

Benjamin T Solomon

From: Constant Contact [support@constantcontact.com]
Sent: Friday, May 07, 2010 9:05 AM
To: benjamin.t.solomon@quantumrisk.com
Subject: Your email Goldman Sachs Senate Hearings has been sent

Email Confirmation



Dear Benjamin Solomon,

Your email, named May 07 2010 Goldman Sachs Senate Hearings, was sent on 05/07/2010 around 11:05 AM EDT.

Below is a copy of the HTML version your contacts received. Don't forget, you can easily monitor the effectiveness of your email with real-time metrics and stats. Log in to your Constant Contact account and visit the **Reports** area under the Emails tab.

Subject: Goldman Sachs Senate Hearings

Having trouble viewing this email? [Click here](#)

You're receiving this email via a prior contact with Benjamin Solomon, a friend/colleague's referral to QuantumRisk LLC or a common interest in loss mitigation and/or RMBS/CMBS deals. With an easy single click, please [confirm](#) your continued interest in receiving email from us. If you are not interested please accept my sincere apologies, and unsubscribe below.

You may [unsubscribe](#) if you no longer wish to receive our emails.



Structured Finance Support, Financial Advisory, Strategy, Business Process Rengineering & Statistical Modeling

Goldman Sachs Senate Hearings

#10 May 2010

[Institute for Advanced Studies in the Space, Propulsion and Energy Sciences](#) (IASSPES)



Our Goal:
To accelerate human achievement in the space, propulsion and energy sciences in the civilian sector.

Dear Benjamin Solomon,

In these newsletters we look at downside risk & lessons we can learn from industry failures. We don't provide rosy scenarios of the future, that is better left to others. We neither negate nor advocate any persons, entities, products, services or political positions. Neither are we attorneys. Nor do we profess legal opinions on any subject.

However, as much as is reasonably possible we present opinions, information and facts that can be tested and verified by & for the benefit of our readers. In so doing, we explore downside risk, their consequences and how we could avoid these future scenarios. Sometimes, the conclusions arrived at may not be desirable but many times if we don't look an undesirable outcome straight in the eye we usually cannot find a more amenable solution.

An ideal outcome would be the rethinking of private & public policies that lead to a more secure future for all of us.

Goldman Sachs Senate Hearings

IASSPES is a 501c(3) non-profit. [All donations welcomed.](#)

Poetry Chapbook: The Hindu and The Punk (2009)



Cover Art by Ken Zeromski

Poetry Chapbook: Please, God, Don't Let Me Write Like A Woman (2007)

Please, God, Don't Let Me Write Like A Woman



Anushka Anastasia Solomon

Anushka A Solomon is recognized by Amnesty International (2007, 2008 & 2009) for speaking out against human rights injustices.

[Visit Our Sponsor](#)

Best of Blog (BoB)

[Loss Containment: Portfolios](#)

[New Physics, New Products, New Profits](#)

I had originally planned to write Part 2 of Loss Containment but realized that the Goldman Sachs Senate Hearings was more pertinent in this time frame. I will get back to Loss Containment next month, if something more pertinent does not surface.

On April 27 2010 the Senate Subcommittee on Investigations held a hearing in which current & former Goldman Sachs employees (including the CEO & CFO) testified. In all fairness we need recognize that [many parties](#) by omission or commission share the blame for this financial crisis. I watched about 7 hours of the hearings, and have several observations:

1. More Main Street



[The goals of these hearings](#) (Goldman Sachs hearing was one of several) are threefold:

1. To construct a public record of the facts to deepen public understanding of what happened and to try to hold some of the perpetrators accountable;
2. To inform the current legislative debate about the need for financial reform; and
3. To provide a foundation for building better defenses to protect Main Street from the excesses of Wall Street.

Sen. Levin had repeatedly brought up the need to protect Main St. and therefore I infer that future regulation will be supportive of Main St. - Wall St. engagements and discourage Wall St. - Wall St. engagements. In this light, we recognize why Glass-Steagall worked at the operational level. It ensured that a substantial portion of the financial services industry was focused on the needs of Main St, and by use of barriers *protected* these segments of the industry from the influences of its more *glamorous* kin.

2. Discourage Non-Collateral Based Instruments

"It's gambling, pure and simple raw gambling" [said Sen. Claire McCaskill](#). This sentiment was [echoed](#) by Sen Carl Levin.



This sentiment was repeated many times by the senators, suggesting that future financial regulation would some day discourage if not curb the development and use of financial instruments that are not directly identifiable with a real physical asset. That futures-like products are acceptable but synthetic-like products are not. This is going to be tricky to do but I infer that this will be the direction of future legislation.

With respect to Mortgage Backed Securities there are two possible requirements to ensure compliance with a possible collateral-based security requirement. First, that an analyst is able to follow the cash flow from the asset to the security, and show how a specific asset default, defeasance, or prepayment would affect the cash flow to a specific security. Second that the master or even the special servicer is able to do the same.

The first requirement is usually a given for straight forward/non-exotic deals, but the second is a problem even for some 'basic' deals as some of the data is missing. The MLCFC 2007 9 WF deal is a good example where the servicer has difficulty in providing some of the data. The slicing & dicing of some of the properties in this deal has no effect on the risk characteristics of the deal but has resulted in a breakdown in the ability to provide current information.

3. Strengthening of Fiduciary Responsibilities

Sen Levin and his colleagues had repeatedly asked questions relating to clients' interests

[What to Look Out for in Stress Testing](#)

[TARP's Possible Role in Jobs Growth](#)

[Regime Change is Model Misspecification](#)

[Bad FICO, Good FICO](#)

[Quant Error! Goldman Sachs Success](#)

[The Hard Data Shows that Sheila Bair is Correct](#)

[We Need a Non-Linear Risk Capital Scheme](#)

[TARP, a Post Event Risk Capital](#)

Quick Links...

[Our Website](#)

[Our Services Brochure](#)

[Our CMBS Brochure](#)

[Our Blog](#)

[Our Archived Newsletters](#)

[Call Me On Goggle Voice free](#)

[Join Our Mailing List!](#)

versus company's interests.

Their focus suggest that future legislation will prevent a blurring of roles with respect to client versus company interests. Therefore we should expect a compartmentalization of financial services to protect the integrity of fiduciary responsibilities.

4. Individual Responsibility

[Seven current and former](#) Goldman Sachs employees including Chief Executive Officer Lloyd Blankfein testified at the Senate Hearings.



First a disclaimer. My comments are based on my inferences as a management consultant working with teams and not as an attorney.

The fact that the Subcommittee required both current and former employees to testify before it suggests that individual employees cannot hide behind company policy or lack of, to defend themselves against allegations of wrong doing.

Further, *everybody is doing it* will no longer suffice as an acceptable defense or immunity for ones actions.

Conclusion

History shows that financial regulation (*Securities Act of 1933, Securities Exchange Act of 1934, Trust Indenture Act of 1939, Investment Company Act of 1940, Investment Advisers Act of 1940*) spawned after the crash of 1929 took 11 years to formulate and implement. Similarly we can expect to see several more new or strengthened regulations being formulated and implemented over the next 10 years.

Future regulation will further compartmentalize both financial services (e.g. retail banking, investment banking, trading and *public-type versus private-type* fund management) and financial products (e.g. basic, middle and exotic products).

There will be stronger, clearer guidelines as to how products can be structured. For example (and this is only a suggestion) basic products can be used to structure deals where AAA accounts for up to 90% of the deal. Exotic products cannot have more than 25% AAA, and middle products cannot have more than 60% AAA.

About QuantumRisk LLC

We are ex-employees of [GMAC](#) / [Capmark](#) / [Goff Capital Partners](#) ([meet our team](#)) and welcome all business queries (970-306-7656), comments & feedback.

QuantumRisk is a boutique financial advisory & management consulting firm that provides services to investment companies, dealers & underwriters, fund managers, major municipal issuer(s) and corporate clients (no retail clients).

If you liked what you have read, please contact us and do forward this newsletter to interested friends & colleagues..

Sincerely,
Benjamin Solomon, BSc, Dip OR, MAOR, MBS(Banking & Finance)
Managing Principal
QuantumRisk LLC
[Google Voice](#) (970-306-7656)



Disclaimer: QuantumRisk LLC provides financial advisory & management consulting services. The opinions expressed in these articles are for informational/educational purposes, and are not to be taken as financial advice. These opinions are (1) based on data that is assumed to be correct, (2) therefore are subject to change without notice, (3) not intended to either negate or advocate any persons, entities, products, services or political positions and (4) not to be taken as investment advice. These opinions do not necessarily reflect the opinions of QuantumRisk LLC or its sponsors.

[Forward email](#)

✉ **SafeUnsubscribe®**

This email was sent to benjamin.t.solomon@quantumrisk.com by

benjamin.t.solomon@quantumrisk.com.

[Update Profile/Email Address](#) | Instant removal with [SafeUnsubscribe™](#) | [Privacy Policy](#).

QuantumRisk LLC | P.O. Box 831 | Evergreen | CO | 80437

Email Marketing by

