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**UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY**

AURORA LOAN SERVICES INC.,

Plaintiff,

v.

D&M FINANCIAL CORPORATION, INC.

Defendant.

Civil Action No.

**COMPLAINT AND
JURY DEMAND**

Aurora Loan Services Inc. (“Aurora” or “Plaintiff”), as and for its Complaint against D&M Financial Corporation, Inc. (“D&M Financial” or “Defendant”), respectfully alleges and avers as follows:

NATURE OF ACTION

1. This is an action for breach of contract and unjust enrichment which has arisen as a result of Defendant’s failure to meet its obligations and honor its representations and warranties pursuant to its sale to Aurora of certain mortgage loans.

PARTIES

2. Plaintiff is a Delaware corporation with its principal place of business at 2530 S. Parker Road, Suite 601, Aurora, Colorado 80014.

3. Defendant is a New Jersey corporation with its principal place of business at 383 Washington Avenue, Belleville, New Jersey 07109.

JURISDICTION AND VENUE

4. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1332(a)(1) and (c)(1), because the matter in controversy exceeds \$75,000, exclusive of interest and costs, and is between citizens of different states.

5. Venue is proper in this District pursuant to 28 U.S.C. § 1391(a)(1) and (2) because the Defendant resides in this District and a substantial portion of the events giving rise to Plaintiff's claims occurred in this District.

FACTUAL BACKGROUND APPLICABLE TO ALL CLAIMS

A. The Secondary Mortgage Loan Market

6. Aurora is in the mortgage banking business, and is an originator and servicer of residential mortgage loans. Aurora originates and acquires first- and second-lien residential mortgage loans and also refinances existing residential mortgage loans.

7. Aurora participates in the secondary mortgage market as well. Accordingly, Aurora purchases residential mortgage loans from originating mortgage brokers and correspondent lenders and in turn sells such mortgages to agencies (such as Fannie Mae and Freddie Mac) and private investors in securities backed by the mortgages. In order for securities backed by the mortgage loans to receive the high ratings required by private investors, Aurora must maintain underwriting and quality-control standards that meet rating agency requirements, which, to some extent, track the requirements of Fannie Mae.

8. Since investors will only purchase those loans meeting their eligibility requirements, Aurora must ensure that all loans it purchases from mortgage originators are accompanied by adequate and accurate documentation and otherwise satisfy such investors' requirements. To protect its purchases, Aurora routinely requires -- as is common in the industry

-- that mortgage originators repurchase any mortgage loan that does not meet the specifications required by the private investors. In addition, in accordance with industry standards, Aurora bargains for the right to be indemnified by the mortgage originator in the event that Aurora were to suffer any loss or damages resulting from inaccurate documentation or other inadequacies concerning the mortgage loans purchased.

B. The Loan Purchase Agreement

9. Aurora and D&M Financial entered into a Loan Purchase Agreement (the “Agreement”), in which Aurora agreed to purchase, and D&M Financial agreed to sell, certain residential mortgage loans. The Agreement provided, in relevant part, that D&M Financial agreed to sell, and Aurora agreed to purchase, from time to time, mortgage loans and the related servicing rights thereto as further described in the related Purchase Advice.

10. The Agreement, in turn, expressly incorporates by reference Aurora’s Seller Guide, which is a more comprehensive contract setting forth, among other things, the seller’s obligations with respect to its sale of loans to Aurora. By their express terms, the Agreement and Seller Guide are governed by New York law.

11. Pursuant to the Agreement, D&M Financial agreed that it would sell to Aurora only those loans that met the qualifications contained therein. Also pursuant to the Agreement, D&M Financial agreed to provide loans that complied with the Seller Guide. Thus, pursuant to Section 210 of the Seller Guide, D&M Financial specifically promised to ensure regulatory compliance, including “ongoing compliance with all applicable governing laws, rules and regulations,” including the various rules and regulations set forth in that provision. Furthermore, D&M Financial provided the various representations and warranties set forth in Section 703 of the Seller Guide, by which, among other things, D&M Financial agreed that it would sell to Aurora loans meeting the various qualifications, set forth in the Agreement and Seller Guide, as well as the servicing rights, mortgagor files, escrow accounts and records pertaining to such loans.

12. In order to ensure that Aurora could pass on the loans to private investors, it bargained for various representations, warranties and covenants designed to ensure that the loan seller provided high-quality loans. If the seller failed to meet those representations, warranties or covenants, Aurora was protected by, among other things, Sections 710 and 711 of the Seller Guide, which imposed upon D&M Financial certain repurchase and indemnity obligations in the event of any breach thereof.

13. D&M Financial represented and warranted that the documentation supplied with each of the loans was true and complete in all material respects. Specifically, for example, pursuant to Section 703.1, D&M Financial agreed not to furnish any falsified or untrue document as part of the mortgage loan file. Similarly, pursuant to Section 703.12, D&M Financial agreed not to submit a document that contained an untrue statement of material fact or omitted a material fact that was required to be disclosed. Further, pursuant to Section 703.12, D&M Financial represented that no fraud was committed in connection with the origination of the loans.

14. Aurora specifically bargained for the contractual right to be protected against buying loans that were secured by properties having a value that was too low to adequately secure such loans. Thus, with respect to each of the loans, D&M Financial represented and warranted that value of the mortgaged property was adequate to secure the Loan. Specifically, pursuant to Section 703.36, D&M Financial agreed to use a qualified appraiser to provide a disinterested and accurate appraisal complying with, among other things, all laws and requirements of Fannie Mae. Also pursuant to Section 703.36, D&M Financial represented and warranted that the appraisals supplied to Aurora in connection with each of the loans were accurate in all material respects.

15. Additionally, pursuant to Sections 703.16 of the Seller Guide, the loan-to-value ratio ("LTV") and/or closing loan-to-value ratio ("CLTV") of any mortgage loan could not exceed the maximum LTV permitted by the Seller Guide. Because an LTV and a CLTV ratio

reflects the amount of the loan relative to the value of the property, a high ratio indicates that the loan amount is in danger of not being adequately secured by the mortgaged property.

16. D&M Financial also represented and warranted that the mortgaged properties associated with any loans met Aurora's eligibility criteria. Specifically, pursuant to Section 703.10, D&M Financial represented and warranted that the mortgaged properties were not used for commercial purposes, and fell into one of the following categories: (i) a single family residence; (ii) a two- to four-family residence; or (iii) an individual unit in a condominium or planned unit development.

17. Further, pursuant to Sections 703.8 and 703.16, D&M Financial represented that each of the loans complied in all respects with Aurora's Underwriting Guidelines (which Guidelines are set forth primarily in Section 5 of the Seller Guide). Aurora's Underwriting Guidelines set forth specific criteria that a loan must meet in order to be eligible for purchase by Aurora.

18. In addition, pursuant to Section 715 of the Seller Guide, D&M Financial agreed to repurchase any loan where the mortgagor failed to make the first monthly payment due to Aurora (an "Early Payment Default").

19. If a loan seller breached any of its contractual obligations, then, pursuant to Sections 710 and 711 of the Seller Guide, the seller -- here D&M Financial -- agreed to (i) repurchase the Loan(s) by reimbursing Aurora for the unpaid principal balance plus accrued interest, legal expenses, and other expenses that Aurora might incur as a result of the misrepresentation; and (ii) reimburse Aurora for the price originally paid by Aurora for the servicing rights with respect to such loans. In addition, D&M Financial was required to indemnify Aurora for all costs and losses associated with such loans.

C. D&M Financial Mortgage's Defaults Under the Agreement

20. Aurora became aware of certain material misrepresentations made by D&M Financial and of certain of D&M Financial's contractual defaults with regard to the sale of at least twenty-nine loans made to Aurora. These loans are identified in the chart attached hereto as

Exhibit A (the “Loans”), which chart is incorporated by reference herein as though fully set forth in this Complaint.

(i) Default relating to Misrepresentations of Debt and Income

21. With regard to certain Loans, D&M Financial made several material misrepresentations as to the amount of the borrowers’ income, the amount of the borrowers’ debt, and in some cases both. D&M Financial was thus in default pursuant to, among other things, (i) Section 703.1 of the Seller Guide because D&M Financial had furnished a falsified or untrue document as part of the mortgage loan file, and (ii) Section 703.12 of the Seller Guide because D&M Financial had submitted a document that contained an untrue statement of material fact or omitted a material fact that was required to be disclosed. Aurora has identified such misrepresentations by marking each applicable Loan listed on Exhibit A as committing a “Debt/Income misrepresentation.”

22. As a result of D&M Financial’s misrepresentations regarding the borrowers’ debt or income, the borrowers’ debt-to-income ratios (DTI) had to be re-calculated. In some instances, the revised DTIs exceed Aurora’s underwriting guidelines. Thus, D&M Financial was in default with respect to, among other things, Sections 703.8 and 703.16, because it sold Loans to Aurora that did not meet contractual requirements. Aurora has identified such DTI defaults by marking each applicable Loan listed on Exhibit A as committing “DTI Default.”

(ii) Defaults Relating to Valuation

23. Further, D&M Financial made several material misrepresentations to Aurora regarding the Loans, including but not limited to, misrepresentations as to the value of the mortgaged properties.

24. When Aurora obtained field reviews and/or otherwise sought to confirm the values of the mortgaged properties as represented to Aurora by D&M Financial, it determined that several of the appraisals supplied by D&M Financial significantly overstated the values of the associated properties.

25. As a result of such misrepresentations concerning the mortgaged properties securing the Loans, Aurora discovered that certain LTV and CLTV ratios far exceeded the maximums provided for in the Agreement. D&M Financial was thus in default pursuant to, among other things, Section 703.16 of the Seller Guide because the LTV ratio on the mortgaged properties securing the Loans exceeded any acceptable level, and (ii) Section 703.36 of the Seller Guide because D&M Financial had failed to provide a disinterested and accurate appraisal of the property securing the Loans. Aurora has identified such misrepresentations and defaults by marking each applicable Loan listed on Exhibit A as committing a “Valuation/LTV Default.”

(iii) Eligibility Defaults

26. Aurora also identified several Loans with respect to which D&M Financial misrepresented the nature, occupancy and/or use of the mortgaged property securing such Loans. For example, certain of the mortgaged properties are in fact commercial properties, making them ineligible for purchase by Aurora. Other mortgaged properties contain more than four residential units, also in violation of the Agreement.

27. Aurora also identified certain misrepresentations concerning the occupancy of the mortgage properties. In such cases, D&M Financial had represented to Aurora that such Loans were for “owner occupied” properties when in fact that was not true.

28. As a result of such misrepresentations concerning the nature, occupancy and/or use of the mortgaged premises, D&M Financial was in default pursuant to, among other provisions, Sections 703.1, 703.8, 703.10, 703.16 and 703.36 of the Seller Guide. Aurora has identified such misrepresentations and defaults by marking each applicable Loan listed on Exhibit A as committing an “Ineligible Property Default.”

(iv) Early Payment Defaults

29. Aurora also identified several Loans under which the borrowers failed to make the first required loan payment to Aurora.

30. Pursuant to Section 715 of the Seller Guide, D&M Financial is required to repurchase any loan for which the mortgagor failed to make the first monthly payment. Aurora

has identified the Loans for which the mortgagor failed to make the first monthly payment by marking each applicable Loan listed on Exhibit A as committing an “Early Payment Default.”

(v) **Other Misrepresentations**

31. Aurora has identified certain other misrepresentations, which are identified on Exhibit A. For example, as respects certain Loans, D&M Financial: (i) failed to disclose the fact that the sale of the mortgage property was not an arms-length transaction; (ii) failed to disclose the existence of fraud and/or a “straw” buyer in the transaction; (iii) failed to disclose or misrepresented Aurora’s actual lien position; or (iv) presented other documentation or information to Aurora that was materially false and misleading.

32. As a result of such misrepresentations and non-disclosures, D&M Financial was in default pursuant to, among other things, Sections 703.1 and 703.12.

D. Aurora’ Notice of Default and Demand for Repurchase and Indemnification

33. Pursuant to Section 710 of the Seller Guide, Aurora is under no obligation to notify D&M Financial of the occurrence of any breach of its representations and warranties. Nevertheless, Aurora notified D&M Financial orally and in writing of its contractual defaults and the misrepresentations that Aurora had discovered with regard to the Loans. Aurora also formally requested repurchase and indemnification by D&M Financial of the Loans.

34. D&M Financial has, without providing any legally justifiable reason or excuse, refused to honor its contractual obligations and has denied Aurora’ requests to repurchase the Loans from Aurora and indemnify Aurora for its losses.

35. Aurora has incurred losses and damages as a result of D&M Financial’s above-referenced breaches, omissions and other improper actions.

FIRST CLAIM
(Breach of Contract)

36. Aurora repeats and alleges each and every allegation set forth above as if set forth at length herein.

37. D&M Financial entered into the Agreement, which among other things incorporates the Seller Guide. This is a valid and binding contract. In the Agreement, D&M Financial agreed to repurchase from Aurora any deficient Loans. Aurora performed all of its obligations under the Agreement.

38. Aurora exercised its contractual rights and demanded repurchase of and/or indemnification for the Loans pursuant to the Agreement, since those Loans were deficient, but D&M Financial breached the Agreement by refusing to so honor its repurchase and indemnity obligations.

39. In the Agreement, D&M Financial agreed to repurchase from Aurora any Loans that did not meet the contractual requirements and guidelines as set forth in the Seller Guide. The Loans did not meet those contractual requirements and guidelines by, among other things, (i) exceeding the DTI ratio allowed under the contract; (ii) exceeding the LTV and/or CLTV ratios allowed under the contract; (iii) containing inaccurate, misleading and false appraisals and other documents; (iv) being secured by ineligible mortgaged properties; and (v) being subject to an Early Payment Default.

40. As part of the Agreement, D&M Financial made certain representations, warranties, and covenants, including but not limited to, providing Loans that complied with the Seller Guide, and agreed to comply with the policies and requirements of Aurora and its private investors.

41. D&M Financial violated such representations, warranties, and covenants by its misrepresentations regarding the Loans as set forth above, and by refusing to repurchase such Loans. D&M Financial's failure to abide by the representations, warranties, and covenants constitutes a material breach of the Agreement and directly and foreseeably caused substantial damages to Aurora.

42. Pursuant to the Agreement, Aurora demanded repurchase of and indemnification for the Loans, but D&M Financial failed and refused to pay Aurora the agreed-upon repurchase price for said Loans or otherwise reimburse Aurora for its losses.

43. D&M Financial's failure to pay the indebtedness or otherwise honor its contractual commitments constitutes a material breach of its contractual obligations to Aurora under the parties' Agreement, thereby damaging Aurora in an amount to be proven at trial.

44. Additionally, D&M Financial's refusal to honor its indemnity and repurchase obligations, even after Aurora brought the deficiencies to D&M Financial's attention -- and its complete disregard for Aurora's notice of default and demand for repurchase and/or indemnification -- was a breach of the implied covenant of good faith and fair dealing. The law implies in every contract a covenant of good faith and fair dealing. This covenant required D&M Financial, among other things, to stand by the Loans that it sold to Aurora and buy them back or indemnify Aurora for any losses it might incur in the event that the Loans did not meet contractual requirements. However, even after being given due notice of indisputable breaches of the contract, D&M Financial refused to act in good faith and deal fairly with Aurora by curing these breaches and honoring its indemnity and repurchase obligations.

WHEREFORE, Plaintiff Aurora demands judgment in its favor and against the Defendant D&M Financial as follows:

- A. Awarding Aurora compensatory, incidental, and consequential damages in an amount to be proven at trial;
- B. Awarding Aurora pre-judgment interest (from the earliest ascertainable date the cause of action may have arisen) and post-judgment interest;
- C. Awarding Aurora costs of suit and attorneys' fees pursuant to Sections 710 and 711 of the Seller Guide; and
- D. Awarding Aurora such other relief as the Court may deem just and proper.

SECOND CLAIM
(Unjust Enrichment)

45. Aurora repeats and alleges each and every allegation set forth above as if set forth at length herein.

46. In the alternative, D&M has been unjustly enriched at Aurora's expense. Thus, Aurora purchased Loans from D&M Financial that suffered from insufficient, inaccurate and fraudulent loan documentation and/or non-compliance with the policies and requirements of Aurora and other private investors, including without limitation, (i) excessive DTI ratios; (ii) excessive LTV and/or CLTV ratios; (iii) inaccurate, misleading and false appraisals and other documents; (iv) being secured by ineligible mortgaged properties; and (v) being subject to an Early Payment Default. If D&M Financial continued to own these Loans, it would have incurred substantial losses. However, since Aurora purchased them and (unintentionally) took those Loans into its own portfolio and relieved D&M Financial of them, Aurora thus conferred a benefit upon D&M Financial having a value of at least the amount of such losses.

47. Without any justification or excuse, D&M Financial has failed and refused to pay Aurora the demanded damages, which constitutes the minimum of the reasonable value of the benefit that Aurora conferred upon D&M Financial. D&M Financial's retention of such a benefit without payment to Aurora would be unjust.

WHEREFORE, Plaintiff Aurora demands judgment in its favor and against the Defendant D&M Financial as follows:

- A. Awarding Aurora compensatory, incidental, and consequential damages in an amount to be proven at trial;
- B. Awarding Aurora pre-judgment interest (from the earliest ascertainable date the cause of action may have arisen) and post-judgment interest;
- C. Awarding Aurora costs of suit and attorneys' fees pursuant to Sections 710 and 711 of the Seller Guide; and
- D. Awarding Aurora such other relief as the Court may deem just and proper.

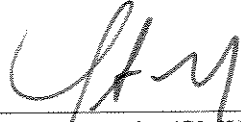
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Attorneys for the Plaintiff

Aurora Loan Services Inc.

By: _____


Steven M. Hecht (SMH 0414)
Sally J. Mulligan (SJM 4480)

Dated: December 29, 2004

JURY DEMAND

Plaintiff Aurora demands a trial by jury on all issues so triable.

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By: 

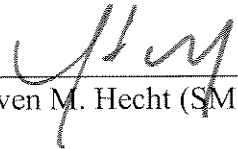
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Dated: December 29, 2004

LOCAL RULE 11.2 CERTIFICATION

The undersigned hereby certifies that the matter in controversy is not the subject of any other action pending in any Court or of any pending arbitration proceeding, nor is any other action or arbitration proceeding contemplated.

I declare under penalty of perjury that the foregoing is true and correct.



Steven M. Hecht (SMH 0414)

Dated: December 29, 2004

EXHIBIT A

Borrower	ALS Loan No.	Breaches/Defaults
Aragona, Radha	15810955	Debt/Income Misrepresentation; DTI Default; False And Misleading Documentation; EPD Default
Bourne, Jewel	15346240	Debt/Income Misrepresentation; DTI Default; False And Misleading Documentation
Browne, Calvin	15138159	Debt/Income Misrepresentation; Valuation/LTV Default; False And Misleading Documentation
Cortazal, Robert	15552201	Debt/Income Misrepresentation; DTI Default; EPD Default
Crick, Bertram	15011570	Valuation/LTV Default; Ineligible Property Default; Undisclosed Non-Arms Length Transaction; False And Misleading Documentation
Edwards, Elijah	14232870	Debt/Income Misrepresentation; DTI Default
Gibbs, Kimberly	15762776	Ineligible Property Default; Fraud And/Or Straw Buyer; False And Misleading Documentation
Gibbs, Sabriena	15639990	Debt/Income Misrepresentation; DTI Default; Valuation/LTV Default; Borrower's Credit Report Altered
Harrison, Denise	14963755	Debt/Income Misrepresentation; False And Misleading Documentation
Hudson, Marion	14432306	EPD Default

James, Jason	14954655	Valuation/LTV Default; False And Misleading Documentation
Joachim, Edith	14954648	Valuation/LTV Default; Ineligible Property Default; False And Misleading Documentation
Milcent, Chavannes	14742845	Debt/Income Misrepresentation; Valuation/LTV Default; Fraud And/Or Straw Buyer; False And Misleading Documentation
Montanez, Stephanie	15916919	Ineligible Property Default; False and Misleading Documentation; No Merchantable Title
Nosenchuk, Robert	15571391 15570591	Valuation/LTV Default
Perera, Induil	15823297	Debt/Income Misrepresentation; DTI Default; Valuation/LTV Default; False And Misleading Documentation; EPD Default
Pinnock, Kharl	14954226	Valuation/LTV Default; Ineligible Property Default; Fraud And/Or Straw Buyer; False And Misleading Documentation
Pitter, Charlene	15117138	Valuation/LTV Default; Borrower Used As A "Straw" Buyer; False And Misleading Documentation; EPD Default
Prince, Edward	15804578	Debt/Income Misrepresentation; DTI Default; False And Misleading Documentation
Reguero, Richard	14927818	Debt/Income Misrepresentation; DTI Default; Ineligible Property Default; Misrepresentation Regarding Borrower's Occupancy Of Mortgaged Property
Reyes, Jose	15816424	Valuation/LTV Default; Undisclosed Non-Arms Length Transaction; EPD Default

Rimpici, Steven	17023151	Valuation/LTV Default; Undisclosed Prior Lien(s) on the Property; False and Misleading Documentation
Rimpici, Steven	17023284	EPD Default; Undisclosed Prior Lien(s) on the Property; False and Misleading Documentation
Sanders, Johnetta	15797723	Debt/Income Misrepresentation; EPD Default
Stephens, Benjamin	14927883	Debt/Income Misrepresentation; Valuation/LTV Default; Ineligible Property Default; Undisclosed Non-Arms Length Transaction; False And Misleading Documentation
Thompson, Wayne	15361041	Debt/Income Misrepresentation; Valuation/LTV Default; Ineligible Property Default
Whittaker, Paula	15082035	Debt/Income Misrepresentation; Valuation/LTV Default; Ineligible Property Default; False And Misleading Documentation
Zayas, Cahsene	15874555	Debt/Income Misrepresentation; Borrower Used As A "Straw" Buyer; False And Misleading Documentation