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Goldman Sachs' TARP Went to Buffett 4 comments

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This article will demonstrate that the TARP subsidy given to Goldman Sachs ([GS](#)) was in effect given to Warren Buffett and Berkshire Hathaway ([BRK.A](#)).

First, we lay out pertinent terms of the Goldman Sachs TARP transaction with the Treasury:

Total TARP Cash outlay to Goldman = \$10 billion effective October 28, 2008

Treasury received:

1. Preferred Stock with face value of \$10 billion paying currently 5% annual interest, increasing to 9% after five years.
2. Warrants to purchase 12,200,000 shares of common stock at \$122.90 per share with 10 years to expiration. The 12,200,000 warrants could be reduced to 6,100,000 under certain conditions, which we consider to have a 69% probability of being achieved. We therefore assume the expected amount of warrants to be 8,000,000. The common stock was trading at \$98 on the transaction day (October 28, 2008).

Second, we lay out pertinent terms of the Buffett transaction with Goldman Sachs:

Total Buffett Cash outlay to Goldman = \$5 billion effective September 23, 2008.

Buffett received :

1. Preferred Stock with the face value of \$5 billion paying currently 10% interest
2. Warrants to purchase 43,500,000 shares of common stock at \$115 per share with 5 years to expiration. The common stock opened at \$128 on the day after the announced deal (September 23, 2008).

Third, we calculate the values of the warrants using a reasonable volatility assumption of .53. If a higher volatility assumption was made, the value of the warrants would be greater and the Buffett deal becomes even more valuable in comparison to the Treasury's deal.

Also for the purpose of evaluating the warrants, we assume an interest rate of 2.5% in the Buffett case with 1800 days to expiration and an interest rate of 3% in the Treasury case with 3000 days to expiration. In each case we assumed a 35 cents quarterly dividend.

With the above assumptions, the 43.5 million warrants that Buffett received were worth \$2.6 billion on the day of the transaction, September 23, 2008. With the above assumptions, the warrants that the Treasury received were valued at \$405 million on the day of the transaction, October 28, 2008.

Fourth, we subtract the value of Buffett's 4.5 million warrants from the cash out-layed by Buffett as below:

Buffett..... \$5 billion - \$2.60 billion = \$2.40 billion

If we assume that Buffett paid market value for his package, then the value of Buffett's preferred stock is worth \$2.4 billion.

Fifth, we subtract the value of the 8 million warrants from the cash out-layed by the Treasury:

Treasury.....\$10 billion - \$405 million = \$9.595 billion.

Assuming that Buffett's preferred stock has a market value of \$2.4 billion, it becomes immediately obvious that the preferred stock the Treasury received has a market value of far less than the \$9.595 billion.

Goldman is paying both Buffett and the Treasury \$500 million annually at present with the payments to increase to \$900 million to the Treasury after 5 years. Since we know the value of Buffett's warrants and the preferred, we can draw a conclusion as to what the Treasury's preferred are worth.

The market value of the preferred stock received by the Treasury is less than \$4.6 billion making the package that the Treasury received equal to approximately \$5 billion and the subsidy to Goldman equal to \$5 billion. Let's assume that Buffett's package had market value of \$7.5 billion instead of the \$5 billion that Buffett paid to Goldman. This would be true if the preferred shares were valued at closer to \$5 billion. Accordingly, the package to the Treasury should be valued at perhaps \$7.5 billion, because the preferred that the Treasury received would therefore be worth closer to \$5 billion.

Under this scenario, the Treasury subsidy was just \$2.5 billion to Goldman. Therefore in effect the Curmudgeon from Omaha got a great deal and the tax payers paid for it. In other words, Buffett underpaid by \$2.5 billion for what he received and the Treasury overpaid by \$2.5 billion.

Case where both packages were valued at \$ 5 billion

Amt ofAmt of..

Transaction.....Recipient.....Purchaser.....Subsidy to GS

\$10 BillionGoldman.....Treasury.....\$5 Billion

\$5 Billion.....Goldman..... Buffett.....0

Case where both packages were valued at \$7.5 billion

Amt of Amt of

Transaction.....Recipient.....Purchaser.....Subsidy to GS.....

\$10 BillionGoldman.....Treasury.....\$2.5 Billion

\$5 Billion.....Goldman.....Buffett.....- \$2.5 Billion