MEMORANDUM FOR THE RECORD

Event: Interview with Tom Marano

Type of Event: Group interview

Date of Event: Monday, April 19, 2010; 3:50pm

Team Leader: Tom Krebs

Location: 1285 Avenue of the Americas, New York, NY at the Paul Weiss conference room

Participants - Non-Commission:

- Tom Marano, former Bear Stearns
- Joel C. Haims, Morrison Foerster
- Katie Viggiani, Morrison Foerser
- Eric Goldstein, Paul Weiss
- Jessica Carey, Paul Weiss
- Eryn Karpinski, Paul Weiss

Participants - Commission:

- Tom Krebs
- Donna Norman
- Karen Dubas
- Mina Simhai (via phone)
- Desi Duncker (via phone)

MFR Prepared by: Karen Dubas

Date of MFR: April 22, 2010

Summary of the Interview or Submission:

This is a paraphrasing of the interview dialogue and is not a transcript and should not be quoted as such.

KREBS: **Exhibit 1: CRD of Thomas Francis Marano as of April 15, 2010.** I have a copy of a CRD. Is it yours? Is that the correct history?

MARANO: Yes.

KREBS: What was your position at Bear Stearns?

MARANO: I was the head of the Global Mortgage- and Asset-Backed Securities Department. I was responsible for supervising the traders of mortgage- and asset-backed securities (MBS and ABS). I was involved in securitization in a supervisory role. I would review transactions when they were done.

KREBS: You were not involved in the organization phase of securitization?

MARANO: People would work in transactions within set limits. If they were outside the limits, they would contact me.

KREBS: Were you privy to or involved in an Oliver Wyman risk management report from February 2008?

MARANO: I don't recall it.

NORMAN: During which years were you head of Global Mortgage- and Asset-Backed Securities?

MARANO: I was made global head in 2006. Before that I was the head of the U.S. Mortgage- and Asset-Backed Securities team from 2000 to 2006. The only change in my position in 2006 was that I took on some international responsibilities.

NORMAN: When you reported to Warren Spector, what was his reporting line to Alan Schwartz?

MARANO: I reported to Jeff Mayer and Craig Overlayer, and they reported to Warren Spector. I don't know how Alan fit in with all of that.

NORMAN: Where organizationally did the Bear Stearns Asset Management (BSAM) funds fit into this organizational chart? **Exhibit 2: FCIC Organization Chart of Bear Stearns**.

MARANO: The BSAM funds are not on this chart.

NORMAN: Did they report through Warren Spector?

MARANO: Yes. I believe they reported to Rich Marin, but I don't know how they reported to Warren.

NORMAN: How many hedge funds did Bear Stearns have?

MARANO: I don't know. I'm just familiar with the two.

KREBS: **Exhibit 3: "Fixed Income Overview" PowerPoint, presented for Investor Day, March 29, 2007, by Jeff Mayer (co-head of Global Fixed Income) and Tom Marano (global head of Mortgages and Asset-Backed Securities)**

This is a Fixed Income Overview PowerPoint dated March 29. What is this document?

MARANO: This is a presentation that Jeff Mayer and I did for our investors in March 2007.

KREBS: Who are your investors?

MARANO: The equity investors in Bear Stearns.

KREBS: Look on the second page. It says "net revenues have doubled since 2002." Is this for all of Bear Stearns or just Fixed Income?

MARANO: This first part is Jeff's section, so this would be all of Fixed Income. It would be corporate bonds, derivatives, mortgages, municipal bonds—everything.

KREBS: What derivatives were traded at Bear Stearns?

MARANO: The derivatives included interest rate swaps; credit default swaps on everything from corporate bonds to mortgages and municipals; and all of the indices (ABX, high yield index, investment grade index).

KREBS: On page 3 it says that Bear Stearns was "led by the growth of the credit and mortgage franchises"?

MARANO: It's highlighting mortgage-backed securities, and credit would be corporate or high yield bonds or both. The $327billion in interest-rate would be U.S. government bonds, interest rate risk, etc.

KREBS: Would that include high yield bonds, corporate securities, or CDOs?

MARANO: It would include all of that.

KREBS: What was credit?

MARANO: It's CDOs, high yield securities, or anything that was credit risk instead of interest rate risk.

KREBS: In 2006, how big was the credit and mortgage franchise?

MARANO: Adding in interest rate risk, it's about $4.4 billion.

NORMAN: Would it include cash and synthetic CDOs?

MARANO: I don't know.

NORMAN: Were there CDOs in your business?

MARANO: If they included mortgage-backed securities, they would be in my house. It could be included in the $927 billion of MBS on the PowerPoint slide.

NORMAN: How many people were working on CDOs in your business?

MARANO: About twenty to thirty people.

NORMAN: What was the volume of the CDO business that you did in 2006-2007?

MARANO: We were not a top 5 player. I don't know the exact number, but I believe you can pull those from Securities Data or Thompson Financial.

NORMAN: What was the percentage of synthetic versus cash the CDO business?

MARANO: I don't know.

NORMAN: Who should we ask to get that information?

MARANO: Jeff Mayer or Ira Wagman. Paul Friedman wouldn't know.

KREBS: What is leveraged finance?

MARANO: It is where you are providing financing to private equity if they're attempting to acquire a company or a portfolio of assets.

KREBS: Did Bear Stearns provide, under its leveraged finance, funds to Thornburg Mortgage?

MARANO: Not that I can recall.

KREBS: Did Bear provide repos to Thornburg?

MARANO: We did provide repos to Thornburg. They were sometimes done to finance positions that Thornburg bought, and sometimes to finance loans made by Thornburg.

KREBS: Were Thornburg loans securitized by Bear Stearns?

MARANO: Yes, we securitized their loans.

KREBS: On page 4 of the PowerPoint, what does "distressed debt" refer to?

MARANO: That would have related to high yield deals where the company went into bankruptcy. It's where you buy for twenty cents on the dollar and hope for a recovery.

KREBS: Tell me about page 5.

MARANO: This page is related to the growth of credit derivatives.

KREBS: With whom would Bear Stearns have engaged in this business?

MARANO: We had a wide range of customers, including other dealers, hedge funds, money managers, insurance companies—basically any major institutional investor who wanted to hedge their book.

KREBS: Is it limited to mortgage-related securities?

MARANO: It's everything from corporate to municipals to mortgages.

KREBS: The next page of the PowerPoint is about to "strategic efforts to deepen relationships with financial sponsors to fuel business opportunities in 1Q 2007." What was meant to be depicted here?

MARANO: These graphs are predominantly for corporate bonds or acquisitions of commercial real estate. The right graph also includes bank syndicated deals.

KREBS: Page 7 of the PowerPoint says: "the franchise continues to grow: interest rate." What is the purpose of this slide?

MARANO: It shows that we are active in the government bond business as well as the interest rate swaps business. We're also trying to show that we're doing this in United States, Europe, and Asia.

KREBS: Page 8 refers to your business, correct?

MARANO: Yes. We have a diversified mortgage platform. We can originate, service, securitize, and research loans. We do residential and commercial, and we do both CDOs and CLOS.

KREBS: Was Bear Stearns the top ranked underwriter of asset-backed securities?

MARANO: No. Bear Stearns was typically in the top five, but I would check Securities Data for the exact numbers. When this PowerPoint was done we were probably in the top four.

KREBS: When you got to Bear Stearns, did it have a mortgage department?

MARANO: Yes. I started in 1983. I was the guy who priced the very first REMIC.

KREBS: What happened over time?

MARANO: We attempted to develop a leading mortgage franchise with the ability to provide investors with short, intermediate, and long durations. We were tranching up those pass throughs.

KREBS: Was this the same time that Howie Rubin came to Bear Stearns?

MARANO: Howie came within a year or two of me starting.

KREBS: Did he provide significant help?

MARANO: Yes. He was the main person on agencies, and I was the non-agency guy. He left in 1999 for family/personal reasons.

KREBS: How long was it before Bear Stearns was in a leading position in the mortgage-backed business.

MARANO: It was about 4-5 years.

KREBS: What year?

MARANO: We were pretty highly ranked in 1999-2000. It might have even been 1998.

KREBS: In 1997 you were ranked seventh, and in 1998 you were ranked first. Have you seen those league tables?

MARANO: Yes. Securities Data maintains rankings in broad categories and then narrows it down by product types.

KREBS: On page 9, what are the different origination platforms that are referred to?

MARANO: We had moved from just buying loans from third-party originators to having the capacity to originate loans. Bear Residential Mortgage Corporation (Bear Res) was Alt-A, Encore Credit Corporation was acquired late in the game and did subprime, and EMC Mortgage Corporation serviced and collected payments on subprime and Alt-A loans.

KREBS: How do you define Alt-A?

MARANO: Alt-A were loans to people who are self employed or have light documentation.

KREBS: Where was their documentation light?

MARANO: You might have a loan without a W2 or a full application in place (less information than a Fannie or Freddie loan). Some places require prior tax returns, so it might be missing that.

KREBS: Could it be missing an appraisal?

MARANO: We always got appraisals. The documentation dealt more with borrower characteristics. The loans may be stated income or may not verify employment or look at assets.

KREBS: Where was Alt-A on the spectrum of prime and subprime?

MARANO: Those loans would be in the middle. Typically, Alt-A loans are made to better heeled borrowers with higher FICO scores or income, but they're not full doc loans that you'd consider for jumbo mortgages or Fannie and Freddie.

KREBS: What were underwriting standards like at Bear Res?

MARANO: They were very similar to the rest of the industry. They might have been a little stricter. They were a wholesale platform; loans came in through brokers, and we funded them

KREBS: Did you provide warehouses?

MARANO: You'd have a warehouse with conduit lending. A mortgage bank originates a loan, aggregates them, and you're waiting to collect all of the documents, the mortgages sit on a warehouse line where they're funded. It's financing the asset.

NORMAN: On page 12 it talks about EMC Mortgage Corporation, the servicer. Did they provide warehouse financing?

MARANO: This is what we'd describe as conduit. Someone else has bought and closed the loans, and they've packaged them in bulk. EMC typically did not securitize. They'd aggregate, and move them into the securitization pipeline.

NORMAN: Did the $70 billion on this page ultimately move into securitization?

MARANO: Yes, over the course of time, they would have been moved into securitization or been sold to Fannie or Freddie.

KREBS: Tell me about your European operations.

MARANO: We had companies in the United Kingdom (Rooftop) and France (Bearimmo).

KREBS: Did they make subprime loans?

MARANO: I guess so. They weren't high street mortgages. In the UK, to get a loan, you have to have an account at the bank—it's "high street".

KREBS: Page 10 says that Bear Res "originated $4.8 billion in loans in 2006, up from $400 million in 2005."

MARANO: We were preparing to enter the space in 2005. For a period of time, to have licenses, you have to go through a credit process. We were not very high up in the rankings.

KREBS: What types of volumes did Bear Res do?

MARANO: Including agency paper and Fannie and Freddie, we probably did tens of billions.

KREBS: Who is responsible for due diligence on the pools of loans?

MARANO: It was mostly Barron Silverstein and Mary Haggerty who were in contract finance.

KREBS: Did they go out and do it themselves?

MARANO: They would use a combination of their own staff and third party due diligence.

KREBS: Did you ever use Clayton Holdings?

MARANO: Yes, they were involved.

KREBS: How were they employed?

MARANO: You'd get competitive bids from them. You'd tell them the scope of the work.

KREBS: Were the persons who were offering pools of mortgages for securitization also the ones dictating to Bear Stearns the percentage of loans on which due diligence could be performed?

MARANO: Typically they could and would, but our number was typically higher. We'd start at 5-10% and go up, if necessary.

KREBS: Was there a time when you noticed underwriting standards for pools deteriorating?

MARANO: Yes. Between 2005 and 2006, we experienced early payment defaults—loans defaulting in the first ninety days—at a fairly high rate. We set up a team to put the loans back to the originators. It would have been due to the poor origination standards by third parties. They were defaulting before they were securitized.

DUNCKER: When you, Clayton, or a competitor is reviewing 5-10% of a particular pool, what exactly are you doing and what are you looking for?

MARANO: You start by reviewing a loan tape and comparing the loan files to what's on the tape. If they noticed discrepancies during due diligence, that would be a bad experience. The loan tape was supplied by the originator and the loan files reside with a custodian. You'd send someone to look at the actual files.

KREBS: So there were two reviews: one of the tape and one of the loan files?

MARANO: Correct, but they were done as a part of same process. While reviewing, you might find that FICO scores on the tape did not accurately reflect the credit scores in the file.

NORMAN: Did you ever walk away from particular originators?

MARANO: Definitely. We walked away from New Century and First Long Beach in 2006. There were other, smaller originators who we walked away from.

NORMAN: Did you do much business with Countrywide?

MARANO: We did a fair amount of business with them. We typically had reasonably good paper from them, but occasionally we had to put loans back to them. They usually honored the agreements.

NORMAN: Who were the top three originators who you worked with?

MARANO: Countrywide and Wells Fargo were the two biggest. For subprime, it would be RFC, IndyMac, and Impact—Countrywide was not a large one. For Alt-A it would probably be Wells Fargo, Countrywide, and Impact.

NORMAN: Did you have any issues with IndyMac?

MARANO: Early on we did a lot of Alt-A business with them, and later on there were relationship issues, and we didn't do anymore business with them.

DUNCKER: Did you work with mostly nonbank lenders?

MARANO: The subprime space was dominated by nonbanks.

DUNCKER: Did subprime and Alt-A lenders keep loans on their portfolios, or did they sell 100% of their loans?

MARANO: I don't know.

NORMAN: Do you know the dollar value or funding structure of the warehousing?

MARANO: That would be Paul Friedman.

NORMAN: Was BS using mortgage collateral to fund them?

MARANO: Yes.

KREBS: Page 11 talks about Encore Credit Corporation, the subprime platform. When did you acquire Encore?

MARANO: That was in 2007. This graph on this sheet refers to historical data from 2006.

KREBS: Why did Bear Stearns obtain a subprime platform?

MARANO: By 2007, the mortgage markets had taken a few hits and the prices of the company were trading very low. The thought was that if we could implement our own standards in originating loans, we could get better quality subprime loans.

KREBS: Is that an oxymoron? Quality subprime loans?

MARANO: In subprime loans, quality had deteriorated.

KREBS: You acquired them in February 2007. What was the condition of the market then?

MARANO: Prices were still under pressure; we clearly hadn't hit the bottom.

KREBS: Page 12 talks about EMC Mortgage Corporation, the Alt-A and subprime conduit. What are scratch & dent loans?

MARANO: They're loans where there were defects or borrower had become delinquent, and you've cured the borrowers' payments.

KREBS: So they're to people who presumably had problems with payments?

MARANO: Not all of them. Some people were prime borrowers where the note was not available, and we'd help them.

KREBS: What do "bulk" and "flow" refer to?

MARANO: Bulk is if someone came to you once a month and sold you 500 loans. Flow is a small originator who sells you a few million dollars each day or week. EMC did both bulk and flow acquisitions.

KREBS: Who were the sellers?

MARANO: The majority of bulk loans came from the names that I already mentioned. The flow would be smaller players, usually regional institutions.

KREBS: Page 14 talks about EMC Mortgage Corporation's servicing activities?

MARANO: Yes.

KREBS: Go back to page 6 and the league table volumes. Is that where you stand in relation to the rest of the industry?

MARANO: I'm not sure if this is all of Fixed Income. I don't believe this relates to mortgages.

KREBS: Let's go back to page 15.

NORMAN: How much revenue was generated in the servicing business?

MARANO: The actual servicing of loans was unprofitable. Where you made the money was by taking a delinquent loan, curing its delinquency or defects, and selling the loan into the marketplace.

KREBS: Page 16 refers to Bear Stearn's market leadership in securitization. It says that Bear is ranked number one in U.S. MBS in 2006 for the third year in a row?

MARANO: That would have been heavily dominated by CDOs and REMICS.

KREBS: What does it mean to be ranked #1 in U.S. ARMs?

MARANO: We did $43 billion in ARM (adjustable-rate mortgage) securitizations in 2001.

KREBS: You were top ranked in ARMs since 2002?

MARANO: Yes, we were in the top five.

KREBS: You were also a top five ranked global CDO underwriter in 2006?

MARANO: Correct.

KREBS: It also says that you "originated a record $12.6 billion in global CMBS"?

MARANO: Those would have been loans made to commercial properties.

KREBS: Does page 18 show the commercial properties that you were referencing?

MARANO: Yes.

KREBS: Page 19 says that you were a top five ranked global CDO underwriter in 2006.

MARANO: Yes.

NORMAN: Did you have an active CMBS securitization?

MARANO: Yes.

NORMAN: Did you hold any of this in portfolio?

MARANO: Our business model was to securitize and distribute both residential and commercial mortgage-backed securities.

NORMAN: Was $4.6 billion the scope of CMBS?

MARANO: That should capture everything.

NORMAN: Where were you in the league tables for CMBS?

MARANO: Around fifth or tenth—we were somewhere in the bottom half.

KREBS: On page 23, what is a pay-as-you-go (PAUG) CDS?

MARANO: It's a type of CDS where if the bond widens, you put up more margin. If it tightens, you put up less margin. It's a CDS on a MBS.

KREBS: How were these investments impacting Bear Stearns in March 2008? There were a number of novations done with respect to Bear in March 2008—were these the types of securities being novated to other firms?

MARANO: Pay As You Go Swaps? Yes. There were investors who had CDS on credit derivatives, and some of them—I'm particularly thinking of Kyle Bass—were uncomfortable with having Bear Stearns as the counterparty. They attempted to novate them to other people, including Goldman Sachs. Some people on the Street were reluctant to take counterparty risk with respect to Bear.

There were several investors who tried to novate, but Kyle Bass was memorable because I reached out to him to find out his concerns. I heard on CNBC that he had told them that he had tried to novate with Goldman, and they said that they would maybe take it, but he wasn't sure. I reached out with a Bear salesperson to Kyle, and he indicated that he attempted to novate to Goldman and that he shared a conversation about Goldman not wanting to novate with David Faber of CNBC. I said it's all over CNBC, and he said that he couldn't believe that David Faber put that all over the air. He was shocked that it was out there.

KREBS: How many PAUG attempted to be novated?

MARANO: I don't know. I only heard of a couple that were a problem.

NORMAN: What is the Kaos Trade?

MARANO: It was a nickname for a hedge placed on the book to hedge a portfolio. We basically had in that hedge everything from ABX indices, CMBX, pay as you go, certain bank stocks, etc.

NORMAN: Were you the originator of the Kaos Trade?

MARANO: I was involved with a group of guys on the desk who developed that strategy.

NORMAN: Why that name?

MARANO: It's Kaos like Maxwell Smart. I think one of the other traders came up with that name.

It felt like things were starting to come back in 2007. Some of the indices were starting to do better. Delinquencies moderated a little. Bond spreads came in a little. We thought we might be seeing a moderation.

KREBS: Did Warren Spector ask you to assist with Bear Stearns Asset Management (BSAM) funds?

MARANO: I was in the hospital with a kid for a few days while that was happening. When I got out of the hospital, I offered to help.

KREBS: When was this?

MARANO: It was probably the end of the second or third week of June.

KREBS: What was the problem?

MARANO: All I could deduce was that the hedge funds were getting margin calls. They hadn't been performing well. Spreads were going wider.

KREBS: Did you meet with folks at BSAM?

MARANO: I did go over to BSAM. I don't remember the exact day, but it was sometime in third or fourth week of June.

KREBS: What was the condition there?

MARANO: It was chaotic because there were so many margin calls coming in almost constantly. It was very chaotic as people were trying to dispute the values of securities and trying to reconcile how much cash was available to meet the margin calls. My experience was less so on the CDO side and more on the fundamental MBS.

KREBS: What did you do there?

MARANO: I reestablished a balance sheet that allowed me to determine the positions that were on the book by specific criteria. I established a format for who we owed money to. It was a process of reconciling where the longs and shorts are.

KREBS: **Exhibit 4: BSC-FCIC-e00118978 – BSC-FCIC-e00118979, email from Tom Marano to Warren Spector, June 24, 2007. [Labeled by T Krebs as 4 and 4A]**

Is that what you came up with?

MARANO: This is a balance sheet of what the high grade fund looked like.

KREBS: Why was this document prepared?

MARANO: I think we were basically trying to determine what the portfolio might be worth in a worst case scenario versus where it was carried. Where it says haircut, that reflected what might be the worst case. The effort was to try to determine "What's here?" and "What it could be sold for?"

KREBS: You had total liabilities of $1.6 billion?

MARANO: Yes.

KREBS: That was the amount of money given by Bear Stearns as a repo lender to the fund?

MARANO: Yes.

KREBS: Was this incidental to developing a plan for Bear Stearns to become a lender to this fund?

MARANO: They happened at about the same time. I sent this to Warren Spector—that was my involvement.

KREBS: What is Everquest?

MARANO: It was a preferred stock investment. It was a company that had a portfolio of assets.

KREBS: Was an IPO to be spun off from the assets of this?

MARANO: It was an IPO, but I think it had assets in it.

KREBS: Did you physically relocate from Bear Stearns to BSAM, and if so, for how long?

MARANO: Yes. I was probably there until the second or third week of August when Spector was terminated.

KREBS: What were you doing there?

MARANO: I went over to see if there was anything I could do to help liquidate the portfolio or help make things better. Mike Winchell joined me. Mike Alix did not go over. We had another compliance person, Tracy Wiley I think, who came over to reinforce the existing compliance officer. There was also an extensive team of middle office accountants who were set up to establish the balance sheet and reconcile the cash that was moving in and out of the company.

KREBS: Did you make recommendation to Bear Stearns about the problems of BSAM?

MARANO: I recommended a series of auctions to liquidate the portfolio and I set up those auctions.

Merrill Lynch had seized some collateral which they had attempted to auction. I don't believe they succeeded in selling the paper that they seized.

KREBS: What was the impact of the Merrill Lynch failed auction on the remaining paper in the funds?

MARANO: It was minimal. There was a significant impact on July 12 when S&P downgraded a whole series of CDO bonds. We had gotten one auction done at that point, and we had another auction scheduled that day or the day after. We pushed it back and did it the next week. Even though there had been the downgrade, we sold most of portfolio.

KREBS: What were the marks?

MARANO: Most of the bids were in the zone of what we had been expecting. We had a net cash advantage on it. I was trying to sell the stuff, monetize it, harvest the cash, and use it to make margin calls.

[Break]

KREBS: Exhibit 5: BAC-FCIC-0000054648 – BAC-FCIC-0000054650, Bear Stearns Asset Management: Timeline & Merrill Lynch Exposure and What Went Wrong

This was presented to us as a timeline by Merrill Lynch. Do you agree with this?

MARANO: I didn't get into BSAM until the June 19 or 20, so I wasn't there for most of the period of the timeline. I think I recall June 22, "BSAM announces recap plan for High Grade—no bailout for Enhanced Leverage. ML/BSAM discuss voluntary unwinds. Unable to reach agreement."

GOLDSTEIN: I think this timeline predated him.

MARANO: I don't really know the details before the 22nd.

KREBS: When we looked at the breakout of liabilities on Bear Stearns repo on June 24, 2007., why was that prepared?

MARANO: That was prepared so we could get an assessment based upon where the assets were carried on the book and what we thought they might be worth. It was kind of a reconciliation.

KREBS: How stable were the valuations of the securities on June 24?

MARANO: The CDO market was unstable at this point.

NORMAN: When Tom asked you before about the marks, can you give us a percentage at the end of the day when they were unwound?

MARANO: I couldn't recall the prices. In general, we cleared the carrying value. If you took what we sold, we either paid off the margin and had no gain, or we paid off the margin and had a gain.

NORMAN: Why did you volunteer to jump into this?

MARANO: I was a big fan of Bear Stearns and this was complicated. I thought I had a capacity to help. From December 2006 to late February 2007, I was based primarily in the UK. I had come back in the spring of 2007, and I had been out for a week or so because of my kid. I thought I had the capacity to help.

KREBS: BSAM put out a $4 billion bid list.

MARANO: I'm familiar with that in retrospect, but I don't believe I knew about it at the time.

KREBS: How did the bid list impact the value of the securities in those funds?

MARANO: I don't know the price impact. Broadly, if you hit the market with $4 billion of something, you will depress the prices.

KREBS: If you look at BAC-FCIC-0000054648 and the positions of Merrill Lynch, would you have had an opportunity to confirm the amounts of collateral on this page?

MARANO: I've never seen this page before.

KREBS: What was the outstanding repo amounts on these funds?

MARANO: I know there was $1.6 billion from what Bear Stearns did, but I have no idea what the outstanding repos were.

KREBS: The derivatives positions listed here—what types of derivatives were these?

MARANO: There were credit default swaps and some interest rate swaps.

KREBS: Did BSAM issue those CDS?

MARANO: I don't know.

KREBS: When you were speaking earlier about derivatives trading, were those derivatives issued by Bear Stearns or purchased from another party?

MARANO: Both.

KREBS: Was Bear Stearns issuing CDS with respect to MBS?

MARANO: Bear Stearns would write CDS for customers. They may or may not have referenced securities that we held in inventory.

KREBS: Was there an overlap in the inventory of Bear Stearns and BSAM?

MARANO: Not in a significant way

KREBS: Prior to 2006, there were 166 transactions between Bear Stearns and BSAM. Did Bear Stearns hold any of those securities? In connection with your securitization, BSAM purchased securitized assets from Bear Stearns. In some of those transactions, Bear Stearns couldn't sell all of the tranches, so you may have purchased them for resale.

MARANO: Okay. We could have had some overlap, but I don't recall specific overlap.

KREBS: When Merrill Lynch tried to sell $100 million securities from BSAM, did that have an adverse impact on the inventory of Bear Stearns?

MARANO: I don't recall that they did that. I wasn't in on those days.

KREBS: Would you expect that would have an injurious impact?

MARANO: If the assets were sold at distressed prices, they would have had a negative impact across the industry.

KREBS: What did you find at BSAM?

MARANO: It was chaotic; there were a lot of people looking for margin calls. There were longs and shorts on securities by the dealers.

KREBS: Look at the second page of the document [BAC-FCIC-0000054649] Do you agree with the difficulties there?

> **Funding**
> Funds were structured to allow equity holders redemptions every month while fund…
> - Held illiquid assets with opaque marks
> - Was exposed to regular mark to market and margin calls
> - Had no term funding—exacerbating the redemption/call situation

Would you agree with the assessment of Merrill Lynch in terms of funding?

HAIMS: Do we have this document?

KREBS: My understanding is that this is a two page document. I've given you the pages. The question is, do you agree with their assessment of what went wrong?

MARANO: I agree with this assessment.

NORMAN: I'd like to ask you about the second box:

> **Leverage**
> Enhanced was 12:1 and High Grade was 6:1 leverage
> - Dramatic market movement

- Hedges did not perfectly offset asset movement
- The situation grew quickly out of control as a result of the leverage being carried

I've read a number of accounts about the leverage in those two funds that range from 10:1 to 100:1. *House of Cards* has very high numbers, like 40:1 and 100:1. The SEC had 27:1.

MARANO: 27 to 1 does not sound correct to me.

When you have a bond like a CDO and they advance me 90% of the value, that's 9 to 1. The underlying bonds also have a fair amount of leverage. The SEC might be calculating that the bond has a certain amount of leverage and then you finance it with more leverage and you compound the two. When they refer to the 10:1 or 12:1, they might not be including that.

NORMAN: What about the Enhanced Fund.

MARANO: The 12 to 1 is largely accurate.

KREBS: At the bottom of the page, it says "Bear Stearns should have been more sensitive to the expectation that since its name was on the funds' door, it could not just stand by."

MARANO: I was in some of the discussions about whether or not we could let the funds go or whether we should stand by them.

KREBS: Who were the proponents of letting the funds go?

MARANO: I don't recall the biggest voices in favor of letting it go. There was a healthy debate and in the end we decided to support them.

KREBS: Exhibit 6: BSC-FCIC-e00116529, email from Tom Marano to Warren Spector, June 12, 2007 [Labeled by T Krebs as 1]

Can you tell me what this email to Warren Spector relates to?

MARANO: It relates to a commercial loan.

KREBS: Exhibit 7: BSC-FCIC-e00117752, email from Tom Marano to Warren Spector, June 18, 2007 [Labeled by T Krebs as 2]

Can you tell me about this email that you sent to Spector?

MARANO: This was one of the meetings that I was at about whether we would support the funds or let them go.

KREBS: Does this relate to the June 18 bullet point on the timeline [Exhibit 5] that "ML withdraws bid list from the open market and participates in two separate Creditors meeting. ML speaks to Blackstone post the call to articulate terms that may make the deal 'stick.'"

MARANO: I don't believe so. No.

KREBS: Exhibit 8: BSC-FCIC-E 00710678 -- BSC-FCIC-E 00710680, email from Tom Marano to Andrew Donnellan, Ralph Cioffi, Raymond Mcgarrigal, July 12, 2007 [Labeled by T Krebs as 3]

What does this relate to?

MARANO: This relates to one of the conversations I had with a creditor. It's July 12, which was around the time that we had the downgrades. They agreed to work with us and felt that it would be better if we liquidated the portfolio than if they did.

KREBS: On the second page, it says that "realistically, the more esoteric collateral could take until mid-August to obtain attractive prices." What do you mean by esoteric collateral?

MARANO: Some of the CDOs were more complicated than others, like CDO squareds or lower rated CDO bonds. Some were much more complex than others.

KREBS: "It's understood and agreed between us that the MRA is in default." What is MRA?

MARANO: That's the Master Repurchase Agreement.

KREBS: Is the bank telling you that you're in default under the MRA but that they'll stand still?

MARANO: Yes, that they would work with us.

KREBS: How often and to whom did you report about what you were finding at BSAM?

MARANO: I reported to Warren Spector, Jimmy Cayne, and other members of the Executive Committee, including Alan Schwartz, Alan Greenberg, and Jeff Mayer.

KREBS: Ultimately, BSAM filed bankruptcy, and Bear Stearns had a repo for High Grade. What happened to the securities?

MARANO: I received a phone call that the Bear Stearns repo desk demanded payment or they would seize the collateral. We couldn't make the payment, so they seized the assets.

KREBS: Were they later marked down in December?

MARANO: I know they were marked down on several occasions, and I know we lost money on them.

KREBS: When did you leave BSAM?

MARANO: I left in mid-August. I was un-secunded—it was a formal arrangement.

KREBS: What happened when the hedge funds filed for bankruptcy? There was the Spector resignation and a negative outlook rating.

MARANO: We caught a lot of flak for allowing the funds to fail, but we had no option. If we couldn't meet the collateral and we had to preference one over another, we couldn't do that.

KREBS: Bear Stearns got through the fall of 2007 and raised a little money.

MARANO: There were debt offerings, but I don't know the size.

KREBS: Were there attempts to restructure the Bear Stearns funding model?

MARANO: There were efforts to issue debt with slightly longer terms. We were trying to issue some longer term bonds. We did issue several transactions.

KREBS: What was Bear Stearns' experience with respect to its ability to seek longer term funding?

MARANO: The view was that the interest rates were higher than what fit the model that the finance people were working. You're kind of outside my zone of experience on this.

KREBS: Exhibit 8 [Labeled by T Krebs as 8]

What, if any, investigations were conducted in 2005 regarding Bear Stearns and CDO pricing?

MARANO: This material refers to a SEC and New York Attorney General investigation. I believe the concern centered around prices that were given to an investor in a CDO and whether this was a price the customer could transact at. There was a thorough investigation. We had an extensive education session with the SEC and AG, but nothing ever happened.

KREBS: Did you have discussions with SEC personnel about the CSE program.

MARANO: I was in a couple of meetings with the SEC. I have no idea what the time frame was.

KREBS: Exhibit 9 [Labeled by T Krebs as 10]

What does this relate to?

MARANO: The New York Fed was actively trying to figure out how you get liquidity going in the marketplace in general for mortgages and other securities. People on the desk frequently had conversations with them. Treasury was also looking for solutions to help with the loan modification process.

KREBS: Exhibit 9 [Labeled by T Krebs as 11]

What does this relate to?

MARANO: There were concerns that the monolines were not going to be able to meet their claims (Ambac, MBIA,etc.).

KREBS: Was Bear Stearns purchasing derivatives (CDS) from the monolines?

MARANO: I don't recall.

KREBS: **Exhibit 10 [Labeled by T Krebs as 13]**

What does this relate to?

MARANO: We were looking for different ways to hedge against exposure in our commercial mortgage book. There was a double levered ETF called SRS. We had the trade on, we had made some money, but what I was noticing was that—SRS was a derivative of IYR (an index that represents the value of commercial REITs), and it was supposed to move at twice the rate—it was not moving at twice the rate. We decided to do a deep dive and go through all of the docs associated with it and made a call to the manger of this. We found out that a lot of the fees tied up in the ETF were tying up the movements.

KREBS: **Exhibit 11: BSC-FCIC-e00789168 – BSC-FCIC-e00789169, email from Tom Marano to Sam Molinaro, February 21, 2008 [Labeled by T Krebs as 14]**

Tell me about fee arrangements with Moody's.

MARANO: Typically they had a fee schedule that varied by the product type. A standard residential deal might be $50,000 and a more complex structured transaction might be hundreds of thousands of dollars.

KREBS: What would be the difference between the fee charts of rating a typical debt security versus a CDO?

MARANO: I have no idea.

KREBS: What was an average charge for CDOs?

MARANO: It could vary anywhere from $50,000 to hundreds of thousands.

NORMAN: Did they charge by basis points?

MARANO: There were structures where they charged by that.

KREBS: Were fees charged for subsequent reviews?

MARANO: Yes, for mortgage-backed securities. I'm not sure about CDOs.

KREBS: What did Molinaro mean when he said:

> They have to have some sensitivity to the fact we have done two CMBS deal (including Hilton) without them. We also need to be mindful that they will issue research on the Hilton deal that will obviously express their view of the structure.

MARANO: I think what he's saying is that because they're changing their methodologies, it's in our interest to speak with them. We need to be cognizant of the fact that we chose not to use them for two CMBS deals. He's saying that they'll have their own view of the structure that we were using for the Hilton deal. We should be aware that they know that we haven't done some deals with them, and they'll have a view on that.

KREBS: Exhibit 12: BSC-FCIC-e00142862 – BSC-FCIC-e00142864, email from Tom Marano to Alan Schwartz, February 2, 2008 [Labeled by T Krebs as 15]

This is the Res Cap deal, isn't it?

MARANO: Project Reno is Res Cap. Res Cap was the mortgage originator of GMAC finance.

KREBS: Exhibit 13: BSC-FCIC-e00147152, February 21, 2008 memo re GMAC/ResCap Restructuring and Proposed Transactions

Can you tell me the type of document this is?

MARANO: The format is different, but I do know what this is. I believe that we were being solicited to provide warehouse funding to Res Cap's European subsidiary to finance loans that had been solicited in the UK.

KREBS: Wasn't this pretty late in the game?

MARANO: We didn't know when the game ended. We were working every day to try to do our jobs. I don't recall my particular view in February 2008. The market had cycles where sometimes it felt better and sometimes it felt worse. I would have made my decision to do that because of the market conditions of the time.

KREBS: Is Exhibit 12 an email by you in favor of that transaction?

MARANO: There were a lot of people with a lot of views about whether or not we should look at actually acquiring GMAC Res Cap. It's not related to that last document—that was related to a repo and their European business.

KREBS: What was your view?

MARANO: I hadn't made my mind up. I felt at the time that it was potentially an interesting opportunity, but it was a big transaction. Because there were so many people with a view, I thought we should give them a forum to air their opinions

KREBS: In February 2008, UBS announced a fourth quarter loss and wrote off many loans. What impact on valuation of Alt-A?

MARANO: It negatively impacted Alt-A. The perception was that the subprime problem had spread to the Alt-A market.

KREBS: Did Bear Stearns consequently mark down its portfolio?

MARANO: We definitely took aggressive actions to mark our book down to where it was appropriate. I don't know what UBS specifically wrote down.

KREBS: Thornburg Mortgage had problems with Alt-A. They had margin calls that they couldn't meet and were living on repo.

MARANO: They met margin calls up to a point and then couldn't meet them any longer. They came to Bear Stearns as well as reaching out to a number of dealers. We worked with a number of dealers to assist them in delevering their portfolio.

KREBS: Did Thornburg adversely affect the Alt-A portfolio at Bear Stearns?

MARANO: Yes. If market activity drove values down, we would mark our books accordingly.

KREBS: Are you familiar with Peleton Partners?

MARANO: I think Peleton was a CDO manager out of the UK.

KREBS: On Monday, March 10, 2008, Moody's downgrades Bear Stearns' Alt-A portfolio.

MARANO: I don't recall that date, but they certainly downgraded deals.

KREBS: Did Bloomberg report that Moody's downgraded Bear Stearns?

MARANO: I do recall that there was a headline that Moody's downgraded Bear Stearns. I do recall that.

KREBS: Do you think the prior activity at UBS, Thornburg, and Peleton Partners precipitated that downgrade on the Alt-As?

MARANO: Yes. The rating agencies were looking at deals in waves or subsets. They would look at a subset and say that it doesn't merit the rating that it had, and they'd downgrade the whole thing.

People were very concerned about the Bloomberg downgrade. I got a lot of calls about that. We were very concerned because we didn't know that Moody's was going to do that.

KREBS: What was the impact on your business?

MARANO: That was the beginning of when we started to hear people say that they had concerns about us. I had conversations with traders and staff. Traders were saying that there were rumors floating about Bear Stearns and our ratings, and people were getting concerned. People were more concerned about whether or not upper management was responding appropriately to the customer issues and the marketplace.

KREBS: What did you think upper management was doing?

MARANO: I think they were doing the best that they could, but I think the process was too slow. People needed to get out in front and be more open, but there were concerns that we were going to report earnings soon, and their hands were tied. We were advocating accelerating earnings, but then I found out that if you accelerate earnings, people think you are going to put something bad into the market. They were working hard, but the response was slow.

KREBS: Did your traders hear something from Royal Bank of Canada?

MARANO: Not that specific bank.

KREBS: Let's talk about Countrywide on Saturday, March 15, 2008.

MARANO: Yes. They said that they wouldn't accept us as a counterparty. I called the senior person there and they said that wasn't true. It turned out to be a relatively junior person on the trading desk who had said that.

KREBS: What cause Bear Stearns to fail?

MARANO: A liquidity crisis was number one. We basically fell victim to a combination of rumors and an old fashioned run on the bank.

KREBS: Was it related to problems with liquidity in repo market?

MARANO: It was a combination of hedge funds pulling money out of the firm and repo counterparties pulling away.

KREBS: **Exhibit 14: The Bear Stearns Companies Inc. Consolidated Statements of Financial Condition, November 30, 2007**

How was Bear Stearns funding itself? Would you agree that "Securities Sold Under Agreements to Repurchase" was repos?

MARANO: Yes.

KREBS: Are the repos $102 million?

MARANO: That would be in billions.

KREBS: In 2006, it was only $69 billion. What does that say?

MARANO: Given that the balance sheet is only slightly larger, a lot of the balance sheet was done through secured repos.

KREBS: What was the collateral through secured repos?

MARANO: This is out of my scope. I'm not a repo guy.

NORMAN: Was there a shift from commercial paper to repo at Bear Stearns?

MARANO: I don't recall. It's not my area.

NORMAN: Do you recall hearing conversations that a shift in funding would affect your cost of doing business?

MARANO: In 2007, there was an effort to apply risk-based pricing to our cost of doing business (capital on balance sheet). Generally they were trying to make sure that your traders' cost of funds reflected the cost of the positions in the market and how much capital had to be put up. "They" refers to the repo desk and the finance team—Sam Molinaro, Bob Upton, and Paul Friedman.

NORMAN: What was your view?

MARANO: It's something that over time, as it was better explained, was logical to me. One of the concerns was getting the charges right between desks. You had non-agency traders who were funding credit pieces with the company's long-term costs of debt. It was a healthy debate about how to allocate those costs.

NORMAN: Did it affect leverage ratios? Did they have to go down?

MARANO: I don't recall leverage ratios. The cost of capital went up.

NORMAN: Did net revenue go down?

MARANO: Yes, the net revenue would have gone down if the cost of capital went up.

NORMAN: Could it affect compensation?

MARANO: Yes.

DUNCKER: Can you detail the $2.3 million write down?

MARANO: Generally, the losses were in a large amount from CDOs, because we had deals being warehoused and had counterparties walk away from deals. We also took losses on the subordinate book from ARMs. We took losses on subprime and Alt-As. We took losses on CMBS, although in 2007 those losses were not as bad as in some of the other areas.

DUNCKER: Those were from marking down the assets on the book?

MARANO: In most cases. In one or two deals, we had counterparties who had agreed to do a transaction and had left loans on our balance sheet as a part of the warehouse, and the deal failed and they did not make us whole.

DUNCKER: Were the losses from BSAM $200 million in the third quarter of 2007?

MARANO: I'd have to look at the context of the statement. I would have thought we would have lost more than $200 million cumulatively.

DUNCKER: Are losses from hedge funds included in some of the portfolio write downs that you described?

MARANO: Once the assets moved into Bear Stearns from BSAM, those losses would be reflected in the broker dealer.

DUNCKER: Do you know if some of the assets taken from the hedge funds ended up in the Maiden Lane facility that the Fed set up?

MARANO: I don't recall if those assts made it over there. I don't know. I know they released that information recently, but I don't know the answer to your question. I know Blackrock ultimately made the selection of what went into that facility.

DUNCKER: When were your mortgage origination platforms started?

MARANO: EMC was started in the mid-90s. Rooftop would have been around 2005 or 2006, and Bearimmo would have been in 2006.

DUNCKER: Were they started organically or acquired?

MARANO: Bearimmo was started organically. Rooftop, I believe, was acquired. EMC was started organically.

DUNCKER: You were talking about due diligence in connection with acquiring the mortgages. How involved were the rating agencies in the process of securitization? Were they looking at loan level details?

MARANO: They received tapes on the loans and did due diligence on the servicers. To the best of my knowledge, they did not do due diligence on individual loan files.

DUNCKER: Were the rating agencies involved throughout?

MARANO: They looked at the servicing platform once a year and rated the platform. Typically you would send them a tape of loan information. They would put loan characteristics into the model and output the capital structure of the deal.

[Break]

KREBS: Exhibit 15: BSC-FCIC-e00782718 -- BSC-FCIC-e00782723, email from Elizabeth Ventura to Tom Marano, et al., February 5, 2008 [Labeled by T Krebs as 17]

Look at page BSC-FCIC-e00145322. What did you mean by this?

> We could be transmitting an indication of how distressed we are as a firm which could spill into the markets and make our problems turn into a death spiral.

MARANO: We just completed a five year bond offering at a fairly high interest rate for the time, and I was concerned because in conversations about funding, we were trying to go for a wide margin. I was concerned that given that we had just printed a relatively cheap five year bond offering, to go back to the market with a repo at this high price, we'd be signaling to the market that we potentially had problems.

L+300 was Libor plus 3%. In 2006, it would be L+50 or 100.

KREBS: What is Option One?

MARANO: That's a subprime lender.

KREBS: Exhibit 16: BSC-FCIC-e00732628, email from Beau Paulk to Tom Marano, et al., February 8, 2008 [Labeled by T Krebs as 19]

What does this relate to?

MARANO: When you would do a securitization, there were times where there were interest rate swaps or other contracts associated with the securitization. Not insurance wrapping the deal, but an actual asset in the securitization. The monolines were counterparties to these GICs (guaranteed investment contracts), and Rupert was concerned that they wouldn't be able to pay them.

KREBS: Exhibit 17: BSC-FCIC-e00793177, email from Tom Marano to Sam Molinaro, et al., March 3, 2008 [Labeled by T Krebs as 23]

What did you mean by this: “Are you thinking we actually add to our subprime shorts to hedge our Alt-As?”

MARANO: From January to March, there was an extensive period of time where we discussed hedging with the risk committee, and Sam was involved. Sam was observing that the ABX went down in value, and he was wondering if we should short our ABX versus the Alt-A book. I questioned whether we should we really add more subprime shorts to what we already had. I wasn’t thinking it was smart to short the ABX after it had already fallen a lot.

SIMHAI: You mentioned the Kaos trade. Can you explain it in more detail?

MARANO: It was a macro hedge across the entire mortgage department. It contained shorts in equities that had exposure to housing and the real estate industries. It had shorts related to banks and issuers who had large exposure to second liens or CMBS. It had CMBS as shorts and ABX in it. It was a trade that myself and one of the other traders managed across the department rather than being targeted against one trader’s specific book.

SIMHAI: This was one way that Bear was managing its market exposure?

MARANO: Correct.

SIMHAI: When was it in effect?

MARANO: We built it up throughout 2007. I’m not sure exactly when we started.

SIMHAI: Why were you doing macro hedging versus selling down assets?

MARANO: We did both. The mortgage book was significantly higher—at one point it was north of $70 billion. We needed to have a hedge in place that reflected market sentiment but not the actual value of assets.

NORMAN: What was the size of the mortgage book in February 2008?

MARANO: It was $40 billion.

KREBS: Were you under pressure to take it down further?

MARANO: No one was telling us to dump assets on the market. They wanted us to get fair value on the assets.

KREBS: What about Ace Greenberg?

MARANO: Ace tended to focus on the aged inventory. We hit various milestones over the course of the year. In retrospect, we could have sold more, but we still did cut the books substantially.

KREBS: Exhibit 18: BSC-FCIC-e00795153 -- BSC-FCIC-e00795154, email from Paul Friedman to Tom Marano, et al., March 8, 2008 [Labeled by T Krebs as 24]

> Wayne, Dan, Ken and I met with Thornburg and its 5 other lenders for most of today. There's still a fair amount of give and take between what the lending group is proposing and what the company has agreed to but let me try to summarize where we are (for math purposes, assume that since we are 17% of the repo outstanding we would get 17% of and cash or benefits).

Did Bear have 17% of the repo outstanding for Thornburg?

MARANO: Based on this memo, that's correct.

KREBS: How would Bear be in this position?

MARANO: We were an active counterparty with them. I'm sure it's a function of the business we did and the relationships that we had

KREBS: On the next page it says, "We currently have $1,325mm loaned against securities that were marked Friday at $1,415mm." This presumably was an attempt to get creditors to forbear on the collateral?

MARANO: Correct.

KREBS: Do you recall these discussions from March 8? What resolution was made with respect to this Thornburg problem?

MARANO: Definitely. I believe all of the dealers stuck and continued to work to help Thornburg bring down their leverage.

There are two choices in a situation like this. You can blow the counterparty out and not give them the opportunity to restructure, or you can wait patiently and give them the opportunity to restructure. It's a tough balancing act. If you're the counterparty that blows them out, you could end up with some liability. I believe Thornburg filed for bankruptcy, but I believe they delivered substantially over the course of a year.

KREBS: Exhibit 19: BSC-FCIC-e00152886, email from Michael Nierenberg to Tom Marano, et al., March 13, 2008 [Labeled by T Krebs as 25]

> GSAM saying they believe things are ok here and JPM trading with us and the message from them is that they are being told to view us as a AAA credit for what it is worth.

MARANO: GSAM is Goldman Sachs Asset Management. I'm sure this is Mike sending color he was getting in the market. It sounds like on the 13th that GSAM and JPMorgan are both supportive of us.

KREBS: **Exhibit 20: BSC-FCIC-e00153406 -- BSC-FCIC-e00153408, email from Tom Marano to Peter Bainlardi, Craig Overlander, Alan Schwartz, Jeff Mayer, March 15, 2008 [Labeled by T Krebs as 26]**

Do you recognize this document?

MARANO: Yes.

KREBS: This was a plan to save Bear Stearns. How was this received?

MARANO: We talked about it a little bit. Basically the decision was made that we entered into an agreement with JPMorgan, and Alan and co. were not listening to any ideas other than what they negotiated.

KREBS: Were you in meetings with Geithner, Paulson, or JPMorgan?

MARANO: No, I was not.

KREBS: **Exhibit 21: BSC-FCIC-e00154737 -- BSC-FCIC-e00154740, email from Tom Marano to group, March 20, 2008 [Labeled by T Krebs as 27]**

> Below is a summary of my understanding of the key events of the day that will allow Mr. Dimon to complete his arrangement with Mr. Geithner and Mr. Schwartz.
>
> All should understand that I am extremely tired and have had minimal time to process the info. Sorry about typos. I believe Blackrock and the Fed stayed for the whole meeting and this should be used in conjunction with their notes and they should send a final version back.

MARANO: At this point I was extremely tired and I was trying to summarize a meeting we had with Jamie Dimon. What I did was—there was a meeting with myself, Mike N. Josh, Pegoush, Scott—we were invited to meet with Jamie as an introduction. He gave us instructions about how to manage the position. I gave this summary to my bosses about what we were supposed to do to manage the position.

We were asked to identify what assets were going to the Fed and what assets were going to JPM. We had no idea. No one in the room knew what was going where at the time. The only parties to the agreement were Geithner and Dimon. This was the early stages of trying to break out what could go to the Fed and what could go to JPM, based on descriptions we received after the agreement had been made. This was an attempt to quantify what the Fed was qualified to own. This was based upon conversations with Bill King, several folks from Blackrock, and the NYFed.

There was no document at all. After about 8 hours of meetings, I said enough is enough. You can't ask us to document a deal if it's made between your bosses. We can't document it unless we have the cocktail napkin that it's written on. I can document anything we want, but I need to know the terms of the agreement.

Slowly and painstakingly, JPM people would go back to Jaime and Blackrock people would go back to the Fed to decide what was eligible and what was not eligible. Eventually, there was an agreed upon protocol of what was going to go through. I can't tell you if this is the final iteration of what was agreed, but it looks very close.

KREBS: How were you valuing the securities when the JPM people were doing due diligence?

MARANO: The same way that we always did. If there were trades in the market, we used that; if not that, we used models.

JPM at one point did have concerns about the portfolio. They were not explicit about their concerns. I asked them to point out their issues, and the only place they cited any substantial differences of opinion was the scratch & dent loans from EMC. At the end of the process, they raised the price of the company by $8 per share.

SIMHAI: Who was there from Blackrock?

MARANO: Mark Wiedman, Mark Paltrowitz, Peter Fisher—Charlie Halowick was not there. The two Mark's were the principal folks, and Peter and Charlie were in and out.

KREBS: From 2007 to March 10, 2008, how much did the price for CDS for Bear Stearns increase?

MARANO: I don't know the exact levels, but they did widen up. I think the spreads went out for all of the financials.

KREBS: For the purpose of the discussion, we're federal agents and you're supposed to tell us the truth. Have you testified or given depositions on this before

MARANO: No.

NORMAN: Have you been involved in any litigation?

MARANO: There is litigation pending.

KREBS: Is that related to your CRD?

MARANO: Yes.

NORMAN: The CDO business at Bear Stearns increased from 2005 to 2007?

MARANO: I think we did less instead of more. You can get that from Securities Data.

NORMAN: Were any naysayers saying that you should be doing fewer derivatives, specifically synthetic CDOs and CDS?

MARANO: No. The perception at the time was that the world was going to synthetic and not cash. People wanted us to do the appropriate due diligence, but it was more products.

NORMAN: Why was your business declining?

MARANO: On the synthetic side, we had made decisions not to participate in certain transaction types. We were not comfortable using the balance sheet to do certain synthetic transactions, like synthetic CDOs, because they tie up your balance sheet. We were cautious about who we would do that kind of business with.

NORMAN: Was there a difference between the U.S. and European mortgage businesses?

MARANO: The philosophy was the same—originate to securitize. The difference was that the scale of the European markets was much smaller so it was challenging to get the critical mass to do a securitization. I went to Europe because I was looking for something different and Europe was a new market.

NORMAN: Did you have any interaction with the FSA?

MARANO: Yes. I wanted to meet them when I went over there. We talked about the securitization and origination businesses.

NORMAN: Did they ask questions about funding mechanisms, specifically commercial paper and repo?

MARANO: Not that I recall.

NORMAN: Do you have thoughts about the differences in regulation between the U.S. and the European mortgages businesses?

MARANO: I thought that the UK loan origination process was much better because brokers had to attest that they were providing the best loan for the customer. Appraisers had liability for appraisals. It was very much a market similar to the Alt A market. A lot of the employees are contract workers, so it’s hard to get employment verification.

The entire UK market fared better. The lowest rate on performing loans was about $.60 on the dollar. That was partly because the loans are all adjustable rate, so people have seen their payments drop. Bearimmo and Rooftop fared better.

NORMAN: Was there any distinction in regulation at the securitization level?

MARANO: Not noticeably.

NORMAN: Was there a difference at the structuring level?

MARANO: Not that I recall.

NORMAN: So there was no advantage or disadvantage in doing business in the U.S. versus the UK?

MARANO: No.

NORMAN: Were you involved in trying to have the SEC step up to the CSE program to avoid European regulation?

MARANO: I was not involved in that.

NORMAN: What was your compensation?

MARANO: I think my peak year was 2005. That year was $15-20 million. In 2006, it was about $10-15 million. In 2007, I received my base salary and did not take a bonus. I was not on the Executive Committee, but I was asked how I felt about not getting a bonus. I said that we lost a lot of money. I said I would take zero, so my compensation was just my base pay of $250,000 or so. I left in April 2008.

NORMAN: What do you know about risk limits?

MARANO: People had two limits: (1) operating limits (a trip wire), and (2) maximum limits. People would go over operating limits a couple times a week, and they had to talk to me before they did it. People would go over max limits less frequently. We would bring that to Warren and I believe that would go to the Exec Committee. We would need to get approval up the chain. Those limits were set by the Risk Department, Mike Alix's area. That was Independent Risk.

NORMAN: What's your opinion about risk management at Bear Stearns?

MARANO: I thought the risk department (trading risk limits) was very engaged.

NORMAN: How many people in risk management were dealing with mortgages?

MARANO: About ten people. I would meet with head of risk management—first Phil Lomardo and then Dan Chen in 2007—twice a week for an hour. They would report up to Mike Alix. We also met quarterly to review the marks and the balance sheet.

NORMAN: Were you interviewed by Oliver Wyman?

MARANO: I don't recall being interviewed by them. I do remember bringing a consultant in, but I don't recall who.

NORMAN: Did you think you had an absentee Board of Directors?

MARANO: I had minimal interaction with the Board. There were issues with some of senior management.

NORMAN: What was the view from the inside about the reports about senior management?

MARANO: There was a lot of frustration with the fact that Jimmy was playing a lot of golf and bridge. Right about the time that Alan took over, there was a fevered pitch and we effectively had a mutiny on our hands. He wasn't actively engaged. There was a perception that he wasn't trying to raise capital. There was a feeling he should have been more involved.

NORMAN: Would it have changed anything?

MARANO: If he was more involved sooner, it would have made a difference.

NORMAN: What do you think of Alan Schwartz?

MARANO: Alan is a really bright guy and a good deal guy, but because he is an investment banker, and they tend to move in long, slow paces.

NORMAN: Not nimble?

MARANO: Yeah.

NORMAN: What were the circumstances of you leaving?

MARANO: One of the guys who worked for me told certain people that I should retire because I had made enough money. He sold himself on a leading position with JPMorgan. I went back and forth with JPMorgan about whether or not they had an opportunity for me. They couldn't tell me what they would pay me or if they had an opportunity for me. I decided to look for work elsewhere.

NORMAN: Where are you now?

MARANO: I am the global capital markets officer for GMAC. I run the mortgage unit.

NORMAN: Popular press said that you were ramping it up in mortgages and that Paul Friedman and Wendy DeMoncheaux and Jeff Mayer told you to pull back. Did that happen?

MARANO: There was definitely a desire to pull reins back and get more defensive, and we reduced our portfolio. Wendy definitely wanted the portfolio to be smaller. Jeff Mayer was my boss; if he wanted the portfolio to be smaller, he would have fired me and made it smaller. Wendy was the most vocal, starting around August 2007 when Warren was fired.

NORMAN: Looking back, is there anything that you could have done differently to change things for Bear Stearns?

MARANO: I made mistakes, but I did everything within my power to make it better, and we got held up by liquidity.

NORMAN: Was the reliance on repo Bear's Achilles heel?

MARANO: I think Bear Stearns went first because it had the least amount of capital (highly levered) and it was smallest. The Federal Reserve needed exigent circumstances. If they were going to open the window, they needed to have a price for it. Bear Stearns got sold. We were small, and we were easy for the folks who wanted to write CDS on us to take us out. Had our debt structure been longer, we would have been in better shape, but at the end, it is what it is.

NORMAN: So it was a combination of repo financing and the size of Bear Stearns that made it easy to short down.