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Lloyd C. Blankfein
Chairman & Chief Executive Officer

Goldman Sachs

March 1, 2010

The Honorable Charles Grassley
United States Senate
Washington, D.C. 20510

Dear Senator Grassley:

Thank you for your letter of February 24, 2010. I wanted to provide you a prompt response and would be happy to speak with you personally about your concerns.

Goldman Sachs is proud to have helped municipalities access the capital markets for over 50 years. Our role as an underwriter is to assist our clients in accessing the capital markets in the most efficient way possible. We help municipal clients analyze their financing needs and the current state of capital markets. Once the client has decided how they want to proceed, it is our role to help educate the market about the issuer and the securities they are offering, broker the sale of those securities and assume the risk of underwriting. For these services, and the underwriting risk we incur, we earn a fee.

Congress created the taxable Build America Bond program in 2009 as a response to the credit crisis which left some municipalities unable to access capital markets and increased borrowing costs for those that could. Our clients who chose to access the Build America Bonds program believe that a taxable bond offering allows them to tap into an entirely new global investor base that would result in lower cost of funds. The creation of a taxable municipal bond offering has stabilized the municipal market, affording state and local governments access to a more efficient, scalable and most-effective alternative to the historically undercapitalized tax-exempt market. The $78 billion in Build America Bonds issued to date indicates that both issuers and investors have found the program to be a constructive addition to the options available to municipal issuers.

Given their taxable status, Build America Bonds have opened a new investor base for municipal bonds. Before Congress created the taxable BABs program, investors who could not benefit from the traditional tax exemption provided to municipal bonds by federal tax law (such as pension funds, endowments or foreign investors) were unable to participate in the municipal bond market. Build America Bonds have helped municipalities tap into this entirely new pool of global capital. A larger pool of investors means the market is more efficient and the price of financing – both in taxable and tax free markets – has come down.

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In total, over 800 issuers in 46 states have used the Build America Bond program to secure lower financing rates compared to traditional tax-exempt alternatives. In addition to easing the strain on state and local government budgets, lower borrowing costs have led to increased investment in infrastructure projects. The taxable bond programs enacted in 2009 carry negligible incremental cost to the federal government beyond those extended via the tax-exempt issuance subsidy with limited administrative and regulatory complexity.

The market for underwriting municipal bond offerings like Build America Bonds is highly competitive with over 10 major firms competing to underwrite and sell municipal offerings – whether taxable or tax exempt. This competition has a healthy discipline on underwriting fees which are publicly disclosed in the prospectus of any issuance.

BAB underwriting fees are typically lower than investment grade corporate bonds of similar maturities and slightly higher than similar maturity tax exempt securities. As a general matter, bond underwriting fees are determined by a variety of factors including the complexity of the financing, credit quality and ratings of the issuer, maturity, deal size and breadth of distribution required. Given the fierce competition among underwriting firms, fees are a key point of negotiation with municipal issuers when they are deciding to choose a firm to provide underwriting services. Because tax-exempt municipal bonds have existed for decades and are well known to investors, the underwriting fees are generally lower than those for underwriting new products such as Build America Bonds. However, as BABs have become better known to investors, underwriting fees have come down.

Below, please find the answers to your specific questions:

1). How much in total fees has Goldman Sachs collected to date on Build America Bonds issuance?

Goldman Sachs has served as an underwriter in over \$34 billion of Build America Bond offerings, of which we were lead underwriter on over \$9.6 billion (less than 20% market

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share). As negotiated with issuers and publicly disclosed, Goldman Sachs has earned $54 million of underwriting fees for the BABs offerings in which we participated. In total, Goldman Sachs helped municipal entities issue $154 billion in bonds since the beginning of 2009.

2). How has Goldman Sachs determined its underwriting fees on Build America Bond's issuances?

Fees are determined by negotiation with the issuer and are highly competitive. As mentioned above, variables include: the complexity of the financing, credit quality and ratings of the issuers, maturity, deal size and breadth of distribution required.

3) Are these underwriting fees larger than underwriting fees that Goldman Sachs has charged on tax exempt bond issuances? If so, how much larger are these underwriting fees?

On average, 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. Because tax-exempt municipal bonds have existed for decades and are very well known to investors, the fee schedules are generally lower than new products such as Build America Bonds. The table below illustrates the differences:

Approximate Fees as a percent of borrowed amount for a 30 Year Maturity bond:

Investment Grade Corporate: 0.875%
Build America Bonds: 0.600% to 0.875%
Tax Exempt Municipal: 0.500% to 0.625%

4). Has Goldman Sachs received any money, in addition to the underwriting fees, in connection with the Build America Bonds program?

Underwriters are not paid fees other than publicly disclosed underwriting fees. In the few instances that Goldman Sachs serves as financial adviser to municipalities, it is not

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permitted to participate in the bond underwriting and therefore receives no underwriting fees. In the few instances where we have served as financial advisor – either in regard to Build America Bonds or tax exempt bond – we are paid an advisory fee.

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 in to law?

Goldman Sachs will continue to compete for municipal underwriting mandates. We do not see a linkage between the amount of the subsidy and competitively set fees.

Goldman Sachs is proud of our history advising and financing state and local governments. I appreciate your interest in this matter and would be happy to answer any further questions.

Sincerely,

Lloyd C. Blankfein
Chairman & CEO
The Goldman Sachs Group, Inc.