From: Brennan, Mary Elizabeth [redacted]
Sent: Wednesday, July 11, 2007 10:55 PM (GMT)
To: Moody's - Subprime Working Group [redacted] Tulenko, Stephen [redacted] McKenna, Mark [redacted] Adler, Michelle [redacted] Porter, Ann <Ann.Porter[redacted] Little, David [redacted]
Subject: RMBS Investor Outreach

Today I reached out to RMBS investors at three large institutions: PIMCO, Vanguard and Blackstone. Their comments regarding Moody's RMBS activities are attached. As I continue to reach out to investors, I will pass their comments along to you. Please don't hesitate to contact me with any questions.

Mary Elizabeth Brennan
Vice President
Senior Calling Officer
[redacted]

RMBS Investor Call
Josh Anderson
PIMCO
[redacted]
Wednesday, July 11, 2007
11:32 am

I had a very direct and candid discussion with Josh Anderson. He started the discussion by saying that Moody's has "a lot more to do" with respect to ratings adjustments and that the recent downgrades "don't help." Josh reported that PIMCO was surprised by the timing of the ratings actions. They thought that Moody's would wait to downgrade bonds at the end of the summer or closer to the beginning of the fourth quarter. I asked if he thought the timing was appropriate and he responded, "You have to do what you have to do. You know what I mean?"

Josh's main point is that PIMCO and others (he mentioned Blackrock and WAMCO) have previously been very vocal about their disagreements over Moody's ratings methodology. He cited several meetings they have had with Pramila Gupta questioning Moody's rating methodologies and assumptions. He found the Moody's analyst to be arrogant and gave the indication that "We're smarter than you." Despite wanting to work with Moody's as a "good ally with good discussions," eventually they "gave up."

Josh then became very passionate in the call - almost emotional. He complimented Moody's for doing "a great job, moving the capital markets forward." He said that PIMCO would "go to bat" for Moody's. He feels that Moody's has "a powerful control over Wall Street" but is "frustrated that Moody's doesn't stand up to Wall Street." They are disappointed that in this case Moody's has "toed the line" "Someone up there just wasn't on top of it," he said. He complimented Moody's work in CDO's and CLO's but, in the case of RMBS, its mistakes were "so obvious - you have to step back." I questioned him about Moody's communication and timeliness but he said that it didn't matter if the message communicated was "flawed."

Our discussion concluded with PIMCO's belief that Moody's methodology was "still flawed - and we'll tell you why." He proposed that we convene a call with "senior managing directors" at Moody's and investment professionals at PIMCO and they would have an off-the-record discussion of what they still thought were major shortcomings in the methodology and assumptions. I thanked him for the offer and said that I would follow-up.

RMBS Investor Call
Mabel Yu
Vanguard
[redacted]
Wednesday, July 11, 2007
1:05pm

Mabel Yu was very open and direct in her comments about Moody's and its ratings process. She was talkative and anxious to share her concerns and perspectives about recent headlines. She began our discussion by referring to S&P's previous day's RMBS call (7/10/07) where specific criticism was levied at the perceived delay in actions on the part of S&P. "I thought it was very rude the way he said it," said Yu, "but I agreed with the caller completely. My phone was on mute but I jumped up and down and clapped my hands and screamed. He was the only one to say it but all the investors were all feeling the same way. He said what we all wanted to say." Yu later commented that she believed S&P's actions came about 1 ½ years too late; she felt the rating criteria should have been adjusted earlier. Yu expressed "frustration" with the rating agencies' willingness to "allow issuers to get away with murder." She is finding the phenomenon particular to RMBS and CMBS. She feels that, particularly in the area of sub-prime, too much credit is given to individuals who haven't had access to credit before. She felt that there wasn't enough historical data available to track the performance of these more aggressive loans. Yu said that over time, Vanguard bought less and less of this asset class and stopped investing in it entirely by early 2006. Vanguard has witnessed the deals "getting worse and worse" and Yu reported that the market has been screaming for a while, "look at sub-prime!"

Over the recent months, Yu reports that Vanguard has become less and less comfortable with rating labels. "It feels likes there's a big party out there. The agencies are giving issuers every benefit of the doubt." She feels that there's also too much competition between the rating agencies. "I feel that if Moody's doesn't give the rating, the issuer can simply so elsewhere and get it somewhere else," she said. She believes that some of poor performance in RMBS with its problems in underwriting could also be faced by CMBS bonds if not for the underlying strength of the commercial real estate market.

I asked Mabel if she had shared her concerns with anyone at Moody's. She replied that she had only talked with deal analysts commenting to them that LTV's have gone up, FICO's have gone down, that there are more negative amortization loans, more ARM loans and that rates and default rates have been rising. "They would always come back with the standard answers: 'we have enough subordination - we've stressed the portfolio.' But I would always wonder if they only stressed the portfolio factor by factor or if they had stressed all the factors simultaneously. I never got a straight answer," commented Yu. Yu says that Vanguard finds itself "less and less relying on the opinions of rating agencies" and comments that "this isn't good for Vanguard." She wants to "have a dialogue" with the agencies and feels strongly that an Aaa in sub-prime isn't the same as an Aaa in credit cards. In her role at Vanguard, Yu is overwhelmed by the number of new issues and secondary issues in the market today and wishes she could rely more on rating agency opinions. Yu feels that Aaa "doesn't mean that we're protected anymore." "If this trend continues, it's not good for the market," she said. She explains her analysis of new CMBS deals: "When I look at a deal, I have to do a deep dive on loan quality, loan-by-loan, and then I have to take a haircut. All this analysis takes time." Yu states that she "wants to rely on the work done by the rating agencies. We want to work together, get more work done and work more efficiently. I'd like someone else to analyze the risk and be able to rely on that analysis."

Yu then commented a bit about frustrations she's faced in analyzing CMBS transactions. She noted that in the reports, rating agencies are clear about their stress levels but are not clear about why they are stressing at those levels. She feels that "risks are not laid out" and that when talking to analysts she needs to be very specific in her questions and "know exactly what to ask to uncover risk." She felt that sometimes her questions were too specific and she was frustrated when analysts would reply "I can't answer that or I'd be giving you 'preferential treatment.'" Yu commented, "If that's their problem, that makes me uncomfortable. Rating agencies aren't helping me to make the right decisions. They are giving just enough information to make a decision but not enough to be fully informed. They are not helping out."

Mabel Yu concluded the discussion by saying that "rating agencies are losing credibility - slowly." She feels now that bonds rated Aaa are not all the same. She feels that they now come in "different shades and forms." She said that she and other portfolio managers at Vanguard began to see problems in the work of the rating agencies beginning about 18 months ago. "At first we thought that these problems were isolated events. Then they became isolated trends. Now they are normal trends. These trends are getting worse and not getting better."

Her final comment for me was a warning for our analysts leading the next day's RMBS call to "be prepared; be very prepared."

RMBS Investor Call
Ron D'Vari
Blackrock
[redacted]
Wednesday, July 11, 2007
3:00 pm

Ron D'Vari was less talkative than others regarding his views on the RMBS market and seemed to prefer to reserve his comments for his role as moderator of next week's panel discussion on sub-prime hosted by Fixed Income Forum. He'll be leading a panel of representatives of Moody's, S&P and Fitch as they discuss this timely topic.

He has a few comments to share which, to me, seemed a little bit pat and rehearsed. I had the feeling he'd used these phrases before: "We can do a better job to ensure that credit, origination, re-packaging, and structuring have an integrity and that there's proper due diligence at all levels. At this point, we have lost control at all stages." He feels that rating analysts need to focus more on the "quality aspects" of transactions and less on "give me the tape and I'll figure it out." To make sure I understood his point, I asked if what he meant was that quantitative analysis took precedence over qualitative analysis. He said I got it right.

"The rating agency process is run to be efficient rather than to 'have a good sense of the pieces'" he commented and continued to elaborate on his perceived quality of due diligence. He compared RMBS to CMBS and said he believed that there was "more of an understanding of collateral" in CMBS. He said that in RMBS, analysts "relied too much on manufactured data that is weak." He emphasized that there's "too much reliance on data not fully verified." He questioned any analyst's ability to adequately analyze data without a long track record of performance. He asked, "How do you establish quality on low doc loans? How do you rate that? It's not just LTV. There's been a lack of pro-active questioning."

I asked Ron how his participation in sub-prime has changed over time. He said that he began to notice "disturbing trends" in mid-2005 and, as a result, his participation in deals moved further up the capital structure.