United States of America

Financial Crisis Inquiry Commission

INTERVIEW OF

GUS HARRIS

Thursday, May 13, 2010

***** Confidential *****

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MR. BONDI: -- interview, it's in accordance with our policy.

MR. HARRIS: Yes.

MR. BONDI: Okay. First, you can turn on the recorder.

FCIC MAN: It's on.

MR. BONDI: Great.

Good afternoon, Mr. Harris. My name is Brad Bondi. I'm with the Financial Crisis Inquiry Commission in Washington.

The Financial Crisis Inquiry Commission in Washington was established by Congress in 2009 to investigate the causes of the financial crisis, and to do a report due at the end of this year, December 15th.

We're also, as part of our mandate, investigating the role of credit ratings and credit-rating agencies in the financial crisis.

Do you consent to being interviewed by and being recorded today?

MR. HARRIS: I do.

MR. BONDI: Okay.

Would the persons in the room please announce themselves and say their last name again?

It's Brad Bondi, B-O-N-D-I.

MR. BUBB: Ryan Bubb, B-U-B-B.

MS. NELLES: Sharon Nelles from Sullivan and Cromwell. And with me is Max Valdez, also of Sullivan and Cromwell.

MR. ROSS: Steven Ross from Aiken Gump; and I'm accompanied by Megan Griff, also from Aiken Gump.

MR. HARRIS: And Gus Harris from Moody's.

MR. BONDI: Mr. Harris, as I mentioned, we're with the Financial Crisis Inquiry Commission.

I'm obligated to tell you, because we are government employees doing an investigation, a statute known as 18 USC 1001 applies.

Mr. Ross here or Ms. Nelles can explain to you what it says.

In layman's terms, it just says that -- I shouldn't say "just says" -- it says that it makes it a crime if anyone knowingly or willfully provides false or misleading information to a government employee during the course of his duties. So that applies.

I don't have reason to believe, Mr. Harris, that you're not going to be truthful with us today; but I'm just obligated to tell you and everyone else that we interview.

If you could start off and tell us about your background at Moody's. When did you start and what positions have you held?

MR. HARRIS: I started at Moody's in September of -- I believe September of 1995. And at that point, I was a vice president in the Managed Funds Team.

I remained on the Managed Funds Team until, I believe, 2000. I don't know exactly the time frame.

I also, in the late nineties, I did a little work, part-time work in the credit derivatives area. I was rating some of the early vintage cash flows. That was roughly '97, '98.

In '99, we had two jobs, the Managed Funds Team and some work in derivatives.

When I was promoted to team managing director -- again, I don't know if it was '99 or 2000 -- at that point my Managed Funds responsibilities were relinquished. And I believe at that point my role in the derivatives team was for cash flow -- primarily cash-flow CDOs.

I maintained that role until –- of team managing director until January of 2005, at which point I was promoted to group managing director, with a responsibility for the New York credit derivatives business, in addition to the -- back to the global Managed Funds. So I went back to the Managed Funds Team, managing that team.

And my background, by the way, is in mutual funds. I spent many years of training in school in *[unintelligible]* mutual funds.

Also at around that time, I was asked to create a new team, which eventually became the New Products Group, which is what I manage today, which I believe by late ‘05 I developed a methodology for analyzing hedge-fund operation quality and other types of hedge-fund-related risks.

MR. BONDI: And was Dr. Gary Witt assigned to head the New Products Group when it was created?

MR. HARRIS: He was assigned to it. I don’t recall if he was assigned to it when it was created, but he was -- he was a team managing director in creating the operations quality ratings, yes.

MR. BONDI: Okay.

MR. HARRIS: Also, sometime in ‘05 -- the other role that I maintained was to be responsible for the processing of data and the creation of analytic tools. Now, I’m going to take a step back.

So at around 2000, when I was promoted to team managing director, what I wanted to -- what I thought we should do was get all the data that was being sent to us and put it in a database so that we could be more efficient in the way we process our data, study the data, and monitor the deals.

So early 2000’s I started also creating some databases and some products, research products off of the data.

By 2005, when we set up a New Products Group, I was given the clear mandate to spearhead all of those initiatives with regard to the automation, the data, creation of analytic tools.

So sometime in ‘05, we also -- we had

discussions with a company called Wall Street Analytics based on the West Coast. They had been in business since the late eighties, creating tools, analytic tools for the structured finance base.

Those discussions went on for a year, maybe even more than a year. But eventually, we acquired the company by late ‘06.

So the New Products Group evolved from a hedge fund, operations quality rating, and the creation and maintenance of databases and analytic tools, our research products and for clients. And then through the acquisition of Wall Street Analytics, we added -- we significantly improved our capabilities in the area of structured-finance analytics. So that was the foundation of the New Products Group.

Also, the closing of the Wall Street Analytics acquisition in late ‘06, at that point my role in the derivatives team was redefined and limited solely back to the business that I initially grew up in, which is the cash-flow CLO business.

MR. BONDI: I’m sorry, when did --

MR. HARRIS: The cash flow of late ‘06.

December of ‘06 it was formalized, and it was announced sometime in October or November.

The plan was as soon as the Wall Street Analytics acquisition closed, the plan would be in effect.

And the deal -- the Wall Street Analytics acquisition should have closed sooner than late-year. But it closed late-year of ‘06.

So effective with the acquisition of Wall Street Analytics, my responsibilities were then to maintain the Global Managed Funds -- I believe I maintained the Global Managed Funds.

Now, to take a much larger New Products Group, along with the operations quality rating -- and I believe at that time we were also creating vendor information risk ratings, and now a much larger structured finance platform. And I spent a lot of time trying to build the Wall Street Analytics.

FCIC MAN: Would you mind holding on for a second? I just want to make sure the tape recorder is working correctly. Is that okay?

MR. BONDI: Sure.

FCIC MAN: Hold on a second.

(The recorder was stopped and restarted.)

MR. BONDI: -- a series of technical difficulties.

FCIC MAN: Okay, everything's cool. It's working.

MR. BONDI: You got it figured?

FCIC MAN: Yes, it 's fine. I was sort of checking, to make sure it was recording.

MR. BONDI: Great.

Okay, sorry. Please.

MR. HARRIS: And my role on the derivatives team was the U.S. CLO business.

I believe by the middle of the year --

MR. BONDI: The middle of 2007?

MR. HARRIS: Yes, 2007. So in the first half of the year we had the Managed Funds group, much larger than the New Products Group, and the U.S. CLO team.

MR. BONDI: Uh-huh.

MR. HARRIS: You may want to get into *[unintelligible]*.

I think -- I think it was August -- it will be

August, maybe sometime in July my responsibilities for the U.S. CLO team were also relieved.

MR. BONDI: Okay.

MR. HARRIS: And I focused primarily on the New Products Managed Funds. But also happening in New Products at that time, early in the year, we were having discussions with various companies to make investments to expand our structured platform into valuations for other instruments.

So shortly after –- so we had lined up additional acquisitions for later on in the year, that would be closing late ‘08 -- I’m sorry, late ‘07 and early ‘08, I believe.

We acquired the Merchants Evaluations business and we acquired Best Quotes *[phonetic]* which provides pricing for structured finance -- structured credit-default swaps.

And I believe it was in the middle of ‘08 when the Managed Funds Team was –- well, I was the lead also of managing the Global Managed Funds Team. I think it was the middle of ‘08. And at that point, it was solely the –- sort of this New Products group which had a structured finance platform, we still had the -- we had vendor commission ratings, and we had entered the valuation space through the acquisitions, the Mergent Evaluations business and best *[unintelligible]*.

MR. BONDI: Uh-huh. And does that take us to present?

MR. HARRIS: We ended up exiting -- we ended up exiting the –- we ended up exiting the -- three of those four initiatives. We exited the vendor information risk business, we exited the valuations business. We sold off Credit Quotes. We sold off Mergent. The Wall Street Analytics platform continues to report to me.

MR. BONDI: And what is your current title or position?

MR. HARRIS: I'm an executive director in Moody's Analytics.

MR. BONDI: I just want to break out some of the things you said about CDOs that had RMBS as the underlying collateral.

That was under your bailiwick from 1999, 2000, through when?

MR. HARRIS: No, it was under -- in ‘99 -- when I was promoted in ‘99 and 2000, I was responsible for the cash-flow CLO business.

MR. BONDI: CLO?

MR. HARRIS: That’s what I focused on.

MR. BONDI: Okay. When did you start working with CDOs that had RMBS as the underlying collateral?

MR. HARRIS: When I got promoted to group managing director in 2005.

MR. BONDI: January 2005? Okay.

And how long then were you working with CDOs with RMBS as the underlying collateral?

MR. HARRIS: Until the end of 2006. From 2/4 of 2006.

MR. BONDI: Got it.

So, roughly, 2000 -- January 2005 through December 2006, ABS CDOs with RMBS collateral was under your bailiwick?

MR. HARRIS: I was the group managing director for the U.S. CDO business, which included CDOs backed by RMBS.

MR. BONDI: From January ’05 to December 2006, who was reporting to you?

MR. HARRIS: I don’t know the exact dates the people reported to, but over that time period, those two years as a group managing director, I had reporting to me, at one point or another: Gary Witt, Yvonne Fu, Yuri Yoshizawa, Bill May. I believe that -- I believe that’s everyone.

MR. BONDI: And those were the managing directors? They were managing directors?

MR. HARRIS: I’m sorry, and Roger Stein for the -- I think Roger managed the Managed Funds group, just for the Managed Funds Team.

MR. BONDI: Okay, and of these, Mr. Witt was involved, at least for some of that time period in CDOs with RMBS collateral, right?

MR. HARRIS: That is my recollection, yes.

MR. BONDI: Yuri Yoshizawa was involved in CDOs with RMBS collateral as well?

MR. HARRIS: I think Yuri was probably primarily for synthetics.

MR. BONDI: Synthetic?

MR. HARRIS: CDOs which may have included --

which may have included RMBS instruments as a reference.

MR. BONDI: A reference?

MR. HARRIS: It may have.

MR. BONDI: Okay. And what was Yvonne Fu responsible for?

MR. HARRIS: I believe Yvonne came later on in the year, in 2005, back from maternity leave.

MR. BONDI: Uh-huh.

MR. HARRIS: And she was responsible for U.S. RMBS deals, credit-derivative product companies, catastrophe bonds.

So Gary and Yvonne are Ph.D.s, so they tended to give more quantitatively intense structures to them.

So a catastrophe bond, for example, would fall under Yvonne's area. It wasn't just RMBS deals.

MR. BONDI: Okay, and Bill May was primarily doing CLOs and CDOs?

MR. HARRIS: Yes. CLOs, primarily, is my recollection, yes.

MR. BONDI: Which are more sophisticated or difficult analytically: CDOs with RMBS collateral or synthetic CDOs that reference RMBS collateral?

MR. HARRIS: So it's hard -- I don't know. My expertise is not in synthetics --

MR. BONDI: Uh-huh.

MR. HARRIS: -- and my expertise is not in RMBS, so it's hard for me to try to comment on these two structures that I'm not familiar with, or I'm not -- I have not rated them, so I do not know which one would be more difficult analytically.

MR. BONDI: No impression from talking with the managing directors under you?

MR. HARRIS: I could try to make a parallel to corporate deals. Like a corporate CDO with a corporate synthetic, it's -- because you have similar assets but they're two different structures.

Would you like me to try to make that analogy or no, on the corporate side?

MR. BONDI: Please, go ahead, if you think that helps.

Well, I mean, my question, though, was did you have any sense of which was more complicated to rate: The synthetic CDOs or the cash CDOs that Mr. Witt and his team were rating?

MR. HARRIS: I never rated one of these deals. It’s hard for me to comment on that.

MR. BONDI: And did you ever serve on any ratings committees for synthetic CDOs or cash CDOs?

MR. HARRIS: It’s possible. I don’t recollect sitting in actual committees for synthetic or RMBS deals, but I most likely did sit on committees.

MR. BONDI: And when you said “RMBS deals,” I’m talking about CDOs with RMBS collateral.

MR. HARRIS: Yes.

MR. BONDI: And the same answer is, you don’t recall sitting on any committees?

MR. HARRIS: On specific ones, on specific committees, no. But I’m blanking on standing committees.

MR. BONDI: Did you ever [unintelligible] a man named Eric?

MR. HARRIS: Kolchinsky. Yes, Eric -- Eric, he’s -- he worked for me in the New Products Group recently, in Wall Street Analytics, in fact, from the Cue Ball *[phonetic].* He worked for me from, I think, October, November of ‘07 until he left in, I think, September of ‘09.

Prior to that, he helped me -- he worked for me, maybe 2003, 2004.

Eric had worked for Moody’s in the early two thousands, and then he left, and then he came back.

Before he left the first time, he helped me with the new products that we were building. And he helped me get those reports out, he helped manage the team, he helped organize our data better and make the products more helpful to the marketplace. Then he left. I believe he went to Lehman Brothers.

He came back, I don’t know, maybe sometime in 2005. I don’t know exactly when. He did not report directly to me. He reported to one of the managing directors, which I think would have been Gary or Yvonne. But he didn’t report directly to me.

But he worked for me starting in ‘07, when he moved over from the rating agency to Moody’s Analytics.

MR. BONDI: Were you involved in any committees that were responsible for updating or changing the models used to rate CDOs with RMBS collateral?

MR. HARRIS: I do not recall being involved in those committees.

MR. BONDI: Were you involved in any committees at all that were involved in changing or updating assumptions used for any of the models that were used to rate CDOs with RMBS collateral?

MR. HARRIS: Yes, I recall.

MR. BONDI: What committees do you recall participating in?

MR. HARRIS: I think this was maybe in the middle of '05. I don't know the exact time frame.

You know, what we tried to do was to reconcile the methodology used in CDO-ROM.

CDO-ROM was the model that we viewed as being the most precise. To my recollection, it's a simulation model that was developed by a *[unintelligible]* Ph.D.s. And that is the model that what we wanted to do, was reconcile the cash-flow models to CDO -- to CDO-ROM.

MR. BONDI: So who else was on this committee that was responsible for reconciling the cash-flow CDOs to CDO-ROM?

MR. HARRIS: I think –- I don't recall all the people, but I believe at that meeting would have been most of the managing directors, including managing directors in Europe and Noel Kirnon, who is the person I reported to.

Noel headed up the Global Derivatives Group. There would have been Noel, myself, Paul Mazataud, Gareth Levington, most likely Gary --

MR. BONDI: Gary Witt?

MR. HARRIS: Gary Witt. And at that point, I think Gary was also the managing director, as was Bill. But I don't recall specifically, you know, if they were there.

MR. BONDI: Who chaired that committee?

MR. HARRIS: I do not know. I don't recall.

My guess would have been Noel, but I cannot -- I don't know for sure.

MR. BONDI: And was there ultimately a determination reached by this committee?

MR. HARRIS: My recollection was that we ran multiple analytics. The European team ran them, the New York team ran them, and we tried to assess where they converged. And at the end, my recollection was that the numbers didn’t -- we weren’t able to get the numbers to reconcile.

MR. BONDI: And what does that mean, you were unable to get the numbers to reconcile?

MR. HARRIS: The results were that the two models -- my recollection is that the results from the two models were fairly similar.

MR. BONDI: And just to be precise, the two models you’re talking about is CDO-ROM and what other model? The BET model?

MR. HARRIS: I think it was -- I don’t know exactly what the –- from the correlated binomial. That’s what I would –- what I think was the model at that time.

MR. BONDI: And how were you able to get the correlated binomial and CDO-ROM model to reconcile?

MR. HARRIS: My recollection is that we ran many deals from the two models, and the results were *[unintelligible].*

MR. BONDI: Were these past deals that had been rated by Moody’s?

MR. HARRIS: I believe so, yes.

MR. BONDI: Who was responsible for running the deals through the two models?

MR. HARRIS: I believe -- I forget the analyst's name at the time. But we had an analyst -- analyst *[unintelligible]* the work.

MR. BONDI: And from your work on this committee, was there ultimately a document generated and made public?

MR. HARRIS: There was, I believe, September of '05 we published a report.

MR. BONDI: Do you recall what that was called?

MR. HARRIS: I do not recall.

MR. BONDI: And this report outlined or described the assumptions that would be used?

MR. HARRIS: I believe so.

MR. BONDI: And these were assumptions for which model? The CDO-ROM model?

MR. HARRIS: I don't know. I think it would have been for the model that was used to rate the cash-flow deals. But making it -- but also *[unintelligible]* the fact that it is consistent with

CDO-ROM. So it would have been the cash-flow methodology.

MR. BONDI: And tell me about some of these assumptions that were developed.

What were your assumptions? What were the assumptions that were being discussed at this committee?

MR. HARRIS: I'm -- I'm not sure exactly what the assumptions were.

My sense would have been that the default rates for the company rates, the correlations and the default timing would have been considered.

MR. BONDI: And for each of those various assumptions, did a particular committee member have the role of leading, looking into those assumptions?

MR. HARRIS: I did not.

MR. BONDI: Is there a division of labor?

MR. HARRIS: I do not believe so. I do not recall.

MR. BONDI: Do you want to ask ––

MR. BUBB: Yes, that would be great.

I want to step back and talk about what the goal of the committee was.

So at that point in time, you had the BET model and the CBM model that were used to rate different kinds of CDOs, and there were rules that determined which deals were rated with the BET and the CBM. You also, on the synthetic side, had initiated use of the CDO-ROM model and software to rate those deals.

And if I understood correctly, the goal of the committee was to reconcile these two alternative approaches, meaning, the CBM -- the old CBM approach to this new CDO-ROM approach.

What exactly -– how do I say this?

So why was it important that they reconcile? Let’s start with that.

MR. HARRIS: So not being a -- I’m not a Ph.D. And the -- my understanding is that the correct -- the analytically correct approach for analyzing credit risk would be primarily through a simulation.

CDO-ROM provided that simulation -- the simulation model.

A BET is an estimate -- we tried to estimate the result of a simulation through a binomial expansion methodology.

So as we constantly try to update our methodologies, it's an ongoing thing, it's something that we always did. One of the objectives was to try to understand how the estimation process, the binomial, tied out to something that we viewed as being more precise, which was a simulation model.

And my recollection is, we've done that, and we were doing it, for many asset classes, not just for RMBS deals.

MR. BUBB: *[Unintelligible]* a simulation approach, a better approach, why was simulation viewed as being a superior approach?

MR. HARRIS: So, my understanding of the binomial is that it's a -- it's sort of a smoother -- the binomial gives you a distribution that is not as precise as a simulation. It smoothes the result of the portfolio. And as your binomial, as your number of diversity bonds declines, the distribution may not do that good of a job to try to approximate what a simulation would provide.

MR. BONDI: And who -- what precipitated, though, the need to reconcile these two models? I mean, what prompted the need for the committee to be formed in the first place?

MR. HARRIS: I believe it is around that time that CDO-ROM was first introduced.

So my recollection is that we tried for a while to build a simulation model. And CDO-ROM was built, and here was an opportunity to try to *[unintelligible]* to something that -- to a model that provided greater -- what we called provided greater precision.

MR. BUBB: So was the goal essentially then to adopt, to incorporate the CDO-ROM simulation into the cash-flow CDOs?

MR. HARRIS: At that point -- at that point, you couldn’t do it, unfortunately. The -- you could run the CDO-ROM in the synthetic environment because there’s no cash flows.

The technology to bring simulation into a cash-flow model, pretty significant.

And that’s one thing when we *[unintelligible]* analytics, that’s one thing that we’ve done since then, that’s one thing that we tried to incorporate into our tools.

MR. BUBB: So, I'm sorry, was the goal of this committee to figure out how to incorporate the CDO-ROM simulation into the cash-flow methodology?

MR. HARRIS: It was not.

MR. BUBB: So if it had -- my understanding of the report that the committee published, announced a new approach to rate cash-flow CDOs. And that approach involves first run the CDO-ROM simulation to produce a simulated loss distribution, and then to use that simulated loss distribution to choose the parameters of the correlated binomial model.

So, indeed, the outcome of the committee was to devise a methodology that incorporated the CDO-ROM simulation into rating cash-flow CDOs is my understanding; correct?

MR. HARRIS: It's incorporated to the methodology. But the way I interpreted the question is to actually put the simulation into the methodology. Yes, you're -– it's to incorporate the result of CDO-ROM into the methodology, yes.

MR. BUBB: Understood. So you thought I meant you would just do CDO-ROM, done, that’s it?

MR. HARRIS: No, I think you take CDO-ROM and fold it into the cash-flow model. So now you could simulate in the cash-flow model. That’s a huge --

MR. BUBB: I see.

MR. HARRIS: -- logical -- we’ve been investing to build that functionality.

MR. BUBB: So then the goal –- the goal then was to figure out how to use the CDO-ROM simulation and feed the results into your CBM methodology for rating cash CDOs; is that –- am I saying that correctly? Is that --

MR. HARRIS: I think the result -- the objective was to -– again, my understanding of the objective was to try to look -- to look at the CD-ROMs and try to create a correlated binomial distribution that approximated the CDO-ROM results.

MR. BUBB: So in other words, the goal of the committee didn’t change over time? It was formed to do one thing and it also did what it was formed to do?

MR. HARRIS: That is my recollection.

MR. BUBB: And so you had already been using the CDO-ROM model for synthetic CDOs at this time.

It had already been launched; is that right?

MR. HARRIS: I don't know the exact timing, but I think CDO-ROM was built around that. I don't know if it was built in '04 or '05. I don't know exactly when it was built, but it was around that time. That's my recollection.

MR. BUBB: And you described the -- at one point, you described the goal -- one of the goals of the committee was to reconcile the old approach with the new approach you all were devising.

Why was it important to reconcile? Just help us understand the thought process here.

I can imagine, just to give you an alternative thought approach, you could imagine not caring what the old way did, and say, "Look, we want to do this better, and we're now going to devise a model and assumptions that give the best answers, and it doesn't matter whether it reconciles. We just want the right answers."

Can you help us understand what you mean by "reconcile," why that's important?

MR. HARRIS: Actually, the purpose of the work was to incorporate the CDO-ROM results into the correlated binomial methodology. That was the objective.

Now, as part of that, you would analyze what the results are, or the differences are between the correlated binomial methodology and one that's based on CDO-ROM. And you compare the results and see what -- how the two methodologies differ.

In terms of -- reconciling was not the objective. The objective is --

MR. BUBB: Well, that's what you said 15 minutes ago.

What did you mean, when you said it 15 minutes ago?

MR. HARRIS: It's to incorporate the CDO-ROM results into the correlated binomial.

MR. BUBB: Now, you used the term "reconcile."

MS. NELLES: Do you mind for definitions if we jump in?

MR. BUBB: Sure.

MS. NELLES: Thank you.

MR. HARRIS: So the committee wanted to take the results from CDO-ROM. My understanding was, there was a new model at that point. There was a simulation model that we felt was -- gave results that were more precise and more consistent across the marketplace. So now we had this model. But to compare those results to what we were doing at the time. And eventually, *[unintelligible]* methodology to reflect the CDO-ROM model.

We compared -- I think as part of that, we compared the two models to see what the correlated binomial results look like, *[unintelligible]* CDO-ROM, and what we had been doing in the past.

MR. BONDI: Let me try to do this in layman's terms here. CDO-ROM was a good model, but it didn't work for cash flows; but you liked it because it ran scenario analysis, and so you wanted to tie that scenario analysis to the cash-flow models that you were doing?

MR. HARRIS: Yes.

MR. BUBB: So what did you mean by -- you said one of the goals was to reconcile, and you said that the results converged, in your words.

Explain to me more. What does that mean, ”the results converge” and “the goal was to reconcile”?

MR. HARRIS: So when we adopted the enhanced methodology, the results compared to the old methodology were not significantly different for the deals that we -- for the sample of deals that we tested.

MR. BUBB: In the course of the committee’s work, did you consider alternative assumptions for the new methodology?

MR. HARRIS: I do not -- I personally do not recall.

And a lot of the work was being done by the quants that would run the models. But I personally do not recall what variables they changed or what results were being considered.

MR. BUBB: Who was the lead quant on the project?

MR. HARRIS: I forget the individual’s name. I think we had one person in New York. I think we had two people in London. I don’t recall all the names.

MR. BUBB: Which of the managing directors on the committee would have been most familiar with the quantitative analysis?

MR. HARRIS: I think it would have been Gary.

MR. BUBB: How about Yvonne Fu? Would she be familiar with it?

MR. HARRIS: I don't know if Yvonne -- again, I don't know -- Yvonne was on maternity leave. I don't know if she was – I don't know when she left and when she came back.

MR. BUBB: What work product was produced by the committee prior to the publication of the ultimate specification of the new methodology?

MR. HARRIS: I believe -- I believe there was a committee memo.

MR. BUBB: And what was in the committee memo?

MR. HARRIS: You write up the methodology and the testing that was performed.

MR. BUBB: Who wrote the committee memo?

MR. HARRIS: I don't recall.

MR. BUBB: And was there any -- were there any intermediary -- any intermediate documents produced on the way to producing that committee memo?

MR. HARRIS: I did not recall specifically if there were.

MR. BUBB: The ultimate report that was published later in 2005, announcing a new methodology, characterized the changes, in part, adopting a new set of correlation assumptions.

Is that consistent with your memory?

MR. HARRIS: The correlation assumption, I would have assumed, came from CDO-ROM. So I don't know if that was considered a new correlation framework.

MR. ROSS: Do you have a copy of the document?

MR. BUBB: I apologize, I do not have a copy of the document.

MR. ROSS: It's *[unintelligible]* to remember whether something was said in the document that you seem to be quoting from, from five years ago, and you don't have the document.

MR. BUBB: Yes, fair enough. We'll do the best we can.

So with this new approach, did it result in any change as to the enhancement levels that Moody's required for various ratings on cash CDOs? That is, changes relative to the prior methodology before the new methodology was put in place?

MR. HARRIS: To the best of my recollection, I don't think it did.

MR. BUBB: Do you recall that certain FICO scores and bands for FICO scores were going to be used in the assumptions? In other words, subprime, prime, mid-prime?

MR. HARRIS: Yes, I do recall that that's -- that that was going to be used.

MR. BUBB: Okay. And do you recall that the BET model used three types of pockets of assumptions? One for prime, one for subprime, and one for second liens? Do you recall that?

MR. HARRIS: I do not recall.

MR. BONDI: What do you recall surrounding the discussions about the bands of FICO scores that would be used and form the bases of the assumptions that were reached in the September 2005 document? What do you recall as you sit here today about those discussions? Anything?

MR. HARRIS: I do not recall anything specific, any specific discussions about that.

MR. BONDI: What about any general discussions? What do you recall generally about discussions surrounding the FICO bands?

MR. HARRIS: I can’t –- I can’t recall.

MR. BONDI: Do you recall an internal discussion or debate over whether it had two FICO bands or three FICO bands for the assumptions?

MR. HARRIS: I guess I do. I do believe some discussion in that regard, yes.

MR. BONDI: What do you remember about those discussions?

MR. HARRIS: I just recall that there were discussions about where they should draw the lines.

MR. BONDI: And do you remember if there was any testing of where to draw lines?

MR. HARRIS: I do not recall.

MR. BONDI: And do you recall any particular persons taking any positions with respect to whether to have two categories or three categories of FICO bands in the assumptions?

MR. HARRIS: I do not recall.

MR. BONDI: Did Brian Clarkson participate in any of the meetings concerning these assumptions?

MR. HARRIS: Not to my knowledge.

MR. BONDI: Was Mr. Clarkson briefed off of the discussions on the committee?

MR. HARRIS: Not to my knowledge.

MR. BONDI: Did you ever talk to Mr. Clarkson about what the committee was doing and what you were considering?

MR. HARRIS: I do not recall talking to him about this topic.

MR. BONDI: Who's Christopher Ricciardi?

MR. HARRIS: Chris, I believe, currently works at Cohen. I think he's the CFO there or COO or CEO.

MR. BONDI: Do you still keep in contact with Mr. Ricciardi?

MR. HARRIS: I do not.

MR. BONDI: In 2005 and 2006, when you were the group MP, where was Mr. Ricciardi?

MR. HARRIS: I think in '05 -- I think in '05 he was at Merrill Lynch, and I think in '06 he was at Cohen, but I don't know for sure.

MR. BONDI: And is Mr. Ricciardi a person with whom you interacted with when you were group MD?

MR. HARRIS: Not very often.

MR. BONDI: Not very often? You didn't interact with him very often?

But you did interact with him a few times?

MR. HARRIS: Uh-huh, yes.

MR. BONDI: And can you tell me about the instances where you did interact with Mr. Ricciardi?

MR. HARRIS: So, I could recall -- I could recall one time when –- I think it was rare that we actually did interact, but I do recall one time when I reached out to him to tell him that I thought his team was not treating our team very respectfully. I heard some complaints from our people, from our analysts that his team is not being very responsive to us and was not treating us with a lot of respect.

MR. BONDI: Can you put some names behind this? Who did you hear -- who did you hear from on your team that these situations were occurring?

MR. HARRIS: I do not recall.

MR. BONDI: Did you talk about anyone specifically from Moody's when you talked to

Mr. Ricciardi?

MR. HARRIS: I do not recall.

MR. BONDI: What did Mr. Ricciardi say in response to your concerns?

MR. HARRIS: My recollection is that he took to heart the concerns, and that he was going to talk to his team and let them know that they could be a bit more respectful to the analysts.

MR. BONDI: Was Mr. Ricciardi's business important to Moody's?

MR. HARRIS: Well, the -- we find opinions and -- to the marketplace. And to the extent there are deals that people are asking for opinions, we'd like our opinions to be part of that process, to the extent Chris -- Mr. Ricciardi was doing deals, we had to – we were looking to crafting what would be -- we were interested in the deals that were happening in the marketplace, and to understand how Moody's opinions could help with informing the market of -- or sharing with the market our opinions.

MR. BONDI: Who would send you the most number of CDO deals in 2005?

MR. HARRIS: I do not recall.

MR. BONDI: Could it have been Mr. Ricciardi?

MR. HARRIS: It's possible. It could have been Merrill, yes.

MR. BONDI: Where does Merrill rank in terms of other investment banks who were using Moody's for CDO ratings?

MR. HARRIS: I do not recall.

MR. BONDI: Was that something you would have known in 2005?

MR. HARRIS: I'm not sure I -- I don't know if I would have known specifically the ranking at the banks.

MR. BONDI: Did you have a conversation with Mr. Ricciardi, ever, concerning 36 CFR 1256.56 - Privacy

MR. HARRIS: I do not recall having a discussion with Mr. Ricciardi about 36 CFR 1256.56 - Privacy

MR. BONDI: Do you recall having a conversation with Mr. Ricciardi concerning any analyst that Mr. Ricciardi felt were taking too long to rate deals or being too difficult in rating deals?

MR. HARRIS: I do not recall having that

discussion with Mr. Ricciardi.

MR. BONDI: Do you recall having that discussion with anyone at Merrill Lynch?

MR. HARRIS: I do not recall having any discussions with anyone at Merrill Lynch.

MR. BONDI: Did Mr. Ricciardi ever ask you to take any Moody's employees off of future deals that he would send to Moody's direct?

MR. HARRIS: I do not recall having that discussion with Mr. Ricciardi.

MR. BONDI: What about with anyone else at Merrill?

MR. HARRIS: I do not recall.

MR. BONDI: Did any banker ever ask you to remove any employees from future deals that they were going to send to Moody's?

MR. HARRIS: I can't give specifics, of specific banks.

MR. BONDI: How about general?

MR. HARRIS: Yes.

MR. BONDI: Okay. Tell me what you recall.

MR. ROSS: Just -- as I've said before, if you’re talking about future deals ––

MR. HARRIS: I said the word ”future.”

MR. ROSS: Yes, but deals that were removed from which would seem to imply somebody was assigned and then removed?

MR. HARRIS: Yes.

MR. ROSS: I think you’re asking on the assignments, right?

MR. BONDI: Let me be clear about that. Let me make it clear.

Did any banker ever call you up and say, “On any deal that we send you in the future, don’t assign John Smith or so-and-so from Moody’s to that deal. Make sure that analyst isn’t on my deals in the future.”

Did any banker ever tell you that?

MR. HARRIS: Not that way.

MR. BONDI: Okay. In any way -- in any way, did they ever say --

MR. HARRIS: Yes.

MR. BONDI: -- “you’ll get more business” --

MR. HARRIS: No, no.

MR. BONDI: -- if they said, “Put this person on" --

MR. HARRIS: No.

MR. BONDI: Tell me, what bankers would say about assigning or not assigning certain analysts to their deals.

MR. HARRIS: So, again, not being able to speak about specifics –- the general -- my recollection of the general discussion is that there are potential personality clashes, and the dealers -- the dealer, whoever it would be, would say that, "This individual is one that we have a tough time, a difficult time working with."

MR. BONDI: Let's try to put some names with this.

Any bankers you remember that ever -- bankers or banks that you ever remember raising those types of concerns?

MR. HARRIS: I do not recall the specific -- any specific people, no, I do not.

MR. BONDI: Or banks or institutions?

MR. HARRIS: I do not.

MR. BONDI: Goldman Sachs?

MR. HARRIS: I do not.

MR. BONDI: Merrill Lynch?

MR. HARRIS: I do not.

MR. BONDI: Credit Suisse?

MR. HARRIS: I do not.

MR. BONDI: What about any of the Moody's employees? Do you remember any of the Moody's employees that were the subjects of these calls?

MR. HARRIS: Yes.

MR. BONDI: Which Moody's employees?

MR. HARRIS: 36 CFR 1256.56 - Privacy would have been one individual.

MR. BONDI: Okay.

MR. HARRIS: At one point, 36 CFR 1256.56 - Privacy once was an individual.

MR. BONDI: Who was 36 CFR 1256.56 - Privacy

MR. HARRIS: 36 CFR 1256.56 - Privacy was an attorney. He was one of our legal analysts. I think he worked in early two thousand still -- 2005 *[unintelligible]* 2006.

It's possible that 36 CFR 1256.56 - Privacy may have been.

MR. BONDI: Who else?

MR. HARRIS: I do not recall if there were any other names.

MR. BONDI: Do you ever remember communicating to any of the managing directors underneath you concerning any individuals and their assignments to future deals?

MR. HARRIS: I do not recall specifically talking to them about it, but --

MR. BONDI: Generally?

MR. HARRIS: -- probably -- yes. Generally, yes.

MR. BONDI: What do you remember generally talking to the managing directors about *[unintelligible]*?

MR. HARRIS: I don't know specifically with regard to, but I can speak generally -- generally, the discussion would be, we got a call. And there's some – what was brought to our attention was that the rating process had a lot of friction, and, "What do we do? Let's talk to our people. Let's figure out how to -- how to react and what do we do in this case."

MR. BONDI: And then would you sit down and talk to the analysts, like 36 CFR 1256.56 - Privacy or 36 CFR 1256.56 - Privacy or 36 CFR 1256.56 - Privacy and ask them their side of the situation?

MR. HARRIS: My recollection generally would be yes.

MR. BONDI: So you personally would sit down and…

MR. HARRIS: In some -- in some cases. Sometimes those calls may have come from a managing director regarding the calls, and they may have been talking to 36 CFR 1256.56 - Privacy or 36 CFR 1256.56 - Privacy

MR. BONDI: And following one of these calls and following your communications with the analyst, did you ever decide not to take them off of future deals?

Did you ever say, “Wow, come to think about it, I don't agree with that banker. There's not friction here, and you're going to stay on these deals? You're going to stay on deals with them in the future”?

MR. HARRIS: Not specifically but I -- not specifically, but I believe that there have been cases like that. I believe there have been cases like that.

MR. BONDI: Do you remember generally who they would have been with or what particular bank?

MR. HARRIS: I don't know which particular bank.

MR. BONDI: Or any particular analyst? Any particular analyst where a banker raised an issue, you talked to the analyst, and then you decided to keep the analyst on the deals with that banker?

MR. HARRIS: I don't recall.

MR. BONDI: Okay. Take the opposite. Do you recall taking analysts off future deals from a particular bank or banker after speaking with the analyst?

MR. HARRIS: Again, not knowing the specifics, I believe there were cases where in future deals we may not have put an analyst on the deal.

MR. BONDI: And you mentioned this, you said "friction here."

Why was it important not to have friction? Or was it important not to have friction in deals?

MR. HARRIS: It's -- having friction is not problematic.

The -- what we wanted to do, is understand more the sources of the disagreements between our analysts and the banks. To the extent that we felt that the friction, if you will, was warranted and was consistent with our opinions, we would get involved and help resolve those issues, we would try to resolve them. If there were issues, we tried to resolve them.

MR. BONDI: Can you recount for us one particular issue where a banker suggested there was friction, you intervened and resolved the issue?

MR. HARRIS: So, again, generally, I cannot -- I'm not sure I recall specifics, but there was a lot of friction in the area of qualitative adjustments in our rating methodology, deep-discount haircuts, *[unintelligible]* investing-grade haircuts, the reinvestment rules. And we helped resolve -- we got involved to help our analysts resolve those issues in accordance with our methodology.

MR. BONDI: Without removing them from deals?

MR. HARRIS: That is correct. So in that case, yes.

MR. BONDI: Without removing them from future deals with that bank?

MR. HARRIS: That is correct.

MR. BONDI: Let me throw out a few terms here.

MR. HARRIS: Sure.

MR. BONDI: I think I've got them. But let me ask you what you *[unintelligible]*, okay?

I think you said

qualitative adjustments," is that what you said?

MR. HARRIS: Yes.

MR. BONDI: I think you said "deep discount haircuts"?

MR. HARRIS: Yes.

MR. BONDI: Okay, and I got "reinvestment rules"?

MR. HARRIS: Yes.

MR. BONDI: Okay. So tell me what "qualitative adjustments" are.

MR. HARRIS: Sure. Moody's, maybe starting in the early two-thousands, started implementing certain enhancements to -- in our opinions, were enhancements for the structure of the CDOs. We wrote about them. Wrote about them, I think, in 2001, 2002. And then we had updates to those reports. I think it was a "frequently asked questions" report. There were two of them in 2001, and they were followed up with, I believe it's called "CDO Rating Factors" series. I don't how many, but *[unintelligible]*. And those are -- those are elements -- those are a part of our analysis that it was hard to put it in a model. It was sort of the qualitative assessment of a structure. So those are the ones where you want to put them in place to avoid possible -- for lack of a better word, possible abuse of the structure, of the structure itself. So to maintain the integrity of the structure, we took the position that regardless of what the mathematical model said, we thought it was good to have these features.

So in a deep-discount haircut, for example, we took the position that regardless of what the instrument that's rated, if it's trading at a certain level, the manager would not be allowed to buy that instrument and treat it at its higher implied rating.

So if you buy -– so it looks like a very simple example, something that's rated Aa, and it's trading at 20¢ on the dollar. We didn't want the manager to buy that vehicle, that instrument, put it in the pool, and treat it as an Aa. We thought the market was telling us something. That was a deep-discount haircut. They bought it at 20; they treated it at 20. They didn't treat it at full par.

MR. BONDI: I see. So let me see if I can break this down.

A CDO that has RMBS as the underlying collateral -- when the collateral is being selected by the manager, if they select a Bbb RMBS collateral but it's trading at something that you believe is less than Bbb, you can't treat it at Bbb for purposes of the CDO?

MR. HARRIS: Generally, that's the correct framework. I believe you can still treat it at Bbb, but you don't get full par benefit. You get -- if you buy it at 20, you get 20 in it.

If it's a CDO, the manager would not want full par benefit.

MR. BONDI: It has full par benefit of the rating?

MR. HARRIS: Bbb and treat it at a hundred for your tests. Because if you get a hundred for your tests, it has certain ramifications for it, for the way the cash goes through the waterfall. So if they haven't got a hundred, they get to bump off the numerator, if you will, in the calculation, and get to treat it at Bbb in your example.

Our view was that if you bought it at 20, you don't treat it at a hundred, you treat it at 20.

That was more –- our interest was more on how it was treated in the waterfall to protect the integrity and push the cash up to the senior notes.

MR. BONDI: And this is one of the qualitative adjustments that you described?

MR. HARRIS: One of the qualitative adjustments for that.

There were -- the older vintage CDOs, going back to that formula that I said before, the par in your numerator has an impact. If you get to treat an instrument at par, it allows cash to flow through to the non-rated notes.

The position we took, again, I think, the eight or nine years when we started this, the position we took is that instrument, even though it's treated at par, the way the old deals work is, it's treated at par until it defaults. Once it defaults, it's treated at, as an example, let's say 30. So it goes from a hundred to 30, once it defaults.

So the position we took is, "You know what? Nothing really goes from -- let's say in the context of CLOs, because I spend most of my time -- I think of B2 loan. A B2 loan doesn't go from B2 today to default tomorrow, in my grades – generally, in my grades.

So what we instituted -- and this applied -- to my knowledge, if applied to all types of cash-flow deals -- once it starts migrating down to default, you start reducing the benefit in your coverage test. So you no longer take a hundred.

If you get down to -- if the credits get down to these haircuts in the numerator.

MR. BONDI: Okay. I think I got that.

Do you have that one?

MR. BUBB: Yes, okay.

MR. BONDI: Qualitative adjustment number 3. What other qualitative adjustments were there?

MR. HARRIS: We implemented the watch-list rule, it's something to watch for downgrades. It's treated as if it's downgraded. And I believe -- I believe the haircuts were -- I believe it was a one-notch downgrade. If it was investment grade, one-notch downgrade; and two if it was below investment grade.

MR. BONDI: What other qualitative adjustments were there?

MR. HARRIS: Another one was the definition of a defaulted security.

MR. BONDI: *[Unintelligible]* default security.

MR. HARRIS: The definition of "default" has an impact on how you treat an instrument in its coverage task. Remember before, I said it's not defaulted or defaulted. So out of a hundred or, as an example, 30. It's binary. So we instituted the migration. If it migrates, you've got to take less than a hundred. But what we also did is, we said another one of our qualitative adjustments was -- the definition of default -- you know, when does it go to 30, even if it migrates -- if it migrates eventually to 30, what we wanted to do, was expand the definition of what a default is. So if we think it's going to default, we want to get to 30 as fast as possible.

The migration rules get you there. It starts the path. But an expansive definition of "default" captures that last -- it captures the wider definition of defaults. So you get into the default market quicker.

MR. BONDI: And am I correct in saying the definition of "defaulted security," that was something that evolved over time or came into play in 2005, 2006?

MR. HARRIS: So I believe the genesis of all of these features was in 2001, 2002.

MR. BONDI: Okay. Even the definition of "default"?

MR. HARRIS: I believe so.

The frequently asked questions, it was two series. I think it answered 30 broad questions. And I think one of them is, "What's Moody's definition of default?" I believe it's there. And if it weren't there, it was a follow-up series called "CDO Rating Factors," I believe, where we published *[unintelligible]* fact, 15 questions, we had one topic addressed. And these were considered qualitative factors.

MR. BONDI: And you mentioned, I think,

reinvestment rules?

MR. HARRIS: Yes.

MR. BONDI: Is that a qualitative factor?

MR. HARRIS: *[Unintelligible].*

MR. BONDI: Okay, and how does a qualitative factor work?

MR. HARRIS: It’s got a bit of -- it’s got a bit of what we discussed before. If you buy something at 20, you can’t treat it at a hundred. So if you sell a loan at 20, you can’t buy another loan at 20 and get the pop, get the increase to a hundred.

And I believe there were other -- I don’t recall -- I don’t recollect all those specifics. We actually wrote about the reinvestment rule and what a manager could do and cannot. We *[unintelligible]* the document.

MR. BONDI: Explain to me which of these qualitative adjustments, or any other additional qualitative adjustments that we haven’t already talked about, where bankers would call or complain about? You started off by saying, well, there would be friction over qualitative adjustments.

MR. HARRIS: Yes.

MR. BONDI: What qualitative adjustments was there friction about? Or was it the universe –- what was the gambit?

MR. HARRIS: I think if you had the list of -- I don’t know what the number is, 30 or 40 in front of us -- and I see a lot of them -- they were often discussed in ratings.

MR. BONDI: And it was a situation where bankers would call up and believe that qualitative adjustment downward was applied, where it shouldn’t have been applied; was that the *[unintelligible]* –-

MR. HARRIS: The *[unintelligible]* --

MR. BONDI: -- generally of complaints?

MR. HARRIS: The complaint was that these were unreasonable. Why would –- you know, why would a manager do this? Why do you -– why are you taking the position -- why are you taking the position you’re taking? This is not going to happen.

MR. BONDI: Now, the qualitative adjustments you’ve described for us seem to be qualitative adjustments that potentially could be adjustments downward. Would the qualitative adjustments on the CDO side, whether it could be potential for adjustments upward?

MR. HARRIS: The only one I could think of would have been -- the watch list worked both ways. If an instrument is on watch for upgrade, we treated it as if it's upgraded. And then there was –- there's plenty of data to support the position that the security on watch to upgrade or downgrade has a different risk profile than one that is not on watch to upgrade or downgrade.

MR. BONDI: Now, when you received any complaints from bankers about analysts, you said you would meet with the analyst, talk with the analyst on occasion, and try to figure out what the nature of the complaint was, and if there was some validity to it.

Is that generally what happened?

MR. HARRIS: So if there was a complaint, we of the management team, and sometimes I, myself, would reach out and try to understand where the friction is.

To the extent it relates to issues that we believe are relevant to our opinion, we will be part of the process to support the analyst, the analyst team, to make our position known to the deal team that these are provisions that we expect to see in these deals.

MR. BONDI: And would you conduct an investigation? Would you pull the ratings committee memo? Would you look at that? I mean, what would you do to figure out, did the analyst get it right or does the banker have a valid point?

MR. HARRIS: So generally -- I think it's –- *[unintelligible]* speaking about any particular deal -- we would meet, the analyst would meet with a manager and go through the issues and try to identify the ones that are relevant to our opinion and the ones that may not be relevant to our opinion.

MR. BONDI: And how would you do that, though? How would you go through it? What sort of investigation would you conduct? What would you look at and – you know, what would you look at for that sort of thing?

MR. HARRIS: I'm sorry, it would be the deal team and at least one manager. Sometimes you may bring in other analysts to get their opinion.

MR. BONDI: Uh-huh. And what would you look at? Would you look at the rating-committee memo?

MR. HARRIS: Well, at that point there wouldn't be a rating-committee memo because it's during the –- oh, so you're saying if you get the call after a deal.

MR. BONDI: Sure, let take the example of after the deal.

MR. HARRIS: Okay, so I was thinking in the context of these issues coming during the course of the --

MR. BONDI: Just tell me if this is a fair hypothetical if this happened, and I think you said it did. The banker would call you up and say, "I'm having friction," or however he described it, "with a particular analyst, and I don't like what he's doing." Might point to some qualitative adjustments. "I don't like what he did with my deals and I don't want him on any future deals that I'm sending."

Is that a fair hypothetical of what actually occurred?

MR. HARRIS: I don't want this person on future deals; and, yes, there were some issues that came up. I guess that's fair.

MR. BONDI: Would there sometimes even be a threat? Like, "I'm not going to send you any business"?

MR. HARRIS: I do not recall receiving a threat.

MR. BONDI: So a hypothetical: A banker calls you up, says, "I'm having trouble with this analyst. I don't want him on future deals."

MR. HARRIS: Okay.

MR. BONDI: And you said that happened, right?

MR. HARRIS: After a deal. After a deal closed, yes.

MR. BONDI: And that happened? Okay.

How would you investigate that to determine whether or not to put the analyst on future deals or not?

MR. HARRIS: So we would ask to -- we generally ask to understand the issues that came up on the deal and what was being discussed and what was raised. To the extent that we determined that -- we would have expected any rating issue was addressed.

To the extent we thought the issues were not relevant, that was a consideration.

MR. BONDI: Would you pull the rating-committee memos and examine those?

MR. HARRIS: I do not recall pulling the rating-committee memos.

We would ask the analyst, you know, "What were the issues that came up?" You know, "What was the position that we took?" And we tried to understand.

MR. BONDI: Did you recall pulling any documents in the deal to review those documents?

MR. HARRIS: I do not recall.

MR. BONDI: Going back to Mr. Ricciardi. Do you recall inviting Mr. Ricciardi to an off-site Structured Finance Group?

MR. HARRIS: Yes, I believe he spoke at one of our off-sites, yes.

MR. BONDI: And you were the one that invited him?

MR. HARRIS: Yes.

MR. BONDI: When was that?

MR. HARRIS: I don't know if it was in '05 or '06. I don't -- I don't know.

We had, I believe, one such finance off-site *[unintelligible]*.

MR. BONDI: And were there other bankers invited to that off-site?

MR. HARRIS: Other bankers? I don't recall if there were other bankers.

MR. BONDI: He was the only banker at that particular off-site?

MR. HARRIS: I don't know if he was -- I do not recall if he was the only banker.

MR. BONDI: Why did you invite Mr. Ricciardi to that off-site?

MR. HARRIS: I don't know why I invited Mr. Ricciardi.

We wanted to have guest speakers come and present to the team.

MR. BONDI: Where was that particular off-site?

MR. HARRIS: I think it was in the city at -- I think at the sports complex on Twenty-Third Street, on the west side, I think.

MR. BONDI: And did you ask Mr. Ricciardi to talk about anything in particular at that off-site?

MR. HARRIS: Vaguely.

MR. BONDI: What, vaguely, do you recall asking Mr. Ricciardi to talk about?

MR. HARRIS: What the marketplace expects of rating agencies.

MR. BONDI: What Merrill Lynch expected of Moody's?

MR. HARRIS: I do not -- no, that would not -- no, what the marketplace expects of the rating agencies.

MR. BONDI: What do you mean by "marketplace"? Are you talking about the banks?

MR. HARRIS: Yes -- not banks, just the marketplace.

So I believe, if my memory serves me right, we also had chief investing officer from TIAA present. I forget his name. I think we had multiple perspectives. And I think the topic -- if my memory serves me right, the topic was, what does the marketplace expect.

And having the perspectives was very helpful because the people that we had exposure to and the discussions we may have with investors and others may be in a different context than what an investment manager may have or an investment banker may have. So having a different –- having a broader perspective to what they're hearing would have been helpful for an analyst to hear. And that is my recollection.

MR. BONDI: Well, what went into your decision to invite Mr. Ricciardi as opposed to a banker at Goldman or a banker at Morgan Stanley or a banker somewhere else? What went into your decision to pick Mr. Ricciardi?

MR. HARRIS: I don't know. I do not -- I do not know why I would have -- I may have called others. I don't know.

MR. BONDI: Were you motivated, in part, because of some friction that was going on between Moody's analysts and Mr. Ricciardi?

MR. HARRIS: Well, I can't remember the specifics, but that would be highly unlikely.

MR. BONDI: Highly unlikely?

MR. HARRIS: Yes, that is correct.

MR. BONDI: And what do you remember Mr. Ricciardi discussing in his remarks?

MR. HARRIS: I don't -- I don't recall.

MR. BONDI: Do you remember if the remarks were long? Short? Five minutes? Ten minutes? Fifteen minutes? An hour?

MR. HARRIS: I don't recall.

MR. BONDI: Do you recall Mr. Ricciardi making any remark to you at the closing of these remarks, such as, "Gus, is that enough"?

MR. HARRIS: I don't recall.

MR. BUBB: If you're done with that, if I can go back, before it gets too…

So, you described the qualitative factors, which these were not applied within the formal model, how did you determine what factors ended up being in the model and what factors were, instead, what you described as qualitative factors applied back to the model?

MR. HARRIS: Some things are just very difficult to model. For example, the deep discount purchase, you don't know when a manager is going to buy something at 20 or 30 cents on the dollar. It's just not practical to model that. So I think it's -- I just think some things just can't be put in a formula. If they could, we would have considered putting them in the model. But I think that would have been one of the main determinants.

Could it be modeled -- is it really possible to model something like this?

MR. BUBB: So these were important factors. Not that they weren't important; they were just too complicated, hard to put in a formula, so it required a person essentially to evaluate. Is that a fair description? Do I understand this right?

MR. HARRIS: It required the documents to prevent activity that we thought conflicted with the spirit of the structure.

MR. BUBB: And it required a person to evaluate? You couldn't feed the documents into the computer and have the computer print it out? You needed an analyst or whatever the --

MR. HARRIS: Someone would have to read the documents.

MR. BUBB: The documents, as I understand it, make determinations about which qualitative adjustments applied?

MR. HARRIS: Yes, I think some of the ones you just talked about before, a deep-discount haircut applies. It applies in a cash-flow deal. Someone buys something at 20, our position was that it should be treated at 20.

MR. BUBB: Were -- are these -- so I initially assume that qualitative factors –- the reason they are qualitative factors, is because they aren't susceptible to certain mechanical application but, rather, requires some judgment, some subjective judgment that an experienced analyst could bring to bear but that no computer would do on its own.

Is that a fair understanding of some of these factors? Or did I misunderstand how this works?

MR. HARRIS: The factors that I was citing before, the framework was established. So an analyst was expected to follow that framework, and we didn't expect him to deviate much from that framework.

So, for example, a security watch for downgrade, you can't model that. The problem maybe you can, but it would be very complicated to model. Well, the investment pattern, manager is going to pursue, they're going to buy it *[unintelligible]* watch for it or not.

So in that case, the definition of the rating just reflects the facts. That definition of the rating included a watch-list provision. So in these deals, the Moody's rating had to be considered to determine the average credit risk of the pool.

And that test, that rating-factor test is important to determine what a manager –- how -- the commission of the deal and what a manager could purchase. So we put in the definition of the Moody's rating, the watch-list language, within the definition.

MR. BUBB: So was there ever any room for disagreement? Meaning, wanting to also look at this or come out with one conclusion on a qualitative adjustment, another analyst, fair-minded analyst, regional analyst, would look at it and say, "Well, actually, I think the way that this applies is different. It's this way"? Or is it purely, there's a rule, and there's no ambiguity and it's mechanical?

MR. HARRIS: I think -- I think it's -- there could be some -- for some of these, there could be some adjustments. But the general framework -- we expect the general framework to be incorporated in the deals.

MR. BUBB: So it would be the sort of adjustment, the room within which reasonable people might differ in the application of these factors, were these the focus with disputes with the bankers? Would they say, "Look, we think that this analyst is misapplying this. They really ought to be in the upper end or the lower end," or were they simply saying, "This whole factor is unfair and inappropriate"?

MR. HARRIS: It was primarily the latter, with a factor –- the argument was that these factors should not be included in our deal.

MR. BUBBS: And were those disputes over factors, did they ever inform what analysts you can put on future deals with the issuer?

MR. HARRIS: No.

MR. BUBB: So never considered?

MR. HARRIS: To my knowledge, I'm not aware of any situation where we subverted from our qualitative adjustments.

MR. BUBB: Were you ever concerned that when issuers push back, that would be about personality conflicts, say with 36 CFR 1256.56 - Privacy say with another analyst, that really what's going on here is, that analyst is actually a more stringent analyst and is applying our factors more faithfully?

MR. HARRIS: So, the -- it's -- that's possible. To the extent that's happening, we would support the analyst.

To the extent issues are being raised that may be outside the realm of what we would typically expect with a qualitative adjustment, we would try to query others on the team and try to get a sense for how material and significant these issues are.

To the extent that it's part of doing the querying with others -- and you think about the team, there were many attorneys in the team. So we would query and to the -- if the sense that we're getting is that a lot of these issues are really extraneous to our opinion -- then in that case, you know, we would -- you know, we'd think that the comments were unnecessary. The issues were not necessary -– they were not relevant ultimately to our opinions.

MR. BUBB: Did 36 CFR 1256.56 - Privacy raise issues that were, in your final judgment, unnecessary in your opinion, more frequently than other analysts?

MR. HARRIS: I've written 36 CFR 1256.56 - Privacy -- I wrote his employee evaluations early on. And from the first performance evaluation, the answer is yes.

On the first performance evaluation, I commented that one of 36 CFR 1256.56 - P challenges is to hone in on the real issues and try to understand what are the real deal issues and which may not be real deal issues, that may not have an impact on our opinion.

And that is something that I believe he -- and from what I understand -- because I didn't manage him later on at his time with Moody's -- my understanding is that he continued to have a bit of a challenge with that part of his job.

MR. BUBB: Were there analysts that had a challenge on the other side that –- so, I suspect that sometimes for deals that were factors that were *[unintelligible]* for both sets of qualitative factors, but nonetheless that were material and important for Moody's opinions. And one of the roles of any analyst is to beware of this and not simply tick-tick-tick, like a machine.

Were there any analysts who were poor at catching these material factors, that were more subjective or required initiative on the part of the analyst?

MR. HARRIS: So, one of the things that we did -- and I think Bill Mays took the lead on this -- was to have all the attorneys periodically meet with each other. It also allowed an attorney an opportunity to present to the team what they thought were issues. We tried to ensure that there was enough communication so that everyone was pretty much on the same page in terms of what were the real issues.

So I think, in turn, we had a system where we felt that the chance of that happening was not -- was not significant. So we would assist in that place.

Having said that, I would say that 36 CFR 1256.5 I believe, in my opinion, was on one extreme. And the -- I don't know if we had a dozen attorneys. And I think most of the attorneys sort of fell somewhere in the middle, focusing what we would have thought was *[unintelligible]* issues. And I think 36 CFR 1256.56 - Privacy who I mentioned before, may have been on the other extreme, where his review may not have been as thorough as some of the other attorneys.

MR. BONDI: How did you know about Bill May and gathering up the audits at these meetings?

MR. HARRIS: Well, Bill worked for me.

MR. BONDI: Uh-huh.

MR. HARRIS: And I think that was a decision he made several -- several years ago.

MR. BONDI: And do you recall that?

MR. HARRIS: Yes.

MR. BONDI: And is that something you would have recalled last week?

MR. HARRIS: Would I have recalled it last week? Well, it is on the public site. I saw it -- would I have recalled it? What I would have recalled, I think, two weeks ago, would have been that we had arranged a forum for the attorneys to talk to each other. And that's what I would have recalled --

MR. BONDI: Something refreshed your memory? A document refreshed your memory to that event?

MR. HARRIS: I saw an e-mail from Bill to me of his achievements in 2005 or 2006. And I think in that document, there's mention of a lawyer's lunch.

MR. BONDI: And that's what refreshed your recollection to these events?

MR. HARRIS: To those specific lawyers' lunch, the issue of lawyers getting together, I – that I would have been aware of that. And I also -- there was no refresher.

And I also remember the multi-meetings that we had, where analysts were allowed to get in front of the team and share with them some of their -– you know, what we've learned with the most recent deals and what we should be thinking about for new deals that are coming in the pipeline.

MR. BONDI: You saw an e-mail that refreshed your recollection?

How did you see the e-mail? Did you see it on a Web site? Or where did you see the e-mail?

Someone showed it to you?

MR. HARRIS: Yes.

MR. BONDI: A lawyer showed it to you?

MALE SPEAKER: Why don't we take a five-minute break?

MALE SPEAKER: Sure.

(Pause in interview including off-the-record discussion by FCIC.)

MR. HARRIS: Okay, I'm ready. We're back.

MR. BONDI: Put us on mute, Bruce.

MR. McWILLIAMS: Okay.

MR. BONDI: And, Mr. Harris, a couple more questions about Mr. Ricciardi.

Did you ever moderate a panel where you

invited Mr. Ricciardi to participate on the panel?

MR. HARRIS: I moderated and he was a participant?

I don't recall.

MR. BONDI: Do you recall a panel on or about March 30th, 2005, at the Plaza Hotel, called, "Unresolved CDO issues"? Does that ring a bell? The panelists included Chris Ricciardi, Mark Adelson, John Midlow *[phonetic],* and Denise Crawley?

MR. HARRIS: I moderated that?

MR. BONDI: I recall that --

MR. HARRIS: I recall that a panel where moderated, and I was on the -- and I don't if *[unintelligible]*.

MR. BONDI: Do you recall being on a panel at the Plaza Hotel in 2005 or -- were you on a bunch of panels in --

MR. HARRIS: I was in a lot of -- I was in a lot of conferences.

MR. BONDI: I see.

Do you recall being on a panel, either as a moderator or a participant, with Mr. Ricciardi?

MR. HARRIS: Yes, I do.

MR. BONDI: Okay, and was that something you selected him to be on the panel?

MR. HARRIS: I don't know. I don't know if I selected him or the conference put the panel together. I do not recall.

MR. BONDI: Okay. And so you would have had outside interactions with Mr. Ricciardi at the conferences and the like?

MR. HARRIS: It's possible. And here, I guess, is one example.

I do not recall specifically other conferences, other than the one where he and I were at one conference.

MR. BONDI: And I just want to try to understand the interactions that you may or may not have had with him.

While you were group MD, how often would you speak to him? Would you speak to him once a week? Once a month? Once every few months? How often would you speak to Mr. Ricciardi?

MR. HARRIS: My recollection would be once a quarter or once every six months, which my guess is that that would not be much different than how much I talk to other bankers.

MR. BONDI: I see. And would these be conversations that you would initiate, he would initiate, or both?

MR. HARRIS: If -- *[unintelligible]* both.

MR. BONDI: What were the rules for substituting out collateral on CDS?

MR. HARRIS: Substituting out during the underwriting process or after the deal closed or…

MR. BONDI: Well, I was actually getting more general than that. I'm just trying to understand what -- how it worked for substituting out collateral after a deal was presented to Moody's to rate. So you get a call to rate a CDO. And there's collateral that's envisioned for being part of that CDO, what were the rules for substituting out the collateral for new collateral during the rating process? Preceding the rating process?

MR. HARRIS: My understanding is that we were not involved in analyzing the specific security in the portfolio. So the specific instrument was not of primary importance to the rating process.

What was relevant to the rating process is the quality of the collateral. So what type of rating -- so what type of rating will each of the instruments have, what is the final maturity of the instrument, what's the coupon?

My understanding is that the actual instrument itself was not very relevant to our committee.

MR. BONDI: Then what was -- what was relevant then? The rating of the underlying instrument? The collateral --

MR. HARRIS: The maturity, for example.

MR. BONDI: Uh-huh.

MR. HARRIS: If the deal you're rating has a five-year life and the collateral -- you would expect the collateral to mature in five years. The coupon that generates excess interest.

MR. BONDI: So let me get this straight. You have underlying collateral in a CDO, RMBS collateral, that's presented as part of the structure. Let's say it's BBB from Countrywide, and it's rated in a certain way. As long as another Eee was substituted in for that -- excuse me, BBB -- as long as another BBB was substituted in, you could take out some BBB collateral from Countrywide, say, and put in BBB collateral from Wells Fargo, and that wouldn't alter the rating process; is that essentially what you're describing?

MR. HARRIS: I've never rated an RMBS CDO, but that is my understanding. That's how it works in CLOs, and that's how I believe it worked in ABS deals.

MR. BONDI: Okay. And if you know, do you know if, in rating the CDOs, if any of the persons involved in rating CDOs with RMBS collateral ever looked behind the collateral to look at loan-level data? Or did you only go as far as the RMBS and the rating of the RMBS?

MR. HARRIS: In rating the deals?

MR. BONDI: Uh-huh.

MR. HARRIS: My recollection is that we -- the analysis stopped at the tranche level -- at the bond level, without looking to the collateral.

MR. BONDI: And why was that?

MR. HARRIS: In the -- I don't think it was possible to actually do the analysis, the full look-through.

MR. BONDI: Why? You just didn't have the data or what?

MR. HARRIS: The data and technology to look through would have been a substantial investment, which we have since made.

MR. BONDI: Since made, since as of what date?

MR. HARRIS: Well, when we acquired Wall Street Analytics, we built a library of deals, all the underlying loans. So now we can go through and try to do analytics on a deal-through basis.

MR. BONDI: And when were you first able to drill through -- or look at the underlying loan-level data?

MR. HARRIS: So, the technology -- without the data, the technology was -- a lot of technology was done in, I believe, by the third or fourth quarter of '07 -- just the technology itself, without the data.

Getting the data has taken another two years. It was late last year where we had -- that we started seeing data with the drill-through capability.

MR. BONDI: So prior to 2007, the data existed, correct? I mean, you agree the data was somewhere out there, right? And it wasn't like this data was then created? The data has always existed, correct, the underwriting loan-level data always exists?

MR. HARRIS: The loan-level data exists.

MR. BONDI: And so what was missing prior to 2007 was -- for Moody's -- was the technology, and then gathering that data and applying it to the technology; is that fair?

MR. HARRIS: That's fair.

MR. BONDI: Okay. And in terms of the technology, did the technology exist prior to 2007? Not that it existed at Moody's, but did it exist?

MR. HARRIS: I'm not sure. I don't know.

I'm understanding that it may have existed in some form through a company called Intex.

MR. BONDI: Intex?

MR. HARRIS: However, my understanding is that doing the analysis was extremely cumbersome. So even if the technology were there than actually can do the work, it was extremely difficult -- time-consuming.

MR. BONDI: So was it a business decision not to invest in the technology prior to 2007?

MR. HARRIS: Well, we did our investment. We acquired Wall Street Analytics. We hoped it would have closed sooner. And when we acquired the company, one of the things we wanted to do was build the library and create the look-through capability -- or drill-down, if you will, that you referred to.

MR. BONDI: And this look-through capability, the drill-down capability on CDOs, who spearheaded that at Moody's?

MR. HARRIS: Spearheaded the acquisition of…?

MR. BONDI: Not the actual legal acquisition, but the effort to use the technology to drill down or look through at the underlying loan-level data, to collect the data? Who was spearheading that effort?

MR. HARRIS: So, I think this -- I would say many people. I think there's really, in 2001 or 2002, we were writing about the look-through capability. I said, ideally what you would like to do when you analyze a vehicle, would be to look through and get to the underlying assets.

We acknowledged at that time that functionality was not available or just wasn't practical to do that type of work.

So I would say that -- Isaac Efrat, for example, who was a managing director in 2000, 2001, is one person who supported the idea of trying to do a look-through but understanding that it's a lot easier said than actually applied.

Jerry Gluck who was also managing director at that time, was commenting about doing that.

So -- and I would say all the managing directors.

MR. BONDI: Are you talking about the desire to have this technology?

MR. HARRIS: That is correct.

MR. BONDI: Okay.

MR. HARRIS: To be able to build it, to have -- to be able to build something that's usable.

MR. BONDI: What changed then in the marketplace between 2000, 2001, when folks inside Moody's were first expressing the desire to have this technology, and when you ultimately acquired this technology? What changed? Was the technology developed? Was the technology cheaper? Was it more readily available? What changed?

MR. HARRIS: I think -- I think what changed is, we started seeing some hedge funds starting to build -- and some asset managers starting to build that functionality. So we started seeing it. Then we thought it was probably -- it was then –- we tried to try to build -- or have access to it.

MR. BONDI: And what’s the benefit of having a loan-level data, the technology to look through, so to speak, through the RMBS, and to the underlying loan level?

MR. HARRIS: Well, ideally, it would make the ratings, it would enhance the quality of the rating chronology.

MR. BONDI: For CDOs?

MR. HARRIS: For CDOs -- for any type of instrument that has *[unintelligible]* for a monoline insurer that is wrapping RMBS deals.

For a commercial real-estate investor that’s got a pooled commercial mortgage-backed security.

So drill-through, in general, had a lot more applications than just structured finance.

MR. BONDI: Mr. Harris, help me understand here. If there’s a rating on the RMBS, and you’re putting together a CDO -- excuse me, you’re rating a CDO that's put together by someone else getting your suggestions -– also *[unintelligible]* was getting nervous there when I said "put together a CDO." He was giving me the cue that my question was bad. I appreciate that.

Someone's putting together a CDO, asking you to rate it, it has RMBS -- it has ratings underneath it. If the ratings are good, why bother looking through? I mean, what's the benefit of looking through?

A rating is a rating, right?

MR. HARRIS: Yes, so the benefit is that you have greater precision on how the cash flows to the underlying tranches will feed up to the CDO. So, for example, you're willing to see -- you could see the excess interest that's coming into the deal by drilling through and seeing what the impact is to your CDO by running all these deals at the same time, and combining them at the parent CDO level. It's a more -- it's greater precision.

MR. BONDI: So precision -- and precision is important to the ratings; is that fair?

MR. HARRIS: Yes.

MR. BONDI: And you want your ratings to be precise?

MR. HARRIS: Yes, that's true.

MR. BONDI: So 2001, 2002, internal managing directors are expressing the need for this technology, the ability to look through, that would make the ratings more precise.

So why wasn't Moody's trying to develop this technology or acquire the technology in 2001, 2002, 2003, 2004, 2005?

MR. HARRIS: We actually did try to develop it for a product called "CDO Edge." So CDO Edge was a waterfall model that we built. And the plan would be to use that waterfall model to build the library.

MR. BONDI: Uh-huh.

MR. HARRIS: But CDO Edge had its limitations, and it's hard for us to expand it to other asset classes.

And at that point, we decided to go and acquire some.

MR. BONDI: Expand it to other asset classes, what was CDO Edge used for then?

MR. HARRIS: It was used for cash-flow CDOs -- the CLO deals, the RMBS deals. It was used as a commercial real-estate deal for -- I believe for CRE CDOs.

MR. BONDI: Uh-huh.

MR. HARRIS: I think it was in the asset, and it was used, I believe, in Europe, for some European

CLOs.

MR. BONDI: Okay. So CDO Edge was, in fact, used for CLOs, bonds *[unintelligible]?*

MR. HARRIS: I believe so. I believe so, yes.

MR. BONDI: And how did that work in connection with the models then? How did CDO Edge work in connection with the models?

MR. HARRIS: So, CDO Edge had the rating methodology -- has the rating methodology integrated into the waterfall model: So once you call up the deal, call up the waterfall rules, the actual rating model that feeds through the waterfall rules is integrated into that platform. So, for example, the binomial, for CLO, the binomial methodology is integrated at the CDO Edge. Once you call that the CLO, you can run the binomial on CDO Edge.

MR. BONDI: CDO Edge was the platform from which you ran the models?

MR. HARRIS: That is -- yes.

MR. BONDI: Okay. So then what did you gain additionally in 2007 that you didn't already have?

MR. HARRIS: So, the ability to expand -- or the decision to look out -- was in it '05. But the -- I believe it was in '05, with the acquisition happening in '06.

The desire was to expand the platform to other asset classes -- European asset classes, RMBS, autos, credit cards. And CDO Edge was not to die. It was not a very legible platform and could expand to other asset classes.

MR. BONDI: Just to be clear, did CDO Edge allow you to look through CDOs, to look through the underlying loan level --

MR. HARRIS: Yes, it did not do that, either. I do not believe it did that.

MR. BONDI: Okay. And then with your acquisition in 2006, from the development and gathering of the data, you were eventually able to look through at the underlying loan-level data?

MR. HARRIS: The loan technology was done by late '07, and the data itself was available just recently, the last -- I'd say late '09.

MR. BONDI: Okay, and in terms of this desire to look through, what efforts were made prior to the acquisition in 2006 to try to have the technology to look through a CDO and look through RMBS and to provide loan data?

MR. HARRIS: I think it was around the same time that we were talking to Wall Street Analytics. We actually did talk to Intex also.

And we looked at both, and the determination was to – we felt that Wall Street Analytics was more appropriate for us, for Moody's.

MR. BONDI: And you said that was in 2005?

MR. HARRIS: I believe it was two- -- yes, I believe it was 2005.

MR. BONDI: The desire to look through was first expressed, I think you said, in 2000, 2001.

MR. HARRIS: Well, it was expressed in the 2000's, that the ability to drill through is the most precise way to analyze a deal. We also acknowledged at that time that it's not practical.

MR. BONDI: Why isn't it practical?

MR. HARRIS: Because the technology had not been built to do that, to do it efficiently.

MR. BONDI: Okay.

MR. HARRIS: It was not available in early 2000. I don't think I -- I'm not aware of it being available in the early two thousands.

MR. BONDI: Okay.

MR. HARRIS: So we tried to build -- CDO Edge was one way to try to do it.

MR. BONDI: *[Unintelligible]*?

MR. HARRIS: '05 we considered Wall Street Analytics and Intex, and decided to go with Wall Street

Analytics.

MR. BONDI: The technology existed with Wall Street Analytics and Intex, when did the first -- when did they have the technology? Or do you know?

MR. HARRIS: My recollection is, in talking to both, Intex had been more advanced in having the technology than Wall Street Analytics was.

MR. BONDI: Any sense of when Intex and Wall Street Analytics first developed the technology?

MR. HARRIS: Well, Wall Street Analytics was after we acquired them.

I don't know -- I don't know when Intex developed the technology.

MR. BONDI: Okay. And going back to this concept of substituting collateral, if looking through gives you more precision, why would you be able to substitute out on BBB collateral for different BBB collateral? If looking through gives you more precision, if there's a difference once you look through, why allow -- why allow banks to substitute out collateral?

MR. HARRIS: The methodology was such that we felt we had a reasonable estimation of what a look-through analysis would have entailed.

So I do not know if we had drill-through capabilities. It's hard for me to speculate, but I'm not sure that we would have asked managers to be running drills-through to manage their deal. I think we would have used a drill-through just to assess the reasonableness of our parameters.

MR. BONDI: Were the rules, as far as substituting collateral on CDOs, particularly RMBS CDOs, were these rules published? In other words, if I wanted to know what these rules were, where could I go?

MR. HARRIS: I do not know. Again, I don't think that -- I don't believe that the substitution for us was a –- was relevant. I just don't recall that being the case.

If it were, I'm not aware if we had written about it, either.

MR. BONDI: I'm sorry, "was not relevant for us," you mean it wasn't going to --

MR. HARRIS: I'm not -- I do not recall it being an issue, replacing an individual RMBS box. I don't recall that being an issue.

What mattered were the general characteristics of that instrument, such as its rating, its maturity, its coupon, et cetera, et cetera.

MR. BUBB: So as I understand these CDO deals, there were rules set up in the indenture or somewhere that specified some set of requirements for the collateral, that the collateral manager could require; is that right?

MR. HARRIS: That’s right.

MR. BUBB: And were the ratings based exclusively on those rules or were the ratings -- did Moody’s also examine the particular bonds the manager required at the time of closing?

MR. HARRIS: If the instruments were Moody’s-rated, you would not look at the securities.

If it were not Moody’s-rated, the securities would go through a *[unintelligible]* process where our team would -- our RMBS team in this case -- would review the documents and give us -- give the derivatives team an estimate of the credit rating.

MR. BUBB: All right, so what would happen if -- so there were some -- to make sure I understand the problems here, Moody’s would send the issuer some sort of preliminary enhancement levels or ratings information prior to actual closing of the deal; is that right?

MR. HARRIS: I don’t think that’s the case.

MR. BUBB: Okay, so it would be all the way up -- you wouldn’t send out any sort of information about how you were going to rate the deal until closing itself?

MR. HARRIS: There would be -- again, not being in a rating process for a long time --

MR. BUBB: Sure.

MR. HARRIS: -- there's *[unintelligible]* interaction between the bank and the analyst.

MR. BUBB: Yes.

MR. HARRIS: I'm not aware of that interaction including subordination levels. I'm not aware of that. In other words -- I'm trying to understand *[unintelligible]*. I'm not aware of that type of discussion.

MR. BUBB: And as Moody's was working to rate the deal, do I take it correctly that the deal would be sort of ramping up in the sense that the manager would be acquiring assets prior to closing as Moody's was working with the issuer and others to do their analysis?

MR. HARRIS: My understanding is, a lot of deals would be ramping up and others may close with some collateral and do the buying after the closing date, and then you have the ramp-up that may occur for three, six, nine months between the deal close and *[unintelligible]*.

MR. BUBB: Now -- and as the deal ramped up, would the issuer send Moody's information about the collaterals it purchased?

MR. HARRIS: I do not know.

MR. BUBB: But if it acquired non-Moody's-rated collateral, then Moody's would consider -- they would –- that Moody's, indeed, get the information; do I understand that correctly?

MR. HARRIS: Non-Moody's-rated collateral, I think what would have happened is, we get -- we get the documents for some deals that the manager wants to acquire, and we would ask that -- in some cases, it's possible that we may not even know which deal. In some cases, we may know it's related to the deal; in some cases, we may not know if it is related to the deal, is my understanding.

But there were some of the documents, saying, "Could you give us the risk parameters for these non-rated deals?" And we would send the documents to the RMBS team to analyze the deals.

MR. BUBB: Now, what would happen if the issuer prior to closing, substituted out Moody's rated collateral for non-rated -- Moody's non-rated, collateral not rated by Moody's?

MR. HARRIS: They could go through the estimated -- every security needs some type of implied -- either a very explicit Moody's rating or an implied Moody's rating. So you could reference --

there's several steps, sort of alternatives, one of which is, you could submit the documents to Moody's and Moody's would give you an estimate of the rating; or you could look at another rating agency's rating and adjust them there.

MR. BONDI: What would happen if, after closing, they purchased collateral that had not been rated by Moody's?

MR. HARRIS: My understanding is, they all needed some type of Moody's rating -- with Moody's rating being an either explicit rating or an implied rating or an actual estimated rating.

So an implied rating would be, that you could refer it to another rating-agency rating.

There may be another -- I'm not sure of all of the steps. But there's a Moody's rating, you get an implied from another rating agency, or you could send us the documents and give you an estimate.

MR. BUBB: Even after the deal closed and you rated the actual liabilities of the deal, there would still be this interaction with Moody's?

MR. HARRIS: For CDOs in general, yes.

I'm not sure about CMBS – about RMBS deals. But, yes, that's very possible.

But in the meantime, the rules indicate how you need to carry that instrument. There's still a Moody's rating.

So if you go down -- the definition of a Moody's rating -- at the end, there's a capsule that says if you don't meet any of the above, it goes in as a Caa or –-

MR. BUBB: Yes, right.

MR. HARRIS: -- some level.

MR. BUBB: Were there ever disputes between the issuer, either issuers purchasing collateral in the final stages of ramp-up or substituting out collateral for new collateral, in which Moody's found that collateral to be low-rated, and the manager disagreed and thought the implied -- the Moody's implied rating or Moody's rating should be higher? Was this a common source of friction?

MR. HARRIS: I'm not sure if it was common. It happened, yes.

MR. BUBB Can you just sort of describe that friction and how that worked?

MS. NELLES: How the friction worked?

MR. BUBB: How the friction worked.

MR. HARRIS: Well, in any particular types of deals or --

MR. BUBB: If you could, let's talk about RMBS

CDOs.

MR. HARRIS: So, my recollection of how that worked would be, we would send the documents to the RMBS team. They would assign an estimate.

And I don't know if the estimate came from us and then we delivered it to the bank or to the collateral manager or if they dealt directly. Maybe it was a mixture of both. I don't know.

To the extent there were disagreements, the RMBS team on the deal would deal -- generally deal directly with the -- either manager or the bank or I'm not sure who they would deal with. But we would not be -- we generally would not be part of those discussions. That's my -- that's what I recall.

MR. BONDI: The structure in a CDO -- or excuse me, in rating a CDO that had been structured, do you recall an instance where you permitted a bank or banker to do something only after extracting a promise to them that they want to do a particular action in the future? In other words, did you allow something to slip? They gave you their word that they wouldn't do it again in the future?

MR. HARRIS: I do not recall.

MR. BONDI: Do you recall an instance with Ricciardi involving some collateral or a CDO, a multi-sector CDO deal in or around 2005, involving Yuri Yoshizawa, where you and Ms. Yoshizawa may have obtained a promise or assurance from Mr. Ricciardi not to do something with the collateral?

MR. HARRIS: I do not -- I do not recall.

MR. BONDI: Do you recall any instance where there were any concerns with respect to deals that Mr. Ricciardi was doing and the collateral substitution involved in those deals?

MR. HARRIS: I do not recall.

MR. BONDI: What about more generally? Are there any instances or any problems associated with collateral substitution?

MR. HARRIS: I do not recall that.

MR. BONDI: What would happen if ratings were withdrawn? Was there a process where ratings might be issued on a CDO and then later withdrawn?

MR. HARRIS: Yes.

MR. BONDI: What would -- how would that situation operate?

MR. HARRIS: Generally, it would operate with a tranche paying down -- paying down, actually, would be the most obvious example. I can try to think of other examples, but that would be the one…

MR. BONDI: What do you mean by that? Put that in an example.

MR. HARRIS: The tranche has made all its payments.

MR. BONDI: Uh-huh.

MR. HARRIS: The principal balance has been paid off.

MR. BONDI: Uh-huh.

MR. HARRIS: And investors have received their money. In that case, we withdraw the rating. The bond doesn't exist anymore.

MR. BONDI: And this is after a rating –- this is after a structure has been rated and been out in the market for a while; is that what you're suggesting?

MR. HARRIS: Yes.

MR. BONDI: Would there ever be a situation where ratings were drawn the same day or several days after they were issued?

MR. HARRIS: So, there are cases -- and I don't know -- and I don't know the timeline on this, the time frame -- I'm assuming this is in '05 or prior to '05 -- where we assigned private ratings. And I think that was -- I think that was for the benefit of the monoline insurers and its limit- -- I think it was a limitation of our -- of our software.

So in order for us to process that estimate, to put it through Moody's internal system, you had to enter it. And the way –- my recollection is that once you put it in the system, it has to go public, then you've got to withdraw it immediately because it was a private rating. It was not made available for the benefit -- in the foreign market, it was available to the monoline insurer.

MR. BONDI: These were private ratings on CDOs?

MR. HARRIS: It's a -- it was a private rating on a CDO, yes.

MR. BONDI: Uh-huh. For the benefit of the monoline?

MR. HARRIS: Yes.

MR. BONDI: Okay. And you said you recall some instances where that occurred in 2004, 2005?

MR. HARRIS: Yes, the private ratings, I would have *[unintelligible]* for wrapped deals, deals that are by monoline deal would have gone through that same process using a private rating, and they didn't want the private rating distributed, so you don't make it available so you have to withdraw it. I think that's how that worked.

MR. BONDI: Would the bank also know about the private rating?

MR. HARRIS: I think so.

MR. BONDI: Okay. So the private rating would be shared with the bank or shared with the monoline but not the public?

MR. HARRIS: I'm not sure what was disclosed to the other investors in the deal.

MR. BONDI: But by Moody's, Moody's would only share the rating with the bank and the monoline in a private-rating situation?

MR. HARRIS: Yes, a rating letter -- if the private rating was communicated through a rating lender, which was, I believe, distributed to the bank and then was made part of the closing documents.

And I believe in that private -- in that letter, I think we had a private rating.

I don't know if we went straight to -- it's possible we went straight to the monolines. I don't know.

MR. BONDI: And the time frame here, how long were you issuing private ratings, is that something that occurred for the last ten years? Is that something that only occurred for a limited time period?

MR. HARRIS: I don't know exactly; but my sense would be, it's not an '05 phenomenon. My guess would be it was sooner.

We would have issued those ratings earlier in the decade, too.

MR. BONDI: Uh-huh. What about later in the decade? Did the process of issuing private ratings ever cease?

MR. HARRIS: *(No audible response.)*

MR. BONDI: And were private ratings done then for cash CDOs with RMBS collateral?

MR. HARRIS: I think the private rating is not dependent on the type of deal. If there's a monoline insurer, make it available, they would need that private rating financial models.

MR. BONDI: Okay. And after the private rating is issued, could the bank in any way change the structure of the deal or was the deal locked in for purposes of the rating?

MR. HARRIS: I would -- I believe the deal was locked in.

MR. BONDI: And were there rules as far as it's concerned about what the bank could and couldn't do after a private rating was issued?

MR. HARRIS: I think a private rating is issued when the deal closed and the documents were finalized.

MR. BONDI: Okay. And then when does the

public rating get issued?

MR. HARRIS: Same time. It’s there, yes.

MR. BONDI: The same time? Okay.

That’s the signal, I think.

Okay, so -- but what makes it a private rating, if a public rating is issued at the same time? I don’t get this. I don’t follow this.

MR. HARRIS: Yes, so --

MR. BONDI: Help me understand here a private rating versus public rating, and then how a monoline comes in here.

MR. HARRIS: The public rating is tied to the guarantee.

MR. BONDI: Uh-huh.

MR. HARRIS: So the Aaa party is guaranteeing any -- a tranche, we would assign our public rating based on that guarantee.

The actual risk of the underlying, what’s the purest –- just of that tranche without the benefit of the monoline, that’s a fundamental analysis of the tranche. It could possibly be a B, it could be a B2 credit estimate. But once an Aaa monoline wraps it, a public rating is Aaa. That’s the risk for an investor, because the monoline is guaranteeing that payment.

MR. BONDI: I see.

So the private rating is, what the deal would be if you didn't have the monoline insurance and the public rating is with the monoline insurance; is that basically it?

MR. HARRIS: Generally, but there could have been cases where someone says, "Give us a rating based on both the guarantee and the underlying – and fundamental analysis."

MR. BONDI: And would the public and the private rating both be reflected in the ratings memo?

MR. HARRIS: I believe so.

MR. BONDI: And you suggested -- and I don't want to put words in your mouth -- but that the deals were sort of frozen in place, the banks couldn't change the deal once the private rating was flashed. And that because the public rating is coming out at the same time; is that the reason?

MR. HARRIS: My understanding is, they both went out the same time, and they issued the letters at the --

MR. BUBB: What fraction of CDOs involved a monoline insurer as far as the rating process, the rating of liabilities that depended on guarantee from a third party?

MR. HARRIS: I'm not sure. I don't know off the top of my head what that number would be.

MR. BUBB: Every deal has some of this?

MR. HARRIS: I don’t think it was every deal, no.

MR. BUBB: Half of the deals?

MR. HARRIS: I don’t know.

MR. BUBB: Rare?

MR. HARRIS: I’m not sure it’s rare, but I think it’s even less than half.

But I’m not -- I’m not an expert in the RMBS CDOs, so -- and very familiar with that marketplace, so I’m not sure.

MR. BONDI: Would the rating of the monoline insurer that was providing insurance on a particular tranche or bonds, would that rating matter to the rating of the structure? In other words, if the monoline was rated Aaa and insuring some bonds, yet another monoline was rated BBB, energy the same bonds, would the end rating of the structure be different?

MR. HARRIS: I would not expect it to be different.

MR. BONDI: The health of the monoline doesn’t matter at all to the alternate rating if there’s monoline insurance on a CDO?

MR. HARRIS: I think, generally, I would

agree. I'm trying to think of cases where it would but…

MR. BONDI: Because all the monolines were Aaa?

MR. HARRIS: Well, I think there were a couple single-A monolines to try to enter the space, and I didn't think they were successful.

MR. BONDI: Okay, so the -- and were the monolines -- the ratings of the underlying monolines themselves -- forget CDOs -- but the monoline insurers themselves, MBIA, AMBAC, was that under your watch at any time during your tenure at Moody's?

Who was responsible at Moody's for rating the monolines themselves?

MR. HARRIS: I can think of a name but, I'm not sure who ultimately was --

MR. BONDI: Sure. Who was involved in that --

MR. HARRIS: *[Unintelligible]* and I don't know the particular time frame. Laura Levenstein, Jack Dorer, Stanislaus Rouyer.

Those names come to mind.

MR. BONDI: Anyone else?

MR. HARRIS: A long time ago, Richard Cantor.

MR. BONDI: Anyone else?

MR. HARRIS: No, I cannot think of another name.

MR. BUBB: How did the financial difficulties experienced by --

MR. HARRIS: I’m sorry, what?

MR. BUBB: How did the financial difficulties experienced by the monolines affect the ratings of old CDOs?

MR. HARRIS: I don’t know. I don’t know. I haven’t –- I haven’t been part of any committees on CDOs. *[Unintelligible]* CDOs, and three and a half years. I think three and a half years. I don’t know.

MR. BONDI: Were you involved in the subprime task force or subprime working group?

MR. HARRIS: A little bit. I was part of the initial invitation list. I did not attend those meetings.

MR. BONDI: Were you on an e-mail distribution list?

MR. HARRIS: I believe -- I believe initially I was.

MR. BONDI: When were you taken off?

MR. HARRIS: I do not know.

MR. BONDI: Did you ask to be taken off of the e-mail distribution?

MR. HARRIS: I do not recall being asked to be taken off.

MR. BONDI: I'm sorry, did you ask? Did you ask?

I get a lot of e-mails that I wish I didn't get, and I say, "Take me off your e-mail list." Did you ask to be taken off the subprime working-group e-mail server list?

MR. HARRIS: I do not recall asking. I don't think so. I don't think I asked to be taken off.

MR. BONDI: But at some point, you think you were taken off an e-mail list?

MR. HARRIS: I think I was taken off at some time, at some point.

MR. BONDI: Okay. In 2007, were you getting e-mails from subprime working group list?

MR. HARRIS: I'm not sure. I'm not sure if I was. I probably -- I probably was. I'm not sure that I was.

MR. BONDI: Okay. Were you briefed or consulted with on anything that the subprime working group was doing?

MR. HARRIS: I cannot recall being involved in any of the work that they were doing.

MR. BONDI: In 2007, there were downgrades of RMBS. Do you remember that?

MR. HARRIS: I remember the downgrade.

MR. BONDI: And there was a downgrade -- there were a series of downgrades in July -- July 11th -- excuse me -- yes, July -- 10th, sorry -- July 10th, 2007.

Do you remember that? Roughly, 399 securities were downgraded on July 10th, 2007?

MR. HARRIS: I do not recall that specific event.

MR. BONDI: But you remember downgrades --

MR. HARRIS: General downgrades in July -- specific downgrades in July, I do not recall specifically July downgrades. But I recall generally, there were downgrades in '07.

MR. BONDI: And there were some downgrades as well in October of RMBS as well and some CDOs. As the RMBS was being downgraded throughout 2007 by Moody's, what were you doing on the CDO side? Or did you have any involvement at that point on CDOs with underlying RMBS or tied to RMBS synthetic CDOs, for instance? Did you have any involvement at that point?

MR. HARRIS: I did not.

MR. BONDI: You were gone from that group at that point?

MR. HARRIS: Effective December of '06, I was formally removed from that asset class.

MR. BONDI: Okay. And you mentioned -- what were you doing as far as in 2007 -- in April of 2007, what was your responsibility in April of 2007?

MR. HARRIS: My main responsibilities were to basically the new company that we just acquired. So I was spending most of my time on Wall Street Analytics acquisition.

In addition, my other roles were the Managed Funds Team and the hedge fund operations quality ratings.

I also had -- I also *[unintelligible]* for the U.S. CLO business.

MR. BONDI: I want to show you a document. Introduce the document PSI-Moody’s 000014, and it’s Exhibit 38 from a series of exhibits that were released to the public by the Permanent Subcommittee on Investigations in the Senate. What I’m showing you is an e-mail dated April 26th, 2007. It shows you as the author, the recipients: Noel Kirnon, Brian Clarkson, and Richard Cantor.

And you’ll have to forgive me, this is the e-mail that I have, so I don’t know if there’s other e-mails that are associated with it.

But before we get into this, let’s identify the participants on this e-mail.

Noel Kirnon, who is Noel Kirnon and what was his role as of April 2007?

MR. HARRIS: I believe Noel was the head of the global -- I think Global Derivatives and U.S. CMBS, I think.

MR. BONDI: Okay. Brian Clarkson?

MR. HARRIS: Brian was the head of Global Structured Finance.

MR. BONDI: Richard Cantor?

MR. HARRIS: I think Richard at that point was going to credit -- I think he was part of Credit Policy.

MR. BONDI: Do you remember the e-mail that you're looking at there?

MR. HARRIS: I do not recall this particular e-mail.

MR. BONDI: Had you seen this e-mail before?

MR. HARRIS: I saw it, yes.

MR. BONDI: When did you see it last?

MR. HARRIS: I saw it when it was posted two or three weeks ago.

MR. BONDI: Okay. In the e-mail, you said -- and, again, forgive me, this is how I obtained the e-mail, so -- "Pretty much the same as the non-rated bucket grows, taking other ratings at face value could result in inaccurate ratings; and some deals, such as high-grade ABS deals, the margin for error is very low.

If in our opinion, 15 percent of the ratings are inflated, the impact to the CDO note ratings would be significant.”

“I also refer to the Jerry Gluck study issued a couple years back. That study analyzed the impact on our CDO ratings as the non-rated bucket grows.”

Can you describe to me everything you’re trying to communicate here to Mr. Kirnon, Mr. Clarkson, and Mr. Cantor?

MR. HARRIS: Again, I don’t recall what the context is for this communication, but my semi-guess would be that if we were to look at other rating agencies’ ratings at face value, what would the impact be to giving these CDO ratings.

MR. BONDI: Why do you -- why did you send this e-mail?

MR. HARRIS: I don’t know. I don’t know why. I -- someone probably asked me to look at it.

MR. BONDI: So this wouldn’t have been in part of your normal course –-

MR. HARRIS: No.

MR. BONDI: -- of your duties and your position as of April 2007?

Someone asked you specifically about an issue and you appear to be responding; is that what --

MR. HARRIS: Yes.

MR. BONDI: -- you're suggesting? Okay.

I want to direct your attention to the sentence that says, "If, in our opinion, 15 percent of the ratings are inflated, the impact of the CDO note ratings would be significant."

Did someone express to you that there was an opinion -- did someone express to you an opinion that 15 percent of the ratings were inflated?

MR. HARRIS: I don't recall of anyone expressing that opinion.

I think -- in trying to think about what it may mean in this context, is if the ratings from the other rating agencies were higher than -- if the ratings from the other rating agencies underestimated the risk, the true risk of the collateral, then the impact on the CDO note ratings would result in -- then the CDO notes would be downgraded.

MR. BONDI: And do you recall any action being taken related to what you've described in this e-mail?

MR. HARRIS: I do not recall any action taken.

MR. BONDI: Okay. You said, "I also refer to the Jerry Gluck study issued a couple years back."

What is "the Jerry Gluck study issued a couple years back"?

MR. HARRIS: I think what I may have been referring to is, we did a study that compared the impact -- that looked at the impact on the ratings of the CDO if the -- if the underlying ratings -- if the underlying -- if the -- if our opinion on the underlying ratings was different than what our competitors were, they'd be available.

MR. BONDI: And was this Jerry Gluck study, was it public?

MR. HARRIS: I believe so.

MR. BONDI: Do you remember what it's called?

MR. HARRIS: I cannot recall what it's called.

MR. BONDI: And you refer to it "as the non-rated bucket grows, taking others, rating others at face value…"

By "non-rated bucket," are you referring to buckets of securities that were rated, but just not rated by Moody's? Is that what you're getting at there?

MR. HARRIS: Or -- or possibly -- yes, an unrated bucket would be -- non-rated Moody's bucket grows. I think that's what I would have been referring to here.

MR. BONDI: I see.

MR. HARRIS: And the study, that's what Jerry's study -- Mr. Gluck's study addressed.

MR. BONDI: And do you recall, outside of the CDO, do you recall having conversations with either Mr. Kirnon, Mr. Clarkson, or Mr. Cantor having the impact to CDOs as RMBS downgrade?

MR. HARRIS: So, specific discussions, no. But we did publish study that assessed the potential impact on the CDO note ratings. I think the RMBS ratings go to the -- the RMBS ratings changed.

MR. BONDI: What study are you referring to?

MR. HARRIS: I think it came out around the same time that this report -- I don't remember the name of the report.

MR. BONDI: And were you involved in that study?

MR. HARRIS: I helped -- yes, I was -- I was involved -- yes.

MR. BONDI: What was your involvement?

MR. HARRIS: I helped. I worked with the team to think about how we could present our results and what our study should entail.

MR. BONDI: Who was part of that team?

MR. HARRIS: I don't know the people off the top of my head.

The authors are on the report.

MR. BONDI: Were you listed as an author?

MR. HARRIS: I do not believe so.

MR. BONDI: And, in or around the time of this report, do you recall them having conversations with Mr. Kirnon or Mr. Clarkson or Mr. Cantor concerning the impact on CDOs if RMBS was downgraded?

MR. HARRIS: I do not recall having discussions about the results.

The study -- I recall the study was triggered by Mr. Clarkson asking us to do the work. That’s what I think the study was. That’s what I recall.

MR. BONDI: “Asking us,” who is “us”? Asking you and other people?

MR. HARRIS: Asking the -- I don’t know if it was the managers of the derivatives team and I then being *[unintelligible]* the CLO, was one of the management team.

MR. BONDI: So the study that you’ve described was instituted at the direction of Mr. Clarkson?

MR. HARRIS: I believe so.

MR. BONDI: And how do you remember him asking or instructing the study? What do you recall? Do you remember an e-mail? Was it phone conversations? Did he call you in his office?

MR. HARRIS: I don’t recall the mode of communication.

MR. BONDI: And what do you recall at all about what Mr. Clarkson said to you in instituting the study?

MR. HARRIS: I don't know -- I don't know specifically.

MR. BONDI: How about generally? What do you recall?

MR. HARRIS: Generally, we got to get a report out there to talk about the potential impact to the CDO tranches giving changes in RMBS tranches.

MR. BONDI: And why did he say you needed to get a report out then?

MR. HARRIS: He didn't -- he didn't tell me. I'm not sure.

MR. BONDI: Okay. And was there anyone from the RMBS side that was part of this group studying the impact of downgrades on the CDOs?

MR. HARRIS: I don't recall.

MR. BONDI: Were you involved in any way in the downgrades in 2007 of RMBS or CDOs?

MR. HARRIS: Not that I recall, no.

MR. BONDI: Do you recall having any conversations with Mr. Clarkson concerning the ratings of CDOs in 2007?

MR. HARRIS: Only one communication.

MR. BONDI: Okay.

MR. HARRIS: He asked of a hypothetical for what happened to the CDO ratings before the RMBS securities defaulted.

MR. BONDI: What did you say?

MR. HARRIS: I believe -- I don't know the details, but I did talk about -- from what I recall, I talked about the timing, if it defaulted ten years from now, that would be different than if they default tomorrow.

I talked about the excess spread -- the deals had excess spread. *[Unintelligible],* from what I recall. I talked about the haircuts *[unintelligible]* cash.

MR. BONDI: Let me see if I can help you on that. I think I may have a communication.

I'm showing you what has been marked Moody's-COGR 0019871 through -872. It appears to be a series of e-mails starting, first, with an e-mail from Robert Glauber to Brian Clarkson dated July 19th, 2007.

Let's pause there for a moment.

Who is Robert Glauber? Do you know?

MR. HARRIS: He's a -- he is a board member. From Corporates.

MR. BONDI: Okay. And Mr. Glauber, in his e-mail to Mr. Clarkson, raises a couple questions. Do you see that on the second page, 19872?

MR. HARRIS: Yes.

MR. BONDI: Okay. Let's take a look at those questions.

First, he says "Dear Brian: My reading has raised a couple of questions" -- this is July 19th, 2007. "One, the press has reported that S & P expects cumulative loss of subprime MBS to average 11 to 14 percent. I've heard 15 percent most recently. At the same time, the press reports, we expect losses in the 6 to 8 percent range. Has the press reported this correctly?"

And his second question is, "My understanding is that CDO pools constructed out of BBB and BBB- tranches of MBS have, roughly, 8 to 10 percent over-collateralization for the entire pool. With the loss projections above, does that mean that the entire CDO would be wiped out?" Question mark.

Paren "I gather that the Aaa tranches of these CDOs are selling at 40, which is certainly less than a hundred but well over zero."

And he closes his e-mail. That e-mail from Mr. Glauber is forwarded for Mr. Clarkson on July 20th at 8:12 a.m. to Yuri Yoshizawa and yourself titled, by the way, ”Subprime.”

And then above that, if you see, there’s an e-mail from you to Mr. Clarkson, copying Yuri Yoshizawa, dated Friday, July 12th -- excuse me, dated Friday, July 20th, 2007, at 8:50 a.m. So it looks like 40 minutes later or so, or 38 minutes later, after -- 38 minutes after you received the e-mail from Mr. Clarkson, you replied to Mr. Clarkson’s e-mail.

Do you see that?

MR. HARRIS: *(No audible response.)*

MR. BONDI: Okay. And, first of all, is this the communication that you were referring to a few minutes ago with Mr. Clarkson?

Have you seen this communication before?

You obviously sent it. But since sending it, have you seen this communication?

MR. HARRIS: I may have seen it, yes.

MR. BONDI: Have you seen it within the last week?

MR. HARRIS: I have not seen it within the last week.

MR. BONDI: I want to ask you what you mean in some of these points here.

First, you said, “Brian, if we assume that all the underlying RMBS assets lose 100 percent of their value,” parent, “the most severe scenario,” end of paren, “then the CDO would be completely -- would be completely eventually wiped out, but there are several offsets to CDO losses.”

MR. HARRIS: It could be -- yes, it could be -- it could be completely wiped out, but there are offsets, yes.

MR. BONDI: Okay. And I just want to ask you about what you mean in some of these offsets. If you don’t mind, we’re just going to walk through it.

Number one, you have, “Average CDO exposure to 2006 vintage Baa.”

And is that essentially BBB? We have B, and then little A, little A?

MR. HARRIS: That is correct.

MR. BONDI: Okay. Do you mind if I just say “Triple B”?

MR. HARRIS: Fine. Absolutely.

MR. BONDI: Is that what you call it, or do you call it something else?

MR. HARRIS: Baa.

MR. BONDI: Oh, you call it Baa?

This BBB is S & P; is that right?

MR. HARRIS: Yes, that’s right.

MR. BONDI: Okay. I don’t want to -- I don’t want to use S & P terminology if I’m talking to a Moody’s person.

Baa and then you have HEQ.

What is HEQ?

MR. HARRIS: “Home equity.”

MR. BONDI: ”Home-equity tranches”?

So these are second liens?

MR. HARRIS: I assume so. I’m not an RMBS expert, but I assume home equity would be a second lien.

MR. BONDI: Okay, let me back up.

Did you write this e-mail?

MR. HARRIS: Yes, I did.

MR. BONDI: Okay. Did someone write the e-mail for you?

MR. HARRIS: I wrote it.

MR. BONDI: Okay. Did you consult anyone in the 38 minutes between Mr. Clarkson’s e-mail and your response?

MR. HARRIS: I don’t recall that I consulted anyone.

MR. BONDI: Okay. Well, let’s go back to the e-mail.

“Baa, HEQ, home-equity tranches is close to 10 percent, not 100 percent,” paren, “Yuri will need to confirm this.”

Do you see that?

MR. HARRIS: Yes.

MR. BONDI: Okay. So what you mean by the exposure is 10 percent?

MR. HARRIS: I think what I was implying, was that the loss number that Mr. Glauber related to 2006 deals.

So maybe those loss numbers are of home eq -- 2006 home equity tranches. That's what I think I was implying here.

So the loss estimates for Mr. Glauber pertain to 2006.

MR. BONDI: "Home-eq"?

MR. HARRIS: Home equity in tranches.

MR. BONDI: Okay. And you say, "Never left. There are few deals with very high exposures over 50 percent. The average exposure to subprime in the 2006 cash and hybrid CDOs is 45 percent as per our special comment with 41 percent greater than or equal to Baa for the mezz deals and only 1 percent greater than or equal to Baa for the high-grade deals."

Can you put in layman's terms what you mean by that sentence, starting with, "The average exposure to subprime in the 2006 cash and hybrid deals"?

MR. HARRIS: So, I think what I was trying to make a distinction here -- I think what I'm trying to say is, the loss results -- the loss estimates that would be made available at the time were for 2006 vintage deals.

So, what I'm saying here is that the RMBS deals appear to have more than just 2006 vintage in their collateral -- I think. *[Unintelligible.]*

MR. BONDI: Tell me what you mean by the phrase, though, when you say, "The average exposure to subprime in the 2006 cash hybrid deals." You say, "It's 45 percent as per our special comment."

What do you mean by "as per our special comment"?

MR. HARRIS: That was the research report that I mentioned before, where we looked at the impact on the CDO ratings, giving a change on the RMBS ratings.

MR. BONDI: I see.

MR. HARRIS: So in that comment -- in that special comment, I think what we did is, we showed the distribution by vintage for the RMBS CDOs.

MR. BONDI: Okay. And 41 percent greater than or equal to Baa for mezz deals, and only 1 percent greater than or equal to Baa for high-grade deals?

So basically what you're saying is, there's a 41 percent exposure for 2006 cash or hybrid deals that were mezz deals?

MR. HARRIS: I believe so, yes. I think that's what I'm getting at, yes.

MR. BONDI: On most of these assets are from 2006 vintage RMBS transactions.

You say, "We're still trying to get our arms around the synthetic deal data, but it looks like the average exposure to subprime in those deals is much higher, around 80 percent."

What do you mean by "we're still trying to get our arms around the synthetic deal data"?

MR. HARRIS: The portfolio composition was not readily accessible for the synthetic deals as it was for the cash-flow deals.

The cash-flow deals were being processed and databased, whereas for the synthetic deals, I think it was more and more *[unintelligible]*. That's what I think I was getting at, that we're still collecting the data.

MR. BONDI: So to back up to July 20th, 2007, you didn't feel like you had gathered all the data with respect to subprime exposure on synthetic CDO deals?

MR. HARRIS: I think for any particular deal, I believe, would have been collected. It's aggregating it. The way we did it, I think is the aggregation. It's bringing it all together being able to aggregate it and look at the different -- to slice and dice it, if you will, to look at various -- to do finer cuts at the collateral, in an aggregated basis.

MR. BONDI: But you say, “It looks like the average exposure to subprime in those deals,” meaning, the synthetic CDO deals, “is much higher, around 80 percent.”

What’s your basis for saying that the exposure was around 80 percent?

MR. HARRIS: It would have been -- I think it would have been through discussions with people that are familiar with that market.

MR. BONDI: Do you think it was Yuri?

MR. HARRIS: Yuri, or it could have been -- it could have been part of our -- part of the work, part of getting the study out, we may have been collecting that data.

MR. BONDI: Anyone else you would have talked to, to learn this 80 percent number?

MR. HARRIS: I don’t know. I don’t know who would have thought.

MR. BONDI: When you were writing this e-mail to Mr. Clarkson, did you consult in documents or look to any data?

MR. HARRIS: I don’t recall if I did or

didn't.

MR. BONDI: Continuing on, you say, "The majority of this collateral is going to be in the Baa range from the 2006 vintage RMBS deals."

Do you see that?

MR. HARRIS: Yup.

MR. BONDI: Do you know of any synthetic deals that were being rated by Moody's in 2007, reference 2006 RMBS collateral?

MR. HARRIS: I do not know.

MR. BONDI: "There weren't many synthetic deals in 2005," you continue, ", nor were there any high-grade synthetic deals." Do you see that?

So your focus was on the 2006 RMBS vintage; is that correct?

MR. HARRIS: Yes.

MR. BONDI: Okay. At any time, did you have any conversations with anyone at Moody's about whether it was appropriate to rate either cash CDO deals or synthetic CDO deals as you were downgrading, or contemplating downgrading RMBS of the 2006 vintage?

MR. HARRIS: No, I think that Eric Kolchinsky had expressed some concern to me.

MR. BONDI: And what did Mr. Kolchinsky express to you?

MR. HARRIS: I don't recall the specifics of the discussion, but he had some concerns about the underlying RMBS ratings.

MR. BONDI: The underlying RMBS that you're describing in this paragraph? The 2006 vintage?

MR. HARRIS: I'm not sure -- I do not recall talking about specific vintages.

MR. BONDI: Okay. And what did you say in response to his concerns? What did you say in response to Mr. Kolchinsky?

MR. HARRIS: So --

MR. BONDI: What did you tell him?

MR. HARRIS: Again, I was not his -- at that point, I was not his manager. And the -- the discussions about the methodology are ongoing. That's part of our job. We're always discussing ways to enhance methodology, make it better, and debate the issues. I recall that my suggestion to him was to talk to his managers and discuss his concerns, discuss it in a committee setting, and to possibly reach out also to the RMBS team and get a better sense for how they're rating deals.

MR. BONDI: Approximately what time period was this that you had the conversation with Mr. Kolchinsky?

MR. HARRIS: I do not recall when that would have been.

MR. BONDI: Was it in 2007?

MR. HARRIS: It would have been sometime in ‘07.

MR. BONDI: Would it have been early 2007, mid-2007, late 2007?

MR. HARRIS: I don’t remember when it would have been.

MR. BONDI: Okay. Would it have been around the time of this e-mail?

MR. HARRIS: It’s possible. I’m not sure.

MR. BONDI: Did you share Mr. Kolchinsky’s concerns? I mean, in other words, did you also have concerns? Not shared and tell other people -- I should be very precise on that.

Did you have similar concerns as Mr. Kolchinsky?

MR. HARRIS: So, for -- there were some concerns about the performance of these deals around this time, I included public –- well, the researchers are writing about it, investors were asking about it.

MR. BONDI: And, Mr. Harris, I apologize, but I just want to make clear. I wanted to know if you had similar concerns?

MR. HARRIS: I don’t know if I specifically at this time had any particular concerns about these instruments.

MR. BONDI: Let’s just take 2007.

Did you have concerns at any point in 2007 that were similar to the concerns that you’ve heard about -- from Mr. Kolchinsky concerning the CDOs and the rating of CDOs *[unintelligible]*?

MR. HARRIS: I first -- well, I had questions -- I had some questions about the performance of the deals sometime in, roughly, the middle of ‘07.

MR. BONDI: Performance of existing deals or performance of deals that were being rated at the time?

MR. HARRIS: I believe the statistics at that time -- I was looking at the statistics -- would have been deals that were outstanding.

MR. BONDI: Okay. And with respect to these questions, what did you?

MR. HARRIS: Well, the team -- the team that monitors the RMBS deals and rates the deals, they were dealing with the surveillance issues that may be related, but changes to the underlying ratings. It was the managing team that was responsible for -– for that work.

MR. BONDI: You said you had some questions. And I want to know, what did you do in response to the questions that you had? Pick up the phone and call people, did you have a meeting *[unintelligible]* office? You said you had some questions.

Were those questions that you posed to other people?

MR. HARRIS: I had -- yes, I had suggested to Eric and to the management team to talk to the RMBS team to get a better sense about all this information that we're hearing about, and to try to better understand the performance of the underlying deals. That's what I suggested to the management team and Eric.

MR. BONDI: Now, did Mr. Kolchinsky express to you, though, concerns about deals that were in the pipeline to be rated at this time? CDO deals?

MR. HARRIS: I do not know the specifics, but I believe that was the context.

MR. BONDI: Okay. And did you have any concerns or questions about those deals?

Let's start -- let's not break that up.

Did you have any concerns about those deals, or the ratings of those deals that were in the pipeline that were to be rated?

MR. HARRIS: I had no basis to have an opinion about those deals. I wasn't aware of -- I wasn't aware of what was being done *[unintelligible]* analyzing those deals, I wasn't aware of the dialogue that the team may have been having with the RMBS team.

MR. BONDI: Was Mr. Kolchinsky the one involved in rating those deals?

MR. HARRIS: I assume so. I'm not sure.

MR. BONDI: So you had Mr. Kolchinsky's basis; is that fair?

MR. HARRIS: Mr. Kolchinsky expressed to me his concern, yes.

MR. BONDI: Okay. So Mr. Kolchinsky was involved in rating the deals, the CDO deals. He expressed concerns to you.

Do you believe that that gave you a basis to be concerned as well? The person who is rating the deal goes to you and expresses concerns about the deals that are being rated?

MR. HARRIS: I talked to the management team -– well, the management team included -- I talked to his management team, and I suggested that they address the issue. It's hard for me to make a basis about if those concerns are valid or not.

There are many opinions in a rating process -- many views. And what we try to do is flesh those out and have people discuss it, and try to arrive at a view that we believe as an organization –- as a group, I guess in a committee setting, that we believe is the appropriate result.

My role was not to be -- I was not in a committee process. My role was to make sure that I expressed to people the importance of just talking to each other and encouraging them to reach out to the RMBS team.

MR. BONDI: You said you talked to the management team. Who did you talk to in response to Mr. Kolchinsky's concerns that he expressed to you?

MR. HARRIS: I believe Yuri, Yuri was aware of --

MR. BONDI: Yuri was aware because you made her aware?

MR. HARRIS: Yuri -- it's possible that I called her and she may have known. I don't specifically how she *[unintelligible]*.

MR. BONDI: Who do you remember, though, communicating or passing along Mr. Kolchinsky's concerns to?

MS. NELLES: They did not mutually *[unintelligible]*? Right? He could talk with somebody, and they can also know the *[unintelligible].*

MR. BONDI: I understand.

What I want to know is, Mr. Kolchinsky

expressed some concerns to you, and you said you talked to the management team involved.

Who did you talk to? After hearing Mr. Kolchinsky's concerns, who did you then talk to?

Did you talk to Yuri?

MR. HARRIS: Yes, I did discuss -- I did have -- I cannot recall the specific discussion with Yuri, but I was comfortable that Yuri was aware of the concerns.

MR. BONDI: Did you talk to Noel Kirnon?

MR. HARRIS: I do not recall if I had talked to Noel Kirnon.

MR. BONDI: Did you talk to Brian Clarkson?

MR. HARRIS: I do not recall if I talked to Brian Clarkson.

MR. BONDI: Okay. Who else, other than Yuri, do you recall talking to?

MR. HARRIS: I believe at that point Jonathan Polansky was also aware of the concerns.

Jonathan was responsible you believe for the Surveillance, I think.

MR. BONDI: So do you remember talking to Mr. Polansky?

MR. HARRIS: I remember having discussed with Mr. Polansky.

MR. BONDI: Who else do you remember having a discussion about, about Mr. Kolchinsky’s concerns?

MR. HARRIS: I do not recall who else I had those discussions with.

MR. BONDI: Do you remember having a discussion with Andy Kimball about Mr. Kolchinsky?

MR. HARRIS: I do not recall having a discussion about Mr. Kimball.

MR. BONDI: Do you remember having any discussions with Dr. Witt? Gary Witt?

MR. HARRIS: I do not recall having any discussions with Mr. Witt.

MR. BONDI: Did you value Mr. Kolchinsky’s opinions?

MR. HARRIS: I value all the analysts’ opinions.

MR. BONDI: Did you think that those opinions were such that it required additional examination?

MR. HARRIS: I believe that there was significant focus on this issue at that time.

MR. BONDI: At the time Mr. Kolchinsky expressed his concerns to you about rating of ABS CDOs while RMBS was being downgraded, did you, yourself, form any concerns? Did you become concerned?

I know you said you had questions, but did you become concerned?

MR. HARRIS: Eventually. I don’t know when it was, but eventually, in the downgrade started occurring. But I don’t know exactly when -- when that would have been.

MR. BONDI: At some point after Mr. Kolchinsky came to you, you became concerned?

MR. HARRIS: I believe so.

MR. BONDI: Okay. How long after? A week? Two weeks?

MR. HARRIS: I don’t recall specific -- I don’t recall when. That was *[unintelligible].*

MR. BONDI: And were you involved in any follow-up conversations with anyone concerning Mr. Kolchinsky’s concerns?

You said you talked to Yuri.

Did you talk to -- did you follow up with her after the conversation you had with her?

MR. HARRIS: I don’t recall following up.

MR. BONDI: Let’s go back to the e-mail here.

On number two of the e-mail, you said there was subordination in the CDO: “A, double-A” -- S & P speak, it would be “Triple A” –- right? -- It has about 20 percent to 35 percent subordination, Aa.

Is that how you say it, “A, little A”?

MR. HARRIS: “Double A.”

MR. BONDI: “Double A”? Sorry.

Aa, about --

MS. NELLES: “A double-A” is “Triple A” by the way, so you can use that. If you want to get them right. I’ll let you know.

MR. BONDI: Please, correct me if I’m getting the speak wrong.

Okay, Aaa had about 20 to 35 percent subordination, Aa has about 15 percent, A about 10 percent, and BBB, or Baa, close to 5 percent.

And you go on in this e-mail. I want to draw your attention, though, to the sentence that begins with -- and please read the whole paragraph, but I want to ask what you mean by, “The static synthetic deals are generally structured to be much closer to the rating hurdles and are, therefore, on the low end.”

What do you mean by that?

MR. HARRIS: So, I think what I was referring to is when rating a tranche, there’s certain hurdles that we -- *[unintelligible]*. So it’s an expected loss, actual numbers.

So an Aa2, for example, would have an expected-loss hurdle. When you do the analysis in the plot work, we checked the expected loss and compare it to that hurdle. There was a range between an Aa2 and an Aa rating.

So some deals may be structured -- their expected loss may be closer to the hurdle, and others may have a little -- a little distance between the hurdle and their expected loss.

MR. BONDI: Okay. "With that said, several of the synthetic deals I looked at had somewhat barbelled portfolios. 80 percent Baa, 20 percent A-minus to Aaa, which would also account for the lowest *[unintelligible]*."

What do you mean there?

MR. HARRIS: I think what I may have been talking to was -- "…barbelled which may account for *[unintelligible]*."

I'm not sure.

I'm not sure.

MR. BONDI: Okay. It's stated in there, the first call of action, "Several of the synthetic deals I looked at."

Were those deals that you looked at in response to Mr. Clarkson's 8:12 a.m. e-mail on July 20th?

MR. HARRIS: I don't know if it's in response to the e-mail or if I had looked at them previously.

MR. BONDI: Okay. Why would you be looking at those previously, in July of 2007?

MR. HARRIS: So, I think the study that we did in April or May, we would have -- we would have some statistics on these types of deals. So I don't know if I could look at them for this particular e-mail or I had looked at, that supported the work that was done for April and May the 4th.

MR. BONDI: Number three, "The excess spread CDOs will also have some excess spread that could be used to offset the portfolio losses."

And you describe in the following sentence that excess spread. But I want to ask you about the sentence that begins within "B."

MR. HARRIS: Yes.

MR. BONDI: "The synthetic deals don't have any excess spread, and about 20 to 30 percent of the mezz cash-flow hybrid deals do not have any excess-spread diversion mechanisms to take advantage of any excess spread."

What do you mean there?

MR. HARRIS: So -- so the synthetic deals --on that cash-flow deals, the level of subordination on those deals is tied solo to the principal value of the collateral. Whereas a traditional cash-flow deal has the principal value of the collateral to protect the notes, but also has -- it's generating more interest.

MR. BONDI: Uh-huh.

MR. HARRIS: And -- than the cost to the note-holder. So there's excess cash.

MR. BONDI: So a synthetic deal is more susceptible to downgrades in the RMBS than a cash deal because it doesn't have this excess spread?

MR. HARRIS: Well, I'm not sure if it's -- is it more susceptible to a downgrade.

Is that the question, are they more susceptible to a --

MR. BONDI: Generally speaking, synthetic deals, because they don't have excess spread, are more susceptible to losses than cash CDO deals which have excess spreads built into them?

MR. HARRIS: Yes, I'd say, if they're -– but they may have more subordination. Because there's less excess spread, they may have more subordination.

But if an instrument defaults in a synthetic deal, then there's no excess spread to make up that loss. Whereas in the cash-flow deal, if an instrument defaults, from generating some competency spread, that could be plowed back into the deal.

MR. BONDI: More vulnerable to losses without this excess spread? This excess spread protects you from losses; is that fair? Losses into the tranche?

MR. HARRIS: It protects you from losses.

If there's no excess spread, you expect more subordination.

MR. BONDI: Okay.

MR. HARRIS: So you have -- so you have two identical fields, one has more excess spread than the other, you would expect more subordination in the deal that has less excess spread

MR. BONDI: But I thought we just covered, in the paragraph before, talking about the subordination paragraph, number two, about the static synthetic deals are generally structured to be much closer to the rating hurdles and are, therefore, on the low end, meaning, the low end on subordination?

MR. HARRIS: If you're closer to the hurdle, you would be more susceptible to a downgrade.

MR. BONDI: Okay. So you're describing synthetic deals that are more susceptible than downgrades. Because they lower subordination?

MR. HARRIS: No, not necessarily.

Subordination?

Given the rating…

So, yes, I guess they're closer to the hurdle. So, relatively, they would have less subordination.

MR. BONDI: Okay. So, generally speaking, then, the lower subordination and less excess spread, synthetic deals are more vulnerable to downgrades than cash CDO deals? Downgrades on the RMBS, that is?

MR. HARRIS: To the extent they are structured closer to the hurdle, yes. To the extent they're structured closer to the hurdle, yes.

MR. BONDI: And that's what you're saying, right? They're generally structured to be closer to the rating hurdles; is that fair?

MR. ROSS: *[Unintelligible.]*

MR. BONDI: Let the record reflect Mr. Ross is speaking with Mr. Harris.

MR. HARRIS: Yes, I don't know *[unintelligible]* point.

So, on the synthetic deals, you also don't have a collateral manager to possibly try to take corrective action, to protect the ratings of the notes.

MR. BONDI: Making it more vulnerable a synthetic deal without collateral managers?

MR. HARRIS: Well, they may or may not. Some collateral managers may not create value for the rated notes. They may be more junior towards the equity investors.

MR. BONDI: Well, without a collateral

manager, there's no one there to take corrective action on a synthetic; is that correct?

MR. HARRIS: That is correct.

MR. BONDI: Okay.

MR. HARRIS: Nor to pursue investment strategies that may be harmful to the investors also.

MR. BONDI: So let me go back to my initial question here. Downgrades on RMBS securities, those downgrades -- excuse me, a cash CDO is less vulnerable to downgrades on RMBS securities than a synthetic deal -- synthetic cash -- synthetic CDO deal, as a general matter, because of the reasons we talked about. The less subordination on a synthetic, the lack, or lesser excess spread on a synthetic and, as you just pointed out, the fact that a synthetic deal doesn't have a collateral manager.

Is that a fair statement?

MR. HARRIS: As a general statement, yes, I would say that's a -– that's *[unintelligible]*.

MR. BONDI: And these synthetic deals, were deals as of July 20th, 2007, that you were still you trying to get your arms around the deal data; is that correct?

MR. HARRIS: For -- just for purposes of aggregating it.

The team that was monitoring these deals had the data -- I mean, I expected that they had; but they had as a part of the surveillance process, they could look at these deals. What we tried to do in our study, was to aggregate all of it, to take all of that.

So I don't know how many deals there were, but to take it all and you have one source

MR. BONDI: And you're still trying to get your arms around those deals as of -- the data -- as of July 20th, 2007, right?

MR. HARRIS: The aggregation of the data.

MR. BONDI: Right.

MR. HARRIS: The rating analysts and the surveillance team had the data, yes.

MR. BONDI: Did you, for purposes of your studying, understanding the impact, were still trying to get your hands around the data, aggregating this data as of July 20th, 2007, correct?

MR. HARRIS: That's what I commented here.

MR. BONDI: Do you have any reason to believe that comment is incorrect?

MR. HARRIS: I have no reason to believe that comment is correct.

That study was already out at this time. It was already -- it had already been published.

MR. BONDI: Okay. But you're speaking as of July 20th, 2007, correct?

MR. HARRIS: Correct.

MR. BONDI: Okay. Why don't we take a five-minute break? It's 4:37.

(A break was taken.)

MALE SPEAKER: The tape recorder's on.

MR. BONDI: Mr. Harris, we left off, I think, talking about the e-mail. And I don't have any more questions on this e-mail that you sent.

But I do want to go back to the earlier e-mail, Number 38, where you were talking about if 80 percent of the ratings, and you were talking about non-rated bucket, and it growing.

Was this conversation perhaps surrounding a discussion concerning notching?

MR. HARRIS: I don't believe so.

MR. BONDI: Okay, fair enough.

MR. BUBB: Let me follow up just briefly on this.

In that earlier e-mail, it says, "Taking others' ratings at face value could result in inaccurate ratings."

Does Moody's take others' ratings at face value? And during the period, did Moody's take others' ratings at face value?

MR. BONDI: During the period of around April 2007, in this time frame?

MR. HARRIS: I don’t recall.

MR. BUBB: And so was there a suggestion for a discussion of moving to taking others’ ratings at face value?

MR. HARRIS: Not that I recall.

MR. BUBB: Do you have any idea why you might have described the notion of taking others’ ratings at face value? If that was Moody’s policy, why would that be in an e-mail?

MR. HARRIS: I don’t know why I would have thought -– I would have done this. I don’t know. I can’t recall.

MR. BONDI: When you were a group managing director overseeing the CDOs, how were you compensated? What was your compensation?

MR. HARRIS: A salary, a bonus, a deferred -- deferred equity. Those are the major elements of the comp- -- components of the compensation.

MR. BONDI: In 2006, what was your base salary?

MR. HARRIS: I don’t know exactly what it was.

MR. BONDI: Ballpark range?

MR. HARRIS: [redacted] would be the ballpark range.

MR. BONDI: Sharon, do you need us to stop?

MS. NELLES: No, it's *[unintelligible].*

MR. BONDI: Okay.

And what was your bonus ballpark range?

MR. HARRIS: For '06, which -- so for fiscal '06, I believe it was -- I believe it was -- I believe it was [redacted] I believe.

MR. BONDI: And, roughly, how much equity compensation were you receiving? Or was that what you would group in as equity as well?

MR. HARRIS: I think on the equity -- I don't know the specifics, maybe [redacted] stock options -- stock-option equivalents.

MR. BONDI: [redacted] equivalents?

MR. HARRIS: No, no, like --

MR. BONDI: *[Unintelligible.]*

MR. HARRIS: -- [redacted] stock options.

MR. BONDI: Uh-huh. At a certain strike?

MR. HARRIS: Yes, I think the strike price was seventy-four. But I don't know the specifics, but a combination of stock options and equity and stock -- I think.

MR. BONDI: I see. And tell me, how was your discretionary cash bonus calculated? What were the factors that went into that?

MR. HARRIS: Was -- it was -- I believe it was a combination of Moody's-wide performance, Moody's corporation, and then one's individual performance.

MR. BONDI: And how was one's individual performance with respect to you calculated?

I think you mentioned, you weren't involved in the actual ratings performance themselves.

MR. HARRIS: I had a performance evaluation from Noel Kirnon, and he made that assessment

MR. BONDI: Okay, so -- what were the factors? Were there benchmarks? Were there goals? Were there any objective elements behind that, that you were to meet?

Revenue expectations, revenue goals, anything like that?

MR. HARRIS: Okay. There -- I mean, I don't know off the top of my head, but there were objectives that were documented. And -- I assume so. I'm sure some of them were objective.

And I don't recall exactly what they were.

MR. BONDI: Did you receive, at the beginning of a year, goals or targets with respect to your performance or your group’s performance?

MR. HARRIS: I generally did, yes.

MR. BONDI: And what were those targets? Not what the amounts were, but what were the areas that you received targets on?

MR. HARRIS: So, market outreach and these -- market outreach, reaching out to investors and other market participants, market coverage.

I believe the --

MR. BONDI: What is “market coverage,” before you move on? Is that market share?

MR. HARRIS: I guess you could refer to it as market share.

MR. BONDI: Okay, what else?

MR. HARRIS: I’m not sure about -- whether it’s ‘06, ‘05. But generally, maintaining and building separate data tools, the data products.

MR. BONDI: Uh-huh.

MR. HARRIS: And, again, I’m not sure which years, but adminis- -- efficiency, administration, automating -- automating some of the processes that we follow. For example, trying to automate the surveillance process, trying to create other ways to automate our work-flow efficiencies.

MR. BONDI: Anything else?

MR. HARRIS: I cannot recall.

MR. BONDI: Okay. In your mind, what was the most important? Was it market share and market coverage?

MR. HARRIS: In my mind, they were all important.

MR. BONDI: Did you believe that these were equally rated then?

MR. HARRIS: Pretty much, yes.

MR. BONDI: Equally weighted, I should say, not rated?

MALE SPEAKER: *[Unintelligible.]*

MR. HARRIS: I think they're -- those are my objectives.

MR. BONDI: Okay. Did Mr. Kirnon ever express to you which one of these three might be more important?

MR. HARRIS: I do not recall Mr. Kirnon expressing that to me.

MR. BONDI: What about anyone else?

MR. HARRIS: I do not recall anyone else expressing that to me.

MR. BONDI: Did market share ever slip under your watch as group managing director? *[Unintelligible]* particularly?

MR. HARRIS: It varied within a relatively narrow range.

MR. BONDI: It slipped significantly, though? Or did it decrease in any material respect?

MR. HARRIS: I'm not sure what the exact numbers were, but I'd say within, give or take, five percentage points. But I don't know exactly.

MR. BONDI: I should have said, did it drop by more than 5 percent in any particular area?

MR. HARRIS: I'm not sure if it dropped specifically more than 5 percent.

MR. BONDI: Okay. Did market share in any particular area, while you were group managing director, at any time period increase by more than 5 percent?

MR. HARRIS: From quarter to quarter, I don't believe it did, from quarter to quarter. Again, I just don't recall.

MR. BONDI: What about from year to year?

MR. HARRIS: It's possible that it may have been between 85 and 95 percent for some asset classes.

MR. BONDI: You mean you went from 85 percent to 95 percent for some asset classes?

MR. HARRIS: I believe in the synthetics -- again, I'm not sure what our market share was for synthetics. But it may have increased a bit on the asset class -- I think it increased on several asset classes. But I'm not sure if it's 5 or 10 percent.

MR. BONDI: What asset classes do you remember market share increasing?

MR. HARRIS: I think, generally, from trough to peak -- I'm not sure if the trough to peak on CLOs was 5 or 10 percentage points. It may have been 5 to 10 percentage points for some ABS CDOs.

MR. BONDI: With RMBS collateral?

MR. HARRIS: That is correct.

MR. BONDI: Were you ever commended for growing the market share on ABS CDOs, with RMBS collateral?

MR. HARRIS: I do not. I don't recall being commended on that.

MR. BONDI: And when you received performance reviews by Mr. Kirnon, were these in writing?

MR. HARRIS: I believe they were.

MR. BONDI: And they were given to you?

MR. HARRIS: I believe so, yes.

MR. BONDI: And did anyone else participate in providing you that review? Or was it a one-on-one review with Mr. Kirnon?

MR. HARRIS: I recollect them being one-to-one reviews.

MR. BONDI: Was Mr. Clarkson involved in any way in your review?

MR. HARRIS: I am not aware of him being involved in that review.

MR. BONDI: Did he signed the review sheet *[unintelligible]?*

MR. HARRIS: If I reported to him in 2007, he did.

I'm not sure about the previous years.

MR. BONDI: Why was market share part of your bonus?

MR. HARRIS: Well, I had multiple objectives. And market coverage is important for simple reasons. You know, we are in the business of providing opinions, and we'd like for our opinions to be of value to the marketplace. And to the extent that the marketplace has not seen value in our opinions, I come to understand why.

Another reason would be that multi-coverage makes us -- it will help us improve our services to the marketplace. It allows us to speak more intelligently with market participants, because we have a broader view of the marketplace.

It allows us to provide better research to the marketplace. It also allows us to collect more data and consider that data as part of our ongoing process, to try to improve our ratings methodology.

MR. BONDI: And did you communicate market-share information to the managing directors who worked under you when you were group managing director?

MR. HARRIS: I think that the -- I think that the managing directors had access to that information.

MR. BONDI: Had access from where? Sent to them?

MR. HARRIS: Yes. I think they received it from -- we had an administrator on our team who, one of her many duties -- she had multiple duties, one of which was to collect market information and distribute it to the management team.

MR. BONDI: How often was market information distributed to the management team?

MR. HARRIS: I don't recall how frequently it was, if it was quarterly or monthly. I cannot recall.

MR. BONDI: What was Mr. Clarkson's view on persons who lost deals to competitors?

MR. HARRIS: Well, we have many examples of that.

I think kids -- I believe that understanding why the market isn't valuing our opinion, is what I think he wanted to understand more. Why isn't the market valuing our opinion?

MR. BONDI: Let me ask you this: Did Mr. Clarkson ever say or did you ever hear about Mr. Clarkson saying, in form or substance -- maybe not exactly what I'm saying but in substance -- if someone was going to lose a deal, they'd better be able to explain why they lost the deal or they would lose their job?

MR. HARRIS: I do not him saying that.

MR. BONDI: Was that something that was the general feeling about Mr. Clarkson? That if you lost market share -- or excuse me, lost a deal and weren't able to explain why, your job might be in jeopardy?

MR. HARRIS: If we can't explain why we are -- if we cannot explain why the market is not valuing our opinion, that is our job.

So -- I'm sorry, is the question…

MR. BONDI: Was -- if someone lost a deal and wasn't able to explain why, that person's job would be in jeopardy in the eyes of Mr. Clarkson; is that fair?

MR. HARRIS: I don't know. I don't know if that's fair.

MR. BONDI: What was the -- let's take away "in the eyes of Mr. Clarkson."

If someone lost a deal to a competitor and couldn't explain why, is that person's job potentially in jeopardy?

MR. HARRIS: Um, I think if we could not understand and explain why -- just couldn't understand it, I believe that -- *[unintelligible]* is going to be in jeopardy, yes. If you couldn't explain it.

MR. BONDI: Did you ever talk to any of the managing directors who reported to you when you were group managing director about any particular deals that they lost?

MR. HARRIS: Any particular deals?

We had constant dialogue about the deals that were being done without us.

MR. BONDI: And as a group managing director, was it a goal of yours to ensure that the persons underneath you didn't lose any deals to your competitors?

MR. HARRIS: No.

MR. BONDI: It wasn't a goal of yours?

MR. HARRIS: No. A goal of mine -- of ours was to understand why; and if it's our standards and our methodology, then there's nothing to be done.

But there could be reasons that we could address. Cost could be an example. There's other ambients that we could consider, but we had to understand why we were not on the deals.

MR. BONDI: How do you believe market share was communicated to the managing directors?

MR. HARRIS: The managing directors are closer to the marketplace than the senior managing director or group managing director. So they may have a better understanding of what the issues are behind the marketplace not valuing our opinions.

MR. BONDI: When you say "the market not valuing your opinions," who pays for your ratings and your opinions?

MR. HARRIS: The actual payment is made by the vehicle -- I think the vehicle that raises the money from the investors.

Part of the proceeds from that vehicle are paid to the rating agency. That's how I believe it's done.

MR. BONDI: You'll have to forgive me. I'm not sure about vehicles making payments on their own.

Who is behind the payment, though? Is it the investment bankers?

MR. HARRIS: Well, the bankers create the vehicles. And I don't know --

MR. BONDI: And the bankers pick the rating agencies, correct?

MR. HARRIS: Or the investors. I would argue the investors have a say also.

MR. BONDI: So is it the investors that come to Moody's and say, "We want you to rate this deal"?

MR. HARRIS: The investors would request for us to be on deals, yes.

MR. BONDI: Who is making contact with Moody's? Is it the investors? Has an investor, with respect to a CDO, ever called Moody's or anyone working there with you, and say, "We want you to rate this CDO"?

MR. HARRIS: Have they called us directly? I don't recall that.

MR. BONDI: Correct.

MR. HARRIS: But if they would request to someone structuring the deal, that they want these rating agencies or this rating agency on a deal, my understanding is that those happen.

MR. BONDI: It does happen or it did happen?

MR. HARRIS: It did happen.

MR. BONDI: Okay. And who makes the phone call, though? The banker? The investment banker?

MR. HARRIS: Yes, the investment banker would make a call to introduce the deal, to put the deal in our queue.

MR. BONDI: And how -- what is your basis, though, for saying that investors are telling the bankers to call Moody's in particular? What's your basis for that?

MR. HARRIS: Well, we -- part of our job is to reach out to the marketplace and to describe our methodology; to describe how we approach our analysis, to describe some of the qualitative features that we talked about before, and try to start to make the case for the investors that this is a very sound methodology, and it's one that you should consider when you're investing in your CDOs.

MR. BONDI: And so you would have ongoing dialogue with investors on CDOs?

MR. HARRIS: Yes.

MR. BONDI: Okay. And how would you have these ongoing dialogues? By phone? In person? Did you have meetings with them?

MR. HARRIS: A mix of all the -- a lot of face-to-face meetings. We'd go out and meet with investors face-to-face.

MR. BONDI: You're meeting directly with investors?

MR. HARRIS: Yes.

MR. BONDI: In CDOs?

MR. HARRIS: That is correct.

MR. BONDI: Face-to-face?

MR. HARRIS: That is correct.

MR. BONDI: Okay. Concerning your ratings?

MR. HARRIS: That is correct.

MR. BONDI: And give me the time period. This is while you were managing director?

MR. HARRIS: And a team managing director.

As a manager, that's my –– that's one of my objectives, is to go out and speak to the marketplace, including investors.

MR. BONDI: Uh-huh. And what were you telling them about your rating, these investors? Your ratings? Were you talking about the ratings process as well?

MR. HARRIS: Yes.

MR. BONDI: Were you talking about methodologies?

MR. HARRIS: It was -- it was generally -- it was a combination of their agenda and things that we may have wanted to talk to them about.

But investors generally would -- they would be interested in hearing the most recent thinking from us, how *[unintelligible]* operating. Just general questions about Moody's and about derivatives and our methodologies.

And then we may be reaching out to them to share some good elements that we think would be in the interest to them.

MR. BONDI: And were these investors relying on your ratings?

MR. HARRIS: These investors would do their analysis; and as part of their analysis, the opinions of the agencies, I think, would have been -- I think it would have been considered.

MR. BONDI: So the investors relied in part on your ratings?

MR. HARRIS: Or they may have been interested in our methodologies so they create –- they could create their own internal analytics.

So it would be a combination of understanding what we're doing, to actually find their analytic -- their analytics –- review their –- in their investments.

MR. BONDI: Did they value your ratings?

MR. HARRIS: That's -– that's a question for them.

MR. BONDI: When you were talking to them, did they tell you, "We value what you're doing"? Did they say, "We look to your ratings, we value your ratings"? Is that what investors were telling you?

MR. HARRIS: I don't know specifically if they were saying that.

MR. BONDI: What were they saying to you about your ratings and the importance to them?

MR. HARRIS: So, explain the methodology to us. How do you look at the world? How do you – can we access your tools? A lot of investors wanted to have access to the tools that we use. And they had asked about the rating process.

MR. BONDI: And as you sit here today, can you just tell me some of the names of the investors that you met with? You personally?

MR. HARRIS: We met with -- let’s see, I’m trying to think here. TIAA-CREF.

MR. BONDI: Okay.

MR. HARRIS: I believe we’ve met --

MR. BONDI: Who did you meet with there? Do you remember?

MR. HARRIS: I do not recall.

MR. BONDI: When did you meet -– when do you remember meeting with TIAA-CREF?

MR. HARRIS: I don’t know -- I do not know exactly when I met with the investors.

MR. BONDI: Who else that you personally were involved in meetings with?

MR. HARRIS: I think I met with Cheney.

MR. BONDI: Cheney Finance?

MR. HARRIS: Uh-huh.

MR. BONDI: Who do you recall meeting with at Cheney Finance?

MR. HARRIS: I do not recall a specific person.

MR. BONDI: Okay. Who else?

MR. HARRIS: Allstate.

MR. BONDI: Allstate?

Who do you remember speaking to at Allstate?

MR. HARRIS: I don’t -- I don’t recall.

MR. BONDI: Who else?

MR. HARRIS: ZAIS. ZAIS, Z-A-I-S.

MR. BONDI: Uh-huh. Who do you remember meeting with there?

MR. HARRIS: Jerry Hong.

MR. BONDI: Jerry Hong?

What other investors you personally were involved in meetings with?

MR. HARRIS: I recall Babson, Mass Mutual.

MR. BONDI: Who at Babson, who at Mass --

MR. HARRIS: I think he would have been Drew Dickey and Matt Natcharian.

MR. BONDI: Okay. So the second name was who?

MR. HARRIS: Matt Natcharian.

MR. BONDI: Can you spell the last name?

MR. HARRIS: I don’t know exactly how it’s spelled. N-A -- I don’t know.

MR. BONDI: Drew Dickey was at Babson?

Matt --

MR. HARRIS: “N,” Natcharian.

MR. BONDI: Natcharian?

That the slowest *[unintelligible]*, I ever heard you speak.

MR. HARRIS: That’s for *[unintelligible].*

MR. BONDI: What other investors do you remember talking to?

MR. HARRIS: I think I met with MetLife in the City of New York.

MR. BONDI: Who do you remember meeting with there?

MR. HARRIS: I don’t recall any names.

MR. BONDI: Who else do you remember meeting with?

MR. HARRIS: With AIG, Sonya Hamstra.

MR. BONDI: Who else?

MR. HARRIS: I’m trying to think of the name. It escapes me.

Gordon Knott.

MR. BUBB: Okay. Out of England, right?

MR. HARRIS: Yes.

MR. BUBB: Who do you remember meeting with there?

MR. HARRIS: I don't recall the names.

MR. BUBB: Anyone else?

MR. HARRIS: *[Unintelligible], a* Japanese name, *[unintelligible]*].

MR. BUBB: Who there?

MR. HARRIS: I don't recall the names.

MR. BUBB: Did you speak to any German banks or German investors, generally?

MR. HARRIS: There were -- there were -- yes, there were some trips to Germany.

MR. BUBB: Who did you speak with?

MR. HARRIS: And, actually, I think -- I believe that the context of some of these visits also was the tools -- the rating tools, the data may not have been specifically to talk about the ratings. There could have been the ratings process, the ratings approach and methodologies, there also could have been the tools and data.

So in Germany, for example, I do recall having a particular meeting on that, on the tools and data with IKB.

MR. BONDI: IKB in the news these days?

Who do you remember talking to at IKB?

MR. HARRIS: I do not recall the team there.

It was a meeting for --

MR. BONDI: Who went with you from Moody's? Brian Clarkson?

MR. HARRIS: Yes.

MR. BONDI: Noel Kirnon?

MR. HARRIS: I don't think so.

MR. BONDI: Do you remember meeting with any investors with Brian Clarkson?

MR. HARRIS: Investors?

I do not recall meeting with investors with Mr. Clarkson.

MR. BONDI: How do investors use your tools? So, for example, IKB, what was their interest in your tools?

MR. HARRIS: So, they may want to include the data in their own internal analytics engines.

So, I don't know if it was IKB. It may have been IKB.

But in Germany, some of the organizations were trying to build their internal analytics, and they needed the data.

MR. BUBB: This is for their own analysis of investments in making their decisions on on regular bonds --

MR. HARRIS: They were testing it, that is correct.

MR. BONDI: So the underlying basis for their own analysis was your models and your tools and data?

MR. HARRIS: Or they could create their own.

I'm not sure that these are tools for the ultimate decision. They may have been an input in creating their own models, but I'm not sure that they --

MR. BONDI: *[Unintelligible]* -- sorry?

MR. HARRIS: I don't -- I'm not sure that they used our tools for their ultimate decision.

MR. BONDI: Did you have any meetings with investors about the ratings on deals that investors were thinking about investing in?

MR. HARRIS: I do not -- as a manager, I do not recall having those discussions.

MR. BONDI: What about --

MR. HARRIS: For a deal during the underwriting period --

MR. BONDI: Sure.

MR. HARRIS: -- I do not recall having those discussions.

MR. BONDI: Okay, what about, it sounds like you recall some sort of discussions with investors about potential deals, perhaps after the underwriting, while the deal was being marketed, do you recall any of that?

MR. HARRIS: I don’t remember any specifics. But as a rating analyst, I do remember sometime an investor calling and asking how we analyzed a deal.

MR. BONDI: And an investor calling before they purchased the investment?

MR. HARRIS: I’m not sure if they had already committed or not. I don’t know.

MR. BONDI: But if they were calling about a particular security that they were interested in investing in or may have just invested in; is that what --

MR. HARRIS: When they had acquired it, they may have finished their work, I’m not sure -- yes, there was some interest for them to inquire about that deal.

MR. BONDI: A specific deal, a specific security, and a specific security that Moody’s was rating?

MR. HARRIS: That Moody’s was rating.

MR. BONDI: Was rating?

MR. HARRIS: So afterwards -- yes, after the deal closes, we also had discussions with clients on particular deals.

MR. BONDI: What do you mean, “was rating,” though? Do you mean, during the middle of the rating process?

MR. HARRIS: Yes.

MR. BONDI: So you had specific conversations with investors during the middle of the rating process?

MR. HARRIS: Yes.

MR. BONDI: Okay, what investors do you remember having specific conversations --

MR. HARRIS: When I was an analyst?

MR. BONDI: Yes.

MR. HARRIS: That's more than ten years ago. I do not recall the specifics.

MR. BONDI: So it sounds as if Moody's, you, and others at Moody's had quite a few contacts with investors directly?

MR. HARRIS: That was our job, yes.

MR. BUBB: I could be *[unintelligible]*], I could be *[unintelligible]*?

MR. HARRIS: I'm not sure.

MR. BUBB: What year?

MR. HARRIS: I'm not sure. I don't know.

MR. BUBB: Did you discuss with IKB any of their investments with securities underwritten by Goldman Sachs?

MR. HARRIS: I do not recall that. I do not recall if we did.

MR. BONDI: You had a conversation with AIG?

MR. HARRIS: Yes.

MR. BONDI: What do you recall from that conversation?

MR. HARRIS: AIG -- I think the discussion that I recall with Sonia is similar to the IKB discussion, the data that they may use to monitor their deals.

MR. BONDI: And so it was about, in general, the data as opposed to any specific deal or transaction or any specific banks?

MR. HARRIS: I do not believe that the -- I do not recall the AIG discussion being specific to any deal.

MR. BONDI: Did you get the impression that these investors thought your ratings were important to them from what they said to you?

MR. HARRIS: The ratings were a component to their analysis, yes. It's something they considered in their ultimate decision, but not *[unintelligible]*.

MR. BONDI: What is a "placeholder asset" in a deal that Moody's is rating?

Are you familiar with the term "placeholder asset"?

MR. HARRIS: I am not sure exactly what that means. I know the --

MR. BONDI: Have you ever heard that term being used: “Placeholder asset”?

MR. HARRIS: I’m not sure. I don’t recall exact. I do not recall.

MR. BONDI: Okay.

Sharon, do you have any idea what a “placeholder asset” might be?

MS. NELLES: *[Unintelligible.]*

MR. BONDI: I’m sorry?

MS. NELLES: I’m actually [unintelligible].

MR. BONDI: Do you have any -- I mean, if someone said, “Hey, this CDO, we’re using placeholder assets here,” would you have a sense of what they meant? I mean, do you have any sense of what a placeholder asset is?

I totally don’t want you to guess; but at the same time, if you have a basis for understanding what a “placeholder asset” is, based on your experience, if you have any sort of basis, if you’ve heard that term being used, what do you understand or believe to be meant by “placeholder asset”?

MR. HARRIS: It could be an instrument -- it could be a portfolio where the asset has not been identified --

MR. BONDI: Okay.

MR. HARRIS: -- in a generic line item.

MR. BONDI: Okay. And were deals ever rated where, as using that definition, you know, "Placeholder asset" -- because I think that's the one that's my understanding of a placeholder asset -- were deals ever rated where placeholder assets were used and then later substituted out for actual assets?

MR. HARRIS: I would expect, yes.

MR. BONDI: And does this go back to the same *[unintelligible]* rating, public ratings sort of thing, or is this a different situation?

MR. HARRIS: It's the issue of when you look at a portfolio, individual names may not be as relevant as the characteristics of the portfolio: What's the rating, what's the maturity, what's the coupon. That's more important than the credit being the -- I don't know, AK Steel loan.

MR. BONDI: And do you remember a deal that Credit Suisse did using a placeholder asset which ended up having unwound later, after it was rated?

MR. HARRIS: I do not recall a placeholder deal that was unwound.

MR. BONDI: Okay. Do you ever remember a Credit Suisse deal that was unwound later, after it had already been rated?

MR. HARRIS: I do not -- I do not recall a Credit Suisse deal being unwound.

MR. BONDI: Okay. What about a Merrill deal being unwound? And forgive me, if I had more information to share, I would.

A Merrill Lynch deal that was unwound after it had already been rated?

MR. HARRIS: I don't recall any deal being unwound shortly after it was rated.

MR. BONDI: Okay. Did you ever fire anyone when you were group managing director?

MR. HARRIS: I may have terminated one or two senior associates, entry-level people -- and, I'm sorry, and one -- and one -- I believe one VP.

I don't know if I was a group managing director or a team managing director at that time.

MR. BONDI: All right. And who was the group VP?

MR. HARRIS: 36 CFR 1256.56 - Privacy *[unintelligible]*.

MR. BONDI: Why was she terminated?

MR. HARRIS: I would say -- we did not think she was a very good analyst because she was having a difficult time not withstanding the structures and maintaining the integrity of the ratings.

MR. BONDI: Was she on the quantitative side or the legal side?

MR. HARRIS: Quantitative.

MR. BONDI: And was it based on complaints by any issuers of banks?

MR. HARRIS: I do not believe so.

MR. BONDI: Okay. And the two junior people, why were they terminated?

MR. HARRIS: I believe we terminated them early on, when they first joined us. They were not getting up to speed with learning -- learning our tools and our platform. They were very slow learners.

MR. BONDI: Do you remember any analysts going to work for investment banks?

MR. HARRIS: Yes.

MR. BONDI: Okay. Can you tell me all the analysts that you remember, sitting here today, who left Moody's to go work for an investment bank?

MR. HARRIS: So, I believe we probably had Deepali Advani went to an investment bank –

I believe that --

MR. MCWILLIAMS: I missed that name. Can you repeat that name, please.

MR. HARRIS: Sure. Deepali, D-E-E-P-A-L-I, the last name Advani, A-D-V-A-N-I.

MR. BONDI: Deepali went to work for Lehman, right?

MR. HARRIS: I believe so.

MR. BONDI: Anyone else?

MR. HARRIS: I believe Miles Bae, the last name is B-A-E.

MR. BONDI: Where did he go?

MR. HARRIS: I think he went to HSBC, I think.

MR. BONDI: Okay. Who else?

MR. HARRIS: I believe, Jack Tolk, T-O-L-K.

MR. BONDI: Where did he go?

MR. HARRIS: I don't know if he went to HSBC or to a French bank. I do not recall. But I think he went to a bank.

MR. BONDI: Anyone else?

Who else?

MR. HARRIS: I don't recall anyone else.

MR. BONDI: Okay. Anyone higher than an analyst that you remember leaving to go work for investment banks? MDs or others?

MR. HARRIS: Oh, I believe that I think Gerard O'Connor.

MR. BONDI: When did he *[unintelligible]*?

MR. HARRIS: This was, I think, ten years ago.

Is the time frame relevant or --

MR. BONDI: Well, let's stick with just this decade, the two thousands.

MR. HARRIS: I don't even know technically if he'd be in the two thousands, but it was some time ago.

MR. BONDI: All right.

MR. HARRIS: I don't know where he went. I thought he went to a bank.

[Unintelligible] Kolchinsky.

MR. BONDI: Uh-huh. Went to Lehman?

MR. HARRIS: That is correct.

MR. BONDI: Okay. Anyone else?

MR. HARRIS: Helen Remeza. She went to -- I believe C.S. First Boston.

MR. MCWILLIAMS: How do you spell the last name there, please?

MR. HARRIS: R-E-M-E-Z-A.

MR. MCWILLIAMS: Okay, and the first name was Helen?

MR. HARRIS: That is correct.

MR. MCWILLIAMS: Okay, thank you.

MR. BONDI: Okay, anyone else?

MR. HARRIS: *[Unintelligible]* you said this decade. I don't know –- unsure if [unintelligible] was a long time, started 1999 or 2000, but --

MR. BONDI: Right around *[unintelligible]*?

MR. HARRIS: I think -- I believe she went to

JPMorgan. And she joined -- I believe, if I recall correctly, she joined [unintelligible] Murphy back in the late nineties.

MR. BONDI: Okay. Anyone else?

MR. HARRIS: Left and went to a bank?

MR. BONDI: Investment.

MR. MCWILLIAMS: I'm sorry, I didn't hear that. What was that name?

MR. BONDI: There was no name.

MR. MCWILLIAMS: No name, huh?

MR. BONDI: He's thinking. Sorry.

I tell you what: Why don't we, in the interest of time, could you do me a favor and think about who else you remember, and just tell one of your counsel, and maybe they could get it to us?

I'll stipulate, if you promise just to think about who else left to go to investment banks -- you obviously were at Moody's for a long time, and I know there's -- you're covering a lot of years in your mind. But if you can think of any other analyst or MDs who left to go work for investment banks, I'd appreciate those names.

MS. NELLES: Mr. Harris, as you sit here, right now, is there anybody else –

MR. HARRIS: No.

MS. NELLES: -- you can think of?

MR. HARRIS: I cannot.

MR. BONDI: Okay, all right. And if you think of anyone else, could you let one of your attorneys know?

MR. HARRIS: I will

MR. BUBB: Okay, great.

I want to go back briefly to this study that you were involved with *[unintelligible]* the downturn in the mortgage market for CDOs.

You said earlier today that Brian Clarkson asked you to study those.

Could you tell us, what was the goal of the study?

MR. HARRIS: To -- I think it's -- I think it's in the study, the paragraph, provide to the marketplace some transparency in terms of the potential ratings performance of CDO notes, with changes in the ratings of the underlying assets.

MR. BUBB: And what was the conclusion of that study? Can you describe it in broad terms?

MR. HARRIS: I think it was more of a factual study, where we put the results -- we found out the -- we made the results available for the marketplace.

MR. BUBB: And, broadly speaking, what were the results?

MR. HARRIS: I don't recall exactly what the…

MR. BUBB: Did you conclude that CDOs make up or were substantial impairments and downgrades going forward?

MR. HARRIS: I do not believe that was our conclusion, but I'm not -- again, I don't recall what the conclusions were.

MR. BONDI: As the mortgage market was deteriorating in 2006-2007, housing prices were going down, delinquencies were going up, downgrades started -- of RMBS started in earnest in July of 2007.

Were any changes made to the methodology of rating CDOs with RMBS as collateral?

MR. HARRIS: I'm not aware. I was not part of the ratings team. I do not know.

MR. BONDI: Bruce, do you have anything?

MR. MCWILLIAMS: Yes, a few questions.

Are you done?

MR. BONDI: Yes.

MR. MCWILLIAMS: I missed a little bit.

When was Analytics bought?

MR. HARRIS: Wall Street Analytics was acquired in December of '06.

MR. MCWILLIAMS: December '06?

And so then it wasn't until '09 that you were able to get loan-level data? Or that you had -- I mean, the data was all filled out and you could use the technology?

MR. HARRIS: It's to get it –- to get the loan-level data loaded into our platform and then updated on a consistent basis going forward.

It wasn't just getting it in; you had to get it in --

MR. MCWILLIAMS: Okay.

MR. HARRIS: -- and then you had to have a process in place updated every month going forward.

MR. MCWILLIAMS: So that meant that for the entire decade, Moody's had no access to loan-level data?

MR. HARRIS: I'm not aware if the -- I'm not aware of the practices of the RMBS team. I don't know if the RMBS team had access to loan-level data.

MR. MCWILLIAMS: But your area, the CDO area, had no loan-level data?

MR. HARRIS: We did not have access to ongoing loan-level data. That's my recollection.

MR. MCWILLIAMS: Okay. What is the maximum bonus?

You said in two thousand- -- let's say in 2005, were you aware of that?

MR. HARRIS: I'm sorry?

MR. MCWILLIAMS: Well, there's a term called "maximum bonus" that's associated with Moody's.

I'm wondering if you knew what that was or if that was related to your staff or -- and that was related to something about a number of deals that people worked on. Do you know about that?

MR. HARRIS: No, I'm not aware of that. I'm not aware of it.

MR. MCWILLIAMS: So for '05-'06 -- in '05 and '06, there's no such thing as "maximum bonus"?

MR. HARRIS: I'm not aware of what "maximum bonus" may mean.

MR. MCWILLIAMS: Okay, and so there's no calculation for the number of deals that an analyst would work on?

MR. HARRIS: I'm sorry, there was no --

MR. MCWILLIAMS: Well, there's no calculation about year-end bonus based on the number of deals that a person worked on, or their volume or some metric?

MR. HARRIS: No, there was not. Not to my knowledge.

MR. MCWILLIAMS: What kind of boss was Noel Kirnon? Was he a real hands-on guy or did he direct you to have meetings and then he would give you direction, and then you would go work with your staff?

MR. HARRIS: He was a combination of both. He would be hands-on in some cases and he would be hands-off in others. It’s hard for me to generalize what his style was.

MR. MCWILLIAMS: I’m looking at the -- in the derivatives department in ‘05, I see you reported directly to Noel Kirnon, and then Gary Witt and Yuri Yoshizawa -- I can’t pronounce her surname -- and Bill May -- the three of them reported to you, and then you reported directly to Noel Kirnon.

So would he go to Gary Witt directly and Yuri, or would he come to you only?

MR. HARRIS: I recall him joining us in some of our meetings, so I could keep it a combination of both.

MR. MCWILLIAMS: Okay. And what -- I think in ‘07 -- I think I forget, August ’07 or maybe October ’07, you stopped being involved with derivatives and went to the New Products Group; is that correct?

MR. HARRIS: So in December of ‘06, I was involved solely with CLOs. That was my responsibility. And then in, I believe, August of ‘07 I had no more involvement with the derivatives team.

MR. MCWILLIAMS: And so that was the New

Products Group?

MR. HARRIS: The New Products Group had been around at that point for a while. But, yes, at that point I had –- I would spend a hundred percent of my time on the New Products and the Global Managed Funds team.

MR. MCWILLIAMS: So that was in the last quarter of ‘07?

MR. HARRIS: New Products and Global Managed Funds were my responsibility from the beginning of ‘05.

MR. MCWILLIAMS: Oh, okay. I’m sorry, I didn’t get that.

MR. HARRIS: So from the beginning of ‘05, when I was promoted to group managing director, my responsibilities were Global Managed Funds, U.S. Derivatives, and the New Products Group that was in its early stages then, but it was the New Products Group.

MR. MCWILLIAMS: So then by -- but then Yuri Yoshizawa, she took over the Derivatives piece, and then you just had the other two pieces; is that right?

MR. HARRIS: Yes, so in late ‘06, Yuri took -- Yuri Yoshizawa took over all of the New York derivatives business with the exception of U.S. CLOs. And then in, I believe, July of ‘07 or August of ‘07, she took over the U.S. CLO group was also assigned to her.

MR. MCWILLIAMS: Okay.

I think those are all my questions.

MR. BONDI: Mr. -- I'm sorry, Mr. Harris, our interview process is confidential, so we ask that you don't discuss anything with anyone else outside of your lawyers.

And before we conclude, though, do you have anything else that you think we ought to know that would help understand the ratings process? Anything that you think we ought to look at or understand, or any particular document that you recommend that we read?

I know that's a broad question, but I just want to make sure that there's nothing you think we ought to look at and make sure that we're complete in particular?

MR. HARRIS: Well, I think the topics that you addressed or issues --

MR. BONDI: I'm sorry, that was not a fair question, and I apologize. That was a very broad, and I didn't mean to ask it so broad.

Let me ask you this way -- I'll ask it this way: Was there any topic that we didn't talk about today, that you were surprised that we didn't talk about?

Is there anything you were expecting that we would talk about, that we didn't talk about?

MR. HARRIS: No, there was not.

MR. BONDI: Let me ask you one more broad question, if I may.

What do you think the biggest flaw was in the rating of RMBS CDOs, if any such flaw, during the period of *[unintelligible]* --

MR. HARRIS: I know -- I do not know -- I'm not an expert in RMBS. I do not -- I have no background in RMBS. I did not rate any RMBS deals.

MR. BONDI: I'm talking about CDOs containing RMBS, to be more clear.

MR. HARRIS: Well, the performance of those deals is tied directly to the underlying mortgage market, so it's hard for me to comment on that.

I mean, I could make general statements about what I've read about the performance of the underlying assets, the origination process; and a lot has been written about that.

Well, that would be tough, too. CDO.

So a general comment would be, on the underlying performance, the loans, what is it about that process that could have resulted in losses that I think would have been more in line with what was being predicted by many market participants at the time of origination.

MR. BONDI: I appreciate it. Thank you. Thank you. We do appreciate it.

(End of interview with Gus Harris)

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