guidelines but had sufficient compensating factors warranting a guideline exception. “EV3” meant the loan did not comply with guidelines and lacked sufficient compensating factors, key documents were missing from the loan file, or that Credit Suisse had otherwise instructed the vendor to mark the loan as “EV3.” At some point, Credit Suisse asked that the third-party providers add a rating of “EV4,” to identify those loans that were defective, but Credit Suisse wanted to review further.

20. Credit Suisse waived in and securitized 999 loans in the Trusts that received final diligence grades of EV3 or EV4; these loans violated guidelines and lacked adequate compensating factors, but were nonetheless securitized, passing them along as RMBS collateral, to RMBS

investors.

21. Credit Suisse also upgraded, or improved, the grades of 70-95% of the securitized loans that its diligence providers believed violated guidelines and lacked adequate compensating factors, resulting in the securitization of thousands of loans that were initially rejected in the diligence process, passing along this undisclosed risk to RMBS investors.

22. Credit Suisse downgraded less than 1% of the securitized loans that required further scrutiny to determine whether compensating factors offset guideline violations.

23. For bulk loans, Credit Suisse's internal guidelines required it to review 100% of subprime loan pools. Yet for the HEAT Trusts (which were marketed and sold as securitizations of subprime loans), Credit Suisse failed to perform due diligence on all 100% of the underlying loans. In fact, Credit Suisse did due diligence on a portion of those loans, as follows: 65.1% of HEAT 2006-4 loans, 89.4% of HEAT 2006-5 loans, 89.7% of HEAT 2006-6 loans, 91.7% of HEAT 2006-7 loans, 91.5% of HEAT 2006-8 loans, 78.8% of HEAT 2007-1 loans, 73.3% of HEAT 2007-2 loans, and 86.3% of the HEAT 2007-3 loans.

24. When many of the sampled loans were graded as "EV3," the remainder of the pool probably included noncompliant loans. A Credit Suisse due diligence employee stated in an email, "I would imagine that the unsampled loans would exhibit similar characteristics to the sampled population." Yet, Credit Suisse purchased and securitized unsampled bulk loans, without further review.

25. To illustrate, in December 2006, Credit Suisse bid on a bulk pool of approximately 10,000 loans originated by Countrywide Home Loans ("Countrywide"). Before the bid, the senior Credit Suisse trader bidding on the pool wrote in an email, "Amazing that 8% of the pool is already delinquent after 10 months," adding that the entire pool was "obviously plugged with the worst

[loans].” After winning the bid on these loans, the senior trader wrote in an email, “I’m ecstatic.”

26. According to a prominent due-diligence provider, Clayton, Credit Suisse sampled fewer than 10% of these loans during its due diligence review, and approximately 85% of the sampled loans violated Countrywide’s underwriting guidelines or applicable law. The Credit Suisse due diligence manager overseeing this review reported that Clayton “has found a number of guideline exceptions (fico score exceptions, LTV exceptions, Program exceptions)[.] However I am not rejecting for these items.” In response, the co-head of Credit Suisse’s transaction management group wrote: “Thanks for working thru this mess. If it helps, it looks like we will make a killing on this trade.”

27. Credit Suisse also undermined its own review process by allowing seller demands – rather than credit policy or performance concerns – to dictate the size and type of loans selected for diligence. Specifically, Credit Suisse acquiesced to originators’ demands that it review a smaller sample than Credit Suisse’s policies required.

28. Credit Suisse received from its due diligence providers daily loan diligence results, including data, EV grades, compensating factors, and general comments, showing the poor quality of the loans.

29. In a statistically valid random sample of almost 1,300 loans to determine: (1) whether the originator followed guidelines, (2) whether each loan actually complied with guidelines, and (3) for loans that violated guidelines, whether sufficient compensating factors – that were both verifiable and documented – existed to offset the credit risk arising from the violation, the Bureau found that 62% of the loans violated guidelines and lacked sufficient compensating factors, and thus had a materially increased credit risk at the time of origination (“Materially Defective”).

## **V. Credit Suisse's Non- Bulk Loan Due Diligence.**

30. Credit Suisse contracted with fulfillment centers to review mini-bulk and LBL loans, and gave fulfillment centers the ability and authority to approve loans for purchase. When fulfillment centers approved loans, Credit Suisse underwriters or credit personnel often did not review the loans or the approvals.

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

32. Credit Suisse also represented in Offering Materials that it had a “rigorous due diligence process” and that it only “purchase[d]/originate[d] loans that demonstrate a borrower’s ability and willingness to repay debt.” However, that was not the case.

33. The lack of true due diligence performed by the fulfillment centers was a frequent topic of discussion between Credit Suisse personnel. For example, a Credit Suisse trader complained in April 2006 that mini-bulk loan pools would pass through the fulfillment centers’ due diligence process “without any DD [due diligence] comments whatsoever,” and no loan was rejected from the bid packages.

34. In an internal email, a senior Credit Suisse trader wrote to one of the Co-Heads of the Structured Products Group and made this stark observation: “We tell our investors we do 100% due diligence on LBL, but then when we have a competent QC firm do an underwriting review, they flag all kinds of errors that our fulfillment centers did not catch,” adding that the “fulfillment

process [was] broken.”

35. Credit Suisse’s own internal audits identified weaknesses with the fulfillment centers. A September 2004 audit by Credit Suisse gave them a C rating on an A-D scale (the second worst possible rating) and a level 4 materiality score on a 1-4 scale (the highest possible score). That audit found, among other things, that Credit Suisse was relying on “loan appraisals [that were] not being compared to external sources for reasonableness as required; and [sanctioning the] approval of loans that did not have all of the required documentation (second appraisal/AVM) as prescribed in the Underwriting Guidelines.”

36. A March 2006 evaluation by Credit Suisse of one of its fulfillment centers similarly reported: “There are serious concerns as to compliance . . . .” A senior Credit Suisse trader described the flaws in a November 2006 email: “The fulfillment process is a joke.” The trader added, with prescience: “[W]e make these underwriting exceptions and then we have liability down the road when the loans go bad and people point out that we violated our own guidelines.”

37. Credit Suisse’s incentive-based contracts with its fulfillment centers helped to create these systemic faults. One contract provided that it would pay the fulfillment center a fee for every loan approved, but would reduce its fee for every loan rejected. And the Credit Suisse employee who oversaw another fulfillment center wrote in an email in December 2006, “They make NO money if they don’t hit the funded loan count with CS. Fund is there [sic] #1 priority to make revenue each month.”

38. For example, from May 2005 through 2007, Credit Suisse’s Fulfillment Centers approved over \$700 million of loans originated by Resource Bank. As early as the beginning of 2005, Credit Suisse received reports that Resource Bank should be placed on “Fraud Watch” and that a “higher percentage of [its] loans be reviewed . . . to monitor their ongoing loan quality.” In

2006, Resource Bank was repeatedly identified in internal reports as being one of the top five originators cited for fraud. Credit Suisse employees, including two senior traders, discussed Resource Bank, referring to Resource Bank loans as “complete crap” and “[u]tter complete garbage.” One of the traders informed the Co-Heads of the RMBS business that “Resource Bank is the biggest culprit and our worst performer” in terms of delivering high combined loan-to-value (CLTV) loans, which “[are] performing progressively worse each quarter and [] rife with fraud.”

39. Credit Suisse continued to buy loans from Resource Bank throughout the rest of 2005, 2006, and 2007. During this same period, a Credit Suisse senior manager noted that Resource Bank’s repurchase obligations to Credit Suisse were “at an alarming level.” But rather than exercise caution, Credit Suisse encouraged more business by providing Resource Bank with financial “incentives” in exchange for loan volume.

## **VI. The Wholesale Channel Due Diligence Deficiencies.**

40. Credit Suisse controlled the wholesale channel from start to finish. And the wholesale channel was Credit Suisse’s worst performing loan-acquisition channel. Credit Suisse originated loans with critical underwriting defects, such as unreasonable stated income, and significant compliance issues, including missing closing documentation required by both guidelines and applicable law. On occasion, Credit Suisse sold pools of mortgage loans to other banks. Unlike RMBS investors, these banks were able to conduct their own due diligence on the Credit Suisse loans before buying them, frequently refusing to purchase based on findings that the loans violated guidelines or applicable law.

41. For instance, in October 2005, Credit Suisse marketed a pool of its wholesale loans, but the buyer refused to purchase well over 25% of the loans it sampled. According to the Credit Suisse trader on the deal, these “pathetic” results were “significantly worse” than loans from the

other channels, inspiring in him “no faith” in the wholesale channel.

42. Credit Suisse employees discussed rejections by other banks. For example, in October 2006, a senior Credit Suisse trader detailed the trouble to the Co-Head of Credit Suisse’s RMBS business: “Our fulfillment process is a major problem. [The other bank] again came back with an embarrassing number of diligence kicks this month.”

43. Credit Suisse securitized many of these unsellable loans into its RMBS, passing the loans – and their default risk – to investors, rather than keeping the loans in its own inventory.

## **VII. Credit Suisse’s Flawed Valuation Review Of Loans.**

44. Credit Suisse conducted valuation reviews to check the accuracy of origination appraisals used in calculating LTV and CLTV ratios for the loans backing the Trusts. This valuation review was intended in part to determine whether the property’s value was adequate collateral for the loan, or whether the property was sufficient to recoup the loan amount in the event of a borrower default. For purchase transactions, the “value” was established by using the lower of the appraisal or the purchase price at the time of origination. For refinance transactions, the value was established by an appraisal.

45. The Offering Materials contained misrepresentations and omissions about the characteristics of loans in the Trusts, including that:

- The characteristics set forth in the mortgage loan schedules, including LTV and CLTV ratios, were “true and correct in all material respects as of the Cut-off Date.”<sup>3</sup>
- The most recent valuation of the mortgaged properties was used in calculating CLTV ratios.
- At origination, all loans had LTV or CLTV ratios of 100% or less.

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<sup>3</sup> The Cut-off Date is listed in the Prospectus Supplement for each Trust.

46. The loan characteristics set forth in the mortgage loan schedules (“MLS”) for the Trusts were not true and correct in all material respects as of the Cut-off Date. Based on a data analysis of loans Credit Suisse misrepresented, the MLS materially misrepresented the collateral characteristics of more than 9% of the Materially Defective loans.

47. Credit Suisse’s statements about the accuracy of MLS data implied that Credit Suisse tried to verify loan characteristics before disclosing them to investors and rating agencies. But Credit Suisse only checked data for the limited samples it reviewed during due diligence, and thus failed to verify data on up to 90% of some loan pools. Indeed, over 58% of the loans in the Trusts had unsupported original appraisals. Credit Suisse also made no effort to update loan data in the months between when it was collected (at origination) and the time Credit Suisse disclosed loan data in the Offering Materials.

48. Credit Suisse’s representations that it used the most recent valuation for mortgaged properties to determine LTV and CLTV ratios were also false and misleading because Credit Suisse used the earliest valuation – the original appraisal – to calculate CLTV ratios. In doing so, Credit Suisse ignored more recent internal valuations showing that some property values had plummeted since the original appraisals.

49. Contrary to Credit Suisse’s representations, dozens of the loans had LTV or CLTV ratios above 100% either at origination or during due diligence. And if Credit Suisse used the most recent appraisal valuation as it represented to investors, 17% to 38% of loans – depending on the Trust – would have had CLTVs above 100%.

50. As stated in Credit Suisse’s internal guidelines, the purpose of the appraisal review process was to identify potential issues with an individual loan’s value or a systemic problem with the originator’s process and production. For this valuation review, Credit Suisse used valuation

tools such as automated valuation models (“AVMs”), broker price opinions (“BPOs”), and desk reviews.<sup>4</sup> As with its credit and compliance reviews, Credit Suisse contracted with third-party vendors to perform this review.

51. Credit Suisse used thresholds, or “tolerances,” to check whether the reported appraised values were sufficiently supported. Credit Suisse instructed its vendors not to flag loans when the vendor determined the value of the property to be within a certain tolerance less than the appraisal. Even when the loan was out of tolerance, Credit Suisse would not necessarily reject the loan but would sometimes subject the loan to further review. If the vendor’s initial valuation was based on an AVM, Credit Suisse typically would order a BPO (which was a more reliable indicator of property value than an AVM) to confirm whether the AVM was reliable. If the BPO was then within the tolerance, Credit Suisse would accept the loan.

52. During this time period, Credit Suisse received reports that it was acquiring and securitizing loans with inflated appraisals. Yet Credit Suisse continued to apply a 10% to 15% tolerance – meaning Credit Suisse would acquire, and originators could sell, loans with inflated appraisals as long as the inflation was within the applicable threshold.

53. Credit Suisse’s own employees expressed concern that loans with inflated appraisals were being approved for purchase based on the variance tolerances. For example, in August 2006 Credit Suisse’s Head of Credit and Underwriting emailed two Credit Suisse senior traders about loans that Credit Suisse was buying from originator Accredited Home Lenders, stating:

20+% of their loans have value issues > 20% off – that is unheard

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<sup>4</sup> An AVM is a computer program that computes an appraisal value for a property based on a database of real estate transactions, account for factors like recent nearby sales of comparable property. A BPO is a real estate broker’s opinion on valuation of a property based on an exterior inspection of that property and a comparison to similar properties recently sold nearby.

of. [Accredited] is acknowledging that their values are inflated. **There should be a 0% variance from an originator[']s standpoint.** [Accredited] is saying that [it] knows and is okay with [its] values being off by up to 15%. Some would say this is predatory and criminal. How would investors react if we say that 20% of the pool have values off by 15%? If we are comfortable buying these loans, we should be comfortable telling investors.

54. Besides objecting to the use of any tolerance, Credit Suisse personnel sought a more stringent variance, having considered Credit Suisse's 15% variance too lenient.

55. In early 2007, the Head of Credit and Underwriting proposed that Credit Suisse address inflated appraisal values by tightening its variance tolerances to 10% for loans with LTVs below 75%, and to 5% for loans with LTVs above 75%. In particular, this shift was meant to "address the issue of inflated appraisal values and one of the issues that create the high severity numbers we are seeing today." His supervisor, the Head of the RMBS Conduit, responded: "I'd like to see what % of our current production would be effected [sic] by the new guidelines versus the old guidelines. Also, would like to see statistics on BPO variances over the last 6 months and values we ultimately used. I'm trying to gauge the volume impact and level of customer interaction that will be required with these changes."

56. Credit Suisse's internal analysis showed that 30% to 40% of the loans it reviewed and approved in the prior six months would have been rejected if it had used a 5% tolerance. Credit Suisse did not implement any tolerance change for two months, but then only reducing tolerances to 10% solely for loans with LTVs over 90%, leaving tolerances at 15% for all other loans.

57. Credit Suisse's 15% tolerance contradicted the standard representations and warranties set forth in the Offering Materials that no loans had an LTV or a CLTV ratio greater than 100%, that the most recent valuation of the related mortgaged property was used in calculating the CLTV ratio set forth in the MLS, and that the MLS was true and correct in all material respects as of the closing date.

58. An analysis performed by the Bureau in this case found that over 58% of the 64,735 loans reviewed showed that either the original appraised value was unsupported or there was insufficient data to support the result. Specifically, of the 64,735 reviewed loans, only 30,977 – less than half – had sufficient data related to an AVM, BPO, or desk review. Of these 30,977 loans, the appraisals for 3,947 of those loans – almost 13% – were unsupported by Credit Suisse’s AVM, BPO, or desk review.

### **VIII. Credit Suisse Drove Volume Over Quality.**

59. Credit Suisse’s RMBS business faced significant competition to acquire loans to securitize, which meant that it was under pressure to reject as few mortgage loans as possible during due diligence – regardless of credit quality. Aside from risking reduction in the loan pool available for securitization and thus decreasing its earning potential, Credit Suisse feared exclusion from originator loan pool auctions if it rejected more loans or imposed more stringent underwriting standards than its peers.

60. This stiff competition led Credit Suisse to provide originators with incentives of enhanced payments based on loan volume rather than loan quality. These incentives were rarely reviewed internally by Credit Suisse and encouraged the origination of risky loans by enticing originators to churn out poorly underwritten and even fraudulent loans solely to generate volume. Not only did these incentives reward loan originators for delivering defective loans, they also, as a Credit Suisse trader put it, “encourage[d] [originators] to continue delivering [Credit Suisse] crap,” as the purpose of such incentives was to drive volume by guaranteeing future business. Traders within Credit Suisse voiced repeated concern that incentives “are purely volume based, and not tied to performance,” and that “[o]nce they are awarded they become almost life tenure and are seldom reviewed.”

61. Under this framework, loan quality was irrelevant to compensation. By tying compensation to the volume of loans originated, Credit Suisse encouraged these securitization players to overlook deficient loans and approve them for purchase.

62. Credit Suisse also failed to maintain a reporting structure conducive to the independent operation of the credit and sales groups. Instead, Credit Suisse's credit and sales functions both reported to the same individual, despite the two groups' conflicting purposes. This structure presented a significant conflict of interest. Indeed, in a 2007 audit, McKinsey & Company observed this conflict and recommended separate reporting lines be created. And one of Credit Suisse's Chief Operating Officers testified that this was a "natural conflict."

63. Credit Suisse employees recognized the improper influence that the Head of its RMBS Conduit had over credit decisions. For example, when the RMBS Conduit Head instructed Credit Suisse staff to loosen prior guidelines, and thus buy riskier loans for securitization, one trader complained:

This is what I deal with all day. The man has lost his mind. Start at the bottom and read this trial... Instead of trying to sell bonds, I spend my time playing defense from a guy supposedly on my team who won't stop waiving credit guidelines until we have taken on so much water the firm will pull the plug. Trust me, when this Titanic goes down, [the Head of the RMBS Conduit] will be the guy on the bow proclaiming "I am the king of the world!!!!!!".

64. Credit Suisse's originator monitoring policies were also deficient. Credit Suisse: (1) altered its originator monitoring reports to eliminate objective benchmarks and omit critical data for evaluating originators; (2) failed to isolate its originator "Watch List" committee from the influence of its sales team and its profit objectives; (3) did not take corrective action against problematic originators; (4) did not have feedback loops or otherwise share critical quality control information across its RMBS group; (5) "encouraged originators to continue delivering crap" by paying volume-based premiums that became "life tenure" once awarded; and (6) allowed

originators to dictate the number of loans it would diligence.

65. These lax controls allowed unscrupulous originators to flood the Trusts with noncompliant loans. Credit Suisse securitized loans from:

- a. Originators at the bottom of its relative ranking scale;
- b. Originators that issued loans that Credit Suisse traders described as “shit,” “utter complete garbage,” and “complete crap”;
- c. Originators it had sued for selling subpar loans;
- d. Originators it flagged as deficient;
- e. Originators it believed were in “fraud status”;
- f. Originators that were suspended or terminated by the closing date of the offering;
- g. Originators from which it routinely rejected thousands of loans; and
- h. Originators that its quality control found had unacceptable critical error thresholds.

66. This includes over 84,000 loans from originators that Credit Suisse found had critical error rates over 5% – the rate that proves an originator was not correctly underwriting loans. And it includes over 22,000 loans from originators that exceeded Credit Suisse’s own internal 20% critical default threshold.

#### **IX. Quality Control Process.**

67. After buying loans, Credit Suisse performed quality-control reviews on samples of loans to confirm the accuracy of due diligence, identify defective loans, and flag problematic originators for closer monitoring, suspension, or termination.

68. The Offering Materials touted Credit Suisse’s due diligence and quality control, representing that:

- It employed “certain quality assurances designed to ensure” that underwriting guidelines were properly applied.

- It had a “rigorous due diligence process” for reviewing loans.
- It conducted “quality control” reviews on its loans after purchasing or originating them.
- “Credit Suisse senior underwriters make final loan decisions,” not third-party contractors like Credit Suisse’s fulfillment centers.
- Credit Suisse employed “quality assurance procedures designed to ensure” that its bulk originators “properly applied the underwriting criteria designated by the sponsor.”

Conversely, the Offering Materials omitted that:

- Credit Suisse purchased and securitized unsampled portions of loan regardless of how many loans were defective in the sampled pool.
- Credit Suisse purchased and securitized loans from originators that had a history of disproportionately high delinquency rates for their loans.
- Credit Suisse purchased and securitized loans from originators that had poor records of repurchasing problematic loans.
- Credit Suisse purchased and securitized loans from originators that had been placed on various originator Watch Lists due to poor performance.
- Credit Suisse purchased and securitized loans from originators that were either inactive and/or terminated and no longer approved to sell loans to Credit Suisse.
- Credit Suisse purchased and securitized loans that it would have refused to purchase if it were buying for its own account.
- Credit Suisse traders advocated for stricter internal policies regarding purchasing and securitizing reduced and no-doc mortgage loans.
- Credit Suisse’s Watch List Committee rarely met and did not effectively scrutinize originators on the Watch Lists.
- Credit Suisse’s fulfillment centers and underwriting had “systemic problems.”
- Loans originated through Credit Suisse’s wholesale channel performed “terribly” and the performance was considered internally to be “crap.”
- Credit Suisse viewed many of its bulk originators as selling subprime loans, but nonetheless treated these originators as non-subprime to avoid its internal

requirement that one hundred percent of subprime loans be subject to pre-acquisition due diligence.

- Credit Suisse securitized loans that whole loan sale purchasers identified as defective in due diligence.

69. Credit Suisse's quality control process entailed a review of a sample of loans that Credit Suisse previously acquired or originated for securitization. The quality control process should have identified the defective loans that could be "put back" to loan originators, and flagged problematic originators for closer monitoring, suspension, or termination.

70. Credit Suisse informed various investors and ratings agencies that it conducted quality control review on a sample of 3% – 5% of the loans it acquired for securitization. Credit Suisse contracted with vendors to provide it with monthly quality control reports ("QC Reports"). Credit Suisse either neglected to conduct any quality control whatsoever on originators or ignored results showing high levels of defective, delinquent, and defaulting loans.

71. During the relevant period, Credit Suisse's quality control vendors reported, overall, that more than 25% of the loans that they reviewed were "ineligible" because of credit, compliance, or valuation defects. The QC Reports showed that the Trusts contained scores of loans acquired from shoddy originators – those flagged for originating loans with "critical" issues, on internal "Watch Lists," that had been suspended or terminated, or whose loans Credit Suisse traders described as "crap" and "utter garbage." To illustrate:

- Three originators who were responsible for the origination of 32% of the loans in the HEAT 2006-7 trust had a QC Scorecard critical rate of "High," with over 64% of the wholesale bulk and mini-bulk loans in this Trust having a rankings grade of four or worse (with one being the highest grade and five being the lowest);
- Twenty-three originators accounting for approximately 47% of the loans in the HEMT 2006-6 Trust were on a "Repurchase Watch List" generated less than three weeks before the Trust's closing date;
- Six originators constituting approximately 57% of the loans in the HEAT 2006-8

Trust were among the “Worst Originators” on the “Aging Put Back and Repurchase Report” issued two months before the securitization’s closing date; and

- Two originators accounting for roughly 30% of the loans in HEAT 2006-8 and three originators accounting for approximately 25% of the loans in HEAT 2007-1 were “Suspended” at the time of the respective closing dates for both of these Subject Trusts.

72. Credit Suisse employees observed in emails that the quality control results showed problems with the loans. A senior Credit Suisse trader wrote in a January 2007 email to one of the Co-Heads of the RMBS business about the Correspondent channel loans, “[W]hen we have a competent QC firm do an underwriting review, they flag all kinds of errors that our fulfillment [sic] centers did not catch. Moreover, our very own underwriting group agrees with the QC firm rather than our fulfillment [sic] center. I think a lot of the problems stem from the fact that our conduit and underwriting group send mixed messages. One [sic] on the one hand they profess horror that our deals are defaulting like banana republics, but on the other hand every time we try to tighten up our underwriting processes they push back claiming it makes us uncompetitive. Here are our takeaways: 1) Our fulfillment [sic] process is broken. Either they don’t know how to do their jobs, or they don’t report defects because the conduit doesn’t want them to create waves. 2) Our underwriting group needs independence. 3) Our conduit needs to spend less time marketing to sales, and more time looking at the gross operation defects of our business.”

73. Credit Suisse’s Co-Head of Transaction Management sought to avoid documented confirmation of the quality control results, which could serve as a written record of defects; in a January 2007 email, the Credit Suisse Director wrote: “I am concerned that we have so many piecemeal QC/DD processes, internally and externally, that some of these reports could serve as no more than a written record of some potential defect that would require a repurchase [of loans] from a [RMBS] deal, but we do not have sufficient resources to verify the information or complete the repurchase. This is one of the concerns we’ve always had w/ [our vendor]’s role in the deals

– we want to leverage your resources to improve the performance of our deals and improve our business, but not receive so much haphazard information that we do no more than create a record of potential problems.”

74. In March 2007, several Credit Suisse employees discussed altering Credit Suisse’s quality control process to focus primarily on loans that, upon a breach of representations and warranties, Credit Suisse could “put-back” to a third-party originator, *i.e.*, – require the originator to repurchase or substitute the deficient loan. Under this revised approach, Credit Suisse would generally exclude from its quality control review any loan that Credit Suisse could not “put-back” to other parties. All loans acquired through the wholesale channel and originated by Credit Suisse itself were thus excluded from quality control review even though these loans were originated through the worst performing of all four channels. Credit Suisse’s Co-Head of Transaction Management suggested that he was recommending this change for discussion to avoid the previous approach by which a host of loans were reviewed, regardless of opportunity for put-back to third-party originators, and generated negative results that created a record of possible breaches of representations and warranties.

75. In May 2007, the Co-Head of the Structured Products Group met with the Co-Head of Transaction Management and the Head of Credit and Underwriting to discuss implementing this reduction of quality control review.

76. For example, in May 2007, a Credit Suisse Servicing and Oversight employee identified two Wholesale loans “we will be taking a beating on due to value.” The Servicing and Oversight employee wrote, “I would think that we would want to see loans like these that seem to represent confirmed problems, especially on our own originations. Why do we have an appraisal watch list and broker oversight group if we aren’t going to review the bad ones and take action

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

77. Another example is in June 2007, a Credit Suisse Underwriting employee identified 44 loans from Wholesale – originated by Credit Suisse itself – that had gone 60 days delinquent. Credit Suisse's Co-Head of Transaction Management wrote in response:

As we've been discussing for a few months, in my opinion, if we already know: that the loans aren't performing, all of the characteristics of the loans, who the brokers were, the FC [fulfillment center], the individuals who underwrote the loans etc., the only thing QC will tell us is that there were compliance errors, occupancy misreps etc. I think we already know we have systemic problems in FC/UW [fulfillment centers/underwriting] re both compliance and credit.

The downside of QC'ing these 44 loans is, after we get the QC results, we will be obligated to repurchase a fair chunk of the loans from deals, assuming the loans are securitized and the QC results look like the QC we've done in the past. So based on a wholesale QC historical fail rate of over 35% (major rep defects), the avg bal of wholesale loans and the loss severities, it is reasonable to expect this QC may cost us a few million dollars.

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

**X. Early Payment Defaults.**

79. Credit Suisse made tens of millions of dollars through settling EPD claims with loan originators for loans in the Trusts that had defaulted on payments within the EPD period, without remitting that money to the Trusts that owned the loans. Although the Trusts were the owners of the delinquent loans, Credit Suisse did not repurchase the loans from the Trusts and put them back to the originators for the benefit of the Trust. Instead, Credit Suisse settled these claims by accepting monetary payments from the originators, which it kept for itself while the Trusts remained stuck with the delinquent loans.

80. Credit Suisse retained a contractual right in its Master Loan Purchase Agreements (“MLPAs”) with mortgage loan originators to require the originator to repurchase any loan that breached an EPD provision.

81. Through its enforcement of the EPD provision, Credit Suisse generated substantial revenue, as follows:

- a. in 2005, Credit Suisse received \$195 million in total EPD payments;
- b. for the first nine months of 2006, Credit Suisse received \$334 million in total EPD payments; and
- c. in 2007, Credit Suisse reached \$499 million in EPD payments.

82. In addition to putting the loans back to originators, Credit Suisse’s internal guidelines also allowed for Credit Suisse to settle EPD claims by a variety of other extra-contractual methods. This included accepting cash payments from the originators representing the diminished value of the loans in lieu of actually putting back the loans themselves.

83. Through most of 2005, some of the PSAs between Credit Suisse and the RMBS trusts required Credit Suisse to repurchase delinquent loans from the trusts in cases of an EPD. Credit Suisse then sought to remove the EPD requirement from the PSAs.

84. Realizing that they were “leaving money on the table” by not aggressively pursuing EPD claims for securitized loans, Credit Suisse then incorporated language into its PSAs that no longer required Credit Suisse to put back loans to originators that had already been sold and securitized.

85. This change to the PSAs was made for the benefit of Credit Suisse at the expense of the trusts. No longer was Credit Suisse required to repurchase the defaulted loan from the trusts and put it back to the originator for the benefit of the trusts. Instead it only had the option of doing so. Increasingly, Credit Suisse chose not to exercise that option on behalf of the trusts.

86. Credit Suisse thereby enriched itself at the expense of the trusts by settling the EPD claims with the originator for cash and then simply pocketing the cash for itself. The trusts remained saddled with the defective loans, and without cash compensation.

87. Credit Suisse took advantage of this loophole to generate tens of millions of dollars in cash settlements that it kept for itself without passing that money along to the trusts. Its cash settlements skyrocketed from \$21.9 million in 2005 (when it was in some cases obligated to return that money to the trusts) to \$172 million in 2007 (when it was not).

88. As one Credit Suisse employee wrote in a January 17, 2007 email:

[W]e receive CTO [a form of EPD payment] \$ from originators for delq loans in our deals but we do not always repurchase the related loans from the deals or pass the \$ to the deals, ... I know from my experience talking to our bond investors every day about EPDs that this would be a surprise and concern to them.

89. The same employee stated that Credit Suisse should, at a minimum, use its Quality Control department to ensure that such loans did not also contain breaches of the securitization representations and warranties, warning that Credit Suisse would be obligated to repurchase the loans instead of keeping the settlement monies for its own profit.

90. Credit Suisse did not review defective loans beyond the EPD claims, even though an EPD violation was well established as a red flag for possible breaches of underwriting standards or other loan origination problems, including fraud. In a Credit Suisse Fixed Income Research Report entitled “Early Payment Default, Repurchase and the Impact on Home Equity ABS” published on September 5, 2006, Credit Suisse stated that “most breaches are discovered only after a borrower fails to make one or more payments.” The report went on to state that “the occurrence of an EPD is more likely driven by weak underwriting standards and potential fraud.” Similarly, the Head of the RMBS Conduit wrote in an email that “a loan that misses its first pay is almost always a fraud.”

91. Instead, by using EPD as a basis for put back demands to originators, Credit Suisse avoided creating a record of breaches of representations and warranties relating to underwriting standards, which would have otherwise triggered Credit Suisse’s repurchase obligations to the trust. Credit Suisse’s approach toward EPD claims for loans held in securitizations was simple and straightforward: pursue the EPD claim without investigating the possibility of potential PSA representation and warranty violations.

92. The Offering Materials made material representations about Credit Suisse’s obligations to repurchase loans from the Trusts, including that:

- Credit Suisse would repurchase loans whenever it discovered a “breach of any representation or warranty that materially and adversely affects the interest of the certificate holders in that mortgage loan.”

- On the closing date, the depositor would convey “without recourse to the trustee in trust for the benefit of the security holders all right, title and interest of the depositor in and to each mortgage loan and other assets included in the trust fund, including all principal and interest received on or with respect to such mortgage loans.”

Further, the Offering Materials omitted that:

- Credit Suisse retained and did not remit to the Trusts proceeds from settlements with originators arising from securitized loans, including for EPD claims.

## **XI. The Princeton Office was Integral to Credit Suisse’s RMBS Business.**

93. Within Credit Suisse’s vertically integrated RMBS business, Credit Suisse’s offices in Princeton was one of Credit Suisse’s “main centers of operation” and “key” to Credit Suisse’s RMBS business. Princeton was responsible for mortgage acquisitions, guideline-underwriting work, due diligence, and quality control. Princeton characterized loans as eligible or ineligible for securitization, and provided information used to describe the loans in the Offering Materials. Credit Suisse relied largely on Princeton, among others, for the accuracy of the representations it made in those documents, including the key representations at issue here.

94. Specifically, Princeton (1) was responsible for creating the underwriting guidelines that were placed in the Offering Materials, (2) was substantially involved in the acquisition of the mortgages that were essential to the RMBS process, and (3) the due diligence was the only diligence done on the loans – functionally the Princeton office’s underwriting guidelines were included in every HEAT and HEMT prospectus supplement.

95. Additionally, Princeton helped secure ratings from rating agencies and insurance from monoline insurers. Princeton also prepared and presented PitchBooks to prospective investors and directly pitched the RMBS Offerings to investors through on-site visits to Princeton, marketing calls, and other communications.

96. These investor presentations touted Princeton’s role in Credit Suisse’s RMBS business and represented that Credit Suisse acquired quality loans by, among other things, using

stringent underwriting guidelines, focusing on fraud, and separating quality assurance from sales and trading.

### **CONCLUSIONS OF LAW**

97. All of the RMBS Offerings are within the scope of the Securities Law under N.J.S.A. 49:3-51. Section 51(c) extends the scope of the statute beyond sales to New Jersey investors to any offer that “originates from this State,” “whether or not either party is then present in this State.” Under the NJUSL, an “offer” “includes every attempt or offer to dispose of, or solicitation of any offer to buy, a security or interest in a security or investment advisory services for value.” N.J.S.A. 49:3-49(j). An offer “originates from” New Jersey when there is a “direct link” between offer-related activities in the originating state and the at issue transactions. The “direct link” standard sweeps “broadly to protect the investing public by reaching the preparation of materials generally distributed to investors interested in a given securities offering”; offers “need not actually be made in the originating state.” Under this standard, the RMBS Offerings originated from New Jersey, and thus fall within the Bureau’s regulatory authority.

98. Credit Suisse violated Section 52(b) by making untrue statements of a material fact and/or omitting to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, in connection with the RMBS Offerings, including the following:

- a. Loans were originated “generally in accordance” with applicable “underwriting guidelines”;
- b. Exceptions to underwriting guidelines were made only when adequate compensating factors existed;
- c. Each originator not affiliated with Credit Suisse was experienced in originating loans “in accordance with accepted practices and prudent guidelines”;

- d. Credit Suisse's origination, underwriting, servicing, and collection practices were "legal, proper, prudent, and customary";
- e. Credit Suisse overrode due diligence reports and securitized loans even though no compensating factors were listed;
- f. Credit Suisse employed "certain quality assurances designed to ensure" that underwriting guidelines were properly applied;
- g. Credit Suisse had a "rigorous due diligence process" for reviewing loans;
- h. Credit Suisse conducted "quality control" reviews on its loans after purchasing or originating them;
- i. "Credit Suisse senior underwriters make final loan decisions," not third-party contractors like Credit Suisse's fulfillment centers;
- j. Credit Suisse employed "quality assurance procedures designed to ensure" that its bulk originators "properly applied the underwriting criteria designated by the sponsor";
- k. Credit Suisse purchased and securitized unsampled portions of loan pools regardless of how many loans were defective in the sampled pool;
- l. Credit Suisse purchased and securitized loans from originators that had a history of disproportionately high delinquency rates for their loans;
- m. Credit Suisse purchased and securitized loans from originators that had poor records of repurchasing problematic loans;
- n. Credit Suisse purchased and securitized loans from originators that had been placed on various originator Watch Lists due to poor performance;
- o. Credit Suisse purchased and securitized loans from originators that were either inactive and/or terminated and no longer approved to sell loans to Credit Suisse;
- p. Credit Suisse purchased and securitized loans that it would have refused to purchase if it were buying for its own account;
- q. Credit Suisse traders advocated for stricter internal policies regarding purchasing and securitizing reduced and no-doc mortgage loans;
- r. Credit Suisse's Watch List Committee rarely met and did not effectively scrutinize originators on the Watch Lists;
- s. Credit Suisse's fulfillment centers and underwriting had "systemic problems";

- t. Loans originated through Credit Suisse's wholesale channel performed "terribly" and the performance was considered internally to be "crap";
- u. Credit Suisse viewed many of its bulk originators as selling subprime loans, but nonetheless treated these originators as non-subprime to avoid its internal requirement that one hundred percent of subprime loans be subject to pre-acquisition due diligence;
- v. Credit Suisse securitized loans that whole loan sale purchasers identified as defective in due diligence;
- w. Characteristics set forth in the mortgage loan schedules were "true and correct in all material respects as of the Cut-off Date";
- x. The most recent valuation of the mortgaged properties were used in calculating CLTV ratios;
- y. At origination, no loan had LTV or CLTV ratios above 100%;
- z. Credit Suisse would repurchase loans [from the Trusts] whenever it discovered a "breach of any representation or warranty that materially and adversely affects the interest of the certificate holders in that mortgage loan";
- aa. On the closing date, Credit Suisse would convey "without recourse to the trustee in trust for the benefit of the security holders all right, title and interest of the depositor in and to each mortgage loan and other assets included in the trust fund, including all principal and interest received on or with respect to such mortgage loans"; and
- bb. Credit Suisse retained and did not remit to the Trusts proceeds from settlements with originators arising from securitized loans, including for EPD claims.

99. Credit Suisse violated Section 52(c) by engaging in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the RMBS Offerings, including the following:

- a. incentivizing the origination and securitization of deficient loans by emphasizing volume over quality and creating a reporting structure that lacked independence and ensured misaligned incentives;
- b. ignoring breaches of underwriting guidelines by changing vendors' loan grades or waiving in loans with failing grades;

- c. securitizing loans from originators that were suspended, terminated, or on internal watch lists;
- d. keeping the proceeds when it settled EPD claims, instead of remitting them to the Trusts;
- e. making material misrepresentations and omitting material facts in its Offering Materials;
- f. purchasing and securitizing loans from loan pools that due diligence sampling had demonstrated included a significant number of loans that did not meet the underwriters' guidelines; and
- g. manipulating the CLTV ratios to overstate homeowners' equity.

100. The Bureau Chief finds the following relief appropriate and in the public interest.

**THEREFORE**, it is on this 25th day of October 2022, **ORDERED** and **AGREED** that:

101. Credit Suisse shall pay to the Bureau the Settlement Amount of \$495,000,000, which shall be allocated as follows:

- a. \$300,000,000 as restitution pursuant to N.J.S.A. 49:3-69(a). Any restitution funds remaining after the claims administration process shall revert to the Bureau, to be utilized by the Department of Law and Public Safety for further investigation and enforcement of the Securities Law, as well as other efforts to prevent securities fraud and to protect the investing public. For the avoidance of doubt, in accordance with I.R.C. § 162(f), and Treasury Regulation §1.162-21(b), \$300,000,000 of the Settlement Amount is restitution to restore investors for the potential violation of a law. The Bureau, or its designee, shall use reasonable best efforts to return as much of the \$300,000,000 restitution amount to investors as possible. As applicable, the Bureau, or the appropriate State agency, shall report this amount to the IRS in compliance with I.R.C. § 6050X(a)(1) and Treasury

Regulation §1.6050X-1 or any other applicable regulations, and shall report the settlement amount on Form 1098-F in the appropriate boxes of such form. For the avoidance of doubt, the Bureau, or the appropriate State agency, shall report all amounts distributed to investors as restitution in Box 3 on Form 1098-F.

b. \$100,000,000 as a civil monetary penalty pursuant to N.J.S.A. 49:3-70.1. The civil monetary penalty shall, subject to paragraphs 102 to 104 of this ACO, be deposited in the Securities Enforcement Fund pursuant to N.J.S.A. 49:3-66.1.

i. \$10,000,000 of the foregoing civil monetary penalty will be utilized by the Department of Law and Public Safety for further investigation and enforcement actions pursuant to the Securities Law, as well as other efforts to prevent securities fraud and to protect the investing public.

c. The remainder of the Settlement Amount shall be used to pay investigation, litigation, and restitution costs and fees, including for the claims administration process. Any remainder after costs and fees are paid shall revert to the Bureau and be used in the Bureau Chief's discretion.

102. By October 24, 2022, Credit Suisse shall pay the Settlement Amount by electronic wire transfer into Lowenstein Sandler LLP's attorney trust account ("Trust Account"), in accordance with the wiring instructions provided by the Bureau.

103. Lowenstein Sandler LLP shall hold the Settlement Amount in escrow in the Trust Account until the Consent Judgment is entered. After entry of the Consent Judgment, Lowenstein Sandler LLP shall hold or release the Settlement Amount as directed by the Bureau.

104. Effective at the time Credit Suisse directs the wire transfer of the Settlement Amount pursuant to paragraph 102 above:

- a. The Settlement Amount shall be deemed irrevocably transferred to the Bureau.
- b. Credit Suisse permanently and irrevocably relinquishes dominion and all legal and equitable right, title, and interest in the Settlement Amount. The Settlement Amount, the Trust Account, and all amounts on deposit therein from time to time, including but not limited to the Settlement Amount, are not, and shall not be deemed to be, property of the estate of Credit Suisse or any Person (including but not limited to any of the Credit Suisse Released Parties<sup>5</sup>) within the meaning of 11 U.S.C. § 541 or any similar provision of any other law, and each of the Credit Suisse Released Parties hereby disclaims, releases, and waives any right to assert to the contrary in any proceeding in any forum whatsoever. None of the Respondents or any of the Credit Suisse Released Parties shall at any time have any right, interest, or title in or to, or custody, control, or possession of, the Trust Account or any amounts on deposit therein, including but not limited to the Settlement

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<sup>5</sup> As set forth in paragraph 107(d) herein, Credit Suisse Released Parties means Credit Suisse (as defined in this Administrative Consent Order), its affiliates, predecessors, successors and assigns, and its current and former directors, trustees, partners, executors, members, agents, officers, employees, representatives, attorneys, consultants and administrators, individually and collectively.

Amount, and therefore shall not have the ability to pledge, convey, hypothecate, or grant as security all or any portion of the Settlement Amount, the Trust Account, or any other amounts on deposit in the Trust Account.

- c. Lowenstein Sandler LLP shall be in sole possession, custody, and control of the Trust Account and all amounts on deposit therein from time to time, including but not limited to the Settlement Amount, subject to the terms of this ACO and the Consent Judgment, as applicable, and shall not act as custodian or trustee of or for the benefit of any of the Respondents or the Credit Suisse Released Parties for any purpose, including but not limited to perfecting a security interest therein, and no creditor of the Bureau or the Credit Suisse Released Parties shall have the right to have or to hold or otherwise attach or seize all or any portion of the Trust Account or the Settlement Amount as collateral for or in satisfaction of any obligation, and shall not be able to obtain a security interest in the Settlement Amount or any other funds in the Trust Account.
- d. Each of the Respondents and the Credit Suisse Released Parties hereby disclaims, releases, and waives any right it may have to assert that it has any right, interest, or title (equitable or otherwise) to the Settlement Amount and the Trust Account or any amounts on deposit therein from time to time or any amounts on deposit therein from time to time.

105. Restitution, as set forth in paragraph 101 of this ACO, shall be administered by a claims administrator (“Claims Administrator”) chosen by the Bureau. As soon as practicable

following the wire transfer of the Settlement Amount pursuant to paragraph 102 of this ACO, the Bureau shall direct Lowenstein Sandler LLP to release the civil monetary penalty and restitution set forth in paragraph 101 of this ACO from the Trust Account to an escrow agent (“Escrow Agent”) or as otherwise directed by the Bureau. The Escrow Agent or such financial institution will hold in trust the restitution funds during the claims administration process, including while a claims administrator is chosen by the Bureau to administer the restitution. The Bureau shall have sole discretion in the claims administration process, including to determine to whom and in what amount restitution shall be allocated. The Bureau shall bear all costs associated with the claims administration process, except that Credit Suisse agrees to cooperate with the Bureau and the Claims Administrator in the claims administration process, and any costs associated with such cooperation will be borne by Credit Suisse. Any restitution funds remaining after the claims administration process concludes shall be returned to the Bureau Chief and used according to the Bureau Chief’s sole discretion.

106. Credit Suisse shall not (1) violate the Securities Law; or (2) engage in conduct that violates the terms and conditions of this ACO and the Consent Judgment.

#### **ADDITIONAL PROVISIONS**

107. The Enforcement Action and this administrative matter are being settled concurrently through the execution and entry of this ACO and by way of a separate Consent Judgment that is incorporated by reference (together, the ACO and the Consent Judgment, the “Orders”).

- a. Respondents agree that any violation of the Consent Judgment will constitute a violation of this ACO, and any violation of this ACO will constitute a violation of the Consent Judgment.

- b. The Orders contain the entire settlement terms between the Parties.
- c. No employee, attorney, official or representative of the Bureau or the State of New Jersey has made any additional promise or representation to Credit Suisse regarding the Orders. No employee, attorney, officer, director or representative of Credit Suisse has made any additional promise or representation to the Bureau or the State of New Jersey regarding the Orders.
- d. Subject to the exceptions set forth in this paragraph, in consideration of Credit Suisse's obligations under this ACO and the Consent Judgment, including Credit Suisse's remittance of the Settlement Payment provided for herein and therein, and upon entry of the Consent Judgment, the sufficiency of which are hereby acknowledged, the Bureau fully and finally releases, waives, and forever discharges Credit Suisse, its affiliates, predecessors, successors and assigns, and its current and former directors, trustees, partners, executors, members, agents, officers, employees, representatives, attorneys, consultants and administrators, individually and collectively (the "Credit Suisse Released Parties"), from all claims the Bureau asserted, or could have asserted, in the Enforcement Action against Credit Suisse related to the Relevant Conduct. Notwithstanding the foregoing, the Bureau specifically reserves and does not release: (1) any criminal, civil, or administrative liability arising under New Jersey's tax revenue code; (2) any criminal liability; (3) any liability to the State of New Jersey (or its departments and agencies) for any conduct other than the

Relevant Conduct; (4) any liability based upon obligations created by the Orders, and any action to enforce the Orders; or (5) any private right of action.

- e. In consideration of the releases by the Bureau, upon entry of the Consent Judgment, Credit Suisse fully and finally releases, waives and forever discharges the Bureau from all claims that Credit Suisse asserted, or could have asserted, against the Bureau, its affiliates, predecessors, successors and assigns, and its current and former directors, trustees, partners, executors, members, agents, officers, employees, representatives, attorneys, consultants and administrators, individually and collectively, related to the Relevant Conduct and the Bureau's investigation and prosecution of the Relevant Conduct.
- f. In the event of the entry of a final order of a court of competent jurisdiction determining the transfer of the Settlement Amount or any portion thereof to or from the Trust Account, or the transfer of the restitution or any portion thereof to or from the Escrow Agent and/or the Claims Administrator, as applicable, to be a preference, voidable transfer, fraudulent transfer, or similar transaction, and if any portion thereof is required to be returned, and such amount is not promptly deposited into the Trust Account or with the Escrow Agent (as applicable) by others, then, at the election of the Bureau, the Bureau Chief may move the Court (and Credit Suisse waives the right to contest such motion) to vacate the Consent Judgment and set aside the

release given, in which event the Bureau, the Bureau Chief, and Credit Suisse shall be restored to their litigation positions as of October 14, 2022.

- g. Notwithstanding anything to the contrary in this ACO, the Consent Judgment, or any other document, if Credit Suisse fails to comply with or violates any provision of the Orders, the Bureau Chief may take action permitted by law or equity, including, but not limited to, seeking specific performance and/or enforcement of the Orders, entering a summary order, and/or revoking or suspending the agent and investment adviser representative registration of Credit Suisse Securities (USA) LLC, pursuant to N.J.S.A. 49:3-58. In that event, Credit Suisse's rights to answer, oppose, contest, move to vacate, assert defenses, seek judicial review, appeal, request a hearing or otherwise challenge such action by the Bureau Chief are deemed waived.
- h. Notwithstanding anything to the contrary in this ACO, the Consent Judgment, or any other document, Credit Suisse agrees that, for purposes of this matter or future proceedings to enforce the Orders, this ACO shall have the same effect as if proven and so-ordered after a full hearing pursuant to N.J.S.A. 52:14B-1 et seq.
- i. Notwithstanding anything to the contrary in this ACO, the Consent Judgment, or any other document, Credit Suisse and the Bureau hereby stipulate and agree that (a) the entire Settlement Amount constitutes a valid and non-dischargeable debt, and a claim against each of the Respondents, under the United States Bankruptcy Code, including but not limited to 11

U.S.C. §§ 523(a)(2), (a)(6), (a)(7), and (a)(19) and 1141(d)(6); (b) neither any Respondent nor anyone acting on behalf of any Respondent shall seek to reduce, modify, disallow, or otherwise adversely impact any Respondent's joint and several obligation to pay the Settlement Amount; (c) each of the Respondents irrevocably waives, settles, relinquishes, and releases any right to assert that the Settlement Amount is dischargeable; (d) the facts alleged in the Amended Complaint will be taken as true, without further proof, in any subsequent civil litigation (including through a proof of claim and/or adversary proceeding in any bankruptcy case in which any Respondent is a debtor) or administrative action by or on behalf of the Bureau to enforce its rights to any payment pursuant to the Consent Judgment or ACO, including but not limited to a nondischargeability complaint in any bankruptcy case; (e) the facts alleged in the Amended Complaint establish all elements necessary to sustain an action by or on behalf of the Bureau pursuant to Sections 523 and/or 1141 of the Bankruptcy Code, 11 U.S.C. §§ 523 and 1141, or any related law in any other insolvency proceeding, this ACO and the Consent Judgment will have collateral estoppel effect against Credit Suisse for such purposes, and Respondents irrevocably waive the right to dispute any of the facts alleged in the Amended Complaint in any such action; and (f) if an action alleging that the Settlement Amount constitutes a nondischargeable debt or claim is commenced against any or all of the Respondents by or on behalf of the Bureau, Respondents each hereby irrevocably consent to entry of judgment

against each of the Respondents in such action declaring that the Settlement Amount is a valid and nondischargeable debt and waives the right to appeal from, seek reconsideration, rehearing, or reargument of, or otherwise challenge any such judgment.

- j. Upon the payment of the Settlement Amount into the Trust Account, (a) this ACO shall not be, and shall not be deemed or considered to be, executory, as that term has been interpreted under 11 U.S.C. § 365, and (b) no further obligations of Credit Suisse pursuant to this ACO or any further effort or responsibility to defend against any appeal or proceeding seeking judicial review of any order contemplated by this ACO shall render the settlement or all or any portion of this ACO executory, as that term has been interpreted under 11 U.S.C. § 365.
- k. The commencement by or against Credit Suisse of a case or proceeding under Title 11 of the United States Code, any state insolvency or receivership law, or any state law relating to general assignment for the benefit of creditors, composition, marshaling, or other similar arrangements and procedures, shall not operate to stay, terminate, cancel, suspend, excuse, delay, impede, or otherwise interfere with or impair (i) the rights, if any, of the Bureau or the Bureau Chief to receive the Settlement Amount pursuant to this Administrative Consent Order, or (ii) the duties of Lowenstein Sandler LLP or the Escrow Agent under this ACO, including but not limited to Lowenstein Sandler LLP's obligation to release the Settlement Amount from the Trust Account consistent with this ACO.

108. Credit Suisse agrees to resolve the issues herein and having had full opportunity to consult with competent counsel, Credit Suisse hereby consents to the jurisdiction of the Bureau Chief and to the entry of this ACO. Respondents also voluntarily waive any right to assert any defenses or to raise any challenges that they otherwise may have had to this ACO. Furthermore, Respondents voluntarily waive an opportunity for a hearing after reasonable notice within the meaning of N.J.S.A. 49:3-58(c)(2).

109. New Jersey law shall govern this ACO and enforcement thereof. All proceedings arising out of this ACO shall be held in New Jersey.

110. Credit Suisse represents that it has read and understands this ACO, that Credit Suisse understands the practical and legal effects of this ACO, and that Credit Suisse agrees to be bound by the terms of this ACO. Credit Suisse further represents it has consulted with competent counsel before entering into this ACO.

111. Respondents each represent and warrant, as of the time they enter into this ACO and as of the time the Settlement Amount is paid, that they are not insolvent and that they will not be rendered insolvent or be left with an unreasonably small capital, within the meaning and for the purposes of Title 11 of the United States Code (including but not limited to sections 101, 547, and 548 thereof) and any similar state and/or foreign law, from the payment of the Settlement Amount. The foregoing representation is made by Respondents themselves, and not by their counsel.

112. Credit Suisse has entered into this Consent Order solely for the purposes of settlement, and nothing contained herein may be taken as or construed to be an admission or concession of any violation of law, rule, or regulation, or of any other matter of fact or law, or of any liability or wrongdoing; (b) no part of this Consent Order, including its statements and commitments, shall constitute evidence of any fault or wrongdoing by Credit Suisse; and (c) this

document and its contents are intended to be used in resolving the Enforcement Action regarding the Relevant Conduct and not by any other party or for any other purpose.

113. No provision or ambiguity in this ACO shall be construed or interpreted adversely to any Party by virtue of its participation in its drafting.

114. The Orders shall bind Respondents, as well as their affiliates, predecessors, successors and assigns, and their current and former directors, trustees, partners, executors, members, agents, officers, employees, representatives, attorneys, consultants, estates, and administrators.

115. Nothing in this ACO shall limit or affect a claim by any third party against Credit Suisse. Credit Suisse shall bear its own legal and other costs and attorneys' fees in connection with this matter, including the costs in preparing the Orders, and performing under each document.

116. The execution and delivery of the ACO and the performance by Respondents of their obligations hereunder are within each such entity's organizational powers and authority, and have been duly authorized by all necessary organizational action.

117. The individuals signing this ACO on behalf of Respondents each represents and warrants that he or she is a duly elected, qualified, and acting officer and/or representative of that entity, and that he or she is authorized to execute and deliver this ACO and bind that Respondent.

118. Nothing contained herein shall in any manner be construed to limit or affect any position that the Bureau, any other government, or any person, including investors, may take in any future or pending action not specifically encompassed herein.

119. If any term or portion of this ACO is held invalid or unenforceable by operation of law or court order, the remaining terms or portion of this ACO shall remain in full force and effect.

120. Credit Suisse shall not represent or imply that any act or practice hereinafter used or engaged in by Credit Suisse has been required or approved, in whole or part, by the State of New Jersey, the Attorney General of New Jersey, the Division of Law, the Bureau Chief, the Bureau or any New Jersey agencies, agents, employees or subdivisions.

121. This ACO may be modified or amended only by a written instrument signed by Credit Suisse and the Bureau Chief and/or their respective counsel.

122. This ACO may be executed in any number of identical counterparts, each of which will be deemed an original but all of which together will constitute one and the same instrument. The Parties agree that the delivery of this ACO may be effected by means of an exchange of facsimile or electronic signatures or other electronic delivery. This ACO shall become effective as of the Effective Date.

Dated: October 25, 2022

NEW JERSEY BUREAU OF SECURITIES

BY: *Amy G. Kopleton*  
Amy G. Kopleton  
Acting Chief

Consent to the Form, Content and Entry of this Administrative Consent Order:

**Respondent Credit Suisse Securities (USA) LLC**

11 Madison Avenue  
New York, New York 10010

By: *Jaclyn A Barnao*

Dated: October 23, 2022

**Respondent Credit Suisse First Boston Mortgage Securities Corp.**

11 Madison Avenue  
New York, New York 10010

By: *Jaclyn A Barnao*

Dated: October 23, 2022

**Respondent DLJ Mortgage Capital, Inc.**

11 Madison Avenue  
New York, New York 10010

By: *Jaclyn A Barnao*

Dated: October 23, 2022

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