United States of America

Financial Crisis Inquiry Commission

INTERVIEW OF

SCOTT ALVAREZ and KIERAN FALLON

Tuesday, March 23, 2010

***** Confidential *****

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MS. NOONAN: I'm Dixie Noonan with the Financial Crisis Inquiry Commission. I'm at the Federal Reserve Headquarters in Washington, D.C. with Greg Feldberg, and joining us on the phone is Tom Krebs from the Commission. We are with Dave Caperton and Scott Alvarez and Kieran Fallon of the Federal Reserve.

So, Scott, if we could start with you, if you wouldn't mind, just giving us your history of how long you've been at the Fed, and general counsel in your role here.

MR. ALVAREZ: Well, I've been general counsel for five and half years. I have been at the Federal Reserve for almost 29 years. I came here right out of law school, graduated from Georgetown Law. Went to college at Princeton and majored in economics, so I have a little bit of economics and a little bit of law. And I have not been anywhere else in my professional career.

MS. NOONAN: What did you do before you were General Counsel? Were you always in the General Counsel's office?

MR. ALVAREZ: I've always been in the Legal Division. I started in both the international -- I

split my time between the international division and the domestic banking group. And then became full time in domestic banking. And so I spent all my career in that section of the Board, so I was involved in drafting legislation -- excuse me -- drafting legislation, working on applications for bank holding companies, both to merge with other banking organizations and also to expand their non-banking activities.

Worked through the thrift crisis, worked through the development of the Graham-Leach-Bliley Act. And then -- and most of the evolution of banking from the Federal Reserve perspective up through the Graham-Leach-Bliley Act. Then implementing Graham-Leach-Bliley Act to the early 2000s.

Most of the period, let's see, from, I think, it was 1990 or 1989, something like that, I've been an officer in charge of the group that does the domestic banking policy and then became General Counsel in 2004, in July.

MS. NOONAN: Thank you.

MR. ALVAREZ: Okay.

MS. NOONAN: Kieran, would you mind --

MR. FALLON: Sure.

MS. NOONAN: -- giving us a similar overview?

MR. FALLON: So I'm currently Associate

General Counsel in the banking regulation policy group, which is now a sort of combined domestic and international banking group here within the Legal Division.

I joined the Board in the 1995 as a staff attorney. Before that, I graduated from law school, graduated from NYU in 1992. I spent about two and a half years working in the financial services area department of Morrison & Foerster here in Washington, D.C.

Before law school, I was -- I worked as a legal assistant at Skadden Arps here in Washington for a year. I graduated Georgetown undergrad in 1988, with a bachelor's of science in foreign service. And so I joined the Board, I joined the Legal Division in April of 1995. It's my fifteenth anniversary next month.

MS. NOONAN: Congratulations.

MR. FALLON: As I said, I started as a staff attorney. Working on applications and interpretative questions. All the things that come up under the banking statutes. I'm mostly on the domestic side, that the Board is responsible for.

Began pretty early, got involved in some of those legislative work dealing with Graham-Leach-Bliley, probably back in 1997, 1998 time frame.

Worked with Scott and our then General Counsel at that point, Virgil Mattingly, on those legislative changes, and then much like Scott, handled implementation going forward about rule writing, and currently I deal a lot with legislation so the current financial reform efforts in sort of the regulatory and supervisory policy matters.

MS. NOONAN: So you're busy these days?

MR. FALLON: Most definitely.

MR. FELDBERG: Can we clarify, is there anybody else on the phone besides Tom? I heard some other noises.

MS. NOONAN: Has anyone joined the call besides Tom Krebs?

MR. KREBS: I'm sorry?

MR. FELDBERG: That sounds like Tom Krebs.

MS. NOONAN: No, you're fine. Thanks, Tom.

MR. KREBS: Okay.

MS. NOONAN: Great. Thank you very much.

I'm going to turn this over to Greg.

It's your show, for the most part.

MR. FELDBERG: Oh, is that right?

MS. NOONAN: Although I will have a few questions.

MR. FELDBERG: Okay. The reason that we're

setting this up this week is that we've have a former, very high level official from the Fed that will be testifying in a couple of weeks. And one of the main issues we're going to talk about is deregulation and the history about how deregulation occurred is still a little murky in my mind. Not just Graham-Leach-Bliley, but kind of the 20 years leading up to Graham-Leach-Bliley, how bank powers expanded, how holding company powers expanded. And, you know, what is the best argument out there. This is relevant to the financial crisis.

And this is kind of my high-level question, and I guess we could go look through into the weeds and say, well, what bad things happened at banks during this crisis and then just specifically go through them, and ask the deregulation argument that people are making.

So losses that bank made and where risk management was for in the structured-finance desks and the liquidity books, puts from the banks to their structured finance, whether or not some of that involved securities underwriting, dealing, trading, proprietary trading. So I see a mix of different activities here. Some of which might not be considered traditional banking activities. So I kind of need to ask the experts.

MS. NOONAN: That’s a big category.

MR. ALVAREZ: It’s a big question, right? I know it is.

Let’s see, how to start with this.

So, let me start with a thesis and work around that and we can come back and test it in different ways and you can ask questions about it. But, I guess, I would start with the concept that I don’t think the Graham-Leach-Bliley Act repeal of Glass-Steagall was the cause of the crisis.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: Nor do I think that repeal of the Glass-Steagall Act actually exacerbated the crisis.

So that’s one thing that you hear out in among the commenters.

MR. FELDBERG: Right, exactly.

MR. ALVAREZ: And maybe that’s a good place to start because we can go from there to a lot of different activities.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: The reason I don’t think that that was the problem is because -- so what the Glass-Steagall Act did was prevent banks from being affiliated with securities underwriters, okay?

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: We always have securities underwriters. Securities underwriters are doing their thing, and they've been pretty -- their activities are pretty expansive, right?

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So -- and securities underwriters clearly were involved in this, the crisis, generating lots of mortgage-backed securities, including subprime and Alt-A backed securities.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: But the ones that were the biggest generators of that were not affiliated with banks. Because of the Glass- -- because of repeal of the Glass-Steagall Act. They may have been affiliated with depository institutions because of other loopholes in the law, but it wasn't the Glass-Steagall Act that was the problem for that.

So, you know, Lehman and Bear Stearns are the two big examples of people who were generating securitization with wild abandon, okay?

MR. FELDBERG: Okay.

MR. ALVAREZ: And they were -- you know they didn't take advantage of Graham-Leach-Bliley.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: Bank of America did. Citigroup

did. J.P. Morgan did.

But I don't think, to the extent that there were problems at Citi, that they were the result of Glass-Steagall affiliations.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: Morgan did rather well, right? So, not a cause of the crisis. Not a casualty of the crisis.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: Bank of America, much the same.

So, in fact, if -- so if you step back from that and say, "Well, what really was the problem? Was it the securitizations that was a problem or was there something else?"

Now, I think for me, there were two parts. One is to the extent that you believe that the crisis -- let me just start this a little differently.

We have a system -- a whole system that I think was much more fragile than we realized, and I don't mean just the regulators. I mean everybody. The regulators, investors, bank regulators, securities regulators, you know, the CFTC, others. A system that was more fragile than we realized.

The mortgage crisis, I think, was the trigger that showed the vulnerabilities of the system,

generally. If it hadn't been for the mortgage crisis, I think we would have found the vulnerability in the system other ways. I don't know what the alternate trigger would have been.

Now, it's pretty clear, at least to me, that something else would have triggered this as well.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: The fragility was that investors had pretty much stopped analyzing risk in their investments. They were relying on credit-rating agencies, investment advisors. There was a huge herd mentality, there was incredible search for yield, and people were willing to take big risks in search of yield without understanding what they were doing, okay?

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So the Chairman has talked about the savings glut, and you know, just the amount of money in the world ready to be invested and it was looking for a place to go, and the United States -- it came to the United States in the subprime market and Alt-A market because those investments seemed to be good.

But they weren't looking to see what the risk was of those investments. That's a problem, right?

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: Because once -- and this is just

to do an overview pass -- once people realize they couldn't rely on rating agencies or investment advisors and there was more risk in their investments than they had anticipated, then people began to step back.

[Computer sound]

MR. McWILLIAMS: Bruce McWilliams.

MS. NOONAN: Hi, Bruce.

MR. McWILLIAMS: Hi.

MS. NOONAN: You're joining the call?

MR. McWILLIAMS: Hi.

MS. NOONAN: This is another colleague of ours from the FCIC.

MR. ALVAREZ: As long as you think they should be on the call, that's fine.

MS. NOONAN: We do. Thank you.

MR. ALVAREZ: So, they -- investors pulled back in a very dramatic way. They stopped making investments. They stopped providing liquidity and they realized they couldn't trust ratings.

MR. McWILLIAMS: Okay, great. I'm joining Tom Krebs.

MS. NOONAN: Great. Thanks, Bruce.

MR. ALVAREZ: They couldn't trust ratings in the subprime space, so they weren't going to trust ratings in the consumer receivable space, and they

weren't going to trust ratings in the corporate debt space. And so, folks just lost confidence in the system they were using to make investments. So they pulled back from everything.

And that's why it was a crisis, rather than just a small event. Because if you think about the subprime market was only 10 percent of the mortgage market in the United States. That's not enough to create a recession in the size of what we had and the collapse, the size, what we had, by itself.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: It had to spread beyond subprime. And so that's what it is. It was a big, general loss of confidence.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So what was the -- how did that all happen. I think there was also a general policy in the United States about trying to encourage more home ownership and more mortgages. And if you look through the eighties and nineties, big push from The Hill, big push from the policies of the Administration, big push -- and it's caused Democrats and Republicans to have more homeownership and get the homeownership up in the United States. It was the place for regular Americans to store their wealth. It was the most

important part of the wealth of most Americans.

MR. FELDBERG: Sure.

MR. ALVAREZ: So there was, we started giving lower capital rate, I mean capital ratings to mortgages.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: There was a long history of safe, low default rates in mortgages, so mortgages seemed to be -- to require less capital.

There was more encouragement to go -- to make loans to people that weren't traditionally in the banking system, and to be creative about products that could help and reach those folks. And so, you know, you see the thrifts in particular that begin to experiment with low-doc loans, begin to experiment with adjustable rate mortgages and a variety of other nontraditional kinds of mortgages. And so that begins to generate a lot of product.

At the same time, overlay on that is a big push for deregulation. And, again, this is across both the Republican and Democratic administrations, but there's bill after bill passed to review the regulations of the agencies, reduce regulatory burden. We start having initiatives -- administration-sponsored initiatives for every year, to demonstrate that there has been regulations that have been taken down or

repealed or adjusted.

Then there's the big ten-year push of --

MR. FALLON: EGRPRA.

MR. ALVAREZ: EGRPRA, that's what it was.

MS. NOONAN: What is this?

MR. ALVAREZ: EGRPRA.

MR. FALLON: EGRPRA. Economic Growth and Regulatory Paperwork Reduction Act of 1996.

MR. ALVAREZ: Right. And that was a statutory requirement that all the banking agencies reviewed every regulation that they had and recommend -- do whatever changes they could do themselves and then recommend statutory changes that Congress could adopt. And you may recall -- I don't know if you were --

MR. FALLON: I remember that exercise every year.

MR. ALVAREZ: And there was this big ceremony over at the FDIC where Don Powell and John Rich had big scissors and they were cutting -- they had red tape across the room, and they were cutting red tape and piles and piles of papers, representing the regulations that were being withdrawn or changed. So there was a big effort to deregulate.

The deregulatory effort, I think, was -- you know, there is no one piece that was a problem. But I

think the mindset that it created was a problem. The mindset was that there should be no regulation; that the market should take care of policing, unless there already is an identified problem. So it's less about anticipating problems. It's more about reacting to demonstrated problems.

Once you get in that mindset, then it's -- you know, you start -- then crisis can begin because you have to have that evidence first so you have to see that it has already caused damage before you react.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: And so we finally did react to some of the subprime problems with our nontraditional mortgage policy statement and with actions on subprime lending, policy statements on subprime lending. But, again, we were in the reactive mode because that's what the mindset was of the nineties and the early 2000s.

MS. NOONAN: When you say that was what the mindset was, was that sort of -- do you mean from the tone from the top here at the Federal Reserve, or do you mean something broader?

MR. ALVAREZ: No, I mean much broader than the Federal Reserve. I mean, the statutory requirements to review and repeal regulations and recommend regulatory reductions, the industry is having huge profits, right,

this whole period of time, so they're resisting very strongly any change, because there is no problem they see, right?

As long as they're making money and doing well, they have capital, then you have a bigger burden to show that they should change their behavior.

And then you have this housing policy of the United States generally that's saying: Don't discourage housing. And so all that is feeding into a resistance to take policies that look like they're going to cut back on the availability of credit to people who want to buy houses, so…

MS. NOONAN: But did that cause --

MR. FALLON: And two examples of situations where there were proposals and because of the mindset that was there, generated their negative reactions was when the Board issued –- when the banking agencies issued close guidance on commercial real-estate lending, which is now obviously a big focus.

MS. NOONAN: When was that?

MR. FALLON: 2006 –-

MR. ALVAREZ: 2006.

MR. FALLON: -- 2005, thereabouts.

We got very negative reaction from the public, from The Hill, a lot of people concerned that, you know,

that again, it was one of these things that everything is fine now, how can you be telling people to tighten their standards?

Another example was, following Graham-Leach-Bliley Act, when Graham-Leach-Bliley authorized merchant banking activities, we proposed capital rules with respect to the merchant banking activities of financial holding companies initially fairly stringent. And, you know, there were actually hearings and a lot of letters about that those standards were too strong.

Following up on --

MR. ALVAREZ: Could I add one thing there?

One of the other parts of this deregulatory effort was, there were four banking agencies, and one of the areas that was strongly criticized by The Hill and by the industry was when the four banking agencies would come out with different policies. So again, one of the efforts was to make all the agents, have all the agencies speak with one voice.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So that sounds wonderful, and it makes sense: Consistent application of policies across all banks of all charters.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: The difficulty is, it means

every agency has a veto over everything.

MS. NOONAN: Right.

MR. ALVAREZ: Right? And so it drives you a little lower. It doesn't drive you always to bottom, but it drives you lower. And so I think the nontraditional mortgage guidance and the CRE guidance -- commercial real-estate guidance -- the Fed was much stronger in its start where we wanted to be, where it wanted to go, but it couldn't get agreement from all the agencies at the higher level of regulation that the Fed was proposing. And so there were compromises made.

Now, in the end, I think we still believe what we put out was worthwhile and good. But, you know, you do have to make some compromises when you have that idea of uniformity.

MS. NOONAN: What are internal considerations on subprime guidance sort of before the 2006, 2007 time frame? I mean, my understanding -- and correct me if I'm wrong -- is that the Federal Reserve was actually given broad authority to regulate against abusive lending practices under the HOPA law.

MR. ALVAREZ: Yes, so there's two different things there.

MS. NOONAN: Okay.

MR. ALVAREZ: So the subprime guidance that we

issued was focused on a combination of safety and soundness in consumer but mostly towards safety and soundness.

MS. NOONAN: Right, okay.

MR. ALVAREZ: In other words, treat consumers well because that has a --

MS. NOONAN: Helps, right.

MR. ALVAREZ: -- safety and soundness.

And also have strong underwriting standards, verify your income, make sure you follow sound underwriting practices.

MS. NOONAN: Right.

MR. ALVAREZ: And that was -- that was something that we pushed very hard.

Unfair and deceptive acts and practices is not related to safety and soundness at all, so HOPA did give us the authority to issue regulations, to prevent unfair and deceptive acts and practices. And the Fed looked at that, again, in the early parts of this decade and decided that -- and this was a policy judgment -- decided that it was hard to write a regulation that would stop unfair and deceptive acts and practices because they were so consumer- -- they were so transaction-specific. And there was concern that if you put out a broad rule, you would stop things that were

not unfair and deceptive, because you were trying to get at the bad practices and you just couldn't think of all of the details you would need. And if you did think of all of the details, you'd end up writing a rule that people could get around very easily.

So we thought the better approach was to take individual enforcement actions and we actually issued a statement, a joint statement with the FDIC that said, "Unfair and deceptive acts and practices are prohibited by law. The agencies will use their enforcement authority and look at individual institutions and take actions as the agencies think are appropriate to stop unfair and deceptive acts by specific institutions."

So that what we didn't do was a reg. What we did do was have an enforcement policy.

And the Comptroller did the same thing. They also issued a statement saying they would take enforcement actions where they saw those policies and practices.

MR. KREBS: Scott, Tom Krebs.

Does this also involve preemption of state law?

MR. ALVAREZ: So the preemption of state law was entirely a Comptroller of the Currency issue.

MR. FALLON: NOTS.

MR. ALVAREZ: NOTS. I'm sorry, NOTS.

It wasn't a Federal Reserve issue because if we issued a regulation that said something was unfair or deceptive, it would layer on top of whatever the state thought was unfair and deceptive.

Does that make sense, Tom?

MR. KREBS: Yes, it does.

MR. ALVAREZ: Okay.

MR. FALLON: And so it was only with respect to the federally charted at the national banks and federal thrifts that have the -- that the OCC and OTS had taken a position that state laws don't apply with respect to those institutions.

MR. ALVAREZ: So I want to come back to one part of the deregulatory mindset because another thing that fits in here is, there was a huge section of the economy that was not regulated. So that's one of the reasons for the pressure to deregulate on the banking side.

There are mortgage originators, mortgage companies, that were independently owned and financed, not affiliated with banks. And they are now competing against banks in generating mortgages. And the broker-dealers are securitizing their assets as well as the bank assets, right?

MS. NOONAN: Would you mind if I just -- I had one quick follow-up question --

MR. ALVAREZ: Sure.

MS. NOONAN: -- on sort of the unfair and deceptive practices.

MR. ALVAREZ: Yes, yes.

MS. NOONAN: Were you -- you were involved in the discussions sort of the early part of this decade?

MR. ALVAREZ: Yes.

MS. NOONAN: And did you agree with the result that, it was hard to sort of regulate across the board against unfair and deceptive practices?

MR. ALVAREZ: So, I'm going to give you a lawyer's answer to that.

I work for people here, so my personal view isn't really all that relevant in the end. I've got to tell the policy makers what's legally permissible, what they can do, what the advantages and disadvantages of the positions are. But I try not to let my personal views get too much involved in what goes on.

MS. NOONAN: Were there people who disagreed with the view, the policy view that was ultimately taken?

MR. ALVAREZ: On unfair and deceptive? There certainly were people on The Hill who disagreed.

You know, I think there were a variety of opinions here at the Board. You know, staff -- staff gave the policy makers a good set of the advantages and disadvantages of taking the different approaches. So this was not a situation where there was violent opposition and the Board members had to drag the staff, kicking and screaming.

But the staff, I don't think, was pushing hard, either. You know, we understood the difficulty of doing this, this job.

I mean, it was -- it's instructive, I think that we asked the Comptroller for examples of the kinds of things they thought should be in a reg in the FDIC and there was no long list. There was not really even a short list.

We were asking people, what kind of enforcement actions are you taking. And you could see from the enforcement actions, they were very peculiar to the kind of business operation of the people they were going after.

You know, there were some people that we would have liked to go after on various products and, in fact, did. We shut down some operations. But we started with the idea that they were acting in a deceptive way or an unfair way, and ended up not being able to make the

case, and made the case on safety and soundness grounds. Because, you know, the law on unfair and deceptive is pretty well fleshed out because of FTC litigation through the years.

MS. NOONAN: Uh-huh.

MR. ALVAREZ: You know, the industry is pretty smart. You know, they know how to disclose. And, especially the people we deal with; right?

We're dealing with banks now that are heavily regulated and affiliates of banks, and they are used to being examined and they are used to having government intrusion so the folks that we deal with are -- they know how to comply with the law.

The folks that were unregulated, we couldn't do anything about. We couldn't find out about them. We couldn't examine them. We couldn't get information from them. We couldn't take enforcement actions against them.

Bankers would come in and say, you know, our guy down the street doesn't do these disclosures, so, you know, send it to the FTC and have the FTC do something, but the poor FTC is understaffed, under-resourced, and has big such restrictions on its ability to take actions, both regulatory and enforcement actions that it couldn't do very much. So it

effectively -- there effectively was this big unregulated part of the system.

Now, the states will tell you, they regulated that part and I think the truth is, some states were better than others. And largely, the industry was able to find the states that weren't very good, and there you have the unlevel playing field as well because the state -- the state laws would apply to the state-chartered institutions because of the preemption determinations didn't apply to the national banking institutions.

MS. NOONAN: Thank you for that.

I know you were going into --

MR. ALVAREZ: No, no, that fits nicely with this.

So I think the point here is that there was a pretty big housing juggernaut going along. We had done some -- you know, we had done the subprime -- several subprime policies, nontraditional mortgage guidance, commercial real estate guidance.

And then we were, of course, using the exam process as best we could for the banks and the non-banks.

Now, the -- there was also, I think, a trap that we have learned from that I think we're trying to

change our supervision to address; and that's "the originate to distribute" model, which I think was definitely a factor here, from our perspective, didn't look dangerous. And you think about -- so we have this deregulatory mindset, but even apart from that, our mission and the statutory provisions we work under require us to focus on the safety and soundness of the institutions that we supervise. That is our goal, to make sure they're safe and sound.

So banks and their affiliates are originating mortgages. They're getting fees for those originations and they're selling them to investors. They're not on the balance sheet of the banks any more; okay?

So, from a safety and soundness point of view, this is a very safe and sound activity because the principal risk is being taken by somebody else, and the fee income to the bank is making the capital of the bank stronger.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So one of the things we realized is that's why we keep talking about macro prudential supervision.

What we mean by that is looking at activities of the people we regulate to see what they're doing that harms the system, even if it doesn't harm them. Because

clearly as -- not just banks and non-banks, but as everybody's underwriting standards were getting lax, that was putting more risk on the investors and jeopardizing the system. And the investors didn't have a mechanism for monitoring that risk, weren't monitoring that risk. They were relying too much on the credit-rating agencies and others to do that monitoring for them.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: But from our statutory perspective of safety and soundness, to the banking industry, it looked very safe and sound.

MR. FELDBERG: Uh-huh, okay. Now, if we just go back to 1980 --

MR. ALVAREZ: Yes.

MR. FELDBERG: -- before we started deregulating, I think, the activities of banks and bank-holding companies could do, I mean, in 1980, could you -- could a bank do this type of activity -- create MBS, could they create CDOs and MBS and hold on to some tranches, invest in some tranches to diversify their risk, and invest in derivatives --

MR. ALVAREZ: So they clearly could generate --

MR. FELDBERG: -- so which of those things --

MR. ALVAREZ: -- mortgages, all they wanted; right?

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: That is the traditional banking activity. And through the eighties, the Comptroller had a series of opinions that allowed banks to securitize their assets and underwrite that -- those securities within the bank. As long as it was an asset the bank could have held directly, some mortgages.

MR. FALLON: The CDOs question is a little tricky because CDOs weren't around at that point in time. So it's a question of innovation occurs, so but in the eighties, the loan and securitization market started to pick up initially with residential mortgages.

Now, as those products got developed, national banks were permitted to securitize those, those assets and sell them and there were court cases upholding those determinations.

MR. ALVAREZ: Right, and the -- one way to think about this is, if banks don't sell these mortgages, they have to hold them on their balance sheet, right?

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So that means the capacity to generate mortgages is very limited. It's limited by the

capital of the banking industry, so once they reach their capacity, there's no more mortgages. That's why up through the early part of the eighties, there wasn't as tremendous a growth in the mortgage market.

So it was the potential to bring in other income, other capital from investors that spawned the securitization market.

MR. FALLON: And, of course, the GSEs were the largest buyers of the home mortgages, to package and securitize.

MR. ALVAREZ: Right.

MR. FELDBERG: Uh-huh. So the banks would do this under the bank because the OCC kind of extended this activity through their securities affiliates? Is that what you're saying --

MR. ALVAREZ: No, no, no. They could do it in the bank. But the securities companies were doing it, too; right? I mean, Lehman and Bear Stearns were doing this in humongous volume because for them, they would -- they would just -- because it's an underwriting fee for them; right? So they would sponsor -- they would hire folks to pull together mortgages, to purchase mortgages and they would sell them out. And they would never have the risk or they would have the risk for a few days or a month or something like that, but they would generate

fees from selling these securities.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So it wasn't -- I don't think it's right to say that this was banks' activities, bank-focused.

MR. FELDBERG: Right.

MR. ALVAREZ: This really is -- and again, this is why I come back to the Glass-Steagall Act thing -- it was the folks not taking advantage of the Glass-Steagall Act that were doing most of the underwriting, so…

MR. FALLON: In fact, on that point, I think the clearest evidence, at least to me, that Glass-Steagall really wasn't -- the Glass-Steagall repeal really wasn't a main contributor or even a significant contributor to this crisis, is if you look at the institutions that have failed, okay, the investment banks -- Bear Stearns, Lehman -- did not affiliate with a bank. They had a bank, bank affiliates under loopholes, but did not take advantage of the Graham-Leach-Bliley Act in order to become a bank-holding company.

AIG, again, not somebody that took advantage of the Glass-Steagall Act.

Countrywide. Washington Mutual. IndyMac.

MR. FELDBERG: Right.

MR. FALLON: These were institutions that did not -- were not affiliated with securities broker-dealer and were not affiliated with insurance company type of institutions that Glass- -- that Graham-Leach-Bliley, you know, permitted institutions to now broaden their affiliations.

Same thing with National City. Traditional banking organizations. They were WaMu, Countrywide, IndyMac. Heavily involved in mortgages. You know, a lot of Alt-A, subprime mortgages. Those were, you know, banking activity. It was before Glass-Steagall and long after.

Fannie and Freddie. Huge problem for the system. A tremendous concentration of risk. A lot of uncertainty as they got into trouble. Glass-Steagall had absolutely nothing to do with that.

MR. FELDBERG: All right, so the court cases in the eighties were the OCC or the court --

MR. FALLON: Yes.

MR. FELDBERG: -- I'm not sure who.

MR. FALLON: Well, initially, the OCC --

MR. ALVAREZ: Started with the OCC --

MR. FELDBERG: So they --

MR. ALVAREZ: -- they were sued and then…

MR. FELDBERG: So they allowed the banks to conduct securities underwriting, if there were mortgage-backed securities.

MR. ALVAREZ: Right.

MR. FELDBERG: So at that time, that was seen as an interpretation within Glass-Steagall?

MR. ALVAREZ: Right.

MR. FALLON: Right. Something was permissible under the Glass-Steagall Act.

MR. ALVAREZ: Right.

MR. FELDBERG: And then --

MR. FALLON: Because the interpretation was these were not activities that were covered by the prohibitions in Section 16 or 20.

MR. FELDBERG: Uh-huh.

MR. FALLON: These were sales of bank assets.

MS. NOONAN: So if we just take --

MR. KREBS: I'm sorry. I disagree. I mean, the point here is that –- the Glass-Steagall did not just outlaw the originate-to-distribute. It also prohibited banks from selling securities that were sold by underwriting affiliates. Take for example, Morgan Keegan and Regions Bank. Morgan Keegan loaded –- I mean, Regions Bank loaded its trust accounts with the Morgan Keegan high-risk bonds. I mean, they ran rampant

over those people for years.

MR. ALVAREZ: So I think you have to think about once the courts agreed that mortgage-backed securities could be generated by banks then you don't have a Glass-Steagall problem. That wasn't -- that was done in the eighties before Glass-Steagall was repealed. So I'm -- I'm not saying that people didn't do bad things, you know putting things in the trust department that don't belong in the trust department, that's a bad -- that's bad. And I agree with that.

But that's different than saying, the repeal of the Glass-Steagall Act is what opened up the industry to doing securities underwriting of mortgages. That just is -- you know.

MR. KREBS: I mean, I disagree with the notion as well, that all of a sudden, overnight we had Glass-Steagall repealed. I mean, that was a gradual process and it had throughout the period of time, there had been concession after concession after concession made and a retreat from Glass-Steagall, generally with respect to the banking industry.

MR. ALVAREZ: So I think perhaps you're maybe making a different point because, you know, the law is the law, and what the courts say the law is is what it is; right?

So, that's not a repeal. That is an interpretation of what the law is. So Glass-Steagall Act never -- did not prohibit these activities, period.

But that is different than saying securitizations, the growth in securitizations contributed to this problem. I agree with that. I think you're absolutely right that the growth in securitizations was a very major factor in the crisis that we had. It's just also true that the Glass-Steagall Act did not prohibit the growth in securitizations.

MR. KREBS: Well, also Glass-Steagall --

MR. ALVAREZ: It prohibited some parts, but not all.

MR. KREBS: -- changes. Changes were constructs of opinions from the bank regulators as opposed to court cases and/or statutory changes.

MR. ALVAREZ: So I don't think that's correct. And if it would help you, we'll give you the cites to the court cases that show that this is -- you know, these activities were found by the courts to be permissible.

Now, if you're saying that they wouldn't -- the courts wouldn't have had to deal with the problem if the agencies didn't take actions, okay, I can agree with

that. But in the end, the courts were the deciders about the scope of the Glass-Steagall Act.

I don't want to -- but that's too narrow a point for us to really fight about. I think the big point that you're making, that securitization, that if it hadn't been for the growth and securitizations in the last 25 years, we wouldn't have had the volume of loans and we wouldn't be -- life would be different. I think you're absolutely right about that.

MR. FELDBERG: I think a neutral way to put it would be that in the seventies, there was innovation in securitization, both securities brokers wanted to conduct this, banks wanted to conduct this. The OCC said, "That sounds like a regular banking activity," and the court confirmed that point of view.

So, you know, to the extent that banks were involved in these activities so that was part of the narrative --

MR. ALVAREZ: It is. It is, and it fits -- that's exactly right.

MR. FELDBERG: The point is, regulation is difficult because it's more interpretation that hadn't been necessary before, so it's not like --

MR. ALVAREZ: Innovations --

MR. FELDBERG: -- mortgage-backed securities

they did not allow before.

MR. ALVAREZ: Innovation also always tests the limits of the law and innovation during a mindset of deregulation is going to be -- there's going to be more innovation in the mindset of deregulation. No question about it.

MS. NOONAN: So if you look at it -- I'm trying to look at it slightly differently. And I do apologize if I take this step down, I'm afraid; but you're talking about the institutions that failed and pointing out that they weren't institutions that had taken advantage of Graham-Leach-Bliley, and yet they still had the problems with the securitized subprime mortgages and so if we go hunting for a place to point the finger or find the problem and we come up lacking when we look at Graham-Leach-Bliley, it seems to me that there's still some question that needs to be answered about how these mortgages got originated in the first place because mortgages are traditional banking activities.

MR. ALVAREZ: They are.

MS. NOONAN: That's my understanding.

MR. ALVAREZ: Sure.

MS. NOONAN: And if banks are regulated in the way that they originate mortgages and they are held to

some standards of what is prudent in terms of loan-to-value ratios, and things like that, how is it -- what law was missing that allowed all of these things to be originated in the first place and packaged by whoever, whether the investment bank or a different --

MR. ALVAREZ: That's why I was talking about the unregulated part of the market. Half of the market for mortgages is originated -- the mortgages were originated by people who were not banks and not affiliated with banks. Big and small mortgage companies. They would borrow from banks.

So Scott Alvarez Mortgage Company, incorporated in the state of Delaware --

MR. McWILLIAMS: Hi, excuse me --

MR. ALVAREZ: -- could borrow --

MR. McWILLIAMS: This is Bruce McWilliams.

When you say half the mortgages are originated outside of the banking industry, what period of time are you talking about?

MR. ALVAREZ: So let me - this is - let me get some statistics for you and I'll -- I will get that separately; okay? Because I don't have them at the tip of my fingers.

MS. NOONAN: That'd be great.

MR. ALVAREZ: And you'll want to know what

they are.

So we'll give you some -- because we have some estimates of how much was in and outside of the banking industry at different times in the last -- I don't know how much – how long back we go, but we'll get you what we can on that.

MS. NOONAN: That would be great.

MR. FELDBERG: I think that was in one of the reports that came out.

MR. ALVAREZ: Yes, it's been widely discussed, so…

But the idea was, so this mortgage company is now originating mortgages. I don't really want to keep them myself either. So I'm going to sell them to Bear Stearns to securitize or sell them to somebody else to securitize, and then put off into the market. So those are generating those securities and those securities are being bought by all kinds of folks. And then generating CDOs and other things off of those, off of those mortgages.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: And that's where underwriting standards really slipped because there's nobody watching that.

MR. FALLON: I think also there is -- because

there's been a fairly long period of time where, as Scott mentioned, mortgages have performed quite well, as these, you know, these new features started to get introduced, so you'd get lower down payments, you'd have reduced documentation requirements, you'd have interest-only loans, you'd have pay-option ARMs. A lot of that was, you know, concentrated in some of the institutions that I mentioned.

The problems that those types of mortgages could occur, could see in a downturn, hadn't been tested because there hadn't been those kinds of features within the mortgages that had been performed before.

And so, again, it was sort of failure of the rating agencies, the investors, and, you know, to some extent, the institutions to try and really have a robust understanding of, okay, once you start layering on these multiple different kinds of features that alter the risk characteristics of the loans, how are all those going to play out if you get into a stress scenario where housing prices are no longer going up and people who -- when some of the features start to bite -- can refinance out and keep -- pay off the loan that had those features.

MR. FELDBERG: I'm trying to decide what direction I should go here.

I guess, so just going from the eighties and

on, I mean, so essentially the extension of the bank powers -- Section 16 federal activities -- the interpretation of it, as they developed, however you want to put it, I guess, essentially preceded the Fed's extension of what Section 20 affiliates could do.

So, how do we tell that story, in that section?

MR. ALVAREZ: Yes, so the decision -- they're sort of proceeding in a little -- and independent.

MR. FELDBERG: Right, uh-huh.

MR. ALVAREZ: We're interpreting the Glass-Steagall Act as it applies to affiliates of banks, and what does it mean. Our interpretations are mostly around what does it mean to be principally engaged in securities underwriting activities for percentage is prohibited.

MR. FELDBERG: Uh-huh.

MR. FALLON: Because Section 20, that section 20, the Glass-Steagall Act, allows the bank to be affiliated with the securities firm that's engaged in underwriting and dealing so long as that securities firm is not principally engaged in underwriting and dealing in bank-ineligible securities, so the types of securities that a bank itself can't underwrite and deal in.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So what the parallel piece is the Comptroller's interpretation of what bank-eligible securities are.

MR. FELDBERG: Right.

MR. ALVAREZ: And if it's bank-eligible, it's not prohibited by the Glass-Steagall Act, it can be done in the bank.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: And that's this discussion about mortgage-backed securities and some consumer-backed securities. Credit-card receivables, auto loans, those markets for securitizations were created in the eighties from interpretations as well.

And so it's really -- it is parsing the Glass-Steagall Act, no question about that. But if they were not so coordinated, Comptroller was in a different part of the field than we were.

MR. FELDBERG: Okay, then -- then we looked at the innovations as they became very complicated in the late nineties, early part of this decade.

First, we have CDOs come along and then there were a lot of different types of variable-interest entities that the banks introduced the securities firms introduced. What was the response to that? I mean,

were there Section 20 -- I guess that was after Graham-Leach-Bliley, were there 23A implications of these new innovations and how did the Fed respond to them when they came along?

MR. FALLON: SIVs.

MR. ALVAREZ: So, SIVs have always been with us; right? And remember, SIVs are created because of accounting rules; right?

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: And so I think there are a couple of parts to the SIV story.

One is, I think everybody -- regulators, institutions -- became sort of lulled into thinking SIVs were sort of really separate from the bank because of the accounting requirements.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: You know, you don't have to account for them if you meet certain standards. And so you don't have to be responsible for them.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: But then, as you would know, Greg, BASEL II, we got to the point where we're saying, we're not totally comfortable with that, we can't really dispute it because we don't set the accounting standards.

On the other hand, we're going to make banks hold some capital against their off-balance sheet liabilities and the potential that they're going to have to take on some risk, that they do take on some risk on the SIVs. So we did require some capital to be held against the SIVs even if the accounting rules would have said that the bank isn't responsible for them.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So, I think, one of the lessons of the crisis is that all kinds of institutions, not just banks -- again, let's go to Bear Stearns; right? -- felt tremendous pressure to support their SIVs, and no one had enough capital to do that.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: But that wasn't unique to the banking industry. And there, I think the accounting -- the accountants have realized they made a mistake as well, and so now that's going to -- that's all come back on-balance sheet.

MR. FELDBERG: Right.

MR. ALVAREZ: And so that means there will be more capital held against those.

MR. FELDBERG: Uh-huh.

MR. FALLON: And as you recall, there were some off-balance sheet -- I mean, securitizations were

an early form of sort like a SIV-like thing. The assets are put into an off-balance trust, and -- but there tends to be some continuing relationships with those because if loans -- particularly with ongoing receivable trust for credit cards and things like that, those -- as those receivables get paid off, additional receivables are added. There's oftentimes relationships that require -- you know, if loans go bad in the trust for some to be put back, and there's residual tranches.

MR. FELDBERG: Uh-huh.

MR. FALLON: And even before, I think several years ago, we had been working with the other agencies on beefing up the capital rules for those residual tranches for credit-card securitizations and other securitizations because of the higher risk that those presented. And those were done several years ago.

MR. FELDBERG: Okay.

MR. KREBS: While we're on that, have you had a case to do any study with respect to the quality of the communication and cooperation between the Fed and SEC in connection with either the Bear Stearns or the Lehman case?

MR. ALVAREZ: We haven't done any special study of the cooperation. I think -- I think we all believe that we could have cooperated a little more than

we did.

On the other hand, we were all trying to respect each other's place in the pecking order here. As you know from looking at the Bank Holding Company Act and the Graham-Leach-Bliley Act, the Federal Reserve did not have authority to supervise Bear Stearns or Lehman Brothers at any point. And so our relationship with them, we could not supplant the SEC or quarrel with the SEC. The SEC was the only regulator with authority over those institutions, so we also have a different culture of -- than the SEC in the sense of our perspective is very much one of looking at the safety and soundness and financial strength of an organization.

The SEC has a little bit of that, but they are mostly focused on disclosure and investor protection. So they didn't come to their supervision of those entities as a prudential supervisor, and we didn't come to our interaction with those entities as an investor-protection supervisor. So in some degree, we were talking past each other. In some degree, it's not so much that we didn't want to cooperate with each other. We just didn't know how to cooperate with each other. We're in different places.

MS. NOONAN: How do you deal with that when, for example, you have the broker-dealer of a bank

holding company? For example, Citigroup or J.P. Morgan, where the Federal Reserve and the OCC are prudential regulators –

MR. ALVAREZ: Right.

MS. NOONAN: -- concerned with safety and soundness and the broker-dealer entity within the bank holding company is regulated primarily by the SEC, who does not have as big a focus on sort of the safety and soundness.

I mean, how do you deal with that?

MR. ALVAREZ: Yes. And that's been an issue for us. The Graham-Leach-Bliley Act specifically prohibits us from doing examinations of the broker-dealer without going through the SEC. There's a lot of hurdles and restrictions placed on us, so we have to rely on the SEC for information and assessments of the condition of the broker-dealer unless we have some pretty strong evidence that there's something else going on that's actually going to cause a risk to a bank and we know that in advance, and we can demonstrate that so we can then go in.

So it's –- you know Graham-Leach-Bliley, this is apart from Glass-Steagall –

MS. NOONAN: Right.

MR. ALVAREZ: -- but Graham-Leach-Bliley, I

think, set up a structure that relied on functional regulators with the assumption that all functional regulators are looking at the same thing with the same idea and should be able to, you know, support each other, when in fact, functional regulators are looking at different things with different perspectives and not as attuned to the needs of the other people. SEC was not attuned to our need for information about the prudential strength for the broker-dealer. Still isn't today; right? But that is the restriction we live with.

MS. NOONAN: Do you think that played a part in any of the other problems that Citigroup had with the problems that went through their broker-dealer that ultimately caused them…

MR. ALVAREZ: So, I don't think the -- I don't think that's what caused problems for Citigroup, no.

I think that their problems were -- their problems were generated by business decisions they made to get into various parts of the United States market that they were not very good at, and they didn't have quite enough capital to absorb the losses that they got in those areas, and you know, they caught -- they were caught in a -- they were moving away from a retail kind of business base, so the Bank of America model; right? And they weren't quite to the J.P. Morgan model of, you

know, strong investment bank or the Goldman strong investment bank model. And so they were in no man's land and they didn't do so well. That business model just didn't work so well.

It's going to happen that people are going to make bad decisions like that. Now, maybe in a different environment they would have been better, more successful. But then, we shouldn't about Citi as if it failed. It hasn't. It survived, unlike Bear Stearns, unlike Lehman, unlike WaMu, Wachovia and --

MS. NOONAN: Although Citigroup had the benefit of, what, forty-something billion dollars of government money that Bear Stearns didn't get, I think.

MR. ALVAREZ: Yes, yes, yes. No question about it. They got capital infusions, and they're paying back their capital infusions.

I mean, it's a different kind -- not that they weren't a problem, but it's a different magnitude of problem than what happened with the others.

MR. FELDBERG: Uh-huh. They were widespread problems?

MR. ALVAREZ: Yes, we just went through the most severe recession than we've been through in 75 years. There's going to be bank failures. There's going to be people with problems. There's going to be

people who aren't going to be able to make it. That doesn't mean that -- you know, you've got to take the economics into account as well as the business decision.

MR. FELDBERG: One of the things that the team has found out, which I could have told them before, and that is, it's sometimes complicated to figure out which part of Citi is supervised by the Fed, and which is supervised by the SEC.

And there was one in particular, the London arm where it's synthetic, overcoming that. I think we hadn't gotten the clearance from the OCC.

If you know the answer about who should be supervising that, it would be helpful. But I think the question really is, is there something wrong in the way Graham-Leach-Bliley sets up supervision that makes it easy to miss things that end up being significant problems, especially for institutions?

MR. ALVAREZ: Yeah -- no, that I have come to strongly believe is a mistake. That part of the Graham-Leach-Bliley Act segments of an organization's supervision so strongly and really keeps regulators out of different parts. We need to have a more holistic examination process of an organization like Citigroup, both Bank of America and J.P. Morgan, they're big, complicated, and risk is getting passed from one place

to another. They're managing themselves on a systemwide -- you know, on an enterprisewide basis. They should be supervised on an enterprisewide basis.

MR. FALLON: Our Chairman and Governor have testified to that effect, that the Fed limits need to be revisited and substantially modified in order to allow this kind of more holistic version of supervision rather than, you know [inaudible] have this view to just building block. You know, you've got [inaudible] if it's a national bank, SEC if a broker-dealer, and the Fed will look at the others. You know, whatever isn't there. And it's just you can't do that in modern -- the way these institutions are broken out.

MR. FELDBERG: Have you ever seen a good analysis -- I guess, we had a former supervisor last week who I know very well, and he just didn't know the answer to how much the losses at Citi came from the bank versus the non-bank. And I guess you can tell to some extent from the bank's [inaudible]. So to what extent do you hold the CDO business responsible from one universe to another is very difficult to figure out.

MR. ALVAREZ: Well, you can -- I mean, they still do report a bunch of their legal -- on a legal-entity basis for some parts; right? So you know that the credit-card operation is losing money.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: And you know the subprime mortgage part of the business was losing money.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: You know that -- so you can go through and do that, that kind of an exercise.

MR. FALLON: The other thing, I think --

MR. ALVAREZ: You can tell where the losses are coming from, too; right?

MR. KREBS: The hard part is who do you blame for an off-balance sheet [inaudible]?

MR. ALVAREZ: Yes, who do you blame -- right, right.

MR. FALLON: I think it's tough when you're looking at that kind of entity to really get a sense of, okay, where the issues are. Because if you just look at realized losses, you know, a lot of the problems that institutions were having with liquidity and institutions pulling back was there was just great uncertainty as to what the value of the holdings of these various institutions. So it's not so much that, you know, even if the institution hadn't written down mortgages, like at the bank where a lot of the mortgages are held, you know, at book value rather than, you know, fair value. Institutions, even if they didn't report a lot of

losses, market participants were wondering, "Look, there's so much stress. What's the real value of the risk?"

There's great uncertainty as to what the real value of those securities were.

On the security side, on the broker-dealer side, oftentimes, a lot of the securities are mark-to-market, so those losses might be realized quicker. It might be a little bit more transparent, but still there were people concerned about, "Okay, even if you marked it down 10 percent at the broker-dealer, is that really the full extent of your losses?"

There are just people with the housing market tailing off, and they're just being -- people uncertain about the eventual loss rates were going to be, you know.

MR. FELDBERG: Uh-huh. Okay.

The liquidity puts is fascinating to me because that's the bank exposure to it, off-balance sheet activity.

Is that something the Fed actually took a look at when it came along ten years ago, as a significant off-balance-sheet exposure, I mean? I know there's a capital standard against it which probably didn't turn out to be enough. But was that even looked at that from

a 23A point of review?

MR. ALVAREZ: Well, they're not affiliates; right?

That's the -- so, securitization, it's a separate non-affiliated entity by definition; right? Owned by somebody else. Owned, not controlled by the bank. The accountants say it's the case. So, there it is.

On the liquidity flip side, I don't know myself, and that's something that we can check with the S and R folks about, how much stuff there was.

MR. FELDBERG: Uh-huh. How much it was back then.

MR. ALVAREZ: Yes.

MR. FELDBERG: Okay.

MR. ALVAREZ: No, we were hoping to have Pat here today, but I wasn't able to…

MR. FELDBERG: I assume we're getting to him next week.

Okay, just stepping back, the commissioners have kind of put down a principle that we should be focusing on, bad things that caused the crisis and to try to avoid conversations about things that are bad but didn't cause the crisis.

MR. ALVAREZ: Okay.

MR. FELDBERG: Even if they're really bad and really need to be reformed.

MR. ALVAREZ: Yes, yes.

MR. FELDBERG: And one thing I wonder which category it's in, is industrial loan companies.

MR. ALVAREZ: Okay, so, they're in the category that --

MR. FELDBERG: [Inaudible] a good case, but I don't --

MR. ALVAREZ: I want it to be in the category of the things that were bad that caused the crisis, but I think they're just bad things.

MR. FELDBERG: Okay.

MR. ALVAREZ: To be honest and fair, the ILCs, maybe Kieran has a different point of view, but I don't think that ILCs caused the crisis or certainly ILCs didn't fail in a big way because of the crisis.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: But that doesn't make them good things.

MR. FELDBERG: Okay.

MR. FALLON: So I guess I take maybe a slightly different view. I agree that ILCs themselves were not -- you know, weren't a significant contributor. The problem was that, you know, the loophole allowed

institutions that would otherwise have been subject to consolidated supervision, to avoid that structure.

MR. FELDBERG: Uh-huh.

MR. FALLON: So, you know, Morgan Stanley, Merrill Lynch, they had very large ILCs, so they were able to get access to lots of amounts of deposit funding.

MR. FELDBERG: Uh-huh.

MR. FALLON: Now, did that cause their problems? No.

Probably to some extent, it helped stabilize their funding in the crisis.

MR. ALVAREZ: It actually gave them an escape route.

MR. FALLON: But the thing -- so it's not so much that they had one that was a problem. It's the fact that, you know, they were able to get access to that kind of funding without the kind of rigorous supervision that would normally have come along with that.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: But I mean, the thing about it was --

MR. FELDBERG: So I guess the FDIC would say that they supervised it like any bank or --

MR. ALVAREZ: Yes, they did. They did. They did, and what they used – at least, Merrill Lynch mostly used and it was by far the largest ILC, it used that to be a place for excess funds from its brokerage accounts. They would sweep them in. So it wasn't like they were using that to generate the mortgages necessarily that they were securitizing. Some of that, but not -- you know, it's hard to point to that and say that was the cause of the crisis.

I do think, though, that something related to that that was a vulnerability in the system was the money market mutual funds.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: Okay, they're not insured, but they're thought by the marketplace to be entirely safe. They invested in commercial paper and other kinds of mortgage-backed securities and other things.

As the crisis started to develop and commercial paper, in particular became, like, you know, Lehman Brothers. When Lehman failed or Bear Stearns when it failed, their commercial paper became worthless. Money market mutual funds started contracting, you know, the Reserve Fund broke the buck after Lehman, that shook up interestingly enough, not the retail depositor, but the institutional investors. And institutional

investors started running from money market mutual funds, and so you had an outside-the-banking-system liquidity crisis.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: You know, because the money market mutual funds are providing huge amounts of liquidity to tri-party repo market, to the CP markets. To other places, so…

MR. FELDBERG: Uh-huh.

MR. FALLON: And that was so the money market fund period, they were significant players in the repo. So a short time.

And the problem -- part of the problem of that was that repos have very short term, typically overnight, which allows the money market funds to stay within their weighted average maturity. They have to have a very short weighted average maturity. You know, their obligation is to stay within the Rule 2a-7.

MS. NOONAN: To stay within what?

MR. FALLON: Rule 2a-7. The SEC rule that regulates how a money market fund can operate.

Part of the problem is that if a repo, these large repos were to be unwound, so if the Lehman or Bear Stearns repo was to be unwound, because of the failure; right?

MR. FELDBERG: Uh-huh.

MR. FALLON: The clearing banks would put the collateral back to the investors. That collateral, they have a much greater maturity than the overnight repo. So it could be a 90-day bond. It could be a 180-day bond.

And part of the concern around this systemic fragility was that if -- so if the repo books were unwound, you'd have a lot of this longer dated maturity securities going back to the money market mutual funds that may not be able to hold it, may not be of the right quality or maturity. And so they might need to sell that quickly and you'd have a massive amount of securities flooding the market at one time.

MR. FELDBERG: It seems like a simple principle that you shouldn't be allowed to lend against something you're not allowed to hold. When was the case then at the time.

MR. ALVAREZ: So the other thing that's going on here, yes, that's right. But the other part of this is – the financial -- this is a vulnerability and it's interesting how we deal with it.

The financial system needs somebody to intermediate between long-term and short-term liabilities and assets; right?

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So the simple answer to this, all this is, everybody should match their assets and liabilities. The problem is the world isn't set up that way.

You know, there is a need for both in different proportions. They don't match up exactly, right?

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So banks and broker-dealers are at the focal point of matching up the longer-term assets with shorter-term funding; right?

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: And so -- and that in the crisis turned out to be the one -- the banking industry because it had the support of deposit insurance and regulation was thought to be safer at doing that intermediation, than the broker-dealers. Broker-dealers were doing it outside the regulatory regime. They had no government backstop and so people ran from them, right, and as funding ran away, they had the long-term assets and they couldn't fund them anymore. So they began to fail.

It's interesting because in the thirties, if you go back to read back about The Depression, that's one of the reasons banks failed because they were

mismatched, nobody believed that they could -- you know, people lost faith in the banks so the funding went away.

We solved that problem with deposit insurance and regulation.

And so Goldman-Sachs -- and sort of the way these marry, is Goldman-Sachs and Morgan Stanley were able to become bank holding companies because Graham-Leach-Bliley and, you know, the repeal of the Glass-Steagall happened. And that gave the market confidence that those guys could do this intermediation function under the watchful eye of somebody, the Federal Reserve.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: Right? And so they would be okay, because they would meet minimum financial standards that the Federal Reserve would impose on them and the investors could feel comfortable with that and deal with them as counter parties on that.

So, we've got to have this function. Somebody has to do it, but one of the lessons of the crisis is it cannot be in an unregulated part of the economy. In a crisis, that will fail.

MR. FELDBERG: Uh-huh. So you would put the investment banks as well as the money market mutual funds in the [inaudible] --

MR. ALVAREZ: Absolutely, yes. Absolutely.

MR. FALLON: Turning transformation.

MR. ALVAREZ: Right.

MR. FELDBERG: Right.

Okay, so the money market mutual funds leads on to another question I had, which is does -- I guess, I don't know how to put this, but kind of describe the different 23A waivers that had to happen during the crisis and, I guess, are there any flaws in the way we had everything set up, that they point to?

MR. ALVAREZ: So I don't think the 23A was a contributor at all.

MR. FELDBERG: Plus, [inaudible] a result, it's a policy response anyway --

MR. ALVAREZ: It's a policy response --

MR. FELDBERG: -- [inaudible] more, because it illustrates something, some weaknesses in the way that things are set up. For instance, that we had to split money market funds to banks. So does that illustrate a weakness in the way that the money market industry was set up, for example?

MR. ALVAREZ: Let me answer this --

MR. FELDBERG: Answer it the way you would like, though.

MR. ALVAREZ: Well, so is that a weakness?

You know, I don't know if that's a weakness or a strength.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: You know the idea is that, so the fundamental question we have to answer as a society is, do we want -- how much do we want the taxpayer to protect; right?

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So 23A limits the amount of taxpayer protection that there can be for affiliates.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: That is one way to think about it from a high level because the funding that comes from the bank is, you can look at, as taxpayer-protected funding.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So you know, it's sort of arbitrary that we say 10 percent of capital; right?

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: It could be 50percent of capital. It could be 5 percent of capital.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: Right?

So what the 23A sets a 10 percent of capital level. There have been times when we have given people

more leeway.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: And we've given them more leeway typically in situations where it's a one-time reorganizational kind of transaction; right?

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: Somebody bought something. The bank could have bought it directly but instead of the bank buying it, the affiliate buys it. And then it transfers it to the bank.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So, you know, I take that whole category 23A exceptions out because I don't think those are really relevant to anything.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: After that, there were very few exceptions that we granted. We granted some at the beginning of the crisis to allow banks to use their broker-dealers to fund the housing market.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: Because the relationships with owners of mortgage-backed securities and CDOs were with the broker-dealer, so we allowed mirrored transactions between the bank and the broker-dealer.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: Transactions that mirrored the broker-dealer's transaction with the customer. So the broker-dealer gained nothing from doing this transaction. It was as if the bank did the transaction directly with the customer.

MR. FELDBERG: Right.

MR. ALVAREZ: That was an exception that we gave right early in the crisis when we opened up the discount window more. It turned out not to be a useful exception. People used it a little bit, but then they drifted away from it because the core to that exception, mirrored transactions, had to be mark-to-market everyday, they had to be fully collateralized. The bank was very much protected.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: But the asset values that the customers were trying to finance were dropping.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So the requirement that they mark-to-market everyday and get collateral everyday for the amount meant the loans were going down in amount and that wasn't useful to the customers. So that just turned out not to be all that big a deal. And that's one of the reasons we came up with the various facilities we came up with: The CPFF, TAUF, and other

facilities are a more direct way to inject liquidity into these markets rather than trying to use this 23A discount-window thing.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: The other 23A exemptions that we gave, I think, are noteworthy allowed the broker-dealers to use collateral that they had in various parts to collateralized loans from the PDCF or things like that.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: So that's a very technical set of 23A exemptions.

MR. FALLON: I think these are all on our Web site.

MR. ALVAREZ: Yes, they're all on our Web site.

And they're all melting away as we take the facilities off, these 23A exceptions go away.

MR. FELDBERG: There's auction-rate securities at least, but --

MR. ALVAREZ: There were auction-rate securities, those were settlements with the SEC; right? So we're trying to both deal with the SEC, settling its claims and also reopen the auction-rate markets for municipalities.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: But the 23A exceptions, they were very small.

MR. FELDBERG: Okay, and the money market funds, did that end it with that?

MR. ALVAREZ: I don't think --

MR. FELDBERG: Was that used, or was that just kind of floating out there?

MR. ALVAREZ: It's a ways from the AMLF; right?

MR. FALLON: Right.

MR. FELDBERG: So that's one thing that didn't get used too much.

MR. ALVAREZ: The AMLF was used a lot in the beginning.

MR. FELDBERG: Was it?

MR. ALVAREZ: Yes. And then it trended down over time.

MR. FALLON: But that one we were comfortable giving it to because it was a nonrecourse loan to the broker-dealer so the bank was at no risk.

MR. FELDBERG: Uh-huh.

MR. FALLON: The bank was at zero risk for those transactions.

MR. FELDBERG: Okay. Another -- I don't want to ask this as a policy question, but there's talk about

the Volcker rule --

MR. ALVAREZ: Yes.

MR. FELDBERG: -- to address proprietary trading.

So what to what extent is proprietary trading an issue in this crisis? Understanding that it's difficult sometimes to tell what's propriety versus what's not.

MR. ALVAREZ: So, that's exactly the crux of it. If you think about proprietary trading the way Volcker says he is thinking about proprietary trading: So merchant banking, investments, other kinds of private equity investments and that kind of stuff.

MR. FELDBERG: Uh-huh.

MR. ALVAREZ: It played virtually no role in the financial crisis. And Volcker admits that as well.

His position has been: This is the next crisis. Let's get ahead of it because this is a risky activity.

And he's never been comfortable since the early days of the Federal Reserve's decisions on Section 20 subs. He's never been comfortable with underwriting or investment banking activities in a banking organization, so that's fine.

Our position has been, we, too, think that

risk in banks and in affiliates of banks should be limited and we should find -- you know, when we see activities that are risky or not being done in a safe and sound way, the regulator should stop the activity, and we're willing to think about proprietary trading as -- because, you know, it is a risky activity. We require lots of capital to be held against merchant banking when it's done in the bank holding company. And we're willing to think about whether it should be done in a bank holding company but we haven't endorsed the blanket approach of the Volcker rule just banning it all together for everyone.

But it has not -- and I think Volcker has said he agreed -- that it has not been a cause of the crisis, this crisis.

MR. FELDBERG: Uh-huh. So even when Citi takes these huge positions in its own CDOs, it's not considered proprietary trading. It's a retained interest.

MR. ALVAREZ: Right?

MR. FELDBERG: Its banking --

MR. McWILLIAMS: Greg, can you repeat that question, please?

MR. KREBS: Greg, can you repeat that question?

MR. FELDBERG: Yes, the question was just whether proprietary trading would include, you know, the thing that Citi lost the most money on, and you know because it's related to their mortgage-origination business, Scott is saying, no, that wouldn't really be part --

MR. ALVAREZ: So, that --

MR. FELDBERG: -- part of that.

MR. ALVAREZ: That's one of the arts in --

MR. FELDBERG: Which just makes this all very -- it's complicated -- just --

MS. NOONAN: Because it seems like proprietary position.

MR. ALVAREZ: Oh, it is, but when they buy --

MR. FALLON: And so is the loan.

MR. ALVAREZ: -- when they make your mortgage, that's a proprietary position. They're taking the risk that you won't pay back, and they're putting their own money on the line.

And that's one of the tricks about the -- that's one of the difficulties in writing down the Volcker rule, because he doesn't mean -- and he'll tell you this -- he doesn't mean to stop mortgages from being written by banks.

Well, the whole point of securitizations is

that they're a pool of mortgages written by banks and affiliates and others, but they're all assets the bank could own on its balance sheet. It's just put together in a different corporate form.

MR. FALLON: So, I think that – and that's very interesting that you raise that because I think that highlights that the problem really wasn't, you know, proprietary trading, or this or that. It fundamentally came down to people didn't understand the risk.

MR. FELDBERG: Uh-huh.

MR. FALLON: You know, Citi had the large losses on CDOs that it itself generated, right? So it's not a question that they were out in the market, you know, and they didn't have enough information from the credit-rating agencies.

These were CDOs that they themselves did. They retained them because they thought they were attractively priced. I mean, it was people just underestimated the risk that were from the underlying mortgages and from the securitizations and the structures and all that.

MR. FELDBERG: Well, I mean, the thing about the CDOs, it wouldn't be predominantly their own mortgages. In fact, maybe because it's

resecuritization, it would be the next level. They literally -- it was -- it seemed like it was more of a trading desk.

The trading desk would assemble structured products and packages them out, so it's hard to say that it's really an extension of their mortgage business.

MR. FALLON: They could buy the underlying mortgages.

MR. ALVAREZ: Right.

MR. FALLON: It would even include the credit default swaps would come to be a large part of what they were packaging into that.

MR. FELDBERG: So at some point, yes, they could own it but, it's --

MR. FALLON: CDS. Banks buy CDS to protect their own mortgages, their own mortgage portfolios.

MR. FELDBERG: Uh-huh.

MR. FALLON: So if you think about it, they could buy the mortgages, underlying all of those; right?

MR. FELDBERG: Uh-huh.

MR. FALLON: They could have those on their books and they'd presumably want to hedge them, so they hedge through CDS through other transactions. So at the end of the day, the underlying risks are ones that the bank can take on.

MR. FELDBERG: Uh-huh, yes.

We'll talk about it with Pat.

Could we save that for Pat?

MS. NOONAN: Sure.

MR. FELDBERG: Any questions from the phone, while I look through my notes?

MR. KREBS: The extent to which memoranda exist between related to the relationship between the SEC and the Fed regarding both Bear Stearns and Lehman would be appreciated. We need to get into that.

I mean, get --

MR. ALVAREZ: Yes, I think we --

MR. KREBS: -- [inaudible] get some statements.

MR. ALVAREZ: Have we given them the MOU?

MR. FALLON: Oh, the MOU? No.

MR. ALVAREZ: Okay, so we have an MOU with the SEC about how we will share information and, you know, I'm sure that's within the request that you've made of us and so that will be –

MS. NOONAN: I don't know that it is, actually. Amazing.

MR. FALLON: So we entered into this MOU with the SEC in, I believe --

MR. ALVAREZ: July of 2008.

MR. FALLON: -- June or July of 2008.

So after the Bear Stearns situation, where we realized we needed to cooperate a little bit better, we needed a better flow of information, and this was in place prior to Lehman.

MR. ALVAREZ: Right.

MR. KREBS: Weren't your people in place in Bear in September of '07?

MR. ALVAREZ: No.

MR. KREBS: Together with the SEC folks?

MR. ALVAREZ: Actually, no, it was in -- they were not at Bear Stearns at all.

We had people -- once we opened up the PDCF, the primary dealer credit facility, which was the week of, the week after Bear Stearns failed --

MR. KREBS: Yes.

MR. ALVAREZ: -- then we put some people in all of the primary dealers because they could borrow from us. And that was our hook.

MR. KREBS: Okay.

MR. ALVAREZ: But we only -- we only had, for example, at Lehman Brothers, we had two people, and their job was not to supervise Lehman. Two people couldn't supervise Lehman. Their job was to make sure that we understood the liquidity position of Lehman so

that when we lent to them, we knew we were going to be repaid. And it was all about making sure that our position as a creditor was protected. That was it.

The SEC was responsible for all their disclosures and requirements and their capital requirements and their long-term liquidity requirements. We were there solely to make sure we could get repaid. And we put a few people at all the broker-dealers – the primary dealers during that period of time.

MR. KREBS: Now, did they change -- was the incidence of contact with the Fed and Lehman increased towards the later days, the 14th or 15th? The 13th, the 12th of September?

MR. ALVAREZ: No.

MR. KREBS: Had more folks in there?

MR. ALVAREZ: No. We got more – we were getting some more information from them, but we weren't putting more people there. So, where it did change was when Goldman Sachs and Morgan Stanley became bank holding companies. Then we ramped up pretty significantly for those guys and we put in about a dozen on site. And then we used another dozen or so to help to join in the examination that went in on a rotating basis to look at different parts of the organization.

So we had a couple of – about 24, 26,

something on that magnitude, once we became their holding company regulator.

MR. KREBS: Scott, how long did it take you to get that MOU negotiated?

MR. ALVAREZ: A long time.

MR. KREBS: Yes, about a year, didn't it?

MR. ALVAREZ: Well, it depends on where you start. It really could be one year or four years, or, you know, since Graham-Leach-Bliley.

MR. KREBS: To what do you -- to what do you attribute that period of time, and you apparently had a difficult time negotiating?

MR. ALVAREZ: We did because for a couple of reasons.

One is the SEC is primarily an enforcement agency, not a prudential supervisor.

And it was -- it became very clear, very early that they wanted access to our exam information in order to be able to take to review the disclosures and proxy material of the holding companies, the bank holding companies themselves. Not because they were interested in the prudential condition of the organization.

And that would have put our bank holding companies at a tremendous disadvantage compared to every other publicly traded company in the United States.

MR. FALLON: And severely hampered our supervisory process. We rely on these organizations being comfortable to be share all sorts of proprietary and confidential information with us, as a supervisor, so we can fully understand their risks.

It's imperative that we have that kind of open and frank discussion and we were very concerned that if this information was going to be used for that kind of purpose, shared with the SEC for that kind of purpose, the institutions we supervised would no longer feel comfortable sharing that information with us on a free, ongoing basis.

MR. ALVAREZ: And on the flip side, it turned out that the SEC doesn't do much in the way of examination and so doesn't have a lot of information it can give. So, you know, it was a one-way street that would have been very difficult for us.

MR. KREBS: I don't mean that as any criticism. Please don't misunderstand me.

MR. ALVAREZ: No, I know you don't.

MR. KREBS: What I'm trying to do is, it is my responsibility in this particular time frame to examine the fall of Lehman; and I would very much appreciate your principal contact person at Lehman, if you would make him available to us so we could talk with him.

MR. ALVAREZ: Okay. Well, that person was in New York, and we'll work something out there.

MR. KREBS: Thank you so much.

MR. FALLON: On the Bear Stearns, do we have anybody going just on the last few days to review the collateral?

MR. ALVAREZ: We might have had somebody go in the day before, or two days before to look at collateral, but --

MR. FALLON: That ended up in [inaudible].

MR. ALVAREZ: -- that's reviewing collateral that they pledged to a loan. We weren't looking at them as a going concern or another financial --

MR. KREBS: This was pledged to the J.P. Morgan loan?

MR. ALVAREZ: Yes.

MR. KREBS: Would you please identify that person as well to our team there?

MR. ALVAREZ: Yes.

MR. KREBS: I might want to talk with that person.

MR. ALVAREZ: So we're --

MR. KREBS: In addition to Lehman, I'm looking at Bear Stearns.

MR. ALVAREZ: Okay, we're supposing we have

that person, so we'll check into that.

MR. KREBS: Okay.

MR. ALVAREZ: Because it's --

MR. KREBS: I gleamed as much from your discussion.

MR. ALVAREZ: Yes, it's my -- it was my actual recollection -- though, this is hazy -- that what we took as collateral was actually collateral that they had already posted with JPMC. And so I'm not sure if whether we did a special review on that Friday or not. But we'll check into that, and let you know.

MR. KREBS: Thank you.

MS. NOONAN: So one thing that I like to do is just to say that I think you understand the task that the Commission has in front of it. We're not going to get into exactly how daunting it is, but we really appreciate your time. And I always like to ask, are there things that you think that we should know about that we might not have necessarily asked you today, that you think would be important for us to know or to look into as we go down this road?

MR. ALVAREZ: So, I think there I would return to where we started. I think it's very important to understand the conditions that were set. You know, this is not entirely about who lit the match, but you know

the tinder all around.

So the one other thing that we haven't talked about that I'm sure you guys are hearing a lot about is the accounting world and how the mark-to-market requirements which have great benefits, but how they fed into this and helped spiral down.

I mean, we have a lot of things in our financial system, our economy that cause, that once people lost confidence, started a spiral down. And it's just a matter than of what was the trigger, but the system was set for this kind of problem. And that's critical.

MS. NOONAN: Uh-huh.

MR. ALVAREZ: So things that you haven't asked about that I would raise around the Glass Steagall kind of questions? I don't think so. I don't think I've thought about anything you haven't talked about.

MR. FELDBERG: Well, we've had an awful lot of your time.

MR. KREBS: It's been most illuminating. Thank you, gentlemen.

MR. ALVAREZ: Well, thank you. And if there are other things that you start thinking about that you want probe differently or in more depth, we'd be happy to talk to you.

We'll see what we can get you on the mortgage market statistics, and then the names of folks for Lehman and Bear Stearns.

MR. KREBS: We have been working with your folks -- Greg has particularly -- in an attempt to get our arms around the size of the repo market. And I will tell you, it is my opinion at this juncture, nobody knows.

MR. ALVAREZ: It's a monster.

MR. FELDBERG: The New York side -- I think we've been in touch with the New York side I think maybe they can help us with the contacts over there.

MR. FALLON: The clearing banks. There are two clearing banks, Lehman and Bear.

MR. ALVAREZ: Yes. So how much of your mission is about identifying vulnerabilities for the next crisis? And how much is just dealing with the last crisis?

MR. FELDBERG: I think we're pretty much the last crisis.

MS. NOONAN: Yes, we're all –- we're pretty much focused on historical. That's not to say that, I think that the statute that enacted the Commission or set it up, does allow for the Commission, if it so chooses, to make policy recommendations based on its

findings, but that is a "You may do this," not a "You shall do this" sort of thing. And I don't know if that determination has been made.

MR. ALVAREZ: Okay, okay. Because that's -- you know, going to Tom's question about the tri-party repo market, if you were thinking about a vulnerability for the next crisis, one that didn't turn out to be a problem this time, but could, is the concentration in the tri-party repo market.

I mean, it started to freeze up. It froze up. That definitely contributed to this, but it wasn't itself the cause of the crisis.

MR. KREBS: Well, we have been charged as well with charged with looking at the shadow banking area and we put the repo market in that area together with the commercial paper market and we're trying to get our arms around the size of those markets and their problems.

I mean, for example, the tri-party banks, when we've talked to Fidelity and we talked to Federated, and they said they'd tell us that, "Oh, my god. The tri-party repo market is huge. It's bigger than anything else."

And then we go and talk to Bank of New York, Mellon, and J.P. Morgan; and they say, "Well, we're only 15 percent of the market. Most of it is in these

bilaterals out there.”

And what I’m concerned about is double counting both at the Fed and elsewhere with respect to the rehypothecation of these underlying collaterals, so…

MR. ALVAREZ: Sure.

MR. KREBS: So we’re working our way through it. We’re in the process of quizzing and sending out questionnaires to all money market mutual funds, the first top 100 of them, about the top 100 hedge funds, plus PIMCO, and then the 19 primary dealers to hopefully get some data, that we can rely on.

MR. FALLON: So a related practice that would also be of some interest would be the reinvestment of proceeds and securities lending and securities borrowing transactions.

MR. KREBS: We have had lengthy discussions with State Street about that.

MR. ALVAREZ: Okay, good.

MR. KREBS: Very helpful.

MR. ALVAREZ: Thank you very much.

MS. NOONAN: Well, we’re going to sign off on this end.

MR. KREBS: Yes, thank you much.

MR. FELDBERG: Thank you.

MR. ALVAREZ: Thank you.

MS. NOONAN: Thanks.

MR. FELDBERG: Hope that wasn't too painful.

MR. ALVAREZ: No, no, no. It wasn't painful at all.

MS. NOONAN: End tape.

(End of interview with Scott Alvarez and Kieran Fallon)

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