SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

OPENING STATEMENT OF DANIEL L. SPARKS

April 27, 2010

Chairman Levin, Dr. Coburn, and members of the Subcommittee.

My name is Dan Sparks, and from late 2006 until mid-2008, I was the head of the Mortgage Department at Goldman Sachs. The three men who are with me today -- Fabrice Tourre, Joshua Birnbaum, and Michael Swenson -- all reported up to me during that period.

I joined Goldman Sachs in 1989 as an analyst after graduating from college. My intention was to stay for two years, and I ended up staying for nineteen. I would not have stayed if the people I worked with did not have high ethical standards. The culture at Goldman Sachs was one in which excellence and integrity were expected.

The business of Goldman's Mortgage Department involved structuring, underwriting, distributing, and trading mortgage and asset-backed products, including loans, securities, and derivatives. All these activities involved clients, and all involved risk. The business was competitive, and Goldman participated without a significant residential mortgage origination platform.

I know that the Subcommittee is focusing on the events of late 2006 and 2007, so I will as well. Near the end of 2006, Goldman was generally long in its exposure to residential mortgages. I had concerns about our exposures and senior management knew about those concerns. The markets showed signs of stress, and our department was experiencing losses. In mid-December, David Viniar, Goldman's CFO, called a meeting and asked me to comprehensively review our positions and business risks. The "take-away" from the meeting was to reduce risk in the short term. I was not instructed to "go long" or "go short." The focus was on risk, not direction.

Risk management during this period was very challenging. In a volatile and illiquid market, we had to change business approaches constantly. We were diligent in marking our positions daily, as painful as that was on many days. That discipline gave us real-time feedback and helped us make important risk decisions. These included reducing our loan purchases, buying jump-risk protection, shutting down our CDO warehouse activities at significant losses, and covering our shorts.

Knowing whether we were long or short was often difficult, as our positions were complex and the market moved erratically. There were times when our analytical risk measures told us one thing, and my experience and knowledge of our positions told me something else. Some days, we took actions to reduce risk only to see the firm's Value at Risk or "VaR" increase. During this time, there were differing views within the Mortgage Department, and around the firm, as to the direction of the residential mortgage markets. But the one constant theme from senior management was to reduce risk.

Throughout 2007, the Mortgage Department reacted to market events, worked with our clients, and managed our risk. I left Goldman Sachs in mid-2008 to spend more time with my family and in my community, and to pursue other interests. When I left, I was proud of what the people in the Mortgage Department had accomplished during a difficult period, and I remain so today. At the same time, I understand that events in the nation's mortgage market contributed to the financial crisis of 2008 and to the recession. I also understand that Congress has a duty to explore the causes of that crisis and to adopt sound reforms. To that end, I look forward to being helpful to you this morning.