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*Commissioner*

Wendy Edelberg  
*Executive Director*

July 16, 2010

**Via Email & Mail**

Mr. Raymond W. McDaniel, Jr.  
Chairman and Chief Executive Officer  
Moody's Corporation  
c/o Sharon L. Nelles, Esq.  
Sullivan & Cromwell LLP  
125 Broad Street  
New York, New York 10004-2498  
Email: nelless@sullcrom.com

Re: Financial Crisis Inquiry Commission Hearing on June 2, 2010

Dear Mr. McDaniel:

Thank you for testifying at our June 2, 2010 hearing. At the hearing, you were informed that the staff of the FCIC would be contacting you to follow up on certain areas of your testimony and to submit written questions and requests for information related to your testimony. While this letter is addressed to you, we expect that some questions will be better answered by other Moody's employees. We have indicated these questions below.

When answering all questions, the relevant time period is January 1, 2000 to the present, unless otherwise indicated. Please provide your answers and any additional information by July 30, 2010.<sup>1</sup>

<sup>1</sup> The answers you provide to the questions in this letter are a continuation of your testimony and under the same oath you took before testifying on June 2, 2010. Further please be advised that according to section 1001 of Title 18 of the United States code, "Whoever, in any matter within the jurisdiction of any department of agency often United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, f or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both.

1. What was basis of compensation for witnesses on the first panel: Messrs. Kolchinsky, Siegel, Weill, and Witt? Please provide board reviews of CEO compensation practices from 2000 through today. Please provide board evaluations of you, Mr. McDaniel, along with your self evaluation during your tenure as CEO.
2. Please provide information on the background of people who sat on the ratings committees; what was their work experience, and how many came from the mortgage or housing industry?
3. Who attended meetings between representatives of Clayton Holdings and Moody's and on what dates? What information was provided, and with whom at Moody's was the information shared? Please provide meeting notes and any documents provided to or generated by Moody's with respect to these meetings. This should include, but not be limited to, meetings with middle managers in 2006 and with senior managers in 2007: particular meetings of interest include those occurring on or about the summer of 2006, January 11, 2007, January 29, 2007, May 31, 2007, July 18, 2007, July 27, 2007, and late 2007.
4. Please provide a chronology of how management responded to Mark Zandi's October 2006 paper, "Housing at the Tipping Point: The Outlook for the U.S. Residential Real Estate Market" and describe whether any findings in this paper were incorporated into rating methodology.
5. Please provide any internal comprehensive reviews or lessons learned of systemic breakdowns that may have occurred at Moody's.
6. Please provide a written copy of Sullivan & Cromwell's report on the Kolchinsky retaliation case.
7. Please provide documents related to your rating of American International Group, Inc. from 2000 to the present, including but not limited to (a) documents related to the downgrades in March 2005, (b) documents related to the downgrades in September 2008, and (c) documents explaining or defining the ratings at the time they were generated.

8. How did due diligence procedures for real estate structured products differ from other structured products? How did these due diligence procedures differ from non-structured products such as corporate bonds, and municipal bonds? Please describe your due diligence process for each category.
9. What had been Moody's ratings of Lehman Brothers from 2000 through 2008? Did your ratings anticipate that the Government would treat Lehman Brothers as too big to fail and thus bail out the company's bond holders?
10. Please provide any contact details you may have about former analyst Cesar Crousillat.

**These questions may be best answered by Mr. Jay Siegel:**

11. How did Moody's adjust its models and methodology (especially as related to reps and warranties) to take into account increased mortgage fraud?
12. How often did you wholly revamp models using new data with regards to M-3 Prime and M-3 Subprime models?
13. Did you make your M-3 Prime and subprime models less sensitive to house price increases and decreases after the early years of the decade?
14. Please provide data from Moody's contemporaneous records on the number of prime and subprime mortgages in the market from 2000 through 2009. Describe what impact, if any, changes in the number of prime or subprime mortgages might have had on models, methodologies, or assumptions in deciding on ratings. Please describe the methodology that was used to account for correlation in the rating of prime and subprime RMBS and whether the number of subprime mortgages outstanding might affect the correlation among mortgages in different areas.

**These questions may be best answered by Mr. Nicolas Weill:**

15. Please provide all emails and other communication between Nicolas Weill and those directed by Mr. Weill and other Moody's employees from October 2006 through December 2007. Please provide all memoranda generated by Mr. Weill

concerning delinquencies, potential rating actions, downgrades, mortgage loan modifications, due diligence, any mortgage originator, or mortgage loan quality.

16. What has been the history of structured finance fees, including RMBS and CDOs? Was there a higher percentage rate charged for rating AAA tranches over subordinated tranches until 2007? If so, was this always true and what warranted the higher rate? Did you charge more for a AAA rating? If so, why was the rate decreased in 2007?
17. During the period 2005-2007, what has been the record of Moody's ratings for securitized offerings of prime, subprime, and Alt-A bonds, as well as ratings on other securitizations, such as CMBS, CDOs, CPDOs, SIVs, credit cards, EETCs, CLOs, market value CDOs, and mobile homes/manufactured housing? Your response should show the number of downgrades in comparison to the downgrades for the other securitizations noted above.

**The following question should be answered by you, Mr. Siegel, and Mr. Weill:**

18. In its SEC registration form (Form NRSRO) submitted to the SEC on June 26, 2007, Moody's wrote: Most issuers operate in good faith and provide reliable information to the securities markets and to MIS, and we rely on issuers and their agents to do so. We do not possess either the comprehensive or independent first-hand knowledge to verify or test the accuracy of information that issuers make available to the public or directly to MIS. Nevertheless, our analysts seek to exercise skepticism with respect to an Issuer's claims. If we believe we have inadequate information to provide an informed credit rating to the market, we will exercise our editorial discretion and will either refrain from publishing the opinion or withdraw an outstanding credit rating. Can you give examples of instances in which Moody's analysts expressed skepticism and consequently if Moody's decided not to rate an RMBS or CDO?

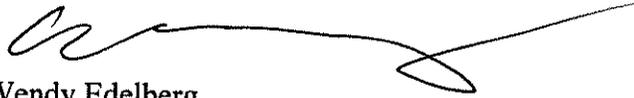
Mr. Raymond W. McDaniel, Jr.

July 16, 2010

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The FCIC appreciates your cooperation in providing the information requested. Please do not hesitate to contact Bruce McWilliams at (202) 292-1399 if you have any questions or concerns.

Sincerely,



Wendy Edelberg

Executive Director, Financial Crisis Inquiry Commission

cc: Phil Angelides, Chairman, Financial Crisis Inquiry Commission  
Bill Thomas, Chairman, Financial Crisis Inquiry Commission

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July 30, 2009

By Email and Federal Express

Bruce McWilliams  
Investigator  
Financial Crisis Inquiry Commission  
1717 Pennsylvania Avenue, NW  
Washington, DC 20006-4614

Re: Financial Crisis Inquiry Hearing on June 2, 2010

Dear Mr. McWilliams:

We write on behalf of Moody's Investors Service ("Moody's" or the "Company") in response to the Financial Crisis Inquiry Commission's ("FCIC") letter dated July 16, 2010 seeking further information as a follow-up to the FCIC's hearing on June 2, 2010. As we have discussed, Moody's is in the process of identifying relevant records and personnel who may have information responsive to your requests. We are focusing, in the first instance, on the priorities identified by you and your colleague Bradley Bondi concerning the performance of Moody's ratings of residential mortgage-backed securities ("RMBS") and collateralized debt obligations ("CDOs") as compared to other structured products and a new request for information concerning RMBS rated after January 1, 2008. Please let us know if the Commission would like to prioritize any other requests.

Set forth below, as a first step, are Moody's responses to one of the priority requests and certain other of the requests for which Moody's has been able to obtain requested information thus far. Moody's will provide additional responses on a rolling basis beginning next week.

**July 27, 2010 Priority Request:** *Please provide the names and closing dates for all RMBS transactions rated since January 1, 2008.*

Set forth below are the name and closing date for each RMBS transaction rated by Moody's from January 1, 2008 through the present.

<b>Transaction Name</b>	<b>Closing Date</b>
AH Mortgage Advance Trust 2009-ADV2, Advance Receivables Backed Notes, Series 2009-ADV2	8/13/09
American General Mortgage Loan Trust 2010-1	3/30/10
Assured Guaranty/Jupiter Program Credit Enhancement 2008	12/8/08
Assured Guaranty/PARCO Program Credit Enhancement 2008	7/15/08
Banc of America Mortgage 2008-A Trust	1/28/08
CHL Mortgage Pass-Through Trust 2008-1	3/28/08
Citicorp Mortgage Securities Trust, Series 2008-2	6/26/08
Citicorp Residential Mortgage Trust Inc., Series 2008-1	2/27/08
CWABS Asset-Backed Certificates Trust 2008-1	6/6/08
CWALT, Inc. Mortgage Pass-Through Certificates, Series 2008-HY1	5/23/08
CWALT, Inc. Mortgage Pass-Through Certificates, Series 2008-OH1	6/13/08
CWHEQ 2006-H Class 2-A-1A and Class 2-A-1B Custody Receipts	4/25/08
CWHEQ 2007-G Class A Custody Receipts	4/25/08
GMACM Mortgage Loan Trust Series 2010-1	6/24/10
Ocwen Servicer Advance Receivables Backed Notes 2008-1	4/17/08
PHH Mortgage Trust, Series 2008-CIM1	4/24/08
PHH Mortgage Trust, Series 2008-CIM2	7/25/08
Sequoia Mortgage Trust 2010-H1	4/28/10
Soundview Home Loan Trust 2008-1	1/23/08
Station Place Securitization Trust 2009-1	12/30/09

Structured Adjustable Rate Mortgage Loan Trust, Series 2008-1	3/31/08
Structured Asset Securities Corp Trust 2007-BC4	1/11/08
Wachovia Mortgage Pass-Through Certificates, Series 33 Trust	2/28/08
Wachovia Mortgage Pass-Through Certificates, Series 34 Trust	4/18/08
Wachovia Mortgage Pass-Through Certificates, Series 35 Trust	4/29/08
Wells Fargo Mortgage Backed Securities 2008-1 Trust	1/30/08
Wells Fargo Mortgage Backed Securities 2008-AR1 Trust	2/27/08
Wells Fargo Mortgage Backed Securities 2008-AR2 Trust	2/28/08



**Question Number 9:** *What had been Moody's ratings of Lehman Brothers from 2000 through 2008? Did your ratings anticipate that the Government would treat Lehman Brothers as too big to fail and thus bail out the company's bond holders?*

Moody's is conferring with the relevant Moody's ratings personnel and will provide a further response to this request. As a first step, set forth below are all rating actions taken by Moody's with respect to Lehman Brothers Holdings, Inc. between January 1, 2000 and the present.

Date	Rating	Rating Action
1/1/2000	A3	(existing rating as of 1/1/2000)
9/14/2000	A3	On review for possible upgrade
11/3/2000	A2	Upgrade
10/8/2002	A2	Positive Outlook
6/24/2003	A2	On review for possible upgrade

10/22/2003	A1	Upgrade
6/8/2006	A1	Positive Outlook
3/17/2008	A1	Stable Outlook
6/9/2008	A1	Negative Outlook
6/13/2008	A1	On review for possible downgrade
7/17/2008	A2	Downgrade
9/10/2008	A2	On review direction uncertain
9/15/2008	B3	On review for possible downgrade
9/15/2008	B3	Downgrade
12/8/2008	C	Downgrade
12/10/2008	WR	Rating withdrawn



**Question Number 16:** *What has been the history of structured finance fees, including RMBS and CDOs? Was there a higher percentage rate charged for rating AAA tranches over subordinated tranches until 2007? If so, was this always true and what warranted the higher rate? Did you charge more for a AAA rating? If so, why was the rate decreased in 2007?*

We discussed Moody's response to this request with you on July 29, and you have made follow-up requests for additional information. Moody's is gathering the additional information and will provide a supplemental response.

\* \* \*

The enclosed documents are confidential and proprietary in nature and have been marked accordingly. Moody's understands that this letter and its enclosures, which contain non-public information, will be kept confidential by the Commission and its staff. Moody's further understands that the Commission staff will provide written notice to Moody's and allow Moody's an opportunity to consult with the Commission before the Commission uses any of the non-public information in any interim or final

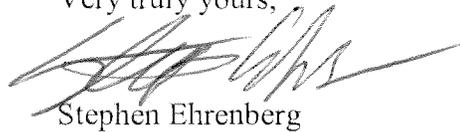
Bruce McWilliams

-5-

report to the President and Congress or in any public hearing, or discloses non-public information from these documents to third parties.

Please contact me at (212) 558-3269 or Sharon Nelles at (212) 558-4976 with any questions you may have concerning these responses.

Very truly yours,



Stephen Ehrenberg

(Enclosures)

cc: Amy Winkelman  
(Moody's Investors Service)

Sharon L. Nelles  
(Sullivan & Cromwell LLP)

# SULLIVAN & CROMWELL LLP

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August 10, 2010

By Email and Federal Express

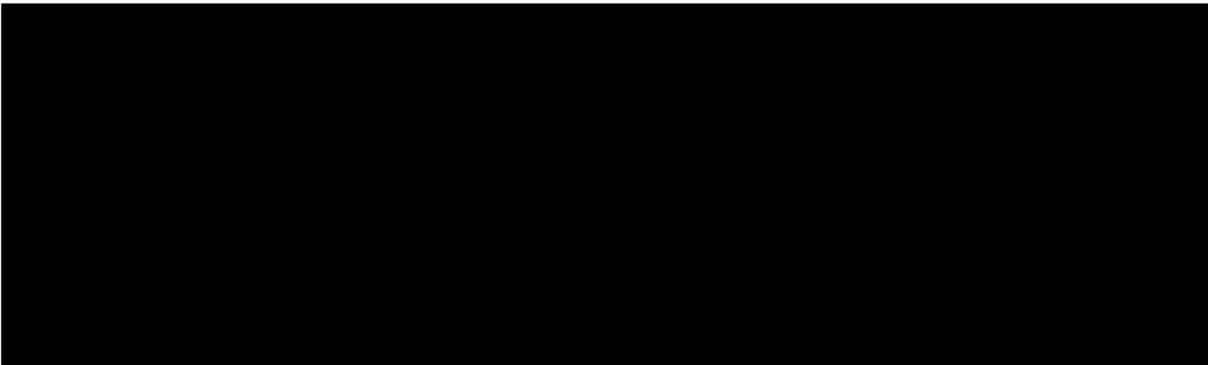
Bruce McWilliams  
Investigator  
Financial Crisis Inquiry Commission  
1717 Pennsylvania Avenue, NW  
Washington, DC 20006-4614

Re: Financial Crisis Inquiry Commission Hearing on June 2, 2010

Dear Mr. McWilliams:

We write on behalf of Moody's Investors Service ("Moody's" or the "Company") in response to the Financial Crisis Inquiry Commission's ("FCIC") letter dated July 16, 2010 seeking further information as a follow-up to the FCIC's hearing on June 2, 2010. As we have discussed, Moody's is in the process of identifying relevant records and personnel who may have information responsive to your requests.

This letter follows up on my letter to you dated July 30, 2010, in which Moody's provided its first set of responses. Set forth below are Moody's responses to questions six through nine and seventeen.



**Question Number 7:** *Please provide documents related to your rating of American International Group, Inc. from 2000 to the present, including but not limited to (a) documents related to the downgrades in March 2005, (b) documents related to the*

*downgrades in September 2008, and (c) documents explaining or defining the ratings at the time they were generated.*

Attached hereto, bearing document identification numbers MOODYS-FCIC-0382791 – MOODYS-FCIC-038574, are rating committee memoranda for American International Group, Inc. for the period January 1, 2000 to the present. Rating committee memoranda are prepared by the lead analyst and set forth his or her rating recommendation and supporting rationale to the rating committee.

**Question Number 8:** *How did due diligence procedures for real estate structured products differ from other products? How did these due diligence procedures differ from non-structured products such as corporate bonds, and municipal bonds? Please describe your due diligence process for each category.*

As set forth in Part II of Moody's Code of Professional Conduct (bearing production numbers MOODYS-FCIC-000243 – MOODYS-FCIC-000258 (June 2005), MOODYS-FCIC-0000259 – MOODYS-FCIC-0000279 (October 2007), and MOODYS-FCIC-000977 – MOODYS-FCIC-000998; (November 2008)), during this period, Moody's did not perform "due diligence" with respect to the information it received or obtained in connection with the rating process for any type of rating, including structured finance securities that were backed by residential mortgages. Rather, Moody's relied on the issuer to provide complete and accurate financial information, given that issuers of both common stock and structured finance securities are subject to potential liability under the federal securities laws if the information provided to investors is materially inaccurate or incomplete. In addition, in connection with residential mortgage-backed securities, the issuer generally made representations and warranties concerning the collateral and the origination practices under which that collateral was originated. These representations and warranties provided additional support for the veracity of the information upon which Moody's conducted its rating analysis.

**Question Number 9:** *What had been Moody's ratings of Lehman Brothers from 2000 through 2008? Did your ratings anticipate that the Government would treat Lehman Brothers as too big to fail and thus bail out the company's bond holders?*

Moody's provided the requested rating history in its letter dated July 30, 2010. Prior to March 2008, Moody's ratings of Lehman Brothers Holdings, Inc. ("Lehman") did not reflect a view that the government would treat Lehman as "too big to fail and thus bail out the company's bond holders." Beginning in March 2008, following events related to Bear Sterns, Moody's ratings of Lehman reflected Moody's evolving view that the government was interested in preventing further financial distress—and that it was possible that the government might, for example, facilitate a merger, provide access to capital or otherwise support Lehman in some manner, but this was not considered a certainty. Thus, for example, Moody's placed Lehman on review for

potential rating action on September 10, 2008, but stated that the direction of the potential rating action was “uncertain.” Merger or government support would likely lead to an upgrade, while no merger or other support would almost certainly lead to a downgrade. The uncertainty was resolved on September 15, 2008 when Lehman filed for bankruptcy and Moody’s downgraded the company’s rating from A2 to B3.

**Question Number 17:** *During the period 2005-2007, what has been the record of Moody’s ratings for securitized offerings of prime, subprime, and Alt-A bonds, as well as ratings on other securitizations, such as CMBS, CDOs, CPDOs, SIVs, credit cards, EETCs, CLOs, market value CDOs, and mobile homes/manufactured housing? Your response should show the number of downgrades in comparison to the downgrades for the other securitizations noted above.*

Moody’s regularly tracks and publishes information concerning the performance of its structured finance ratings. Moody’s refers the Commission to the following publications, which describe historical performance, transition, frequency of rating action, and default and loss rates for structured finance ratings, and also provide comparisons of these rates across asset classes: Structured Finance Transition Studies for 2002 through 2009 (bearing document identification numbers MOODYS-FCIC-0013711–MOODYS-FCIC-0014225) and Structured Finance Default and Loss Studies for 2002 through 2008 (bearing document identification numbers MOODYS-FCIC-0014226–MOODYS-FCIC-0014581). Moody’s supplements its prior production with the enclosed Performance of Structured Finance Ratings Mid-Year Reports for 2005 through 2009 and Full-Year Reports for 2005 through 2008 (bearing document identification numbers MOODYS-FCIC-0383575– 0383732). The Full-Year 2007 report was previously produced at MOODYS-FCIC-0302561-0302581. Moody’s notes that the FCIC has been provided access to its Structured Finance Default Risk Service, the database used to prepare each of these publications.

In sum, over time, Moody’s ratings of securitized products have proven highly predictive across asset classes. The key measure of rating accuracy is the “accuracy ratio” that—for structured finance—measures the relationship between tranche ratings and their realized loss rates. (See Special Comment, *The Performance of Structured Finance Ratings: Full-Year 2007 Report*, July 2008, at 4 (MOODYS-FCIC-0302564).) In 2005, the one-year accuracy ratio of all structured finance ratings improved, reaching 96 percent in the sector which included subprime mortgage-backed securities. (See Special Comment, *The Performance of Structured Finance Ratings: Full-Year 2005 Report*, May 2006, at 5 (MOODYS-FCIC-0383595).) In 2006, all individual structured finance sectors exhibited one-year accuracy ratios above 94 percent, and the overall one-year ratio for structured finance was 93.5%. (See Special Comment, *The Performance of Structured Finance Ratings: Full-Year 2006 Report*, May 2007, at 5 (MOODYS-FCIC-0383627).)

In 2007, the deteriorating performance of subprime mortgages caused the overall one-year accuracy ratio for structured finance ratings to decline to 77.2%. (See Special Comment, *The Performance of Structured Finance Ratings: Full-Year 2007 Report*, July 2008, at 4 (MOODY'S-FCIC-0302564).) The one-year accuracy ratio in 2007 for the sector which included subprime fell 18 percentage points from its 2006 level to 74.7%. (See *id.*) Global CDOs (including those CDOs exposed to subprime) fell to 61.7% from 96.6% in 2006. (See *id.*) The one-year accuracy ratio for certain other sectors, however, remained relatively stable. For example, US CMBS declined modestly from 96.1% in 2006 to 95.7% in 2007. US RMBS, excluding subprime but including "Alt-A," stood at 93.3%, and US ABS (including auto loans, student loans, credit card receivables, and manufactured housing loans and non-traditional asset types such as tobacco settlements) had a one-year accuracy ratio of 96.2% in 2007. (See *id.* at 3; Special Comment, *The Performance of Structured Finance Ratings: Full-Year 2006 Report*, May 2007, at 2 (MOODY'S-FCIC-0383624).)

Moody's Structured Finance Rating Transitions reports provide detailed information concerning the rate of rating actions, both upgrades and downgrades, across asset classes in structured finance. The 12-month downgrade rate for the sector which includes Subprime RMBS rose significantly from 1.7% in 2006 to 18.1% in 2007. (See Special Comment, *Structured Finance Rating Transitions: 1983-2007*, February 2008, at 2 (MOODY'S-FCIC-0013980).) Similarly, the US Structured Finance CDO sector experienced an increase in the 12-month downgrade rate from 3.2% in 2006 to 20.1% in 2007. (See *id.*) Other areas of structured finance, however, did not experience these dramatic increases in downgrade frequency. US securitizations of auto loans experienced no downgrades in 2006 or 2007. (*Id.*) The 12-month downgrade rate for US securitizations of credit card receivables improved from 0.1% in 2006 to no downgrades in 2007. (*Id.*) The performance of CMBS also improved, with the 12-month downgrade rate declining to 0.8% in 2007 from 1.6% in 2006. (*Id.*) Even within the CDO sector, the 12-month downgrade rate improved for high-yield collateralized loan obligations and high-yield collateralized bond obligations, declining to 0.2% and 2.7% in 2007 from 0.7% and 5.9% in 2006, respectively. (*Id.*)

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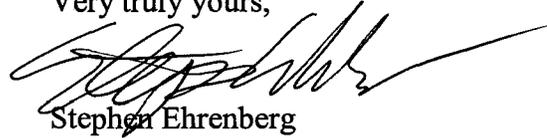
The enclosed documents are confidential and proprietary in nature and have been marked accordingly. Moody's understands that this letter and its enclosures, which contain non-public information, will be kept confidential by the Commission and its staff. Moody's further understands that the Commission staff will provide written notice to Moody's and allow Moody's an opportunity to consult with the Commission before the Commission uses any of the non-public information in any interim or final report to the President and Congress or in any public hearing, or discloses non-public information from these documents to third parties.

Bruce McWilliams

-5-

Please contact me at (212) 558-3269 or Sharon Nelles at (212) 558-4976 with any questions you may have concerning these responses.

Very truly yours,

A handwritten signature in black ink, appearing to read "Stephen Ehrenberg", with a long horizontal flourish extending to the right.

Stephen Ehrenberg

(Enclosures)

cc: Amy Winkelman  
(Moody's Investors Service)

Sharon L. Nelles  
(Sullivan & Cromwell LLP)

# SULLIVAN & CROMWELL LLP

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MELBOURNE • SYDNEY

August 25, 2010

By Email and Federal Express

Bruce McWilliams  
Investigator  
Financial Crisis Inquiry Commission  
1717 Pennsylvania Avenue, NW  
Washington, DC 20006-4614

Re: Financial Crisis Inquiry Commission Hearing on June 2, 2010

Dear Mr. McWilliams:

We write on behalf of Moody's Investors Service ("Moody's" or the "Company") in response to the Financial Crisis Inquiry Commission's ("FCIC") letter dated July 16, 2010 seeking further information as a follow-up to the FCIC's hearing on June 2, 2010. As we have discussed, Moody's is in the process of identifying relevant records and personnel who may have information responsive to your requests.

This letter follows up on my letters to you dated July 30, 2010 and August 10, 2010, in which Moody's provided its responses to certain of your questions. Set forth below are Moody's responses to questions 4, 5, 11, 12, 13, 14, 15, 16 and 18.

**Question Number 4:** *Please provide a chronology of how management responded to Mark Zandi's October 2006 paper, "Housing at the Tipping Point: The Outlook for the U.S. Residential Real Estate Market" and describe whether any findings in this paper were incorporated into rating methodology.*

Moody's took into consideration macroeconomic views on future home price movements from multiple sources, including Moodyseconomy.com and its Chief Economist Mark Zandi, when adjusting its views on expected losses for residential mortgage-backed securities ("RMBS") transactions. As Nicolas Weill, Moody's Chief Credit Officer for Structured Finance, testified during the Commission's June 2, 2010 hearing, Moody's RMBS rating team "had a lot of dialogue with Moodyseconomy.com

among others.”<sup>1</sup> The predictions at the time were for a “soft landing at the end of 2007” with “maybe . . . a ten percent national price decline, worst case maybe 15 [percent].”<sup>2</sup> The October 2006 article was more optimistic than the views Mr. Weill recalled, predicting that national house prices would post “a small decline in calendar year 2007” which, peak-to-trough, would “amount to not quite 5%.”<sup>3</sup> The article further predicted that prices would “stabilize in 2008 and post a mid-single digit gain in 2009.”<sup>4</sup> The national unemployment rate was expected to peak at “just over 5%,” and interest rates were “expected to remain stable.”<sup>5</sup> The report further concludes that

[w]ith this generally positive backdrop of continued sturdy job and income growth and stable interest rates, the housing downturn has more to run, but it should remain orderly. That is, while home sales, housing construction and house prices will decline further through mid-2007, the declines will not be precipitous, and at bottom, activity will still be about as strong as during some of the best housing years in the 1990s.<sup>6</sup>

Nothing contained in the October 2006 report, which predicted a short and modest national-level downturn followed by a healthy recovery, is inconsistent with Moody’s loss expectations for RMBS pools at the time, and no specific predictions in the October 2006 report were directly incorporated into Moody’s rating methodologies.

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<sup>1</sup> Official Transcript, “*Credibility of Credit Ratings, the Investment Decisions Made Based on Those Ratings, and the Financial Crisis*,” June 2, 2010 Hearing of the Financial Crisis Inquiry Commission, at 59, available at <http://fcic.gov/hearings/pdfs/2010-0602-Transcript.pdf> (hereinafter, “June 2, 2010 Official Transcript”).

<sup>2</sup> June 2, 2010 Official Transcript at 59.

<sup>3</sup> Mark Zandi, Celia Chen & Brian Carey, *Housing at the Tipping Point: The Outlook for the U.S. Residential Real Estate Market*, Moodyseconomy.com, October 2006, at 31 (hereinafter, “MEDC October 2006 Report”).

<sup>4</sup> MEDC October 2006 Report at 31.

<sup>5</sup> MEDC October 2006 Report at 33.

<sup>6</sup> MEDC October 2006 Report at 33.

**Question Number 5:** *Please provide any internal comprehensive reviews or lessons learned of systemic breakdowns that may have occurred at Moody's.*

Moody's is not aware of any materials responsive to this request. As set forth in Moody's Chief Executive Officer Raymond McDaniel's written testimony for the Commission's June 2, 2010 hearing, although Moody's ratings for subprime products have proved to be less predictive than Moody's strives for, this was not the result of any systemic breakdown at the Company.<sup>7</sup>

**Question Number 11:** *How did Moody's adjust its models and methodology (especially as related to reps and warranties) to take into account increased mortgage fraud?*

Throughout the relevant time period, Moody's has evaluated and considered as part of the rating process the financial strength of the party making representations and warranties in connection with an RMBS transaction. Representations and warranties provide an important safeguard against the potential impact of mortgage fraud on investors in RMBS because the seller of the loans is typically required under the transactional documents to repurchase any loan that does not conform to the representations and warranties. The financial wherewithal of the seller to honor the commitment to repurchase, however, is key to evaluating the credit implications of such representations and warranties. Moody's refers the Commission to the publications bearing document identification numbers MOODYS-FCIC 0200773-0200776 and 0000562-0000571, and the enclosed document bearing document identification numbers MOODYS-FCIC 0392261-0392275 for a detailed discussion of how Moody's has evaluated the credit implications of representations and warranties in RMBS transactions.

Throughout the relevant time period, Moody's has also differentiated among mortgage originators by, among other things, monitoring loan pools issued by the originators to assess relative performance. The performance of an originator's loan pools, over time, may capture aspects of the origination process that are not necessarily observable in the data that is provided to a credit rating agency for the purpose of rating a proposed RMBS. For example, assume that Originator A and Originator B have identical origination practices but that each works with different mortgage brokers. Further assume that as a result of the difference in mortgage brokers, Originator B's mortgages tend to have a higher incidence of borrower fraud. Over time, and all other things being equal, Originator A's loan pools should outperform those of Originator B. The difference in performance would cause Moody's to require more credit enhancement for a pool of loans from Originator B, relative to that required for a similar pool from Originator A.

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<sup>7</sup> Written Testimony of Raymond W. McDaniel, Chief Executive Officer of Moody's Corporation before the Financial Crisis Inquiry Commission, June 2, 2010, at 1, available at <http://fcic.gov/hearings/pdfs/2010-0602-McDaniel.pdf>.

Moody's refers the Commission to the documents bearing document identification numbers MOODYS-FCIC 0049363-0049565 and 0286400-0286402 for information concerning Moody's assessment of the performance of mortgage originators and the publication bearing document identification numbers MOODYS-FCIC 0286380-0286399 for a detailed discussion of Moody's approach to assessing mortgage originators.

**Question Number 12:** *How often did you wholly revamp models using new data with regards to M-3 Prime and M-3 Subprime models?*

Former Moody's Team Managing Director, Jay Siegel testified during the June 2, 2010 hearing that Moody's tended to "entire[ly] revamp" its M3 Prime model using new loan performance data approximately every five years.<sup>8</sup> M3 for Prime and M3 for Subprime were both fully rebuilt and re-estimated over the course of 2009 and 2010, based upon new performance data and new modeling techniques.

M3 for Prime and Subprime were also scheduled for quarterly updates with new macroeconomic data from Moodyseconomy.com. The macroeconomic data included information concerning home prices, unemployment and interest rates. The models were recalibrated as needed following each quarterly update. In addition, models are updated as needed to take account of changing market factors, new loan products and other developing credit considerations. The frequency of updates to macroeconomic data was reduced temporarily at the end of 2008 to focus on the development of new models for Prime and Subprime, and due to decreased market activity.

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**Question Number 13:** *Did you make your M-3 prime and subprime models less sensitive to house price increases and decreases after the early years of the decade?*

In 2006, during the development process for M3 for Subprime, Moody's adjusted certain components of M3 which had the overall effect of increasing sensitivity to home price decreases. These changes were made because during the initial calibration of M3 using available historical data concerning subprime loan performance, the model did not project losses that were sufficiently severe to match Moody's analysts' expectations concerning the risk of subprime loan pools.

Moody's made changes to the prepayment component of the model to increase M3's projected losses and bring the model output into line with analyst expectations. First, Moody's added a sensitivity to negative changes in borrower's equity that was not reflected in the historical data (negative changes to borrower's equity can occur when home prices decline). Second, Moody's reduced the overall sensitivity of the prepayment component of the model to changes in borrower's equity because available

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<sup>8</sup> June 2, 2010 Official Transcript at 159.

historical subprime loan data would have biased the model towards positive changes in borrower's equity. The net effect of these two changes was to reduce prepayments in the model, and therefore, increase M3's expected losses on subprime loan pools.

**Question Number 14:** *Please provide data from Moody's contemporaneous records on the number of prime and subprime mortgages in the market from 2000 through 2009. Describe what impact, if any, changes in the number of prime or subprime mortgages might have had on models, methodologies, or assumptions in deciding on ratings. Please describe the methodology that was used to account for correlation in the rating of prime and subprime RMBS and whether the number of subprime mortgages outstanding might affect the correlation among mortgages in different areas.*

Moody's has not tracked the number of prime and subprime mortgages that were originated during the time period. Moody's methodologies and models for rating RMBS do not explicitly capture or depend upon the size of the prime or subprime markets. Moody's considered the size and pace of growth in particular market segments, among many other factors, when adjusting its views on expected losses for RMBS transactions.

Mortgage correlation is a key component in Moody's RMBS analysis. Moody's approach to rating RMBS introduces correlation through the common relationship of loans in the same geographic location to the macroeconomic conditions in that location. Each state's macroeconomic environment, in turn, is correlated with that of other states through the common dependence of all states on the national-level macro economy. Thus, for example, two loans in an RMBS transaction that are both in California will be correlated through their common dependence on changes in California home prices, among other things. If home prices in California decline, then the probability of both loans experiencing a loss would increase. It would also be likely that other loans in the pool backed by mortgages in other states would be experiencing home price declines and the concomitant increase in default probability. The default probability of each loan in the pool is determined by the individual characteristics of the borrower, and a distribution of losses for each loan is generated under a variety of macroeconomic circumstances. A distribution of losses for the whole pool is then estimated, and that analysis is then combined with the quantitative and qualitative judgment of a rating committee.



**Question Number 18:** *In its SEC registration form (Form NRSRO) submitted to the SEC on June 26, 2007, Moody's wrote: Most issuers operate in good faith and provide reliable information to the securities markets and to MIS, and we rely on issuers and their agents to do so. We do not possess either the comprehensive or independent first-hand knowledge to verify or test the accuracy of information that issuers make available to the public or directly to MIS. Nevertheless, our analysts seek to exercise skepticism with respect to an Issuer's claims. If we believe we have inadequate information to provide an informed credit rating to the market, we will exercise our editorial discretion and will either refrain from publishing the opinion or withdraw an outstanding credit rating. Can you give examples of instances in which Moody's analysts expressed skepticism and consequently if Moody's decided not to rate an RMBS or CDO?*

The decision of whether Moody's will issue a rating is governed by, among other things, Moody's Code of Professional Conduct, which provides that "[w]hen deciding whether to rate or continue rating an obligation or Issuer, [Moody's] will assess whether . . . its personnel likely will have access to sufficient information needed in order to make" a "proper rating assessment." (MOODYS-FCIC-0000250.) Moody's analytical personnel receive training on the Code of Professional Conduct, and are encouraged to exercise skepticism in assessing claims made by an issuer. Moody's decisions concerning whether to rate in a given instance have been made on a security-by-security basis throughout the ten-year time period and the Company has not historically maintained any list or database of these decisions.

\* \* \*

The enclosed documents are confidential and proprietary in nature and have been marked accordingly. Moody's understands that this letter and its enclosures, which contain non-public information, will be kept confidential by the Commission and its staff. Moody's further understands that the Commission staff will provide written notice to Moody's and allow Moody's an opportunity to consult with the Commission

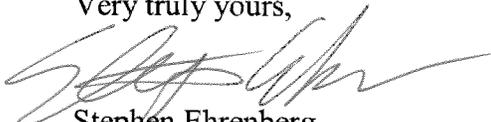
Bruce McWilliams

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before the Commission uses any of the non-public information in any interim or final report to the President and Congress or in any public hearing, or discloses non-public information from these documents to third parties.

Please contact me at (212) 558-3269 or Sharon Nelles at (212) 558-4976 with any questions you may have concerning these responses.

Very truly yours,



Stephen Ehrenberg

(Enclosures)

cc: Amy Winkelman  
(Moody's Investors Service)

Sharon L. Nelles  
(Sullivan & Cromwell LLP)

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September 3, 2010

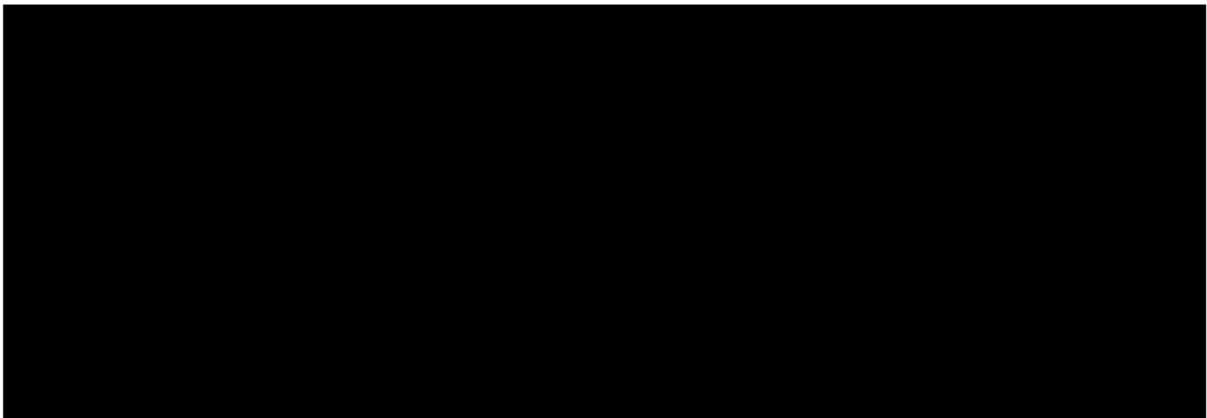
By Email and Federal Express

Bruce McWilliams  
Investigator  
Financial Crisis Inquiry Commission  
1717 Pennsylvania Avenue, NW  
Washington, DC 20006-4614

Re: Financial Crisis Inquiry Commission Hearing on June 2, 2010

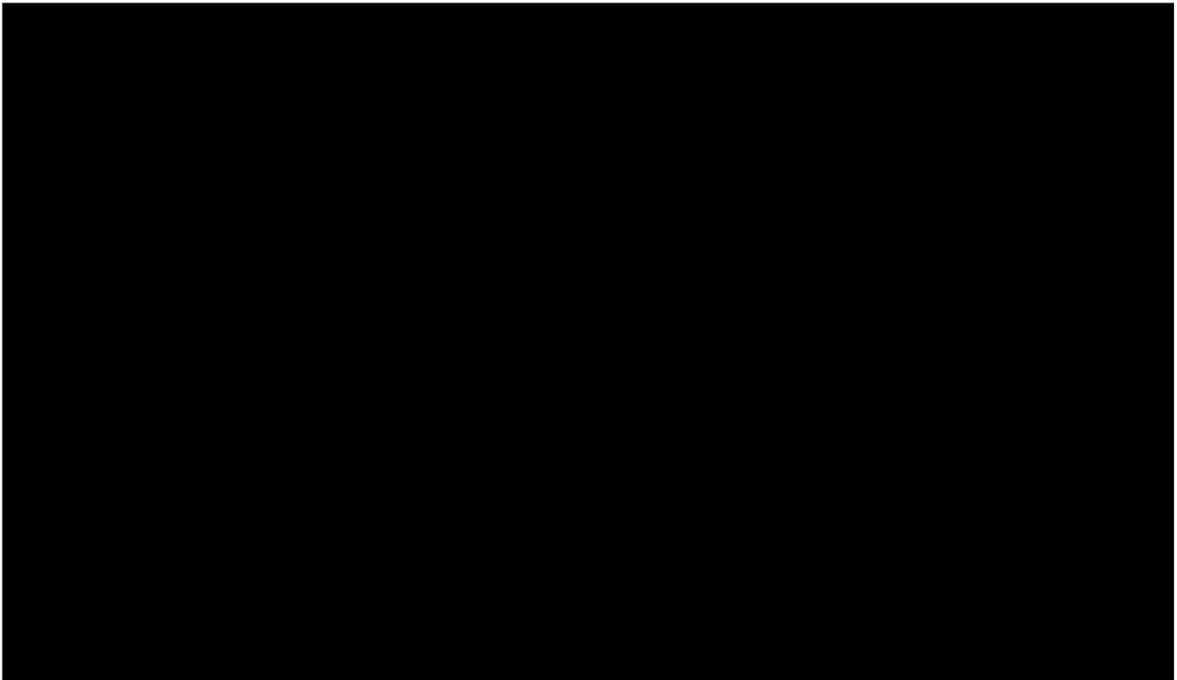
Dear Mr. McWilliams:

We write on behalf of Moody's Investors Service ("Moody's" or the "Company") in response to the Financial Crisis Inquiry Commission's ("FCIC") letter dated July 16, 2010 seeking further information as a follow-up to the FCIC's hearing on June 2, 2010. This letter follows up on my letters to you dated July 30, 2010, August 10, 2010, August 25, 2010 and August 26, 2010 in which Moody's provided its responses to certain of your questions. Set forth below are Moody's responses to questions 2 and 3, and Moody's further responses to questions 1, 6, 12, 16 and 18.



**Question Number 2:** *Please provide information on the background of people who sat on the ratings committees; what was their work experience, and how many came from the mortgage or housing industry.*

Moody's analytical personnel who sat on rating committees for RMBS transactions prior to the subprime crisis typically held a Masters degree in Business Administration and had anywhere from five to twenty-five years of experience in the finance industry. Professional experience tended to focus on the capital markets and securitization. Although a small minority of Moody's analytical personnel did have experience in the mortgage industry, Moody's RMBS rating analysts typically gained knowledge and understanding of the mortgage industry through credit analysis of RMBS transactions, interactions with colleagues who were involved in evaluating mortgage lenders, attendance at industry conferences, reviewing industry news and other publications, and interactions with market participants including due diligence firms, appraisal firms and mortgage lenders.





**Question Number 12:** *How often did you wholly revamp models using new data with regards to M-3 Prime and M-3 Subprime models?*

**August 30, 2010 Follow-Up Question:** *The Commissioners understand then that M3 for Prime and M3 for subprime were updated in 2009-2010. Using the five-year time frame provided, does this mean that the models had been revamped in 2004-2005 and before that 1999-2000 for M3 for Prime?*

M3 for Prime was first released to the market in April 2003. Moody's use of the model as a primary input to the rating process declined gradually over the course of 2007 as economic conditions changed. The 2003 version of M3 for Prime was out of use by approximately June 2008 due to a lack of market activity. Work began on a new version of M3 for Prime using new loan data in the third quarter of 2008. The new version of M3 for Prime was released to the market in the second quarter of 2010, at which time Moody's began using the model as a primary input to the rating process.

M3 for Subprime was first released to the market in late 2006. Moody's use of the model as a primary input to the rating process declined rapidly over the course of 2007 as economic conditions changed. The 2006 version of M3 for Subprime was out of use by approximately January 2008 due to a lack of market activity. Work began on a new version of M3 for Subprime in September 2007 using new loan data. This version of M3 for Subprime was released to the market in September 2008. In the third quarter of 2009, work began on another new version of M3 for Subprime using new loan data. This version of M3 for Subprime is currently in beta testing.

**Question Number 16:** *What has been the history of structured finance fees, including RMBS and CDOs? Was there a higher percentage rate charged for rating AAA tranches over subordinated tranches until 2007? If so, was this always true and what warranted the higher rate? Did you charge more for a AAA rating? If so, why was the rate decreased in 2007?*

**August 6, 2010 Follow-Up Question:** *Initial Fee: For each new issue, the base rate is 3.25/100ths of 1% of the principal amount of such issue, with minimum and maximum fees of \$30,000 and \$120,000, respectively. For each issue with multiple tranches, all senior tranches will be charge at the above pricing (excluding the short-term tranche) and additional subordinate tranches will be charged at 3.25/100ths of 1% of the principal amount with no minimum and a maximum of \$120,000. Is the maximum that could be charged for rating an issue in this category \$120,000 or \$240,000. Please confirm that there typically was no differential between the senior tranches and the subordinated one.*

Based upon the fee structure set forth in the follow-up question, Moody's understands the question to relate to the January 2007 Alt-A fee schedule bearing document identification number MOODY-FCIC-0014807. The maximum fee that could be charged for rating an Alt-A RMBS transaction under the referenced fee schedule was \$240,000. In practice, however, it would require an Alt-A deal with total issuance exceeding \$4 billion to warrant the maximum fee, assuming the senior tranche constituted 90% of the issuance. Such transactions were not common. A more typically sized transaction of, for example, \$600 million total issuance, would have yielded a fee of approximately \$138,000, assuming a 90% senior tranche and that Moody's was asked to rate all of the rated tranches in the deal.

With regard to whether "there typically was no differential between the senior tranches and the subordinated" tranches, Moody's understands the question to ask whether subordinate tranches were charged at the same basis point rate as senior tranches. The fees charged for both senior and subordinate tranches in Alt-A RMBS transactions were typically calculated at the same rate of 3.25/100ths of 1% as set forth in the fee schedule.

**Question Number 18:** *In its SEC registration form (Form NRSRO) submitted to the SEC on June 26, 2007, Moody's wrote: Most issuers operate in good faith and provide reliable information to the securities markets and to MIS, and we rely on issuers and their agents to do so. We do not possess either the comprehensive or independent first-hand knowledge to verify or test the accuracy of information that issuers make available to the public or directly to MIS. Nevertheless, our analysts seek to exercise skepticism with respect to an Issuer's claims. If we believe we have inadequate information to provide an informed credit rating to the market, we will exercise our editorial discretion and will either refrain from publishing the opinion or withdraw an outstanding credit*

*rating. Can you give examples of instances in which Moody's analysts expressed skepticism and consequently if Moody's decided not to rate an RMBS or CDO?*

**August 30, 2010 Follow-Up Question:** *The Commissioners understand that Moody's has no record of ever declining to rate a CDO or RMBS.*

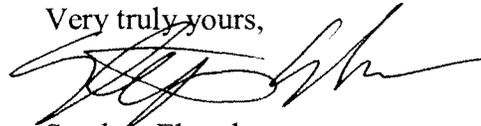
It is correct that Moody's does not maintain records of such declinations. It would be inaccurate to thus conclude, however, that Moody's has never declined to rate an RMBS or CDO.

\* \* \*

The enclosed documents are confidential and proprietary in nature and have been marked accordingly. Moody's understands that this letter and its enclosures, which contain non-public information, will be kept confidential by the Commission and its staff. Moody's further understands that the Commission staff will provide written notice to Moody's and allow Moody's an opportunity to consult with the Commission before the Commission uses any of the non-public information in any interim or final report to the President and Congress or in any public hearing, or discloses non-public information from these documents to third parties.

Please contact me at (212) 558-3269 or Sharon Nelles at (212) 558-4976 with any questions you may have concerning these responses.

Very truly yours,



Stephen Ehrenberg

(Enclosures)

cc: Amy Winkelman  
(Moody's Investors Service)

Sharon L. Nelles  
(Sullivan & Cromwell LLP)