U.S. SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

OPENING STATEMENT OF JOSH BIRNBAUM

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Good morning. Mr. Chairman, Ranking Member Coburn, Members of the Committee, my name is Josh Birnbaum. Thank you for offering me this opportunity to discuss my work in the Mortgage Department at Goldman Sachs in 2006 and 2007, when I was a Managing Director in the Structured Products Group. I began working at Goldman shortly after my graduation from the Wharton School at the University of Pennsylvania in 1993. I worked at Goldman until March 2008, when I left to start my own advisory firm, Tilden Park Capital Management. I take great pride from having worked for Goldman Sachs for almost fifteen years, and greatly admire the firm's integrity, commitment to client service, and ethics.

During 2006 and 2007, I worked on the Asset-Backed Securities, or "ABS", desk in the Structured Products Group. My job was to make markets for Goldman clients who sought long or short exposure to the market for residential housing asset-backed securities, and to assist in hedging investments made by other parts of the Mortgage Department.

The primary products I traded and risk-managed were the then-newly-created Asset-Backed Securities Index, or "ABX," and credit default swaps in individual securitizations, also known as "single name CDS." As a market-maker, we were continuously asked to provide liquidity for customers, which frequently required the firm to participate on the other side of transactions on a "principal" basis. For example, when a client wanted to buy protection on a particular securitization, we would offer a price to sell that protection. If the client chose to execute the transaction at that price, we would take the other side of the trade. We would then have a decision to make whether to offset that risk through a transaction with another client who wanted to sell that protection to us or keep it on our book for some period of time as part of our inventory.

From time to time, as a result of client-driven trades, our team's book accumulated long and short positions. For example, from the inception of the ABX Index in January 2006 through November 2006, customers interested in selling the ABX outnumbered buyers. The trades we made to meet client demands during that period naturally caused the book to develop a long position in the ABX Index and a smaller short position in the single name CDS.

As part of our management of our own inventory, we had the discretion to hedge positions through trades with other clients or keep them on our book in accordance with the limits set by the risk management department. Whenever our inventory got significantly long or short, risk management directed us to cut our risk and "get closer to home," or to "flatten the book." For example, when our net position became long in late 2006, we were told to offset our risks, which we did through a combination of selling off some of the long ABX position and buying more single name CDS protection. And when our inventory expressed a short bias at times in 2007, we were directed to cover our short positions to reduce risk, and we did so.

In late 2006 and into early 2007, I developed a negative view on the likely direction of the subprime market. Traders on desks like ours often develop a short or long bias based on views of the market. Not everyone in the Mortgage Department or the firm agreed with my view. In fact, there was a vigorous debate as to the future direction of the market.

In line with my view, our desk began to accumulate short positions, purchasing protection on individual securities through credit default swaps, largely from external CDO managers who asked us to bid for these positions. There was, of course, risk involved in accumulating short positions, as no one could be certain which direction the market would go. These positions became profitable as the market deteriorated. When those short positions bumped up against the risk parameters for our book during the Spring and Summer of 2007, my group was instructed to cover them. On both occasions, I expressed my belief that the market would continue to deteriorate and that the better, more profitable trade was to maintain the short position on our book, but the firm insisted that we reduce our position, and we did so.

No one from senior management told me to make a directional bet against the subprime market. Rather, during the 2006-2007 period, regardless of whether our books were long or short, the consistent theme from management was to reduce risk in our books.

I am very proud of the accomplishments of the ABS Group during my tenure there. We provided significant liquidity to our clients in a difficult and challenging market while also managing to post a profit during this period.

Thank you for inviting me to testify here. I am happy to answer any questions Committee members may have.