MEMORANDUM FOR THE RECORD

Event: Teleconference with Kyle Bass and Brandon Osman of Hayman Advisors LP

Type of Event: Conference Call

Date of Event: March 29, 2010

Participants - Non-Commission:

- Kyle Bass, Managing Partner
- Brandon Osman, Head of Financials

Participants - Commission:

- Tom Krebs
- Mina Simhai
- Desi Duncker

MFR Prepared by: Desi Duncker

Date of MFR: March 29, 2010

Summary of the Interview or Submission:

This is not a transcript of the meeting and should not be quoted as such

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On Monday, March 29, 2010 Tom Krebs, Mina Simhai, and I had a conference call with Kyle Bass and Brandon Osman of Hayman Advisors LP to discuss Bear Stearns and Mr. Bass's view of the market. The discussion was essentially held with Mr. Bass, with Mr. Osman chiming in occasionally. Note that Mr. Bass was a Senior Managing Director at Bear Stearns from 1995 to 2001, when he left to join Legg Mason. *Also, note that the following is merely a synopsis of Hayman Advisors' comments and is not necessarily a statement of fact or of the opinions of the FCIC team.*

According to Hayman Advisors LP, Bear Stearns (BSC) was 38 times levered. In other words, tangible common equity was just 2.6% of assets and commitments.

Hayman Advisors LP prices its assets every day and never had a pricing discrepancy. Level 3 assets are just assets that the broker-dealers don't want to price. During the crisis, Level 3 assets over tangible common equity (TCE) was 262% for BSC, 225% for Lehman, 222% for Morgan Stanley, and 213% for Citi. You need to focus on Level 3 assets, and then on the amount of leverage.

Mr. Bass set up a meeting with Bobby Steinberg, BSC's head of risk management, to go through what Mr. Bass thought was likely to happen. (One of Hayman's Forbes-List investors asked them to run their ideas by Mr. Steinberg and his team.) Also present at the meeting was BSC's head of credit, head of the mortgage unit, and head of mortgage trading. Mr. Bass asked BSC how they were hedging themselves, at which point, Mr. Steinberg abruptly responded by saying: "You worry about your risk management, and we'll worry about ours." The investor ultimately decided to pass on investing in Hayman Advisors LP.

Mr. Bass doesn't believe that any of the broker-dealers were being forthcoming about their Level 3 assets. As a reference point, banks had reasonable Level 3 Asset / TCE levels of 52.8% for Bank of America, 58.1% for JP Morgan, and 67.2% for Wells Fargo. Since broker-dealers had counterparties on these assets and had margin calls, Mr. Bass wondered why they didn't show those marks in their financial statements. If broker-dealers are able to dump assets into the Level 3 category, they should tell you what those assets are (*i.e.*, CUSIP numbers), and allow you to do your own work.

The one person that hasn't been questioned yet is Scott Eichel, who was the head of mortgage trading at Bear Stearns. He ran their on-balance-sheet activities and priced everything. 36CFR12

The traders got paid semi-annually based on the P&L, and the traders themselves set the price at the end of the month. This is a classic case of inmates running the asylum. Across all of Wall Street, traders set the marks. They were two different prices: one was a quote only, and the other was the live trading price. Hayman Advisors LP brought this issue up to Bear Stearns' head of compliance. Hayman had to price monthly and for collateral purposes daily.

Bear Stearns

Goldman Sachs was more balanced in their book than Bear Stearns was. Some firms were caught off-guard. BSC would never admit that the price was going down. Many players were trying to mark their prices down, but not Bear Stearns.

Mr. Bass is a director of the ABX Credit Derivative Association (ABXCDA). (John Paulson is the chair.) 36CFR1256.56: Privacy Bear traders went so far as to send draft language to the International Swaps and Derivatives Association (ISDA), trying to manipulate the market, until BSC's lawyer stopped their efforts when he found out. The ABXCDA was formed to get a fair playing field. The FCIC can talk to others (John Paulson, PIMCO, Columbia Asset Mgmt, etc.), and they'll say the same thing. Another person to talk to is Phil Falcone at Harbinger, which was a massive mortgage-market participant.

36CFR1256.56: Privacy He reported to Tommy Marano, who's now CEO of GMAC. Mr. Eichel is now heading up the mortgage desk at RBS. Note that,

to the best of Mr. Bass's knowledge, Hayman Advisors didn't have a dispute with Mr. Eichel. Dealers would get multiple trading quotes. Mr. Bass was not sure about the inter-dealer process.

The ISDA Novation Protocol Network was a dispute resolution mechanism. These days, this doesn't go on as much, given additional scrutiny from regulators.

Hayman Advisors used MarkIt. They accepted their marks, as they took the middle ground after throwing out the high and the low. Hayman gets live trading prices. However, many smaller asset managers don't have as many counterparties, and are prisoners of their dealers.

Mr. Bass's Issues with Bear Stearns

The key questions: When did they know their pricing wasn't right? Who at the firm decided to put as many assets in the Level 3 bucket? Is 38x leverage on balance sheet too much? Scott Eichel is the key to the pricing question.

In order for this not to happen again, you have to ask the following question: How levered can an investment bank be if there is a Bernanke put? Nowhere near 38x—Mr. Bass said he couldn't even manage a 20x portfolio in a crisis.

Lehman and Bear Stearns were the weakest at the end of '07, as Lehman had gross leverage / TCE of 52.3x and BSC was right behind. Morgan Stanley had the next highest leverage. Mr. Bass said he wasn't sure why John Mack was blaming short-sellers, given the leverage. Financial companies did worse when short-selling was banned.

Mr. Bass had a long conversation with Ace Greenberg, who was very candid. Mr. Greenberg said that 36CFR1256.56: Privacy , and that it was an embarrassment.

The only reason Citi was saved was because it was a money-center bank.

Mr. Bass's Recommendations for the FCIC

The FCIC has got to focus on the leverage to equity. "If you're going to be bailed out, there has to be a maximum leverage," *i.e.*, 20x.

No one wanted to admit that home prices could go down. From the early 70s, when the data was first collected, nationwide home prices never declined.

Next up is sovereign prices, as there is no basis for a 0% risk weighting.