Testimony from Lloyd C. Blankfein
Chairman and CEO, The Goldman Sachs Group, Inc.
Permanent Senate Subcommittee on Investigations
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Chairman Levin, Ranking Member Coburn and Members of the Subcommittee:

Thank you for the invitation to appear before you today as you examine some of the causes and consequences of the financial crisis.

Today, the financial system is still fragile but it is largely stable. This stability is a result of decisive and necessary government action during the fall of 2008. Like other financial institutions, Goldman Sachs received an investment from the government as a part of its various efforts to fortify our markets and the economy during a very difficult time.

I want to express my gratitude and the gratitude of our entire firm. We held the government's investment for approximately eight months and repaid it in full along with a 23% annualized return for taxpayers.

Until recently, most Americans had never heard of Goldman Sachs or weren't sure what it did. We don't have banking branches. We provide very few mortgages and don't issue credit cards or loans to consumers. Instead, we generally work with companies, governments, pension funds, mutual funds and other investing institutions. These clients usually come to Goldman Sachs for one or more of the following reasons: (1) they want financial advice; (2) they need financing; (3) they want to buy or sell a stock, bond or other financial instrument; or (4) they want help in managing and growing their financial assets.

The 35,000 people who work at Goldman Sachs, the majority of whom work in the United States, are hard-working, diligent and thoughtful. Through them, we help governments raise capital to fund schools and roads. We advise companies and provide them funds to invest in their growth. We work with pension funds, labor unions and university endowments to help build and secure their assets for generations to come. And, we connect buyers and sellers in the securities markets, contributing to the liquidity and vitality of our financial system.

These functions are important to economic growth and job creation.

I recognize, however, that many Americans are skeptical about the contribution of investment banking to our economy and understandably angry about how Wall Street contributed to the financial crisis. As a firm, we are trying to deal with the implications of the crisis for ourselves and for the system. What we and other banks, rating agencies and regulators failed to do was sound the alarm that there was too much lending and too much leverage in the system -- that credit had become too cheap. One consequence of the growth of the housing market was that instruments that pooled mortgages and their risk became overly complex. That complexity and the fact that some instruments couldn't be easily bought or sold compounded the effects of the crisis.

While derivatives are an important tool to help companies and financial institutions manage their risk, we need more transparency for the public and regulators as well as safeguards in the system for their use. That is why Goldman Sachs, in supporting financial regulatory reform, has made it clear that it supports clearinghouses for eligible derivatives and higher capital requirements for non-standard instruments.

As you know, ten days ago, the SEC announced a civil action against Goldman Sachs in connection with a specific transaction. It was one of the worst days in my professional life, as I know it was for every person at our firm. We believe deeply in a culture that prizes teamwork, depends on honesty and rewards saying no as much as saying yes. We have been a client-centered firm for 140 years and if our clients believe that we don't deserve their trust, we cannot survive.

While we strongly disagree with the SEC's complaint, I also recognize how such a complicated transaction may look to many people. To them, it is confirmation of how out of control they believe Wall Street has become, no matter how sophisticated the parties or what disclosures were made. We have to do a better job of striking the balance between what an informed client believes is important to his or her investing goals and what the public believes is overly complex and risky.

Finally, Mr. Chairman, the Subcommittee is focused on the more specific issues revolving around the mortgage securitization market. I think it is important to consider these issues in the context of risk management.

We believe that strong, conservative risk management is fundamental and helps define Goldman Sachs. Our risk management processes did not, and could not, provide absolute clarity; they highlighted uncertainty about evolving conditions in the housing market. That uncertainty dictated our decision to attempt to reduce the firm's overall risk.

Much has been said about the supposedly massive short Goldman Sachs had on the U.S. housing market. The fact is we were not consistently or significantly net "short the market" in residential mortgage-related products in 2007 and 2008. Our performance in our residential mortgage-related business confirms this.

During the two years of the financial crisis, while profitable overall, Goldman Sachs lost approximately $1.2 billion from our activities in the residential housing market.

We didn't have a massive short against the housing market and we certainly did not bet against our clients. Rather, we believe that we managed our risk as our shareholders and our regulators would expect.

Mr. Chairman, thank you for the opportunity to address these issues. I look forward to your questions.