

United States Senate
Committee on Finance



Sen. Chuck Grassley • Iowa
Ranking Member

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MEMORANDUM

TO: Reporters and Editors
RE: House action today for Build America Bonds
DA: Thursday, March 4, 2010

Senator Chuck Grassley issued the following comment about House action today on “jobs” legislation passed last week by the Senate.

The House bill expanded the Build America Bonds provision to the four tax-credit bonds in the Reid bill, up from the two tax credit bond provisions originally passed by the House. The House bill provides a 100-percent payment from the U.S. Treasury for the two tax-credit bonds related to schools, and a 70-percent payment from the U.S. Treasury for two energy tax-credit bonds, both of which are more generous than the Senate bill. The House bill spends \$4.6 billion, not offset, and the Senate bill spends \$2.5 billion, not offset.

Senator Grassley’s comment:

“With its vote today, the House has one-upped the Senate majority on directing more money to profits for big Wall Street banks, while claiming to pass legislation to create jobs. The House bill creates new opportunities for underwriters to skim the cream by expanding the Build America Bonds provisions that were in Senator Reid’s bill.

“Build America Bonds are 37 percent more lucrative for banks and financial advisors than other tax-exempt bonds, according to Bloomberg News, and taxpayers deserve to know that a major portion of the outlay will go to investment banks, rather than infrastructure. The truth is, school kids and green energy efforts get what’s left after the bank fees are paid and city and state governments have released the funding.”

Senator Grassley’s inquiry of Goldman Sachs regarding Build America Bonds:

For Immediate Release
Wednesday, February 24, 2010

Grassley Asks Goldman Sachs About Underwriting Fees for Build America Bonds

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, today asked Goldman Sachs whether it would collect double-digit underwriting fees for participating in a newly expanded Build America Bonds program, as included in the “jobs” bill promoted by the Senate Democratic leaders and passed by the Senate today.

Grassley’s inquiry came after Goldman Sachs published a newspaper ad in support of the Build America Bonds program, identifying itself as “one of the principal underwriters.” Earlier, an analyst was quoted in the media saying that the generous amount of federal money available in the program gives states and cities leeway to spend generously on underwriting fees.

“I’m interested in finding out whether the big Wall Street investment banks being so involved in, and profiting from, the Build America Bonds program siphons off a lot of taxpayer dollars that are meant to help cities and states,” Grassley said.

The text of Grassley’s letter today follows.

February 24, 2010

Mr. Lloyd C. Blankfein
Chairman and Chief Executive Officer
The Goldman Sachs Group, Inc.
85 Broad Street
New York, NY 10004

Dear Mr. Blankfein:

I was interested to see your company’s full-page advertisement in support of Build America Bonds in yesterday’s edition of the Politico newspaper that stated that Goldman Sachs is “one of the principal underwriters...” of Build America Bonds. The “jobs bill” that passed the Senate today contained an expansion and an increase in the subsidy levels of the Build America Bonds program. This increased subsidy allows non-taxpaying entities to receive a check from the American taxpayers equal to either 65 percent or 45 percent (depending on the amount of bonds issued) of these non-taxpaying entities’ interest costs on Build America Bonds. The American Recovery and Reinvestment Act of 2009, more commonly known as the stimulus bill, allowed non-taxpaying entities to receive a check from the American taxpayers equal to 35 percent of these non-taxpaying entities’ interest costs. The President has proposed in his most recent budget for non-taxpaying entities to receive a check from the American taxpayers equal to 28 percent of these non-taxpaying entities’ interest costs.

A November 27, 2009, Bloomberg article by Jeremy R. Cooke stated that:

“States and municipalities paid an average 37 percent more to investment banks for underwriting Build America Bonds than for handling tax-exempt sales since offerings of the subsidized taxable debt began in April.... ‘The large subsidy gives them leeway to charge more because the issuer probably cares less about the underwriting fee,’” said Matt Fabian, managing director and senior analyst at Concord, Massachusetts-based independent research firm Municipal Market Advisors. ‘They shouldn’t care because federal taxpayers will cover the difference. As a federal taxpayer, I’m highly concerned.’”

I, too, am concerned that American taxpayers are subsidizing larger underwriting fees for Wall Street investment banks, including Goldman Sachs, as a result of the Build America Bonds program. I have raised concerns about the increased subsidy levels in the Build America Bonds program that passed the Senate today.

As “one of the principal underwriters” of the Build America Bonds program, please answer the following questions:

1. How much in total underwriting fees has Goldman Sachs collected to date on Build America Bonds’ issuances?
2. How has Goldman Sachs determined its underwriting fees on Build America Bonds’ issuances?
3. Are these underwriting fees larger than the underwriting fees that Goldman Sachs has charged on tax-exempt bond issuances? If so, how much larger are these underwriting fees?
4. Has Goldman Sachs received any money, in addition to the underwriting fees, in connection with the Build America Bonds program?
5. Does Goldman Sachs expect to receive additional underwriting fees if the Build American Bonds expansion and subsidy increase that passed the Senate today is enacted into law?

Thank you in advance for your prompt response to these questions.

Sincerely,

Charles E. Grassley
Ranking Member