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December 9, 2010

Via Email and First Class Mail

Gary J. Cohen,  
General Counsel,  
Financial Crisis Inquiry Commission,  
1717 Pennsylvania Avenue, NW,  
Washington, DC 20006-4614.

Re: Financial Crisis Inquiry Commission's Potential Use of  
Roger Stein's Interview

Dear Mr. Cohen:

I write on behalf of Roger Stein, a Moody's Group Managing Director with responsibilities for quantitative research and analytics, and Moody's Investor's Service, Inc. ("Moody's" or the "Company") in response to your letters to Mr. Stein dated October 26, 2010 and December 6, 2010. In your October 26 letter, you notified Mr. Stein that the Commission may use portions of his interview in the Commission's upcoming Report—"whether by way of reference, audio excerpt or quotation"—and that the Commission may include transcripts, audio files or summaries of those interviews as part of its oral history project on the Commission's website. In your December 6 letter, you identified two statements made by Mr. Stein during an interview given to the Commission under a confidentiality understanding, and stated that the Commission may include or paraphrase those statements in its written Report. Your letter does not address the Commission's consideration of releasing Mr. Stein's interview in connection with an oral history project.

On behalf of Moody's, on November 12, 2010, I sent correspondence regarding concerns about the personal and professional consequences that may unfairly come to pass for staff personnel who volunteered to assist the Commission (under the rules imposed by the Commission's staff) if recordings of interviews are posted to a public website, noting that it would be especially unfair where there was never any suggestion to these volunteers that the recordings would be used as part of an oral history project. You have informed us that you are considering the concerns we raised.

We appreciate that consideration, but, before turning to the specific statements raised in your December 6 letter, we want to inform you, on behalf of Mr. Stein, that he strongly objects to any further posting of notes, transcripts or recordings of his interview to the Commission's public website. As you may recall, shortly before the June 2 hearing, the Commission posted an excerpt of Mr. Stein's interview on its website without notice to Mr. Stein or Moody's. That excerpt disclosed commercially sensitive and proprietary Moody's information. Moreover, and perhaps more importantly, the nature of the excerpt, which still remains on the Commission's website, conveys misimpressions and inaccuracies concerning Mr. Stein's role at Moody's and the model upon which he worked. I raised these issues with Mr. Brad Bondi at the time, requested that the excerpt be removed from the website, and offered to work with the Commission to supply alternative information. Mr. Bondi assured me this request would be raised and addressed. We never heard back on that request.

The posting of the misleading excerpt concerning Mr. Stein's role has caused him distress both personally and professionally. There is nothing that warrants causing him further distress. Posting an audio recording of Mr. Stein's confidential interview would not further the Commission's mandate to investigate and report on the causes of the financial crisis. Thus, for the reasons set forth in items 1 and 2 below, as well as for those reasons set forth in my November 12 letter, Mr. Stein respectfully requests that the Commission refrain from any further disclosure of his confidential interview on its website, and that the excerpt of his interview currently on the Commission's website be removed.

With respect to the Commission's written Report, you have identified two statements from Mr. Stein that may be included or paraphrased. The first statement identified in the December 6 letter concerns the need for the model to "contemplate events for which there is no data." Neither Mr. Stein nor Moody's objects to the inclusion of that statement, which reflects that the model has to contemplate events for which there is no data because a model based solely on available historical data would not produce losses high enough to represent the risk of subprime mortgage pools. We assume the quotation will have appropriate context and not somehow suggest that Moody's models did not also incorporate historical data.

The second statement identified in your letter concerns the manner in which M3 Subprime was calibrated and the method by which the model calculated Aaa enhancement levels. Both Mr. Stein and Moody's object to the inclusion of that statement in the Commission's Report on the ground that such information is confidential, commercially sensitive and proprietary business information belonging to Moody's. In addition, as discussed below in item 2 concerning the posted excerpt of Mr. Stein's interview (which contains statements concerning the same subject matter), the statement conveys a number of misimpressions concerning Mr. Stein's role and the model he developed.

To the extent that any other statements from Mr. Stein's interview may be included or paraphrased in the Report, we understand that you will notify us and we will have an opportunity to respond.

**1. The Commission should refrain from further disclosure of Mr. Stein's confidential interview.**

As you acknowledge in your December 6 letter, Mr. Stein provided the Commission's staff with a voluntary interview on the understanding that the interview would be kept confidential. In fact, Mr. Stein was expressly informed that the purpose of the interview was for the staff to be "educated" about Moody's models and methodologies so that the staff could, in turn, "educate" the Commissioners. These representations to Mr. Stein may be found in the interview recording at 2:00-2:14 and 4:40-5:08. Publicly posting Mr. Stein's interview would be inconsistent with those representations and his expectations of confidentiality.

In addition, given the complex nature of the topics discussed, and the professional background of the interviewer and interviewee, Mr. Stein's confidential interview is particularly susceptible to misinterpretation. At the outset of the interview, Commission staff member Ryan Bubb identified himself as having been trained as an economist. And throughout the interview, by the nature of his questions, Mr. Bubb demonstrated to Mr. Stein his facility with econometric analysis and many of the complex mathematical concepts Mr. Stein discussed. In addition, Mr. Bubb had the opportunity to review thousands of pages of Moody's documents pertaining to Mr. Stein's work in advance of the interview. Mr. Stein was therefore encouraged to and able to speak in "shorthand" with Mr. Bubb.

Because Mr. Stein was informed that the purpose of the interview was to educate the staff about the inner workings of a particular, proprietary Moody's model, and that Mr. Bubb was conducting the interview precisely because of his advanced level of knowledge and understanding of Mr. Stein's work, the resulting dialogue between Mr. Stein and Mr. Bubb does not reflect a great deal of the background and explanation that is necessary to understand the concepts discussed. Had Mr. Stein been informed that, contrary to the representations made to him, a transcript or recording of his interview could be posted *in toto* on the Commission's website, he and Moody's would have insisted that more explanation than Mr. Bubb required be provided and would have sought to discuss protections for particularly commercially sensitive information.

**2. The Commission should remove the excerpt of Mr. Stein's confidential interview from its website.**

The excerpt of Mr. Stein's confidential interview that was posted on the Commission's website in advance of the June 2 hearing, and the staff's written

introduction thereto, taken together, conveys a misimpression concerning Mr. Stein's role in developing the models and methodologies used by Moody's to rate subprime residential mortgage-backed securities ("RMBS") during the years leading up to the financial crisis, and contains a significant inaccuracy concerning the nature of the model Mr. Stein developed.

The Commission's written introduction to the excerpt states that "[b]eginning in 2005, Mr. Stein led the group at Moody's that developed a new model for rating subprime RMBS called 'M3 Subprime.'" That introduction implies that M3 Subprime was in use from 2005 forward. As the Commission knows from its extensive examination of Moody's, M3 Subprime was not in use as a primary input to the rating process until late 2006, and its utility in that regard declined rapidly over the course of 2007. Mr. Stein had no role in the development of any models or methodologies used for rating subprime RMBS during 2005 and most of 2006, when the bulk of the securities that performed poorly during the financial crisis were issued and rated.

Further, the introduction incorrectly states that "[w]hen a pool of loans was run through the model, the model first generated a set of 1,250 economic scenarios." This inaccuracy conveys the impression that each time the model was run, a generic Monte Carlo simulation governed by the traditional dynamics of the Monte Carlo approach was run anew. 36CFR1256.52: Commercial Info

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individual loans and pools of loans. As a result, readers of the interview familiar with the basic principles of econometric analysis—and experts hired by plaintiffs' attorneys in particular—could incorrectly conclude that there was a level of variability between the economic paths from model run to model run, which would open the model and Mr. Stein to unwarranted criticism given other aspects of the model's architecture.

Finally, the statement also conveys the misimpression that the "single worst case" path was a result of only the "stress" factor that was applied. As Mr. Stein explained during his interview, many other adjustments were made to the model which also impacted the negativity of the worst path. 36CFR1256.52: Commercial Info

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36CFR1256.52: Commercial Info (See Letter to Bruce McWilliams, August 25, 2010.)

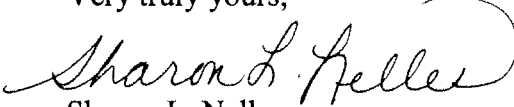
Gary J. Cohen

-5-

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The information discussed above concerning M3 Subprime is non-public proprietary information belonging to Moody's, and Moody's requests that this letter be accorded confidential treatment pursuant to your letter dated May 3, 2010. Please do not hesitate to contact me at (212) 558-4976 if you would like to discuss any of these matters.

Very truly yours,

  
Sharon L. Nelles

cc: Cassidy Waskowicz  
Sarah Zuckerman  
Sarah Knaus  
(Financial Crisis Inquiry Commission)