ANNEX 1

STATEMENT OF FACTS

Between 2005 and 2007, Société Générale S.A., through its affiliated companies (together, "SocGen"), securitized thousands of subprime residential mortgage loans and sold the resulting residential mortgage-backed securities ("RMBS") to investors, including federally insured financial institutions. This Statement of Facts relates to SocGen's issuance of SG Mortgage Securities Trust 2006-OPT2 ("SG 2006-OPT2"), an RMBS originally comprising 3,797 mortgage loans (the "Securitized Loans") that SocGen purchased from Option One Mortgage Company ("Option One"). Investors in SG 2006-OPT2, which had an original face value of approximately $780 million, have sustained or are expected to sustain significant losses.

Investors expected to make money on SG 2006-OPT2 by receiving principal and interest payments over time based on cash flows into the trust from the Securitized Loans. Conversely, if a sufficient number of borrowers defaulted, principal and interest payments to investors in SG 2006-OPT2 would not be paid. A number of factors, including the characteristics of the borrowers and the value of the properties associated with the Securitized Loans, played a role in determining the capital structure of SG 2006-OPT2 and its expected performance and price.

SocGen's Offering Documents for SG 2006-OPT2 represented to investors, including federally insured financial institutions or their subsidiaries and affiliates, various information about SG 2006-OPT2, including the characteristics of the Securitized Loans.[1] SocGen also prepared presentation materials that it used in discussions with potential investors that described the due diligence process for reviewing the pool of loans that fed into SG 2006-OPT2. However, SocGen did not disclose to its investors that employees of SocGen received information that a

[1] The registration statement, the prospectus, the prospectus supplement, and the mortgage loan purchase agreement (the "MLPA") for SG 2006-OPT2, all of which were filed electronically with the United States Securities and Exchange Commission (the "SEC"), are referred to collectively as the "Offering Documents."

substantial number of the Securitized Loans did not comply with Option One's published underwriting guidelines (the "Guidelines") and lacked adequate compensating factors, and had understated loan-to-value ("LTV") ratios, but were nevertheless included in SG 2006-OPT2 and sold and marketed to investors. Likewise, as described below, certain of SocGen's actual due diligence practices did not conform to the description of the process set forth in certain of the presentation materials prepared for and used with SocGen's investors.

SocGen's RMBS Platform

SocGen entered the RMBS business in late 2005, making it one of the last Wall Street firms to join the increasingly competitive market. As its internal auditors would later note, "The belated creation of the RMBS platform coincided with the first signs of a reversal in the market."

SocGen's RMBS business plan was straightforward: buy, market, and securitize large portfolios of $500 million to $1 billion of prime and subprime loans per year, eventually intending to grow to $3-7 billion in volume annually. In general, its strategy was to buy and securitize loans within 180 days from origination while, on occasion, retaining a portion of the residual cash flows. SocGen believed it could securitize all the loans it purchased.

The work of SocGen's RMBS team was dictated by several written documents outlining the policies and procedures governing the purchase, securitization, and monitoring of loans for RMBS. The most comprehensive of these documents was the "RMBS Platform Procedures Manual" (the "RMBS Manual"), which set forth procedures for every phase in the securitization process, from bid invitations to post-securitization reporting requirements.

Because of the small size of SocGen's RMBS group, there was significant sharing of information, and thus senior members of the group were involved in reviewing SocGen's representations to its investors. Certain of these same individuals received loan-level due diligence results and "surveillance" reports detailing the performance of SocGen's previously issued RMBS. Certain of these same individuals also signed the various legal instruments and offering documents necessary to market SG 2006-OPT2 to the public.

The Securitization Process for SG 2006-OPT2

SocGen's process of aggregating and securitizing loans involved several stages and many participants. In the case of SG 2006-OPT2, the process involved the following seven general steps:

(1) Option One extended loans to existing and prospective homeowners;

(2) After a competitive bidding process, Option One agreed to sell the loans to SG Mortgage Finance Corp. ("SG Mortgage Finance"), the Sponsor, as part of a "pool" of thousands of loans (the "OPT2 Loan Pool");

(3) After conducting due diligence on a sample of loans in the OPT2 Loan Pool, SG Mortgage Finance aggregated the loans and sold them to SG Mortgage Securities, LLC ("SG Mortgage Securities"), the Depositor;

(4) SG Mortgage Securities, in coordination with a co-underwriter, segregated the different types of loans into different "loan groups" or "pools" so that ratings agencies could perform loss modeling scenarios and assign ratings to different loan groups in the proposed RMBS;

(5) Once the proposed structure of SG 2006-OPT2 was determined, SG Mortgage Securities transferred the loans to a trust managed by HSBC Bank US, N.A., (the "Trustee"), who issued different classes of certificates (corresponding with different loan groups and ratings, and representing an ownership interest in the trust) to SG Americas Securities, LLC ("SG Americas Securities"), the Underwriter;

(6) SG Americas Securities and the Co-Underwriter marketed the certificates to investors, who were provided with a detailed description of, among other things, the loans underlying SG 2006-OPT2; and

(7) The certificates were sold to investors.

Because SG 2006-OPT2 was a publicly issued RMBS, various federal laws and regulations required the disclosure in the Offering Documents of information about the

Securitized Loans and about SocGen's securitization processes. These regulations recognized that "the characteristics and quality of the asset pool . . . . [are] often what is most important to investors," 70 Fed. Reg. 1508 (Jan. 7, 2005). Investors in SG 2006-OPT2 did not conduct their own loan-level due diligence on the Securitized Loans, and therefore they relied heavily on SocGen's representations in these filings.

<u>SocGen's Representations to Investors</u>

Representations regarding compliance with Option One's Guidelines

The Offering Documents contained detailed descriptions of the procedures used to originate and securitize the Securitized Loans. Most notably, SocGen represented in the prospectus supplement for SG 2006-OPT2 (the "Prospectus Supplement") that the Securitized Loans "will have been originated generally in accordance with Option One's Non-Prime Guidelines." These Guidelines, according to SocGen, were "primarily intended to assess the value of the mortgaged property, to evaluate the adequacy of such property as collateral for the mortgage loan and to assess the applicant's ability to repay the mortgage loan."

SocGen's representation that the Securitized Loans were underwritten "generally" in accordance with Option One's Guidelines was given context by other representations in the Prospectus Supplement. For example, SocGen represented that whether a mortgage loan warranted an "exception" to Option One's Guidelines was to be determined on a "case-by-case basis," and based on the existence of "compensating factors." Specifically, the Prospectus Supplement explained that, "[o]n a case-by-case basis, it may be determined that an applicant warrants a debt-to-income ratio exception, a pricing exception, a loan-to-value exception, a credit score exception or an exception from certain requirements of a particular risk category."

Certain borrowers could also receive "upgrade points" based on certain unique credit characteristics.

In other words, while the Prospectus Supplement disclosed that Option One's Guidelines may have been relaxed on a case-by-case basis, it did not disclose that Option One may have ignored its Guidelines or that Option One may have granted widespread exceptions without close scrutiny of individual loans.

Regarding the "value of the mortgaged property," SocGen represented in the Prospectus Supplement that, in general, the underlying property was appraised by a licensed appraiser using professionally accepted appraisal standards:

> Mortgaged properties that are to secure mortgage loans generally are appraised by qualified independent appraisers. Such appraisers inspect and appraise the subject property and verify that such property is in acceptable condition. Following each appraisal, the appraiser prepares a report which includes a market value analysis based on recent sales of comparable homes in the area and, when deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home. All appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation and are generally on forms acceptable to Fannie Mae and Freddie Mac.

The Prospectus Supplement also laid out the maximum allowable variance between original appraisals and reviews of the appraisals under Option One's Guidelines:

> Option One recognizes that an appraised value is an opinion and thus, allows for variances to the appraisal based on a review of such appraisal, the loan-to-value ratio ("LTV") and other risk factors. The maximum variance between the appraisal and a review of the appraisal is limited to (i) 10% for LTVs that are less than or equal to 85%, (ii) 5% for LTVs between 85.01% and 95%, and (iii) 3% for LTVs over 95%.

Regarding borrowers' "ability to pay," SocGen represented that:

> Option One's Underwriting Guidelines require a reasonable determination of an applicant's ability to repay the loan. Such determination is based on a review of the applicant's source of income, calculation of debt service-to-income ratio based on the amount of income from sources indicated on the loan application or similar documentation, a review of the applicant's credit history and the type and intended use of the property being financed.

At the time these representations were made, SocGen's internal reporting showed that loans originated by Option One that were part of the collateral pool for an earlier securitization were underperforming and were experiencing higher than expected delinquencies in the first few months after origination, among other issues. These reports were not disclosed to investors in SG 2006-OPT2.

Representations regarding the characteristics of the Securitized Loans

The Prospectus Supplement also presented specific data concerning a number of important characteristics of the Securitized Loans, such as data concerning borrower creditworthiness and property valuation. Among the key metrics provided in the Prospectus Supplement were property values, LTVs, borrower FICO scores and debt-to-income ("DTI") ratios, the presence and balance of second liens on the mortgaged properties, and occupancy status (*i.e.*, whether the borrower intended to occupy the property). Much of this data was presented on a weighted average basis, either in written representations or in tables stratifying the loans into different bands with respect to different metrics.

For example, the Prospectus Supplement represented that, "[t]he weighted average combined loan-to-value ratio of the Mortgage Loans at origination was approximately 80.22%." It also represented that, "[a]t origination, no Mortgage Loan had a combined loan-to-value ratio greater than approximately 100.00% or less than approximately 10.92%."

Investors relied on the integrity of the data in the Prospectus Supplement to assess the likelihood of borrowers repaying their mortgages in a timely manner, and in assessing the value of the properties securing the Securitized Loans. SocGen's representations as to LTV and combined LTV ("CLTV") were especially material, since the value of the property securing a mortgage was one of the most important predictors of loss severity in the event of a default. In addition, if the loan balance exceeded the value of the property, there was a significant risk that the borrower (who had no home equity) would forego monthly payments and walk away from the mortgage. Even small differences in the property value and LTV ratio of a mortgaged property would have had a significant effect on the likelihood of a timely repayment or, if not repaid, on the sufficiency of the underlying collateral.

As explained in the Prospectus Supplement:

> Loans with higher loan-to-value ratios may present a greater risk of loss than Loans with loan-to-value ratios 80% or below. Approximately 34.67%, 36.18%, 43.36% and 38.89% of Group I Mortgage Loans, the Group II Mortgage Loans, the Group III Mortgage Loans and the Mortgage Loans in the aggregate, respectively, by aggregate principal balance as of the Cut-Off Date, had loan-to-value ratios (or combined original loan-to-value ratios, in the case of second lien Loans) in excess of 80.00%, but no more than 100.00%, at origination.

Representations regarding SocGen's due diligence process

In addition to the many representations SocGen made about the Securitized Loans in the Prospectus Supplement and the MLPA, SocGen made numerous other representations to ratings agencies, securitization partners, and investors in presentations and other materials about its securitization process, and specifically, about the process it used to assess the risk that these loans might default and lead to investor losses. These presentations were intended to convince these entities and individuals to partner or invest in SG 2006-OPT2.

For example, in an October 2006 presentation to Moody's, SocGen represented that the "Total Pool of 4,594 loans [was] Subject to Due Diligence." Along with this representation, SocGen represented that it ran AVMs on 100% of the loans in the OPT2 Loan Pool. It also represented that it "arrange[d] for a review of a sample of the loans for conformity with the applicable underwriting standards and to assess the likelihood of repayment . . . ."

SocGen represented elsewhere that, during its due diligence process on the OPT2 Loan Pool, it "select[ed] the weakest credit quality loans" for review in order "[t]o address layered risk." In general, however, SocGen did not provide investors with loan-level due diligence results, and investors therefore relied on the representations made in SocGen's presentations and in the Offering Documents.

All of the aforementioned representations regarding compliance with underwriting guidelines, the characteristics of the Securitized Loans, and SocGen's due diligence process were material to investors. For example, when loans do not comply with underwriting guidelines, they can present serious risks to investors due to the greater risk of delinquency and default by borrowers. Investors in SG 2006-OPT2 relied on the fact that SocGen was not securitizing loans it found to be outside of Option One's Guidelines unless each of those loans had legitimate compensating factors that offset the risk caused by the Guideline departure.

As discussed below, SocGen learned during due diligence on SG 2006-OPT2 that a substantial number of the Securitized Loans did not comply with Option One's guidelines and lacked adequate compensating factors, or had understated LTV ratios, but were nevertheless included in the deal. Likewise, certain of SocGen's due diligence practices did not conform to how SocGen described them to ratings agencies, securitization partners, and investors.

Due Diligence on the OPT2 Loan Pool

Generally

SocGen conducted its loan-level due diligence on the OPT2 Loan Pool prior to buying the loans from Option One, and the parameters of SocGen's review were established during the bidding process. In inviting interested parties to bid on the pool, Option One announced in late July 2006 that all bids would be subject to certain "bid stipulations." The bid stipulations for the OPT2 Loan Pool provided, among other things, that the winning bidder would only be able to conduct credit and compliance due diligence on 25% of the pool, and that due diligence had to be completed within six weeks, by August 31, 2006. SocGen agreed to these terms.

SocGen's due diligence on the OPT2 Loan Pool consisted of three primary parts: (1) a "credit" review, the principal purpose of which was to determine whether the loans in the pool met the originator's own underwriting guidelines, and whether the loans were otherwise creditworthy; (2) a "compliance" review, meant to ensure that the loans had been originated in compliance with all applicable federal, state, and local laws and regulations; and (3) an "appraisal" review, meant to assess the reasonableness of the stated valuation of the mortgaged properties and to ensure that the properties provided sufficient collateral for the loans.[2] SocGen conducted credit and compliance due diligence together, using the same processes and third-party vendor.

SocGen hired third-party vendors to perform due diligence on the OPT2 Loan Pool. SocGen's stated rationale for relying on third-party vendors was that they had (1) "well developed systems, experienced underwriting staff, and logistics support to coordinate on-site or

[2] SocGen also conducted a "data integrity" review, which involved a comparison of the loan-level data provided by the originator and the information stated in the loan files (*e.g.*, credit scores, DTI, LTV, CLTV, property type, loan purpose).

off-site reviews of mortgage files," and (2) "[d]emonstrated expertise in underwriting sub-prime credit . . . ."

SocGen did not always follow its vendors' determinations, however. Loans that were purchased notwithstanding the findings of SocGen's due diligence vendors were generally called "exceptions" or "waivers."

As explained by a senior member of SocGen's Contract Finance group, which oversaw due diligence, the due diligence process was, in part, "a negotiation process with [m]ortgage sellers." "If we become to[o] stringent versus competition we won't have any pools to buy. It is a delicate balancing act."

Credit and compliance due diligence

As noted above, SocGen's credit and compliance due diligence vendor, Clayton Holdings ("Clayton"), conducted a review of 25% of the loans in the OPT2 Loan Pool. Loans were selected for sampling using a combination of "random" and "adverse" criteria, with approximately 30% of the sample being selected using a random number generator, and approximately 70% of the sample selected from the remaining pool (after the random sample was removed) using filters that were supposed to identify loans that were "sensitive to certain credit and compliance (predatory lending) issues . . . ." According to the RMBS Manual, "[a]dversely selecting loans based on the effects of [layered risk] reduce[d] the volatility in any one mortgage pool by eliminating the weak performers prior to purchase."

As part of its due diligence review, Clayton assigned each loan in the sample an "event level" grade of 1 through 3. Clayton graded a loan event level 1 (or "EV1") if it complied with Option One's Guidelines and with SocGen's predatory lending guidelines, and otherwise did not possess certain risk factors, making the loan eligible for purchase. Clayton graded a loan event level 2 (or "EV2") if it did not meet either Option One's Guidelines or SocGen's predatory lending guidelines, but there were sufficient "compensating factors" in the loan file to offset the deviation from the guidelines. Clayton graded a loan event level 3 ("EV3") if it did not meet either Option One's Guidelines or SocGen's predatory lending guidelines, and there were not sufficient "compensating factors" evidenced in the loan file to fully offset the deviations from the guidelines. Loans graded EV1 or EV2 were considered "eligible for purchase."

Clayton provided its due diligence results to SocGen in waves and, ultimately, a final report. The first wave of results that Clayton provided to SocGen on or about August 11, 2006 reported an initial "kick" rate (loans marked as ineligible for purchase) of 63% of the sample. An associate on SocGen's due diligence team said that she was able to bring this number down to 59% by reviewing approximately 30 loans and "turn[ing] the majority of them into [EV]2s." Still, the associate noted, the kick rate was "awfully high." A senior member of SocGen's Contract Finance group asked Clayton to waive in loans that were flagged as EV3s due to certain DTI levels or due to other factors including missing disclosures in mortgage applications and incorrectly stated finance charges up to a certain amount.

The second wave of diligence results came in from Clayton several days later and also showed a kick rate of approximately 60% across a different group of loans. Clayton noted to SocGen that Option One was "aware of the EV3's" and was "working on cures."

In mid-August 2006, Option One's Assistant Vice President for Loan Sales Administration wrote to a senior member of SocGen's Contract Finance group and others at SocGen about the high kick rates, and asked her to "get that number down." Even after SocGen's initial efforts to lower the kick rate, however, Option One's point person responded that the report "does not look good. . . . I am concerned with a majority of these." The following day, an associate on SocGen's due diligence team instructed Clayton to change 66 loans from a grade of EV3 to EV2. Meanwhile, Clayton's point person for SG 2006-OPT2 wrote to his colleagues that SocGen was "nervous about the tie out on this deal so it is sensitive."

When SocGen instructed Clayton to turn EV3 grades into EV2s, Clayton used the grade "EV2W" to distinguish those loans from loans that Clayton itself had graded EV2. EV2Ws were loans that were previously graded EV3 due to "material exceptions," but those exceptions were "waived in" by the client. Clayton noted in its comments on SocGen's EV2Ws that these loans did not comply with underwriting guidelines because, among other reasons, the "stated income [was] not reasonable," "borrower's willingness to repay [was] questionable," and the "income [did] not meet guidelines for grade/doc type." Internal reports prepared by Clayton indicated that SocGen's "waiver rate" during this period (which reached a peak of 42%) was higher than average among Clayton's clients.

Upon the conclusion of Clayton's review of the OPT2 Loan Pool, Clayton provided SocGen with a summary report in Microsoft Excel, which contained due diligence results and reviewer comments for each loan reviewed. The report was summarized and circulated in its entirety to senior members of SocGen's RMBS group and to its internal auditors, among others. Records received by SocGen showed that:

- Of the 1,223 loans in the credit and compliance due diligence sample, 472 loans (38.5% of the sample) were given a final grade of EV3 by Clayton.

- At least 185 of those loans (15.13% of the sample) were downgraded by SocGen from EV3s to EV2Ws, and "waived in" to SG 2006-OPT2.

- The number of EV3s in the random and adverse populations of SocGen's sample selection was nearly the same, with 21.74% of the randomly selected loans receiving a final grade of EV3, and 25.31% adversely selected loans receiving a final grade of EV3.

SocGen did not disclose its due diligence results to investors.

As a result of the foregoing, SocGen's representations to investors that the Securitized Loans "will have been originated generally in accordance with Option One's Non-Prime Guidelines," and that any exceptions to the Guidelines were made on a case-by-case basis, were false.

Appraisal due diligence

As noted above, SocGen represented that it performed "100%" appraisal due diligence on the OPT2 Loan Pool. More specifically, SocGen explained to investors that its appraisal due diligence on the OPT2 Loan Pool consisted of two parts: (1) every mortgage loan went through a vendor's "automated valuation model" ("AVM") software; and (2) based on the AVM results, SocGen was to select a sample of loans for secondary appraisal review from a third-party vendor.

SocGen's AVM process was intended to "assess the reasonableness of the property valuation" by comparing AVM-assigned property values with the property values described in the loan files. Any difference between these values constituted a "variance," and the maximum permitted variance was called the "tolerance" level. According to the RMBS Manual, "[t]he typical industry standard for ordering a secondary appraisal review" was an AVM variance of 15%. Loans outside of this range were regarded as "outside of tolerance." As noted above, Option One also had its own tolerance levels, which were described in the Offering Documents.

Although SocGen did order an AVM for every loan in the OPT2 Loan Pool, it did not actually remove all loans that were outside of tolerance—even though, according to a senior member of SocGen's Contract Finance group, "[a]ppraisals still seem[ed] to be the problem" with Option One's loans. In fact, a significant number of loans came back as outside of both SocGen's internal tolerance levels and Option One's tolerance levels, as disclosed in the Offering Documents, but were securitized in SG 2006-OPT2 without going through SocGen's secondary review. Additional loans were securitized in SG 2006-OPT2 despite not receiving AVM results or going through SocGen's secondary review.

Likewise, SocGen did not remove all loans that its AVM indicated were underwater. SocGen's AVM results showed that a significant number of loans may have had CLTVs over 100%, but these loans were securitized anyway with no further due diligence. Altogether, millions of dollars in loans were securitized in SG 2006-OPT2 despite AVM results that implied that these loans had CLTVs over 100%.

Lastly, a senior member of SocGen's Contract Finance group acknowledged that AVMs were "not going to be reliable in this market . . . . Looking back will get [you] in trouble in subprime." In reference to industry-wide subprime originating practices at that time, the same individual noted that, "[t]he whole process is a joke. All deals should close with a reserve to protect against sh++(y practices . . . .)." SocGen did not disclose these concerns to investors in SG 2006-OPT2; nor did it disclose to investors the results of its valuation due diligence process.

As a result of the foregoing, SocGen's representations to investors that the Securitized Loans "will have been originated generally in accordance with Option One's Non-Prime Guidelines," and that, at the time of origination, "[n]o Mortgage Loan ha[d] an LTV or CLTV, as applicable, of more than 100%," were false.