

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

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FINANCIAL GUARANTY INSURANCE	:
COMPANY,	:
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Plaintiff,	: Index No. 652853/2014
	:
- against -	: Justice Friedman
	:
MORGAN STANLEY ABS CAPITAL I INC., and	: IAS Part 60
MORGAN STANLEY MORTGAGE CAPITAL	:
HOLDINGS LLC, as successor to MORGAN	:
STANLEY MORTGAGE CAPITAL INC.,	: ANSWER AND
	: AFFIRMATIVE DEFENSES
Defendants.	:
	:
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Defendants Morgan Stanley ABS Capital I Inc., and Morgan Stanley Mortgage Capital Holdings LLC, as successor to Morgan Stanley Mortgage Capital Inc. (collectively, “MSAC” or “Morgan Stanley”) answer the Complaint filed by Plaintiff Financial Guaranty Insurance Company (“FGIC”), as follows:

1. Morgan Stanley denies the allegations in paragraph 1, except admits that FGIC issued a financial guaranty insurance policy (the “Insurance Policy”) guaranteeing payments on certain securities issued in the Basket of Aggregated Residential NIMS 2007-1 (“BARN,” or the “Transaction”), and further admits that Morgan Stanley issued certain representations and warranties in connection with the Transaction. Morgan Stanley respectfully refers the Court to the referenced documents for their complete and accurate contents.

2. Morgan Stanley denies the allegations in paragraph 2, except admits that certain of the Underlying NIM Securities were included in securitizations sponsored by Morgan Stanley.

3. Morgan Stanley denies the allegations contained in paragraph 3, except admits that the Transaction contained Underlying NIM Securities.

4. Morgan Stanley denies the allegations in paragraph 4 regarding FGIC for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations and otherwise denies the allegations in paragraph 4, except admits that the Insurance Policy is irrevocable.

5. No response to the allegations in paragraph 5 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 5.

6. No response to the allegations of paragraph 6 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 6, except admits that the Underlying NIM Securities Purchase Agreement contains certain representations and warranties made by MSAC and provides for MSAC to repurchase certain NIM securities under certain circumstances, and that the Insurance Agreement contains certain representations and warranties made by Morgan Stanley. Morgan Stanley respectfully refers the Court to the referenced documents for their complete and accurate contents.

7. No response to the allegations in paragraph 7 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations contained in paragraph 7, except admits that the Insurance Agreement contains certain representations and warranties made by Morgan Stanley and respectfully refers the Court to the referenced documents for their complete and accurate contents.

8. No response to the allegations in paragraph 8 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations contained in paragraph 8, except admits that the Insurance Agreement contains certain representations and warranties made by Morgan Stanley and respectfully refers the Court to the referenced documents for their complete and accurate contents.

9. Morgan Stanley denies the allegations in paragraph 9 regarding any purported analysis of mortgage loans for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 9.

10. No response to the allegations in paragraph 10 is necessary or required because the allegations contain legal arguments and conclusions of law. Morgan Stanley denies the allegations in paragraph 10 regarding any purported analysis of mortgage loans for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 10.

11. Morgan Stanley denies the allegations in paragraph 11 regarding any purported analysis of mortgage loans for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 11.

12. Morgan Stanley denies the allegations in paragraph 12.

13. Morgan Stanley denies the allegations in paragraph 13.

14. No response to the allegations in paragraph 14 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 14.

15. No response to the allegations in paragraph 15 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 15 relating to FGIC's obligations under the Insurance Policy for lack of knowledge or information sufficient to form a belief as to their truth, and otherwise denies the allegations in paragraph 15.

16. No response to the allegations in paragraph 16 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 16.

17. Morgan Stanley denies the allegations in paragraph 17 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

18. Morgan Stanley admits the allegations in paragraph 18.

19. Morgan Stanley admits the allegations in the first sentence of paragraph 19. Morgan Stanley denies the allegations in paragraph 19, except admits that MSMC was the sponsor of 18 of the Underlying Securitizations.

20. No response to the allegations in paragraph 20 and footnote 1 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 20 and footnote 1.

21. No response to the allegations in paragraph 21 and footnote 2 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 21 and footnote 2, except admits that § 6.05(a) of the Insurance Agreement contains certain provisions relating to jurisdiction and respectfully refers the Court to the referenced document for its complete and accurate contents.

22. No response to the allegations in the second sentence of paragraph 22 is necessary or required because the allegations contain legal arguments and conclusions of law. Morgan Stanley denies the allegations in paragraph 22 regarding FGIC's decision-making and requirements for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 22, except admits that BARN included certain securities from forty-eight securitizations (the "Underlying Securitizations").

23. No response to the allegations in paragraph 23 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 23.

24. No response to the allegations in paragraph 24 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 24.

25. Morgan Stanley denies the allegations in paragraph 25, except admits that the Underlying NIM Securities Purchase Agreement contains certain representations and warranties made by MSAC and that the Insurance Agreement contains certain representations and warranties made by Morgan Stanley. Morgan Stanley respectfully refers the Court to the referenced documents for their complete and accurate contents.

26. Morgan Stanley denies the allegations contained in paragraph 26 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

27. Morgan Stanley denies the allegations contained in paragraph 27, and respectfully refers the Court to the cited documents for their complete and accurate contents.

28. Morgan Stanley denies the allegations contained in paragraph 28, except admits that the prospectus supplements and private placement memoranda for the Underlying Securitizations (together, the “Offering Documents”) include certain information regarding the mortgage loans included in the Underlying Securitizations. Morgan Stanley respectfully refers the Court to the cited documents for their complete and accurate contents.

29. Morgan Stanley denies the allegations in paragraph 29, and respectfully refers the Court to the cited documents for their complete and accurate contents.

30. No response to the allegations in paragraph 30 and footnote 3 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 30 and footnote 3, except admits that the Insurance Agreement contains certain warranties. Morgan Stanley respectfully refers the Court to the referenced document for its complete and accurate contents.

31. No response to the allegations in paragraph 31 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations about FGIC in paragraph 31 for lack of knowledge or information sufficient to form a belief as to their truth, and otherwise denies the allegations in paragraph 31.

32. No response to the allegations in paragraph 32 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 32.

33. No response to the allegations in paragraph 33 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 33 concerning FGIC's purported analysis of mortgage loans for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 33.

34. No response to the allegations in paragraph 34 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 34 concerning FGIC's purported analysis of mortgage loans for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 34.

35. No response to the allegations in paragraph 35 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 35.

36. Morgan Stanley denies the allegations in paragraph 36, and respectfully refers the Court to the referenced Prospectus Supplements and PPMs for their complete and accurate contents.

37. Morgan Stanley denies the allegations in paragraph 37, except admits that the quoted language appears in the prospectus supplement for the NIM 2006-NC4N securitization, and respectfully refers the Court to the referenced documents for their complete and accurate contents.



38. No response to the allegations in paragraph 38 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 38 concerning FGIC's decision making for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 38.

39. Morgan Stanley denies the allegations in paragraph 39 concerning FGIC's purported analysis of mortgage loans for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 39.

40. No response to the allegations in paragraph 40 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 40.

41. Morgan Stanley denies the allegations contained in paragraph 41 concerning the analysis conducted by the ratings agencies and what was received by FGIC for lack of knowledge or information sufficient to form a belief as to their truth, and otherwise denies the allegations in paragraph 41.

42. No response to the allegations in paragraph 42 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations contained in paragraph 42 relating to FGIC's reliance on any ratings for lack of knowledge or information sufficient to form a belief as to their truth, and otherwise denies the allegations in paragraph 42.

43. No response to the allegations in paragraph 43 and footnote 4 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations contained in paragraph 43 and footnotes 4-5, except respectfully refers the Court to the Insurance Agreement and Insurance Policy for their complete and accurate contents. Morgan Stanley otherwise denies the allegations in paragraph 43 and footnotes 4-5.

44. Morgan Stanley denies the allegations in paragraph 44.

45. Morgan Stanley denies the allegations contained in paragraph 45 relating to FGIC's reliance on any ratings for lack of knowledge or information sufficient to form a belief as to their truth, and otherwise denies the allegations in paragraph 45.

46. No response to the allegations in paragraph 46 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 46.

47. No response to the allegations in paragraph 47 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 47, except admits that it was the depositor and/or sponsor of certain of the Underlying Securitizations.

48. No response to the allegations in the first and second sentences of paragraph 48 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed necessary, Morgan Stanley denies the allegations in paragraph 48, except admits that Saxon Mortgage Services, Inc. acted as servicer for certain of the Underlying Securitizations.

49. Morgan Stanley denies the allegations in paragraph 49.

50. Morgan Stanley denies the allegations in paragraph 50 and respectfully refers the Court to the referenced document for its complete and accurate contents.

51. No response to the allegations in paragraph 51 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations about FGIC contained in paragraph 51 for lack of knowledge or information sufficient to form a belief as to their truth, and otherwise denies the allegations in paragraph 51.

52. No response to the allegations in paragraph 52 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations about FGIC contained in paragraph 52 for lack of knowledge or information sufficient to form a belief as to their truth, and otherwise denies the allegations in paragraph 52.

53. Morgan Stanley denies the allegations in paragraph 53 and footnote 6, except admits that the Transaction closed on May 31, 2007 and was a securitization of the Underlying NIM Securities.

54. Morgan Stanley denies the allegations in paragraph 54, except admits that, as part of the Transaction, Morgan Stanley pooled and securitized the Underlying NIM Securities.

55. Morgan Stanley admits the allegations in paragraph 55, except denies that the Transaction was effectuated as described in the paragraphs below. Morgan Stanley respectfully refers the Court to the referenced agreements for their contents.

56. Morgan Stanley admits the allegations in paragraph 56, except denies the allegations regarding representations and warranties made by MSAC to the extent they are inconsistent with the Underlying NIM Securities Purchase Agreement. Morgan Stanley respectfully refers the Court to the referenced document for its complete and accurate contents.

57. Morgan Stanley admits the allegations in paragraph 57.

58. No response to the allegations in paragraph 58 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 58, except admits that the Insurance Agreement contains certain representations and warranties made by Morgan Stanley, admits that the quoted language appears in the Insurance Agreement, and respectfully refers the Court to the referenced document for its complete and accurate contents.

59. Morgan Stanley denies the allegations regarding any purported reliance by FGIC contained in paragraph 59 for lack of knowledge or information sufficient to form a belief as to their truth, except admits that the Financial Guaranty Insurance Policy Number 07030034 was issued and FGIC agreed to guarantee certain principal and interest payments due to the holders of the Class N-1 Notes, admits that the quoted language appears in the Insurance Policy, and respectfully refers the Court to the referenced Insurance Policy for its complete and accurate contents.

60. Morgan Stanley denies the allegations contained in paragraph 60 and footnote 7, except admits that Morgan Stanley made certain representations and warranties in the Transaction Documents, and respectfully refers the Court to the referenced documents for their complete and accurate contents.

61. Morgan Stanley denies the allegations contained in paragraph 61, except admits that the quoted language appears in the Insurance Agreement and respectfully refers the Court to the referenced document for its complete and accurate contents.

62. No response to the allegations in paragraph 62 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 62.

63. Morgan Stanley denies the allegations regarding FGIC contained in paragraph 63 for lack of knowledge or information sufficient to form a belief as to the basis or content of the allegations, and otherwise denies the allegations in paragraph 63.

64. No response to the allegations in paragraph 64 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 64, except admits that the Insurance Agreement contains the quoted language, and respectfully refers the Court to the referenced document for its complete and accurate contents.

65. Morgan Stanley denies the allegations contained in paragraph 65 and footnotes 10-12 and respectfully refers the Court to the referenced document for its complete and accurate contents.

66. Morgan Stanley denies the allegations contained in paragraph 66 and footnote 13, except admits that the Underlying NIM Securities Purchase Agreement includes the quoted language and respectfully refers the Court to the referenced documents for their complete and accurate contents.

67. No response to the allegations in paragraph 67 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed, required Morgan Stanley denies the allegations in paragraph 67.

68. No response to the allegations in paragraph 68 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 68, except admits that the quoted language appears in the Underlying NIM Securities Purchase Agreement, and respectfully refers the Court to the referenced document for its complete and accurate contents.

69. Morgan Stanley denies the allegations regarding FGIC's expectations or analysis for lack of knowledge or information sufficient to form a belief as to the basis or contents of the allegations, and otherwise denies the allegations in paragraph 69.

70. No response to the allegations in paragraph 70 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 70.

71. No response to the allegations in paragraph 71 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 71 and respectfully refers the Court to the Insurance Agreement for its complete and accurate contents.

72. No response to the allegations of paragraph 72 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations regarding FGIC's purported review in paragraph 72 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations of paragraph 72.

73. Morgan Stanley denies the allegations regarding data used by FGIC and the ratings agencies in paragraph 73 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise the denies the allegations in paragraph 73.

74. Morgan Stanley denies the allegations regarding FGIC's purported review in paragraph 74 and footnote 14 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations of paragraph 74.

75. Morgan Stanley denies the allegations in paragraph 75 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 75.

76. Morgan Stanley denies the allegations in paragraph 76 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 76.



77. Morgan Stanley denies the allegations in paragraph 77 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 77.

78. Morgan Stanley denies the allegations in paragraph 78 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 78.

79. Morgan Stanley denies the allegations in paragraph 79 and footnotes 15-17 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 79 and footnotes 15-17.

80. No response to the allegations of paragraph 80 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 80.

81. No response to the allegations of paragraph 81 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 81 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 81.

82. Morgan Stanley denies the allegations in paragraph 82.

83. Morgan Stanley denies the allegations in paragraph 83 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 83, except admits that AVMs are one of the valuation tools used in the residential mortgage industry.

84. Morgan Stanley denies the allegations in paragraph 84 and footnote 18 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 84 and footnote 18.

85. Morgan Stanley denies the allegations in paragraph 85 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 85.

86. Morgan Stanley denies the allegations in paragraph 86 and footnote 19 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 86 and footnote 19.

87. Morgan Stanley denies the allegations in paragraph 87 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 87.

88. No response to the allegations in paragraph 88 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 88.

89. No response to the allegations in paragraph 89 is necessary or required because the allegations contain legal arguments and conclusions of law. Morgan Stanley denies the allegations in paragraph 89 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 89.

90. No response to the allegations in paragraph 90 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 90.

91. Morgan Stanley denies the allegations in paragraph 91 regarding FGIC's demands for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 91.

92. Morgan Stanley denies the allegations in paragraph 92, except admits that the quoted language appears in the Underlying NIM Securities Purchase Agreement and respectfully refers the Court to the referenced document for its complete and accurate contents.

93. No response to the allegations in paragraph 93 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 93, except admits that the quoted language appears in paragraph 4(a) of the Underlying NIM Securities Purchase Agreement and respectfully refers the Court to the referenced document for its complete and accurate contents.

94. Morgan Stanley denies the allegations in paragraph 94, except admits its receipt of a letter dated May 24, 2013 and respectfully refers the Court to the referenced document for its complete and accurate contents.

95. No response to the allegations in paragraph 95 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 95.

96. No response to the allegations in paragraph 96 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 96.

97. No response to the allegations in paragraph 97 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 97 and respectfully refers the Court to the referenced documents for their complete and accurate contents.

98. Morgan Stanley denies the allegations in paragraph 98 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

99. Morgan Stanley denies the allegations in paragraph 99 regarding any purported reviews for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 99.

100. Morgan Stanley denies the allegations in paragraph 100 and footnotes 20-58 concerning any purported analysis of mortgage loans for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 100 and footnotes 20-58. Morgan Stanley respectfully refers the Court to the cited documents for their complete and accurate contents.

101. Morgan Stanley denies the allegations in paragraph 101 and footnotes 59-71 concerning any purported analysis of mortgage loans for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 101 and 59-71. Morgan Stanley respectfully refers the Court to the documents referenced for their complete and accurate contents.

102. No response to the allegations in paragraph 102 and footnotes 72-78 is necessary or required because the allegations contain legal arguments and conclusions of law. Morgan Stanley denies the allegations in paragraph 102 and footnotes 72-78 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 102 and footnotes 72-78.

103. No response to the allegations in paragraph 103 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 103 regarding FGIC or other parties' purported reviews for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 103.

104. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 104 regarding FGIC or other parties' purported reviews for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 104.

105. Morgan Stanley denies the allegations in paragraph 105 and footnote 81 for lack of knowledge sufficient to form a belief as to the content and basis of the allegations, except admits that the quoted language appears in the referenced FCIC report and respectfully refers the Court to the cited report for its complete and accurate contents.

106. Morgan Stanley denies the allegations in paragraph 106 and footnote 82 for lack of knowledge sufficient to form a belief as to the content and basis of the allegations, but admits that the FCIC issued a report in January 2011 and respectfully refers the Court to the cited report for its complete and accurate contents.

107. Morgan Stanley denies the allegations in paragraph 107 and footnotes 83-84 for lack of knowledge sufficient to form a belief as to the content and basis of the allegations, but admits that the FCIC Report contains the quoted language and respectfully refers the Court to the cited report for its complete and accurate contents.

108. Morgan Stanley denies the allegations in paragraph 108 and footnote 85 for lack of knowledge sufficient to form a belief as to the content and basis of the allegations, but admits that the FCIC Report contains the quoted language and respectfully refers the Court to the cited report for its complete and accurate contents.

109. Morgan Stanley denies the allegations in paragraph 109 and footnote 86 for lack of knowledge sufficient to form a belief as to the content and basis of the allegations, but admits that the FCIC Report contains the quoted language and respectfully refers the Court to the cited report for its complete and accurate contents.

110. Morgan Stanley denies the allegations in paragraph 110 and footnote 87 for lack of knowledge sufficient to form a belief as to the content and basis of the allegations, but admits that the FCIC Report contains the quoted language and respectfully refers the Court to the cited report for its complete and accurate contents.

111. Morgan Stanley denies the allegations in paragraph 111 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations and respectfully refers the Court to the referenced document for its complete and accurate contents.

112. Morgan Stanley denies the allegations in paragraph 112 and footnote 89 for lack of knowledge sufficient to form a belief as to the content and basis of the allegations, but admits that the FCIC Report contains the quoted language and respectfully refers the Court to the cited report for its complete and accurate contents.

113. Morgan Stanley denies the allegations in paragraph 113 and footnote 90 regarding other investment banks for lack of knowledge or information sufficient to form a belief as to the basis of the allegations, and otherwise denies the allegations in paragraph 113 and footnote 90, but admits that the FCIC Report contains the quoted language and respectfully refers the Court to the cited report for its complete and accurate contents.



114. Morgan Stanley denies the allegations in paragraph 114 and footnote 91 for lack of knowledge sufficient to form a belief as to the content and basis of the allegations, but admits that the FSOC Risk Retention Report contains the quoted language and respectfully refers the Court to the cited report for its complete and accurate contents.

115. Morgan Stanley denies the allegations in paragraph 115 and footnote 92 for lack of knowledge sufficient to form a belief as to the content and basis of the allegations, but admits that the FSOC Risk Retention Report contains the quoted language and respectfully refers the Court to the cited report for its complete and accurate contents.

116. Morgan Stanley denies the allegations in paragraph 116 for lack of knowledge sufficient to form a belief as to the content and basis of the allegations.

117. Morgan Stanley denies the allegations in paragraph 117 for lack of knowledge sufficient to form a belief as to the content and basis of the allegations.

118. Morgan Stanley denies the allegations in paragraph 118 for lack of knowledge sufficient to form a belief as to the content and basis of the allegations.

119. Morgan Stanley denies the allegations in paragraph 119 and footnote 93 for lack of knowledge sufficient to form a belief as to the content and basis of the allegations and respectfully refers the Court to the referenced document for its complete and accurate contents.

120. Morgan Stanley denies the allegations in paragraph 120 and footnote 94 for lack of knowledge sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the referenced document for its complete and accurate contents.

121. Morgan Stanley denies the allegations in paragraph 121 and footnote 95 for lack of knowledge sufficient to form a belief as to the content and basis of the allegations, and refers the Court to the referenced document for its complete and accurate contents.

122. Morgan Stanley denies the allegations in paragraph 122.

123. Morgan Stanley denies the allegations in paragraph 123, which purport to describe certain industry customs or practices without alleging facts pertaining to any of the defendants in particular. Morgan Stanley denies that these allegations completely and accurately depict such industry customs or the practices of any of the defendants, and further denies the allegations in paragraph 123.

124. Morgan Stanley denies the allegations in paragraph 124.

125. Morgan Stanley denies the allegations in paragraph 125 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 125.

126. Morgan Stanley denies the allegations in paragraph 126 and footnotes 96-97 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 126 and footnotes 96-97, except admits that certain of the originators listed in the table in paragraph 126 originated certain of the mortgage loans included in the Underlying Securitizations.

127. Morgan Stanley denies the allegations in paragraph 127.

128. Morgan Stanley denies the allegations in paragraph 128 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

129. No response to the allegations in paragraph 129 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 129 regarding FGIC's purported review for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and otherwise denies the allegations in paragraph 129.

130. Morgan Stanley denies the allegations in paragraph 130 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

131. Morgan Stanley denies the allegations in paragraph 131 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

132. Morgan Stanley denies the allegations in paragraph 132 and footnote 98 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited article includes the quoted language and respectfully refers the Court to the cited article for its complete and accurate contents.

133. Morgan Stanley denies the allegations in paragraph 133 and footnote 99 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited article includes the quoted language and respectfully refers the Court to the cited article for its complete and accurate contents.

134. Morgan Stanley denies the allegations in paragraph 134 and footnote 100 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited report for its complete and accurate contents.

135. Morgan Stanley denies the allegations in paragraph 135 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the Examiner's Report includes the quoted language and respectfully refers the Court to the cited report for its complete and accurate contents.

136. Morgan Stanley denies the allegations in paragraph 136 and footnotes 101-107 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the Examiner's Report contains the quoted language and respectfully refers the Court to the Examiner's Report for its complete and accurate contents.

137. Morgan Stanley denies the allegations in paragraph 137 and footnote 108 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations and respectfully refers the Court to the Examiner's Report for its complete and accurate contents.

138. Morgan Stanley denies the allegations in paragraph 138 and footnote 109 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the Examiner's Report contains the quoted language and respectfully refers the Court to the Examiner's Report for its complete and accurate contents.

139. Morgan Stanley denies the allegations in paragraph 139 and footnote 110 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited report for its complete and accurate contents.

140. Morgan Stanley denies the allegations in paragraph 140 and footnotes 111-113 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited report for its complete and accurate contents.

141. Morgan Stanley denies the allegations in paragraph 141 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the Examiner's Report contains the quoted language and respectfully refers the Court to the Examiner's Report for its complete and accurate contents.

142. Morgan Stanley denies the allegations in paragraph 142 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the Examiner's Report contains the quoted language and respectfully refers the Court to the Examiner's Report for its complete and accurate contents.

143. Morgan Stanley denies the allegations in paragraph 143 and footnote 114 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations and respectfully refers the Court to the Examiner's Report for its complete and accurate contents.

144. Morgan Stanley denies the allegations in paragraph 144 and footnote 115 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations except admits that the Examiner's Report includes the quoted language and respectfully refers the Court to the Examiner's Report for its complete and accurate contents.

145. Morgan Stanley denies the allegations in paragraph 145 and footnote 116 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the Examiner's Report contains the quoted language and respectfully refers the Court to the Examiner's Report for its complete and accurate contents.

146. Morgan Stanley denies the allegations in paragraph 146 and footnote 117 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the Examiner's Report contains the quoted language and respectfully refers the Court to the Examiner's Report for its complete and accurate contents.

147. Morgan Stanley denies the allegations in paragraph 147 and footnote 118 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the Examiner's Report contains the quoted language and respectfully refers the Court to the Examiner's Report for its complete and accurate contents.

148. Morgan Stanley denies the allegations in paragraph 148 and footnote 119 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the Examiner's Report contains the quoted language and respectfully refers the Court to the Examiner's Report for its complete and accurate contents.

149. Morgan Stanley denies the allegations in paragraph 149 and footnote 120 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited report for its complete and accurate contents.

150. Morgan Stanley denies the allegations in paragraph 150 and footnote 121 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the Examiner's Report contains the quoted language and respectfully refers the Court to the Examiner's Report for its complete and accurate contents.

151. Morgan Stanley denies the allegations in paragraph 151 and footnote 122 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the Examiner's Report contains the quoted language and respectfully refers the Court to the Examiner's Report for its complete and accurate contents.

152. Morgan Stanley denies the allegations in paragraph 152 and footnotes 123-124 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited testimony contains the quoted language and respectfully refers the Court to the cited document for its complete and accurate contents.



153. Morgan Stanley denies the allegations in paragraph 153 and footnote 125 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited testimony contains the quoted language and respectfully refers the Court to the cited document for its complete and accurate contents.

154. Morgan Stanley denies the allegations in the first sentence of paragraph 154 and footnote 126 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that in December 2009, the SEC filed a complaint against certain New Century executives, and respectfully refers the Court to the referenced complaint and press release for their complete and accurate contents.

155. Morgan Stanley denies the allegations in paragraph 155 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

156. Morgan Stanley denies the allegations in paragraph 156 and footnote 127 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited document for its complete and accurate contents.

157. Morgan Stanley denies the allegations in paragraph 157 and footnotes 128-130 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited documents for their complete and accurate contents.

158. Morgan Stanley denies the allegations in paragraph 158 and footnote 131 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that Ambac Assurance Corp. brought certain claims against First Franklin Financial Corporation, admits that the cited decision includes the quoted language, and respectfully refers the Court to the cited decision and related docket for their complete and accurate contents.

159. Morgan Stanley denies the allegations in paragraph 159 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegation.

160. Morgan Stanley denies the allegations in paragraph 160 and footnote 132 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited report includes the quoted language and respectfully refers the Court to the cited report for its complete and accurate contents.

161. Morgan Stanley denies the allegations in paragraph 161 and footnote 133 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited report includes the quoted language and respectfully refers the Court to the cited report for its complete and accurate contents.

162. Morgan Stanley denies the allegations in paragraph 162 and footnote 134 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the quoted language appears in the cited report, and respectfully refers the Court to the cited report for its complete and accurate contents.

163. Morgan Stanley denies the allegations in paragraph 163 and footnote 135 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited report for its complete and accurate contents.

164. Morgan Stanley denies the allegations in paragraph 164 and footnote 136 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited document includes the quoted language, and respectfully refers the Court to the cited document for its complete and accurate contents.

165. Morgan Stanley denies the allegations in paragraph 165 and footnotes 137-138 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited document includes the quoted language, and respectfully refers the Court to the cited document for its complete and accurate contents.

166. Morgan Stanley denies the allegations in paragraph 166 and footnotes 139-141 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited document includes the quoted language and respectfully refers the Court to the cited document for its complete and accurate contents.

167. Morgan Stanley denies the allegations in paragraph 167 and footnotes 142-143 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited document includes the quoted language, and respectfully refers the Court to the cited document for its complete and accurate contents.

168. Morgan Stanley denies the allegations in paragraph 168 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited documents for their complete and accurate contents.

169. Morgan Stanley denies the allegations in paragraph 169 and footnote 144 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited report for its complete and accurate contents.

170. Morgan Stanley denies the allegations in paragraph 170 and footnote 145 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited report for its complete and accurate contents.

171. Morgan Stanley denies the allegations in paragraph 171 for lack of knowledge or information to form a belief as to the content and basis of the allegations, except admits that Countrywide Home Loans, Inc. (“Countrywide”) was an originator of residential mortgages between 2005 and 2007.

172. Morgan Stanley denies the allegations in paragraph 172 and footnote 146 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the referenced decision includes the quoted language, and respectfully refers the Court to the referenced decision in *MBIA Ins. Corp. v. Countrywide Home Loans Inc.*, No. 602825/08, 2009 WL 2135167 (Sup. Ct. N.Y. Cty. July 8, 2009), *aff'd as modified*, 87 A.D.3d 287 (1st Dep't 2011), for its complete and accurate contents.

173. Morgan Stanley denies the allegations in paragraph 173 and footnote 147 for lack of knowledge or information sufficient to form a belief as to the content or basis of the allegations, except admits that the cited memorandum includes the quoted language, and respectfully refers the Court to the cited memorandum for its complete and accurate contents.

174. Morgan Stanley denies the allegations in paragraph 174 and footnote 148 for lack of knowledge or information sufficient to form a belief as to the content or basis of the allegations, except admits that the cited article includes the quoted language and respectfully refers the Court to the cited article for its complete and accurate contents.

175. Morgan Stanley denies the allegations in paragraph 175 and footnote 149 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited report includes the quoted language, and respectfully refers the Court to the cited report for its complete and accurate contents.

176. Morgan Stanley denies the allegations in paragraph 176 and footnotes 150-151 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the SEC filed a complaint against certain Countrywide executives in June 2009, and respectfully refers the Court to the complaint and cited article for its complete and accurate contents.

177. Morgan Stanley denies the allegations in paragraph 177 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

178. Morgan Stanley denies the allegations in paragraph 178 and footnotes 152-153 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the referenced document includes the quoted language, and respectfully refers the Court to the referenced document for its complete and accurate contents.

179. Morgan Stanley denies the allegations in paragraph 179 and footnote 154 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the referenced document includes the quoted language, and respectfully refers the Court to the referenced document for its complete and accurate contents.

180. Morgan Stanley denies the allegations in paragraph 180 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the referenced document includes the quoted language, and respectfully refers the Court to the referenced document for its complete and accurate contents.

181. Morgan Stanley denies the allegations in paragraph 181 and footnote 155 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the referenced document includes the quoted language, and respectfully refers the Court to the referenced document for its complete and accurate contents.

182. Morgan Stanley denies the allegations in paragraph 182 and footnote 156 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the referenced document includes the quoted language, and respectfully refers the Court to the referenced document for its complete and accurate contents.

183. Morgan Stanley denies the allegations in paragraph 183 and footnote 157 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the referenced document includes the quoted language, and respectfully refers the Court to the referenced document for its complete and accurate contents.

184. Morgan Stanley denies the allegations in paragraph 184 and footnote 158 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the referenced document includes the quoted language, and respectfully refers the Court to the referenced document for its complete and accurate contents.

185. Morgan Stanley denies the allegations in paragraph 185 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that certain states announced a settlement with Countrywide on October 6, 2008.

186. Morgan Stanley denies the allegations in paragraph 186 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the referenced report for its complete and accurate contents.

187. Morgan Stanley denies the allegations in paragraph 187 and footnotes 159-160 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited report includes the quoted language, and respectfully refers the Court to the cited report for its complete and accurate contents.

188. Morgan Stanley denies the allegations in paragraph 188 and footnote 161 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited report for its complete and accurate contents.



189. Morgan Stanley denies the allegations in paragraph 189 and footnote 162 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited report includes the quoted language, and respectfully refers the Court to the cited report for its complete and accurate contents.

190. Morgan Stanley denies the allegations in paragraph 190 and footnote 163 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited report for its complete and accurate contents.

191. Morgan Stanley denies the allegations in paragraph 191 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

192. Morgan Stanley denies the allegations in the first sentence of paragraph 192 and footnote 164 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that Allstate Insurance Company filed a complaint against Morgan Stanley on July 5, 2011, admits that the complaint includes the quoted language, and respectfully refers the Court to the cited complaint and decision in *Allstate Ins. Co. v. Morgan Stanley*, No. 651840/2011, 2013 WL 2369953 (Sup. Ct. N.Y. Cty. Mar. 14, 2013) (the “Allstate case”) for their complete and accurate contents. Morgan Stanley admits that an appeal was decided in the Allstate case in May 2014.

193. Morgan Stanley denies the allegations in paragraph 193 and footnote 165 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited complaint for its complete and accurate contents.

194. Morgan Stanley denies the allegations in paragraph 194 and footnote 166 concerning the practices of Clayton and Decision One for lack of knowledge or information sufficient to form a belief as to the basis of the allegations, except admits that Clayton Holdings LLC (“Clayton”) at times performed due diligence on certain pools of mortgage loans. Morgan Stanley otherwise denies the allegations in paragraph 194 and footnote 166.

195. Morgan Stanley denies the allegations in paragraph 195 and footnote 167 for lack of knowledge or information sufficient to form a belief as to the content or basis of the allegations, and respectfully refers the Court to the cited report for its complete and accurate contents.

196. Morgan Stanley denies the allegations in paragraph 196 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

197. Morgan Stanley denies the allegations in paragraph 197 and footnote 168 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited article for its complete and accurate contents.

198. Morgan Stanley denies the allegations in paragraph 198 and footnote 169 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited article includes the quoted language, and respectfully refers the Court to the cited article for its complete and accurate contents.

199. Morgan Stanley denies the allegations in paragraph 199 and footnote 170 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited article includes the quoted language, and respectfully refers the Court to the cited article for its complete and accurate contents.

200. Morgan Stanley denies the allegations in paragraph 200 and footnote 171 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited article includes the quoted language, and respectfully refers the Court to the cited article for its complete and accurate contents.

201. Morgan Stanley denies the allegations in paragraph 201 and footnotes 172-173 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that Washington State filed certain charges against WMC in June 2008 and that WMC entered a consent order in July 2009, and respectfully refers the Court to the cited documents for their complete and accurate contents.

202. Morgan Stanley denies the allegations in paragraph 202 and footnote 174 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited report for its complete and accurate contents.

203. Morgan Stanley denies the allegations in paragraph 203 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

204. Morgan Stanley denies the allegations in paragraph 204 and footnote 175 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that Federal Home Loan Bank of Chicago filed a complaint against certain defendants in Illinois state court, and respectfully refers the Court to the cited complaint for its complete and accurate contents.

205. Morgan Stanley denies the allegations in paragraph 205 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

206. Morgan Stanley denies the allegations in paragraph 206 and footnote 176 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited complaint for its complete and accurate contents.

207. Morgan Stanley denies the allegations in paragraph 207 and footnote 177 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited complaint for its complete and accurate contents.

208. Morgan Stanley denies the allegations in paragraph 208 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

209. Morgan Stanley denies the allegations in paragraph 209 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

210. Morgan Stanley denies the allegations in paragraph 210 and footnote 178 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that First NLC entered into a consent agreement with the Pennsylvania Department of Banking and respectfully refers the Court to the cited document for its complete and accurate contents.

211. Morgan Stanley denies the allegations in paragraph 211 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

212. Morgan Stanley denies the allegations in paragraph 212 and footnote 179 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the order cited for its complete and accurate contents.

213. Morgan Stanley denies the allegations in paragraph 213 and footnote 180 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the order cited for its complete and accurate contents.

214. Morgan Stanley denies the allegations in paragraph 214 and footnote 181 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited order includes the quoted language, and respectfully refers the Court to the cited order for its complete and accurate contents.

215. Morgan Stanley denies the allegations in paragraph 215 for lack of knowledge or information sufficient to form a belief as to the contents and basis of the allegations.

216. Morgan Stanley denies the allegations in paragraph 216 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations.

217. Morgan Stanley denies the allegations in paragraph 217 and footnote 182 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited article for its complete and accurate contents.

218. Morgan Stanley denies the allegations in paragraph 218 and footnote 183 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited article for its complete and accurate contents.

219. Morgan Stanley denies the allegations in paragraph 219 and footnote 184 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited article for its complete and accurate contents.

220. Morgan Stanley denies the allegations in paragraph 220 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that JPMorgan Chase Bank (“Chase”) originated certain of the mortgage loans in the Underlying Securitizations.

221. Morgan Stanley denies the allegations in paragraph 221 and footnote 185 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited document for its complete and accurate contents.

222. Morgan Stanley denies the allegations in paragraph 222 and footnotes 186-187 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited document includes the quoted language, and respectfully refers the Court to the cited document for its complete and accurate contents.

223. Morgan Stanley denies the allegations in paragraph 223 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, and respectfully refers the Court to the cited document for its complete and accurate contents.

224. Morgan Stanley denies the allegations in paragraph 224 and footnote 188 for lack of knowledge or information sufficient to form a belief as to the content and basis of the allegations, except admits that the cited article includes the quoted language, and respectfully refers the Court to the cited article for its complete and accurate contents.

225. No response to the allegations of paragraph 225 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 225.

226. Morgan Stanley denies the allegations in paragraph 226 and footnote 189 and respectfully refers the Court to the referenced document for its complete and accurate contents.

227. Morgan Stanley denies the allegations in paragraph 227 and footnote 190 and respectfully refers the Court to the referenced document for its complete and accurate contents.

228. Morgan Stanley denies the allegations in paragraph 228 and footnote 191, except admits that New Century originated certain of the mortgage loans included in the Underlying Securitizations.



229. Morgan Stanley denies the allegations in paragraph 229, except admits that Morgan Stanley provided warehouse lending or other credit facilities in various forms to certain mortgage lenders, including New Century or one or more of its affiliates.

230. Morgan Stanley denies the allegations in paragraph 230 and footnote 192, except admits that the referenced individual was interviewed in September 2009 and the quoted language appears in the transcript of the interview. Morgan Stanley respectfully refers the Court to the referenced document for its complete and accurate contents.

231. No response to the allegations in paragraph 231 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 231.

232. Morgan Stanley denies the allegations in paragraph 232 and footnotes 193-195, except admits that Morgan Stanley performed due diligence on certain pools of mortgage loans, that Clayton generally had a grading system for loans that it reviewed, and that Clayton Holdings LLC (“Clayton”) at times performed due diligence on certain pools of mortgage loans, and respectfully refers the Court to the cited report for its complete and accurate contents.

233. Morgan Stanley denies the allegations in paragraph 233, and respectfully refers the Court to the cited documents for their complete and accurate contents.

234. Morgan Stanley denies the allegations in paragraph 234 and footnote 196.

235. No response to the allegations in paragraph 235 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 235.

236. No response to the allegations in paragraph 236 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 236.

237. No response to the allegations in paragraph 237 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 237.

238. No response to the allegations in paragraph 238 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 238.

239. No response to the allegations in paragraph 239 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 239.

240. No response to the allegations in paragraph 240 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 240.

241. No response to the allegations in paragraph 241 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 241.

242. No response to the allegations in paragraph 242 is necessary or required because the allegations contain legal arguments and conclusions of law. To the extent a response is deemed required, Morgan Stanley denies the allegations in paragraph 242.

243. Morgan Stanley repeats and re-alleges its responses to every allegation contained in the foregoing paragraphs as if fully set forth herein.

244. Morgan Stanley denies the allegations in paragraph 244.

245. Morgan Stanley denies the allegations in paragraph 245.

246. Morgan Stanley denies the allegations in paragraph 246.

247. Morgan Stanley denies the allegations in paragraph 247.

248. Morgan Stanley denies the allegations in paragraph 248.

249. Morgan Stanley repeats and re-alleges its responses to every allegation contained in the foregoing paragraphs as if fully set forth herein.

250. Morgan Stanley denies the allegations in paragraph 250.

251. Morgan Stanley denies the allegations in paragraph 251.

252. Morgan Stanley denies the allegations in paragraph 252.

253. Morgan Stanley repeats and re-alleges its responses to every allegation contained in the foregoing paragraphs as if fully set forth herein.

254. Morgan Stanley denies the allegations in paragraph 254.

255. Morgan Stanley denies the allegations in paragraph 255.
256. Morgan Stanley denies the allegations in paragraph 256.
257. Morgan Stanley repeats and re-alleges its responses to every allegation contained in the foregoing paragraphs as if fully set forth herein.
258. Morgan Stanley denies the allegations in paragraph 258.
259. Morgan Stanley denies the allegations in paragraph 259.
260. Morgan Stanley denies the allegations in paragraph 260.
261. Morgan Stanley denies the allegations in paragraph 261.

### **AFFIRMATIVE DEFENSES**

Morgan Stanley asserts the following defenses and reserves the right to amend this answer to assert other and further defenses when and if, in the course of its investigation, discovery, or preparation for trial, it becomes appropriate. By designating these defenses, Morgan Stanley does not intend to suggest either that plaintiff does not bear the burden of proof as to such matters or that such matters are not elements of plaintiff's prima facie case against Morgan Stanley.

### **FIRST DEFENSE**

Plaintiff has failed to state a claim against Morgan Stanley on which relief may be granted.

**SECOND DEFENSE**

Plaintiff's claims are barred, in whole or in part, because any alleged breaches of representations or warranties did not have a material and adverse effect on the value of plaintiff's interests in the related mortgage loans.

**THIRD DEFENSE**

Plaintiff's claims are barred, in whole or in part, because plaintiff is in breach of the relevant contracts.

**FOURTH DEFENSE**

Plaintiff is barred from recovery by its own inequitable conduct, including but not limited to plaintiff's unreasonable and unjustifiable interpretation of the relevant contractual provisions.

**FIFTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, by the doctrines of laches, waiver, acquiescence, and/or estoppel.

**SIXTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, by the doctrines of unjust enrichment and/or unclean hands.

**SEVENTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, by the doctrines of avoidable consequences and/or mitigation of damages.

**EIGHTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, by the contractual remedies and limitations contained in the parties' agreements, and/or by plaintiff's failure to exhaust those remedies.

**NINTH DEFENSE**

Plaintiff's claims for pre-judgment interest should be dismissed because the amount of damages (if any) was not readily ascertainable at the time plaintiff's lawsuit was commenced.

**TENTH DEFENSE**

Morgan Stanley is entitled to recover contribution or indemnification from others for any liability incurred as a result of the misconduct alleged against Morgan Stanley.

**ELEVENTH DEFENSE**

Other parties not named in the Complaint may be indispensable parties to this action.

**TWELFTH DEFENSE**

Plaintiff's claims fail, in whole or in part, based on the terms of the governing contracts.

**THIRTEENTH DEFENSE**

Plaintiff's claims fail, in whole or in part, based on the disclosures in the offering documents, information publicly available or widely known to the market and to the investment community, and/or information otherwise known to plaintiff.

**FOURTEENTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, because any damages it alleges to have sustained were caused by the acts and/or omissions of persons other than Morgan Stanley.

**FIFTEENTH DEFENSE**

Morgan Stanley is entitled to a setoff of any amount determined to be owed by it, because it did not receive prompt, sufficiently detailed notice of the alleged breaches of

representations and warranties so that Morgan Stanley might take action before the Mortgage Loans lost value or lost further value.

**SIXTEENTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, because any alleged breaches of representations and warranties are not the proximate cause of any loss in value of any loan or damages to FGIC.

**SEVENTEENTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, by its failure to meet the requisite condition precedent prior to filing its claims.

**EIGHTEENTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, to the extent plaintiff failed to conduct appropriate due diligence prior to issuing the Policy.

**NINETEENTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, because plaintiff cannot establish any actionable misrepresentations that induced its participation in the Insurance Agreement and the Policy.

**TWENTIETH DEFENSE**

Plaintiff's claims are barred, in whole or in part, because Morgan Stanley had no duty to disclose any facts allegedly not disclosed.

**TWENTY-FIRST DEFENSE**

Plaintiff's claims are barred, in whole or in part, because plaintiff knew the truth of the statements it now claims were allegedly misrepresented.

**TWENTY-SECOND DEFENSE**

Plaintiff's claims are barred, in whole or in part, because at the time the Transaction documents became effective, Morgan Stanley believed that the statements therein were true and that there was no omission of material fact required to be stated therein or necessary to make the statements therein not misleading.

**TWENTY-THIRD DEFENSE**

Plaintiff's claims are barred, in whole or in part, because none of the Transaction documents contain any untrue statements of material fact or omit a material fact required to be stated therein or necessary to make the statements therein not misleading.

**TWENTY-FOURTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, to the extent FGIC seeks reimbursement for the claims payments that are the result of the very risks FGIC agreed to insure.

**TWENTY-FIFTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, to the extent FGIC receives or is entitled to payments or other value from any other source in connection with its alleged losses on the Policy. Morgan Stanley is entitled to all rights of setoff for payments that FGIC receives in connection with the Policy.

**TWENTY-SIXTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, to the extent FGIC receives or is entitled to payments or other value in connection with its ownership of or holding of any interest in any NIM Certificates. Morgan Stanley is entitled to all rights of setoff for payments or value that FGIC receives in connection with the NIM Certificates.



**TWENTY-SEVENTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, by the applicable statute of limitations.

**TWENTY-EIGHTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, by FGIC's own material breach of contract.

**TWENTY-NINTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, because FGIC lacks standing to bring the instant action.

**THIRTIETH DEFENSE**

Plaintiff's claims are barred, in whole or in part, because certain of the alleged misstatements or omissions are not actionable statements of opinion that plaintiff has not alleged and cannot prove were not genuinely held when made.

**THIRTY-FIRST DEFENSE**

Plaintiff's claims are barred, in whole or in part, because Morgan Stanley is not liable for third-party statements accurately relayed in the Offering Documents, and had no duty to verify, opine upon, audit, review or correct information disclosed by third parties.

**THIRTY-SECOND DEFENSE**

Plaintiff's claims are barred, in whole or in part, because any allegedly misleading forward-looking statements were disclosed in the context of sufficient cautionary language and, as such, are not actionable.

**THIRTY-THIRD DEFENSE**

The purported claims against Morgan Stanley and the allegations upon which they are based are improperly vague, ambiguous, and confusing. Morgan Stanley reserves the right to request a more definite statement.

**THIRTY-FOURTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, because plaintiff did not suffer any loss caused by Morgan Stanley's alleged deception.

**THIRTY-FIFTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, because any allegedly misleading statements were disclosed in the context of sufficient cautionary language and, as such, are not actionable under the "bespeaks caution" doctrine.

**THIRTY-SIXTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, by the "economic loss" doctrine.

**THIRTY-SEVENTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, because Morgan Stanley did not make a misrepresentation or commit a mistake with the requisite state of mind.

**THIRTY-EIGHTH DEFENSE**

Plaintiff's claims for damages are barred, in whole or in part, because plaintiff did not suffer any legally cognizable injury or damages as a result of Morgan Stanley's conduct, and because plaintiff has received, and continues to receive, payment of principal and interest on some or all of the certificates identified in the Complaint.

**THIRTY-NINTH DEFENSE**

Plaintiff's claims are barred, in whole or in part, because FGIC has no right to enforce the PSA.

**FORTIETH DEFENSE**

Any damages awarded to plaintiff must be offset by any recoveries that the underlying securitizations receive.

**PRAYER FOR RELIEF**

WHEREFORE, Morgan Stanley respectfully demands a judgment:

1. dismissing the complaint and each and every cause of action set forth therein with prejudice;
2. awarding Defendants their costs of suit and attorneys' fees; and
3. awarding Defendants such other and further relief as the Court deems just and proper.

Dated: New York, New York  
March 1, 2017

DAVIS POLK & WARDWELL LLP

By: /s/ Brian S. Weinstein  
James P. Rouhandeh  
Brian S. Weinstein  
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