March 9, 2010

RESPONSES TO GRASSLEY STAFF FOLLOW-UP QUESTIONS:

1. In the response to question 5, GS states that "We do not see a linkage between the amount of the subsidy and competitively set fees." However, SIFMA's stated position is a preference for the 100 percent subsidy provided for in the House bill for the two tax-credit bond provisions, rather than the 65 percent and 45 percent subsidy levels in Senator Reid's bill that passed the Senate last week. Does GS agree or disagree with this position SIFMA has taken—that is, SIFMA's stated preference for a 100 percent subsidy for Build America Bonds (BABs)? If GS agrees with SIFMA's position regarding a 100 percent subsidy, why does GS prefer the 100 percent subsidy? In other words, how does GS benefit from the higher subsidy amount? If GS does not agree with SIFMA's stated position, why does GS not agree with SIFMA's stated position?

The questions imply that the amount of any subsidy influences underwriting fees. This is not the case. As we said in our letter, underwriting fees are negotiated between underwriters and issuers on a highly competitive basis and dependent on a variety of factors: complexity of the financing, credit quality and ratings of the issuer, maturity, deal size and breadth of distribution required. Goldman Sachs is in fact agnostic as to the level of subsidy that Congress sets for the Build America Bond program. Moreover, the question confuses the bigger public policy concern. At issue is not what subsidy should be extended to Qualified School Construction Bonds (QSCBs) and other investor tax credit bonds, but instead whether or not a standardized taxable municipal bond option like Build America Bonds will continue to be available to states and localities beyond 2010. We believe they should be extended as they have proven their positive impact on market efficiency and stabilization.

2. In response to question 1, although question 1 didn't limit the universe of fees to just underwriting fees, GS didn't specify how much they received in advisory fees to the municipalities that they have advised on BABs issuances--they only included underwriting fees. GS should include the advisory fees, broken out from the underwriting fees, that GS received regarding BABs issuances.

As we stated in our letter, when we act as a financial advisory to a municipality, we are precluded from acting as an underwriter and our fees do not change if the issuer decides to issue taxable BABs or tax-exempt bonds. Acting as an advisor is a very small part of our municipal business.

- *Total underwriting fees on $34 billion of Build America Bonds since the program's inception: $54 million*
- *Total financial advisory fees for advising municipalities on $7.09 billion taxable (BABs) or tax-exempt bonds since the beginning of 2009: $4.56 million.*
- *Financial advisory fees from $2.4 billion in Build America Bonds: $1.7 million*

3. Also, GS stated that GS helped municipalities raise a total of $154 billion since the beginning of 2009 right after GS stated that GS received $54 million in underwriting fees on BABs issuances. That is an apples to oranges comparison, to include non-BABs issuances in the $154 billion amount there, because GS already said earlier in its response to question 1 that it served as an underwriter in over $34 billion worth of BABs issuances. GS should break out how much they earned in underwriting fees for deals in which they were the lead underwriter, as well as how much they earned in underwriting fees when they were not the lead underwriter. GS stated that GS helped municipal entities raise $154 billion since the beginning of 2009, which includes non-BABs issuances for state and local governments. How much in underwriting fees did GS receive as a lead underwriter on this $154 billion in issuances? How much did GS receive on this $154 billion in issuances when GS was not the lead underwriter? In addition, how much in total fees, including, but not limited to, advisory fees, did GS receive on these $154 billion in issuances?

Goldman Sachs total underwriting fees and advisory fees, including issues were we were not lead underwriter, were $149.7 million for participating in $154 billion of municipal offerings since beginning of 2009.

4. In response to question 4, GS stated that GS received financial advisory fees in a few instances on BABs issuances in which GS did not act as an underwriter. How much in total advisory fees has GS received from BABs issuances?

See answer to question 2.

5. GS also stated that "Build America Bond fees earned by the industry have been slightly higher than those for tax-exempts but lower than those for investment grade corporate bonds." However, comparing corporate bond underwriting fees to BABs fees is comparing apples-to-oranges, because state and local governments can't issue corporate bonds. However, state and local governments do issue tax-exempt bonds and BABs, making that more of an apples-to-apples comparison. In addition, GS is comparing underwriting fees on 30 year bonds. Instead, GS should compare underwriting fees on 15 year tax-exempt bond issuances, because I've been told that 15 years is approximately the typical maturity of BABs.

Comparing taxable municipal bonds and investment grade corporate bonds is appropriate as they appeal to the same investor base and thus their fee reflects one component of accessing that investor base. As we have consistently explained, underwriting fees are set competitively on the basis of certain factors (complexity, credit, tenor, education of investors). Similarly, comparing them to tax exempts is appropriate as it reflects the incremental cost of distributing to a new taxable investor base. As outlined in our letter, as the BABs program has become more well known in the market, the difference in fees has narrowed. Finally, the reason that we used 30 year bonds as our reference point is that over 70% of BABs issuance has a 20 year or longer tenor.