MEMORANDUM FOR THE RECORD

Event: Interview with Alan Schwartz, former CEO of Bear Stearns

Type of Event: Group interview

Date of Event: Friday, April 23, 2010 at 10:00 a.m.

Team Leader: Tom Krebs

Location: Paul Weiss, 1285 Avenue of the Americas, New York, New York

Participants - Non-Commission:

- Alan Schwartz, Former CEO of Bear Stearns
- Eric Goldschmidt, Paul Weiss
- Jessica Carey, Paul Weiss
- Amy Sabrin, Skadden

Participants - Commission:

- Tom Krebs
- Donna Norman
- Sarah Knaus

MFR Prepared by: Sarah Knaus

Date of MFR: May 2, 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.

EXHIBIT- Alan Schwartz CRD

Tom Krebs began the interview by asking Alan Schwartz to verify that the Exhibit placed in front of him was his CRD. Tom explained that we are from the FCIC and wanted to talk to Mr. Schwartz about the failure of Bear Stearns. He said that we are only here to find the facts and report them to the American people. Tom continued, saying that the law demands that Mr. Schwartz tell the truth, a disclaimer he is obliged to say at the outset. Tom asked if Mr. Schwartz had given sworn testimony regarding the failure of Bear Sterns. He responded that he testified in front of the Supreme Court in the State of New York in relation to merger litigation, which was dismissed. Mr. Schwartz has also testified in front of the Senate.

KREBS: Can you describe Bear Stearns' business model from when you started there and any material changes that occurred until March 10, 2008?

Well, I was there 32 years so there were a lot of changes. In summary, it wasn't a change in the business model, we were always primarily a securities broker-dealer, but over time a number of our business areas grew.

KREBS: Would you say the mortgage part of the firm was one of the largest expansions in the business?

I think so, yes.

KREBS: How did the mortgage business come about?

Some people joined the firm with an expertise in mortgages in the late '70's and early '80's. The growth was driven because it was a relatively new market so Bear Stearns didn't have to go up against entrenched competitors.

KREBS: To what do you attribute the growth of the MBS market?

It was a couple of things, but mostly caused by policy decisions. First, policy initiatives were trying to move assets out of financial institutions and distribute them more broadly to the general investment population. Second, the establishment of programs to increase participation in the mortgage market and the availability of mortgages to a wider range of borrowers.

KREBS: You mean low income housing programs?

Yes, I think that's right.

KREBS: Can you expound on the statement that the mortgage market growth was due in part to the distribution of assets from financial institutions to the general population?

I believe regulators and market participants felt that when loans were made and kept on the originator's balance sheet, these institutions became over-concentrated in these assets. Under this credit cycle, it was difficult for new credit to be issued whenever there was a credit crisis.

KREBS: Are you speaking of the loaning out for homes?

Partly. Part of the drive was to find the way to get a dispersal of the loans to a broader market. Specifically, the market began moving the assets into the hands of people who could own securities as opposed to loans. With a wider market, financial institutions would be more likely to make new loans in the next credit cycle. With this drive, institutions needed to build the technology necessary for the new class of securities.

KREBS: With Bear Stearns' acquisition of the mortgage market folks, didn't the company become a leader in developing securities?

Not to my recollection. Companies like Solomon and First Boston were the leaders. We were one of the firms that got involved.

KREBS: It didn't take long for you to catch up?

I don't know.

EXHIBIT 2- Investor Day Presentation by Tom Marano and Jeff Mayer

KREBS: Are you aware of this document, did you see it?

I may have.

KREBS: Did you participate in that Investor Day call in March 2007?

I can't recall, but I do believe.

KREBS: "Net revenues doubled since 2002", next page attributes this growth to the growth in the mortgage business?

Yes.

KREBS: Does this comport with your recollections of the BS mortgage markets?

Generally yes.

KREBS: What did BS's derivatives business consist of?

We were a dealer in credit derivatives. We made markets in credit derivatives, and we underwrote securities in the credit derivatives area.

KREBS: Credit default swaps?

That is part of it

NORMAN: did BS have an active asset manager business in the CDO space? Did you serve as the collateral manager and take the losses?

I can't be sure, but I think we had a small fund that invested in CDOs.

NORMAN: Would that have been in the asset management?

Yes.

KREBS: Would that have been in the high-grade asset funds?

I think there may have been a fund that just did CDOs. Now that you ask the question, I think of those funds as being more in mortgage securities but in CDOs as well.

KREBS: The other fund that you were referring to, can you remember the name of it?

No.

KREBS: Page 8. By March 29, 2007, BS was originating mortgages, was it not?

Yes, I believe so.

KREBS: Under the securitization heading, it looks like BS is a top-ranked underwriter of MBS, do you know what the top-ranked means?

It means a top ranked firm, but I'm not sure where within that ranking we would fall.

KREBS: Bear Residential, was it called Bear Res?

I believe it was Res Corp, but I can't be sure.

KREBS: Do you recall the performance for this particular business during that period of time?

No, I don't.

KREBS: On Page 19, under CDO's, CLOs the top-ranked originator. What position were you holding at BS on March 29, 2007?

Co-Chief Operating Officer.

KREBS: Would you have been aware of the CDO development within BS?

I was aware.

KREBS: Were you aware that it was a top ranked CDO distributor in 2006? I wouldn't recall the specific ranking, no.

KREBS: In April 2007, were you made aware of some adverse marks by GS that may have had an impact on the funds managed by Mr. Cioffi?

I have to start by telling you that I don't remember what happened and when.

KREBS: Tell me how you became aware of the problem in the BS hedge funds and what was reported to you as being a problem?

The first thing was a call from a gentleman at JPMorgan who called me to say that they were in discussions with our asset management division about margin loans that they had to fund, and that they found the proposals that were being made unacceptable and that he didn't want me to be caught by surprise if they essentially made a margin call that afternoon and wanted their money back.

KREBS: Up to that point were you aware of the JPMorgan relationship?

No.

KREBS: What did you do in response?

I asked him to let me look into it. Shortly thereafter we held an executive committee meeting to discuss it, Cayne, Greenberg, Molinaro, and Spector.

KREBS: What were the discussions had in the meeting?

If I recall, in that meeting I believe in particular we're talking about the JPMorgan situation. It was a discussion that a number of lenders were marking down positions and making margin calls consistent with those new marks.

KREBS: Was it your understanding that those folks who were doing that were repo lenders to the hedge funds, or were they lenders who had recent acquisitions?

I can't say when it was, but to the best of my recollection, I walked away with the belief that most of the loans to the funds were made by people who had sold those assets to the funds with the loan attached.

KREBS: What was discussed in that meeting?

I don't remember too many specifics, but in general we were talking about the ways to deal with all of the lenders in the group. I believe I was making a call back to JPMorgan to ask for a chance to hear us out, and there were discussions about what proposals would be made to the group.

KREBS: Was this the first time the other exec committee members had heard about the problems in the funds?

It was the first that I can recall that it was discussed in a full executive meeting, but I can't recall whether it was the first time I had heard of it.

KREBS: Was Spector in charge of the BSAM funds?

Yes. The call I got was to inform me of the call that they had with Warren.

KREBS: Why did they call you?

It was a relationship and they wanted me to know and not to be surprised.

KREBS: What did the executive committee do after that meeting?

After that meeting we called all of the counterparties and arranged a meeting where we tried to make a proposal to all of the counterparties.

KREBS: Who was involved in making those calls to the counterparties?

I was not involved. I believe there was a team, Spector was involved, I think maybe Sam Molinaro, Rich Marin, and other people from the asset managing business but I don't recall which ones.

KREBS: Was Marin in charge of these things?

Yes.

NORMAN: How many counterparties are we talking about?

I'm not sure but a number near ten.

NORMAN: Do you remember any others than JPMorgan?

Barclays, Goldman, Lehman, Merrill, Citi, I believe Deutsche.

KREBS: What is your best recollection of when this meeting was?

I think this question started with something happening in early April and I'm assuming this happened around them.

KREBS: At that juncture were you aware of the downgrades of CDOs in the funds?

I don't recall being informed of that.

KREBS: Were you informed about the amount of exposure to these counterparties? And how much they had borrowed?

Yes. I believe the amount was around $1b for the High Grade Fund, I don't remember the other

KREBS: The high-grade fund was done around 2003, and the enhanced-leverage was around 2006?

Correct. I believe that that was the amount of borrowers from all counterparties of one or both of the funds.

NORMAN: Approximately 10 counterparties, did that include all counterparties to the fund or was it a subset of counterparties?

I assume they would call all of the counterparties. I recall that later we offered the counterparties in the high-grade fund to take back their collateral and pay off their loans. I remember $2 billion at the time. I don't remember an equivalent number at the other fund.

KREBS: Did the meeting take place as directed by the executive committee?

I believe so.

KREBS: Did you attend?

No.

KREBS: Did you receive reports about the meeting?

Yes. Essentially, I believe that the proposal was if the funds paid a certain amount of margin to the counterparties, they would take a certain amount of time before making fresh margin calls.

KREBS: Was this for both funds?

I believe so.

KREBS: Ultimately some counterparties did seize the collateral right?

Best of my recollection, I believe Merrill did, but I'm not sure if anybody else did.

KREBS: Did Merrill attempt to sell that collateral to the market?

I believe they offered it to the market.

KREBS: Do you recall the bids in the distressed sale?

I have no knowledge of it.

KREBS: Did anything else happen in the two months before Merrill's auction in June?

I don't know when they did the auctions.

KREBS: You don't recall a date for the executive committee meeting?

April feels early to me.

KREBS: What did the exec committee decide to do with those funds?

We decided to offer the lenders in the High Grade Fund the opportunity to lend back the collateral at 100 cents.

KREBS: You replaced the repo for the fund?

Correct.

KREBS: Was the collateral reviewed before the offer was made?

Yes, I believe Mike Alix was involved and I believe Tommy Marano spearheaded it. They came back to tell us the value of the collateral.

KREBS: Who suggested the ultimate resolution that was made with respect to the high-grade funds? I believe it was the executive committee.

KREBS: What was Mr. Cayne's reaction to the efforts to repay the funds and replace the repo for the high-grade fund?

I'm not sure I recall. It was a fairly lengthy discussion we had, and I don't remember which positions people took and when. At the end of the day there were many proposals on the table, and at the end of the day we ended up with a unanimous decision.

KREBS: Did you have several conversations about this issue?

I believe so.

KREBS: What was your position?

I was in favor of it.

NORMAN: Why didn't the exec committee propose to take out the lenders to the enhanced fund?

We looked at the collateral pretty hard and at that moment in time it appeared that the asset value in the high-grade fund was significantly higher than in the outstanding loans. There seemed to be enough collateral to make a loan against it, but the asset value in the second fund appeared and I can't remember, either above or below by a little the amount of the loans and we didn't feel they would approve the loan.

NORMAN: If our understanding is that BS took out the lenders in the repo fund to save its reputation, does the same argument apply to the Enhanced Fund?

As I said earlier, we discussed a number of options. We had to balance the impact of reputation and prudence on the risk reward basis. One looked like a good loan and it seemed that there was a reasonable change that we could do this and be okay with the market. With the other, it seemed like we would take a loss.

NORMAN: Do you know how those two hedge funds comprised their assets?

My knowledge is that they were basically underwritings put together by those various dealers, and were a customer of various dealers and would offer them a tranche.

KREBS: Are you aware that the state of Massachusetts instituted an action against BSAM?

I vaguely recall, but do not recall specific allegations.

KREBS: Do you recall what the resolution was?

I'm not sure if it was resolved.

NORMAN: Did I understand that a fair number of the assets in the BSAM funds were acquired by the same 10 repo collateral parties?

My best recollection is that the primary source of the lending against those positions was given by the dealers who sold those positions.

NORMAN: Did the broker-dealers in BS do similar acquisitions with their repo counterparties or was that a BSAM strategy?

It's more of a strategy. The broker-dealer was a market maker, the BSAM was an investor. BSAM was more consistent with market practice.

KREBS: If it's true that at this time BS was holding a significant amount of MBS, how is it that they got there?

That's a more multifaceted process. If I were to capture it, a lot of that inventory was inventory that we had created underwritings and that we were creating certain pieces. Or we were making a market in certain areas, facing the customers to buy them.

KREBS: In connection with BS securitization transactions would the fund hold some of the assets for a period of time?

In the securitized markets there were times when you would do your research, if you bought a package of loans and wanted to create an underwriting and sell off different tranches, you would try to create securities that capture more value than the underlying loans. In doing so, your research would tell you which pieces you would be comfortable holding. And it could be an opportunity to get more value. Or if you took it to market and it turns out there was no demand for a specific piece, the rest would sell at prices that made you comfortable. And sometimes you'd hold to hedge your position.

KREBS: Do you have any knowledge of BS's portfolio in mortgage related investments at the time of BSAM's failure?

I don't know what the positions would have looked like, I don't recall.

KREBS: Do you have a recollection of the size of the mortgage-related investment positions, at any time when you were at BS?

I have a general recollection, but I could be off. I believe with total mortgage positions and mortgage-related positions, including commercial mortgages and residential, I would think it was around $45 billion.

KREBS: At what point in time do you recall this?

Late 2007 or Early 2008.

KREBS: What happened to Mr. Marin and the folks at BSAM after bankruptcy was filed?

I don't recall.

KREBS: Do you recall that one of the fall-outs with the funds was that BS received a negative outlook rating on its depth?

I generally recall that, somewhere in that time frame.

KREBS: What impact did that have on BS's funding model?

In and of itself, it didn't have a large impact.

KREBS: It didn't impact your access to unsecured CP?

I don't recall, because I don't think we used a lot unsecured CP at the time.

KREBS: Do you remember a decision to move away from the CP market?

I think there was a period of the time where we moved away. To the best of my recollection, it was maybe sometime in 2006. It was a fair amount of time before the hedge funds situation.

KREBS: Given that the decision was made to reduce the dependence or use of CP funding, what funding vehicle was employed to make up the difference, if any?

We decided to try to create more secured repo lines against our collateral, and to increase our long-term debt.

EXHIBIT 3- Balance Sheet

KREBS: Are you familiar with this document?

It looks like our balance sheet from that period of time.

KREBS: Would you look under the agreements to purchase?

These are two pages from different years. From 2006-2007, it is consistent with my memory.

KREBS: Is it fair to state that after sometime on or about November 30, 2006 the decision was made?

I believe it was some time during 2006, but it was a process to put into place.

KREBS: How would you put this process into place?

I can only tell you what I was told. Essentially, what I remember was the thought of going out and finding lenders against securities that would do it on term, having them come in and review the collaterals of the securities and reaching a series of agreements.

KREBS: By term are you referring to the fact that it wasn't overnight, or trying to extend the time it was outstanding?

Yes. You do some overnight, but you also want a series of agreements that you don't need to have overnight.

KREBS: How far out would you go?

90 days to a year.

KREBS: Did there ever come a time when large lenders to BS in its repo said they would not be doing any more repo with you?

As I remember it, as we got into fall 2007, I think the market in general and certainly for us, started to move away from term and into overnight.

KREBS: In fall 2007, BS raised $2.5 billion from institutional investors?

In the long-term deal. I remember that we raised a long-term debt deal, but I don't remember how much.

KREBS: Was Spector asked to resign?

Yes.

KREBS: Did you change titles at that juncture?

I'm not sure.

KREBS: What was your reaction, or BS's reaction and your part in it, to the adverse rating that had come out on August 3?

KREBS: The best that I can remember, and I can't specifically answer to that ratings-watch, but it was part of a concern that we had to be very careful about our reputation in the market place.

NORMAN: Why was Mr. Spector asked to resign?

Like everything, there are a lot of things that happen. To the best of my recollection, some loss of confidence in the way the whole hedge fund thing had been handled.

NORMAN: Who had the loss in confidence in Mr. Spector?

I can't say everybody that did.

NORMAN: Did you?

Maybe less so than others.

NORMAN: Did you have some loss of confidence?

Some. Initially I did not think he should resign, but I went along with the decision because at the end of the day once you realize there's a loss of confidence by some key players it would be hard to function going forward.

NORMAN: Key players inside or outside of BS?

Both.

NORMAN: When Mr. Spector was asked to resign did that have an immediate resurrection of confidence?

No.

KREBS: Following the bankruptcy of the funds, BS called their collateral with respect to the funds in the high-grade funds, BS ultimately loaned $1.6 billion to the fund, but the fun ended up bankrupt. What happened to the assets that were pledged?

We were in a position where we had to take over the funds, brought back on the book.

NORMAN: What led to the write downs of the MBS securities in Q 4?

I don't recall.

NORMAN: Following Mr. Spector's departure, did you ask someone at an outside firm to come in and look at BS?

Specifically, I remember discussing it and I don't know if I did or Sam Molinaro did.

NORMAN: That firm was Oliver Wyman?

Yes.

NORMAN: Did you see a copy of the report?

I had meetings with them.

NORMAN: Did they provide you with a final report?

There were presentations.

Exhibit- Oliver Wyman report slides and memo

KREBS: Page 4 of the slides, purports to list the gaps in risk management. Did you have a discussion with Oliver Wyman about the haps in risk management?

Yes.

KREBS: Did you agree with the gaps? Not entirely.

KREBS: Which ones did you agree with, was there a formal framework for risk appetite?

Yes, I believe so

KREBS: What is risk appetite?

Its how much risk you are willing to accept in order to receive a return.

KREBS: Did you interact with the SEC during your tenure as co-president?

I don't recall any

KREBS: Did you have any discussions with the SEC about a firm wide lack of value of risk ?

I don't recall

KREBS: Any discussions at any time about an SEC concern over the value of risk?

I don't.

KREBS: Second bullet point, "no clear approval process." Do you agree with this?

No.

KREBS: In what way do you disagree with it?

I want to make one statement. My best recollection and looking at this, these are slides for discussion, and are kind of the words but you'd have to have a fuller discussion over what they were saying. These are all shades of grey, under the concept of should there be a more clear process rather than should there be no process.

KREBS: Was it that risk management had too little time for review of trades?

That's a question of the dynamic of what goes on in a trading organization, always trying to find a balance.

KREBS: Did Alix ever come to you to say that I don't have time to be tracking behind these transactions; I need to get in to do my job?

I spent time talking to Alix and others about what we should do. Let me say that whether it was Oliver Wyman, or Mike Alix, the one thing that I asked for was that I don't need to hear anything that we're doing right. I only want to hear areas where we can do better. Let's aim high and say what would be the "gold standard." If we were to be the gold standard of the best risk management process in the entire world, I want everybody's opinion of what would go on the table to create the gold standard and everyone's opinion of what would be needed to achieve that.

NORMAN: What was the formal dialogue about the appetite?

We had various committees and subcommittees that would review our overall risk on a regular basis, and assess whether the limits needed to change.

NORMAN: What was the overall risk limit?

It depends on what kind of the risk limit.

NORMAN: What was the highest level of approval needed to increase the risk limit?

Executive committee.

NORMAN: What types of risk limit would need to be approved by the exec committee?

If we had a new line of business starting up and they thought they had enough evidence of how their process was working, they could bring it back to the exec com.

NORMAN: Do you recall any risk limits for the mortgage business rising to the exec committee?

Nothing specific. The exec committee often reviewed the overall portfolios for the mortgage business and we discussed where we were comfortable. The total size of the position was reviewed regularly by the executive committee.

NORMAN: Did the exec committee ever say that the risk limits were too high in the fixed-income area?

I can't recall a specific example, but there were times when we said we wanted to take limits down in the mortgage area.

NORMAN: What did you think of Thomas Marano's risk appetite, his positions on risk?

Did I think he was a good manager of risk? I thought he was pretty close to just right.

NORMAN: Did there ever come a time when you had a conversation where you asked Mr. Marano to trim his mortgage portfolio?

Yes. Somewhere in late 2007 or early 2008. I wouldn't use the term trim portfolio, I'd say reduce the risk of the portfolio. I recall suggesting that we should put on more hedges against the positions that he had.

NORMAN: Was your viewpoint accepted?

Yes.

KREBS: Page four states that there's no clear process and no formal framework for risk appetite".

I would agree if they said there was no number for the risk appetite, because we did not think it was the best way to develop a risk appetite.

KREBS: What was the best way?

Continuous discussion.

KREBS: Does the "lack of mandate for the risk policy committee" say that there was no mandate?

As part of the process, the risk policy committee had been recently revamped, and we were in discussions on how it was going to be revamped. We were discussing and asking people like Oliver Wyman how they would remand the mandate.

KREBS: Does the final point say that Mike Alix and others were not on level with others for whom they had the oversight responsibility?

We had a lot of discussions that we wanted to ensure that there was an appropriate balance between traders and risk managers and that they were of equal stature.

KREBS: Do you know whether Alix participated in assisting this firm to prepare this?

Yes.

KREBS: Would he have approved the "lack of risk management policy as a committee" statement?

We were developing a mandate at the time and we all would have agreed with that. The lack of stature, traders and risk managers always debate the dominance of each other.

KREBS: Page 6 recommendations. Were these recommendations ever implemented at BS?

I guess again it gets into semantics. We had created the Risk Policy committee, but I'm not sure whether we had a charter. I believe we had mandated number 3.

KREBS: Who was on the risk policy committee?

Sam Molinaro, Jeff Meyer, Craig Overlander, Mike Alix, Wendy De Monchaux, Steve Meyer, that's not everybody but I'm blanking. I need you to get an accurate assessment of what was going on. We were dealing with near term forest fires and long term how we want this building to look. The Oliver Wyman stuff was a very long term of how do we want this do look. If we were to design the Taj Mahal of risk management, we wanted everything on the table for best practices and be able to say over time what would be the best set of practices that we could have. It was much more of a view, and it would take months or years to fully implement.

Compensation Policies

KREBS: Tell me of the compensation policy of the Chief Executive Officers and middle management?

They were done in two different groups. The senior executives of the corporation were compensated through a pool that was put in place by the compensation committee of the board. And they would review the pool every year and within the pool, each member was given a percentage of the pool.

KREBS: Was this a predetermined percentage?

It was determined every year. At the beginning of the year you knew your percentage and the pool, and the only variable was the performance of the firm. For all other professionals there was a thorough process of management and compensation committee that oversaw the compensation of all professionals and would come up with an amount of compensation for each person.

KREBS: Presumably the recommendations were by department, by person, was it a defined pool?

No.

KREBS: There was a pool for the top five managers of the firm.

The compensation committee determined that their compensation should be tied directly to the performance of the firm. Others were done individually.

KREBS: If there was a particularly profitable year for a trader or someone, how would they be recognized?

First you have to look at the performance of the firm overall, the performance of the division they operated in, and their own individual performance.

NORMAN: Who set the compensation of the top five?

The compensation committee of the board.

KREBS: And for Mr. Cayne?

The compensation committee of the board of directors set the compensation for Cayne.

KREBS: If we had heard that Cayne had set his own compensation and his compensation of the top people?

We’re confusing it. The compensation determined the pool and the formula. We discussed what the appropriate percentages for each person. At the end of the day the CEO made a recommendation for the percentages for each person.

NORMAN: This was forward looking?

Yes. When you're closing the books in January 2006 you know what the pool is and what last year's percentages were. The compensation committee would simultaneously be determining the percentages for the following year. It's semantics.

NORMAN: Did the CEO have sole determination?

No.

NORMAN: Was his recommendation ever not accepted?

I do not recall. First the CEO would present something in a room of five guys. If those people thought it was way off they would say something. Second, he would have to present it to the compensation committee. I don't think that if you know you have to get somebody's approval for something doesn't mean you know you won't, it means you need to be reasonable.

KREBS: the compensation you received was half in cash and half in stock?

There was a formula of steps but it was roughly 50/50. The stock was restricted for three years and you couldn't receive it for 5. No clawback provisions.

KREBS: Any options as part of the compensation package?

The 50/50 is roughly 50% cash and 50% stocks and options.

KREBS: Is it fair to say that the compensation paid to the employees of the company, was about 50% of net revenues?

Yes, between 48-50%.

NORMAN: Was there a time when BS's stock option was adjusted and options had to be exercised? If we had been told that somebody had never exercised an option at BS, under BS's compensation policies isn't it likely that they were required to cash out those options?

I would tell you first, I think the options were 10 years and you didn't have to take any action, at the end of 10 years it would be worthless. I don't know if we had options for 10 years. There were some times changes in tax laws that forced changes.

KREBS: Moving ahead in time. Are you familiar with Mr. Cayne resigning, did you have any conversations with what Mr. Cayne should or should not do in respect to his move?

My advice was for him to become a non-executive chairman.

KREBS: Why did you give that advice?

To the best of my recollection of the conversation, I said if you don't want constant publicity about whether you were or weren't in the office on a given day, as a non-executive chairman you would not receive any.

EXHIBIT- Merrill Lynch Analysis: What Went Wrong at Bear Stearns

KREBS: Are you familiar with this timeline?

No.

KREBS: This is an assessment by Merrill as to why the funds failed. Do you take exception to the statements made there by Merrill?

In hindsight, the funds that ended up in bankruptcy didn't have problems. They held what became illiquid assets. Funding was a problem. In hindsight it's true, but why would Merrill lend that much money if they had these concerns about Bear?

KREBS: Was leverage too high?

Yep. Bear Stearns did too little too late, I don't think this is actually true.

KREBS: Was there anything you could have done to save the funds?

No. The issues they're talking about are that we should've helped out the creditors. It wouldn't have helped the funds. Bear Stearns Asset Management was a division of Bear Stearns, so it had its own reporting processes in place and reported up to Warren.

KREBS: Others have told us that there was a wall between Bear Stearns and the hedge funds?

Yes.

KREBS: Given the wall how did BS manage oversee the funds?

The Chinese wall defines who is on both sides of the wall, with someone sitting on top.

NORMAN: Who from risk management was on both sides of the wall?

I don't know.

NORMAN: Are you saying Mr. Spector was?

I do believe so.

NORMAN: Are you aware of the February 14, 2008 announcement by UBS downgrading its Alt-A investments?

No.

NORMAN: Are you aware of Thornburg?

Yes, they were an existing customer.

NORMAN: Did BS have a repo line out to Thornburg?

I believe so. I remember Thornburg going through a couple of chapters of running into problems.

NORMAN: Peloton Partners?

Yes.

NORMAN: Any difficulties shortly after Thornburg, specifically in their Alt-A mortgage portfolio?

I don't recall which ones, I thought they were less exposed to Alt-A and more exposed to agencies.

NORMAN: Are you aware that the difficulties that both Thornburg and Peloton had in writing down their assets, had an impact on BS from February 14-29, 2008?

No, in that period of time I remember them having problems, but I do not recall and injurious impact.

NORMAN: Do you recall the impact of the collateral calls?

I recall having markdowns on our Alt-A portfolio, but I don't tie it to any specific funds.

NORMAN: Did this precipitate a downgrade of those Alt-A transactions and funds that BS had in its portfolio?

There's a disjointed part to this. I'm not seeing the linkage the way you're seeing. If you ask me about what happened at BS, I can't give you at any particular time.

KREBS: Do you recall Bloomberg's headline?

Yes.

KREBS: What did it relate to?

I got it after the fact, because I was in Florida, but as I remember it, one of the rating agencies had downgraded a number of funds that we had underwritten, as part of the process of downgrading all of the ones we had underwritten. I remember it as being a routine review of the BS tranche, but the headline was that BS had been downgraded, and not the BS underwriting. There was a tremor.

KREBS: What happened as a result of that tremor on Monday March 10?

I believe that Greenburg was quoted; rumors of problems expanded completely unfounded. I remember some discussions about the fact that now that there were rumors and denial, we needed to get facts out there. Somewhere in that time we put out a statement, to clarify about our balance sheets and liquidity.

KREBS: You did that on behalf of BS?

The firm put out a release.

KREBS: What happened next?

At some point things stabilized for a while.

KREBS: Do you recall on that Monday that you had $18.1 billion in cash?

I don't recall an exact amount but we had a lot.

KREBS: At the close of day how much cash did you have on hand?

Not a dissimilar amount.

KREBS: What were you hearing from BS about what was going on?

I was hearing that there were rumors about some funds that were perceived to have invested primarily in higher-quality mortgage securities, like agency paper. Because they were perceived as funds that were higher quality paper, they hadn't had liquidity problems up until the moment. And then there were margin calls going on at those funds. It caused lots of jitters in the market that high-quality commercial paper were having issues. There were many rumors about which dealers had exposure to those funds. We were one rumored to have significant exposure, and I checked and we were all well covered. These rumors were the weekend before the Monday, and impacted the market on Monday. The misinformed downgrade added extra confusion.

KREBS: What did you hear when you were down in Florida?

They were telling me that there's chaos in the market place, lots of rumors and rumblings. We weren't seeing actions begin taken, but we were seeing lots of calls.

KREBS: You get through Monday alright, but what happens on Tuesday?

To the best of my recollection, I believe that the Fed announced on Monday that they were initiating a new facility to provide backstop liquidity to investment banks for certain types of collateral primarily agencies. That caused a rally in stocks like ours. I remember saying that it was a great idea, but it was to start 30 days from later. I started hearing rumors that the reason the Fed had come up with this was because of the enormous distress at BS, but again it wouldn't have mattered because it started thirty days from the fact. I believe it was Tuesday that Molinaro talked with a reported at CNBC, who was pounding the drum on the rumors. We agreed that he would call them and said that we wouldn't put out the statement if it wasn't true.

EMAIL EXHIBITS

EXHIBIT Email from Daniel Cohan to you, 3/10/2010 (1796)

KREBS: Can you tell me what was going on around this time?

It's kind of consistent with what I was saying. Monday rumors were flying and we suggest that we should do more.

KREBS: Who is Mr. Cohen?

He was one of our shareholders

EXHIBIT- Email dated 3/10/2010 re: Liquidity Flash document (1839)

KREBS: What is a liquidity flash document?

I don't know, I think it's a computer term.

KREBS: Are these the suggested two pieces of correspondence or notification relating to the activities of the day?

I believe this is the statement that I talked about earlier, partially because we had rumors and because we had a chairman who had made a statement.

EXHIBIT Email from Sam Molinaro to Alan Schwartz

KREBS: Sam refers to this as a big fire drills, is he referring to putting out the fire?

When we looked at what was going on, there was no real change if you were looking inside the firm if it was happening in its financial condition, and were dealing with all of the rumors as opposed to the fact.

NORMAN: Either on March 10 or 11, Christopher Cox put out a statement on BS's liquidity, did you speak to him on that?

No.

Did anyone?

I don't know.

EXHIBIT- Email (1980)

KREBS: Is this the Fed announcement you were talking about, the facility that came to be 28 days down the road?

Yes.

EXHIBIT

KREBS: Can you tell me what this document is?

It is from our research department, talking to clients about what was happening. Talking about what affect the credit market turmoil had on the economy. This wouldn't have been about BS.

EXHIBIT Email (2131)

KREBS: What's going on here with this email?

I don't remember this one in particular, but it's pretty representative of what Sam was talking about with the fire drill. I interpreted it as everyone in here knows that everything is solid, but the rumors are running amuck and we have to stop it.

EXHIBIT- Email (1839)

KREBS: You had not made your earning announcement yet, what constraints were put on?

Russell Sherman, we did eventually put out those drafts that you showed me. Part of what we were trying to get out was that we were are about to report our earnings. We were anxious to have a thorough conversation about the nature of our business, but we had to have our numbers to do so, and we were about to get our specifics. We were looking forward to the opportunity, but we had to finish closing our books, until then we couldn't say anything.

KREBS: Your hands were tied?

Yes. Just one point. One of the rumors was that we were going to report a disastrous loss in 1Q, and we knew we had a good quarter, but couldn't say that until we could report the quarter.

EXHIBIT- Email (2202)

KREBS: Invitation for you to appear on CNBC, did you end up doing that?

No.

EXHIBIT- Email (2214)

Schwartz: This is an announcement that I was going to appear on CNBC.

EXHIBIT- Email (2223)

KREBS: Who is Mr. Favor?

David Favor conducted the interview on CNBC.

EXHIBIT- Email (2431) Containing the transcript of Schwartz's CNBC appearance.

KREBS: The statement on page 2432, "when I'm told by a hedge fund…You're not aware that that would be the case?"

This is a follow-up to his first question, so it says that firms out there will not take BS as a counterparty. I said that we've talked to all of the major dealers and they said that they would take our counterparty risk. He said that he talked to someone who GS wouldn't take his trade. All I can deal with is if you're asking are there any firms that will take BS as a counterparty, we've been in contact with each one and it's not true.

KREBS: What about the novations in derivatives? There's some speculation of how the novations affected BS. Novation with derivatives are done directly between two counterparties, when their contract says that on that expiration I will pay you or you will pay me, and either you have margin along the way or you agree to take each other's credit. My risk is if you can pay me what you owe me. You don't want to be in the position of only being able to close it out with me, you decide to transfer the risk to someone else. The novation is that you have someone step into your shoes on the trade, and take the risk on the initial trade. In the normal course of the market, this was going on every minute. It's normally done without much question, what's more important is what's going on with the long and short. At the time, in March 2008, there were a bunch of rumors that no one would accept BS's risk. The speculation is that the flood could have been from people who were trying to push them so hard so word would stop people from taking BS's risk.

KREBS: What is the cure for that problem?

Move derivatives to an exchange or clearing process.

KREBS: How overwhelmed was your back office on these novations, or wasn't it that big of a problem?

It wasn't the only aspect, it was one aspect. We put a lot of senior people on it, took people out of their normal jobs and told them to focus on this. We started to buy dealers out of the contract. The process of that was a lot of stress.

KREBS: How quickly will a contract allow a counterparty to take a limit over a credit limit with BS?

If there's a run on deposits in the marketplace, or if another bank is open across the street, the flood can come in and overwhelm it like that.

KREBS: On a given day how many derivative contracts would BS have outstanding?

Thousands.

EXHIBIT- Email (2487)

KREBS: The email reads, "there are a number of client calls that should be made, including John Paulson". Do you know if he ever came to BS with a proposal similar to the one that recently has said he brought to GS?

I've read that, but other than that I wouldn't know.

KREBS: Was BS using those securities as collateral for obtaining money for the repo market?

I don't know all of the specifics, but there are detailed rules and I don't know all of them.

KREBS: Would it facilitate or debilitate the market?

The rules would segregate assets within a client account.

KREBS: On a given day don't the hedge fund clients borrow from BS?

Yes.

KREBS: Who are Adage and Regiment?

Those are hedge funds.

EXHIBIT- Email 3/13/2008 (2887)

KREBS: Apparently somebody tried to contact GS to learn if they were shorting BS stock, is this correct?

That's what it says. I just don't remember.

KREBS: The announcement they're talking about is which announcement?

This is the one in the morning, about JPMorgan.

KREBS: If I understand this correctly, the market basically said that if the Fed was moving through JPMorgan to work with BS, the firm must be in worse shape than thought?

I can't tell you exactly what happened, but I think the facts were clearly out about JPMorgan backstopping BS. I think the feeling from the Fed was that okay, you're dealing with JPMorgan and we're standing behind all of these trades. We were not really dealing with JPMorgan, but we were told to act as if we're really dealing with JPMorgan. The uncertainties of what this arrangement meant it was left unsettled.

KREBS: Who's Steve Black? He's one of the senior people at JPMorgan.

I believe if you look at the next several of these [emails], I think they're relating to the 14-16th.

(The interview took a short break)

KREBS: It doesn't strike me that you're a very impulsive person, but notwithstanding that, you did go to Mr. Cayne to tell him that it would be best if he took a less important role in the company. At what time did you understand that?

Right around year end 2007.

KREBS: What lead you to that conclusion?

Given the pressures that we were under, I was going around and meeting with a lot of our employees and trying to hold their hand.

KREBS: Did his hospitalization have anything to do with your recommendation and advice to him?

It seemed to me that the whole thing was taking a big toll on him and I couldn't distinguish how much his hospitalization was due to physical or his stress.

KREBS: Was it more that the employees were saying something to you or was it concern about his well-being?

It was a mix, but as a friend I was more concerned about him. As an officer of the company I was concerned about the employees' reaction. My responsibilities as an executive were more of what motivated me.

KREBS: I'm going to ask you essentially the same question, about the risk management study. At what point in time did you come to believe that it may be beneficial to the shareholders?

It was part of the total process, as I was taking responsibility for parts of the firm I had not previously been responsible for. One of the things I had was relationships with senior executives at corporations of all kinds. The most consistent advice I got was that no matter the familiarity you think you have with things, drill down and study and consider all alternatives and think about things with new eyes. Whether it was Oliver Wyman or McKinsey, it was all part of a review process to ensure that it's a good as it could possibly be.

KREBS: In early 2007, BS acquired a loan originator. Were you involved in that decision and process in that acquisition?

It was brought to the executive committee and in that role I was involved.

KREBS: What were the reasons for facilitating the Bear Stearns acquisition?

Two things. First, our business of acquiring loans from independent third party underwriters was becoming more difficult as more of our competitors integrated and had their own origination. The availability of independence was being threatened. Simultaneously, we were worried about the quality of the independent underwriters.

KREBS: Did there come a point in time that you came to realize that the mortgage securitization business and the acquisition of firms that were in that business was not in the best interest of BS?

No.

KREBS: Is it fair to say that at the end of 2007 you had reason to believe market forces were at play that would cause the mortgage business to improve over time?

I can't recall what I thought about the long-term outlook for the mortgage business. My long term focus was due to the ill-liquidity in the market and the fact that we were carrying more than we would have liked. I don't remember the implications.

KREBS: Did you ever conclude that the mortgage-related business was not going to recover in the near term?

Sure.

KREBS: And when was that?

I can't tell you exactly, but sometime in late 2007/early 2008.

KREBS: When did you think the market would correct itself or return?

It totally was not my focus. We were in a situation where we had to make sure that we could get through this cycle where we could get our mortgage inventories to manageable levels.

EXHIBIT- Email 3/14/2010 (3220)

KREBS: You were telling me who Steve Black was and that they wanted to have a meeting. Can you tell me anything about issues relating to due diligence?

No, I think it was much more about process than specifics.

KREBS: What did you do after receiving the information that Mr. Black and others wanted to meet straight away for the purpose of conducting a due diligence meeting?

I don't recall straight away but I'm sure Sam and I tried to put together the right teams.

EXHIBIT- Email from JPMorgan to Alan Schwartz

KREBS: Next email, "separate meeting schedule." How did you break down the due diligence team for meetings with JPMorgan?

Best I remember is that they told us what they wanted to discuss and what areas they wanted to focus on and we'd bring in those people. We had let's say four to six major buckets of business, and they would bring in the corresponding people from their side to align each of the businesses.

KREBS: Can you tell me what your principal concern with here?

It wasn't my concern, it was Mike Nuremberg's concern.

KREBS: Would you agree with him?

No, because I knew it wasn't going to happen by Saturday.

NORMAN: During BS's discussions with the Fed, who did you speak with?

The point person that we spoke to was Mr. Geithner. I had discussions with him Thursday and Friday a few times. After the close on Friday I spoke with Mr. Geithner and Secretary Paulson and they basically said that the Fed would not be able to stand behind Bear Stearns past the weekend and we needed to get a transaction done because we would not be able to carry this over until Monday. We needed to have a deal before the open of the Asian markets on Sunday about 7 or 8pm our time.

NORMAN: Can you tell me about the discussion with Geithner on Thursday?

I had a conversation with Mr. Geithner, probably early Thursday evening, about the conditions that we ran into Thursday afternoon, including the run on the bank.

NORMAN: Did you call him or did he call you?

I'm not sure. One of our lawyers, Rodge Cohen at Sullivan and Cromwell, either had Geithner call me or suggested that I call him.

NORMAN: The genesis was Bear reaching out to the FRBNY?

I think so. Pretty sure the first he heard about it was from us. There were a few conversations over the course where we told him we were reaching out to JPMorgan to see if we could establish a facility with them. And then at some point JPMorgan told us they couldn't do something without the involvement of the Fed and then they started talking. I probably had one or two conversations with Mr. Geithner.

NORMAN: Why was JPMorgan selected as the prospective partner?

Two reasons. First, they were one of the few institutions of sufficient size and stature. Second, they were our tri-party agent. As such, they could basically see our collateral and were the most familiar. Therefore, they could potentially move the quickest.

NORMAN: Did you have discussions with Geithner and Paulson following your discussions on Saturday?

I spoke to both of them periodically over the weekend and gave status reports.

NORMAN: We there reports on how the due diligence was progressing?

On several fronts. We had JPMorgan in doing due diligence, we also had Chris Flowers with a team. There were some discussions that the Flowers proposal would require the Fed to do something. There were also discussions with potentially interested parties.

EXHIBIT Email from Alan Schwartz to Steve Black 3/16/2008 (5322)

KREBS: What issues does this relate to?

I can't tell you exactly what that related to, but at some point on Sunday, JPM was trying to figure out if they could do a transaction and I was hearing that they were concerned as to whether they had the right marks or origination on the portfolio. I was saying that I needed more specifics, because just saying mortgage assets was not clear enough. It was more about making sure they had all of the right data. They were working very fast and mortgage assets need specific information about a specific security. It was about getting complete access. We wanted to make sure we had a complete pile of information

KREBS: Was it their inability to access the information or Tom Marano's plans?

It wasn't a dispute. They had to take to their board an evaluation of all of our assets. This was not like a margin call situation. This was we need all of this information because we have to give the board our independent assessment of what you are worth. It wasn't a dispute as much as a scramble to make sure they had all of the facts.

KREBS: What involvement at this juncture did the BS board of directors have in this process?

A lot.

KREBS: Did they first become involved Thursday night?

I would say so yes. I'm sure during the week the board was being kept aware. Thursday was the first time we had an official meeting. The board had to take certain actions throughout the weekend. Thursday night the board was apprised that we may not make it, during the following hours, they were told that the company was exploring the JPMorgan transaction and then that the Fed was involved. I presume the Board was kept apprised of what was going on Friday. I'm not sure we had a board meeting on Friday.

KREBS: Did you have a board meeting on Saturday?

Once we knew that we had to do something that weekend we got the board together and got whoever was in town and whoever was by phone and had a series of updates.

KREBS: Ultimately you reached an agreement, on principle, with JPMorgan on Sunday, what was the substance of the agreement?

The substance was an agreement for JPMorgan to acquire BS for $2 per share.

EXHIBIT- Email (3532)

KREBS: Is this a release that was proffered to you in relation to the agreement?

Looks like it, but I don't remember.

KREBS: Was there a clause in the merger contract that opened the door for possible discussions with JPM?

I don't think it was a clause; it had to do with Shareholder rights and Delaware law. The most important part to open the door to a potential deal was that there needed to be a period of time under the law to distribute the information and give shareholders the right to vote on a transaction. I believe JPMorgan was concerned that since we had significantly more asset value than liabilities, if the situation stabilized another bank could come along and make a bid. They therefore wanted to make it harder for a counterbid. To do so, JPMorgan had to stand behind BS for a longer period of time. People did not anticipate that the market would not settle after JPM announced they were buying BS. It was looking like a lot of risk potential for JPMorgan. That opened up the door to try and change some parts of the agreement to reduce the risk exposure.

KREBS: I'm not sure I understand, the market on Monday had turmoil. At this juncture, it's not affecting the stock of Bear Stearns?

The run on the bank continues.

KREBS: What do you think the cause of the financial crisis was?

There were a whole bunch of variables. I think huge growth of liquidity around the world. A lot of that in places that didn't have existing assets to invest in, so a tremendous amount of cash without anything to be invested in so it flooded into the developed world. AAA corporations were declining in number and there were fewer government bonds out there. This decline in supply of AAA instruments met with the growing demand and they spilled into other assets being created. This led to the financing of the asset price that increased. When you hit a point in time where that part of the world started to want to invest more of its money into its own development, it put a lot of pressure on those asset markets that had been inflated by the heaper interest rates. Once that happened, it exposed the cracks in the foundation. When people began fleeing out of the securities, it created a tremendous freeze in liquidity. This was the mechanism for liquidity.

KREBS: Do you think there was a perception in the marketplace following the failure of the BSAM funds that BS was a subprime securitizer, whether it was true or not?

The further away from the people who understood BS the more prevalent that perception.

NORMAN: How frequently or at all was senior management apprised of the leverage ratios of Bear Stearns in 2005-2008?

Reasonably frequently.

NORMAN: How would that information filter up?

We'd look at it at executive committee. It would be presented by our financials.

NORMAN: Are you familiar with the window dressing that BS did at the end of the quarter?

It's called balance sheet management.

NORMAN: Why did BS do that?

My understanding is that all financial institutions did that because it was important to show that the assets you had could be sold or liquidated. It just always seemed that within the financial industry, you reported throughout the quarter, but at the end of quarter or year managing the balance sheet would show that certain assets could be moved. The ability to bring the ratios up and down without affecting the balance sheet was one way of showing the potential for movement.

NORMAN: Was balance sheet management a practice that gave a more favorable light to the valuation of BS by credit agencies?

The credit agencies were the most interested in knowing that the assets were not stuck on your balance sheet. The absolute number would not affect the rating agencies in any way that I could see.

NORMAN: So this was an industry norm, rather than a specific date?

I don't know what it grew up from. I know from working on credit agreements that some are forced to unwind at year end. Year end and quarterly end just became norm.

NORMAN: Any discussion that it should be more transparent?

No, not that I'm aware of.

NORMAN: In 2004, the SEC announced a Consolidated Supervises Entities program.

In November 2005, Bear entered into the CSE program. Prior to the program's establishment in April 2004, we understand that the EU was going to require either the US investment banks consent to consolidated supervisory oversight in the EU or have some other US equivalent oversight.

NORMAN: Were you involved in any efforts to encourage the US to come up with some sort of consolidated supervisory oversight?

Not at all.

NORMAN: Are you aware of any discussions internally at BS?

I would hear from discussions time to time, but my own perception was that it was a battle between regulators to be sorted out. I don't know if any of our people had a point of view, but our people would have been focused on it.

NORMAN: Did you personally have a view on it?

No.

NORMAN: Did you have a view on whether there would be an advantage or disadvantage in the EU/US?

No. The only thing I could say as far as consolidation is that consistency made sense to me.

NORMAN: Any opinion on the SEC as the appropriate supervisor?

No.

NORMAN: Did you talk to anyone at the SEC prior to BS's entrance to the CSE?

I might have been called into a meeting, but I do not remember.

NORMAN: Do you know Lori Richards?

No.

NORMAN: Do you know Mike Macchiaroli?

No.

NORMAN: Matt Eichner?

That name sounds familiar, but I could be wrong. I went down to the SEC after JPMorgan acquired us.

NORMAN: Do you know Eric Sirri?

No.

NORMAN: Were you involved in any conversations after November 2005, regarding any impact at the broker-dealer level with the shift into the CSE program, and the net capital filer?

I will tell you that my dealing with any of this was simply getting reports as to what processes and procedures we had to make sure were in place to satisfy any regulatory authorities. I didn't spend 5 seconds worrying about which regulator would do what because I thought there were people at BS who would know that.

KREBS: Prior to the JPMorgan acquisition, do you recall any conversations with the SEC during your time at BS?

Whether it was rating agencies or SEC or somebody, it would be to come in to make a presentation for businesses that I was responsible for.

KREBS: Did you reach out to either Geithner or others at the Fed or Treasury regarding early admission to the Treasury lending facility?

No.

KREBS: Some report that BS reached out; do you recall any such communications?

No.

KREBS: Prior to the week of March 10, do you recall any conversations with Treasury Secretary Paulson?

I may have had one or two conversations. He just wanted to keep a pulse on what's going on and hear what I was seeing and hearing on the Street.

KREBS: How often would you have conversations like that with Treasury?

From Summer-January 2008, once every other week or something.

KREBS: Did they become more interested after BSAM collapsed?

No, I think they became more interested in talking with everybody when the market froze.

KREBS: Who would you talk to?

Bob Steel.

KREBS: Did Steel or anyone else in treasury prior to March 2008, suggest that BS take any particular business action?

No.

KREBS: Or reduce any particular exposure?

No suggestions on how to run our business.

KREBS: Did the Fed have conversations with BS prior to January 2008?

Sure, but probably more with Washington than New York.

KREBS: Did they have any suggestions for your business model or risk exposure?

No.

KREBS: Any conversations about your repo or CP exposure?

No, we had conversations about risk in the markets but not in detail about those things.

KREBS: Did they ask about your business practices?

Maybe in conversation, but nothing specifically.

NORMAN: Do you recall any conversations with the CFTC?

No.

NORMAN: Any conversations with the FSA (UK Regulator)?

No, I didn't have any formal dialogue, but they came in periodically and we would have met once or twice.

NORMAN: Did they ever ask BS to do anything with risk exposure?

No.

NORMAN: Prior to March 2008 were the SEC, Fed or FSA critical of business practice at BS?

Not that I can recall. We'd get various reports and there were always some things that you're supposed to work on over the years, but nothing I can remember.

NORMAN: Anything in particular?

Nothing.

EXHIBIT- Email (4864)

KREBS: This struck me as odd. I'm particularly interested in the highlighted language.

I can't say for sure, but I was probably referring to the fact that it seemed raw that the discount window opened right after our transaction instead of several months before.

NORMAN: Quoting, "we couldn't have done anything to avoid this outcome".

As I said the first email refers to my belief that at the time had the discount window been open to BS prior to the run on the bank, the run on the bank would not have occurred, but that's an action other people would have taken.

NORMAN: Did anybody under your supervision pick up the phone and notify Chris Cox of Bear Stearns's position, during the weekend?

I don't know if anybody spoke directly to Chairman Cox, but their senior officials were in constant dialogue. Best I can recall, there was a team at the SEC in our offices, perhaps prior to that but during that weekend.

NORMAN: Were the Fed officials present in the offices as well?

Not to my recollection.

KREBS: Are you familiar with Maiden Lane? Familiar but you'd have to refresh my memory.

KREBS: Can you tell me how it is that those particular securities were selected to be transferred over to Maiden Lane?

I wasn't privy to the conversations between JPMorgan and the Fed, but it was brought back to us that JPMorgan already had very significant exposures to the market and these were fairly large positions that were illiquid and could have a significant effect on the risk. JPMorgan would need more capital to block against that. The Fed went through and said that the JPM could ride out the higher quality assets without marking them down.

KREBS: How was the $29 billion arrived at?

I think it was the total assets that fit into a specific category. I don't know. It was a horse trade between Fed and JPMorgan.

KREBS: How did you get to $2 a share?

We didn't have a lot of competing offers so we had to take what they offered.

KREBS: There's some popular press out there that suggests that JPMorgan was willing to go hire but Secretary Paulson didn't feel that was necessary. Is it true?

Secretary Paulson didn't tell us what the price would be, JP did. There was no three-way conversation.

KREBS: This price went up to $10 at some point, was this a fair price?

I think JPM got an extraordinary deal, but at the time it was fair price in the context of the market at that point, because there were no other offers.

KREBS: You said that you asked Chairman Cayne to step down because you thought it was the best thing for the company. At that time did you think there was ineffective management of Bear Stearns?

No.

KREBS: You thought a change in management would appease the market, what were you thinking?

What I was hearing from senior people at Bear Stearns was that it the unfortunate press focusing on aspects of Jimmy Cayne that were irrelevant to us working day to day at the firm. People love to talk about things and all of the press speculation was contributing to an environment that made it hard to get their work done.

KREBS: Was senior management absent?

I don't think it got in the way of managing Bear Stearns.

NORMAN: You mentioned that there were no compensation clawbacks that affected you?

No.

NORMAN: You made a lot of money at Bear Stearns, do you think you should have given any of it back to the shareholders based on what happened?

When I consider that the stock that I owned was stock I had accumulated over almost thirty years at Bear Stearns, including a significant amount of stock that I received when we went public as well as a bunch of stock that I kept in the firm, the clawback of how much I gave back of my thirty years of compensation was very significant.

NORMAN: What about the cash compensation?

It wasn't as significant, but if the question is should some of the portion go back? Then maybe, but the amount that did was a significant portion and who's to say how much is significant enough.

KREBS: Looking back, is there anything you would do differently from 2005-2008?

Yes. At the time, we were most concerned about the quality of the lower rated assets, because they were the ones that entailed the most risk. If I look back to 2005 with the benefit of hindsight, we did not pay enough attention to the credit markets, because it had historically been a safe market. Now we know that it was becoming riskier.

NORMAN: Were you interviewed by the SEC?

I was during the short-selling investigation.