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FCIC memo of staff interview with Howie Rubin, Bear Stearns 1

Howard Rubin

Joseph Baio

Tom Krebs

Mina Simhai

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MEMORANDUM FOR THE RECORD

Event: Interview with Howie Rubin

Type of Event: Interview

Date of Event: April 27, 2010

Team Leader: Tom Krebs

Participants – Non-Commission:

- Howie Rubin
- Eric, Michael, Jessica
- Joe Baio, Wilkey Farr and Gallagher

Participants – Commission:

- Tom Krebs
- Mina Simhai

MFR Prepared by: Sarah Knaus

Date of MFR: May 2, 2010

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

Summary of the Interview or Submission:

Howie Rubin joined Bear Stearns in 1987 and left in 1999. During that period of time he was in charge of the collateralized mortgage debts (CMOs), which were backed by agency securities.

Rubin reported to various people over the course of his career, generally to the head of the Mortgage Trading Desk, who then reported to the head of the mortgage department. When asked if Tom Morano was the head of the mortgage department, Rubin replied that he was not the head of the department when Rubin was at Bear Stearns, but that Morano worked for Rubin part of the time on the CMO desk.

Within the mortgage department Rubin said there were hundreds of people by the time he left Bear Stearns, and 6-10 people within this group. When he left the company, Jeff Meyer was the head of the mortgage department; Meyer reported to Warren Spector, who was the head of fixed income.

When asked if Rubin had many interactions with Warren Spector, he replied that he did and that his impressions of Spector was that he was one of the most brilliant at the firm, very analytical, calm, and was excellent at thinking about trading issues and risk. He was a great manager and risk assessor.

Rubin said that he did not have any recollection of the relative size of Bear Stearns mortgage-related business as compared to the rest of Wall Street because there were so many different parts of the mortgage business. He knew his market but not the overall business relative to other firms.

He did not negotiate with loan originators while running the CMO desk. Rubin explained that CMOs are created from agency pass-throughs from the FHLMC, FNMA, and Ginnie Mae. Bear Stearns did not originate any mortgages, as they were originated from Bank of America or another big bank. Bear Stearns would buy those pass-throughs in the secondary market, or would sometimes purchase them directly from the agencies. Rubin's job was to amass those securities, put them into a trust, and split them into many different tranches and hope that the sum of what was sold by Bear Stearns was greater than when they purchased them.

The CMO desk was within the fixed income department at the time Rubin was at Bear Stearns. He was asked what portion of the revenues of the fixed income department was generated by the mortgage related securities, Rubin responded that he had no idea. Rubin was also unaware of what the CMO desk percentage of revenues generated for Fixed Income may have been.

When asked if the mortgage-related business of Bear Stearns grew from the time in 1987 through his time at Bear Stearns, Rubin said that the overall mortgage business on Wall Street was growing, and at least his area also appeared to be growing.

Rubin said that with respect to other mortgage-related business at Bear Stearns, the other desks included a pass-through desk that traded the straight Fannie/Ginnie pass-throughs. There was a home loan desk that traded non-government guaranteed mortgages. There were a couple of other smaller areas such as FHA/VA project loans, and a couple of others that Rubin could not recall. As far as CDOs go, Rubin said he did not think the first CDO was priced before 1999.

Rubin was responsible for a group of about 6-10 traders while at Bear Stearns. They traded secondary market flow of CMO bonds and also created new deals on an arbitrage basis, which consisted of buying underlying mortgage pass-throughs in the secondary market. Working with Fannie/Ginnie, working with an underlying trust, splitting them into tranches, and selling them in pieces.

When asked if Bear Stearns would typically hold a piece of the loans that were standardized or try to sell them off, Rubin responded that they tried to sell everything that they could. Asked if they were successful, Rubin said that it was far more common that in the final pieces would be sold off over time.

When asked if there were any particular tranches that were more likely to end up on Bear's books at a point in time and be sold over a period of time, Rubin said no.

While at Bear Stearns, Rubin said that there was a risk management group who constantly asked questions on the size of their positions, the types of bonds they owned, how they were hedging.

He had constant discussions with the head of mortgage trading and the head of the mortgage departments. He had specific mortgage limits that were constantly updated.

When asked who made the risk decisions and if there were ever disagreements with the risk management department about the types of appropriate risk, Rubin responded that he never really had disagreements with the head of risk, but it would be more of a difference of opinion on how to look at bonds. It was always the head of the mortgage department that Rubin would go to if there was a question of the certain size of a trade or strategy that he would want to pursue, who he would usually hear from whether to move ahead with a larger trade, or not. Rubin said ultimately how those risk decisions were made, he did not know further up the line. Rubin said that he received his orders from the management of the mortgage department.

Rubin believed that the risk department was well-versed in CMO and mortgage trading in general.

When asked about his compensation at Bear Stearns, Rubin said that it was based on profits they (the CMO desk) earned, and there was not a specific formula, but in general the more money they made, the more his group would make. His understanding of the way compensation worked was that it was dependent on how your individual group did, how the mortgage department did, and how the firm did. He said he was not aware of how those factored in to the number he was paid.

When asked if he recalled his breakdown in his bonus between cash and stock, Rubin replied that once he became a senior managing director, he was part of the Capital Appreciation Plan, or the "CAP Plan," where approximately half his pay was in cash and half in preferred stock; and before he became senior managing partner, while he was not 100% sure, he believed he was paid all in cash.

Rubin said that his base salary at Bear Stearns was around 36CFR1256.56: f and during his tenure at Bear Stearns, this stayed the same, but may have increased to 36CFR1256.56: prior to leaving Bear Stearns.

When asked if he knew that Bear Stearns used repo markets to fund its various operations, Rubin responded that he had no idea how Bear funded itself.

When asked if Rubin had an opinion on what caused the financial crisis, Rubin responded that while he was not an economist, he believes that in general everyone was over lending. Banks, investment banks, homeowners, etc.; everyone had too much leverage.

When asked if he knew what the leverage was at Bear Stearns while he was there and Rubin did not.

After Rubin left Bear Stearns, he did not continue working in the mortgage securitization business, he retired. He was on several boards from time to time during the nine years he was retired.