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Executive Director

July 16, 2010

Via Email & Mail

Mr. Eric Kolchinsky
736 Hanford Place
Westfield NJ 07090
Email: erick@att.net

Re: Financial Crisis Inquiry Commission Hearing on June 2, 2010

Dear Mr. Kolchinsky:

Thank you for testifying at our June 2, 2010 hearing. At the hearing, you were informed that the staff of the FCIC would be contacting you to follow up on certain areas of your testimony and to submit written questions and requests for information related to your testimony.

When answering all questions, the relevant time period is January 1, 2000 to the present, unless otherwise indicated. Please provide your answers and any additional information by July 30, 2010.[1]

1. In its SEC registration form, (Form NRSRO), submitted to the SEC on June 26, 2007, Moody's wrote: Most Issuers operate in good faith and provide reliable information to the securities markets and to MIS, and we rely on

[1] The answers you provide to the questions in this letter are a continuation of your testimony and under the same oath you took before testifying on June 2, 2010. Further, please be advised that according to section 1001 of Title 18 of the United States Code, "Whoever, in any matter within the jurisdiction of any department or agency often United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both."

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Issuers and their agents to do so. We do not possess either the comprehensive or independent first-hand knowledge to verify or test the accuracy of information that Issuers make available to the public or directly to MIS. Nevertheless, our analysts seek to exercise skepticism with respect to an Issuer's claims. If we believe we have inadequate information to provide an informed credit rating to the market, we will exercise our editorial discretion and will either refrain from publishing the opinion or withdraw an outstanding credit rating (Page 2 of Exhibit 2 of Moody's Form NRSRO, submitted on June 26, 2007,).

Outside of your comments in your written testimony, can you give examples of instances in which you expressed skepticism and consequently Moody's decided not to rate an RMBS or CDO?

2. Please describe the correlation assumptions that were used for ABS CDOs. What qualitative factors were considered when rating CDOs? What did these qualitative factors add to the rating process?

The FCIC appreciates your cooperation in providing the information requested. Please do not hesitate to contact Bruce McWilliams at (202) 292-1399 if you have any questions or concerns.

Sincerely,

Wendy Edelberg
Executive Director, Financial Crisis Inquiry Commission

cc: Phil Angelides, Chairman, Financial Crisis Inquiry Commission
Bill Thomas, Chairman, Financial Crisis Inquiry Commission

From:	Eric Kolchinsky
To:	Bruce McWilliams
Subject:	RE: follow up?
Date:	Saturday, July 24, 2010 6:59:58 PM

Bruce

Below please find my response to the follow up questions. Please let me know if you'd like for me to forward the paper/models in question.

Also, I welcome any additional follow-up questions which the commission may have.

Thank you very much
Eric

1. I do not recall any other CDOs where I expressed skepticism and the deal was subsequently not rated. I was generally not involved with RMBS rating process.

2.
    a. ABS CDO correlation. When I began at Moody's we used the "two moment" method to calculate a diversity score for a portfolio. The diversity score would then be used to generate a binomial distribution where the diversity = N. I do not recall any published papers on the actual correlations used in the two moment method. However, I believe that I do have some old Excel spreadsheet used to calculate the two moment diversity score and can send them along.

       When I returned to Moody's in 2005, there were two changes to the methodology. First was the adoption of the correlated binomial. I believe that this was a minor change. When compared to a regular binomial, the correlated binomial had a "fatter tail" (the probability of higher default event was greater).

       The second change was more substantial. Technically, correlations became asset correlations (the older method used default correlations). More importantly, I believe that they were also lowered. The research is contained in a paper entitled, "Moody's Revisits its Assumptions Regarding Structured Finance Default (and Asset) Correlations for CDOs". It is also incorporated in the CDOROM model which was and is available free from Moody's. I have both the paper as well as various iterations of the CDOROM model if you would like them.

       During 2006 and 2007, I was focused on increasing the correlations between ABS CDOs in ABS CDOs. This was due to the increased use of synthetics and the potential of greater overlap between any two ABS CDOs. We tried several ad-hoc approaches during the course of that time – modeling the underlying directly and manually increasing the pair-wise correlations in the CDOROM model.

       In late 2008 – early 2009, Moody's implemented new correlations for ABS CDOs, but kept the remaining structure the same. I was no longer with the rating agency, but was asked to comment on the approach by the Credit Policy Group. I thought that the new approach was irresponsible, given what was learned during the crisis. You should already have the detailed response to the Credit Policy Group, but I can forward it again.

b. Qualitative factors. I do not recall any explicit qualitative factors. Practically, there was always some element of judgment at every committee. For example, if the model results for a given tranche were marginal, but there were some non-quanitfiable factors (e.g. quality of manager, portfolio restrictions), a committee may choose to grant the rating or not. Generally, qualitative judgment was also exercised on issues of new impression (new collateral, new manager, etc.)