**MEMORANDUM FOR THE RECORD**

Type of Event: Nick Verbitsky CEO of Blue

Date of Event: August 24, 2010

Team Leader: Tom Kreps/Tom Borgers

Location: FCIC Office

Participants – Non-Commission:

* Nick Verbitsky

Participants –Commission:

* Tom Krebs
* Bob Hinkley
* Tom Borgers
* Jonathan Armstrong
* Vic Cunicelli
* George Wahl

MFR Prepared By: Tom Borgers

Date of MFR: October 8, 2010

Summary of the Interview:

**This is a paraphrasing of the interview dialogue and is not a transcript and should not be quoted as such, except where quotation is cited. A recording was made, but current FCIC policy precludes transcription of recordings**

Nick Verbitsky is CEO of Blue Chip Films, Norwalk, CT. Since 1998, his company has produced documentaries, commercials, corporate infomercials and animation. Verbitsky has been the Executive producer for all of Blue Chip assignments.

 He was interviewed relative to a documentary film, *Confidence Game,* he was working on. Mr. Verbitsky said as follows:

In 1991 he graduated Colgate University with a BA, and MBA from NYU Stern School of Business. He worked eight years in radio in NYC. Has made several films under Blue Chip Films. Current project *Confidence Game* concerns subprime mortgage securitization at Bear Stearns’ subsidiary EMC Mortgage Corporation. The film is documentary and largely consists of Verbitsky interviewing former EMC loan officer Matt Van Leeuwen and an anonymous second former EMC loan officer. The two were tasked with due diligence work by EMC. Verbitsky previewed excerpts of interviews of the two prior to interview.

Verbitsky sent a “blast” email to former BS employees via a friend. Mr. Van Leeuwen responded to the email in late 2009 or early 2010. Verbitsky selected BS as the first company for case study as they are “emblematic” of problems in the economy. BS is an investment bank turned bank holding company which was heavily involved in the mortgage industry and had a “bare knuckle” reputation. Verbitsky recounted various other individuals he had interviewed or intended to interview before completing the project. He noted that Van Leeuwen was contacted by attorney Muhammad Faridi of Patterson Belknap Webb & Tyler. Van Leeuwen was scheduled for a deposition related to the Ambac case (Ambac is suing BS/EMC). Van Leeuwen is represented by a NY law firm retained by EMC.

Verbitsky said he watched Warren Spector, former co-COO and President of BS, testify before the FCIC and claim that due diligence conducted on loan pools was, “robust.” It “boiled” his blood.

Below are some of the highlights of the confidential Van Leeuwen interview. (Verbitsky plans to release the documentary late 2010 or early 2011.)

* Van Leeuwen was an EMC analyst who supported the mortgage trading desk for Bear Stearns residential mortgage. He completed numerous steps before the loans were purchased for Bear Stearns (BS).
* BS thought the senior EMC staff were morons or hicks.
* Traders controlled the deal and wanted to get the deals done quickly.
* Most of the Alt-A loans were not reviewed for due diligence only about twenty per cent.
* Wells and Countrywide were major clients.
* EMC was not concerned about the DD because they could always substitute the loans later. He questioned whether this was disclosed to investors.
* He worked on large deals like the $2.6 billion Wells Fargo deal.
* BS in New York bought some garbage deals.
* Some Subprime where held on the books for three months.
* Default rates were artificially low because of the ability to refinance multiple times.
* IT systems were outdated in 2003/2004
* Bear Stearns was not licensed in West Virginia for mortgage lending. And they had to repurchase or substitute these loans. Some senior people at EMC knew about this. Keeping the Silence was key about these problems.
* BS was looking for new sources of mortgage and it bought a lot of problem loans, including ½ billion dollars from a Puerto Rico bank. Numerous docs were missing from this transaction.
* Bear Stearns began to loosen standards.
* BS started to buy loans from problem companies at huge discounts at the end.
* In 2006 BS was struggling with volume.
* Deals were sometimes rated with the Rating Agencies in 20 to 30 minutes.
* Rumor was the some deals were magically cleaned up to make the closing time.
* There was no training for analysts.
* He could not understand how huge discrepancies on balances would be unnoticed by the auditors.

The second video had little noteworthy info and FCIC staff only watched a few segments of the video.

The videos were not recorded by FCIC because of the Verbitsky’s request.

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