

Rep. Peter Welch on Thursday called on Attorney General Eric Holder to open a criminal investigation into Goldman Sachs' allegedly fraudulent sale of securities designed to fail.

Welch joined Rep. Marcy Kaptur (Ohio) and other members of Congress in a letter to Holder requesting that the Department of Justice investigate and prosecute those involved in the alleged financial fraud at Goldman and throughout Wall Street.

[In a speech](#) delivered on the House floor Thursday morning, Welch repudiated Goldman for the casino culture it fostered at the expense of ordinary Americans.

"Goldman has transformed itself from one of the most respected institutions on Wall Street to one of the most reviled for putting itself ahead of its clients and the American people," Welch said. "The only difference between the synthetic securities it sold and a game of Texas Hold'em is that when Goldman makes a bad bet, the American taxpayer is the loser."

Earlier this week, Welch joined Reps. Peter DeFazio (Ore.) and Elijah Cummings (Md.) in asking Securities and Exchange Commission Chairwoman Mary Schapiro to determine whether taxpayer support received by the American International Group (AIG) was transferred to Goldman to cover fraudulent activities.

Last Friday the SEC filed a civil suit against Goldman alleging the firm misled investors by failing to disclose that one of 25 collateralized debt obligations (CDOs) sold by the firm was designed to fail. Seven similar CDOs were guaranteed by credit default swaps from AIG. Of the \$180 billion AIG received in taxpayer assistance, \$12.9 billion was transferred to Goldman to settle the bad credit default swaps.

Welch's letter to Holder is copied below. [Click here](#) for his letter to the SEC.

Dear Attorney General Holder:

The U.S. Securities and Exchange Commission (SEC) announced on Friday, April 16, 2010, that it had filed a securities fraud action against the Wall Street company Goldman Sachs & Co (GS& Co.) and one of its employees for making materially misleading statements and omissions in connection with a synthetic collateralized debt obligation ("CDO") that GS & Co. structured and marketed to investors. The SEC alleges that:

1. This synthetic CDO, ABACUS 2007- AC1, was tied to the performance of sub-prime residential mortgage-backed securities ("RMBS") and was structured and marketed by GS & Co. in early 2007 when the United States housing market and related securities were beginning to show signs of distress. Synthetic CDOs like ABACUS 2007-AC1 contributed to the recent financial crisis by magnifying losses associated with the downturn in the United States housing market.
2. GS & Co. marketing materials for ABACUS 2007-AC1 – including the term sheet, flip book and offering memorandum for the CDO – all represented that the reference portfolio of RMBS underlying the CDO was selected by ACA Management with experience analyzing credit risk in RMBS. Undisclosed in the marketing materials and unbeknownst to investors, a large hedge fund, Paulson & Co. Inc. ("Paulson"), with economic interests directly adverse to investors in the ABACUS 2007-AC1 CDO, played a significant role in the portfolio selection process. After participating in the selection of the reference portfolio, Paulson effectively shorted the RMBS portfolio it helped select by entering into credit default swaps ("CDS") with GS & Co. to buy protection on specific layers of the ABACUS 2007-AC1 capital structure.
3. In sum, GS & Co. arranged a transaction at Paulson's request in which Paulson heavily influenced the selection of the portfolio to suit its economic interests, but failed to disclose to investors, as part of the description of the portfolio selection process contained in the marketing materials used to promote the transaction, Paulson's role in the portfolio selection process or its adverse economic interests.

As the SEC notes, financial manipulations such as this contributed to the near collapse of the U.S. financial system and cost American taxpayers hundreds of billions of dollars. On the face of the SEC filing, criminal fraud on a historic scale seems to have occurred in this instance. As an ever growing mountain of evidence reveals, this case is neither unique nor isolated.

If both global and domestic confidence in the integrity of the U.S. financial system is to be regained, there must be confidence that criminal acts will be vigorously pursued and perpetrators punished.

While the SEC lacks the authority to act beyond civil actions, the U.S. Department of Justice (DOJ) has the power to file criminal actions against those who commit financial fraud. We ask assurance from you that the U.S. Department of Justice is closely looking at this case and similar cases to further investigate and prosecute the criminals involved in this, and other financially fraudulent acts. Furthermore, if the DOJ is not currently looking into this particular case, we respectfully ask you to ensure that the U.S. Department of Justice immediately open a case on this matter and investigate it with the full authority and power that your agency holds. The American people both demand and deserve justice in the matter of Wall Street banks whom the American taxpayers bailed out, only to see unemployment and housing foreclosures rise.

This matter is of deep importance to us. As you may know, H.R. 3995, the Financial Crisis of 2008 Criminal Investigation and Prosecution Act, has been introduced, which authorizes you to hire more prosecutors, Director Mueller of the Federal Bureau of Investigation to hire 1,000 more agent as well as additional forensic experts, and Chair Mary Schapiro of the U.S. Securities and Exchange Commission to hire more investigators to continue to pursue justice and route out the criminals in our financial system. Part of financial regulatory reform should include removing the criminals and crafting a system that supports those who follow the law.

We in Congress stand ready to support you in protecting the American taxpayers from financial crimes such as the fraud that the U.S. Securities and Exchange Commission has charged Goldman Sachs with committing. We ask that you take up this case, and others, to pursue justice for the American people, to put criminals in jail, and seek to restore the integrity of our nation's financial system.

Sincerely,

Marcy Kaptur, Peter Welch
Members of Congress