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## FCIC memo of staff interview with Lou Rampino, Fremont Investment & Loan

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Memorandum for the Record

Telephone Interview with Lou Rampino, former CEO Fremont Investment & Loan

<https://vault.netvoyage.com/neWeb2/gold.aspx?id=4814-3601-8439&open=Y>

September 21, 2010

FCIC staff:

Bruce McWilliams<sup>1</sup>

Al Crego

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Rampino's attorneys:

Peter Simshauser, Skadden Arps

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Simshauser requested that conversation be kept confidential, and that he receive a copy of the tape, which McWilliams agreed to. (Aug 31, 2010, confidentiality agreement, signed by Gary Cohen)

Rampino was asked to briefly describe his background:

Rampino grew in Buffalo New York, Undergraduate degree at State University New York, College of Buffalo with a degree in Industrial Technology. He attended University of West Los Angeles Law School and received law degree.

Joined Fremont in 1977 and served in various capacities over 30 year period until he left in November 2007.

Can you tell us the circumstances for your departure?

We, the board and me, amicably agreed to we would part ways and that it would benefit the company if new management

In 1977, when you joined the company, it was workers comp

In 1977, it was small workers compensation company doing business in California. Over those years, The company, the holding company evolved into any number of businesses, the holding company as involved in medical malpractice, to reinsurance, to health maintenance organization, to financial organization, commercial finance business...and ultimately, acquired the thrift in 1990, 1991.

Was it acquired from the RTC?

Absolutely not. It was an independent stand-alone thrift and loan, not a saving loan

How did that business change in 1990s?

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<sup>1</sup> Wrote up this MFR

It was thrift in loan, oh my goodness, it made a variety of loans, some mortgage, some auto loan business, some title one home-repair type business, and that was generally the composition of what was originally in the institution.

How did it change over the decade?

The institution became more focused no residential and commercial lending. And those other lines of business were run on.

When did you move into subprime?

That's kind of what the residential business was. I think the president of that company hired Kyle [walker] in 1994 1995.

Who was the president of the company?

Murray Zuto

What percentage would be purchase money mortgages versus refi's and consumer type finance?

I wasn't involved in that institution. I wasn't involved in the operations of that company. I really don't know.

What was your role during the 1990's.

I was a member of the board of directors. I've never had a managerial role in that company.

Weren't you chief executive officer?

No. I was never chief executive officer of that company.

When subprime business was developed in the 1990s' by Kyle Walker, you were not involved?

No. I had no involvement in that company. I was in the holding company.

Were you paid a salary?

Yes.

Peter Z asks, "In what capacity, Bruce?"

Bruce responds, "As a member of the board of directors, you'd receive a stipend, not necessarily, a salary."

Rampino responds, "No, I did not collect a salary as a member of the board of directors of the thrift."

Peter Z:"I think it's a matter of public record that Mr Fremont Investment & Loan was a subsidiary of an entity known as Fremont General Credit Corp which was downstream holding company sub of Fremont General Corp. And it was FGC was the entity of which Mr. Rampino was employed by, and eventually became president and CEO."

When was that?

That I was president and CEO of Fremont General Corp? I became the CEO in around 2004 or 2005.

Crego: But the assets of the insured institution were a major part of the consolidated assets of Fremont General. And to say that you were an executive officer of the holding company and that the majority of the consolidated assets of the insured institution... we're splitting hairs. It's very relevant. It's not like the bank was a small proportion of consolidated assets. Is that correct?

Rampino: "No that's correct. But the FDIC was very, very adamant that the financial institution maintain its independence, and the management of that business with an independent management staff that was not influenced by or overseen directly by the management of the holding company. They maintained a very clear distinction between the two organizations. And so what I'm saying in that the financial institution was operated as an independent stand-alone entity with its own independent fully qualified managers with an independent board.

Crego: Was this before or after the cease and desist order?

Rampino: This was always. That the way to run the institution. There was a great deal of concern that holding company, particular as it got into industrial type holding companies that got involved in with insured institutions and exert influence over what they wanted the insured institutions and to make sure the insured institutions had operating independence.

Peter Z: Who was that. I don't recognize that voice.

Crego: That was Al Crego, FCIC.

Bruce: Lets go back to the 1990's, you were a board member, but you had no operating responsibilities with the thrift.

Rampino: That's correct.

Bruce What responsibilities did you have?

Rampino: Typical responsible of a board member. We had board meetings where management would present issues they were facing, present financial plans, present capital budget, present issues they were facing in the business. So we would participate in that manner.

Bruce: Did you have an office there?

Rampino: No.

Bruce: You had no office, and no responsibility with Fremont General Corp until 2004-2005?

Rampino: No, no, I had been a member with Fremont general Corporation for a number of years. I had other positions at the holding company. Prior to being named Chief Executive Officer, I had been named Chief Operating Officer. I don't know when I had been named in that position, but I had been in that role, maybe the late 1990s. Before that I was executive vice president and chief operating officer

Peter Z: I think in summary it would be fair to say that Mr. Rampino held a series of executive positions at Fremont General Corp. he was never an officer or employee at Fremont Investment and Loan. His only capacity with respect to that company was as a board member for a period of time.

Rampino: That's fair to say. I was at Fremont General the holding company, which had any number of businesses over the year, from around 1990, I moved into holding company as the assistant to the president. I think that's what it.

Bruce: Who was president?

Rampino: That was Jim McIntyre

Bruce: Who was responsible for hiring Mr. Walker?

Rampino: That was the president of the Thrift.

Bruce: Was that Mr. Zuto?

Rampino: yes.

Bruce: When did Mr. Zuto leave

Rampino: Zuto left in mid, around 2006. That was a retirement. He'd been there over 30 years.

Crego: Can you compare and contrast 1998 subprime shock with 2006-2008 shock where the market had an adverse impact on Fremont?

Rampino: I have no idea about subprime shock in 1998. I have no knowledge of that.

Crego: So you say you don't know if Fremont was in subprime business in 1998?

Rampino: I'm not saying that. I'm not aware of there being a market shock at that tie.

Easterly: to refresh your memory, the Asian countries had a currency meltdown and then the following year, Russian defaulted on its sovereign debt, and this rippled throughout the capital markets. And that's when long term capital m defaulted.

Rampino: no, I don't really recall.

Crego: Are you aware of what the key issues were for Fremont in the latest crisis? Can you speak to that?

Peter Z: Are you referring to Fremont Investment & Loan?

Crego: I'm referring to the insured depository institution. I think its' a large share of consolidated assets at holding company. If we're a looking at a holding company with \$100, and if \$95 of its assets are at the insured institution, then it's a major piece.

Rampino: Yes, I understand that.

Crego: Comparing it to something else to a holding company with \$100 in assets, but only \$10 in the insured institution and the holding company is an otherwise very diverse institution, that doesn't really rely to a great extent on the federal safety net. That's the distinction we're making

Peter Z: Without necessarily subscribing to that distinction, Mr. Rampino will try to respond to your earlier question about what happened to Fremont

Rampino: I understand that the thrift was a major part of the assets in consolidation. And I'll say too for your clarification and edification, over the years, that the balance of the subsidiary holding assets changed over time, but I'll also say that the vast bulk of assets that were held in the thrift at the time were non-residential real estate related, but were commercial, real estate related loans. And that's what the vast bulk of the holdings in the subsidiary operation were. In terms of what happened to the subprime business during that time? Pause

Crego: are you asking me a question?

Rampino: yes

Crego: the last crisis were a lot of specialty finance companies filed for bankruptcy in 1998, Fremont was in business then. It would be interesting to get your view on what was different not, versus before? But if you don't know.

Rampino; I don't know. As I sit here thinking..I don't think we had a very big subprime business in 1998. I think it started, -I don't know, you guys may know better than I -in 1995, 1996 is when the business really got started. I don't think, well it certainly didn't make up a material part of the business platform that Fremont general had at the time. I am very comfortable saying that. 98 was not a time when there was a lot of activity in the subprime business. I'm not aware of a subprime business collapse in 1998. That just isn't on my...I just don't now

Crego: Can you share your views on the key factors that influenced the stress on Fremont from 06 forward?

Rampino: In terms of the market, we originated products based on the appetite of Wall Street in terms of what they wanted originated. We did it on a commodity type basis . Side by side with everyone else in the market. We originated for a cost, and Wall Street bought it cost plus SOME number. They would take whatever product was generated. That's why we wouldn't keep it on our balance sheet, other than to warehouse it. So we were operating fine. And our issue came along sometime early in 2007 when the FDIC came in with the cease and desist, and said that the parameters under which we could originate those types of mortgages were going to be changed pursuant to the cease and desist that we could no longer originate product that we could sell to anyone. So that brought that business to a halt.

Credgo: What about the commercial real estate portfolio. I believe they comment that there were unsafe and unsound practices there with regards to the underwriting of that book as well?

Rampino; they did make comments along those lines. I have to say historically that that business didn't get to that size overnight and without going into great detail about the FDIC issues, I don't have

particular details about that business. There weren't any issue with those businesses until we got cease and desist order in 2007, which changed our ability in commercial real estate business and the manner we could originate the residential real estate business.

Credgo: So there were no indicators, that were criticized, no comments on underwriting or interest reserves or collateral values that you could share your views on.

Rampino: Remember they [the FDIC] had separate independent meetings with management which the board was not involved in, and then they also had a separate meeting with a board, which was more global in nature. When they talked about products standards or underwriting standards, these were conversations with the FDIC and with the California state Department of Financial Institutions. Those were more day to day technical issues. Generally speaking, we had operating in those markets for years.

We were never regulated by OTS.

Crego: Understanding that the FDIC had private meetings with operating management, did they not hold meeting with the board to share with them preliminary finding on the unsafe and unsound practices in the CRE book or in the residential mortgage platform?

Rampino: They did not hold preliminary meetings. At the cease and desist meeting, they came in and simply had a meeting with us. We had no preliminary meeting.

Crego: Did management brief the board that the FDIC had uncovered unsafe and unsound practices which would warrant a cease and desist order?

Rampino: Actually, there was a divergence of opinion between the FDIC and the California Department of Financial Institutions.

Crego: can you elaborate on that?

Rampino: No, I really can't. I wasn't involved. The FDIC was playing it close to their vest. The DFI was doing their audit at the same time. There was nothing alarming being raised at that time.

Crego: What about the funding aspect of the insured institution?

Rampino: you mean deposits?

Crego: How did insured entity fund its operation. That was also part of the cease and desist order

Rampino: I don't recall that being part of cease and desist order

Credgo you could fund yourself with brokered deposits

Rampino: We didn't fund ourselves with broker deposit, I don't believe

McWililams: were you involved in securitization

Rampino: No that was only done in the thrift/



Easterly: do you recall when the company began securitizing mortgages?

Rampino: no, I don't recall.

McWilliams: Did it make you mad when Massachusetts Attorney General filed suit against the company?

Rampino; I don't know if it made me mad.

Crego: Going back to cease and desist order: it says operating with inadequate provision for liquidity in relations to the volatility of the banks business lines and kind and quality of assets held by the bank.

Rampino: we had been operating under this model for some time. If you look at financials, we had strong capital base. We had been operating on sound footing for some time. What threw turmoil into operation, it became difficult. We were funded by federal home loan bank. After cease and desist, they changed collateral requirement, which we eventually were able to over come. Historically, this hadn't been a problem. This brought concern to the regulatory agencies, they had come look at them very differently. We had a large compliance staff, 30 or 40 compliance personnel. The FDIC thought very highly of, particularly the individual who ran that operation, the residential real estate operation.

Easterly: If you weren't involved in the thrift, how did you know this?

Rampino: At board meetings, again, the FDIC the management would have periodic board meeting, that's how these things came to our attention.

McWilliams: We have no more questions.

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