



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

REPORT

SUBJECT: LESSONS RETAINED FROM THE 2008 FINANCIAL CRISIS: EFFECTS AND REFORMS FOR THE FINANCIAL INDUSTRY IN THE UNITED STATES



Student/ID: Ludmila
Calcatinci/1906085



Lecturer: Dr.David Coker



Module: Banking Financial
Management and Financial
Markets (LCMB7012)



CONTENT

1. Executive Summary
2. Introduction
 - 2.1 Overview of the financial crisis in the US in 2008
3. Crises origins - Causes and Effects
 - 3.1 Real Estate Market Collapse
 - 3.2 Delinquencies in Underwritten Mortgages
4. Impact of the Financial Crisis in US
4. Response to the Crisis in the US
5. Enactment of Laws and Regulations in the US
 - 5.1 Principals Players and Key Reforms
6. Goldman Sachs and the compliance with reforms
 - 6.1 Background
 - 6.2 Compliance with Reforms and Impact on Business Model
7. Conclusion
8. Recommendations and Predictions
9. Reference List

1.EXECUTIVE SUMMARY

This report analyses the laws, regulations, and contracts enacted by the US authorities in response to the 2008 financial crisis. It aspires to evaluate the efficacy of these reforms in stabilising the financial system and banking establishments post-crisis. In the first part, the report discusses the crisis's origis, emphasising the collapse of the real estate market and delinquencies in underwritten mortgages as its primary causes. The second part examines the impact of the financial crisis in the US and the response of the US government and key players in the financial system. The author determines the central actors and critical reforms passed in the US legislation, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, The US Congress passed Emergency Economic Stabilization ACT and more which have had powerful implications for the financial industry. The company chosen to analyse the extent to which the reforms have impacted their business model and level of compliance/non-compliance to provide a practical application of the reforms is Goldman Sachs. The author will provide predictions for the next financial crisis in the last part.



Fig No.1 Picture with Protesters in 2008(PBS NewsHour, 2023)

The world has been rocked by the most major financial and economic crisis in recent history(Kapoor, n.d.).American economists and policymakers have vigorously delivered policy guidance to manage and avoid financial crises in the past 25 years.

According to Vice Chairman Donald L. Kohn(2009), the government is taking to address our current financial and economic difficulties.Nevertheless, a considerable impact on the global economic system was the 2008 financial crisis, known as the subprime mortgage crisis, several financial institutions collapsing, and severe recession in the US and globally. The financial markets and institutions were a connection for the transmission of the crises in Europe.

On the other hand, the transmission of crises in Asia was through the collapse of the global trade market.Since the Great Depression, the 2008 financial crisis is considered the most influential downturn attributed to the burst of the housing bubble that formed in 2006 and 2007 (Keys and Wachter,n.d).In the following section the author will analyze the crises origins, causes and effects. What factors contributed to the crisis, and how to blame it?The individuals who borrowed excessively or the financial institutions how provided the mortgages without any credit history? The caricatures below describe the argument that blame on borrowing by the poor(Ehrenfreund,2017) for accepting mortgages they couldn't afford while the financial organisations accountable for extending these loans are escaping responsibility.

The caricatures describe the argument that blame on borrowing by the poor(Ehrenfreund,2017) for accepting mortgages they couldn't afford while the financial organisations accountable for extending these loans are escaping responsibility.



Figure No 2. MarineKingPrime(2022). 2008 Financial Crisis, Steve Greenberg, 2009.

2.1.OVERVIEW OF THE 2008 FINANCIAL CRISIS

The Corporate Financial Institute(2022) describe a financial crisis as any situation where one or more significant financial assets – such as stocks, real estate, or oil – suddenly (and usually unexpectedly) lose a considerable portion of their nominal value. Reinhart and Rogoff (2009a) describe "financial crises are an equal opportunity menace". The beginning of the global financial crisis can be traced back to July 2007, when American investors lost confidence in securitized mortgage investments, resulting in a liquidity crisis.As a response, the American Federal Reserve, the Bank of England, and the Central Bank of Europe injected significant amounts of capital into the financial markets. According to International Monetary Fund (n.d), many holders of ABCP backed by illiquid structured credit products cashed out of their holdings, shortened the maturity they were willing to accept, or demanded higher yields. A tool to estimate credit risk in the market is the TED spread and can be measured as the difference between the yield on the three-month U.S. Treasury bill and the three-month LIBOR in U.S. dollars (Yahoo Finance,2019). The following image represents a TED spread graph that represents the fluctuations in the 2008 crises(started in 2007).

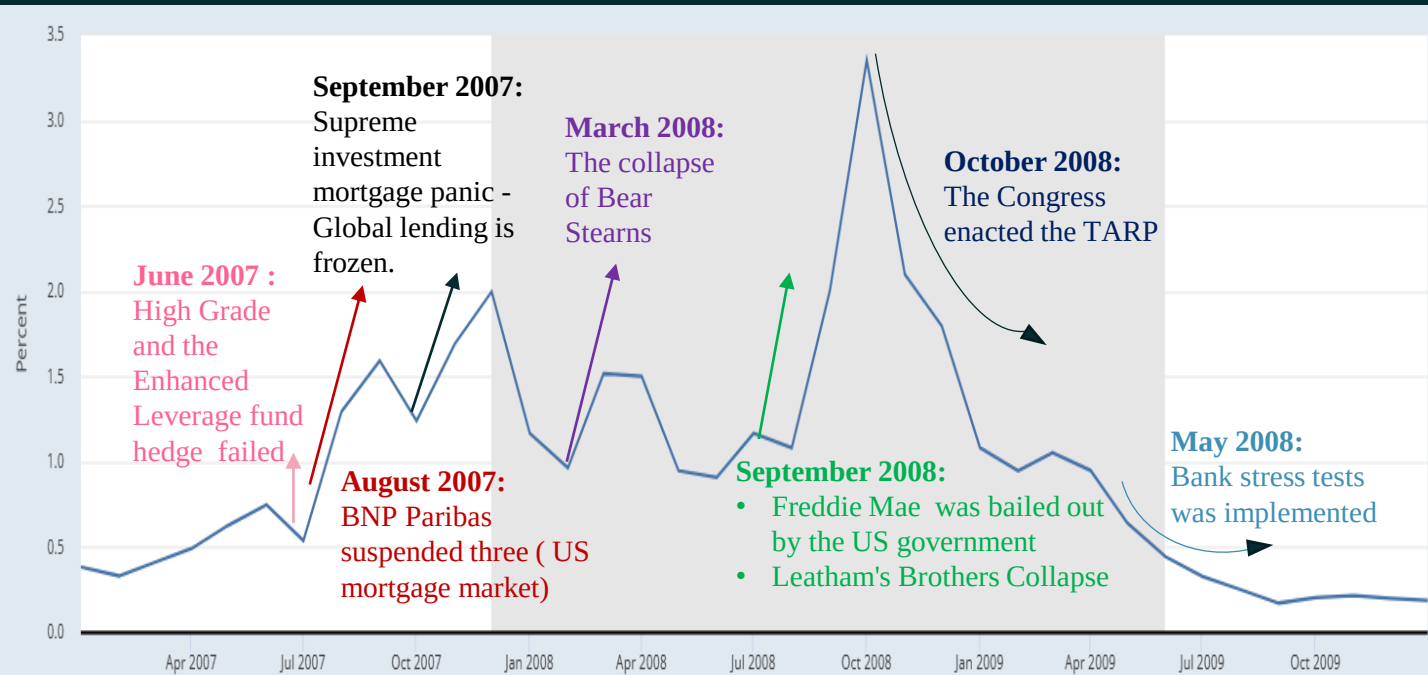


Figure No 3. TED Spread from January 2007 to December 2009.Federal Reserve Bank of St. Louis, TED Spread, retrieved from FRED(2023). Analyzed by the author.

In July 2007, the TED spread index initially increased, and for a bear before the crises in September 2008, it started to volatility again. After that, the world experienced severe fluctuation; the stock exchange started to collapse. Banks, lenders and insurance companies filed for bankruptcy. On September 30, 2008, there were 38,651 business bankruptcy filings in the U.S., up 49 per cent from the business filings reported for the 12 months ending September 30, 2007 (jonesday.com,n.d).

Finally, in October 2008, it expanded by 3,35%. After that, the world experienced severe fluctuation; the stock exchange started to collapse. Banks, lenders and insurance companies filed for bankruptcy. On September 30, 2008, there were 38,651 business bankruptcy filings in the U.S., up 49 per cent from the business filings reported for the 12 months ending September 30, 2007 (jonesday.com,n.d).

3. CRISES ORIGINS - CAUSES AND EFFECTS

“The financial crisis and the Great Recession posed the most significant macroeconomic challenges for the United States in a half-century, leaving behind high unemployment and below-target inflation and calling for highly accommodative monetary policies.” – Jerome Powell, Current U.S. FED Chairman (Board of Governors of the Federal Reserve System, 2017). The 2008 financial crisis origins are a convoluted interplay of macroeconomic and microeconomic elements. In the macroeconomic element, the crisis was caused by the decline in short-term interest rates (Ramskogler, 2015) and easy credit assessment, which stimulated a speculative housing bubble in the US. Nevertheless, why do government policies allow the development of the subprime mortgage market and increase dangerous lending approaches? (the answer will be described in the following paragraph). Besides the macroeconomic, the macroeconomic factors represent the breakdown in traditional risk-management procedures in financial institutions, especially the liquidity risk management challenges (Draghi, 2009). The need for regulatory oversight was crucial because of the insufficient risk assessment models, widespread use of mortgage-backed securities and collateralised debt obligations.

All these factors incentivized financial institutions to take unnecessary risks without understanding the potential consequences, leading to considerable casualties and fluctuation in the financial system.

3.1 REAL ESTATE MARKET COLLAPSE

The mortgage collapse in 2008 was a defining moment in the US financial crisis, characterized by the failure of numerous financial institutions, a steep decline in housing prices by 16% (Osborne, 2009), and a significant rise in mortgage delinquencies and foreclosures. The subprime mortgage crisis of 2007-2010 lay at the heart of the mortgage collapse. It resulted from an earlier expansion of mortgage credit to borrowers who would have previously found it difficult to secure mortgages. The rapid rise in home prices facilitated and contributed to this expansion (Duca, 2013). These mortgages were packaged together with others and sold as mortgage-backed securities to investors. The foreclosure rate on adjustable-rate subprime loans witnessed a significant rise starting in the second half of 2006. The trend was comparable to the pattern observed in loans granted to prime borrowers. Despite no change in the foreclosure rate on fixed-interest rate loans to prime borrowers, the foreclosures on adjustable-rate loans to prime borrowers also surged in 2006 (please see the figure). The increase in the foreclosure rate on adjustable-rate mortgages was relatively higher for prime loans compared to subprime loans. This trend can be attributed to the incentives created by the regulators and the Federal Reserve's low-interest-rate policy.

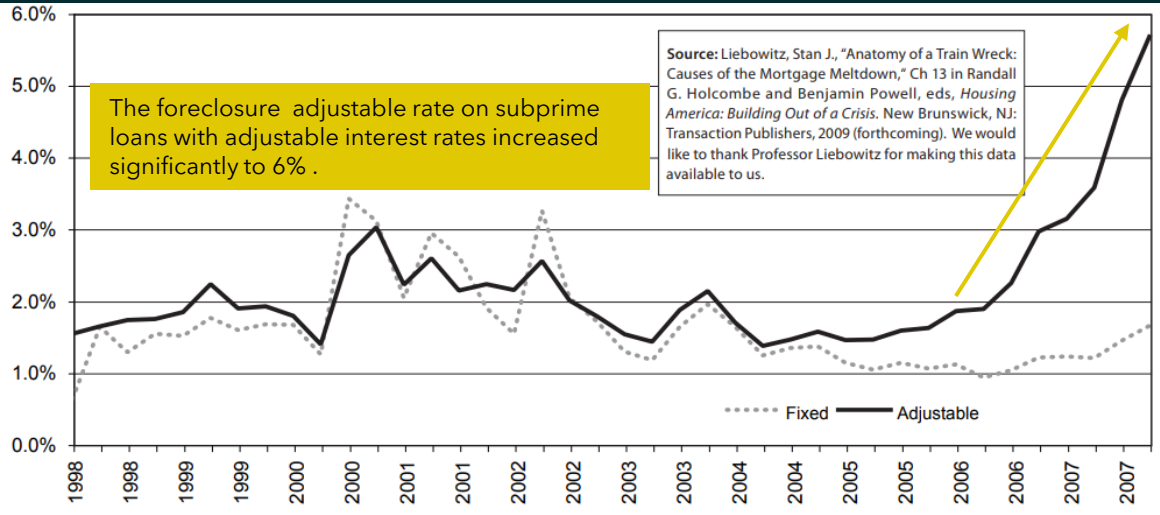


Figure No 4. Foreclosure Rates on Subprime Mortgages, 1998–2007. Analyzed by the author.

The Prime and subprime borrowers purchased houses using adjustable-rate loans with little or no down payment, anticipating profits from the continued appreciation in housing prices (Mian & Sufi, 2014). Instead, a considerable number of homeowners defaulted on their mortgages, directing to foreclosures. In addition, numerous mortgage-backed securities had been highly leveraged, meaning the banks and financial institutions had borrowed heavily to invest their assets. For illustration, Goldman Sachs, heavily involved in the subprime mortgage market, sustained considerable losses due to the mortgage collapse. The company used to invest and underwrite mortgage-backed securities and additional complicated financial instruments related to the subprime market. Further, Goldman Sachs employed "shorting" the subprime market, a technique concerning betting against a unique asset or security, expecting its value would decline. When the market collapsed, Goldman Sachs made substantial profits from these short positions, which led to accusations of profiting from the crisis at the expense of its clients and the broader financial system. After the crisis, the bank also faced considerable legal and regulatory scrutiny, including a \$5 billion settlement with the US Department of Justice in 2016 over its role in selling mortgage-backed securities (www.justice.gov, 2016). Furthermore, according to the New York Times (2016), the bank gave improper advice to customers that it had located shares for their transactions. Consequently, some customers paid for a service the bank had yet to provide.

3.2 DELINQUENCIES IN UNDERWRITTEN MORTGAGES

The hypothesis developed by Gorton and He in 2008 states that” most bad loans are made during good economic times”. This phenomenon was especially noticeable during the 2008 financial crisis when mortgage lenders relaxed their underwriting standards. The 2008 financial crisis in the United States was primarily caused by delinquencies in underwritten mortgages, among other factors. According to the Consumer Financial Protection Bureau(2017), a delinquent mortgage is a home loan for which the borrower has failed to make payments as required in the loan documents. In the years leading up to the crisis, several mortgage lenders, including Goldman Sachs, relaxed their underwriting standards to issue more mortgages and increase profits. Therefore, numerous borrowers who require more income or creditworthiness to sustain a mortgage could guarantee loans. These high-risk mortgages were often bundled into complicated financial instruments known as mortgage-backed securities and sold to investors worldwide. These high-risk mortgages were often bundled into complex financial instruments known as mortgage-backed securities (Finance & Development,2007) and sold to investors worldwide. As delinquencies and defaults on these mortgages increased, the value of these securities plummeted, resulting in substantial losses for investors. One of the major issuers of mortgage-backed securities before the financial crisis was Goldman Sachs. The company's mortgage division, GS Mortgage Securities Corp., issued 2007 billions of dollars in mortgage-backed securities (Shen, 2016). Nevertheless, as delinquencies and defaults raised, the value of these securities declined rapidly. Goldman Sachs employed a series of questionable procedures, including allegedly misleading investors about the quality of the mortgages underlying the securities and betting against some of the securities it had sold. According to the Guardian article(2016), the company falsely assured investors that the securities it sold were backed by engaging mortgages when it knew that they were full of mortgages that were likely to fail. These practices drew considerable regulatory scrutiny and legal action against the business after the 2008 financial crisis.

The development of delinquencies and insolvencies on underwritten mortgages played a crucial role in the 2008 financial crisis. In addition, the efforts of organisations like Goldman Sachs aggravated the severity of the crisis. While regulations have since been executed to handle some of these issues, the lessons of the financial crisis persist in advising how mortgages and other financial instruments are underwritten and sold today.

4. IMPACT OF THE FINANCIAL CRISIS IN US

The 2008 financial crisis had far-reaching and significant impacts on the US market. One of the most effective outcomes was the onset of a deep and prolonged recession, which lasted for several years and had wide-ranging effects on businesses, households, and government institutions. This recession was primarily driven by the housing market's collapse, fueled by a boom in subprime lending and the securitization of mortgages. As a result, the US gross domestic product fell by 4.3 per cent, making this the deepest recession since World War II (Weinberg, 2013). As home values plummeted and foreclosures rose, many homeowners found themselves underwater on their mortgages (Board of Governors of the Federal Reserve System, 2008). The resulting decline in consumer spending and investment further exacerbated the economic downturn. Another crisis effect was the shorting of real estate deals, known as the 'big shorts' (Picker, 2018). Investors who had bet on the rise in home prices were caught off guard by the sudden market collapse, and many scrambled to sell off their holdings in real estate and related assets. Unfortunately, this rush to sell only further drove down prices (Baily, Litan and Johnson, 2011), exacerbating the losses suffered by those who had invested in the industry. The collapse of prearranged deals and banks' investments was another substantial effect of the crisis. As a result, the value of mortgage-backed securities the mortgage-backed (Moya, 2008) and related assets plummeted.

Many banks and other financial institutions owned large amounts of toxic debt they could not sell or offload. This led to significant losses and write-downs and, in some cases, the failure of prominent financial institutions. The most direct impact of the crisis was freezing (Bebchuk & Goldstein, 2009) of billions of dollars in credit markets. Investors became increasingly sceptical of the risks posed by subprime mortgages and related assets and stopped lending money to financial institutions. They correspondingly led to a severe credit crunch, with multiple businesses and individuals requiring assistance to acquire the financing they needed to operate or invest. The financial crisis had a profound and long-lasting effect on the US economy. Many lessons learned from the crisis continue establishing regulatory bodies to watch over financial institutions (Smith, 2020).

5. ENACTMENT OF LAWS AND REGULATIONS IN THE US

The financial crisis that crashed the United States in 2008 was one of the most destructive in modern history. In response to this crisis, the government and central bankers implemented measures (OECD, 2009) to mitigate the damage and stabilize the economy. In this section, the author will introduce the measures taken by central Bankers and government advisers, stimulus packages and their effects. The central bankers and government advisers took several steps to stabilize the economy. In order to stabilize the economy, the central bankers and government advisers implemented several essential steps. The Federal Reserve implemented several measures to inject liquidity into the banking system through daily operations with a relatively small set of broker-dealers against a very narrow set of collateral (Kohn, 2010). Another example is reducing interest rates to near-zero levels and purchasing toxic assets from banks to help them clean up their balance sheets. However, according to Reuters(2010), low official interest rates may slow banks' progress towards cleaning up balance sheets and make the financial sector vulnerable. The government also stepped in to rescue failing financial institutions; Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into government conservatorship (Olick, 2018) to take them over and provide them with capital infusions to help them stay afloat.

The government implemented a series of stimulus packages to boost the economy in the wake of the Great Recession (Cornwell Law School,2015). The largest of these was the American Recovery and Reinvestment Act of 2009(US Congress Webpage,2009) which included measures such as tax cuts, infrastructure spending, and aid to state and local governments. However, these stimulus packages' influence varied, with some economists debating whether they allowed preventing a much deeper recession. In contrast, others felt they were ineffective, leading to long-term fiscal problems. Bank Mergers, Capital Infusions, and Government Subsidies Another strong reaction to the crisis was the banking industry's consolidation. The government encouraged coalitions between large financial institutions to shore up failing banks. However, the government-subsidised banks agreed to take on troubled assets from other institutions. Eventually, the government supplied capital infusions to banks to support them in remaining solvent and continue to lend money to businesses and individuals.Please see the figure below that exhibite the events in implimentation the regulation during and after the financial crises.In the next paragraph the authored will discuss the regulation. Please see the table below that ilustrate details about the author identifying the laws, regulations, and agreements passed in 2008 financial crises by the US authorities.

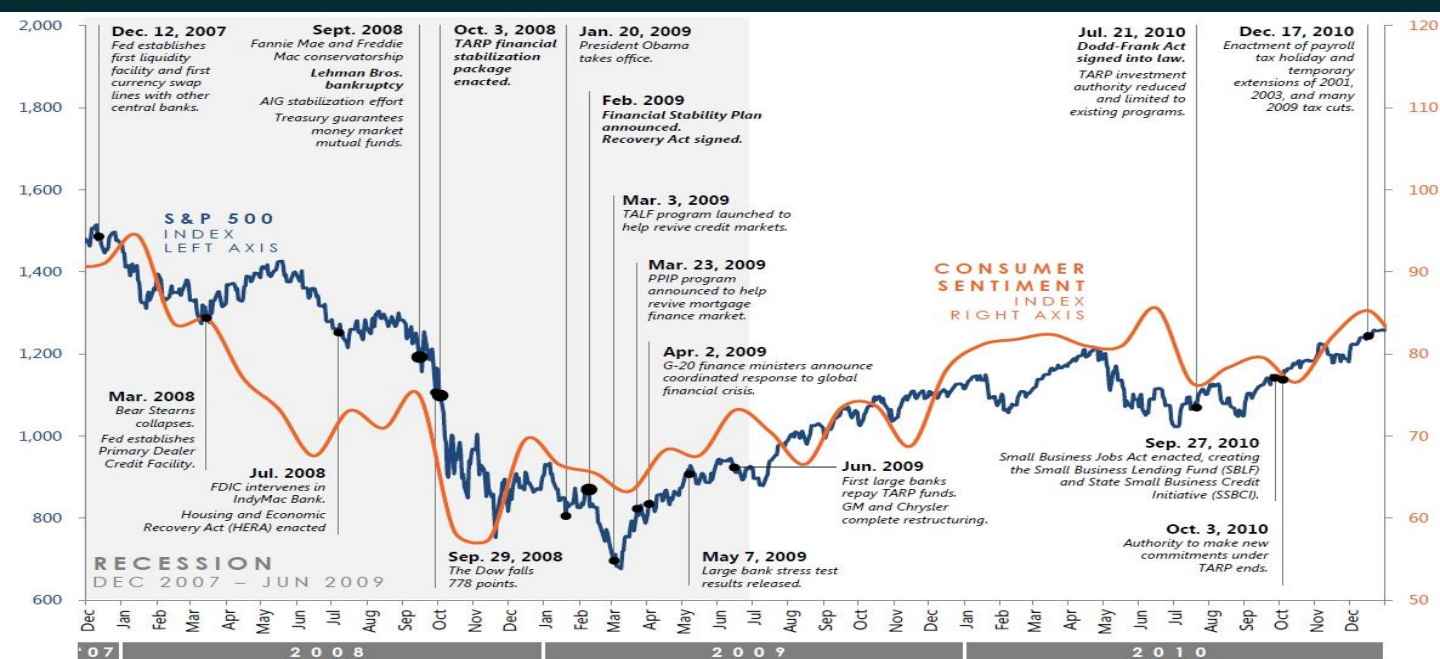


Figure No 5. Financial Crises regulation from mid-2007 to 2010(U.S. Department of the Treasury,n.d). 12

5.1 PRINCIPAL PLAYERS AND KEYPLAYERS

Over the 2008 financial crisis, the implementation of regulations and laws in the US concerned multiple principal players who acted together to manage the financial challenges confronted by the nation. The central players formed: legislators, administrative branch officials, the judiciary and other interested group. One of the most prominent players, the legislators, had a vital role in addressing the crisis's causes and preventing future events by passing the laws.

Please see the table below that provides more details about the author identifying the fundamental laws, regulations, and agreements passed to post the 2008 financial crises by the US authorities and other essential players in the financial system to conclude the financial crises.

Legislation	Facilitation	Description
The US Congress passed the Emergency Economic Stabilization ACT (AFP,2008).	The Treasury Department is authorized to buy troubled assets from financial institutions	The law was enacted in 2008 in order to stabilize the economy and to control any future collapse of the banking system by purchasing troubled assets from financial institutions.
Dodd-Frank Wall Street Reform and Consumer Protection Act	Imposed stricter regulations on financial institutions and increased transparency in the financial industry	The Dodd-Frank Act was passed in 2010 to address the root causes of the 2008 financial crisis and prevent similar events from occurring in the future. It imposed new regulations on financial institutions, created new agencies to oversee the financial industry, and increased transparency and accountability in the financial sector.
American Recovery and Reinvestment Act	Provided funding for infrastructure projects and other initiatives aimed at stimulating the economy	The American Recovery and Reinvestment Act, passed in 2009, provided funding for a variety of initiatives aimed at creating jobs and stimulating economic growth. This included funding for infrastructure projects, tax incentives for businesses, and increased funding for social welfare programs.

Table No 1. The reforms analyses(made by the auhore, will continues on the next page)

Legislation	Facilitation	Description
The Basel III Accords	Basel Committee on Banking Supervision	The new rules required banks to hold more capital to protect against potential losses and to improve their ability to weather financial shocks. As a global bank, Goldman Sachs was subject to the regulations and had to adjust its business model to comply with the new requirements.
Jumpstart Our Business Startups (JOBS) Act	Eased regulations on startups and small businesses to encourage entrepreneurship	The JOBS Act, passed in 2012, was designed to encourage entrepreneurship and make it easier for small businesses to access capital. It eased regulations on startups and small businesses, making it easier for them to raise funds from investors and go public.
Housing and Economic Recovery Act	Provided funding to stabilize the housing market and prevent foreclosures	The Housing and Economic Recovery Act, passed in 2008, provided funding to stabilize the housing market and prevent foreclosures. It created the Federal Housing Finance Agency and established new programs to help homeowners refinance their mortgages and avoid foreclosure.

An important role played by the executive branch official in the 2008 financial crisis. For example, the leadership of Chairman Ben Bernanke under the Federal Reserve preserved remarkable actions to stabilize the financial system and control a complete collapse of the economy. In addition, the Treasury Department, under the supervision of Secretary Henry Paulson, inject capital into the banking system by implementing the TARP program by purchasing troubled assets from financial institutions.

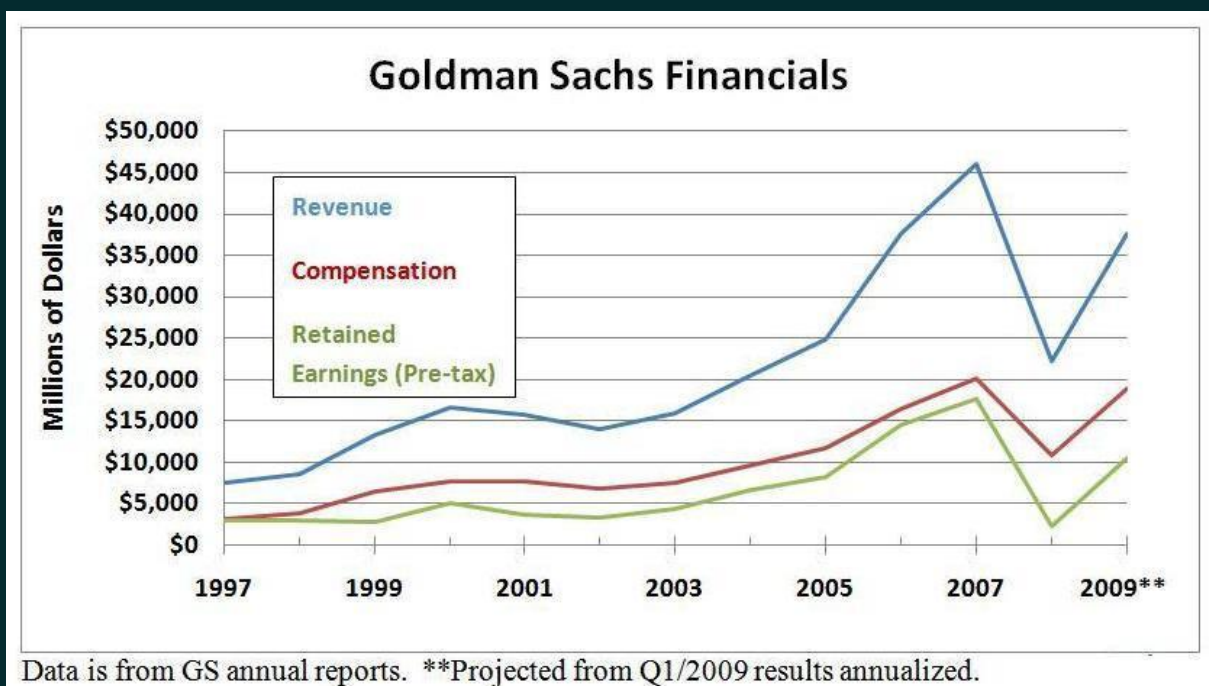
During this time, additional laws enacted by legislators included the American Recovery and Reinvestment Act, which supplied funding for infrastructure schemes and further endeavours to stimulate the economy, and the (JOBS) Act, which facilitated regulations on startups and small businesses to stimulate entrepreneurship. Furthermore, the Housing and Economic Recovery Act in 2009(Congress. gov,2010) was introduced to provide a budget to stabilize the housing market and control foreclosures. In summary, the legislator had a vital role in reacting to the crisis by establishing laws to prevent the entire collapse of the banking system and stabilize the economy.

Interest groups, including financial industry trade associations and consumer advocacy organizations, shaped the response to the crisis. Consumer advocates forced for more vigorous regulations to protect consumers from hunting lending practices and abuses in the financial industry. In contrast, the economic groups lobby for the gov to interfere with controlling a complete collapse of the banking system. Finally, the judiciary recreated a position in analyzing and implementing the laws and restrictions legislated in reply to the crisis. According to Greenberg & McGovern (2012) the financial collapse of 2008 has had a lasting, disruptive effect on many aspects of the U.S. economy, including the civil justice system. The courts have ruled on the legality of several high-profile cases of government measures brought to stabilize the financial system and control the crises. The cooperative efforts of legislators, executive branch officials, interest groups, and the judiciary assisted in stabilizing the financial system and preventing the collapse of the U.S. economy. General, enacting laws and regulations in answer to the 2008 financial crisis affected a complicated network of central players, all working together to address the U.S. economy's issues.

6.GOLDMAN SACHS AND THE COMPLIANCE WITH REFORMS

6.1 Company Background

The Goldman Sachs Group, Inc. is a multinational investment bank and financial services corporation founded in 1869; the firm is headquartered in New York and maintains offices in all major financial centres worldwide (Goldman Sachs,2022). The company has a lengthy history of supplying financial services to consumers, including investment banking, asset management, and securities trading (Goldman Sachs,n.d). The corporation had a history of making large profits and evaded many risks that had tormented other Wall Street banks. The main reason for Goldman Sachs's success was its assertive working culture. According to (Quora, n.d.)Goldman Sachs is one of the most aggressive firms in the world. The company was also known for its innovative financial products, such as the securitization of mortgages, which became a significant source of revenue in the years leading up to the financial crisis. Goldman Sachs was famous for their financial product innovative, for example, mortgage-backed securities (Shen, 2016). In 2007, Goldman generated \$11.6 billion in profit, the most money an investment bank has ever made in a year (Creswell & White, 2008). However, the financial crisis events would significantly change the company's reputation and influence its future. Please see the Goldman Sachs Financials chart that highlights the companies volatility in the crises period.



Nevertheless, in the period preceding the 2008 financial crisis, Goldman Sachs was at the epicentre of numerous controversies that extended queries about the corporation's ethics and practices. The corporation implication in the subprime market mortgage was the most controversial action. In the years before the crises, like many other financial institutions, Goldman Sachs financed heavily in mortgage-backed securities, bundles of mortgages sold to investors. Nevertheless, numerous mortgages were subprime home loans available to borrowers with limited or less-than-ideal credit (Consumer Financial Protection Bureau, 2017). Goldman Sachs was one of the financial institutions that produced and sold these mortgage-backed securities. Also, the company purchased insurance contracts on the mortgage-backed securities known as purchased credit default swaps (CDS). According to the Guardian Newspaper, Goldman received \$12.9bn of the bailout funds (Rushe,2012) from the United States Department of the Treasury. The email below is from Michael Silva, chief of staff and senior vice president for the Executive Group at the New York Fed. The email pertains to a conversation between Morgan Stanley (MS) and Timothy F. Geithner (TFG), who was performing as President of the Federal Reserve Bank of New York at the time, regarding Morgan Stanley and Goldman Sachs (GS) in 2008. According to the Corporate Financial Institution(2022), during the financial crisis of 2008, the value of CDS was hit hard, and it dropped to \$26.3 trillion by 2010 and \$25.5 trillion by 2012. The crises had a terrible influence on the company, causing it to collapse and default on these mortgages; the value of the CDS and mortgage-backed securities caused considerable losses for investors

From: michael.silva/ny/frs;nsf;michael.silva@ny.frb.org:smtp
Sent: Sat Sep 20 2008 10:25:29 EDT
To: christine.cumming/ny/frs@frs;
Subject: Update

Chris:

FYI, MS called TFG late last nite and indicated they can not open Monday. MS advised GS of that and GS is now panicked b/c feel that if MS does not open, then GS is toast. So appears we will definitely need to resolve both entities in one way or another this weekend. Options under active discussion range from sovereign wealth injection to merger with / acquisition by a bank to becoming BHC themselves to government assistance (unlikely). TFG and PDM team just finished getting first hand report of liquidity situation from MS. Have not heard assessment of that call yet. Baxter only EVP present. Checki expected shortly. Dudley, Rutledge, and Krieger on standby at home for likely conf calls.

Mike

6.2 COMPLIANCE WITH REFORMS AND IMPACT ON BUSINESS MODEL

According to FSB, during the 2008 financial crisis, the G20 committed to fundamental global financial system reform, given the significant economic and social damage caused (Financial Stability Board, 2020). Like many other financial institutions, Goldman Sachs was heavily affected by the reforms. Moreover, as an influential player in the financial industry, Goldman Sachs was directed to concede these reforms. In this section, the author will examine three critical economic reforms and how they changed Goldman Sachs' business model.

1. Dodd-Frank Wall Street Reform & Consumer Protection Act:

The Dodd-Frank Act, enacted in 2010, is a comprehensive financial reform legislation aimed at improving the safety and health of the financial system. Aiming to improve the safety and health of the financial system, the Dodd-Frank Act influenced the company's activity. As a result, Goldman Sachs was demanded to comply with multiple law provisions, risk management, capital and liquidity requirements, and increased supervision by regulators. Subordinating with the regulations meant that Goldman Sachs invested heavily in technology and systems to observe and manage its risk exposure. The new rules were around proprietary trading, or trading for the bank's profit, rather than on behalf of clients. Besides, the law's limitations on investments and proprietary trading in hedge funds and private equity funds forced Goldman Sachs to clear some of its enterprises, for example, to spin off its proprietary trading business as early as this month to comply with the so-called Volcker rule (Rauch,2010)which had been a powerful source of revenue for the bank. As a result, the company had to focus on classic investment banking and securities businesses rather than proprietary trading operations.

2. The Basel III Accords:

The Basel III framework, developed by the Basel Committee on Banking Supervision, is a set of international banking regulations introduced in response to the financial crisis. The international regulatory accord generated by the Basel Committee on Banking Supervision aims to strengthen banks' regulation, supervision and risk management (BIS,2017).

In demand to enhance the bank's capacity to weather financial shocks, the new laws directed banks to maintain more capital to cover against possible losses. The rules affected Goldman Sachs, and had to modify its business model to comply with the new requirements.

To meet the liquidity requirements, the company needed to increase its holdings of high-quality liquid assets, such as government bonds, and reduce its dependence on short-term funding. However, a significant barrier in order to maximize the company return was the new rules; Basel III's leverage ratio is defined as the "capital measure" (the numerator) divided by the "exposure measure" (the denominator) and is expressed as a percentage. The capital measure is Tier 1 capital, with a minimum leverage ratio of 3% (BIS, 2017). The law restricted the leverage Goldman Sachs could use to generate profits.

3. The Emergency Economic Stabilization Act (EESA)

The objective of the Emergency Economic Stabilization Act was to provide the U.S. Treasury Department with the tools and budget needed to stabilize the financial system and manage further economic decline. In response to the 2008 financial crisis, U.S. President George W. Bush signed in 2008 the "bank bailout bill" act. Under the bill's terms, the U.S. government **authorized to purchase \$700 billion** for TARP in October 2008; that authority was reduced to \$475 billion by the Dodd-Frank Wall Street Reform and Consumer Protection Act (U.S. Department of the Treasury, 2008).

Goldman Sachs and other central banks were demanded to play a part in the Troubled Asset Relief Program (TARP), which supplied funding to banks in exchange for equity or debt securities. To participate in TARP and comply with the EESA, Goldman Sachs must present several new regulations and supervision measures.

These contained disclosure requirements, boosted transparency, executive compensation restrictions, and heightened scrutiny by government regulators. Also, the company was mandated to experience frequent stress tests to consider its ability to weather financial downturns.

Compliance with TARP and EESA significantly impacted the company's business model and operation; however, the bank survived the financial crisis and emerged as one of the most profitable and influential financial organizations globally.

Nevertheless, the corporation's public perception and reputation suffered due to its role in the financial crisis and subsequent compliance with government rules.

The company was described as "the great American bubble machine or the world's most powerful investment bank is a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money (Weisenthal, 2009)". Public opinion portrays the business as a gluttonous and influential organization that aggressively follows profits without considering society's consequences. Furthermore, the "vampire squid" concept indicates that the organization's activities are parasitic and destructive to others. Regardless, the quotation reproduces a more general public belief towards the financial industry after the 2008 crisis and the perception that some organizations prioritize their earnings over the well-being of society. In conclusion, three meaningful regulatory reforms considerably impacted Goldman Sachs, necessitating the bank to make noteworthy adjustments to its business operations and model.

The company had to fund in deprive certain businesses of new technology and systems and decrease its reliance on leverage and risk-taking activities.

In order to limit the risk and financial stability, the measure was vital. However, under the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA), the organisation is required to pay \$2.385 billion in a civil penalty and also requires the bank to provide \$1.8 billion in other relief, including relief to underwater homeowners, distressed borrowers and affected communities, in the form of loan forgiveness and financing for affordable housing (www.justice.gov.,2016).

However, like many other financial institutions, Goldman Sachs was involved in the 2008 financial crisis; the **recession** collectively destroyed over \$30 trillion of the world's wealth (Marketplace,n.d)

The bank was charged with various actions that contributed to the crisis, including selling and underwriting subprime mortgage-backed securities that finally defaulted and employing practices that directed to conflicts of interest with their clients.

One historical unit of measure in the financial context is the palm. The palm was a unit of measure used in ancient Egypt and other parts of the Middle East based on the size of a person's hand. During the crises, the citizens called the banks to be that palm, offering a helping hand. The crisis taught us that finance is about people and relationships, and we must build a financial system that reflects our values and aspirations. Unfortunately, Goldman Sachs and other financial institutions failed to function as that palm of peace, benefiting individuals and their families for their gain. Instead of presenting support and help, the bank engaged in unethical practices that contributed to the crisis and left many individuals struggling to make ends meet.

According to the US Bureau of Statistics, in 2009, **more than 15 million people** were unemployed (Cunningham, 2018). The 30 **million** palms reminded us in 2009 to stay open and extend our hands in need, building a better world for future generations.

7.CONCLUSION

In conclusion, the 2008 financial crisis significantly impacted the financial industry in the United States, and Goldman Sachs was not resistant to its consequences. As highlighted in this report, the crisis originated from the collapse of the real estate market and the subsequent delinquencies in underwritten mortgages in the creation of the bubble that led to the financial crisis (Doyran, 2017). The crisis was far-reaching, directing to a recession and a decline in financial activity in the United States and worldwide. The US government legislated numerous laws and regulations in reaction to the crisis, starting with the Emergency Economic Stabilization ACT, Dodd-Frank Wall Street Reform and Consumer Protection Act, and others. Goldman Sachs has had to acclimate to these transformations, and this report has highlighted the business's compliance with the new rules and their influence on its business model.

9. RECOMMANDATIONS AND PREDITIONS

In this section, the author will provide several recommendations that can be implemented to help Goldman Sachs to navigate in developing regulatory landscape and ensure compliance with the regulations. Firstly, it is advised that Goldman Sachs prioritize observation with the regulatory framework to avoid the effects of non-compliance. In addition, the business should fund resources to provide a robust compliance agenda, including good policies and procedures, training, and monitoring and testing. Secondly, the corporation should also develop and implement strategies to control and mitigate risk effectively. This encloses embracing a risk-based system to observe and develop risk control strategies to recognize, estimate, and mitigate organizational threats. Thirdly, Goldman Sachs must constantly communicate with controllers and industry societies to stay up-to-date with new and emerging rules and best procedures. The business should also employ industry conferences to deliver feedback and an understanding of the effect of regulatory transformations on the financial industry. Examining the future, it is anticipated that the regulatory conditions for the financial industry will persist to evolve, with new regulations and reforms being enforced to manage emerging risks and challenges

Accordingly, it is suggested that Goldman Sachs remain vigilant and assertive in monitoring and adjusting to transformations in the regulatory landscape. However, the company needs to improve the customer experience and overall reputation to become a palm for its clients. The prediction in the present, as per the 2023 year, challenges and uncertainties, including ongoing geopolitical tensions, trade disputes, and the potential for economic downturns in the financial industry, the war in Ukraine, inflation, and supply chain disruptions (Deloitte United States, 2020), and the possible recession. According to the Financial Report for the Q1 in 2023 net income declines by 19% to \$3.08bn (NS BANKING,2023).The solution for the company is to adapt and develop its business approaches to guide these challenges and capitalize on occurring possibilities. The company must focus on introducing and expanding the blockchain to streamline processes, technology, and artificial intelligence, improve risk management, and offer new products and services.

9.REFERENCE LIST

- Consumer Financial Protection Bureau. (2017). *What is a subprime mortgage?* [online] Available at: <https://www.consumerfinance.gov/ask-cfpb/what-is-a-subprime-mortgage-en-110/>.
- Reuters(2010).*Low rates may slow banks' balance sheet clean-up*. [online] 28 Jun. Available at: <https://www.reuters.com/article/uk-bis-rates/low-rates-may-slow-banksbalance-sheet-clean-up-idUKTRE65R1RV20100628> [Accessed 18 Apr. 2023].
- Weisenthal, J. (2009). *Matt Taibbi's Goldman Sachs Story Is A Joke*. [online] Business Insider. Available at: <https://www.businessinsider.com/matt-taibbis-goldmansachs-story-is-a-joke-2009-7?r=US&IR=T> [Accessed 25 Apr. 2023].
- AFP(2008). *Economic rescue swiftly signed into law*. AFP. October 3, 2008. Archived from the original on April 29, 2012.
- Baily, M.N., Litan, R.E. and Johnson, M.S. (2011). *The Origins of the Financial Crisis*. In: *Lessons from the Financial Crisis*. [online] pp.77–85. doi:<https://doi.org/10.1002/9781118266588.ch11>.
- Bebchuk, L. and Goldstein, I. (2009). *Self-Fulfilling Credit Market Freezes; Tenth Jacques Polak Annual Research Conference Research Department; November 5–6, 2009*. [online] Available at: <https://www.imf.org/external/np/res/seminars/2009/arc/pdf/bebchuk.pdf> [Accessed 18 Apr. 2023].
- BIS (2017). *Basel III: international regulatory framework for banks*. [online] Bis.org. Available at: <https://www.bis.org/bcbs/basel3.htm>.
- Board of Governors of the Federal Reserve System. (2017). *Speech by Governor Powell on low interest rates and the financial system*. [online] Available at: <https://www.federalreserve.gov/newsevents/speech/powell20170107a.htm>.
- Congress.gov. (2010). *Text - H.R.1 - 111th Congress (2009-2010): American Recovery and Reinvestment Act of 2009*. [online] Available at: <https://www.congress.gov/bill/111th-congress/house-bill/1/text>.
- Congress.gov. (2010). *Text - H.R.1 - 111th Congress (2009-2010): American Recovery and Reinvestment Act of 2009*. [online] Available at: <https://www.congress.gov/bill/111th-congress/house-bill/1/text>.
- Consumer Financial Protection Bureau. (2017). *Newly Available Data Shows Lowest Mortgage Delinquency Rate Since the Financial Crisis*. [online] Available at: <https://www.consumerfinance.gov/about-us/newsroom/cfpb-launches-new-mortgageperformance-trends-tool-tracking-delinquency-rates/>.
- Cornwell Law School (2015). *Economic Stimulus Act of 2008*. [online] LII / Legal Information Institute. Available at: https://www.law.cornell.edu/wex/economic_stimulus_act_of_2008.

Corporate Finance Institute. (2022). *Credit Default Swap*. [online] Available at: <https://corporatefinanceinstitute.com/resources/derivatives/credit-default-swap-cds/>.

Corporate Finance Institute. (2022). *Financial Crisis*. [online] Available at: <https://corporatefinanceinstitute.com/resources/economics/financial-crisis/>.

Creswell, J. and White, B. (2008). *Wall Street, R.I.P.: The End of an Era, Even at Goldman*. *The New York Times*. [online] 27 Sep. Available at: <https://www.nytimes.com/2008/09/28/business/28lloyd.html> [Accessed 24 Apr. 2023].

Doyran, M.A. (2017). *How Goldman Sachs Turned the Great Recession into Competitive Advantage Using Strategic Management*. [online] papers.ssrn.com. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3069882#:~:text=Goldman%20Sachs%20was%20impacted%20by [Accessed 25 Apr. 2023].

Draghi, M. (2009). *Risk Management Lessons from the Global Banking Crisis of 2008* Senior Supervisors Group. [online] Available at: <https://www.sec.gov/news/press/2009/report102109.pdf>.

Duca, J. (2013). *Subprime Mortgage Crisis | Federal Reserve History*. [online] www.federalreservehistory.org. Available at: <https://www.federalreservehistory.org/essays/subprime-mortgage-crisis>.

Ehrenfreund, M. (2017). *The Washington Post*. [online] 15 Jun. Available at: <https://www.washingtonpost.com/news/wonk/wp/2017/06/15/its-time-to-stopblaming-poor-people-for-the-financial-crisis/>.

Finance and Development | F&D. (n.d.). *Finance and Development*. [online] Available at: <https://www.imf.org/external/pubs/ft/fandd/2007/12/dodd.htm>.

Finance.yahoo.com. (2019). *What Is The TED Spread Telling Investors About The Credit Market?* [online] Available at: <https://finance.yahoo.com/news/ted-spreadtelling-investors-credit-164530844.html>.

Financial Stability Board (2020). *Post-2008 financial crisis reforms*. [online] www.fsb.org. Available at: <https://www.fsb.org/work-of-the-fsb/market-andinstitutional-resilience/post-2008-financial-crisis-reforms/>.

Fred (2023). *TED Spread from January 2007 to December 2009*. Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/TEDRATE>

Goldman Sachs. (2022). *Goldman Sachs | About Us*. [online] Available at: <https://www.goldmansachs.com/about-us/index.html>

Financial Stability Board (2020). *Post-2008 financial crisis reforms*. [online] www.fsb.org. Available at: <https://www.fsb.org/work-of-the-fsb/market-andinstitutional-resilience/post-2008-financial-crisis-reforms/>.

Fred(2023). *TED Spread from January 2007 to December 2009*. Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/TEDRATE>

Goldman Sachs. (2022). *Goldman Sachs | About Us*. [online] Available at: <https://www.goldmansachs.com/about-us/index.html>.

Goldman Sachs. (n.d.). *Goldman Sachs | Products and Services*. [online] Available at: <https://www.goldmansachs.com/what-we-do/products-and-services/>.

Gorton, G. and He, P. (2008) *Bank Credit Cycles*. *Review of Economic Studies*, 75(4) 1181-1214.

Greenberg, M. D., & McGovern, G. (2012). *An Early Assessment of the Civil Justice System After the Financial Crisis: Something Wicked This Way Comes?* RAND Corporation. <http://www.jstor.org/stable/10.7249/j.ctt3fh0gv>

International Monetary Fund (n.d). *A Crisis of Confidence . . . and a Lot More*. Available at: *A Crisis of Confidence . . . and a Lot More* (imf.org) / [Accessed 28 Mar. 2023].

Jacobs, N. (2018). *Goldman Sachs Failed 10 Years Ago Today | Better Markets*. [online] Available at: <https://bettermarkets.org/newsroom/goldman-sachs-failed-10-years-ago-today/> [Accessed 25 Apr. 2023].

Kapoor, S. (n.d.). *The financial crisis - causes & cures*. [online] Available at: <https://library.fes.de/pdf-files/gurn/00387.pdf> [Accessed 28 Mar. 2023].

Keys, B., Wachter, S. M. (n.d). *The Real Causes -- and Casualties -- of the Housing Crisis*. [online] Available at: <https://knowledge.wharton.upenn.edu/podcast/knowledge-at-whartonpodcast/housing-bubble-real-causes/>.

Kohn, D. L. (2010). *The Federal Reserve's Policy Actions during the Financial Crisis and Lessons for the Future*. [online] Board of Governors of the Federal Reserve System. Available at: <https://www.federalreserve.gov/newsevents/speech/kohn20100513a.htm>.

Kohn, L. (2009). *Policies to Bring Us Out of the Financial Crisis and Recession*. [online] Available at: <https://www.federalreserve.gov/newsevents/speech/kohn20090403a.htm>.

Lounsbury, J. (2009). *Stock Market Insights | Seeking Alpha*. [online] Available at: <https://seekingalpha.com/article/145572-if-goldman-sachs-reports-record-profits-howwill-that-affect-u-s-markets> [Accessed 24 Apr. 2023].

MarineKingPrime_ (2022). *2008 Financial Crisis, Steve Greenberg, 2009*. [online] Available at: https://www.reddit.com/r/PropagandaPosters/comments/u0i6ky/2008_financial_crisis_steve_greenberg_2009/ [Accessed 28 Mar. 2023].

Mian, A., & Sufi, A. (2014). *House of debt: How they (and you) caused the great recession, and how we can prevent it from happening again*. University of Chicago Press

Morgenson, G. (2016). *Case Sheds Light on Goldman's Role as Lender in Short Sales*. The New York Times. [online] 29 Jan. Available at: <https://www.nytimes.com/2016/01/31/business/case-sheds-light-on-goldmans-role-aslender-in-short-sales.html> [Accessed 17 Apr. 2023].

Moya,E.(2008). *UBS faces battle in selling off risky assets*. Reuters. [online] 12 Jun. Available at: <https://www.reuters.com/article/ubs-mortgagesidUKORM23381020080612> [Accessed 18 Apr. 2023].

OECD (2009). *Policy Responses to the Economic Crisis – Investing in Innovation for Long Term Economic Growth. I-WAYS, Digest of Electronic Commerce Policy and Regulation*, [online] 32(4), pp.216–218. doi:<https://doi.org/10.3233/iwa-2009-0191>.

Olick, D. (2018). *Decade after housing crash, Fannie Mae and Freddie Mac are Uncle Sam's cash cows*. [online] CNBC. Available at: <https://www.cnbc.com/2018/09/05/fannie-mae-freddie-mac-are-uncle-sams-cashcows-a-decade-after-crash.html>.

Osborne, H. (2009). *House prices fall by 16% year-on-year*. The Guardian. [online] 6 Jan. Available at: <https://www.theguardian.com/money/2009/jan/06/house-prices-fallin-december>.

Picker, T.K. (2018). *Most of the 'big shorts,' who thrived during the financial crisis, have faltered since 2008*. [online] CNBC. Available at: <https://www.cnbc.com/2018/09/17/big-shorts-who-thrived-during-the-financial-crisishave-faltered-since-2008.html>.

Quora. (n.d.). *What is the culture like at Goldman Sachs?* [online] Available at: <https://www.quora.com/What-is-the-culture-like-at-Goldman-Sachs> [Accessed 24 Apr. 2023].

Ramskogler, P. (2015). *Tracing the origins of the financial crisis*. OECD Journal: Financial Market Trends, [online] 2014(2), pp.47–61. doi:<https://doi.org/10.1787/fmt-2014-5js3dqmsl4br>.

Rauch,J(2010). *Goldman plans to spin off prop trading: report*. [online] 4 Aug. Available at: <https://www.reuters.com/article/us-goldman-tradingidINTRE6734CD20100804> [Accessed 24 Apr. 2023].

Reinhart, C. M., and Rogoff K. S.(2008).*Is the 2007 U.S. Subprime Crisis So Different? An International Historical Comparison*,American Economic Review, Vol. 98, No. 2, pp.339–44. ———, 2009a, *This Time is Different: Eight Centuries of Financial Folly*. Princeton Press.

NS Banking. (2023). *Goldman Sachs Q1 2023 net income declines by 19% to \$3.08bn*. [online] Available at: <https://www.nsbanking.com/news/goldman-sachs-q1-2023-net-income-decline/#:~:text=The%20company%20reported%20net%20revenues> [Accessed 29 Apr. 2023].

NS Banking. (2023). *Goldman Sachs Q1 2023 net income declines by 19% to \$3.08bn.* [online] Available at: <https://www.nsbanking.com/news/goldman-sachs-q1-2023-net-income-decline/#:~:text=The%20company%20reported%20net%20revenues> [Accessed 29 Apr. 2023].