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FCIC memo of staff interview with Ira Wagner

Ira Wagner

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MEMORANDUM FOR THE RECORD ("MFR")

Event: Telephone Interview with Ira Wagner

Type of Event: Interview

Date of Event: April 20, 2010 10:00 a.m. - 12:00 p.m.

Team Leader: Chris Seefer

Location: Offices of FrontPoint LLC, 1290 Avenue of the Americas, 34th Floor, New York, NY 10104

Participants - Non-Commission: Steve Eisman, Reg Brown (Wilmer Hale), D. Scott Tucker (Morgan Stanley)

Participants - Commission: Chris Seefer, Kim Schaefer

MFR Prepared by: Chris Seefer

Date of MFR: April 23, 2010

Summary of the Interview or Submission:

- Kim and I interviewed Ira Wagner on 4/20/10 because it was reported in the 4/19/10 Daily Beast that Bear Stearns, specifically, Scott Eichel, declined to structure the kinds of synthetic CDOs for Paulson that Goldman did because Bear Stearns believed they were unethical and improper, i.e., like asking a football team owner to bench the star QB to improve the odds of his wager against his team. See http://www.thedailybeast.com/blogs-and-stories/2010-04-19/inside-paulsons-deal-with-goldman/.

- Ira Wagner was the head of Bear Stearns CDO Group in 2007. Scott Eichel was a trader, he did not report to Wagner. Mortgage trading was separate from CDO origination, but everyone had to work together. Wagner said he was the person that said no to the deal and that Eichel was the trader who spoke to Paulson.

- In 2007, Bear Stearns representatives (Eichel and maybe Wagner in one meeting) met with representatives of Paulson. The Paulson representatives wanted Bear Stearns to structure synthetic CDOs with bonds picked by Paulson that Paulson could short. Wagner rejected the deal because he believed the deal would present a fundamental conflict of interest, so the options were to not do the deal, or to make full disclosure about the parameters of the deal, which would have meant the deal would not have been done.

- Mr. Wagner said that he believes that he may have met with Paolo Pelligrini (the Paulson employee recently identified as Goldman Sachs's point person on the Goldman deal) but that he can't say for certain. Mr. Wagner said that he may have old calendars recording his meetings.

- Scott Eichel was the trader who talked to Mr. Wagner about the deal. The Daily Beast reports that Eichel met with Paulson reps on 3 occasions.

- When asked about Goldman's contention that Paulson picking the collateral was immaterial because the bonds were disclosed and because Paulson was not a well known/successful short like he is now, Mr. Wagner stated the argument was "ridiculous," because no matter who it was, the deal created motives to pick the worst assets. Wagner acknowledged that in every synthetic deal there are long and short investors but stated that there is a difference when the short investors pick the referenced bonds.

- Mr. Wagner also said that he has heard some synthetic CDO deals were "triggerless" meaning that the equity tranches would receive distributions for a longer period of time. Short investors would purchase the equity tranche in triggerless deals because the cash flow would cover the cost of the short.

- Mr. Wagner said that the Goldman/Paulson deal was exactly the same as Magnetar deals so that the banks that did those deals faced the same liability as Goldman.

- Mr. Wagner said he was not sure whether the short in the Magnetar deals was a short on a CDO tranche or short on the underlying MBS collateral.

- When asked why ACA, the manager would purchase $900M of the Abacus deal when it may have known that Paulson selected the collateral, Mr. Wagner said he was not sure but pointed out that ACA was a weak bond insurer, was rated A, and was buying AAA paper, and getting a large fee for being the manager.

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