Congress of the United States
Washington, DC 20515

July 27, 2009

Ben Bernanke
Chairman
Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551

Dear Chairman Bernanke:

In the fall, Goldman Sachs secured access to government funding by converting from an investment bank into an ordinary bank. Despite this shift, the CFO of the company, David Viniar, said two weeks ago that the company is continuing to operate as if it were still a high-risk investment bank: "Our model really never changed," he noted in a quote to Bloomberg. "We've said very consistently that our business model remained the same."

This statement seems accurate. Earlier this year, the Federal Reserve granted a temporary exemption to Goldman Sachs from standard bank holding company Market Risk Rules, allowing the company to continue operating as if it were an investment bank. The company and its employees have taken full advantage of its new government subsidies, and the retained ability to bet big. In its most recent quarter, Goldman Sachs earned high profits of $2.7 billion on revenues of $13.76 billion, with 78 percent of this revenue derived from high-risk trading and principal investments. It paid out much of this revenue in compensation, setting aside a record $772,858 for each employee at an annualized rate. The company's own measurement of risk, its Value-at-Risk model, recently showed potential trading losses at $245 million a day, up from $184 million last May.

Despite its exemption from bank holding company regulations, Goldman Sachs has access to taxpayer subsidies, including FDIC-backed bonds, TARP money (since repaid), counterparty payments funneled through AIG, and an implicit backstop from the taxpayer that allowed a public equity offering in a queasy market. The only difference between Goldman Sachs today and Goldman Sachs last year is that today, the company is officially gambling with government money. This is the very definition of "heads we win, tails the taxpayers lose."

It is worth noting that there sometimes might be good reasons to grant temporary regulatory exemptions, considering that companies cannot instantly change their business model. Still, given Goldman Sachs's last quarter results and public statements that it is not changing its business model, we are worried that the company is using its regulatory freedom to evade capital requirements and take outsized risks with taxpayers on the hook for losses.

With this in mind, our questions are as follows:

1) In the letter granting a regulatory exemption to Goldman Sachs, you stated that the SEC-approved VaR models it is now using are sufficiently conservative for the transition period to bank holding company. Please justify this statement.

2) If Goldman Sachs were required to adhere to standard Market Risk Rules imposed by the Federal Reserve on ordinary bank holding companies, how would its capital requirements differ from the current regulatory regime?

3) What is the difference in exposure to the taxpayer between these two regulatory regimes?

4) What is the difference in total risk to the portfolio between these two regulatory regimes?

5) Goldman Sachs stated that "As of June 26, 2009, total capital was $254.05 billion, consisting of $62.81 billion in total shareholders' equity (common shareholders' equity of $55.86 billion and preferred stock of $6.96 billion) and $191.24 billion in unsecured long-term borrowings." As a percentage of capital, that's a lot of long-term unsecured debt. Is any of this coming from the Government? In this last quarter, how much capital has Goldman Sachs received from the Federal Reserve and other government facilities such as FDIC-guaranteed debt, either directly or indirectly?

6) Many risk-management experts, most notably best-selling author Nassim Taleb, note that VaR models can dramatically understate risk. What is your overall view of Taleb's argument, and of the utility of Value-at-Risk models as regulatory tools?

As we work through legislative conversations regarding systemic risk, these questions are taking on increased significance. We appreciate your time and the efforts you are making to explain the actions of the Federal Reserve to Congress, and to taxpayers.

Sincerely,

Alan Grayson

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Elijah E. Cummings

Walter B. Jones

Maxine Waters

Maurice Hinchey

Ron Paul

Jackie Speier