

Congressmen call for full investigation of potentially fraudulent CDO products marketed by Goldman.

April 16, 2010

(Washington, DC) – Congressman Peter DeFazio (OR-4) and Congressman Elijah E. Cummings (MD-7) today asked their colleagues from both sides of the aisle to join them in calling for a full investigation of Goldman Sachs by the Securities and Exchange Commission.

“The taxpayers are frustrated by the massive bailout of Wall Street, while unemployment lags and banks resist lending,” Cummings and DeFazio note in a letter urging their colleagues to join them in their request to Mary Shapiro, Chairwoman of the SEC. “Taxpayers have rightly viewed the bailout of AIG with suspicion. Join us in calling for an expanded SEC investigation to retrieve any fraudulently obtained taxpayer dollars by Goldman Sachs via AIG.”

Goldman Sachs has been sued by the SEC for possible securities fraud. The SEC alleges false and materially misleading statements by the firm in the creation and marketing of ABACUS 2007-AC1, a collateralized debt obligation (CDO) backed by home mortgages. There were 25 total ABACUS CDOs created by Goldman Sachs.

According to a suit brought against Goldman Sachs by the SEC, the CDO ABACUS 2007-AC1 was created when John Paulson, a private hedge fund investor, approached Goldman about making short (negative) bets against the housing market. Goldman agreed, and hired ACA Management to create the package of bonds. ACA believed Paulson was positive on the housing bonds, and found no conflict in accepting his input into the selection of housing bonds for the ABACUS CDO. The ABACUS CDO was then marketed to investors as a package of bonds selected by independent professionals at ACA, lacking any mention of Paulson’s involvement.

Seven of these CDOs were insured by AIG and their failure was a significant factor in the AIG collapse that taxpayers are on the hook for. If Goldman Sachs was fraudulent in any of those seven AIG deals, the SEC has the authority to recover those illicit gains.

The potentially fraudulent actions by Goldman Sachs affect not only Wall Street, but every

taxpayer whose money went to help recapitalize AIG, through the nearly \$180 billion bailout provided by the federal government to that firm. DeFazio and Cummings want to give every Representative an opportunity to join their request.

“This type of potentially fraudulent activity must be investigated. In the wake of the absurd \$180 billion AIG bailout, we have an opportunity, and an obligation to try to recoup tax-payer money from Goldman Sachs, who profited immensely as the economy nosedived.” DeFazio noted.

“We’ve got to look into every aspect of these deals and figure out exactly what went wrong,” said Cummings, a senior member of the House Committee on Oversight and Government Reform, in an interview with the New York Times on Sunday. “If people were participating in any type of fraudulent activity we need to expose it and they need to be brought to justice and we need to get our money back.”

Several Representatives have already signed onto the letter as of Monday afternoon.