United States of America

Financial Crisis Inquiry Commission

INTERVIEW OF

JAY EISBRUCK

Monday, April 19, 2010

4:55 p.m. to 6:03 p.m. EST

***** Confidential *****

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MR. CUNICELLI: She got tied up, gentlemen. But I know, Jay, she wanted to send her regards.

MR. EISBRUCK: Okay. Okay, well, you can send her my regards as well. Thanks.

MR. CUNICELLI: All right, this is -- I'm going to do a preamble to the recording and we'll go from there.

This is Victor Cunicelli of the Financial Crisis Inquiry Commission.

Today's date is 19 April, 2010. The time is approximately five minutes to 5:00 p.m.

I'm accompanied by Brad Bondi of the Commission, Kim Shafer of the Commission, telephonically by Tom Borgers of the Commission, and Jay Eisbruck and counsel.

We're at the offices of the Commission for the interview of Mr. Eisbruck. This interview will be recorded with the consent of Mr. Eisbruck.

And, Mr. Eisbruck, for the –- could I please get your verbal consent to that?

MR. EISBRUCK: Yes.

MR. CUNICELLI: Okay, great.

Will everyone please state your full name and affiliation for the record, and please spell your last name for the transcriptionist?

Mr. Eisbruck, why don't I start with you?

MR. EISBRUCK: Okay, the name is Jay Eisbruck. The first name Jay, J-A-Y, the last name Eisbruck, E-I-S-B-R-U-C-K. And currently, I'm a research analyst at the Serengeti Asset Management.

MR. CUNICELLI: Excellent.

And how about counsel?

MR. STERN: Warren Stern, S-T-E-R-N, Wachtel, Lipton, Rosen, & Katz in New York. We're counsel to Mr. Eisbruck.

MR. HOBSON: And Adam Hobson, H-O-B-S-O-N, also with Wachtel, Lipton, Rosen & Katz, counsel to Mr. Eisbruck.

MR. BONDI: Brad Bondi, B-O-N-D-I, Assistant Director and Deputy General Counsel of the Financial Crisis Inquiry Commission.

MS. SHAFER: Kim Shafer with the Commission.

And I'd like to add that I won't be staying for the entire call.

MR. CUNICELLI: Okay. And your spelling?

MS. SHAFER: S-H-A-F-E-R. K-I-M, L-E-S-L-I-E, S-H-A-F-E-R.

MR. CUNICELLI: All right. And Mr. Borgers?

MR. BORGERS: Tom Borgers, that's "B," as in "boy," O-R-G-E-R-S.

MR. CUNICELLI: Okay, and Cunicelli is C-U-N-I-C-E-L-L-I.

In the way of background, the FCIC was established by statute and signed into law by the President. It is bipartisan, and consists of ten commissioners. It is charged with examining the causes of the financial crisis and collapse, or near-collapse of major domestic financial institutions. The Commission is charged with composing a report of findings to Mr. President and Congress by 15 December 2010.

The Commission may compel attendance and testimony of witnesses and production of records.

I can provide a copy of the statute by which the Commission was formed, if you so desire, Mr. Eisbruck.

Please be advised that the FCIC is an agency of the United States, and FCIC staff are federal employees under the aegis of 18 United States Code section 1001 concerning false statements. So I caution you that false statements can be problematic.

With that said -- and I will caution you also that I know your counsel advised us at the outset that recording was fine, with the condition that it be kept confidential.

Proceedings of the Commission are confidential, and we ask that on your end as well, everything -- questions that we pose to you and topics that we bring up be kept confidential other than, of course, with your counsel.

Mr. Bondi, if you'd like to start?

MR. STERN: Before you proceed, this is Warren Stern speaking. It's my understanding that the Commission considers itself to be part of the legislative branch.

MR. CUNICELLI: That's correct, Mr. Stern.

MR. STERN: Thank you.

MR. CUNICELLI: We are an entity of Congress, created by Congress; but we are an independent commission. But we're a creature of Congress.

MR. STERN: Thank you.

MR. CUNICELLI: Mr. Eisbruck, if we could start off, please, by just briefly going through your educational background and your employment history.

MR. EISBRUCK: Sure. I have both a BS in economics and an MBA in finance from New York University. I started school of business from -- my BS was in 1991 and MBA in 1994.

My employment history, I worked at Moody’s Investors Service in the Asset-Backed Securities Group from, I believe, August -- or July or August 1991 through November of 2007.

Post-leaving Moody’s, I worked as a consultant for a few months before joining Serengeti Asset Management full-time in September of 2008. And I’m working there through the present time.

MR. CUNICELLI: And what positions did you hold at Moody’s?

MR. EISBRUCK: I started there right out of undergraduate college, so I started as what’s called senior fiscal analyst. You know, basically worked my way up through the ranks, up through a number of positions. Basically, different analyst positions, you know, ultimately becoming a managing director in the middle of 2003. And I was in that position up until the time I left.

MR. CUNICELLI: And what did you oversee as a managing director from 2003 to 2007?

MR. EISBRUCK: I was a co-manager of a group that rated all non-mortgage asset-backed securities. So that would be asset classes like auto receivables, credit-card receivables, student loans, and what we refer to as esoteric asset-backed securities, so things like equipment lease-backed securities, aircraft leases, insurance assets, time-shares, reverse mortgages, tax liens, *[inaudible]* property, and various other products.

MR. CUNICELLI: As a manager of the ABS non-mortgage group, to whom did you report?

MR. EISBRUCK: As an MD, I reported -- at the beginning of being an MD, I reported to Andrew Silver. And after he left, I reported to Michael Kanef.

MR. CUNICELLI: When was the date that Andrew Silver left Moody’s?

MR. EISBRUCK: I’d have to go back and check. I believe it was mid-2005, but I’m not 100 percent sure. It was either mid-2004 or mid-2005.

MR. CUNICELLI: Okay. Now, you mentioned having various roles as an analyst from 1991 to 2003.

Did any of those roles involve any mortgage-related instruments?

MR. EISBRUCK: When you say “mortgage related,” are you speaking of RMBS?

MR. CUNICELLI: RMBS or ABS CDOs, where the underlying collateral was predominantly RMBS.

MR. EISBRUCK: I’d say no. I think the closest type of deals I worked on as an analyst was manufactured housing which, you know, is similar to --

in some ways, to -- in many ways to straight RMBS. But not, you know, what people call subprime or Alt-A or jumbo-type transactions.

MR. CUNICELLI: Uh-huh.

MR. EISBRUCK: And, yes, I also did not -- you know, sometimes we're involved in rating some of the collateral that was placed into CDOs; but that was always, again, the non-mortgage collateral.

MR. CUNICELLI: And did you work in an area that was known as multi-sector CDOs, or did you have any involvement with multi-sector CDOs?

MR. EISBRUCK: No. I mean, similarly, to the extent that certain assets in those CDOs that were unrated and needed a shadow rating, we might have been asked as part of the Asset-Backed group to place a shadow rating on the underlying collateral that would be placed into the multi-sector CDOs. But I did not have any involvement in the actual rating of those CDOs themselves.

MR. CUNICELLI: Okay. Now, you mentioned reporting to -- as a managing director, reporting to Andrew Silver, and then later Michael Kanef.

Who reported to you from 2003 to 2007?

MR. EISBRUCK: I mean, I shared co-management responsibilities with the group of two other managing directors. And we managed a group of about, let's say, 35 analysts.

MR. CUNICELLI: Okay. And did any of those analysts have involvement in ABS CDOs that were mortgage-related or were these analysts that predominantly worked in the ABS CDOs that were non-mortgage-related?

MR. EISBRUCK: Again, they weren't working on CDOs in my group.

We were doing, you know, straight asset-backed securities.

You know, the CDOs were handled in a separate group. You know, that was overseen by some of the people I talked to last week at Noel Kirnon sort of being senior, and then you had Yuri Shizawa and, let's see, Gus Harris and Bill May, Gary Witt, and Eric Kolchinsky, I think. Those are most of the directors.

So that was done at a different group.

MR. CUNICELLI: Okay. So Noel Kirnon would have been on your level but not in your group? You would have been another --

MR. EISBRUCK: Oh, no. Noel was senior to me. I was -- the people who were on my level were like Eric and Gary and Bill May. People -- you know, those were -- I was only a key managing director, and Yuri and

Gus were group managing directors, and I think Noel was called the senior managing director.

MR. CUNICELLI: What was your interaction with Mr. Kirnon?

MR. EISBRUCK: You know, I worked primarily with Noel much earlier in my time at Moody’s, you know, when he was working in the asset-backed area probably in the nineties. Post that, I didn’t deal with him very much.

MR. CUNICELLI: And you had indicated that you left Moody’s in November 2007; is that correct?

MR. EISBRUCK: Yes.

MR. CUNICELLI: Do you remember the precise date?

MR. EISBRUCK: It was a little before Thanksgiving. It was probably about November 15th or so. I don’t remember exactly. But, you know, the middle of the month.

MR. CUNICELLI: What was the nature of your departure from Moody’s?

MR. EISBRUCK: I mean, basically, I was called into a meeting with Michael Kanef and Claire Robinson, who was Michael’s boss. 36CFR1256.56: Privacy [redacted]

36CFR1256.56: Privacy [redacted]

MR. CUNICELLI: And, Mr. Eisbruck, did you agree with their assessment 36CFR1256.56: Privacy [redacted] 36CFR1256.56: Privacy [redacted], as you've described it?

MR. EISBRUCK: No, I did not.

MR. CUNICELLI: And why not?

MR. EISBRUCK: I mean, again, I felt that my group had performed well. You know, we had not had any performance issues as far as the transactions we had rated. And, you know, we had been –- it had good rating quality; we had also a good coverage of the market. We had, you know, near 100 percent market share. And, you know, I thought the employees in my group were doing well. So I didn't agree with that assessment.

MR. CUNICELLI: Did you believe that there were other reasons for your -- for the decision by Michael Kanef and Claire Robinson 36CFR1256.56: Privacy [redacted] Were there other reasons, do you believe?

MR. EISBRUCK: You know, if there were, they weren't made clear to me. What I would say was that, you know, in the weeks leading up to that meeting, I had -- I had had a meeting with another person named Andy Kimball, who basically -- you know, he later became, I think, like a senior credit officer or something -- I forget his title. But basically, he came in to me and asked me to give my opinion of, you know, what I thought had gone wrong as far as the ratings at that point in time. Still, we hadn't –

UNIDENTIFIED FEMALE: *[Inaudible]* you have a call?

MR. EISBRUCK: Yes.

At that point, the ratings hadn't hit the bottom. But basically what had gone wrong at that point.

And I expressed some concerns about how some business considerations might have influenced the way ratings were done in these groups, you know, on the RMBS side and the CDO side. Again, not having any direct knowledge and what was going to the ratings but just sort of my general sense of it.

And so I expressed some of those concerns and didn't think much of it. But, you know, certainly when I was given this offer a couple weeks later, I wondered if that had an effect on what had happened.

MR. CUNICELLI: What concerns do you remember expressing to Mr. Kimball?

MR. EISBRUCK: I'm just saying that given how the -- as I'm sure you've seen articles in the

Wall Street Journal and other places that have expressed the feelings of other Moody's employees that how the culture had changed in the organization over time, and how business considerations had become more important over time. And, you know, I expressed concern that that might have influenced the way the ratings were done. Again, just a feeling, not having any direct knowledge of what actually occurred.

MR. CUNICELLI: What, though, Mr. Eisbruck, do you remember exactly saying to Mr. Kimball? Can you tell me everything that you remember saying to him?

MR. EISBRUCK: You know, this meeting was a couple of years ago. I don't remember exactly what I had said.

You know, I think it was to the effect that -- again, that business considerations might have affected the way the ratings were done, and -- but, again, ratings is not an exact science. And so –- at the end, it's very much a judgment call about that. And that was just my position given, you know, again my experiences in the organization and the way the culture had changed over time. But as far as exactly what I said, I don't remember.

MR. CUNICELLI: And when you say that business considerations may affect the way things are done, were you speaking of the RMBS side or the CDO side or both sides?

MR. EISBRUCK: You know, again, I had less direct knowledge of the CDO side because I didn’t work that closely with those people.

So, I mean, I would certainly -- I would say I expressed it on the RMBS side.

As far as the CDO side, at that point I sort of didn’t understand. You know, it was only after I left when I started to look at those transactions, I sort of wondered what was going on in those details. I probably didn’t talk much about the CDOs at that point.

MR. CUNICELLI: Okay. What do you mean by “business considerations”? What did you mean by that phrase, “Business considerations”?

MR. EISBRUCK: Well, I mean, you know, the rating agencies, they get paid when they rate transactions. And so, you know, there is a pressure to rate as many deals as possible. And if you are not -- if you’re missing regular transactions, that’s something that needs to be explained. And so I think the need to rate as many transactions as possible, and whether the proper consideration was given to every deal and, you know, whether that affected rating standards over time, you know, that would -- you know, the question is -- you know, there's always a balance between the business side of things and the ratings side of things, and whether the consideration to generate as much revenue as possible changed the balance side more towards the business side as opposed to the rating side.

MR. CUNICELLI: And when you were saying this to Mr. Kimball, what prompted you to talk about these business considerations? Were there any particular deals that you had in mind, were there particular examples that you had in mind, particular people, particular stories, things that someone had said to you? I mean, what prompted you to raise this as a concern to Mr. Kimball.

MR. EISBRUCK: Yes, what I would say is that, you know, I had worked at Moody's for many years, and I had seen other markets, you know, have problems over time; you know, whether it was the manufactured housing market or the subprime market, let's say in the late nineties -- or the subprime market in the late nineties. And, you know, it follows a similar pattern where the volume of issuance had gone up very quickly and had led to problems on those transactions.

And, you know, I've seen a similar pattern happening on the mortgage side and, you know, just on a significantly greater scale, just on the sheer volume of transactions being done. And so, you know, that, probably more than anything, you know, raised my concerns as well as, you know, sort of understanding the pressures that were placed on me as a manager in order to rate the transactions that often generate revenues; you know, I would believe that, you know, similar pressures were placed upon the managers of other groups in the team.

MR. CUNICELLI: What managers?

MR. EISBRUCK: Other managers of the RMBS team.

You had -- you know, at different points in time, you had Pramila Gupta, Jay Siegel, Warren Kornfeld, Mark DiRienz and David Teicher.

MR. CUNICELLI: And did any of those individuals that you mentioned, did any of them ever express to you any concern about pressure that they had received?

MR. EISBRUCK: Not that I can remember, no.

MR. CUNICELLI: Okay. Did you hear, either firsthand or secondhand, of any pressure being exerted on any of those individuals you just mentioned?

MR. EISBRUCK: Again, not that I'm aware of. But what I can say is, you know, how many deals were rated and, you know, market share of each group was tracked very closely each month. And, you know, if deals were missed, that was something that has to be explained, again, not only on my team, but also on other teams as well. So, you know, maybe it's more implicit-type pressure than explicit pressure.

MR. CUNICELLI: What implicit pressure did you witness?

MR. EISBRUCK: Well, again, I'm not -- I can say that -- and, you know, Brian Clarkson who ultimately is the -- you know, who ran all of structured products and ultimately became president of Moody's Investor Service, he is a very strong-willed individual. And, you know, if business was missed, you would have to answer to Brian.

MR. CUNICELLI: Do you believe that Mr. Clarkson exerted pressure on those individuals that you just mentioned?

MR. EISBRUCK: Again, I'm not aware of anything specific that happens. But, you know, just based on my experiences, I would think that there certainly was -- I would think there was some -- or I don't know if the right word is "pressure," but some expectation that -- you know, that a significant number of the transactions that are done would be rated by Moody's.

MR. CUNICELLI: Was this implied or was this expressed?

MR. EISBRUCK: You know, again -- you know -- you know, I can't say that, you know, you were told that you had to rate this transaction or that transaction specifically. But if you are not rating transactions effectively, you have to explain why you're not rating those transactions. And, you know, you need to provide a satisfactory reason to do that or why -- you know, why we didn't -- why we wouldn't have rated a particular transaction. So --

MR. CUNICELLI: And are there -- I'm sorry, I didn't mean to interrupt. Please continue.

MR. EISBRUCK: No, I think that's -- that's the -- and, you know, I guess -- I guess another issue that did affect me directly was one of my co-managers at the time -- or while I was an MD, we, during the period in 2006, we did not rate a number of auto batch transactions. And effectively, one of my co-managers was demoted post -- you know, for missing a few auto transactions.

MR. CUNICELLI: I see. I see.

Now, when you expressed to Mr. -- I guess let's back up for a second.

What was Andy Kimball's title when you had this meeting and expressed the opinions to him that you did? What was his title?

MR. EISBRUCK: I think his -- I'm not sure, I think his title was -- it might have changed over time, but I think he was called "chief credit officer" at that time.

MR. CUNICELLI: Okay. What was Mr. Kimball's reaction when you expressed your opinions about what had gone wrong with the rates?

MR. EISBRUCK: You know, I would say he just sort of took in the information and didn't have, you know, much of a reaction. I think just answering -- sort of asking more sort of follow-up questions. But no, you know, reaction, sort of agreeing or disagreeing in any way.

MR. CUNICELLI: What were his follow-up questions?

MR. EISBRUCK: You know, again, just -- you know, just sort of -- you know, again, things we've already discussed as far as, you know, the business considerations and those sorts of things. Again, I don't remember the specific questions that he might have asked. But, you know, just we had this discussion.

MR. CUNICELLI: Did you mention specific people in your conversation with Mr. Kimball?

MR. EISBRUCK: You know, again, I think it's -- you know, I probably didn't do that in order to not denigrate specific of my colleagues; but, I mean, I think it's understood that the groups where the issues were happening in the RMBS group and, again, the senior management who, again, the managers in the RMBS group were reporting to.

MR. CUNICELLI: Did you mention Brian Clarkson putting pressure on people to Mr. Kimball.

MR. EISBRUCK: I don't remember.

MR. CUNICELLI: Did you mention Michael Kanef putting pressure on people to Andy Kimball?

MR. EISBRUCK: You know, again, I don't remember if I mentioned specific names. But I think just given that the limited number of people involved, I think it was -- it could be surmised who I was speaking about.

MR. CUNICELLI: Mr. Eisbruck, you worked at Moody's a long time.

MR. EISBRUCK: Yes.

MR. CUNICELLI: When you walked into that meeting and you saw Claire Robinson there with Michael Kanef, 36CFR1256.56: Privacy

MR. EISBRUCK: No, I did not. I was surprised.

MR. CUNICELLI: Are you familiar with that kind of meeting, having worked at Moody’s?

MR. EISBRUCK: I mean, as far as a meeting 36CFR1256.56: Privacy [redacted]

MR. CUNICELLI: Yes.

MR. EISBRUCK: Occasionally.

I would say up until the point where I had left, Moody’s had not done layoffs or that sort of thing at that point. You know, business was fairly strong.

36CFR1256.56: Privacy [redacted]

[redacted]

MR. EISBRUCK: Oh, definitely, no, I did not.

MR. CUNICELLI: Right. So I guess the nature of my question is, was it common for somebody who had expressed maybe reservations about the business at Moody’s, when they expressed those reservations, maybe for such a meeting, that they just disappeared?

MR. EISBRUCK: You know, what I just -- I mean, up until that time, you know, the structured finance system was very successful. And, you know, again, up until that point, there was relatively limited credit problems on those transactions as well.

So, you know, the need for a meeting like that was probably pretty limited.

Again, I wasn't aware of people who might have expressed similar type of concerns at the time. So, you know, it's hard for me to say whether it might have happened to other people.

MR. CUNICELLI: In your meeting with Mr. Kimball, did you mention any specific deals, transactions, or issuers?

MR. EISBRUCK: No. I mean, again, I wasn't -- you know, I didn't have sort of that level of specificity. I mean, again, I had seen what everyone else has seen, where there have been mass downgrades across many insureds. And so it seemed like it was more of an asset-wide as opposed to just an issuer-specific problem.

MR. CUNICELLI: Now, Mr. Eisbruck, were your performance reviews good, in your opinion, 36CFR1256.56: Privacy [redacted]

MR. EISBRUCK: Yes, well, I mean, I had had a meeting with Mr. Kanef, I think, in September. And, you know, at that point he did not indicate any problems with my performance at that time.

MR. CUNICELLI: Was your review good in September?

MR. EISBRUCK: I mean, it wasn't an official review. I would say I think it was more of a -- you know, I'd call it more of a interim meeting, just to sort of go over how things were going at that time.

I would say my prior review -- reviews from directors, I think pretty much everyone at the time -- formal reviews were done at the beginning of the year at Moody's. And what I can say is that my review for 2006, which is the last full review I had, was affected negatively by the discussion I talked about earlier, about my overall group not having finishes in the auto batch securities market. And I think that had an impact on my review, you know, for the year 2006.

MR. CUNICELLI: Mr. Eisbruck, did you have any other concerns that you didn't mention to Mr. Kimball or that we haven't talked about, about the rating or rating systems concerning RMBS? Are there any other concerns that you haven't mentioned?

MR. EISBRUCK: No. I mean, I would just say that, again, I had just general concerns of some obscenely -- the sheer volume of transactions being rated; but, you know, I did not -- and just that it might ultimately lead to problems down the road.

But, you know, I didn't have any specific concerns; and you had to, like, I expected my colleagues to trust my judgment on the areas I covered. You know, I trusted the judgment of the colleagues that covered the RMBS market.

MR. CUNICELLI: But I guess -- forgive me, it's late in the day. I know everyone is tired -- myself included. But I'm not understanding, though -- and maybe you can help me with this -- I don't understand, why would you be concerned with the sheer number of ratings? Was it a situation of resources, that you didn't believe there were the appropriate amount of resources? Do you believe that the personnel weren't skilled enough? Do you believe that it was something wrong with the rating models? Do you believe -- I mean, I hear you about the sheer volume and number of the concerns; but why that, alone, would that cause you trouble?

MR. EISBRUCK: Well, I mean, I think, you know, one -- you have, one, just the sheer number of transactions relative to number of people in the group would result in a limited amount of time spent on each transaction. You know, maybe less than would be needed to do a complete job on not every transaction. And, again, what I've seen in other asset classes that had -- ultimately had other problems in prior times, there had been issues where a number of deals had happened so quickly that, you know, the concern is that you have the potential there for things getting missed. Just because you are -- you're working so quickly and, you know, there is the need to just process the deals very fast, that you might not be considering all the risks for those deals. So that would be my concern.

MR. CUNICELLI: What would cause you to opine on the RMBS rather than some of the non-residential stuff that was your day-to-day job?

MR. EISBRUCK: Well, again -- well, I have not seen, you know, performance deterioration certainly on the scale that you had seen in the RMBS area, as well as the -- you know, the volume of transactions in my areas, you know, did not grow anywhere near the rate where it did in the RMBS area. You know, we were -- you know, had sort of low growth, maybe 10 to 15 percent type growth a year in areas -- in my areas, as opposed to, you know, where you're seeing at growth of 50 to 100 percent type a year growth, you know, in RMBS.

MR. CUNICELLI: Did you ever experience

firsthand any pressure from Brian Clarkson?

MR. EISBRUCK: You know, I think it's -- hmm.

I mean, Brian can be an intimidating presence. And, you know, I would say, you know, at the time where the incident -- or the period where we were having some issues on the auto batch side of not rating all the transactions, you know, this was a concern of Brian's; and he made that clear to us as managers of the group that covered that; and, you know, wanted us to -- yeah, make sure that this does not become a bigger issue and does not spread to other issues or other asset classes.

MR. CUNICELLI: Okay, and you had mentioned earlier a name, I think. 36CFR1256.56: Privacy is that the name you mentioned?

MR. EISBRUCK: 36CFR1256.56: Priva

MR. CUNICELLI: 36CFR1256.56: Priva

MR. EISBRUCK: There was a 36CFR1256.56: Privacy 36CFR1256.56: Privacy But they're two separate people.

MR. CUNICELLI: So, his name is 36CFR1256.56: Privacy

MR. EISBRUCK: Yes.

MR. CUNICELLI: And was that a name you had mentioned in your list a few minutes ago?

MR. EISBRUCK: He was one of the people who managed the RMBS group during this period.

MR. CUNICELLI: Okay. Do you recall an

instance where 36CFR1256.56: Privacy was reassigned?

MR. EISBRUCK: I mean, I know -- well, I mean, prior to my leaving, I know he had worked in the CDO group; and then he -- he was moved into the RMBS group at some point. I don't remember exactly when that was.

But I remember hearing, you know, post my leaving Moody's, that he had been moved to the compliance group. But, you know, again, I wasn't there at the time, so…

MR. CUNICELLI: Okay.

MR. BORGERS: This is Tom Borgers, Mr. Eisbruck.

A question in your group: How many demotions over the last five years did you have in your group?

MR. EISBRUCK: You mean as far as -- I mean, I'd say -- 36CFR1256.56: Privacy you know, there was the one that I had talked about earlier. And that's -- that's all I could think of.

MR. BORGERS: And on the CDO and RMBS side, do you have any idea how many demotions or reassignments that happened on the CDO side?

MR. EISBRUCK: I mean, 36CFR1256.56: Privacy 36CFR1256.56: Privacy was moved out of his role on the CDO side. I guess that wasn't considered a demotion but more of a lateral move but out of ratings responsibilities.

As far as any other areas, I don't think there were any that I can think of. And most of the people who worked as managers in those groups at the time are still working there, as far as I know.

MR. BORGERS: Let me ask you one other thing. I know with certain groups, certain modeling groups and analyst groups, they borrow employees from one group and, during times of high -- you know, peak periods, do they ever -- do the RMBS group or the CDO group ever borrow your employees for some deal structures or buy-ins?

MR. EISBRUCK: I seem to recall, there might have been -- you know, we might have transferred temporarily some people over from our group, yes, for maybe a month or two at a time at sort of peak levels of when those markets were really high. I think that's -- yes, I seem to remember that.

I guess I can't remember the people, who they were. But, yes, who are more junior-level analysts, I would say, who we did that with.

MR. CUNICELLI: Well, did they ever -- those junior-level analysts, did they ever share their experiences with you about the modeling or what types of modeling criteria they would be putting in or whatever.

MR. EISBRUCK: No, I can't remember specifically. And I think they were, you know, pretty much training by, you know, other analysts who had done work in the RMBS group and, you know, helped to work in the other team through that training. But I didn't have much in the way of discussions as far as, you know, what they were -- what they did over there when they were working in that group.

MR. CUNICELLI: Now, were any analysts transferred from CDO and RMBS to your group?

MR. EISBRUCK: It's possible, but I don't remember.

MR. CUNICELLI: Okay.

MR. EISBRUCK: If it was, it would have been sort of on a temporary basis. It would have been, you know, more of a permanent move. But I don't remember.

MR. CUNICELLI: During your tenure at Moody's, Mr. Eisbruck, did you have any concerns with the rating of RMBS by Countrywide? Countrywide's RMBS? The Moody's rating of RMBS issued by Countrywide?

MR. EISBRUCK: No, I mean, other than my general concerns about how the ratings were being done. But I don't have anything specific about Countrywide.

MR. CUNICELLI: Okay. Do you know of any instances or did you hear of any instances where ratings committees would be reconvened after coming up with a rating, to then change that rating because of pressure from an issuer or underwriter?

MR. EISBRUCK: Yes, I mean, I think that would occur.

I mean, would I say -- in some ways, it’s an interim process where, you know, whoever the rating agency is, they would provide feedback to the issuer or underwriter about the rating or credit-enhancement levels for that particular transaction, and if the issuer was not happy or satisfied with those levels, you know, they would be given the opportunity to present additional information to the committee that might be used to change the view on that transaction. So that sort of thing could occur.

As far as -- you know, or, you know, they might give another rationale or might explain the information that had already been received in a different way that might cause you to reconsider the rating decision. And then you would hold another committee to evaluate that new information. So, you know, that sort of situation would occur.

MR. CUNICELLI: And is that something that you were comfortable with or was that something that caused you some concern?

MR. EISBRUCK: Well, I mean, you know, situations where that would happen with ratings that I was involved with -- I mean, I am comfortable with that. Again, if the issuer is presenting relevant information that could have an impact on the rating and the new -- you know, I think it's reasonable to reconsider the rating in light of that new information.

MS. SHAFER: Jay, it's Kim. It's been a number of years. I'm glad you're employed. I hope you're happy there.

MR. EISBRUCK: Oh, yes, so far.

MS. SHAFER: And I -- I won't make this too personal; but just, I've been obsessed with what has occurred, so I was happy to join the Commission.

You know, you had a bird's-eye view on some things. I had a bird's-eye view on other things. There was lots involved in the causes of the crisis.

But do you mind taking just a couple minutes and giving us your view of what you think important causes were and the role of the rating agencies as a potential cause?

MR. EISBRUCK: Yes, well, I mean, clearly the increase in the amount of exotic and, you know, non-agency mortgages over the period of 2005 through 2007, you know, led to the crisis in the securitization market and, you know, and many factors went into the increase with that issuance of mortgages over time. I mean, certainly the mortgage lenders themselves lowered their standards over time as it became harder to find qualified borrowers under the old underwriting standards. And, you know, the underwriters saw the supply and knew that they had the ability to package those mortgages into securities that they could sell to investors. And so they had the incentive to also purchase those mortgages.

The lenders had the incentive to create all those mortgages because it would help their stock price and make money for the company.

The underwriters had the incentive because they could structure all these deals and make some fees that way.

You know, the rating agencies had the incentive to rate as many deals as they could because that’s how they generated revenues.

And, you know, the investors had the incentive to buy these deals because they thought they were low-risk and they would get a higher yield than they would get on Treasury bonds or agency bonds.

And so all these factors came together and, you know, led to this issuance. And, over time, the standards got worse and worse and, you know, people just assumed housing prices would always continue to go up. And when that -- you know, when the housing market crashed, it all sort of fell apart.

You know, then that just the straight RMBS market, you know, when you start moving over to the CDO market -- and this is something I learned in hindsight, you know, basically the push by -- well, one, the need for a place to put all of the subordinate tranches of all RMBS that was being issued since investors weren't buying and they needed a place to put all those subordinate tranches, so the CDO was a good place for that.

In order to do that, they needed -- the underwriters needed to come up with a rationale to do that and get away from multi-sector CDOs. And so they came up with a rationale that, you know, *[inaudible]* mortgage performance was uncorrelated, and the rating agencies ultimately bought off on that rationale and started rating ABS CDOs. And, you know, there were -- they thought there was low correlation across MBS securities. It turned out to be a very high correlation across MBS securities.

And then -- I mean, on top of that, you have some of the things that were happening with the Goldman and hedge funds sort of spurring on the ABS CDOs and, you know, getting people to short that market, which sort of exacerbated the crisis. But I wouldn't say that that necessarily caused the crisis.

But, you know, I think ultimately, it was -- everyone involved in the process had incentive to generate as much product as possible and ultimately standards were lowered, which, you know, resulted in this blowout once the housing prices started to fall.

You know, that's, you know, sort of the short version of what I think happened.

MS. SHAFER: Fair enough.

Were there -- you know, I was only familiar with a limited number of people at Moody's.

Were there sort of, you know, methodology folks who were supposed to provide some countercheck, if you will, to the -- you know, to the deal people? To the people who were rating deals? Like, wasn't there some sort of methodology department that was supposed to verify or not that, you know, the correlation assumptions were right or that the mortgage models were right or that the CMBS assumptions were, you know, historically appropriate or something?

MR. EISBRUCK: You know, I can't speak to the different CDO groups and how they were able to change their methodology and get comfortable with, you know, the mortgage-backed -- straight mortgage-backed ABS CDOs.

I mean, on the RMBS side of it, I know that -- you know, let's say around the time of 2002, 2003, they revamped the model for rating RMBS securities, a model called "M3." And, you know, it went through, you know, a review at that time to verify the model and making sure everyone who was involved in those deals -- or senior people involved in rating those deals were comfortable with it. you know, post the development of that model, I don't know how often they reconsidered the approach.

I mean, I think they put out a new approach probably in mid-2007; but, you know, by that time, you know, most of the ratings had been done or the problematic ratings had been done.

You know, so I think it's an issue where, you know, you might reconsider the methodology when performance information you're seeing on the deal is coming out different than you expect. And, you know, the performance information, they were seeing probably didn't show up, and seemed significantly different than expected until probably the earliest, the second half of 2006, and then they would give a little bit more time to see whether that was going to continue. And, you know, probably by that time, it was too late to ultimately change the methodology to the point where the standards might have been tightened and some of the deals might have been rated differently.

MR. CUNICELLI: Mr. Eisbruck, we have the ability to interview witnesses and subpoena documents and to get e-mails and to get rating memos and the like.

If you were in our position, investigating the activities of Moody’s, what documents would you want to see, what people would you want to interview, what e-mails would you want to get?

MR. EISBRUCK: You know, I mean, I would think as far as -- huh, I mean, that’s a tough question.

I think certainly you’d want to interview the people I mentioned -- you know, the manager of the groups where the problem ratings ultimately occurred as well as, you know, senior managers. And I would even mention, you know, Ray McDaniel, as the CEO, who Brian ultimately reported to and I would guess was probably aware and certainly was aware of where a big chunk of Moody’s overall business was coming from over those years.

So, you know, certainly -- and it might be worthwhile to interview some more of the non-managerial people, the people who are rating the deals on a day-to-day basis.

MR. CUNICELLI: Like whom?

MR. EISBRUCK: Yes, I'd have to go back and look at the names of the people who were doing those deals. I just don't recall some of their -- who were the people who were doing sort of the biggest volumes of deals.

But, I mean, if you got an org chart at the time. Or even if you -- I guess you mentioned questions about Countrywide. If you went to the Web site and pulled up, you know, press leases for when various Countrywide deals or any other issuer's deals were rated, you could see the name of the analyst who was the lead analyst for those particular transactions. And, you know, if you're interested in the issuers, those would probably be the people you'd want to talk to about the ratings of deals done by those issuers.

MR. CUNICELLI: Now, you mentioned the names earlier, Pramila Gupta, Jay Siegel. I didn't catch all the names. Those are the people you think we ought to interview?

MR. EISBRUCK: I certainly think would have, you know, the most intimate knowledge about not only the methodology for rating mortgage-backed securities, but also whatever pressures they were receiving in order to -- you know, pressure they were receiving from management to rate those deals.

MR. CUNICELLI: Who do you think, of those names, would have received the most pressure?

MR. EISBRUCK: Yes, I don't know. What I'd say is that when Jay and Pramila, they took over the group, let's say in maybe 2001, 2002. And at that time, Moody's market share in the RMBS market was pretty low. And it was during the period when they were the managers that Moody's market share grew dramatically in that asset class.

And so I think they would probably have the most knowledge. And they were also, you know, most intimately involved in developing the model. Certainly Jay was, you know, very involved in developing a model. So they would probably be most helpful or most useful to your investigation.

You know, the other matters I talked about, were people who took over the group after Jay and Pramila left the team. So, you know, I think they would face some of the same pressures. But, you know, it was at that point sort of taking over from -- you know, at Moody's, Moody's position in the market was pretty well established at the point when those other people were given managerial responsibilities for the group.

MS. SHAFER: And who would have been involved with the correlation approach, assumptions, whatever, through ABS CDOs?

MR. EISBRUCK: Yes, you know, that I'm not sure.

I mean, I think -- my recollection -- again, I might not be correct -- but I think Gary Witt and Eric Kolchinsky were involved in developing that approach with -- and that was prior to them becoming managing directors. I think they worked with Gus Harris as -- you know, they were probably the primary people involved in developing that methodology.

But, again, you might want to go back and look at the methodology piece that Moody's put out around the time that those deals were being rated and see who the authors were. But those would be the people most involved.

MR. CUNICELLI: Do you have any -- have you heard any reasons why Mr. -- or Dr. Witt was transferred in 2005 off of ABS CDOs?

MR. EISBRUCK: No, I didn't hear anything about that.

I mean, I knew that -- yes, I didn't know whether he was transferred or not. I don't know --

really know anything about that.

MR. CUNICELLI: Now, I understand that Moody's applied a prime model to rate subprime RMBS. Is that correct? Or do you have any knowledge of that?

MR. EISBRUCK: Again, I think -- I mean, I talked about the model that was developed -- you know, the model called M3. And, again, I don't have firsthand knowledge, but I think that that is correct, that they were basically using the same model. They might have made adjustments to some of the assumptions in the model for different types of mortgages; but I think, ultimately, they were using the same model.

MR. CUNICELLI: You mentioned Jay Siegel, Mr. Eisbruck.

Is he still with Moody's or has he moved on?

MR. EISBRUCK: No, he left in these -- I believe in early 2007.

MR. CUNICELLI: Do you have any contact information for Mr. Siegel?

MR. EISBRUCK: No, I don't.

MR. CUNICELLI: Do you still keep in contact with Pramila Gupta?

MR. EISBRUCK: No.

MR. CUNICELLI: What about Gary Witt?

MR. EISBRUCK: No. I mean, I spoke to him just after I left Moody’s; but I haven’t had any contact with him since then.

MR. CUNICELLI: Do you have any knowledge or understanding as to an investigation into Noel Kirnon relating to a ratings change.

MR. EISBRUCK: No, I haven’t heard anything -- I don’t know anything about that, no.

MR. CUNICELLI: Okay.

MR. EISBRUCK: Maybe you could be more specific; but I don’t think so, no, I haven’t heard anything about that.

MR. BORGERS: A question for you as far as -- do you have any good friends on the CDO or on the RMBS side that you would have lunch with?

Who were your two closest friends on both those sides?

MR. EISBRUCK: I mean, on the CDO side, I really didn’t have much contact with the people there, except to the extent where we were doing some shadow ratings for bonds that would go with CDOs.

I mean, I wouldn’t say I had lunch with those people. I might have bumped into them at company events, that sort of thing. But, you know, I don’t think I had, you know, a friendly relationship. You know, again, I wasn’t unfriendly, but I just didn’t have much contact with those folks.

MR. BORGERS: How about on the RMBS side?

MR. EISBRUCK: The RMBS side? You know, I'd say I was probably closest with Mark DiRienz, who prior to joining the RMBS group, was in the ABS group.

And similar, maybe Marjan Riggi, who was also an analyst in the ABS group before she moved over to the MBS group.

MR. CUNICELLI: What was Mark DiRienz? How do you pronounce his -- or how do you spell his last name; do you know?

MR. EISBRUCK: It's D-I-R-I-E-N-Z.

MR. CUNICELLI: And the other name, you said Marha -- Marheem?

MR. EISBRUCK: Marjan, M-A-R-J-A-N.

MR. CUNICELLI: Uh-huh.

MR. EISBRUCK: R-I-G-G-I.

MR. CUNICELLI: Did either of those individuals ever express to you any concerns they had relating to the rating of RMBS securities?

MR. EISBRUCK: No. I mean, nothing specific other than that they were very busy. But, you know, as far as in respect of, you know, their concerns about the rating quality or that sort of thing, I don't remember ever -- you know, ever discussing that with them.

MR. BORGERS: And are they still with --

MR. EISBRUCK: Mark is still -- yes, Mark is still with Moody’s.

I think Marjan is also. The trouble is, I think she transferred to the London office, but I’m not 100 percent sure of that.

MR. CUNICELLI: Mr. Eisbruck, you seem very polite 36CFR1256.56: Privacy [redacted]

36CFR1256.56: Privacy [redacted] But ultimately, I’m happy that I left given the difficulties that have subsequently happened to the company and how the performance of the deals have gotten worse over time. And I’m happy what I’m doing now. So I try not to dwell on it too much anymore.

MR. CUNICELLI: Is there an ex-pat community for ex-Moody’s employees who get together and tell Moody’s stories or express gripes?

MR. EISBRUCK: I mean, not that -- not that I’m a part of. I mean, I do still talk to people who work at Moody’s, still work at Moody’s today, and people who used to work at Moody’s. But, you know, I mean, it's certainly nothing that -- nothing organized or anything like that.

MR. CUNICELLI: Okay, I'm going to go -- we're going to terminate here.

I'd just caution you again that everything we bring up that comes before the Commission, we ask for you to hold up your end on the confidentiality; and we'll certainly hold up ours.

And I've got -- let's see, about 6:03 p.m.

We're going to go off-record, sir.

(End of interview with Jay Eisbruck)

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