MEMORANDUM FOR THE RECORD

Event: Interview with Lou Lebedin, former Head of Prime Brokerage Business at Bear Stearns

Type of Event: In person interview

Date of Event: Friday, April 23, 2010

Team Leader: Tom Krebs

Location: FCIC small conference room

Participants - Non-Commission:

- Lou Lebedin
- Jessica Carey, Paul Weiss
- Eric Goldstein, Paul Weiss

Participants - Commission:

- Tom Krebs
- Donna Norman
- Sarah Knaus

MFR Prepared by: Sarah Knaus

Date of MFR: July 13, 2010

Date Reviewed: December 3, 2010

Summary of the Interview or Submission:

This is a paraphrasing of the interview dialogue and is not a transcript and should not be quoted as such.

Krebs: Lou, I'm Tom Krebs, we're from the Financial Crisis Inquiry Commission. For the purpose of this discussion, we expect you to tell us the truth. There is a law that says you must tell the truth. Can you tell me about your background?

Lebedin: I graduated from Syracuse University, went to Coopers & Lybrand, and then joined the Global Clearing Services business at Bear Stearns as Controller. I was principally doing the billing for the Global Clearing clients, and maintaining the books and records for the business unit.

Krebs: What type of clients did you interact with?

Lebedin: When I first joined, they were handling corresponding clearing accounts, specialists on the floor of the American stock exchange, and option makers. Over time, the business evolved into a prime brokerage business, as hedge funds became more prevalent, we began to service these accounts.

Krebs: What do you mean by prime brokerage?

Lebedin: Prime brokerage provides execution, clearing and financing services.

Krebs: When you say financing are you talking about repo?

Lebedin: No, it would be margin lending.

Krebs: When a prime brokerage client has a prime brokerage account and has securities contained in that account, can Bear Stearns use those securities in the repo trading?

Lebedin: No.

Krebs: In any other financing activity?

Lebedin: Only if there's a margin debit.

Krebs: When a client designates that their securities are to be held in custody, what does that mean?

Lebedin: A brokerage account is not a custody account. They may have asked to move securities into a bank holding

Krebs: If a prime brokerage client designates a custody account, what limitations are place on Bear Stearns in holding that account?

Lebedin: If there's a debit against the account, under the rules, we can use up to 140% of that debit. Those securities in excess of that 140% would be eligible to be moved into a custody account if the client had asked. If there's a $100 debit and $200 securities, we can take $140 of valuable securities to pledge for re-hypothecation, to refinance the debit. The remaining $60 in the account can be used for the direct custody account. It would come out of the brokerage account and be sitting there in their name.

Krebs: Did there come a time where there was difficulty in the prime brokerage business?

Lebedin: Probably when the Bear Stearns hedge fund issues started to arise

Krebs: How did the prime brokerage customers manifest?

Lebedin: Certain clients were inquiring about what was happening, how the firm was handling it and so forth. Reputational issues, economic impact.

Krebs: I imagine some of these accounts were significant and some were inconsequential. What are the largest clients in 2007?

Lebedin: Vicus was the most interested in the events surrounding those funds.

Krebs: Approximately how large was that fund?

Lebedin: It was one of our top ten on a revenue basis.

Krebs: Can you give me an approximation of the size?

Lebedin: About a billion of assets under management (AUM). I rank them on revenue, that's how I rank them as top ten.

Krebs: What were the concerns expressed early on, after the BSAM problems?

Lebedin: They wanted to understand the collateral damage as a result of the funds going under.

Krebs: Are you familiar with the fact that after those funds declared bankruptcy the rating agencies gave a negative outlook of the funds? Did this exasperate the concerns of your customers?

Lebedin: I don't recall exactly if there were any particular calls as a result of that rating.

Krebs: When did you begin to see the difficulties of the accounts?

Lebedin: There were occasional inquiries in the latter half of 2007, but they began to pick up at the beginning of 2008. I recall the clients' inquiries moved in tandem with the CDS spreads of Bear Stearns. As they began to widen, clients were more concerned about the rumors around the trading of CDS. In 2007 it was about $50 million of trading debt and began to increase thereafter.

Krebs: Did you have a lot of problems before?

Lebedin: There were a couple of large clients in 1Q08 that were memorable, top 10 clients, but beyond that it's not always evident to us when a fund is rebalancing their portfolio. If a fund is rebalancing, it's not always obvious to us.

Krebs: If they do that away from you?

Lebedin: If they have another prime broker, they can move away. The prime brokerage model allows firms to execute trades with different settling firms. We don't have transparency into that. If they don't want to expose their inventory to Bear Stearns, we would never have an indication of that. We may only be seeing the sales of their inventory, so they may begin to shrink. Unless the client says they want to move 1/3 of their book, my belief is that they start to trade elsewhere and you'd have no way to calibrate.

Krebs: You did indicate that 1Q08 that there were some difficulties. Can you describe them to me?

Lebedin: The major difficulties arose when we were a client's sole prime brokerage and they made arrangements to have a second prime broker. There was one particular instance where one large client asked us to move all of their assets to another prime broker. This was Renaissance, a top 4 P&L. They could have been about $5 billion in assets.

Krebs: When you see that type of thing happening, do you call them up?

Lebedin: They had given us notice and I personally did not speak with them, the cover people did. They felt there were too many concerns about us and felt that this was a short term move. Often they would tell us they'd be happy to bring the business back, but that they had the duty to protect their investors.

Krebs: Is it fair to say that the closer you came to March 10 that this activity escalated?

Lebedin: Absolutely. It really escalated on Monday March 10.

Krebs: What was happening the week before?

Lebedin: Clearly, as we were getting closer, the inquiries were heating up in regard to calls.

Krebs: What do you think triggered the unusual number of requests that you began receiving?

Lebedin: The CDS spreads were widening and clients were saying that they were concerned about this.

Krebs: Are you aware that on the 10th there was a Bloomberg article that said the CDOs had been downgraded?

Lebedin: I believe the way it hit the screen it looked like Bear Stearns and not the [CDO] trust. That raised concerns.

Krebs: Did your prime brokerage customers raise this as a reason for their concerns?

Lebedin: Yes, but everyone had different levels of comfort and some felt it was wiser to move the business away in the interim.

Krebs: To the extent that you had prime brokerage customers who had a debt balance, when that prime brokerage firm elects to leave the firm, how do you settle on that?

Lebedin: We try to substitute their securities where we have the right to use the securities and bring those back.

Krebs: That assumes you have some in inventories, what do you do if you don't?

Lebedin: You'd fail on delivery and not deliver on those securities.

Krebs: Does the inability to completely cover a transferring prime brokerage account require Bear Stearns to acquire out of pocket with cash?

Lebedin: I'm not really the expert, I just don't know.

Krebs: You get through Monday, how bloody was it?

Lebedin: Monday was probably the toughest day of my career until I got to Tuesday. It escalated as the week went on.

Krebs: In most instances would you attempt to call them and determine what was going on?

Lebedin: We tried to allay their fears, and discussed the uniqueness of Bear Stearns, which does not support proprietary activities. Bear Stearns has a customer business, unlike other firms. We tried to remind clients that our structure better positioned us than most.

Krebs: In connection with your position, did you ever interface with representatives with the SEC?

Lebedin: Yes.

Krebs: Any interaction in that week prior to March 10?

Lebedin: I don't recall.

Krebs: Do you recall any of the names of the folks you talked with?

Lebedin: No.

Krebs: Can you tell me the subject matter of the discussions?

Lebedin: Typically it was general updates on the business and the markets.

Krebs: During the Monday and Tuesday, did you have occasion to talk to the SEC?

Lebedin: I don't believe I had any calls during that period of time.

Krebs: How was Wednesday?

Lebedin: Pretty much the same thing. We were continuing to reach out to customers, even to clients who were not calling, and explain the structure of the business. We were being proactive, trying to be equally concerned about all clients. We could not talk about a whole lot because the earnings had not been released.

Krebs: What did you talk about?

Lebedin: Basically the structure, that's all we could describe.

Krebs: How was Wednesday?

Lebedin: It was numbing, because you built the business over 20 years and watched it disappear in the space of a few days.

Krebs: With whom did you meet on Monday and Tuesday?

Lebedin: On Monday, I participated in a meeting with senior management to discuss what was going on. Beyond that it was information provided about what was going on. I didn't have any direct contact.

Krebs: In addition to the one committee you sat on, any others?

Lebedin: I was an Advisory to the PAC, and gave updates of what was going on in the firm.

Krebs: Did you have any meetings on Thursday?

Lebedin: I don't recall any. I was focused on customer expectations.

Krebs: Were you at any point a part of the JPMorgan discussions?

Lebedin: No.

Krebs: Did you have any part in the due diligence efforts over the weekend?

Lebedin: Yes. On Saturday we met with JPMorgan. I was part of a team from equities that met with our counterparts at JPM. Our meeting was about the equities business, headed by Steve Meyer and Bruce Lisman.

Krebs: Were you called in to say anything to the counterparts at JPM?

Lebedin: There were not real counterparts, because they didn't have the business. The meeting was about a dozen people in the room who were asking me questions.

Krebs: What type of questions?

Lebedin: We prepared a presentation about the business and some of the historical performance. In some ways it was a basic understanding of how the business works. End to end what we do for a living and some of the areas that were important to be considered. It wasn't just a drag and drop. We worked with a bunch of different parts of the business. We gave them the best sense of what our business looked like at the time.

Krebs: Were there similar meetings on Sunday?

Lebedin: They had asked for individual meetings with my direct reports.

Krebs: What happened after Sunday?

Lebedin: The deal was announced and we came back and spent a lot of time trying to secure guarantees from customers that they would stay, because of the JPM backing. We worked to bring back former customers. It's a relationship business, people know us and how we do things. Phone calls were being made with updates on where we stood and getting documents to their counsels. JPM did not have an equity prime brokerage business. They welcomed me.

Krebs: Let me ask you about your compensation. What was your compensation in 2006?

Lebedin: I received a total of 36 CFR 1256.56 - Privacy made up of stock equity. I had a base salary of 36 CFR 1256.56 - Privac

Krebs: How was the difference broken out?

Lebedin: The total was 36 CFR 125 The bonus was 36 CFR 1256.56 - Pri There was a formula that was based on total comp and my recall was that roughly a third of it was in equity.

Krebs: Who was your immediate supervisor?

Lebedin: Bruce Lisman and Steve Meyer who co-headed the equities business.

EXHIBIT 1 (1474)

Krebs: These are the minutes of the Operations Committee. Are there members of the committee who were not present at this meeting?

Lebedin: I believe Bruce Lisman was a member and is not listed here.

Krebs: It says here, "Stock Market Route." What does this relate to?

Lebedin: I don't recall.

Krebs: I'm interested Mike Alix's report on the repo activity, what was he referring to?

Lebedin: I don't recall the exact conversation.

Krebs: Was European prime brokerage in your area?

Lebedin: Yes, Paul Brinier reported to me.

Krebs: What does, "I have seen the upcoming dividend season" mean?

Lebedin: It means the trading around European dividends

EXHIBIT 2 (1475)

Krebs: This details a London Hedge Fund working group –

Lebedin: I was not a member

EXHIBIT 3 (9268)

Krebs: It shows here that you attended a meeting on March 4, 2008. The first bullet relates to the committee. It says that the SEC has viewed the liquidity. Did you have any interaction with the SEC?

Lebedin: No.

Krebs: Did you discuss Peloton and Thornburg at the meeting?

Lebedin: I don't recall what was discussed at the meeting. Peloton was a client of the fixed income brokerage group, didn't they report to me. They had a number of financing parties and there was an effort for the lending parties to uncover their loans.

Krebs: Was this the case with Thornburg?

Lebedin: I know that they were in the mortgage industry, but I'm not as familiar with them.

Krebs: Was Bear Stearns a repo lender to Thornburg?

Lebedin: I don't know.

EXHIBIT4 (9269)

Krebs: What is a synthetic prime brokerage?

Lebedin: It's a broadly used term, you can provide lending and financing in cash form or you can do it in swap form. More often than not, this is for European funds. It is used by US funds, but at the time, we were starting to put one together, but did not have one yet.

Krebs: Are you familiar with a fund run by John Paulson?

Lebedin: Yes.

Krebs: Was it a client?

Lebedin: Yes it was. It is.

Krebs: Did Paulson do other business with Bear Stearns?

Lebedin: I believe so, but I'm not sure.

Krebs: We've been reading about Mr. Paulson, did he make the same type of offer to Bear Stearns as to Goldman?

Lebedin: I don't know.

EXHIBIT 5 (2524)

Krebs: This document discusses client calls made on that Wednesday. Are these prime brokerage customers of Bear Stearns?

Lebedin: Yes they are.

Krebs: Did you, Mr. Rollins or anyone else, give a report with respect to these prime brokerage customers?

Lebedin: I personally did not give a report. I think either Dave or Mike gave the update.

Krebs: Was Dave within the prime brokerage department?

Lebedin: He worked for me, and covered clients.

Krebs: What was his experience with respect to the entities under his name?

Lebedin: I don't remember what the update was on each particular client.

Krebs: Were these client calls made?

Lebedin: We at the very least tried to reach out to the clients.

Krebs: Who gave the report in respect to Regiment and the other three entities?

Lebedin: It was Mike. In the document, Mike says these guys are comfortable and the guys above the line have not called yet.

EXHIBIT 6 (4893)

Krebs: This is dated August 21, 2007. This is after the Bear Stearns hedge funds had declared bankruptcy. Would you look at the next page, the Committee had discussed "the flight to equality." What are they referring to?

Lebedin: We have a platform for clients who do not want to leave their money in the brokerage fund. This varies from a government fund to a general fund. Here they are comfortable with government funds.

EXHIBIT 7 (7264)

Krebs: Any recollection of what was said at that point?

Lebedin: I don't recall.

Krebs: You did attend this meeting?

Lebedin: I'm listed so I assume I was there.

EXHIBIT 8 (7684)

Krebs: This discusses SEC sweeps with respect to the Prime Brokerage activity. What does it relate to?

Lebedin: I don't recall exactly what part of the prime brokerage review was being conducted.

Krebs: Continuing, the document says Jeff Barber also reported that they had a new CFO for BSAM. Do you know how many investment vehicles were alive at BSAM?

Lebedin: No.

EXHIBIT 9 (8996)

Krebs: Do you recall Bob Upton leading a discussion on the status of funding in liquidity?

Lebedin: I don't remember the particulars that were discussed.

Krebs: Do you remember any leverage ratios discussed?

Lebedin: I don't.

Krebs: Do you recall how Bear Stearns computed its leverage ratios?

Lebedin: No.

Krebs: The exhibit discusses yield enhancing transactions. "Rob reviewed…" Did Bear Stearns control any Cayman Island entities or off-shore hedge funds?

Lebedin: Not that I'm aware of.

EXHIBIT 10 (1468)

Krebs: This exhibit is dated 10/2/2007. What is the BSIL Prime Brokerage?

Lebedin: BSIL is our off-shore entity that prime brokerage used to maintain accounts there. When clients did business off-shore, we would at times introduce them to BSIL as our off-shore entity.

Norman: Where was it registered?

Lebedin: I'm not sure, the operation was in London.

Norman: What is BSSC?

Lebedin: This was Bear Stearns Security Corp that housed many of the businesses.

Norman: What was the distinction between the two accounts?

Lebedin: Enhanced doc loans. We no longer had to use our enhanced loan facility. It was more efficient for us to keep it in the same account. By virtue of the initiation of portfolio margin, we could move it onshore to use BSSC. It was the same as using BSIL to use the same leveraging. It essentially brought the ability to leverage onshore. We utilized this as much as possible.

Norman: Any other regulatory advantage or disadvantage between the US and UK?

Lebedin: In simple terms, because of the UK rules, you negotiate bilateral arrangements with your counterparts. It's more customized, so you may be able to use more than the 100%. As a basic part of prime brokerage, some firms may find it necessary to move their account offshore to meet customers' needs without increasing risk.

Norman: How did the Consolidated Supervised Entities (CSE) program shift in 2004 affect the business?

Lebedin: There were certain things we needed to change about stock borrow and stock loan in the CSE that were risk rated. There maybe were more haircuts than before, and also the issue of understanding our rights under bankruptcy. The platform didn't really change.

Norman: Did you find Basel more favorable?

Lebedin: It wasn't really something I analyzed.

Norman: Who would have been responsible?

Lebedin: Roger Klion, the accountant, he would understand the changes.

-BREAK-

Krebs: From time to time in the Operations Committee, you got reports with respect to Bear Stearns funding and liquidity. Can you discuss any of them?

Lebedin: I can discuss funding, what changes, which way it was going, leverage and how it was contributing or shrinking.

Krebs: With respect to funding, was there a migration of funding over time, with less unsecured commercial paper towards more repo?

Lebedin: There was definitely a move towards repo.

Krebs: What was the funding strategy?

Lebedin: I believe that we were a large user of commercial paper and that that there was a view to diversify sources into those that were considered safer in the duration.

Krebs: Do you know how long the term of commercial paper was compared to repo lending?

Lebedin: No.

Krebs: Was there anything significant with the funding other than the migrations we just talked about? Or any liquidity discussions that happened over time?

Lebedin: Other than that, there was a view to diversify funding and they were trying to explore alternatives.

EXHIBIT 11 (1359)

Krebs: What is the cross-product margin initiative discussed here?

Lebedin: Cross product margining was directly for hedge funds, in that they had holdings for asset classes that would reduce the risk on collateral departments. They shouldn't have to post collateral on both instruments. They should recognize different asset classes and give them the appropriate relief.

Krebs: Is this a procedure or product directed to hedge funds and primary broker customers?

Lebedin: Yes

Krebs: Do you recall anything about the BSAM report?

Lebedin: No. My simple understanding is that they were over levered and that they had funding issues.

Krebs: What is your position now at JPMorgan?

Lebedin: I'm co-head of Prime Brokerage.

Norman: You talked about Renaissance technology earlier?

Lebedin: They removed all of their business, but their accounts remained earlier.

Norman: You mentioned that they were large, at least $5 billion, the press recorded that they had pulled out $20 billion?

Lebedin: That could be right.

Norman: What was it to you?

Lebedin: At the beginning of January 2008 we had about $160 billion AUM for our customers.

Norman: How far off is that from January 2007?

Lebedin: I don't recall.

Norman: You don't recall that $20 billion is high or low for Renaissance?

Lebedin: They had a number of funds and were ramping up. I don't remember how high they were at the time they left and how much it was at the time.

Norman: What about S-3 partners?

Lebedin: They have a consulting arm too.

Norman: Robert Sloan?

Lebedin: Yes.

Norman: Did they have $25 billion out of Bear's prime brokerage?

Lebedin: They must have been under another name. My $5 billion may have been conservative, but my gut is $10. I didn't look at AUM per say, I looked at revenues.

Norman: What about PIMCO and Fidelity, did they pull money out?

Lebedin: They're not hedge funds, they didn't pull money out.

Norman: What happened after March 13, 2008?

Lebedin: In April we hit a bottom of about $90 billion, which was down around 40% or so.

Norman: Have you ever testified in connection with Bear Stearns?

Lebedin: I've testified 36 CFR 1256.50 - Statute [redacted] nd before Moskowitz in relation to the short-selling investigation.

Norman: Are you currently a defendant or plaintiff in your work at Bear Stearns?

Lebedin: Not that I'm aware of.

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