

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

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In the matter of the application of :

THE BANK OF NEW YORK MELLON, :
(as Trustee under various Pooling and Servicing :
Agreements and Indenture Trustee under various :
Indentures), :

Petitioner, :

for an order, pursuant to CPLR § 7701, seeking :
judicial instructions and approval of a proposed :
settlement. :

Index No.

VERIFIED PETITION

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Petitioner, The Bank of New York Mellon (“BNY Mellon” or “Trustee”), solely in its capacity as trustee of the five hundred and thirty (530) residential mortgage-securitization trusts listed on Exhibit A hereto (the “Trusts”), by its attorneys Mayer Brown LLP, for its verified petition pursuant to CPLR § 7701, alleges as follows:

INTRODUCTION

1. The Trustee has exercised its good faith judgment that a settlement of potential claims belonging to the Trusts is reasonable. This settlement requires a payment of \$8.5 billion into the Trusts, and the implementation of meaningful mortgage loan servicing improvements. It takes into account, among other things, the legal and factual defenses to the Trustee’s claims, the extraordinary burden and cost of a litigation that could last many years, the inability of the prospective defendant directly liable on the claims to pay a judgment in the amount of the settlement, and the strength of corporate separateness arguments that could shield that entity’s parent company from having to satisfy any judgment. This proceeding is commenced by the Trustee for the purpose of seeking judicial instructions and approval of that settlement.

2. The Trusts were established during the period 2004-2008 through a process known as securitization. In the typical residential mortgage-backed securitization, a loan originator, or “Seller,” sold portfolios of loans secured by mortgages on residential properties (“Mortgage Loans”) to another entity, known as a “Depositor.” The Depositor conveyed the Mortgage Loans to BNY Mellon, as Trustee, to hold in trust. Certificates or notes evidencing various categories of ownership interests in the Trusts were then sold through an underwriter to investors. These investors are called “Certificateholders” or “Noteholders” (referred to herein as “Certificateholders” or “Trust Beneficiaries”). A “Master Servicer” was charged with responsibility for, among other things, collecting debt service payments on the Mortgage Loans, taking any necessary enforcement action against borrowers, and distributing payments on a monthly basis to the Trustee for distribution to the Certificateholders.

3. All but seventeen of the Trusts are evidenced by separate contracts known as Pooling and Servicing Agreements (the “PSAs”) under which BNY Mellon is the trustee. The remainder are evidenced by indentures and related Sale and Servicing Agreements (“SSAs”) under which BNY Mellon is the indenture trustee. The PSAs, indentures, and SSAs are collectively referred to herein as the “Governing Agreements.” They are governed by New York law.

4. Although the Governing Agreements for each of these securitizations are separate agreements that were individually negotiated and, in some instances, display degrees of variation from one another, the terms that are pertinent to the subject matter of the Petition are substantively similar. The Governing Agreements each contain a series of representations and warranties made by each Seller for the benefit of the Trust. These include representations that the Mortgage Loans were underwritten in all material respects in accordance with certain

underwriting guidelines; that the origination, underwriting and collection practices of the Seller and Master Servicer have been legal, prudent and customary in the mortgage lending and servicing business; that the Mortgage Loans conform in all material respects to their descriptions in the investor disclosure documents; and that the Mortgage Loans were originated in accordance with all applicable laws.

5. The Governing Agreements also impose servicing obligations on the Master Servicer, requiring, among other things, that the Master Servicer service and administer the Mortgage Loans in accordance with the terms of the Governing Agreements and the customary and usual standards of practice of prudent mortgage loan servicers.

6. A substantial dispute has arisen concerning the Sellers' alleged breaches of representations and warranties in the Governing Agreements, and the Master Servicer's alleged violations of prudent servicing obligations.

7. These allegations were made beginning in June 2010 by a group of Certificateholders that includes some of the world's largest and most sophisticated investors. This group of investors (the "Institutional Investors") included, or has grown to include, Blackrock Financial Management, Inc. and its affiliates, Pacific Investment Management Company LLC, Federal Home Loan Mortgage Corporation ("Freddie Mac"), Goldman Sachs Asset Management L.P., Maiden Lane LLC, Maiden Lane II LLC, Maiden Lane III LLC,¹ Kore Advisors, L.P., Neuberger Berman Europe Limited, Western Asset Management Company, Metropolitan Life Insurance Company, Trust Company of the West and the affiliated companies controlled by The TCW Group, Inc., Teachers Insurance and Annuity Association of America, Invesco Advisers, Inc., Thrivent Financial for Lutherans, Landesbank Baden-Wuerttemberg and

¹ The Maiden Lane entities were formed by the Federal Reserve Bank of New York, pursuant to Section 13(3) of the Federal Reserve Act, to support lending to financial institutions severely affected by the 2007-2008 economic crisis.

LBBW Asset Management (Ireland) PLC, Dublin, ING Capital LLC, ING Bank fsb, ING Investment Management LLC, New York Life Investment Management LLC, certain Nationwide Insurance entities, certain AEGON entities, Federal Home Loan Bank of Atlanta, Bayerische Landesbank, and Prudential Investment Management, Inc.

8. Collectively, the Institutional Investors' current holdings are in the tens of billions of dollars.

9. The Sellers in each of the Trusts are any or all of Countrywide Home Loans, Inc. ("CHL"), Park Granada LLC, Park Monaco, Inc., Park Sienna LLC and Countrywide LFT LLC. The Master Servicer is BAC Home Loans Servicing, LP, formerly known as Countrywide Home Loans Servicing, LP ("BAC HLS"). For purposes of this Petition, CHL and its parent, Countrywide Financial Corporation ("CFC"), will be referred to collectively as "Countrywide." BAC HLS and its parent, Bank of America Corporation ("BAC"), will be referred to collectively as "Bank of America." The Institutional Investors have alleged that BAC is liable for the obligations of Countrywide with respect to the alleged breaches of the Governing Agreements.²

10. Since November 2010, the Institutional Investors, with the participation of the Trustee, have engaged in extensive, arm's-length negotiations with Countrywide and Bank of America in an attempt to reach a settlement for the benefit of the Trusts. These negotiations sought to avoid the enormous costs of preparing for and pursuing claims in litigation that would involve complex issues of law and fact and a review of files for 530 Trusts and hundreds of thousands of loans. The negotiations also sought to avoid the risks and costs of waiting for an uncertain – and perhaps unattainable and unrecoverable – judgment many years from now. The

² BAC acquired Countrywide in July 2008, months after the last of the mortgage-securitizations had closed and the last of the representations and warranties were made. At the present time, Countrywide is maintained as a separate subsidiary of Bank of America and appears to have limited remaining assets.

negotiations have culminated in a request from the Institutional Investors that the Trustee enter into a settlement (the “Settlement”), memorialized in a settlement agreement, dated June 28, 2011 (“Settlement Agreement”), that the Trustee, in the exercise of its judgment, views as advantageous to and in the best interests of the Trusts.

11. The Settlement Agreement is attached to the Petition as Exhibit B. It will be described more fully in paragraphs 37-47 below, but, in short, it requires Bank of America and/or Countrywide to pay \$8.5 billion (“Settlement Payment”) into the Trusts, allocated pursuant to an agreed-upon methodology that accounts for past and expected future losses associated with the Mortgage Loans in each Trust. It also requires BAC HLS to implement, among other things, servicing improvements that are intended to provide for servicing performance by BAC HLS that is at or above industry standards and will provide a mechanism for BAC HLS to transfer high-risk loans to subservicers for more individualized attention.³

12. The Settlement was negotiated by sophisticated parties and recognizes the seriousness of the allegations; the number of Trusts and loans at issue; the substantial defenses to the potential claims; the inability of the Trustee to recover from Countrywide a judgment that equals, exceeds or even approaches the Settlement Payment; and the strength of the corporate separateness arguments that could shield Bank of America from having to satisfy the obligations of Countrywide. It benefits far more Trust Beneficiaries now – given the substantial Settlement Payment and the nature of the servicing improvements – than could litigation involving separate trusts and separate groups of Certificateholders over the course of several years. It benefits all similarly situated Certificateholders equally. And it provides a benefit even to those

³ Various Institutional Investors, Countrywide, Bank of America and the Trustee also entered into a separate Institutional Investor Agreement, dated June 28, 2011, which contains several provisions that memorialize their support of the Settlement. That Agreement is attached hereto as Exhibit C.

Certificateholders who have not presented, or would have difficulty presenting, any claim under the Governing Agreements.

13. Nonetheless, the Trustee recognizes the potential that some Certificateholders may disagree with the Trustee's judgment that the Settlement is reasonable. Recent news articles have described objections by a group of Certificateholders to rumored settlement discussions among the Institutional Investors, Countrywide, Bank of America and the Trustee. There are also reports that a group of Certificateholders has considered taking action against BNY Mellon for its participation in the Settlement process.

14. The Trustee also recognizes that different groups of Certificateholders may wish to pursue remedies for the alleged breaches in different ways, creating the potential for conflicts among Certificateholders and placing the Trustee squarely in the middle of those conflicts. By way of example, earlier this year, a group of Certificateholders sought to direct the Trustee to commence an action against Countrywide and Bank of America concerning two of the Trusts. That same group then filed an action against CHL, BAC and BNY Mellon (as nominal defendant) in this Court alleging, as to those two trusts, breaches of representations and warranties that are nearly identical to the breaches alleged by the Institutional Investors. *See Walnut Place LLC et al. v. Countrywide Home Loans, Inc. et al.*, Index No. 650497/2011 (Sup. Ct., N.Y. County). In early June 2011, a different Certificateholder commenced an action against BNY Mellon, as Trustee, for an accounting relating to two separate trusts that are part of the Settlement. *See Knights of Columbus v. The Bank of New York Mellon*, Index No. 651442/2011 (N.Y. Sup. Ct. N.Y. County). And on June 8, 2011, a group of Certificateholders sought to direct the Trustee to commence an action against, among others, Countrywide and BAC HLS for alleged loan-servicing breaches involving another overlapping trust, after having

issued a notice of an Event of Default under the Governing Agreements that is substantially similar to the notice of non performance described in paragraphs 28-34 below.

15. Absent instructions from the Court, the Trustee will continue to be subject to conflicting demands from different Certificateholders relating to the same Trusts, and to requests from different Certificateholders to pursue claims that are intended to be released by the Settlement Agreement. The Trustee also may be subject to claims by individual Certificateholders who believe that the Settlement, though benefiting thousands of Trust Beneficiaries now and in the future, may not be in their individual best interests.

16. Given these very real and substantial conflicts, the magnitude of the Settlement, the number of Trusts and loans at issue, and the number of parties whose interests may be impacted by the Settlement, the Trustee files this Petition to give Certificateholders an opportunity to be heard in opposition or in support of the Settlement, and to seek an order, among other things, (i) approving the Settlement, and (ii) declaring that the Settlement is binding on all Trust Beneficiaries and their successors and assigns.

PARTIES AND PROPOSED NOTICE PROGRAM

17. The Bank of New York Mellon is a bank organized under the laws of the State of New York having its principal place of business at One Wall Street, New York, New York 10286.

18. There currently are no adverse parties in this proceeding. To the extent that certain Certificateholders or other interested parties may wish to be heard on the subject of the Settlement or the judicial instructions sought through this Petition, those parties may become adverse.

19. In conjunction with the filing of this Verified Petition, the Trustee has sought an order from the Court (“Order to Show Cause”) approving a notice program that includes notice

to all “Potentially Interested Persons,” as that term is defined in paragraph 4 of the Affirmation of Matthew D. Ingber, dated June 28, 2011 (“Ingber Affirmation”), attached to the Order to Show Cause. This notice program includes:

- Mailing a copy of the notice that is attached to the Ingber Affirmation as Exhibit B (“Notice”), along with the Verified Petition, the Order to Show Cause, and the accompanying Memorandum of Law, by first class, registered mail to Potentially Interested Persons for whom the Trustee has addresses;
- Providing the Notice to the Depository Trust Company (“DTC”), which will post such Notice in accordance with DTC’s established procedures;
- Publishing the Notice in *The Wall Street Journal (Global)*, *Financial Times Worldwide*, *The New York Times*, *The Times (of London)*, *USA Today*, *Investors Business Daily*, and *The Economist Worldwide Edition* for at least three (3) business days in each publication;
- Publishing translated versions of the Notice in *Les Echos* (France), *Die Welt* (Germany), *Il Sole 24 Ore* (Italy), *Tages Anzeiger* (Switzerland), *NRC Handelsblad* (Netherlands), *The Nikkei* (Japan), *Straits Times* (Singapore), *New Straits Times* (Malaysia), *China Business News* (China), and *Korea Economic Daily* (South Korea) for at least three (3) business days in each publication;
- Publishing the Notice to the following media distribution wire services: *PRNewswire*, *Business Wire*, and *GlobeNewswire*;
- Establishing a website, www.cwrmbssettlement.com, that will post a copy of the Notice, the Verified Petition, the Order to Show Cause, and the accompanying Memorandum of Law, and all papers subsequently filed in connection with this Article 77 proceeding (the “Article 77 Proceeding”);
- Creating a hyperlink on BNY Mellon’s investor reporting website, <https://gctinvestorreporting.bnymellon.com/Home.jsp>, to www.cwrmbssettlement.com, for information about the Settlement and the Article 77 Proceeding; and
- Seeking to purchase banner advertisements announcing the Settlement, with a hyperlink to www.cwrmbssettlement.com, on the following websites: wsj.com, MarketWatch.com, Barrons.com, AllthingsD.com, IHT.com, SmartMoney.com, investors.com, ft.com, reuters.com, economist.com, Globalcustody.net, Assetman.net, FundServices.net, and yahoo.com.

The notice program is more fully described in paragraphs 4-5 of the Ingber Affirmation.

JURISDICTION, VENUE AND GOVERNING LAW

20. This Court has jurisdiction pursuant to CPLR Articles 77 and 4 to entertain a special proceeding to determine matters relating to express trusts, such as the Trusts that are the subject matter of this proceeding.

21. The law of the State of New York governs the rights and obligations of the parties to the Governing Agreements, including the Trustee. The Trustee is domiciled, and has its principal place of business, in New York.

22. Venue is proper in this Court.

ALLEGED BREACHES OF THE GOVERNING AGREEMENTS

23. Each Trust is governed by an individual contract – the Governing Agreement – that sets forth the rights and obligations of the parties and contains representations and warranties of the Sellers, the Master Servicer and the Depositor.

24. The representations and warranties of the Seller – Countrywide – are at the core of this matter. Countrywide represented and warranted, among other things, that:

- “The origination, underwriting and collection practices used by Countrywide with respect to each Mortgage Loan have been in all respects legal, prudent and customary in the mortgage lending and servicing business.”
- “Each Mortgage Loan was underwritten in all material respects in accordance with the underwriting guidelines described in the Prospectus Supplement.”
- “The information set forth on [the Mortgage Loan Schedule] with respect to each Mortgage Loan is true and correct in all material respects as of the Closing Date.”
- “No Initial Mortgage Loan had a Loan-to-Value Ratio at origination in excess of [...] %.”
- “A lender’s policy of title insurance . . . or a commitment (binder) to issue the same was effective on the date of the origination of each Mortgage Loan, each such policy is valid and remains in full force and effect, and each such policy was issued by a title insurer qualified to do business in the jurisdiction where the Mortgaged Property is located”

- “[P]rior to the approval of the Mortgage Loan application, an appraisal of the related Mortgaged Property was obtained from a qualified appraiser”
- “The Mortgage Loans, individually and in the aggregate, conform in all material respects to the descriptions thereof in the Prospectus Supplement.”
- “The Mortgage Loans were selected from among the outstanding adjustable-rate one- to four-family mortgage loans in the portfolios of the Sellers at the Closing Date as to which the representations and warranties [as to the Mortgage Loans] can be made. Such selection was not made in a manner intended to adversely affect the interests of [the Certificateholders].”

25. Countrywide’s representations and warranties are, in all material respects, similar across all of the Governing Agreements.

26. The remedy for a breach of a representation or warranty is contained in Section 2.03 of the Governing Agreements. It provides that, upon discovery and notice of a breach of a representation and warranty with respect to a Mortgage Loan that materially and adversely affects the interests of the Certificateholders, the Seller shall cure the breach within ninety days or repurchase the affected Mortgage Loan at its “Purchase Price,” which is equal to the unpaid principal balance of the affected Mortgage Loan:

Upon discovery by any of the parties hereto of a breach of a representation or warranty with respect to a Mortgage Loan made pursuant to Section 2.03(a) . . . that materially and adversely affects the interests of the Certificateholders in that Mortgage Loan, the party discovering such breach shall give prompt notice thereof to the other parties. Each Seller hereby covenants that within 90 days of the earlier of its discovery or its receipt of written notice from any party of the breach of any representation and warranty with respect to a Mortgage Loan sold by it pursuant to Section 2.03(a) . . . which materially and adversely affects the interests of the Certificateholders in the Mortgage Loan, it shall cure such breach in all material respects, and if such breach is not cured shall . . . repurchase the affected Mortgage Loan or Mortgage Loans from the Trustee at the Purchase Price in the manner set forth below

27. Beginning in June 2010, the Institutional Investors asserted in a letter to the Trustee that Countrywide sold a large number of Mortgage Loans into the Trusts that failed to

comply with certain representations and warranties, in breach of the Governing Agreements. This assertion was based in part on the alleged excessive early default and foreclosure rates for the Mortgage Loans, the settlements reached by Countrywide with various state Attorneys General, and publicly disclosed emails from Countrywide officials that the Institutional Investors viewed as evidence of breaches of representations and warranties. The Institutional Investors alleged that large numbers of Mortgage Loans were therefore subject to repurchase pursuant to Section 2.03 of the Governing Agreements.

28. On October 18, 2010, the Institutional Investors asserted in a separate letter – a notice of non-performance pursuant to Section 7.01(ii) of the PSA (“Notice of Non-Performance”) – that BAC HLS, as Master Servicer, also breached several provisions of the PSAs. The allegations were wide-ranging and detailed.

29. The Institutional Investors alleged, for example, that BAC HLS violated Sections 2.03(c) of the Governing Agreements by failing and refusing to notify the Trustee and others of Countrywide’s breaches of representations and warranties.

30. The Institutional Investors alleged that BAC HLS failed to meet its obligations under Section 3.01 of the Governing Agreements to “represent and protect the interests of the Trust Fund in the same manner as it protects its own interests in mortgage loans in its own portfolio.” According to the Notice of Non-Performance, BAC HLS breached Section 3.01 by: (i) failing to maintain accurate and adequate loan and collateral files in a manner consistent with prudent mortgage servicing standards; (ii) failing to demand that the Sellers cure deficiencies in mortgage records; (iii) incurring avoidable and unnecessary servicing fees as a result of its allegedly deficient record-keeping; and (iv) overcharging by as much as 100% the costs for maintenance, inspection and other services with regard to defaulted Mortgage Loans.

31. Citing violations of Section 3.11(a)'s requirement that the Master Servicer "use reasonable efforts to foreclose upon" certain eligible properties, the Institutional Investors asserted that BAC HLS continued to keep defaulted Mortgage Loans on its books, rather than foreclose or liquidate them, in order to wrongfully maximize its fees.

32. The Institutional Investors further alleged that BAC HLS imposed on the Trusts and the Certificateholders the costs of curing allegedly predatory loans, in violation of Section 2.03(c)'s requirement that Sellers bear the costs to "cure such breach in all material respects."

33. And citing Section 3.14 in support of the assertion that the Master Servicer is entitled to recover only "customary, reasonable and necessary 'out of pocket' costs and expenses," the Notice of Non-Performance alleged that BAC HLS improperly used affiliated vendors to maximize its servicing income.

34. Each of these alleged breaches, according to the Institutional Investors, materially affected their rights under the Trusts. They warned that a failure to cure would constitute an Event of Default under the Governing Agreements.

35. Rather than commencing litigation against Countrywide and BAC HLS, and mindful of the complexity, delay and enormous costs associated with litigation that could require a loan-by-loan analysis of hundreds of thousands of loans and present significant legal and factual hurdles, in November 2010, the Institutional Investors, with participation by the Trustee, initiated settlement discussions with Countrywide and Bank of America. Those discussions continued for seven months, involved dozens of face-to-face meetings and conference calls, and involved extensive dialogue among the parties concerning the merits of the Institutional Investors' allegations and Countrywide's defenses, and extensive analysis of the Trustee's likely recovery if it commenced – and prevailed in – litigation on behalf of the Trusts.

36. It was out of those discussions that the Institutional Investors, Countrywide, Bank of America, and the Trustee have agreed to the terms of the Settlement, and that the Institutional Investors have requested that the Trustee, on behalf of the Trusts, enter into the Settlement. *See* Exhibit D.

THE SETTLEMENT

37. There are two principal components to the Settlement – the Settlement Payment and the servicing improvements. They reflect the negotiated compromise among the Institutional Investors, Bank of America, Countrywide and the Trustee of (i) the potential claims by the Trustee against Countrywide, pursuant to Section 2.03 of the Governing Agreements, that Countrywide repurchase loans as to which Countrywide allegedly has breached its representations and warranties, and (ii) the potential claims by the Trustee against BAC HLS that BAC HLS violated prudent servicing obligations under various provisions of the Governing Agreements.

38. The Settlement Payment is \$8.5 billion and will be allocated among the Trusts in accordance with an agreed-upon allocation formula. An independent financial advisor (“Expert”), retained by the Trustee, will perform any calculations required in connection with the allocation formula, and those allocation calculations will be treated as final and accepted by the parties, absent bad faith or manifest error.

39. The allocations will be driven by the amount of net losses in each of the Trusts:

- The Expert will calculate the amount of net losses for each Trust (or separate loan group within each Trust) that have been or are estimated to be borne by that Trust from its inception date to its expected date of termination. That amount will be expressed as a percentage of the sum of the net losses that are estimated to be borne by *all* Trusts from their inception dates to their expected dates of termination (the “Net Loss Percentage”);

- The Expert will calculate the “Allocable Share” of the Settlement Payment for each Trust by multiplying the amount of the Settlement Payment by the Net Loss Percentage for each Trust;
- If applicable, the Expert will calculate the portion of the Allocable Share that relates to principal-only certificates or notes, and the portion of the Allocable Share that relates to all other certificates or notes; and
- The Expert will calculate the Allocable Share within ninety days of the Approval Date (as defined in the Settlement Agreement).

40. The Expert has independently developed a methodology for determining existing and estimated future net losses. A narrative of the Expert’s methodology is attached hereto as Exhibit E.

41. Upon completion of the Expert’s calculation of Allocable Shares, each Allocable Share will be remitted to the applicable Trust. The Trusts, in turn, will distribute the Allocable Share to Certificateholders in accordance with the provisions of the Governing Agreements, as described more fully in the Settlement Agreement.

42. As part of the servicing component of the Settlement, BAC HLS has agreed to implement various servicing improvements and remedies within specified time periods set forth in the Settlement Agreement. They include, among others, the following:

- Within thirty days after the execution of the Settlement Agreement, the selection by the Institutional Investors and BAC HLS of an agreed list of 8-10 qualified subservicers to service high-risk loans. The agreed list shall be submitted to the Trustee, and the Trustee (in reliance upon an expert) may, within forty-five days of receipt of the agreed list, (i) object and thereby remove any of the selected subservicers from the agreed list, or (ii) limit the number of loans the subservicer may service at any one time. In the absence of an objection by the Trustee, all of the subservicers on the agreed list shall be deemed to be approved; if the Trustee objects to one or more subservicers, all of the subservicers on the agreed list as to which there has been no objection shall be deemed approved. The subservicers approved, or deemed approved, by the Trustee shall make up the “approved list” of subservicers;
- Beginning on the date of the Trustee’s approval (or deemed approval) of at least four (4) subservicers on the agreed list, BAC HLS’s negotiation of a

subservicing contract with at least one subservicer per quarter, and the synchronization of its servicing system with that of the subservicer;

- BAC HLS's agreement to initiate, after at least one subservicer is operational, the transfer of high-risk loans, selected through a priority mechanism outlined in the Settlement Agreement, to at least one subservicer per quarter (subject to a cap of 30,000 loans at any one time with any given subservicer); and
- Beginning on the date of the Trustee's approval (or deemed approval) of at least four (4) subservicers on the agreed list, and subject to the specific conditions and limitations set forth in the Settlement Agreement, BAC HLS may, at its option, sell the servicing rights on Mortgage Loans otherwise eligible for subservicing to any subservicer on the approved list.

43. The servicing component of the Settlement Agreement also applies to loans beyond those transferred to subservicing. For all loans not in subservicing, BAC HLS has agreed to, among other things, beginning on the later of five months after the Signing Date (as defined in the Settlement Agreement) or the Approval Date:

- On a monthly basis, benchmark its servicing performance against specific industry standards ("Industry Standards") set forth in the Settlement Agreement;
- Send to the Trustee on a monthly basis statistics comparing BAC HLS's performance to the Industry Standards (the "Monthly Statement"); and
- If its performance fails to meet the Industry Standards, calculate and include in its Monthly Statement a master servicing fee adjustment payable by it to the Trust, which payment would be satisfied by deducting the master servicing fee adjustment from unreimbursed advances due to BAC HLS (except that for a limited number of Trusts, BAC HLS shall wire such adjustment to the Trust) as set forth in the Settlement Agreement; provided that BAC HLS will not be liable for its failure to meet the Industry Standards until such time as eight (8) subservicers have been approved or deemed approved by the Trustee.

44. The Settlement Agreement also contains loss mitigation provisions that apply to all loans and take effect as of the Signing Date. They include, among other things, factors for BAC HLS and all subservicers to consider in deciding whether to modify a loan or to apply any other loss mitigation strategies. When BAC HLS or the applicable subservicer, in implementing a modification or other loss mitigation strategy, considers the factors set forth in the loss

mitigation improvements portion of the Settlement Agreement, or acts in accordance with policies or practices that BAC HLS is then applying to its or any of its affiliates' "held for investment" portfolios, BAC HLS will be deemed to be in compliance with the Governing Agreements.

45. The Settlement Agreement further requires – for all loans – reporting and auditing for service compliance. It mandates that, beginning on the Approval Date, BAC HLS report monthly to the Trustee concerning its compliance with the servicing improvements required by the Settlement Agreement, and pay for an annual attestation report to be completed by a qualified audit firm (whose selection is subject to the Trustee's objection based on criteria set forth in the Settlement Agreement) no later than February 15 of each year that any Trust holds Mortgage Loans. The Settlement Agreement requires the attestation report to be distributed to all Certificateholders in the Trusts as part of the Trustee's statement for April each year.

46. Finally, the Settlement Agreement includes agreed-upon procedures to cure certain document deficiencies in the loan files. In particular, BAC HLS has agreed to prepare and submit to the Trustee, no later than six weeks after the Signing Date, a schedule of loans with specified document deficiencies, and to report to the Trustee, on a monthly basis, the status of such loans until all such deficiencies have been cured. The Trustee, in turn, has agreed to determine whether reasonable evidence exists that a particular document deficiency has, in fact, been cured by BAC HLS. Without such evidence, and after consultation with BAC HLS, the Trustee shall direct BAC HLS to issue a revised monthly report.

47. All of these servicing improvements are designed to ensure that servicing performance by BAC HLS is at or above industry standards and to provide a mechanism for

BAC HLS to identify high-risk loans, to transfer them to subservicers to provide more individualized attention, and to help avoid or manage defaults.

THE SETTLEMENT SHOULD BE APPROVED

I. The Trustee Has the Ability to Commence and Settle Lawsuits on Behalf of the Trusts

48. The Governing Agreements grant to the Trustee the right to enforce the Seller's repurchase obligations and the Master Servicer's servicing obligations, and to settle any claims against those parties to the Governing Agreements.

49. Pursuant to Section 2.01(b) of the PSAs, for example, each Depositor assigned to the Trustee the Depositor's right to require the Seller to cure any breach of the Seller's representations and warranties or require a repurchase of a Mortgage Loan: "[T]he Depositor sells, transfers, assigns, sets over and otherwise conveys to the Trustee for the benefit of the Certificateholders, without recourse, *all the right, title and interest of the Depositor* in and to the Trust Fund together with the Depositor's right to require each Seller to cure any breach of a representation or warranty . . . or to repurchase or substitute for an affected Mortgage Loan" (emphasis added).

50. In Trusts governed by indentures, the Mortgage Loans are conveyed to the applicable trust itself, which is a separate legal entity. The Trust, in turn, pledges to the Trustee "all present and future claims, demands, causes and choses in action in respect of [the Mortgage Loans]."

51. The Trustee's powers under the indentures are broad. According to Section 5.03(6) of the Indentures, "[a]ll rights of action and of asserting claims under this Indenture, or under any of the Notes, may be enforced by the Indenture Trustee without possession of any of the Notes or the production thereof in any trial or other Proceedings relative thereto, and any

such action or proceedings instituted by the Indenture Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment, subject to the payment of the expenses, disbursements and compensation of the Indenture Trustee . . . shall be for the ratable benefit of the Holders of the Notes” (emphasis added). Pursuant to Section 2.01(b) of the PSAs and 3.03 of the SSAs, these causes of action can include, among others, claims against the Seller for breach of representations and warranties and against the Master Servicer for violations of servicing obligations.

52. Other contractual provisions support the Trustee’s authority to pursue remedies for breaches of the Governing Agreements. Pursuant to Section 2.04 of the PSAs, each “Depositor hereby assigns, transfers and conveys to the Trustee *all of its rights* with respect to the Mortgage Loans including, without limitation, the representations and warranties of each Seller made pursuant to Section 2.03(a) hereof, together with all rights of the Depositor to require a Seller to cure any breach thereof or to repurchase or substitute for any affected Mortgage Loan” (emphasis added).

53. Section 3.12 of the indentures provides that “the Indenture Trustee, as pledgee of the Mortgage Loans, has the benefit of the representations and warranties made by the Seller in the Sale and Servicing Agreement concerning the Seller and the Mortgage Loans to the same extent as though such representations and warranties were made directly to the Indenture Trustee.”

54. Pursuant to Section 3.03 of the PSAs, “[t]he Depositor may, but is not obligated to, enforce the obligations of the Master Servicer under this Agreement”

55. And under Section 2.03(a) of the PSAs and the SSAs, each Seller makes representations and warranties to the Trustee (among others), which then has the right to be

reimbursed promptly by the applicable Seller for any expense reasonably incurred by the Trustee “in respect of enforcing the remedies for such breach” – a reference to the Trustee’s right to pursue claims against the Seller for breaches of representations and warranties.

56. With the ability to commence litigation comes the ability to settle litigation, and, in part for that reason, the Depositor’s assignment to the Trustee of all “right, title and interest” to the Mortgage Loans is authorization under the PSAs for the Trustee to settle claims that it has the authority to assert.

57. Similarly, the Trust’s pledge in favor of BNY Mellon of all of its “right, title and interest” to the Mortgage Loans is authorization under the indentures for BNY Mellon to take similar action for the benefit of the Trusts.

II. The Settlement is Advantageous to the Trusts and, at the Very Least, Reasonable

58. Because the decision to enter into the Settlement was made in good faith and is not outside the bounds of reasonableness – the standard of review that applies in this Article 77 Proceeding – the Settlement should be approved. Indeed, by entering into the Settlement on behalf of the Trusts, the Trustee has made an independent, good faith judgment that the Settlement is advantageous to the Trusts. At the very least, in the Trustee’s judgment, it is a reasonable compromise of the Trustee’s claims.

59. The Settlement was negotiated at arm’s-length by sophisticated parties over an extended period of time. In the Trustee’s judgment, it is a more advantageous result for the Trusts and the Trust Beneficiaries than embarking on a litigation that will be complex and hard-fought, with no certainty of obtaining a judgment in the Trustee’s favor – much less a judgment exceeding the Settlement Payment. It is a settlement that takes into account the seriousness of the allegations, yet acknowledges the risk that Countrywide’s key defenses (see paragraphs 68-77 below) might prevail and that the Trustee, even if it could obtain a judgment exceeding the

Settlement Payment, may not be able to recover the judgment from Countrywide or Bank of America (see paragraphs 78-92 below). It is a Settlement that mandates servicing improvements that will require specialized attention to high-risk loans and will facilitate increased focus, and therefore improved servicing, of all other loans. And it is a Settlement that, in the Trustee's judgment, benefits far more Trust Beneficiaries today than would litigation over the next several years of separate claims, on behalf of separate groups of Trust Beneficiaries, concerning individual Trusts.

60. The Trustee recognizes the difficulty in determining, with precision, the amount of any potential judgment if the Trustee instead were to proceed with and prevail in litigation against Countrywide. It also recognizes the difficulty in calculating precisely what value should be ascribed, for settlement purposes, to Countrywide's various defenses, the avoidance of lengthy, costly and uncertain litigation, and the benefit to the Trusts of receiving the Settlement Payment and servicing improvements described in the Settlement Agreement instead of an uncertain amount, if any, several years from now.

61. Because there is no precise formula for determining the proper terms of a settlement in a case of this magnitude, the Trustee has exercised its judgment – in good faith and in a manner that it believes is in the best interests of the Trusts. The Trustee has, among other things, weighed the legal and factual assertions of the Institutional Investors, Countrywide and Bank of America; considered and analyzed the competing methodologies for arriving at the Settlement Payment; considered and analyzed the servicing procedures set forth in the Settlement Agreement; and evaluated the reasonableness of the Settlement by, among other things, retaining and receiving opinions from independent experts in residential mortgage-backed securities and commercial finance, mortgage servicing, accounting and valuation. In addition, it has been

guided by counsel on the legal issues – including the viability of Countrywide’s defenses and Bank of America’s corporate separateness arguments – and has received separate opinions from experts in corporate and contract law on these issues.

62. As a result of this process, it is the Trustee’s judgment that the Settlement, consisting of a payment of \$8.5 billion and improved loan servicing, is reasonable, is in the best interests of the Trusts and Trust Beneficiaries, and outweighs the alternative of protracted litigation with no guarantee of success. At the very least, by entering into the Settlement, the Trustee is not acting in bad faith or outside the bounds of reasonableness.

A. The Settlement Payment

1. The Settlement Payment Is Reasonable

63. The Settlement Payment is \$8.5 billion and will be paid by Countrywide and/or Bank of America. In the Trustee’s judgment, the Trustee could have accepted this Settlement Payment as reasonable based principally on the fact that Countrywide alone would be unable to pay a future judgment in an amount exceeding – or even approaching – the Settlement Payment (see paragraphs 78-81). In other words, if the Trustee commenced litigation, overcame an inevitable motion to dismiss, proceeded through discovery relating to 530 trusts and hundreds of thousands of loans, survived a motion for summary judgment, proceeded to trial, overcame Countrywide’s various defenses, and obtained a judgment against Countrywide of more than \$8.5 billion, the Trusts and the Certificateholders would be far *worse* off than if the Trustee settles today. In the Trustee’s judgment, the analysis could end there.

64. Nonetheless, the Trustee, with the assistance of financial experts, analyzed the various ways in which a settlement payment could be calculated, and the amount of a settlement payment that the Trustee would view as reasonable. Before agreeing to the Settlement Payment, the Trustee observed and participated in extensive discussions in which the Institutional

Investors, Countrywide and Bank of America offered quantitative and qualitative analysis of a possible settlement payment, taking into account several metrics to calculate past and expected future losses for the Mortgage Loans.

65. As part of that process, the Trustee and its financial experts considered and analyzed, in depth, the competing calculation methodologies of the Institutional Investors and Countrywide/Bank of America, and the assumptions underlying those methodologies. The Trustee and its financial experts tested these assumptions, analyzed how the Institutional Investors and Bank of America/Countrywide calculated actual and projected losses in the Trusts – a starting point for deriving a proposed settlement payment – and considered how the proposed “haircuts,” or discounts, were calculated by the Institutional Investors and Countrywide/Bank of America.

66. Taking into account its own calculations of actual and projected losses, and applying its own model, the Trustee’s financial experts calculated a dollar range that could serve as a starting point for assessing the reasonableness of a settlement payment, to which the Trustee would be entitled to apply discounts based on the viability of Countrywide’s and Bank of America’s legal defenses. The Trustee’s financial experts had no prior knowledge of the amount of the Settlement Payment before issuing the opinion.

67. The Trustee’s financial experts have opined that a settlement payment in the range of \$8.8 billion to \$11 billion would be reasonable, *without discounting for the legal defenses to the Trustee’s claims*. A Settlement Payment of \$8.5 billion is viewed by the Trustee as falling within a small variance of that pre-discounted settlement range.

2. Countrywide and BAC HLS May Have Viable Defenses to Any Potential Claims

68. Countrywide and BAC HLS may have a number of viable legal and factual defenses to potential repurchase and servicing claims under the Governing Agreements. One in particular, highlighted below, relates to the element of causation that Countrywide contends is essential to any repurchase claim under Section 2.03 of the Governing Agreements. The existence and viability of this defense is viewed by the Trustee as a compelling reason to discount the financial experts' settlement range, and provides an additional, equally compelling reason to enter into the Settlement.

69. Section 2.03 of the Governing Agreements requires the Trustee and others, upon discovery of a breach of a representation or warranty "that materially and adversely affects the interests of the Certificateholders in that Mortgage Loan," to give prompt notice to the other parties, to allow the Seller to cure the breach, and, absent a cure, to enforce the Seller's obligation to repurchase the Mortgage Loan.

70. Based on this language, Countrywide has taken the position that if the Trustee brought an action to enforce Countrywide's repurchase obligations under Section 2.03 of the Governing Agreements, the Trustee would need to prove, on a loan-by-loan basis: (i) that Countrywide breached specific representations and warranties in the Governing Agreements, (ii) that the breach was material, and (iii) that the breach adversely affected the interests of the Certificateholders in the loan. With respect to the final requirement, Countrywide has taken the position that the Trustee would have to prove, on a loan-by-loan basis, that the breach caused Certificateholders to suffer a significant loss on the affected loan.

71. The Institutional Investors have taken a different position – namely, that a breach is "material and adverse" to the interests of Certificateholders if it would have affected their

investment decision because it adversely affects the credit quality of the Mortgage Loan. They also have taken the position that a loan-by-loan review may not be necessary, and that a properly structured sampling approach could be accepted by a court.

72. Countrywide's argument, if accepted by a court, could mean that the Trustee would have to bear the extraordinary burden of reviewing loan files for hundreds of thousands of loans in 530 trusts; determine as to each loan which of the dozens of Countrywide representations and warranties were breached; and then prove that the loss to Certificateholders was caused by the breach of a specific representation and warranty (such as the owner-occupancy representation) and not other factors that arguably bear no relation to the breach (such as macroeconomic factors affecting the housing market).

73. To be sure, a requirement that the Trustee establish, for each loan or even for a significant sample of loans, both a breach of representation and warranty and a causal link between the breach and the loss would not preclude the Trustee from enforcing repurchase remedies. But it would make enforcement more difficult, may result in fewer loans subject to repurchase, and would result in litigation that would be extraordinarily complex, costly and time-consuming, with the outcome dependent on fact-intensive issues that may not be susceptible to resolution short of trial.

74. In order to properly assess the strength of Countrywide's defense, the Trustee has, among other things, considered the arguments of the Institutional Investors, Countrywide and Bank of America, analyzed Section 2.03 of the Governing Agreements, and considered the case law interpreting contractual provisions similar to Section 2.03.

75. The Trustee has also sought and obtained an expert opinion from a leading law school professor who teaches, among other things, the law of contracts. That expert

independently considered the question of whether Countrywide presents a reasonable argument that the Trustee would have to prove a causal link between any breach of a representation and warranty, on the one hand, and a significant loss to Certificateholders, on the other. The expert has opined that Countrywide's argument is reasonable and could be adopted by a court considering the issue.

76. This conclusion is supported by precedent. For instance, in a recent case, the court denied summary judgment against a similarly situated trustee on the ground that an issue of fact existed as to whether the alleged breach of warranties made in the PSA "materially and adversely affected the value of the mortgage loan or the interest of the certificateholders." In another recent case, the court rejected plaintiff's attempt to exclude – on the basis that the "material and adverse affect" determination must be made as of the closing date – an expert witness who would testify that breaches of representations made in a PSA did not materially and adversely affect the interests of certificateholders because any losses were caused by the decline in the housing and real estate markets. And in the cases that have proceeded to trial, juries have been instructed, based on nearly identical PSA provisions, that trustees need to "prove by a preponderance of the evidence that the material breach of any of the Representations and Warranties involved in this case caused a material and adverse effect on the value of the loan, the value of the property, or the interests of the investors."

77. For all of these reasons, in the Trustee's judgment, Countrywide's position that Section 2.03 imposes an element of causation could be accepted by a court, and if this occurred it would present significant challenges to the Trustee in proving, for each Mortgage Loan or even a sample of Mortgage Loans, that the harm was caused specifically by a breach of representation and warranty rather than by the individual circumstances of the borrower or the various

macroeconomic events affecting the U.S. and global economy. The Trustee's judgment that this defense must be taken into account in assessing the reasonableness of the Settlement Payment was made in good faith and is within the bounds of reasonableness.

3. Countrywide Will Be Unable to Pay a Judgment in an Amount Exceeding (or Even Approaching) the Settlement Payment

78. The Trustee has considered the ability, or inability, of Countrywide to pay a judgment that would exceed the Settlement Payment. If the Trusts will be unable to recover an amount that exceeds the Settlement Payment after years of costly litigation, it is the Trustee's judgment that entering into the Settlement now, on behalf of the Trusts, is reasonable. In fact, a decision to not enter into the Settlement with knowledge that the Trusts may receive, at best, substantially *less* than the Settlement Payment if the Trustee were to prevail in litigation several years from now, would be unreasonable.

79. Countrywide has taken the position that it, standing alone, would be unable to pay a judgment in the amount of the Settlement Payment. In order to test that statement, the Trustee retained a leading valuation expert to conduct an independent valuation of Countrywide and prepare a report of his analysis. More specifically, the valuation expert was asked to opine on the maximum economic value that the Trustee could recover from Countrywide assuming that the Trustee obtained a judgment in its favor. The analysis was conducted as of March 31, 2011. This expert, too, had no prior knowledge of the amount of the Settlement Payment before issuing his opinion.

80. In estimating the economic value available to satisfy any judgment, the valuation expert estimated the value of Countrywide's assets in conformance with the fair market value standard. Without taking into account litigation costs or other losses accruing to Countrywide between March 31, 2011 and the date of any future hypothetical judgment – losses that may well

be substantial – the valuation expert opined that the Trustee’s *maximum* recovery is significantly less than the Settlement Payment.

81. Based on this analysis, the Trustee has concluded that Countrywide will be unable to pay any future judgment that exceeds, equals or even approaches the Settlement Payment. Under these circumstances, the Trustee’s decision to accept a Settlement Payment of \$8.5 billion on behalf of the Trusts now, rather than proceed with litigation that may result in a recoverable judgment, if any, billions of dollars *less* than that amount, was made in good faith and is not outside the bounds of reasonableness.

4. The Trustee May Be Unlikely to Recover Any Future Judgment From Bank of America

82. Countrywide and Bank of America have taken the position that if Countrywide is unable to pay the full amount of any judgment against it, and the Trustee were to assert claims against Bank of America based on theories of successor liability, veil piercing or similar legal theories (collectively, “Successor Liability Theories”), Bank of America would prevail on those claims.

83. In order to assess the strength of its Successor Liability Theories, the Trustee has, among other things, considered the arguments of Countrywide and Bank of America and well-established case law addressing the Successor Liability Theories. The Trustee also sought and obtained an independent expert opinion from a law professor who holds an endowed chair in law and business at a major law school, and who teaches and writes on corporate law, corporate finance, corporate governance, mergers and acquisitions, and the law and economics of complex transactions.

84. In order to prevail on a traditional claim for successor liability, the Trustee would have to demonstrate, among other things, that Bank of America is a continuation of

Countrywide, that Countrywide has ceased operations and dissolved, and that the sale was designed to disadvantage shareholders or creditors of Countrywide.

85. There are several obstacles to this claim. Among them are that (i) Countrywide remains in existence and has not ceased operations, and (ii) the doctrine of *de facto* merger, which could be used in an effort to impose successor liability, has been used sparingly under Delaware law, which may govern the Trustee's claims.

86. It would be equally difficult for the Trustee to prevail on any veil-piercing claim. The Trustee would have to establish either (1) that Bank of America misused the corporate form to perpetrate a fraud on the Certificateholders, or (2) (i) that Bank of America dominated and controlled Countrywide such that Countrywide was an instrumentality of Bank of America, and (ii) that Bank of America further misused that control to cause harm to the Trustee and the Certificateholders.

87. The Trustee would likely have difficulty establishing a claim for veil-piercing based on fraud – even if it could meet the heightened pleading standards for that claim. Indeed, the Trustee is aware of no case that has made any credible allegation of a fraudulent scheme by Bank of America. The so-called “instrumentality” or “alter ego” theory probably would fare no better. The Trustee would have to prove that Bank of America totally dominated and controlled Countrywide at the time of the transactions at issue, a claim that is inconsistent with those entities' observance of corporate formalities and separate accounting. The Trustee then would have to prove that Bank of America misused its control to perpetrate a fraud or other similar injustice that actually harmed the Certificateholders, a difficult burden under any circumstances.

88. These conclusions are supported by the independent expert opinion that the Trustee obtained. The expert was asked to consider legal theories under which the Trustee could

potentially seek to recover money from Bank of America if Countrywide was unable to meet its obligations to pay a money judgment to the Trustee. In particular, the expert was asked to focus on certain business combination transactions between Countrywide, on the one hand, and Bank of America, on the other, in 2008, and whether such transactions could provide a basis for the Trustee to recover from Bank of America under the Successor Liability Theories.

89. It is the expert's opinion that the Trustee would have difficulty prevailing on such legal theories, and that the legal positions of Countrywide and Bank of America are, at the very least, reasonable.

90. This is also reinforced by precedent. In a number of recent cases against Countrywide, plaintiffs have sought to hold Bank of America liable for Countrywide's alleged misconduct on the basis that it is the parent of, and/or successor-in-interest to, certain Countrywide entities. Although one court has allowed this issue to proceed past the motion to dismiss stage, the Trustee is aware of no case to date that has imposed liability on Bank of America under any of the Successor Liability Theories. Most recently, a federal court in California, applying Delaware law, rejected all of the plaintiffs' successor liability claims against Bank of America and NB Holdings, a Bank of America subsidiary, in a putative class action asserting claims against Countrywide under Sections 11, 12 and 15 of the Securities Act of 1933. *See Maine State Ret. Sys. v. Countrywide Fin. Corp.*, Case No. 2:10-CV-0302, 2011 WL 1765509 (C.D. Ca. Apr. 20, 2011).

91. Given this holding, the existence of case law presenting significant obstacles to a party seeking to assert successor liability claims, to pierce the corporate veil or to apply similar legal theories, and the independent expert legal opinion obtained by the Trustee, in the Trustee's

judgment, the legal positions of Countrywide and Bank of America are viable and need to be considered in weighing the reasonableness of the Settlement Payment.

92. Accordingly, when combining (i) the likelihood that Countrywide would be unable to pay any future judgment approaching the amount of the Settlement Payment, with (ii) the obstacles to the Trustee of holding Bank of America liable for the alleged breaches by Countrywide, it is the Trustee's good faith judgment that entering into the Settlement is in the best interests of and advantageous to the Trusts, and certainly is within the bounds of reasonableness.

B. The Servicing Procedures and Improvements Are Reasonable

93. The purpose of the Settlement Agreement's servicing provisions is to outline servicing improvements that, when followed, would satisfy BAC HLS's obligation under Section 3.01 of the Governing Agreements to service and administer the Mortgage Loans in accordance with the terms of the Governing Agreements and customary and usual standards of practice of prudent mortgage loan servicers.

94. In considering the reasonableness of this component of the Settlement, the Trustee has taken into account, among other things, the respective positions of the Institutional Investors and Countrywide/Bank of America, the nature of the proposed servicing improvements, the means by which the Settlement Agreement ensures compliance with Industry Standards (including reporting and auditing requirements, and the payment of a servicing fee adjustment), and the independent opinion of mortgage servicing experts.

95. These mortgage servicing experts have concluded that the servicing and loan administration provisions of the Settlement Agreement – the subservicing and sale of master servicing rights provisions, the benchmarks and related master servicing fee adjustments for loans not in subservicing, the loss mitigation procedures, and the document deficiency cure

provisions – are reasonable, and are consistent with or exceed customary and usual standards of practice of prudent mortgage loan servicing and administration.

96. Based on all of these factors, it is the Trustee's good faith judgment that the servicing provisions of the Settlement Agreement are advantageous to the Trusts, and, at the very least, reasonable.

WHEREFORE, petitioner BNY Mellon requests that a judgment be entered, pursuant to CPLR § 7701, in the form attached hereto as Exhibit F.

Dated: New York, New York
June 28, 2011

MAYER BROWN LLP

By: 

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VERIFICATION

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

LORETTA A. LUNDBERG, being duly sworn, deposes and says:

1. I am a Managing Director within the Corporate Trust division at The Bank of New York Mellon (the "Petitioner").

2. I have read the foregoing Verified Petition and know the contents thereof.

All statements of fact therein are true and correct to the best of my knowledge and belief.


Loretta A. Lundberg

Sworn to before me this
28th day of June, 2011


Notary Public

