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7	FINANCIAL CRISIS INQUIRY COMMISSION	
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9	Interview of ILYA KOLCHINSKY	
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11	April 27, 2010	
12	1 Hogan Place	
13	New York, New York	
14	11:12 a.m.	
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## CONFIDENTIAL

1	APPEARANCES OF COUNSEL:	1	INTERVIEW - I. KOLCHINSKY
2	ATTEMATICES OF COUNSEL.	2	aerospace engineering from the University of
3		3	Southern California. I have a J.D. from New
4	FINANCIAL CRISIS INQUIRY COMMISSION	4	York University School of Law. I have an
5	1717 Pennsylvania Avenue NW, Suite 800	5	M.S. in statistics from the New York
6	Washington, DC 20006	6	University Stern School of Business.
7	BY: BRADLEY J. BONDI, Assistant Director	7	Q And did you receive your J.D.
		8	
8 9	and Deputy General Counsel	8 9	<b>before your statistical degree?</b> A It was at the same time. I was
	THOMAS DODCEDS, CEE, Series Investigator		
10	THOMAS BORGERS, CFE, Senior Investigator	10	an engineer, I went to law school, just
11		11	because I guess I didn't know what else to
12	RYAN BUBB, Research Team	12	do. So as I progressed through law school,
13		13	I actually loved law school; I know a lot of
14	BRUCE McWILLIAMS (via phone)	14	people don't say that. I loved law school.
15		15	I realized I didn't want to be a lawyer, so
16		16	I arranged a joint degree with the business
17		17	school so I can get into finance.
18		18	I didn't want to do the full MBA,
19		19	but I thought if I got an M.S. in stats from
20		20	a business school, that would give me enough
21		21	of a push. I spent three months as an
22		22	attorney with Willkie Farr Gallagher and
23		23	processed a lot of FedExes at the time,
24		24	prior to PDFs.
25		25	You are an attorney and you are
	2		
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
1 2	INTERVIEW - I. KOLCHINSKY BY MR. BONDI:	1 2	INTERVIEW - I. KOLCHINSKY an attorney also?
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2	BY MR. BONDI:	2	an attorney also?
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Pages 2 to 5

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-	INTERVIEW - I. KOLCHINSKY	1	<b>INTERVIEW - I. KOLCHINSKY</b>
2	the early part of the market.	2	you remember, in 2004 before you left?
3	I stayed at Merrill for about six	3	A Sometime in May. I don't
4	months involuntarily. It was after Long	4	remember.
5	Term Capital, they had a large layoff. I	5	Q May of 2004?
6	was laid off. I thought I would try to give	6	A Yes.
7	something more stable a try. I went to	7	Q And when you returned to Moody's
8	MBIA, which is a large bond insurer, or was	8	in 2005
9	a large, still a bond insurer.	9	A It was also it ended up to be
10	After MBIA I went to Moody's. I	10	like nearly a year almost to the day, but I
11	stayed there for four years, decided to give	11	don't recall off the top of my head.
12	banking another try. I went to Lehman for a	12	Q And what was your title when you
13	year. I went to Lehman was a great	13	returned to Moody's in May of 2005?
14	place, but at that point I already had two	14	A It was, I returned as vice
15	kids, living in the suburbs, and the	15	president senior credit officer. I was then
16	lifestyle didn't really work, so I went back	16	promoted to senior vice president, and then
17	to Moody's where I stayed in the rating	17	finally promoted to managing director.
18	agency. So this was, I went back to Moody's	18	Q And when you returned to Moody's
19	in '05, May '05.	19	in 2005, to whom did you report?
20	I stayed at the rating agency	20	A I think I had two lines of
21	until I guess officially November '07, at	21	reporting. I think I had one line to Gus
22	which point I was asked to leave. I was	22	Harris on a, I believe, for the I ran a
23	asked to leave earlier, in late October, but	23	small group of folks who worked on some of
24	I officially was transferred out in November.	24	the software, modeling software that we were
25	Q Now, you mentioned initially	25	building in-house, I think it was called
	6		8
1		1	INTEDVIEW I KOI CUINSKV
1	INTERVIEW - I. KOLCHINSKY		INTERVIEW - I. KOLCHINSKY
2	spending four years at Moody's before you	2	CDOedge, one word. And on the analytical
2 3	spending four years at Moody's before you went to Lehman. When were those four years?	2 3	CDOedge, one word. And on the analytical side I believe I reported to Gary Witt.
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2 3 4 5	<ul> <li>spending four years at Moody's before you</li> <li>went to Lehman. When were those four years?</li> <li>A That was from 2000 till 2004.</li> <li>Q And what group were you in from</li> </ul>	2 3 4 5	CDOedge, one word. And on the analytical side I believe I reported to Gary Witt. Q And Mr. Kolchinsky, if you wouldn't mind, spell names as we go; just
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1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	to start with which outputs to some sort of	2	allocations to RMBS. They were called
3	a waterfall model, and then from that	3	resect deals because they were almost a
4	waterfall model you have some results at the	4	kitchen sink approach. So they included
5	specific tranche level which you analyze.	5	aircraft, they included mutual fund fees,
6	So if it is a valuation you assign a number	6	what else? Manufactured housing, all these
7	to it; if it is a rating you assign a rating	7	things that ended up blowing up in the first
8	to it, so this is tranche specific results.	8	credit cycle in the early 2000s.
9	For the credit model, the theory	9	So the advent of the truly
10	didn't change much in the sense that the	10	subprime RMBS backed ABS CDO didn't come
11	credit depended on the underlying ratings.	11	
12	What the other model I think a	12	until late in that period, somewhere in '03,
13		13	'04, '05. The earlier deals were primarily
	lot of folks and I think you are getting to,		kitchen sink type, throw in a little bit of
14	so that gives you the mean of the	14	everything.
15	distribution, so now you need to figure out	15	Part of at least the Wall Street
16	what the shape is, and we used the diversity	16	marketing of these deals is that if you
17	score. It was calculated differently for,	17	looked at collateral in the early cycle
18	as I recall, for corporate credit, and that	18	deals, the one asset that performed
19	diversity score I believe is almost	19	relatively well compared to manufactured
20	unchanged today. And we used a different, I	20	housing, compared to mutual fund fees, et
21	believe a different diversity score at that	21	cetera, was the residential bonds. So, and
22	time for CDOs backed by other structured	22	I think lot of this was salesmanship, but
23	assets, and that was called a two moment	23	what bankers said, well, who is going to
24	method. I don't remember exactly when it	24	walk away from a house? Americans never
25	was put in place, but that was the large	25	walk away from their homes.
	10		12
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	portion of the time that I spent there.	2	So little by little they became
3	That basic two moment method was	3	less sort of kitchen sink but more
4	used in correlation to that two moment	4	residential backed transactions.
5	method. It changed over time, so there was	5	Q Now, in 2003 and 2004 when these
б	a lot of, it was an open model in the sense	6	CDOs with RMBS as the collateral started to
7	it was an Excel spreadsheet, so you can	7	gain in popularity in the marketplace, were
8	change the correlations.	8	there any conversations within Moody's that
9	So there is a lot of tweaks to	9	you are aware of concerning how to model
10	this model.	10	those types of CDOs? Were there any such
11	Q Now, specifically speaking about	11	conversations?
12	A I am sorry. There is also an	12	A Yes, I believe there were, but a
13	emerging market diversity score model, but I	13	lot of the mentality we had, rightly or
14	didn't work on emerging markets.	14	wrongly, is the credit, the mean, the
15	Q Specifically speaking about the	15	credit, comes from another part of the
16	models used for CDOs where the underlying	16	rating agency. We are not going to question
17	collateral was primarily RMBS, or	17	that. What we try to focus on are the
18	residential mortgage-backed securities, from	18	dynamics within the CDO itself. It is a
19	2000 to 2004, what model was being utilized	19	tradable pool, so we looked at how the
20	by Moody's to rate CDOs where the underlying		trading dynamics work.
21	collateral was residential mortgage-backed	21	For example, I believe we started
22	securities?	22	I don't know when it was started, I believe
23	A Two things. During that period	23	it was during my first go-around discount
24	the vast majority of the deals that were	24	purchase rules. So the first generation of
25	backed by structured credit only had small	25	CBOs we saw in a credit cycle, that sort of
	11		13

1       INTERVIEW - I. KOLCHINSKY         2       early part of the century credit cycle,         3       2000, 2001. Those deals, if yoo bought any         4       bond, as long as it wasn't defaulted, you         5       got fill par credit. So if, for example, if         6       a bond was set to pay back \$200, you got         7       5200 worth, unless it was defaulted.         8       So what we saw as mangers buying         9       or eritificially, of course, if         11       in the deal, artifying yoo something         12       they bought something at 90, 60 cents on the         13       dollar, the market was telling you something         14       and they would default.         15       So we inplemented a discount         16       art fill was a defaulted asset.         17       you know what - unless th asset was a discount         18       got right, but what we said is, well, you know what - unless the asset was a discount purchase price. So if you buy at 50, you ong et in the transaction is to your         19       purchase price. So if you buy at 50, you ong yare the BLBB. When was that         24       exacty. I think it was somewhere         25       betwee 2000, 2004. There may be a         14       INTERVIEW - I. KOLCHINSKY         14 </th <th></th> <th></th> <th>1</th> <th></th>			1	
2       early part of the century credit cycle,       2       fall lower and use that interest to         3       2000, 2001. Those deals, if you bought any       4       fall lower and use that interest to         5       got full par credit. So if, for example, if       5       pay down the notes.         6       a bond was set to pay back \$200, you got       5       for thing we did, I believe it         7       S200 worth, unless it was defaulted.       7       there was that technically, you know.         9       some of these bonds at very highly       9       overcollateral test works, it is         10       discounted prices, in order to build up par       10       assets over liabilities. What is the         11       in the deal, artificially, of course, if       10       par value of an asset?         12       they would default.       14       par credit, but what we said is, yeell,         13       cocourt purchase you have got full       par credit, but what we said is, yeell,         14       par credit, but what we said is, yeell,       10       stress, tredit         15       so we implemented?       10       stress, credit       10         16       purchase price. So if you buy at 50, you       10       stress, until flem.       11         16       THE WTNESS: I don' rec	1	INTERVIEW - I KOI CHINSKY	1	INTERVIEW - I KOI CHINSKY
3       2000, 2001. Those deals, if you bought any got down the notes.       a       pay down the notes.         4       bond, as long as it wasn't defaulted, you got about was at that time, implemented haircuts for structured securities. The idea for structure is structure asset for structure data for structure securities. The idea for structure securities and principal waterid at the securities. The idea for s				
4hond, as long as it wasn't defaulted, you665got full par credit. So if, for example, if5was at that time, implemented haircuts7S200 worth, unless it was defaulted.78So what we saw as managers buying99some of these bonds at very highly99some of these bonds at very highly912they bought something at 50, 60 cents on the1113dollar, the market was telling you something1314and they would default.1415So we implemented a discount1516purchase rule, and that essentially said if1617you buy something below 75, the only par1618credit you get in the transaction is to your1819purchase price. So if you buy at 50, you1021MR. BUBB: When was that2122more you something below 75, the only par2023THE WTINESS: I don't recall2324exactly. I think it was some where2425between 2000, 2004. There may be a141INTERVIEW - I. KOLCHINSKY11INTERVIEW - I. KOLCHINSKY124twas at ac-author on another725THE WITNESS: When I came back626THE WITNESS: When I came back627THE WITNESS: When I came back628they could act all were fall to29parchase rule, I don't fnow if this36THE WIT				
5       got full par credit. So if, for example, if       5       was at that time, implemented haircuts         6       a bond was set to pay back \$200, you got       6         7       \$200 worth, unless it was defaulted.       7         8       So what we saw as managers buying       8         9       overcollateral test works, it is         10       discounted prices, in order to build up par       10         11       in the deal, artificially, of course, if       11         12       they bought something at 50, 60 cents on the       12         13       dollar, the market was telling you something       13         14       par credit, but what we said is, well,       9         15       So we implemented a discount       15         16       and they would default.       15         17       you got something below 75, the only par       17         10       purchase price. So if you buy at 50, you       19         20       only get 50.       20         23       THE WTINESS: Hon'r recall       21         24       exactly. I think it was somewhere       24         25       between 2000, 2004. There may be a       14         1       INTERVIEW - I. KOLCHINSKY       1				
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<ul> <li>24 level, you would trap that interest to</li> <li>25 the waterfall that would otherwise</li> <li>24 A Yes.</li> <li>25 Q When RMBS CDOs were gaining in</li> </ul>				
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Pages 14 to 17

1	<b>INTERVIEW - I. KOLCHINSKY</b>	1	INTERVIEW - I. KOLCHINSKY	
2	popularity, are you aware of any	2	calculate those diversity bonds, how many	
3	conversations within Moody's concerning the	3	truly IID bond there are.	
4	effect on market share if Moody's utilized a	4	MR. BONDI: Can we take one	
5	particular model or approach to rating RMBS	5	quick break?	
6	CDOs?	6	(Brief break.)	
7	A No, I don't recall. I think if	7	THE WITNESS: So that is the	
8	they did occur, I think a critical part of	8	binomial expansion technique. But the	
9	it was actually when I was at Lehman in '04,	9	way you arrive at the diversity bond,	
10	'05, so I do not recall.	10	the IID bonds, for corporate, I	
11	Q We have heard of a model called	11	remember that being around forever, I	
12	the binomial expansion technique?	12	remember before I even joined Moody's.	
13	A This was the original diversity	13	For deals that are backed by	
14	score.	14	RMBS or backed by other structured	
15	Q Or the BET model?	15	assets, for the vast majority of my	
16	A Yes.	16	first tenure there we used what is	
17	Q Just for ease of saying, we will	17	called a two moment diversity score	
18	just refer to the binomial expansion	18	method. I don't remember if we used	
19	technique as the BET model.	19	it when I first started. I don't	
20	A Sure, or you can call it the	20	think I did a lot of it when I first	
21	diversity score as well. It is equivalent.	21	started, but during most of my tenure,	
22	Q The BET model, was that something	22	that is what was used.	
23	that was in existence when you arrived at	23	Now, that too was an Excel	
24	Moody's in 2000?	24	spreadsheet. It had a matrix of	
25	A Yes.	25	correlations that were displayed. It	
	18			20
1		-		
1				
	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
2	Q And was that used to rate RMBS	2	was tweaked a number of times. Part	
2 3	Q And was that used to rate RMBS CDOs in that time period from 2000 to 2004	2 3	was tweaked a number of times. Part of the problem is that folks didn't	
2 3 4	Q And was that used to rate RMBS CDOs in that time period from 2000 to 2004 before you left to go to Lehman Brothers?	2 3 4	was tweaked a number of times. Part of the problem is that folks didn't know which model is the latest model.	
2 3 4 5	Q And was that used to rate RMBS CDOs in that time period from 2000 to 2004 before you left to go to Lehman Brothers? A Well, there is two parts to the	2 3 4 5	was tweaked a number of times. Part of the problem is that folks didn't know which model is the latest model. One deal would use one model and the	
2 3 4 5 6	Q And was that used to rate RMBS CDOs in that time period from 2000 to 2004 before you left to go to Lehman Brothers? A Well, there is two parts to the BET.	2 3 4 5 6	was tweaked a number of times. Part of the problem is that folks didn't know which model is the latest model. One deal would use one model and the next deal would use another model.	
2 3 4 5 6 7	Q And was that used to rate RMBS CDOs in that time period from 2000 to 2004 before you left to go to Lehman Brothers? A Well, there is two parts to the BET. The corporate BET has been around	2 3 4 5 6 7	was tweaked a number of times. Part of the problem is that folks didn't know which model is the latest model. One deal would use one model and the next deal would use another model. So in terms of there is two	
2 3 4 5 6 7 8	Q And was that used to rate RMBS CDOs in that time period from 2000 to 2004 before you left to go to Lehman Brothers? A Well, there is two parts to the BET. The corporate BET has been around for a while, and it was a very simple,	2 3 4 5 6 7 8	was tweaked a number of times. Part of the problem is that folks didn't know which model is the latest model. One deal would use one model and the next deal would use another model. So in terms of there is two aspects of it. There is the	
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1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	end of it it was charged to David Ham, but I	2	have, but the idea was because there is an
3	don't know if he officially the group in	3	active manager, the manager can buy and
4	some ways when I started was chaotic and in	4	sell, looking at any particular portfolio is
5	some ways resembled an academic department.	5	probably not as useful as it could be.
6	There was boxes, books, there wasn't a lot	6	Q Now, you mentioned an active
7	of structure in the unit. It was a small	7	manager. You mean an active manager on the
8	group, not that many deals. So it was	8	CDO deal?
9	chaotic.	9	A Yes. There is usually a
10	So a lot of times people's	10	collateral manager, somebody who
11	responsibilities just came from, you know	11	theoretically has experience in the area,
12	what? You updated last, and then everybody	12	who is in charge of selecting the portfolio
13	starts coming to you and then it becomes	13	and buying and selling the collateral.
14	your responsibility and you update. I think	14	So we would receive again this
15	David Ham was the person responsible, but to	15	was a little bit more chaotic at that
16	be honest with you, I am not sure.	16	point we would receive the indenture for the
17	MR. BUBB: What was the updater	17	deal. We would rate off the indenture only.
18	supposed to be doing? Was it based on	18	In some cases we would receive the waterfall
19	historical data or	19	model. At that point there was no standard
20	THE WITNESS: I think so, but I	20	waterfall model, and I had my own personal
21	am not sure. I was not involved in	21	model which I built myself, an Excel
22	the correlation setting. My interest,	22	spreadsheet.
23	to be honest with you, was sort of in	23	A lot of people audited the
24	the waterfall model side of things, so	24	bankers' models, and there is one gentleman,
25	that is where my expertise came and	25	John Parks, started at that time
	22		24
1	INTERVIEW I KOLCHINGKY	1	INTERVIEW I KOLCHINGRY
1 2	INTERVIEW - I. KOLCHINSKY	1 2	INTERVIEW - I. KOLCHINSKY
3	that is where I was sort of the	3	standardizing his own model, which then
4	specialist. But on the correlations, I	4	became the standard model for everybody. But I used my own that I developed model.
5	BY MR. BONDI:	5	So the idea was you would take
6	Q And if you could, in this time	6	the data in from what the covenants were
7	period before you left Moody's to go to	7	going to be for the transaction in terms of
8	Lehman Brothers, in the 2003 or 2004 time	8	weighted average life, weighted average
9	period, let's take 2004.	9	rating factor, also known as WARF. The WARF
10	If an RMBS CDO was to be rated	10	is a numerical representation of a rating.
11	and the collateral, much of the collateral	11	It goes from one to 10,000. It is supposed
12	came from RMBS from let's say Countrywide,	12	to be the idealized ten-year default
13	let's also say for this example that	13	probability, and it just allows you to
14	Citigroup was the issuer. Can you take us	14	communicate ratings which are alphanumeric
15	through in 2004, early 2004, how you would	15	and purely numeric. The weighted average,
16	go about rating that CDO?	16	you can manipulate them.
17	A Sure.	17	Weighted average life, weighted
18	Q What would the models be, what	18	average rating factor, weighted average
19	would you look to, what that process was	19	recovery rate, all these factors, weighted
20	involved? If you could just take it	20	average coupon, weighted average spread, the
21	through, start to finish of a rating, a	21	proportion between fixed and floating
22	typical RMBS CDO rating in early 2004.	22	collateral, things like that. We would look
23	A We rated most because they are	23	at the indenture, the waterfall with
24	tradable pools, we didn't really look at the	24	priority of payments. We talked about how
25	collateral as much as probably we should	25	to allocate the money on a periodic basis.
1.5	23		to anotate the money on a periodic basis.

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1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	That would be built into a cash	2	times it was either the rating analyst or
3	flow model, waterfall model, and you would	3	the banker just was sloppy. If that was the
4	try to ensure at that point we didn't do	4	case, if it was the banker's fault, they
5	much with the actual diversity score method	5	would come back with a structure that would
6	because again partly it was like a blindness	6	pass, and if it was the analyst they would
7	one way or another. Because it is a	7	adjust their model and it was okay.
8	tradable pool, we just assumed the bankers	8	So that is sort of the day-to-day
9	would calculate the diversity score, the	9	of rating a transaction.
10	manager would calculate it correctly. It	10	Q Now, Mr. Kolchinsky, were you the
11	was, the model was available for free, the	11	quantitative analyst?
12	two moment model, to any market participant.	12	A I was the quantitative analyst,
13	They had to sign some sort of a	13	yes.
14	confidentiality form, but it was available	14	Q And then you had a counterpart
15	to anybody who wanted it.	15	who was a legal analyst?
16	You know, we would make comments	16	A Yes.
17	on the indenture, we would make comments on,	17	Q And who was the legal analyst who
18	if we did not the way we worked, I know	18	was your counterpart in the 2003, 2004 time
19	this is different from some other areas at	19	frame? Would it have varied?
20	Moody's, we just gave a pass or fail on the	20	A It would vary. There were fewer
21	rating. So the bankers would come to us	21	legal analysts than quantitative analysts,
22	with a capital structure with all of the	22	so the quantitative analysts did the bulk of
23	covenant levels and we would say, well, I	23	the work.
24	agree that, given this setup, you get to the	24	The legal analysts, they would
25	ratings, or I don't agree. Obviously if you	25	also check the opinions, make sure the true
_	26		28
1		1	
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	don't agree you try to figure out what is	2	sale opinion was there, all those kinds of
3	going on, but we wouldn't provide back	3	legal niceties that we on the quantitative
4	subordination levels like they did in RMBS,	4	side didn't bother ourselves with. But the
5	CDS. It was a very open model. It was a	5 6	bulk of the work on any deal would be done
6 7	yea or nay essentially.		by the quantitative analyst. The legal
8	A lot of this stuff actually,	7	analyst would be there for support. A lot of times I liked that kind
9	whether it was working around comments on the indenture, make sure they conformed to	9	
10		10	of a staffing structure because there is two
11	the model and assumptions that we used, so the model in the waterfall conformed to the	11	pairs of eyeballs at every deal. If somebody misses something, somebody else
12	actual legal documents.	12	would get it. So even if two quantitative
13	Occasionally you wouldn't, you	13	analysts, it was nicer to have two pairs of
14	would say nay on the quantitative results,	14	eyeballs.
15	in which case there was usually there was	15	Q Now, let's if we may just put
16	always a quantitative analyst and a legal	16	some concrete names behind this
17	analyst on each transaction, so the	17	hypothetical. Citigroup is the issuer,
18	quantitative analyst would just basically	18	underwriter.
19	talk with the banker to make sure how the	19	A Yes.
20	model is off or not, who is right or wrong.	20	Q Say Pimco is the manager of the
20	Most of these cases they were all	21	deal.
22	Excel spreadsheets, and being Excel	22	A Okay.
23	spreadsheets there is a high tendency to	23	<b>Q</b> And the collateral, most of the
24	somebody accidentally deleting a cell when	24	collateral is RMBS from Countrywide.
	doing it or hard wiring a cell. So a lot of	25	A Okay.
1.5			
25	27		29

1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
2	Q How would the CDO deal, in early	2	and those covenants to do anything.	
3	2004, this particular deal that I have	3	MR. BORGERS: Mr. Kolchinsky,	
4	described, how would it first enter the	4	during this time, didn't the bankers	
5	door? Would it be someone picked up the	5	actually tell you what was in the	
6	phone from Citigroup or someone picked up	6	pipeline, that they have one, two,	
7	the phone from the manager and called	7	three deals coming in and alert	
8	Moody's?	8	Moody's that, hey, listen, we have	
9	A For the most part it would be the	9	three deals coming in, here it is, A,	
10	banker, the banker would call Moody's.	10	B and C?	
11	Q Somebody from Citigroup	11	THE WITNESS: Sometimes that	
12	A Yes.	12	occurred. That is probably more of a	
13	Q would call on Moody's?	13	conversation that they would have had	
14	A Could call a managing director	14	with the managing director. Sometimes,	
15	who will then staff the transaction. Then	15	for example, I worked a lot of deals	
16	you had to find out, okay, you are working	16	with Bear Stearns, and through just	
17	on this deal, here's the contact at the	17	general conversation they would tell	
18	banker, you know, start talking.	18	me what is going on.	
19	Theoretically it could have been	19	The other change, practical	
20	the collateral manager, it would have had to	20	change between my first well, let's	
21	have been somebody who has a lot of weight,	21	say between cash deals and synthetic	
22	but I don't off the top of my head recall	22	deals, credit default swaps, CDS-based	
23	any instances where the collateral manager	23	deals, the cash deals by definition	
24	would have picked up the phone. It was	24	required some period of time to	
25	primarily the bankers.	25	actually ramp up. So a banker, you	
	30			32
1		1	INTERVIEW I KOLOUINGKY	
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
2	Q And when the banker would pick up	2	know, it would probably be six to nine	
2 3	Q And when the banker would pick up the phone and call Moody's managing	2 3	know, it would probably be six to nine months from the start of the deal to	
2 3 4	Q And when the banker would pick up the phone and call Moody's managing director, at that point would the banker	2 3 4	know, it would probably be six to nine months from the start of the deal to closing.	
2 3 4 5	Q And when the banker would pick up the phone and call Moody's managing director, at that point would the banker present the structure to Moody's? When was	2 3 4 5	know, it would probably be six to nine months from the start of the deal to closing. So six to nine months from the	
2 3 4 5 6	Q And when the banker would pick up the phone and call Moody's managing director, at that point would the banker present the structure to Moody's? When was the structure actually presented?	2 3 4 5 6	know, it would probably be six to nine months from the start of the deal to closing. So six to nine months from the time that the banker approached the	
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1	INTERVIEW - I. KOLCHINSKY		1	INTERVIEW - I. KOLCHINSKY
2	would say yea or nay.		2	so would the collateral manager. So
3	But as that got to a critical		3	bankers kind of coordinate all the
4	mass point, maybe about 60 percent,		4	information and you would get periodic
5	then you would start, you know, as the		5	drafts. First you would read the
6	banker, since I was in banking, you		6	indenture, then just look at the black
7	would approach a law firm to start		7	lines, so on and so forth. So that is
8	working on the legal documents, you		8	the sort of the process.
9	would approach, set up the accounts,		9	What changed after credit
10	you would approach the trustee, set up		10	default swaps. CDS, is that you could
11	the trustee for the transaction.		11	all of a sudden ramp up a deal in a
12	Then probably maybe two months		12	week, the whole, here's the listing.
13	before you intended to close you would		13	So that really sped up the process to
14	approach the rating agencies: Here's		14	the point where we were sort of in
15	the deal that I have, here's the		15	late '06, '07, a lot of effort was
16	manager, here's the first draft of the		16	sort of slow down the bankers.
17	indenture, and here's what I think I		17	BY MR. BONDI:
18	want the pool to be like. You as a		18	Q I definitely want to get to the
19	banker, because most of the rating		19	synthetic deals, but I don't want to leave
20	agencies, at least in the CDOs that		20	this thought at the moment in terms of what
21	were sort of open model, you were		21	was going on in '04
22	running the ratings at every point.		22	A Sure.
23	So when I was a banker, both at		23	Q before you left to go to
24	Merrill, we had these models, and each		24	Lehman, just the typical cash RMBS CDO.
25	time a bond came in the warehouse, I		25	A Yes.
		34		36
1	INTERVIEW - I. KOLCHINSKY		1	INTERVIEW - I. KOLCHINSKY
2	would adjust the covenants to see		2	Q So, you described the process.
3	where I had to be in order to hit a		3	A Yes.
4	certain equity return or whatever,		4	Q You have the indenture
5	however we needed to market this deal,		5	A Yes.
6	and I'd get back some information from		6	Q agreement with some black
7	the traders on the liabilities,		7	line, black lines.
8	credits, all that kind of information		8	A Yes.
9	including the rating agencies.		9	Q You have looked at the deal, you
10	So about two months before		10	have analyzed the deal.
11	that, on the cash side, all this		11	When does the ratings committee
12	process took time, then you would		12	begin to meet?
13	approach the rating agencies, and at		13	A At that point we try to meet, at
14	that point the deal was 60, 70 percent		14	some point that we felt that the if you
15	banked. You as the banker have been		15	are a good analyst and there is something
16	running models; like I said, it was an		16	controversial in the deal, you telegraph
17	open source type of a thing for the		17	that to senior people ahead of time, and
18	most part. You would deliver here is		18	most analysts follow that method, so by the
19	the deal, here is the indenture.		19	time you actually have the committee meeting
20	And we would spend about two		20	there is not a lot of surprises. It is very
21	months, one month on the deal at the		21	perfunctory.
22	rating agency, commenting on the		22	When I began, the group was small
23	drafts of the indenture, commenting on		23	and it was very possible to actually you
24	the covenant and the quantitative		24	were encouraged to talk to other analysts,
25	information, and so would the trustee,		25	just to make sure everybody was doing the
		35		37

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	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	same thing, talk to the managing	2	report with some things on the back that
3	directors for the most part ran the	3	were solely for the ratings committee, like
4	committees. If there was something	4	the actual quantitative runs. But I would
5	controversial, a good analyst would bring it	5	actually draft it as a new issue report.
6	up on somebody's radar immediately.	6	That way when I am done, just rip out the
7	So by the time you had a	7	sort of internal things, PDF it, and boom,
8	committee, which would probably be a week or	8	out it goes.
9	so, as I recall, before closing, there is	9	But there was no standard
10	not a lot of surprises. And a lot of them	10	requirement on how you draft a committee
11	just described the transaction, you would	11	memo.
12	describe what the issues were, how they were	12	Q 2004, though, this hypothetical
13	solved, and what their recommendation is for	13	CDO, you draft a memo to whom? To the
14	the rating.	14	managing director?
15	Q In 2004, how did the ratings	15	A To the committee members, whoever
16	committees operate? What was the function	16	was going to be attending the committee.
17	of the ratings committee, who was on the	17	I don't even know if I there
18	ratings committee?	18	is a committee memo in the, if you have the
19	A Everything was very chaotic. I	19	documents from the a later committee
20	believe, this is a while back, it had to	20	memo, but if you have the documents from the
21	include at least one managing director and	21	Senate permanent committee, there is
22	that is it. Sometimes it would be as few as	22	actually a late vintage committee memo in
23		23	there.
24	two people. There usually had to be the quantitative analyst and the managing	23	
25	director, and it could be larger.	25	But that was post attempts at standardization, because it was fine when we
25	38	2.5	4(
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	Q So, going back to my example with	2	were small and the deal flow was very low so
3	the Citigroup RMBS CDO, Pimco as the		
	the Chigroup Kivido CDO. Finico as the	3	
		3 4	you could, you literally, a good analyst
4	manager, the underlying collateral was	4	you could, you literally, a good analyst would check with everyone all these points
4 5	manager, the underlying collateral was largely from Countrywide, you have gone back	4 5	you could, you literally, a good analyst would check with everyone all these points and just make sure that everything was set
4	manager, the underlying collateral was largely from Countrywide, you have gone back and forth on the indenture agreement, you	4 5 6	you could, you literally, a good analyst would check with everyone all these points and just make sure that everything was set up. But as the group grew bigger and the
4 5 6 7	manager, the underlying collateral was largely from Countrywide, you have gone back and forth on the indenture agreement, you have looked at the deal. And then is it	4 5 6 7	you could, you literally, a good analyst would check with everyone all these points and just make sure that everything was set
4 5 6 7 8	manager, the underlying collateral was largely from Countrywide, you have gone back and forth on the indenture agreement, you have looked at the deal. And then is it your position then as a quantitative analyst	4 5 6 7 8	you could, you literally, a good analyst would check with everyone all these points and just make sure that everything was set up. But as the group grew bigger and the deal flow got even bigger, there was just more need for standardization.
4 5 6 7 8 9	manager, the underlying collateral was largely from Countrywide, you have gone back and forth on the indenture agreement, you have looked at the deal. And then is it your position then as a quantitative analyst to bring the deal to the ratings committee?	4 5 6 7 8 9	you could, you literally, a good analyst would check with everyone all these points and just make sure that everything was set up. But as the group grew bigger and the deal flow got even bigger, there was just more need for standardization. <b>Q</b> I am having trouble understanding
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1	INTERVIEW - I. KOLCHINSKY	1 INTERVIEW - I. KOLCHINSKY
2	<b>Q</b> You meaning as the quantitative	2 Economic Research Association, to do a
3	analyst?	3 research report. I contributed some stuff,
4	A I set up a meeting with Outlook	4 and Brian was happy with it, gave me a
5	with that managing director. I try to	5 sweatshirt, something like that, and I think
6	invite other managing directors to the	6 that was before, so I think he was pretty
7	meeting, the legal analyst. If everyone	7 high up.
8	accepts, I send out the memo to those	8 I don't remember what his title
9	people, but it was ad hoc. At some point it	9 was, to be honest with you. He wasn't I
10	was even up to the analyst to play games of	10 don't think he was the head of all
11	which managing director do I want on my	11 structured. I think he was the head of
12	committee. Some of them were more	12 maybe CMBS and derivatives. I don't recall
13	inquisitive and others were less	13 exactly.
14	inquisitive.	14 Q In early 2004, going back to our
15	Q So, let me get this straight.	15 hypothetical deal here, how important was it
16	It is early 2004, you are the	16 for you as the quantitative analyst to
17	quantitative analyst, you have a deal that	17 <b>obtain the sign-off from the rating</b>
18	you want to have rated, and you need to get	18 committee for the rating that you are
19	it rated by the ratings committee?	19 proposing in your ratings memoranda?
20	A Yes.	20 A It was critical. The rating
21	Q So you send out a calendar invite	21 didn't go out unless the committee agreed
22	in Outlook	22 officially. The committee had to have
23	A Yes.	agreed to the rating.
24	Q to the persons that you went	A lot of times it was a rubber
25	on the ratings committee?	25 stamp, or if you had a good analyst you
	42	44
1	INTERVIEW - I KOLCHINSKY	1 INTERVIEW - I KOLCHINSKY
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2 3 4 5	<ul> <li>A Yes. I believe that was the practical way we did it.</li> <li>Q And depending on who accepted your Outlook invitation, that is who you knew you would put on the "to" line of the</li> </ul>	<ul> <li>2 wouldn't get a lot of questions, so it</li> <li>3 wasn't but it was not, it was impossible</li> <li>4 to send out a ratings letter without having</li> <li>5 the committee okay it, even if that</li> <li>6 committee was two people.</li> </ul>
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2	some issues that were particular to this	2	but there was a chart in terms of how well	
3	transaction and how they were resolved.	3	the company did versus budget and people's	
4	Q Would you also include any	4	ranking.	
5	reference to future deals from that banker?	5	People would be ranked five,	
6	A No, I don't recall anything like	6	four, three or two. Almost no one was five	
7	that.	7	unless they were junior. And for each	
8	Q And in early 2004, as a	8	point, it is a matrix in terms of what is	
9	quantitative analyst, how would you have	9	your rating and how much over budget the	
10	been compensated?	10	company went, that is how the bonus pool was	
11	A Well, you had your base pay, you	11	funded, I believe. I believe that was the	
12	had a target bonus, and you had a, some	12	case up until I left.	
13	equity participation, equity bonus, a cash	13	Q Focusing still on this early 2004	
14	bonus, some sort of restricted stock options	14	time frame, you described earlier what migh	nt
15	bonus.	15	be called forum shopping with picking	
16	Q And how was your cash bonus	16	certain ratings committee members.	
17	calculated?	17	A Yes.	
18	A I think I know what you are	18	Q Do you know that to have taken	
19	trying to ask, was it based on the number of	19	place in this time period of 2004 or earlier	
20	deals that you did. The answer is no, for	20	on RMBS CDOs?	
21	good or for bad, in terms of there were	21	A Forum shopping between committee	
22	analysts who only worked one or two deals a	22	members?	
23	year, and either because there was a lot of	23	Q Yes.	
24	sort of I guess favoritism in the group,	24	A Yeah. I don't have concrete	
25	either because someone is favored or because	25	examples, but I remember people talking	
	46			48
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
2	they were doing a lot of research, they	2	about, you know, don't hire this MD, he is	
3	might get a good bonus. On the other side,	3	going to ask too many question, go with this	
4	there could be an analyst who worked on a	4	other MD, it is much easier. The analyst	
5	lot of deals who may not get a good bonus.	5	did that. But from the analyst's	
6	So there was no, the connection	6	perspective, I always assumed it was more of	
7	if everybody saw it sort of to the equity	7	a sign of laziness than anything else.	
8	portion and the stock price, how much equity	8	Q In early 2004, who were the more	
9	do I have, you know, where the stock price	9	difficult managing directors that may have	
10	is. So people had options, people had	10	composed ratings committees?	
11	restricted stock.	11	A I don't remember the two most	
12	But the cash bonus in the bonus	12	difficult ones were Jerry Gluck, and the	
13	pool that was funded depended on how well	13	other he left under mysterious	
14	the company did in terms of revenues.	14	circumstances. His name is Isaac Efrat; I	
15	Q How well the committee did in	15	don't know if you have spoken to him.	
16	terms of	16	Q Isaac, and the last name?	
17	A No. The bonus pool was a	17	A Efrat, E-F-R-A-T. He departed	
18	function of how well the company did with	18	Moody's under mysterious circumstances.	
19	respect to revenues.	19	<b>Q</b> Do you know where Mr. Efrat is	
20	Q So the more money you made, the	20	today?	
21	more everyone benefitted	21	A He is at Aladdin, which is a	
22	A Yes.	22	hedge fund. It is not spelled in the	
23	Q financially.	23	standard way because it is named after the	
24	A Yes. And I believe there is a	24	owner, who was born in Nigeria and then	
25	chart, and there was always a lot of leeway,	25	actually grew up in Japan. So it is very	49
1	1,1	1		

1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	interesting, he is a very interesting man,	2	the deal that was there the first time,
3	but it is not spelled in the normal Aladdin.	3	you'd better have communicated to the
4	I forget how it is spelled, but the number	4	banker. It shouldn't happen at the
5	of Ds and Ls is not standard:	5	committee level. So that is why they talk
6	He had the nickname of Dr. No:	6	about if there is a problem, you talk to
7	He was a Ph.D., so hence the doctor. And	7	people, you talk about it.
8	Q When did Dr. Efrat leave Moody's?	8	I don't remember how many times
9	A I don't recall. It was I believe	9	we said no to an RMBS backed deal. I do
10	before I left Moody's.	10	remember in the early days we said no to
11	Q Did you hear any rumors about why	11	quite a few. When I first started I can
12	he left Moody's?	12	imagine it happening this was 2000, I was
13	A Well, the rumors were swirling	13	asked to look at a transaction backed by all
14	that he left because he said no too many	14	telecommunications bonds. Remember, this is
15	times. He wasn't, he didn't leave himself,	15	after the tech bust, so everybody had too
16	he was asked. But that was just rumor,	16	many telecommunications bonds. And I looked
17	pure, pure hearsay.	17	at it, I said we can't, it doesn't work, it
18	I've talked to him since. He	18	just doesn't work at all, okay, and that was
19	hasn't talked about why. He doesn't want to	19	that. We said no to that deal. So that was
20	discuss it. It is purely rumor.	20	not a problem at all.
21	Q In 2004, the early 2004 time	21	Q Going back to the hypothetical
22	period, who were the easy managing directors	22	example in early 2004, Citigroup, the
23	who didn't ask a lot of questions about deals?	23	bankers from Citigroup bringing the RMBS CDO
24	A The other two was Gus Harris and	24	backed deal, would they have said to you
25	Bill May, M-A-Y.	25	going in what they expected the ratings
	50	_	52
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Pages 50 to 53

1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	this assumption in a previous deal, your	2	work. If they know you better, then they
3	model is wrong, anything and everything if	3	can't just completely lie to your face and
4	the numbers didn't come out. But, yeah,	4	say no, this should work, so they were more
5	anything and everything.	5	reasonable. So that was some part of it,
6	I don't recall at the sort of	6	but I think some of it was also purposely
7	junior level the pressure level to take this	7	interpreted as just do the deal, get the
8	deal elsewhere. Occasionally they might	8	deal done.
9	say, well, S&P doesn't look at it this way,	9	What I am trying to say is it
10	Fitch doesn't look at it this way,	10	wasn't all bad. Having good relationships
11	is about as bad as it got.	11	with people you deal with is just good
12	Q As a quantitative analyst, would	12	anywhere. And to me, I felt it always gave
13	bankers threaten to call your supervisor?	13	me more of a leg to stand on when I wanted
14	A Of course. I would tell them,	14	to say no, this just doesn't work. People
15	you don't like this? Call my supervisor.	15	knew me. But there was a focus, I guess a
16	It was expected. It was expected. A good	16	can-do attitude.
17	supervisor would defend their analyst,	17	Q Now, you stated earlier that you
18	obviously, but that was pretty much	18	left for a time period, for almost a year to
19	expected.	19	go to Lehman?
20	Q In 2004, how important was market	20	A Yes.
21	share to Moody's in ABS CDO route?	21	Q Were you rating deals for Lehman
22	A I don't think I viewed it like	22	prior to joining Lehman?
23	I said, I wasn't in management, I wasn't, I	23	A I think I did one or two deals.
24	was just doing my work.	24	Q And did you join the same group
25	Q Did anyone ever express to you in	25	at Lehman for which you were rating their
25	54		56
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2 3	2004, though, we need to grow market share or we need to maintain market share in CDOs	2 3	products? A Yes.
2 3 4	2004, though, we need to grow market share or we need to maintain market share in CDOs backed by RMBS?	2 3 4	products? A Yes. Q Was that unusual, for someone
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	1 INTERVIEW - I. KOLCHINS	KY 1	INTERVIEW - I. KOLCHINSKY
	2 thing I want is to move from a position		A Yes.
	3 they are in. They are not going to be	3	Q Who was your boss when you
	4 useful to me as a banker because they		rejoined Moody's in May 2005?
	5 have the backbone to push all the oth		A I believe it was Gary Witt.
	6 parties and shove this stuff down the		Q And how had Moody's changed in
	7 parties, and yet they are providing a		the year that you had been gone?
	8 service to the rating agency. That is		A It had become more standardized.
	9 last person I want to join my shop.	9	They were rolling out sort of a secondary
	10 So that is my personal take on		tier of management team leaders. Before it
	11 it. The people who left are the peopl		was managing directors and the rest of us,
	12 you know, just think about the banke	,	and they were rolling out a team leader
	13 mentality, you know. It is very sort of		concept to deal with all the deals, all the
	14 type A. That is the kind of person wi		transactions in the market.
	15 left, who gave a lot of back and forth	-	I think we had to be more market
	16 the bankers where they earned their r		share focused. I can't really, to be honest
	17 and, you know, there was no reason t	1	with you, say specifically. I think it was
	18 them at the rating agency. They wou	· · · <b>r</b>	more a slow buildup to that point on market
	19 give you what you want. If they have		share. I had heard from folks like Gary
	20 kind of skills, bring them on as a ban		about these market share e-mails, but I
	21 So I have a different take on	21	didn't really, it wouldn't really trickle
	22 that, and I know that has been, I know		down to the analyst level. It was really at
	<ul><li>has been circulated. I have a very</li></ul>	23	the managing director level.
	24 different take on it.	24	You got those e-mails, you got
	25 Q Let me ask you, though, yo		inquiries, why wasn't this deal rated, why
		58	60
	1 INTERVIEW - I. KOLCHIN		INTERVIEW - I. KOLCHINSKY
			wasn't this deal rated. But I don't think
	<ol> <li>described people with, your words,</li> <li>backbones that would go become b</li> </ol>		
	4 <b>Do you believe, though, the</b>	<b>alikers.</b> 5 4	it was that there was again a can-do
	<ul> <li><sup>4</sup> Do you believe, though, the</li> <li><sup>5</sup> prospect of becoming a banker ma</li> </ul>		attitude, there was more standardization,
	<ul> <li>6 influenced the ratings of individual</li> </ul>		but I don't think at that point I felt that pressure directly on market share.
	7 Moody's who perhaps, using your		Q Now, eventually you described
	8 not have the backbone?		being promoted?
	9 A It may have, but I don't know		A Yes.
	, ,		
	(1) any instances (Could if theoretically)		
	10 any instances. Could it theoretically	have 10	Q What was your first promotion
	11 crossed somebody's mind? Yes.	have 10 11	Q What was your first promotion upon returning to Moody's?
	<ol> <li>crossed somebody's mind? Yes.</li> <li>Q Would bankers use the pro</li> </ol>	have         10           spect of         12	Q What was your first promotion upon returning to Moody's? A Was to senior vice president.
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2	surely I started taking on the team leader.	2	We were becoming the number of	
3	And the idea behind the team	3	deals we did, our resourcing became	
4	leader, you had this sort of information	4	strained. The number of deals we did in '04	
5	glut around the managing directors. On the	5	compared to the number of deals we did in	
6	analytical side you have sort of a middle	6	'06, there is a huge gulf, but our personnel	
7	layer. So now, instead of just assigning,	7	did not go up accordingly. So I guess one	
8	when you staff the committee, just assigning	8	change from when I started to let's say '06,	
9	a quantitative analyst and a legal analyst,	9	'07, I started in something that looked like	
10	you also would have a committee chair role,	10	an academic department. We had time to	
11	and the role of that person was to make sure	11	talk. Actually at some points I had, we	
12	that they were, on the same type of deals,	12	were at 99 Church Street I don't know if	
13	just make sure the deals were consistent	13	any of you are familiar with New York I	
14	across the board. There was a	14	had time to walk over twice a week to take	
15	methodological consistency across all deals.	15	French classes at the Alliance Francaise.	
16	If an analyst had a question,	16	When I started I had all the	
17	instead of going to these managing	17	time, no pressures; like I said, academic	
18	directors, they would go to the team leader.	18	department. By the time I came back,	
19	The whole idea was that their communication	19	definitely by '06 it became, my role as a	
20	was to happen at a team leader level and	20	team leader was crisis management. Each	
21	then come down to the analysts.	21	deal was a crisis. Bankers were pushing	
22	And when you set up a committee,	22	more aggressively, so that it became from a	
23	I think by that time there was a, you	23	quiet little group to more of a machine. I	
24	started having more formal policies on who	24	can't say where that happened at what point,	
25	was supposed to be on each committee, so how	25	but that sort of started in a nice little	
20	62			64
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1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
2	this is while I was at Lehman, so I	2	for higher ratings?	
3	can't give you the history of that. A	3	A Higher ratings at the top of the	
4	paper came out, and Moody's revised	4	capital structure, because the way, the	
5	assumptions for correlations, and a	5	trick with the correlation is that the mean	
б	couple of things changed.	6	of the distribution does not change. It	
7	Prior to that, I think the two	7	just changes the shape of the distribution.	
8	moment method had default	8	So it allowed more, I guess allowed more	
9	correlations, and now we were using a	9	triple A.	
10	model called CDO ROM. They are using	10	<b>Q</b> And were the triple A ratings and	
11	asset correlations in the Merton sense.	11	the tranches contained in triple A, were	
12	The whole theory is, it is	12	they the ones that were driving the	
13	mostly with companies, but you have	13	structure?	
14	assets, the company is just assets	14	A Yes. If you look at, if you	
15	that vary, and once they go below a	15	think of it from the cost of equity	
16	certain level, that is when you have	16	performance, which was the way that most	
17	default, sort of a strike level. That	17	bankers looked at it, what is the equity,	
18	was Merton's theory. But that was	18	the residual piece, what is the return, you	
19	sort of the approach. So it went from	19	would look at it in terms of what are my	
20	default correlations technically to	20	assets earning. So let's say that is LIBOR	
21	asset correlations.	21	plus say 200 basis points, and then you look	
22	Let me see if I have the	22	at your cost of funds.	
23	those are the two. So there is two	23	The cost of funds, because the	
24	main changes. To me the correlation	24	triple A piece is so large, are driven	
25	change was far more significant, as	25	primarily by the triple A. Everything else	60
	00			68
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
2	opposed to the binomial versus the	2	is sort of a marginal contribution to the	
3	correlated binomial.	3	cost of funds. So let's say the cost of	
4	BY MR. BONDI:	4	funds are LIBOR plus 150, so 50 basis points	
5	Q Why was the correlation change	5	remaining for my equity, and then you	
6	significant?	6	multiply it by the leverage to get the	
7	A I don't know. Why was it	7	current return. And that is how people	
8	significant?	8	thought about it.	
9	Q Yes.	9	MR. BUBB: If you had more	
10	A In some cases it went down a lot	10	triple A, what would that do to your	
11	from before.	11	cost of funds?	
12	Q What is the significance of the	12	THE WITNESS: It would reduce	
13	correlation going down a lot?	13	your cost of funds.	
14	A The significance is if you have a	14	MR. BUBB: Triple A was	
15	correlated distribution, you should have	15	important to the bankers.	
16	more risk on the test, more probability of	16	THE WITNESS: It was important	
17	higher events occurring, in the middle. So,	17	to the bankers, yes.	
18	as you are low in correlations, effectively	18	BY MR. BONDI:	
19	you allow more of a triple A collateral,	19	Q Having more triple A was	
20	practically speaking.	20	important to the bankers?	
21	Q So, in other words, the change in	21	A It was, yes. Also, triple A was	
22	correlation that you saw from your first	22	easier to place.	
23	tenure at Moody's ending in 2004, compared	23	Q Easier to sell, you mean?	
24	to your second tenure at Moody's, was	24	A Sell.	
25	Moody's was using a completion that allowed	25	Q Easier to sell triple A tranches	
-	Moody's was using a correlation that allowed	25	Q Easier to sen triple A trancites	69

1	<b>INTERVIEW - I. KOLCHINSKY</b>	1	INTERVIEW - I. KOLCHINSKY
2	of CDOs?	2	institution, could fund itself in the CP
3	A Yes. At the time this is	3	market at LIBOR minus ten.
4	through the end of '05 there was pretty	4	If you look at the economics, it
5	much one buyer of triple A RMBS CDO paper,	5	is 40 basis points minus ten, you basically
6	and that was AIG. They were doing it	6	have 40 basis points of annual profit and
7	through what was called a negative basis	7	you multiply it essentially by, this is
8	trade.	8	supposed to be outstanding for eight years,
9	Q What is a negative basis trade?	9	eight years, you know, that is your present
10	A An account scenario, a CDO would	10	value profit. So, in terms of accounting
11	originate a whole tranche of let's say super	11	profits, it was very profitable for these
12	senior triple A. That triple A would be	12	banks.
13	bought primarily by Yankee banks, and Yankee	13	That is how a lot of folks,
14	banks are foreign branches of banks	14	Barclays was involved in it, pre-Lehman,
15	operating in the U.S.	15	Barclays, Soc Gen, a lot of folks did this
16	So if you look at who AIG owed	16	trade. AIG was the biggest consumer, so
17	money to besides Goldman Sachs, there was	17	they were basically the driving force behind
18	Soc Gen. So they would buy whole piece,	18	all these deals.
19	they would buy the whole enchilada, and then	19	Q How did the pressure change in
20	they would enter into a credit default swap.	20	the summer of 2006, that time frame, as
21	Q Let me interrupt for one moment	21	compared to the earlier time frame of 2004.
22	just so I am clear. Soc Gen would buy the	22	What additional types of pressure were you
23	whole triple A tranche, you are saying?	23	receiving from issuers?
24	A The whole super senior triple A	24	A Well, as deals became well, at
25	tranche, absolutely.	25	that time two things happened. The
20	70		72
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	Q And then what would happen?	2	economics of these transactions started
3	A Then they would go to a well,	3	going down and down and down because of so
4	AIG, and later on there would become other	4	many of them; as they were buying up all of
5	parties for a credit default swap on that	5	the primary market RMBS, that was driving
6	piece. So, theoretically they were taking	6	the spreads on the RMBS down. And again,
7	funding risk while the Monoline took the	1	
	6	7	the economics here, as the spreads on the
8	credit risk. That is shorthand for	7 8	the economics here, as the spreads on the asset side went down, that would lower the
9	credit risk. That is shorthand for financial guarantors and insurance companies	7 8 9	the economics here, as the spreads on the asset side went down, that would lower the economics to the equity.
9 10	credit risk. That is shorthand for financial guarantors and insurance companies such as MBI, Ambac and AIG. AIG wasn't in	7 8 9 10	the economics here, as the spreads on the asset side went down, that would lower the economics to the equity. How do you offset that? Well,
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2	MR. BUBB: And that fell as	2	be doing at a rating agency.
3	they when you say better triple A	3	But I would say most people would
4	execution, that means a lower spread	4	complain about resources.
5	on the triple A bonds because of the	5	Q Were you complaining about resources?
6	liabilities of the CDO.	6	A Sure. I tried to do it in a
7	THE WITNESS: Yes. So as the	7	positive manner, but yes.
8	asset spreads went down, the bankers	8	<b>Q</b> What kind of response did you get
9		9	from management when you complained about
10	started to push down the liability	10	resources?
11	spreads as well, to keep the economics	11	
	going. That is one, very desperate,		A Usually "We know, we are working
12	and deals became a lot more aggressive	12	on it."
13	and a lot more very sort of if one	13	Q And what other complaints were
14	of the assumptions was off by a hair,	14	you hearing at the time?
15	boom, but it worked in sort of our	15	A I think people were concerned
16	assumptions.	16	that they didn't have a good grip on the
17	And with advent of the credit	17	deals as they were flying by.
18	default swaps, that drove a lot of	18	<b>Q</b> Do you feel that you and your
19	complexity and lot of issues with	19	colleagues had a good grip on the deals?
20	those deals because, A, they could be	20	A With 20/20 hindsight, absolutely
21	put together faster, and B, the hybrid	21	not.
22	transactions, hybrid CDOs came on the	22	Q Tell me why you mentioned
23	scene, and those were probably, in terms	23	hybrid CDOs. First of all, just for the
24	of their structural complexity, they	24	record, what is a hybrid CDO?
25	were twice as complex as a normal CDO.	25	A A hybrid CDO is a CDO that is
	74		76
1		1	
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	BY MR. BONDI:	2	partially funded with cash and partially
3	Q In 2006, were there any internal	3	synthetic, and it could be any combination.
4	complaints that you were hearing from your	4	The typical, standard typical
5	colleagues at Moody's concerning resources?	5	hybrid CDO, there are many variations, was a
6	A Yes.	6	CDO that had a vast majority of its assets
7	Q What complaints were you hearing	7	as credit default swaps, so it was
8	concerning resources?	8	synthetic. On the liability side, the super
9	A There was not enough resources,	9	senior was unfunded, so it was synthetic,
10	we don't have enough time to do the deals,	10	while the mezzanine notes were funded.
11	very much the deal flow was much greater	11	So what that introduced to the
12	than what we could manage with.	12	deal is, number one, the funded notes
13	Q And who do you recall making	13	brought in cash into the deal. That cash
14	those complaints?	14	needed to be invested in something which had
15	A I am sure everyone at some point.	15	a risk of its own other than credit default
16	We were working very hard compared to	16	swaps. So you had collateral risk.
17	again, most people who joined signed up for	17	Of course, bankers would want to
18	the old Moody's where you could take a	18	push an aggressive collateral arrangement,
19	three-hour lunch.	19	so you had to look at that collateral
20	So some people were there 16-hour	20	arrangement. That could vary from something
21	days, et cetera, but a lot of people, they	21	as simple as a GIC, guaranteed investment
22	were there because of the lifestyle, and so	22	contract, to a total return swap with a
23	they were getting less pay because of the	23	bank. So, how does it work?
24	lifestyle, so they felt that I am being	24	The other question for the
24		24	
40	pressured more given what I am supposed to 75	23	collateral is not just who takes the risk 77
	/ 1		11

1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
2	for the collateral, at what point. So if	2	synthetic senior, cash mezzanine bonds. If	
3	you had a pay-as-you-go credit default swap	3	you have a prepayment on the cash bond, it	
4	on the asset side, if that credit default	4	goes to the waterfall. You can't just let	
5	swap required payment from the CDO to be	5	it flow to the mezzanines because they are	
6	made, where did that money come from? Who	6	getting paid back before the super senior.	
7	would take the risk?	7	So you have to go through this, okay, what	
8	So, let's say if you need to make	8	if, what if. So the layers of complexity	
9	a payment, a credit payment on the credit	9	are tremendous.	
10	default swap, let's say for example you	10		
11		11	Plus they may have wanted to do a	
12	invested your collateral which nobody	12	short bucket in the CDO. So ability to	
	did into 30-year Treasurys, you may go	1	short a CDS to usually CDOs sold protection	
13	sell the Treasury, but it is a fixed rate	13	if they were hybrids. What if they wanted	
14	investment and interest rates had moved, you	14	to buy protection? How would that work?	
15	would have a market loss. Who takes that	15	So all these, again, added an	
16	loss? Is it the bank? Is it the CDO? We	16	enormous amount of complexity, so we were	
17	try to make sure it's not the CDO. Whoever	17	dealing with an explosion of sort of	
18	it was, it was not, it should not be the CDO.	18	innovation, and I don't think we had the	
19	But you had to go through all	19	resources to deal with it. It would have	
20	these contingencies, what if this, what if	20	been much better in 20/20 hindsight to say	
21	that, because obviously if the CDO didn't	21	let's stop, let's think about this and let's	
22	make that payment it is in default. So if	22	figure out how we need to so that was the	
23	it is in default, the whole deal is in	23	unspoken thing. You can't stop, you kind of	
24	default. It would have to be liquidated,	24	run with the flow. You may be able to slow	
25	and the mezzanine tranches would be wiped	25	things down, but you have to ride with the	
	78			80
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
	INTERVIEW - I. KOLCHINSKY out. probably.		INTERVIEW - I. KOLCHINSKY flow.	
2	out, probably.	2	flow.	
2 3	out, probably. The other problem came with the	2 3	flow. <b>Q</b> Were any of your colleagues	
2 3 4	out, probably. The other problem came with the super senior on the liability side, because	2 3 4	flow. Q Were any of your colleagues saying I can't rate this deal, it is too	
2 3 4 5	out, probably. The other problem came with the super senior on the liability side, because again, once you have exhausted all the cash	2 3 4 5	flow. Q Were any of your colleagues saying I can't rate this deal, it is too complex?	
2 3 4 5 6	out, probably. The other problem came with the super senior on the liability side, because again, once you have exhausted all the cash collateral that was put in by the funding	2 3 4 5 6	flow. Q Were any of your colleagues saying I can't rate this deal, it is too complex? A I don't recall.	
2 3 4 5 6 7	out, probably. The other problem came with the super senior on the liability side, because again, once you have exhausted all the cash collateral that was put in by the funding mezzanine tranches, you are still indebted	2 3 4 5 6 7	flow. Q Were any of your colleagues saying I can't rate this deal, it is too complex? A I don't recall. Remember, this is a working	
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2	almost like we had an obligation to	2	but there is enough there to say,	
3	follow our methodology.	3	look, this is, even though we have a	
4	There were a couple of deals	4	model, this is new enough that the	
5	that we actually tried very hard to,	5	model just no longer fits or makes	
б	because there was some gut feeling	б	sense in this deal.	
7	that something was wrong, but we would	7	MR. BUBB: Was the collateral	
8	try to work within the methodology.	8	rated?	
9	The numbers still came up okay, and	9	THE WITNESS: Some of it was	
10	that was, you know, that was sort of a	10	not rated, and so then we would have	
11	what do you do at that point.	11	had to rerate some of the collateral,	
12	MR. BUBB: Let me follow up.	12	go in there and rerate some of the	
13	In both your stints at Moody's,	13	collateral.	
14	was there ever a case in which the	14	I also was concerned about	
15	groups said no to deal?	15	equity, sort of in terms like long	
16	THE WITNESS: Well, yes, yes.	16	correlation. It is a term that means	
17	MR. BUBB: In those cases,	17	equity, residual pieces at the bottom	
18	since the bank had access to your	18	of distribution benefit from high	
19	model, presumably they had run it	19	correlation because it is, it becomes	
20	through the model already.	20	an option. You either hit it out of	
21	THE WITNESS: Uh-huh.	21	the ballpark and you lose everything,	
22	MR. BUBB: And it passed the	22	but you don't have much to lose.	
23	model. How would it ever come to you	23	Equity is long correlation, so	
24	and not pass the model?	24	if you are and this is the argument	
25	THE WITNESS: It is usually	25	I used to stop the deal internally,	0.4
	82			84
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
2	something that's sort of an issue of	2	was that because equity is long	
3	first impression.	3	correlation, a lot of these deals were	
4	So the one deal I was able to	4	done by the same hedge fund and they	
5	say no to as managing director was the	5	seemed to have a lot of overlap or	
6	deal called Tigress. That was	6	underestimating correlations if we use	
7	essentially a repackaging of the	7	our normal correlation grid in the CDO	
8	equity positions of a hedge fund	8	ROM model.	
9	called Magnetar. Magnetar was	9	I was also concerned about	
10	responsible for doing a lot of deals	10	incentives as well, because that is	
11	called constellation deals because	11	something, unfortunately, if I could	
12	they are all named after	12	go back, incentives was the biggest	
13	constellations. And it turns out they	13	problem in this field, but in this	
14	were shorting, those deals were	14	case I was just concerned the hedge	
15	shorting some bonds in those deals.	15	fund did all these deals, they take a	
16	There was a recent investigation that	16	residual.	
17	was done about this.	17	At this point, you know,	
18	But they came to us I guess	18	anecdotally, bankers would not tell us	
19	they wanted to get out of their equity	19	where a lot of this stuff went, but by	
20	position, sort of cash out of their	20	'06, '07 the super senior was	
21	equity position. They came to us	21	essentially retained on the books of	
22		22	the bank. The mezzanine tranches went	
	essentially with a CDO of CDO	1		
23	equities, residual pieces, and that is	23	into either vehicles controlled by the	
24	equities, residual pieces, and that is a deal I said no to. And, you know,	23 24	into either vehicles controlled by the bank or another bank on swaps, they	
	equities, residual pieces, and that is	23	into either vehicles controlled by the	85

1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	example, or an ABCP, asset-backed	2	before the break about the various models
3	commercial paper conduit.	3	that were used. You had mentioned the
4		4	
5	The rest of the non-triple A mezzanine would go into CDO	5	correlated binomial model, you mentioned CDO ROM.
6		6	
7	warehouses. All CDOs had a bucket, an allocation for other CDOs, so there	7	Can you explain what models were used when and for what?
8	was no real investors other than the	8	A Okay. We talked about, in terms
9		9	
10	equity, who theoretically was incentivized to make the deal go on,	10	of setting the probability distribution,
11	e ·	11	there are two components. There is the distribution itself, the shape of the
12	and here was equity trying to cash out of their position.	12	distribution and there is the correlation.
13		13	Before I left, I believe we were
14	I thought that, really, if that	14	
15	started happening, then I think our	15	using the normal binomial distribution, and
	attitude to step back at Moody's,	1	the number of diversity bonds, which is an
16 17	rightly or wrongly was, you know, we	16 17	applied measure of correlation, was set by
	offered advice to investors, but if	18	this two moment calculator. Shortly after I
18	investors want to take the risk, they	18	came back well, I think while I was at
19	are sophisticated investors.	1	Lehman I think the paper on the correlated
20 21	So to that theory, right, there	20 21	binomial was published.
	is no investors. It is just bankers		The difference between normal,
22	doing their deals and equities cashing	22	correlated has a fatter tail, just nothing
23	out, who, it is just us. And so that	23	else. Distribution takes some of the,
24	is why, that was the main reason I	24	removes some of the loss from the hump, if
25	said no, but I used the correlation 86	25	you will, puts it on the tail. Think of it
	00		
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	argument internally to push it back.	2	as normal distribution, puts it on the tail.
3	I was asked to reconsider. I	3	You have lower probabilities here, but you
4	said no, I am not doing the deal.	4	have higher probabilities in the tail where
5	MR. BUBB: Who asked you to	5	the triple A's would be.
6	reconsider?	6	<b>Q</b> Lower probabilities in the 50
7	THE WITNESS: I think my	7	percentile, more probability in the first
8	manager, Yuri Yoshizawa.	8	percentile?
9	BY MR. BONDI:	9	A Yes, further down, more rare
10	Q What happened as a result of you	10	events. Gary published this paper on the
11	pushing back on this deal?	11	correlated binomial.
12	A Nothing immediate, but I think	12	Q And by Gary, you mean Dr. Gary
13	you know, this is I pushed back, this is	13	Witt?
14	07, and I started doing a lot of market	14	A Dr. Gary Witt.
15	unfriendly things. So I think it set up for	15	Then there is a paper about new
16	my eventual dismissal from the rating agency	16	correlations for structured assets, which
17	after the events of September, which was	17	was meant to apply just through the CDO ROM
18	probably like the last straw.	18	model, or theoretically could apply
19	(Lunch break.)	19	anywhere, but that was published. I don't
20	BY MR. BONDI:	20	think Gary was involved, Dr. Witt was
21	Q Mr. Kolchinsky, we were talking	21	involved with that; tangentially, you would
22	before the break about your experiences when	22	probably know better than I would. I was at
23	you returned to Moody's in 2005, 2006, 2007.	23	Lehman. It was published, and then as I was
24	A Uh-huh.	24	coming back and officially in the summer of
25	Q And we were talking earlier	25	'05, they took the correlations in that
	87		89
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1       INTERVIEW - I. KOLCHINSKY         2       paper, in the CDO ROM, and applied it to         4       binomial as the distribution.         5       So there is some ways to do it;         6       you know, you could have actually taken the         7       actual distribution and put it into the         8       model. At the time I think it was seen as         9       something impractical because of the number         9       of rms you would have to do. You would         11       have to run at least a thousand passes         12       through our cash flow model, which was very time dependent.         13       out of the CDO ROM.         14       would be better - match the first and thrid more as of the CDO ROM.         14       and then you gou out have note the correlation.         15       is the coupt from the CDO ROM.         16       and the you gou out at the CDO ROM.         17       MR. BUBB: We may follow up         18       the sch flow model, and the motel distribution, and up the ital twas a losed form         19       distribution going under it?         11       you would atte the deal.         12       MR. BUBE: You didn't have to as flow model, and through, and thar torrelation.         11       intha cash flow model, and the t			1	
2       paper, in the CDO ROM, and applied it to       2       scenarios for the cash flow model.         3       cash flow deals through the correlated       in any sort of methodological         5       So there is some ways to do it;       in any sort of methodological         6       model. At the time I think it was seen as       about that came out on the         7       would isstribution and put it into the       about that came out on the         9       something impractical because of the number       and the correlated       and the correlated         11       have to run at least a thousand passes       and the correlated       and the correlated       and the correlated         12       you would just match, I believe - Dr. Witt       MR. BUBB: And that was in 03.         12       model. And you would create at       after I came back.         13       our of the CDO ROM with a correlated       13         14       binomial distribution with a hundred assets.       14         15       and then you would tract the deal.       10         16       would be better - match the CDO ROM.       14         17       and then you would tract the deal.       19         18       MR. BUBB: You didn' thave to       10         19       moreflet binomial with thar correlation.       1	1	INTERVIEW - I KOI CHINSKY	1	INTERVIEW - I KOI CHINSKY
3       cash flow deals through the correlated       3       MR. BUBB: Was this documented         4       binomial as the distribution and put it into the       5       So there is some ways to do it;         6       you know, you could have actually taken the       6         7       actual distribution and put it into the       7         8       something impractical because of the number       7         10       of runs you would have to do. You would       10         11       have to run at least a thousand passes       11         12       through our cash flow model, which was very       12         13       time dependent.       13         14       So in order to sort of limit it,       14         15       you would just match, I believe - Dr. Witt       15         16       out of the CDO ROM with a correlated       17         19       binomial distribution with a hundred assets,       19         11       is the output from the CDO ROM.       20         24       correlated binomial with that correlation,       21         25       and the you would rate the deal.       20         26       THE WITNESS: I and happy to         27       MR. BUBE: Not thery, there         28       THE WITNESS: We				
4       binomial as the distribution.       4       in any sort of methodological         5       So there is some ways to do it;       5         you know, you could have actually taken the       7         attal distribution and put it into the       7         model. At the time I think it was seen as       3         9       something impractical because of the number       9         11       have to run at least a thousand passes       10         12       through our cash flow model, which was very       11         13       so in order to sort of limit i,       14         14       So in order to sort of limit i,       14         15       inde upoug out digits match. I believe - Dr. Witt       15         16       would be better match the first and third       16         17       moments of the loss distribution that came       16         18       out of the CDO ROM with a correlation.       18         12       and then you would drea the deal.       20         12       And then you would drea the deal.       20         12       and ther sou would drea the deal.       20         13       in a cash flow model because       30         14       MR. BUBB: Yen upolibitinformation.       21				
5     So there is some ways to do it;     5     document?       6     you know, you could have actually taken the actual distribution and put it into the model. At the time I think it was seen as some ways you do it. At the time I think it was seen as some ways you do it. At the time I think it was seen as some ways you do it. At the time I think it was seen as some ways you do it. At the time I think it was seen as some ways you do it. At the time I think it was seen as some ways you do it. At the time I think it was seen as some ways you do it. At the time I think it was seen as some ways you do it. At the time I think it was seen as some ways would have to do. You would it.     6     THE WITNESS: The lieve was a document that came out on the application of the new correlated binomial distribution with a hundred assets, and then you would then put that is how you would rate the deal.     7     MR. BONDI:       10     O Do you recall the name of that is how you would then put that correlation. That is the output from the CDO ROM.     7     A No. If I had an Internet correlation. That is the output from the CDO ROM.       21     INTERVIEW - I. KOLCHINSKY     20     7     A No. If I had an Internet is the you would then put that is how you would rate the deal.       25     and that is how you would the put that it was a closed form distribution, closed if form distribution, and we ran that through.     7     MR. BUBB: You didn't have to is simulate the cash flow model because if was a closed form distribution, and we ran that through.     8       10     So then you would take that, if was a closed form distribution, and we ran that through.     9       11     No thay ou w				
6       You know, you could have actually taken the       6       THE WITNESS: There was a         7       actual distribution and put it into the       7         8       model. At the time I think it was seen as       7         9       something impractical because of the number       9         10       of runs, you would have to do. You would       10         11       have to run at least a thousand passes       11         12       through our cash flow model, which was very       11         13       time dependent.       12         14       So in order to sort of limit it,       14         15       you would just match, I belive - Dr. Witt       14         16       would be better match the first and thind       16         17       moments of the loss distribution that came       17         18       out of the CDO ROM with a correlated       17         20       and then you would tare match.       18         21       in a cash flow model, and you would create a       19         22       and that is how you would rate the deal.       20         21       MR. BUBB: You din't have to       23         31       simulate the cash flow model because       90         22       MR. BUBB: You				
7       actual distribution and put it into the model. At the time I think it was seen as something impractical because of the number of runs you would have to do. You would have to run at least at housand passes       7       document that came out on the application of the new correlations and the correlated binomial to ABS         10       of runs you would have to do. You would have to run at least at housand passes       11       along with Gary, along with Dr. Wit.         11       binomial distribution that came output from the CDO ROM.       11       along with Gary, along with Dr. Wit.         12       binomial distribution with a hundred assets, and then you got out the correlated.       13       in the summer of '05. It was right after I came back.         12       and then you would then put that is the output from the CDO ROM.       14       00       O you recall the name of that paper?         11       and how model, and you would create ad.       20       A No. If I had an Internet         12       correlated binomial with that correlation, and that is how you would rate the deal.       23       With you.         24       correlated binomial distribution, closed form distribution going under it?       11       MR. BUBB: We may follow up with you.         25       mat that was a closed form distribution, and we ran that through.       13       14       MR. Kolchinsky, the models that you have described here, seen to be critical for the ultimater rating.         14       ba				
8       model. At the time I think it was seen as something impractical because of the number       9       application of the new correlations         10       of runs you would have to do. You would       10       CDOs, Michael Xie was the author,         11       have to run at least a thousand passes       11       and the correlated binomial to ABS         12       through our cash flow model, which was very       12       and the correlated binomial with a tare         13       time dependent.       11       MR. BUBB: And that was in '05,         14       So in order to sort of limit it,       13       morents of the loss distribution that came         16       would be better - match the first and third       16       THE WITNESS: I believe it was in the summer of '05. It was right         16       out of the CDO ROM with a correlated       17       BY MR. BONDI:         11       is and the rou would the put hat       20       A No. If I had an Internet         12       and then you would rate the deal.       21       MR. BUBB: You didn't have to         24       correlated binomial with that correlation,       23       with you.         25       and the you would rate the deal.       20       A No. If I had an Internet         26       and the you would rate the deal.       21       INTERVIEW - I. KOLCHINSKY				
9something impractical because of the number of runs you would have to do. You would thave to run at least a thousand passes through our cash flow model, which was very time dependent.9and the correlated binomial to ABS CDOs, Michael Xie was the author, along with Gary, along with Dr. Witt. MR. BUBB: And that was in '05, we think.14So in order to sort of limit it, you would just match. I believe - Dr. Witt to would be better - match the first and third to ut of the CDO ROM with a correlated binomial distribution with a hundred assets, and then you got out the correlation. That is the output from the CDO ROM. And then you would then put that in a cash flow model, and you would create a correlated binomial with that correlation, concetion I might be able to find it. MR. BUBB: You didn't have to simulate the cash flow model because you had an actual distribution, closed form distribution going under it? form distribution, and we ran that through. go would laredy have to run, let's that it was a closed form go would already have to run, let's that it was a closed form go would already have to run, let's that it was a closed form go would already have to run, let's that it was a closed form go would already have to run, let's that it was a closed form go would already have to run, let's the is default timing scenarios, so that scenarios, so actually1 don't mean like raina (phonetic) pass, but you would ber to run nic housand go would have to run nic housend <td></td> <td></td> <td></td> <td></td>				
10       of runs you would have to do. You would       10       CDOs, Michael Xie was the author, along with Gary, along with Dr. Witt.         11       have to run at least a thousand passes       11       along with Gary, along with Dr. Witt.         13       time dependent.       11       along with Gary, along with Dr. Witt.         14       So in order to sort of limit it,       12       MR. BUBB: And that was in 05,         15       you would just match, I believe - Dr. Witt       15       in the summer of '05. It was right         16       out of the CDO ROM with a correlated       16       BY MR. BONDI:         17       BY MR. Bourd the name of that       paper?         20       A No. If I had an Internet       20         21       in a cash flow model, and you would reate had       20         22       and that is how you would rate the deal.       20         20       A MR. BUBB: You didn't have to       21         21       INTERVIEW - I. KOLCHINSKY       24         23       stiribution, closed       70         31       for the ulimate rating.       7         32       THE WITNESS: Well, yeah, there       30         34       stiribution, closed       70         35       for the LUTNESS: Well, yeah, there       30<				
11       have to run at least a thousand passes       11       along with Gary, along with Dr. Witt.         12       time dependent.       12       MR. BUBE. How this.         14       So in order to sort of limit it.       13       we think.         15       you would just match. I believe - Dr. Witt.       14       THE WITNESS: I believe it was in the summer of '05. It was right after 1 came back.         17       moments of the LOD ROM with a correlated       16       Q Do you recall the name of that paper?         20       and then you got out the correlation. That       16       Q Do you recall the name of that paper?         21       in a cash flow model, and you would create a       20       A No. If I had an Internet         21       and then you would then put that       22       MR. BUBB: We may follow up         22       and that is how you would rate the deal.       20       You would pare the correlation, closed         3       simulate the cash flow model because you was a closed form       290       1       INTERVIEW - I. KOLCHINSKY         2       MR. BUBB: You didn't have to satistribution going under it?       Q       Q       Mr. Kolchinsky, the models that         3       strike that. Was a closed form       90       90       92         11       you would aredy have to run, let's       Q				
12       through our cash flow model, which was very time dependent.       12       MR. BUBB: And that was in '05, we think.         13       So in order to sort of limit it, you would just match, I believe Dr. Witt would be better match the first and third moments of the loss distribution that came out of the CDO ROM with a correlated binomial distribution with a hundred assets, and then you got out the correlation. That is the output from the CDO ROM.       14       THE WITNESS: I believe it was in the summer of '05. It was right after I came back.         12       and then you got out the correlation. That is the output from the CDO ROM.       17       BY MR. BUBB: Wash BONDI:         24       correlated binomial with that correlation, as imulate the cash flow model because to form distribution going under it?       A No. If I had an Internet connection I might be able to find it.         25       and that is how you would create a correlated binomial with that correlation, as imulate the cash flow model because to form distribution going under it?       MR. BUBB: You didn't have to samulate the cash flow model because that it was a closed form distribution, and we ran that through.       11       INTERVIEW - I. KOLCHINSKY static was a losed form distribution, and we ran that through.       12       INTERVIEW - I. KOLCHINSKY static was involved in the samoles changed, the ratings, and what would go in excuse me, strike that. Who was involved in approving the ratings, and what would go in excuse me, strike that. Who was involved in approving the ratings, and what would go in excuse me, strike that. Who was involved in approving the ratings, and what would go in excuse me, strike that. Who was involved in appr				
13       time dependent.       13       we think.         14       So in order to sort of limit it,       14       THE WITNESS: I believe it was in the summer of '05. It was right after I came back.         15       you would just match, I believe Dr. Witt       16       after I came back.         16       would just match, I believe Dr. Witt       16       after I came back.         17       moments of the CDS OM with a correlated binomial distribution with a bundred assets,       17       BY MR. BONDI:         18       and then you got out the correlation. That       18       O Do you recall the name of that         19       paper?       A No. If I had an Internet       connection I might be able to find it.         21       and then you would rate the deal.       22       MR. BUBB: We may follow up       with you.         22       and that is how you would rate the deal.       20       THE WITNESS: I am happy to         22       seimulate the cash flow model because       90       With you.         3       simulate the cash flow model because       90         4       you would already have to run, let's       90       Wh. SOLCHINSKY         5       was a closed orm       90       M. K. SULENINSKY, the models that         9       distribution, and we ran that thrrough.       90 </td <td></td> <td></td> <td></td> <td></td>				
14       Šo in order to sort of limit it,       14       THE WITNESS: 1 believe it was         15       you would just match, I believe Dr. Witt       15       in the summer of 05. It was right         16       would be better match the first and third       16       after I came back.         17       moments of the loss distribution that came       17       BY MR. BONDI:         18       out of the CDO ROM with a correlated       17       BY MR. BONDI:         20       and then you got out the correlation. That       23       A No. If I had an Internet         21       is the output from the CDO ROM.       23       MR. BUBB: We may follow up         22       and then you would then put that       20       MR. BUBB: We may follow up         23       and that is how you would rate the deal.       20       With you.         24       OR BUBB: You didn' have to       36       Subpoena. It is public information.         35       simulate the cash flow model because       90       92         1       INTERVIEW - I. KOLCHINSKY       1       INTERVIEW - I. KOLCHINSKY         2       MR. BUBB: You didn' have to       38       BY MR. BONDI:         3       simulate the cash flow model because       90       MA Yes.         4       O Ma as the model				
<ul> <li>you would just match, I believe - Dr. Witt</li> <li>would be better match the first and third</li> <li>moments of the loss distribution that came</li> <li>out of the CDO ROM with a correlated</li> <li>binomial distribution with a hundred assets,</li> <li>and then you go tot the correlation. That</li> <li>is the output from the CDO ROM.</li> <li>and then you go tot the correlation. That</li> <li>and then you go tot the correlation. That</li> <li>and then you go undel, and you would create a</li> <li>correlated binomial with that correlation,</li> <li>and that is how you would rate the deal.</li> <li>simulate the cash flow model because</li> <li>you had an actual distribution, closed</li> <li>form distribution going under it?</li> <li>THE WITNESS: Well, yeah, there</li> <li>was a closed form</li> <li>distribution, and we ran that through.</li> <li>So then you would already have to run, let's</li> <li>five interest rate scenarios and we</li> <li>for distribution, so actually did, ried to also vary</li> <li>genzement, and the deal, and the was part of the</li> <li>genzement, and the was part of the</li> <li>genzement, and the was part of the</li> <li>genzement, and that was part of the</li> <li>genzemine, strike that. Who was involved this coning a supproving the</li> <li>and the various assumptions and inputs that</li> <li>would be can in a hundred passes for</li> <li>would be ave to un in thoursend the</li> <li>genzemine, and the vas out and the</li> <li>that scenario, so actually - I don't</li> <li>mean like raina (phonetic) pass, but</li> <li>you would have to run ine thoursand</li> <li>genzemine, a</li></ul>				
16       would be better match the first and third       16       after I came back.         17       BY MR. BONDI:         18       out of the CDO ROM with a correlated         19       binomial distribution with a hundred assets,         20       and then you got out the correlation.         21       is the output from the CDO ROM.         22       And then you would then put that         23       in a cash flow model, and you would create a         24       correlated binomial with that correlation,         25       and that is how you would rate the deal.         26       milate the cash flow model because         3       simulate the cash flow model because         4       you had an actual distribution, closed       1         5       form distribution going under it?       1         6       THE WITNESS: Well, yeah, there       1         7       was a closed form       9         9       distribution, and wer ant that through.       10         10       So then you would take that,       10         11       you would aready have torun, let's       2         12       see, we had five defaults we had       15         13       five interest rate scenarios and we       15 </td <td></td> <td></td> <td></td> <td></td>				
17moments of the loss distribution that came out of the CDO ROM with a correlated binomial distribution with a hundred assets, and then you got out the correlation. That 				
18       out of the CDO ROM with a correlated       18       Q Do you recall the name of that         19       paper?       A No. If I had an Internet         21       is the output from the CDO ROM.       21         23       in a cash flow model, and you would create a       23         24       correlated binomial with that correlation,       23         25       and that is how you would rate the deal.       23         26       11       INTERVIEW - I. KOLCHINSKY       2         26       MR. BUBB: You didn't have to       25         3       simulate the cash flow model because       90         4       you had an actual distribution, closed       5         5       form distribution going under it?       6         6       THE WITNESS: Well, yeah, there       8         7       was a closed the probability was       7         8       that it was a closed form       9         9       3       strike that. Who was involved in approving the         12       you would already have to run, let's       9         13       five interest rate scenarios and we       13         14       had six default timing scenarios, so       14         14       had was default timing scenarios, so				
<ul> <li>binomial distribution with a hundred assets, and then you got out the correlation. That</li> <li>is the output from the CDO ROM.</li> <li>And then you would then put that</li> <li>in a cash flow model, and you would create a correlated binomial with that correlation, 25</li> <li>and that is how you would rate the deal.</li> <li>INTERVIEW - I. KOLCHINSKY</li> <li>Simulate the cash flow model because</li> <li>you had an actual distribution, closed</li> <li>form distribution going under it?</li> <li>THE WITNESS: Well, yeah, there</li> <li>was a closed form</li> <li>distribution, and we ran that through.</li> <li>So then you would take that,</li> <li>you would aready have torun, let's</li> <li>see, we had five defaults we had</li> <li>five interest rate scenarios and we</li> <li>five interest rate scenarios and we</li> <li>that made 30. For ABS CDOs we</li> <li>actually did, tried to also vary</li> <li>proplem, everything was weighted,</li> <li>more subject, so it made a total</li> <li>of 90 different scenarios, so</li> <li>that made 30. For ABS CDOs we</li> <li>actually did, tried to also vary</li> <li>mean like rain (phonetic) pass, but</li> <li>would be run in a hundred passes for</li> <li>would be run in a hundred passes for</li> <li>would have to run nine thousand</li> </ul>				
20       and then you got out the correlation. That       20       A No. If I had an Internet         21       is the output from the CDO ROM.       21       correlated binomial with then correlation,         23       in a cash flow model, and you would create a       22       with you.         24       correlated binomial with that correlation,       23       mk. BUBB: We may follow up         25       and that is how you would rate the deal.       20       21         26       INTERVIEW - I. KOLCHINSKY       24       THE WITNESS: I am happy to         26       Simulate the cash flow model because       30         27       MR. BUBB: You didn't have to       3       Simulate the cash flow model because       30         26       THE WITNESS: Well, yeah, there       3       BY MR. BONDI:       30         27       was a closed - the probability was       6       G And as the models changed, the         37       was a closed form       9       9       A Yes.         38       that it was a closed form       9       7       A Yes.         39       see, we had five defaults we had       1       Q Who was involved with coming         39       would already have to run, let's       1       Q Whow as involved with coming         39 <td></td> <td></td> <td></td> <td></td>				
<ul> <li>is the output from the CDO ROM.</li> <li>And then you would then put that</li> <li>in a cash flow model, and you would create a</li> <li>correlated binomial with that correlation,</li> <li>and that is how you would rate the deal.</li> <li>you had an actual distribution, closed</li> <li>form distribution going under it?</li> <li>got hat it was a closed form</li> <li>got hat made 30. For ABS CDOs we</li> <li>got hat made 30. For ABS CDOs we</li> <li>got hat made 30. For ABS CDOs we</li> <li>got hat scenario, so at</li></ul>				
22And then you would then put that in a cash flow model, and you would create a correlated binomial with that correlation, 2522MR. BUBB: We may follow up with you.23correlated binomial with that correlation, 2523with you.24correlated binomial with that correlation, 2523with you.25and that is how you would rate the deal.90259090921INTERVIEW - I. KOLCHINSKY 21INTERVIEW - I. KOLCHINSKY 22MR. BUBB: You didn't have to 33BY MR. BONDI:39090921INTERVIEW - I. KOLCHINSKY 21INTERVIEW - I. KOLCHINSKY 22MR. BUBB: You didn't have to 390903form distribution, closed 44QMr. Kolchinsky, the models that 54you had an actual distribution, closed 56For the ultimate rating.7was a closed form 99679distribution, and we ran that through. 1056P Ahd as the models changed, the 711you would already have to run, let's 1110A Yes.12see, we had five defaults we had 1511Q Who was involved in approving the 714had six default timing scenarios, so 1414A Six default timing scenarios, so15that made 30. For ABS CDOs we 16151616of 90 different scenarios. Everything 191819was weighted				
<ul> <li>in a cash flow model, and you would create a correlated binomial with that correlation, and that is how you would rate the deal.</li> <li>INTERVIEW - I. KOLCHINSKY</li> <li>INTERVIEW - I. KOLCHINSKY</li> <li>MR. BUBB: You didn't have to simulate the cash flow model because you had an actual distribution, closed</li> <li>form distribution going under it?</li> <li>THE WITNESS: Well, yeah, there</li> <li>was a closed the probability was</li> <li>that it was a closed form</li> <li>distribution, and we ran that through.</li> <li>So then you would take that,</li> <li>you would already have to run, let's</li> <li>five interest rate scenarios and we</li> <li>five interest rate scenarios, so</li> <li>that made 30. For ABS CDOs we</li> <li>for ABS CDOs we</li> <li>for actually did, tried to also vary</li> <li>prepayment speeds, so it made a total</li> <li>of 90 different scenarios. Everything</li> <li>was weighted, and that was part of the</li> <li>problem, everything was weighted.</li> <li>But 90 scenarios, each one</li> <li>would be run in a hundred passes for</li> <li>that scenario, so actually1 don't</li> <li>mean like raina (phonetic) pass, but</li> <li>you would have to run nine thousand</li> </ul>				
24       correlated binomial with that correlation, and that is how you would rate the deal.       24       THE WITNESS: I am happy to send it to you without serving a       90 <td></td> <td></td> <td></td> <td>· · ·</td>				· · ·
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1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	credit policy group that has to approve,	2	So if you look at this, this is a
3	independent of the business line, that has	3	memo entitled, written by the credit policy
4	to approve all these things. I don't think	4	group now that it was official and it talked
5	they do a great job. That was part of my	5	about the changes in the methodology. So
6	testimony, the first testimony, in the sense	6	this is how it is, you know, and it talks
7	that they are heavily outnumbered by the	7	about a lot of things, how it came about.
8	folks in the business lines, and if there is	8	But, as you can see, there is this sort of a
9	a vote they get outvoted all the time. They	9	negotiation between the line of business and
10	don't really have a lot of power to do their	10	the credit policy group and
11	job. But at the time, that was all done at	11	MR. BUBB: CP is credit policy,
12	the business unit level.	12	LOB is line of business?
13	Q But you used the phrase at the	13	THE WITNESS: CP is credit
14	time, you mean up until your departure?	14	policy and LOB is line of business.
15	A Up until they implemented this	15	You can see there is a key to
16	credit policy group, and I think that was	16	understanding of what the impact is.
17	'07, '08, post crisis. It was done post	17	MR. BUBB: So the credit policy
18	crisis.	18	group and line of business each
19	Q Post your tenure?	19	proposed a methodology for rating this
20	A Post my tenure, at Moody's	20	deal, or class of deals.
21	Investor Service. When they started I was	21	THE WITNESS: Uh-huh.
22	still at Moody's Corp. on the Moody's	22	MR. BUBB: And which proposal
23	analytic side, but I was no longer at the	23	was more stringent?
24	rating agency.	24	THE WITNESS: Credit policy, of
25	Q With respect to how these models	25	course. Line of business proposed
	94		9
		1	
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
1 2	INTERVIEW - I. KOLCHINSKY came about, how the inputs came about, you	1 2	INTERVIEW - I. KOLCHINSKY triple A two to five notches, credit
		1	
2	came about, how the inputs came about, you	2	triple A two to five notches, credit
2 3 4 5	came about, how the inputs came about, you mentioned that the business persons were behind these. Do you know if the business persons ran different scenarios when they	2 3 4 5	<ul> <li>triple A two to five notches, credit policy proposal, six to 11.</li> <li>BY MR. BONDI:</li> <li>Q And that is six to 11 notches down?</li> </ul>
2 3 4 5 6	came about, how the inputs came about, you mentioned that the business persons were behind these. Do you know if the business persons ran different scenarios when they were coming up with the models to see how a	2 3 4 5 6	<ul> <li>triple A two to five notches, credit policy proposal, six to 11.</li> <li>BY MR. BONDI:</li> <li>Q And that is six to 11 notches down?</li> <li>A Down, yes. This is what, this</li> </ul>
2 3 4 5 6 7	came about, how the inputs came about, you mentioned that the business persons were behind these. Do you know if the business persons ran different scenarios when they were coming up with the models to see how a CDO might rate under one model versus the	2 3 4 5 6 7	<ul> <li>triple A two to five notches, credit policy proposal, six to 11.</li> <li>BY MR. BONDI:</li> <li>Q And that is six to 11 notches down?</li> <li>A Down, yes. This is what, this was you know, probably this wasn't</li> </ul>
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2	committee couldn't have taken place in	2	but it was the same role.
3	December, so I think the writer had a typo	3	There was a business analyst who
4	on the front of the date.	4	is on that e-mail whose role is more junior,
5	Q So the date of methodology	5	more in a bookkeeping type of way, but you
6	approval is December 10th, 2008?	6	had to run your own line of business.
7	A Eight, yes.	7	So I don't think it was done
8	Q And this is an example, what you	8	explicitly, but I am sure people had that in
9	are showing us is an example of some more	9	mind, what does this do vis-à-vis my
10	recent memos that actually shows a	10	competitive advantage versus the other
11	comparison in different approaches to a	11	rating agencies.
12	methodology for rating a series of deals,	12	Q Now, shifting gears in the time
13	types of deals?	13	that we have available, you mentioned
14	A Yes, that is correct.	14	synthetic deals earlier, synthetic CDO deals.
15	Q But during your tenure in	15	What were the challenges or
16	structured products ratings at Moody's,	16	concerns that you had with respect to rating
17	these type of memos were not done?	17	of synthetic deals?
18	A No.	18	A Me personally or the whole group?
19	Q And fact, I believe	19	Q You personally, and then we will
20	A They may have been put together	20	get to the question of the whole group as well.
21	on a piece of paper, but not this formally,	21	A I think there was a lot of
22	not with an outside it would have been	22	challenges that were addressed with the
23	done internally, so you would ask some	23	deals. A lot of them had to do with
24	mid-level analyst, say, tell me what the	24	counterparty risk and collateral risk.
25	difference is, and they might write it up,	25	Counterparty risk means you don't
23	98	23	100
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	they might send to you in an e-mail. The	2	have cash, you are dependent on another
3	level of the delivered product would be	3	party, and that party may default. Even if
4	anything back and forth.	4	that party, the default of that party
5	Q Now, Moody's had two significant	5	doesn't cause you direct economic damage,
6	competitors, one more significant than the	6	for example, if that party was a protection
7	other.	7	buyer, the problem is the way credit default
8	A Yes.	8	swaps worked is that once a party defaults,
9	Q S&P and Fitch.	9	you have to mark everything to market.
10	When ratings methodologies were	10	And CDOs are ultimate trading
11	being developed during your tenure, do you	11	vehicles, they are not really intended to
12	know if the business personnel at Moody's	12	take market risk. So you have to, the
13	would look to compare how Moody's proposed	13	default of the counterparty could, A, cause
14	methodology might match up to, say, S&P or	14	direct economic loss, and B, cause you to
15	Fitch's methodologies?	15	have to unwind the deal. So those were
16	A I don't think directly.	16	counterparty risks.
17	Well, a couple of things. First,	17	The other big risks were
18	at Moody's we didn't really have business	18	collateral risks, because some of the
19	managers in the sense that they were	19	tranches still had to be funded, and
20	powerful. The managing directors in the	20	collateral used to fund still had any
21	group were effectively the business	21	collateral could have risk, it could be
22	managers. You were supposed to manage not	22	market risk, it could be credit risk. How
23	just the methodology but also your business	23	do you deal with those risks? So those are
24	line, so there is no separate role. It was,	24	the things that added challenge, obviously.
25	I believe they have been separated since, 99	25	As a result of these deals, the complexity

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2	of deals increased.	2	end of the day, because the underlying
3	My personal worry about	3	collateral, the underlying reference
4	synthetics was the correlation introduced in	4	obligations subprime was so bad, I don't
5	the market. Remember, I am thinking from a	5	think we saw the impact that it had, but I
6	CDO point of view. Because you are able to	6	don't think we ever figured out what it
7	replicate any number of credit default	7	would be. It all blew up equally, so we
8	swaps, there is no sort of control, sort of	8	didn't have that sort of middle part to find
9	having limited assets for different pools.	9	out what those differences applied to the
10	So when your only source was a	10	deals. It was go, go, go.
11	cash asset, there was a natural limitation	11	The whole idea of stopping,
12	of diversity between different pools. You	12	saying let's figure this out before we go
13	could only buy what you could buy. If you	13	forward, that was just not an option.
14	are ramping up at the same time, maybe you	$14^{13}$	Q With respect to how Moody's went
15		$14 \\ 15$	
	had some more pools, but if you didn't, you		about rating the cash CDOs and synthetic
16	couldn't.	16 17	CDOs, can you just describe and list all of
17	Now, with credit default swaps	17	your concerns with respect to how Moody's
18	that limitation was gone. Anybody can do	18	went about rating cash CDOs, synthetic CDOs?
19	the same pool over and over again, stamp,	19	Just list out your concerns so we can get
20	stamp, stamp. The correlation between the	20	them in one place.
21	deals increased, and we did write a paper	21	A At one point or another I was
22	about that. I think one of the e-mails that	22	concerned about correlation, what the
23	the Senate permanent subcommittee on	23	ability of having synthetics did to the
24	investigations released had to do with that.	24	correlation assumptions; assuming, which I
25	So that was, you know, one of the	25	was wrong, that the correlation assumptions
	102		104
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2		2	
3	things. I wasn't one of those people who	∠ 3	before were correct, which turned out to be
4	predicted the market was going fall, I was	4	incorrect. I assumed the base correlation
	not that smart. Where I thought my		assumptions were correct, but what does that
5	expertise was and the more I tried to figure	5	do, what does that do to our deals if the
6	it out is that at the level of incentives,	6	synthetics went up? So I was wrong in the
7	what are the changes in the market due to	7	correlation.
8	the dynamics within a deal like this? What	8	Having, you know, like I said,
9	happens if all of a sudden you are not	9	most CDOs went, sold protection over a long
10	limited by actual cash assets and you can	10	credit risk, but they all had short buckets,
11	pick any portfolio you want? What does that	11	an ability to buy protection. How does that
12	mean to correlation between ABS CDOs and the	12	change, especially in terms of netting and
13	next generation? So those are the kinds of	13	cash flow payments? Let's see.
14	things that worried me about synthetics.	14	Oh. One of the biggest battles,
15	The other thing we were worried	15	and this was '07, was with the discount
16	about was, did we model them correctly,	16	purchase rule. Remember, we talked about
17	because even though they are pay-as-you-go	17	the discount purchase rule was intended to
18	they didn't exactly mirror the cash assets.	18	sort of get managers, bankers, not to buy
19	So there were two types of credit default	19	things that were so we always realized,
20	swaps. One was fixed cap, this is on CDOs,	20	you know, that ratings moved slower than the
21	was fixed cap, I believe one was fixed cap	21	market. Even at best, ratings will always
22	and implied writedown, the other one was	22	move slower than the market. That is how
23	variable cap, no implied writedown.	23	they are designed, just like banking
24	I don't think we ever figured out	24	regulations, like any sort of quasi-
25	what that means for a CDO. I mean at the	25	regulatory events, move slower. So this was
	103		105

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1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	intended to sort of put a floor under how	2	an analyst brought to me I think if our
3	much arbitrage people could do.	3	hurdle was a hundred, sort of if the test to
4	And this was a rule that was on	4	get it marked to the market was a hundred
5	the books for a while, and it became sort of	5	basis points over the cash bond, I saw one
6	inconvenient when the ABX started blowing	6	portfolio, every single bond was 95 basis
7	up. And we said, well, we want to make sure	7	points over cash, 95 basically, specifically
8	that the names going into these new deals	8	done because you can also do a portfolio
9	are not discount obligations. So the	9	trade.
10		10	
11	bankers said we didn't know it applied to synthetics. I said I am not sure why it	11	You could say I will take some
12	· · ·	12	risky names that are out there, I will take
	wouldn't, it is an asset.	13	some safe names, I will average the premium
13	And the problem is, unlike a cash	1	on each default portfolio. You had all
14	bond which has one degree of freedom which	14	these degrees of freedom to sort of avoid
15	is price, credit default swaps have a number	15	doing that.
16	of degrees of freedom. So identical	16	So that was, I had a lot of
17	economics could be delivered by an up front	17	bankers call me up and say this is in May
18	payment. So you could structure a credit	18	of '07 this dislocation of subprime, it
19	default swap that has the same spread as a	19	is just the market overreacting, everything
20	cash bond and an up front payment to reflect	20	is great. By the way, don't you still have
21	the price, or you can do it in the spread,	21	them rated B double A, so why are you but
22	or you can do a combination of both to	22	I stuck with it, and I am not sure how
23	change the yield. I can adjust the premium,	23	successful I was because we had no way of
24	adjust the up front payment to make it what	24	monitoring it, but I stuck with it
25	I want to make it. You can change the	25	nevertheless.
	106		108
1	INTERVIEW - I KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY MR BUBB: You stuck with this
2	reference price, you can do a lot of these	2	MR. BUBB: You stuck with this
2 3	reference price, you can do a lot of these things to achieve identical economics.	2 3	MR. BUBB: You stuck with this rule.
2 3 4	reference price, you can do a lot of these things to achieve identical economics. So with this kind of purchase we	2 3 4	MR. BUBB: You stuck with this rule. THE WITNESS: The rule, yes.
2 3 4 5	reference price, you can do a lot of these things to achieve identical economics. So with this kind of purchase we said okay. At that point we need a discount	2 3 4 5	MR. BUBB: You stuck with this rule. THE WITNESS: The rule, yes. And when they still wouldn't do
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2 3 4 5 6 7	reference price, you can do a lot of these things to achieve identical economics. So with this kind of purchase we said okay. At that point we need a discount purchase, we say they are not really traded so we can't get prices. And it is difficult	2 3 4 5 6 7	MR. BUBB: You stuck with this rule. THE WITNESS: The rule, yes. And when they still wouldn't do it we said, you know what? We will do it ourselves, because the key element
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2	MR. BUBB: What about on the	2	statistics is an art, not a science.
3	cash side? Was it possible	3	So if you wanted to basically get
4	THE WITNESS: Just price, price	4	comfortable with any kind of a financial
5	is price.	5	model, you could. What kind of data you
6	MR. BUBB: And they reported,	6	used, what range of data you used, for
7	the bankers reported the purchase	7	example, in lot of these simulations, people
8	price to you?	8	used Gaussian Copula simulations.
9	THE WITNESS: Yes. It reported	9	Now, the disadvantage to a
10	to the trustee. It was in the rules,	10	Gaussian Copula, it may be okay at the
11	so the trustee on a monthly basis	11	individual borrower performance, but because
12	it is for the accountants on the	12	what you were doing is you were taking
13	closing and the trustee on the	13	effectively derivatives of that performance,
14	periodic basis had a role of making	14	small thin slices, I think it was harder to
15	sure if it is purchased below a	15	argue that if the mortgages performed like
16	certain price, that is how these	16	Gaussian Copula, that if you are measuring
17	were all rules in the indenture, the	17	correlations of tranches on a mortgage deal,
18	legal documents.	18	
19	•	19	they also follow the Gaussian Copula. Because, look, on the one hand
20	MR. BUBB: Do you believe it	20	
20	was possible, do you believe that	20	everybody used Gaussian Copula at every
22	bankers were able to game that rule on the cash side via	22	level, but if you were to actually run the
22		22	numbers up, which I did too late after,
23 24	THE WITNESS: No.	23	afterwards, you don't have a Gaussian
	MR. BUBB: fraudulent	1	performance, you have something that looks
25	reporting or any sort of manipulation	25	like a beta distribution or something that
	110		112
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	of the purchase price?	2	looks like a different distribution, which
3	THE WITNESS: It is possible on	3	what is the point of implied more losses at
4	the cash side that they would use,	4	the tail of the risk.
5	they could theoretically use a package	5	But that is a shortcut that
6	trade in order to cover up the	6	everybody took. No one I know questioned
7	discount purchase and collude with the	7	that Gaussian Copula. Everyone ran Gaussian
8	banker, I will sell you this, you sell	8	Copula at every level regardless of the
9	me that, and you will pay me less, I	9	levels implied in the underlying, in their
10	will you know, kind of even up; the	10	underlying asset, everyone on Wall Street,
11	economics are the same, but you hide	11	every rating agency. Part of the reason is
12	the fact that that was done on a	12	the Gaussian Copula is a very simple
13	discount purchase. That was not	13	simulation and people know how to do it. It
14	possible for us to monitor.	14	is easy to do. Anything more than that
15	BY MR. BONDI:	15	would have required lot more processing, and
16	Q You described games that bankers	16	it might have required you not to rate deals.
17	were playing with Moody's. What games were	17	So people said, I think a lot of
18	being played inside Moody's to ensure that	18	times with those kinds of things, it wasn't
19	deals were being rated or to ensure that	19	people knew what the answer was, they just
20	ratings were coming out a certain way?	20	didn't ask the question. It was easier not
21	A I don't think I am aware of any	21	to ask the question because things were
22	games. What I have said is I think what	22	coming out okay.
23	people did wasn't so much commissions as	23	Q What happened if an employee
24	much as omissions, and sort of my	24	within Moody's raised concerns? Were the
25	hard-earned lesson from this is that	25	concerns addressed by management? And what
2.5	111		toncer its addressed by management. And what
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1	<b>INTERVIEW - I. KOLCHINSKY</b>	1	INTERVIEW - I. KOLCHINSKY	
2	concerns were you hearing?	2	people just stuck their heads in the sand,	
3	A We tried to address them. Most	3	really, created all these deals and they are	
4	of the concerns we heard were about	4	just horrendous. It is so much easier just	
5	resources, time and pressure from the	5	to close your eyes, close your ears and	
6	bankers. I don't recall that many sort of	6	pretend nothing is going on, and it is bad	
7	this is wrong kind of concerns. I think,	7	for business too.	
8	rightly or wrongly, we were sitting at the	8	So they didn't do anything, but	
9	top and nobody really questioned the ratings	9	they sent out a survey to servicers to see	
10	that were underneath.	10	what levels the modifications are occurring.	
11	I mean when I raised my concern	11	It finally came back, basically no one is	
12	in September, I was let go. But I was also	12	modifying any loans, so that sort of, that	
13	a senior person, so I could be problem if	13	was the end of that fig leaf. You hung your	
14	all you want to do is do business. The more	14	hopes on modifications, nobody is modifying.	
15	junior person, they would probably be	15	So somebody I think forced them to take	
16	pooh-poohed and don't worry about it.	16	action.	
17	It doesn't mean that none of the	17	This was I found out about it	
18	problems were addressed. You try to address	18	in September '07. I was told by Nicholas	
19	it, but at the same time it's sort of a	19	Weill that it was going to be across the	
20	can-do attitude.	20	board '06, it was going to be severe.	
21	Q Tell me, what were the	21	Q Could you spell Mr. Weill's last	
22	circumstances surrounding your departure	22	name?	
23	from Moody's?	23	A I believe it is W-E-I-L-L.	
24	A Moody's Corp. or Moody's Investor	24	He told me that, and I still had	
25	Services?	25	deals that used those ratings as a basis for	
	114		-	116
1		-		
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
2	Q From Moody's Investor Services.	2	my ratings. So, as we talked about before,	
3	A This is in '07. I was managing	3 4	you know, besides all these correlations,	
4	director in charge of the ABS CDOs.	1	anything else, the biggest driver is the	
5	The RMBS had not taken a huge	5	credit quality, the mean of that	
6 7	amount of rating action. They had a small	6 7	distribution.	
	rating action in July, I believe, of '07.	8	So what he is telling me is the	
8 9	That was large at the time since we had 300 tranches, but most of the tranches they	9	deals that I was still working on, these	
10	•	10	ratings were all wrong. He just needed time. It was an understaffed group I	
11	downgraded were originally at a BA level, while most of the reference obligation CDOs	11	think he had three people he had to go	
12	were B double A level, so it didn't really	12		
13	have much of an impact.	13	through each one of these deals. They ended up downgrading 3,000 tranches.	
14	And finally, as the ABX, which	14	At that point he decided all	
15	tracks the prices of B double A tranches,	15	those ratings were wrong. I don't know if	
16	triple A tranches, was declining, they were	16	that is because I am a lawyer or what have	
17	essentially forced to act. I believe they	17	you. I said, well, if I know those ratings	
18	had a theory at the time that a lot of the	18	are wrong, I can't assign new ratings based	
19	delinquencies had to deal with mortgage	19	on those ratings. That is like a definition	
20	fraud and that aggressive modifications	20	of securities fraud.	
21	would cure that problem and everything would	21	MR. BUBB: New ratings for what?	
22	go back to normal, so why change anything.	22	THE WITNESS: To the CDOs that	
23	So I think there was more	23	are in the pipeline.	
	rationalization. I am sure part of it was	24	So I had these CDOs in the	
24				
24 25		1		
24 25	business-based and part of it, I think 115	25	pipeline. This was after what	117

1       INTERVIEW - I. KOLCHINSKY       1       INTERVIEW - I. KOLCHINSKY         2       happend after Bear Stearns funds       2       know how Gary, Dr. Witt remembers it, but I just didn't know what to do.         4       world dropped. Most of these CDOs,       4       After she said no, I didn't know what to do.         5       either on a negative basis, they were       5       to do. I was stiring there going like         6       in the trading book, not in the hold       6       I can't violate the law, I know what         7       ad of a sudden mark all these things       9       anything.         10       to market after Bear Stearns.       10       Either Gary walked by or I went         11       Panicking, they wanted to close       11       talk to Gary, and I loid him, asked         13       And I actually worke - there is an       13       why don't you talk to Mr. Kimbal, the         14       e-mail in the Senani, boccuse I had       16       fighting the good fight.         17       analysts coming at me every day, and       17       And I asked Dr. Wit in the         18       time for bankers that were pushing. I       2       10       to fidd thy want         19       because I know if I do that, and thy as interested. We       11       10         10       INTERVIEW -					
2       happened after Bear Steams funds       2       know how Gary, Dr. Witt members it, but I just didn't know what to do.         3       collapsed, the pricing in the CDO       3       but I just didn't know what to do.         4       world dropped. Most of these CDOs, either on a negative basis, they were       5       collapsed, the trading book, not in the hold         6       in the trading book, not in the hold       6       I can't violate the law, I know this         7       to maturity book, which means they       7       is wrong, I can't violate the law. I and to do anything.         10       to maturity book, which means they       7       is wrong, I can't violate the law. I know this         11       Panicking, they wanted to close       11       to talk to Gary walked by or I went         12       the deals, and bankers were yelling.       12       to talk to Gary walked by or I went         13       And I actually wrote - there is an       13       why don't you talk to Mr. Kimball, the         14       e-mail in the Senate, which I didn't       14       chef credit officer, because he was         15       pite want to close, and I said no. At       19       because I know if I do that, given         14       management e-mail, because I hand       16       fighting the ware do the set and yon's, I         14       tool of the	1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
3       collapsed, the pricing in the CDO       3       but I just didn't know what to do.         4       world dropped. Most of these CDOs,       4       After she said and, or I didn't know what         5       cither on a negative basis, they were       5       to do. I was sitting there going like         6       in the trading book, not in the hold       6       I can't violate the law, I know what to do.         7       to market after Bear Stearns.       10       can't believe she doesn't want to do         10       to market after Bear Stearns.       10       Either Gary walked by or I went         11       Panicking, they wanted to close       11       to talk to Gary, and I told him, asked         12       the deals, and bankers were yelling.       12       to talk to Gary, and I told him, asked         13       And I actually wrote - there is an       13       why don't you talk to Mr. Kimball, the         14       e-mail in the Senate. which I didn't       4       fighting the good fight.         17       analysts coming at me every day, and       17       And I asked Dr. Wit if he         18       the bankers, yelling and screaming       18       could sort of intermediate for me,         19       they want to close, and I said no. At       19       because I know if I do tha, given	2				
4       world dropped. Most of these CDOs, either on a negative basis, they were for in the trading book, not in the hold for maturity book, which means they all of a sudden mark all these things all of a sudden mark all these things all of a sudden mark all these things all of a sudden mark all these things for the market after Bear Stearns.       7       Is wrerg, I car't violate the law. I car't violate the law. I for the View bed coesn't want to do anything.         11       Panicking, they wanted to close for deals, and bankers were yelling.       10       Either Gary walked by or I went to talk to Gary, and I told him, asked the deals, and bankers were yelling.         12       the deals, and bankers were yelling.       11         13       And I actually wrote - there is an the deals, and bankers were yelling.       13         14       e-mail in the Senate, which I didn't analysts coming at me every day, and fighting the good fight.       17         16       management e-mail, because I had the bankers, yelling and screaming       18       Not I do that, given sourt of the culture at Moody's, I         20       any time you have to follow any time you have to follow       20       20       10 do it, but I         23       So this was a very aggressive found out that all these ratings in my       21       118       NTERVIEW - I. KOLCHINSKY         24       time for bankers that were pushing. I found out that all these vertingle A for one deal, and the lowest triple A said we can't do this because they are going to downgrade, it will be in 11       11<	3		3		
5       either on a hegative basis, they were in the trading book, not in the hold it o maturity book, which means they       5       to do. I was sitting there going like I can't violate the law, I know this is wrong, I can't violate the law. I can't believe she doesn't want to do anything.         9       all of a sudden mark all these things       9         10       to market after Bear Stearns.       10         11       Panicking, they wanted to close       11         12       the deals, and bankers were yelling.       12         13       And I actually wrote there is an and the amagement e-mail, because I had       13         16       mangement e-mail, because I had       16         17       analysts coming at me every day, and       17         18       the bankers, yelling and screaming       18         19       they want to close, and I said no. At       19         10       procedures, at a very gmismum you have to follow the very basic procedures.       22         11       to follow the very basic procedures.       23       fight if I was going to put my career         118       the lowest triple A       4       done. I wanted to at least have a         120       fight if I was going to put my career       118         121       to follow the very basic.       23         122       to foll	4		4		
6       in the trading book, not in the hold       6       I can't violate the law. I know this         7       to maturity book, which means they       7       is wrong, I can't violate the law. I         8       were price sensitive. So banks had to       8       is wrong, I can't violate the law. I         9       all of a sudden mark all these things       9       ant believe she doesn't want to do         11       Panicking, they wanted to close       11       to mark at after Bear Stearns.       10         12       the deals, and bankers were yelling.       12       his advice as my manager, and he said         13       And I actually wrote there is an       13       why don't you talk to Mr. Kimball, the         14       e-mail in the Senate, which I didn't       14       chief credit officer, because he was         16       management e-mail, because I had       16       fighting the good fight.         17       analysts coming at me every day, and       17       And I asked Dr. Witt if he         18       the bankers, yelling, and screaming       18       could sort of intermediate for me,         19       they want to close, and I said no. At       19       because I know if I do that, given         20       asy time you have to follow       20       sort of the culture at Moody's, I	5		5		
7       to maturity book, which means they       7       is wrong, I carlt violate the law. I         8       were price sensitive. So banks had to       8         9       all of a sudden mark all these things       9         10       to market after Bear Stearns.       10         11       Panicking, they wanted to close       11         12       the deals, and bankers were yelling.       12         13       And I actually wrote there is an       13         14       e-mail in the Senate, which I didn't       14         15       give them, I guess it's from a       15         16       mangement e-mail, because I had       16       fighting fig good fight.         17       analysts coming at me every day, and       17       And I asked Dr. Witi file         18       the bankers, yelling and screaming       18       could sort of intermediate for me,         19       they want to close, and I said no. At       19       because I know if I do that, given         21       procedures, at a very minimum you have       21       woold be ostracized, so I didn't want to do it and not get it         23       found out that all these ratings in my       22       10       of all to tail woold woold woold a basic analysis         24       time for bankers that were	6		6		
8       were price sensitive. So banks had to       8       can't believe she doesn't want to do         9       all of a sudden mark all these things       9         11       Panicking, they wanted to close       11         12       the deals, and bankers were yelling.       12         13       And I actually wrote - there is an       13         14       e-mail in the Senate, which I didn't       14         15       give them, I guess it's from a       15         16       management e-mail, because I had       16         17       analysts coming at me every day, and       17         18       the bankers, yelling and screaming       18         19       they want to close, and I said no. At       19         10       procedures, at a very minimum you have       21         21       procedures, at a very minimum you have       21         25       follow the very basic procedures.       22         26       fold out that all these ratings in my       25         21       in fopardy.       118         24       done. I wanted to at least have a         25       for one deal, and the lowest triple A       4         4       for one deal, and the lowest triple A       4       4 </td <td>7</td> <td></td> <td>7</td> <td></td> <td></td>	7		7		
9       all of a sudden mark all these things       9       anything.         10       to market after Bear Stearns.       10       Either Gary walked by or I went         11       Panicking, they wanted to close       11       to talk to Gary, and I told him, asked         12       the deals, and bankers were yelling.       12       this advice as my manager, and he said         13       And I actually wrote - there is an       13       why dori Y ou talk to Mr. Kimball, the         14       e-mail in the Senate, which I didn't       14       chief credit officer, because he was         15       give them, I guess it's from a       15       being very active and very basically         16       management e-mail, because I had       16       fighting the good fight.         17       analysis coming at me every day, and       17       And I asked Dr. Wit if he         18       the bankers, yelling and screaming       18       could sort of intermediate for me,         19       they want to close, and I said no. At       19       because I know if I do that, given         20       any time you have to follow       20       sort of the culture at Moody's, I         21       to follow the very basic procedures.       22       to of the an tot og ta that want         23       So this was a very aggres	8		8		
10       to market after Bear Stearns.       10       Either Gary walked by or I went         11       Panicking, they wanted to close       11       to talk to Gary, and I told him, asked         11       Panicking, they wanted to close       11       to talk to Gary, and I told him, asked         12       the deals, and bankers were yelling.       12       his advice as my manager, and he said         13       And I actually wrote - there is an       13       why don't you talk to Mr. Kimball, the         14       e-mail in the Senate, which I didn't       14       chief credit officer, because he was         16       management e-mail, because I had       16       fighting the good fight.         17       analysts coming at me every day, and       17       And I acked Dr. Witt if he         18       to could sort of intermediate for me,       because I know if I do that, given         20       any time you have to follow       20       sort of the culture at Moody's, I         21       procedures, at a very minimum you have       21       would be ostracized, so I din't want         21       follow the very basic procedures.       22       id'n't want to do i at have a         22       follow the very basic procedures.       23       fight if I was going to do it, but I         23       significant. <td>9</td> <td></td> <td>9</td> <td></td> <td></td>	9		9		
11       Panicking, they wanted to close       11       to talk to Gary, and I told him, asked         12       the deals, and bankers were yelling.       12       this advice as my manager, and he said         13       And I actually worte there is an       13       why don't you talk to Mr. Kimball, the         14       e-mail in the Senate, which I didn't       14       the deals, and bankers were yelling, and screaming       16         16       management e-mail, because I had       16       fighting the good fight.       17         17       analysts coming at me every day, and       17       And I asked Dr. Wit if he       could sort of intermediate for me,         18       the bankers, yelling and screaming       18       could sort of intermediate for me,       could sort of intermediate for me,         19       they want to close, and I said no. At       19       because I know iI do that, given       sort of the culture at Moody's. I         23       So this was a very agressive       23       didn't want to do it, but I       24         24       time for bankers that were pushing. I       24       done. I wanted to at least have a       25         24       to found ut that all these ratings in my       25       fight if I was going to put my career       120         11       INTERVIEW - I. KOLCHINSKY       1	10		10		
12       the deals, and bankers were yelling.       12       his advice as my manager, and he said         13       And I actually wrote there is an       13       why don't you talk to Mr. Kimball, the         14       e-mail in the Senate, which I didn't       14       chief credit officer, because he was         15       give them, I guess it's from a       15       being very active and very basically         16       management e-mail, because I had       16       fighting the good fight.         17       analysts coming at me every day, and       17       And I asked Dr. Witt if he         18       the bankers, yelling and screaming       18       could sort of intermediate for me,         20       any time you have to follow       20       sort of the culture at Moody's, I         21       procedures, at a very minimum you have       21       would be ostracized, so I didn't want         22       to follow the very basic procedures.       22       didn't want to do it and not get it         24       time for bankers that were pushing. I       24       done. I wanted to at least have a         25       found out that all these ratings in my       25       fight if I was going to do it, but I         2       deals are wrong, and they could be       5       or I was down gade, it will be         4<	11		11		
13       And I actually wrote there is an intervent of the interv	12		12		
14       e-mail in the Senate, which I didn't       14       chief Credit officer, because he was         15       give them, I guess it's from a       15       being very active and very basically         16       management e-mail, because I had       16       fighting the good fight.         17       analysts coming at me every day, and       17       And I asked Dr. Witt if he         18       the bankers, yelling and screaming       18       could sort of intermediate for me,         19       they want to close, and I said no. At       19       because I know if I do that, given         20       any time you have to follow       20       sort of the culture at Moody's, I         21       procedures, at a very minimum you have       21       would be ostracized, so I didn't want         23       So this was a very aggressive       23       didn't want to do it and not get it         24       time for bankers that were pushing. I       24       done. I wanted to at least have a         25       found out that all these ratings in my       25       fight if I was going to put my career         118       INTERVIEW - I. KOLCHINSKY       1       INTERVIEW - I. KOLCHINSKY         2       deals are wrong, and they could be       3       m.r. Kimball was interested. We         4       for one deal, a	13		13		
15       give them, I guess it's from a       15       being very active and very basically         16       management e-mail, because I had       16       fighting the good fight.         17       analysts coming at me every day, and       17       And I asked Dr. Witt if he         18       the bankers, yelling and screaming       18       could sort of intermediate for me,         19       they want to close, and I said no. At       19       because I know if I do that, given         20       any time you have to follow       20       sort of the culture at Moody's, I         21       procedures, at a very minimum you have       21       would be ostracized, so I didn't want         23       So this was a very aggressive       23       didn't want to do it and not get it         24       time for bankers that were pushing. I       24       done. I wanted to at least have a         25       fight if I was going to put my career       120         118       INTERVIEW - I. KOLCHINSKY       1       INTERVIEW - I. KOLCHINSKY         2       deals are wrong, and they could be       2       in geopardy.         3       significant. We did a basic analysis       3       Mr. Kimball was interested. We         4       for on deal, and the lowes triple A       4       hada conversation I think o	14		14		
16       management e-mail, because I had analysts coming at me every day, and       16       fighting the good fight.         17       analysts coming at me every day, and       17       And I asked Dr. Witt if he could sort of intermediate for me, because I know if I do that, given sort of the culture at Moodys, I         19       they want to close, and I said no. At       19       because I know if I do that, given sort of the culture at Moodys, I         20       any time you have to follow       20       sort of the culture at Moodys, I         21       procedures, at very minimum you have       21       would be ostracized, so I didn't want         22       to follow the very basic procedures.       22       to - I was going to do it, but I         23       So this was a very aggressive       23       didn't want to do it and not get it         24       time for bankers that were pushing. I       24       done. I wanted to at least have a         25       found out that all these ratings in my       118       INTERVIEW - I. KOLCHINSKY       1         1       INTERVIEW - I. KOLCHINSKY       1       INTERVIEW - I. KOLCHINSKY       1       INTERVIEW - I. KOLCHINSKY         2       deals are wrong, and they could be       2       m, K kimball was interested. We       4         4       for one deal, and the lowest triple A       4       had a co	15		15		
17       analysits coming at me every day, and       17       And I asked Dr. Witt if he         18       the bankers, yelling and screaming       18       could sort of intermediate for me,         19       they want to close, and I said no. At       19       because I know if I do that, given         20       any time you have to follow       20       sort of the culture at Moody's, I         21       procedures, at a very minimum you have       21       would be ostracized, so I didn't want         21       to follow the very basic procedures.       22       to - I was going to do it, but I         23       So this was a very aggressive       23       didn't want to do it and not get it         24       time for bankers that were pushing. I       24       done. I wanted to at least have a         25       found out that all these ratings in my       1118       10         1       INTERVIEW - I. KOLCHINSKY       1       INTERVIEW - I. KOLCHINSKY         2       deals are wrong, and they could be       2       mi jeopardy.         3       significant. We did a basic analysis       3       Mr. Kimball was interested. We         4       for on deal, and the lowest triple A       had a conversation I think on the 18th       or 19th of September. I told him about         7       I believe he was a	16		16		
18       the bankers, yelling and screaming       18       could sort of intermediate for me, because I know if I do that, given         19       they want to close, and I said no. At       19       because I know if I do that, given         20       any time you have to follow       20       sort of the culture at Moody's, I         21       procedures, at a very minimum you have       21       would be ostracized, so I didn't want         22       to follow the very basic procedures.       22       didn't want to do it and not get it         23       So this was a very aggressive       23       didn't want to do at least have a         25       found out that all these ratings in my       24       done. I wanted to at least have a         25       found out that all these ratings in my       25       fight if I was going to put my career         10       INTERVIEW - I. KOLCHINSKY       1       INTERVIEW - I. KOLCHINSKY         2       deals are wrong, and they could be       2       in jeopardy.         3       significant       6       about the problem, I told him about         6       investment grade, so a significant       6       about the problem, I told him about         7       effect.       7       I believe he was aware of these       1         8       And I went to my	17		17		
19       they want to close, and I said no. At       19       because I know if I do that, given         20       any time you have to follow       20       sort of the culture at Moody's, I         21       procedures, at a very minimum you have       21       would be ostracized, so I didn't want         21       because I know if I do that, given       sort of the culture at Moody's, I         22       to follow the very basic procedures.       22       to I was going to do it, but I         23       So this was a very aggressive       23       didn't want to do it and not get it         24       time for bankers that were pushing. I       24       done. I wanted to at least have a         25       found out that all these ratings in my       1118       INTERVIEW - I. KOLCHINSKY         1       INTERVIEW - I. KOLCHINSKY       1       INTERVIEW - I. KOLCHINSKY         2       deals are wrong, and they could be       2       in jeopardy.         3       significant. We did a basic analysis       3       Mr. Kimball was interested. We         4       for one deal, and the lowes triple A       4       had a conversation I think on the 18th         5       dropped I think to BA, so below       5       or 19th of September. I told him about         7       effect.       7       I beli	18		18		
20       any time you have to follow       20       sort of the culture at Moody's, I         21       procedures, at a very minimum you have       21       would be ostracized, so I didn't want         23       So this was a very aggressive       23       didn't want to do it and not get it         24       time for bankers that were pushing. I       24       didn't want to do it and not get it         24       time for bankers that were pushing. I       24       done. I wanted to at least have a         25       found out that all these ratings in my       118       INTERVIEW - I. KOLCHINSKY         2       INTERVIEW - I. KOLCHINSKY       1       INTERVIEW - I. KOLCHINSKY         2       deals are wrong, and they could be       2       in jeopardy.         3       significant. We did a basic analysis       3       Mr. Kimball was interested. We         4       for one deal, and the lowest triple A       4       had a conversation I think on the 18th         5       or oped I think to BA, so below       5       or 19th of September. I told him         6       and I went to my manager, I       8       incoming downgrades. My guess is he         9       said we can't do this because they are       9       was pushing for them, and what that         10       going to downgrade, it will be in	19		19		
22       to follow the very basic procedures.       22       to I was going to do it, but I         23       So this was a very aggressive       23       didn't want to do it and not get it         24       time for bankers that were pushing. I       23       didn't want to do it and not get it         25       found out that all these ratings in my       118       118       it or - I was going to do it, but I         25       found out that all these ratings in my       118       it or - I was going to do it, but I         26       fight if I was going to put my career       1120         1       INTERVIEW - I. KOLCHINSKY       1       INTERVIEW - I. KOLCHINSKY         2       deals are wrong, and they could be       2       in jeopardy.         3       significant. We did a basic analysis       3       Mr. Kimball was interested. We         4       for one deal, and the lowest triple A       4       had a conversation I think on the 18th       or 19th of September. I told him         6       investment grade, so a significant       6       about the problem, I told him about         7       effect.       7       I believe he was aware of these       in coming downgrades. My guess is he         9       said we can't do this because they are       9       was pushing for them, and what that       wo	20		20	sort of the culture at Moody's, I	
23So this was a very aggressive time for bankers that were pushing. I found out that all these ratings in my23didn't want to do it and not get it done. I wanted to at least have a fight if I was going to put my career21INTERVIEW - I. KOLCHINSKY 2 deals are wrong, and they could be significant. We did a basic analysis 4 for one deal, and the lowest triple A 4 for one deal, and the lowest triple A 5 dropped I think to BA, so below 6 investment grade, so a significant effect.1INTERVIEW - I. KOLCHINSKY in jeopardy.10investment grade, so a significant oging to downgrade, it will be in uilla would mean to CDOs.Mr. Kimball was interested. We had a conversation I think on the 18th or 19th of September. I told him about the problem, I told him about I believe he was aware of these incoming downgrades. My guess is he was pushing for them, and what that would mean to CDOs.11violation of the law if we rated it. THE WITNESS: Ms. Yoshizawa.11A few days later I was asked by my manager, she reversed herself, to draft a press release on adjusting the ratings on subprime bonds going into CDOs.15And I think she was concerned a bout market share, I think she was concerned about if we are not concerned	21	procedures, at a very minimum you have	21	would be ostracized, so I didn't want	
24       time for bankers that were pushing. I       24       done. I wanted to at least have a         25       found out that all these ratings in my       118       done. I wanted to at least have a         1       INTERVIEW - I. KOLCHINSKY       1       INTERVIEW - I. KOLCHINSKY         2       deals are wrong, and they could be       2       in jeopardy.         3       significant. We did a basic analysis       3       Mr. Kimball was interested. We         4       for one deal, and the lowest triple A       4       had a conversation I think on the 18th         5       dropped I think to BA, so below       5       or 19th of September. I told him         6       investment grade, so a significant       6       about the problem, I told him about         7       effect.       7       I believe he was aware of these       incoming downgrades. My guess is he         8       And I went to my manager, I       8       incoming downgrades. My guess is he       was pushing for them, and what that         10       going to downgrade, it will be in       10       my manager, she reversed herself, to         11       violation of the law if we rated it.       11       A few days later I was asked by         11       would mean to CDOs.       MR. BUBB: Who was your manager?         14 <t< td=""><td>22</td><td>to follow the very basic procedures.</td><td>22</td><td>to I was going to do it, but I</td><td></td></t<>	22	to follow the very basic procedures.	22	to I was going to do it, but I	
25       found out that all these ratings in my       25       fight if I was going to put my career       120         1       INTERVIEW - I. KOLCHINSKY       1       INTERVIEW - I. KOLCHINSKY       1       INTERVIEW - I. KOLCHINSKY         2       deals are wrong, and they could be       2       in jeopardy.       1       i jeopardy.         3       significant. We did a basic analysis       3       Mr. Kimball was interested. We         4       for one deal, and the lowest triple A       4       had a conversation I think on the 18th         5       dropped I think to BA, so below       5       or 19th of September. I told him         6       investment grade, so a significant       6       about the problem, I told him about         7       effect.       7       I believe he was aware of these       incoming downgrades. My guess is he         9       said we can't do this because they are       9       was pushing for them, and what that       would mean to CDOs.         11       violation of the law if we rated it.       11       A few days later I was asked by       my manager, she reversed herself, to         13       MR. BUBB: Who was your manager?       13       MR. BUBB: I am sorry, a bond         14       THE WITNESS: Ms. Yoshizawa.       14       THE WITNESS: Mrs. Yoshizawa.	23	So this was a very aggressive	23	didn't want to do it and not get it	
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	20 21 22 23 24	speculating here. None of this was communicated to me. So I went to Andy Kimball, who was the chief credit officer at the time through Dr. Witt. Well, what	20 21 22 23 24	and I believe that was through the efforts of Mr. Kimball. MR. BUBB: When you initially raised the issue with Mrs. Yoshizawa, did you propose a solution to the	

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1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	THE WITNESS: I did. I thought	2	press release.
3	we should stop until the, stop writing	3	THE WITNESS: I would look for
4	deals announced until the downgrades	4	it on like a Lexis-Nexis. I don't
5	took effect.	5	think it is on the web site any more.
6	MR. BUBB: And if she had	6	That is where I found it.
7	adopted that solution, what would have	7	BY MR. BONDI:
8	been the impact on Moody's revenues?	8	Q Mr. Kolchinsky, I have a few
9	THE WITNESS: I think they	9	questions from your testimony before the
10	would be reduced. Not only would we	10	permanent subcommittee on investigations
11	not rate those deals what happened	11	from last week.
12	with Tigress when I said no, they went	12	You stated in your opening
13		13	statement that it was, quote, "easy to avoid
14	to Fitch, got it rated by Fitch. So it would be a direct hit.	14	
15		15	questioning whether the collateral provided
	But I think her biggest worry	16	by the bankers was really of the same
16	wasn't on these few ABS CDOs because		quality assumed by the model, whether
17	at that time it was clear that product	17 18	collateral standard declined or whether some
18	at the least going was to take a		of the parties had ulterior motives in
19	breather. It was on the other more	19	closing a transaction," end of quote.
20	lucrative or remaining lucrative	20	A I was directly addressing the, I
21	product, which was the CLOs, which	21	guess the whole short sellers, Paulson kind
22	were done by the same bankers.	22	of thing. We didn't know about Paulson at
23	So I believe, and I am	23	all, but what I told the permanent
24	speculating here, her concern wasn't	24	subcommittee on investigations after that
25	necessarily the direct loss from	25	came out, I actually thought a lot about it.
	122		124
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	missing a few deals, but her concern	2	And it mattered to me because it
3	was in upsetting bankers who are	3	changed the dynamics, it changed you
4	providing her other remaining product.	4	know, the example I give, you know, you are
5	The CLOs continued being issued	5	building a house, you are contracting, you
6	for another year. So that is what I	6	find out that the architect is a person who
7	would speculate her concern was.	7	wants that house to be blown up. You can
8	MR. BUBB: And what was the	8	check the architectural plans, it may be
9	solution that ultimately was adopted?	9	they look okay, but do you really trust that
		10	
10 11	THE WITNESS: I believe the	11	architect? You know what? I want this
12	solution that handled the securities	12	house to fall down as quickly as possible.
	fraud problem was to notch I think		Here are the plans. Here's a full
13 14	I might have a press release was to	13 14	disclosure of the plans. Do you really
4	notah any antenima handa saina inte	1 1 4	trust them? No, you don't. Would you use
	notch any subprime bonds going into		
15	CDOs by a number of notches, lower the	15	them? No, you wouldn't. Even if they
15 16	CDOs by a number of notches, lower the notches, to sort of, to cover that risk.	15 16	them? No, you wouldn't. Even if they looked okay, would you take that risk? No.
15 16 17	CDOs by a number of notches, lower the notches, to sort of, to cover that risk. BY MR. BONDI:	15 16 17	them? No, you wouldn't. Even if they looked okay, would you take that risk? No. So it is a qualitative versus quantitative,
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1	<b>INTERVIEW - I. KOLCHINSKY</b>	1	INTERVIEW - I. KOLCHINSKY
2	A give hearsay?	2	gosh. I know one person, Scott Surek, but
3	Hearsay in the market is that,	3	they had a lot of folks, so I would go back
4	and this was I think also mentioned by	4	and forth.
5	Morgenstern, that Tricadia shorted into	5	Q Do you deal with Nestor
6	their own deals. They are both the manager	6	Dominguez?
7	and shorting collateral into their own	7	A No. We didn't deal at that high
8	deals, so that was in essence where the	8	level. Rating agencies were, as far as the
9	actual manager was on the one hand saying as	9	securitization food chain, we are above the
10	a manager I have a fiduciary duty to,	10	accountants, maybe on par with lawyers, but
11	knowing all this, to maximize values,	11	Q Darius Grant, does that name ring
12	shorting collateral into the deal, using the	12	a bell?
13	CDO as a vehicle to short subprime.	13	A I know the name, but no.
14	That was the only collateral	14	Q What about at EBS?
15	manager. In terms of what Magnetar, that	15	A Again, sort of at the VP director
16	trade, Magnetar spurred a lot of these	16	type level, give me some names, I will tell
17	managers to just put their names on deals,	17	you yes or no.
18	and one of those managers is Harding did a	18	I will tell you, I kept all the,
19	lot of deals.	19	as managing director I had to essentially
20	Q Harding?	20	staff up transactions. This is something I
21	A Harding Advisory. If you read	21	am happy to provide.
22	Michael Lewis's book, the president's name	22	Q One thing we will follow up with
23	was Wing Chau. There is one scene in	23	you off line, Mr. Kolchinsky, is the names
24	Michael Lewis's book where one of the hedge	24	of your points of contact at CDO issuers and
25	fund investors, Eisman, meets with Wing Chau	25	any managers who you may have dealt with.
	126		128
1	INTERVIEW - I KOLCHINSKY	1	INTERVIEW - I KOLCHINSKY
1	INTERVIEW - I. KOLCHINSKY at a conference. He doesn't come out verv	1	<b>INTERVIEW - I. KOLCHINSKY</b> A Sure
2	at a conference. He doesn't come out very	2	A Sure.
2 3	at a conference. He doesn't come out very well in the book, Mr. Chau does not, in Mr.	2 3	<ul><li>A Sure.</li><li>Q Also, we may want to follow up</li></ul>
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2 3 4 5	at a conference. He doesn't come out very well in the book, Mr. Chau does not, in Mr. Lewis's book. Here's the press release. It	2 3 4 5	A Sure. Q Also, we may want to follow up with you to see if you have contact information for other former Moody's
2 3 4 5 6	at a conference. He doesn't come out very well in the book, Mr. Chau does not, in Mr. Lewis's book. Here's the press release. It says given a sort of by vintage and by	2 3 4 5 6	A Sure. Q Also, we may want to follow up with you to see if you have contact information for other former Moody's employees. We can follow up off line.
2 3 4 5 6 7	at a conference. He doesn't come out very well in the book, Mr. Chau does not, in Mr. Lewis's book. Here's the press release. It says given a sort of by vintage and by original rating. So for the second half '05	2 3 4 5 6 7	A Sure. Q Also, we may want to follow up with you to see if you have contact information for other former Moody's employees. We can follow up off line. One thing I did want to close the
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1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
2	me, you should go talk to me him, but there	2	is water under the bridge, let me just	
3	is no more room for me in derivatives.	3	try a new endeavor.	
4	MR. BUBB: Did she explain to	4	MR. BUBB: When did you leave	
5	you why you were being asked to leave?	5	that job?	
6	THE WITNESS: I believe the	6	THE WITNESS: I actually did	
7	standard reason is that there was a	7	something else for Mr. Harris in	
8	reduction in force, and that was part	8	structured finance evaluations, but I	
9	of that reduction in force. I believe	9	left Moody's Corp., Moody's analytics	
10	it was because I went over her head.	10	in September '09.	
11	They also hired another	11	MR. BUBB: Why did you leave	
12	managing director about ten months	12	Moody's Corp. employment in	
13	later. They promoted somebody in a	13	September 2009?	
14	market that was significantly worse	14	THE WITNESS: This is related	
15	than it was when I left. So it begs	15	to the Sarbanes-Oxley filing. I filed	
16	the question, you know, if you let go	16	a complaint with our internal	
17	of somebody because there is no	17	compliance group, which I believe you	
18	business, why are you promoting	18	have a copy, I think you are looking	
19	somebody else into the identical role	19	at right here, related to transaction	
20	when business is worse?	20	called Nine Great Funding Two.	
20	But this is, I do have a	20	Sort of the long and short of	
22	disclosure. I do have a Sarbanes-	22		
22		22	it, I could go through all the	
23 24	Oxley complaint that I filed.	23	details, but they hired an outside law	
24	(Discussion off the record.) BY MR. BONDI:	24	firm to investigate.	
25	130 bi MR. BONDI:	25	MR. BUBB: Investigate your	132
	150			102
1	INTERVIEW - I KOI CHINSKY	1	INTERVIEW - I KOI CHINSKY	
1	INTERVIEW - I. KOLCHINSKY O Were you involved in rating a	1	INTERVIEW - I. KOLCHINSKY	
2	Q Were you involved in rating a	2	complaint?	
2 3	Q Were you involved in rating a deal called Vertical ABS CDO 2007-1? UBS	2 3	complaint? THE WITNESS: Supposedly. I	
2 3 4	Q Were you involved in rating a deal called Vertical ABS CDO 2007-1? UBS was the issuer?	2 3 4	complaint? THE WITNESS: Supposedly. I believe they were investigating me,	
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1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
2	meeting.	2	personal knowledge. It was all built	
3	A week before that I hadn't	3	on committee memos and all the	
4	still received the memo, so I called	4	required paperwork that the rating	
5	them and asked is there a memo coming?	5	agency is required to do.	
6	And they said yes, we will get it	6	All the paperwork was in the	
7	on this was like a Thursday or	7	possession of Moody's Investor	
8	Friday of the last week of August	8	Services, so there is no, nothing I	
9	you will receive it that Monday, which	9	could give them, no personal	
10	was August 31st, and we agreed to get	10	information I could give about this	
11	it in the morning so I would have time	11	deal. Everything was, as you saw,	
12	to speak with my attorney.	12	documented in terms of that memo,	
13	MR. BUBB: The "they" is Kramer	13	committee memos on each of the	
14	Levin, attorneys at Kramer Levin?	14	downgrades on each of the deals.	
15	THE WITNESS: Yes. They	15	I told them that. I said you	
16	shouldn't be talking to me in the	16	have all the documents. They could	
17	first place as I am represented, but	17	have sent me questions, but if they	
18	they should at least give Jenice a	18	couldn't find something they could	
19	call, and they knew about Jenice. I	19	have said where is this fact or that	
20	told them about Jenice	20	fact. They didn't want to do anything	
21	MR. BUBB: Jenice is your	21	like that. So I said, you know, I am	
22	attorney.	22	still not convinced, please send me a	
23	THE WITNESS: Yes, my attorney,	23	memo and we could sit and do a	
24	Jenice Malecki.	24	meeting. So that was Monday.	
25	MR. BUBB: So they said they	25	On Thursday, I get called by HR	
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1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
2	would send the memo by August 31st?	2	into their office. It was I got	
3	THE WITNESS: Yes, Monday,	3	suspicious, so I actually turned on	
4	August 31st in the morning.	4	the recording portion of my iPhone, I	
5	That morning comes and goes,	5	had it on record. But it was, the HR	
6	there is no memo. I called them up	6	person, it was one of the associate	
7	and actually I sent them an e-mail	7	general counsel for Moody's. I am not	
8	saying we need to postpone the meeting	8	recording now, by the way.	
9	until I get the agenda. I got a phone	9	And we talked about why I	
10	call from the partner, senior partner	10	didn't want to speak to counsel	
11	Barry Burke. He says we can't put	11	without an attorney. And they said,	
12	anything in writing, can we talk about	12	well, if you don't Mr. Burke, who	
13	the agenda? I said okay, let's talk.	13	was the senior partner from Kramer	
14	Nothing during that	14	Levin, he is here now, we want you to	
15	conversation convinced me that they	15	speak to him right now, or you are	
16	were actually doing any real	16	suspended.	
17	investigation of one thing, here's,	17	And I said look, I have an	
18	you know, I believe it's sort of more	18	attorney, I would like to have my	
19	the Department of Labor. I was not	19	attorney. No, you are going speak to	
20	involved with any of this. All of	20	him now or you are suspended. I mean,	
21	this memo was built on so I had no	21	I can play it for you if you would	
22	personal knowledge of any of this.	22	like. I have it here; at least the	
23	MR. BUBB: The Nine Great	23	pivotal moments.	
24	Funding deal.	24	BY MR. BONDI:	
		1		
25	THE WITNESS: Right, no	25	Q Why don't we talk about this off	

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1	<b>INTERVIEW - I. KOLCHINSKY</b>	1	INTERVIEW - I. KOLCHINSKY
2	line?	2	stating that their actions prior to my
3	A Obviously this is not your, this	3	suspension and the suspension itself was a
4	is more I think it is for color for you,	4	it is not a technical termination, but I was
5	not for	5	effectively terminated.
6	Q Why don't you describe what was	6	<b>Q</b> Constructive termination?
7	said for the record, but don't play anything?	7	A Constructive termination. They
8	A I don't remember exactly,	8	asked me to return all my Moody's equipment.
9	especially since I have it recorded, but we	9	I was taken off, immediately off the
10	talked about my concern was, because if	10	internal and external directories from my
11	you look at the addendum, even after I put	11	friends at the firm. My office was locked
12	this complaint in, nothing was done. There	12	and quarantined. It was very clear that I
13	was another further substitution in the deal.	13	was not welcome back.
14	So I said you know what? I was	14	<b>Q</b> And what did Dr. Gary Witt do
15	concerned that this was either going to be	15	after this happened?
16	sort of a whitewash, basically. They are	16	A After?
17	defense counsel. They are hired by Sullivan	17	Q After you were suspended?
18	Cromwell, who was already outside defense	18	A Dr. Witt was already a professor.
19	counsel for Moody's. They represent	19	He had left Moody's at that point.
20	Sullivan Cromwell I think at that point	20	In '07 we talked about it, but
21	represented Michael Kanef, who was the	21	then we just went on with our lives. Again,
22	addressee in this memo as an individual.	22	in '07 I thought that the rating agency
23	They were defense counsel.	23	my sort of 10,000-foot view of it, I think,
24	So I just wanted to make sure	24	and I say it in my testimony, I think prior
25	I didn't see a reason for the interview	25	to the crisis there were people, I believe 140
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1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY
2	other than something, that it was to punish	2	genuinely honest people, who held the view
3	me, or something not right, because I didn't	3	that we should be able to rate anything and
4	have any personal knowledge. It was all	4	put a number on anything, and it makes sense
5	documented and they had complete possession	5	in some cases. You are a credit specialist,
6	and control of documents.	6	that is your role. So that afterwards, I
7	They could have also asked me	7	think the whole quest for market share
8	something, as we are talking now; you know,	8	changes the whole dynamic of it.
9	we don't get this part, why do you think	9	To be honest, I don't know what
10	this is the case? Well, I could have said	10	question you asked that I was answering. I
11	this is why. None of that was, the only	11	think I went on my own tangent.
12	thing they wanted to do was to talk to me,	12	Q Let me be a little bit more
13	obviously without my attorney, so I said no.	13	specific.
14	They said we want you to speak to	14	After you were removed from
15	Mr. Burke now or you are suspended. I said	15	Moody's Investor Services, did Gary Witt
16	fine, I am not speaking to him. I was	16	resign over it?
17	suspended.	17	A Uh-uh, I don't believe directly,
18	Q What is your current status?	18	no. I wouldn't have asked him or I think
19	A I am no longer employed by	19	we talked about it once. I don't know
20	Moody's. It's, I believe I was technically	20	let me step back.
21	terminated, I forget what the legal term is,	21	To my knowledge, no. I think at
22	by Moody's.	22	that point he'd had it with Moody's, so he
23	Q When?	23	was ready to leave.
23 24	A I sent an e-mail, I don't know if	24	Q Senator Levin asked at the
23	-		-

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1       INTERVIEW - I. KOLCHINSKY       1       INTERVIEW - I. KOLCHINSKY         2       the witnesses, but I don't believe he asked       2       Vertical ABS CDO 2007-1 which was issu         3       you this question, so I will ask you, is:       4       Do you know of anyone taken off of a deal or       4         4       Do you know of anyone taken off of a deal or       6       A       Yes.         6       didn't like the Moody's employee and the       7       A       Yes.         9       A       Yes.       Q       Wowas involved at Moody's in         10       Q       Who?       10       A       I would have to look up my         11       A       Rick Mickalek was certainly       11       A       I would have to look with you?         11       A       Rick Mickalek was certainly       11       A       I have e-mails are you looking up?         12       banned from working on some deals.       16       C       HTML       A         13       sort of my understanding.       14       e-mails, it helped us to manage the work       flow. So I have kept all my staffing         14       was a managing director.       17       MR. BUBB: These were the HTMI         15       rewaint allowed to work on some deals.       16	
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17But those kinds of requests came17Here's the original. I don't	
18 a lot. I try not to react to them. I don't 18 know if this changed, but here's the	
19 think I ever have, to be honest with you. 19 original staffing e-mail for Vertical	
20 But obviously Rick was big example of 20 '07. I have Saiyid Islam as the	
21 someone who was known not to be allowed to 21 quantitative analyst, Peter Hallenbeck	
22 work on certain deals. 22 as the legal analyst. I guess I was	
23 Q And Rick is? 23 the committee chair.	
24 A Mr. Mickalek. 24 That is it. That is the	
25 Q We were talking earlier about the 25 contact at UBS. You asked me who was	
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1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
2	my contact, Vab Kumar was my contact.	2	that we talked about, but I have all	
3	Here, if you want to take a look at	3	this other stuff because I have lot	
4	it. This is pre-automatic generation,	4	of, you know, filler here as well.	
5	so this was all created by hand. So	5	You are welcome to any and all of it.	
6	we just basically created a software	6	I can even burn a CD with all	
7	that mimicked this but didn't force us	7	the stuff; as I make the offer, with a	
8	to write every line.	8	subpoena I can burn a CD with this.	
9	MR. BUBB: Why didn't your	9	Just there is a lot of not interesting	
10	e-mails get deleted in accordance with	10	stuff in there. You are welcome to	
11	Moody's document preservation policy?	11	all of it.	
12	THE WITNESS: Because I kept	12	MR. BONDI: Mr. Kolchinsky, we	
13	all the e-mails, archived them.	13	would ask you to continue to preserve	
14	MR. BUBB: You archived them	14	and maintain all of the e-mails,	
15	separate from their automatic deletion	15	documents, electronic files,	
16	process?	16		
17	THE WITNESS: I think at some	17	recordings, anything else that you may have	
18		18	THE WITNESS: Of course.	
19	point they stopped auto delete, but I	18		
	would periodically archive all of my	20	MR. BONDI: retained through	
20	e-mails out of I did it out of		the course of your work with Moody's.	
21	necessity because the size for the in	21	We will follow up off line with a	
22	box, the live in box, was so small it	22	subpoena for those additional, that	
23	would get overwhelmed after a few	23	additional data. Thank you.	
24	weeks, so by necessity I got into the	24	THE WITNESS: No problem.	
25	habit of periodically moving e-mails	25	MR. BONDI: In the interest of	148
	14			148
1	INTERVIEW - I KOI CHINSKY	1	INTERVIEW - I KOI CHINSKY	
1	INTERVIEW - I. KOLCHINSKY	1	INTERVIEW - I. KOLCHINSKY	
2	out of that live e-mail box.	2	time we are going to cut this	
2 3	out of that live e-mail box. MR. BUBB: Did other employees	2 3	time we are going to cut this interview short. We hope we can take	
2 3 4	out of that live e-mail box. MR. BUBB: Did other employees archive e-mails in a similar manner?	2 3 4	time we are going to cut this interview short. We hope we can take you up on your earlier offer and talk	
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2	was going on on their side because it	2	MR. BONDI: It would be
3	was much earlier than your side of the	3	enormously helpful for us. We are
4	CDO?	4	trying to get in touch with former
5	THE WITNESS: Yeah, they would	5	employees of Moody's.
6	have known more. Like I said, we	6	THE WITNESS: I would guess you
7	MR. BORGERS: Do you have any	7	know most of them, but, you know, it
8	names of those that might have shared	8	is Mr. Mickalek who was on the panel,
9	some insight?	9	Mr. Sifuentes who was on the panel,
10	THE WITNESS: I don't know if	10	Mark Frobea, who was not on this
11	they shared I can give you the	11	panel. But I can get a few more
12	names of some of the senior people I	12	names.
13	know	13	MR. BONDI: That would be
14	MR. BORGERS: Okay.	14	helpful. And if you could err on the
15	THE WITNESS: that knew the	15	side of giving us everything.
16	product area better.	16	THE WITNESS: Okay. I may not
17	Obviously I would start with	17	have their
18	Mr. Michael Kanef, who was the head of	18	MR. BONDI: Even persons who
19	the whole group; Nicholas Weill, still	19	you think might not be directly
20	at Moody's; Warren Kornfeld, also	20	relevant for our investigation, we
21	still at Moody's.	21	would like to have a universe of the
22	Jay Siegel has left. His exit	22	former employees
23	interview was in one of the documents	23	THE WITNESS: Sure.
24	that was released by the permanent	24	MR. BONDI: at Moody's. To
25	subcommittee on investigations, and 150	25	the extent, though, that you believe 152
	150		152
1	INTERVIEW - I KOLCHINSKY	1	INTERVIEW - I KOLCHINSKY
1	INTERVIEW - I. KOLCHINSKY David Tiescher There is a David	1	INTERVIEW - I. KOLCHINSKY some may be more relevant than others
2	David Tiescher. There is a David	2	some may be more relevant than others,
	David Tiescher. There is a David Tesher at S&P also, but that's not		some may be more relevant than others, please let us know who you recommend
2 3 4	David Tiescher. There is a David Tesher at S&P also, but that's not that is different.	2 3 4	some may be more relevant than others, please let us know who you recommend we speak to first.
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3       want to consult.       3       L, Jessica R, Berman, a Notary Public         4       1 understand for the record,       5       sir, and I should have put this up         6       front, that you are choosing to speak       6       herein set forth, and the State of New York, do         7       ro us without counsel and that we have       7       That the witness whose testimony as         9       employment counsel to proceed at your       7       That the witness.         10       wishes to talk to you directly.       10       The the witness.       11         11       THE WITNESS: That is correct.       10       to any of the parties to this action by         12       MR. BONDI: If at any time,       12       blood or marriage, and that I am in no way         13       though, sir, that you ever want to       13       interested in the outcome of this matter.         14       consult counsel or want to involve       16       17       TNTKESS WHEREOF.       have anot could have counsel         15       mail, that you could have counsel       18       19       Jessica R. Berman       22         21       THE WITNESS: That is correct.       12       10       Jessica R. Berman       23         22       THE WITNESS: Ashoutely.       24       24       24 <td></td> <td></td> <td></td>			
4Iunderstand for the record, 54for and within the State of New York, do5sir, and I should have put this up 6for and within the State of New York, dohereby certify:6front, that you are choosing to speak to us without counsel and that we have employment counsel to proceed at your employment counsel to proceed at your at whese to talk to you directly.That the witheres whose testimony as therein set forth, and that the within transcript is a true record of the testimony given by said witness.10Wikes to talk to you directly.Infurther certify that I am not related to any of the parties to this action by blood or marriage, and that I am in no way interested in the outcome of this mater.12MR. BONDI: If at any time, unsel, that is your choice and we will honor your choice to have counsel to remail, that you could have counsel to remail, that you could have counsel to any of the parties to this 5th day of May, 2010.13there today, and you declined, is that to correct?1014Las asked that as long as I am not the subjects of furits investigation; if talk abay as I said.2314that changes, please term know. the will speak I am sure in the further. to WIR BONDI: Thank you very much. (Time noted: 3:00 p.m.)241515616MR. BONDI: Thank you very much. (Time noted: 3:00 p.m.)154151561616171718181919201542115623242526 <td></td> <td></td> <td></td>			
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