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House of Representatives

The House met at 12:30 p.m. and was called to order by the Speaker pro tempore (Mr. LARSEN of Washington).

DESIGNATION OF SPEAKER PRO TEMPORE

The SPEAKER pro tempore laid before the House the following communication from the Speaker:

WASHINGTON, DC,
April 20, 2010.

I hereby appoint the Honorable RICK LARSEN to act as Speaker pro tempore on this day.

NANCY PELOSI,
Speaker of the House of Representatives.

MORNING-HOUR DEBATE

The SPEAKER pro tempore. Pursuant to the order of the House of January 6, 2009, the Chair will now recognize Members from lists submitted by the majority and minority leaders for morning-hour debate.

The Chair will alternate recognition between the parties, with each party limited to 30 minutes and each Member, other than the majority and minority leaders and the minority whip, limited to 5 minutes.

GOLDMAN SACHS: CLEARLY WRONG AND THEY SAID SO

The SPEAKER pro tempore. The Chair recognizes the gentleman from Florida (Mr. STEARNS) for 5 minutes.

Mr. STEARNS. Mr. Speaker, last Friday, the Securities and Exchange Commission (SEC) filed fraud charges against investment bank Goldman Sachs for misleading and defrauding investors through their selling of a complex financial product based on toxic subprime mortgages. These charges are serious, but the SEC should have been investigating the abusive practices that contributed to our financial crisis much sooner.

American taxpayers could see past Goldman Sachs' smoke and mirrors. American taxpayers could see past Lloyd Blankfein's defense of his company when he said such things as "We're very important." He went on to say, "I'm doing God's work." Americans could see that there were problems on Wall Street well before the SEC was willing to publicly acknowledge it.

Now, according to the SEC, Goldman Sachs was approached by one of the world's largest hedge funds, Paulson & Co., which asked the firm to create and market collateralized debt obligations (CDOs) whose values were linked to the value of toxic home loans. With billions being offered, Goldman Sachs obliged and created ABACUS, which the hedge fund then placed bets against, knowing that this new financial instrument was certain to lose value. Then, Goldman Sachs failed to tell ABACUS investors that the very hedge fund that helped to create and assemble the toxic CDOs, was betting against it.

"The product was new and complex but the deception and conflicts are old and simple." That's what the SEC's Director of Division Enforcement said. "Goldman wrongly permitted a client that was betting against the mortgage market to heavily influence which mortgage securities to include in an investment portfolio, while telling other investors that the securities were selected by an independent, objective third party."

The Goldman Sachs-Paulson & Co. deal closed on April 26, 2007, with the hedge fund paying Goldman Sachs \$15 million for structuring and marketing ABACUS to unknowing investors. Unfortunately, however, by October 24 of that same year, 83 percent of the residential mortgage-backed securities in the ABACUS portfolio had been downgraded, and 17 percent were on negative watch. Less than a year later, on Janu-

ary 28, 2008, 99 percent of the ABACUS portfolio had been downgraded. Those who invested in ABACUS lost more than \$1 billion.

Goldman Sachs' official statement that "the SEC charges are completely unfounded in law and fact, and we will vigorously contest them and defend the firm and its reputation," contrasts greatly with the words of Goldman's CEO Lloyd Blankfein when he publicly apologized in November of last year for the bank's role in some of the activities leading up to the financial crisis. This is what he said: "We participated in things that were clearly wrong and have reason to regret. We apologize."

Unfortunately, however, it appears the senior leadership at Goldman Sachs knew months before they even marketed ABACUS to investors that the housing market was about to crash. Goldman's vice president, Fabrice Tourre, who was said to be the man who structured the toxic financial instrument, prepared the marketing materials, and communicated directly with investors, sent an e-mail stating, "the whole building is about to collapse anytime now." He is now taking a break from his position at the firm.

The allegations against Goldman Sachs are very serious, and Goldman Sachs has the right to challenge the SEC's civil fraud charges. But the SEC also has a duty to American taxpayers to get the bottom of this and continue to investigate any abusive practices employed by all financial institutions, not just Goldman Sachs.

Mr. Speaker, the American people recall that Goldman Sachs was a TARP bailout recipient and one of the few big Wall Street banks that managed to not only benefit from the taxpayer bailout but also to emerge stronger than before. Goldman Sachs received \$10 billion in TARP funds, was allowed to convert to a bank holding company in order to gain additional support from the Federal Reserve, and was one of the

This symbol represents the time of day during the House proceedings, e.g., 1407 is 2:07 p.m.

Matter set in this typeface indicates words inserted or appended, rather than spoken, by a Member of the House on the floor.



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